

**Summary of Commercialisations Workshop  
Consultation with Future Agricultures Malawi Team  
Zomba, Malawi, 9<sup>th</sup> August 2007**

**Objective:**

Jennifer Leavy visited Zomba, Malawi to consult with FAC Malawi theme members and colleagues on the framework (typology) paper on commercialisations in agriculture for the FAC Commercialisations theme.

**Agenda:**

- Input to narrative based on Malawi context.
- Questions to put to the Malawi team
- General Feedback on paper
- Report-back from Malawi team on their work on commercialisations
- Seminar at Economics Department of University of Malawi, Chancellor College

**1. Discussion: Commercialisations in the Malawi Context:**

**Policy Processes:** In Malawi's various policy documents, the term 'commercialisation' is used frequently but it is never clear what this means. While the Ethiopian case highlights preconceptions and misconceptions around what commercialisation might mean for smallholder farmers, the debate in Malawi is centred more on whether smallholder farms can lead us to what we want in terms of agricultural development. So the focus is more on issues such as farm size, and whether or not these small farmers can really make any meaningful progress in productivity. So in Malawi commercialisation is very much linked to large farms, to the neglect of smallholder farmers.

In reference to the gaps between talking about commercialisation and operationalising it, it is very difficult for government to put in place a viable policy framework for agricultural commercialisation. For this reason policy documents read like aspirations rather than guiding strategies.

Ministries of agriculture – what do they have in place to try to operationalise these broader policy statements. Policy documents – just say they want to commercialise smallholder agriculture. Policy vacuum, how do we do it?

**Food security and food markets:** All of this plays out against the backdrop of endemic food crises of recent years. If smallholder farmers are unable to feed him or herself then the argument is that it is too much to expect them to commercialise. This points to encouraging off-farm activities, there needs to be opportunities for these people farming on tiny parcels of land (0.7 ha is average landholding now in Malawi). Important too are food supply variability and fluctuating food prices. Can people in this situation afford to commercialise, even if relative prices for cash crops are much better – they still risk being food insecure but do not trust the market to provide food. Availability of food markets has been an important constraint. Over the last two seasons in particular, there have been many cases where farmers have been producing enough, but there has been no market to sell the maize.

### **Malawi's agricultural development strategy and implications for smallholder farmers:**

Historically, Malawi has followed a dual strategy, rapid commercialisation via expansion of estate sector has somehow swallowed land that smallholder farmers could have expanded into. So the focus has been very much on large farmers, with the result that smallholder farmers feel that estate sector is crowding out land space. However, it's difficult to know what smallholder farmers really think without asking them directly.

It is interesting to note the context of liberalisation of tobacco sector, with smallholders growing tobacco as export crop. There have been sporadic initiatives by some private sector companies and NGOs to promote smallholder commercialisation, for example in paprika. But the question is to what extent has that really helped? At best results are somewhat sporadic without support of coherent policy framework.

The National Association of Smallholder Farmers of Malawi (NASFAM) has been supporting commercialization of smallholder farmers, and they do have some influence these days. But their focus tends to be mostly on farmers in the middle range, because the emphasis is on empowering farmers and agriculture as a business, profit margins. This does not necessarily mean food crops: If a farmer wishes to become a member then their intention/activities centre on producing a cash crop in a 'business-like manner' i.e. farmers driven by profits. The association does not necessarily promote maize, on the assumption that if the market for food crops works, money made from sale of cash crops will buy maize.

**Smallholder farmers and food crop production:** Mainly smallholder farmers supply the food crop market, and maize is mainly a smallholder crop. But even commercialised farmers devote a fair chunk of land to maize production, one rarely finds a farmer that grows purely groundnuts and cotton, say. Tea farmers even grow maize in areas that are not suitable for maize. Some believe that if smallholder farmers move into cash crops this will stimulate demand for crops like maize with that result that larger-scale farmers will begin to grow crops like maize, on huge estates. This is the theory. Finding a balance is key – getting returns on smallholder cash cropping that will stimulate demand and provide incentives for large estates to grow maize – this is problematic. If we are talking about shifting land to cash cropping, the question then is who does produce the maize?

**Moving away from conventional 'noncommercial' food crop vs. 'commercial' cash crop dichotomies:** Based on Malawi experience, commercialisation should not be crop-specific – why not promote maize as a cash crop? Currently, only 15% of maize produced goes to the market. This contrasts with Malawi's policy documents where the thinking is moving away from maize to producing cash crops – defined as high value food crops. Given that Malawi is now exporting maize to Zimbabwe, it is clear that selling food products is commercialisation. Approximately 50% of food product is being sold.

**Cultural underpinnings of food crop production:** as noted above, it is rare to find a farmer who does not grow maize, even if that farmer is successfully growing crops such as tea for the market. Even if a farmer suffers bad yields in maize or the crop fails time and again, they will still grow it. This has very strong cultural and emotional associations. Begging for food is seen, culturally, as degrading, while not growing a food crop is perceived as putting a household at risk. People will sympathise with those who cannot feed themselves because their maize crop failed but not because their sugar cane or tea failed. Regardless of how you promote a cash crop, there is still this cultural and social attachment to growing a food crop

i.e. maize. Given these attachments, then it could make sense as a strategy to promote this same food crop as a cash crop.

**Market implications of support policies such as input subsidy programme** – for example, if all smallholders do grow maize and have a surplus to sell over and above their own consumption needs, will there still be a market for this surplus maize domestically? This may initiate diversification away from food crops in response to potential over-supply and lower prices in maize markets. Farmers who can take the risk will move away slowly into other crops. A long period of assured stable prices would be necessary for this to take place, to provide incentives to primarily those farmers with larger than average landholdings, unlike the current situation of shortages and price variability. This also assumes that the subsidy programme will be there for some time.

If productivity improves then those left in maize will supply to those who have moved out of maize. This again is what to expect in theory, but will not work out in the short term, need long term support for the subsidy, need to be sure incomes have risen enough to start scaling back on subsidy.

**Price stability:** On the whole, unwillingness to go into cash cropping is linked to lack of certainty over maize prices the next year – a farmer might be able to make money from alternative crops such as groundnuts but this might not be enough to buy them the food (ie maize) they need to feed themselves.

**PRSP implementation and experiences:** (with reference to section 6 of theme paper) In Malawi, a review of the PRSP by government itself also highlighted this problem of implementing stated policies. It might be useful to include case studies in this section. In Malawi in particular there is a multiplicity of policy documents that are overlapping - more than ever, especially compared to the 70s and 80s. This tends to lead to frequently and rapidly changing goalposts. Taking as an example, the Strategic Plan for the Ministry of Agriculture for the period 2003-2008, other policy documents do not tie in with this strategic plan. Different policy documents saying different things usually results in inconsistencies and policy incoherence.

## **2. Issues for discussion raised by commercialisations team.**

- i) Treatment of labour in the paper – should we add a typology of participation in labour markets as both buyers and sellers of labour? And from here consider household involvement in labour markets at various points along the chain? (Segmented markets: survival participation versus higher paying market segments for livelihood enhancement).**

Malawian rural labour markets – tend to be dualistic. *Ganyu* labour is casual or piece work on farms, and in most cases this type of labour is for survival and not because of transformation. The employee might have his or her own farm but a much smaller farm that means they are underemployed for most of the year, without adequate land to produce for themselves, and therefore little option but to offer their labour services to survive. The second, and more aligned with a transformation process, farmers who have larger farms might be constrained in terms of household labour and therefore seek more permanent worker on their farms.

However, this is very rare among the smallholder sector. Most employment one finds on smallholder farms is *Ganyu*.

It is highly unlikely that there are farmers who have given up farming because they want to be employed. There are those living in suburbs who take farming as part time occupation, and employ the second type of labour (longer term employee) - they would also be involved in the farming themselves, but use extra labour to expand their acreage.

Culturally, *Ganyu* labour is looked upon as ‘degrading’; in most cases people do not willingly go for this kind of work, and just about manage to survive on that kind of labour. People engaging in this kind of work are seen as being either very lazy or very poor. Payment-in-kind is also seen as much more degrading than payments in cash.

In terms of transformation, we might still be able to make an argument that commercialisation may create more opportunities for *Ganyu*-type labour, in the form of increased demand/ increased opportunities. In theory, wages would improve, with opportunities to bargain as demand for work increases. The outcome might be that such labourers would not be so desperate i.e. if all are growing maize and do have food to eat this would provide a better platform for making a living working on a smallholder farm. The recent evaluation of the subsidy program reveals that *ganyu* wages have increased as a result of increased household food security – workers are not so desperate as to accept lower wage rates.

In the context of small farm sizes, improved productivity brought about by commercialisation would help to meet food needs, release labour to work elsewhere, but give workers more power to bargain, resulting in less exploitation. Where very few households offer this type of work, then there would still be tendency for it to be exploitative, employers dictate the wages. A study in rural labour market in 2002 found more or less long term employment in estates and not among smallholder farmers, with people migrating for this large scale farm work and not to work on smaller scale farms. Maybe we can expect very little in terms of generating high quality jobs, just increased demand for *Ganyu* labour and improved wages.

- ii) **In the paper we are arguing for diverse range of commercialisations. What exactly do we have in mind here? Should we be looking at household commercialisation or should this be considered to be a multiplier of agricultural commercialisation?**

Keeping a distinction between food and non-food is not the way forward. We should be talking broadly. Even producing food in surplus is commercialisation.

Household commercialisation makes paper too broad. Are we assuming that either there are already other activities existing, or that commercialisation would lead to new activities and absorb the surplus labour? There is a problem in broadening the definition, labour market issues seem to focus more on the effects of commercialisation – and an effect of commercialisation therefore cannot be seen as part of commercialisation.

We need to ask what should commercialisation of smallholder farmers be achieving? What do we want? If commercialisation leads to surplus labour in the household then there is a need also to create conditions for non-farm activities. There is a tendency instead to look at

commercialisation as single entity and not look at complementary policies that are needed to make commercialisation and transformation process.

### **iii) How to approach the context of small farm sizes?**

The Malawi team feel that the issue of land is not given a critical enough role in terms of questions here about smallholder commercialisation. This is the over-riding binding constraint in places like Malawi with such extreme parcelling and fragmentation of landholdings – over successive generations plot sizes are getting smaller and smaller. Is there any minimum land size that enables commercialisation? Need to link this to the cultural attachment to producing for subsistence. Often farmers have no excess land over and above the amount that will serve food needs of the family. This has enormous implications for input use etc.

During the 1970s and 1980s animal traction was used widely, but we rarely see it these days. Technology like this is unfeasible given average farm sizes – as land sizes become smaller and fragmented. Fragmentation also makes use of simple technologies difficult, plots are not only tiny but also in different locations. Excessive fragmentation of land makes irrigation unviable. When farmers opt out of irrigation initiatives, they are subsequently not implemented because for this we need all farmers working together i.e. at least 10 to 20 farmers to make land big enough to do it.

Cooperatives are more marketing cooperatives, there are no production cooperatives. Need land consolidation in some way in Ephraim's opinion. Pooling would enable some level of mechanisation. It must also be noted that claim to land is an important aspect in rural areas. One initiative that mimics land consolidation is the 'clustered green belt'. Farmers who have plots on specific area come together and use the same methods for planting seeds and align ridges in the same manner, so it looks like one estate. This seems to be working, and can possibly allow the pooling of resources. Government is promoting and supporting this, it is attached to the subsidy scheme. Land holdings are close to consolidation, but farmers are still maintaining borders around their plots. However, they farm the land like a group, in that they follow the same concepts, but on the whole are still farming own plots. In some cases farming collectively does happen, through informal production cooperatives, e.g. Dedza quite advancement.

National Association of Smallholder Farmers of Malawi is not necessarily supportive but does not oppose the scheme. From the Ministry point of view – they are charged with organising structures, stakeholder panels at village and area level, and the same structures are supposed to be replicated at district level. But this is not happening, although they are very vibrant at the area and village levels. It has been running for about a year. Some districts have taken the initiative very seriously, others lagging and waiting for funding. This will come in November.

In Malawi, 92% of population live in rural areas, and only 8% in urban areas. The team see the development of rural towns as important – urbanise the rural communities. The rate of urbanisation is growing. The main problem is farmers' attachment to subsistence production. The culture of producing own food and 'degrading' practice of 'begging food from donors' when the country has resources for producing maize has been used by the President to justify subsidy of fertilisers for smallholder farmers.

To move away from this would take some generational change. People are still saying ‘maize is life’ – would also need consumption changes from maize to other food crops. People could have plenty of food (e.g. sweet potato story) but if it is not maize then seen as being desperate.

### **3. General feedback on paper**

1. Overall, they feel that the typology comes too late in the paper
2. The paper would benefit from linking more to issues of policy, especially PRSPs, link to problem is not that there are no policy pronouncements, but how they are translated into action. Case Studies at the country level would also be beneficial, making solid linkages to policy processes.
3. Section on fears: Are there other comparative experiences to bring to bear on fears around commercialisations – old stuff maybe but anything contemporary?
4. to what extent can we cover pointers on what is researchable on things we don’t know about, what kinds of studies do we need to have to shed more light on commercialisations and how it links to growth and poverty.
5. Asset Accumulation: in the context of small farm sizes this is problematic and the Malawi team feel we should be cautious about promoting this.
6. Market Access: Are we advocating coordinating institutions through the market system? We need to make it clear that we are referring to coordination from government, and how important that is for this to work.
7. Other support systems: who should provide these support systems? Also come within remit of other coordinating institutions, extension services maybe not there these days. Recently there has been a policy of pluralism, demand driven approach to extension services. However, it is not clear on how this works out in practice – most farmers may not have information on where to demand extension services. Government is divorcing itself from monetary role, so the extension officers are being employed by NGOs, with dubious training, in trying to fill gap - this has made things work (worst?). Farmer organisations can also play a role. For example, the groundnut sector has been promoted by the farmer organisation, NASFAM, among its members – the sector has risen from the ashes and now to an export crop on Balance of Payments.

### **4. Malawi team’s commercialisation work.**

1. **Tea industry:** appropriate pricing policy between estates and smallholders. Does the tea association help smallholder tea farmers get a better price from estates that are buying their leaf. The research intended to help the sector in coming up with a pricing formula that balance the commercial needs of the estate farmers and the livelihoods of smallholder tea farmers. However, the study required the permission of the Tea Association, as it required some research on cost structure on tea processing etc almost like a value chain analysis to see if farmers are getting a good deal etc. The Tea Association, however, did not grant

permission and postponed the study indefinitely. They may not have wanted external agents to have influence over their already good relations with smallholder growers.

**2. Cotton sector:** Linking cotton stakeholders, supposed to take some policy makers especially politicians to Tanzania, to learn from experiences there. In Malawi, the Committee working on the cotton sector reforms and legislation has been inactive and lack funding to undertake study tours to neighbouring countries that have organized cotton sectors. Over the years the significance of the cotton sector has declined – due to lack of market especially due to reduced marketing activities of ADMARC which had monopsony power over the purchase of smallholder cotton. However, it is worth noting that the cotton sector in Malawi has always been a smallholder crop, and the market has never been great. ADMARC has been having problems with liquidity, and cotton farmers rely on international private companies Clark Cotton and Great Lakes and two local buyers. The market is imperfect with some market sharing arrangements, cut-throat competition and price wars, others offering input support but farmers tend to side sale some of the produce. However, the sector could be revived with better organisation.

**3. Coffee sector:** Given the difficulties encountered with the tea sector work, FACM decided to look at another commercial sector – coffee. The top cash crops in Malawi are tea, sugar, tobacco. There have already been some reforms in tea and sugar. FACM decided they would look at coffee sector, which has a smallholder sector that has recently undergone reforms from a crop authority to a farmer centred organisation similar to the reforms in the sugar and tea sectors. However, reforms in the coffee sector appear to have been more successful in terms of delivering benefits to smallholder farmers. FACM is sending a team of research assistants next week to talk to the farmers. So far the interviews with the Chief Executive and the Director of Operations, which will be triangulated with information at the local level, reveal interesting insights in integrating smallholder sector into commercial activities. Some of these include:

- The reforms in the coffee sector it has been a more farmer–empowering type of reform in contrast to the reforms in the sugar sector. The differences in the paths of institutional changes in the three commercial sectors will provide lessons on how to successfully integrate smallholder farmers into commercial production in a way that also benefits them.
- Government had created a coffee trust as a transition arrangement but this has now become a union of cooperatives. Locally there are coffee associations (5 in all), all linked to union with board of governors/ directors who are all farmers. Each association is running its own affairs. There are no external players and a lot of motivation from farmers who are operating and running businesses in coffee production. This differs from tea, where on the board of directors only two out of ten members are farmers, the remaining eight have nothing to do with farming. This is not the case with coffee.
- All three sectors have had similar problems, except maybe sugar though this has had problems as well. In tea and sugar, institutions had gone down because of poor funding and administration, for example not paying farmers. But for coffee when things were that bad, the Ministry of Agriculture assigned an officer to implement the reform, who initially refused stating that he ‘couldn’t revive a dead thing’, but prepared a concept note on how to reform the sector. The officer had just returned from training on cooperatives in Japan. The Ministry of Agriculture sold the idea to

the EU. The EU liked it on condition that the person who wrote the concept note had to implement it.

- Coffee farmers appear to have more profit motive than previously. The study will have to verify some of these facts through the questionnaire and qualitative interviews with farmers. It will be possible to establish how much land is devoted to other crops, how diversified etc coffee farmers are.
- The reforms have empowered farmers through the local Coffee Associations to do nursery management, and farmers train each other. They also have a capital fund for inputs, whose seed money was provided by EU. The Union procures fertilisers on behalf of the associations and provide agro advice. The associations also do initial processing of coffee at the farm. Each association has some processing plant (just initial processing). At the Union level, transport logistics are provided from farms to factory. Inputs, technical expertise also provided to associations members, and coffee marketing. In exchange the Union takes 30% of proceeds and do not charge anything else. Coffee growers bought shares in Union, so they own it now. Very successful reform. They will be happy when farmers take £1000 a year net return. Some are already doing much better than this now, but they are hoping to get this at least across the board. They have replanted 5 million trees, but it takes about 7 years to mature.

This contrasts with the story for sugar, even though Malawian sugar is labelled as Fair Trade. There is a governance problem in smallholder sugar. The same people on the Board of Trustees on the Trust are also on the Board of Directors in Cane Growers Ltd. They created high cost structures that are supported by farmers' revenues – first, a Trust looking at expansion of smallholder sector, then below this there is Dwangwa Cane Growers Ltd, offering agronomy services to smallholder farmers. The Growers Ltd is 78% owned by growers, the remainder is owned by employees. Dwangwa Growers takes 30% management fees from farmer's proceeds but they also charge commercial rates for every service they offer farmers such as machinery hire etc, even though farmers own the company and the company charges farmer interest, they also charge for cane cutting. This undermines smallholder farmers' profitability. For instance, farmers gross proceeds might be about 800,000 Kwacha (about £2500) but they will only make about 127,000 Kwacha net. This is less than £500 per annum.

Farmers, despite owning 78%, have no voice in the running of the Cane Growers Ltd. Some farmers have formed their own association, breaking-away from the Trust, and make twice as much on rain-fed sugar production as farmers who are irrigated. The governance issue is stifling gains from irrigation/ farming. By contrast, tea farmers refused similar reforms to the Dwangwa Cane Growers case. They did not want 'outsiders' managing their affairs.

The proposed comparative analysis will be relevant for commercialisations theme work.

## **5. Seminar in University of Malawi**

Jennifer presented the main points of the commercialisations paper, followed by a discussion. Main points raised were:

- How far are we going to address agricultural liberalisation in the paper?  
Commercialisation is constrained by policy, internally-driven liberalisation.



- Are we looking at global markets – EU and US. Malawi agricultural sector faces competition from other countries, both in export markets and also in domestic markets. Food much cheaper produced abroad, for example chicken, tomatoes, etc from Zimbabwe. In liberalised environments, Malawian farmers are unable to compete in food markets. In terms of technical services, exports, foreign barriers to trade, need technical assistance to help farmers.
- Are there any empirical examples where some smallholder farmers might have advantages over other smallholders?
- NGOs – is there a role for them in food security?
- Meaning of commercialisations compared with subsistence. Does commercialisation really have to focus exclusively on cash? Barter widespread in the rural economy.
- CCI: need to incorporate non-cash transactions.
- Gender is important. Cash is gendered. Suggestions of more male participation in particular crops as they become more commercialised? Is there evidence of this?
- Need to problematise commercialisation as it's a very fluid concept.
- Climate change: risk and diversification.
- Socio-economic and cultural factors behind drivers of subsistence production.
- Grand policy dialogues: focus on market economy - is there anywhere to sell produce?

JL  
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