4. CROSS-BORDER TRADE AND LIVELIHOOD SECURITY

4.1 Characteristics of cross-border trade

Cross-border trade is very varied and it is often divided into formal and informal transactions, partly because statistics are available for one and not for the other. Informal trade can also be usefully divided into that part which is national and that part which is local in character – the latter involving goods used and produced by the border communities themselves. The boundaries between the different categories are not always rigid:

- **Formal trade** – mainly by registered traders; duty – where payable – is paid and information on quantities enters the national statistics.

- **Informal or smuggling** – where goods are not recorded and duty is avoided. This may involve bribing customs officials, under-declaring of quantities or values, or arranging for goods to cross the border where there is not a border post. It can involve carriage on the head or on bicycles by local people and can represent an important local income source. A major part of this trade used to be consumer goods imported from Malawi to Mozambique – a combination of more effective Mozambican customs and some reductions in duty seems to have meant that some of this trade has moved to the formal sector in the last three years. Sugar seems to be the key current smuggled product. Beans, Pigeon Pea and some other agricultural produce, but not maize, may be smuggled to avoid duty.

- **Informal border community trade** – members of the local communities crossing the border to buy and sell. Sometimes they cross at an official border post, but are not made to pay duty on their purchases; sometimes they cross where there is no border post, because it is a more convenient route. At least one end of the commercial chain starts or finishes within the border community.

Table 4.1a - Main items involved in cross-border trade in 2001

<table>
<thead>
<tr>
<th>Malawi to Mozambique</th>
<th>Mozambique to Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Smallholder farm products</strong></td>
<td></td>
</tr>
<tr>
<td>Vegetables</td>
<td>Maize, beans, groundnuts, pigeon pea, onions,</td>
</tr>
<tr>
<td>Fruits</td>
<td>tobacco, cassava, bananas, rice, sunflower</td>
</tr>
<tr>
<td>Tobacco</td>
<td>seed, livestock</td>
</tr>
<tr>
<td>Livestock</td>
<td></td>
</tr>
<tr>
<td><strong>Non-smallholder products</strong></td>
<td></td>
</tr>
<tr>
<td>Plastic products (plates, shoes, bags)</td>
<td>Batteries</td>
</tr>
<tr>
<td>Roofing sheets, hardware, metal kitchenware</td>
<td>Cigarettes</td>
</tr>
<tr>
<td>Sugar, fish, cement, fuel and oil</td>
<td>Soap (AYU)</td>
</tr>
<tr>
<td>Bicycles &amp; Bicycle spares, hoes, seed,</td>
<td>Cloth</td>
</tr>
<tr>
<td>fertilizer</td>
<td></td>
</tr>
</tbody>
</table>

---

12 In Malawi, the tobacco marketing regulations require that tobacco bought from farmers passes through the auction floors, where it is taxed. Apparently, tobacco bought in Mozambique does not need to go through the auction floors and can be used directly by manufacturers. It seems there is some buying by Malawian companies just inside the Mozambique border – which of course attracts tobacco grown in Malawi that is then registered as 'Mozambican' and can then by-pass the auction floors and avoid tax. It is not known how significant this trade is.
13 In Machinga and Mulanje livestock are being exported to Mozambique as breeding stock, to replace those killed in the war. In Angonia Livestock are being exported to Malawi for meat.
Blankets, cloth (Zitenje), second-hand clothes & shoes
Sewing machines, radios, books
Soft drinks, grocery items, toiletries, soap
Earrings, rat poison, cigarettes

Cooking oil
Salt
Dried and fresh fish and prawns

4.1.1 Quantity of trade

Table 4.1b - 1999 Formal trade between Mozambique and Malawi (Value US$)

<table>
<thead>
<tr>
<th>Category</th>
<th>Mozambique to Malawi</th>
<th>Malawi to Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>3,990,000</td>
<td></td>
</tr>
<tr>
<td>Oilseeds etc.</td>
<td>1,430,000</td>
<td></td>
</tr>
<tr>
<td>Books, newspapers</td>
<td>560,000</td>
<td>1,260,000</td>
</tr>
<tr>
<td>Tobacco</td>
<td>800,000</td>
<td></td>
</tr>
<tr>
<td>Fuel and oil</td>
<td>770,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Cereals</td>
<td>620,000</td>
<td></td>
</tr>
<tr>
<td>Fats and vegetable oils</td>
<td>420,000</td>
<td></td>
</tr>
<tr>
<td>Salt &amp; cement</td>
<td>210,000</td>
<td>220,000</td>
</tr>
<tr>
<td>Furniture &amp; bedding</td>
<td></td>
<td>175,000</td>
</tr>
<tr>
<td>Plastics, plastic articles</td>
<td></td>
<td>170,000</td>
</tr>
<tr>
<td>Vehicles</td>
<td>130,000</td>
<td></td>
</tr>
<tr>
<td>Clothes</td>
<td>32,000</td>
<td>130,000</td>
</tr>
<tr>
<td>Iron &amp; Steel</td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td>Paper</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Wooden articles</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td>Rubber articles</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Paints &amp; dies</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Fish and crustaceans</td>
<td>34,000</td>
<td></td>
</tr>
<tr>
<td>Beverages</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Fertilizers</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Tea etc</td>
<td>23,000</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>5,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Ropes &amp; yarn</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Copper</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Flour, milled grain</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Electrical goods</td>
<td>9,000</td>
<td></td>
</tr>
<tr>
<td>Vegetables, roots &amp; tubers</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Other</td>
<td>442,000</td>
<td>1,205,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,060,000</strong></td>
<td><strong>6,375,000</strong></td>
</tr>
</tbody>
</table>

The formal trade in 1999 is quite evenly balanced in 1999 - this was not the case in 1996 (see fig 4.1c) when trade in the direction from Malawi to Mozambique predominated.
Informal Trade
By its very nature, it is difficult to get statistics about informal trade volumes. In 1996, USAID sponsored some research on unrecorded cross-border trade between several countries in the region, including Mozambique and Malawi. The margin of error of the final data was quite large and data collected from one country in one direction did not necessarily match that collected from the other country in the other direction. However, the results do show the importance of unrecorded trade at that time in comparison to the formal trade – with the value of informal trade being similar to that of the formal and being particularly significant from Mozambique to Malawi:

Table 4.1c – Two estimates of Mozambique-Malawi cross-border trade, 1996

<table>
<thead>
<tr>
<th>Direction of trade</th>
<th>Formal 1996 (Million US$)</th>
<th>Informal 1996 (Million US$)</th>
<th>Main Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique to Malawi</td>
<td>1.4</td>
<td>1.4-2.3(^{14}) 11-20(^{15})</td>
<td>Maize, beans, salt, vegetables, dried fish, soap</td>
</tr>
<tr>
<td>Malawi to Mozambique</td>
<td>10.7</td>
<td>2.8-4.7(^{16}) 4.8-8(^{17})</td>
<td>Beer, soft drinks, sugar, maize, fertilizer, vegetable, fruit(^{18})</td>
</tr>
<tr>
<td>Total</td>
<td>12.1</td>
<td>4.2-28</td>
<td></td>
</tr>
</tbody>
</table>

4.2 Maize and other farm produce trade
The bulk of the movement in farm produce is from Mozambique into Malawi – although there is some movement of specific products – such as vegetables and fruit – in the other direction. In some years the more developed storage and marketing facilities in Malawi mean grain is moved from Mozambique after harvest and smaller quantities may be brought back and sold in Mozambique in the hungry period.

The trade operates on many different levels:
- **Large Mozambique-based operators** - there are a small number, such as V & M Grain Co and Export Marketing, which are formally registered and have turnovers in tens of thousands of metric tonnes. The have their own truck fleet and warehouses, but may also hire. They buy direct from farmers, from intermediaries and at the warehouse door and choose from year to year where to sell, according to market conditions in Mozambique, neighbouring countries and overseas.
- **Medium-sized Mozambique district-based traders** - with turnover typically from tens to several hundred tonnes and are orientated towards the Malawi or Mozambique market. They may operate on an import-export licence or a less formal exporting permit issued by D DARD\(^{19}\). They buy direct from farmers and may sell to Malawian traders across the

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\(^{14}\) Adapted from Macamo, 1998.
\(^{15}\) Adapted from Minde & Nakhumwa, 1997.
\(^{16}\) Adapted from Macamo, 1998.
\(^{17}\) Adapted from Minde & Nakhumwa, 1997.
\(^{18}\) Some products were found to travel in both directions - either at different times of the year or at different parts of the frontier.
\(^{19}\) It is not clear how legal this is - it is basically a phytosanitary certificate issued locally with the justification that this means the export enters the statistical records and locally DARD raises some revenue for agricultural services.
border or purchasers such as RAB and AD MARC further inside Malawi. A major constraint faced by these traders is seasonal finance and lack of transport.

- **Large and medium-sized Malawi-based traders** - delivering to purchasers such as RAB or AD MARC, or for sale in local markets. Depending on the practices of the Mozambican authorities (see 4.6) – which vary from place to place and from year to year – they may buy direct from Mozambican farmers, from Mozambican medium-sized traders, or set up buying operations on the Malawi side of the border.

- **Small scale Mozambican and Malawian traders** - typically people living near the border on either side and buying two to three bags at a time, transporting it by bicycle to Malawi and selling to buying points on the Malawi side of the border. They may buy at the ‘farmgate’ or at local markets.

- **Malawian consumers** - who cross the border and buy maize for their own consumption at a cheaper price than they can buy it in Malawi, transporting it back by bicycle or on their head. Often maize is earned by ganyu labour.

- **Mozambican farmers** - who sell in Malawi to get a better price, or because there are no buyers in their own village - in the latter case farmers can carry produce from 60 km in the interior – but this tends to be a last resort.

The balance between the different participants differs from area to area and from year to year. In some instances, different sized players work together as part of a chain and in other cases they are in competition, which can sometimes get vicious. Government policy can change the balance between the different players (see section 4.6).

For farmers in the interior, the opportunities to sell their crops can be very limited – with perhaps a single buyer coming a single time. Opportunities for these farmers to ‘play the market’ by holding back part of their crop in the hope of prices rising are therefore not available. Traders tend to buy at a village level by depositing an employee with bags and a balance for several days or weeks in a community – and sending a truck to pick up the produce whenever there is sufficient bulk. In some communities, farmers associations are starting to play this bulking role, contacting potential buyers in advance and bulking produce from both members and non-members.

In the three provinces bordering Southern Malawi - Niassa, Zambezia and Tete - maize is the most important cash crop traded informally with Malawi, although beans, groundnut, dried cassava and rice can also be important.
4.3 Winners and losers from cross-border maize trade

Cross-border maize trade tends to **INCREASE** the producer and retail price of maize in northern Mozambique and **REDUCE** the producer and retail price in Malawi. A stakeholder analysis reveals that the majority of the poor benefit from this:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Outcome from maize trade</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mozambique</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northern Mozambique farmer ~ the poorest 80%</td>
<td>Winner</td>
<td>As net producers - higher prices and additional marketing opportunities increase household income levels. A proportion become losers in years of maize crop failure when some become net consumers(^{20}), although the impact of this is reduced due to the importance of other staple foods, such as cassava, which are not traded as much as maize.</td>
</tr>
<tr>
<td>Northern Mozambique urban population ~ less poor 10% and poor 10%</td>
<td>Loser</td>
<td>As net consumers they are hurt by higher maize prices, although considerable proportions of the urban population do grow some of their own food, so the negative impact is not as great as it might be. This group includes both the poor and the less poor; the latter includes the local civil</td>
</tr>
</tbody>
</table>

\(^{20}\) This may be an issue in 2001, see also section 4.6.
Stakeholder | Outcome from maize trade | Explanation
--- | --- | ---
Southern Mozambique urban and rural population | Little net impact | The urban population, and also quite often the rural population, are net maize consumers – however a regression analysis\(^{21}\) has shown that the higher prices in northern Mozambique has limited impact, because most of the maize comes from Manica or South Africa.
Malawi | |  
Southern Malawi rural population - the poorest 75% | Winner – 80%  
Loser – 20% | The majority are net consumers - lower prices and increased supply increase their livelihood security and enable them to concentrate on a more diversified range of crops, making better use of their comparative advantage\(^{22}\). About 20% are net producers, who tend to be the slightly better resourced farmers.
Northern Malawi farmers | Probably neutral: net consumers = winner  
Net producer = loser | Although the proportion of net producers is higher in the north than the south, there are still many net consumer households; also net producers tend to benefit from export opportunities to Tanzania and Zambia.
Malawi urban population | Winner | Net consumers who benefit from lower prices

**Conclusion**
Overall, the maize trade between Northern Mozambique and Southern Malawi benefits the vast majority of the populations in both areas and, in particular, the poorer sector of the populations. This suggests that policies should be supported that encourage the trade and make it as efficient as possible, which would result in the highest possible prices for Mozambican farmers and the lowest possible prices for Malawian consumers.

\(^{21}\) Tschirley D. & Santos A. P. 1999 - The effect of maize trade with Malawi on price levels in Mozambique: Implications for trade and development policy. MAF/ MSU Research Report 34.

\(^{22}\) Orr A. & Orr S 2001 - Changing Livelihoods in Malawi’s Rural South.
4.4 Factors that help or hinder cross-border trade

<table>
<thead>
<tr>
<th>Policies and practices that encourage cross-border trade</th>
<th>Policies and practices that discourage cross-border trade</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade agreements</strong></td>
<td>Mozambique withdrew from COMESA in 1998; while Malawi remains a member - this means that certain products that were duty free in COMESA are now taxable:</td>
</tr>
<tr>
<td>Both Mozambique and Malawi are members of the SADC free trade area, which means tariffs will fall gradually over the next eight years and other sensitive items will take 12 years before tariffs end. Mozambique is in the process of revising all tariffs to come into line with the SADC system. Maize is already zero tariff rated.</td>
<td>• Some consumer goods coming from Malawi to Mozambique are now taxable at around 25-30%.</td>
</tr>
<tr>
<td></td>
<td>• Beans, banana and pigeon-pea coming from Mozambique to Malawi have a tariff of 25-30 %, cassava and sweet potato a tariff of 10%.</td>
</tr>
<tr>
<td></td>
<td>It seems likely that the withdrawal from COMESA is likely to have a larger impact on Mozambique-Malawi trade than the initiation of the SADC trade protocol - at least in the early years of implementation(^{23}). Mozambique is apparently now re-assessing its withdrawal from COMESA as some feel that the benefits lost from withdrawal exceed the benefits gained(^{24,25}).</td>
</tr>
<tr>
<td></td>
<td>Although Malawi proposed a bilateral trade agreement with Mozambique several years ago, Mozambique has been slow in responding. Apparently under the SADC protocol, any new favourable terms offered to one SADC member have to be offered to all - therefore it seems as if the boat may have been missed for a bilateral agreement.</td>
</tr>
<tr>
<td></td>
<td>It is possible that the SADC trade protocol may discourage informal or small traders, rather than larger ones, because of the need for a certificate of origin. Since the protocol is just starting to be implemented, it remains to be seen how this provision is dealt with in practice at the borders.</td>
</tr>
<tr>
<td><strong>Agricultural export policy and practice</strong></td>
<td>Maize is viewed as a strategic commodity in Malawi, with its export banned in times of perceived shortage.</td>
</tr>
<tr>
<td>National policies in both countries favour facilitating agricultural exports(^{26}). At a national level, the Mozambique Government has resisted calls from some politicians and local governments to restrict maize exports, even when this has caused high domestic prices(^{27}).</td>
<td>At district and provincial level in Mozambique, there is a somewhat ambivalent attitude to agricultural exports and to Malawian traders - there are regular attempts to ‘control’ the trade and sometimes to place barriers in its way - (see 4.6).</td>
</tr>
</tbody>
</table>

\(^{23}\) Connect Consulting 2001? – likely impact of SADC trade protocol on revenue and trade of different member states.  
\(^{24}\) Although not directly related to Mozambique-Malawi trade, a major cost of withdrawal from COMESA experienced by Northern Mozambican farmers and traders was the tariff on Mozambican maize imports to Kenya-a COMESA but non-SADC member - this made Mozambique unable to compete in a potentially important market in 1999 and 2000.  
\(^{25}\) Stories differ on why Mozambique withdrew from COMESA - some believe it was because membership was incompatible with other trade agreements Mozambique had with South Africa or SADC – however others claim it was a simple cost-benefit calculation and that lost customs revenue was the deciding factor – a calculation that is now being re-examined.  
\(^{27}\) AIM 18 Oct 2001 – ‘Nothing Wrong with Exporting Maize’. 

Neighbours in Development: Livelihood Interactions between Southern Malawi and Northern Mozambique
### Policies and practices that encourage cross-border trade

**Border practices**

There is considerable flexibility practiced at border posts - enabling local populations to cross to attend markets, or to grind grain, and cross back with limited quantities of produce, without paying duties or needing passports\(^{28}\). Local people crossing borders unofficially where there are no convenient border posts is tolerated in most areas.

Policies and practices that discourage cross-border trade

Some Mozambican local authorities consider the current flexibility as a temporary and unfortunate necessity\(^{30}\) - and state quite openly that once commercial capacity is sufficiently developed on the Mozambican side, then this informal crossing will be stopped.

**Policy towards traders**

Export of maize from Mozambique to Malawi is officially unrestricted, including the purchase of produce by Malawian traders from farmers and the movement across the frontier of Mozambican or Malawian lorries.

In Mozambique, getting a licence as an import-export trader has been simplified, but can still be difficult - it can now be issued at Provincial level and there also seems to be an unofficial District level approval process.

Mozambican customs documentation has been simplified; the capacity and professionalism of customs and immigration has improved, which means it is harder to avoid paying duty, but that there are less demands for corrupt payments\(^{31}\).

In practice, there are a number of barriers:

- Movement of lorries across the frontier is not cheap\(^{32}\) - at the Milange border, in order to avoid the expense of bringing the lorries across, the maize is carried across the border by bicycle and loaded into lorries on the Malawi side - cyclists charge 15 MK per sack for maize.

- Although the SADC transport protocol has been signed, in practice there are various barriers: Malawi is part of the yellow card insurance scheme, Mozambique is not; road user charges are not harmonized across the border; weight restrictions are different; restrictions on doing internal trade in neighbouring countries reduces the opportunity for getting loads in both directions, and so on.

- Malawian traders operating in Mozambique need to get a licence in the Provincial capital - this seems to be an effective barrier in practice (Mozambican traders can get an informal export licence/ phytosanitary certificate at District level e.g. in Milange from the District Agricultural Office at a charge of Mt 25,000 per tonne).

- When the used sacks are bought back into Mozambique, customs duty is apparently charged.

- Malawian cyclists carrying goods in Mozambique face regular demands for payment to the border police - most of this is thought to go into the pockets of the police. This is deterring some small traders.

Investment and incentives

Investment, particularly transport infrastructure, can have a positive or negative impact - depending on whether it is directed at cross-border or internal trade.

Subsidising production in Malawi through the starter pack (and to a lesser extent APIP) schemes has reduced cross-border trade (see 4.7).

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\(^{28}\) Malawi immigration gives people living within 7km of the border a stamped piece of paper without charge. Malawian headmen also used to issue such passes, but this seems to have been discontinued, as the process was abused with people from further away being issued passes. Mozambican police sometimes accept these passes, but at other times ignore them and expect corrupt payments.

\(^{29}\) Noticias 1/10/2001 - at the Milange border post 36,000 people cross the border each month - 1,300 with passports and 35,000 without.

\(^{30}\) Noticias 1/10/2001 - the article also noted how the provincial government was trying to improve its control of people and goods.

\(^{31}\) Total revenue raised by customs has doubled, although tariff rates have been reduced.

\(^{32}\) Unconfirmed costs were quoted as MK 75 charged by Malawi customs and $30 by Mozambican customs each time a lorry is brought across - since many lorries might load in Milange Sede, which is 4km inside the border, this is quite expensive for a 6km round trip.
4.5 Volatility and risk

There is considerable volatility of price and volume, both within the season and between season in the maize market in Malawi, Mozambique and the cross-border trade.

Table 4.5a - Seasonal and annual retail maize price variations

<table>
<thead>
<tr>
<th>Country</th>
<th>Marketing Year</th>
<th>1997 Mean</th>
<th>1998 Mean</th>
<th>1999 Mean</th>
<th>2000 Mean</th>
<th>2001 Mean</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Mozambique</td>
<td>Highest Price $/kg (% difference from 5 year mean)</td>
<td>0.17 (0%)</td>
<td>0.26 (+53%)</td>
<td>0.1 (-41%)</td>
<td>0.08 (-53%)</td>
<td>0.22 (+29%)</td>
<td>0.17</td>
</tr>
<tr>
<td>Lowest Price $/kg (% difference from 5 year mean)</td>
<td>0.07 (-22%)</td>
<td>0.11 (+22%)</td>
<td>0.09 (0%)</td>
<td>0.06 (-33%)</td>
<td>0.1 (+11%)</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>% within-season price rise</td>
<td>143%</td>
<td>136%</td>
<td>11%</td>
<td>33%</td>
<td>120%</td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td>Southern Malawi</td>
<td>Highest Price $/kg (% difference from 5 year mean)</td>
<td>n.a.</td>
<td>0.28 (+22%)</td>
<td>0.22 (-4%)</td>
<td>0.10 (-57%)</td>
<td>0.30 (+30%)</td>
<td>0.23</td>
</tr>
<tr>
<td>Lowest Price $/kg (% difference from 5 year mean)</td>
<td>n.a.</td>
<td>0.20 (+43%)</td>
<td>0.16 (+14%)</td>
<td>0.07 (-50%)</td>
<td>0.11 (-21%)</td>
<td>0.14</td>
<td></td>
</tr>
<tr>
<td>% within-season price rise</td>
<td>n.a.</td>
<td>40%</td>
<td>38%</td>
<td>43%</td>
<td>173%</td>
<td>64%</td>
<td></td>
</tr>
</tbody>
</table>

The table shows that prices vary considerably within the season and from year to year. Actually for many individual consumers or farmers the variation can be much greater than this – as the figures give average prices over the two regions – within individual marketplaces the price variation is often higher (see table 4.5b).

Table 4.5b: Maize price in different location (prices per kg)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Milange</td>
<td>3.00Mk</td>
<td>14.00Mk</td>
<td>15.00Mk</td>
<td>18.00Mk</td>
<td>30.00Mk</td>
<td>36.00Mk</td>
</tr>
<tr>
<td>Mbessa</td>
<td>3.00Mk</td>
<td>17.00Mk</td>
<td>20.00Mk</td>
<td>25.00Mk</td>
<td>35.00Mk</td>
<td>40.00Mk</td>
</tr>
<tr>
<td>Belua</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Namporo</td>
<td>4-5.00Mk</td>
<td>7-11.00Mk</td>
<td>9-14.00Mk</td>
<td>11-15.00Mk</td>
<td>12-16.00Mk</td>
<td>16-20.00Mk</td>
</tr>
<tr>
<td>Cuamba</td>
<td>550-1200Mk</td>
<td>3000-4000Mk</td>
<td>4500Mk</td>
<td>5000Mk</td>
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<td>2100Mk</td>
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<td>5760Mt</td>
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<td>8Mk</td>
<td>9Mk</td>
<td>10Mk</td>
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<td>17Mk</td>
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<td>12Mk</td>
<td>15Mk</td>
<td>18Mk</td>
<td>21Mk</td>
<td>24Mk</td>
</tr>
<tr>
<td>Mukumbura</td>
<td>900Mt</td>
<td>1200-1500Mt</td>
<td>900Mt</td>
<td>1200-1500Mt</td>
<td>1200-1500Mt</td>
<td>1500-2000Mt</td>
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<tr>
<td>Tete City</td>
<td></td>
<td></td>
<td>4500-5000Mt</td>
<td>4500-5000Mt</td>
<td>4500-5000Mt</td>
<td>4500-5000Mt</td>
</tr>
</tbody>
</table>

The temporal price differentials were dramatic in some locations such as Chiposse (500%) in Mecanhelas district, Joho (500%) in Mandimba district, Mbessa (467%) in Milange district and Calomue (400%) in Angonia district. Price increases were also relatively low in other locations.

33 This lags the production year - e.g. the crop produced in 1996/97 is marketed in 1997 – for each year the retail prices in July, October and January (following year) are used for the calculations.
35 rise in price as a percentage of the July price.
36 Source: Case study interviews
such as Caia (22%) in Tsangano and Mukumbura (67%) in the South/west of Tete Province along the border with Zimbabwe. The price for maize was very high in Caia at the beginning of this year's harvest period when compared to the other locations due to low supply for high demand.

Although the underlying cause for much of the instability is the weather, there are other factors linked to liberalization of markets that currently contribute to both within season and between season volatility. Massive upheavals have taken place and are still continuing in both countries in the move from a largely parastatal-run maize market, to a liberalized process (albeit with considerable continuing state involvement in the SGR in Malawi). Everyone is learning from experience about how the new system operates and regular and predictable patterns of behaviour have not yet developed. Some key variables have been:

- The lack of transparency, curious management and uncertain future of the Malawi SGR (see 4.8);
- Uncertainty over current actions or future status of ADMARC or ICM;
- The two years of starter packs (see 4.7);
- Withdrawal (and now re-analysis) from COMESA.
- The attitude of Mozambican authorities towards Malawian traders (see 4.6).

Within this unclear and changing business environment, it is not surprising that the activities of the main traders tend to be opportunistic – taking each year as it comes, trying to maximize profits for the year and keeping long-term investment to the minimum required for current operations. There is little incentive to buy to store and sell later, or to invest in more stable vertical linkages, when there is so much uncertainty.

The question is whether the problems are teething or structural; whether given a few years of clear and stable policy direction, the private sector will be able to create a more stable marketing environment that will be beneficial to the producer and the consumer, as well as being profitable for the traders, or whether the inherent instability caused by weather and world market conditions will mean that, without government intervention, the instability will continue.

It is necessary to look at both within-season and between-season volatility.

4.5.1 The impact of within-season price rises

The poor suffer from within-season price rises - Poor farmers tend to sell at the start of the season when prices are low. The urban poor and some poor farmers, even if net food sellers, end up buying food in the lean period, when food is expensive. Ganyu labour rates, whether paid in cash or food, reflect the prevailing price of food, which means that casual agricultural labourers, who are among the poorest, have to work longer to feed their families. Therefore measures that reduce within-season price rises are likely to help the poor. These might include:

(a) Enabling there to be more traders and for them to buy over a longer period. This means that farmers do not have to sell all to the first trader for fear of no more arriving – but can perhaps reduce their risk and increase their returns by staggered selling (see fig 4.5).

(b) Supporting on-farm storage technologies.

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37 It should be noted that V&M Grain Co are reported to have invested in some warehouse capacity independent of ICM, so limited investment is taking place despite the uncertainty.
38 Confirmation of this was obtained in the case study interviews in the current study.
(c) Enabling traders to buy, store and sell back later (including storage in Malawi – which has historically occurred). Issues such as availability of credit and consistent market policies are likely to help. There is still some hostility towards this buying and selling back, particularly cross-border, seeing it as ‘profiteering’ by traders - rather than as a service provided by traders, particularly in terms of bearing the risk and storage costs. If profit margins are high for an activity, this is surely a reason to encourage more competition, rather than criticise the few that are involved.

(d) Although ‘closing the border’ might in certain circumstances reduce the within-season price rise, it would need excellent timing to be effective. Also, in the longer term, this would tend to reduce the incentive for farmers and traders to introduce measures (as in (a), (b) & (c) above), which are more likely to achieve a degree of stability in a sustainable fashion.

Figure 4.5a shows that in 2001, by delaying their sales by about four months – in which time the typical purchase price more than doubled, farmers could have increased their gross margin by a factor of nearly four. Figure 4.5b shows how prices have changed over the last five years – within season prices rose fast in 1997, 1998 and 2001 – but hardly rose at all in 1997, 1999 or 2000.

The large price differential between Malawi and Mozambique in the second half of 1999 seems to have been due to the border being largely closed to Malawian traders at a time in which the NFRA was buying within Malawi to re-stock the SGR. This forced up consumer prices in Malawi, while at the same time Mozambican farmers were unable to sell their produce - both suffered (see 4.8).
4.5.2 The impact of inter-season volatility

During the last four years, the farmers in Northern Mozambique have experienced two years of high demand and high prices, followed by two years of very low demand and low prices. The reasons for this are a combination of weather, donor and Government policies (a more complete border timeline is given in Annex 6):

Table 4.5c - Variations in maize market demand and reasons

<table>
<thead>
<tr>
<th>Season/Years</th>
<th>Cross-border market</th>
<th>Reasons</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97 crop year</td>
<td>Large volume, low prices</td>
<td>Shortages in S. Malawi and bumper harvest in Niassa. Malawian traders very active in N. Mozambique.</td>
<td></td>
</tr>
<tr>
<td>1997 marketing year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997/98 crop year</td>
<td>Lower volume; remote farmers find it difficult to sell; prices rise at the end of year.</td>
<td>Generally poor harvests. Some local restrictions by Mozambique authorities on Malawian traders.</td>
<td></td>
</tr>
<tr>
<td>1998 marketing year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999 marketing year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999/00 crop year</td>
<td>Low prices, low volume - Mozambican farmers left with unsold maize.</td>
<td>Generally good harvests. Starter packs in Malawi increase domestic production and reduce demand for imports. Mozambique’s withdrawal from COMESA reduces alternative marketing opportunities. Some local restrictions by Mozambican authorities on Malawian traders.</td>
<td></td>
</tr>
<tr>
<td>2000 marketing year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000/01 crop year</td>
<td>High prices, low volume - Mozambican farmers with insufficient production to meet demand.</td>
<td>Poor harvests due to excessive rain followed by an early end to the rain. Targeted input programme has less impact than starter packs. Malawi sells strategic grain reserve to Kenya. Some local restrictions by Mozambican authorities on Malawian traders.</td>
<td></td>
</tr>
</tbody>
</table>
Typical farmgate prices rose by an incredible 300% between 2000 and 2001, however it is important to recognise that volume, as well as price, is important to farmers:

- 1997 is remembered as a good marketing year, because farmers managed to sell large volumes easily to very active Malawian traders. For many farmers, this was the first year when they made ‘real money’ from farming and many invested in assets such as bicycles.
- 1999 and 2000 are remembered as disasters – not only were prices low, but many farmers were unable to sell their produce.
- 2001 has seen good prices, but many farmers have insufficient production to benefit from these prices.

There is insufficient data to track the quantitative impact of the market instability on different types of Northern Mozambique household. In general, those households close to the border with Malawi and nearer the towns in Mozambique are slightly insulated from the most adverse effects – they usually can sell their crop even if the prices are low. However, for some more remote households in 1999 and 2000, buyers failed to come to their village, leaving them with a cash income of zero and no substantial alternative sources of earning cash.

The impact of this unreliable maize market in Northern Mozambique is enormous. Maize is the most important cash crop for the majority of Northern Mozambique farmers, but market volatility is causing major problems for the development of rural livelihoods. Although farmers can generally grow enough food, the absence of a reasonable secure cash income has major livelihood and developmental consequences:

- There is insufficient money for paying taxes (such as the bicycle tax), contributions to school fees, and activities like farmers’ associations are unsustainable if members are unable to pay membership fees.
- There is insufficient money to buy consumer goods and therefore raise living conditions from the very low levels currently endured.
There is insufficient money to invest in assets such as livestock that can provide security against shocks such as illness or crop failure.

It is not known how much less maize farmers planted in 2000/01 as a result of the poor markets in the preceding two, which resulted in the low production and very high consumer prices in 2001. It is known that farmers have been actively trying other cash crops, including paprika, sesame, tobacco, cotton and potatoes. However, the extent to which these are in addition to, or instead of maize is uncertain. Ironically, the very lack of cash many farmers have experienced in the last two years has probably made it more difficult for farmers to buy different seed and diversify out of maize.

**Box 4.5 - Estimate of income from cross border trade in good and bad years**

It is difficult to make quantitative estimates at the differing value of the trade to the smallholders in Northern Mozambique because of the weak statistical base:

- 1997 - a favourable year - 100,000 MT sold cross-border @ farmgate price $60/MT = $6 million or $10 per household.
- 2000 - an unfavourable year (low volume - low price) - 40,000 MT @ farmgate price $40 = 1.6 million dollars or $2.5 per household.
- 2001 - 40,000 MT @ farmgate price $120/MT = $4.8 million or $7.6 per household.

The difference between a good and bad year is about $4.4 million in total, or $7 per household.

Actually the impact of poor cross-border sales may be larger than indicated in the figure - if cross-border sales act as a price setter for the rest of the market, and therefore also influence price of within Mozambique sales.

**4.5.3 Ways to reduce volatility**

Even without direct government intervention in the marketplace, there are a range of actions, some of which are already underway, that can reduce the volatility and the dependence on an uncertain maize market:

- **Northern Mozambique should look beyond Southern Malawi** - Although Malawi is likely to remain the most important market, it is not the only market. None of the other markets are likely to be consistently profitable, but they can provide additional or alternative markets to those of Malawi - particularly in bumper years, where prices are low and Malawi fails to absorb the surplus. More competitive transport will be needed for these other markets to be viable. Improvements in inter-district, inter-province and especially the North-South road network in Mozambique is opening up more internal markets. Internal road and rail freight rates, coastal shipping and port charges in Mozambique are still too high and inefficient - action is needed to bring these down to more competitive regional rates. At least some of the traders in the market will need to have experience and capacity to trade in the overseas market.

- **More storage at all levels** - In Malawi there is considerable storage capacity, primarily within ADMARC, but available for use by NFRA and the commercial sector. However, weaknesses in finance, management and clarity of long-term objectives have meant that this

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39 See fig 2.2 for calculation
40 Ministerio da Industria e Comercio 2001 - Analise dos custos de transporte na comercializacao agricola em Mocambique.
is not currently being used to reduce volatility and the uncertainty created probably reduces private sector confidence to invest in storage. The TIP evaluation showed that rural households suffer from lack of maize selling by ADMARC – making the rural food supply less reliable and more expensive. This indicates, perhaps, a growing incentive for more on-farm storage.

In Mozambique, a report concluded that priority should be given to improving the efficiency of rural storage, as opposed to the creation of large, formal sector grain collection centres, as the benefits from reduced cost of centralised storage are offset by increased transport and interest costs\textsuperscript{41}. At farmer level, this requires knowledge and access to appropriate technologies and perhaps marketing opportunities spread more evenly over the year. One of the technologies that is reported as spreading from Malawi to Mozambique is plastered storage bins.

At trader level, the constraints are the cost and availability of seasonal credit (meaning stocks must be turned over quickly), policy uncertainty and capital for storage infrastructure. It is possible that inventory credit could provide an incentive for seasonal storage\textsuperscript{42}.

- **Diverse development of Malawi smallholder livelihoods** – A range of income generating activities, including petty trading and higher value cash crops, is needed to enable households to buy both maize and to buy inputs to grow some of their own maize – most households are likely to do both. Ministry of Agriculture figures show a rapid rise in production of cassava and sweet potato\textsuperscript{43}. However, these are often a cash crop for farmers and maize remains the preferred staple in many areas. In addition, liberalisation of the regulations allowing smallholders to grow tobacco has increased the diversity of farm incomes. If Malawian farmers have more income and more savings, they will be less vulnerable to rises in maize prices. Agricultural intensification is possible through both organic and inorganic means – a combination, using a variety of ‘best bet’ technologies, will be needed for most households. The cost of both importing inputs and exporting production remains a barrier – fertilizer prices in Malawi are reported to be 25% higher than neighbouring Zambia, due to a variety of additional costs\textsuperscript{44}. Once again, truly competitive port and transport rates would make a significant difference. Initiatives that introduce rural households to the value of foods other than maize, including new ways of cooking them, would also help.


\textsuperscript{42} RESAL/Tillette de Mautort A. 1999 – Mozambique: Options to Support Grain Marketing Credit. RESAL/ J Coulter et al 1999 – Feasibility of Warehouse and Inventory credit.

\textsuperscript{43} Some commentators (Stephen Carr pers com) consider the increase in cassava and sweet potato production is not nearly as great as the figures show – while this may be the case, it does seem likely that the production of these crops has increased. It should also be noted that the water content of cassava and sweet potato is higher than that of maize – therefore the figures for the different crops are not directly comparable.

\textsuperscript{44} RESAL 2000 – Malawi: Regional Assessment of Agricultural Input prices & Cross-border Movements. Supplementary Annex by Baillie,
**Crop diversification in Northern Mozambique** - Crop and market diversification in Northern Mozambique could increase average income, but more importantly reduce income volatility. A recent study\(^{45}\) looked at various options for diversification in Northern Mozambique. A major conclusion was that the greatest potential for development is through husbandry improvement, improved storage and small-scale irrigation. A range of crops and intercropping combinations were found to have potential, but often only if the opportunity cost of labour was calculated at zero. The study considered the most potential to be:

- (a) Low external input intercropping combinations involving groundnut and cassava and/or pigeon pea.
- (b) Low or higher input production of garlic, onions, paprika, (Irish) potatoes and maybe cotton.
- (c) Low or medium input production of sweet potatoes, dry beans, groundnuts, sesame and tobacco.
- (d) Low input or intercropped maize, rice, sunflower and pigeon pea.

In figure 4.5g, the gross margins for the various have been re-calculated using the higher prices prevalent in 2001 and with labour at an opportunity cost of 10,000 Mt/day. This shows a number of crops to be viable, but also shows how the varying prices from year to year can change viability. Of particular note is the increased viability of maize at 2001 prices, compared with those prevalent in 1999-2000. In addition to the crops shown, onion, garlic and high input paprika were shown to be very profitable. In Mulanje (Malawi) NASFAM is acting as an intermediary for farmers’ associations growing chillies; production is expanding and farmers from across the border in Milange are also starting to grow them. In Nampula and Zambezia, oilseed growing has expanded quite rapidly over a number of years, partly due to the introduction of oil presses; farmers also seem to be adopting sesame quite rapidly. It seems that smallholder farmers in Malawi and Mozambique are very willing to innovate – they need information, planting materials and marketing opportunities.

\(^{45}\) RESAL/EC FSU (V. Tickner et Al.) 2001 – Viable Options for Smallholder Crop Improvement and Diversification in Northern Mozambique.
4.6 Attitudes, policies and practices of Mozambican local government officials

Since the way the law and policies are implemented at the local level has a great impact on trade, it is worth exploring this issue, which appears most relevant on the Mozambican side of the border.

The underlying issue seems to be - is the Malawi market an opportunity or a threat?

While the farmers see Malawi as a marketing opportunity, local government officials are more ambivalent – considering local food production primarily as a way of guaranteeing local/ national food self sufficiency with exports restricted to surpluses. The danger, as seen by the local officials, is that the purchasing power of Malawi is so high that:

- Mozambican farmers are offered ‘too’ high prices, sell too much and then are hungry later in the year.
- Prices in the urban markets in Mozambique rise too high and cause suffering among net food buyers – who are mainly civil servants and private sector employees.
- Mozambican traders may be pushed out by Malawian traders.

4.6.1 Is ‘overselling’ by small farmers in response to high prices a concern?

‘Overselling’ is an issue that keeps returning; it is a complex area in which some clear thinking and perhaps more field research is required:

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 Figures adapted from RESAL/ EC FSU (V. Tickner et Al.) 2001.
• Some farmers certainly sell food after harvest and face hunger later in the season – but this is not necessarily illogical or misguided – difficult choices need to be made at the household level between the need for cash and the need for food – sometimes a household may need to endure hunger to get access to badly needed cash. ‘Underselling’ can also be damaging to the household livelihood – by making insufficient investment in productive assets such as hoes, bicycles, education, social linkages and healthcare, a household can compromise its future livelihood security47.

• Is there more ‘overselling’ when prices are high? – There is little data on this – in fact if certain fixed expenditures need to be met after harvest, higher prices may enable farmers to meet these expenditures while selling less! It is easy to jump to the wrong conclusion, as prices are usually high when production is low and therefore the amount left after sales is low – cause and effect can get muddled.

• Good decision making on the amount sold is the key – There are several dimensions to this:
  (a) Should household members or Government officials take the decision? – Given the household-specific nature of the analysis and lack of knowledge about the real dynamics, as outlined above, it seems logical that the decision should rest at household level. Yet Government officials consistently believe it is their role either to lecture the farmer, or to control the market to stop the farmer overselling. In discussion, farmers are derisive about a Government official being able to make decisions like this, saying ‘We know more about hunger than Government officials’.
  (b) By whom in the family? – It is possible that decision making by male household heads have a bias towards cash income and against storing food. Although examples of this occurring certainly exist48, the author is unaware of evidence that the practice is widespread. Whatever the frequency of gender bias in decision making, there is also a question about how best to tackle the problem. Is it better to remove decision making from the household head to a Government official, or to work on gender issues at household, farmer association and community level49?
  (c) Information can empower farmers – Farmer’s decision making may be improved by better information on issues outside their control, such as changes in Government policy that may affect future market conditions. Consistent Government policies that act to reduce market volatility can also improve household-level decision making.

4.6.2 Is the desire to lower urban prices a legitimate reason for restricting cross-border trade?
This is a live issue in Mozambique in late 2001, with demand from the Malawi market causing unprecedented high prices in the cities of Nampula, Quelimane, Tete. People are wondering how high prices will go. There is no doubt that many net food purchasers – mostly salaried employees, but also many vulnerable informal sector households such as hawkers – are suffering from the high prices. There are a number of issues:

47 It is also important to remember that for many farmers in Northern Mozambique, maize is seen primarily as a cash crop and cassava as a staple food – although of course there is not a hard and fast division. Having no maize doesn’t mean starvation – nutrition depends on the availability of other crops as well.
48 See Plummer P. 1997 – Womens Voices: Women’s lives in the District of Cuamba, Mozambique and Whiteside 1998 – When the whole is more than the sum of the parts: the effect of cross-border interactions on livelihood security in Southern Malawi and Northern Mozambique.
• **In most years, the majority of the poor benefit from higher prices** – As noted in the stakeholder analysis (see table 4.3), the number of net food sellers in Northern Mozambique in most years is many times higher than the net food buyers – and the rural farmers tend to make up the majority of the poor in Northern Mozambique. Therefore, any policy that reduces the price offered to farmers, in order to provide cheap urban food, is likely to harm the poorer majority. There are almost certainly more efficient ways of relieving the poverty of the smaller numbers of very vulnerable urban food buyers.

• **The situation is less clear in years of crop failure** – In a year of crop failure, it is possible that many rural farmers become net food buyers, perhaps selling a little at harvest time and earning food back through *ganyu* later in the season. Yields and prices of cassava and sweet potato are likely to be important in these years – and the cross-border market of these can become important as well – usually to the benefit of the poorer farmers. The relationship of demand for *ganyu* labour to market prices is another factor – being dependent on the incentive of the slightly larger farmers to produce a surplus; the availability of food or cash to pay for the labour and the supply of labour, which is dependent on the level of desperation of the rural poor in both Southern Malawi and Northern Mozambique.

• **Short term measures can have detrimental long term effects** – It is tempting to ban maize exports at specific times to prevent prices rising excessively for consumers. However, although this may have a short term impact on prices, it can also undermine farmer and trader confidence – resulting in less production of maize or less seasonal storage by traders, which may mean that in the next year of shortage the situation is more severe. It is also likely that, in the longer term, a buoyant rural economy will stimulate the small rural town economy, with benefits for the urban poor.

4.6.3 Should Malawian traders be able to buy direct from farmers within Mozambique?

Section 4.3 came to the conclusion that it was in the interest of the majority of small farmers to encourage the marketing of Mozambican agricultural produce in Malawi. At a local level, Mozambican Government officials tend to try to ensure that as much of the trade as possible is in the hands of Mozambican traders. The reasons for this are:

• **Too high prices** – Malawian traders are consistently criticised by members of the district administration for offering ‘too high prices’ to farmers, and encouraging farmers to ‘oversell’ (this doesn’t seem to be a justified reason – see section 4.6.1).

• **Malawian traders are seen to be unfair competition** – in particular by having access to more financial resources, enabling them to buy more at higher prices and therefore leaving nothing for the Mozambican traders. Malawian traders operating informally may also avoid Mozambican taxes. Some of these criticisms are probably justified – but how should the playing field be leveled?

• **To develop the capacity of the Mozambican commercial network** – even if this means in the shorter term that farmers receive lower prices. Building Mozambican commercial capacity is a worthwhile objective, but should it be pursued at the expense of the poor farmer?

**Interviews in border areas suggest:**

• **An unofficial ban exists** – Although officially Malawian traders are not banned, it is quite difficult for them to get the required permits – this being handled at provincial level (and some officials still claim approval from Maputo is needed), whereas there is a simplified system for Mozambican traders at district level. Without the required paperwork, the district authorities can decide how strict to be – buying from Mozambican traders is generally
acceptable, but buying from farmers in areas where Mozambican traders are operating is not. In practice, Malawian traders are only really free to operate where and when the Mozambican traders do not have the capacity to handle the market, or in areas remote from officialdom.

- **Conflicting interests** - The Mozambican traders are very active as a group and as individuals in lobbying for their own interests. There is nothing wrong with this, but conflicts of interest arise because there are often very close linkages between local Mozambican traders and district officials:
  (a) Sometimes Government officials are also traders, or their family or friends are.
  (b) In a remote small town there is an understandable mutual dependency between Government officials and local businessmen. Traders tend to be the local bar owners, shop owners, the person with transport to take a family member to hospital in times of need, and so on. Traders also need to keep on the right side of the local officials.

A key lobbying agenda of the Mozambican traders has been to keep out the Malawian traders. Mozambican rural communities have also lobbied the authorities on the need for improved marketing - but this seems to be less influential than the lobbying of traders, except when the situation has become really desperate and produce has been in danger of rotting unsold, as in late 1999.

- **Seasonal finance is a constraint** - Mozambican traders do have difficulties mobilising seasonal finance for buying produce and capital for transport and infrastructure. Various Government and NGO schemes have been run to provide finance but repayment rates have sometimes been very poor or have been used by Mozambican traders for activities other than trade. Some schemes such as those run by AMODER and GAPI are considered to have greater potential for sustainability and may receive additional funds in future through the EU.

- **Monopolistic tendencies** - there is a tendency for the Mozambican traders to form a cartel, with informal price fixing and agreements on whom should concentrate on which areas. The Malawian traders, if permitted, tend to break this cartel and, in the examples encountered, offer prices around 30% higher.

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50 Apparently the Malawian Road Transporters have complained officially about the harassment they feel they receive from Mozambican police and that this was communicated to the Mozambican Embassy in Malawi; they did not however feel that their complaint was responded to.

51 It should be noted that, in an interview with the author, the current Governor of Zambezia expressed a somewhat different attitude to the District officials, being clear that the priority is efficient marketing to benefit the farmer.

52 Mozambique Ministry of Industry, Commerce and Tourism 1999 - O pcoes Financeiras para a Comercializacao Agricola em Mocambique (Financial Options for Agricultural Commercialization in Mozambique). AMODER and GAPI signed new 3 year cooperation agreements with the EC FSU in 2001 (the AMODER agreement is co-funded with Ireland).
The figure shows that gross margins are higher in the interior, where more fertile land tends to give higher yield. However, margins fall markedly if Malawian traders are excluded and Mozambican traders form a cartel. Although margins are generally lower in the immediate border area because of lower yields, these areas are less dependent on traders, being able to market into Malawi directly across the border. If the authorities manage to prevent this ‘bicycle trade’ and make these border farmers also dependent on a cartel of Mozambican traders, margins here will be the lowest of the lot. In some cases, the situation might be even worse than the figure shows – a ban on Malawian traders can mean the difference between having or not having a trader come to your village at all. Community interviews show that farmers don’t mind whether Mozambican or Malawian traders come to buy – what they are interested in is price and reliability.

It seems reasonable to encourage the development of Mozambican traders – the question is whether this is best achieved by creating a level playing field with Malawian traders, or by restricting the activities of the Malawians.

Local government and the traders seem to be in favour of a model in which the Mozambican traders buy direct from the farmers and then sell either to Malawian traders or to the warehouses of ICM/ V&M. Mozambican-based traders probably have a comparative advantage in purchasing in Mozambique – and Malawian traders an advantage in marketing within Malawi, so this type of market structure may develop naturally. On the other hand, imposing it has very real dangers of creating cartels, which reduce the price paid to Mozambican farmers and increase the price paid to Malawian consumers, thus disadvantaging the largest number of poor people.

4.6.4 Conclusion

Mozambican District level officials and politicians need to have a broader understanding of the potential benefits of cross-border trade, within a more diverse and consistent

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53 For figures used see Annex 7.
54 AMODER with support from the EC FSU have organized a meeting between Mozambican and Malawian traders – helping to break down the ‘us’ and ‘them’ attitudes (AMODER 2000 – Oportunidades do Comercio Transfronteiriço). There have been suggestions that Malawian traders should be invited to the big meetings that take place at the beginning of the marketing season in Cuamba and Malema (J. Garido-Mirapeix pers. com.)
marketing environment. They need to be made aware of what is the appropriate supporting role for the state, and the dangers of inappropriate intervention. It is necessary to tackle the myth of ‘too high’ prices being offered to farmers and of ‘overselling’.

Although ‘overselling’ may be a reality, the dynamics are complex and livelihood security is only likely to be made worse by Government officials trying to interfere. Consistent policies, clear information and gender-sensitive community and association development are more likely to improve household-level decision making, than directly intervening in the market to prevent ‘overselling’.

Although there may be circumstances in which specific time-bound restrictions on exports could be beneficial to the poor, it seems unlikely that this would be achieved in practice:

- The future uncertainty caused by such actions would probably undermine commercial confidence and damage endogenous systems of risk reduction, such as storage, which would have a negative impact on the poor.
- Current knowledge and decision making processes, which tend to serve the interests of the less poor, would probably result in far from ideal decision making.

Given the tendency of traders to form cartels, and the lack of incentive for the local administration to prevent these, it seems some involvement by Malawian traders, including the possibility of them buying direct from farmers, would be in the best interest of the Mozambican farmers and Malawian consumers. Effort should be concentrated in enabling Mozambican and Malawian traders to compete on a level playing field and with minimum barriers. This will probably involve improved access to credit for Mozambican traders and simplified registration for Malawian traders at district or frontier post level.

### 4.7 Impact of starter packs on cross-border marketing

In the early-mid 1990s, the Malawi Government came under pressure, linked to structural adjustment, to phase out subsidies on fertilizer and input credit. However, it proved uneconomic for most smallholders to buy sufficient expensive free market fertilizer to maintain maize production. By the late 1990s, it seemed as if Southern Malawi was facing a structural deficit in maize production and that famine was looming. An ambitious programme was conceived to distribute a starter pack of 1/10 ha worth of fertilizer and seed to every smallholder in Malawi. The main objective of the programme was to avert an immediate production crisis, although there were additional aims, including diversification through increased use of legumes and introducing smallholders to fertilizer use.

There were some warning voices of the potentially negative impact of the programme on the market for Northern Mozambican smallholders, however these appear to have been dismissed, because it was assumed that, even with the starter pack, there would still be a maize deficit in

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55 The reason for the high price of fertilizer in Malawi has been commented on in a number of reports – inefficiency in the Nacala corridor, lack of open competition in regional trucking fleets and high costs of seasonal input credit have been identified.

56 It is interesting that only in the Phalombe:Northern Milange case study was the selling and use of starter pack seed in Mozambique reported. Here the communication was good and Mozambicans turned up to buy on the distribution day! (Annex 4)
Southern Malawi, and therefore still a market for Mozambican maize\(^{57}\). It seems that the probable impact on Northern Mozambique of the starter packs/TIP was not sufficiently analysed in the proposals, or included in the monitoring and evaluation.

As it happened, the two years of the starter pack coincided with generally good harvests in both Northern Mozambique and Malawi - due to both the weather and the starter pack inputs (in Malawi). As a consequence, there was surplus production and the cross-border trade collapsed, both in terms of price and volume. Southern Malawian households benefited from additional home production, but Northern Mozambican farmers suffered from very poor prices, or a complete lack of buyers - more remote areas were left with unsold grain, some of which rotted.

For the 2000/01 season, the starter pack was scaled down to target about 50% of the poorer households in Malawi. Early rains, coupled with late delivery of the packs and then poor growing conditions later in the season, meant that the inputs had negligible impact on overall production.

In 2001/02, the plan is to target the inputs at around 30% of households. The longer-term plan is to target a gradually smaller percentage - with perhaps the objective of reaching 10-20% of households, but perhaps with a larger pack - sufficient for 1/4 ha - with the idea that this might help households grow out of poverty.

In order to understand the probable impact of the starter packs on Northern Mozambican smallholders, it is worth considering some rough figures:

### Estimated impact of Starter Packs on Northern Mozambique

- **Extra production due to SP1 & 2** - Starter packs in Southern Region and perhaps half of Central Region would have had most impact on Northern Mozambique's market - this is 69% of Malawi's rural population, equivalent to 1.9 million packs. Estimates of the production impact per pack vary\(^{58}\) - 150 kg extra per household is used in these calculations. Therefore, in the Southern and half of the Central Region, the additional production was around 285,000 MT in each year.

- **Proportion of extra production due to SPs** - Estimated Malawian maize production in 1998/99 and 1999/00 was 2.5 million MT, which compares with an average production of 1.7 million MT in the period 1990-2001. Therefore production was 800,000 MT above average - for Southern and half of Central Region, this translates to about 500,000 MT above average. Therefore, in Southern and half of Central region, about 285,000 MT (60%) of the additional production may have been due to the starter packs and 215,000 MT (40%) due to the favourable weather.

- **Effect on maize market** - The effect of the extra production on regional market supply and demand is not straightforward\(^{59}\). In the absence of information on the elasticity of supply

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\(^{57}\) Similar arguments also apply to the APIP scheme, in as much as the low repayment rate has often meant that this is in effect an input subsidy to many participants.

\(^{58}\) Farmers estimate that the production obtained from the starter pack was 3-4 50kg bags. However, it is unlikely that all this production was additional, given the constraints of land and labour faced by many households - inputs are not the only limiting factor. Other estimates (Statistical Services Centre 2001a) are 25% of total smallholder production for SP1 and 15-30% for SP2 and 3.5 extra bags for SP1 and 2.7 extra bags for SP2. Harry Potter (pers com 2001) SP1 - 185kg, SP2 - 175kg.

\(^{59}\) Maize has the lowest market ratio of the Malawi smallholder crops at about 20% (Nyirongo 2001). A proportion of the additional household production will have gone to increased consumption and the fall in the price of maize
and demand, it is perhaps safest to note that the change in production of 285,000 MT is very significant in comparison to estimates of cross-border trade, which vary from 60-150,000 Mt in high volume years such as 1997, to 25-50,000 Mt in low volume years, such as 2000. Given these magnitudes, it seems likely that the change in production had a major impact on the changes in volume and price experienced in 1999 and 2000.

- **Impact on Mozambican smallholders** - section 4.5 estimates that the collapse in price and volume in 2000 amounted to a lost revenue of about $4.4 million for Northern Mozambican smallholders – perhaps $7 for each of 630,000 households in the production area. Perhaps 60% ($2.6 million) of this lost revenue was due to the starter packs and 40% was due to the favourable weather.

In very broad terms, SP1 & SP2 cost $27 million per year and produced additional production within Malawi of 420,000 MT with a retail value of $54 million ($0.13/ kg). A negative impact, however, was that perhaps 613,000 households in Northern Mozambique as a consequence lost out on sales to a value of around $4.2 per household, amounting to a total loss of $2.6 million.

An important conclusion of the evaluation of the programme was that a major impact on food security was not primarily from households producing more food to eat, but that the increased production reduced retail maize prices and thus enabled food deficit households to buy more food. This is basically similar to the benefit obtained from Mozambican grown maize reducing prices in Malawi.

**Future prospects**
The future for starter packs or targeted input programmes is not clear – the 2001 evaluation recommended returning to a universal programme whereas the current direction is towards more targeting and perhaps a larger pack, suitable for 1/4 ha. What would be the impact on cross-border trade and Northern Mozambique livelihoods of these two approaches?

<table>
<thead>
<tr>
<th>Potential Impact on Northern Mozambique to successors of SP / TIP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Universal starter pack</strong> - The potential impact could be similar to that for SP1 and SP2, although in most years the weather is unlikely to be as good, so the actual impact is likely to be less, but still significant.</td>
</tr>
<tr>
<td><strong>Targeted inputs</strong> - for 340,000 people for 1/4 ha – additional production per household may be 250% of that achieved in SP1 &amp; SP2 (125 kg) = 310 Kg per household = 105,000 MT – perhaps 73,000 MT in Southern Malawi. This is about 1/3 of the impact of the starter packs, but in a year of good harvests this could still have a significant impact on cross-border trade.</td>
</tr>
</tbody>
</table>

The extra production due to the starter packs was equivalent to over 50% of the annual maize production of the Mozambican provinces bordering Malawi (see Fig 4.7 – 400-500,000 MT). A future targeted input programme is likely to contribute extra production equivalent to 15-20% of total maize production in the three provinces.

may also have increased purchases for consumption. The relationship on supply and price in any one year is also unclear – sometimes households may need to raise a certain amount of cash from sales, therefore needing to sell more when prices are lower – a temporarily backward-sloping supply curve.

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60 Statistical Services Centre 2001(a)
Conclusion

Decisions in Malawi on the future Targeted Inputs Programme and APIP need to include analysis of the potential impact on cross-border trade and therefore on Northern Mozambican farmers. This cross-border impact should also be included in monitoring and evaluation.

4.8 Malawi Strategic Grain Reserve

The Malawi Strategic Grain Reserve was mainly purchased inside Malawi in 1999 at around MK 7.80/kg, although a considerable proportion probably came informally from Mozambique. Attempts to sell it off cheap to the WFP in Mozambique in 2000 led to accusations of ‘dumping’\(^1\). The majority of it was eventually sold to Kenya in early 2001 at around MK 2-3/kg, just as it became apparent that the 2000/01 harvest was likely to be poor. Realization of the lack of supply in mid 2001 caused maize prices to rise extremely rapidly and controversy abounded in the Malawi press about who was responsible for selling the grain reserve to Kenya and what had happened to the money from the sale. Concern about an acute shortage of maize forced the NFRA/ADMARC to buy 150,000 MT from South Africa in September 2001 at around MK 15/kg.

The impact of the NFRA’s activities from 1999 to 2001 were:

- **Beneficial** to cross-border trade in late 1999, although the full benefits of this were not felt by Mozambican farmers due to restrictions on the activities of Malawian traders in Mozambique meaning the prices did not rise like they did in Malawi (see fig 4.5c).
- **Detrimental** to the Malawian consumer, as it caused prices to rise in 1999. In addition, the maize bought in 2001 is unlikely to bring the current high prices down, because of the need to recoup the high price of purchase and transport from South Africa in a year of regional deficit.

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\(^1\) Ministerio da Industria e Comercio 2000 – ‘Dumping’ de milho Malawiano no mercado de Mocambique: perspectives e opcoes.
• **Detrimental** to the Malawi exchequer, as the maize was bought in a relatively expensive year, sold cheaply to Kenya in early 2001 and then replaced at a much higher price in late 2001.

In some ways, NFRA/ADMARC face the worst of both worlds – they are supposed to operate commercially, but are still expected to have a social role, they are vulnerable to political pressure and are not transparent. The SGR cost a lot of money and yet harmed Malawian consumers in 1999 and failed to protect them in 2001. A well-managed fund probably could have bought cheaply in 1999 and 2000 with little impact on consumers and by selling at a moderate price in 2001 stabilized the price at great benefit to Malawian consumers at little overall cost. The impact on cross-border trade would also have been favourable, being beneficial in terms of volume in 1999 and 2000 and having little impact if sold gradually in 2001.

A key lesson is that there is not yet the capacity to manage such a reserve in the best interests of the poor.

**Conclusion**

*Decision making concerning the Malawi Strategic Grain Reserve need to be more transparent and based on better analysis – this analysis needs to include an understanding about the potential impact of both buying and selling by the SGR on cross-border trade.*

**4.9 Trade balance, currency and the cross-border consumer goods trade**

It is helpful to understand the link between agricultural commercialization and the development of the consumer goods network: one cannot develop without the other, as there will be either no money to buy with, or no incentive to produce and sell. Mozambican crop sales finance the purchase of consumer goods and many of these come from Malawi (see Table 4.1). For cross-border trade, changes in trade in one direction can have a knock-on impact on trade in the other direction. It may be helpful to keep some sort of balance between the trade in each direction to avoid additional currency exchange costs (see 4.9.2).

**4.9.1 The consumer goods market**

Research in 1998 concluded that Malawi is the main source of consumer goods for up to eight million Mozambicans in Niassa, Nampula, Zambezia and Tete Provinces – for instance supplying an estimated 80% of Zambezia’s consumer goods. This trade is very important, not only for the thousands of small traders, but also making up 30-50% of Southern Malawi’s wholesale turnover. These consumer goods were both made in Malawi and imported through Mozambique to Malawian wholesalers and sold retail in Mozambique.

Although quantitative figures are not available, it seems that, despite the fact that consumer goods from Malawi are still widespread, there is now a greater range of and competition from goods from other sources. There are perhaps several reasons for this:

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62 Whiteside 1998 – When the whole is more than the sum of the parts: the effect of cross-border interactions on livelihood security in Southern Malawi and northern Mozambique. See also the annex of this report by Nina Bowen.
• **Wholesale capacity and road quality inside Mozambique has increased** – for instance in Western Zambezia there are retailers who buy from wholesalers in Nampula, Maputo and Quelimane, as well as others who buy from Malawi.

• **Mozambican withdrawal from COMESA and improved customs capacity** – Some consumer products from Malawi now have import duty similar to that on goods imported from elsewhere, whereas when both Malawi and Mozambique were COMESA members, Malawi was at an advantage compared with non-COMESA members. Zimbabwe, which has a bilateral trade agreement with Mozambique, is now at an advantage compared with Malawi or overseas importers. Improved customs control seems to be resulting in more consumer goods crossing the border officially, although in some areas there is still considerable informal trade. Tariff levels will decline under the SADC trade protocol over a period of eight years, but are currently biting.

• **Fall in the Zimbabwean dollar** – this makes some Zimbabwean products very cheap in Mozambique and has also led to accusations of ‘dumping’.

It seems likely that the proportion of consumer goods supplied through Malawi to Mozambique will decline as Mozambican commercial capacity increases – this does not necessarily mean the trade will decline in absolute terms if the Mozambique economy continues to grow. Other issues like currency exchange costs may also become a factor.

Petty trading between Malawi and Mozambique is still a very important source of livelihood not only for wholesalers and larger retailers, but for a very large number of small rural ‘part time’ traders. In Phalombe/Northern Milange border area an estimated 20% of households get at least part of their livelihood from such trading.

### 4.9.2 Currency and the local balance of trade
Currently, much of the trade in some border districts of Mozambique is carried out in Malawi Kwacha – although many traders are happy to accept either Kwacha or Metical. Therefore a Milange farmer will sell his/her harvest for Kwacha, the family will keep what little cash they have in Kwacha and make the most of their consumer purchases in Kwacha. Many of the population were refugees in Malawi during the civil war and traditionally had a high degree of confidence in the value of the Kwacha. This was shaken by the devaluations in 1998 and 2000, although the Kwacha has since strengthened.
Fig 4.9 - Metical-Kwacha exchange rate

![Graph showing Metical-Kwacha exchange rate from 1997 to 2001.]

Table 4.9: 1st week October 2001 exchange rates

<table>
<thead>
<tr>
<th>Location</th>
<th>Mt buying</th>
<th>Mt selling</th>
<th>Spread</th>
<th>Local mid-point</th>
<th>International mid-point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zambezia - Milange Sede</td>
<td>310</td>
<td>333</td>
<td>7%</td>
<td>322</td>
<td>340</td>
</tr>
<tr>
<td>Niassa - Entre Lagos</td>
<td>305</td>
<td>315/320</td>
<td>4%</td>
<td>311</td>
<td>340</td>
</tr>
<tr>
<td>Niassa - Mandimba</td>
<td>300</td>
<td>315</td>
<td>5%</td>
<td>308</td>
<td>340</td>
</tr>
<tr>
<td>Tete - Zobue</td>
<td>310</td>
<td>325/330</td>
<td>6%</td>
<td>319</td>
<td>340</td>
</tr>
<tr>
<td>Tete - Calomue</td>
<td>305</td>
<td>320</td>
<td>5%</td>
<td>313</td>
<td>340</td>
</tr>
</tbody>
</table>

The figures for October 2001 show that the spread between buying and selling by local money-changers was about 5%. It also shows that the local money-changers valued the Kwacha at 9% below the international rate – perhaps indicating a slight local shortage of Metical compared to the Kwacha.

The author is unaware of any research showing how use of the two currencies affect trade decisions at a local level. Some general suppositions can be made:

- Since changing money cost money (5% each time), everyone has an incentive to try and balance the currency coming in and out and so reduce the amount of exchange needed:
  - (a) A maize trader selling in Malawi and receiving Kwacha would like to buy maize in Kwacha; a maize trader selling in Mozambique and receiving Metical would like to buy in Metical.
  - (b) A farmer receiving Kwacha would like to buy consumer goods in Kwacha and one receiving in Metical would like to buy consumer goods in Metical.
  - (c) A consumer goods retailer who buys wholesale in Malawi would prefer to receive Kwacha and one that buys in Mozambique would prefer to receive in Metical.

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The international rate is calculated by comparing the two currencies’ internationally quoted exchange rate against the US$; the Milange buying and selling rate is the local money-changer rate in Milange Sede central market – on October 1 these were 340, 333 and 310 Metical to the Kwacha respectively.
Presumably in each transaction, when preference for currency of choice differs, one party can insist or force an unfavourable exchange rate on the other (to pay for later currency exchange).

- There is therefore an incentive for a transaction chain to stay in a particular currency; if farmers are receiving Kwacha and buying consumer goods in Kwacha, then the retailers can either buy in Malawi or change the money into Metical (minus 5%) and buy from a Mozambican wholesaler. This will make the Mozambican wholesaler slightly more expensive.

- If there is an imbalance among the majority of transactions - for instance if most farm sales are made in Kwacha, but most wholesale consumer goods are bought in Metical, someone in the chain - perhaps the retailers - will be changing Kwacha into Metical. The money-changers will not have people changing in the opposite direction, so the Metical will be in short supply. The money-changer will probably have to travel to Malawi to change the Kwacha into dollars and then return to Mozambique to change the dollars into Metical - at each stage there will be some exchange losses. This cost is likely to create a divergence between the local exchange rate and the international exchange rate and will tend to act as a disincentive to trade in one direction and an incentive in the other, in the process, tending to right the local trade in-balance.

It is not known to what extent local exchange rate in-balances do form a barrier to trade. However petty traders in Northern Milange did record that buying goods from wholesalers in Mozambique and selling in Malawi had become unprofitable because of the need to change the Kwacha back to Metical (Annex 4).

In 1998, it was reported that the two countries’ central banks had agreed a system for repatriating the bank notes for each country - effectively making the Metical and Kwacha exchangeable through the local banking system. However, it seems that this agreement has not yet been implemented. Whether implementing the agreement would make a difference to trade depends in part on whether the costs of the bank-based system are lower than that of the local money-changers.

4.10 Prioritizing Marketing Investment Options

There are a range of different interventions that are needed to improve agricultural marketing in Northern Mozambique in general, and cross border trade with Malawi in particular:

- Lowering transport costs - both through improved infrastructure and removal of other barriers that raise costs.
- Reducing barriers to cross-border trade - particularly unofficial barriers.
- Developing market infrastructure in Northern Mozambique - physical, institutional and social.
- Developing farmer capacity and market linkages - market information, associations, outgrower schemes, extension advice etc.
- Improving trader capacity.

4.10.1 Lowering transport costs

These have been the subject of a major recent report which concluded that costs are still much higher than necessary, and that this is not only due to poor infrastructure, but also a range of
restrictive regulations. Stakeholder analysis indicates that lower transport costs would benefit Mozambican farmers, Malawian consumers and Malawian farmers.

It is important that decisions on capital investment and rehabilitation of transport infrastructure and maintenance are correctly prioritized, taking into account agricultural marketing needs. The delays in completing the rehabilitation of the key 77 km section of the Nacala railway line between Entre Lagos and Cuamba, and the privatization of the line's management in two parts perhaps indicates that the political will to achieving this has not always been present. The challenge is to ensure that decision-making is improved in future.

4.10.2 Reducing Barriers to Cross-border Trade
Official barriers in the form of taxes may reduce trade but produce necessary revenue for Government; official barriers are also being used to protect sensitive industries, such as sugar. The Mozambican Ministry of Agriculture and Rural Development, with technical advice from MSU, has had a useful input into which tariffs should be phased out sooner or later within the SADC free trade protocol.

However it seems that the SADC trade protocol is going to have less impact in the short and medium term than the new trade barriers created by Mozambique's withdrawal from COMESA. Anecdotal evidence suggests that COMESA tariffs have reduced formal trade and increased smuggling - the main loser is the Mozambican producer and the Mozambican consumer. There is some increase in revenue for the Malawi and Mozambican Governments, but increased costs on patrolling for smugglers and potential harassment or corrupt extortion of money from border dwellers.

Unofficial barriers include the difficulties Malawian traders face in getting permits to buy from rural communities and the corrupt payments some officials extort from ambulant traders and those trying to buy or sell their own produce. The case studies show a worrying level of extortion from Malawians when they enter Mozambique, such that some now prefer not to enter. This includes multiple demands for bicycle taxes, the seizing of bicycles and goods and on-the-spot fines - nearly always taken without a receipt. Unlike official border taxes, the money does not benefit the national budget. Although such corruption is unofficial, it seems probable that the ambivalent attitude of some Mozambican authorities to the activities of Malawian traders, leaves them vulnerable to the activities of some corrupt officials, or people posing as officials.

4.10.3 Developing market infrastructure in Northern Mozambique
There are a number of different approaches:

- Enabling the endogenous growth of periodic markets;
- Rehabilitating rural ‘lojas’ – is the key problem that ownership is not clear?
- Investing in ‘fàras’ on the Mozambique side of the border;
- Traders positioning ‘buyers’ in certain communities and then collecting by lorry;
- Farmers Associations bulking and negotiating with a trader;
- Contractual agreements with companies – which are common with cotton;
- Malawians buying small quantities from the farm and transporting it by head or bicycle;

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65 This is an subject that is currently being studied with the idea of establishing a pilot Project in Milange District – see Ministerio da Industria e Comercio/FAO/EC-FSU (Tickner et Al): Forthcoming.
• Farmer transporting by head or bicycle to warehouses or other buying points in Mozambique or Malawi.

Much of the commercial infrastructure in Mozambique, particularly rural trading shops, have not been rehabilitated since the war. In many cases semi-formal markets have sprung up at key points. With stalls made from local materials, the investment is fairly minimal and facilities for storage of produce is often non-existent – but the commercial activity is vibrant. An interesting phenomenon that seems to have spread endogenously from Malawi is ‘periodic markets’ – with perhaps two market days per site per week and with different sites having different market days. This provides an opportunity for greater concentration of buyers and sellers on market days, than is possible with a daily market.

At the moment, periodic markets are mainly involved in consumer goods selling, although small quantities of agricultural produce may be exchanged – usually by farmers who want to raise a small amount of money to make a purchase. The bulk of agricultural marketing is done separately from these markets, with traders either coming directly to the village, or farmers taking produce across the border, or to the warehouse of a large trader. It would be possible for the periodic markets to develop more into a bulking point for agricultural produce - this might lower transaction costs and prolong the marketing season, but it might also replace the role of farmers’ associations.

Periodic markets also provide an opportunity for information dissemination – for instance HIV/AIDS awareness – which is an area that could be explored further.

Table 4.4 noted that the border authorities are currently quite relaxed about informal border crossing, often by Mozambican border communities buying consumer goods in markets in Malawi – but some Mozambican officials consider it a temporary necessity, to be stopped once there is sufficient commercial capacity inside Mozambique. The new ‘feira’, opened between Milange Sede and the border using FARE loan funds, apparently has this objective – and some officials are saying that cross-border transactions will soon need to be restricted, because unless the competition from Malawi is reduced, the Mozambican traders will not be able to repay their loans. More feiras are apparently planned near other popular border crossings in Zambezia and Niassa.

It seems unlikely that constructing more feiras to compete with Malawian markets immediately across the border is the most logical priority – they basically create extra commercial capacity for communities that are already well served. Border areas seem to be being prioritized for investment in order to compete with Malawian markets. This may be at the expense of the interior, where commercial infrastructure is much weaker and yet potential productivity may be higher due to the greater availability of fertile soil. There is a danger of investment priorities being driven by national pride, rather than community need or commercial viability.

Another approach is to ensure that the institutions needed for fair and efficient trade are in place. In both countries the legal system for enforcing contracts and arbitrating in commercial disputes, particularly in rural areas, are weak and don’t encourage confidence. Many Mozambican farmers complained that they did not trust the balances of Malawian traders. With time a weights and Measures enforcement system will be needed in rural areas.
4.10.4 Developing farmer capacity and market linkages

There has been major investment during the last 5 years establishing farmer associations to negotiate with Malawian and Mozambican traders. This work was largely started by CLUSA, but many other NGOs have also adopted the approach. There have been considerable successes, with rapid expansion in the number of associations and consequent increase in human and social capital. However the limitations of the approach need also to be recognized:

- Farmer Associations are only one of a number of approaches to building market linkages, as this section (4.10) indicates;
- Farmer associations seem to provide most value added in remote areas and years when it is neither a complete buyers or sellers market. Thus farmer associations seem to have been less successful:
  (a) Near the border, where marketing (except perhaps for specific high value crops) is easy;
  (b) In many areas in 2001 where maize was sold with rapidly rising prices without the intervention of associations;
  (c) In some cases in 1999 and 2000, where surplus production in Malawi and falling prices meant some traders reneged on deals and could buy easily all they needed without going through associations.
- With the rapid expansion of Farmers Associations there has been a temptation to concentrate on quantity – with the difficult years or 1999, 2000 and 2001 there is a need for some consolidation and concentration on quality.
- Farmers' associations also provide an opportunity to lower transaction costs for a whole range of other interventions, most notably extension. This can provide much more value added, but can divert attention from focusing on a core activity like marketing. Strategic choices need to be made.
- Farmers' associations do not usually include all households or cover every community. There is an important debate about who is included and who is excluded, gender relations and the impact of the association on the wider community.

Many organisations have worked to provide market information, including cross-border information; this seems to have benefited some farmers associations, but it is not clear that the information has so far been more generally useful to farmers or traders. This is discussed further in section 7.3.

4.10.5 Improving trader capacity

The case studies show that:

- There is some increase in Mozambican trader capacity, but that it is still weak and some areas would not be covered without Malawian traders;
- There is a tendency to fix prices if there is no competition from Malawian traders;
- Mozambican traders feel they are disadvantaged by lack of access to seasonal credit;
- Farmers seem to want to sell over a longer period of the year – not just a ‘commercialization campaign’.
- The marketing environment encourages an opportunistic approach by traders, rather than building more stable commercial linkages between farmer, trader and purchaser.
- The Mozambique rural population would like some of the produce sold to be stored locally, so that they can buy it back if necessary later in the season. The current unstable environment does not encourage this.

There is clearly a long term task to support the development of trader capacity able to create a more stable marketing environment.
4.10.6 Conclusion
Agricultural market development in Northern Mozambique needs to be tackled strategically, on a District, Provincial and Regional level, recognizing that
(a) priorities for investment need to be set;
(b) there are many components which need to be complementary;
(c) different stakeholders have different roles;
(d) cross-border marketing needs to be an integral part of a larger picture.

Mozambique should re-evaluate its withdrawal from COMESA in light of its negative impact on cross-border trade with Malawi.