

MALAWI'S FOOD CRISIS: CAUSES AND SOLUTIONS

**Lawrence Rubey
USAID, Malawi.**

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Contact details: lrubey@usaid.gov

The conventional wisdom is that the current crisis is the result of poor management of grain reserves, corruption and a severe drought. Is this true?

A number of misconceptions exist about the causes of the current food crisis. Several often-cited "causes" have been mentioned, yet most are partial explanations at best.

1. The current 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. And 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, food production figures for 2001 gave no indication that there would be a significant food shortfall. Finally, even if these reserves were not sold, we would still likely be in the same situation this year since the original amount of reserves is still small compared to the maize deficit.

2. The current crisis is NOT the result of corruption in the sale of maize from the strategic grain reserve.

There are legitimate questions as to how maize was sold from the strategic grain reserve (SGR) and who benefited from these sales. There are also questions about the final destination of the sales proceeds that, if true, may indicate embezzlement of government revenues. However, the real problem was that the sales procedures themselves were flawed. By selling at prices that did not adjust to market conditions, some buyers were able to purchase maize at below market prices. Preferential access to cheap maize from national stocks likely created unethical conflict of interest, but a clear case of corrupt practices may be difficult to prove. Finally, only 26,711 tons of the approximately 167,000 tons in the SGR were exported. Thus, the bulk of maize in the strategic grain reserve was sold locally and was available for local consumption in 2001.

3. The current crisis was NOT primarily caused by drought or flooding.

Although Malawi did suffer a mid-season dry spell in the Central and Southern regions that reduced yields somewhat, the fall in production was mostly due to other factors. Blaming the current woes on "severe drought" or "devastating floods," as some assessments and press releases, is clearly an exaggeration.

4. The current crisis is NOT a unique, "once-in-a-generation" occurrence.

Malawi is a maize deficit country and shortfalls are increasingly inevitable despite the long-standing policy bias towards maize. Without changes in current policies, the current crisis will undoubtedly be repeated in future years. A clear cyclical pattern of maize deficits and occasional surpluses has emerged that demands concerted action by the Government of Malawi.

So what was the cause of the current crisis?

The current crisis is the result of low domestic production during the 2001/02 growing season and the possibility of a limited response by both the public and private sector in importing maize to meet domestic needs. Annual consumption is (crudely) estimated at 1,980,000 MT, while production this year was 1,376,000 MT. In the south and central, a mid-season dry spell did reduce maize yields somewhat. But maize grain production was also lower because of early harvesting of green maize for immediate consumption. Plus area planted to maize has been declining and fertilizer use is still low. Finally, the 2001/02 harvest also followed a mediocre 2000/01 production year.

But, national food availability is only part of the story. Clearly there is a food access problem as many deficit rural households lack the purchasing power to buy adequate food from the market at current prices. Food access is inexorably linked to availability through the price mechanism. All other things equal, a household's ability to access food declines when prices rise. In the 1990s, Malawi had a "maize deficit" in seven of the ten years. And, simplifying a bit, when a country is deficit, prices rise to reflect import parity. Thus, the price increases we have seen the past year are likely an increase from an abnormal "surplus" situation where prices reflected export parity, to one where they reflect import parity. In fact, there seems to be mounting evidence that consumer maize prices are returning to what can be considered "normal" after being abnormally low that last couple years. The implication is that the current maize crisis is a continuing, structural problem.

So Malawian's 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. 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 only way off this poverty treadmill.

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, the Government, Ministry of Agriculture and donors provide direct and indirect incentives that perpetuate the emphasis on maize production. The roots of this policy date back to the 1960s. What is the only crop that the GOM still offers guaranteed producer prices? Maize. What seeds are distributed in Starter Packs? Mostly maize. What crops have donors emphasized in their food security programs? 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 is very volatile, with wide price swings. Why? At least part of the volatility is due to lack of private sector action in bringing in supplies from outside the country when prices go up. And the private sector is unwilling to do so because of the uncertainty how parastatals plan to intervene in the market. Uncertainty about what ADMARC and other parastatals may do paralyzes the private sector.

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 Malawian's 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 unwillingly to respond as long as parastatal actions create an uncertain environment for investment.
3. Re-define 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 is not enough. Malawi needs a better system for identifying areas of the country that are 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.