

Strengthening Private Sector Roles in Input Production, Importation, and Distribution

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This note, prepared for the Impact Program’s learning, provides a brief overview of the recent experiences from strengthening private sector roles in input subsidy programs in SSA. It includes practical information on what has worked and not worked, and how to effectively integrate the private sector for lasting impact on the ground.

Context

Input subsidies have long been a cornerstone of agricultural policy in SSA. They have been used to improve access to and adoption of fertilizers to improve productivity, reduce production costs, increase smallholder farmers’ incomes, and enhance food security. Across the six Impact Program countries—**Ghana, Kenya, Malawi, Senegal, Tanzania, and Zambia**—input subsidies total about US\$560 million annually, representing a significant portion of agricultural public spending.

Yet, despite significant investment, these subsidy programs have not delivered the desired outcomes as fertilizer adoption and agricultural productivity growth remain low. These models, often managed by state agencies, suffer persistent challenges including elite capture, late delivery, high costs, market distortions, leakage, and crowding out the private sector. These issues have led to calls for reform and innovation in subsidy design and implementation to improve soil health and achieve much-needed sustainable agricultural productivity growth.

Private sector-led models offer promising solutions and have demonstrated greater market responsiveness, lower transaction costs, and improved targeting, especially when paired with flexible voucher systems and clear eligibility criteria. Strengthening the private sector’s role is critical for maximizing the impact of subsidies, reducing fiscal burdens, and fostering resilient agricultural markets.

Why the Private Sector?

The private sector plays a vital role in effective input subsidy programs, leveraging established supply chains, market experience and digital innovations to deliver agricultural inputs efficiently and transparently. By empowering private importers, distributors and agro-dealers to manage the flow of subsidized inputs across all stages—importation, production, distribution—these models foster competition, ensure timely availability, and support resilient, market-driven agricultural systems.

Recent Experience and Lessons Learned

Recent experiences across SSA show that input subsidy programs work best when they actively involve the private sector and use digital innovations. Countries like **Ghana, Kenya, Malawi, and Zambia** have found that private sector-led and well-targeted approaches deliver inputs more efficiently, improve access for smallholders, and help build resilient input markets.

Ghana's Planting for Food and Jobs (PFJ) and Fertilizer Subsidy Program (FSP) have increasingly partnered with private input dealers, using market-smart subsidies and digital platforms. These reforms improved access and efficiency, especially for smallholders, and highlighted the need for careful targeting and complementary investments in input supply systems.

Kenya's experience shows that private sector-led input subsidy programs improved access and efficiency for smallholders, while the recent shift to government-led distribution resulted in higher costs, weaker targeting, and limited impact for smallholder farmers. This underscores that private sector participation and digital innovation are essential for delivering subsidies effectively and ensuring meaningful benefits for smallholders.

Malawi's Farm Input Subsidy Program (FISP) initially relied on government-led distribution, but suffered from elite capture, mistargeting, and exclusion of private retailers. Later reforms emphasized smarter targeting and greater private sector involvement, showing that leveraging private networks can improve efficiency and accountability.

Zambia's Farmer Input Support Program (FISP) transitioned from input delivery by state-owned enterprises to an e-voucher system, allowing farmers to redeem subsidies at private agro-dealers. This shift increased competition, improved access, and supported crop diversification, though challenges like delayed reimbursements and liquidity constraints for suppliers remain.

Design and Implementation Considerations

Key design features for strengthening the private sector's role in input subsidy programs, include:

- **Empower Private Distribution Networks:** Make private importers, distributors, and agro-dealers the primary channel for delivering subsidized inputs, leveraging their reach, efficiency, and market knowledge.
- **Digitize Targeting and Redemption:** Use digital e-voucher systems managed by private sector actors for farmer registration, targeting, and input redemption, ensuring transparency and reducing leakage.
- **Align Incentives and Accountability:** Structure contracts and payment systems so private suppliers are incentivized to deliver inputs on time and to eligible farmers, with clear accountability for performance.

- **Set Clear, Equitable Eligibility Criteria:** Collaborate with private sector partners to develop objective, data-driven criteria for subsidy targeting, focusing on smallholders and those most in need.
- **Cap Subsidy Quantities Through Private Channels:** Limit the amount of subsidized inputs per farmer, with private sector enforcement to prevent over-allocation and elite capture.
- **Integrate Monitoring and Reporting:** Require private distributors to use digital tracking and reporting tools, enabling real-time monitoring of input flows and rapid response to fraud or diversion.
- **Link to Extension and Advisory Services:** Encourage private sector input suppliers to partner with extension providers, offering bundled services that include agronomic advice and training.
- **Ensure Policy Stability and Market Support:** Maintain predictable policies and invest in infrastructure that supports private sector logistics, warehousing, and retail, fostering long-term investment and innovation.

The private sector can face several challenges in input subsidy programs. These include **crowding out and market distortion** from government-led distribution displacing and undermining established supply networks, **limited integration and coordination** with public channels hinder effective private sector participation, and **policy and regulatory uncertainty** creates planning and investment risks. Additionally, **logistical and delivery constraints** such as delayed supply and high transportation costs impact farmers and suppliers, and **quality assurance issues** due to weak regulatory enforcement all undermine efficiency. Together, these challenges undermine the efficiency, sustainability, and impact of private sector involvement in delivering input subsidies to smallholder farmers.

Potential Impact and Next Steps

At the upcoming Impact Program regional learning events, participants will examine practical ways to strengthen private sector involvement in input subsidy delivery. The event will highlight lessons from multiple countries, emphasizing design innovations, digital targeting, and partnership models. Stakeholders will discuss reforms such as shifting from government-led to private sector-led distribution, improving targeting, and integrating extension services. Expected outcomes include a clearer understanding of evidence-based strategies, stakeholder engagement methods, and actionable plans for enhancing the private sector's role in input subsidy programs.



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