

**T**HE government has recently weighed heavily on millers to reduce mealie-meal prices. Millers have been defiant and passed on the blame to retailers whom they accuse of exploiting consumers.

Government's interest in having affordable mealie-meal has seen it do things it has not done and is not likely to do for other sectors of the economy.

For instance, in a bid to keep mealie-meal prices low, government, through the Food Reserve Agency (FRA), has been subsidising maize for millers to the point of delivering the maize to the millers' doorstep. This saved millers US\$80 per tonne in transportation costs.

In response to last week's article, Mr. Brian Tembo, executive director of Zambia Commodity Exchange, shared a document that makes interesting reading. It is a study conducted by the Indaba Agricultural Policy Research Institute (IAPRI) and published in September 2012. The study is aptly titled Is the

# The mealie-meal story: part 2

Government of Zambia's Subsidy to Maize Millers Benefiting Consumers?

The study considered two phases. The first phase was from January 2000 to August 2011. During this period, millers purchased maize from the market or from the FRA at competitive prices. The second phase is from September 2011 to March 2012, when the FRA began subsidising maize to millers at US\$140 per tonne, while the FRA itself was purchasing the maize at US\$265 per tonne.

The study estimates that, taking into account purchase, marketing and storage costs, the government lost around US\$340 per tonne in subsidies.

There may be a question of whether the gov-

ernment needed to go that far in aiding millers to keep mealie-meal prices low.

That government did so may be taken as part of its social responsibility, especially given the importance of mealie-meal to the nation. But the question is: did the millers pass on the subsidy to consumers?

"Our analysis indicates that, over the eleven-year period from 2000 to 2011, inflation-adjusted retail prices for breakfast meal have declined. However, after the subsidy was conferred to millers in September 2011, the mill-to-retail marketing margins have increased significantly," the study notes. "Retail [mealie] meal prices have remained virtually constant since September

2011.

These findings indicate that very little of the treasury costs incurred in providing FRA grain to millers at below-market prices have benefitted urban consumers."

This then tells us that the recent subsidy that millers got when the FRA released maize at KR60 (K60,000) per 50kg bag which the government bought at KR65 (K65,000) is nothing new; millers have been enjoying a subsidy since September 2011.

Curiously, in all their arguments so far millers have avoided making reference to the subsidy they have been receiving from government. They are more interested in "dialoguing" with the government to arrive at "common ground". Why have

they been loud on their 'small' margin of profit and silent on the subsidy?

When the government recently asked millers to reduce prices, millers denied exploiting consumers, saying they were only making a profit of around KR3 (K3,000) per bag of mealie-meal. But this study reveals that "very little" of the subsidy has benefitted the consumer.

Dear millers, where does the subsidy go? How possible is it to make a profit of only KR3 (K3, 000) per bag of mealie-meal when maize, the main resource, has not only been subsidized by US\$125 per tonne (US\$265 minus US\$140) but also delivered to your milling plant at taxpayers' cost?



By Reginald Ntomba

experiencing boom times, but want to make consumers believe that they are teetering on the brink of bust.

The question of millers benefitting from subsidies but not passing on the benefit to the consumer is not a new one.

In 2009, the Zambia

ers' cost?

The IAPRI study also brought out the anti-competitive nature of the subsidy in that only selected millers benefit from the subsidy. Other millers and those who own vigayo (hammer-mills) in townships and villages do not benefit from the subsidised maize.

"Selective subsidies to particular millers disadvantage other millers plus many informal small-scale millers who are not able to receive the subsidy.

Over time, this is likely to entrench the market share of the selected millers having access to subsidised maize supplies, force non-selected millers out of business, and adversely affect the degree of competitiveness within the milling industry," the study further notes.

The foregoing is a classic case of how good intentions can facilitate undesired comes. If the fears expressed by the researchers were to come true – that the selected millers grew their market share while others collapsed – what would stop the selected ones from forming a cartel and exploiting consumers even further?

In incurring huge losses to subsidise maize, the government's only intention, it seems, is to keep mealie-meal prices low. But that is having other effects on the other end of the market where the selected millers are

In 2009, the Zambia National Farmers Union stated that: "We also demand that Government instructs the Office of the Auditor General to conduct an audit of all the millers who benefitted from the maize subsidy programmes immediately, to ascertain how the benefit of the subsidy was passed onto consumers. It is common knowledge that mealie meal prices did not come down hence justice demands that all those who may have abused the subsidy programme should be made accountable for profiteering at the expense of consumers and be banned from dealing with government in future."

That demand may be three years old. But it still remains as relevant today as it was then.

In all these hundreds of words written here, there is only one question to be addressed. Government is subsidising maize to millers to keep mealie-meal prices low. Millers say their profits are in fact meagre.

The consumer, for whom the government is incurring losses, is not benefitting either. Who is benefitting from the subsidy?

If, according to the study, mill-to-retail marketing margins have "increased significantly" since the subsidy took effect, then your guess – whatever it is – is correct.

*tikambilane@yahoo.co*

*m*