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# *“Kudziteteza ku njala.”\**

Liberalisation of the agricultural markets  
and its impact on the smallholder farmers.  
The case of Malawi

by  
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Minor Field Study 2000

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\* “Maize is more than food”

## **Abstract**

One of the major aims of the Structural Adjustment Programs, except from correcting short-term imbalances in the economy and creating an environment for sustained economic growth has been, according to the World Bank, to correct the urban-bias politics in Africa. The World Bank uses neo-classic economic models in their analysis of the characteristic of the urban-bias as well as its outcomes. According to the World Bank the major obstacle for the smallholder farmers as individuals and for the agricultural sector as a whole has been the setting of the prices for the agricultural produce which in most cases has been done through state controlled marketing boards. In the beginning of the 1980:s the World Bank started to criticise this system and argued for liberalisation of the agricultural markets. The World Bank assumes that the prices would be higher if they were set on the free market since the market in a better way will reflect the scarcity of the products. This would raise the smallholder farmers' incomes as well as their production. Therefore "getting the prices right" has been the main objective for the Structural Adjustment programs.

In Malawi the process of liberalisation of the agricultural markets started in 1987 and I would argue that they could be characterised as liberalised by 1996. Even if Malawi has been described as a "strong adjuster" meaning that they have implemented the programs efficiently, the outcome regarding the agricultural sector has been bleak. Quantitative measures at the national level show no signs of any major positive changes regarding production and poverty for the smallholder farmers.

In this essay I would argue that the failure of liberalisation of the agricultural markets partly depends on the narrow way of analysing the smallholder farmers' situation in the economy. By using the entitlement approach developed by Amartya Sen we will get a wider and more realistic picture of the situation. By using definitions as *Endowment Set* (what the farmers own) and *Exchange-Entitlement Mapping* (what the farmers can exchange from what they own) and analyse the relationship between these two we get an opportunity to deepen our understanding of the impact of liberalisation of agricultural markets on the smallholder farmers in Malawi.

The analysis in this paper is based on a field study that was conducted in the Lilongwe West area last year. 68 farmers were interviewed. The conclusion is that in general the farmers' Exchange-Entitlement Mapping has been affected negatively which has worsened their Endowment Set indirectly, which again tend to affect the Exchange-Entitlement Mapping negatively. The situation can be characterised as a vicious circle. Instead of just focusing on prices I will in this paper argue for a broader view regarding agricultural development including land issues, extension services and poverty reduction. This would demand a stronger state and probably a "de-regulation" of the agricultural markets.

**Keywords:** Agricultural Development, ADMARC, Malawi, Entitlement, Structural Adjustment Programs

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# 1. Introduction

## 1.1 Background

The market versus the state as an engine for development in underdeveloped countries has been widely debated ever since the 1960's. This debate was intensified in the beginning of the 1980's, when the World Bank and the International Monetary Fund imposed their structural adjustment programs. According to the two Bretton Woods institutions, the major problem in Africa was too much state interference and too little market involvement in the economy. One of the major changes that the two institutions argued for was the liberalisation of the agricultural markets. It was believed that this would change prices in favour of the smallholder farmers and therefore increase production. This analysis was done regardless of the differences among the countries.

Is it possible to define the problems within the agricultural sector in Africa as simply a case of too much intervention from the state? Is liberalisation of the agricultural markets a sustainable solution, and have the changes from the state towards the market really benefitted the smallholder farmers? The answer given by mainstream development economists is yes. With their neoclassical approaches and models they can show that this has been the case in several African countries. Their models assume that the economy keeps moving towards static equilibrium. According to this view, the problem in Africa is that governments have intervened in the price setting of agricultural produce. They also assume that if the market determines the prices they will increase. In the cases where prices have increased the economists claim that the smallholder farmers have faced increased incomes, and therefore raised their standards of living. However, the question must be asked if it is suitable to use the market as an abstraction within a model, instead of investigating the existing markets and their actors within Africa. There are almost no data that show increasing standards of living in the rural areas. There might be other factors than prices that are at least as important.

Twenty years after the implementation of the structural adjustment programs debate is still lively. The outcomes of the programs have been criticised, and the agricultural sector is no exception. Despite price and marketing reforms the agricultural sector shows little or no progress in Africa South of Sahara (SSA).

In the debate, this is often outlined as a technical problem. Questions such as how to create incentives for private traders to enter the market, or how to create better information systems within the markets dominate the debate.

This gives the image that all agree on the role of the agricultural sector within the economy. If we look at the basic assumptions we can see that the World Bank and pro-market researchers basically regard the agricultural sector as a complement to the industrial sector, and that its major role is to bring foreign exchange by increasing exports.

The World Bank clearly states that the most important objective of the liberalisation of the agricultural markets is to increase their abilities to grow cash crops. They are skeptical of the idea that smallholders could be the base for economic development by increasing their purchasing power and contribute to the creation of a domestic market.<sup>1</sup>

The present study is, in contrast, based on the assumption that the agricultural sector is an engine for demand-led development. By increasing the incomes of the farmers it is possible to create a domestic market for other products. Changes of the income distribution within the rural economy do not only have social implications but could also be the base for economic development.<sup>2</sup>

Therefore, this study does not regard the question of liberalisation as a technical problem. Instead the aim is to see whether liberalisation has brought about any structural changes or not. The need to arrive at a better understanding of how liberalisation affects the agricultural sector on a grass root level is as important as ever.

## **1.2 Defining the problem**

This study questions the liberalisation of agricultural markets in Africa. By looking at the case of Malawi, the study tries to give a better understanding of the institutional and structural factors that constitute the agricultural sector in Malawi. It is argued that the liberalisation of the agricultural markets is based on theoretical models and abstractions that have very little to do with reality. If it were simply the case that the agricultural markets in Malawi have been oppressed or limited by the intervention of the state, then we would expect to see the markets flourishing today. This is however not the case, and hence there is need to study the process and its actors from a historical and structural perspective.

## **1.3 The purpose of the study**

The purpose of this study is to investigate how the liberalisation of agricultural markets has affected the smallholder farmers in Malawi. The study focuses on the markets for fertilizers (the input market) and the markets where the smallholder farmers sell their produce (both food crops and cash crops). Instead of attending the market as a theoretical abstraction, this study tries to analyse the market mechanisms in reality by making qualitative interviews with smallholder farmers. Liberalisation will be considered in a historical context in order to understand the changes.

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<sup>1</sup> World Bank (1994) *Adjustment in Africa – Reforms, Results and the Road Ahead* p. 62-76

<sup>2</sup> Gunnarson and Andersson (1999) *Export-Led Growth, Developmental State and Equity – Policies vs. Structures in the Asian Miracle* p. 14



The basis of the study was my belief that the price-reform and the increasing numbers of actors within the markets might have had a positive impact on the smallholder farmers, while the increasing prices for fertilizers (input market) and the increased level of insecurity might have had negative effects. By using Amartya Sen's entitlement approach these assumptions will be examined.

The two main questions guiding the study are:

- **How is the liberalisation affecting the smallholder farmers' Endowment Set?**
- **How is the liberalisation affecting the smallholder farmers' Exchange-entitlement mapping?**

Endowment Set can be translated into what the smallholder farmers own, while Exchange-entitlement mapping (E-mapping) include all the opportunities there are for the farmers to trade with their commodities.

Within the Endowment Set this study will put emphasis on *resources* (land, labour and credit) and *production*. Regarding the E-mapping we will focus on *opportunities* and *capabilities* to trade, as well as on what kind of markets there are available for the smallholder farmers to trade on. We will also look at the relations among the various variables, both within the Endowment Set and the E-mapping, but also the relation between them. Security as well as knowledge and opinions of the liberalisation are also included in the analysis. Security in order to understand what opportunities there are for the smallholder farmers to secure themselves when dramatic changes occur, and knowledge and opinions of the liberalisation in order to attain the smallholder farmers' opinions about the liberalisation (which is seldom if ever included in this kind of analysis).

## **1.4 Why Malawi?**

The main reason for studying Malawi is that, according to the World Bank, Malawi has so far been a so-called strong adjuster. This means that Malawi has been rather efficient in implementing the Structural Adjustment Programs. Since independence right-wing liberals and institutions as the World Bank and the International Monetary Fund have always considered Malawi as a more or less successful case, and a strong adjuster. Then if Malawi is considered as a strong adjuster, we have an opportunity to see how the programs have affected the country. We also have the opportunity to study policies prior to the adjustment period and see how successful they really been.

But Malawi is also interesting if we look at the structure of the agricultural sector. The structure is extremely skewed and has always been since the colonial period. There is a so-called modern estate sector, which in past policies has been

favoured by the government, but there is also a smallholder sector, which has been neglected. It is believed that the liberalisation of the agricultural markets would be favorable to the smallholder sector and thereby it will be a way to change the urban-biased politics in Malawi<sup>3</sup>.

All this makes Malawi a very interesting case to study both from a development theoretical perspective and a reality based perspective.

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<sup>3</sup> Michael Lipton created the conception urban-bias in his book “Why poor people stay poor” from 1977. Urban-bias does not necessarily mean bias in favour of the city at the expense of the agricultural sector, but rather it means bias towards what is seen as modern.

# Method

## 2.1 To study a case

In this study, Amartya Sen's entitlement approach will be used as a framework for the analysis. The main reason for this is that we are interested in how different variables interact with each other. A basic assumption of the study is that if we isolate complex processes into one or two variables put into a model, we might end up with conclusions that are very far from reality. But by using several measures and comparing them to each other, you will end up closer to the complex reality. The various variables cannot be studied isolated from each other since the outcome of one variable affects the others, which then affect the first one and so on. A similar idea originates from Gunnar Myrdal. In the 1950's he started arguing for what he called *cumulative causation*. With his argumentation he wanted to show that the society, instead of moving towards static equilibrium, is generally moving in a direction away from equilibrium. If one factor changes away from equilibrium, the other factors will follow instead of moving in the opposite direction. These casual changes tend to be cumulative, which means that a negative, or positive, factor affect other factors which will generate substantial changes. The society tends to move in spirals.<sup>4</sup> Robert Chambers presented a similar approach in 1983. In his book *Rural Development – Putting the last one first* he argues that the rural poor are isolated, poor, vulnerable, physically weak, and powerless. According to Chambers these clusters, or factors, affect each other and in that sense the rural poor get trapped in a so called deprivation trap.<sup>5</sup> These approaches give us a better understanding of complex changes in a complex society.

As a researcher you will always be normative in a direct, or indirect way. Choice of theory, method and questions are all affected by the researchers own beliefs.<sup>6</sup> This is also the case in this study. I do not agree that the Structural Adjustment Programs form the right way to solve the problems in Africa South of Sahara. I would argue that, by minimising the state the problems will only get worse. There are obstacles that prevent the majority of the people to be part of the economy. These obstacles are structural and it is only the state that can address them. By focusing on macroeconomic indicators (as the structural adjustment programs do), you might create a "sound" budget, but you will not solve the developmental problems, and the majority of the people will be left out of the process. What is needed is a redistribution of resources and extended rural services, so that the majority of the people in the region (the smallholder farmers)

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4 Myrdal (1956) *ekonomisk teori och underutvecklade regioner* p. 27

5 Chambers (1991) *Rural Development – Putting the last one first* p. 108-114

6 Myrdal (1968) *Objektivitets problemet i samhällsforskningen* p. 11-12

will have a chance to be part of development. This is the only way to create a dynamic process that is substantial.

## **2.2 The choice of area and farmers**

The field study was conducted in the Lilongwe West Area, which belongs to Lilongwe Agricultural Development Division (LADD). The reasons for this are that, according to standard economic theory, this area should benefit from the liberalisation since its distance to major markets (Lilongwe – the capital of Malawi) is short, the infrastructure is relatively well developed and since independence the area has been favoured when it comes to rural development, both from the government of Malawi and from the major institutions such as the World Bank.

This study may be criticised for leaving out the poorest smallholder farmers (with access to less than 0.5 hectares of land). There is an important reason for this. Since the study is critically analysing the liberalisation of the agricultural markets and its impact on the smallholder sector, it is trying to do so on the same premises that are used in neoclassic analysis. This analysis recognises that there is a great risk that the poorest farmers are initially left out, but will later on share the fruits of the positive development (so called trickle-down effect).

This study, however, questions whether there will be a positive development even for farmers with access to more than 0.5 hectares. Thus the study focuses on farmers with access to:

- 0.5-1.0 hectares
- 1.0-1.5 hectares
- 1.5-2.0 hectares
- >2 hectares.

This gives us the possibility to see if the trickle-down analysis is correct, in the sense if there is anything that can trickle down.

Half of the farmers chosen for the study are women, since we also want to see if there are any major differences between the experiences of women and men.

## **2.3 Material**

This study is based on both secondary information from books and articles and first-hand information from interviews. There are no main books used through the study and it could be argued that the literature chosen is biased in favour of the researchers that are skeptical of the Structural Adjustment Programs and the agricultural policies. There are two reasons for this. The first reason is that such

literature is easier to find. The second reason is that the hypothesis in this study, implicitly questions the agricultural policies during the SAP-period. Therefore the critical literature is of main interest.

A serious problem as to economic literature dealing with underdeveloped countries is the lack of sources for economic data. Most of the time the data used come from the same source. For example in Malawi, the World Bank is the dominant source. This makes it almost impossible to test the validity of the data. Therefore, the reader of this study has to remember that we know far from enough about the accuracy of data.

## 2.4 Interviews

A major part of this study has been conducted in the field. During the field study interviews with both smallholder farmers and key-informants were made. The latter include persons from the United Nations Development Program (UNDP), the World Bank, the Ministry of Agriculture, the National Economic Council (NEC), the Agricultural Development and Marketing Board (ADMARC), the National Smallholder Association of Malawi (NASFAM), Royal Danish Embassy, European Food Security Network (Resal), Malawi Rural Finance Company (MRFC), Lilongwe Agricultural Development Division (LADD), United States Agency for International Development (USAID) and the International Care. These organisations and institutions all have in common that they are working with the agricultural sector in Malawi, and some of them are playing an important role in the policy process.

In the field-study 68 smallholder farmers were interviewed. All questions to key-informants as well as to smallholder farmers were so-called open-ended questions. The reason for this is that you may have to adjust the questions depending on who the interviewees are and how they respond to the questions.<sup>7</sup> For example, a smallholder farmer might not know what liberalisation is. Therefore, as an interviewer you have to be flexible.<sup>8</sup>

## 2.5 Questions

In order to find out how the Endowment Set and the E-mapping have been affected, the questions to the smallholder farmers are separate into questions about *production, trade/market, resources, security, income* and *policies*.

Questions about the production deal with:

- the pattern of production
- changes in the amount of production
- food-security.

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<sup>7</sup> Lundquist (1993), p. 42

<sup>8</sup> Yin (1994) p. 56

Questions about trade and market deal with:

- access to transportation
- access to input markets
- access to markets for produce.

As to resources, questions were asked about:

- access to land
- access to fertilizers
- how the farmers use their own labour (for farming and other income generating activities)

The questions about income deal with:

- prices for produce
- the farmers` major sources of income

Questions about security simply deal with what different kinds of security arrangements that exist for the smallholder farmers.

The final questions focuses on policies in order to find out if the farmers know any government policy, or policies, and also how they look upon the liberalisation.

Questions asked to the key-informants are:

- What is the role of the agricultural sector?
- What is the relationship between the smallholder sector and the estate-sector?  
Has the role changed since independence?
- In what kind of institutional framework do the smallholder farmers operate?
- What kind of policies regulate the smallholder farmers farming activities?
- What are the major problems for the smallholder sector? What has been its major problems?
- What is the role of ADMARC? What has been the role?
- Can the liberalisation be said to be successful so far?
- How has the liberalisation affected the smallholder farmers?
- How have they responded to the liberalisation?
- Can the liberalisation be regarded as an integrated part of the poverty alleviation program?

## **2.6 Disposition**

This study consists of four major parts.

The first part (chapter 4) describes the idea of structural adjustment and the main criticism on against these programs, focusing especially on the agricultural issues. This part is included in order to have an understanding of the general debate and to show that there is no consensus of opinion.

The second part (chapters 5-9) focuses on Malawi and its development. It is mainly devoted to the agricultural sector, but other sectors and perspectives clearly connected to the agricultural development and policies are also considered. Development is considered in a historical and structural perspective, starting with the colonial period and ending up with the latest development.

The third part (chapters 10-11) presents an overview of the macro-economic outcome after twenty years of structural adjustment, including the development within the agricultural sector. The major part, however, is devoted to the smallholder sector and is based on the interviews conducted in the field-study. This part forms the basis for our analysis.

The last part (chapters 12-13) analyses liberalization and its impact on the smallholder farmers. From this analysis conclusions are drawn.

## 3. Theory

### 3.1 The entitlement approach

According to Amartya Sen, the entitlement approach is an analytic framework trying to explain why starvation occurs. But since starvation could be seen as the worst case of poverty, this study argues that the approach is valid for a more general research concerning how poor people are affected by changes in their economic environment. Sen concludes that starvation “*is about the relationships of persons to the commodity (or that commodity group)*”.<sup>9</sup> These relationships exist prior to starvation, and the entitlement approach could therefore be used as an analytic tool concerning the rural poor in a more general aspect.

Amartya Sen considers poverty as a matter of deprivation.<sup>10</sup> Poverty exists because the economy has a negative impact on the ability of individuals to meet their own basic needs. Consequently, it is not only a matter of commodities “being there“, but rather a matter of the individual’s power to acquire these commodities, or as Sen puts it:

*“In understanding general poverty, or regular starvation, or outburst of famines, it is necessary to look at both ownership patterns and exchange entitlements, and the forces that lie behind them. This requires careful consideration of the nature of modes of production and the structure of economic classes as well as their interrelations”.*<sup>11</sup>

Therefore, in order to investigate how different individuals, or groups of individuals, are affected by changes in the economies they are living in, it is, according to Amartya Sen, necessary to focus on the impact on both their *rights* and their *opportunities*. These are translated into capabilities and entitlements. Capabilities refer to what a person can or cannot do. To be free from hunger, able to trade your commodities and able to produce food are all examples of capabilities. These capabilities are generated by entitlements, which cannot simply be measured as income, but as a bundle of rights and opportunities.<sup>12</sup> Contrary to this, the neoclassical economists, in their general equilibrium models, assume that each individual, rich or poor, has the capability to support himself by using his own resources, or to quote Koopmann:

*“they assume that each consumer can, if necessary, survive on the basis of the resources he holds and the direct use of his own labour, without engaging in*

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<sup>9</sup> Sen, (1982) *Poverty and Famines - An Essay in Entitlement and Deprivation*, p. 1

<sup>10</sup> Sen (1982) p. 22

<sup>11</sup> Sen (1982) p. 6

<sup>12</sup> Ingham, Barbara (1993) *The Meaning of Development: Interactions Between “New” and “Old” Ideas* p. 1812



*exchange, and still have something to spare of some type of labour which is sure to meet with a positive price in any equilibrium“.*<sup>13</sup>

According to this view, there is theoretically no need for individuals to create relationships with other human beings by exchanging commodities in order to survive.<sup>14</sup> This means that every individual could be seen as an island, quite unaffected by the surrounding environment.

The entitlement approach rejects this view, and instead analyses the rights and opportunities that should exist for the individuals within a certain economic framework. These rights and opportunities are translated into entitlements. According to Sen, it is possible to define four different entitlements within a market economy and these are:

- *trade-based entitlement*: one is entitled to own what one obtains by trading something one owns with a willing partner.
- *production-based entitlement*: one is entitled to own what one gets by arranging production using one's own resources, or resources hired from willing parties meeting agreed conditions of trade.
- *own-labour entitlement*: one is entitled to one's own labour power, and thus to the trade-based and production-based entitlements related to one's labour power.
- *inheritance and transfer entitlement*: one is entitled to own what is willingly given to one by another who legitimately owns it, possibly to take effect after the latter's death.<sup>15</sup>

The entitlements must be regarded as specific rights and opportunities in a specific economic system. For example production-based entitlements do not have to exist in a socialist economy since private ownership is not a legitimate part of such a system.<sup>16</sup>

### **3.2 Endowment and Exchange**

From the entitlements described above, Sen creates a system studying how people are affected by the surrounding prerequisites. The basis is what people own and what opportunities there are for them to exchange according to what they own.

In a market economy, a person can exchange what he or she owns to another set of commodities. Theoretically, the individual can do this either by trading or by producing or by both. All different bundles of commodities that a

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<sup>13</sup> Sen (1984) *Resources, Values and Development* p. 455

<sup>14</sup> *ibid.*

<sup>15</sup> Sen (1982) p. 2

<sup>16</sup> *ibid.* p. 3

person can require by exchanging what he or she owns is called *exchange entitlement*. By looking at every opportunity there is to acquire a commodity through exchange according to what you own, you get a so-called *Exchange entitlement mapping* (E-mapping).<sup>17</sup> These opportunities are closely related to what the individual owns. The different ownerships that exist for the individuals can be translated into *Endowment sets*. Let us look at an example.

We assume that a farmer owns a piece of land where he has the capability to grow staple-food. Moreover, the farmer can choose to sell his labour power to a factory or an estate. The farmer then owns a piece of land and his own body. This is the farmer's *Endowment set*. From this Endowment set, there are several opportunities to exchange. The farmer can exchange his body, his land or the food he produces by cultivating for any commodity or bundle of commodities. This is the farmer's *E-mapping*. The *E-mapping* also depends on the farmer's production possibilities. If the farmer, for example, does not have the capability to grow anything on his own piece of land, because of lack of necessary inputs, it will affect his E-mapping negatively because he can no longer exchange food by cultivating. It is not enough only to look at the Endowment Set and the E-mapping. You also have to take the capabilities, and the opportunities to use these capabilities, into consideration.

Consequently, the analysis cannot be based on the assumption that every individual is like an island, free from influences from the outside world. Instead, the individual's ability to demand commodities depends on his or her entitlement relations that exist in a given society<sup>18</sup>, or, to quote Sen:

*“Market demands are not reflections of biological needs or psychological desires, but choices based on exchange entitlements relations. If one doesn't have much to exchange, one can't demand very much, and may lose out in competition with others whose needs may be a good deal less acute, but whose entitlements are stronger“.*<sup>19</sup>

Thus the opportunities for an individual to demand commodities strongly depend on his or her position within the economy, determined by the modes of production, and his or her position in terms of production relations.<sup>20</sup>

This study will focus on production-based and trade-based entitlements, since the main objective is to investigate the impact of the liberalisation of the agricultural markets on the smallholders in Malawi. By using the entitlement approach, we will get a more comprehensive picture of what is actually happening in reality. We will investigate how the liberalisation has affected the Endowment Set and the E-mapping and how these are affecting each other.

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<sup>17</sup> *ibid.*

<sup>18</sup> *ibid.* p. 154

<sup>19</sup> *ibid.* 161

<sup>20</sup> Sen (1982) p. 5

## 4. Structural Adjustment Programs

The aim of this chapter is to give a brief summary of the ideas of the structural adjustment programs, and to consider them in the context of the economic crisis that most countries in Southern Africa faced in the end of the 1970's. In the light of this we will try to outline a more thorough picture of the assumptions behind liberalisation of the agricultural markets.

The reasons for considering the structural adjustment programs are, firstly, that these programs have had a major influence on the economic policies in Southern Africa since the beginning of the 1980's and secondly, the objectives of the liberalisation can only be understood if we consider them in a wider context.

### 4.1 The idea of structural adjustment

The foundation of the structural adjustment programs is to correct the short-term imbalances in the economy and try to create an environment for sustained economic growth through long-term adjustment. The short-term imbalances manifest themselves in balance of payments deficits, while the long-term adjustment concerns a wide range of obstacles for economic growth (according to the definition by the World Bank and the International Monetary Fund). The International Monetary Fund (IMF) manage the short-term imbalances, while the World Bank mainly focuses on long-term adjustment.<sup>21</sup> The aims of the programs are:

- to bring about equilibrium or at least manageable deficits in the fiscal budget and the balance of payments
  - to reallocate domestic resources to the more productive sectors
  - to reduce the role of the state in commercial and productive activities
  - to promote the private sector and the role of market forces.<sup>22</sup>

The theories behind these formulations are based on the neoclassical economic model. According to this model, the market is superior to the state, since the market is more sensitive to demand and supply factors. The neoclassical model assumes that the market is homogenous in the sense that prices are the only information that will be needed for making production and purchasing decisions. Furthermore, the model assumes that every individual has perfect information about the market, and that no one has sufficient power to affect the market prices. Therefore, the aim of the structural adjustment (except from correcting short-

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<sup>21</sup> Duncan & Howell, (1992) "Assessing the Impact of Structural Adjustment" in *The structural adjustment and the African Farmer* p. 5

<sup>22</sup> *ibid.*

term imbalances) is to reduce the role of the state in order to “getting the prices right“, which means that the prices will reflect the relative scarcity of the factors of production in the countries.<sup>23</sup>

## 4.2 Why adjustment in Africa?

As mentioned above, the majority of the countries in Southern Africa faced harsh economic problems at the end of the 1970's. This crisis was closely related to the debt-crisis, which occurred due to the oil-crisis in the middle of the 1970's. The oil-crisis manifested in rapidly increasing oil-prices. The oil-importing countries in Africa responded to the increasing prices by heavy international borrowing which at the time was easy because of the circulation of so called petro-dollars in Europe. When the oil-prices raised further at the end of the 1970's it became harder for the African countries to receive cheap foreign loans because of the increasing interest rates in Europe and the United States. At the same time the demand for primary goods (which constitute most of the African export-products) decreased internationally. Consequently, in the beginning of the 1980's, the countries in Southern Africa faced worsened terms of trade and at the same time huge international loans. They were trapped in a debt crisis.<sup>24</sup>

Because of this sustained economic crisis, several countries turned to the IMF and the World Bank asking for help to solve their problems of balance of payment. As a consequence, they also had to accept the policy programs designed by the IMF and the World Bank.<sup>25</sup> It was believed that these programs would help the African economies to adjust to the new situation, and that the adjustment process would be smoother thanks to assistance from the two multilateral institutions.<sup>26</sup>

According to the World Bank the core of the economic crisis was domestic and it manifested in very low levels of GNP growth per capita. Between 1965 and 1985 the average growth per capita in Southern Africa was less than 1% a year, whilst for example East Asia and the Pacific showed figures of GNP per capita growth at almost 5% a year.<sup>27</sup> The World Bank and the IMF defined - and still define - the reason for these economic problems as follows:

- overvalued exchange rates
- heavy government spending
- inward looking trade policies
- political instability.<sup>28</sup>

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<sup>23</sup>Stein (1994) *Theories of Institutions and Economic Reform in Africa* p. 18834

<sup>24</sup>Larsson K-A (1994) *Strukturanpassning - Bistånd och utveckling* pp 18-20

<sup>25</sup>Loxely (1987) “The IMF and the World Bank in Sub-Saharan Africa. Policies and Politics” in *The IMF and the World Bank in Africa* p. 47

<sup>26</sup>Larsson (1994) p. 20

<sup>27</sup>World Bank (1994) p. 18

<sup>28</sup>ibid. pp. 22-24

Overvalued exchange rates result in gains for the importing sector but in losses for the exporting sector. This is part of the inward looking trade policies, and according to the World Bank and the IMF, this meant that the countries ran short of hard currency and helped inefficient sectors to survive at the expense of the fiscal situation of the state. The heavy government spending was not just a fiscal matter, but the World Bank and IMF stated that the governments used their money on inefficient sectors. The political instability prevented foreign investors from investing in Africa.

What was needed, according to the two Bretton Wood institutions, was a shift in paradigm from the state in favour of the market, from the domestic market in favour of the world market, and last but not least a shift in the way of looking at the agricultural sector, not as an obstacle, but as an engine for economic growth.<sup>29</sup> They finally added that international factors had had a negative impact, but concluded that these factors were not the main reason for the economic problems.<sup>30</sup>

### 4.3 The liberalisation of the agricultural markets

*“ In general, pre-reform marketing policies were extensive, serving simultaneously, the political aims of action-building and food-security, and for this purpose, provided subsidies to both producers and consumers. ”<sup>31</sup>*

Prior to the structural adjustment period in SSA, a modernisation model dominated the agricultural policies. It was believed that the introduction of modern technologies would promote rural development. This would be organized through so called modern public institutions such as co-operatives, marketing boards and parastatals. By using these institutions to provide input and at the same time stabilize prices, there would be both economic gains and social security.<sup>32</sup>

Contrary to this, the foundation for the liberalisation of agricultural markets is purely economic. Generally, there are two main reasons for liberalisation according to the World Bank and the IMF.

The first reason is that state-governed agricultural boards are regarded as too costly. Because of the economic problems of the countries in the end of the 1970's it was apparent that the states were not capable of running these boards.<sup>33</sup> Consequently, the need for short-term stabilization of the fiscal balance made it necessary for the governments to withdraw from the agricultural markets. The state-governed boards were regarded as too costly because it was widely believed

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<sup>29</sup> *ibid.* pp. 34-35

<sup>30</sup> *ibid.* pp. 26 ff.

<sup>31</sup> Seppälä (1997) *Food marketing reconsidered* p. xi

<sup>32</sup> Friis-Hansen ed. (2000) *Agricultural Policy in Africa after Adjustment*, p. 13 (the chapter is written by Peter Gibbon)

<sup>33</sup> Seppälä (1997) p. 2

that these boards were highly inefficient, and because one of the major objectives of the boards was to redistribute incomes from producers to consumers.

The second reason, according to the World Bank and the IMF, is that the state-governed boards had a negative impact on the farmers. Through fixed producer prices, taxes on export, and taxes on the inputs the policies functioned as an obstacle for the production of the farmers. A study made by Schiff and Valdes in 1992 shows that Côte d'Ivoire, Ghana and Zambia (which the World Bank regards as representative African cases) taxed the farmers 70% more than the average for developing countries.<sup>34</sup> According to the World Bank the existence of a black market was proof enough for the state to gradually withdraw from the agricultural market.<sup>35</sup>

Out of these two reasons, Africa should, according to the World Bank, favour the free market and by doing so eliminate price distortions instead of having state involvements in the market. The World Bank strongly believes that the market will provide higher prices for the agricultural products, because the market-prices will reflect the scarcity of the products, and by doing so agricultural production in Africa will increase.<sup>36</sup> They believe that the main problem for the farmers in Africa has been the state providing prices lower than they would have been if the market could operate freely, and thereby affecting the incentives of the farmers to produce negatively. This problem is defined as one of the supply-side of the economy.

#### **4.4 Criticism of Structural Adjustment**

The World Bank and the IMF and their Structural Adjustment Programs have been criticized by several different scholars, and in several different ways. We will outline some of the major arguments, because it is important to have some general knowledge of the debate when we study Malawi as a case. We will consider the SAP in general and the liberalisation of the agricultural markets in particular.

Several scholars criticize the World Bank and the IMF for not including market imperfections into their models. The lack of faith in the markets means that removing the state from one sector will just make problems worse.<sup>37</sup> Since no one really believes in the market, it is only the state that will have the possibility to act. Without the state, there will be nothing. This argument is closely related to the neo-institutionalists' main argument against the Structural Adjustment Programs. They believe that the Bank and the Fund, with their emphasis on "getting the prices right", fail to recognize the importance of institutions. For example, the neo-institutionalists do not believe that the market

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<sup>34</sup> see Schiff, Maurice and Valdes Alberto (1992), *The Plundering of Agriculture in Developing Countries*. in World Bank (1994) p.

<sup>35</sup> Seppälä (1998) *Liberalized and neglected? - Food marketing policies in Eastern Africa*, p. 3

<sup>36</sup> Stein (1994) p. 1837

<sup>37</sup> Green, (1989) "Articulating Stabilisation Programmes & Structural Adjustment" in *Structural Adjustment & Agriculture - Theory and Practice in Africa and Latin America*, Commander (ed). p. 36

itself will produce efficient prices, but that institutions are required to reduce transaction costs and thereby support free exchanges that will correct the prices.<sup>38</sup> These institutions can only be created by the state, in the sense that the state is the superior power within the nation. Therefore, it is necessary to include the state as an important actor within the economy.

Another, rather common criticism concerns the emphasis on performance rather than on target. This means that the tools and resources devoted to attain progress have been ignored in the Fund's and the Bank's analysis.<sup>39</sup> For example, it might be necessary to correct prices for agricultural products. However, reality is complex and by a liberalisation of the whole economy, the farmers may lose the subventions necessary for them to buy inputs. The reforms will then be counter-productive.

Many scholars are criticizing the Bank and the Fund not only for using the wrong measures and assumptions in their analysis, but also for missing the main issue - land tenure systems. Some of these scholars emphasize the colonial period. They believe that the legacy from that period is of great importance for the understanding of the problems in Africa of today. There are researchers vindicating that the land-population relation created throughout the colonial period still exists this very day. As a result the majority of people in Africa might be excluded from the economy.<sup>40</sup>

Finally, there is criticism against the incoherence between the objectives of the Fund and the objectives of the Bank.<sup>41</sup> The main objective of the IMF is to help countries with balance-of-payments imbalances. The IMF has a purely monetaristic view on how these imbalances should be corrected. Since they believe that the imbalances are caused by inflation, the most important target is to control inflation. In practice this means that a country in need has to reduce its domestic consumption (through fiscal restraints) and increase its exports. This is what is generally called stabilization. At the same time the World Bank is focusing on long-term structural adjustment that will lead to economic growth. The Bank is also a major lender to various development projects. Therefore, the countries that are "co-operating" with the Bank and the Fund, should improve their economies, mainly on the supply-side, and at the same time reduce demand in order to stabilize.<sup>42</sup>

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<sup>38</sup> Stein (1994) 1837

<sup>39</sup> Green (1987) p. 37

<sup>40</sup> Okoth-Ogendo, (1993), "Agrarian Reform in Sub-Saharan Africa: An Assessment of state Responses to the African Agrarian Crisis and Their Implications for Agricultural Development". in *Land in African Agrarian Systems*, Bassett Thomas and Crummey E. Donald (eds). p. 259

<sup>41</sup> Green (1987) "Articulating Stabilisation Programmes & Structural Adjustment" in *Structural Adjustment & Agriculture – Theory and Practice in Africa and Latin America* Commander Simon (ed) p. 37

## 4.5 The debate and criticism of the liberalisation

In the middle of the 1980's a policy debate emerged on the liberalisation of agricultural markets. There were in general three types of criticism.

In the first criticism researchers questioned the validity of the claims that formed the foundation of the liberalisation. The researchers claimed that while there had been a net taxation of the export crops during the 1970's, the food crops were in fact subsidised rather than taxed. In 1998 UNCTAD released a report stating that even if there had been a net taxation of the export crops from 1970-1994, it had not been higher than in Asia or Latin America.<sup>43</sup>

The second criticism was concerned with the relationship between the levels of taxation and the economic performance in export crop agriculture. Lele, van de Walle and Gbetibou stated in *Cotton in Africa: An analysis of Differences in Performance* (1989) that the relationship was weakest for cotton. Instead, according to the authors, the performance could to a greater extent be explained by the trade-off between food crops and export crops, by the efficiency of producers' payment systems and finally by the level of subsidised inputs.

The third, and maybe the most important criticism, questioned the World Bank's assumption that there was a significant price-related supply responsiveness. Studies that had been made<sup>44</sup> showed that factors such as public investments in the rural sector were more important.<sup>45</sup>

The state versus the markets for inputs and outputs is a topic that has been debated since late 1980's. Those who argue against liberalisation claim that the remote rural areas do not attract private traders and the same conclusion is made as to the input markets. This would have the effect that there would be nobody to sell to for the smallholder farmers and that the prices for inputs would increase dramatically.<sup>46</sup>

The World Bank's response to all this criticism has been that instead of shifting the focus back to the state as a leading actor of rural development, the governments should speed up the implementation of the price liberalisation. Failures could often be explained by a much too slow implementation process and lack of good will from the governments concerned.<sup>47</sup>

## 4.6 What has reality proven so far?

Studies in the late 1990's show that the criticism of the liberalization is partly correct. First, if we look at the food-sector, it is obvious that the assumption that the market was not net-taxed but rather subsidized in the 1970's is correct for

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<sup>42</sup> Hanlon (1996) *Peace without profit - How the IMF blocks rebuilding in Mocambique*. p. 26

<sup>43</sup> Friis-Hansen ed. (2000) p. 14 (the chapter is written by Peter Gibbon)

<sup>44</sup> see for example Michael Lipton *Limits of Price Policy for Agriculture: Which Way Forward for the World Bank*. (1987) and Cleaver K.M and Donovan W. G. *Agriculture, Poverty and Policy Reform in Sub-Saharan Africa* (1995)

<sup>45</sup> Friis-Hansen ed. (2000) p. 13 (the chapter is written by Peter Gibbon).

<sup>46</sup> *ibid.* p. 15

<sup>47</sup> *ibid.* p. 15



several countries. Production has not increased as much as expected. Instead, according to the researchers questioning the liberalisation, it is clear that the state, or semi-state monopoly, did play a crucial role that the private traders have not managed to replace.<sup>48</sup>

When it comes to export crops the situation is more complex. It seems that the entry of private traders has lowered the quality of products and it has also been argued that the liberalisation has led to declining supplies and use of inputs related to crop quality. It is not clear, however, how the liberalisation has affected the smallholder farmers at the household level.<sup>49</sup>

We will now devote to Malawi. First, we will review the agricultural sector and policies in a historical perspective. This will give us a better understanding when we later study the liberalisation of the agricultural markets. We will start with a general presentation of the country.

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<sup>48</sup> *ibid.* p. 16

<sup>49</sup> *ibid.*

## 5. Malawi

### 5.1 Geography and population

Malawi is a landlocked and small country of the same size as former Czechoslovakia. In 1985 its population density was about 55 people per square kilometer. By African standards this is rather high and can be compared to Northern Europe. At independence Malawi was connected with the Indian Ocean by rough roads leading to Durban in South Africa and by railroad to the Port of Beira in Mozambique. By African standards the soil of Malawi is rather fertile. However, there are regional differences, where the South of Malawi is regarded as the most fertile area and the North as the least. The northern area is sometimes called the “dead North”.<sup>50</sup>

Overall, about 30% of the land in Malawi is suitable for agriculture, while 30% of the land is unsuitable. 30% is suitable for tree crops. As a result only 0.24 hectares per capita is arable compared to 0.38 hectares per capita, which is the average in SSA. It is therefore difficult to increase the agricultural production by expanding the land used for agriculture.<sup>51</sup>

Except from soil and rocks that can be used as building material, Malawi suffers a lack of minerals. This has always been of major importance if we look at the economic policies in the country beginning with the colonial period. The lack of minerals has created strong dependency on the agricultural sector which has even since the colonial period been the object for development policies within the country.<sup>52</sup>

If we compare to African standards there are few so called ethnic groups in Malawi. The two major groups are Chewa and Nyanja, which together constitute around 40% of the population. Both groups stemmed from the Marawi from which the name Malawi originates. In Malawi there is no single ethnic group, which can be said to conform ethnic unity, because when Africa was divided by the Europeans Malawi's borders cut across various ethnic groups.<sup>53</sup>

Malawi has never had a large number of non-Africans living in the country. In 1964, just before the independence, only 0.2% of the population were Englishmen. This can partly be explained by the lack of minerals, which created a European feeling of Malawi as belonging to the “colonial slum.” Instead of being a white settlement or a white trading colony, the commerce in the country has always been dominated by the Indians.<sup>54</sup>

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50 Pryor, Frederic L. (1990) *The Political Economy of Poverty, Equity, and Growth: Malawi and Madagascar* pp. 21-2

51 *ibid.* pp. 22-23

52 *ibid.* p. 23

53 *ibid.* p. 24

54 *ibid.*

## 5.2 The structure of Agriculture

Today the agricultural sector in Malawi contributes 35% of the GDP and employs more than 85% of the total labour force. Furthermore, the sector contributes 90% of the total export earnings.<sup>55</sup> Administratively Malawi is divided into three regions. These are the Northern, the Central and the Southern Region. But there are four agro ecological zones: the Lower Shire Valley, the Lakeshore and Upper Shire Valley in the South, the middle plateau areas in the Central and Northern regions and finally the highland areas in the North. The population is unevenly scattered in the country with more than half of the population living in the Southern region, 30% in the Central and only 12% in the North.<sup>56</sup>

In 1978, the Government of Malawi embarked on a twenty-year National Development Program (NRDP). The NRDP divided the country into eight units called Agricultural Development Divisions (ADD). There was one division in Karonga, Mzuzu, Kasungu, Lilongwe, Salima, Liwonde, Blantyre and Ngabu. Each of these ADD's administers five Rural Development Projects (RDP) mainly working with infrastructure, extension and credit services. These RDP's are divided into approximately 180 Extension Planning Areas (EPA's). They were earlier called Ecological Planning areas. Each of these EPA's has a field officer working for the Ministry of Agriculture, and this officer is supposed to help the farmers and act as a supervisor.<sup>57</sup>

## 5.3 Landholding structure

The structure of landholdings in Malawi has its origins in the colonial period and is normally described as dualistic. The word dualistic is here referring to the system of smallholders and estate-owners. Malawi is an interesting case in the sense that what differs between the smallholders and the estates is not the size of the holdings as for example in Sri Lanka where estates and smallholders coexist. Instead, it is legal and institutional rules regarding crop production, marketing arrangements and pricing policies that determine the duality. The size of an estate in Malawi can vary from 1 hectare to 100 hectares.<sup>58</sup>

This landholding structure was legalised by the Government of Malawi in 1965 when the 1965 Land Act was signed. This act provides four classes of rural land tenure. First, there is public land, which is simply land owned by the state. Second, there is freehold land, which is privately owned land. Third, there is leasehold land, which is land that can be leased up to 99 years. Finally, there is the users' right to customary land allocated to smallholders by Traditional Authorities. Under the Act the estates operate on the leasehold and the freehold

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<sup>55</sup> Ministry of Agriculture and Irrigation (2000) p. 1

<sup>56</sup> Spring (1995) *Agricultural Development and Gender Issues in Malawi* p. 53

<sup>57</sup> *ibid.* p. 57

<sup>58</sup> Sahn (1990) *Policy reform and poverty in Malawi: A survey of a Decade of Experience* p. 2

and the smallholders on the customary land. The Act permits leases or private-owned land on the customary land.<sup>59</sup>

It is, however, misleading to describe Malawi's landholding system as simply dualistic since it gives the idea that there are two homogenous sectors. This is not the case. The smallholders can be separated into three different groups. The first group embraces smallholders that are net sellers, producing more than they consume. These net sellers amount to about 25% of the smallholders and they have holdings of more than 1.5 hectares each. They grow both cash crops and food crops. The second group produces for subsistence and have a sometimes meagre amount to sell. These farmers have landholdings of 0.7 to 1.5 hectares each. The third group does not produce enough for subsistence and embraces net buyers. This group has access to land at a size of less than 0.7 hectares each. More than 35% of the smallholders are classified to this group.<sup>60</sup>

Only the largest holdings have access to fertilizers, while most of the farmers with less than one hectare have no such access at all. The farmers who are net buyers of food spend between 44 and 48% of their cash income on food. This can be compared to 25% for the population as a whole.<sup>61</sup>

Obviously, the landholding structure is not a question of the smallholders as one group and the estates as another. Even if the estate sector has been historically prioritised compared to the smallholders, occurred some advantages for the smallholders with larger areas of land in various projects and Government policies. These so-called Master Farmers have been regarded as the leading actors when it comes to development of the smallholder sector.<sup>62</sup>

## **5.4 Lilongwe Agricultural Development Division**

Lilongwe Agricultural Development Division (LADD) has played an important role in Malawi when it comes to agricultural development. Since independence it has been the area where the World Bank and the Government of Malawi have tried to modernize the agricultural sector through various projects. The area has been looked upon as the grain reserve for the rest of Malawi.<sup>63</sup> LADD is situated around Lilongwe - the capital of Malawi -, in the central region of the country.

Since independence there have been several agricultural projects in Malawi. The main purpose of these projects has been to increase the agricultural production at the household level. The projects have been initiated by the Government as well as by foreign donors. They can be separated into three categories with different project formulations. First, there have been projects

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<sup>59</sup> Cromwell (1992) "Malawi" in *Structural Adjustment and the African Farmer* p. 113

<sup>60</sup> Chilowa (1998) "The impact of SAPs on social and human development in Malawi" in *Sustainable social and human development in Malawi: towards poverty alleviation* p. 3

<sup>61</sup> Lele (1989) *Structural Adjustment, Agricultural development and the poor – Lessons from the Malawian experience* p. 6

<sup>62</sup> Cromwell (1992) p. 113

<sup>63</sup> Interview with Falyson Kamila, Credit Manager Agricultural loans, Malawi Rural Finance Company, 23/5-00

focusing on one single crop, second there have been so called functional programs focusing on a specific constraint to the production such as lack of credit, and finally there have been integrated rural development projects dealing with several different basic needs as one concept. The World Bank in the 1960's and 1970's designed the integrated rural development projects. These projects focused on production but had several infrastructural components, such as access to roads and clean water.<sup>64</sup>

The World Bank started the first integrated rural development project in 1968 known as Lilongwe Rural Development Project (LRDP). This program was in fact the first of its kind in the world.<sup>65</sup>

Since LADD was the arena where the World Bank made its experiments it was also the area where most money was spent. During the 1970's and 1980's criticism of this bias was common. LADD has always had more equipment and more financial resources than the other Divisions.<sup>66</sup>

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<sup>64</sup> Spring (1995) p. 122

<sup>65</sup> *ibid.*

<sup>66</sup> Interview with Falyson Kamila, Credit manager Agricultural Loans, Malawi Rural Finance Company, 23/5-00

## 6. The history of Malawi

### 6.1 The pre-colonial era

According to Phiri, the pre-colonial period was characterized by a constant adjustment to new challenges and opportunities, which also included an expansion of exchange over time. Contrary to many other countries in central and southern Africa, however, the soil of Malawi did not provide any minerals or other similar resources, which means that the opportunities to create a mixed economic base have been very limited. Consequently the people of Malawi have always been dependent of agriculture.<sup>67</sup>

According to historians, pygmies were the first people to settle in the area now called Malawi. From 100 to 500 century they were forced away by Bantus. The first reliable data concerning the territory of Malawi of today, originate from the end of the 16<sup>th</sup> century. At that time, the people of Marawi populated the territory.<sup>68</sup> The immigrants originated from four different clans, namely the Banda, Mwali, Nkohoma and Phiri.<sup>69</sup>

During the “glory days” of the Marawi kingdom the area included almost the whole of Zambia, parts of Mozambique and of course Malawi. After the 17<sup>th</sup> century the kingdom fell apart and minor groups took power during shorter periods of time.<sup>70</sup>

Form the 15<sup>th</sup> century and onwards both Portuguese and Arabs have had contacts with what today constitutes Malawi. The contacts were based on trade and none of the groups had the ambition to settle down in the area. During the 19<sup>th</sup> century the slave trade emerged in the region. The Arabs dominated the trade and during this period at least 20 000 people were sold every year.<sup>71</sup>

Continuous contact with the west began after 1859 when David Livingstone visited Lake Malawi. In the next three decades missionaries and settlers from England and Scotland came to Malawi. In 1891 England declared the area as their protectorate in order to prevent the Portuguese to take power in the region. The name of the protectorate became Nyasaland.<sup>72</sup>

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<sup>67</sup> Spring (1995) p. 6-7

<sup>68</sup> Länder i fickformat (1999) *Mocambique och Malawi* p. 33

<sup>69</sup> Nelosn (1975) *Area Handbook for Malawi* p. 11

<sup>70</sup> Grauers, Fisher and Odén (1997) *Malawi efter Banda: Förändringar i landet där tystnad rådde* p. 9

<sup>71</sup> ibid.

<sup>72</sup> Pryor (1990) p. 29

## 6.2 Agricultural development during the colonial period

### 6.2.1 The origins of dualism

From the very beginning of colonialism up till now Malawi has been characterized by a dualistic structure in the agricultural sector in the sense that two different systems have been working side by side. These two systems are the “modern“ estate sector and the “traditional“ smallholder sector. As mentioned above (chapter 5.3) the dualistic structure in Malawi does not only depend on the size of the holdings. Instead legal and institutional rules have regulated the sectors. We will see that the dualistic structure does not mean that there have been two systems working independently from each other. On the contrary, if we look at the economic history of Malawi, we can see that the estate sector has depended on the smallholder sector for its survival. The colonial regime involved deepening this structure. The involvement included various means. The three most important were taxation, marketing and land-ownership structures.

Before the colonisation the land was under customary tenure. This means that land was treated as having no market value, except from its value as a producer of crops. However, this should not be interpreted as if anyone was free to use land the way it suited him or her. There was indeed a control mechanism for occupying and cultivating land. The right to occupy and use land was depending on whether a person was accepted as a member of the community or not.<sup>73</sup> However, this ownership system did not function very well alongside the aims of English colonialists. Not very long after England had proclaimed the area as their protectorate in 1891, the English settlers acquired over 15 % of the land. They were only 300 at the time.<sup>74</sup>

In order to solve the land problem the colonial government created a system with three different kinds of ownership: private property (freehold), leasehold land and customary land.<sup>75</sup> Most white settlers were given certificates that made the land their private property (freehold), while some of the land was leased out by the state for 21 to 99 years (leasehold). Land not privately owned was declared to be either Crown Land (which meant that it belonged to the English Crown) or African Trust Land (all customary land that were occupied or controlled by a village headman).<sup>76</sup>

Land was initially acquired through treaties with the local Chiefs. It was mainly single individuals, big companies or missionaries who were looking for land to use for large-scale estates. This was the origin of a dual system that is still dominant within the agricultural sector in Malawi. On one hand there was an

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<sup>73</sup> Mkandawire M. Richard (1992) “ The land question and Agrarian Change in Malawi“ in *Malawi at the crossroads: The post colonial Political Economy*, p. 171

<sup>74</sup> Mwakasungura (1986) *The rural economy of Malawi: A critical analysis* p. 3

<sup>75</sup> Mulwafu (2000) *Soil erosion and State intervention into Estate production in the Shire Highlands Economy of Colonial Malawi* p. 3

<sup>76</sup> Mkandawire (1992) “ Land Question and Agrarian Change In Malawi” in *Malawi at the crossroads: The post colonial Political Economy* 175-176

expanding “modern“ sector growing cash crops mainly for export, and on the other hand there was the smallholder sector growing mainly staple food for the domestic market. From the beginning most of the estate owners devoted to coffee production. However, during the depression in the 1920’s prices fell dramatically, and several estate owners changed to the tobacco business instead.<sup>77</sup>

It was only after the 1920’s that the estate sector really started to expand. This occurred when the Protectorate began to issue legal titles to land in order to stimulate further European settlers to come to Malawi. But the estate sector was dependent on labour, and with the majority of the Africans being subsistence farmers, the estate owners faced problems in acquiring manpower. The alienation of land was not enough to transform the African farmers into cheap labour. Instead, taxation and a system called *thangata* were used.

### 6.2.2 The role of taxation

*“The question of taxation was closely linked with the labour question, for the need to earn tax money was one of the most important incentives to induce Africans to take up paid employment“<sup>78</sup>*

The English estate-owners were in need of cheap labour in order to maximise their profits. To use a system based on slavery was not on the agenda since England had prohibited slavery. They had to find other solutions. One solution was simple and logic. If they could not force the Africans to work on the estates directly they had to do it indirectly. The instrument was taxation. Therefore, in 1892 they introduced a monetary tax for “Her majesty’s protection“ and in order to pay this tax the Africans had to find employment at the estates since that was their only opportunity to receive cash income. The amount of taxation was pegged to the monthly wage.<sup>79</sup>

For those who could not pay their taxes and could not prove that they had been working for at least one month for a European a double tax was imposed. This system created a situation where the peasants were functioning as a labour reserve for the white settlers. But the Africans were so badly paid that they preferred to leave their families and their homes in order to migrate to South Africa and find a job at the mines. While the peasants were a labour reserve for the white settlers, Malawi as a whole became a labour reserve for South Africa.<sup>80</sup> This system worked throughout the whole colonial period.

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<sup>77</sup> *ibid.* p. 175

<sup>78</sup> *ibid.* p. 176

<sup>79</sup> Mwakasungura (1986) p. 7

<sup>80</sup> Mkandawire (1992) p. 177



### 6.2.3 The Thangata

Along with the taxation system the Englishmen created a system that came to be known as the *Thangata*. Ironically the word *thangata* means “to assist“ in Chichewa and in the original system the indigenous farmers helped each other during the harvest period.<sup>81</sup> The system created by the Englishmen was something else. It was a system where the white settlers rented land to the Africans.<sup>82</sup> The reason for this was the conflicts over land that had evolved especially in the Southern region in the early 1900’s. These conflicts between the smallholders and the white estate owners arose because of lack of land.<sup>83</sup>

In practice the *thangata* system meant that the peasants had to supply labour to the estates in order to get a plot of land. They were not allowed to work on the estate (which they had to do in order to pay their taxes) if they inherited land instead of taking the land the estate owners gave them.<sup>84</sup> By creating this system the Englishmen solved two problems simultaneously. First, they had one more mechanism - besides taxation - that forced the Africans to work on the estates, and second, they forced many Africans away from their land, which meant that conflicts over land were removed.

## 6.3 The History of marketing

### 6.3.1 Marketing boards

Despite the fact that formal control of prices for agricultural produce in colonial Malawi never existed, intervention in the marketing of agricultural products dates back to the colonial period. In 1926 the first state-marketing board was established, namely the Native Tobacco Board.<sup>85</sup> The colonial government stated that the major reason for establishing this parastatal was their ambition to promote “native“ African tobacco-growers. But, according to Mwakasungura, its record is “replete with tales of plunder and diversion of native“ in order to extract surplus that could be generated to the colonial tobacco planters.<sup>86</sup>

In 1949 two more statutory bodies were created, namely the Maize Control Board and the Cotton Control Board. The government declared that the reason for establishing these two boards was their concern about the availability and prices of food. In order to meet their objectives the government used cross subsidizing by pan-territorial prices for produce and cross-commodity

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<sup>81</sup> Mwakasungura (1986) pp. 5-7

<sup>82</sup> Maganya (1994) *Of large Scale and small farms*, p. 102

<sup>83</sup> Mkandawire (1992) p. 176

<sup>84</sup> *ibid.*

<sup>85</sup> Chirwa, (1998) “Fostering private food marketing and food policies after liberalization – The case of Malawi” in *Liberalized and Neglected? - Food Marketing Policies in Eastern Africa*. Seppälä (ed) p. 64

<sup>86</sup> Mwakasungura (1986) p. 16

subsidization. Pan-territorial prices mean that the price of a commodity is the same independently of where in the country it is sold. In practice this meant that farmers located closer to the market tended to subsidize farmers in the remote areas.<sup>87</sup> Cross-commodity subsidization means that if the marketing board faces a deficit for one crop it uses surpluses from other crops to cover that deficit.

The official argument for this was to insure social security. The boards were responsible for the marketing of cotton and maize, that is responsible for the marketing of the smallholders' produce. The estates were allowed to sell their produce on the free market. Later the Maize Control Board was renamed as the Produce Marketing Board with authority to purchase other crops as groundnuts and beans.<sup>88</sup>

In 1956 the Maize Control Board, the African Tobacco Board and the Cotton Control Board were incorporated into the Agricultural Marketing Board. Its main task was to provide a stable and efficient marketing of all the main cash crops that were produced on Trust Land. In 1961 the board changed its name again and was now called the Farmers' Marketing Board. Its task was not only to market crops but also to process and dispose the agricultural products. The official government policy was to protect the farmers from world price fluctuations.<sup>89</sup>

### **6.3.2 The role of the Marketing boards**

The role of the Marketing boards was social, economical as well as political. As to the social roll it is clear that the Marketing boards had the obligation to protect farmers from fluctuating world prices. But they were also used as instruments for regional redistribution. This became important after the famine that occurred in Malawi in 1949.<sup>90</sup>

The creation of Marketing boards also had its political reasons. It was important to incorporate the smallholder farmers within the national economy. The English colonisers wanted the farmers to be part of a national capitalistic economy and the establishment of marketing boards did create a relation between the urban and rural areas. In order to prevent people in the urban areas from protesting against the foreign regime the colonizers had to please them with cheap consumer goods. A subvention of maize played that role.<sup>91</sup>

The economic reason for introducing Marketing boards was that the colonial regime wanted to have control over the smallholders' export produce. Due to the Second World War the international prices for food increased. By creating Marketing boards the regime could exploit the profits that could be made by exporting food crops. The smallholder farmers had to sell their

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<sup>87</sup> Silumba (1991) *Price Policy, Market Liberalisation and Food Security. Evidence from Malawi* p. 4

<sup>88</sup> Chirwa, 1998, p. 64

<sup>89</sup> *ibid.* p. 65

<sup>90</sup> Silumba (1991) p. 4

<sup>91</sup> *ibid.*

surpluses to the regime through the Marketing boards and the regime could then sell the surplus on the international market. 92

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92 *ibid.* p 3

## 7. Independence

In 1964 the first independent government came to power in Malawi. This new regime never really had the ambition to change the structure of the economy. Instead, as we will see in this chapter, they deepened the dualistic structure mainly through the same channels as during the colonial period. This makes Malawi unique compared to other countries in the region, where changes away from the colonial structure have at least been part of the rhetoric. All in all the development model in independent Malawi was more or less based on the assumptions of late industrialisation where low wages, state-involvement in a market-based environment and export-orientation were important elements.<sup>93</sup> However, there was a great difference. Malawi exclusively focused on the estate sector and not on the industrial sector.

### 7.1 The market versus the state

As Malawi became an independent state the foundation of the economy was based on the capitalistic mode of production. Dr Banda himself was never very fond of socialism but regarded capitalism as the only efficient way to bring about development. However, this did not mean that Malawi was a laissez-faire economy. Instead, the state and the government were heavily involved in the system. The idea was that the government should encourage the private sector to expand and the individual enterprises and the estate-owners were officially praised.<sup>94</sup> At the same time the state should be involved in the economy, especially where the private sector was weak. This meant that the state was involved in the economy and the nature of its involvement was almost the same as during the colonial period.<sup>95</sup>

The Government was also involved in the economy through agricultural marketing boards and their own companies. In 1967 the *Malawi Development Corporation* (MDC) was founded and its main task was to participate in the economy either on a joint-venture basis or through wholly owned subsidiaries.<sup>96</sup>

But the economy was not only a mixture of the state and the private sector. There was one more involved - the government itself with Life President Dr Banda as a leading actor. Banda never tried to control the economy through the state. Instead he used the private sector. The key of the private sector during the 1970's was constituted by two commercial banking groups and Press (Holdings) Ltd. The latter was a holding company that was involved in the estate

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<sup>93</sup> Gershenkron (1962) *Rysslands ekonomiska problem* pp. 145-148

<sup>94</sup> Kaunda (1992) "The administrative Organisation and Processing of National Development Planning in Malawi" in *Malawi at the crossroads: Post-Colonial Political Economy* Mhone (ed) p. 63

<sup>95</sup> *ibid.* p. 64

<sup>96</sup> Chipeta (1992) "Political Process, Civil Society and the State" in *Malawi at the crossroads: The Post-colonial Political Economy* Mhone (ed) p. 40 and Kaunda (1992) p. 64

sector and in several commercial and industrial concerns. Dr Banda controlled all the Press and the banking groups.<sup>97</sup>

## 7.2 Export orientation

One of Banda's major ideas was that Malawi should be economically "independent". According to him this could only be achieved if Malawi could receive foreign exchange instead of aid. Therefore, the aim was to promote the export sector and it was believed that this sector had to be the foundation of Malawi's development. Due to lack of minerals and other natural resources the government had their faith in cash crops. We will later see that this meant that the estate-sector was prioritised. The export orientation did not mean that the market was free. Instead the government intervened in order to maximize the exports.<sup>98</sup>

The most important instrument to promote the export sector was a relatively liberal exchange-rate policy. The Kwacha was pegged to the Pound Sterling and the import duty was low. As we shall see below the agricultural policies during the 1970's were designed to benefit the export sector.<sup>99</sup>

## 7.3 Land and labour policies

Malawi's government formulated its land and labour policies in order to promote development in the country as a whole. The system was similar to the system that existed during the colonial period. Or to quote Mhone;

*"Indeed the colonial regime had come to similar conclusion but had resigned itself only peripherally exploiting land and labour. What made the crucial difference in the post-independence period was the decision by the government to exploit land and labour, to enhance indigenous capitalist development thereby also increasing the retention of value-added within the economy"*<sup>100</sup>

The government in Malawi regarded private-owned land as superior to communally owned land. According to Banda, Malawi's agriculture could not develop if land was not properly utilized and the only way to ensure proper utilization was individual responsibility over land resources. Banda argued that *"Everybody's baby is no one's baby"*. By this he meant that without personal responsibility the incentive to use land efficiently would be damaged. Communal

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<sup>97</sup> Kydd (1984) "Malawi in the 1970s: Development Policies and Economic Change" in *Malawi: Alternative Pattern of Development* p. 308

<sup>98</sup> Mhone, (1992) "The Political Economy of Malawi: An Overview" in *Malawi at the crossroad: The Political Economy of Malawi* Mhone (ed) p. 24

<sup>99</sup> N'gon'gola, (1995) "Malawi" in *Comparative Analysis of Structural Adjustment Programs in Southern Africa – With Emphasis on Agriculture and Trade* SD Publication Series p. 10

<sup>100</sup> Mhone (1992) p. 13

(customary) land was therefore regarded as less efficient compared to private ownership. Therefore the estate sector was considered superior to the smallholder sector.<sup>101</sup>

The estate sector was, however, in need of cheap labour. Since the major part of the labour force was involved in subsistence farming, a cheap labour policy had to be supplement to the land policy. This was achieved by promoting formal privatisation of land at the expense of customary land. During the period 1973 to 1983 customary land under cultivated decreased by 40% while land that was privately owned (or belonged to public sector estates) increased by 30%.<sup>102</sup>

In order to prevent migration to the urban areas and guarantee cheap labour primarily in the commercial agricultural sector, the government introduced minimum wages that remained the same for long periods of time. For example, the minimum wages were constant during the whole 1970's, while the retail prices almost doubled during the same period.<sup>103</sup>

As we can see the policies affecting the agricultural sector were based on assumptions of how the country could develop. We will now devote to the agricultural sector in order to explain the development of the smallholder sector and the estate sector during the 1970's.

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<sup>101</sup> Mkandawire, (1997) *Malawi, Agriculture, Poverty and Employment – draft* p.3

<sup>102</sup> Mhone, (1992) p. 13-14

<sup>103</sup> *ibid.* p. 16

## 8. The agricultural sector

### 8.1 Smallholders at focus

During the first years after independence focus shifted from the estate sector to the smallholder sector. The 1962-65 development plan clearly suggested that its priority was geared towards the smallholders. Its statements, though, were not very specific and it generally outlined the importance of encouragement of the smallholder farmers to start growing cash crops. The focusing on the smallholder sector could also be observed in practice. From 1961 to 1968 almost all local resources of the Ministry of Agriculture were assigned to the smallholder sector.<sup>104</sup>

This encouragement of the smallholder sector has two major explanations. First, there was a purely economic argument. During the 1950's the output from the peasants' cash crop production had been growing steadily, and it was therefore natural to support this sector. Second, the new regime had got strong support from the rural areas and the rural poor expected that changes would come shortly after independence.<sup>105</sup>

In the fight for independence, the estate sector was a target in the sense that most of the estate owners were Europeans. The *Thangatha* system (see above) had been strongly criticized by the nationalist movement. Therefore, it was politically impossible for the government to emphasise the estate sector.<sup>106</sup>

However, in the period beginning in 1968 a shift from the smallholder sector in favour of the estate sector could be seen. The *Economic Report* from 1968 raised doubts about the ability of the smallholder sector, since it was observed that the smallholders had performed poorly in their production of maize and tobacco the last two years. Also, the production of tobacco was unstable. Since Malawi was still depending on agricultural exports - and tobacco was their major exportable crop - this was regarded as a serious problem.<sup>107</sup>

### 8.2 Back to the colonial structure

As mentioned above the government in 1968 started questioning the smallholder sector as the basis for economic growth. From 1964 to 1969 the estate sector production had grown at an average annual rate of 6.6%, while the smallholder production had grown at 2.1%.<sup>108</sup> Since Malawi had no mineral resources the

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<sup>104</sup> Mkandawire (1992) p. 178

<sup>105</sup> Kydd (1984) p. 318

<sup>106</sup> *ibid.* p. 319

<sup>107</sup> Mkandawire (1992) p. 179

<sup>108</sup> Githinji and Gondwe (1998) *Income Distribution in Malawi* p. 4

government was still convinced they should put emphasis on the agricultural sector. Their policies were based on neo-classic economic assumptions, and they strongly believed that the country could only develop through export-orientation. Since the smallholder sector had shown bad results, emphasis therefore had to be moved to the estate sector. This was achieved both by intervention from the state and by legal measures that changed the prerequisites for the estates as well as for the smallholders. The elite, both in politics and civil service, was encouraged to establish estates. Unused customary land was transferred to the estate sector and the government tried to encourage the commercial banks to extend easy credit to the new estates. In fact, the commercial banks' loans to the estate sector increased with 500% from 1970 to 1975, and with another 500% from 1975 to 1979.<sup>109</sup>

In order to promote the estate sector the government also introduced policies to protect estates from competition from the smallholders. For example the smallholders were prohibited to grow burly tobacco. By the Special crops Legislation from 1968.<sup>110</sup> Burley tobacco is the major exportable product and the smallholders lost the possibilities to exploit this crop. The estate sector was further protected by the creation of ADMARC (see further below), which meant that the smallholders had to sell all their produce to this parastatal at prices below those on the international market. The profits made by the state by ADMARC's buying of the smallholder produce and selling at higher prices were almost exclusively invested in the estate sector. In that sense it could be said that indirect taxation of the smallholders contributed to the development of the estate sector. At the same time the estate owners could sell their produce directly on the market if desired. Finally, the government once again introduced the system of *thangatha*. The reason was the same as in the late 19<sup>th</sup> century that is the estate owners were in need of cheap labour.<sup>111</sup>

The role of the smallholders remained the same as during the colonial period. They were supposed to act as the cheap labour reserve, produce maize in order to make the country self-sufficient and produce surpluses captured by the government could through ADMARC.<sup>112</sup>

### **8.3 The creation of ADMARC**

The Agricultural Development and Marketing Board was founded in 1971. This board was charged with the following responsibilities:

- The marketing, processing, manufacturing and disposal of agricultural produce grown on land other than privately owned

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<sup>109</sup> *ibid.*

<sup>110</sup> Cromwell (1992) p. 113

<sup>111</sup> Githinji and Gondwe (1998) p. 4

<sup>112</sup> Mkandawire, (1997) p. 8



- The maintaining of adequate price stabilisation funds with the two-fold of, firstly, protecting the farmer from fluctuations of world commodity markets, and secondly, by means of continued price stability increasing output of the country
- The provision at cost or below cost prices of such aids as are necessary for the increased production of economic crops
- The development of estate production and the procession of agricultural and horticultural produce either alone or jointly with commercial companies.<sup>113</sup>

Responsibilities number one and two were linked to the smallholders. The majority of the smallholders were farming on customary land and they had to use ADMARC as the buyer of their produce and seller of their inputs. The estates on the other hand, farming on privately owned land could choose to sell on the free market if they wanted to. Responsibility number three expresses the political belief that Malawi's development depends on its capability to produce economic crops which they can export and receive foreign exchange from. The last responsibility is obviously giving ADMARC the mandate to support the estate sector, which at the time was regarded as the modern sector and the basis for the country's development. It is clear that ADMARC had both social and economic functions. It was by then strongly believed that the smallholders would increase their production if they were protected from external market forces making their future uncertain. It was assumed that by protecting the smallholders the economy would gain from an increasing agricultural production. However, the principal mandate of marketing inputs and outputs was to support a commercialisation of the agricultural sector. Thus, the major function was economic.<sup>114</sup>

In 1974, ADMARC's mandate was widened to include agribusiness. Thereby they also were engaged in farming by setting up their own estates. The official reason was that ADMARC could work as a mentor by growing tobacco, cotton, etc. They were also involved in livestock holding.<sup>115</sup> ADMARC had no official mandate to engage in non-agricultural related business but in reality they made huge investments in this sector. As a matter of fact, from 1972 to 1981 their second largest share of equity investments was outside agriculture (the largest share was spent in estate agriculture). These investments were assigned to a wide variety of firms, from commercial banks to cement companies.<sup>116</sup> This was the major difference between ADMARC and the previous marketing boards. ADMARC became an important actor in the economy as a whole and had a more general developmental influence. ADMARC was also an important actor in the country's financial market.<sup>117</sup>

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<sup>113</sup> Mwakasungura (1986) p. 64

<sup>114</sup> Chirwa (1998) p. 65

<sup>115</sup> *ibid.*

<sup>116</sup> Christensen (1984) "Financing Malawi's Development Strategy" in *Malawi: An Alternative Pattern of Development* p. 452

<sup>117</sup> Mkandawire, (1992) p. 180

## 8.4 ADMARC's economic role

*“ADMARC's role in Malawi's development strategy has been both dramatic and controversial. There are two primary aspects to its prominence; first its considerable market power which has permitted it to realise considerable profit from its crop trading practices. Second, the disposition of these surpluses in favour of estate rather than in support of peasant agriculture has contributed to a significant change in the structure of the Malawi economy.”*<sup>118</sup>

ADMARC has played a crucial role in Malawi's development since its formation in 1971. The official reason for establishing this marketing board was to protect the smallholder farmers and thereby increase their production. However, in practice, ADMARC's major objective became support to the estate sector. The investments in the estate sector increased throughout the 1970's. In fact, of all the investments that ADMARC made from 1972 to 1981, 76% were assigned to the estate sector or to industries related to the estates. Only 3.2% were assigned to the smallholder sector.<sup>119</sup> In order to make these investments, the parastatal needed to extract surpluses from somewhere. This was achieved by indirect taxation of the smallholder sector by buying the smallholder produce at a price below the world market prices. Thereby ADMARC made considerable profits. During the 1970's, ADMARC paid the peasants only between 40 to 60% of the price on the international market.<sup>120</sup>

Between 1971-72 and 1979-80 ADMARC made a total profit of 155.9 million kwachas, mainly by purchasing and selling the smallholders produce.<sup>121</sup> But ADMARC did not generate surpluses from all crops. It was the export crops that created large profits while purchases of food crops often ended up in losses. This was manageable by the help of the cross-commodity subsidization system that was created in the 1950's. By this system ADMARC could cover a loss from one crop with surpluses from another. This procedure was regarded as necessary since the “modern“ estate sector was considered to be the only generator of development.<sup>122</sup>

## 8.5 The political role

The role of ADMARC cannot be described purely developmental or economical. ADMARC was an important instrument for the state, and Life President Dr Banda and his people dominated the state. The government controlled most of

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<sup>118</sup> Christensen (1984) p. 444-445

<sup>119</sup> Christensen (1984) p. 454

<sup>120</sup> Christensen (1984) p. 446

<sup>121</sup> Mkandawire (1992) p. 180

<sup>122</sup> Christensen (1984) p. 447

the private sector through ADMARC and the Press.<sup>123</sup> ADMARC became an important institution when for investments, and it also acted as a financial intermediary and a holding company providing loans to other companies.<sup>124</sup>

One of the biggest companies in Malawi in the 1970's was the Press. Press was a holding company that, for example owned, the majority of the equity stake of the largest civil engineering contractors and the largest firms of structural engineers. It grew fast by making new investments mainly in the estate sector and it also took over several commercial and industrial concerns. Life President Dr Banda himself owned more than 99% of the Press company.

Press was completely controlled by Banda and the group around him. It was used to finance the day-to-day expenditures for the Malawi Congress Party. Press received its loans from ADMARC, and in that sense ADMARC could be used for political reasons.<sup>125</sup> In fact, by the late 1970's the economy of Malawi could be characterized as a "*complex process of joint ventures with multinational capital and inter-linkages with other parastatals such as ADMARC, the banks and Press Holdings*"<sup>126</sup>. Together they controlled more than 90% of the manufacturing sector, and the public sector alone owned 70% of that sector.<sup>127</sup>

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<sup>123</sup> Laslett (1984) "An account of Malawi's Economy and Economic Policy in the 1970s" in *Malawi: An alternative pattern of development* Centre for African Studies, Edingburgh p. 390

<sup>124</sup> *ibid.*

<sup>125</sup> Laslett (1984) p. 308

<sup>126</sup> Chipeta (1992) p. 40

<sup>127</sup> *ibid.* p. 40-41

# 9. The structural adjustment period

## 9.1 The origins of the crisis

During the 1970's Malawi was one of the countries in Africa South of Sahara, with the highest rate of GDP growth. Real GDP grew by 5.2% per year from 1967 to 1979. At the same time the population growth was 3.5% a year. Malawi was regarded as a successful case, especially in the Western World where Malawi's export-orientated capitalistic model was praised. It was believed that Malawi's success could be explained by internal factors, especially policymaking factors. Three reasons were particularly emphasized to explain the performance of the Malawian economy. First, there was the trade regime with a relatively liberal exchange rate, second, it was believed that Malawi's domestic agricultural policies facilitating growth and increased profits for the export sector and third, impressive levels of investments and domestic savings.<sup>128</sup>

But the country also had its critics. Particularly scholars from the "left" were skeptical of Malawi's development model.<sup>129</sup> They argued that what was regarded as success was only a case of primitive capital accumulation and that the structure of the economy was basically the same as it had been during the colonial era. Mwakasungura quotes Ren Dumont and Marie-France Mottin<sup>130</sup> claiming that Malawi was a case of "*trying to farm without the peasants and to develop without the people*".<sup>131</sup> The critics highlighted the extremely high extent of poverty which made Malawi one of the worst cases in Africa, and this despite the high figures of economic growth.

In 1978 the economy began to weaken, showing negative growth rates and increasing in budget deficits as well as a deteriorating balance of trade. The government blamed external factors such as civil strife in Mozambique, falling commodity prices, and declining terms of trade, a sharp rise of import prices, oil-shocks, the rise in interests rates on international financial markets, etc. Even some western scholars blamed these external factors (which they did not do when it came to other countries in the region choosing other paths for development).<sup>132</sup> But after a while, even the most ambitious defenders of the model gradually accepted that the crisis was not only due to external factors and that the model had structural weaknesses.

The mainstream of policy-makers and researchers now claimed that the crisis highlighted both external problems and internal structural weaknesses. The structural problems were the neglecting of the smallholders due to the price

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<sup>128</sup> N'gon'gola (1996) "Malawi" in *Comparative Analysis of Structural Adjustment Programs in Southern Africa – With Emphases on Agriculture and Trade* p. 10

<sup>129</sup> Kydd (1984) p. 295

<sup>130</sup> See Ren Dumont and Marie France Mottin "Strangehold on Africa" (1983) p. 250

<sup>131</sup> Mwakasungura, (1986) p. 30

<sup>132</sup> Chilowa (1991) *Structural Adjustment and Poverty: The case of Malawi* p. 1-2

structure, the wasteful investments, inefficient public enterprises, a narrow export base, heavy concentration of exports, strong import dependency and overvalued exchange rates.<sup>133</sup> Paradoxically, what was described as the success of the model could also be said to be its weaknesses.

## 9.2 The response

### 9.2.1 The Structural Adjustment

Malawi addressed the International Monetary Fund (IMF) and the World Bank in search for help. The process of Structural Adjustment started in 1979 with a short-term program initiated by the IMF in order to correct the macro-economic imbalances and the inflation rate. Two years later this program broke down and Malawi had to negotiate with the IMF for a new program. The implementation of this program failed mainly due to external factors. The war in Mozambique resulted in a closure of the transport route through the country and therefore raised the transportation costs dramatically. A second short-term loan was negotiated. This program was meant to last until 1982, which it did. However, even this program was a failure. The government did not manage to generate new revenues and the problems of balance of payments and fiscal deficits remained unsolved.<sup>134</sup>

Despite the initial failure of the IMF-programs the World Bank accepted to cooperate with the country and that made Malawi one of the first countries in Africa implementing a Structural Adjustment Program. The first program was implemented in 1981 under the name Structural Adjustment Loan (SAL 1). Even if the World Bank was providing long-term loans the objectives of the first program was similar to the IMF's short-term loans such as restoring equilibrium in the balance of payments.<sup>135</sup>

In order to restore the balance of payments, increased exports of the smallholder crops were targeted. This was done by increasing the prices of export crops in relation to food crops, since it was believed that price signals are the best incentives for increased production. The estate sector was not mentioned at all in the program and the dualistic structure of the economy was not regarded as a problem.<sup>136</sup>

In the second program named SAL II and implemented in 1984 new issues were addressed. The Bank demanded the Government of Malawi to remove the subsidies of fertilizers by 1985/86 and an immediate reduction of 50%. The Bank also argued for improvements of the efficiency of ADMARC's operations. This

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<sup>133</sup> *ibid.* p. 2

<sup>134</sup> Sahn and Arulpragasam (1994) p. 201

<sup>135</sup> *ibid.*

<sup>136</sup> *ibid.* p. 202

was to be achieved by limiting its investments to those related to marketing and processing of agricultural produce. Furthermore, ADMARC should, according to the Bank, reduce its marketing costs by cutting down the number of markets attended. Finally, the role of the private sector was to be strengthened in the process of marketing and distribution of crops. This was the first step towards liberalisation of agricultural prices.<sup>137</sup> However, the subsidies for fertilizers remained in order to compensate the farmers for the increased cost of transportation due to the war in Mozambique, but they were to be eliminated by 1989-90.<sup>138</sup>

Under SAL III, negotiated in 1985, it was decided that Malawi should move further towards a price liberalisation of the agricultural produce. The role of the private sector was to be encouraged further and the services of ADMARC limited. For the first time in the Structural Adjustment activities the estate sector was included in the program. This sector was to be supported with a pilot scheme to provide medium and long-term credit by an extension and management program. The estate sector was still regarded as a base for development in Malawi.<sup>139</sup>

In the first years of the adjustment period most attention was paid to the prices of the smallholders' produce. From 1981 to 1987 the government tried to promote the smallholders by increasing the prices for their crops in general and the prices for cash crops in particular. The programs did not attend to Malawi's economic system as a whole. The estate sector was not included in the first two programs, but in the third program it was obvious that the estate sector was still regarded as the base for development. The government was kept setting the prices through ADMARC, remaining to be the major buyer of the smallholders' produce, although the Bank demanded the parastatal to be more efficient and to concentrate on its agricultural activities.<sup>140</sup>

### **9.2.2 Towards liberalisation**

In 1987 the government decided to deregulate the smallholder crop marketing, by the Agricultural (General Purpose) Act. It was decided that ADMARC would close down all the markets where the purchasing was less than 60 tons a year. In practice this meant that ADMARC had to close 20% of its markets.<sup>141</sup> The deregulation was implemented under the SAL III supplement. Private traders were allowed to operate in specific markets but they needed licenses. Each agricultural development division (ADD) was responsible for giving licenses to buyers in their own area.<sup>142</sup>

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<sup>137</sup> *ibid.*

<sup>138</sup> World Bank (1998) *Malawi Impact Evolution Report – The World Bank and the Agricultural Sector* p. 14

<sup>139</sup> Sahn (1994) *Adjusting to Policy Failure in African Economies* p. 203

<sup>140</sup> Chirwa (1998) p. 78

<sup>141</sup> Cromwell (1992) p. 124

<sup>142</sup> Chirwa (1998) p. 76

To provide some kind of protection for the farmers the government set minimum pan-territorial and pan-seasonal prices and ADMARC had to act as a buyer in the last resort.<sup>143</sup> Also, ADMARC was still responsible for food-security operations and for acting as the major buyer.<sup>144</sup> The market was not fully liberalised. Except from minimum-prices the government also kept the subsidies for inputs up till 1990. In 1989 the Agricultural Sector Adjustment Credit (ASAC) was implemented. ASAC was a Structural Adjustment Loan from the World Bank, especially designed for dealing with the agricultural sector. This program also started the process of allowing burly tobacco production to the smallholders; a production that had been prohibited for some time (see above).<sup>145</sup> 1990 to 1991 the production of burly tobacco was liberalised and the removal of subsidies for fertilizers was decided in 1994.<sup>146</sup>

Under ASAC new objectives for the agricultural sector were addressed. For the first time since the beginning of the adjustment period the relationship between the smallholders and the estate sector was attended. Decisions were made to initiate a process where transferring of land from the smallholder farmers to the estate sector should be discouraged. It was also decided that the rents of the leaseholds should be raised. Both decisions implied a change of direction by the World Bank and the Government of Malawi away from the estate-sector.

In 1996 the liberalisation and deregulation was a fact. Under the implementation of the Fiscal and Deregulation Programme (DRFP), the liberalisation of the markets of smallholder crops and inputs was almost completed. The only exception was a price-band for maize that was kept even today.<sup>147</sup> However, according to Kelvin Banda at the National Economic Council in Malawi, the price-band has never been working in practice because the prices have tended to go below the band when the supply is good and vice versa.<sup>148</sup> Therefore Malawi could be said to have been liberalised by the year of 1996.

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<sup>143</sup> *ibid.* p. 77

<sup>144</sup> Seppälä, (1997) p. 55

<sup>145</sup> World Bank (1998) p. 14

<sup>146</sup> N'gon'gola (1996) p. 14 and Owens (1998) *When Maize and Tobacco Are Not Enough : A Church Study of Malawi's Agro-Economy* p. 30

<sup>147</sup> Chirwa (1998) p. 78

<sup>148</sup> interview with Kelvin Banda, economist at the food-security and agricultural section at NEC.

### 9.3 The liberalisation debate in Malawi\*

*“The liberalisation is problematic Before ADMARC had to set minimum prices and this helped the smallholder farmers to plan for the future. Now they do not know what to do anymore, it is impossible for them to plan. For example, this year the maize producers will be in trouble and probably the tobacco growers as well”<sup>149</sup>*

*“Liberalisation can be seen as an integrated part of the poverty alleviation program. The producers have been empowered simply because they now have a choice where and to whom they want to sell.”<sup>150</sup>*

These two quotes show that there is no general consensus as to how the liberalisation affects the smallholders. However, it is possible to describe various the opinions by three categories.

First, there are those who believe that the liberalisation is positive, although the process is too slow because unwillingness of the government to implement it efficiently. They also claim that it is necessary for the government to go further and privatise ADMARC. They cannot generally point at any negative aspects of the liberalisation. The majority of this group consists of people who are working for foreign donors or multilateral organisations.<sup>151</sup>

Second, there are we have those who also believe that the liberalisation is all in all something positive but that it has negative aspects as well. They also believe that there are things that should have been done differently in the process. People in this group do not necessarily have the opinion that ADMARC should be sold out by the state. They can see the benefits of having ADMARC as a state actor among many private actors. A majority argues that the liberalisation has been too fast. They are often skeptical of the benefits of a completely free market.<sup>152</sup>

The third and last group has a tendency to highlight the negative aspects of the liberalisation. They claim that the liberalisation is increasing the numbers of farmers living in absolute poverty and that the liberalisation is in fact decreasing the smallholders’ produce. People in this group constitute a minority and they are working for the Malawian administration at local level.<sup>153</sup>

The majority of the officials interviewed in this study are positive to the liberalisation. Their major argument is that the prices of the smallholders’

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\* The officials that this chapter is based upon have answered the questions according to their own personal beliefs, which are not necessary, the same as the institutions/organisations that they are working for.

<sup>149</sup> interview with Falyson W. Kaimila Credit Manager Agricultural Loans, Malawi Rural Finance Company 23<sup>rd</sup> of May 2000

<sup>150</sup> interview with Stephen E. C. Schumb, Agricultural Development Specialist at USAID, 24<sup>th</sup> of May 2000

<sup>151</sup> In this study they are the World Bank, Royal Danish Embassy, Resal, and USAID

<sup>152</sup> In this study this group constitutes UNDP, ADMARC, Ministry of Agriculture, National Economic Council, International Care, NAFAM

<sup>153</sup> Lilongwe Rural Development Project and Malawi Rural Finance Company



produce are increasing and that they now are free to grow any crop the smallholders want and also free to sell their produce to whom they want. To prove that their argument is valid they use macroeconomic data showing that prices are increasing and that the role of ADMARC is diminishing. Those who have a more pragmatic view of the liberalisation are worried about the tendency of ADMARC to close down in the remote areas without replacement by private actors. The effect might be that there will be nobody in these areas to whom the smallholders can sell. The first group does not deny this problem, but they claim that these problems will be solved once the market has matured (a process that has to be encouraged by the state, for example by building roads). Another problem according to the more pragmatic group is the removal of the subsidies for fertilizers. This causes serious damage to the smallholder and has to be solved in a proper way. An example is the introduction of the Starter Pack. The Starter Pack Scheme is a program that was initiated by the Government of Malawi together with several donors in order to improve food-security at the household level. The program provides farmers with free input and fertilizers are added to the packs. <sup>154</sup> According to the first group it is not clear if the removal of the subsidies is really a problem. They believe that an intervention from the government would create more problems since it is distorting the prices.

Both groups regard the liberalisation as necessary since the system where ADMARC was acting as a monopoly oppressed the smallholders by taking their surplus. The difference between those who only highlight the positive aspects of the liberalisation and those who are more pragmatic is that the former base their arguments on theory while the latter base their arguments on both theory and investigations in the field.

The third group, regarding the liberalisation in general as something negative, does not believe in the free-market as a solution. They are also skeptical of the opportunities for the government to introduce security systems such as Starter Pack, since such systems are depending on the willingness from the donors. They do not disagree with the other two groups that ADMARC has been damaging the smallholders, but they believe that the system should be reformed rather than abolished.

## **9.4 Summary**

When the World Bank started arguing for the need of structural adjustment in Malawi they first addressed the need for Malawi to adjust due to external shocks. The Bank in the 1970's had used Malawi as a case of success and therefore little attention was paid to structural changes. Instead, the Bank argued for macroeconomic stabilisation at the beginning. Balance of payments and budget deficits were considered the main problems.

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<sup>154</sup> National Economic Council, Sept. 1999, p. 19

It was only in 1985 that the Bank really started to address the structural weaknesses in the economy. According to the Bank the solution would be a faster change the agricultural sector towards market-orientation. This would, according to them, end the era of neglecting the smallholders and it would improve the economy as a whole.

The process of liberalisation of the agricultural markets started in 1987, and it was not until 1996 that the market could be regarded as really free ( even if some officials still do not regard it as liberalised, for example USAID and Danish Royal Embassy). The question therefore is if there have really been any structural changes within the agricultural sector and how the liberalisation has affected the smallholders.

# 10. The effects of the liberalisation

Before evaluating the effects of the liberalisation of the agricultural markets on the smallholder sector at LADD, we will look at the performance at the national level. This chapter discusses the development throughout the whole period of adjustment and not only since the start of the liberalisation. We will also include a brief evaluation of the macroeconomic performance through the same period of time. The reason for this is that positive macroeconomic performance is a major goal for the World Bank and that the Bank bases its policies on macroeconomic data.

## 10.1 Macroeconomic indicators

According to the World Bank, Malawi has been one of the “strong adjusters”.<sup>155</sup> By this they mean that Malawi has been rather successful when it comes to implementing the structural adjustment package. But if we look at macroeconomic performance since the implementation of the first program, the outcome seems bleak or neutral at best.

The first decade of adjustment was characterized by fluctuations in most macroeconomic indicators, such as GDP growth, inflation and budget deficits. No positive trend could be observed. From 1980 to 1987 the average growth of GDP was only 2.4% a year. This growth was largely attributed to the estate-sector, while the smallholder sector was still on the decline.<sup>156</sup> The World Bank itself has made the same conclusion. In the introduction of “*Structural Adjustment, Agricultural Development and the Poor*” it was stated that:

*“Structural adjustment, however, appears to militate against the goals of growth and equity in the case of Malawi, insofar as it has been neither sufficient for resuscitating growth, nor, in its pure form, able to avoid adversely affecting the poor.”<sup>157</sup>*

If we look at the period 1980 to 1994 we can see that growth in nominal GDP per capita was 9.2% a year in the pre-adjustment period and 20% a year in the adjustment period. If we, however, look at the real GDP per capita the growth was 5.2% a year in the pre-adjustment period and only 1.5% a year in the adjustment period. The low figures for real GDP growth per capita are due to the inflation rate, which remained high during the 1980’s. For example, between

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<sup>155</sup> Chilowa (1991) p. 1

<sup>156</sup> Sahn (1994) p. 204

<sup>157</sup> Lele (1989) *Structural Adjustment, Agricultural Development and the poor – Lessons from the Malawian experience* p. 5

1976 and 1988 the average rate of inflation was 9.9% a year while the average rate from 1983 to 1988 was 17.6% a year.<sup>158</sup>

More important are the indications that the adjustment programs seem to have failed in changing the composition of the GDP. The agricultural sector remains the dominant sector and the pattern of production remains the same. The only change that can be observed is that the smallholder sector's share of the GDP has actually declined during the adjustment period. Furthermore, the shares of the manufacturing sector and the service sector have not changed significantly during the adjustment period.<sup>159</sup>

To conclude, there are few macroeconomic data showing any major changes since the adjustment period started. The structure of the economy seems to be the same and the problems that were to be solved by the structural adjustment are still there.

## 10.2 The impact on the agricultural sector

*“The liberalisation of agriculture brought benefits of high growth accruing primarily to the smallholder farmers, most of whom belong to the poorest segment of the population.”* <sup>160</sup>

### 10.2.1 The smallholder versus the estate-sector

A major objective throughout the structural adjustment period has been to achieve a growth of the agricultural production. In the beginning of the period this was supposed to be possible by altering the structure of incentives and improving the efficiency of the markets.<sup>161</sup> It was believed that this could be done by changing the price structure of the agricultural products and by reforming ADMARC and its operations. The target was the smallholders and their produce of both food crops and cash crops. However, an increase of prices of the export crops in relation to the food crops was given priority.<sup>162</sup>

The opinion of the Bank was that the smallholder sector had been neglected throughout the 1970's and it would therefore be crucial to change policies in their favour. This was to be done without interference into the estate sector. But if we look at the estate and smallholder production as shares of the GDP we can see that the estate sector has been growing in relation to the smallholder sector throughout the 1980's. 1979, just before the crisis, the estate production share was 17%, while it had raised to 23% in 1990. At the same time the smallholder production had declined from 83% to 77%.<sup>163</sup> This could mean

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<sup>158</sup> Sahn (1994) p. 204

<sup>159</sup> *ibid.* p. 43

<sup>160</sup> International Monetary Fund, 2000, p. 1

<sup>161</sup> Sahn (1994) p. 208

<sup>162</sup> *ibid.* p. 210

<sup>163</sup> *ibid.* p. 209

that the smallholders did not gain from the policy shifts in the 1980's or at least it could be claimed that they had not been growing.

According to Sahn and Arulpragasam, the policies in Malawi during the first decade of adjustment continued to concentrate on the estate-sector. There had been policy changes in favour of the smallholders but mainly policies were the same as before. The focusing on traditional export crops favoured the estate-sector since this sector is the major producer of these crops. In 1968, tobacco, tea and sugar comprised 60% of exports earnings and in 1988 they had increased to 85%. Furthermore, more land was converted to the estate sector. During the 1980's the number of estates increased from 1200, covering 300 000 hectares, to 14700 covering 843 000 hectares. At the same time there were indicators showing that the productivity of the estate sector stagnated during the 1980's and that land was not fully utilized. Actually, one third of the largest estates were using less than 15% of their total land.<sup>164</sup>

Looking at the shares of the agricultural incomes we will observe the same pattern. The share of the estate sector has been increasing during the 1980's and 1990's while the smallholder farmers' incomes have been decreasing.<sup>165</sup>

### **10.2.2 Impact on the production**

Since the Structural Adjustment period started, price reforms and later liberalisation have been regarded as crucial in order to increase the smallholders' production of both food crops and cash crops. First, looking at the production of maize we can see that production has fluctuated since 1990-91, with no major changes earlier. There has been no sustainable increase in the production of maize and unfortunately the need of maize production in order to secure food has been higher than the actual production throughout the 1980's.<sup>166</sup>

If we then look at the production of burly tobacco we can see a major increase in 1991 when the production raised from 1 295 988 to 2 023 305 kilograms. This dramatic increase can be explained by the policy changes whereby the smallholder farmers were now allowed to grow burly tobacco. However after that huge increase the production decreased again and in 1999 it was down at 503 185 kilograms.<sup>167</sup> Unfortunately it has been impossible to find any data showing the production of burly tobacco for the smallholder farmers.

## **10.4 Summary**

The first decade of the adjustment did not change the dualistic structure of the agricultural sector. The structure developed during the colonial era still exists.

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<sup>164</sup> *ibid.* 221

<sup>165</sup> Gondwe and Githinji (1998) p. 9

<sup>166</sup> Matya, Tchale, Sichinga and Kachule (2000) p. 5

<sup>167</sup> TCC (Tobacco Control Commission), 2000

Data do not show any progress for the smallholder farmers. Production has not increased and the same development can be observed if we look at incomes. The price reform and the reforms within ADMARC have been insufficient.

We will now study the Lilongwe West area in an attempt to understand why the smallholder farmers have not benefitted from the liberalisation. We will apply the entitlement approach.

# 11. The impact on the farmers

To get a deeper knowledge of the impact of the liberalisation of agricultural markets on the smallholders it is not sufficient to look at national data. A more detailed analysis, which incorporates the smallholders themselves, is necessary. Therefore, we will now present an analysis based on the 68 interviews with different farmers in the Lilongwe West Area.\* Since these farmers belong to the group that theoretically would benefit from the liberalisation, their experiences are of great importance. The analyses will include five areas, namely:

- Production
- Access to markets
- Resources
- Income and security
- Policies.

## 11.1 Production

### 11.1.1 Pattern of production

The crops grown in the Lilongwe West Area are mainly maize, tobacco, groundnuts and sweet potatoes. Some farmers are also growing tomatoes but this is done in so called dambo-gardens. These gardens are a special arrangement in some villages where farmers have their own plot on a wider field. The crops grown in dambo-gardens are used as cash crops and are often sold at the local market.

The farmers interviewed in this study are diversified in the sense that they grow different crops in order to secure themselves in case of an external shock. The magnitude and importance of this diversification can however be questioned since it is still maize that is the main food crop and tobacco (for the male farmers) which is the main cash crop. Other crops are grown at a smaller extent and none of the farmers said that they could afford a decrease in the production of maize or tobacco. The production of groundnuts is used as a supplement to tobacco and therefore is the second most important cash crop. Sweet potatoes are used as a supplement to maize. The advantage of sweet potatoes is that no fertilizers have to be used, which makes this crop rather safe as a nutritional complement.

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\* These interviews were conducted in five villages (Kampini, Kambamzithe, Mitundu, Chileka and Kamphoni) from the 4<sup>th</sup> of May to the 15<sup>th</sup> of May 2000

There is a great difference between the male and the female-headed households as to the production of tobacco. On the average men are using a higher percentage of their land to grow tobacco than women. In one of the five villages where the interviews were conducted none of the women but all men were growing tobacco. The explanation of this seems to be socio-cultural and is therefore left out of this study.

### **11.1.2 Food crops**

Of the 68 farmers interviewed in this study 54 do not produce enough food during a year to support themselves and their families. This shortcoming seems to depend on the access to fertilizers, which in its turn depends on the access to credit. Surprisingly, there does not seem to be a direct correlation between the capacity to support oneself, and the size of landholdings. This study, for example, does not show any differences between those who have access to less than 1.0 hectare and those who have access to more than 1.5 hectares. Changes appear when a farmer has access to more than 2.0 hectares because then he does not, to the same extent, depend on the access to credit in order to buy fertilizers.

A majority of the interviewed smallholder farmers have experienced a decline in the production of maize during the last fifteen years, with no difference between female and male-headed households. Even the smallholder farmers with landholdings above 2.0 hectares have experienced a decrease of the production. According to the farmers the main reason for this is the lack of fertilizers.

The minority of the farmers who have not experienced a decrease in their production of maize cannot be characterized by size of landholdings but by access to credit. They receive credit from either ADMARC or Malawi Rural Finance Company. This study shows that within the group with access to credit, a majority is women. Thus, the majority of those who have not experienced a decrease of production are women.

The decrease of the production of maize has not changed the pattern of production. It could be assumed that the decrease of the production of maize would have caused the farmers to substitute maize for an increased growing of sweet potatoes. This is not the case and it shows the importance of maize both as a food crop and as a tradable crop. Even farmers with less than one hectare trade their maize every year in order to receive cash, and according to them it is easier to sell maize than sweet potatoes to ADMARC. Sweet potatoes often have to be sold on the local market, which often results in lower prices (see further below).

### **11.1.3 Tobacco**

The major shift in the pattern of production for the smallholder farmers has been caused by the permission to grow burly tobacco. Before 1990-1991 this was only allowed to the estates and, in some special cases, also to the smallholders. The general permission to grow burley tobacco has affected the smallholders in various ways.



All the male farmers, regardless of the size of holding, have started growing burley tobacco since it was allowed. According to them, this has affected them positively in the sense that they now can receive cash income rather fast. That is also, according to them, the main reason why they started to grow tobacco soon after the allowance. They do not fear that the production of tobacco would threaten their food security. On the contrary, according to them, it is improving the security since it gives them the opportunity to buy food at the local market. At the same time all of the farmers interviewed that are growing tobacco said that the production has decreased since 1994.

However, according to the smallholders having less than one hectare, the production of tobacco is a rather risky project. For example, the prices have lowered this year, and the smallholders can not wait for the right moment to sell, because of the need to generate fast income and also because of lack of storage facilities. According to these farmers a year like this causes serious damage since they have to sell their tobacco at a very low price. In this group female-headed households are over-represented.

Generally the women utilize less of their land for production of tobacco than the men. 14 of the women interviewed are not growing tobacco at all. The women also regard the production of tobacco as something positive but they seem to be more risk-averse than the men. More than 60% of the female farmers said that the major reason for not growing more tobacco was that it would affect the production of maize negatively.

#### **11.1.4 Summary**

This study gives little proof that the development during the last fifteen years has affected the smallholder farmers' production positively. On the contrary, it seems that development has actually harmed their production of food crops. The production of cash crops has been affected positively since the farmers are now allowed to grow burley tobacco. On the other hand, the production of cash crops has decreased during the last six years. Consequently, the farmers' total capability to grow crops seems to have been limited. However, the farmers with access to more than 2.0 hectares have not been affected to the same extent, even if their capability to produce both cash crops and food crops has been affected negatively over the last six years.

## **11.2 Access to markets**

### **11.2.1 Fertilizers**

Of the 68 farmers interviewed in this study all use fertilizers. 46 of them claim that it was easier to receive fertilizers prior to 1990-91 when they were cheaper and the services of ADMARC were better. Of these 46 farmers 31 say that they

had access to enough fertilizers before 1990-1991. Today, only 20 farmers are satisfied with the amount of fertilizers they have access to. There is no correlation between the access to land and the access to fertilizers. Instead, the access to fertilizers depends on the access to credit. Again farmers having landholdings of at least 2 hectares are exceptions. All of them claim that they have sufficient access fertilizers even though their access to credit is not enough.

A majority of the farmers receive their fertilizers from ADMARC on condition that they sell their produce to ADMARC. 66 of the 68 farmers sell their maize to ADMARC and 40 of these receive fertilizers from ADMARC. Of these 40 only 13 regard the received fertilizers as enough. The other 27 claim that it was easier to buy fertilizers prior to 1990-1991 because then they were much cheaper and the services of ADMARC were better.

20 of the farmers receive their fertilizers from Malawi Rural Finance Company. They receive them as some kind of credit. Of these 20, 7 are satisfied with the amount of fertilizers they receive. The rest receive their fertilizers on the private market and they all have access to landholdings that are more than 2 hectares.

This study shows that regardless of where the farmers receive their fertilizers, a majority claims that the amount of credit is insufficient. It also shows that the access to fertilizers has worsened since 1990-91.

### **11.2.2 Maize**

A main idea of the liberalisation has been that it would give the farmers more choices since several private actors would come into the market. This would result in better prices and raised incomes for the smallholder farmers. This study, however, shows that ADMARC still is the dominant buyer of maize and that there are no private traders at all in most of the villages.

In every village there are so called local traders and it is important to separate them from the private traders. The local traders are people within the village or from a village nearby. They are not traders by profession. Instead they are acting, as buyers of the last resort in the sense that they are buying the crops of the farmers if the ADMARC market is closed or if a farmer is in urgent need of cash income. Normally the local traders pay prices that are below those of ADMARC's, since they can take advantage of the situation where the farmers are desperate to sell. These local traders existed prior to the liberalisation.

The private traders, on the other hand, often come from the nearest town and they have a license showing that they have the authority to trade. The idea is that they should compete with ADMARC and thereby raise the prices for the produce of the smallholders. But as we will see below this study shows that this has not been the case.

Of the 68 farmers interviewed only 2 sell their maize to private traders. In 2 of the 5 villages where farmers were interviewed there are no private traders at all. This indicates that ADMARC is still a very important institution for the

majority of the farmers. One of the two farmers that prefer the private traders is male, the other female. The size of their landholdings is 3 hectares and 2 hectares respectively. They both belong to the group of better-off farmers and come from the same village. The male farmer has his own car and he says that he knows private traders in town (Mitundu), while the woman says that private traders just appear in the village occasionally without any announcement in advance. There are no farmers with less than 2 hectares who prefer to sell their maize to the private traders. But there are farmers with more than 2 hectares who are selling their maize to ADMARC. Apparently, not only the poorest and the middle-strata farmers, depend on the state-institution.

39 of the farmers claimed that they could not trust the private traders because there is no continuity in their business. The private traders simply come if they want to, and they never inform the farmers in advance. They also claimed that when the private traders appear, they do not offer better prices but a faster deal.

Of the 66 farmers who are selling their maize to ADMARC 44 claimed that they prefer to sell to ADMARC while 22 had no opinion. Only the two farmers who are really selling to private traders also stated that they prefer the private alternative (only 3% of the whole group). Even now it is impossible to separate those who prefer ADMARC by size of the landholdings.

Among the farmers that prefer ADMARC 30 claim they have experienced a decline in ADMARC's services over the past ten years. The main complaint regards the closing of markets during the harvest season. This forces them to sell their maize to local traders giving them a lower price for their produce. The farmers that could not tell who they prefer to sell to all claim that ADMARC's services have been worsened during the past ten years.

The reasons why farmers prefer ADMARC differ. We can categorize these farmers into three groups. The first group claim that they are given better prices for their produce and that it is much safer to sell to ADMARC. This group is the biggest one comprising about 70% of the whole group. The other group claims that the main reason is that ADMARC is closer than the local market, which reduces their cost for transportation. This group comprises about 20% of the whole group. The third group could not give any specific reason.

### **11.2.3 Tobacco**

Tobacco is either sold to ADMARC, to intermediate buyers or directly to the auction floors. All farmers growing tobacco would prefer to sell directly to the auction floors, since that would give them the best prices. Of the 68 farmers interviewed 54 that are growing tobacco. 49 of these 54 are selling their produce to ADMARC. The reason is simply lack of resources. To sell to the auction floors they would need a license and access to some kind of transportation since the auction floors are situated in the major towns.

Of the 54 farmers only four are selling their tobacco directly to the auction floors and just one is selling to the intermediate buyers. The four selling to the auction floors differ in their economic status. The first one is the same one selling his maize to the private traders (see above) and he has his own license and car, which reduces his cost for transportation. The size of his landholding is 3 hectares and he belongs to the better off in his village. Of the next two one is male and one is female. They both have licenses and the size of their landholdings is above 2 hectares. The last one has no license of his own, but his uncle has got one and sells his tobacco for him at the auction floors. The size of his landholding is, surprisingly, only 0.4 hectares. The one selling to intermediate buyers is female and she is also the one selling maize to private-traders (see above).

There is criticism with regard to selling tobacco to ADMARC as there is to selling maize. ADMARC is often closed during harvest season, and this has the effect that farmers lose part of their income. Since they did not grow tobacco fifteen years ago we cannot compare, but according to a majority of the farmers interviewed the situation is worse today than it was 6 years ago.

#### **11.2.4 Other crops**

There is a difference between maize and tobacco on one hand and other crops on the other hand since the other crops more or less function as a substitute for both maize and tobacco. This makes the choice of market different for the other crops. ADMARC (especially for groundnuts) and the local market (especially for sweet potatoes) are dominating markets for the other crops.

Groundnuts are either sold to ADMARC or to the local market. ADMARC only buys dried groundnuts but some prefer to sell it directly to the local market without drying in order to receive cash income. However, of the 64 farmers that grow groundnuts, 60 are generally selling their produce to ADMARC which makes ADMARC dominant as a buyer of groundnuts.

On the other hand, when it comes to sweet potatoes the situation is reversed. Of the 30 farmers (a majority of which are female) who grow sweet potatoes 25 are selling their produce at the local market. This is the only crop where ADMARC does not dominate as a buyer and, according to the farmers, it has never been.

#### **11.2.5 Transportation**

The access to transportation is closely related to the access to markets since access to transportation can reduce transaction costs. The most common means of transportation in the villages is the use of an oxcart or a bicycle. However, very few people have their own bicycles or ox carts. The majority of the farmers have to hire their means of transportation from someone else.

All of the farmers interviewed in this study claim that they are in need of some kind of transportation in order to get their goods to the market. Of the 68 farmers interviewed 16 have access to their own transport. One has his own car,

three have bicycles, twelve an oxcart and the rest hire from other people. The farmers who have access to their own transportation means all have landholdings above 2 hectares.

The farmers having no access to their own transportation means complained that the prices for transportation have been increasing over the past five years. In practice this means that the profits of the farmers are decreasing and around 20% of them stated that they are facing deficits because of the increased costs of transportation.

### **11.2.6 Summary**

ADMARC is still the dominant buyer for the smallholder farmers that have been interviewed in this study. A majority of the farmers interviewed claim that there are no private traders in their area and that they had better sell to ADMARC than to the local traders, paying lower prices.

Generally, the access to markets is worse today than it was fifteen years ago, mainly because the services of ADMARC are declining. And since there are no private actors to replace this of ADMARC the smallholders are affected negatively.

The cost of transportation has been increasing over the past five years for the majority of the smallholder farmers having no access to their own transportation means. This does not implicate that they lose their access to the markets, but it means that their incomes are decreasing. 20% of the farmers that have no access to their own transportation claimed that they are facing deficits because of increased prices for transports.

The farmers having their own transportation means all have a landholding above 2 hectares and they belong to the better off in their village. All those owning an ox-cart hire their cart to other people. They are positively affected by the increased prices for transportation.

We can therefore argue that the trade-based entitlement has been limited due to the development during the last fifteen years. Only two farmers have experienced increased opportunities to sell their produce and they both have access to landholdings that are above 2 hectares. Since they have established contacts with local traders their capabilities to sell their produce have improved. Of the other 66 farmers interviewed 52 argue that their opportunities to sell to ADMARC are worse today than ten years ago. The increased cost for transportation has not affected their access to markets, but it has increased their transactions cost for being on the market.

## **11.3 Resources**

### **11.3.1 Land**

Malawi is a country with an extremely high population density if we compare to African standards. This means that there is less land per capita available for the smallholder farmers. The development policies in the past have also affected the land scarcity since land has been transferred to the estate-sector. The population is, however, unevenly scattered within the country. Most people live in the south where the land scarcity is obvious, while the problem is not that acute in the Central and Northern regions.

Of the farmers interviewed in this study only seven claim that they are in need of more land. These farmers claim that they have always needed more land. What makes these seven farmers interesting is the differences among them. The size of their landholdings varies from 0.5 to 1.7 hectares and six of them are female. The main reason for their need of more land is that it would enable them to produce enough food to support themselves and their families. There are two answers to the question why they cannot meet their need. The first is that they do not have enough money to buy more land. Five of the seven farmers said that this is the reason and they are all women. The other two answered that there is no land to buy, and these two were better off having larger landholdings than the other five.

### **11.3.2 Credit**

Access to credit seems to be a much more important issue than the need of more land. All of the farmers interviewed claimed that they are in need of credit on an annual basis. Only 20 farmers claimed that they had enough credit. Within this group 13 were receiving credit from ADMARC. The rest had their credit from Malawi Rural Finance Company, which is the biggest company in Malawi with respect to rural finance. Of the 20 farmers that have access to enough credit thirteen are women.

Ten of the farmers interviewed claimed that they have never had access to credit, while 46 farmers said that it was easier to receive credit prior to 1994. The farmers that are in need of credit, said that the main reason is that they need fertilizers in order to support themselves and their families for the whole year. Ten of the farmers would also like to have so-called business loans in order to start a local business such as a shop or a workshop.

There is a political aspect of major importance to the understanding of the problems in the Lilongwe West Area. After the referendum in June 1993, where people voted for a democratic election (the first one in Malawian history since independence) a tendency towards worsened figures of repayment of loans in the area could be observed. It was said that this was because of the opposition's

statement that the loans for 1992-93 were no loans but the money were given to the farmers as part of a drought relief and should therefore not be repaid.168

### **11.3.3 Labour**

49 of the 68 farmers interviewed are doing 'ganya'\* work, while 2 farmers are doing so called off-farm work. One farmer does ganya work as well as off-farm work and 16 farmers are doing no extra work at all. The latter have landholdings varying from 1.7 to 3 hectares. Those doing off-farm work are selling bread and repairing bicycles. It is impossible to see any gender differences regarding off-farm work as well as ganya work. There are more or less 50% from both sexes.

Six of the interviewed farmers are hiring people for ganya work themselves. These farmers have landholdings at a size of 2.5 hectares on the average, while those working have an average size of 1.2 hectares.

Among the 50 farmers who are engaged in ganya work, 35 claim that they have to spend more time on their extra work than they had to fifteen years ago. The main reason is that they need the extra income since they do not receive enough cash on their farming activities anymore. Of these 35 farmers 30 also claim that this affects their farming activities negatively in the sense that they can not spend enough time on their own plot of land. This means that their production is decreasing.

### **11.3.4 Summary**

A majority of the farmers interviewed think they have enough land. Those who are in need of more land claim that the major obstacle is either that there is not enough land to buy or that they do not have enough money to buy it. On the other hand, a majority of the farmers are short of credit and the situation is worse today than it was prior to 1994. However this could not be explained by the liberalisation itself (even if there are indirect links), since the credit component is not a component of the liberalisation process.

52 of the 68 farmers are engaged in either off-farm work, ganya work or both. A majority of them claim that they need to spend more time on these activities today than they had to fifteen years ago, and that this affects their own farming negatively.

Because of the lack of credit and the need to spend more time on extra work, a majority of the farmers are facing reduced capabilities to work on their own farms and to use them in an optimal way. The situation is worse today than it was fifteen years ago. A minority among the farmers claim that they do not have access to enough land but also that this situation existed even prior to the liberalisation.

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168 Msukwa (1994) p. 1

\* Ganya means working extra on other farms (not estates) during the harvest season.

## **11.4 Income and security**

### **11.4.1 Income**

All the farmers interviewed in this study – except from one - consider their own farming activities as their most important source of income. The farmers can be divided into three categories; those who regard tobacco as their main source of income, those who regard tobacco and maize as their main sources of income and those who regard groundnuts or sweet potatoes as the most important source of income.

The biggest group, consisting of 33 farmers, regard tobacco and maize as their main source of income, while only 13 regard tobacco as their most important source. 21 claimed that groundnuts and sweet potatoes are the most important source, while one said that farming is not the source of income at all but other business (she is selling bread).

In the group claiming that groundnuts and sweet potatoes are their major source of income all were women, while in the group that highlighted tobacco only three were women. In the group regarding tobacco as their main source of income all had large landholdings (above 2 hectares) and they were generally using more of their fields for tobacco.

Of the 68 farmers interviewed there are only ten who believe their incomes have increased (on the average) over the past fifteen years, and these all belong to the group that regard tobacco as their main source of income. They all have landholdings of more than 2 hectares.

### **11.4.2 Security**

All the farmers interviewed, except from one, apply some kind of security arrangement in order to protect themselves if their regular incomes would decrease. On the other hand, 60 of the farmers do not consider their security arrangements as satisfactory. At the same time, 49 claim that they are using their security arrangements more today than fifteen years ago. This indicates that they are more vulnerable today than they were in the 1980's.

32 of the 68 farmers are using 'ganya' as their security. Of these 32, 25 claim that their salaries were higher fifteen years ago, and this affects them in the sense that they have to use more time for ganya work. 12 of the farmers are using their dambo-garden as security. They sell the crops they are growing there at the local market. They claim that there have been no real changes in prices the last fifteen years ("sometimes the prices are good and sometimes they are bad"), which means that their security arrangements have not been affected.

6 of the farmers are using their livestock as security arrangement. If their production dramatically decreases they sell part of their cattle. The prices of cattle have been increasing especially over the last years due to an increased activity of cattle-thieves. This means that these farmers have a better security situation today than fifteen years ago. On the other hand, they claim that they



have to sell part of their livestock more often today, which affects the size of the livestock.

The group selling cattle and the group doing ganya work differ a lot from a socio-economic point of view. The cattle owners have landholdings above 2 hectares, while the ganya worker have less than one hectare.

The other categories are those using their dambo-garden (12 of the farmers), those selling sweet potatoes at the local market (6) and those having some kind of business (5) as security arrangement and finally those who choose not to sell any of their crops (6). Together these farmers comprise a wide spectrum of smallholders and it is not possible to identify any homogeneity. The last category is the most vulnerable. They have no security arrangement at all and they have an average size of landholding of 0.5 hectares.

### **11.4.3 Summary**

According to the farmers interviewed in this study the development over the last fifteen years has resulted in lower incomes on the average. For the majority of the farmers, the need to use security arrangements have increased during the last fifteen years due to decreasing incomes and production. The capability to use the security arrangements has not been affected. For those who use ganya work as their security arrangement the decreasing salaries have had the impact that they have to spend more time for extra work. For the majority this has led to decreasing hours spent on their own farms.

## **11.5 Policies**

Mainstream investigations of this kind seldom include the smallholder farmers' own opinions about changes in policies. This is an obvious deficit since positive changes are only positive if the people affected consider them as positive. Macroeconomic data is by no means sufficient as a measure of the impact of the liberalisation.

A serious problem with investigations of the farmers' opinions is that there is a wide information gap between the policy makers and the affected farmers. This is characteristic for a poor country, where illiteracy is considerable, and the access to information is limited. In order to highlight that problem the interviews conducted in this study started by asking the farmers if they were aware of any government policy including all policies since independence.

Of the 68 farmers interviewed 54 had never heard of any policies at all, 13 had heard about the liberalisation, while one knew another policy (that the farmers should work hard in order to develop their farming, and thereby the country; something that was used in speeches by Dr Kamuzu Banada). This means that there is only a very small group, which has ever heard of the liberalisation. The figures get worse when we take into consideration that of the 13 farmers who know about the liberalisation, 5 claimed that they did not

understand what the liberalisation was all about. The conclusion must be that only 7 of the 68 farmers interviewed have heard about the liberalisation and also claim that they understood its meaning.

The farmers knowing about the liberalisation all belong to the better off farmers with landholdings above 2 hectares. Five of them are men.

In order to smoothen the information problem this study has asked what the farmers think of the liberalisation and at the same time tried to describe its meaning for those not fully understanding (the majority). As a question of control the study has also asked the farmers if they prefer fixed or floating prices.

Of the 68 farmers 61 had the opinion that the liberalisation is something bad. All these also say that they would prefer fixed prices. Their main argument was that it would enable them to plan for the future, which would also affect their production positively. They all claim that their opportunities to support themselves were better in the 1980's and that their incomes have been decreasing due to unstable markets and lower prices.

The group that is skeptical of the liberalisation is by no means homogenous. On the contrary, these farmers differ as to the size of their landholdings as well as to sex. 27 are male and 34 are female.

The farmers who are positive to the liberalisation and prefer adjusting prices include 5 of all the farmers. Two of these farmers said that they prefer adjusting prices as long as they are adjusting upwards. These differ from those preferring adjusting prices even when they go down, trusting that they will improve in the long run. Within this group four are women. Also the size of landholdings differs a lot from just above 0.5 hectares to above 2 hectares. It is therefore not possible to see any correlation between in the opinion about liberalisation and the economic status of the farmer.

One of the farmers interviewed stated that he could see both positive and negative aspects of the liberalisation, but he could not give an example. He also claimed that he would prefer fixed prices. He is the only farmer who gave a different answer to the questions on the liberalisation and the price system. One farmer claimed that he had no opinion on the subject.

### **11.5.1 Summary**

Of the 68 farmers interviewed only 7 know about the liberalisation and understand what it means. A majority of the farmers consider the liberalisation as something bad, and they all prefer fixed prices. The main reason is that it enables them to plan for the future. There is no correlation between the farmers' opinion of liberalisation and the size of their landholdings. There are, however, a correlation between the knowledge about liberalisation and the size of the landholdings. Those who know about the liberalisation all have landholdings that are of a size above 2 hectares.

## 12. Analysis

By the entitlement approach we cannot only study the effects of the liberalisation from different aspects but also the interrelations among the various aspects. The two categories we use are the entitlements and the capabilities. These are translated into Endowment Set (what the farmers own) and E-mapping (what a farmer can trade of what he owns).

Both the capabilities and the entitlements are affected by the liberalisation. This in turn affects the smallholder farmers' Endowment Set and their Exchange-entitlement mapping (E-mapping). First, we consider the Endowment Set.

### 12.1 Endowment Set

The Endowment Set is what the smallholder farmers own. This set can be used for consumption or for trading. Theoretically, there is a possibility to save some of the Endowment Set, but it is not very common since the farmers cannot afford to save anything for a long period of time (an example of saving is when the farmer decide to let part of his or her plot of land lie fallow).

The smallholder farmers Endowment Set is generally composed by:

- Land
- Labour
- Transportation means
- Produce

Only seven of the 68 farmers interviewed claimed that they were in need of more land. For these seven the situation was the same prior to the liberalisation. The rest said that they had enough land and that this had always been the case. Thus, it is simple to argue that the liberalisation has not affected their access to land. The conclusion is that the liberalisation has neither any positive nor negative effect on the smallholder farmers' access to land. In the central region access to land is better than in the southern part of the country. The entitlement to land is therefore not in direct conflict with the liberalization in this region.

When it comes to labour, the situation is more complex. We separate farmers into those who do off-farm work or ganya work, those who do neither and those who hire workers themselves during the harvest season. The first group has an average size of their landholdings of 1.2 hectares. They claim that they have always been depending on extra work in order to survive. In that sense there have been no changes over the past fifteen years. On the other hand they also claim that they have to spend more time on extra work today than they had to do fifteen years ago. The major reason is that their incomes are declining at the same

time as the salaries for ganya work are decreasing. Therefore, they have to spend more time on the local market or on other peoples' fields than they had to before. Then, they have less time for their own farming, and this affects their production and income negatively.

The group neither working nor hiring labour is diverse as to the size of landholdings. Landholdings are of 0.8 hectares up to 1.7 hectares in the group. This group is not depending on any extra-income and can use their manpower for their own farming. They have therefore not been affected by the development during the last fifteen years.

The last group is hiring labour and comprises farmers with access to landholdings above 2 hectares. Their own labour is not affected by the changes during the last fifteen years. On the other hand, their access to workers has been positively affected mainly because of decreasing wages for the workers have been decreasing the last fifteen years. This means that they have the capability to hire more workers for the same amount as before.

To summarize, we can see that the farmers doing ganya or off-farm work have experienced a negative development during the last fifteen years. This has affected their capability to use their own manpower for their own farming. These farmers have had to spend more time on extra work and this has affected their production negatively. On the other hand, farmers who are not engaged in any extra work have not been affected at all, and the farmers hiring workers have experienced a positive development.

Regarding transportation we can see that the prices have been increasing during the last fifteen years. This has a negative impact on all smallholder farmers with no access to their own transportation means, that is 52 out of 68 farmers interviewed. They claimed that the increases of the cost for transportation in practice means that their incomes and profits are decreasing.

It is obvious that a majority of the farmers have faced a negative development regarding transportation. This affects their access to markets negatively and increases their transactions cost. Their opportunities and capabilities to be on the market are simply reduced.

The most important Endowment for smallholder farmers in Malawi is their own production, since it is this production that is the base for their well-being and survival. Changes of the production are therefore crucial for the farmers, and they are affected rather rapidly even at only small changes. All the farmers interviewed, regardless of size of holdings and pattern of production, claim that they have faced decreased production during the last fifteen years. This has caused them serious damage and the worst problem is that the decrease of the production lowers their income, which limits their capability to increase their production the following year and so on. Decreased production means decreased income opportunities and lower standards of living. This affects all their economic activities to a great extent.

To summarize, we have observed a negative development regarding labour, transport and production. For land we have not seen any changes at all. We now have to look at the interrelations among these variables.

As stated above production is probably the most important variable. Changes in this variable affect the farmers fundamentally. For the majority of the farmers interviewed, decreased production means less income and a need to engage in extra work in order to increase their incomes. It also means less money available to cover the increased transactions costs (transportation). Further, since they have to spend more time on doing extra-work there will be less time left for their own farming which will indirectly damage their production. Increased costs of transportation result in less money left for other investments, which also hurts the production.

Farmers having access to their own transportation means and hiring labour are the exception from this pattern. These farmers all have access to landholdings above 2 hectare. Their production has also decreased but not their incomes.

The reduction of capabilities and opportunities for the majority of the smallholder farmers means that their Endowment Set is hurt. But can the liberalisation be blamed for that? To answer that question we have to look at the changes of the farmers' Exchange-entitlement mapping.

## **12.2 Exchange-entitlement Mapping**

The markets studied can be divided into the market for inputs and the market for produce. We will begin to look at the market for inputs concentrating on the market for fertilizers.

All the farmers use fertilizers and a majority claim that there has been a decrease in their capability to acquire fertilizers. 40 of the 68 farmers interviewed receive their fertilizers from ADMARC and 20 from Malawi Rural Finance Company. The rest attend to the private market and they all have access to more than 2 hectares of land. Regardless of where the farmers buy their fertilizers a majority is dissatisfied with the amount that they have the capability to buy. Contrary to this, 31 farmers claimed they had access to enough fertilizers prior to the liberalisation. Except from the farmers having access to more than 2 hectares there is no correlation between the size of land and the access to fertilizers. Instead, access to credit is the most important factor.

The farmers in this study receive credit from either ADMARC or from private Malawi Rural Finance Company.

There are two different developments having affected the access to fertilizers during the last fifteen years. The first is that ADMARC services have been limited and their ability to provide farmers with credit has decreased due to lack of resources.

The second reason is the removal of the subsidies for fertilizers that was implemented in 1990/91. This removal has resulted in a dramatic increase of the

prices of fertilizers, affecting the smallholder farmers seriously since their poor cash income make them dependent on credit.

Of the 68 farmers only 20 claimed that they have access to enough credit. Of these 20 farmers 13 were receiving credit from ADMARC and the rest from Malawi Rural Finance Company. These farmers cannot be separated into different socio-economic categories. The group is very heterogeneous. 46 of the farmers claimed that the access of fertilizers was better prior to 1990/91.

The input market can apparently be described as limited for the smallholder farmers and this does affect their production negatively to a great extent. According to this study it affects almost every farmer regardless of socio-economic status. The lack of necessary inputs harms their production and limits their opportunities and capabilities to produce as much as they otherwise could.

Turning to the market for agricultural output it is important to remember that the main objective for liberalising the agricultural markets is to increase the prices on this markets, and to increase the opportunities for smallholder farmers to choose different actors within the market. We will divide the output markets into those where the farmers sell their tobacco and those where they sell the rest of their produce. We will then start with the tobacco market.

It is impossible to compare the existing tobacco market to the situation prior to liberalisation, simply because the smallholder farmers were not allowed to grow burley tobacco before the liberalisation. Nevertheless, we can still conclude that ADMARC is the main buyer of the smallholder farmers' tobacco produce. Only 4 of the 68 farmers interviewed sell their tobacco directly to the auction floors, and only one is attending to intermediate buyers. In order to sell directly to the auction floors, the farmers need a license and access to transportation. Farmers fulfilling these requirements belong to the better off having landholdings above 2 hectares

The rest of the farmers are selling to ADMARC, and they all claim that they would like to sell directly to the auction floors if they could afford. They complain about ADMARC's poor service and state that services get worse from year to year. There are cases when some of the farmers have no one to sell to because there are no markets at all.

Regarding markets for the other crops this study shows the same tendency as for tobacco and maize. ADMARC is the main buyer and private traders are rare in all the villages. But since ADMARC is often closed down during the harvest season the smallholders are forced to sell to local traders although they do not want to. Also regarding these other crops the farmers complain about ADMARC services, which they claim have grown worse from year to year.

There is a major difference between the tobacco market and the markets for other crops. For the other crops a majority (44) of the farmers prefer to sell to ADMARC since they provide higher prices.

The only crop where ADMARC does not dominate the market is sweet potatoes. These are mainly sold on the local market. The explanation for this can be found in the economic role of sweet potatoes. The majority of the producers

are women and they grow sweet potatoes as a security arrangement. If they sell this crop they do so when they are in need of an extra income and therefore the local market is preferred since it is more flexible than ADMARC.

The conclusion possible is that the liberalisation, instead of widening the Exchange-Entitlement mapping is actually limiting the farmers opportunities both to sell their produce and to buy necessary inputs. It seems that the liberalisation has weakened the services of existing actors, while it has not managed neither to create new actors nor to provide incentives for possible new actors to enter the market. We cannot claim that the input market and the output market affect each other mutually. Lack of fertilizers does affect the amount the farmers can sell, but not to whom they can sell. On the other hand limited capabilities and opportunities to find output markets tend to decrease the incomes of the farmers. There is then less money to buy fertilizers.

### **12.3 Is liberalisation to be blamed?**

We have seen that both the Endowment Set and the Exchange-entitlement mapping of the farmers have had a negative development for at least the last ten years. Farmers with more than 2 hectares have not experienced any major changes are the exception. However, can we argue that this bad development is caused by the liberalisation?

Generally, the liberalisation affects the farmers Exchange-entitlement mapping in a direct way. It is clear that ADMARC is still the major market both for inputs and outputs. We have also seen that the smallholder farmers prefer ADMARC compared to private alternatives except from tobacco and sweet potatoes (the latter is sold on the local market and these existed prior to the liberalisation).

The liberalisation has had the effect that ADMARC's services have been limited due to financial cuts. The major actor is therefore weakened, and there is no one else coming into the market. The prices are not increasing for the smallholder farmers' produce (in fact they are decreasing) but for their inputs. This in turn affects their production. Consequently, by affecting the E-mapping directly liberalisation also affects the Endowment Set indirectly. The decreased production means lower incomes and a need to spend time on extra work, causing a negative effect on the smallholder farmers' capability to use their labour for their own farming. The production then decreases further. Lower incomes also mean less money to spend for transportation. The farmers' transactions costs are therefore increasing. The conclusion will be that liberalisation can be blamed for this negative development.

## **12.4 The vicious circle**

The findings of this study show that there is a need to broaden the analysis of liberalisation of the agricultural markets and its impact on the smallholder farmers. What we can see from this study is that there are several factors interacting and creating a situation where one factor affects another affecting a third and so on.

We have seen that the changes within the E-mapping affect the Endowment Set. On the other hand changes in the Endowment Set have a tendency to affect factors within the E-mapping. Reduced production and therefore lower incomes mean decreasing capabilities to buy necessary inputs, and therefore the production is further decreased. This situation could be explained by Gunnar Myrdal's method of cumulative causation (see chapter 2.1). The society within which the smallholder farmers are acting does not move towards stabilisation. Instead the negative factors strengthen each other. The development might be described as a vicious circle.

The situation gets worse since the prices are not increasing as expected. A reflection of this is that 61 of the 68 farmers regard the liberalisation as something bad and that they would prefer fixed prices (even if they were lower).

Farmers having access to more than 2 hectares of land are the exception from this pattern. They have also experienced losses of income and decreasing production, but their access to transportation, fertilizers and labour have not changed to any significant extent. These farmers are, because of their economic situation, not affected in the sense of a vicious circle. Worth noticing is that even farmers with access to more than two hectares generally prefer fixed prices. This might reflect that their situation has been worsened but by no means to the same extent as for the rest of the farmers.



## 13. Conclusions

This study has tried to analyse how the liberalisation of the agricultural markets affects the smallholder farmers in Lilongwe West Area. More specifically it has tried to understand how the process affects the farmers' Endowment Set and their Exchange-entitlement mapping. It has also tried to look at the development of the agricultural policies at a national level, by using a historical perspective. The hypothesis that led to the study was that price-reforms and increased number of actors on the market would benefit the smallholder farmers, while other aspects such as increased insecurity and increased prices for fertilizers would affect them negatively.

The conclusion is that the liberalisation has in general harmed the smallholder farmers' Exchange-entitlement mapping which in turn has affected their Endowment Set negatively. This has created a situation that could be characterised as a vicious circle. The various variables within the Endowment Set and the Exchange-entitlement mapping affect each other and reinforce the outcome. Farmers having access to more than 2 hectares of land are the only exception. These farmers have experienced reduced production but it cannot be argued that they are facing a vicious circle.

The hypothesis that led to this study was both right and wrong. It is obvious that the liberalisation has had a negative impact on the access to necessary inputs. It has also increased insecurity. On the other hand this study has given no proof that the price-reform has benefitted the farmers. Prices have been decreasing instead of increasing and the number of actors within the rural markets has not improved significantly.

This study therefore questions the liberalisation. The basic assumptions for the liberalisation do not seem to agree with reality. We have to remember that the smallholders interviewed in the study, by no means, represent the most vulnerable farmers. They have access to markets, the infrastructure is quite developed and they do not belong to the poorest segment. If we apply neoclassical assumptions these farmers should benefit from the liberalisation. But they do not.

Even if we leave the smallholder farmers and look at the agricultural development at a national level we can see that there are few positive signs. Prices are not improving, the incomes for the smallholder farmers have not increased and the production still fluctuates. It is clear that the Structural adjustment programs have failed to address the structural problems within the economy.

Instead of focusing on prices the policy makers should consider how the smallholder farmers could expand their entitlements and their capabilities. In the area where this study was conducted, this would mean increased extension

services for the farmers. They are in need of credit and cheaper inputs. But there is also a need for redistribution of land. In the Lilongwe West Area there are great differences between those having above and those having below 2 hectares of land. Transferring land from the estate-sector to the smallholder farmers would therefore be proper. Increased extension services and redistribution of land do not only mean increased security for the farmers in this area. They could also be important means for increasing the productivity of the farmers. All this is of course only suitable, if there is a serious concern about the smallholder farmers' situation, and a belief that they could be the base for a sustainable development.

The conclusions of this study also raise doubt about the free-market as the base for a development that would benefit the smallholder farmers. Price reforms might be positive but not as long as the smallholder farmers do not have the tools and instruments that are necessary for acting on the market. Today when smallholder farmers face a lack of security, extreme low standards of living and limited possibilities to be flexible, price reforms seem to harm the farmers instead of improving their situation.

Due to the ADMARC's former political role and its importance as an actor during Banda's dictatorship it is difficult to go back to the old system. But there is a need to "re-regulate" the markets and in practice ADMARC is still the main actor. This study would go further and claim that the problem prior to the liberalisation was not the taxation of the smallholder farmers, but that these taxation resources were not going back to the countryside through rural development projects. Instead they were used to develop the estate-sector but also other "modern" sectors and projects. If the surpluses would be used to extend the smallholder farmers' entitlements and capabilities this would be preferable compared to the situation of today where such assistance depends on the co-operation with foreign donors. The market has left few signals telling that the smallholder farmers today have greater capabilities and opportunities to raise their standards of living. It is time to rethink the assumptions forming the basis of liberalisation, but also once again to go back into the history of agricultural marketing to more carefully study and understand the actual development.

Re-regulating the markets is not enough. To create a dynamic process, increased extension services and redistribution of land would be welcomed changes. This would be suitable in order to extend the smallholder farmers' entitlements and to increase their security.

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### **Interviews**

#### Key-informants

Agricultural Economist, Lilongwe, World Bank, 27<sup>th</sup> of May 2000

Banda Kelvin, Economist at the food-security and agricultural section, National Economic Council, Lilongwe, 27<sup>th</sup> of May 2000

Chikabanda P. Boniface, Divisional Agricultural Officer, Lilongwe Agricultural Development Division, Lilongwe, 20<sup>th</sup> of June 2000

Christensen, Mogens Laumand, Minister Counsellor, Royal Danish Embassy, Lilongwe, 18<sup>th</sup> of June 2000

Field-officer Lilongwe West Area, ADMARC, 5<sup>th</sup> of June 2000

Kaimila, Falyson W, Credit Manager Agricultural Loans, Malawi Rural Finance Company, Lilongwe, 23<sup>rd</sup> of May 2000

Lynton-Evans, John, Senior Expert, European Food-Security Network, Lilongwe, 4<sup>th</sup> of June 2000

Makoko, Munday S., Programme Officer at Food Security and Enterprise Development, United Nations Development Program, Lilongwe 1<sup>st</sup> of June 2000

Mipando C. Nellie, Assistant Project Officer, Lilongwe West Project, Lilongwe, 20<sup>th</sup> of June 2000,

Msiska, B. M Fredrick, Economist, Ministry of Agriculture and Irrigation, Lilongwe, 18<sup>th</sup> of June 2000

Mteha Cigomezgo-Lizzie, National Smallholder Farmers Association of Malawi, Lilongwe 4<sup>th</sup> of June 2000

Osborne, Nick, Country Representative, International Care, Lilongwe, 5<sup>th</sup> of June 2000

Shumba, Stephen E C., Agricultural Development Specialist, United States Agency for International Development, Lilongwe, 23<sup>rd</sup> of May 2000

#### Smallholder farmers

68 farmers in Chileka, Kampini, Kambanzithe, Kamphoni and Mitindu, Lilongwe  
West, 4<sup>th</sup>-15<sup>th</sup> of May 2000