Future Agricultures

Policy Brief

Future Scenarios for Agriculture in Malawi: Challenges and Dilemmas (i) concepts

Poverty, agriculture and the need for agricultural growth

Malawi is one of the poorest countries in the world, with per capita gross domestic product of $190 and high rates of child malnourishment and infant mortality. More than half the population lives below the poverty line, with almost a quarter on the verge of survival.

Agriculture plays an important role in the economy. The sector performed well in the first two decades since Independence in 1964, but subsequent performance has been disappointing.

Problems in the sector include thin markets for agricultural produce and agricultural inputs. Rising food prices since agricultural produce marketing was liberalised and price controls on maize were removed, coupled with erratic maize production, have also worsened food insecurity.

Malawi's key resource endowments are agricultural land and abundant labour, the critical assets held by rural households. A very effective route to pro-poor growth is to raise the returns to these assets. Since Independence, development strategies have focused to varying degrees on improving productivity of land and labour in the agricultural sector. The challenge includes: (i) intensification (i.e. raising yields) of food staple (principally maize) production. This contributes directly to household food security and keeps food prices relatively low; and (ii) smallholder production of cash crops which provides incomes to farmers, to those they employ as labourers and to those who process and transport the crop.

There is a positive interaction between the two objectives -sustained intensification of the production of food staples should, over time, reduce the area planted to staples, as higher staple yields will allow more land to be planted to cash crops (tobacco, cotton, tea, sugar cane, pulses, paprika and chillies).

Photograph: Sven Torfinn

Harvesting rice in Mlaviwa village.

Agro-pessimism in development policy debates

Some participants at a Future Agricultures stakeholder workshop in Lilongwe in March 2006, argued that most smallholder agriculture is unviable. This is due to: smaller and fragmented land holding; declining soil fertility; inability of most households to access credit for inputs; low and volatile produce prices; inability to keep up with the pace of international technological change in each crop and younger adults more interested in non-farm activities, especially petty trading.

This view implies policy should de-emphasise agriculture and instead should support livelihood diversification. Nevertheless, there is scope for intensive, commercially viable smallholder agriculture, but only after a process of concentrating land-holdings. This would mean most existing rural households ceasing to farm. But there are concerns this will not occur quickly enough and the economy will fail to grow if smallholder agriculture is prioritised.

Added to this is a sense of 'State-pessimism'. In essence, 'State pessimism' creates 'agro-pessimism'. The experience of smallholder development in Malawi 1965-1985 suggests much can be achieved with State support. Post-liberalisation, withdrawal of the State has resulted in market failures. This leads to paralysis: most smallholder agriculture cannot develop without State support, yet proposals for state intervention are dismissed as politically naïve, because State failure is held to be deeply embedded.

Agro-optimism

There are powerful arguments against an agro-pessimist policy and perceptions. First, agriculture is too important to be abandoned. Evidence suggests the current unpredictability in peoples' livelihoods is mainly to do with events in agriculture. This is a very strong argument for emphasising the agricultural sector, particularly smallholder agriculture. Second, there are few attractive alternatives.

Malawi's 2005/6 season fertiliser subsidy policies suggest a less pessimistic view. The State has spent about $34 million of its own limited resources subsidising fertiliser. Combined with adequate rains in most of Malawi, it appears the 2006 maize harvest will be above average. The story does not conform to the State-pessimists' expectations and has political support.

Fundamental challenges of smallholder development

The core problem/outcome of the Malawian smallholder development challenge is risky and high cost services to farmers, and 'thin' or failing markets. This is a consequence of a number of interactive difficulties, mainly:

- Long (mainly annual) production and sales cycles;
- Climatic and price risks, possible shocks from illness;
- The need for net food deficit smallholder households to work off-farm to satisfy household food needs, compromising production on households' own land;
- Low density of commercial activity (thin markets) in areas away from major roads and the need to travel long distances to buy inputs and sell outputs - particularly difficult for women, who comprise the majority of the farm population;
- Output markets characterised by small traders with very limited liquidity;
- Narrow time windows for input (fertiliser) supply and uncertain demand.
- Unpredictable government and donor interventions further complicate the estimation of the 'cash market' for fertiliser;
- Most farmers have no access to credit to finance the costs of inputs and labour, depressing the demand for inputs and agricultural yields.

Wider experience of economic development suggests this agricultural and market development poverty trap fades as an issue as the rural economy becomes more diversified and commercial activity increases. But how to get to this point? The crux of the problem is that investment is held back by the interaction of market failure, particularly for credit, and risks created by thin markets.

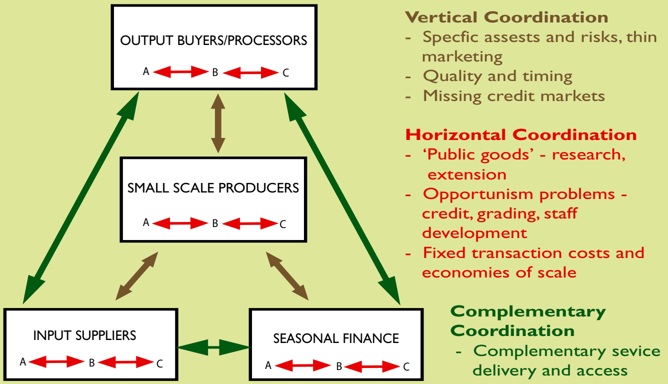
An asset's value is related to its use and the likelihood of predictable demand for it. Where markets are thin and unpredictable, risk increases sharply, often to the point that there is little or no investment.

This can be addressed by coordinating interventions between (a) large private investors; (b) introducing new markets such as insurance markets; (c) Government intervention, or a mix of all three. Successful coordination tends to involve a sensitive blend of private, local government and central government activity. In smallholder development in Malawi, a schematic illustration of the coordination activities required is shown in **Figure 1**.

Three categories of coordination are identified:

1. Vertical coordination along the supply chain.
2. Horizontal coordination, i.e. affecting units in the same category (e.g. smallholder farmers, input merchants and providers of finance.
3. Complementary coordination arises where there are economies of scope for particular organisations, public or private, to provide a number of different services to farmers.

Figure 1. What coordination is needed and when?



If broad-based smallholder development is to occur in Malawi, it will require new policies and institutions which respond with intelligence and insight to the fundamental challenges and learn from the historical experience of the pre and post liberalisation periods.

Future challenges for Malawi's agricultural policymakers - emerging both from current policy processes as well as those rooted in past policies and outcomes are discussed in the Briefing Paper Future Scenarios for Agriculture in Malawi: Challenges and Dilemmas (ii) policy.: Policy Brief 009 | January 2006.

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