

Market Friendly Alternatives to Fertilizer Input Subsidies

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Outline of the Presentation

- Why do we need alternatives to subsidies?
- Why should alternatives be market-friendly?
- What are market-friendly alternatives to subsidies?
- The Way Forward

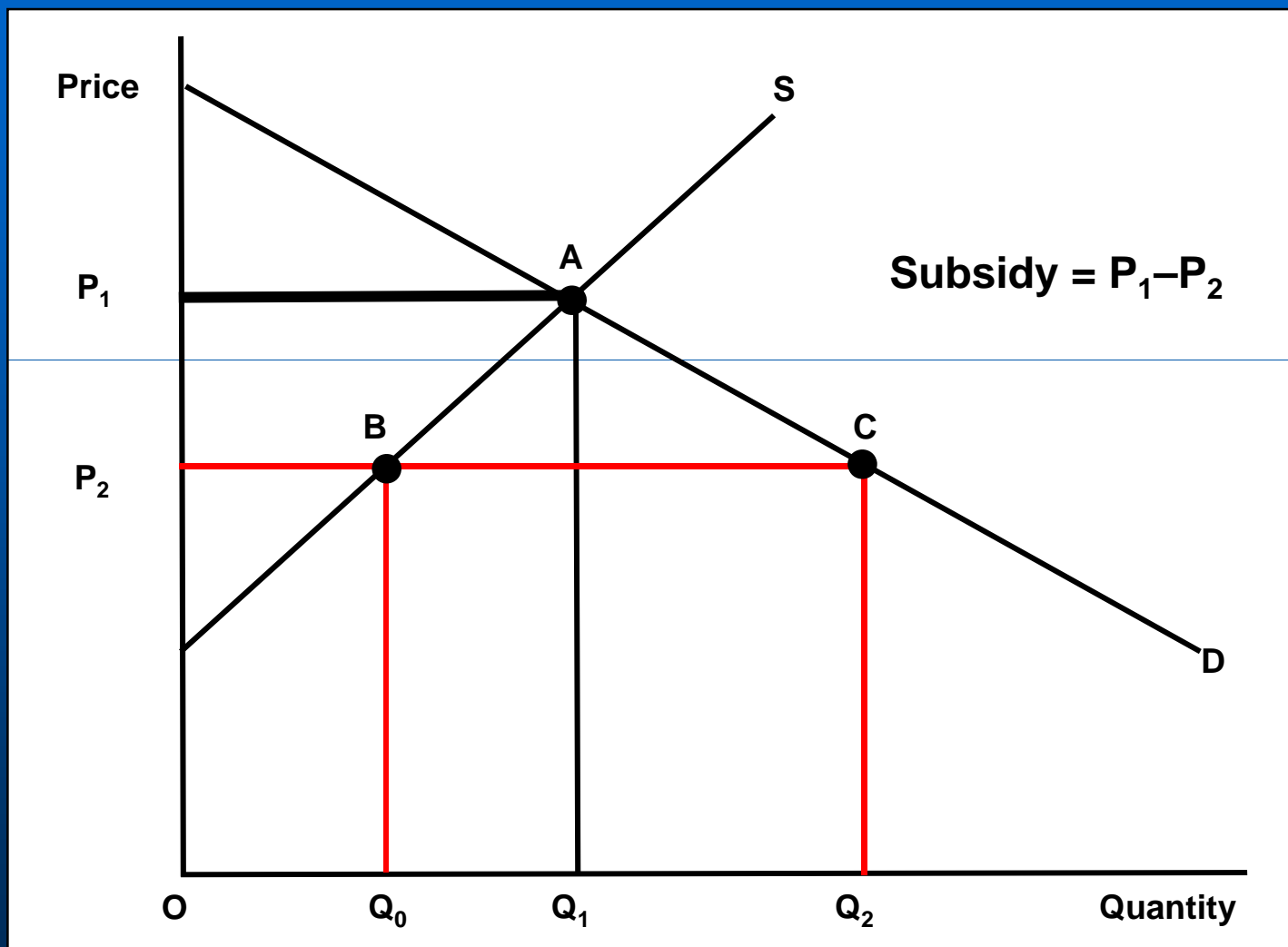
Need for Fertilizers

- Closed Agro-Ecological System
- Open Agro-Ecological System-
Nutrient Removal
- Food Security Challenge

Farmers in Sub Saharan Africa

- **Export/Estate Crop Growers**
- **Large Scale Commercial Farmers**
- **Small scale viable farmers**
- **Subsistence farmers**

Fertilizer Subsidy System



Limitations of Subsidy

- It distorts the functioning of the market
- It prevents the development of competitive markets
- It creates fiscal burdens
- It promotes rent-seeking and political interference

Limitations of Subsidy

- Because of these limitations of subsidy, we need alternative approaches to reduce fertilizer price and help smallholder farmers.

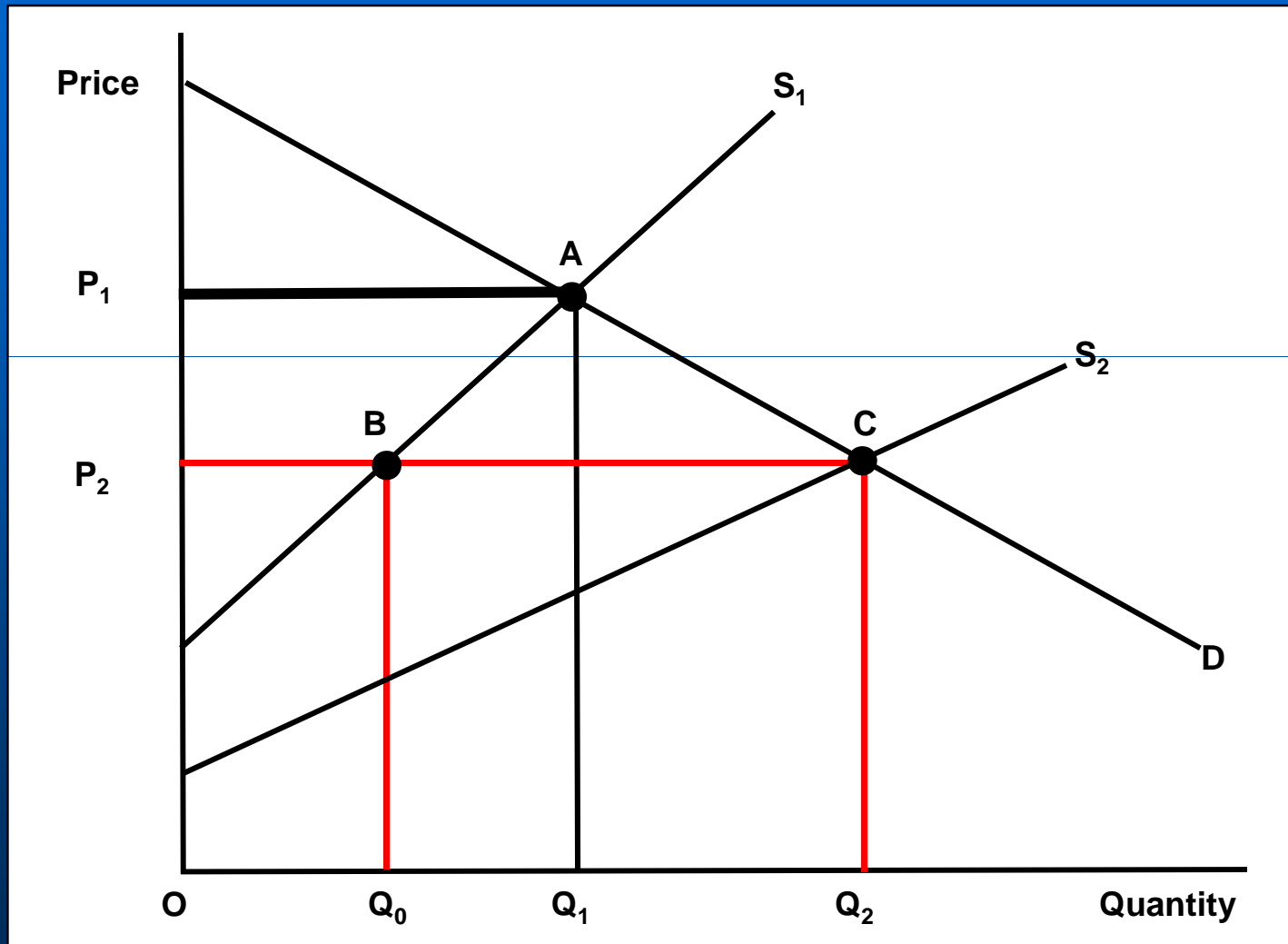
Limitations of Subsidy

- In spite of the current crisis, markets are still the most efficient and effective means to produce and distribute goods and services, provided they are properly monitored and regulated.
- Therefore alternative approaches should be market-friendly

Market-Friendly Alternatives to Subsidies (MFAS)

- Reduce supply price by shifting the supply curve to the right (SSCR Approach)
- Provide purchasing power support (PPS) to resource poor farmers through vouchers
- Make social investment in acidic soils
- Improve infrastructures

The SSCR Approach



The SSCR Approach

- **Strengthen the Five Pillars of Market Development**
- **Promote multi-country markets**
- **Rationalize fertilizer products and recommendations**

The Five Pillars of Market Development



Cotton Formula in West Africa

Country	Formula
	N-P2O5-K2O-S-B
Mali	14-22-12-7-1
Burkina Faso	14-23-14-6-1
Niger	14-24-14-5-1
Benin	14-23-14-5-1

II. Purchasing Power Support

- Market development is “necessary but not sufficient” for improving food security in the rural areas.
- Market development efforts should be supplemented by PPS to include poor people in the market place.

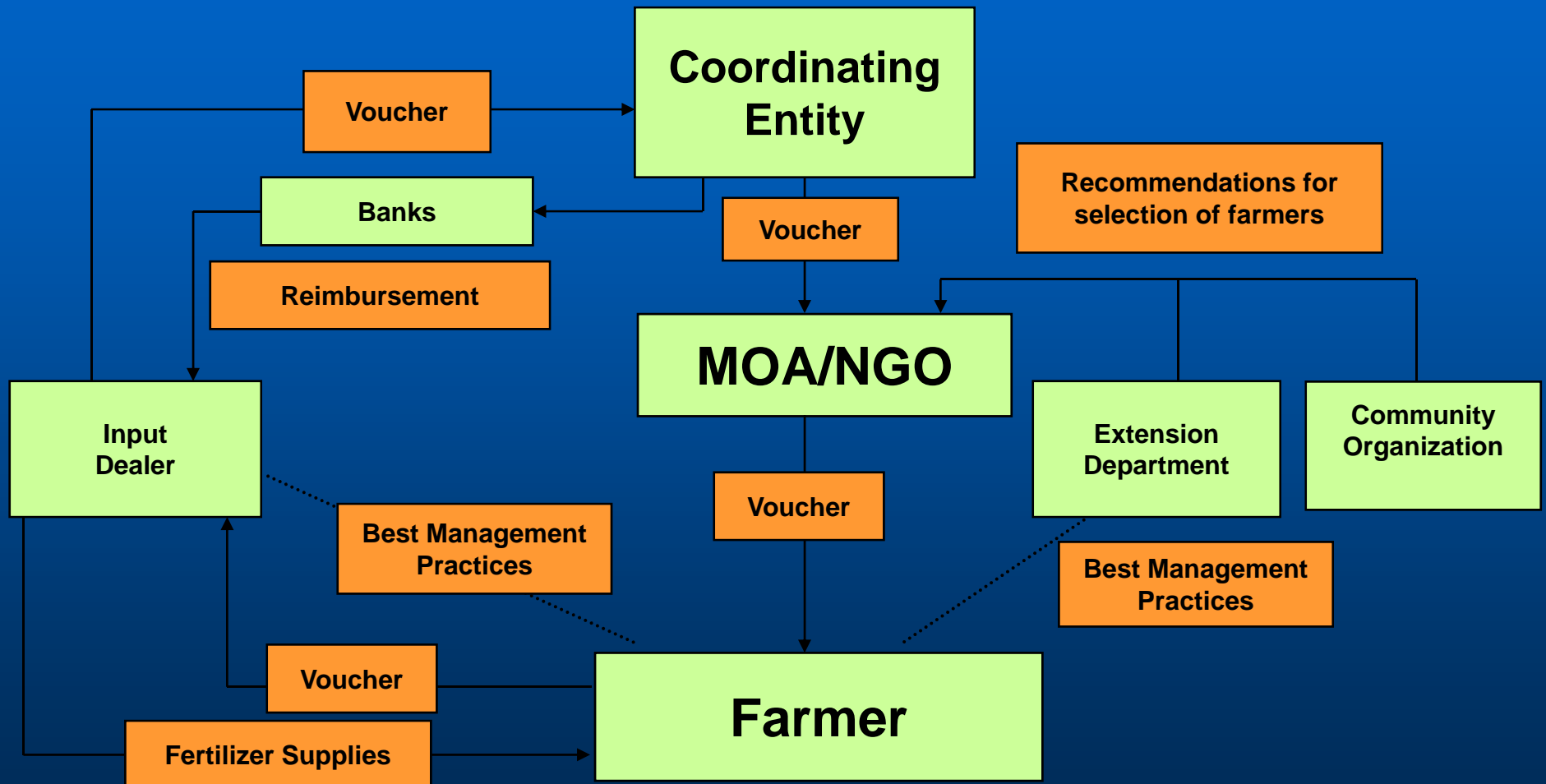


- Subsidy is for a product
- PPS (for inputs) is for the people
- Empowering people to participate in the market place through input vouchers kills two birds with one stone—alleviate hunger and poverty and develop input markets
- Therefore “Support the people, not the product”

Purchasing Power Support

- Support should not be a “free lunch”; farmers should pay either in kind or labor.
- Support should not be “free for all”; it should be targeted to the poor farmers.
- Support should be administered through a voucher program and include an exit plan

Schematic Diagram of the Targeted Voucher System

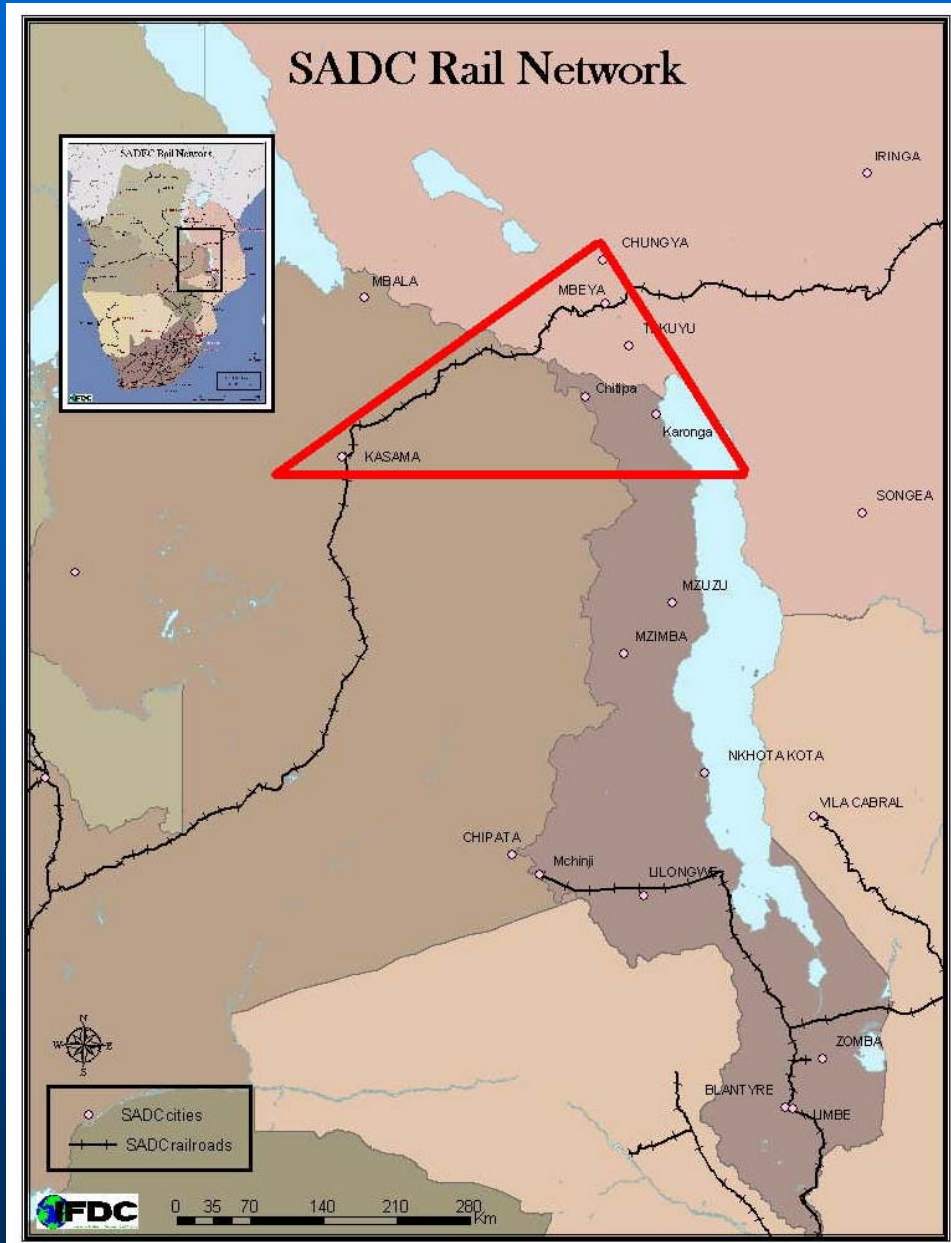


III. Social Investment in Acidic Soils

- In some parts of Sub-Saharan Africa, soils are acidic or highly acidic (low pH), such as Northern Zambia
- Unless pH level is improved through liming, PR, and other sources, investment in mineral fertilizers may not yield significant return.
- Since investment in liming and other soil amendments may not yield short-term benefits to the farmer, social investment may be justified.

IV. Infrastructure Improvement

- Short-term improvements
- Long-term improvements
- The Enormity of Africa



Freight Charges, 2009

Distance	Charges in US\$
Johannesburg-Lusaka	120
Lusaka-Kasama	105
Johannesburg-Kasama	225
Dar es Salaam to Kasama	70

Benefits of MAFS

- It enhances the performance of the market.
- It promotes the development of competitive markets
- It empowers the poor people to participate in the market place.
- It resolves conflict between poverty alleviation and private sector development

The Way Forward

Proposed Action	Timeframe
Strengthen the development of input markets (The SCCR approach)	Medium Term
Empower the people to participate in the market process (PPS)	Short and Medium Term
Make social investment in acidic soils	Medium and Long Term
Improve infrastructure	Medium and Long Term
Promote public private partnership	Short and Medium Term



**THANK YOU VERY MUCH
FOR YOUR ATTENTION**