

## THE AGRICULTURAL CONSULTATIVE FORUM

### *Advisory Note to the Ministry of Agriculture and Cooperatives*

<b>Title:</b>	Impact of rising world food prices on the Zambian economy
<b>Initiating Institution:</b>	Agricultural Consultative Forum
<b>Minister's Action:</b>	Adoption of ACF Recommendations on issues raised in this note
<b>Rational:</b>	<p>The recent spike in global prices for food commodities has raised a lot of concern about its potential impact on national economies especially those that are agriculturally based like in Zambia. The general consensus is that the increase in commodity prices can be advantageous for food producers while detrimental to consumers.</p> <p>At a recent ACF stakeholder meeting an analysis of the underlying causes of rising world food prices revealed a host of structural and cyclical factors. On the demand side the increasing world population and their shifting dietary habits, dedication of agricultural land to production of bio-fuels and increased volatility and risks due to speculation have contributed to this development. Factors on the supply side include foremost the rise in input costs due to increased fuel costs, low stock reserves in tandem with export limitations as well as unfavourable weather conditions in some major exporting countries, which in future will even increase due to effects of global climate change. The depreciation of the US dollar against most major currencies has also accentuated the rise in world food prices denominated in dollars. The accumulation of several factors led to the current price spikes, however it is predicted that prices in the short to medium term will remain higher than the 2007 level. In Zambia, however, food prices are not unusually high when examined in inflation-adjusted kwacha, due to the kwacha's appreciation against the dollar over the past several years. The cost of imported inputs such as fertilizer has risen faster over the past 18 months than the rise in food costs, having potentially adverse effects on the demand for fertilizer. Input costs are closely tied to fossil fuel prices and thus are expected to rise further.</p> <p>In order to safeguard against future price shocks and ensure food security Zambia needs to enhance the productivity and production stability of its agricultural sector. The main constraints to achieve these goals are:</p> <ul style="list-style-type: none"> <li>• unpredictable export policies</li> <li>• poor access to markets especially in remote areas</li> <li>• inefficient service delivery systems</li> <li>• poor rural infrastructure network</li> <li>• limited public investments into the sector</li> <li>• poor agronomic practices especially amongst smallholder framers</li> <li>• low capacity for basic and adaptive agricultural research and poor research outreach</li> <li>• limited private investments into the sector</li> </ul>
<b>Resource Requirements:</b>	<p>In the budget 2008 Government allocated 5.8% of the resources to the agricultural sector. In the Maputo declaration Zambia has committed to spend 10% of its annual budget on agricultural development. Analysis under the CAADP process reveals that in order to achieve the targeted growth of 6% in the agricultural sector, Government would have to increase its share of budget allocation to agriculture from today's level to about 12% by 2015 assuming the budget prioritizes public investments such as crop science, effective extension programs, irrigation, and infrastructure and successfully limits expenditures to other activities that typically generate lower payoffs. Otherwise a 25% share will be required.</p>

<b>Recommendation</b>	<p>The following recommendations are made to address the short-, medium- and long-term constraints:</p> <ol style="list-style-type: none"> <li>i. Put in place predictable export policies (in particular working with neighbouring countries towards an agreement to keep borders open within the region) to stimulate production and private sector investment, especially in irrigation agriculture.</li> <li>ii. Ensure predictable and rational market behaviour of the Food Reserve Agency as stipulated in the Agricultural Marketing Act.</li> <li>iii. Enactment of the Agricultural Marketing Act and the Amendment to the Agricultural Credit Act.</li> <li>iv. Increase spending on agricultural development (minimum of 10% share of national budget to agriculture).</li> <li>v. Revamp the official extension service in order to promote productivity enhancing and sustainable land husbandry practices like Conservation Farming/Agriculture.</li> <li>vi. Invest in national crop and animal husbandry research institutions and facilitate their outreach linkages through the extension service.</li> <li>vii. Rehabilitate and maintain rural feeder road network.</li> <li>viii. Promote and utilize the Zambia Agricultural Commodity Exchange (ZAMACE).</li> <li>ix. Restructure the Fertiliser Support Programme based of findings of the various on-going assessments in consultation with relevant stakeholders.</li> <li>x. Expand (where needed) and link relief interventions with longer-term structural improvement measures (mentioned above); for example promotion of Conservation Farming through the Food Security Pack.</li> <li>xi. Create a favourable and reliable investment climate for the private sector by implementing an FNDP-compliant CAAPD compact programme.</li> </ol>
<b>Impact</b>	Increased food security in the country, increased incomes through increased commercialization of production and potential increased foreign exchange earnings from agricultural exports.
<b>Other Options Considered:</b>	Continuation of the status quo is unlikely to trigger the expected agricultural sector performance increase and may expose Zambia to future price shocks on the international commodity markets and thereby plunge the country into food crises. Large amounts of monies from internal and external source will be needed to provide and maintain humanitarian relief operations, threatening Zambia to be thrown back in its developments efforts and into continued donor dependency.

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Board Chairperson  
**AGRICULTURAL CONSULTATIVE FORUM**