

Integrating the Non-Commercial and Commercial Input Markets through Input Vouchers or Coupons in Malawi

Malawi has had a very positive experience with using vouchers or coupons to target agricultural inputs to poor farmers. Building on the lessons learned, the Government should now develop clear policies and guidelines to improve implementation while also assisting smallholder farmers to move to higher levels of sustained profitability.

Introduction

Malawi's agricultural sector remains central to rural development and alleviation of poverty amongst the rural poor. The sector has great potential to improve the welfare of rural people through creating employment, and reducing staple food prices through improved technologies and sustainable production systems. It also remains a major sector contributing to the country's economic growth. The sector is, however, faced with a number of problems that result in continued low productivity. These problems include poor macro-economic performance, declining soil fertility, and recurring natural disasters such as droughts and floods.

Background

Because of declining performance of the agricultural sector, the government introduced a number of interventions aimed at improving the sector's productivity and contribution to the economy and welfare of the people. The interventions have included the starter pack scheme and the Targeted Input Programme (TIP) jointly funded by the government of Malawi, the European Union (EU) and the Department for International Development (DFID) among other donors; and the Sustainable Productive Inputs Livelihoods Through Inputs for Assets (SPLIFA) programme funded by DFID and implemented through a consortium of Non-Governmental Organisations (NGOs). Several other organizations such as the Canadian Physicians for Aid & Relief (CPAR)-Malawi, the Food and Agriculture Organisation of the United Nations (FAO) and

the Catholic Relief Services (CRS) have also undertaken input interventions (especially seed).

Interventions by the NGO sector have largely been in response to natural disasters while those of the government are part of its agenda to ensure improved productivity and increased food security at both household and national levels.

In this context, the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) has been supporting studies on experiences of several southern African countries with the use of agricultural input vouchers. The Centre for Agricultural Research and Development (CARD) at Bunda College of Agriculture has been responsible for the Malawi case studies over the past two years. This Policy Brief is based on a recently completed field-evaluation of Malawi's experiences and lessons learned.

The Problem

One major impediment to improved smallholder agricultural productivity has been limited access to improved technologies because of low income levels, poor integration of commercial and non-commercial input supply systems, and inefficient input and output markets. This problem is exacerbated by small landholding sizes, declining soil fertility, and frequent natural disasters such as droughts and floods. In some

cases, fraud and corrupt practices have also undermined the efficiency of the input supply programmes.

Intervention

Government and other development agencies have introduced several mechanisms to improve productivity amongst the smallholder farming community. Such interventions have either been in response to natural calamities or as the normal government commitment to achieve increased agricultural productivity. These interventions have included Seed Vouchers and Fairs (SV&F) and the government subsidy programme which has been in place since the 2005/06 farming season. This uses coupons (vouchers) as a means of identifying beneficiaries at the input distribution points. The subsidy programme targets marginalized farm families.

Potential Benefits

A number of benefits have been associated with the SV&F and the government subsidy programme. These have included:

- Improved food security at household level and increased maize surplus at national level as evident from the 0.5 million mt surplus in 2005/06 season and 1.3 million mt in 2006/07 seasons, respectively;
- Increased yields from less than one tonne up to 2.04 MT/ ha;
- Growth and expansion of private sector business;
- Creation of competition amongst players;
- Increased use of technologies; and
- Increased per capita use of inputs (fertilizer and seed).

From the commercial side, the subsidy programme has allowed participation of the private sector input supply companies, resulting in an assured market and increased sales volume. The programme has also strengthened the operational base of input dealers and created employment through opening up of some of Agricultural Development and Marketing Corporation's (ADMARC) markets that were previously not operational.

The subsidy programme has, however, operated to the disadvantage of the small-scale agro-dealers in the sense

that they cannot compete with well-established large input supply companies because of their limited capital. This has reduced their market share significantly. The government subsidy programme has tended to crowd out the non-commercial sector because of procedures followed such as call for tenders. The non-commercial sector does not participate in such programmes firstly because they are not legally recognized and also their operational levels are too small to meet the required quantities and quality standards.

On the other hand, some of the input supply programmes implemented by NGOs have contributed to integrating the commercial and non-commercial sectors. This has usually been the case in situations where the implementing agents organize seed fairs. In such cases both commercial and non-commercial players are allowed to participate in the fairs as long as they meet the criteria set by the local implementation committee. Such arrangements accord some of the beneficiaries an opportunity to access locally available inputs of their choice.

Challenges

One major concern on the input supply programme is uncertainty about its continuity. Thus suppliers are not certain on how long the government will continue the programme, making investment decisions difficult. The subsidy programme has also been faced with a number of logistical problems, amongst which are:

- Unavailability of coupons in some places resulting in large amounts of inputs (seed and fertilizer) returns at the end of the programme. This is expensive for the inputs suppliers.
- Insufficient quantities of inputs available compared to the number of coupons, such that people did not use the coupons.
- Delayed redemption of coupons, stifling operations of some companies.
- Some seed companies had a lot of returns from ADMARC because ADMARC restricted sales to the vouchers only and not for cash. In addition, some companies allege that ADMARC had a system of selling one type of input at a time. The private sector therefore is of the view that this partly contributed to returns of some inputs.

- Timing of the subsidy programme caused problems amongst some seed suppliers in the sense that information on the coupon value and pack size was not communicated on time (i.e., late decision by government on the implementation of the programme). Late planning and implementation also resulted in coupons being delivered as late as January in some cases.
- Availability of wrong types of fertilizer, i.e., in most cases, there was either too little or too much of one type of fertilizer or the other.
- Most of the input supply systems seem to be implemented in an *ad hoc* manner. On the part of the NGO sector, they tend to react to an emergency while the government has not put in place systematic guidelines on the implementation of the subsidy programme.

There were also some suspected fraud and corrupt practices such as:

- Lack of transparency in some cases amongst chiefs, Village Development Committees (VDC) and subsidy committee members in registration of beneficiaries and issue of coupons.
- Bribes being given at various levels during registration and issue of coupons by chiefs, other local leaders and at distribution points. This resulted in farmers paying more than the K950 (US\$6.80) as stipulated by government.
- Appearance of ghost names during registration at village level and the concerned village chief either selling those coupons or issuing them to his close relatives.
- Deliberate withholding of stocks by some distributors and asking for bribes from the beneficiaries.
- Fertilizer purchased by unintended beneficiaries, mostly vendors including foreigners, who either bought coupons from farmers or obtained coupons fraudulently and purchased fertilizer in large quantities for resale in other markets at commercial rate.

Policy Recommendations

1. Having implemented the programme for two seasons and with the understanding that the government intends to continue the programme for the next few years as well, *we recommend that the government should develop clear policies and implementation guidelines*. This will help all the stakeholders to plan and participate effectively in the programme.
2. Government should step up efforts to commercialize small-scale agriculture and promote intensive sustainable production systems and adoption of improved technologies that will lead to surplus production, thereby enabling smallholder farmers to actively participate in produce marketing.
3. Government must ensure that unauthorized and unregistered companies and individuals do not trade in fertilizers and seeds. This will help to ensure quality of inputs being traded as well as minimizing some fraud and corrupt tendencies.
4. Small-scale agro-dealers should be supported through their associations to access capital loans. This will enable them to participate in the input supply programme. It will also assist in expanding the distribution networks which will eventually reduce the distance that the beneficiaries have to travel to the inputs distribution points. It will also assist in building capacity of the small-scale agro-dealers.
5. Small-scale seed producers like the Association of Smallholder Farmers Seed Multiplication Action Group (ASSMAG) should also be supported to participate in the input supply programme by purposively allocating a specified quota of the required seeds in the programme. This is one way of strengthening their capacity but also integrating the small-scale producers into the formal marketing system. ASSMAG should also capitalize on production of legume seeds (groundnuts, soya beans and the common beans) which no single large scale company is currently producing.
6. As the subsidy programme continues, government should consider diversifying the input package by including other crops such as vegetables, cotton, etc, depending on climatic conditions of particular geographic areas.

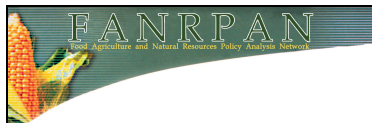
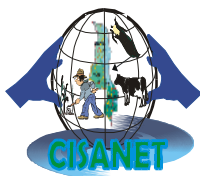
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The Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) is an autonomous regional stakeholder driven policy research, analysis and implementation network that was formally established in the Southern Africa Development Community (SADC) in 1997. FANRPAN was borne out of the need by SADC governments who felt that comprehensive policies and strategies were required to resuscitate agriculture. FANRPAN is mandated to work in all SADC countries and currently has activities in 12 SADC countries namely Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

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