



Policy Options for AIP Reforms

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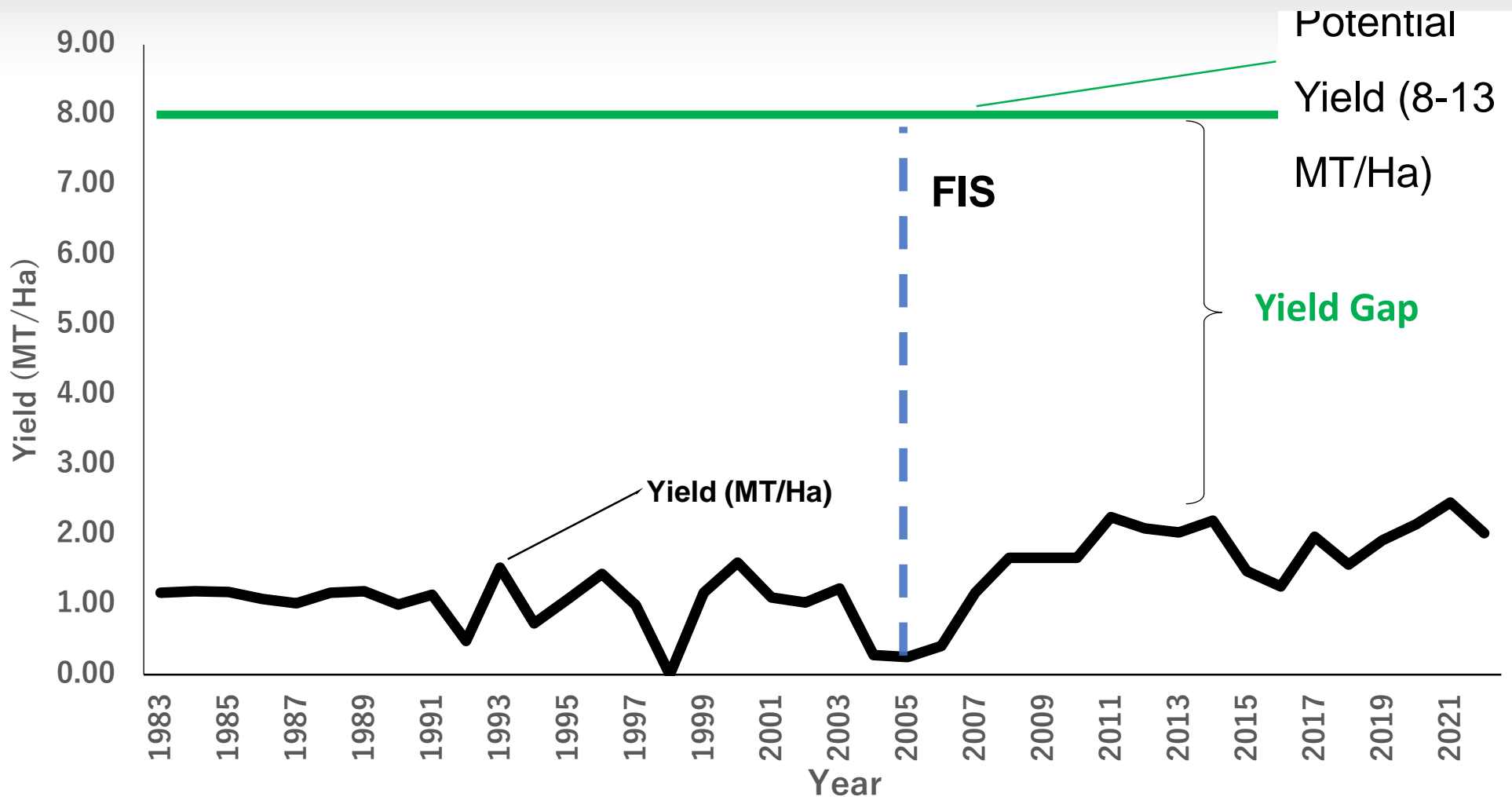
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Setting the Scene

- ☀️ Fertilizer is very important for agricultural productivity
- ☀️ Fertilizer use in Malawi is far below optimal level
- ☀️ Fertilizer alone has not addressed fundamental question of soil health
- ☀️ **The current form of subsidies:**
 - Disincentivize crop rotation and diversification
 - Crowds out purchase of commercial input and other agricultural investments
 - Yields and yield growth remain low

Maize yields at smallholder level compared to potential



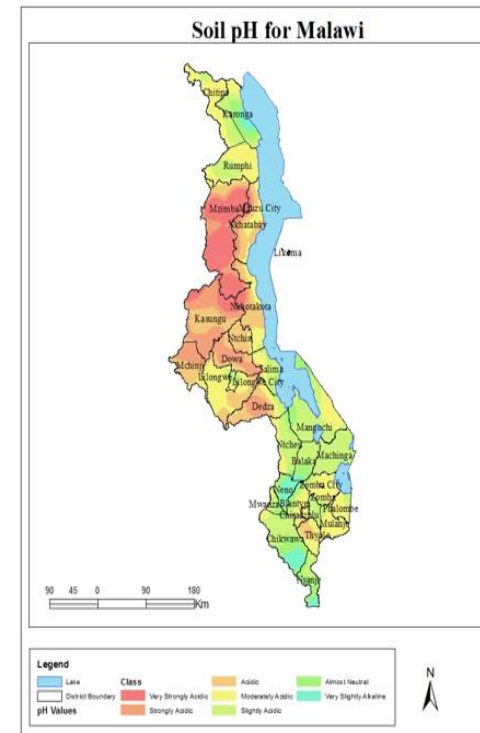
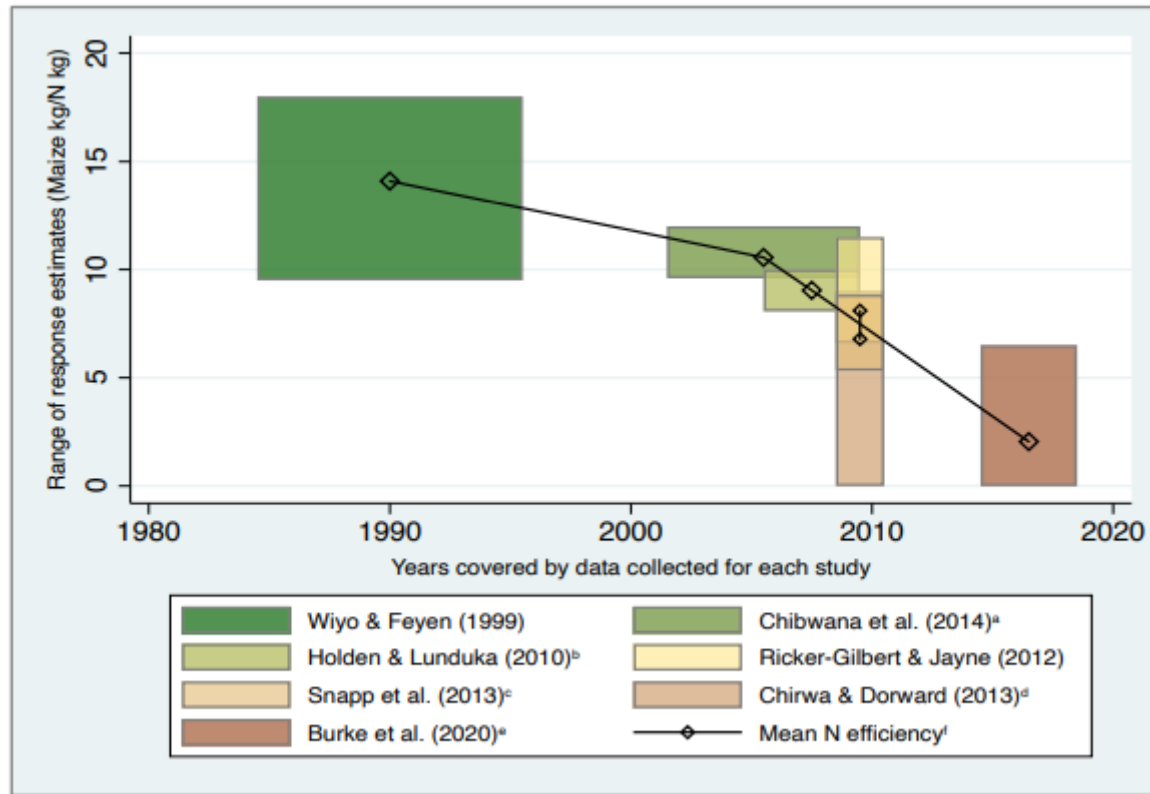
Source: MoA – APES Data

Evidence from MwAPATA Studies

- ☀ Ineffective targeting of beneficiaries, partly due to combining objectives of food security and poverty alleviation in one program
- ☀ The rigidity and overemphasis on maize production have not exploited differences in agro-ecological zones and discouraged dietary and production diversity
- ☀ Low and declining maize yield response to nitrogen fertilizer due to poor soil health – yield response rates have fallen from roughly 18kgs/N in mid-80s to 6kgs/N in early 2020s

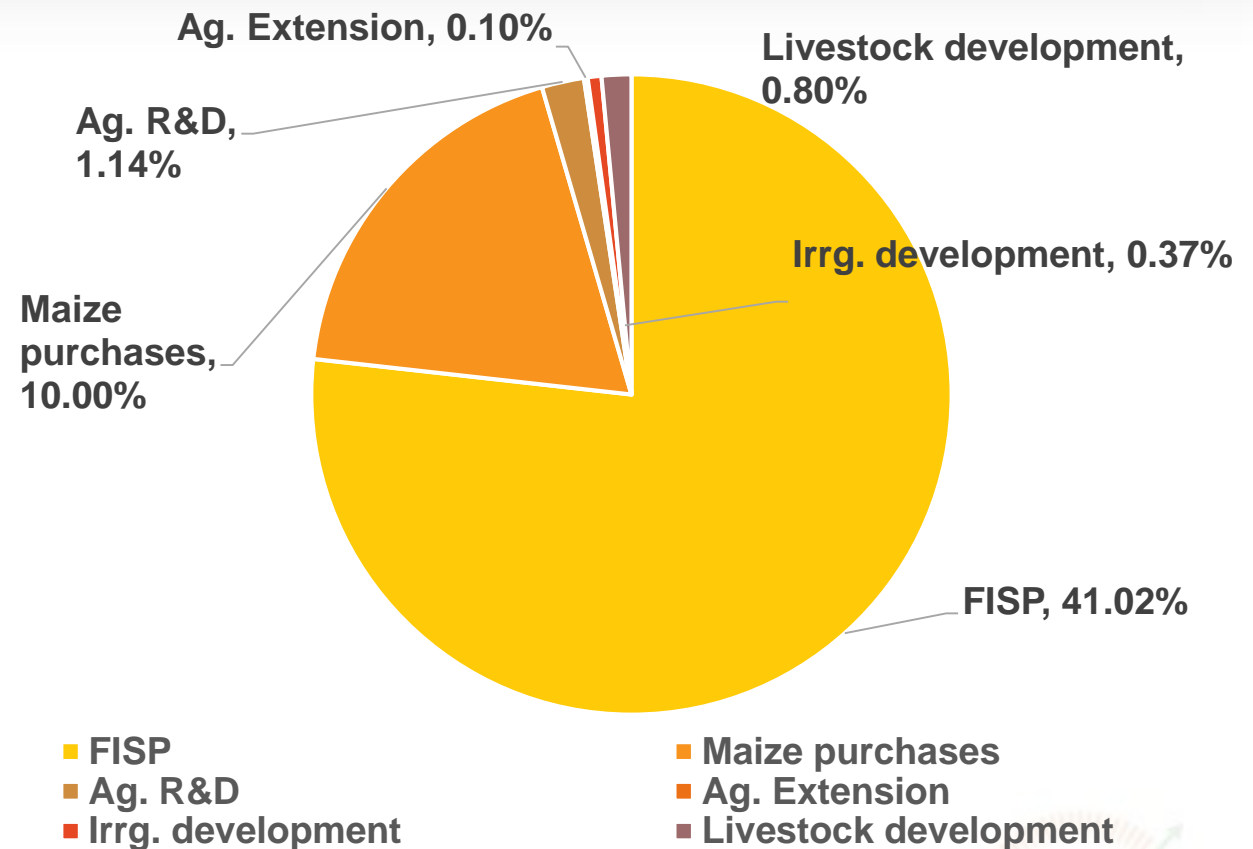
Declining yield response to fertilizers

☀ Declining soil fertility due to ...



Evidence from MwAPATA Studies

- ☀️ The dominance of the subsidy in the MoA budget has crowded out other programs
- ☀️ ISP/AIP averaged 41% of MoA budget between 2010 & 2020
- ☀️ Currently, AIP averages roughly 60% of the MoA budget



Evidence from MwAPATA Studies

- 🌅 Subsidies are financially unsustainable in the long run because of high and volatile import and distribution costs, scarcity of foreign exchange reserves and high subsidy rate
- 🌅 Current form of subsidies requires huge amounts of forex, but they do not have forex generation potential
- 🌅 Subsidies generate lower benefits per kwacha invested, in the long-run, relative to investments in economic infrastructure (roads, rail and electricity)

AIP reform goals

- ☀️ **Reallocate resources within the agricultural sector for other agricultural development programs**
- ☀️ **Give policy space for MoA technocrats to have authority and drive the agricultural sector**
- ☀️ **Promote interventions that address soil health to improve the effectiveness of inorganic fertilizer use**

Short-term policy options (1 year)

Improve the identification and targeting in AIP by generating a unified and refined beneficiary register through:

- agriculture census
- multi-sectoral/agency coordination

Improve fertilizer use efficiency through:

- introducing a consolidated/conditional program to promote interventions that holistically address soil health, and soil, and water conservation issues
- Introducing a streamlined and flexible program that accounts for the heterogeneity of farmers and recognizes the potential and comparative advantage of different agro-ecological zones

Medium-term interventions (2 to 5 years)

- ☀️ **Strengthen agricultural R&D and extension services**
- ☀️ **Continue phased reduction of the AIP beneficiaries and subsidy rate over a number of seasons**
- ☀️ **Promote dietary and production diversification**
- ☀️ **Incentivize production and standardization of organic fertilizers in line with the Fertilizer Policy and Act**

Medium-term interventions (2 to 5 years)···cont'd

- ☀️ **Incentivize domestic blending to increase availability of area and crop-specific fertilizers in line with the Fertilizer Policy**
- ☀️ **Promote the domestic fertilizer market by implementing the Fertilizer Act**
- ☀️ **Increase investments in economic and social infrastructure to increase future returns to investments in the fertilizer sector**
- ☀️ **Develop a standalone soil health policy**

Long-term options (5 years and above)

- ☀️ Explore feasibility of manufacturing fertilizer at national or regional level
- ☀️ Agricultural development programs (including subsidies), should be guided and aligned to long term development plans
- ☀️ Encourage private sector involvement in the fertilizer supply chain by streamlining the regulatory barriers that are potentially inhibiting private investments

Risks to AIP reforms

- 🌅 Will politicians allow to be divested of the agricultural inputs budget as their political resource?
- 🌅 How to make reforms politically palatable and administratively implementable?
- 🌅 How can we best devise the reforms so that politicians shift away from patronizing the budget (inputs) to patronizing the outcomes and impacts of the investments?
- 🌅 How do we strengthen private sectors' voice in the reforms?
- 🌅 How do we jointly monitor the AIP reforms?



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