Agriculture is of key importance for the economy of Malawi. In 2011, the sector represented 30.6 percent of the total GDP and agricultural exports generated 75 percent of foreign exchange earnings. Around 90 percent of the population depends on agriculture for their livelihood.

Maize is Malawi’s main staple food, and policy interventions throughout the last decade have largely targeted the maize sub-sector. Food security is largely defined in terms of availability of, and access to, maize. From 2005 to 2010, policy measures for maize included input subsidies, export bans, private trade bans and minimum prices set by the government. Tobacco is the country’s most important export crop and is almost entirely produced by smallholder farmers. Other key exports include tea and cotton.

The Agricultural Sector Wide Approach (ASWAp) is the Government of Malawi’s main strategy document for the agricultural sector. ASWAp aims at achieving food security primarily through increased food availability, increasing the value added of agricultural products, promoting diversification and building better rural infrastructure.

Despite a volatile policy environment, disincentives for agricultural production in Malawi were reduced between 2005 and 2010. Increased investment is needed to achieve other ASWAp objectives and generate sustainable agricultural growth.

From 2005 to 2010, policies contributed to increasing food production and achieving self-sufficiency for maize - the main source of calories for Malawi’s population. MAFAP analysis shows that maize producers are increasingly protected. As a result of input subsidies and price policies, both yields and total production have reached record highs. However, sustainability remains a concern since Malawi’s Farm Input Subsidy Programme is a heavy burden for taxpayers and makes up 16 percent of the government’s total budget. This limits investments in other sub-sectors and thereby reduces market access costs for producers in other value chains.

Malawi’s main export value chains are relatively efficient: prices received by producers generally follow international price trends and levels of protection are close to zero. However, overvaluation of the local currency in recent years has been harmful to producers of the main export commodities. If overvaluation had not occurred, producers would have been able to obtain higher prices. However, in May 2012, Malawi reformed its exchange rate policy and floated the Malawi Kwacha against the US Dollar. MAFAP will monitor the effects of this change in policy.

**Price incentives**

*Domestic prices are converging with international prices. Disincentives are decreasing for producers of food security related crops. However, ad hoc policies and a lack of infrastructure create obstacles for producers and consumers.*

From 2005 to 2007, Malawi’s agricultural sector did not receive adequate support and, on average, farmers received prices significantly below international reference prices. Furthermore, while producers of export commodities received prices almost equal to international reference prices, producers of staple foods did not have adequate support and thus the gap was much larger.

**Figure 1. Average deviation of producers’ prices from world prices (by major commodity groups)**

Note. The bars measure the percentage deviation of producers’ prices from the prices in world markets (reference price). Exports include tobacco, tea, groundnuts and cotton; Commodities important for food security include maize, cassava and milk.

(Source: MAFAP)

Between 2008 and 2010, the situation changed significantly. Though prices received by farmers of food security related
crops were still below reference prices, the gap was reduced. This is particularly true for maize farmers who received positive price support from 2008 onwards. For exports, the level of support decreased slightly, but producer prices remained firmly connected to international prices.

From 2005 to 2010, deficiencies in commodity value chains and the overvaluation of the local currency increased the gap between domestic and international prices by 25 percent. Indeed, farmers in Malawi would have received better prices if these issues had been addressed. This figure also shows that the exchange rate has had a negative impact on producers of exported products, especially tobacco.