

# COMPARING FISP TO ALTERNATIVE PROGRAMS THAT HELP SMALLHOLDERS



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# We want to support smallholders

- But how best to do it with limited resources?
- Does everyone need the same intervention?

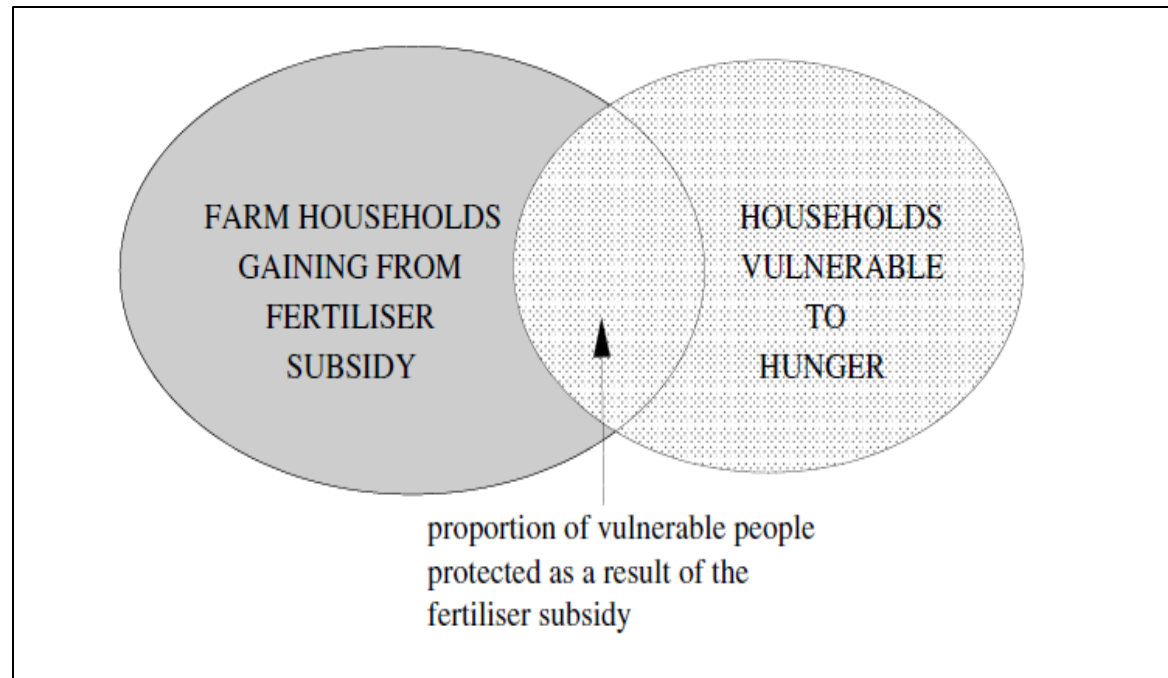
## Malawi's FISP

- Gives 100 kgs of fertilizer and 5-8 kg seed at subsidized rates.
- Requires: land, labor, soil, knowledge.
- Should be targeted to people who don't buy (much) commercial fertilizer.

Therefore, FISP is a **production enhancing** program first.  
**Social protection** to reduce poverty and vulnerability second.

# Some households reduce vulnerability due to FISP

## The Intersection of Input Subsidies and Vulnerability.

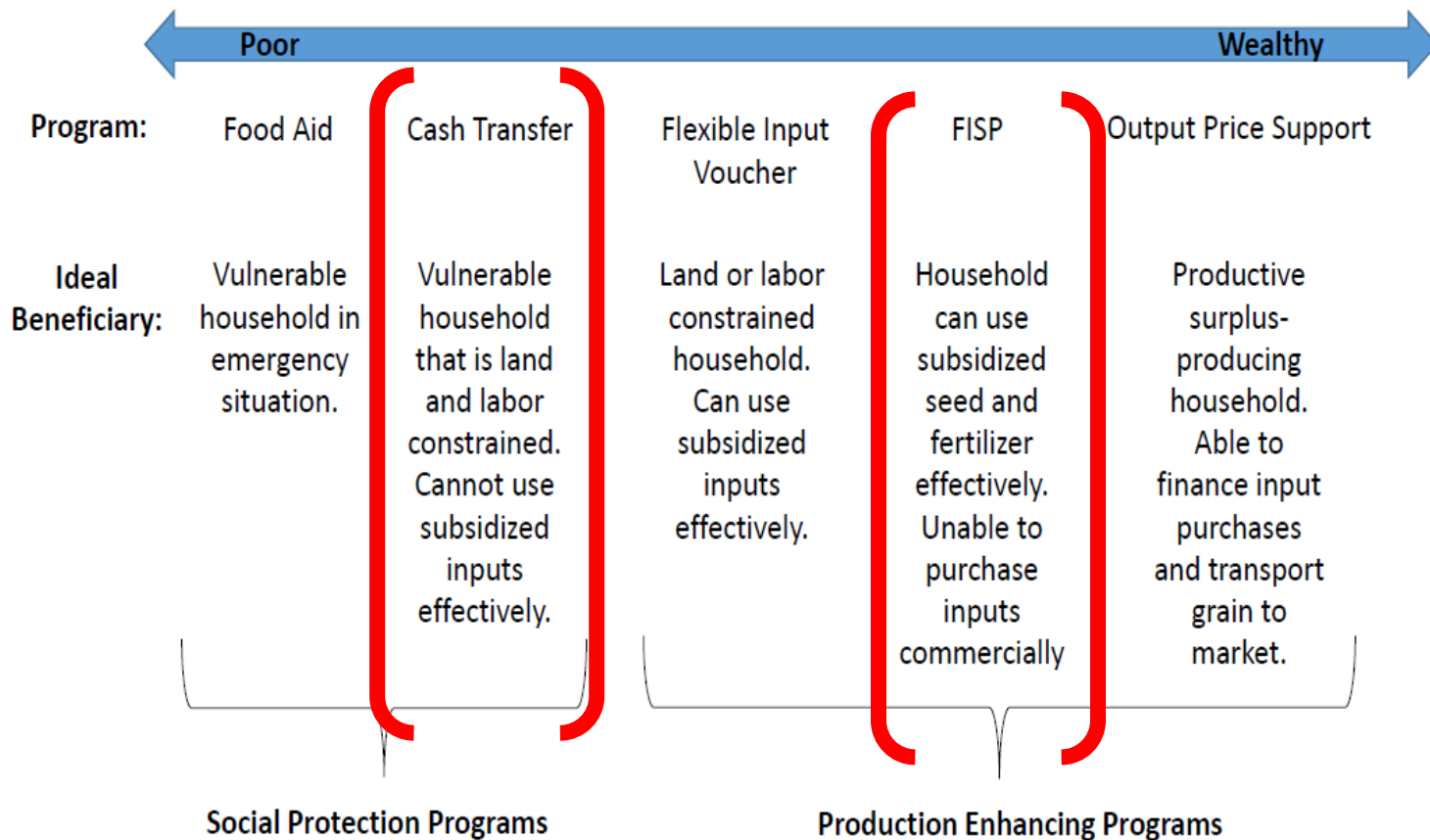


*Source: Ellis, 2009; Ellis and Maliro, 2013*

The extent of the overlap depends on how many households can make use of the fertilizer.

# Different interventions have different objectives and intended beneficiary group

Figure 1: Continuum of Policy Interventions, by Wealth Status of Intended Beneficiary



No one program is superior, but all potentially compete for same scarce budget resources.

# Cash Transfer

- Provide money directly to recipients
- Help survive shock and smooth out income and consumption.
- **Cash for work** can help build productive assets in community to generate future income.
  - Good for households with available labor
- **Direct cash transfer** for labor constrained households.
- Not perfect, some of the same problems with FISP
  - Elite capture, corruption, etc
  - But administration costs should be lower than FISP.

# Malawi's cash transfer - MASAF

- Has grown but still much smaller than FISP.
- Evidence of positive impacts to help recipients meet basic needs.

## Ethiopia PSNP

- Targeted geographically to vulnerable areas
- Households sign up for 5 years
- US \$0.75 per day for public work projects in dry season.
- Combined with extension, credit and irrigation services (not subsidized fertilizer)

**Ethiopia's PSNP seems to be more integrated approach than FISP.**

**Lower administrative cost per beneficiary reached. 7 million reached.**

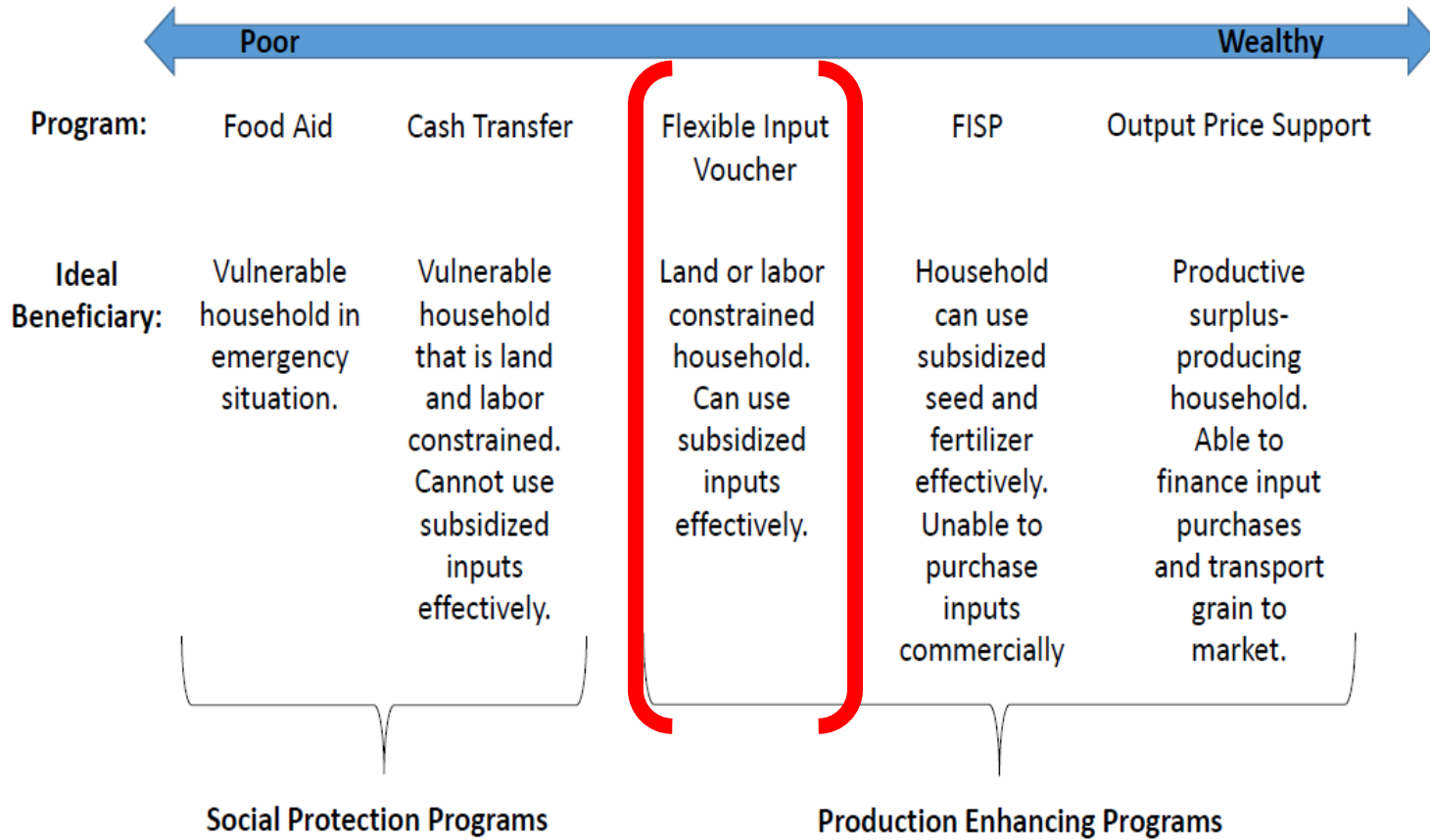
- PSNP  $\approx$  US \$30 per beneficiary
- FISP  $\approx$  US \$90 per beneficiary currently

**If want to achieve more poverty reduction consider:**

- redirecting FISP funds
- Scale up MASAF for people who can't use FISP
- Or Link FISP to MASAF, and extension for more comprehensive approach for fighting poverty and boosting production.

# Flexible Input Voucher (FIV) is a more market based solution than FISP.

Figure 1: Continuum of Policy Interventions, by Wealth Status of Intended Beneficiary



Still need some land and labor to use inputs



## **FIV Benefits**

- FIV more flexible than FISP
  - let a household decide what inputs are best for its own situation.
- FIV is a way to support and build the private input sector.
  - Could be a step towards subsidy graduation.

## **FIV Challenges**

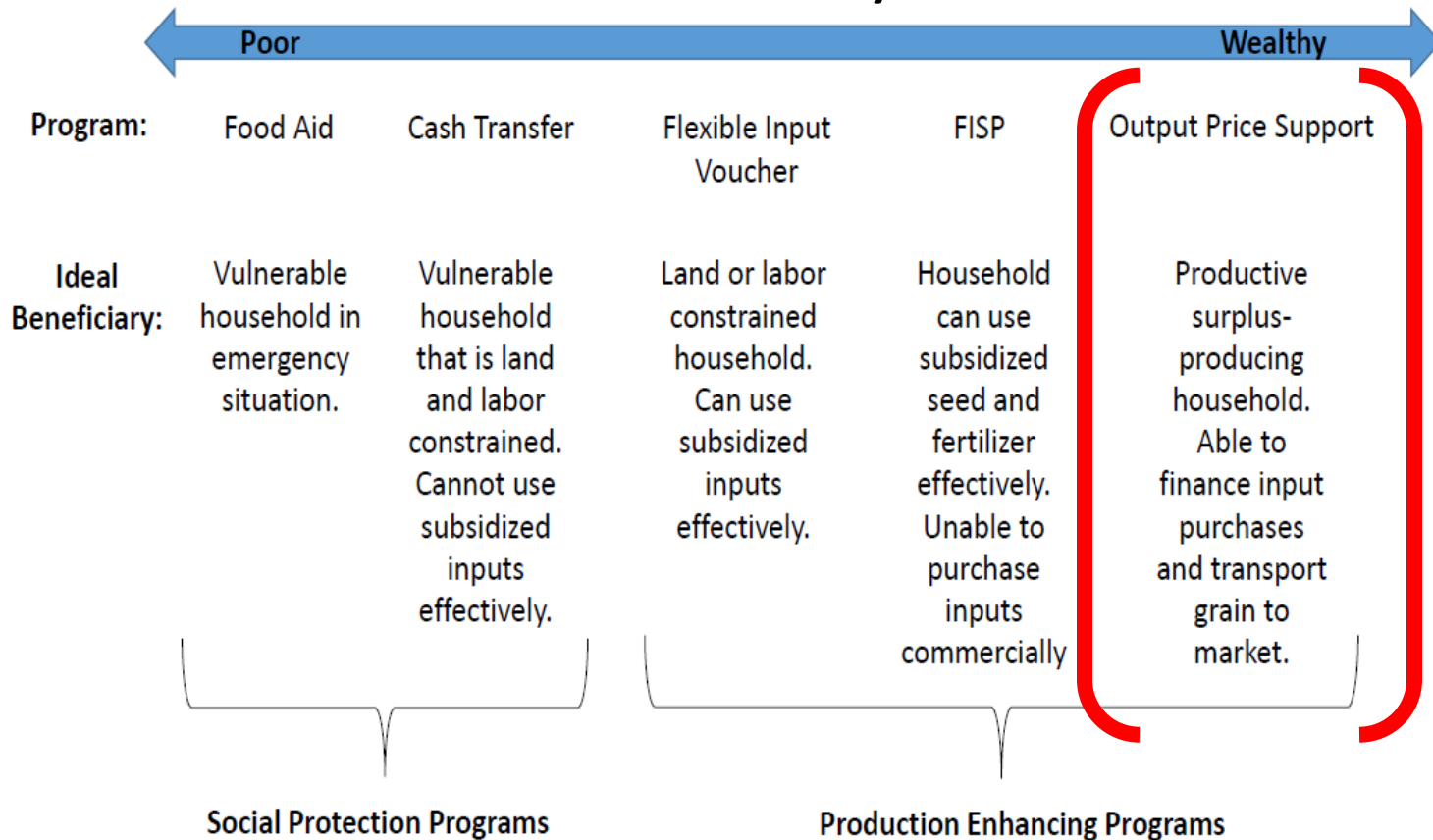
- May work better in less remote areas (Mazvimavi et al. 2013).
- Monitoring is required to make sure necessary inputs are stocked and available to farmers.
- Insurance for wholesalers and retailers in case inputs are not purchased.

Currently limited evidence on FIV impacts.

Malawi may consider FIV pilot to measure impacts.

# Output price supports are likely not pro-poor

Figure 1: Continuum of Policy Interventions, by Wealth Status of Intended Beneficiary



Need to have enough surplus production to have something to sell.  
Hurts net-buyers of maize, who are likely to be poorer.

# FISP and other long run investments for Malawi

## Returns in Ag Growth to Investments & Subsidies in India, 1960-2000

| Returns to Ag. GDP          | 1960's      |          | 1970's      |          | 1980's      |          | 1990's      |          |
|-----------------------------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|
| Rup. prod/Rup. spent        | Return      | rank     | Return      | rank     | Return      | rank     | Return      | rank     |
| Road investment             | 8.79        | 1        | 3.80        | 3        | 3.03        | 5        | 3.17        | 5        |
| Education investment        | 5.97        | 2        | 7.88        | 1        | 3.88        | 3        | 1.53        | 3        |
| Irrigation investment       | 2.65        | 5        | 2.10        | 5        | 3.61        | 4        | 1.41        | 4        |
| Irrigation subsidies        | 2.24        | 7        | 1.22        | 7        | 2.28        | 6        | NA          | 6        |
| <b>Fertilizer subsidies</b> | <b>2.41</b> | <b>6</b> | <b>3.03</b> | <b>4</b> | <b>0.88</b> | <b>8</b> | <b>0.53</b> | <b>8</b> |
| Power subsidies             | 1.18        | 8        | 0.95        | 8        | 1.66        | 7        | 0.58        | 7        |
| Credit subsidies            | 3.86        | 3        | 1.68        | 6        | 5.20        | 2        | 0.89        | 2        |
| Agriculture R&D             | 3.12        | 4        | 5.90        | 2        | 6.95        | 1        | 6.93        | 1        |

Source: Fan et al. 2007

## Compare with R&D investment in Africa (Fuglie and Rada 2013):

- National research B/C = 1.6 for small countries; 4.4 for large countries
- International CGIAR research B/C = 6.2 across Africa
- Malawi investing just over 1% of agricultural GDP in R&D. Meets NEPAD goal but below leaders (Benitema and Gert-Jan 2013).

# Conclusions: FISP is part of a menu of possible options

- All programs compete for budget space.
- FISP is a production enhancing program at its core.
- To reduce poverty need a more integrated approach (May mean some redirection of FISP funds).
  - Cash for work and direct cash transfers for vulnerable.
  - Geographic targeting to appropriate areas.
  - Linking MASAF with FISP and extension activities.
  - Give participants time horizon when program will end.
- Consider piloting flexible voucher program
  - Potentially link it to use of proper management practices.

- Other investments have high payoff in long run
  - R&D for new technologies
  - Roads/infrastructure
  - Education
- Need to find ways to maintain funding for these over time.
- Should not be compromised by FISP.

# Thank you for your time!



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