

E. LIBERALIZATION OF THE SEED AND FERTILIZER TRADE

1. Findings

A longstanding and consistent component of USAID/M's project and non-project assistance to the GOM has been support for the supply of, and delivery system for, the improved bio-technical inputs and materials needed to raise the productivity of smallholder farmers -- specifically improved seed and planting materials, and to a lesser extent, fertilizer. Initial issues involved the imports of seed, and its breeding, multiplication, and distribution. They also covered the availability, price and distribution of fertilizer, and the extension and information measures necessary to reach the smallholder producers.

In line with the above concerns, the perception grew that a range of import restrictions, taxes and subsidies was inhibiting the development of a commercially self-sustaining system for trading, producing, managing and distributing these supplies. The traditional approach of restricting trade and monopolizing the distribution system with cumbersome (and inevitably politicized) official agencies, operating at fixed prices, was seen as undermining the development of efficient trading and marketing arrangements. This approach was also seen as working to the detriment of smallholder farmers, denying them access to the varieties, supplies, and technologies of their choice.

The relevant CPs, in essence, specified the removal of all import restrictions, taxes or subsidies on seeds and fertilizer, allowing the importation and distribution of whatever such inputs could find a domestic market. They also called for private importers or traders to buy or replace the GOM buffer stocks of fertilizer.

There is no doubt that the liberalization of the farm inputs market increased the potential availability of these products in the country. In terms of prices to the farmer, however, the benefit of this increased openness was more than offset by the gradual devaluations of the MK, so that instead of falling, the prices of imported inputs rose quite significantly in nominal terms. (This occurred in spite of the fact that the real price of imported fertilizer is now 30 percent lower than it was in 1994.)

The predictable consequence of these price increases is that the use of these improved inputs has not expanded, as was predicted. Instead, it has declined, with a concomitant decline in soil fertility and yields, especially in the smallholder sector.

In terms of competitive behavior, a rather small population of large suppliers exists in the country, with some smaller traders operating mostly in border areas. There is basically one local producer of hybrid seeds, with a number of potentially competing distributors, and two major importers of fertilizer. While these firms clearly compete for markets, not least, the market for donor-financed input distribution, the aggregate market is not very large, and there appears to be more competition by trying to lock in distributors than through price.

Distributors include chains of retailers, smaller shops and individual trader/transporters. Prices are typically fixed at company depots, with specified delivery costs to other locations, although at least one large fertilizer distributor uses pan-territorial pricing. Known traders generally receive discounts, (MK 100 per 50kg bag in the case of fertilizer). They can then sell at the

company price or, in more distant, longer haul locations, at some margin of their choice. The aim of these companies is to have their inputs available right across the country, within some kind of walking, or at least bicycling distance to all farmers. While there may be an implicit “carving-up of the market” arrangement to limit competition, the resulting coverage is of the farming areas, where the demand for fertilizer has expanded rapidly. Local fertilizer agents also hold demonstrations and field days, and make attempts, where possible, to collaborate with Ministry extension staff. A reported problem in such collaboration is the serious financial difficulties that such staff experience.

In the case of the free distribution of starter packs, commercial firms offer vigorous competition in the supply of the necessary commodities to the agencies that put them together. Most of these firms express the view that they are not facing competition from these supplies, since they generally go to producers that are so poor that they would otherwise not participate in the inputs market.

A number of donor initiatives have attempted to address the issue of the poverty constraints on input supplies. The most recent one, the Universally Targeted Input Program (UTIP) is an attempt to reach the lowest income rural producers with input supplies. These producers might otherwise require food assistance. A reported problem is that targeting on the ground is generally in the hands of the local chief’s committee, and the distributional mechanism or the criteria used is not always in accord with the design and intent of the program.

2. Conclusions

While there are complaints from some of the firms who formerly had greater market power, and faced limited competition from new entries, the opening up of the markets for agricultural inputs has resulted in the entry of more aggressive and capable suppliers, and in substantial improvements in the availability of supplies.

While price competition has not been vigorous in the liberalized market, as a consequence of its limited size and the small number of competing firms -- coverage in terms of supplies to the farming areas of the country appears to have been reasonably good, although coverage decreases drastically as the distance from regional distribution centers and town increases. Since smaller private traders and distributors undertake most of the distribution outside of the regional depots, location-specific prices generally reflect on transportation difficulties and costs, well understood by farmers. Farmers, and groups of farmers who want to bypass these traders and to arrange their own transportation, have the perfect right to do so.

In terms of the importing, breeding, and multiplying of seeds, along with promoting and distributing operations, the relative efficiency, coverage, and reliability has improved. Again, keeping these activities in the market rather than in the political arena also tends to protect the government from pressures to fix prices or to provide subsidies.

3. *Recommendations*

Recommendation 1

In some quarters, there is still cynicism about the production, trading, and distribution operations by private, as opposed to public agencies. Despite these residual reservations, there is no doubt that the reforms should not be reversed. Rather, the research and extension capabilities, and the various media and development agencies of the GOM should be mobilized to promote improved practices, including the appropriate use of these various commercially supplied inputs.

Recommendation 2

The entire ability of the country's farming sector to feed the country, and to expand its critical export earnings, depends on improved practices by farmers. These improved practices include the use of biochemical inputs that embody the kinds of technical change likely to provide high returns to Malawi's smallholders. The essence of the development strategy for this sector is sharp and pervasive increases in productivity. The Government, donors, and the commercial supply and marketing agencies need to focus on that task. A crucial component of that task is to achieve substantial increases in the use of improved, commercially supplied seed (hybrid or open pollinated varieties) and fertilizer.

4. *Lessons Learned*

- ▶ Commercial firms are generally ready to undertake the importing, breeding, trading, packaging, and domestic distribution of seed and fertilizer, and can typically do it far more efficiently than can official or parastatal agencies. Such firms can, however, be quite adept at using their contacts with officials to restrict competition, especially with regard to market access and to prices. While such restrictions, whether they favor a commercial firm or supplier, may help the firm in question, it is unlikely to help the farmers or other users of such supplies.
- ▶ The initial task of liberalizing the markets is the *sine qua non* for the more efficient and aggressive distribution and sale of these farm input products. The long run task is to encourage and facilitate the penetration of the more remote areas, developing a detailed knowledge of farmers' requirements and opportunities in each area, and in developing demonstrations and other mechanisms to increase the awareness and appropriate use of these inputs. In essence, this task is one of ensuring a competitive market, open to new entries. It also requires a knowledgeable and vigorous distribution and sales force. These distribution networks can and should work closely with MOAI staff to provide farmers with accurate information, and to expand the appropriate use of these inputs.