

# Implications of the Global Commodity Price Slump for Zambia's Agriculture

*Commentary*

Caesar Cheelo

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# Contents

1.	Introduction	2
2.	Falling Global Commodity Prices and Weathering the Slump	2
3.	Sticking to Commodities Despite the Global Price Slump	3
3.1	Zambia's Workforce Critically Dependents on Agricultural Employment	4
3.2	Some Commodity Prices are Still Relatively High; Others May Rise	6
3.3	Neighbourhood Commodity Markets	7
4.	Challenges in Zambia's Agriculture	9
4.1	Broad challenges affecting agriculture	9
4.2	Sector-specific issues affecting agriculture	11
5.	Modernizing the Agriculture Sector	12
	References	15



## 1. Introduction

This commentary was prompted by the IMF's April 2016 publication of the Regional Economic Outlook (REO) for Sub-Saharan Africa. Among several other things, the Outlook report contends that: "...efforts [of Sub-Saharan African countries] should focus on structural reforms to support the *diversification of the economies away from commodities*" (IMF, 2016, 40). We explore the appropriateness for Zambia of the notion to diversify away from commodities in view of the global slump in commodity prices. The rationale for staying with certain commodities is forwarded. This sets the basis for forwarding what, in our view, the IMF's recommendation should be understood as for Zambia. Finally, we offer some country-specific proposals on public policy responses that could promote an *inclusive developmental approach to economic diversification for Zambia*.

Although our comments originate from the Outlook report's advice about diversifying developing country economies away from commodities, it must be borne in mind that the comments are not forwarded as a critique or judgement against the Outlook report's advice. The report is meant as a broad, continent-wide advisory tool that cannot be expected to cater for all the policy specificities of each country in Africa. The further work of interpreting the report, nuancing its advice and generating customized, country-specific solutions should be treated as homework for individual countries to do. This further work is the spirit in which we make our comments.

Before delving into our views about country-specific policy and strategic options for Zambia to deal with the IMF advice and for coping with the global commodity price decline, it is perhaps worthwhile to confirm, albeit very briefly, the Outlook report's observations about global commodity prices.

## 2. Falling Global Commodity Prices and Weathering the Slump

The Regional Economic Outlook report broadly focuses on two aspects, namely the commodity price slump as well as financial development and sustainable growth. It offers many key insights and broad policy recommendations. One key point the report makes is that global commodity prices have slumped in recent times and so developed and developing economies in the world will have to figure out how to weather the price downturn. This is particularly important for Sub-Saharan African countries, as the majority of them have traditionally been heavily dependent on commodity exports for the bulk of their foreign exchange earnings:

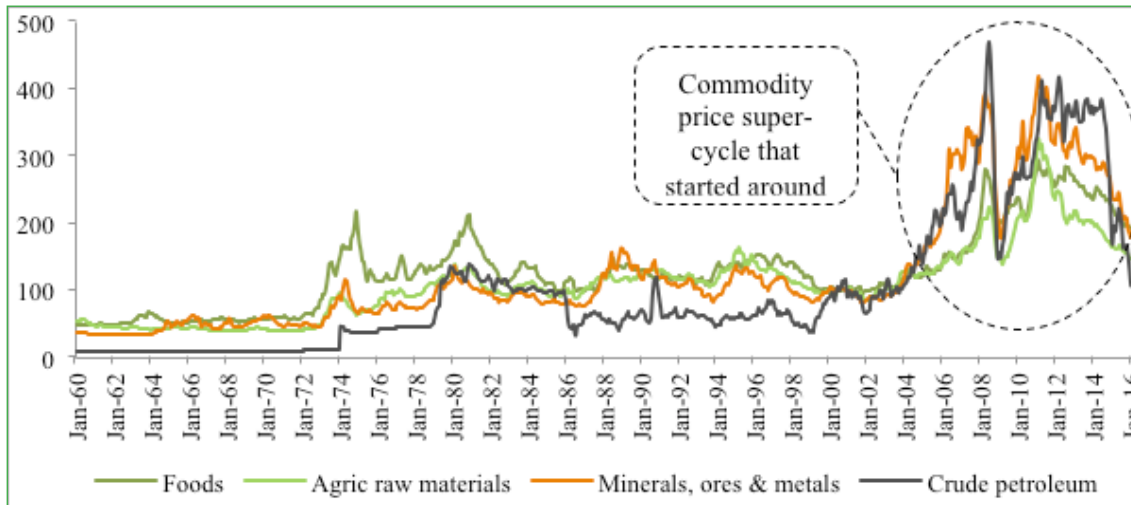
*Many sub-Saharan African countries' dependence on extractive commodity exports has increased in recent decades, with about half of the region's countries now considered net commodity exporters. So long as commodity prices continued rising from the turn of the century onward, this proved a boon in terms of higher foreign exchange earnings, fiscal revenues, and foreign direct investment inflows – helping support the very strong growth momentum at the time. (IMF, 2016, 40)*

That commodity prices have fallen is undisputable. The Outlook report provides several examples to illustrate the price slump. Echoing the Outlook report, Figure 1 below presents monthly commodity price indices for four commodities for the period January 1960 to February 2016. It reflects similar findings as the Outlook report, highlighting that the super-cycle of high global commodity prices, which start in 2004, is now on a clear downswing.

According to the detailed analysis of the Outlook report, the slump is already having adverse effects on economies in the Sub-Saharan African region. The report emphasizes that: "...the generalized decline in commodity prices, first with metal prices starting in 2011, and oil prices since mid-2014, has triggered sizable deteriorations in the terms of trade for many of these commodity exporters [in Sub-Saharan Africa]. Oil exporters have been by far the most affected" (IMF, 2016, 40). It is on this basis that the Outlook report then recommends that in addition to gradually rebuilding policy

buffers and persevering with efforts to strengthen policies as commodity prices recover, efforts should focus on structural reforms to support the diversification of the economies away from commodities.

Figure 1: Selected commodity price indices (2000 = 100)



Source: constructed from UNCTADStats

We therefore now turn to the main consideration of this commentary and address an important policy question for Zambia: how should the country interpret and use the advice to diversify the economy away from commodities? Bearing in mind that the Outlook report has a broad continental perspective with general recommendations, every country drawing on it must ensure to do some further homework in deriving country-specific policy strategies from the recommendations. These must be carefully contextualized and appropriately crafted within each country's specificities.

### 3. Sticking to Commodities Despite the Global Price Slump

Upfront, the main point of this commentary is to emphasize that a policy response involving an absolute reduction in Zambia's commodity outputs and consequently commodity exports in the wake of the global price declines, is likely to have net adverse socio-economic consequences for the economy. Zambia should opt for a diversification path that maintains, intensifies and improves the performance of selected commodity sectors rather than move away from commodities across the board. We posit three main stylized facts as reasons for arguing this strategic option despite the global commodity price slump. The arguments posited here apply to only one subgroup of commodities, namely *basic food and agricultural commodities*<sup>1</sup>. As such, we are essentially advocating for the intensification, deepening, productivity improvement and value-chain enhancement or *modernization* of the agriculture sector rather than diversifying away from it.

<sup>1</sup> Copper is another major commodity for Zambia, accounting for about 75% of total export earnings. A commenting about the policy strategies for copper is important given its mainstay status in the extractive industry and in the economy. However, we have deliberately left out a consideration of copper from this paper in order to keep the paper tractable, specific and actionable; the issue of diversifying away from copper, or not, for Zambia could be explored in subsequent commentaries.

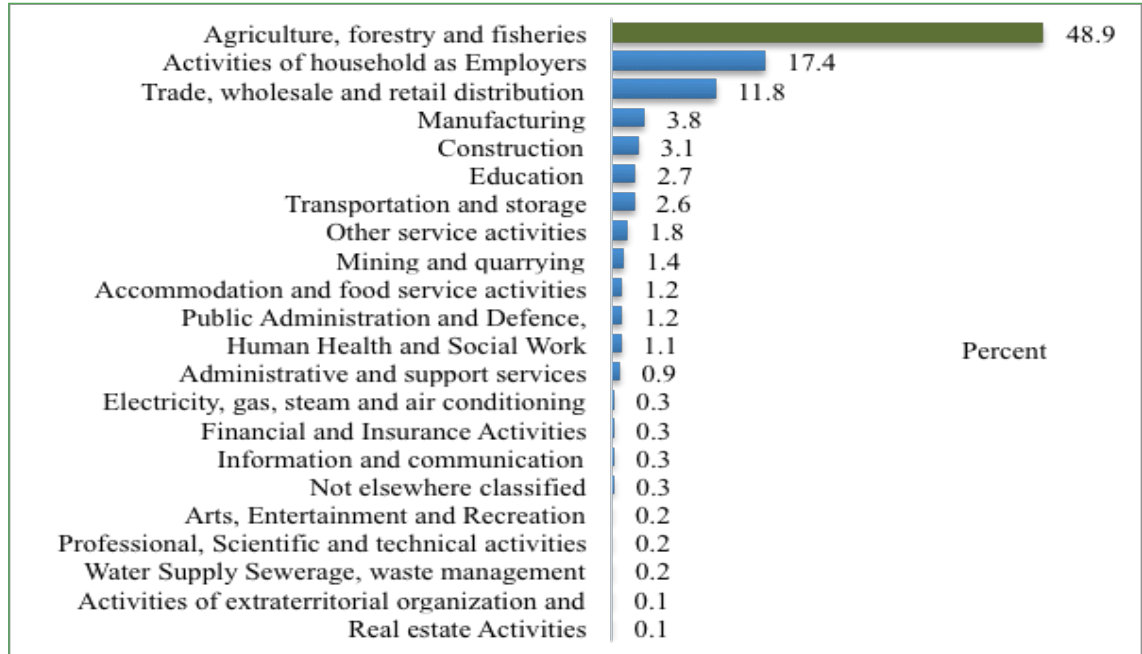




### 3.1 Zambia's Workforce Critically Dependents on Agricultural Employment

A large proportion of Zambia's labour force already has a significant *tacit knowledge* or *know-how* advantage in agricultural production. As of 2014, nearly 50% of the Zambian employed workforce was employed in agriculture, forestry and fisheries activities (Figure 2).

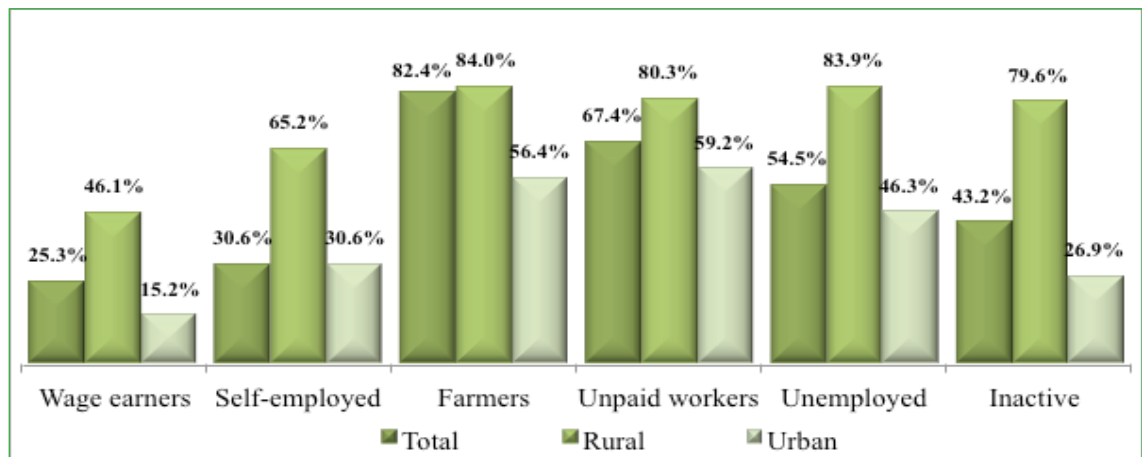
Figure 2: Percentage distribution of the employed population, by industry



Source: adopted from CSO (2015)

Because a huge proportion of Zambia's workforce is employed in small-scale, low-productivity, informal agriculture, the agriculture sector faces inherent poverty implications. That is, the widespread agricultural households – defined as households where at least one of its members is engaged in any of the agricultural activities related to *growing crops*, *owning livestock/poultry*, *participating in fish farming* or a combination of any of these – in Zambia are generally poor. Figure 3 shows the headcount poverty incidence rates by employment status of head of the households in 2010. It reveals that farmers experienced the highest overall incidences of headcount (income) poverty among the employment categories defined in the 2010 LCMS with 82.4% of farmers living below the poverty line. The proportion among rural farmers was even higher at 84%. Poverty was more widespread among farmers than even among unpaid workers.

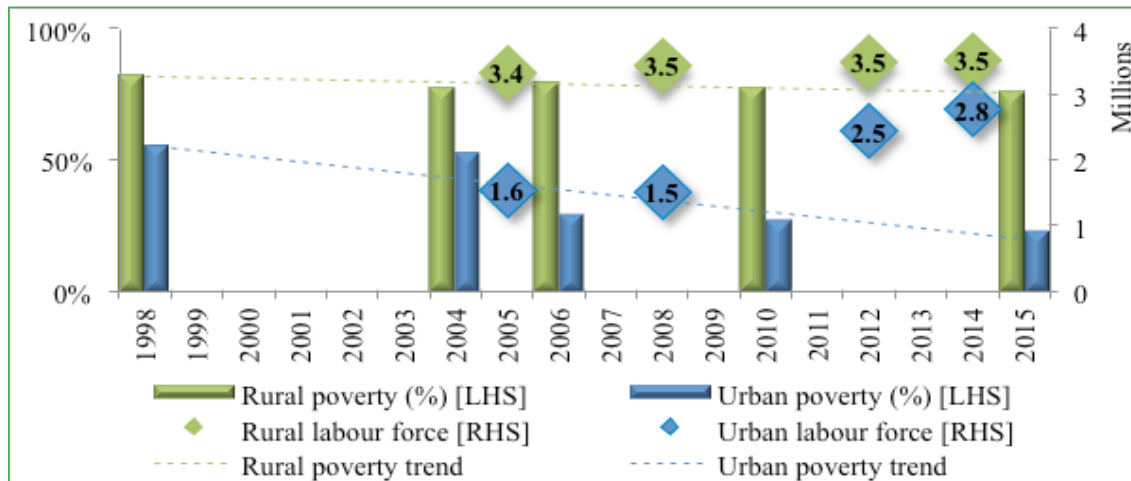
Figure 3: Headcount poverty, by employment status of head, 2010



Source: adopted from CSO (2013)

While rural areas experienced persistently highly and widespread poverty, with small-scale farmers bearing the brunt of the incidence of poverty, urban areas fared much better. The poverty headcount in urban areas steadily declines, from 56% in 1998 to 23% in 2015 (Figure 4). On the other hand, rural poverty remained pervasively high, closing the observation period at over 77% in 2015 (compared to 83% in 1998).

Figure 4: Rural and urban poverty incidences (% headcount)



Source: constructed from various LCMSs

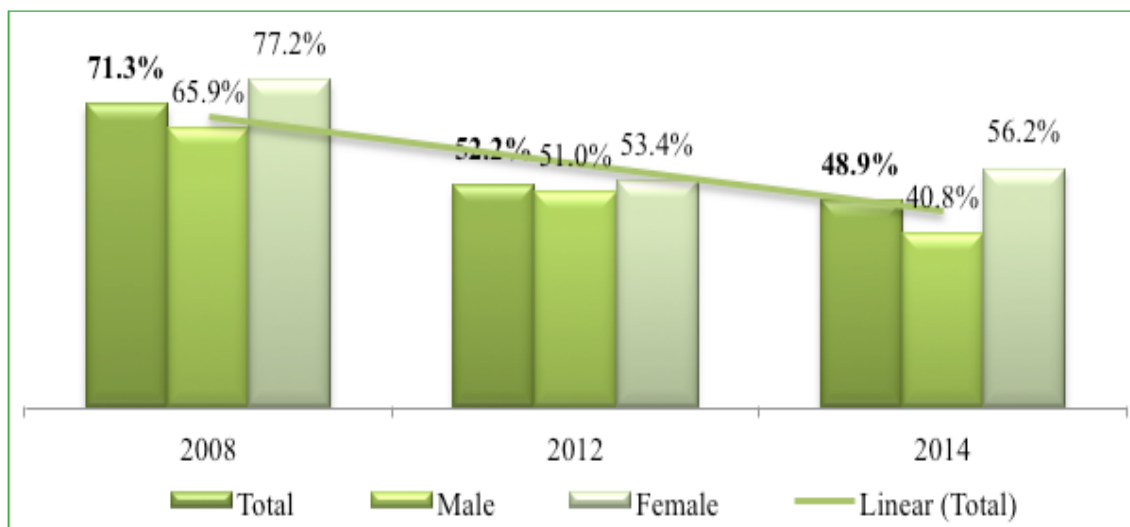
Against this glaring rural-urban poverty dichotomy, increasingly larger numbers of the labour force were located in urban areas between 2005 and 2014; the absolute number of the urban workforce increasing from 1.6 million persons in 2005 to 2.8 million in 2014. On the other hand, the rural workforce remained virtually unchanged at around 3.5 million persons during the reference period. The labour force clearly located in urban areas seeking urban employment based on perceptions about better opportunities there.

Consistent with the above, the Living Conditions Monitoring Survey (LCMS) (CSO 2012; CSO 2016) shows that the proportion of households engaged in agriculture (a predominantly rural activity) out of all households reduced from 68% in 2005/2006 agricultural season to 66% and 59%, respectively in the 2008/2009 and 2013/2014 agricultural seasons. Similarly, the proportion of employment in agriculture, forestry and fisheries out of total employment declined considerably from 71.3% in 2008 to 52.2% in 2012 and 48.9% in 2014, reflecting a 22 percentage point shift of agriculture labour out of the sector between 2008 and 2014 (Figures 5). According to Randolph and Jain (2016), workers in the agriculture sector left the sector at a high rate of 3.8% per year between 2008 and 2014, which is worryingly high compared to, say, a rate of 1% per year seen in Tanzania. Conversely the largest sectoral employment gains in Zambia were in informal employment in community, social and personal services (including domestic workers, watchmen, store attendants, etc.) increased from 161,000 persons in 2008 to 1.2 million persons in 2014.

That people were shifted away from agriculture is a further reflection that the sector is increasingly less rewarding and less attractive for jobs and livelihoods than other sectors, particularly those sectors with an urban bias. Thus, labour, whether organized as individuals or households, will readily respond to perceptions about changing wage-earning opportunities and livelihood prospects in the different sectors of the economy. The changes seen in Zambia potentially have a dual adverse effect, firstly adding pressure to the already crowded and strained urban areas; and secondly furthering reduced prospects for a rebound in agricultural production and productivity, and rural poverty reduction.



Figure 5: Trend in shares of agriculture employment in total employment



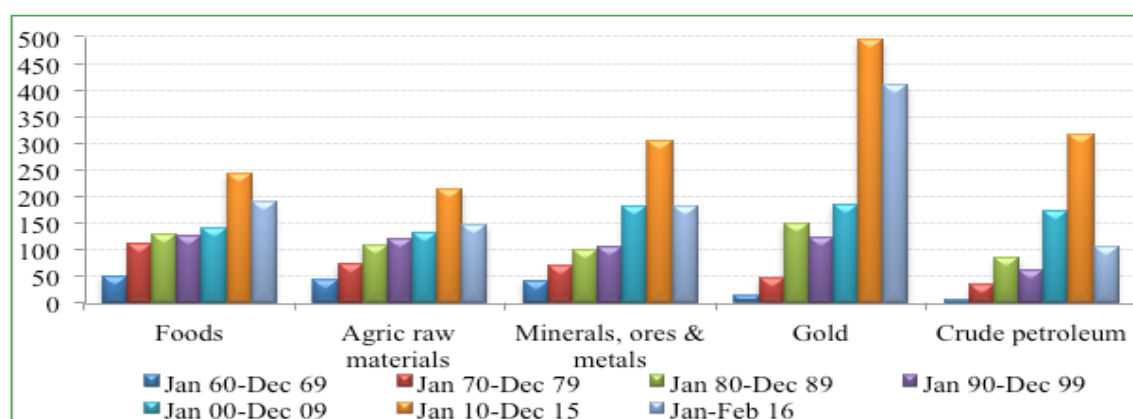
Source: constructed from CSO (2011), CSO (2013) and CSO (2015)

Diversifying away from agricultural commodities in view of the global commodity price slump would essentially entail relegating the 2.4 million persons who are employment in agriculture and are below the poverty datum line to remain in poverty as public and private efforts and support are shifted away. A moral case exists to promote the agriculture sector as part of Zambia's developmental and poverty reduction efforts. Many would argue that the moral cost of moving in the opposite policy direction would be too severe for Zambia to bear.

### 3.2 Some Commodity Prices are Still Relatively High; Others May Rise

A second valid reason for maintaining and intensifying efforts in agriculture is that basic foods and other agricultural commodities are still fairly profitable. Figure 6 shows that although commodity prices have come down significantly, food and agricultural raw material (primary product) prices were still higher in the early part (first two months) of 2016 than the average prices obtaining in 1990–1999 and in 2000–2009, with food prices being 34% in 2006 than in 2000–2009. This means foods and agricultural raw materials still offer relatively better returns than they did in all other reference periods in Figure 6 except for the period 2010–2015. Of course, the significant trade-off for the private sector is that the prices of higher value-added goods (and services) such as manufactures are considerably higher, offering much better rewards in terms of returns on investments. Scope therefore exists for the public sector to establish public sector programmes and projects that offer specific incentives in agriculture.

Figure 6: Selected period average commodity price indices (2000 = 100)



Source: constructed from UNCTADStats



Moreover, regional food prices are very likely to rebound in the 2016/2017 agricultural commodity marketing season, at least in the Eastern and Southern African sub-region. This is because, as noted by the IMF, large parts of this sub-region are facing a severe drought, linked to the ongoing El Niño pattern. As a result, food inflation is accelerating almost everywhere and emerging food shortages are already putting millions of people at risk of food insecurity. The Outlook report shows that the impact of the drought varies across countries, and severe human costs associated with food insecurity are likely to increase substantially in 2016/2017 relative to 2015; some 40–50 million people are likely to be food insecure by the end of 2016. If the dry conditions persist in the 2016/2017 farming season, the share of the sub-region's population that will be vulnerable to the drought could double from the estimated levels in the early part of 2016 (IMF, 2016, 12).

Indeed, the El Niño effects of the 2015/2016 season are already resulting in selected food price increases in various countries in the southern African sub-region. For example, Lesotho maize meal, which was relatively stable between April 2014 and December 2015 experienced a sharp price increase from just L5.50 per kg in January to nearly L7.50 per kg in April 2016, reflecting a 36% increase during the three months (FAO, 2016). Similar price hikes were seen in other southern African countries like Malawi, Namibia and South Africa, though with different timings and intensities.

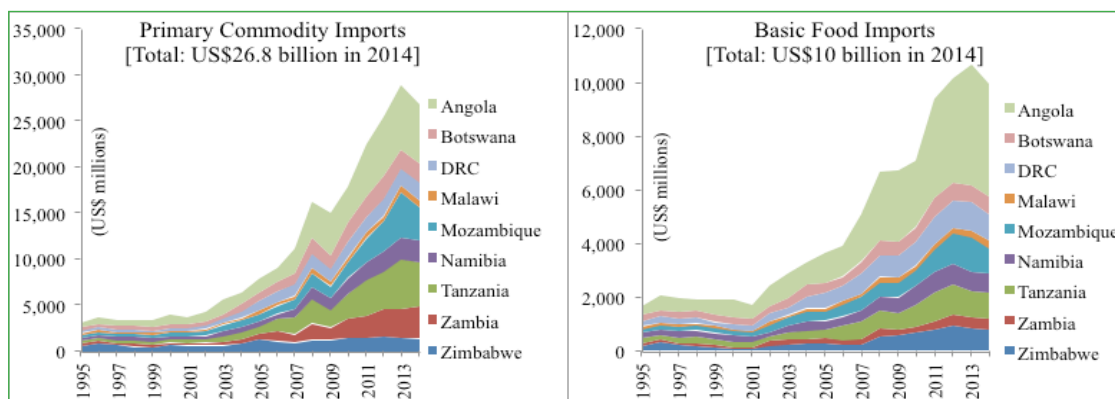
On the other hand, in places in Africa where food insecurities and shortages were relatively less imminent such as in eastern African (e.g., in Tanzania and Uganda), prices remained relatively stable with far less pronounced swings.

Ultimately, in this context, the southern African sub-regional food shortages and escalating food prices would mean that countries that are able to produce food-surpluses or are readily able to make rapid strategic supply-side investments and other adjustment in agriculture and agro-related areas can make considerable revenue gains as regional (shortage-induced) demand rises. Regional weather, climate and price monitoring and forecasting will be critical for supporting the modernization, productivity and rebound of agriculture.

### 3.3 Neighbourhood Commodity Markets

A third compelling reason for Zambia to stick to basic foods and other agricultural commodities is that the economy is at the heart of a fairly large regional commodity market. The volume of primary commodity and basic food imports of Zambia and her eight neighbours combined generally increased significant between 1995 and 2014, notwithstanding the notable dips for most of the countries at the end of the period in 2014 (Figure 7). Neighbourhood food imports (into Zambia and the neighbouring countries combined) in 2013 and 2014 were US\$ 10.7 billion & US\$ 10 billion, respectively, representing a 600% nominal increase of the 2014 volume from that in 1995.

Figure 7: Selected imports for Zambia and its neighbours



Source: constructed from UNCTADStats data



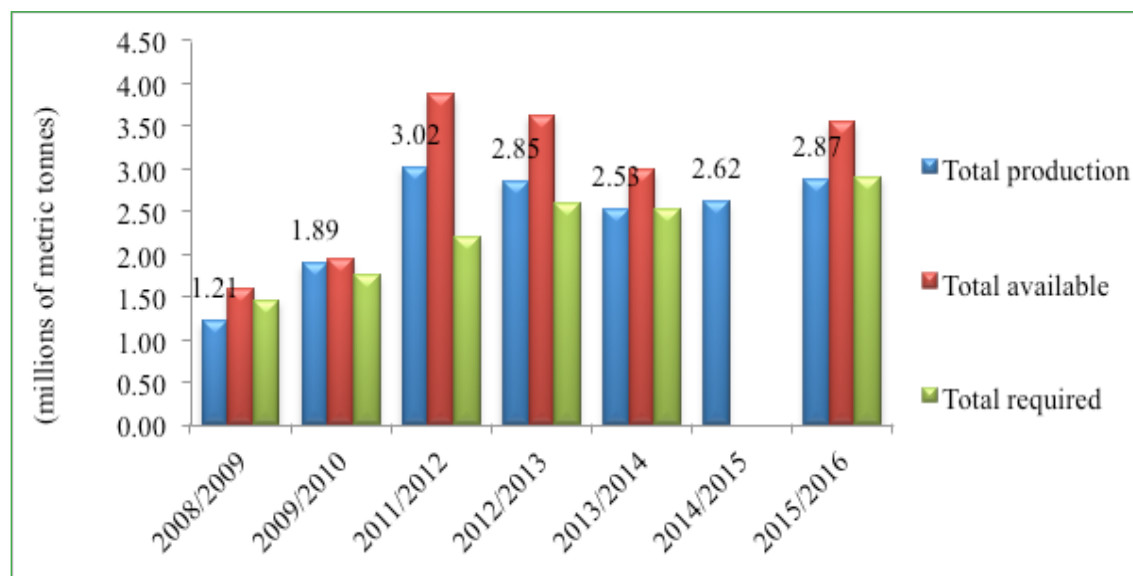
In crude comparison, Zambia's total exports in the same years (2013 and 2014), including exports of the mainstay foreign exchange earner copper, amounted to US\$ 10.6 billion and US\$ 9.7 billion, respectively. Clearly the neighbourhood market for basic foods around Zambia is vast, topped by Angola, Tanzania, DRC and Mozambique (in that order) over the five years from 2010 to 2015. Angola, DRC and to some extent Mozambique have historically had considerable domestic food production capacity constraints emanating from severe episodes of wars and civil strife.

The size of the imported food market alone warrants closer attention and efforts towards establishing Zambia as the Southern African region's *food basket*. Strategic investments in expanding the production base, building productive capacities, and enhancing productivity and competitiveness of the various *farm-to-fork* links of the food production value-chain will be critical for realizing the potentials of Zambia's agriculture. This will require renewed efforts to modernize this core commodities sector.

Zambia actually has some recently evidenced experience of making timely investments in agriculture and producing reasonably good output that have supported the country's prospects for food security. Figure 8 shows that Zambia would produce an estimated 2.87 million metric tonnes of maize in the 2015/2016 agriculture season up from 2.53 million metric tonnes in 2013/2014 and 2.62 million metric tonnes in 2014/2015. This was a remarkable achievement considering that 2015/2016 was determined as an El Niño period and the previous two were normal seasons.

These results were partially supported by the wholly Government funded Farmer Input Support Programme (FISP), an agricultural production subsidy programme that was reportedly anticipated to support a total of 759,000 small-scale farmers with agricultural inputs under its conventional form during the 2015/2016 agriculture season and a further 241,000 small-scale farmers under the electronic voucher (e-voucher) system in 13 districts, bringing the total number of beneficiaries to one million farmers.

Figure 8: Maize production, availability and requirement



Source: MOA and CSO (2016)

## 4. Challenges in Zambia's Agriculture

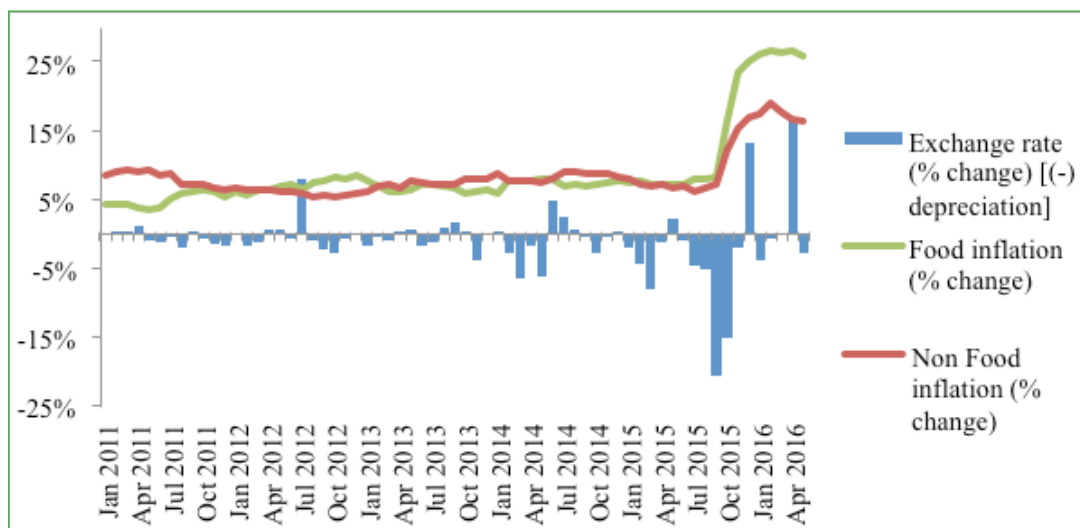
The comments and recommendations made in this paper are not meant to downplay or trivialize that the agriculture sector in Zambia faces serious challenges and constraints. We do not pretend that the challenges are few and easy to resolve; they are not. Some of these general macroeconomic and sector specific challenges are recounted here simply to reiterate and emphasize their depth and complexity.

### 4.1 Broad challenges affecting agriculture

The broad challenges and constraints that have had adverse effects on agriculture in the short- and long-term include the following:

- **Deteriorating macroeconomic environment:** in the short-term, the deterioration of the macroeconomic situation was reflected in emerging price instabilities. Between July 2015 and April 2016, Zambia's local currency fell by about 25%, with significant volatility in the interim (Figure 9). This made agricultural imported inputs, *inter alia*, more costly than in previous periods. The exchange rate depreciation was immediately followed by commodity price increases, underpinned by foreign price pass-through effects. Food prices in particular escalated, with the monthly food inflation rate costing at 27% in April 2016. The policy response was to raise the Bank of Zambia Policy rate from 12.5% in October 2015 to 15.5% in November, which severely constraint financial markets liquidity including to agriculture.

Figure 9: Recent price instabilities

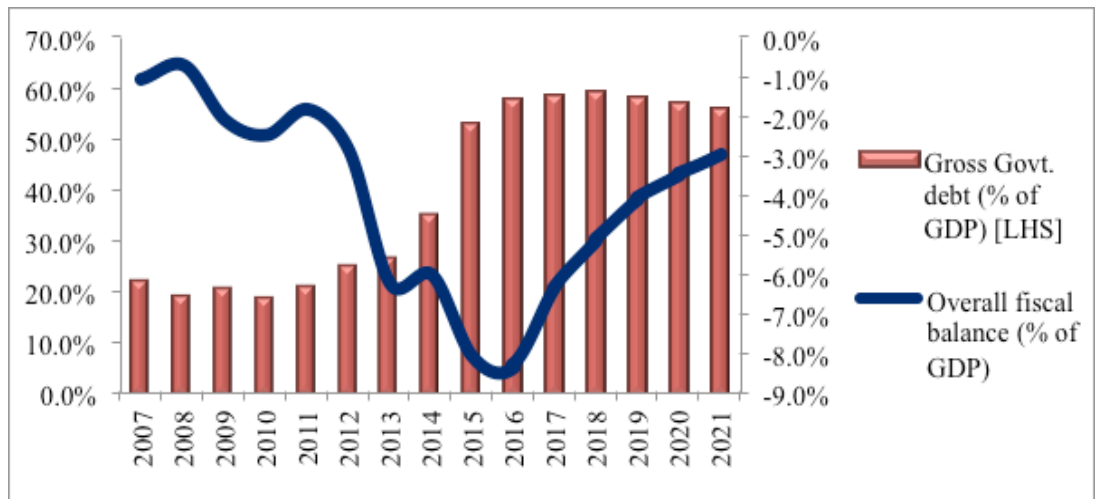


Source: constructed from BOZ Fortnightly Statistics and CSO Monthly

- **Expansionary fiscal stance:** the fiscal stance became increasingly more lax after 2011. Figure 10 reflects a dramatic increase in the overall fiscal deficit from 1.8% of GDP in 2011 to 8.1% in 2015 (estimated at 9.1% by MOF recently). At the same time, the total public debt increased from 21% of GDP in 2011 to 53% in 2015 and possibly 58% by the end of 2016. This reflects a strong appetite for spending, to sustain a large public sector wage bill, high infrastructure projects in road construction and new district establishment, support fuel and imported energy subsidies and honor external debt repayment obligations as they fell due. The heavy borrowing and public expenditure increased the risk of the crowding out of the private investment. More importantly in the context of this commentary, little of the borrowed proceeds ended up as public spending in agriculture.



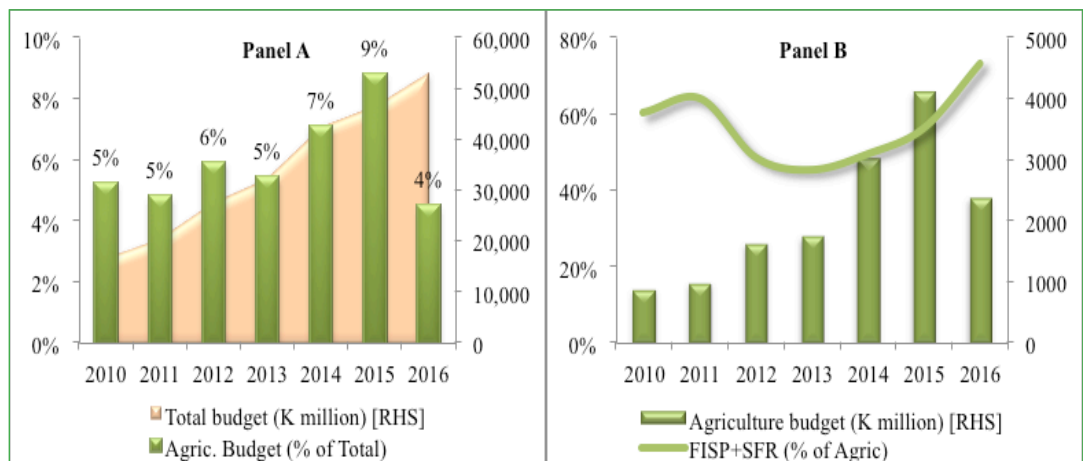
Figure 10: Selected fiscal indicators



Source: constructed from IMF Fiscal Monitor Database

As shown in Figure 11 (Panel A), as the total nominal size of the National Budget increased the share allocated to agriculture steadily increased between 2010-2015, but collapsed to a period low of 4% of the national budget in 2016. This was a reflection of the tightening fiscal situation emerging in 2015 and the deeper budget cuts being made in agriculture. At the same time that these cuts were being made, the absolute combined nominal size of allocations to the two main programmes in agriculture – FISP and Strategic Food Reserves (SFR) – increased from K 530 million in 2010 to K 1.8 billion in 2016. Thus, as the agriculture budget was cut the share going to FISP and SFR combined increased to 74% of the agriculture budget, reflecting a significant concentration on a narrow set of agriculture interventions. In fact, over the seven-year reference period, the annual average share of the agriculture budget allocated to FISP and SFR combine was 57%. The main implication of maintaining the past patterns of budgeting is that Zambia’s prospects for agricultural modernization and diversification will be considerably constrained. Major agriculture reforms are necessary.

Figure 11: National budget, agriculture budgets (%) and main agriculture budget components (%)



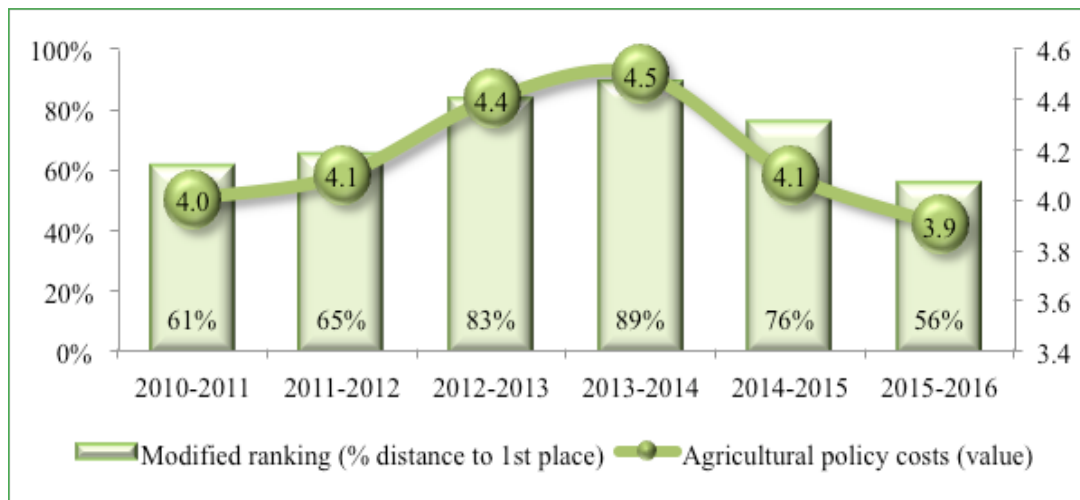
Source: constructed from MOF Yellow Books (various)

## 4.2 Sector-specific issues affecting agriculture

Out of several sector-specific issues in agriculture, here, we focus only on a few. These are considered mainly from anecdotal and rudimentary empirical perspectives, bearing in mind that the considerable time and analytical demands that would be required to give the sector-specific issue a thorough treatment could not be accommodated within this commentary. The issues are not listed in any particular order of priority. They are presented as ideas and arguments to spur discussion and debate:

- **Agriculture policy costs:** the Global Competitiveness Index (GCI) framework of the World Economic Forum captures an indicator of agriculture policy costs under the 6<sup>th</sup> pillar on goods market efficiency. For Zambia the policy cost value – which conceptually ranges from 1-7, with 1 implying excessively burdensome agriculture policy for the economy and 7 being policy that balances the interests of taxpayers, consumers, and producers – saw declines after 2013-2014 (Figure 12). This was after steady improvements between 2010 and 2013. This suggests that the changes in agriculture policy after 2013 created higher burdens for taxpayers, consumers and/or producers.

Figure 12: Indicators of agriculture policy cost performance



Sources: constructed from WEF GCRs

- **Land tenure systems and Land Access:** Zambia has a dual land tenure system over the 752,614 km<sup>2</sup> that make up the country; it has a customary (or traditional) system that has custody over about 94% of the land; the rest (6%) is held as State land. Urban settlements account for 2-3% of Zambia's land area and fall under State land. On the other hand, complicating things in terms of jurisdiction or mandate is the fact that while most parts of rural areas are under the customary system, many pockets of State land have emerged, especially with the proliferation of foreign investors into rural Zambia. Moreover forestry reserve (9%), national parks (8%) and Game Management Areas (GMA) (22%) appear to have a difficult-to-follow jurisdictional arrangement between the State and the traditional system; the rightful custodian of some of these spaces is not always clear, leaving room for tensions and systems conflicts.

The positive side of the customary system is that it possesses vast wisdom, and is reliable in securing land for poor and vulnerable, preserving land as a bequest for future generations and sustaining the social fabric, integrity and trust among local communities at the grassroots level. The traditional system is also still very highly respected in rural areas, backed by deep-rooted customary laws and norms. However, the customary system faces the significant challenge that it cannot offer security of title or tenure in the same way that the State land can. Moreover, it is not clear whether common law – which supersedes customary law – provides

for the customary system to pursue innovative land use options such as issuing long leases to investors without relinquishing the overall rights to the land. With such limits in knowledge and know-how, innovations similarly become limited or altogether non-existent. Ultimately the dual land tenure system serves as a barrier to access to land for agriculture, particularly large-scale, commercial agriculture, which remains confined to a few specific blocs.

- **Other Examples:** as other examples, observers have raised apprehensions about the following, among others:
  - **Low quality of local agricultural labour**, particularly given high poverty levels among smallholder farmers (recall Figure 3). This is backed by the 2014 Labour Force Survey, which reports that 43.2% and 41.7% of persons (15 years or older) employed as skilled agricultural, forestry and fisheries workers in 2014 respectively had grade 1-7 and grade 8-12 levels of education, with only 1% and 0.1% of workers having certificate and degree level education (in fact, only the Elementary Occupations category of workers had higher proportions of lowly educated workers than agriculture, forestry and fisheries).
  - **Challenges of agriculture-specific infrastructure**, such as water management systems (for irrigation for instance), feeder roads, storage, cold-chain facilities, etc)
  - **Lack of environmental context specific research and development (R&D), technology transfer and uptake initiatives and innovation for agriculture and agribusiness**, including genetic materials/footprint management and biodiversity management technologies.
  - **Market organization/coordination limitations**; for instance the limited availability of out-grower schemes, cooperatives, commodity exchanges, agro value-chains, etc.
  - **Limited use of regional integration arrangements and opportunities** such as those offered in COMESA and SADC; for instance Zambia is party to both the COMESA Free Trade Area (FTA) and SADC FTA and in June 2016 signed up to the Tripartite (COMESA-EAC-SADC) FTA, but so far this appears to have had limited influencing Zambia's farmers and food producers and agro-commodity dealers to increase the regional presence of Zambian agricultural commodities.

The challenges notwithstanding, we ultimately remain convinced that Zambia's response to the global commodity price slump should be a calculated intensification and modernization of agriculture, not to diversify away from it.

## 5. Modernizing the Agriculture Sector

In view of the forgoing, this commentary advocates for improving the performance of agricultural commodity production, enhancing productivity and competitiveness, and expanding agribusiness value-chains and agro-based regional trade – rather than diversifying away from agriculture *per se*. Diversification and structural reform approaches that integrate and modernize – rather than exclude or marginalize – agriculture will be critical for growth, socio-economic development and poverty reduction in Zambia. That is, focusing on providing support to agriculture elements that expand production volumes, enhance productivity, and thus offer meaningful opportunities for farmers to maintain and extend the use of their most valuable asset, their labour, in gainful employment activities will be a core poverty reduction strategy.

Bearing in mind the place of agriculture in the Zambian society and the strategic importance that the sector possesses, the following policies and strategic options – taken from World Bank (2013) with modifications – are worth exploring, towards amplifying and concretizing them. We anchor our policy and strategic arguments on the World Bank (2013) because the agenda presented by



the World Bank is still relevant for Zambia considering the constraints that are still prevalent in agriculture; the options hold promise for contributing to getting agribusiness and agro-trade in Zambia moving:

- **Facilitating access to inputs and technologies:** The main priorities should be toward implementing reforms for the use of modern inputs and increased access to improved technologies and production techniques. Seed and fertilizer supply policies and regulations should be rationalized and harmonized, backed by research, information and innovation which allows for the adaptation of new technologies and techniques relevant to local conditions and demands. Agricultural labor (a key input) should be upgraded through training programmes, peer-to-peer learning programmes, extension services (which should probably be reformed themselves), and so on.
- **Building skills, know-how and entrepreneurship:** Agri-business and agri-trade require spirited new strategic interventions for building operational, technical, and managerial competences and skills. Furthermore, assistance is needed to build entrepreneurial abilities with which to commercialize agriculture, improve competitiveness, and raise awareness about existing and potential new domestic and intraregional market opportunities. This will also create demand for agri-support services (insurance, credit and other finance, technical extension services, market reorganization scheme like outgrower schemes, cooperatives and so on, physical infrastructure services such as feeder roads, warehousing and cold chains, etc. etc.) and stimulate their supply.
- **Improving financing for agri-business and trade:** Several factors act as an impediment to the financing of agri-business and trade. These include: seasonality and related high exposure to weather and climatic vagaries; limitations in procuring formal land titles and security of tenure; high commodity heterogeneity across products and regions; and limited bankers' experience generally with agribusiness and agricultural activities. Innovative ways of managing risks and providing collateral, including the use of movable assets (e.g., animals, farming implements, etc.) warehouse receipts, partial credit guarantees, and equipment leasing could all help to improve agribusiness financing and agri-trade credit and should thus be prioritized.
- **Enhancing access to land and security of tenure:** The strengthening of community and individual land rights and the effective governance of land resources should be prioritized in order to increase the utilization of land resources in Africa as well as to improve the security of land tenure for smallholders and investors. Governments will need to institute decentralized, transparent, and participatory processes of land allocation. Through appropriate policies and regulations, governments will also have to empower local communities and individuals by formalizing community and individual property rights, building community capacities to negotiate fair deals with investors, and reducing the land transaction costs and tenure insecurities that often discourage investors.
- **Supporting inclusive investments:** There are different approaches that can be used to get smallholders and local communities involved in agricultural investment, including contract farming, resource and risk pooling through establishing cooperatives, and granting shares in agribusiness companies. The feasibility and success of these approaches vary from subsector to subsector within the agriculture sector. For example, contract farming has been most successfully applied in relation to sugarcane, cotton, and horticultural crops. Exploring and variably applying such approaches, including through private, public, and private-public partnership efforts will be important for improving the business of agriculture.
- **Upgrading infrastructure, including through PPPs:** Improving infrastructure is a critical requirement for alleviating a key constraint to agriculture, agribusiness, and trade. Because of



the large upfront term financing requirements associated with most infrastructure projects — including for agriculture, agribusiness and agri-trade — such projects are more suitably financed as public goods by governments or they can be financing through public-private partnerships (PPPs), infrastructure initiatives of Regional Economic Community (REC) and international development partners, or private special purpose (investment) vehicles (SPVs) that negotiate favorable terms with national governments. Establishing and effectively using these financing options will be important for Africa’s infrastructure development.

- *Improving the performance of agricultural output markets:* in an increasingly “buyer-driven” environment, domestic and regional food markets can be improved through strategic interventions that help to upgrade the processing, improve quality, branding and packaging in the value chains, and that build capacity and coordination along the chains to meet increasingly stringent standards. A key priority should also be to accelerate the regional integration of markets through the implementation of regional trade liberalization and trade facilitation measures such as those offered in COMESA and SADC.

These policy recommendations should not be seen as sufficient end-line solutions in themselves; they are identification or starting-point and interim solutions that have potential to contribute to the instilling of a developmental orientation and a modernization drive for the agriculture sector. Although they are not sufficient for solving all the problems and challenges of the agricultural sector, they are potentially important steps for keeping the country on a developmental agricultural path. For as long as policy-makers remain receptive to utilizing and harnessing knowledge in policy forms and implementation, considerable scope remains for realizing the vast potentials of Zambia’s agriculture sector. Ultimately, through agricultural modernization and agri-business orientation, Zambia should focus on structural reforms that support the diversification of the economies towards – not away from – more robust, value-added and properly marketed agricultural commodities.



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Zambia Institute for Policy Analysis and Research (ZIPAR)

P.O. Box 50782, Lusaka, Zambia

CSO Annex Building

Corner of John Mbita and Nationalist Road, Lusaka

Phone: +260 211 252559

Fax: +260 211 252566

Email: [info@zipar.org.zm](mailto:info@zipar.org.zm)

Website: [www.zipar.org.zm](http://www.zipar.org.zm)

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