

**Economic Partnership Agreements-
The Thematic Paper
on Agriculture, Zambia**

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BACKGROUND AND INTRODUCTION

The Economic Partnership Agreements (EPAs) under ACP-EU Cotonou agreements are aimed at establishing reciprocal free trade arrangements between the EU and the respective regional groups amongst the ACP member states in line with WTO rules on regional free trade arrangements. Negotiations started in September 2002 on the all ACP level, and at the regional level negotiations started 2003. As per the schedule of negotiations EPAs enter into force in 2008 and will be based on four principles: Partnership, regional integration, development, and compatibility with multilateral trade rules.

BRIEF INTRODUCTION TO THE COUNTRY.

In agriculture, of the 42 million hectares of arable land, only 14 percent is cropped. Water bodies such as lakes and rivers are largely un-exploited. Zambia has a resource endowment for the development of a wide range of crops, livestock and fish given the diversity of its agro-ecological zones.

Zambia's agricultural sector is key to the development of the Zambian economy and is regarded as the engine of growth for the next decade and beyond. It generates between 18-22 percent of the GDP and provides the livelihood for more than 50 percent of the population. The sector absorbs about 67 percent of the labour force and remains the main source of income and employment for the rural population. Yet, only 14 percent of the total cultivable land, estimated at about 90,000 km square, is currently being utilised and only 5 percent of the irrigation potential of 423,000 ha of land is being utilised. The recent Poverty Reduction Strategy Paper (PSRP) has put agriculture as the main source of economic growth and reduction of poverty particularly in the rural areas.

DEVELOPMENT AND POLICY OBJECTIVES

The World Bank, other multilateral and bilateral cooperating partners, and the IMF mainly support Zambia's current macro economic framework that covers the period 2000 to 2003. Over this period, Zambia is expected to reach HIPC completion point allowing for the write off of some external debt. Under this economic arrangement, Poverty Reduction Strategy is the main development focus of the government. An Interim Poverty Reduction Strategy Paper (PRSP) was finalised at the end of July 2000. The

2001 budget included some specific poverty reduction expenditures amounting to K352 billion. The draft PRSP was prepared through a broad-based consultative process and was presented to stakeholders in mid-October of 2001. The PRSP is focusing on both economic and social development.

The primary goal is to achieve sustained annual economic growth of between five to eight percent in the medium-term. In this regard, four main economic sectors were identified namely; agriculture, tourism, manufacturing and mining as having greater potential to reduce poverty on sustainable basis. The strategy will include investment and export promotion, public expenditure on infrastructure and maintaining a stable macro-economic environment for the economy as a whole and for the agriculture sector.

OVERALL POLICY ORIENTATION:

In 1990's, the government embarked on agricultural sector policy reforms, which were part of the overall economic reforms pursued under the Structural Adjustment Programme (SAP). Since 1991 when the Government embarked on fundamental economic and structural reforms, remarkable progress has been made, particularly in the area of macroeconomic stability. The macroeconomic objectives of the Government were to achieve a sustained economic growth rate of at least five percent per year, reduction of inflation to single digit levels and to strengthen the external sector.

The main thrust of policy in Zambia is liberalisation and market reforms. This entails the decontrol of prices and the liberalisation of marketing. The policy emphasises government withdrawal from direct involvement in agricultural output marketing and input supply, freeing prices, removing subsidies, privatising quasi-government companies, renting out public storage facilities to the private sector and overall removal of constraints and distortions to international trade in farm products. Under this policy framework, the role of government is confined to policy formulation, legislation and development of sustainable market support services such as market information, extension, finance and infrastructure development

The main thrust of the national agricultural policy are increased production, sector liberalisation, commercialisation, promotion of public and private sector partnerships and provision of effective services that will ensure sustainable agricultural growth. The vision for the agricultural sector is to promote development of an efficient, competitive and sustainable agricultural sector, which assures food security and increased income. It recognises the need to strengthen and expand the emerging opportunities and to also deal with the challenges facing the agricultural sector. This vision also strives to contribute to the overall goal of the PRSP, which is to achieve "poverty reduction and economic growth". In line with this vision, the specific objectives of the agricultural sector are:

1. To assure national and household food security
2. To ensure that the existing agricultural resource base is maintained and improved upon
3. To generate income and employment to maximum feasible levels
4. To contribute to sustainable industrial development and

5. To expand significantly the sector's contribution to the national balance of payments

Agriculture employs 70 percent of the Zambian workforce. It is for this reason, Zambia's PRSP focuses on this sector to achieve a broad based economic growth and poverty reduction. Given agriculture's importance to the welfare of both the rural and urban poor, it is difficult to see how Zambia can achieve broad based poverty reduction without significant growth in agricultural output and productivity.

Given the above commitment to developing the agricultural sector, the Government has put in place several investment incentives. These are in the form of duty exemptions or lower duties, which are charged on agricultural related imports. There are also several incentives offered to investment certificate holders, additional incentives for agricultural enterprises and export incentives. In addition, special incentives for the agricultural sector have been included in the national budget to boost investment both in the short and long term.

Under the policy framework of liberalisation and incentives, some positive developments have been recorded including; increase in out-grower and contract farming, crop diversification, changes in land management practices, increased private sector involvement in the provision of services such as input supply and output marketing, and increased contribution of the sector to non-traditional export earnings. There has been an increase in the number of small-scale farmers involved in out-grower and contract farming and production arrangements. This highlights the increasing importance and potential of private sector involvement in financing and organising farm production and marketing. Many farmers have responded to the new market and policy environment by; diversifying to more profitable crop enterprises. Several private companies and Non-Governmental Organisations (NGOs) have been involved in organising farmers in self-owned groups, associations or primary cooperatives

MACROECONOMIC POLICIES AS THEY AFFECT TRADE.

Zambia's weak macro economy is one of the main constraints to successful new investment and enhanced trade. Specific problems include high inflation, erratic exchange rate movements, steep interest charges and high import duties on fuel and other essential inputs, which will all make investment planning difficult with increased uncertainty and risk.

EXCHANGE RATE POLICIES AND REGIME.

The country runs a non-restrictive exchange control system. As such, any one is free to have access to foreign currencies without any restrictions. The Bureau De Changes in the market is open and transacts in foreign currencies on the basis of the daily ruling rates. As a result, the rate depends on the demand and supply of the same. This means that the rate of the local currency may fluctuate according to demand. Normally it has been observed that the local currency (The Kwacha) gains some value towards the end of the

month as institutions look for cash to pay salaries. The rate may worsen in the midst of the month as manufacturers jostle for hard currency to import their inputs.

The non-control on foreign exchange impacts differently on the traders and on the consumers. The free flow of foreign exchange somehow puts manufacturers in a better situation as they can quickly have access to it. This means the reduction of the actual bureaucracies that goes with the controlled exchange system. For traders, this means the importation of cheaper commodities especially those in which the country does not have a comparative advantage. This in a way could mean a steady supply of commodities in the market much to the benefit of the consumers.

On the other hand, the free flow of the exchange rate in Zambia has disadvantaged most consumers. The continuous sliding of the local currency means reduced purchasing power per unit currency, which translates into increased prices, and hence less goods purchases leading into reduced consumer satisfaction.

CREDIT AND INTEREST RATE

The credit regime in Zambia for the agricultural sector has a number of problems following the demise of state supported financing institutions. Apart from the stop-gap measures of financing inputs by the Food Reserve Agency, a small micro-credit system mainly along the line of rail where the infrastructure is relatively improved has emerged.

Commercial farmers remain highly exposed to high borrowing interest rates covering working capital requirements. Presently, these interest rates are in excess of 20 percent. Since farming is largely a seasonal activity the gestation period between planting and actual marketing of produce results in the accumulation of bank charges and build up of interest on the borrowed funds.

Most of the small-scale farmers do not access finance from commercial banks, as they cannot meet the stringent risk assessment criteria. A small number of these farmers rely on input credit by way of material resources from the Food Reserve Agency rather than actual finance. In other cases, NGOs and donors supported credit schemes are assisting the small vulnerable groups of society. A recent Post Harvest Survey has revealed that only 20 percent of the small-scale farmers have access to high yielding inputs through these schemes and programmes.

Another emerging trend that is already a significant factor in Zambia's agricultural credit system and appears to be the key to involving smallholders in the agricultural trade is the out-grower schemes. Out-grower schemes in Zambia extend vital credit for inputs. According to a recent Central Statistical Office survey of 897,000 agricultural households (CSO, 2000), 118,000 households received formal loans and 82 percent of these were received from out-grower arrangements.

Other macroeconomic policies (Wage rate policies and impact on competitiveness)

The government has a minimum fixed wage. It is illegal to pay less than this. Above that, the wages are determined by the employer's ability to pay. It is ZK1000/hour. Due to high rates of unemployment, the labour constraint is not really binding in Zambia and therefore, Zambian labour could be perceived as among the cheapest in the region. Other factors being equal, it makes production cheaper in the Zambian market. This aspect then can be translated into cheaper products making Zambia more competitive than other countries.

Domestic Tax Policy (VAT/sales tax)

The effects of the present system of taxation on farming enterprises have tended to favour consumers of agricultural products rather than producers. The duties and VAT recovered up-front for imports of key inputs entail that farming enterprises finances these costs prior to production. In some cases where farming enterprises have to claim a duty drawback, the administrative processes and time taken for the Zambia Revenue Authority (ZRA) to provide the refund is long and detrimental to production cycles.

INVESTMENT POLICY:

Over the years there has been marginal investment both in fixed and working capital in agriculture; consequently, output in agriculture has remained well below its potential. Although agriculture was also identified as a key sector for economic diversification, it did not receive as much priority as manufacturing.

In view of the low investment in the agriculture sector, the bulk of farming community, especially the small-scale farmers, have not been able to access capital funds for investment.

The Zambia Investment Centre was established under the Investment Act of 1991 as part of the government's strategy for economic reform. The Centre is an autonomous institution that promotes both local and foreign investment, facilitates the investment process and monitors the implementation of projects.

ECONOMIC AND TRADE PERFORMANCE

Amidst international competition and low commodity prices, the agricultural sector in Zambia has become the major contributor to non-traditional earnings. In the past, the contribution of the agricultural sector towards the balance of payments has been low despite its high potential. It is, therefore, possible for the country to supply exports with high value products such as paprika, marigold, cut flowers, essential oils, spices, mushrooms, castor oil. In addition the quality and competitiveness of some of the agricultural commodities such as groundnuts, tobacco, soya beans and cotton are well established. More recently, coffee, horticultural and floriculture products have been added. Livestock products and fisheries have potential for exports if concerted efforts are made to eradicate diseases and ensure sustainable fishing practices. The full exploitation of the varied export market opportunities should enable the agricultural sector to make a

much greater contribution to the National Balance of Payments than has been the case in the past.

As a foreign exchange earner, agriculture has proven the most dynamic component of Zambia's export economy over the past decade. In 1960's and 1970's, agriculture accounted for less than 5 percent of the total exports, while in the first half of the 21st century that share has risen to between 15 percent and 25 percent. Agricultural exports such as cotton, flowers, horticultural products and tobacco have formed the core of Zambia's successful diversification away from dependence on volatile mineral exports. In value terms, these agricultural exports amounted to \$265 million in 2005, and they provided employment to roughly 330,000 smallholders and 140,000 commercial farm workers.

Composition of Agricultural Exports, 2005

Commodity	Export Value (\$ million)	Employment ('000)
Cotton	70	300
Sugar	65	3
Tobacco	63	115
Flowers	30	4
Horticulture	25	13
Coffee	11	30
Paprika	1	3
Honey	0.4	5
Total	265	476

Source: Export Board of Zambia

TRADE POLICY.

Zambia has implemented a fundamental change in policy direction, away from import substitution to outward orientation. The IMF and the World Bank support this new economic recovery programme driven by Structural Adjustment Programme (SAP). Under these new economic measures, the Zambian Trade Policy aimed at creating a competitive and productive economy driven by the private sector. The trade regime has been considerably liberalised and simplified. Specific objectives of the trade policy were;

- Complete trade liberalisation,
- Trade promotion and diversification through exports of non-traditional goods,
- Creating conducive domestic environment for investment, growth and improved living standards.

Zambia is a member of the WTO which promotes trade through increasing and widening market access through legally binding agreements. This trade is being promoted not just for goods but also services. The WTO is also promoting liberalised trade in services, conducive environments for investment, protection of intellectual property rights, setting environmental health and safety standards.

The principals that WTO relies on in enhancing market access are:

- Countries are encouraging to use tariffs instead of quotas or non-tariff barriers.

- Countries should reciprocate almost all measures taken by trading partners, except if it is a special arrangement that requires WTO waiver.
- Extend Most Favoured Nation (MFN) or non-discrimination treatment to third world countries. What applies to a specific country applies to the general membership.
- Countries undertake periodic tariff reductions. There are different reduction timetables based on level of development of a country.

Tariffs:

Tariffs have been the main instrument of trade policy in Zambia. The tariff structure has been simplified. As a member of WTO, Zambia bounded all her tariff lines in agriculture at the end of the Uruguay Round. Import controls are maintained only for health, sanitary, phytosanitary and security reasons. Zambia has virtually no export restrictions. She has neither export subsidies nor export restrictions, and all specific incentives provided to exporters of any goods were abolished.

The Government of the Republic of Zambia ratified the protocol to establish the COMESA Free Trade Area (FTA) on 31st October 2000. Under this protocol, Zambia was obliged to allow products originating from member states duty free access. Zambia has also ratified the SADC Trade Protocol, thereby committing itself to removing all tariffs and non-tariff barriers to intra-SADC trade over a period of 8 years. This development, together with Zambia's acceptance to fully implement the provisions of the WTO, is hoped to increase agricultural trade.

In line with the government policy of trade liberalisation, import and export control measures have been deregulated with the exception of a few restrictions provided for by the law. These primarily concern products affecting security, public order, hygiene, health, and the protection of fauna and flora. Some of these goods may be imported under a permission issued by the relevant institution. Under the Control of Goods Act, the state provide regulations for the distribution, disposal, purchase and sale at wholesale and retail prices of any agricultural commodity, animal or poultry, for the control of imports into and exports from Zambia. Sanitary and phytosanitary (SPS) measures are regulations and standards applied to both imported and domestic goods that aim to protect human or animal life or health from food-borne risks, humans from animal and plant carried diseases, plants and pests from pets or diseases. While the SPS regulations aim to satisfy the above genuine objectives they may however, if not properly administered, also be barriers to international trade and protect domestic producers.

Tariffs have to be reduced by simple average of 36percent for developed countries over a period 1995-2000 (with a minimum of 15percent) while developing countries committed themselves to an average reduction of 24percent (with a minimum of 10percent) over the same period. These tariff reductions have resulted into the following;

- Average agricultural tariffs remain higher than industrial tariffs because tariffication resulted in higher tariff protection i.e. 'dirty tariffication' as well as more tariff peaks and tariff escalation.

- Increased tariff dispersion i.e. uneven tariff cuts across different products allowing countries to retain prohibitively high tariffs on "sensitive products".

The Automated System For Customs Data and Management (ASYCUDA), originally developed by the United Nations Conference for Trade and Development (UNCTAD), provides simplified, harmonized and, eventually, standardized procedures and documentation for the Customs Department using computerized management software. The ASYCUDA has been implemented in Zambia in particular and in general, the whole COMESA region.

Rules of Origin.

The rules of origin are being implemented under the generalised system of preferences (GSP). The rules seek to identify the origin of the goods enjoying preferential treatment is from a member country.

Two types of rules of origin are being applied namely;

1. Non-preferential rules of origin, and
2. Preferential rules of origin.

Non-preferential rules of origin apply to most favoured nations (MFN) trade as a means to determine the origin of goods within the framework of WTO trade policy instruments, such as anti-dumping proceedings, quantitative restrictions, agreements on textiles and clothing and quotas that do not include preferential treatment.

Preferential rules of origin are of two types, namely contractual and autonomous. It applies in the context of preferential tariff regimes such as the GSP, free trade areas (FTAs) and regional integration.

There are, however, a number of constraints. Many LDCs including Zambia find rules of origin requirements complex to apply and in many cases over restrictive. The diversity of rules results in severe problems in market access. Many LDCs, Zambia included, have been adversely affected by changes to rules of origin by the developed countries particularly with regard to agricultural products and textiles. Given the fact that preferences are granted unilaterally as well as non-contractually, donor countries retained the general principle that they were free to decide on the rules of origin which were appropriate for beneficiary countries.

For LDCs, the difficulties in complying with the rules of origin (which often require that high percentage of the value must be added through processing in the exporting country) and built in limitations (such as tariff quotas), have resulted in exporters being unable to take advantage of the GSP.

The WTO agreement on rules of origin stipulates that members should harmonise all non-preferential rules of origin into a single set of international rules. The objective of the harmonisation is to clarify the rules of origin and ensure that they do not create unnecessary obstacles to trade.

Although there is no work programme within the WTO on preferential rules of origin, GSP preference giving countries are under increased pressure to liberalise, harmonise and simplify their rules of origin.

TRADE PERFORMANCE AND ECONOMIC PARTNERSHIP:

In October 2000, Zambia ratified the protocol establishing the Common Market for East and Southern Africa Free Trade Area (COMESA-FTA). More recently, Zambia also ratified the Southern Africa Development Community Trade Protocol (SADC-TP). These protocols oblige Zambia to offer duty-free access to imports of member states. The COMESA-FTA is already in force.

About 23 percent of Zambia's agricultural exports go to the COMESA region. Zambia is one of the least subsidised agricultural economies in the region. It is not clear whether it will be able to sustain these regional exports. COMESA is also currently trying to mobilise funds to develop and implement a system of harmonised regional SPS regulations.

The EU is one of Zambia's main trading partners, and over the years, Zambia and the EU have engaged in a number of agreements with the latest being the Cotonou Partnership Agreement. Within the Cotonou Partnership Agreement is the Economic Partnership Agreement (EPA), which is aimed at establishing a reciprocal free trade arrangement between the EU and the respective regional groups amongst the ACP member states in line with WTO rules on regional free trade arrangements. Zambia is a member of the WTO and is also a signatory to the ACP-EU Cotonou partnership Agreement. This implies, therefore; that the WTO rules and the ACP-EU partnership agreement are binding.

Changes in Global Trading System

Changes in the world-trading regime constitute a major factor driving Africa's regional integration agenda. The global trading system has evolved significantly in the past twenty years. There is a general consensus across all regions of the world that unfettered trade is good for growth. The General Agreement on Trade and Tariffs (GATT) created over 50 years ago have now been transformed into the WTO after eight rounds of negotiations resulting in significant reduction of tariff and non-tariff barriers. Major economies are pursuing bi-lateral trade liberalisation with poor countries. The US Africa Growth and Opportunities Act (AGOA) and the EU's Everything but Arms (EBA) initiative are potentially aimed at providing extensive access for African countries to the EU and US markets and gradually intensifying the integration of African economies into these markets.

These changes are resulting in greater integration of world markets. Overall world trade has grown substantially as a result. Since the conclusion of the Uruguay round of trade negotiations in 1995, it is estimated that world trade increased by as much as 25 percent. This rapid expansion of trade has been facilitated by the rapid developments in information and communications technology, liberalisation of financial markets, and factor movements across national and regional borders. The manner in which countries

and regions have responded to these new opportunities has, to some degree, determined their share of the benefits accruing from growing trading opportunities. Africa's share has been relatively small. In the early 60's, Africa accounted for as much as a tenth of the world export, by 2000, this had declined to about 2 percent

The decline in Africa's share of world agricultural trade illustrates this marginalisation much more clearly. According to the FAO, all sub-regions of Africa experienced significant declines in their share of world agricultural trade since 1961. The greatest fall has been in southern Africa, which has seen its share of agricultural trade fall from 9 percent in 1961 to 3 percent in 1998.

A wide array of factors accounts for Africa's marginal role in world trade. These include factors such as the changing nature and attributes of export, restrictions in market access in the major economies and supply side constraints. In addition, the limited intra-African trade and weak intra-Africa integration could be sited as a factor restricting trade in Africa. These restrictions on intra-Africa trade inhibit the African economies to learn the art of trade by doing. The market for sub-optimal quality goods is restricted thereby constraining the ability to test the product competitiveness in the markets. The smallness of domestic markets does not provide enough opportunities for firms to learn nor does it provide enough cushion for the export sector in the event of adverse shocks in the international market. Therefore, a larger African market would provide opportunities for firms to learn by doing. This underscores the need for deeper regional integration in Africa as a first and critical step towards improved export competitiveness. The on going negotiations for free trade agreements, such as negotiations between African sub-regional groupings and the EU on economic Partnership Agreements (EPA) are therefore important in deepening the integration process.

The EPA that the EU is proposing which envisages comprehensive reciprocal trading arrangements between Europe and Africa's regional groupings is likely to have the most direct and indirect impact on Africa's regional integration agenda for the following reasons:

First, the EU is Africa's largest trading partner and trading agreements between these two parties are likely to have far reaching results, not only for each of the contracting parties but also for world trade. Second, the EPA requires that negotiations be conducted and agreements entered into with Africa's regional economic integration groupings. Third, the EPA will be based on a reciprocity arrangement as opposed to earlier ACP-EU agreements that were non-reciprocal. This will present new challenges for African countries and regional integration groupings. For many African countries, successful exploitation of the possible gains from the EU's proposed EPAs will thus depend on the regional integration grouping to which they choose to belong as well as the stage of the country in terms of export focus.

In addition, the binding trading rules, established primarily through the WTO are increasingly establishing a regime of obligations that can be forced on national governments through the use of trade sanctions. This is likely to make African countries unable to protect infant industries which could otherwise allow them to grow.

Constraints and challenges to regional integration in Africa:

An assessment of regional integration in Africa undertaken by the Economic Commission for Africa ECA has revealed the following:

1. Weak institutions of regional integration
2. Multiple and overlapping membership
3. Weak effective demand
4. Absence of strong regional focal points and
5. Limited domestic constituency to demand for regional integration

Although there have been regional economic communities existing in Africa aimed at creating a common market starting by establishing free trade areas and custom unions, the progress has been very slow.

Challenges for Zambia under an Economic Partnership Agreements

Zambia is a poor country and has relatively a shallow market with only less than 12 million people. Therefore, it offers a very small market for most goods. The economy does not offer viable markets to enable Zambian companies to grow and tap into the larger markets. The regional integration therefore offers potential for exploiting economies of scale. In addition, the adoption of the New Partnership for Africa's Development (NEPAD) has brought in a new dimension for regional integration. NEPAD emphasises the need for African countries to pool resources together to enhance their economic growth and competitiveness.

Domestic Factors that limit potential to exploit the export market

If Zambia is to derive reasonable benefits from globalisation, it is vitally important to be part of the regional integration process. Therefore, the economic partnerships offer these opportunities. However, for these opportunities to be realised the Zambian Government would need to address some of the local or domestic constraints, which hinder growth in the export markets:

Access to external markets: Zambia has some problems with the grades and standards as well as the high cost of transportation. Zambia's transport costs for export shipments via Tanzania by truck cost 50 percent more to North America and 72 percent more to Northern Europe than similar shipment originating at Tanzanian port (UNCTAD, 1995). An international study (Sachs, 1998) monitoring 25 years of shipping costs in 61 countries notes that Zambia's export shipping costs for manufacturing goods are the 8th most costly, behind only Mali, Rwanda, Chad, Malawi, Burkina Faso, Niger, and Togo. Zambian manufacturers explain that they incur higher production costs e.g. energy, fuel, and other inputs. Given the 25 percent average duty on agricultural products from South Africa and 14 percent average transport costs into Zambia, it could be inferred that Zambian products cost 39 percent more to produce than international brands due to the fact that on the shelves, Zambian food products are priced at similar levels to imported products.

Exchange rate and the Dutch Disease: Over the past decade, the export earnings have risen sharply as a result of conducive policies of liberalisation and attractive foreign exchange regime. However, the recent rapid appreciation of the Kwacha against the major currencies has placed these export gains at risk. The sudden strengthening of the kwacha by 30 to 40 percent since November 2005 has forced reductions in farm-gate prices and eroded exporter profit margins. The surging international copper prices, coupled with large foreign aid and speculative financial inflows, have contributed to the strengthening kwacha, thereby rendering Zambia's export agriculture uncompetitive on the world markets. It is estimated that a loss of over \$104 million in export earnings is likely to occur as a result of the appreciation of the Kwacha (ZNFU 2006). This loss will also affect over 199,000 small scale farmers in the rural areas. In addition, commercial farmers in tobacco and export horticultural and floricultural production will face acute financial pressures, as returns turn negative.

Domestic tax measures: The new revenue proposals submitted with the 2006 budget (standardising VAT on agricultural inputs as well as withholding 45 percent to ZRA non registered farmers) will also add some further pressure on the farm profits thereby reducing further the competitiveness of Zambian exports in the world markets.

Low productivity of small holder agriculture: The majority of the 800,000 smallholder farming households are involved in predominantly subsistence agriculture with limited connection with markets. The returns to land and labour are low and smallholder farmers have a traditional bias against treating farming as a business. There are significant capacity constraints to commercialisation. Smallholders have a lack of entrepreneurial skills and have limited capacity to commercialise their operations.

Lack of security to tenure: An overwhelming majority of rural households do not own title to their land, and as a result, they are unable to use land as collateral for securing the capital required for enhancing land productivity through investment. This has resulted in many households continuing to depend on subsistence farming systems. The development of commercialisation activities requires households to have a security of tenure. In this regard, the traditional ownership patterns common through most farming systems in Zambia limit commercialisation activities.

Limited access to credit: The majority of the population in rural areas, including most rural enterprises and smallholder farmers, currently has no access to financial services. Even when financial services are there, poor or relatively poor rural households and individuals need secure savings and credit, but most would neither qualify for credit nor have the money to open savings accounts in commercial banks. In addition, the high interest rates currently prevailing in the country make the cost of borrowing expensive. The lack of access to credit is a major impediment to improvements in agricultural productivity.

Institutional Constraints: There is a weak institutional framework for smallholder support given the limited budgetary allocation for public funded extension services. Most

farmers rely on information, support and training provided by the extension teams under the various out-grower promoters.

With respect to horticultural sub-sector, the opportunity for growth, which would potentially lead to an economically viable smallholder business, is so dependent on the smallholder farmers and their organisations to be able to meet set standards and accreditation, at costs that are well above the affordability of the farmers.

Education and training have been identified as key elements to improving access to the international markets as well as for the administration of the bilateral and multilateral trade protocols in Zambia. Training is required to build capacity of the relevant institutions managing trade related aspects as well as those institutions charged with the responsibility of grades and standards. There is a critical shortage of capacity for example to deal with plant health inspection services. There are also critical capacity inadequacies of government departments to adequately handle and interpret the provisions of international trade protocols. A number of government institutions seem not aware of the existing trade agreements.

Except for those programs sponsored by UNCTAD, which only targets the contact nodes for WTO (Trade Department under the Ministry of Commerce Trade and Industry), there are no ongoing programmes for local supportive institutions and government departments. The government wing charged with the responsibility of international protocol negotiation needs to be assisted with training in areas such as negotiation skills and coordination. It has generally been observed that there is high staff turnover in some of these critical government departments and this has resulted in lack of institutional memory to follow up with some of these complex negotiations.

Infrastructural constraints: In most rural areas, feeder roads are either very poor virtually non-existent. Rail systems, though most appropriate for transporting some of the bulky agricultural commodities, are much more scarce and undeveloped than road transport infrastructure. The poor road and rail networks make the cost of moving commodities between markets very expensive and indirectly hinders the development of markets. Many of the feeder roads are in poor condition and obtaining inputs and marketing produce are very difficult and costly for the majority of farmers who are not adjacent to the major \road network. The poor quality of roads reduces the profitability of perishable crops production, particularly fruits and vegetables.

Quality certification and accreditation: The quality grading and SPS control are today mainly in the hands of processors/exporters in Zambia. Producers often express uncertainties about the way things are done. The exporters also suffer from the lack of independent quality control systems in accordance with international hygiene standards, i.e. Hazard Analysis Critical Control Points (HACCP).

It is therefore necessary to establish and implement the international grading and quality standards in Zambia for the most important produce. The institutions such as the Zambia Bureau of Standards, Plant Quarantine and Phyto-Sanitary Services, the Environmental

Council of Zambia, and the Food and Poisons Board, which have the mandate to control the origin and phyto-sanitary quality of agricultural commodity are not allocated adequate funding to efficiently carry out their functions. In addition, the adherence to international acceptable practices such as Good Agricultural Practices i.e. EurepGAP and COLEACP are now becoming important and are gaining broad acceptance both in Africa and on European markets.

CONCLUSION

The government of Zambia has fully liberalised its economy in line with the new market reforms. It has also fully committed to regional trade groupings in pursuance of the policies of the COMESA and WTO. Zambia has implemented the tax reduction regime as recommended under COMESA and has fully opened up the market to regional members.

Zambia is a poor country and has relatively a shallow market with only less than 12 million people. Therefore, it offers a very small market for most goods. Regional integration therefore offers potential for exploiting economies of scale. In addition, the adoption of NEPAD has brought in a new dimension for regional integration. NEPAD emphasises the need for African countries to pool resources together to enhance their economic growth and competitiveness.

If Zambia is to derive reasonable benefits from globalization, it is vitally important to be part of regional integration. Therefore, the RPA offer these opportunities. However, for these opportunities to be realised the Zambian Government would require to address some of the local or domestic constraints which hinder growth in the export markets. These domestic constraints include:

- Poor market access as a result of high transport costs and poor infrastructure such as feeder roads and non existence of other transport systems.
- Unfriendly exchange regime as well as the domestic tax system that is punitive to producers as opposed to consumers.
- Poor Credit environment that inhibit borrowing for investment.
- Unfair trade practices as a result of opening the borders too widely.
- Weak or poor institutional capacity to negotiate benefits for the country through trade protocols.
- Low productivity for the major players in the agricultural sector i.e. small scale farmers who are predominantly engaged in subsistence farming as opposed to commercial agriculture.
- Poor access to land and poor land tenure system that does not encourage borrowing for investment.

In effective or inefficient quality certification and accreditation system as per expectations of the international markets in some commodities In addition, there is need to build capacity of government departments engaged in negotiating trade protocols to enhance the skills need to negotiate and understand trade agreements. Due to high turnover of staff in most departments, this training is supposed to be on a continuous basis. If these constraints are resolved, Zambia could benefit from

the export markets as conceived under the EU/ACP Cotonou Agreements and the envisioned Economic Partnership Agreements.

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