



# Agricultural Consultative Forum

"A vibrant multi-stakeholder consultative platform in the Zambian agricultural sector"



## POLICY BRIEF

### The E-voucher – A Feasible Option for Implementing the Farmer Input Support Programme (FISP)

#### BACKGROUND

Since 2002, the government has been implementing a farmer input subsidy known as the Farmer Input Support Programme (FISP) which involves distribution of subsidized fertilizer and seed to smallholder farmers. The aim of this programme was to increase agricultural productivity, rural incomes, food security and help develop the input markets (World Bank 2010). So far this subsidy programme has contributed to positive results of increased maize production in the country. However, it has had very little impact on agricultural productivity and poverty reduction (Mason et al. 2011).

The current approach of implementing the FISP is embedded with a lot of challenges such as; high cost to the government treasury, poor targeting of intended farmers, delay in delivery of inputs, poor utilization of inputs, crowding out of the private sector, stifling provision of extension service by government extension officers and inhibiting of agricultural diversification. A team was therefore constituted in 2009 by the government to investigate and make recommendations on alternative modes of improving input utilization and input market development in smallholder areas. Several recommendations were made by this team that

resulted in the modification of operation of the current FISP. However, the recommendation to use the e-voucher based system for distribution of inputs under FISP was not adopted by government due to the following reasons; 1) The lack of financial capacity and low network of agro dealers in most parts of the country especially in the rural areas; 2) The lack of completed farmers registers; and 3) The fear or risk of destabilization of the food security situation in the country in the event that e-voucher programme fails.

Therefore, the Agricultural Consultative Forum (ACF) in collaboration with Indaba Agricultural Policy Research Institute (IAPRI) commissioned a study whose purpose was to assess the feasibility of implementing the e-voucher based system to address the shortcomings of the current mode of implementing the FISP and try to allay the fears by policy makers so that the e-voucher based system can be considered as an alternative mode of input distribution under the FISP. The e-voucher is an electronic scratch card offering farmers a subsidy value for acquiring farming inputs from any registered agro-dealer. The matrix below summarizes empirical evidence largely drawn from the ACF & IAPRI Study (2012) and other research work on the challenges of the current FISP and solutions offered by the e-voucher.

## SUMMARY OF KEY CHALLENGES OF THE FISP & HOW THE E-VOUCHER CAN ADDRESS THEM

KEY CHALLENGES OF THE CURRENT FISP	SOLUTION OFFERED BY THE E-VOUCHER SYSTEM
<b>High cost to the national treasury:</b> The current FISP utilizes about a third of the total agricultural budget. FISP allocation ranged <b>from K589 billion in 2010 to K500 billion in 2012</b> (see Table 1, in Annex 1). Annex 2 provides some detailed comparisons of the costs of delivering inputs using the e-voucher and the current system of FISP implementation	The voucher can reduce the total FISP costs by about 35% according to (Makunka 2011). However, the e-voucher can reduce by 30% translating to a saving of more than <b>150 billion</b> kwacha based on the 2012 FISP allocation (see Table 1 and 2 in annex 1). This is possible as most of the administrative costs of tendering, transportation, storage and distribution are eliminated from government and passed on to the private sector.
<b>Negative Impact on crop Diversification:</b> Maize accounted for 61% of all production crops in 2011 compared to 48% in 2001 (Mason et al. 2011). The focus of the FISP on maize has led to bumper production of one crop at the expense of other crops. This high concentration of maize has significantly contributed to the reduction in the crop diversification index over the last 3years of FISP. Table 3 in annex 1 indicates a steady decline in the index from 0.99 in the 2008/09 season to 0.81 in the 2010/11 farming season.	A flexible e-voucher can enable farmers get varied inputs such as fertilizer, seed, livestock drugs, agro-chemicals etc that suit their agro-ecological regions and preferences thereby acting as a tool for agricultural diversification.
<b>Targeting challenges:</b> Most of the beneficiaries of FISP inputs under the current system are well off or better-off farmers in terms of asset ownership and hectares cultivated. The inputs do not reach the targeted farmers who are smallholder farmers' cultivating 2 limas or half a hectare. In addition, Women farmers also face challenges of accessing inputs due to the payment requirement to join cooperatives which are currently being used for input distribution.	The e-voucher will improve targeting as particulars of individual farmers are electronically linked making it difficult to transfer vouchers to unintended beneficiaries. This will also improve targeting of women farmers because they do not need to pay to be on the voucher scheme .
<b>Late Delivery of Inputs:</b> Existing reports (CSPR 2011) suggest that FISP inputs reach farmers as late as January to March every farming season.	The e-voucher has the potential of addressing the challenges of late input distribution as experienced with the piloted programmes of FAO and CFU, where inputs were delivered to farmers as early as mid October to November 30 <sup>th</sup> (ACF/IAPRI 2012)
<b>Crowding-Out of the Private Sector:</b> In areas where the current system of FISP delivery is active, private sector participation is low due to the poor input markets arising from the availability of subsidized inputs.	The e-voucher has the potential to reverse this trend as more private firms are likely to be involved in the supply of inputs even in rural areas in order to tap the readily available market.
<b>Undermining capacity &amp; geographical spread of private sector:</b> Fertilizer and seed companies have limited their distribution plans to avoid risks of being displaced by FISP ( Xu et al 2009)	There is a growing number and increased capacity of agro dealers in areas where e-voucher system is being promoted by different organizations. E.g. FAO has trained over 100 agro-dealers, COMESA/CONRAP has trained over 1300, CARE ADAPT project has trained over 280 agro-dealers. This is aimed at providing good quality inputs and services to farmers.

Inhibited Extension Services: The current system of implementing the FISP under utilizes many of the existing extension staff. This is because they spend most of their time managing administrative and logistical arrangements for input distribution under FISP.

If FISP is implemented using the e-voucher, extension staff will have free time to execute their core business of extension service provision. In addition the agro dealers will also provide complementary extension services.

## RECOMMENDATIONS

The study by ACF and IAPRI (2012) was motivated by two key objectives: to assess the potential for a voucher system to eliminate some of the persistent problems with FISP and to evaluate some of the major logistical concerns that have limited the willingness of government to adopt the e-voucher system. Based on these assessments, the following are the key recommendations:

- **Planning, Organization, Training and Outreach:** The MAL in collaboration with institutions such as FAO, ACF, CFU and IAPRI should work together and do the following 1) Complete farmer registers; 2) Identification of agro dealers; 3) Identify and offer tenders to platform providers (currently the experienced one is Mobile Transaction Zambia Limited); 4) Facilitate signing of memorandum of understanding among key stakeholders; 5) Facilitate designing of implementation manuals and 6) Sensitization of decision makers and training of implementers (government extension workers who will then train and sensitize the beneficiaries and agro dealers).
- The MAL should play a leading role in the coordination between agro dealers, suppliers, farmers and mobile transaction companies. Mobile transaction companies should be responsible for financial management, while agro dealers should be responsible for storage. Farmers will bear the costs of transportation of inputs from the sheds to their farms and the Suppliers of inputs will distribute inputs to the agro dealers or to their own outlets.
- The MAL should facilitate credit guaranteed for agro dealers (facilitate provision of finances upfront for agro dealers to redeem the vouchers easily). In addition, the government should devise mechanisms which will safeguard the money such as creation of stop order facility. Furthermore, the e-voucher cards must be designed to be flexible so that farmers have a wide choice of inputs not only maize seed and fertilizer but also agro-chemicals, livestock drugs etc and the freedom to source inputs from any agro dealer .
- The MAL should be announcing way in advance the volumes of vouchers to be supplied in a particular district or area and also announce the voucher value.
- **Geographical phased approach:** Implementation of the e-voucher by the MAL should begin in the following areas: **Chibombo, Chipata, Choma, Katete, Chongwe, Mumbwa, Mkushi, Kalomo and Kabwe**. This is because these areas have: prior experience in the e-voucher system; completed farmer registers (require updating); well established agro dealer networks; availability of suitable infrastructure (sheds, roads) and stable cellphone network. The second phase should involve rolling out to the rest of the districts (more than 20 districts) where FAO and CFU have implemented the e-voucher system. This will not only provide an opportunity to learn from the challenges and successes of implementing the e-voucher in these areas but will also enable the MAL to make required preparations before rolling-out, in the third phase, to the rest of the areas where the e-voucher has not been implemented before.

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## ANNEX 1

**Table 1:** MACO allocations to departments (2010-2011)

Category	2012 ZK (K'Bn)	2011 ZK (K'Bn)	2010 ZK (K'Bn)
Headquarters	8.1	9.5	4.7
Human Resources & Admin	8.8	9.3	4.9
Policy & Planning	213.1	133.1	178.8
Agricultural Dept	34.5	10.4	9.8
Zambia Agric. Research Institute	16.4	12.1	9.2
Agricultural Training Institutions	19.6	16.8	11.6
Agribusiness & Marketing	803.4	637.1	534.0
- Agricultural Finance and Credit Management	500	485.1	430.0
o Farmer Input Support Programme (FISP)	500	485.0	589
o Rural Finance Programme	--	0.11	0.06
Cooperatives Dept	4.8	2.9	2.5
Seed Control & Certification	5.9	5.2	5.1
National Agric. Information	5.1	3.2	3.2
Agric. Research Stations	2.8	4.3	3.9

Source: Ministry of Finance and National Planning (2010, 2011 and 2012) estimates of revenue and expenditure

**Table 2:** Comparative Analysis of Costs for the Voucher and Conventional System of FISP

System	Focus Detail	Season	Total Value
		2009/2010	2010/2011
Voucher	Number of beneficiaries	8,236	12,296
	Total Budget Value	4,378,432,192	6,148,000,000
	Total Administration Costs	260,452,192	280,039,724
	Estimated Cost per Farmer	31,623.63	22,774.86
	Admin costs as share of total budget	6.3%	4.3
FISP	Number of beneficiaries	534,180	891,000
	Total Budget Value	435,000,000,000	589,008,000,000
	Total Administration Costs	79,770,300,000	280,456,750,000
	Estimated Cost per Farmer	149,332.25	314,766.27
	Admin costs as share of total budget	18%	48%

Source: Makunka (2011)

**Table 3:** Crop Diversification Index

Area	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Other Major Crops (Ha)	949,037	943,355	902,493	1,119,465	1,133,808	1,093,090
Maize (Ha)	784,524	872,812	928,224	1,125,466	1,242,271	1,355,764
*Diversification Index	1.21	1.08	0.97	0.99	0.91	0.81

\*Area planted to other crops divided by Area planted to Maize. Hence the table shows increased concentration towards Maize.

Source: MAL/CSO

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