



ARD Week Session Summary

1. Title of session

Building sustainable fertilizer markets: What has worked, what has not worked, and what it has all cost

In response to the global food price crisis, governments in many developing countries have launched emergency food production programs that include initiatives designed to promote increased use of fertilizer, often with the help of subsidies. This session will examine what we know about promoting increased fertilizer use. It will focus on what has worked, what has not worked, and what it has all cost. Presentations will cover long-term prospects for global fertilizer markets, emerging evidence on the cost-effectiveness of different approaches to promoting fertilizer use, views of a senior African policy maker on what the Bank can do to help support national fertilizer programs, and a brief review of ongoing Bank operations that include fertilizer promotion components. The presentations will be followed by a moderated Q&A session.

Organizers: Michael Morris (AFTAR), Indira Ekanayake (LCSAR), Chris Jackson (AFTAR), David Rohrbach (AFTAR), Erick Fernandes (ARD).

2. Date and Location

Tuesday March 03, 2009 11:00 to 12:30 MC-13-121 (Parallel Session)

3. Program (speakers and presentation topics)

Chair:

Mark Cackler (Sector Manager, ARD): Introductory remarks: Why fertilizer is so important, and why promoting sustainable and cost-effective use of fertilizer it is so difficult.

Speakers:

Amit Roy (President and CEO, International Fertilizer Development Center - IFDC): Fertilizer market outlook (Projected supply and demand trends, key players, and how can we help countries respond to concentrations of market power)

Andrew Dorward (Professor of Development Studies, School of Oriental and African Studies, University of London - SOAS): Fertilizer subsidies: Potential, pitfalls and practice

David Rohrbach (Senior Agriculture Economist, AFTAR): Recent WB efforts to promote fertilizer use in Africa - Summary of operations and emerging lessons

Discussant:

Honorable Dr. Agnes Kalibata (Minister of State for Agriculture, Rwanda): What Rwanda is doing to promote fertilizer use

Open Discussion moderated by the Chair

Closing Remarks: Michael Morris (Lead Agricultural Economist, AFTAR)

4. Topics and main messages communicated in the presentations

The first speaker (Amit Roy) reviewed recent trends in global fertilizer markets and discussed likely future developments. Total fertilizer nutrient demand increased by about 4.1% in 2008, outstripping supply. Tight supply /demand, high energy prices, and other factors caused a fertilizer price spike that lasted about 12 months. International prices have since eased (except for potash) and we now find ourselves in a buyer's market. Total nutrient demand is expected to grow at about 3.4% per year through 2012, with growth concentrated mainly in Asia and South America. Supply / demand balances are expected to be fairly tight through 2012, and investments in new capacities will be slow to materialize under the current global financial crisis.

The second speaker (Andrew Dorward) discussed fertilizer subsidies, focusing on (i) rationales for using subsidies, (ii) potential pitfalls in using subsidies, and (iii) good practice principles that have emerged from the Malawi experience. He emphasized that although discussions about fertilizer subsidies often focus on the benefits for producers, the ultimate goal of fertilizer subsidy programs is often to benefit consumers (through lower food prices). One important point is that if fertilizer subsidies are to have a significant effect on food prices, then fertilizer subsidy programs must be very large—which means that opportunities for things to go wrong are very large as well.

The third speaker (David Rohrbach) described ongoing World Bank operations that include fertilizer promotion activities. Descriptive statistics were presented from ongoing Bank operations in Benin, Burundi, Madagascar, Mali, Malawi, Mauritania, Mozambique, Nigeria, Rwanda, and Zambia. One noteworthy aspect is that many of these Bank-supported operations include fertilizer subsidies—something that would not have been imaginable a few years ago. The general sense that emerges from the Bank's current operations is that there is considerable variability in terms of rationales for subsidies, targeting principles, points in the supply chain where subsidies are applied, degree of subsidization. Impacts of the Bank-supported fertilizer promotion operations on productivity, production, and food prices are now yet well understood in most cases.

The final speaker (Agnes Kalibata) discussed the ongoing GFRP-supported fertilizer promotion program in Rwanda. She stressed that the Government of Rwanda is trying to implement the program in a way that involves private sector distributors and enhances their ability to carry on after the program ends. An important point is that programs to promote increased production must be accompanied by programs designed to ensure the availability of market outlets.

5. Gist of the discussion

Fertilizer prices can be expected to remain at current levels for the short- to medium-term. Government interventions will be needed in many developing countries to ensure that fertilizer is available in the market. In the current market characterized by excess supply, governments will generally be better off engaging in direct negotiations with manufacturers, as this should enable them to obtain better prices that would be obtained through traditional tendering. In addition to looking for attractively-priced imports, developing countries should assess commercial viability for exploiting indigenous resources to produce fertilizers for local and regional markets. Technologies for improving the efficiency of fertilizer use exist and should be exploited (e.g., deep placement).

Government interventions will be needed also in many developing countries to ensure that fertilizer is affordable to those who need it. In many cases this will mean using subsidies to bring down the retail of fertilizer. Experience suggests that in order to be effective, fertilizer subsidy programs require certain preconditions: availability of good technical recommendations, capacity of farmers to manage fertilizer, transparent implementation systems, and accountability of implementing agencies. Appropriate targeting, prioritizing and scaling are essential for subsidy programs to reach remote subsistence farmers in a cost-effective way. Well-functioning output (food) markets are critical so that the benefits of increased production due to increased fertilizer use translate into lower prices that are passed on to consumers.

It is still early to assess the performance of the ongoing Bank operations that are promoting increased use of fertilizer. Many of these programs have succeeded in increasing food

production, but a number of challenges have emerged during implementation, including displacement of commercial purchases, crowding out of private sector distribution, elite capture, and perhaps encouraging overestimation of harvest. Take-home messages regarding the Bank's experience in promoting increased fertilizer use include:

1. The Bank is still very much in a "learning by doing" stage.
2. Experiences have varied considerably from country to country, but a number of common lessons are emerging.
3. Conditions that affect the performance of fertilizer promotion schemes vary from country to country, so the emerging lessons are not always readily transferable.
4. Better data are need to allow objective assessment of impacts (implies a need to strengthen M&E efforts).