

Malawi Public Agricultural Expenditure Review

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Key Messages

- Malawi has been allocating more than 10% of its budget to agriculture, with decimal agricultural growth and poverty reduction.
- About 28 percent of all funding towards agriculture goes to variable inputs, including fertilizers and seeds. A significant proportion of expenditure also goes to food aid and social cash transfers
- While agricultural extension is the second most funded, about 82 percent of government funding is in the form of extension worker salaries.
- Funding for agriculture has been donor-driven, particularly in agricultural extension, irrigation, and research.
- The absolute values of expenditure on agricultural extension, irrigation and research are significantly low to attain an agricultural transformation.
- There is also low policy implementation driven by limited funding at the local level.

Introduction

Agriculture is pivotal to Malawi's economy, contributing substantially to Gross Domestic Product (GDP), export earnings, employment, and food and nutrition security. Recognizing its significance, the sector has received considerable policy attention, with consistent budget allocations of at least 10%, aligning with the African Union's Comprehensive African Agriculture Development Programme (CAADP) recommendations[1]. The renamed Affordable Input Program (AIP), previously the Farm Input Subsidy Program (FISP), has been implemented for two decades, underscoring agriculture's importance. Despite this, the sector's performance remains suboptimal.

While various shocks contribute to poor agricultural performance, inefficiencies in public expenditures, policies, and implementation may also play a significant role. This policy brief investigates allocative inefficiencies in agricultural public spending, emphasizing the need for enhanced policy implementation.

This research supports the Malawi Government in repurposing agricultural public support, informed by evidence, to propel sector growth toward achieving Malawi 2063 vision. The study addresses the knowledge gap, given the absence of public expenditure reviews aligning agricultural expenditures with sector priorities since 2020. Previous reviews include the FAO's 2021 analysis (2006-2020) and the World Bank's 2019 national

expenditure review (2008-2018). The study's timeliness is reinforced by the expiry of the National Agriculture Investment Plan (NAIP) in 2023, the launch of the long-term vision, Malawi 2063, in 2020, the first 10-year implementation plan (MIP-1) in 2022, and the development of the National Agricultural Policy 2024-2030.

We used public budget and expenditure data from the Ministry of Finance, the National Local Government Finance Committee (NLGFC) and the Donor Committee on Agriculture and Food Security (DCAFS) from FY 2016/17 to FY 2021/22 to analyze the trends, composition, level, type and sources of expenditure on food and agriculture in Malawi.

The Expenditure data were classified according to the FAO's Monitoring and Analyzing Food and Agriculture Policies (MAFAP) expenditure categories, with some modifications[2]. The modifications include excluding agriculture-supportive expenditures such as rural health, rural education, energy, and infrastructure from the definition of public expenditures. In addition, unlike the MAFAP approach that follows broader or aggregate expenditure line descriptions, our approach to categorization included the use of detailed expenditure information at the Vote, Cost Centre, Program, Sub-program, item and sub-item levels to identify and assign expenditure categories.

Trends in Public Expenditure on Food and Agriculture

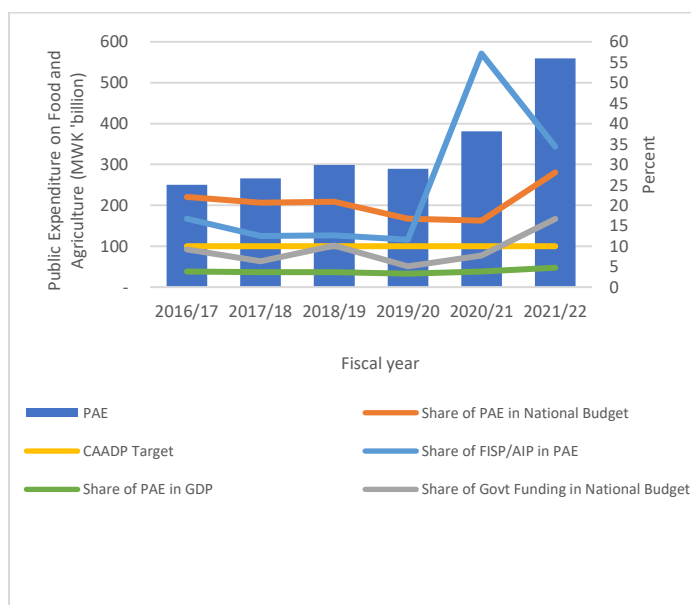
Over the years, nominal public expenditures on food and agriculture in Malawi have been increasing (Figure 1). Between 2017 and 2022,

public expenditures on food and agriculture exceeded MK250.6 billion, reaching MK559.5 billion in 2022. Significant increases in public agricultural spending between 2020 and 2022 can be explained by the expansion of the input subsidy program to cover many farming households and the surge in fertilizer prices, which forms a considerable cost component of the input subsidy program.

Further, despite the yearly variations in budgetary allocations, expenditures on food and agriculture have consistently exceeded the CAADP's requirement that national states allocate at least 10 percent of their national budget to the agriculture sector.

The share of public agriculture expenditure in the national budget declined from around 20 percent in FY2016/17 to 16 percent in FY2020/21 and then shot to 28 percent in FY2021/22. Further, the share of government agricultural funding in the national budget averaged 8.5 percent over the review period, with the lowest being 5.1 percent in FY2019/20 and the highest being 16.7 percent in FY2021/22.

Figure 1: CAADP target and trends in Agricultural budget, GDP growth rate, and share of the agricultural budget in government budget



Source: Authors

However, these investments have not stimulated significant increases in the sectors' GDP growth rate.

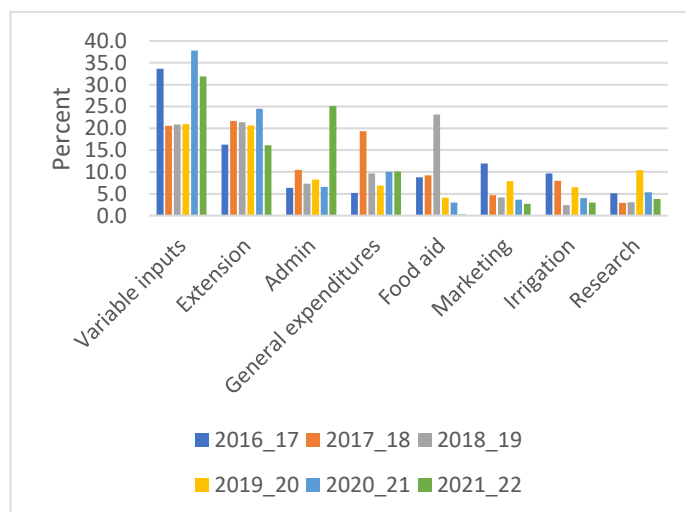
Functional Composition of Public Agriculture Expenditure

Expenditures on food and agriculture can generally be classified into two broad categories following the MAFAP approach. These are: 1) payments to agents operating in the food and agriculture sector and 2) general sector support. The first category represents transfers that directly support individual agents in the food and agriculture sector, including input subsidies, food aid, cash transfers, traders, processors, and input supplies, among others. General sector support refers to payments that have a public goods nature and benefit society in general. These include agricultural extension, irrigation, research, inspection services, and market information, among others. Our results reveal that general sector support expenditures constitute, on average, 70 percent of total expenditure on food and agriculture.

Variable inputs constitute the largest share of agricultural spending during the period under review, averaging 28.6 percent over the period studied (Figure 2). Variable input expenditures include expenses on inputs such as seeds and fertilizers, which are part of the agricultural input subsidy program. From 2017/18, the share of variable inputs has increased from about 20.6 percent to the highest level of 37.8 percent in 2020/21 and then dropped to 31.9 percent in 2021/22.

Agricultural extension is the second most important program in terms of expenditure shares. The share of extension expenditures averaged 19.8 percent during the review period, rising to 24.5 percent in FY2020/21. Expenditure on extension services includes costs incurred while delivering information, advice, and support directly to farmers to help them adopt the various agricultural production practices and technologies that contribute to agricultural productivity and sustain production.

Figure 2: Trends in major expenditure components on food and agriculture



Source: Authors

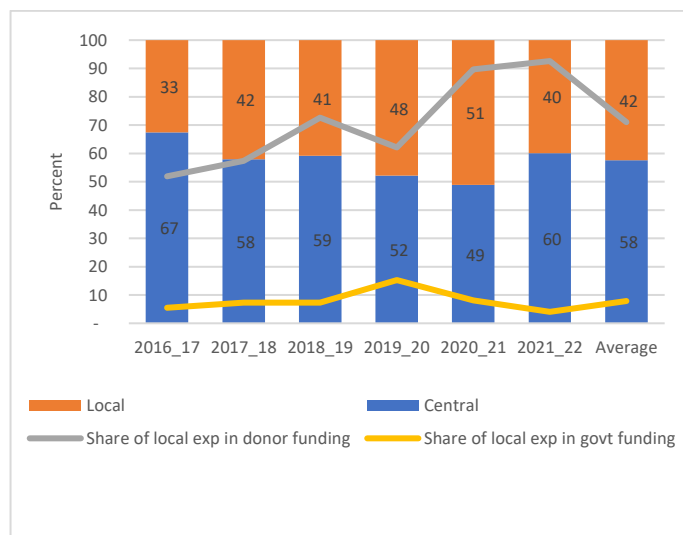
Other important expenditure categories included expenditure on administration (12.5 percent), general expenditures (10.2 percent), Food aid (6.9 percent), marketing (5.2 percent), irrigation (5.1 percent), and research (5 percent). General expenditures on food and agriculture encompasses a range of additional expenditures not covered by the specific expenditure categories listed.

Public Expenditure on Food and Agriculture by Implementation Levels

The level of public expenditure, defined as local and central government, depicts the level of policy implementation. In the agriculture sector, most agricultural activities occur in rural areas, where more than 85 percent of the population lives and derives their livelihood from agriculture. Therefore, targeting investments in rural areas presents the most effective means of supporting agricultural development.

Malawi has been implementing the decentralization policy for nearly 24 years now. Decentralization was meant to improve the efficiency of government institutions' service delivery. Figure 3 below shows the distribution of public spending by the level of policy implementation.

Figure 3: Distribution of food and agriculture expenditure between central government and local governments



Source: Authors

Close to 60 percent of public expenditures on food and agriculture occurred at the central government level during the review period. The share ranged between 67 percent in FY2016/17 and 60 percent in FY2021/22.

When considering public expenditure on agriculture by the Ministry of Agriculture alone, the data shows that more than 95 percent of the Ministry of Agriculture budget is spent at the central government level. This depicts a low level of public policy implementation by the central government.

The most significant expenditures at the central government level are input support programs, which account for about 41 percent of total expenditures.

This is followed by expenses related to policy and regulatory activities and maize purchases. This implies that more than 55 percent of expenditures

on food and agriculture at the central government level have gone towards input subsidies (production subsidies) and the purchase of maize (consumption subsidies).

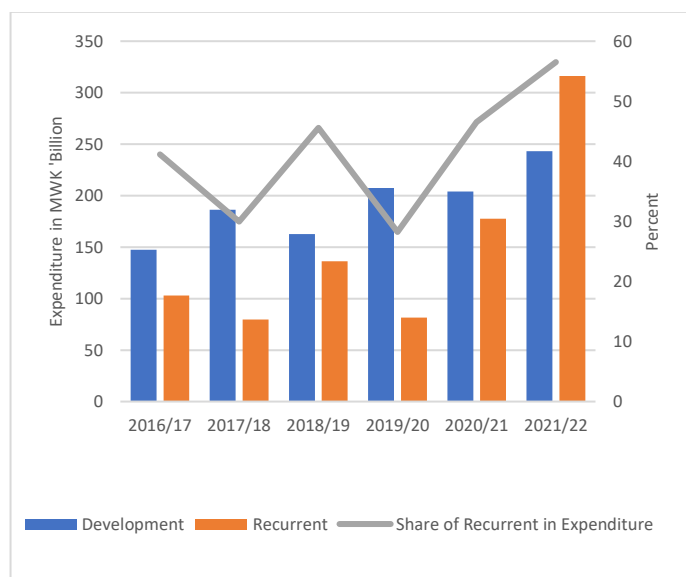
The majority of expenditures on food and agriculture at the local government level support agricultural extension, and as will be highlighted later, donors finance them.

Recurrent versus Development Expenditures on Food and Agriculture

During the period under review, the majority of agricultural expenditures were directed toward development obligations over operational obligations. Development expenditures refer to expenditures on capital equipment and assets, while recurrent expenditures refer to expenditures on operational activities. In nominal terms, development expenditures on food and agriculture ranged between MK147 billion and MK243 billion. On the other hand, recurrent expenditures ranged between MK 103 billion and MK 316 billion.

Between FY2016/17 and FY2020/21, development expenditures were greater than recurrent expenditures, and the share of Other Recurrent Transactions (ORT) in total food and agriculture expenditures ranged between 27 percent and 47 percent.

Figure 4: Total sector development and ORT expenditures between 2016 and 2022



Source: Authors

In 2021/22, the ORT's share of total expenditure on food and agriculture grew to about 58.8 percent. This could be explained by the implementation of the universal subsidy program by the Malawi Government, with total budgets of MK153 billion and MK140 billion in FY2020/21 and FY2021/22, respectively.

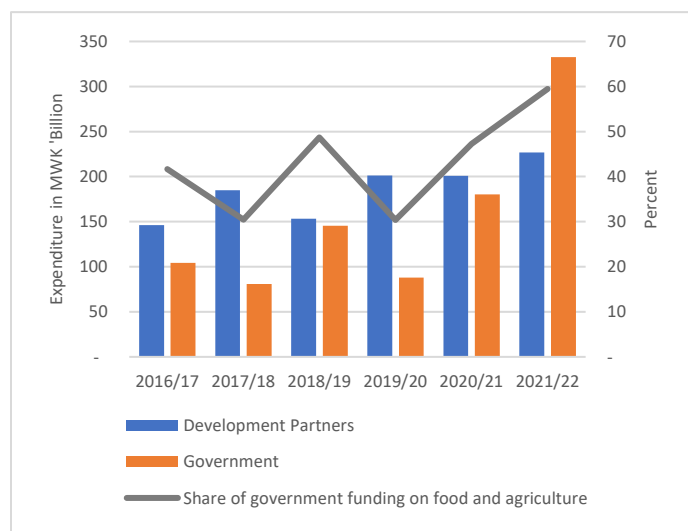
While development expenditures have exceeded recurrent expenditures on average, it is essential to highlight that donors finance the majority of development expenditures.

Sources of Public Expenditures on Food and Agriculture

Over the years, development partners have provided more resources for public expenditure on food and agriculture (54 percent) than the government (46 percent). Specifically, development partners had provided more resources than the government in all the years

under review except in FY2021/22, when government expenditure stood at 59 percent of total expenditure on food and agriculture.

Figure 4: Funding sources for the expenditures on food and agriculture



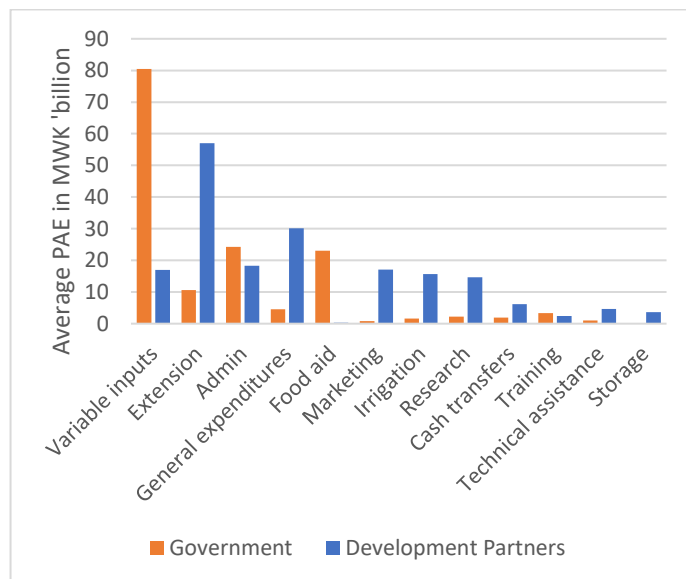
Source: Authors

However, Figure 13 above shows a declining trend in the donor's share of expenditure on food and agriculture. On the contrary, we observe an increasing trend in the government's share of expenditure on food and agriculture. That said, it is important to reemphasize that this increasing trend in government's share of expenditure on food and agriculture is largely driven by the expansion of the input subsidy program.

While most of the government's food and agriculture expenditures are allocated to input subsidies, food aid and administration, development partners spend most of their resources on agricultural extension, resilience, and

disaster risk management, which are covered under general expenditures, irrigation and research.

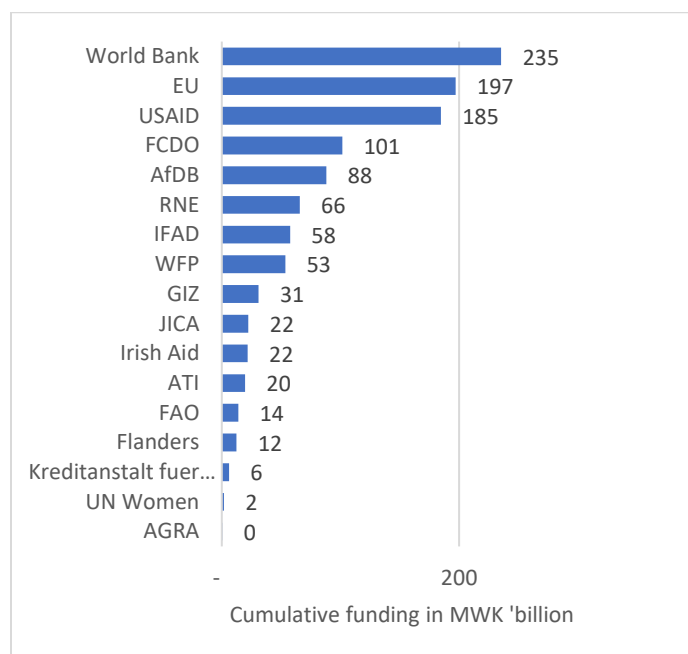
Figure 6: Mean government and donor allocation of resources by expenditure categories



As highlighted earlier, the subsidies constitute more than 50 percent of the government's total expenditure on food and agriculture. On the contrary, agricultural extension, irrigation, and research expenditures constitute only 5 percent of government aggregate expenditure on food and agriculture.

The development partners and donors collectively play a crucial role in providing financial support and technical assistance on food and agriculture in Malawi. Cumulatively, the World Bank, the European Union, USAID, FCDO, and AfDB are among the top five donors in the agriculture sector (Figure 7).

Figure 7: Main donors on food and agriculture expenditure (2016/17-2021/22)



Source: Authors.

Conclusion and Policy Recommendations

The study reveals that the agriculture sector does not receive sufficient investments to drive economic growth, as espoused in the development plans. The absolute value of expenditure in agricultural extension, irrigation, and research cannot significantly transform the agricultural sector. Further, the allocation of 28 percent of the expenditure on agriculture and food towards variable inputs and 6.9 percent towards consumption subsidies has hindered growth by crowding out resources that have otherwise been directed towards productivity enhancing sub-sectors of extension, irrigation and research. Further, the study has revealed that besides production subsidies, a significant proportion of

expenditure on agriculture and food goes to food aid and social cash transfers. These, together with production subsidies, make up about 37 percent of total expenditure on food and agriculture.

Additionally, the centralized public sector financing in Malawi has constrained policy implementation.

Finally, funding for food and agriculture remains donor-driven. Donor financing through on-budget and off-budget projects constitutes more than 50 percent of expenditures on food and agriculture.

The study makes the following policy recommendations:

1. There is need to increase resources to agriculture or indeed reorient expenditure from agricultural subsidies to extension, irrigation and research.
2. There is need to improve the effectiveness of agricultural subsidies to avert the occurrence of food insecurity.
3. Devolving more autonomy and resources to the local level is crucial to significantly improve policy implementation and enhance the performance of Malawi's agriculture.
4. The government needs to re-orient its expenditure from recurrent to more development-oriented expenditures, particularly in irrigation, research, and extension.

Endnotes

- [1] AUC (African Union Commission), “3rd CAADP Biennial Review Report 2015-2021,” African Union Commission, Biennial Report to the AU Assembly on Implementing the June 2014 Malabo Declaration 3, Mar. 2022. Accessed: Feb. 13, 2023. [Online]. Available: https://au.int/sites/default/files/documents/41573-doc-ENGLISH_3rd_CAADP_Biennial_Review_Report_final.pdf
- [2] MAFAP, *MAFAP Methodology working paper: Volume II. Analysis of Public Expenditure on Food and Agriculture*. in MAFAP Technical Notes Series. Rome, Italy, 2015.

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