



Policy Options for AIP Reforms

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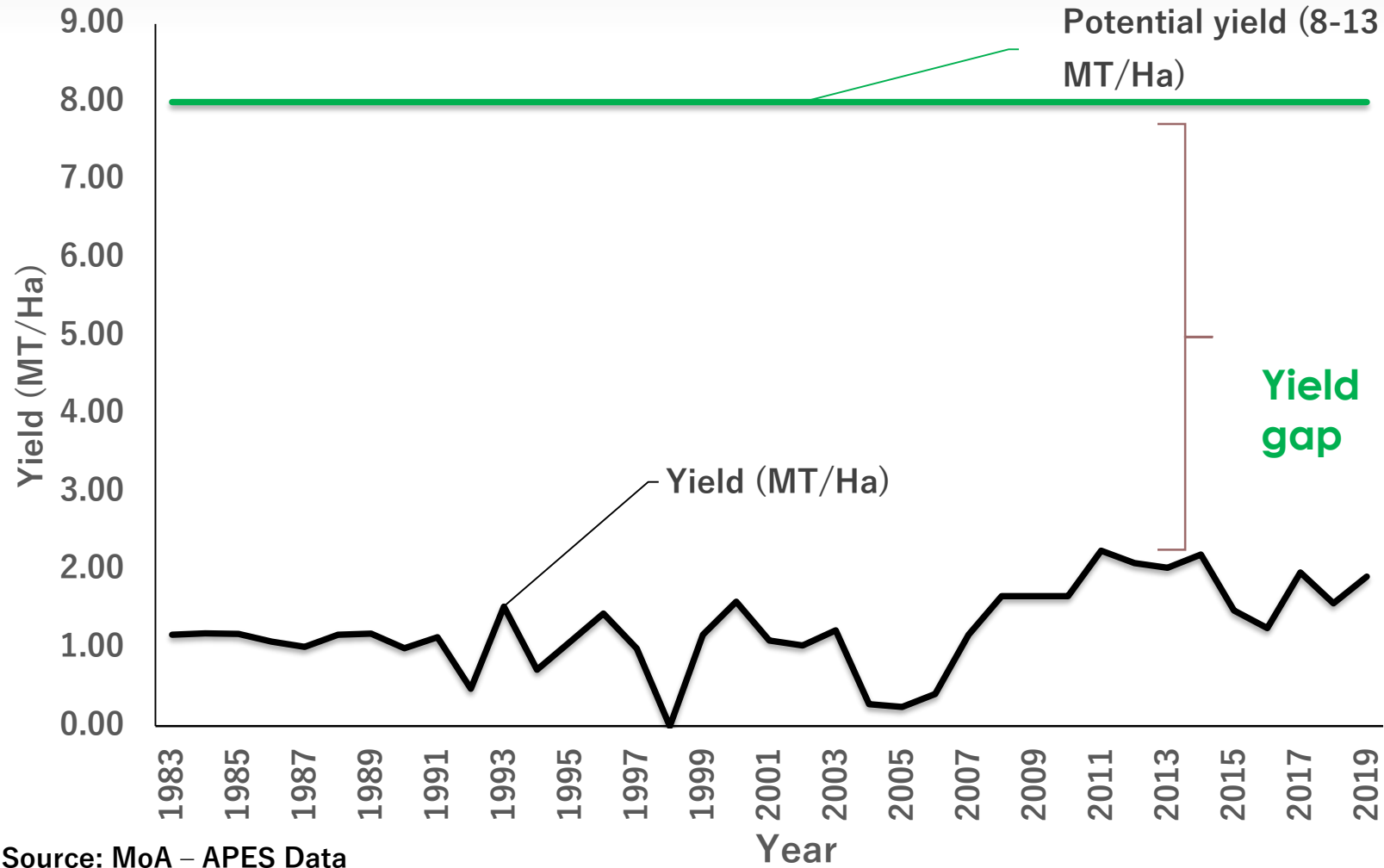
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Setting the Scene

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

Maize yields at smallholder level compared to potential




Source: MoA – APES Data

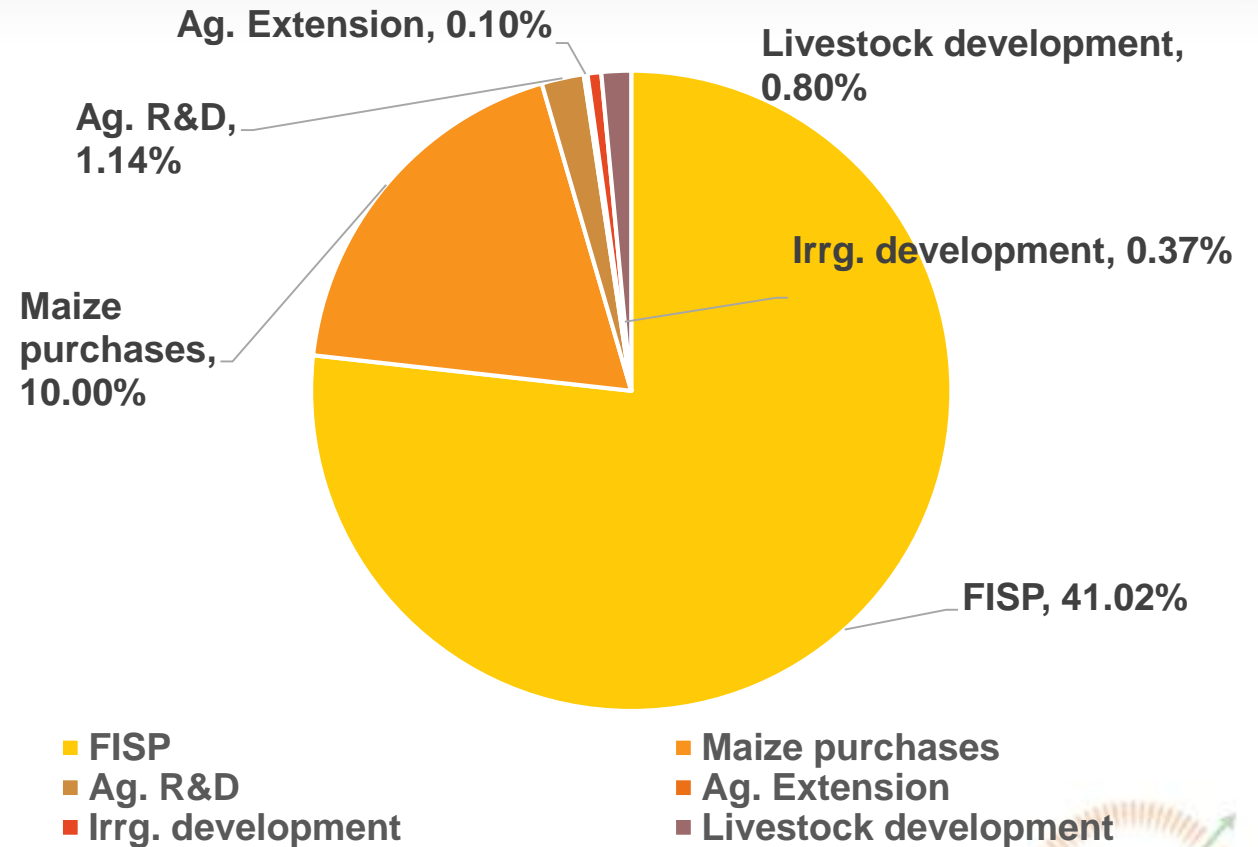
Evidence from MwAPATA

- ☀ ***Ineffective targeting of beneficiaries***, partly due to combining objectives of food security and poverty alleviation in one program
- ☀ ***The rigidity and overemphasis of the program 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

Evidence from MwAPATA

 *The dominance of the subsidy in the MoA budget has crowded out other programs*

 The program has on average received roughly 41% of the MoA budget, agriculture R&D 1%, extension 0.1%, irrigation development 0.4%, and livestock development 0.8%



Evidence from MwAPATA

- 🌅 ***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
- 🌅 ***Subsidies generate lower benefits per kwacha invested , in the long-run*** relative to investments in economic infrastructure, such as roads, railway lines and electricity

Short-term policy options (1 year)

 **Speed up generation of a unified beneficiary register for the AIP and other social support programs to improve the targeting of beneficiaries through:**

- Agriculture census
- Multisectoral coordination

 **Improve fertilizer use efficiency through:**

- Target productive farmers to transition to commercialization opportunities
- Introduce a consolidated/conditional program to promote interventions that holistically address soil health, and soil, and water conservation issues
- Design a more streamlined and flexible program that recognizes that farmers are not heterogenous – consider ecological potential and comparative advantage

Medium-term policy options (2 to 5 years)

- ☀️ **Strengthening agricultural research and extension to improve the productivity of land, labour, and other agricultural inputs**
- ☀️ **Continue phased reduction of the AIP beneficiaries and subsidy rate over a number of seasons**
- ☀️ **Incentivize domestic blending of fertilizer to increase availability of area and crop-specific fertilizers in line with National Fertilizer Policy**
- ☀️ **Promote domestic fertilizer market by implementing the Fertilizer Act**
- ☀️ **Promote dietary and production diversification**

Long-term options (5 years and over)

- ☀ Encourage private sector involvement in the fertilizer supply chain by streamlining the regulatory barriers that are inhibiting private investments
- ☀ Increase investments in economic and social infrastructure (e.g., roads, railway lines, education, health services, etc.,) to increase future returns to investments in the fertilizer sector
- ☀ 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 (e.g. MIP1)



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