



The Inorganic Fertilizer Price Surge in 2021: Key Drivers and Policy Options

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The fertilizer price surge in the papers

Chakwera faces tough AIP choices, experts urge caution

THE NATION



PHOTOGRAPH: NATION

Wants no beneficiary left out: Chakwera

Chakwera set to meet fertiliser makers

STEVE CHILUNDU
Staff Reporter

President Lazarus Chakwera is set to meet fertiliser manufacturers and other stakeholders following a sharp rise in fertiliser prices, the State House Press Office has said.

Speaking during the fortnightly State House Media Briefing yesterday in Lilongwe, State House director of communications Sean Kampanzin said the President is concerned about the developments which he described as a blow to farmers in the country.

He said: "The President is gravely concerned about rising prices of fertiliser granted that the problem is partly attributed to global factors as the economy because fertiliser production globally dropped and there is low supply which is increasing demand, leading to price rises."

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PHOTOGRAPH: NATION

rising fertiliser prices push the programme's 2021-22 budget up.

"I am worried because I am old. There is no one to support me with a bag of fertiliser. I am praying to God that this should not happen to me," she said.

In a national address on the issue, the President vowed not to leave one million poor families behind in the race for household food security, but he faces an uphill fiscal battle to preserve the integrity of his flagship programme—and cushion the poor from high inputs prices.

Tough policy choices
Three near-term hard choices or policy options are available to Capital Hill on the future of AIP.

First is that government can proceed to chop the number of beneficiaries and remain on budget. The second option is that it can reduce the value of the subsidy from the current K142 billion, which would leave the poor paying more than the current K48 billion.

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Fertiliser prices skyrocket

Taonga Sabola • June 14, 2021 🔥 792 📄 2 minutes read



Malawi's president vows to intervene in fertilizer price hike

By World Nation News Desk



The Malawi Post

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Fertilizer Association of Malawi ordered to reduce price

By Maneno Chimulala / Tuesday, 17 Aug 2021 01:44PM / Leave a Comment / Tags: Fertilizer Association of Malawi, Mbawaka Ph



CHAKWERA'S AIP MOMENT

- Extra K70bn to keep one million on list
- Old woman prays to avoid the axe



Mwapata tips govt on AIP



about life resources department used to AIP," he said. Earlier, President Chakwera had said the pressure of rising fertilizer prices was threatening the production of some of the key crops. Speaking in an interview, Parliamentary Agriculture Committee Chairman Sameer Saleman said the best option was to reduce the number of beneficiaries under the Affordable Input Programme (AIP), remove some inputs or increase funding to sustain it as fertilizer prices skyrocket.

This is contained in the institute's policy brief titled the Inorganic Fertiliser

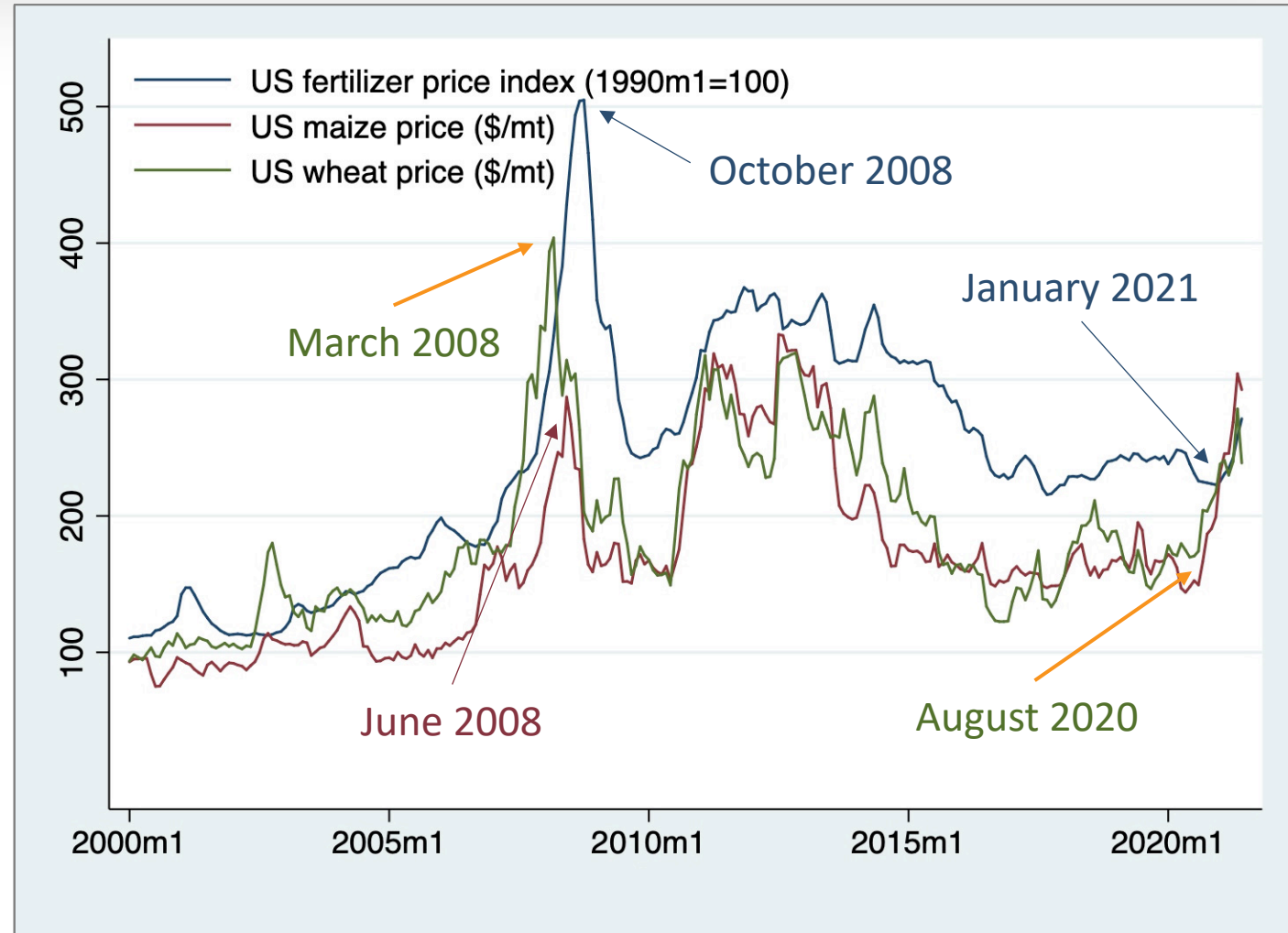
Why fertilizer price surge is a concern for Malawi?

- 🌅 The year-on-year domestic retail prices for fertilizer types used in Malawi increased 60 – 75% in August 2021
- 🌅 About 70% of the fertilizer applied by smallholder farmers comes through the Affordable Inputs Program (AIP)
- 🌅 This price spike hinders Malawians' ability to use fertilizer, and government plans for AIP
- 🌅 This is a food security and economic problem for farmers and a policy problem for government

Global drivers of fertilizer price surge (1)

🌅 About 90% of domestic retail price surge is due to rising global prices of fertilizer and fuel

- Global fertilizer prices are partly driven by global food prices
- We've seen this before



Global drivers of fertilizer price surge (2)

Food prices drivers:

- Many countries rebounding from COVID-19
- Restocking strategic grain reserves
- Global food supplies are lower than usual (South American production low)

Other drivers of fertilizer prices:

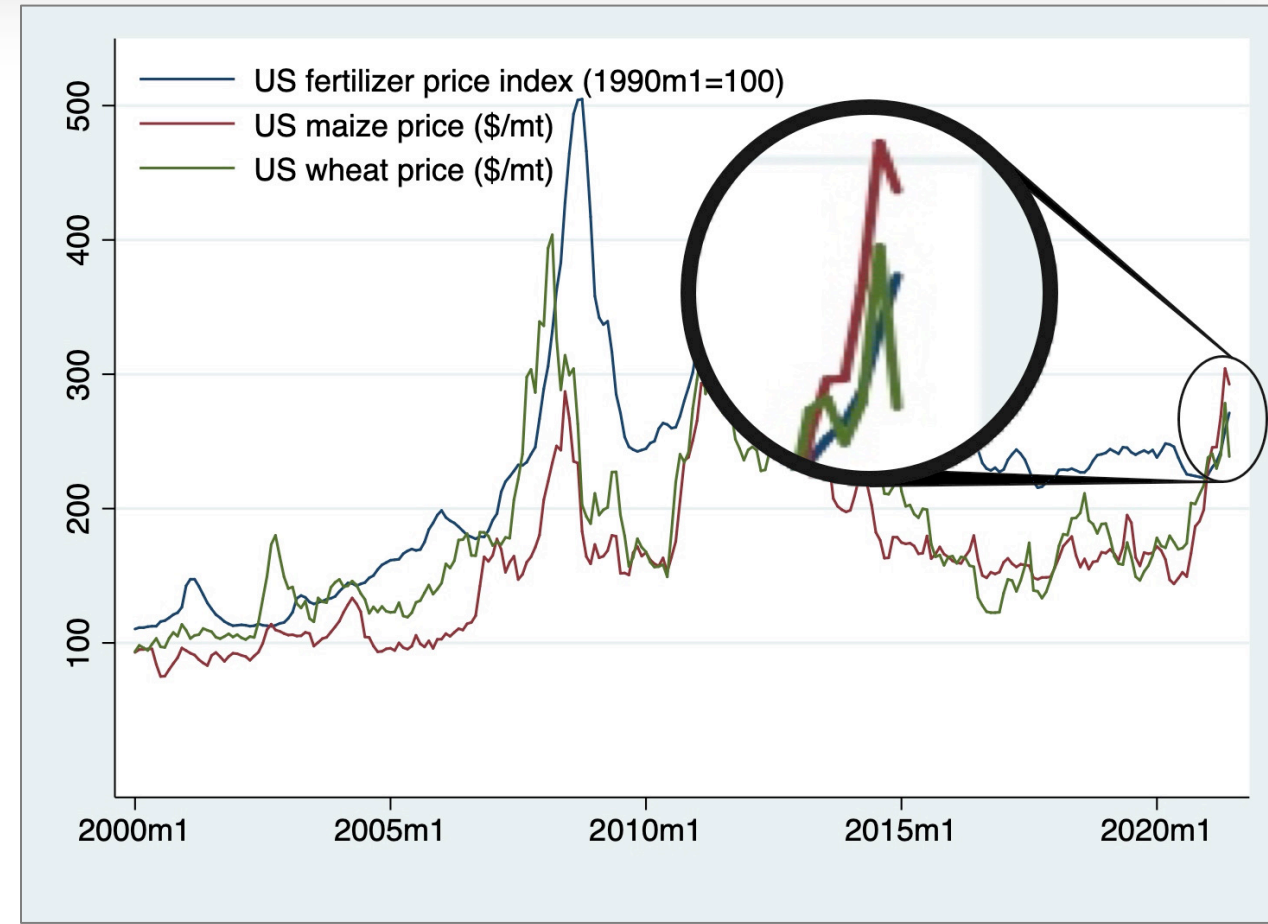
- The expansion of agricultural area (linked to food prices again)
- Good weather in major production regions
- Rising input costs

Local drivers of fertilizer price surge – transport costs

- 🌅 Our calculations show that at least 90% of the increase in domestic fertilizer prices occur before fertilizer reaches Malawi
- 🌅 Domestic margin increases explain just 10%, though this is also driven by higher transport costs associated with higher global prices for oil and fuel
- 🌅 Domestic margins are nominally high – 15 to 20% of retail price
- 🌅 However, the change in domestic price margins between 2020 and 2021 – from MWK4,600 to MWK6,250 is a minor component of the overall price spike

What does the price surge mean for policy?

- ☀️ Price surge is most likely temporary
 - Global food prices may already be declining
 - Won't likely recede before the 2021/22 agricultural season
- ☀️ Reducing the scope of the AIP (e.g., eliminating seed subsidies) and/or circumventing the private sector:
 - Will not meaningfully reduce costs
 - Could even exacerbate the crisis



Short-term policy options

☀️ There are no feasible short-term responses that maintains:

- Number of AIP beneficiaries
- Level of support (the subsidy rate), and
- Overall costs

☀️ For this year, something will change:

- Reduce the number of beneficiaries
- Reduce the value of the subsidy
- Increase the burden on the Treasury
- Some combination of these

Long-term policy options

Malawi can reduce vulnerability to global price volatility:

- ☀️ Invest in infrastructure → **1 year AIP = 500 km all-weather roads**
 - ☀️ Improve fertilizer efficiency
 - ☀️ Promote alternatives to fertilizer
 - Intercropping
 - Organic manure/compost
 - Improved, tailored varieties
 - ☀️ Incentivize domestic fertilizer production if cost effective
- 1/3 of 1 year of AIP spending could 3X Malawi's research & extension capacity**



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