Future Agricultures

Policy Brief

The Malawi Fertiliser Subsidy Programme: politics and pragmatism

Many people hoped that the end of one-party rule in Malawi in May 1994 would pave the way for economic recovery and social development. Instead, however, the democratisation process has coincided with a deepening crisis in Malawi's agricultural sector. Between the 1970s and the 1990s, the country went from producing an agricultural surplus to a substantial food deficit. Per capita maize production fell significantly during the 1990s.

Food insecurity has become endemic. About 70–80 per cent of all rural households are short of self-produced staple foods for four to five months of the year. The gravity of the crisis was underlined by two episodes of severe hunger during the 2001/2002 and 2004/2005 growing seasons, which turned food security into a highly charged political issue.

Box 1: Causes of the food crisis in Malawi

The contemporary food crisis in Malawi was caused by a number of important events in the mid 1990s. These included the collapse of smallholder-farmer credit-clubs; the removal of subsidies on fertiliser and hybrid maize seed and the liberalisation of agricultural markets; a sharp currency devaluation; persistent adverse climatic patterns over the course of a decade; rapid population growth; a land policy that only allowed for one-way transferability of land from the customary to the estate sector; rampant deforestation and land degradation; and the slow uptake of technology. The civil war in Mozambique further exacerbated the situation, because it not only cut food supplies from that country but Malawi also had to cope with an influx of about one million refugees.

Origins of the Fertiliser Subsidy Programme

The origins of the Fertiliser Subsidy Programme (FSP) can be traced to the electoral campaigning leading up to the May

2004 elections, in which both the ruling United Democratic Front (UDF) and the opposition block, led by the Malawi Congress Party (MCP), pledged to introduce some kind of universal fertiliser subsidy programme.

The UDF won the elections and proceeded to form a government. After a long delay – which encouraged expectations that a universal subsidy programme would be implemented – in August 2005, the government announced a substantial expansion of the existing Targeted Input Programme (TIP). The 'Extended TIP' (ETIP) would provide a package of 26 kg fertiliser and 5 kg of seed to about 2.8 million beneficiaries. This was a significant increase over the 1.5 million households targeted under the TIP, but fell short of expectations of cheap fertiliser for everyone.

The long delay in announcing the new measures produced uncertainty that had two serious consequences for the 2004/2005 growing season. First, it made it extremely difficult for the private sector to make orders for fertiliser on a timely basis. This in turn led to scarcity of fertiliser on the market, even for those farmers who could afford to buy it at the prevailing market prices.

Second, the ETIP inputs arrived very late, due to the time required to import fertiliser from overseas suppliers. As a result, the distribution

Box 2: Donor views of the subsidy programme diverged into three distinct categories:

1. **Total opposition.** Chief advocates of this view were the International Monetary Fund (IMF) and the US Agency for International Development (USAID). This group argued that subsidies would create market distortions that would make private-sector development virtually impossible and risk wiping out the private fertiliser sector altogether.
   They also argued that the benefits of fertiliser subsidies are generally captured by relatively well-off farmers and that administrative costs, leakages and targeting problems made subsidies a grossly inefficient way to target the poor. They called for market-based mechanisms instead.
2. **Sceptical, but willing to contemplate subsidy.** This group included DFID, the World Bank and the European Union, among others. These donors were concerned about the government's capacity to implement the subsidy programme and emphasised the challenges involved in targeting. However, they conceded that some type of 'smart subsidy', building on the lessons of the TIP, might be feasible.
   Whereas this group also favoured market-based mechanisms, they were willing to accept subsidies as a short-term measure so long as they would not crowd-out private sector development.
3. **Supportive of subsidies.** Donors in this category included most of the UN agencies and the Norwegian government, with the support of many local and international NGOs including major players Oxfam, ActionAid and Plan International. These agencies supported the subsidy programme on the grounds that fertiliser is critical to boosting production and assuring food security, and that subsidies could be phased out over time once farmers had built up their capacity.
   This group argued that agriculture in Malawi would not survive without subsidies, which would not distort the market because the private sector is almost non-existent. They argued that subsidies could lead to net welfare gains by encouraging an expansion in fertiliser use toward the socially optimal level. Although some NGOs recognised a leading role for the private sector in agricultural development, they emphasised the key role of the government in fostering properly functioning markets.

of ETIP inputs was delayed, and in most cases arrived when the maize had already developed past the critical stage for the application of basal dressing fertiliser. Coupled with a severe drought, these problems culminated in a severe hunger crisis affecting about four million Malawians in 2004/2005.

The debt dimension

The likely explanation for the government's hesitation to implement a universal fertiliser subsidy programme was its fear of jeopardising the country's prospects of qualifying for debt relief through the implementation of the Malawi Poverty Reduction Strategy (MPRS). The restoration of fiscal prudence and discipline was one of the key conditions demanded by the donor community, in order for the country to qualify for relief of the US$ 113 million national debt.

The 2004/2005 hunger crisis intensified debate about the need to reintroduce a fertiliser subsidy programme in the country. In particular, the crisis provided opposition political parties and advocacy groups with a platform to attack the government for its failure to deliver on the promises made during the 2004 electoral campaign.

Meanwhile, the Parliamentary Committee on Agriculture and Natural Resources – which was dominated by the opposition MCP – called for the introduction a universal fertiliser subsidy for both maize and tobacco. The committee argued that, by targeting both crops, such a subsidy would address both the supply and demand sides of the food security equation.

Against this background, the UK's Department for International Development (DFID) announced its withdrawal of support for the TIP. DFID was, by this time, the only donor still backing the programme. Its decision reflected an assessment that the TIP was not the best way of offering support to the agricultural sector. A

Photograph: Jan Banning

A queue of people at a point of sale for state-subsidised maize and fertiliser.

Photograph: Petterik

Sebeta, Oromia , Ethiopia

key problem was that the programme targeted the very poorest households, which were often not able to make productive use of the inputs and often ended up either selling them or not putting them to maximum productive use. DFID's decision to withdraw its backing was a major blow, which raised concern that the closure of the TIP would jeopardise food security for many households.

The political dimension

Faced with mounting pressure, the president first announced the introduction of a new fertiliser subsidy programme in June 2005. The subsidy would be targeted at resource-constrained but productive maize farmers. The general objective was to provide fertiliser, not as a safety net but as a resource for people who had the capability to use it effectively but would otherwise have difficulty in obtaining it.

The president ruled out a universal fertiliser subsidy programme, arguing that Malawi could not afford to implement such a measure. The FSP was estimated to cost between MK 2–3 billion. In parliament, however, opposition parties took advantage of the president's weakened support to press its case for a universal programme, making it a precondition for passing the 2005/2006 budget. The government eventually bowed to their demands and a universal fertiliser subsidy programme was agreed.

This decision pushed the budget for the scheme to MK 4.7 billion (about US $ 35 million) and also necessitated a change in the design of the programme, to involve private sector companies in running it. This decision was taken to allay concern that private companies would be put out of business by the plan. Nevertheless, owing to political sensitivities around food security, private sector firms were excluded from fertiliser distribution.

Design issues

Debate then moved to the mode of implementation. Many members of parliament assumed that any smallholder farmer would be entitled to buy as many bags of fertiliser under the scheme as he or she could afford. However, the government opted to introduce a coupon scheme, in order to limit the amount of fertiliser that an individual household could access. This was justified both as a cost-control mechanism and on the grounds of equity.

Opposition parties argued that the coupon scheme violated the terms of the parliamentary resolution, which had called for a universal subsidy. In its defence, the government argued that it would be impossible to reach every maize and tobacco farmer within the MK 4.7 billion budget ceiling earmarked for the programme. Ministers claimed that a universal subsidy would require MK 12 billion. They argued that implementing the programme without any control system in place would have led to a situation in which big farmers and informal traders would have been the main beneficiaries, instead of the poorest.

One hundred and forty-seven thousand tonnes of fertilisers were earmarked for the subsidy scheme. However, only about 127,000 tonnes were actually distributed, representing about 75 per cent of the total number of coupons issued. Nevertheless, the total costs of the scheme surged to MK 7.1 billion in the course of implementation, equivalent to about 8.3 per cent of the total national budget for the 2005/2006 fiscal year.

Donor attitudes

Some critics, particularly donors, argued that the FSP undermined the long-term effort to reform and liberalise the agricultural economy. No donor supported the 2004/2006 programme and the full cost was borne by the Malawian government.

However, the absence of donor support actually reinforced domestic support for the programme. Notwithstanding the differences between the government and the opposition regarding the modalities of implementation, there was a strong consensus about the need for such a measure. The 2004/2005 food crisis convinced many people that the subsidy programme would be much cheaper than importing food in times of crisis.

A study by Stambuli (2002) was often invoked, in which he estimated that a tonne of imported maize at a cost of about US$ 300 would feed five families for about 96 days, whereas the same sum would be adequate to procure enough fertiliser to support seven hectares of farmland to produce 13 tonnes of maize that would feed the same five families for about 10 months.

Box 3: Impacts of the Fertiliser Subsidy Programme

The FSP has been estimated to have boosted maize production by about 15–22 per cent during 2005/2006. The subsidy also reportedly had a positive impact on livelihoods, because of lower maize prices and substantially increased wage rates for ganyu (casual labour).

However, the FSP is thought to have negatively affected the development of the agro-dealer network that had been taking shape since the advent of liberalization. About 60–70 per cent of fertiliser retail outlets were closed and a good proportion of their staff laid off as a result of reduced sales.

Source: Dorward, et al. (2007)

Impact of the FSP

The 2005/2006 FSP was fairly successful despite a number of serious problems, including logistical difficulties and allegations of corruption in the distribution of coupons. Nevertheless, the subsidy appeared to have an unprecedented impact on maize yield. In 2006, Malawi enjoyed its biggest ever maize harvest of 2.6 million metric tonnes, at least half a million tonnes more than the country's annual requirement.

The donor response

The apparent success of the 2005/2006 subsidy programme has, for the first time in many years, challenged the dominance of aid donors in agricultural policy-making in Malawi. Donors who had opposed the subsidy, previously very influential in policy-making, now found themselves out on a limb.

In response, a certain reluctant pragmatism emerged among the donors. This is particularly evident in their willingness to undertake a series of studies on the subsidy programme, with a view to informing their engagement with the government, which remained firmly committed to the programme. Pragmatically, they recognised that they had to engage with the programme in order to remain relevant.

During 2006, a group of donors, including DFID, USAID and the World Bank, commissioned studies to learn from lessons from the 2005/2006 experience. Based on the findings of these studies, the donors developed a set of conditions for offering their support to the subsidy programme, including:

- Greater involvement of the private sector in both the procurement and the distribution of subsidised fertiliser and other farm inputs, on equal terms with public-sector agencies.
- Promotion of choice for beneficiaries, in terms of the range of fertilisers involved, and outlets from where fertilisers and seeds are procured.

Photograph: David Hughes

Urea fertiliser stocked ready for distribution.

- Extension of the subsidy intervention to other crops besides maize and tobacco, in order to promote crop diversification.
- Developing plans for marketing and storage, especially during times of excess production.

Concluding Reflections

A combination of maize-, tobacco-, electoral, legislative and aid-politics had in different ways influenced, affected and shaped the form and content of the FSP. This case study therefore raises a fundamental question about the policy-making process: What happens when the values of democracy and electoral legitimacy – a strong theme in donors' positions on 'good governance' – collide with the economic policies espoused by the same donors?

Key lessons include the following. The domestic political-economic context and unique circumstances of each country have to be taken into account in policy formulation. Supposedly 'second-best' options, which nevertheless work in a particular context, are preferable to dogmatic, one-size-fits-all policy prescriptions.

There is a need to grasp fully the array of stakeholders and their competing interests, views and demands in the policy process. Understanding these interests is critical for analyzing potential trade-offs. Assuming that policies emerge from technical reasoning and 'first principles' economic theory will result in policy failure.

Strong domestic leadership and a democratic mandate mean that donors need to adopt a more pragmatic, reflexive attitude in their approach to development policy in agriculture.

Photograph credit

Acknowledgements
This Policy Brief was written by **Blessings Chinsinga** of the **Future Agricultures Consortium**. The series editor is David Hughes. Further information about this series of Policy Briefs at: **www. future-agricultures.org**

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FAC appreciates the support of the
UK Department for International Development (DfID)