

Market-Smart Subsidies: Not a magic bullet

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24th July, 2009



Déjà Vu

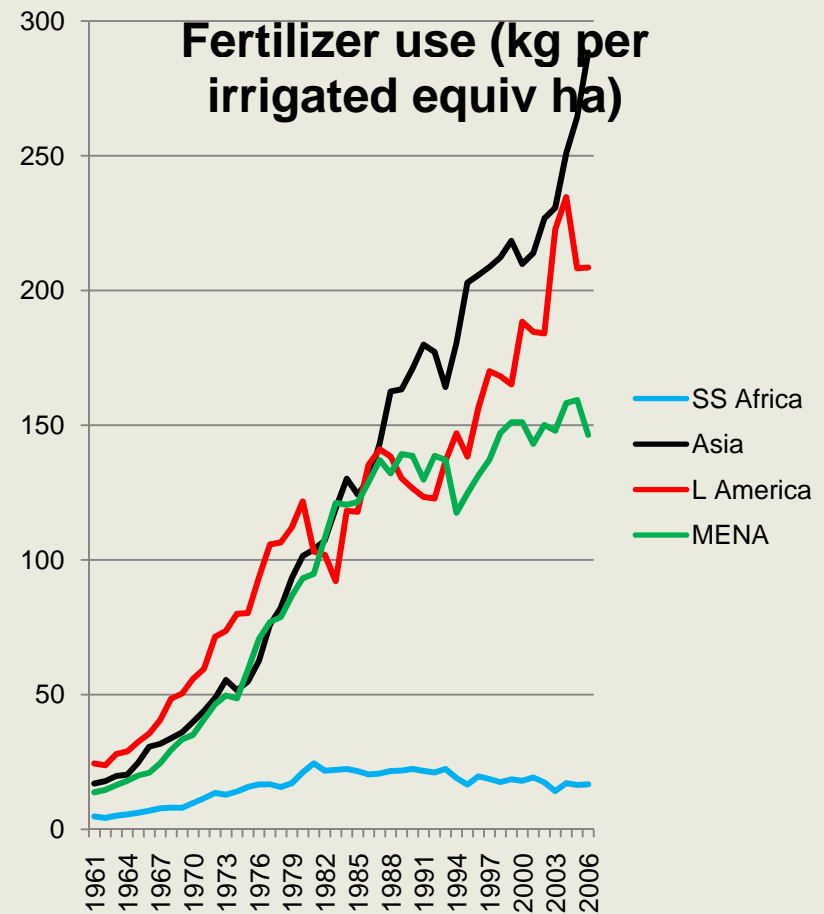
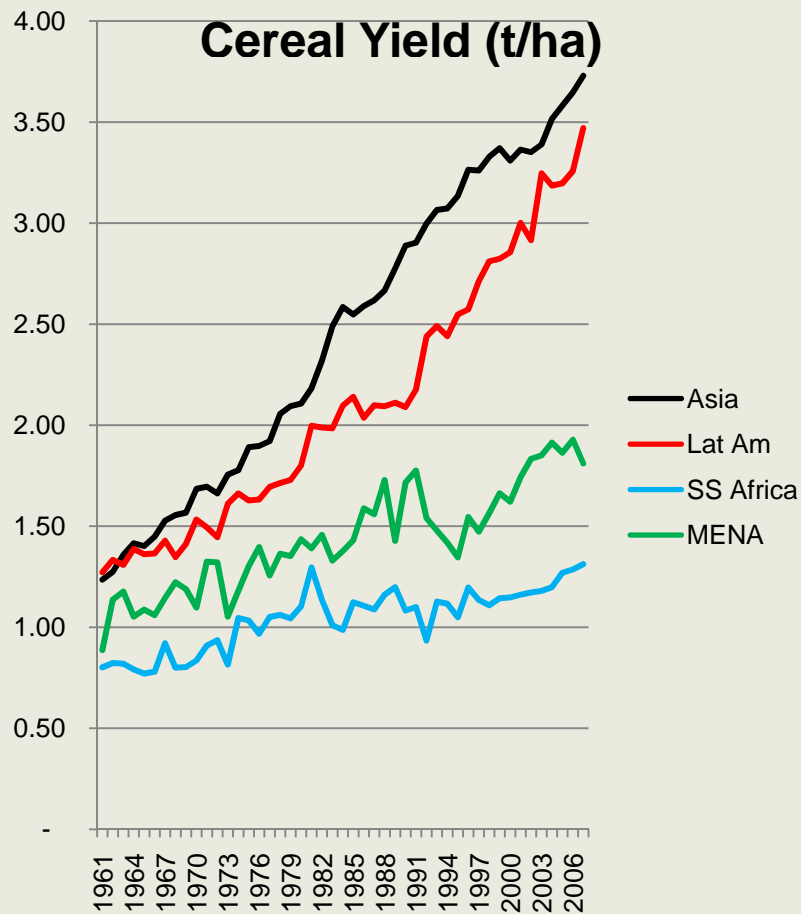
⦿ ““While I had a fairly open mind about fertilizer subsidies when I began this review, I am now considerably more skeptical about them..... it is my view that subsidies should be used very cautiously and very selectively”

- Dana Dalrymple, Evaluating Fertilizer Subsidies in Developing Countries, USAID, 1975.

Conclusions

1. A strong case for market smart subsidies
2. But not easy to implement
3. Even when well implemented, they are not a magic bullet

Low Fertilizer Use is a Major Challenge



Adoption of improved varieties much greater than fertilizer

1. Points of Agreement

- ◉ Agree on critical importance of improved seed and soil fertility in sub-Saharan Africa.
 - Fertilizer use extremely low in Africa.
 - Prices double other regions
- ◉ There is a good theoretical case to subsidize inputs in the early stages
 - Market failures--many specific to fertilizer
 - Economies of scale, learning, risk and credit constraints
- ◉ Countries should own their food security policies

What Type of Subsidy?

- ◎ Traditional “blanket” subsidies have not worked in Africa
 - Inefficiencies of parastatals
 - Rent capture by large farmers
 - Fiscally unsustainable
- ◎ “Market smart subsidies” could work?
 - Help build markets—vouchers for private dealers
 - Well targeted to not displace commercial sales
 - Exit strategy

Implementation Difficulties

- ◉ Often still state directed
- ◉ Not well targeted—larger farmers, male etc
 - Displace commercial sales
- ◉ Expensive as a share of budget
 - Crowd out investments in core public goods
- ◉ Political capture

Who Gets the Subsidy?

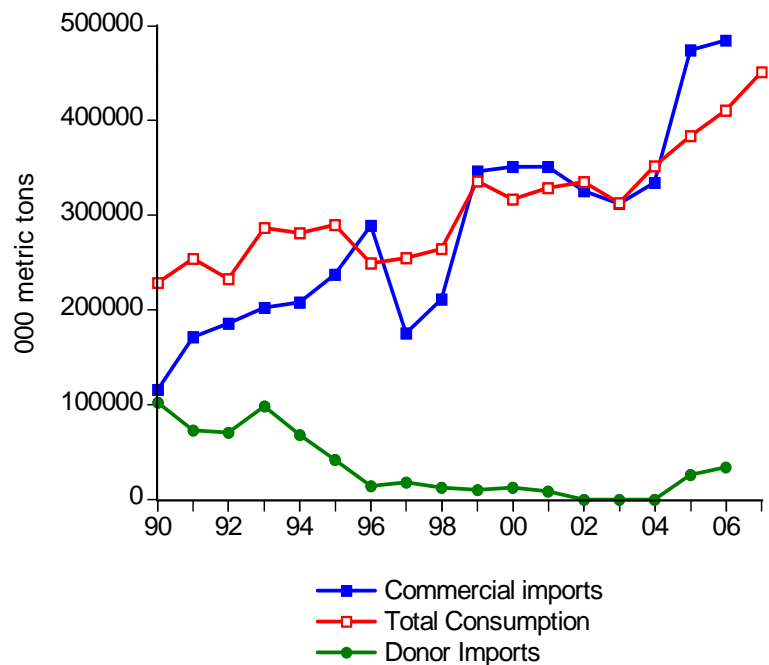
	Subsidy (2 bag/hh)	Some subsidy (1 bag/hh)	None
Value of assets (K/hh)	15,850	8,755	6,500
Land holding (ha)	1.22	0.91	0.81
Female head hh (%)	18	26	30

Not a Magic Bullet

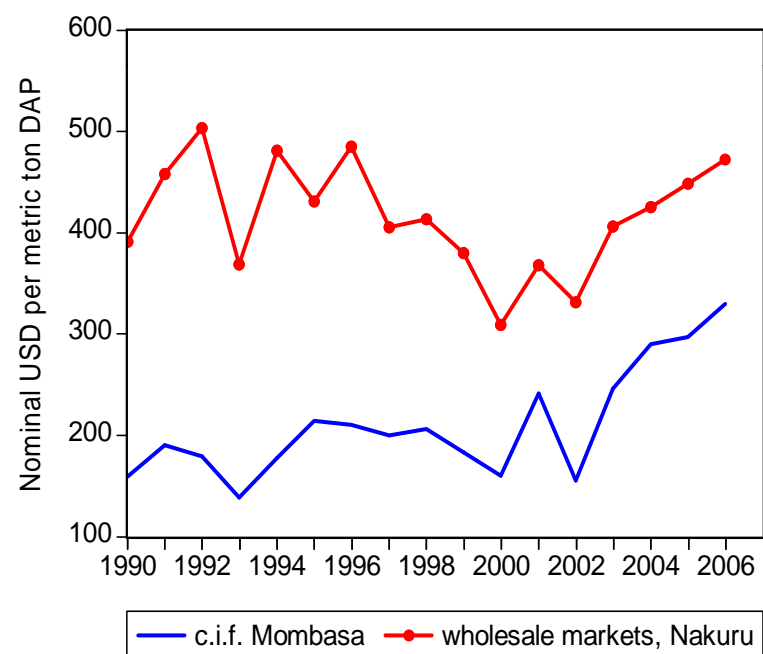
- ◉ Measures to strengthen private sector equally important
 - Kenya success story of reducing transactions costs and no. input dealers from 8 km to 3 km
- ◉ Not by fertilizer alone. Need for balanced approaches—Kenya organic matter
- ◉ Need for manage price volatility
- ◉ Funding for long-run investments
 - Irrigation, R&D

Kenya: A Private Sector Success

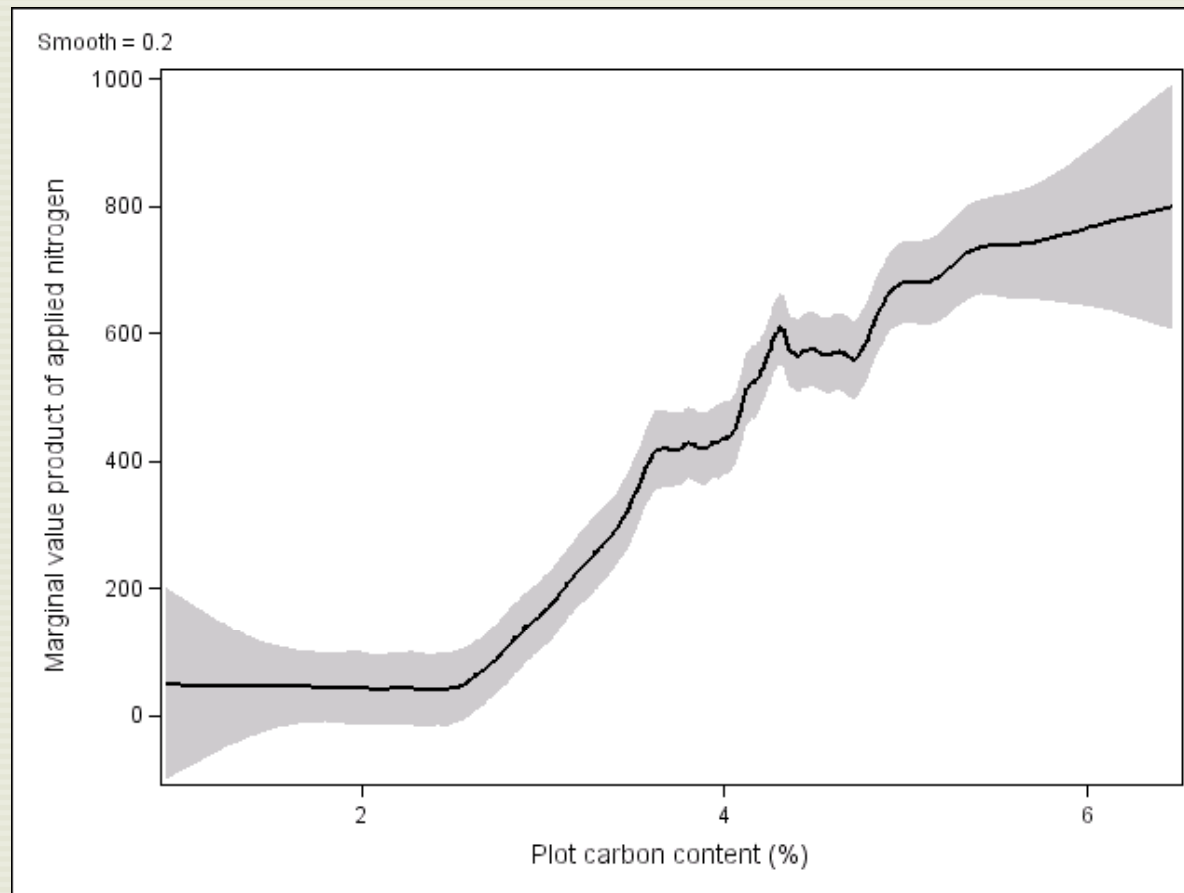
STEADY RISE IN FERTILIZER USE



DECLINING MARGINS FOR FERTILIZER DISTRIBUTION



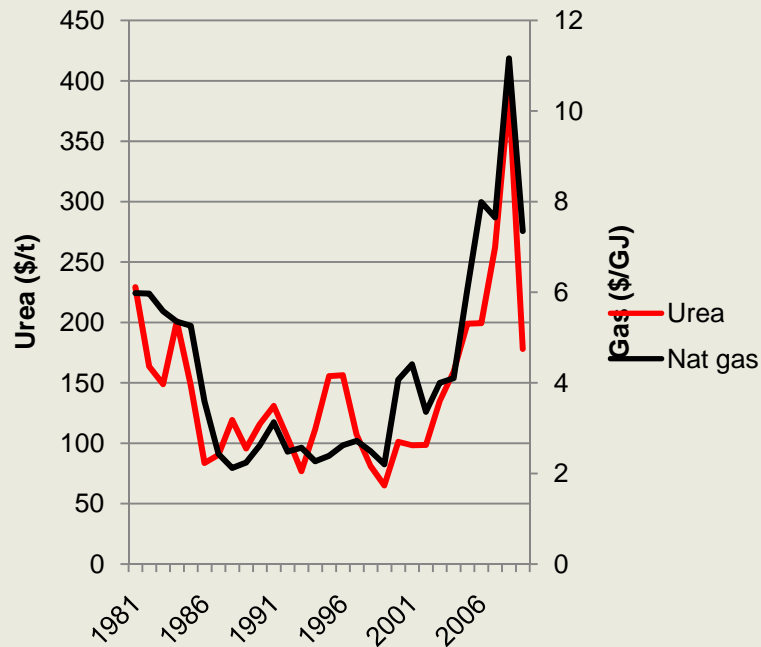
Effect of Soil C on Fertilizer Response, Western Kenya



Source: Marenja and Barrett, 2008a

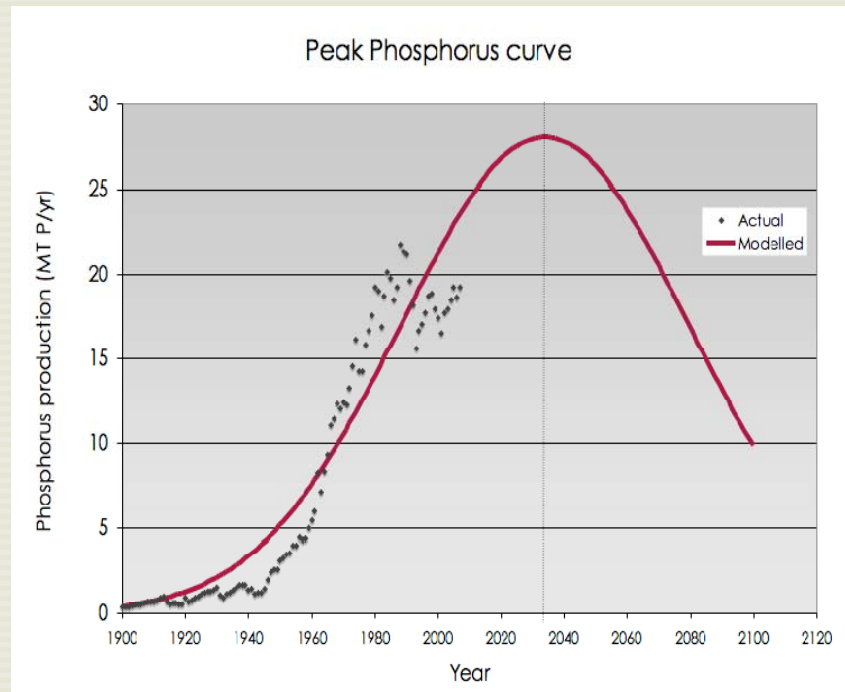
Rising Prices of Fertilizer Products?

PRICE OF UREA (\$US/T)



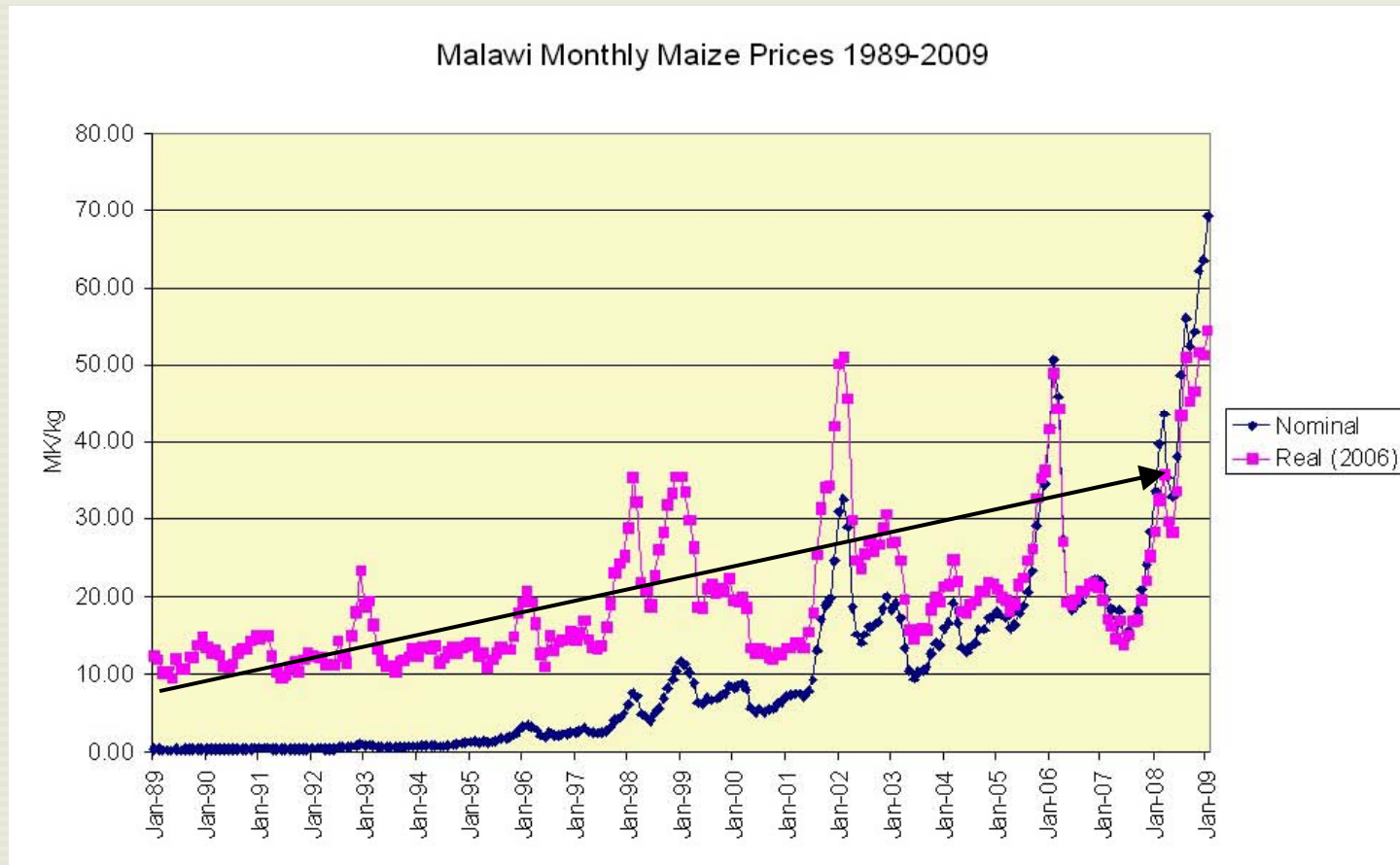
Doubling of oil prices increases grain prices by about 20%

SHORTAGE OF PHOSPHATE?



Peak extraction by 2034

Malawi: Continuing High and Volatile Maize Prices



Bottom Line

- ◉ Can provide rapid gains (if it rains)
- ◉ Monitor, learn, adjust for long run sustainability
 - Target better, involve the private sector
- ◉ Imbed as part of a wider agricultural development strategy