Zambia: Country of Paradoxes

- Rich in agricultural resources: adequate rainfall, good soils, abundant land
- At core an urban, industrial society. 44% live in cities
- Major investments made in agriculture post-Independence through late 1980s
- But they did not create a strong foundation for agricultural growth
- Impact of reforms also disappointing
Key Questions

• Why haven’t the reforms worked?

• What lessons can be drawn for future agricultural development in Zambia and elsewhere in SSA?

Presentation Outline

• Part 1: The Political Imperative of Maize and Fertilizer
• Part 2: Reform Process and Impacts
• Part 3: Lessons and Future Challenges
Part 1: The Political Imperative of Maize and Fertilizer

- Overwhelming dominance of copper established agriculture as a subordinate sector -- but also created a market for maize
- Impact of infrastructure/railway line
- Early precedent set for extensive state intervention to achieve policy objectives
- Stability of state marketing system attracted small African farmers into commercial maize production

Copper and the Line of Rail
Key Policies -- Colonial Period

- Migration of African labor from rural villages to urban mines
- Maize Control Act (1936) restricts grain movement, establishes monopoly state buying stations in commercial areas

Key Policies -- Post-Independence

Objectives

- Increase domestic maize production to supply urban mining areas with cheap maize meal
- Reduce reliance on European farmers by increasing African farmer participation in commercial agriculture
- Improve regional equity by increasing market involvement of farmers in more remote provinces
Policy Mechanisms

• Existing parastatal marketing services extended to more remote regions
• Pan-territorial, pan-seasonal prices for agricultural commodities and inputs
• Depots handled seeds and fertilizer on credit as well as agricultural commodities
• Subsidies included
  --marketing and production subsidies on local fertilizer
  --price differential subsidies on imported fertilizers
  --marketing subsidies to marketing board agents
  --maize meal coupons to urban consumers

Impact of Policies (+)

• Maize production increased by 137 percent between 1975-79 and 1985-89; smallholder share rose from 60 to 80 percent
• Credit programs reached 1/4 of smallholders
• Fertilizer consumption quadrupled between late 1960s and late 1980s; fertilizer consumption in remote areas increased from 15 to 39% of total
• Hybrid maize planted on 60% of smallholder area by early 1990s; improved seed+fertilizer increased yields by 46-64% over local seed, no fertilizer
Impact of Policies (-)

• The marketing system was costly:
  --Prices set with inadequate consideration of actual costs of transportation and handling
  --By 1970s, no substantial area of the country where less than 50% of small farmers grew maize
  --Pan-seasonal pricing discouraged on-farm storage
  --Cooperatives were inefficient service providers
• Namboard/cooperatives became heavily dependent on subsidies; gov’t delays in transferring funds caused cash flow problems throughout the system.
• Problems carried over to the following season. Delays in receiving guarantees/funds delayed input delivery

Part 2: Reform Process and Impacts

Motivation for reforms

• Declining copper revenues
• Increasing indebtedness
• Maize subsidies consumed 19% of gov’t budget by late 1980s
• Macro and agricultural policies under increasing attack from int’l and domestic sources
Reforms (1)

- Macroeconomic reforms in 1983
  --20% devaluation and forex auction
  --general decontrol of non-ag prices
  --increased interest rates
  --budget cuts
- Food and ag sector
  --continued control of producer prices and parastatal marketing
  --price subsidies on fertilizer cut
  --maize meal price increases spark urban riots in 1986 and 1990, prompted rescinding of Zambian agreement with IMF on reform package

Reforms (2)

- Chiluba’s election in 1991 made broader ag reforms possible
- Beginning in 1992-93, GRZ largely ended the parastatal system and began to encourage greater private-sector activity in commodity and input marketing
- Parastatals NCZ and Zamseed slated for privatization
**Impacts (1)**

- Foreign-based fertilizer companies (e.g., Omnia, Kynoch, Sasol, and Norsk Hydro) began to import fertilizer in 1992, greatly expanding the number of fertilizer products available.
- Number of maize hybrids and OPVs available to farmers doubles 1992-99, following entry of Cargill, Pannar, Pioneer, Carnia, Maize Research Institute, Seedco.
- Input companies carry out their own trials of fertilizers, new varieties but only in sites close to the line of rail.
- Increasing crop diversification. Maize share has declined; cassava, bean, sorghum/millet, groundnut shares have increased significantly.

**Impacts (2)**

- Following collapse of parastatal credit agencies, GRZ-backed credit programs for fertilizer (on maize) operated through private sector managers 1994-96. Recoveries disappointing -- below 40%.
- Fertilizer consumption sinks to 80,000 mt.
- Parastatal FRA created 1995, entrusted with management of fertilizer credit program beginning 1997 using funds borrowed from Nedbank.
- Con’t poor recoveries and apparent “leakages” of significant amounts of fertilizer onto local markets, sold at below-cost rates.
- Beginning 1999-2000 GRZ directs credit to selected farmer coops, many of which are newly formed around polling stations.
Impacts (3)

• Private firms contracted as managers for FRA benefit from program but unclear whether program induces them to risk their own capital to build up market
• Continuing uncertainty regarding government role in fertilizer market discourages private sector investment in general
• How can program be sustained with private capital if recoveries are < 40%?
• Increasing politicization of program creating unease among donors

Lessons and Challenges (1)
Part 3: Lessons and Future Challenges

• Earlier interventions in the maize sector motivated by legitimate concerns about growing societal divisions. Policies spread development opportunities to neglected areas -- but in a very expensive, unsustainable way.
• Today’s government faces the same legitimate concerns but current approaches to dealing with them viewed with increasing cynicism.
• Challenge is to create new opportunities for commercial agriculture on the fringes of areas where commercial activities currently taking place and more remote areas.
• Maize is not a viable commercial crop in many of these areas -- need to motivate production/processing of alternative commodities that responds to agribusiness/consumer demand.

Lessons and Challenges (2)

Political freight carried by maize/fertilizer
• viewed as part of “social contract,” entitlement rather than a development tool; thus limited motivation to repay
• past evidence that fertilizer misused on maize -- substitutes for labor, weeding neglected, yields much lower than potential
• Implies political will needed to shift public investment focus from maize/fertilizer to other areas, e.g., improving conditions for commercialization of alternative crops by smallholders
• in other countries process aided by decentralization of development programming to provincial and district levels and increased accountability at local levels
Lessons and Challenges (3)

Already some limited successes with “holistic” subsector-based development approaches beyond maize

- development of outgrower schemes for alternative crops, e.g., cotton, paprika
- rebuilding credit repayment ethic among smallholders organized into legitimate farmer associations
- promoting improved agronomic practices such as conservation tillage resulting in better husbandry, improved yields

Lessons and Challenges (4)

How can gov’t/donors motivate private sector to expand outgrowing programs?

- Reduce policy uncertainty: commitment by gov’t to withdraw from fertilizer sector
- Technical assistance: assess feasibility of outgrowing opportunities, including (a) profitability of alternative crop/input combinations at farmer and firm levels; (b) market assessment
- Lower costs of doing business by: (a) developing a workable system of contract enforcement; (b) providing limited credit guarantees related to smallholder-based outgrowing programs; (c) NGO provision of business development services to potential out grower partners, e.g., CLUSA, CARE-Agent
Lessons and Challenges (5)

Infrastructure improvement beyond the line of rail

- donors revisit costs/benefits of joint effort with gov’t to lower marketing costs through major investments in transport/communication infrastructure
- explore use of IT to improve market information systems, e.g. provision of market prices and buy/sell information through web sites and web-based bulletin boards