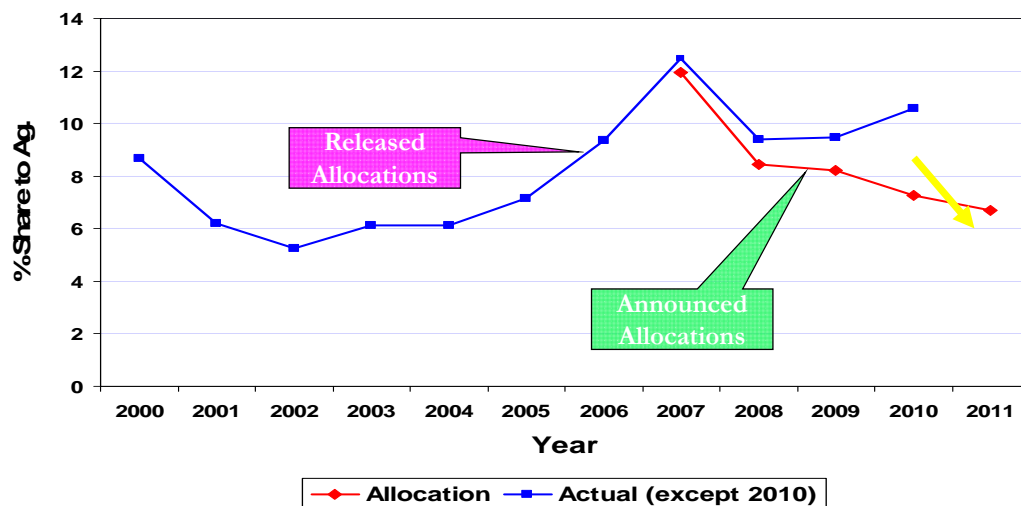


What is in the 2011 National Budget for Zambian Agriculture?



Presented by Antony Chapoto
ACF/FSRP Budget Breakfast Meeting
Pamodzi Hotel, Lusaka
October 19, 2010

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Outline of Presentation

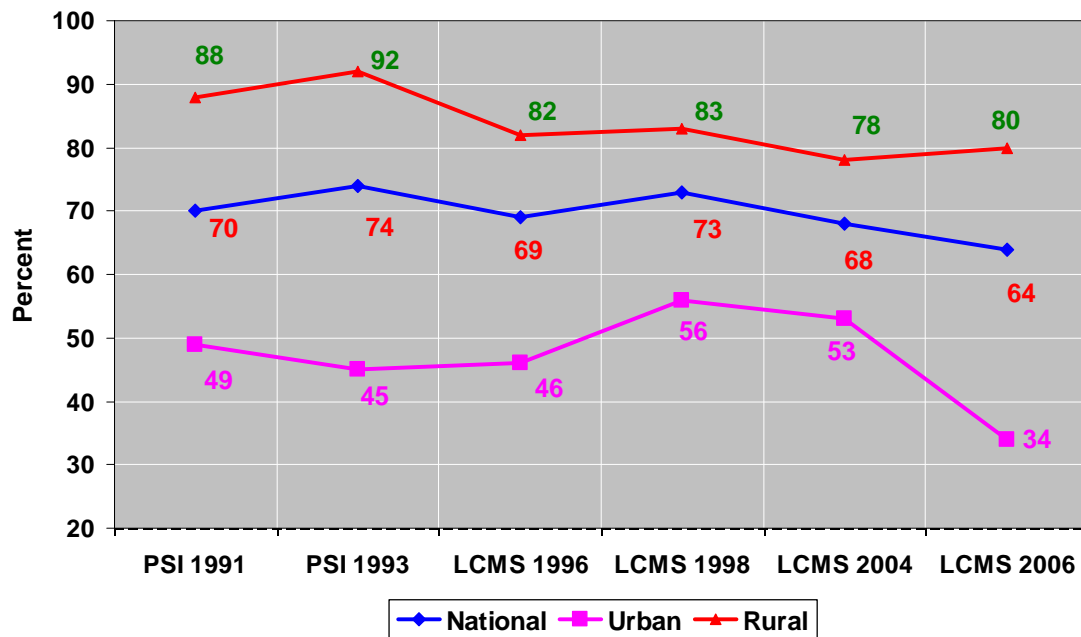
- Background
 - Review FNDP (SNDP) strategic goals
 - Review 2010 GRZ and agricultural performance diagnosis in the 2011 budget speech
- Examine details of 2011 agricultural sector budget and trends
- Summary of points

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FNDP/SNDP/MDG Goals For Agricultural Sector Development

- FNDP ends 2010
- SNDP starts 2011-2015 coinciding with MDGs
- All seek among other objectives to:
 - reduce poverty through broad-based income increases for those in agricultural sector
 - attain 90% household food security and cut hunger by 50% by 2015
 - grow the agriculture sector from 1% to 7-10% per annum
 - Increase agriculture contribution to GDP from 18-20% to 25%
 - Facilitate the role of private sector
 - Increase agriculture’s contribution to foreign currency earnings from 3-5% to 10-20%
 - Finalize and implement the Zambia CAADP Country-Compact³

Poverty Incidence in Zambia, 1991-2006



LOW PRODUCTIVITY

Crop yields (Mt/ha) , Zambia vs. Global Averages

Crop	2003/04	2005/06	2007/08	2008/09	2009/10	Global*
Maize	1.7	1.5	1.3	1.6	2.1	5.1
Sorghum	0.7	0.5	0.5	0.7	0.9	1.4
Rice	1.0	1.3	1.2	1.5	1.7	4.2
Millet	1.0	0.7	1.0	1.0	1.1	0.9
Sunflower	0.5	0.4	0.5	0.5	0.6	1.3
Groundnuts	0.7	0.5	0.6	0.7	0.7	1.5
Soybeans	0.6	0.7	0.7	0.8	1.0	2.2
Cotton	1.1	0.9	0.8	0.9	1.0	2.1

*FAOSTAT, 2009

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Drivers of Growth in Agriculture (NEPAD/CAADP)

- Research, technology and extension for both crops and animals – new cultivars/seeds, animal stock & management practices that raise productivity
 - GART, ZARI, NISIR, UNZA,MACO, NGOs, LDT
- Soil fertility management & enhancements
 - Fertilizer use & management (timely use, levels, methods)
 - Conservation farming technology, management & extension
- Animal disease control & animal nutrition improvements
- Irrigation to reduce uncertainty & raise input response
 - Small scale and large schemes & water conservation practices
- Reliable & competitive Markets –”produce for markets, not to market”.
 - Develop domestic, regional & international markets
- Strategic infrastructure to keep production costs down
 - Road building/maintenance, electric power, communication, storage facilities

2010 GRZ/Ag. Sector Performance – Diagnosis in the Budget Speech

- Zambian economy grew by 6.4% in 2009
- 2010 year-end overall economic growth projected 6.6%
- 2010 year-end agriculture sector to grow by 7.6% compared to 5.7% in 2009.
- 2010 maize crop up 47.4% from 1.9 to 2.8 million metric tonnes
 - ‘Required an additional financing for maize purchases amounting to 680 billion’
- Hammer mills zero rated for Value Added Tax

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2011 GRZ/Ag. Sector Budget Highlights – From the Budget Speech

- Agriculture, Forestry and Fishing K1231.6 Billion
 - Of which FISP K485.0
 - Strategic Food Reserve K150.0
 - Food security Pack K15.0
- Other key allocations
 - construction of houses for agricultural extension officers is K13.3 billion
 - construction of dams K37.2 billion
 - construction of livestock services centres and fish breeding K48.4 billion ⁸

Details of the 2011 Agricultural Budget and Past Trends

- Where are agriculture growth funds sourced?
- What are the spending agents?
- Show real size of budget, comparisons and trends
 - All analysis in terms of 2010 ZMK
- Agriculture's share of national budget
- Practical budget review requires a look at:
 - “announced annual allocations” and
 - “actual annual released allocations” and supplemental funding
- Will distinguish between the “Overall Agriculture budget” and “MACO, Livestock and Fisheries budgets”

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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

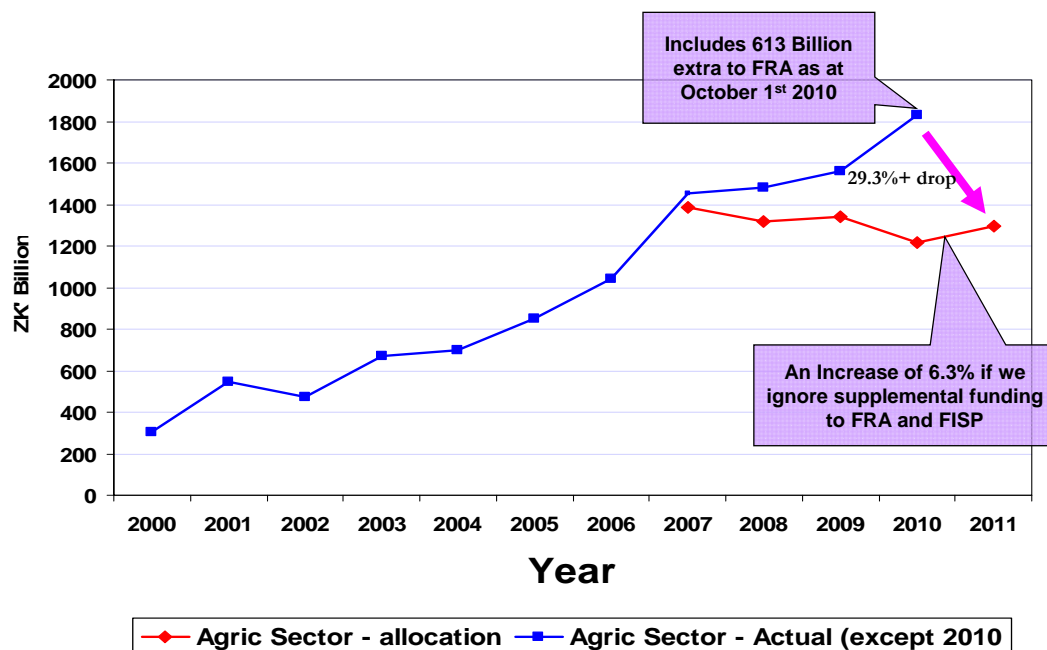
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Spending Agents – Overall Agriculture Budget

- UN/AU/NEPAD standards define “Agriculture” as including crops, livestock, fisheries, forestry & hunting
- “Agriculture” also includes 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)

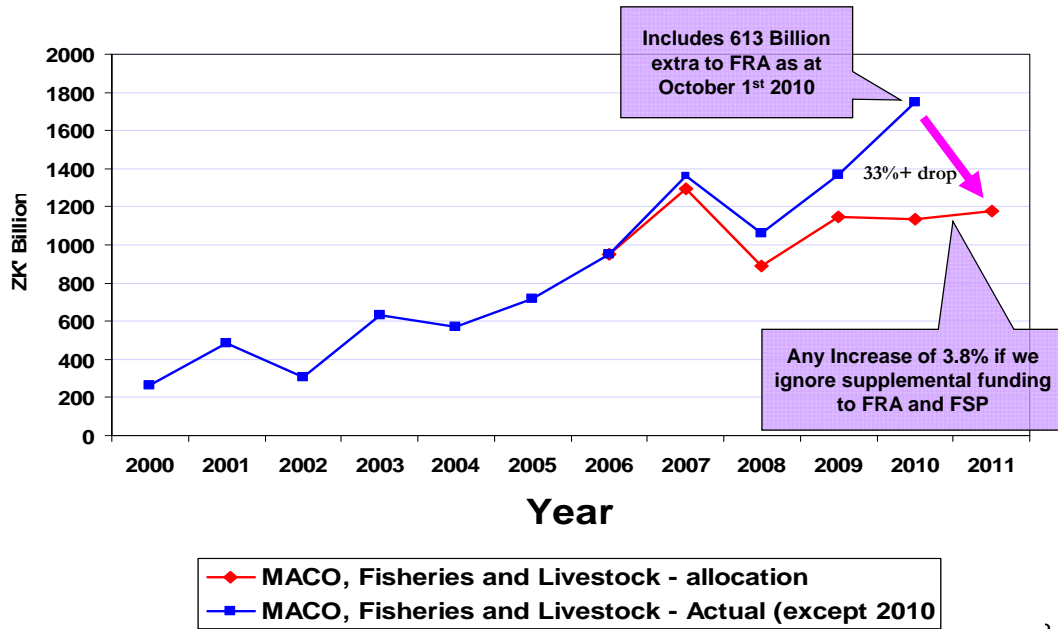
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Real Size of Overall Agricultural Budget 2000 – 2011



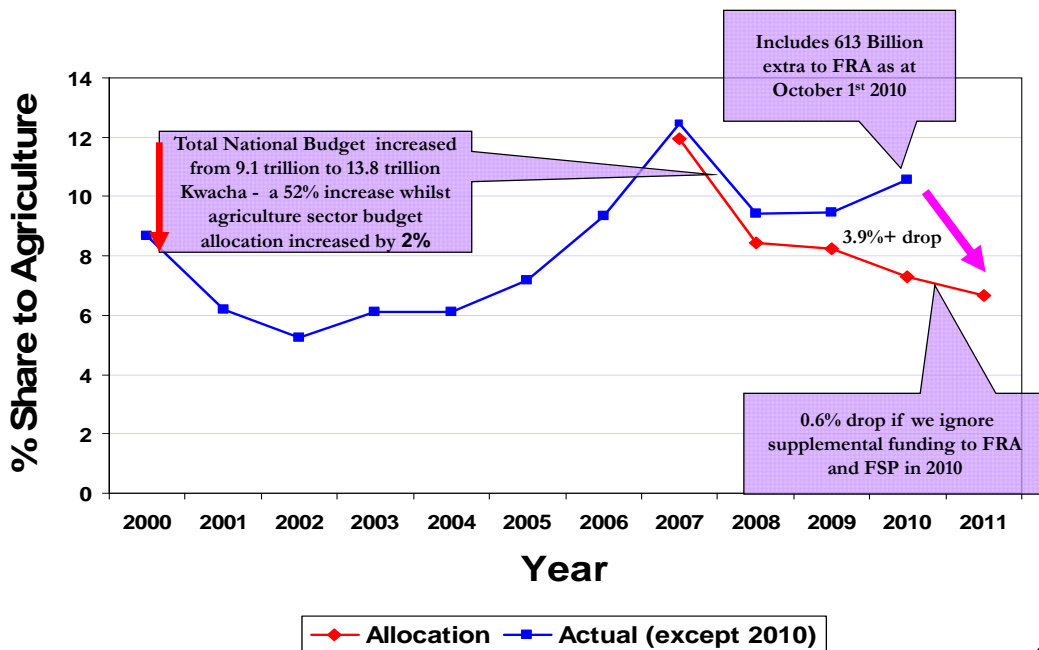
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Real Size of MACO, Fisheries and Livestock Budgets 2000-2011



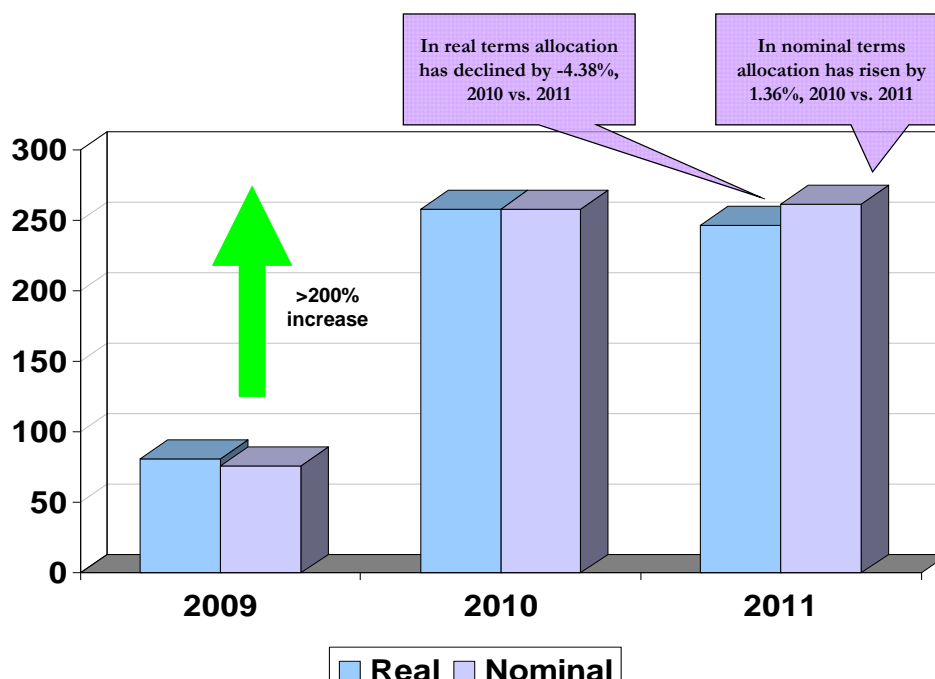
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Agriculture's Share of Zambian National Budget 2000- 2011



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Budget for Ministry of Livestock and Fisheries 2010-2011, and Livestock and Fisheries releases within MACO, 2009



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Overall Agriculture Sector Budget Key Spending Components

- 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)
 - Farmer Input Support Program, Strategic Food Reserves/FRA
- Agricultural Development Programs (mostly funded by donors)
- Allocations to other ministries
 - Food Security Pack, Construction of Dams and Roads

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Overall Ag Budget Comparison Without Supplemental funding in 2009 and 2010

	2009 Allocation		2010 Allocation		2011 Allocation	
	ZK' Billion	%	ZK' Billion	%	ZK' Billion	%
Personal Emoluments (PE)	131.77	10.48	154.59	12.70	183.31	13.36
Recurrent Departmental Charges	160.09	12.73	131.50	10.80	132.13	9.63
Grants and Other Payments	3.47	0.28	5.55	0.46	8.03	0.59
Poverty Reduction Programs	575.09	45.72	551.47	45.29	664.45	48.45
-Strategic reserves/FRA	100.00	7.95	100.00	8.21	150.00	10.94
-FISP	430.00	34.19	430.00	35.32	485.00	35.36
-Other	45.09	3.58	21.47	1.76	29.45	2.15
Capital Expenditure	42.80	3.40	40.92	3.36	59.64	4.35
Agricultural show	2.83	0.22	2.50	0.21	5.16	0.38
Agricultural development Programs	158.35	12.59	247.00	20.29	186.03	13.56
-Government funded	3.33	0.26	3.45	0.28	2.50	0.18
-Direct donor support to projects	155.02	12.33	243.55	20.01	183.53	13.38
Arrears (Mostly PE related)	-	-	-	-	8.21	0.60
Allocation to other ministries*	183.43	14.58	84.07	6.90	124.54	9.14
TOTAL	1257.83	100.00	1217.60	100.00	1371.50	100.00

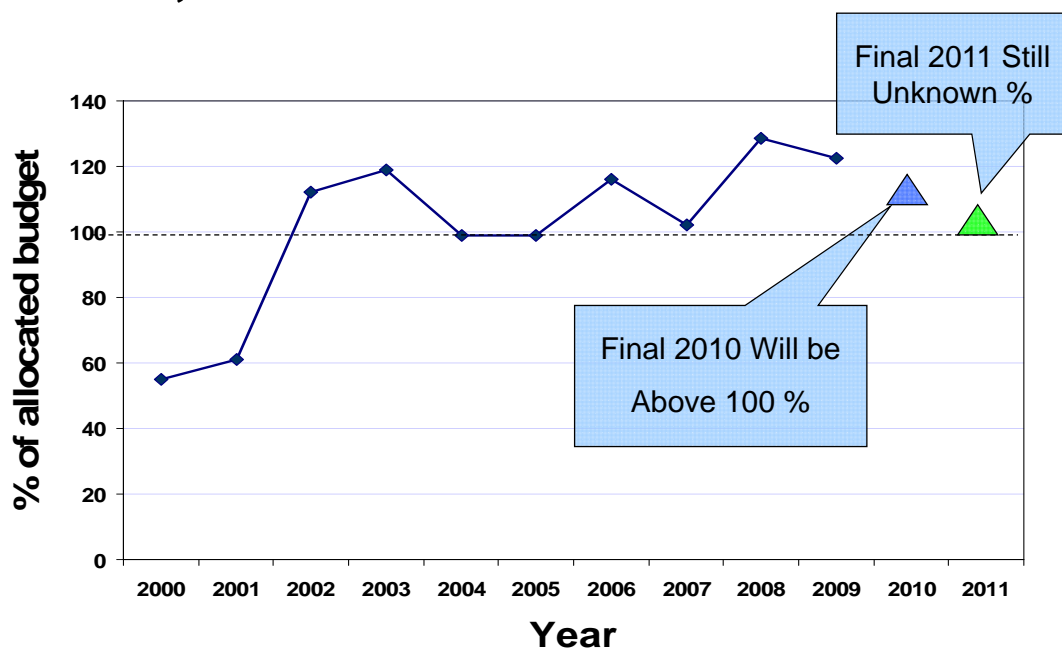
Overall Ag Budget Comparison Including Supplemental funding in 2009

	2009 Allocation		2009 Released		Difference	
	ZK' Billion	%	ZK' Billion	%	ZK' Billion	%
Personal Emoluments	131.77	10.43	151.32	10.16	19.55	14.84
Recurrent Departmental Charges	160.09	12.67	127.89	8.59	-32.20	-20.11
Grants and Other Payments	3.47	0.27	2.30	0.15	-1.17	-33.72
Poverty Reduction Programs	575.09	45.53	819.54	55.02	244.45	42.51
-Strategic Reserves/FRA	100.00	7.92	198.31	13.31	98.31	98.31
-FISP	430.00	34.04	565.12	37.94	135.12	31.42
-Other	45.09	3.57	56.11	3.77	11.02	24.44
Capital Expenditure	42.80	3.39	36.31	2.44	-6.49	-15.16
Agricultural show	2.83	0.22	5.05	0.34	2.22	78.45
Agricultural development Programs*	158.35	12.53	-	-	-	-
-Government funded*	3.33	0.26	-	-	-	-
-Direct donor support to projects *	155.02	12.27	-	-	-	-
Allocation to other ministries*	188.65	14.94	-	-	-	-
TOTAL	1263.05	100.00				18

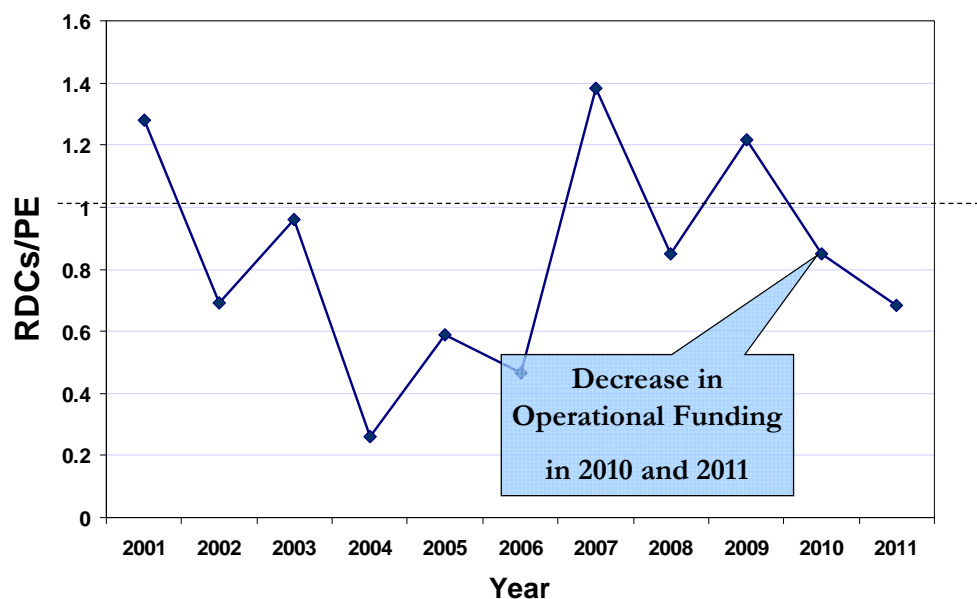
Overall Ag Budget Comparison Including Supplemental funding in 2010, As at 1st Oct

	2010 Allocation		Released as at
	ZK' Billion	%	1 st Oct, 2010
Personal Emoluments	154.59	12.70	127.22
Recurrent Departmental Charges	131.50	10.80	74.59
Grants and Other Payments	5.55	0.46	4.89
Poverty Reduction Programs	551.47	45.29	1099.67
-Strategic Reserves/FRA	100.00	8.21	713.00
-FISP	430.00	35.32	370.49
-Other	21.47	1.76	16.18
Capital Expenditure	40.92	3.36	27.21
Agricultural show	2.50	0.21	2.65
Agricultural development Programs	247.00	20.29	
-Government funded	3.45	0.28	1.7
- Direct donor support to projects	243.55	20.01	
Allocation to other ministries*	84.07	6.90	
TOTAL	1217.60	100.00	10

Budget Releases as % of Allocation: MACO, Livestock and Fisheries 2001 - 2009



Ratio of RDCs to Personnel Emoluments



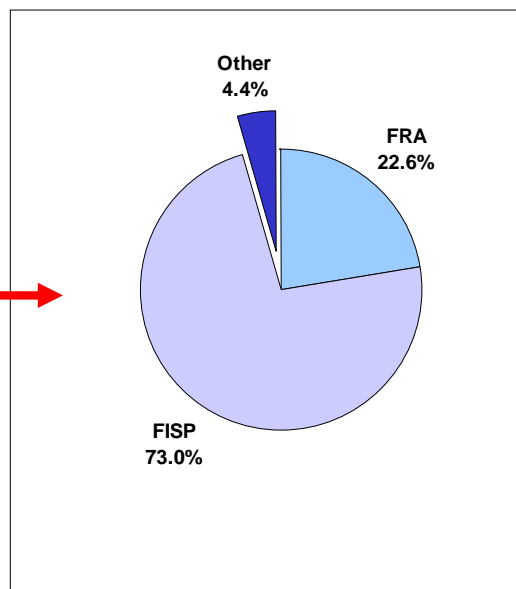
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Poverty Reduction Programs 2010 & 2011 Allocations to MACO, Livestock and Fisheries

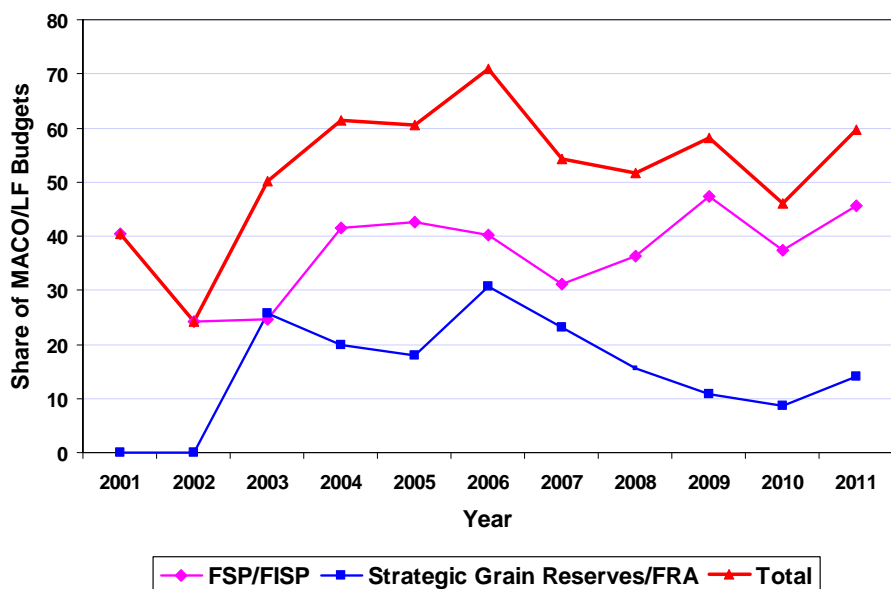
Category	2010 Allocation		2011 Allocation	
	(ZK billion)	(%)	ZK billion)	(%)
Irrigation support	0.45	0.08	0.14	0.02
Animal disease control	14.06	2.55	21.4	3.22
Livestock development	1.46	0.26	2.09	0.31
Farmer Input Support Program	430	78.01	485.00	72.99
Strategic Food Reserves	100	18.14	150.00	22.58
Other	5.11	0.95	5.82	0.88
TOTAL	551.23	100.0	664.45	100.0²²

% Composition of MACO Poverty Reduction Programmes 2011

	2011 Allocation	
	ZK` Billion	%
Personal Emoluments (PEs)	183.31	13.36
Recurrent Departmental Charges	132.13	9.63
Grants and Other Payments	8.03	0.59
Poverty Reduction Programs	664.45	48.45
Capital Expenditure	59.64	4.35
Agricultural show	5.16	0.38
Arrears (Mostly PEs related)	8.21	0.60
Agricultural development Programs	186.03	13.56
Allocation to other ministries*	124.54	9.14
TOTAL	1371.50	100.00

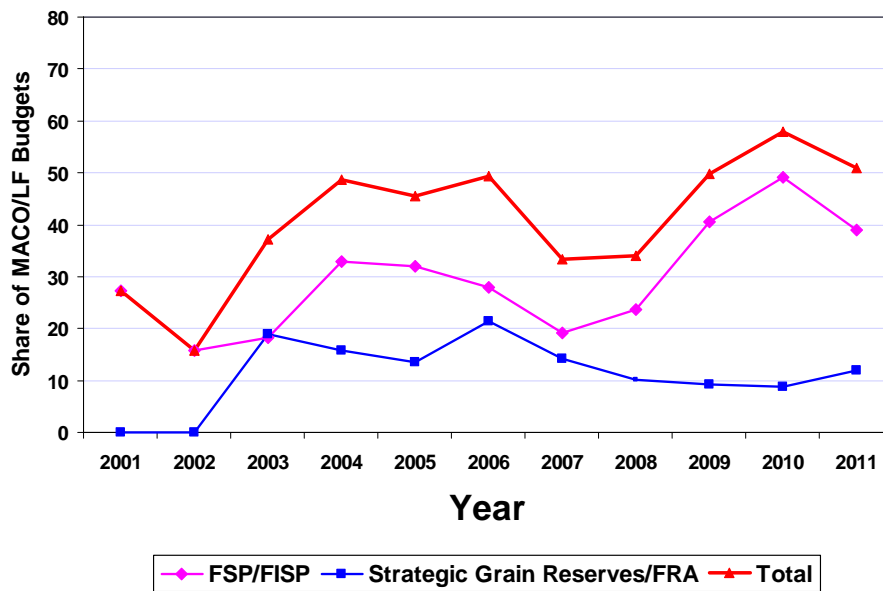


Proportion of MACO, Livestock and Fisheries Budgets Allocation Devoted to FRA and FSP 2001-2011



*Excludes Donor Funds into MACO, Livestock and Fisheries budgets

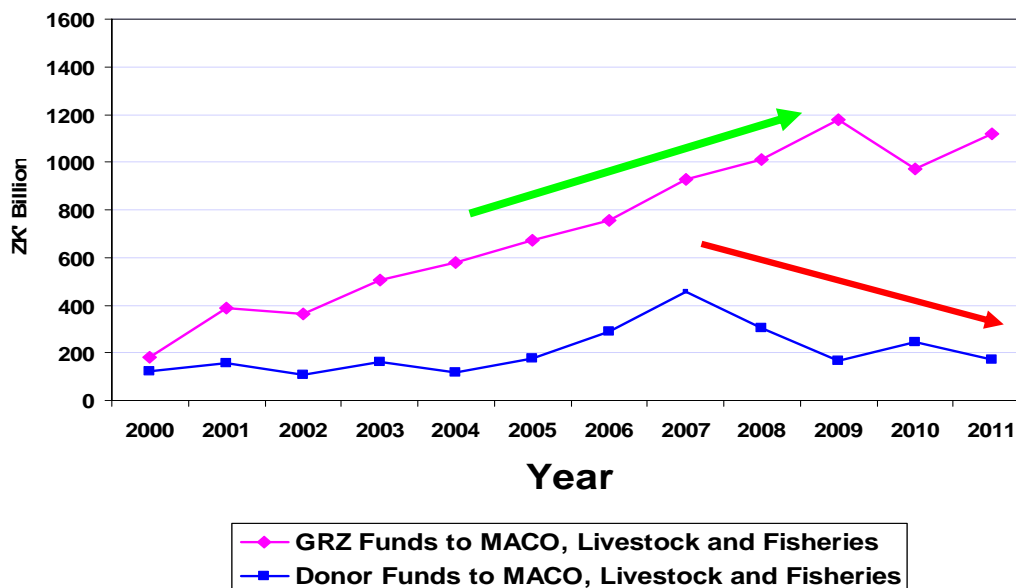
Proportion of MACO, Livestock and Fisheries Budget Allocation Devoted to FRA and FSP 2001-2011



*Including Donor Funds into MACO, Livestock and Fisheries budgets

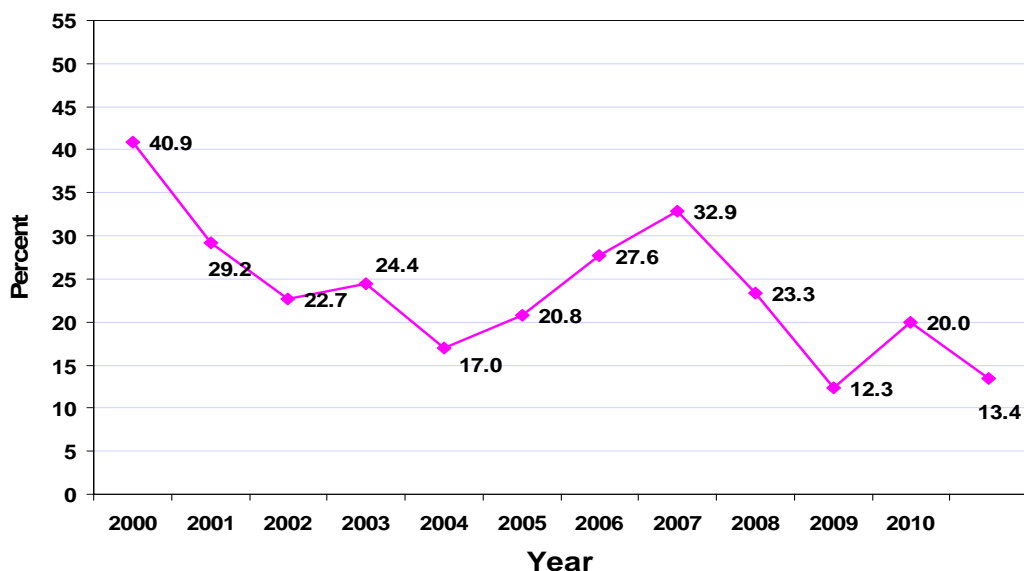
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Real Size of GRZ allocation vs. Donor funds to MACO, Livestock and Fisheries



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Percent of Donor funds to MACO, Livestock and Fisheries



7

Drivers of Growth in Agriculture (NEPAD/CAADP)

- Research, technology and extension for both crops and animals – new cultivars/seeds, animal stock & management practices that raise productivity
 - GART, ZARI, NISIR, UNZA, MACO, NGOs, LDT
- Soil fertility management & enhancements
 - Fertilizer use & management (timely use, levels, methods)
 - Conservation farming technology, management & extension
- Animal disease control & animal nutrition improvements
- Irrigation to reduce uncertainty & raise input response
 - Small scale and large schemes & water conservation practices
- Reliable & competitive Markets – “produce for markets, not to market”.
 - Develop domestic, regional & international markets
- Strategic infrastructure to keep production costs down
 - Road building/maintenance, electric power, communication, storage facilities

IFPRI review of rate of return studies

	Returns
Subsidies	Negative to 12%
Investments	
- research & extension	35% to 70%
- roads	20% to 30%
- education	15% to 25%
- irrigation	10% to 15%

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Why Frequent Low/Negative Returns for Subsidies Programmes?

- Subsidized programmes crowd out the private sector investment.
 - E.g. in Fertilizer subsidy programs crowd out private sector deliveries & discourage investments in new private fertilizer sales networks
 - Misallocation and inefficiencies in usage does not encourage sustainable fertilizer use
- Diversion and rent seeking raises incomes of some but does little to raise crop productivity
- Late delivery of inputs does not improve productivity
- No/difficult exit strategy

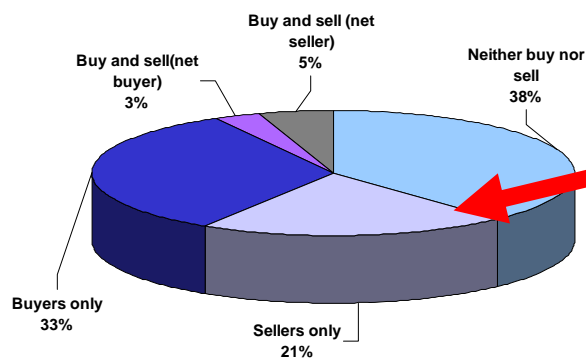
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Budgetary implications for Zambia

- If we believe these findings, they have major implications
- Should Government spend greater share of its budget to
 - Agricultural productivity Research and Development
 - Extension
 - Rural infrastructure development
 - Irrigation
- Instead of subsidies on fertilizer and maize purchase program, which provide the least profitable forms of agricultural spending?

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Maize Market Position of Smallholder Farmers in Zambia & Resulting Limitations of Input/Output Subsidies

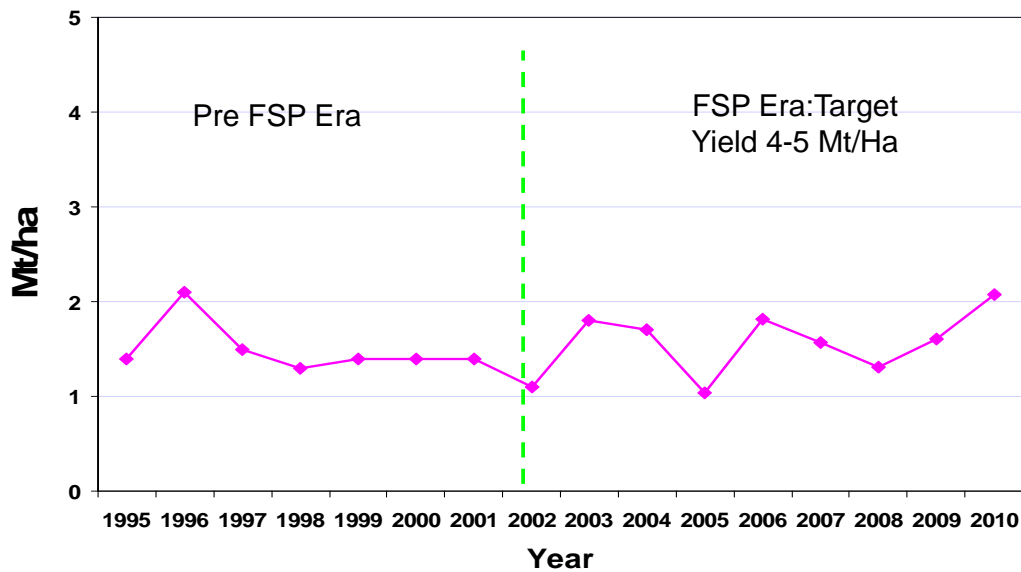


Highly concentrated patterns of production & surplus generation, 2% of smallholder farmers account for 50% of marketed maize surplus

Given this pattern, in 07/08 SS year, roughly 5% of all crop growing smallholders received 50% of the combined value of FSP & FRA subsidies

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Average Maize Yield in Zambia 1995 - 2010



3

Summary

- Overall agriculture budget allocation is up 6.3%
- (or with additional FRA allocations in 2010 included) 2011 Agriculture budget is down +/- 29.3%
- Overall the trend toward NEPAD/CAADP target is down to 6.5 % from a peak of some 12.5 % in 2007.
- Quality of the budget composition remain questionable.
- Agriculture operating funds are down
- Funding for livestock and fisheries remained relatively constant between 2010 and 2011.
- Poverty reduction programs continue but largely, maize centered and dominated since 2006 by FSP/FISP and Strategic Reserves/FRA

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Summary

- Many drivers of agricultural growth still under funded to achieve broad based agricultural growth, competitiveness and diversification targets.
- Scarce public funds always have an opportunity cost. If used for subsidies, they will create a negative comparative advantage.
 - Who pays for public goods?
 - So need to prioritize investment spending into drivers of broad based agricultural growth

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