

Current issues in the Farm Input Subsidy Programme in Malawi

Andrew R. Dorward and Ephraim W. Chirwa

Background and Context

This policy brief sets out and discusses a range of issues that are important in determining the effectiveness and efficiency of FISP over the coming years. It draws on a number of different MoAIWD, and other (Civil Society, evaluation and research) reports and papers, the MoAIWD Medium Term Plan for FISP, and papers prepared for the June 2012 FISP workshop.

Many of these issues have been the subject of considerable attention in FISP design and implementation, with programme modifications that have sought to learn lessons from and improve programme design and implementation; others are emerging as important issues as the programme matures and as economic and other conditions change. While we suggest ways of addressing some issues, others are highlighted more to draw attention to them.

The nature of the FISP, with its large scale and the wide and complex scope of its implementation and impacts, means that most issues are inter-related. We consider issues in four loose groups. First, we consider the wider goals and impacts of the programme; second core strategies and components that are critically related to achievement of those goals; third, issues that are concerned more directly with FISP's effective and efficient implementation; and finally those that are concerned more with FISP's relations with other policies and investments within and beyond the agricultural sector. These are all closely related not least by the way that programme goals define effectiveness, efficiency and desirable relations with other policies.

Wider goals and impacts

The FISP Medium Term Plan (MTP) has a clear statement of the programme goal as to 'increase food security at household and

national level and agricultural output growth'. Its purpose of 'increased agricultural productivity and input market development' is to be achieved through five outputs: increased resource poor smallholder farmers' access to improved farm inputs; increased crop diversification; enhanced programme planning, monitoring and evaluation; increased awareness of smallholder farmers on improved technologies in maize production systems; and increased participation of agro dealers in FISP. The FISP MTP is also firmly embedded in the ASWAp goal of promoting economic growth, which is itself embedded in the MGDSII goal of sustainable economic growth. This raises an important issue regarding the extent to which economic growth and sustainable poverty reduction should be explicit goals of FISP. This has implications for important policy and programme implementation decisions, and for the justification of resource allocations and political commitment to FISP.

It is our view that wider economic growth and sustainable poverty reduction should be explicit goals of FISP, alongside existing food security and production goals.

There are good reasons for this. First, increased agricultural land and labour productivity, crop diversification and food security as promoted by the FISP are essential conditions for wider economic growth and sustainable poverty reduction in Malawi. In addition, such explicit recognition should

- promote FISP policy and implementation choices that increase FISP contributions to wider economic growth and sustainable poverty reduction in Malawi
- direct more policy, implementation and evaluation attention to the changes in maize prices and wage rates that are critical for wider economic growth and sustainable poverty reduction
- raise the profile of FISP in national policy for wider economic growth and sustainable poverty reduction, and this should then strengthen MoAIWD's role and its justification for

resourcing FISP, improve the accountability of MoAIWD for its use of these resources, and promote improved coordination between FISP and other growth and poverty reduction policies within and beyond the agricultural sector.

Core strategies and components

A core issue for the FISP is its *scale and scope*. With regard to scope, its initial focus on maize and tobacco has switched to a focus on maize and legumes, accompanied by greater emphasis on maize seed provision. This switch has much to commend it. As noted in the MTP, withdrawal of support to tobacco fertilisers should have reduced displacement and improved targeting, while the provision of legume seed should promote diversification, soil fertility, human nutrition, and legume markets. It may also form part of a strategy promoting graduation, as discussed below.

With regard to scale, a major strength of the FISP is its large scale and impact on national and local maize and labour markets, with consequent positive indirect growth and welfare benefits for all poor households as well as direct benefits for beneficiaries. Determining the right scale, with optimal returns to affordable programme costs, is difficult. We have suggested in the past that provision for about 150,000MTS of fertiliser was roughly appropriate. This should fall, however, with more efficient fertiliser use and greater seed productivity and as some households graduate from the subsidy programme. It should also fall with time: if the programme is consistently raising productivity and wages and keeping maize prices relatively low then the consequent structural change in the agricultural sector and in the wider economy should mean that indirect benefits from continued investments are of declining importance, and the scale (and scope) of the programme can be reduced.

This leads on to the issue of *graduation*. This is the subject of a separate policy brief. We note here

- The importance of and need for greater attention to graduation in FISP design and implementation;
- The definition of graduation as 'a removal of access to the programme that does not leave current beneficiaries supported by the programme unable to pursue sustainable independent livelihoods';

- Important distinctions between potential and actual graduation, termination and 'exit strategies';
- A variety of graduation processes and determinants;
- The need for complementary measures and policies to promote potential graduation, and for processes leading to sustainable graduation from farm input subsidies, not simply their termination;
- Careful consideration and extensive consultation before the implementation of any measures promoting actual graduation.

The issue of *targeting* arises because the goals of improving household food security and production suggest that the programme should deliver direct or indirect benefits to those households who are not food secure and should promote input use by households who will make the most productive use of those inputs. There is therefore a need for targeting of subsidised inputs to areas and to households with higher food insecurity, with higher input productivity, and with lower displacement of existing unsubsidised input purchases by subsidised input purchases. These arguments are strengthened if the programme has explicit inclusive growth and poverty reduction goals.

Targeting is the subject of a separate policy brief. We note here

- the importance of both area and beneficiary targeting;
- potential trade-offs and synergies in targeting to minimize displacement but maximize input productivity and direct and indirect welfare and growth impacts;
- close links between targeting and graduation;
- improvements in area targeting over the life of the programme;
- ongoing difficulties with achieving satisfactory beneficiary targeting outcomes; and
- possible alternative approaches to improving targeting through universal provision of smaller entitlements or through addressing substantial challenges in implementing effective pro-poor targeting mechanisms.

The *critical role of the private sector* in the FISP is recognised in the MTP specification of increased input market development' as a programme purpose, of increased farmers' access to improved farm inputs and increased participation of agro dealers as programme outputs, and in text on input market efficiency. This is also the subject of a separate policy brief. We note here

- substantial and increasing involvement of the private sector in fertiliser importation,

transport, and seed provision and sales, but current exclusion from fertiliser sales;

- both displacement and stimulation of private sector sales over the life of the programme;
- potential benefits from greater involvement in fertiliser sales (with improved timeliness, greater competition, improved farmer services and reduced 'tips', use of private sector storage infrastructure, strategic development of the private market system, government cost saving, shared investment finance and costs, and reduced displacement of commercial input sales); and
- difficulties and risks that need to be addressed for more effective and further private sector involvement (delays and costs in tender processes, areas of inconsistency and lack of mutual trust, limited competition in seed pricing, and control and auditing mechanisms).

The promotion of *integrated soil fertility management* is critical for both sustainable productivity increases from the FISP and for increased productivity of and returns to subsidised seeds and inorganic fertilisers. Increased legume seed provision is an important part of this, but further benefits could be achieved from consideration of how FISP design and implementation could be better coordinated with other aspects of integrated soil fertility management involving, for example, greater use of other sources of organic fertilisers and other aspects of conservation agriculture.

Effective, efficient implementation

Evaluation reports from 2006/7 to 2011/12 record a number of ways in which implementation has been modified and improved.

There have been significant improvements in the *timing* of seed and fertiliser procurement and of beneficiary identification and registration. However, even allowing for the special difficulties faced in the 2011/12 season, there seems to be great difficulty in improving timing across all activities, with the result that markets do not open before late October. There are significant potential benefits from earlier opening of markets and subsidised input sales: higher yields from timely planning and fertiliser application, greater certainty for farmers regarding subsidy supplies, reduced displacement, reduced pressure on transport

for uplifts and better market stocking, reduced pressure on markets and reduced time in queues and pressure to pay 'tips', and improved access for more vulnerable beneficiaries. There are also significant potential cost benefits from shorter tender award periods, with shorter validity periods, and quicker payment of invoices. The benefits of more timely implementation would improve the effectiveness and efficiency of almost every aspect of the programme.

Just as there have been improvements in the timing of implementation activities, there have also been changes and marked improvements in a number of *implementation processes*: for example in fertiliser tendering procedures, in seed supplies (particularly legumes), in fertiliser coupon returns by ADMARC and SFFRFM, in farmer registration, the use of open meetings in beneficiary identification and coupon distribution, in targeting criteria (with increased emphasis on vulnerable groups), and in coupon security features and systems. However, these improvements have also had to deal with changing conditions and challenges as different interest groups have attempted to manipulate the programme for their advantage. In addition to issues raised earlier under targeting, graduation and the involvement of the private sector, further attention is needed to address input redemption difficulties faced by women and vulnerable groups; to make vouchers and voucher systems more secure (with the possible use of electronic systems) and to control coupon 'leakages' and diversion and demands for redemption 'tips'.

Another set of design and implementation issues concern redemption prices and systems, fertiliser formulation, seed provision, the control of post-harvest losses, and cotton inputs.

Redemption prices, or beneficiary contributions, for 'maize fertilisers' fell from MK950 per 50kg bag in 2005/6 to 500MK/bag in 2008/9 and have since been fixed at MK500. With the recent devaluation of the Malawi Kwacha this will represent a very low percentage contribution, and may need to be reviewed. Alternatively a fixed government contribution could be considered, as is the case with maize seed vouchers (where beneficiary contributions or 'top ups' vary by type of seed and supplier).

Fertiliser formulations have been fixed with 23:21:0+4S as the standard basal fertiliser for maize and urea as the standard top dressing. However, 23:10:5+6S+1.0Zn replaced some 23:21:0+4S in the 2011/12 tenders. There may be further opportunities for changing fertiliser formulations to reduce costs while at the same time

maintaining or improving effectiveness in different parts of the country.

There have been substantial increases in *seed provision*, both maize (hybrid and OPV) and legume. There appear to be widespread (but not universal) farmer preferences for hybrid rather than OPV seed, despite its higher cost. Further investigation is needed of these preferences and their determinants within the subsidy programme. There have been dramatic increases in legume seed availability and provision in the last three years, but there still appear to be local mismatches in supply and demand of particular types of legumes.

The provision of subsidised *maize storage chemicals* was introduced in 2008/9 following reports of significant storage losses from the large 2006/7 crop. However targeting and distribution processes differ from those for maize inputs and legume seed, and there is little information on these processes and their outcomes. Similarly *cotton inputs* (seed and pesticides) were subsidised in 2007/8, 2008/9 and again in 2011/12, but these are not part of the medium term plan and there is little information on processes and outcomes.

Finally, there is an important set of issues around *core information* on the number of farm families and on crop production. With regard to the former, there have been differences between the number of rural households enumerated in the 2008 national census and farm family registrations. There are also differing growth rates in farm family registrations across years and regions. Resolution of these differences is important for the proper determination of programme budgeting, coupon allocation, targeting, distribution, and estimation of programme returns. There have also been apparent discrepancies between crop production estimates, annual price changes, and estimates of incremental production from the programme. Again, resolution of these is important for programme design and estimation of programme returns.

Complementary policies and investments

Maximum benefits from the FISP will be achieved when synergies are exploited with complementary policies within and beyond the agriculture sector.

In the short term, incremental production from farmers' use of FISP inputs will be raised by effective *extension services* both on input use

and on wider crop management. In the long run this needs to be supported by continuing *research* to maintain and increase crop yields and the efficiency of input use, with farm diversification. *Investments in infrastructure* (roads, markets and communications) are important for a number of reasons: allowing easier programme implementation, promoting the development of input markets, and promoting wider output market development to support farm and non-diversification, essential processes to support FISP's stimulus for inclusive growth and poverty reduction. Other policies, such as those supporting small and medium enterprise development, are also important in this.

Another set of potential synergies arise with regard to environmental policies. As the recent environmental impact assessment of the FISP showed, the FISP has a broadly positive environmental impact as it relieves pressure on natural resources. Environmental benefits can be further increased by greater adoption of integrated soil fertility management and by farm and off-farm diversification. It is important that environmental protection and promotion policies support FISP's roles in this.

Finally, and perhaps most importantly, maize markets are critical for achievement of the FISP goal of increased food security and for FISP's contributions to wider economic growth and poverty reduction. Low maize prices relative to wages are critical for the livelihoods and food security of the majority of smallholder farmers, who rely on maize purchases for part of their food requirements. For these farmers low maize prices relative to wages lead to higher incomes, irrespective of their status as direct beneficiaries of FISP. Higher incomes increase demand for more diverse foods and for non-food goods and services, and hence expand the non-maize and non-farm sectors. Consistent low maize prices will eventually allow less productive farmers to move out of maize production to more remunerative activities. Achievement of the full benefits of the FISP for growth and poverty reduction therefore requires maize market policies that promote low and stable maize prices. This does not mean that active government intervention is required to enforce low prices. Key policies are likely to involve encouragement of more efficient private sector activities in maize markets with infrastructural and other support for development of more competitive markets and for better producer and consumer information on maize prices. There should be great care in with exports particularly when prices are low at or shortly after harvest as such exports may

lead to damaging high prices later in the season. Government purchase of weather insurance and import options may, however, make a valuable contribution to keeping prices low after seasons affected by poor rainfall.

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Conclusions

The implementation of the FISP since 2005/6 has been a substantial achievement, and it has made substantial contributions to agricultural production, food security, input supplies, and wider economic growth and poverty reduction. Over the years the programme has involved with a number of changes to increase its effectiveness and efficiency. Outstanding issues of course remain, and new issues have arisen that pose threats and opportunities for the FISP.

It is proposed that wider economic growth and sustainable poverty reduction should be explicit goals of FISP, alongside existing food security and production goals. Core issues that need continuing attention in FISP design and implementation are programme scale and scope, graduation, targeting, the role of the private sector, and integrated soil fertility management. With regard to programme implementation, further improvements in activity timing is needed to allow earlier opening of markets selling subsidised inputs, with processes to allow easier coupon redemption by women and vulnerable groups, to make vouchers and voucher systems more secure, and to control coupon 'leakages' and diversion and demands for redemption 'tips'. Other design and implementation issues concern redemption prices and systems, fertiliser formulation, seed provision, the control of post-harvest losses, and cotton inputs.

Finally, maximum benefits from the FISP will be achieved when synergies are exploited with complementary policies within and beyond the agriculture sector. Important issues arise here with regard to extension and research services, infrastructure investments (roads, markets and communications), support for small and medium enterprise development in farm and non-diversification, environmental policies and, most importantly, maize markets.

Correspondence:

ad55@soas.ac.uk, echirwa@yahoo.com.

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