

Can cooperatives commercialize farming in Malawi?

Kristin Davis, Cynthia Kazembe, Todd Benson, Joachim De Weerd, and Jan Duchoslav

Cooperatives, smallholders, and economies of scale

Smallholder farmers constitute the largest group of economic actors in Malawi and there is increasing recognition that the small scale at which they operate does not offer for most a pathway out of poverty, let alone to prosperity.

Increasingly the idea is gaining traction that by joining forces through primary agricultural cooperatives, smallholder farmers across Malawi can reap many of the benefits that larger farmers on commercial estates have been able to realize, such as

- ▶ negotiating better price for agricultural inputs through bulk purchases;
- ▶ negotiating better prices for agricultural outputs through aggregation and storage;
- ▶ adding value to raw agricultural products;
- ▶ accessing professional equipment, such as tractors or irrigation;
- ▶ hiring professional services, such as a farm or business manager; or
- ▶ pooling contiguous pieces of land for more efficient farming.

In this brief we summarize the findings of a detailed report (Davis et al., 2022) on research conducted to assess the current status of cooperatives in the country and what project implementers and policymakers can do to enable cooperatives to contribute to increased commercialization and professionalization of smallholder farming in Malawi.

Cooperatives feature prominently in plans, ...

Agricultural cooperatives feature prominently in key development policies for Malawi. These jointly operated farmer enterprises are viewed as an important vehicle for achieving the goals on agricultural productivity and commercialization set out in the first pillar of the development vision for the country, Malawi 2063. Correspondingly, many of the strategy statements and investment plans of the government and its development partners include commitments for increased engagement in strengthening primary agricultural cooperatives.

...but their prevalence remains low, ...

Despite the government's intentions that farmers should access services through farmer organizations, there is a low level of penetration of primary agricultural cooperatives in farming communities in Malawi. In the Fifth Integrated Household Survey (IHS5) of 2019/20, under 10 percent of communities reported having a primary cooperative and few farmers use cooperatives to access inputs, to market their outputs, or to obtain veterinary services or extension advice (Table 1).

Table 1. Share (%) of farmers accessing markets and services through cooperatives

Provider / buyer	Extension advice	Bought seed	Bought fertilizer	Bought pesticide	Sold rainfed crops	Sold perennial crops	Bought livestock	Bought vaccines	Sold livestock	Sold livestock products
Cooperative	0.57	1.83	4.15	0.27	0.54	0.05	0.01	0.19	0.04	0.01
Other	52.25	50.57	58.10	6.88	51.45	10.33	11.58	6.07	22.16	3.16

The government has registered about 950 such cooperatives (Table 2), although the accuracy of the register of cooperatives maintained by the Ministry of Trade and Industry is problematic. It contains duplicate entries, and some cooperatives are clearly miscategorized. Moreover, defunct cooperatives are not always deregistered and new ones might take a long time to register due to the necessity to file paperwork in Lilongwe. There is therefore a clear need to strengthen the management information system on cooperatives to make it internally consistent, more accurate and more frequently updated.

Table 2. Primary cooperatives in Malawi, 2022

Type of cooperative	Number registered	Type of cooperative	Number registered
Agricultural cooperatives		Non-agricultural cooperatives	
Non-specified	689	COMSIP (Community Savings and Investment Promotion)	226
Livestock	56	SACCOs (Savings and Credit Cooperatives)	177
Horticulture	49	Mining	15
Dairy	33	Fish	7
Honey	25	Artisans	7
Rice	23	Consumer	4
Cotton	16	Other	13
Timber	14		
Cassava	12		
Coffee	9		
Groundnut	8		
Macadamia	6		
Tea	1		
Total agricultural	941	Total non-agricultural	449
Total			1,390

Source: Compiled by authors from Ministry of Trade and Industry data shared in early 2022.

Note: For the non-specified "agro" cooperatives, we deleted duplicate entries, reducing the number from 946 to 689.

... and most are at an infant stage

In terms of their development into professional commercial organizations, most agricultural cooperatives in Malawi are at an infant stage, dependent on external financial and technical support, often with low management capacity and weak governance, and failing to provide clear or reliable benefits for their member-farmers through their commercial activities. Cooperatives specifically set up through external financing are particularly unlikely to evolve out of this infant stage to become more professionally operated enterprises.

However, there are some remarkable success stories among agricultural cooperatives in Malawi. Examples are presented in the report of agricultural cooperatives that have built strong management teams and professionalized their operations; have successfully identified, entered, and operated within new, more remunerative markets; have implemented significant innovations in how their members farm; have moved beyond farming and primary production to value-addition and trading; and through all these advances and improvements have generated significant income for their members.

How can cooperatives be supported to become more professional? Below we discuss what can be done by those government agencies and development partners that work directly with cooperatives in their programs, and what policy changes could be beneficial for cooperatives to invigorate commercial farming.

Strengthening cooperatives

Good farmers are not necessarily good managers, and good managers do not need to be good farmers. Professionalization in the operations of an agricultural cooperative should allow farmer members to focus on farming and hire in professional managers to run the business side of the cooperative. However, not all cooperatives are equally professionalized, so the kind of support they obtain should reflect that. The research report lists a number of assessment tools that allow project implementers to determine the kind of support a cooperative requires.

In providing support to primary agricultural cooperatives, it would be best if government agencies and non-governmental development organizations work with promising existing cooperatives rather than with new ones. An important signal of a cooperative that merits further support is one in which the members have demonstrated that they are consistently seeking to operate their joint enterprise so that it better serves their needs and contributes to achieving their aspirations. However, continued support should be conditional on the cooperative making sustained progress toward professionalization. By limiting the provided support over time, development agencies can avoid creating cooperatives that remain dependent on external funding to stay in operation.

There is external pressure on primary agricultural cooperatives to be seen to have a diverse membership. The membership lists of the cooperatives studied for the research showed large shares of women and youth members, and IHS5 data indicate that the average shares of women and youth in cooperative membership are proportional to their shares in Malawi's population. However, there are three important points with respect to this way of showcasing inclusivity.

- ▶ While women and youth are well represented among regular members, they remain underrepresented in leadership positions within agricultural cooperatives.
- ▶ Socio-economic diversity goes beyond just gender and age, so other dimensions of socio-economic diversity than sex and age alone should be examined. Our analysis of the IHS5 data shows that only one percent of consumption inequality at the household level is explained by consumption differences across female-headed households on the one hand and

male-headed households on the other. That implies that 99 percent of consumption inequality lies within these two groups of households. Inequality manifests itself overwhelmingly within these two groups, not between them. Examining consumption by the age of the head of the household, 97 percent of total inequality comes from inequality within groups of households headed by similarly aged individuals, while 3 percent of total inequality is explained by differences across these groups.

- ▶ Diversity in cooperative membership is not a goal in and of itself, but a means to achieving inclusive development. External pressure on group formation is unlikely to be beneficial to a cooperative's operations if it requires people with competing visions and goals to cooperate. Rather than encourage diversity within the same cooperative, government and its development partners should encourage practices that capacitate and empower all social groups within farming communities to form cooperatives with whom they choose that best suit their needs.

It is important to ensure that primary cooperatives are sufficiently large to realize economies of scale in their production, marketing, and other commercial operations. Where individual cooperatives cannot achieve such economies of scale on their own, efforts should be made to introduce or strengthen existing secondary-level cooperative unions so that they effectively pool these small primary cooperatives to achieve such scale economies.

There is need for a national apex organization for cooperatives, with expanded capabilities. An apex organization is well placed to engage meaningfully with policy makers to help shape policies that affect cooperatives. It can also play a central role in coordinating the support and services that primary agricultural cooperatives require to become increasingly more commercial, enterprising, and professional in their operations. Some of this support can be channeled through cooperative unions.

Improving the policy environment

Government capacity to establish and support cooperatives is limited. While Malawi needs more financial resources to expand agricultural cooperatives, critical to the effective use of those funds is good information on existing cooperatives and a set of proven strategies for offering those and new cooperatives with the support they require to be profitable, self-reliant, and of significant benefit to their member-farmers. Furthermore, these resources should be more decentralized to reduce the need for farmers to travel long distances to access them.

Information systems on cooperatives within government are weak. These should be strengthened to enable better planning of expanded support to agricultural cooperatives.

The continued decline in the average size of the cropland holdings of farming households is a growing barrier to enabling these households to meet the needs of their members and to escape poverty. Local primary agricultural cooperatives can be an instrument to better achieve economies of scale for smallholder farmers by pooling their land. However, such land consolidation efforts are not without cost, so government should invest in building the institutions to facilitate such land consolidation exercises. Private companies may find it unprofitable to initiate and drive these efforts, but will be more eager to engage with cooperatives that have concluded the consolidation with government oversight.

The government of Malawi has placed primary agricultural cooperatives near the center of its strategic vision for how to accelerate agricultural development and transform the economies of rural communities across the country. It is important to recognize, however, that cooperatives cannot simply leapfrog existing barriers to agricultural development. Just like other actors in this sector, their

success will, to a large extent, depend on solving other well-known constraints to growth: weak markets; the unpredictability of government interventions in the sector; poor transportation, communication, and marketing infrastructure; and unreliable supplies of staple foods in local markets forcing farmers to continue to engage in maize production for subsistence, to name a few. Continuing to make public investments in rural infrastructure more generally and strengthening the institutions that support farming households, including those in agricultural extension, research, and rural finance, are crucial forms of support that the government needs to provide for cooperatives to thrive alongside other actors. Without improved agricultural policies, most new cooperatives will be unable to surmount the many hurdles they face and, so, will fail. The right policy environment combined with increasingly professional cooperatives will ensure that these farmer organizations perform well for their diverse membership, helping farming households to significantly commercialize their production and to expand the contributions they make to Malawi's economy.

Conclusion

Cooperatives have a role to play in commercializing and expanding agriculture in Malawi, and there is political will to support primary agricultural cooperatives. Many documents and policies exist, and the government, private companies, NGOs, and development programs and projects are engaging with cooperatives. However, more evidence-based strategic action is needed to support the professionalization process that most agricultural cooperatives in Malawi need to undergo.

Moreover, professionalization of their operations will only take cooperatives so far. Cooperatives and other agribusinesses can only work as well as the enabling policy environment allows them. There is thus a need to ensure that general agricultural sector policies are suitable to a thriving businesses of cooperatives. This will require the provision of support services for agricultural production and marketing and for the effective management of cooperatives, predictable government interventions, predictable markets, and expanded infrastructure. Existing capacity and institutions can be streamlined to enable primary agricultural cooperatives to operate professionally and profitably so that they provide significant economic benefits to their member-farmers.

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Funding for this work was provided by the Government of Flanders. This publication has been prepared as an output of Malawi Strategy Support Program (MaSSP) and has not been independently peer reviewed. Any opinions expressed here belong to the author(s) and are not necessarily representative of or endorsed by IFPRI or the Government of Flanders.

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