

Effects of Minimum Farm gate price Policy on Maize Production in Malawi

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Abstract

The study pursued to make a contribution in the debate regarding the effectiveness of the government set Minimum farm gate prices in Malawi. Specifically the study sought to assess the effects of the price policy on household maize production. Government of Malawi has been setting minimum prices of selected farm produce for over a decade now. There has been a widespread belief among the policy makers that implementation of the intervention would incentivize farmers to invest in better farm husbandry, improved seeds and other inputs that would in turn improve their productivity and therefore national production figures. However, there is no evidence to suggest that implementation of this price policy, is realizing its intended outcomes. To the contrary, available data shows that a substantial number of farmers are still selling their output below the government set prices.

In light of the foregoing, this study, employed an Ordinal Least Squares methodology utilising data from the Intergrated Household Surveys, to interrogate the effects of the policy in two stages. Firstly, it interrogated the effectiveness of the policy by calculating the proportion of farmers that sold their output in 2015 and 2020. The results show that the government set prices have not been binding considering that in 63% and 11% of farmers managed to sell their maize above the government set prices in 2015 and 2020 respectively. In second stage, the study interrogated whether access to licenced markets contributed to the ineffectiveness of the policy. The findings show that even though distance to markets influences pricing of maize in Malawi overall, it had no any significant impact on both pricing and production of maize in 2010 and 2020 if district specific unique characteristics are fixed. It was however found that distance to licenced markets influenced pricing of maize in 2015, a situation which has been attributed to maize scarcity of 2015.

The findings also show that distance to the nearest city had a significant negative relationship with prices of maize before the implementation of the policy in question and a positive significant relationship in the year 2020. This suggests that despite all the pitfalls, the policy has improved pricing of maize in remote areas farther from the four Cities of Lilongwe, Blantyre, Mzuzu and zomba.

Therefore, the minimum farmgate prices set by the government of Malawi are ineffective in quest for maize production improvement but there is no significant evidence to suggest that distance to formal markets contribute to the ineffectiveness of the program.