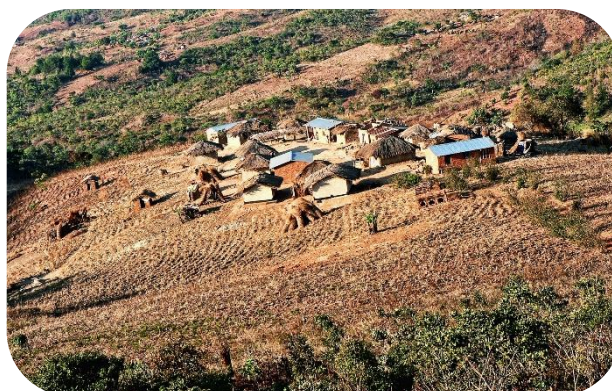


# Malawi

## Policy action for sustainable food system transformation

### Context

Agriculture plays a crucial role in Malawi's economy, contributing significantly to growth, employment, food security and nutrition. It accounts for 22.7% of the country's GDP, generates over 80% of export earnings, and employs 64% of the workforce. However, the sector faces various challenges, including low agricultural productivity, monocropping of maize production, land degradation, vulnerability to climate change, and low levels of commercialization.



To address these challenges, Malawi needs to invest in the sector, provide correct incentives and improve provision of public goods and services – to improve productivity, diversify crops and promote sustainable land management practices.

In keeping with the African Union (AU) Comprehensive African Agriculture Development Programme (CAADP) recommendations, Malawi has made progress towards meeting the CAADP target of allocating 10% of national budgets to the agriculture sector over the past decade. However, increased public expenditure for the sector has seen mixed outcomes. For example, Malawi's agricultural GDP growth rates have averaged 2.7% between 2010 and 2021, well below the potential 6% annual average sector growth rate envisioned by the CAADP. The declining macroeconomic situation has further compounded the issue, as increasing debt levels and shrinking fiscal space are putting increasing pressure on budgetary allocations for agriculture. The Malawian kwacha has also faced significant devaluation, which has exerted inflationary pressure leading to forex shortages and affecting the imports of critical inputs such as fertilizers. Consequently, prices of food commodities have been rising, compounded by elevated global prices for grains and cooking oil. Food inflation had reached 37.9% in April 2023, its highest point since 2013.

### Rationale

Achieving sustained agricultural growth and rural transformation in Malawi requires a systemic shift in the way the agriculture and food system are supported. For example, about 70% of government agricultural expenditure has been allocated to an agricultural inputs programme (AIP), which has had limited impact on productivity growth, as evidenced by stagnant and low maize yields. This policy bias on subsidizing inputs specifically for maize has crowded out expenditure on essential public goods and services such as research and extension, and skills and infrastructure development. Moreover, it has also incentivized farmers to remain engaged

in subsistence maize farming, which negatively impacts agricultural diversification and the commercialization, resilience and productivity of the sector.

## Approach

Reforming the current agricultural support programmes and repurposing expenditure is critical to address the misalignment between policy priorities and public expenditures in Malawi. The Government of Malawi intends to reform its current AIP to provide an enabling environment and incentives to farmers that encourage diversification, productivity growth, resilience and sustainability. However, it is equally important to identify technically viable and politically feasible alternative mechanisms of support to achieve transformative change in the agrifoods system. Hence, the government is planning to pilot several options and generate the necessary evidence on the effectiveness and efficiency of these alternative mechanism of support.

Repurposing options being pursued include: (i) flexible e-vouchers to allow farmers to choose their own input bundles, (ii) incentivizing the adoption of proven practices that improve soil health in the local context by coupling some level of AIP support with the adoption of pre-identified practices and payments for ecosystem services, and (iii) bundling AIP with extension and advisory services to increase the impact of the subsidies provided to farmers. This will include strengthening extension services – through training, content development, and the effective use of the digital information system developed under an ongoing World Bank programme.

## Expected results

The objective is to pilot and generate necessary evidence for the government on the efficiency and efficacy of these alternative mechanisms of support which will lead to a reform of the AIP. An expected result is the removing bias of the current AIP on maize production, which encourages farmers to remain in subsistence maize farming. Another expected result is the expanding the mandate of the AIP from solely providing input subsidies, particularly for fertilizer, to also include sustainability of the food system. The final main expected result is higher investments in the provision of public goods and services which improve the efficiency and efficacy of support provided by enhancing the skillset of farmers and improving transparency.

## Lessons learned

- Repurposing options need to be designed given the local country context, development challenges and national priorities. The design of the repurposing options should be done in a participatory manner to identify mechanism that are technically feasible and politically and socioeconomically viable given the local country context.
- Policy reform should be evidence based and gradual, given the political economy.

These alternative mechanisms will be developed in collaboration with the government and local and international experts. The pilots will be carried out in selected districts for at least two seasons and scaled up under the World Bank Malawi Food Systems Resilience Program and the government AIP based on findings of the evaluation.

This is one in a set of country case studies demonstrating policy action that individual countries are taking with the aim of transition to sustainable agriculture. They are country owned and do not represent wider views of the Policy Dialogue participants.