INTRODUCTION: Agricultural growth is undoubtedly the key to fostering broader economic growth in any primarily agrarian society. This economic growth occurs through linkages with other sectors of the economy. Where this growth is slow, economic transformation is weak, and the pace at which development objectives are attained remains frustratingly low. Thus, a fast-growing agricultural sector remains an essential aspiration in developing countries. However, despite this well-known fact, African agriculture faces critical challenges, both controllable and uncontrollable. The administrative decisions around trade and taxes, coupled with weather and pest and disease attacks continue to ravage the entire agricultural sector and agri-businesses. As a result of these challenges, agricultural and economic growth have both reduced. Within the agricultural sector, profits have reduced due to increasing costs of production. This has led to the downscaling of operations and in some cases, the exit of grain traders and processors from the market.

In Zambia, the challenges in the agricultural sector are readily observable among commercial farmers. Close to forty commercial farmers have lost their farms to the banks due to the events and policies of the last 3–4 years, with the print media advertising bank-repossessed farms. Of particular concern is that this category of farmers is usually resilient to exogenous shocks (i.e. droughts, pests, and diseases), and also tends to be very productive. The observed issues raise concerns around the future of agriculture, and more importantly, about its potential to reduce poverty and contribute to attaining food security among the millions of vulnerable smallholders and the country at large.

Agricultural Sector in Peril: Is Zambia Killing the Goose That Lays the Golden Egg?

By
Paul Samboko, Antony Chapoto, Alefa Banda and Brian Chisanga

Summary

1. The timing of Food Reserve Agency (FRA) stock rotations and the debt swap with maize transporters have adversely affected maize marketing.
2. Trade restrictions continue to be a key problem affecting commodity marketing, especially maize grain and maize products.
3. The impact of policy inconsistencies in the agricultural sector has led to an increase in the exit or down-scaling of investors in the industry.
4. The cost of doing business keeps increasing. This is partly as a result of demands by schemes like NAPSA, council levies, the non-auctionable tobacco regulation, and changes made to the deductible level of the Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA) – which has the ability to lessen access to finance among agribusinesses.
5. Stakeholder consultation with respect to the formulation of new regulations, and revision of rules and regulations governing the sector has been minimal. Farmer representation on various key boards or advisory councils of authorities in charge of key resources is also lacking.

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In Zambia, the challenges in the agricultural sector are readily observable among commercial farmers. Close to forty commercial farmers have lost their farms to the banks due to the events and policies of the last 3–4 years, with the print media advertising bank-repossessed farms. Of particular concern is that this category of farmers is usually resilient to exogenous shocks (i.e. droughts, pests, and diseases), and also tends to be very productive. The observed issues raise concerns around the future of agriculture, and more importantly, about its potential to reduce poverty and contribute to attaining food security among the millions of vulnerable smallholders and the country at large.
The cost of export bans has been demonstrated in the form of lost exchange earnings and income, increased food price volatility, and also increased poverty (Mamun et al., 2018; Braimoh et al., 2018; Davids et al., 2017). Because of inconsistencies in policies and their impact (exacerbated by adverse weather), Zambia has witnessed an increase in the exit or down-scaling of investors within the agricultural sector. These are unusually large multinationals involved in grain trading and contract farming.

Moreover, poorly-timed rotations of stocks in the maize market from the strategic grain reserves have adversely affected grain sales among private grain traders. This practice coupled with recurring maize export bans undermines the ability of agricultural value chain actors to pay back agricultural loans. This results in the repossession of farms by lenders. Such development raises important questions on policy around agriculture’s position in the economy as a key driver of economic growth, and an employer of close to 49 percent of the Zambia labour force. Could it be that policymakers have not paid much attention to sectoral challenges and the impacts or potential consequences of recent policy and legislative proposals and changes? Or is it that they have not engaged the stakeholders adequately to understand the implications of policy/legislative proposals and actions?

In this brief, we discuss the issues in Zambia’s agricultural sector and propose recommendations on how to avoid a potentially catastrophic impact on the industry and economic growth. The issues and recommendations are drawn from relevant literature, interviews held with commercial farmers in the Mkushi farming block, and the stakeholder meeting held at IAPRI on 28th January 2019.

**Major Issues in Zambian Agriculture**

1. **Strategic Grain Reserve Rotations and debt swaps**

One of the key problems affecting grain marketing relates to strategic grain reserve rotations by the Food Reserve Agency (FRA). Typically, rotations are ill-timed, with disposal done at a time when the private sector is planning to sell their maize to the millers. Because this is usually done at lower prices than the prevailing market price, private sector profitability is adversely affected. Secondly, in 2018, the government paid off transporters in maize equivalents, these later sold their maize to millers at prices below the market price.

The consequence of these two actions is that the only viable market for the private sector is the export market. However, the government in November 2018 put in place export restrictions, hence it is impossible to sell to this market with an export ban in place. This has resulted in farmers and traders becoming stranded with maize in storage and no profitable alternative market. Because of this, the ability to pay back commercial bank loans among industry players has diminished, with many actors scaling down, or closing operations. While others face the risk of bank repossessions.

**Recommendation(s)**

**Short term**

To address the unintended impacts of FRA operations in the market, we recommend that the timing of FRA stock rotations be reviewed by involving stakeholders in identifying an optimal period for FRA stock rotation. At the same time, stakeholders should be engaged on the proposed FRA reforms. Debt swaps with transporters or any player in the market should be discouraged as this introduces market distortions and has far-reaching negative effects on the performance of the sector.

**Medium to long-term**

In the medium to long-term, the rotation of FRA stock should be done using the commodity exchange platform to avoid market destabilization.
2. Export bans/restrictions and trade policies inconsistencies

A key problem affecting the grain market relates to the imposition of trade restrictions on the maize market despite the country being a surplus maize producer (Figure 1). This arises from the government’s view that an export ban will ensure food security in the country. Contrary to the notion that imposing bans on the export of maize helps to ensure food security in the country, it tends to hurt the same consumers and smallholders that it is assumed to protect in the medium to long term.

Trade restrictions are detrimental to the sector and have a negative spillover effect on farmers and jobs are lost across the value chain. In October 2018, the Zambian Government announced that it had put in place administrative measures on the export of maize. Although this was meant to be a temporary measure, it has persisted to this day. The export restriction was motivated by the fact that the FRA did not reach its target of purchasing 500,000 Metric Tonnes (MT) of maize. But in December 2018, Zambia had sufficient maize stocks amounting to over 800,000 MT held by the FRA and the private sector (members of the Grain Traders Association of Zambia (GTAZ) and Millers Association of Zambia (MAZ), Zambia National Farmers Union (ZNFU)). This stock excluded any maize grain held by small scale farmers and non-members of GTAZ, MAZ, and some commercial farmers.

The above indicated maize stock levels late in the year coupled with the current export restrictions and an impending harvest in 2019 suggest that farmers will likely face another price crash. While depressed commodity prices might seem attractive to consumers in the short term, they provide strong disincentives to both smallholder and commercial farmers involved in the production of that crop. The immediate impact is the inability of farmers to recoup their investment causing them to abandon the production of maize in favour of some other more profitable agriculture enterprise; while other farmers opt to shift their investment completely away from agriculture.

Figure 1: Maize Surplus/Deficits and Trade Policies (1990-2019)
Source: Authors’ representation using MoA/CSO Various Years; Nkonde et al. 2011.

The biggest problem faced by policy makers in making decisions about the grain market is the lack of good and
precise stock estimates. Also, there is always the suspicion that the private sector does not declare truthfully making decisions harder to make. Unlike in South Africa where stock monitoring reports are released over seven times in a year and backed by a grain information service and legislation, Zambia is yet to put in place such a system. Such an environment has made it impossible to make consistent policies and decisions to grow the maize sector sustainably. Consequently, we have seen many commercial and some emergent farmers exiting the maize sector, and those remaining in the agricultural sector are exploring other high-value commodities such as macadamia nuts, game ranching, and sugar beans.

**Recommendation(s)**

**Short term**

To address the challenges around maize trade, we recommend that the government should **urgently** allow the export of maize and maize products before the next harvest to allow businesses to take advantage of regional market conditions before local prices plummet. Failure to do so will lead to another price plunge as experienced in the 2017/18 marketing season, given that we expect surplus maize in the 2018/19 agricultural season.

**Medium to long-term**

Policy decisions around maize as earlier alluded to require more extensive stakeholder consultations backed with adequate information on stock levels. We recommend that the government should review and enact the Agricultural Marketing Bill and relevant legislation to improve decision-making for commodity trading and encourage investments within the sector. This will facilitate wider consultation in trade decisions. Further, there is a need to establish a grain information service to improve confidence in, and reliability of, stock monitoring reports.

### 3. The increased cost of doing business

With a desire to rationalise the tax system and raise more money for the country, the Zambian Government has introduced a new tax regime including EBITDA and Cost of Goods Tax. These taxes are likely going to increase the cost of doing business in the agricultural sector. Also, the National Pension Scheme Authority is demanding contributions from farmers for their casual workers. Typically, these work for one or two weeks and are released. It is not clear if these workers should be eligible for pension benefits.

The Zambian government in the 2019 national budget address announced that the value-added tax was going to be replaced with a sales tax as well as lower the tax credit for interest from 100% to 30% of EBITDA. While these measures could increase government revenue and save the government from making Value Added Tax (VAT) refunds to many sectors especially mining, the potential impact on the agricultural sector would be reduced agricultural growth unless the sector is exempted from the changes. This is because the sales tax cannot be claimed, unlike previously, where zero-rated VAT allowed businesses to claim back some VAT on designated intermediate inputs. The effect of the introduction of EBITDA is a diminished ability to borrow among agri-businesses, especially commodity traders and farmers who finance most of their enterprises from loans.

Further, the doubling of tobacco levies from 1% to 2% as per Statutory Instrument (SI) No. 67 of 2018 is another example of increasing costs of doing business. This together with the non-auctionable tobacco regulation was passed with limited consultation with stakeholders in the tobacco industry. However, the Tobacco Board of Zambia argues that this move is aimed at levelling the playing field and enabling tobacco growers to graduate from contract farming to self-financing (see TBZ, 2018).
Recommendation(s)
The problems around the cost of doing business appear to be driven by the lack of consultation and the urgent need to mobilise resources for the treasury from different sectors. We recommend that given agriculture’s role in the economy, there is a need for a review of budgetary proposals in the short, medium, to long-term. Wider consultation should be conducted with the industry to identify the unintended consequences of government policies on taxes and regulation.

4) Proposed FRA commercialization

The proposed amendments to the Food Reserve Act of 2005 are of deep concern as it seeks to move the FRA’s mandate from that of a strategic reserve institution to that of a trader and exporter in the market place. This works against the tenets of having agriculture that is private sector-led, transparent and predictable. The negative effects of FRA’s operations in crowding out private sector investment in commodity marketing are evident in the agricultural sector. We are witnesses to a number of private sector players that have scaled down their operations arising from the active involvement of FRA in commodity marketing. The proposed move to commercialize FRA, which will be in competition with the private sector, is detrimental to the participation and investments in the sector. Furthermore, to suggest that the FRA can both stabilize prices (carrying out its traditional social function), while at the same time become commercially viable is to ask it to carry out two contradictory roles.

Under section 4e of the FRA Act of 2005, the proposed review seeks to establish FRA storage infrastructure in designated locations. This is in addition to the FRA’s existing one million MT of storage capacity. While this could be beneficial to the Warehouse Receipts System (WRS) which the 2005 Act mentions, resources could be allocated to other competing needs. Instead, the private sector should be allowed to invest at a cheaper cost using long-term financing from local or international sources as has been the case in recent times. Moreover, in the recent past, the private sector has invested heavily in grain storage, and any government investments should work to support this development (see Chisanga and Chapoto, 2018). Instead of frustrating the private sector, the government should re-allocate these resources to other competing needs.

Recommendation(s)
The FRA should stick to performing its social function of keeping strategic grain reserves (SGR) for the country as per its mandate in the Food Reserve Act in the short, medium to long term. The strategic reserve should be restricted to about 300,000 MT firstly because consumption patterns have changed with households consuming a lot more other staples such as wheat and rice than the case was before. Secondly, Zambia’s irrigation capacity has improved which means that commercial farmers, at short notice, can produce partly irrigated maize to avert any shortages in the year with the assurance of limited Government interventions. Furthermore, the FRA should be restricted to maintaining the SGR throughout the season while additional purchases in any season should be made to replenish and get the stocks to these recommended levels. Regarding the price stabilization role, the FRA should buy and sell maize at market prices preferably using the Zambian Commodity Exchange (ZAMACE) which is a transparent price discovery mechanism in the medium to long-term.

CONCLUSION
Zambia’s agricultural sector faces significant challenges that need immediate attention. Production and investment incentives are weakening due to the rising cost of doing business, limited consultations with broad-based stakeholders before policy changes are introduced, and the restrictive trade policies that are not in line with prevailing market conditions. These conditions are choking the development of the agricultural sector and could have dire consequences for future economic growth. Without doubt, under the current conditions, Zambia would not achieve its rightful place as a food basket of the region and Africa as a whole if the proposed measures alluded to in the advisory note are not immediately addressed.
REFERENCES


About Authors:

*Chapoto, is the Research Director, while Banda, Samboko and Chisanga are Research Associates at the Indaba Agricultural Policy Research Institute (IAPRI).