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Subsidising agriculture not enough

By GLENN DENNING & JEFFREY SACHS - Thursday, February 28, 2008 - 16:36:50

Malawi's bold initiative to subsidize fertilizer and seed has captured the attention of policy makers, development practitioners, academics, and the international media. In the face of opposition from Malawi's largest donors, President Bingu wa Mutharika went ahead and implemented a scheme to make fertilizer and improved seed more accessible to small-scale farmers.

The programme began in 2005, following the country's worst harvest in 10 years, and now looks on track to achieve a third successive bumper harvest in the coming months, achieving national food-grain self-sufficiency, despite the recent floods in the south of the country.

The Sunday Times article sourced from IRIN, published last week correctly recognises the positive impact of this programme on national food production and household food security. The grain surpluses have helped buffer the impact of higher global grain prices on low income Malawians. Though prices have risen in recent months, the Famine Early Warning System Network (Fewsnet) reports that most households remain food secure even at the peak of the hunger season. Carryover stocks from last season will see most Malawians through until the 2008 harvest begins in April. Winter maize production in the dimbas is also contributing to more stable supplies in rural areas.

But the subsidy sceptics remain. The IRIN article presents three arguments against subsidies to which we would like to respond:

The first one is that subsidies cost too much and take funds away from other development priorities.

Our response on that argument is that Malawi's inputs subsidy has cost US$5-6 per person per year, representing about 7 percent of the national discretionary budget. We consider this a small price to pay for food security and its positive spillover effects on health, education and local commerce. We are advocating strongly for additional funds to meet other critical development needs like health, education and infrastructure. The Gleneagles commitments of major donors to double aid to Africa mean that this is not a zero sum game. The donors should be doing much more to support Malawi in making these essential development investments.

The second argument is that subsidies displace commercial sales by agricultural input suppliers.

Our response is that in the short term, this may be true in a few areas where larger farmers are already buying significant quantities of fertilizer and improved seed, though the IRIN report highlights the abysmally low levels of fertilizer use in Africa. Experience from the Millennium Villages Project, which operates in low-income "hunger hot-spots", is revealing that commercial sales actually increase in the poorest areas that were previously un-served or under-served by agricultural input dealers. In time, stimulating agricultural productivity will increase commercial activity in rural areas and extend opportunities for agricultural input suppliers.

The third argument is that subsidies through the Malawi model did not target the "needy farmers".

Our response is that the great majority of Malawian maize farmers are "needy". The smallholder sub-sector comprises 2.4 million households with an average farm size of 1.2 ha. In the more densely populated southern Malawi, most smallholders farm maize on less than a hectare. There is no compelling evidence that the subsidies have been captured by the

"commercial farmers". The World Bank accepts that this approach is a "targeted subsidy," since the vast proportion of benefits reach the poor. It is much more targeted, for example, than subsidizing the market price of fertilizer.
We recognize and concur with recent evaluations that call for improvements in programme design and implementation.

Inefficiencies exist, as they do with subsidies in Europe and elsewhere. And the Government of Malawi is clearly committed to refining and streamlining processes for greater operational and technical efficiency and for achieving greater impact. The World Bank, DFID, Norway and the European Union are currently supporting this effort.

Finally, we concur with the article's broad conclusion that "agriculture is not enough" and that stepped-up investments are needed across-the-board to reduce poverty and achieve economic transformation. The Millennium Villages Project is demonstrating in Malawi and in 9 other African countries that targeted, community-based, multi-sectoral investments sharply reduce poverty in just a few years.

These complementary investments should come in education, health, roads, power, safe water and sanitation, microfinance, and small-business development (such as in agro-processing and light industry). In countries with large and impoverished rural populations, agricultural productivity improvements provide the foundation for such a transformation.

Malawi should inspire others to study and adapt this experience, and should continue to build on its recent successes. Malawi's development partners, from Europe, the United States, China, and elsewhere should help it to do so.

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<< Back

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