SOUTHMOD

Policy note

Alternatives for social assistance reform in Zambia

Reforming the Farmer Input Support Programme and redistributing the savings to the Social Cash Transfer

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Findings

- The Farmer Input Support Programme (FISP) is less effective in reducing poverty than other anti-poverty programmes in Zambia, in particular the Social Cash Transfer (SCT)
- FISP suffers from several challenges. Notably, commercial farmers are more likely to benefit than viable, small-scale farmers and its administrative costs are very high
- We use tax-benefit microsimulation modelling to evaluate the impact of eliminating the FISP and redirecting the savings to scale-up the more effective SCT programme
- Such a reform would reduce poverty more compared to the existing configuration of FISP and SCT, particularly among the elderly population and female-headed households

The Farmer Input Support Programme (FISP) subsidizes agricultural inputs for smallholder farmers to reduce poverty and promote food security in Zambia. Farmers contribute 400 ZMW in every farming season and receive subsidized inputs valued at 2,100 ZMW — an annual net subsidy of 1,700 ZMW per farmer (142 per month). However, the total expenditure per farmer was over 3,000 ZMW in 2019, for example, because of the high administrative costs to deliver FISP benefits.

The Zambian Social Cash Transfer (SCT) is a non-contributory social assistance programme that provides cash to poor and vulnerable households. In 2019, the per-capita benefit amount was 90 ZMW per month and 180 ZMW for each family with a disabled person. This amount has subsequently been increased.

FISP is sometimes criticised for being poorly targeted, difficult to implement, and cost-ineffective, while the SCT is often considered to be a well-targeted and efficient social transfer. Both FISP and SCT are included in MicroZAMOD, the tax-benefit microsimulation model for Zambia, which can be used to estimate the costs and benefits of government fiscal programmes. This policy note shares the results of a policy reform simulation in which FISP is replaced with increased spending on the SCT.

The hypothetical policy reform is modelled using the 2019 policy system in MicroZAMOD to avoid the need to make assumptions about how the COVID-19 pandemic in 2020–22 may have influenced the outcomes. Regardless of the policy year used, however, the simulations yield similar results.

The Farmer Input Support Programme (FISP)

As part of its poverty reduction agenda, the Zambian government introduced FISP in 2002 to improve food security and nutrition in the country. FISP is intended to offer a more sustainable food basket to citizens after the drought and famine shocks that plagued the country in the 1990s.

Initially called the Fertilizer Support Programme, it was later renamed and restructured to counter multifaceted challenges faced by vulnerable but viable farmers. It currently supports small-scale farmers who are not otherwise employed and who cultivate less than half a hectare of land. FISP beneficiaries originally received a pack of agricultural inputs that consisted of eight 50 kg bags of fertilizer and four 20 kg bags of maize seed. The pack was later roughly halved in input content.

After two decades of implementation, FISP still falls short of expectations on poverty reduction. The 2015 Living Conditions Monitoring Survey revealed that 76 per cent of rural Zambians live in poverty. Critics of the programme also argue that it is characterized by poor targeting and wasteful expenditure. On poor targeting, FISP beneficiaries are often not the most vulnerable households. Successful, land-owning, small-scale farmers benefit from the programme, too. Additionally, evidence suggests that commercial farmers benefit from the programme more than small-scale farmers do.

FISP benefits are delivered through a hybrid system that combines an electronic voucher system and the physical delivery of inputs. The electronic system was introduced by the Ministry of Agriculture in 2015–16, but the Government has yet to fully migrate to it. The continuation of physical delivery contributes to high administrative costs, which supports the argument that the programme is prone to wasteful expenditure.

Reform FISP and re-distribute the savings to SCT?

First, we compare the public expenditures and poverty reduction potential of both the FISP and SCT, derived from model simulations that exclude these programmes. The removal of SCT would have a larger impact on poverty compared to FISP, suggesting that SCT is more efficient at targeting the poor.

FISP also costs more for the government based on the simulations, even when ignoring administrative costs. This result is in line with the widely shared concerns that expenditures on the programme have been wasteful. For example, in 2021 the government spent an estimated 12 billion ZMW (USD 590 million) on FISP against the 5.7 billion ZMW earmarked for the programme in the budget.

Second, we simulate the reformulation of FISP with savings reallocated towards the expansion of the SCT by increasing benefit amounts and expanding eligibility criteria to include vulnerable, small-scale farmers. The simulated reform entails three policy changes:

i. It raises the monthly transfer amount under the new SCT programme from 90 to 200 ZMW per household. Beneficiary households that qualify for disability receive 400 ZMW per month instead of 180 ZMW.
ii. It eliminates the FISP as it stands now by cancelling the annual net subsidy of ZMW 1,700 for smallholder farmers.
iii. It extends the SCT eligibility criteria to include some of the most vulnerable beneficiaries previously covered by the FISP but not the SCT. To be eligible, farmers need to meet both the original FISP criteria and the existing criteria for the SCT benefit, which targets those in extreme poverty. Previous FISP beneficiary households meeting these conditions receive ZMW 2,400 per year, or ZMW 200 per month, the standard amount under the proposed SCT reform.

It is worth noting that the model does not account for the administrative costs of the FISP programme, which are significant as well.

The static impact of the reform on the budget and beneficiaries

As shown in Table 1, the proposed reform is estimated to increase total government expenditure on social transfers. The savings of ZMW 1.1 billion from reforming the FISP are transferred to the SCT programme. Alongside an additional expenditure of 1.2 billion from expanding the programme, SCT benefits are increased by a total of 2.3 billion ZMW, more than doubling the total value of the cash transfer. The net impact on overall expenditure, an increase of around ZMW 1.2 billion per year, is smaller due to the large savings from repurposing the FISP.

The winners of the reform include the 629,000 existing SCT beneficiaries, who now benefit from more generous social assistance, and the most vulnerable households previously covered by the FISP who now receive support via the reformed SCT (a total of 48,600 individuals). Around 956,000 former FISP beneficiaries would no longer be covered by either of these programmes.

Table 1: Impact of the reform on government expenditures and the number of beneficiaries

Outcome	Baseline (ZMW millions)	Reform (ZMW millions)	Impact of the reform (ZMW millions)	Impact of the reform (%)
Government expenditure on social transfers	3,341	4,525	+1,184	+35.4 %
Expenditures by type of benefit				
FISP subsidies	1,155	0	-1,155	-100 %
SCT benefits	1,093	3,432	+2,339	+ 214 %
Other benefits	1,093	1,093	0	0 %
The number of beneficiaries by type of benefit				
Total beneficiaries of FISP and SCT	1,634,213	677,805	-956,408	-58.5%
FISP beneficiaries	1,005,021	0	-1,005,021	-100 %
SCT beneficiaries	629,192	677,805	+48,613	+ 7.7%

Source: Authors' elaboration of simulations using MicroZAMOD.

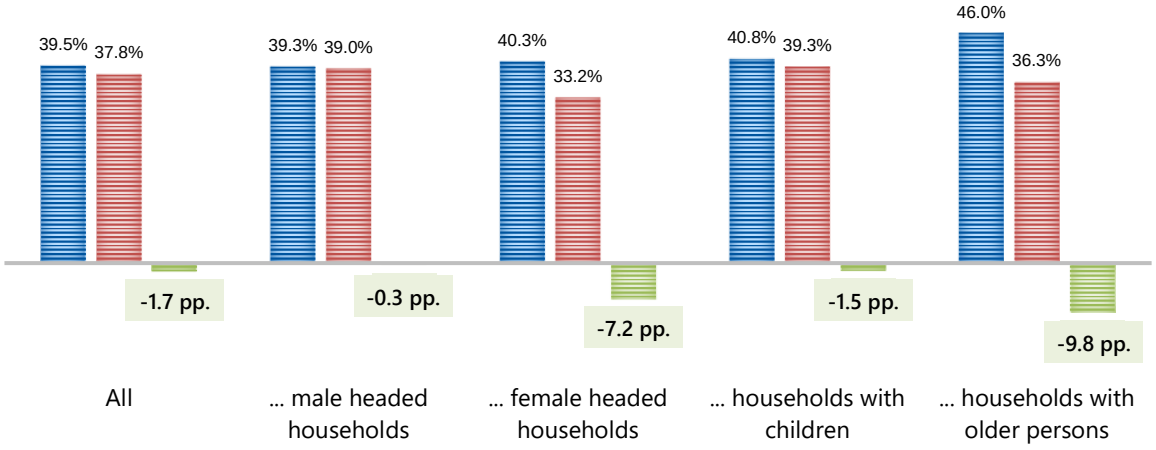
As discussed, the simulated reform changes the eligibility criteria for the SCT so that only the poorest and most vulnerable beneficiaries of the FISP are captured. These eligible farmers lose the input subsidy valued at ZMW 1,700 per year, but their SCT transfer is increased considerably to ZMW 2,400. Those who are not eligible for the new SCT, but receive FISP benefits under the current system, lose all social assistance from these programmes. Taken together, the proposed reforms seek to better target the most vulnerable individuals in Zambia, expanding their social assistance while leaving out the most successful and less vulnerable smallholder farmers.

The impact on poverty reduction goals

Simulations using MicroZAMOD indicate that, compared to the current situation, the proposed reform would reduce the national poverty rate by 1.7 percentage points (Figure 1). This reflects both the higher benefit amounts for those originally covered by the SCT and the increases to earlier support to eligible farmers who are now captured under the SCT programme.

Considering different population groups, the largest poverty reductions are seen among female-headed households (-7.2 points) and households with older persons (-9.8 points). The differences in outcomes between male- and female-headed households reflect the fact that the SCT directly targets the latter; female-headed households (23 per cent nationwide) are generally poorer and more vulnerable.

Figure 1: Consumption-based poverty after taxes and transfers: Baseline vs. reform



Source: Authors' elaboration of simulations using MicroZAMOD.

Rethinking social assistance policies in Zambia

The findings show that the reallocation of funding from FISP to SCT, accompanied by modest increases in benefit amounts, would likely be more effective in reducing poverty than the current system. Importantly, the static microsimulation results disregard many additional advantages of this arrangement. First, support to rural households would be delivered more efficiently using administrative channels that are already established for the SCT. Second, integrating the two programmes allows for further expansion of nationwide social assistance.

The main caveat of the proposed reform is that the impact on poverty reduction is still relatively small, mainly owing to the small transfer amount. The proposed SCT benefit amount of ZMW 200 still remains below the national poverty line of ZMW 229.

Policy recommendations

- The government should consider adjusting the current eligibility criteria for FISP with the aim of improving redistribution and reducing the administrative burden of the programme
- Additional savings from restructuring the FISP can be redirected towards more effective programmes such as the SCT. Such a change in policy should ensure that particularly the most vulnerable FISP recipients — namely, small-scale farmers — remain covered by social assistance
- Microsimulation results presented in this policy note offer ideas for moving in that direction. To maximize poverty impacts, the government should consider increasing the per capita value of the cash transfer

This note was produced using MicroZAMOD, the tax-benefit microsimulation model for Zambia. The note was initiated at the MicroZAMOD Retreat in May 2022. The retreat was a capacity development initiative and a part of the activities of the SOUTHMOD project.