



**University of Malawi
Chancellor College**

DEPARTMENT OF ECONOMICS

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Agricultural Marketing Liberalisation and the Plight of the Poor in Malawi

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and John Kadzandira**

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Agricultural Marketing Liberalisation and the Plight of the Poor in Malawi *

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Abstract: Since 1981 Malawi has implemented several economic policy reforms under the structural adjustment programmes. Most of the policies targeted the agricultural sector including deregulation of agricultural marketing activities, removal of fertilizer subsidies, devaluation of currency, liberalisation of agricultural prices and liberalisation of special crop production. The liberalisation of agricultural marketing was expected to provide incentives for the participation of the private sector, with consequences of competitive marketing benefiting smallholder farmers through better marketing arrangements and higher prices. However, the evidence from rural Malawi does suggest that smallholder farmers, particularly, the poor have been the main losers through unfair trading practices and monopsony power of private traders, and lack of reliable markets for agricultural produce and inputs.

1. Introduction

Many developing countries have sought to liberalize the marketing of agricultural produce or inputs within the framework of structural adjustment programs. The justification has been that state marketing agencies tend to cripple the operation of the market mechanism by restricting competition resulting in inefficiency of

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state marketing agencies and unrealistic prices to producers. Liberalization of agricultural markets has ranged from liberalization of marketing services to privatization of state marketing agencies. The results from agricultural marketing liberalisation have however been mixed. There has been considerable debate on whether the private marketing system can efficiently operate in developing countries, particularly in food marketing, in ensuring food security for the poor. Cooksey (2003) argues that liberalisation of both inputs and outputs has resulted in market failures. Others have provided evidence that the private marketing system is dominated by petty traders with substantial financial and capacity constraints and inter-seasonal and inter-regional arbitrage does not form part of the activities of this class of traders (Fafchamps and Gabre-Madhin, 2001).

Within the spirit of structural adjustment programs adopted by the Malawi government since 1981, reforming the agricultural sector, which is the mainstay of the economy, has been at the centre of adjustment policy (Chirwa, 1998). Agricultural sector reforms in Malawi began with the periodic upward adjustments in producer prices on major crops including maize and partial removal of subsidies on fertilizers. This was followed by restructuring of the state marketing agency, the Agricultural Development and Marketing Corporation (ADMARC), through rationalization and divestiture of its investment portfolio away from sectors unrelated to agricultural marketing activities since 1984. In 1987, the marketing of smallholder agricultural produce was liberalized through licensing of private traders, followed by removal of all licensing and registration procedures for private traders in produce and input markets by 1996. ADMARC also restructured its marketing activities by closing down markets that were unable to attain an annual throughput of 60 tons. The first round of closure of such markets occurred in 1988, in which 125 seasonal markets (15 percent of the total) were closed based on their insignificance in the volume of trade, largely in remote rural areas with poor infrastructure (Chirwa, 1998).

The expectation from the reforms was that private traders would take up the role of ADMARC even in remote areas where ADMARC pulled out, following the liberalisation of agricultural produce marketing in 1987. However, many studies have cast doubt on the capacity of private traders to reach the very remote areas that are deemed unprofitable by a state marketing agency. In earlier studies on the performance of private traders in Malawi, Mkwezalamba (1989) and Kaluwa (1992) reveal that most private traders are small-scale entrepreneurs with rural-based enterprises and usually face such constraints as transport facilities, storage facilities, processing

facilities, financing and credit facilities. Fafchamps and Gabre-Madhin (2001) also note that the average private trader in Malawi operates within a radius of 53 kilometres. Other recent studies have shown that while private traders have expanded their activities in agricultural produce since 1987, they are heavily concentrated in the Southern Region and to some extent in the Central Region while the Northern Region is generally unserved due to the problem of inaccessibility (Mthindi et al., 1999). Fafchamps and Gabre-Madhin (2001), using case studies from Benin and Malawi, also find evidence that the efficiency of private traders is constrained by the high transaction costs in form of search and transport costs. Others have argued that the continued existence of ADMARC as a state marketing agency is hindering the development of the private marketing system (Abbott and Poulin, 1996). Nonetheless, others identify ADMARC as a very important institution during crisis situations and that the closure of ADMARC markets has the potential to affect the livelihood systems of the poor (Khaila et al., 1999).

This study analyses the likely effects of closing ADMARC markets in the rural areas using *ex ante* analysis encapsulated in the Poverty and Social Impact Analysis (World Bank, 2003).¹ The paper is organized as follows. The next section provides a brief overview of state intervention and liberalisation in agricultural produce marketing in Malawi. Section 3 presents results on the impact of closure of markets or/and the declining business of ADMARC in rural markets and how smallholder farmers react to changes in marketing configurations. Section 4 provides concluding remarks and policy implications.

¹ The study used qualitative research methods involving focus group discussions, key informants' interviews and institutional interviews conducted in 10 ADMARC unit markets selected purposively based on their remoteness and their dominant livelihood characteristics. The 10 ADMARC unit markets included 6 unit markets that were earmarked for closure and 4 unit markets that were still active. A total of 20 villages were included in this study, resulting in a total of 40 focus group discussions (half with women groups), 54 semi-structured interviews, 9 interviews with ADMARC officials, 3 interviews with private traders and 32 interviews with other key informants (see Mvula et al., 2003).

2.0 State Intervention in Agricultural Produce Marketing in Malawi

2.1 *State Intervention and the Institutional Structure*

State marketing of agricultural crops in Malawi dates from the colonial era with the establishment of the Native Tobacco Board in 1926, the Maize Control Board and the Cotton Control Board in 1949, the renaming of the Maize Control Board to the Produce Marketing Board in the early 1950s, and the incorporation of all the three boards into the Agricultural Production and Marketing Board in 1956 (Chirwa, 1998). The board was mandated to provide a stable and efficient marketing system for cash crops produced on trust land while ensuring that growers were paid a price that provided a reasonable rate of return. However, in 1957, government policy shifted to providing the minimum uniform pre-planting prices.

In 1962 the Agricultural Production and Marketing Board was superseded by the Farmers Marketing Board, which had more extensive functions including responsibility for marketing, processing and disposal of agricultural products; provision of adequate price stability; provision of storage facilities on behalf of the government and subsidization of agricultural inputs. ADMARC was created in 1971 and replaced the Farmers Marketing Board. According to ADMARC (1974) ADMARC had broadly two mandates: marketing of agricultural produce and inputs and development of the smallholder agricultural sector through marketing activities and investments in agro-industry enterprises. To fulfil the marketing mandate, ADMARC developed an extensive network and infrastructure of markets across the country. The market infrastructure included regional offices, divisional offices, storage depots, area offices, unit markets and seasonal markets.²

In 1990, ADMARC operated through 1,300 seasonal markets, 217 unit markets, 80 area offices (parent markets), 18 storage depots, 12 divisional offices (district headquarters) and 3 regional offices (ADMARC, 1990). However, there has been a sharp reduction in the number of marketing establishments. In 2001, ADMARC only operated through 441 seasonal markets, 343 unit markets, 24 parent markets, 10 depots and 14 district headquarters markets. In 2002, the regional offices in the north and the centre were combined and

² Unit markets have permanent structures such as storage facilities and offices, with staff and, ideally, operate throughout the year and buy produce, sell produce and inputs. Seasonal markets are satellite markets of unit markets and have temporary structures and operate mainly in the harvesting seasons and are mainly used to purchase produce from farmers.

the regional office in Lilongwe caters for both the central and northern regions.

ADMARC also pursued a social function which was reflected in the pricing system for smallholder farmers particularly for maize and the establishment of markets in non-economic areas especially prior to structural adjustment programs. The pan-territorial and pan-seasonal pricing systems that were implemented by ADMARC were a reflection of ADMARC's *de facto* social function of providing maize at affordable prices to the poor and urban workers. Apart from agricultural marketing activities, ADMARC also invested heavily in form of equity investments and loans in various enterprises in the economy and was directly involved in estate agriculture. According to Chirwa (2000), by the mid-1980s, ADMARC had equity investments in 34 commercial enterprises and owned numerous estates. Harrigan (1991) argues that ADMARC used the surplus reaped in the trading activities to invest in industrial activities in various sectors of the economy.³

2.2 *The Role and Performance of ADMARC*

The 1970s were hay days for ADMARC, like for many other state-owned enterprises during that period - a decade that recorded consistent positive economic growth. Scarborough (1990) asserts that until the late 1970s and early 1980s ADMARC provided vital services to smallholder farmers including assured and reliable markets for smallholder output, payment of farmers with cash on delivery, provision of credit and subsidized inputs, stabilization of prices seasonally and annually, payment of higher maize prices to producers than the export parity prices, and provision of subsidized maize and rice to consumers.

However, ADMARC began experiencing operational problems beginning 1980, like many other state-owned enterprises, following an economic crisis that led to negative growth rates of gross domestic product in 1980 and 1981.⁴ The deterioration of terms of trade

³ Kydd and Christiansen (1982) note that between 1971 and 1979 ADMARC extracted about MK181.9 million from the smallholder sector, of which 14 percent was used to cross-subsidize smallholder food production and consumption while the remainder was used for equity investments and loans to subsidiaries with only 4.3 percent of such investments related to the development of the smallholder agriculture sector.

⁴ The economy was in a crisis due to several external factors including the intensification of the civil war in Mozambique that exacerbated the transport problems, deteriorating terms of trade, rising fuel costs, adverse weather conditions and weakening internal demand. The general decline in economic activities implied adversely on most sectors of the economy,

adversely affected ADMARC's profitability of the crop trading account. Scarborough (1990) argues that various external factors in combination with the illiquid nature of ADMARC's investments, its work force and its operational inflexibility weakened its capacity to sustain the quality of its marketing activities. The major factors that substantially affected the operational efficiency of ADMARC included deteriorating prices for the country's exports, change in government pricing policies, adverse weather conditions, a directive to establish and manage a strategic grain reserve, and increasing external transport and finance costs (Chirwa, 1998).

As a result, the financial position of ADMARC's crop trading account began to deteriorate, leading to the decline of crop purchases from smallholder farmers. The performance of the maize and rice trading accounts which were heavily cross-subsidized by cash crops even in the 1970s, worsened particularly between 1979 and 1986 and the profitable cash crops started recording losses. Chirwa (1998) argues that the poor performance of the maize trading account was partly a manifestation of the maize pricing policy that reduced the gross margin from 57 percent in the 1967-79 period to 25 percent in the 1980-86 period, ADMARC's increased involvement in portfolio investments, responsibility to manage strategic grain reserves and increased subsidies on inputs amid rising transport and handling costs.

2.3 *The Liberalization of State Marketing Activities*

The problems that confronted ADMARC in the early 1980s led to the liberalization of the marketing of smallholder agricultural produce in 1987 through the licensing of private traders within the framework of structural adjustment programs. Chirwa (1998) argues that the liberalization of agricultural markets was largely due to the push factors following the adoption of structural adjustment programs in which the deterioration of finances of state-owned enterprises, high subsidies via increasing budget deficits and inflexible government-determined pricing systems were identified as some of the structural factors leading to weakness in economic growth (Harrigan, 1991).⁵ The deregulation of agricultural markets was legislated in the Agriculture (General Purpose) Act of 1987 in which private traders

including the state-owned enterprise sector.

⁵ Harrigan (1988) notes that the Malawi government was under heavy pressure from the World Bank, International Monetary Fund and other bilateral donors to implement reforms in the pricing and marketing of smallholder agriculture crops with emphasis on rapid commercialisation and diversification of smallholder agriculture.

were required to be licensed annually to operate in specific markets, maize exports were controlled, minimum producer prices were to be announced annually and ADMARC would buy at these guaranteed prices, and private traders were to submit monthly statements of their transactions. In effect, there were no significant barriers to entry into the marketing of agricultural produce in the post-1987 period and the licensing procedure was highly decentralized with each Agricultural Development Division (ADD) being responsible for issuing licenses.

The number of licensed private traders increased from 387 in 1987/88 to 917 in the 1988/89 season and tapered off in 1989/90 season to 543 (Kaluwa, 1991). Due to the capacity constraints in the Ministry of Agriculture and the lack of enforcement of licensing requirements by 1992, many traders never bothered to renew or/and obtain licenses and the private marketing system was completely unregulated by 1996. Licensing was no longer a requirement for the marketing of smallholder agricultural crops. However, it is important to note that liberalization of marketing activities largely formalized small-scale private traders' activities that were hitherto informal. The only significant new entries in agricultural produce and input marketing were the large-scale private traders (institutional companies) and manufacturers.

Several previous studies provide evidence that small-scale private traders existed prior to liberalization and accounted for a significant proportion of the marketed food surpluses. Mkwezalamba (1989) finds that 50 percent of private traders started their business in agricultural produce marketing before the liberalization of markets. Similarly, in a survey of private traders in Lilongwe and Blantyre ADDs, only 19 percent and 9 percent of private traders, respectively, started operating after liberalization (Kaluwa, 1991).⁶ According to Kandoole et al. (1988), traditionally most of the maize surplus was purchased by small-scale private traders (licensed or otherwise) in various market places including farm-gate, local markets, district council markets and urban markets.

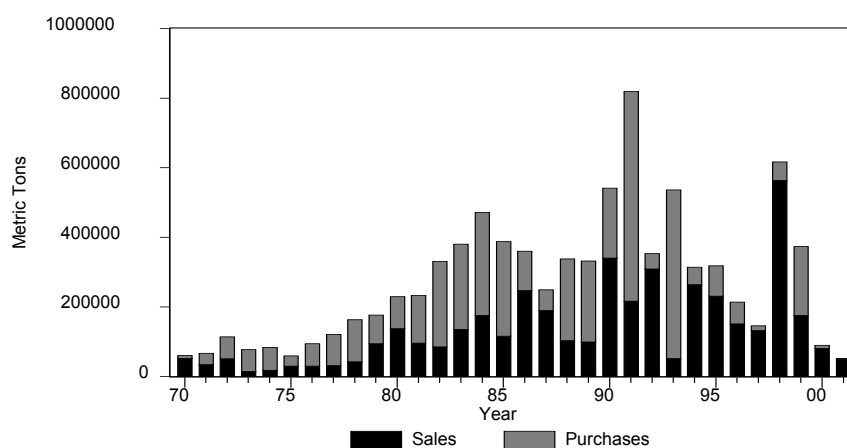
The liberalization of agricultural markets took place at a time when ADMARC's pivotal role was already dwindling as shown in Figure 1. There was an increasing trend in the volume of maize trading between 1975 and 1984 with maize purchases being a larger share of maize trading. However, the decline in ADMARC's maize trading activities started in 1985 and since then its role in maize trading has not been systematic. The volume of maize purchases and

⁶ This underscores earlier observations that ADMARC accounted for a small proportion of the marketed maize output prior to liberalization (13 percent in 1975).

sales by ADMARC substantially declined in 1987 before picking up between 1988 and 1991. FSG (1991) attributes this sharp fall in maize trading after liberalization to ADMARC's increasing financial problems and the declining producer incentives. Interestingly, one also observes ADMARC's declining role in the purchase of maize since 1985, except in 1988-89, 1991 and 1993. It is also clear from the figure that ADMARC's maize trading has been higher in the period after marketing liberalization than the period before liberalization.

Figure 1 also shows ADMARC's increasing role in the sale of maize since 1994 and its decreasing role in the purchase of maize. Recent data on the distribution of imported maize during the famine period show the importance of ADMARC in supplying maize to households in difficult times using its extensive market infrastructure network. NEC (2002b) observe that between August 2001 and May 2002, ADMARC sold 73,960 metric tons of imported maize compared to 31,100 metric tons sold by private traders and 7,330 metric tons sold by the European Union (EU) and World Food Programme (WFP).⁷

Figure 1 ADMARC Maize Sales and Purchases, 1970 – 2002 (metric tons)



ADE (2000) also asserts the important role ADMARC has played in stabilizing the supply of maize, but argues that this stabilization

⁷ Due to the underdeveloped nature of the private marketing system, the government suspended selling imported maize to private traders due to the exorbitant prices they were charging consumers (NEC, 2002b), a reflection of the inefficiency evident in the private marketing system in Malawi (Fafchamps and Gabre-Madhin, 2001).

effort has been done at a high cost. Another recent study on agricultural marketing (Nthara, 2002) also points to the important role ADMARC plays in food security, particularly with respect to maize sales and input markets. The study finds that ADMARC's role in purchasing agricultural produce from smallholder farmers is limited even in markets where it is still operational due its price uncompetitiveness, its late opening of markets in the season and its lack of cash for most of the buying season. However, with respect to selling food commodities to food deficit households and selling inputs to smallholder farmers, Nthara (2002) finds that ADMARC still plays a critical role. There is also evidence that even in closed markets rural households use alternative operational markets to purchase maize at lower prices than those charged by private traders.⁸

Overall, the role of ADMARC in agricultural produce and marketing services has been declining. This decline ought to be understood within the overall organizational framework and the structure of its investment portfolio. ADMARC began rationalizing its investment portfolio in 1984 and divested its ownership in commercial investments in which it was a minority shareholder and sold all its estates, such that by 1998 it had shareholding only in 8 enterprises with only two wholly owned subsidiaries (Chirwa, 2000). Unfortunately, two major enterprises, Grain and Milling Limited and Shire Bus Lines Limited, which were partially privatized, were sold back to ADMARC after failing even to perform under private ownership. Grain and Milling, Shire Bus Lines, Cold Storage, and David Whitehead and Sons have been the greatest burden of ADMARC in the new millennium due to their persistent loss-making records. Most government subsidies made to ADMARC were therefore used to bail out and sustain these loss making enterprises. In a bid to improve overall enterprise performance, ADMARC moved back to direct farming activities, particularly production of tobacco. In 2001, ADMARC had 23 estates, 10 in the Southern Region, 7 in the Central Region and 6 in the Northern Region. The introduction of direct agricultural production has also shifted the focus of ADMARC from agricultural marketing to a production enterprise.

The deteriorating financial position of ADMARC has been a major concern of the government and the international financial institutions, and there is a lot of pressure to hasten the privatization of ADMARC. In early 2002, government transferred the four subsidiaries of ADMARC to the Ministry of Finance as a stop-gap measure for eventual privatization. In the Malawi Poverty Reduction

⁸ However, at most ADMARC markets maize was out of stock resulting in households procuring maize from private traders at exorbitant prices.

Strategy Paper (MPRSP) privatization of ADMARC is one of the strategies towards liberalization of agricultural markets and in the development of the agriculture sector (GoM, 2002a).⁹ ADMARC has been under intense pressure from the government to improve its financial position partly through adoption of cost cutting measures.

Several proposals have been advanced on how ADMARC can improve its economic performance. According to ADMARC, the high staff levels and high operational and administrative expenses make crop marketing uneconomical, and require restructuring (Mvula et al., 2003). The restructuring has been in the form of reorganisation of markets and regional structures with ADMARC operating more seasonal than permanent markets; closure of about 204 extraneous markets throughout the country or to operate them on a seasonal basis; reducing the labour force will be reduced by more than 50 percent and direct crop production (mainly tobacco) justified on the basis that ADMARC no longer has a guaranteed market to satisfy its requirements.¹⁰

3.0 Agricultural Marketing Liberalisation and the Poor

3.1 *Institutions in Agricultural Marketing in Rural Malawi*

The liberalisation of agricultural marketing has brought new private institutions of different scales including large-scale trading companies and manufacturers, large wholesalers and other large traders, small scale traders or vendors, and estates and large scale. These institutions have varying accessibility to smallholder farmers in rural areas. Large scale trading companies and manufacturers tend to specialize in the crops such that cotton manufacturers such as Cotton Ginners tend to specialize in cotton trade while rice millers tend to specialize in rice trade and maize meal producers tend to specialize in maize trade. Most of these large-scale traders are mainly based in urban or peri-urban centres (major trading centres). Large wholesalers and other large traders are limited companies whose main business is trading. These are less

⁹ This was also emphasized in the Malawi Government letter of intent and memorandum of economic policy to the International Monetary Fund according to which the commercialisation of non-profitable agricultural outlets was planned to be completed by March 2003 (GoM, 2002b).

¹⁰ Other proposals from government and researchers include privatization of the remaining ADMARC subsidiaries, splitting the various units into separate companies that would be eventually privatized (Abbott and Poulin (1996), and marketing or leasing of ADMARC's rural marketing infrastructure (O&M Associates, 2001).

specialized and buy various types of agricultural produce from smallholder farmers, but also tend to locate in urban centres or peri-urban trading centres. Small scale retailers or vendors are small and often unregistered traders usually reside in the village or shop owners or have mobile pick-up trucks and operate mobile markets. These small-scale traders operate in the villages and in border districts some come from neighbouring countries such as Mozambique, Tanzania and Zambia. The vendors are active in areas where accessibility is not a major problem – in areas with good road infrastructure.

The various private traders play different roles in the marketing of agricultural produce and inputs, complementing and competing against activities of ADMARC. Table 1 compares the service characteristics of ADMARC and private traders focusing on four service elements: accessibility to the rural households, reliability of traders, pricing and prevailing payment systems and general business practices. The analysis concentrates on the crop produce market, particularly focusing on the sales and purchases of maize. Both ADMARC and vendors purchase and sell maize, while large-scale traders only buy maize from farmers. However, one factor that distinguishes the marketing aspects of ADMARC and private traders is accessibility to markets by smallholder farmers. Smallholder farmers have ADMARC markets within reasonable distances particularly in active markets compared to large-scale private traders. Nonetheless small-scale traders or vendor are the most accessible as they conduct door-to-door services for the purchase and sale of maize. In terms of reliability, small-scale private traders are more reliable while large-scale traders are less reliable. Smallholder farmers still find ADMARC to be reliable although it sometimes lacks funds to buy crops from farmers and have irregular maize stock in lean seasons.

Table 1 Service Characteristics in the Purchase and Sale of Maize

<i>Service Characteristic</i>	<i>ADMARC</i>	<i>Private Traders</i>	
		<i>Large-Scale</i>	<i>Vendors</i>
Services offered	<ul style="list-style-type: none"> Buy maize Sell maize 	<ul style="list-style-type: none"> Buy maize Do not sell maize 	<ul style="list-style-type: none"> Buy maize Sell maize
Accessibility	<ul style="list-style-type: none"> Fixed locations Relatively short distance in active markets and long distance closed markets 	<ul style="list-style-type: none"> Less accessible – a few just come to buy maize Come to buy specific crops at specific points Long distance to markets, but others door-to-door purchases 	<ul style="list-style-type: none"> Very accessible – tend to live in the same village Door-to-door services for both purchase and sale of maize
Reliability	<ul style="list-style-type: none"> Reliable but lack funds most of the times Have irregular maize stocks Keep maize in the market for resale later in the lean season when available 	<ul style="list-style-type: none"> Less reliable - not sure that they will come again Buy maize from the areas and do not resale in the lean season 	<ul style="list-style-type: none"> Very reliable because most are located in the village Buy maize and also sell maize in the lean season Sell maize in rural 'day markets'
Pricing and Payments	<ul style="list-style-type: none"> Low maize producer prices Stable producer and consumer maize prices No price discrimination Prices not negotiable Late payments and sometimes buy on credit 	<ul style="list-style-type: none"> High maize producer prices Volatile producer maize prices Price discrimination with smaller traders discriminating more Dictated prices Instant cash payment Some do barter trade – especially in border areas 	<ul style="list-style-type: none"> Outrageous consumer maize prices High producer maize prices but less than large-scale traders Volatile maize prices High price discrimination Negotiable prices but vendors tend to dictate producer prices Most pay cash instantly, a few buy on credit Some do barter trade – especially in border areas
Business Practices	<ul style="list-style-type: none"> Buy small quantities Tampers with scales to less extent Farmers can verify weighing scales Start buying maize late in the season Sometimes sell maize mixed with sunflower Favours selling maize to vendors Price information is displayed 	<ul style="list-style-type: none"> Announces better prices but actually pay less Tampers with scale to a large extent and some use volume Do not allow farmers to verify their weighing scales 	<ul style="list-style-type: none"> Mostly use volume measures Less cheating when using volume measures Tamper with scales to a large extent – those that use weights Deliberately undervalue crops Do not allow farmers to verify their weighing scales Sell poor quality maize

Source: Mvula et al. (2003)

The price competitiveness of various marketing institutions is also an important distinguishing feature in rural markets. Generally, in all sample sites ADMARC offers the lowest maize producer and consumer prices. Such prices are fixed and stable throughout the season and are not discriminatory across sellers and buyers. Large-scale private traders, on the other hand, offer the highest producer prices for produce including maize. However, these prices are volatile and some traders tend to price discriminate and negotiate for lower prices, with smallholder producers that have no countervailing power. Vendors tend to offer intermediate maize producer prices between those offered by ADMARC and those offered by large-scale private traders, but charge substantially higher maize consumer prices than ADMARC. In all the study sites, it was reported that vendors bargain more over prices than large-scale traders. Prices therefore tend to be very volatile and there is high discrimination in the purchase price.¹¹ A focus group discussion in one of the study sites revealed that:

“The vendors do not have a uniform price. They go at one house they buy a pail [*approximately 20 kilograms*] of maize at MK100.00, at the next house they offer MK50.00, then the next is MK30.00 and then MK70.00 per pail. Their prices vary from one house to the next per pail.” (Mvula et al., 2003).

It is apparent that most private traders operate as discriminating monopsonists in the purchase of maize and other agricultural produce and as discriminating monopolists in the sale of maize. This casts doubts on the efficiency of the private marketing system in Malawi, but may also explain why the profit margins are quite high among Malawian traders (Fafchamps and Gabre-Madhin, 2001). Moreover, the pricing behaviour of private traders creates a lot of price uncertainties for farmers in rural areas and in most cases this uncertainty does not seem to motivate farmers to respond to price developments positively. For instance, maize is the most commonly grown produce to meet their subsistence needs other than to generate income for most poor farming households. Selling maize for income generation is usually out of distress and as such the decision to sell part of the maize is residual for the poor farmers.

¹¹ Mwabu and Thorbecke (2004) note that high price volatility hurts the poor, be it net producers or net consumers with few options in seasonal storage.

The most problematic area with the private marketing system that adversely affects the incentive structure of smallholder farmers is the quality of business practices. The fact that private marketing is completely unregulated, combined with the monopsonistic or monopolistic tendencies of private traders in most sites, fair trading practices have not evolved over time. While it is true that for many crops private traders tend to offer higher producer prices, some of the business practices have the potential to off-set the positive gains and the incomes of rural farmers. First, the most cited problem associated with the private traders is the cheating on measurement and weights, although ADMARC officers in isolated cases are also engaged in cheating practices. Respondents in all sites believe that they are cheated more when they are conducting business with private traders than when doing business with ADMARC. Private traders, particularly vendors, tamper with their weighing scales more than ADMARC officials. The extent of cheating by small-scale private traders on measurements is captured by this sentiment from one of the focus group discussion:

“One day I wanted to sell my Soya at ADMARC market. On my way I found one of the vendors along the road which was leading to the ADMARC market. I went to him to sell my produce. However, I was surprised that the Soya weighed only 11 kilograms and decided not to sell to him then took my Soya to ADMARC where it weighed 25 kilograms.” (Mvula et al., 2003)

The cases of cheating on measurements tend to be limited to instances where private traders use volume other than weight measures in the purchase of produce. The reported cheating in volume measures occur because some private traders tend to use larger pails than those used by the farmers or by deliberately undervaluing the produce to buy at a lower price or use smaller plates when selling the maize to farmers. The assertion that there is more cheating among private traders is supported by the fact that farmers are not allowed to verify private traders' weighing scales compared to ADMARC where farmers can verify the weighing scales and the weight of their produce. The other form of cheating is the announced prices versus the actual prices paid to farmers. Vendors tend to announce better producer prices, but they actually pay the farmer less than the announced price when trade takes place. On the contrary, ADMARC displays the prices for all the farmers and abide by the announced prices.

Another difference between ADMARC and private traders is the timeliness of trade. Private traders, particularly vendors, ranked highly on providing markets for produce earlier in the selling season

than large scale traders and ADMARC. The early entry of vendors in purchasing produce is viewed as a positive aspect of the private marketing system because it provides opportunities for farmers to earn income when they need it most. However, on balance there may be losses made by farmers because vendors tend to offer lower prices than the prices that are offered when ADMARC and large scale traders are also purchasing produce from the farmers.

3.2 *Effects of Declining State Marketing Activities*

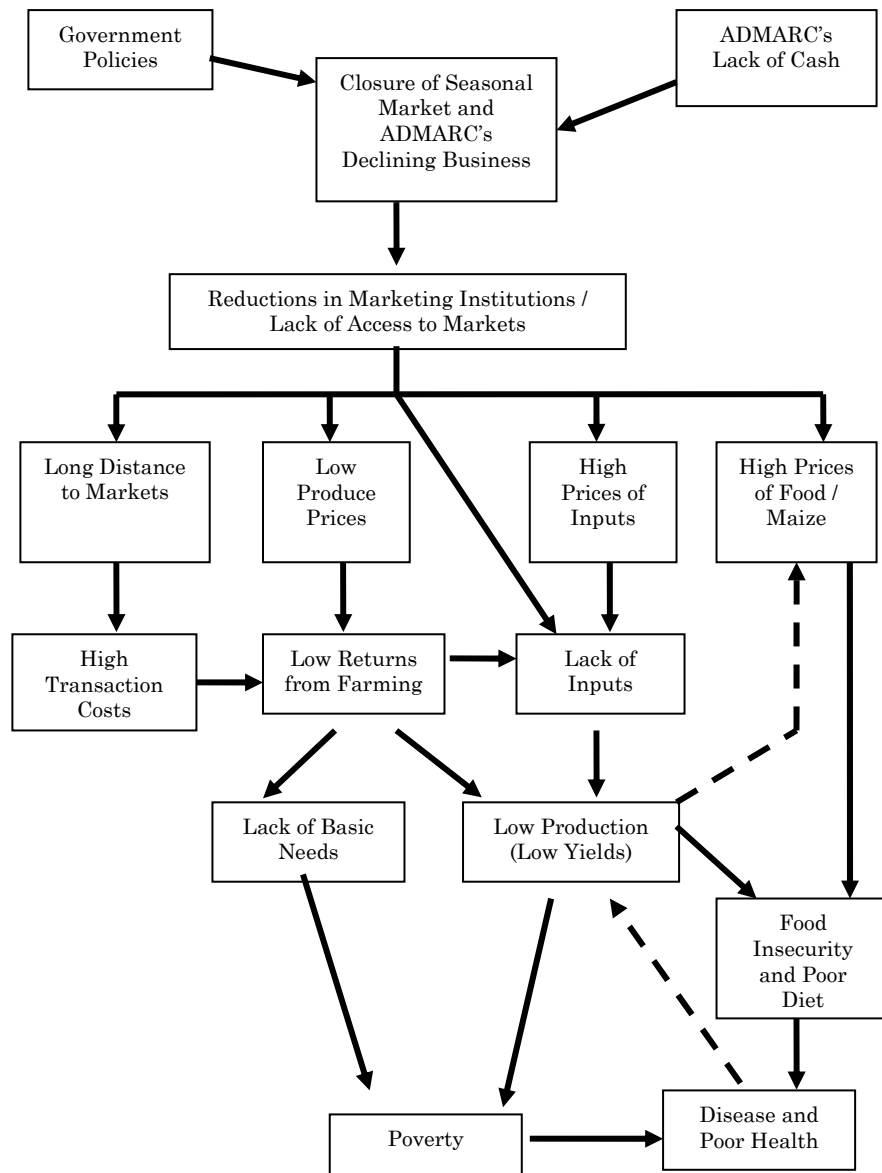
There is greater appreciation in rural areas about the causes and effects of the declining role of state marketing activities and the closure of markets by ADMARC, and the important role state marketing agencies play in agricultural development and poverty. Figure 2 presents an analytical framework of the causes and effects of closure of seasonal markets and declining ADMARC business at unit markets from the point of view of rural households and key informants.¹² While the cause-effect analysis was only conducted in unit markets in closed seasonal market sites, similar issues emerged in the problem analysis in the sites with active ADMARC markets. The cause-effect analysis in closed seasonal markets therefore reflects all aspects of the effects of marketing liberalisation, including the declining business activities of ADMARC. The perceptions of the smallholder farmers on the declining business of ADMARC can easily be extrapolated to the eventual closure of ADMARC markets.

The withdrawal of ADMARC markets is mainly attributed to the changes in government policy in agricultural marketing while the declining business is mainly attributed to the lack of resources available to ADMARC to purchase crop produce from smallholder farmers. The lack of resources at ADMARC markets leads to declining business in unit markets. The immediate effect of closure of a seasonal market or reduction in ADMARC business is the reduction in marketing institutions and hence the structure of the market or lack of access to markets. Since farmers are largely unorganised, the few private traders that access such remote rural markets increase their monopsony power in buying produce from

¹² This framework is based on the views from focus group discussions and reflects the experiences of smallholder farmers during marketing liberalisation including closure of seasonal markets. The lack of positive effects in the cause-effect analysis reflects the relative dominance of problems over the gains that have been brought by marketing liberalisation from the perspective of the communities (Mvula et al., 2003).

smallholder farmers and substantially increase their monopoly power in the sale of maize and inputs.

Figure 2 Farmer's Perceptions on Causes and Effects of Closure of Seasonal Markets and Declining Business



Source: Mvula et al. (2003)

The concentration of market power or/and the lack of access to markets create five main problems for smallholder farmers. Firstly, the closure of ADMARC seasonal markets and declining business of ADMARC increases the distance to markets, particularly for smallholder farmers who still rely on ADMARC to purchase maize and farm inputs. This raises the transaction costs in terms of search and transport costs and opportunity cost of travelling to distant markets. Some groups argued that the long distance to markets is associated with insecurity, particularly for women who can easily be robbed of their earnings or commodities. The problem of distance to markets and high transport costs were also identified as main marketing problems in sites with active ADMARC markets.

Secondly, the monopsony power of private traders would lead to lower produce prices due to the lower bargaining power of smallholder farmers owing to the absence of marketing cooperatives or associations. The problem of low produce prices is not peculiar to sites in closed seasonal market; it was also reported in all sites with active ADMARC markets. Although producer prices offered by private traders are higher than prices offered by ADMARC, the cheating practices by private traders implies that the effective prices received by farmers is lower than those offered by ADMARC. This means that poor farmers, who are usually desperate for cash income, accept the low prices dictated by the private traders.

Thirdly, the lack of access to markets deprives the farmers of a reliable and affordable source of inputs. In many sites, including the two sites with active ADMARC markets, the declining business of ADMARC is associated with lack of access to inputs through credit programs, particularly for the poor farmers who used to get inputs on credit. Prior to liberalisation, ADMARC played an important role in the management of input supply to smallholder farmers. As Kydd and Dorward (2001) assert, liberalisation of input supply systems has not led to the influx of private traders in the input market, particularly in marginal areas.

Fourthly, lack of access to markets also leads to high prices for inputs in the sense that smallholder farmers have to travel long distances to procure inputs at alternative ADMARC markets or buy inputs from private traders or shop owners at higher prices. This increases the transaction costs to farmers.

Finally, smallholder farmers also identify high consumer prices of maize as one of the effects of ADMARC's declining business. The argument here is that ADMARC offers better and stable prices for maize throughout the year when the produce is available and its absence in the area forces the food deficit households to buy maize from private traders at exorbitant prices especially during famine situations like in the 2001/2002 agricultural season. Private traders

therefore take advantage of the absence of ADMARC or the shortage of maize supplies at ADMARC to charge higher prices than would have been the case if maize were available at ADMARC markets.

The high transaction costs due to long distances to markets, combined with low produce prices, imply that farming becomes less profitable. The low returns from farming, combined with high input prices, lead to less use of agricultural inputs either because inputs are not readily available or because smallholder farmers can no longer afford to buy the inputs that are adequate for efficient production. Private traders usually operate in urban and peri-urban areas and very few sell inputs to smallholder farmers in rural areas.

Low returns from farming activities imply that rural farming households have low incomes which in turn lead to limited access to inputs, difficulties in meeting the basic needs of quality life and less incentives for production.¹³ Lack of production incentives and lack of inputs lead to low production, which consequently leads to high maize prices and food insecurity and poor diet. Owens (2003) finds evidence that ADMARC markets have a positive impact on maize productivity in remote areas where there is limited infrastructure but have very little effects in areas with good infrastructure. Such low productivity results in food insecurity which in turn leads to disease and poor health. Poor health may further lead to low production due to the limited family labour expended on farming activities. The lack of basic needs and low production lead to a situation of poverty that may in turn lead to disease and poor health, which further constrain the production capacity of rural households thereby perpetuating food insecurity.

3.3 Smallholder Farmers' Responses to Marketing Liberalisation

The closure of ADMARC markets and a decline in ADMARC's business activities affect the well-being and livelihoods of rural households particularly the poor. In such situations, the question becomes how have the poor responded to changing marketing configurations and what adaptive strategies are employed by rural households in Malawi. We attempt to shed light on smallholder farmers' response to food insecurity, changes in food crop purchase

¹³ The low incomes may have multiplier effects on the other sectors of the rural economy such as capital constraints for non-farm business activities, low effective demand for farm and non-farm products, low demand for farm and non-farm 'ganyu' or formal employment.

markets, changes in crop produce sales markets, changes in input markets and changes in crop prices.

The ultimate impact of the closure of ADMARC markets or its declining business activities in rural areas is an increase in food insecurity among the poor, through lack of access to markets, low produce prices and high price of maize. Poor farming households respond to the closure of the markets or ADMARC's erratic nature of operating in a number of ways to help them maintain their food security status. Several strategies were reported in all the study areas. Firstly, households engage in selling individual or family labour in return for food. For the poor, they tend to rely on casual labour (known as *ganyu*) provided to rich farmers. Secondly, some smallholder farmers reported abandoning the cultivation of the crop in instances where ADMARC was the sole buyer of the crop or was the most trusted buyer. This then meant that households became more food insecure. For instance, some farmers reported abandoning cultivation of groundnuts in one study site and cotton in two study sites due to the withdrawal of ADMARC. This worsened people's food security problems because they lost a main source of income that used to supplement maize deficits.

Thirdly, on the other extreme, there is a tendency for rural communities to expand the production of a crop (increasing hectareage) that was considered a main staple to cushion them against a bad season. Most households expand hectareage devoted to maize since in most places it is the main staple. Fourthly, in times of serious food shortages, one of the strategies used is the buying food from private traders and local markets. Most of these private traders are small-scale traders, commonly known as vendors, and move around the villages with a bag or half bag and sell in small quantities. The poor of the poorest tend to prefer to transact with the vendors because they cannot afford a bag. The problem with these kinds of markets is that maize may not be available all the time.¹⁴ Finally, there is evidence that even in instances where an ADMARC market has closed; households still go to purchase maize at distant ADMARC markets. Most argued that ADMARC often stocks good

¹⁴ Chirwa and Zakeyo (2003) observe that groundnuts ceased to be one of the main export products in Malawi due to marketing liberalisation. Groundnuts have always been cultivated by smallholder farmers and were exported by ADMARC. However, it has since disappeared from the balance of payments accounts (particularly after marketing liberalisation) as a major export crop although the international price has relatively remained stable.

quality maize and its prices are fairer compared to private traders; underlining the importance and value that people, especially the poor in the village, attach to the existence of the ADMARC structures.

The second consequence of declining state marketing activities is the lack of agricultural produce markets. In the past ADMARC provided a ready market for most of the crops that people grew but that ready market is no longer there or it is less reliable because of the decrease in its business activity. In all the study sites, there were four main outlets for the produce, namely, the door-to-door maize buyers (vendors), fellow villagers, small private traders (from outside the community and would buy a bag or two), and ADMARC. For areas where ADMARC had withdrawn, smallholder farmers travel to distant ADMARC markets.

The purchase of inputs is a major challenge for the rural households in the face of ADMARC's withdrawal or reduction in its business activity. ADMARC, however, remains the most common source of inputs in all the ten sites. In closed sites, smallholder farmers reported walking long distances to buy inputs from ADMARC due to its reputation to stock good quality inputs and offering lower and affordable prices. Large private traders were identified as a source of marketed inputs only in four of the ten sites. The problem with private traders dealing in inputs is that they are located in major trading centres and are often beyond the reach of most poor rural households. Hence, only people with some means of transport can get inputs from such sources. In most sites the poor who cannot afford to buy from ADMARC and other outlets, sell their labour to the 'well-to-do' individuals in return for seeds for planting in their fields.

The private marketing system is associated with very volatile, unpredictable and discriminating prices of produce and inputs compared to the stable prices that ADMARC offers at its existing markets. ADE (2000) provide inconclusive evidence on the impact of maize prices using data between 1989 and 1997, in which they found some positive relationship between price and area planted with maize but also noted that the opposite pattern was evident in several years. Although, this study did not inquire directly on the effects of prices, the evidence from the ten sample sites does not suggest that produce prices from the previous period play a critical role in the farming decisions of farmers. In all the sites, the motivation to grow maize among the poor was to satisfy their subsistence needs.

With respect to high input prices, there is little evidence that farmers resort to the use of manure. Smallholder farmers with small land holdings who used to apply fertilizers have completely

abandoned the technology. The abandonment of the fertilizer technology is particularly compounded by the lack of input credit under which many smaller farmers who could not buy on cash had access to new technology.

3.4 Reactions of Other Stakeholders and Policy Makers

Other stakeholders such as private traders and policy makers hold different views on the closure or declining business of the state marketing agency. For private traders, the closure of ADMARC markets and declining business of ADMARC creates more business opportunities. Such business opportunities profitably exist in areas where there is adequate road infrastructure. Nonetheless, even with good infrastructure private traders face problems of access to credit for working capital and lack storage facilities. As has been earlier observed the profitability of private traders is partly enhanced by the poor business practices of private traders which undermine the welfare gains that a competitive private marketing system promises. In addition, private traders and vendors are mobile and generate uncertainties on the availability of markets.

The business community, however, cautioned the government on rushing the privatisation of ADMARC. The president of the Malawi Confederation of Chambers of Commerce and Industry was quoted saying ‘there is need to conduct a survey to find out the viability of all ADMARC markets in terms of business and assess how to compensate for markets that are not viable. Some markets may not be viable but government has a duty to provide services’ (cited in Mvula et al., 2003).

The general view from some policy makers and civil society organisations is that liberalization of markets without proper development of infrastructure and institutions may not ensure fair trading practices among private traders, and consequently may adversely affect the poor (Mvula et al., 2003). Some policy makers raise several concerns about the proposed closure of ADMARC markets and the privatisation of ADMARC. First, there is concern on whether the private traders are capable of providing a reliable food distribution network in times of a food crisis given the documented evidence of the inefficiency of the private marketing system and the infrastructure constraints that exist. Secondly, the closure of markets and the privatisation of ADMARC in its totality may not be appropriate instruments to address the problem. Most contend that the problem with ADMARC is the way it manages its resources, the efficiency at the head office level and the political interference rather than the problem with markets. Others argue that the main problem

of ADMARC is not that of agricultural markets, but the troubled and loss making subsidiaries.

In practice, these opposing views and the results from the studies commissioned by the government, civil society organisations and the international financial institutions that cautioned the rushed privatisation of ADMARC were not heeded by the government, particularly Ministry of Finance and Economic Planning and Development which are central in negotiating loans with the World Bank and IMF. Since commercialisation of ADMARC was a pre-condition for further adjustment loans in a letter of intent to the international financial institutions, by the end of 2003 government bulldozed the ADMARC Commercialisation Bill through Parliament without allowing fuller public debate on the matter. The legislation rendered the World Bank's sponsored Poverty and Social Impact Assessment on closure of ADMARC markets. As Bretton Woods Project (2004) notes, the demands of the international institutions to privatise ADMARC as a condition for a structural adjustment loan, demonstrates the limits to country ownership and the weakness and relevance of the PSIA studies in informing policy makers.

4.0 Conclusions

The privatisation of the state agricultural marketing agency, ADMARC, has been the most controversial policy reform that has generated a lot of debate in Malawi. There are two competing arguments. Those that are in favour of the privatisation of ADMARC buy the arguments of the international financial institutions that the state marketing agency is a drain on public resources. This view holds that the private marketing system is the best alternative under whatever circumstances to state marketing, and advocates the privatisation of ADMARC (Harrigan, 2003). On the other hand is a group of civil society organisations and researchers, though acknowledging the need to reform ADMARC, contends that the private sector is not capable of taking over the functions of ADMARC especially vital services it offers to the poor and its role in food security in a region in which famines and droughts recur.

The analysis in this study tends to support the view that ADMARC as a state institution still plays a role in livelihoods of the rural community. It is apparent that rural communities particularly in remote areas have been adversely affected by the withdrawal of ADMARC markets or the decline in the business activities of ADMARC due to its financial and operational problems. Although the large private traders and vendors have emerged to take advantage of the opportunities that have been created by the

liberalisation of agricultural markets and the weak position of ADMARC, they have not been able to effectively close the gap that ADMARC has left particularly in the sale of maize at affordable prices during the lean season and in the supply of agricultural inputs to the poor. Since in most areas, especially in remote areas, the private marketing system is not competitive, the poor are also hurt by the monopolistic pricing tendencies of private traders and the poor business practices (such as cheating on measurements and quality of produce), which undermines the incomes of the poor from agricultural production.

Given the inefficiency of the private traders and their monopolistic power, the problems of poor road infrastructure and the lack of regulatory institutions, the closure of ADMARC markets in remote areas increases the risk of food insecurity for many rural households even in normal years. Large private traders only purchase maize from rural areas but are not engaged in selling maize to rural households during the lean period.

Liberalisation of markets is not necessarily a bad strategy for agricultural markets, but it is important to ensure that a conducive environment exists for transition from a state-dominated marketing system to a private sector led marketing system. If government is to proceed with the privatisation of ADMARC or closure of remote markets, it is necessary to condition such a process on the development of infrastructure and appropriate institutions to facilitate competitive private sector activities and increase in the bargaining power of smallholder farmers.

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