

# Why Are Fertilizer Prices in Malawi High?

## And what can be done?

Jan Duchoslav and Joseph Rusike

### Introduction

Malawi has a long history of public intervention programs in the fertilizer market, going back to 1992. The latest iteration, the Affordable Inputs Program (AIP), was launched in 2020 and is now under considerable strain because of rapidly escalating fertilizer prices. Under the AIP, the Government of Malawi intends to supply around 428,000 tons of fertilizer (half of it NPK, half urea) to smallholder farmers at a subsidized price of MWK 4,995 per 50 kg bag. It was envisaged that the fertilizer would be imported and distributed by private suppliers and two parastatals, the Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM) and the Agricultural Development and Marketing Corporation (ADMARC). However, the Government found the cost proposed by the private sector through the Fertilizer Association of Malawi (MWK 35,000 per bag) excessive, and is considering sourcing all AIP fertilizer exclusively through SFFRFM and ADMARC. The purpose of this note is to assess the situation and outline the best policy options available to the Government to ensure adequate fertilizer supply in the short time remaining before the onset of the agricultural season in Malawi.

### What is a fair price for fertilizer in Malawi?

Both types of fertilizer supplied through the AIP – NPK and urea – are currently being sold for as much as MWK 38,000 per bag in Malawi. This is 73% higher than last year's price of around MWK 22,000 per bag, leading to accusations that private suppliers are price gouging. Much of this increase can however be attributed to global trends. Global USD-denominated fertilizer prices increased on average by 82 percent in the 12 months ending in July 2021 (World Bank, 2021). The rise in global fertilizer prices is due to a combination of strong demand and high input costs. A poor 2020 harvest of maize and soybean in South America drove up global prices of these commodities, and major growers have reacted by increasing acreage and fertilizer use. Meanwhile, refinery curtailments due to COVID-19 restrictions and high energy prices limited supply of raw materials used in fertilizer production, especially sulfur and ammonia. In the same period, the Kwacha depreciated against the dollar by 9 percent from 756 MWK/USD to 821 MWK/USD.<sup>1</sup> The Kwacha's depreciation has a multiplicative effect on the Dollar price trend. In Kwacha terms, global fertilizer prices therefore increased by 98 percent, that is even sharper than retail prices in Malawi. To make matters worse, bulk shipping rates have more than doubled in the 12 months ending July 2021, which has further increased the landed cost of fertilizer in Malawi.



Table 1 summarizes the components of the final retail price of urea in Malawi and their contribution to the change between last year's retail price (MWK 22,042 per bag) and the retail price proposed by FAM for AIP in 2021 (MWK 35,000 per bag). For NPK, the price buildup is very similar, with a slightly lower FOB price (USD 460 per mt) resulting in an overall cost which is around MWK 1,000 lower than for urea. The three most significant drivers of change of urea retail prices in Malawi were its free-on-board (FOB) price (i.e. the price at the port of origin), cost and freight (CFR, i.e. the cost of maritime freight and insurance) and the Kwacha-to-Dollar exchange rate, changes to which together accounted for 98 percent of the retail price increase. These cost components are beyond the control of Malawian suppliers or the Government. It is therefore not surprising that retail prices in comparable markets elsewhere in the region are also high. In Zambia, fertilizer (presumably also urea and NPK) was sold for the equivalent of MWK 35,000 per bag in July, as was DAP in inland Tanzania. In markets with significantly lower prices, fertilizer is either subsidized (Rwanda) or locally produced (Zimbabwe).

**Table 1: Drivers of urea retail prices changes in Malawi, August 2020 – August 2021**

Component	Cost		Contribution to retail price change		
	2020	2021	Change	MWK	%
<b>FOB (USD/mt)</b>	280	480	71%	7,759	60%
<b>CFR (USD/mt)</b>	30	65	117%	1,358	10%
<b>Port fees (USD/mt)</b>	61	61	0%	0	0%
<b>Transport to MW (USD/mt)</b>	75	75	0%	0	0%
<b>Letter of credit finance (USD/mt)</b>	18	27	53%	365	3%
<b>Exchange rate (MWK/USD)</b>	776	877	13%	3,592	28%
<b>MBS fees (MWK/50kg)</b>	257	446	73%	188	1%
<b>Redistribution in MW (MWK/50kg)</b>	776	877	13%	101	1%
<b>Operational costs and retailer margin (MWK/50kg)</b>	3,013	2,608	-13%	-405	-3%
<b>Retail price</b>	22,042	35,000	59%	12,958	100%

**Sources:** Argus Media, Grain SA, Fertilizer Association of Malawi and authors' calculations.

To be sure, fertilizer markets south of the Sahara are concentrated, which makes them prone to market power exertion and collusion among suppliers (Hernandez & Torero, 2013), and the available evidence does not eliminate the possibility that some price gouging is taking place in Malawi. It does however suggest that private suppliers in Malawi do not exert more market power than elsewhere in the region, and if they artificially inflate prices, they do so less this year than last year when dealing with the Government, as evidenced by lower total operational costs and retailer margins.<sup>2</sup> Moreover, some fertilizer price inflation is likely to be due to collusive price fixing by Malawi's haulers, as identified by the Competition and Fair Trading Commission in its 2016 Competition Assessment in Malawi Transport Sector (Competition and Fair Trading Commission, 2016), rather than to input suppliers.

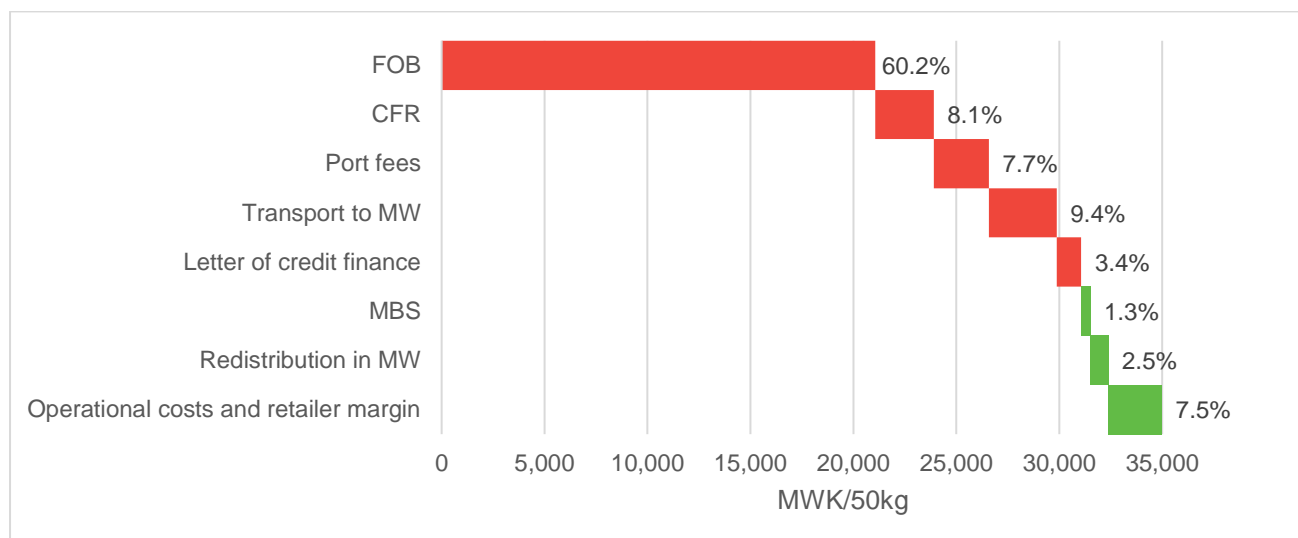
## Can the parastatals do a better job than the private sector?

Much of the price of fertilizer sold in Malawi is determined abroad. SFFRFM and ADMARC face the same FOB, CFR, port fees and cost of transport to Malawi, as the private sector. Figure 1, which illustrates the cost buildup of urea in Malawi in August 2021, shows that the externally determined costs make up 85 percent of the retail price. Malawi Bureau of Standards (MBS) and other fees and



the cost of financing, which together make up another 5 percent, will also be similar for private suppliers and parastatals without additional Government intervention. The parastatals are also likely to face similar costs of redistribution in Malawi (2.5 percent of retail price) insofar as they have to hire private haulers to transport fertilizer to retail locations. The parastatals would therefore have to find savings in the remaining 7.5 percent of overall costs in order to offer a lower price than the private sector.

**Figure 1: Cost buildup of urea in Malawi, August 2021**



**Sources:** Argus Media, Grain SA, Fertilizer Association of Malawi and authors' calculations.

**Note:** Red bars represent costs incurred in USD. Green bars represent costs incurred in MWK.

The parastatals should in theory be able to forgo retailer margins, but such savings could easily be more than offset by higher operational costs. ADMARC especially has a reputation of inefficiency (Benson, 2021). Examples from elsewhere in the region are also discouraging. The Government of Tanzania, for instance, introduced the Bulk Procurement Scheme in 2017 as a replacement for input voucher subsidies which was intended to curtail perceived supernormal profits realized by fertilizer traders. The scheme however failed to prevent the rise of domestic retail prices in face of increasing global prices, and nearly caused a fertilizer shortage before it was suspended on 5 July 2021. Public intervention programs in fertilizer markets have faced similar problems in Burkina Faso, Ethiopia, Ghana, Mali and Mauritania this year alone. Considering these experiences, it is unlikely that SFFRFM and ADMARC would deliver fertilizer to Malawian farmers at a much lower cost than the private sector in the short term.

## What is to be done?

The Government can take several measures to reduce the cost buildup of fertilizer, irrespective of the supplier. The first option is to reduce high financing costs by reducing the bank interest charges on letters of credit. The second is to minimize the Malawi Bureau of Standards charges and other fees. The third is to minimize redistribution costs in the country, which depend on fuel prices. The fourth option is to reduce operational costs affected by value-added taxes and other local government taxes on services, transportation, storage, distribution, and retailing. Given that the bulk of the cost buildup lies elsewhere though, these measures, even if rapidly implemented, will lead only to marginal reduction of fertilizer price.

A more substantial reduction of fertilizer price is unfortunately beyond the ability of the Government in the short term. This means that it will not be feasible to maintain the planned level of subsidy and



number of beneficiaries while remaining with the budget allocated to this year's AIP. It will therefore be necessary to reduce the number of beneficiaries, increase the subsidized price of fertilizer, increase the cost of the program, or implement a combination of these measures.

The decision must be taken quickly. Not only are fertilizer prices likely to further increase in the coming weeks, necessitating harder compromises, but any delay will endanger timely distribution of fertilizer to farmers.

It takes on average 8 weeks from the time an international order is placed for fertilizer to arrive to Malawi. Orders placed at the beginning of September will not land in Malawi until the end of October, and will therefore not be distributed until November at the earliest. In the case of NPK, which should be applied as basal fertilizer at the time of planting, this will be a month too late for many farmers in the Southern part of the country, when rains can be expected in October.

At the time of writing, only about 130,000 tons of fertilizer (30% of the amount planned for the AIP) is in Malawi – 75,000 tons with SFFRFM and 55,000 tons with private suppliers. If more is to be imported, it should be ordered as soon as possible. If not, many smallholder farmers will be forced to choose between planting on time with insufficient fertilizer and planting late. The former will decrease yield response, the latter will increase the risk of exposure to dry spells. Both will further exacerbate the already considerable economic stress.

Because the matter is so urgent, the Government should consider not only the cost at which suppliers can provide fertilizer, but also their ability to deliver inputs on time, before allocating market share. Delivering less fertilizer on time is more likely to lead to good harvest than delivering more fertilizer late.

SFFRFM and ADMARC deliveries under the 2020 AIP were late compared to private sector deliveries (ACB, 2021), and their allocations even had to be reduced in the course of the program from 68,600 tons to 60,000 tons and from 26,000 tons to 17,000 tons respectively (Goodbody, Mwalwanda, Kumwenda, Kapalasa, & Mtembenuzeni, 2021). ADMARC was even singled out as an underperforming supplier by the Minister of Agriculture in his statement on the implementation of the AIP delivered to the National Assembly on 22 February 2021. The Government should ensure that its preferred suppliers have the capacity to deliver inputs in a timely manner, and if they do not, it should also engage other suppliers. The more suppliers participate in the AIP, the less severe impact will the underperformance by any one of them have.

Because the remaining fertilizer required for the AIP ought to be ordered as soon as possible, the Government should also consider the immediate availability of foreign currency when allocating market share. SFFRFM and ADMARC will need to use foreign exchange provided by the Reserve Bank of Malawi to purchase fertilizer on international markets. Private suppliers may be able to source foreign currency elsewhere.

Irrespective of the supplier, orders of NPK should take priority over urea, which only needs to be applied as top dressing 4 to 6 weeks after sowing. Furthermore, areas for delivery should be prioritized according to the agricultural calendar: first deliveries of inputs should be directed to the southern parts of the country and refocus to the central and northern parts as rains make their way up north.

*Comments on this note are welcome and can be sent to [ifpri-lilongwe@cgiar.org](mailto:ifpri-lilongwe@cgiar.org).*



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## ENDNOTES

<sup>1</sup> Although the published exchange rates were MWK 757 / USD and MWK 821 / USD in August 2020 and August 2021 respectively, most importers were forced to buy foreign currency at higher cost due to foreign reserve shortages faced by Malawian banks.

<sup>2</sup> Margins realized on fertilizer sold at full price are likely higher considering that current commercial retail prices are around MWK 3,000 higher than the price offered by FAM to the Government.

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