

Reclaiming Policy Space: Lessons from Malawi's Fertiliser Subsidy Programme

Context matters

This case study argues that political context matters in agricultural development issues. No matter what the technical or economic arguments for or against particular policy positions are, it is ultimately the configuration of political interests that influence agricultural policy outcomes on the ground.

The case of the on-going debate about fertiliser subsidies in Malawi provides a prime example. Recurrent food crises through the 1990s in Malawi provide the backdrop for the recent debate. The economic reform packages supported by donors from the 1990s insisted on the removal of agricultural subsidies. A targeted input programme, supported by the UK Department for International Development (DFID), persisted, but this too was withdrawn in 2004. This resulted in a substantial political backlash, reflected in the focus of campaigns during the presidential elections of 2004, with all

candidates backing a subsidy programme for fertilisers. A simple narrative was presented: hunger and recurrent food crises are best responded to by supporting agriculture, and this means providing subsidies to get agriculture moving with a focus on key crops (notably maize and tobacco). National food security and a reduction on dependence on food imports, as had happened in successive years, required, it was argued, concerted state action.

This position gained wide popular backing, and in June 2005 the new president announced the introduction of subsidy programme targeted at resource-constrained, but productive, maize farmers. This budget speech ignited intense political debate. Opposition parties argued for a universal subsidy, extended beyond maize to tobacco as a boost to economic growth and foreign exchange earnings. In the end, the government responded and a universal fertiliser subsidy was agreed with a budget of MK4.7 billion. A coupon-based distribution system was

implemented through state-owned organisations and overseen by local government officials and traditional leaders nationwide.

The national political consensus – fuelled by the maize politics of Malawi – was seen in some quarters as a regressive, potentially disastrous step. It ran against all the efforts at liberalisation and reform that had been on-going over many years. Many technical experts and donors were appalled. Most major donors argued that the programme was not fiscally sustainable, that huge wastage and corruption would result and that the policy contradicted government commitments to private sector investment. No donors supported the 2005-06 programme, and the full cost was borne by government.

Different views however emerged within the donor community. Some argued against subsidies at all costs (including the International Monetary Fund (IMF) and US Agency for International Development (USAID)), on the basis that they would undermine private sector development in the country. Others (including the World Bank, DFID and the European Union (EU)) remained sceptical about government capacity and highlighted the challenges of targeting, but conceded that some type of ‘smart subsidy’, building on the lessons of the targeted input programme might be feasible. Others, including some United Nations agencies and Scandinavian donors, backed the programme on the basis that fertiliser is critical to boosting production and assuring food security, and that phasing out over time once farmers had ratcheted up their capacity and asset base was the best option. This latter view was given a major boost by the high-publicity given to the Millennium Villages Project in Malawi in this period, an initiative which had received much scorn from other donors. Many NGOs also backed a subsidy programme with the argument that bringing in the social costs of food insecurity and aid dependence shifts the balance in favour of productive subsidy of agriculture.

Thus across a wide array of actors a range of different narratives, associated with different actor networks and aligned to different interests, about fertiliser subsidies were evident, each backed by different political and technical justifications and rationales.

Maize politics, donor pragmatism and second best policy options

The sceptical donors, previously so influential in policymaking in aid-dependant Malawi, were for the first time out on a limb. How did they respond? What happens when democracy and electoral mandates – a strong theme in donor positions on ‘good governance’ – collide with the economic positions of the same donors’ prescriptions? Following much debate, a certain reluctant pragmatism emerged. This was helped by a number of factors. First, experience on the ground was not as disastrous as many had feared. Indeed quite the opposite. The good rains of 2005-06, and the relatively effective distribution of fertiliser by government, meant that a bumper harvest was produced, and the food insecurity of previous years was eliminated. Second, the divisions among donors and between donors and the government had to be patched up – business had to carry on. While sometimes reluctantly, donors in the end have to accept that political context matters. The Malawian government was unwilling and unable politically to be compliant and accept donor demands in this instance, and had, in part due to fortuitous weather conditions, been remarkably successful.

During 2006, then, a reconfiguring of actors was taking place around a new more coherent policy narrative. A donor grouping commissioned studies to learn lessons from the 2005-06 experience, which encouraged a backing down on the strident anti-subsidy line. In its place a set of conditions for donor support for the subsidy programme was suggested, including the involvement of the private sector in



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

procurement and distribution, the promotion of choice among farmers of the range of fertilisers and the source of their purchase, an extension to other crops to encourage diversification, and plans for marketing and storage in times of excess production. In other words, the domestic political economy and policy process context of Malawi had forced the policy process to move on. For some this meant that populist 'maize politics' had won over sound economic policies; for others democracy had succeeded in the face of interfering pressure from donors without a political mandate; and for others a sensible pragmatism had arisen through negotiation, reviewing evidence and overcoming strong ideological positions. So what lessons can we draw from this case? A number are evident:

1. Clearly, the domestic political economy context matters in any agricultural policy

process. There are unique circumstances of each country that have to be taken into account in policy formulation. A strident policy against subsidies (or any other policy measure) is inappropriate. Moreover, 'second best' options that work given the peculiarities of contexts are certainly preferable to one-size-fits-all dogmatic policies presented as 'first best'.

2. Policy designers – and donors in particular – need a deeper awareness of political economic history of agriculture, and with this the nature of the implicit 'social contract' between smallholders and state, and the importance of state organisations (in this case through ADMARC – the Agricultural Development and Marketing Corporation) in providing in times of need.
3. There is a need to grasp fully the array of stakeholders and their interests, competing

views and demands in policy issues. Understanding how various interests play out is critical for analysing potential trade offs in the policy process. Assuming that policy emerges just from technical reasoning and first-principles economic theory will result in policy failure.

4. Government leadership and determination, backed by a democratic mandate, means that there must be a culture of pragmatism, negotiation and compromise among donors, who often are used to getting their own way. Electoral mandates and popular support are critical for any successful policymaking process, and so require respect.

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