

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

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Sources of Information-1

- Individual interviews with the heads of key firms involved in seed and fertilizer procurement and distribution activities (public and private)
- Survey of 230 retailer outlets in six districts:
 - Intent was to use same sample of 271 retailers used in 2007
 - Able to find only 230 retailers in 2009 and only 84% were in 2007 sample—the rest were added as replacements.
 - NORTH: Mzimba (39) and Rumphu (34)
 - CENTER: Lilongwe (41) and Kasungu (38)
 - SOUTH: Blantyre (45) and Machinga (33)
 - Composition by type:
 - 39% independent agro-dealers; 29% distributors; 28% government; 4% cooperatives
 - 75% sell inputs year-round; 24% only during the rainy season
 - 82% of distributors and 76% of agrodealers sell year-round while only 65% of government outlets do

Sources of Information-2

- Focus group discussions with community leaders who were:
 - selected from 86 communities in which the household survey was conducted
 - asked about changes in access to inputs and prevalence of different types of problems encountered when farmers redeemed their vouchers

Evolution of Fertilizer Supply

- Several distributors active in 2006/07 remain in the market but at significantly reduced levels (e.g., FW/Agora/MFC, Nyiombo, Export trading)
- Some distributors active in 2006/07 have since discontinued or reduced to extremely low levels their fertilizer distribution activities (e.g., NASFAM, RAB, Yara)
- Other international representations may exit if Government remains the only client (one does not need a local representation to supply government only).
- Several “newcomers” have added their names to the rosters of companies bidding on GOM contracts for fertilizer imports; evaluating their capacity has been problematic.
- The retail sector is highly volatile with multiple entries and exits each year; those who are surviving tend to supply niche markets that do not rely on subsidy fertilizer (dimba season production, estate sector, sales, or fertilizer in quantities less than 50 kg).

Evolution of Seed Supply

- Seed retailers reported little change in the number of competitors since 2006/07
- Communities reported little change in number of hybrid maize seed sellers since 2006/07
- STAM continues to grow and has performed well in dealing with seed quality and classification issues as well as with supplier-GOM-donor negotiations
- AISAM established itself as a registered legume seed producer, going well beyond its original mandate of being a professional organization of agrodealers

Input Supply Sector Overall

- Retailer survey results suggest changes in the product mix of input retailers
 - The number of retailers selling maize seed but not fertilizers has increased
 - The number of retailers selling both fertilizer and maize seeds has decreased
 - The number selling neither fertilizer nor maize seed has increased (this group focuses on agricultural chemicals).

Retailers: Seeds/Fertilizers

	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%

Highlights of seed subsidy program: 1

- Increased uptake of improved varieties
 - All interviewees reported an increase in their seed sales since the program began
 - 4.5 thousand tons of improved seed sold before vouchers, 9-10,000 tons sold now
- Flexi-voucher not as popular as anticipated
 - many farmers thought they were fraudulent vouchers because they did not have “maize” written on them and therefore did not use them
- Top-up deemed desirable by suppliers but posed serious implementation problems in 2007/08

Highlights of seed subsidy program: 2

- Competition, collusion, and professionalism
 - Interviewees believe that the voucher program has stimulated competition in the industry BUT not price competition that lowers retail prices.
 - Program refusal to authorize top-ups or multi-priced vouchers forced suppliers to find common ground in negotiations over seed voucher reimbursement value, leading to accusations of collusion
 - STAM growth and performance suggests increase in professionalism of the sector
 - Monitoring seed quality
 - Resolving issues of ADMARC/SFFRFM not offering all types of seed simultaneously

Highlights of seed subsidy program: 3

- Optimism about maintaining demand without a seed subsidy
 - Most interviewed believed that if the program stopped, about 40% of farmers now purchasing with vouchers would continue purchasing
 - All interviewed believed that if the fertilizer subsidy stopped it would have a bigger impact on seed sales than if the seed voucher program stopped

Highlights of fertilizer program: 1

- Tender process
 - Timing of announcement of tenders was improved, actual awarding of the tenders was still too late
 - Process for reassigning the default quantities to other suppliers was not adequate
 - Government issuing second round of vouchers made it difficult to control for fraud and impossible to claim distance premiums
 - Most retailers agreed that SFFRFM's participation in the tender process represents a conflict of interest

Highlights of fertilizer program: 2

- Distance incentive and network expansion in 2007/08
 - Most suppliers responded to these incentives, establishing relationships with independent agro-dealers or setting up temporary shops in remote areas
 - Lack of a more permanent response disappointing to some BUT not surprising given continued policy uncertainty surrounding the program
 - Suppliers stress that retail supply business cannot be built on fertilizer only due to low margins and seasonality; need to establish multi-product retail outlets and this takes time and policy stability
 - The 2008/09 ban on private sector participation in the voucher program set back efforts to build such outlets

Highlights of fertilizer program: 3

- Private sector retail sales exclusion in 2008/09
 - 38% of retailers (primarily agrodealers) said that the exclusion had no impact of customers visiting their shop, and on the quantity of fertilizer sold,
 - 62% (33 distributors/coops and 15 agrodealers) said it had an impact.
 - Among those reporting an impact,
 - 91% believed that it reduced the number of customers and the quantity of fertilizer sold
 - 87% saw a negative impact on total value of sales revenues.
 - Most distributors also reported that the 2008/09 exclusion had a negative impact on their seed sales

Recommendations

- Seed
 - Use of competitive bidding in seed supply may permit price competition
- Fertilizer
 - Promote private sector input market development through better reward-penalty system
 - Reduce policy uncertainty, and foster constructive government-private sector dialogue
 - Improve transparency and timelines of tender process
 - Assess the capacity of bidding firms for the supply of subsidized fertilizers
 - Enforce penalties in cases where awarded firms fail to deliver or delay in delivering the supplies