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Seasonality and Smallholder Market Participation in Malawi

A Baseline Report

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Seasonality and smallholder market participation in Malawi: A baseline report

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Abstract

Smallholder farmers in low and middle income countries often sell the bulk of their marketable surplus immediately after the harvest, when prices are at their lowest. As part of a field experiment that tests the effectiveness of both income and expenditure planning to nudge farmers into delaying sales of cash crops, we collected detailed information about market participation from a sample of about 3,500 semi-subsistence farmers in Malawi. In this report, we use this data to describe the situation at baseline, before the intervention was implemented. The focus is on three crops that are (also) important to obtain cash. We provide a detailed account of sales transactions in 2021 and also inquire about price expectations in the near future. We also provide suggestive evidence that prices obtained in the past influence price expectations.

1 Introduction

Smallholder farmers in low and middle income countries generally produce for own consumption. However, most farmers also need cash for a variety of non-food expenditures. Some farmers therefore produce more than what they expect they will need, and sell a surplus. Farmers may also cultivate crops with the explicit aim to sell—cash crops. As such, most farmers are not strictly subsistence farmers, but also participate in the market, not only as consumers, but also as producers.

When farmers interact with markets, they are also exposed to price risk. In weakly integrated markets where spatial arbitrage is slow and transaction costs to move commodities from low price regions to high price areas are high, prices often exhibit significant variation, both in time and space (Van Campenhout, 2007). This often also means that prices of agricultural commodities exhibit

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significant seasonality, with prices at their lowest immediately after harvest as supply booms, and gradually increasing until reaching a peak in the lean season, just before the next harvest when demand outstrips supply (Gilbert, Christiaensen, and Kaminski, 2017).

These predictable and recurrent price movements suggests that farmers have an incentive to delay sales of at least part of their marketable surplus until prices recover from their post harvest slump. In practice, however, we often see that farmers sell all of their crop immediately after harvest when prices are at their lowest. Often, later in the season, farmers run out of stocks and are forced to turn to the market again, now buying back the same commodities at much higher prices. This has sometimes been referred to as the “sell low buy high” phenomenon (Stephens and Barrett, 2011).

Various reasons have been suggested to explain this apparently sub-optimal behaviour. The most obvious reason would be that farmers simply need the money. For instance Burke, Bergquist, and Miguel (2018) report on a field experiment in Kenya and suggest that credit market imperfections limit farmers’ abilities to move grain intertemporally. Dillon (2021) uses the fact that in Malawi, primary school began 3 months earlier in 2010 than in 2009, and notes that this prompted households with children to sell maize when prices are particularly low. To identify the impacts of liquidity during the lean season, Fink, Jack, and Masiye (2020) offered subsidized loans in randomly selected villages in rural Zambia and conclude that liquidity constraints contribute to inequality in rural economies.

Another often heard reason for the “sell low buy high” paradox is that farmers may simply lack sufficient safe storage space for their crops, making it too expensive to store for longer periods of time. If storage is the main reason why farmers do not engage in intertemporal arbitrage, then reducing the cost of storage technology should delay sales. Omotilewa et al. (2018) indeed find that Ugandan maize farmers that received a low cost, simple, and effective technology to help them preserve their dry crops after harvest with minimal losses due to insects (so called PICS bags) stored maize for a longer period. However, in a study comparing the importance of liquidity constraints and storage limitations, Channa et al. (2022) finds that only the former constrains farmers from selling later at higher prices in Tanzania.

While the above factors will be binding for some farmers, many questions remain unanswered. For example, if liquidity constraints are the main problem, it is unclear why farmers generally sell everything at once, instead of just enough to cover the most urgent expenses. If storage is a problem, it is puzzling that not more farmers form groups to rent storage space, or why in Malawi the Agricultural Commodity Exchange (ACE) faces difficulties filling their warehouses.

In an [ongoing study](#), we test two behavioural explanations related to the inability of farmers to hold on to agricultural commodities longer and fetch higher prices. In one treatment arm we test if expenditure planning is a main determinant of sub-optimal marketing behaviour, and ask farmer to elaborate a detailed budget for the coming agricultural year at the time of harvest. In a second treatment we look at planning on the income side and ask farmers to

commit to timing and sales prices.

In this report, we summarize the baseline data that was collected as part of the ongoing field experiment. A first section provides information about the sample used and the area where the data was collected. We then give some general characteristics of the households involved in the study. Next, we zoom in on prices, with subsections on expectations and past prices. We then provide statistics on crop production, both in 2021 and 2022. We then turn to market participation and income from selling crops. We also have a short section that correlates prices received in the past to price expectations. A last section concludes.

2 Data collection

Data collection took place between May 20th and June 10th, 2022. Using tablet computers and Open Data Kit software, 31 enumerators interviewed 3,534 farmers that were sampled from four districts in the Central and Northern Regions of Malawi (Kasungu, Ntchisi, Dowa, and Mchinji). The study areas are characterized by rain-fed agriculture with a single agricultural season.

We selected farmers that produce maize, groundnuts and/or soybean. Maize is planted early in the year and harvest starts usually in April and proceeds through May. Soybean is harvested somewhat earlier, groundnuts somewhat later. Soybean and groundnuts can be sold pretty much immediately after the harvest; maize needs to be dried first.

To get a nationally representative sampling frame of the smallholders farmers population in Malawi, we rely on the list created by the Ministry of Agriculture for their Agricultural Input Programme (AIP). We used a two-stage sampling procedure where we first sampled villages with the likelihood of a village being selected proportionate to the number of people that live in this village (such that larger villages are more likely to end up in the sample). We then randomly sampled 31 households in each of the sampled villages. Figure 1 gives a sense of coverage and dispersion of the interviewed households.

The focus of the study is on market participation and so the targeted study population consists of farmers that are likely to engage with markets. As such, we included qualifier questions in our survey, where we asked farmers if they were planning to sell maize, soybean or groundnuts during the 2022 season. Restricting our study population to a particular sub-population has implications for the interpretation of the results. For instance, we will see later that we find relatively high proportions of households reporting to sell to the market (Barrett, 2010). Therefore, the particular nature of the study population, semi-subsistence smallholder farmers, needs to be kept in mind when interpreting results, as they may be different from for example predominantly self-sufficient farmers.

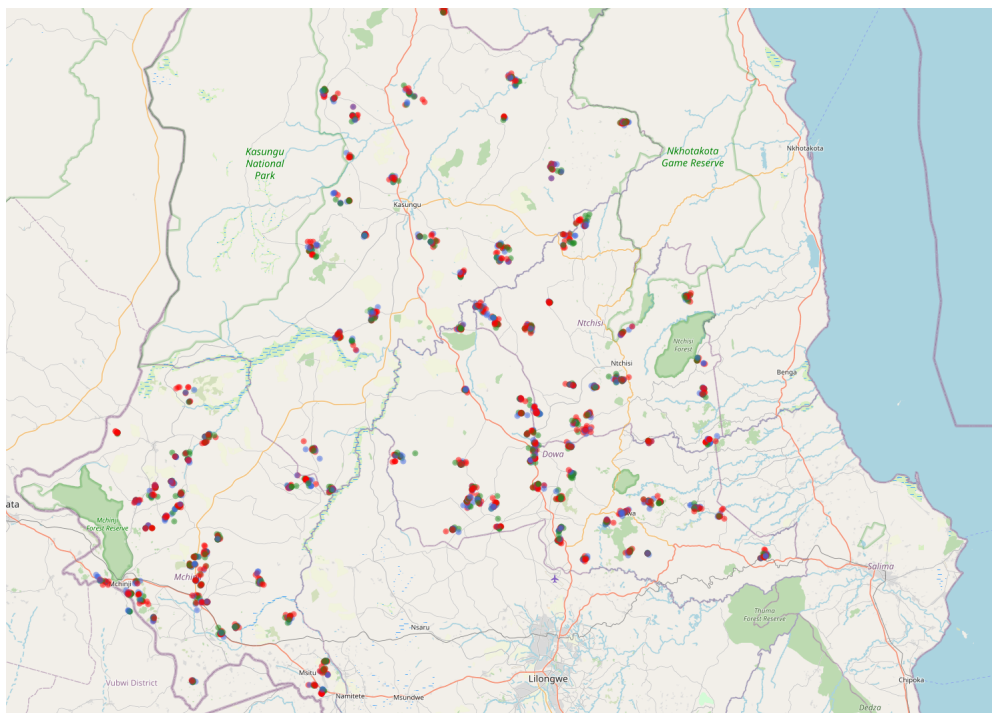


Figure 1: map of study area with sampled villages

3 Farmer characteristics

Table 1 presents a number of summary statistics of sampled households and their heads. Eighty percent of households are headed by men. The average household is headed by a 43 year old with six years of schooling (primary level). The typical household has five members, living in houses of three rooms. Four in every 10 households have their main houses roofed with corrugated iron sheets (as opposed to thatch roofing). We find that the average distance of the households to the nearest all weather road and nearest market is 1 and 4 km respectively.

We also collected information on the households’ access to transport facilities or assets (either through ownership or hire). Results in Table 1 show that households mostly have access to a bicycle (72% of respondents) and ox-carts (60% of the respondents). Ox-carts are particularly important for transportation of harvest from the farms to the market. We also collected information on livestock asset ownership, as these are often a form of savings that can be used as a buffer stock to insulate consumption from income fluctuations (Fafchamps, Udry, and Czukas, 1998). As such, ownership of livestock assets may reduce the likelihood that farmers have to sell early to address liquidity constraints.

Other household characteristics that affect market participation included access to credit, access to storage, membership of cooperatives, and whether farmers had already promised part of the 2022 harvest to a buyer. Table 2 shows that among the surveyed farmers, about 40 percent indicate that they have access to credit, and that less than a quarter had outstanding debts averaging MWK 57,000 to repay after harvest. With regards to access to storage, 60 percent of the households reported that they have access, of which half indicated that the storage was crop specific. We also find that, while farmer participation in cooperatives is limited, a moderate share (40%) have access to storage space provided by the cooperative. Lastly, we look at the proportion of farmers that commit part of their crop to buyers before harvest — a scenario that may often lead farmers to sell at unfavorable price conditions, or reduce the amount of harvest that farmers can sell after harvest. We find that only a negligible share of farmers (8%) had already promised (part of) the 2022 crop to buyers prior to harvest.

4 Prices

In this section, we take a detailed look at prices, given their importance in deciding when and how much to sell. We first look at price expectations in the near future and then report on prices that were received during transactions in the year preceding the 2022 harvest (May 2021-May 2022).

4.1 Price expectations

As part of baseline data collection, we asked questions about price expectations in the coming year (May 2022-May 2023). In particular, we asked what price

Table 1: Household characteristics

	Mean	Std dev	N
<i>Household head</i>			
Household head is male (1=yes)	0.791	0.407	3,534
Age of household head (years)	43.426	14.831	3,414
Schooling of household head (years)	6.329	3.489	3,427
Roof of main building is grass thatch (1=yes)	0.609	0.488	3,534
<i>Household characteristics</i>			
Roof of main building is corrugated iron (1=yes)	0.39	0.488	3,534
Household size (number of people)	5.043	1.992	3,530
Number of rooms in the house	3.202	1.178	3,534
Distance (kms) to nearest all weather road	1.308	3.433	3,346
Distance (kms) to nearest market	4.107	4.78	3,243
<i>Transport</i>			
Household has access to bicycle (1=yes)	0.719	0.45	3,534
Household has access to saloon car (1=yes)	0.218	0.413	3,534
Household has access to pick-up or lorry access (1=yes)	0.221	0.415	3,534
Household has access to ox-cart (1=yes)	0.595	0.491	3,534
Household owns a motorbike (1=yes)	0.11	0.313	3,534
<i>Livestock assets</i>			
Number of bulls/oxen/steers owned by household	0.123	0.653	3,533
Number of cows or heifers owned by household	0.128	0.799	3,532
Number of calves owned by household	0.053	0.495	3,533
Number of pigs owned by household	0.708	1.943	3,534
Number of goats owned by household	1.241	2.569	3,533
Number of sheep owned by household	0.055	0.519	3,531
Number of chicken owned by household	4.743	6.509	3,532
Number of ducks owned by household	0.282	1.501	3,533

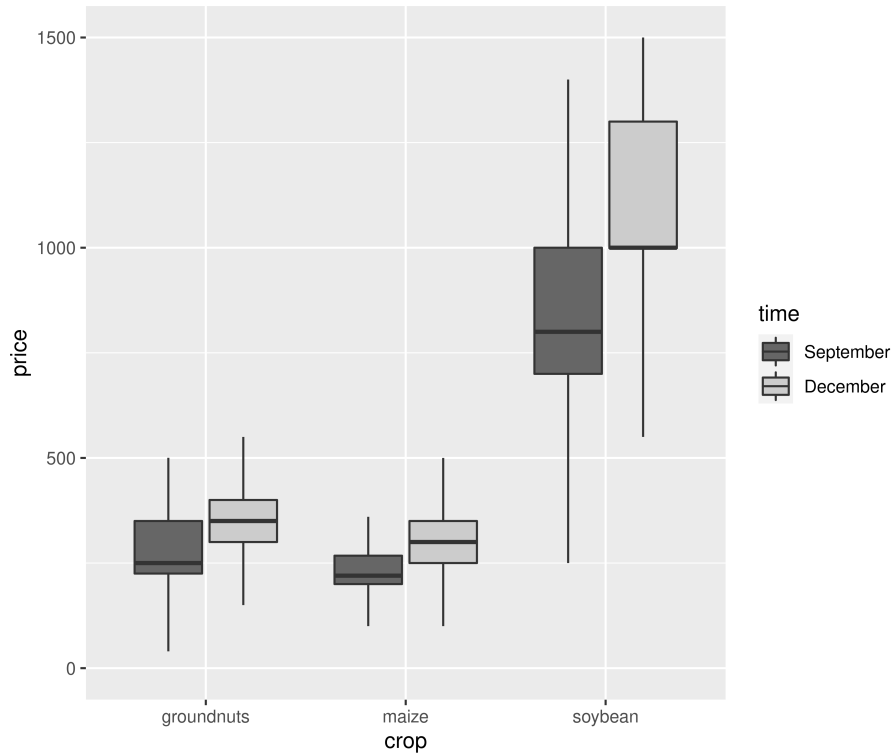


Figure 2: Price expectations for 2022

respondents think a farmer will receive for selling maize at the nearest market, in early September of 2022 (the beginning of the school year). This was asked for maize, soybean and for groundnuts in appropriate units (kg for maize and soybean, debe for groundnuts). We repeated this question, but for late December of 2022 (at the new year).

Figure 2 shows price expectations for the three crops included in the study (here expressed per kg of the crop). As can be seen, farmers expect that prices increase over time. The increase of the expected price over the course of only a few months is substantial. For example, for maize, the increase in mean expected price is 32 percent. For soybean and groundnuts, this is 28 percent and 25 percent respectively.

In addition to asking about prices of the three crops, we also asked about prices from a few other items. For instance, we asked about the price of a healthy 2-year old female goat. Interestingly, and against our expectations, we also found that the price of a goat increased substantially over time. While a goat was expected to be sold at 28145 Kwacha in early September, it increased to 31439 Kwacha towards the end of the year. Note, however, that the increase is only about 11 percent, which may reflect expectations about general price

inflation.

We further asked farmers to quote expected prices for fertilizer at the end of December, an important input for smallholder maize farmers used at that time. We also asked what they expect to pay for hiring labour to prepare 1 acre of farmland for maize production in September, which is when farmers prepare fields. Mean value for the former is 62411 Kwacha, and 23208 Kwacha for the latter.

4.2 Price seasonality in the previous season

In addition to price expectations in the future, we also asked about transactions that occurred after the harvest in the previous season (May 2021 - May 2022). In particular, we asked farmers to report if they sold any of the three crops under consideration. If they reported sales, we asked how many separate transactions occurred and for each transaction, we recorded details such as the amount sold and price received.

The top panel of Figure 3 shows the evolution of the average prices that farmers received for their crops.¹ The middle panel of Figure 3 shows price indices with as base the month of May 2021. This is the month following the harvest for most of the crops (although groundnuts are harvested somewhat later) and it also coincides with the time the survey was carried out in 2022. The figure shows that over the course of the year, prices for all commodities have been increasing. After only 4 months, prices of groundnuts already increased by 29 percent. After 6 months, in November 2021, average prices of all three crops were about 35 percent higher than immediately after the harvest in May. By December, prices of soybean had more than doubled and were still on the rise.

The bottom panel shows price indices with as base the month of September 2021 and is included to facilitate comparison with the price expectations presented in Section 4.1. It shows that between September 2021 and January 2022, average soybean prices increased by 97 percent. However, as mentioned in Section 4.1, farmers expect a price increase in 2022 of only 28 percent. For groundnuts, prices remained fairly stable, increasing by only 5 percent, while expectations are 25 percent. For maize, prices increased steadily by over time, by 26 percent. Farmers expect an increase of 32 percent for maize.

5 Crop production

The average household in our sample produced 1328 kg of maize, 152 kg of groundnuts and 292 kg of soybean in the 2021 agricultural season. Over an entire year and aggregated over all farmers in our sample, this amounts to 230 metric tons of groundnuts, 600 metric tons of soy and almost 4500 metric tons of maize. The top panel of Figure 4 shows how this production is distributed over

¹Prices for groundnuts and maize are in kilograms. For soybean, they are per 250 gram to keep the prices on a comparable scales.

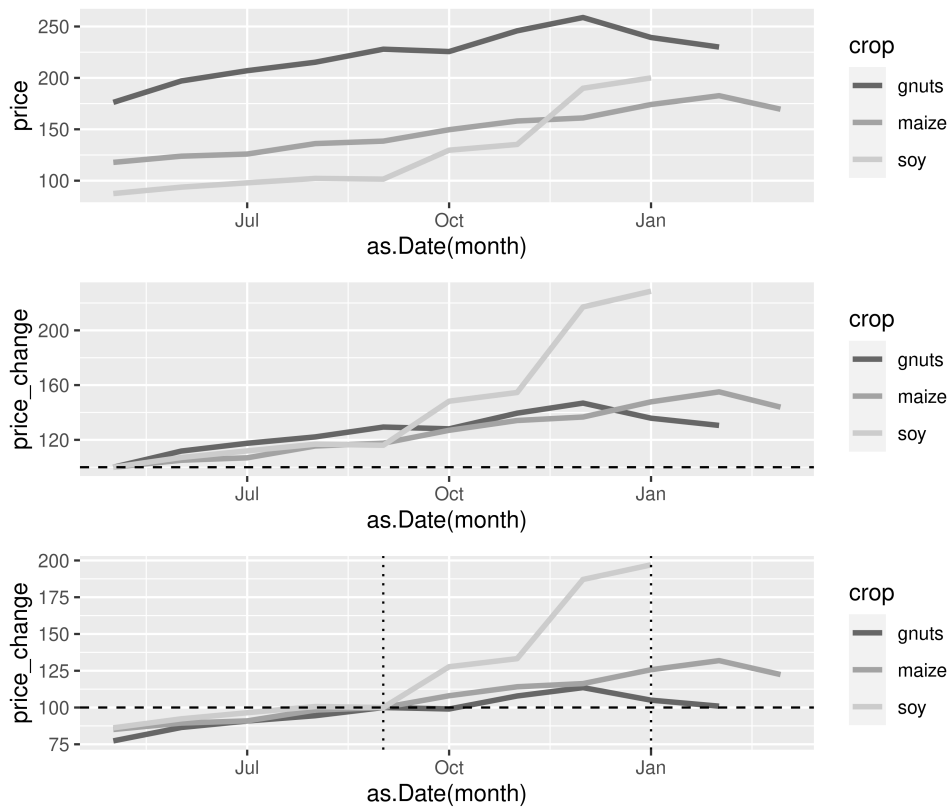


Figure 3: Evolution of prices received by farmers in 2021-2022

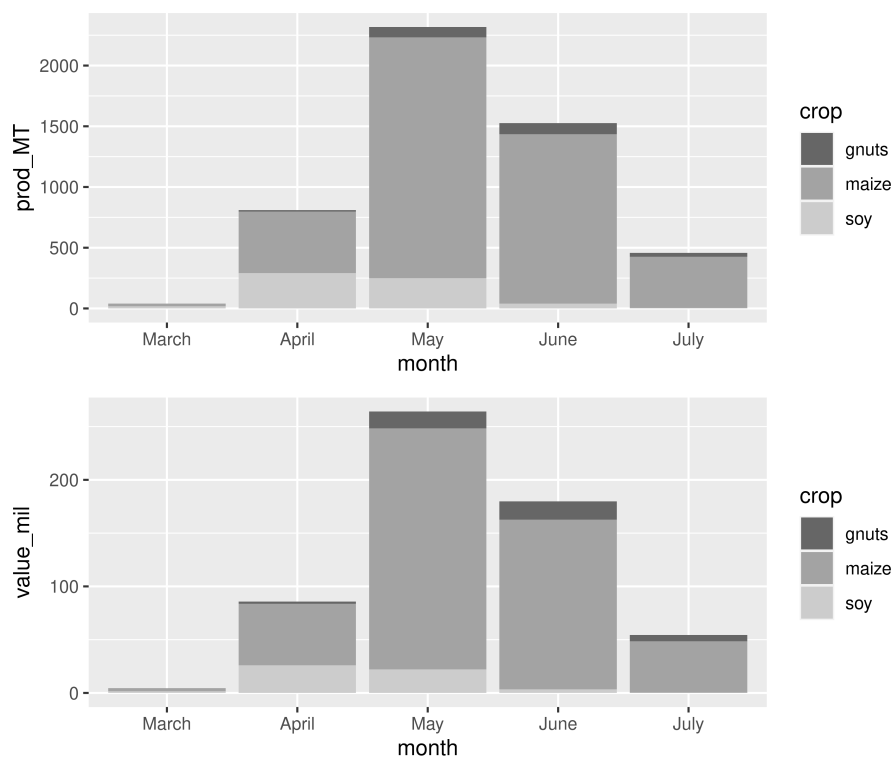


Figure 4: Crop production in 2021

the different months. Most soy is harvested in April and May. Maize harvesting starts in April but most harvest takes place in May and June. Groundnuts is harvested last.

The graph in the top panel shows that in quantities, maize is a very important commodity. However, the value-to-weight ratio of these crops differs substantially, and so to get a different perspective of the relative importance of the three crops, we multiply quantities with prices to get an idea of the value of production. To do so, we simply multiply quantities with the average price of the crop received in 2021. Results (in millions of Malawian Kwacha) are in the bottom panel of Figure 4. We see that groundnuts become more important, while the share contributed by soy bean becomes smaller. However, maize remains, by and large, the most important crop among smallholder farmers in our sample. Note that the value of harvest is a rather theoretical concept. Actual income of the household will depend on how much of this is sold, and especially, when it was sold given potentially large seasonality in prices. The next sections look into these aspects of smallholder farmer behaviour.

We also collected information on production in 2022. As the survey took place around the end of May, maize, and especially groundnuts, were often still

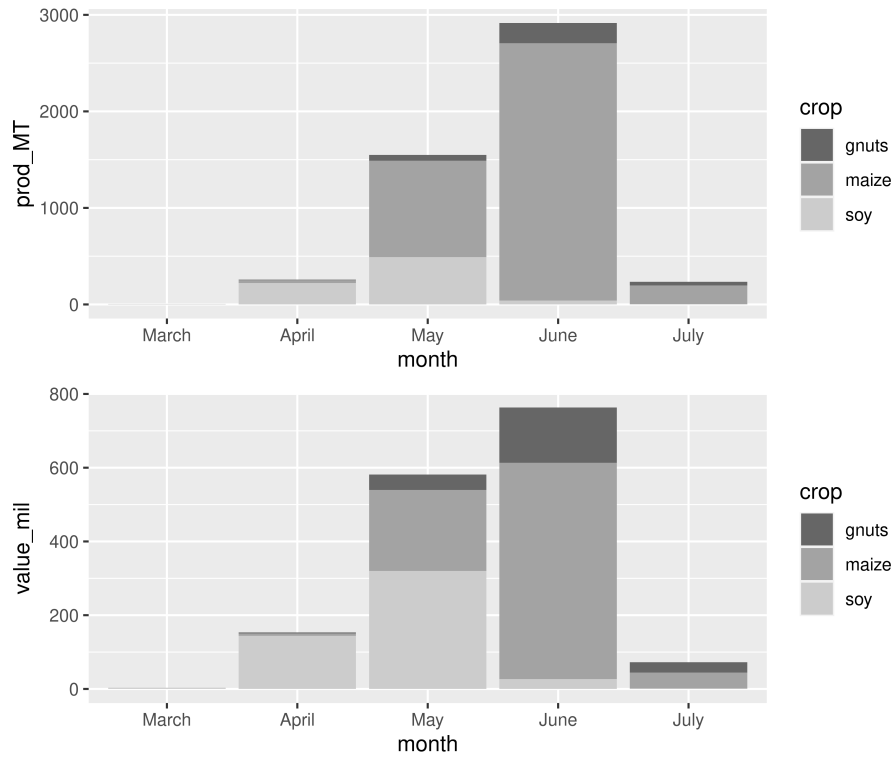


Figure 5: (Expected) crop production in 2022

in the field. However, we also asked farmers to give an estimate of what they expect to get from fields that still needed to be harvested. Aggregating over all households in our sample, we find total production to be about 310 metric tons of groundnuts, 770 metric tons of soy and 4000 metric tons of maize. Results broken down by crops are in the top panel of Figure 5. We also express production in 2022 in value terms (in millions of Malawian Kwacha) in the bottom panel. To do so, we use current prices, which are substantially higher than prices reported last year during the same period.

The figure reflects the fact that rains started late in 2022, and so most of the maize and groundnuts still needed to be harvested in June. Soy sells currently at more than 600 Kwacha per kg, which is reflected in a much larger share in total value. However, also groundnuts and maize prices are multiples of last year, resulting in much larger overall values. Compared to 2021, however, it is clear that the market evolved in such a way that in value terms, maize has become much less important.

Table 3: Market participation by crop

	sold at least once	sold only once	sold immediately post-harvest	single transaction immediately post harvest
maize	50	62	45	22
gnuts	70	78	63	42
soybean	89	84	85	67

note: sold is percentage of farmers who reported growing the crop, other measures are percentage of households who reported selling the crop. Sold immediately post harvest is the share of households that made at least one transaction in the first three months post harvest.

6 Smallholder market participation

We find reasonable levels of market participation by the farmers in our sample for the three crops. For instance, of the 3534 farmers interviewed, we find that 82 percent reported at least one sales transaction. But there are also signs of sub-optimal sales behaviour. For instance, in the face of uncertainty of price behavior in both directions, it seems farmers often sell everything in one go: of all the farmers that reported market interactions, 37 percent reports only a single transaction.

Table 3 provides detailed information for each crop separately. We see that of the 3452 farmers that reported to have grown maize in 2021, half also reported that they sold at least part of this. Soybean is more market oriented. Here, from the 2106 farmers that reported cultivating soy bean in 2021, almost 90 percent reported that they also sold soy. We also see large shares of households that report selling a particular crop in a single transaction. This seems to be especially the case for soybean, where more than 8 out of 10 households report to have sold the entire marketable surplus in one go.

The third column in Table 3 provides a measure of early sales. We have defined early here as within three months from the harvest date of the crop. We find that 45 percent of households report at least one maize sale transaction within the first three months post harvest (when prices are generally still low - see Section 4.2). Postponing sales to get a higher price seems to be even less common for soybean. Here, 8 out of 10 households reported at least one transaction within three months from harvest.²

²If we look at early sales at the level of the individual transactions before aggregating at the household level, we find that: 35 percent of the maize transactions happened within the first three months post harvest; 57 percent of the groundnut transactions happened within the first three months post harvest; and 80 percent of the soybean transactions happened within the first three months post harvest.

Table 4: Crop disposal

	maize		soybean		groundnuts	
	percent	price	percent	price	percent	price
neighbors	9	160	2	456	5	210
market	20	144	18	397	7	229
aggregator	28	138	29	371	31	211
trader	42	142	51	376	56	220

In the last column, we report the share of households that reported a single transaction and this transaction happened within three months after the harvest. We see that 2 out of three households sell soy in a single transaction when prices are still low.

Smallholder farmers dispose of their crops through four channels. They either sell directly to neighbors, friends or relatives, often within the same village. They can also choose to take their product to a market in their proximity. Furthermore, in villages, there are usually some small traders who aggregate commodities for further sale to larger traders. Finally, there are the itinerant traders from outside of the village who visit farmers and buy at the farm gate.³

Table 4 provides some summary statistics on crop disposal. We see that most transactions involve sales to itinerant traders. This is especially the case for groundnuts. Aggregators are also important. One in five maize transactions involve farmers traveling to the market.

The table also shows that selling to the market is generally most profitable. However, when farmers directly sell to markets they can get a higher price, but also must incur a transport cost (Fafchamps and Hill, 2005). The second most profitable option is selling to middlemen at the farm gate. Selling to neighbors is more profitable for maize and soybean, but not for groundnuts.

We further asked who made the decision with respect to sales of the three commodities. Gender patterns in decision making related to agriculture, and marketing of crops in particular, has received considerable attention in the context of women empowerment in agriculture (Alkire et al., 2013). Households are viewed as consisting of different individuals whose preferences do not necessarily align, and norms and customs may result in some crops or activities being more in the domain of one of the genders (Peterman et al., 2011). However, recently, the focus on non-cooperation and bargaining has shifted somewhat, and joint ownership and decision making has become more prominent in intra-household research, often through the lens of common pool resources management (Doss and Quisumbing, 2020; Doss and Meinzen-Dick, 2015).

³There may be other destinations for crops, such as direct sales to schools or prisons. However, the four destinations we consider are by far the predominant ones.

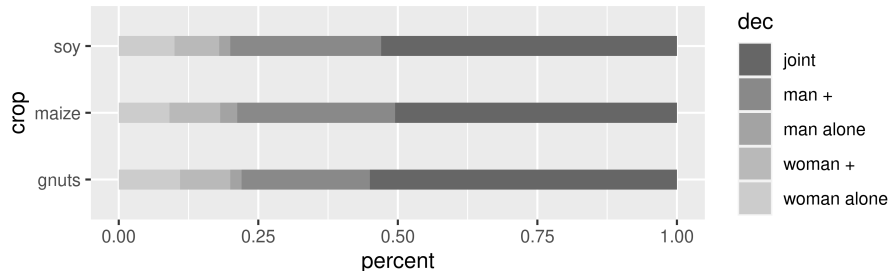


Figure 6: Who decided to sell?

We look at who makes the decisions related to the marketing of crops in Figure 6. Categories included instances where 1) the woman decided alone without consulting anyone else in the household (woman alone), 2) the woman decided alone but after consulting the husband and/or others in the household (woman +), 3) the man decided alone without consulting anyone else in the household (man alone), 4) the man decided alone but after consulting the wife and/or others in the household (man +), 5) it was a joint decision (joint).

We see that husband and wife generally take the decision to sell jointly. Men also often sell alone, but after consulting with the wife. Men almost never sell unilaterally, while women do. In line with Doss (2002), we do not find that any of the three crops we consider are typically man’s crops or women’s crops.

At the time of the survey, traders had already started buying soy bean and prices were attractive. As a result we found that many farmers already sold (part of their) soy bean. In particular, of those farmers that already started harvesting soybean, 76 percent indicated that they already made at least one sales transaction. We further found that 10 percent of those that already harvested sold more than 80 percent of what they had harvested. For those who already sold at least once, the average price they received was 600 Kwacha, which is substantially lower than expected prices in September and January (Figure 2). For those who sold virtually everything already, the average price they got was also 592 Kwacha.

7 Income from cash cropping

In this section we look at individual sales transactions in the previous season. In the top panel of Figure 7, we report average quantities sold by households in each month from the harvest onward. Interestingly, we find that quantities marketed are surprisingly stable over time.

In the bottom part of Figure 7, we first multiply quantities by prices received and then take averages per month. It suggests that farmers would have gained if they would have held on longer to soybean instead of maize.

For each transaction, we also asked what the proceeds of each transaction

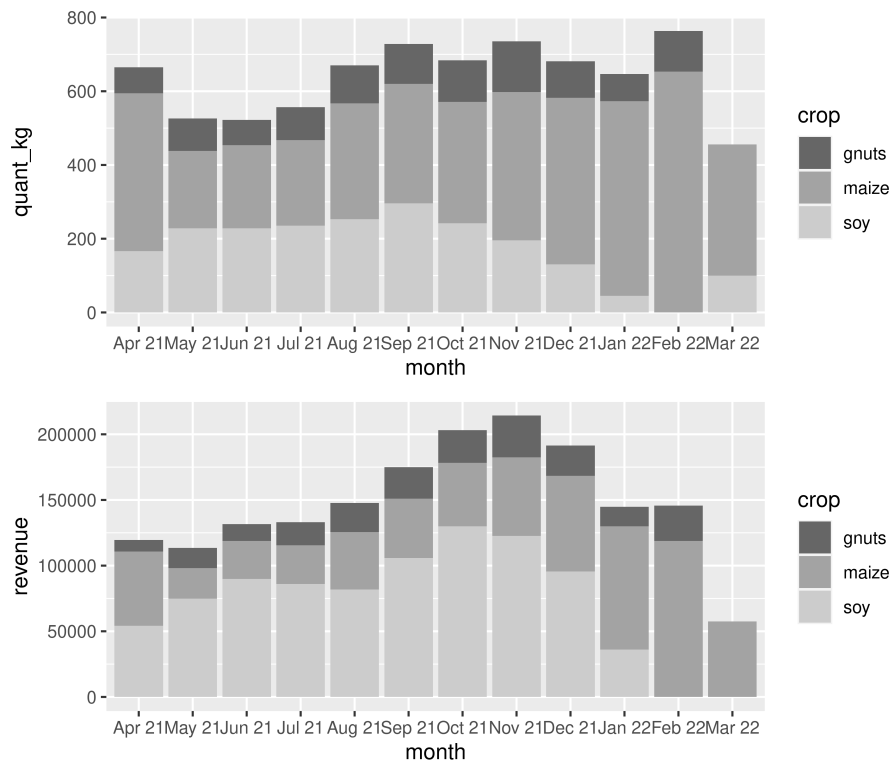


Figure 7: Quantities sold and revenue

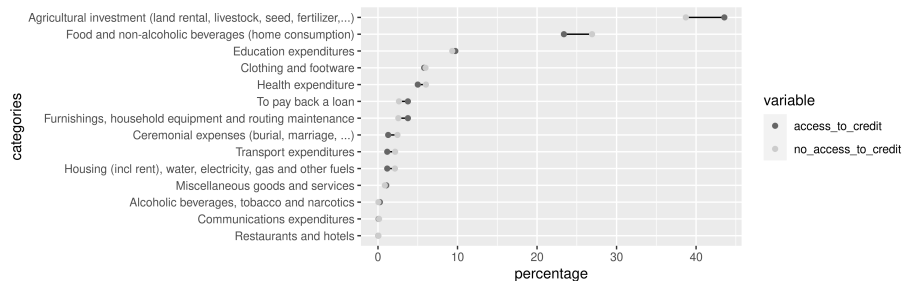


Figure 8: Use of proceeds of sales

were mainly used for. Results are summarized in Figure 8. We differentiate between transactions made by households that reported to have access to credit and households that report not to have access to credit. Proceeds from sales are mostly used for agricultural investment. In Malawi, this is generally for inorganic fertilizer. Interestingly, it are especially farmers that have access to credit that use proceeds for agricultural inputs. This may indicate that credit amounts are insufficient to cover the entire cost of inputs, or that the cost of credit is larger than the returns to intertemporal arbitrage.

Selling for immediate home consumption is also important. Here there are signs of distress sales, where farmers that can not borrow to finance consumption report higher incidence of sales. About 10 percent of sales is made to cover education expenses. About 5 percent of transactions is used to pay for health related expenditures and also here, farmers that do not have access to credit sell more. Unsurprisingly, farmers that have access to loans are also more likely to sell crops to pay back loans.

8 Correlation between past prices and price expectations

In this section, we investigate the relationship between price expectations and prices received in the past. To do so, we relate the average price that the farmer received in the previous season to price expectations in the next season using OLS models. To enable comparisons across crops, we use natural logarithms of both expected prices and prices received in the past, such that results can be interpreted as elasticities.

Table 5 starts by correlating overall price expectations (defined as simple average over expected price in September and December) to the average price that the farmer reported to have received over the preceding season. We see that there is a significant correlation between prices received in the past and price expectations for maize and for groundnuts, but not for soybean. For example the first column of Table 5 shows that farmers that sold at double the price (100 percent) than other farmers report expected prices that are about 10

Table 5: Correlation with average prices received in the past season

	pooled	maize	groundnuts	soybean
Average expected price	0.076*** (0.014)	0.099*** (0.023)	0.180*** (0.026)	0.008 (0.017)
Expected price in September 2022	0.083*** (0.015)	0.104*** (0.024)	0.202*** (0.027)	0.010 (0.018)
Expected price in December 2022	0.073*** (0.015)	0.100*** (0.025)	0.161*** (0.026)	0.010 (0.018)
Number of observations	4622	1702	1078	1842

Note: Standard errors are clustered at the household level. *** denotes significance at the 1 percent level, ** at the 5 percent level, and * at the 10 percent level.

percent higher than what other farmers expect. The second column shows that the elasticity is almost double for groundnuts. We do not find that price expectations for soybean are significantly correlated with average price expectations in the next season.

The table also shows correlation at prices at particular points in time in the future (instead of simple averages). For maize, the relationship between past prices and expected prices seems stable over time: farmers that received higher prices in the past expect higher prices in both September and December and the elasticity is the same. For groundnuts, a change in the average price received in the previous season is correlated to a larger price increase in the expected price in September than in December. The independence of price expectations and past prices of soybean is confirmed.

9 Conclusion

We provided descriptive statistics for a sample of smallholder farmers in Malawi. The focus was on three crops—maize, soybean, and groundnuts—for which farmers generally produce a substantial marketable surplus.

The data suggest transactions for maize, soybean and groundnuts generally take the form of spot transactions, with only few farmers reporting to be part of cooperatives and very little pre-commitment of selling crops to a particular buyer.

Looking at price expectations, farmers predict substantial price increases

over time. The fact that farmers do seem to expect a considerable increase in prices over time suggests that farmers are at least aware of the fact that they could make more money by holding on to stocks longer. When looking at prices received in the past, we also see prices increase over the course of the year. However, there is considerable heterogeneity, with soybean more than doubling, while the increase in the price of groundnuts is much more muted.

Farmers often sell within the first three months post harvest and sell the entire marketable surplus in one single transaction. This seems to be especially the case for soy bean, which is generally cultivated as a cash crop. Ironically, prices of soybean have more than doubled, but the largest price increase happened only from November onward, when most of the soybean farmers had already sold their marketable surplus. Provided that price movements of soybean follow a similar pattern in the future, soybean farmers can substantially increase their revenue by waiting longer before selling, or selling smaller quantities at different points in time. Unfortunately, we also find that soybean farmers do not use past price dynamics as a guide for their price expectations (while maize and groundnut farmers do). Initial data on sales in 2022 also indicate many farmers already sold soybean immediately after harvest.

Production in 2021 was heavily skewed towards maize. As prices of soybean and groundnuts were low, maize also dominated in value terms. This year, even though rains were late, quantities remained generally the same. However, prices for soybean and groundnuts are currently good, and prospects are also favorable. This likely means that maize will be less important in value terms this year.

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