

Fertilizer support is a subsidy disaster

The fertilizer support programme in Zambia is rocked with corruption and has become highly political, extremely expensive and bureaucratic and is taking resources away from the very farmers it intended to serve.



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From the social point of view, the fertilizer support programme (FSP) has brought a number of benefits to 120,000 individual farmers and is responsible for an increase in maize production. The FSP has also been responsible for political stability in the country as it has provided the nation the much needed stable food through stabilized maize prices. However, these social benefits have not come cheaply to small scale farmers, agricultural industry and the nation in general. The social benefits have come with a lot of economic compromises to the detriment of sector development, since the programme has to some extent been the only direct way government has supported agriculture.

The problem of timing

The subsidy budget is announced in February each year but the funds are released to farmers through the fertilizer and seed distribution around October to March. If the fertilizer and seed funds were released in February, a farmer could turn-over three to four seasons of production (vegetables) and make profits three to four-fold on the same fertilizer, since fertilizers and seed are available in retail shops throughout the year. Yet farmers are subjected to scramble for the commodity at the pinnacle of their production season and thus small scale farmers lose income on their government allotted resource four times each year.

The problem of poor yields

The other wrong procedural aspect is that the fertilizer and seeds provided by government is decided by the provincial and district leadership in the Ministry of Agriculture and not by farmers. A 'one size fit all' approach to fertilizer and seed regardless of differences in agro-ecological zones and soil types has been responsible for poor yields per hectare experienced each year. All farmers are made to plant the same variety or range of seeds (short maturing or medium maturing or long maturing) using same type of fertilizers (D-compound and Urea) despite agriculturists knowing that differences in soil fertility require adjustments in input applications. This has resulted in significant drop in yield against yield potentials to as low as 10 bags per hectare against the potential 50-70 bags.

And it's expensive

Looking at the cost of managing the FSP, it does not take an economist to see that the programme is exorbitantly expensive. In 2008, the government has promised to provide 485 billion Kwacha. The farmers will also contribute 25% (approximately 111.25 billion Kwacha) bringing the total to 596.25 Billion kwacha. This is expected to benefit 200,000 farmers, working out to be 2,981,250 Kwacha per farmer. The cost of 8 bags of fertilizer and 25 kg seed is estimated at 1,880,000 and 120,000 for fertilizer and seed respectively, bringing the total to 2 million kwacha per farmer. The difference of approximately 981,250 Kwacha is assumed to be the administrative cost on each farmer. This is an extremely huge administrative overhead when taken for the 200,000 targeted farmers on the programme.



Small scale farmers loose income due to the ineffectiveness of the Fertilizer Support Programme.

Corruption is rampant

The issue of corruption in the FSP emerges at various levels. Firstly, cooperatives continue registering for the sole purpose of receiving fertilizers. How the new cooperatives find themselves on the list of beneficiaries is a question and as a result of targeting the cooperatives, politicians have continued to form cooperatives each year as a ploy for political favours. In the process of selecting beneficiary farmers and paying deposits for the commodity, the cooperative leaders collect 'membership and registration fees' whose use is not known by members though the practice has been that this is the money leaders use to compensate their efforts for mobilizing 25% down-payment to government.

Secondly, the extension officers put in charge of fertilizer distribution include their names and that of their relatives on the list of beneficiaries. A FSP monitoring report by Chipata District Farmers Association (2007/8 Season) reviews that all extension officers in charge of fertilizer distribution and staff at agricultural camps received fertilizer contrary to the programme guidelines.

Thirdly, at government level, this is a near disaster. Our provincial fora, consultancy report and the Monitoring report from Chipata District Farmers Association reviews that many farmers who paid their contributions to government for fertilizer and seed for 2007/8 did not receive entire or part of their consignment and no refunds have been made to date by government.

Forth, malpractices are also obvious in dealing with transporters, warehouse managers and the all process of product chain.

Fifth, fertilizers meant for beneficiary farmers have ended-up in the hands of private business people as the case was in Chipata (involving 10 Million Kwacha) and Mwembeshi (involving 15 million kwacha).

Sixth, in the process of panic, government distributes wrong materials e.g. from a government warehouse in Lusaka Industrial Area (2007/8) government procured and distributed Obatampa maize seed imported from Malawi and sold by Monsanto, contrary to Government law on Genetically Modified Organisms. The panic in procurement of seeds has also increased chances of sourcing ex-stocks suspected of having low germination potentials. In 2007/8 season many farmers had poor germination despite good rains experienced at the start of the season.

Surgery needed

The best way forward is for government to change programme operational framework and policy without completely disrupting this support to small scale farmers. In medical terms they call it keyhole surgery techniques that allow surgeons to operate without making large incisions, minimizing the risk of complications and side effects (Tim Harford, *The Undercover Economist*, 2006). The keyhole surgery technique would help government first identify the specific market failures, which may fall in three categories: scarcity power, externalities and imperfect information, plus the issues of fairness. The issue of fairness relates to the market failures that seem to justify involvement of government in fertilizer and seed distribution, of course causing more market distortions.



Scarcity is easily avoided

In as far as fertilizer and seed availability is a concern in Zambia, scarcity power is a potential problem but not a significant one. The seed and fertilizer companies have the capacity to supply fertilizer to the 650,000 farmers all year round. By releasing funds at panic times of the year (rain season), government enhances the scarcity power and complicates the market. Government should therefore redesign the programme by providing government Cheques redeemable upon purchase of fertilizer from government approved dealers available in production areas.

Externalities, too, are important only to select cases. Government contracts only one company, Nyimbo Ltd, as the sole importer of the fertilizers. If money was readily available to farmers through the government Cheque system, farmers would not bother to wait for government fertilizer brought in by Nyimbo. Thus neither externalities nor scarcity power are severe or widespread to warrant government provision to become an attractive alternative. The keyhole solution would be some light-touch regulatory oversight to prevent the exploitation of scarcity power, coupled with focused subsidies to boost innovations in input support. This would increase investment potential in rural areas in the field of input trade, reduce transaction costs and increase chances of planting on time as farmers would have inputs readily available at the start of the season.

Information needed

That leaves inside information as the big obstacle to a well-functioning input supply system. The afore-going analysis of the FSP suggest that government provision has been ineffective because decision making is out of the poor farmer's hands and resources are rationed by political processes. Meanwhile the overwhelming problem for the input market is inside information (both government and the farmers must have inside information on the input supply chain, prices and availability). This has made the FSP patchy, costly and bureaucratic. It indicates therefore that while markets can fail, government can fail too. Politicians have their own motivations in this programme. It seems that when market failure and government failure are both present, the choice is often between the lesser of the two evils. For our Zambian government, the choice seems to be government control even despite criticism.

It is important for our government to realize that putting lock and key on inside information on any market product produces an obstacle called 'moral hazard'. The concept is simple: if you compensate farmers when bad things happen to them, they may get careless, thus the rampant reports we see of

fertilizer selling and corruption cases in the FSP. This moral hazard has also been responsible for the lack of entrepreneurship in fertilizer and seed supply, rural investment, poor household savings and stagnant cooperative movement.

How to be fair

Fairness is not, strictly speaking, a market failure; it is something that even perfect markets do not necessarily provide. But we care about fairness because we do not want the poor to be deprived. In a country where 80% of the people wallow in abject poverty, we need government to assist the people at least produce their own household food. Apart from direct input subsidy, therefore, government should look at redistribution of taxes that can benefit all farmers and not just the targeted 200,000. After all, why spend so much (485 billion Kwacha) on maize while ignoring the fact that poor farmers can not afford healthy food by growing other agricultural products.

FOSUP will continue advocating for effective and efficient delivery of the fertilizer support programme for the benefit of the resource poor communities.

Farmer's Organisation Support Programme (FOSUP), a partner of MS Zambia, is working to create political and business channels for the small scale farmers in Zambia with the aim of reducing the alarming high poverty levels among small scale farmers. Though situated in the capital, Lusaka, FOSUP is a national network of more than 250 support institutions and 150 farmer groups.