

Seeking Shared and Sustainable Growth: Growth and Social Protection Lessons from Malawi's Agricultural Inputs Subsidy Programme?

**Rethinking Agricultural Input Subsidies:
growth and social protection impacts & interactions.**

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2006/7 Agricultural Input Subsidy Implementation

- ❑ Background of 'maize/ fertiliser economy' & food insecurity, central to presidential & party politics
- ❑ Subsidy to smallholder maize & tobacco production to promote food security & economic development
- ❑ Vouchers for "productive poor" – but variable targeting
- ❑ Initial issue 3 million fertiliser & 2 million seed coupons
- ❑ Subsequent further issue 1 million fertiliser coupons.
- ❑ Total programme fertiliser sales: 174,700 tonnes,
 - 125,400 tonnes sold by parastatals
 - 49,300 tonnes sold by (larger) private companies.
- ❑ Programme maize seed sales: 4,500 tonnes
- ❑ Total identified cost to government: \$64 million
 - \$13 million over budget (which was 47% of MoA budget),
 - sale of nearly 25,000 tonnes of fertiliser above budget, caused by issuing of supplementary coupons.
- ❑ Total donor costs estimated at \$9.5 million

Continuing Maize & Fertiliser politics



President Bingu wa Mutharika, announced that the price of subsidised fertiliser will be reduced from K950 to K900 per bag 23/03/07

Former president Bakili Muluzi, pledged at a rally in Mulanje to provide free fertiliser to the poor if elected as President in 2009. He described the President's announcement of reduced subsidised fertiliser price as "mockery to the poor". 25/03/07

"..in the new government after 2009, people will receive free fertiliser." 25/03/07

Opposition to reject budget again

The Nation, 25/03/07

Government hikes fertiliser subsidy quantity
from 176,000 to 200,000 metric tonnes

The Nation, 17/05/07

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Impacts: Inputs, input markets, benefits

Increased input use

- ❑ Preliminary estimate of increased national use of 'maize' fertilisers of 70,000 tonnes (out of 153,000 tonnes sold).
 - But 'switching' across farmers, crops and areas?
- ❑ 20% increases in estimated hybrid maize area

Input markets

- ❑ Involvement of private sector stimulated rather than depressed
larger private company involvement in input markets (2005/6).

Benefits

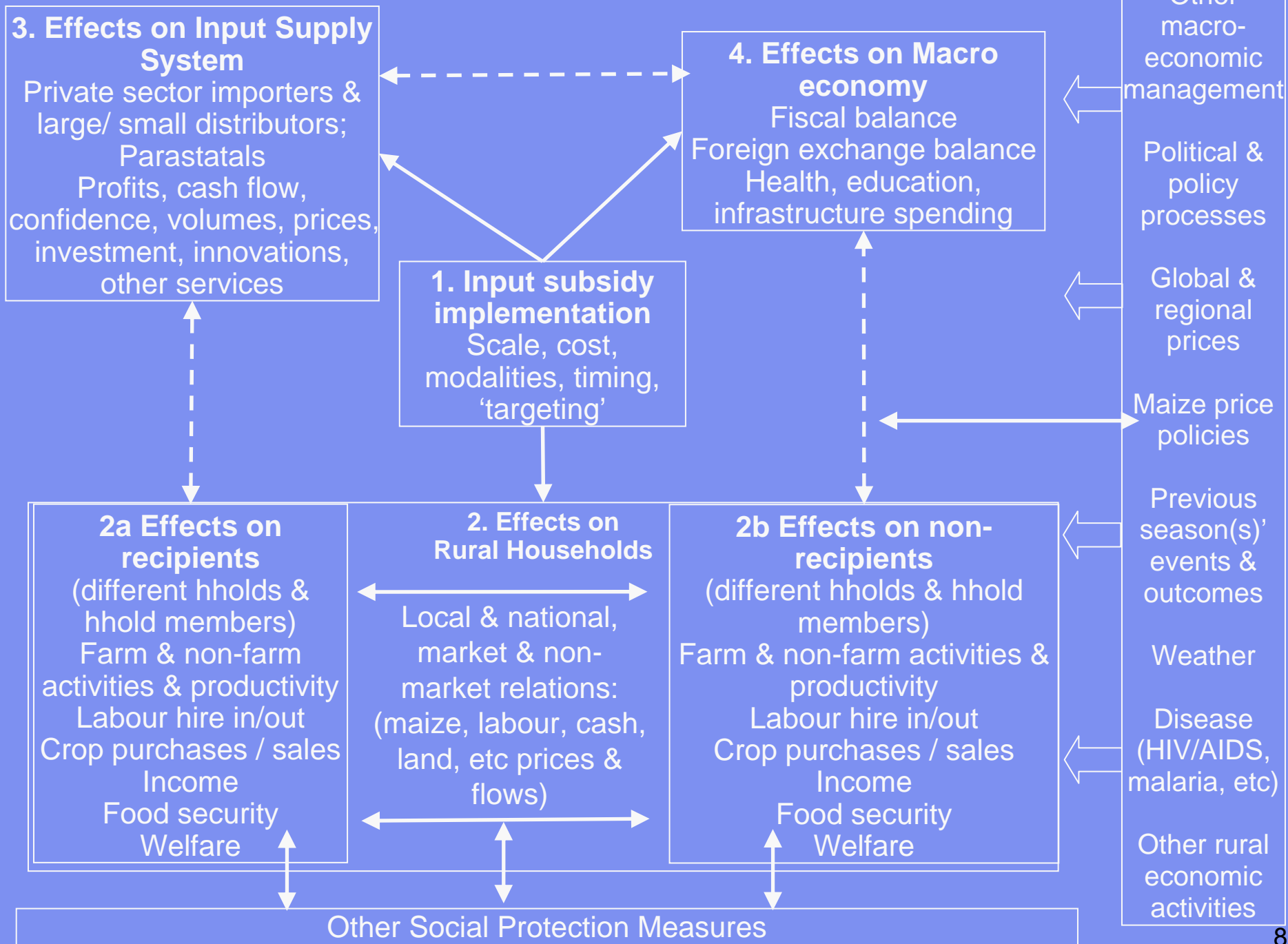
- ❑ The preliminary estimate of increased national maize production is between 600,000 & 700,000 tonnes maize.
- ❑ Between \$100 million and \$160 million extra production compared with \$74 million programme cost.
- ❑ Further economic & social benefits: household grain availability, lower maize prices, higher wage rates, increased educational participation?, stimuli to demand & production of horticultural & livestock products & non-farm activities? (improved nutrition, health, and welfare), base for diversified agricultural and non-farm growth?

Conventional subsidies

- 'Conventional' policy objectives
 - Promote technical change & productivity, & economic & technically efficient use of inputs
 - Support farm incomes
 - Pan territorial
 - Provide delivery systems
- Modalities
 - General, quota or channel price reduction
- Problems
 - Cost control
 - Exits
 - Targeting and diversion
 - Inefficient over-use due to low price
 - Regressive (benefit larger farmers)
 - Crowding out of private sector?

Rethinking subsidies

- ❑ New objectives?
 - Private input market development (crowding in)
 - Replenishing soil fertility
 - Social protection
 - Supply chain development thresholds (kick-starting markets)
 - Lower staple food prices and raise wages
 - Structural livelihood and economy changes
- ❑ New modalities
 - 'Smart' subsidies (vouchers) for cost control & private sector market development
 - Longer time frame
- ❑ Complementary policies
 - Output price policies
 - Roads & communications infrastructure investment
 - Agricultural services – use of inputs, diversification
 - Private sector development & Non-farm diversification
 - Social protection policies
- ❑ Political context



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