Addressing seasonal hunger and rural poverty in Zambia – Testing scalable solutions

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Scaling up seasonal poverty alleviation programs requires innovative partnerships!

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Topic at a Glance

Since farmers harvest crops (and therefore earn income) just a few times a year, many agricultural households struggle to save their cash and maintain their consumption in the months between harvests. For this reason, the period before harvest is often termed the “hungry season”. Previous research has shown that offering well-timed, seasonal credit to farmers can help boost agricultural productivity and smooth consumption, but few programs designed to provide seasonal credit to small-scale farmers exist in low-income settings. We work with a private sector partner to test a scale up of seasonal loans. The program increased farmer engagement with the company and had high take up, but led to high levels of default, particularly during the COVID-19 pandemic, which led to its discontinuation.

New Insights

In the absence of opportunities to borrow during this time, farmers may reduce food consumption, take up informal credit, engage in short-term work on other farms or in the casual labour market, and or sell off assets like livestock. One strategy to expand the provision of seasonal credit is to leverage existing contractual relationships between farmers and agribusinesses, or outgrower companies. Outgrower networks are large, reaching a majority of small-scale farmers in Zambia as well as other countries. This evaluation tests if offering seasonal credit through an advanced payment program (APP) improves farmer welfare and firm profits.

The APP was offered to around 4000 farmers in 2019 and 16000 farmers in 2020. In both years, around 80 percent of farmers offered the APP took it up. Access to the APP in both 2019 and 2020 helped distributors recruit more farmers. In 2019, distributors who were randomly drawn for treatment signed contracts with 12-16 more farmers than did those in treatment areas who were not drawn for treatment. In 2020, distributors in treated areas (including those who were ineligible for the program) contracted with 5 additional farmers, on average.

Treatment also affected retention of both distributors and farmers. Distributors treated in 2019 were about 15 percentage points more likely to work with Alliance again in 2020. Farmers who contracted with Alliance in 2019 were about 8 percentage points more likely to stick with Alliance if their area was treated in 2020, though this does not depend on whether they had access to the APP in 2019 (in other words, this is due more to recruitment than retention).

Farmers who contracted with a treated distributor in 2019 (80 percent of whom took up the APP) borrowed an average of 140 Kwacha more, sold an equivalent amount of cotton back to Alliance (6 kg less than control farmers, a statistically insignificant difference) and were left with an outstanding balance that was 66 Kwacha higher, on average. The probability of full repayment fell by 7 percent while the probability of full default was unaffected.
For the 2020 results, the impact on the amount borrowed was similar to in 2019, but treated farmers in 2020 actually sold 50 kg less output to Alliance, on average, resulting in an outstanding balance that was 106 Kwacha higher for treated farmers than control farmers. They were also over 16 percentage points less likely to fully repay their loans and around 9 percentage points more likely to fully default.

While the impacts on contract outcomes imply that Alliance lost money on the APP, on average (though not in all regions in all years), the reports by farmers in the household survey conducted in the hungry season of 2019 shows benefits for farmers, in the form of better consumption outcomes, less dependence on family labor sales off the farm (ganyu) and an increase in hiring. These impacts help explain the high rates of take up and positive impacts on recruitment and retention.

Policy Recommendations

While Alliance farmers show a clear demand for and benefit from access to the APP, the two years of rigorous testing show substantial challenges for turning this into a profitable program. Both years saw large unforeseen events that lowered loan repayment rates across the board. The added liability of the APP meant that farmer defaults were more costly to Alliance. While the drought in 2018-19 was largely offset by weather insurance, the global pandemic of 2019-20, which lowered cotton prices and hurt sales to Alliance, was not insured (and represents an uninsurable event). The unfortunate timing of these shocks means that the APP did not have a chance to demonstrate its impacts in a “good” year.

That said, the survey results, combined with extremely high take up and recruitment effects demonstrates that hungry season support remains highly desirable and beneficial for farmers. Partnering with outgrower companies, or other private sector organizations, provides a valuable way to lower transaction costs compared to new program development. That said, outside donor support may still be required to offset the added liability of such programs, particularly given the uncertain nature of contract farming.

Limitations

As noted above, the two years of testing were beset by shocks. In the first year, drought offered perspective on potential losses in the event of a “normal” shock, which was largely offset by weather insurance payouts. The scale up in the second year is evidence that the partner felt this type of shock was surmountable. However, in the second year, the COVID-19 pandemic led to widespread default (in both treatment and control groups), causing substantial losses to the partner. While this type of shock is unlikely to be repeated, it was large enough to cause the program to be discontinued.

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