Agricultural Consultative Forum

Discussing the 2009 National Budget for Zambian Agriculture

Presented by
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Stakeholder meeting on the Tax and Non-Tax Policy Proposals for the 2010 National Budget
23 July, 2009
ACF – Conference Hall

Outline

• FNDP strategic plans/goals
• 2008 performance diagnosis in the budget
• Review selected past performance trends
• 2008 announced & actual budget releases
• Overview agriculture budget trends
• Details – 2009 agriculture sector budget
• Key tax and customs features affecting ag
• Summary
FNDP’s Goals For Agricultural Sector Development

• Attain 90% HH food security by 2015
• Increase agriculture’s contribution to FOREX earnings from 3-5% to 10-20%
• Increase agricultural export output at an annual rate of 20%,
• Grow agriculture from 1% to 7-10% per annum from 2006 onwards
• Increase agriculture’s contribution to GDP from 18-20% to 25%
• Facilitate the role of private sector
• Increase incomes for those in agriculture

2008 Ag Sector Performance – Diagnosis in the Budget Speech

• 2006-2008 Ag sector performed poorly – contracting by 1.2 % annually
• 2008 crop production declined by 7 % leading to contraction in ag. sector by 4 %
• Key constraints mentioned:
  – High cost of inputs;
  – Limited access to credit, inputs and extension services;
  – In adequate infrastructure;
  – Poor livestock management
  – Weakness in FSP;
  – Failure to attract private investment in the sector.
2009 Ag Sector Performance Goals
Targets in the Budget Speech

• Growth through competitiveness & diversification
• Focus improving infrastructure and conducive environment for private investors
• Reduce wasteful expenditures with non-appreciable social or economic returns

Where are Agriculture Growth Funds Sourced?

• Government
  – Direct expenditures
  – Indirect through tax incentives
• Development partners
  – Budget and project support
  – Non-budget support
• Private sector including farm households
  – Commercial loans
  – Equity investment funds
  – Outgrower inputs in-kind
Ag Funds Spending Agents

- UN/AU/NEPAD standards define “agriculture” as including crops, livestock, fisheries, forestry & hunting
- Agricultural expenses incurred by other ministries including:
  - Home affairs (prison farms)
  - Community development & social services (food security pack)
  - Defense (Zambia National Service – farm production)
  - Works & Supply (building of agricultural infrastructure)
  - Lands (survey and demarcation of agric lands)
  - Natural resources (forestry) tourism, and environment
  - Energy and water (construction of dams for irrigation)
  - Finance & national planning (loans and investments)
  - Office of President (crop, livestock & forestry projects)
  - Office of Vice President (resettlement & disaster management)
* Current analysis now includes these – prior work on Zambian budgets by Govereh et. al. did not – results do change

Agricultural Budget Trends in Zambia

- Real size of budget, comparisons & trends
- Agriculture’s share of national budget
Real Size of Agricultural Budget 2001 – 2008 (2008 Dec = 100)

Agriculture’s Share of Zambian National Budget
### Measuring Trends – What is Measured: Resources Approved vs Actually Released – 2008 Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>Approved 2008</th>
<th>Released 2008</th>
<th>% 2008</th>
<th>Approved 2009</th>
<th>Released 2009</th>
<th>% 2009</th>
<th>% change 08 to 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Emoluments</td>
<td>118.1</td>
<td>118.1</td>
<td>100</td>
<td>131.8</td>
<td>10.4</td>
<td>11.5</td>
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<tr>
<td>Recurrent Departmental Charges</td>
<td>100.1</td>
<td>84.1</td>
<td>84</td>
<td>160.1</td>
<td>12.7</td>
<td>90.5</td>
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<tr>
<td>Grants and Other Payments</td>
<td>4.1</td>
<td>4.2</td>
<td>101</td>
<td>3.5</td>
<td>0.3</td>
<td>-16.5</td>
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<tr>
<td>Poverty Reduction Programs</td>
<td>282.9</td>
<td>568.1</td>
<td>201</td>
<td>575.1</td>
<td>45.5</td>
<td>1.2</td>
<td></td>
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<tr>
<td>Capital Expenditure</td>
<td>3.5</td>
<td>3.1</td>
<td>88</td>
<td>42.8</td>
<td>3.4</td>
<td>1297.2</td>
<td></td>
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<tr>
<td>Agricultural show</td>
<td>0.8</td>
<td>2.7</td>
<td>458</td>
<td>2.8</td>
<td>0.2</td>
<td>2.8</td>
<td></td>
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<tr>
<td>Agricultural development Programs</td>
<td>277.3</td>
<td>277.3</td>
<td>100</td>
<td>158.3</td>
<td>12.5</td>
<td>-42.9</td>
<td></td>
</tr>
<tr>
<td>Allocation to other ministries</td>
<td>123.3</td>
<td>123.3</td>
<td>100</td>
<td>188.7</td>
<td>14.9</td>
<td>53.0</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>909.9</strong></td>
<td><strong>1180.9</strong></td>
<td><strong>130</strong></td>
<td><strong>1263.0</strong></td>
<td><strong>100</strong></td>
<td><strong>6.96</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Announced & Released MACO Allocations 2008 - 2009

- Announced Allocations: +37%
- Released Allocations: -21%

<table>
<thead>
<tr>
<th>Year</th>
<th>Announced</th>
<th>Released</th>
<th>Allocated</th>
<th>Released</th>
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</thead>
<tbody>
<tr>
<td>2008</td>
<td>786.6</td>
<td></td>
<td>786.6</td>
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<tr>
<td>2009</td>
<td>1074.393173</td>
<td>1351.752085</td>
<td>1074.393173</td>
<td>1074.393173</td>
</tr>
</tbody>
</table>
2009 – Zambian Agriculture Sector Budget – Key Provisions

- Personnel Emoluments (PEs)
  - Salaries and Wages
- Recurrent Departmental Charges (RDCs)
  - Supplies and other requisites
- Grants and other payments
  - CDT, IFAD, International Red Locust
- Poverty Reduction Programs (PRPs)
  - Fertilizer Support Program, Strategic Food Reserves/FRA
- Agricultural Development Programs
  - ADB, ASP
- Allocation to other ministries
  - Food Security Pack, Construction of Dams and Roads
2009 Resource % Allocation Within Agriculture: ZMK893.1 billion

Ratio of RDCs to Personnel Emolument
## MACO Poverty Reduction Programs (PRP) 2008 & 2009

<table>
<thead>
<tr>
<th>Category</th>
<th>2008 Actual ZK billion</th>
<th>2008 Actual (%)</th>
<th>2009 Allocation ZK billion</th>
<th>2009 Allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irrigation support</td>
<td>5.9</td>
<td>0.7</td>
<td>6.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Commercialization of farm blocks</td>
<td>6.5</td>
<td>0.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Animal disease control</td>
<td>9.7</td>
<td>1.1</td>
<td>24.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Livestock development</td>
<td>1.8</td>
<td>0.2</td>
<td>3.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Fertilizer Support Program</td>
<td>490.1</td>
<td>56.8</td>
<td>435.0</td>
<td>75.6</td>
</tr>
<tr>
<td>Strategic Food Reserves</td>
<td>340.0</td>
<td>39.4</td>
<td>100.0</td>
<td>17.4</td>
</tr>
<tr>
<td>Cooperative Education and training</td>
<td>0.5</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>7.9</td>
<td>0.9</td>
<td>6.8</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>862.2</strong></td>
<td><strong>100</strong></td>
<td><strong>575.1</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

## PRP Resources Approved vs Released 2008

<table>
<thead>
<tr>
<th>Poverty Reduction Programs</th>
<th>Approved ZK Billion</th>
<th>Released ZK Billion</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilizer Support Program</td>
<td>167.0</td>
<td>492.1</td>
<td>163.1</td>
</tr>
<tr>
<td>Food Reserve Agency</td>
<td>80.0</td>
<td>340.0</td>
<td>325.0</td>
</tr>
<tr>
<td>Other</td>
<td>15.9</td>
<td>30.2</td>
<td>90.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>267.0</strong></td>
<td><strong>832.1</strong></td>
<td><strong>211.6</strong></td>
</tr>
</tbody>
</table>
Composition of Poverty Reduction Programmes 2008 & 2009

2008 Released

- FSP 57%
- FRA 39%
- OTHER 4%

2009 Announced

- FSP 76%
- FRA 17%
- OTHER 7%

Development Basics: Drivers of Growth in Agriculture

- Research, technology and extension
  - GART, ZARI, NISIR, UNZA, MACO, NGOs
- Soil fertility management & enhancements
  - Fertilizer use & management (timely, levels, methods)
  - Conservation farming
- Irrigation
  - Small scale and large schemes
- Reliable & Competitive Markets
  - Domestic, regional and international
- Strategic Infrastructure
  - Soft and hard (e.g. Road building/maintenance, electric power, communication, storage facilities)
FRA – Strategic Reserve

- Buying maize in outlying areas good intention but very costly and may stimulate production of the wrong crops in very high cost locations – counter to goal of diversification
- Many farmers in outlying areas need to first produce more to eat
- Importance of dependable role of strategic reserve so private agents can invest to complement & reduce the need for FRA actions
- Consumer/miller maize subsidies in 2008 have been very costly to GRZ
- In 2009 there is a special FRA challenge – careful rebuilding of the strategic reserve, subject to the size of the crop
  - Large maize crop – buying at market prices can assist the market to keep prices up
  - Small crop - open borders early for private imports to allow supplements to what FRA can procure & to reduce costs to GRZ

Food Security Pack - PAM

- Zambia - has a unique program in FS Pack/PAM
- Actually predates Food Security Programme
- Targets vulnerable & promotes crop diversification
- Other countries committed to subsidies for smallholders trying to invent this approach
- But FS Pack/PAM has been relatively underfunded. 2009 allocation similar to 2008
- In some prior years funding was over 40 B ZMK
- Additional allocations here could promotes crop diversification & productivity, as well as target vulnerable
Other Agriculture Sector Related Budget Provisions

• Vat zero-rating (promote viability small farmers)
  – Windmills & maize hammer/dehuller mills
  – Two wheel tractors & accessories
  – Tractors to 60 hp
  – Ploughs, harrows, planters & other equipment
  – Pump sets & knap sack sprayers

• Custom Duty Scrapping
  – Crude soybean & sunflower and crude palm oil

• Selected Increases in Taxes
  – Export duty increase on cotton seed 15 % to 20 %
  – Export company tax on earnings from export of cotton lint from 15 to 35 %

• Food security pack allocation about same as prior year

Periods of Success & Challenge in Seed Cotton Production (1993-2008)

First Crash
- New players
- Conflict over prices
- Credit default
- Reduced input credit

Second Boom
- Private sector innovation for credit & extension
- Continued self-regulation
  - (also cont’d new entry)

Second Crash
- Kwacha appreciation
- Inconsistent policy
- Credit default
- Reduced input credit

Recovery?
- More established firms
- Urgent need for formalized regulation
- Reduced world demand

Privatization
- Increased input credit
- Extension
- Effective private sector self regulation
Post-Reform Boom
- Decreased input credit
- Reduced input credit

Year

Seed Cotton Production (Mt)
Cotton Sector Special Concerns

- Cotton industry in a critical phase
- Conditions have fundamentally changed
  - Domestically
    - More established players unlikely to exit (many left after first crash)
    - Likelihood of even more players without effective regulation (Cotton Board)
    - Too many players will undermine input credit provision
      - This is already happening but could be reversed if action is timely
  - Internationally
    - Reduced demand due to worldwide financial crisis
    - Increased productivity due to GM – further pressure on prices
- Export taxes are seldom effective in promoting local investment
  - On lint: effect limited due to weak domestic demand & competitiveness for lint processing
  - On cottonseed: there has been no additional crushing capacity added, so who will the tax protect?
- Sector needs assistance to stabilize itself and reinvest in productivity
  - Sharp increase in profits tax on lint exports could destabilize the industry, especially in absence of functioning Cotton Board
  - Also reduce ability to offer farmers high seed cotton price

Summary

- Change in 2009 ag. budget size is complex to interpret due to large additional allocations in 2008.
- Overall the trend toward NEPAD/CAADP target is down to 9 % from a peak of some 13 % in 2007
- Ag operating funds for implementation up
- A number of vat zero rating changes enhance growth options
- Poverty reduction programs continue staple centered & are even more dominated in 2009 by FSP.
- Strategic food reserve funding up
- Many drivers of agricultural growth still underfunded
- Budget speech focus for ag sector calls for growth for livestock, irrigation and farm blocks. Implementation critical
- Cotton sector targeted for increased domestic value added but sector recovery challenges for lint production recovery are significant
Thank You