

Agricultural Transformation in Malawi: A Call to Action

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- We highlight the need for and a path towards policies Malawi could adopt to achieve economic development and transformation.
- Overarching challenges include policy unpredictability, incomplete implementation, and poor coordination among stakeholders.
- FISP spending crowds out other investments that could address low productivity and environmental degradation.
- Leadership requires political will, evidence-based analysis, and a coalition of public, private, donor and NGO interests.
- MwAPATA's Agriculture Policy Reform Mechanism (MAREM) will facilitate this coalition to improve Malawian agriculture.

Why is Decisive Action Necessary Today?

While Malawi's economic performance has had some successes, overall growth has been slow. As a result, poverty, malnutrition, and inequality are worse than the average levels for sub-Saharan Africa. Reversing these trends sooner rather than later may avert a political and social turmoil.

Since independence in 1964, the country's GDP per capita in constant US dollars has grown by a mere 1.5% per annum on average (Table 1). GDP per capita in 2018 stood at 4% of the world average and was lower than that of 46 of Sub-Saharan Africa's 53 countries. Malawi faces the daunting challenges of rapid population growth (Table 1). The population is expected to rise from 18.1 million people in 2018 to 44 million people by 2050. About 85% of the population is rural, and 90 % of these depend on

Table 1. Population and GDP per capita Growth Rates (% p.a.)

	1964- 1979	1980- 2002	2003- 2014	2015- 2018	1964- 2018
Population	2.67	2.85	2.75	2.69	2.76
GDP Per Capita	3.02	-0.40	2.90	0.45	1.46

Source: World Bank

Population density has quadrupled over the past 40 years and is expected to more than double between today and 2050.¹ As a consequence of population growth, arable land holding per person also shrunk from 0.40 hectares (ha) to a mere 0.22 ha during 1971 - 2016 and is set to decline further to a pitiable 0.15 ha by 2050. The average farm size has equally shrunk to less than half of what it was in.² It is unlikely that future households will inherit sufficient land to maintain a reasonable livelihood from farming alone.

Increasing agricultural productivity growth would ease the problems arising from declining land holdings on rural livelihoods, but average yields have not kept pace and most rural households produce less today than in the past. Agricultural growth accounted for only about one-third of the growth in national income over 2012-2017. As a result, the country is incapable of feeding itself even in a normal agricultural year. Increasing dependence on food aid means that there is a declining amount of official development assistance left for investment in agricultural and other development efforts.³ More variable climatic conditions will further constrain growth of the largely rainfed and

hoe-based smallholder agricultural sector.

The share of agriculture in total government expenditure has risen from a mere 4.4% in 2004 to an annual average of 15.9% during 2010 – 2018. However, the government spends most of that budget on subsidies, and relatively little on agricultural research and development (R&D), extension services or infrastructure. Expenditure on the Farm Input Subsidy Programme (FISP) alone accounted for 90.8% and 62.0% of the “other recurrent transaction” expenditure of the ministry responsible for agriculture during the 2011/12 and 2015/16 fiscal years, respectively. Although this suggests a declining trend in FISP expenditures, FISP still crowds-out the ministry’s other key responsibilities. For instance, expenditure on agricultural R&D has dropped from 1.9% of agricultural expenditure in 1994 to 0.5% in 2014.⁴ These FISP expenditure can become a resource waste whenever climatic conditions become unfavorable for rain-dependent agriculture, as was the case in 2016.

Another trend adding to the urgency for action in Malawi is the rapid decline in international prices for tobacco. Malawi is arguably the most tobacco-dependent country in the world. Tobacco accounts for over 50% of foreign exchange earnings.⁵ However, the international demand for tobacco is in decline, as are international tobacco prices which plunged from US\$1008 in 2009 to US\$193 in 2016. Malawi, therefore, needs to urgently diversify away from its dependence on tobacco.

Outside of agriculture, the employment base is limited. The manufacturing (or industrial) sector’s share of GDP declined from 12.3% in 1975 to 9.4% in 2017. By contrast, the share of services in national GDP rose over the past five decades, from 38.3% to 52.4% during the 1960 – 2017 period. However, the growth in services is almost entirely attributed to an increase in wholesaling and retailing of imported products, a trend that does not create significant off-farm employment nor reduce

poverty. The result is that agriculture still accounts for more than 70% of employment, compared with 19.9% for services and 7.7% for manufacturing.² The high dependence on imports also erodes foreign exchange and distresses the trade balance, leading to imported inflation.

Finally, advanced educational attainment is difficult to come by for many in Malawi and provides limited opportunities for those who attain it. Over 80% of Malawians that successfully complete secondary school are not admitted to universities because of space limitations; and 90% of university graduates do not find formal sector jobs within 3 years of graduation.²

These trends in socio-economic indicators suggest that a “business as usual” approach to economic management is unsustainable, heightening the urgency for national policy interventions that will catalyze and sustain high levels of economic growth to avoid a grim fate.

Agricultural Transformation – A Driver of Economic Transformation

The agriculture sector offers the best immediate option for furthering Malawi’s economic transformation. Agricultural growth increases demand for many services along agricultural value chains and provides key products for the agro-industry. In turn, higher farm and rural incomes grow demand for locally supplied consumer goods and services. Small farm-led growth can also lead to an economic transformation that is pro-poor and employment-intensive, creating opportunities for small and medium-sized enterprises.

Studies using economy-wide models show that Malawi’s agricultural sector needs to grow by at least 6% per annum in order to seriously impact on poverty. The models also reveal that this agricultural growth needs to be supported by productivity improvements in the industrial and services sectors to transform the economy.

The agricultural sector in Malawi has good prospects. Population growth, rising middle incomes and urbanization lead to increased demand for its products. There is also potential to move beyond the traditional farming systems. As shown below, promising opportunities exist for raising crop yields, expanding the irrigated area, and developing new agricultural value chains. Exploiting these opportunities requires land-based productivity enhancement efforts that will systematically manage the interactions between soils, water, and human interventions through integrated natural resource management.

Scope for increasing yields and total factor productivity

Although Malawi's average cereal yields have increased from 1.0 to 1.9 ton per hectare during 1961 – 2017⁶, experimental stations within the country show that yields of 5 tons of maize per hectare are quite feasible. This suggests that extension programs to improve crop management can produce dramatic benefits. Improving the productivity of livestock and horticultural products, which are in increasing demand, could offer major improvements to total factor productivity.

Scope for increasing irrigable land

One specific yield-improving technology is irrigation. Only 3.3% of Malawi's rural households benefit from smallholder irrigation schemes, and only 4% of Malawi's crop land is currently irrigated, although the country's land and water resources are sufficient to more than double this amount.⁷ Other estimates suggest that irrigation has the potential to quadruple yields.⁸ The launch of the Shire Valley Transformation Project (SVTP) in 2018 addresses part of the need to exploit the country's irrigation potential, but the initiative will need to be supplemented by other large irrigation investments to realise the country's full potential.

Scope for developing value chains

With growing national demand for livestock and horticultural products, oilseeds, fish, and processed foods, there are promising opportunities to develop new value chains (VCs) that could reduce Malawian smallholders' reliance on tobacco as a cash crop, to develop new agricultural exports, and to enhance substitution of domestic for imported foods. More efficient VCs bring reverse benefits as they are a conduit through which powerful spillover benefits from agricultural growth translate into additional value-added and employment within the food system. The main challenge is to increase productivity along key VCs, and to remove barriers to private sector expansion. More efficient VCs are needed so that farmers can access modern inputs and markets at prices that enable them to compete with imports and to develop exports.

The Way Forward: A Call to Action

All of the country's development strategies identify agriculture as the foremost priority sector. Most of the challenges affecting the agricultural sector are also recognized, and their solutions have already been emphasized. The government has committed significant resources to agriculture, far exceeding CAADP's 10% goal. Yet, Malawi's agricultural sector performance remains poor. The major reasons for this performance are:

- (i) an unpredictable policy environment.
- (ii) failure to implement policy reforms.
- (iii) lack of proper coordination among stakeholders.
- (iv) overspending on FISP at the expense productivity-enhancing investments such as research, extension, irrigation, or the promotion of crop diversification; and
- (v) environmental degradation.

Redressing these challenges is necessary to create an enabling environment for inclusive, broad-based, and sustained agricultural sector growth.

Political will is the most crucial ingredient to achieving the required transformation. It is widely known, for instance, that concerted leadership has led to broad-based and inclusive economic

transformations in Rwanda and Ethiopia, both of which, like Malawi, face the challenges of land-lockedness, high population densities, environmental and resource degradation, and climate change. Compared with these two countries, however, Malawi has had the added advantage of lasting peace. Generally, the evidence suggests that development is a leadership-driven process because it is leadership that transmits the signals on the basis of which a country's structure of institutions and incentives evolves.

Effective leadership needs to involve a “coalition of the willing”, representing parliamentarian, public, private, donor and NGO interests, that can mobilize and sustain support for the agenda over election cycles, and contribute to its effective implementation. Such a coalition needs to be supported by evidence-based policy analysis to promote public debate and consensus-building. Therefore, Malawi needs to build a home-grown institution capable of generating new knowledge as the basis for evidence-based policies. The newly established MwAPATA Institute has the potential to assume this important role in Malawi.

Moving forward, more work is required over as short a period as possible to move this agenda forward. For that purpose, the MwAPATA Institute is putting in place the Malawi Agriculture Policy Reform Mechanism (MAREM) as a common platform to facilitate the coherent visioning, development, adoption, and implementation of the necessary reforms in the wider agriculture sector in Malawi.

The socio-economic trends presented in this brief suggest that this reform process is long overdue, and ought not be delayed any further.

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