

# Policy Advisory Note on the Development of the Out-grower Sector in Zambia

The Agricultural Consultative Forum on behalf of the Ministry of Agriculture and Cooperative invited sector stakeholders to review the Out-grower Support Programme (OSP), analyse the challenges faced in the out-grower sector and develop recommendations for public support interventions under the Fifth National Development Plan.

All stakeholders welcomed the support Government rendered through the OSP to accelerate the process of smallholder commercialisation. They also appreciated Government's recognition of the contribution of the private sector to poverty reduction. However, the OSP was limited to financial support and was not directly complemented by capacity development interventions or any other measures to improve the competitiveness of the Zambian agricultural sector.

## Challenges in the Out-grower Sector

Zambia's agricultural export sector is threatened to lose its competitiveness on the international markets. Main contributing factors are:

- 1) Dramatically appreciating Kwacha
  - ↳ The appreciation of the Kwacha has a negative impact for Zambian export crops. At its present level export volumes will be reduced and hence foreign exchange earnings, as well as income losses among the smallholder farming community. In the long-run it jeopardises the poverty reduction potential of the out-grower sector and can even lead to the collapse of the industry.
- 2) High cost of production and financing
  - ↳ Most production inputs (inorganic fertiliser, pesticides, etc.) still need to be imported from outside the country, attracting high transport costs and reducing their effectiveness when arriving late.
  - ↳ High lending rates and absents of credit facilities for smallholder farmers in the rural areas hamper expansion of production base.
- 3) Value addition to local production
  - ↳ Most agricultural commodities are exported in unprocessed or little processed form (e.g. unprocessed tobacco and cotton yarn) and smallholder producers participate only marginally in the value-adding chain at all. .
- 4) Low productivity among smallholder farmers
  - ↳ Yield levels of Zambian smallholder farmers are low compared to other countries due to low input level, ineffective application and generally poor agronomic practices.
- 5) Low level of business ethics
  - ↳ Difficulties in enforcement of contractual agreements between out-grower companies and smallholder farmers but also predatory business practices among competitors negatively impact on the continued development of the sector.
- 6) Poor infrastructure network
  - ↳ Due to Zambia's poor rural infrastructure network transportation within the country is very costly.

## Recommendations

- to 1) Stable exchange rate
  - i) Employ measures to curb the current appreciation of the Kwacha and maintain a stable exchange rate at a level that ensures the international competitiveness of agricultural production in Zambia.
- to 2) Reduction of cost of production and financing
  - i) Examine the effects of the tax regime (VAT, with holding tax, fuel levy, etc.) on smallholder production and business operations of out-grower companies.
  - ii) Local Government levies should be harmonised to ensure that they are not punitive to agricultural production and marketing in out-lying areas.
  - iii) Employ measures to reduce lending rates
  - iv) Facilitate the development of a private sector driven rural finance system for smallholder farmers
- to 3) Value addition
  - i) Facilitate investment into processing capacity for increased value addition of Zambian agricultural products
  - ii) Develop human and financial capacity in smallholder farmers organisations to participate more in the value addition of their produce
- to 4) Low productivity
  - i) Design of research programmes on cash crop /food crop rotation systems in a consultative process by out-grower companies, smallholder farmers, MACO and public-private-partnership research institutions which should finally conduct such research
  - ii) Facilitate the development of extension messages on such cropping systems by the extension departments of the out-grower companies in collaboration with MACO and public-private-partnership research institutions
  - iii) Development of irrigation infrastructure and technology for smallholder farmers through the implementation of the National Irrigation Plan
- to 5) Business ethics
  - i) Facilitation of the establishment arbitration systems in all out-grower crop sub-sectors and supervise their operations where not yet functioning satisfactorily
  - ii) Establishment of small-claims courts at local level to effectively facilitate the enforcement of out-grower contracts
- to 6) Poor infrastructure
  - i) Local Government levies should be administered by the appropriate council departments and agricultural stakeholder institutions at local level and used for their intended purpose (i.e. rural infrastructure maintenance)

## Expected benefit

The implementation of the recommended measures will strengthen the smallholder production base and maintain the competitiveness of export crop production through out-grower schemes in Zambia. An integrated extension and research approach to food and cash crop production will enhance food as well as income security for a large part of the smallholder farming community.

## Budget requirements

All proposed measures are in line with the objectives of Fifth National Development Plan and no additional resources are required for their implementation.