

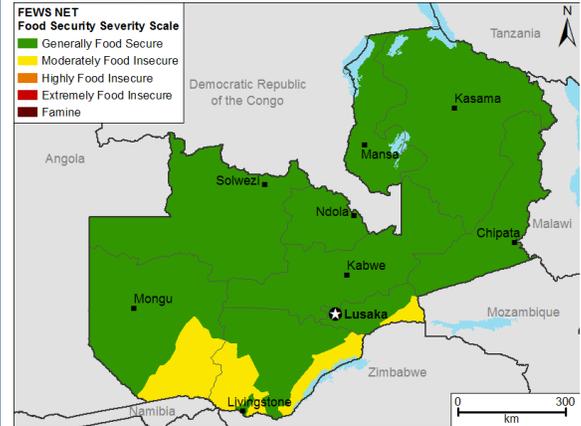
ZAMBIA Food Security Update

June 2010

Key Messages

- Following the productive harvest, staple food supplies have increased both at the household level and in public markets as expected. As a result, prices of maize, the main staple, are on a downward trend. In the rural areas there is an increased reliance on own-production at this time of the year, while in urban areas, low-income consumers will be opting to buy cheap maize and taking it to hammer mills as opposed to purchasing industrially milled meal. Demand for the cheaper meal brand (Roller Meal) is expected to fall substantially between June and September, forcing prices down. Urban consumers who are highly dependent on the market are expected to greatly benefit from this reduction. The price of breakfast meal will also fall, but less steeply.
- Although the Food Reserve Agency (FRA) is offering very competitive prices for maize, their maize purchase program has started slowly, partly due to limited funding. Unless a market is secured for formal maize exporting, the local maize prices may become depressed in the midst of a large supply, working to the disadvantage of producers. Unfortunately, Zambian maize remains uncompetitive in the region as far as price is concerned, partially as a result of relatively high production costs. There will be a need for the government and the private sector to work together to ensure that part of the large harvest does not go to waste.

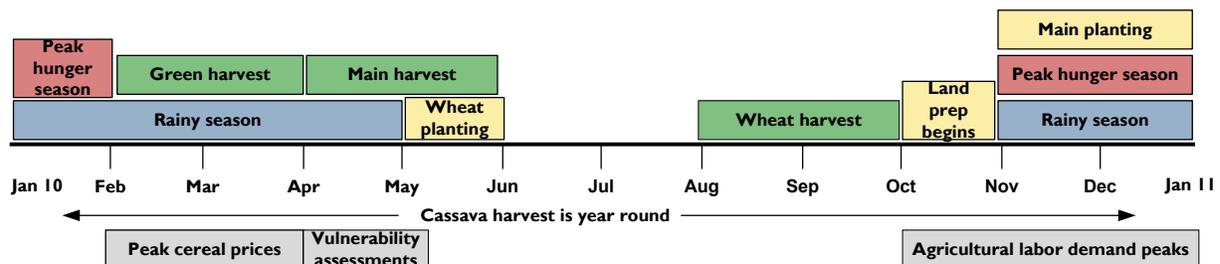
Figure I. Estimated current food security conditions, June 2010



Source: FEWS NET

For more information on the FEWS NET food insecurity severity scale, see www.fews.net/FoodInsecurityScale

Seasonal calendar and critical events timeline



Source: FEWS NET

Food security overview

Zambia's food security situation has remained good in the midst of a 'bumper' 2009/10 harvest. Household maize stocks, as well as stocks on the market, have substantially increased as expected. The availability of other seasonal foods such as sweet potatoes, squashes, and pumpkins is reducing the need to supply maize in rural areas, and to some extent even urban areas, at this time of the year. With a good supply of maize in the public markets, many low-income consumers are purchasing maize and taking it to the mill as opposed to purchasing industrially processed meal. This cost-saving measure is reducing demand for the cheaper maize brand, Roller Meal.

Generally, most rural households have had a good maize harvest judging by the trend in the price of maize in public markets. The situation for some low-producing areas which were impacted by adverse rainfall during the recently ended production season appears to be better than anticipated. A visit to the Shangombo and Sesheke districts (Western Province) revealed that currently the general food security situation in both districts is stable following harvesting and that the situation in Sesheke is substantially better than that of neighboring Shangombo. Evidently, the poor infrastructure and soils in Shangombo do not support good crop production. This area is highly prone to both droughts and floods and these shocks were a factor during the 2009/10 agricultural season. At the time of a field visit in early June, some roads were still impassable due to the effects of the floods, however, markets were functional while the mode of exchange was mostly through the barter system. With the limited production, the district will rely on grain from neighboring districts for a good part of the season. In the case of Sesheke, indications are that households generally have a little more harvest this year when compared to the previous year, as the effects of adverse rainfall were minimal except in a few localized areas.

In the valley areas of the Southern Province, such as the Siavonga district, which experienced prolonged dry spells in the middle of the 2010 growing season, the harvest was fair in the more productive areas (upland) while the lake shore area remains, as it has been in past years, a chronically low-producing area. Food will be readily available in neighboring high-producing areas making alternative livelihoods to crop production a viable option. There is a need to increase the support for alternative livelihoods, and by doing so, providing other options beyond crop production in this area. As in other years, the Siavonga district will largely depend on neighboring markets for meeting their staple food needs.

With the main harvesting season over, farmers are busy looking for a market for their produce, especially maize. Small-scale farmers are likely to sell at low prices out of desperation for immediate cash, as they will have little bargaining powers in the midst of a large harvest. They are also likely to sell mostly in the first half of the marketing year due to their limited storage capacity.

Markets and trade

Following the productive harvest, prices of maize, the main staple food, have been falling, and the trend will continue as supply will exceed demand for a good part of the 2010/11 marketing season.

The Food Reserve Agency (FRA) has started its maize purchasing program for the 2010/11 marketing season. The start is very slow and is in very few areas, as funds are limited and in some areas the moisture content of the maize is reported to be above the required 12.5 percent. The FRA target is to purchase 300,000MT of maize from the small-scale farmers at a uniform price of K 1,300 per kg. The price has been maintained from last season and will attract a lot of maize as it is likely to be the best price for a good part of this marketing season for small-scale farmers. With the large stocks in-country, buyers will be determining the price rather than sellers, which will reduce profit margins for farmers when compared to the previous season. The major challenge for producers will be finding adequate markets for their commodity at reasonable prices since FRA purchases will be limited unless the government provides more funding. Unlike commercial farmers, most small-scale farmers tend to sell their maize in the early part of the marketing season mainly due to limited/lack of good storage facilities, as well as the need for immediate cash.

Figure 1. Maize retail price for urban areas - Lusaka (ZMK/18Kg)



Figure 2. Maize meal price trend for Lusaka (ZMK/25Kg)

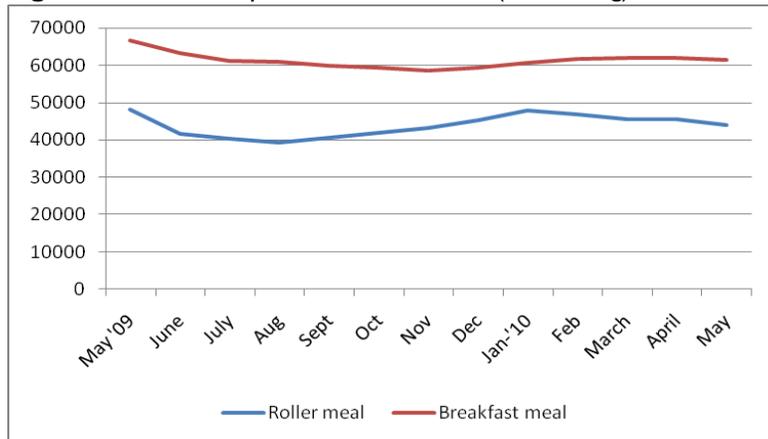
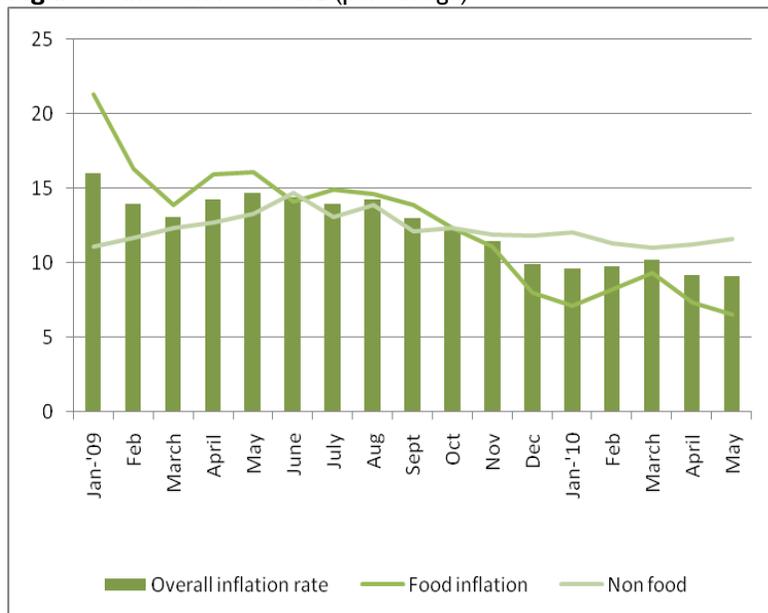


Figure 3. Inflation rate trend (percentage)



Source: FEWSNET/CSO

Unlike their rural counterparts, urban households are highly market-dependent for staple foods throughout the marketing season. Following harvesting, maize prices have been dropping in response to an increasing supply (Figure 1), however, meal prices have remained relatively stable and high (Figure 2). The increasing reliance on maize purchases from public markets and taking it to hammer mills is reducing demand for Roller Meal. However, Roller Meal prices, though declining slightly now, are expected to fall substantially in favor of consumers given the large harvest. This decline is inevitable as this commodity has a comparatively shorter shelf life when compared to the more refined meal, breakfast meal. Similar to past years, there is a time lag between reduced maize prices and an eventual fall in the price of meal. This delay is partly attributed to the unacceptably high moisture content of the maize which delays purchasing of the commodity at the beginning of the marketing season in May. It is worth noting that commercial purchases of maize take place throughout the year and have already started. Small-scale farmer maize is already on the market while commercial farmers who have storage capacity tend to sell their stocks later in order to take advantage of the higher prices later in the year.

Since April, the falling prices of maize have contributed to the reduction in food inflation (Figure 3). Food inflation has been pushing the overall annual inflation rate downwards, falling from 10.2 percent in March to 9.1 percent in May. The implication is that prices of food are increasing at a slower rate than before, which will benefit consumers.

Generally the challenge for the country is finding a market for the surplus maize (estimated at about 1 million metric tons by the Ministry of Agriculture) given the fact that Zambian maize prices are still uncompetitive regionally due to high production costs. Given the limited safe storage domestically and the fact that there is a high supply of maize regionally, there is need for the government and the private sector to work together to ensure that part of the grain does not go to waste through improper storage and subsequent spoiling. Without a good export market, prices of maize may fall to levels which

will negatively affect revenues for farmers. This could result in commercial farmers cutting back on production next season.

Given the large harvest, Zambia is currently a net maize exporting country, as far as informal trade is concerned, with increasing volumes of maize being traded (Figure 4). This implies that despite the lack of a formal export market, informal maize exports are on the rise. In the month of May alone, over 1,750MT of maize was informally traded, with maize exports accounting for 61 percent (1,070MT) of the volumes traded. Most of the maize exports were to the Democratic Republic of Congo (DRC), Zambia’s major informal market. Typically, roughly 80 percent of maize informally exported goes to the DRC, followed by Zimbabwe and Tanzania depending on seasonal performance.

Figure 4. Informal maize imports and export situation



Despite the large harvest, there were significant quantities of informally imported maize (data was captured through informal cross border monitoring) from Mozambique in May, as a result of the maize price differentials at the border point: K 32,500 per 25 kg on the Zambian side and K 20,000 per 25 kg on the Mozambican side. While the price of maize on the local market has decreased since the harvest, Zambian maize prices still remain high compared to other countries in the region, due in part to high transportation costs within Zambia. A more in-depth study of the high costs of production in Zambia is forthcoming.

The DRC remains the major informal trading partner for Zambia with approximately 88 percent of all informal exports of maize, rice, and beans going into the country. The volume of informal trade between Zambia and DRC

grew from 1,345 MT in April to 1,585 MT in May 2010, an indication of an increased local supply. This situation is similar to the same period last season when surplus production was also exported. Additionally, maize exports to DRC which had declined from January to March 2010, rose between April and May 2010, surpassing beans and rice exports. Rice exports were significantly lower in May 2010 (230 MT) than in May 2009 (637 MT), when rice was the major commodity informally exported by Zambia to DRC.

