

1.6 The Malawian experience in maize price stabilization

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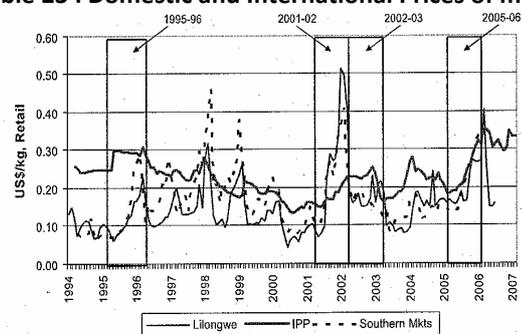
Summary

What has been done? Malawi has a long tradition of intervention in maize markets that dates back to the colonial period, was pursued after Independence and continued through the mid-1980's: pan-territorial and pan-seasonal prices, subsidization of fertilizers. After a liberalization period from 1987 to 2000, during which the Agricultural Development Marketing Corporation (ADMARC) was privatized, maize fertilizer subsidies and licensing requirements for traders were removed and the government once again started to intervene through a vast program of input subsidies and the reinforcement of ADMARC.

How has it been implemented? The Malawian government, which controls all formal maize imports, greatly influences maize trade policy. The main criticism of this policy concerns the unpredictable and discretionary nature of government decisions, such as sudden imposition of trade restrictions, import bans and changes in tariff rates. Ad-hoc governmental operations tend to increase risk and discourage private trade initiatives. They also often exacerbate food crises, driving the cost of food staples well beyond import parity price.

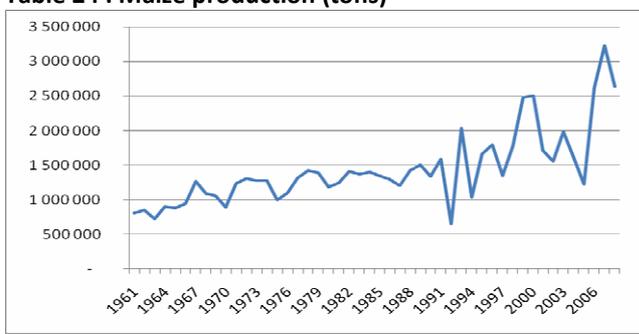
What are the effects? During the 1983-1993 period, the implementation of a policy package combining ADMARC's intervention on the grain market; seed, fertilizer and credit delivery; extension services; and rural infrastructure development resulted in positive effects on yield and production growth. More recently, growth in maize production has been striking. It is still too early to understand what is driving this trend. Favorable climatic factors may be at play. The free seed and fertilizer programs of 1998 and the Agricultural Input Subsidy Program in place since 2005, combined with stronger ADMARC's initiatives to guarantee producer prices and price ceilings at retail, may also be behind the increase of maize production. Domestic maize prices appeared to be more volatile than international maize prices during the 1994-2007 period. However, as soon as floor (and ceiling) prices were known, and other producer supports such as those on seed, fertilizer and credit were provided, producers took favorable decisions on farm investment.

Table 23 : Domestic and International Prices of maize



Source: Tschirley and Jayne (2009)

Table 24 : Maize production (tons)



Source: FAOSTAT

What recommendations could be derived? Maize price stabilization is only one component of Malawi's agricultural policy. Maize production growth is the result of a technical package that includes high-yielding varieties, fertilizer and technical advice. However, the unpredictable and discretionary nature of the price stabilization policy has weakened the policy's legitimacy. To be legitimate, the policy must be predictable and include a consultative process with key stakeholders. The choice of pan-territorial producer prices in such a long country leads to some difficulties and inefficiencies in remote areas. Some actors in Malawi are currently experimenting with market-based instruments, but it is too early to assess their impact.