

Chapter 1

Towards Improvement of Food Security and Livelihoods in Malawi: An Assessment of Policies, Strategies and Institutional Arrangements^a

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1. INTRODUCTION

Agriculture plays a major role in the economy of Malawi. It employs nearly 90 percent of the population of almost 11 million, and generates at least 35 percent of the gross domestic product (GDP) and 90 percent of national export revenue. In terms of standard of living as measured by the Human Development Index, UNDP's "2004 Human Development Report" ranks Malawi as 165th out of 177 countries. Rapid population growth and narrow resource base are among the most serious challenges facing Malawi's economy.

Sustainable livelihoods and food security as well as achieving improved nutrition status require, as a precondition, an enabling policy framework and environment (A livelihood comprise the assets, activities and the access to these mediated by policies and institutions that together determine the living gained by the individual or household (Ellis 2001)).

The report assesses policies at different levels (macro-economic, sectoral, cross-sectoral and sub-sectoral strategies and institutional issues) and recommends policy, strategy and institutional measures so as to significantly improve the livelihoods and food security status of the majority of Malawians.

2. POLICY ASSESSMENT

2.1 Government Macro-Policy Framework

The Malawi Government has adopted a number of policies related to food security and nutrition and livelihoods (see Table 1 in the Annex 1).

The following sections assess some of these policies at the macro, cross-sectoral and sectoral

^a Tsutomu Takane, ed., *Agricultural and Rural Development in Malawi: Macro and Micro Perspectives* (Chiba, Japan: Institute of Developing Economies, 2005).

and sub-sectoral levels.

Chilowa and Villegas (1997) extensively reviewed the Structural Adjustment Policies (SAPs) and conclude that SAPs were designed to give incentives for the production of tradeables (mainly tobacco), rationalise Government taxes and expenditure, and strengthen key sectors and institutions in ways to realise sustainable macro-economic growth. Traditionally, the World Bank mainly concentrated on project financing approach. Chipeta (1996) argues that the shift from the World Bank's project lending to funding policy reforms has not enhanced the productive capacity of the poor nations. In fact the gini ratio during the adjustment period deteriorated from 0.48 in 1968 to 0.61 in 1995 (Chirwa et al. 1997) implying a widening disparity in income distribution and worsening food insecurity.

The Bank's policy towards SAPs, therefore, has led to the **prescription of wrong policy packages** that had resulted in deepening poverty status of Malawians.

These SAP measures had resulted in varying economic and social impact on different groups in the country. SAPs had limited effects on altering the composition of gross domestic product. For instance, in the period prior to SAPs, the agricultural sector contributed 40 percent to gross domestic product. The share of the agriculture sector in gross domestic product marginally decreased to 36 percent in the adjustment period from 1981-1996. What had changed significantly in the agriculture sector was the structural and relative importance of the estate sub-sector and the smallholder sector. In the pre-adjustment period the smallholder sub-sector produced 84 percent of agriculture while the estate sub-sector only contributed 16 percent. However, in the adjustment period the share of smallholder agriculture declined to 76 percent while that of the estate sub-sector increased to 24 percent. This has had adverse implications on landlessness while the land utilisation on estates remained low (at least 24%).

Similarly, the share of the manufacturing sector has not changed significantly. At independence, the manufacturing sector only accounted for 8 percent of GDP, but improved to 12 percent in the 1970s and remained stable at 13 percent in the adjustment period. The distribution and service sectors have remained stable and contributed 34 percent to GDP in the pre-adjustment and adjustment periods. However, the share of central Government in GDP increased from 9.4 percent in the pre-adjustment period to 14 percent in the adjustment period mainly because of overblown bureaucracy and corresponding increase in recurrent expenditures.

SAPs have not only failed to alter the structure of production, but economic growth has also been erratic characterized by a boom and bust performance. As observed by Kaluwa *et al.* (1992), following 1982, the economy regained positive growth but experienced several negative growth rates within the adjustment period. Notably, real gross domestic product fell by 3.3 percent, 7.9 percent and 12.4 percent in 1988, 1991 and 1994, respectively. Overall, the performance of the economy in terms of expansion of the national income worsened in the adjustment period compared to the growth in GDP in the pre-adjustment period.

Using real per capita gross domestic product measures, real per capita income declined between the two periods. In the pre-adjustment period, the average growth in per capita real gross domestic product was 5.2 percent per annum but declined to an average rate of 1.5 percent per annum since structural adjustment programmes were implemented in 1980. The increase in

gross per capita income in nominal terms was highly deceptive due to income erosion effect of mounting inflation during the adjustment period.

Looking at per capita income and boom and bust growth in GDP, per capita income has been falling. Our contention here is that structural adjustment has not led to increases in per capita incomes, which was also caused by inability of policy makers to address very high population growth then of 3.2% per annum.

In the past, the negotiation process that normally goes into the design of SAPs between the World Bank and Malawi Government did not involve public consultations with stakeholders and all affected sectors of the economy. The Government negotiation team drew staff from three key departments: Ministry of Finance, Ministry of Economic Planning and Development and the Reserve Bank of Malawi. Information from these key institutions revealed institutional constraints for effective and informed discussions of the SAP document. Firstly, the document was not internally circulated for discussions within the departments. Secondly, there was no common understanding of the programmes among the three institutions in the Government's negotiation teams. Thirdly, the negotiating teams lacked the skills in policy analysis and capacity to develop alternative programmes and make a sound judgement on the World Bank sponsored adjustment programmes. For example, Policy Framework Papers which review the economic and policy environment were prepared by World Bank and IMF staff, with Government economists being mere providers of information and acceptors of policy package.

In addition, line ministries, departments and the private sector that are directly involved in the implementation of the programme were not consulted. For example, there were no effective fora for consultation with the private sector and trade unions on structural adjustment programmes prior to its acceptance by Government of Malawi (GOM) and implementation. According to the Malawi Chamber of Commerce and Industry, consultations only occurred after the programmes had been implemented and when negative effects had been felt by the business community. In some cases, these consultations gave problems to the government because sometimes the private sector demanded policy reversals. The other problem with the then existing Government-Private Sector consultation was that Government representation was sometimes at junior management level and resolutions at the meetings were inconclusive. In effect, over the years these consultations had been on an *ad hoc* basis and had become less frequent (Ministry of Commerce and Industry 1995). As a result, the few government officials involved in the negotiations panicked when they received the yellow document and passed the document without really appreciating the policies and conditionalities therein. This created resistance in other ministries to implement policies which effectively conflicted with their priorities.

However, apart from institutional constraints, the World Bank (1996b) argued that there was lack of clear and unequivocal political commitment to poverty alleviation, liberalization in the smallholder sector, and broad-based private sector development. In addition, there had been delays in acting on agreed SAP measures. This situation underscores the weak administrative and institutional base in policy planning and implementation and lack of adequate consultation with the various stakeholders in the economy.

Both World Bank and Government officials have conceded that to a greater extent, structural

adjustment programmes have not been successful in Malawi, yet they have continued to be implemented based on the same principles. According to World Bank and Malawi Government officials, the effective implementation of SAPs had been constrained in several ways, leading to their failure to yield tangible benefits to the economy.

First, the misconception about SAPs had resulted in resistance by interest groups to implement and accept structural adjustment programmes.

Secondly, the Government lacked commitment to implement agreed upon structural adjustment programme measures in a timely and complete manner. This had resulted in policy reversals and delaying the implementation of complementary measures. For example, the removal of fertilizer subsidy was halted under Structural Adjustment Lending (SAL II) in 1985 as the Government's response to the fall in the utilization of fertilizers among smallholder farmers. The fertilizer subsidy was completely removed in 1994. This created problems of timing because most farmers had inadequate resources to purchase inputs as a result of a drought. Furthermore, there had been pervasive resistance to reduce the size of the civil service and the parastatal sector as strategies for reducing Government deficit spending.

Thirdly, there were serious problems of dosaging and sequencing of structural adjustment programmes. This impacted adversely on the operation of the market mechanism. For instance, as Kaluwa (1992) observed, while the price decontrol programme was completed in 1985, monopoly rights in the industrial sector were abolished in 1988 and entry into manufacturing activities remained regulated until 1992. Hence, the price incentive that was created by price liberalization did not facilitate the development of the private sector and the inflow of capital from foreign investors. In another instance, the Government liberalized the exchange rate system in 1994 amidst problems of agricultural production resulting from a drought and at the time the country had inadequate foreign exchange reserves.

Fourthly, both the Malawi Government and the World Bank rushed through the process of designing and implementation of structural adjustment programmes. The Government, which was usually in dire need of the financial resources, readily accepted the design of structural adjustment and latter failed to implement the agreed measures. Apart from the need to have an immediate access to financial resources from the bank, there were institutional and human resource constraints in the Government machinery.

Finally, the implementation of structural adjustment programmes had been affected by external factors over which Malawi had no control. As the World Bank (1996b) acknowledges, recurrent and external shocks had hampered the effectiveness of the policy measures. These shocks included adverse terms of trade, high interest rates at the international financial markets, continued closure of Malawi's shortest external transport link through Mozambique and natural factors such as drought, floods and soil/environmental degradation. This had led to policy reversals that involved short-term solutions to the shocks and delays in the implementation and sequencing of policy measures. Consequently, this resulted in the diversion of policymakers' attention from medium-term and long-term strategies, hence putting the adjustment process off track.

The conclusion to be discerned from this assessment is that the donor-dominated structural

adjustment programmes had not impacted favourably on livelihoods and food security situation and the general welfare of the poor, they failed to address the preconditions for food security (access to clean water, clinics, education opportunities and other social and support services) and the decision-making process was flawed, hence adversely affecting the availability and adequacy, stability of and access to food supplies and sustainable livelihoods.

2.2 Exchange Rate Policy Reforms

The exchange rate, if used in conjunction with other measures, is a powerful instrument to bring about more long-term changes. As the exchange rate appreciates, exportable goods become cheaper and thus discourage its competitive production. On the other hand, competitive imports flood into the country. Likewise, domestic employment declines while inflation rises as the demand for non-tradeables increases. Income distribution may become more unequal and the poor and the food insecure, particularly women who are engaged in the production of non-tradeables, especially for Malawi, are particularly hard hit. Conversely, devaluation has been favourable for Malawi's export sector particularly tobacco, tea, sugar and cotton. Overall, devaluation, as a policy instrument, has clearly shown negative impact to Malawi due to limited export base of the economy.

A conclusion from this assessment is that for Malawi, devaluation has resulted in increased cost of production and has been one of the main causes of domestic inflation. The prices of basic commodities, especially food, have increased, and Government expenditures on basic services such as health and education have, until recently, fallen. Real wages and employment have been reduced, especially for low-income households. The rural poor have also been hard hit in this vicious circle of poverty. Food price increases have forced both the urban and rural poor to reduce their consumption or switch to lower quality foods. In fact, the per capita agricultural production and per capita food consumption between the two adjustment periods has declined.

2.3 Financial Sector Policy Reforms

The new Banking Act of 1989 opened up the financial system to new competition. Under the Banking Act three existing institutions and four new entrants were granted commercial banking licenses. This resulted in a decline in monopoly power of the two established commercial banks (Chirwa 1996). The index of market concentration as measured by the Hirschmann-Herfindahl index fell by 20 percent between 1987 and 1994. Furthermore, bank capitalization and savings mobilization increased while financial intermediation declined. Bank profitability improved and there has been sectoral shift in credit towards the trading and manufacturing sectors away from the structurally-depressed agricultural sector. As a result of granting commercial banking licenses to the non-bank financial institutions, the financial interrelations ratio (the ratio of non-bank financial institutions deposits to commercial bank deposits) increased significantly.

All in all, the periodic upward adjustment of interest rates during the adjustment period had made it difficult for farmers and other investors to borrow and access financial resources from

the banks for investment and intermediation purposes.

2.4 Trade and Investment Liberalization

Adjustment programmes have impacted favourably on the efficiency of domestic trade in several ways. Firstly, the price decontrol for most industrial products has enabled firms to determine the price level freely and average profitability of firms has increased. The price decontrol programme did not significantly increase pressure on the domestic price level. However, the increase in prices of some products meant that those people whose wages lagged behind those on minimum wage, and especially the poor and food insecure, were adversely affected as well through stagflation. Secondly, trade liberalization has increased competition in trading activities especially from the fledgling micro, small and medium enterprises. This has broadened the supply base of domestic and imported products and hence has widened consumer choice.

Another aspect of adjustment in domestic trade is the deregulation of trading activities which were hitherto monopolized by the state-owned enterprises. For instance, private traders were allowed to conduct trade in agricultural inputs and in purchase of smallholder agricultural output, thus slowly dismantling the monopoly power of state owned Agricultural and Marketing Corporation (ADMARC). However, private traders have not been very effective due to the various constraints such as lack of storage facilities, poor transportation and lack of credit to facilitate purchase of produce from smallholder farmers.

An assessment by Chilowa et al. (1997) found that imports as a proportion of GDP had been higher than the export/GDP ratio except in 1984. Exports as a proportion of gross domestic product had been following a downward trend, particularly since 1985 while the import-GDP ratio had been increasing. Actually, the export/GDP ratio averaged 18.1 percent in the 1970s but fell to 21 percent in the adjustment period. On the other hand, the import-GDP ratio was 32 percent in the 1970s and fell to 27.9 percent in the adjustment period. Thus, there had been unfavourable balance of trade wherein imports had outstripped exports, implying that Malawi has become a net importer of various products (both food and agricultural products).

The balance of trade had deteriorated since the 1970s, and the trade gap progressively widened during the adjustment period. Imports increased from K177.4 million in the 1970s to K2.6 billion in the 1990s while exports increased from K112.6 million in the 1970s to K1.6 billion in the 1990s. On average, the trade deficit was K64.8 million in the 1970s and increased to K940.1 million in the 1990s. Although imports had increased in absolute terms compared to domestic exports, in terms of growth, imports grew by 17.6 percent and domestic exports grew by 16.7 percent in the 1970s. However, in the 1990s growth in exports was higher than growth in imports and consequently the growth in the trade deficit had fallen.

A similar trend is obtained when imports are analyzed by end-use between 1970 and 1989. Table 2 in the Annex presents the composition and growth of imports by end-use. Imports of merchandise were dominated by basic and auxiliary materials for industry; plant, machinery and equipment; and commodities for intermediate and final consumption. These sub-sectors

accounted for 61.2 percent and 69.5 percent of imports in the 1970s and 1980s, respectively. Consumer goods accounted for 15.3 percent of imports in the 1970s but the ratio fell to 12 percent in the adjustment period. This may be correlated with the issues of worsening poverty, declining purchasing power, and more expensive imports due to currency devaluation, during the adjustment period. This could result in higher food insecurity and malnutrition.

More than 60 percent of Malawi's export earnings in the 1990s originated from tobacco. In essence, the traditional exports of tobacco, tea and sugar contributed about 85 percent of the value of total export earnings in 1994. It is clear from the above assessment that the tobacco industry has been the major beneficiary of currency devaluation.

Liberalization measures provided a temporary disincentive to export trade in most commodities in the 1980s, but the sectors responded favourably in the 1990s.

Liberalization measures, therefore, in terms of opening up the market combined with devaluation of the Malawi Kwacha, arrested the growth of imports and encouraged export trade especially in the 1990s which counteracted short term losses in the 1980s.

2.5 Price Stability

The inflation during the adjustment period had been rooted in the continuing episodes of currency devaluations, the price decontrols, and liberalization of markets as well as the floatation of the Kwacha in 1994. Increases in domestic borrowing by the Government (crowding out the private sector) in order to cover the budget deficit had also contributed to inflationary pressures.

This inflation particularly hurt those wage earners on fixed incomes, those whose incomes lag behind that of prices, the elderly on pension and the urban unemployed and the food insecure segment of the population.

During the second Structural Adjustment Lending (SAL II), all prices of locally manufactured goods were decontrolled so as to stimulate the industrial sector of the economy. Considering that the same exercise was not extended to the primary product markets, the prices of manufactured goods have become relatively higher, thereby reducing the economic access of the poor.

Looking at the currency devaluations that have been taking place since the commencement of the SAPs, it is our contention that they have led to drastic changes in consumption patterns. Chilowa and Chirwa (1997) have pointed out that a majority of the population are now consuming less than they did in the 1970s. The devaluations have indeed adversely affected the poor through wage and employment effects, price effects and stagflation.

The policy of wage restraint (in order to reduce the Government's total wage bill and to make Malawian goods more competitive on the world market) has had negative effect on the welfare of the minimum wage earners. Salaried employees have suffered as well, as the prices of manufactured commodities have continued to increase faster than their salaries.

High rates of inflation in relation to money incomes have drastically reduced real wages and hence reduced purchasing power. The Government should invest more in providing people with skills - if people are highly skilled and better educated, the market will pay them more. Wage fixing can also be a source of inflation and more unemployment since it has the effect to

protecting those who are already employed and price many potential labour entrants out of the market.

2.6 Poverty Alleviation Programme

Poverty alleviation was the stated development policy of the previous Government. The policy objectives of the Poverty Alleviation Programme (PAP) include: to raise productivity of the poor; promote sustainable poverty reduction; enhance participation of the poor in the socio-economic process so as to raise and uphold individual and community self-esteem; and establish distributive and re-distributive systems to ensure the sharing of income among the population.

These objectives were to be achieved by the following strategies: promoting increased participation of women, men and youth in economic, social and political affairs; economic empowerment of the poor through employment; development of safety net programmes; promotion of participatory approaches to development; sensitization through IEC (information, education and communication); improving the poor's access to credit facilities; and introducing a system of poverty monitoring and evaluation to inform the policy makers on the proper formulation process and subsequent planning for poverty alleviation interventions.

The Malawi Social Action Fund (MASAF) was designed to provide rapid financing for programs targeted at the poor; promote a new approach to rural development involving communities in project preparation and execution; support district level programs of labour-intensive construction targeted at the poorest districts; and strengthen the overall poverty monitoring and assessment system.

The extent of poverty in the urban areas is as pervasive as it is in the rural areas, although the number of urban poor is relatively low, given the low degree of urbanisation in the country (Chilowa and Konyani 2000).

There is pervasive poverty, food insecurity and malnutrition in the country. Rural poverty is estimated at 60% while the same is true of 65% of the urban dwellers.

According to Apthorpe *et al.* (1995), the lesson of Malawi's recent pattern of economic history is that economic growth does not trickle down. A labour intensive strategy for economic growth would normally commend itself for growth inducing, and poverty alleviating, strategies alike. However, the economic experience in Malawi under adjustment cannot be considered as an illustration of a sound approach. The 1993 Situation Analysis of Poverty in Malawi shows, for example, that the labour employed on the agricultural estates (while in employment which undoubtedly is labour intensive), is also among the poorest of the poor in the country due to low wage rates structure that is inadequate to meet food and basic consumption needs.

Rural development initiatives to alleviate poverty in the past two decades have failed. At present there is little or in some regards no evidence that appropriate poverty alleviation initiatives are institutionally available or in place.

To date, PAP has acted simply as a political tool. The impact of Malawi Social Action Fund (MASAF) strategy is yet to be fully evaluated but there are indications that the empowering role might not be sustainable once the funds or the projects are completed. The sustainability of this

development paradigm is questionable. Likewise, the sustainability of the proposed safety net programmes is also open to doubt since the concentration is on building structures (which is also good in itself) alone without economically empowering the people economically).

2.7 Public Sector Restructuring and State-Owned Enterprise Reforms

Public sector restructuring and privatization are associated with several economic and social costs and benefits.¹ The social aspects of privatization include the unequal share of benefits and costs that follow from economic growth as a result of private sector led growth; distributional effects such as widening and deepening ownership of enterprises, broadening and democratizing the ownership of productive sectors; promoting decentralisation and rural development; creation and loss of employment and business opportunities; transferring property rights to sections of the population hitherto deprived of them; use of privatization proceeds in provision of social services; promotion of labour movements, and creation of freedom of choice.² The broadening of private sector investment on the economy is the key for expanding employment opportunities in Malawi since labour is currently locked in subsistence agriculture due to limited employment opportunities within the economy. All these dimensions affect social and human development.

The major problem with privatization in Malawi is that it has focused more on economic aspects at the expense of social dimensions. Proceeds from divestments should be invested in irrigation, rural electrification and rural roads and other infrastructure as well as support services (research, extension, access to markets, technology, credit, information, etc).

2.8 Labour Market Reforms

Structural adjustment programmes had not been designed to reform the labour markets, hence the reforms in the labour market have been internally pursued due to the democratization process that has taken place since 1992. According to Banda *et al.* (1996), Malawi has had no comprehensive labour and employment policy.

According to Banda *et al.* (1996), in 1980 the total labour force was estimated at 2.8 million with 44 percent being female but almost doubled to 4.1 million in 1990 with the percent of females in the total labour force declining to 41 percent. Formal employment has only taken a small proportion of this labour force.

Formal employment increased at 9.5 percent per annum between 1971 and 1979 resulting in a net employment generation of 179,990 jobs. However, the rate at which the formal sector generated employment opportunities declined to 2.96 percent per annum in the adjustment period. The data shows that most sectors, except for mining and personal services, experienced a decline in the growth rate. Between 1980 and 1990, there were only 113,264 new jobs. Private sector employment experience decline in the growth rate from 11.54 percent per annum in the pre-adjustment period to 2.88 percent per annum in the adjustment period, while growth in formal employment in the public sector remained stable at 3.7 percent per annum.

Given that the formal sector only employs about 12 percent of the total labour force, a larger

proportion of the labour force is indeed employed in the informal sector

3. A SUMMARY ASSESSMENT OF MACROECONOMIC POLICIES (SAPs)

Malawi has been implementing structural adjustment programmes for a fairly long time. In spite of structural reforms in Malawi, the evidence in this paper shows that the policies that have been implemented have not taken the economy back to the pre-adjustment performance levels. International and domestic trade liberalization, agricultural sector reforms, public sector restructuring and privatization and financial sector reforms are some of the reforms that have been adequately implemented. Reforms in the labour market are recent and minimal and largely prompted by the democratization process in the transition from one party state to a multi-party era. On the whole, the benefits of structural adjustment programmes in Malawi have been less tangible and have mostly resulted in the decline of social well-being of the population. Overall, there has been a decline in real per capita gross domestic product and economic growth has been erratic, registering three boom and bust episodes within the adjustment period.

Exchange rate adjustments through deliberate devaluations and floatation of the Kwacha have been a major policy adjustment in the trade sector. However, this policy adjustment has been of limited benefit in stimulating growth. The export base has remained narrow and the price incentives have failed to create new export opportunities. The immediate effect of a devaluation is to make imports in domestic currency more expensive hence reduce demand for imports. However, the problem in Malawi is that the manufacturing sector imports about 67 percent of their inputs. Devaluation therefore, resulted in increase in the cost of production and has been one of the main causes of domestic inflation. Surprisingly, there has been an increase in imports during the adjustment period at levels higher than those recorded in the pre-adjustment period. On the positive side, this has created business opportunities for the small and medium scale enterprises. The export sector, mainly the tobacco industry, largely benefited from currency devaluation.

Adjustment programmes have also created limited employment opportunities. Actually, the rate at which the economy absorbs the growing labour force has fallen by 69 percent between the pre-adjustment and adjustment periods. Due to high rates of inflation, real wages have also fallen within the adjustment period. Nonetheless, labour market institutions have flourished and have become very pro-active as a result of structural adjustment programmes and the democratic environment (Chilowa, et. al., op.cit, 1997).

More than fifteen years after the introduction of the first reforms, economic growth has not reached sufficiently high rates to reverse losses suffered earlier, nor to accommodate a fast-rising population growth and the requirements of debt servicing. The economic structural changes achieved so far have been limited partly because some of the reforms are still quite recent, while others have not been fully implemented. Efforts to broaden Malawi's export base have failed, leaving the economy vulnerable to external market conditions.

The pressure on land is for maize and food production rather than diversification into export

food and cash/export crops; and the lack of significant structural changes in the economy has left the country still dependent on tobacco for its foreign exchange earnings. The balance of payments and the external debt servicing problem will continue to have to rely on massive financial inflows. Falling per capita real wages, declining per capita food production, reductions in food subsidies and Government expenditures on education, health, housing, sanitation and other social services have all had severe and adverse effects on the poor and the food insecure, especially during the early years of SAPs.

While the economic structural adjustment programmes have provided a learning experience, especially in the areas of programme design and sequencing of policy actions, they have also resulted in worsening social indicators. From the nature of the reform programme in Malawi, one can conclude that it has been primarily concerned with overall macroeconomic growth through the promotion of economic efficiency and less emphasis has been put on the distributional considerations.

In both the estate and smallholder sub-sectors, performance has been fluctuating tremendously. In recent years agricultural output has fallen significantly. It is only in the contribution of Government to gross national product caused by an overblown bureaucracy that a visible favourable trend can be discerned. Even here, however, improvements in the balance of payments, for example, have been caused by a detrimental contraction of domestic demand. A major failure of the structural adjustment programmes is that to date Malawi's export base has not been diversified. Our contention here is that the programme has not led to a significant structural change in the economy. It leaves the country still dependent on tobacco and few export crops for its foreign exchange earnings. Only the stabilisation instruments such as devaluations, taxation and interest rates have been significantly addressed - and of course with adverse effects on poor households via increases in the price level.

For the rural poor smallholders, the differential distributional effect of structural adjustment is very clear. It has not improved access to or rates of return on their agricultural assets. According to Hawksley *et al* (1989), both real producer prices and real wages have declined during the adjustment period. Inappropriate credit packages and extension advice continue to be detrimental to smallholders. This, coupled with population pressure further restrict access to land, hence, poor households remain risk-averse and unwilling to produce high value but more risky cash crops (Chilowa 1990a).

For the urban sector, food price increases have been detrimental to the poor who spend large part of their budget share on food. The result of reduced food consumption or the substitution of lower quality foods as a consequence of food price increases further reduce the nutritional status of the poor households. Likewise, falling per capita real wages and incomes, reduction in food subsidies, reduced Government expenditures as a percentage of total expenditure on education, health, housing, sanitation and other social services, have all had a severe and adverse effect on the urban poor.

The analysis of expenditure patterns reveals that structural adjustment programmes in Malawi in recent years have favourably oriented expenditures towards the social sectors of education, health and social community development as a proportion of GDP and as per capita sectoral

expenditure. However, there has been a substantial decrease in social expenditures as a share of total expenditure and more so in the education sector. The introduction of free primary school education is a positive development in social and human development. However, one worrisome trend is the amount of resources that goes to public debt charges. The expenditure on servicing public debt has been increasing during the adjustment period. This has stifled resources that would otherwise have been utilized in sustaining the growth of agriculture and other vital economic sectors. Although adjustment programmes have permitted - when measured in a particular way - favourable orientation of expenditures to the social sectors, there is need for intra-sectoral allocations to focus more on primary activities in education and health so that they further impact positively on social and human development.

Very few reforms have taken place in the labour market in Malawi. Formal employment has not absorbed the growing labour force, and the formal sector is still an insignificant part of labour market in Malawi. Adjustment programmes in the economy seem not to have generated substantial formal employment opportunities. Actually, the rate at which the economy was generating new jobs declined in the adjustment period. This, therefore, negatively impacted on social and human development; it deprived the labour force of a steady and non-seasonal wage. The democratization process and improvements in the atmosphere for freedom of expression in labour related issues has enabled employees to have the opportunity to collectively bargain for their wages and conditions of service.

Trade and industrial sector reforms have created opportunities for a few Malawians. Trade and industrial liberalization has improved the supply of different varieties of products. Trade liberalization has led to the growth of the informal sector which employs a large proportion of the labour force in terms of both self-employment and paid employment. Malawians have freedom of choice in their business activities. However, open door policy on trade has adversely affected the domestic manufacturing sector and has consequently led to failure of the economic sectors to absorb the growing labour force. The privatization of public enterprises and the civil service reform programmes are on-going. So far, several people have lost their jobs and opportunities for labour mobility are constrained by limited base of the economy and lack of capital. Delays in paying terminal benefits for the retrenched workers have resulted in several social problems for them.

The structural adjustment programmes have tended to put emphasis more on demand management than supply-oriented policies. They have tended to concentrate on promoting market and price mechanisms, less on addressing access to market and production constraints facing the economy. Non-price structural factors require renewed attention if the growth of the economy is to be enhanced. Attention has to be paid to structural transformation strategies for increasing incomes of the majority of the population. In this context, the structural constraints facing agriculture have to be tackled as well as those impinging on the investment sector, in order to elicit the supply responses necessary to generate sustainable income and sufficient foreign exchange resources. Farmers will produce and respond to product diversification when the price is right. While a number of social action interventions have been initiated by Government, NGOs and donor agencies, most have only recently been launched, so their effects cannot yet be

evaluated.

All in all, it is our contention that for a resource-poor open economy country as Malawi it is vital that Government and donors give adequate time and resources in designing country-specific interventions. Donors should attempt to pay ample attention to lessen the adverse external developments impacting on the country as well as allowing enough time for the impact of interventions to work through the economy. A thorough analysis of the likely impact of each reform policy, in terms of its potential benefits and costs should be done prior to any intervention, failing which the programmes might not achieve the intended economic impact, and may conversely work to the detriment of the majority of the less endowed sector of the economy as the Malawian case has demonstrated.

It is also clear that very little attention has been given to the issues of poverty both from an analytical, policy and strategic points of view. Until the mid-1980s, the official view was that there was no poverty in Malawi, therefore, anybody talking about it was seen as being unpatriotic (Msukwa 1994). However, from middle of 1980, the situation began to change. It is now recognized that poverty is widespread in Malawi, affecting more than 63% of the population in both rural and urban areas. It is also pleasing to note that the Malawi Government has made the strengthening of local Government institutions a priority.

A mixture of policy choices has been recommended for Malawi that could have a dramatic impact on food security and nutrition: access to land, appropriate production technology, markets, credit and suitable rural infrastructure, removal of price distortions and other economic constraints that will allow the market forces to allocate resources efficiently, increased rates of savings and investments, improved participation of food insecure segments of the population through creation of livelihood and employment opportunities, increased investment in human resources development (capacity building targets) and sound population policy, reforms in policies, institutional development and public investment. These policy choices are essential if we are to improve food security and nutrition in Malawi.

It is our hope that the Government and all its development partners as well as all stakeholders should take up, and find efficient ways of IMPLEMENTING the policy, strategy and institutional recommendations that we have proposed in this paper, along with relevant measures indicated in the Vision 2020 and all policy documents relating to sustainable livelihoods and food security. It is also our hope that the policy, strategy and institutional recommendations we have made in this report will become a shared value and a commitment towards achieving these aspirations of Malawians.

3.1 A Summary Assessment of Sectoral policies

Lack of harmonisation and proper dosage and sequencing of policy objectives in the agricultural and renewable resources sector have hampered the achievement of the desired efficiency and equity objectives. This calls for improved packaging and coordination of all the strategies at the cross-sectoral and hierarchical levels. In addition, Government policies toward tenants working on estates can at best be characterized as benign neglect. Virtually nothing has

been done to protect tenants' rights and to avoid exploitation of workers, hence perpetuating their food insecurity situation (also see Sahn et al. 1991).

Although the proposed strategies are necessary for the improvement in agricultural production, and hence, food security, the Government's lack of resources and capacity to implement the policy objectives and strategies hinder the achievement of the stated objectives.

The proceeds from public sector reforms (privatization policy) were pulled into the general Government vault, without directing resources to a particular sector. These should be invested in irrigation, rural electrification, rural roads and other infrastructure.

Activities in the informal sector have increased in the adjustment period as a survival mechanism or as a result of trade liberalization. The assessment shows that labour productivity in the agriculture sector is low due to low productivity and profitability of the sector and inefficient production methods (**use of hand hoe**) where return to labour is miserably low.

3.2 A Summary Assessment of Cross and Sub-Sectoral Policies

The Land Act of 1967, which does not only demarcate agricultural land for smallholders and estate production, but also dictates the types of crops that can be grown by the two groups, has perpetuated rural poverty and, consequently, food insecurity.

There are losers and winners as a result of policy reforms in agricultural produce marketing. The losers are mainly the smallholder farmers in the category of net food buyers, low-income or wage earners in urban and semi-urban areas and smallholder farmers in remote areas. This group has suffered as a result of increased consumer prices and seasonal price instability for major food crops. The winners are smallholder farmers in the category of net food sellers, private traders, institutional traders and the state marketing agency. This group has benefited from seasonal price variations. Liberalization of marketing activities has also led to the development of other subsistence crops to marketed crops, e.g. cassava, sweet potatoes, legumes and pulses, etc.

The serious decline in soil fertility and static to declining agricultural yields are strongly linked to the limited supply of, and demand for, appropriate higher-yielding technologies (research and technology).

To improve productivity, Malawi has mostly relied on increased use of chemical fertilizers and this has had limited impact as most farmers cannot afford to buy the commodity. Apart from it being expensive, its increased use has some serious negative effects on the environment. The combined use of organic and inorganic fertilizer within the regime of balanced fertilization for improved gross margins is recommended.

The underlying factor for food insecurity in Malawi is the widespread poverty and acute malnutrition. Low agricultural productivity, low levels of income, and high population growth are the major factors affecting food security in Malawi. These are compounded by lack of multi-track communication and management mechanisms to package, disseminate, implement and coordinate the food security policy.

The attainment of the environmental policy goal is hampered by lack of capacities, resources and commitment to enforce the policy.

The GOM policy objective on gender has been implicitly incorporated in Poverty Alleviation Programme. Its thrust is to ensure that policy formulation, decision making, development planning and programming take into account gender issues. However, the incorporation of gender policy and focused initiatives in food security policies and programmes has not yet been done.

Extension policy, in as far as food production is concerned, has been confined to the promotion of hybrid maize production and use of fertilizers to the neglect of other equally important food and cash crops and extension messages like soil conservation and fertility, agro-forestry, labour saving technologies, small-scale irrigation. The extension approach has been top-down, rather than participatory and bottom-up. As a result, extension messages have been irrelevant to the needs of the majority of smallholders.

Inadequate supply and low effective demand has led to very low and sub-optimal use of fertilizers (less than 30% adoption rate) and hybrid maize seed (25% adoption rate) in Malawi (agricultural inputs policy).

Livestock policy and strategy is a recent phenomenon and there is need to formulate responsive and improve coordination of the proposed strategies through capacity strengthening and resource mobilization within the Government and private sectors.

The foregoing issues and constraints, as well as opportunities considered, there is an urgent need to prioritise and refocus appropriate policies, strategies and programmes towards the vision of: **Structural Transformation of Agriculture and Resources Sector (STAR) from Subsistence to Agro-Industrial Economy and Sustainable Food Security and Livelihood Systems.**

This vision could be achieved through the following policy instruments that will broaden the socio-economic base of the Malawi economy:

1. Agricultural intensification and diversification (food and cash crops, livestock, aquaculture, agro-forestry, etc);
2. Rural infrastructure development (roads, transport and communication, irrigation, electrification);
3. Animal traction and mechanization;
4. Tenurial reform; and
5. Market and credit access.

Another recommendation which will complement the execution of above-cited policy package is the need to formulate and implement policy research, packaging and advocacy programmes with emphasis on priority policy gaps and intervention areas.

In this regard we are recommending for sustainable agribusiness sector for Malawi which should contain sound policy environment, resource endowments and management, technology, guaranteed market and improved governance by both private and public institutions as inputs.

These will lead to an agribusiness transformation process through better policies, projects and programmes, the output (benefits) of which will be sustainable agribusiness which will in turn have the outcome of human and national development (e.g. through better quality of life, reduced poverty, enhanced economic growth, environmental economic growth and political and

economic stability). When this is achieved it will be easier for Malawi to compete in the global economy (see Figure 1 in Annex for the following areas of intervention to address policy, structural and institutional constraints for sustainable food security and livelihood systems).

We elucidate below how our **`STAR'** recommendation should be operationalised. First, we should not break the trend towards land consolidation which creates economies of scale in the existing agricultural dualistic structure. Second, there is need for land reform (i.e. **OWNERSHIP SHOULD BE DEMOCRATIZED**) in large estates while encouraging the movement to smallholder-based estates under a policy regime of ensuring the twin goal of efficiency and equity.

The use of the **HAND-HOE** is the most serious production constraint which perpetuates subsistence production and has been responsible for the low agricultural production as well as drudgery of farm labour, particularly of women. As a concomitant to this, we recommend the introduction of labour saving and output enhancing production technologies including the wide scale use of animal traction and mechanization in agriculture. It is envisaged that this will promote economies of scale. In this regard we further recommend that there is need to promote research in mechanization and animal traction (this means excess labour that can be used somewhere else is released). Donors are, therefore, encouraged to invest in this sector.

When labour is released from the drudgery of the hand hoe technology and the price of maize is liberalized, then agricultural diversification based on technologies that will ensure higher return to labour, will be encouraged. After diversification, there is need to encourage the growing of dry season crops where markets can be created or expanded in raw or processed form for such crops as pineapples, papaya, mangoes, citrus fruits, palm oil etc. In addition, there is need to provide post harvest and storage facilities, particularly at the household and community levels as well as **VALUE-ADDING PROCESSING**. It is recommended in this regard that foreign as well as local investors should be invited and encouraged to come and open up food processing factories to undertake this task.

Diversification will also help improve access to wide variety of food and balanced diet and pressure on subsistence maize production and sustenance farming will be lessened.

To complement increased agricultural production, it is recommended that medium to small scale **IRRIGATION** development (underground, surface and rain water harvesting) should be encouraged. This entails that through irrigation, and mechanization, early planting is assured and crops can be grown all year round. Donor support and taxation of the tobacco and liquor industry can be tapped to finance development of rural infrastructure and social and support services.

In order for this to work well, it is recommended that **CREDIT** facilitation, where a project is or combination of projects are found to be viable, should be introduced within the concept of package farm household credit line scheme where production technology is linked with market and management system.

Livestock diversification is another important area for Malawi. Livestock provides food, income, employment and encourages sustainable agriculture. In this regard, we call upon Government to come up with policies and resources that will assist in the development of smallholder commercial livestock and agribusiness. To realise livestock potential, therefore, it is

recommended that: there should be appropriate policies for the use of communal land for livestock rearing or range land; linking of production and post-production components to efficient infrastructure, services and marketing schemes; and increased policy commitment, funds and linked resources to develop livestock, which is a vital component of sustainable agriculture.

Investment in livestock is encouraged because there is high internal rate of return, and the manure so generated will be used for food gardens. Likewise, there is need to encourage the growing of crops that will ensure feedstock for poultry and livestock, e.g. rice, yellow corn, sweet potatoes, root crops, etc. It is recommended that research in low cost livestock upgrading, animal health and feeds should be encouraged.

One approach for success here is through smallholder animal dispersal programme. What should be done is to encourage payment in kind where beneficiaries pay back in the form of off-springs from the borrowed animals. It is recommended that NGOs should run this programme since they have comparative advantage in this area.

This must be accompanied by reduction of environmental degradation caused by land clearing and high demand for fuel wood (household and tobacco flue curing). Likewise it is recommended that the Government should make every effort to introduce rural electrification, improved roads, infrastructure and irrigation in the country. This should be financed through downsizing of the bloated and inefficient bureaucracy (reduction of recurrent costs), and moratorium on payments of foreign debt, taxation of tobacco which greatly benefits from windfall profits of devaluation policies, and taxation of liquor and cigarettes.

When electrification has been achieved, there is need to build refrigeration facilities (cold-chain infrastructure) and other support facilities to support an efficient food chain for food security. These support facilities will reduce post-harvest losses, maintain quality and provide value added to agricultural products.

Should there be market failure, then safety nets, based on social development ideals, should be used. These should be in the form of Food for work or Cash for work schemes depending on the area and the problem. In this regard let the people build rural infrastructure (schools, all weather roads, irrigation systems, clinics, etc.). It is envisaged that the people so involved will be encouraged to develop alternative remunerative skills, e.g. masonry, carpentry, construction, blacksmith, garment manufacturing and light industries, etc., which will help disadvantaged groups find remunerative and employment opportunities. They should also be encouraged to build water harvesting and collection structures (farm ponds), in this regard Government should assist with provision of plastic lining for water collection and storage to prevent rapid leaching. This will promote exodus of farm labour to alternative work opportunities where return to labour is higher and non-seasonal, thus addressing unemployment or underemployment during the dry season.

It is further recommended that the people should plant fast growing trees for poles and furniture manufacturing (this will generate employment). This is a priority area and we recommend that Government should have an expenditure budget line for this programme (food/cash for work).

For diversification in the Commercial sector, there is need for new marketing institutions for yellow corn, sweet potatoes, squash, carrots, etc. since these are high in beta carotene and are proven anti-oxidants for better health. This is an important **EXTENSION MESSAGE**. It is also recommended that there should be nutrition curriculum and vocational agriculture in schools.

The commercial sector will involve agro-industrial sector interrelationships. The private sector should be encouraged to invest in chicken or pig processing plants. The private companies can use the by-product of cotton, yellow corn, soya beans, wheat processing (pollard), for livestock feeds. At this stage it is recommended that the entrepreneurial integrator (private company) should embark on Contract Growing Scheme, this will **GUARANTEE** the market. The integrator will provide feeds, chicks, veterinary supplies, technology and buy back the livestock (e.g. chicken) and process and distribute it.

If the Government were to encourage production of important food and feed crops such as wheat, then there is need to raise tariff (use of fiscal policy) in wheat flour and encourage internal wheat growing or import whole wheat for industrial processing into flour and its by-product, pollard bran, which can then be used for feeding livestock. There is also need to improve smallholder fish catching (e.g. through fish pens) in lakes and big rivers.

It is thus recommended that in order to make agri-business profitable there is need to remove taxation on all inputs in agriculture, irrigation and imports for these (except pesticides).

Although we are recommending the use and facilitation of credit in this report, it is with caution that it (credit) should not be used as a policy instrument in a situation where one cannot establish the viability of a business. It is further recommended that credit should not be administered by institutions that do not have expertise to dispense credit. In this regard, the Government should shun away from directly dispensing credit (e.g. Ministry of Women, Youth and Social Services, Ministry of Agriculture and Irrigation) and create a favourable environment for rural financial institutions to carry this task out so as to capture rural savings during periods of food surpluses and cash generation from agriculture sector.

We, therefore, recommend that Malawi Rural Finance Company (MRFC) or any other development bank should establish branches and sub-branches in rural areas in each district. For this to develop, there is need for an enabling cooperative law. It is further recommended that smallholder estates should be restructured utilising the best features of both cooperative and corporation mechanisms, and adapt such schemes in Malawi.

Savings should also be encouraged in form of crops (better storage for stability of food supplies), livestock and other forms of community savings.

The approach to credit should be in terms of a packaged household credit line. Do not tell the farmers to grow crops which have **NO MARKET**, create or expand market opportunities, through proactive product-market development strategies and a range of product-market options for smallholders.

In this regard, it is recommended that support should be given to **CREDIT UNIONS** to enable them to effectively intermediate savings and loaning operations. Likewise, there is need for the Government to come up with policies that will assist private and cooperative rural banks to organise themselves. There is also need for research to set up agricultural guarantee mechanisms

and agricultural insurance schemes where Government can leverage its limited funds towards expanded credit supply.

Due to the fact that the proposed new ways of improving agricultural production will entail releasing excess labour from the agricultural sector, it is recommended that there should be a deliberate policy to encourage non-farm employment. In this light, there should be a massive capacity-building exercise. UN specialised agencies such as ILO and UNIDO should be encouraged to assist in promoting entrepreneurship and industrialization.

We have also shown in the report how SAPs have adversely impacted the majority of Malawians in terms of food insecurity and malnutrition. The other issue and constraint is that in Malawi there is an overblown bureaucracy. The recurrent expenditure is very high, leaving little room for development expenditure. It is recommended that the Government should make every effort to downsize the bureaucracy and ensure that the bureaucracy is lean or rightly sized and does not unduly create pressure on recurrent expenditure at the expense of public investment in rural infrastructure and support services.

Indeed, there will be some costs to this since some people will have to be retrenched, however, these should be assisted to become entrepreneurs and vanguards in agribusiness and small and medium enterprises. There is also need to sub-contract some of the Government's functions to organised and competent private sector groups.

We have also noted that debt servicing is a problem for the Malawian economy. We, therefore, recommend that guidelines on what foreign loans the Government should require be put in place so as to reduce wastage. There is need for Government to seek moratorium on payment of foreign loans and invest the resources in basic preconditions for broad-based economic growth (rural infrastructure, support services and capacity building).

For Industry and trade policy to be effective, there is need for basic infrastructure such as electricity, water, skilled manpower and investors, etc., as preconditions, to be in place.

We also recommend that the Government should undertake a study to look at the effects of GATT (e.g., removal of non-tariff barriers, implementation of sanitary and phytosanitary measures, minimum access volumes, etc.) on Malawi's competitiveness and access to international markets and its effects on sustainable livelihoods and food security. It must be recognized that liberalization of world trade under the WTO and globalization of the world economy will make Malawian industries face stiff competition in the international market.

Structural adjustment cannot happen where there is no free mobility of labour as the case is in Malawi. There is need to solve the problem to release labour to non-agricultural employment through such actions as use of improved labour saving measures and mechanization, investment in education and adult literacy and skills building. Since opportunity cost of labour is very low, there is need to get out of subsistence farming, and engage in commercial farming which treat agricultural production as a business. Otherwise, there will be limited availability, stability and sustainability of food supply, which in turn will adversely affect adequacy of, stability of and access to, food supplies. This is also a principle of Nepal.

It is also recommended that the Strategic Grain Reserves (SGR) must be freed and be private-sector and household led. The savings so derived from the partial or semi-privatization of the

SGR should be used to improve irrigation, rural electrification and infrastructure, etc. Buffer stock policy needs serious review and reform towards privatization of grain supply and cost-effective maintenance of buffer stocks at a competitive level in the hands of traders, grain business people and households.

Savings and investment mobilization is also the key to the growth of the Malawian economy. In this regard, there is need for the government to put in place conducive policies that will encourage mobilization of domestic savings and foreign direct investments. There is need, therefore, to allow more banks to come in so as to mobilise savings and create liquidity mechanisms and new financial instruments for financing the growth of agriculture and non-agricultural industries.

Improvement in transport and communication (radio communication network and broadcast reforms to reach out and facilitate access to development information to disadvantaged groups) is very important if Malawi is to develop rapidly. Rural infrastructure (roads, irrigation and electric power) and market infrastructure such as regional and district market centres as growth points should be established. It is recommended that rural infrastructure policy should be prioritised by the Government.

Lastly, it is recommended that the policies, strategies and strategic actions proposed in the Malawi Vision 2020 document, the Agricultural and Livestock Development Strategy and Action Plan (including the evolving Malawi Agricultural and Livestock Sector Investment Programme), the Policy Framework for Poverty Alleviation Programme, the Food Security and Nutrition Policy Statement, the new Draft Food and Nutrition Policy, the National Plan of Action for Nutrition, DEVPOL etc., must be taken up seriously. Policy overlaps or conflicts must be removed and mobilization of funds for their effective implementation be immediately undertaken and implemented by Government with assistance from all development partners.

4. POLICY, STRATEGY AND INSTITUTIONAL ECOMMENDATIONS

Below we present policy, strategy and institutional recommendations that we envisage will improve sustainable livelihoods and food security.

4.1 Policy Recommendations

Given that the majority of the Malawian population is dependent on agriculture, the welfare of the country's population is tied up with the performance of the sector. However, the sector is greatly constrained by limited resources. **We recommend that there should be a refocus of policy direction toward sustainable transformation of agricultural and resources sector from subsistence to agro-industry economy through such strategies as: agricultural diversification (livestock, aquaculture, agro-forestry, food and cash crops intensification and diversification, etc.); rural infrastructure development and social services (roads, irrigation, electrification, schools, health facilities, water and sanitation, etc.); animal traction and mechanization; tenurial reform; and finally, access to markets, technology**

and credit.

Donors should give adequate time and resources for the designing of country-specific SAP interventions. They should also pay much attention to reducing adverse external developments impacting on the country, as well as in allowing enough time for the impact of interventions to work through the economy. A thorough analysis of the likely impact of each reform policy should be done prior to any intervention. The aim is to make sure that the policy can achieve its intended economic impact, and does not adversely affect the poor people's livelihood and food security.

International financial institutions should advocate socially-responsive structural adjustment programmes. In this regard, policies which will lead to increases in formal employment, agriculture (agribusiness) and rural development, promotion of the informal sector and using growth-generated resources (e.g. from the privatization process in Malawi) to expand provision of social development, should be advocated and prioritised in the budget allocation process for rural infrastructure.

The development approach in Malawi has been top-down. As a result, projects have been implemented which have had no relevance to the real needs of the beneficiaries, or they have been poorly targeted or coordinated. The resource allocation at present is anti-poverty since it is heavily weighed towards debt servicing and recurrent expenditures (which benefit the few educated Malawians). **It is recommended that this trend should be reversed through allocation of resources where the policy priority is. It is further recommended that Government should negotiate for debt moratorium, relief, concessionary rates arrangements or implement debt-environment, debt poverty alleviation, debt for women education and empowerment, debt for agro-industrial investment, debt for sustainable food security swapping. There is also a need to involve other relevant institutions such as the University of Malawi, NGOs, etc. in policy studies and advocacy programmes and projects.**

There is need for Malawi to develop sound competition policies to encourage people to invest. It is recommended that tariffs on agricultural inputs and produce should be removed, except for pesticides to some extent. Furthermore, there is need to come up with policies that will ensure that growth is investment, savings, and productivity-led rather than consumption-led.

The steps that the current Government is taking to reduce inflation should be continued. To this effect, it is recommended that a study be undertaken to ascertain which policy mixes are desirable for Malawi (since this is a policy research gap) so that the adverse effects on other sectors by the current strategies to reduce inflation should be minimised.

The Government should allocate a huge chunk of privatization proceeds to public investments in rural infrastructure (roads, irrigation, electrification and support services such as research and development, extension, access to market, credit, etc.) projects and safety net and programmes which immediately benefit the poor and the public at large.

There is need to reduce the overblown bureaucracy through civil service reforms and debt servicing so that the Government can reallocate resources to strategic cross-sectoral investment programmes on sustainable food security.

Since there is no clear labour policy in Malawi, the Government should immediately establish a comprehensive labour market policy. In this regard, it is further recommended that professionals in labour laws and issues should be recruited as consultants to undertake this task incorporating a wider consultation of all stakeholders.

Government should seriously look into agricultural taxation policy and introduce an appropriate tax on idle and unused estate land, the revenue of which should be invested in irrigation, rural electrification, feeder roads, etc. **There is need, therefore, to create a rural infrastructure development fund, through grants and aid as well as debt swapping mechanisms.**

All sectors should fully address gender issues and design gender-focused interventions in their sectoral policy planning and programming.

4.2 Strategy Recommendations

Because of rapid population growth and declining size of land holding, more people would have to find gainful employment outside of agriculture. The promotion of joint agribusiness ventures between smallholders (providing their land and labour) and agri-business investors (capital, market, management, technology) and development of entrepreneurship in small and medium scale enterprises will be the key to broadening the employment and productive sectors of the economy. **It is thus recommended that there should be a review and subsequent removal of all unnecessary restrictions that hinder the growth of small and medium enterprises and other informal sector activities. The Government should institute more pro-active policies to support the growing micro, small and medium scale enterprises through facilitating training in business management, market opportunities and credit where a business is found to be viable.**

As we have pointed out in the paper, SAPs have had an adverse impact on the poor and vulnerable, especially children and women. Concomitantly the following measures are recommended: expenditure reduction should not affect nutrition, health and education levels, there is a need to maintain a floor minimum for these; social services such as education, health, water and sanitation should be restructured so that the vulnerable groups are not deprived of minimum services; production within the productive sector should be restructured (agriculture, industry, services and foreign trade), so that there is a conducive policy environment for producers in the small-scale informal sectors who should not be discriminated against but are made to complement the formal sector. They need to be given access to credit, domestic markets and sources of supply for raw materials; international support for the SAPs in terms of financial and technical assistance, should be provided to the Malawi Government. In particular, debt service conditions should be eased. There is also need for action to stem the spread of HIV/AIDS and aid to Malawi in coping with disastrous economic and social impact. The international community should, likewise, open up global markets and reduce or completely remove restrictive tariffs and non-tariff barriers to trade, within the framework of GATT/WTO, especially for agricultural exports from Malawi.

The best antidote to inflation in Malawi is investment in agriculture and food production. There is a need, therefore, to remove all the supply problems in food (e.g. through, among other things, improvement in rural infrastructure and storage as well as facilitating access to agricultural technology (research), inputs, and extension to the rural poor. Another way for reducing inflation is to encourage the flow of foreign direct investment in Malawi by removing all restrictive policies to foreign investment and installing basic preconditions that would facilitate their entry (peace and order, adequate and competitively priced power supply, trained manpower, basic education, health and leisure/sports facilities, etc.).

There is need to develop capital markets and diversify financial market investments in Malawi. In this regard it is further recommended that there must be insurance and guarantee mechanisms to spread the risk and thus deepen the urban and rural financial markets. Furthermore, foreign direct investment and competition policies should continue to be encouraged because we do not have much domestic savings. There must be a savings/investment intermediation. There is need, therefore, for sound financial policy instruments and mechanisms to intermediate savings and investment initiatives. There is need to have banks in every district in Malawi, including MOBILE banks if we are to improve savings mobilization and access to credit by the majority of the smallholders. This will entail that during excess liquidity banks go to the rural areas to collect money for savings, during low liquidity banks go there to lend the money to the people. There is need to create an environment where savings in terms of crops, livestock and storable commodity becomes a food security STRATEGY. In this regard, it is recommended that there is need to have household, district and community commodity savings and storage facility as an adaptive strategy.

For the time being when there is still taxation (levy) on tobacco, proceeds from this taxation should be ploughed back to the rural areas in the form of improving roads, irrigation, electrification (since tobacco is also the main cause of environmental degradation due to use of fuel wood for flue-curing of tobacco) and other infrastructure as well as food security.

It is also recommended that maize processing for value added (Bran/corn oil/livestock feed etc.) should be encouraged necessitating shift to high value and more nutritious yellow corn (which has high beta-carotene content).

The Government should with immediate effect stop wage fixing (minimum wage policy) and liberalise the wages so as to mobilise labour in employment opportunities that provide high returns commensurate to their skills and value-added capacity. In this context, it is further recommended that the Government, with support from its development partners, should invest more in providing people with appropriate vocational skills and capacities so as to enable them to be more productive and better employed.

Investment at the district level is currently low due to various constraints (participatory adult literacy education, vocational skills education, technology and entrepreneurial skills development), as well as the inadequacy of vital infrastructures. There is need, therefore, to develop these as preconditions for sustainable poverty reduction. Other strategies should include: Strong commitment by the Government to peace and order, security and protecting the political, economic, social, cultural and civil rights of all people. Action to enable poor people to gain

access to assets such as land, housing and credit should also be encouraged as well as education and health care for all.

Gender equality should be part of Malawi's strategy for eradicating poverty, both as an end in itself and as means to ensure success. The best strategy towards gender equality and women empowerment is through education. Support to primary and secondary education especially among female children is essential.

Where there are market failures, it is recommended that these should be addressed through safety nets since the continuing use of subsidies as a policy tool is fiscally unsustainable. The problem with safety nets is effective and focused "Targeting". In this regard, use of food for work, food coupons, labour intensive technologies, public works, targeted income transfers, school feeding, social amelioration funds and microfinance administration, etc., is recommended.

There should be a mixture of policies to achieve improved supply responses in the agricultural sector. These policies should include: efficient pricing; innovation technology such as high yielding varieties taking into account their acceptability by consumers, irrigation and inputs (water, fertilizer, equipment) at the right time and in the right amounts; information (the technological knowledge must be diffused through proper and improved interface dialogue and linkage between research - farmer - extension agent and enhancing people's access to cheapest forms of communication (e.g. radio, posters, print media).

Introduce leucaena and glenicia, among others e.g. leguminous trees, etc., and other trees for sustainable agriculture. Research has shown that alley cropping with leucaena species increases maize yields by 30%-35%, depending on soil type. Other agro-forestry technologies are available which, if widely promoted and adopted, could lead to greatly improved productivity and thus improve household food security even for those households that at the moment cannot afford chemical fertilizers. This calls not just for the intensification of research but, even more importantly, the reorientation of the research-extension service from the maize hybrid-fertilizer focus to a broad objective of improving productivity with little external, high tech inputs.

Due to the nature of Malawi's agricultural seasons (dry and wet seasons), the Government should encourage savings of crops and livestock. Off-farm strategies e.g. putting value-added to mangoes, avocado, citrus etc., through better preservation (drying, fresh produce, export purees, other processing, etc.) should be vigorously pursued. Efforts to encourage NICHE MARKETING, for example, exporting tropical and off-season fruits to Europe during their winter season, should be explored.

Since the Strategic Grain Reserve (SGR) is a subsidy mechanism and there are costs and leakages (an opportunity for extracting economic rent), it is recommended that the SGR should be spread out and managed jointly with private traders (institutions), community and households. Government should only manage the SGR where private traders and households cannot bridge the gap. In this regard it is further recommended that private traders should be financially assisted and encouraged to keep silos and storage facilities. There is need to provide them with incentives such as giving them duty free privileges for importing capital equipment and access to electricity, warehouses so that they can buy and store, in the rural areas. It is important also to have bulk handling facilities at the district level particularly in densely populated areas.

Since the district is the essential entry point to rural areas, there is need to develop strong linkages as preconditions at this point so as to ensure sustainable livelihoods and food security. In this regard it is recommended that forward, backward and vertical linkages and horizontal expansion strategies (agribusiness inter-linkages) be developed to integrate the industry system through, for example, the encouragement of integrated livestock-feed business such as the introduction of yellow corn, livestock rearing, irrigation, markets, storage and improving peoples purchasing power at the rural level. In this regard there is need to introduce viable East Asian agribusiness linkage strategies such as contract growing of maize, chicken, pigs, food crops where a guaranteed market and price together with technology and management system are offered by private sector investors to farmers. A study tour to emerging Asian economies to fully explore these agribusiness strategies should be organised by the Government of Malawi (GOM).

For greater economic mobility in the agricultural sector, education, health and infrastructure (e.g. irrigation, communication, roads, proper marketing of agricultural produce, etc.) are essential preconditions, as well as encouraging strong adaptive research and technology demonstrations.

The following strategies should be implemented by the Government: the agricultural strategy should be market led; there should be strong political will to implement these strategies; there is need to develop comparative advantage of other high value crops other than tobacco if diversification is to be achieved. The Government should encourage study tours to the fast emerging economies of Asia so that Malawians should be equipped with better strategies that have been widely implemented to achieve sustainable livelihoods and food security in those countries.

The policy objectives and strategies in the agricultural sector need to be harmonized with sound resource allocation and coordinated donor support so as to achieve the desired goal of structural and sustainable transformation. This calls for improved coordination of all cross-sectoral policies and strategies at all levels. There is need for all development partners and stakeholders to assist Government with resources and capacities to implement the policy objectives and strategies.

The Government should promote the concept of researcher-farmer-extension worker dialogue and linkages based on participatory bottom-up planning and convergence planning at the community level. Furthermore, technology demonstrations on various options and alternatives for farmers to choose from based on his/her resource endowments should be promoted and/or intensified.

Government should facilitate the design of a private sector market led agribusiness approach which will enable private business sector promoters to make it worth their while to do business with the marginalised groups. It is also recommended that the Government should consider involving private sector extension agents to be involved in rural areas.

The Government should introduce low cost irrigated agriculture in both rural and urban areas. In this regard it is recommended that the Government should facilitate duty free importation of irrigation equipment and supplies. There is also need to look into regulatory constraints and bureaucratic rules that increase transaction and opportunity costs, for example, borehole permit

barriers. Likewise, the Government should assist in aquifer characterization and water surveys as well as facilitate access to all irrigation services. There is also need to encourage the use of appropriate technology, water resources management, supporting industries for inputs and outputs of irrigation, and farmer participation and organization in planning, monitoring and evaluation of irrigation projects.

The following agribusiness development strategies are also recommended: The required policy reforms, public investments and institutional/human resource development programmes and projects must be implemented; Productivity and entrepreneurship capabilities of smallholders, cooperatives and industry producers/traders/processors associations should be encouraged, and where necessary, improved; The agricultural sector should be restructured into an integrated and coordinated agribusiness system to achieve economies of scale, comparative advantage and contribute to broader economic growth, promotion of agro-processing industries, poverty alleviation and creation of employment/livelihood opportunities; Develop smallholder entrepreneurship and gradually transform/consolidate small farms into smallholder-based estates utilizing contract growing arrangements and/or joint agribusiness ventures as a viable strategy toward smallholder empowerment; and institutionalise Agribusiness Investment Centres, in close cooperation with the Malawi Investment Promotion Agency at national, regional and district levels through Government, Academia, Industry and Non-governmental Organisations (GAIN) networking and sustainable funding mechanisms.

4.3 Institutional Recommendations

The Malawi Government should continue to aim, as well as have the political commitment, to eradicate poverty, empower women and the civil society and ensure correct packaging, dosaging, sequencing and phasing of the structural adjustment programmes through improved policy studies and management. It also needs to invest more in uplifting the education and skills of the poor, foster small-scale enterprises and manage new technologies while not losing sight of the benefits of labour-intensive production. There should also be adequate consultation with various stakeholders in the negotiation, design and implementation of SAPs and less reliance on the IMF and World Bank in diagnosing the economy. The Government should build the required capacities within the relevant line ministries and institutions so as to properly manage the policy reforms. In this regard, it is further recommended that an autonomous body (institution) with highly qualified professionals in macroeconomic management (including the Ministries of Agriculture and Irrigation, Trade and Commerce, etc.) should be formed to backstop the GOM, particularly the Reserve Bank of Malawi, Ministry of Finance, Ministry of Economic Planning and Development, Ministry of Commerce and Industry, and manage the reforms for the betterment of the economy, and in the same vein, ensure sustainable livelihoods and food security for all Malawians at all times.

Coordination of all the proposed agricultural policies and strategies should be improved at all levels through proper allocation of resources and increasing capacities of relevant development institutions undertaking these strategies in the agricultural sector.

There is need to strengthen coordination, dissemination, management and implementation mechanisms of existing policies, strategies and strategic plans.

The assessment above has shown that labour productivity in the agriculture sector is low due to low productivity and profitability of the sector and inefficient production methods (**use of hand hoe**) where return to labour is very low. It is, therefore, recommended that in order to increase production, there is need to improve institutional support and human resource development capacities to support irrigation both at staff and farmer levels.

ANNEX 1

Table 1. Government Policies Related to Food Security, Nutrition and Livelihoods, 1990 – 2004.

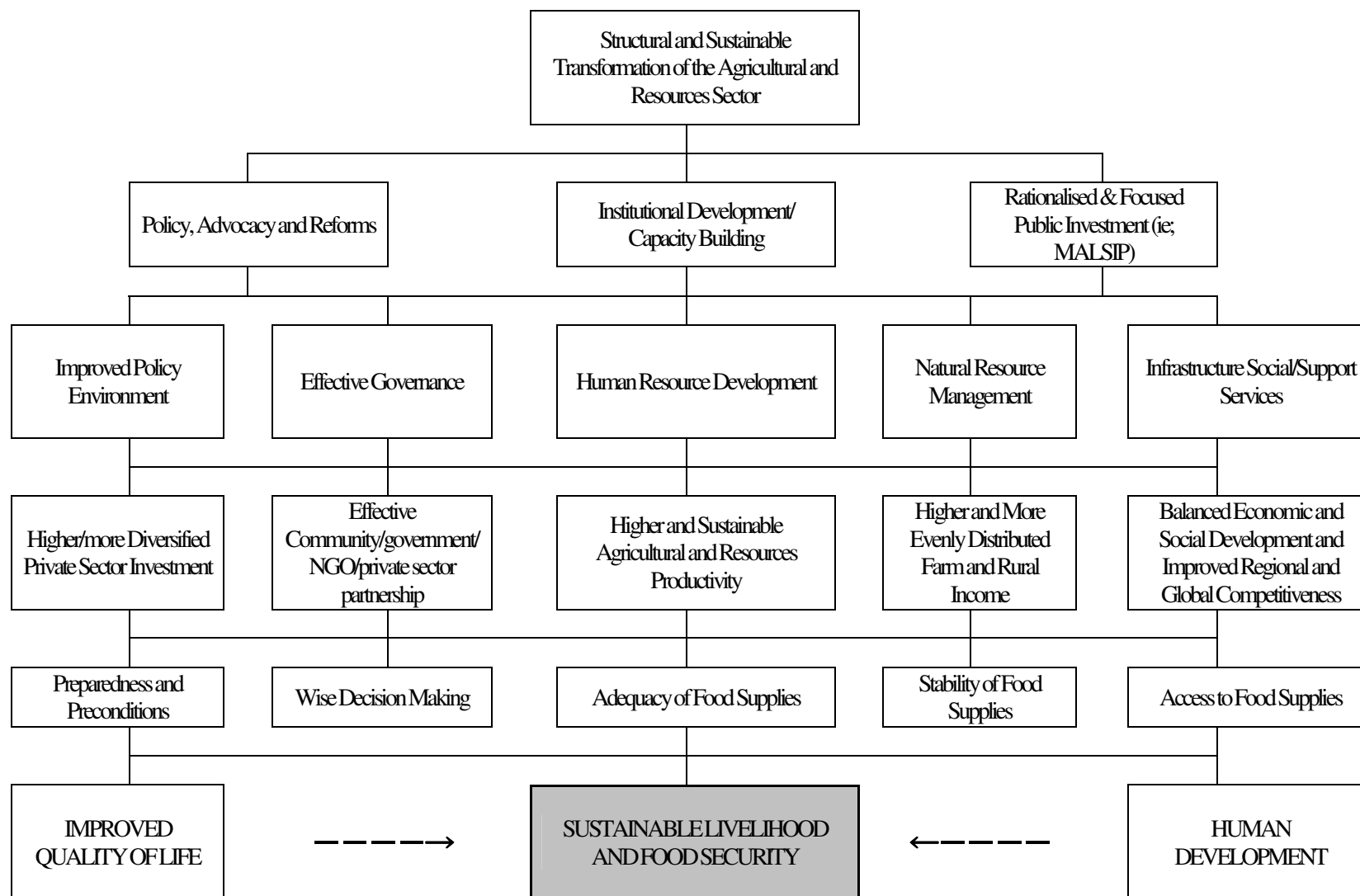
POLICY	YEAR	STATUS
Food Security and Nutrition Policy Statement (FSNPS)	1990	Approved
Malawi Plan of Action for Nutrition (NPAN)	1995	Draft
Poverty Alleviation Programme (PAP)	1995	Approved
The Agricultural and Livestock Development Strategy and Action Plan	1995	Approved
The National Health Plan of Malawi 1986-1995	1996	"
The Health Policy Framework	1994	"
Malawi National Family Planning Strategy	1994	"
Malawi National Population Policy	1993	"
Policy and Strategy Matrix for Primary Education 1995-2005	1995	"
National Environmental Action Plan	1994	"
Malawi Environmental Support Programme	1996	"
National Plan of Action for the Survival, Protection and Development of Children in the 1990s	1994	"
Policy and Plan of Action for Women in Development	1994	"
Malawi Vision 2020	1996	Draft
Forestry Policy	1996	"
Structural Adjustment Policies (Macroeconomic Policies)	Since 1981	On-going
Malawi Agriculture and Irrigation Sector Investment Programme (MAISIP)	1997	Under Formulation
Sustainable Livelihoods and Food security Programme (SLFSP)	1997	Under Formulation
Food and Nutrition Security Policy	2004	Draft

Table 2 Distribution and Growth of Gross Domestic Product by Sector of Origin, 1973-1994 (at factor cost, in percentage).

	Average Composition				Average Growth Rate		
Sector	1973	1980	1990		1973	1980	1990
	-	-	-		-	-	-
	1979	1989	1994		1979	1989	1994
Agriculture, Forestry, Fishing	39.6	36.6	33.4		5.4	0.8	2.1
Manufacturing	11.9	12.4	13.4		6.7	2.9	2.0
Electricity and Water	1.6	2.0	2.6		8.4	4.6	7.2
Building and Construction	5.4	4.4	4.2		7.4	0.3	-0.3
Distribution	14.1	12.9	12.3		6.4	0.7	0.5
Transport and Communications	6.6	6.1	5.7		6.0	0.5	-0.5
Financial & Professional Services	5.3	6.4	6.8		14.8	1.8	1.1
Ownership of Dwellings	3.8	4.3	4.4		7.5	2.6	2.5
Private Social Services	4.1	4.3	4.4		1.7	3.9	2.5
Government	9.4	13.2	15.0		6.0	7.1	0.6
Unallocable Finance Charges	-1.8	-2.6	-2.1		22.5	1.1	-1.6
GDP at 1978 Factor Cost	100.0	100.0	100.0		5.9	2.0	0.6
Plus Net Indirect Taxes	7.8	23.2	73.2		5.4	27.7	19.9
GDP at Market Prices	107.8	123.2	422.2		5.9	5.6	76.5

Source : *Economic Reports* (Various).

Figure 1: Areas of Strategic Interventions to Address Policy, Structural and Institutional Constraints for Sustainable Food Security and Livelihood Systems



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ENDNOTES

¹ Hachette and Luders (1993) and Bishop et al. (1994) present rigorous economic analysis of privatization in Chile and United Kingdom, respectively.

² See UNCTAD (1995).