Future Agricultures

Policy Brief

Agriculture and Social Protection in Malawi: Fertiliser Policies and Politics

Agricultural and social protection policies must be understood in the context of political agendas, market development and trends in rural livelihoods. This Briefing Paper reviews interactions between agricultural and social protection policies in Malawi – classified as social protection from, independent of, for, through and with agriculture – and their impacts on livelihoods and welfare. Specific attention is given to the evolution of input subsidy policies (i.e. 'fertiliser politics').

CONTEXTUALISING POLICY

Much of Malawi's economic stagnation and chronic poverty can be attributed to the persistently poor performance of the smallholder sector. Inter-related causal factors include a dependence on rain-fed agriculture where rainfall is erratic and unpredictable; the promotion over several decades of white maize as the staple crop; small landholdings and intensifying land pressure; undiversified rural livelihoods and limited rural-urban linkages; high import and export costs due to Malawi's landlocked location; the high prevalence of AIDS and its adverse impacts on household demographics and labour power; recurrent natural disasters; economic crises; and high rates of malnutrition which are transmitted across generations. Governance failures, macro-economic mismanagement, a neo-patrimonial political culture, and dependence on highly conditional donor funding, have all exacerbated rather than alleviated rural poverty and vulnerability.

Political context

The 'neo-patrimonialism' argument, that people in power use their positions to dispense patronage to their constituencies and influential interest groups, is useful for analysing agriculture and social protection policies in Malawi since independence. Malawi's first president, Kamuzu Banda (1964 1994), presided over a highly personalised and repressive regime. Economic growth was initially achieved by promoting tobacco production for export in the estate farm sub-sector, and maize production for subsistence in the smallholder sub-sector, with smallholder families also providing a low-cost labour reserve for the estates. The economy was heavily regulated. Subsidised fertiliser and credit bought the support of better off farmers, while the middle classes benefited from investment in education and from employment opportunities in the rapidly expanding civil service. Social protection received little policy attention in this period, because the government denied the existence of poverty in Malawi.

The unsustainability of these policies was exposed by a number of external shocks in the early 1980s, which forced the government to seek heavily conditional financial assistance from the IMF and World Bank and launched Malawi into its second post-independence policy phase – liberalisation – which included scaling down government intervention in agricultural production and marketing, and the abolition of fertiliser subsidies. Deregulation also removed significant sources of patronage from government control, and this together with the failure of market reforms resulted in a series of food crises. Pressures for political reforms intensified and Malawi's first democratic multi party elections were held in 1994, ending Banda's autocratic rule.

Malawi's second president, Bakili Muluzi (1994 2004) presided over a decade of macroeconomic mismanagement, weakening of government capacity and rampant corruption. 2006). With the government's political power base in the densely populated and food insecure Southern Region, the politics and mass patronage of maize self-sufficiency became associated with the politics of fertiliser subsidies. Universal 'Starter Packs' of maize seed and fertiliser were introduced in 1998, with a range of populist objectives including promoting agricultural development and food self-sufficiency, social protection for vulnerable citizens and political patronage. 'Fertiliser politics' subsequently became a major campaigning issue in the 2004 presidential election, which was won by Bingu Mutharika who subsequently reintroduced fertiliser subsidies, with enormous economic, agricultural and political consequences.

Donors are disproportionately influential in Malawi, due to the economy's dependence on foreign aid, but donor policies are inconsistent over time and between agencies. Donors initially supported Banda's dualistic agricultural policies, but concerns about Malawi's economic problems in the early 1980s, coinciding with an ideological shift against government interventionism in favour of 'Washington consensus' structural adjustment policies, led to donors and international financial institutions imposing liberalisation reforms on Malawi. Subsequently, donors have displayed several 'U-turns' and internal disagreements in terms of fertiliser subsidies and other interventions in the agriculture and social protection sectors, which are driven by domestic donor politics, economic ideology, humanitarian concerns, and personal concerns of (short-term) in-country staff.

In summary, successive presidents have pursued different approaches to the political challenge of delivering patronage to their client groups without compromising the economy's capacity to support such patronage. Until recently, social protection featured only in the pursuit of food security through agriculture policies (including fertiliser subsidies), and in the provision of relief during food crises.

Markets and livelihoods contexts

Important interactions arise between agriculture and social protection in Malawi, because of the dominance of small-scale, low productivity and highly risky agriculture in the livelihoods of rural families. Poverty, malnutrition and vulnerability to shocks are highest among smallholders, so social protection in Malawi must concern itself with smallholder agriculture. A related feature is the low levels of economic activity and market development in rural Malawi, where small volumes and high trading costs require high risk premiums and margins that depress demand, resulting in a 'low level equilibrium trap' and failures of agricultural input, output and financial markets.

Since low levels of rural market development are both a key constraint to development and food security, and a result of poverty and vulnerability, this suggests that without the existence of well established and functioning thick markets, markets cannot be relied upon to deliver agricultural and food security services. Two major questions follow:

1. How can agricultural service markets (principally for inputs and credit) and food markets be developed in the medium to long term?
2. How can agricultural services and food access be provided in the short term in a way that 'crowds in' rather than 'crowds out' market development?

AGRICULTURAL AND SOCIAL PROTECTION POLICIES IN MALAWI

This section summarises the major agricultural and social protection policies pursued in Malawi

Photograph: David Hughes

Rice fields in Kenya

Photograph : David Hughes

since independence, structured around Dorward et al.'s (2006) classification of social protection from, independent of, for, through and with agriculture.

Social protection from agriculture

After independence, smallholders were organised into groups that took input loans which they repaid in kind by selling their produce to the parastatal market board, ADMARC, which acted as sole seller of inputs to smallholders and sole buyer of smallholders' produce. These interlocking arrangements expanded access to purchased inputs for maize production. ADMARC also maintained pan-territorial prices to support producers and pan-seasonal prices to protect poor consumers. Moreover, ADMARC taxed smallholder cash crops and transferred the proceeds to the tobacco estate sector, which also benefited from cheap labour in an exploitative tenant system. This system promoted national food self-sufficiency (through subsidising production) and local food availability (through ADMARC's network of village markets). The major social protection outcomes were stable food prices and reliable food availability in most rural areas at most times. However, the government was unable to sustain these policies after the 1980s.

Social protection independent of agriculture

Market liberalisation, currency devaluations and multi-party democracy led to the demise of the interlocking smallholder credit system in Malawi, and agricultural policy attention shifted to specific crops such as tobacco, which was widely planted after restrictions against smallholder production were lifted in the early 1990s. Among the poorest smallholders with limited land, tobacco began to crowd out maize, and rural food insecurity intensified after the removal of input subsidies made the use of fertiliser on maize uneconomic. Various social protection instruments were introduced that were 'independent of agriculture' – targeted nutrition programmes, public works projects, school feeding schemes, food aid and (most recently) cash transfers. While synergies between social transfers and agriculture have been observed, deeper structural problems in food production, markets, policies and governance remain unaddressed. Also, lack of long-term funding, limited coverage and inconsistent implementation have undermined the extent to which smallholders can rely on social transfers and undertake moderately risky investments in agriculture.

Social protection for agriculture

Growing interest in the potential for social protection to reduce livelihood risks and facilitate investments to escape poverty have led to a resurgence of interest in agricultural insurance. Although crop insurance schemes failed in South Asia and Latin America in the 1970s, due to covariant risk, moral hazard, high transaction costs and political economy problems, the emerging social protection agenda has coincided with the development of more innovative approaches. The Government of Malawi and its development partners piloted a weather-indexed crop insurance scheme for 900 groundnut farmers in 2005/06, who took a loan to access an input package, with an interest rate that incorporated an insurance premium. Because the insurance functions as a guarantee against the loan, high-risk and low-income farmers can obtain credit to invest in inputs for higher yielding crops. The pilot scheme was favourably evaluated after its first year. Extending this approach to address risks faced in maize production and to promote greater input use

Photograph: Nalan Yuksel

in maize production by poor smallholders is the next challenge.

Social protection through agriculture

The importance of agriculture for both household and national food security led to a convergence between agricultural and social protection interests around ensuring smallholders' access to seed and fertiliser for maize production. Three instruments have been used: inputs-for-work, free input distribution, and a voucher-based input subsidy. 'Inputs-for-work' describes public works projects where participants are paid with agricultural inputs, rather than food or cash. Inputs-for-work have recently been piloted on a small scale in Malawi, and evaluated as more popular with participants than either food or cash-for-work, in a context of high fertiliser prices. Free input distribution has been more widely used, starting in 1993 in response to currency devaluation, the phasing out of fertiliser subsidies, the collapsing input credit system, and drought. In 1998, DFID funded a universal 'Starter Pack' programme, which together with good weather contributed to a 67% increase in maize output (Levy, 2005). The Starter Pack was conceived as an agricultural development programme that would stimulate crop diversification and rural input and output markets, but their main function was as a social protection instrument that promoted household food security through increased maize production and lower market prices. The programme was also exploited as a source of patronage by the ruling party during the 1999 elections. Because of this politicisation and the programme's high cost, its emphasis on maize production rather than crop diversification, its displacement effects on input markets, and its

Photograph: David Hughes

inefficiency in terms of leakages to the non-poor, donors scaled back the programme in 2000/01 from universal to targeted distribution, and subsequently phased it out altogether.

Social protection with agriculture

Food shortages and high prices following poor harvests in 2000/1 and 200/2 (following the scaling back of Starter Packs), caused food security to become a major political issue during the 2004 election campaign, with the two main parties both promising fertiliser subsidies. Following another poor harvest in 2005, the government implemented a targeted subsidy in the form of vouchers that could be redeemed at agriculture parastatals for fertilisers and maize seed at one-third of normal retail prices. A combination of favourable weather and the input subsidy produced a bumper harvest in 2006, and the programme was implemented again in 2006/7. After initial hostility from donors, DFID and others offered financial and technical advice, with the objective of promoting greater private sector involvement and more choice for farmers. An evaluation found that the programme achieved a substantial increment in national maize production, maize prices remained relatively low and stable, and average rural wage rates were higher than in previous years. However, the vouchers were poorly targeted, the displacement rate for commercial fertiliser sales was substantial in both years, and there was no clearly articulated plan on whether and for how long the voucher programme should continue (Imperial College et al., 2007). The evaluation team concluded that input subsidies can contribute to achieving higher maize productivity, lower and more stable maize prices and higher rural wages, but only if complemented by social protection interventions (such as a well managed strategic grain reserve), agricultural policies (especially research and extension, and seasonal finance) and other essential investments (notably in rural road infrastructure).

LESSONS FROM THE MALAWIAN EXPERIENCE

Four generic lessons emerge from Malawi's experience of interactions between agricultural policies and social protection instruments in the post-independence period, which are applicable to many other African countries facing similar challenging circumstances and policy choices.

1. The evolution of agricultural and social protection policies, and of interactions between them, is heavily influenced by the political context (both domestic politics and their interaction with donor agendas), the market context (including food price variability and the 'thickness' of agricultural input, output and labour markets), and trends in agricultural and non-agricultural livelihoods.
2. Policy choices reflect complex and unresolved debates, including: whether national and household food security should be achieved through food self-sufficiency or by switching to cash crops; government and private sector roles and relationships; how to target social transfers and subsidies, their cost-effectiveness, and their social and political implications.
3. Policy outcomes are determined not only by choice of instruments but also by implementation modalities. Long-term growth and development objectives must be thought through and clearly articulated, so that short-term policies and instruments are selected and scaled up in ways that are consistent and synergistic, rather than conflicting with, long-term aims and processes.

4. A mix of complementary social protection, agricultural and wider economic and institutional policies across different sectors are needed for effective promotion of short, medium and long term social protection, agricultural and non-agricultural development, and poverty reduction. The nature of this mix will depend upon the specific circumstances in different countries.

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