

2006 AGRICULTURAL SECTOR BUDGET ANALYSIS

Food Security Research Project (FSRP)

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Lusaka, February 7, 2006 .

Ministry of Agriculture & Cooperatives



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OUTLINE

- Budget process
- Agricultural policy & development priorities
- Budget trends
- 2006 budget
 - Provisions
 - Funding priorities
 - VAT changes
- Summary

Budget process

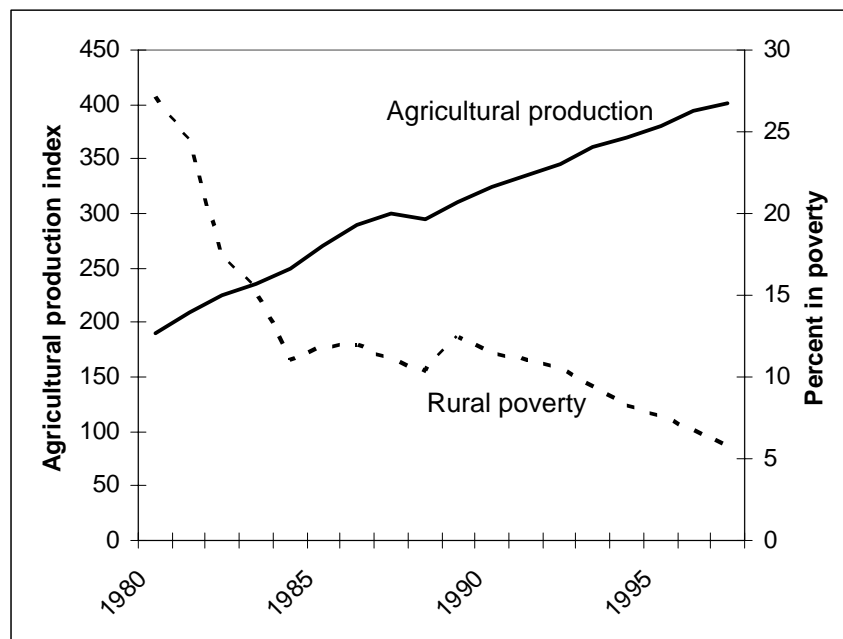
- Cash budget
 - Allocate according to size of envelope
- Participation of stakeholders in planning
 - MACO, CABINET, PARLIAMENT
- Participation in disbursements and tracking

**AGRICULTURAL POLICY AND
DEVELOPMENT PRIORITIES**

Agricultural policy

- Objective
 - To achieve accelerated growth and competitiveness in the agricultural sector
- Goal
 - Poverty reduction and income growth
- Strategy
 - Private sector led development
 - Government focuses on infrastructure and support services

Agricultural growth and poverty reduction in China



What drives growth in agriculture?

- Irrigation
 - Small scale and large schemes
- Research, technology and extension
 - GART, ZARI, NISIR, UNZA
- Soil fertility management
 - fertilizer use management
- Markets
 - Domestic and international
- Infrastructure
 - Soft and hard

Priority interventions in draft FYNDP

- Irrigation
- Agricultural infrastructure and land
- Research – crops, livestock & fisheries
- Extension – crops, livestock & fisheries
- Animal health

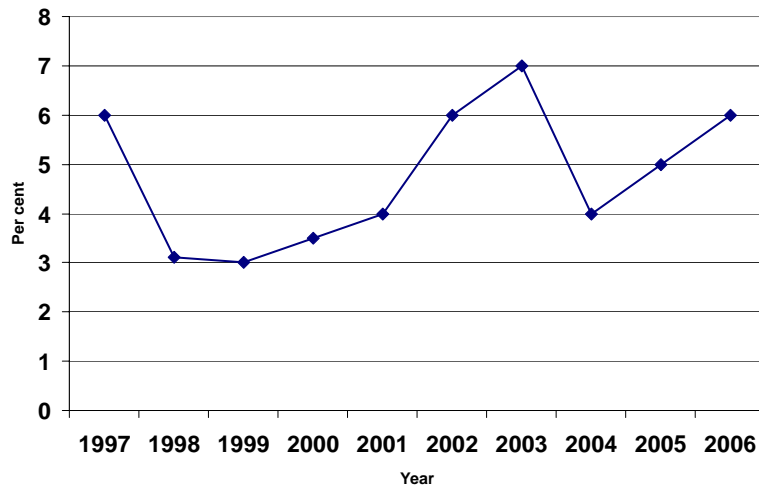
AU/NEPAD – CAADP

Development priorities

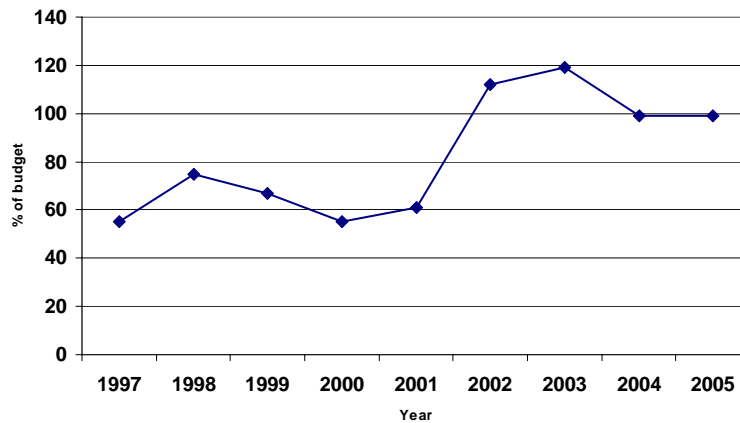
- Irrigation expansion
- Rural infrastructure
 - Trade capacity
 - Market access
- Increasing food supply and reducing hunger
- Agricultural research, technology dissemination and adoption

BUDGET TRENDS

Sector share of national budget: 1997 - 2006



Releases as % of allocation: MACO 1997 - 2005



Budget provision and funding for MACO in 2004 (ZMK' billion)

MACO	PROVISION	FUNDING
Personal Emoluments	68	57
Recurrent Departmental Charges	19	10
Grants and Other Payments	9	6
Poverty Reduction Programs/HIPC	141	162
Fertilizer Support Program	70	96
Strategic Food Reserves	47	47
Other PRP Programs	24	18
TOTAL	239	236

Budget provision and funding for MACO in 2005 (ZMK' billion)

MACO	PROVISION	FUNDING
Personal Emoluments	75	74
Recurrent Departmental Charges	44	39
Grants and Other Payments	4	4
Poverty Reduction Programs/HIPC	221	222
Fertilizer Support Program	140	142
Strategic Food Reserves	59	59
Other PRP Programs	22	21
TOTAL	344	339

2006 BUDGET FOR AGRICULTURAL SECTOR

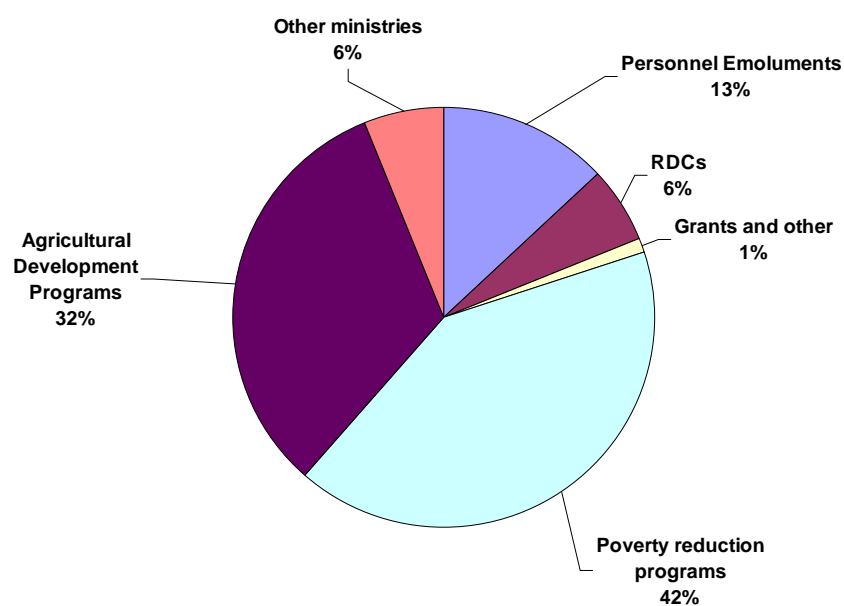
2006 budget provisions

- 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
- Agricultural Development Programs
 - ADB, SHEMP, ASP
- Allocation to other ministries
 - Food Security Pack, Construction of Dams, NCZ

2006 Resource allocation to agriculture (ZMK'billion)

Personnel Emoluments	84
Recurrent Departmental Charges	39
Grants and other payments	6
Poverty reduction programs	269
Agricultural Development Programs	210
Other ministries	39
TOTAL	650

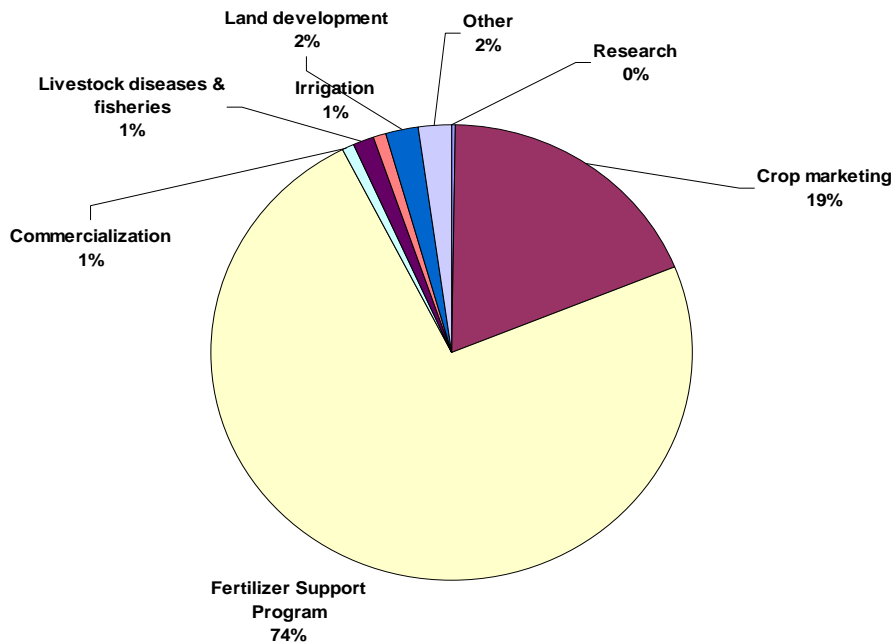
2006 Resource allocation to agriculture: ZMK650 billion



2006 Poverty Reduction Programs (ZMK'billion)

Research	1
Crop marketing	50
Fertilizer Support Program	199
Commercialization	2
Livestock diseases & fisheries	4
Irrigation	2
Land development	6
Other	6
TOTAL	269

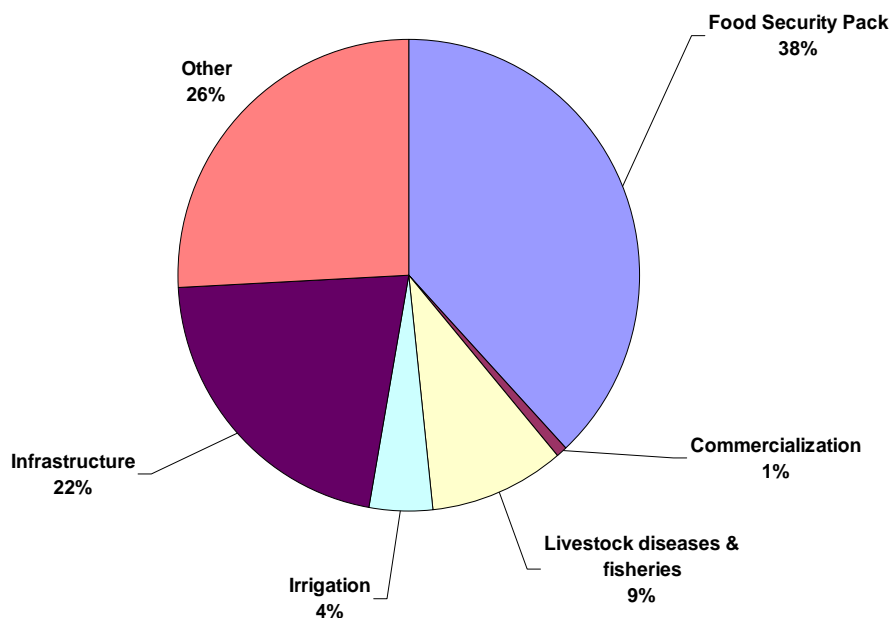
2006 PRP provisions ZMK269 billion



2006 Provisions to other Ministries (ZMK'billion)

Food Security Pack	15
Commercialization	0.4
Livestock diseases & fisheries	4
Irrigation	2
Infrastructure	8
Other	10
Total	39

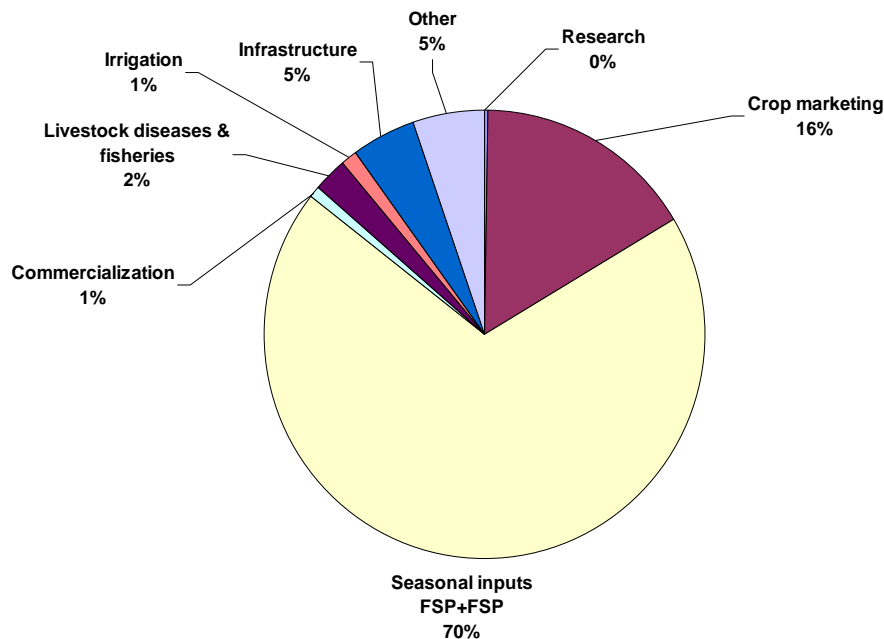
2006 Provisions to other Ministries ZMK39 billion



2006 provisions for PRPs & other Ministries (ZMK'billion)

Research	1
Crop marketing	50
Fertilizer Support Program	199
Commercialization	2
Livestock diseases & fisheries	8
Irrigation	4
Land development	6
Infrastructure	8
Other	6
TOTAL	308

2006 provisions for PRPs & other Ministries ZMK 309 billion



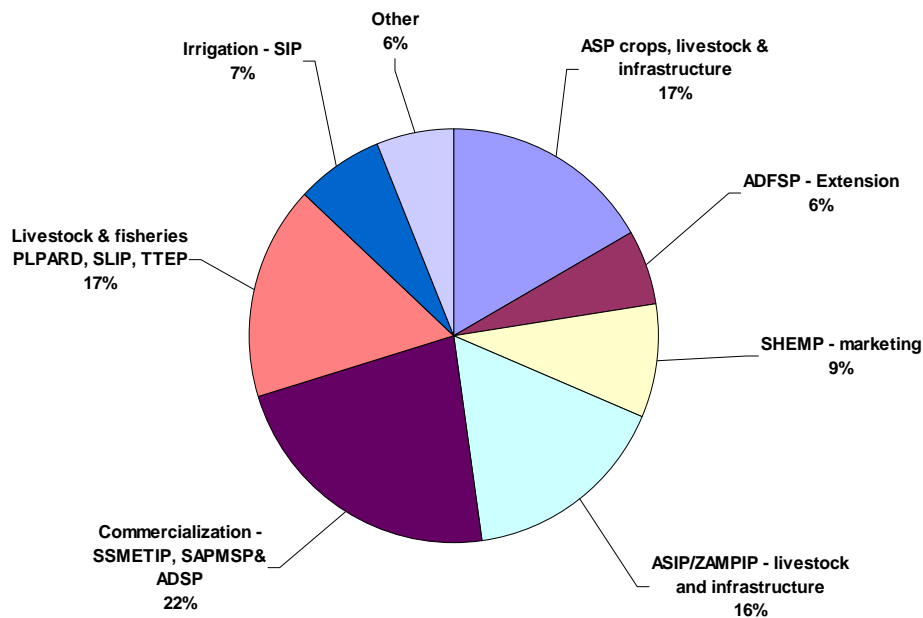
Provision of seasonal inputs

- Goal
 - Increasing food supply
 - Empowering farmers and their coops to climb out and stay out of poverty
- Are the programs wealth creating and increasing food supply

2006 provisions for agricultural development (ZMK'billion)

ASP crops, livestock & infrastructure	35
ADFSP - Extension	12
SHEMP - marketing	19
ASIP/ZAMPIP - livestock and infrastructure	35
Commercialization - SSMETIP, SAPMSP & ADSP	47
Livestock & fisheries PLPARD, SLIP, TTEP	35
Irrigation - SIP	14
Other	13
Total	211

2006 provisions for agricultural development ZMK210 billion



Value Added Tax (VAT)

- VAT is a tax on consumer expenditure
 - Non registered consumers pay
- Taxable supplies
 - Part of the revenue base, VAT is charged
- Taxable suppliers
 - Registered or required to be registered
 - Claim VAT on purchased taxable supplies

Mechanism of VAT

- Taxable farmers and agribusiness charge and collect VAT on taxable supplies
 - output tax
- VAT incurred when taxable goods and services are purchased
 - Input tax
- If output tax $>$ input tax, pay ZRA the difference
- If output tax $<$ input tax, VAT refund is due

Liability to VAT

- Taxable supplies subject to VAT at two rates
 - Standard rate 17.5%
 - Zero rate 0%
- Exempt supplies are exempt from VAT
 - No output tax charged
 - Input tax paid not claimed
-

VAT Changes 1995 - 2005

- At inception of VAT in 1995 agricultural supplies exempt for VAT purposes
- In 1996 nearly all agricultural supplies zero rated
- 2004 nearly all agricultural supplies exempt for VAT
- 2005 selected products and supplies standard rated e.g., wheat, cotton, paprika

2006 VAT changes

- Animal Products, Milk, Fish, Agricultural Supplies and Agricultural products except infant cereals and maize and mealie meal standard rated.

Summary

- Participation of controlling officers in decisions of internal allocations limited
- Allocation to sector is increasing but still short of 2008 AU/NEPAD – CAADP target
- Releases in last four years exceedingly good
- Mono-track support strategy
- Envisioned policy priorities in FYNDP do not match funding priorities
- Non-registered consumers to pay more for taxable agricultural supplies and products