



# WHY ARE FERTILIZER PRICES IN MALAWI HIGH?

And what can be done about it?

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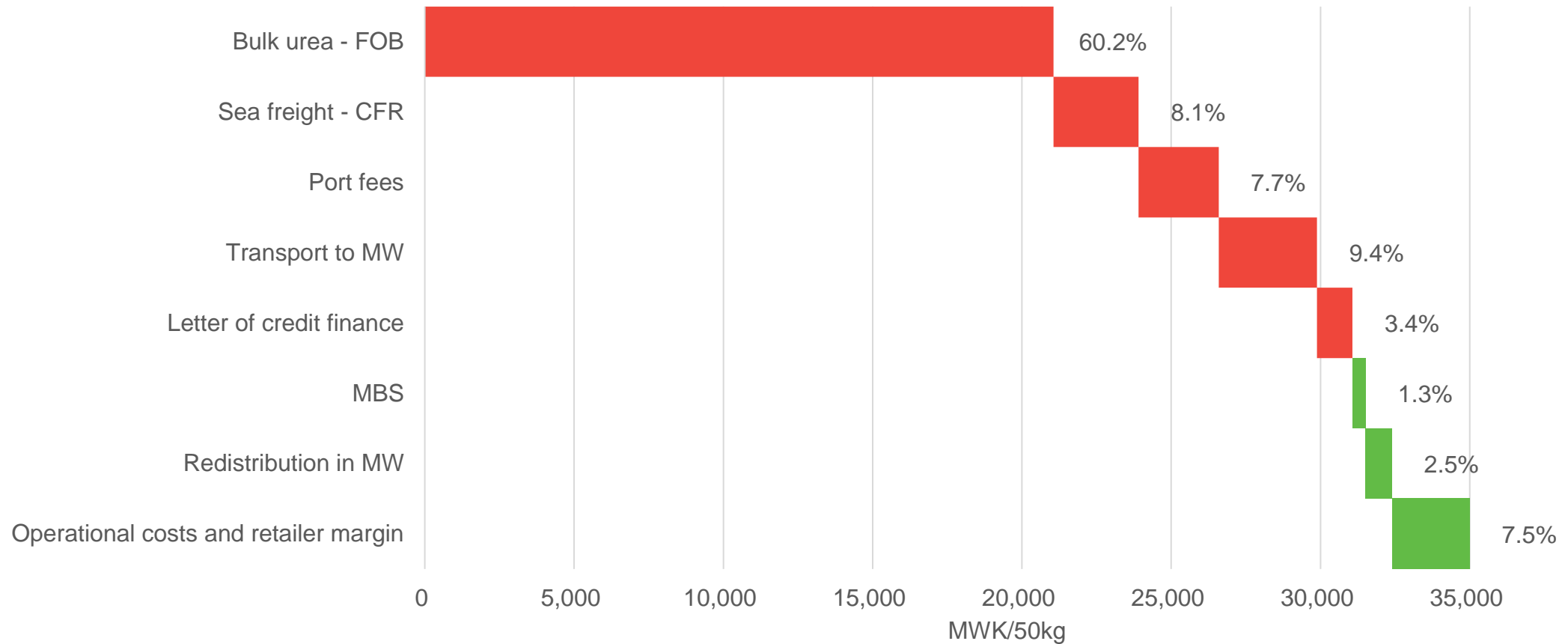
# Background

- Sharp rise in retail prices of fertilizer in Malawi
- Disagreement between private suppliers and government on price
- Uncertainty over who should procure fertilizer for AIP
- Only 30% of AIP fertilizer in Malawi at the end of August

## Drivers of urea retail price changes, Aug. 2020 – Aug. 2021

Price component	Cost			Contribution to price change	
	2020	2021	Change	MWK	%
Bulk urea – FOB (USD/mt)	280	480	71%	7,759	60%
Sea freight – CFR (USD/mt)	30	65	117%	1,358	10%
Port fees and transport to MW (USD/mt)	136	136	0%	0	0%
Letter of credit finance (USD/mt)	18	27	53%	365	3%
Exchange rate (MWK/USD)	776	877	13%	3,592	28%
MBS fees (MWK/50kg)	257	446	73%	188	1%
Redistribution in MW (MWK/50kg)	776	877	13%	101	1%
Operational costs and retailer margin (MWK/50kg)	3,013	2,608	-13%	-405	-3%
<b>Retail price</b>	<b>22,042</b>	<b>35,000</b>	<b>59%</b>	<b>12,958</b>	<b>100%</b>

# Cost buildup of urea in Malawi, August 2021



## What can be done?

- Substantial price reduction not possible in the short term
- Impossible to maintain the planned level of subsidy, number of beneficiaries, and allocated budget
- Policy options:
  - Reduce number of beneficiaries
  - Increase the cost to beneficiaries
  - Increase the budget
- Regardless of who procures the fertilizer, it needs to happen fast!
- Start with NPK, follow up with urea
- Align distribution with agricultural calendar – start in the South, finish in the North