



# Public Expenditure and Agricultural Policy: Policy Issues, Opportunities, and Recommendations for Zimbabwe

Paper No. 1





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## BACKGROUND

The Government of the United Kingdom through the Department for International Development (DFID) has been supporting the Zimbabwe Livelihoods and Food Security Programme (LFSP), which aims at contributing to poverty reduction through increased incomes. The programme has targeted over 127,000 smallholder farming households in eight districts, and aims at addressing constraints to productivity, market participation, access to rural finance as well as the supply and demand of nutritious foods. The LFSP comprise of three main components managed by the Food and Agriculture Organization of the United Nations (FAO), Palladium, and Coffey. The FAO is managing the Agriculture Productivity and Nutrition (APN) component aimed at raising smallholder farm productivity by promoting adoption of improved and climate appropriate practices, access to finance and production and consumption of safe and more nutritious foods. Palladium is managing the Markets Development component whilst Coffey is responsible for overall programme monitoring, reporting and evaluation.

The implementation of the programme involves a number of partners ranging from international and national NGOs, private sector, CGIAR, financial institutions, research institutes and government. FAO and partners have succeed to deliver a multi-faceted intervention that incorporates extension and advisory services, nutrition, community based micro finance, rural financial services, market development and access by smallholder farmers and managed to generate knowledge and evidence that has started to inform the policy influencing agenda. Given its relevant research experience and strength in outreach activities, the Indaba Agricultural Policy Research Institute (IAPRI), a non-profit Zambian company that works with public and private stakeholders in the agricultural sector and partnering with the Michigan State University's Department of Agricultural Economics (MSU) was identified as a strategic regional partner to assist in implementing strengthening evidence and analysis to influence policy and private sector investment in collaboration with programme partners. The specific roles of the IAPRI/MSU collaboration under this programme are as follows:

- To generate diagnostic and strategic policy research to fill key knowledge gaps in formulating and implementing agricultural and food security policies and strategies that promote smallholder agricultural growth and broader development objectives.
- To establish an information and knowledge support system to communicate research results for policy formulation, serving policymakers, development partners, private sector and other investors, analysts, and ultimately the farmers through a combination of the following:
  - i) IAPRI/ MSU teaming up with MAMID and local partners to form a research working group (for each thematic area) and collaborate with all relevant organizations in the implementation of the different studies
  - ii) Production of information packs in different formats, including working or background papers, policy briefs, infographics, documentaries, presentations and workshop reports and facilitate dialogue on the findings and policy recommendations.
  - iii) Support capacity building of partners (LFSP, MAMID, researchers and others) to use evidence and communicate the evidence within their networks.

The main objective of the policy research component of the programme is to integrate LFSP evidence and research findings into national policy formulation and implementation in order to create a policy environment that accommodates the operations of smallholder farmers. The approach and specific research themes and activities under this component are consistent with the objectives and focal areas of the ZIMASSET, the CAADP process, and the Sustainable Development Goals (SDGs), and will complement the activities being done by various LFSP partners. In addition, capacity strengthening for policy research, analysis and outreach is an integral part of the approach for all the thematic areas. It is envisaged that in the long-run a policy environment that is conducive to private and public investments in the agriculture and food sector, shall contribute to a notable reduction in food and nutrition insecurity in Zimbabwe. The three key pillars for the implementation of the Programme are; 1) Short-term Policy Constraints Analysis; 2) Diagnostic and Strategic Policy Research; 3) Outreach for Policy Influence. This paper is one of the key outputs of the Diagnostic and Startegic Policy Research.

## ACKNOWLEDGMENTS

We acknowledge the financial support from the Government of the United Kingdom through the Department for International Development (DFID) which has been funding the Zimbabwe Livelihoods and Food Security Programme (LFSP). We also acknowledge the United Nations Food and Agriculture Organisation (FAO) in Zimbabwe which has been managing the LFSP in collaboration with Palladium and Coffey. Further, we recognise and appreciate the input and support from various Government Ministries including the Ministry of Agriculture, Mechanization and Irrigation Development (MAMID), Zimbabwe Statistical Office (ZimStat), the Food and Nutrition Council (FNC), and members of the LFSP Policy Advisory and Technical Working Groups. We also appreciate the hard work and commitment of the local consultants working in collaboration with the LFSP Team to ensure that quality data was collected and synthesized into this issues paper.

Finally, but not the least, we appreciate the patience, cooperation and support of the various stakeholders consulted in the publication of this paper without which, this work would not have been successfully conducted. We pray that their efforts in this exercise shall not be in vain.

Any views expressed or remaining errors are solely the responsibility of the authors.

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### Ensuring Nutrition, Transforming and Empowering Rural Farmers and Promoting Resilience in Zimbabwe (ENTERPRIZE) IPs – Mashonaland Central (Mt Darwin, Guruve)



### Extension, and Training for Rural Agriculture (EXTRA) IPs – Midlands (Gokwe South, Kwekwe, Shurugwi)



### Nutrition and Gender Mainstreaming and Policy



### Rural Finance



## RESEARCH TEAM

Under the guidance of the Indaba Agricultural Policy Research Institute (IAPRI) Research Directorate, this research was performed by the following team members:

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## EXECUTIVE SUMMARY

### Introduction

The quality of agricultural public spending plays a major role in agricultural growth, development and rural poverty reduction. Evidence shows that in predominantly agrarian countries like Zimbabwe, agricultural growth is more likely to involve and benefit the poor than non-agricultural growth. This is due to the fact that the majority of the poor work in the agricultural sector. The provision of public goods, through investments in agriculture research and development, extension services, and rural infrastructure are key to achieving sustainable long-term agricultural growth and poverty reduction. However, the ability of an agricultural sector to sustain broad-based, pro-poor development and food security is intricately linked to the stated priorities and actions of the public sector. The quality of public expenditure is key to driving sustainable agricultural growth and development.

The Zimbabwean Government recognizes that agriculture is one of the key priority sectors in achieving sustainable economic growth and poverty reduction as outlined in the National Agricultural Investment Plan and Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET). However, frequent droughts, the trend in resource use and sometimes ad hoc policy actions associated with agricultural policy have made it impossible to achieve the stated goals. Against this background, this paper examines the following:

- Zimbabwe's agricultural spending against alternative spending strategies known to help achieve pro-poor growth;
- Examine the extent to which current spending approaches to agriculture engage the majority of the rural smallholder farmers; and
- Assess the country's progress towards CAADP targets, Africa's policy framework for agricultural transformation.

### Methods

To address the objectives, the study uses existing historical public expenditure data from the Ministry of Finance and National Development, ZimStat complemented by data from the Ministry of Agriculture, Mechanisation and Irrigation Development (MAMID). Due to data limitations and consistency of budgeting lines, trend analysis for the budget allocations to the agricultural sector starts in 1995 whilst detailed analysis of MAMID's budget allocation and disbursements/releases are restricted to 2005 to 2016. Prior to 2005, there were several changes to what constituted the Ministry of Agriculture. For example, Lands and technical services department, Environment and Water Development, surveyor-general and trypanosomiasis control.

### Findings

1. There is shrinking contribution of agriculture to GDP. Unfortunately, this does not signify structural transformation when productivity and labor productivity are increasing, instead the sector has been shrinking. Zimbabwe's agricultural productivity and labour productivity in the sector has remained very low. For example, Zimbabwe's productivity as measured by yields per ha is below that of South Africa, Zambia and Mozambique for both staple and cash crops. In addition, the country's value added per worker for 2016 valued at US\$399.91 per annum is only 45 percent of the country's peak of US\$894.91 in 2001.
2. The distribution of the agricultural budget has in the recent past placed too much emphasis on input and output subsidies instead of other key drivers of agricultural growth such as research and development, extension and

irrigation development. Since, 2001 allocations, to capital transfers have been trending upwards with a peak of 74 percent of MAMID budget in 2007. Despite the general decline in capital transfers from 55 percent in 2008 to 20 percent in 2011, the trend has been going upwards and has registered 51 percent of MAMID budget in 2017.

3. Since 1995, the proportion of the agricultural budget to the national budget has been below the 10 percent CAADP target with the exceptions of 2005 to 2008 due to quasi fiscal expenditure on agriculture. Having a sustained 10 percent allocation to the agricultural sector would be a significant initial step to having more resources available to the sector. Targeting public spending to key agricultural areas that directly affect the very poor will help Zimbabwe start to achieve meaningful rural poverty reduction.
4. Overall, between the period 1985 and 2017, capital transfers (subsidies and strategic reserves) accounted for an average of 40 percent of the MAMID budget followed by 27 percent to employment costs. Following the Fast Track Land Reform Programme between the period 2001-2008 there has been an increase in allocation to the Lands, resettlement and technical services program to compliment government efforts in land redistribution.
5. The ratio of goods and services to employment costs is less than one and has continued to decline meaning over the years little has been budgeted for operational activities.
6. Actual budgetary allocations often differ in significant ways from disbursements. Often budget releases to capital transfers have been exceeding 100 percent whilst other budget lines such as research and development and extension have received partial disbursements.

## Conclusion and Recommendations

### CONCLUSION

- The agricultural sector plays a crucial role in the Zimbabwean economy. As such, agricultural growth and increased competitiveness will remain the main avenues for poverty reduction and increased rural incomes. Given that 65 percent of Zimbabwe's population depends on agriculture, revitalization of this sector as an engine of growth is critical to reduce incidence of poverty.
- Increasing investment in productivity-enhancing inputs such as irrigation, research, technical and extension services, rehabilitation and expansion of feeder roads is crucial for improving agriculture's performance. Expansion of irrigation coverage reduce vulnerability to unpredictable rainfall which undermines overall agricultural performance. Most smallholder farmers produce mainly for subsistence hence availability of irrigation facilities may promote winter cropping.

### RECOMMENDATIONS

1. *Increase funding to key drivers of agricultural growth.* Realigning public resources to focus mainly on public goods that foster market development to service the millions of smallholder farmers and consumers will unlock the funding potential from the private sector. In the medium to long term, there is a need for

reorientation of government expenditure, away from ineffectual subsidies towards increased investment in alternative public goods such as irrigation development, rural infrastructure, research, and extension, so as to “strengthen agriculture input and output markets, create capacities for increasing production and productivity” . Decades of research evidence shows that these types of public investments provide the greatest payoffs to agricultural growth and poverty reduction.

2. *Improve timing of budget releases.* Policy discussions and subsequent decisions need to account for the fact that actual budgetary allocations often differ in significant ways from planned disbursements. Monitoring systems designed to increase budgeting transparency and accountability might provide a method to reduce or eliminate such differences.
3. *Smart subsidies:* In line with the Zimbabwe Agriculture Investment Plan (ZAIP), the Government needs to make bold decisions and implement smart subsidies that will reduce impact on the Treasury by crowding in private sector to help fund some aspects of the input distribution. Fiscal space created by the reforms will result in reductions in discretionary expenditure and saved resources can be invested in higher return social protection alternatives that can deliver many of the objectives that the current input and output subsidies intended to deliver. For example, Social Cash Transfers (SCTs) focused on the poorest and most vulnerable households are more likely to have positive multiplier effect on the economy as cash creates an effective demand for food and non-food products helping local economies to grow.
4. Based on an extensive literature review of best global and regional practices on successful economic transformation results on public expenditure and policy in Zimbabwe it is suggested that for the country to achieve broad-based sustainable economic growth and development through agriculture there is need for:
  - Increased and sustained investment in research and development to enable the country to adopt modern country-specific farming techniques that are suitable to its culture and climate.
  - Guided public and private investment in infrastructure.
  - Increased promotion of the diversification of Zimbabwe’s agricultural sector by implementing policies that utilize the comparative advantage of the diverse agricultural conditions in the country.
  - Promotion of the commercialization of the agricultural sector through the removal of the constraints that farmers face especially in accessing both short and long-term agricultural finance, productivity enhancement technology, extension messages, and markets.
  - Promotion of value addition to generate stronger forward and backward linkages between sectors of the economy.
  - Creation of a conducive and stable policy environment that allows for the greater participation of the private sector.
  - Stronger institutions that support the agricultural transformation agenda.

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## ACRONYMS

ASPEF	Agriculture Sector Productivity Enhancement Facility
CAADP	Comprehensive African Agriculture Development Programme
COMESA	Common Market for Eastern and Southern Africa
DFID	Department for International Development
ESAP	Economic Structural Adjustment Programme
FAO	Food and Agriculture Organization of the United Nations
FNC	Food and Nutrition Council
FTLRP	Fast Track Land Reform Programme
GDP	Gross Domestic Product
GMB	Grain Marketing Board
Ha	Hectare
IAPRI	Indaba Agricultural Policy Research Institute
LFSP	Livelihoods and Food Security Programme
MAMID	Ministry of Agriculture, Mechanization and Irrigation Development
MOFED	Ministry of Finance and Economic Development
PSF	Productive Sector Facility
SADC	Southern African Development Community
SCTs	Social Cash Transfers
ton/ha	tonnes per hectare
US\$	United States Dollar
ZAIP	Zimbabwe Agriculture Investment Plan
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMPREST	Zimbabwe Programme for Socio-Economic Transformation
ZimStat	Zimbabwe National Statistics Agency

## 1. INTRODUCTION

The quality of agricultural public spending plays a major role in agricultural growth, development and rural poverty reduction. Evidence shows that in predominantly agrarian countries like Zimbabwe, agricultural growth is more likely to involve and benefit the poor than non-agricultural growth, this is due to the observations that the majority of the poor work in the agricultural sector (FAO, 2012, Akroyd and Smith, 2007). Yet, aggregate growth alone is unlikely to automatically translate into reductions in poverty. Instead, certain preconditions must be met. The literature on “pro-poor” agricultural growth suggests that in order to use agriculture as an engine for poverty reduction, public spending must be cognizant of land and productive assets constraints, fairly poor market access conditions, and unpredictable weather.

A great deal of research evidence from sub Saharan Africa (SSA) as well as around the world indicates that the greatest contribution that public sector resources can make to sustainable long-term agricultural growth and poverty reduction is from: sustained investment in research and development for crops and livestock; effective extension programmes; physical infrastructure; and a stable and supportive policy environment (Mellor 1976; Byerlee and Eicher 1997; Alston et al. 2000; Evenson 2001; Fan et al 2007; and Timmer (2005)). This means, the policy makers would need to seriously review the quality of Zimbabwe’s agricultural budget and focus expenditure on these known key drivers of agricultural growth.

Like other African countries, Zimbabwe has committed itself to investing more on agriculture (10 percent minimal) under the Comprehensive Africa Agriculture Development Program (CAADP), with the expectation that the resources will be used more effectively in the future. However, the quality of this expenditure is key if it is to drive the agricultural sector forward.

Against this background, the main objective of this study was to examine the quality of agricultural public spending and the implications on agricultural growth and poverty reduction and to highlight ways in which spending could be redirected to achieve superior poverty reduction and welfare outcomes. In particular, the study had three sub objectives:

- Examine Zimbabwe’s agricultural spending against alternative spending strategies known to help achieve pro-poor growth;
- Examine the extent to which current spending approaches to agriculture engage the majority of the rural smallholder farmers; and
- Assess the country’s progress towards CAADP targets, Africa’s policy framework for agricultural transformation.

This is in line with the first objective of the Sustainable Development Goals (SDGs) of ending poverty in all its forms everywhere by 2030, currently measured as people living with less than United States dollar (US\$)1.25 a day.<sup>1</sup>

This paper helps to: i) build evidence-based research on public policy and expenditure for improving allocation, sequencing, and efficiency of public investments; ii) strengthen institutions that engage in public policy and resource management; and iii) improve monitoring and evaluation of public resources in the agricultural sector. To address the objectives, the study uses existing historical public expenditure data from the Ministry of Finance and National Development, ZimStat complemented by data from the Ministry of Agriculture, Mechanisation and Irrigation Development (MAMID).

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<sup>1</sup> <http://www.un.org/sustainabledevelopment/poverty/>

The rest of the paper is organized as follows: section 2 presents a brief description of Zimbabwe's agricultural sector and policies. Section 3 examines Zimbabwe's agricultural budget composition, trends in budget allocations and releases as well as the country's progress toward CAADP. Conclusion and recommendations are then discussed in section 4.

## 2. ZIMBABWE'S AGRICULTURAL SECTOR AND POLICIES

### 2.1 Agriculture's Place in Zimbabwe's Economy

The agricultural sector provides the main support for the country's rural economy. Sixty five percent of the Zimbabwean population depends on agriculture, primarily through smallholder production for their livelihoods and employment. In addition, the sector contribution to the gross domestic product (GDP) is estimated at 11.17 percent for the year 2016 and at least 30 percent of national export earnings (ZimStat, 2017). The potential for agricultural growth in Zimbabwe is staggering. The country is uniquely endowed with resources rich for agricultural development, which if harnessed fully, would enable the country to become the breadbasket of the Southern African region again. Zimbabwe has abundant land, a large amount of underground and surface water resources (with more than 8,000 dams), and rich flora and fauna. The diverse agro-climatic conditions have enabled the country to grow a large variety of crops, with over 23 types of food and cash crops and a variety of livestock species.

Figure 1, shows the trend in the sector's contribution to GDP. Since 1985, the contribution to GDP has ranged between 6 to 24 percent. The contribution of agriculture to total GDP has generally been declining between 1985 and 1991 (Pre-Economic Structural Adjustment Programme (ESAP)) from 20.7 percent to 6.8 percent. The contribution rose during the ESAP and Zimbabwe Programme for Socio-Economic Transformation (ZIMPREST) period peaking at 23.7 percent in 1999 before declining in 2000 to 7.2 percent in 2004 following the fast-track land reform program. Following the financial support to the agricultural sector by the Reserve Bank of Zimbabwe through the productive sector facility (PSF 2004) and Agriculture Sector Productivity Enhancement Facility (ASPEF 2005), the contribution of agriculture to GDP recovered again and registered a peak of 24.2 percent in 2008 before declining again between 2009 and 2013 with a marginal increase of 1.1 percent in 2016.

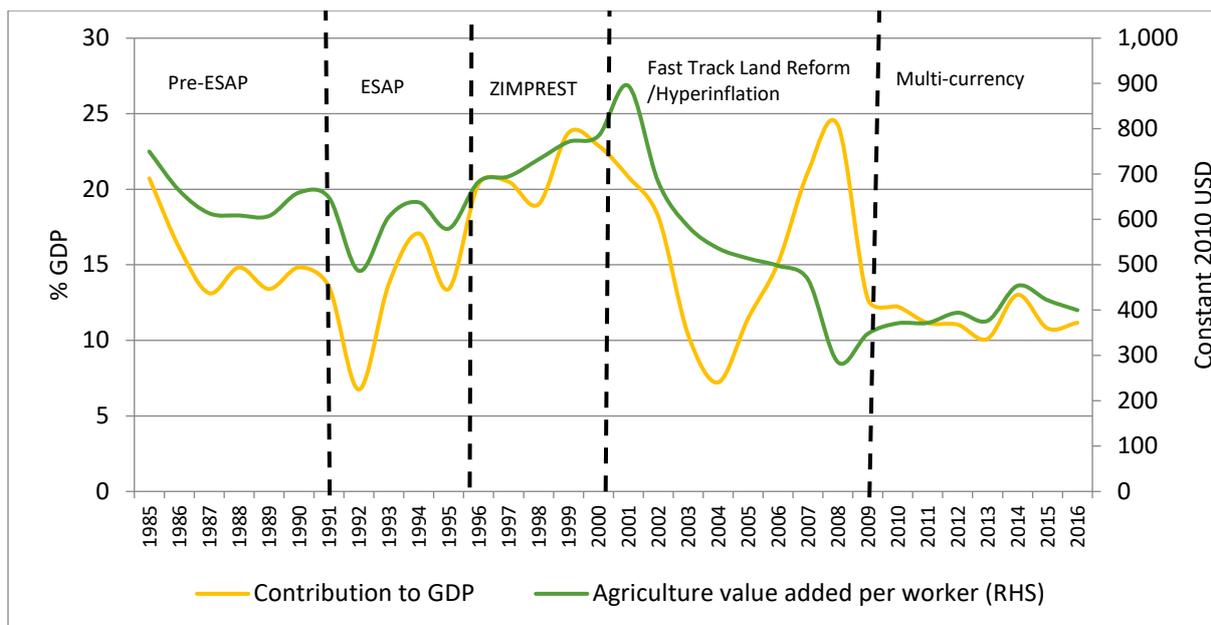


Figure 1: Agricultural contribution to gross domestic product (GDP), 1985-2016;

Source: GDP data from ZimStat and Value added per worker from World Bank

The question one may ask is whether declining contribution of agricultural to GDP is good or bad? The answer would be “it depends”. To adequately answer this question, one has to look at other trends in the economy. Ideally, if structural and agricultural transformation is taking place, the agriculture sector contribution to GDP is supposed to decline. Meaning productivity in the agricultural sector would be increasing, thus the level of output and productivity per worker increases, creating linkages that feed into the growing manufacturing and other related sectors of the economy. Therefore, a decline in the contribution of agriculture to total GDP would be accompanied by an increase in the manufacturing sectors which absorbs the surplus labour from the agricultural sector. However, if this is not happening, then the declining contribution of agriculture to total GDP would be viewed as a bad situation.

Unfortunately, Figure 1 shows that Zimbabwe’s declining contribution of agriculture to GDP is not accompanied by increases in agricultural labour productivity or increases in the manufacturing sector respectively. Badiane (2011) indicated that in most African countries, the decline in agriculture GDP is mostly associated with the movement of the labour force from the agricultural sector into the informal service sector in the urban areas but not increases in productivity. This trend shows that the agricultural sector in Zimbabwe continues to fail to stimulate growth in other sectors and create the necessary linkages, required to transform the Zimbabwean economy.

Value added per worker in agriculture, a proxy for labour productivity was US\$663.83 in 1985. It declined to US\$486.66 in 1992 and started to rise during the ESAP and ZIMPREST period reaching a peak of US\$894.91 in 2001. Thereafter, value added per worker plummeted to US\$285.16 in 2008 at the height of the hyperinflation, which translates to about a third of its 2001 value. During the multi-currency regime, it slightly recovered registering US\$399.95 in 2016. RESAKSS-SA (2007), reported that value added per worker in Southern African Development Community (SADC), middle income and developed countries is estimated at US\$851, US\$1,681 and US\$25,372 per annum, respectively. The SADC figure translates to about double the value added per worker for Zimbabwe’s 2016 value, whereas that of middle income and developed countries translates to about four and 63 times more than that of Zimbabwe, respectively.

## 2.2 The structure of Zimbabwe's agricultural sector

Zimbabwe's agricultural sector is characterized by many small communal farmers that account for a significant proportion of total agricultural output. Perhaps unsurprisingly, the majority of Government agricultural support in the past was directed toward this category of farmers. After the fasttrack land reform, the Government has been refocusing some of its support to larger farmers in an attempt to spur agricultural recovery. Nevertheless, the majority of smallholder farmers in the country have very small landholding sizes and any strategy that does not fully recognize this duality is likely going to be unsuccessful in achieving inclusive and broad-based poverty reduction and agricultural growth (Table 1). With such land sizes, it is not possible for these farmers to earn sustainable incomes from cropping unless substantial investments in productivity enhancements are made and high-value crops are promoted.

Zimbabwe's agricultural sector has 6 broad categories of farmers based on land holding size: communal, old resettlement (Model A, B, C and D), A1, A2, small scale commercial and large scale commercial farmers<sup>2</sup>. The communal farmers are the majority and have the smallest landholdings. In this paper we refer to a farmer as a "smallholder farmer" if they are classified as communal, old resettlement, small-scale commercial and A1 farmers. The other two remaining group of farmers will be classified as medium and large-scale farmers constituting less than 1.5 percent of the farming community.

Land Cultivated	Households (HH)		Land cultivated	Female headed
	Number		Ha	percent
Less than 1 hectare (ha)	813,444	73.0	.43	42.1
1.0- 1.99 ha	194,048	17.4	1.37	33.5
2.0 - 4.99 ha	87,215	7.8	2.90	27.7
5 - 9.99 ha	11,851	1.1	6.61	40.1
10.0 - 19.99 ha	4,654	.4	12.88	55.0
20 ha or more	3,615	.3	37.73	32.1
All farmers	1,114,979	100.0	1.03	39.5

Table 1: Land cultivated Distribution Among Smallholder Farmers in Zimbabwe in 2016

Source: ZimStat, 2015/16 PHS Survey

\*Excludes large scale commercial farmers

In 2000, the Government embarked on the Fast Track Land Reform programme (FTLRP) to redress colonial period land ownership imbalances. The FTLRP changed the structure of the agricultural sector landscape, by introducing a class of medium and large scale farmers requiring Government agricultural support in terms of capital and financial investments. For example, the country reported adding 145,775 new A1 farmers and 16,386 A2 farmers (Nyoni, 2016)

<sup>2</sup> <http://www.lands.gov.zw/departments/resettlement-planning-dvpmt/planning>, accessed 7 April 2017

Figure 2 illustrates the structure of the Zimbabwean agricultural sector in 2016 based on total area cultivated in the 2015/16 agricultural season. However, given the farm structure in the country, the debate should not be whether to promote large-scale versus smallholder farmers but to find policy options that are suited to the different farm categories. This means any strategy that excludes the bottom smallholders and focuses on the larger farms is likely to leave many trapped in poverty, as most of the smallholders will not be able to compete in the market due to low productivity and resource constraints (Wiggins et al 2007, 2011; Jayne et. al 2010; Hazell et al 2007).

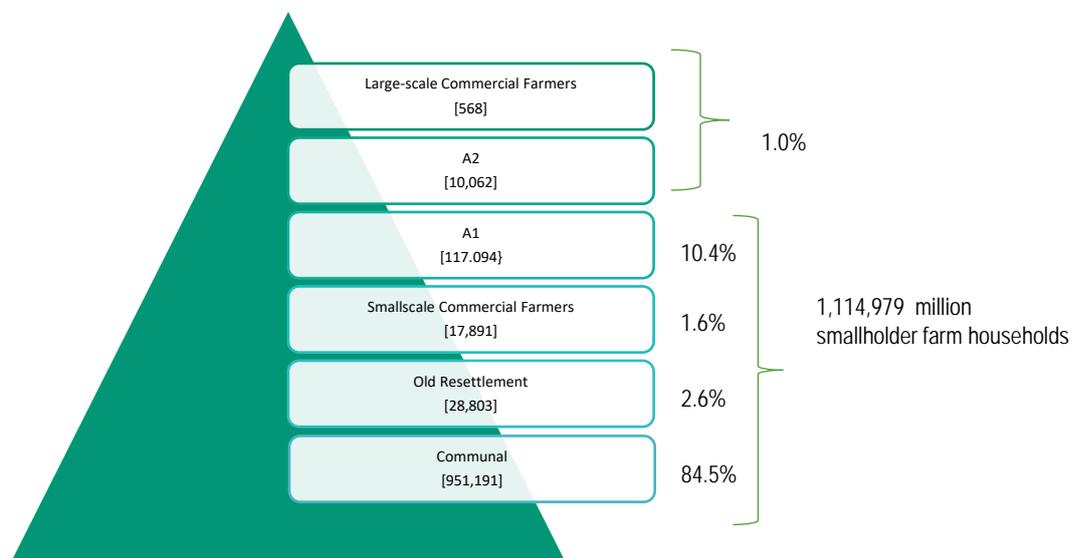


Figure 2: Zimbabwe's Farm Structure

Source: Authors illustration with data from 2015/16 Post Harvest Survey , ZimStat

## 2.3 Agricultural Production and Productivity

Experts have emphasized the crucial importance of increasing agricultural productivity in achieving sustainable economic transformation, food security and the Millennium Development Goals (MDGs) (Rosegrant et al. 2006; Timmer 1998; World Bank 2007). However, agricultural production in Zimbabwe has stagnated and productivity remains too low to stimulate this transformation. The agricultural sector in Zimbabwe has shrunk in the past two decades.

Figures 3-5, show that crop production in the country is highly variable due to the heavy reliance on rain-fed agriculture. The changing climatic conditions and frequent droughts contribute heavily to the volatility in crop production. With the exception of tobacco, production of the maize, soghurm and millet and other cash crops has continued to trend downwards compared to 1985 production. At the centre of this reduced production is very low productivity.

Average productivity of both food and cash crops across all farm types has been declining between 1985 and 2016.. For example, maize yield declined from an average 1.2 tonnes per hectare (ton/ha) between the period 1990 to 1995 to an average of 0.749 ton/ha between the period 2010 to 2016 (Figure 5). These yields have lagged

behind those of neighboring countries such as Malawi, Zambia, Mozambique and South Africa. This story is the same for most food and cash crops.

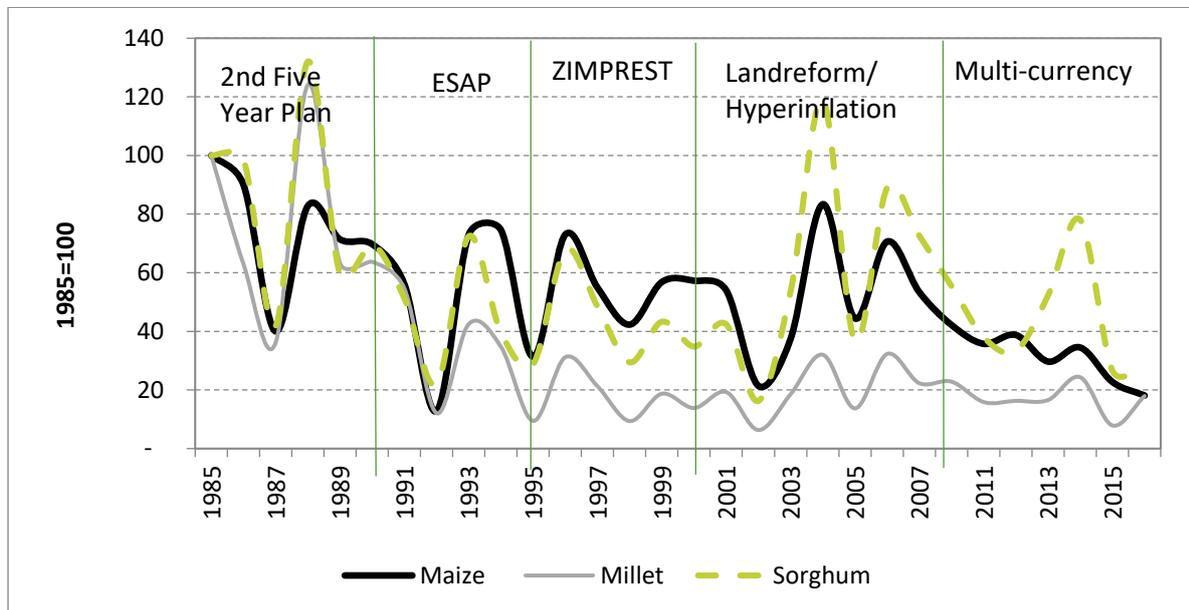


Figure 3: Crop production trend: Maize, Millet, Sorghum, 1985 - 2016

Source: FAOSTAT (1985-1993), ZimStat (1993-2014), 2016 Government of Zimbabwe Crop Assessment report

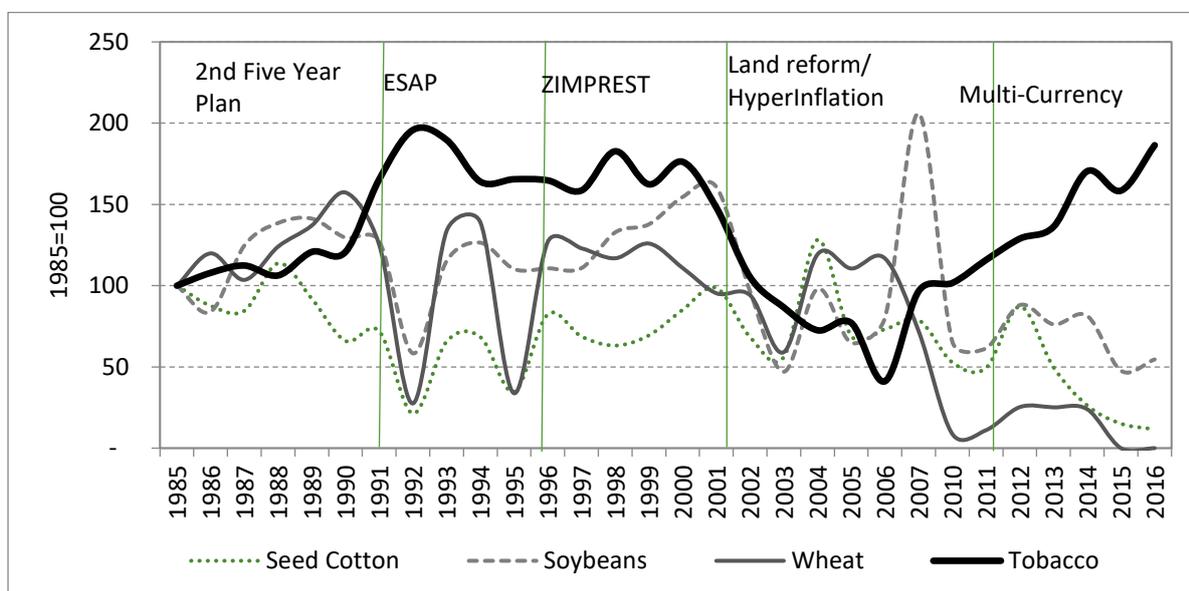


Figure 4: Crop production trend: Cotton, Tobacco, Wheat and Soyabean

Source: FAOSTAT (1985-1993), ZimStat (1993-2014), 2016 Government of Zimbabwe Crop Assessment report

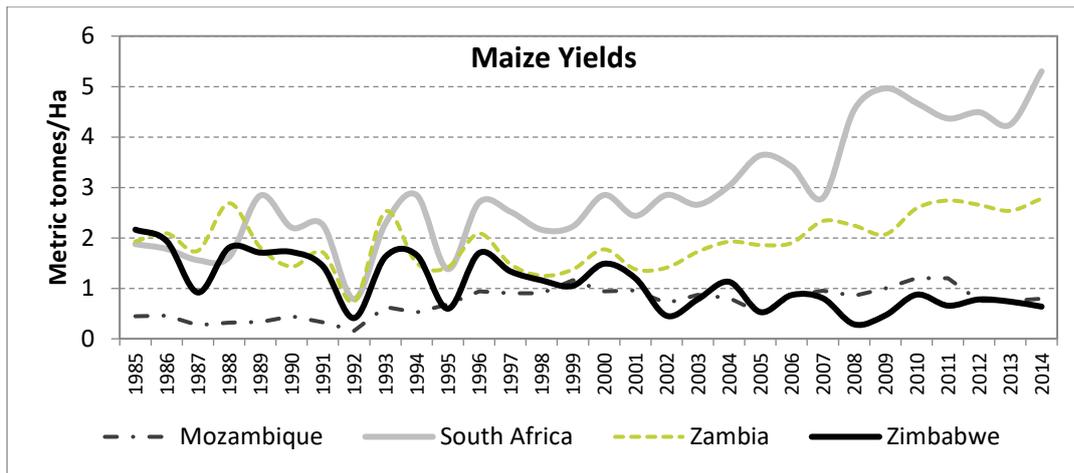


Figure 5: Regional maize productivity (yields), 1985-2014

Source: FAOSTAT (1985-1993), ZimStat (1993-2014) and 2016 GoZ Crop Assessment report

## 2.4 Rural Poverty Rates

Despite the Government's commitment to address the stubbornly high rural poverty through input and output support, rural poverty rates have remained stubbornly very high (Figure 6). Nearly 84.3 percent of the rural population live below the poverty line (World Bank, 2011) while national poverty rate stand at approximately 63.9 percent according to the recent poverty map produced by ZimStat in 2015.

The agricultural sector remains the only viable vehicle through which development and poverty reduction can occur in the country. Evidence shows that agricultural growth reduces poverty by twice the rate of growth in nonagricultural sectors (World Bank 2007; Diao et al. 2007), but in Zimbabwe, this growth has been curtailed by the slow rate of the country's economic recovery since 2000 when the Government implemented the Fast Track Land Reform Programme. Since then, there have been fluctuations in socioeconomic dynamics and shifting bilateral relations with cooperating and donor countries. As mentioned above, this situation has been worsened by a poorly performing agricultural sector.

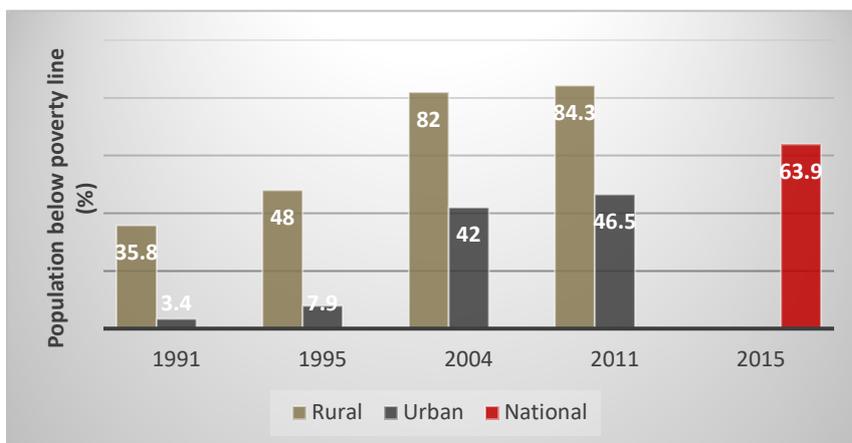


Figure 6: Population below poverty line (%) rural and urban for selected years

Source: SADC (2015) with 2004 levels from <http://www.tradingeconomics.com> and 2015 national average is computed from ZimStat 2015, Poverty Atlas

## 2.4 Food Consumption and Expenditure Patterns

Urbanization, rural transformation and changes in consumption patterns can spur demand for agricultural produce from the smallholder farm sector, creating urban-rural linkages in the form of expanded markets for various crops and livestock products (Tschirely, 2013). They can also lead to the development of input markets and increased utilization of locally produced commodities through agro-processing as urban and rural populations' demand for processed foods increase. Agricultural expenditure and policies that are responsive to these changes will create opportunities for smallholder farmers to diversify into new and more lucrative crops and lead to a reduction in the import bill of food commodities not readily available in the country but preferred by consumers.

Emerging evidence from the work done under the LFSP show that consumption and expenditure patterns in both urban and rural Zimbabwe are changing. Notably, periods of hardship and increased food aid was cited as major drivers of food consumption patterns as people adjusted to the changing economic and climatic conditions. Other drivers of change included knowledge, market access/availability, income, food prices, and disease burden.

Maize still dominated starchy crops expenditure but data from PICES shows a declining trend for the proportion of maize grain and products in total household expenditure. For example, expenditure on maize was estimated at 21.2 percent in 1996 and by 2011 it had gone down to 14.8 percent (Figure 7)<sup>3</sup>. This may indicate that food substitution is taking place and other commodities are slowly taking up the position initially occupied by maize. To be sustained, this requires a sustainable agricultural diversification policy and public expenditure that does not just focus on maize but on other grains whose demand is notably increasing. The implications of these findings suggest that there is scope for agricultural policies and expenditure that raise the share of domestic products in the supply chain by increasing linkages between farmers, consumers and retailers.



Figure 7: Staple food grains expenditure trend

Source: PICES 1996, 2001 and 2011, ZimStat

<sup>3</sup> No recent data is available to update the trend.

## 2.5 Agricultural Policies and Country Commitments

Zimbabwe signed the Comprehensive Africa Agriculture Development Programme (CAADP) Compact on 22nd November 2013, becoming the 14th Common Market for Eastern and Southern Africa (COMESA) member state and 37th country in Africa to sign the document. The country developed the Zimbabwe Agricultural Investment Plan, 2013-2017 (ZAIP) as a basis for formulating bankable projects for resource mobilisation. These have been aligned with the SADC and COMESA Food and Nutrition Frameworks (2013 – 2022). In 2014, Zimbabwe together with other African nations committed to reducing stunting prevalence to less than 10 percent - the Malabo Declaration of 2014. The use of these frameworks to enhance the growth of the sector and its contribution to the economic recovery has been minimal. A lot needs to happen to ensure access to safe, diverse and nutritious food for all people at all times.

Zimbabwe's potential to use agriculture as a vehicle for economic development and poverty reduction is intricately linked to the stated priorities, actions, and investments of the public sector, which has been constrained by the country's external debt burden. The country successfully engaged the three International Financial Institutions, the African Development Bank (AfDB), World Bank (WB) and the International Monetary Fund (IMF) on the country's strategy for clearing outstanding arrears and is on track with the implementation of the Staff Monitored Programme (SMP). However, the reviews have called for the country to address and accelerate the implementation by putting in place policy measures that are consistent with ZimAsset and taking the necessary steps and policies that are essential for economic transformation, debt sustainability and the reduction of poverty.

## 3. PUBLIC EXPENDITURE ON AGRICULTURE

### 3.1 Overall Agriculture Budget

Figure 8 shows the proportion of the national budget towards the agricultural sector since 1995 compared to the CAADP target of 10 percent. In general, the proportion of the agricultural budget has remained below the 10 percent CAADP target in most years with the exceptions of 2005 to 2008 due to quasi fiscal expenditure on agriculture in those years. As mentioned earlier, the quality of expenditure is key to achieving broad-based agricultural growth with long lasting effects on rural poverty and productivity. Nevertheless, having a sustained 10 percent allocation to the agricultural sector would be a significant initial step to having more resources available to the sector. Targeting public spending to key agricultural areas that directly affect the very poor will help Zimbabwe start to achieve meaningful rural poverty reduction.

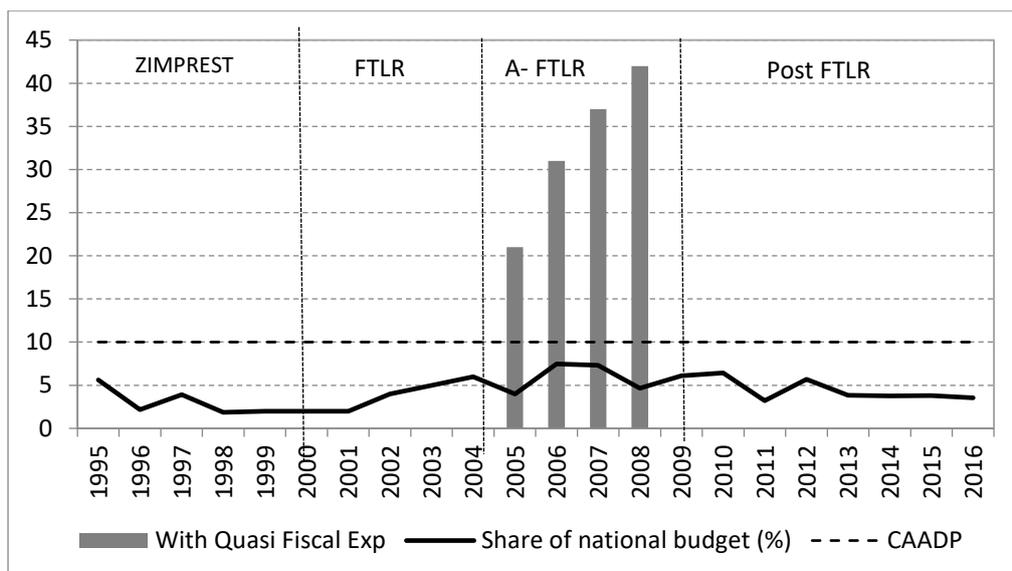


Figure 8: Budgetary allocation to the agriculture sector, 1995-2017

Source: Ministry of Finance and Economic Development (MOFED)

### 3.2 Allocation to Ministry of Agriculture Mechanization and Irrigation Development

An analysis of expenditure within the MAMID by programme was undertaken for the period 1985 to 2017. In general, Administration and General expenses take up the bulk of the MAMID budget. Between 1985-1990, the proportion of the budget going to this expenditure line averaged above 70 percent, falling to below 40 percent during the ESAP and ZIMPREST periods and 46 percent during the FTLR period. Following the FTLR between the period 2001-2008, allocations to the Lands, Resettlement and Technical Services Programme increased to compliment government efforts in land redistribution. Budget allocation to Agricultural Research, Technical and Extension services was highest during the ESAP and ZIMPREST periods, a period when there was an increasing trend in crop production and productivity.

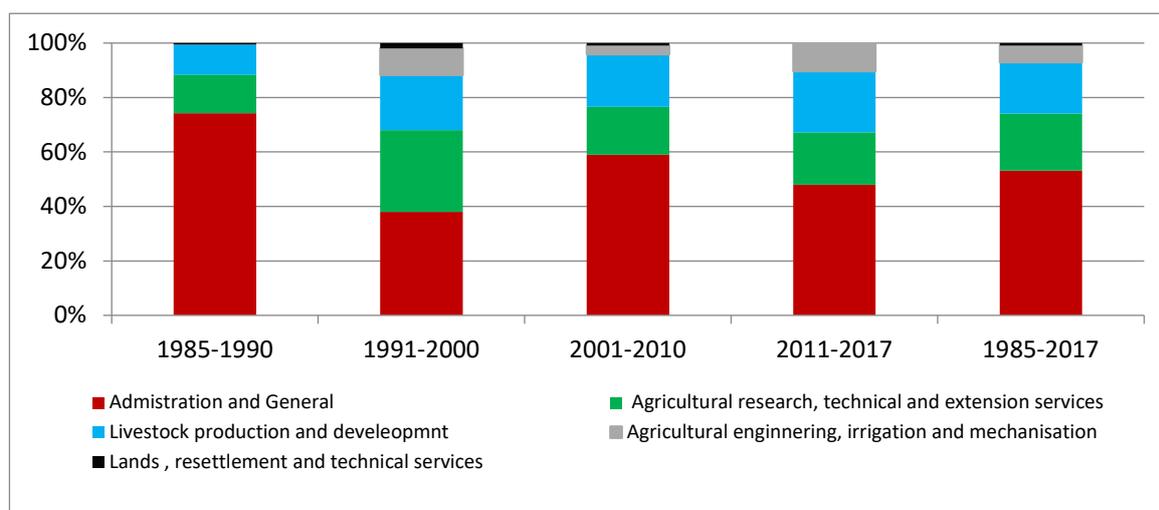


Figure 9: Trend in Expenditure allocation by program, 1985-2017

Source: Ministry of Finance and Economic Development Budget allocations

### 3.1.1 Ministry's budget aspiration and allocations

In each budget cycle, MAMID has an opportunity to present a budget that reflects needs, subject to adherence to a budget ceiling which is provided by the Ministry of Finance and Economic Development (MFED). Budget allocations to the Ministry of Agriculture provide a statement of government's priorities in the sector. Ideally, we would have wanted to present data on these aspirations versus allocations but the Ministry always try to adhere to the budget ceilings provided by MFED.

The size of the budget approved for the sector is important but does not correspond with the resources that will be released as the budget gets implemented. This is very crucial because non or partial release of funds means that several programmes will not be carried out. We discuss the budget disbursements in section 3.3.

### 3.2 Distribution of MAMID Budget

In order to examine the quality of the allocations within the general budget functions, we analyse the key budget allocations line items (Figure 10). In the period 1985 to 1995, budget allocations within the Ministry was dominated by capital transfers where above 50 percent of the budget was spent on input and output subsidies. This trend was reversed during the ZIMPREST period when subsidies were stopped and more funds channeled to agricultural development programmes. After the FTLR, the proportion to capital transfers has increased to more than 30 percent of the total budget mainly because of the increased expenditure towards farmer input support schemes and costs to purchase for the Strategic Grain Reserve (SGR).

Employment costs remain the second most highest expenditure line and expenditure to agricultural development programmes and it has been declining.

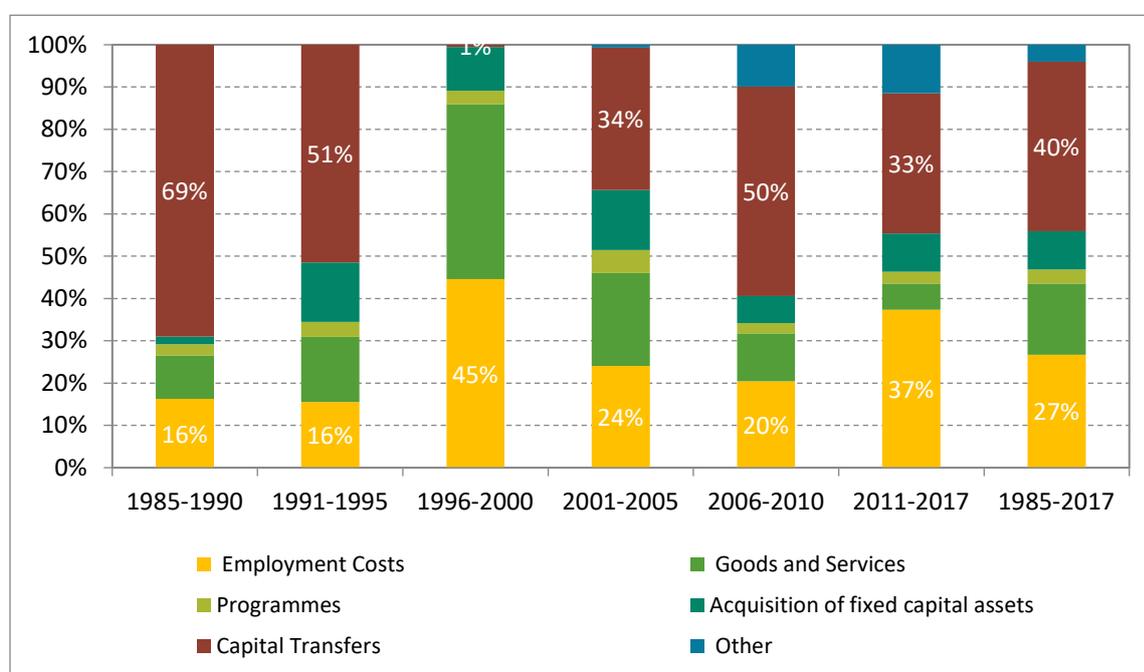


Figure 10: Trend in MAMID expenditure by line item ( percent of total agriculture ministry budget)

Source: Ministry of Finance and Economic Development

### 3.2.1 Capital Transfers

Capitals transfers have been a budget allocation in the agricultural sector. Capital transfers include budget allocations to Parastatal Corporate bodies and subsidies through the Grain Marketing Board (GMB) for the Input Support programmes and the purchase and storage of the SGR. Figure 11, shows that capital transfers rose from 18 percent in 2005 to 50.6 percent in 2017. Thus, between the period 2005 and 2017 capital transfers on average accounted for 35.4 percent of the budget to MAMID. This growth was mainly necessitated by the desire by government to re-energise the sector through assisting the underresourced farmers who benefited from the FTLR programme. The country has reverted to budget composition of the Pre-ESAP period. However, this trend is not sustainable if the support is to fund and physically deliver private goods such as agricultural inputs. A review of the way the assistance is delivered is important, as well as the amount of resources going towards key drivers of agricultural growth such as research and development, irrigation development, extension and rural road infrastructure.

Figure 12, shows the distribution of allcations within capital transfers. It is very clear from these trends that until late 1995 input subsidies were the major contributor to capital transfers. Since, then we have seen a decline in allcation to input subsidy programmes with more focus on output procurement for the SGR through GMB.

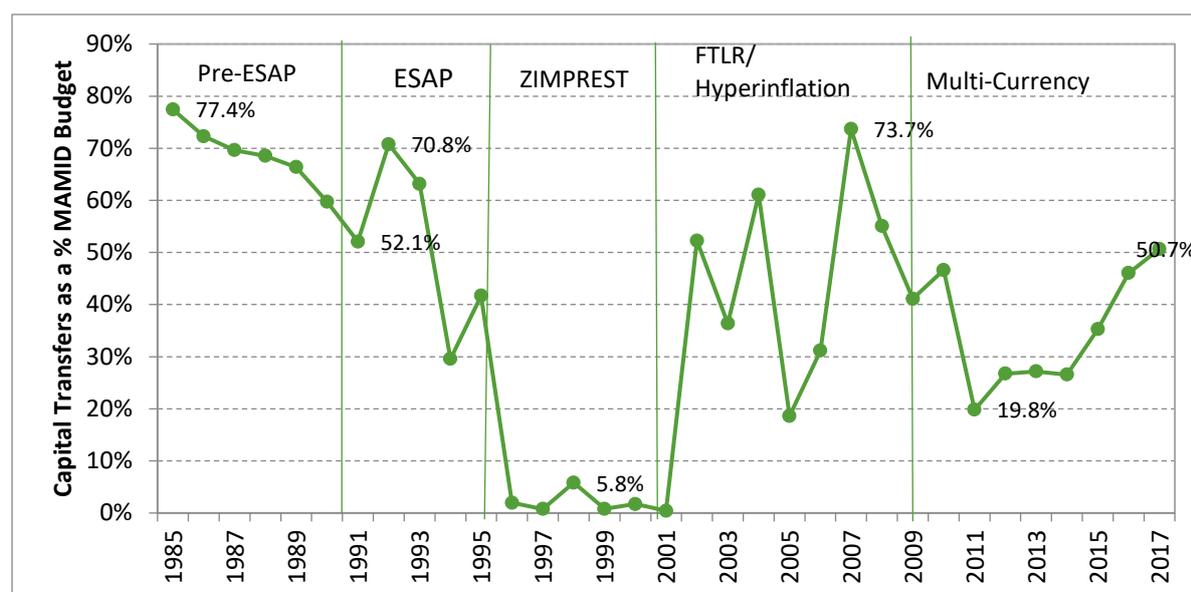


Figure 11: Trend in government capital transfers, 1985-2017

Source: Ministry of Finance and Economic Development

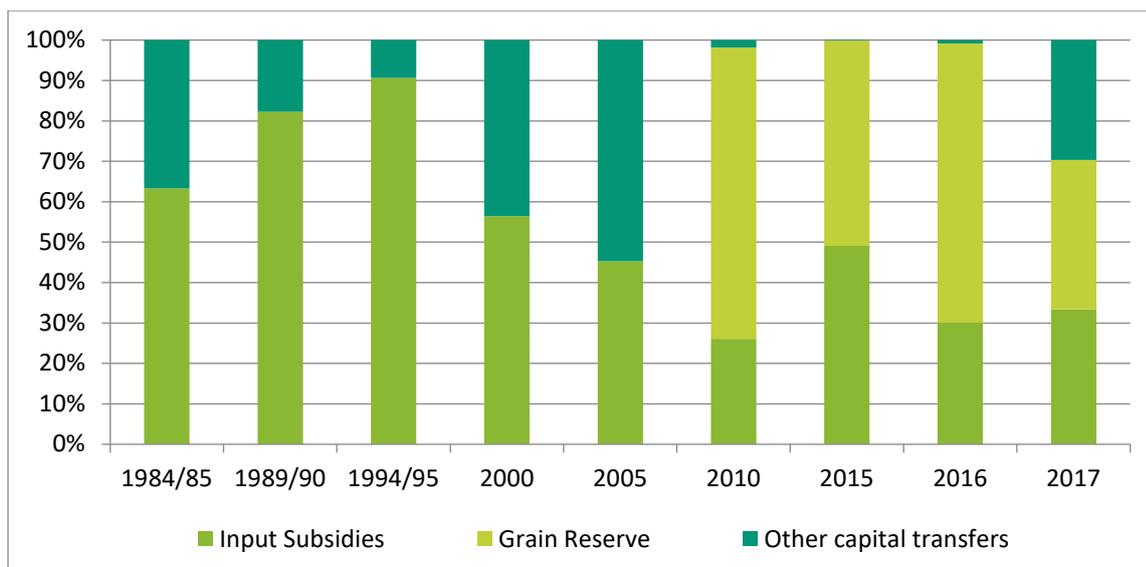


Figure 12: Evolution of Capital Transfers, 1985-2017

Source: Ministry of Finance

### 3.2.2 Operational Budget

Expenditure on goods and services support the operations of officers in MAMID. The budget is intended to pay for field expenses for Ministry staff, purchase goods and services, purchase drugs, train staff and pay for other contingencies. Between 1985 and 2016 the share of goods and services in the total MAMID budget averaged 17 percent (Figure 10 in section 3.2). Percent allocation declined during the 2000 to 2017 period and this undoubtedly has had negative implications on public agricultural technical delivery systems.

GoZ has to pay salaries in order to retain its technical staff. However, the impact of such public spending is curtailed by inadequate funding for operational activities. Scientists and specialist staff of MAMID cannot carry out experiments without supplies, nor go into field to conduct trials and demonstrations without transport and requisite equipment. Increased allocation and disbursements to goods and services for technical staff is a key driver of agricultural productivity change through knowledge generation and dissemination.

A comparison of the ratio of allocation to goods and services to total employment costs (wages) shows that it has been less than 1 in most of the years. This means that the proportion of wages in the agricultural budget has continued to outstrip the operational budget. Figure 13, shows a worsening trend where the provision of goods and services in the budget is downwards. This situation indicates that the country is paying salaries to staff but without enough provision for operational activities. The implication is that public agricultural staff have fewer resources at their disposal, a situation that may be contributing to low productivity and agricultural growth.

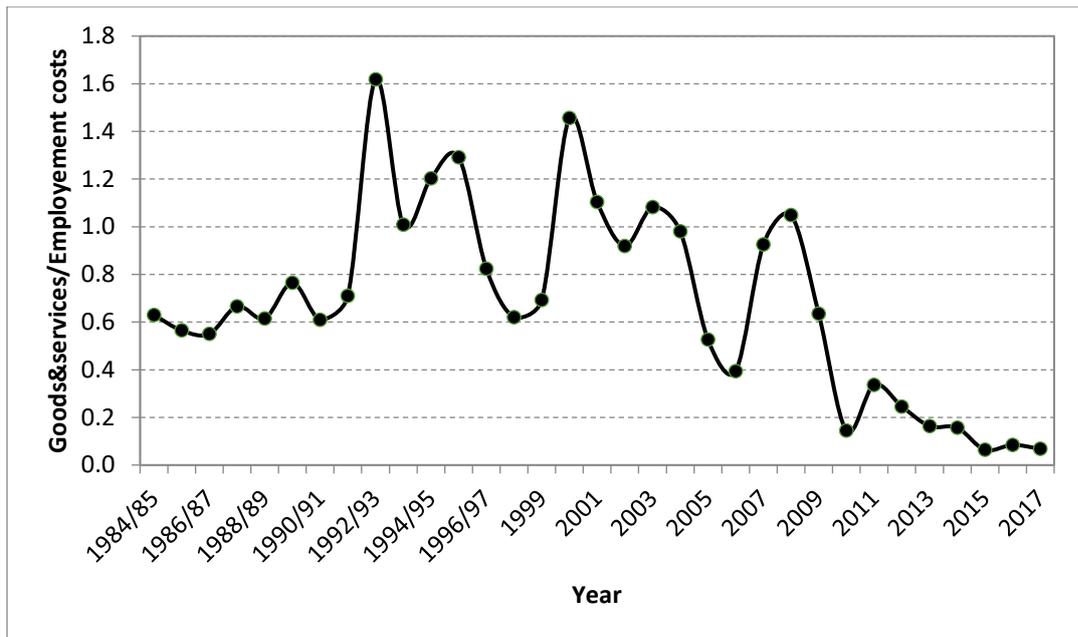


Figure 13: Ratio of Goods And Services budget To Employment Costs, 1985-2017

Source: Budget Estimates Ministry of Finance and Economic Development

### 3.2.3 Budget to Key Drivers of Agricultural Growth

Improvements in crop productivity require quality investments in research and extension. Thirtle et al., (2003) argues that investment in agricultural R& D and extension is instrumental in improving productivity and resulting in agricultural growth and poverty reduction. As discussed earlier, Zimbabwe's crop yields are chronically low and this may be explained by the level of investment into public R & D and extension services. Thirtle et al., (2003) further argues that pro-poor agricultural development needs to be market driven and can be realized only if smallholders are able grow through building linkages within value chains. Hence, other complementary public investments in road infrastructure especially in rural areas to link farmers to markets is critical (Foster and Briceño-Garmendia, 2010). If these investments are complemented by policies that secure property and land rights, they can stimulate private sector investments as well as encourage farmers to invest in long term productivity, enhancing technologies and land management practices (Timmer, 2011) .

Between 1984/5 and 1988/9 the proportion of MAMID budget allocation to agriculture research, technical and extension services averaged 13.6 percent of MAMID budget. During ESAP and ZIMPREST, the contribution generally rose from 16.2 percent in 1992/3 to a peak of 33.5 percent in 1996/7. The land reform and the hyperinflationary era was characterized by a decline in the share of research, technical and extension services. Thereafter, the rate recovered during the multicurrency regime from 7.5 percent in 2010 to about 30 percent in 2014 before declining to its lowest level of 1.5 percent in 2017.

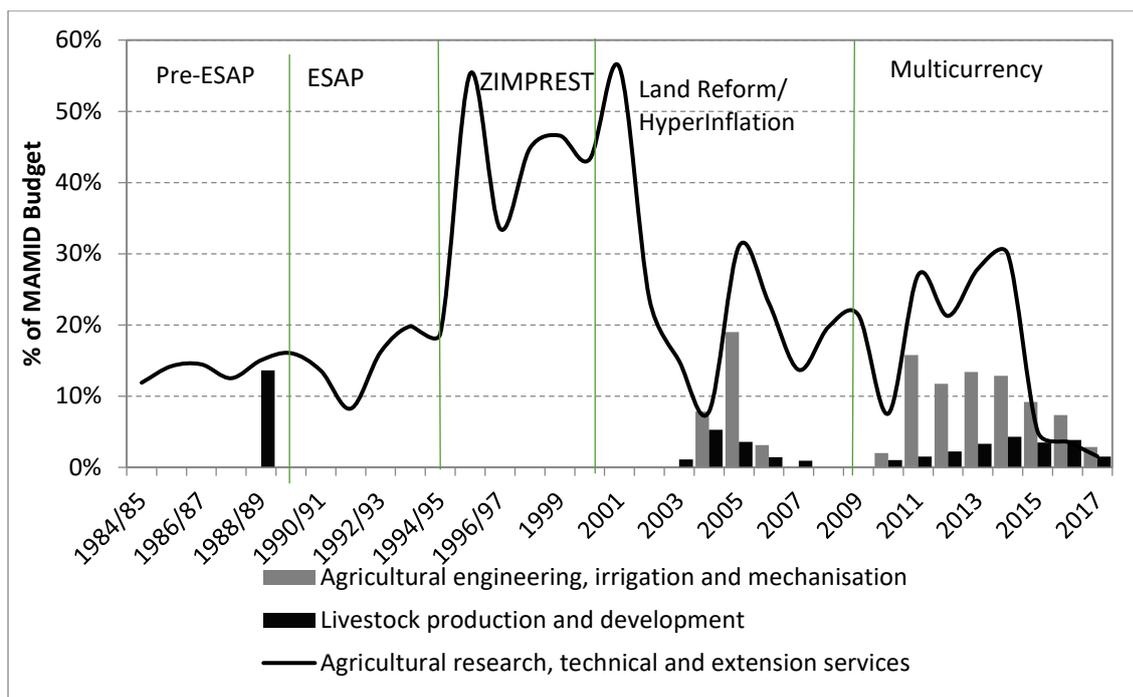


Figure 14: Allocation to Key Drivers of Agricultural Growth (2009-2016)

Source: Budget Estimates Ministry of Finance

### 3.3 Variation in budget allocation and disbursements

The size of the budget approved for the sector is important, but this does not correspond with the resources that will be disbursed as the budget gets implemented. Partial budget disbursements to an expenditure line means that several planned public programmes would not be implemented. Comparison of budget allocations against disbursements between the period 1999 and 2016 is presented in Figure 15. In general, two patterns are discernable, first actual resources disbursed do not always coincide with the amounts approved and second, disbursements often exceed allocations except between the period 2006 through 2010 and 2012 when the country's fiscal space was very limiting. However, as the Government's financial position began to improve from the 2010 onwards there actual disbursements started again to exceed allocations. Actual disbursements to the Ministry of Agriculture rose from 47 percent in 2009 to 152 percent in 2014, then 146 percent in 2015 and 366 percent in 2016. Disbursements in most years exceeded allocations due to budget overruns in employment costs and capital transfers.

Overall, actual disbursement to the Ministry of Agriculture budget allocation with regards to most line items have largely been below the limits of their vote appropriations. A closer look at which budget lines contribute more to the budget overruns reveals that capital transfers and sometimes employment costs receive more than what is allocated especially between 1999- 2004 and the period 2012 to 2016 (Figure 16). The large variance between allocations and actual disbursement in capital transfers starting from the years 1999 to 2001 has been largely as a result of discretionary expenditure on input support/subsidies and the output support through maize purchases for the SGR.

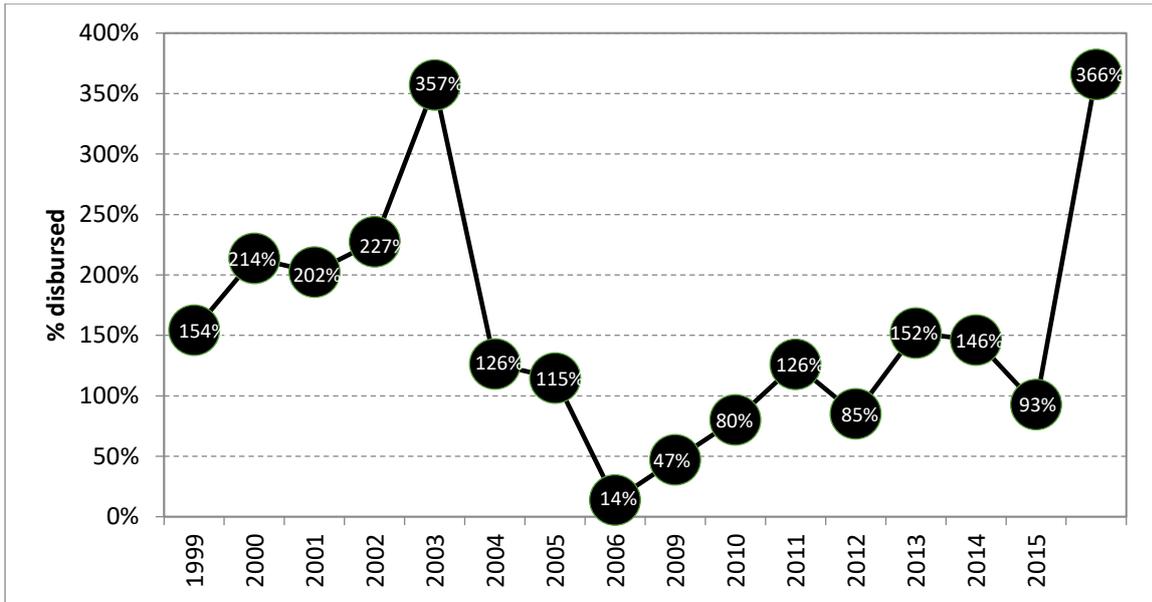


Figure 15: Total agriculture expenditure Allocation vs. Disbursement, 1999-2016

Source: Budget Estimates Ministry of Finance and Economic Development

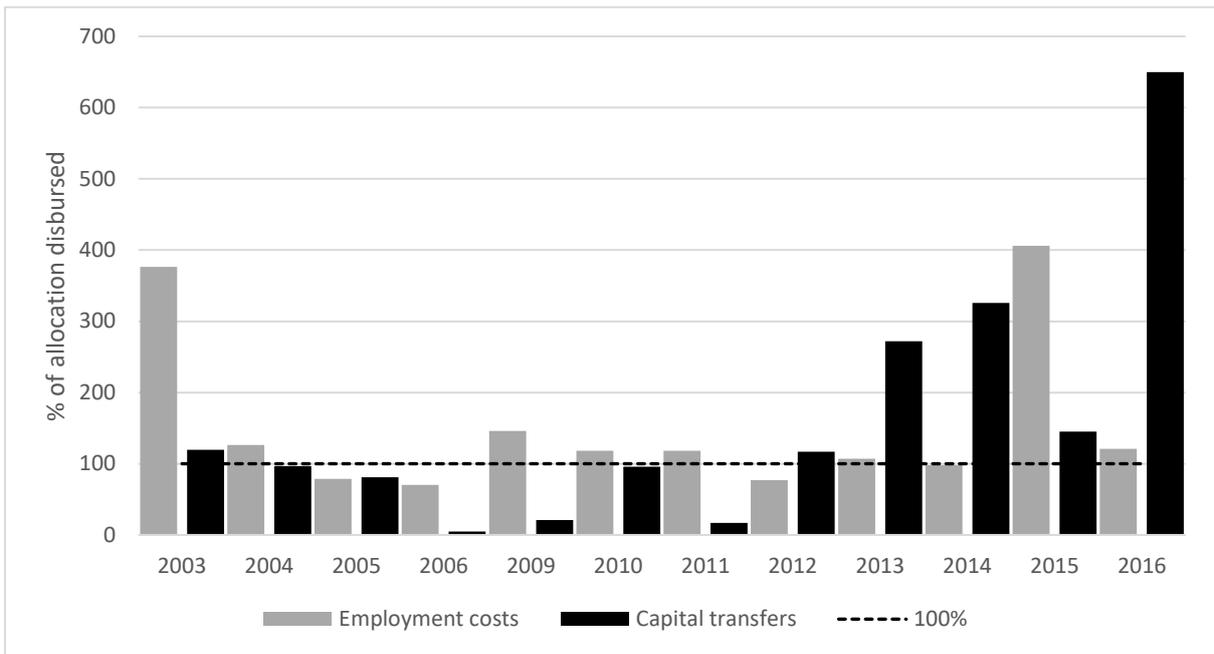


Figure 16: Allocation versus Disbursements: Capital Transfers and Employment Costs.

Source: Ministry of Finance and Economic Development

## 4. CONCLUSION AND RECOMMENDATIONS

### 4.1 Conclusion

The agricultural sector plays a crucial role in the Zimbabwean economy. As such, agricultural growth and increased competitiveness will remain the main avenues for poverty reduction and increased rural incomes. Given that 65 percent of Zimbabwe's population depends on agriculture, revitalization of this sector as an engine of growth is critical to reduce incidence of poverty.

The provision of public goods, through investments in agriculture research and development, extension services, and rural infrastructure are key to achieving sustainable long-term agricultural growth and poverty reduction. However, the ability of an agricultural sector to sustain broad-based, pro-poor development and food security is intricately linked to the stated priorities and actions of the public sector. The quality of public expenditure is key to driving sustainable agricultural growth and development. Increasing investment in productivity-enhancing inputs such as irrigation, research, technical and extension services, rehabilitation and expansion of feeder roads is crucial for improving agriculture's performance. Expansion of irrigation coverage reduces vulnerability to unpredictable rainfall which undermines overall agricultural performance.

If Zimbabwe is to sustainably meet the 10% CAADP target as specified in the Maputo Declaration of 2003, public investment in agriculture will need to increase significantly over the coming years and the quality of the allocations and disbursements will also need to improve.

### RECOMMENDATIONS

1. *Increase funding to key drivers of agricultural growth.* Realigning public resources to focus mainly on public goods that foster market development to service the millions of smallholder farmers and consumers will unlock the funding potential from the private sector. In the medium to long term, there is a need for reorientation of government expenditure, away from ineffectual subsidies towards increased investment in alternative public goods such as irrigation development, rural infrastructure, research, and extension. This is so as to "strengthen agriculture input and output markets, create capacities for increasing production and productivity". Decades of research evidence show that these types of public investments provide the greatest payoffs to agricultural growth and poverty reduction.
2. *Improve timing of budget releases.* Policy discussions and subsequent decisions need to account for the fact that actual budgetary allocations often differ in significant ways from planned disbursements. Monitoring systems designed to increase budgeting transparency and accountability might provide a method to reduce or eliminate such differences.
3. *Smart subsidies:* In line with the Zimbabwe Agriculture Investment Plan (ZAIP), the Government needs to make bold decisions and implement smart subsidies that will reduce impact on the Treasury by crowding in private sector to help fund some aspects of the input distribution. Fiscal space created by the reforms will result in reductions in discretionary expenditure and saved resources can be invested in higher return social protection alternatives that can deliver many of the objectives that the current input

and output subsidies intended to deliver. For example, Social Cash Transfers (SCTs) focused on the poorest and most vulnerable households are more likely to have positive multiplier effect on the economy as cash creates an effective demand for food and non-food products helping local economies to grow.

4. Based on an extensive literature review of best global and regional practices on successful economic transformation results on public expenditure and policy in Zimbabwe, for the country to achieve broad-based sustainable economic growth and development through agriculture there is need for:
  - Increased and sustained investment in research and development to enable the country to adopt modern country-specific farming techniques that are suitable to its culture and climate.
  - Guided public and private investment in infrastructure.
  - Increased promotion of the diversification of Zimbabwe's agricultural sector by implementing policies that utilize the comparative advantage of the diverse agricultural conditions in the country.
  - Promotion of the commercialization of the agricultural sector through the removal of the constraints that farmers face especially in accessing both short and long-term agricultural finance, productivity enhancement technology, extension messages, and markets.
  - Promotion of value addition to generate stronger forward and backward linkages between sectors of the economy.
  - Creation of a conducive and stable policy environment that allows for the greater participation of the private sector.
  - Stronger institutions that support the agricultural transformation agenda.

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