

The Development Executive Group: The Promising Case of Malawi and the Future of Farm Output in Africa

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A food crisis grips the planet. Prices of rice, wheat and other essentials skyrocket, leading to food shortage riots in a dozen countries and jolting governments and policymakers to rethink their ideas about commodities markets, biofuels and agricultural production in the developing world. World Bank President Robert Zoellick has said the losses could drop 100 million people back into extreme poverty, wiping out a decade of development gains. World Food Program Executive Director Josette Sheeran has called the crisis “the silent tsunami.”

Within this haystack of gloom shines the needle of Malawi, where a government-led fertilizer subsidies program has produced two bountiful maize harvests, filling stomachs and cupboards across this formerly destitute sliver of southern Africa. Last year Malawi exported 280,000 tons of maize as child malnutrition dropped an impressive 80 percent. And the good times are set to continue. Despite the global economic downturn the International Monetary Fund is forecasting nearly 8 percent growth for Malawi in 2008, as compared to 3.7 percent globally.

The success of Malawi’s subsidy program has overturned conventional donor wisdom and may have set an example for other African nations to follow. As we enter an era of high food prices, increasing Africa’s agricultural production is of greater urgency than ever before.

Few are more familiar with these issues than Uma Lele and Stephen Carr. In separate interviews and an e-mail discussion the duo discussed why the Malawi program worked, what it might mean for the policies of the World Bank and other major donors, and whether Malawi offers a replicable model.

Malawi and the problem of soil infertility

“The world is fed by inorganic fertilizer and good seed, and the only continent where that’s not being used is Africa,” said Carr, the World Bank’s principal agriculturalist for sub-Saharan Africa throughout the 1980s. He has lived in Africa for more than 50 years and was instrumental in getting the Malawi subsidy program off the ground.

Low soil fertility contributes greatly to low agricultural productivity in Africa. China’s farmland boasts 279 kilograms of fertilizer nutrients per hectare. South Asia’s receives 113. Africa, on the other hand, makes due with 6 kilograms, a paltry sum considering only 6 percent of this vast continent’s land has high agricultural potential.

“We’ve got to find ways of giving farmers access to fertilizer,” says Carr.

Malawi found a way, with Carr wearing down donor opposition and the government managing a comprehensive plan that covered 70 percent of the price of fertilizer. The impact was immediate and revelatory.

“This program succeeded because it made fertilizer affordable to the majority of the population,” Carr said. Because of import, distribution and marketing costs, Malawi’s pre-subsidy fertilizer is about 40 percent more expensive than that of the United States, and representative of sub-Saharan Africa. “What the 70 percent subsidy has done is bring the Malawian farmer to the same level playing field as the American farmer,” he noted.

American farm subsidies have long been a target for critics of Western aid policies. If the United States, European Union and other Western nations removed all domestic subsidies and tariffs on imported cotton, soybeans and other oilseeds, the developing world’s share in these products would jump from its current 50 percent to more than 80 percent, according to some experts. And it’s not only wealthy Western nations that provide farmer hand-outs; India and China spend lavishly to boost production.

African nations are not so flush.

“What are these countries supposed to do when [Organisation for Economic Co-operation and Development] countries are not reducing their subsidies?” wondered Lele. An agricultural economist, she worked at the World Bank for 35 years and has written extensively about funding of farm basics. The United States doles out \$5.2 billion every year in direct subsidies to farmers, while fertilizer prices have doubled, even tripled, across much of sub-Saharan Africa in the past six months. “They’re facing a ridiculous world market situation; there isn’t a willingness to recognize the reality,” Lele added.

Some experts recommend a policy shift akin to India’s Green Revolution in the 1960s. As new high-yield varieties of rice and wheat were introduced, major donors encouraged the Indian government to provide their farmers with essential inputs – seed, fertilizer and credit. The government also set floor prices to ensure farmers a return on investment. The result was a decade of vigorous productivity growth in India, and robust public spending on agriculture across the developing world.

But in the 1980s huge farm surpluses from developed countries depressed prices and slashed farmer’s profits. As a result, developing nations cut farm budgets in half between 1980 and 2004. Donor agricultural aid also dropped by half over the same period as production growth dropped two- to three-fold across the developing world.

As donors and governments begin to increase investment in developing world agriculture – part of a post-millennial push to reduce global poverty – the Malawian success story has become Exhibit A for the backers of farm funding.

The World Bank mulls its options

In recent years the World Bank has undergone a transformation far beyond the arrival of Zoellick as a replacement for the disgraced Paul Wolfowitz. As the single largest donor to African agriculture since 1990, the bank remains integral to the future of farming in Africa. But on fertilizers and farm inputs it’s still dragging its feet.

The most recent edition of the World Bank’s annual global review, the World Development Report (WDR), focuses on agriculture and argues that “subsidies must be used with caution,... [and] need to be part of a comprehensive strategy to improve productivity and must have credible exit options.”

However subsidies are implemented, Lele believes donors hold far too much sway. “The reality is that donors have much more power in Africa than they did even in the heyday,” when policies were much more holistic, she said.

In a December interview with National Public Radio, Ngozi Okonjo-Iweala, the World Bank’s new managing director, acknowledged the bank had pushed political reforms abroad in the past. “The bank has changed dramatically from that period,” she said. Nowadays, “each country should take the lead.”

Carr agrees, in part. “The nature of the bank has changed a great deal,” he said. “With interest rates at up to 75 percent, little government oversight and no smallholder credit, the bank has been driven to get more involved in macro policies.”

These broader policies have led to diminishing returns, according to the latest report from World Bank watchdog the Internal Evaluation Group. It found that the donor community has neglected the agriculture sector and that the World Bank’s strategy for agriculture has increasingly been subsumed within a broader rural focus, limiting its success.

During the 1980s Carr used his technical knowledge on straightforward projects such as smallholder irrigation. “At that time the projects department had virtually nothing to do with policy,” he recalled. “I didn’t have to deal with the organization of whole governments.”

The IEG report found the importance of agriculture had declined, with a subsequent loss of technical skills. The bank’s Agriculture and Rural Development Department in sub-Saharan Africa had 17 technical workers in 2006, compared with 40 in 1997.

That loss of technical skill can be seen in bank policies that pay little heed to ground realities like widespread hunger. For example, according to the report the bank “appears to have addressed soil fertility more as an environmental than as an agricultural productivity issue.” As food shortages lead to starving and riotous populations across the developing world, that error looms ever larger.

Spending the right way

To feed those masses production must be increased, most likely via aggressive governmental involvement. But public spending on farm inputs such as fertilizer must be done with deliberation and foresight. The WDR warns of the dangers of politicians claiming ownership of the beneficial subsidy program as well as the dependence such programs can create.

Yet Malawi’s current administration has taken the lion’s share of the credit for the good harvests resulting from its “boma,” or government, fertilizer – and watched its popularity soar.

What will President Mutharika do now that fertilizer prices have increased by 120 percent across southern Africa? Will he turn to donors he so recently spurned? And what if the price hike forces the discontinuation of the program – will Malawians again go hungry? If they do they will know where to point the finger.

Carr says greater private-sector involvement would have improved procurement and distribution in Malawi. Yet he believes African governments must fund farm basics to “maintain food production aligned with growth.” Risks – such as inadequate oversight, price fluctuation and corruption – will remain, and policies will vary from country to country. Regardless, implementation is paramount. “It depends how effectively the plans are carried out,” he said.

System design will be key, too.

“Developing national systems is very complex,” said Lele, adding that many developing countries require policy advice and help in building reliable institutions. Dedicated people who understand local traditions and farming techniques have to be part of any successful program. “Money is necessary but not sufficient to do those things,” she noted.

Furthermore, funding for farm inputs like fertilizer and seed often have less impact today because the structure of international farm markets has fundamentally changed since the Green Revolution. Not only are prices of seed and fertilizer much higher, but credit is less readily available to farmers, particularly during the ongoing global credit crunch. Also, supermarkets account for half of food sales even in developing countries, further reducing farmer control over pricing. India will disburse \$37 billion to farmers in fiscal 2008 - \$15 billion to cover debt and \$22 billion for fertilizer subsidies - an increase of 50 percent and not a scheme to be emulated in sub-Saharan Africa.

Africa’s lack of funding, poor infrastructure and weak public sector and civil society hamper productivity growth. “African countries don’t have the benefit of indigenous volunteer organizations, like India and some other developing nations,” said Lele. “Malawi occurred under very unique circumstances.”

Malawi, floodlit

The IEG report recommended the World Bank and other donors help governments design efficient mechanisms to provide farmers with critical inputs such as fertilizer. Now, into donor laps falls the case of Malawi. In a May op-ed in *Time*, Columbia University Professor Jeffrey Sachs, head of the Earth Institute and author of “The End of Poverty,” urged policymakers “to scale up the dramatic success of Malawi” and create an “international fund based on the Malawi model.” He suggested \$10 per developed world citizen, or \$10 billion total, and argued the fund could fight hunger as the Global Fund battles AIDS, tuberculosis and malaria. But could Malawi serve as a model, a tipping point in ending the donor fad against fertilizer subsidies?

Lele is skeptical “We think it’s a simple idea – fertilizer subsidies – but transportability of the particular design elements of that intervention are so intricate and complex,” she said. “This is what often people don’t appreciate and they try to multiply things when it becomes a fad – and then they fail.” Carr cites Rwanda and Burundi as possible imitators, as well as Tanzania, which recently sent consultants to review Malawi’s program. But he’s more concerned about Malawi’s continued success. “If Malawi’s subsidies become too politicized, or there’s too much corruption, or [they become] too inefficient, the international community’s going to say, ‘There you are, this shows that this kind of program cannot be run in Africa,’” he cautioned.

Lele sees no quick fix. "Short-term solutions are necessary in times like today," she acknowledged. "But not sufficient – holistic and long-term approaches with consistent, predictable policies are needed to develop food and agricultural sectors."

Either way, Malawi has become increasingly difficult to ignore. "If we had another two or three really successful years," said Carr, "it would be very hard for the donor community to go back to famine relief rather than helping people grow their own food."