

COMPARATIVE ANALYSIS OF  
POTENTIAL ECONOMIC IMPACT  
OF ALTERNATIVE AGRICULTURAL  
AND RURAL DEVELOPMENT MODELS:  
The Case of Africa Invest  
and Civil Society Organizations in Malawi



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# Executive forward by Jon Maguire, Chairman of Africa Invest and CEO of cru Investment Management

This is a very telling report authored by Dr Phiri, a leading expert in agro-economics in Malawi. We commissioned it to secure intellectual authority on our own observations and findings related to the development of our agricultural business in the country. What we have been able to add is the position of Malawi produce in the UK, unpicking the value chain and laying it bare.

This report actually can change Malawi, lifting her out of poverty and famine and disease. We know this because on a micro-scale we have already achieved these results and we also know that they are easily scaleable. If it can work in Malawi it can also work across sub-Saharan Africa. Capital markets are absolutely key, as it is the discipline of investment that turns things around, rather than the largesse of donations.

I would like to draw your attention to the following and trust this will encourage you to read the report in its entirety.

The value chain

1. The international food value chain is corrupt and morally unjustifiable. More than anything else it is this that enforces poverty in Malawi.
2. The key distorters of the value chain are those responsible for aggregation of smallholder production and those who then support these aggregators.
3. The end consumer is completely unaware of the state of the value chain, with a Malawi farmer earning as little as 1% of the price for food grown in Malawi and consumed in the UK.
4. British supermarkets should tell their customers how the value chain works, identifying all the participants and the split of margins.

Africa Invest – present and future

1. Africa Invest's pilot scheme in commercial farming to prove investment as the key to poverty eradication is shaping up well.
2. More than 2,000 people have been employed and are now earning well above the poverty line.

3. The next stage of investment will financially engage with an additional 10,000 workers, all of whom will earn above the poverty line.
4. The return on capital forecast is anticipated to reach 39.6% per annum and US\$ based revenues.
5. The return on capital is to be further enhanced through the development of UK consumer awareness of the value chain and an insistence that the Malawi farmer receives a minimum of 10% of the UK retail price. This will result in an explosion of profits in Malawi, attracting mass inflows of capital and replacing the current donor-based economy.
6. Return on capital will be further enhanced through the development of UK markets for Malawi production.
7. All farms have a feeding programme for vulnerable children and the elderly. More than 850 persons are currently being supported.
8. Africa Invest aims to ensure that all Millennium Goals are fulfilled within two years of farming commencing in a village.

#### Governmental aspects

1. The British Government should allow tax-relief for investments into Malawi. Giving to Malawi has failed to resolve poverty, yet attracts tax-relief (via charities). Investing in Malawi has been shown to resolve poverty, so the Government should offer tax-relief to investors.
2. The Malawi Government should be encouraged to share these findings with all sub-Saharan African countries and to champion the cause of investment capital to deal with poverty.

I would like to express my thanks to Dr Phiri, to the many friends I have made in Malawi across her Government, the Reserve Bank and, most importantly of all, the Malawi people in the villages and fields in which we work.

Finally, I would like to draw your attention to two of the key problems faced by sub-Saharan Africa. Firstly, she suffers from disease and famine of truly biblical proportions. Secondly – and of far greater importance – is the belief that we can do nothing about it. It is by refusing to accept the second problem that we will resolve the first.

Jon Maguire

London  
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## About the author

Dr Alex Phiri, 47, was born in Malawi but much of his education took place in Montpellier, France. He has various diplomas and doctorates in Agriculture and Agricultural Economics. He is a member of numerous professional bodies:

- Co-ordinator of the Economics and Policy Working Group (Malawi) within SoilFertNet. CIMMYT/Rockerfeller Foundation
- Member of the International Association of Agricultural Economists
- Member of the Economics Association of Malawi
- Patron to the Bunda College Wing of Muthunzi WaMalawi (an environmental club)
- Deputy Dean of the Faculty of Development Studies (March 2005–March 2007)

2004    Lead Consultant with the Ministry of Local Government and Rural Development

Consultant with the EU dealing with micro-projects

Consultant with DfID

Keynote speaker for Action Aid

2005/06    Lead Consultant with the Ministry of Economic Planning and Development

2006    Baseline Study Consultant for the Ministry of Women and Child Development

Consultant for Livingstonia Synod

Consultant for Action Aid Malawi

Consultant for CARE – Malawi

## List of acronyms

ADMARC	Agricultural Development and Marketing Corporation
AEDO	Agriculture and Extension Development Officer
CBO	Community Based Organization
CSO	Civil Society Organization
DDF	District Development Fund
GDP	Gross Domestic Product
IHS	Integrated Household Survey
IMF	International Monetary Fund
IPO	Initial Public Offering
MASAF	Malawi Social Action Fund
MDG	Millennium Development Goal
MGDS	Malawi Growth and Development Strategy
MPRSP	Malawi Poverty Reduction Strategy Paper
NASFAM	National Association of Smallholder Farmers in Malawi
NGO	Non-Governmental Organization
NSO	National Statistical Office
SAP	Structural Adjustment Programme
TA	Traditional Authority



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## 1.0 INTRODUCTION

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### 1.1 Agriculture and food security

Several indicators highlight poverty in Malawi. Poverty in Malawi is not only acute but it has also resulted in widespread household food insecurity. Agriculture is by far the most dominant sector in the economy. Depending on climatic conditions, the sector usually accounts for more than one-third of GDP and over 90% of export earnings. The sector employs nearly half of those in formal employment, and directly and indirectly supports an estimated 85% of the population. The main food crop in Malawi is maize, supplemented by cassava, sorghum, millet, pulses, rice, vegetables and fruits. Tobacco is the largest export crop, followed by tea, sugar and cotton. The country is almost entirely reliant on favourable climatic conditions for good agricultural production and therefore economic growth. The Malawi Poverty Reduction Strategy Paper (MPRSP-2002) pillar one clearly identifies the agriculture sector as driving economic growth and pro-poor development. The Malawi Growth and Development Strategy (MGDS) echoes this commitment to agriculture through active private-sector involvement. This policy document points out that in recent years a national consensus has emerged that Malawi needs to create a set of priorities that will enable the country to develop fast and move out of poverty. One of the key priority areas is to enhance production of food crops to make Malawi a hunger-free nation.

However, the pivotal role that the agriculture sector plays in ensuring high levels of economic growth, and hence contributing to poverty reduction, is seriously being questioned due to the increasing vulnerability of the sector. The pessimism on the role of agriculture in economic growth and poverty reduction in Malawi has become more pronounced during the last decade. Unpredictable rainfall patterns, coupled with declining soil fertility and overall environmental degradation, have resulted in declining agricultural productivity. Firstly, Malawi has been hit by persistent drought for several years, which has significantly reduced food security at both household and national levels, resulting in high levels of malnutrition. This situation has been exacerbated by the over-dependence of crop-production systems on rain-fed agriculture. Due to declining productivity in the agriculture sector, particularly within the smallholder sub-sector, every year a large proportion of rural people have relied on food handouts from the Government and NGOs to fill the gap. Nevertheless, the level of vulnerability varies significantly from one district to the next, and across the three administrative regions.

In addition to the negative effects of drought, declining soil fertility has been recognized as one of the major factors affecting agriculture productivity among smallholder farmers in Malawi. This is compounded by the fact that the majority of them are unable to manage the decline in soil fertility. The majority of smallholder farmers have limited access to improved technologies that could lead to improved food production. Such valuable advances as inorganic fertilizers, improved seeds and appropriate irrigation technologies, among others, have not been readily available to the farmers. They are too costly to be within reach of the majority of smallholder farmers, who are in most cases cash constrained.

Malawi needs to find an urgent solution to these problems so that one day, hunger and widespread poverty will be a thing of the past.

## ● 1.2 A synopsis of poverty in Malawi

Malawi is one of the least-developed countries in the world, and the incidence of poverty is relatively high. Results recently released from the Malawi Integrated Household Survey (IHS2) conducted in 2004/05 show that 52.4% of the population is poor. According to the study results, these people earn less than MK16,165 (£57.73) per year. Furthermore, 22% of the population is ultra-poor, earning less than MK10,029 (£35.82) per year. That is, one in every five people lives in such dire poverty that they cannot even afford to meet the minimum standard for daily recommended food requirements. About 25% of the population in urban areas is living in poverty, compared to 56% of the rural population.

While the national poverty rate is 52%, there is variation across regions (GoM *et al.*, 2005). The southern region has the largest poverty rate (60%), implying that three out of five people live in poverty in the rural areas of the southern region. The northern region has the second-highest proportion of poor people (54%). The central region has the lowest proportion (44%) of poor. Table 1 (opposite) shows these figures ranked from highest to lowest.

A similar pattern can be observed for ultra-poor people. The proportion is high in the southern region, followed by the northern region and then finally the central region. However, these regional variations may mask the high levels of variability in poverty levels within each region.

**Table 1: Regional variation in poverty levels**

	Poverty rate (%)	Ultra-poverty rate (%)	Male heads hip (%)	Female heads hip (%)
<b>Malawi</b>	<b>52.4</b>	<b>22.4</b>	<b>51.0</b>	<b>58.5</b>
Urban	22.5	7.5	24.4	31.8
Rural	55.9	24.3	54.7	60.8
<b>Region</b>				
Southern	59.7	28.5	58.8	63.1
Northern	54.1	24.4	53.8	55.4
Central	44.2	15.4	42.2	53.4

Source: IHS2 Summary Results (2005)

### 1.3 Social indicators

Although the southern region is the poorest in terms of income levels, social data shows that this region is better off in some ways than the other two. In its Malawi Core Welfare Indicators Survey, the NSO (2002) reported that 4.1% of households in the south had piped water, compared to 3.9% in the north and 2.9% in the centre; 67.6% of the households in the south had a communal standpipe/borehole, compared to 61.7% in the north and 51% in the centre. Several other social indicators show a similar picture. It would thus be misleading to examine or compare income poverty alone as an indicator of vulnerability. A comprehensive comparison of various indicators needs to be made in order to gain a clearer picture of the relative vulnerability among the regions and across districts. Table 2 (page 8) shows some key social indicators of poverty across the three regions.

In collaboration with its development partners Malawi has, over the years, put in place various development policy frameworks and implemented a number of programmes to achieve agricultural growth – the engine for overall economic growth and poverty reduction in the country. However, there are growing concerns that despite high levels of investment in agriculture by the Government, the NGO community and other development partners, not much improvement has taken place in the lives of the majority of the rural people. Poverty levels remain very high. It is against such a background that this study was conceived, to compare various agricultural development approaches and to demonstrate more viable alternatives to agricultural and rural development in Malawi. This relates mainly to agricultural production and marketing arrangements. Developing consensus around these models and options could also serve as a lesson to other developing countries around the world.

● **Table 2: Relative social indicators of poverty**

● **Region Social indicators**

● **Dwelling house roofing material**

	Grass thatched	Iron sheets	Other	Total
North	77.2	22.1	0.7	100.0
Centre	79.0	20.4	0.6	100.0
South	72.9	26.0	0.4	100.0

● **Dwelling house wall type**

	Mud	Unburnt bricks	Burnt bricks	Cement/sandcrete	Wood bamboo	Other
North	33.2	20.7	39.2	0.2	6.5	0.1
Centre	40.0	35.2	22.2	0.9	1.3	0.4
South	6.8	56.3	33.6	0.9	1.9	0.6

● **Main source of drinking water by household size**

	Piped	Communal pipe/borehole	Protected well	Unprotected, rainwater	Spring, lake, river, pond	Other
North	3.9	61.7	2.3	13.7	18.4	0.0
Centre	2.9	51.0	3.3	35.3	7.4	0.2
South	4.1	67.6	2.2	17.7	8.3	0.1

● **Time taken to nearest supply of drinking water (minutes)**

	<15	15–29	30–44	45–59	60+
North	71.4	19.7	6.7	0.9	1.3
Centre	78.3	16.5	3.7	0.5	1.0
South	71.6	20.5	6.0	1.2	0.6

● **Time taken to reach nearest health centre (minutes)**

	<15	15–29	30–44	45–59	60+
North	6.5	10.6	11.6	7.2	64.1
Centre	9.0	10.7	13.4	10.4	56.5
South	8.8	9.3	11.9	11.5	58.6

Source: Summarized from NSO (2002): Malawi Core Welfare Indicators Survey

● **1.4 Investment in commercial agriculture**

Through the MPRSP it has been recognized that a powerful tool for tackling hunger and poverty in the country is the promotion of the private sector in pursuit of pro-poor economic growth. Economic growth can be promoted through commercial farming and, in some areas, contract farming. The potential for commercial farming in Malawi can be further differentiated according to scale. There is potential for commercial farming to be promoted at both medium (10–30

hectares) and small scales, (approximately two hectares of land). These categories consist of emerging commercial farmers. There is a dynamic prevalent in the country to expand the size of the landholding by renting land from subsistence farmers. Emerging commercial farmers are gaining greater access to credit and other resources, and are investing in fertilizer and livestock. Small-scale commercial farmers are producing hybrid maize, burley tobacco and other export crops.

At the other end of the spectrum there are around 36,000 commercial farming estates with individual landholdings varying in size from less than 10 hectares to more than 500 hectares. In total, about 120,000 to 150,000 hectares have been designated to commodities such as flue-cured tobacco, tea, sugar, coffee, rubber and cashew nuts. Estimates also show that a predominant amount of estate land is unutilized and categorized as 'idle land' (500,000 to one million hectares), with potential for commercial agriculture.

In recognition of this potential, and to ensure national and regional self-sufficiency, the Government has emphasized increasing agricultural output by broadening the farm resource-base and promoting commercial agriculture. However, a major mitigating factor in its development at both small-scale and medium levels is the effective demand for agricultural produce, a lack of availability of agricultural machinery and equipment and other support services. This has also been a major cause of low profitability and a barrier to commercialization. With secured markets and the possibility of attaining good prices for produce, farming is more likely to become a profitable venture, and this translates into effective demand for equipment and machinery.

In some areas the potential exists for irrigation. The central plains, northern plains of Rumphu and Mzimba, lakeshore areas and the Lower Shire Valley are major food and cash-crop producing areas in the country. Maize, tobacco, groundnuts and rice are most prominent. There is also potential for the production of wheat and cotton. With the aim of developing the irrigation sub-sector in Malawi the Government, with support from a number of donor organizations, is in the process of rehabilitating various irrigation schemes and opening up new ones in most of these areas. It is believed that irrigation and the promotion of commercial agriculture will have a considerable impact on improving agricultural productivity and raising the socioeconomic status of farm families in these areas.

There is also the possibility of extending contract farming and out-grower schemes for the production and processing of high-value products (e.g. tea, coffee, frozen and canned vegetables, tropical fruits, spices and condiments). These

schemes offer farmers guaranteed market outlets, which in return provide them with support services in the form of quality inputs, extension advice and working capital. In short, the schemes provide an opportunity to promote commercial smallholder farming and generate employment.

Land tenure, however, is a contentious issue owing to the customary tenure widely practiced in the country and the fragmented structure of holdings. The lack of clarity in respect of ownership and user rights impedes farmers from investing in land preparation and the necessary infrastructure. The lack of clear collateral has also restrained potential entrepreneurs from investing in tractors and equipment. Farmers will only invest if they can be assured of secure long-term use. Tenure also has a direct impact on farm profitability, by influencing the ability of farmers to make efficient use of certain types of agricultural machinery and equipment and to use titled land for collateral purposes.

The success of commercial farming among small farmers also depends on their ability to organize themselves. These organizations have the potential to establish more efficient scales of operation for many types of machinery through resource-sharing mechanisms. Local organizations of farmers are also building blocks for access to financial and non-financial services. Farmer organizations are also often a prerequisite for attaining better contractual linkages with nucleus estates and agro-processing ventures, and hence reducing transaction costs. Not much of this type of farmer organization currently exists in the country.

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## ● 1.5 Investment in food processing in Malawi

Processing is only one link in a continuous chain between raw material production and final consumption. The production of the raw material on the other hand can be planned realistically only in light of the demand for the final product, while equally the processing enterprise must take account of raw material supply. Because of the effects of weather and pests and diseases, the level of crop and livestock production cannot be controlled with great accuracy, and tends to vary sharply from year to year. To some extent, however, these fluctuations can be reduced by such measures as the control of pests and diseases. It is therefore in the interests of the processing enterprise, which requires as regular a supply of raw material as possible, to ensure that appropriate measures are taken by producers.

The production of most crops and fruits in Malawi tends to be concentrated in a particular season and the limited use of irrigation and greenhouses tends to restrict the supply of these potential industrial raw materials. Improved irrigation

would allow for more than one crop per year, ensuring that the machines are kept operational for longer periods. Unless the machinery is designed in such a way that it can handle different types of agricultural raw materials, investment in food processing is not feasible in most cases. Additionally, most producers are small and their numbers spread out over a geographical area. In most cases this makes a food-processing venture quite expensive. The result of some of these limitations is that food processing in the country is quite low.

## ● 2.0 OBJECTIVES OF THE STUDY

### ● 2.1 Main objective

The main objective of this study was to carry out a comparative analysis of alternative agricultural and rural development models in Malawi. This was aimed at discovering the merits and demerits of each approach, mainly with regards to its impact on poverty reduction in the country.

### ● 2.2 Specific objectives

The study had the following specific objectives:

1. Introduction of Africa Invest and its approach to agricultural and rural development.
  - Land deal
  - Commitment to maximize labour
  - Commercial farming through land aggregation
  - Commitment to profit-sharing with landholders
  - Commitment to fulfill the Millennium Goals within two years of farming commencing, with feeding programmes for the vulnerables (children and elderly) established immediately
2. Comparison of the Africa Invest model with the current agricultural systems that dominate Malawi.
  - To outline and examine the current agricultural and rural development model promoted by the Government
  - To examine the NGO agricultural and rural development model
  - Greater share of value chain to rural poor under the Africa Invest model
  - More competitive position on inputs, technology and yields through proper farm-management infrastructure.
3. To carry out an impact analysis of Africa Invest on the Dwambazi economy.
  - Statistical analysis by family samples
  - Financial analysis by forecast labour-market requirement
  - The impact of Kwacha circulation on the micro-economy
4. To assess the compatibility of the Africa Invest approach to:
  - The objectives of the Malawi Government
  - The objectives of the international community
  - The NGOs (which will be negatively affected)



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## ● 3.0 DISCUSSION OF AGRICULTURAL AND RURAL DEVELOPMENT MODELS

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### ● 3.1 Introduction to the Africa Invest model

The key question for most Malawians is: ‘Who is Africa Invest?’ Africa Invest is a subsidiary of cru Investment Management Limited, a UK private client investment management business.

Africa Invest was established to allow African people a way of developing their own economies by supporting them through investment rather than charitable donations, which tend to stifle enterprise and subsequently kill investments – the two most important factors in improving economies.

Adopting and propagating the cru business philosophy, Africa Invest has been operating in Malawi since January 2006. It is indeed a new player in the Malawian agricultural industry. Currently, the company owns four farms in three districts, as follows: i) Mtambo Farm in Mtambo village, T.A. Kabudula in Lilongwe district; ii) Ngala Farm in Chapuwala village, T.A. Chakhaza in Dowa district; and iii) Dwambazi in Kamphambale village, T.A. Kafuzira and Kachulu in Kachulu village, T.A. Kanyenda in Nkhota kota district. However, this paper will focus more on the company’s operations in Dwambazi.

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#### ● 3.1.1 Land deal and village agreement

Africa Invest in Malawi is investing in commercial farming through land aggregation. Through negotiations with landowners and local leaders (Village Headmen and traditional authorities), land is acquired from individual farmers and aggregated into a single farm unit. To avoid unnecessary compensations, ideal land is preferred. Land aggregation provides an opportunity for more intensive farming practices through higher levels of investment in machinery and irrigation. This is in fact what Africa Invest is advocating.

Once the land is acquired and aggregated, agreements to use and occupy the land are signed at three levels. Firstly, the land is leased through the District Commissioner for a period of 10 years. Secondly, another agreement is signed with the Village Head of the area who, under Malawi customary law, is the custodian of

all the land under customary tenure in his/her jurisdiction. Thirdly, the last agreement is signed with the landowners, who form a group of landholders. This process ensures security of land-use to the company, enabling it to freely carry out land improvements and investments in machinery. It is expected that by the end of the 10-year period, the investments will have been recovered.

Africa Invest is therefore able to create intensive employment based on year-round farming because of its investment in irrigation. Where it has landholders, Africa Invest always seeks to give them employment and offer an annual bonus.

Africa Invest agrees to pay the landholders the sum of MK4,000<sup>1</sup> per hectare per year in annual rental charges. Land rentals for the first three years of contractual agreement are paid up front to the landowners. In addition, the company agrees to pay 10% of its annual profits to the landholders. The profits shared are net of all costs.

For transparency purposes, through the technical assistance of the company's management, village committees are formed that work hand in hand with the company in order to achieve the development of local communities.

In Malawi the overall goals and objectives of Africa Invest (Malawi) Ltd are to improve sustainable livelihoods of rural communities by building on their capacities and reducing vulnerabilities through:

- Provision of employment for vulnerable communities to immediately access means of earning
- Demonstration to local communities of irrigation technologies for agricultural production
- Investment in irrigation infrastructure for long-term ownership for the communities
- Mobilization of rural communities in communal projects
- Mitigating impacts of HIV/AIDS through enhancement of access to nutrition, and providing mechanisms for self-support for affected and infected households
- Improvement of nutrition
- Introduction of a diversified agricultural and livestock programme to reduce the risk of single-crop exposure
- Through irrigation the introduction of a three-crop-per-annum rotational programme
- The establishment of a micro-economy built around cash, rather than mere sustainable existence

<sup>1</sup> About US\$30 at the current exchange rate of MK138 to 1US\$, or £14 at MK280 to £1

- Fulfilment of all Millennium Development Goal objectives as determined by the United Nations within 24 months of a village agreement being established
- Recognition that the establishment of MIPA by the Malawi Government is the conduit to attracting and retaining foreign investment

### ● 3.1.2 Commitment to maximize labour

Africa Invest has its headquarters in Area 43 Lilongwe City. The company is run by a Managing Director who reports to the Chairman – Mr Jon Maguire. The management of the company is guided by a competent and widely experienced board of directors. The activities of Africa Invest are not just about securing local labour for purely manual purposes. The company has a career structure to allow skills to develop in farming, irrigation, stock-management and transportation.

As we have already pointed out, the company currently runs four farms. Two of these are larger than 100 hectares. In the company's set-up these are characterized as big farms and are manned by a Senior Farm Manager, Assistant Manager, Senior Supervisors, two Clerks and four Junior Supervisors. Normally a farm that has fewer than 100 hectares but more than 50 hectares will be assigned to a Farm Manager, Assistant Farm Manager, Senior Supervisor, a Clerk and two Supervisors. All the management positions require fluency in English and at least a Diploma in Agriculture. However, Supervisors may not necessarily require formal academic qualifications or use of English.

Presently, the other two farms are relatively small. Mtambo has 10 hectares and is manned by two Senior Supervisors, one experienced, the other a trainee. With the short distance from the headquarters, the Director of Farms also doubles as Farm Manager until such time as more land is acquired to warrant an independent Farm Manager to run it. Similarly, Kachulu, with 16 hectares, has one Senior Supervisor trainee under the Senior Manager of Dwambazi. For the rest of the details, see the chart on pages 16–17.

With this management level of staff, Africa Invest aims to achieve high levels of productivity. It intends to develop fully irrigated commercial agriculture with village landowners as well as the surrounding villages. A multi-crop rotation plan has been developed. In the initial assessment the crops that have been identified on these set-ups have two different characteristics. Maize has less value than rice but requires more input in terms of fertilizer. On the other hand, rice has high labour requirement and value compared to maize. For operational efficiency, labour on rice is double that of maize.

It is planned that three farms should function effectively on 126 labourers on maize/beans production every 25 days of the months of the crop's lifespan. For the rice, the figure is 240, working 25 days a month. This is exclusive of security, whose figures fluctuate with production cycles. To complement the manual labour force and ensure commitment to commercial agriculture, the company has already acquired machinery and equipment such as tractors to deliver a minimum of 100 hectares per village into the programme. Hence the manual labour force is mainly used to assist in irrigation, planting, weeding and harvesting.

In Dwambazi Farm alone, the company operates with labour from a catchment area of 90 villages, and about 20,000 people benefit from it directly or indirectly. It should be pointed out here that besides being a profit-making company, Africa Invest also has a large social obligation towards the communities with which it works. Not only does it share a proportion of its net profits with the community, but it also pays their labour at wage rates that are more than double the country's recommended wage rates.<sup>2</sup> For example, labourers who have brought their own hoes are paid a daily rate of MK175, and those who have brought their hoes and shovels are paid MK195 a day, while the rest of the labourers are given a MK150 daily rate. At the current exchange rate of MK138 to the US\$, all the labourers working with Africa Invest earn more than a dollar per day – the international poverty line.

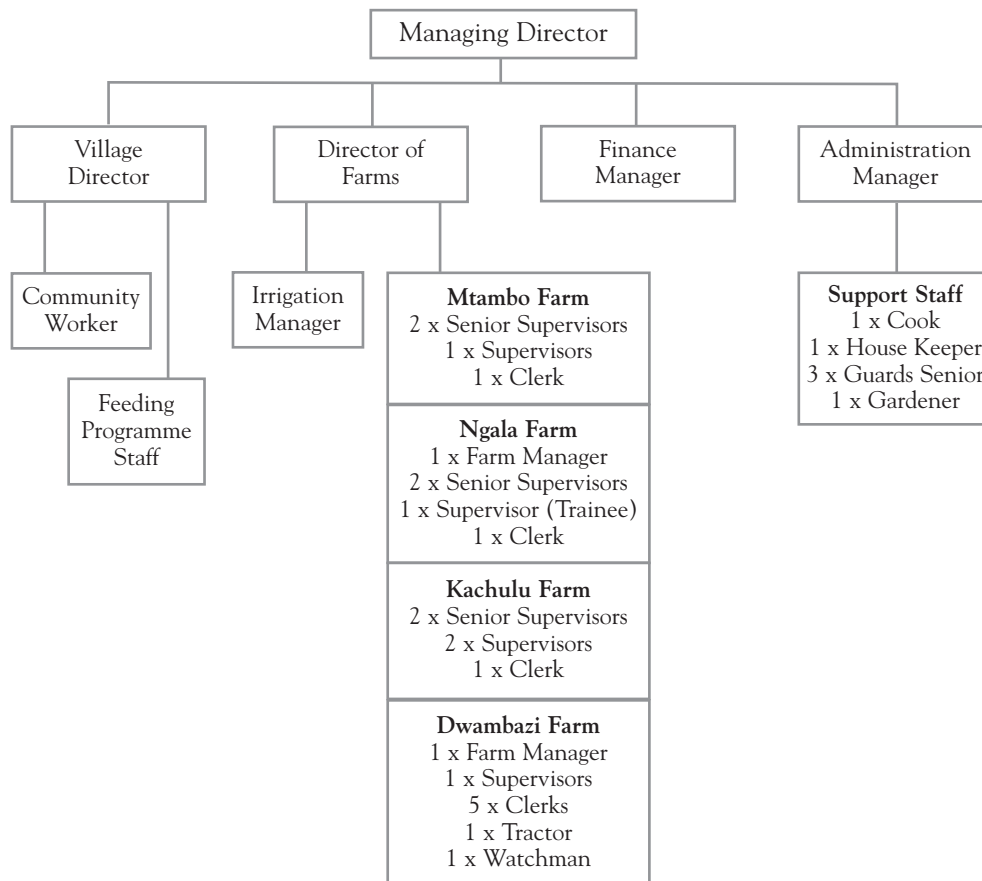
● **Table 3: Status of Farms – January 2007**

<b>Estate</b>	<b>Landholding</b>	<b>Labour</b>	<b>Staffing</b>
Mtambo	<ul style="list-style-type: none"> <li>● 10 hectares</li> <li>● Planted girlicitia along the perimeter</li> <li>● All have green maize, 1 hectare being harvested, 4 hectares ripe by end January, 5 hectares in February</li> </ul>	<ul style="list-style-type: none"> <li>● Labour varies between 10–40, average 30</li> <li>● Currently 30 are on ticket</li> </ul>	<ul style="list-style-type: none"> <li>2 Senior Supervisors</li> <li>1 Clerk</li> <li>2 Supervisors</li> </ul>
Kachulu	<ul style="list-style-type: none"> <li>● 24 hectares of which 16 hectares are cultivable and all have maize</li> </ul>	<ul style="list-style-type: none"> <li>● Labour force averages 40 per month</li> </ul>	<ul style="list-style-type: none"> <li>1 Senior Supervisor</li> <li>2 Supervisors</li> <li>1 Clerk</li> </ul>

<sup>2</sup> The current official rural wage rate is MK69.50 a day; in urban areas it is about MK89.50

Estate	Landholding	Labour	Staffing
Dwambazi	<ul style="list-style-type: none"> <li>• 134 hectares out of which 120 hectares are cultivable, 10 hectares has been flooded, 110 hectares to be used for rice crop</li> <li>• 65 paddies planted, planting to be finished by 10 February</li> </ul>	<ul style="list-style-type: none"> <li>• Labour averages 200</li> <li>• Exact head count per season to be identified</li> </ul>	<ul style="list-style-type: none"> <li>1 Senior Manager</li> <li>2 Senior Supervisors</li> <li>4 Supervisors</li> <li>4 Clerks</li> </ul>
Ngala	<ul style="list-style-type: none"> <li>• 138 hectares, 100 hectares to be used now by a crop to be determined by the market</li> </ul>	<ul style="list-style-type: none"> <li>• Labour force averages 150 per month</li> </ul>	<ul style="list-style-type: none"> <li>1 Senior Manager</li> <li>2 Senior Supervisor</li> <li>1 Clerk</li> <li>1 Supervisor</li> </ul>

● **Figure 1: Organogram**



## ● 3.2 The growth of civil society organizations in Malawi

Since the advent of the multiparty democracy in 1993, Malawi has experienced a proliferation of civil society organizations. These are involved in various socio-economic activities, mainly at the grass-roots level but also in policy advocacy. Progressively, the role that civil society organizations are playing in various sectors of the economy cannot be over-emphasized. But what constitutes civil society? What is its role and purpose? According to Rojas (1999), three aspects of the political theories could help to broaden our understanding of the concept of civil society. First, the context of civil society as the arena in which social relations occur was taken from liberal thought. Second, Marxist theory shows how economic context and relationships determine civil society. Civil society is constituted by the bourgeois. Third, the political aspect of civil society stems from the civil society/state dichotomy, as proposed by Hegel and others.

Three aspects allow the concept of civil society to involve diverse actors motivated by different goals: the economic vision, which is represented by guilds, business groups and unions; the social logic, which is manifested through the work of Non-Governmental Organizations (NGOs), grassroots organizations (CBOs) and associations of volunteers and ethnic groups, among others; and the political viewpoint, which includes the subversive, paramilitary and other armed-group movements. The latter should be excluded because they do not respect the rules of the game and, typically, deny the existence of other sectors of society.

Based on these concepts, civil society could be defined as 'the totality of organizations formed by the citizens outside the State and the market (that is, for-profit sector) to support aspects of social life where a common interest exists'. In simpler terms, civil society can be defined as 'a society organized voluntarily as opposed to being organized through the coercive apparatus of the state'.

It is important to point out that civil society is recognized as an intermediate entity that separates the private sphere and the State. 'Therefore, it excludes both individuals and families, group activities that look inwards (that is, recreation, training or spiritual), for-profit enterprises, individual business firms, and political efforts to take over control of the state'. However, the main focus in this paper will be to demonstrate the NGO model as it compares to the Africa Invest model within the framework of poverty reduction.

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### ● 3.2.1 Agricultural and rural development: the NGO model

Civil society has become a force for challenging existing policies and institutions to work for the poor, and in so doing it is reshaping the rules of the game. Development practice since the 1980s has been driven by the neo-liberal orthodoxy and the so-called 'Washington Consensus', which effectively equated development with liberalized trade, macroeconomic stability, and getting the prices right. It gave little regard to how assets were distributed within society and its impact on people living in poverty. Civil society has reminded us that poverty is about people and their rights and entitlements as citizens. As such, poverty is a political and social phenomenon. From this perspective there seems to be congruence between the civil society NGO and Africa Invest philosophies. Rural poverty reduction is at the heart of their initiatives. The main difference between the two, however, is that one is a not-for-profit and the other is a profit-oriented entity. While operating as a profit-making organization, Africa Invest also behaves as a pseudo-NGO because of the social obligations reflected in its profit-sharing and the level of wages offered to the people who work with it. The classic profit-making entities are usually only extractive, with the only benefit to others through wages – usually low wages – aimed at maximizing profit margins.

Non-Governmental Organizations are the most visible component of the civil society in rural Malawi.

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#### ● 3.2.1.1 The NGO model

NGOs have been the key advocates of participatory methodologies in community-needs assessments, planning as well as monitoring and evaluation of projects within specific impact areas. However, in terms of targeting their interventions, three specific approaches to the NGO model could be identified. These are:

- The individual approach
- The group approach
- The 'big-hit' on poverty approach

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##### ● 1. The individual approach

The NGO individual approach targets individuals with interventions within the community. For example, specific criteria could be used through participatory approaches to identify beneficiaries for Income Generating Activities (IGAs),

relief seed, relief food, supplementary feeding and training activities, and so on. The aim is to empower individuals. However, although the individual is the primary beneficiary, a group in the form of a club for example could sometimes be used for community mobilization and creation of peer pressure on the beneficiaries to follow the rules and regulations (i.e. group and several liabilities for loans) of the intervention. This is a capitalist approach to rural development.

Since the benefits accrue directly to the target beneficiary, sustainability of such initiatives is usually ensured even in the absence of external support. However, the necessary preconditions need to be put in place to ensure that individuals continue to benefit from the initiative. For example, as long as farmers have effectively been linked to viable and stable markets, a seed-multiplication initiative could continue in the absence of the NGO. Such a model has assumed that markets will work for the farmers. Experience has shown, however, that this is a big challenge.

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## ● 2. The group approach

The group approach tries to promote group ownership and management of resources. Examples of such interventions are village nurseries and woodlots, group livestock ownership, village seed and grain banks, etc. Similarly, public-works initiatives such as maintenance of roads, construction of school blocks, bridges or health centres fall within this category. For such projects, resources could be mobilized to the District Development Fund (DDF) and based on well-defined plans prepared by the community, they could access these resources. A typical example of this approach is the Malawi Social Action Fund (MASAF). Although in this approach the outputs accrue to all members of the group, or to the community at large, indirectly all the members also benefit at an individual level. This, in a way, is a communist approach to rural development, where through the group management of resources and the fact that benefits accrue to all members of the group or community equally, inequalities are minimized.

The main problem with this approach is that conflicts among the group members are usually inevitable. Even with a good capacity building programme aimed at ensuring effective group dynamics, such groups have usually fallen apart after the external support is discontinued. Thus, ensuring sustainability of group interventions without external support is usually a major challenge to development planners.

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## ● 3. The 'big Hit' on poverty approach

The 'big-hit' on poverty has been promoted by some donors because of the failure of earlier approaches to have a significant effect on poverty reduction within the



impact areas. This approach has consisted of making huge investments, such as irrigation, in a particular area. Examples of such investments are the Bwanje Valley Irrigation Project, funded by JICA, the Dwangwa-Illovo sugar plantation in Nkhotakota or the Ntchalo sugar plantation in Chikwawa. It is expected that such investments would directly benefit the surrounding communities through the provision of employment and markets for farm produce. Besides this, incomes derived from these investments would ultimately trickle down to the wider community.

These massive investments (such as Bwanje Valley Irrigation) have usually been transferred to government structures at the end of donor support. However, experience has shown that the Government has usually failed to sustain such structures through its budgetary allocation process. Furthermore, such investments have usually been quite extractive, with minimal benefits accruing to the surrounding communities. Thus, such models, much as they may be heavy on investment, play a minimal role in poverty reduction.

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### ● 3.2.2 Strengths of NGOs

The study by Phiri (2000) on the role of NGOs in natural-resources management revealed that these organizations have several strengths that could assist them in making significant impact on agriculture and overall rural development within their impact areas. These strengths could be outlined as follows:

- Most NGOs have more commitment in the areas they are working. This is mainly due to the fact that continued donor financial support is contingent upon measurable results of their activities. Thus they would like to see change that is attributed to their work in the lives of the people they support. This reinforces the commitment of staff members in all their activities. They are result-oriented and as such they tend to win the confidence of the communities they are working with. This sets a strong base for any future interventions to be promoted in the area. Generally the 'noise' they make has an influence on policy direction.
- Most NGOs conduct training of target community members on a regular basis, building capacity for long-term interventions.
- NGOs have very little bureaucracy. This enables them to make decisions on the spot on what needs to be done, instead of seeking approval from the top management all the time. Because of this,

those who are committed and innovative are able to experiment with things without any major management constraints.

- The NGO's approach is participatory, from problem identification to planning, implementation, monitoring and evaluation. In this way, communities tend to feel ownership of the projects and are more interested in participating and assessing the results. In addition, NGOs are always in direct contact with the communities, hence the support from the beneficiaries.
- Besides their technical capacity, NGOs are strong in mobilizing, organizing and motivating communities to comprehend crucial issues or problems that affect them. In this way, even in the absence of the NGO, communities can still make plans on various problems that they face in an autonomous way.

### ● 3.2.3 Weaknesses of NGOs

Despite all the good work carried out by NGOs throughout the country, they possess some major weaknesses that affect their activities and the sustainability of their projects. The main weaknesses are:

- Most NGOs have very few qualified staff on the ground. As a result, they rely on field staff from other departments such as Agriculture and Extension Development Officers (AEDO). In certain cases, because of the allowances NGOs pay to these government staff, the field staff have tended to neglect their normal work. This brings about conflicts between government departments and NGOs in the field.
- NGOs are too area-specific, even if a community across the boundary shows interest in their interventions. In line with this, they have set paradigms and rules to follow in the choice of the communities they would like to work with. This limits the impact of the projects – only very few communities can benefit at any particular time. They are also too rigid in their programmes, which limits collaboration with other departments or NGOs.
- Since most projects run by NGOs are time-bound, with limited resources to spend, if there is no proper mechanism in place to implement the project, they tend to impose things in the limited time without adequate community participation. They want quick results,

trying to please the donors to ensure more funding. This may compromise the efficiency with which the services are delivered and sustainability is not ensured in this case.

- Lastly, NGOs have tended to focus much of their efforts on relief programmes to access donor funding, taking advantage of the chronic food insecurity or recurring food-crisis situations that have persisted during the last decade. The sustainability of most NGOs is contingent upon their ability to attract donor funding. This is usually ensured through demonstrated results. Developmental activities have a longer time-lag in producing results that would help justify continued funding from donors – hence the preference for the ‘quick-results, quick-money’ strategy through relief activities. However, this is not good for the country. There is a need to balance short-term and long-term strategies if poverty and hunger are one day going to be things of the past.

The weaknesses of NGOs in significantly contributing to poverty reduction are also compounded by the fact that the farmers they support are not adequately assisted in marketing their produce. They also suffer the negative impacts of market liberalization that has resulted in an oligopolistic situation, where traders usually collude to purchase smallholder agricultural produce at low prices. This leads us to the next section, discussing the changes that have taken place in the way smallholder agricultural produce is marketed in the country.

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### • 3.3 Agricultural marketing arrangements and farm level returns

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#### • 3.3.1 Agricultural dualism

The agricultural sector in Malawi is dualistic in nature, comprising the smallholder and the estate sub-sectors. By definition, smallholder farmers are those who cultivate on communal land – customary land of which they have no right to sale. The smallholder sub-sector comprises about 2.4 million farm families occupying around 4.55 million hectares of cultivable land (about 80% of total cultivable land) under the customary land-tenure system. The sub-sector is predominantly subsistence, growing a number of food crops like maize, cassava, sorghum, rice, beans and groundnuts. The smallholder sub-sector supplies about 85% of the country’s food requirements and accounts for 80% of total agricultural output. The smallholder sub-sector also produces some export and cash crops, which include tobacco, cotton, chillies, coffee, soybeans and sunflowers (Kherallah *et al.*, 2001).

The estate sub-sector mainly produces high-value crops like tobacco, tea, coffee and sugar on leasehold land. Much of the maize production on estates is mainly undertaken to meet food requirements for farm workers. However, an increasing number of estates are also involved in maize-seed multiplication programmes. As of 1992, there were about 26,000 estates occupying an area of about 1.2 million hectares (about 20% of total cultivable land). The estate sub-sector comes second to the smallholder sub-sector in terms of employment, with tea and tobacco estates accounting for about 75% of the estate sub-sectoral employment (Gough *et al.*, 2001).

Besides the land-tenure arrangements, the two sub-sectors have also been delineated by the way they market their produce. While smallholder farmers relied on the Agricultural Development and Marketing Corporation (ADMARC) for the sale of their produce and purchase of agricultural inputs, the estate sector had the privilege of selling its produce directly on the world markets and through the auction floors. It is through this dualism that until the late 1980s Malawi promoted its agricultural policy of primarily producing cash crops (mainly on estates) that would fetch the highest prices in the international markets, subject to maintenance of self-sufficiency in food production (mainly through smallholder farmers). However, the adoption of Structural Adjustment Programmes (SAPs) since 1981, among other things, has meant relaxing most of such rigid structures.

### ● 3.3.2 Agricultural market reforms in Malawi

Malawi, then Nyasaland, had been a British colony since 1891. The country gained its independence in 1964 under the leadership of Dr Hastings Kamuzu Banda. The development strategies of both the colonial and post-colonial governments tended to favour the estate sub-sector at the expense of the smallholder sub-sector. This was manifested in the Government's imposed restrictions on the production and marketing of smallholder agricultural crops, as alluded to above. Such restrictions included the following. (i) Fixing smallholder export prices below the export parity levels (see Table 4). The figures show that some of these smallholder farmer crops were in some seasons implicitly taxed at as high as 80%. This meant 'milking' the farmers. (ii) Prohibiting smallholder farmers from producing and marketing high-value crops such as burley tobacco through the Special Crops Ac. (iii) Monopolizing the marketing of virtually all smallholder inputs and crops through the parastatal organization known as ADMARC (Kherallah *et al.*, 2001).

**Table 4: Nominal protection coefficients<sup>3</sup> on smallholder export crop production**

Year	Rice	Tobacco	Groundnuts	Beans	Cotton
1980/81	0.21	0.16	0.32	0.31	0.47
1984/85	0.40	0.78	0.74	0.73	0.27
1987/88	0.20	0.26	0.87	0.68	0.50
1991/92	0.13	0.45	0.44	0.71	0.27

Source: ADMARC Records and National Statistical Office Statistical Bulletins

In response to the shocks and macroeconomic imbalances experienced from 1979, the Government, with assistance from the World Bank and the International Monetary Fund (IMF), embarked on a series of structural adjustment and macroeconomic stabilization programmes in 1981. Key elements of the Structural Adjustment Programmes were: a) restructuring of certain parastatal organizations; b) adoption of a flexible exchange- and interest-rate regime; c) removal of price controls, subsidies and other distortions in the agricultural sector; d) improved resource mobilization and expenditure allocation in the public sector; and e) market liberalization or introduction of a multi-channel marketing system for most agricultural commodities (Sen and Chinkunda, July 2002 and Mosley, 2000). The economic reforms were introduced with the objective of stimulating private-sector participation in various economic activities in the country, and adjusting the economy to attain sustainable growth and poverty reduction. The intended reforms, however, were rarely implemented and policy reversals were very common. Later in 1987, under the World Bank structural programmes and loan facility, smallholder output markets were freed, except cotton and tobacco. In 1990, smallholder farmers were allowed to grow burley tobacco but under a quota system. Cotton production and marketing were liberalized in 1991. Importation and distribution of fertilizers to smallholder farmers was liberalized in May 1993 and fertilizer subsidies were completely eliminated in 1995/96. Production and marketing of hybrid maize seed was liberalized in 1994/95. ADMARC continued to set a price band for maize until 1999. Private traders were allowed to trade freely between a maize floor price and a ceiling price, and ADMARC acted as a buyer of last resort for staple food crops.

In spite of implementing the IMF and World Bank-supported SAPs, the Government continues to intervene in the market by fixing maize prices at levels that are often not in line with existing market conditions (Mataya and Kamchacha, 2005). Quoting Rubey (2005) the authors indicate that observations have shown that maize shortages and acute fluctuations in maize prices in Malawi have been associated with government interference in the marketing system,

<sup>3</sup> Nominal Protection Coefficients measure the percentage of the world produce market price given to smallholder farmers through parastatals such as ADMARC; this means that farmers are implicitly taxed

while availability of maize supplies and stability in prices have been associated with private-sector participation. With regards to the other crops grown by smallholder farmers, despite market liberalization – which in theory was supposed to result in better farm-gate prices than those that prevailed during ADMARC monopoly – the current oligopolistic situation still puts the middlemen at exploitative advantage. Commonly called private traders, these usually collude and continue to exploit the smallholder farmers. Most of the value-chain analyses that have been carried out in Malawi show that middlemen, much as they are an easy link between the farmers and the processors or indeed the final consumer, usually enjoy more of the benefits of the marketing arrangements than the people who do much of the sweating – the smallholder farmers.

### ● 3.3.3 Value chains under the current free market situation

According to Kumchulesi (2004), there are three common approaches to analyzing the efficiency of a market. These approaches are the industrial organization approach, the sub-sector approach and the value-chain approach. Shaffer (1968) defined sub-sector as the vertical set of activities in the production and distribution of a closely related set of commodities. It differs from an industrial organization in its inclusion of all the vertical components, as opposed to only horizontal activities.<sup>4</sup>

On the other hand, Sturgeon (2000) defines value chain as a sequence of productive (i.e. value-adding) activities leading to end use. Other names include supply chain, commodity chain, production chain, activities chain and pipeline. A value chain is an important analytical tool that is increasingly being used to evaluate the market potential of agricultural commodities. Traditionally, agricultural economists have employed a sub-sector analysis to describe the structure and dynamics of an agricultural sub-sector. However, its use has several weaknesses. These include the fact that sub-sector analysis tends to be static and suffers from its bounded parameters. In particular, sub-sector analysis struggles to deal with dynamic linkages between productive activities that go beyond that particular sub-sector. Consequently, agricultural economists are now increasingly undertaking value-chain analysis because it overcomes the major weaknesses of sub-sector analysis.

Kaplinsky and Morris (2000) suggest that value-chain analysis is important in this era of globalization for three main sets of reasons. Firstly, with the growing division of labour and the global dispersion of the production components, systemic competitiveness has become increasingly important. Secondly, efficiency in production is only a necessary condition for successfully penetrating global

<sup>4</sup> In industrial relationships there can be integration of several industries operating at the same level of the value chain, such as at the retail level – this is called horizontal integration; relationships that are established along the value chain define vertical integration

markets. Thirdly, entry into global markets, which allows for sustained income growth, requires an understanding of dynamic factors within the whole value chain. A value-chain analysis is also useful in helping identify weaker links along the value chain and finding ways of improving the situation. Furthermore, value-chain analysis is capable of enhancing understanding of the distributional outcomes of various players in the chain. This is made possible by measuring performance through the market margin analysis. It is in this latter part of the applications of value-chain analysis that we are interested in this paper.

### ● 3.3.3.1 Assessing value along the product chain

Until the liberalization of agricultural marketing in 1987, much of all the smallholder agricultural produce passed through the ADMARC purchasing point throughout the country. Through ADMARC, the Government adopted a pan-territorial and pan-seasonal price policy of all the major smallholder crops. However, the financial crisis experienced by ADMARC in 1985/86, and the pressure under the SAP, which addressed efficiency and budgetary issues, led the Government in 1987 to liberalize smallholder produce markets. The main objective of this policy was to relieve ADMARC of some of its cash burdens and improve its financial and short-term liquidity positions. Government and donors also hoped that liberalization would encourage efficient resource allocation and utilization by allowing marketing forces of demand and supply to play a more dominant role (Nakhumwa, 1994).

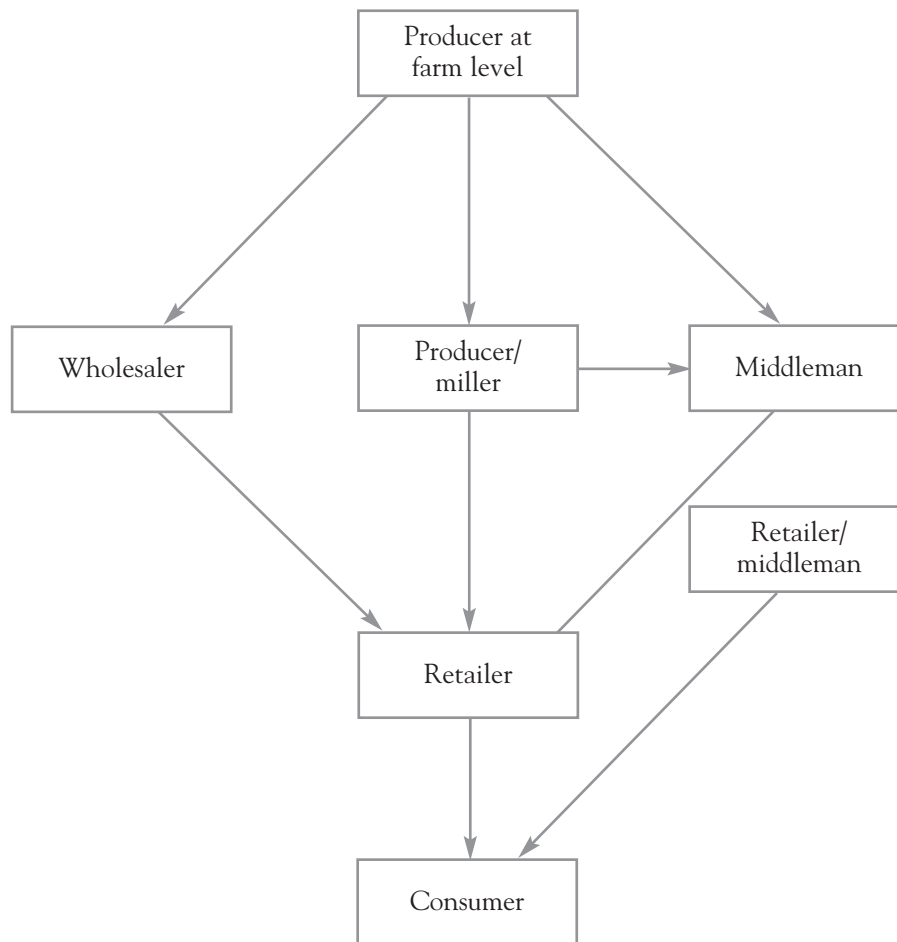
The World Bank and the IMF believed that price signals were the best incentives for promotion of smallholder export crops. It was expected, among other strategies, that introduction of competition by allowing more players in the marketing of smallholder crops would provide a long-term solution. We argue in this paper that market liberalization has not eroded the exploitative behaviour of buyers, including small-scale middlemen and, most importantly, the food processors. It is important to note, however, that whatever the agricultural development programme, under the current liberalized marketing arrangements, farmers are expected to identify the buyers or marketing channels that they want. The choice of marketing channels has a bearing on the returns that they get for their produce. What type of marketing arrangement gives the highest returns to the farmers?

Performance of a market system or a value chain is assessed and measured in terms of efficiency and this is a widely accepted measure of performance (Singh *et al.*, 2000). Value-chain analyses of various crops have all revealed that markets of these commodities are inefficient. A summary of main conclusions from these studies will clarify the point.

**Rice marketing from the lakeshore flood plains:** This summary is from a study carried out by Njiwa (2007), which employed a value-chain analysis to assess the marketing efficiency of rice from the Bua and Kasitu rice schemes in Nkhota kota. The study identified five channels through which rice flowed from producers to the final consumers in Lilongwe City. These could be summarized according to the flow chart below:

- Channel 1: Producer – wholesaler – retailer – consumer
- Channel 2: Producer – producer/miller – retailer – consumer
- Channel 3: Producer – middleman – retailer/middleman – consumer
- Channel 4: Producer – producer/miller – middleman – retailer – consumer
- Channel 5: Producer – producer/miller – retailer/middleman – consumer

● **Figure 2: Rice marketing channels for Lilongwe market**



Source: Njiwa (2007) MSc. Thesis about to be published

Note: Some of the rice is sold whole from the farmers, and wholesalers organize their own milling outside the chain or retail it whole, as shown here.



The assessment of the performance of the rice market revealed that not all the channels were efficient, or not all the channels gave the farmer rewarding enough margins. From this study, it was demonstrated that when farmers also participate at various levels of the marketing chain, they gain greater rewards. In this case, channels 2 and 4 were the most profitable for the farmers because they engaged themselves in milling the rice or operated as middlemen, thereby assuming for themselves the profits that would have gone to the middlemen or millers. From a policy point of view, this means that farming systems promoting value addition or grouping farmers into marketing entities encourage marketing efficiency in the sense that the exploitative behaviour of the middlemen is minimized or indeed eliminated.

**Soybean marketing:** A study by Kaunda-Nakhumwa (2001) on soybean marketing identified three main marketing channels. A trader's surplus of 30.3% was obtained, indicating that the marketing of this commodity by private traders was slightly efficient in price, as the trader's surplus was only slightly higher than the acceptable 20–30% range. On the other hand, the farmer obtained the highest price if he sold directly to the consumers through the local markets.

**Banana Marketing:** A study by Mkandawire (2003) on banana marketing in Malawi identified three main marketing channels. In two out of three of these, retailers as well as middlemen made supernormal profits – above the 20–30% acceptable range. However, the farmer's share of the final price was highest in the third channel where the farmer also acted as a middleman. The longer the marketing channel, the lower the farm gate price.

● **Table 5: Gross market margins**

GMM*	Lilongwe (%)		Mzuzu (%)	
	Channel 1	Channel 2	Channel 1	Channel 2
TGMM	77.45	49.75	76.60	49.56
GMMM	35.15	-	31.90	-
GMMR	42.30	49.75	44.70	49.56
Producer participation	22.55	50.25	23.40	50.44

Note: \*GMM = Gross Market Margin  
 TGMM = Total Gross Market Margin  
 GMMM = Gross Market Margin Middleman  
 GMMR = Gross Market Margin Retailer

From the table above, it is evident that the producer's share (of the total value) is lowest in channel 1, where farmers sold their produce straight from the farm at farm gate prices. The producer's share, as measured by their participation

percentage on the value shared along the chain, was 22.55% and 23.4% for Lilongwe and Mzuzu respectively. However, their share improved substantially in situations where they also acted as middlemen, with shares rising to 50.25% and 50.44% respectively.

**Groundnut marketing:** A study by Kumchulesi (2004) on the marketing of groundnuts identified five marketing channels. The findings of the farmers' mark-up revealed that all the market outlets of groundnuts for the farmer were inefficient because they all fell outside the accepted range of 20–30%. The situation was worse for the farmers if they sold to the intermediate traders (i.e. vendors and NASFAM) because they were exploited, as the mark-up was below 20%. Paradoxically, selling to NASFAM seemed a worse case, and yet NASFAM is supposed to benefit farmers by offering them a higher price and protect them from being exploited by the vendors through the farmers' associations. However, selling to the local market benefited the farmer with supernormal profits, since the mark-up was 40.41% – way above the accepted 30%. This result shows that by selling directly to the final consumers in the local market, the farmer is able to extract attractive rent rather than selling the groundnuts to intermediaries.

**Cassava marketing:** A study by Kambewa, Chiwaula, Kumchulesi and Chiwona (2005) identified two marketing channels for raw cassava and makaka<sup>5</sup> from Domasi. The marketing channels that were identified showed that raw cassava and makaka took different directions in their marketing channels. This study mainly adopted the gross-margin analysis approach to identifying marketing inefficiencies. Among other things, the study established that the type of buyer also had an impact on the gross margin that the farmer got since the type of buyer had an influence on the pricing behaviour. There have been incidences where farmers who sold fresh cassava direct to the consumers had a lower gross margin than those who sold their cassava to traders, with the former getting a gross margin of MK1485.24 (£5.30) and the latter MK3091.33 (£11.0) per hectare. These farmers who sold cassava directly to consumers obtained a gross margin per-unit cost of MK3.53 (£0.01), while those who sold to intermediate buyers obtained a gross margin per-unit cost of MK8.70 (£0.03). This works contrary to the expectation that farmers who sell directly to consumers make more profits than those who sell to traders. According to the authors, possible explanations could be that farmers who sell to consumers are mostly the ones that have produced less cassava and also the ones who sell makaka. However, it is most likely that the farmers were attempting to sell to buyers who were seriously poor and therefore the price was the only one affordable. The poverty of the rural areas can create a two-tier price in Malawi, with prices in the major towns and cities considerably higher than those in rural areas. This demonstrates that despite the exploitative nature of most traders, the fact that they buy in bulk can, on occasion, help the

<sup>5</sup> Dried chips from cassava

farmers to make more money than they do when they sell directly to consumers. It was also noted in this study that if they sold on their own, the farmers tended to incur additional costs such as transport, product preparation, packaging, etc. When they sell the cassava to the traders, most of these costs are usually incurred by the traders since they buy from the garden.

**International pricing versus Malawi pricing:** Consideration must be given to the international consumer price, not just to Malawi prices. Middlemen across the international value chain are equally exploitative, with the result that the value chain becomes completely skewed against the rural Malawian farmer.

If we look at prices being paid by UK consumers, the following results are of considerable concern:

● **Table 6: Prices for UK consumers**

	Banana	Thyme/sage per kilo	Green maize
UK consumer price	MK34 (£0.14)	MK44,800 (£162.22)	MK280 (£1.01)
Malawi consumer price	MK5 (£0.02)	MK448 (£1.62)	MK7 (£0.03)
Malawi farm price	MK3 (£0.01)	MK448 (£1.62)	MK3 (£0.01)
% share of UK consumer price by Malawi farm	8.8%	1.0%	1.1%
UK consumer price mark-up	1,133%	10,000%	9,333%

Further analysis of the value chain for herbs shows the following:

● **Table 7: Herb analysis**

**Thyme/sage**

Sale price by the farm to UK herb firm	MK448 (£1.60) per kilo
Transport cost from farm to UK (loose)	MK53 (£0.19) per kilo
UK-based herb bottling and packaging firm costs	MK8,400 (£30.00) per kilo
Sale price to supermarket	MK28,000 (£100) per kilo
Price to consumer	MK44,800 (£160) per kilo

The example for the green maize above equates to 9,333% more being paid in the UK than Africa Invest are getting at source at the farm in Lilongwe. Even taking into consideration the transport costs the margin between the price paid by the consumer and the money received by the farmer is huge.

**Wide price-gap producer and Malawi retail supermarkets:** A quick assessment of prices of a few key agricultural produce in some retail supermarkets<sup>6</sup> compared with those that farmers received<sup>7</sup> by selling to middlemen, along the roadside or

<sup>6</sup> A number of known supermarkets in Lilongwe

<sup>7</sup> Farm level prices were obtained by telephone from a few people working in some of the production areas

to NASFAM, revealed that there was a wide price margin between the farm level and the retail outlet. In all cases, Malawi supermarkets enjoyed more than double what the farmer received. The worst case was that of cabbages, where the price mark-up was more than 600%. What explains these huge price gaps? It is understood that some costs are incurred in the form of labour for loading and packaging as well as transport. But do these justify these price disparities? Something is wrong in the whole value chain, both in the UK and in Malawi.

● **Table 8: Summary of price margins of selected crops**

Price (MK)	Rice*	Sugar beans	Cabbages**	Green maize
Malawi farm-level	50	40	20	3
Malawi retail level	195	90***	125	7
Price margin	<b>145</b>	<b>50</b>	<b>105</b>	<b>4</b>
% mark-up	<b>290</b>	<b>125</b>	<b>525</b>	<b>133</b>

\* Kilombero rice variety only

\*\* Per cabbage

\*\*\* In some supermarkets the price is as high as MK195/kg

The aim of giving a summary of some available studies of the value chains was intended to provide a comparative basis of the philosophy and approach of Africa Invest with regards to the marketing of agricultural produce and the distribution of benefits. This was also aimed at demonstrating the fact that marketing arrangements are key poverty reduction factors in the rural areas, where the majority of people are engaged in agriculture as their main source of livelihood.

● **3.3.3.2 Greater share of the value chain to rural poor under the Africa Invest model**

Africa Invest is a new ‘entrant’ on the market in Malawi. It believes that its marketing approach needs to be different because its investment approach is also different. Unlike other marketing models that exist in the country, the company places itself strategically to cut off the operations of the middleman. Therefore, Africa Invest has the option of supplying its products to other companies, setting up its own outlets – or both. In pursuit of this objective, it has already explored various opportunities in the country as well as in the region for durable business relationships with various food chains as well as supermarkets. It is also considering packaging, branding, grades and standards as it explores market opportunities within the country and abroad.

Potential buyers that have already been identified in the country include Shoprite and Peoples Supermarkets as well as various restaurants, hotels/lodges and small shops.

However, one of the unique and least-understood aspects of Africa Invest is that it has a UK parent, seeking to establish markets in the UK and by so doing securing far more value from the value chain. This will, over time, allow expansion of agricultural capacity in Malawi and a growing share of the value chain with the rural poor.

It is by engaging in production, value adding as well as direct marketing activities, that Africa Invest believes it can eliminate the middlemen who, as it has already been demonstrated, are responsible for low farm gate prices as well as marketing margins. In so doing, it will gain a greater share of the value chain for itself and the rural poor.

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### ● 3.4 More competitive position on inputs, technology and yields

The competitive position on inputs, technology and yields was gained by examining the levels of productivity and gross margins (or gross profits) from other farming systems compared to those expected from Africa Invest. Table 9 shows the gross margins of rice and other crops from smallholder farming systems in Nkhota kota. It should be noted that irrigation is the key to a marked improvement of production – and only land aggregation allows for it.

The main variable costs used in the calculation of the gross margins were seed cost, inorganic fertilizer cost, organic fertilizer cost, cost of hired labour in all the field activities, cost of rented land and cost of chemicals where applicable. The highest gross margins were obtained from tobacco followed by cassava, while rice was in third position, with gross margins three times lower than those of tobacco. When rice gross margins were compared to those from Africa Invest, the latter showed a much higher competitive position. This is because Africa Invest has a gross profit (gross margin) double that of the management systems. This is despite the fact that other variable costs such as diesel, bagging and threshing are included in the calculations. What this reveals is that the improved management systems, coupled with the use of improved technologies, has significant bearing on the expected returns at the farm level.

● **Table 9: Gross margins for rice and other crops**

Crop	Total gross margin (per hectare)
Rice	MK21,276.47 (£77.04)
Maize	MK11,934.26 (£43.21)
Tobacco	MK70,383.59 (£254.85)
Cassava	MK55,887.97 (£202.37)
Tomatoes	MK20,425.00 (£73.96)

Source: Njiwa (2007)

● **Table 10: Forecast of production costs and return for Dwambazi Farm**

Variable costs	Units	Per hectare
Seed cost	MK25 (£0.09) per hectare	MK2,750 (£9.96)
Fertilizer	4.2 bags per hectare	MK16,800 (£20.83)
Paddy repairs	5 man days	MK875 (£3.17)
Nursery	12.5 man days	MK2,190 (£7.93)
Planting	34 man days	MK5,950 (£21.54)
Fertilizing	1.5 man days	MK265 (£0.96)
Transport		MK18,000 (£65.18)
Weeding	8.3 man days	MK1,460 (£5.29)
Harvesting	16.6 man days	MK2,916 (£10.56)
Threshing/ Bagging	10 man days	MK1,750 (£6.34)
Diesel	40 litres per hectare	MK6,430 (£23.28)
<i>Total costs</i>		MK59,386.00 (£215.03)
Other costs		MK7,800.00 (£28.24)
<i>Total costs</i>		MK67,186.00 (£243.28)
<b>Production value</b>		
Yield	3 tonnes	
Price per tonne	MK35,000 (£126.73)	
Crop value per hectare		105,000 (£380.20)
<b>Gross profit: MK105,000 – MK67,186 = MK37,814</b>		
<b>(£380.20 – £243.28 = £136.92)</b>		

### ● 3.5 Impact analysis of Africa Invest on the Dwambazi Economy

The impact of Africa Invest in the Dwambazi area can be assessed by examining the rural job market with regards to the potential that the company has in injecting the Malawi Kwacha into the local economy. It is worth pointing out from the start that the dynamism of the local economy is already being felt, with less than a year's presence of the company in the area.

### ● 3.5.1 Financial analysis by forecast labour market requirement

As already states, besides being a for-profit company, Africa Invest has a very strong social obligation towards the communities in which it invests. This is manifested in the relatively high daily wage rates paid to its labourers, a profit-sharing scheme with the communities – who then use the profit share for community development activities – and of course through the annual land rentals, besides the fact that this land is leased for a period of at least 10 years. From the labour perspective alone, a number of issues could be pointed out with regards to its levels of contribution to the local labour market, as well as the amount of money spent on labour that goes directly into the local economy.

Firstly, the company forecasts that it will directly employ a total of 29,796 man days of casual labour on the various enterprises in which it plans to engage. These could be broken down as follows:

Man day per hectare per crop:

Crop 1 (rain-fed rice)	87.9 man days x 120 hectares	= 10,548
Crop 2 (irrigated beans)	61.25 man days x 120 hectares	= 7,350
Crop 3 (irrigated rice)	99.15 man days x 120 hectares	= 11,898

This makes a total per annum of 29,796 man days. With a daily wage rate of MK175 (£0.63), this translates into MK5,214,300 (£18,880.59) entering the Dwambazi local economy annually.

The company also contributes to the local economy through a salaried workforce, which is preferably recruited from within the community. A total of 17 salaried staff members are recruited at Dwambazi Farm alone, as follows:

- Senior Farm Manager
- Assistant Farm Manager
- Senior Supervisor x 2
- Supervisor x 4
- Clerk
- Stores Person
- Feeding Programme Manager
- Feeding Programme Assistants x 3
- Security Guards x 3

This workforce receives a total of MK2,268,000 (£8,212.26) per annum. This amount, added to the wage bill for the casual labour force, gives a total of MK7,482,300 (£27,092.85) per annum.

Africa Invest's activities are not about securing local labour for purely manual purposes; they also have a defined career path that allows developing skills for farming, irrigation, stock management and transportation. As the company grows, its demand for labour increases, thereby creating more jobs for the local people, and more and more people will acquire skills that can be used beyond Africa Invest's needs.

### ● 3.5.2 The impact of Kwacha circulation in the micro-economy

Section 1.2 gave a synopsis of poverty in Malawi, and showed that 52.4% of the people lived with incomes below the poverty line, which is currently at MK16,165 (£58.53) per annum. In Nkhotakota, 48% of the population lived with incomes below the poverty line, with 11% classed as ultra-poor. It is to this local economy that Africa Invest endeavours to contribute, through employment creation and injection of Malawi Kwacha.

Based on the fact that Africa Invest has plans to grow to up to 1,000 hectares from the current 370 hectares, profit forecasts per hectare for landowners are MK19,709 (£71.36).

However, given that Dwambazi alone has 120 hectares of land in production, annual revenues from profit sharing would be MK2,365,080 (£8,563.78).

A combined economic picture of Africa Invest's operations in Dwambazi would be as follows:

● Employment	29,796 man days
● Labour value	MK5,214,300 (£18,880.59)
● Salaried staff	MK2,268,000 (£8,212.26)
● Landholder profit share	MK2,365,080 (£8,563.78)

This gives a total of MK9,847,380 (£35,656.63) annual revenue going into the local economy. This means that the company impacts directly on the livelihoods of the participating individuals from the community. As it has been demonstrated, through Africa Invest the labour force is capable of making double the level of



incomes they would earn from other projects or programmes where they are to receive a daily wage rate of less than MK100 (£0.36). Through the company's arrangements, more than MK9 million (£32,588.23) would directly enter into the local economy annually. This would have significant impact on its economic growth but more importantly, on the livelihoods of the individual households in the area.

The forecast earnings of individual landholders is as follows (based on one hectare):

• Land rental	MK4,000 (£14.48)
• Employment	MK42,000 (£152.08)
• Forecast profit share	MK23,650 (£85.63)
• <i>Total</i>	MK69,650 (£252.20)

Section 1.2 identified that MK16,165 (£58.53) was the poverty line. Under Africa Invest these landholders have been lifted way above the poverty line.

**Additional benefits to the village:** Africa Invest will work with the village community to complete the Millennium Goals within two years of the commencement of the farm. The company envisages support funding for this from the Malawi Government, NGOs and other international donors. However, the implementation will be carried out by Africa Invest, helping drive forward community enrichment. The vulnerable groups in the village area are already attended to through the company's feeding programmes, with 850 children and elderly now participating.

A linear assumption would be as follows: as more Malawi Kwacha is injected into the local economy, it will encourage more businesses into the area, since there is effective demand, and this would automatically lead to the growth of the local economy, directly feeding into the national economy via substantial reductions in poverty levels in Dwambazi.

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### • 3.6 Compatibility of the Africa Invest approach

It is important to assess the compatibility of the Africa Invest approach to the general development approaches or perspectives in the country, in order to be certain that the Africa Invest model is indeed viable and will not be a source of confusion in the economy. Hence, our assessment will focus on its compatibility at three levels:

1. Compatibility with the objectives of the Malawi Government
2. Compatibility with the objectives of the international community
3. Compatibility with the NGOs.

### ● 3.6.1 Objectives of the Malawi Government

The Malawi Growth and Development Strategy (MGDS) has been developed as the overarching development strategy for Malawi for the next five years – from the 2006/07 to the 2010/2011 fiscal years. It presents a policy framework that articulates issues related to both economic growth and development. The policy mix of the MGDS is aimed at achieving the medium-term development objectives for the country. The purpose of the MGDS is to serve as a single reference document for policy-makers in the Government, the private sector, NGOs and cooperating partners on the Government's socioeconomic development priorities.

The MGDS is not a standalone policy document. It has been derived on the basis of the current long-term policy goal of the country prescribed in Vision 2020 and past experiences in the implementation of medium-term policy objectives such as the Malawi Poverty Reduction Strategy (MPRS) and Malawi Economic Growth Strategy (MEGS). The MGDS is not an alternative to MPRS or MEGS, or Vision 2020, but rather an implementable medium-term strategy that translates the goals and objectives that emerged from a nationwide consultation process, and is reflected in Vision 2020. It intends to build a broad political consensus on the direction for economic growth and wealth creation.

The main driving force of the MGDS is to institute strategies that will stimulate economic growth and bring about prosperity and improve welfare of most Malawians. It is expected that once the strategy is implemented, it will transform the country from a predominately importing and consuming country into a predominately producing and exporting country.

It can be noted from the short summary on the focus of the MGDS that Africa Invest's approach and philosophy is quite consistent with the Malawi Government's development agenda. Poverty reduction through high levels of economic growth is the main focus of the current Government. The Government of Malawi also realizes that it cannot go it alone in this huge task of achieving a dual objective of economic growth and poverty reduction centred on export promotion. Partnerships are required to effectively tap into the existing resources – human and financial – cognizant of the fact that the Government is usually resource constrained. Therefore, building strong and long-term relationships with organizations such as Africa Invest will go a long way towards alleviating some of

the development problems that the country as a whole is currently facing. Africa Invest has at its heart the welfare of the communities in which it makes its investments, despite its for-profit status. The profit objectives need to be seen in context. Africa Invest sees its key contribution to Malawi as a conduit to investment funding from the UK. It is imperative for the company to establish return on capital invested – otherwise investment will be choked off. The company treads the middle ground between NGO funding and the usual extractive commercial farming, and if its investment is a success then many more Malawian farmers can benefit from a virtually endless supply of investment capital. As the company's website ([www.startinvestingstopgiving.com](http://www.startinvestingstopgiving.com)) suggests, its hope is that investment – not donations – will help solve the problems of Malawi poverty.

Structural shifts in the value chain will only assist poverty reduction. Furthermore, investing in high-value crops for local as well as international markets and promotion of value-adding activities are some of its key mediums to long-term commitments in Malawi. Hence, employment creation and generation of the much-needed foreign currency are two of the major contributions of Africa Invest to Malawi's economy. As the investment funds are coming from the UK, the Malawi Reserve Bank benefits twice over: hard currency is entering the country as an investment and this investment results in export crops generating more hard currency.

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### ● 3.6.2 Objectives of the international community

Malawi remains committed to achieving the Millennium Development Goals (MGDs) localized to the Malawian context. The strategy recognizes that without economic growth there will be little chance of reducing poverty in the country. Therefore, economic growth is central to achieving the MDGs as it reduces poverty directly and expands availability of resources for improved service delivery. The MGDS recognizes the importance of the MDGs, hence the strategies in the MGDS have been aligned to the MDGs outcomes. Although the MGDS highlights several areas of focus in aligning itself to the MDGs, we would like to consider only a few of the most relevant ones with reference to Africa Invest's activities in Malawi.

- **Poverty:** The goal of the MGDS is to decrease poverty by 8% through a combination of (a) economic growth, economic empowerment and food security so that Malawians are less vulnerable to economic shocks, and (b) measures to protect those who temporarily fall into poverty through increasing assets for the poor. The strategy

seeks to decrease the fluctuations in poverty by providing economic conditions to help keep those that move out of poverty, out, and ensure that those who are already out of poverty do not fall into it due to economic shocks. As discussed above, Africa Invest directly contributes to this objective.

- **Hunger:** The MGDS seeks to directly decrease the proportion of the population who suffer from hunger and to improve the nutritional status of the population. Cycles of hunger are a factor in people moving into poverty. Food security is one of the key priorities. Africa Invest is contributing to this objective directly through poverty reduction in the villages in which it works. In addition, it also runs a feeding programme for vulnerable groups. This constitutes a large proportion of its commitments in the communities.

- **Environmental sustainability:** The MGDS recognizes that managing its natural resources is an essential aspect of environmental sustainability. Thus, not only does the strategy directly consider environmental sustainability in forestry resources and fisheries, and in enforcement and education of environmental standards, but it also seeks to identify areas such as ecotourism that have a positive spill-over effect on economic sustainability. This is another area in which Africa Invest would like to invest.

- **Access to water:** The MGDS seeks to achieve the MDG of access to clean water and sanitation. Through Africa Invest's involvement, the community will be fast-tracked to receive portable clean water. Besides a portable water supply, Africa Invest will also contribute to the provision and organization of electricity, sanitation, education and healthcare facilities in the communities. Hence, while contributing to the MGDS, Africa Invest is also contributing some of the international objectives, in particular the MDGs.

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### ● 3.6.3 The NGOs

Non-Governmental Organizations (NGO) are the most visible types of civil society organizations in Malawi. Caitlin *et al.* (1999) point out that at the turn of the millennium, the world economy was confronted with both old entrenched forms of poverty and deprivation, and rapidly changing new forms of inequality and exclusion. In this wake, civil society has been called upon to shoulder an increasing share of the responsibility for eradicating poverty.

Above all, civil society reminds us that people living in poverty are citizens of society, with rights and entitlements to claim the benefits of development. Squarely set within the context of citizen's rights, poverty eradication takes on a rich tradition of international human rights law that recognizes the political, social, economic and cultural dimensions of deprivation. As such, civil society is changing both the understanding of poverty and the imperative for its eradication from fulfilling basic needs as an act of charity, to fulfilling rights to which citizens are entitled (as a societal obligation). Most recently, no doubt spurred by the fiftieth anniversary of the Human Rights Declaration in 1998, many UN agencies have been trying to advance a rights-based approach to development and poverty. Today, civil society has been at the forefront of putting a rights-based approach to poverty and globalization to the test.

It is with this imperative that NGOs in the country enjoy various levels of donor support. In principle, their motivation to development work is similar to that of Africa Invest. The major point of departure between the two, however, is the fact that Africa Invest is a for-profit organization. Its model also emphasizes a greater share of the value chain to the local communities. In other words, its approach emphasizes supporting the rural people, with a 'big push' up to such a time that they can run on their own. By that time, most of those who have benefited from its activities will have developed enough 'muscle' to be able to stand on their own. By signing a 10-year lease with local communities for the use of their land, the local people are guaranteed a 10-year working relationship with them. A longer relationship than 10 years is also possible. What this means is that a longer period of learning by working together is ensured, and by the time the company decides to invest elsewhere, the communities will have gained enough experience to run the programmes that have been initiated on their own. Most NGOs, on the other hand, operate on project cycles of five years and abandon the community thereafter for another community. This they justify with the fact that resources are scarce and other communities also need to benefit. The truth of the matter is that people in the community they are about to abandon have just licked on the 'soup' then the meat is taken away. Strong structures that ensure sustainability are usually absent.

Through our extensive experience in evaluating NGO work in the country, it has become clear that most NGOs operate on top-heavy expenditure structures, with a smaller proportion of their budgets spent on areas of their *raison d'être* – target communities. In addition, the relatively short project cycle usually affects the sustainability of their initiatives. This is because before the communities master what the NGO has introduced, they are already closing the door. After a few years, coming back to the community to assess the ex-post impact of NGO projects has usually been disappointing, mainly with regards to their long-term

effects on reducing poverty. Indeed, people narrate anecdotes of their interaction with the organization, but evidence as reflected in improvements in livelihoods is usually missing. And yet a lot of donor funding was spent.

The key question here is whether or not to continue spending the scarce donor funds in this way, when the volumes of funding do not even make a dent in poverty of the masses? Perhaps new and more innovative approaches need to be adopted that ensure a quick turnaround in the lives of many. If this happens, many conservative not-for-profit organizations will fall apart. Since 1993, Malawi has witnessed a fast growth in the number of NGOs in the country. If from the outset these organizations were given an area to develop for a decade before they shift to another one, more significant results on reducing poverty in the country might have been achieved. It is nice to advocate for policy change, but it is also important to ensure that we contribute effectively to improving the lives of the people who are targeted by the policy change.

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## ● 4.0 CONCLUSIONS

The paper has clearly shown that Malawi is in need of assistance to move out of its poverty trap. While many organizations, using massive donor funds, engage in various activities carrying the flag of ‘we have come to assist the government in reducing poverty’, the majority of these organizations are yet to demonstrate tangible results on poverty reduction. A borehole may be sunk or a certain number of people are given free seed, but much of this results in minimal livelihood changes at the local level.

The Africa Invest model has induced a paradigm shift with regards to the way civil society or indeed government development partners such as the donor community should design development assistance. With more than a decade of massive investments into the country through civil society operations, how much growth attributed to their participation has been generated? This is worth re-examining and establishing new forms of partnership with the target communities, who should be called partners in development. Through the social protection programmes that the Government is planning to implement – among them cash-transfer schemes – would job creation through an investment approach not be a better way of using the scarce donor funds, rather than sharing it among a few, which might not necessarily lead to economic growth?

The merits of the Africa Invest model are clear, and within less than a year of operation in the area, its presence is already being felt through an increasingly vibrant local economy.

