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Commentary Brief
04/2026

Beyond the Gross Margins: Inclusive Minimum Farm-Gate Pricing Mechanisms for Staple Crops in Malawi

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COMMENTARY BRIEF

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Key Messages

- **Maize is a strategic commodity**: Pricing must go beyond cost considerations to incorporate food security, inflation, and social stability.
- **Balance is critical**: Effective farm-gate pricing must simultaneously protect producers and ensure affordability for consumers.
- **Minimum prices must be credible and enforceable**: Without enforcement and market support systems, official prices will continue to be non-binding.
- **Adopt a dual pricing framework**: Use welfare-based pricing for staple crops like maize and market-based pricing for non-staple crops like oilseeds.
- **Strengthen market systems**: Investments in warehouse receipt, market information, and aggregation institutions like ADMARC are essential to stabilize prices and improve farmer bargaining power.

1. Introduction

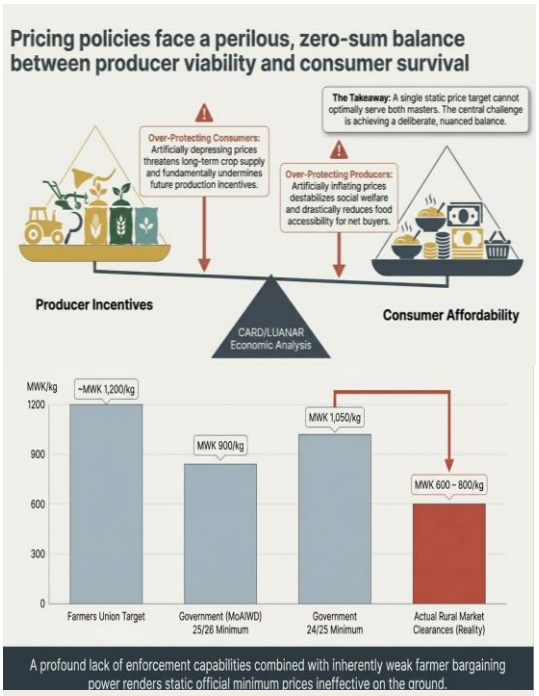
The recent announcement of minimum farm-gate prices in Malawi has sparked widespread debate, particularly around maize pricing, reflecting longstanding tensions within the agricultural sector. While the government set the 2025/2026 maize price at MWK 900 per kilogram to protect smallholder farmers from exploitation, stakeholders such as the Farmers Union of Malawi argue for a higher price of around MWK 1,200 per kilogram, citing rising production costs and the need to sustain farmer livelihoods. However, this controversy is not new; previous pricing regimes have consistently failed to hold in practice, with farmers frequently compelled to sell at significantly lower prices, often between MWK 600 and MWK 800 per kilogram, for instance in 2024/2025, despite the official farmgate price for maize set at MWK 1,050 per kilogram, due to weak enforcement, limited state procurement capacity, and structural market constraints. These persistent discrepancies between official and market prices not only undermine the credibility of policy interventions but also expose deeper issues related to market inefficiencies, trader dominance, and inadequate rural infrastructure. Ultimately, the

[1] Please cite this brief as: PANGAPANGA-PHIRI Innocent, Joseph KANYAMUKA, Wongani CHIRWA, Patrick KAWAYE, Moses CHITETE, and Thabbie CHILONGO. (2026). **Beyond Gross Margins: Inclusive Minimum Farm-Gate Pricing Mechanisms for Staple Crops in Malawi. Commentary** Brief. Center for Agricultural Research and Development (CARD), Lilongwe University of Agriculture and Natural Resources, Bunda College of Agriculture, Lilongwe.

recurring gaps highlight fundamental challenges in the design and implementation of agricultural pricing policies, especially for staple crops like maize, raising critical questions about their effectiveness in balancing producer incentives with consumer welfare and ensuring sustainable agrifood systems.

2. Clarifying the Perspective

Minimum farm-gate pricing in Malawi must move beyond a narrow focus on gross margins and adopt a differentiated approach that recognizes the distinct roles of staple and non-staple crops. Staple crops like maize are not just economic commodities; they are central to food security, macroeconomic stability, and household welfare. As such, pricing policies for maize must balance both producer incentives and consumer welfare, rather than disproportionately favoring one group. A one-size-fits-all pricing model is therefore inadequate for achieving sustainable agricultural and economic outcomes. Moreover, most rural households are net buyers, they become sellers in the early seasons of the harvest and buyers as time goes on in the season.

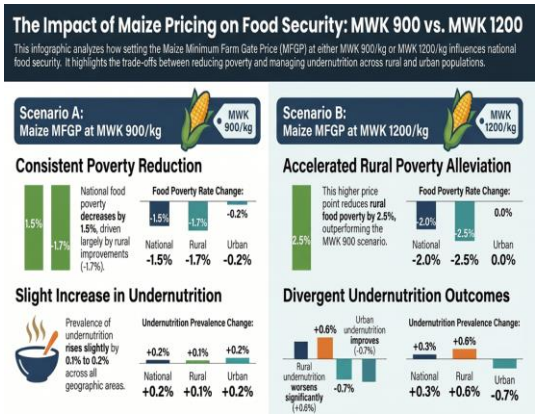


3. Supporting Evidence

Evidence from recent past seasons shows that minimum prices often fail to bind, with maize trading at MWK 600–800 per kilogram in rural areas despite higher official prices of MWK 1050 per kilogram in the 2024/2025. Basically, the actual price of maize in 2024/2025 reflected the price of maize in 2023/2024, which was MWK 650 per kilogram as official minimum farm-gate price. This reflects weak enforcement, limited state procurement capacity, and structural inefficiencies such as poor storage, high transport costs, and trader market power. At the same time, seasonal dynamics exacerbate the problem: prices collapse during harvest due to liquidity constraints and rise sharply in the lean season, hurting consumers. In contrast, non-staple crops such as soya beans, groundnuts, and tobacco respond more effectively to market-based pricing driven by profitability and export demand, making gross margin approaches more appropriate for these crops.

4. Simulating food poverty and undernutrition status under alternative prices

Adapting the International Food Policy Research Institute (IFPRI) food security simulator, the brief further examines the effects of official farm-gate prices on food poverty and undernutrition, highlighting the significant food security implications on the welfare outcomes under alternative maize pricing scenarios. A lower price of MWK 900 appears to significantly reduce food poverty and undernutrition at both national and rural levels, reflecting improved consumer welfare through enhanced food affordability, albeit with potential disincentives for producers. In contrast, a higher price of MWK 1,200 is associated with marginal increases in food poverty and undernutrition in rural areas, suggesting reduced consumer access, even though it may better support farmer incomes. Urban outcomes are mixed, with slight gains in food poverty but worsening undernutrition under the higher price scenario. Overall, the evidence underscores a clear trade-off between producer incentives and consumer welfare, highlighting the need for carefully balanced, welfare-sensitive pricing policies for staple crops.



5. Implied Policy Options

Malawi should adopt **a dual pricing framework**. For staple crops like maize, pricing should be anchored in food security objectives, incorporating cost of production alongside consumer affordability, inflation targets, and strategic reserve management. This should be supported by stronger market interventions through well-funded institutions like ADMARC, alongside investments in storage, warehouse receipt systems, and market information systems to reduce distress sales. Additionally, **the government must ensure that smallholder farmers are adequately protected** from adverse market conditions and price fluctuations. This is essential to enable them to sustain production and remain economically viable in the next agricultural season. For non-staple crops, **pricing regime should prioritize market development, enhancing value chains, improving export competitiveness, and increasing price transparency**, rather than enforcing some rigid minimum prices. Such a differentiated approach would create a more balanced, credible, and welfare-enhancing agricultural pricing system.

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