REPUBLIC OF ZAMBIA

# MINISTRY OF AGRICULTURE AND LIVESTOCK

## MINISTERIAL STATEMENT

## ON

## *THE MODALITIES OF THE ADJUSTMENT TO MAIZE PRODUCTION SUBSIDY AND THE REMOVAL OF THE FRA/MILLER/CONSUMER SUBSIDY*

## *THE 2013 MAIZE (CROP) MARKETING MODALITIES*

**HON. ROBERT K. K. SICHINGA, MP**

**MINISTER OF AGRICULTURE AND LIVESTOCK**

**ON**

**27TH JUNE, 2013**

1. ***INTRODUCTION***:

***MR. SPEAKER***,

I THANK YOU SIR, FOR THIS OPPORTUNITY TO EXPLAIN TO MEMBERS OF THIS HOUSE, THE ACTIONS TAKEN BY GOVERNMENT, TO ***ADJUST THE MAIZE PRODUCTION SUBSIDY*** AND ***THE REMOVAL OF MILLER/CONSUMER SUBSIDY***. IT IS GOVERNMENT'S INTENTION THAT ALL STAKEHOLDERS, INCLUDING THE HONOURABLE MEMBERS OF THIS AUGUST HOUSE, TO FULLY UNDERSTAND THE FACTS SURROUNDING THESE VERY IMPORTANT MATTERS, SO THAT THE CONTEXT AND APPLICATION THEREOF, ARE PROPERLY CONSTRUED.

I FURTHER WITH TO TAKE THIS OPPORTUNITY, SIR, TO CONVEY TO THE MEMBERS OF PARLIAMENT AND THE NATION AT LARGE, A NUMBER OF REFORMS AND CHANGES WHICH THE GOVERNMENT IS IN THE PROCESS OF EFFECTING, WITHIN THE MINISTRY OF AGRICULTURE AND LIVESTOCK, WITH A VIEW TO IMPROVING THE EFFECTIVENESS IN OUR SERVICE DELIVERY TO THE BENEFICIARIES.

I WISH TO EMPHASIZE THAT IT IS INTENDED TO COMMENCE THESE PROGRAMMES IMMEDIATELY, ALTHOUGH SOME WILL, OF NECESSITY, BE EXECUTED OVER A NUMBER OF YEARS, BEFORE THEY ARE BROUGHT TO FRUITION.

2. ***ADJUSTMENT* TO THE MODALITIES OF THE MAIZE PRODUCTION SUBSIDY AND THE REMOVAL OF MILLER/CONSUMER SUBSIDY**

***MR. SPEAKER***, THE ISSUES SURROUNDING THE CHANGES WHICH GOVERNMENT HAS MADE TO THE MAIZE SUBSIDIES, HAVE BEEN MOST MISUNDERSTOOD OR MIS-INTERPRETED, THEREFORE, LET ME BEGIN BY PROVIDING A GENESIS OF HOW THE SUBSIDIES WERE INTRODUCED IN 2002/3, AND THEN INDICATE WHERE THEY STAND AS OF 2013.

HITHERTO, THERE HAVE BEEN TWO (2) TYPES OF SUBSIDIES:

- ***PRODUCTION SUBSIDY,*** TO THE SMALL-SCALE FARMERS (PROVIDED IN FORM OF FERTILIZER AND SEED; AND PAYMENT OF HIGHER THAN MARKET PRICES FOR MAIZE);
- ***MILLERS/CONSUMER SUBSIDY***, PROVIDED THROUGH THE SALE PRICE OF MAIZE GRAIN TO MILLERS, AT LOWER THAN THE PURCHASE PRICE BY FRA, OF THE SAME MAIZE FROM SMALL-SCALE FARMERS.

OVER THE LAST TEN (10) YEARS – ***2003 TO 2012***, A SUBSTANTIAL AMOUNT OF SUBSIDY HAS BEEN PROVIDED TO SMALL-SCALE FARMERS, FOR THE PURPOSE OF THIS PRESENTATION AND REASONS OF BREVITY, ONLY FIVE (5) YEARS WILL BE SHOWN:

GOVERNMENT SUBSIDIES TO THE AGRICULTURAL SECTOR

SUMMARY OF PRODUCTION AND CONSUMER SUBSIDIES OVER THE LAST FIVE YEARS

| | K' BN 2007/08 | K' BN 2008/09 | K' BN 2009/10 | K' BN 2010/11 | K' BN 2011/12 | KR'MN 2012/13 |
|---|---|---|---|---|---|---|
| Total subsidy on Farmer Production | 799.2 | 695.2 | 749.7 | 1,354.7 | 1,181.2 | |
| Production Quantity (Thousand MT) | 1,211.6 | 1,887.0 | 2,795.5 | 3,020.4 | 2,852.7 | 2,532.8 |
| Maize Purchased by FRA (Thousand MT) | 74 | 199 | 883 | 1,752 | 1,046 | |
| FRA/Miller/Grain Trader/Consumer Total Subsidy K'Billion | **213.48** | **203.80** | **209.83** | **1,785.0** | **2,262.52** | **655.50** |
| Value of Maize Purchased by FRA K' Billion | **122**[1] | **328** | **1,457** | **2,890** | **1,726**[2] | |
| TOTAL SUBSIDY | **1,012.68** | **899** | **959.53** | **3,139.7** | **3,443.72** | **879.2** |

- **Notes. 1&2. The value of maize purchased by FRA in 2006 at 2012 is less than subsidy amounts due to carry over amounts from the previous years**
- **Total subsidy is equal to production subsidies plus FRA/Miller/Grain Trader subsidy.**

THE SUBSIDY WAS MADE THROUGH FISP, TO ENABLE THE MINISTRY DISTRIBUTE SELECTED FARM INPUTS, AND FRA ORGANIZATION TO PROCURE MAIZE FROM SMALL-SCALE FARMERS.

3. ***MR. SPEAKER***,

LET ME BEGIN BY ADDRESSING WHAT IS UNDOUBTEDLY THE MOST IMPORTANT PROGRAMME CURRENTLY: THE ***FARMER INPUT SUPPORT PROGRAMME (FISP)***, WHICH SUPPORTS PRODUCTION, AND HAS BEEN UNDER IMPLEMENTATION SINCE

THE 2002/2003 SEASON. THIS PROGRAMME WAS ORIGINALLY DESIGNED TO ADDRESS THE THEN DECLINING CROP PRODUCTION, ESPECIALLY MAIZE, FOLLOWING A SUCCESSION OF DROUGHTS AND FLOOD SEASONS, THAT THE COUNTRY HAD EXPERIENCED. THESE CALAMITIES HAD RESULTED IN A DIMINISHED ASSET BASE FOR MANY SMALL-SCALE FARMERS, AS MOST OF THEM HAD ATTEMPTED TO USE WHATEVER RESOURCES THEY HAD TO FINANCE CROP PRODUCTION, TO ENSURE THEIR OWN DOMESTIC FOOD SECURITY.

THE OVERALL INTENTION OF THE PROGRAMME THEN WAS, AND EVEN NOW STILL IS, TO INCREASE PRODUCTION OF STAPLE FOOD ***COMMODITIES*** AND TO CONTRIBUTE TO POVERTY REDUCTION PARTICULARLY AMONG THE RURAL POPULATION, THROUGH THE SUPPLY OF AGRICULTURAL INPUTS TO SMALL-SCALE FARMERS. THAT EXERCISE WAS TO CONTRIBUTE TO INCREASED HOUSEHOLD FOOD SECURITY AND TO IMPROVE INCOMES, HENCE REDUCE POVERTY AMONGST THEM. THE SYSTEM OF PROCURING AND DISTRIBUTING INPUTS, HAS LARGELY REMAINED UNCHANGED SINCE THEN. WHAT HAS CHANGED, HOWEVER, HAS BEEN THE LEVEL OF FARMER CONTRIBUTION TOWARDS THE COST OF INPUTS.

THE FOLLOWING WAS THE CONCEPT:
***AT THE BEGINNING*** OF THE PROGRAMME, THE FARMER CONTRIBUTION WAS PLANNED AT ***40%,*** WHILE GOVERNMENT SUBSIDY, WAS PUT AT ***60%.***

***IN THE SECOND YEAR***, THE FARMER AND GOVERNMENT WERE TO SHARE COSTS ON AN EQUAL (50:50) BASIS, WHILE ***IN THE THIRD YEAR***, THERE WAS TO HAVE BEEN A REDUCTION IN GOVERNMENT CONTRIBUTION; AND ***THE FARMER WAS EXPECTED TO PAY 60%,*** WHILE GOVERNMENT WAS TO MEET 40%.

PROGRESSIVELY, THE FARMER WAS SUPPOSED TO MAKE A HIGHER CONTRIBUTION UNTIL GRADUATION. BESIDES THE FOREGOING, THE PROGRAMME HAD A SPECIFIC THREE (3) YEAR LIFESPAN AND A GRADUATION (END) DATE, OF THE SUPPORT FOR EACH BENEFICIARY.

IN THE 2008/2009 SEASON, JUST BEFORE THE PRESIDENTIAL BY-ELECTION, THE ***FARMER CONTRIBUTION WAS CHANGED FROM 50% PER PACK***, TO A CASH CONTRIBUTION ***OF K50, 000 PER 50 KG BAG*** OF FERTILIZER, AND 50% FOR A BAG OF SEED. THIS CHANGE WAS SUPPOSEDLY MEANT TO BE TEMPORARY AND IT IS REPORTED TO HAVE BEEN DONE PARTLY AS A RESPONSE TO THE GLOBAL INCREASE IN FERTILIZER PRICES.

DUE MOSTLY TO UNCERTAINTIES CAUSED BY THE GLOBAL FINANCIAL CRUNCH THAT STARTED IN 2008 AND TO INCREASE FARMER CAPACITY TO RESPOND TO THE CHALLENGES CREATED BY THAT ECONOMIC CRUNCH, ***THE PATRIOTIC FRONT GOVERNMENT*** DECIDED THAT FOR THE ***2011/12 SEASON***, THE FARMER CONTRIBUTION AT K50, 000 (KR50) PER 50KG BAG WOULD BE MAINTAINED. THIS INSPITE OF THE FACT THAT THE COST OF MANAGING THE PROGRAMME HAD RISEN SIGNIFICANTLY. THE RESULT IS THAT OTHER ASPECTS OF AGRICULTURE DEVELOPMENT PROGRAMMES, PARTICULARLY THE DIVERSIFICATION INTO HIGHER VALUE CROPS, SUCH AS ***SOYA BEANS***, ***SORGUM*** AND ***WHEAT***, FOR SMALL-SCALE FARMERS HAVE BEEN NEGLECLECTED. OUR SMALL-SCALE FARMERS, THEREFORE, HAVE NOT BENEFITTED FROM THE HIGHER COMMODITY PRICES BECAUSE THEY HAVE NOT GROWN SUCH CROPS, ON A LARGE ENOUGH SCALE.

4. ***THE FARMER INPUT SUPPORT PROGRAMME (FISP)***

CURRENTLY FISP PROVIDES ***PRODUCTION SUBSIDIES***, MOSTLY FOR MAIZE GRAIN TO SOME ***900,000 (ODD) SMALL-SCALE FARMERS***. IT HAS ACHIEVED A GOOD MEASURE SUCCESS IN ENABLING ZAMBIA ATTAIN MAIZE GRAIN SELF-SUFFICIENCY AND SECURITY BOTH AT HOUSEHOLD AND NATIONAL LEVELS. IN FACT, THE PROGRAMME HAS ENABLED EXPORTS TO NEIGHBOURING COUNTRIES, PRIMARILY FROM SMALL-SCALE FARMER PRODUCTION. HOWEVER, THIS HAS BEEN ACHIEVED AT AN EXORBITANT AND UNECONOMIC COST THROUGH SUPPLEMENTARY BUDGETS APPROVED BY THIS HOUSE, WHICH HAS EXARCEBATED RATHER THAT ELIMINATED POVERTY AMONG SMALL-SCALE FARMERS, IN RURAL AREAS.

THE 2010/11 SEASON ACHIEVED, BY FAR, THE BEST PERFORMANCE WHEN ***3.1 MILLION METRIC TONNES*** WAS PRODUCED – WHILE IN 2011/12 THE PRODUCTION DROPPED TO ***2.7 MILLION*** AND IN 2013 IT IS ESTIMATED TO REFLECT A DROP TO ***2.5 MILLION METRIC TONNES***. HOWEVER, THIS SUCCESS HAS COME AT A VERY HIGH COST, AS ALREADY ALLUDED TO.

**SUMMARY OF FARMER/PRODUCTION SUBSIDIES OVER THE PAST FIVE YEARS**

| YEAR | 2008<br>K' BN | 2009<br>K' BN | 2010<br>K' BN | 2011<br>K' BN | 2012<br>K' BN | 2013<br>KR' MN |
|---|---|---|---|---|---|---|
| BUDGET | 185.1 | 435.0 | 430.0 | 485.0 | 500.0 | |
| ACTUAL COST | 799.2 | 695.2 | 749.7 | 1,354.7 | 1,181.2 | |
| PRODUCTION QUANTITY (MILLION MT) | 1,211.6 | 1,887.0 | 2,795.5 | 3,020.4 | 2,852.7 | 2,532.8 |
| EXCESS | 614.2 | 260.2 | 319.7 | 869.7 | 681.2 | |
| NO. OF TIMES | 4.32 | 1.6 | 1.74 | 2.8 | 2.4 | |
| % Excess | 3325 | 605 | 745 | 179.35 | 1365 | |

DURING 2011, THE ACTUAL TOTAL COST OF THE PRODUCTION SUBSIDY WAS ***KR1,354 MILLION,*** WHILE IN 2012, THE COST IS ESTIMATED AT ***KR1,181.2 MILLION***, PLUS AN IS OUTSTANDING DEBT OF ABOUT KR 280 MILLION, ARISING FROM UNPAID COMMITMENTS FOR PRODUCTS AND SERVICES RENDERED;

5. **THE FOOD RESERVE AGENCY (FRA) ROLE**

LET ME NOW, MR. SPEAKER, GIVE THE BACKGROUND TO THE ROLE AND OPERATIONS OF FRA. IN 1995, GOVERNMENT, THROUGH AN ACT OF PARLIAMENT, ESTABLISHED THE FOOD RESERVE AGENCY (FRA), TO MAINTAIN AND ADMINISTER THE ***NATIONAL STRATEGIC FOOD RESERVES***. LATER, IN 2005, GOVERNMENT AMENDED THE ***ACT*** TO ADD THE ***RESPONSIBILITY FOR CROP MARKETING***.

IN THE EARLIER YEARS (1996 TO 2001), THE AGENCY OPERATED A SMALLER PROGRAMME INVOLVING PURCHASES WHICH DID NOT ***EXCEED 50,000 METRIC TONNES PER ANNUM***. MOST OF THESE PURCHASES WERE DONE THROUGH A TENDER PROCESS WHICH REQUIRED THE SUPPLIERS TO DELIVER THE PURCHASED STOCK AT FRA'S MAIN DEPOTS. DURING THIS PERIOD, ***THE AGENCY OPERATED IN NOT MORE THAN TEN (10) DISTRICTS***. THIS MODEL DID NOT BENEFIT THE SMALL SCALE FARMERS DIRECTLY, AS THE CROP DELIVERED TO THE AGENCY WAS PURCHASED THROUGH MIDDLEMEN.

HOWEVER, FROM 2002 TO ABOUT 2004, THERE WAS AN INCREASE IN GOVERNMENT FUNDING FOR CROP PURCHASES THROUGH THE AGENCY. THIS LED TO THE AGENCY INCREASING THE NUMBER OF DISTRICTS IN WHICH IT OPERATED, FROM TEN (10) TO AROUND FORTY (40).

FOLLOWING THE AMENDMENT OF THE ***ACT*** IN 2005, THE AGENCY EXPANDED OPERATIONS TREMENDOUSLY, BY OPENING SEVERAL

SATELLITE DEPOTS IN ALL DISTRICTS WHERE THE AGENCY HAD A PRESENCE. SINCE 2005, THE NUMBER OF DISTRICTS WHERE THE AGENCY IS OPERATING HAS INCREASED TO OVER SEVENTY (70). IN ORDER TO REDUCE THE TRANSPORT AND HANDLING COSTS INCURRED BY THE SMALL-SCALE FARMERS, THE AGENCY HAD BEEN OPERATING AN AVERAGE OF TEN (10) SATELLITE DEPOTS PER DISTRICT, WITH ***A MAXIMUM OF 1,300 SATELLITE DEPOTS*** IN EACH OF THE YEARS – 2010, 2011 UP UNTIL 2012.

***IN 2011***, AS A RESULT OF THE HISTORICALLY HIGHEST BUMPER HARVEST, THERE WAS NEED TO INCREASE THE NUMBER OF SATELLITE DEPOTS, THE COUNTRY RECORDED ONE OF THE HIGHEST PRODUCTION QUANTITIES. THE FRA WAS CALLED UPON TO PURCHASE ALL THE AVAILABLE GRAIN ACCORDINGLY, 1,751,660 METRIC TONNES OF MAIZE, THE HIGHEST EVER SO FAR WAS PURCHASED. THIS INCREASE IN PURCHASES BY ***THE FOOD RESERVE AGENCY,*** PUT CONSIDERABLE STRAIN ON THE STORAGE FACILITIES. THERE IS ONLY SECURE CAPACITY OF 743,200 METRIC TONNES.

SIMILARLY, FUNDING FROM GOVERNMENT TREASURY FOR 2011 WAS ONLY K150 BILLION AGAINST AN ACUTAL AMOUNT OF K3,216 BILLION.

IN 2012, THERE WERE OPERATED A TOTAL OF 1,231 ***SATELITE DEPOTS***, OUT WHICH 1,106 ARE CONSIDERED ACCESSIBLE. INCLUDED IN THE ACCESSIBLE NUMBER, ARE 72 IN WESTERN PROVINCE WHICH ARE AFFECTIVELY INACESSIBLE. A TOTAL OF 125 OUTSIDE THE ABOVE-MENTIONED NUMBER ARE CONSIDERED INACCESSABLE. THE FOREGOINGXXXXXXXX

BESIDES LIMITED FUNDING, THE AGENCY ALSO SUFFERS FROM INADEQUATE STORAGE CAPACITY, AND A CONSIDERABLE PART OF THE PURCHASED MAIZE GOES TO WASTE BECAUSE IT QUICKLY DETERIORATES AND ROTS, HENCE IT HAS TO BE DISPOSED OF, LEADING TO LOSSES OF AS HIGH AS 32% OF THE PROCURED GRAIN.

## 7. ***MILLERS/CONSUMER SUBSIDY***

THE SECOND COMPONENT OF SUBSIDIES, IS THE COST OF RUNNING THE FOOD RESERVE AGENCY (FRA) OPERATIONS, AND THE PROCUREMENT OF MAIZE FROM SAMLL-SCALE FARMERS AT A HIGHER PRICE, THAN IS SOLD TO THE ***MILLERS***. CURRENTLY, THE AMOUNTS INVOLVED ARE:

BUYING AT ***KR65*** AND SELLING TO MILLER AT ***KR60,*** WITH A RESULTANT LOSS OF ***KR5*** FOR EVERY 50KG BAG SOLD OR ***KR100 PER METRIC TONNE***.

GOVERNMENT FUNDING TO FRA, HAS NEVER BEEN ENOUGH NOR READILY AVAILABLE. THIS HAS RESULTED IN DELAYED PAYMENTS TO FARMERS AND IN 2012, FRA COMMITTED TO DEBT WITH FOUR (4) COMMERCIAL BANKS WHICH NOW STANDS AT MORE THAN KR2.2 BILLION.

IT HAS BEEN OBSERVED THAT OVER THE YEARS, AND TAKING JUST THE LAST FIVE (5), FOR EXAMPLE, THE ORIGINAL BUDGETS HAVE BEEN EXCEEDED BY EXTREMELY HIGH PERCENTAGES:

## MILLERS/CONSUMER SUBSIDY OVER THE LAST FIVE YEARS

| YEAR | 2008 K' MN | 2009 K' MN | 2010 K'MN | 2011 K' MN | 2012 K' MN | 2013 KR MN |
|---|---|---|---|---|---|---|
| BUDGET | 80,000 | 100,00 | 100,000 | 150,000 | 300,000 | |
| PRODUCTION QUANTITY (MILLION MT) | 1,211.6 | 1,887.0 | 2,795.5 | 3,020.4 | 2,852.7 | 2,532.8 |
| ACTUAL PURCHASES | 80,00 | 316,616 | 2,632,174 | 3,216,000 | 300,000 | |
| SURPLUS | NIL | 216,616 | 2,532,174 | 3,066,00 | 1,898,000 | |
| EXCESS RATIO | NIL | 2.17 | 25.3 | 21.44 | 6.3 | |
| % AGAINIST BUDGET | NIL | 216.6% | 2,632% | 2,114% | 732.7% | |

NB.

1. **The excess above budget were funded by supplementary budgets up to 2011**
2. **In 2012, the additional funding (over and above the budget of KR300 million) was provided by four commercial banks to the extent of KR1,898.0 billion or K trillion 1.898 at principal interest rates from 12.00% to 14.75%**

FURTHERMORE, FRA OWES FOUR COMMERCIAL BANKS AMOUNTS EXCEEDING KR2.2 BILLION.

***MR. SPEAKER***,

ANY OBJECTIVE ASSESSMENT OF THE LEVEL OF SUBSIDIES WILL REVEAL THAT IT WAS INEVITABLE AND NECESSARY TO REVIEW THE COST/BENEFIT OF THE SUBSIDY BEING SPENT ON ONE FOOD COMMODITY – MAIZE AT THE EXPENSE OF DEVELOPING A DIVERSIFIED AGRICULTURAL BASE, WHICH COULD PROVIDE A LOT

MORE FOOD CROPS AND IMPROVE THE OVERALL CONTRIBUTION OF THE AGRICULTURAL SECTOR, TO THE NATIONAL GDP AND RURAL DEVELOPMENT.

IN ORDER TO ENSURE A SUCCESSFUL IMPLEMENTATION OF THE CHANGES, A MULTI-SECTORAL AND MULTI-DISCIPLINARY TEAM COMPRISING ALL STAKEHOLDERS IS BEING CONSTITUTED TO WORK OUT THE DETAILED MODALITIES. THE PRICING STRUCTURE BY FRA WILL THEREFORE, BE ANNOUNCED IN DUE COURSE, AFTER THE TEAM WILL HAVE COMPLETED THEIR ASSIGNMENT.

ONE OF THE GOALS OF THE ***PATRIOTIC FRONT MANIFESTO*** AND ITS PROGRAMMES IS TO ENCOURAGE FARMERS TO DIVERSIFY AND PROMOTE THE GROWING OF OTHER HIGH VALUE CROPS. IN ADDITION, THE ***MANIFESTO*** CALLS FOR THE PROMOTION OF ***TAILOR-MADE SUBSIDIES***, TOWARDS SMALL-SCALE FARMERS AND THE PROMOTION OF ***A MUCH WIDER RANGE OF CROPS.***.

BASED ON THE FOREGOING PREMISE, AND PARTLY AS A RESULT OF THE ABOVE MENTIONED FACTORS, COMMENCING THE FORTH-COMING SEASON, THE GOVERNMENT HAS DECIDED TO TAKE THE FOLLOWING POLICY MEASURES TO:

(A) TO RE-ALIGN THE FARMER CONTRIBUTION TO THE FARMER INPUT SUPPORT PROGRAMME, ***FROM KR50*** PER BAG ***TO KR100***. THE CONTRIBUTION OF KR100 PER BAG FOR FERTILIZER WILL TAKE EFFECT FROM THE DISTRIBUTION OF INPUTS DURING THE UP-COMING 2013/2014 SEASON;

(B) ALLOW THE ***659,000 FISP BENEFICIARIES*** TO BARTER THEIR MAIZE CROP FOR FERTILIZER, AS FOLLOWS:

***TWO (2) 50KG BAGS OF GRADE A MAIZE GRAIN IN EXCHANGE FOR ONE (1) 50KG BAG OF FERTILIZER BOTH BASAL AND TOP DRESSING (D-COMPOUND AS WELL AS UREA)***

(C) IN ORDER TO ENCOURAGE FARMERS NOT TO REDUCE THEIR PRODUCTION OF MAIZE WHILE DIVERSIFYING INTO OTHER CROPS, GOVERNMENT WILL OFFER TO SUBSIDIZE, 100% THE SEED PACK.

(D) ARRANGEMENTS ARE BEING MADE FOR THE MODALITIES OF MANAGING THIS NEW APPROACH AND DETAILS WILL BE COMMUNICATED SUBSEQUENTLY.

(E) ***IMPLEMENT THE ELECTRONIC V OUCHER SYSTEM (E-VOUCHER)***

THE ***E-VOUCHER SYSTEM***, IS A SUBSIDY MANAGEMENT SYSTEM AIMED AT RESPONDING TO THE WEAKNESSES IDENTIFIED IN THE CURRENT FISP SUBSIDY SYSTEM. THIS IS AN ELECTRONIC BASID COMMODITY INPUT AND OUTPUT SOFTWARE-DRIVEN PLATFORM. IT SEEKS TO ALLOW FOR PRIVATE SECTOR PARTICIPATION IN THE INPUT MARKETING SYSTEM, AND ENABLE A GRADUAL WITHDRAWAL BY GOVERNMENT FROM THE PHYSICAL SUPPLY OF INPUTS.

THIS COMPUTERIZED SYSTEM WILL ENABLE THE ESTABLISHMENT OF DATABASES OF THE FOLLOWING BENEFICIARIES: SUPPLIERS,

DEALERS, BANKS, COMMODITIES, PRICES ETC. THE SERVICE PROVIDER USES SUCH A DATABADE FOR PROCESSING TRANSACTIONS TO MANAGE INPUTS AND THE RESULTANT SUBSIDY THAT GOVERNMENT NEEDS TO PAY THE BENEFICIARIES.

FIGURES – TABLE OF SU

***MR. SPEAKER***,

IN ORDER TO ENABLE MEMBERS FULLY APPRECIATE THE CONTENTS OF THE MINISTERIAL STATEMENT, WE HAVE PROVIDED AN "***INFORMATION PACK***" IN THEIR PIGEON HOLES IN THE COMMITTEE BLOCK. THE CONTENTS OF THAT PACK, INCLUDE SIX DOCUMENTS AS FOLLOWS:

1 ***A FOUR-PAGE EXPLANATORY LEAFLET ON "CHANGES IN THE FARMER INPUT SUPPORT PROGRAMME, FOOD RESERVE AGENCY MARKETING MODALITIES AND SUBSIDIES ON MAIZE PRODUCTION***"

2 A ONE PAGE (A4) SHEET FLIER, PROVIDING ***SUMMARIES OF EXPENDITURE ON FISP PRODUCTION*** SUBSIDY AND SUMMARIES OF FRA MILLER/CONSUMER SUBSIDY, OVER THE LAST FIVE YEARS – 2008 - 2012.

3 A ONE (A4) PAGE FILIER REFLECTING POSSIBLE AREAS OF INVESTMENT WHICH SUBSIDY SAVINGS CAN BE APPLIED TO DEVELOP THE AGRICULTURE SECTOR.

4 A ONE (A4) PAGE FLIER REFLECTING POSSIBLE AREAS WHERE SAVINGS FROM SUBSIDIES CAN BE INVESTED TO IMPROVE BENEFITS TO THE NATION.

5 A ONE (A4) PAGE FLIER SHOWING A PIE CHART OF FRA/GOVERNMENT INDEBTEDNESS TO COMMERCIAL BANKS FOR THE 2012 MAIZE PURCHASES

6 AN A 7 PAGE LEAFLET ON THE PROPOSED E-CARD/VOUCHER, ON "WHY AND HOW THE E-CARD/VOUCHER WILL OPERATE"

IT IS MY SINCERE HOPE THAT THE FOREGOING INFORMATION WILL ENABLE THE MEMBERS OF PARLIAMENT, TO MAKE THEIR COMMENTS, BASED ON FACTS.

## 9. IMPACT OF THE PROPOSED CHANGES

THE MAJOR QUESTION TO BE ASKED IS WHAT WILL BE THE IMPACT ON THE AGRICULTURAL SECTOR IN VIEW OF THESE POLICY CHANGES MADE, ON THE FISP AND THE FRA?

IT MUST BE EMPHASIZED THAT BOTH GOVERNMENT AND MORE SPECIFICALLY, THE MINISTRIES OPERATE WITHIN BUDGET LIMITS AND, THEREFORE, DO NOT HAVE INFINITE RESOURCES. HOWEVER, BECAUSE GOVERNMENT APPRECIATES THE TREMENDOUS CONTRIBUTION BEING MADE BY SMALL-SCALE FARMERS IN OUR COUNTRY, IT HAS BECOME NECESSARY TO REVISE THE ***COST-SHARING FORMULA TO A 50 TO 50 BASIS***.

## 10. **CONCLUSION**

IT IS CLEAR THAT THIS LEVEL OF INDEBTEDNESS IS UNSUSTAINABLE AND THERE IS NEED TO FIND A MORE ACCEPTABLE AND LASTING SOLUTION TO THIS SERIOUS AND PERSISTENT CHALLENGE WITH RAISES THE COST OF THE MAIZE COMMODITY AND HIGH SUPPLEMENTARY BUDGETS, AND OUR CITIZENS TO EACH YEAR SPEND NIGHTS IN THE COLD, AT BANKS.

IF THE CURRENT SUBSIDY WERE TO BE MAINTAINED, IT WOULD MEAN THAT ***FRA*** WOULD CONTINUE TO BE IN A ***LOSS-MAKING*** POSITION AND INDEED REMAIN A BOTTOMLESS PIT AS SOME HAVE SUGGESTED. FOR FRA TO SURVIVE, IT WOULD HAVE TO DEPEND ON GOVERNMENT FUNDING, TO SUPPORT SUCH SUBSIDIES.

IN 2010, THE AMOUNT OF SUBSIDY WAS ***KR2,632 MILLION***, WHILE IN 2011, IT WAS ***KR3,216 MILLION***. FRA, IS CURRENTLY CARRYING A DEBT ESTIMATED AT ABOUT KR2.2 BILLION, BROUGHT FORWARD FROM 2011 AND 2012 ***MAIZE MARKETING SEASONS***. TREASURY DOES NOT HAVE A BUDGET LINE TO MEET THIS ADDIGTIONAL EXPENSE, IN THE 2013 BUDGET. THE BUDGET LINE FOR THE YEAR IS K300 BILLION ***(KR 300 MILLION)*** WHICH THIS PARLIAMENT APPROVED LAST YEAR. THE REQUIREMENT TO THE PURCHASE MAIZE GRAIN FOR THE 2013/14 STRATEGIC RESERVE DURING THE 2013 HARVEST/PURCHASE SEASON, TO PROCURE THE ***500,000MT***, THAT QUANTITY IS ESTIMATED TO COST AROUND ***KR 650 MILLION (US $ 122.642 MILLION***). HOWEVER, THE ACTUAL AMOUNT TO BE COMMITTED PARTLY BE DETERMINED BY THE QUANTITY OF CARRY OVER STOCKS (ON HAND).

IT IS QUITE CLEAR FROM THE FOREGOING THAT THE REVIIEW OF THE OPERATIONS OF THE FOOD RESERVE AGENCY, IS NOW NECESSARY. IN

RESPONSE TO ALL THE CHALLENGES HIGHLIGHTED ABOVE, IT IHAS, THEREFORE, BECOME NECESSARY THAT GOVERNMENT MAKES THE FOLLOWING CHANGES IN FRA'S OPERATIONS:

(A) ***THE FOOD RESERVE AGENCY WILL PURCHASE MAIZE IN ACCORDANCE WITH THE ACT. THAT IS TO SAY, THE FRA WILL RESTRICT ITS PARTICIPATION IN THE MARKET TO SECURING STRATEGIC GRAIN RESERVES AND ANY EXCESS THAT MAY REMAIN AFTER PRIVATE SECTOR PARTICIPATION.***

*(B)* ***HOWEVER, IN ORDER TO CONTINUE TO ENCOURAGE OUR FARMERS TO MAINTAIN THE PRODUCTION OF MAIZE, THE FRA WILL MAINTAIN THE MAIZE BUYING PRICE AT KR65 PER 50 KG BAG, FOR THE 2013/2014 CROP MARKETING PROGRAMME. THE PRIVATE SECTOR WILL BE ENCOURAGED TO CONTINUE PARTICIPATING IN MAIZE MARKETING DURING THE 2013/2014 SEASON.***

AFTER A VERY CAREFUL ANALYSIS OF THE IMPERICAL EVIDENCE BEFORE THE MINISTRY OF AGRICULTURE & LIVESTOCK, IT IS SELF-EVIDENT THAT GIVEN THE CURRENT AVAILABILITY FINANCIAL RESOURCES AND BUDGET LIMITATIONS, IT IS INEVITABLE, THAT MOST UNPLEASANT AS THIS IS, SOMETHING HAD TO GIVE. THEREFORE, FOLLOWING CAREFUL CONSIDERATION, CABINET DECIDED ON REMOVAL OF ***MILLERS/CONSUMERS SUBSIDY***, MAY I EMPHASISE MILLER/CONSUMER SUBSIDY. HOWEVER, SUPPORT FOR THE PRODUCTION WILL CONTINUE THE ALBEIT ON AN ADJUSTED 50/50% BASIS.

***APPENDIX 1***

| | | | |
|---|---|---|---|
| I. | CENTRAL PROVINCE | - | 13.88% |
| II. | COPPERBELT PROVINCE | - | 12.65% |
| III. | EASTERN PROVINCE | - | 13.61% |
| IV. | LUAPULA PROVINCE | - | 13.52% |
| V. | LUSAKA PROVINCE | - | 13.40% |
| VI. | MUCHINGA PROVINCE | - | 14.76% |
| VII. | NORTHERN PROVINCE | - | 13.71% |
| VIII. | NORTHWESTERN PROVINCE | - | 13.14% |
| IX. | SOUTHERN PROVINCE | - | 12.73% |
| X. | WESTERN PROVINCE | - | 12.77% |
| | OVERALL NATIONAL AVERAGE | - | 13.38% |

*APPENDIX 2*

| MAIZE PURCHASES FOR PERIOD 2008 - 2013 AT NOMINAL PRICES | | | |
|---|---|---|---|
| Years | Maize (MT) | Break Even Price | Value (ZMK) |
| | 000 | 000,000 | 000,000,000 |
| | | Million | Billion |
| 2008 | 74 | 1.650 | 122 |
| 2009 | 199 | 2.102 | 418 |
| 2010 | 883 | 1.908 | 1,684 |
| 2011 | 1,752 | 2.001 | 3,504 |
| 2012 | 1,046 | 2.326 | 2,432 |
| 2013 | - | 2.326 | - |
| Total | 3,953 | | 8,161 |