

**Institutional Reform  
Challenges and Strategies:  
E-Voucher FISP Reform in Zambia**

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# Objectives of the Presentation

- To discuss some challenges of institutional reform
- To present some guiding principles for institutional reform
- To illustrate these challenges and principles with an example of a successful reform process

# Substance vs. Process

- **Substance:**
  - Concerned with analyzing how existing institutions (rules) influence the provision of goods and services in an economy in terms of criteria such as efficiency and sustainability
- **Process:**
  - Concerned with how self-governing societies, or self-governing groups within society, go about changing the rules in order to improve the provision of goods and services.
  - To be effective, new rules must be not only prescribed, but also invoked, applied, and enforced.

# The Underlying Theme

- Rules are abstract public goods – the purest of pure public goods:
  - Low **rivalry** – since jointly consumed
  - Low **excludability** – if impartially applied
  - Low **exit** – if effectively enforced
- And therefore the provision of rules is subject to all the collective action problems and transactions costs associated with the provision of concrete public goods, plus some more – such as invisibility

# Challenges of Institutional Reform

1. Problem recognition
2. Collective action problems
3. Transactions costs
4. Path-dependence
5. No blueprints

# 1. Problem recognition

- **“Home-blindedness”**:
  - Difficulty in recognizing or criticizing harmful rules in one’s own society
- **“Paradigm paralysis”**:
  - The difficulty or the reluctance that those who have invested in the old paradigm (the old way of addressing or solving a particular problem) have in recognizing the virtue of new paradigms (or new ways) of solving the problem.

## 2. Collective action problems

- How do those with a common interest in a new rule perceive this common interest and act to achieve this common interest?
- **Free-riding:** Not contributing to the reform effort, but waiting for others to do the work and then free-riding on their efforts.
- **Rent-seeking:** Lobbying to receive or maintain special government-created privileges enforced by the government.

# Collective action problems (cont.)

- Even reforms that are “win-win” in the long term, typically create "winners" and "losers" in the short term
- The **“losers”** typically:
  - Oppose the change
  - Are small in size, organized, well-known, and influential
  - Are successful rent-seekers
- The **“winners”** typically:
  - Are uninformed and apathetic
  - Are large in size, unorganized, and not well-known
  - Experience collective action problems in getting the group organized
  - Are unsuccessful rent-seekers

### 3. Transaction costs

- The time and effort costs associated with:
  - Assembling the policy-relevant information about the problem
  - Analyzing and diagnosing the problem
  - Devising and agreeing upon new rules to deal with the problem, and
  - Implementing the new rules.

## 4. Path dependency

- Institutional change is path-dependent
  - => You have to start where you presently are
- Institutions created in the past place boundaries on the range of feasible reforms in the present:
  - Particularly the existing constitutional and governance institutions
  - Or the lack thereof – i.e. the lack of well-defined, widely recognized and accepted, and legitimate ways of changing the existing rules
- New institutions created today will also place boundaries on institutional change in the future

## 5. No blueprints

- Blueprint thinking occurs whenever policy makers, donors, citizens or scholars propose:
  - Uniform solutions
  - To a wide variety of problems
  - That are clustered under a single name
  - Based on one or more successful exemplars
- Instead of relying on blueprints, rely on design principles

# **Case Study:**

## **Introducing an Electronic-Voucher System for FISP in Zambia**

- **Farmer Input Support Programme**
  - Started in 2002/03
  - Formerly the Fertilizer Support Programme
  - Government tendered for input suppliers
  - Winners of the tender delivered the inputs to specified warehouses
  - Government Agricultural Officers and farmer cooperatives distributed the standardized packet of inputs (20 kg of maize seed and 400 kg of fertilizer) to individual farmers
  - Farmers paid from 20% to 50% of the cost, depending on the commercial price of the fertilizer.

# Perceived problems with the program

- **Financial and logistical challenges:** Resulted in delays and late delivery of inputs to farmers
- **Poor targeting:** A small minority of larger, wealthier farmers received most of the FISP inputs
- **Hindered diversification:** Standardized FISP input package not appropriate for many agro-ecological zones
- **Crowded out agro-dealers:**
  - Serving farmers who would have bought inputs without the subsidy
  - Only 3 fertilizer firms won tenders to supply FISP fertilizer
- **High cost to the Treasury:** 40% of the government's agricultural budget

# Government responses

- A Government Commission in 2009 recommended an e-voucher system to address FISP shortcomings
- Government rejected the recommendation because:
  - Concern that agro-dealer networks were not adequately developed or sufficiently capitalized
  - Fear that major implementation constraints might adversely affect national food security
- Government did cut the size of the package in half in 2009/10 to reach twice as many farmers: To 10 kg of maize seed and 200 kg of fertilizer
  - Partially in the run up to the 2011 elections

# Collective action problems

- Those who supported the present system were successful rent-seekers:
  - Powerful members of the fertilizer association
  - Larger wealthier farmers who received most of the FISP inputs
  - Opportunistic actors (who diverted FISP inputs for themselves)
- Those who advocated change had to organize:
  - Zambia National Farmers Union
  - Seed suppliers
  - Donors (EU, USAID, World Bank)
  - Research organizations
- Some stakeholders were indifferent (or free-riders):
  - Grain traders, millers, processors

# Stakeholder Analysis

- “The identification of a project’s key stakeholders, an assessment of their interests, and the ways in which these interests affect the project’s riskiness and viability.”
- Classification of stakeholder groups according to two criteria – importance and influence.

# *Stakeholder analysis*

## *Importance*

*High*

*Low*

*Influence*

*High*

**Primary  
participants**

**Potential  
problem-  
makers;  
monitor closely**

*Low*

**Facilitate  
participation**

**Keep informed**

|             |                                     |   |
|-------------|-------------------------------------|---|
|             | <i>High</i>                         | <i>Low</i>  |
| <i>High</i> | <b>Primary<br/>participants</b>     | <b>Potential<br/>problem-<br/>makers;<br/>monitor closely</b> |
| <i>Low</i>  | <b>Facilitate<br/>participation</b> | <b>Keep informed</b>  |

# *For Zambia E-Vouchers*

## *Importance*

*High*

*Low*

*Influence*

*High*

**Farmers Union,  
seed suppliers,  
donors**

**Fertilizer  
association;  
Larger  
farmers**

*Low*

**Large number  
of unorganized  
small farmers**

**Grain traders,  
millers,  
processors**

# Transaction costs

- Doing research on the feasibility of using an e-voucher system for FISP
  - The Indaba Agricultural Policy Research Institute in Lusaka helped put e-vouchers on the political agenda in 2012
- Approving registered agro-dealers and input suppliers to market the inputs (assembling and distribution)
- Getting farmers registered to receive vouchers — to use a Visa card to redeem their input credits with registered dealers
- Establishing a dedicated government account to repay agro-dealers when farmers redeemed vouchers: Government IOUs would not have been sufficient

# Path dependency

- Placed boundaries on the range of feasible reforms
  - Eliminating the FISP program entirely was not a political option, in spite of the cost to the Treasury
  - Initially resistant, the Farmers' Union supported reforms as evidence accumulated, but not the elimination of subsidies.
- There was a need to shift key politicians' thinking that e-vouchers were feasible:
  - That switching to a new tendering and distribution system would not adversely affect national food security
  - That an e-voucher system would encourage private sector development and competition among input suppliers
  - That the traditional tender winners would not create insurmountable political problems.

## Some close blueprints

- The Zambian National Farmers Union had used a Visa-based voucher for one of its programs, which served as a template for designing the government's program
- Some lessons were also learned from donor-supported pilots using vouchers
  - E.g. FAO and the Conservation Farming Unit

# Guiding Principles for Reform

1. Political commitment and cover
2. Reform manager
3. Reform strategy
3. Participation of stakeholders
5. Sequencing

# 1. Political commitment and cover

- Politicians and senior policy makers:
  - Responsible for establishing the vision, the guiding principles, and the strategic direction for reform
  - Must provide:
    - => Political commitment and cover, and
    - => Clearly defined responsibilities and authority for those who are managing the reform process on a day-to-day basis.

## For Zambia E-Vouchers

- A new Minister of Agriculture – Given Lubinda – pushed through the reforms, starting in February 2015
- President Edgar Lungu officiated at the launch of the pilot in October 2015 – seen as a very important gesture giving cover to the Ministry of Agriculture.
- The Zambia National Farmers Union also provided some political cover for the politicians

## 2. Reform manager

- Core responsibility for spearheading the reform process
- May be a regular government employee, a civic leader or an academic, or even an NGO (appointed for a period of time to spearhead the reforms)
- Some important aspects:
  - Focusing first on the **process**, more than on the substance of the reforms
  - Involving all relevant **stakeholder groups**
  - Appropriate mixture of **consultation** and **collaboration**
  - Effective **communications strategy**
  - Addressing key areas requiring action in a **logical sequence**

# For Zambia E-Vouchers

- A Director in the Ministry of Agriculture – Kezia Katyamba – carried out the program design and implementation
- Donors, the Farmers Union, and research organizations also played important roles in managing the reform process
- The EU and DFID included the adoption of e-vouchers as a condition for continued direct budget support

### 3. Reform strategy

- Provides a strategic direction for designing policy interventions and associated institutional reforms
- May exist at various levels -- national, sector, and subsector
- Examples:
  - Liberalization
  - Privatization
  - Restructuring
  - Decentralization
  - Empowerment
  - Co-management

# For Zambia E-Vouchers

- Commercialization of Zambian agriculture – beyond large farmers
- Agricultural diversification – beyond maize production
- Private sector development and competition in agricultural marketing
- More efficient delivery of government agricultural programs

## 4. Participation of stakeholders

- **Participation:**

- “Process by which stakeholders influence and share control over policy and development initiatives, and the decisions and resources which affect them”

- **Stakeholders:**

- “Those affected by the outcome -- positively or negatively -- or those who can affect the outcome of a proposed reform.”

# For Zambia E-Vouchers

- Most of the influential stakeholder groups favored the reform
  - Farmers Union, input suppliers (other than the traditional tender winners), donors
  - Only the fertilizer association opposed
- This provided the political window of opportunity for the reform provided that politicians' concerns could be addressed and the new institutional design could be worked out and implemented
- Reforming maize trade policy or the Food Reserve Agency has proven more problematic in this respect

# Why participation is so important

- To help establish the credibility of the government with respect to the proposed reforms.
- To help win the support of the economic elites, whose support is necessary for the reforms to succeed.
- To help instill ownership in the reforms, and thereby reduce the costs of implementing them.
- To help assemble policy-relevant information.
- To deter rent-seeking activities.

**“Participation is the process by which governments trade authority and power for information.”**

# Degrees of participation

- **Information dissemination:** One-way flow of information from the government to stakeholders
- **Consultation:** Two-way flow of information, one-on-one, between the reform manager on the one hand, and the different stakeholders on the other.
- **Collaboration:** Bringing representatives of all the relevant stakeholder groups to the same table, and giving them the task, collectively, of recommending appropriate government actions.
- **Empowerment:** Assigning stakeholder groups the responsibility for administering all or certain aspects of a new public policy or program.

# Consultation

- It is very important for the reform manager to know when to consult and when to collaborate.
- Consultation alone, without any collaboration, has three major drawbacks:
  - Stakeholders often view this as manipulative.
  - Reform manager may have to arbitrate between opposing stakeholder groups.
  - Reforms may be perceived as less legitimate, therefore reducing public support for the reforms.

# Collaboration

- **Political benefits:**
  - The transformation of “Big P” issues into “small p” issues.
- **Economic benefits:**
  - The detailed policy-relevant information that the various stakeholders bring to the table, and the open discussion of trade-offs.
- **Political risks:**
  - A time-consuming process that may result in recommendations that the government does not agree with.

**“Through participation, we lost ‘control’ of the project, and in so doing gained ownership and sustainability – precious things in our business.”**

## 5. Sequencing

- A series of logical and rational steps toward an agreed-upon end
- The optimal sequence will vary from situation to situation, and level to level:
  - Macro issues
    - => Stabilization, adjustment, trade policy
  - Sector-wide issues
    - => Public expenditure program
  - Subsector issues
    - => Institutional reforms

# At the subsector level, a common sequence is:

1. **Consensus-building** => An overall subsector strategy
2. **Operational rules** (including financial arrangements):
  - Conceptualize a set of operational rules that will sustain the institutional system -- environmentally, socially, economically, and financially -- over the long term
3. **Governance and administration:**
  - Figure out how these new operational rules should be governed and administered
4. **Legal framework:**
  - Codify these governance rules in order to create the long term stability that is necessary for people to invest their own resources in the new system
5. **Capacity building** – at all levels in the new system

# For Zambia E-Vouchers

- Worked out the design of the new system
- Passed new legislation and regulations authorizing the reforms
- Registered agro-dealers and farmers
- Set up the dedicated government account
- Piloted e-vouchers in selected districts in 2015/16
- Monitored the implementation of the pilot
- Expanded to additional districts in 2016/17