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AGRICULTURE, EMPLOYMENT AND POVERTY IN MALAWI

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PREFACE

I am pleased to present this latest contribution to the SAMAT Policy Paper Series entitled 'Agriculture, Employment and Poverty in Malawi'. This paper was prepared in the context of a larger exercise that studied the challenges of promoting productive jobs in Malawi.

The objective of this paper is to review the evolution of agriculture in Malawi in a historical perspective and consider policy measures that have recently been effected, or options that are available to promote growth and equity in the rural sector. The author emphasises, in particular, the need for land reform, improvements in productivity, diversification, and a variety of other types of reforms as well as conditions under which such reforms are likely to lead to desired outcomes.

SAMAT Policy Papers focus on policies and strategies that are pursued and developed in Southern Africa which affect labour standards, employment, and other labour issues. The series is intended to provide an ILO perspective on such issues, with a view to suggesting ideas and alternatives that can be taken into account by policy makers in the fields of labour and development. In this way, the Policy Papers aim to provide a basis for technical cooperation between the ILO and its constituents in southern Africa.

This paper was prepared by Dr. Thandika Mkandawire, Director, United Nations Research Institute for Social development, Geneva, Switzerland.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Agriculture plays an important role in the economy of Malawi. Eighty-five per cent of the economically active population is in agriculture, 35 per cent of the GDP stems from this sector, and 90 per cent of foreign exchange earnings are due to agricultural exports. More significantly for this study, agriculture supplies labour to the non-agricultural sector and basically determines its reservation price of labour. Consequently, it is impossible to devise sustainable employment and wage policies in the non-agricultural sector without taking full account of developments in agriculture.

1. Resource base

1.1 Human resources

Malawi is one of the most densely populated countries in Africa with an estimated density of 90 persons per square kilometre. This national average conceals sharp district and regional variations. The population is highly concentrated in the Southern Region, which accounts for around 50 per cent of the population. The Centre and the North have 39 and 11 per cent, respectively. Some districts in the Southern and Central regions record densities of between 260-460 persons per square kilometre. On the other hand, in North Rumphi the density is only 16. The growth rate of the population – estimated at 3.5 per cent per annum – remains high. Some 85 per cent of the population live in rural areas, making Malawi one of the least urbanized countries in Africa.

The labour force participation rate – the proportion of the population that is economically active – was 43 per cent in 1987. Only a small percentage of the labour force is employed in the formal sector as wage labourers or tenants. Significantly, and unusually for an African country, the overwhelming majority of wage labourers or tenants is in agriculture.

Because of the neglect of primacy education and adult literacy, Malawi has high levels of illiteracy. Forty-three per cent of the adult population is illiterate. Adult illiteracy among women is, at 58 per cent, even higher (UNDP, 1997).

1.2 Natural resources

Although a number of minerals are known to exist in Malawi, mining constitutes a negligible activity, at least when compared to most of her Southern African neighbours.

There is considerable controversy over how much land is arable and, even more sharply, over how much of the arable land is utilized or under-utilized. Although there has been significant degradation of fertility over the years, the soils in Malawi are considered fairly good and allow for the cultivation of a wide range of crops. However, population densities and farming practices (especially the cutting down of wood for curing tobacco) threaten the fertility of soils as deforestation.

A defining geographical feature of Malawi is Lake Malawi. And yet Malawian agriculture is heavily dependent on rainfall, a source of vulnerability brought home by recent droughts. Malawi has an estimated 290,000 ha of potentially irrigable land. Only 25,000 ha of this total are irrigated, mostly in the estate sector and mainly for sugar. The potential of irrigation is suggested by the fact that this irrigated land already accounts for close to 10 per cent of the country's exports.

Malawi is a landlocked country. This fact places a premium on high valued crops to compensate for the relatively high transportation costs the country faces and also on the important role that regional markets can serve. On the import side, being landlocked argues for import substitution or self-sufficiency in low value, bulky imports.

2. Historical overview of policies

2.1 Labour reserve syndrome

One remarkable feature of Malawi was that at independence neither peasant or smallholder agriculture nor large-scale commercial agriculture were developed, at least when compared to the smallholder-based agriculture of most West African countries or the large-scale farming of Kenya and the then Southern Rhodesia (now Zimbabwe). Many factors accounted for this lack of development, some of which impinge on the structure and performance of the agricultural sector to this very day.

On the one hand, was the labour "reserve" status assigned to rural Malawi both with respect to estate farming in Malawi and the Southern African regional markets. This meant that instead of being a source of cash crop production, rural Malawi was treated as essentially the "reserve" from which estate agriculture in Malawi and the mines and plantations in South Africa and the then Rhodesias could draw their labour. Having accepted this status for the rural sector of the colony, the colonial government was in no particular hurry to develop peasant agriculture until much later in the post-World War II era when "Colonial Development and Welfare" programmes were initiated. On the other hand, colonial paternalism and the peculiarities of settler agriculture in Malawi stifled the expansion of commercial agriculture. Caught between models of peasant-based agriculture export and settler agriculture, the colonial authorities simply never resolved the problem. The consequence was a poorly developed White settler commercial farming and a subsistence economy whose monetization was largely based on remittances from workers in South Africa and the mines in the two Rhodesias.

Policy pronouncements by the nationalists were clear on the need for stimulating peasant agriculture if problems of poverty were to be addressed. And in the early years of independence, the Malawi Government's focus was on reversing colonial neglect of peasant agriculture and removing the coercion that had been introduced in the combat against soil erosion. The post-colonial government initially sought to resolve the problem by encouraging peasant agriculture in new crops and some of the crops that hitherto had been reserved for White farmers. The post-colonial strategy outlined in the Government's *1962-65 Development Plan* was stated as follows:

> production in agriculture must increase at a phenomenal rate, so that reliance on it as a source of income has meaningful content not only for the few, but also the masses. It will do so if there is a sustained and effective campaign to encourage and assist the masses to take up cash crop farming. This is what Government sets out to do in the present plan.

In 1968 the Government first raised doubts about the viability and appropriateness of smallholder driven agricultural transformation and viewed the estate sector as a potentially more reliable source of both government revenue and foreign exchange. By the end of the 1960s, his policy option was dropped in favour of one that essentially reduced peasant production to the maintenance of a labour reserve. It was decided that a broad-based strategy of development based on smallholder agriculture was a non-starter. President Dr. Banda, who was also Minister of Agriculture, explained the switch in policy thus:

> Prior to 1969 the agricultural extension services were mass oriented. It became abundantly clear during 1969 that our inadequate extension services were dissipated by this method. We therefore introduced the Achikumbe programme which aims at concentrating efforts on those progressive farmers who have in the past responded well to extension advice and have adopted modern farming practices and who in themselves would act as catalysts. The remaining farm families would be contacted through the media of radio, mobile units, meetings (Banda, 1971).

This led to policy initiatives that have left an enormous legacy on Malawi. It is important to understand the underlying logic of this strategy, if partial reforms are not to be frustrated by the ensemble of problems generated by the model. The model has been characterized as “bimodal” or “dualistic”, not in the sense that its two sectors were separate and autonomous of each other, but in the sense that it was based on a specific articulation of two sectors – a large-scale commercial farming sector and a smallholder, semi-subsistent farming sector.

The arguments for a dualistic strategy were based on the assumption that the relationship between the two sectors would be mutually beneficial or at worst benign. The expected gains accruing to the smallholder sector included:

- Technological “spillover” stimulated by the “demonstration” effect as knowledge available on the estates “spilled over the fence”, as it were. In addition, the knowledge acquired through “learning-by-doing” during wage employment on the estates could be used by the employees on their own farms.
- Incomes of small households would be augmented by remittances by workers in the estates.
- Estates would provide outlets for smallholders especially for goods which constituted the “wage basket” – maize in the case of Malawi.
- Estate agriculture would provide relief to pressures on land by providing wage employment.

In the event, none of these benefits was realized. Work on estates did not provide much by way of learning since in many cases the estates were ill equipped and poorly managed and, indeed, relied on the ingenuity of the tenants and workers themselves. Given the extremely low wages paid in the estates, remittances from the estates never played the expected role in augmenting the incomes of rural households. While wage employment increased rapidly, much of it was irregular and involved considerable amounts of underemployment.

Indeed the relationship between estate agriculture and smallholder agriculture was characterized by essentially exploitative characteristics. There were conflicts over land, labour and even markets. With the help of policies of the government of the day all these conflicts were resolved in favour of the estates and to the detriment of small producers. The two sectors – estate and smallholder – were intertwined by a grim logic that has frustrated any attempts at alleviation of poverty by harnessing this dualism. Given the cohesion and inner logic of the "strategy", it is important to view policy changes in a holistic manner, cognisant of the interrelationship among the various policy elements relating to pricing, marketing, research and labour. Partial reforms are unlikely to succeed. Policies intended to exclusively address the problems of the poor without challenging the underlying logic of the dualism have ineluctably come to grief. Exclusive concentration on product prices without taking into account the context of the logic of the overall strategy, isolated reforms, while desirable in their own right, might have totally unintended consequences if other aspects of past policies are not adequately addressed. To cite one example, attempts to encourage smallholder tobacco under the then prevailing conditions often led to further intensification of alienation of customary land as such land was converted into "estates". Indeed, the failure of the various Structural and Sectoral Adjustment Loans (SALs) to increase production, diversify agriculture and improve the living conditions of the poor can be squarely attributed to the fact that donors either skirted the issue by believing that the dualism was mutually supportive or was at worst benign. Thus, SAL did not address the question of estate agriculture and the institutional constraints on smallholder agriculture. Indeed, as late as 1980 the World Bank in its *Economic Report* (Annex 1, p. 61) summed up Malawi's estate sector as "very efficient" although many of the farms were in receivership due to poor performance and inefficiency (Kydd and Hewitt, 1986).

2.2 Promotion of estate agriculture

A key element of the new strategy was the promotion of estate agriculture. Estates, which were only 229 in 1970, had reached 14,355 two decades later in 1989 (Table 1). More recent data show that there are about 22,000 estates (Ng'ong'ola et al., 1997a). And so today estate agriculture plays a significant role in Malawi, producing 90 per cent of Malawi's agricultural exports (tobacco, tea and sugar) and about two thirds of agricultural output on a fifth of the total cultivable land. A number of policy instruments were used to develop estate agriculture, each of which had major implications for peasant agriculture.

2.2.1 Land policy

The first was a commitment to the establishment of estates and a conversion of communal land to some form of private property. According to the then head of state, Malawi agriculture could not develop if land resources were not properly utilized and proper utilization could not take place where there was no individual responsibility over land resources. In a memorable statement of the case for the government's stance Banda argued "Everybody's baby is no one's baby". This evocation of the "tragedy of the commons" argument against communal ownership has profoundly coloured government policy since the alienation of communal land was through the creation of opportunities for the large estates to lease land at a very low cost. Within a period of less than two decades leasehold land had grown tenfold from 79,000 hectares in 1970 to 759,400 hectares in 1989 (Table 1). Recent estimates suggest that estates take up more than 1,000,000 hectares (Ng'ong'ola et al., 1997a). This is more than 10 per cent of total land (cf. Table 2).

Table 1: Number of estates and hectarage, 1970-89

Year	Cumulative number of estates	Cumulative area ('000 ha)	Mean size of estates (ha)
1970	229	79.0	345
1970-79	1,105	255.8	231
1980	1,321	273.1	207
1981	2,086	320.0	153
1982	3,806	386.0	101
1983	4,806	435.2	91
1984	5,292	460.1	87
1985	5,655	491.5	87
1986	6,247	517.9	83
1987	8,114	588.1	72
1988	11,953	695.8	58
1989	14,355	759.4	53

Source: Mkandawire et al. (1990).

Table 2: Changes in the nature of landholding, 1967-88

	1967		*1970*		*1973*		*1988*	
Type of land	'000 ha	%	'000 ha	%	'000 ha	%	'000 ha	%
Customary	8,100.9	85.0	7,777.7	81.6	7,700.6	80.8	7,066.2	74.8
Freehold	153.4	1.6	147.5	1.5	107.6	1.1	52.0	0.6
Public	1,206.8	12.7	1,525.6	16.0	1,592.1	16.7	1,641.6	17.4
Leasehold	68.6	0.7	79.0	0.8	129.5	1.4	688.9	7.3
Total land	9,529.7	100.0	9,529	100.0	9,529	100.0	9,448.7	100.0

Source: Mkandawire et al. (1990).

One feature of Malawian agriculture is that while 55 per cent of peasant households have small holdings (<1.0 ha), there are high levels of land underutilization in the estates (Tables 3 and 4). The underutilization of land reflects, among other things, the ease with which the land was actually acquired, the low land tax and the "absentee landlordism".

Table 3: Estimates of land utilization on estates (per cent)

Ng'ong'ola (1993)	Kasungu Tobacco Estates	45
World Bank (1993)	National	24

GOM/UNDP (1993)	National	28
Ng'ong'ola et al. (1997b)	Sample of Maize Producing Estates	24.5

Table 4: Land use (millions of hectares)

Land Classifications	*Total area*	*Area suitable for agriculture*	*Area cultivated*	*Area available for expansion*
Public land	1.80	0.60	0.00	0.60
Estate land	1.20	0.55	0.30	0.25
Customary land	5.50	4.55	4.30	0.25
Other land	0.80	0.00	0.00	0.00
Total	9.30	5.70	4.60	1.10

2.2.2 Commodity markets and surplus extraction

The second aspect of this strategy was that the estate sector would have favourable access to markets. In fact they would have direct access to world markets through the auction floors. Smallholders, on the one hand, were to be "taxed" through the monopsonistic position of the Agricultural Development and Marketing Corporation (ADMARC). While, initially, the change of name of the institution from Farmers Marketing Board to ADMARC signalled changes that would make the marketing institution act also as a development agent for smallholder agriculture, the most prominent role of ADMARC became marketing and the capture of peasant "surplus" as little of ADMARC's significant earnings were ploughed back into smallholder agriculture. Instead, ADMARC resources were invested in a wide range of parastatals that directly or indirectly benefited the estate sector.

Further undermining the earning opportunities of the peasants was the virtual collapse of the rural commercial sector as the result of the expulsion of Asian traders from the countryside and their replacement partly by parastatals such as Chipiku stores and partly by a poorly developed indigenous rural commercial class. The idea behind the expulsion of Asian traders was "indigenization". In the event this proved a daunting task, especially in the absence of policies to develop an indigenous commercial class through training and credit schemes. One should also note here the risks that indigenous entrepreneurs ran if they were too successful. Running foul of local level political authorities or political youth brigades could easily lead to detention and the forfeiture of one's property. This essentially meant that the peasants bore the full brunt of the costs of indigenization of rural commerce through poor services and high prices.

2.2.3 Labour markets

A third and perhaps most pernicious aspect of the strategy was the set of measures designed to produce cheap labour for the estate sector. Concomitant with the tenfold increase in leasehold area under estates has been sharp increases in wage employment in the estates. During the 1980s employment in the estates grew at the rate of 8 per cent per annum in comparison with the expansion in the smallholder sector of 2.3 per cent. In

1995, agriculture employed 375,941 workers, more than half the total wage employment of 700,558 in the country (Table 5). This is a relatively high level of agricultural wage employment by African standards. Estimates are that estates of less then 15 hectares employ an average of 1.3 permanent workers per hectare of land leased while those in excess of 100 hectares employ 0.52 (World Bank, 1995).

Table 5: Formal sector wage employment

	Total	*Agriculture*
1968	135,000	44,000
1977	309,000	155,000
1987	407,000	180,000
1989	435,000	214,000
1990	558,970	296,826
1991	546,125	274,258
1992	583,440	277,425
1993	583,238	302,781
1994	652,612	351,250
1995	700,558	375,941

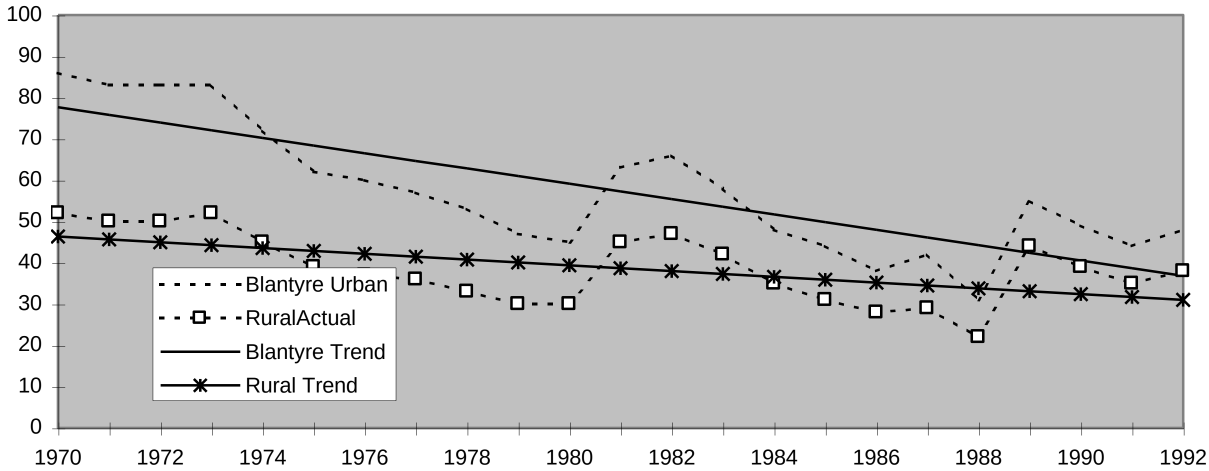
Source: Livingstone (1995), NSO (1995) and data provided by the Malawi authorities.

The number of small estates has increased as a share of the total number of estates. Such small estates are more labour intensive than the larger ones. It would therefore appear that, from the employment point of view, the increase in the number of small estates is a welcome development because although they employ fewer tenants than large estates in absolute terms, they are more labour intensive per unit of land area than the latter. However, the quality of this employment in terms of income, livings standards and security leaves much to be desired. Conditions of labour on these estates fall far below national standards. A characteristic of this wage employment was that it consisted largely of low paid jobs. Consequently, average earnings were about a third of the national average. Studies indicate not only that workers on estates are malnourished (Ng'ong'ola et al., 1997a) but are often subject to arbitrary treatment by estate owners who break current labour laws with impunity.

Real minimum wages have declined steadily over the years (Figure 1) although the decline in rural areas was slower than in urban areas. It should be stressed that only large-scale estates respect the minimum wage legislation. Studies suggest that actual wages paid on most estates are by as much as 20 per cent and 30 per cent below the minimum wages for men and women, respectively (Jaffe et al., 1991; Livingstone, 1995). Given this lack of respect for minimum wages in the rural sector, the actual decline may have been sharper. Significantly, these declines in real wages have occurred without causing any difficulties of labour hiring by the private sector. This is not surprising given the declines in agricultural labour productivity and in the incomes of peasants over the years.

Ensuring an elastic supply of labour even as real wages declined was largely achieved by depressing the price of labour drawn from the smallholder sector. A "maximum wage policy" was enshrined in the 1971 *Wage Restraint Policy* which required that any employer willing to make a general wage increase in excess of 5 per cent per year had to apply for approval to the Wages and Salaries Restraint Committee. Other measures to keep supply price of labour low included restriction on migration to outside Malawi and repression of trade union activities and by neglect of smallholder agriculture. The result was that the emerging estates had an infinite supply of labour even as real wages declined.

Figure 1: Real minimum wages in rural and urban areas, 1970-92



Source: Computed from NSO data.

2.2.4 Tenancy system

Side by side with the estate system was the tenant system, most features of which go as far back as the beginning of the century and were enshrined in the *Thangata system.* An estimated 589,000 rural dwellers are tenants on estates and they actually constitute the main labour force on the burley tobacco estates. Tenants have no security of tenure. In the past the Tobacco Association of Malawi (TAMA) and the government had fixed "maximum price" which estate owners paid to tenants. This was analogous to the "maximum wage policy". Although most studies report tenant incomes well in excess of rural minimum wages, it should be recalled that the tenancy scheme is premised on the employment of family labour including women and children. The whole household then provides labour of more than one adult so that the margin per worker is not that much although it is sufficient to explain the elastic supply of tenants to the estate sector.

Tenants live in extreme poverty and are subject to exploitation. Their produce is often under-priced due to deliberate under-grading by estate owners. There are no formal written contracts between owner and tenant, giving scope to manipulation of the distribution of proceeds in favour of the estate owner. Such formal contracts that exist are one-sided and give overwhelming advantage to the owner (Livingstone, 1995). Malnutrition is rampant among tenants (Ng'ong'ola et al., 1997a). One consequence of these conditions is that turnover among tenants is high.

As with the wage rate the intended or unintended effect of the tenancy system was to keep the returns to smallholder labour low so as to force individuals or whole families into the wage labour market.

2.2.5 Finance

The fifth element of the dualistic strategy was access by the estates to cheap finance. The government simply commanded the banks to allocate a considerable amount of credit to estates. In addition, ADMARC funds were so recycled as to benefit estate agriculture.

2.2.6 Political regimentation

The sixth and, in retrospect, inevitable feature of this "model" was political repression. One outstanding facet of rural Malawi was political regimentation. And in many ways it is impossible to understand the behaviour of peasants with respect to a whole number of past and present government initiatives without grasping this political fact. Peasants have had to react to both the exigencies of the market and compulsions of a pervasive political structure. Silence over massive land alienation and scrupulous repayment of loans from state institutions can largely be understood in terms of such compulsion. So also was the absence of parallel markets even in face of the exaction of ADMARC.

One consequence of this regime was the destruction of forms and even cultures of self-organization, so much so that even today peasants are suspicious of "voluntary" labour which in the past regime was imposed by the ruling party through its paramilitary youth organizations.

2.2.7 Tax regime

Finally, there was the favourable tax regime for the estates. Production from estates was virtually untaxed. Land tax was only 10 Kwacha per hectare and now stands at 30 Kwacha per hectare.

2.3 Effects

As noted above, between 1970 and 1989 the estate sector grew rapidly and indeed accounted for virtually all the growth in agriculture. The growth was through "extensive" accumulation and thus occurred primarily through expansion in land planted and labour use with very little improvement in total factor productivity. The model was partly sustained by favourable terms of trade through the 1970s, which declined sharply in 1979. By 1979 the model based on estate agriculture had run into deep troubles due to a number of factors, including adverse international conditions.

To the extent that two of the major pillars of Malawi's tenancy system – political coercion and constraints on peasants as to how they could produce and to whom they could sell – have been removed, the future of the entire system is precarious. Problems of labour management surfaced as the repressive political apparatus was replaced by a more democratic dispensation. Under the new system, estate owners are not guaranteed to be able to collect the returns to inputs they advanced to the tenants, who can now sell directly to intermediate buyers.

As estates turn bankrupt, it may be tempting for the government and money-lending institutions to take over the leased land. However, there are other options as well. The government could use this opportunity to return the land to the communities that were forcibly deprived of it. This would not only correct a grave injustice but would be a critical element in stimulating peasant production.

Transitions may, of course, not be costless. New buyers may take some time to emerge. The shift to tobacco may undermine household food security. And this seems to be happening to an alarming extent as males use the incomes from cash crops to buy bicycles and radios without ensuring that sufficient stocks of food are available for the year. However, there can be no doubt that the removal of the regime of discriminatory access to markets will be a great relief to peasant households.

2.4 Smallholder sector

Side by side with the estate sector was the smallholder sector so configured or restructured as to provide support to the estate sector in the manner outlined above. The smallholder sector consists of 1.8 million farm families occupying 1.8 million hectares of land under customary tenurial system. The sector accounts for 80 per cent of the country's food production, and only 10 per cent of total exports (much below the Africa's average of 30 per cent), and 60 per cent of the country's workforce. It contributes 25 per cent of the GDP and 65 per cent of the agricultural GDP.

Smallholder agriculture was relegated to three main functions: (a) serving as a labour reserve; (b) producing the main staple crop – maize – in order to ensure the nation's food self-sufficiency and to cheapen "wage goods" for the estates; and (c) producing surpluses that the government could capture through ADMARC and transfer, through the banking system, to estates as cheap credit.

Over the years smallholder production stagnated and overall smallholder output and incomes have declined. One source of this decline was reduced access to key productive inputs such as land. Land per person declined by 25 per cent while access to migrant remittances, a major source of investment, declined sharply due to the ban on migration, a policy which in itself was one of the arsenals for ensuring cheap labour supplies to the estate sector.

Tables 6 and 7 bring out all the salient features of production in smallholder agriculture. Strikingly, 55 per cent of households had less that one hectare of land. Among these, 42 per cent of households have holdings of less than 0.50 hectares with a mean of 0.31 hectares. Significantly, it is precisely these same households that are least able to adopt land productivity enhancing technologies such as hybrid maize and fertilisers. Their use of these inputs was well below national averages among smallholders. The tables also show that smallholder production is highly concentrated in maize production, largely for self-consumption. For households with less than 1.5 hectares, more than 80 per cent of land went to maize production. This said, peasant production still displays a remarkable level of diversification. We return to this issue later. Suffice it to note that while all these other products may not be tradable internationally, they point to a possibility for raising rural household incomes either through sales to other consumers in the rural areas or through better marketing to the urban and semi-urban areas.

The smallholder sector may be subdivided along income level and gender lines. One classification used by the World Bank is based on landholding size and places smallholder households into three categories. The first comprises the "economically sustainable" smallholders representing 14 per cent of the total number of smallholder farmers. They have more than 2 hectares of land – enough to meet their own food requirements and produce some marketable surplus. The second category, "the poor," comprises those having 1-2 hectares of land and representing 31 per cent of smallholder population. While currently unable to produce enough to meet their food requirements, they could potentially become surplus producers. The remaining 55 per cent of smallholders, with less than 1 hectare of land, constitute what is classified as "the core poor". They are the chronic food deficit households.

One significant source of rural differentiation in Malawi is along gender lines. According to the National Agricultural Sample Survey of 1980/81 about 28 per cent of rural households were at that time headed by females. This proportion can be much higher in some areas, for example 37 per cent in Zomba. Female-headed households are largely confined to the production of food crops, mainly for own consumption. These households constitute a disproportionately large percentage of the "core poor" (42 per cent). Various studies show that these households have less land and poorer access to credit than the male-headed ones. In addition, they are usually labour constrained with the anomalous result that although they have less land, they have higher degrees of land underutilization than the male-headed ones. In a study of Nsaru area, Mkandawire et al. (1987) found that female headed households could only use 86.3 per cent of their 1.6 hectares mean holding while the male-headed households used 90.3 per cent of their larger 2.2 hectares mean holding. The problem of labour shortage due to the inability to hire labour is compounded by the fact that in some cases women in female-headed households have to supplement their income by engaging in part-time *ganyu employment* at precisely the time when their labour is most required on their own farms. The resulting delays either in preparing the gardens or planting can lead to significant reductions in yield (as much as a quarter for a two-week delay) (World Bank, 1991a). This generates a vicious cycle of earlier food depletion: *ganyu* employment → labour shortage → land underutilization → low productivity → earlier food depletion.

3. Economic performance

3.1 Overall growth

For much of the 1980s and 1990s, Malawi agriculture has performed poorly, with overall growth rates falling below population growth rates. Per capita production went up between 1961 and 1973 but then declined so that by 1992 it was 46 per cent below the 1973 level. One explanation for this poor performance is the lack of any real technological change in agriculture as shown by the stagnation in labour productivity (measured as the difference between growth rates of aggregate output and active labour force in agriculture) (Figure 2). This points to what must be a major objective of policy in Malawi: increased labour productivity through greater technological change, improvement in human capital, access to critical inputs and incentives to producers.

Table 6: Size distribution of smallholdings and proportion planted in hybrid

Holding size (ha)	*Mean holding size (ha)*	*Mean household size*	*Percentage of all holdings*	*Percentage of land planted in hybrid maize*	*Percentage of land planted in other hybrid*
<0.50	0.31	3.6	23.0	81.5	0.6
0.50-0.99	0.74	4.4	32.2	83.7	1.3
1.00-1.49	1.23	4.9	19.9	82.3	3.4
1.50-1.99	1.71	5.1	10.9	74.7	5.3
2.00-2.49	2.22	5.7	6.3	77.3	8.4
2.50-2.99	2.73	6.1	3.5	69.8	10.3
≥3.00	4.00	6.4	4.2	70.6	15.5

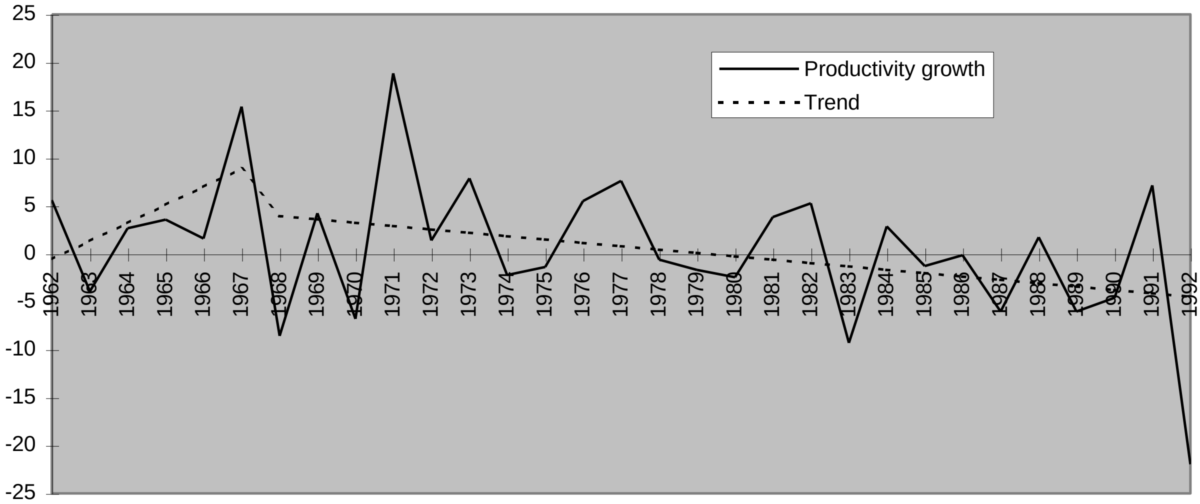
Source: Sahn and Van Frausum (1995).

Table 7: Households by landholding size and fertiliser use

Landholding size (h	*Fertiliser use (kg/ha)*	*Percentage of smallholder fertiliser use by size of holding*	*Fertiliser use by mean holding per category (kg)*
<0.50	6.18	0.63	1.92
0.50-0.99	12.44	4.26	9.21
1.00-1.49	33.12	11.56	40.74
1.50-1.99	59.16	15.80	101.16
2.00-2.49	84.74	16.94	188.12
2.50-2.99	113.59	15.45	130.10
≥3.00	145.82	35.36	583.28

Source: Sahn and Van Frausum (1995).

Figure 2: Agricultural labour productivity, 1962-93



Source: Calculated from FAO Tables.

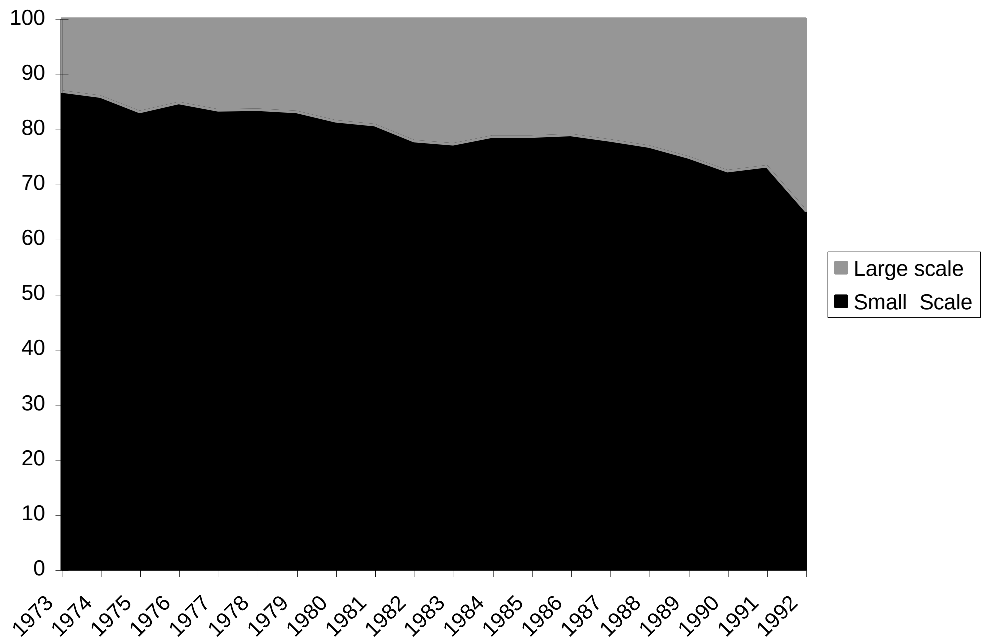
The last few years have seen a sharp turnaround in smallholder production while estate agriculture production has been virtually stagnant (Table 8). We will return to this apparent switch in sectoral fortunes. Suffice it to note that both economic and political reforms have had something to do with it. In terms of poverty alleviation, it is significant to note that much of the growth has been due to the smallholder sector.

Table 8: Sources of agricultural growth in Malawi, 1973-96

Sector	*1973-80*	*1980-87*	*1987-93*	*1993-96*
Smallholder	4.0	1.8	0.4	7.2
Estate	8.6	4.1	8.0	0.3
Total	4.7	2.3	2.6	5.4

A consequence of these sharp differences in economic performance is that the share of smallholder production in agricultural GDP declined from 86.8 per cent in 1973 to 65.1 per cent in 1992. The shift in the shares of the two sectors is graphically presented in Figure 3. Quite obviously whatever happens to estate agriculture, improvement in the growth rates of smallholder agriculture will be an important cornerstone of any redistributive and poverty alleviation programme.

Figure 3: Sectoral shares in agricultural GDP, 1973-92



Source: World Bank (1995).

Had this shift in shares taken place while both sectors witnessed positive income growth and a shift of labour from small-scale agriculture to better paying estate agriculture, Malawi could have witnessed improvements in the living conditions of its rural population. In the absence of any redistributive mechanism and, indeed, in the presence of mechanisms that continued to siphon off surplus from small-scale agriculture and to discriminate against its produce, this shift in shares led to greater inequity and greater poverty. One consequence was that estate agriculture enjoyed an increased supply of labour even as real wages declined, suggesting even sharper declines of incomes in the smallholder sector. This infinite labour supply at decreasing real wages was one of the linchpins of estate agriculture growth.

Not only are growth rates different between the two sectors, they are also subject to different degrees of fluctuation. Smallholder agriculture, heavily dependent on the vagaries of weather, exhibits much higher levels of instability than large-scale agriculture (Table 9). The result is that those with the least capacity to smooth their incomes are the also the ones most affected by the caprices of both the market and climate. Stabilizing smallholder incomes should therefore be an important component of an incomes and employment programme. This can be achieved through both on-farm (e.g. through diversification and irrigation) and off-farm activities (more rural employment opportunities).

3.2 Social performance and human resources

Poverty in rural Malawi is rampant and virtually every social indicator places Malawi among some of the worst cases in the world in terms of human development (UNDP, 1997). For example, life expectancy at birth was 41.1 years in 1994 as compared to 50.0 years for sub-Saharan Africa and 61.8 years for all developing countries. Daily caloric supply per capita was 1,827 in 1992 as compared to 2,096 for sub-Saharan Africa and infant mortality rate 147 in 1994 as compared to 97. Twenty-seven per cent of Malawian children were underweight in 1992 and close to half were stunted (Table 10).

Problems of poverty are compounded by one of the most skewed distributions of income in the world, with a Gini coefficient of 0.62. Similar skewness exists even among smallholders, with a Gini coefficient of 0.57 (World Bank, 1996). Eighty per cent of households have incomes below US$100 a year. The most important sources of this inequality are rooted in the agricultural sector in which land alienation, discriminatory policies on access to markets and inputs, the resultant differential growth rates within the sector itself and demographic changes have played important roles. Poverty in Malawi is much deeper than is suggested by per capita income levels, albeit among the lowest in the world.

4. New Government initiatives

4.1 Elimination of institutional constraints

An outstanding characteristic of Malawi agriculture was the battery of legal-institutional constraints imposed on smallholders. State institutions such as ADMARC were given exclusive monopsonistic rights over peasant produce. In addition, smallholders were not allowed to produce certain crops whose expansion was the driving force of the relatively high rates of agricultural growth in the 1960s and 1970s.

Table 9: Agricultural production by principal crops, 1993-97 (in '000 tonnes)

	1993	*1994*	*1995*	*1996*	*1997*
Smallholder production					
Maize	2,034.0	819.0	1,327.9	1,793.5	1,315.5
Rice	65.3	41.1	39.1	72.6	64.8
Groundnuts	31.9	30.7	30.7	40.3	67.6
Tobacco	28.5	15.5	35.4	69.0	87.3
Cotton	45.3	17.0	25.2	82.6	51.5
Sorghum	21.6	16.7	20.1	54.7	46.5
Millet	15.2	9.7	13.3	20.3	17.0
Pulses	109.6	78.3	99.8	183.1	182.8
Cassava	216.0	250.1	328.4	534.5	676.4
Sweet potatoes	210.6	165.3	317.7	596.5	900.5
Estates production					

Tobacco (auction sales)	133.2	97.6	130.2	141.7	142.0
Flue-cured	25.5	20.7	20.0	15.4	16.0
Fire-cured	4.2	5.1	8.2	7.7	10.0
Northern division	3.8	4.7	7.5	6.5	8.0
Southern division	0.4	0.3	0.7	1.2	2.0
Burley	103.2	71.3	101.5	117.9	115.0
Others	0.4	0.5	0.6	0.6	1.0
Tea	39.5	35.1	34.2	37.2	40.0
Sugar	128.8	196.4	224.4	217.5	218.0

Source: NSO, *Monthly Statistical Bulletin* and data provided by Malawi authorities.

Table 10: Malnutrition indicators in Malawi and selected other African countries

Indicators	*Malawi 1992*	*Zambia 1992*	*Zimbabwe 1994*	*Tanzania 1992*	*Kenya 1993*	*Namibia 1992*
% of under-5 children						
Underweight	27	25	16	29	22	26
Stunted	49	40	21	47	33	28

Source: World Bank (1996).

The glaring discriminatory nature of these legal and institutional constraints and their obvious association with poverty and growing immiserization of large sections of the rural population have been extensively discussed, initially by Malawians and increasingly by foreign researchers and international organizations. Indeed, the reduction and eventual elimination of these constraints constitute a key element of policy initiatives since the beginning of the 1990s. One conditionality in the recent loans to Malawi has been that the quotas allotted to smallholder producers for lucrative crops be gradually increased. That the main constraint was essentially political is reflected in the caution with which the donors have pushed for the relaxation of the quota system. Fortunately, the current political dispensation and alignment of economic interests has been more favourable to the removal of these barriers and led to the outright scrapping of the constraints by the new government. The ban on the production of burley tobacco has been rescinded.

There can be no doubt that the removal of these legal-institutional constraints will improve the lives of a significant number of the poor. Survey data show that the number of households growing tobacco almost doubled between the 1993/94 and 1994/95 seasons. Estimates suggest that smallholder production of tobacco jumped from 16 million kg in 1991/92 to 50 million kg in 1995/96. As Table 8 also suggested, we may be witnessing a shift in the sources of dynamism in Malawi agriculture as smallholder production accounts for most of the sector's growth. This has great significance for income distribution and employment.

We noted that one of the characteristics of the Malawian countryside was the political regimentation of the population by the one-party system through its para-military young pioneers. This regimentation provided extra-economic and extra-legal means for the enforcement of government decrees. It significantly accounted for the absence of parallel markets in Malawi and for the low levels of default in the credit system. It also ensured "law and order" in the rural areas.

This said, one should bear in mind that even after these legal-institutional barriers are removed, rural households will continue to face other difficulties inherent to markets in Africa and the structural constraints that poverty and underdevelopment impose on many in accessing the benefits of a more liberalized economic environment. The euphoria induced by the most obvious gains accruing to smallholders due to recent reforms should be tempered by the recognition of the persistence of these constraints and the need to frontally address them:

- Although the sales of burley tobacco by smallholders have increased, this is not entirely attributable to increased production. A considerable amount of increased sales simply reflects switches in marketing channels, a fact that is suggested by the drop in sales by the estates. Such changes, however, are of a one-off character.
- Given the resources available to farmers, the sharp response in the supply of burley tobacco may conceal much lower aggregate responses. The gains in income due to increased burley sales may be partly offset by losses due to reduction in other crops. There is also the alarming evidence that many small farmers are putting too large a part of their farms under tobacco to provide for adequate rotation. This will make such small farms vulnerable to pest and disease and thus undermine their productivity.
- The gross inequities in access to inputs may mean that a large number of rural dwellers are still kept out of the bargain. The sheer numbers of smallholders taking up burley tobacco farming should not conceal the fact that large numbers of households are still unable to benefit from generalized improvements in incentives.
- Finally, even with the current gains, Malawian farmers remain poor due to low productivity.

If the current gains are not to be of a one-off character, and if aggregate agricultural output is to be increased, it will be necessary to supplement the current price and institutional reforms with measures that directly address other structural constraints on peasant production by improving access to land, credit, appropriate technologies and better rural infrastructure as well as by ensuring a more secure and accountable form of governance in the countryside.

4.2 Productivity enhancement

We have noted the low productivity of small-scale agriculture in Malawi. Two questions immediately arise: (a) is there a "shelf" of high yielding varieties of crops from which Malawi can readily draw to increase productivity? and (b) if so, what are the constraints on the adoption of these varieties? The answer to the first question is definitely "yes". There is considerable scope for improving yields with varieties that have already been tested and are in use in Malawi on a limited acreage. One should however point to the growing doubts about the economic viability of this technical option under the new regimes of prices for maize and for inputs and credit.

From all evidence, Malawian farmers have accepted the new technology. The immediate constraint appears to be access to modern inputs rather than knowledge about them. As argued by Mosley (1994), in an environment where the investment required for the effective adoption of high-yielding varieties is large in relation to farmers income, credit and the output/input price ratio will be the key determinants of the adoption rate.

This said, it is remarkable that despite nearly twenty years of extensive efforts, fewer than 7 per cent of the households had adopted hybrid maize in 1990. However, in the periods 1994/95 and 1995/96 the rate had jumped to 30 per cent. (This figure may be contrasted with the rate of 61 per cent for Kenya.) This increased use of hybrid maize was largely due to the heavy subsidization of maize. The use of hybrid maize has declined due to higher fertiliser prices, raising questions about the viability of the technology, especially for smallholders with no off-farm incomes or remunerative cash crops.

4.3 Irrigation

Recent pronouncements by the government suggest that irrigation will be the centrepiece of new initiatives in agriculture. The overall objective of irrigation policy is to "promote social and economic development through irrigated agriculture that is sustainable over time, economically justified, financially viable, socially acceptable and technically sound without causing unacceptable impacts on the environment; to ensure that irrigation development programmes benefit as many households as possible and in particular those that belong to the most vulnerable groups of the rural community" (Ministry of Agriculture and Livestock Development, 1995).

The specific irrigation policy objectives are to:

- contribute to poverty alleviation by targeting smallholder farmers for irrigation development to enhance farm income and by supplementing the recommended strategies of rain- fed agriculture outlined in Malawi's "The Agricultural and Livestock Development Strategy and Action Plan";
- improve agricultural production and a measure of food security through irrigation by supplementing rain-fed agricultural output during the wet season, and ensuring some production during the dry season and droughts;
- extend cropping opportunities and provide a wider variety of crops in both wet and dry seasons to improve nutritional security;
- create an enabling environment for irrigated agriculture by facilitating and encouraging the private sector to invest in irrigation development and manage their own operations; and
- optimize government investment in irrigation development by applying principles of cost sharing and cost recovery.

The government's development strategy for agriculture for the next ten years is to:

- identify areas with irrigation potential;
- assist smallholder farmers to develop and manage self-help schemes;
- transfer management of existing government schemes to their beneficiaries;

- assist informal sector irrigation;
- enhance national capacities in developing irrigation;
- conduct research in irrigation technology;
- promote the use of both simple and advanced irrigation technology; and
- address the specific difficulties which women face in irrigation.

At this level of generality, these broad objectives and elements of the strategy would seem to be the appropriate ones. However, given the history of Malawi's agriculture and certain socio-structural parameters, it is necessary to be more precise about the implications of such a strategy for employment and equity. Irrigation can not only increase output considerably but it can also be a source of both farm and off-farm employment in the irrigated areas. However, these gains will not arise automatically. They require a deliberate policy in terms of choice of land tenure system, design of credit facilities, choice of technologies and choice of products to be encouraged. It is quite possible in the context of Malawi to witness irrigation based on land alienation and high concentration of ownership. According to the Ministry of Irrigation, half of the irrigable land can be developed in blocks of 500 hectares or more, and the remainder is considered suitable for small-scale developments. There is therefore the distinct danger that half of the land will be allocated to large-scale farmers if more equitable schemes of using the larger blocks are not devised. It is also possible to increase output using highly intensive technologies. Differences in access to credit and technology will have a much greater salience in irrigated agriculture than in any other forms of farming in Malawi as the presently formulated government strategy can produce a "bimodal" irrigated agriculture that reproduces some of the problems of earlier dualistic strategies of agricultural development.

4.4 Directed credit and subsidies

While the political changes in Malawi and the removal of discriminatory marketing constraints may have raised the output/input price ratio (a dubious proposition given the dramatic increases in input prices) and thus provided the liquidity which enables farmers to overcome the obstacles of capital market imperfections, they have yet to adequately address the problem of access to credit for the poor farmers in an inherently imperfect capital market from which the small farmers will be rationed out.

Although supply factors such as delays in delivery and the fact that most farmers obtain fertiliser through farmers clubs may have constrained the use of fertiliser, it would seem that demand factors, especially the purchasing power of farmers, may have been a more binding constraint on the use of fertiliser. Malawian smallholders have largely accepted the technology embedded in hybrid maize, a fact testified by an increase in the sales of hybrid maize by 16 per cent per acre between 1980/81 and 1991/2.

Virtually every study on agriculture recognizes that one of the major constraints on the poor's ability to increase productivity is the lack of access to credit or its prohibitive cost in the form of high interest rates in the informal market. Consequently, various proposals and initiatives at special and directed credit to the poor have been suggested. There is, however, considerable controversy over the advisability and the nature of such directed credit. The first criticism is that subsidies distort markets. The second has to do with the impact of provision of subsidized credit on the development of rural financial markets. Even when it is agreed that market-driven credit rationing is biased against the poor, there is disagreement as to whether the interest charged on such specialized credit should be at “market rates”. There are those who argue that subsidized credit with low recovery rates undermines current efforts to establish market-driven microfinance. It is also argued that the increased purchase of fertilisers by smallholders, despite rising prices in the 1980s, suggests that the constraint is not the price of fertiliser. Such an argument, however, has to contend with the fact that there has been a sharp fall in the use of fertiliser since the removal of subsidies.

Not only do subsidies constitute a distortion of the market but there are also substantial “leakages” of such credit away from those for whom it was intended towards the estates. Experience in past directed rural credit systems shows that leakages can be substantial. The Ministry of Agriculture estimates the amount of leakage to be 17-19 per cent of the total annual fertiliser sales to smallholders. One survey found that 59.1 per cent of estates obtained their fertilisers from ADMARC at subsidized prices (Mkandawire et al., 1990). Similarly, Sahn and Arulpragasam (1994) argue that increased fertiliser uptake by smallholders, even in the face of declining value-to-cost relative to maize, also points to the possibility of increased leakage to the estate sector.

Matters are aggravated by the political pressures to use such credit for political purposes. In the run-up to the referendum on one-party rule and election, rural credit was used for political purposes with reversals in policy that encouraged default. In many ways the problem lies in the institutional design rather than directed credit *per se.*

As a consequence of these arguments, subsidies together with other “market distortions” have been a target of removal under structural adjustment programmes. As part of the adjustment programme the government adopted in 1983 the fertiliser subsidy removal programme (FSRP). As a result, the aggregate rate of fertiliser subsidization fell from 30.5 per cent in 1983/84 to 19.8 per cent in 1987/88. Suspended between 1987 and 1992 in order not to burden smallholders with sharply rising fertiliser costs resulting from escalating transport costs and the devaluation of the Kwacha, the FSRP was resumed in 1993 and resulted in an 11 per cent subsidy in 1994/95 and a zero per cent subsidy in 1995/96.

Problems of leakage are partly related to institutional design. However, the leakages should be weighed against the gains of increased use of fertilisers by the targeted groups and the impact on productivity and their incomes. A certain level of “leakage” may be tolerable where the gains to the poor recipient are as substantial as they are likely to be in Malawi.

The “market distortion” argument is based on assumptions as to how “unrepressed” financial markets would operate. The assumption seems to be that the system being set up now will lead to financial markets free from “market failures” that have hitherto excluded the poor from borrowing. There is, however, a vast amount of literature demonstrating that by their very nature financial markets suffer from “market failure” due to problems of information. One effect of this is that markets ration credit in a manner that excludes the poor so that the argument for directed credit is that it corrects the outcomes of market failure and the discriminatory credit rationing that markets introduce in order to deal with problems of asymmetric information, moral hazard, etc.

(Calomiris and Himmelberg, 1993; Stiglitz, 1989 and 1993; Stiglitz and Weiss, 1981). The message here is that rapid or complete withdrawal by the state is unlikely to be optimal, especially in a context where combating poverty is a centrepiece of policy.

As for the fear that the continuation of subsidies will slow down the process of establishing financial markets, it should be recognized that even in the absence of such subsidies, establishing such markets is a slow process. Suspending programmes that provide the poor with subsidies would involve a time discounting that underestimates the cost to the poor of “waiting” for efficient markets to emerge.

Formal credit to smallholders is relatively new in Malawi. The Smallholder Agricultural Credit Administration (SACA) was established only in 1988. For a number of years SACA performed well in terms of loan recovery (averaging 90 per cent). However, in 1991/92 the recovery rate dropped to 28 per cent, and in the following season to 16 per cent. Factors cited include the 1992/93 drought, the delinkage of extension and credit activities, low gross margins and the political dispensation which reduced political compulsion on the peasantry to do what the government ordered. The collapse of SACA led to the creation in 1994 of the Malawi Rural Finance Corporation (MFRC), a limited liability company one of whose functions is to support the emergence of a private rural credit system. As such it will charge market rates to its borrowers.

The fiscal burden of such schemes should of course be cause for concern but then that is true of any effort to provide support for the poor. It is not evident that support in the form of subsidized credit imposes a heavier burden than other schemes aimed at increasing the welfare and productivity of the poor. Ultimately, the problem here is one of political values and fiscal capacity that apply to any aspect of public expenditure. The long-term question is whether the support eventually is self-eliminating in the sense that the recipients eventually can become self-supporting. It would seem support that enhances households productivity capacity rather than food hand-outs is best suited for this task.

There is also compelling evidence to the effect that major technological transformations of agriculture in the developing countries have required directed and even subsidized credit in one form or another.

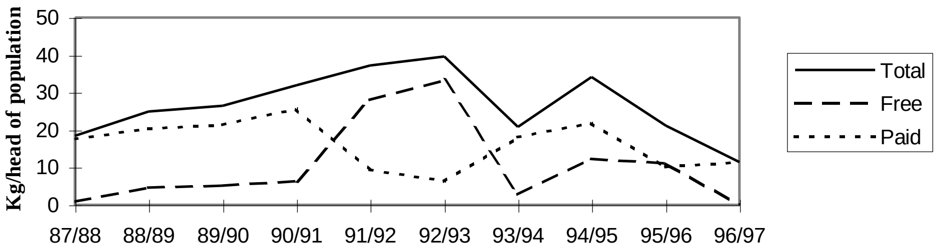
In the case of Malawi one of the conditions of structural adjustment has been the removal of subsidies on fertiliser. The result has been a precipitous decline in fertiliser use among smallholders (see Figure 4). The production of maize has also declined. It should be obvious that the removal of subsidies will have adverse effects on the food security of precisely those groups in the most vulnerable categories. In the absence of any non-market mechanisms entitling these households to food, the reliance by Malawi on food imported to make up for the shortfall would not be addressing the issue of food security of these vulnerable groups.

The message here is that under conditions prevailing in Malawi liberalization will not improve access of the poor, nor, self-evidently, will a policy of “throwing money at the problem” simply pumping out state-subsidized loans in the general direction of small farmers: “What is needed are institutions especially designed for the function of lending to small farmers without collateral and achieving high recovery rates in conditions of considerable climatic uncertainty" (Mosley, 1994).

4.5 Urban employment and the informal sector

Part of the solution to the poverty and employment problems of Malawi lies in urbanization. One says this fully aware of the enormous problems urbanization has wrought. Urbanization will absorb some of the rural labour force and release resources for the remaining population. For its level of per income and degree of industrialization (as measured by share of industry in GDP), Malawi is relatively "underurbanized". In other words its actual levels of urbanization are less that would be predicted by simple regression analysis (Figure 5).[1]

Figure 4: Nutrients on smallholder maize



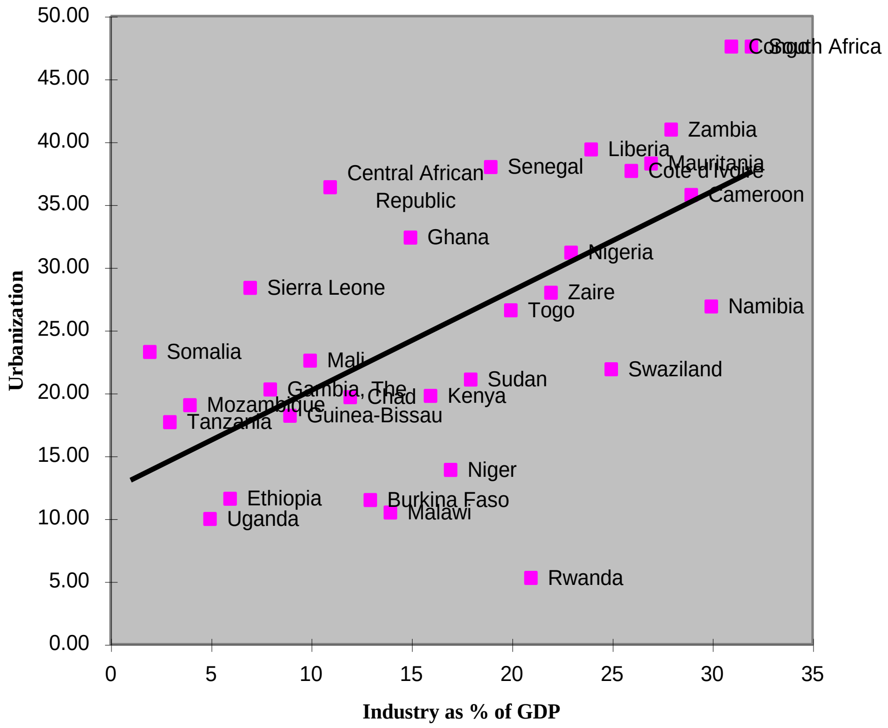
Source: Ng'ong'ola, Kachule and Kahambe (199?).

This relatively low level of urbanization is a reflection of a number of factors. The first is the historical fact that the "labour reserve status" of Malawi has meant that the urban point of reference of Malawians was South Africa and the two ex-Rhodesias (Zambia and Zimbabwe). It is the urban areas of these countries that were points of attraction for migrating labour. Second, it is a reflection of the wage policies pursued by the government which kept the gap between urban and rural wages relatively small. Laudable though the objective of narrowing the gap between the urban and rural areas may be, it has been achieved in Malawi in an undesirable manner, since the gap has been reduced not so much by the faster growth of rural incomes but by the faster decline in real wages in urban areas. In other words the gap has been narrowed not by differential growth rates but by different rates of *immiserization*. Third, is the low levels of adult education which has limited both the attraction of urban "city lights" and the skills necessary for urbanization. The new programmes of expanding educational opportunities in the rural areas can be expected to have dramatic effects on propensity to migrate in the absence of economic changes and socio-cultural conditions in the countryside. And finally, urbanization was inhibited by the legal-institutional constraints on the emergence of a vibrant informal sector that could have absorbed some of the urban population. Zoning laws, political harassment of vendors and excessively demanding standards have discouraged the growth of an informal sector in Malawi. One

1 We estimated an equation of the form URB = a + b_1IND + b_2PERCAP where URB is the share of urban population in total population, IND is the share of industry in gross domestic product and PERCAP is the per capita income. Using the 1990 data for 30 sub-Saharan African countries, the predicted value for Malawi which had 10.4 per cent of the population in the urban areas was twice as much (22.0 per cent).

should always bear in mind the weight of extra-economic constraints and political regimentation on social behaviour during Malawi's one-party state. The mere relaxation of these political constraints is bound to lead to the emergence of "illegal" settlements and "squatter" problem. There are already visible signs of a more favourable political climate for informal sector activities in Malawi's urban centres.

Figure 5: Urbanization in Africa



Note: The gap between actual and predicted values is measured by the vertical distance between the point for each country and the line.

Source: Computed from Government of Malawi (1993).

5. Recommendations

One feature of past policies has been the failure to explicitly address the issues of poverty. In the current debates on policy there is the danger that issues of poverty may be submerged under such other concerns as efficient functioning of rural financial markets, structural adjustment or the need to quickly find new crops for export. Indeed there are suggestions of policy directions that would relegate substantial numbers of smallholders to the realm of "safety nets" as productivity enhancing measures are concentrated on those deemed to have adequate resources for cash crop farming. Such a strategy can easily produce "trimodal" agriculture that is reminiscent of the "bimodal" model that has proved disastrous in terms of addressing problems of poverty and equity.

Among the striking features of Malawi's agriculture are the extreme poverty of the peasant households, the extreme gap that separates them from other social categories, and the extreme income disparities among the peasants themselves. In the face of these realities simply devising programmes for "smallholders" will not do. Consequently, design and targeting must constitute a key element of policy initiatives. The key elements of a new strategy for raising incomes and employment in Malawi will include:

- frontal attack on poverty;
- greater access to factors of production by smallholders through redistribution of land and improved credit facilities;
- improvement in the productivity of all factors of production available to the smallholders – more specifically of land and labour;
- better utilization of land through resettlement of unused or under-utilized land, which may involve tackling the vexed question of environmental concerns and mid-term production needs;
- better utilization of water resources through irrigation;
- diversification of agricultural production for both tradable and non-tradable goods;
- greater capacity of the non-agricultural sector to absorb labour in both formal and informal sector; and
- improvement of links between the agricultural and non-agricultural sectors by reducing transaction costs.

5.1 Responsiveness of poverty to growth

We noted that even in periods of fairly rapid economic growth, the pattern of growth in Malawi has been highly inequitable leading to increased poverty or only marginal reductions of it even as the economy "boomed". In other words the "growth elasticity of poverty" has been low such that a one per cent increase in growth is accompanied by less than one per cent reduction in poverty. A World Bank study argues that like most African countries, Malawi has lower growth elasticities than the Asian countries. Even in the African context Malawi appears to have one of the lowest growth elasticities. The consequence of this is that if current income and asset distribution structures are maintained (i.e. if growth is distributionally neutral) then poverty will only be reduced at very high rates of growth ranging between 5.38 and 6.11 per cent per annum. It should be noted that even under high growth rates the reduction of poverty would be excruciatingly slow if there are no significant changes in income and asset distribution. One immediate policy implication is that it is necessary to introduce policies that will make poverty reduction more responsive to economic growth by enhancing the country's growth elasticities.

5.2 Land reform

One issue over which there is obvious concern in Malawi is the land question. Different figures are often suggested as to what the "viable" farm size is. The fact, however, is that in Malawi more than 85 per cent of the household have less than 2 hectares and 55 per cent have less that 1.0 hectare. At current levels of land productivity, most of these households rely on casual labour to augment their earnings. These households stand to gain little from all the other reforms if their access to land is not improved since access to land is always a binding constraint on this category of households. It should be obvious then that any serious attempt to address the problem of poverty and low returns on employment must firmly and explicitly place the land issue high on the agenda.

It should also be recalled that juxtaposed against the land scarcity facing smallholders is the inefficient and wasteful land utilization in the estate sector. A Land Commission has been set up to look into the broad issues related to land and the Ministry of Land has commissioned studies on the uses of the various categories of land. Public hearings by the Land Commission reveal alarming levels of resentment over current arrangements. The dramatic conversion of customary land through procedures that were not transparent and violated the moral principles governing the use and distribution of customary land has left a political legacy which, if not properly addressed, can threaten the political stability of the country.

One problem with land reform in the current international economic dispensation is that it is likely to be penalized by capital flight, especially if it is interpreted as evidence of a lack of respect by the state for property rights. The immediate question that arises then is one of financing the land reform in a manner that is compatible with the government's wish to encourage private investment and attract foreign capital. Aid could play an important role by underwriting land reform.[2] It should be underlined that any strategy against poverty that fails to address the issue of access to land for the majority of smallholders is unlikely to succeed.

5.3 Improvement in productivity

Even for those peasants with access to land, productivity remains extremely low. The result is that the benefits of market and institutional reforms removing the historical constraints on peasant production may be far from adequate if nothing is done to improve the productivity of smallholders and their capacity to respond to new opportunities and incentives.

Increasing the productivity of these households should be a cornerstone of any strategy aimed at addressing poverty. A number of technologies for enhancing productivity (new seed varieties, fertilisers) are available in Malawi but knowledge about them and access to finance for their adoption are limited. Improvement and more focused deployment of extension services should go a long way in addressing some of these issues.

5.4 Diversification

A recurrent theme in policy making in Malawi has been the need for "diversification" of agricultural production. Both the government's development policy and SALs have over the years claimed this was a main objective. And yet over the years Malawi's production (especially for export) has become more concentrated around tobacco.

Current liberalization policies seem to be inducing some diversification in production as cotton and pulses increase. However, it is important to recall a number of issues. First, agricultural policy in Malawi has deliberately concentrated on the estate sector on the

[2] In Taiwan, China, half of the US aid in the first three years of assistance was used to underwrite a major land reform programme and associated agricultural development.

grounds that smallholder agriculture was not capable of producing for export to earn the country foreign exchange. An implication of this is that research, production, marketing and financing infrastructure in Malawi is geared to servicing estate agriculture. If diversification is sought within this framework, there is again the danger of relying on only those who, given the present support systems, are likely to benefit from these new initiatives.

Second, Malawi's current export structure is not a result simply of static comparative advantage considerations but of government policy during both colonial and post-colonial periods relating to land tenure, credit, market channels, etc. Diversification into new crops will require a clearly spelt out strategy and an investment-diversification nexus that makes such diversification possible. It is to this that we now turn.

While "diversification" has always featured in virtually all government plans, there has been no clear spelling out of how this is to be achieved. In most cases the need for diversification was overshadowed by the short-term pressures to exploit "revealed" comparative advantage rather then venture into new areas. Indeed, even in the current thinking, there is the view that while diversification is the mid- to long-term objective of government policy, it may be necessary to push Malawi's comparative advantage in tobacco further. There also seems to be the view that liberalization of markets will lead to greater diversification as certain crops lose their privileged position in government policy. Anecdotal evidence suggests that this may be happening. It is, however, doubtful that a *laissez-faire* attitude by the government can lead to the shift in resources to engender levels of diversification required.

In many ways the state has determined the concentration on a few crops – tea, tobacco and sugar. It can still play a major role in identifying new crops, providing research and extension support for them and facilitating their marketing as a pioneer, though not exclusively as a buyer.

As argued by Delgado (1995), the defining characteristic of a proactive agricultural diversification is the important role assigned to sectoral policies targeted to specific commodities or commodity groups. Whether policies address production or marketing, it is necessary that they are commodity specific. General policies such as "market liberalization", while perhaps providing an enabling environment for diversification, are unlikely to induce the shifts in resource allocation that are essential to tangible diversification. This is because there are structural factors that attenuate the responsiveness of key actors to new opportunities and that continue to push resources towards established activities. These include bottlenecks of storage and processing, limited information about international markets, lack of finance for new ventures unfamiliar to what are conservative banking institutions and so forth. To the extent that many of these constraints are commodity specific, they can only be addressed by well-targeted proactive policies. While the private sector may play an important role, the situation in Malawi is that the required proactive policies that are also sensitive to poverty elimination are in the public domain.

A remarkable feature of past and current polices of diversification is the absence of a clear investment-diversification nexus. A glance at public investment programmes in agriculture does not indicate any new directions in the allocation of resources. There are no new credit facilities geared towards diversification. This fact is recognized widely in policy circles. For instance the Malawi Export Council complains about the lack of strategies in the current agricultural policy (Perekezani and Thindwa, 1993). The Council observes that an absence of crop-specific measures characterises current pronouncements on diversification.

Diversification does not only relate to export. It should also address the problems of dietary balance and income opportunities derived from local markets. The so-called “traditional foods” can play an important role here. Partly because “traditional foods” are not internationally tradable, there is a tendency to assume that they are merely subsistence crops and to thereby ignore their potential role in increasing incomes of sections of the rural population. Some of the food items are internationally “non-tradable” because of bulkiness, problems of preservation and storage and even consumption habits. They are, however, bought and sold in local markets. We should recall that translating potential growth linkages from expansion of tradable goods into actual income growth will require much more attention to increasing the responsiveness to prices of things that rural people spend on when their incomes go up and these are principally food items (Delgado, 1995). Most of these foods enter as relish to accompany the staple starchy foods. One frequently heard complaint in the countryside is the lack of relish (Ndiwo or dende) that accompanies the starchy dishes.

5.5 Marketing reforms

One institution that has loomed menacingly large over smallholders’ prospects is ADMARC. Indeed in many ways it was the cornerstone of the bimodal model that accounts for so much of the malaise in Malawian agriculture. It constituted the belt through which surpluses from peasants were transferred to the estate sector and non-agricultural activities. Unable to tax large-scale farmers for its developmental purposes, ADMARC instead taxed the small farmers to “develop” estate agriculture.

Associated with the exploitative dualistic model of the past, ADMARC seems to be having difficulties adjusting to the new order. Besides the pressures of increased competition from private buyers of crops and sellers of seeds and fertilisers, ADMARC is faced with no clear mandate in the new agricultural policy. On the one hand it is expected to play a developmental role (e.g. being buyer of last resort and functioning in markets that may not necessarily be viable); on the other hand, it is also expected to function on a commercial basis. Matters are further complicated by the over-extension of ADMARC into activities whose relationship to agriculture is not always very apparent.

Given the past record and association with a model that must be discarded if issues of equity and poverty are to be seriously addressed, it is tempting to push for a dismantling of this institution or to simply let it collapse under the weight of competition and its own internal weaknesses. This, we believe, would be a grave error. ADMARC has a remarkable reach and presence in the countryside that could be put to use if ADMARC goes back to its original mandate as a rural developmental agency. It could play a crucial role in the diversification process by pioneering the marketing and handling of new crops, disseminating information, etc.

Available research points to the fact that private traders have so far failed to replace the role of ADMARC as the main supplier of food to Malawi's households and buyer of cash crops in remote areas. The main reasons for the failure are related to the small-scale nature of operations of most traders and their lack of capital and organization. They are also caused by the high transaction costs, given the thinness of markets and the poor state of rural infrastructure. Having little access to finance, information or transportation, the new buyers were unprepared for the space left by ADMARC. We should recall also that it takes time to develop private marketing capacity. Evidence of unsold crops awaiting buyers is more than anecdotal and may only compound the risk aversion of peasants forcing them to withdraw to the safety of subsistence farming. The difficulties faced by private traders in handling such traditional and relatively homogenous products as maize suggests the need for a thoughtful redefinition of the role of ADMARC especially in the context of diversification and reaching out to remote areas.

With respect to diversification, where new crops emerge there is always the "chicken and egg" problem to be solved. Producers will not produce because they see no outlets for their producers. Buyers will not set up such outlets because there is no produce to market. ADMARC can play a catalytic role in breaking this vicious cycle.

5.6 Non-farm activities

Malawi's agriculture, being highly dependent on rain, does not provide full-time employment for the entire year, even to those employed in its formal subsector who typically work for no more than 4-7 months. Consequently, there is a high demand for employment in non-farm activities. As Livingstone notes, the "limited amount of permanent work available on smallholdings in Malawi is quite striking" (Livingstone, 1995). This is attributable to the general underdevelopment of agriculture and the consequent paucity of cash crops and, where it exists, to the short seasonality of labour demanded.

This points to a need for income generating off-farm activities. There is the need to promote investments in micro-enterprises which can add value to agricultural and forestry products using labour-intensive technologies. The population densities and compactness of Malawi should provide significant opportunities for such activities, especially if plans for rural electrification are accompanied by measures to identify activities and the relevant technologies. Casual observation of rural centres with electricity clearly shows the absence of income-generating activities to exploit the new source of energy contributes to underutilization of such energy.

There are a number of activities being carried out in the countryside that could be designed to play an important role in providing employment in the off-season. Programmes under MASAF, school construction programmes and the proposed road repair and maintenance programmes can be a powerful instrument in this respect. However, the fact that these problems are embedded within structural adjustment programmes whose negative effects they are supposed to address, there is a danger that they will only be useful in addressing the perceived negative impacts of presumably transitory phenomenon. While transitory and conjunctural factors have added to problems of poverty, poverty in Malawi is structural. It will therefore be necessary to design such programmes as part of a long-term process of breaking structural poverty.

Not only should programmes enhance individuals' or households' long term capacity to generate income or to market their labour, but must also generate permanent labour absorbing activities. If not carefully designed, such programmes will not be limited to short-term gains but may have negative long-term impact. For instance, programmes which, because of their low pay, discourage adults while attracting school-age youth to income-earning activities and thus reducing dependency ratios and improving household income in the short run, can be harmful because they reduce labour qualifications and thus increase poverty in the long run by taking children out of school.

5.7 Urbanization and urban employment

The problems of agriculture cannot be solved by agriculture alone. Patterns of industrialization and urbanization can play a significant role in rural development and in the quality of employment in the rural areas. We noted how "underurbanized" Malawi was. In many ways Malawi can turn this disadvantage into an asset by treating the underurbanization as an opportunity for a more careful planning of increased urbanization and growth of the informal sector, seen not merely as a solution to the urban crisis but as one means of unburdening the rural sector of its population through the "pull" of genuinely productive and income generating activities in the urban areas. If other countries have attained their current level of urbanization in a haphazard and costly manner, Malawi can exploit the lag by deliberately tying its urbanization to its solutions of rural poverty and urban unemployment. More specifically, it can plan the growth of small towns in a manner that dovetails with its emphasis on servicing smallholder agriculture.

One way of reaping the benefits of urbanization (the economies of agglomeration) is through the "urbanization" of rural life by encouraging the growth of small towns that serve not as merely administrative outposts of the central government or staging posts by urban wholesalers for their onslaught on rural markets, but as centres designed to serve local communities and maximize the benefits and reducing the transaction costs to the rural sector of interaction with the world outside. Some of the transaction costs facing the rural population include transport costs, handling costs, packaging costs and temporal costs such as storage. Other costs include acquiring inputs and search costs of identifying trading partners, especially where these are perambulatory. Small towns could assist in lowering such costs. There is growing interest in the developmental rather than administrative or exploitative roles of small town in Africa (see, for instance, Baker, 1990).

The *Agricultural and Livestock Development Strategy and Action Plan* notes that the countryside is poorly served with "few and unequally distributed market outlets and stockists for selling and buying inputs" (Ministry of Agriculture and Livestock Development, 1995). It could have added "for purchase of incentive goods".

The Malawian countryside is sprinkled with small towns that have an air of being deserted or in decline. Most of these towns come alive during periodic marketing days. They do not, however, serve as veritable "growth points". While such towns may emerge spontaneously, the private sector will tend to underestimate the economies of agglomeration to be reaped from small towns, leading to an under-establishment of such towns by the private sector, or will tend to follow their "herd instincts" by establishing themselves in the already developed areas.

The few studies in Malawi suggest that small towns that serve smallholders are more prosperous than those around estates because of the greater forward and backward linkages associated with the economic activities that are typically carried out in small towns. This is a felicitous outcome for it neatly dovetails with the policy of a smallholder-based agricultural growth strategy.

5.8 Human capital

We noted the low levels of adult literacy in Malawi. While the current policy of free education is likely to benefit agriculture in the long run, there is a need to raise the knowledge levels of the current producers through adult literacy campaigns and more focused extension services. School facilities being expanded under the free primary school education programme can serve as a focal point for such activities.

5.9 Labour markets and minimum wages

One major source of rural poverty is the extremely low returns to labour, both in the form of formal and informal wage employment. The dominant view in international financial circles is that while minimum wages, job security regulations and social security may be intended to raise welfare or reduce exploitation, they actually work to raise the cost of labour in the formal sector (World Bank, 1991b). In the Malawi context, the case has been most forcefully stated in the report submitted to the Government of Malawi (Government of Malawi, 1993).[3] The arguments against minimum wages and other government interventions in the labour market can be summarized as follows:

- Like all administered prices, minimum wages "distort" the market and thus lead to misallocation of resources. More pertinently for this study, minimum wages can curtail employment creation by unduly raising the cost of labour beyond the market clearing one.
- Effectively the minimum wage legislation benefits only a few. Both the difficulties of enforcement of such a wage when much of the labour force is in small-scale agricultural and informal activities, and the elastic supply of unskilled labour available at very low wages makes minimum wages legislation ineffective. Livingstone (1995) notes that minimum wage has only been effective in government, large estates and large urban enterprises, which account for no more than 8 per cent of the labour force.
- A third argument relates to the process of determination of such a minimum wage policy, given differences in "ability to pay" and the markets faced by different enterprises or sectors. Minimum wage legislation would tend to hurt precisely those enterprises that have the highest labour absorption capacity.
- Minimum wages reduce the economy's flexibility in adjusting to changing conditions.

The arguments for and against minimum wages are complex ones often laced with

[3] These views are succinctly present in Livingstone (1995). Livingstone led the team that prepared the document submitted to the government on labour policies.

strong ideological predisposition.[4] The extremely low wages in agriculture, Malawi's adhesion to international conventions and current democratic dispensation allowing for freedom of organization and the commitment to tripartite dialogue argue for minimum wage legislation and indeed Malawi has such legislation. One ought to point out here the political advantages of labour's participation in economic reforms. Some of the labour unrest in post-election Malawi can be attributed to the lack of institutional arrangements for tripartite dialogue and the feeling by labour that policies affecting them are unilaterally imposed.

While acknowledging that supply and demand will tend to keep wages low in Malawi, it is important to stress that for the democratic dispensation that Malawians seek to consolidate, the goal is not low wages but increased labour productivity which can be ensured by social investments and social policies. A fixation on the "cheap labour" advantage can be self-fulfilling: locking an economy in a "low-wage equilibrium trap" by inducing the government to pay less attention to productivity enhancing measures and concentrating itself on guaranteeing cheap and docile labour. In the long run wages are an inadequate competitive asset. What matters is the reduction of unit labour costs by raising productivity, which usually requires short-term government support and administrative guidance (e.g. in technology) and, in the long run, investment in human capital.

Minimum wages can constitute a useful focusing device with respect to technological adaptation and change, leading to better use not only of labour but also of land and other inputs. Employers in agriculture have essentially behaved as if they were faced with infinite supplies of labour and land. One result is that productivity in both land and labour have stagnated. There has simply been no incentive for technological innovation. Minimum wages have the role of refocusing entrepreneurs' attention away from "cheap labour" towards a more efficient use of labour resources and can thus serve as a spur to productivity enhancing measures. The rapacious use of "cheap labour" that is so rampant in the countryside can only be contained by respecting some of the rights that are enshrined in the country's constitution.

We should also recall that even market models of wage determination have to recognize a floor to the price of labour because of subsistence needs. Such a level does not consist merely of biological minimum for the physical reproduction of labour but also a socially determined "moral element" that indicates what is considered acceptable or "fair". Efficiency wages models have also sensitized us to the relationship between wage and productivity. In circumstances such as those prevailing in Malawi agriculture, minimum wages can lead to efficiency gains that may outweigh cost increases. "Living wages" would improve the productivity of labour as a part of the wage would be used to improve the health of workers (through food purchases).

It should also be borne in mind that not all the efficiency gains will be captured by the individual employer. Well-paid workers may remit some of the incomes to their homes where such funds may be used for education or purchase of farming inputs. Furthermore, such workers may be more productive not only at their own workplace but also in other extra-work activities that enhance individual or collective productive

[4] For a review of the issues see Freeman (1992) and the accompanying discussions.

assets. It is therefore likely that market-determined wages may underestimate the social productivity of labour. Obviously the determination of wages to respect the demands of static allocative efficiency gained from respecting market signals and the dynamic concerns of long-term productivity enhancement require that both labour market flexibility and extra-market engagement by the government, employers and labour movements.

Finally, in view of imperfections in rural markets and, especially, the monopsonistic position of estate owners in the face of a weak or non-existent labour movement, and also given the improbability of sector-wide wage bargaining mechanisms, strictly enforced minimum wages may provide the only social protection for the poor. Given that the potential distortions in the labour market are low and hence the potential for reducing employment in the formal sector is not high, minimum wages constitute an important policy instrument with limited adverse economic implications in the case of Malawi.

5.10 Further institutional reforms

We noted how in the past the repressive political structures affected the behaviour of peasants with respect to credit repayment and compliance to the demands of both political and non-political institutions in the countryside. We also noted how the repressive regime undermined the capacity of self-organization in civil society in general and in the countryside in particular. The demise of the repressive apparatus has left a vacuum that needs to be filled by new social arrangements and moral incentives to enhance the sense of security of the countryside. This points to the need to focus on the reconstruction of civil institutions and new "social capital" that will ensure the proper functioning of markets in the countryside. These institutions will include credit unions, savings and loans associations, marketing co-operatives and community storage organizations, organizations for the co-production with government of public goods and services and community environmental associations to manage and improve the common property resources such as grazing lands, forests and fishing grounds.

The strengthening of local self-organization must be accompanied by devolving a number of tasks from central to local levels of government. Here the establishment of elected local governments will play an important role. As argued by de Janvry and Sadoulet (1996), such decentralization and proximity of government to centres of local self-organization can be effective in enticing civic society participation, more effectively responding to local demands from the organized poor and achieving greater accountability in governance.

5.11 The role of women

Women in Malawi are the linchpin of agriculture because they are the core of the system of sustenance in that sector even when they are not engaged in cash crop farming. And yet very little extension effort of facilitative character has been extended to women. New cash crops have often been seen as a male preserve and this has tended to divert all government initiatives in the direction of male dominated production. Blanket withdrawal of the state from commodity and financial markets will only reinforce these historical advantages of men.

Experience in Malawi suggests that targeting credit to women not only improves their access to key inputs, thereby enhancing their production, but it also improves their status and bargaining position in the household.

Finally, while current reforms have done much to improve incentives for farmers by liberalizing markets and removing many legal institutions imposed on smallholders, it ought to be stressed that these reforms will only pay off in both increased productivity and social equity if they are accompanied by explicit policies that enhance the capacity of individuals and committees to exploit such opportunities.

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