

The limitations of smart subsidies: A case study of  
Malawi's Farm Input Subsidy Programme

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## **Abstract**

The limitations of smart subsidies: A case study of  
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Abstract: Malawi's Farm Input Subsidy Programme (FISP) has contributed significantly to maize production and productivity and national food self-sufficiency, and has been coined as "one of the most successful smart subsidies of the day" (Mapila, 2013, p. 1). FISP, however, has increasingly come under fire for various inefficiencies, such as poor targeting and financial unsustainability. Given that these are the very challenges that smart subsidies are said to address, there is a need to re-evaluate FISP and assess the long-term developmental prospects of smart subsidies. This thesis argues that, while it has initiated significant productivity gains, FISP has not practiced pro-poor targeting, has not promoted private sector development in the subsidised fertiliser retail industry, and has been a significant fiscal burden on the state. FISP has not been successfully implemented as a smart subsidy, highlighting the limitations of successfully implementing such subsidy programmes in the SSA context.

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## **TABLE OF CONTENTS**

CHAPTER ONE: INTRODUCTION.....	1
Empirical Focus.....	9
CHAPTER TWO: AGRICULTURE AND SUBSIDIES IN MALAWI.....	14
CHAPTER THREE: LITERATURE REVIEW.....	38
The Goal of National Food Self-Sufficiency.....	39
The Use of Agricultural Subsidies.....	43
The Private Sector and the State.....	53
Food Self-Sufficiency and Subsidies in Malawi.....	58
Smart Subsidies.....	60
Patronage, Corruption and Development.....	78
CHAPTER FOUR: EMPIRICAL RESEARCH ON MALAWI’S FISP.....	82
Malawi’s Maize Production and Productivity.....	82
Targeting.....	88
Private Sector Development.....	101
Costs and Funding of FISP.....	108
Lessons from Empirical Research.....	115
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS.....	119
The Limitations of Smart Subsidy Implementation in the SSA Context.....	119
Smart Subsidies and Long-Term Development.....	122
Neoliberalism and its Alternatives in Development.....	125
Recommendations for Malawi and FISP.....	127
BIBLIOGRAPHY.....	134

## **FIGURES**

3.1 Total maize production in Malawi, 1996 to 2013.....	83
3.2 Maize self-sufficiency in Malawi, 2000 to 2012.....	85

## **TABLES**

3.1 Distribution of poor in rural areas of the North, Centre and South region, 2004/05 and 2010/11.....	89
3.2 Percentage of beneficiary households by region, 2006/07 – 2010/11.....	90
3.3 Percentage of beneficiary households receiving between one and more than two coupons by region, 2006/07 – 2010/11.....	91
3.4 FISP beneficiary households by wealth/poverty status, 2011.....	96
3.5 FISP net subsidy share for rural population by wealth/poverty status, 2011.....	97
3.6 Percentage of households in each poverty group receiving fertiliser bags, 2010/11...	98
3.7 Share of subsidised fertiliser supplied by each sector (volume, value and percentage), 2007/08 to 2011/12.....	104
3.8 Total fertiliser imports and available commercial fertiliser in Malawi, 2004 to 2011.....	105
3.9 Percentage of households purchasing commercial fertiliser from source, 2006/07-2010/11.....	106
3.10 Programme costs (\$USmillion), 2005/06 to 2012/13.....	109
3.11 Programme budget (US\$million), 2005/06 to 2012/13.....	111
3.12 Funding for FISP (US\$million), 2005/06 to 2012/13.....	113

## ACRONYMS AND ABBREVIATIONS

ACB.....	Anti-Corruption Bureau of Malawi
ADMARC.....	Agricultural Development and Marketing Corporation
AEO.....	African Economic Outlook
AfDB.....	African Development Bank
AFORD.....	Alliance for Democracy
AISP.....	Agricultural Input Subsidy Programme
ALBA.....	Bolivarian Alternative to the Americas
ASWAP TWG on M&E.....	Malawi’s Agricultural Sector Wide Approach Technical Working Group on Monitoring and Evaluation
CEDEP.....	Centre for Development, Environment and Policy
CPI.....	Consumer Price Index
DFID.....	Department for International Development
DoDMA.....	Department of Disaster Risk Management
DPP.....	Democratic Progressive Party
EPA.....	Extension Planning Area
ETIP.....	Extended Targeted Inputs Programme
EU.....	European Union
FANRPAN.....	Food, Agriculture and Natural Resources Policy Analysis Network
FAO.....	Food and Agriculture Organization of the United Nations
FAOSTAT.....	Food and Agricultural Organization of the United Nations Statistics Division
FISP.....	Farm Input Subsidy Programme

FSP.....	Farm Support Programme
GBI.....	Greenbelt Initiative
GDP.....	Gross domestic product
GoM.....	Government of Malawi
IFAD.....	International Fund for Agricultural Development
IFMIS.....	Integrated Financial Management System
IFPRI.....	International Food and Policy Research Institute
IMF.....	International Monetary Fund
IWMI.....	International Water Management Institute
MCP.....	Malawi Congress Party
MK.....	Malawian Kwacha
MNLP.....	Malawi National Land Policy
MoAFS.....	Ministry of Agriculture and Food Security
MTNL.....	Mahanagar Telephone Nigar Ltd.
MVAC.....	Malawi Vulnerability Assessment Committee
NAIVS.....	National Agricultural Input Voucher Scheme
NSO.....	National Statistics Office
OECD.....	Organisation for Economic Co-operation and Development
OHCHR.....	Office of the High Commissioner for Human Rights
OPV.....	Open Pollinated Variety
SAP.....	Structural Adjustment Programme
SFFRFM.....	Smallholder Farmers Fertiliser Revolving Fund of Malawi
SOAS.....	School of Oriental and African Studies
SOE.....	State-owned enterprise

SSA.....Sub-Saharan Africa  
TIP.....Targeted Inputs Programme  
UDF.....United Democratic Front  
UNDP.....United Nations Development Programme  
USAID.....United States Agency for International Development  
WFP.....World Food Programme  
WITS.....World Integrated Trade Solutions  
WTO.....World Trade Organisation

**CHAPTER ONE: INTRODUCTION**

According to the 2009 Declaration of the World Summit on Food Security, “food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food, which meets their dietary needs and food preferences for an active and healthy life” (FAO, IFAD & WFP, 2013, p. 16). In the last 25 years, there has been a notable decrease in the number of chronically undernourished people in the world, with an estimated 805 million people being chronically undernourished in 2012-2014, a decrease of about 209 million people since 1990-1992 (FAO, IFAD & WFP, 2014). Despite this decrease, which can be seen across all regions but to varying extents, food insecurity continues to be pervasive, and more so in some regions than in others, and particularly in sub-Saharan Africa. It is imperative that food insecurity be addressed as a development issue as it has detrimental effects on “labour productivity, health, and education, which ultimately leads to lower levels of economic growth” (Guha-Khasnobis, Acharya & Davis, 2007, p. 1). Effective responses to other development issues such as those pertaining to education, health and child mortality, will require progress in improving people’s food security, and so it is of the utmost importance that food security be a central goal in development (Guha-Khasnobis et. al, 2007).

Food security is a complex goal involving the combination of several food security outcomes: food availability, food accessibility, food stability and food utilization. Food availability focuses on the quantity of food that is available, also considering its quality and diversity through measurements of dietary, energy and protein supplies (FAO, IFAD & WFP, 2014). Food access comprises of physical access to food, which takes into consideration infrastructure such as road and railway density, and economic access,



which is based on domestic food prices and the prevalence of undernourishment (FAO, IFAD & WFP, 2014). Food stability is determined by exposure to food security risks such as area under irrigation and the value of staple food imports as a percentage of total merchandise exports, or the incidence of shocks such as fluctuations in domestic food supply, food price volatility, and political instability (FAO, IFAD & WFP, 2014). The final outcome, food utilization, is based on the ability to utilize food, determined by access to water and sanitation, with the outcomes of poor food utilization being determined through outcomes such as under- or malnourishment of children under five and prevalence of anaemia in women who are pregnant (FAO, IFAD & WFP, 2014).

While all of these food security outcomes are of great importance in addressing food security, food availability stands as a prerequisite for the other elements, and has the potential to translate into the other food security outcomes. Food can be made available either through domestic production or imports. In sub-Saharan Africa (SSA), where the estimated 33 million smallholder farms in the region equal 80 percent of all farms and account for 90 percent of food production, food availability through domestic production can also translate into food accessibility as smallholder farmers consume their own produce or sell it for income which can be used to buy more food, thus increasing, although not guaranteeing, food accessibility (Wiggins & Keats, 2013). An increase in food availability can also improve access to food as more productive agriculture may result in lower food prices, improve people's living standards and expand their capabilities (UNDP, 2012). Improving food security by increasing food availability through domestic production, and especially that of smallholder farmers in SSA is, therefore, imperative for the region's development.

Although SSA has made notable progress in reducing its number of undernourished people, with 205.7 million people being undernourished in 2010 to 2012, a drop from 211.2 million undernourished people in 2008 to 2010, agricultural productivity in the region remains low (FAO, IFAD & WFP, 2014; FAO, IFAD & WFP, 2015; UNDP, 2012). The cultivable areas in the region are also poorly irrigated, thus contributing to low production and productivity, with only 2 percent of the region's cultivated area being under irrigation, compared to 39 percent in South Asia (Mendes, Paglietti & Jackson, 2014; Rasul, 2014). Governments, international institutions and non-governmental organisations have made efforts to increase agricultural production and productivity through introducing different policies, projects and programmes such as irrigation schemes and the introduction of new technologies. Agricultural input subsidies have particularly regained popularity in the region since the end of the 1990s as mechanisms to increase smallholder farmer agricultural productivity by allowing the farmers cheaper access to agricultural inputs.

In the 1970s and 1980s, input subsidies served as a major element of agricultural development strategies in the region, but they were largely phased out in the 1990s as part of the conditions of the International Monetary Fund (IMF) and World Bank's structural adjustment programmes (SAPs) (Shively & Ricker-Gilbert, 2013). SAPs were largely based on neoliberal ideals and the belief that the route to development involved economic liberalization (which also encompasses free, or open, trade), privatization (which involves the transferral of state-owned enterprises to the private sector), and macroeconomic stabilization (which involves subsidy cuts and a cut in government spending in social services in order to reduce budgetary deficits as more money would be

available to pay off debts), as well as other features aimed at promoting markets and private sector-led growth over the state and public institutions (Wilson, 2014).

SAPs, however, proved to be detrimental rather than beneficial to the region's development, and the removal of subsidies under these programmes resulted in agricultural crises such as food shortages as farmers had no support in purchasing inputs, and higher food prices, in part because of low food availability (Riddell, 1992). As a result, agricultural input subsidies were gradually reintroduced by some SSA countries, which has represented, in part, a rejection of the neoliberal policies imposed on developing countries that have turned toward a "pragmatic" role for a more "proactive" state in providing supports to address "market failures" (UNDP, 2013).

Since their resurgence, agricultural input subsidies have taken different forms in SSA countries in terms of their design, with some being universal in that they are offered to all farmers in the country, while others are targeted, being aimed specifically at a set criteria of people, such as the poor or those owning a certain amount of land. Other differences include the time of implementation, which can be set, meaning that the subsidies must be phased out after a certain number of years, or non-existent, which means that the subsidy programmes go on without a determined end date.

With the resurgence of agricultural input subsidies, there has been the emergence of "market-smart", or "smart" subsidies. A smart subsidy "favour[s] market-based solutions and aim[s] to promote development of agricultural input markets while targeting and enhancing the welfare of the poor" (Tiba, 2011, p. 510). The main characteristics of smart subsidies are pro-poor targeting, market-based solutions, which are those determined by supply and demand rather than the government and, in the case of smart

subsidies, carried out largely through the promotion of the private sector, and an exit strategy (Baltzer & Hansen, 2011). Smart subsidies are supported by some economists as well as official development agencies, such as the World Bank, which has long criticised traditional agricultural subsidy programmes, and views smart-subsidies as a preferred alternative. Although the very nature of subsidies seems at odds with neoliberal policies, smart subsidies offer the possibility of maximising social benefits but in a way that market distortions are minimised (Morduch, 2006).

In promoting market-based solutions while also striving towards enhancing the welfare of the poor, smart subsidies are aligned with the post-Washington Consensus (Hickey, Sen & Bukenya, 2015; Syed & Miyazako, 2013). Under the post-Washington consensus, there is a broadening of development goals such that they go beyond those which are measured by increases in GDP to also include objectives such as sustainable and more egalitarian development, which was not the case with the Washington consensus, or neoliberalism, from which SAPs emerged (Stiglitz, 1998). Smart subsidies are compatible with this vision due to their emphasis on special mechanisms to improve the welfare of the poor. Moreover, the post-Washington consensus sees the role of the government and markets as complementary, with the government playing an essential role in addressing market failures so that the markets can perform better, rather than the *laissez-faire* attitude that was proposed under the Washington consensus (Stiglitz, 2008). Smart subsidies reflect this through the emphasis on government intervention, in the form of subsidies, to address market failures such as credit constraints and imperfect competition in supply leading to higher input prices (Baltzer & Hansen, 2011).

Smart subsidy programmes have been implemented in countries such as Malawi, Kenya, Zambia, Tanzania and Rwanda. While these programmes have had some successes, such as increased staple crop production and productivity, they have also suffered from some inefficiencies, such as poor targeting, displacement of commercial sales by subsidised fertilisers, poor and delayed service delivery, financial unsustainability, corruption and political manipulation. This has intensified debate around the best way to structure an agricultural input subsidy programme.

### Objective and Rationale

Through the examination of a smart subsidy programme, Malawi's Farm Input Subsidy Programme (FISP), this thesis aims to gain a better understanding of the characteristics of smart subsidies, assess their applicability to the SSA context, and evaluate the extent to which they are beneficial for agricultural development within SSA. In critiquing smart subsidies, it also aims to show the limitations of neoliberal development projects, of which smart subsidies can be considered to be a part, in bringing about development.

Gaining a better understanding of input subsidy programme characteristics that may be conducive for agricultural development is imperative given that more SSA countries are adopting input subsidy programmes, and there is a need to ensure that both new and existing subsidy programmes are designed and implemented in such a way that inefficiencies are minimised and the best developmental results possible are attained. This is a particularly relevant issue to explore at this time given the commitment made by African Union member states in 2013 to the Renewed Partnership for a Unified Approach

to End Hunger in Africa by 2025, which commits members to implement “a coherent set of activities intended to achieve the elimination of hunger in Africa by 2025, encompassing a diverse combination of interventions spanning from expansion in food production, strengthening social protection mechanisms and the promotion of right to food legislation” (FAO, 2015). It is imperative to study the programmes and projects that have been given credit for improving food security and promoting agricultural development in SSA, and determine whether or not they are worthy of imitation or offer us partial lessons to learn from and build upon. Malawi’s FISP is one such programme, featured as a model for other SSA countries to follow in pursuit of agricultural development and food security.

Malawi’s FISP is an agricultural input subsidy programme that was first implemented in the country in 2005/06 and is currently ongoing. The programme, in which both the public and private sector are involved, provides fertiliser and seed at a subsidised cost to smallholder farmers based on a certain criteria. Since its implementation, the programme has contributed to significant increases in maize production and productivity and national food self-sufficiency, and has been credited as “one of the most successful smart subsidies of the day” (Mapila, 2013, p. 1). FISP, however, has increasingly come under fire for the various inefficiencies highlighted above as challenging other smart subsidy programmes, such as poor targeting, displacement of commercial sales by subsidised fertilisers and financial unsustainability. Given that these inefficiencies evoke the very challenges that smart subsidies are said to address, there is a need to re-evaluate FISP and assess the long-term developmental prospects of smart subsidies.

### Research Question

**To what extent does FISP, in practice, actually represent the smart subsidy model, and to what extent is the smart subsidy model itself successful as a development project?**

### Thesis Statement

Based on a critical examination of the benefits and limitations of FISP, this thesis argues that, while the programme has initiated significant productivity gains, pro-poor targeting in its design has not fully translated in the programme's implementation due to corruption, political manipulation and ambiguous and contradictory targeting criteria; there has been limited private sector development in the subsidised fertiliser retail industry due to government restrictions; and the programme, which lacks an exit strategy, has been a significant fiscal burden on the state due to inefficiencies arising from poor targeting, political manipulation and poor cost management, as well as dependence on expensive fertiliser imports. FISP has, therefore, not been successfully implemented as a smart subsidy, and this highlights the limitations of successfully implementing such a model in the SSA context.

While this argument may seem to imply that the challenges lie with the implementation of FISP rather than the smart-subsidy model itself, this thesis also goes further to argue that the smart-subsidy model presents developmental challenges for Malawi through encouraging the promotion of the private sector in fertiliser procurement, transportation and delivery, but not in the manufacture of fertiliser, which may result in a

perpetuation of dependence on imported fertiliser, and thus ‘development’ based on dependence. The model also falls into the ‘local trap’ when it comes to environmental sustainability, and its calls for an exit strategy fail to acknowledge the need for continued government support for long term development. There is, therefore, a need to rethink the smart subsidy model, both because of its limited applicability to the existing SSA context, and the developmental challenges that may arise even with proper implementation.

Given that the smart subsidy model emerges from the post-Washington consensus, which largely remains within the confines of neoliberalism, this thesis also argues that the shortcomings of the smart subsidy model as a development project highlight the limitations of neoliberal policies in bringing about development as they propose minimal government intervention and free trade which have never been tried and successful in ensuring development. There is, therefore, a need for alternative approaches to development, involving a developmental state and interventionist policies that will bring about long-term development and prioritise social concerns.

### **Empirical Focus**

In order to determine the extent to which FISP, as a smart subsidy, has been successful, a number of data needs were identified, mostly based on the three main characteristics of a smart subsidy. Data on changes in maize production and productivity were necessary in order to highlight some of the successes of the programme under its current design. It was also imperative to find changes in targeting at the area and beneficiary level in order to determine the extent to which FISP practices pro-poor targeting. Finding changes in private sector involvement in FISP was essential in order to



determine the importance of the private sector in the programme, as well as the impact of FISP on private sector development in various sectors within the programme. Changes in the performance of the private sector in commercial input sales was also important to determine the impact of FISP on private sector performance outside of the programme. FISP does not have an exit strategy, but there was need to assess changes in the affordability of the programme for the Malawian government in order to consider the need for an exit strategy in the programme based on growing costs and financial unsustainability.

Documentary evidence was largely depended upon for this thesis. Data collected from the documentary evidence covered the years 2005, when FISP was first implemented, to 2013, which is the last year for which there is currently adequate and reliable data. Years prior to the year of FISP's implementation were also included at times to allow for comparison between periods of time before the programme, and the years under which the programme has been implemented. Primary and secondary data was drawn from government documents, reports from non-governmental institutions, scholarly articles, newspapers, databases and books, accessed either electronically or manually. Primary data on maize production and exports was taken from the Food and Agricultural Organisation of the United Nations Statistics Division (FAOSTAT), while secondary data showing changes in maize yields was drawn from working papers from the International Food Policy Research Institute's (IFPRI) Malawi Strategy Support Program. Primary data on poverty levels in Malawi's regions, which was used to determine area pro-poor targeting, was taken from the database of the National Statistical Office of Malawi, while government publications from the Ministry of Agriculture and

Food Security in Malawi provided data on targeting criteria. The Centre for Development, Environment and Policy (CEDEP) at the School of Oriental and African Studies (SOAS) at the University of London contains a number of publications under the Evaluation of the Malawi Farm Input Subsidy Programme. Targeting data, data on private sector development in FISP, programme costs and budgetary information for the government of Malawi, the Ministry of Agriculture and Food Security (MoAFS) and FISP were gathered from these publications. A public expenditure review for Malawi from the World Bank provided budgetary information and targeting data for FISP.

Given that Malawi's input subsidy programme is well-documented and has received much praise as a model for other SSA countries, as well as being heavily criticised for its inefficiencies, FISP serves as an ideal subsidy programme to study in exploring the characteristics of input subsidies which are most beneficial for agricultural development within the SSA context. In view of this, this thesis shall take a case study approach in evaluating Malawi's FISP, analysing it within the smart subsidy framework, and situating it in its physical, political and economic context.

Although smart subsidies are not exclusive to agriculture, and have also been applied to technology, this thesis focuses strictly on smart subsidies as they relate to agricultural input subsidies. FISP subsidy packages contain fertilisers, seed and chemicals, but focus shall be on fertilisers as they are the largest component of the package in amount and value. While focus on fertiliser shall reflect that of both tobacco and maize fertilisers, attention on crop production shall exclude tobacco and be paid only to maize, in line with the focus on food availability as well as FISP's aims of food self-

sufficiency, which are dependent on the production of maize rather than that of tobacco which would provide income and increase economic access to food.

### Thesis Outline

The next chapter presents a discussion on the history of Malawi's agriculture and agricultural subsidies, as well as on the nature of FISP, arguing that the implementation of the programme is largely defined by the context within which it is carried out, with uneven access to land resources and patronage being some of the defining features of how the programme has been implemented. This chapter provides the necessary background information in order to situate and analyse FISP within its context, providing a better understanding of the programme, its benefits and its limitations.

Chapter Three provides a discussion on debates pertinent to this thesis. It begins with debates surrounding national food self-sufficiency, the contentious goal of FISP, which is not aligned with the neoliberal ideals often put forward for development. Food self-sufficiency, although different from food security, stems from food availability in that it is determined by the amount of food that is available through domestic food crop production, with this food being adequate to feed the entire population. Focus then shifts to debates surrounding input subsidies, as well as the role of the state and the private sector in development, which are imperative to address given that the smart-subsidy model emphasizes the need for private sector development and the minimisation of government support through an exit strategy. The chapter proceeds with a discussion on debates around national food self-sufficiency in Malawi, followed by a discussion on smart subsidies, and the debates surrounding the characteristics of the smart subsidy

model under review in relation to Malawi, and ends with a discussion on patronage and its effects on development, given that it can be a significant impediment to the successful implementation of programmes such as FISP.

Chapter Four provides a presentation of empirical research on FISP, as well its discussion and analysis, in order to determine the extent to which FISP, as a smart subsidy, has been a successful subsidy programme, and understand its limitations. Finally, Chapter Five concludes the thesis, discussing lessons that can be learnt from FISP about smart subsidies and their implementation in the SSA context. This is followed by general discussion on the neoliberal model and its limitations when it comes to development. The chapter ends with recommendations for FISP, stating that the programme may better serve Malawians with more effective complementary programmes in place, increased private sector development in subsidised fertiliser retail, and better cost-management, which will include promoting domestic fertiliser manufacturing to reduce the country's dependence on fertiliser imports and encourage long-term development.

**CHAPTER TWO: AGRICULTURE AND SUBSIDIES IN MALAWI**

Over the last five decades, Malawi has, for the most part, been characterised as a country with low social indicators, an economy that is highly dependent on relatively low productivity agriculture (dominated by its staple grain, maize), and generally lacking in other exploitable natural resources (Chirwa & Dorward, 2013a). The country's agriculture is mostly rain-fed, with only about 8.6 percent of total irrigable land being under irrigation, including estates, compared to 9.3 percent in neighbouring Zambia, and 2 percent in neighbouring Tanzania (IWMI, 2009; Hanatani & Sato, 2011; Makoye, 2013). Land ownership in Malawi lies at an average of 0.5 hectares per capita, which is a significantly small area of land, and serves only as a safety net, while there is a need to generate a primary income elsewhere (Chinsinga & Chasukwa, 2012).

Since its independence in 1964, food self-sufficiency has been a top priority for the country in ensuring food security, and agricultural production has been imperative for the country's economic growth and the wellbeing of the majority of the population (Yamada, 2008). Agriculture accounts for 39 percent of the country's GDP, as well as 90 percent of its export earnings, primarily due to exports of tobacco (Chinsinga & Chasukwa, 2012). More than 80 percent of Malawi's population depends on agriculture for its livelihood and 90 percent of the country's food crops are grown by smallholder farmers (Gondwe, 2002; Kishindo, 2004). As a result, the agricultural sector and the smallholder farmers within it are an integral part of the country's economy. This chapter explores the different changes in agriculture and, more specifically, agricultural subsidies in Malawi in order to provide background information on the country's agriculture, which will aid in the evaluation of FISP.

### The Colonial Administration

Malawi was colonised by the British in 1891. Under the colonial administration, policies were pursued that furthered the economic and agricultural interests of the metropolitan country and the settlers (Ng'ong'ola, 1986). A cash crop economy was set up, with the cultivation of export crops such as coffee, tea and flue-cured tobacco, almost exclusively carried out by settler estates, while smallholder farmers grew cotton and flue-cured tobacco as well as economic food crops such as groundnuts and maize, of which they were the principal producers (Lodge, Kadima & Pottie, 2002; Ng'ong'ola, 1986).

In redistributing land, a rural settlement structure was set up, in which “some of the most fertile lands were reserved for white farmers, leading to a very skewed distribution of land in the country” (FANRPAN, 2006). A colonial land policy was implemented, under which all land was appropriated to the British sovereign and native rights were redefined as ‘occupation rights’ in order to discourage the establishment of land rights similar to those claimed by the settlers (GoM, 2002). In 1951, a land ordinance, known as The Land Ordinance of 1951, established land as being either public, private or customary, with customary land being a form of public or crown land, thus making Malawians on customary land tenants on land they traditionally owned (GoM, 2002).

Increasing discontentment over colonial policies, the impoverishment of Malawians and a lack of their representation in politics led to a mass political movement, the Malawi Congress Party (MCP), which carried out campaigns against the colonial administration and the Federation of Rhodesia into which Malawi had been incorporated

in 1953 (Lodge et. al, 2002). In 1964, Malawi gained its independence with Dr. Hastings Banda as its first president.

Before we look at Malawi under President Banda, with particular focus on agriculture and subsidies, it is imperative to briefly explore the nature of rule leading to independence, focusing on the rise and consolidation of patronage and clientelism as a part of political practice. This is particularly important in this instance, as we shall later see the use of subsidies as a source of patronage. In acknowledging that SSA is a diverse region, it is important to also note that there are similar experiences in some instances, and so the following discussion on colonial rule and patronage shall not only refer or relate to Malawi, but to countries once under British colonial rule in SSA. This more general approach will prove to be beneficial when discussing the limitations of successful smart subsidy implementation in Chapter Five.

#### A Brief History of Colonial Rule, Independence and Patronage

Patronage and clientelism have become deeply entrenched in the politics of Malawi, particularly when it comes to agriculture, given its importance to the country and the people highlighted above. Boissevain states that, “patronage is founded on the reciprocal relations between patrons and clients. By patron, [he] mean[s] a person who uses his influence to assist and protect some other person, who becomes his client, and in return provides certain services to his patron” (as cited in Bearfield, 2008, p. 67). Clientelism represents the other side of the patron-client relationship, whereby “individuals try...to control and affect the political circumstances of their life” (Poggie,

1983, p. 663). This can be done through providing political support to a patron in exchange of services.

Under colonial rule in Malawi, colonial policies attempted to undermine traditional authority held by chiefs and headmen, and to enforce direct rule in traditional administration, but were largely unsuccessful (Lodge et. al, 2002). As a result, a dual state was created whereby, simultaneously in existence with direct rule, there was indirect rule through traditional authorities, who exercised a large amount of autonomy (Eggen, 2011). On indirect rule through chiefs in Africa during the colonial period, Lange (2004) states that “[it] was based on a tripartite chain of patron-client relations linking the colonial administration to the population via chiefs” (p. 907). The selection of chiefs was based on their lineage and, more importantly, their inclination towards cooperating with colonial officials (Lange, 2004). Chiefs had great institutional powers and tended to be rent-seekers upon the occurrence of an exchange between the local population and colonial administration (Lange, 2004). Lange notes that, “when independence reforms failed to weaken chiefs, this system of ‘decentralised despotism’ provided an effective impediment to state governance and broad-based development” (2004, p. 908).

As discontent with colonial rule and anti-colonial radicalism intensified in different African countries, including Malawi, colonial powers were under greater pressure to carry out decolonisation, and through a speedy process (Fanon, 2004). Colonial powers worked to ensure that the decolonisation process would be designed in such a way that would ensure power being passed down to conservative interests by concentrating power in the executive so that order could be maintained (Szeftel, 1998). Decolonisation was to be achieved through mass elections and, with little notice given,



nationalist organisations built their parties and gathered electoral support either through relying on individuals who had already acquired a large local following, or used clientelist politics in order to gain the support of local notables, and of local voters for the candidates (Allen, 1995). Ministries that were handed over to Africans at that time were spending ministries, which gave them access to resources that they could use to extend and consolidate support (Allen, 1995). Allen (1995) notes that, although clientelism proved to be efficient in recruiting and maintaining support, it would also prove to be a destabilising force.

From this, we can see that patronage had its roots from the way in which colonial powers applied their indirect rule to traditional authorities, with traditional authorities rent-seeking from them as well as their subjects as they acted as intermediates. Patronage can also be seen in the decolonisation process and, from a colonial history of it being used to gain and maintain power and influence, patronage has become embedded in the culture of how politics in Africa are carried out today. It is important to note that this is not to say that patronage is inherent in African politics, as it can be found in many other countries, but only to emphasize how it has become a common feature in the politics of the continent, and can be particularly prevalent in areas of relative scarcity, with battles waged over scarce resources.

#### 1964-1994: Hastings Banda, Neoliberalism and Structural Adjustment Programmes

Banda, from the MCP, was in power from 1964 to 1994. When he came into power, Banda favoured the elite class of Malawi, and carried on the focus on estate agriculture from the colonial period (with most estates owned by whites), exercising a

high degree of intervention and regulation in both estate and smallholder agriculture (Chirwa & Dorward, 2013a). An import-dependent economy, which is one largely based on trade, was developed, with estates producing tobacco for export, while smallholder farmers were limited to only growing food crops and low-value cash crops, as well as serving as a cheap labour reserve to the estates (Chirwa & Dorward, 2013a). There was also a new land reform policy put into place, having been drawn up in 1963 and implemented in 1967. These land reforms, however, did not present a significant departure from the previous colonial land policy and highlighted a continued government preference and support for large estates and their farmers over customary land as the former were seen as essential for achieving rapid socio-economic development such that, by 2002, agricultural estates occupied 1.2 million hectares of the 9.8 million hectares of land in the country, while smallholder farmers had 4.5 million hectares of land that were potentially available for agriculture (GoM, 2002; Zuka, 2013).

Banda's support for estates, particularly in the production of tobacco, was used as a tool to garner political support, and fertiliser and credit subsidies were provided to estates as well as better-off smallholder farmers as a way of political patronage (Chirwa & Dorward, 2013a). Poorer smallholder farmers, however, received little attention, being considered as less efficient in their land and resource use due to what Banda believed was the 'tragedy of the commons' in land use, brought about by the communal ownership of customary land (Hardin, 1968; Zuka, 2013). The 'tragedy of the commons' in land is based on the rationale that individuals who communally own a piece of land are more likely to seek to maximise their productivity through environmentally destructive means as they will share the burden of environmental destruction with their 'co-owners',

whereas those with private ownership are less likely to do so because they bear the burden of environmental destruction on their piece of land on their own (Hardin, 1968).

There was a desire by the government to move away from largely depending on the agricultural sector, and efforts were made to develop the manufacturing sector through import-substitution policies. Protectionist policies were put into place to promote the growth of the manufacturing sector, which mostly consisted of industries such as soft drinks, beer brewing and cheap textiles (Thomas, 1975). From 1964 to 1980, the manufacturing sector experienced its highest growth rate to date, but agriculture continued to be a dominant sector in the country as rapid export growth was imperative to service a growing external debt, as well as to import consumption and intermediate goods (Chavula, 2013; Thomas, 1975). However, based on the GDP growth rate, which averaged 5.3 percent per annum, as well as the growth of the manufacturing sector, between 1964 and 1979, Malawi's economy performed relatively well compared to the 1980s (Chipeta, 1993; Chavula, 2013).

In 1980, Malawi was hit by a number of external shocks. The world prices for flue-cured tobacco, an export that Malawi was largely dependent on, collapsed, resulting in many tobacco estates going bankrupt (Lele, 1990). Other more immediate causes for Malawi's economic downturn were the oil shock of 1979, which significantly increased oil prices for Malawi, and the intensification of the civil war in Mozambique, which increased the number of refugees coming into Malawi, creating pressure on resources (Chilowa, 1998). The civil war in Mozambique also meant that, for the purposes of trade, Malawi had to depend on the longer and more expensive trade routes to the ports in Dar-

es-Salaam and Durban as opposed to the rail route leading to the ports of Nacala and Beira in Mozambique (Mulaga & Weiss, 1996).

As a result of the country's economic downturn, the Malawian government had to seek financial assistance from the World Bank and the IMF. In 1981, the first structural adjustment loan, with policy conditions, was provided to Malawi, and marked the beginning of the liberalization phase in the country.

In observing Malawi's economic state, the World Bank (1981) raised concerns about Malawi's narrow export base and the slow growth in smallholder exports, as well as increased dependence on imported oil, a worsening financial condition of the public sector and growing budgetary deficits due to increasing expenditures. The Bank also noted that the country's balance of payments had deteriorated since 1978, and that terms of trade had fallen by 35 percent between 1977 and 1980 (World Bank, 1981). SAPs were drawn up for Malawi in order to reduce the budget deficit, improve the balance of payments, and allow the market to dictate wages, prices, resource allocation and the structure of production (Lele, 1990). Greater attention was also paid to smallholder farmers who were largely neglected prior to SAPs, when large estates and better off smallholder farmers were the only ones subsidised. SAPs aimed to increase export crop production by smallholder farmers through increasing the producer prices for these crops while maize (food) prices were kept down, thus encouraging the production of cash crops over that of maize (Chirwa & Dorward, 2013a).

In order to improve the finances of the Agricultural Development and Marketing Corporation (ADMARC), as well as the government budget, under SAPs, fertiliser subsidies were to be removed by 1985/86, but the government requested an extension for

this elimination, which was granted (Lele, 1990; World Bank, 1983). Renewed pressure for elimination, however, came under the third structural adjustment loan due to concerns over the government budget deficit (Lele, 1990). By 1987, the ratio of the fertiliser price to the maize price ratio was notably high, food stocks were inadequate for Malawi's population, and there was a growing number of refugees coming in from Mozambique, where there was a civil war, further straining food supplies (Lele, 1990). The result was a food crisis characterised by low maize production per capita and ADMARC was unable to purchase maize from smallholder farmers (Harrigan, 2003). These factors, as well as Banda's desire to deliver food self-sufficiency and counter growing calls for political change, led to Malawi reintroducing subsidies in 1987 against the conditions of the country's third structural adjustment loan (Chirwa & Dorward, 2013a; Kapoor, 1995; Lele, 1990). The World Bank responded by reviewing its policy position in Malawi, and in 1990, it created a new Agricultural Sector Adjustment Credit (ASAC), which consisted of a pilot scheme for fertiliser subsidies that were targeted (Chinsinga & O'Brien, 2008). Although maize production responded positively to the reintroduction of subsidies, maize shortages continued due to two serious droughts between 1992 and 1994 (Chirwa & Dorward, 2013a).

#### 1994-2004: Muluzi, the Starter Pack Scheme and the Targeted Inputs Programme

In 1994, after Malawi's first multi-party elections, Bakili Muluzi of the United Democratic Front (UDF) came into power as president, serving in this position until 2004. During his decade of rule, smallholder farmers were given more freedom in terms of the cash crops that they were permitted to grow, such as burley tobacco, which was

grown successfully and, initially, with good quality (Chirwa & Dorward, 2013a). On the advice of the IMF, however, agricultural input subsidies were completely removed in 1996 and this, along with the removal of price controls and credit programmes in place for input purchase, resulted in an increase in input prices as well as a decline in maize availability at the household and national level, causing a severe food crisis (Holden & Lunduka, 2010; Mpesi & Muriaas, 2012). Muluzi's decade of rule was marred by severe macroeconomic mismanagement, a decline in the real value of civil service salaries, rapid inflation, a dramatic decline in the value of the Malawian Kwacha, and weakening government capabilities (Chirwa & Dorward, 2013a). The economic decline in the country at that time can be considered to be as a result of a combination of structural adjustment and poor management by Muluzi's government as reforms under SAPs were implemented with greater momentum when Muluzi came into power, with further liberalisation and deregulation of the economy exacerbating the economic challenges that the country had been facing since the 1980s (Englund, 2002). There was also opportunistic privatization, and the issuance of government bonds to service budget deficits was a significant source of patronage, particularly for the elites who were involved in commerce in the south region, where the UDF had its political power base (Chirwa & Dorward, 2013a). With a plummeting economy, increasing land pressure in the south and a decline in soil fertility, a close association of the politics and mass patronage embedded in maize self-sufficiency and the politics of fertiliser subsidies developed (Chirwa & Dorward, 2013a).

As economic and social conditions worsened under neoliberal policies, and fears of another food crisis grew in the face of worsening food security, recommendations to

distribute necessary inputs to smallholder farmers, made by a government appointed Maize Productivity Taskforce, were supported by the ministers of agriculture and finance (Chinsinga & O'Brien, 2008). From these recommendations, in 1998, two years after agricultural input subsidies had been removed in the country, subsidies were reintroduced under the Starter Pack Scheme, which was funded by the Department for International Development (DFID) as a temporary measure (Chinsinga & O'Brien, 2008). 2.8 million smallholder households were beneficiaries of the starter packs, which provided them with 10-15kg of free fertiliser and two kilograms of hybrid seed, and the programme saw a notable increase in maize production (Chinsinga & O'Brien, 2008; Ricker-Gilbert et. al, 2013). The World Bank and other donors, however, grew concerned with the Starter Pack Scheme, which resembled the universal subsidies that were introduced post-independence and so, in 2000/01, the programme was scaled down to target the poorest and most vulnerable smallholder farmers, and was renamed the Targeted Inputs Programme (TIP) (Chinsinga & O'Brien, 2008). The packs provided under TIP, however, contained inputs of lower quality, which contributed to lower maize production growth levels than those under the Starter Packs (Chinsinga & O'Brien, 2008). When another food crisis hit in 2002/03, donors agreed to increase funding and the programme was scaled up, nearing universal coverage and becoming the Extended Targeted Inputs Programme (ETIP) (Holden & Lunduka, 2010). Despite the provision of subsidies, a drought in 2003/04 resulted in a substantial national food deficit (Holden & Lunduka, 2010).

In 2004, presidential election candidates of the UDF and MCP incorporated promises of different fertiliser subsidy programmes in their campaign (Chirwa & Dorward, 2013a). Bingu waMutharika of the UDF was elected president in 2004 but, upon his election, he broke away from the UDF and formed his own party, the Democratic People's Party (DPP). This coincided with a change in staff and management in the Lilongwe DFID office, who preferred public works programmes over subsidies to improve accessibility to and use of inputs (Chinsinga & O'Brien, 2008). This led to the DFID withdrawing financial support from the ETIP in 2004/05, and the DPP attempted to unilaterally fund the ETIP that year, but the programme was implemented late, resulting in the worst food crisis in Malawi's history in 2005 (Chinsinga & O'Brien, 2008). With a severe food crisis on his hands, as well as a party that had no base in parliament, Mutharika introduced a considerably scaled up input subsidy programme in order to gain the support of the population over that of the parliament (Chirwa & Dorward, 2013a). This subsidy programme was called the Agricultural Input Subsidy Programme (AISP) – although it was renamed the Farm Input Subsidy Programme (FISP) in 2008/09 – and was implemented in the 2005/06 season, against the advice of the IMF and the United States Agency for International Development (USAID) (Mpesi & Muriaas, 2012).

FISP's objectives are to “improve resource-poor smallholder farmers' access to improved agricultural inputs in order to achieve their and national food self-sufficiency and to raise these farmers' incomes through increased food and cash crop production” (Chirwa & Dorward, 2013a, p. 89). Under FISP, each beneficiary household should receive two coupons, and each coupon can be exchanged for 50kg of either tobacco or maize fertilizer a year for a highly subsidized cost, and a bag of maize seed, either hybrid



or Open Pollinated Variety (OPV) for no additional cost (Baltzer & Hansen, 2011; Ricker-Gilbert et. al, 2013). For a 50kg bag of subsidised fertiliser, beneficiaries must pay MK500, which was US\$3.50 in 2007/08 and US\$1.50 in 2014, although additional amounts of money are often requested by retailers under corrupt practices, leading to beneficiaries paying as much as MK5000 (Chinsinga & Poulton, 2014). MK500 has been the additional cost for one bag of subsidised fertiliser since 2009/10, having been MK950 when the programme first started (Chirwa & Dorward, 2013c).

Fertiliser for the programme is imported, with urea and “mineral or chemical fertilisers containing the three fertilising elements nitrogen, phosphorous and potassium” being Malawi’s third and fourth highest imports, respectively (WITS, 2015). The fertiliser is then supplied by parastatals and private companies, with private companies being awarded tenders by the government in order to supply fertiliser for FISP. The fertiliser for the programme is then supplied to three depots in the country’s three regions, all owned by the Smallholder Farmers Fertiliser Revolving Fund of Malawi (SFFRFM), a parastatal (Chirwa & Dorward, 2013a). From there, the fertiliser is transported by contracted private transporters to ADMARC and SFFRFM local area markets, where beneficiary households can redeem their coupons for the fertiliser. In 2006/07 and 2007/08, both the private sector and parastatals were involved in the distribution of subsidised fertiliser.

In 2007/08, private sector retailers who extended their distribution network into areas that were more remote were to be paid a ‘remote areas premium’, which was an additional MK100 or MK200 per coupon redeemed, depending on the extension planning areas’ previous year’s sales figures (Chirwa & Dorward, 2013a). Kelly et. al note that this resulted in private sector retailers operating in more locations than they had in 2006/07

(as cited in Chirwa & Dorward, 2013a). The government, however, was concerned that, if the private sector sales of subsidised fertiliser were greater than expected, ADMARC and SFFRFM would be left with unused stocks, and so a financial agreement was signed by the Department for International Development (DFID) and Stanbic Bank, whereby Stanbic, funded by the DFID, would purchase unsold fertiliser stocks from the participating parastatals at the end of the season, and resell them to the government at the beginning of the following season, and at the same price (Chirwa & Dorward, 2013a). At the beginning of the 2008/09 season, a time when contract negotiations for private sector participation in subsidised fertiliser retail were at an advanced stage, the government cancelled the participation of the private sector in this part of the programme because of unsubstantiated reports that there had been a misuse of fertiliser coupons, which were being accepted in exchange for the sale of other products (Chirwa & Dorward, 2013a).

Since the implementation of FISP, Malawi has experienced years of good rainfall and no severe droughts, although it must be noted that there have been some regional dry spells (Chirwa & Dorward, 2013a). The good rainfall and the programme have contributed to significant increases in maize production and yields – although these have plateaued over the last few years – as well as maize self-sufficiency at the national level, lower household food insecurity and low inflation, given that about 58 percent of what makes up the Consumer Price Index (CPI) is food (Chinsinga, 2012; Pauw & Thurlow, 2014). Malawi also saw a significant increase in tobacco production in the first few years of FISP's implementation, but this declined after 2009, and drastically in 2012, because of a drop in tobacco prices on the international market, resulting in FISP withdrawing its

support for the crop by providing fertiliser for maize only in 2010/11 and 2011/12 (Chirwa & Dorward, 2013a; FAOSTAT, 2015).

Due to FISP's successes, "Malawi features as a model in international policy dialogue for other countries on the African continent to emulate in order to kickstart their fledging agricultural sectors as engines of growth and sustainable poverty reduction" (Chinsinga & Chasukwa, 2012, p. 67). FISP, however, has not been without its challenges, and has been increasingly criticized for inefficiencies such as poor targeting, displacement of commercial sales by subsidised fertilisers, poor and delayed service delivery, financial unsustainability and political manipulation, particularly in the absence of an exit strategy.

### The Inefficiencies of FISP

When it comes to targeting, FISP aims to assist resource-poor smallholder farmers, with a beneficiary criteria that places emphasis on poor and vulnerable smallholder households. There has been criticism, however, of the ambiguous and contradictory nature of the beneficiary criteria, which is poorly applied during targeting (Dorward & Chirwa, 2013).

When FISP was first implemented, the process of targeting occurred in two rounds. The first round involved an updating of information for all farm families by MoAFS extension staff, with the assistance of village leaders, followed by the identification of beneficiary households who met the criteria (Chinsinga & Poulton, 2014). The second-round of allocations, which was done away with after the 2009 elections, was less transparent and more generalised in determining beneficiaries, with

information on coupon distribution and eligibility not going beyond the district level (Chinsinga & Poulton, 2014).

In 2008/09, the allocation and distribution of coupons to beneficiary households was to be carried out in open meetings in order to increase transparency and empower the community through participation, rather than leaving the process solely to extension staff and traditional authorities (Dorward & Chirwa, 2013). In some cases, however, these meetings have been more informative than they have been participatory, with farmers being informed about the beneficiaries by traditional authorities rather than taking part in the decision-making process (Dorward & Chirwa, 2013).

Another issue that has been raised pertaining to targeting inefficiencies is that of beneficiary households not receiving complete subsidy packages. While each beneficiary should receive two coupons, there are reports that some beneficiary households only receive one coupon, or have to share the value of a coupon with other beneficiary households (Dorward & Chirwa, 2013). This largely has to do with the number of coupons being provided being less than the number of beneficiaries who have been allocated coupons (Dorward & Chirwa, 2013). The redistribution or sharing of coupons is carried out by the village head and it is reported that it is usually the poorest households that have to share their coupons or receive coupons through sharing (Chirwa & Dorward, 2013a; Dorward & Chirwa, 2013).

Targeting inefficiencies in FISP also include inclusion and exclusion errors, whereby poor smallholder farmer households who meet the criteria may be excluded from the programme while better off smallholder farmer households are included because of administrative errors, patronage and an ambiguous and contradictory beneficiary criteria

(Chirwa & Dorward, 2013a; Dorward & Chirwa, 2013). This may result in the displacement of commercial fertiliser sales with subsidised fertiliser as better off farmers may have less need to purchase fertilisers if they receive coupons for subsidised fertiliser (Chirwa & Dorward, 2013a). Pauw and Thurlow note that “in Malawi, about 18 percent of commercially-supplied fertilizer is believed to be displaced by FISP” (2014, p. 3). There have also been reports of poor smallholder farmers selling their coupons to better off farmers (Chirwa & Dorward, 2013a). The leakage of subsidised fertiliser outside the smallholder sector is significant, with only 63 percent and 68 percent of recorded coupon issues in 2006/07 and 2008/09, respectively, going to smallholder farmers (Chirwa & Dorward, 2013a).

Targeting under FISP at the regional level has also been affected by political manipulation, most notably at the regional level. When multi-party elections were introduced in Malawi in 1994, it became apparent that there were regional strongholds for different parties, with the MCP winning most seats in the Central Region, the UDF taking most seats in the Southern region, and the Alliance for Democracy (AFORD) winning most seats in the Northern region in 1994 and 1999 (Chinsinga & Poulton, 2014). With the majority of the country’s population being in the Central and Southern regions, the Northern Region was considered a swing-voting region (Chinsinga & Poulton, 2014).

When the UDF won the 1994 and 1999 elections, it had a significant minority in the parliament, and so it formed a coalition government with AFORD, awarding the party with ministerial positions and the seat of the second vice-president (Chinsinga & Poulton, 2014). Due to internal discord within the party, however, AFORD lost its influence in the Northern Region in 2004, which changed the dynamics of the region, with individual

politicians seeking influence in the region through the chiefs and the clergy (Chinsinga & Poulton, 2014). For the newly elected DPP government of President Bingu waMutharika, which had no base in parliament, the second-round allocations of coupons served as a great opportunity to garner support in the North region (Chinsinga & Poulton, 2014). Chinsinga and Poulton note that, it is in these second-round allocations that the disproportionate distribution of coupons in favour of the North was most apparent (2014). Former President Mutharika allowed influential chiefs and figures to distribute coupons during the second-round allocations to their networks, and these figures could also “bargain for the number of vouchers they received, in part exchange for their support for a government whose future was very uncertain prior to 2009” (Chinsinga & Poulton, 2014, p. s141).

In 2009, former President Mutharika was re-elected with a landslide victory and the majority of seats in parliament. With his position now secure, and the DPP with a majority of parliamentary seats, as well as growing criticism of corruption within FISP, the second-round coupon allocations were abandoned (Chinsinga & Poulton, 2014). The political climate of Malawi has, therefore, had a substantial influence on the way in which coupons have been distributed regionally.

FISP has also been criticised for delays in service delivery, with reports of delays in awarding tenders to transporters and input suppliers, beneficiary finalisation, delivery of coupon and input subsidies, and delays in payments to private companies for their services (Dorward & Chirwa, 2011a). Delays occur for various reasons, with some of the delays occurring further along the process, such as delays in the delivery of subsidies, being due to delays further up the process, such as delays in the submission and awarding

of tenders for input suppliers. There are reports of late coupon redemption due to other delays and, with some coupons being redeemed after the first rains, this largely affects the farmers' harvests as they start planting their seeds late (Chirwa & Dorward, 2013a). The varying extents of these inefficiencies shall be further explored in Chapter Four.

Corruption under FISP has been a particularly concerning matter, and not just in targeting, discussed above but also around coupon redemption. The Anti-Corruption Bureau (ACB) of Malawi has brought FISP under investigation and made arrests of ADMARC staff for crimes including taking some fertiliser from fertiliser bags for FISP, and selling subsidised fertiliser at a higher cost than the official MK500 (Namanja, 2015; Nyasa Times, 2011).

Aside from the programme's inefficiencies, Malawi's dependence on imported fertilisers is concerning. The country has the mineral resources required to manufacture its own chemical fertilisers, but its few fertiliser blending plants have a total capacity of about 70,000 metric tonnes of fertiliser (GoM, n.d.). This amount, however, is only enough for estate farmers and so, as a result, Malawi is a net importer of fertiliser, importing the fertiliser used for FISP (GoM, n.d.). FISP accounts for one tenth of the country's imports, and with such a high dependence on imported fertiliser, this makes FISP vulnerable to the volatility of both fuel (for transport) and fertiliser prices (OHCHR, 2013).

Dependence on foreign imports in general has to do with the logic of comparative advantage in international trade theory, and can be applied to the SSA region. According to Wood & Berge, given the continent's endowments in natural resources but a lack of skill, Africa's comparative advantage is not in manufactures (as cited in Collier, 2000).

Based on its comparative advantage, the continent should, therefore, focus on exporting natural resource-intensive goods while it imports skill-intensive goods (Collier, 2000). This rationale has largely dictated how industries have formed in Malawi, particularly under neoliberalism, whereby agricultural production for export continued to be promoted. As noted earlier, Malawi mainly exports tobacco and, when SAPs were introduced, there was greater encouragement for smallholder farmers to produce cash crops under the corporate food regime, which shall receive further attention in the following chapter. With an economy that was based on primary industry, the country has had to depend on imports for manufactured goods and, prior to its achievement of national food self-sufficiency, has also had to import grain. Food self-sufficiency, however, as well as the large agricultural sector and inadequate capabilities for domestic fertiliser manufacturing have meant that the country has had to become increasingly dependent on fertiliser imports in order to contribute to increased productivity.

After conducting a mission to Malawi in 2013, United Nations Special Rapporteur on the right to food, Mr. Olivier de Schutter, provided an end of mission statement in which he criticized Malawi for its overreliance on chemical fertilisers, which he stated could be concealing as opposed to replenishing depleted soils (OHCHR, 2013). De Schutter highlighted that the depletion of soil fertility is “the most worrying sign of Malawi’s ecological crisis”, and that there has been continued loss of soil micronutrients (OHCHR, 2013). While efforts have been made to encourage the use of organic fertiliser, this has been limited in the form of manure, in part, by land pressure which has limited livestock ownership, the high labour requirements required for inorganic fertilisers, as well as the provision of modern hybrid seeds for FISP from Monsanto and other



international and domestic seed companies, which require high levels of fertiliser in order to perform well, resulting in beneficiaries of FISP having to continue to depend on these imported chemical fertilisers for the sake of their agricultural productivity (Holden & Lunduka, 2013; OHCHR, 2013; Wise, 2014). De Schutter emphasizes the need for a ‘Brown Revolution’ in order to improve soil fertility through different strategies, and notes there have been some home-grown organic soil fertilisation technologies that have had some notable success, but are yet to receive greater documentation (OHCHR, 2013). Chirwa and Dorward (2013a) and Holden and Lunduka (2012) have also suggested the use of inorganic fertilisers with complementary use of organic fertilisers as “economically and ecologically efficient processes for increasing land and labour productivity” (Chirwa & Dorward, 2013a, p. 269).

#### Notable Changes in the Country’s Economy Since FISP

The country’s economy has risen and fallen during FISP’s implementation, with macroeconomic instability arising in 2011/12, having been triggered by the devaluation of the Malawian Kwacha, which adversely affected other macroeconomic indicators (Dorward et. al, 2013). The country, however, managed to recover from the macroeconomic challenges of 2011/12, with GDP growth in 2013 estimated at 5 percent, from 1.8 percent in 2012 (AEO, 2014). This largely had to do with a fruitful tobacco season and a notable recovery in the growth of construction, wholesale and retail traders, and manufacturing (AEO, 2014). In September 2013, however, there was the discovery of ‘Cashgate’, a scandal that involved “the looting of public funds through the Integrated Financial Management System (IFMIS). In response to this scandal, donors withdrew

budget support for two years, resulting in a deterioration of fiscal conditions in 2013/14, including a widening of the fiscal deficit (Kangwele, 2015; Mwanakatwe & Kebedew, 2015). Donor budget support in Malawi is very important, with 40 percent of the national budget coming from foreign aid (Wroe, 2012).

### Revisiting Land Distribution

It is imperative to briefly revisit the issue of poor land distribution in Malawi to provide greater context to the country's current state in terms of land distribution, as this largely impacts agricultural productivity for farmers. During the time of Muluzi's rule, growing discontent also developed over land policies and distribution. As a result, a Presidential Inquiry into Land Policy reform was set up in 1995, which presented a final report to the president in 1999, recommending better protection of customary land rights for smallholders who had insecure land tenure and were at risk of the arbitrary land conversions which had been taking place under the previous land policy, allowing customary land to be taken and converted to private land without the consent of smallholders (GoM, 1999). Moreover, it was also recommended that all customary land that had been changed to leaseholds be reverted to customary land under traditional authorities once the leases had expired (GoM, 1999). The recommendations from the Presidential Commission of Inquiry formed the Malawi National Land Policy (MNLP) of 2002 whose main aims are "confirming and securing customary land rights" (Hall, 2010, p. 26). The MNLP is, however, yet to be implemented, with some impediments to this including the economy's weak state, a lack of qualified clerks for land registration, and long drawn political uncertainties which have resulted in the withdrawal of some donor

funds (FANRPAN, 2006). Political unwillingness also stands as one particularly significant impediment to implementation as there is a deliberate effort by the government to maintain the status quo that has been most beneficial to them, as it has allowed them to keep large tracts of land that some of the top officials gained in the 1967 Land Act, and continue to exercise power over customary land which allows for arbitrary land conversions (Chinsinga, 2008; Zuka, 2013). As the implementation of the policy stalls, there have been other attacks on land owned by smallholders. The Greenbelt Initiative (GBI), a programme set up in Malawi to provide large tracts of land to commercial farmers in order to promote agricultural development, has taken one million hectares of smallholder target land to give to investors in order to carry out irrigation initiatives, as opposed to taking idle land from bureaucratic elites with political connections (Chinsinga & Chasukwa, 2012). The issue of land ownership finds its relevance in FISP particularly because the small tracts of land owned by many smallholder farmers limit their production and productivity, and may also limit their potential to use organic fertiliser.

### Conclusion

From this chapter, it can be deduced that the agricultural sector has played a considerable role in Malawi's economy, and continues to do so today. Subsidies have played a notable role in the country's agricultural growth, but they have also been a tool of political manipulation and patronage. While subsidies as well as good rains have resulted in increases in staple crop production, severe droughts have often limited their effectiveness. The newest subsidy programme, FISP, has had its successes, but it has also

been criticised for inefficiencies that have affected the effectiveness of the programme. Moreover, Malawi's dependence on imported chemical fertilisers has made it prone to volatile fertiliser prices on the international market and also concealed rather than addressed declining soil fertility in the country, which may largely affect long-term agricultural development in the country. Malawi also has other challenges beyond the confines of FISP, but ones which can affect the programme's effectiveness, such as poor land distribution, which makes it difficult for small farmer to be competitive even with fertilizer subsidies and poor infrastructure, which limits access to markets. More generally, this chapter has also explored Malawi's economy, providing a sense of the macroeconomic challenges that the country has been facing due to currency devaluation and corruption, which has disrupted donor support, and may also limit the success of the programme. These external factors must be kept in mind as they also contribute to determining the overall success of the programme.

FISP's implementation has been moulded by the context from which it arises. The programme must, therefore, be understood and assessed within the context of Malawi's particular history and political economy, in particular as it pertains to the uneven access to land and resources experienced by the majority of small farmers, the high dependence on imported chemical fertilisers, and the specific political context from which corruption and clientelism have emerged.

### **CHAPTER THREE: LITERATURE REVIEW**

In its broadest sense, this thesis looks at the extent to which neoliberal ideals, particularly in the form of trade liberalization, minimal government support for farmers and the centrality of markets and the private sector as the lead institutions in the agricultural sector can be beneficial to the development of a country when the right, post-Washington consensus policies are added to the mixture. Robert McChesney (1999) notes that, “neoliberalism is the defining political economic paradigm of our time” (p. 7). The neoliberal agenda emerged in the 1970s and 1980s and, since then, has been promoted by the dominant international financial and trade institutions such as the IMF, the World Bank and the World Trade Organisation (WTO), as well as by many developed countries. It has guided trade and loan agreements between countries, as well as between countries and institutions, and has largely been imposed on developing countries over the years, although some Southern policy makers have also been quite receptive of these policies. It has defined agricultural policies in pursuit of economic growth, but has come under great criticism for its shortcomings in achieving this goal, and for failing to address human development and promote environmental sustainability (Broad & Cavanagh, 1999; Stiglitz, 1998). In order to address these shortcomings and strike a sort of balance between free markets and economic growth and human development, there has been the rise of the post-Washington consensus, which informs the characteristics and objectives of smart subsidies such as FISP (Stiglitz, 1998).

Keeping in mind the tensions that exist between the Washington Consensus, the post-Washington consensus and their alternatives, this chapter explores the different perspectives as applied to national food self-sufficiency, government support in the form

of input subsidies, and the role of the state and the private sector. These issues have become increasingly contentious as the neoliberal paradigm is met with greater opposition on these matters. The chapter shall then focus particularly on the debates surrounding national food self-sufficiency in Malawi, followed by a discussion on smart subsidies and the debates surrounding their main features and how they relate to FISP. The chapter will end with a discussion on corruption and patronage, and its effects on development, given that patronage is a notable impediment to the successful implementation of programmes such as FISP.

### **The Goal of National Food Self-Sufficiency**

Countries have the option of making food available for their populations through domestic production or imports through purchase or aid. Almost all countries use some combination of these options, but there are those which have decided to pursue with greater emphasis national food self-sufficiency, which is defined as “the ability of a region to sustain its own requirement for food” (Luan, Cui & Ferrat, 2013, p. 393), as opposed to largely depending on cash crop production, which would enable the purchase of food from the international market through foreign exchange earnings coming in from sales. When the independence period in SSA started in the 1960s, the countries in the region were essentially food self-sufficient. The introduction of SAPs in the 1980s and 1990s led to import dependence, which had a negative impact on domestic smallholder farmers. These policies led to depressed prices and the flooding of agricultural markets on which smallholder farmers had to compete, worsening socioeconomic conditions for the farmers and leading to a decline in domestic cereal production and often food crises

(Weis, 2007). As a result, there has been growing support for food self-sufficiency in SSA, with countries such as Zambia and Malawi more actively pursuing this goal.

Dependence on the international market for food continues to be widely supported by prominent economists and powerful international institutions who argue that, when global food production is compared to local food production, there is lower variability of production for the former than there is for the latter as the increases and decreases in food production are less pronounced on a global scale than they would be on a local scale (Ruppel & Kellogg, 1991). Depending on a market with lower variability of production when it comes to food gives some stability to food prices (Ruppel & Kellogg, 1991). Proponents of global market integration also state that relatively limited restrictions that exist on food exports globally, combined with the improvement in transportation systems, have made food easier to transport across the world, leaving national food self-sufficiency as an option with little economic feasibility (Panagariya, 2002). The argument for depending on the international market for food is also rooted in the belief that global market integration creates pressure for production everywhere to be based on the rationality of comparative advantage, which will result in the global economy becoming more efficient, with maximised production, stabilized supply and stabilized low prices (Weis, 2007). The reality of the rationale behind global market integrations has, however, been questioned and opposed by some economists (Akram-Lodhi, 2013; Chang, 2008; Weis, 2007).

Criticism of depending on the international market for food is largely based on the uneven playing field on which countries must operate. Stiglitz (2003) notes that Western countries have pressured developing countries to eliminate trade barriers through trade

agreements yet they have strategically maintained their own, thus creating a barrier to developing countries exporting their agricultural products and denying them of much needed export income. With subsidies being discouraged in developing countries while developed countries heavily subsidise their farmers (discussed in the next section), smallholder farmers in developing countries must compete on the market with the subsidized agricultural production of developed countries. Western countries have also maintained their quotas and non-tariff barriers on various goods ranging from textiles to sugar, while insisting that developing countries keep their markets open to imports from wealthier countries (Stiglitz, 2003). This has worsened the terms of trade for developing countries as the value of their imports far exceeds that of their exports (Stiglitz, 2003). O'Hagen (1976) provides a perspective that contests claims of domestic price stability due to the international market, noting that "countries have faced considerable difficulties arising from fluctuat[ing] import prices of food and feed" (p. 359).

For those in opposition to the current food system under which many countries are dependent on the international market for food, the global food crisis of 2007/08 probably presents itself as one of the greatest indications of a problematic food system. The global food crisis came about when international cereal prices, which had been increasing since 2003 reached their peak in mid-2008, driving more than 130 million people into poverty, according to the World Bank, and adding about 75 million people to the population of malnourished persons, according to the Food and Agricultural Organisation of the United Nations (FAO) (Headey, 2011). By the end of 2007, there had been a 75 percent increase in food prices since 2005, and world grain reserves reached a low of 54 days (McMichael, 2009).



The underlying causes of the rise in food prices have been quite contentious, but factors resulting in the surge of food prices include the use of food to create biofuels, largely driven by the need to find alternatives to fossil-fuels, rising energy prices, poor harvests because of an increasingly variable climate, speculation on the commodity futures market, increased demand from fast-growing economies such as China, and monopoly pricing by agribusiness, under which food prices were inflated and “globally transmitted under the liberalized terms of trade associated with neoliberal policies” (McMichael, 2009, p. 281; Watson, 2012). With smallholder farmers having to compete with low subsidised produce coming in from the North in the 1980s and 1990s, there was a move from rural to urban areas as farming proved to be less profitable, thus reducing supply for an increasing demand. As food prices started to increase in the 2000s, and with a fall in subsistence farming, many people in developing countries had to turn to depending on purchasing food at high prices determined, in part, by agribusiness with the intention of increasing profits, but this was an unaffordable option to many (Akram-Lodhi, 2013; McMichael, 2009).

Rosin, Stock and Campbell warn against framing the global food crisis as an event, as some have, as it weakens the ability to respond to challenges to food security in positive and meaningful ways (2012). Headey and Fan state that, “if higher prices in 2007 and 2008 were at least partly the result of fundamental pressures on international cereal markets, then it is reasonable to expect prices to remain high in the years to come” (2010, p. xii). Watson claims that part of addressing the global food crisis and working to avoid its recurrence involves trade-policy reform which will equalize the playing field on which countries participate in trade (2012).

Proponents of self-sufficiency also claim that policies supporting food self-sufficiency are particularly beneficial to the vulnerable and poor in a country (Chandra & Lontoh, 2010; Kent, 2002). Weis (2007), however, highlights that self-sufficiency does not always translate to every household becoming food secure. In India in the 1960s, for example, when input subsidies were introduced, food self-sufficiency was based on ensuring that domestically produced grains met aggregate demand and were supplied at relatively consistent prices, without considering the food security of each household, resulting in great distributive inequalities within the country (Weis, 2007).

While depending on the international market for food may mean that there is a constant source of food on the global market, fluctuating food prices may have detrimental effects on developing countries. Moreover, with trade agreements and conditions that are skewed in favour of developed countries, who continue to oppose trade barriers and subsidies while maintaining them in their own countries, developing countries must compete on international markets at a disadvantage as they sell exports for foreign exchange earnings which will allow them to purchase food on the international market. In the face of this inequality and instability, and with a global food crisis that serves as proof of a problematic trade and food regime, it is imperative for developing countries to produce their own food as they work towards greater food security, and more so in a way that benefits the weakest and poorest sections of their population.

### **The Use of Agricultural Subsidies**

In order to achieve national food self-sufficiency, many Southern countries need to increase their food crop production so that supply can meet or exceed the aggregate

demand. One of the ways that some countries in SSA such as Zambia and Malawi have decided to do this is through the introduction of agricultural subsidies. Subsidies have been a highly contentious matter since the 1980s, with debates arising over whether or not governments should spend money subsidising their farmers in order to increase production, thus interfering with the market, which neoliberals state would lead to its inefficiency, distorting market signals, and propping up inefficient and unproductive farms.

From the 1960s to the 1980s, agricultural subsidies were a distinct characteristic of agricultural policies in SSA, given their ability to increase productivity and encourage the use of new technology (Chirwa & Dorward, 2013a). Due to some economically unsustainable policies such as those involving import substitution industrialisation strategies and state-led investments, as well as external factors such as the oil crisis of 1979, where the price of oil drastically rose, some countries in the region found themselves facing macroeconomic challenges and in significant debt, and so the IMF and World Bank introduced SAPs which, amongst a variety of neoliberal policies, called for the liberalization of input markets and discouraged agricultural subsidies in order to cut government spending and promote economic growth (Heidhues & Obare, 2011). The Berg report that was issued by the World Bank in 1981 claimed that input subsidies were a notable characteristic of fiscally and economically unsustainable policies that were distortionary towards market incentives, affecting competitiveness and farmer incentives, as well as undermining the development of the private sector (Dorward, 2009, p. 8). Crawford et. al notes that the liberalisation of input markets under structural adjustment led to a decline in input use and, resultantly, a decline in agricultural productivity (as

cited in Baltzer & Hansen, 2011). As a result of the failed SAPs, there has been a resurgence of input subsidies in some SSA countries such as Burkina Faso, Kenya, Tanzania, Malawi, Nigeria, Mali, Senegal, Zambia and Rwanda.

Despite the failure of SAPs and the detrimental effects of removing agricultural input subsidies, opposition to input subsidies continues. Although he is not of this opinion, Rosset notes that subsidies continue to be understood as “the principle source of unfairness in the global system of agricultural trade” (2006, p. 28). Some economists see the development of developing countries as being contingent on neoliberal policies, arguing that free markets and the rejection of government intervention are necessary for a country’s development. Chang (2008), however, notes that most developing countries have performed poorly under free trade. Through a historical analysis of the economic growth of rich countries, Chang highlights how developed countries depended on government support for the growth of some of their industries in as early as the 19<sup>th</sup> century, and some continue to depend on agricultural subsidies today, with an estimated US\$100 billion being given out by rich countries to their farmers each year (2008; Rosset, 2006). He notes that policies that discourage the use of input subsidies by developing countries in order to promote economic growth are, therefore, a reflection of how some developed countries have ‘kicked away the ladder’ that they climbed to reach development such that developing countries cannot achieve the same goal (Chang, 2008). In agriculture, developed countries benefit from this as it allows them to dominate agricultural markets, and their farmers have a higher likelihood of staying in business as their produce remains in high demand. For Chang (2008), it is imperative that there be government support as developing countries work towards economic and human

development, with a gradual withdrawal of this support as these countries develop. Rosset agrees with Chang, stating that, “no country currently considered ‘developed’ got that way without government supports for agriculture” (2006, p. 76).

Rosset notes that many developed countries heavily subsidise their farmers, with the greatest share of the subsidies in the USA and the EU going to the wealthiest farmers. Between 1995 and 2002, farm subsidies in the USA totalled an amount of US\$114 billion, with the wealthiest one percent of farmers receiving an average of US\$214,088 per annum, while the wealthiest 20 percent received an average of US\$9,916 per annum (Rosset, 2006). Today, about \$20 billion a year is spent on subsidising farmers in the USA (The Economist, 2015). Rosset (2006) notes that subsidies provided by developed countries encourage excess production of the subsidised product, which is dumped on the global market at prices that are below the cost of production. As a result, the prices of the particular product are driven down, and this affects the developing countries which depend on exports of that product to earn foreign exchange but whose production cannot compete with the subsidised product from developing countries. This has been the case with cotton, which is heavily subsidised by the USA, and has affected countries such as Chad and Burkina Faso, where five to 10 percent of the GDP is accounted for by cotton (Rosset, 2006). In a case where a country has tried to bring the USA to the WTO for its distortionary subsidies, there have been limitations. In 2002, Brazil was able to successfully challenge USA cotton subsidies through the WTO, but the USA has been able to continue subsidising its cotton farmers in ways that are not consistent with the WTO through reaching an agreement with Brazil in 2014, whereby the USA will pay

Brazil a \$300 million lump sum payment to buy the latter country's silence and continue with its distortionary subsidies (Hopewell, 2013; Pelc, 2014).

The impact of fertiliser subsidies is particularly noted as beneficial for small farmers with low accessibility to fertiliser, a significant barrier to agricultural productivity (Chirwa & Dorward, 2013a). Advocates for input subsidies credit them for bringing food prices down, which improves the wellbeing of many households as resources can be redirected to other needs (Ricker-Gilbert et. al, 2013). Druilhe and Barreiro-Hurlé (2012) argue that fertiliser subsidies are beneficial in that they can contribute to an increase in fertiliser use and agricultural productivity, but in the absence of other supporting factors, they are inefficient in achieving agricultural production and poverty reduction objectives as there may be other hindrances to increased agricultural production and poverty reduction, and there may be need for other investments such as social transfers and infrastructure development.

Some members of the academe are, however, less optimistic, stating that, in comparison to other alternatives such as credit subsidies, input delivery programmes and output price supports, fertiliser subsidies are an inferior policy option as they fail to adequately confront some of the main problems that result in low fertiliser use, such as restraints in supply and credit (Crawford, Jayne & Kelly, 2006). Some studies have made attempts to draw parallels between India's experience of fertiliser subsidies, which were introduced in the 1960s and resulted in notable agricultural growth, giving rise to the Green Revolution, and those of SSA. Kelly, Adesina and Gordon (2003) note that the contribution made by fertiliser subsidies to India's agricultural growth is one that can be used to oppose the anti-subsidy stance of many donors. The stark differences between

India and SSA, however, such as the relatively high levels of irrigation, high levels of rural literacy and more extensive infrastructure in India, reflect that what worked in India may not necessarily work in SSA, unless it is part of an overall package of agrarian reforms (Kelly et. al, 2003). Rashid et. al. add to this argument, stating that, in Asia, there were other complementary public policies, such as agricultural output pricing policies, working in conjunction with input policies to bring about increased production and productivity (2013).

It is imperative that lessons be drawn from history when considering the usefulness of policies for development. While most economists continue to see free markets as imperative for development, the history presented by Chang (2008) highlights the need for developing countries to subsidise their farmers as government protection and support has been an integral part of the development of rich countries. Seeing subsidies as the main source of unfairness in agricultural trade on the international market, as is stated by Rosset (2006), has more to do with the highly subsidised agricultural products of the Global North with which the Global South must compete. For example, in 2006, cotton production in the USA held a significant global market share of 40 percent which, according to Brazil, would fall by 29 percent without subsidies, while also raising cotton prices and benefit other producers (Rosset, 2006).

Given that the USA has not had to comply with the ruling made by the WTO regarding its distortionary cotton subsidies, opting to pay Brazil off instead, this shows that there are limitations to confronting the uneven playing field that is the international market when powerful, developed countries are at play, and smallholder farmers in developing countries can continue to be disadvantaged in international trade for as long as

powerful countries can afford to bypass WTO rulings and continue to heavily subsidise their farmers. Given that wealthy farmers in developed countries are subsidised, and subsidies are seen as imperative for the economic growth of developed countries, it should only be expected that poorer smallholder farmers in developing countries receive support from their governments, and that the countries' economies benefit from that. Donovan's criticism of input subsidies as an inferior policy due to their inability to confront the root causes of low input use has some merit, but when low input use is because of unaffordability rather than availability, input subsidies may serve as an effective measure to ensure access, provided that the nature of the subsidy programme is effective in reaching those who are unable to afford inputs. Druilhe and Barreiro-Hurlé, however, raise a valid point in stating that there is a need for complementary programmes and projects to ensure that input subsidies increase production as well as reduce poverty, and it is imperative that other mechanisms be in place alongside subsidy programmes to ensure their relative success, as has been the case in India compared to much of SSA.

### Food Sovereignty

In looking at the arguments surrounding the use of agricultural subsidies, it is imperative to briefly explore some of the arguments surrounding food sovereignty, and particularly in terms of the use of chemical inputs, which may be encouraged under some agricultural input subsidy programmes. Although the concept of food sovereignty differs from the food concepts on which focus has been placed in this thesis, it cannot be overlooked given the importance of chemical inputs in many agricultural input subsidy programmes, especially when there is a need to maximise food productivity in order to



achieve food self-sufficiency, and it is believed that chemical inputs can achieve the desired productivity, but there are also concerns of farmers having little power over the inputs they may use, as well as environmental concerns.

Food sovereignty, which emerged in response to the uneven playing field that is the international market, is defined as “the right of peoples to healthy and culturally appropriate food produced through ecologically sound and sustainable methods, and their right to define their own food and agricultural systems” (Nyéléni Declaration, 2007). This concept, put forward by Via Campesina, an international peasant movement, in 1996, also “includes the right to regulate and protect food and agricultural production and to shield countries from the dumping of agricultural surpluses and low-price imports” (Akram-Lodhi, 2013, p.151). We can see how this concept applies to a country deciding to pursue national food self-sufficiency as opposed to depending on the international market for food, but it is also worth exploring in the case of the use of chemical inputs, which are largely disseminated in some agricultural subsidy programmes.

Under the increasingly dominant industrial food system, there has been greater use of high-yielding varieties and hybrid seeds, chemical fertilisers, higher dependence on petroleum and agrochemical inputs, top-down approaches when it comes agricultural extension schemes and corporate-controlled scientific research (Altieri & Toledo, 2011). This system is largely criticised by some because of the dependence on imported chemical inputs by developing countries, the environmental degradation that arises from the use of these inputs, and the marginalisation of smallholder farmers in terms of defining their terms of production (Akram-Lodhi, 2013; Altieri & Toledo, 2011; Suppan, 2008). Smallholder farmers’ who are a part of this food system have been placed on the

‘chemical treadmill’, as they must respond to new seed types by using new chemical fertilisers and pesticides in order to maximise productivity, while abandoning their organic inputs and becoming more dependent on imports of chemical agricultural inputs (Altieri, 2009). The response to this has been the development of alternative production systems such as agroecology-based production systems, which are “biodiverse, resilient, energetically efficient, socially just and comprise the basis of an energy, productive and food sovereignty strategy” (Altieri & Toledo, 2011, p. 587). Using techniques that are developed through farmers’ knowledge and experimentation, these production systems promote the recycling of nutrients and energy, the enhancement of soil organic matter and biological activity, plant diversification and the integration of livestock and crops in order to optimize the productivity of the entire farming system (Altieri & Toledo, 2011).

Food sovereignty has, however, been criticised. Jansen (2015) states that production systems that promote food sovereignty, such as agroecology, cannot always be considered to be applicable to every environment. In cases where organic farming has resulted in high outputs, this may be due to a natural resource-rich environment, but may not necessarily be the case in a marginal region with poor natural resources (Jansen, 2015). Jansen (2015) also criticizes the discouragement of external inputs such as fertiliser by agroecologists on the basis that it may be problematic in areas where low external input use results in low output or the depletion of natural resources. Critics of food sovereignty also warn against the assumption that peasants and/or smallholder farmers are a homogenous group, and that farmers defining their own agricultural systems may mean that they may choose systems that are not aligned with agroecological thinking (Bernstein, 2014; Jansen, 2015). Jansen (2015) provides the example of small farmer

demonstrations by an organization in Costa Rica that is a member of Via Campesina, in which farmers called for less regulations on pesticide imports in order to reduce their price. Perhaps one of the most significant arguments put forward by critics of food sovereignty is that there is a need to maximise productivity in order to meet the demand for food by populations, and agroecology is unable to meet that demand (Bernstein, 2014; Jansen, 2015). A study carried out by de Ponti, Rijk and van Ittersum (2012) found that, “on average, organic yields are 80 [percent] of those obtained under conventional agriculture” (p. 4). Jansen (2015) states that agroecology, under which no external inputs are used, has even lower yields.

It is important for smallholder farmers to be able to define the terms of their production, and protect their environment by choosing farming methods and inputs that they believe are most beneficial to them, as opposed to having the terms of their production and resulting state of their environment decided by multinationals. The warning put forward by Bernstein (2014) and Jansen (2015) against assuming that all smallholder farmers are homogenous, however, must not be ignored, and the possibility of smallholder farmers choosing to use chemical inputs must be acknowledged as an exercise of their right to define their terms of production. It is imperative, however, that the ‘local trap’, in which it is assumed that decisions and actions organized at the local scale are more likely to have preferred ecological and social effects than those organized at other scales, is avoided and that there is an acknowledgement that the different ways in which farmers choose to define their terms of production will not always be the most beneficial (Brown & Purcell, 2005).

The issue of productivity is very important in this matter, given that there is a growing demand for food and the use of chemical inputs produces higher yields than organic farming. In Vietnam, through intensive use of chemical inputs, the country has become the world's second largest coffee exporter in a relatively short amount of time, but this has had detrimental effects on the environment (Fridell, 2014b). Rapid agricultural growth and high yields which may improve the livelihoods of farmers may depend on intensive use of chemical inputs, but this may be at the expense of the environment. There is a need to find some sort of middle ground, and much research yet to be done to find what that middle ground will look like.

### **The Private Sector and the State**

Closely aligned to the arguments regarding government assistance through subsidies in the agricultural sector is that of the role of the private sector in relation to that of the state in agricultural development. To understand these arguments, it is imperative to briefly discuss and analyse the debate surrounding privatization, which is the conversion of state-run firms and industries into private ones. Privatization is seen by many as imperative for economic growth, with the private sector being seen as more efficient than the state sector in carrying out its operations and managing its assets (Poole Jr, 1996; Stiglitz, 2003). Stiglitz states that, "the rhetoric of market fundamentalism asserts that privatization will reduce what economists call the rent-seeking activity of government officials who either skim off the profits of government enterprises or award contracts and jobs to their friends" (2003, p. 58). In other words, the private sector is perceived to be less prone to corruption. Economists such as Sachs emphasize the need

for privatization for rapid market transformation and economic growth, as they emphasise the need for the free markets under which there is no government intervention (Wilson, 2014). Privatization is also encouraged based on the soft budget constraint theory, first put forward by Hungarian economist, Janos Kornai, which argues that, in the event that state-owned enterprises (SOEs) make losses or face bankruptcy, they can secure additional loans from the government, which allows them to act as though their budgets have malleable, or 'soft' limits, and get away with careless management (Chang, 2008; Kornai, Maskin & Roland, 2003). In order to illustrate the soft budget constraint problem, the 'sick enterprises' of India, such as Scooters India, Hindustan Shipyard, Hindustan Cables and, more recently, Air India and Mahanagar Telephone Nigar Ltd. (MTNL), are often cited as examples of this when it comes to SOEs (Chang, 2008; The Economic Times, 2015).

Chang (2008) cautions against attributing certain characteristics to SOEs alone with the assumption that the same flaws do not exist with private firms. He notes that there are plenty of SOEs that are functioning well, and so poor performance or inefficiency is not an inevitable trait of theirs (Chang, 2008). Examples of these well-functioning SOEs include the most efficient steel mills globally, set up and run by the governments of Taiwan and Korea (Stiglitz, 2003). As for the soft budget constraints theory, Chang (2008) argues that private sector firms that are politically and economically important can also receive subsidies or government bail-outs. He provides the example of Rolls Royce in 1971 and British Steel in 1977, which were nationalised by the British government as they suffered due to the industrial decline of the 1960s and 1970s (Chang, 2008). Export subsidies being provided to Bombardier by the Canadian government in

order to gain competitive advantage, as the high-tech sector is of great importance to Canada, are another example of significant state support to a private company because of its economic and political importance (Froese, 2010).

Stiglitz notes that the evidence that shows that privatization will effectively address rent-seeking and corruption is negligible, and privatization may actually serve to encourage corruption and rent-seeking, with government officials “selling [a] government enterprise[s] at below market price [so] they [can] get a significant chunk of the asset value for themselves rather than leaving it for subsequent officeholders” (2003, p. 58; Szeftel, 1998). He also states that, in the absence of appropriate market institutions and legal structures, private institutions may not efficiently manage their assets (Stiglitz, 2003).

Although the IMF assumes that markets arise to fill the void created by the government failing to meet certain needs, Stiglitz claims that in reality there are many government activities that have arisen due to markets failing to provide certain services (2003). Stiglitz (2003) gives the example of social security systems, disability and unemployment insurance systems in Europe, which were not provided by the private sector, prompting the government to step in. Furthermore, Stiglitz (2003) warns against eliminating government enterprises, claiming that they may leave a void that may have detrimental effects on the population as they wait for the private sector to fill that gap.

The idea of a natural free market without state involvement is one that McChesney labels ‘mythical’ (1999, p. 13). In line with this argument, Fridell (2014a) highlights the centrality of the state’s role in the global coffee economy, arguing that the state and market cannot be separated, and that states can, and often do, control the market.

For Fridell, acknowledging the state's centrality does not translate to seeing the state as always being good, but recognizing that it is always there (2014a).

In neoliberal times, there has been a tendency to demonize the state. SOEs that have been successful and are efficient exist, and this should be seen as something that is a possibility for other SOEs. Chang (2008), therefore, makes a good claim in rejecting the inevitability of inefficiency in SOEs. Moreover, as Chang (2008) highlights, soft budget constraints may exist for both private and public sector firms, based on their economic and political importance, and so should not be seen as a shortcoming for SOEs only. The state has a responsibility to its citizens, and so it stands as imperative that it provides services that are needed rather than waiting for the private sector to get involved while people are met with the challenges of not having that particular service as they wait. The inseparableness of the market and the state, as well as the state's centrality, highlighted by Fridell (2014a), emphasizes the extent to which a free market is questionable in reality.

In the end, I would argue, it is essential to have a healthy private sector in order to cultivate competition that may encourage the efficiency of SOEs, but the state sector must not be marginalized as it is accountable to its citizens and must influence the market in such a way that is most beneficial to them and the country's development.

We have already looked at arguments that call for minimizing state sector involvement, but now we must turn to arguments about state sector involvement when it comes to comparative advantage as part of understanding the state's role in development.

### The State and Comparative Advantage

Opposed to a neoliberal approach that calls for minimal government involvement for economic growth, Justin Lin, a former Chief Economist and Senior Vice President of the World Bank, claims that, given the presence of market failures in developing economies, the state cannot take a *laissez-faire* approach, and must intervene in the market, but as a facilitating state, which is “a state that facilitates the private sector’s ability to exploit the country’s areas of comparative advantage” (Lin & Chang, 2009, p. 484). In developing countries, this will mean a focus on production activities and services that are labour- and resource-intensive (Lin & Chang, 2009). Lin warns that if the government does not support the existing comparative advantage, it may be more costly, increase the need for protection of the industries in order to encourage firm involvement with the state playing a more permanent support role, which may also lead to rent-seeking (Lin & Chang, 2009).

Chang agrees with Lin that the state needs to play an active rather than passive role in development, but argues that, if a country aims to upgrade its industry, it must defy its comparative advantage (which is to engage in production or manufacturing that is not defined by its comparative advantage), resulting in medium term adjustment and long-term development (Lin & Chang, 2009). Chang also encourages the protection of these industries as they develop as part of making them competitive on the international market (Lin & Chang, 2009). He states that this may be a lengthy process to economic growth and development, and there must be an accumulation of the right capital, as well as a retraining of the labour force from traditional industries, but returns will be high (Lin & Chang, 2009). In order to illustrate the benefits of defying comparative advantage, Chang uses the example of Japan which, in defying comparative advantage, developed a



car industry that, today, is a global contender, and did so through four decades of protecting the industry with tariffs and subsidies, as well as banning foreign direct investment (Lin & Chang, 2009).

Looking at how developed countries such as Japan have developed some of their industries, history shows that there has been a deviation from comparative advantage, accompanied by the protection and subsidisation of these industries. For developing countries, not defying their comparative advantage may mean that they will continue to invest in labour and resource-intensive production activities and services that may not see industrial advancement and development. In agreeing with Chang (Lin & Chang, 2009), it is necessary for these countries to defy their comparative advantage, set up and protect higher-tech industries in order to see long-term development while foregoing short-term returns.

This section has highlighted many of the tensions that exist in today's current food system, directly or indirectly, with particular focus on debates surrounding the international market, private sector and state involvement. We must, however, now turn to how it is that these issues apply to a developing country that has decided to pursue food self-sufficiency as opposed to depending on the international market for food, and in a way that follows, in theory, the logic of the post-Washington consensus through a smart subsidy programme: Malawi.

### **Food Self-Sufficiency and Subsidies in Malawi**

Since its independence in 1964, Malawi has pursued food self-sufficiency as a national priority, achieving it at different periods after independence, but most recently

since the implementation of FISP in 2005/06. There, however, continues to be debate surrounding food self-sufficiency in the country, and whether or not it is a goal that should be pursued.

Regarding maize self-sufficiency in Sub Saharan African countries, Jayne and Rukuni (1993) highlight the benefits of maize self-sufficiency as the global market for white maize (which is the type of maize mostly grown in Southern Africa) is thin and “the producer price needed for self-sufficiency can normally be achieved at price levels below import parity” (p. 334). Kelly et. al (2003) note that, due to Malawi’s landlocked location, weak markets and poor infrastructure, national food self-sufficiency is a more attractive policy option than it would be in countries where infrastructure is more developed and markets are efficient. Moreover, Denning et. al (2009) state that, in Malawi, achieving national food self-sufficiency is cheaper than importing food, which can be seen from an analysis of different national food security scenarios including and excluding FISP, which “suggests that, in the last [six] years, [the programme] may have led to average annual savings of maize imports of some 385,000MT, directly offsetting up to between 85 and 110 [percent] of programme costs” (Dorward et. al, 2013, p. iii). Kelly et. al, however, raise concerns about the ability of a policy of maize self-sufficiency to address poor access to food in Malawi as it does not promote the growth of income-generating crops by smallholder farmers, which could ultimately alleviate their poverty in the long run (2003, p. 396).

Given Malawi’s geographical location as well as its poor infrastructure, national food self-sufficiency is a more feasible policy to pursue as opposed to largely depending on the global market for food. While food self-sufficiency does not mean that there will

be no purchase of food on the international market, it is imperative for Malawi to be able to grow enough food to feed its population, rather than depending on purchasing food on the international market, which would be a more expensive option. The thin global market for maize, Malawi's staple food, highlighted by Jayne and Rukuni (1993), also makes it more practical for the country to pursue national maize self-sufficiency rather than depending on limited global markets to import its staple food. The ability of national food self-sufficiency to benefit the poor and weak in a country, mentioned by Chandra and Lontoh (2010) in the previous section, is particularly important in Malawi, given the number of poor smallholder farmers who may benefit from being able to grow their own food for consumption and selling the surplus for income, provided that they have the means to do so. Whether policies and programmes geared towards national food self-sufficiency can actually alleviate the poverty of smallholder farmers, a concern raised by Kelly et. al (2003), largely depends on the nature of these programmes, who they target and how they are carried out.

### **Smart Subsidies**

As the nature of subsidy programmes being implemented in SSA has evolved over the years, the 21st century has seen the rise of the smart subsidy, with countries such as Malawi, Kenya, Zambia, Tanzania and Rwanda implementing smart subsidy programmes (Druilhe and Barreiro-Hurlé, 2012). The idea of the smart subsidy arises from the proposition that subsidies are neither inherently flawed nor inherently useful, but rather their effectiveness is dependent on their design and implementation (Morduch, 2005). Various definitions of smart subsidies have been put forward, with most of them

containing similar features, but emphasising different aspects of the smart subsidy. This following section examines these different definitions and features of smart subsidies, exploring the debates regarding their benefits and limitations. This serves as a backdrop to the upcoming evaluation of Malawi's FISP, and will facilitate discussion both on FISP, and on smart subsidies in general.

### Smart Subsidies Defined

Howell (2005) defines smart subsidies as those applied on services and products from which only the poor are most likely to benefit. Some definitions, however, have expanded on this definition, highlighting how smart subsidies should serve the poor but also promote the growth of the market and the private sector. Minot and Benson (2009) define smart subsidies as those that provide subsidised goods and services in such a way that promotes market development and improves the welfare of the poor. In their definition of smart subsidies, Morris et. al (2007) abandon the emphasis on the poor and highlight the temporary nature of smart subsidies, defining them as interventions of a temporary nature that work alone or in combination with other interventions to lower fertiliser prices and improve availability at the farm level such that fertiliser is used efficiently and investment in fertiliser markets by the private sector is encouraged. Taking the definition provided by Morris et. al (2007), and also including the need for smart subsidies to benefit the poor, provides a definition of smart subsidies that encompasses the different definitions provided in the literature.

When identifying the features of a smart subsidy in detail, different authors highlight different characteristics that a smart-subsidy should have. Morris et. al (2007)

highlight 10 guiding principles that make subsidies “smart”. The first guiding principle is that smart subsidies must promote the use of fertiliser as part of a broader strategy that also includes features such as strengthening output markets and supplying complementary inputs as the provision of fertilisers alone will not promote increased fertiliser use if other complementary inputs, such as seeds, are not available or accessible, or farmers do not have access to markets to sell their produce. Smart subsidies must also support “market-based solutions” through developing markets and avoiding eroding incentives for private sector investment and, in order to ensure service at its lowest cost and best quality, they should promote competition in fertiliser distribution. They should also adhere to farmers’ demands for fertiliser while at the same time only encouraging increased fertiliser use where fertiliser use is economically efficient. Smart subsidies should empower farmers to decide on the most appropriate route to take in soil fertility management in their specific farming context. The subsidies should be environmentally, economically and institutionally sustainable and there should also be regional harmonization and integration of fertiliser policies in order to gain from economies of size and scope.

Morris et. al (2007) also state that smart subsidies should have an exit strategy in order for governments not to involve themselves in fertiliser distribution for the long term. This is because subsidies, according to Morris et. al (2007), are not a long-term solution to missing fertiliser markets, but are a fiscal burden that draws government funds away from investments in infrastructure, research, and extension that is needed in order to develop fertiliser markets that are efficient. A final feature is that, assuming that the above features are in effect in the subsidy programme, smart subsidies should promote pro-poor growth, which may be prioritised over efficiency and sustainability if it is

deemed that fertiliser subsidies are a cost-effective way of confronting poverty (Morris et al, 2007, pp. 103-5).

While Minde and Ndlovu agree with Morris et al (2007) that smart subsidies should have an exit strategy, they also emphasize that smart subsidies should target farmers who, otherwise, would not use agricultural inputs or, alternatively, areas where increased fertiliser use would have the greatest impact (Druilhe & Barreiro- Hurlé, 2012). Minde and Ndlovu also state that smart subsidies should involve achievable goals, measurable impacts and results orientation (as cited in Druilhe & Barreiro-Hurlé, 2012).

Baltzer and Hansen (2011) provide three main characteristics of smart subsidies, which they state serve as a summary of the different characteristics of smart subsidies put forward in the literature. In identifying the characteristics of smart subsidies, similar to Minde and Ndlovu (as cited in Druilhe & Barreiro-Hurlé, 2012), Baltzer and Hansen (2011) state that smart subsidies should target farmers who are not already using agricultural inputs, as well as targeting those households that are the poorest and most vulnerable as this will reduce the chances of the displacement of commercial, non-subsidised input sales and promote pro-poor growth. They also state that smart subsidy programmes should support the development of the private sector as opposed to displacing it with state-controlled distribution systems as this will serve to enhance the efficiency of input delivery and increase the chances of the subsidy programme having a sustained impact post-termination (Baltzer & Hansen, 2011). This characteristic is aligned with the market-based solutions that Morris et. al (2007) state as a principle of smart subsidies. Baltzer and Hansen (2011) also agree with Morris et. al (2007) and Minde and Ndlovu (as cited in Druilhe & Barreiro-Hurlé, 2012) that smart subsidies should have an

exit strategy due to the high costs and growing unaffordability of the programmes and their increasing proneness to political manipulation, thus decreasing efficiency. These three main characteristics are ones that other authors such as Druilhe and Barreiro-Hurlé (2012), Minde et. al (2008) and Tiba (2011) agree with as central to a smart subsidy. Given that these characteristics are seen by many authors as central to smart subsidies, and also encompass most of the characteristics provided by Morris et. al (2007), they shall be the main focus in the evaluation of FISP in this thesis.

Drawing from the main smart-subsidy characteristics put forward, Baltzer and Hansen (2011) suggest that smart subsidies are “based on the economic principles of efficiency, equity and sustainability” (p. 3). Input subsidies are considered to be inefficient if the low use of agricultural inputs they seek to address is due to notably high costs of agricultural input delivery, or if the benefits of increased production are too low for agricultural inputs to be an investment that is profitable. Baltzer and Hansen (2011) argue that, in this case, government funds should be directed at policies that will lower transaction costs, such as infrastructure and market deregulation. Agricultural input subsidies are, however, efficient if farmers are prevented from realising the economic potential of using agricultural inputs due to market failures such as credit constraints and imperfect competition in supply leading to higher input prices (Baltzer & Hansen, 2011).

Regarding the principle of equity, Baltzer and Hansen (2011) state that smart subsidies can promote equality through specifically targeting the poorest smallholders, but poor farmers may face the greatest constraints of market failures such as credit constraints, and may lack complementary resources such as skill or the money to pay the subsidised prices. As a result, this may lead to a trade-off between efficiency and equity

objectives, depending on the primary aims of the particular programme (Baltzer & Hansen, 2011).

Baltzer and Hansen note that input subsidies can be considered sustainable if they can undergo long-term implementation without draining public resources, or “if the outcomes in terms of wider adoption of agricultural inputs and improved agricultural productivity persist after their termination” (2011, p. 6). In the event that they meet efficiency and equity objectives, long-term input subsidies can be justified (Baltzer & Hansen, 2011). As a result of political manipulation that has been noted in some input subsidy programmes, however, there are concerns that if a subsidy programme is long-term, it grows more inefficient and less equitable with time, leading to its unsustainability (Baltzer & Hansen, 2011). Smart-subsidies, therefore, counter these effects through having an exit strategy (Baltzer & Hansen, 2011).

With an understanding of how it is that smart subsidies are defined, their characteristics, and the principles upon which they are based, this thesis now turns to the debates surrounding the three characteristics of smart subsidies highlighted by Baltzer and Hansen (2011), and how these debates may apply to Malawi’s FISP.

### Targeting

Through targeting, smart subsidies aim to address the challenges that arose from universal subsidies in SSA in the 1970s and 1980s. Baltzer and Hansen (2011) note that, in the 1970s and 1980s, universal subsidies implemented in SSA were able to raise the use of agricultural inputs by farmers and increase agricultural productivity. There were, however, also inefficiencies within these programmes, with better-off farmers benefitting



more than poorer farmers, commercial sales of inputs being displaced, and the costs of the programme exceeding the benefits (Baltzer & Hansen, 2011; Druilhe & Barreiro-Hurlé, 2012). Baltzer and Hansen (2011) note that targeted subsidies stimulate pro-poor growth and lessen the possibility of the replacement of non-subsidised commercial input sales. Tiba (2011) also notes the benefits of subsidies that are targeted at the poor, stating that, “poorer farms are thought to be generally more productive in cultivating labour-intensive staple food crops” (p. 516). Wiggins and Brooks (2010), however, highlight that targeting may be a challenging task, and politically and socially divisive if the criterion for access is unclear (p. 18). Moreover, there may also be political pressure to make subsidies universal (Wiggins & Brooks, 2010, p. 18). Gilens (2009) highlights this with the example of universal social programmes, which tend to receive strong public support as middle-class self-interest dictates the willingness of better-off citizens to be taxed for programmes in which they will directly benefit, as opposed to those which are directed only towards the poor. In line with concerns over targeting and the unclear criterion for access, Tiba (2011) claims that smart subsidies run the risk of leakage to farmers who are better off and proposes self-targeting, which connects public works programmes with input distribution, as a solution to this as farmers who are better off are less likely to take part in these public works programmes.

Drawing from these different arguments, it is in the interest of a country with limited resources and a large population of poor smallholder farmers such as Malawi to implement targeted input subsidies so that less public resources can be spent on subsidising farmers, or poor farmers can get greater subsidies, without having to subsidise farmers who, on their own, can purchase their own fertiliser. It is imperative, however, to

look back at the argument put forward by Chang (2008) over the need for governments in developing countries to support and protect their industries in order for development. In the event that governments can afford to provide subsidies to more of their farmers, and not just those considered to be the poorest, this should be pursued provided that it is affordable and economically sustainable, as well as providing benefits that exceed the costs of the programme. This would then go beyond trying to alleviate poverty to growing domestic industries through support and protection. The politically and socially divisive nature of targeted subsidies in the absence of a clear criterion of eligibility highlighted by Wiggins and Brooks (2010) cannot be ignored but, even with a clear criterion for eligibility, the way in which the subsidies are redistributed may still see certain groups of people being overlooked in practice as traditional authorities and politicians may distribute coupons as they see fit, rather than adhering to the given criteria. This can be seen in Zambia, whereby the Farm Support Programme (FSP) is designed to subsidise farmers with more than one hectare of land but less than five hectares but, in practice, it is farmers with land between one and 20 hectares who are subsidised, with those with more land receiving a disproportionately greater amount of inputs from the subsidy (Druilhe & Barreiro-Hurlé, 2012).

### Private Sector Development

Smart subsidies emphasize the participation of the private sector in different aspects of the programme, placing particular emphasis on the retail of subsidised fertilisers (Baltzer & Hansen, 2011; Morris et. al, 2007). Support for the promotion of the private sector is based on it being seen as more efficient than the state, making it

necessary for a country's economic development. Hipsher (2013) agrees with this notion, using the example of China, a country that has seen substantial poverty reduction and economic growth, and where private enterprises have proved to be more productive in resource use and more efficient in their use of capital than state-owned firms.

Chirwa and Dorward (2013c) state that the inclusion of the private sector in large-scale agricultural input subsidy programmes has benefits given that the private sector is more efficient than the public sector, being less prone to issues of bureaucracy that are often concomitant with state delivery of services. Other benefits of private sector involvement in input subsidy programmes include the encouragement of private market system development in remote areas where there is otherwise little incentive for this (Chirwa & Dorward, 2013c). Chirwa and Dorward also note that, particularly when the private sector is involved in the retail of subsidised inputs, this "reduces the displacement of commercial sales by subsidised inputs" (2013c, p. 3).

Private sector participation, however, can be controlled by the government as a tool of patronage. Druilhe & Barreiro-Hurlé (2012) note that this has been the case in Senegal and Mali's input subsidy programmes whereby, in input supply, the programmes have only benefitted a few importing companies that were closely affiliated with the governments. Private sector participation in subsidy programmes may also be limited due to fears of corruption and limited transparency. In Malawi, while private sector participation may be encouraged in certain activities surrounding fertiliser subsidies such as procurement, there is less support coming from the government for its participation in subsidy fertiliser distribution because of the perception that the private sector cannot be trusted and may partake in fraudulent activities which may not be detected by the

government due to the absence of an audit system and failure to verify available stocks, making the costs of the programme difficult to control (Chirwa and Dorward, 2013c).

The participation of the private sector in some capacity in FISP is important in order to stimulate the growth of the private sector, which may also lead to the growth of the economy. This, however, is not to say that the private sector is good and SOEs are bad. As Chang (2008) states, inefficiency is not inherent in SOEs and, unless there are particular instances of inefficiency within an SOE, the capabilities of these enterprises should not be dismissed. In line with Chang's claim that "competition is often the best way to improve enterprise performance" (2008, p. 120), private sector participation in fertiliser distribution may help to improve the performance of parastatals in service delivery in fertiliser distribution. In order to promote the growth of the private sector and improve economic growth in Malawi, the private sector should not be excluded from participating in subsidised fertiliser retail for FISP, but there is need for measures to be put in place in order to combat or prevent corrupt practices within all retailers, public and private, in order to address concerns that the Malawian government may have. The claims made by Chirwa and Dorward (2013c) regarding the ability of private sector participation in fertiliser distribution to reduce displacement have some merit because the private sector will benefit from increased subsidised fertiliser sales and, in the case of Malawi, participating retailers, none of who are private, have also experienced increases in their sales of unsubsidised fertilisers because of the demand pull that has been created by the subsidies (Druihe & Barreiro-Hurlé, 2012). Displacement of commercial sales by input subsidies may, however, also be indicative of greater inefficiencies that go beyond private sector involvement, such as poor targeting, which may lead to better-off farmers who

were purchasing commercial fertilisers ceasing to do so if they become beneficiaries of the subsidy programme.

Although Chirwa and Dorward (2013c) see private sector participation in FISP as having the potential to encourage the development of private market systems in remote areas, there will most likely need to be greater incentives such as infrastructural development, and demand for other goods and services in order to see this development in remote areas. While private sector participation in subsidies and its subsequent development may contribute to the efficiency of a subsidy programme through encouraging competition, as well as promote economic growth, the potential for political manipulation and patronage which may limit private sector participation, as in the case of Senegal and Mali highlighted by Druilhe and Barreiro-Hurlé (2012), must not be overlooked as a significant challenge to private sector participation.

In the promotion of private sector development, the use of vouchers, or coupons, in smart subsidies is encouraged as it can create additional demand for inputs from farmers who are not already purchasing agricultural inputs for use because of lack of purchasing power or a substantial perceived risk in the use of fertiliser (Gregory, 2006). Minot and Benson note that vouchers serve as a way to guarantee agricultural input demand and a profit margin for input retailers, which has the potential to enable them to “capture economies of scale in their business, reducing some of their risk, and contributing to setting their business on a sound financial footing” (2009, p. 4). Gregory (2006) notes, however, that if vouchers are not recipient specific, this may lead to the development of a secondary market and cause leakage from the intended beneficiaries. Minot and Benson (2009) state that vouchers have high administrative costs and only

benefit those who live close enough to trade them in, and their effectiveness in terms of stimulating private sector input markets is limited if they can only be redeemed at government suppliers or select private dealers. In making this latter argument, they highlight Malawi's FISP, which is the largest voucher programme in SSA, as an example, whereby half of the country's fertiliser market is made up of subsidised fertiliser and the share of private input distributors has fallen to 58 percent (Minot and Benson, 2009). Minot and Benson state that, "the theoretical virtues of input vouchers as a smart subsidy to strengthen private input supply networks are thus negated by the way [FISP] is implemented" (2009, p. 6). More on this shall be explored in Chapter Four.

Although the use of vouchers may have the potential to stimulate the growth of the private sector, as highlighted by Gregory (2006) and Minot and Benson (2009), Gregory (2006) makes a strong point in stating that, without recipient specific vouchers, the formation of a secondary market and leakage is likely. Vouchers, however, as stated by Minot and Benson (2009), have high administrative costs, and the adoption of recipient specific vouchers may lead to greater increases in administrative costs as it may involve printing each beneficiary household name on the voucher. The limits in the stimulation of private sector growth by vouchers because of limited private sector participation in subsidised fertiliser retail is a significant challenge, and highlights the disconnection between the design and implementation of smart subsidy programmes. Vouchers have their benefits in private sector development, but poor targeting and limited private sector participation in distribution must be addressed in order for these benefits to be realised.

### Exit Strategies

The need for exit strategies from subsidy programmes arises from concerns of growing inefficiency and cost over time. In SSA, only two input subsidy programmes have an exit strategy: Zambia's FSP and Tanzania's National Agricultural Input Voucher Scheme (NAIVS). Chirwa and Dorward note that there has been difficulty in implementing the exit strategies, possibly due to "an apparent and indeed remarkable lack of attention to the question of why and how scaling back, graduation, and exit should and could occur" (2013a, p. 60). Zambia's FSP, which was implemented in 2002, was supposed to be temporary and last for only three years, with beneficiary farmers graduating from the programme within that time, and able to purchase non-subsidised fertiliser, but the programme is still ongoing (Baltzer & Hansen, 2011; Druilhe & Barreiro-Hurlé, 2012). The implementation of the graduation mechanism was the responsibility of farmer cooperatives, but a study shows that only 5 percent of them took previous support from FSP into account when selecting beneficiaries thus affecting possibilities of graduation (Baltzer & Hansen, 2011). In the case of Tanzania, NAIVS was supposed to last for three years, with recipients receiving support for that amount of time, but with new entrants coming in every year for the first three years of the programme, implementation time was extended to five years, and an exit strategy is yet to be redefined (Baltzer & Hansen, 2011; Druilhe & Barreiro-Hurlé, 2012). There are, however, concerns that awareness of an exit strategy amongst beneficiary farmers is low, with some believing that they were to receive vouchers every year in continuation, which may be problematic in preparing them to purchase agricultural inputs on their own should the programme be terminated (Malhotra, 2013).

Druilhe and Barreiro-Hurlé argue that, although subsidies may be beneficial in the short-term, they are financially unsustainable in the long run (2012, p. i). Wiggins and Brooks (2010) agree with Druilhe and Barreiro-Hurlé (2012) regarding the growing inefficiency of input subsidies with time, arguing that they consume an increasing amount of funds designated to public goods, which may be detrimental to development and growth. Wiggins and Brooks (2010) provide the example of India as a case where, between 1980 and 2000, there was less spending on public goods as the spending on subsidies increased, but the compromise of other development objectives such as education and health due to high budgetary costs of subsidies is suggested as a possibility rather than stated as a reality. Chirwa, Dorward and Matita (2012) note that, in the case of Malawi, some in support of an exit strategy from FISP argue that the programme may not be the best use of limited public resources, especially in the face of other national development needs.

Based on past input subsidy programmes which grew increasingly inefficient with time, such as India's input subsidies during the Green Revolution, Dorward et. al argue that, although input subsidies become more inefficient with time, this should not nullify their initial positive effects on agricultural growth (as cited in Dorward, 2009). Druilhe and Barreiro-Hurlé note that there are no empirical studies that have yet confirmed that exit strategies guarantee an increase in fertiliser use post-subsidy (2012, p. 35). Exits from subsidies are based on farmers having gained adequate knowledge of and experience in the use of agricultural inputs and their benefits and the development of private sector input supplies (Chirwa & Dorward, 2013a; Morris et. al as cited in Druilhe and Barreiro-Hurlé, 2012). Chirwa and Dorward (2013a), however, criticize this approach, stating that,



“there is little explicit consideration of other processes by which access to subsidies may lead to recipient households no longer needing them” (p. 267).

As noted by Dorward et. al (as cited in Dorward, 2009), while there may be some inefficiencies and irregularities in the implementation of FISP in Malawi, the positive results of the programme in terms of contributing to the increase in national maize production and productivity, and leading to national maize self-sufficiency, cannot be ignored. Irregularities in the programme should be seen more as problems arising from FISP’s implementation rather than the inefficiency of subsidies themselves. Concerns over the financial unsustainability of input subsidies (Druille & Barreiro-Hurlé, 2012) and, more specifically, the financial unviability of FISP (Chirwa et. al, 2013) cannot, however, be ignored, especially in the case of Malawi, a country with many developmental needs and limited government funds, and there may be need for better implementation of the programme to better control costs.

With the conditions for exit being focused on private sector development and better farmer knowledge and experience of input use, the need to consider other processes which may result in farmers no longer needing subsidies, put forward by Chirwa and Dorward (2013a), is important as exit strategies may be implemented at a time when there are still farmers highly dependent on input subsidies. Moreover the failure of Zambia and Tanzania to implement their exit strategies which are based on farmer graduation as opposed to private sector development, must be noted as it emphasizes that there is still a need for better justification and planning of exit strategies in order to determine their feasibility.

There is a double standard that seems to exist when comparing subsidies in developing countries with those in developed countries. The reasoning behind the need for an exit strategy due to growing inefficiency and the costly nature of subsidies, along with other criticism of subsidies, such as interference with the market which may affect economic growth, applies only to developing countries, and yet in the Global North, some countries' farmers are highly subsidised, with no exit strategy in sight, and this has contributed to the development of their agricultural sectors. The USA subsidises its wealthy farmers with no exit strategy, justifying its cotton subsidies, for example, as ones with no direct link to production, and with no distortionary effect on the market (Rosset, 2006). As stated earlier, however, these cotton subsidies place the USA at an advantage over other countries in agricultural trade, as the USA has a high market share of these subsidised products and keeps the prices low (Rosset, 2006).

As is highlighted by Chang (2008), the developed countries, the ones which have experienced the economic growth which is deemed to be exemplary for developing countries, have done so with the use of subsidies and other government intervention, not through abiding by neoliberal ideals, yet there is an expectation that developing countries should develop by getting rid of the very policies that have assisted developed countries in their economic growth. This double standard affects developing countries, but there are limits to these double standards being addressed by international institutions, as can be seen in the cotton dispute between the USA and Brazil, where a country's silence can be bought.

The general consensus from the current literature on smart subsidies in agriculture is that they are appealing in theory, but their implementation continues to fall short. There

is strong evidence that suggests that smart subsidies have shown effectiveness – limited as it may be – in raising fertilizer use, increasing production and average yields, but their success largely depends on their implementation (Druilhe & Barreiro-Hurlé, 2012; Minde et. al, 2008). I, however, must dispute the appealing nature of smart subsidies.

Although smart subsidies advocate for targeting poor smallholder farmers, the model makes no mention of the uneven playing field on which farmers in developing countries must compete with subsidised farmers from wealthier countries. While the poorest farmers may be subsidised under the smart subsidy model, farmers who are not guaranteed government support in the form of subsidies and must still compete at a disadvantage. This also applies to the need for an exit strategy, which leaves farmers without government support, and so may find farmers participating in a place of greater disadvantage on the international market once the programme has been terminated. The smart subsidy model, therefore, fails to confront existing terms of production and trade on a global scale that have largely disadvantaged smallholder farmers.

Another concern is that smart subsidies fail to adequately address issues pertaining to environmental sustainability. Although, as stated earlier, smart subsidies should be environmentally sustainable, there is no specification as to how this should be achieved. Moreover, the expectation that farmers should choose the most appropriate route in soil fertility management may contradict with the aim for environmental sustainability in the event that farmers choose a method of soil fertility management that is not environmentally sustainable, and reflects the ‘local trap’ in the smart subsidy model. The discussion put forward by Baltzer and Hansen (2012) on smart subsidies being based on the principle of sustainability focuses on economic sustainability, making

no mention of environmental sustainability. This is particularly important given the challenges of environmental degradation being faced by SSA, and also because the smart subsidy programmes currently in place all depend heavily on chemical fertilisers, which may not necessarily be beneficial in all circumstances.

Closely related to the dependence on chemical fertilisers is that on imported chemical fertilisers. Although the smart subsidy model encourages market-based solutions and private sector development, there is no consideration given to the development of domestic fertiliser manufacturing, which is an important issue given how countries such as Malawi are highly dependent on imported chemical fertilisers for their subsidy programmes, which contributes significantly to programme costs, not only because of importation and transportation costs, but also because the countries are not shielded from price surges on the international market as was the case in 2008 when fertiliser prices peaked, significantly increasing costs for subsidy programmes, as shall be shown in FISP in Chapter Four.

Concerns with an exit strategy in the model have already been discussed above, and will not be repeated, but this brings into question the appealing nature of the smart-subsidy model and highlights the need to revisit it in order for it to address issues of environmental sustainability, dependence and long-term development.

From the arguments surrounding smart subsidies presented above, it can be deduced that, while the characteristics of smart subsidies may have their benefits, they also have their limitations, especially when it comes to addressing long-term development and confronting import dependence and environmental degradation. The realisation of some of the proposed benefits of smart subsidies have yet to be seen as the smart

subsidies currently being implemented have not been implemented according to how they have been designed due to obstacles such as political interference and ambiguous design.

In the next chapter, Malawi's FISP shall be explored, with particular attention being paid to the main characteristics of smart subsidies; targeting, private sector development and exit strategies. The debates that have been presented and discussed above shall serve as the framework for FISP's analysis, and will be revisited in assessing the implementation of smart subsidies in the SSA context.

Given that political interference presents itself as a notable challenge in the successful implementation of smart subsidies, as has been seen in Chapter Two and shall be explored at greater lengths in Chapter Four with regards to Malawi, it is imperative to turn to a brief discussion on patronage and corruption and their impacts on development in order to better understand the complexity and possibilities, if any, of confronting the use of programmes such as FISP as a source of patronage.

### **Patronage, Corruption and Development**

Although patronage can be found in various forms in different countries, both developed and developing, it is seen and portrayed by some as inherent in politics in Africa. As has been discussed in Chapter Two, the use of patronage in modern politics can be traced back to the colonial period, as well as in the transition of power from colonial powers to Africans. Patronage is considered as a form of corruption, which has been criticised for its negative effects on the development process at economic, administrative, political and social levels because of the use of public funds for personal gain (Hope Sr & Chikulo, 2000; Szeftel, 1998).

In discussing neopatrimonialism, of which patronage is a feature, Tim Kelsall describes how it is that the distribution of resources in exchange for political support has been possible in African countries. Kelsall (2011) states that, in countries that have weak public services and finances, credible commitments to programmatic investments are difficult for politicians to make. Given that large sects of the populations have limited access to information, as well as limited formal education, it is more difficult for them to appreciate such commitments and promises in the form of concrete donations such as private goods, jobs or the building of a school are more appealing (Kelsall, 2011). Kelsall also notes that weak markets allow politicians easy access to wealth, and that the business sector also serves as a “valuable source of rents for politicians to distribute in the interests of buying off political rivals, or winning election contests” (2011, p. 3).

As efforts have been made to address different forms of corruption in developing countries, the state has often been portrayed as the problem, and democratization and liberalisation have been framed as the solutions, accompanied with calls for greater accountability, transparency, and more effective monitoring (Szeftel, 1998). This, however, has been contested by some members of the academe, who see liberalisation as part of the problem rather than the solution. Szeftel (1998) argues that economic and political reforms imposed in Africa under structural adjustment have been disruptive and encouraged corruption in the countries. Szeftel (1998) provides the example of the scaling back of the state, stating that structural adjustment and liberalisation have removed its oversight capabilities. He also states that rapid privatisation has created opportunities for personal accumulation through allowing politicians to purchase assets at notably cheap prices as they are privatised before others have an opportunity to do so because have

access to information about these conversions prior to the public (Szeftel, 1998). In discussing how patronage has limited the effectiveness of community-based natural resource management (CBNRM) in Tanzania, Nelson and Agrawal (2008) note that, since neoliberal reforms were implemented, there has been greater involvement of public officials using their positions as a means to pursue private accumulative interests.

Patronage in development projects and programmes can limit their effectiveness. This can be seen in Tanzania, where wildlife stands as a valuable patronage resource given the growth of the tourist hunting sector. As a result of the importance of wildlife, which is often found on communal lands, reforms for local level decision making regarding the lands are only paper, but the central actors continue to monopolize resource allocation with neopatrimonial motivations (Nelson & Agrawal, 2008). Nelson and Agrawal note how patronage, in this instance, has been fought through donors and international conservation groups who have financial resources valuable to state authorities putting pressure on them in order to see reforms, but this pressure has been largely ineffective as donors have little leverage in ensuring lasting change (2008).

Pressure from donors is one method that has been used in an effort to reduce patronage and corruption. Lawal (2007) suggests the need for increased transparency and accountability, strengthened institutions, and enhanced public participation in decision-making. Lawal also states that free and open competition, be it bureaucratic, economic or political, is the best weapon against corruption (2007). Szeftel (1998), who finds liberalisation as part of the problem when it comes to corruption, emphasises the need to strengthen the state rather than focus on making it smaller in order for effective combating of corruption.

Malawi can be said to have, in some form, the characteristics described by Kelsall (2011) that have made it easier for patronage to take root. With a high poverty rate, food insecurity, and large dependence on agriculture for livelihoods, subsidy programmes have presented themselves as viable sources for patronage, being used in electoral campaigns in order to appeal to people's more immediate needs in exchange for their votes.

Combating patronage and corruption is a challenge. Calls for increased liberalisation and less state involvement must take into account how this may reduce the government's capabilities to monitor the operations of private institutions, which are not immune to corruption. Moreover, privatisation, as Nelson and Agrawal (2008) and Szeftel (1998), can also be taken advantage of by public officials as opportunities to benefit over the rest of the populace, and gain sources of patronage. Increased government transparency and accountability, as put forward by Lawal (2007) may be beneficial in allowing the population to see how it is that public resources are being handled, but this will require a well-informed and active civil society.

Having briefly examined literature on patronage and development, we will now proceed to analyse and evaluate empirical data on Malawi's FISP.



#### **CHAPTER FOUR: EMPIRICAL RESEARCH ON MALAWI'S FISP**

The last two chapters have provided background information on Malawi's agriculture and agricultural input subsidy programmes, as well as discussion on the central debates surrounding national self-sufficiency, agricultural subsidies, the role of the private sector and the state and smart subsidies, particularly in the Malawian context. Drawing on the debates put forward in the last chapter, this chapter presents, discusses and analyses empirical research on FISP in order to show how the programme has not been successfully implemented as a smart subsidy.

This chapter shall begin by discussing and analysing data on Malawi's maize production and productivity, as well as providing brief discussion on income and wage changes, and then will pay particular attention to the programme's targeting, private sector involvement, and need, or lack thereof, of an exit strategy, which are the three main characteristics of a smart subsidy.

##### **Malawi's Maize Production and Productivity**

In order to present the changes that have arisen in maize production since the implementation of FISP, Figure 3.1 shows Malawi's total maize production between 1996 and 2013.

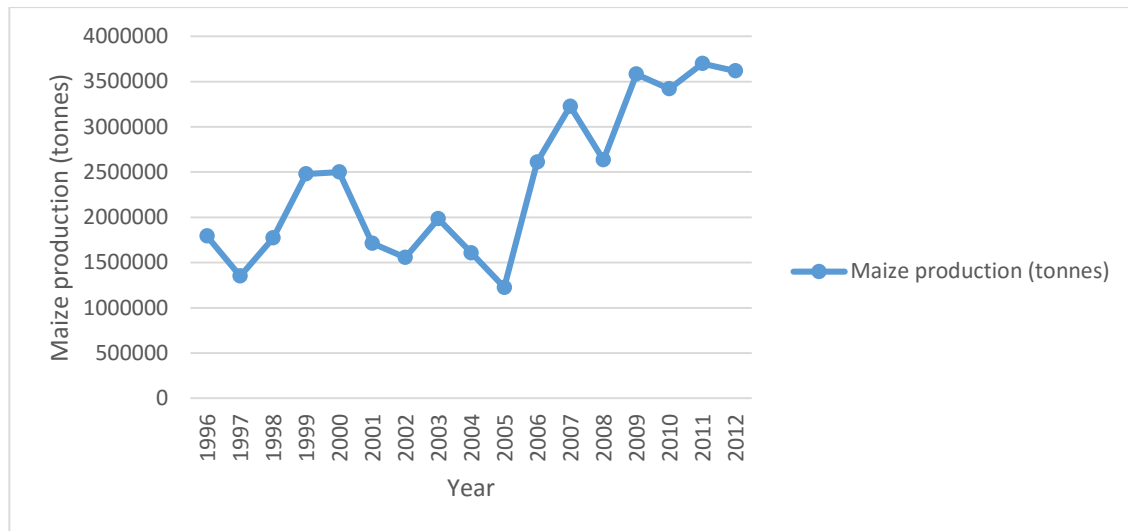


Figure 3.1. Total maize production in Malawi, 1996 to 2013. Reprinted from FAOSTAT (2015)

Prior to FISP's implementation in 2005/06, Malawi's maize production never went beyond 2,510,000 tonnes. In 2006, maize production shot up to 2,611,486 tonnes, increasing again the following year and, with the exception of 2008, staying well above 3,000,000 tonnes between 2007 and 2012, a quantity that had not been reached prior to the implementation of FISP.

Between 2000/01 and 2011/12, the increase in the amount of land under maize production was marginal, suggesting that increases in production were due to increases in yield, as the average maize yield rose from an average of 1.3 metric tonnes per hectare to an average of 2.7 metric tonnes per hectare (Pauw & Thurlow, 2014, p. 1). Between the time that FISP was first implemented and 2010, Malawi saw a 24 percent change in its maize yields, which increased to 1,853kg/ha, while other East African countries that did not have agricultural subsidy programmes in place only saw a 4 percent increase in their yields to 1,299kg/ha (Druilhe & Barreiro-Hurlé, 2012). In comparing Malawi's maize

yield increases brought about during FISP to maize yield changes in other SSA countries that have implemented fertiliser subsidies, Malawi's yield increases are not disappointing, but could be better, with Tanzania and Kenya reporting a decline in their maize yields since the implementation of their subsidy programmes, while Zambia has seen a 30 percent increase to 2,005kg/ha and Rwanda has also seen a 30 percent increase to 1,203kg/ha (Druilhe & Barreiro-Hurlé, 2012).

From Figure 3.1 and the data on yields above, it can be deduced that FISP has contributed quite significantly to Malawi's considerable increase in maize production and maize productivity. FISP, however, must not be seen as solely responsible for the increases as weather patterns have also been favourable since its implementation, with no major droughts both for the country and the Southern African region, even while they typically occur every few years (Chinsinga & Poulton, 2014).

The increase in maize production has also resulted in Malawi achieving maize self-sufficiency. Figure 3.2 shows Malawi's level of maize self-sufficiency, which is calculated by subtracting maize exports from maize production, and then comparing the amount of available maize to the national food requirement. Given that the national food requirement changes over the years, two estimates have been used for the national food requirement as pertains to maize: 2.5 million tonnes in 2007/08 (AfDB & OECD, 2008), and 2,461,054 metric tonnes in 2013 (MVAC, 2013). In the years when the amount of available maize exceeded the national food requirement, maize self-sufficiency could be considered achieved. Using these two national food requirements for all of the years under review, with the exception of the year 2000, Malawi's domestic maize production

after exports has remained above the food requirement since 2006, and so Malawi has been self-sufficient in maize since the implementation of FISP.

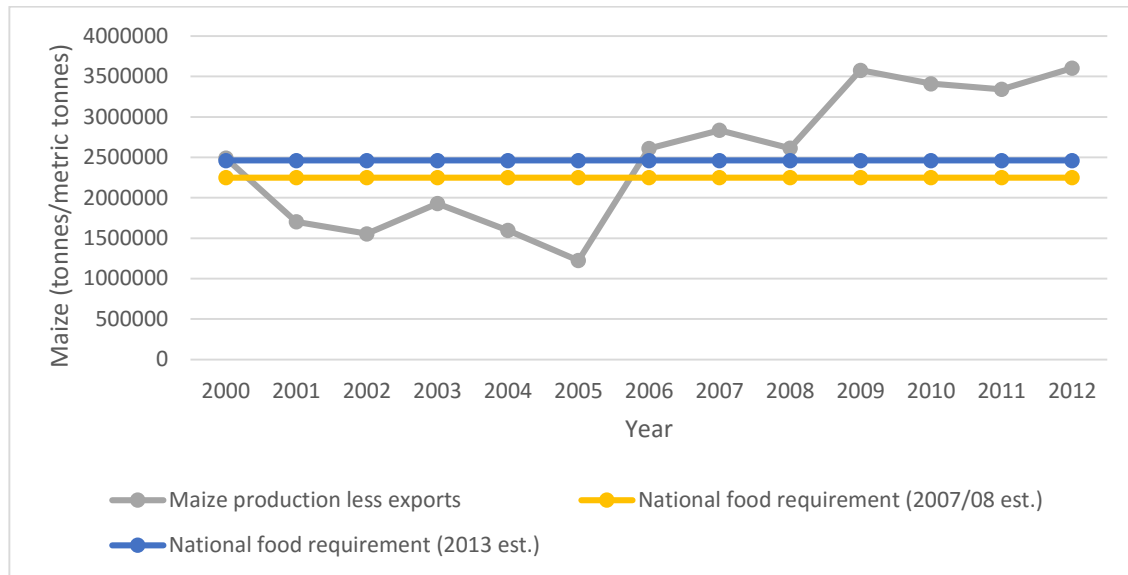


Figure 3.2. Maize self-sufficiency in Malawi, 2000 to 2012. Adapted from AfDB and OECD (2008), FAOSTAT (2015), and MVAC (2013).

Despite its food self-sufficiency, reports of millions of people requiring food assistance in Malawi have continued, with 1.97 million people unable to access adequate food to meet their basic needs in October 2012, and 1.8 million people requiring food assistance in November 2013 (ReliefWeb, 2015; WFP, 2014). Poor targeting, which shall be explored in the next section, means that those who are poor and are not recipients of FISP, still have to purchase maize and, if they are unable to afford it, they may still find themselves in a state of food insecurity because of poor access, despite availability. Late delivery of inputs also means that planting is done late, which often worsens the quality of the crop and affects production amounts for beneficiaries. Malawi, therefore, reflects

well how achieving national food self-sufficiency does not always translate to achieving food self-sufficiency at the household level, and reflects the uneven distribution of food in the country.

It is important to note that FISP's contributions to increased production and productivity have been through the use of chemical fertilisers. While Morris et. al (2007) emphasize the need for smart subsidies to empower farmers to decide on the most appropriate route to take when it comes to soil fertility management, FISP promotes the use of chemical fertilisers, and the seeds provided by the programme require large amounts of fertiliser. Given that the use of manure as a fertiliser is limited because of land constraints which limit livestock ownership, farmers are left with very little option but to use the chemical fertilisers that are being provided by the programme in order to increase their productivity. There are, therefore, limits to farmers exploring alternatives that may be more appropriate for their soil fertility, and farmers continue to be highly dependent on chemical fertilisers. Continued, intensive use of chemical fertilisers, without complementary organic fertiliser use or other forms of soil management, may have detrimental environmental repercussions which may affect people's livelihoods and worsen poverty. This presents a complex tension between increasing production and productivity, achieved through intensive chemical fertiliser use, and protecting the environment, and a need to find a sort of middle ground that allows for Malawi to still produce enough maize to feed its population, but without compromising the environment in such a way that may harm its people.

Reliable data on the effect of FISP on real incomes has been difficult to find. A study carried out by Ricker-Gilbert finds that “the net value of rainy season crop production (a measure of farm income) is positively affected by subsidy receipt in the year of receipt (but not subsequent years)” (as cited in Chirwa & Dorward, 2013a, p. 136). A study of life histories, conducted by Chirwa and Dorward (2013a) found that, despite having continual access to subsidies, some households still struggle to produce maize that will be adequate to see them through to the next harvest season and so must work as casual labour on farms in order to earn an income that will enable them to purchase food. Increased maize production has contributed to lower maize prices, while a fall in the supply of casual labour has resulted in an increase in rural wages as the demand for casual labourers is high (Chirwa & Dorward, 2013a). As a result, most poor households have reported a preference for working as casual labour on farms in order to earn an income and purchase maize at a cheap price, as opposed to depending on growing it in order to sell it at a low price (Chirwa & Dorward, 2013a).

This further emphasises the failure of FISP to ensure both national and household food self-sufficiency, as well as highlights the programme’s limitations in ensuring that beneficiaries are able to produce enough food for their consumption, with the possibility of selling surplus. Although more conclusive studies on the programme’s impact on incomes is yet to be done, there are strong suggestions that the programme’s returns in terms of surplus production that can be sold for an income, are disappointing. Some possible causes for beneficiaries being unable to produce a surplus can be seen in the following section as we explore targeting in the programme which has led to uneven distribution of subsidies amongst households.

### **Targeting**

FISP is a targeted input subsidy programme that is designed to prioritize the poor and vulnerable, with targeting occurring at both the area and beneficiary levels, meaning that particular areas are targeted, and then particular beneficiaries are targeted within the targeted areas. The targeting criteria for FISP has changed over the years since the programme's implementation in 2005/06.

In 2005/06 and 2006/07, coupon allocation was nominally done in proportion to extension planning maize and tobacco areas (or EPAs) although, in reality, it was highly inconstant. There was ad hoc district allocation of any extra coupons (Dorward & Chirwa, 2013). In 2007/08 and 2008/09, area targeting changed from being solely based on EPA maize and tobacco areas to being based on EPA maize and tobacco areas as well as the number of farm households per district (Dorward & Chirwa, 2013, p. 7). Dorward and Chirwa (2013) note that, overall, the area targeting criteria was unclear, and there was ad hoc distribution of additional coupons (p. 7). In 2009/10, the district and EPA allocation criteria was opaque and inconstant, and area targeting was based more on the number of farm households in each district (Dorward & Chirwa, 2013, p. 7). The criteria for area targeting described above is not one that has been based on the level of poverty in each region, yet it is important to determine the extent to which regional poverty may be considered and addressed through area targeting, in order to determine whether or not area targeting under FISP resembles the pro-poor approach that the programme seeks to take. Table 3.1 below shows the distribution of the poor in rural areas of the North, Centre and South region between 2004/05 and 2010/11. Understanding the distribution of

the poor in these regions will assist in gaining better comprehension of whether area targeting at the regional level favours the poorest regions, has a more equitable approach, or one that is in favour of the richer regions.

**Table 3.1**

*Distribution of poor in rural areas of the North, Centre and South region, 2004/05 and 2010/11*

	% Population		% Malawian poor		% Poor in region		% Ultra poor in region	
	04/05	10/11	04/05	10/11	04/05	10/11	04/05	10/11
<b>Rural North</b>	10.2	11.2	10.9	13.2	56.3	59.9	25.9	29
<b>Rural Centre</b>	38.1	36.1	33.9	34.6	46.7	48.7	16.2	21.5
<b>Rural South</b>	40.4	37.6	49.7	46.9	64.4	63.3	31.5	34.2
<b>Urban</b>	11.3	15.2	5.5	5.2	25.4	17.3	7.5	4.3

*Note.* Adapted from NSO (2012, p. 208) and NSO (2005, p. 140)

\*Measurements of poor and ultra-poor are based on consumption per capita on food and non-food items. In 2004/05, the poverty line stood at MK16,165 per person, and the ultra-poverty line stood at MK10,029 per person (NSO, 2005, p. 138). In 2010/11, the poverty line stood at MK37,002 while the ultra-poverty line stood at MK22,956 per person (NSO, 2012, p. 204). Changes largely have to do with the inflation rate.

Table 3.1 shows that the rural North has the lowest population, while the rural South has the highest population, and the rural Centre has one slightly below that of the rural South. The rural South not only has the highest percentage of Malawi's population, but also has the highest percentage of Malawi's poor, and the highest number of poor and ultra-poor people as a percentage of its total population. The rural North, on the other hand, has the lowest percentage of Malawi's poor, but has a higher number of poor and ultra-poor people as a percentage of its total population than the rural Centre. Given this data, regional targeting that prioritizes the poor would prioritize the rural South.



With an understanding of the distribution of poverty within each region, the percentage of beneficiary households by region must be considered in order to gain a better understanding of the area distribution of subsidies.

**Table 3.2**

*Percentage of beneficiary households by region, 2006/07 – 2010/11*

	<b>2006/07</b>	<b>2008/09</b>	<b>2010/11</b>
<b>North</b>	62	72	76
<b>Centre</b>	55	65	69
<b>South</b>	51	67	89

*Note.* Adapted from Dorward and Chirwa (2013, p. 9)

Table 3.2 shows the percentage of beneficiary households by region from 2006/07 to 2010/11.

All three regions show an increase in the percentage of beneficiary households between 2006/07 and 2010/11. The most significant increase has been in the South region, but it only exceeded that of the North after 2008/09, showing favouritism of the North region over the South prior to the percentage of beneficiary households in the South exceeding that of the North. In 2010/11, the percentages of beneficiary households in each region reflected a more pro-poor approach in that the South had the highest percentage of beneficiaries, while the Centre had the lowest. While this may suggest that there is now a more pro-poor approach, with the South region having the highest percentage of beneficiary households, we must also analyse the number of coupons received by each household in each region in order to better understand the regional distribution of the subsidy.

**Table 3.3**

*Percentage of beneficiary households receiving between one and more than two coupons by region, 2006/07 – 2010/11*

	North			Centre			South		
	06/07	08/09	10/11	06/07	08/09	10/11	06/07	08/09	10/11
<b>1 coupon/hh</b>	29	19	31	52	63	60	55	58	56
<b>2 coupon/hh</b>	60	69	63	39	32	38	37	38	42
<b>+2 coupons/hh</b>	11	11	7	9	5	2	8	5	2
<b>TOTAL</b>	100	99	101	100	100	100	100	101	100

*Note.* Adapted from Dorward and Chirwa (2013, p. 9)

\*Percentage totals that are 99 or 101 may be due to the rounding off of figures in the original source.

Table 3.3 shows the percentage of beneficiary households receiving between one and more than two coupons in each region between 2006/07 and 2010/11. Each FISP subsidy package should contain two coupons. Between 2006/07 and 2010/11, the North region had the highest number of households receiving FISP packages complete with two coupons. Although the Centre and South region households have had an increasing percentage of beneficiary households receiving complete packages, their percentages remain substantially lower than those in the North. Most of the beneficiaries in the Centre and South region received FISP packages with only one coupon between 2006/07 and 2010/11, and there has been an increase in the number of beneficiaries in the North region also receiving only one coupon. As highlighted in Chapter Two, farmers may end up with only one coupon because they have to share with other households who may be on the list of beneficiaries but do not get coupons. There has been a decline in the number of farmers receiving more than two coupons in all three regions and, in the North, this coincides with the termination of second round allocations, which further suggests the highly corrupt nature of those allocations. The percentage of beneficiary households

receiving more than two coupons in the North, however, is still concerning as it highlights the number of people in the region receiving more coupons than those that should be in each package, while there is a marked increase in the percentage of beneficiary households receiving incomplete packages.

From Figures 3.1, 3.2 and 3.3, we can see that the North has been favoured over the other two regions in terms of its percentage of beneficiary households and the number of coupons these households receive, even though the South region has a higher number of poor people than the North. Although as of 2010/11, the South region had the highest number of beneficiaries, most of these beneficiaries did not receive complete subsidy packages, while most of the beneficiaries in the North region received complete packages.

The favouritism of the North region prior to 2009/10 can be owed to former President Bingu waMutharika's need for political support in the North region given that he had no base when he came to power in 2004 and needed to win support from the swing voting region. The decrease in disparities among the regions after 2008/09 may be due to the removal of the second-round allocations, which favoured the North, and a more secure position for the president after the 2009 elections. This shows the sensitivity of area targeting to political manipulation and patronage that may affect pro-poor targeting, and reflects the appealing nature of concrete donations – in this case coupons that can be exchanged for seed and fertiliser – put forward by Kelsall (2011), and their ability to influence people's political support in Malawi.

Although FISP's area targeting criteria has been based on EPAs and the number of farm households per district, this has been highly inconstant and, in its inconsistency, has not reflected the pro-poor approach that the programme aims to take but rather a

preference of the North region over the Centre and South regions. This highlights weaknesses in the programme's implementation and its limitations in the face of certain political conditions.

### Beneficiary Targeting

Having discussed area targeting, we now turn to beneficiary targeting in FISP. The number of FISP beneficiary households has changed over the years, and figures on their exact numbers each year are, at best, estimates. Pauw and Thurlow note that FISP “only targets about 1.5 million or half of all Malawian smallholder households” (2014, p. 1). The beneficiary targeting criteria for FISP has seen some changes since its implementation. When FISP was first implemented in 2005/06, the targeting criteria was unclear (Dorward & Chirwa, 2013). In 2006/07, the criteria for receipt was being a full time smallholder farmer who could not afford one or two bags of unsubsidised fertiliser, although, in reality, the probability of households that purchased commercial fertilisers in the previous season not receiving coupons was 0.02 percent, meaning that households that could afford to purchase their own fertiliser were still highly likely to receive coupons (Chirwa, Matita & Dorward, 2013; Dorward & Chirwa, 2013). In 2007/08, vulnerable households, comprising of child-, female-, or orphan-headed families, came to be added to the targeting criteria (MoAFS, 2007). In 2008/09, resource-poor local residents who had land and guardians of physically challenged persons also came to be added to the criteria, and people living with HIV/AIDS were included as part of vulnerable households (Dorward & Chirwa, 2013). The elderly were added to vulnerable households in 2009/10 (Dorward & Chirwa, 2013) and, in 2010/11, it became a requirement that beneficiaries

possess a voter registration card for the purposes of identification (Dorward & Chirwa, 2011a).

Studies on beneficiary targeting provide data on different vulnerable groups and the accessibility of coupons. Chirwa and Dorward (2013) note that, in 2006/07 and 2010/11, the proportion of male-headed households that had access to coupons exceeded that of female-headed households, but female-headed households had a slightly higher proportion than male-headed households in 2008/09. Moreover, a study carried out by the School of Oriental and African Studies et. al shows that “male-headed recipient households tended to receive more maize fertiliser coupons than female-headed recipient households” (Chirwa & Dorward, 2013a, p. 237). In some communities, having enough money to pay the additional costs for subsidised fertiliser was a precondition for fertiliser coupon receipt, reducing the likelihood of the poor to receive coupons (Chirwa & Dorward, 2013a). Chirwa and Dorward also note that the requirement for identification documents also excluded some vulnerable groups from access to coupons (2013a). Regarding landholdings, the World Bank (2013) states that households with larger landholdings are more likely to receive coupons, with “a 25 percentage point difference between the land poor and the land rich” (p. 45). In some cases, the number of coupons delivered to a community are inadequate compared to the number of people registered or eligible to receive coupons under FISP, and this has led to some of the most vulnerable households being excluded, or the sharing of coupons, with vulnerable and poorer households being more likely to share their coupons with households that are excluded (Chirwa & Dorward, 2013a).

Although the beneficiary criteria has changed and become more inclusive, through encompassing more vulnerable groups, some vulnerable groups continue to be marginalized. With the ability to purchase commercial fertilisers in the previous season not serving as a hindrance to the receipt of coupons, this increases the number of beneficiary households that are better off receiving coupons that poorer households could receive. The preference for those who are land rich when it comes to coupon receipt is understandable, as those with no land cannot utilize fertilisers and may sell them to better off farmers, thus resulting in the leakage of coupons to richer farmers, as is warned by Tiba (2011), but those with small pieces of land should not be overlooked. Registration inefficiencies that resulted in an inadequate amount of coupons have worsened the marginalisation and exclusion of some vulnerable groups through coupon sharing.

The precondition, in some communities, that recipients must have enough money to pay the additional cost for subsidised fertiliser in order to receive coupons, limits the poor's access to coupons, further hindering an effective targeting of the vulnerable and poor. This is not a precondition set by the programme itself, and highlights the ability of traditional authorities to manipulate targeting as they identify beneficiaries for the programme. The requirement that beneficiaries be full time smallholder farmers may also marginalize some of the poor and vulnerable who may not have been involved in full time farming due to poor yields and the need to search for other work for an income.

From an analysis of the beneficiary criteria, it becomes apparent that some of the conditions put in place for coupon receipt are in conflict with prioritising the poor. Although the beneficiary criteria may prioritise poor and vulnerable populations, some elements of the criteria contribute to their marginalisation rather than their inclusion.

There is tension that exists between targeting the poor and ensuring that certain conditions, which would increase the likelihood of the efficient use of fertiliser subsidies, such as land availability and adequate money for coupon redemption, are met, and poor and vulnerable groups stand at a disadvantage.

With an understanding of FISP's beneficiary criteria and its contradictory nature, we now turn to look at how it is that the subsidies have been shared amongst different poverty/wealth status groups in order to determine the extent to which the programme prioritises poorer farmers, who were more likely to use fewer, if any inputs, prior to FISP. Table 3.4 shows FISP beneficiary households by their wealth/poverty status in 2011.

**Table 3.4**

*FISP beneficiary households by wealth/poverty status, 2011*

<b>Status</b>	<b>Poorest</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Richest</b>
<b>% of Recipients</b>	46	55	60	57	48

*Note.* Adapted from World Bank (2013, p. 46)

The statuses of the beneficiary households range from the poorest to the richest, with three quintiles between them: Q2, Q3 and Q4. In 2011, the poorest quintile had the lowest percentage of recipients, while two of the three richest quintiles had the highest percentage of recipients. Based on the number of beneficiary households as a percentage of their respective wealth/poverty status group, we see that the poorest group is not prioritised, and that it is poverty/wealth groups that are better off that are prioritised in terms of beneficiary household numbers. This reflects an approach to targeting that is not pro-poor. When we analyse the share of the subsidies that each wealth/poverty group status received in 2011, however, the beneficiary households in the poorest quintile seem

to be better off. Table 3.5 shows the FISP net subsidy share for rural populations by wealth/poverty status in 2011.

**Table 3.5**

*FISP net subsidy share for rural population by wealth/poverty status, 2011*

<b>Status</b>	<b>Poorest</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Richest</b>	<b>TOTAL</b>
<b>Net subsidy share %</b>	19.6	20.0	20.3	20.3	19.8	100

*Note.* Adapted from World Bank (2013, p. 46)

Table 3.5 shows that the poorest receive the lowest net subsidy share, while two of the three highest quintiles get the highest. Although there are differences in the net subsidy share, the distribution is more or less equal amongst the five wealth/poverty status groups. Given that the percentage of beneficiaries in the poorest quintile was the lowest of the five groups, but the net subsidy share for each group was more or less the same, it can be suggested that, on average, the poorest quintile received a higher net subsidy share per beneficiary household than other quintiles, but not significantly higher. Nevertheless, this still does not reflect a pro-poor approach.

The data above does not provide information on the number of bags of fertiliser each beneficiary household received, which is necessary to know in order to better determine which wealth/poverty status groups are benefitting the most from the programme in terms of the amount of subsidised fertiliser they are receiving. It is worth restating that each FISP subsidy package provides two coupons for farmers, with each coupon being the value of one bag of fertiliser, although an additional MK500 must be paid. Households receiving less than two bags of fertiliser are, therefore, not receiving the complete package.



Table 3.6 shows the percentage of households receiving either no subsidy, one bag or less of fertiliser, or more than one bag of fertiliser by poverty/wellbeing group in 2010/11.

**Table 3.6**

*Percentage of households in each poverty group receiving fertiliser bags, 2010/11*

<b>Poverty/wealth status*</b>	<b>No subsidy</b>	<b>One bag or less per household (%)</b>	<b>More than one bag per household (%)</b>	<b>All households (%)</b>
<b>Poorest</b>	28.6	47.6	23.8	100
<b>Poor</b>	17.9	48.7	33.3	100
<b>A bit poor</b>	20	48	32	100
<b>Better off</b>	20	26.7	53.3	100

*Note.* Adapted from Dorward and Chirwa (2013, p. 11)

\*Poverty/wellbeing groups are based on the perceptions of households of their own poverty or wellbeing (Dorward & Chirwa, 2013, p. 10). There are six groups in total, with the richest three being represented by the ‘better off’ status (Dorward & Chirwa, 2013, p. 11).

From Figure 3.6, we see that most of the beneficiary households in the three poorest groups (poorest, poor, and a bit poor) did not receive complete subsidy packages as they got one bag or less of fertiliser, yet those who identified as being better off, or a part of the three richest wealth/poverty status groups received more than one bag of fertiliser. Receiving more than one bag of fertiliser does not necessarily translate to receiving two bags of fertiliser, or the 100kg of fertiliser that each beneficiary household is entitled to, but it still remains apparent that those who were better off received more fertiliser from the subsidy programme than the poorer groups.

In order to understand the prioritising of better off groups in the programme’s implementation, we can look to the political influence in targeting that has been raised in

Chapter Two. The open meetings that were being used to allocate and distribute coupons in 2010/11 sometimes involved little to no active participation of the farmers but, instead, the farmers would be informed of who was to receive coupons without being given an opportunity to participate (Dorward & Chirwa, 2013). This suggests that traditional authorities may have used this as an opportunity to allocate and distribute coupons to better off farmers as a form of patronage, and reflects some of the concerns raised in the literature on participatory development, whereby participatory approaches can still reflect a top-down approach, the facilitator is able to control participation through choosing which topics are covered, which questions are asked, and who is included and excluded in the conversation, and power relations within the participating group may influence the representativeness of responses given or decisions made (Kapoor, 2005; Mosse, 2001). With less coupons than were needed being available, it was often the coupons of poorer farmers that were redistributed, or poorer farmers who had to share their fertiliser with households that were registered as beneficiary households but did not receive coupons due to less than the required number being delivered (Chirwa & Dorward, 2013; Dorward & Chirwa, 2013a). We can also go back to the contradictory nature of the beneficiary criteria, which may also have contributed to the lack of a pro-poor approach in practice for FISP.

Malawi has some social safety net instruments such as public work programmes and cash transfers. According to the World Bank (2013), of these various instruments that aim to reach the vulnerable and the poor, “FISP mobilizes over 80% of the financial resources available” (p. 45). Given that FISP mobilizes the majority of these funds, the programme has a responsibility to reach the vulnerable and the poor. Since the

implementation of FISP, however, there have been mixed results in terms of changes in national poverty, with most of these changes being an increase in the poverty headcount. In 2004/05, prior to the implementation of FISP, the national poverty headcount stood at 52.4 percent, while the extreme poverty headcount stood at 22 percent (ASWAp TWG on M&E, 2013). Although the national poverty headcount had fallen to 50.9 percent by 2010/11, the extreme poverty headcount had risen to 25 percent (ASWAp TWG on M&E, 2013, p. 2). The rural poverty headcount increased from 55.9 percent to 56.6 percent between 2004/05 and 2010/11, while the rural extreme poverty headcount increased from 24.3 percent in 2004/05 to 28.1 percent in 2010/11 (ASWAp TWG on M&E, 2013). Both the urban poverty headcount and the urban extreme poverty headcount fell between 2004/05 and 2010/11, contributing to the decrease in the national poverty headcount (ASWAp TWG on M&E, 2013, p. 2). From this, and the beneficiary targeting in the programme, it can be deduced that FISP has not been successful in adequately reaching the poor and the vulnerable, and rural poverty has increased since the programme was introduced, which is concerning given that the programme is mainly directed towards rural areas, and accounts for over 80 percent of the financial resources that are available as social safety nets for the poor and vulnerable.

While FISP aims to prioritise the poor and vulnerable in its targeting, this has not translated in its implementation. The programme suffers from a contradictory beneficiary criteria which, in some instances, marginalises the poor and vulnerable. As a result of this, as well as political manipulation at the regional level, which may also take place at the beneficiary level, the programme, in practice, is not pro-poor in its targeting, often benefitting those who are better off more than the poor. While the ability of a smart

subsidy programme to reduce poverty is also partly dependent on other complementary programmes being in place, as is stated by Baltzer and Hansen (2011), it may be a challenge to fully develop other complementary programmes that are designed to address the poor and vulnerable if FISP is already consuming a significant amount of the resources available.

We now turn to private sector involvement in FISP.

### **Private Sector Development**

FISP has involved the private sector in the different aspects of the programme at different times, from fertiliser procurement and transportation to distribution. The private sector was only involved in the retail of subsidised fertilisers in 2006/07 and 2007/08, but has since been sidelined because of unsubstantiated reports made by the government of corruption and mishandling of coupons (see Chapter Two), although it continues to participate in the distribution of non-subsidized fertilisers, which can also be referred to as commercial fertilisers. While there are no clear reasons for the abrupt termination of private sector involvement in fertiliser retail in 2008/09, other than the reports made by the government, the absence of private sector participation in retail allows the government to monopolise the distribution of subsidised fertiliser. Seeing the exclusion of the private sector from subsidised fertiliser retail solely as a matter of corruption is problematic given the evidence that has been found of corruption in the public sector in subsidised fertiliser retail over the years, which would then disqualify both private and public retailers. The termination of private sector participation in subsidised fertiliser

retail in FISP based on accusations that are unsubstantiated highlights how prone the subsidy programme is to government manipulation to the state's benefit.

The transportation of fertiliser to retail outlets from national depots is a service provided solely by the private sector, with no state involvement, and the number of transporters participating in the programme has increased from 16 transporters in 2008/09 to 23 transporters in 2011/12 (Chirwa & Dorward, 2013a; Chirwa and Dorward, 2013c). Most of the contracts that have been awarded to transport services have been given to companies that have close links with the ruling party (Chirwa & Dorward, 2013c). This could serve as a possible reason for the increase in participation in transportation, as transporting companies closely linked to the ruling party may feel encouraged to participate, with a higher likelihood of their bids getting accepted, and the opportunity to profit from participating in the programme.

Since 2009/10, there has been an increase in the involvement of the private sector in FISP when it comes to procurement because of an increase in business opportunities in fertiliser supply (Chirwa & Dorward, 2013c). In 2009/10, 24 bids were awarded to the private sector in fertiliser procurement, a number that reached 65 in 2011/12 (Chirwa & Dorward, 2013c). While only 10 contracts to supply fertilisers to the programme were awarded to the private sector in 2009/10, in 2011/12, 20 new contracts were awarded (Chirwa & Dorward, 2013c). There have been new companies that have been set up solely to bid for supply contracts (Chirwa & Dorward, 2013c). These companies are also closely linked to the ruling party, but when they have been awarded bids, some have been unable to fulfil their deliveries at the given time but have been granted extensions without

penalty, resulting in delays, with some companies delivering fertiliser that was due before the first rains in October 2011, in February 2012 (Chirwa & Dorward, 2013c).

Although there may be notable private sector participation in fertiliser procurement and transportation for FISP, the power that the government has to award bids for these services and the close ties between the ruling party and some of the private sector companies that are awarded bids shows that the private sector is not entirely independent from decisions made by the government, likely influenced by patronage. In the case of fertiliser procurement, we see the participation of inefficient private sector companies who are unable to meet their deliveries on time, but are granted extensions by the government, with no consequence. There is similarity to these cases and the bailing out of the private sector discussed by Chang (2008) (see Chapter Three), but instead of the government bailing out private sector firms that are significant contributors to the economy, we see the government supporting private sector firms that are aligned with the ruling parties interests, and sometimes at the expense of the programme due to delays that arise in deliveries. It must be reiterated, however, that delays in fertiliser procurement may also have to do with the government awarding tenders late to the extent that prices for inputs increase and suppliers will be unable to meet the quantities agreed upon on time (Chirwa & Dorward, 2013c). This was the case in June 2006/07 and June 2008/09 (Chirwa & Dorward, 2013c).

Having looked at the different services provided by the private sector and parastatals in FISP, we now turn to examine the participation of the public and private sector in fertiliser procurement in order to gain a better understanding of the private

sector's role and contribution to this aspect of the programme, and as part of understanding if and how the private sector has been developed through FISP.

Table 3.7 shows the share of fertiliser supplied by each sector in terms of volume, value and percentage between 2007/08 and 2011/12.

**Table 3.7**

*Share of subsidised fertiliser supplied by each sector (volume, value and percentage), 2007/08 to 2011/12*

	2007/08	2008/09	2009/10	2010/11*	2011/12*
<b>Volume (MT)</b>					
<b>Parastatal</b>	40,330	22,918	8,000	8,000	40,000
<b>Private</b>	97,845	162,840	68,998	152,000	100,000
<b>Value (\$million)</b>					
<b>Parastatal</b>	22.64	30.55	5.94	5.71	25.66
<b>Private</b>	54.10	203.76	51.24	109.57	91.02
<b>Supply (%)</b>					
<b>Parastatal</b>	29.2	12.4	10.4	5	28.6
<b>Private</b>	70.8	87.6	89.6	95	71.4

*Note.* Adapted from Chirwa & Dorward (2013c, p. 5)

\*There was no supply of tobacco fertiliser in the 2010/11 and 2011/12 season.

Table 3.7 shows that, while the volume and value of subsidised fertiliser procured by the private sector fluctuated between 2007/08 and 2011/12, peaking in 2008/09 because of a hike in international fertiliser prices, the percentage supply between 2007/08 and 2010/11 increased, reaching 95 percent. The growing reliance on the private sector may have to do with the increasing number of private companies that are getting involved in the procurement of fertiliser for FISP, and further highlights the increased private sector participation in subsidised fertiliser supply. In 2011/12, we see that the programme cut down on the total amount of fertiliser that was provided, yet more money was paid for it, which indicates a notable increase in the cost of fertiliser.

Input subsidy programmes are accused by some of displacing commercial fertiliser purchases. According to SOAS, in 2004/05, the private sector had an 87 percent share of fertiliser sales, but this fell to 41 percent in the first year of FISP's implementation, 2005/06, when 60 to 70 percent of the fertiliser retail outlets shut down due to reduced fertiliser sales (Chinsinga & Poulton, 2014). Table 3.8 shows the total amount of fertiliser imported and the available commercial fertiliser from 2004 to 2011.

**Table 3.8**

*Total fertiliser imports and available commercial fertiliser in Malawi, 2004 to 2011*

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Total imports ('000 tonnes)</b>	250	365	252.5	272.5	342.5	265	342.5	267.5
<b>Available commercial ('000 tonnes)</b>	197.5	235	77.5	60	140	102.5	182.5	130

*Note.* Adapted from Chirwa and Dorward (2013c, p. 6)

Table 3.8 shows that the volume of total imports and available commercial fertiliser in Malawi fluctuated between 2004 and 2011, but since the implementation of FISP, the volume of available commercial fertiliser has not reached pre-subsidy levels, remaining below 190,000 tonnes. In 2006 and 2007, the decline in available commercial fertiliser can be explained by the introduction of FISP, which saw a significant increase in the amount of subsidised fertiliser, prompting the shutting down of some private fertiliser retail outlets, as described above. After 2007, however, although the amount of available



commercial fertiliser continued to fluctuate, it registered as higher than the first two years of the subsidy programme, which may suggest that, although there may have been high displacement of commercial fertiliser sales in the programme's first two years of implementation, this has since improved. This improvement may have to do with the exclusion of tobacco fertilisers from FISP in 2010/11 and 2011/12, which is important as a previous study by SOAS shows that there was higher displacement in tobacco fertiliser than in maize fertiliser (Chirwa & Dorward, 2013c). The exclusion of tobacco fertiliser from FISP in 2011, as well as a collapse of tobacco prices in 2010/11, which led to a decline in demand for tobacco fertiliser as many farmers abandoned the crop, explains the decline in total fertiliser imports and available commercial fertiliser in 2011 (Chirwa & Dorward, 2013c).

While there may initially have been high displacement of commercial fertiliser upon FISP's implementation, this has since declined over time, with the exclusion of tobacco fertilisers from the programme also playing a part in this. This suggests that the programme has encouraged commercial fertiliser sales over time, but not at the levels that existed prior to FISP, highlighting the displacement that still exists.

In order to show the extent to which commercial fertiliser sales for the private sector have been affected by FISP, Table 3.9 shows the percentage of households purchasing commercial fertiliser from private companies, parastatals and other sources, which include clubs, cooperatives, traders, local markets, relatives and neighbours, between 2006/07 and 2010/11.

### **Table 3.9**

*Percentage of households purchasing commercial fertiliser from source, 2006/07-2010/11*

	<b>2006/07</b>	<b>2008/09</b>	<b>2010/11</b>
<b>Private companies</b>	6	21	30
<b>Parastatals</b>	18	15	13
<b>Other</b>	76	64	57
<b>TOTAL</b>	100	100	100

*Note.* Adapted from Chirwa and Dorward (2013c)

Between 2006/07 and 2010/11, the percentage of households purchasing commercial fertiliser from private companies has increased, while it has decreased for parastatals. For other sources, traders and local markets have seen a decrease in the percentage of households purchasing commercial fertiliser from them, while relatives/neighbours and clubs/cooperatives have seen an increase.

Private company outlets have seen an increase in the average amount of commercial fertiliser purchased per household, with households purchasing an average of 9 kg of fertiliser from them in 2006/07, a figure that rose to 42 kg in 2008/09 and again 2010/11 to 60 kg (Chirwa & Dorward, 2013c).

With an increase in the percentage of households purchasing commercial fertiliser from private companies, as well as an increase in the average amount of commercial fertiliser purchased per household from private companies, we see that the private sector involved in commercial fertiliser sales has thrived under FISP.

As has already been noted in Chapter Two, Malawi's fertiliser blending plants have limited capacity that only allows them to provide for estate farmers (GoM, n.d.). As a result, fertiliser, both subsidised and non-subsidised, is imported from different countries such as Switzerland, South Africa and the UAE, and so there is a substantial amount of money flowing outward to sustain the subsidy programme while continuing to

benefit large fertiliser exporting companies in other countries (WITS, 2015). Both the smart subsidy model and FISP do not address the issue of dependence on fertiliser imports and, in supporting the promotion of the private sector, do not specifically encourage the development of the domestic private sector in the manufacturing of fertiliser in order to lower costs or decrease the country's dependence on the international market. The implications of this on Malawi's long-term development shall be discussed further in Chapter Five.

From this section, we see that, although the private sector has been excluded from participating in subsidised fertiliser retail, it has grown in subsidised fertiliser procurement and transport, but the participation of the private sector in FISP is largely controlled by the government, which awards tenders to private sector companies wishing to participate, with the opportunity to use this participation a source of patronage. During FISP's implementation, the private sector that is involved in sales of commercial fertiliser has also thrived over the years after an initial decline.

We now turn to an examination of the costs and funding of FISP as part of understanding the programme's financial sustainability.

### **Costs and Funding of FISP**

FISP is an expensive programme, and its introduction brought along a hike in the government's agricultural expenditure. Between 2000/01 and 2004/05, the government's agricultural expenditure, which was that of the Ministry of Agriculture and Food Security (MoAFS) and the Department of Irrigation, was between \$20 million and \$30 million, but shot up to \$175 million in 2005/06 when FISP was launched (World Bank, 2013, p. 36).

The actual expenditures of MoAFS and the Department of Irrigation were above the approved budget from the year of FISP's implementation and the three years that followed it by 36 percent, but from 2009/10 to 2011/12, they fell within the budget (World Bank, 2013, p. 36). This suggests that, for the four years that MoAFS and Department of Irrigation expenditures were above budget, they were eating into the resources of other programmes.

Table 3.10 shows the programme costs for FISP between 2005/06 and 2012/13.

**Table 3.10**

*Programme costs (\$USmillion), 2005/06 to 2012/13*

	<b>05/06</b>	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>
<b>Total costs*</b>	51.62	90.92	128.58	274.91	129.83	161.76	149.36	144.20
<b>Total net costs</b>	32	73.9	107.26	251.79	118.40	151.17	140.97	144.66

*Note.* Adapted from Chirwa & Dorward (2013a, pp. 122-3) and Dorward et. al (2013).

\*Total costs are recorded and estimated costs, excluding stock carryover.

\*\*2005/06 total net costs are recorded costs

\*\*\*2006/07 to 2012/13 total net costs are recorded and estimated.

From FISP's implementation in 2005/06 to 2008/09, we see a rise in programme costs. 2008/09 is particularly high, standing at \$ 274.91 million in total costs and \$251.79 million in net costs because of the hike in international prices for fertiliser, which is the main component of the subsidy package in terms of cost and quantity. In 2009/10, programme costs declined, but remained above the cost for 2007/08, an indication that, even without the fertiliser price hikes, costs were continuing to rise, which they did again in 2010/11. Although total net costs declined in 2011/12, they rose again the following year.

Programme costs have significantly increased over the years, although they have been fluctuating since 2009/10, but still doing so at high costs. When the data in Table 3.10 is compared to Table 3.7, we also see that, in 2011/12, although total and net costs of the programme declined from what they were in the previous year, the cost of fertiliser increased, which indicates that, even as costs and the amount of fertiliser have been scaled back, the cost of fertiliser continues to be a significant expense, and one that is increasing, which should raise concerns about the programme's dependence on imported fertiliser that Malawi has little control over when it comes to price, yet urea and mineral and chemical fertilisers are the country's third and fourth largest imports (WITS, 2015).

Another cause of the increase in the cost of the programme has to do with farmer contributions. In 2005/06, beneficiary farmers were expected to pay an additional MK950 for a bag of subsidised maize fertilizer, with 64 percent of the actual price of the bag of fertiliser being subsidised (Chirwa & Dorward, 2013a). In 2011/12, however, farmer contributions had fallen to MK500 for a bag of subsidised maize fertiliser, with 93 percent of the actual price of the bag of fertiliser being subsidised (Chirwa & Dorward, 2013a). As the actual cost of a bag of fertiliser has changed over the years, increasing due to price hikes in the 2008 global economic crisis, or increased transport and import costs, farmer contributions have been held constant at MK500 since 2009/10, meaning that the government has to bear a greater share of the cost. While the subsidy may mean that fertiliser has been cheaper for beneficiary households since 2009/10, it has only become more expensive for those who are not beneficiaries. The programme may be able to control maize prices, but it has little control over the cost of fertilisers, which are its greatest expense.

It is imperative to understand the way in which the cost of FISP relates to its budget, as well as other budgets, in order to determine the extent to which the programme's costs are prepared for, and to gain some understanding of the amount of resources the programme has consumed from other budgets over time. This further assists in determining the extent to which the programme can be regarded as financially unsustainable, if at all. Table 3.11 shows the programme budget between 2005/06 and 2012/13.

**Table 3.11**

*Programme budget (US\$million), 2005/06 to 2012/13*

	05/06	06/07	07/08	08/09	2009/10	10/11	11/12	12/13
<b>FISP budget</b>	36.43	53.57	82.14	139.14	155.04	129.99	129.48	131.81
<b>Total net costs</b>	32	73.9	107.26	251.79	118.40	151.17	140.70	144.66
<b>% of net costs over budget</b>	-12.2	37.9	30.6	81	-23.3	16.3	8.7	9.7
<b>% of MoAFS budget</b>	-	46.8	57.2	67.6	52.7	60.1	48.9	64.4**
<b>% of National budget</b>	-	6.8	8.2	16.2	6.5	8.0	7.1	10**
<b>% of GDP</b>	-	2.5	3.1	6.6	2.5	3.0	2.7*	3.4*

*Note.* Adapted from Chirwa & Dorward (2013a, pp. 122-3)

\*Total costs/GDP (World Bank, 2015) x 100

\*\* Taken from Dorward et. al (2013, p. 17)

Between 2005/06 and 2009/10, FISP's budget increased, and then fluctuated very slightly between 2010/11 and 2012/13, remaining fairly stable. With the exception of 2009/10, FISP has been over its budget since 2006/07, and especially so in 2008/09, but

2011/12 and 2012/13 are years when FISP's percentage of net costs over budget are at its lowest (not considering years when the programme is below budget). This indicates that there is a better gauging of the programme's costs over the years, but this may change in the event of major price hikes.

With the programme being over its budget for most of the years of its implementation, while the ministry which it is under, MoAFS, has been within its budget between 2009/10 and 2011/12, it can be suggested that, during those years, while the increasing FISP costs may not have intruded on resources designated for other programmes and projects outside of MoAFS, agricultural programmes and projects within the programme may have been affected.

For most years of its implementation, FISP has accounted for more than half of the MoAFS budget. Between 2005/06 and 2008/09, FISP accounted for an increasing percentage of the MoAFS budget, but this percentage fell in 2009/10 as the amount of fertiliser purchased for the programme, as well as the cost for it declined. The following year saw an increase in the percentage of the MoAFS budget that FISP accounted for, but this declined again in 2011/12 as the country faced macroeconomic challenges, which may explain the scaling back of the programme. In 2012/13 however, the programme rose to accounting for 64.4 percent of the MoAFS budget, the highest since 2008/09. This further emphasizes the cost of the programme and the amount of resources that it takes from the MoAFS budget, leaving less resources available for other programmes within the ministry's budget.

FISP's costs as a percentage of the national budget and the GDP follow a similar pattern as that of FISP as a percentage of the MoAFS budget, also highlighting the

programme's cost, and how it is gradually consuming an increasing amount of public resources.

Table 3.12 shows how funding for FISP was divided between the Malawian government and donors between 2005/06 and 2012/13.

**Table 3.12**

*Funding for FISP (US\$million), 2005/06 to 2012/13*

<b>FUNDING</b>	<b>05/06</b>	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>
<b>Malawi govt.</b>	32*	64.39	100.13	214.04	100.92	129.12	95.84	127.11
<b>Direct donor support</b>	0.00	9.51	7.13	37.75	17.48	22.05	44.85	17.56
<b>% Govt. funding</b>	100	87.1	93.4	85	85.2	85.4	68.1	87.9
<b>% Direct donor funding</b>	0	12.9	6.6	15	14.8	14.6	31.9	12.1

*Note.* Adapted from Chirwa & Dorward (2013a, pp. 122-3) and Dorward et. al (2013, p. 106)

\*2005/06 Malawi government funding from total net costs of that year (Chirwa & Dorward, 2013a)

When FISP was first implemented, it was fully funded by the Malawian government (Chirwa & Dorward, 2013a). After impressive results in terms of substantial increases in maize production in its first year, donors began to assist in funding the programme. With the exception of 2011/12, when Malawi was facing macroeconomic challenges, the government has never funded less than 85 percent of the programme, which indicates a sort of consistency on the part of the government in being able to fund a set percentage of the programme. In 2011/12, direct donor funding was stepped up, with donors contributing \$44.85 million, the greatest amount that they had contributed to the programme since its implementation, as well as the highest percentage, at 31.9 percent.



Macroeconomic challenges may significantly affect government funding for the programme, and it is at these times, as is shown in Figure 3.12, that donors are particularly important in funding the programme as they bear a greater financial burden than they may in the absence of macroeconomic challenges. The importance of Malawi's relationship with its donors becomes apparent in these instances, and the compromise of these relationships due to corruption, as was the case upon the discovery of Cashgate, may have detrimental effects on the programme.

The financial sustainability of FISP cannot be determined without a cost-benefit analysis of the programme. There are few cost-benefit analyses that have been carried out for FISP since its implementation, but they highlight the challenges in doing so, stating that there are difficulties in “determining appropriate maize prices and estimates of incremental production, [and] in estimating and allowing for indirect impacts of the programme” (Dorward & Chirwa, 2014, p. 17). Dorward & Chirwa (2014) note that FISP's benefits, measured in terms of incremental maize production, producer maize surplus, consumer maize surplus and producer net gain in legumes, exceeded its costs in 2013/14, but the benefit cost ratio was lower for that season than it was in 2012/13, which means that, in 2013/14, there were less benefits of FISP in relation to its costs than there were in 2012/13.

The benefit cost ratio is sensitive to yield responses, maize prices, fertiliser prices, displacement/leakage and farmer contributions (Dorward & Chirwa, 2014). In evaluating FISP in 2013/14, Dorward and Chirwa (2014) note that programme costs would fall by about 4 percent if fertiliser costs were reduced by 5 percent, while tripling farmer contributions, while keeping farmer uptake, displacement and leakage constant, would cut

programme costs by US\$7 million. If programme displacement and leakage is reduced from 30 percent to 10 percent, this could result in a 25 percent increase in incremental maize production.

From the findings from the benefit cost ratio analysis carried out by Dorward and Chirwa (2014), we can deduce that, while FISP is more beneficial than it is costly, increasing efficiency and better cost management may make the programme more financially sustainable, although there may also be trade-offs, which will be discussed in Chapter Five.

### **Lessons from Empirical Research**

Based on the above empirical research, the following can be deduced about FISP in Malawi and its implementation as a smart subsidy. FISP has contributed to significant increases in maize production, productivity and food self-sufficiency. Although the programme, by design, is targeted at poor and vulnerable households, parts of the beneficiary criteria are contradictory, and the criteria has not been followed in practice. Given that programmes of this nature are prone to being used as sources of patronage, it can be strongly suggested that political manipulation and patronage in targeting can also serve as a limitation to the adherence of the targeting criteria, and this may be one of the causes of better-off farmers benefitting from the programme over the poor. Other than leakage, this also results in the displacement of commercial fertiliser sales, and limits productivity as smallholder farmers are known to be more productive than those with larger land holdings in labour-intensive staple food crop production (Tiba, 2011).

Political manipulation and patronage within FISP can be considered to be a possibly significant characteristic when looking at the subsidy programme within the context of Malawi's agricultural history. As shown in Chapter Two, we see that agricultural production has been a key feature of the country's economy and its people's livelihoods, and former presidents have used support for the agricultural sector as a way to gain votes or maintain power through patronage. Subsidies have been especially political, and FISP has been no exception. The power of traditional authorities, which could not be successfully challenged during colonial times, may also influence targeting in FISP, and this all highlights the proneness of targeting to political manipulation.

Although the government has ended private sector participation in subsidised fertiliser retail, FISP has encouraged private sector participation and development in subsidised fertiliser procurement and transportation, but this participation has been largely regulated by the government through the awarding of bids, and benefitted private firms with close ties to the ruling party. This emphasises the influence of the government, highlighting how the private sector is not necessarily entirely independent of it. Reports of late delivery, in part due to the failure of fertiliser suppliers to procure fertilisers in time, reflect how efficiency is not an inherent feature of private sector companies. Under FISP, non-subsidized fertiliser sales have flourished and although displacement remains a challenge in the programme, there are indications that it has declined.

FISP, however, has not promoted the development of the private sector in chemical fertiliser manufacturing, thus failing to address the country's dependence on imported chemical fertiliser. Although the country has implemented this subsidy

programme in an effort to achieve food self-sufficiency, it is largely sustained by continued dependence on the international market for fertiliser.

FISP is, undoubtedly, an expensive programme with increasing costs and taking up an increasing amount of the MoAFS budget, the national budget and the GDP. The government has, for the most part, been consistent in its contribution to the programme, but there need to be more studies carried out on which programmes have missed out on resources because of FISP's growing expenses. Fertiliser costs have been the greatest contributor to FISP's expenses, and have increased over time, while farmer contributions have been held constant, creating a greater financial burden for the government.

Despite the increasing programme costs, the programme continues to have higher benefits than costs, but there has been a decline in this, with a need to reduce displacement and leakage, reduce fertiliser costs and increase farmer contributions in order to increase benefits and reduce the costs of the programme.

With all of this in mind, we can conclude that, while FISP has initiated significant productivity gains, pro-poor targeting in its design has not fully translated in the programme's implementation due to corruption, political manipulation and ambiguous and contradictory targeting criteria; there has been limited private sector development in the subsidised fertiliser retail industry due to government restrictions; and the programme has been a significant fiscal burden on the state due to inefficiencies arising from poor targeting, corruption, political manipulation and poor cost management, as well as dependence on expensive fertiliser imports. In failing to mirror the three main characteristics of a smart subsidy in its implementation, we see that FISP has not been successfully implemented as a smart subsidy, and this highlights the limitations of

successfully implementing the smart subsidy model in the SSA context, and the need to revise and rethink the model to better address its limitations. In the next chapter, we discuss these limitations and how they can be addressed.

## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS**

In the last chapter, we provided, discussed and evaluated data on what has been coined one of the most successful smart subsidies to date, FISP. From our findings on FISP, this chapter now looks at the smart subsidy model and addresses the limitations to its successful implementation, particularly within the SSA context, revisiting the literature on smart subsidies provided in Chapter Three. With smart subsidies being located within the post-Washington consensus, this chapter shall then proceed to discuss the shortcomings of both the Washington and post-Washington Consensus in addressing development. Alternatives to these two paradigms shall then be explored. Taking these recommendations into consideration, as well as the limitations of smart subsidies, recommendations shall then be made on how FISP may become a more efficient programme, and make greater contributions to long-term development in Malawi.

### **The Limitations of Successful Smart Subsidy Implementation in the SSA Context**

The pro-poor targeting that is supported in the smart-subsidy model has its strengths in addressing poverty, reducing displacement of commercial sales of fertiliser and increasing productivity through targeting the more productive smallholder-farmers. The model also acknowledges the need for complementary programmes that will address market failures that confront the poor and hinder their efficient use of the subsidy.

A pro-poor targeting approach may have its benefits, but we cannot ignore concerns raised by Tiba (2011) that a smart-subsidy runs the risk of leakage, and while leakage can be confronted through complementary programmes and clearer beneficiary criteria that is enforced, there are limits when pro-poor targeting is confronted by the

realities of the SSA context whereby patronage and political manipulation are often used in programmes of this nature. In some countries, traditional authorities hold great power and influence and cannot be excluded from the process of allocating and distributing resources in their communities, and coming from a colonial and post-colonial history in which patronage has become an increasing feature of gaining and maintaining support, particularly given the greater desirability for concrete donations (Kelsall (2011), this may still be used when it comes to subsidies. The same applies for the government, in which heads of state may use subsidies as patronage rather than adhering to a given criteria. Improvements may, and in the case of Malawi, have, been made in order to make the allocation and distribution process of coupons more transparent through open meetings but, once again, that does not always translate in practice.

My point here is that, while pro-poor targeting has some benefits, and may achieve poverty reduction objectives when coupled with complementary programmes, it should be acknowledged that diversion of subsidies through patronage can be an impediment to pro-poor targeting within the existing SSA context.

With respect to the development of the private sector, private sector participation in distribution can be supported on the basis that it may allow for remote areas to be reached, as we have seen in the case of Malawi, provided that there are incentives for the retailers to relocate, making it easier for smallholder farmers in remote areas to redeem their coupons, as well as on the basis that it may encourage efficiency in subsidised fertiliser retail through the promotion of competition, as Morris et. al (2007) argue. Regarding the efficiency of the private sector in service delivery, however, increased private sector participation does not always equate to increased efficiency in terms of

service delivery as has been seen in the case of Malawi, whereby private sector suppliers have failed to fulfil their deliveries on time.

Another matter of note is that the government continues to have significant influence on which private sector companies will participate in the programme, if any at all. We have seen this in Malawi, Mali and Senegal, whereby private sector companies that are awarded contracts have close ties to the government. I shall not belabour the issue of patronage in the SSA context, but it is once again apparent in the private sector. If the government has interests in the private companies which it awards contracts, these companies may have ‘soft budgets’, not so much because of their economic worth to the government, but because of their ties to government officials. The power of governments in determining which and how many private companies, if any at all, will participate in the subsidy programme, based on their interests, can limit private sector participation, as has happened in private sector retail of subsidised fertiliser in Malawi.

The ‘exit strategy’ feature of the smart subsidy is one that has been included in design in some smart subsidy programmes, but never been implemented, and so there is little known about its effects. There are, however, limitations to its successful implementation in the SSA context. Chirwa and Dorward (2013a) note that the lack of attention to the ‘why’ and ‘how’ when it comes to exit strategies has hindered their implementation in Zambia and Tanzania. What is also highlighted in Tanzania is the decision to extend its programme because of its success (Druilhe and Barreiro-Hurlé, 2012). The returns from subsidies, as well as their importance for agricultural production and productivity increases for beneficiaries mean that their removal may be unpopular amongst the masses and politically detrimental for the ruling party. We have already seen



the political importance of subsidies in Malawi in bringing and maintaining support for former president Mutharika.

While these may be seen as limitations to the successful implementation of smart subsidies in the SSA context, it is also important to see them as limitations of the model itself in that it currently stands as an idea that is yet to be successfully implemented, raising questions about the practicality of such a model in the current SSA context. As a result, this gives rise to the need for the model to be revisited and designed in such a way that it addresses the factors that have limited its successful implementation in the countries under which smart subsidies are currently being implemented, and unsuccessfully at that.

Having discussed the limitations of successful smart subsidy implementation in the SSA context, we must now turn to whether or not the successful implementation of this model would be beneficial for long-term development.

### **Smart Subsidies and Long-term Development**

While pro-poor targeting may have its benefits, the smart subsidy model does not address the uneven playing field that is the international market, which means that there are some farmers who may be able to purchase their own fertilisers and, therefore not be eligible as beneficiaries, but whose produce will still have to compete with highly subsidised produce from developed countries. The smart subsidy model, therefore, does not do much to challenge the status quo, and with emphasis on the need for an exit strategy, means that poor smallholder farmers will continue to have to compete on international markets that are skewed against their favour. If Burkina Faso decides to

implement a smart subsidy programme under which its poorest cotton farmers are beneficiaries, will they not still have to compete with highly subsidised cotton from the USA, both during the programme's implementation and after its termination? The smart subsidy programme does not adequately consider long-term effects on farmer livelihoods in the face of the existing food regime.

Given that some developed countries such as the USA and the countries belonging to the EU subsidise their farmers without an exit strategy, there is need to address the need for an exit strategy in smart subsidies implemented in SSA. Proponents of smart subsidies state that the need for an exit strategy is based on growing inefficiency and unaffordability, but would it not be better to address these challenges rather than dismiss the whole programme after some years? As is argued by Dorward et al (as cited in Dorward, 2009), growing inefficiencies of subsidies should not nullify their benefits. I would go further to state that, especially in the event that a subsidy programme has benefits that exceed its costs, there is a need to address inefficiencies and improve cost management rather than bring the programme to an end. Efforts should be made to reduce costs through addressing poor targeting, displacement and leakage and high input costs. Baltzer and Hansen (2011) put forward the growing inefficiency and inequity of subsidies as features that arise as the programme extends over time. With Malawi's FISP, we see a programme that, although still not pro-poor, is more equitable than it was a few years ago, and one in which measures such as 'open meetings' and the publicizing of lists of beneficiaries have helped to make the programme more equitable, and less inefficient, thus reducing displacement. Growing inefficiency and inequity in a subsidy programme are not inevitable if measures are taken to counter them.

The smart subsidy model's advocacy for environmental sustainability, while stating that farmers should be empowered to decide which soil fertility management methods is most appropriate for their particular context, assumes that there is synonymy between the two, falling into the 'local trap', whereby it does not acknowledge that farmers could choose soil fertility management methods that are not environmentally sustainable. With smart subsidies currently being implemented being largely dependent on chemical fertilisers, and no explicit and extensive discussion on how it is that environmental sustainability can be achieved, the model may result in farmers remaining on the 'chemical treadmill', and in long-term environmental degradation.

The final limitation of the smart subsidy model is that it does not address the dependence on imported fertilisers for countries that are implementing the programme and do not manufacture their own fertiliser. This is significant because, as in the case of FISP, fertilisers account for a significant amount of the programme's costs, and this cost has increased over the last few years. When international prices for fertiliser peaked in 2008, there was a surge in fertiliser costs and, resultantly, programme costs. In calling for an exit strategy because of increasing costs over time, the smart subsidy model does not give consideration to how these costs could better be controlled, with one of the ways being by addressing dependence on imported chemical fertiliser.

The dependence on chemical fertiliser imports is not only problematic because of increasing fertiliser costs, but there could be positive development effects in the form of skill development and employment if countries learn to manufacture their own fertiliser, allowing them to break free from being largely dependent on primary industry based on their comparative advantage. We will discuss this further in the following section. By

failing to acknowledge and confront the dependency that is perpetuated under smart subsidy programmes, the smart subsidy model maintains the status-quo that has limited the development of many developing countries as it keeps them, in terms of dependency theory, as ‘countries in the periphery’.

### **Neoliberalism and its Alternatives in Development**

The dominant discourse for development has pushed the neoliberal agenda onto developing countries, yet there are no developed countries that are fully neoliberal today, or were fully neoliberal in order to develop. As Fridell (2013) states: “Today’s world trading system is a complex mixture of tariffs, subsidies, trade embargoes, trade wars, selective liberalizations, unequal trade agreements and power politics that in no way resembles the models of neoclassical free trade...[T]he free trade world...never has existed” (pp. 1-2).

Nevertheless, there has been a persistence to get developing countries to adopt neoliberal ideals, which, in many cases, have had detrimental effects on development rather than furthering it. In many cases, developing countries have been required to adopt neoliberal policies that are not adhered to by developed countries, often putting developing countries at a disadvantage when it comes to matters such as international trade. Policies that are not aligned to the neoliberal ideal, such as food self-sufficiency, have often been discouraged, yet they serve as cheaper and more beneficial options for some developing countries. The post-Washington consensus confronts the failure of the Washington consensus to address development beyond economic growth, and it takes the welfare of people into consideration, but it does not go far enough in breaking away from

the neoliberal mould. Looking specifically at the smart subsidy model that arises from the post-Washington consensus, there is a recognition of the need for state support and intervention, but only to address market failures (which, in this model, translates to prioritising the welfare of the poor by addressing the market failures that confront them) and promote private sector development, before it retreats through an exit strategy in order to avoid high costs and inefficiency.

The smart subsidy model does not present long-term developmental prospects or a way out for the respective country from remaining dependent on agriculture as it adheres to its comparative advantage. This is very similar to Lin's view of the facilitating state (Lin & Chang, 2009). The smart subsidy model, similar to neoliberal programmes that have been imposed on developing countries in the past, is not one that has been tried and successful in countries that are developed today, which should raise questions about whether or not it can bring about the promised results when successfully implemented.

Based on the above, I disagree with both the Washington and post-Washington consensus as routes to development as they have not been successful in countries that are developed today. The former has worsened conditions for developing countries rather than improved them, and the latter remains within the confines of the former. Given the historical failures of the neoliberal agenda, as well as the examples of development of developed countries, which do not reflect strong and unwavering commitment to neoliberal ideals, there is a need to continue and strengthen the challenging of the dominant discourse that is currently taking place, and for developing countries to seek alternatives to the road to development that has been presented to them. There should be greater circulation of development models, policies, projects or programmes that may not

be aligned with neoliberalism but have been successful in other developing countries, rather than the circulation of ideals that have never been put into practice, or been successful in bringing about development.

While current global power relations may prevent or hinder the exploration of these alternatives, it must be noted that there is a shift in these power relations as other countries that are not in the global West, such as the BRICS, have gained power and influence. Alternative trade mechanisms are those that include social regulation, which is when “state action [is] conducted in the interest of maximizing social welfare”, and have a pro-poor agenda (Fridell, 2013, pp. 4-5) There are agreements that have been signed by various countries and do not reflect the neoliberal ideal, yet they have had notable successes in promoting development in certain sectors. Institutions such as the Bolivarian Alternative to the Americas (ALBA) have emphasized compensated trade, which has had some success in contributing to the development of some sectors in participating countries, and more attention should be drawn to these alternatives to the neoliberal model of development that have been successful in order to increase studies and participation within them (Kellogg, 2007).

### **Recommendations for Malawi and FISP**

Malawi stands as the first country in SSA to reintroduce agricultural subsidies after all subsidy programmes in the region were discontinued, and FISP is a subsidy programme that many countries have begun to model their subsidy programmes after due to its successes. Although, according to neoliberals, subsidies are seen as harmful to a country’s development and have been discouraged as programmes that may assist in the

development of a country, the successful aspects of FISP highlight the subsidy programme as a viable option to increase food production, achieve national food self-sufficiency and contribute to the food security of a country. The inefficiencies of the programme should not nullify its successes, and dismissing subsidy programmes as ineffective due to some inefficiencies that arise out of poor implementation is to ‘throw the baby out with the bathwater’. Moreover, given that some developed countries largely subsidise their wealthy farmers, and that these subsidies have been provided for many years, being an integral part of the development of the agricultural sector in these countries, although the form of the subsidies may be different, it is apparent that subsidy programmes do work. Rather than discouraging subsidy programmes in developing countries, or calling for exit strategies in order to limit their duration and government support for smallholder farmers who need it, there is a need for greater exploration of subsidy programmes, with particular emphasis on models that work within the given context.

It is imperative, however, to note that, in the case of a country that is prone to natural hazards, such as Malawi, which was hit by heavy flooding at the beginning of 2015, resulting in significant crop destruction and leaving many people in need of food aid, the results of subsidies and food self-sufficiency can be nullified by a disaster, resulting in an immediate need for aid or a disaster relief fund. In the case of Malawi, the floods have resulted in the MoAFS budget for 2015/16 being reduced from MK142 billion to MK42 billion, with some funds being redirected to the Department of Disaster Risk Management (DoDMA), leaving less funds available, not only for MoAFS, but also for FISP (Nthala, 2015). These matters are still developing, but the limitations of FISP in

the face of natural disasters will be worth exploring as a future study. Malawi is also prone to droughts, and without a comprehensive irrigation scheme, input subsidies can do very little to promote agricultural productivity and keep production high in the face of a severe drought.

When it comes to targeting in FISP, the subsidy programme can be very prone to political manipulation. Increased transparency can be seen in the introduction of ‘open meetings’ in 2008/09, as well as the public availability of lists of beneficiaries (Dorward et. al., 2013). It is imperative, however, that farmers be aware of these meetings and lists, as well as participate in the decision making processes of the open meetings rather than being informed of beneficiaries. There is a need for greater smallholder farmer organisation which may assist in helping smallholder farmers advocate against corrupt practices in coupon targeting and allocation which favour some over others despite eligibility, and be active participants in determining beneficiaries. The beneficiary targeting criteria should be revamped in order for it to be less contradictory and clearer so that targeting can be less contentious. Targeting, in this particular instance, may be beneficial because of the large costs of the programme, which may not be sustainable if the programme becomes universal. Selecting a smaller number of beneficiaries who are poor smallholder farmers, but by some measure still considered potential efficient users of fertiliser subsidies in that they have an adequate amount of land and money to redeem the coupons, will be preferable to a pro-poor targeting approach that does not consider certain limitations of poverty for some smallholder farmers. This may also lead to lower costs for the programme as it may narrow down the number of beneficiaries.



What, then, should happen to the poorest farmers? As Druilhe and Barreiro-Hurlé (2012) note, without other supporting factors, fertiliser subsidies are not efficient in achieving poverty reduction objectives. If poor farmers do not have enough land to utilize the subsidy, or cannot afford to redeem their coupons by paying the additional cost for fertiliser, there is little sense in giving them coupons without expecting leakage or the development of a secondary market. Complementary programmes that address poverty may help to bring the poorest farmers to a point whereby they can be more efficient in their fertiliser use. These include the Malawi Social Cash Transfer Program, which is currently in place, and public works programmes (Abdoulayi et. al, 2014). A significant issue for poor farmers is access to adequate amounts of land (see Chapter Two). With a land policy that has been dragging in terms of it being put into law and implemented, and the average land holding standing at 0.5 hectares, there are great limits to increasing one's income through agriculture, even with subsidies available, and addressing the unequal distribution of land may serve as a significant step to addressing the poverty faced by some smallholder farmers.

Based on concerns of corruption in private companies involved in subsidised fertiliser retail earlier on in the programme, the Malawian government should open the door to private sector participation in this aspect of the programme, but mechanisms should be set up that allow for greater transparency and auditing. Concerns for corruption in the public and private sector should be addressed through greater anti-corruption measures. As highlighted in Chapter Two, the ACB has carried out some work in order to address corruption within the programme, particularly in fertiliser retail, increasing transparency and encouraging the public to report incidents of corruption. This has

resulted in some arrests, but more needs to be done as reports of corruption continue. If corruption, not only within the programme, is not addressed, this may lead to the withdrawal of donor funding to the government, as was the case after Cashgate, and this may have detrimental effects on a country that is largely dependent on donor funding.

The most important step in addressing FISP's high costs has to do with addressing its most important feature; fertiliser. Given that the fertilisers used in the programme are the third and fourth largest imports into Malawi, and the cost of fertiliser is about three quarters of the total net costs of the programme, reducing the cost of fertiliser will be a significant part of better managing the costs of the programme.

Malawi has very little, if any control over the cost of fertiliser on the international market. In confronting not only the high costs of fertiliser in Malawi, but also, in part, Malawi's development strategy that keeps it as an economy largely dependent on primary industry as it adheres to its comparative advantage, we must look to the argument put forward by Chang on defying comparative advantage (Lin & Chang, 2009).

In order to have better control over fertiliser costs in the long run, as well as to upgrade its industry, Malawi should defy its comparative advantage and look to producing its own fertiliser. Defying comparative advantage would be costly in the short-run, but it would have long-term developmental gains (Lin and Chang, 2009). As prescribed by Chang for countries that would defy their comparative advantage, Malawi would need to adopt protectionist policies as it develops its fertiliser industry in order to reduce imports, particularly those that would compete with the new industry, and this would be an opportunity for jobs to be created and part of the workforce to be trained in a new industry (Lin & Chang, 2009). This, unlike neoliberal policies that have been put

forward for developing countries, is a developmental strategy that has been found to work in other countries such as Japan and South Korea, which gives it greater validity. Moreover, it must be emphasized that other developed countries protected some of their industries in order to develop, and still do.

The challenge, however, for Malawi in taking this approach is that it may face retaliation from other countries who will also put up trade barriers against its exports. This would be detrimental for the country's economy, which largely depends on its tobacco exports. Moreover, this may deny smallholder farmers of much needed fertiliser as the country starts to manufacture its own fertiliser and develop the industry, with protectionist measures in place, causing a serious agricultural crisis. If Malawi, however, does not take this approach, it may be locked into dependence and underdevelopment for a very long time.

FISP does not seem to be going anywhere any time soon, and so efforts should continue to be made to ensure increased efficiency of the programme with maximised benefits and minimised costs. The subsidy programme, however, obviously cannot address all of the agricultural and developmental problems in Malawi and, other than its inefficiencies, is also hindered by the poor performance of other complementary programmes. It is also important to keep in mind the context within which FISP has been implemented. Although the programme suffers from internal weaknesses, the externalities highlighted in Chapter Two, such as low social indicators, inequitable land distribution and security, macroeconomic challenges and exposure to global markets, also affect the way in which the programme is implemented and play a part in determining its overall

success. These externalities must not be overlooked, but adequately addressed as efforts are made to increase the efficiency and effectiveness of FISP. I hope that, in the future, there will be more harmonised efforts towards addressing food security in Malawi, and particularly at the household level, where it continues to be a challenge despite the country's food self-sufficiency. The use of these programmes as patronage, however, and the protection of the interests of the elite which hinder progress where necessary, as in land reform, will need to be addressed by a well-organised, active and informed civil society in order to ensure equitable development.

As for Malawi, while the country has seen economic growth in some years, there is need for it, like many other developing countries, to break away from the neoliberal impositions that promise development but have never delivered. Small developing countries such as Malawi tend to have little bargaining power when they stand alone, and so there will be need for developing countries to come together in denouncing the neoliberal ideal and working together in its alternatives.

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