Political Economy of Input and Commodity Market Policies in Zambia

Rhoda Mofya-Mukuka and Chance Kabaghe

Presentation at the High-level Outreach Event for Parliamentarians
Siavonga, Lusaka, 8th March 2014
Background

- Food availability, access and affordability is a highly politicized issue throughout the world.

- In Zambia like in most sub-Saharan African countries, Government feel food issues are too politically sensitive to be left to the private sector.

- The 1986 Copperbelt food riots that eventually led to Kaunda’s UNIP party removed from power is often basis for this argument.
As a result GRZ continues to directly involve itself in maize input and output marketing – maize being the staple food.
Effects of direct GRZ involvement on private sector development

- The Food Reserve Agency (FRA) and the Farmer Input Support Program (FISP) - major policies of Government direct involvement in maize marketing and input supply

- In principle, the private sector is not barred by law from participating in input and commodity marketing, but activities of FRA and FISP tend to discourage them.

  - Examples
    - Setting of pan-territorial prices above the market-price (things improved in 2013/2014 season where in some cases the FRA buying price has been below the market price)
    - Selling at subsidized prices to millers
    - FISP targeting household that can afford fertilizer market prices
    - Local fertilizer retailers and agro-dealers not involved in input distribution
Also ad-hoc trade policies such as export bans and restrictions, selective issuing of import and export licenses create an unstable business environment for the private sector.

- Preventing long-term private sector investment

The PF manifesto has a well articulated private-sector led economic development agenda, but current public sector direct involvement in marketing and input is crowding out private sector in the agricultural sector

- Reactionary policies only address short term political objectives
Reversal of 1990s liberalization policies

- The 1992/93 drought and the inadequacy of the private sector to import maize led to government getting involved again in maize marketing and input distribution.
- Coming from a strictly state-controlled economy, the private sector was just being formed – (Brief-case buyers in agricultural marketing).
  - Private sector is now significantly bigger
  - Is much more technologically advanced
- Infrastructure and communication have significantly improved in the last two decades
- Increased maize market in Zambia and in the region
Challenges of public sector involvement in Agricultural markets

- Maize productivity remains at 2 tonnes/ha against potential of 8 tonnes/ha
  - Uniform fertilizer distribution regardless of the soil types
    - e.g. 98% of Zambian soils are acidic (pH<5.0) applying ammonium nitrate to already acidic soils increases the acidity of the soil.
    - soil acidity affects maize plants’ ability to take up and use phosphorous (from compound D)
      - On acidic soils maize productivity = 2.1 to 3.7 kg/kg of basal
      - Compared to 7.6 kg/kg basal on normal soils
Challenges of public sector involvement in Agricultural markets cont.

- Late delivery of inputs
- Late payment of farmers
- “Missing” trucks!
- Wastage of grain through rotting and spillage – last year the minister estimated wastage of up to 32%!
- Huge drain on Government financial and human resources – the human capital can be better placed in more profit making entities
The biggest challenge - 
Rural poverty has not reduced in the last two decades - remained at about 80%
Where to strike a win win situation
Four Specific Proposals to Improve Food Security in Zambia:

1. Enact the Credit Act and the Agricultural marketing Act!
   - This will provide appropriate institutions for contract enforcement, risk-mitigation, and incentives for investment.
   - The marketing council (regulatory organ) will ensure that the market is fair
     - Example of the cotton industry which has established its own version of collective action and collective responsibility with very limited public facilitation or involvement.
2. Reallocate K5.5 bn saved from removal of subsidies to proven drivers of agricultural growth:

- **R&D**: allocate at least 1% of national budget to strengthen public research programs on cost-effective options for farmers to address problems of soil acidity, micro-nutrient deficiencies, low soil organic matter, and other soil-related problems that depress crop response to inorganic fertilizer use.
3. Support our Zambian farmers by reviving the Agricultural Extension System:

- **devote 2% of total annual public budgets to revitalize public extension systems, and explore alternative dissemination models (including models that utilize the private sector). Let’s get the Department of Agriculture really moving again!**
4. **Provide a stable and transparent policy environment**

- Don’t constantly change from export bans to free trade to import ban, etc. -- too risky to encourage new investment by private sector
  - Success stories of NO/MINIMUM GRZ intervention are in the Seed industry, legumes industry, wheat industry
- Investing in public goods to reduce the costs and risks of trade and production
- Invest in feeder roads to connect farmers to markets
- Let’s start to think of the private sector as necessary and critical development partner. They can provided much needed services to farmers and consumers.
Thankyou

www.iapri.org.zm