Reclaiming Policy Space:
Lessons from Malawi's 2005/2006 Fertilizer Subsidy Programme

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July 2007

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1. Setting the Context

This paper is based on research work carried out the under auspices of the Politics and Policy Processes theme of the Future Agricultures Consortium (FAC). It demonstrates that political context matters in agricultural development policy issues, using as illustration the case of the fertilizer subsidy programme (FSP) launched in Malawi in the 2005/2006 growing season.

This case study was chosen due to the widely orchestrated narratives of success surrounding the fertilizer subsidy story, particularly from the government and various sections of the society at large. Narratives of success are debited to the government's determination to implement the programme despite strong resistance from certain donors, private sector captains and a wide array of technical experts which ended the country's persistent failure to produce adequate food to feed itself for a period close to two decades. The country achieved food self sufficiency without having to take recourse to imports or donations for the first time in many years. Previous interventions, notably, the Starter Pack (SP) and the Targeted Input Programme (TIP) failed to bring to an end the problem of endemic food insecurity in Malawi. The 2005/2006 maize harvest registered a record high of 2.72 million tones, nearly 0.25 million tones greater that the previous estimated harvest pegged at 2.5 million tones in the 1999/2000 growing season achieved with the combination of good rains and the starter pack programme (cf. Doward, et al. 2007). The success narrative has been further strengthened by the turnaround among several donors in their characterization and perception of the programme. From totally condemning the programme as non-viable, the majority of the donors are now willing to engage with it provided the government is prepared to refine some elements of the programme's design and procedures of implementation. The magnitude of success of the 2005/2006 subsidy programme remains, however, a subject of contentious debate.

The main argument of the paper is that no matter what the technical arguments for or against particular policy positions are, it is ultimately the configuration of political interests that determine policy outcomes on the ground. This resonates very well with recent thinking of the politics of policy which emphasizes the complex and messy processes by which polices are understood, formulated and implemented, and the range of competing actors' interests involved (cf. John, 1998; Keeley and Scoones, 2003). Contrary to the traditional and highly stylized perspective, policymaking does not happen in neat distinct stages except perhaps in a minimal sense that policies have to be proposed, legislated and implemented. Policy processes are instead a complex mesh of interactions and ramifications between a wide range of stakeholders who are driven and constrained by the contexts within which they operate.

These developments require a radically different framework for understanding policy processes altogether. According to the Institute of Development Studies (IDS) (2006) and Oya (2006), understanding the policy processes require: (1) grasping the narratives that tell the policy stories; (2) the way policy positions become embedded in networks of various actors; and (3) the enabling or constraining power dynamics (politics and interests). This suggests that policy processes, among other things, encapsulate power struggles, ideological contexts, patterns of social mobilization, struggle for political legitimacy, the force of external pressures and changing technical fashions. It is therefore imperative to go beyond the narrowly defined technical expertise and to recognize that policies as well as their implementation must be negotiated outcomes, requiring the involvement of multiple stakeholders with different interests (Scoones, et al., 2005). This augurs very well with the current case study as it clearly demonstrates that agricultural policy processes are driven essentially by political forces and as such they cannot be fully understood without understanding the political economy surrounding them. In fact, in predominantly agro based economies; the political survival of governments greatly depends on perceptions of the success of agricultural policy processes judged largely on the basis of delivering on food security at whatever cost (cf. Johnston, 1996 and Oya, 2006). It is thus not surprising that the government of Malawi has been politically and not necessarily technically tactful in handling the fertilizer subsidy programme geared at revitalizing the agricultural sector with the view of achieving food security that has eluded successive governments since the turn of the 1990s. The government implemented the fertilizer subsidy programme in the face of fierce donor resistance who argued that the programme run counter to the ongoing economic liberalization efforts but perhaps more critically the programme was criticized as placing unnecessary fiscal burden on the state to be sustainable in the long-run. The government implemented the programme to the tune of MK 7.1 against the initial budget of MK 4.7 billion without any donor support.

This study drew essentially on the review of secondary sources (press reports, academic papers, government and donor documents) and on key informant interviews with officials from government, donor agencies, civil society and the private sector. The analysis is structured along five sections. After this introduction, Section 2 explains the origins and context for the fertilizer subsidy programme. Section 3 provides details on the programme and the evolution in thinking within government. Section 4 discusses three different donor positions on the fertilizer programme: those totally opposing it, those supporting it and those reluctant but willing to engage with the government's policy. Section 5 analyses the programme's impact and adjustments in government and donor positions. Section 6 provides some concluding reflections.

2. Origins and Context for the Fertilizer Subsidy Programme

2.1 Political and Economic Context

Malawi has experienced tremendous political changes since the turn of the 1990s. From probably the most repressive one party regime in the entire southern Africa since independence in July 1964, Malawi reinstated multiparty democracy in May 1994 following domestic and donor pressure. The transition to democracy saw the ouster of the Malawi Congress Party (MCP) led regime by the first president the late Dr. Banda and the ascendancy of the United Democratic Front (UDF) at the helm of government (cf. Chirwa, 1998; Dulani, 2005). The basic structures of a democratic state have at least taken shape to the extent that the liberal constitutional framework is generally acceptable to all stakeholders as the basis for organizing political competition. It was thus hoped that the ongoing political transformation would, *inter alia*, help set the stage for economic recovery, and social development since the one party political regime had created and entrenched nepotistic, corrupt and neopatrimonial networks that encumbered economic reform efforts to yield the intended outcomes. This has not happened, however.

Malawi remains one of the poorest countries in the world whether judged by gross national product (GNP), the United Nations Development Programme's (UNDP) Human Development Index (HDI) or its Human Poverty Index despite undergoing significant political and economic reforms (Jenkins and Tsoka, 2003; Chirwa, et al., 2006). The 2005 Integrated Household Survey (IHS) estimates that about 52.4 per cent of the population lives below the poverty line with 22.4 per cent barely surviving. Put differently, the 2005 IHS suggests that about 6.7 out 12 million Malawians live in poverty and as many as 2.2 million cannot afford to meet even the daily recommended food requirements (cf. NSO, 2005; Government of Malawi/ World Bank, 2006; Devereux, et al., 2006). Malawi further remains a predominantly agro-based and donor dependent economy. It is estimated that agriculture accounts for 39 per cent of gross domestic product (GDP), 85 per cent of the labour force and 83 per cent of foreign exchange earnings while manufacturing accounts for only 11 per cent of GDP of which 26 per cent is agro-processing (Chirwa, et al., 2006). Donor inflows account for up to 80 per cent of the development budget and 37 per cent of the recurrent expenditure. In other words, donors provide nearly the entire development budget, and official development assistance comprises about 27 per cent of GDP (MEJN, 2003; Rubey, 2004). This means that without donor support the magnitude of government's deficit would be quite overwhelming. Consequently, it is very unclear whether government or its donor partners are in charge of the policy making process. To the extent that policy follows the money, the twists and turns of policy formulation mirrors the ebb and flow of resources as well as international trends coupled with widespread deficiencies in policy making capacity within the government machinery (cf. Sahely, et al., 2005). This is particularly pronounced within the agricultural sector.

The democratization process has coincided with the deepening of the crisis in the country's agricultural sector to the extent that food insecurity has become endemic rather than periodic (Harrigan, 2003; Chinsinga, 2004; Chimphonda and Dzoole-Mwale, 2005). While contributors to the food crisis put emphasis on different aspects, they generally agree that the problem is essentially a perennial one. The only difference is that it has substantially scaled up in recent years. According to Stambuli (2002), Malawi last produced surplus food in 1975 to the extent that maize featured on its export menu. Since then Malawi has either produced barely enough to feed itself or relied on imports and donations in times of shortfalls with the situation worsening since the turn of the 1990s. Thus 'the spectacle of Malawi receiving 175,000 tons of food in 1989-1990, of which 115,000 tons was imported cereals, is a complete contrast to the period preceding 1974-1975 when Malawi exported maize' (Stambuli, 2002: 3). Malawi's food security predicament is perhaps aptly summed up by Devereux (1997: 7) who asserts that: 'the 1990s have seen Malawi shift from being nationally self-sufficient in maize in non-drought years to being food deficit and dependent on food imports in most years'. From food imports of only US$ 2 million in 1988, the yearly imports at the close of the 1990s and at the beginning of this millennium staggered at around US$ 8 million.

Existing statistics indicate that the problem of food insecurity is indeed quite rampant. Maize production per capita has fallen steadily from 163kg in the early 1990s to less than 150kg in the late 1990s (Orr, et al., 2001). Further estimates indicate that yearly maize productivity ranges between 320 and 770kg per household, which results in over 70-80 per cent of all rural households being short of self-produced staple foods for 4 to 5 months (Owusu and Ng'ambi, 2002; Chinsinga, 2004). Members of poor households in rural Malawi can only satisfy 66 per cent of their calorific requirements. These food deficit households rely either on market purchase or on other survival strategies such as food for work or causal labour for the rest of the period. The gravity of the crisis has been underlined by two episodes of severe hunger during the 2001/2002 and 2004/2005 growing seasons. The 2001/2002 hunger crisis affected over 3.2 million people. Translated in terms of food requirements, the deficit of maize was high as 630, 000 metric tons but if other food stuffs are taken into account such as rice, sorghum and cassava, the deficit marginally fell to 570,000 metric tons (Stambuli, 2002; Owusu and N'gambi, 2002). The 2004/2005 hunger crisis affected more than 4 million people translating to a deficit of about 700,000 metric tons against the annual food requirements estimated at 2.1 metric tons (Chimphonda and Dzoole-Mwale, 2005; IRIN, 2007). These experiences have turned food security into a highly charged political issue. Food security has thus since the 2001/2002 hunger crisis 'appeared in the platforms of politicians, on the agendas of policy makers, in the programmes of public bureaucracies, among the duties of village chiefs, and on the pages of national newspapers (…) and is thoroughly researched and debated' (Sahely, et al., 2005: 17).

Most contributors to the contemporary food crisis debate attribute it to two important events in the mid 1990s, namely: the collapse of smallholder farmer credit clubs and the rollercoaster liberalization of agricultural markets (cf. Mann, 1998; Harrigan, 2001; Chinsinga, 2005). The collapse of the smallholder farmer credit system, combined with the removal of fertilizer and hybrid maize seed subsidies, against the backdrop of a sharply devalued local currency, made farm inputs virtually unaffordable to the majority of the chronically impoverished farmers. These events, coupled with persistent adverse climatic patterns over the last decade have had tremendous negative consequences for the food security status of most households in the country. These factors were further exacerbated by the high population growth that was exerting pressure on land against the backdrop of a land policy that only allowed for one-way transferability of land from the customary to the estate sector. This led to, among other things, to rampant deforestation and land degradation which combined with low uptake of technology greatly depressed productivity. The civil war in Mozambique worsened the situation further. It not only cut regular and reliable food supplies from Mozambique but the country had also to shoulder the burden of taking care of up to 1 million refugees (cf. Chilowa, et al., 2000; Chinsinga, 2002).

The first major response to the deteriorating food security situation was the Starter Pack (SP) programme. Launched in the 1998/1999 growing season and heavily supported by the UK Department for International Development (DFID), the SP programme extended to all rural farming families, estimated at 2.86 million households, and consisted of free inputs containing 0.1 ha worth of fertilizer and legume seed. The SP programme was repeated in the 1999/2000 growing season. However, for purposes of sustainability and as a gradual exit strategy, it scaled down to a Targeted Input Programme (TIP) from the 2000/2001 growing season with almost half of the rural farming families as beneficiaries. The TIP was phased out in the 2004/2005 growing season following the withdrawal of DFID's financial support as the sole donor to the programme. However, it is important to note that when the TIP was phasing out in the 2004/2005 growing season it was implemented as the Extended Targeted Input programme (ETIP). It was designated as such because it provided a package of 26kg fertilizer and 5kg of seed to cover about 2.8 million beneficiaries compared to the regular TIP programme. Equally important to note was that different stakeholders had different expectations of the SP/TIP programme. Agricultural economists expected increases in agricultural growth and poverty reduction at least in the medium term; social protection specialists expected a safety net for the most vulnerable people; and politicians hoped for the elimination of food insecurity as a way of tightening their grip on power since the legitimacy of political rulers (and therefore the government) is closely linked to the availability and accessibility of maize to the grassroots at prices they can afford. The SP/TIP interventions failed to satisfy the goals of various stakeholders. Except for the 1999/2000 growing season, food production remained far below the required levels. This was underlined by severe hunger incidences in 2001/2002 and 2004/2005 growing seasons.

The persistence of food shortages despite the SP/TIP interventions quickly provided the platform to question the wisdom of continuing on this path of support to the agricultural sector particularly on the part of DFID.

2.2 The 2004 Electoral Campaign and the Fertilizer Subsidy Programme

The origins of the fertilizer subsidy programme can be traced to the electoral campaign leading to the May 2004 elections which saw the election of president Mutharika on a United Democratic Front (UDF) ticket. The distinctive feature of the 2004 electoral campaign was that it reflected a strong national consensus for fertilizer subsidy as all leading candidates promised some kind of support to the smallholder agricultural sector. This was not surprising at all given that the problem of food insecurity has become more or less endemic in the country since the turn of the 1990s. The recurrent episodes of severe hunger crises have turned food security into a fierce battle ground both for parties in government and outside government.

Two broad positions on fertilizer subsidy could be distinguished during this campaign. The ruling UDF and its coalition partners advocated for a universal fertilizer subsidy for maize producers only. They promised to reduce the price of fertilizer from MK 3000 to MK 1500 per 50kg bag. The opposition block led by the MCP advocated for a universal fertilizer subsidy programme for both maize and tobacco producers. Prices for both maize and tobacco fertilizers would be reduced to MK 950 per 50kg. The differences in the subsidy proposals between the ruling and opposition blocks reflected to a large extent the variations in the regional support bases for the major political parties in the country. The MCP, whose strongest political base-the central region-is a dominant tobacco producer had no choice but to advocate the coverage of the fertilizer subsidy programme to tobacco as well (cf. Chirwa, et al., 2006).

The hallmark for this electoral campaign was that a simple narrative was developed, articulated and presented: hunger and recurrent food crises are best responded to by supporting agriculture, and this means providing subsidies to get agriculture moving with a focus on key crops notably maize and tobacco. National food security and a reduction on the dependence on food imports, as had happened in recent successive years required, it was argued, concrete state action. The basic argument in this narrative was that Malawi ought to be self sufficient and reliant when it comes to food security. This cannot be left to chance the argument went since it costs much more for the country to import food than to grow its own especially when foreign exchange reserves are not always readily available. Besides, food imports often arrive too late, stays too long and usually get enmeshed into politics, and donor aid is pretty much unpredictable (cf. Bird et al., 2003 and Levy, 2005).

The UDF won the May 2004 elections and proceeded to form government. The popular expectation was that the government would immediately effect the reduction in fertilizer prices as promised during the campaign period. This did not, however, happen but perhaps more critically important the government took a very long period of time to articulate a clear and concrete fertilizer policy *vis-à-vis* expectations that had been raised during the campaign period (Chimphonda and Dzoole-Mwale, 2005). The delays in clarifying the government's position on fertilizer subsidy created the impression that there would be a universal fertilizer subsidy which turned out not to be the case. Instead of implementing a fertilizer subsidy programme, the government announced in August 2005 that it would continue with the TIP but on a much bigger scale. The expanded version of TIP (ETIP) was made available to 2.1 million farming families – a significant increase over the 1.5 million targeted in the regular TIP but falling short of the implied promise made earlier of cheap fertilizer for everyone (cf. Sahely, et al., 2005). The uncertainty was further enhanced when the Principal Secretary of Agriculture speaking at the 8th Annual Meeting of the national Smallholder Farmers Association hinted that fertilizer prices would go down and advised farmers to wait before procuring fertilizers until government had come up with a definite statement on fertilizer prices.[1]

The uncertainty about whether or not the government would implement a universal fertilizer subsidy programme had two serious consequences for the 2004/2005 growing season. First, it made it extremely difficult for the private sector to make orders for fertilizer on a timely basis. This in turn led to scarcity of fertilizer on the market even for those farmers who could afford at the prevailing market prices. Second, the ETIP inputs arrived very late due to the time it takes to get fertilizer into the country from the overseas suppliers. It is estimated that the delivery period for fertilizer is within the 8-12 week period from the time orders are placed with the suppliers. Consequently the distribution of ETIP inputs was delayed and in most cases done when the maize had already developed past the critical stage for the application of basal dressing fertilizer (cf. Sahely, et al., 2005; Chimphonda and Dzoole-Mwale, 2005). This coupled with a severe drought during the 2004/2005 growing season culminated in a severe hunger crisis affecting about 4 million Malawians. The food deficit was estimated within the region of 700,000-1,000,000 tones out of the 2.1 million metric tones of the annual food requirements.

It is argued that the government was perhaps hesitant to implement a universal fertilizer subsidy programme for fear of jeopardizing the prospects for reaching the completion point to qualify for debt relief through the implementation of the Malawi Poverty Reduction Strategy (MPRS). The restoration of fiscal prudence and discipline was one of the key triggers for the country to reach the completion point. Donors had at the peak of the 2004 campaign period warned that increasing fertilizer subsidy could affect the country's progress toward the completion point which could in turn affect the decision on the country's US$ 113 million debt. Moreover, donors had suspended aid to the country since 2001 especially the poverty reduction growth facility (PGRF) by the IMF due the overwhelming fiscal slippages which, *inter alia*, included: (1) diversion of donor resources to non-priority areas; (2) unbudgeted for expenditures especially external travel; (3) the disbursement of resources to the poor without a viable bureaucratic mechanism for accountability; and (4) a dramatic increase in official corruption and patronage (cf. Fozzard and Simwaka, 2002; Rakner, et al., 2004).

2.3 Fertilizer Subsidy Gets onto Government's Agenda

In many ways, the 2004/2005 hunger crisis intensified the debate about the need for the reintroduction of the fertilizer subsidy programme in the country. In particular, the hunger crisis provided opposition political parties and advocacy groups with a platform to attack the president and his administration for failure to deliver on the promise made during the 2004 electoral campaign. They argued that the president had not only failed to reduce prices of fertilizer but perhaps more critically messed up the ETIP climaxing into the 2004/2005 hunger crisis (cf. Sahely, et al., 2005; IRIN, 2007). The fact that the president had resigned from the UDF, a party that sponsored him into power and formed his own party-the Democratic Progressive Party (DDP)-did not help matters. The main challenge for the president was that his newly formed party had weak representation in parliament, and his decision to ditch the UDF dramatically tensed up the political atmosphere. Through debates on the subsidy programme, parliament invariably became an arena for the struggle between DPP and UDF one hand and Muluzi and Mutharika on the other since the latter's decision to walk away from UDF was considered as a political betrayal of the highest order. The MCP took advantage of the tense political atmosphere to achieve its own agenda having in mind its own political constituency as further illustrated below.

The 2004/2005 hunger crisis also prompted the Parliamentary Committee on Agriculture and Natural Resources (PCANR) into action. Members of PCANR carried out a study that critically reviewed the food security situation, possible interventions and the status as well as the prospects of agriculture in the country. The main recommendation of PCANR, dominated by the MCP, was that the country should introduce and implement universal fertilizer subsidy for maize and tobacco. The justification for a subsidy initiative focusing on tobacco and maize was that it would address the market and productive sides of the food security equation respectively. The PCANR presented its findings to the president with whom they discussed various options and scenarios but on the overall stressed on universal fertilizer subsidy for maize and tobacco as a key solution. PCANR's proposal was that price ranges for maize and tobacco fertilizers should be between MK 700-MK 900 per 50kg (cf. Chimphonda and Dzoole-Mwale, 2005). However, the president's immediate response to PCANR's diagnosis avoided any reference to the subsidy issue. The main thrust of his response was that the solution to Malawi's predicament lies in massive investment in irrigation which past governments had grossly neglected.

The president's response emphasizing irrigation and avoiding any reference to issues of subsidy underlined his sensitivity to the concerns of donors about the negative impact subsidies would have on the economy. He had to be strategic enough because at this time his main preoccupation was to get back the economy on track by fixing key economic fundamentals. The previous administration had mismanaged the economy to the extent that it by 2004 it was almost at the brink of collapse. The paramount strategy to fixing the economy was to win back donor confidence so that they could restore their support which they had withdrawn since 2001. The country was just beginning to get on course to achieve qualification for comprehensive debt relief and the president did not want to jeopardize this prospect. In addition the debate about subsidies had not yet peaked to immensely politically sensitive levels. His response, however, did very little to shift focus on fertilizer subsidy as a potential remedy to the problem of food insecurity in the country.

Meanwhile DFID announced its withdrawal of support to TIP. DFID had been the major donor to the TIP programme since its introduction in the late 1990s. By this time DFID was the only donor for the programme; other donors had completely pulled out. DFID pulled out mainly because the timeframe for programme support had expired but also to some extent due to personnel changes. Besides, programme appraisals revealed that the TIP was not the best way of offering support to the agricultural sector. Households targeted under the TIP were the poorest of the poor (people with disabilities, chronically sick, elderly etc) who could not make productive use of the inputs. In most cases, the beneficiaries ended up either selling or not putting the inputs to maximum productive use (cf. Chinsinga, et al., 2004; Levy, 2005).

DFID's decision was a huge blow to Malawi's fledging agricultural sector even though it was not having the optimal impact on food production. This means that without having TIP in place the magnitude of food deficits would having been consistently unbearable. This needs not be overemphasized because Malawi's smallholder agriculture has not been without any kind of support since the complete removal of fertilizer subsidy in the mid 1990s. In fact, recent trends show that without any kind of support, the smallholder agricultural sector is almost non-viable. Most stakeholders interviewed emphasized that the majority of the smallholders cannot afford the basic productive resources: that is, seed and fertilizer, because of the severe poverty that they find themselves in besides diminishing land holding sizes as wells as low levels of productivity due to limited technological advances in the agricultural sector. Something therefore had to be done if Malawi was to avoid descending into abyss of hunger. Moreover, a compact between government and its citizens regarding agricultural inputs entitlements seem to be entrenched. This is perhaps aptly captured by Sahely et al., (2005: 17):

> TIP failed to move households from subsistence to surplus production even under most suitable conditions: adequate rain and capable beneficiaries of properly applying the inputs. The condition of extreme poverty much of the population finds itself in has meant that fertilizer transfers have instead become part of most household subsistence strategies. Fertilizer transfers are no longer viewed as an effective livelihood development strategy. It has instead become a critical part of the national safety net. Fertilizer direct transfers or subsidies are now needed to keep households and communities from falling below the subsistence line.

For these reasons and coupled with mounting pressure from the opposition parties taking advantage of his lack of significant parliamentary support, the president announced the introduction of a fertilizer subsidy programme in June 2005 during the budget session of parliament (Government of Malawi, 2005). He indicated and emphasized that the subsidy would be targeted at resource constrained but productive maize farmers[2]. Thus the general objective of the programme was to provide fertilizer not as a safety net but to people who have the resources to use it productively but would otherwise have difficulty in obtaining it. The architecture of the subsidy programme was based on the lessons learnt form the implementation of the TIP as observed above. The president ruled out a universal fertilizer subsidy programme as advocated by the PCANR. He argued that Malawi cannot afford to implement such a programme. It was estimated that a fertilizer subsidy programme targeted at resource constrained but productive maize farmers would cost between MK2-3billion. The president's guarded concession to the proposal for fertilizer subsidy was motivated by his desire not alienate donors who were wary of the negative impact a universal fertilizer subsidy would have on the economy and notably on private sector development.

The president's budget speech ignited intense political debate within parliament. Building on the work of the PCANR, opposition parties argued for a universal fertilizer subsidy programme, extended beyond maize to tobacco as a boost to economic growth and foreign exchange earnings. Taking advantage of numbers in parliament against the backdrop of the UDF-DPP feud, opposition parties set adoption of a universal fertilizer subsidy programme as a precondition for passing the 2005/2006 budget[3]. The government eventually bowed down to the demands of opposition parties and a universal fertilizer subsidy programme was agreed upon pushing the budget to MK 4.7 billion[4] (about US $ 35 million). The understanding of Members of Parliament (MPs) of a universal fertilizer subsidy was that any smallholder farmer would be entitled to buy as many bags of fertilizer as he/she could afford without any rationing mechanism in place. The subsidy programme was however implemented in a different manner than as understood by the MPs. As further discussed below, the use of coupons for smallholders to access fertilizer continues to be a source of debate as to whether the programme is universal or not. By insisting on the use of coupons, the opposition MPs are up in arms condemning government for contravening a parliamentary resolution that endorsed a universal fertilizer subsidy scheme.

3. The Nature of the Subsidy Programme: What did it involve?

3.1 Components and Magnitude of the Subsidy

The initial plan for the fertilizer subsidy programme was to distribute about 70,000 metric tones of fertilizer. Half of this amount would have been 23:21: 0+4S while the other half would have constituted Urea. This was on the assumption that the fertilizer subsidy would be entirely targeted at resource constrained but productive farmers cultivating maize (cf. Nakhumwa, 2005). This, however, changed when parliament during the budget session resolved that government should implement a universal subsidy programme targeting both maize and tobacco farmers. This pushed the magnitude of the fertilizer subsidy programme to about 150, 000 metric tones. In the final analysis, 147,000 metric tones of fertilizer were reportedly distributed to maize and tobacco farmers as follows:

- 50,000 metric tones of Urea
- 50,000 metric tones of NPK (23: 21: 0 + 4S)
- 22,000 metric tones of D Compound
- 15,000 metric tones of CAN

It is important to note that maize and tobacco fertilizers were priced differently. The differential pricing for tobacco and maize fertilizers was motivated by two factors. Tobacco farmers tend to be relatively wealthier than maize farmers but perhaps more importantly the overriding goal of the programme was to achieve food security. And in any case food security in the country is predominantly equated to the availability of maize as the main staple. Urea and NPK were sold to farmers at MK 950 per bag while D Compound and CAN were purchased at MK 1, 400 per 50kg. Likewise, quotas were set for eligible farmers. Maize farmers were entitled to one bag of 23: 21: 04 S and Urea whereas tobacco farmers were allowed 2 bags of D Compound and one bag of CAN. The programme also included 6, 000 metric tones of OPV maize which was sold at MK 150/3kg against the prevailing market price of MK 500/3kg[5].

The magnitude of the subsidy programme turns out to be less than 147,000 metric tones when considered on the basis of the number of coupons actually redeemed (cf. Dorward, et al., 2007). The size of the subsidy stands at 127,000 tones representing about 75 per cent of the total coupons issued. The Ministry of Agriculture originally produced 2.8 million coupons to which 0.58 supplementary coupons were added. This indicates that most of the supplementary coupons were not used. The size of the 2005/2006 increases to 131,000 tons on the basis of the Agricultural Development and Marketing Cooperation (ADMARC)/Smallholder Farmers Fertilizer Revolving Fund (SFFRM) report on total subsidy sales. The 127,000 and 131,000 tonnes represent 2.54 million and 2.62 million coupons respectively. Parliament approved MK 4.7 billion as a budget line for the subsidy programme but the total costs surged to MK 7.1 billion in the course of implementation. This translates to about 8.3 per cent of the total budget for the 2005/2006 fiscal year.

3.2 Implementation Arrangements of the Subsidy Programme

The initial plan was to use the Agricultural Development and Marketing Cooperation both in procuring and distributing the subsidized fertilizer to beneficiaries. However, this plan of action changed when a decision was made to implement a universal fertilizer subsidy programme. ADMARC was not involved in the procurement of fertilizer. Instead, the government tasked the Smallholder Farmers Fertilizer Revolving Fund alongside private sector firms through a competitive tendering process to procure fertilizer for the subsidy programme. The decision to use a competitive tendering process involving SFFRFM and private sector firms was made following the change in the size of the fertilizer subsidy programme. Initially, when the programme was at the level of 70,000 metric tones, the feeling was that it would not have had a huge negative impact on the private sector. However, when the programme was expanded to about 150,000 metric tones it became imperative to involve the private sector, at least in the procurement process. Many government officials argued that the decision to procure fertilizers for the subsidy programme was taken to ensure that the programme did not jeopardize current efforts geared at the promotion of private sector development within the framework of the liberalization policy reforms. Local fertilizer firms also lobbied, and continue to lobby for their involvement in the programme. They argue that if they are left out they would in no time go out of business[6].

Private sector firms were excluded entirely from the distribution exercise, however. The decision to leave out the private sector in the distribution of fertilizers in the 2005/2006 programme underlined the political sensitivity about issues of food security in Malawi. The country was reeling from the devastating effects of the 2004/2005 hunger crisis and the government did not want to take chance by involving the private sector in a programme in which the political stakes were huge. The government therefore wanted to take full responsibility of the programme to ensure that it delivers but also that it is strategically administered to shore up its fledgling political support. The distribution exercise was entrusted to ADMARC and SFFRFM in the ratio of 64: 36 guided by a distribution matrix that had been developed by the Ministry of

Agriculture (MoA). The distribution matrix was based on estimates of farming families in Extension Planning Areas involved in maize and tobacco cultivation. This meant that these estimates were not based on effective demand for fertilizer. ADMARC was given a bigger share in the distribution exercise on the account that it has an extensive market infrastructure network throughout the country.

Farmers' access to subsidized fertilizer was on the basis of coupons. The idea was to systematically limit the amount of fertilizer that a household could access justified both as a control mechanism and as an equity strategy[7]. The distribution flow of the coupons was as follows: the coupons were delivered by the MoA to the offices of the District Commissioners working very closely with District Agricultural Development Officers (DADOs) where a district level committee was formed. From this committee, the coupons were handed over to the Area Development Committees (ADCs) which are chaired by Traditional Authorities (TAs). From the ADCs, the coupons moved over to the Village Development Committees (VDCs) chaired by Group Village headmen and also includes religious leaders. The task of the VDCs was to identify and verify the identities of the beneficiaries of the subsidy programme. It was stressed that priority should be given to those beneficiaries that clearly demonstrated the financial capacity to afford the subsidized fertilizer and seed. For this reason, the implementation of the subsidy programme was closely linked to the a special public works programme funded to the tune of MK 1 billion in order to boost the purchasing power of the beneficiaries. Potential beneficiaries were allowed to work on the public works programme up to 4 weeks at MK 200 per day.

3.3 Targeted or Universal Fertilizer Subsidy Programme?

The decision of the government to use coupons raised, and continues to raise debate about whether the fertilizer subsidy programme is universal or not. Opposition parties argue that by using coupons, the fertilizer subsidy programme ceases to be universal. For them therefore the government violated the parliamentary resolution which mandated it to implement a universal fertilizer subsidy programme[8]. The concern of the opposition is that the coupon system is prone to manipulation and corruption especially when administered by a government that has a very weak and fragile political base. The government defended the use of coupons as a viable strategy for targeting the poorest of the poor. In this sense the programme is not universal but targeted at the productive but resource constrained resource farmers.

Targeting every maize and tobacco farmers as intended in the parliamentary resolution, the government argued would not be feasible given the MK 4.7 billion budget ceiling for the programme. A universal fertilizer subsidy programme would have been possible only if the budget provision for the programme were to be pushed to MK 12 billion[9]. Given this constraint, the implementation of the programme without any regulatory system in place would have led to a situation in which major beneficiaries of the programme would have been the big farmers and informal traders who do not necessarily require such kind of support[10] (cf. Nakhumwa, 2005).

3.4 Reactions to the Fertilizer Subsidy Programme

The implementation of the fertilizer subsidy programme against the backdrop of maize and tobacco, electoral, legislative and aid politics was seen in some quarters as a regressive and potentially disastrous step. Many technical experts and donors were quite appalled with the government's decision to go ahead with the subsidy programme. They, among other things, argued that the implementation of the programme ran against all the efforts at liberalization and reforms that had been on-going over many years. The Economics Association of Malawi (ECAMA), for instance, argued that the implementation of the universal fertilizer subsidy would lead to economic disaster since government would be forced to spend beyond its limits. This would be the case because MPs were demanding universal fertilizer subsidy without prescribing the source of funds. ECAMA further argued that universal subsidy would lead government to borrow on the domestic market which in turn would put pressure on inflation and interest rates[11]. An additional concern of the technical experts and donors was that the government was implementing the programme without fully thinking about corresponding interventions to deal with marketing issues in case of maize surplus. In the absence of such mechanisms, the argument is that the subsidy programme risks creating disincentives in maize production[12]. In turn, the intended effect of the programme on food security would sooner rather than later be wiped out. No donor supported the 2004/2006 subsidy programme and the full cost was borne by the government.

Ironically, the fact that no donor supported the subsidy programme reinforced the narrative that was developed and articulated in the 2004 electoral campaign around the fertilizer subsidy programme and the achievement of food security. The differences between the government and the opposition parties regarding the modalities of implementation notwithstanding, consensus about the need for such a programme persisted strongly. The narrative was further embellished. It was argued that there is need to look at the uniqueness of Malawi emphasizing that it was better to subsidize production rather than consumption. The experiences with the 2004/2005 hunger crisis further solidified the narrative particularly from the standpoint of the cost implications of importing food during times of crises. Food imports during the 2004/2005 hunger crisis cost MK13 billion compared to MK 4.7 billion proposed for the subsidy programme. This struck an instant chord with all segments of the Malawian society in advocating for the fertilizer subsidy programme as a more cost effective approach to achieving food security than alternative interventions. Stambuli's study (2002) was often invoked in the discourse supportive of self sufficiency as a viable strategy for achieving food security. His study was inspired by the observation that maize imports constituted the second largest budget item after budget service. He argued that one dollar of food imports to a consumer achieves only 30 per cent of what the same one dollar would have achieved if it functioned as a production subsidy. He further estimated that a ton of maize imports roughly costs US$ 300 and would at least feed five families for 96 days. The same US $ 300, however, would be adequate to procure enough fertilizer to support seven hectares of farm land to produce 13 tons of maize that would feed the same families for 10 months. In fact, a study by van Donge, et al. (2002) found that farmers' cultivation of their own food crops is culturally highly valued. A household that does not grow its own food is considered as good as dead. Parents thus become ashamed of their lack of responsibility when their children go begging.

Strikingly, the narrative around the subsidy programme rekindled the debate about whether or not to privatize ADMARC (cf. Mvula et al., 2003; Chinsinga, 2004). ADMARC, which in addition to holding a monopoly on inputs on fertilizer, seeds and farm inputs, was the sole trader of maize and the buyer of last resort. The main function of ADMARC *vis-à-vis* food security was the maintenance of a maize price band. The aim of the price band was to stabilize prices and make maize affordable and accessible to the poorest Malawians by establishing floor prices to protect farmers' incomes, and ceiling prices to protect consumers from price gouging (cf. Sahely, et al., 2005; Chirwa, et al., 2006). Instigated by the IMF and the World Bank under the auspices of structural adjustment programmes, ADMARC has been subjected to a number of reforms with a view to make it more efficient and effective. The rationale for the reforms was that ADMARC survived on heavy subsidies which drained the treasury, and created disincentives for private sector entry into the market. The reform measures for ADMARC have included the following: management reform, closure of its uneconomic marketing outlets and liberalization of smallholder farmer crops. But the closure of some uneconomic ADMARC markets has substantially contributed to the widespread food insecurity for the smallholders, especially those in remote areas that are hardly accessible to private traders. The strong national consensus around the fertilizer subsidy programme served as an occasion for the stakeholders to campaign for the restoration of former ADMARC functions in the country's scheme of food security while it has, of course, be acknowledged that ADMARC suffered from gross inefficiencies in the performance of its duties which needed to be rectified. This culminated in government setting aside MK 500 million for ADMARC to buy surplus maize from farmers. This was justified as a strategy to avoid the repeat of the hunger that hit the country last year (2004/2005 growing season). The former Minister of Agriculture summed it up all: 'A nation that cannot feed itself cannot be a sovereign and independent state. We, in Malawi, must therefore be able to feed ourselves by whatever means'[13].

4. Donors' Narratives and Perceptions of the Fertilizer Subsidy Programme

Donors were generally opposed to the subsidy programme when it was launched. Their views soon diverged into three distinct categories, however: those totally opposed to subsidy; those sceptical but willing to engage with subsidy (searching for the holy grail of smart subsidy); and those supportive of subsidies. Most NGOs fall into the last category but of course championing slightly different political, technical justifications and rationales.

4.1 Donors Totally Opposed to Subsidy

The main donor agencies that are entirely opposed to the subsidy programme include the International Monetary Fund (IMF) and the US Agency for International Development (USAID)[14]. The main argument of this group of donors is that subsidies create market distortions that make private sector development virtually impossible (cf. Harrigan, 2005). They argue that the implementation of the subsidy programme risks wiping out the entire private sector dealing in fertilizer. This argument is justified on the basis that smallholder farmers' demand for fertilizer in Malawi is estimated at 200,000 metric tones per annum, while the subsidy programme provides up to 150,000 metric tones. However, the 150,000 metric ton ceiling are likely to be exceeded due to excessive political pressure; it has been indeed been reported that government printed 550,000 extra coupons over and above the initial number. There is evidence suggesting the private sector may be at risk of being crowded out. Until the turn of the 1990s, ADMARC was the sole outlet of fertilizers to the smallholder farmers. This changed following liberalization which opened up the sector to private entrepreneurs. The shares of the private sector in both importation and sales have ever since remained over 70 per cent and at times peaking to over 90 per cent until the introduction of the fertilizer subsidy in the 2005/2006 growing season. The share of the private sector in fertilizer importation has not been greatly affected compared to sales. While the private sector's share of sales in the 2004/2005 growing season stood at 168,576 tons (87 per cent), its share declined to 92, 920 tons (41 per cent) in the 2005/2006 growing season. It recovered to about 134,914 tons (52 per cent) in the 2006/2007 growing season following the participation of the private sector in the distribution of subsidized fertilizer. The argument is further strengthened by Nakhumwa's (2005) observation that the fertilizer subsidy programme took up almost 91 per cent of the smallholder fertilizer market.

The agencies opposing the subsidy contend that the most effective way to boost agricultural development is to promote a market-based approach to input provision. The more conventional arguments against subsidies are therefore advanced. Fertilizer subsidies are very difficult to target such that the benefits generally go to relatively well-off farmers even though this argument is less forceful in the narratives of these agencies compared to the crowding out argument. This is to say that the administrative costs, leakages, and targeting problems render subsidies a grossly inefficient way to target the poor (cf. Donovan, 2004; Pender, et al., 2004). The argument is that the market-based approach is ideal because it creates a favourable environment for the private sector to thrive. There is thus no uncertainty over state interventions, as was the case in the 2004/2005 growing season when the government was widely expected to announce a reduction in fertilizer prices but did not, which makes it easy for private sector actors and farmers themselves to make sensible decisions about when to buy, at what prices and in what quantities. Uncertainty over government responses destabilizes the market and dissuades the private sector from engaging in either fertilizer supply or grain trade thereby keeping fertilizer expensive and unprofitable and output markets volatile.

4.2 Donors Sceptical but Willing to Engage with Subsidy

The group of donors sceptical but willing to engage with subsidies include DFID, World Bank and EU among others. These donors are wary about government capacity and emphasize the challenges of targeting. However, they concede that some type of 'smart subsidy', building on the lessons of the targeted input programme, might be feasible. For this group, there is a clear case for subsidies in case of market failure but the subsidies should be properly targeted at economically active and productive beneficiaries[15].

These donors are equally interested in promoting private sector development as the basis for economic growth. Subsidies are generally considered acceptable as long as they do not crowd out private sector development. They are seen as short-term interventions and considered fiscally unsustainable if the intention is to institutionalize them as an integral part of a development strategy (cf. Sahely, et al., 2005). They argue that subsidies have to be conceived within the broader framework of social protection where market failures are rampant and the incidence of poverty and vulnerability is acute. In fact, recent studies by the World Bank and DFID have shown that poverty and vulnerability are deeply entrenched in the country with about 52 per cent of the people living below poverty of which 22.3 per cent are ultra poor. These people may therefore require some kind of special interventions since they are very unlikely to benefit from the process of economic growth (cf. Government of Malawi/ World Bank, 2006; Devereux, et al., 2006). The idea is to ensure that support (subsidy) is provided only to those that are genuinely unable to afford a certain commodity. In this case, these donors advocate for well targeted subsidies with friendly market mechanisms and well defined in terms of duration and financial commitments so as to ensure predictability. Thus, lack of predictability in these terms would create excessive market distortions.

They, therefore, argue for well spelt out exit strategies since from their point of view subsidies are only a short-term intervention, and fiscally unsustainable in the long run.

In the main, these agencies argue that subsidies are not the best way to support agricultural development. They take recourse to the experiences of TIP to argue that evidence abound that distribution of free inputs does not necessarily lead to enhanced production. This is the case because people do not value free inputs and as such they do not often use them optimally. Many TIP beneficiaries ended up selling their packs, for instance. Their argument therefore is that subsidies must be properly targeted and, if indeed they are, subsidy programmes should not run for more than five years before the beneficiaries graduate as self-reliant farmers. More generally, these donors - particularly the World Bank- see subsidies as a second best option for revitalizing smallholder agriculture. The argument is that other strategies are more effective than subsidies and price supports in ensuring small farmers can intensify production and adjust to market signals: efficient input distribution through publicly supported infrastructure, packaging standards, low cost financial services, improved research and extension, new risk management mechanisms etc. Public expenditures for these critical public roles continue to be crowded by input subsidies (World Bank, 2005).

4.3 Donors and NGOs Supportive of Subsidy

Donors supportive of subsidies include most UN agencies, Norwegians, local and international NGOs such as Oxfam, Action Aid, Plan International etc.[16] They support the programme on the basis that fertilizer is critical to boosting production and assuring food security, and that phasing out over time once farmers have ratcheted up their capacity is the best option. The basic argument of these donors is that agriculture in Malawi cannot survive without subsidies and subsidies would not distort the market because the private sector is almost non-existent. Besides, without some kind of pan territorial subsidies some areas in the country would not be served at all because of the extremely high costs in remote areas[17]. According to FAO office in Malawi, 'it is much cheaper and cost effective to provide an input subsidy than food aid in the face of crisis. At least, the people could plant and produce the food that they require. This is much more dignified than to perpetually receive food handouts' (IRIN, 2007: 1).

The view of this group of donors is that subsidies can lead to net welfare gains by encouraging an expansion in fertilizer use toward the socially optimal level (cf. IFDC, 2003; Pender, at al., 2004). They argue that the current uptake of fertilizer in Malawi is very low to achieve food security. Fertilizer uptake among smallholder farmers is estimated at about 34kg per hectare against the recommended maximum of 150kg depending on input-output ratios. This is very much the case within sub-Saharan Africa. Farmers have generally lagged far behind other developing areas in fertilizer use. Average intensity of fertilizer use throughout sub-Saharan Africa is roughly 8kg/ha whilst in Latin America it is 54kg/ha. In this narrative therefore subsidies are seen as an ideal means of kick starting a process of innovation or scaling up of activity that will increase agricultural productivity in the medium long-term if not the short-term. This view was further given a major boost by the high-publicity given to the Millennium Village Project (MVP) in Malawi in this period, an initiative that has received much scorn from other donors. The MVP concept is about an integrated package of interventions at the village level thought to be essential to help villages to get out extreme poverty. The package comprises investments in agriculture and environment, health and nutrition, infrastructure, energy and communication, education and training in villages, or conglomeration of villages (cf. Cabral, et al., 2006). This builds on the Sachs-Bono position that subsidies are the only surest way to achieve food security in the large part of the developing world. They argue that once farmers have access to fertilizer, improved seed and with good water management, developing countries like Malawi can achieve food security. Thus for these countries to achieve a green revolution, farmers have access to cheap agricultural inputs at whatever cost.

NGOs argue that the need for subsidies is clear vindication of the failure of the neoliberal economic reforms that the country has been implementing since the beginning of the 1980s (cf. Owusu and Ng'ambi, 2002; Oxfam, 2002; Harrigan, 2005). NGOs backed the subsidy programme with the argument that bringing in the social costs of food insecurity and aid dependence shifts the balance in favour of productive subsidy of agriculture. In the final analysis, the NGO's vision is for universal fertilizer subsidy but implemented in a phased manner in order to ensure affordability. NGOs further advocate for the institutionalization of the subsidy programme for purposes of ensuring predictability and facilitating planning among farmers. These sentiments were aptly expressed by Oxfam (2002):

> Incorporating this successful initiative into the long-term strategy to support needy farmers (rather than wait nervously each year to find what the future holds) should be the government's next step in combating vulnerability and uncertainty.

Some NGOs subscribe to the lead role of the private sector in spearheading agricultural development but emphasizes that government has a key role nonetheless in helping to create markets where they are missing through effective and predictable targeted interventions and introducing the regulations necessary to make markets function properly. Beyond saving lives in emergency solutions, the NGOs argue that donors should refocus and increase their aid towards preventing crisis and promoting livelihoods by supporting subsidies toward agriculture and broader food security interventions which are well known to be cheaper and more cost effective over time than large scale emergency responses. The positions and narratives of donors are summed up in Table 1 below:

Table 1: Donor Narratives and Evidence on Fertilizer Subsidies

Donors and their Positions	Narratives	Evidence
Totally opposed to subsidies: • IMF • USAID	• subsidies risk crowding out the private sector • subsidies create market distortions and displace public infrastructure investment • targeting extremely difficult to achieve	• smallholder annual demand for fertilizer estimated at 200,000 against 150,000 target for the subsidy programme • uncertainty over fertilizer prices, as happened during the 2004/2005 growing season
Willing to engage with subsidies: • DFID • World Bank • EU	• capacity challenges for government to properly target subsidies which are desirable only in exceptional cases of market failure • subsidies fiscally unsustainable if they become part of a long-term development strategy • predictability of subsidies in terms of size and duration	• SP/TIP as clear examples of lack of fiscal sustainability (donors withdrew overtime leaving DFID as a sole donor) • high incidence of poverty and vulnerability • problematic targeting (beneficiaries not really making productive use of inputs)
Supportive of subsidies: • Action Aid • NORAD • Oxfam • Plan International • UN agencies such as FAO WFP	• promotion of viable livelihoods rather than perpetual crisis management as the way to go • agriculture cannot survive without subsidies because of high costs of transport • no market distortions because the private sector does not exist • net welfare gains by promoting optimal use of fertilizers • need for subsidies underscoring failure of neoliberal reforms	• high levels of poverty exacerbated by the failure of neoliberal reforms • uptake of fertilizer is currently very limited estimated at 34kg/ha against the recommended rate of 150kg/ha

5. Evolution of Donors' Views: Toward Consensus or Pragmatism?

5.1 Impact of the Subsidy Programme

The implementation of the 2005/2006 fertilizer subsidy programme was fairly successful despite a number of glaring shortfalls. For instance, many stakeholders argued that using chiefs and local leaders as custodians of the coupons had led to widespread corruption and that the programme was overwhelmed by logistical problems with regard to planning and distribution of the farm inputs[18] (cf. Chirwa, et al., 2006; IRIN, 2006). The chiefs were accused of selling coupons to people who already have money to buy fertilizer. The opposition accused the government of manipulating the coupon system targeting disproportionately those areas with sympathizers of the ruling party[19]. Thus for the opposition, the fertilizer subsidy was used to draw people into joining the DPP. While acknowledging some problems with the coupon system, the government placed the blame on opposition political parties. The president conceded that in some cases coupons were not given to the intended beneficiaries but this was because the opposition parties were stealing the fertilizer in order to create a crisis by buying subsidized fertilizer in bulk[20].

The impact of the subsidy programme on maize yield was unprecedented nevertheless. Contrary to the fears of the donors and technical experts, the experience on the ground was not as disastrous as they had projected. Indeed quite the opposite. The programme ensured that in 2006 Malawi enjoyed its biggest ever harvest of 2.6 million metric tones of maize, at least half a million tones more than its annual requirement of two million metric tones. The success of the 2005/2006 fertilizer subsidy programme is a subject of continuing debate, however. The debate revolves around whether the huge surplus maize harvest could be attributed to the favourable rains or to the subsidy programme. In the absence of any comprehensive assessment of the programme's impact, the popular view is that the record harvest registered is a result of the subsidy programme that the government implemented in the 2005/2006 growing season. This has, in fact, been hyped by the success narratives orchestrated mainly by the government and donors supportive of subsidies as a viable means of revitalizing African agriculture. The shift in the positions of those donors who were initially critical of the programme to the point of availing themselves to engage with the government has further strengthened and solidified the success narrative.

Dorward, et al., (2007) have attempted to provide a preliminary analysis of the impact of the 2005/2006 fertilizer subsidy programme using anecdotal evidence in some cases. According to this assessment incremental fertilizer use on maize as a result of the 2005/2006 subsidy is estimated to be around 45,000 tones. This translated into a record harvest of 2.72 million against the backdrop of favourable rainfall patterns. A comparison is drawn to the experiences of the 1999/2000 growing season when Malawi registered a 2.5 million metric ton harvest with the aid of Starter Pack and good rains. It is projected that the incremental maize production is within the range of 300,000 to 400,000 metric tons. Their conclusion is that the 2005/2005 subsidy programme had a positive impact on maize production estimated in the range of 15 per cent to 22 per cent of total production. The programme has also reportedly had positive impact on the livelihoods of the people. The main reason for this is that the prices of maize have been generally remained low during the 2006/2007 growing period and *ganyu* (casual labour) rates have increased by 50 per cent in kwacha, which with lower maize prices suggests increases in real wage rates of 75 per cent or more (*ibid*). This is a welcome development because the regressive impact of *ganyu* in creating and perpetuating a vicious circle of poverty and food insecurity is widely recognized in the mainstream contemporary discourse about poverty in the country. In recent years, not only have households that create opportunities for *ganyu* become very limited but *ganyu* itself has become exceedingly exploitative. The lower maize prices have therefore increased the power of *ganyu* labourers to bargain for better wages.

The impact of the subsidy programme on the private sector fertilizer industry has been particularly felt on sales. It is estimated that the subsidy programme has negatively affected the development of the agro-dealer network that was taking shape since the advent of liberalization. Most stakeholders pointed out that a good number of dealers have closed out their retail networks. In the interviews with private sector stakeholders, and further confirmed by Dorward et al., (2007), up to 60-70 per cent of the retail outlets were closed and a good proportion of their staff laid off as a result of reduced retail sales during the 2005/2006 growing season. This should not be surprising because as observed above the share of private sector fertilizer sales tumbled from 87 per cent in the 2004/2005 growing season to 41 per cent during the 2004/2005 season.

The negative impacts of the programme have not been given much attention, however. Consequently, the good rains of the 2005/2006 growing season and the relatively effective management of the fertilizer subsidy programme meant a bumper harvest was produced and the food insecurity of previous years was eliminated. Strikingly, the experiences of the 2005/2006 subsidy programme had for the first time in many years challenged the dominant positions of donors in policy-making within the agricultural sector. Thus the sceptical donors, previously so influential in policy-making in aid dependent Malawi, were for the first time out in a limb. Donors had responded to the state's weak incentives to make policy by increasingly stepping into the government's shoes substituting for it in the policy function (cf. Sahely, et al., 2005; Booth et al., 2005). As a result, agricultural policy processes in Malawi have been subjected to competing views, interests and demands which in turn compromised policy coherence, and subjected policy-making and implementation to ideological leanings. In the 2005/2006 growing season, the government manoeuvring within the framework of domestic politics, had set a policy agenda for the agricultural sector and was determined to implement it at whatever cost.

A conclusive statement on the exact impact of the 2005/2006 subsidy programme may be premature, however. There are a number of issues to be dealt with for instance, the fiscal sustainability of the programme, the impact on the private sector and about the efficiency of ADMARC as compared to with the private sector companies in order to estimate the positive impact of the subsidy programme with a great deal of precision. Meanwhile, the success narrative coupled with some indications of positive impact in highly visible aspects of the programme are raising its profile as the magic wand to the problem of food insecurity which had more or less became endemic over the last two decades.

5.2 Donor Responses to Programme Impact

How did donors respond to the subsidy programme's outcome? Following much debate, a certain reluctant pragmatism emerged among the donors. The change in the positions of donor agencies *vis-à-vis* their earlier uncompromising stance on the fertilizer subsidy somewhat challenges the narratives espoused at their headquarters. This is particularly underscored by their willingness to undertake a series of studies on the subsidy programme with a view to informing their engagement with the government. The agencies thus demonstrated readiness to rise above their often ideologically-driven policy narratives for a meaningful trade-off with the prevailing realities in the Malawian context. The World Bank, for example, is strongly wedded to a liberalization narrative. It emphasizes that the revitalization of African agriculture is critically dependent on the implementation of unfinished market reforms in order to promote and entrench the leading role of the private sector and NGOs in agricultural development. As for DFID, while subscribing to the broad regulatory role of the state, it entrusts the state with the task of kick-starting rural markets especially in poorly resourced remote rural areas where high transaction costs and coordination failures constrain private sector development. Targeted subsidies are intimated in as much as they serve as temporary measures to remove barriers for private sector participation in markets (Cabral and Scoones, 2006).

The donors' change of their initial positions was inevitable as it became evident that the Malawian government was unwilling and politically unable to be compliant and accept their demands. This is explained by the fact that state legitimacy is closely linked to the availability of maize or more broadly food security. The divisions among and between donors, fostered by competing ideological orientations, had to be patched up. Business had to carry on especially since due in part to fortuitous weather conditions; and the programme had been remarkably successful. The donors had, given the government's determination to implement the subsidy programme, to accept that there was no alternative to backing the government's political decision. The donors' behaviour was political too. Their turnaround smacks of political opportunism on their part especially in view of the fact the turnaround was justified as attempt to be in tune with the government's own priorities and commitments. Most of the donors described the government as demonstrating strong ownership of the programme, as illustrated in following sentiments of some of those interviewed for this study:

> *We have come to the realization that government will not change its position. The programme will be implemented for sure for the next three years. Moreover, government has been scaling up resources from MK 4.7 billion to MK 7.2 billion this year. We have no choice but to explore how we can strategically support programme.*
>
> *There is total government ownership and commitment. We better support it otherwise we shall be redundant.*
>
> *Government has made a choice, it is firmly standing by it, and we have to make the programme work.*

It is therefore not surprising that during 2006 a reconfiguring of actors was taking place around a new more coherent policy narrative. A group of donors involving DFID, USAID and World Bank commissioned studies to learn from lessons from the 2005/2006 experience which encouraged a backing down on the downright anti-subsidy line. In its place a set of conditions for donor support for the subsidy programme were suggested. These included the following:

- Greater involvement of the private sector in both the procurement and the distribution of subsidized fertilizer and other farm inputs on equal terms with ADMARC and SFFRFM.
- Promotion of choice among beneficiaries in terms of the range of fertilizers involved, and outlets from where fertilizers and seeds are procured.
- Extension of the subsidy intervention to other crops besides maize and tobacco in order to promote crop diversification.
- Developing plans for marketing and storage especially during times of excess production.

The realities of the domestic political economy and policy process context of Malawi had thus forced the policy process to move on. This meant that populist maize politics had won over sound economic policies at least from the perspective of donors; for others democracy had succeeded in the face of interfering pressure from donors without a political mandate; and for others a sensible pragmatism had arisen through negotiation, reviewing evidence and overcoming ideological positions. Most of the NGOs welcome these developments as reflected in the following observations of Action Aid:

> There seems now to be a better understanding of the problem, and a growing consensus that things need to be done differently. What we need to see next is a participative debate to achieve a better understanding and agreement around how government, donors and NGO can successfully develop a coherent and robust agricultural policy.

The experiences of the 2005/2006 fertilizer subsidy programme regarding the trade-offs between various stakeholders, including the evolution of donors' reactions, clearly underscore the fact that policy-making is hugely a political process. It is not simply the instrumental execution of rational decisions (Keeley and Scoones, 2003). It is evident from the events leading to the implementation of the programme that policies should be conceptualized as courses of action, part of ongoing processes of negotiation and bargaining between multiple actors over time. This therefore involves focusing on intersections and negotiations of knowledge, power and politics.

6. Concluding Reflections

This case study illustrates that policy-making is indeed a complex process. Understanding it requires critical reflection on how policies *are actually* made and not on how they *ought to be* made. Focusing exclusively on the latter invariably means pigeoning policies within particular ideological frameworks that risks being far removed from the prevailing reality on the ground. The main message from this case study is that it is imperative to recognize and encompass complexity and dynamism in policy processes. This is to ensure that the range of different and always partial perspectives is heard in order to come up with policies that address problems fully taking in account contextual constraints and opportunities (cf. Keeley and Scoones, 2003).

Several factors played critical roles leading to the adoption and implementation of the 2005/2006 fertilizer subsidy. The country was reeling from the devastating 2004/2005 hunger crisis amid rapidly declining livelihoods standards and uncertainty of support to the agricultural sector following the decision of DFID to discontinue bankrolling the TIP programme. A strong domestic constituency cutting across the political divide had been created during the 2004 electoral campaign. Fertilizer subsidy had been effectively popularized as a key solution to the enduring problem of hunger in the country even though there were slight differences in terms of crops to be targeted. Essentially all parties agreed that maize had to be subsidized while the MCP insisted on the inclusion of tobacco too primarily to accommodate its main regional constituency of support. The aftermath political events of the 2004 elections underpinned by the

President ditching the party that ushered him into power created an environment that further solidified the push and commitment on the part of opposition political parties to implementing the subsidy programme. Aware of the strong opposition for the subsidy programme, the President proceeded to announce a limited subsidy initiative making sure that he did not alienate donors who totally against the idea. They condemned it as an unnecessary fiscal burden on the shoulders of government that would not achieve the intended outcomes. Besides, the President was very keen to stabilize the economy in order to get back on track with the IMF staff monitored programme but had eventually to bow down to the demands by opposition parties for a larger-universal-subsidy initiative.

The 2005/2006 subsidy programme was implemented without any donor support and it turned out to be a 'great' success against the backdrop of a favourable rainy season. Malawi produced a record harvest for the first time in as many years and the seemingly intractable problem of food insecurity was overcome. However, the magnitude of the programme's achievements remains a subject of continuing debate and a comprehensive assessment regarding the impact of the programme is yet to be carried out. Meanwhile, the success narrative of the programme hyped by government and other stakeholders has led some donors initially opposing or sceptical about subsidies to reconsider their positions. They are now willing to engage with the government on various elements of design and procedures of implementation of the programme. Thus a combination of maize, tobacco, electoral, legislative and aid politics had in different ways influenced, impacted and shaped the nature and form of the programme. This captures one fundamental feature of the policy-making process. Policy comes from many different directions, and implementation can be as much about agenda setting and decision making as execution of decisions.

This case study further raises a fundamental question in the policy-making process. What happens when democracy and electoral mandates-a strong theme in donor positions on 'good governance-collide with the economic positions of the same donors' prescriptions? The apparent challenges and contradictions exposed in this case study illustrates to a very great extent that policies often fail because their design is not well grounded in the country's reality. For instance, different and competing narratives about the fertilizer subsidy programme emerged across a wide array of actors. These narratives were associated with different actor networks and aligned to different interests about fertilizer subsidies. Each narrative was backed up by different political and technical justifications and rationales. This illustrates the complexity of the policy-making as pointed out above. A number of key lessons can be drawn from this case study:

- Clearly, the domestic political economy context matters in any agricultural policy process. There are unique circumstances of each country that have to be taken into account in policy formulation. A strident policy against subsidies (or any other policy measure) is inappropriate. Moreover, "second-best" options that work given the peculiarities of contexts are certainly preferable to one-size-fits all dogmatic policies presented as "first-best".

- Policy designers-and donors in particular-need a deeper awareness of political economic history of agriculture, and with this the nature of the implicit 'social contract' between smallholders and the state, and the importance of state organizations (in this case through ADMARC) in providing in times of need.
- There is need to grasp fully the array of stakeholders and their interests, competing views and demands in policy issues. Understanding how various interests play out is critical for analyzing potential trade offs in the policy process. Assuming that policies emerge from technical reasoning and first principles economic theory will result in policy failure.
- Government leadership and determination backed up by a democratic mandate means that there must be a culture of pragmatism, negotiation and compromise among donors, who often are used to getting their own way. Electoral mandates and popular support are critical for any meaningful policy-making process and so require respect.
- Donors should not only understand the political context of the countries where they operate but also that they should be more reflexive in their reading of that reality and the role they play in it.

In conclusion, this case study clearly demonstrates that policy assessments need to be built on solid context specific analyses. This was a story about the nationwide political consensus for fertilizer subsidy which emerged in the context of a fragile government (which donors saw as an improvement on its predecessor) trying to devise and deliver a policy in the face of very dynamic and maize-dominated domestic politics and significant donor scepticism. There is thus need to fully grasp the messy hidden politics of policy and implementation in order to generate realistic policy responses and outcomes. This requires a thoroughly grounded approach, rooted in context specific constraints, allowing for scenarios and options to be elaborated and debated by the multiple stakeholders in the agricultural policy processes.

Endnotes

[1] See *Fertilizer Price to go Down, Says PS for Agriculture*, The Nation 25th June 2004
[2] See *Government Rejects Universal Subsidy*, The Nation, 11th May 2005; *TIP Stopped: About MK 2 Billion for Subsidy*, The Daily Times, 11th May 2005; and *No Free Fertilizers, Seed this Year*, The Daily Times 16th May 2005.
[3] See *MCP Threatens to Shoot Down Budget*, The Nation, 7th June 2005; and *JZU's Strong Point*, The Nation, 8th August 2005.
[4] See *Gondwe Says Fertilizer Subsidy to Cost MK 4.2 Billion*, The Nation 8th July 2005; *Government, Tembo Agree on Fertilizer*, 7th July 2005; and *Universal Fertilizer Subsidy Gets Government's Approval*, The Daily Times, 7th July 2005.
[5] See *Government Subsidize Maize Seed,* The Daily Times, 16th September 2005.
[6] See *Subsidy Tender Worry Local Fertilizer Firms*, The Nation, 11th July 2005.
[7] See *Fertilizer Subsidy Coupons Distribution on Course*, The Daily Times, 21st September 2005; and *Fertilizer Coupons for Centre, North Next Week*, The Daily Times.
[8] See *JZU Angry at Change on Fertilizer Subsidy*, The Daily Times 25th August 2005.
[9] See *What is in Fertilizer Price, Mr. President*, The Daily Times, 6th October 2005.
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[11] See *Fertilizer Subsidy not Solution*, The Daily Times, 6th August 2005 and *MPs Subsidy Demands Unrealistic Analysts*, The Nations, 17th October 2005.
[12] Ibid
[13] See *ADMARC only Buying Maize*, The Nation, 17th August 2005.
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