



Key Findings of Zambia AgCLIR Study

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What is AgCLIR?

- AgCLIR is a diagnostic tool used to assess the relative ease of doing business in the agricultural sector by examining the relevant laws, institutions, and social dynamics that shape the agricultural sector.

Report Chapters

- Report Focuses on 5 aspects of Zambia's ag sector:
 - Dealing with Licenses
 - Getting Credit
 - Trading Across Borders
 - Competing Fairly
 - Accessing Infrastructure for Markets

Report Limitations

- Based on 2 week field study
- Qualitative in nature: Report based on 150 interviews with key informants
- Therefore, somewhat impressionistic
- Nevertheless, it provides a basic overview of the constraints and opportunities for doing business in Zambia's ag sector

Key Findings

1. Dualism in the Agricultural Sector
2. Policy Unpredictability
3. Allocation of Public Resources is not Consistent with Poverty Reduction

Key Finding 1: Agricultural Dualism

The World Bank's *Doing Business Report* ranks Zambia as one of its top 10 reformers and 6th place in the world in terms of its "Getting Credit" ranking

These rankings are disconnected from the reality of millions of Zambian smallholders

Key Finding 1: Agricultural Dualism

- Zambian agriculture is characterized by a sharp divide between:
 - The large-scale farming sector and its associated industries and services and
 - The small-scale farming sector and the relatively informal output and input markets on which it depends
- Dualism is also evident within the smallholder sector

Key Finding 1: Agricultural Dualism

- Report Highlights that:
 1. Agriculture makes up 15% of commercial banks' lending portfolios, compared to an average of 5% in other African countries
 2. Commercial farmers and agro-processors have relatively cheap and easy access to financing
 3. Licensing requirements do not seem to inhibit new business entry or investment in the agricultural sector
 4. Import and export license are cheap and relatively easy to acquire -- *when government permits trade to occur*
 5. The process of moving agricultural goods has been greatly enhanced by infrastructural and institutional changes at border points and within border agencies

Key Finding 1: Agricultural Dualism

- Positive Implications:
 - The relative ease of obtaining financing, obtaining relevant licenses and permit, and, thus, starting a business in Zambia has contributed to a measureable improvement in smallholder's access to input and output markets:
 - The vast majority of small-scale farmers sell their surpluses at their farm-gate, suggesting that a good deal of investment is occurring in grain assembly and, consequently, in formal grain trading.
 - Discussions with farmers suggest that input cost, not availability, is the primary obstacle to increasing productivity.



Key Finding 1: Agricultural Dualism

- However,
 - Credit and other financial services remain confined to the commercial sector-- *few smallholders utilize financial services, including insurance and farm credit*
 - While licensing processes are not considered an obstacle for better capitalized firms that can contract others to cope with the various requirements, smaller, poorly capitalized industries find them both costly and cumbersome
 - Large-scale processors enjoy benefits not accruing to small-scale millers
 - In years of deficit FRA imports and sells selectively, at subsidize rates, to a handful of large mills-- shutting out smaller, less well connected mills

Key Finding 1: Agricultural Dualism

- Dualism is also pronounced within the smallholder sector:
 - The top 20% of Zambian smallholders cultivate more than 4 hectares of land, 47% of smallholders cultivate 1 hectare or less of land
 - 2% of smallholders account for 50% of Zambia's smallholder maize supply
- Implications: State intervention in agricultural markets, such as FRA, which push up the price surface of maize, disproportionately benefit a small group of farmers at the expense of the majority of Zambians who are buyers of maize.

Disparities within smallholder agriculture, Zambia - 2004

| | N= | Farm size (ha) | Asset values (US\$) | Gross rev. maize sales (US\$) | Gross rev., crop sales (US\$) | Total hh income (US\$) |
|------------------------------|---------------|----------------|---------------------|-------------------------------|-------------------------------|------------------------|
| Top 50% of maize sales | 31,328 (2%) | 4.9 | 1,132 | 720 | 1163 | 2,932 |
| Rest of maize sellers | 328,561 (26%) | 1.6 | 316 | 88 | 193 | 634 |
| Households not selling maize | 907,255 (72%) | 1.1 | 231 | 0 | 97 | 415 |

Key Finding 2: Policy Unpredictability

- Uncertainty over the potential for government interventions in the agricultural sector stifles private sector investment and participation in Zambia's agricultural sector:
- This has implications for:
 - Cross-border trading
 - Investment in grain storage
 - Access to credit
 - Potential for poverty reduction

Key Finding 2: Policy Unpredictability

- **Cross border trading:**
 - Uncertainty over tariff rates, import/export bans, and quotas, coupled with other restrictions on trade (export lists, import/export licensing, etc.) and artificially high commodity prices (resulting from government grain procurement) all limit Zambia's ability to effectively import and export agricultural commodities.
 - Implications:
 1. Food price volatility
 2. Regional perception that Zambia is an unreliable trade partner
 3. Limited participation in cross border trading
 4. **Ultimately Zambian farmers lose export markets and consequently higher prices for their products**

Key Finding 2: Policy Unpredictability

- **Investment in grain storage:**
 - Effective grain storage is critical for mediating food price volatility
 - Many observers attribute the relative lack of grain storage in Zambia to physical limitations in the quantity of available storage space

However,

- In Zambia it is not a physical absence of storage space that limits private sector grain storage, but rather the disincentives to store grain and invest in new storage resulting from policy unpredictability
- Uncertainty over the how, when, and at what price FRA grain stocks will be released, as well as the potential for ad hoc changes in trade policy—export bans, tariff rate changes, etc...
 - Create risks for private sector grain storage
 - Limits investment in new storage facilities



Key Finding 2: Policy Unpredictability

- **Access to Credit**
 - While Zambia scores high in terms of “Getting Credit,” much of the agricultural sector has limited to no access to finance
 - Policy unpredictability creates a high level of risk for investment in agriculture
 - Example of grain traders and the banks that lend to them
 - Long-term T-bills provide a far safer place for banks to put their money
 - This sucks liquidity out of the market, thus limiting the availability of funds for lending
 - Implications: Policy unpredictability deprives potential investors in the agricultural sector of credit. This in turn limits investment in the input and output markets that smallholders depend on.

Key Finding 3: Allocation of Public Resources is not Consistent with Poverty Reduction Objectives

- Evidence from Asia’s green revolution suggests that investments in public goods, such as research/development, extension services, and roads were critical for fostering rapid growth of the ag. sector
- However, in Zambia at least 50% of the ag budget goes to FRA and FISP, leaving little available funding for other investments
 - These interventions limit private sector investment in input and output markets. Same two firms have been awarded FISP tenders since 2002.
 - Disproportionately benefit just a handful of farmers

Key Finding 3: Allocation of Public Resources is not Consistent with Poverty Reduction Objectives

- **Report Highlights Opportunity Cost of FRA/FISP:**
 - Zambia Agricultural Research Institute (ZARI) and the Seed Control and Certification Institute (SCCI) are woefully understaffed and under-funded:
 - This limits the development of new seed varieties and the time it takes for new seeds to reach the market
 - The poor condition of many rural feeder roads elevates transaction costs and limits investment in outlying areas
 - Zambia's extension services are spread extremely thin:
 - Extension officers dedicate the majority of their time coordinating FISP distribution, facilitating FRA procurement, evaluating FRA storage facilities, and collecting data (AMIC)
 - Very little time is devoted to teaching farmers

In Summary

- **Agricultural Dualism:** exacerbated by un-level policy playing field
- **Policy Unpredictability:** Stifles private sector investment
- **Allocation of Public Resources is not Consistent with Poverty Reduction Objectives**

Recommendations

- Provide support to strengthen the capacity of Zambia's public sector research and certification institutes (ZARI and SCCI)
- Provide a support package to the MFI sector
- Provide basic skills training to selected SMEs that are agribusinesses, particularly small processors and emergent farmers
- Support ongoing efforts by various donors and advocacy groups to improve the Decentralization and Local Government clauses in the new draft constitution.
 - In particular help to define roles and responsibilities of District Councils as they pertain to rural business services and rural infrastructure.

Recommendations

- Develop a plan for inter-agency cooperation/integration of all border agencies to help facilitate cross border trade
- Support on-going analysis and outreach on the effects of current agricultural policies for smallholder productivity, poverty reduction, agricultural trade, and private sector investment.
 - Identify alternatives to current policy approach

Thank you

