During 2012, the Southern African Confederation of Agricultural Unions (SACAU) partnered with the Food and Agriculture Organization of the United Nations (FAO) to review how agricultural investment in southern Africa is rising from 37% in 2003 to 77% in 2009, with an average of 58% for the whole period. Government puts around 60 – 70 percent of its agricultural funding into subsidising yield-enhancing inputs for smallholder staples. However, smallholders also invest in fixed assets, but at very modest scale. Indications are that when they do, they appear to prioritise non-agricultural equipment and structures over farm assets. Most invest in permanent houses, with those growing tobacco also having radios, mobile phones and chairs and sofa sets. Since the 2009 survey, new asset types added include bank accounts, cell-phones, satellite receivers/dishes and treadle pumps.

What Does Malawi Invest In?: Malawi spends most of agricultural funding on consumables, especially fertilisers. Table 1 shows fertilisers domination of national imports, rising from 37% in 2003 to 77% in 2009, with an average of 58% for the whole period. Government puts around 60 – 70 percent of its agricultural funding into subsidising yield-enhancing inputs for smallholder staples. However, smallholders also invest in fixed assets, but at very modest scale. Indications are that when they do, they appear to prioritise non-agricultural equipment and structures over farm assets. Most invest in permanent houses, with those growing tobacco also having radios, mobile phones and chairs and sofa sets. Since the 2009 survey, new asset types added include bank accounts, cell-phones, satellite receivers/dishes and treadle pumps.

Among agricultural fixed assets, the major capital item owned by rural household is the hand hoe followed by the axe; only a few own ox-carts, treadle pumps, ridgers, tractors, water cans, cars, wheelbarrows and shovels, sprayers and bicycles. Some tobacco farmers also improved seeds; this is highly publicised internationally. In the sense that the subsidy programme and smallholder focus has led to maize surpluses, it has been successful; it has satisfied the top political ambition of feeding the average 1.5ha; they also keep livestock such as cattle (oxen inclusive), goats, donkeys, rabbits and ducks;

- Seventy percent of farmers rent extra land – on average 1.5ha; they also keep livestock such as cattle (oxen inclusive), goats and pigs, donkeys, rabbits and ducks;
- Nine out of ten farmers hire labour either permanently or by season or by activities or all the three forms;
- Half the interviewed farmers have invested in income generating activities.
- An increasingly important but not easily valued investment is in land conservation; by 2009/10 there were nearly 260,000 ha under conservation farming.

Smallholders also have access to non-public finance: those growing tobacco often get seasonal bank loans if they are grouped. A Malawi Rural Finance Company also focuses on agricultural and related rural enterprise funding. Some large tobacco companies (Alliance One, Malawi/Africa Leaf, Premium TAMA, Limbe Leaf and JTI) have since 2007/8 also offered loans for inputs and working capital to smallholders.

What Needs Follow-Up?: The subsidy-induced increase in Malawian maize productivity to about 1.9 tons/ha still leaves the country well below the developing country average of about 3.5 tons. Malawi must therefore continue to sustain invest efforts. The following also need consideration:

- The subsidy-induced success of maize needs to also occur for higher-value farm produce which can uplift incomes faster but such efforts should preferably be less heavily supported by government so as to create

Malawi’s Success: Malawi’s agricultural policy has succeeded in terms of its achievement of consistent maize surpluses as a result of subsidies for fertiliser and improved seeds; this is highly publicised internationally. In the sense that the subsidy programme and smallholder focus has led to maize surpluses, it has been successful; it has satisfied the top political ambition of feeding the people. With the subsidised inputs, maize yield has increased 72 percent over the review period from an average of 816kg/ha to 1500kg/ha. The success has been founded upon smallholders: since about 2005, Malawi has been allocating over 10 percent of its government budget to agriculture, almost all of it directed at small-scale farmers. The success notwithstanding, smallholder agriculture continues to rely too heavily on hand-tools, with “modernisation” being largely limited to greater use of fertilisers and improved seeds. Poverty levels also remain high.

At the same time, some corporate disinvestment is occurring among large farms. Long-established companies, especially in tobacco are downsizing or closing (Figure 1), partly due to burley tobacco growing being opened up to smallholders, to increased costs of production, and to low market prices. For estates producing staple maize, it is claimed that they cannot compete on costs with the heavily subsidised smallholders. The estate sector has for some years now been operating partly clandestinely, camouflaging as smallholder clubs in order to avoid some taxes. However, since 2009/10 smallholders are also equally taxed so a fuller picture of its operations is again more possible. Nevertheless, some new large-scale investment is also occurring – for example, agriculture took some 11 percent of total approved foreign direct investment certificates in 2011.
a stronger tradition of self-financing among smallholders. Stabilisation of markets might be required to make this work so that that production success is not punished by price collapse as happens when the market is too fully liberalised:

- The decline of large farms cannot be a good sign; balance between large and small farms offers Malawi more options in dealing with regional and global markets;
- Farmers need to make a profit and this should be seen in upward economic mobility of recipients of subsidies. Malawi needs to answer the question of and act on whether smallholder farmers are really principal winners from subsidies or if instead greater rewards are going to their input providers and buyers of their produce; and
- For “investment” to be taken seriously, it needs to help farming go beyond the back-breaking work dependent on the hoe and axe alone. A subsidy approach focused exclusively on consumable inputs is unlikely to achieve this change.

Box 1: Who Benefits Most from Subsidies?

Government makes a major sacrifice in offering subsidies as heavy as in Malawi at present; they also divert resources from other priorities and therefore may also be a sacrifice for society. It is therefore important to be sure that the benefits of such “investment” are really going to the smallholder farmers whom society believes to deserve such special attention. Politicians speak as if smallholder farmers are the sole beneficiaries of farm subsidies, but is this in fact true in practice?

In Malawi the SACAU/FAO study was unable to get information on whether the inputs subsidisation is generating profits for the farmers. Casual observation does not show that farmers are rapidly growing rich; instead, they continue to need the subsidy year in, year out. It is also not clear whether as a result of being subsidised, farmers can now re-invest faster in fixed capital formation than without subsidy and thereby lay a foundation for more productive and sustainable agriculture.

What appears to be happening is that providers of agro-inputs on one side and buyers of farm produce on the other may be gaining more and so achieving more capital formation than the farmers themselves. These others are building shops, buying vehicles etc while the farmers are stuck with the hand-hoe and repeated need for annual subsidy handouts from government. This needs investigating.

SACAU and FAO have jointly sponsored a review of agricultural investment approaches in Malawi, South Africa and Zambia. This note has been derived largely from the MALAWI CASE STUDY “Comparative Experiences in Agricultural Funding for Investment to Enhance Agricultural Production and Productivity”.

By Ian Kumwenda, ANAMARC Consortium, Private Bag 107, Lilongwe, Malawi. iankumwenda2003@gmail.com, anarmac@yahoo.com

It has also drawn upon the REGIONAL SYNTHESIS REPORT “Agricultural Investment - Approaches and Country Experiences of Malawi, South Africa and Zambia”. By Mafa E. Chipeta (Study Coordinator), P.O. Box 51610, Limbe, Malawi. emchipeta@gmail.com

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During 2012, the Southern African Confederation of Agricultural Unions (SACAU) partnered with the Food and Agriculture Organization of the United Nations (FAO) to review how agricultural investment in southern Africa is going and what lessons can be drawn for the future. South Africa was chosen alongside Malawi and Zambia for first study of funding for on-farm agriculture (value added processing, marketing, fisheries and forestry being excluded). The review was largely a desk study mainly for the period 2005 to 2010; it was supplemented with limited interviews of key informants and small samples of farmers in the Lilongwe district to get a sense of farmers’ own investments. Given its importance in the country, much focus was given to private sector agricultural expenditure, which is dominated by commercial farms. Despite its difficulty, however, efforts were made to look at emergent black farmers, whose success is an important political goal.

South Africa’s Agricultural Success: South Africa (like Malawi and Zambia) is a surplus producer of maize but it is also prominent continentally for horticulture including fruit, for which it is Africa’s major exporter. The success is founded on some 40,000 mostly white-owned commercial farming units which have through applied research and improved farm management nearly doubled agricultural production during the past 30 years. Agriculture contributes about R30 billion annually to exports. By contrast, some 1.3 million mostly black small scale farmers in South Africa are being assisted by government but with limited success. South Africa’s success is lopsided in that commercial farming output is rising from mechanisation and farm consolidation yet labour employment is rapidly decreasing - the number of commercial farmers fell from 128,000 in 1980 to just under 40,000 at end of 2011 and are expected to decline further to about 15,000 in the next 15 years.

When it democratised, South Africa committed itself to uplifting small black farmers. Policy and strategy changes were effected but, perhaps because economic liberalisation simultaneously removed larger public support to agriculture, these smallholders are struggling and remain marginal to the agricultural sector. The smallholders face skills deficiencies, lack of market access, insecure land tenure and many other shortcomings.

Who Invests?: In South Africa, all funding is considered, about 88 percent of annual agricultural expenditure goes into consumable goods and services; this ratio falls only a little to just above 70% when accumulated capital fixed asset investment is properly depreciated and added on. The private sector does about 60% of agricultural investment – some 70 companies associated with the Agricultural Business Chamber (ABC) have a turnover of R150bn per year; only about 5% of investment is abroad. By the early 2000s commercial banks dominated agricultural credit (R12.2 billion annually), followed by private persons (R6.2 billion), the (government) Land Bank (R5.4 billion) and co-operatives (R3.3 billion), investment – some 70 companies associated with the Agricultural Business Chamber (ABC) have a turnover of R150bn per year; only about 5% of investment is abroad.

By the early 2000s commercial banks dominated agricultural credit (R12.2 billion annually), followed by private persons (R6.2 billion), the (government) Land Bank (R5.4 billion) and co-operatives (R3.3 billion). With the deregulation of agriculture, some cooperatives converted to agribusiness companies which now own the grain silos first built with government support. These large companies offer the following to farmers: production loans, crop insurance, hedging input costs (such as diesel), personal farmer financial planning, field extension personnel. Four commercial banks (Standard Bank, First National Bank, ABSA and Nedbank) actively invest in agriculture but also provide the following other services: loans, savings and investment products; technical support; agricultural insurance; trade and risk solutions; and services to Black Economic Empowerment (BEE) for emergent farmers.

Government investment in agriculture focuses on public goods such as research but progressively attends little to commercial farming, focusing instead on emergent small farms. It does this through five main programmes: Ilema/Letsema campaign (promotion of farming); Micro Agricultural Financial Institutions of South Africa (MAFISA) – to offer accessible financial services; Recapitalisation Programme (providing tractors); Comprehensive Agricultural Support Programme (CASP) – to offer post settlement support services to those given land; and Farm Equity Schemes (FES) - to reactivate selected schemes. A key feature of government support is that efforts are somewhat dispersed, unlike before democratisation, when farmers could count on structured entitlements rather than ad hoc project interventions. Financial Development Institutions are public (parastatal) corporations, among which the following are active in agriculture: Industrial Development Corporation (IDC); Land Bank; and Development Bank of Southern Africa (DBSA).

What Do Commercial Farmers Invest In?: The value of capital assets in agriculture as at 30 June 2011 is estimated at R234.1bn as against R220.9bn at the end of June 2010—an increase of 6.0%. Land and fixed improvements constituted R138.1bn, machinery and implements R42.8bn and livestock R53.3bn of the total value of capital.
assets. In the case of machinery, implements and vehicles, investment increased by 5.5% and amounted to R6.9 bn. The livestock inventory rose by R468.0mn from the previous year. Expenditure on intermediate goods and services during 2010/11 is estimated at R79.4bn, which represents a rise of 10.4% from R71.9bn in 2009/10. Large increases occurred in expenditure on dips and sprays (20.5%), packing material (20.2%), farm services (18.5%) and seed and plants (18.0%). Expenditure on farm feeds remained the biggest expenditure item, accounting for 22.5% of total expenditure, followed by 14.4% for fuel, 12.9% for farm services and 10.6% for maintenance and repairs of machinery and implements.

What Do Smallholders Invest In?: Some 30-50% of investment into small scale farming is by the government through various programmes implemented by different ministries. In addition, small scale farmers do invest own savings in agriculture; they have challenges in meeting the criteria of the lending institutions but one bank has established a R250mn Black Business Incubator Fund - for equity participation or a combination of debt and equity. About 90% of the interviewed small scale farmers raise beef cattle as they perceive this enterprise to be less risky than crop production. Apart from most expenditure being on consumables, small farmers invest in livestock, tractors, bakkies and farm implements to produce pastures for supplementary feeding. Some include recreational activities and bed / breakfast guest houses (as commercial farms do) in their farms as another source of income. Farmers have built in their farms, in a localised Free State (Mangungu environs) survey, it appears that overall, the land and improvements on it get top priority (over half the fixed investment); machinery follows (a quarter); and the last is farm livestock (over a fifth of fixed investment).

What Challenges Are Continuing ?: South African commercial agriculture is in permanent transformation, mechanising rapidly and shedding jobs; it may have challenges but these pale compared to those of emergent small farms, who have little capacity for self-uplifting. Key among these is that they cannot make it if they have to compete in a fully liberalised market where the large farms also sell – this means they cannot be profitable enough to easily attract private investment. A key policy need to unlock investment into them is public policy to make the playing field more fair and level, most likely with market intervention/partial segregation being the most effective point of entry.

Organising government support more seamlessly backing from donation of land to capital investment and funding for critical working capital, apart from skills development may also be necessary before investment can work. This may mean government support should be more structured and institutional (as before democratisation) rather than being packed into dispersed projects. To underpin all this, there must be more systematic and complete data on the emerging farmer sector, presumably through their organisations so as to reduce unit costs of data gathering.

### Box 1: Changing Nature of Government Support to Farmers

**South African** government farm support has been revolutionised, ironically to the unintended apparent disadvantage of smallholders: before democratisation and liberalisation, there was structured and institutionalised support to settler farmers, many of them of commercial scale which therefore enjoyed predictable subsidies for infrastructure, for loans, response to disasters etc as well as government stabilisation of prices and protection from strong external competition. Upon democratisation, to accelerate entry of small black farmers into the sector, government offered them land free and some operating capital. However, agricultural trade was liberalised and the small had no chance in a shared market; also, most other support to emergent farmers became ad hoc rather than the institutionalised entitlements enjoyed by settler farmers in pre-democratic years. The emergent farmers are stagnant and policy breakthrough appears essential to change this.

Indeed the country case study report remarks that “While the government support to small scale farmers . . . had all the good intensions of addressing the previous imbalances, it however resulted in unintended consequences. It created a dependency syndrome, where farmers keep on coming to the government every year demanding financial support. Despite all the government support, very few farmers have succeeded . . .”

SACAU and FAO have jointly sponsored a review of agricultural investment approaches in Malawi, South Africa and Zambia. This note has been derived largely from the SOUTH AFRICA CASE STUDY – “Comparative Experiences in Agricultural Funding for Investment to Enhance Agricultural Production and Productivity”. By Zimbinia Mdlulwa, Agricultural Research Council, 1134 Park Road, Hatfield, Pretoria, 0001 South Africa mdulwaz@arc.agric.za

It has also drawn upon the REGIONAL SYNTHESIS REPORT “Agricultural Investment - Approaches and Country Experiences of Malawi, South Africa and Zambia”. By Mafa E. Chipeta (Study Coordinator), P.O. Box 51610, Limbe, Malawi. emchipeta@gmail.com

There are also case study reports for South Africa and Zambia. Copies of the above reports and summary information leaflets can be obtained from:

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During 2012, the Southern African Confederation of Agricultural Unions (SACAU) partnered with the Food and Agriculture Organization of the United Nations (FAO) to review how agricultural investment in southern Africa is going and what lessons can be drawn for the future. Zambia was chosen alongside Malawi and South Africa for first study of funding for on-farm agriculture (value added processing, marketing, fisheries and forestry being excluded). The review was largely a desk study mainly for the period 2005 to 2010; it was supplemented with limited interviews but most important with data from published household surveys. From this source, the Zambia case study was able to offer the fullest (even if also incomplete) estimates of rural fixed-capital investment.

Zambia’s Agricultural Success: Like Malawi, Zambia’s success is in being able to consistently feed its people using “investment” that consists largely of expenditure on subsidising consumable inputs, especially fertilisers for maize. Zambia in addition runs a public Food Reserve Agency and controls consumer prices for maize. Zambia’s commercial farmers are excluded from public subsidies; for failure to compete with subsidised smallholder maize production, large farms have focussed on higher-value crops, such as horticulture. Selective subsidies have thus redefined duality beyond mere farm size to also type of produce.

What Zambian Smallholders Invest In: Just as in Malawi and South Africa, Zambian agriculture spends more on consumable inputs than on fixed-capital investment. Around 60 – 70 percent of government funding (Figure 1) goes into subsidising yield-enhancing inputs for smallholder staples so strengthening the consumables dominance of agricultural spending.

Figure 1: ZAMBIA – Breakdown of Public Investment into Crops Subsector

Source: SACAU/FAO study sub-regional synthesis report, Figure 3

The Fixed Assets Smallholders Invest in: government covers the cost of much consumable input. Although farmers also spend on this, they also invest in fixed capital assets, including an annual average investment in equipment per household equivalent to US$150. The farm technology appears to be higher than the extreme hoe and axe dominance of Malawi. The preferences that emerge show that rural people appear to prefer spending on non-farm-specific equipment over farming fixed assets, as follows:

a. Zambian rural people (not just farmer households) invest most in structures and improvements (unfortunately investment in land itself was not reported upon), some 72% of the recorded fixed investment;

b. For their investment in machinery, which comes far behind at only 8% of all surveyed fixed investment, the most important is NOT agricultural machinery but multipurpose machinery and equipment – of which “cars” are equally dominant with “electrical and electronic household machinery and equipment”;

c. At only about 4 – 5% of surveyed investment, rural peoples’ investment in agricultural machinery and equipment is a distant fourth.

Furthermore, of the 19 types of equipment reported upon as being invested in:

a. of the top ten equipment categories (in value), only two were farm-specific (tractors, disc ploughs). Four were transport equipment (trucks, truck/trailers, motor cycles, scotch carts); two were for value addition (hand and motorised hammer mills);

b. only three farm-specific items (rippers, tractors, cultivators) and three agricultural value added items (hand and motorised hammer mills, shellers) were in the top ten in terms of fast increase in purchases of equipment between 2004 and 2008. Six were not specifically for on-farm use - three being transport equipment (trucks, truck/trailers, motor cycles);

c. of the four equipment types for which demand was falling fast, three were farm equipment, the fourth (water pumps) was multipurpose and it had the slowest fall in demand.

What Needs Follow-Up?: Zambia’s success is important for the country economically and politically. In focusing on smallholders very exclusively, however, government may be locking them into low-value agriculture and into dependence on unending handouts, leaving high-value production only to commercial farmers. This may call for a re-look at policy. Furthermore, Zambia may usefully consider the following for future attention:
a. The intervention of public funding both in on-farm production and consumer prices creates a market which necessarily kills the profit motive for unsubsidised producers for staples – absence of profits means the incentive to invest is transferred from farmers to government;

b. Although more complete than for Malawi, the other smallholder country, Zambian smallholder information on investment could benefit from being more systematic and from covering all assets from the land itself to value-added segments of the agricultural value chain. Equally complete data are needed for the commercial farming to give a full picture of the sector. The substantial reporting on government funding needs to be complemented by what both large and small farmers/value-chain actors themselves invest, whether from their savings or from borrowed capital. This is the only way to assess if business is healthy – willingness to invest rather than ability to receive free public funding reveals better the responsiveness to market opportunities;

c. As in both Malawi and South Africa, the fixed-asset investments of rural people and smallholder farmers go beyond agricultural assets – funding schemes should not pretend that only farming assets are of interest. Pretense can cause farmers to borrow nominally for farming but then divert funds to what they value more. This confuses economic messages to the public or private lenders.

SACAU and FAO have jointly sponsored a review of agricultural investment approaches in Malawi, South Africa and Zambia. This note has been derived largely from the ZAMBIA CASE STUDY – “Comparative Experiences in Agricultural Funding for Investment to Enhance Agricultural Production and Productivity”. By Derrick Sikombe, Ministry of Agriculture and Cooperatives, Lusaka, Zambia. d_sikombe@yahoo.com

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Agricultural Successes

Delivering impacts an important sign of success in agricultural modernisation. South Africa and Zambia are predominantly urbanised and many more farmers are making little or no progress.

In the case of tobacco, which faces serious constraints due to its dependence on inputs, such as fertilizers, there have been efforts to improve the situation. In Malawi, the government has implemented policies to support tobacco farmers, including providing inputs and technical assistance. In South Africa, the government has also provided support to tobacco farmers, but the level of support has been lower than in Malawi.

SACAU and FAO have jointly sponsored a review of agricultural investment approaches in Malawi, South Africa and Zambia, the substantive reports from this study comprise an early work in progress.

The report has been widely adopted and is expected to yield a diversity of lessons for other regions.

INVESTING FOR SUCCESSFUL AGRICULTURE

The partner countries have been able to achieve this. South Africa has a mining economy with a large informal sector, which is expected to yield a diversity of lessons for other regions. Zambia, on the other hand, has a manufacturing economy with a large informal sector, which is expected to yield a diversity of lessons for other regions.

SOUTH AFRICAN INVESTING FOR SUCCESSFUL AGRICULTURE

KwaZulu-Natal Province offers a large-scale, well-developed agricultural sector, which is expected to yield a diversity of lessons for other regions.
formation. In view of a high consumables ratio
In all three study countries, most capital appears to
Agriculture Spends Mostly on
SHARED PATTERNS IN MALAWI, SOUTH
exhaustive but they yield some pointers which  Subsidies to the depth they are applied in Malawi
to sensible into agricultural technological progress and
deserving special attention.

doing this. To find out how prevalent this
consumable inputs: what is special though is that dominated also by consumable expenditures on
and Zambia is not abnormal in emphasising that even in South Africa, agricultural spending is
and private funding is combined, it also ends up

case of Zambia, government also subsidises
By deliberate public policy
This issue requires further and liberalisation, there was structured
consumables/inputs" subsidies are
black farmers into the sector wasInstead, the fixed-capital formation
rather than the institutionalised
farmers are stagnant and policy
change this.
FOLLOW-UP

c. Attention not just to consumable inputs but also

Farmers get enough not just for full

Continuing challenges for follow-up

Southern Africa remains challenged in agricultural
implies additional support or off-farm investments

provide evidence of a counter factual scenario in

The Challenge of Information: An Important

The challenge of information is an important

for the farmers, every one needs to know what is

So, the target of this study

in the case of both

c. In the case of both

and Malawi; in the case of Zambia, it is a

information is needed on status and trends of

This is not an isolated phenomenon and

In Malawi, it is possible to segregate

and Zambia, but not for the "settler" farms.

in the case of Zambian farmers, as they may be

emerging farmers: the level of support has yet

emergent farmers: their support structures

At the end of the day, this could result

Successful funding models are an

and breakfast enterprises: i.e. in assets to bring in otherwise farmers will divert agricultural funding to

In Malawi and Zambia, smallholders appear to prefer spending on non-farm-

In South Africa, government has clearly failed to

The Picture for Zambias

The African Development Bank Information for

Agricultural information systems are

importance is that it is

In South Africa, it is also

classical development projects do not succeed

Sustainable agricultural development for

This is also not enough that these farmers' yields,

beneficiaries of agricultural development and

Agriculture Spends Mostly on

Democratic countries, the agricultural sector

consumption – the great green and white food

Agriculture Spends Mostly on

relationships. In South Africa, whilst

together with a proportion of their

these commodities are in those situations

Nevertheless, the only ones that also stand out more above 100% in expenditure on consumables are: (i) inputs - because a large proportion of such expenditure goes to fixed capital; (ii) a large amount of information and extension services; (iii) a significant portion of this is devoted to the production of meat; (iv) investments in the establishment of irrigation schemes; and (v) substantial investment in livestock. These commodities are in those situations that South Africa needs more investment and Zambian farmers from the problems of cattle, crops and livestock. However, the presence of the same commodities in South Africa does not mean that they are more significant in the Zambian case. Interestingly, livestock in South Africa is an important proportion of agricultural investment but in Zambia, it is not. There is a much larger emphasis on agriculture in South Africa compared to Malawi. Finally, the impact of agricultural investment on maize and cotton declining is also much greater in South Africa. However, the picture for South Africa does not mean that it is not affected by agricultural investment, but that more investment is needed.