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EXCLUSIVE INQUIRY
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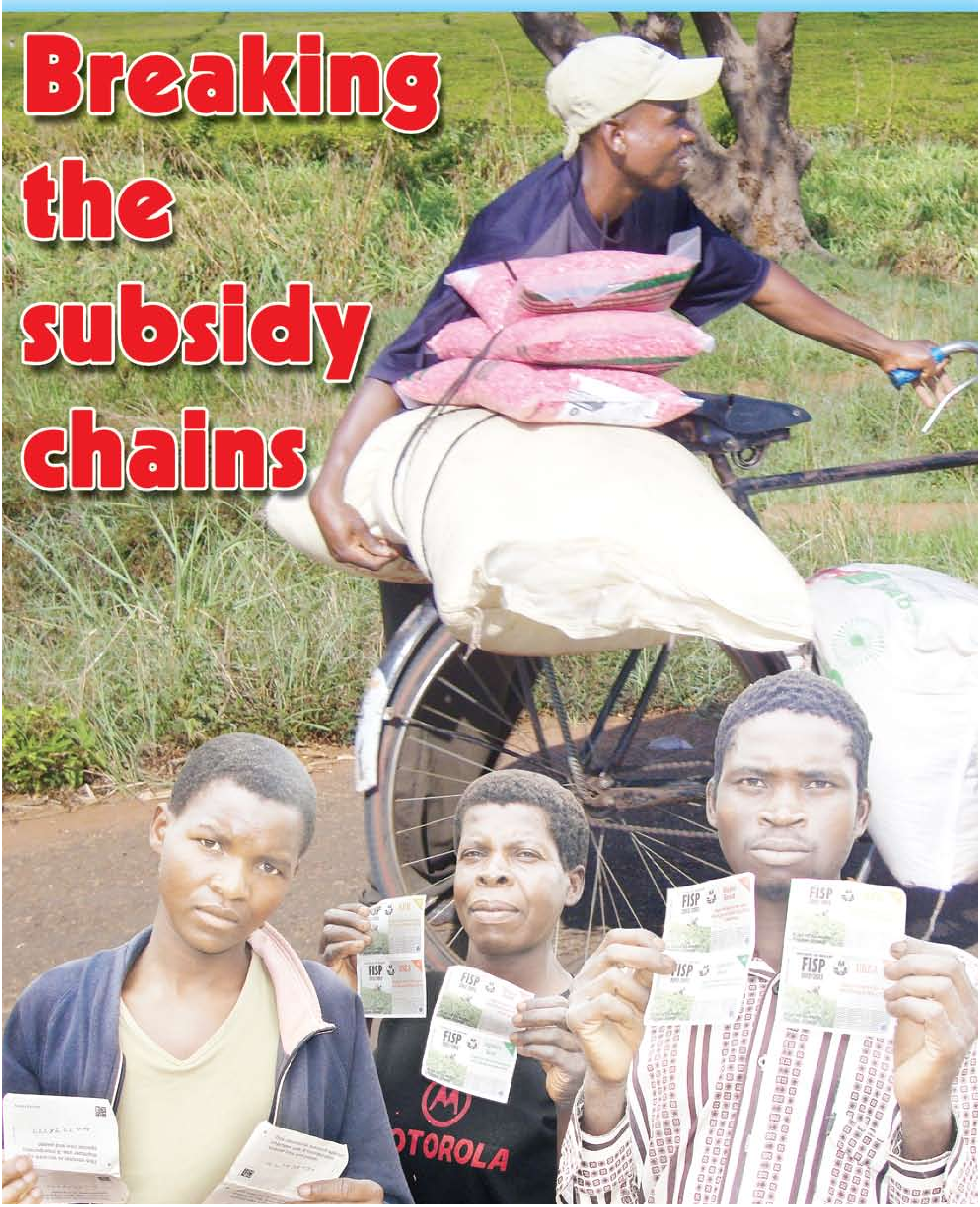
Breaking the subsidy chains



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SPECIAL ESSAY

Should Malawi continue with farm input subsidies?

PHOTOGRAPH: NATION LIBRARY

For many, accessing subsidised farm inputs means having to spend nights at fertiliser depots

Malawi's agricultural economy has always relied on some sort of farm input subsidies since the one-party regime. The most common and important of these is fertiliser subsidy. During the MCP regime, there used to be the universal fertiliser subsidy whereby the cost of all fertiliser on the market was heavily subsidised by the State to make fertiliser not only cheap but also affordable to all farmers.

However, as the saying goes, there is nothing for nothing. Somebody was paying for these subsidies and the hand of the donor partner was involved. Then, there came a time when the donor began to feel that something was not going as expected and after various studies, donors decided to withdraw their support, arguing that the subsidy that was meant to assist the poor subsistent farmer was actually supporting the well to do—commercial farmers nationwide.

It is important to note that overall, the donor community does not support subsidies that are implemented across the board. In the case of the MCP era, the subsidy that was supported was that which should have been meant to cushion poor farmers from the effects of increasing fertiliser prices. Eventually, donors won the argument and for some time there were no subsidies. Instead, we saw government promoting farmers' clubs with short-term loans to be repaid fully at the end of each farming season. When most farmers were unable to repay the loans, the programme was suspended and it became a game of everyone for himself.

When the UDF government took over, it renegotiated with donors to re-start the subsidy programme but in such a way that the concerns that led to the withdrawal of donor support were taken care of. Hence, the re-christening of the programme to Targeted Input Programme (TIP). With TIP, the programme was no longer going to have a universal subsidy element of subsidising the fertiliser cost at importation stage, but rather only targeting those members of the community that were seen to be most vulnerable.

In short, TIP targeted the poorest of the poor. Thus, the price of fertiliser would overall remain as dictated by market forces while government, through the donors who supported TIP programme, would only subsidise the purchase price for those targeted on the project and identified through coupons. TIP registered success in the initial years to the effect that the donor partners agreed to have it extended for a few more years.

The programme, now wearing the garb of the Input Subsidy Programme (FISP), was so successful under the DPP government that it was hailed as the major contributing factor to the increase in food security at household and national levels. So successful it was that the late president Bingu wa Mutharika was internationally recognised and invited to present a lecture in the USA on the successes of the Malawi Government in sustaining food security through the subsidy programme.

The subsidy programmes that have been implemented by UDF, DPP and PP have all been the same in their approach of targeting a specific group of people. This is contrary to what MCP has always been advocating for to have a universal subsidy that does not discriminate anyone. It is not clear how such a programme would be implemented given the cost implications.

Already, there are indications that even the targeted subsidy programme currently in place is eating too much into the national budget. That aside, there is the bigger question about whether these subsidies should continue forever without a cut-off point.

During the UDF reign, there was a time when the whole subsidy approach was founded on the vision that it was a temporary relief sort of programme. It was even called a Starter Pack. As the name sounds, a starter pack would contain some amount of fertiliser and seeds to be used by the subsistent farmer for at least one farming season. The expectation was that the starter pack would be enough to help the farmer realise enough proceeds with which they would be able to buy their own agricultural inputs in the following farming season.

But there is sometimes contradiction between theory and practice. While the objective of these subsidies has been to help subsistent farmers in the shortest time possible, such as one farming season, the practice is that farmers expect government to subsidise farm inputs.

There is just too much dependency on fertiliser subsidies. An interesting incident caught me by surprise in one district recently where I met an elderly man who complained that he could not understand why he has not

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PHOTOGRAPH: NATION LIBRARY

Not retreating from FISP: President Banda

Why subsidies are here to stay

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benefited from this year's input subsidy programme and yet he is a registered voter. He even produced his registration identity to prove his point.

Have we gone this far in our misunderstanding of subsidy programmes? Who has been cheating Malawians that registering to vote in the 2014 Tripartite Elections is a passport to receive farm subsidies?

Now, let me come to the main question that this country should answer. The question is: for how long will these subsidies continue? Shouldn't they be scrapped completely?

There are both economic and political implications to the question. On the economic side, there are two major elements at stake. One is that the agricultural economy has been too reliant on artificial, inorganic fertilisers whose prices are beyond the reach of most farmers and yet such fertilisers cannot be ignored.

Attempts are being made to replace them with organic fertilisers such as manure but the process of substituting inorganic with organic fertilisers is still a long way to go. This pushes for the government to continue with subsidies for a while.

Secondly, government must consider the challenge of balancing the national budget. The subsidy programme has now become a multi-billion kwacha project. It is becoming too expensive even in its present form where it is targeting only selected farmers. There are so many other social services that are losing out as a result of billions being drained through agricultural subsidies every year.

Government must choose between continuing with the subsidy programme while letting other social services such as health and education suffer perpetually. This analysis might persuade government to consider dropping the subsidy programme or at least roll it back a little.

Finally we have to come to the political factors. Politics and economics are twins. You cannot wish away one for the other. Economics influences politics just as politics determines economic policies. When it comes to the agricultural subsidy programmes, one cannot fail to notice that these are very popular programmes to the local man and woman out there. If any political party today comes up with a policy that eliminates agriculture subsidies completely, that party will be digging its own grave.

Like I have said, people are so much used to these subsidies that they cannot do without them. In fact, they

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Politics of subsidy in Malawi

BLESSINGS CHINSINGA
POLITICAL ECONOMIST

Why should we be concerned with the politics of the subsidy programme popularly known as FISP? For many, I would argue, there is absolutely no point in discussing the politics of FISP. They would contend that we have to simply continue with it simply because it has been tremendously successful. It has brought Malawi into the limelight christened as the pacesetter of the uniquely African Green Revolution.

The apparent success of FISP encouraged several sub-Saharan countries to consider a return to subsidies as a key strategy for revitalising their fledgling agricultural sectors. In 2011, for instance, 10 African countries spent roughly $1.05 billion [K473 billion] on subsidy amounting to 28.6 percent of their public expenditures on agriculture.

However, this success is now crumbling. In 2012 alone, reports indicate that more than 1.63 million people, or eleven percent of the population, are facing severe food shortages and Malawi requires $30 million [K13.5 billion] to meet the shortfall by the end of 2013. What happened to the FISP magic?

The adversities in climate in recent years have to be acknowledged, but surely they would not fully explain the apparent dramatic turnaround in the fortunes of FISP. It is against this backdrop that getting to grips with the underlying politics of FISP is quite critical to put its rise and fall in proper perspective. In fact, just talking about the politics of FISP is not enough. It would be more prudent to grapple with the political economy of FISP.

PHOTOGRAPH: NATION LIBRARY

FISP provides a critical lifeline to many smallholder farmers in Malawi

Understanding politics and political economy

What does politics exactly mean? This is not an easy question. The definition of politics is heavily contested. It means different things to different people. The simplest definition of politics is conflict, which arises whenever two or more people interact. So, broadly speaking, politics is an integral part of core human existence.

According to Adrian Leftwich, politics comprises all the activities of cooperation and conflict within and between societies, whereby the human species goes about organising the use, production and distribution of human, natural and other resources in the course of the production and reproduction of its biological and social life.

This broad understanding of politics is further amplified by Andrew Heywood. He defines politics as the activity through which people make, preserve and amend general rules under which they live. The implication of this definition is that both at micro and macro levels, politics can be understood simply as rules of the game that guide patterns of human interaction in the use, production and distribution of resources.

Bringing economics into the mix gives rise to political economy. Broadly speaking, political economy entails the study of both politics and economics particularly the interaction of the two with particular emphasis on how they influence policy decisions, institutional choices and capacity for development.

Consequently, the political economy lenses help to understand what drives political behaviour, how this shapes particular policies and programmes, who are the main winners and losers, what are the implications for development strategies and programmes. And this provides an opportunity to fully grasp the political, economic and social processes that either promote or block pro-poor change.

The origins of FISP

The starting point, of course, is to realise that the origins of FISP are intricately related to the country's politics, particularly the May 2004 electoral processes. Triggered by two severe hunger episodes in quick succession since the turn of the new millennium affecting 3-4 million people, a strong national consensus emerged that something had to be done to address the problem that had become more or less routine.

All the major political players were agreeable to the proposal to subsidise production beyond what was being done through either Starter Pack (SP) or Targeted Input Programme (TIP). While these interventions had gone a long way to contain the food insecurity problem, they did not deal with it in a sustainable manner.

There were, however, stark differences between the governing block led by UDF and the opposition camp led by MCP. The UDF coalition advocated for FISP covering only maize, and administered through the use of coupons or vouchers while the MCP block pushed for universal FISP administered through farmers' clubs targeting both maize and tobacco. This clearly reflected the differences in the priorities of areas perceived as their respective strongholds.

While UDF was in principle agreeable to FISP, it was, however, hesitant to implement it immediately after the May 2004 electoral victory. Donors weighed in, arguing that the implementation of FISP would be tantamount to the reversal of economic reforms that had already started bearing fruits. They cautioned that implementing FISP risked derailing Malawi from reaching the debt relief completion point.

The implementation of FISP only became possible following the unprecedented political events of February 2005. Late president Bingu wa Mutharika ditched UDF that had sponsored him into power and formed his own party, DPP. The bloated opposition put enormous pressure to force him to sanction the implementation of FISP. Mutharika had no choice because the opposition-

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dominated Parliament threatened to derail DPP's legislative agenda should FISP not be implemented.

FISP was adopted as government's policy, the fierce resistance from donors with support from domestic fiscal conservatives notwithstanding. While agreeing to the implementation of FISP, Mutharika resisted the idea of a universal subsidy. He insisted on the use of vouchers or coupons to ensure effective targeting in the interest of equity, justice and fairness.

Political exploitation of FISP

The maiden FISP was tremendously successful, breaking down the vicious cycle of hunger the country had been trapped in for nearly two decades. Mutharika claimed the success and ran away with it, presenting himself as the sole architect of FISP, and fully exploiting the political capital that was associated with the grand success narrative of FISP turning around the food security fortunes of the country.

It became almost impossible for the opposition to claim that they were the brains behind FISP. While the gap between budgeted and actual expenditure was reasonable in the maiden FISP, it kept on expanding at a faster rate until after the May 2009 general elections. In the 2009/10 season, the budgeted and actual expenditure were essentially the same.

Some interesting developments took place between 2004 and 2009. There were two rounds of coupons for FISP. The first round was administered largely in a transparent and accountable manner and its benefits were broad based whereas the second round was administered

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Seeking alternatives to FISP

AUSTIN MBAMBA
Agri-business specialist

The Farm Input Subsidy Programme (FISP) was introduced in 2005 as a way of alleviating food security problems in the country as well as alleviating poverty; hence, improving people's livelihoods.

Over the years, FISP has improved people's access to food. Nevertheless, the programme has proved to be too costly and in the long run the country will not be able to sustain it. Studies conducted on FISP have shown that the programme is too costly to be sustainable in the long term. This calls for alternative policies that must be both beneficial and sustainable for the greater good of the country.

To understand the issues of subsidies better, we need to look at how they appeared on the scene. From 1964 to 1980, the policy environment was such that the main targets were production and marketing of agricultural products. At the centre of such policies was the Farmers Marketing Board which in 1971 became Admarc as we know it today.

The name changed after the board incorporated in its functions the responsibility of buying produce from farmers. It was the main outlet of farm inputs such as fertiliser and prices were fixed.

Another key player was the National Seed Company of Malawi (NSCM) now known as Monsanto after it was privatised. It was responsible for selling certified seeds to farmers.

During this era, farmers benefitted from the system since most companies were owned by government. This meant that farmers had a ready market for their produce and prices were known in advance because they were fixed. Farmers also had access to subsidised smallholder agricultural credits. Even input prices were subsidised.

From 1981, the Government of Malawi signed the first

PHOTOGRAPH: NATION LIBRARY

FISP has been credited with improved food security in Malawi

contract under Structural Adjustment Programmes (SAPs) with the World Bank and the International Monetary Fund (IMF) on the basis that there was exploitation of smallholder farmers and as a response to market distortions. Thus, instead of the country having monopoly markets of fixed prices, the forces of demand and supply were left to determine prices and competition; hence, market liberalisation.

Subsidies were slowly abolished because they contributed to market price distortions as farmers were pricing their produce based on wrong cost factors. By 1994, there were no subsidies. Smallholder agricultural credits also collapsed due to increasing numbers of defaulting farmers ostensibly because initially people were assured of a reliable market at Admarc and also the fact that the dictatorial government persuaded farmers to repay the loans.

Now that these factors were no longer there, loan repayment went as low as 16 percent. Consequently, the use of inorganic fertilisers and improved seeds declined due to the removal of subsidies.

To reverse the adverse effects of the abolition of subsidies, the Starter Pack programme was introduced. However, the policy ended up being too costly; hence, the Targeted Input Programme (TIP) was introduced. Because most Malawians are smallholder farmers who cannot afford to buy inputs, there were still problems of food insecurity, a situation that informed the introduction of FISP.

But the programme is facing problems that need to be addressed. The first problem relates to the pricing of the inputs which creates distortions on the market. The cost of importing the inputs is way higher than the price at which farmers buy them. But when farmers sell their produce, they base their pricing decisions on the subsidised prices, thereby distorting the market.

The second problem is that the programme increases the budgetary pressure on government, especially when prices of fertiliser increase worldwide. This is aggravated by the fact that allocation and actual expenditure are different because actual expenditure is usually higher. This may be attributed to the presence of fake coupons.

The third problem has to do with the fact that some people pay the price of financing the subsidy through taxes of employed and business people. Such people usually make up a small percentage of the population. Then there are problems of using the subsidised inputs for purposes not intended by government as well as illegal selling of coupons and smuggling.

FISP was introduced with good intentions; it is the delivery and implementation that has problems because some people take advantage of the programme to enrich themselves. An alternative programme would be a combination of two policies.

First, recognising the problems that a smallholder farmer faces, subsidised inputs would be used as a temporal measure to help farmers to adopt new technologies in agriculture. For example, use of improved seeds requires application of inorganic fertilisers to realise full benefits; hence, for a period the country would subsidise fertiliser and later deliver the inputs at full cost.

This would help the process of gradually removing the subsidy and then introducing the output price support policy or credit subsidies. In other words, there should be improved delivery of inputs at full cost as a target but it should be backed up by extension services for farmers to adopt the new inputs. To reduce the time lag that is there between the introduction of new technology and adoption, use input subsidy as a temporary incentive.

With output price support, the choice of inputs is based on actual prices and not the distorted ones. This is done by fixing prices to reduce price fluctuations. If prices decrease, government pays the deficiencies in the price of the product. Input subsidies affect the relative cost of production while price support influences prices, revenues and profits; hence, improving farmers' incomes and ultimately increasing their purchasing power.

Another way of output price support is where government can use its parastatal organisations such as Admarc to buy most

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FISP: Who are the losers

EPHRAIM MUNTHALI
Editor

Felix Jumbe, a large-scale farmer in the Central Region, is nostalgic about the days when commercial maize and tobacco farming was a rewarding enterprise.

But with the arrival of the Farm Input Subsidy Programme (FISP)—now in its ninth season—Jumbe says the sun is setting on Malawi's large-scale farming.

This decline in commercial farming is detrimental to national food security, economic development goals and industrialisation of the agriculture sector, he warns.

A decade ago, commercial farmers accounted for around 20 percent of Malawi's farming community. Today, the figure for large-scale growers is down to five percent or 150 000 farmers, says Jumbe, who resigned early last year as president of the Farmers Union of Malawi (FUM) to join active politics.

Launched in the 2005/06 cropping season to help boost maize production, promote household food security and enhance rural incomes, FISP targets roughly 50 percent of the country's farmers or around 1.5 million households.

The beneficiaries receive subsidised fertiliser and seeds—distributed through vouchers—for production of maize.

Within the FISP package, authorities also distribute fertiliser coupons for tobacco, which is Malawi's most important export that accounts for 60 percent of the country's total annual foreign currency earnings.

According to the Ministry of Agriculture and Food Security, government targets more than 95 percent resource-poor but productive farmers with less than 0.5 hectares of landholding.

Smallholder farmers pay less than five percent of the market price for one 50-kg bag of fertiliser, while all other farmers are expected to pay the full amount.

According to Jumbe, FISP's crowding out effects on large-scale farmers is significant.

"There is no doubt that FISP has crowded out the commercial, larger-scale farmer. Smallholder farmers get fertiliser and seeds almost for free. So, they only spend about K35 to produce 1kg of maize. Commercial farmers, on the other hand, have to spend K70 to produce 1kg of maize, which is double the cost incurred by the smallholder.

"A similar trend is being observed in tobacco. As a result, smallholder farmers can accept any price above K35 for maize during the market, while we have to look at more than K70. How can the large-scale farmer compete?" says Jumbe.


PHOTOGRAPH: NATION LIBRARY
How many poor farmers have genuinely benefitted from FISP?


PHOTOGRAPH: NATION LIBRARY
Kabisakabisa: FISP has harmed commercial farmers

Consequently, Jumbe says, most commercial farmers have found tobacco and maize farming to be unprofitable.

This has forced them to sell off their farms, diversify to livestock or, like him, venture into seed production on the same land he was growing produce.

"I have a 250-hectare farm where I used to grow maize and tobacco. I stopped that a long time ago. I now produce seeds on 200 hectares. It is more profitable than maize and tobacco. I use the remaining land for growing some subsistence maize to feed my workers whereas the other land goes to groundnuts and other non-traditional crops," he says.

While the Ministry of Agriculture concedes that subsidies generally distort markets, the authorities argue that the maize produced with FISP's support is primarily meant for household food security, not necessarily for commercial purposes; and contend that such produce cannot be of great competition to larger growers.

"For sure, subsidies have crowded them [large-scale farmers] out of local markets [in terms of] home consumption, but I should think it is an opportunity to target other existing markets," argued Sarah Tione, the ministry's public relations officer.

After all, the maize market functions internationally as well as locally, she said.

"Those who buy from smallholder farmers target such markets as well as the processing sectors; hence, for a serious commercial farmer, subsidies are a way of enhancing their capabilities to explore wider markets," said Tione.

Besides in terms of volumes of production, smallholders cannot easily break even compared to commercial production, she added.

Tione also said the unprofitability of maize for the commercial farmer cannot be fully attributed to subsidies, but also to the nature of the crop and its relationship to food security.

For example, in years when production is low, prices tend to be too high for an average Malawian, she said.

When this happens, government is forced to intervene with supply in the markets, thereby affecting prices of commercial farmers; hence, she says, it is unreasonable to heap all the pricing problems of commercial farmers on FISP.

But Fortune Kabisakabisa,

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almost exclusively through political functionaries and largely for strategic political purposes.

In per capita terms, the second round of coupons was targeted predominantly at the Northern Region owing to its capacity as a swing region. The second round was discontinued after DPP secured a landslide victory in the May 2009 general elections.

The FISP package was subjected to changes almost on a continuous basis. Legumes were introduced at the insistence of donors as a strategy for diversification, promotion of nutrition and income among farmers. The FISP package was altered to include pesticides for maize storage and extended to cotton farmers. There were plans to extend FISP to tea and coffee farmers but these were not implemented after DPP's victory. Likewise, the subsidy to tobacco was discontinued after May 2009.

There have been debates about the exact number of farming families in Malawi to determine the efficacy of FISP targeting exercise. The figures between the National Statistics Office (NSO) and the Ministry of Agriculture and Food Security differ dramatically. The latter's estimates are substantially higher but there has not been the political will to reconcile the differences once and for all concerted efforts notwithstanding.

The failure to reconcile the differences despite being facilitated was for strategic political reasons. The lack of clarity provided room of manouvre for government to play around with the distribution of FISP inputs to shore up its political support. There is every reason to believe the credibility of this particular argument following the recent revelation in the media that government has been able to save about K20 billion without actually affecting the volume of inputs procured for the programme.

Alternatives to the current version of FISP

Are there alternatives to FISP? Can FISP be discontinued? These questions have been increasingly echoed as it has become clear that the success of FISP was very much a bubble. These are, however, not simple questions given the

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Subsidy programme not going anywhere

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are expecting more and more subsidies such that in every village, everyone wants to benefit every year.

All factors put together, it is these political factors that will be most considered by government in determining the next course of action. It is not easy for government to discontinue the programme as that will make it an obvious enemy of the voter. Government is caught between siding with the voter on one hand or the donor on the other. As at now, donors seem to be of the view that subsidies have outlived their intended purpose.

My conclusion, therefore, is that there is need for a serious review so that there is a clear understanding at the national level on the type of agricultural subsidy programme that is to be implemented and that both the implementer and the beneficiaries should share the same understanding. Deliberate efforts must also be made to ensure that at some intervals some farmers should be weaned off the programme so that elements of cost cutting can come in. Otherwise, you have a programme that is continuously expanding in terms of its funding requirements.

A bold step that government could take is to implement a short-term agriculture subsidy programme that has a cut-off point. At the cut-off stage, the country must consider agriculture not only as contributing to the local food security programme but it should also become an export-oriented business. Let us commercialise our agricultural industry. The subsistence farming song has been sung for too long now.

Let me end my discussion by acknowledging that agriculture subsidies are not the only subsidies that have been implemented in this country. We have had fuel subsidies that cushioned the prices of fuel in the past but these have since been removed. There are also various forms of subsidies in water and electricity tariffs for some sectors. Most services offered by public schools and hospitals are also heavily subsidised.

Can the present Malawi do without subsidies? I do not think so. But with proper visioning and planning it is possible in the near future. ■

Winners and losers of farm input subsidy

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who in May last year harvested 2 000 50kg bags of maize or 100 tonnes grown on 10 hectares on the western outskirts of the capital city Lilongwe, quashed the ministry's assertions that the export market is available and dismissed the larger farmer's so-called economies of scale advantages as "fallacies".

"I think the Ministry of Agriculture is being disingenuous. Government has imposed a maize export ban just as it has done in the past, saying the country does not have enough maize locally. "They have even imported large amounts of the grain. Now, when they say we can export our grain, do they mean that we should smuggle it out of the country in view of the ban?" he asked.

On the question of economies of scale, you cannot cancel out the heavy subsidies given to the smallholder at coupon redemption rates that are almost equal to outright handouts, Kabisakabisa said.

He said the commercial farmer has to factor in direct labour costs that the peasant farmer does not have to given that he or she does most of the work.

Because the current suppressed local market prices may end in loss if sold now and the export market is off limits thanks to the government ban, some farmers are hoarding their grain until January 2014, when food shortages are most acute, allowing him to make a profit.

"I know I have locked up more than K4 million of my investment but what can I do? I have to wait for the appropriate time when a healthier return on my investment is guaranteed. Of course, I am aware that by hoarding, I am helping to create an artificial shortage that leads to price spikes, but hey, that is government's problem," says Kabisakabisa as he gestures towards the grain in his warehouse.

PHOTOGRAPH: NATION LIBRARY

The subsidy coupon is a precious commodity for many poor farmers

FISP's opportunity costs?

There is a growing chorus of voices in Malawi now saying FISP is not only crowding out commercial farming, but it is also a wasteful drain on the national budget through which it is getting consistently higher funding at the expense of other critical social sectors such as health.

Since FISP started, it has been consuming a large amount of both gross domestic product (GDP) and the national budget depending on the annual volumes required, movements in international prices and the set coupon redemption price for the farmer.

For example, according to a study titled 'The Role of the Farm Input Subsidy Programme in Malawi: Any Prospects of Graduation?' by Professor Ephraim Chirwa and others, FISP's costs to the economy have ranged from six percent of GDP to 16 percent between 2006 and 2013.

As a percentage of the national budget, FISP has amounted to 16 percent of total government expenditure—higher or competing with the 12 percent that has been allocated to health over the last three years.

In May last year, a group of civil society organisations (CSOs) working in the public health, HIV and Aids management sector—angry at the dwindling budget allocation to the health sector—petitioned Parliament to cut allocations to FISP and re-direct the money to top up the health budget.

The CSOs argued that despite government making local and international commitments that the health allocation will be 15 percent of total annual expenditure for years, funding to the sector has dropped to 12 percent of the budget.

"We believe that other resources to health should come from FISP, which is increasingly becoming inefficient, nepotistic and a fertile ground for corruption as well as a gravy train for political bootlickers, ruling party financiers and a campaign tool masquerading as a pro-poor welfare initiative that is bankrupting the country and which has failed to pull its targeted beneficiaries out of the poverty trap as envisioned in 2005/06 when it started," the CSOs said in a statement.

On the other hand, as a ratio of the overall agriculture budget, FISP consumes between 50 and 60 percent.

The dominance of FISP in the Ministry of Agriculture budget means that other services within the agricultural sector such as research and extension outreach are suffering, according to the Civil Society Agriculture Network, a coalition of NGOs working in the agriculture sector.

FISP may also have contributed to higher budget deficits over the years, according to the study by Chirwa and others.

For example, Chirwa and others note, the budget deficit rose from -1.5 percent in 2006 to -8.2 percent in 2009 as government spending on FISP rose sharply.

More worrying, explain the researchers, is the increase in the indebtedness of the country from 8.2 percent of GDP in 2006 to 15.7 percent in 2010—a development they appear to link to FISP spending.

"The peak in domestic debt appears in 2008/2009, which also witnessed high fiscal deficit/GDP ratio and this was also the year the subsidy cost was 6.6 percent of GDP and the subsidy budget was over-spent by about 87 percent, partly due to higher fertiliser prices and partly due to expansion of the programme," note the authors.

But consuming a large part of the budget is not necessarily the problem some say.

The challenge is that the programme has become inefficient in meeting its goals, argues Dr Thomas Chataghalala Munthali, a respected economist who is the country director of Innovations for Poverty Action (IPA) in Malawi, a research think-tank.

"The current objectives of the Malawi FISP are to increase maize production, promote food security and enhance rural incomes by targeting subsidised input coupons to the productive poor. If these were being met, then the large FISP budgetary allocation would have been justified. Unfortunately, the country has imported maize during many of the FISP years, which raises questions about the programme's ability to promote food security," said Munthali, former president of the Economics Association of Malawi (Ecama).

A World Bank study released last month validates Munthali's position, which found that the majority of FISP's intended beneficiaries do not benefit from the initiative.

The study, which assessed the system used in choosing FISP beneficiaries, reveals that up to 57 percent of people who receive fertiliser coupons are

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not eligible to benefit because they are not poor but connected to authorities.

This translates into around 900 000 of the total 1.6 million beneficiaries that government has targeted to reach this farming season.

The study explains that FISP is not achieving its intended objective of helping the poor move out of poverty because most coupons are not distributed based on poverty levels but other factors that come into play, including relationships with community leaders.

"Our analysis shows that FISP is not poverty-targeted in that it does not exclusively target the poor or the rich at any level of the programme administration. The programme reaches all socio-economic strata of rural Malawi. If there is any targeting, it is in the middle of the welfare distribution. As such, the share of the non-eligible population receiving FISP benefits ranges from 52 to 57 percent depending on the eligibility indicator used," reads the World Bank report.

More disturbing perhaps are research reports by Rodney Lunduka and others on FISP that reveal widespread diversion largely at the hands of politicians and government officials.

This diversion of the inputs is one of the most crippling problems facing FISP. Diversion refers to both coupons and subsidised fertiliser that is taken by government officials and resold as commercial fertiliser, whereas leakage refers to coupons and subsidised fertiliser that is resold by recipient households on the secondary market.

"There is evidence to suggest that diverted and leaked coupons have found their way to smallholder farmers who purchase coupons in the illegal market or access cheap fertiliser sourced from FISP," reads the report published in Agricultural Economics of August 1 2013.

Evidence shows that better-off individuals who are less cash constrained often acquire diverted and leaked fertiliser, a target miss that has negatively impacted on FISP outcomes and hit the commercial inputs markets hard.

"To the extent that these households use the diverted and leaked subsidised fertiliser in place of commercial fertiliser, then diversion and leakages contribute to crowding out of commercial fertiliser, which reduces the total amount of new fertiliser that enters the system and ultimately ends up on farmers' fields," says the report.

Assessing displacement of commercial sales is difficult largely because research on this specific subject is sparse. But a review of two studies—one by Jacob Ricker-Gilbert and TS Jayne of Michigan State University in the USA titled 'Do Fertiliser Subsidies Affect the Demand for Commercial Fertiliser? An Example from Malawi' and one by Chirwa and others, shows a certain level of displacement.

"It seems that the programme may have distributed subsidies to people who would have otherwise purchased fertiliser at commercial prices. The programme also generated some inefficiency with 0.2kg of commercial fertiliser displaced by every kg of subsidised fertiliser," write Ricker-Gilbert and Jayne.

Even though Malawi has incorporated the private sector into its distribution process, government still bears the majority of the subsidy cost.

Consequently, subsidised fertiliser goes to farmers who would have otherwise paid a commercial price rather than to those who would not.

This is inefficient, according to Ricker-Gilbert and Jayne.

"Targeting must be effective and displacement must be minimised to ensure that the subsidies achieve the programme objective of increasing yields and food security while minimising wasteful spending," the researchers say.

The Michigan academics' findings largely agree with those by Chirwa and others who established that a one percent increase in subsidised

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Unraveling the politics of FISP

Pushed for universal subsidy: John Tembo

PHOTOGRAPH: JAMES CHAVULA

Mutharika (L) faced pressure from some donors not to introduce FISP

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huge stakes in FISP.

FISP is a hot political potato. Nobody is bold enough to say they would do away with it. This is the case because food security in Malawi lies at the heart of the social contract between citizens and government.

This is why almost every electoral campaign revolves around food security. Some scholars have, in fact, characterised Malawi's politics as the politics of maize. This essentially implies that the legitimacy of the government in Malawi depends on making maize available to citizens at prices they can afford or through subsidised production.

The case for continuing with FISP is actually much stronger. Malawi is locked in the low maize productivity trap (LMPT). Farmers would break free from the LMPT if they have access to productivity-enhancing inputs on a continuous basis. This would enable them to step out of agriculture into alternative livelihoods. This would, however, require that FISP be properly designed particularly in a manner that it is insulated from the vagaries of politics.

This could be done but it is almost impossible given the huge political stakes, especially for those at the helm of government at a particular point in time. Alternatives to the current version of FISP would include continuing with the current form but with a robust graduation strategy; a return to either SP or TIP; targeting districts considered as the country's bread basket; targeting large-scale as opposed to smallholder farmers; and targeting productive smallholder farmers under the Green Belt Initiative (GBI).

In thinking about the possible range of alternatives, the key question is: what is the overall purpose of FISP? Is it to ensure that the country is food self secure at all costs and as cheaply as possible? Why is it then that we are obsessed with FISP targeting vulnerable groups who hardly make productive use of the inputs or extending FISP to districts where the cultivation of maize is clearly a misnomer?

We need to sober up a bit. The GBI, if correctly implemented, offers an opportunity to experiment with a redesigned FISP using one or a combination of the suggested alternatives to the current version of FISP. We are not that helpless that we can fail to do what is right for this country. We simply have to be prepared to make tough choices in the interest of the greater common good. ■

In search of FISP alternatives

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of the produce if it foresees a drop in market price, thereby ensuring that farmers do not sell when prices are too low. When demand increases, the produce can be sold at the better prices, thus prices become fixed. Sometimes ceiling prices can be implemented so that prices do not go too high and floor prices to make sure they do not go too low.

Credit subsidies are also an option where, instead of reducing prices of inputs, farmers can have access to subsidised credits as was the case in the past. In this case, it would be very important that farmers are given money and let them choose what to buy. Thus, credit should not be in the form of inputs such as to avoid problems brought about by input subsidies. It also means putting in place strong policies to ensure repayment of the loans.

In a way, it is better to use a system of improved delivery of inputs at full cost achieved by temporary use of input subsidy as an incentive for farmers to adopt use of improved inputs. After that, government would remove the subsidy followed by output price support to increase the purchasing power of farmers. In this way, farmers will buy the inputs at full cost on their own; hence, alleviating poverty through self-sufficiency. ■

BRIGHTON MKAKATO
Agri-business Specialist

Impact of subsidy on poverty alleviation

PHOTOGRAPH: NATION LIBRARY

Fighting rural poverty is one of the objectives of FISP

The term subsidy refers to an amount of money that government or an organisation pays to help reduce the cost of a product. There are a number of subsidies that governments implement in different areas such as health subsidy, food subsidy, agricultural subsidy and petroleum subsidy.

In neo-classical economics, the price of a commodity is equal to its cost of production and by lowering the price of the product it implies that one has to pay the cost. Hence, subsidies are usually paid from tax revenues although this is not always the case.

Agricultural subsidy involves government paying some money to lower the price of inputs such as fertiliser, seeds and insecticides. These subsidies are placed on a number of selected cash crops such as tobacco, maize and cotton. The objective is to ensure that poor farmers have access to the necessary resources to use for production.

In 1984, during the implementation of Structural Adjustment Programmes (SAPs), a number of reforms were effected in different sectors. SAPs were put in place by the World Bank and the International Monetary Fund (IMF) with the aim of improving economic performance in developing countries. One of the reforms the Government of Malawi implemented in the agricultural sector was the removal of fertiliser subsidies through a programme called Fertiliser Removal Subsidy Programme (FRSP). FRSP was later suspended due to high fertiliser prices on the market.

The Farm Input Subsidy Programme (FISP) was re-introduced in Malawi in the 2005-2006 growing season with three objectives of increasing maize productivity, enhancing rural incomes and promoting food security.

Statistics indicate that maize production increased remarkably since the country devoted more resources to subsidising fertiliser. Although FISP resulted in higher yields in the first years of implementation, the yields have been declining year after year. There are a number of reasons that have led to this inverse trend. On the contrary, despite the so-called increased maize production, maize prices have also been rising sharply over the years such that the poor cannot afford to buy the commodity.

One problem that has dogged the programme is poor administration of the coupons which results in leakages of coupons as well as the fertiliser. This has created a situation where subsidised fertiliser is sold on the market at higher prices, sidelining the poor who are the intended beneficiaries. As such, the poor lack the resources to use for production; hence, low yields.

On the other hand, coupons and fertiliser have usually been delivered late when the rains have already started, forcing most farmers to plant late. This has resulted in low yields because husbandry practices are not carried out on time and crops do not make full use of the rains.

Many researchers have carried studies to analyse the impact of FISP. Experts argue that evaluation of the impact of FISP is marred by unreliable estimates of crop production and areas of land cultivated as well as difficulties in identifying coupon recipients. Other factors such as soil conditions, weather patterns and farming practices will affect average yields.

With respect to FISP, variations in the make-up of the benefits package, complementary input use by beneficiaries and input displacement or land allocation effects lead to differential impacts of the programme.

Subsidies on food or fertiliser rarely reach the poor, a situation that benefits civil servants, professional workers and the well-to-do in urban areas. Few countries have administered fertiliser subsidies effectively and in most developing countries subsidies have proved to be a failure.

In Malawi, there is a chronic problem of politicising input subsidy programmes that has resulted in inefficiency of FISP. Usually, governments politicise subsidies with the aim of winning votes; hence, they deviate from the programme objectives. It is argued that once a government enters the subsidy trap it will never get out of it even if the programme proves to be a failure.

For FISP to achieve the objective of poverty eradication by promoting rural household incomes, there are a number of issues that need to be addressed. First, timely distribution of both seeds and fertiliser will allow farmers to carry out the necessary operations.

On the other hand, it is crucial that only the targeted beneficiaries access subsidised inputs. This will ensure that poor households have improved resources to use for production.

There is also need for government intervention in introducing and disseminating improved farming technologies to rural growers. This can be achieved by promoting extension services in rural areas. Extension workers will be working hand in hand with farmers in production, marketing and storage.

Above all, a well administered general subsidy is key to achieving food security. The subsidy programme should not only target the poor but also other people participating in the agricultural sector. Targeting producers with higher marginal productivity is an efficient way of achieving food self-sufficiency at the national level. Vulnerable households are expected to benefit indirectly from higher maize production because of increased demand for labour, lower prices and a stable maize market. ■

Giving FISP winning formula

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fertilisers reduces demand for commercial fertilisers by 0.39 percent.

With the credibility of FISP based on its current design facing in question, experts such as economist Munthali are now pushing for a more commercially oriented subsidy programme if it must continue without necessarily abandoning the initiative's social protection role.

According to Munthali, research seems to suggest more focus on maintaining FISP as a safety-net programme, as a means to achieving food security and as a way of boosting income levels of the poor.

"The latter two would need targeting the capable farmers [largely commercial level farmers] who have the technical and managerial capacity to do so. These would produce adequately for the market," he said.

Munthali explained that studies by Innovations for Poverty Action (IPA) show that farmers can easily graduate out of FISP if banks give them access to commitment savings accounts [life fixed deposits] where they would commit to keep their money until the time of fertiliser purchase.

Such a mechanism, he said, would help smallholder farmers to keep money and buy fertilisers when the time is due, adding that this is a sustainable way of helping the vulnerable graduate out of FISP while retaining commercial farmers.

"Politics has marred the subsidy programme and there is need for a bold decision to scale it down to what it is supposed to be—a safety net for the ultra poor only," he said.

Until then, the losers in the FISP debate will continue to be not only capable farmers, but also Malawi's fertiliser distribution and retail industry, people in need of social services such as HIV and Aids health care, many people who are outside the world of political favours and connections, as well as the tax payer.

In short, the majority of Malawians. ■