



Policy Brief A 2023-2024 FINANCIAL YEAR AGRICULTURE SECTOR

Key Findings

- Despite some progress toward fiscal consolidation, budget discipline remains a challenge. There are budget overruns i.e. total expenditure (7.1%), Other Recurrent Expenditure (16.5%), Compensation of Employees (12%), Government Contributory pension 58%, Health sector 10%, public debt (23.9%), social benefits (21%), grants (12.2%), AIP (28%)
- Disbursement and utilization of funds especially on donor-funded projects also a challenge
- In 2023/24 FY AIP has been allocated MK117.7bn, down from MK109 in 2022/23 FY. Maize production levels continue to be low and the food insecure population continue to rise (3.8mn in 2022/23) despite spending in AIP. Inefficiencies in management of the AIP exacerbating poor performance of the sector's budget.
- The is under capitalization and low investments in Agriculture research, extension and livestock development
- Anchor farms allocated. This is key to attain agriculture commercialization goals
- Nominally, the 2023-24 FY budget is aligned to the NAP however, the intensity of resource allocation is somehow limited. Sectoral and sub-sectoral objectives may not be achieved. No specific programme or sub-programme line for Empowerment of youths, women and vulnerable groups in Agriculture
- The 2023-24 Agric Budget only covering 53% of NAIP-ideal resource requirement. Some NAIP key programs altogether missing in the 2023-24 Agric budget e.g. mechanization, Empowerment and Tenure Security
- Need to restructure and reform ADMARC. It also requires MK123 billion to purchase maize and other obligations
- The 2023-24 Agric Budget allocates 17% of the DAES budget to gender sub-programme. This is not adequate. All development projects have gender and social inclusion component-though it could not be quantified. Household approach being championed.
- During 2023-24 FY, 44% of the funded sub programmes are agro-ecology compliant while 46% are not.

Recommendation

- Need to examine further the causes of budget overruns and eradicate them. Find ways of making counterpart funding work -Balance between capital and recurrent spending.
- MoA must improve on absorption of funds by among other things speeding up implementation of Projects-ASWAp project had under expenditure of 5 billion
- Proposed Reforms to AIP: Wider use of a UBR to improve efficiencies and targeting across a streamlined but differentiated package of support, i.e. SCT, a scaled-up climate-smart PWP for those with limited land, and a scaled up AGCOM Project for more market-ready farmers.
- Incentivize Mega Farms which will increase productivity, value addition, mechanization and positive spill over effects on smallholder farmers
- The government could gradually start shifting its focus from subsidizing agricultural inputs to increasing investments in agricultural development programs (e.g., agricultural R&D and extension services)
- Anchor farms, a welcome devt-Information on implementation arrangements
- **Build systems for the provision of farmer support services (e.g., agricultural finance), and structuring and making output markets more accessible and remunerative to smallholder farmers-AGCOM model**
- Need to review and develop the successor NAP/NAIP in line with long term development agenda, the Malawi 2063
- Attention must be given in developing capacity of staff members and partners in gender to facilitate agricultural programming



BUDGET ANALYSIS

Introduction

The report analyses the 2023/24 FY Budget Estimates with focus on the Agriculture Sector. The study has been conducted through desk analysis of relevant budget documents, the description of programs and the macroeconomic factors that determine the budgets. Primary data was collected through consultations with relevant MDAs. The review assessed the efficiency and effectiveness of by Ministries Departments and Agencies (MDAs) with an aim of providing policy and budget system recommendations for the enhanced implementation of their strategies, work plans and budgets to achieve set goals and objectives of the sectors toward achievement of NAIP and building resilience to climate change.

Agriculture Spending Credibility

The 2022-23 FY Agriculture Other Recurrent Expenditure was overspent by 7% while development budget was underspent by 53%. The source of expenditure overruns on the Other Recurrent expenditure are Affordable Input Programme (28%), Fertilizer payments (31.8%), logistics (68.7%) and maize purchases (5.0%).

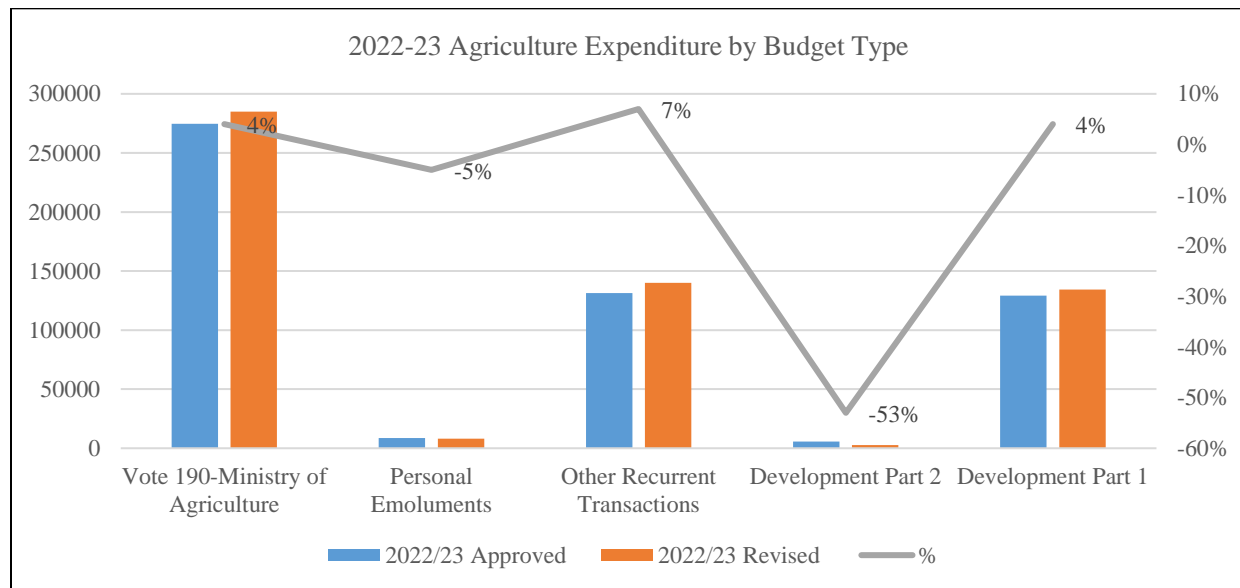


Figure 1: Agriculture Expenditure Credibility

The expenditure under development budget was less by 53% owing to non-funding of development projects more especially part 2 projects. The following part 2 development was underspent; Agriculture Infrastructure and Youth in Agribusiness Project (7.81), Increasing Coffee Production and Farmers Access to Good Quality Seedlings through Tissue Culture Techniques in Malawi. (77.39); Livestock Infrastructure Development for Sustainable (80.00), Malawi-Israel Horticulture Incubation Centre (MIHoYIC) (72.70); Market Oriented Smallholder Horticulture Empowerment and Promotion – counterpart (53.82); Promotion of Mechanized Farm Operations through Hiring Centres in Malawi (74.08); and Shire Valley Transformation Project - Phase 1 (49.76). This points to the limited fiscal space by Government making it



difficult to fund all planned development project. One Foreign financed project, Agriculture Sector Wide Approach - Support Project was underspent by 42%.

2023-24 Agriculture Spending Overview

The agriculture sector has been allocated K455.10 billion representing 3.0 percent of GDP and 11.8 percent of the total budget to cater for wages and salaries, operations, including Affordable Inputs Programme, and development projects in the Ministries of Agriculture; Forestry and Natural Resources; and Water and Sanitation. This provision is consistent with the Maputo Declaration on Agriculture and Food Security mainly on the target of allocating 10 percent of national budgets to the agriculture sector. However, achieving a 6 percent annual agricultural growth rate at the national level as stipulated in the declaration has not been attained in this case.

There has been progress in agricultural spending in line with the Maputo declaration. For the recent years, the agricultural sector has received more than 10% of the national budget in nominal terms. This significant investment into the agricultural sector has been increasing over time albeit with annual variations. This is a good progress because by assumption, if the many rural poor are to emerge out of poverty, agricultural growth is paramount and investment in agriculture is key. Compared to other sectors, agriculture spending has been lower than the education (15.6%) and public debt charges share (23.6%)

Table 1: Agriculture spending by budget type and targets

Budget Type	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total National Budget (MK'million)	1,454,824	1,737,204	2,190,180	1,995,100	2,839,892	3,871,956
Agriculture budget (MK'million)	132,078	184,608.3	250,748.8	236,997.9	274,722.1	371,687.3
ORT (MK'million)	55,938.5	53,231.5	157,960.4	171,066.0	131,401.7	153,395.0
PE (MK'million)	7,186.2	7,521.5	7,982.6	6,134.2	8,534.9	8,294.4
Development 1	2,160.0	5,869.7	1,828.3	4,050.0	5,658.5	7,150.0
Development 2	66,793.5	1,179,986	82,977.5	5,574.7	129,127.0	202,847.9
Public debt charges share (%)	12.6	14.0	17.2	15.0	18.3	23.6
Health share (%)	9.2	9.4	9.5	9.7	10.0	8.5
Education share (%)	18.0	11.0	22.0	16.5	16.3	15.6
Agriculture share (%)	10.0	10.0	11.0	15.0	15.8	11.8
Agriculture growth %	0.9	5.9	3.4	3.2	3.0	2
CAADP growth target (%)	6.0	6.0	6.0	6.0	6.0	6.0
Agriculture budget-Real Value	79,054.2	110,495.6	150,083.5	141,853.0	164,432.5	222,470.2



Recurrent expenditures have generally been higher than capital expenditures since 2018-19FY. Not only have capital expenditures been lower than recurrent expenditures in agriculture, but they have also been growing slowly over time. The policy implication for Malawi is that if more scarce public resources continue to be allocated to recurrent/consumption expenditure, prospects for sustainably meeting some of the international targets such as CAADP could be difficult. Economic growth spurred by agriculture is possible through increased agricultural productivity led by investments agricultural through public spending. Under development budget, key Projects ear-marked in the 2023-24 FY include; Agriculture Commercialization (AGCOM) Project; Agriculture Infrastructure and Youth Agribusiness Project; Sustainable Agriculture Production Program; Shire Valley Transformation Project; and Rural Irrigation Development Project. Projects to benefit smallholder farmers e.g. Agricultural commercialization project develops value chains for 14 high value crops such as pulses, oil seeds, tubers, horticulture products, livestock and fisheries in order to promote these products for the regional and international export markets which in effect are expected to improve the incomes of smallholder farmers at household level. In terms of sources of financing for the sector’s development budget, most of the resources are from external loans (60% - MK 37.8 billion) followed by grants from development partners (29% - MK 18.3 billion).

2023-24 Agriculture Spending by Programmes

Agriculture expenditure is generally biased towards the crops sub-sector perhaps owing to its importance in food security. More specifically towards maize production such that a 60% of the agriculture budget is spent on Affordable Input Programme. This has been done to improve farmers access to improved seeds and fertilizers. However, other critical sub-sectors such as aquaculture/fisheries and livestock development that are equally important for improving household nutrition security have not enjoyed the same attention that maize production has.

Table 2: Agriculture spending by programmes

Programme	2020/21	2021/22	2022/23
AgGDP-Real (MK'million)	1705.94	1721.105	1781.664
AgSector (MK'million)	284	448	455
AgVote (MK'million)	236.997	274.722	371.687
AIP (MK'million)	168.8	140.2	117.7
Research (MK'million)	2.973	4.258	5.785
Extension (MK'million)	8.162	10.328	28.357
Irrigation(MK'million)	27.601	87.356	161.062
Livestock Development(MK'million)			7.152
AIP proportion of AgVote %	71.2	51.0	31.7
Research proportion of AgGDP %	0.17	0.25	0.32
Extension proportion of AgVote %	1.25	1.55	1.56
Irrigation proportion of AgSector spending %	9.72	19.5	35.4
Livestock proportion of AgVote spending %			1.9

Of the K371.8 billion, K117.7 billion has been allocated to smallholder farmers under the Affordable Input Programme. Out of the K117 billion, the 2023/24 budget has allocated K110 billion for fertilizer payments,



K7 billion for maize seed and K670 million for logistics. AIP continues to have claimed 32% (MK 117 billion) of the ORT budget i.e. despite the reduction in allocation – continue to affect implementation of the budget. Inefficiencies in management of the program exacerbating poor performance of the sector's budget. Over the years, the AIP has come short to achieve its goal of achieving food security. Despite huge investment in the programme, maize production does not respond positively to justify the huge spending and the country continues to register a high number of food insecure population. According to the Malawi Vulnerability Assessment Committee 2022 main annual acute food security assessment, about 3.8 million people in over 845,000 households will not meet their food requirement during the 2022/2023 consumption period, representing about 20% of the country's population who require humanitarian assistance during the lean season. All this, despite massive expenditure in AIP. The study supports calls to reform the programme by making it more efficient.

An analysis of proportions to key programmatic areas such as research, extension and livestock development show that allocations are hovering around 0 to 2%. CAADP recommends a minimum of 2% of Agriculture GDP towards agriculture research and NEPAD requires a target of a the NEPAD target of 1% of the Agriculture GDP. This suggests that there is under capitalization and low quality investments in the sector. The NEPAD and the CAADP require that countries invest between 1-2% of agGDP.

2023-24 Agriculture Spending and Alignment to Key Policy Frameworks

The study uncovers that nominally, the 2023-24 FY budget is aligned to the NAP however, the intensity of resource allocation is somehow limited. Therefore, sectoral and sub-sectoral objectives may not be achieved due to low allocation levels to sub-sectors such as agriculture research, extension and livestock development. There is no specific programme or sub-programme line for Empowerment of youths, women and vulnerable groups in Agriculture.

The 2023-24 Agriculture budget is only covering 53% of NAIP. NAIP has ideal cost estimates to programmes for the sector to achieve the required growth targets. Some NAIP key programs altogether missing in the 2023-24 Agric budget e.g. mechanization, Empowerment and Tenure Security. Achieve the right balance of resource allocations. Inequities must be eliminated. Need to review and develop the successor NAP/NAIP in line with long term development agenda, the Malawi 2063.

Access to profitable agriculture markets and cooperative development and the 2023-24 Agriculture budget

The budget allocation towards market access have increased significantly from K 113.76 million to K 17,649.01 million. This allocation is the highest in the three years and the change is mainly due to grants to extra budgetary units, ADMARC and NFRA. This implies that in terms of farmer market access in the 2023/24, the Government will ensure farmers access to markets through ADMARC recapitalization and a few activities on formation of farmer groups. In this regard, the amount provided would not be adequate to ensure that a good proportion of the farmers in Malawi that have grown different crops have good access to markets.

To boost agriculture commercialization, the sector is implementing the AGCOM project since 2018. This is a World Bank Funded Project with a total budget of \$ 95 million. The project aims at increasing commercialization of agriculture value chain products (crops, livestock and fisheries) and provide





immediate and effective response to an eligible crisis or emergency. The project permits the market to make decisions about which value chains have strong commercial linkage potential and with which buyers and to avoid narrowing the project's impact to a small number of producers in particular value chains. It will among other things ensure that smallholder and commercial farmers have access to financing and land which are perceived to be limiting factors for effective agriculture commercialization.

The AGCOM project aligns well with both the NAP and the NAIP. The project has cumulatively contributed the following; A total of **267 PAs** had been approved. Of which **255 PAs** have signed agreements after making their PO contributions (at least 10% of first tranche) & access grants. **25 (10.5%)** Women only PAs accessing matching grants. **12 (5%)** youth only PAs accessing matching grants; A total of **63,500 households** are direct beneficiaries, of which **55% are women** (35,000), **45% men** (28,500) and (20,000) **32% youth**. (more women & youth participation means an inclusive growth in-line with country strategy). During the 2023-24FY, a total of K11 billion which down from K23 billion which was allocated during the 2022-23 FY. The allocation is for transition into phase II of the project.

Gender Responsiveness of the 2023-24 Agriculture Budget

The 2023-24FY budget for the Ministry allocate MK527 million to Agriculture Extension services, of which 17% goes to the gender mainstreaming programme. This also applies to the district allocation which also contributes 17% for gender mainstreaming. The purpose of gender mainstreaming programme is develop capacity of officers in the Ministry of Agriculture and its allied stakeholder to plan and implement programmes with gender consideration. During the 2023-24 FY, a number of capacity building initiatives were implemented as in Table 21.

The study also finds that all the development projects in the Ministry of Agriculture allocate significant resources towards mainstreaming gender in planning and implementation. All the foreign financed development projects have employed gender and social inclusion focal points whilst locally financed projects utilize the gender section in the Department of Extension. The Ministry of Agriculture is championing the household approach in all the programmes and projects the sector to improve household gender power relations, decision making, access and control of productive resources and benefits.

2023-24 Agriculture Budget and Agro-ecology

An analysis of the programmes budgetary estimates in the 2023-24 FY was conducted to check whether the allocations are aligned to agro-ecology requirements. The analysis focused on the following votes; 190-Ministry of Agriculture; 210-Water and Sanitation; Local Councils, 470-Environment, Climate Change Management. Programmes from these votes were subjected to the 13 High Level Panel of Experts (HLPE) principles to test alignment to agro-ecology requirements.



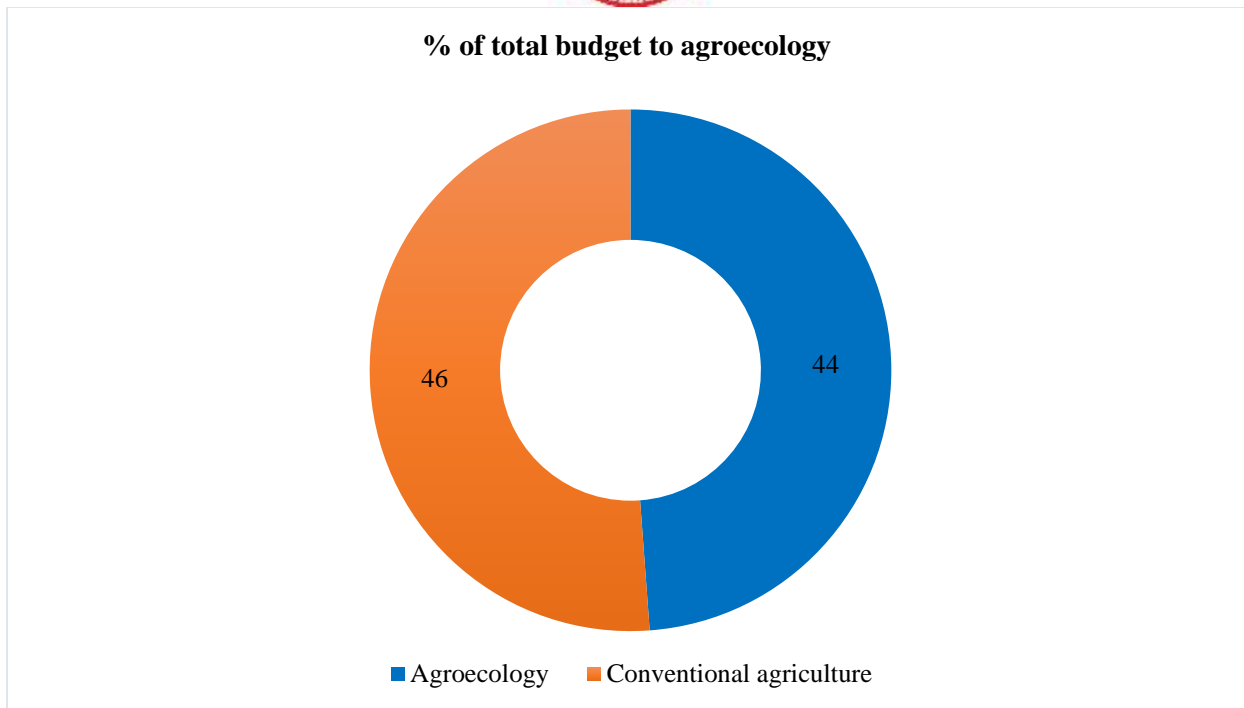


Figure 3: Percent of the Agriculture Budget to Agroecology

From figure 3, it can be observed that 44% of the funded sub programmes are agro-ecology compliant while 46% are not. This translates to MK188,345,361.87 billion of the total resources combined for the four sectors. This implies that the 2023-24 FY agriculture spending is likely to skew towards conventional agricultural practices.

Conclusion

There are nominal improvements in the allocations towards the Health Sector during the 2023/24 FY however, the allocation still falls below recommended minimum thresholds. Agriculture development indicators and outcomes are still far from set targets. For instance, agriculture growth continues to hover around 2% against the set targets of 6% under the Comprehensive African Agriculture Development Plan (CAADP).

