

FANRPAN

Food, Agriculture and Natural Resources Policy Analysis Network

INPUT VOUCHER STUDY MALAWI AND ZAMBIA

Synthesis Report of the First Phase of the Voucher Study

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ABBREVIATIONS AND ACRONYMS

ADD	Agricultural Development Division
ADMARC	Agricultural Development and Marketing Corporation
CAN	Calcium Ammonium Nitrate
CF	Conservation Farming
CRS	Catholic Relief Services
DSD	Direct Seed Distribution
EU	European Union
FAO	Food and Agricultural Organization
FANRPAN	Food, Agriculture and Natural Resources Policy Analysis Network
FSP	Food Security Pack
FSP	Fertilizer Support Program
NGO	Non-Governmental Organization
PAM	Program Against Malnutrition
SFFRFM	Smallholder Farmers Fertilizer Revolving Fund of Malawi
SVP	Seed Vouchers and Fairs

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This is a FANRPAN discussion paper, which has not been peer-reviewed, and does not represent the views of FANRPAN or of USAID. I am solely responsible for its contents.

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ABSTRACT

The input voucher study aims to test the potential benefits of using voucher systems to integrate the commercial and non-commercial agricultural production input distribution channels. Another dimension of the study is to demonstrate the potential impact of implementing a full cycle of policy research, analysis and engagement using the case of seed and fertilizer input vouchers. The studies are underway in Malawi and Zambia. Mozambique will join later¹. The first phase of the study focused on reviewing voucher-related literature and updating previous studies done on the subject.

The first phase has revealed that a number of interventions are used in Malawi and Zambia to assist households facing chronic food insecurity to increase their productivity and improve their food security. These include direct input distribution to target households, seed vouchers and fairs, starter packs, and vouchers of different types. The Zambian Government uses the direct input distribution through the Fertilizer Support Program and Program Against Malnutrition's Food Security Pack. NGOs and international organizations in Zambia and Malawi also use direct input distribution. However, there are pockets of seed vouchers and fairs being used by NGOs and donors.

The starter pack scheme and targeted input program were used in Malawi from 1998 to 2004. Currently, the Malawi Government is implementing a combination of direct input distribution and vouchers. The voucher system was first tested in Malawi in 1999 alongside the starter pack program. The results showed that flexi-vouchers are the most economically enhancing tool for smallholder farmers, especially the poorest. Distribution of flex-vouchers allowed households to have freedom in the selection of goods. The Malawi study and other international literature reveal a number of likely outcomes from use of vouchers. First, utilization of local retail outlet goods for distribution instead of distribution of prepackaged inputs increases availability of desired goods such as fertilizer at retail level. Second, direct input distribution such as the starter packs has minimal impact on enhancement of household discretionary cash and maize production. Third, direct input distribution does not allow the private sector to expand its retail distribution networks countrywide into the rural areas, as is apparent in Zambia where the private sector normally operates only in urban and peri-urban areas. Fourth, direct input distribution is costly to government and is susceptible to pilferage and fraud compared to the voucher-based systems.

One way to make the vouchers or coupons more effective is for governments to consider percentile coupons. Such coupons can indicate for example that 75% of

¹ A separate study of Mozambique's experiences has recently been commissioned by the FANRPAN Secretariat.

the value is for fertilizer, 10% for seed, 5% for chemicals and 10 percent for labor. In this way vouchers can help a government to achieve social objectives through commercial means. Alternatively, efforts should be made to ensure that if the voucher value is less than the cost of the inputs, then farmers should be allowed to redeem the difference for cash or for other necessities. Flexi-vouchers can be redeemed for inputs or for other basic needs from shops.

1.0 INTRODUCTION

The majority of rural small farmers in Malawi, Mozambique and Zambia use low purchased-input technologies and as a result produce low yields and face chronic food insecurity for two to five months of the year. These households are therefore in need of programs to increase their productivity and improve their food security. Smallholder subsidy programs such as starter packs to all rural households, containing small packs of hybrid maize seed, fertilizer and either groundnut or soybean seeds, have been implemented in some countries such as Malawi from 1999 to 2004 (Gough, *et al.*, 2000). In Malawi, Mozambique and Zambia, governments, Non-Governmental Organizations (NGOs) and relief agencies also distribute outright relief seed and fertilizer inputs to small farmers.

The distributed relief seeds and fertilizers lead to the creation of two parallel markets; one involving the non-commercial or relief market and the other the formal commercial market utilized by private companies. The problem with relief markets is that they crowd out private sector development, which is a serious deterrent to the overall long-term development of a country. Thus, it is imperative to determine feasible and practical ways of integrating the two distribution channels using a voucher-based system so that the private sector is a major player in all marketing and distribution activities.

Using the voucher system, governments, relief agencies and NGOs can provide purchasing power to rural communities. Through an appropriate partnership with banks and private companies, the resources normally available to relief agencies, governments and NGOs for seed and fertilizer procurement can be distributed to small farmers via vouchers and let the private companies chase after this purchasing power by expanding their retail distribution networks countrywide into the rural areas. This process would ensure that the non-commercial seed and fertilizer distribution resources are channeled to the development of the commercial seed and fertilizer marketing and distribution sectors (Simfukwe, 2006). For these

reasons, the current input voucher study aims to seek answers to the following questions. What is the feasibility of using a voucher-based system as a means of integrating the commercial and non-commercial input distribution channels? What would be the mode of implementation of such a system? Can a full cycle of policy research, analysis and engagement be successfully implemented in Malawi, Mozambique and Zambia using the case of fertilizer and seed input vouchers? How should the cycle be organized?

2.0 PURPOSE OF THE STUDY

Four studies were previously implemented by the Food, Agriculture and Natural Resource Policy Analysis Network (FANRPAN) in Malawi, Mozambique, South Africa and Zambia, to assess the importance and share of relief seeds in the overall national and regional trade (Kananji and Phiri, 2006; Simfukwe, 2006). The studies also analyzed opportunities for improving the contribution of relief seed programs to commercial seed market development. Seed market development is a broader objective for improving agricultural input and output markets. It is also a way of unleashing improvements in agricultural production and growth of the region. The four studies were motivated by the need for governments to recognize the growing importance of relief seed in national and regional markets. The main findings of the studies confirmed the importance of relief seeds in countries such as Malawi and Zambia, where they accounted for close to 50% of the total annual company seed sales (Simfukwe, 2006; Kananji and Phiri, 2006). It is therefore in the interest of governments to take advantage of the relief seed programs in order to promote private sector development.

Another key finding of the studies was that there are two parallel input distribution channels in the case study countries. The channels are the non-commercial (government, NGOs, relief agencies) and the commercial (seed companies/private sector distribution networks). Such parallel markets are currently not well integrated and it is paramount to assess whether using an input voucher system would help to

integrate the two markets. The results of the recent studies done in Malawi, Mozambique, South Africa and Zambia on developing input markets would help to leverage the proposed voucher study. It is possible to use different voucher programs so that all non-commercial distribution is carried out using the commercial sector.

Subsidies are known to distort the market and to crowd out private sector development. Most business ventures view vouchers as less distorting because, unlike subsidies, vouchers are like real money. They are like certificates by which smallholder farmers are given the ability to pay for inputs such as fertilizer and seeds at a shop of their choice. Vouchers promote free market competition among sellers, which provides the sellers an incentive to improve their services. Vouchers also allow for greater economic diversity by offering small farmers opportunities to purchase inputs which were previously unaffordable. Thus, vouchers also would help to shift small farmers' mindset to focusing attention on how to get as much value as possible from their vouchers. In other words, small farmers will start to demand that sellers be efficient.

A properly designed voucher system would not only provide some immediate relief from current agricultural emergencies but it also could steadily move the region away from state involvement. Vouchers are analogous to starting a business to compete with another business, but doing it with taxpayer or relief funds while respecting the ideals of a free market system. **We therefore hypothesize that the vouchers can be used to enhance the purchasing power of the poor, and the commercial sector can redeem these vouchers and expand its distribution networks.**

Through this research we also plan to demonstrate the value of implementing a full cycle of policy research, analysis, and engagement to achieve positive policy impacts. In Zambia, Simfukwe (2006) reported that there was lack of information regarding experiences on vouchers in the distribution of seed and fertilizers. This

lack of information and experience made it difficult to convince decision makers in government to advocate a voucher policy as an incentive for seed and fertilizer companies to establish retail outlets in remote areas. It was also observed that there was serious concern among government officials and other leaders that vouchers would be forged. Thus, the proposed study will determine anti-fraud measures so that the system is not abused. The Zambia study was very forthcoming on recommending a study on voucher system so that through policy dialogue, awareness can be created among the government officials, relief agencies and NGOs about the significance of the system in input distribution.

3.0 OBJECTIVES OF THE STUDY

The specific objectives of the study are:

1. To test the potential benefits of using voucher systems to integrate the commercial and non-commercial input distribution channels.
2. To demonstrate the potential impact of implementing a full cycle of policy research, analysis and engagement, using the case of seed and fertilizer input vouchers.
3. To bring about policy changes for enhancing input supplies to small farmers.
4. To develop training materials for policy analysts to engage in complete policy analysis cycle.
5. To conduct training of policy analysts and policy engagements at national level.

4.0 APPROACHES TO THE STUDY

The study has four main components: (1) analysis of potential benefits of using voucher systems to integrate the commercial and non-commercial input distribution channels; (2) demonstration of the potential impact of implementing a full cycle of policy research, analysis and engagement, using the case of seed and fertilizer input vouchers; (3) development of training materials for policy analysts; and (4) conducting a combined training workshop for policy analysts at FANRPAN's national node in Lilongwe Malawi.

Study Sites and Data Collection

The study is currently underway in Malawi and Zambia. Mozambique will join later². Several steps are being followed in implementing the studies. First, each country node carried out literature reviews and updated the country studies on the Relief Seed Trade recently conducted in Malawi, Mozambique, South Africa and Zambia. Literature reviews extended to reviewing relevant Acts, government marketing policies and strategies as well as any other input marketing studies carried out in the three countries. This helped to identify shortcomings/gaps and inconsistencies in the marketing of seed and fertilizers that need to be addressed.

Second, at the training workshop, researchers focused on policy research and on reaching agreements on next steps for the studies, especially on what additional questions to include in further discussions with stakeholders. This culminated in the development of questionnaires and PRA field guides.

² A separate study of Mozambique's experiences has recently been commissioned by the FANRPAN Secretariat, and will be integrated at the results reporting stage with the other two country studies.

5.0 ANALYSIS OF INPUT DISTRIBUTION APPROACHES SCREENED FROM FIRST PHASE

A number of approaches or interventions are used in Malawi and Zambia to assist households facing chronic food insecurity to increase their productivity and improve their food security. These include direct input distribution to the target households, seed vouchers and fairs, starter packs, and vouchers of different types.

Direct Input Distribution

Direct input distribution to households is practiced in Zambia. The Government of Zambia is investing more resources in this approach through the Fertilizer Support Program, and the Program Against Malnutrition's Food Security Pack. Other programs on direct seed distribution in Zambia are the FAO Food Security Pack and the FAO Emergency Input Program (Table 1). There are also a number of NGOs such as CRS, World Vision, ADRA, Red Cross, Africare and CARE International who are involved in direct input distribution in Zambia and Malawi. Direct seed distribution has been advocated in response to droughts. Such distribution is often accompanied by tools for land preparation and other crop-husbandry operations. The purpose of direct seed distribution in this case is to restore the production capacity of farmers for both crops and seed for subsequent seasons.

Implementation of the direct seed distribution approach involves government or organizations requesting registered seed companies for quotations to supply seed. The successful bidders then transport the seed to implementing agencies in the affected districts for subsequent distribution to beneficiaries.

Table 1: Summary of Zambia Input Distribution Interventions

Project	Programming mechanism	Scale	Inputs distributed	Aims and additional information
Fertilizer Support Program (2002-2006)	Direct distribution	115,000 – 150,000 beneficiaries per year	8 bags fertilizer (basal and top dressing) 20 kg maize seed	To improve access of small holder farmers to inputs, and to enhance the participation and competitiveness of the private sector in the supply and distribution of agricultural inputs in timely and adequate amounts.
PAM Food Security Pack (2000 – 2005)	Direct distribution on loan basis with in-kind repayment	45,000 – 150,000 beneficiaries per year	Seeds of cereals, legumes, a root /tuber crop, and other crops, with fertilizer and/or lime as appropriate. Packs to promote alternative livelihoods (fish farming, small livestock, etc) provided according to comparative advantage.	To empower targeted vulnerable but viable households to be self sustaining through improved productivity and household food security, thereby contributing to poverty reduction. Pack components include crop diversification, market entrepreneurship and seed /cereal bank development, alternative livelihoods, and soil conservation.

Project	Programming mechanism	Scale	Inputs distributed	Aims and additional information
FAO Food Security Pack (2002 – 2003)	Direct distribution with partial repayment in kind aimed to establish community – based revolving funds	59,500 farmers	Cereal and legume seed sufficient for 0.25 ha (valued at \$50 per pack). Hoes and rippers provided for selected Lead Farmers.	An emergency response to assist households to re-establish their food production-base through the provision of food security pack inputs and the adoption of conservation farming.
FAO input project (2004-2005)	Direct distribution for establishment of cassava nurseries to serve farmers in the vicinity.	89 farmers with an estimated 8,000 secondary beneficiaries	D compound, Urea, lime, cassava cuttings, treadle pumps and associated pipes and suction, Zamwipes (herbicide weeder), and shaka hoes.	Establishment of cassava nurseries for the purpose of enhancing food security and providing an alternative crop for vulnerable households otherwise relying on maize as the main source of food.
CRS Agricultural Recovery Program (2001- 2006)	Direct distribution in 2001-2, then vouchers and fairs	10,000 – 12,000 farmers per year	Voucher worth US \$46 provided in 2005/6	Improve food security; strengthen local coping mechanisms through crop diversification; and promote Conservation Farming (CF) techniques in order to sustain agricultural production.

Source: Kalinda and Sikwibele (2006), Longley *et al.* (2006)

Seed Vouchers and Fairs

In both Zambia and Malawi, some NGOs such as the Catholic Relief Services (CRS) have used seed vouchers and fairs (SVF). This approach involves one-day markets or fairs organized for farmers to which seed stockists and companies are invited to bring certified seed for sale. Seed-needy farmers are identified and issued with vouchers of a given monetary value, which they exchange for seed of their choice. At the end of the fairs the seed sellers redeem the vouchers for cash.

Kalinda and Sikwibele (2006) noted that there are strengths in both the DSD and seed voucher and fair (SVF) approaches that could be built on to enhance the capacity of the interventions to strengthen local seed systems. For this to be achieved, the interventions need to take a long-term perspective, based on a good understanding of the local agricultural and market systems. Evidence available to date suggests that SVF offers opportunities for substantial increases in the distribution networks and sale of formal sector seed, provided that the formal seed sector is able to provide seed of appropriate varieties (i.e., adapted to local ecologies and farmer preferences), at an acceptable quality and at a price that is affordable to farmers. SVF should therefore be seen and utilized by the commercial seed companies as a means to increase their market outreach. Through local seed agents at fairs, the seed companies have great opportunities to reach more farmers and thus increase their sale of seeds and fertilizers.

The economic benefits of SVF have been widely researched. The Kirundo seed fairs in Burundi (Bramel, 2004) showed considerable knock on effect of a SVF approach to local farming economies. With a total of nearly US\$160,000 injected into the Kirundo economy over three successive agricultural seasons, the preliminary results indicated that this money would be turned over several times within the local economy and used for critical needs such as investment in agriculture and health care. Bramel, *et al.* (2003), in reference to Ethiopia, noted that there was no need to limit the number of vendors or the types of inputs or services that can be purchased at a fair, adding that cash can also be used to

purchase goods from neighbors, small-scale traders, or larger traders, to pay for school fees or to meet health costs, to hire labor, to pay off debts, or to invest in social networks or capital assets such as livestock.

Starter Pack Scheme, Targeted Input and Voucher Programs in Malawi

In 1998/99 the Ministry of Agriculture in Malawi launched a free input program called Starter Pack Scheme (SPS). The purpose of the SPS was to increase fertilizer and other input accessibility to resource-poor farmers. About 2.86 million smallholder farm families benefited from this initiative. The SPS involved free inputs consisting of sufficient fertilizer and seeds (cereals and legumes) to plant 0.1 hectare. Total production in each year of SPS was 2.5 million tons, representing almost 0.5 million tons increase in production. Two years later, the SPS was changed to Targeted Input Program (TIP). The TIP was implemented until the 2004/05 agricultural season. The Malawi Government, United Kingdom, European Union and World Bank supported the two initiatives.

In 2005/06 the Malawi Government introduced and continues to implement a fertilizer subsidy program using the voucher (coupon) system where eligible poor households are issued input coupons to purchase fertilizer, mostly for maize production (Urea and 23:21:0+4S) and for tobacco production (CAN and D-compound). This program has allowed the participation of the private sector because the coupons are redeemable at eligible shops.

The voucher system in Malawi was first tested in 1999 alongside the starter pack program. The pilot voucher project distributed two different types of vouchers in a test to see whether a voucher distribution system was more effective than distribution of a bulky package of free inputs, and if so, which kind of vouchers is more effective. Thus, the study evaluated and examined the differences between three distribution systems, i.e., the starter pack, starter pack voucher, and flexi vouchers, in order to determine which was the most effective tool for improving food security among Malawian smallholder farmers. The analysis also looked at how the

three alternative grant distribution systems impacted rural households and whether the impacts depended on particular household characteristics such as gender and marital status (Gough *et al.*, 2002). The results showed that the most economically enhancing tool for smallholder farmers, especially the poorest, were flexi vouchers. Distribution of flexi-vouchers or similar tools allowed households to have freedom in the selection of goods. Furthermore, flexi-vouchers increased cooperation from retailers in order to increase smallholder farmers' access to fertilizers.

The Malawi study and other international literature (Bramel, *et al.*, 2003 and 2005; Longley, *et al.*, 2006) in Ethiopia and Mozambique also revealed a number of likely outcomes from use of vouchers. First, utilization of local retail outlet goods for distribution instead of distribution of prepackaged inputs increased availability of desired goods such as fertilizer at retail level. Second, direct input distribution such as the starter packs had minimal impact on enhancement of household discretionary cash and maize production. Most households exhibited minimal increases in discretionary cash or total maize production after receiving inputs for even a five-year duration. Third, direct input distribution does not allow the private sector firms to expand their retail distribution networks countrywide into the rural areas as is apparent in Zambia, where the private sector normally operates only in urban and peri-urban areas (Kalinda and Sikwibele, 2006). Fourth, direct input distribution is costly to government and is susceptible to pilferage and fraud compared to voucher-based systems.

6.0 GAPS IN KNOWLEDGE LEADING TO RESEARCH QUESTIONS IN PHASE 2

Rapid field research and discussions in Phase 2 with key stakeholders such as farmers, private seed companies, government officials, relief agencies and donors are currently underway to fill gaps in knowledge. Phase 2 is focusing on finding answers to the following questions:

- What commitments, knowledge and skills gaps on voucher systems are present?
- What distortions are visible to stakeholders with regard to relief input markets?
- What are the stakeholders' perceptions of an input voucher system?
- How should vouchers be issued to small farmers and who should be issuing them?
- What should be the specific criteria for the voucher holders when he/she buys inputs from the supplier of her/his choice at any point throughout the country?
- Who are the key private companies, agro-dealers and NGOs in the input supply chain?
- How should registration of competent agro-input suppliers, dealers and small farmers in the relief program be carried out to conform to the tenets of a free marketing system?
- Who should be registering the small farmers?
- Who are the potential rural agro-dealers who can link up with private input (seed and fertilizer) companies?
- What anti-fraud measures should be put in place?
- Where would the holder of the voucher redeem the voucher (at wholesale, retail, etc?)
- What system should be used by the input retailer to en-cash the vouchers to ensure prompt payment and to control irregularities?
- What market-friendly relief seed marketing model would be recommended by stakeholders?
- How should such a marketing model be implemented?
- What should be the role of government, private companies, agencies, NGOs, farmers, etc. in an input voucher system?
- What are their fears and concerns about an input voucher system?

Although germane to the study, the following questions will not be addressed in this study:

- How can agrodealers be persuaded to extend their market network into rural areas?
- Which categories of farmers should use flexi-vouchers and for what?
- Are percentile coupons or vouchers more feasible?
- How should the percentages in the value of the coupon or voucher be determined?
- How can the Zambian Government be persuaded to shift to a voucher-based system?

7.0 DISCUSSION OF PHASE 1 RESULTS

Considering the massive cost of the direct distribution of inputs program and the extensive amounts of planning, labor, and cooperation required, the flexi-voucher is more preferred to the distribution of prepackaged inputs. Providing the option to obtain either agricultural inputs or goods with immediate cash value allows for the greatest potential increase in household cash income. Assigning inputs appropriate to the needs of the targeted households can potentially reduce misuse of inputs, i.e., selling or trading, and simplify the input distribution. Thus, utilization of flexi-vouchers holds potential benefits as a productivity-enhancing tool if redemption procedures allow smallholders access to those resources they themselves deem beneficial to improving food security.

Experience with vouchers in Malawi and other countries show that vouchers have helped to promote crop and varietal diversity (Gough,*et al.*, 2002). Use of vouchers and seed/input fairs also helps to give farmers greater choice and to patronize retailers and companies that have a good reputation for high quality inputs and service. This has the potential to strengthen local seed/fertilizer systems and increase resilience to drought and other disasters. The voucher approach also has

the potential to promote the growth of the seed and fertilizer sectors as long as it is based on an accurate understanding of farmers' seed preferences and requirements. On the other hand, the government and some NGOs' non-market distribution channels take these choices away from farmers. Such non-market distribution cannot operate without subsidies and disruption of the theory and practice of a free market system (Grant, 2000). Another problem with prepackaged inputs is leakage. In Malawi, there is some leakage of fertilizer from Malawi to neighboring countries as well as from smallholder farmers to estates. Sometimes leakage is fueled by nonlabeling of the fertilizer to match this differentiated market (market and price discrimination). This problem can be avoided through linkage of the subsidy/pack programs to other cash transfer programs such as flexi-vouchers.

Efficiency in the fertilizer subsidy program in Malawi and Zambia is marred by logistical difficulties. Late importation of fertilizer leads to delayed distribution to farmers throughout the country; in some cases the fertilizer arrives at post-application stages of the crop. Tobacco coupons are not different from maize coupons in Malawi. As a result, some tobacco farmers have tended to use maize coupons on tobacco, a cash crop. The reality of coupons or vouchers for seed and fertilizer in Zambia is different from Malawi. In Zambia tobacco seed is given free to farmers but unlike in Malawi there is no subsidy on tobacco fertilizer. Only credit is extended to the tobacco farmers.

In general, vouchers are not a priority of the government programs in Zambia. The issue of whether vouchers should be used is still in the corridors of the policy makers of the country. Zambia can therefore benefit from the voucher experience in Malawi. The Zambian government has a fertilizer administration system that is based on government policy and political influence. The percentage of the subsidy on the fertilizer is announced in advance before the growing season to the farmers. This system has been quite steady for the past 5 years. To date, the subsidy has been increased to 60 percent where farmers are paying only 40 percent of the

market price of fertilizer. The voucher system has not taken root in the country although there are pockets of donor interventions based on the voucher system.

Since the voucher approach is a new intervention in most countries in the region including Zambia and Malawi, there is therefore a need to monitor and evaluate such mechanisms to generate adequate data over time as a basis for evaluating the efficacies of the direct input distribution system and the voucher approaches.

While the benefits of the vouchers system outweighs those of the direct seed distribution systems, vested interest in Zambia may torpedo any attempts to introduce the voucher system. Jayne, *et al.* (2007) noted that high transaction costs and risk are a deterrent to market development in developing countries such as Zambia. Such transaction costs and risk are to a large extent endogenous because they are influenced by government spending and policy choices made in agriculture. As a result, there is a direct link between food and price instability problems with high transportation costs. Thus, more public investment in transportation and communication can help reduce price fluctuations. Govereh, *et al.* (2006) observed that 10 percent of the Government of Zambia's budget is allocated to the agricultural sector but over 60 percent of this is spent on fertilizer subsidies and maize price stabilization. Lopez (2003) used a political economy framework to show that there is imperfect competition in the political lobby market which results in biased allocation toward input subsidies, which are captured by politically influential groups. Such allocations are often against provision of public goods and investment that can improve market performance and public goods for the benefit of the poor. Thus, the low investment in public goods can be attributed to the high food marketing costs and risks (Jayne, *et al.*, 2007). For this reason, a voucher system program that is well-targeted can save money while helping the really poor, leaving more funds for investment. That is why this study on the input voucher system has taken the approach of following a full cycle of policy research, analysis and engagement. This is so because engagement of all the key stakeholders may help overcome fears, prejudices and misinformation on vouchers.

8.0 CONCLUDING REMARKS

Prepackaged input packs are extremely expensive. They stifle private sector development, do not offer options/ choices to smallholder farmers, and have serious problems of targeting. For example, the Fertilizer Support Program in Zambia has tended to benefit high income groups at the expense of the intended beneficiaries. In Zambia, government has taken up most of the smallholder market to the detriment of private sector growth and development. Only a few private companies are contracting with government to implement the subsidy program; they are benefiting from the program while those not contracted are losing out. Policy makers in Zambia are however reluctant to implement a voucher system because in the past, promissory notes were used but the program failed because government did not honor the notes. This experience makes policy makers resist any attempts to introduce vouchers in the country. In addition, despite huge capital outlays and logistical difficulties, the 40:60 (farmer:government) Fertilizer Support Program has been deemed successful in Zambia and these entitlements have a political mileage in the country. Thus, the challenge in Zambia is how to reprogram the Fertilizer Support Program to a voucher-based program when the current program is deemed successful. For this reason, to advance the voucher program in Zambia, there is a need to implement it differently from Malawi. In Zambia, there is need to first establish whether, and how, the current system is having a negative impact on the private sector and government budget. What is key in Zambia is to conduct diagnostic studies/surveys prior to initiation of a voucher system.

One way to make the vouchers or coupons more effective is for governments to consider percentile coupons. Such coupons can indicate, for example, that 75% of the value is for fertilizer, 10% for seed, 5% for chemicals, and 10 percent for labor. In this way vouchers can help a government to achieve social objectives through commercial means. Alternatively, efforts should be made to ensure that if the voucher value is less than the cost of the inputs, then farmers should be allowed to redeem the difference for cash or for other necessities. Flexi-vouchers can be

redeemed for inputs or for other basic needs from shops. Coupons or vouchers are less costly to government than dealing with prepackaged packs of inputs because of the high cost of government machinery involved in the marketing and distribution of the packs; administration of a coupon or voucher system will have far lower overhead costs. Finally and perhaps most important, a coupon or voucher system is more likely to contribute to long term development of input markets and therefore agricultural growth while providing support to resource-poor farmers.

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