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Two studies on the 2016/17 Farm Input Subsidy Program

Centre for Development Management (CDM)
and Farmers Union of Malawi (FUM)

BACKGROUND

The Farm Input Subsidy Programme (FISP) in Malawi was introduced in 2005/2006 agricultural season, following severe food shortages in 2004/05. The FISP's objective is to help poor, smallholder households achieve food self-sufficiency and higher incomes through increased maize and legume production, by increasing access to improved agricultural inputs, mainly fertilizers and improved seeds.

The FISP remained largely unchanged between 2005/06 and 2015/16, when the Government of Malawi introduced reforms that were implemented during the 2016/17 agricultural season:

Centrally-managed and random beneficiary selection. This replaced 'bottom-up' targeting processes that had proved ineffective, such as using chief-led 'task forces' or village forums. The total number of beneficiaries fell from 1.5 million in 2015/16 to 900,000 in 2016/17.

Greater private sector participation in fertilizer distribution and retailing. This was supported by the procurement process of fertilizer suppliers and retailers shifting from the Ministry of Agriculture, Irrigation and Water Development to the Smallholder Farmers' Fertilizer Revolving Fund of Malawi (SFFRFM), with private suppliers identified through a National Competitive Bidding process.

Increased farmer contribution. Farmers are now required to pay a small, fixed amount of money to redeem their coupons towards a fixed coupon value (the government subsidy) for both seed and fertilizer, plus a variable co-payment contribution aimed at creating competition among the contracted input supplier companies.

Pilot of 'productive poor farmers' in Dowa and Rumphi districts to assess whether targeting productive poor farmers results in higher crop productivity. Until 2015/16, the FISP had been implemented as a safety net programme targeting only poor smallholder farmers.

DATA & METHODOLOGY

This policy brief combines the findings of two independent studies of the implementation of the 2016/17 FISP, undertaken by the Centre for Development Management and the Farmers Union of Malawi. These evaluations were conducted as nationwide studies with the objectives of establishing the effects of the key reforms detailed above, drawing lessons learnt from previous FISP evaluations, and making recommendations for the future of the programme.

The evaluation studies covered selected districts and extension planning areas (EPAs) from all three regions of the country. Dowa and Rumphi were included as the locations for the productive farmers pilot districts. The evaluations used both quantitative and qualitative methods of data collection. The two studies interviewed a total of 3,556 households, along with in-depth key informant interviews, Focus Group Discussions (FGD) at various levels, and a review of data from the Logistics Unit and previous FISP evaluation reports.

FINDINGS

The findings revealed that the reforms introduced to the FISP in 2015/16 and continued in 2016/17 have contributed to improved programme delivery.

First, centrally managed and random beneficiary selection has reduced the workload of extension workers with regard to beneficiary identification, verification and other related activities. This has cut operational costs for field-level agricultural staff, and reduced blame on them by community members for inclusion and exclusion errors. In some cases, local leaders disliked the changes, which diminished their level of influence over the programme. Most stakeholders perceived the new system to be fair, as it eliminated biases of previous selection processes, such as the impact of local leaders. In one evaluation, 74 percent of farmers reported being satisfied with the new selection system, up from 63 percent in the previous season. However, two areas need refining to improve the effectiveness of the system: i) raise awareness in communities about the new targeting system to avoid confusion; and ii) conduct verification exercises of selected beneficiaries and minimize inclusion errors.

Second, the increased role of the private sector in FISP distribution and direct retailing has been a positive reform. Both the distance that farmers travel and the time they spend in queues to access subsidized fertilizer has decreased. In volume terms, private sector companies largely outperformed public sector companies in 2016/17, filling delivery gaps where the latter was unable to operate. However, measuring private sector performance by volume delivered can be misleading. Of the 48 EPA and 16 districts visited, close to a quarter (24%) had no coverage from the private or public sector, forcing farmers to travel long distances to buy inputs. Nevertheless, farmers reported higher satisfaction with the quality of service delivered by the public sector when available.

Table 1. Average farmer co-payments by sector, 2016/17.

	Fertilizer (50 kg bags)		Seed	
	Urea	NPK	Maize	Legume
Public	7,292	7,509	1,941	961
Private	7,498	7,995	1,990	996

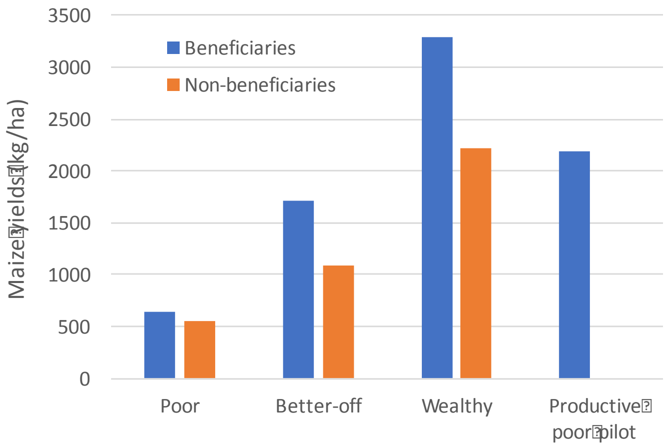
Source: Mapemba et al. 2017. Prices are in Malawi Kwacha (MWK). NPK = 23:21:0+4s

Third, the co-payment policy was appreciated by the private sector, as it allowed companies to adjust prices depending on costs incurred and the exchange rate at the time of coupon redemption. Co-payments for fertilizers across all suppliers in the 16 districts were between MK4,500 and MK12,000, and an average of MK7,000. Co-payment prices from SFFRFM and ADMARC selling points were lower on average (MK7,500) than those in private companies (MK8,100) (Table 1). Charges changed frequently even within the same site, depending on the competition and supply and demand. Co-payment prices combined with other costs (i.e. transportation and waiting costs, bribes) ranged from MK8,093 to MK11,123 for urea, and from MK8,500 to MK11,334 for NPK. When these additional costs were added to the fixed coupon value of MK15,000 paid by the government, the unit cost of subsidized NPK was higher than fertilizer purchased commercially without vouchers, which cost around MK19,000 per 50 kilogram bag on average.

Overall, farmers still benefited by contributing to the unit price, paying less than they would have in the commercial fertilizer market. Better-off farmers were willing to pay higher co-payment prices than poorer farmers, and farmers were generally more satisfied with the redemption prices for seed than for fertilizers. Two main observations were made: i) private companies over-priced inputs to hedge against delayed payments from government and ii) the extra charge of MK4,000 to MK6,000 per 50 kg bag of fertilizer incentivized companies to reduce commercial sales in order to deliver greater volumes to the FISP programme. The Government can mitigate these challenges by paying suppliers more efficiently. Seed suppliers still experience major delays in receiving payments, resulting in erosion of profits due to interest payments on borrowed funds from financial institutions.

Lastly, despite the implementation challenges experienced, the pilot of productive poor farmers resulted in higher crop productivity gains from FISP. Productive poor farmers in the pilot districts had higher maize yields on average (2,186 kg/ha) than other beneficiary farmers (1,284 kg/ha) (Figure 1).

Figure 1. Maize yields among FISP beneficiaries and non-beneficiaries by wealth status, 2016/17.

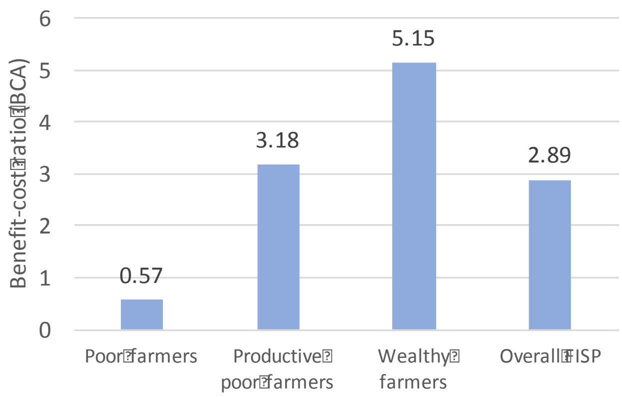


Support to productive farmers also had a higher Benefit Cost Ratio (BCR=3.18) relative to centrally-selected poor farmers (BCR=0.57) (Figure 2).

Overall, the FISP registered a BCR of 2.89 in 2016/17, which is an improvement over previous FISP years.

The evaluation provides evidence that the FISP would benefit from increasingly targeting productive poor farmers. Programme gains are much greater when the programme targets richer farmers (BCR=5.15).

Figure 2. Benefit-cost ratios by category of farmer and overall, 2016/17.



RECOMMENDATIONS

Although there is clear evidence that the 2016/17 reforms contributed to improved efficiency and effectiveness of FISP, there are areas that require further modification. These include:

1. The Government of Malawi should review the objectives and targeting of FISP to determine whether the programme should target productive poor farmers, while linking less productive farmers to other social protection programmes.
2. Intensifying extension service provision for all farmers, particularly FISP recipients, and discouraging the sharing of coupons and fertilizers can help attain potential maize and legume yields.
3. The Government should consider removing the tendering process to allow the private sector to operate openly within fertiliser markets. A pre-qualification assessment of companies to select a smaller set would still be necessary.
4. Given the challenges farmers face in accessing credit, the Government should consider developing a sustainable farm input credit facility in conjunction with the FISP and social support programmes such as the Public Works Programme, to target productive farmers.
5. The Government should continue to engage the private sector in the supply and distribution of inputs, fixing the subsidy, unfixing of farmer co-payments, and the central targeting system. However, there is need for improvement in the planning, coordination and communication between involved parties to remove obstacles that delay implementation of the programme.
6. The Government should ensure transparency in the implementation of FISP-related activities at all levels. Among others, it should conduct public forum beneficiary list validation exercises, and display beneficiary lists in convenient places within communities.

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Please contact Roger Heath at R-Heath@dfid.gov.uk for more information or to access the two studies mentioned in this Brief.

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