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Alternatives for social assistance reform in Zambia :

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

Presented by

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Background

- As part of its poverty reduction agenda, the Zambian government introduced FISP in 2002 to improve food security and nutrition.
- FISP was intended to counter the effects of the drought and famine shocks that plagued the country in the 1990s.
- The FISP benefit package was halved from eight 50 kg bags of fertilizer and four 20 kg bags of maize seed.
- However, after two decades of implementation, FISP still falls short of expectations on poverty reduction. The 2015 LCMS revealed that 76 percent of rural Zambians live in poverty.

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A Case of Policy Failure

- The FISP is characterized by poor targeting and wasteful expenditure.
- Evidence shows that FISP beneficiaries include successful, land-owning, small-scale farmers and commercial farmers
- FISP benefits are delivered through a hybrid system that combines an electronic voucher system and the physical delivery of inputs.
- The continuation of physical delivery contributes to high administrative costs, which supports the argument that the programme is prone to wasteful expenditure.
- In 2021, the government spent an estimated 12 billion ZMW (USD 590 million) on FISP against the budgeted 5.7 billion ZMW.

Programmes considered for Policy Reform

- Reform the FISP and redistributing the savings to the Social Cash Transfer (SCT)
- FISP - Farmers contribute 400 ZMW and receive subsidized inputs valued at 2,100 ZMW — an annual net subsidy of 1,700 ZMW (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.
- SCT is a non-contributory scheme that provides cash to vulnerable households. In 2019, the per-capita benefit amount was 90 ZMW per month and 180 ZMW for families with a disabled persons.

Reform FISP and re-distribute the savings to SCT?

- Both FISP and SCT are included in MicroZAMOD, the tax-benefit microsimulation model for Zambia, which is used to estimate the costs and benefits of government fiscal programmes.
- 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.
- First, we compare the public expenditures and poverty reduction potential of both the FISP and SCT,
- The removal of SCT would have a larger impact on poverty compared to FISP, suggesting that SCT is more efficient at targeting the poor.

Reform FISP and re-distribute the savings to SCT?

- FISP also costs more for the government based on the simulations, even when ignoring administrative costs. This result confirms concerns that expenditures on the programme have been wasteful.
- First, we compare the public expenditures and poverty reduction potential of both the FISP and SCT,
- The removal of SCT would have a larger impact on poverty compared to FISP, suggesting that SCT is more efficient at targeting the poor.
- 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

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Simulating the three policy changes

1. We increase the transfer amount under the new SCT programme from 90 to 200 ZMW and 400 ZMW for household with disabled members.
2. We eliminates the FISP and end up with savings of ZMW 1,700. We then extend the SCT eligibility criteria to include some of the most vulnerable beneficiaries previously covered by the FISP but not the SCT.
3. 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.

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Impact of the reform on the budget and beneficiaries

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.

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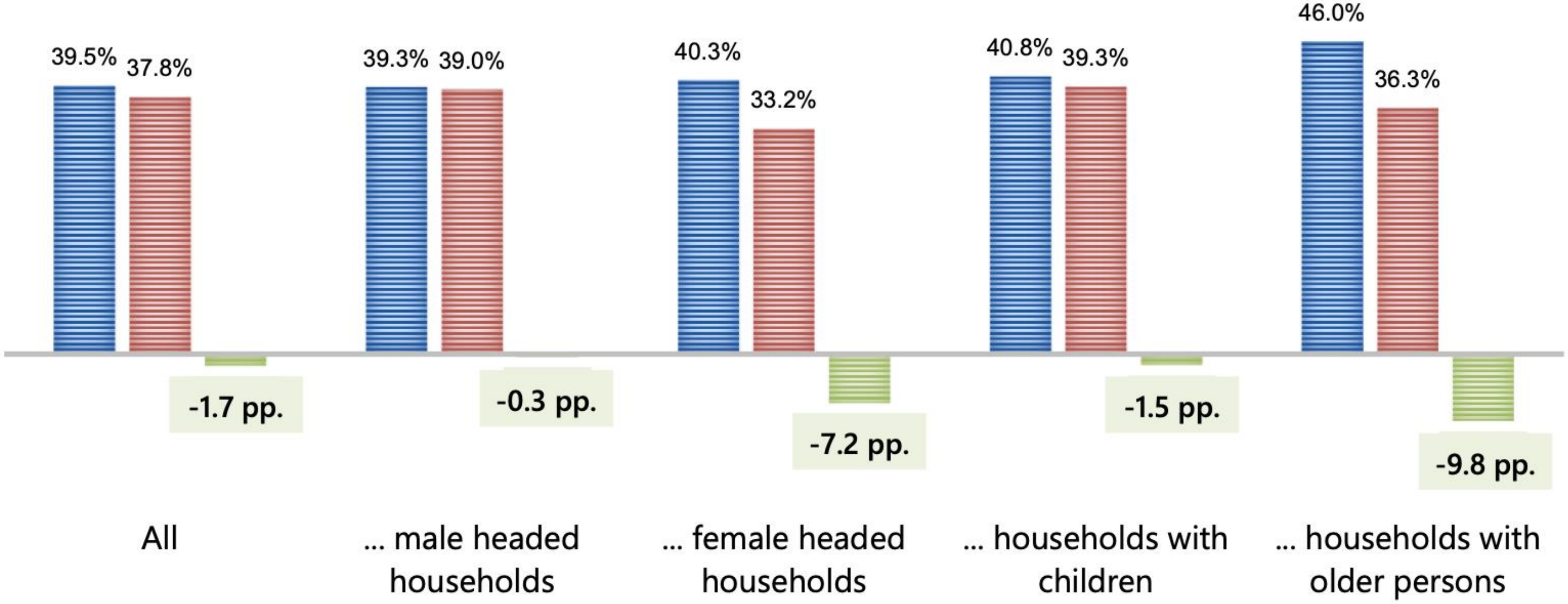
The impact on poverty reduction goals

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



Source: Authors' elaboration of simulations using MicroZAMOD.

Findings

- 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.
- 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

1. 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
2. Additional savings from restructuring the FISP can be redirected towards more effective programmes such as the SCT.
3. 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