

# The Political Economy of Food Price Policy in MALAWI

Policy Brief No. 6

March 2013

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Although the country experienced sustained price increases in several crops, the government's policy responses were directed only to maize.

The government's policy responses to the 2007/2008 global food price crisis included (1) price controls on maize; (2) restrictions on domestic maize trade; and (3) a ban on maize exports. This focus on maize illustrates the crop's political significance in Malawi. The legitimacy of a regime is closely linked to the question of food security, principally defined in terms of accessibility and availability of maize at national and household levels.

Price controls were enforced through the implementation of a price band, which dictated the price floor and ceiling for buying and selling maize. The price band was established by the Ministry of Agriculture and Food Security (MoAFS) at the instruction of State House when media reports highlighted the apparent paradox of abundant maize and high prices. During 2007/2008 Malawi reportedly registered a historic maize surplus, in the wake of the launch of the Farm Input Subsidy Program (FISP) in 2005/2006, yet maize prices kept rising.

The price band did not work. It was set lower than the prices prevailing in the markets, and the Agricultural Development and Marketing Corporation (ADMARC) and the National Food Reserve Agency (NFRA) failed to perform their price stabilization function following the implementation of the price band because of the weak

financial position of ADMARC and excessive political interference in the NFRA decision-making processes.

At a political rally in August 2008, the president announced domestic trade restrictions on large maize traders. This policy was justified as a strategy to deal with traders' tendency to hoard maize so as to create artificial scarcity from which they could benefit in the form of high prices. These traders were condemned as allies of the opposition political parties who were bent on undermining the legitimacy of the government so that it could be ousted in the May 2009 elections.

## The domestic trade restrictions did not last long.

The restrictions were relaxed barely a month later, following a fierce lobby effort by the Grain Traders Association of Malawi (GTAM), most of whose members have close political connections. They were modified to allow large-scale maize traders to be involved in maize trade upon being licensed and agreeing to trade within the price band. This arrangement was exploited as an opportunity to license only those who were politically connected. Those traders then continued to benefit from high maize prices because, as explained, the price band did not always work.

## An export ban was introduced in April 2008.

The government was apparently reluctant to impose an export ban on maize because doing so would undermine the grand success narrative of the FISP. It

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The authors prepared this brief as members of a research network on the Political Economy of Food Price Policy coordinated by Cornell University, UNU-WIDER, and the University of Copenhagen.

The complete paper is available at: [http://www.wider.unu.edu/research/current-programme/en\\_GB/Political-Economy-of-Food/](http://www.wider.unu.edu/research/current-programme/en_GB/Political-Economy-of-Food/)

The policy briefs can be found at: <http://www.foodpolicy.dyson.cornell.edu>

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was, however, forced to do so because of media pressure, which was being exploited by opposition political parties with less than a year to go before elections.

The ban was introduced at the time when the government had agreed to export 400,000 metric tons of maize to Zimbabwe. Although the export ban remained in force until August 2010, politically connected traders continued to export maize to Zimbabwe. GTAM and some donor agencies—notably the U.S. Agency for International Development and the International Monetary Fund—protested the ban. They argued that it was retrogressive because it undermined Malawi's commitment to economic liberalization reforms. Other international agencies reportedly did not engage as much with the government's policy responses to the 2007/2008 global food price crisis because they were afraid of committing another gaffe. Most of them had fiercely opposed the implementation of the FISP, which had turned out to be a huge success.

### Consumers were the main losers.

Maize consumers bore the brunt of the government's ineffective policy responses to the 2007/2008 global food price crisis. The policy responses were also costly to the government. Both ADMARC and NFRA incurred the heavy cost of maintaining stockpiles of maize that were in some cases five years old because of nonstrategic decision making influenced by State House in pursuit of political objectives. The main winners were politically connected maize traders, who continued to export maize despite the ban and profited from prices as high as MK 90 per kilogram in most domestic markets.

All three major policy responses—price controls, domestic trade restrictions, and the export trade

ban—were motivated by the government's desire to maintain some semblance of food availability at all times. The main preoccupation was to fend off any perception that food was scarce or unaffordable to the majority of smallholder farmers and consumers.

### The presidential influence is pervasive in matters of food policy and pricing.

In Malawi the legitimacy of a regime is closely linked to its ability to make maize available to the people through either subsidized production or affordable prices in the market. Thus, although policy debate and dialogue relating to food security have become more open, the process is still unclear, dominated by presidential interventions, and highly motivated by electoral politics and considerations.

The study makes the following recommendations to deal with the inherent challenges in the food policy processes in Malawi:

- Improve the estimates of the national food supply to effectively guide policy interventions.
- Clarify the roles of NFRA and ADMARC to eliminate inherent institutional rivalry between the two.
- Depoliticize the management of ADMARC and NFRA to ensure that they are able to make independent, competent, and strategic decisions.
- Improve national capacity for implementing and monitoring policies so that these policies can achieve their intended strategic objectives.
- Empower various stakeholders in the food policy process to ensure an effective system of checks and balances.

## THE POLITICAL ECONOMY OF FOOD PRICE POLICY

This material is based on research funded by the coordinating organizations and a grant from the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation.



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