The Malawi 2000 Food Crisis: The Rural Development Challenge[1]

Andrew Dorward and Jonathan Kydd

Centre for Development and Poverty Reduction

Imperial College Wye

A.Dorward@ic.ac.uk

http://www.wye.ac.uk/AgEcon/ADU/

Paper presented at 'Malawi after Banda: perspectives in a regional African context', a conference to mark the retirement of John McCracken, 4-5th September, Centre of Commonwealth Studies, University of Stirling

Abstract

The ongoing food crisis in Malawi has drawn stark attention to the failures of development policies over the last 40 years to create wealth and develop a robust economy or the markets on which such an economy must depend. Current market liberalisation policies have achieved at best mixed success in addressing the generic problems inhibiting smallholder agricultural development: low returns to farmers' and service providers' investments with high risks from natural shocks, price variations, coordination failure, and opportunistic behaviour. Post-independence institutional mechanisms in Malawi were more successful in addressing some of these problems, in particular those of coordination risk, although external and internal difficulties led to increasing costs and declining effectiveness of these mechanisms and their collapse. They do provide, however, important lessons about the different failures of both market intervention and market liberalisation policies. We suggest and discuss a set of critical elements needed for economic development and wealth creation in poor rural areas, and propose four basic principles to guide the search for and design and implementation of effective rural development strategies and policies.

1 Introduction

Central Southern Africa entered 2002 in acute crisis with a looming famine stretching across the continent from Angola and the Democratic Republic of the Congo to Mozambique. The causes of this crisis may appear more obvious in war torn Angola and the Democratic Republic of the Congo, but elsewhere we need to dig deeper to ask why relatively mild weather shocks (as compared, for example, with the 1991/92 drought) have triggered such a crisis. Devereux, 2002 has provided an excellent and detailed examination of the processes and immediate causes of the food shortages in Malawi in early 2002, but as he recognises, there remain underlying questions regarding the vulnerability of the rural economy to production shocks and the institutional capacity (of government, markets and other actors) to respond to and manage the effects of such shocks. This paper addresses these questions, focussing on the situation in Malawi. Despite the narrow focus of this discussion, we suggest that our analysis is relevant to the process of development in poor rural areas in other parts of Africa and in South Asia. However, in drawing lessons for other areas, due attention

[1] An earlier version of this paper was presented at a seminar on 'Famine and the Failure of Development? Southern Africa 2002', Overseas Development Institute, London, 10th July 2002, and benefits from comments in subsequent discussion. The work draws on various pieces of work commissioned by the UK Department for International Development, however the findings, interpretations and conclusions expressed in this paper are entirely those of the authors and should not be attributed to the Department for International Development, which does not guarantee their accuracy and can accept no responsibility for any consequences of their use.

needs to be paid to differences in, for example, agricultural technologies and opportunities, local and national institutions, infrastructure and communications, and non-farm opportunities.

We begin with an examination of generic problems facing poor rural areas in Malawi. Understanding these problems allows us to identify critical issues that need to be addressed if these problems are to be overcome. This provides us with an analytical framework to consider ways in which first post independence policies and then liberalisation policies have addressed, and failed to address, these issues. We conclude by asking 'where next?' and suggest some principles about what needs to be done in terms of national and rural policy objectives and impacts.

2 Generic problems and 'systemic investment risks' in poor rural areas

In this section we describe some generic problems facing poor rural areas, problems which are acute in large areas of the region and which impact on the lives of large numbers of people and a large part of the national economy. We recognise the complexity and multiple dimensions of the problems in these areas, and of their causes, but focus on a particular set of problems that increase risks and inhibit productive investments.

Perhaps the defining characteristic of poor rural areas in Malawi is the lack of a well developed and diversified monetary economy. The economy and (directly and indirectly) people's livelihoods within that economy are dependent upon two principle activities: agriculture and migrant labour remittances and returnee savings. This pattern of dependence on agriculture and migrant labour goes back a long way (see for example Morton, 1975 and Kydd, J.G. and Christiansen, 1982 for Malawi), but both of these sectors have faced major problems over the last thirty years.

Despite statistics which have suggested that Malawian agriculture has been growing at a tremendous pace (for example at over 7% per annum in the 1990s, World Bank, 2001), smallholder maize production has stagnated, and while smallholder production of burley tobacco and minor cash crops (such as paprika, birds eye chillies and pigeon peas) have increased (see for example Orr and Mwale, 2001), these are grown by a minority of farming households. Meanwhile commercial estate agriculture is in crisis, with very few crops in which it is able to make profits. Maize is the dominant food crop and current stagnation in maize production contrasts with, and is a regression from an earlier 'emerging green revolution' with rapidly expanding growth in smallholders' fertiliser use and hybrid maize production in some areas in the 80s (Carr, 1997; Heisey and Smale, 1996).

Migrant labour opportunities have also been subject to differing combinations of long term declines and recent shocks, as a result of varied processes including opening of previously protected domestic industries to regional and international competition, declining commodity prices, failures in parastatals and in privatisation processes, political instability, economic mis-management, lack of investor confidence, and tightening of controls on regional migration. The result is declining opportunities for rural households to find jobs elsewhere, and, for those households with members in employment, reductions in job security, net incomes, and ability to save and remit incomes.

A third major source of income in rural areas that is more difficult to quantify is income from direct use of natural resources (for example Cavendish, 1999 for Zimbabwe). While it undoubtedly remains important in the livelihoods of many rural people, and particularly in supporting coping strategies of poorer households, it does not provide a basis for expanding incomes and welfare, in many places it is threatened by increasing population densities, and it faces important problems of crowding in and covariant risk with agricultural and agriculturally dependent activities.

One response by rural people to pressure on and declining opportunities from agricultural, migrant and natural resources incomes has been to try to diversify out of agriculture into other activities (Bryceson, 1999). A major difficulty here, however, has been the lack of opportunities with low capital and skill demands and low risks, apart from petty trading, which has low barriers to entry but offers low returns.

Concentration of incomes from a narrow range of risky and low productivity activities is exacerbated by poor infrastructure, services and communications, with poor roads and transport services and poor telecommunications, leading to high costs in physical movement of goods and services in and out of rural areas, together with high costs of communication about market opportunities and prices. Education and literacy, particularly among women, also tend to be poor, and long standing problems of very poor health have been exacerbated by the spread of HIV/AIDS. Health and education services, meanwhile, are stretched and often under resourced and ineffective, undermined themselves by the impact of HIV/AIDS, limited human resources, fiscal constraints, remoteness, and often ineffective management.

The result of the low general level of economic activity, of the risks from lack of diversification, and of poor communications is a set of very thin markets. While volumes traded are low, the costs and risks of trading are high, as a result first of absolutely high communication costs, second because these high costs are carried by very low volumes, and third because the combination of low and risk-prone volumes with poor and costly information services leads to high risks of transaction failures for buyers and sellers. This requires high risk premiums and margins to make it profitable to engage in markets, but these high margins themselves depress demand, and the result is a low level equilibrium trap and market failure (Dorward *et al.*, 2002). These problems are particularly acute in input, output and financial markets needed for the intensification of seasonal food crop production.

To examine how these problems might be overcome, we need to consider in more detail the particular risks facing rural inhabitants and other investors or potential investors in these rural economies. We identify four basic categories of risk that inhibit productive investments necessary to promote economic growth and wealth creation in poor rural areas: risks of natural shocks; price risks; economic coordination risks; and risks of opportunism. We term the problem that these risks pose the 'systemic investment risks' of poor rural areas as these areas face a particularly intractable set of development problems due to the high risks that investors face in all four risk categories.

Low levels of financial and physical capital together with reliance on agriculture and natural resources make poor rural economies and livelihoods particularly exposed and vulnerable to *risks of natural shocks*. These might arise from adverse weather (affecting crop yields or damaging physical assets); human, crop or animal disease; or physical insecurity (as a result of crime, or political violence, or conflict). Where markets are thin and there are poor communications and high transport costs, isolated markets are prone to large *price risks* when affected by local supply or demand shocks. This may be particularly problematic for food crops with relatively inelastic demand and where there are large differences between local import and export parity prices. There is a long-standing literature on the existence and effects of such risk in poor rural livelihoods, and of ways that poor rural people attempt to reduce their exposure to such risk.

While we recognise the importance of these shocks, our primary focus here is to draw attention to two transaction risks that have not been given enough consideration by development policy analysts. These transaction risks may not be as obvious as the natural shocks and price risks discussed above, but they can nevertheless have devastating effects on the returns to investments, and hence on investment flows. First we consider *economic coordination risk*, which is the risk of failure of one player's investment due to the absence of complementary investments by other players in different stages in the supply chain. In developed economies these risks have been the subject of seminal work by Williamson (Williamson, 1985) and subsequent new institutional economics writings on transaction costs and contractual arrangements. There has been less work on this problem in developing economies (Jaffee and Morton, 1995; Dorward, A. *et al.*, 1998) and it is not generally recognised that the problems of specific assets as defined by Williamson are a special case of a more general problem of thin markets, as argued above a systemic problem in poor rural areas. Where the returns to an investment are dependent upon complementary action in a very thin market, any investment is subject to the risk that either no other actor will make the necessary complementary actions (economic coordination risk), or that an actor who could make such actions has an effective monopoly and is able to capture an undue share of the revenue in the supply chain. The latter is an example of the second type of transaction risk that we need to consider, *risks of opportunism* by other players. Risks of opportunism arise not only where there are thin markets, they may also occur where there are weak institutions protecting contractors from opportunism or where there is strong information asymmetry (for example where the quality of goods or services is difficult for buyers to judge). However, thin markets lead to important additional risks of opportunism.

Economic coordination risks, and associated risks of opportunism, are particularly problematic in poor rural areas, with their very low levels of economic activity, poor transport, and thin markets. In the development of markets needed to support more intensive crop production in poor rural areas, for example, there are extensive economic coordination risks facing different investors required in the supply chain: financial service providers, input suppliers, farmers, produce traders, and transporters. Thus returns to farmers' borrowings to purchase inputs are dependent upon access to inputs (subsequent to borrowing) and upon access to produce markets (subsequent to production); returns to financial service providers' investment in agricultural lending are dependent upon farmers' demand and subsequent repayments (which depend upon input suppliers and produce buyers); returns to input suppliers' investments in stock and in marketing systems are dependent upon farmers' subsequent access to and uptake of seasonal finance and access to transport services; produce traders' investments in buying systems and in purchases are dependent upon farm production and access to transport services; and investments in transport services are dependent upon demand from input and produce traders and upon road maintenance and access. Similarly, the different players face risks of opportunistic behaviour by other players: lenders are at risk from 'strategic default' by farmers; farmers are at risk from low prices offered by maize traders at harvest time (when farmers are desperate for cash) or in remote areas (where farmers have no other sales outlets); farmers are at risk from input sellers supplying poor quality or adulterated inputs, and from use of inaccurate or loaded weights and measures by input or produce traders; farmers and traders with commodities requiring urgent transport may also be vulnerable to opportunistic behaviour by individual transporters or by transporters' cartels.

We have not explored the full range of possible coordination links that exist (we might, for example, also consider the need for extension services to promote input use or crop production, or the need for law enforcement to prevent theft or loan defaults). Nevertheless the importance of coordination risk should be apparent, as failure by any one investor in the supply chain (or failure by a sufficient number of farmers to generate breakeven volumes for other parties) will cause their investments to fail. Furthermore, as willingness to invest is determined by expectations of returns, and the returns to investments depend upon investments by others, the returns to investments of all players are subject to each others' expectations of returns: it only takes one investor's perceptions of high risks of shocks, prices, coordination failure or opportunism to cause them to withdraw for all other investors to lose their shirts. It is important to recognise the critical role of expectations and trust in perceptions of coordination risks.

All these risks lower the productivity of the rural economy by (a) directly lowering the average returns to investment within the economy, (b) distorting investments within the rural economy away from those that maximise expected returns towards those that reduce risks under adverse conditions, and (c) discouraging investments within the rural economy as a result of both reduced expected returns and risk aversion of investors. Overcoming systemic investment risks therefore requires a lowering of risk and a raising of expected secure returns to a level that provides opportunities for productive investments that both promise and deliver returns sufficient to attract investors and drive economic growth. Attention therefore needs to be paid to reducing risks from coordination failure; reducing risks from shocks; reducing price risks; reducing risks from opportunism; and raising minimum expected returns (allowing for premia needed to offset risks). Different risks may be traded off against each other and against expected returns, so that investment decisions will be made allowing for risk-return criteria across all four conditions. Effective policy will concentrate on reducing exposure to and the effects of the largest risks. In contrast to well developed economies with rich competitive markets where players can generally be confident that the market will provide coordination, poor rural areas with thin markets require particular attention to problems of coordination failure and price risk and, initially at least, development of non-market coordination mechanisms to reduce these risks. We therefore turn now to consider how these problems have been addressed under different recent policy regimes.

3 Post-Independence "institutional fixes"

Malawi, like many other African countries, set up monopolistic marketing parastatals in the immediate pre- or post- independence period. There were strong political and economic reasons for newly independent governments establishing or continuing with and extending the activities of these parastatals. Governments needed to take action, and to be seen to take action, to promote agricultural and rural development, but the private sector was weak (as regards access to capital and human resources, and in organisational capacity) and the poor market and infrastructural development in rural areas presented highly risky and unattractive investment opportunities, as discussed above. At the same time there was implicit recognition of the major coordination challenges facing private investors in smallholder agriculture. State intervention, was seen as a means of addressing all these problems, in that it could provide a coordination mechanism across trading, infrastructural, research and extension investments and activities; it could access official finance sources; it could coordinate with farmers; and it could invest in the organisational and human resource development necessary to develop working systems. [2] At the same time government policies to fix exchange rates and to control agricultural markets allowed price stabilisation and price setting to reduce price risk to farmers and to set finance, input and output prices to give risk adjusted returns high enough to attract investments in intensified crop production, at least by better off smallholders. Pan territorial pricing allowed these benefits to extend even to remote rural areas. At its height this approach led to the integrated rural development projects of the 1970s and 80s, extending coordination into health, education, and roads as well as agricultural research and extension, input supply, crop marketing, and seasonal finance.

The parastatal system can therefore be seen as a specific ‘institutional fix’ (Kydd *et al.*, 2001c) that enabled governments to address the five investment risk trap problems identified earlier: risks from coordination failure; risks from shocks; price risks; risks from opportunism; and low expected returns. Focussing on the problems facing farmers, governments took on the task of coordinating investments to provide the financial and input and output marketing services farmers needed. By committing themselves to this task, by undertaking investments themselves, and by controlling and stabilising prices, government took on the risks involved in developing and delivering these services, encouraged coordinated commitment by farmers, and took over price risks from farmers. Coordination across credit provision and recovery, input supplies and crop marketing also allowed the development of mechanisms to reduce incentives for farmers to default on loans, and thus reduce risks of opportunism. This was the basis for the very high loan repayments rates achieved in Malawi (the political economy in Zambia and in Zimbabwe did not take advantage of this feature of the system).

As is well known, these parastatals had a mixed record. They supported, at different times, large increases in maize production in more favoured maize growing areas, a growth dynamic in some rural areas, and national (though not household) food security. These gains were, however, achieved at considerable cost. The parastatals were often inefficient, ineffective monopolies and state organs of patronage and of agricultural taxation. ADMARC operated for a number of years with commendable efficiency, and the Smallholder Agricultural Credit Authority maintained for many years an outstanding repayment record on farmer lending[3]. However, cross subsidisation from cash crops to maize depressed smallholder cash crop production and earnings and became increasingly difficult to finance, and this led to steady decline in its effectiveness. Direct benefits tended to accrue to better off farmers in more favoured areas (favoured as regards lower land pressure and more reliable climate) and by-passed more challenged rural areas where large numbers of the rural poor are located [4]. There was also a tendency to rely on state and party power to command top down coordinated action rather than positive incentives rooted in players’ perceived self interests.

However, these problems should not mask the institutional problems that the parastatals addressed, nor the successes that they sometimes achieved in addressing these problems. In particular their record needs to be judged against the achievements of the liberalised markets that succeeded them and to which we now turn.

4 Liberalisation

There is an extensive literature describing the different processes of liberalisation in Malawi and its neighbours (see for example Jayne, Thomas S. and Jones, 1997; Kherallah and Govindan, 1999; Jayne, T.S.

---

[2] In addition to these very practical problems facing private sector led agricultural development, wider political motives were very important for the development of parastatals. There was often a deep mistrust of private companies seen to be dominated by or associated with former colonial interests, and often a socialist philosophy suspicious of the private sector and of markets, with a belief in the need for the state to actively intervene to direct the economy to achieve both productive and welfare objectives. At the same time there was great confidence in the ability of the state, and economic development theories that stressed the importance of industrial sector development, and the taxation of agriculture to finance this, found state involvement in agricultural marketing activities a convenient tool for such taxation.

[3] In Zimbabwe and Zambia the burden of subsidies, loan defaults and price controls led to unsustainable drains on government fiscal resources, and, with increasing cash flow problems, inability to deliver effective services.

[4] Natural Regions IV and V in Zimbabwe were largely excluded from the benefits of the maize revolution in Zimbabwe (Poulton *et al.*, 2002).

et al., 2001;Chilowa, 1998; Deininger and Olinto, 2000), and we will do no more here than describe their broad effects and relate them to the investment coordination and risk problems of poor rural areas. There continues to be considerable debate about the effects of liberalisation, largely due to difficulties (a) in establishing counterfactuals as regards the effects of alternative policies to liberalisation, (b) in agreeing how far liberalisation has been achieved, and whether continuing problems with market development are the result of too little or too much liberalisation, and (c) in separating out the effects of different elements of liberalisation and of other simultaneous changes, in, for example, national governance and international markets (Kherrallah *et al.*, 2000, Jayne *et al.*, 2001, Dorward *et al.*, 2002; Orr and Mwale, 2001). It is, however, generally agreed that by the late 1980s the parastatal system was unsustainable, as it was becoming increasingly inefficient and ineffective, and imposed growing fiscal demands on government. By pulling back the state from commitments to carry investment, price and exchange risk, liberalisation solved some problems, removing the price distortions and operational inefficiency of state managed systems, reducing fiscal strain, and reducing scope for rent seeking. Positive developments noted in neighbouring countries included benefits for maize consumers from competition in maize processing, with expansion of local hammer mills and reduced transport and processing costs (Jayne and Jones, 1997) and the development of successful private institutional arrangements supporting smallholder production of certain cash crops (for example cotton, Gordon and Goodland, 2000).

As regards maize crop production, however, liberalisation appears to have solved the problems of high cost and patchy service delivery largely by removing these services. Investment in financial and input service delivery, in produce trading, and in farm production has withered away, as private sector investment has not replaced the parastatal system that aspired to support rural investment in maize production. Not unexpectedly, rural economies are now caught in a low equilibrium trap with systemic investment risks. Farmers face an absence of financial services and large uncertainty about maize prices and hence risks as regards profitability of investments in maize production. Rural financiers face problems of widespread borrower opportunism and strategic default, with limited investment opportunities for borrowers, against very high interest rates. Input traders face low demand and output traders face low and uncertain supply. Consumers also face very uncertain maize prices, making it dangerous to diversify out of maize production into other more profitable farm or non-farm activities (Dorward, 1999; Orr and Orr, 2002). All investors also face high degrees of uncertainty from macro-economic instability (with rapidly changing exchange rates and inflation, and high interest rates), and from often erratic government and donor policies and interventions affecting food and other markets.

5 Where next? Principles, policies and action

The immediate task must be to ensure timely and adequate delivery of food to enable people to survive and to begin to reconstruct their lives. An important element of the latter will be to support people in reconstructing their asset bases: a significant worry must be that the impoverishment and decapitalisation of the previously relatively less poor in Malawi has undermined the ganyu economy which enabled very many poor people to scrape through from one season to the next. Looking beyond the coming season, however, government, donors, NGOs, rural people, investors and civil society need to work together to establish policies and mechanisms to promote growth and to create wealth in poor rural areas.

It is relatively easy to identify failures in both the post-independence market intervention and the more recent market liberalisation prescriptions: a more difficult task is to chart an alternative way forward. The first step must be to identify the critical elements needed to promote productive investments and wealth creation in poor rural areas. Our analysis of systemic investment risks in these areas, and experience with market intervention and liberalisation policies suggests that the following critical elements are needed for economic development and wealth creation in poor rural areas:

1. non-market coordination mechanisms to reduce economic coordination risks in thin markets
2. measures to reduce investors' vulnerability to and risks from price shocks
3. measures to reduce consumers' vulnerability to and risks from food price shocks
4. measures to reduce investors' vulnerability to and risks from opportunism by other actors in the supply chain

5. measures to reduce investors' vulnerability to and risks from opportunism by the state and politically powerful rent seekers
6. business opportunities that offer significant expected returns to investors (we have argued elsewhere (Kydd *et al.*, 2001a) that agriculture generally offers the best prospects for stimulating broad based, poverty reducing growth in rural areas in Africa, either through increased production of tradables that bring income into the area and/or through increased and lower cost production of non-tradable staple foods, but there are important *caveats* to this including, for example, technological difficulties in raising agricultural productivity in lower rainfall/ lower potential areas).
7. stable and transparent policies governing macro-economic management and government interventions in markets (including financial, food and agricultural input markets)
8. improved communications infrastructure in terms of roads and telecommunications linking rural areas to markets

This is a long 'shopping list', but we suggest that these are all necessary elements for broad based poverty reducing growth. It is striking that with the exception of limited cash crop business opportunities in some areas, these elements are largely absent from poor rural areas in Malawi, Zambia and Zimbabwe. Integrated rural development projects of the 1970s and early 1980s attempted to take on this ambitious agenda, but largely failed, either because they were ineffective or because they were too expensive to be sustained, and were abandoned as part of structural adjustment and liberalisation policies in the late 1980s. How can this agenda be taken up more successfully at the start of the 21st century?

We suggest that there will be no simple off-the-peg answer to this, but we put forward four principles to guide the search for and design and implementation of effective rural development strategies:

- *The fiscal costs of rural development must be set against the human, economic and financial costs of development failure*, either continuing poverty and sporadic relief (with unacceptable human costs that are particularly apparent in the current crisis) or indefinite safety nets.
- *Institutional innovation is needed to develop more imaginative solutions that reduce risk and promote coordination, sustainable investment, confidence and market development*, addressing the twin problems of state and market failure that have each bedevilled in different ways both the market intervention and the market liberalisation approaches to development. These are very difficult problems, and we discuss below some ideas as to how they might be addressed.
- *Policies and interventions should be designed to be flexible and to address and match the varied and changing opportunities and constraints of different areas*, with different balances of emphasis between wealth creation and safety nets and between different opportunities and different institutional mechanisms in different areas. This will involve a phased approach that seizes opportunities as they arise and is prepared to move forward fast in areas where the way forward is clearer, while acting more cautiously where problems are more intractable. Varying emphasis will also be needed on different types of technical change, and different technologies will need different types of phased institutional development (see for example Kydd *et al.*, 2001b).
- *Policies and interventions should also be mutually consistent and long term*, so that different players have time to learn how to operate in a stable economic and institutional environment, so that they have confidence that investments will yield returns in the short, medium and long term, and so that policies and interventions in different sectors and different areas do not work against each other. A particularly important issue here is that short and medium term interventions focusing on relief and poverty alleviation should support rather than undermine longer term policies and processes of market and wealth creation.

These principles perhaps raise more questions than they answer, with, for example, critical questions about the types of institutional innovations that could meet these challenges; about apparently intractable problems in areas where there are no apparent business opportunities to support widespread growth; and about contradictory demands for flexible policies on the one hand and stability and consistency on the other while charting new waters in a rapidly changing world with political expediency and competition for limited resources in dealing with short term crises. We briefly address each of these issues in turn.

Institutions have, rightly, been receiving increasing attention in development policy (for example World Bank, 2002), but this has tended to focus on the 'institutional environment' (Davis and North, 1971) and on the importance of governance, legal systems and enforcement, and property rights in supporting the development of competitive markets. Vitally important though these matters are, our earlier analysis shows that they will not be enough to get markets going where there are severe problems of economic coordination risk: non-market coordination mechanisms are needed to 'kick-start' markets and economic activity (Dorward *et al.*, 2002). The state, working together with other stakeholders, has a critical role to play in supporting mechanisms for coordination between investors and in reducing investor risk and promoting investor confidence. Macro-economic stability and a favourable institutional environment, although arguably absent from the region for much of the last 20 years or so, are important in helping to reduce some elements of investor risk and to promote investor confidence. However, they do not deal with the major problems of coordination, opportunism, and price risks, or of low returns to investment. Building on the pockets of past success with parastatals and of current success with cash crops, measures that may be able to simultaneously address coordination and opportunism risks include regulated monopolies, regional commodity franchises, trader associations, and farmer associations. These may be integrated with measures that provide some form of insurance for investors and consumers against price risk. State approaches include the maintenance of grain reserves, price intervention and guarantees, and market information systems. Non-state approaches include improvements to market infrastructure and the development of commodity exchanges and insurance markets. All of these have well known and difficult problems related to moral hazard, adverse selection and governance, and any proposals for input, maize or price subsidies have very large budgetary implications. However, there is a growing body of expertise on different ways of managing risk (for example Anderson, 2001) and combinations of international, national and local institutions can often be crafted to reduce these problems (for example, benefits from long term mutual commitments to different forms of 'competitive cooperation' or interlocking arrangements may provide both incentives for complementary investments and protection from opportunistic behaviour, Dorward, A. *et al.*, 1998). These problems can only be overcome if governments and the international community recognise and commit resources to address these issues in partnership with rural people, businesses, NGOs and civil society.

A second major difficulty is the apparently intractable problems in many high population areas in identifying profitable activities which could support widespread poverty reducing growth. In over-crowded areas in Southern Malawi, and in the communal areas in natural regions IV and V in Zimbabwe, for example, there are few if any agricultural activities that can provide widespread and sustained improved income opportunities. These areas were largely bypassed by the growth in maize production supported by the 'post independence institutional fix' (although Evans and Kydd, 1990 document some success in Southern Malawi in the 80s). Important though these problems are, they should not hold back action that will either support growth in other areas or support limited growth in these areas, as some growth is better than none, with benefits for poorer areas in (a) stimulating growth in the economy as a whole (with positive spin-offs as regards increased demand for labour, growth in the non-farm economy, and government revenues), and (b) generating experience and ideas to take forward in the more difficult areas. There is an important related question here regarding the extent to which attention should be focussed on maize production and markets in its supply chain. Post independence policies in all three countries had a strong emphasis on maize, due to the heavy reliance on and preferences for maize in rural and urban diets. However, in tending to ignore root crops and millet, these policies increased reliance on maize (although it is a relatively risky crop in some areas), and failed to develop technologies and marketing and information systems about other often locally important crops.

A third difficulty with the four principles we propose is the apparent contradictory demands for flexible policies on the one hand and stability and consistency on the other. How can stability be achieved in countries experimenting with policies, responding to crises rather than managing change, and vulnerable to a highly uncertain natural, economic and donor policy environments? Is stability compatible with radical structural changes such as land redistribution? There are no simple answers to this, but again, a first step is to recognise the problem, and then to identify key elements for managing change. These are likely to include emphasis on transparency and on deliberative mechanisms that establish goals and rules for responding to and managing change, with checks and balances that restrain and penalise opportunistic behaviour by governments and donors (and their agents) as well as other stakeholders. Such mechanisms inevitably imply some mutual voluntary surrender of sovereignty. 'Joined up' policy formulation processes are also needed to ensure consistency across different areas, across different sectors, and across different types of policy (for example relief and development policies, as indicated earlier). There are also important questions for regional coordination here. Devereux, 2002 notes that price supports and subsidies may be more problematic now than they were in the past, as border effects were more limited when more countries were following similar pricing policies. Better regional market and policy integration might also play an important role in reducing price risks.

6 Conclusions

The ongoing food crisis in Central-Southern Africa has drawn stark attention to the failures of development policies over the last 40 years to create wealth and develop a robust economy or the markets on which such an economy must depend. Market intervention and market liberalisation policies have both failed, in different ways, to address fundamental coordination problems in market development. These failures can be attributed, in part at least, to a certain degree of naivety about the weaknesses of government and of markets. Looking forward we now have a better understanding of these weaknesses, and of ways in which they may be addressed. However, the task is in other ways more difficult than it was twenty or thirty years ago, as there is more pressure on limited natural resources, the global environment is perhaps more difficult now than it was, and there are severe challenges from decapitalisation and decline and from the impacts of HIV/AIDS. These difficulties should not, however, be an excuse for inaction: the current food crisis must be a stimulus to concerted and committed action to learn from the lessons of the past and to develop and implement consistent policies that will support development of the fundamentals of a working economy. This will require long-term investment in institution building, a willingness to radically rethink current market liberalisation policies and consider costly interventions to make farming profitable , and a willingness by all stakeholders (and particularly governments and donors) to commit themselves to pragmatic partnerships that by developing trust allow them to surrender some of their sovereignty and take risks, in the hope of achieving wider gains.

References

Anderson, J. R. (2001). Risk Management in Rural Development: A Review. Rural Strategy Background Paper #7. Washington D.C., World Bank.

Bryceson, D. F. (1999). Sub Saharan Africa Betwixt and Between. Working Papers. Leiden, African Studies Centre, University of Leiden, Netherlands. http://asc.leidenuniv.nl.

Carr, S. J. (1997). A green revolution frustrated: lessons from the Malawi experience. African Crop Science Journal 5(1): 93-98.

Cavendish, W. (1999). Poverty, inequality and environmental resources; Quantitative analysis of rural households. London, Imperial College.

Chilowa, W. (1998). The Impact of Agricultural Liberalisation on Food Security in Malawi. Food Policy. 23(6): December 1998.

Davis, L. E. and D. C. North (1971). Institutional Change and American Economic Growth. Cambridge., Cambridge University Press.

Deininger, K. and P. Olinto (2000). Why liberalisation alone has not improved agricultural productivity in Zambia: The role of asset ownership and working capital constraints. World Bank Policy Research Working Paper Series 2302.

Devereux, S. (2002). The Malawi Famine of 2002: Causes, Consequences & Policy Lessons. Draft

Dorward, A., J. Kydd, et al., Eds. (1998). Smallholder Cash Crop Production under Market Liberalisation: A New Institutional Economics Perspective. Wallingford., CAB International.

Dorward, A. R. (1999). Farm size and Productivity in Malawian Smallholder Agriculture. Journal of Development Studies 35(5): 141-161.

Dorward, A. R., J. G. Kydd, et al. (2002). A Policy Agenda for Pro-Poor Agricultural Growth. Paper presented at the Agricultural Economics Society Conference, Aberystwyth, 8th - 10th April 2002.

Eicher, C. K. and B. Kupfuma (1998). Zimbabwe's maize revolution: insigths for closing Africa's food gap. In (eds) C. K. Eicher and J. Staatz, International Agricultural Development. Baltimore and London, John Hopkins University Press: 550-570.

Evans, J. and J. Kydd (1990). Phalombe Women's Agricultural Development Programme: a Case Study of a Gender and Poverty Focused Seasonal Credit Programme. Wye, Wye College.

Gordon, A. and A. Goodland (2000). Production credit for African small-holders- conditions for private provision. Savings and development XXIV(1): 55-84.

Heisey, P. W. and M. Smale (1996). Maize technology in Malawi: A Green Revolution in the Making? Mexico, CIMMYT.

Jaffee, S. and J. Morton, Eds. (1995). Marketing Africa's High Value Foods, Kendall Hunt.

Jayne, T. S., J. Govereh, et al. (2001). False Promise of False Premise? The experience of food and input market reform in Eastern and Southern Africa. EAAE Seminar on Livelihoods and Rural Poverty:Technology, Policy and Institutions, Imperial College at Wye.

Jayne, T. S. and S. Jones (1997). Food marketing and pricing policy in Eastern and Southern Africa: A survey. World Development 25(9): 1505-1527.

Kherallah, M. and K. Govindan (1999). The sequencing of agricultural market reforms in Malawi. Journal of African Economies 8(2): 125-151.

Kherrallah, M., C. Delgado , et al. (2000). The road half-travelled: agricultural market reform in sub-Saharan Africa. FFood Policy Report. Washington D C, International Food Policy Research Institute.

Kydd, J. G. and R. Christiansen (1982). Structural change in Malawi since independence: consequences of a development strategy based on large scale agriculture. World Development 10: 355-375.

Kydd, J. G., A. R. Dorward, et al. (2001a). The Role of Agriculture in Pro Poor Economic Growth in Sub Saharan Africa. http://www.wye.ac.uk/AgEcon/ADU/research/projects/aggrowth/africagrfinbib.pdf.

Kydd, J. G., A. R. Dorward, et al. (2001b). Agricultural parastatals revisited: a new institutional economics analysis. In (eds) D. Byerlee and I. Livingstone, Routledge.

Kydd, J. G., A. R. Dorward, et al. (2001c). New institutional economics, agricultural parastatals and marketing policy. In (eds) D. Byerlee and I. Livingstone, Renewing Development in Sub-Saharan Africa: policy, performance and prospects, Routledge.

Mabeza-Chimedza, R. (1998). Zimbabwe's smallholder agriculture miracle. Food Policy 23(6): 529-537.

Morton, K. (1975). Aid and Dependence: British Aid to Malawi. London, ODI/ Croom Helm.

Orr, A. and B. Mwale (2001). Adapting to adjustment: smallholder livelihood strategies in Southern Malawi. World Development 29(8): 1325-1343.

Orr, A. and S. Orr (2002). Agriculture and micro enterprise in Malawi's rural south. Agren Network Paper(119).

Poulton, C., R. Davies, et al. (2002). A review of Zimbabwe's agriculutral economic policies: 1980 - 2000. Working paper, Institutions and Economic Polices for Pro-Poor Agricultural Growth. London, Imperial College.

Williamson, O. E. (1985). The Economic Institutions of Capitalism. New York, The Free Press.

World Bank (2001). Malawi at a glance. Washington DC.

World Bank (2002). Institutions for markets: World Development Report 2001/2002. Washington D.C., World Bank.