

**WHAT NEEDS TO BE DONE TO IMPROVE THE IMPACT  
OF ADMARC ON THE POOR**

*PHASE 2 REPORT (FINAL)*

**Prepared for**



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**JULY, 2002**

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## **ACRONYMS**

ADC	Agricultural Development Cooperative
ADMARC	Agricultural Development and Marketing Corporation
APIP	Agricultural Productivity Investment Programme
ASDU	Agricultural Social Development Unit
MRFC	Malawi Rural Finance Company
NASFAM	National Smallholder Farmers Association of Malawi
NFRA	National Food Reserve Agency

## **ACKNOWLEDGEMENTS**

My sincere thanks first go to all the survey respondents and key informants for being kind enough to spare their precious time to provide the information required for this study. Thanks also go to the research assistants and their supervisors for the wonderful work they did in collecting high quality data. The research assistants were Mr Titus Nyirenda, Ms Chimwemwe Kamowa, Mr Vincent Gondwe, Ms Elizabeth Nguku, Mr Vincent Tembo, Mr Brown Bandawe, Mr Dennis Magombo, Mr Chancy Mulima, Mrs Grace Hanjahanja Ndhlovu, Ms Bessie Chirwa, Ms Nowela Mapemba, and Mrs Annie Munthali. Their supervisors, Mr James Mwera and Dr Eric Mwambene deserve a pat on the back for not only ensuring that good quality data was collected but also for ensuring that the whole exercise in the field went according to plan. Their drivers, Mr Magareta and Mr Kapindu should also be thanked for the teams' safe travel.

I am also grateful to Mr Nick Shawa and his team for the professional manner in which data was captured and cleaned.

Mr Kelvin Storey and Mr Tchaka Ndhlovu deserve special mention for intimate involvement in the study through all the stages it has gone through.

Finally, this study would not have been possible without the funding from The Joint Oxfam Programme in Malawi, and without the support of The Malawi Programme Representative, Mrs Nellie Nyang'wa and the Advocacy Coordinator, Mr Robert White. I would like to sincerely thank them for everything they put into this study.

## **EXECUTIVE SUMMARY**

The aim of the study was to look into what can be done in order to improve the impact of ADMARC on the poor. It was meant to investigate the likely effects of privatizing ADMARC on the poor and providing alternatives which could then be used by Oxfam and other civil society institutions in advancing the interests of the poor.

A two-phased approach was adopted. The main purpose of phase one was to understand the history of ADMARC as a corporation, with particular interest in the reforms through which it undergone. Phase two formed the core of the study's research. Research in this phase mainly involved a survey that targeted the rural poor in appreciation of the fact that they are ADMARC's primary beneficiaries and a literature review of other countries' experiences with marketing boards.

The main purpose of the survey was to obtain a deeper understanding of the opportunities and constraints that the primary beneficiaries of ADMARC face in the area of agricultural marketing, as well as to get some idea of their perceptions regarding the likely effects of privatizing ADMARC. The main data collection instruments used a household questionnaire, which was administered to mainly household heads, and focus group discussions also with mainly household heads as participants. Areas where ADMARC is still operational and where ADMARC closed its markets were sampled in all the three regions of the country.

A socio-economic profile of the questionnaire respondents reveals that although randomly selected, they do qualify as primary beneficiaries of ADMARC's services. The majority is poor, dependent on cash crop sales, and food deficit for most part of the year.

A number of results emerge from the survey. First, the study establishes that when it comes to the selling of agricultural produce, ADMARC no longer plays the crucial role that it used to play in the past, even in areas where it is still operational. Firstly, produce fetches higher prices when sold to private traders and at local markets than at ADMARC. Secondly, in most cases, ADMARC starts buying from farmers very late in the year. Thus, they are forced to sell their crops to private traders or local markets in order to raise cash in time of need. Thirdly, in other areas, ADMARC tends to run out of cash in the middle of the buying season.

In general, the most crucial problem that people face in the realm of produce selling is low prices followed by unavailability of markets in some cases.

But with regard to the buying of food by deficit households, the study finds that ADMARC plays a very crucial role. Even in areas where ADMARC withdrew, people still depend on the next alternative ADMARC market. Distance does not seem to be an issue. The role ADMARC plays in this regard is that it sells maize at a much lower price than private traders, for example. The only problem with ADMARC is that it usually runs out of stocks. As a result, people are forced to buy from private traders, though at exorbitant prices.

The main problem faced by people when trying to purchase food is the high price of maize, followed by unavailability.

Also, the study finds that despite the coming in of private traders, ADMARC still plays a very important role in the provision of farm inputs in many areas, especially in those areas that are remote. For those areas where agricultural activity is high and road conditions are good, there is evidence of private traders having displaced ADMARC. People in these area prefer to buy from private traders because their prices are lower.

With regard to fertilizer, the main problem faced is high prices, followed by low supply in areas where ADMARC is operational, and long distance in areas where it closed its markets.

The study also finds that on the basis of people's experiences with private traders so far, and on the basis of the experience of other countries in the region, total privatization of ADMARC would have adverse effects on the poor. In particular, should ADMARC be totally privatized, only areas where agricultural activity is high, and where road conditions are good will be serviced. In remote areas, there will be very thin markets for produce, food, and inputs. As a result, the level of prices there will be to the disadvantage of the poor. It is not surprising that on the basis of their experiences with private traders so far, the poor themselves are opposed to the privatization of ADMARC.

The study acknowledges that maintaining the status quo would not be the best way forward. Although ADMARC as a parastatal has indeed played a very important social role, especially in the area of food security, this has cost the government, and hence the poor, more than would have been necessary. This is mainly because of too much political interference. In particular, the temptation by politicians has been to insist that ADMARC does certain things in the name of performing social roles, even if ADMARC itself feels that the need is overstated. Similarly, some very innocuous reforms have been resisted by politicians on the premise that they would be socially harmful.

At the same time, the study contends that total privatization is not a panacea either. Even if the government were to maintain a budget line for engaging the privatized ADMARC in performing some social roles, this may turn out to be an equally expensive option in view of the fact that the private sector is always out and about to make the most profits out of every opportunity. Further, there is even a risk that a privatized ADMARC may even decide to pull out of even those areas where it could just be breaking-even or making some small margin of profits. Totally privatizing ADMARC would therefore be throwing caution to the wind.

The study's proposed solution takes the form of a joint venture between the government and the private sector. The private sector would have a majority shareholding in ADMARC, with the government having some direct influence through its board of trustees, in order to safeguard the interests of the Malawian people. Although this arrangement amounts to privatization of ADMARC, the form is a qualified one.

On top of the conversion of ADMARC into a trust company, the study proposes the formation of a quasi-government institution, the Social Development Unit that will be charged with the responsibility of coordinating all agricultural marketing activities that are of a social nature. For example, the study proposes the formation of agricultural development cooperatives in those rural areas that are remote and hence not easily accessible by road. It will be the duty of the ASDU to coordinate the formation of these cooperatives and also to ensure that their operations are sustainable. The ASDU would partly be funded by any proceeds from the trust company, and partly by donors.

In the meantime, the study recommends that calls by the donor community to speed up the process of privatizing ADMARC should be resisted. Instead, the government should embark of a process of wide ranging consultations with all the stakeholders.



## **1. Background**

Malawi is one of the poorest countries in the world. Following a nation-wide household survey, the National Statistical Office estimates that 65% of Malawi's 11 million population lives below the poverty line, with 90% of the poor population being in the rural areas. It is also estimated that about 85% of Malawians derive their livelihoods from the agricultural sector. Thus, any changes that take place in this sector are likely to impact on a majority of the poor. It is in recognition of this fact that the government has always had a special interest in the agricultural sector, especially in activities relating to smallholder farmers who constitute 90 % of all farmers in Malawi.

State intervention in the agricultural sector in Malawi dates back to as early as 1926 when the colonial government established the Native Tobacco Board. Two more boards were later established in 1949: the Cotton and Maize Control Boards. In 1956, the three boards were merged to form the Agricultural Production and Marketing Board, which was renamed Farmers Marketing Board in 1962. In 1971, the Agricultural Development and Marketing Corporation (ADMARC) was established to replace the Farmers Marketing Board. Its main mandate was to market agricultural inputs and outputs, but was also allowed to make investments in anything that would contribute to the development of the economy.

According to Scarborough (1990), until the late 1970s and early 1980s, ADMARC performed reasonably well. In particular, it was able to provide assured and reliable markets for smallholder produce. Further, it paid farmers cash on delivery, subsidized the cost of inputs, and subsidized the consumption of maize and rice. Kydd and Christiansen (1982) observe that between 1971 and 1979, ADMARC made about MK181.9 million from its marketing activities in the smallholder sector. This money was used to cross-subsidize the cost of inputs to smallholder farmers, consumption of maize and rice by food-deficit households, and making investments in other sectors of the economy.

Towards the late 1970s, ADMARC started facing financial difficulties. The literature identifies a number of factors, both internal as well as external, that were responsible for ADMARC's problems. Internal factors have included poor management of the corporation, mainly due to its large size and poor investment policies. On the other hand, external factors have included bad weather, poor pricing policies by the government, and increased transportation costs due to civil war in Mozambique that led to the closure of Malawi's traditional route to the sea.

At the same time that ADMARC was going through financial problems, the economy of Malawi as a whole found itself in a crisis. On the one hand, public sector and balance-of-payments deficits became quite large, as did the stock of external debt. On the other hand, economic growth was much lower. The World Bank and the IMF identified the poor performance of the agricultural sector, and ADMARC in particular, as one of the major factors that contributed to the economic crisis. As a result, when Malawi started undertaking World Bank and IMF sponsored Structural Adjustment Programmes (SAPs)

in 1981, ADMARC was one of the targets of reforms. Indeed, since then, the corporation has undergone through various changes. These have among other changes, included market liberalization, a phased removal of input subsidies, and rationalization. Currently, ADMARC has been earmarked for privatization in 2003.

As is usually the case with reforms, some sections of society emerge as winners while others lose out. Indeed, studies that have investigated the impact of agricultural policy reforms implemented in Malawi so far have attempted to identify the losers and winners. For example, Chilowa (1998) found that the losers from agricultural produce marketing liberalisation were mainly smallholder farmers that fell in the category of net food buyers, low-income households in urban as well as semi-urban areas, and smallholder farmers in remote areas. At the same time, the study found that among the winners were smallholder farmers that fell in the category of net food sellers, private traders, institutional traders, and ADMARC.

It does not take much thought for one to notice that the losers in Chilowa's study were actually the poor. And it seems it is the poor that are usually most adversely affected by economic policy reforms. With more policy reforms in the pipeline, the challenge for those who work for the betterment of the poor is to ensure that the chances of poor people being adversely affected by such planned policy reforms are minimized. It is against this background that the Joint Oxfam Programme in Malawi commissioned a study to look into what can be done in order to improve the impact of ADMARC on the poor. In particular, the study is aimed at investigating the likely effects of privatizing ADMARC on the poor and providing alternatives which can then be used by Oxfam and other civil society institutions in advancing the interests of the poor.

It is worth pointing out on the outset that Oxfam is adopting what we may call an ex-ante approach here, where the strategy is to ensure that policy reforms are designed in such a way that the interests of the poor are adequately factored in. Otherwise the other option available is to adopt an ex-post or re-active approach, where the adverse impact of policy reforms is ameliorated after policy reforms have already been undertaken. For example, a safety net programme can be put in place so that the poor are cushioned from the adverse effects of any policy changes.

## **2. Specific objectives of the study**

Based on the terms of reference provided by Oxfam, the study set out to achieve the following specific objectives:-

- (a) Outline Malawi's experience so far with policy reforms relating to ADMARC,
- (b) Outline the problems that are still outstanding with respect to ADMARC which necessitate further reforms,
- (c) Assess various propositions that have been made so far from different quarters regarding how best ADMARC should operate, whether as a private or as a state enterprise,

- (d) Outline the plans that the government has with regard to the operations of ADMARC, particularly as a private entity,
- (e) Explore on-going work as well as plans by other organizations relating to ADMARC's privatization in order to assess the relevance of such work and plans to this study, as well as to explore any opportunities that there may be for collaboration,
- (f) Provide a clear set of options for making ADMARC financially viable and at the same time ensuring that the poor are not adversely affected by the suggested policy reforms by:
  - (i) Investigating the perceptions of primary beneficiaries of ADMARC's main activities regarding the benefits of ADMARC and anticipated problems of privatization,
  - (ii) Assessing the experience of other countries with state marketing boards,
- (g) Make recommendations on how best Oxfam, and civil society in general, can advance the identified option(s) in the interest of the poor.

### **3. Study Methodology**

In order to achieve the objectives of the study, a two-phase approach was proposed. This is because it was felt that some of the activities outlined in the methodology section of the terms of reference necessitated such an approach. For example, one of the stipulation was that the study needed to review exiting studies on the impact of policy reforms that have been undertaken in Malawi so far in order to identify what is relevant to this undertaking. Similarly, the proposed methodology in the terms of reference called for the need to explore on-going work as well as plans by other organizations with similar interests. The purpose of such an exercise was to assess the relevance of their work and plans to this study, as well as to explore any opportunities for collaboration. Thus, a two-phase approach was deemed necessary since the findings of research carried out in phase one would contribute to the refinement of the problems that ADMARC is currently facing, and hence contribute to the design of subsequent research activities of the study, notably, the consultations with ADMARC's primary beneficiaries.

#### *3.1 Phase One*

This phase, whose research findings are contained in Phase 1 Report, addressed the first five objectives of the study that have been outlined above. Data for the phase was collected by reviewing existing literature on ADMARC as well as conducting interviews with key informants. The research in this phase specifically provided answers to the following questions:

- What has been Malawi's experience so far with policy reforms relating to ADMARC? In particular, what has been the impact of these policy reforms on various stakeholders?

- ❑ Despite the many reforms that have been undertaken so far, what problems still exist that have necessitated the need for more reforms?
- ❑ What propositions have been made so far with regard to how ADMARC should operate either as a state enterprise or as a private entity? To what extent do these propositions reconcile the need for ADMARC to be viable as well as the need for it to continue playing a social role?
- ❑ What are the government's plans with regard to the operations of ADMARC, particularly as a private entity?
- ❑ What are other organizations with similar interests to Oxfam currently doing and what do they plan to do, in relation to ADMARC's privatization? How relevant are such works and plans to this study, and what opportunities, if any, are there for collaboration?

### *3.2 Phase Two*

The focus of phase two, whose research findings are the subject of this report were the last two objectives outlined in section 2 above. Research in this phase involved a survey that targeted the rural poor in their capacity as ADMARC's primary beneficiaries, interviews with key informants and literature review of other countries' experiences with marketing boards. At the end of this phase, it was expected that the study would be in a position to provide answers to the following questions: -

- ❑ What perceptions do ADMARC's primary beneficiaries have of opportunities and constraints that they face when selling their produce, buying food crops, and buying inputs? In particular, how have these changed over time, and how do they differ between areas where ADMARC is still operational and those where it closed its markets?
- ❑ On the basis of the findings of the survey and taking into account the experiences that other countries have had with policy reforms, what policy reform options are available that ensure that ADMARC has a maximum impact on the poor while at the same time operating as a financially viable entity?
- ❑ How best can Oxfam and other civil society institutions use the suggested solutions for advocacy?.

#### *3.2.1 The Survey*

##### *(a) Purpose*

As already alluded to, the purpose of the survey was to obtain a deeper understanding of the opportunities and constraints that the primary beneficiaries of ADMARC face in the area of agricultural marketing. Specifically, the intention was to investigate how these opportunities and constraints differ between areas where ADMARC is still operational and those areas where it closed its markets. This approach was adopted because one of the policy reforms on the cards is the closure of more ADMARC markets. Further, it is widely believed that the planned privatization of ADMARC would lead to further market

closures. Therefore, a look at the differences in agricultural marketing opportunities and constraints between areas where ADMARC is currently operational and those where it closed its markets would provide some indication of the likely impact of these proposed policy reforms on the poor.

*(b) Data collection instruments used*

Three data collection instruments were employed in the survey. The first was a household questionnaire, which was administered to mainly household heads. Secondly, focus group discussions were conducted, again with mainly household heads as participants. Thirdly, in some areas there were also key informant interviews with ADMARC officials.

*(c) Sampling*

A total of seven districts were sampled. These were Mzimba in the north, Mchinji, Lilongwe and Ntcheu in the central region and Mwanza, Chikwawa, and Zomba in the southern region. Several factors contributed to the choice of these districts. The first factor was diversity of agricultural activity. For example, Mzimba, Mchinji, Lilongwe, Zomba, and Ntcheu were deemed to be more agricultural oriented districts than Mwanza and Chikwawa. Secondly, the choice was based on information obtained regarding the presence of areas where ADMARC closed its markets.

Sampling of areas in a particular district was on the basis of enumeration areas (EAs)<sup>1</sup>, each of which contains several villages. The sampling of these enumeration areas was not purely random either. In particular, the approach was to target those EAs where ADMARC was either still operational or where it withdrew. Another guiding principle was to ensure that EAs where road access was easy as well as those where access was difficult were targeted. Once an EA was sampled, the choice of interviewees was purely random. All in all, a total of 972 questionnaires were administered and 32 focus groups discussions were conducted.

### ***3.2.2 Literature Review of Other Countries***

This involved a review of literature on the experiences that other countries in the region have had with state marketing boards. The purpose was to see if lessons could be drawn from such experiences in coming up with recommendations of the study.

## **4. Structure of this Report**

The remainder of this report is structured as follows:-

- Section 5 presents and discusses the results of research conducted in this phase. It starts by presenting the socio-economic profile of the questionnaire respondents

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<sup>1</sup> Enumeration Area (EA) is the term used by the National Statistical Office (NSO) in demarcating areas for most survey purposes. The list of official EAs is available on demand from the NSO.

before focusing on the importance of ADMARC vis-à-vis other players, the beneficiary perceptions of changes in the role of ADMARC over time, beneficiary perceptions of problems being currently faced in agricultural marketing, and finally the likely effects of privatizing ADMARC.

- Section 6 contains recommendations of the study.

## 5. Results and Discussion

This section presents the findings of the survey and of the literature review. By the end of the section, we should be in apposition to have a clearer picture of the direction that should be taken by any discussions on what needs to be done to ADMARC in order to improve its impact on the poor.

### 5.1 Socio-economic profile of questionnaire respondents

From the total sample, 49% were female respondents while 51% were males. The proportion of females was highest in the southern region (55%), followed by the centre (46%) and the north (41%). Also, 61% of all the respondents were literate, with the north having the highest proportion (84%), followed by the centre (59%) and then the south (52%). It can be seen that the higher the proportion of female respondents in a particular region, the lower the literacy rates.

The main source of income for our respondents is crop sales (51%), followed by *ganyu* on other people's farms (17%), and running a small business (16%). The variations across regions, districts, and ADMARC availability status are worth mentioning. First, although in each of the three regions, crop sales are the main source of income, the highest proportion of respondents depending on this source is found in the north (75%) followed by the centre (64%), and then the south (30%). Secondly, across districts, Lilongwe, Mchinji, and Mzimba are the most agricultural of the sampled districts on the basis of the percentage number of households that depend on crop sales.

And lastly, when areas with different ADMARC availability statuses are compared, then the largest proportion of respondents who depend on crop sales are found in areas where ADMARC is still operational. For instance, in Zomba, 68% of the respondents in the area where ADMARC is still operational depend on crop sales, compared to 32% in the area where ADMARC withdrew. There are two possible reasons here. The low reliance of households on crop sales in areas where ADMARC withdrew could imply that the withdraw of ADMARC in those areas has changed the people's livelihoods drastically. At the same time, the statistics may simply be a confirmation of the fact that ADMARC closed its markets in areas where agricultural activity is very low.

Another characteristic feature of our respondents is that they are small-scale farmers. Their average landholding size is 1.2 hectares, with 85% farming on gardens that are less than 2 hectares. Further, the average landholding size of respondents in the northern and central regions is slightly higher at 1.4 hectares in each case, than that of the southern region, which is 1.1 hectares.

The staple food for all the respondents is maize and every household sampled grew it last year. Furthermore, most of them are generally food deficit, with 83% running out of maize before the next harvest is available. Of these, 64% are actually without food for 6 months or more. Across regions, the south seems to be the most food insecure, with 90% of the sampled households being food deficit compared to 85% in the central region and 66% in the north. However, there is no palpable difference in these statistics between areas where ADMARC withdrew and those where ADMARC is still operational.

The statistics also show that 61% of the respondents sold maize out of distress. That is to say, they sold some maize even though they did not grow enough for the whole year. The proportion of distress sellers was much higher in the southern region (81%), compared to the central and northern regions (56% and 51%, respectively).

Different crops are grown and sold in different regions, districts and areas. But from the total sample, the percentage share of households that sold these different crops as follows, in order of decreasing magnitude: Tobacco (45%), maize (26%), groundnuts (11%), rice (7%), cotton (4%), soya (0.8%), and paprika (0.2%). Thus, tobacco, maize, and groundnuts are the main cash crops for our sample households. This implies that maize features as a staple food as well as one of the main cash crops.

When the sample is disaggregated according to regions, tobacco, maize and groundnuts are the three main cash crops in the northern and central regions only. In the southern region, tobacco is still the main cash crop, mentioned by 29% of the sampled households. However, on the basis of the districts that we sampled, rice is second in importance, mentioned by 23% of the respondents, followed by cotton (14%) and then maize (12%).

In terms of input usage, 85% applied fertilizer to their gardens last year. Of these, 41% had to buy it, 34% received it on credit, while 25% got it as a handout. Across regions, 92% used fertiliser in the north, compared to 85% in the centre and 80% in the south. Further, most people in the north and centre had to buy their fertiliser using cash or received it on credit. In the south, however, the majority of the respondents received fertiliser as a handout (54%), while a slightly lower percentage bought it either using cash (44%), or on credit (2%).

As for exotic seeds, 87% of the total sample used them last growing season with 51% acquiring them through cash purchases, 8% on credit, and 40% receiving for free. The same pattern as in the case of fertiliser obtains here. Proportionately more respondents in the south got their seeds for free compared to the central and northern regions.

With regard to pesticides, only 17% of our respondents used them in their gardens last year. Of these, 97% had to buy them, 1% got them on credit, while 2% received them free. Across regions, 92% of the respondents bought their pesticides using cash, while 8% got them on credit. On the other hand, 98% of respondents in the central and southern regions acquired their pesticides through cash purchases while 2% received them for free.

Thus, none of our respondents in the north received pesticides for free, and none received them on credit in the central and southern regions.

The average total income earned by the household head per year is K13,265.86. Using a poverty line of \$1 a day (=K27,375.00 a year), the result implies that 87% of the household heads from our sample are poor. In other words, only 13% are above the poverty line. The profile also shows that the poverty situation in our sample is worst in the southern region where only 4% of the households were above the poverty line, compared to the centre (15%) and the north (30%).

Overall, although our respondents were randomly selected, they do qualify as primary beneficiaries of ADMARC's services. The majority is poor, dependent on cash crop sales, and food deficit for most part of the year.

### ***5.2 Importance of ADMARC vis-à-vis other players***

Before discussing the results on the perceptions of people with regard to the importance of ADMARC vis-à-vis other players, it is worth mentioning at the outset that although the closure of an ADMARC market means that the next alternative ADMARC market is now further away, it does not always mean that the distance to such a market is in all cases greater than the distance to the nearest market in an area that is categorized as still having an ADMARC market. For example, in Mchinji district, the nearest ADMARC market for Zunguze villagers in TA Mlonyeni, is 12km away. On the other hand, an ADMARC market was closed in Khumbulani village, TA Katunga in Chikwawa district, but the nearest market now is only 8km away. But whatever is the case in terms of distance to the nearest ADMARC market, the issue here is about assessing the importance of ADMARC vis-a-vis private traders in areas where ADMARC is operational and in areas where it withdrew when it comes to the selling of produce, the buying of food crops, and the purchasing of inputs.

Another point worth mentioning on the outset is that apart from ADMARC, the study identified two other players involved in agricultural marketing: local markets and private traders. The distinction between these two is quite subtle, because the majority of the buyers and sellers in local markets are private entities, and therefore on the face of it, qualify to be referred to as private traders. However, for purposes of this study, local markets are meant to refer to those trading locations where you mostly find very small-scale buyers and sellers of agricultural produce and inputs. For example, in a local market, a farmer may come to sell one bag, or a few bags of maize, in most cases to people who themselves come to buy in small quantities.

On the other hand, private traders are generally construed to be those individuals and companies that are involved in the business of agricultural trading at a much larger scale. In most cases, private traders will either have a vehicle or will hire a vehicle to transport their agricultural merchandise. Although produce or inputs can be bought in very small quantities from private traders, they themselves will tend to stock huge quantities. Before



total liberalization of agricultural trading in 1987, only licensed private traders, or those who operated illegally, were operating.

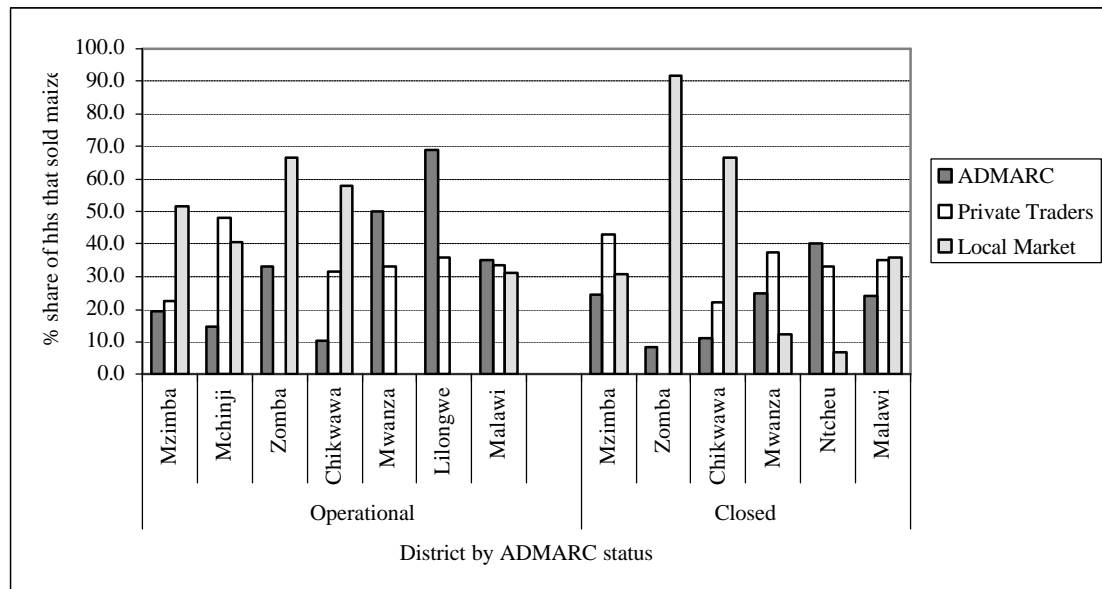
*(a) Selling of agricultural produce*

The findings of the study show that where ADMARC is still operational, the main cash crops are as follows: Tobacco in Mzimba, Mchinji, Lilongwe, and Zomba districts; cotton in Mwanza, and rice in Chikwawa district. In all these cases, ADMARC is the main market only for cotton in Mwanza. Otherwise, Tobacco and rice are mainly sold to the auction floors and private traders respectively. Thus, with the exception of Mwanza district, as far as the selling of main cash crops by farmers is concerned, it is very clear that ADMARC does not play a crucial role.

A look at the second main cash crop in the sampled districts reveals the following: groundnuts and maize in Mzimba districts, groundnuts in Mchinji and Lilongwe districts, sweet potatoes in Chikwawa and Mwanza districts, and sun flower in Zomba district. In all these districts, the perception of people is that ADMARC is not their main sales destination. For example, households in Mzimba, Mchinji and Lilongwe reported that they mainly sell their groundnuts to private traders. On the other hand, households in Mwanza and Chikwawa districts reported that they sell their sweet potatoes at local markets, just like sunflower growers in Zomba.

Although maize is only the second main cash crop, we still went ahead to find out where the respondents have been selling the crop in recent years. The findings presented in Figure 1 below show that where ADMARC is operational, in all districts except Mwanza and Lilongwe, the majority of our respondents have not been selling their maize to ADMARC in recent years. But even in Mwanza and Lilongwe districts, it can be seen that a good percentage of households (33% and 36% respectively) have been selling maize to private traders.

**Figure 1: Destination of maize sales**



According to the survey, there are three main reasons why people sell their produce to private traders and local markets and not to ADMARC even when ADMARC is operational in their areas. The first is that the produce fetches higher prices when sold to private traders and at local markets than at ADMARC. Secondly, in most cases, ADMARC starts buying from farmers very late in the year. Thus, they are forced to sell their crops to private traders or local markets in order to raise cash in time of need. Thirdly, in other areas, ADMARC tends to run out of cash in the middle of the buying season. Farmers find this very inconveniencing.

In areas where ADMARC is closed, the situation is almost the same. ADMARC has not been the main destination of households' main cash crops with the exception of cotton in Mwanza district. Again, even when the second most important cash crops are considered, farmers reported that their main sales destinations are private traders and the local market, and not ADMARC. For example, as Figure 1 above shows, in all districts where ADMARC withdrew, except Ntcheu, the majority of households have been selling maize not to ADMARC but to private traders and local markets.

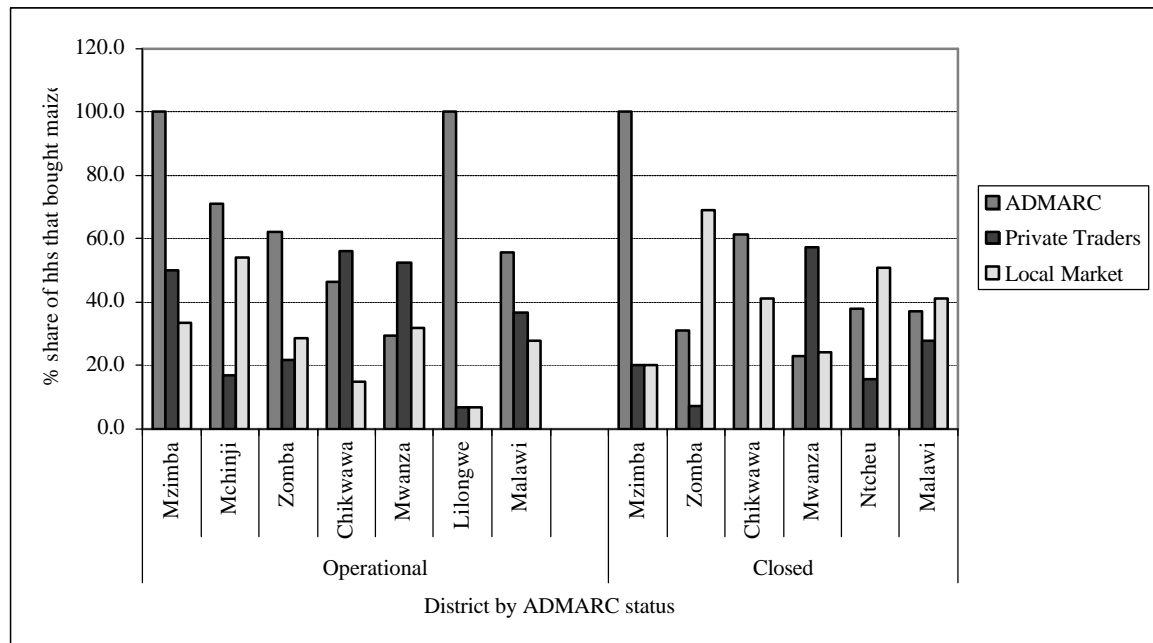
In areas where ADMARC is closed, the reasons given by farmers for selling their produce to private traders and local markets rather than to their next alternative ADMARC market are the same as those given by their counterparts in areas where ADMARC is still operational. That is to say, the reasons are that private traders offer higher prices, do not run out of cash, and start buying from them in good time. Thus, in areas where ADMARC is operational as well as in areas where it withdrew, distance to an ADMARC market is not a significant factor in influencing the sales destination of crop produce.

The picture that is emerging from these results is that when it comes to the selling of agricultural produce, ADMARC is less important compared to other traders in the areas that were visited.

*(b)Purchase of food crops by food deficit households*

As already reported earlier, maize was indicated as the main food crop by all the respondents. Thus, the focus will be on maize purchases by food deficit households.

**Figure 2: Source of maize purchases by food deficit households**



With regard to the importance of ADMARC as a source of food for deficit households, the results of **focus group discussions** show that where ADMARC is still operational, it is perceived in all districts as the main source vis-à-vis other players. However, the results as shown in Figure 2 above also show that in practice, ADMARC is an important source in some districts but not in others. For example, in Mzimba, Mchinji, Lilongwe, and Zomba districts, out of the total number of households that have bought maize in recent years, the percentage shares of those that have bought from ADMARC are higher than those that have bought from private traders and vendors who operate in local markets.

However, this is not the case in the sampled areas of Mwanza and Chikwawa districts. In particular, although ADMARC is right in the village of Mwingitsa village in TA Symon, Mwanza district, data from the questionnaire shows that 52% of the households that have bought maize in recent years bought it from private traders compared to 29.5% that bought it from ADMARC. Similarly, 56.1% of the people that have bought maize in recent years in the village of Kubalalika, TA Makhuwira in Chikwawa district, bought it from private traders, compared to 46.3% from ADMARC.

The main reason why people have been buying maize from ADMARC and not private traders or from the local market in areas where ADMARC is operational is that the former sells at a lower price than the latter. Overall, 70.8% of the sampled households in these areas indicated that they have been buying maize from ADMARC because it offers a lower price. This rationale is consistent with another finding of the study that in areas

where ADMARC is still operational, most of the households (86%) actually indicated that maize prices charged by the corporation are lower than those charged by private traders.

There are, however, two reasons why ADMARC plays second fiddle in some of the areas. The first is that in most cases ADMARC does not stock enough food. The results of the survey show that where ADMARC is still operational, 85% of the food deficit households who bought maize from private traders did so because it was not available at ADMARC. In other words, people have very little choice but to buy from either private traders or from the local market. This rationale is actually consistent with the view expressed by most households (78%) that food is generally more readily available with private traders than at ADMARC. Secondly, in some cases, people felt that even when maize is available at ADMARC, somehow priority goes to big buyers, who are usually private traders. Otherwise, our respondents indicated that given a choice, they would normally buy from ADMARC because prices there are much fairer.

With regard to areas where ADMARC withdrew, the results of our **focus group discussions** also show that people still perceive ADMARC as their main source of maize purchases. In some cases, such as Mzimba and Chikwawa districts, the reality is that even though ADMARC closed its markets, the majority of people have still been able to buy maize from their nearest alternative ADMARC markets, that are respectively, 6km and 8km away, on average. However, in Zomba, Mwanza and Ntcheu, Figure 2 shows that the majority of people that have bought maize in recent years actually bought it from the local market (Zomba and Ntcheu), and from private traders (Mwanza).

Just like in those areas where ADMARC is operational, the main reason why the majority of people have been buying maize from ADMARC is that it sells at a lower price than private traders. This was mentioned by 86.5% of the food deficit households. Again, just like in the case where ADMARC is still operational, the study has found that a huge majority of households (87% in this case) are of the view maize prices at ADMARC are lower compared to those which private traders charge. However, although the prices at ADMARC are lower than those charged by private traders, the majority of people (69%) mentioned that they did not buy maize from the next alternative ADMARC markets because of maize unavailability there. Since the closure of an ADMARC market implies that the next alternative ADMARC market is further away, one would perhaps have expected that long distance would be a major inhibiting factor. Instead, in areas where ADMARC closed its markets, only 12% of the food deficit households mentioned long distance (to the next alternative ADMARC) as a problem when they buy maize.

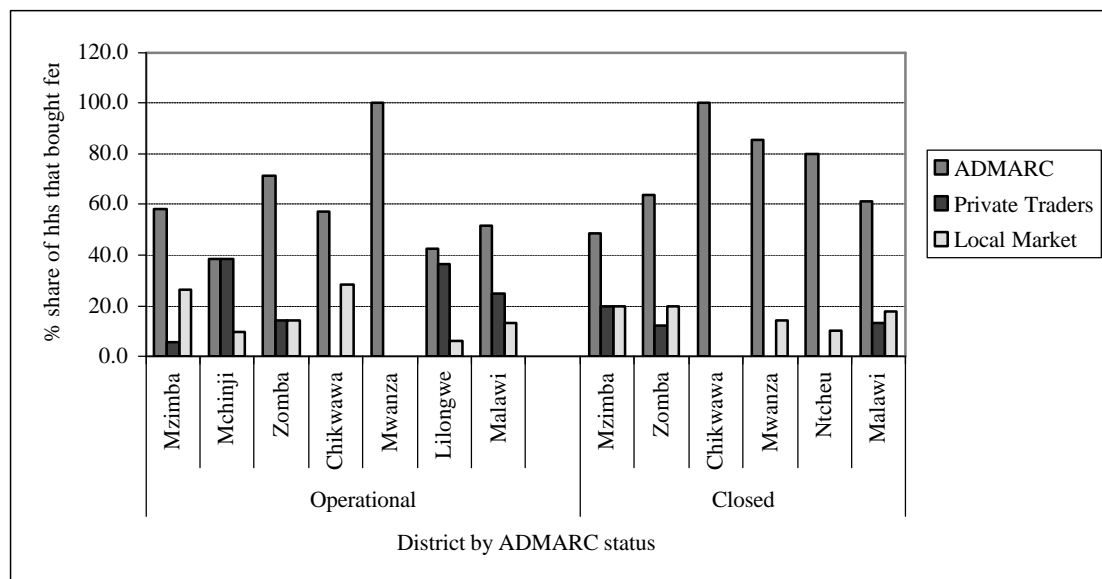
Overall, the conclusion that can be made from these results and observations is that ADMARC is generally still a very important player to food deficit households. In particular, through the eyes of 86% of the beneficiaries themselves, its usefulness as a food source is that the maize ADMARC sells to food deficit households is relatively cheaper compared to what private traders charge. Whenever they buy maize from other sources, it is mainly because of unavailability at ADMARC. This has been supported by

the finding that overall, 78% of food deficit households mentioned that the reason they had to buy food from private traders was because it was readily available.

*(c) Purchase of agricultural inputs by farmers*

The results of the survey show that in areas where ADMARC is still operational the majority of farmers have been buying fertilizer, exotic seeds, and pesticides from ADMARC. The main reason why most people have been buying from ADMARC and not any other source is that they have had no other alternative. Private traders selling inputs tend to be located in areas where there is high agricultural activity and also where road access is easy. For example, as can be seen from Figure 3 below, the results show that in Mchinji district, 44.4% of the households have been buying fertilizer from ADMARC compared to 55.6% from private traders and the local market. Similarly, in Lilongwe district, 44.8% have been buying fertilizer from ADMARC compared to 55.2% from other sources. The available evidence shows that in these areas, private traders generally sell their fertilizer at lower prices than ADMARC. For example, the focus group discussions that we conducted in Mwilisika Village, TA Kabudula in Lilongwe and Mzikabola II village TA Mulonyeni in Mchinji revealed that fertiliser at Farmers World is cheaper than at ADMARC.

**Figure 3: Source of fertilizer purchases by farmers**



In all other areas where ADMARC is operational, there are usually very few private traders selling inputs, mostly because of low agricultural activity and poor road access. As a result, the few private traders that take the risk of operating in these areas tend to sell their inputs at higher prices. That is why most people opt for ADMARC, and buy from private traders only when ADMARC runs out of stock. In other words, the few

private traders that sell inputs in these areas can be said to be opportunists, who come out to supply inputs when they sense that ADMARC is failing to meet the demand for inputs.

The same is true in areas where ADMARC closed its markets. The majority of people buy inputs from the nearest ADMARC and not private traders or the local market. For example, when all the districts where ADMARC closed its markets are combined, 63% of the sample households bought their fertilizer from ADMARC, compared to only 13% from private traders. The reason why most people buy from their next alternative ADMARC market is mainly because there are either no private traders engaged in the selling of inputs or only a few exist. Where a few exist, they tend to sell their inputs at high prices. That is why people are forced to travel to the next alternative ADMARC market. They have been buying from the few existing private traders only when ADMARC has been short of stock.

The conclusion that can be made is that ADMARC is not only perceived as an important player in the marketing of inputs, but that it has in practice also played a very crucial role, more especially in remote and less agricultural oriented areas. Private traders seem to have only displaced ADMARC in those areas where access is easy and where agricultural activity is high. Thus, the assertions made in the literature that the role of ADMARC in the selling of inputs has diminished considerably seem to be flying in the face of empirical evidence.

### ***5.3 Beneficiary perceptions of changes in the role of ADMARC over time***

Another pertinent issue of inquiry was to obtain the perceptions of ADMARC's primary beneficiaries with regard to the changes in the role of ADMARC over time in the three areas of agricultural marketing that we are concerned with.

#### *(a) Selling of agricultural produce*

It is interesting to note that the results of the survey show that in areas where ADMARC is both operational as well as closed, the perception of farmers is that ADMARC's involvement in buying agricultural produce from them has generally diminished over time with positive consequences in some cases and negative consequences in others. For example, they have noted that ADMARC stopped buying tobacco from them. The consequence is that registered farmers do sell their tobacco directly to the auction floors now and at a much higher price than ADMARC used to offer. On the other hand, those that are not registered, depend on private traders who usually offer them lower prices than they used to get from ADMARC.

Another observation by farmers is that ADMARC stopped buying cotton in Chikwawa and Ntcheu districts. The consequence there is that they have been forced to start growing other crops such as rice, pigeon peas, and sweet potatoes in Chikwawa and vegetables in Ntcheu. According to them, this has led to a reduction in their incomes and hence, welfare, because cotton was more lucrative than these alternative crops.

Thirdly, farmers have also observed that ADMARC has recently been facing liquidity problems. As a result, in some years it has not been able to buy even maize and groundnuts. In other cases, farmers have not been paid in time after selling their crops. This is something that never used to be the case in the past.

Overall, farmers have observed a diminished role of ADMARC and an increasing role of private traders in the marketing of agricultural produce.

*(b) Purchase of food crops by food deficit households*

The situation here is the same as in the case of agricultural produce sales. The results of the survey show that the exceptional circumstances of this year notwithstanding, our respondents have observed that ADMARC has generally not been able to satisfactorily meet their food needs as used to be the case in the past. As a result, food deficit households have resorted to buying from private traders who in general charge quite high prices. In other words, the general perception is that although ADMARC is still perceived as their main source of food, households are having to depend more and more on the expensive maize from private traders because of insufficient stock at ADMARC. This is true in areas where ADMARC is still operational and where it closed its markets.

*(c) Purchase of agricultural inputs by farmers*

The general perception of farmers, both, in areas where ADMARC is operational as well as in those areas where it closed its markets is that there has been a noticeable proliferation of private trader involvement in the marketing of agricultural inputs. This is not very surprising since the marketing of inputs is now liberalized. The advent of private traders has brought mixed fortunes to farmers. As already reported above, private trade traders in some areas are selling inputs at a much lower price than ADMARC. In other areas, such as Mzimba, fertiliser bought from private traders is more expensive than from ADMARC.

#### ***5.4 Beneficiary views of problems faced in agricultural marketing***

Perhaps most important to the study was the issue of beneficiary perceptions of problems faced when selling their produce, buying maize, and buying inputs. The issue was tabled to questionnaire respondents as well as to participants in the focus group discussions.

*(a) Selling of agricultural produce*

The problems we report here are those relating to those crops that ADMARC still has a role to play in buying. These are maize, groundnuts, and cotton. The findings are that in both areas where ADMARC is operational as well as in areas where it withdrew, the highest ranked problem is low price offered by both ADMARC as well as private traders, with prices at ADMARC much lower than those offered by private traders. The second most important problem is unavailability of ready market. This problem is also common to areas where ADMARC is operational as well as to those where it closed its markets.



As mentioned earlier, due to liquidity problems, ADMARC sometimes decides not to buy from farmers, or starts buying late. In other cases, the corporation runs out of cash in the middle of the buying season.

*(b) Purchase of food crops by food deficit households*

It must be said that in collecting this information, great care was exercised to ensure that the circumstances of this year did not bias the results. In particular, it was made clear to the respondents that this year was not our point of reference. We must say we have all indications that the bias was indeed minimal. For example, when referring to the problem of high maize prices, respondents would refer to last year's price of K340 as having been high, and not this year's price of K850 a bag.

In general, the results show that the highest ranked problem in places where ADMARC is still operational as well as in areas where it withdrew was high prices of maize. Related to this problem was the tampering of scales by both ADMARC officials as well as private traders. After high prices and the tampering of scales came the problem of maize unavailability in the market. Finally, distance to ADMARC was also mentioned as a problem in some areas although it never featured as a serious problem. But as would be expected, it was mentioned more in areas where ADMARC withdrew than in those where it is still operational. However, from both the questionnaire as well as the ranking exercise of the focus group discussions, the unequivocal message is that the most important problem when it comes to the buying of maize by food deficit households is the high price at which it is sold.

*(c) Purchase of agricultural inputs by farmers*

The most crucial problem that was cited in areas where ADMARC is operational as well as in those areas where it closed its markets is that inputs, especially fertilizer, are very expensive. In places where ADMARC is operational, the second most important problem is low supply at ADMARC, while in places where ADMARC was closed, distance and low supply are at par as the second most important problems.

### ***5.5 Likely effects of privatizing ADMARC***

Determining the likely effects of privatizing ADMARC is not an easy task in the absence of concrete information regarding the exact form of privatization that is being planned. However, one gets the sense that donors would like to see total privatization of the corporation. With this in mind, the analysis looks at the findings of the study regarding the experiences that ADMARC's traditional beneficiaries have had with private traders so far, their perceptions of the likely effects of privatizing ADMARC, and also with regard to the experiences that other countries in the region have had with the privatization of state marketing boards.

### *5.5.1 Beneficiary experiences with private traders so far*

From the findings of the preceding sections, the message coming out is that private traders have been appreciated mostly in areas where agricultural activity is high and also where access by road is easy. In such areas, private traders have been able to buy produce in good time, and at relatively higher prices than would have been offered by ADMARC. Similarly, in such areas, private traders have usually had ready stocks of maize for food deficit households, albeit at much higher prices compared to ADMARC. Lastly, private traders in these areas have also been a source of cheaper inputs than ADMARC.

But this is as far as the benefits of private traders seem to have gone. In other words, one can foresee that if ADMARC were completely under private ownership, the benefits would also be limited to a few areas of the country. As a private entity, it would only operate in areas where it makes business sense to operate. Those areas which are not easily accessible by road, and where the level of agricultural activity is low, would suffer from lack of markets for farm produce, unavailability of food during hunger months, and unavailability of inputs. If, by some stroke of luck, the privatised ADMARC took the “business risk” of going into such areas, it would offer very low prices for farm produce, and charge exorbitant prices when selling maize to food deficit households and inputs to farmers.

### *5.5.2 Beneficiary perceptions of the likely effects of privatization*

Although most people are illiterate, and hence not best placed to do an analysis of the likely effects of privatizing ADMARC, it was still felt necessary to get their perceptions on the matter. Most likely, such perceptions must have been based on the experiences that they have had with private traders so far. It is not surprising, therefore, when asked hypothetical questions on the matter, the results turned out to reflect the same messages that have been coming out from those cases reported above, where respondents were being asked to recall what they had actually experienced or observed in as far as the activities of ADMARC and private traders is concerned.

Firstly, although 35.5% felt that food would be more readily available compared to 27.3% who said that it would become more scarce, the majority (74.4%) feared that privatization would lead to even higher prices of food sold to deficit households. This statistic was higher in places where ADMARC closed (80.6%) than in areas where ADMARC is still operational (68.5%).

Secondly, 60.6% of the respondents feared that privatisation of ADMARC would lead to lower prices being offered to farmers for their produce. Only 8.2% felt that a privatised ADMARC would offer higher prices. And lastly, 82.3% of the respondents felt that if ADMARC was privatised, the prices of fertiliser would be higher, compared to only 6.7% who felt that fertiliser would become cheaper.

Overall, 86.2% of our respondents indicated that they would not be in favour of ADMARC privatization. The percentage is 89.3% in areas where ADMARC is operational, and 83.1% in areas where it closed its markets.

### *5.5.3 Experiences of other countries with the privatisation of state marketing boards*

Our review of the literature that is available has been limited to those countries where maize is an important food crop. This is because an observation was made that in most countries, the poor performance of state marketing boards has been traced from the way they have handled bulky food crops, especially maize. Thus, the review focused on Zambia, Zimbabwe, Tanzania, Kenya, and South Africa.

In general, the history of marketing boards in these countries is the same. In particular, their most important role has been to ensure the availability of a market for maize at fair prices, especially in those areas where access is difficult. In this regard, private traders were not allowed to participate in maize marketing because it was felt that they could not have the welfare of the farmers and food deficit households at heart. However, with time, change became inevitable because of the financial stress that the state marketing boards were bringing to their governments. The situation at the moment is that state marketing boards are still operational in Kenya and Zimbabwe, while they wound up in Tanzania, Zambia and South Africa. In other words, we do not have a case where a state marketing board was actually privatized. In Zambia and Tanzania, the only form of involvement that the state now has in the marketing of maize is through the support that is given to the strategic grain reserves.

Although the state marketing boards are still intact in Kenya and Zimbabwe, some reforms have taken place. In both countries, there has been liberalization of maize marketing. Previously, this used to be the preserve of the National Cereals and Produce Board in Kenya and the Grain Marketing Board in Zimbabwe. The literature observes that although private traders have responded well, they are unable to operate in some areas because of poor transport infrastructure. In the case of Kenya, the situation is worse because the government has been reluctant to strengthen the capacity of the private sector in food marketing. Ikiara (1998) reports that this is due to lack of government ownership of the reform process since the policy reform was implemented mainly through pressure from the donor community.

After state marketing boards were closed in Zambia, South Africa, and Tanzania, the marketing of maize became the realm of private traders. Thus, this is not a very different situation from what would happen if a state marketing board was privatized. The literature observes that the only benefit that has come out of the demise of state marketing boards in Tanzania and Zambia is the savings that the government made. Otherwise, it argues that although producer prices have gone up, consumer prices are even higher. Further, due to the poor transport network, farmers and food deficit households have been adversely affected since private traders are unable to operate in remote areas. For example, with regard to Tanzania, Seppala notes that “although some

steps have been taken in the fields of market information and infrastructure, measures to support the enabling environment for the private traders are yet to be introduced.” (Seppala, 1998, p. 27).

In South Africa, the situation is not as bad as in Zambia and Tanzania. Firstly, this is because the road infrastructure there is generally much better. As a result, private traders have not had problems accessing most areas. Secondly, there is a fund in place to improve access to disadvantaged areas, the collection and provision of market information, and research and training (Jones, 1998).

Thus, it can be concluded that from the experiences of Zambia, Tanzania, and South Africa, the privatization of a state marketing board would only be advisable if all provisions have been made to ensure access to remote areas by private traders as Earnest Harsch notes in the United Nation’s Africa Recovery Newsletter: “Meanwhile, the dismantling of inefficient government marketing boards has not always led to more competitive or effective markets...” Instead, it has “deprived many African farmers not only of important marketing services, but also of inputs...” (Harsch, 1997, p. 3).

## **6. Recommendations**

Having presented the results of the survey that was conducted to explore the opportunities and constraints that the primary beneficiaries of ADMARC face in the area of agricultural marketing, we now turn to making recommendations on the way forward for ADMARC as well as for Oxfam in the quest to improve the corporation's impact on the poor. In making the recommendations, we will in some cases draw upon the experiences of other Sub-Saharan African countries in this area.

### **6.1 Summary of crucial problems**

The exploration of opportunities and constraints that the rural poor face in the area of agricultural marketing provides a good basis for recommendations regarding what needs to be done to ADMARC in order to improve its impact on the poor. As already pointed out at the beginning of this report, we will also try to draw lessons from other countries in making these recommendations. From the above presentation and discussion of results, and from our key informant interviews that were reported in the Phase 1 Report, we have been able to identify the following as problems that need addressing if ADMARC is to operate in a manner that will be most beneficial to the poor:-

- (1) The prices that smallholder farmers receive when they sell their produce, especially maize, are generally very low. This is a crucial problem in areas where ADMARC is operational as well as in those areas where it withdrew.
- (2) Those smallholder farmers that live in areas with poor road access find it difficult to find a market for their produce. Should a trader take the trouble of coming to buy from them, the price offered is even lower than in those areas where road access is relatively easy.

(3) The prices for food are very high in areas where ADMARC withdrew as well as in those where it is still operational.

(4) Those food deficit households that live in areas with poor road access find it difficult to access food since it is generally uneconomical for traders to operate in these areas. The situation is even worse if the area is perpetually food deficit. In most cases, when they are lucky to have a trader come with some maize to sell, the price charged is usually very high.

(5) Prices of inputs are quite high, both in areas where ADMARC is operational as well as in areas where it closed its markets. This has been due to the complete removal of fertilizer subsidies in 1995.

(6) In areas where road access is bad, the other problem is that fertilizer is usually not available because it is uneconomical for traders to operate there.

(7) ADMARC is suffering from a burden of having investments in companies that are not performing. This is what partly explains why it has been facing financial problems. In particular, money has been "wasted" because it has had to bail out some of these ailing companies.

(8) Part of ADMARC's problems are due to undue political interference. In particular, it has been forced to play certain social roles without being compensated for. For example, it has had to maintain certain markets even if there is clear evidence that the closure of such markets would not have adverse effects on the poor, but would definitely have a positive effect on ADMARC's financial position.

## **6.2 Reflections on existing suggested solutions**

Before making new suggestions regarding the way forward, it is necessary that we reflect on the solutions that have already been suggested in the existing literature, some of which were briefly presented in the Phase 1 Report.

### *(a) Rationalise ADMARC*

The main argument by the proponents of this solution has been that ADMARC should progressively withdraw from its traditional marketing activities, and that its facilities and functions should be assumed by the private sector since the continued presence of ADMARC is impeding the entry of private traders in most rural areas. But as we have already reported, our survey has found that the decision by private traders to operate in an area does not seem to exclusively depend on whether ADMARC is operational in that area or not. Even if the presence of ADMARC may be one of the inhibiting factors, our survey has found that there seem to be other overriding factors, such as level of agricultural activity in an area and accessibility. That is why in areas like Lilongwe which have a dense network of ADMARC markets, private traders are also as many. Similarly, in those areas where ADMARC withdrew, such as the part of Ntcheu that we went to, private traders are very few. In other words, there is no guarantee that the withdraw of ADMARC in an area will automatically lead to a proliferation of private traders.

*(b) Dispose of ADMARC's shares in other companies*

This suggestion tries to solve the burden of supporting sick companies that ADMARC carries at the moment. It is hard to argue against this solution. However, it should be seen as only one of the many reforms that must be taken in order to improve ADMARC's impact on the poor.

*(c) Commercialise ADMARC*

The proposal that ADMARC should operate as a commercial entity seems attractive, but only to the extent that politicians will pay the market price for any social roles that ADMARC may play. However, the problem is that by letting ADMARC remain a publicly owned company, there is no guarantee that it will be free from political interference. In fact, it is actually the situation in which it is at the moment, to a very large extent. As we observed in Phase 1 Report, although very much supportive of the idea that ADMARC should be fully commercial, the government has in practice not helped the corporation in its commercialization drive. Unfortunately, although the poor do indeed get help, the cost is even much higher to them since whenever the government forces ADMARC to play certain social roles that are strictly speaking not necessary (e.g. maintaining some rural markets), it is actually the same poor people who pay for such "luxury". ADMARC finds itself in financial problems, and it is the government which has to bail it out. It is this need to bail out parastatals that partly leads to heavy borrowing by the government. In the end, the government has to repay these debts as a matter of priority when it could have been using this money for other more pressing social needs.

*(d) Privatise ADMARC*

The suggestion that ADMARC should be fully privatized has the advantage of solving the problem of political interference and financial unsustainability that is associated with it. Proponents of this solution argue that people need not be worried about the likely effects of total privatization as outlined in Section 5.2. The more dogmatic ones argue that in a completely liberal, competitive economy, all those problems will somehow, through the workings of free market forces sort themselves out. On the other hand, the more pragmatic liberals argue that when ADMARC becomes fully private, the government will simply have to focus on having a budget line for assisting those areas of the country (especially the very remote areas) that would be in dire need of help. They believe that this would be much cheaper than helping the poor via the support that is given to an inefficient parastatal as is the case at the moment.

We believe that the position taken by the dogmatic proponents of total privatization is an irresponsible one, and should therefore be resisted by those who are genuinely concerned with the welfare of the poor.

But even if one considered the argument put forward by the more pragmatic liberals, we believe that one cannot be sure that things would work out as envisaged. First, although the government would indeed tend to be less extravagant when solving the above-

mentioned problems by focusing only on areas that are in genuine need, this may end up being an equally expensive exercise. While, the government can be expected to have a budget line for activities of a social role nature, it must be remembered that private traders tend to be inclined towards earning supernormal profits whenever there is lack of competition. And the experiences of Tanzania and Zambia suggest that there is no guarantee that should ADMARC become private, there will be stiff competition amongst private traders. Even if the few private traders that may be there were asked to bid for contracts to deliver a certain agricultural marketing service, the cheapest bidder would still be very expensive because the private sector tends to have the unfortunate mentality that the government “can pay anything for a job”.

Secondly, once ADMARC is completely private, there is even a danger that it may eventually pull out of so many other areas, including those where it still has some small profit margins. Thus, with the fact that these two scenarios are very much possible should ADMARC be fully privatized, one can foresee that the government’s budget allocation to activities of a social role nature is likely to be much higher than we may be made to believe. In other words, there is no guarantee that total privatization will solve the treasury problem.

*(e) Improve rural road infrastructure*

The merits of this suggestion are very clear. It is true that Malawi’s poor road network is largely to blame for most of the problems mentioned above. However, we believe that this is a long-term solution and hence, does not offer much in the medium term. This is because the financial implications of this solution are colossal.

*(f) Come up with a better support programme for private sector development*

This is another suggestion that we feel has a lot of merit. However, any support programmes such as credit schemes for private traders are likely to be quite expensive if the country’s rural road infrastructure is not improved. In fact, strictly speaking, most private traders would have little problems reaching most parts of the country if the road infrastructure was good.

*(g) Improve agricultural production in rural areas through improved extension services and credit services.*

It can be argued that this solution would indeed go a long way to solving the problems that we have identified above. However, the only problem is that like solving the problem of poor road infrastructure, this solution requires huge amounts of financial resources, and would therefore not make an appreciable impact in the medium term. Thus, it should also be seen as a long-term solution.

## **6.3 This study's suggested solution**

### *6.3.1 The future status of ADMARC*

In view of the foregoing, it is clear that if ADMARC were to continue operating as a parastatal, its impact on the poor can only be maximized if a mechanism were put in place to curb undue political interference into its operations, and also to ensure that the government honours all obligations whenever it engages ADMARC to play a social role. The first issue is whether it would be possible to devise such a mechanism, when there is trite knowledge that it is very difficult in most cases to enforce a regulatory mechanism that is targeted at politicians. Secondly, even if the government was faithful enough to compensate ADMARC accordingly, there is still a danger that politicians might exaggerate the magnitude of the social problem, for political reasons. In the end, we will still have the problem of ADMARC being a drain on the treasury. Thus, on the basis of these arguments, we feel reluctant to recommend the maintenance of the status quo in as far as ADMARC's status is concerned.

The other option available is for the government to indeed go ahead with the planned privatization of ADMARC. But as we have already argued above, we believe that total privatization would not do provide a better solution either.

It is in this light that we propose a qualified form of privatization, which can be seen as a mid-way solution. The principle behind the proposal is that we would like to see a set up where ADMARC operates efficiently, but not at the expense of the poor. Thus, we suggest some form of public-private partnership where both, the government, as well as the private sector would be involved in running the corporation. The structure of ownership would be such that although not a majority shareholder, the government should have some percentage of shareholding that will ensure that it can influence some decisions at board level. The set up could thus be something similar to the one we have under the Press Trust, with the exception that ADMARC should not be allowed to become as huge a conglomerate as Press Corporation Limited is. This means that ADMARC should continue with the process of shedding off those investments that are not within its areas of competence.

Thus, under this model, ADMARC could be run as a trust company, with the interests of the Malawian people in the company safeguarded by a board of trustees. Once again, the principle behind such a framework is that the proposed trust company will always have to be on its toes to perform because the government will be under no statutory obligation to bail it out in the event of any financial difficulties. But at the same time, the board of trustees will be there to make sure that in its bid to run efficiently, the company does not make decisions that are clearly detrimental to the welfare of the people of Malawi. But since the government will not be a majority shareholder, we do not expect the kind of political interference that the corporation has been facing under its current status.

In the scheme of things, the proposed trust company will be expected to make profits because it is hard to expect private sector involvement in an institution that will not



generate any profits. However, the expectation is that through its board of trustees, the government's involvement in the company will ensure that these profits are not generated at the expense of the poor. For example, the trustees will have to ensure that the company does not aim at generating profits from such activities as the selling of farm inputs to small-scale farmers, or from the selling of maize to food deficit households. In such activities, the company will be expected to simply break-even. As a matter of policy, the company's profits will have to come from those activities that are innocuous as far as the welfare of the poor is concerned. Ultimately, it is the government's share of profits from such activities that its board of trustees will use for funding projects meant to solve agricultural marketing problems as suggested in the next sub-section.

### *6.3.2 Establishment of an Agricultural Social Development Unit (ASDU) and Agricultural Development Cooperatives (ADCs).*

Within the same model, we further suggest the creation of a quasi-government institution that will be responsible for tackling those agricultural marketing problems that have been summarized in sub-section 6.1. Tentatively, we give it the name "Agricultural Social Development Unit (ASDU)". Its duty will be to identify those geographical areas of Malawi where agricultural marketing problems are acute. We then propose that the ASDU will have to set up agricultural cooperatives in all the disadvantaged areas.

The purpose of cooperatives will be to reduce transactions costs of doing business in a remote area. We have already pointed out that at the moment private traders do not find it economical to operate in remote areas. For example, it does not make business sense to go to a remote area just to sell "one" bag of fertilizer, or "one" bag of maize. Thus, through a cooperative, this problem will be solved since a cooperative will ensure that there is sufficient demand and supply before arranging with a trader to come and do business in a remote area. The role of the ASDU in this regard, therefore, will be to link these cooperatives to those institutions and companies that are involved in agricultural marketing and input credit provision. The ASDU will have to develop models that will have to be employed in establishing such linkages.

It must also be mentioned that we propose that funding for the operations of the ASDU will have to come principally from the government's share of profits from the proposed trust company. But should funding from the board of trustees be inadequate for it to implement a project in a particular area, the ASDU will have to raise the shortfall by submitting proposals to donors. The hope is that with such a funding framework, the institution will not end up being a burden on the treasury, which would be counter to one of the principles behind the proposed scheme –financial sustainability. But it is also hoped that the funding framework will further reduce the likelihood of government interference in the operations of the proposed institution.

There is also need to emphasise once again that these cooperatives will need to be set up only in those areas that have been identified as really disadvantaged as far as access to agricultural markets is concerned. In other words, there is no need that they should be on

each and every corner of the country. This will ensure that the solution to these outstanding agricultural marketing problems is cost effective.

Cooperatives in agricultural marketing are not a new phenomenon in Africa. Zambia and Tanzania tried to experiment with them even before the demise of their state marketing boards. However, it must be mentioned that the cooperatives that we are suggesting for Malawi are different from the ones that were set up in our two neighbours. The cooperatives in Zambia and Tanzania were involved in the buying and selling of agricultural commodities. They were directly sponsored by the government such that they have been described in the literature as mini-parastatals.

Also, there is overwhelming evidence that the cooperatives that operated in both of these countries failed dismally. The main reasons provided for their failure have been undue political interference (because they were directly funded by the government), and lack of adequate technical support. Thus, it will be important that such mistakes are avoided in Malawi. Already, lessons can be learnt from the National Smallholder Farmers Association of Malawi (NASFAM), which operates on a more or less cooperative basis. Anecdotal evidence suggests that NASFAM has generally been very successful.

In any case, delivery of services through groups in rural Malawi is not a new phenomenon. For example, we have had very successful group based approaches to micro-finance lending. Similarly, the Ministry of Gender, Youth, and Community Services has since the mid-1980s been implementing several economic activities programmes where the rural poor have been organized into groups through which they have been subsequently trained in business management and linked to micro-credit providers. Although the sizes of these groups have been much smaller (10-15 people per group), we see no reason why the proposed cooperatives, though involving almost whole communities, cannot be successful if carefully designed.

### *6.3.3 The prices problem*

The prices problem is hereby defined as a situation where people are complaining about low produce prices for surplus producers, high maize prices for food deficit households (even in normal years), and high input prices for farmers in general. The proposals made in the sub-sections above do tackle the issues of ADMARC's financial viability and market access by the poor in disadvantaged areas. It can also be argued that the proposals implicitly tackle the prices problem as well. This is because by reducing transactions costs of agricultural marketing in these areas, there should in principle be no reason why traders operating in these areas should exploit farmers and food deficit households. Further, the hope is that cooperatives will increase the members' bargaining power in marketing transactions.

But what is the solution to the prices problem in areas where access is relatively easy? We make a number of suggestions. Firstly, there is need to establish the extent to which prices offered by private traders are purely exploitative. In other words, to what extent do private traders charge or offer prices that are not commercially justifiable? Once this is

established, a mechanism to curb such exploitation should be put in place. Private traders themselves should be involved in the process of coming up with such a mechanism.

Should the inquiry find that the prices are actually not exploitative, then we make several proposals. First, with regard to inputs, a further assessment should be made, this time of the extent to which existing input credit schemes, such as those being implemented by the MRFC and APIP, are being effective. It is possible that there is still scope for the schemes to reach and assist even more farmers.

Secondly, with regard to low producer prices, it must be appreciated that the reason why most farmers receive low prices for their produce is because they sell out of desperation. This is when farmers sell their produce ahead of the buying season because they are desperate to meet other needs. For example, they may sell tobacco in February because they need money to buy food. Unfortunately, traders do take advantage of the farmers' situation and offer them rock bottom prices. The only solution we can suggest here is the implementation of a well-targeted safety net programme during the hunger months.

Lastly, the problem of high maize consumer prices is usually a reflection of high transportation costs as well as scarcity of maize, most likely due to low production levels. This problem needs adopting several approaches. Firstly, in the short term, there is need to ensure that the country's strategic food reserve is functioning efficiently in order to avoid the kind of disaster that Malawi has witnessed this year. Secondly, the issue of improving farmers' access to, and usage of inputs should be high on the agenda. Thirdly, corporations like ADMARC will need to play some part as well in ensuring that Malawi produces enough food by directly participating in viable maize production. Finally, in the long-term, Malawi will have to face the fact that a lasting solution to food security problems lies in investing heavily in irrigation –whether of the small-scale type or of the large-scale type.

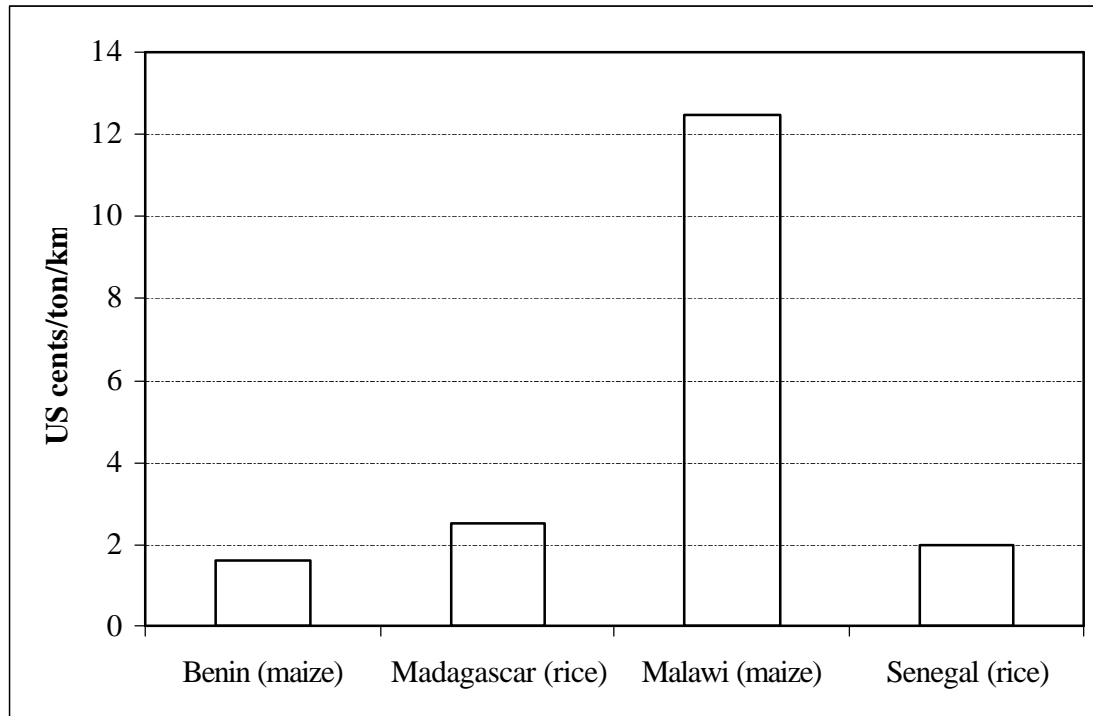
From the foregoing suggestions, the message is that lasting solutions need to be found to the prices problem. However, it may be some time before action can be taken on some of these suggested solutions. And if action is finally taken, it may also take time before the suggested solutions become effective in solving the problems. In the meantime, some vulnerable people will be suffering. In this light, we believe that in the short to medium term, some form of targeted input and food subsidies are imperative. After all, although the quantities involved are small, through the targeted input programme we are doing more than subsidizing inputs: providing them free.

#### *6.3.4 The road infrastructure problem*

The proposed establishment of the ASDU and the agricultural cooperatives should be seen as offering medium-term solutions to agricultural marketing problems that are due to poor road infrastructure. A long lasting solution lies in the eventual development of the rural road infrastructure. There should come a time when the government should be able to take the "risk" of undertaking such long-term infrastructural investments. The benefits will not only accrue to the agricultural sector but to other sectors of the economy as well.

And the need to invest heavily in road infrastructure is even more imperative for Malawi because statistics show that Malawi has one of the poorest road network in Africa. Badiane *et al.* (1997) show that transport costs in Malawi when transporting cereals are about ten times higher than those of some West African countries (See Figure 4 below).

**Figure 4: Transportation costs of Cereals in Four African Countries**



Source: Badiane et al, (1997)

#### 6.4 The way forward for Oxfam and other civil society institutions

Having made all these suggestions, the question that remains is what Oxfam and other civil society institutions can do in order to ensure that ADMARC takes a direction that will improve the welfare of the poor in Malawi. To this end, we make the following recommendations:-

(1) A stakeholders' workshop should be organized to discuss the findings and recommendations of this report. Examples of stakeholders are government officials, ADMARC employees, representatives of private traders' association, representatives of farmers' associations, the consumers association of Malawi, other civil society institutions and NGOs, and the donor community.

(2) After the stakeholders' workshop, Oxfam and other concerned civil society institutions should embark on a joint campaign of conducting public debates using all

possible channels of communication. The findings of this study as well as the conclusions that will be made at the stakeholders' workshop should provide propositions for such debates. The purpose of these debates will be to refine the propositions made by this study as well as the conclusions of the stakeholders' workshop.

(3) Further, the workshop would also serve as the beginning of a civic education campaign where politicians as well as the masses are sensitized to the root causes of the problems that Malawi is experiencing in the area of agricultural marketing. This will be important so that any policy reforms that may be undertaken, no matter how radical they may be, should be understood by people from all circles of the society, and hence, ensure smooth and successful implementation. In view of the apprehension that people have about a privately owned ADMARC as reported in sub-section 5.5.2 above, a civic education campaign will be necessary in order to sell an idea like the one we have proposed in this study. In particular, it will be important for people to understand that the proposed solution has maximization of their welfare as the organizing theme, and not profits.

People's fears of privatization are understandable. They are based on well-founded perceptions of private companies as entities that are too profit-oriented. As a result, they are afraid that the privatization of ADMARC will aggravate their problems in the manner reported above. And since the message that seems to be coming from the IMF and the World Bank is that ADMARC should be completely privatized, there is indeed every cause for worry.

However, the fact that the majority of people are against privatization does not mean that maintaining the status quo is the best way forward. Once again, our view is that the optimal solution lies somewhere in the between. Although at this stage a detailed blue print of this mid-way solution is not in place, we believe that if people understood the general principles behind it, they would be less uncomfortable and less apprehensive about the fact that some of privatization is being proposed.

(4) Through various advocacy activities and lobbying, Oxfam and other concerned civil society institutions should currently campaign against calls by the donor community to speed up the process of privatizing ADMARC. Instead, Oxfam and its partners should campaign for wide ranging consultations before final decisions on the future of ADMARC are made.

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