The Zambia Agricultural Sector – Some Key Challenges

Essential background reading to this topic is Dr. Guy Scott's Paper ***'Agricultural Transformation in Zambia: Past Experience and Future Prospects–1995'.*** Among many insights it underscores the depressing reality that there have been no meaningful advances in national agricultural policy since the 1970's. Indeed, after the disastrous effects of the abrupt removal of all agricultural subsidies in 1991, State intervention in the Maize economy through the Farmer Input Support Programme (FISP) and the Food Reserve Agency (FRA) has reached proportions not seen since the heyday of NAMBOARD in the mid 1980's.

1. Back to the Future

- **Government Intervention in the Maize Economy**

Table 1: FISP Fertiliser Distribution

Season	No of farmers	No of Tons
02/03	120,000	48,000
03/04	150,000	60,000
04/05	125,000	50,000
05/06	125,000	50,000
06/07	210,000	84,000
07/08	125,000	50,000
08/09	200,000	80,000
09/10	500,000	100,000
10/11	891,000	178,000

From 2009/10 bags per package reduced from 8 to 4

Table 2: FRA Maize Purchases - Tons

2002/2003	54,850
2003/2004	105,300
2004/2005	120,000
2005/2006	386,450
2006/2007	423,348
2007/2008*	73,854
2008/2009	218,714
2009/2010	883,000
2010/2011	1,751,000

2007/8 - Import year

The tables reflected on the previous page speak for themselves. The combined cost of the FISP and FRA interventions are unknown but were estimated by some authorities to be around US$500 million per annum in 2011. Analysis of the economic consequences of these programmes has been documented in considerable detail by FSRP/MSU and others. Here it is worth noting that in 2003, the MMD policy on Maize input subsidies proposed a phased reduction as follows: 2003 - 75%; 2004 - 50%; 2005 – 25%; 2006 – 0%. In reality the opposite occurred.

From the CFU's perspective the negative aspects of the MMD Government's heavy handed interventions in the Maize economy can be summarised as follows:

- With real FISP Maize input subsidies approaching 90% and FRA prices exceeding market prices by 40%, it is difficult to persuade many farmers of the need to apply technologies that are focussed on maximising efficiency and productivity. Government interventions focussed on production rather than productivity prop up the extraordinary wastage, inefficiencies and stagnation that continue to characterise SSA in Zambia.

- The excessive focus on incentives to produce Maize dissuades farmers from diversifying their cropping patterns and increasing the proportion of cropped land occupied by legumes which is a central tenant of CF. Consequently, the majority of CF adopters (probably over 80%) still fall within the categories of either Minimum Tillage (MT) or Conservation Tillage (CT).

- Many adopters who complete dry season land preparation are unable to take advantage of the critical benefit of early planting because of the late delivery of FISP inputs. At the onset of the planting season the alternative choice of purchasing some inputs from commercial outlets is denied them as their cash is locked up in deposits required by the Cooperatives to access FISP, or is held by FRA who often delay payment for Maize deliveries well beyond the onset of the rains.

- Facilitating the organisation of farmers into self-managed business groups and associations for the purposes of exploiting the advantages of bulk input supply and marketing services for the production of specific commodities other than Maize and Cotton is difficult if not impossible to achieve.

Government is presently engaged in dialogue with various stakeholders regarding the future of FISP and FRA and it is not yet clear which direction it will take. The populist legacy bequeathed by MMD involving massive subsidisation of small-scale Maize production in concert with equally substantial subsidisation of urban consumption depends to a large extent on income derived from taxation of the Copper industry and therefore copper prices, a relationship that eventually contributed to the downfall of UNIP and national bankruptcy. Irrespective of the economic implications, farmers and consumers alike enjoy subsidies and their reduction or removal pose significant political challenges so any moves in this direction should take place well before the next elections. In this regard, the current Government should take comfort from the fact that the MMD's efforts to capture votes through unjustifiable expansion of FISP and FRA interventions failed to achieve the expected results.

While the short term outlook for copper is positive, the drain on the treasury required to underwrite FISP and FRA makes little sense in the light of numerous development challenges that exist within and beyond the agricultural sector. So what should the Government do?

- **The Farmer Input Support Programme**

With regard to FISP there is no clear cut solution and the entire removal of fertilizer subsidies is unrealistic unless the productivity of SSF's is increased substantially through the more rapid adoption of CF practices. Contrary to the opinion of some observers the challenge relates primarily to low yields associated with conventional farming practice rather than excessive production costs.

It is also worthwhile noting that SSF cash purchases of fertiliser at the commercial price or at a level somewhere between the commercial and subsidised price (hot fertiliser) generally exceeds 50,000 tons p.a. For example FSRP analysis of the 2007/8 Crop Forecast survey suggested that SSF's purchased 61,000 tons from private traders.

Pragmatism should prevail and the immediate and most important step is to ensure that farmers who allocate resources to receive subsidized Maize inputs get them in sufficient time to establish their crops with the first planting rains. In the medium term Government should reduce the subsidy to a *threshold based on economic analysis* that encourages efficient and productive farmers to step up their performance and achieve satisfactory returns to their investment by adopting practices that reduce labour inputs and costs, increase yields, encourage diversification and temper excessive reliance on synthetic fertilizers. In due course the Government should also remove the responsibility of MAL for managing distribution in order that they can engage in extension. Furthermore, Government should also withdraw from direct importation of fertilizes, which in the past has involved the monopolistic allocation of tenders. This would encourage open competition among commercial fertilizer importers, blenders and their agents.

The continued application of subsidies in a liberalized scenario even if they are reduced to economically justifiable levels involves complexities that have not been adequately thought through. Nevertheless, among numerous alternatives, a scenario that should be considered goes as follows. Major suppliers, i.e. importers and blenders, would qualify to receive the subsidy rebate on verified purchases from their rural wholesale depots which would be registered for the purpose. This approach would encourage open price competition downstream and expand the availability of fertilizers in rural areas through the involvement of small retailers who in the past have been side lined by the FISP.

- **The Food Reserve Agency**

'In accordance with the Zambian Food Reserve Act (1995), the government, through the FRA, has the responsibility to purchase agricultural crops from smallholder farmers who are located in economically disadvantaged areas in the country during land-prep/planting season'.

As highlighted above, FRA should resort to its stated mandate as a strategic grain reserve and buyer of last resort and restrict purchases to areas which lie beyond the reach of private traders. Meteorological data, crop forecasts, warehousing capacity, stock balances and consumption trends rather than political considerations should be applied to determine the level of FRA's intervention in Maize markets. Also MAL staff should not be involved in the FRA Maize marketing process.

2 Agriculture & Social Welfare

Since the 1970's Government policy has never distinguished the difference between agricultural development and social welfare. The absence of this important distinction has been reinforced by Donors who prioritise '*poverty alleviation'* as a core objective of investments in SSA. As a result, initiatives focussed on enhancing productivity, inculcating self-reliance and a more business-like approach to decision making among farmers are undermined by subsidies, hand outs and other incentives aimed at coercing them to adopt whatever recommendations are being advocated.

In addition, the bias toward poverty alleviation tilts the focus of interventions in the agricultural sector toward communities who have become chronically dependent and who by their very nature are unlikely to respond to new concepts unless these are linked to some form of hand outs. In the meantime, more progressive members of the farming community are ignored.

Determining who is sufficiently impoverished to qualify for social welfare is a complicated and imprecise business. Food aid, the crudest form of welfare support, often overflows into the buckets of those who do not require it to appear on the market where it depresses prices and discourages those who had the foresight to invested their energy and modest assets to produce a surplus.

Between October 2009 and February 2011 the WFP implemented a programme which highlights an approach Government should consider. In brief, 275,000 monetised scratch cards linked to a platform designed by MTZL Ltd were distributed to households identified by Government clinics and NGO's as suffering from HIV/Aids, supporting malnourished orphans or both. The beneficiaries discounted these cards at rural outlets in exchange for maize meal, cooking oil, beans and soap, a win-win.

Multinational NGO's such as CARE, CRS and World Vision are considered experts in desegregating the genuinely needy, the Ministry of Social Welfare has the mandate to cater for the needs of the disadvantaged and MZTL has developed a platform that enables targeted delivery of assistance. A collaboration of this nature suggests a way forward to disentangle welfare from development.

3 Agricultural Finance

- **Seasonal Finance**

For reasons that have been exhaustively documented over the years, the involvement of commercial banks in the small and medium scale agricultural sector remains negligible. Nevertheless, the Lima Credit scheme involving collaboration between ZNFU and ZANACO bank has recently achieved inroads in this direction with 4,026 farmers receiving seasonal loans via a portfolio of ZMK 18,000,000 during the 2011/12 season. To date repayment has been excellent and it is understood that the Union intends to increase the number of beneficiaries to 35,000 within 5 years. The CFU has proposed that ZNFU should direct the scheme toward CF adopters and is prepared to assist with this.

- **Medium Term Finance**

Although in their infancy, recent schemes introduced by CFU/AFGRI and Dunavant Cotton and FAO/MACO that provide medium term loans for private operators to procure tractors, rippers, trailers and maize shellers for the delivery of dry season Min-Till land preparation, haulage and other services to smallholders, are extremely promising. During the approach to the current rainy season, demand for tillage services outstripped supply by an overwhelming margin and the immediate benefits to crops arising from early planting, the elimination of compact layers and rainwater harvesting, have been expounded by farmers.

If handled properly i.e. based on sound business principles, the expansion of privately driven service provision within the small and medium scale sector offers enormous opportunities to contribute to the transformation of Zambian agriculture.

However, ‘in house’ schemes such as those where the promoters take on the responsibility of administering the ‘loan book’, should be avoided. In the strictest sense the AFGRI model is the only fully commercialised version at present as the company has a banking licence; offers no hidden concessions; obliges beneficiaries to pay a 20% up front deposit, and defers ownership of the equipment until the loan is fully paid off.

For good reason commercial banks are extremely wary of providing medium term loans to the Zambian farming community. Nevertheless the inflexible ‘belt and braces’ approach insisted on by the risk management departments of commercial banks in Zambia suggest that they are ignoring a significant opportunity summarised as follows:

- *Loans to mechanised service providers do not carry the substantial risk of defaults arising from adverse weather conditions.*
- *A single mechanised loan that enables the provision of services that benefit up to 150 farmers or more, delivers a highly significant economic multiplier effect, a fact that cannot be lost on banks that are keen to burnish their images at this time! Here is an opportunity that would deliver genuine corporate social responsibility.*

- *In simple terms, a portfolio of 150 loans valued at $5.25 million that benefits 100,000 to 150,000 farmers is from a banking perspective, easier to manage than an equivalent portfolio of 6,500 seasonal loans extended to individuals.*

- *The CFU in conjunction with other agencies has well organised rural networks capable of screening appropriate beneficiaries and providing business training and technical support at no cost to the banks. The rigour applied by CFU's 2011 screening exercise is reflected by the fact that only 14 beneficiaries out of an original pool of 400 eventually qualified.*

- **Micro Finance**

There are currently 8 micro-finance institutions in Zambia who we understand have a combined loan portfolio of $4.5m lending to about 29,000 borrowers. These are mostly small high interest rapid turnover loans used to finance informal trading activities. A gap exists in what might be described as 'mini-finance', for farmers to purchase hardware such ADP zero till planters, small motorised maize shellers and other equipment in the range of $200 to $1000.

Again the focus is on service provision. ADP farmers who have abandoned ploughing, purchased ZT planters and used these in conjunction with herbicides have increased cropped area from 3 to 5 hectares up to 27 ha in some cases, suggesting opportunities to provide planting services to neighbours.

At the lower end, ADP farmers who have purchased Magoye rippers have dry ripped for neighbours, in once case for 17 famers. The benefits are self–evident, early planting, minimal soil disturbance, specialisation, farmer to farmer business and much more efficient use of scarce animal draft power.

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