Agricultural Consultative Forum

Discussing the 2009 National Budget for Zambian Agriculture

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Stakeholder meeting on the Tax and Non-Tax Policy Proposals for the 2010 National Budget
23 July, 2009
ACF – Conference Hall

Outline

- FNDP strategic plans/goals
- 2008 performance diagnosis in the budget
- Review selected past performance trends
- 2008 announced & actual budget releases
- Overview agriculture budget trends
- Details – 2009 agriculture sector budget
- Key tax and customs features affecting ag
- Summary

FNDP's Goals For Agricultural Sector Development

- Attain 90% HH food security by 2015
- Increase agriculture's contribution to FOREX earnings from 3-5% to 10-20%
- Increase agricultural export output at an annual rate of 20%,
- Grow agriculture from 1% to 7-10% per annum from 2006 onwards
- Increase agriculture's contribution to GDP from 18-20% to 25%
- Facilitate the role of private sector
- Increase incomes for those in agriculture

2008 Ag Sector Performance – Diagnosis in the Budget Speech

- 2006-2008 Ag sector performed poorly – contracting by 1.2 % annually
- 2008 crop production declined by 7 % leading to contraction in ag. sector by 4 %
- Key constraints mentioned:
  - High cost of inputs;
  - Limited access to credit, inputs and extension services;
  - In adequate infrastructure;
  - Poor livestock management
  - Weakness in FSP;
  - Failure to attract private investment in the sector.

2009 Ag Sector Performance Goals Targets in the Budget Speech

- Growth through competitiveness & diversification
- Focus improving infrastructure and conducive environment for private investors
- Reduce wasteful expenditures with non-appreciable social or economic returns

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

Ag Funds Spending Agents

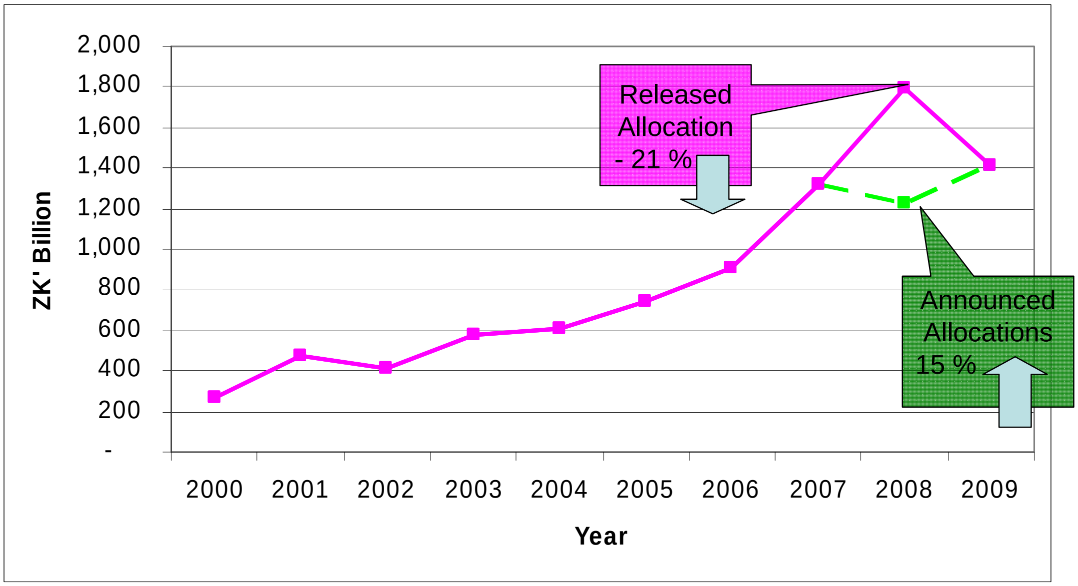
- ***** UN/AU/NEPAD standards define "agriculture" as including crops, livestock, fisheries, forestry & hunting
- Agricultural expenses incurred by other ministries including:
  - Home affairs (prison farms)
  - Community development & social services (food security pack)
  - Defense (Zambia National 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)

  **** Current analysis now includes these – prior work on Zambian budgets by Govereh et. al. did not – results do change***

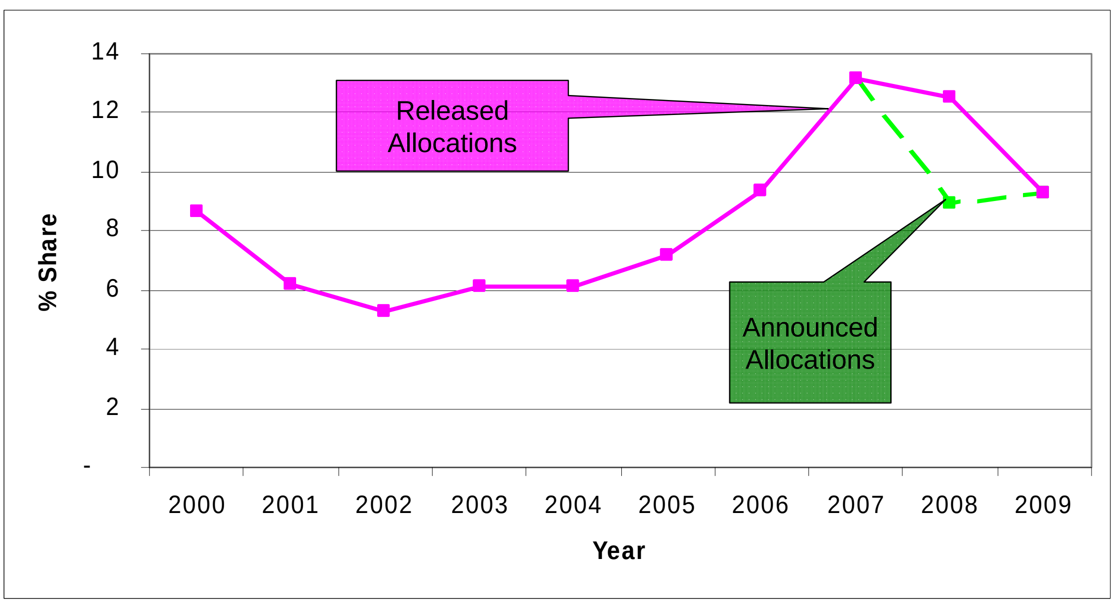
Agricultural Budget Trends in Zambia

- Real size of budget, comparisons & trends
- Agriculture's share of national budget

Real Size of Agricultural Budget 2001 – 2008 (2008 Dec = 100)



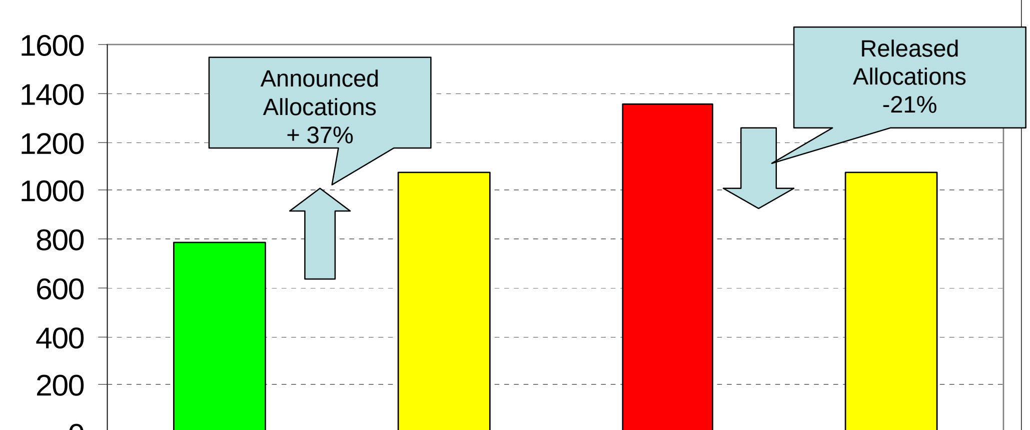
Agriculture's Share of Zambian National Budget



Measuring Trends – What is Measured: Resources Approved vs Actually Released – 2008 Budget

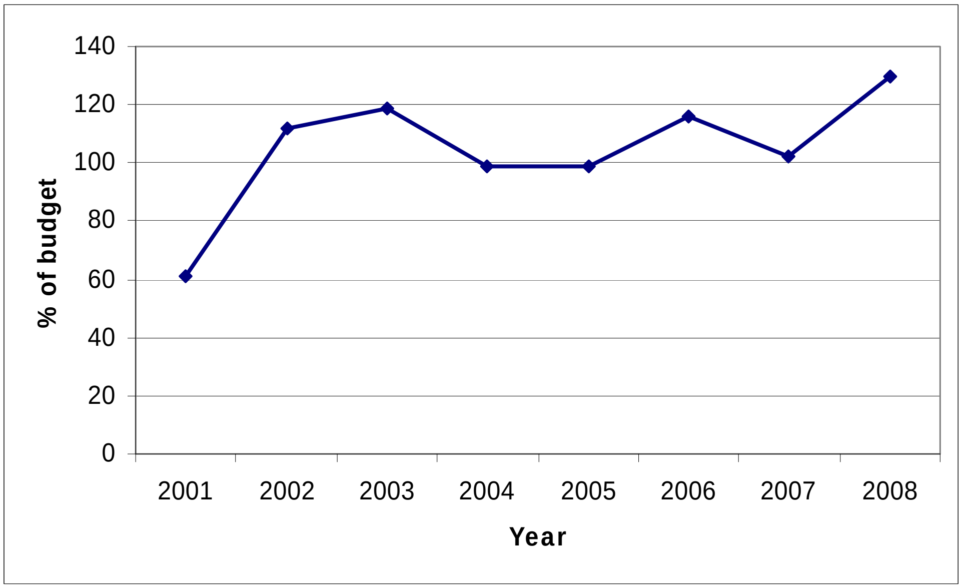
	2008			2009		
	Approved	Released		2009 Allocation		
Category	ZK' Billion	ZK' Billion	%	ZK` Billion	%	% change 08 to 09
Personal Emoluments	118.1	118.1	100	131.8	10.4	11.5
Recurrent Departmental Charges	100.1	84.1	84	160.1	12.7	90.5
Grants and Other Payments	4.1	4.2	101	3.5	0.3	-16.5
Poverty Reduction Programs	282.9	568.1	201	575.1	45.5	1.2
Capital Expenditure	3.5	3.1	88	42.8	3.4	1297.2
Agricultural show	0.6	2.7	458	2.8	0.2	2.8
Agricultural development Programs	277.3	277.3	100	158.3	12.5	-42.9
Allocation to other ministries	123.3	123.3	100	188.7	14.9	53.0
TOTAL	**909.9**	**1180.9**	**130**	**1263.0**	**100**	6.96

Announced & Released MACO Allocations 2008 - 2009



	2008 Alloacated	2009 Allocated	2008 Released	2009 Allocated
ZK Billion	786.6	1074.393173	1351.752085	1074.393173

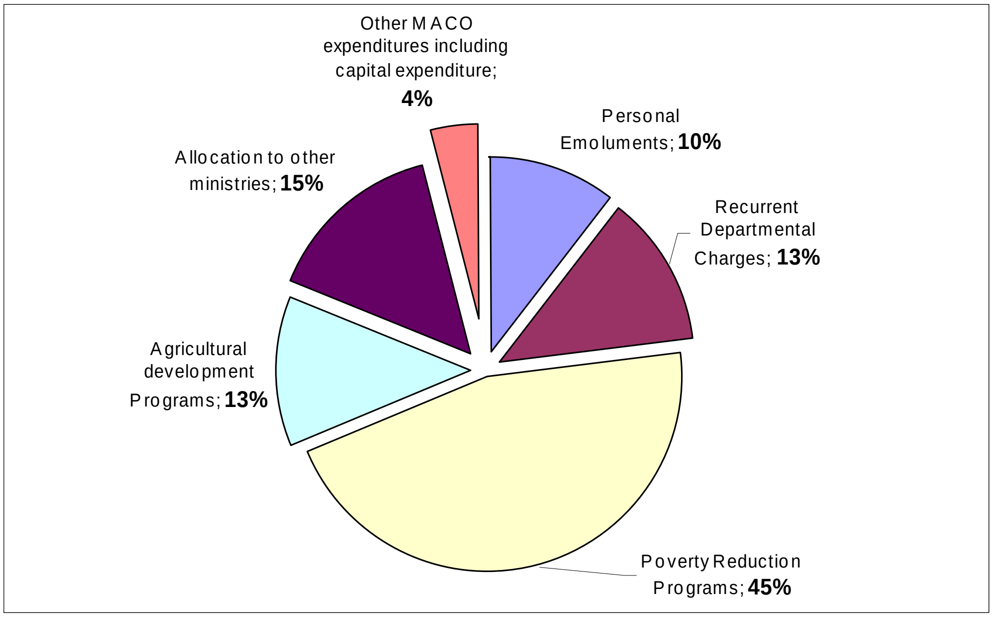
Budget Releases as % of Allocation: MACO 2001 - 2008



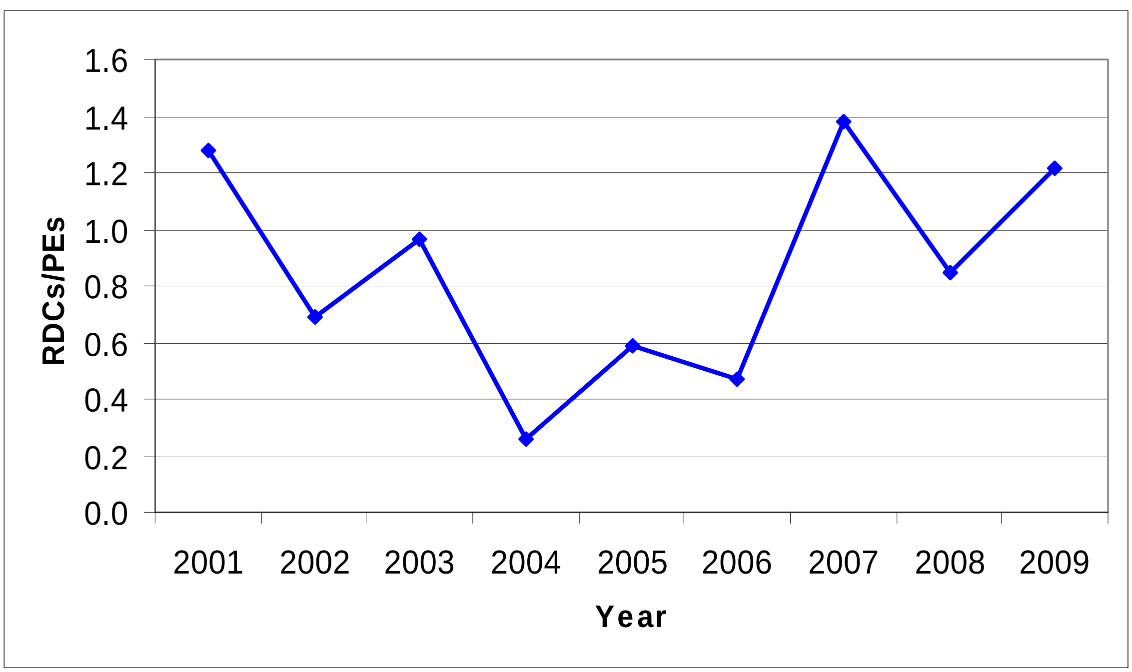
2009 – Zambian Agriculture Sector Budget – Key Provisions

- 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/FRA
- Agricultural Development Programs
  - ADB, ASP
- Allocation to other ministries
  - Food Security Pack, Construction of Dams and Roads

2009 Resource % Allocation Within Agriculture: ZMK893.1 billion



Ratio of RDCs to Personnel Emoluments



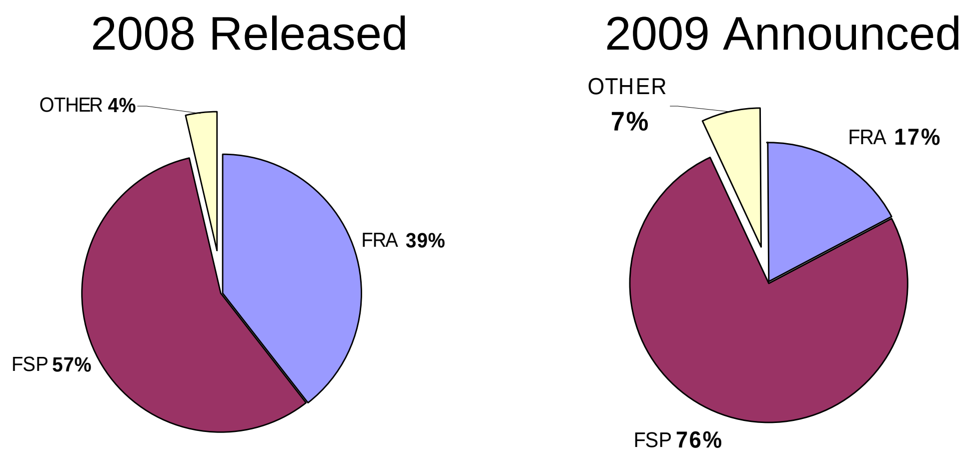
MACO Poverty Reduction Programs (PRP) 2008 & 2009

	2008 Actual		2009 Allocation	
Category	ZK billion)	(%)	ZK billion)	(%)
Irrigation support	5.9	0.7	6.0	1.0
Commercialization of farm blocks	6.5	0.7	0.0	0.0
Animal disease control	9.7	1.1	24.0	4.2
Livestock development	1.8	0.2	3.2	0.6
Fertilizer Support Program	490.1	56.8	435.0	75.6
Strategic Food Reserves	340.0	39.4	100.0	17.4
Cooperative Education and training	0.5	0.1	0.1	0.0
Other	7.9	0.9	6.8	1.2
TOTAL	**862.2**	100	**575.1**	100

PRP Resources Approved vs Released 2008

Poverty Reduction Programs	**Approved**	**Released**	**% increase**
	---------ZK Billion--------		
Fertilizer Support Program	187.0	492.1	163.1
Food Reserve Agency	80.0	340.0	325.0
Other	15.9	30.2	90.0
TOTAL	**267.0**	**832.1**	211.6

Composition of Poverty Reduction Programmes 2008 & 2009



Development Basics: Drivers of Growth in Agriculture

- Research, technology and extension
  - GART, ZARI, NISIR, UNZA,MACO, NGOs
- Soil fertility management & enhancements
  - Fertilizer use & management (timely, levels, methods)
  - Conservation farming
- Irrigation
  - Small scale and large schemes
- Reliable & Competitive Markets
  - Domestic, regional and international
- Strategic Infrastructure
  - Soft and hard (eg. Road building/maintenance, electric power, communication, storage facilities)

FRA – Strategic Reserve

- Buying maize in outlying areas good intention but very costly and may stimulate production of the wrong crops in very high cost locations – counter to goal of diversification
- Many farmers in outlying areas need to first produce more to eat
- Importance of dependable role of strategic reserve so private agents can invest to complement & reduce the need for FRA actions
- Consumer/miller maize subsidies in 2008 have been very costly to GRZ
- In 2009 there is a special FRA challenge – careful rebuilding of the strategic reserve, subject to the size of the crop
  - Large maize crop – buying at market prices can assist the market to keep prices up
  - Small crop - open borders early for private imports to allow supplements to what FRA can procure & to reduce costs to GRZ

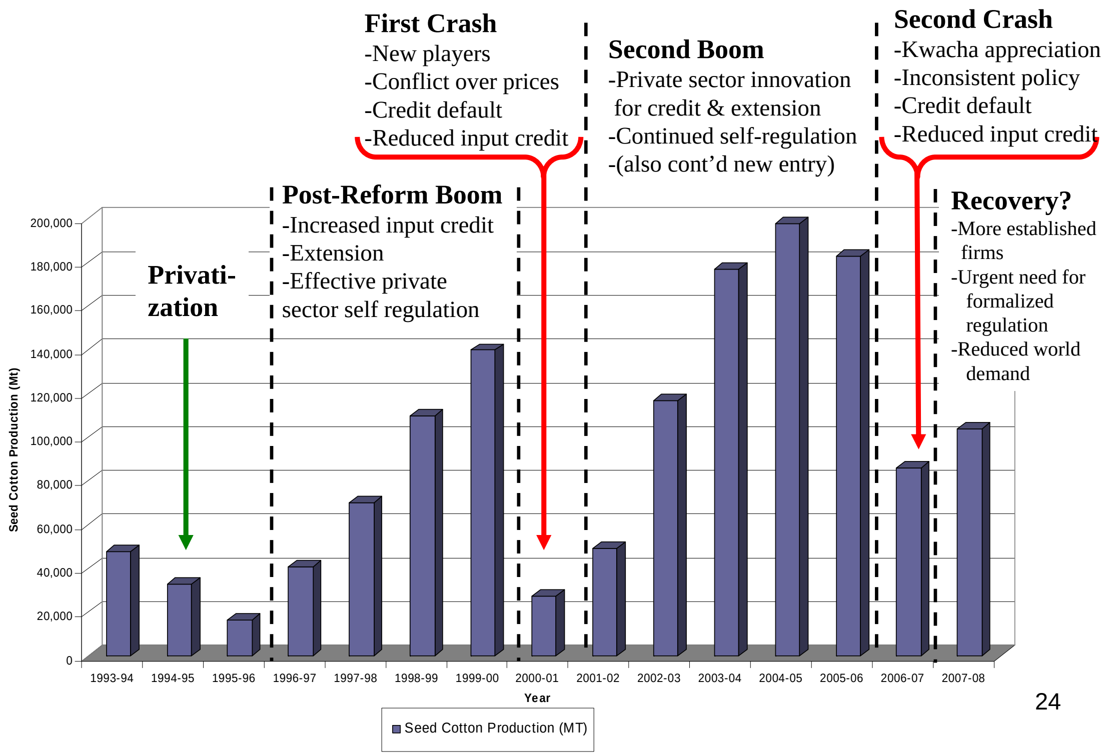
Food Security Pack - PAM

- Zambia - has a unique program in FS Pack/PAM
- Actually predates Food Security Programme
- Targets vulnerable & promotes crop diversification
- Other countries committed to subsidies for smallholders trying to invent this approach
- But FS Pack/PAM has been relatively underfunded. 2009 allocation similar to 2008
- In some prior years funding was over 40 B ZMK
- Additional allocations here could promotes crop diversification & productivity, as well as target vulnerable

Other Agriculture Sector Related Budget Provisions

- Vat zero-rating (promote viability small farmers)
  - Windmills & maize hammer/dehuller mills
  - Two wheel tractors & accessories
  - Tractors to 60 hp
  - Ploughs, harrows, planters & other equipment
  - Pump sets & knap sack sprayers
- Custom Duty Scrapping
  - Crude soybean & sunflower and crude palm oil
- Selected Increases in Taxes
  - Export duty increase on cotton seed 15 % to 20 %
  - Export company tax on earnings from export of cotton lint from 15 to 35 %
- Food security pack allocation about same as prior year

Periods of Success & Challenge in Seed Cotton Production (1993-2008)



Cotton Sector Special Concerns

- Cotton industry in a critical phase
- Conditions have fundamentally changed
  - Domestically
    - More established players unlikely to exit (many left after first crash)
    - Likelihood of even more players without effective regulation (Cotton Board)
    - Too many players will undermine input credit provision
      - This is already happening but could be reversed if action is timely
  - Internationally
    - Reduced demand due to worldwide financial crisis
    - Increased productivity due to GM – further pressure on prices
- Export taxes are seldom effective in promoting local investment
  - On lint: effect limited due to weak domestic demand & competitiveness for lint processing
  - On cottonseed: there has been no additional crushing capacity added, so who will the tax protect?
- Sector needs assistance to stabilize itself and reinvest in productivity
  - Sharp increase in profits tax on lint exports could destabilize the industry, especially in absence of functioning Cotton Board
  - Also reduce ability to offer farmers high seed cotton price

Summary

- Change in 2009 ag. budget size is complex to interpret due to large additional allocations in 2008.
- Overall the trend toward NEPAD/CAADP target is down to 9 % from a peak of some 13 % in 2007
- Ag operating funds for implementation up
- A number of vat zero rating changes enhance growth options
- Poverty reduction programs continue staple centered & are even more dominated in 2009 by FSP.
- Strategic food reserve funding up
- Many drivers of agricultural growth still underfunded
- Budget speech focus for ag sector calls for growth for livestock, irrigation and farm blocks. Implementation critical
- Cotton sector targeted for increased domestic value added but sector recovery challenges for lint production recovery are significant

Thank You