SMART SUBSIDIES PILOT PROGRAMME

SNAPSHOT: DEMONSTRATING A NEW, MORE EFFICIENT AND MARKET-ORIENTED APPROACH TO BOOSTING FARMER PRODUCTIVITY IN SIERRA LEONE

Overview

SOBA, in partnership with the Ministry of Agriculture, Forestry and Food Security (MAFFS), is piloting a private sector-led approach to what historically has been a government and direct aid fertilizer subsidy system. In addition to demonstrating that the country's nascent commercial ag-sector can procure, transport and sell ag-inputs to farmers – the pilot also demonstrates how off-the-shelf digital technologies can be leveraged to improve farmer targeting as well as to increase data collection efficiency, fidelity and transparency.

On the supply side, the pilot transfers the procurement and supply chain burdens of the subsidy administration from the public sector to the private sector -- thereby, reducing the government's costs and risks, while improving the timeliness and availability of the product at the local level.

On the demand side, the target market (smallholder farmers) is incentivized to link with their local participating agro-dealer through a coupon that entitles them to discount.

Ultimately, this will reduce the costs incurred by the Government of Sierra Leone in procurement, storage and distribution of subsidised fertilisers as these roles will be taken over by private sector ag-inputs enterprises. Farmers will have improved access and usage of fertilisers leading to increased yield. The first of its kind, this intervention will test, learn and adopt best practices and bring out challenges that will inform the development and implementation of a large-scale up intervention.

Background

Like many African countries, the Government of Sierra Leone (GoSL) has, in recent history, deployed a "universal fertilizer subsidy" in hopes of increasing fertilizer usage by smallholder farmers and improving agricultural productivity.

In its current form, the government assumes the role of the private sector and enters contracts with traders to import fertilizer into the country. Contract prices for the fertilizers are often double or triple the global market price. Once the fertilizer lands in country, it must be offloaded and stored (at government cost) until the government contracts with transporters (also often at inflated prices) for the fertilizer to be reloaded and transported to MAFF's locations around the country. After the fertilizer arrives (often too late) in the districts, it is usually distributed in bulk quantities to preferred farmers who "promise" to pay for the fertilizer with two 25 kg bushels of rice seed.

Payment for the subsidized fertilizer usually occurs six to nine months later, when the government pays for rice collection by sending collectors who travel to the recipient farmers, and collect rice seed to balance the accounts. Default rates are high and even when the rice is collected, it is often of such poor quality that it cannot be re-distributed for planting.

The implementation of the current subsidy system comes at great cost to the government with little transparency. Farmers' access to fertilizer and ag-inputs remains low as distributors are disincentivised to invest to grow their market and upcountry agro-dealer capacity. Most importantly, the country remains food insecure with farmers trapped in a cycle of low productivity.

Challenge/Problem

- The GoSL currently spends a significant portion of its agricultural budget on administering an un-sustainable fertilizer subsidy system.
- Rather than encourage and support existing ag-sector market actors to strengthen their distribution channels, the current subsidy process enriches "preferred traders" via one-off contracts.

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- Poor value for money limits the impact potential, wasting resources and slashing farmer reach.
- Market distortions caused by government involvement in procurement and distribution of fertilisers displaces and dissuades private sector enterprises from the ag-inputs market.
- Smallholder farmers have limited knowledge and skills on fertiliser application, handling and storage. As a result, they are not able to obtain optimal yields from farming.
- A lack of incentives by private sector ag-input distributors to invest in fertiliser distribution and supply chains to serve farmers has hindered sector growth.
- High default rates on in-kind payments. Farmers who are loaned the subsidized fertilizers for repayments upon rice harvesting time often default on the repayments or repay with poor quality rice seed.
- Systemic Opacity. Data collection regarding farmer targeting, distribution and payment remains woefully insufficient, limiting the government's access to key information required to make well informed policy decisions.

Solution

The pilot intervention aims to:

- Provide an example of a "stepping stone" as the GoSL begins to make good on its intentions to withdraw from the fertilizer sector and encourage the private sector to provide goods and services to farmers across the country.
- Facilitate and strengthen trade relationships between fertilizer suppliers and their agents, and agent (retailers) and their farmers (customers).
- Improve transparency by building a comprehensive digital database of individual farmers, including locations and bio-data, crops grown and inputs purchased.
- Encourage agro-dealers to add value by expanding their product offerings and providing additional services (e.g. information on Good Agricultural Practices).

Regions:

- The pilot regions targeted two districts (Kambia and Port Loko) and six Chiefdoms (BMK, Kaffu Bullon, Loko Massama, Magbema, Marfoki and Samu).

Private Sector:

- Three local agro-dealers were selected from of Barmoi Luma, Lungi and Port Loko. Each was assigned reach based on capacity or 800 farmers, 400 farmers and 800 farmers respectively.
- TJAL Enterprises signed a partnership with these agro-dealers to supply 4,000, 50kgs bags of assorted NPK and urea fertilisers for the smart subsidy redemption. TJAL offered the lowest per product price against competition. The company also offers the most extensive distribution system in the country, with 32 agents.

Process:

- Smartphones were used to register 2,036 smallholder farmers from six Chiefdoms as beneficiaries for the pilot subsidy program. Each farmer was issued a coupon that entitled them to a "buy one bag, get one bag for free" of fertiliser (NPK and/or urea – farmer choice).
- After receiving a discount coupon (containing a unique QR code tied exclusively to the identity of the farmer), the farmers were given two-weeks to redeem their coupon from the participating agro-dealers. In order to redeem, each farmer was required to visit their local agro-dealer, present their coupon and pay SLL 250,000 for one bag of fertilizer, and then they received the second bag free.

Results

- Increased interest for replication of best practices in private sector led approach for ag-inputs distribution from other ag-inputs programmes and stakeholders, including GoSL – who wants to include an official endorsement in the "Smart Subsidies How To Guide"
- 1,944 farmers purchased 3,888 bags of fertilizer (valued at approximately SLL 1 billion) from private sector agro-dealer shops in two weeks. Most were new customers for the dealers.
- 1,205 smallholder farmers trained on Good Agricultural Practices (GAP) including fertilizer application, handling and storage – at shops and at field locations.
- Participating agro-dealers increased their investment in stocks, shop and warehouse upgrades through branding, expanded space, and shop layouts.
- Three agro-dealers received additional training and exhibited learned skills in records management and bookkeeping.
- Improved interactions and relationships between agro-dealers and farmers.

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