



ZAMBIA NATIONAL FARMERS UNION

POSITION PAPER ON THE FERTILIZER SUPPORT PROGRAMME (FSP)

Drawing on the experiences of the 2007/08 agricultural
season

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FOREWORD

The study was carried out between February and April 2008, targeted at the fertilizer supply companies. Specific focus was given to engaging key fertilizer supply companies based in Lusaka in the collection of data on both commercial sales of fertilizer and supplies under the FSP during the 2007/08 season. A total of seven (7) companies dealing in fertiliser extended their cooperation and provided the critical data used in this study, to whom sincere is also expressed:

- ✓ Omnia Fertilizers Zambia Limited;
- ✓ Bridgeway Commodities Limited;
- ✓ Nyiombo Investment Limited;
- ✓ Zambian Fertilizers Limited;
- ✓ Nitrogen Chemicals of Zambia Limited;
- ✓ ZAMAC Limited; and,
- ✓ Livestock Services Cooperative Society.

The seven organisations were magnanimous and availed critical sales information that has been invaluable for the analysis included in this report. All the companies showed genuine interest to assist the Government develop strategies that build upon its espoused policy of private sector led economic growth. They also see their business growth prospects as closely linked to the sustainable development of the agriculture sector, especially small-scale agriculture.

Since the above organisations account for approximately 95% of the total supply of fertilizer sold in Zambia, it also means that they are most affected by any perceived or real distortions caused by the FSP. In this regard, a lot of importance has been attached to their views concerning the FSP and operations of the commercial market for fertilizer in Zambia. This study also benefited from the direct inputs of key technical staff of the ZNFU and the Food Security Research Project (FSRP). In particular, some of the data incorporated in this report was provided by the FSRP as it has undertaken extensive studies of the FSP and general prospects of small-scale agriculture in Zambia.

This position paper is intended to stimulate policy dialogue and draws on the opinions of the author and stakeholders that were consulted. The conclusions and recommendations of the study do not therefore necessarily reflect the official position of the ZNFU or CFU.

I INTRODUCTION

1.1 Key Concerns of the Agriculture Sector

ZNFU has been concerned with the overall effectiveness of the Fertilizer Support Programme (FSP) as a means of achieving sustained agricultural productivity improvements. Small Scale Farmers (SSFs) who are members of the ZNFU are also concerned with the manner that the FSP is administered, in such aspects as:

- ✓ The opaqueness of the criteria used to select beneficiaries each year;
- ✓ The time MACO district staff spend in administering the FSP which diverts them from their care functions and the critical extension support needed by farmers; and,
- ✓ Late delivery of inputs to the farmers that [make them agreed advance payments](#) thus, tying up their scare resources. It also delays farmers from planting and applying fertilizer when the conditions are appropriate, leading to avoidable production losses.

These concerns became more acute during the 2007/08 agricultural season when inordinate delays were experienced in the delivery of inputs to farmers under the FSP. Midstream, the contracted suppliers of fertilizer suspended deliveries to [farmer cooperatives](#) due to lack of payments from the Government. This meant that the farmers who had paid for the fertilizer could not receive their supplies in time for the planting season.

On the other hand, local retailers of agricultural inputs tend to delay stocking of fertilizer until the FSP sales have been distributed. This is meant to avoid over-stocking as they cannot compete with subsidized inputs under the FSP. During the 2007/08 season, this had serious implications as the farmers could not easily access the fertilizer from commercial outlets as an alternative to the lack of deliveries under the FSP when they needed them most. Ultimately, the credibility of the FSP was severally tested during the 2007/08 season.

ZNFU therefore seeks to engage the Government and, other local and international development partners in constructive dialogue over the manner that the FSP is being administered and its overall effectiveness in stimulating sustained productivity of SSFs. There is also concern that, were the distortionary effects of the FSP are not adequately addressed, this may undermine the development and efficient operations of the fertilizer market. The situation prevailing on the ground however needed to be documented and the key concerns prioritised together with recommendations for the future structuring of Government support to SSFs and role of such schemes as the FSP.

The CFU was therefore requested by the ZNFU to commission a short study of the FSP, focusing on the 2007/08 agricultural season. The study was expected to address the following, relating to the 2007/08 season:

- i. The quantities and actual timing of fertilizer deliveries under the FSP;
- ii. Estimates of fertilizer purchased by both, small scale and commercial farmers directly from suppliers, i.e. outside the FSP;
- iii. Key constraints faced by fertilizer supply companies contracted by the Government under the FSP;
- iv. Effect of the FSP on commercial sales of fertilizer; and,
- v. Specific recommendations related to the future of the FSP.

II IMPLEMENTATION OF THE FERTILIZER SUPPORT PROGRAMME (FSP)

2.1 Background

In 2001, the Government introduced the Fertiliser Support Programme (FSP) “as a transitional measure,” i.e. prior to the full liberalisation of agricultural markets and in order to allow the private sector and SSFs develop capacities. The FSP is targeted at SSFs capable of cultivating at least one (1) hectare of maize who are offered inputs (seed maize and fertiliser) through a risk sharing mechanism of 50% subsidy. In this regard, the government subsidises the cost of the inputs up to the satellite depots equivalent to 50% of the economic cost of cultivating 1 hectare of maize.¹

Apart from the FSP, the Government has also been implementing the Food Security Pack Programme (FSPP). This consists of a full grant for the “vulnerable but viable farmers” who are provided inputs at no cost by the Ministry of Community Development and Social Services through a local NGO, Programme Against Malnutrition (PAM). Under this programme, inputs are provided to eligible farmers to support the production of 1 Lima of maize (i.e. approximately 0.25 hectare).

At the start of the FSP (i.e. 2001/02 farming season) a total of 120,000 SSFs were targeted for support, at a total cost of about K164 billion to the Treasury. Initially the FSP was only expected to remain in place for a period of 4 years with a reduction in support by 25% each year. In this regard, the total number of SSFs eligible for participation in the FSP should have reduced to 30,000 by the time of the 2004/05 farming season and, this support completely terminated by the 2005/06 farming season. Instead, the number of beneficiaries has been increasing, as shown below at Table 1.

Table 1: FSP BENEFICIARIES AND COST OF SUBSIDIES

Season	Target Population of Farmers	Quantity of Fertiliser (MT)	Quantity of Maize Seed (MT)	Value of subsidy (K'000)
2001/02	120,000	48,000	2,400	164,000
2002/03	150,000	60,000	3,000	114,500
2003/04	115,000	46,000	2,500	125,700
2004/05	125,000	50,000	2,600	140,000
2005/06	110,000	35,000	2,200	96,700
2006/07	210,000	60,000	2,500	198,700
2007/08	157,000	53,454	2,550	204,000

Source: MACO & National Budget documents

Recent Government pronouncements indicate that the FSP is likely to continue for the foreseeable future. For example, the “Green Paper”² for the period, 2006 to 2008 provides for the FSP at K150 billion each year. During the 2008 budget Address, the Minister of Finance and National Planning (MOFNP) confirmed that the FSP would continue to be supported and, K185 billion has been provided for the FSP in the 2008 national budget whilst, an amount of K10 billion has also been set aside for the FSPP.

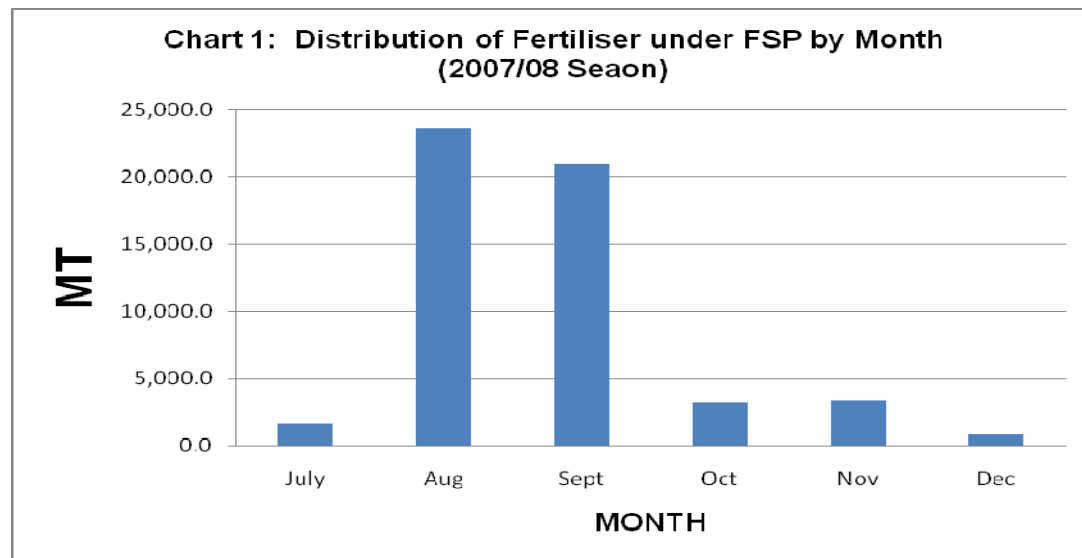
¹ The inputs pack consists of 8 bags of fertiliser (4 x 50kg Basal fertiliser and 4 x 50kg Top dressing fertiliser) and 20kg of maize seed to support the cultivation of 1 hectare of maize.

² Issued by MoFNP on 1st December 2005 setting out Budget Proposals for 2006 and the Medium-Term Expenditure Framework (MTEF).

2.2 Operations of the FSP during the 2007/08 Season

For the 2007/08 season, the Government provided K150 billion for the FSP, targeting to supply a total of 50,000MT of Basal and Top-dressing fertilizer to 157,000 SSFs³. The Ministry of Agriculture and Cooperatives (MACO) contracted Nitrogen Chemicals of Zambia (NCZ) to supply 25,000MT of Basal fertilizer. The quantity was subsequently increased by 3,500 MT by MACO, i.e. bringing the total to be supplied by NCZ under this contract to 28,500MT. Two other private companies, namely: Omnia Fertilizer Zambia Limited and, Nyiombo Investments Limited were contracted to supply 25,000MT of Top Dressing Fertilizer.

NCZ started supplying Basal fertilizer under the FSP contract from July 2007 and, by December 2007, had supplied 28,454.1MT or about 99% of the total order. The bulk of this fertilizer, (i.e. 83%) was supplied by NCZ between August and September 2007. Of the total quantity of Top Dressing fertilizer contracted under the FSP, 23,995MT or about 96% was delivered to the provincial and district depots by September 2007. Chart 1 shows the supply of both Basal and Top Dressing fertilizer under the FSP during the 2007/08 farming season.



As can be noted from chart 1, by the end of September 2007, about 86.4% of Basal and Top Dressing fertilizer contracted by the Government under the FSP had been delivered to the provincial and district depots. A further 12.1% was delivered between October and November 2007, i.e. bringing the total to about 98.5% that was supposed to be available to the farmers at the time of planting. The farmers could not however access the fertilizer from the local depots/sheds as the private companies suspended its distribution, pending the settlement of overdue payments from MACO to the order of K30 Billion.

It was widely reported that MACO and MOFNP were at logger heads regarding the failure to pay the fertiliser supply companies. The Minister of Finance and National Planning insisted that his ministry had released all the funding budgeted for the FSP to MACO in sufficient time for the suppliers and

³ The total budget was subsequently increased to K204 billion and total quantity of fertilizer increased to 28,500MT.

depot warehouse managers to be paid and the fertilizer released, i.e. well ahead of the planting period.

Whilst this situation remained protracted, farmers that had paid for the fertilizer had their finances tied to the FSP and could not afford to purchase alternative supplies of fertilizer from commercial outlets. This situation was also compounded by the late release of payments by FRA for the maize purchases from the 2006/07 marketing season. The overall effect was that farmers could not use the fertilizer when they needed it most, a situation that is expected to contribute adversely to low yields this farming season. The underlying factors are briefly alluded to below.

2.2.1 Key Features of the NCZ Contract

Under the FSP contract, the role of NCZ was to produce the fertilizer and make it available for collection at the Plant in Kafue. Agents managing provincial and district depots (agricultural sheds) and other transporters were sub-contracted by MACO to collect the fertilizer from Kafue at the NCZ Plant and deliver same to designated sheds across the country. Key features of these arrangements included the following:

- i. Transportation for the bulk of the Basal fertilizer produced by NCZ was given to the private companies contracted to supply Top Dressing fertilizer. This created a direct link between the supply of Basal and Top Dressing fertilizer under the FSP as both were being delivered to the depots by the same companies. This also meant that contract payments for Top Dressing fertilizer were co-mingled with the delivery of Basal fertilizer to local sheds.
- ii. NCZ had to source working capital from commercial banks to finance the production of the Basal fertilizer under the FSP contract. Slow receipts of contract payments from the Government placed severe cash flow constraints on NCZ that also compounded its overall financial viability. As a parastatal company, NCZ could not declare a dispute with the Government over delayed payments neither, could it withhold the fertilizer produced under the contract. On the other hand, private companies could withhold delivery of the fertilizer stocks and suspend its release from the depots in order to compel the Government to honour its obligations (discussed in later paragraphs).

Overall, NCZ met its contractual obligations and by end of December 2007 had supplied about 99% of the Basal fertilizer order. NCZ was however not responsible for the distribution of the fertilizer. Rather, the suppliers of Top dressing fertilizer were also sub-contracted to transport the Basal fertilizer produced by NCZ to the provincial and district depots.

2.2.2 Private Suppliers Contracted Under the FSP

As with NCZ, the private suppliers had to organise financing from commercial banks to cover the costs of meeting the FSP contracts. These financing arrangements were based on the assumption that Government would also meet its contractual obligations and pay for the fertilizer on time, i.e. according to agreed schedules. In reality, the Government could not meet its obligations as an amount of about K30 billion was owed by the end of October 2007.

This situation prompted the private suppliers to suspend the release of both Basal and Top Dressing fertilizer stored in the depots to the local agents such as cooperative societies, for on-ward distribution to the farmers. Other key factors leading to this conundrum included:

- i. As indicated earlier, the Basal fertilizer produced by NCZ was mainly being distributed by the private companies contracted to supply Top Dressing fertilizer under the FSP. In practice,

the two brands of fertilizer were supplied to Government at the same time, although the private companies still controlled its distribution as they also managed the sheds where it was stored.

- ii. The FSP relied on the private suppliers to manage the storage and distribution of the fertilizer using their local sheds/depots. This enabled the private suppliers to use the fertilizer for leveraging delayed contractual payments from the Government. This was eventually done in November and December 2007 when inordinate delays in receiving payments from the Government were experienced.
- iii. Although not officially confirmed, it would appear that MACO was provided all the FSP funds by MOFNP in good time. Some of these funds were however diverted to other purposes by MACO who then tried to use moral suasion to force the private suppliers to release the fertilizer, pending the settlement of outstanding contractual payments.

After protracted negotiations, the private suppliers agreed to release all the fertilizer and wait to receive their outstanding payments from the 2008 budget releases. By the time this arrangement was being concluded, a number of farmers that were reliant on the FSP supplies had missed critical periods of the planting season. In addition, and as a result of this situation, the Government has reduced its forecast of the quantity of fertilizer that will be provided under the FSP during the 2008/09 farming season to 30,000MT. In her speech to Parliament on 11th March 2008, the co-Minister of Agriculture and Cooperatives, Mrs Sarah Sayifwanda said:

“Government intends to continue with the Fertilizer Support Programme in the 2008 to 2009 season and this programme has been allocated K185 billion. The available funds however only amount to K117.6 billion after setting bills amounting to K67.4 billion incurred during the 2006/07 and 2007/08 agricultural seasons for inputs by input suppliers and transporters.”

From the above, it is clear that the fertilizer suppliers under the FSP having been facing delays in receiving payments from Government and are presently owed arrears going back to the 2006/07 farming season. There has never been a clear public statement explaining how budgeted resources for the FSP resource could have been diverted to other uses by MACO. Apart from undermining the credibility of the FSP, the commitment of the Government towards small-scale agricultural development has been placed under serious scrutiny.

2.3 Summary of Key Constraints faced by Suppliers to the FSP

During the 2007/08 season, a number of specific constraints were experienced by the companies contracted to supply fertilizer under the FSP. These included the following:

- i. Delays in the award and formalisation of supply contracts impacted on production planning and distribution logistics. Contracting is done on an annual basis for both fertilizer supply and warehouse management services. It does not facilitate long-term planning or commitment of resources until actual contracts are awarded each year.
- ii. Delays in receiving payments from MACO for the fertilizer supplied and transportation/storage services rendered. This was exacerbated by the changes in amounts to be paid during the execution of the contracts.
- iii. Tendency by MACO to exert political/moral pressure on the suppliers to release the fertilizer to local agents that had not been paid for.

- iv. Mixed signals between MACO and MOFNP on the status of contract payments. This created uncertainty thus, undermining business confidence especially that, the suppliers relied on the receipt of these payments in order to service bank loans procured to finance fertilizer and production and distribution activities.

As a result of the above, the timely availability of inputs from the suppliers did not benefit the farmers as they could not access the fertilizer due to MACO induced delays. The key failings in the operations of the FSP during the 2007/08 farming season are however indicative of more deep rooted problems that need to be resolved with candour. Some of these issues are addressed in later sections of this report after a closer look at the overall functioning of the fertiliser market in Zambia.

III FERTILISER SUPPLY AND DEMAND IN ZAMBIA

3.1 Liberalisation of the Fertiliser Supply

Prior to 1991, NCZ was the dominant company in the fertiliser market. It was allowed to import raw materials to produce fertiliser and mitigate market shortfalls with direct imports. Only the Zambia Cooperative Federation (ZCF) was occasionally allowed to participate in the fertiliser market, although this largely involved acting as the main distributor for NCZ. After the implementation of market liberalisation policies and state divestiture started from 1992, operations of NCZ and its dominance in the fertiliser market were severely curtailed.

3.1.1 *Current Status of NCZ*

NCZ has not yet been privatised and continues to be a major player in the fertilizer market. It has however been operating at sub-economic capacities due to lack of capitalisation. For example, NCZ projected to produce 75 – 80,000MT of fertilizer for the 2007/08 season. This production was principally targeted at the FSP where supply was projected at 25,000 MT; with 30,000 - 25,000 MT for commercial locally in Zambia; and, another 25,000MT to be exported to the DRC where demand had been generated after an export marketing initiative. Despite these plans, NCZ was only able to produce about 32,000MT of which, 28,500MT was under the FSP contract due to lack of working capital.

The Government had pledged to provide about K60 billion towards the recapitalisation of NCZ in the 2008 national budget. This pledge was however not honoured and NCZ is now largely dependent on FSP contracts to keep the factory running. NCZ is also embroiled in litigation processes brought about by former employees claiming their unpaid terminal benefits. Its current workforce is also owed salary arrears. Clearly, its future prospects remain bleak in the absence of immediate recapitalisation or NCZ being privatised as a going concern.

3.1.2 *Private fertiliser Companies*

There are presently about twelve (12) private sector companies producing/blending and/or distributing imported fertiliser. Apart from the subsidised fertiliser offered to SSFs under the FSP and FSPP, the market for fertiliser as an agro input is fully liberalised. This has provided the impetus needed for the growth of private sector companies involved in fertilizer supply locally and the management of district depots/sheds used to store agricultural inputs. Other than meeting the demand for farmers through commercial sales of fertilizer, they are also actively participating in public tenders under the FSP and FSPP.

Based on available data, private companies presently account for about 85% of the total fertiliser market in Zambia. The operations of the private fertiliser companies during each season however tend to be influenced by the presence of FSP supplies in most areas where agricultural activities are concentrated. Fertiliser companies tend to monitor flows of FSP supplies as these generally do distort the market (largely due to weaknesses in how the FSP is managed).

The role of Government in the supply of fertilizer seasonal inputs to farmers under special programme (e.g. FSP & FSPP) remains the main source of concern. It creates uncertainty as the information on the amounts of subsidized fertilizer that will be funded by Government each season tends to flow later when the planning of input sourcing has already taken place and commercial supplies are supposed to be distributed. This also tends to cause artificial shortages of commercial supplies of fertilizer at the beginning of each planting season.

3.2 National Fertiliser Consumption

Various studies have been undertaken to estimate national demand for fertiliser in Zambia, especially by the Food Security Research Project (FSRP). Data is notoriously difficult to collect, whilst, MACO tends to focus on the crop surveys targeted at SSFs and actual supplies of FSP to provide national estimates.

Drawing on the data supplied by the fertiliser companies during this study, it was possible to estimate current national demand for fertiliser as lying between 185,000MT and 190,000MT per annum.⁴ During the 2007/08 farming season, about 185,000MT was supplied by the fertiliser companies. Out of this total, about 53,500MT was bought by the Government under the FSP and, about 130,000 MT was through direct commercial sale to farmers, as shown below at table 2.

Table 2: National Fertiliser Consumption during the 2007/08 Farming Season

PROVINCE	FSP		COMMERCIAL SALES		TOTAL	
	MT	%*	MT	%*	MT	%**
Southern	9,251.3	32.9	18,849.9	67.1	28,101.2	15.3
Lusaka	9,010.0	17.3	49,152.0	84.5	58,162.0	31.6
Eastern	9,431.5	48.1	10,187.0	51.9	19,618.5	10.7
Central	7,545.9	21.0	28,423.7	79.0	35,969.6	19.5
C/belt	6,354.0	25.6	18,495.0	74.4	24,849.0	13.5
Northern	4,882.0	53.2	4,292.0	46.8	9,174.0	5.0
North-western	2,976.5	83.9	571.0	16.1	3,547.5	1.9
Luapula	2,847.0	82.2	618.0	17.8	3,465.0	1.9
Western	1,156.0	91.2	111.0	8.8	1,267.0	0.7
TOTAL	53,454.1	30.0	130,699.6	71.0	184,153.7	100.0

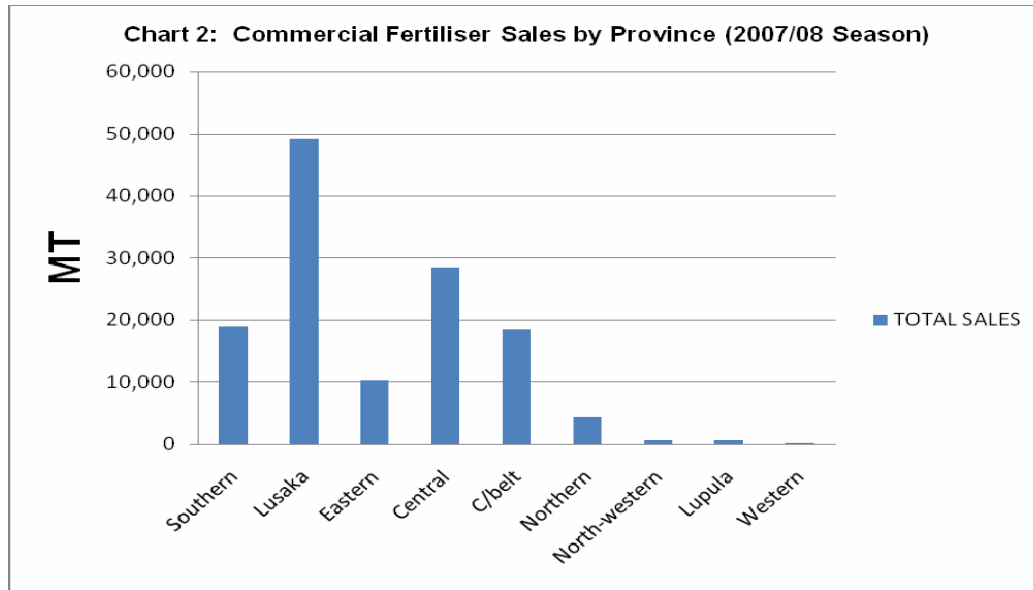
* Computed against provincial totals of both FSP and commercial Sales of fertilizer

**Computed to show provincial shares of total fertilizer supplies, i.e. FSP + Commercial Sales

The above figures exclude about 5,000MT attributed to the fertiliser companies whose data was not available for this analysis. Government driven procurement of fertiliser under the FSP accounted for about 30% of the total consumption during the 2007/08 farming season. The bulk of this, i.e. about 35,240 MT or 66% was consumed by four provinces, i.e. central, Eastern, Lusaka and Southern provinces which are also the main agricultural regions.

It is also noteworthy to point out that Lusaka province was the largest consumer of both the combined total of FSP supplies and commercial fertiliser during the 2007/08 season, i.e. accounting for about 32% of the national total, followed by Central and Southern province at about 20% and 15%, respectively. This level of consumption by these provinces is also associated with the concentration of commercial farming activities. For example, about 85% of the fertiliser consumed in Lusaka province during the 2007/08 season was from commercial sales rather than the FSP. Chart 2 shows the distribution of commercial sales of fertiliser by province during the 2007/08 season.

⁴ An amount of about 5,000MT has been attributed as contributions to the national total from the fertiliser companies that did not participate in this study.



Some of the fertilizer recorded as sales in Lusaka province should actually be attributed to the out-grower scheme promoters that buy in bulk for re-distribution to their farmers in other provinces. For example, Eastern province accounted for about 6% of commercial sales whilst, being the recipient for about 18% of fertilizer supplies under the FSP. On the other hand, the Eastern province has, proportionately, the largest number of SSFs participating in cotton and tobacco outgrower schemes. Some of these schemes provide fertilizer as part of their season input credit to the farmers. Another feature of Eastern province is that it has the largest concentration of SSFs in Zambia, i.e. accounting for about 21% of the total.

An attempt was made to attribute the commercial sales of fertilizer by category of farmer, i.e. in order to distinguish SSFs and commercial farmers. In this regard, the available data indicated the distribution for the 2007/08 season, i.e. as shown below at chart 3.

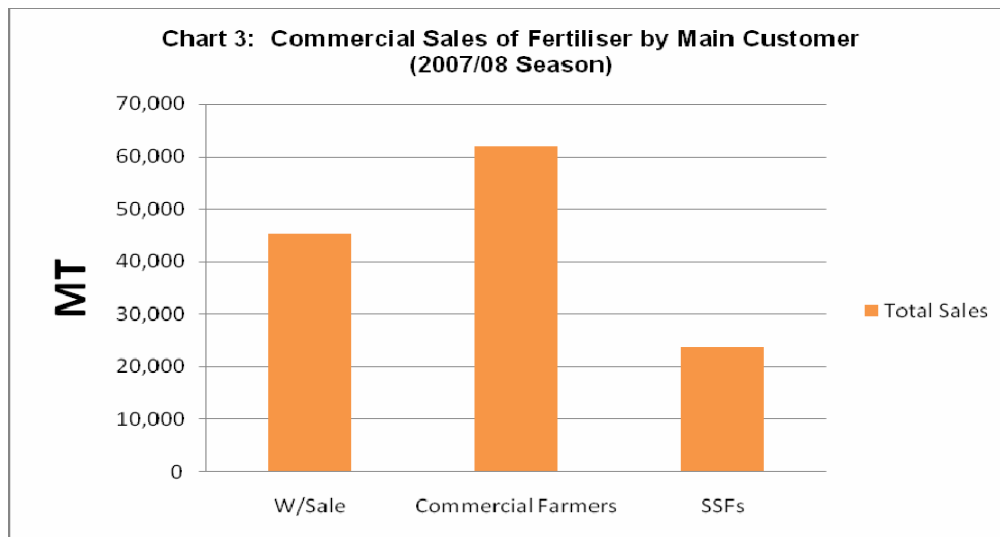


Chart 3 was based on records of direct purchases by the two categories of farmers and, the quantities sold through agents, e.g. wholesale outlets. The data collected indicated that direct sales to commercial farmers accounted for over 52% of the total. Direct sales to SSFs accounted for about 18% with the balance handled through wholesale outlets. Typically, the bulk of the fertilizer sold to commercial farmers was in Lusaka, Central and Copperbelt provinces, i.e. 31% and 21%, respectively. There were no direct sales to commercial farmers in Eastern and North-Western provinces as can be shown below at Table 3.

Table 3: Total Fertilizer Sales – Basal and Top Dressing - Tons

PROVINCE	W/Sale	Commercial Farmers	SSFs	TOTAL SALES	%
Southern	7,915	10,376	559	18,850	13.8
Lusaka	18,345	21,028	9,779	49,152	40.3
Eastern	7,583	0	2,604	10,187	7.5
Central	2,395	20,939	5,089	28,424	20.8
C/belt	2,192	14,403	1,900	18,495	13.5
Northern	494	900	2,898	4,292	3.1
North-western	131	0	440	571	0.4
Luapula	175	149	294	618	0.5
Western	29	14	68	111	0.1
TOTAL	45,259	67,809	23,632	130,700	100.0

In the interpretation of the above data, it should also be noted that the quantities shown under wholesale reflect the stocks supplied to such outlets, rather than a definite actual sales to farmers. In other words, it is not possible to confirm that all supplies from the wholesale outlets were bought by the farmers during the season. To this extent, the actual consumption figures could be lower than indicated in this analysis. In addition, time series data would have been [more appropriate except that it is presently not as reliable as would be preferred](#).

IV CONCLUSIONS AND RECOMMENDATIONS

4.1 Achievement of Policy Objectives

The principal objective of the Government is to stimulate sustainable increases in small-scale agricultural productivity as a poverty reduction strategy and for the general improvement of rural livelihoods, especially. The FSP was introduced to catalyse small-scale agriculture by providing subsidised inputs (i.e. fertilizer and maize seed) over a fixed period of time. It was a transitional measure as the farmers were expected to require time to adjust to fully liberalised agricultural markets.

Through this approach eligible farmers would have access to timely and adequate supply of inputs during the farming season. In turn, the farmers would cultivate enough maize for domestic consumption and sale of the surplus for cash income. It was also envisaged that such farmers would progressively require less assistance in the form of input subsidises. They would instead, start using the income realised from the sale of surplus maize to not only increase the hecterage under cultivation but also purchase inputs directly from commercial suppliers. The sustained commercial integration of SSFs would also be engendered.

In practice, there are no records to show the actual improvements in SSF productivity that can be directly attributed to those who have benefited from the FSP. There is generally, a dearth of reliable and consistent data on the operations of the FSP. In particular, critical information related to the identification and selection of FSP beneficiaries, its administration, including the allocation of human and financial resources have been shrouded in secrecy. The management of the FSP by MACO therefore is not matched by:

- ✓ Transparent criteria used to select beneficiaries;
- ✓ Basic performance indicators;
- ✓ Records that are amenable to public scrutiny of all individuals that have benefited from the FSP since its inception;
- ✓ Objective and independent assessments of its effectiveness; and,
- ✓ Actual contributions to SSF productivity and commercialisation.

Under these conditions, it is difficult to establish the actual impact of the FSP on agricultural productivity and the extent to which it has uplifted livelihoods of beneficiaries. More importantly, there is no independent means of verifying whether the current structure and operations of the FSP is the most optimal in terms of efficiency and effectiveness, i.e. in giving value for money and creating a sustainable basis for improving small-scale agriculture.

4.2 The FSP as a Tool for Equitable Agricultural Development

It is generally acknowledged that the FSP has been lowering the production costs of beneficiary farmers. Even though some of the subsidised inputs do not reach the intended beneficiary farmers, the FSP has spurred maize production output by SSFs. Its actual contribution is however a matter of conjecture. For example, the Minister of Agriculture and Cooperatives, commenting on the role of the FSP in October 2007⁵ intimated that it had contributed an estimated incremental production of 350,000MT to 635,000MT of maize to total national maize production since its introduction.

⁵ Quoted in the November 2007 issue of the Farmers Gazette, page 39

The FSP has also been important in creating visibility between the Government and SSFs following the liberalisation of agricultural markets and removal of subsidises. Together with the role of FRA in purchasing agricultural outputs, it is recognised as a Government led (rather than donor or NGO led) national programme. As such SSFs consider the FSP as an expression of the Government's commitment towards agricultural development.

Ideally, the FSP should then be supported by fair and transparent criteria used to select eligible farmers and the allocation of subsidized inputs across the country. The distribution of the fertilizer supplied under the FSP to the provincial and districts depots across the country during the 2007/08 season was documented as shown below at Table 4.

Table 4: Distribution of Fertilizer by Province

PROVINCE	FERTILIZER (MT)	PROPORTION
Central	7,545.9	14.1%
Copperbelt	6,354.0	11.9%
Eastern	9,431.5	17.6%
Luapula	2,847.0	5.3%
Lusaka	9,010.0	16.9%
Northern	4,882.0	9.1%
North-western	2,976.5	5.6%
Southern	9,251.3	17.3%
Western	1,156.0	2.2%
TOTAL	53,454.1	100%

From the above table, it can be noted that Eastern and Southern provinces had the largest share of the fertilizer, followed by Lusaka province. Eastern province was not only the largest beneficiary of the FSP resources but has a sizeable proportion of SSFs actively engaged in tobacco and cotton outgrower schemes. This means that a number of the SSFs have better access to inputs than the other provinces where such schemes do not exist.

Apart from the fertilizer, the FSP includes maize seed as an input. More notably, a number of the provinces that are traditionally, surplus producers of maize, were also large recipients of the fertilizer during the 2007/08 season. As such, it would appear that, beneficiaries in the maize growing regions of Zambia tend to be favoured. This may account for the skewed allocation of the fertilizer, with the provinces that do not traditionally grow maize as the main staple receiving marginal quantities of the fertilizer under the FSP during the 2007/08 season.

The expectation would be that the traditional surplus producers of maize are also relatively better integrated with agricultural markets and therefore do not require subsidies as with the poorer regions of the country. Many parts of Zambia offer agro-ecological conditions for other crops that are not provided similar incentives as that prevailing for maize. The situation whereby the FSP is also heavily linked to maize production is by itself, inequitable. Consequently, the country is perpetuating a poor policy of encouraging commercial production of maize in regions where there is no economic and comparative advantage.

Based on the provincial allocation of FSP inputs shown in Table 4 above, it is clear that equity is not being observed. The most disadvantaged provinces where poverty is also most prevalent appear to benefit the least from the FSP. A further analysis of FSP beneficiaries was conducted in order to establish linkages with the country's distribution of SSFs. The results of this analysis are shown below at Table 5.

Table 5: Analysis of FSP Beneficiaries by Province

PROVINCE	POPULATION OF SSFs		PROPORTION THAT BENEFITED FROM THE FSP IN 2007/08 SEASON		
	NUMBER (1)	%	FERTILIZER (2) QTY	NO. OF BENEFICIARIES (3)	% OF FARMER POPULATION
Central	119,696	10	7,546	22,170	14
Copperbelt	70,418	6	6,354	18,660	12
Eastern	251,436	21	9,432	27,720	18
Luapula	141,670	12	2,847	8,350	5
Lusaka	27,053	2	9,010	26,470	17
Northern	200,767	17	4,882	14,330	9
North-western	73,493	6	2,977	8,700	6
Southern	150,785	13	9,251	27,200	17
Western	135,637	12	1,156	3,400	2
TOTAL	1,170,955	100	53,455	157,000	100

NOTES

- 1 = Includes medium scale farmers based on 2007 Data obtained from MACO
- 2 = Based on actual distribution of fertilizer under the FSP during the 2007/08 season as documented in the returns of the contracted suppliers
- 3 = Computed on the basis of the ratio, i.e. quantity of fertilizer at 53,455 against 157,000 beneficiaries

Based on the data analysed (as summarised in Table 5 above), Lusaka province which has an estimated total of about 27,053 SSFs (or, 2% of the total SSF population in Zambia) received about 17% of the total quantity of fertilizer available under the FSP. By extrapolation, this quantity of fertilizer should have covered about 98% of the population of SSFs in the province. On the other hand, provinces that proportionately have a large number of SSFs, such as Western (12%), Northern (17%) and Luapula (12%) received marginal allocations at: 2%, 9% and 5% of fertilizer respectively.

As a national programme, the benefits of the FSP are therefore not being shared equitably across the country. Instead, unclear criteria is used to determine how much fertiliser and maize seed are distributed on the basis of lists of farmers with the ability to meet the advance payment of 50%. As presently structured and managed, the FSP has a number of critical weaknesses that lessen its impact and, are presently threatening the credibility of Government's policy objectives. These weaknesses can be summarised as follows:

- i. Eligible SSFs being used as conduits the diversion of the subsidised fertilizer to "well to do" farmers or, unscrupulous input traders for re-sale. The FSP is instead promoting the growth of a "black market" for fertilizer;

- ii. Failure of the FSP to “wean off” farmers after two years of support as earlier envisaged. Instead, the FSP is perpetuating dependency on subsidised inputs by farmers thus, constraining productivity and commercialisation of small-scale agriculture;
- iii. Poor management of the contracting and distribution of inputs creates uncertainty amongst farmers and commercial suppliers of inputs which also translates into late planting. On the other hand, delayed implementation of the annual cycle of FSP arrangements create opportunities for resource waste and general malfeasance;
- iv. Involvement of MACO staff in the administration of the FSP diverts them from their traditional role of providing extension support services to farmers;

It is clear that there is a major gap between the Government’s policy objectives underpinning the introduction of the FSP and, its actual implementation; together with the value of its contributions to small-scale agricultural development. It is not so much a case of policy failure but one of poor implementation and defused public accountability.

4.4 Recommendations

This brief study highlighted a number of deficiencies with FSP that require urgent redress. Key to this process will be the need to: clearly define the objective of the production subsidy, who it should be aimed at; how the programme is to be administered more efficiently and effectively; and, the incorporation of monitoring and evaluation processes that can be used to independently determine policy effectiveness, amongst other factors.

4.4.1 Objectives of the Agricultural Subsidy

The Government’s intentions of the FSP should be very clearly distinct from those of the FSPP. In this regard, the FSPP needs to be supported as a poverty mitigation measure and, a means of nurturing poorer segments of the population dependent on subsistence agriculture towards more efficient use of inputs.

Malawi operates a similar scheme of incentives but fashioned on the FSPP. In this way the Malawi Government’s support is actually targeted at the “vulnerable but viable” farmers. Their strategy is to uplift the lower ranks of SSFs through the subsidy structure until they can competitively produce sufficient [stacks](#) of maize and achieve sustained household food security and sale of surplus for income.

Zambia’s approach is however less targeted and subject of political interference at various levels of Government and political structures that include, constituency and ward officials. The FSP has become an important source of obtaining/extending political patronage and economic rents. In addition, the role that MACO staff play in coordinating the FSP detracts them from their core functions. This is because the FSP is accorded higher priority, a situation accentuated by the financial gains from local travel allowance and opportunities available to abuse the subsidy structure.

Using the FSPP as a Poverty Reduction Strategy

It is recommended that some of the resources currently provided for the FSP be reallocated to the FSPP which should be the “flagship” of the poverty reduction strategy in agriculture together with other programmes promoting improved hand-hoe small-scale farming systems. The up-scaled FSPP should not only focus on maize seed but be based on each region’s special circumstances. In this

regard, agro-ecological zones that support other crops to maize be promoted and made part of the programme.

Using the FSP as a Stimulant for Agricultural Commercialisation

For the future FSP, this should focus on strengthening SSFs prepared to commercialise their production. It should not include maize seed but encompass: Fertilizer and herbicides. Such a package is generic and not crop specific. It would also demonstrate the Government's acknowledgement of the negative effects of past agricultural policies that emphasised maize production to the detriment of optimising the potentials of respective agro-ecological zones of Zambia.

4.4.2 Targeting of FSP Subsidy Recipients

The current approach to targeting FSP beneficiaries is wasteful and discredited. It is proposed that new approaches are considered whereby the farmers are selected from amongst those who are either fully subscribing to recognised organisations (ZNFU and Cooperatives) or, are participating in known programmes, such as the Conservation Agriculture Programme (CAP) and outgrower schemes.

By linking the targeting of subsidies to known programmes and groups, this would enable the Government to keep track of individual beneficiaries and de-politicise the targeting of the subsidy. In addition, this would induce higher levels of discipline amongst the beneficiary farmers as they would be monitored from the outset. It would also act as an incentive to SSFs to mobilise themselves into groups or, maintain strong participation to programmes that are recognised as channels for the subsidy.

4.4.3 Administration of the FSP

As an important start, it will be necessary for Government to reconsider the direct use of MACO staff in the administration of the FSP. It is recommended that MACO staff be used to monitor the impact of the FSP and not be directly involved in its administration. Alternatively, SSFs should obtain such subsidized inputs through the programmes that they belong to by way of a coupon system. This would reduce the "red tape" involved as the scheme could work as follows:

- Step 1: Amount of subsidy announced in national budget address immediately triggers contracting arrangements with suppliers of fertilizer and herbicides. These contracts should cover delivery up to depots and handling charges (more or less as current arrangements);
- Step 2: Provincial quotes developed as part of budget submission used to allocate the coupons to qualifying SSFs through the programmes/associations that have been recognised and registered;
- Step 3: SSFs collect the inputs from local depots in exchange for the coupons that act as accountable documents for use by the Government to confirm how the inputs were distributed;
- Step 4: Mandatory independent audit is conducted each year, immediately after the distribution of inputs in order to match coupons with inputs and bona fides of the SSFs that have received same;

Step 5: MACO conducting crop surveys to assess the use of inputs and impact on harvests for M&E purposes and, planning of next season's programme.

Key to the above will be the need for Government to pay suppliers according to the contractual terms. In this regard, MACO will require to ensure that the resources are not diverted when received from MOFNP. In addition, sufficient provisions should be made as part of the budget for the audit, M&E exercises and the coupons administration system as this will extend the resources of programmes and outgrower schemes. Key to all this is the need to direct incentives to targeted agricultural development initiatives for SSFs already existing.

4.5 Overall Conclusions

All stakeholders agree that, in principle, the FSP is good as it lowers agricultural production costs for SSFs. On the other hand, the targeting and administration of the subsidy system is the real source of concern. In this regard, it is timely for the Government to take the bold steps necessary to re-structure the FSP, strengthen confidence in agricultural markets and direct incentives towards sustainable programmes supporting SSFs.

What is clear is that, where no major steps are taken to address the weakness in the FSP, the future credibility of the Government may suffer irreparable damage amongst the farmers and input suppliers. Specific recommendations have been provided above that address possible solutions for Government's consideration.