



# Malawi 2063 Policy Brief Series

July 2022

## AGRICULTURE COMMERCIALIZATION IN MALAWI: PRODUCTIVITY AND DIVERSIFICATION, PROSPECTS AND PATHWAYS



### Key messages

- At the center of the agriculture commercialization drive in MW2063 and the first 10-year implementation plan operationalizing MW2063 (MIP-1) are efforts to address inputs access, diversification of agriculture and its productivity, access to credit and market linkages for agriculture produce and services.
- Although major strategies and policies tout large-scale agriculture as the surest way for Malawi to achieve agricultural commercialization, these have been ineffectively implemented due to the unending contestations about land and other limitations such as finance.
- The inherent characteristics of buyers and sellers of agriculture produce, anchored by infrastructural bottlenecks, dissuade sustainable market development, linkages, and accessibility.
- Absence of sustainable input-supply models and how to operationalize them, fragmented land sizes and adverse climatic conditions have reduced productivity levels of key agriculture produce and subsequent commodities.
- The market environment and socioeconomic drivers of diversification in Malawi remain unattended to, despite significant resource injection from development partners and efforts by government.

### Moving forward, policy interventions should focus on:

- Addressing land fragmentation through policies that reduce vulnerability of smallholder framers to continuous land delineation, while facilitating large scale land acquisition.
- Dilute inherent monopolistic or monopolistic tendencies of private traders, while addressing revitalization of ADMARC and the farmer-based organization ineffectiveness and efficiencies.
- Introduce sustainable input-supply models while incentivizing increased adoption of productivity enhancing and climate smart technologies.
- Addressing Agricultural diversification bottlenecks through policy reforms that support market actors and increase investments for more diverse agricultural production

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## Context

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At no point in Malawi's the policy discourse has Agriculture Commercialization (AC) ever received higher attention in Malawi, than now and in Malawi 2063. Premised on the potential role that agriculture commercialization has on wealth creation, job creation, aggro-processing, and industrialization, MW2063 solidifies the commitment to building "on existing efforts and embark on a progressive and extensive agricultural commercialization programme to boost incomes and spur economic growth" (National Planning Commission 2020). The development framework champions an expanded approach to agriculture development by moving "beyond focusing on crops that guarantee food security" to an emphasis on "strategic crops, livestock and fisheries that will yield high-income in local, regional and international markets" (National Planning Commission, 2020). The Malawi 2063 first ten-year Implementation Plan (MIP-1) highlights execution of agriculture commercialization through strong diversification program, backed by effective extension services in the production of higher-value crops (including horticulture), livestock and fisheries. These target niche products largely destined for the export market, and fostering market linkages through creation of structured markets that "can generate high farmer incomes, release agricultural labour and stimulate demand in other sectors of the economy" (National Planning Commission, 2021)

Agricultural commercialization, productivity and diversification are interrelated and mutually reinforcing processes. At its core, agriculture commercialization (AC) entails a process that occurs when farmers increasingly engage with the market, either to provide factors of production; fertilizer, seed, other inputs, hired labour, formal credit, rented land or to process and sell their produce. Agriculture productivity (AP) on the other hand measures the quantity of output produced with a given quantity of inputs and measures the efficiency with which farmers use inputs to produce outputs. Either measured in terms of partial factor productivity (PFP) or total factor productivity (TFP), improving productivity on farms contributes to profitability and competitiveness because it allows farmers to produce more output using fewer inputs. At the centre of the three processes are improved access to land, inputs, labour, credit as well as input and output markets. This policy brief presents a summary of policy and programme efforts, gaps and recommendations on key enablers of agriculture commercialization namely, land, market linkages, productivity, and diversification.

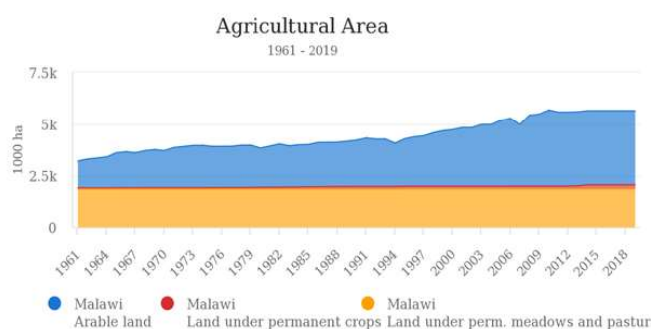
## Land Accessibility: Fragmentation and Large-scale acquisition

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On Malawi's independence, the agriculture policy arena has persistently fostered land de-alienation from smallholder farmers, high land-fragmentation, and skewed investments by smallholder farmers (Kaunda, 1995; Green, 2011). Reforming land tenure system in a post-colonial era was an inevitable option in creating an environment that would facilitate equitable agricultural development among Malawians. However, instead of addressing the inequities and injustices of the colonial era, the postcolonial land policies and practices anchored by the 1967 Land Act simply reinforced them (Ng'ongola, 2009). Although land remained substantively customary, the 1967 land reforms and subsequent programmes succeeded in creating a land market that allowed for only one-way transferability of land – from the customary to the estate sector, usually with only token compensation (Bae, 2021). Furthermore, unlike the smallholder farmers, those engaged in estate farming were at liberty to cultivate a variety of crops without limit, courtesy of 1972 Special Crops Act (Chinsinga, 2018). In essence, the smallholder farming sector was nowhere in the agriculture development equation.

In the period between 1994 and 2009, the World Bank exerted its policy influence guided by the theory that liberalization of high-value cash crops among smallholder farmers accelerates agricultural commercialization and fosters rural development (Chingaipe & Thombozi, 2019). However, the liberalization of tobacco cultivation, coupled with the removal of fertilizer and seed subsidies, promoted the displacement of maize by tobacco, which culminated into chronic food insecurity. Excessive land fragmentation caused partly by high population growth also had significant implications for the adoption of new agricultural technology (Chinsinga, 2018).

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**Figure 1: Land under agriculture production**  
(Source: FAOSTA, May 19, 2022)

Since the year 2002, all development policies namely Malawi Economic Growth Strategy and Poverty Alleviation Strategy Paper have consistently emphasized large-scale agriculture as a practical, viable pathway for agricultural commercialization, through contract farming or out-grower schemes, targeting both traditional and non-traditional export commodities. This included the Green Belt Initiative (GBI) (2010), which emphasized the promotion and enhancement of agricultural commercialization through contract farming, out-grower schemes and improved cooperation between value chain stakeholders. GBI's success however depends on availability of land and water (World Bank, 2017). Government's aspiration on large-scale agriculture as a primary driver of agricultural commercialization and development continues to suffer a major set-back on two grounds: the preoccupation with the struggle (and bias) to achieve national and household food security through implementation of the subsidies (FISP and AIP); and resistance to land deals that would have facilitated the acquisition of land for large-scale agricultural (Chinsinga, 2018). The current pieces of legislation do not address large land acquisition needed for commercial agriculture.

## Markets Linkages: Developments, Accessibility and Profitability

Agricultural market access challenge in Malawi is made up of two sides: buyer and seller sides. The buyer side of the equation has state buyers such as ADMARC and private traders while the seller side has smallholder farmers. The achievement of the 1971 ADMARC Act stipulated mandates was initially premised on short-cuts and anti-competitive practices which no longer hold in the current market liberalized era.

Overall, the role of ADMARC in marketing services has been declining as result of ADMARC's continued bailout of its subsidiaries (AHL in recent times) and its unprofitable business model. ADMARC further fails to make use of its vast infrastructure networks to generate revenue that would aid the fulfillment of its social mandate. Government often provides resources to ADMARC to procure maize for the strategic grain reserves later than the harvest time, when most producers have given away their produce to vendors, thereby creating a new layer of middlemen and traders (mostly those politically connected) between the ADMARC and the smallholder farmers, as they are unable in most cases to sell directly to the institution. However, without addressing some governance and political economy and interference issues surrounding ADMARC, any effort by government is futile (AICC, 2016).

The space left by ADMARC in provision of markets to smallholder farmers since the introduction of liberalization policies has been gradually occupied by private traders. It is however apparent that most private traders operate as discriminating monopolists in the purchase of maize and other agricultural produce and as discriminating monopolists in the sale of maize. Moreover, the pricing behaviour of private traders creates a lot of price uncertainties for farmers in rural areas and in most cases this uncertainty does not motivate farmers to respond to price developments positively. Furthermore, a cartel involving major agriculture trading companies has dictated the price and other terms of grain marketing in Malawi, consequently reducing profit margins on part of farmers (World Bank, 2017) resulting in low potency for wealth creation.

From the seller side, the inherent features of smallholder farmers weaken farmers linkages with the private sector and other value chain players. Evidently, over 50 percent of smallholder farmers do not operate in groups, consequently making it difficult to optimize on economies of scale that come through aggregation and group marketing. Clubs, associations, and cooperatives are not run-on agribusiness enterprise principles, with almost all cooperatives formed, driven and highly subsidized by donors and NGOs. Absence of robust aggregation centres also reduce the ability of farmers to take advantage of economies of scale in bargaining for profitable prices (Dancer & Tsikata, 2015).

The continued absence of sustainable and profitable markets on the part of smallholder farmers has ignited piloting of different market models. One such effort has been the warehouse receipt system (WRS). However conceptually, WRS works well in an environment

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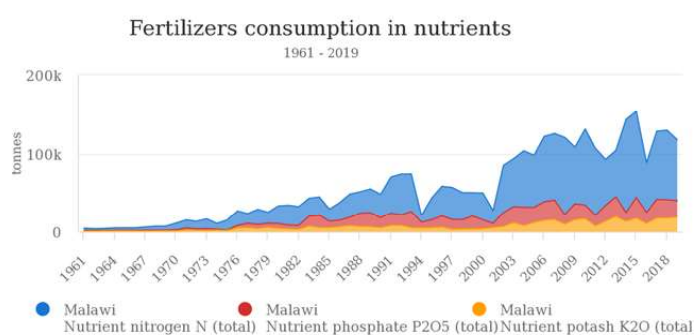
characterized by vibrant financial system, good infrastructure (in terms of good roads and warehouses), the availability and integrity of public warehouses in rural areas, low interest rates charged, the turn-over period and volumes of commodities deposited and traded (AICC, 2017)

In Malawi, the performance of WRS has been dismal due to declining traded volumes; low participation levels; minimal to zero participant retention rate; steady withdraw pattern by smallholders; the dominance of one major buyer, World Food Programme (WFP); the liquidity position of 2 operators and slow response of financial institutions. To reinforce the performance of WRS, the exports mandate was introduced with the aim of substantially increasing volumes traded through commodity exchanges thereby obtaining all benefits from strengthening the formal markets, including better prices for farmers, access to financial services, better integration of the private sector in the agricultural value chain, greater inflows of foreign exchange and greater public revenues (AICC, 2017). The outcome is yet to be registered. There is however pessimism on the potential of export mandate due to the decision to give the operating license to a private entity (an operator of WRS) as there is a likelihood that the arrangement will result into monopoly of grain marketing in the medium to long term. The export mandate regulations should therefore entrust the management of WRS exclusively in the hands of public or semi-public body.

### Productivity Challenge: Extension, Irrigation and Access to Inputs

Analysis shows that smallholder farmers who have access to inputs, one hectare of land and participate in agricultural system interventions often have improved farm productivity and are likely to practice mixed-maize systems, which includes crops such as millet, root crops, pulses, and fruit trees for local consumption. Besides access to inputs, increasing trends of productivity is also explained by climate trends (weather patterns) and soil conditions (Ochieng, 2016; Chemura, 2022; Shi, 2020). The Malawian government's major step to increase agricultural production has been through the subsidy programmes (Farm Input Subsidy Program and Affordable Input Program) that provide farmers with input resources such as improved seeds and inorganic fertilizer. Ideally, the district based agricultural extension services system (DAESS) is supposed to be involved in the promotion of AIP and innovative

interventions aimed at assisting farmers in improving farm productivity and livelihoods. However, implementation challenges such as identification of beneficiaries, limited scope of the range of crops targeted, budgetary constraints and low-quality inputs have negated the expected impact of AIP. Furthermore, soil health management is not given an attention, yet it needs to be considered in AIP initiatives to augment crop productivity.



**Figure 2: Fertilizer utilization in Malawi (Source: FAOSTA, May 19, 2022)**

The private sector space for provision of inputs between 1994 and 2004 had been occupied by local and international companies that dealt in agricultural input merchandise although local ones were still in their infancy, with their operations being arbitrary seasonal (Chinsinga, 2018). To catalyze the role of private sector in provisions of inputs, several agro-dealer concerned policies such as National Agriculture Policy (NAP), the National Agriculture Investment Plan (NAIP); National Fertilizer Policy and National Agribusiness Strategy (NAS) were developed.

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The NAS was developed to catalyze agribusiness development in Malawi and subsequently transform the agriculture sector by supporting existing policies. Among such; the National Agricultural Extension Policy, National Seed Policy, National Fisheries Policy, Policy Document on Livestock Development in Malawi, National Fertilizer Policy, Contract Farming Strategy, Farmer Organization Development Strategy, National Export Strategy; Small and Medium Enterprise Development Policy and Microfinance Policy and Action Plan, among others. The outcome of these policies is compromised by minimal coordination efforts by government agencies.

For farmer organizations, lack of coordination between ministry of Trade and Ministry of Agriculture in farmer co-operative strengthening has hindered growth of co-operative sector. Besides development of agro-dealership, the government has invested in smallholder scale irrigation development, implemented through the then Malawi Ministry of Agriculture, Irrigation, and Water Development with partners from international donor communities. There have been five major irrigation projects enhancing crop production in medium and small-scale farming communities across Malawi. These are the Smallholder Irrigation and Value Addition Project (SIVAP) and the Shire River Basin Management Programme Project (SRBMP); Irrigation, Rural Livelihoods and Agricultural Development Project (IRLADP), SAPP and Programme for Rural Irrigation Development (PRIDE) Project. However, lack of capacity by smallholder farmers to sustainably manage the schemes on their own and excessive focus on low value cereals reduce the profitability of the schemes. Furthermore, low extension worker to farmer ratio (1 to 3000) means that adoption of good agriculture practices and innovations is limited. The major challenge for all government infrastructure projects in the agriculture sector has been bureaucratic delays caused by multiple actors involved in the award of construction contracts; such as Antic-Corruption Bureau, Public Procurements and Disposal of Assets, Government Contracts Unit. A policy-program that harmonizes and reduces delays from these agencies needs to be implemented with urgency.

## Agriculture Diversification

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Agriculture Diversification (AD) refers to either a change in cropping pattern or the farmers opting for other non-crop options like poultry farming and animal husbandry and other off-farm enterprises. AD can therefore be either be horizontal or vertical. Broadly, drivers of diversification are either market, environmental or socio-economic. Access to markets tends to influence crop diversification implying that deliberate efforts and resources need to be devoted to developing input, output, and food markets in remote areas. A well-functioning input and output market increases farmers' tendency to specialize and to produce high value commodities, while also providing opportunities to diversify production and invest in value addition. Farmers' decisions on what to grow are often strongly influenced by the environment and weather conditions.

High reliance on rain-fed agriculture makes farmers more vulnerable to weather variability and therefore is an important driver of crop diversification. Diversification is considered an adaptation response, with long-term variation in rainfall during the growing period acting as a push factor into livestock diversification. For socio-economic drivers, land size is an important determinant of diversification, in that when land holdings are relatively large, farmers can take the risk of incorporating other crops into their production system, whilst still being able to dedicate sufficient land to staple food production. Gender is another critical consideration for diversification as there is strong evidence that women are often more constrained than men in access to credit, land, extension services and other productive resources, and more marginalized in terms of decision making. Other important socio-economic drivers of diversification are asset endowments of smallholder farming households; membership of co-operatives, farmers, women's or saving and loan groups; and access to extension services. There is higher impact on crop diversification of group membership and access to extension services.

There have been several government efforts aimed at enhancing the key drivers of diversification. The Malawi Export Strategy, Scaling-Up Nutrition Strategy, Control of Goods Act and Special Crops Act all tilt towards improving diversification for either domestic consumption or international market.

The uncertainty in promulgation of regulations that guide these Acts especially the Control of Goods Act has demotivated crop diversification especially for export-market crops. The nutrition drive for diversification

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is hampered by absence of National Horticulture Policy which would have addressed seed and storage challenges that hinder development of horticulture sector, which is an enabler of enhanced nutrition and export growth.

Besides these legal instruments, new government programs have been implemented with loan support from partners. Notable ones are the Agriculture Commercialization Project (AGCOM), and the Financial Access for Rural Markets and Small Enterprises (FARMSE). Major impediments to the success of these programmes include low uptake of resources by actors due to capacity constraints, slow progress on the ground due to tedious procedures and guidelines by development partners and government; multiplicity and duplication of interventions by partners on the ground; weak line ministries' capacity to effectively support programme implementation and sidelining of medium to large scale farmers in the targeting of beneficiaries. The weak capacity of local government or council structures to manage the multiplicity of actors and their coordination on ground especially towards crop diversification agenda needs to be addressed.

## Policy Recommendations

### Address fragmentation and large-scale land acquisition through policies that:

- a. Reduce vulnerability of smallholder farmers to continuous land delineation. The implementation of recent land reforms needs additional safeguards that will prevent continuous loss of land while at the same time easing off large scale land acquisition for commercial agriculture.
- b. Enhance adoption of productivity enhancing technologies to steer a platform for diversification and graduate most farmers out of primary production. This will consequently reduce pressure on land caused by population growth. Incentivizing and tying any subsidy to adoption of productivity-enhancing technologies would be vital. Population growth however needs to be seriously tamed as it exerts land fragmentation pressure.

### Dilute inherent monopolistic or monopolistic tendencies of few private traders while addressing revitalization of ADMARC and the farmer-based organization ineffectiveness and inefficiencies

a. The development of cooperatives and other farmer-based organization needs to be demand driven and should focus on enhancing the capacity of not only smallholder farmers but also medium scale farmers. The cooperatives policy should excessively regulate multiplicity of cooperatives and farmer organizations created by NGOs and development partners and make them demand driven and sustainable.

b. The strengthening of structured markets through WRS and export mandate should avoid entrenching the monopolistic tendencies that have hampered market access and development for most commodities. The implementation of export mandates should carefully explore modalities of stifling off any potential market capture and re-configuration of a grain cartel that has been in existence for the past decade.

c. The government should undertake reforms to increase certainty and predictability in the administration of business incentives (bans and lifting of export bans for example) by reducing the latitude of discretion of bureaucratic and political executives in the granting of incentives.

### Introduce sustainable input-supply models while incentivizing increased adoption of productivity enhancing and climate smart technologies through:

- a. Coordinating and incentivizing various players from input supply, production and post-harvest management, marketing, and trade to transform agribusiness into sustainable entities.
- b. Coming up with overarching policy framework to provide policy, technical and advisory guidance on implementation of agribusiness and agro-dealer development initiatives in Malawi.
- c. Fostering coordination and focused direction that can champion development of the agro-dealer sector.

### Address Agricultural Diversification bottlenecks through policy reforms that:

a. Support market actors (both input and output) to pull farmers towards more diverse agricultural production. The adoption of more diverse cropping systems depends on functional and competitive input and output markets. The private sector is crucial for creating markets for farmers producing a surplus, as the ability to sell is the main incentive for farmers to grow nutritious foods.

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b. There is a need for the funding allocation across the agricultural sector to be guided by achieving a high-quality diet to re-balance inputs, extension services, market development and processing away from maize and towards a range of crops.

c. Stimulate demand for diverse, healthy, and nutritious diets from the bottom up by supporting people-driven change initiatives Food cultures — values, beliefs, and social norms around food which play an important role in shaping what people eat and what they demand from the food system. There is a need to break the vicious circle between low supply of and demand for nutritious foods by stimulating production whilst also empowering consumers to make healthy and sustainable choices.

d. Increase investments in agricultural research and development that support agricultural diversification. Research and development are important in fostering innovation, diversity, and production in agriculture and in transforming towards a sustainable food system. Increased investment for research on a diverse range of crops, including fruit and vegetables, is needed to foster diversification and ultimately improve nutritional diversity.

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## FURTHER INFORMATION

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### NPC

The National Planning Commission was established through an Act of Parliament in 2017 with two main mandates.

1. To coordinate the development of long and medium term national development plans for Malawi including the flagship projects that would operationalise them.
2. To oversee the implementation of those plans and coordinate the efforts of different stakeholders in achieving common objectives defined in the overall national development agenda.

### Foresight and Anticipatory Governance project

This is an initiative that seeks to introduce and mainstream innovating ways of development planning by making sense of events occurring and likely to occur in the country's development space, and scanning the horizon of global, regional and local trends on key development issues in order to build agility among planning agencies, with which to respond to unforeseeable events taking place in the country's development space. The project relies on data and information generated through sustained research across economic and social development spheres. The policy briefs series are produced to provide information for consideration in government planning units.

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*Funded by UNDP, under the Foresight and Anticipatory Governance Project implemented by the National Planning Commission in collaboration with the Department of Economic Planning and Development, in the Ministry of Economic Planning and Economic Affairs (MoFEA)*