

**GROWING OUT OF POVERTY – A STRATEGIC DIRECTION IN THE
AGRICULTURAL SECTOR**

**A paper contributed by the
Malawi National Strategy Team**

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1.0 Background

Over the last ten years, Malawi's economic performance has consistently fallen below the level required to significantly reduce poverty. This is evident in the high rate of population growth of about 3.2 percent vis-à-vis an annual GDP growth of 1.6 percent. It may therefore not come as a surprise that export performance has been poor with Malawi rarely achieving a trade surplus on the current account. The various structural rigidities such as high population density; declining soil fertility and low productivity coupled with exogenous economic shocks have contributed to the deterioration of in Malawi's development in several respects;

Malawi's socio-economic indicators compare badly, even with Sub-Saharan Africa (see Table 1 below). Malawi's poverty statistics (2004 IHS SURVEY) indicates that 52.4 % of the population is living below poverty line of 1 dollar per day. Out of this, 22% are chronically poor and living in rural areas. Urban community poverty levels are at 25%.

Table 1: Selected social and demographic indicators in Malawi and other countries

	Malawi	Sub-Saharan Africa
Population below the poverty line	52.40	-
Per capita income (USD)	167	470
Illiteracy rate (percent of people aged 15 and above)	40	39
Life expectancy at birth (years)	39	47
Infant mortality (per 1,000 live births)	1,120	1,100
HIV/AIDS prevalence rate (percent, ages 15-49)	15	8.4

Source: DTIS 2004

Malawi is unlike many other countries in the region in regard to the severity of the constraints posed by its demography and environment. Massive population pressures, very small landholdings and the unreliability of rain present policy-makers in Malawi with a uniquely pressing set of challenges. This requires an approach that reflects Malawi's unique agro-economic conditions (and perhaps compromise) and quest to increase productivity and attain a diversified economy based on agriculture.

2.0 Role of Agriculture in Poverty Reduction

Agriculture has been identified as the main driver of sustainable economic growth and transformation as outlined in the Malawi Growth and Development Strategy pillar one.

During the period 1970-2001 Agriculture contributed an average of 36.6% of GDP and while share of agriculture in employment was about 51%. Currently its contribution to GDP has been pegged at 40% for the year 2005. In terms of employment, agriculture sector contributes about 87% of total employment.

Table 2: Malawi: Importance of the Agricultural Sector, 1970 – 2001

Indicator	1970-79	1980-89	1990-94	1995-01
Share of agriculture in GDP (%)	39.6	36.6	33.4	36.9
Share of agricultural sector employment (%)	40.6	47.3	50.2	51.2
Manufacturing/agriculture wage ratio	3.4	3.7	3.4	2.6

Source: Chirwa and Chilowa (1999) and NEC (2002).

Analyzing the agricultural annual growth rate, the sector growth rate has been projected at 11.8 percent in 2006 up from 2.7% in 2002. A peak growth has been observed between 2005 and 2006 and this growth has been attributed to subsidy programme and good rains experienced during the period. Within the same period from 2005 to 2006, the small-scale production increased from -11.7% to 14.2% while large-scale increase from -0.6 to 4.2%.

Table 3: Annual Growth rates at 1994 Factor Cost

AGRICULTURE SECTOR	2002	2003	2004	2005	2006
Small scale	-0.4	12.4	-1.4	-11.7	14.2
Large scale	14.2	-15.4	20.5	-0.6	4.2
Agriculture Sector	2.7	5.9	2.7	-9.3	11.8

This economic outlook is a positive indication that interventions to address poverty as outlined in the Malawi Economic Growth Strategy (MEGS) are now on their right path.

3.0 Export Led Poverty Reduction in Malawi

The Malawi Economic Growth and Development Strategy (MEDS) and Response paper on ‘the Case for a National Export Strategy: Key Issues and Possible Responses’ identified some export products namely Tea, Sugar, Tobacco as key to short term growth while Cotton, Textiles and Garments, mining, handicrafts, agro-processing, tourism among others as key sub sectors to support desired growth of about 6 percent per annum. Improving the economic performance of the economy’s priority sectors is one of the key drivers of achieving sustainable economic growth. As such, efforts are being made to improve on the value chain, specifically to add value, improve on quality and also volumes, which have been stagnant over time. Further efforts are still going on to identify new areas of export potential to be included as priority sectors for Malawi.

However Malawi faces a lot of constraints. These include constraints and distortions limiting demand internationally notably agricultural subsidies, technical barriers to trade and sanitary and phytosanitary requirements in developed country markets. Additional challenges that need to be overcome in sending its products to international market include high transport costs, the high cost and poor quality of utilities (electricity, water and telecommunications), weak skills base, poor private sector development infrastructure and the heavy tax burden on the narrow formal private sector.

4.0 Effective Strategies for Generating Exports

Malawi export performance has been mixed. Malawi enjoys trade balance with EU countries while suffering big deficit regionally. This among other factors has forced it to come up with strategies both in trade, agriculture, infrastructure and finance to revitalize the export sector. Some of the key initiatives include:

4.1 The National Export Strategy

The Government of Malawi recognises the importance of exports as a driver of growth and is now working in partnership with our donor partners, with the private sector and with civil society to develop a National Export Strategy for Malawi. The strategy seeks to highlight export issues as development issues. Exporting activities need to be put more clearly onto the political agenda as a key element in the Government’s efforts to reduce poverty, generate employment and raise living standards for the people of Malawi.

The strategy is expected to respond to all issues, which affect the international competitiveness of the private sector as a whole. It will also take special steps to improve performance in those product and service sectors with high export potential. Currently work has started to develop sectoral strategies for Mining, handicraft, Tourism, Services and Cross Cutting sub sectors.

4.2 The Private Sector Development Strategy

Weak investment and productivity growth are underlying causes of Malawi’s low economic growth. Gross fixed investment is at 8.1 percent of GDP (World Development Indicators 2005) and growth in labour productivity is also virtually zero. Key impediments to such conditions have been brought about by poor and costly business environment for private enterprise development, weak institutional capacity, public-private sector dialogue on policy, PSD awareness and support to SMEs.

The government has therefore embarked on developing a PSD strategy whose focus will be on improving investment climate for private sector enterprises through policy and legal reforms, build the institutional capacity to provide efficient support services, unlock the growth potential of SMEs, empower indigenous Malawians, support private sector dialogue and facilitate change in mindset and attitudes towards private sector.

The expected result of this strategy is that removal of such impediments will enable the private sector to be more competitive and hence play a critical role in driving sustainable economic growth and social transformation in Malawi.

4.3 Trade Infrastructure

Infrastructure programmes have been emphasized as much needed in terms of supporting agriculture production and marketing. Currently the government has embarked on building market access roads, common processing facilities, port development, bridges, storage facilities and rail links to facilitate both domestic and international trade. Some of the notable infrastructural programmes include:

- Shire-Zambezi waterway project Railway link with Sena Corridor and with Moatze Coal Mining Project in Mozambique and Chipata-Mchinji line in Zambia.
- Rehabilitation of Nacala line in Mozambique.

Currently transportation costs account for a bout 55% of the total trade transaction costs in Malawi.

4.4 Access to Export Credit

If we analyse the credit access in Malawi it is observed that generally access to credit in Malawi is in the region of 13%. There is general lack of credit lines to support exports of products in Malawi some of which include Export Credit Guarantees, Export Insurance Schemes, Venture capital and other export loans. Lack of access to credit is one of the most serious problems affecting the agriculture export community in Malawi. However, the government is exploring ways of:

- Introducing Cooperative Development Banking
- Development Banking with Donor Assistance
- Credit Bureaus to support credit culture
- Implementation of the Micro finance policy

Hence, the impact is that the level of export risks will be minimized as farmers will be assured of a return on their export ventures.

4.5 Enhanced Food Security through Trade Programme

Trade linkages with agriculture is one of the key initiatives being pursued to empower farmers in their production with information on trade and market opportunities existing locally and internationally. One such, initiative is the Enhanced food Security through Trade programme which is being spearheaded by Ministry of Industry, Trade and Private Sector Development.

Most farmers and rural entrepreneurs are not able to fully participate in the trade opportunities available to counterparts in the urban and semi urban areas. While, it is true that volumes of agriculture produce fail to make it to intended markets due to among others the problem of market and trade information, farmers' production has been below capacity. A programme has been designed with the funding from EU through the Ministry of Industry, Trade and Private Sector Development to link up with Ministry of Agriculture and Food security to address the issues of market and trade information to benefit the rural farmers in Malawi. It is argued within the government that such a programme would not only increase investments in the agriculture sector but would be instrumental in easing off the burden of poverty among the rural populace.

4.6 Irrigation Development

Irrigation is a major component of the Agriculture policy framework. It is further argued that to address the objectives of food security and also export led growth agricultural growth, there is need broaden interventions to integrate and focus on irrigation farming. In deed a carefully plan of irrigation system has the potential to put agriculture on the path of self-propelled and self-reliant development under

leadership through an indigenous public private partnership in the areas of agriculture led growth, food security and poverty reduction.

Currently, irrigation is a priority of government and sustainable small-scale irrigation initiatives are being encouraged to support exports in Malawi.

5.0 Examples of Export Programmes

Malawi has some few notable examples of Export programmes that combine export generation and poverty reduction. Few examples include:

5.1 Out grower Schemes in the Sugar Industry

Recent expansion of out-grower schemes in the sugar industry is, however, also having a strong poverty impact.

5.2 Liberalisation of the Tobacco sub-sector

The liberalisation of Malawi's tobacco sub sector in the early to mid 1990s resulted in a massive redistribution of income from a small number of estates to a large number of smallholder farmers. This redistribution of income, together with the continued profitability of the crop at that time, undoubtedly contributed to the relatively high rates of GDP growth recorded during the 1995-97 period.

5.3 Export Processing Zones Scheme.

Malawi is one of the countries in Southern Africa still using the EPZ scheme to boost its exports. Much as investments in the EPZ scheme has remained constant (between 20 and 26 companies in the period 2001-2006), its contribution to employment and exports has been significant. Most of our exports under AGOA have been done under the EPZ scheme. Currently local participation has been significant in the EPZ sector.

5.4 AGOA programme

Under the African Growth and Opportunity Act (AGOA), Malawi is granted preferential access to the United States market for a 1,800 products (duty and quota free) in addition to the standard GSP programme of the US. Previously Malawi was benefiting through increased garments exports to the US after being designated as an AGOA textiles and apparel beneficiary country in October 2000. Garments exports to the US peaked during 2004 at around USD 30 million per year. However, with the phasing out of the WTO Agreement on Textiles and Clothing on 1 January 2005, US quota restrictions on more competitive garments producers in Asia were eliminated. This has lead to the US garments market becoming much more competitive for African manufacturers.

A more recent development during 2005 was the success enjoyed by Malawian exporters of macadamia nuts to the US. Malawi is now the largest exporter of macadamia nuts to the US under AGOA.

6.0 Organizational Structures

6.1 Production and marketing Structures

Malawi is coming from a background where government took a lead role in both the production and marketing structures until the 1980s and 90s when restructuring programmes started to be implemented in this part of the region. Following reforms, a vacuum was created in the marketing of agriculture products.

However, some of the notable institutions in Malawi, which currently focus on the promotion of markets for agriculture products, include:

- a. ADMARC – provision of marketing outlet for rural agriculture produce and also sells farm inputs.
- b. MEPC – provides export promotion services to farmers and others businesses in Malawi.

- c. NASFAM – assists farmers to produce, add value and market rural agriculture commodities.
- d. MARDEF – assist rural poor with small loans for businesses and production for exports. Most rural farmers and SMEs are currently benefiting from this credit initiative.

However the export led strategy support network generally suffers from a lack of coordination. Most members (Government ministries) tend to see exports as a responsibility purely of the Ministry of Trade and Private Sector Development and see the private sector more as a source of revenue rather than a driver of economic growth and poverty reduction.

However, there is now commitment to strengthen the institutional capacity of the trade support network and also improve on their coordination to support and nurture export enterprises.

7.0 Agriculture Clustering

Cluster development initiatives are key to revitalising the export potentials of the SMEs and hence effectively addressing the poverty of the rural poor. Many SMEs lack access to soft credit, technology, skills transfer and also markets which would otherwise be addressed in a cluster set up.

The Government can provide start up funds, facilitate or play a coordinating role to kick-start cluster development to address the issues just mentioned facing the SMEs. Such efforts have proved worthwhile especially with smallholders by improving quality of products, meeting required volumes, reducing transaction costs, etc. In addition, the government can also partner with private sector, donors and civil society to develop clusters and provide initial finance and structure them in such a way that they become sustainable in the long run.

The Ministry of Industry, Trade and Private Sector Development is therefore embarking on a Rural Industrialisation programme in Malawi that seeks to promote clustering in production and exports of agriculture products.

8.0 Conclusion

A study on macroeconomic performance in Malawi and Poverty reduction (Chirwa 2003) showed that macroeconomic policies that promote salaried job opportunities in rural Malawi which may enhance the asset base of poor households and land redistribution policies have the greatest potential to reduce poverty. Although, trade policies have been actively pursued in Malawi, the rural poor have not benefited from trade liberalisation and falling agricultural prices reduced the probability of the poor to escape poverty.

This therefore points to the adoption of a multisectoral approach that supports both production and processes along the value chain so as to create employment for sectors with export potential.