

Policy Brief

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Malawi Agricultural Input Subsidy Program: Evaluation of the 2007/08 and 2008/9 Input Supply Sector Analysis

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Background and Context

The participation of the private sector in the implementation of the Malawi Agricultural Input Subsidy Programme (MAISP) has varied considerably since the commencement of the subsidy in 2005/06. The private sector has always been involved in the importation of fertilizers and in the retail of subsidized seeds. However, there has been variable participation of the private sector in the retail of subsidized fertilizers, with the private sector involved in retailing of subsidized fertilizers through coupon redemption only in the 2006/07 and 2007/08 agricultural seasons. The exclusion of the private sector has implications for the development of the private marketing system and efficiency of delivering inputs to smallholder farmers. This policy brief highlights the impact of private sector exclusion on the performance of the sector, drawing on information from a survey of retail input suppliers in six districts, key informant interviews in these districts and with national seed and fertiliser suppliers, household and community survey information, and secondary sources.

Structure of Input Supply Sector

The input supply sector can be divided into the two sub-sectors: fertilizer and seed supply. The fertilizer supply sector comprises major and well-established private firms, small/new entry firms and state-owned enterprises involved in the procurement of fertilizers. At retail and distribution level, there are distributors, farmer cooperatives, independent agro-dealers, supermarkets or independent retail shops and retail markets for state-owned enterprises.

The uncertainty of the fertilizer market and the exclusion of the private sector in the retailing of fertilizers in 2008/09 led to significant changes in the structure of the fertilizer market. For instance, the National Smallholder Farmers Association of Malawi (NASFAM) and Rab Processors withdrew from fertilizer supply while Yara closed down its international presence in Malawi. There has also been an increase in the number of companies bidding on Government of Malawi contracts to supply fertilizers to the subsidy programme. The increasing volatility of the market and policy inconsistency and unpredictability has weakened the cohesion of the Malawi Fertilizer Association (MFA).

The seed industry that has continued to participate fully in the subsidy programme has witnessed substantial progress. In terms of its structure it is more organised under the Seed Trade Association of Malawi (STAM). At procurement level, the sector comprises international companies specialising in hybrids/OPV maize seeds and local companies and smallholder seed multiplication groups specialising in OPV seeds. The retail sector consists of fertilizer distributor shops, farmer cooperative shops, agro-dealers, and Agricultural Development and Marketing Corporation (ADMARC) and Smallholder Farmer Fertilizer Revolving Fund of Malawi (SFFRFM) retail shops across the country.

The retail sectors in both fertilizer and seed industries do not exclusively specialise in fertilizers or/and seeds. Most of the retail shops sell a mixture of farm inputs and other consumer and capital goods. For instance, only 66% of the independent agro-dealers declared that selling maize seeds was their primary source of income, but they also sell fertilizers, herbicides, agricultural equipment, groceries, houseware, clothing and hardware. The diversity of the range of products stocked

minimizes the risk of business failure associated with seasonality of demand for farm inputs.

The study revealed a steady reduction in the participation of the private sector in both maize seeds and fertilizer marketing (Table 1) with an 8% fall in fertiliser retailers and a 7% fall in maize seed retailers from 2006/7 to 2008/9. About 57% of retailers not selling fertilizers in 2008/09 attributed their decision to abandon fertilizer retailing to the input subsidy programme.

Table 1 Number of Sample Retailers Selling Maize Seeds and Fertilizers

Year	Maize seed sales but not fertilizers	Fertilizer sales but no maize seed sales	Both fertilizer and maize seed sales	Neither fertilizer nor maize seed sales
2006/07	29	9	183	9
2007/08	33	11	173	13
2008/09	36	14	162	18
2008/09 as % of 2006/07	124%	156%	89%	200%

The exclusion of the private sector in the retailing of fertilizers has mixed impact on expected sales revenue with 53% distributors projecting lower sales while about 50% cooperatives and agro-dealers expecting higher sales in 2008/09 compared to 2007/08. The reasons for better sales included increased demand of inputs from farmers, good rains, the subsidy programme and lower prices.

There was higher incidence of tips in order to redeem coupons at different retail markets, exacerbated by long queues. Long queues were a major issue for 78% of communities at SFFRFM outlets, 72% at ADMARC markets and 60% at outlets of private companies. This reveals that the services at market outlets are generally poor and increase the transaction costs of procuring outputs in terms of time spent and the tips that farmers have to pay to redeem coupons.

Performance of the Seed Market

The subsidy programme continues to be instrumental in the development of the private sector seed market. The study reveals that the participation of the private sector in the subsidy programme has stimulated competition in the industry. Although this

competition has increased the commissions received by retailers from producers and farmer access to seed, these price benefits have not accrued to smallholder farmers. Seed producers have used higher commissions to retailers to promote the sales of their seeds in addition to advertising and conducting demonstrations.

The seed pricing for the subsidy programme is not competitive, as seed suppliers through their association colluded over the price that they negotiated with the Government. This resulted in an initially high price with a maximum farmer top-up offer to the Government. However, given the confusion that a top-up created in 2007/08 season, Government negotiated a flat rate of MK680 without top-up.

Seed retailers reported an increase in the seed sales following the subsidy programme. The agro-dealer network and the network of ADMARC and SFFRFM markets play an important role in broadening the seed markets. Most of the retail markets were selling hybrid seeds, due to lower transport costs of hybrid compared to OPV seeds that generated the same revenue, but also due to the aggressive marketing of hybrid seed producers. However, flexi-vouchers were not as popular as anticipated - many farmers thought they were fraudulent vouchers because they did not have "maize" written on them, and therefore they did not use them.

Retailers participating in the seed subsidy sales frequently encountered problems of stock outage, not having the specific seeds wanted by farmers, and long queues. Longer queues were evident at ADMARC markets partly due to the fact they were redeeming both seeds and fertilizers. Another problem experienced by retailers was attempted fraud, with 25% of retailers reporting incidents of submission of fraudulent coupons.

A problem with the subsidy programme is the delay in the payment system with implications on the cash flow of seed suppliers. Nonetheless, the subsidy programme has led to business expansion for the agro-dealer retail network, increased demand for improved seeds, increased investments in seed marketing and increased competition in the sector.

Performance of the Fertilizer Market

The 2008/09 season was a difficult year for fertilizer distribution companies due to the exclusion of the private sector in the retailing of subsidized fertilizers. It is argued that the Government excluded the private sector in retailing of subsidized fertilizers in order to control the

supply under the subsidy in the absence of a buy-back arrangement and due to the belief that the private sector was more prone to accepting fake coupons. On the latter issue, however, the available evidence indicates that in 2007/08 about 27% and 3% of sales of ADMARC/SFFRFM and private sector were without valid coupons, respectively.

The private sector continued to supply fertilizers to the subsidy programme through competitive tender. The study finds that improvements were made in the timing of announcement of tenders and transparency of the tender process, although the actual awarding of tenders was delayed. Although, the tenders are awarded on competitive basis, some of the firms awarded were unable to supply the specified amounts, resulting in re-assigning of the defaulted quantities to other suppliers at the original bidding prices.

The impact of private sector exclusion in retailing subsidized fertilizers varied by the type of input suppliers. About 38% of private retailers (mainly agro-dealers) did not experience major changes in their business while 62% (mainly distributors) of private retailers experienced a significant drop in revenues.

Conclusions and Lessons

The implementation of the MAISP in 2008/09 has had mixed fortunes on the development of the private sector input marketing system. While the private sector continues to participate in procuring fertilizers for the programme and retailing of seeds, their exclusion from the retailing of subsidized fertilizers has had a negative impact on market development in the rural areas. The exclusion has led to a reduction in private retail outlets, long queues and increased incidence of tips paid by smallholder farmers. The experiences of the 2007/08 and 2008/09 implementation of the subsidy programme have the following lessons:

- It is important that the implementation of the agricultural input subsidy programme should support improved farmer access and choice in input purchases, and an important means of promoting this is through the development of the private sector input markets, particularly in rural areas. The programme can support this by designing

an appropriate reward-penalty system for private sector involvement.

- Assessing the capacity of bidding firms for the supply of subsidized fertilizers is critical in ensuring timely delivery of supplies. It is also important to enforce penalties in cases where awarded firms fail to deliver or delay in delivering the supplies.
- More timely award of tenders should improve timely delivery of fertilisers and reduce suppliers risks and hence costs of supply.
- The introduction of some form of competitive bidding and/or top up payments for the supply of seeds in the subsidy programme should be developed to eliminate uncompetitive behaviour in setting prices and allow price competition to benefit the farmers while at the same time supporting choice to farmers for different varieties.

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