



Eight Years of the FISP – Impact and What Next?

Brief for the Minister of Agriculture, Irrigation, and Water
Development on the National Symposium on
the Farm Input Subsidy Programme (FISP)
of the Government of Malawi

Symposium co-hosted by

Lilongwe University of Agriculture and Natural Resources

and

**Malawi Strategy Support Program,
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Lilongwe**

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Overview

On 14 and 15 July 2014, a national symposium was held in Lilongwe on the topic of '*Eight years of the FISP – Impact and what next?*' The symposium focused on the achievements and challenges of the Farm Input Subsidy Programme (FISP), which has been the major agricultural development program of the Government of Malawi over the past eight years. The symposium provided an opportunity for sharing lessons learnt from FISP implementation in order to chart a way forward for the program so that it contributes effectively to the transformation of agriculture in Malawi. The event brought together about 175 stakeholders from the agriculture sector, including most of the members of the Parliamentary Committee on Agriculture and Natural Resources, for one and a half days of discussion. The symposium was organized by the Lilongwe University of Agriculture and Natural Resources (LUANAR), in collaboration with the Malawi Strategy Support Program (MaSSP) of the International Food Policy Research Institute (IFPRI).

The purpose of the symposium was to present evidence and debate key aspects of the objectives, benefits and implementation of the FISP to inform the future strategy of the program. While the symposium did not aim to identify full agreement on key issues, the forum did allow for some broad conclusions and recommendations to be made which are presented in this paper. It is the ambition of the organizers that this symposium will serve as a model for a series of similar symposia on a range of agricultural and broad economic development challenges that the nation is facing. We are grateful to the Minister of Agriculture, Irrigation, and Water Development for his participation and interest in the FISP symposium and trust that this brief will provide him with some evidence to guide decisions on the design and implementation of the program in the future.

In this brief, the focus is on what evidence there is of how beneficial the program has been, on the recurring discussion on what should be the principal objective in implementing the FISP, and, finally, on how FISP might contribute to the longer-term development aspirations of Malawi. A full report on the Symposium has been prepared and is available online for all interested persons.

Objectives of the FISP

A recurring point of debate during the symposium was "What is the objective of the FISP?" Is the FISP primarily designed to provide for the welfare needs of the rural poor, in particular, or is it a program that seeks to lay the foundation for a transformation of agriculture in Malawi? While its origins are found in responding to national and household food security challenges, the symposium participants debated whether the FISP is the best instrument for government to use to respond to these challenges. Additionally, even if it is, should the Ministry of Agriculture, Irrigation, and Water Development (MoAIWD) be the lead ministry in designing and implementing FISP?

The implementation of the FISP will differ depending on which objective is prioritized. The program cannot be designed to effectively address both agricultural development and social welfare objectives without significant trade-offs in the effectiveness of the program in meeting those objectives.

- If the objective of FISP is to contribute to transforming agriculture in Malawi from being primarily subsistence-oriented to being more commercially-oriented (i.e., with farmers increasingly engaged in more specialized, higher-yielding production), then FISP should be implemented by MoAIWD and targeted at those farmers who find it difficult to access fertilizer and seed, but who will make effective and efficient use of any inputs provided at a subsidized cost. More productive farmers are less likely to be among the poorer members of farming communities across the country, but are likely to be wealthier farmers who are the most productive. The level of subsidy provided to the more affluent farmers who would be targeted if FISP has the objective of agricultural transformation could be significantly less than that which FISP beneficiaries have received in the past, making for a less expensive program overall. Serious consideration needs to be given to the opportunity cost of FISP vis-à-vis the burden on head office and frontline extension staff time and the resulting neglect of other equally important Ministerial activities. A narrower targeted program may go some way in addressing this pertinent issue.
- On the other hand, if the objective of FISP is to contribute to the well-being of poor and vulnerable rural households, then the program should be targeted to the poorer, more vulnerable households in rural communities. However, if this is the objective of FISP, several commentators felt that MoAIWD should not implement the program. The opportunity costs associated with technical staff of the Ministry turning their attention from activities that will contribute to sustainable agricultural development to managing the implementation of a social welfare program, even if it is agricultural

in nature, are too high. Rather, the social ministries of government or the Ministry of Economic Planning and Development, as the ministry responsible for coordinating social welfare programs, should lead the implementation of FISP so that it effectively meets the needs of vulnerable Malawian households.

There was general consensus that the FISP would be a more effective program if it could be designed for a specific single primary objective. The FISP cannot be designed so that it effectively achieves more than one high-level development objective. Ultimately, defining the objective of the FISP is a political decision that needs to be made at highest levels of government.

Benefits of the FISP

Policy researchers presented evidence at the symposium on the benefits of the FISP relative to its costs. This is a point of some controversy. It is clear that the scale of analysis is critical to determining the ratio of benefit to costs estimated for the program.

In examining the direct benefits from the program itself relative to its costs, the benefit-cost ratios estimated are mixed. For some years, researchers found that the estimated benefits of the program were not statistically different from the estimated costs, implying a benefit to cost ratio of close to, if not less than 1.0. In other years, benefits outweighed costs. The relatively low and quite variable benefit-cost ratios for FISP is a troubling finding, and raises the question whether other interventions with similar objectives might provide better value for money, significant funds and staff time required to implement the program.

However, when the analysis of the benefits of the FISP is expanded to include the impact of the program on food prices, rural wages, and production spillover effects – so-called second-round effects – a more positive picture emerges. One study shows that an “economywide” benefit-cost ratio could be up to 60 percent higher than a benefit-cost ratio that considers the direct production effects of the program only. The increased maize production that can be attributed to the FISP provided greater income for many farmer-beneficiaries, even as the increased amounts of maize brought to local markets reduced prices for those Malawian households that purchase much of the maize that they consume. Moreover, there is some evidence that wages for *ganyu* workers increased, improving the welfare of their households. However, there is no evidence that the wider benefits of the FISP have extended to improving the nutritional status of children and women.

Regardless of whether researchers estimated the benefit-cost ratio of the FISP to be encouraging or not, all found that the FISP program could be implemented in a more efficient manner to achieve higher benefits. In particular, it was recommended that:

- The agronomic performance of the program could be improved through providing sufficient advice to farmers through the agricultural extension service, particularly on proper use of FISP inputs for increased productivity and profits;
- Closer attention be paid to provide incentives for beneficiary farmers to employ complementary Integrated Soil Fertility Management (ISFM) practices, such as conservation agriculture, maize-legume intercropping and rotations, and incorporation of manure and other organic materials into the maize crop production for increased long-term soil health. These will contribute to improved fertilizer (nutrient) application use efficiency and, hence, to the overall performance of the program.
- FISP inputs are provided to beneficiaries before the planting season starts. The most critical factor in this regard is for government to release funds for the FISP before the start of government fiscal year in July in order to enable timely procurement and distribution of FISP inputs. In this regard, there was a general proposition for government to consider shifting the fiscal year from 1st July to 30th June to either follow the calendar year (January to December) or 1st April to 31st March as it was before.
- Seed provision under FISP is primarily the responsibility of the private sector. This successful model should now be extended to the provision of subsidized fertilizer under FISP;
- Closer attention be paid to the design of the FISP as far as eventual graduation from the program is concerned. In this regard, there was a general consensus that the FISP target the productive poor farmers with capacity to produce and provide support through interventions such as the cash transfer or other safety net programs to those with little capacity to produce such as the elderly and the landless.

- Reduce the amount of subsidy each beneficiary receives from FISP by raising the contribution each must make to acquire the subsidized inputs. Some degree of consensus was reached at the Symposium that the amount farmers should pay for each 50 kg bag of fertilizer received under FISP should rise from the MK 500 paid now to between MK 5000 and MK 6,000 to reflect real price increases over time and improve the financial sustainability of the program.

Future of the FISP

The symposium also considered the longer term development aspirations of Malawi to which the FISP could contribute or for which it might pose a barrier. As a significant investment of scarce resources of government, if FISP is shown to be an effective instrument to foster agricultural transformation in Malawi, it is a good use of those resources. However, resources spent on FISP are resources that are not available for other public investments that might have a greater impact in transforming Malawian agriculture, in growing the economy of Malawi, and in sustainably improving the well-being and quality of life for millions of Malawians.

In the symposium, conceptually, three broad strategies for achieving Malawi's development aspirations were identified:

- i) ***Hanging-in***, whereby current welfare and economic conditions are maintained and protected;
- ii) ***Stepping-up***, through which the scale and productivity of current livelihood strategies and economic activities are expanded through a process of agricultural growth and transformation; and
- iii) ***Stepping-out***, which is a process of structural transformation of the economy through which households increasingly engage in a broader range of new remunerative livelihood strategies, particularly outside of agriculture.

In general, the FISP has been reasonably successful as a hanging-in strategy for Malawi, providing for the food security of the country and of most Malawian households. However, a hanging-in strategy of agricultural development alone is not sufficient to effectively address the growing challenge of Malawi's rapid population growth or to exploit new economic opportunities, particularly linked to regional trade.

In contrast, commentators felt that FISP could provide the foundation for both stepping-up and stepping-out strategies for the development of Malawian agriculture and Malawi's economy in general. However, this will not be easy as a range of complementary public investments will be needed, including investments in rural transport infrastructure, agricultural markets, agricultural extension services, and agricultural research. The private sector would also need to play a larger role in the sector. Investing in FISP alone is not sufficient to achieve agricultural transformation or a broad restructuring of the economy of Malawi.

Nonetheless, MoAIWD has a critical role to play in the pursuit of any of these development strategies, as it works to improve the land and labor productivity of Malawi's farmers, while also promoting food security, agricultural growth (stepping-up) and non-agricultural growth and increased output from the manufacturing and services sectors of the Malawian economy (stepping-out). However, the Government of Malawi must balance consideration of the benefits FISP offers with recognition of the significant opportunity costs associated with the large financial and human investments that the program has required in recent years.

Moreover, in the short-term, it was made clear to the participants that the future of FISP in its current form is not assured. The financial sustainability of FISP in 2014 is not certain. The severe budget restrictions that the government must now overcome may force a rethink of the program regardless of the political attractiveness of the program and the desire of stakeholders for how it might continue. Fiscal prudence may force significant changes in the short term in the design of the program. Already, the GoM has demonstrated a willingness to reform and are in the process of implementing some recommendations included in this document. As the program evolves, future changes should be made in an informed manner, using the best evidence to guide any redesign of the program to ensure that it is effective in meeting the primary objective set for it.