LIVELIHOODS AND FOOD SECURITY PROGRAMME

POLICY BRIEF

LFSP POLICY BRIEF NO.3 | JUNE 2021



KEY POINTS

- The majority of smallholder farmers in Zimbabwe cultivate very small plots, with 40-52 percent cultivating less than 1 hectare (Ha) and 70-75 percent cultivating less than 2Ha. This means any agricultural and food security strategy that does not recognize this structure will likely be ineffective to achieve inclusive and broad-based poverty reduction and agricultural growth.
- Increased efficiency in the production of maize is the best means to achieving competitiveness in local and regional maize markets. The current average productivity is too low to achieve this self-sufficiency.
- Crops yields, including that for the main staple crop remain too low, with the average for maize around 0.671 tonnes per Ha between 2010 and 2015, rising to about 1.1 tonnes per Ha in 2016/17.
- More than 80 percent of the smallholder farmers produce maize but since 2012, data from Post-Harvest Surveys show that only 16 percent or less of maize farmers produce a surplus for sell. Benefits of output subsidies accrue to larger farmers who are able to produce a surplus.

Smallholder Productivity and Subsidies: Policy Issues, Opportunities and Recommendations for Zimbabwe

1. Introduction

Zimbabwe is facing challenges with regard to the issues of low productivity and high poverty levels. The smallholder farmers face several challenges including minimal use of necessary inputs for increasing production and productivity such as hybrid seed, fertilizer and herbicides. This is mainly due to among other issues, inadequate access to quality seed and related inputs, unstable prices and liquidity challenges in the country. The Zimbabwean Government has attempted to resolve these issues through the implementation of various input and output subsidies, mostly targeting the smallholder farmers such as the Crop and Livestock Input Support Programme, and the Presidential Well-Wishers Input Scheme. The other input programmes are targeted at the medium-scale and large-scale farmers such as the Agriculture Sector Productivity Enhancement Facility, Winter Input Scheme and more recently the Zimbabwe Special Maize Production Programme for Import Substitution (also known as Command Agriculture).

On the output side, the subsidy programme is targeted on supporting mainly maize prices, commonly through the setting of a guaranteed maize producer floor price and curbing mealie meal price hikes by selling maize grain to millers at subsidised prices. All these input and output subsidies programmes are financed through Government discretionary spending. The efficacy of these programmes are not clearly known as productivity across all farm sectors has remained chronically low and poverty and malnutrition levels in Zimbabwe are still high.

Against this background, this brief presents a situational analysis on the constraints/issues surrounding current subsidy programmes. From the analysis, recommendations are made on how best to reform the programmes to enhance their efficacy in achieving inclusive broad-based impacts on the agricultural farm sector.

To address these objectives, data was collected from various sources especially existing nationally representative data from the Zimbabwe National Statistics Agency (ZIMSTAT) and the Ministry of Agriculture, Mechanisation and Irrigation Development (MAMID). In addition, wide-ranging discussions were held with key stakeholders in the public and private sector to come up with recommendations on the way forward.

3. Salient Features of Zimbabwe's agricultural sector

The big challenge for the Government's poverty reduction programs and policies is how to bring the majority of smallholder farmers into the market and raise them above the poverty line. Therefore, in discussing policy options and how they may affect the sector, we begin by trying to understand the beneficiaries and their ability to respond. A clear understanding of the composition and structure of the smallholder farming sector will better enable the Government and sector players to anticipate potential effects of alternative policy actions.

Rural Poverty Rates: Poverty rates in Zimbabwe remain stubbornly high despite concerted government efforts to assist rural farmers through input and output support/subsidies. Figure 1, shows that the proportion of the population falling under the poverty line has been trending upwards in rural areas, rising from 35.8 percent to 85.3 percent between 1991 and 2011. The same trend is true for the urban population. The land and agrarian reforms undertaken by the Government since 2000 has changed the structure of the agricultural sector by widening the number of farmers in need of capacitation and government support in order to spur agricultural recovery.

Structure of the agricultural sector: Zimbabwe's agricultural sector is characterized by many smallholder farm households that account for a significant proportion of total agricultural output. The majority of smallholder farmers in the country cultivate very small plots, with 40-52 percent cultivating less than 1 hectare (Ha) and 70-75 percent cultivating less than 2Ha (Figure 2). With such land sizes, it is not possible for these farmers to earn sustainable incomes from cropping unless substantial investments in productivity enhancements are made and high-value crops are promoted. This means that any strategy that does not recognize this structure will fail to achieve inclusive and broad-based poverty reduction and agricultural growth.

The agri-food system remains a major vehicle for achieving economic transformation in the vast majority of African countries. Currently, farming itself is the primary source of employment and income for roughly 60-65 percent of the regions' workforce. Therefore, when millions of farmers are able to raise their productivity and incomes, this stimulates the demand for non-farm goods and services and creates new business or wage-earning opportunities that the more marginal farmers can fill. (Jayne and Traub, 2016). Agricultural growth does not just contribute to poverty reduction by raising the incomes of farmers only; it also creates non-farm jobs and a more diversified economy, which also contributes to poverty reduction.

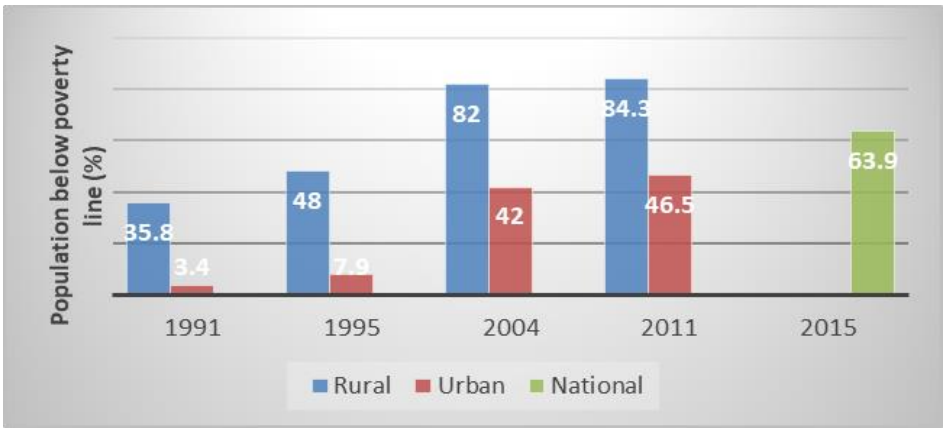


Figure 1: Population below the poverty line (%) rural and urban for selected years

Source: SADC (2015) with 2004 levels from http://www.tradingeconomics.com and the 2015 national

Average is computed from ZIMSTAT 2015, Poverty Atlas.

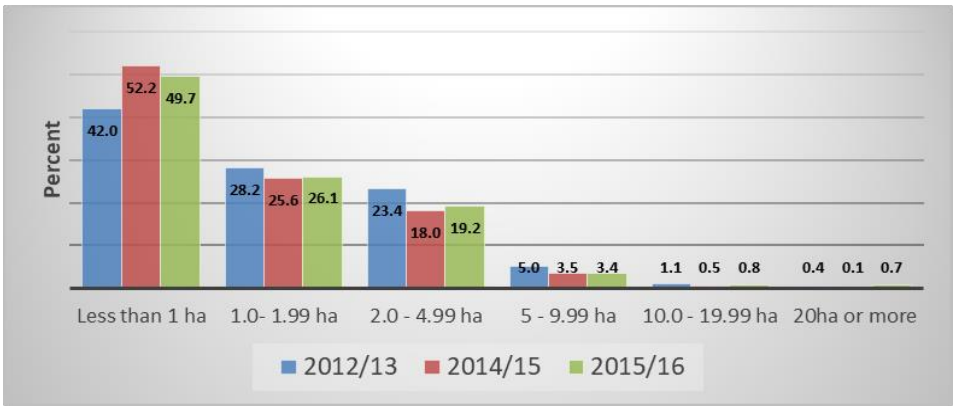


Figure 2: Land cultivated by farm size category: Sources: ZimStat Post Harvest Survey

Crop Productivity: Yields for the main staple crop, maize, averaged around 0.671 tonnes per Ha between 2010 and 2015, rising to about 1.1 tonnes per Ha in 2016/17 according to the crop estimate survey. With these yields,

'Agricultural productivity growth is the answer to economic growth and poverty reduction'

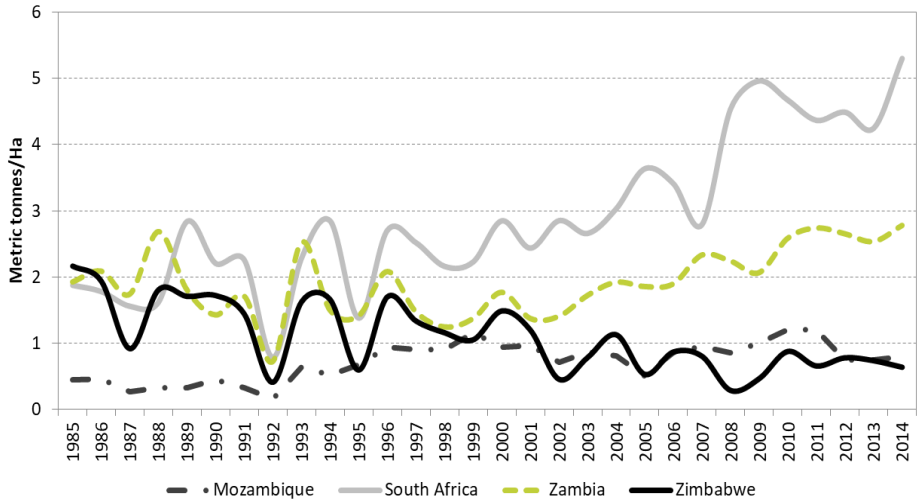


Figure 3: Maize yield trends for selected countries in Southern Africa from 2009 to 2014 Source: FAOSTAT http://www.fao.org/faostat/en/#data/QC

Maize production and marketing: Highly concentrated patterns of maize surplus generation: There is usually a belief that the majority of smallholder farmers who produce maize produce a surplus for sell hence higher producer prices are usually advocated to benefit the majority of the farmers (Figure 4). Similar, to results from Zambia, Malawi and Mozambique, on average, out of the 80 plus percent farmers who produce maize, only less than 16% of the farmers have been able to produce a surplus for sell.

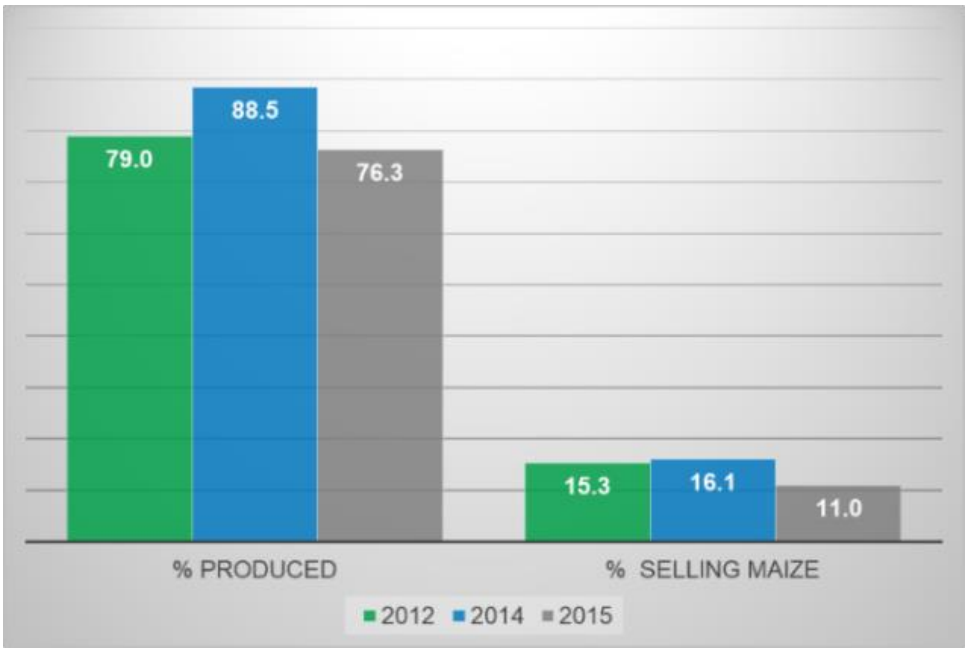


Figure 4: Maize producers and sellers : Source: ZIMSTAT Post Harvest Survey

A very small percentage of the farmers who sell maize account for the vast majority of maize sales. The data shows that between 6-8 percent of smallholder farmers' account for 50 percent of marketed maize. In general, these households cultivate larger areas than an average smallholder

farmer. These results may explain why using only maize as a driver for poverty reduction has not been an effective option.

5. Results and findings

The Government remains committed to helping the poor smallholder farmers and the new class of under-resourced medium and large scale farmers but the solutions remain very elusive, as crop productivity remains too low to stir sustainable agricultural growth whilst rural poverty remains very high. Interviews with key stakeholders from both public and private sector revealed the following issues/constraints from the implementation of agriculture subsides

CURERENT AGRICULTURAL SUBSIDY/SUPPORT PROGRAMMES

Issues

- Maize centric policies (food price dilemma)
- Sustainability
- Crowding out the private sector
- One size fits all
- Leakages and rent seeking behaviour
- More benefits of output subsidies accrue to better off farmers
- Inadequate M&E
- Inconsistent & unstable agricultural policies (e.g. Import & export bans; grain purchases by GMB)

Effects

- Limited public resources allocated to agricultural growth drivers, stifling agricultural diversification
- Treasury overburdened
- The private sector is activity limited, priority areas not funded
- Sub-optimal production
- Inefficient system
- Intended targeted households remain in poverty
- opportunities to learn from previous experiences and best practices are lost
- hinders the development of the agricultural sector

***Maize centric policies*:** Like other countries in the region, policy makers in Zimbabwe are always confronted by the classic "food price dilemma." On one hand, they are under pressure to ensure that maize producers receive a higher price while on the other hand, they are under pressure to keep mealie-meal prices at tolerable prices for consumers. Unfortunately, it has been difficult to strike a balance between these two competing objectives mainly because the solutions tend to put severe strain on the Treasury and the bulk of the support is to a single crop (maize centric).

The ability of an agricultural sector to sustain broad-based, pro-poor development and food security is intricately linked to the stated priorities and actions of the public sector. The stated policy priorities do tend to exhibit a desire for sustained agricultural development through agricultural diversification, improved productivity, and rural income growth. However, the distribution of the agricultural budget in the recent past has placed too much emphasis on input and output subsidies instead of investments in known key drivers of agricultural growth such as agricultural R&D, extension, infrastructure (especially feeder roads), and smallholder irrigation. Between 2010 and 2016, the country spent US$412 million on input subsidies and US$706 million on output subsidies (through support to the Strategic Grain Reserve) compared to US$249 million on Agricultural Research, Technical and Extension Services in the same period.

Sustainability of subsidy programmes – No exit strategy: Although the Government input support schemes have to some extent contributed to increased production and productivity among the smallholder farmers and in some cases large-scale farmers, they have become a social contract between the Government and the people with no clear exit strategy. In most cases, budget releases towards subsidies exceed allocations with funding in some cases coming directly from the Reserve Bank of Zimbabwe.

One size fits all input support programmes stifle agricultural productivity: The current input support programmes use the blanket fertilizer recommendation of "one-size fits all" as the basis for determining the package size, and in doing so disregards the comparative advantage of different natural regions. Coupled with the delays in input distribution due to budgetary constraints, this has adverse implications on performance, productivity and overall production.

Benefits of output subsidies accrue to better off households: Given that the maize surplus generation is highly concentrated, benefits of above market producer prices tend to reward a handful of surplus maize producers, but disadvantages the majority who have to rely on the market for their food needs especially after their own production is exhausted. The Government subsidises consumers through price support via GMB putting more strain on the Treasury.

Crowding out the private sector: Subsidies often displace private spending that would otherwise occur and, in the case of input subsidies, may not be promoting appropriate technologies. Zambia for example, is moving towards a private sector led input market where input subsidies will be distributed through a flexible electronic voucher (e-voucher) system. The same applies to Malawi. This will help cut out the waste due to rent-seeking behaviour but crowd in more players into input distribution, making the sector more competitive for the benefit of farmers.

Leakages and rent-seeking behaviour: Though popular, subsidies are typically less effective at stimulating agricultural growth than investments in research, extension, roads and other public goods. Subsidies are also prone to diversion and manipulation, resulting in leakages out of the system. Also, rent-seeking behaviour from some well-connected public and private sector players often hinders reforms towards more efficient smart subsidies.

Unpredictable agricultural policies: Like is the case in other countries in the region (Zambia, Malawi and Tanzania), the discretionary and unpredictable Government intervention is one of the greatest policy problems plaguing the maize marketing system and food security in Zimbabwe . This is because actual and potential Government interventions generate private sector uncertainties and inaction leading to the additional need for Government intervention. A pre-requisite for sustainable agricultural development is a stable and predictable policy framework. The "stop and go" marketing policy has been at variance with the commitments made by Zimbabwe in the ZAIP.

No effective monitoring and evaluation mechanisms: For most subsidy programmes, there is no proper and adequate monitoring and evaluation systems put in place. Therefore, opportunities to learn from previous experiences and best practices are lost.

6. Conclusion and Policy Recommendations

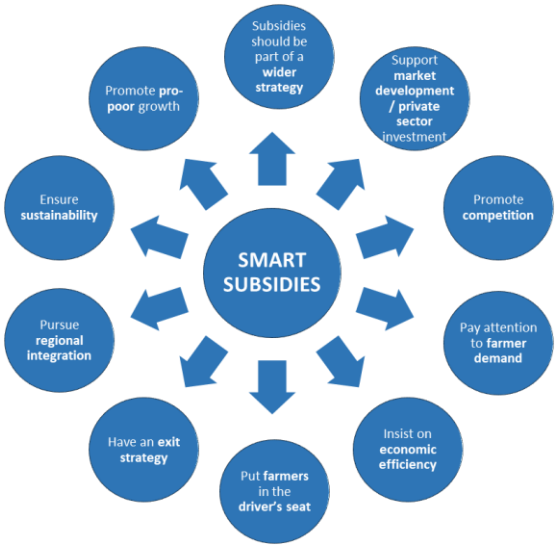
There is no doubt that the country has been undergoing tremendous economic strain and experiencing slow recovery. However, this situation creates opportunities to innovate and create systems/programmes that are sustainable and have the potential to achieve inclusive broad-based private sector-led agricultural growth.

In the mixed policy environment, the Government co-exists with the private sector as an unfairly large competitor, and this hinders the development of the agricultural sector. Complete Government withdrawal from the market is neither realistic nor desirable. However, the Government must avoid policies that crowd out private sector participation, and should instead seek to facilitate market growth, as well as make every effort to leverage private sector investments.

Therefore, given the sensitivities around subsidies, our recommendations herein take the middle road where we advocate for implementing public-private sector partnership -led smart subsidies with the potential of making Zimbabwe a bread basket again. The recommendations revolve around making these subsidies more efficient in order to help achieve sustainable agricultural growth and poverty reduction. Maintaining the status quo is likely to be very costly given that the country is struggling to recover from economic downturn after the Fast Track Land Redistribution Programme (FTLRP).

The Government needs to make bold decisions and implement smart subsidies that will reduce the impact on the Treasury by crowding in the private sector to help fund some aspects of the input distribution. Fiscal space created by the reforms will result in reductions in discretionary expenditure and the saved resources can be invested in higher return social protection alternatives that can deliver many of the objectives that the current input and output subsidies

intend to deliver. For example, Social Cash Transfers (SCTs) focused on the poorest and most vulnerable households are more likely to have positive multiplier effect on the economy as cash creates an effective demand for food and non-food products helping local economies to grow



Source: Adopted from Morris et al. (2007)

Maize Productivity: Increased efficiency in the production of maize is the best means to achieving competitiveness in local and regional maize markets. The average productivity in Zimbabwe is too low to achieve self-sufficiency or become a regional food basket. There is need to investigate why maize yields in the country have remained stubbornly low and find sustainable solutions to this problem. The Government needs to bolster efforts to design and implement input support programmes that recognise the spatial variability of soil fertility and climatic conditions in the country.

Smart Subsidies: The Government should adopt smart subsidies in line with the recommendation from the Zimbabwe Agriculture Investment Plan (ZAIP). For inputs, the adoption of a flexible electronic voucher system will:

- reduce public expenditure on the delivery of inputs;
- crowd in more private sector in agro-input distribution, thereby promoting competiveness and transparency in the supply and distribution of inputs;
- ensure timely delivery and access to inputs by smallholder farmers;
- provide farmers with freedom to choose inputs of their choice thereby promoting agricultural diversification and;
- Help reduce leakages and increase the number of intended beneficiaries by linking the e-cards to a particular farmer through their national identity card. Zimbabwe can learn from Zambia and Malawi.

Fostering Effective Private Sector Market Development: The private sector participation can ensure food security without over burdening the Treasury. Fostering their participation through predictable and stable policies would encourage sustainable involvement of the private sector and ensure market development. Private sector financial resources if harnessed creatively would ensure food security without putting additional strain on the already strained Treasury.

Increased Investments in Key Drivers of Agricultural Growth: The Government needs to embrace a wider strategy because consumption subsidies through input and output support programmes alone will not sufficiently energize the agricultural sector, but instead crowds out funding to other key high return investments. In general, the Government needs to re-balance its agricultural budget and increase funding to key drivers of agricultural growth. This re-orientation of spending, can move away from consumption subsidies and towards increased investment in public goods including;

- irrigation development suitable for smallholder farmers as a means to mitigate drought and improve productivity;
- crop, soil, and livestock science research and development - to enhance genetic advances and refinements in the adaptation of improved practices and technologies;
- extension programs, particularly focusing on effective and appropriate input use, and integrated soil fertility management practices to improve soils and raise crop response to inorganic fertilizer delivered; and
- rural physical infrastructure development, especially feeder roads.

Global Best Practices: Other country experiences indicate that successful economic transformation is driven by:

- Increased promotion of crop diversification in line with the changing consumption patterns
- Promotion of the commercialization of the agricultural sector through the removal of the constraints that farmers face especially in accessing both short and long-term agricultural finance, productivity enhancement technology, extension messages, and markets.
- Promotion of value addition to generate stronger forward and backward linkages between sectors of the economy.
- Creation of a conducive and stable policy environment that allows for the greater participation of the private sector.
- Stronger institutions that support the agricultural transformation agenda

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ABOUT AUTHORS:

- Antony Chapoto; Research Director (IAPRI)
- Veronica Mutiro- Policy and Programme Liaison Officer (FAO)
- Alfios Mayoyo; Country Liaison Officer (IAPRI)
- Mulako Kabisa- Research Associate (IAPRI)

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ABOUT LFSP:

- The Zimbabwe Livelihoods and Food Security Programme (LFSP), Agriculture Productivity and Nutrition Component (APN) is managed by the Food and Agriculture Organisation of the United Nations (FAO), with the aim of contribute to poverty reduction through increased incomes for a target 250,000 smallholder farming households. The programme is being implemented in four provinces covering 12 districts as follows: Mutasa, Mutare, and Makoni in Manicaland; Guruve, Bindura, Mazowe and Mt Darwin in Mashonaland Central; Kwekwe, Gokwe North, Gokwe South and Shurugwi in Midlands and Zvimba in Mashonaland West provinces. FAO is in partnership with three NGO consortia led by Practical Action, Welthungerhilfe and World Vision International, two Strategic Technical partners i.e. **IAPRI** for policy influence, HarvestPlus for biofortification, three Commercial Banks, 1 Wholesale Facility - the Zimbabwe Microfinance Fund (ZMF), 5 Microfinance Institutions (MFIs) and the USAID managed DCA Facility. To date the LFSP is funded for two phases to the tune of £72.4m.

CONTACT DETAILS:

- Food & Agriculture Organization of the United Nations (FAO) | Block 1, Tendeseka Office Park, Cnr. Samora Machel Ave & Renfrew Rd, Eastlea, Harare, Zimbabwe | *Tel:* +263-242-252021-3 | *E-mail:* FAO-ZW@fao.org | *Web:* www.lfspzim.com/

- Designed by Herbert Mupanduki