

## **MALAWI'S FOOD CRISIS: CAUSES AND SOLUTIONS**

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### **Please note:**

The views expressed in this thinkpiece are those of the author and not those of USAID.  
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### **The conventional wisdom is that the 2001-2003 food crisis was the result of poor management of grain reserves, corruption and a severe drought. Is this true?**

Misconceptions exist about the causes of the 2001-2003 food emergency. Several often-cited "causes" have been mentioned, yet most are partial explanations at best. The current crisis was not primarily caused by drought or flooding. Although Malawi did suffer a mid-season dry spell in the Central region that reduced yields somewhat, the fall in production was not that significant. Production was only 8 percent below the ten year average. Thus, blaming the crisis on "severe drought" or "devastating floods," as some media reports did, is clearly inaccurate.

And the crisis was not caused by the sell-off of the strategic grain reserve. Between August 2000 and August 2001, the government disposed of 167,000 tons of maize reserves. Several good reasons existed for these sales. Most of the maize was two years old and there were legitimate concerns about the quality of the stocks. Second, stocks levels were larger than most analysts suggested as necessary. Third, the National Food Reserve Agency (NFRA) was losing money by holding the stocks while paying high interest rates on loans that financed the purchases. Fourth, even if these reserves were not sold, there still would have been large humanitarian needs since the original amount of reserves was still small compared to the recent maize deficit. Finally, only 26,711 tons of the approximately 167,000 tons in the strategic grain reserve were exported and thus the bulk of maize in the strategic grain reserve was sold locally and was available for local consumption in 2001.

### **So what was the cause of the food crisis?**

The primary cause of the 2001-2003 food crisis in Malawi was a decline in purchasing power. While Malawi has ranked among the poorest countries in the world for decades, several recent events have led to a further decline in purchasing power, especially in rural areas. First and foremost, there are the economic effects of the HIV/AIDS pandemic. The financial burden of HIV/AIDS (medicines for the sick, funerals, declining labor productivity, lost labor time spent caring for the sick, and higher dependency ratios as relatives care for orphans) on rural households in Malawi is not

known, but must truly be staggering. And each year, as the pandemic takes more lives, the cumulative impact on households and communities grows. Second, smallholder revenues from sales of Malawi's primary export earner, tobacco, have fallen nearly 50 percent in the last two years (Jaffe, 2002), creating a ripple effect throughout an agricultural economy that relies on the annual infusion of tobacco earnings. Third, opportunities for off-farm labor (e.g. on tobacco estates, on the farms of wealthier farmers, in urban areas, or in neighboring countries) have declined in recent years. Lastly, consumer maize prices have risen significantly in the past two years (Why? It is very likely that recent increases in the consumer price of maize reflect the transition from an abnormal maize surplus situation in 1999-2001 where maize prices reflect export parity, to one where prices reflect import parity).

The implication is that the Malawi food crisis is a continuing, structural problem, not a transitory event caused by unusual weather or corrupt management of the national grain reserve. Thus, without efforts to attack the structural causes of the decline in rural purchasing power, food crises will be a recurrent phenomenon in Malawi.

### **So Malawi should embark on a major effort to produce more maize?**

No, over-emphasis on maize production simply perpetuates current cycles and does little to help rural smallholders escape from poverty. Even with significant yield increases, the vast majority of smallholders, with a hectare or half hectare of land or less, will never "get ahead" devoting most of their land to maize in an effort to be self-sufficient. In good years, they may have a few extra bags of maize to sell, but producer prices are typically depressed in surplus years. In bad years, households must seek more *ganyu* labor opportunities and divest of assets to buy food. Diversification in higher value crops, rather than increased maize production, is the way off this poverty treadmill.

In Malawi, it is said that "maize is life" (*chimanga ndi moyo*). But even in a country where reverence for maize is extremely strong, there is already evidence that over-reliance on maize is slowly breaking down. Even discounting for the likely over-estimate of official figures on production of cassava and root crops, it is clear that cassava has become a more important food crop in Malawi over the last decade, taking "market share" away from maize. Even more noteworthy has been the shift into higher-value crops such as chilies, paprika, groundnuts, and aromatic rice by farmer's associations throughout the country. There is persuasive anecdotal evidence from NASFAM that those farmers that have recently moved into cash crops have been less affected by the 2002/2003 food crisis. The need is for Government and donors to embrace this shift, and moderate what has been an almost single-minded pursuit of maize self-sufficiency.

### **So farmers are basically ignorant because they keep growing maize even though it is not a way to escape poverty?**

Absolutely not. The vast majority of farmers make rational decisions based on the risks and opportunities they face.

However, throughout the post-Independence period, the Government and donors have provided direct and indirect incentives that help perpetuate the strong emphasis on maize production by smallholders. As Sahn and Arulpragasam (1991) have shown, for over 25 years following Independence, smallholder production of cash crops was directly and indirectly taxed. And success of the Special Crops Act of 1972 in restricting smallholder involvement in the lucrative tobacco trade is well known. But incentives that implicitly favored maize by making cash crops less attractive have not been limited to producers; for much of the post-Independence era, maize consumer prices were subsidized by government, making maize one of the most attractive food sources for urban dwellers and deficit rural households. Even after the partial liberalization of the mid-1990s, maize has been at the core of smallholder agricultural policies. What crop has dominated extension messages? Maize. What is the only crop that the GOM still occasionally sets guaranteed producer prices? Maize. What seeds are distributed in Starter Packs? Mostly maize. In some sense, it has been a self-fulfilling prophecy, a “maize trap” if you will: the dominance of maize in the diet means Government and donors focus their attention on maize, which in turn reinforces the dominance of maize.

And finally, if you don't grow maize, you are at the mercy of the market. As we have seen, the market for maize grain can be very volatile, with wide price swings. Why? Much of the price volatility in late 2001 and early 2002 was due to lack of private sector action in bringing in supplies from outside the country when prices went up. The private sector was unwilling to act because of the uncertainty about government intervention in the market as well as subsidized consumer maize prices that eliminated any profit incentive to import. Later in 2002 and into 2003, when Government intentions were clearer and a profit opportunity existed despite continued Government subsidies, the response of private sector grain traders was overwhelming. In fact, the magnitude of the private sector response in supplying grain to Malawi meant that the maize sales from Government stocks were very low in late 2002 and 2003.

### **What should be done to avoid a repeat of the current situation?**

1. Recognize that single-minded pursuit of a policy of maize self-sufficiency is counterproductive and effectively condemns many Malawians to perpetual poverty. Malawi is likely going to be a net importer of maize in the future, but this need not be viewed as a failure. The key is promoting diversification into higher-value crops instead of current policies of promoting maize almost exclusively.
2. Recognize that the uncertainty and inconsistencies in operation of ADMARC (the agricultural marketing parastatal) has restricted a greater private sector role in maize markets. The privatization process is only half completed. With these halfway measures, Malawi is suffering all of the instability of the “market” but reaping none of the benefits. In many ways, Malawi is faced with a “chicken-versus -egg” dilemma. The Government is reluctant to continue the privatization process until there is evidence that the private sector has the capacity to respond, while the private sector is unwilling to respond as long as parastatal actions create an uncertain environment for investment.

3. Redefine the role of the NFRA and ensure that the NFRA adheres to suggested sales procedures. Transparent tendering processes, with sales and purchase prices that reflect market conditions, would do much to prevent a repeat of the accusations and loss of public confidence that occurred this past year. But maintaining a national grain reserve is not a complete solution. At best, following a poor harvest, a small food reserve provides a brief cushion until maize imports can be arranged and delivered. Past analyses have suggested that the costs of maintaining a grain reserve that would be large enough to make up for a significant shortfall (such as the estimated 600,000 ton shortfall in 2002) are simply too high and the potential benefits to the country too low.
  
4. Recognize that the quality of agricultural statistics in Malawi, especially national crop production figures, has deteriorated in recent years. It now seems clear that production estimates for the 2000/01 production year were inflated. Thus, in the May to September 2001 period immediately after the 2001 harvest, there was little indication that Malawi would face a difficult hungry season in early 2002. (Production figures for the current 2001/02 production year are also problematic.) It is difficult for both Government and the private sector to make purchase, import and stocking decisions without reliable, basic information on national production. Furthermore, better quality production figures are not enough. Malawi needs a better system for identifying areas of the country at-risk due to lower than normal production and/or an unexpected fall in purchasing power. As of now, there is little empirical basis for targeting food aid assistance since disaggregated information on household food security is lacking.