MALAWI Food Security Outlook Update September 2013

Unusually low maize market supplies; atypical price increases persist for second year in a row

KEY MESSAGES

• Households have faced atypically high staple food prices since the start of the 2013/14 consumption season in April. Food prices are unlikely to decrease given current indications of lower than estimated production levels in the central and northern region. Currently maize supplies are still available in all districts across the country, but supplies are much lower than normal. Maize availability is expected to be constrained as the lean season begins earlier than normal in October.

• FEWS NET has observed increased informal imports of maize from Mozambique and Zambia compared to 2012. The trade patterns have mitigated some of the effects of atypically low market supplies during the first half of the 2013/14 marketing year.

• Limited financial resources and uncompetitive purchase prices have limited institutional maize purchases and stockholdings by the National Food Reserve Agency (NFRA) and Agricultural Development and Marketing Corporation (ADMARC).

• Poor household cereal supplies are low or non-existent in areas where the 2012/13 harvests were affected by drought and flooding. Most poor households in these localized areas in the northern, central, and southern regions of the country currently depend market purchases for their basic food needs and are currently Stressed (IPC Phase 2) due to higher food prices and limited labor opportunities. Between October and December many of these households are expected to be in Crisis (IPC Phase 3).

MARKETING SYSTEM CONTEXT: LAST YEAR’S FOOD SECURITY EMERGENCY

The Malawian agricultural economy experienced two shocks during the 2012/13 consumption year, including both the 50 percent devaluation and subsequent depreciation of the Malawian Kwacha vis-à-vis the U.S. Dollar, as well as important production shortfalls in the structurally-deficit southern region of the country. Elsewhere in the region, poor Vuli and Masika seasons in Tanzania and drought in parts of northern Mozambique shifted the geographic distribution of maize availability and trade flows over the 2012/13 consumption year. Any of these events on their own would have likely resulted in minor disruptions to the Malawian marketing system. However, when taken together, they resulted in up to four-fold staple food (maize and cassava) price increases in local currency terms in Malawi and staple food shortages in the structurally deficit south. Together, these higher prices and lower supplies constrained food access for many households, resulting in Stressed (IPC Phase 2) and Crisis (IPC Phase 3) acute food insecurity outcomes in six livelihood zones in the southern region.

Figure 1. Current food security outcomes, September 2013.

Figure 2. Projected food security outcomes, Oct.-Dec. 2013.

These maps represent acute food insecurity outcomes in significant areas of concern relevant for emergency decision-making. They do not necessarily reflect outcomes across the country or chronic food insecurity. Visit http://www.fews.net/ml/en/info/pages/scale.aspx for more.
Staple food markets in Malawi are generally “thin”, meaning that small changes in annual or intra-annual supply and demand conditions can result in very important price swings. Incentives and capacity for inter-annual storage are likewise limited. Overall, markets are generally competitive, there are many actors in the marketing system, and barriers to entry and exit are limited.

Supply and demand signals are transmitted relatively quickly through the marketing system during normal years, but there is evidence that the marketing system (particularly with respect to storage) performs less well during years of crisis. With that said, production estimates have been unreliable in the recent years, making both private sector and humanitarian planning difficult.

Southern Malawi is densely populated and maize production is not sufficient to meet local needs, even during very good years. During a normal year, southern Malawi imports maize from central Malawi and Mozambique. Local production shortfalls in southern Malawi in 2012/13 meant that this particular region of the country would be even more dependent than usual on a well functioning marketing system to meet their needs in maize in particular.

The devaluation and subsequent depreciation of the Malawian Kwacha had both direct and indirect consequences for food availability and access over the 2012/13 consumption year. The main direct effect was the increased cost of imported commodities (including fuel used to transport grain throughout the country), which is believed to have contributed to increased transport costs and thereby reduced opportunities for trade between surplus and deficit zones of the country. In addition, the price of local commodities (including maize) became cheaper in common currency terms in Malawi than in neighboring countries (Figure 3). However, even though prices in Malawi were low compared to others in the region, they were very high prices in local currency terms, further contributing to diminishing purchasing power among poor households (Figure 4).

The main indirect effect was to increase the competitiveness of Malawian maize vis-à-vis Tanzania and reduced incentives for imports from Mozambique (from which southern Malawi depends throughout the year). These shifted incentives due to the devaluation combined with drought-related production shortfalls in Tanzania and Mozambique resulted in atypically high informal export volumes through Malawi’s northern borders and atypically low import volumes into the drought-affected and structurally-deficit southern region of Malawi over the 2012/13 consumption year. FEWS NET’s informal cross-border trade data indicate that net exports were more than six-fold their respective five-year average levels while informal imports through Malawi’s southern borders were less than one third of their

---

1. Myers, J. “Evaluating the effectiveness of inter-regional trade and storage in Malawi’s private sector maize markets.” *Food Policy* Volume 41, August 2013, Pages 75–84.
five-year average levels. These atypical trade patterns are believed to have jointly reduced food availability in Malawi and contributed to the very atypical price increases observed in 2012 and early 2013 (Figure 5).3

• Additional factors that contributed to the very atypical marketing behavior include abnormally low stocks (particularly in Malawi’s central region) at the beginning of the 2012/13 marketing year because of record-high informal exports to several countries, including Mozambique, Zimbabwe, and Tanzania. The April-to-September period of the 2012/13 consumption year was also when Zambia’s Food Reserve Agency (FRA) was engaged in their aggressive annual procurement program.

• Uncertainty about the role that ADMARC and the humanitarian community would play in response to the atypical marketing system behavior enabled producers and traders to only speculate about likely purchase and distribution efforts and make their trade and storage decisions accordingly.

CURRENT MARKET CONDITIONS AND TRENDS

• By the start of the 2013/14 in April 2013, maize and cassava prices were higher than their respective April 2012 levels. In April 2013, maize prices were 80 to 230 percent greater than their respective April 2012 levels. Cassava prices were 30 to 150 percent greater than their respective 2012 levels. In addition to atypically low carry over stocks, the cost of maize production is believed to have increased because of increased input prices (due to the increased cost of imported commodities), thereby putting additional upward pressure on prices at the end of harvests. It is important to note that the Farm Input Subsidy Program (FISP) only targets about 50 percent of the farm families in Malawi for only one acre of land. This means that for households with more than one acre, who produce most of the country’s maize surplus, had to depend on the expensive farm inputs that were selling at expensive market prices.

• These lingering effects from the previous marketing season combined with below-average harvests in some surplus-producing areas of central and northern Malawi have resulted in continued atypical staple food price trends, with prices declining only slightly or remaining stable at high levels in both the structurally surplus and deficit areas of the country.

• The geographic distribution of maize production during the 2012/13 production season within Malawi and neighboring countries differs considerably with the previous growing season. Indeed, maize production in the central region, the breadbasket of Malawi was below average this year. Maize production in the structurally-deficit southern region on the other hand was above average, which only slightly shortened the period during which households are market-dependent. Southern Malawi is currently importing maize from Mozambique via informal channels and will continue to rely on inflows from neighboring countries and the central zone of Malawi through the lean season. Elsewhere in the region, production was above average in both Mozambique and Tanzania, thereby improving food availability in both countries.

---

3 Although FEWS NET’s informal cross-border trade data do not capture all cross-border trade flows between Malawi and neighboring countries, they do provide an indication of the direction and magnitude of net import and export volumes.
• Trade continues between Malawi and neighboring countries, despite the official trade bans in place in Malawi and Zambia. Current price differentials between Malawi and neighboring countries are driving the direction and extent of informal trade flows. For example, prices are currently lower in Mozambique than Malawi, resulting in increased trade flows compared to what was observed at the same time last year. Prices are currently higher in northern Malawi than in Tanzania, and exports into Tanzania are well below the volumes observed in 2012.

• Institutional purchase plans by the Malawian National Food Reserve Agency (NFRA) have been largely unsuccessful to date this year because of the very low and uncompetitive prices it has offered compared to the very high prevailing market prices. Households and traders alike have opted to sell to the private sector, rather than sell to the NFRA at a lower price. In Malawi the NFRA and ADMARC have limited funding to purchase the required grain on the market. The same holds true in neighboring Zambia, where the Zambian Food Reserve Agency (FRA) plans to procure an additional 350,000 MT of maize in the coming months, but is offering a purchase price that is very low (0.24 USD/kg) compared to the prevailing market price in Malawi (.31-.43 USD/KG) It is therefore unlikely that Malawian traders would export to Zambia to participate in that marketing channel. Currently, the limited ADMARC depots across the country do not have supplies. When stocks are typically available in ADMARC depots, they are usually meager with negligible sales.

PROJECTED OUTLOOK THROUGH DECEMBER 2013

• Food availability will be constrained in the coming months as the normal December to March lean period approaches. Informal trade flows between April and August 2013 indicate that imports into Malawi from Mozambique have been greater than their respective 2012 levels over the same period and will likely continue to supply markets in the southern region of the country. Indeed, trade flows from Mozambique may play a much more important role over the coming months as remaining stocks from below-average production deplete in the central region of the country. Informal maize exports from Malawi into Tanzania have reduced significantly; although they may increase in the coming months, those export flows are currently not expected to reach the levels observed over the 2012/13 consumption year. This decreased export demand will reduce pressure on maize availability in Malawi’s northern region in the coming months. However, if the Vuli rains and subsequent harvests in January February harvests perform poorly in northern Tanzania, export demand from Malawi and neighboring countries could increase starting in December and January because of atypically strong demand and price levels in Tanzania and in the Horn of Africa.

• Staple food prices are not expected to decrease. Instead, in the absence of any major market-based humanitarian interventions, they are likely to increase even further as the consumption season progresses. Trader uncertainties about NFRA or ADMARC interventions are likely to contribute to speculative type behavior.

• Poor household cereal supplies are low or non-existent in areas where the 2012/13 harvests were affected by drought conditions and flooding. Most poor households in these localized areas in the northern, central, and southern regions of the country are depending on market purchases for their basic food needs and are currently Stressed (IPC Phase 2 (Figure 1)) due to higher food prices and limited labor opportunities. During the October to December period the food...
security situation will worsen to Crisis (IPC Phase 3) when access to food becomes a major limiting factor and if humanitarian assistance has not started in MSH, KAS, MZS and WRM⁴.

SEASONAL CALENDAR FOR A TYPICAL YEAR

⁴ See the 2007 Malawi Livelihood Zone Map for Middle Shire (MSH), Kasungu-Lilongwe Plain (KAS), Mzimba Self Sufficient (MZS), Western Rumphi & Mumba (WRM): http://www.fews.net/docs/Publications/MW_Livelihoods.pdf