Report No. 17898

Malawi
Impact Evaluation Report
The World Bank and the Agricultural Sector

May 20, 1998

Operations Evaluation Department
Currency Equivalents

Currency Unit = Malawi Kwacha (MK)

<table>
<thead>
<tr>
<th>Year</th>
<th>US$1.00</th>
<th>MK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-71</td>
<td>0.83</td>
<td></td>
</tr>
<tr>
<td>1972-75</td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>1976-79</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>0.81</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>0.90</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>1.06</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>1.17</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>1.41</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>1.72</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>1.86</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>2.21</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>2.56</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>2.76</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>2.73</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>2.80</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>3.60</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>4.40</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>7.90</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>15.00</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>15.30</td>
<td></td>
</tr>
</tbody>
</table>

Abbreviations and Acronyms

- ADMARC: Agricultural Development and Marketing Corporation
- ADP: Agricultural Development Project
- AMED: Agricultural Marketing and Estate Development Project
- ASAC: Agricultural Adjustment Credit
- ASP: Agricultural Services Project
- CAS: Country Assistance Strategy
- IDA: International Development Association
- LIL: Learning and Innovation Loan
- MASAF: Malawi Social Action Fund
- MOA: Ministry of Agriculture
- MRFC: Malawi Rural Finance Company
- NRM: Natural Resources Management
- NRDP: National Rural Development Programme
- RFSP: Rural Financial Services Project
- SAL: Structural Adjustment Loan
- USAID: United States Agency for International Development

Fiscal Year

Government: April 1 - March 31

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director-General, Operations Evaluation</td>
<td>Mr. Robert Picciotto</td>
</tr>
<tr>
<td>Director, Operations Evaluation Dept.</td>
<td>Ms. Elizabeth McAllister</td>
</tr>
<tr>
<td>Manager, Sector and Thematic Evaluations Group</td>
<td>Mr. Roger Slade</td>
</tr>
<tr>
<td>Task Manager</td>
<td>Mr. John English</td>
</tr>
</tbody>
</table>
MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: THE WORLD BANK AND THE AGRICULTURAL SECTOR IN MALAWI

Attached is the Operations Evaluation Department (OED) report entitled *The World Bank and the Agricultural Sector in Malawi*.

The report evaluates the performance of the Bank both in supporting projects financing investment and adjustment operations primarily targeted on the agricultural sector and in undertaking related economic and sector work. The report confirms the symbiotic relationship between country and sector work and effective lending operations. Based on lessons learned the report indicates a number of areas in which emphasis should be placed in forthcoming activities.
Boxes

3.1 The National Rural Development Program ................................................. 13
3.2 Performance of Overall Project Portfolio ................................................. 16
5.1 The Quality of Economic and Sector Work ................................................. 25
7.1 Assistance to Rural Women Through Bank-supported Projects ......................... 32
8.1 Agricultural Transition in Nigeria .................................................................. 36

Tables:

2.1 Growth of Agricultural Sub-Sectors in Malawi: 1973-96 ................................................. 12
3.1 OED Ratings of Completed Agricultural Projects ................................................. 15
6.1 Share of Crop Categories in Smallholder Plantings ................................................. 27
6.2 Calorie Production and Share from Maize for Three Year Periods ......................... 28
6.3 Returns per Hectare to Smallholder Production ................................................. 28
6.4 Market Shares of Public and Private Enterprise ................................................. 29
Preface

This study is one of several that have pioneered a new type of evaluation for the Operations Evaluation Department—the country sector impact study. The aim of these evaluations is to expand the assessment of impact beyond the individual project or cluster of projects to analyze World Bank interventions in a specific sector and within the broader country context. By doing so we hope to attain an understanding of the cumulative effect of Bank activities and their contribution to achieving the Bank’s development mission. The lessons derived from this exercise can then be used to inform the development of future Bank activities.

This report is based on a review of Bank files and documentation, a more general literature review, covering the agricultural and development experience in Malawi, discussions with Bank staff, the staff of other bilateral and multilateral aid agencies, and government officials, academics, representatives of civil organizations, and others in Malawi. It was also informed by the findings of the audit of the Agricultural Marketing and Estate Development Project (Credit 1966-MAI) and of surveys of rural markets and traders undertaken as part of that investigation, and by a study of the impact of policy change undertaken by the Bunda College of Agriculture. The preliminary findings of the study were discussed at a workshop held at Bunda College in March 1998. The kind cooperation and valuable assistance provided by all these agencies and individuals, as well as by the staff of the Bank’s Resident Mission, is gratefully acknowledged.
Executive Summary

Malawi is a predominantly rural country, and the overwhelming majority of its households depend, wholly or in part, on agriculture for their livelihood. At independence the agricultural sector was sharply divided into a small “estate” sector and a much larger smallholder sector. The commercially oriented estate sector was largely expatriate controlled and responsible for most of the country’s exports (largely tobacco and tea), while the smallholder sector was subsistence oriented. Through most of the 1970s the economy grew at about 3 percent per annum in per capita terms, largely on growth of near 5 percent in agriculture. Government encouragement of the development of new tobacco estates drove this growth. The strategy of generating an agricultural surplus as the prime support for development was generally accepted as working well. Starting in the late 1970s, however, performance deteriorated sharply. Adverse price movements, especially for oil, caused a sharp decline in the terms of trade. This was followed by the civil war in Mozambique, which closed Malawi’s direct outlets to the sea (and sharply increased transport costs) and resulted in a massive influx in refugees later in the decade. Agricultural growth fell to about 2.5 percent per annum in the 1980s—less than the population growth rate—with particularly poor performance in the smallholder sector. In the 1990s, with peace in Mozambique and a change of regime in Malawi, the picture has improved.

In lending to Malawi’s agricultural sector, the Bank has concentrated on supporting smallholder production. Its first efforts, in the late 1960s, supported area-based, integrated rural development projects. When it became clear by the mid-1970s that this approach was not nationally replicable, the Bank adopted a less capital-intensive approach, under the umbrella of the National Rural Development Program, which placed greater emphasis on agricultural extension. Other donors supported this effort, and it gradually covered the country. When, by the mid-1980s, it became clear that the Ministry of Agriculture was having difficulty supporting and managing this varied program, the Bank moved toward sectoral operations in extension, agricultural research, and smallholder credit. Following the balance of payments crisis in the late 1970s the Bank made a series of structural adjustment credits with significant agriculture-related conditionality. The conditionality primarily consisted of modifications to the price setting system and improvements to the efficiency and fiscal position of the major marketing parastatal. The Fourth (Agricultural) credit included the provision of tobacco production licenses to smallholders.

The performance of these operations was lackluster. Ten of the 17 completed investment projects were rated satisfactory at completion, but two were downgraded to unsatisfactory at audit, a success rate of 47 percent. Three of the four agriculture-related adjustment operations were rated successful. The principal objective of the investment operations was to increase smallholder production, but the response to the production packages being promoted was poor. However, one major element in the growth of the estate sector was the switch to leasehold land tenure by commercially oriented smallholders, who were then classified as ‘estates’ and could grow tobacco. How much the project support through know-how derived from extension programs and credit linked to improved inputs enabled them to make this switch is not known. The key issue, however, is why did the Bank continue to lend when its efforts were yielding apparently poor results?

The main reasons lie within Malawi. Life President Hastings Banda held office from independence until being forced out in 1993. He and his associates had a major, autocratic influence on the society, dominated the economy, and shaped the direction of external assistance.
He was also (for part of the period) Minister of Agriculture, and placed top priority in the smallholder sector on self-sufficiency through maize production. The overall development strategy was to develop an agricultural surplus. Low prices for smallholder products were an element of this flawed strategy. Despite increasing disquiet about continued support of this regime, Bank involvement was strongly influenced by the troubled regional situation and its devastating effect on Malawi.

The Bank's approach to Malawi during this period contributed to the problem. During the 1980s the Bank accepted the dualism in the agricultural sector as given and did not understand well the broader constraints on small-scale enterprises and the distortions these were creating in labor and product markets. This policy held down the value of smallholder output and real wages and impoverished the smallholder sector. The Bank's two approaches, focusing in adjustment on attempts to improve production incentives, and directing efforts toward the poor by improving food security through extension-based efforts, followed the Bank's main paradigms. But because internal Bank communications were poor, there was no effective linkage between these two efforts. The institutional structure on the Malawian side reinforced this effect. In addition, on the technical side, Bank staff (and others) placed great emphasis on yield increases as the basis for intensification, particularly on maize. This tied in with the government view of the smallholders as subsistence-based and led to more than 70 percent of the smallholder area being planted to maize. Given the limited income potential of this approach, smallholder response was tepid, which was the main cause of the poor ratings.

By the late 1980s, linked to the refugee influx, nutritional problems (which had been obscured by the repressive policies of the regime) became more apparent, and willingness to consider policy changes increased. The Bank and other donors supported a major collaborative exercise with government to investigate sectoral conditions. This led to the government producing a new agricultural strategy in 1994. As this was after elections and the installation of a new government, the conditions for policy change were more favorable than before. Previous restrictions on smallholder tobacco production and on trade were lifted, and the authoritarian approach relaxed. In the agricultural sector available data indicate that substantial changes are occurring, notwithstanding the increased climatic variability (including two severe droughts) that characterized the decade. Sectoral growth has rebounded, to over 5 percent per year, and there has been a significant shift to tobacco and from maize to other food crops, particularly roots and legumes. The estimated share of calories produced as maize has fallen from nearly 80 percent to about 50 percent, with roots and tubers increasing from 10 to 35 percent and legumes from 6 to 11 percent. Cross-border trade is also increasing, especially with Mozambique, where the population/land ratios sharply contrast with those in Malawi. However, there is considerable debate over the extent and implications of these changes, which current data sources do not clarify. For example, there is considerable disagreement over why farmers are making some of these changes (such as the shift to root crops) and whether they are desirable from the soil fertility and nutritional points of view, even though they do reduce climatic risk and spread labor requirements. While value added per hectare has increased, poverty remains pervasive and malnutrition is widespread. Also it remains clear that agricultural programs are having limited impact on the rural poor, especially female-headed households, which comprise about 30 percent of the total.

Current Bank operations support the government strategy, with major emphases on improving and broadening the research and extension effort and strengthening financial services to small-scale producers and related businesses and on attempting to target a range of efforts
toward the poor. The Bank is also assisting in work on land and soil fertility issues with other donors and in other activities particularly targeting the rural poor and female headed households. The new Country Assistance Strategy recognizes the changes that have been occurring and concludes that the key to overall growth in the economy will be the expansion of smallholder agriculture and its related activities in transport, marketing, and other off-farm processing and services. The principal future operation is to be a Sector Investment Program. In addition, flexible lending instruments, such as Learning and Innovation Loans, are envisaged for operations addressing the natural resource management and land problems.

Overall, therefore, the performance of the Bank’s project portfolio in Malawi’s agriculture sector has been extremely mixed. Many objectives were not achieved, and at best the outcomes can only be considered marginally satisfactory. While the objectives of the operations were largely relevant to the national strategy, until the late 1980s the Bank, along with the rest of the aid community, did not recognize the depth of the distortions in the economy, which were being created by the strategy being pursued by government during the Banda era. These worked to the detriment of the smallholder sector; thus, project and policy efforts directed toward improving their lot largely failed to achieve their goals, and the efficacy of the operations was modest. Few of the efforts undertaken by the projects were considered sustainable at completion and institutional development impact was only modest. While the investment operations supported by the Bank had a limited direct impact, the indirect effects may have been significant. The adjustment operations similarly had a limited immediate impact, but the related dialogue gradually focused more squarely on the principal problem: discrimination against market-oriented smallholder production, which surfaced directly under the Agricultural Sector Adjustment Credit. This dialogue and experience enabled the Bank to respond effectively as conditions for a fundamental rethinking of sectoral policy arose in the late 1980s. Then the Bank took the lead in a multidonor collaborative effort with the government, which has been instrumental in the policy changes that now appear to be bearing fruit. Overall, borrower and Bank performance must be judged only marginally satisfactory.

Bank experience in the agriculture sector in Malawi indicates a number of lessons for the future:

- Priority should be given to understanding the changes currently occurring in agriculture and in related sectors, in particular focusing on efforts to improve the database.

- The smallholder development strategy should place primary emphasis on supporting diversification and on economic rather than physical intensification.

- A broad approach should be taken to rural development: rural public works, especially labor-intensive ones, should be considered integral to the rural development strategy. In particular, the construction of access roads and tracks would increase incomes among poor rural households while also improving local infrastructure essential to the development of markets.

- Extension support should be pluralistic and increase the focus on responsiveness to farmer (both male and female) priorities, perhaps making greater use of private channels.
• Marketing, agricultural input supply, and rural development policies should not deter the development of small-scale trade and related enterprise, as they have in the past.

• Greater emphasis should be placed on the regional aspects of agricultural development and trade, including increasing the role of the external private sector in developing markets for smallholder production.
1. **Introduction**

1.1 Malawi is a predominantly rural country, and the overwhelming majority of households depend, wholly or in part, on agriculture for their livelihood. The agricultural sector currently is in a period of dramatic transition. The 1990s have seen a series of cropping seasons in which climate has been highly variable, including some of the driest years in recent times. This makes it difficult to assess the impact of the World Bank, or any other actor involved, on the performance of the agricultural sector. A review of this experience, though, reveals some lessons that may be important for future Bank activity in the sector, both in Malawi and elsewhere.

1.2 The overall performance of the Bank’s agricultural portfolio in Malawi has been lackluster. On the Malawian side this resulted from a narrowly focused sectoral development strategy that, given the country’s institutional structure, contained built-in distortions that became more pronounced over time, to the detriment of very small-scale farmers, the majority of the rural population. The Bank, for its part, initially supported the strategy because its key elements—promotion of export crops and support to food crop production by small farmers—aligned with the institution’s approach to rural development. Given a rigid application of its policy paradigms and poor internal communications, the Bank’s efforts to support development did not come to grips with the underlying distortions until the late 1980s.

1.3 This situation changed dramatically following the change in government in 1993–94. The collaborative preparation process of the Bank’s *Agricultural Sector Memorandum*, accompanied by parallel efforts by other donors, contributed to the development of a more liberal government policy. At the same time, strong consideration is being given to initiating a process of decentralization of government.

1.4 The crucial issue at this point is whether the current direction in the development of the agricultural sector in particular, and the rural sector in general, will have the desired results, and whether the current Bank support strategy is appropriate. If more detailed work indicates that agriculture is both diversifying and intensifying, that basic food supplies are adequate in the aggregate, and that (except for localized climatic effects) this process is occurring nationwide, then the broad policy approach of the Bank in supporting liberalization will have been vindicated. The priorities for further sector support should be to improve conditions for the very poor and to strengthen the existing process of change. The latter means supporting the development of conditions that increase the ability of farmers to respond, at the local level, to opportunities as they arise.

1.5 Pursuing this strategy will require flexibility in public support. It could also imply focusing public efforts on improving the basic infrastructure, including a legal framework and availability of financial services, so that farmers and other small rural enterprises can respond to market opportunities and can tackle local problems, such as improving village access tracks, as and when necessary. For the Bank this suggests an emphasis on developing, with the government and other stakeholders, an overall strategy for rural development. This would entail working with several ministries besides Agriculture, such as Local Government, Commerce, Transport, and perhaps Education, and Health. Primary emphasis in funding might be on support of small-scale, local projects, such as those being supported by the Malawi Social Action Fund (MASAF), and expanding rural financing institutions, with the traditional field activities of the Ministry of
Agriculture (MOA) focusing on supporting local initiatives, rather than disseminating generalized technologies. The effort to work through nontraditional groups has begun this process, but further steps could imply a refocusing of field staffing and a greater emphasis on specialists and the ability to offer management as well as technical problem-solving support.

1.6 This report first describes the context in which implementation of the Bank agricultural sector program in Malawi took place, then briefly reviews the overall results of the projects and programs supported and factors related to this performance. This is followed by a more detailed discussion of the changes that have been occurring over the past five years. Finally, the report describes the broad conclusions of this review, and the implications that can be drawn for future operations.
2. The Operational Context

2.1 When it achieved independence in 1964, Malawi had an agricultural sector that was sharply divided into two subsectors: a numerically small “estate sector” and a much larger smallholder sector. The estate sector, run largely by expatriates, produced most of Malawi’s tea and tobacco, the country’s principal export crops. The marketing system for those crops (based on licensed producers linked, in the case of tobacco, with a local auction) catered to the needs of the expatriate producers. The smallholder sector, which accounted for about 80 percent of the country’s agricultural output, produced maize, groundnuts, and cassava for local consumption, and cotton and some tobacco for export. A Farmers’ Marketing Board was the formal marketing channel for smallholder crops.

2.2 From independence and through most of the 1970s Malawi achieved an impressive 3 percent growth per annum in per capita income. Since mining and industrial production were minimal, this growth rate was sustained by a steady expansion in agriculture, which averaged a growth of about 5 percent, led by an increase in tobacco exports from the estate sector. As worldwide demand for tobacco increased (partly because of the embargo on Zimbabwean exports), Malawi’s indigenous farmers and influential persons pressed the government to license them to grow the lucrative tobacco crop. Partly in line with its aim of creating a landed middle class, the government responded by leasing state land to a relatively small number for this purpose, allowing conversion of traditional land to leasehold, and encouraging banks to support the new estates with loans. It also granted these farmers licenses to grow burley and flue-cured tobacco and opened the auctions to them. At the same time, however, the government retained a pre-independence skepticism about the ability of largely illiterate smallholders to respond quickly and reliably to export opportunities, and policy toward them continued to assume that their prime objective should be to achieve food self-sufficiency. In 1971 the Farmers’ Marketing Board was replaced by the Agricultural Development and Marketing Corporation (ADMARC), which had a wider development remit. In summary, the country was following the classic agriculture-led growth strategy propounded in the 1950s and 1960s.

2.3 Through the 1970s, this strategy appeared to be working well in a macroeconomic sense. But at the end of the decade a series of external shocks caused a sharp setback. The real price of tobacco fell at about the same time that the international oil crisis caused a sharp increase in transport costs. This resulted in a rapid deterioration in Malawi’s balance of payments and in its public finances. During the 1980s conditions did not improve. In fact, in many respects they deteriorated further. By the mid-1980s the civil war in neighboring Mozambique had cut the country’s two rail links to the sea, and all exports had to go by road to ports in Tanzania or South Africa. As the decade wore on, increasing numbers of refugees from the conflict entered Malawi, eventually totaling about a million. These unfortunates created a significant strain on the country and necessitated emergency food supplies and disrupted local agricultural production and marketing patterns.

---

1. It was encouraged to invest profits (principally from marketing smallholder crops) outside the agriculture sector.
2.4 Agricultural growth over the past quarter century is summarized in Table 2.1. It shows the sharp deterioration in performance during the 1980s, offset partly in the 1987–93 period by improved performance in the estate subsector. During the entire 1980–93 period the growth of agricultural production fell below that of population, so that per capita output fell. Given the dismal performance of the depressed smallholder sector this led to deteriorating conditions for the rural poor. Since the 1993 ouster of the Banda regime, there has been a dramatic improvement in the performance of the smallholder sector and a corresponding reversal of performance by estates. On balance, sectoral performance has improved sufficiently to again result in a positive per capita performance.

Table 2.1. Growth of Agricultural Subsectors in Malawi: 1973–96

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estates</td>
<td>8.6</td>
<td>4.1</td>
<td>8.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Smallholders</td>
<td>4.0</td>
<td>1.8</td>
<td>0.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Total</td>
<td>4.7</td>
<td>2.3</td>
<td>2.6</td>
<td>5.4</td>
</tr>
</tbody>
</table>


2.5 The data obscure a substantial element in the evolving picture of Malawian agriculture over this period. A significant share of the growth in “estate” production result from smallholders’ (better financed and more commercially oriented ones) conversion of traditional land to leasehold to be able to grow flue-cured or burley tobacco. Thus, the increased production represented an increase in the land area in estates and not an increase in productivity. Conversely when tobacco production was liberalized in 1993, the estate/smallholder distinction became moot and some of the rapid increase in smallholder production since then almost certainly represents some small estates being reclassified as “smallholders.” Thus, especially before 1993, “estate” production was principally industrial cash crops, while “smallholder” production was primarily food crops. In neither sector was productivity improving up through the 1980s.

2.6 The primary issue for this report is the role of the Bank in improving or otherwise influencing this checkered performance. Was the Bank sensitive to the plight of the smallholder sector in the 1980s? Did the Bank contribute to it, or mitigate it? Did it contribute significantly to the turnaround in the 1990s? Does the present growth path appear sustainable and is the present Bank approach and program compatible with it and supportive of it?

2. Any division into time periods is arbitrary, but the breakdown in the table provides periods of six to seven years that approximately correspond to (a) the latter part of the period of rapid expansion in estate production until the oil and balance of payments crisis at the end of the 1970s; (b) the initial period of adjustment under deteriorating terms of trade to the point when the initial steps to liberalize small-scale trade were made; (c) the period until the end of the Banda regime and the beginning of broad liberalization; and (d) the period of liberalization.

3. **Bank Agricultural Lending Approach—Before 1990**

The Lending Program

3.1 The Bank has completed 17 investment operations primarily focused on the agricultural sector (totaling about US$195 million) and 5 adjustment operations with significant emphasis on agriculture issues (totaling US$370 million). The Bank started lending to the agricultural sector in Malawi in 1969 with the Lilongwe Agricultural Development Project (ADP), the first in a series of projects intended for replication throughout the country. These area-based operations focused on measures to increase smallholder production and maintain the resource base. They took a multi-sectoral view of rural development and included a range of infrastructural components (roads, schools, and health centers). Because many households in the smallholder sector are female-headed, they also included efforts to reach out to women (see Box 7.1). Each project had its own management unit largely staffed with expatriates. It soon became apparent, however, that the approach was too costly and management intensive, and could not be replicated country-wide. This led to the evolution of the National Rural Development Program (NRDP), an umbrella for a series of projects more narrowly focused on agricultural production than the ADPs (Box 3.1). The NRDP targeted the smallholder sector, in particular the dissemination of improved technologies and strengthening of support services, especially measures to ensure input supplies linked to credit programs.

---

**Box 3.1. The National Rural Development Program**

The NRDP is something of an enigma. It was always more of a concept than a well-defined and coordinated program. While it was often discussed as a program, especially in the late 1970s and early 1980s, and the Bank prepared a midterm review in 1982, there was never any formal agreement underpinning it. In 1987 the Bank undertook a further review, concentrating on the technical aspects of the programs being supported. Over time, though, NRDP gradually withered away. The reasons for this are not entirely clear. But conversations with many of those involved with externally funded programs in Malawi over the past decade suggest that the Bank might have given a clearer lead once the approach had been generally agreed. They also suggest, however, that the concept outlived its usefulness.

The early period of the program, in the late 1970s, coincided with a period of strong support for aid programs. Donor agencies were willing to collaborate in programs that had appropriate overall objectives, as in this case. Toward the end of the 1980s, however, funding became tighter, and agencies wanted clearer evidence that objectives were being achieved. This required stronger focus on the objectives of the support, as perceived by the individual donor. Inevitably, different donors, responding to their particular domestic pressures, came up with different priorities, the differences sometimes being quite subtle. As a result, it became more difficult to collaborate on the basis of generalized objectives. With a range of donor priorities it inevitably also became clearer that some objectives were being more fully achieved than others, so the enthusiasm of some donors would begin to wane. At the same time, it became apparent that the impact of the effort on the rural poor was small. Thus, although no one called a halt, the NRDP gradually became less of a central umbrella for lending and, by the 1990s, had essentially disappeared from the lexicon.

---

4. Malawi had a long tradition of international migration by males seeking employment, and some groups in the country follow matrilineal inheritance.
3.2 The International Development Association funded three NRDP projects through the 1980s, and other donors supported area-based programs, so that, by the early 1980s, projects supported virtually every district in the country. The impact of many of these efforts on smallholder production was small, however, in part because they were only able to directly reach about 20 percent of smallholders. As the NRDP projects proliferated, the difficulties of the MOA in coordinating all this activity became more apparent, as did problems related to the variations in approach adopted by the different projects, particularly in areas such as credit. The Bank took a lead in attempting to address these problems and supported national-level projects in smallholder agricultural credit, agricultural research, and agricultural extension and planning support. These aimed to increase the capacity of the MOA to coordinate the programs, as well as ensure their coherence, and at establishing a stronger research base for smallholder agriculture. Although they were almost all operational by 1987, they had little immediate impact on performance, in part because wider problems overwhelmed the impact of these efforts.

3.3 After 1979, as Malawi’s balance of payments rapidly deteriorated, the Bank executed a series of Structural Adjustment Loans (SALs). Because of the predominance of agriculture in the Malawian economy, these loans included significant agricultural conditionality. This included steps to improve pricing policy for smallholder products, phase out fertilizer subsidies, improve the efficiency and effectiveness of the parastatals (especially ADMARC), and examine ways to improve the productivity of estates and encourage them to diversify. SAL II (1984), for example, included an agreement to rationalize the parastatals. ADMARC, under its development remit, had invested in several nonagricultural operations. Other entities were given these responsibilities so that ADMARC could focus on agricultural activities. SAL III (1986) hastened this process. The government also undertook a review of its policies that aimed at relieving ADMARC of some of its financial burden and initiating steps to increase the role of private traders in agricultural marketing. While the government largely complied with the conditionality, the results did not meet expectations. The attempts to improve ADMARC’s efficiency and financial condition were undermined by the increasing burdens of handling fertilizer and the maize stockpile, especially as the currency depreciated. Attempts to fine-tune nominal prices led to substantial variation in real prices and erratic production response.

3.4 The fourth SAL operation focused more specifically on agriculture and became the Agricultural Adjustment Credit (ASAC), which the Bank approved in 1989. It attempted, inter alia, to begin the process of opening up burley tobacco production to smallholders, by issuing some production licenses to smallholders, and sharply improving the prices paid to them by ADMARC, through which they were still required to market the crop. Agreement on licenses and pricing were to be conditions for the second tranche release, but negotiations were extended and the changes finally agreed were more modest than had initially been foreseen.

3.5 In parallel with its adjustment lending the Bank supported operations to aid diversification through the provision of credit and to strengthen the operations of the Smallholder Fertilizer Fund. The first credit operation was linked to industrial credit to be

5. The projects were approved between 1979 and 1981 and completed between 1986 and 1991.
6. Some authors have been critical of the sequencing of the reforms. See Paul Mosley, Jane Harrigan, and John Toye (1991), Aid and Power: The World Bank and Policy-based Lending, Vol. 2, Chap. 15.
disbursed through commercial banks. However, the sum available was quickly lent in a few large loans to the largest commercial estates, nominally for diversification activities such as irrigation systems, but the impact was small. A follow-up attempt—through the Agricultural Marketing and Estate Development (AMED) project (Credit 1966) with funding earmarked for small estates channeled through the banks—was similarly disappointing. Less than 10 percent of the available funds was lent, primarily because of a lack of interest from the small estates. No option appeared to be competitive with tobacco. The AMED project also contained components to support the government's first, limited steps to ease the restrictions on small-scale trading. Their direct impact was small, but their catalytic impact in furthering the dialogue on marketing and liberalization was not insignificant.

Table 3.1. OED Ratings of Completed Agricultural Projects

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approved through 1978</td>
<td>4⁴</td>
<td>4</td>
</tr>
<tr>
<td>Approved 1979–1990</td>
<td>6⁴</td>
<td>3</td>
</tr>
<tr>
<td>Adjustment Operations</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Institutional Development</td>
<td>Modest</td>
<td>Negligible</td>
</tr>
<tr>
<td>Investment Operations (1979–90)</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Adjustment Operations</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Sustainability</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Investment Operations</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Adjustment Operations</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

a. One project rated unsatisfactory at audit
b. Two of the adjustment operations received no ratings for sustainability or institutional development impact.

Performance

3.6 The outcome of this lending program is generally acknowledged to have been disappointing. OED has rated the outcome of 13 projects as satisfactory and 8 as unsatisfactory (Table 3.1 and Annex 1). Until the mid-1980s, OED rated projects on outcome only. For projects completed after that period, OED added ratings for institutional development and sustainability. These also indicate limited achievement. Institutional development performance was judged ‘modest’ in all but two projects, for which it was ‘negligible’. No projects received a ‘substantial’ rating. Similarly, ratings of the sustainability of the operations were not glowing. The sustainability of three was rated ‘likely’, five were ‘uncertain’, and three were judged not to be sustainable. The performance of the agriculture portfolio has therefore been lackluster, particularly for earlier, area-based ADP and NRDP projects, reflecting the limited production response from smallholders. This performance stands in sharp contrast to that of the rest of the Bank portfolio in Malawi (Box 3.2).
Box 3.2. Performance of the Entire Malawi Project Portfolio

The performance of the agricultural project portfolio in Malawi is in marked contrast to that in other sectors. OED has rated the outcomes of 31 non-agricultural operations in the country: 29 received a ‘satisfactory’ rating; 2 received ‘unsatisfactory’ ratings. OED has also rated 19 projects (completed in the past 10 years) on their sustainability and institutional development performance. Twelve were judged ‘sustainable,’ for 6 sustainability was rated ‘uncertain,’ and for 1 it was rated ‘unlikely’. The ratings for institutional development were less positive: only 6 received ‘substantial’ ratings, 12 were rated ‘modest,’ and 2 were ‘negligible’.

Six of the 19 projects have been subjected to audit. The judgments of those audits have tended to be less optimistic than the completion report. One downgraded outcome to ‘unsatisfactory,’ for two sustainability was changed from ‘likely’ to ‘uncertain,’ and for three the institutional development rating was reduced from ‘modest’ to ‘negligible’.

Several differences between the agriculture projects and the rest of portfolio may account for the difference in performance. First, the agricultural projects relied on eliciting a production response from small-scale producers. This was frequently not forthcoming. Nor did a parallel non-agricultural small-scale enterprise economy evolve. Only in the late 1980s did the Bank support efforts to encourage such development outside agriculture.

Second, many of the non-agricultural projects were enclave operations, largely involving the construction of infrastructure such as power plants, highways, and schools, and were carried out by contractors. Most were completed with limited delay and close to budget, and the immediate benefits may have justified the operation. Given the overall performance of the economy in the past two decades, however, their contributions to development may have been less significant.
4. **Bank Impact Before 1990**

4.1 Given the Bank focus on the smallholder sector, the poor performance ratings are perhaps not surprising; they are consistent with the overall sectoral performance shown earlier in Table 2.1. Through the 1980s the growth of production by smallholders was minimal. If anything, their situation deteriorated. Why then did the Bank persist with policies that were yielding such poor results?

4.2 The main reasons lie within Malawi. First, Life President Hastings Banda completely dominated the machinery of government and shaped the direction of external assistance. He had gathered under a private entity, the Press Corporation, several large agricultural estates, a range of agriculture-related enterprises, and shareholdings in the major banks and other enterprises. He and his associates had a dominant, autocratic, influence on the economy and society. He was also (for part of the period) Minister of Agriculture and placed top priority in the smallholder subsector on self-sufficiency and maize production; hence the narrow focus of much policy. Second, despite increasing disquiet about continued support of this regime, Bank involvement was strongly influenced by the difficulties resulting from the troubled regional situation, particularly the civil war in Mozambique, the cutting of the rail lines to the sea toward the middle of the decade, and the subsequent influx of refugees. Under these conditions the Bank overlooked shortcomings in economic and social performance to maintain relations that would allow it to assist one of the poorest countries in the world, one that was struggling under very difficult circumstances.

4.3 Besides these overarching considerations, several aspects of the Bank’s approach to Malawi influenced its persistence with a strategy that yielded little for over a decade.

(a) The Bank’s approach to the agricultural sector in Malawi through the 1980s, as characterized in the 1982 *Basic Economic Report* and the associated agricultural sector report (*Malawi: The Development of the Agricultural Sector*), accepted as given the dualism of the agricultural sector. Elimination of this dualism, and the problems it created, was not an objective in Bank strategy. Had it been, the government would have resisted. It appears that the Bank did not appreciate or perhaps understand the basic structure of the estate subsector and its impact on the agricultural sector as a whole. That is, that falling real wages through the 1980s, caused by the lack of market opportunities in the smallholder sector (linked to the high levels of effective taxation on smallholder crops and restriction on the production of some of them, especially burley tobacco), the expanding labor supply, and the practice of using sharecropping of tobacco in the estate sector, was to the benefit of the estate owners. Thus, much of their income was, in effect, rentier; this reduced the incentive to invest in other lines of activity where it was not possible to use sharecropping. At the same time, there was no incentive for smallholders to invest, even if they could obtain the resources; this was a major reason for the generally poor performance of the

---

8. Even allowing for the definitional problem discussed earlier.

9. Bank staff have also suggested that, to the extent that there was some appreciation of this developing situation, there was a reluctance to pursue it given the borrower’s strongly held views.
ADP and NRDP operations. The decline in real wages in the sector was first formally noted by the Bank only in the 1990 economic report *(Growth Through Poverty Reduction)*, although it had been indicated in academic papers from the beginning of the decade.

(b) In consequence, the Bank became a prisoner of its paradigms. The status quo, as of the mid-1980s, fit both the generally perceived paradigms of concentrating on assisting the poor and bringing local prices in line with international ones, and the objectives of rural development strategy. The focus on the poor could be addressed by concentrating on the improvement of research and extension to the smallholder sector in agricultural development projects. At the same time, pricing policy was addressed through the adjustment lending program, with parastatal enterprises playing a central role. The divergence of these two thrusts reflected the broader problem of communication between the agricultural and macroeconomic staff of the Bank. A review of the files and documentation of the period leaves little doubt that neither side had any real feel for the issues the other was raising. The agricultural staff focused on the smallholder sector, taking the estate sector as a given and therefore saw the problem in terms of apparent stagnant or declining productivity on a fixed land base, implying declining fertility. They gave little emphasis to the implications of attempting to diversify for broader sectoral policy. On the other hand, the macroeconomists felt that, with an “improved” price-setting mechanism, the system could be programmed to come up with an appropriate set of price signals. This mechanism proved to be very imperfect, partly because changes had a substantial impact on the financial viability of ADMARC, through which most smallholder prices were filtered. Neither group saw the development of the smallholder subsector as being a problem of developing small business enterprises in agricultural production and related activities (marketing, trading).

10. However, low agricultural prices, or excessive agricultural taxation, were not included in the six main causes of poverty this report identified. Therefore, improving prices was not one of the four elements of the strategy proposed.

11. On this point the group Project Audit Report on the NRDP projects raised the issue of “why the Bank took so long to appreciate how little trickle-down effect the projects were having, how few benefits were accruing to the real poverty group and how this pattern of benefit distribution was the direct result of the extension system’s methods of operation. The answer seems to be that it was not until the more searching analytical work associated with structural adjustment lending that the Bank realized that there was a real problem” (para. 34).

12. Given the heavy emphasis on maize, a proven calorie producer worldwide (especially in nearby Zimbabwe), the solution was seen to be to press measures to develop improved varieties of maize better adapted to local conditions and tastes, and measures to ensure the availability of the required inputs.

13. This problem was not confined to the agricultural sector. In Malawi the emphasis in projects directly supporting economic activities (predominantly industry) focused exclusively on larger-scale enterprises. Only at the beginning of the 1990s were steps taken to improve the environment for the development of small enterprise. The effect of these views can be seen in the field of credit where the 1992 Bank report, “Malawi: Financial Policies for Sustainable Growth,” saw non-estate agricultural credit as essentially a side issue. It noted the ‘effectiveness’ of the MOA’s administered credit programs with their high repayment rates. However, a 1994 report, “Malawi: Rural Financial Markets: Strategic Options for Economic Development” (prepared in 1992/93) viewing the issue from the small farmer development perspective, noted that the administered system was not improving financial services to farmers, and would not lend to viable financial institutions.
(c) The institutional structure on the Malawian side acted to reinforce this in two ways. First, the MOA had no role with the estates. This reinforced the emphasis in external programs away from support to emerging estates and related enterprises. During the 1970s this did not seem to matter, as the rapid growth of the estate sector appeared self-sustaining, but the lacuna has become increasingly clear since. Second, the Ministry of Finance led the Malawian work on the adjustment lending, putting the MOA in a secondary role.

(d) Intensification of production was always a major objective in agriculture, in both the smallholder and estate sectors. But Bank staff have seen intensification in physical terms (particularly focusing on increased maize yields) rather than in economic terms (through increasing opportunities for a wider range of products, some of which have a higher value added). Thus, diversification was seen as a means of reducing risk (which it is), but not as a means of intensification. This “technical” approach to diversification and intensification meant that the profitability of smallholder agriculture was not fully addressed. During the 1990s, with liberalization, Malawi may be achieving both diversification and intensification, as discussed below.

(e) Regarding its concern for getting prices right, the Bank’s actions indicate a belief that this could be achieved by modifying the prices set by government and used by the parastatals, especially ADMARC. When, as part of the adjustment program, small traders were formally recognized in the mid-1980s, they were still greatly constrained by controls. As noted in (a) the Bank also continued to place faith in the ability of appropriate pricing policies and management inputs to turn parastatals into efficient and commercially oriented enterprises. In Malawi, as elsewhere, this faith proved misplaced.

(f) The emphasis in the strategies of government and donors on smallholders assumed that the large commercial sectors (finance, transport, processing) would provide the necessary support services to the estates and that, perhaps with external support to increase the availability of capital, estates would diversify away from tobacco. This did not happen because of the unattractiveness of other crops and the lack of experience with them. At the same time, focusing

---

14. A commentator has suggested that, at least through the early 1990s, it might have been referred to as the “Ministry for Smallholders.”


16. When doubt was cast on this approach, as in completion reports like the one in 1984 for the Second Karonga RDP (Loan 1286-MAI), it was done in passing and not given emphasis. In consequence, this did not provide much support for Bank staff who were trying to develop a dialogue on the desirability of fostering private trade.

17. At independence, retail and wholesale trade were dominated by expatriates, especially from South Asia. The Banda regime soon restricted their activities to the major towns. This reduced the supply of goods and marketing opportunities available to smallholders as local traders did not fill the gap. They were not encouraged to do so and were often harassed by officials. The 1987 Smallholder Agriculture Produce Marketing regulations of 1987 clarified the legality of private trade and established a licensing system.

18. As indicated by the limited impact of the Industrial and Agricultural Credit project and the minimal uptake of funds under the Agricultural Marketing and Estate Development project.
external efforts on smallholders through the public sector and the parastatals left small estates with minimal support (except what they could obtain from the smallholder-focused programs) and hindered the development of the agricultural sector.

(g) The impact of efforts to build capacity, especially in the MOA, was limited by the rapid turnover of counterpart staff, particularly in the economist streams. Staff who had benefited from graduate training were often transferred elsewhere. The impact was also blunted by poor coordination among donors, which led to incoherence in technical assistance efforts. The experts supplied not only varied in quality but also often found themselves in advisory roles with ministry officers who did not know how to manage them or did not want their services. 19

(h) The Bank's slowness to respond, some have said, shows that in the early 1980s it was following its own agenda and that there was little real buy-in from Malawian stakeholders. This is partly a reformulation of point (a). The Bank, like most others in the development field, focused narrowly on increasing smallholder productivity, above all in the production of maize to improve food security, and enforced the centrality of the research and extension effort to meeting that objective. In this, it clearly also reflected the government's objectives. However, the problem of stakeholder buy-in also lay at other levels, as is shown by the outcome of the rural markets component of the AMED project, appraised in 1988. This component funded the physical improvement of a dozen rural markets. The choice of markets and sites, and the specific improvements to be constructed, were decided by the Ministry of Local Government and the local councils. Some of these facilities are now underused because their layout and design do not accord with the preferences of the traders. When they were designed, the Banda regime had only recently modified its restrictive views on private trade, and its approach was not conducive to open dialogue between beneficiaries (such as small-scale traders) and the agencies of government. The outcome of the MASAF and other more recent projects will indicate the extent to which the approach of all parties has changed.

4.4 While these various factors limited the impact of the Bank-supported efforts, they should not be taken to mean that those efforts had no impact. Consider the counterfactual of no Bank support (or support from other donors under NRDP) in the agricultural sector. First, it is highly unlikely that by the early 1990s the extension service would have been as effective as it was, or that the research program to develop locally adapted hybrid maize would have been brought to a successful conclusion. The more commercially oriented and better-endowed smallholders obtained credit support and exposure to new technologies through these projects. Some of them "graduated" to estate status and become the most dynamic element of the agricultural sector. Indeed, ADP and NRDP have been criticized for focusing too heavily on this group at the

---

expense of the more needy. Second, although the adjustment program did not achieve immediate
results it did foster a dialogue that addressed, albeit slowly, the major policy and institutional
issues and gradually built up the rationale for change that has become the foundation for
subsequent efforts.
5. **Bank-Country Dialogue**

5.1 A central issue in assessing the Bank's impact is whether its involvement and dialogue, despite limited progress until the change of regime, had a significant positive influence at key moments. Unfortunately, we cannot answer the question unambiguously. The most important period though was from about 1989 to 1995, the period covered by the approval and implementation of the ASAC and preparation of the *Agricultural Sector Memorandum*.

5.2 As the 1980s wore on, it became clear that the situation of the poor was not improving. The dialogue related to the adjustment lending had been important in raising issues, such as the potential role of private traders in reducing the responsibilities ADMARC was supposed to bear. President Banda, while proving remarkably durable, was obviously nearing the end of his rule. Some have suggested that a trigger for change was the influx of refugees from Mozambique, which started in the mid-1980s. This raised the issue of increasing food supplies and led to studies of the nutritional status of the rural population. These showed that the situation was dire. A 1988 workshop, held with support from the Bank and others, gave those who had had doubts about the agricultural strategy of the regime an opportunity to voice those doubts publicly and helped initiate a dialogue on agricultural development strategy. A technical review of the performance of the NRDP program further probed these issues and raised the question of the potential value of allowing smallholders to grow burley tobacco, thereby opening up to them a reliable source of cash income with which to pay for inputs for food production. This report increased support, especially among donors, for the effort under ASAC to open up tobacco production and improve the prices smallholders received for the crop.

5.3 The end of the Cold War and changes in South Africa also created a situation in which change in Malawi could be more easily contemplated, and bilateral partners began to look more closely at autocratic regimes in Africa. By the early 1990s internal groups were more effectively pressuring the international community to bring pressure on the government to open up the political system. Several bilateral partners did so, cutting off non-humanitarian aid, which led to a referendum on the existing regime's performance in 1993 and to multi-party elections in 1994.

5.4 The audit of the ASAC, addressing the value of the dialogue, noted: “the Bank, in its role as convener of the donor Consultative Group, gained the confidence of both Government ministers and opposition leaders and was able to help steer a course through various economic and social perils. The result was that Malawi maintained sufficient economic stability to keep the process of change on track while accommodating the political pressure brought to bear by other partners. This product of the Bank’s aid coordination had a greater impact on Malawi’s development process than any loan or study.” (para. 1.25)

---


21. Before that the Banda regime had been very hostile to any research activity, particularly in rural areas.


23. This was a time of considerable economic difficulty because of the continuing civil war in Mozambique, and a major drought in 1991–92.
5.5 The audit continued, "this raises a general and difficult question for the Bank as lender of last resort: when should it pull out? In this case, operational staff argue that it was probably good to be more lenient on conditionalities and allow a minimum flow of foreign exchange that would keep the country afloat while other donors were keeping up the pressure for political change. The counterfactual, whereby all donors, including the Bank, would have pulled out of Malawi could easily have resulted, they say, in economic chaos, civil unrest and, eventually, could have precluded the smooth transition that has been termed a model for Africa." (para. 1.26)

5.6 The major implementation issue in the ASAC was whether the Bank should have held out for more complete compliance with the conditions under the second tranche. The disbursement had been expected to take place in December 1990. Negotiations about the issuance of tobacco production licenses to smallholders, the price ADMARC would pay to smallholders, and the modalities for payment led to a delay of 10 months. The Bank eventually achieved relatively little in this direction. It was plain where the Bank stood, however, and since the U.S. Agency for International Development (USAID) had made it clear that its proposed Agricultural Structural Adjustment Project was contingent on the same steps, the change was going to be accepted by government in the near future. From that perspective Bank staff have argued that it made sense for the Bank to make the disbursement, even though not all the conditionality had been met.

Bank Sector Work

5.7 Over the past two decades, the coherence of economic and sector work related to the agriculture sector in Malawi has perceptibly improved (see Box 5.1). Through the mid-1980s much of the sector work was narrowly focused and tended to look at issues in isolation from their wider context. For example, Improving Agricultural Marketing and Food Security Policies and Organization: a Reform Proposal (1986) essentially studied how to improve the effectiveness of ADMARC operations. In the economic work, such as the Basic Economic Report of 1981, the agricultural sector elements seem to be added on rather than integral to the study. On the other hand, the recent study Accelerating Malawi’s Growth: Long-Term Prospects and Transitional Problems provides a much more holistic and organic view of the economy. The Agricultural Sector Memorandum (published in 1995 but incorporating work over the previous four years) was a stepping stone in this direction and provides a more coherent view of the sector and its links to the wider economy than did the earlier sector studies. The latter changes, which appear to be beneficial, suggest that the increased country focus is paying off and that economic and sector work is being seen as a continual process rather than as a periodic stocktaking.

5.8 The Agricultural Sector Memorandum played a pivotal role in the Bank’s approach. By the early 1990s, and especially given the concerns about nutrition and the extensive discussions related to the ASAC, particularly involving the tobacco issues (which had also included USAID), it became clear that policy changes were required. The exercise was initiated in early 1992 and spread over two years, involving some 18 Bank staff and consultants, two workshops in Malawi with government officials and others, and extensive consultation, with the resident mission (especially its local staff in the agricultural sector) playing an active role. In addition, there was a general consultation between the government and the principal donors on these policy issues.24

24. For example, the European Union undertook a major review of fertilizer policy, the U.S. Agency for International Development undertook one on tobacco, and the African Development Bank undertook a study of smallholder credit.
This whole process provided a background to the government’s preparation of a national Agricultural and Livestock Development Strategy and Action Plan in 1994. It also straddled the credit crisis of 1992–93 and the creation of Malawi Rural Finance Company (MRFC) and the debureaucratization of smallholder credit. Policy changes might have been made anyway, under duress or otherwise. Still, the multi-donor sector dialogue clearly was an important step in the development and ownership by Malawi of a significantly different agricultural strategy, which appears to be having a clear positive impact, despite the unfavorable climatic conditions of much of the past five years.25

Box 5.1. The Quality of Economic and Sector Work

This is not easy to judge and can only really be assessed by its outcome, that is, did it correctly identify the key issues, and did the Bank (or others) follow up with interventions that helped to correct them? Thus, its assessment requires a medium- to long-term view. However, the approach a study takes to the analysis may provide some insight into its likely effectiveness. The 1982 report Malawi: Growth and Structural Change—A Basic Economic Report was a classic of its type: an extensive review of the economy that examined overall economic performance, the major sectors, population growth and human resources, and the role of the public sector. However, it did not adequately appreciate the impact of the dualistic structure of the Malawian economy, the lack of links between the small enterprise segments (including smallholder agriculture) and the commercial sectors, which provided the links to world markets, and the fact that the parastatals were not effectively bridging this gap. This omission dogged the lending program for a decade. More generally, to review this report is to feel that one has a detailed text on the anatomy of the patient, but not a great deal about the physiology. This gap made treating the identified “health” problems more difficult.

Fifteen years have passed since that report was published, and the regional political framework has changed fundamentally. The Bank has been reorganized and its perceptions of development have evolved. The most recent economic report Accelerating Malawi’s Growth: Long term Prospects and Transitional problems (1997) is a very different report. To extend the analogy, it concentrates much more on the physiology of the patient than the 1982 report. It focuses on the recent changes in the economy, the influence of external factors, and the immediate constraints to growth, including the small enterprises. Its effectiveness will only be fully revealed by time, but it appears to provide a much more holistic view of the economy and the links between sectors than was apparent before.

25. The preparation of the Agricultural Sector Memorandum had been preceded by the economic report, published in 1990, “Growth Through Poverty Reduction.” This was the first Bank report to highlight the income and poverty impact of the general constraints (direct and indirect) in Malawi on the development of small enterprises, but missed the significance of excessive agricultural taxation.
6. Sectoral Performance in the 1990s

6.1 In the late 1980s the need for policy change became increasingly obvious, but many of the provisions of the ASAC initially met resistance. The rate of change accelerated following the 1993 referendum and the resignation of President Banda. After the 1994 elections, the new government reversed many of the earlier policies and, in particular, permitted smallholders to produce all types of tobacco and market them freely. This has been a significant factor in the apparent increase in smallholder production noted in Table 2.1.

6.2 Since the early 1990s the agricultural sector has been characterized by several changes, the extent of which remains the subject of extensive debate:

(a) Smallholder production has increased substantially (see Table 2.1). This has been achieved despite variable and below-normal rainfall, increased relative prices for fertilizers, and periodic hiatuses in fertilizer supply. Available data on food crop production since 1989–90 are shown in Annex 2.

(b) Smallholder production is diversifying away from maize into a range of other food crops (primarily roots, tubers and legumes; Table 6.1), and to tobacco, where by 1996–97 nearly 200,000 smallholders are estimated to have been producing tobacco, amounting to close to 50,000 tons. This constituted more than 10 percent of value added in the smallholder sector.

Table 6.1. Share of Crop Categories in Smallholder Plantings

<table>
<thead>
<tr>
<th>Category</th>
<th>Share in 1989–91 (%)</th>
<th>Share in 1995–96 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>70</td>
<td>55</td>
</tr>
<tr>
<td>Pulses and Oilseeds</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>Roots and Tubers</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Industrial Crops</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Other Cereals</td>
<td>4</td>
<td>7</td>
</tr>
</tbody>
</table>


(c) Despite poor conditions, calorie supply appears to have increased, although maize production has decreased (Table 6.2; details of the most recent data are in Annex 2).

26. The high year-to-year climatic variability in these years and the resulting fluctuations in production make it difficult to distinguish fundamental change. The permanence of some of the changes noted below may be debatable. In particular, it has been suggested that, since mixed cropping was frowned upon in the past, the extent of intercropping may have been underestimated, and that of sole-crop maize overestimated. It is also suggested that the rate of growth of the root crops (cassava and sweet potatoes—especially the latter) may be being overestimated. Further work is needed to clarify this issue.

Table 6.2. Calorie Production and Share from Maize for Three-Year Periods

<table>
<thead>
<tr>
<th>Period</th>
<th>Calorie Production</th>
<th>Share from Maize</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>1985–88</td>
<td>99</td>
<td>78</td>
</tr>
<tr>
<td>1988–91</td>
<td>99</td>
<td>79</td>
</tr>
<tr>
<td>1991–94</td>
<td>82&lt;sup&gt;b&lt;/sup&gt;</td>
<td>75</td>
</tr>
<tr>
<td>1994–96</td>
<td>110&lt;sup&gt;c&lt;/sup&gt;</td>
<td>65</td>
</tr>
<tr>
<td>1996–98</td>
<td>125</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: Ministry of Agriculture (see Annex 2)

a. As percentage of estimated requirements
b. Two of three years abnormally dry
c. One dry year

d) These changes suggest that smallholders are shifting their production from almost exclusive emphasis on subsistence production of maize to a more flexible pattern that is responding to greater market opportunities. At the same time (Table 6.3), the smallholder subsector is intensifying—as diversification has increased the value of production per hectare—both in economic value added and in the estimated gross margin achieved by smallholders. These estimates, based on the distribution of crops shown in Table 6.1, indicate that the value of output per unit of land has increased by 20 percent or more. This should not be a surprise as it has been shown elsewhere that many, if not the majority, of changes made by farmers related to intensification involve the introduction of new activities, or the modification of existing products, rather than changes in input use designed purely to increase yield. Thus, while they obviously contribute to intensification, crop yield increases are not necessary for intensification to occur.

Table 6.3. Returns per Hectare to Smallholder Production (1995 prices MK)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added/ha</td>
<td>1892</td>
<td>2290</td>
</tr>
<tr>
<td>Net profit/ha</td>
<td>963</td>
<td>1190</td>
</tr>
</tbody>
</table>


e) The diversification of production is being supported by an expanding and integrating private marketing system. The share of fertilizer and maize handled by public enterprises has fallen sharply (Table 6.4). At the micro level, a study of traders in four predominantly retail markets indicated that the range of agricultural products traded has been increasing in recent years and suggested that the system as a whole is integrating, so that intermarket differentials are being reduced.

28. This suggests a parallel with the Nigerian experience discussed in Box 8.1. See also Charles Mataya and Osten Chulu, “Socio-Economic Impact of Policy Changes on Rural Households in Malawi.” Malawi, Bunda College of Agriculture, April 1998.

A participatory assessment of the impact of policy changes in five rural communities, carried out in March 1997, showed the local variability in this process. In one cotton-growing area, foreign buyers had entered the local market bringing significant benefits in increased product prices, quicker payment, and willingness to provide credit for inputs at reasonable cost. Elsewhere, little had changed. In an area accessible to major urban markets there had been a marked increase in the production of vegetables and other higher-value crops. Local retailers and related small businesses reported increasing local demand for consumer goods and services.

Table 6.4. Market Shares of Public and Private Enterprise

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>100</td>
<td>71</td>
<td>61</td>
</tr>
<tr>
<td>Private</td>
<td>0</td>
<td>29</td>
<td>39</td>
</tr>
<tr>
<td>Fertilizer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>82</td>
<td>51</td>
<td>30</td>
</tr>
<tr>
<td>Private</td>
<td>18</td>
<td>49</td>
<td>70</td>
</tr>
</tbody>
</table>


(f) The same participatory assessment also indicated that the impact of the liberalization on the very poor (the 50 percent or more of smallholder households with less than half a hectare and chronic food deficit) is still unclear. The production response has come largely from those households with more land, and the increased relative price of fertilizer has hit the poorest households. It is not clear to what extent this may have been offset by increased employment opportunities.

7. Current Bank Operations

7.1 Current Bank support in the agricultural sector is primarily focused in two operations, the Rural Financial Services Project (RFSP) and the Agricultural Services Project (ASP). RFSP created the MRFC\(^3\) to take over the smallholder credit programs and to provide a full range of financial services in rural areas (for farm and non-farm activities). It also provided a line of credit to support its activities, and supported a pilot program to finance women entrepreneurs. It also was designed to support the broader aim of improving the links between formal and nonformal financial sectors. Implementation performance in the RFSP to date has been satisfactory. After an early rapid expansion in lending, and some problems of repayment, emphasis has been on consolidation, and performance levels are reported to have improved. MRFC has been achieving creditable recovery rates of over 90 percent and has played a major role in financing smallholder involvement in tobacco production, although efforts to diversify lending have only borne limited fruit. It has begun to develop a small business portfolio and its agreement to work with the Small Enterprise Development Organization of Malawi (SEDOM) to use the latter’s experience in working with new, small-scale borrowers in nonagricultural activities, is a promising development. In another innovative development it is providing credit for food security clubs targeted particularly at female-headed households (Box 7.1).

7.2 The ASP is essentially a typical agricultural services operation, supporting (primarily through the MOA) agricultural research and extension, measures to improve the supply of fertilizers and seeds, and steps to strengthen the ministry.\(^3\) Its performance is more difficult to assess. The major changes that have occurred in the 1990s owe little to the ministry’s efforts; they were largely a response to changes in policies or practices that, directly or indirectly removed restrictions on the activities of smallholders or other small enterprises. The diversification that has occurred, although it appears to represent an improvement in value of output, has not been accompanied by improvements in physical productivity. Moreover, the extension service is still having little direct impact on very poor households, who have little contact with extension agents. Pilot efforts in small-scale irrigation and development of food security clubs (which have emphasized female-headed households) have been dogged by bureaucratic rigidities, particularly the inability to deliver inputs on time (see Box 7.1). On the other hand, the project has broadened the focus of its research support, and a component was introduced that is providing training, demonstration, and technical assistance to small and medium-scale agribusiness enterprises in rural and urban areas. However, the project’s efforts continue to be handicapped by the burdens of the limitations of recurrent funding, the state of rural roads, and AIDS. Recurrent funding shortages have a particular impact on transportation and the ability of supervisors and researchers to undertake field activities, thus weakening research extension linkages and support to field staff.\(^3\)

---

31. This is an autonomous, limited-liability company in state ownership. It is expected to be privatized.

32. The program continues to pursue intensification through higher yields rather than enterprise mix.

33. One common problem is that the shortage of funds makes it difficult for researchers to get to the field and visit farmers who are managing field plots. Often they only visit at planting and harvesting times. This effectively precludes discussions with the farmers on relative performance during the growing season and, therefore, effective trials on topics such as the possibilities and performance of intercrops.
About 30 percent of the rural households in Malawi are female-headed. One estimate reported that about 40 percent of these households are headed by women who have been widowed or divorced and an equal number who are married to migrant workers. The difficulty of obtaining adequate involvement of women in NRDP’s credit club-based extension programs led to efforts that targeted women through Farm Home Assistants, but these had limited success. In the mid-1980s the Bank and the U.S. Agency for International Development (USAID) made an effort to strengthen agricultural extension and research through three linked projects. A specific component for extension services directed at women was included as part of the USAID-funded Malawi Agricultural Research and Extension (MARE) project. This tripled the number of women’s clubs and switched the emphasis in extension in programs supporting them more heavily toward production. At the same time, explicit efforts were made under the Bank-supported Smallholder Agricultural Credit Project to improve the availability of credit to women through the Malawi Mudzi Fund (MMF) (cofinanced by IFAD), which specifically targeted poor households and for which more intensive back-up was provided. This effort has been continued under the ongoing Rural Financial Services Project, through the Malawi Rural Finance Company (MRFC). Virtually all the beneficiaries of the MMF were women. The aggregate impact of these efforts remained small, however, as a total of about 2,400 households were enrolled, less than 1 percent of the female-headed households.

The ongoing Agricultural Services Project and linked Smallholder Food Security Project (funded by the International Fund for Agricultural Development) have initiated a program of promotion of Food Security Clubs, which target areas with high concentrations of households with small land holdings and female heads. This effort is to provide inputs for production of hybrid maize (with credit on a group basis from MRFC), and with arrangements for club members to be registered to market burley tobacco directly, which would improve cash generation. For the past two years, however, the service has not been able to deliver the required inputs on time, so that most of the participants had to use local maize seed and keep the hybrid seed for the following season. These problems illustrate the limitations of basing efforts to assist the least advantaged on staff-intensive programs under conditions of severe resource scarcity. An approach using religious and other civic organizations, as is being expanded under the general extension program, is likely to be more productive. Also, as has been pointed out elsewhere, relatively resource-poor households potentially stand to benefit most from the improved operation of factor and product markets since this enables them to make effective use of the limited resources at their disposal. The limited impact of the efforts to assist those households through formal programs strongly suggests that the World Bank (and others) should attend to removing constraints to the operation of factor and product markets. Helping those markets to thrive would be the most effective means of increasing the benefits achieved by resource-poor households from agricultural production.

The Bank has also been assisting in the work of the Presidential Land Commission, established to review the status of existing land law and land administration, in particular identifying areas where tensions over land are rising, and means that might be used to resolve them. The commission was due to present its report in March 1998, which was intended to lead

35. David Hirschmann, “Managing equity and gender in an agricultural programme in Malawi.” Public Administration and Development, Vol. 15, pp. 21–40, 1995, notes that “Because of domestic responsibilities, rural women in Malawi tend in general to be more risk averse than men. They therefore tend to be more conservative about responding to new opportunities, such as clubs” (page 28).
to the drafting of legislation to consolidate and modernize existing legislation related to land administration and management in the coming year. In addition support is being given to a range of other efforts (such as the Malawi Social Action Fund (MASAF), the National Commission on Women in Development and the Poverty Monitoring Unit (PMU) in the National Economic Council) which are focusing on the poor who are overwhelmingly rural and disproportionately in female headed households. Work also continues on supporting analyses of the second-generation tobacco problems, and of the estate crisis, as does work with other donors and research groups on the soil fertility issue and possible follow-up.

The Country Assistance Strategy

7.4 The new CAS (currently under preparation) notes the changes that have been occurring in the agricultural sector. Many of the lessons of Bank experience in the sector are reflected in the current draft. It concludes that the key to overall growth in the economy will be the expansion of smallholder agriculture and “its byproduct of growth in trading, transport, microenterprises, and other off-farm goods and services” (para. 15), and notes that smallholder tobacco production has provided an initial impetus to this process. The CAS emphasizes the consequent importance of an integrated approach to rural development and necessity that the MOA identify those aspects of an integrated approach in which a public input is essential and concentrate on them. This review’s analysis leads to similar conclusions.

7.5 Given the current uncertainties about the food security outlook, a key element of donor support in the immediate future will be flexibility. In this regard the proposed Bank response appears to be appropriate. The principal vehicle proposed to succeed the present ASP is a modest (US$25 million) Sector Investment Program (SIP), the principal elements of which are yet to be determined. The overall country program envisages making extensive use of the new more flexible lending instruments, such as the Learning and Innovation Loans (LILs). Related to the rural sector, LILs to address the natural resource management (NRM) problem, and to support possible programs developed from the work of the Land Commission, are under discussion. Given the range of views on the nature of the NRM problem and the mixed performance of previous donor-supported operations in this area (and their tendency to be submerged in broad-based projects), an iterative approach, separated from the major sector activities, appears appropriate.

7.6 Multi-donor discussions with government have been underway since 1995 to develop a Sector Investment Program. This was conceived as a means of providing overall donor support for the sectoral strategy laid out in the 1994 Strategy and Action Plan. Ten indicative program areas were agreed and it was envisaged that donors would focus their efforts on a particular program, moving away from the geographic concentration that was a significant element of the program through the 1980s. Progress has been slow, but there is now consensus on the limited implementation capacity of the MOA and on the need for prioritizing public interventions, better defining appropriate public and private sector roles, and analyzing past, current, and projected expenditures in agriculture.


40. An Adaptable Program Loan (APL) might be a more appropriate instrument.
Summary Assessment

7.7 The findings of this evaluation indicate that a definitive assessment of the impact of the Bank’s activities in the agricultural sector is elusive. Particularly through the 1980s, much of the activity supported by the Bank trod water. It pursued generally agreed goals of assisting rural smallholder households, focusing in particular on improving food security, while trying to improve the effectiveness and efficiency of supporting services. Progress was minimal, however, both for operations on the ground and for the policy and institutional efforts supported by adjustment lending. Although everyone involved (the other donors active in the country and the government) accepted the importance of assisting the rural poor through improved food security, and of the means chosen (maize production), it was impossible to discuss alternative strategies. What made it impossible was the institutional constraints in the country, especially the authoritarian political culture, which because of the external circumstances aid donors were unwilling to challenge during most of the period. As circumstances began to change late in the 1980s, though, the Bank’s engagement permitted it and other donors to respond and assist in the formulation of a changed strategy linked to liberalization of the economy.

7.8 The success of this effort remains unclear, but the Bank was instrumental in providing a forum in which all parties could address the requirements of policy. The present government, with support from the Bank and other donors, has adopted a clearly different strategy, looking to the smallholder sector as a principal engine of growth, based on increased production for the market of a more diversified range of products, led initially by tobacco. As discussed earlier, backed by the liberalization of marketing and other changes, this process has been occurring rapidly in the past few years. As is common in these types of situations, however, detailed knowledge of the extent of these changes and of their policy implications has not kept pace. Thus there is, inevitably, considerable emphasis on anecdotal information rather than hard data as a guide to action.

7.9 Available data suggest that there has been a significant diversification of food production away from maize. Opinion ranges widely, however, on whether this is improving the overall well-being of the rural population, that is, whether the increased production of root crops and legumes is sufficient to offset the lack of growth of maize production. Rural areas continue to be characterized by pervasive poverty, and an estimated 40 percent of households do not have access to enough land to produce enough for subsistence; most also do not have stable sources of cash income with which to offset this deficiency. Such households continue not to be able to buy inputs for crop production.
8. Implications for Future Bank Operations

8.1 Given its experience in lending to Malawi's agricultural sector, and considering the current situation, several aspects of the Bank's rural development effort merit more emphasis:

- sources of agricultural data need to be improved to aid understanding of the changes that are occurring in the sector;
- agricultural extension needs to be more responsive to farmer priorities;
- income support measures for the rural poor need to be expanded;
- Malawi needs to be integrated more thoroughly into the broader southern African regional economy and the external private sector needs a larger role in developing markets for smallholder production.

Moreover, several issues need to be addressed relating to the overall strategies for smallholder and rural development and the approach to the development of small-scale trade.

8.2 The smallholder development strategy should place primary emphasis on diversification and economic rather than physical intensification. Review of the outcomes of Bank-supported extension programs in Malawi and elsewhere indicates that the principal emphasis of the effort (measures to increase output of staple commodities per unit of land) is often not attractive to farmers. These commodities, by their very nature, face a low-income elasticity of demand, so if farmers have surplus production and try to sell some of their output, prices will be low, and the incentive to repeat the effort will be minimal. The strategy adopted in Malawi was predicated on the assumption that increasing productivity for the basic staple (maize) would allow smallholders to produce their requirements on a smaller land area and free up a portion of their area for other crops for home use or sale. In practice this did not work. Especially when marketing was dominated by the ADMARC and small-scale and rural trade was handicapped, effective demand for other outputs did not exist. Thus, this approach provided no basis for increasing incomes in agriculture, which is what is required in the Malawian situation. What is needed is the opportunity to move into markets where the income or price elasticity of demand is higher, so that increased cash incomes can be achieved. In Malawi, the principal product with these characteristics is tobacco, and the smallholder response to the opportunity has been rapid.

8.3 Where low-income smallholders can produce cash crops they will still produce staple foods for much of their subsistence needs until they can be sure of obtaining them through the market. Nigeria is a country with a mixed, but generally not strong, agricultural potential and a higher population density than Malawi. A recent study has indicated that, even under the relatively unfavorable economic conditions of the past two decades, an agricultural transformation has occurred (Box 8.1). The implication for Malawi is for policy and assistance to

41. An evaluation of the impact of two area development projects in Nigeria, which focused on the introduction of small tube wells, illustrated this point. The rapid response to this technology in comparison to that of the "improved varieties" of staple crops such as millet, reflected the fact that the tube wells enabled farmers to move to new products with a high income elasticity of demand, especially vegetables, as well as enabling additional staple foods to be grown if main season production was reduced by drought.
focus on improving the potential for farmers to shift into products with a higher income elasticity of demand, such as livestock and horticultural products, or those in which Malawi faces a high price elasticity on world markets, such as tobacco. This approach would assume that increased demand for staples, primarily maize, in Malawi, would elicit a response in Mozambique. Malawians might also be informally encouraged to seek land in Mozambique.

**Box 8.1. Agricultural Transition in Nigeria**

A key issue in this assessment is whether the current development path of the sector is sustainable. What will happen over the long term following the recent liberalization of agricultural and other markets, particularly the opening up of tobacco to smallholders? A very recent study in Nigeria provides some relevant insights. This study included the resurvey of a group of farmers who had been initially surveyed by the author in 1979–80. The author notes a number of changes that had occurred over the intervening period of nearly 20 years, during which a significant liberalization of agricultural input and product markets has occurred:

- The study areas have become better linked to the market economy due to improved road connections. In spite of poor maintenance, traffic has increased substantially and all villages on roads are connected to towns and periodic markets by trucks and the ubiquitous “bush taxis.”

- Farmers have become more market-oriented and less risk averse, and farm households are relying on markets more for their daily requirements and directing more of their production toward the market. Farmers are simplifying cropping practices to release labor for other more productive tasks at critical periods of the cropping year.

- The use of animal traction has spread, and farmers now own oxen or hire them at well-established prices. This helps relieve labor bottlenecks at plowing and weeding times. This development is all the more interesting because the Agricultural Development Projects (ADPs) made little effort to promote this technology.

- Mixed cropping (rather than sole cropping as recommended by the ADPs) continues to be the norm, but practices have evolved. Change has been directed toward making cropping practices more systematic and easier to perform, particularly under animal traction.

- Although continued population growth has reduced holding sizes, the viability of small-holdings has been maintained by the development of off-farm activities at the village level (milling, food processing, bicycle and transistor repair).

In 1979–80 the ADP programs were in full swing, and fertilizers and other inputs were heavily subsidized. The farmers re-interviewed in 1997 recalled those “golden years” with fondness, but their responses made it clear that, in many respects, they are now more productive than before and living conditions have improved.


8.4 **A broad approach should be taken to rural development.** Focusing on the creation of a more facilitating environment for agricultural production would imply an emphasis on broader rural development rather than on agricultural production, particularly on including rural women in development activities and on improving the efficiency of markets and access to them through improvements in roads and reductions in operational cost of vehicles and greater access to financial services. The difficulties of doing this are illustrated by the outcome of the rural
markets component of the AMED project. A survey of traders indicated that, broadly speaking, what traders are looking for is a flexible facility and an environment that helps improve the conditions for doing business, not a single-use facility that may become obsolete. The same preferences are likely to be expressed in the agricultural sector. The lesson is that it is preferable to concentrate on supporting the basics and to allow the individual actors involved to sort out the details, but to be able to provide specific advice if it is sought. The inability of bureaucratic structures and programs to generate benefits for the less-advantaged is seen in the performance of Bank-supported efforts to target women as beneficiaries (Box 7.1). At the same time, more focus could be placed on actions that will stimulate general activity in rural areas and improve farmers' access to markets. This could be done through increased support for programs such as the MASAF, which increase resources available in rural areas to upgrade social and physical capital. This would enable the current agricultural changes to work themselves through and indicate priorities for technical support from the public sector as change continues and would imply working with several ministries besides Agriculture, such as Local Government, Commerce, Transport, and perhaps Education and Health.

8.5 Rural public works, especially of a labor-intensive kind should be seen as integral to the rural development strategy. The pervasiveness of rural poverty is at the root of the food security problem. A program that supports dispersed, small-scale public works, preferably of a labor-intensive kind and targeted at poor households, would serve the twin objectives of increasing the incomes of the rural poor and upgrading rural infrastructure and increasing accessibility to markets and employment opportunities especially in the dry season. However, such efforts should be integrated into an overall safety net strategy, which has been absent in the past. The Bank is assisting in the development of such a strategy through a Safety Net Study programmed for FY99. While MASAF could have a significant role in such a program, it would be desirable to look to other means of managing works so as to avoid overwhelming MASAF’s capacity.

8.6 High priority should be given to improving the understanding of the changes currently occurring in the agricultural sector, in particular focusing efforts in the development of improved agricultural statistics. During the 1980s, the relevance and efficacy of Bank lending was constrained by an incomplete understanding of the structure of the agricultural sector. Now rapid changes are transforming smallholder agriculture, and policymaking is again being handicapped by gaps in understanding of these changes and, among some in the policy process, by lack of confidence in existing data. Malawi has a well-established system of preparing smallholder agricultural production estimates. MOA personnel collect data in each rural development project and consolidate them at the Agricultural Development Division (ADD) level. The resulting data have been considered reasonably reliable, but under current conditions, with production patterns changing rapidly, they may be more problematic. Furthermore, with open borders and the availability of supplies from outside Malawi, internal production data may not provide a good guide for policy purposes. This type of data suffers from two shortcomings for policy and programming purposes. It tends to concentrate attention on the activities that have been most important in the past, not those that may have potential for the future, and they do not indicate the problems that farmers currently face or the extent to which the extension service and others are assisting them in solving them. At the same time, price data, which might offer some guide to market conditions and assist farmers in their production and marketing decisions, are weak. The AMED project supported an effort to expand the collection of price data by MOA, and 45 rural markets are now covered. However, these data have never been widely disseminated, although they could be valuable for farmers and traders.
8.7 The National Statistical Office of Malawi has undertaken a decennial sample survey of agriculture, in parallel with the MOA data collection efforts. The most recent was undertaken in 1992–93 and covered 12,000 households. However, use of this data for policy purposes has been restricted by the slowness of its tabulation and publication. Greater emphasis should be given to using this or similar surveys for agricultural policy and planning purposes. Such a survey allows the focus to be on household livelihoods, rather than aggregate crop areas and production, and panels could be selected for follow up to obtain information on changes in production and resource use. The use of effective samples could allow for preparation of reliable estimates of the basic production data. Used appropriately, with small modules on topics such as the farmers’ interactions with extension, production and marketing problems, and with quicker turnaround times, it could provide much more forward-looking and policy-relevant data than traditional production statistics.

8.8 Extension support should continue to increase the focus on responsiveness to farmer priorities. A shift in emphasis to focus more on diversification and market-oriented production would also require a shift of focus in extension to make it more responsive to farmer priorities. This would imply a consolidation of the extension efforts to make more effective use of the below-strength staff, with the aim of increasing flexibility, to be able to respond to demands, rather than primarily disseminating a fixed set of messages. Balcet describes the situation facing extension in Nigeria as being “one in which educated and sophisticated farmers face underpaid and unmotivated extensionists who have lost their skills and credibility” (page 412). What is required to address this condition is to focus resources on training and improved conditions for a smaller core of field staff, who are better placed to help solve the technical and management problems of farmers and who do not just see the farmers as “recipients or beneficiaries or, worse yet, as target groups to be served” (Uphoff and Fernandes, 1997). The situation in Malawi may not be as dire as this, but similar aspects are present. Consideration is being given to whether support can be given to private agencies to provide extension services under the ongoing ASP. In addition, focus on management (and related issues, such as market intelligence and how to use it) as well as technical issues, are integral to a switch of emphasis to economic rather than physical intensification.

8.9 Greater emphasis should be given to the regional aspects of agricultural development and trade. Malawi remains at the mercy of external events because of its low incomes, small economy, and lack of physical and human capital. It also has a geographic handicap that results in attenuated and costly links to significant markets and sources of supply. For the foreseeable future it will be at the margins of the regional economy of southern Africa. The Bank should ensure that any policy changes do not constrain the linkages with regional sources of supply or markets and should encourage government to see adjacent areas of the neighboring countries as Malawi’s hinterland. However, now that the civil war in Mozambique has ended, Malawi has effectively open borders, and Mozambique in particular provides an alternative source of easily transportable, staple foods, although the difference in factor proportions needs to be taken into account since the land/population ratios are sharply different. Continued market oriented diversification will also require the development of export markets. The participation of private sector organizations with links or an established presence in external markets will be essential if significant growth is to be achieved. In addition there may be prospects for additional processing in Malawi but if such investment is to be attracted, improvement of industrial infrastructure must be a short-term priority. In both these areas, the role of IFC and MIGA, which have been very limited in Malawi in the past, should be expanded.
8.10 *Marketing, input supply and rural development policies should not deter the development of small-scale trade.* The report has noted that a particular problem in the past was inadequate recognition of the implications of the economy's dualistic structure for development of small enterprise. This dampened the smallholder sector. Specifically, there is still a lack of understanding of how best to promote linkages between the larger-scale corporate sector and the small business sector. In particular, there is the balancing act between allowing small enterprise to develop, and seeking to avoid situations where inadequacies in its development may cause wider problems, such as in food supply in the deficit season. For example, where ADMARC has ceased to operate many individuals may be willing to buy during the harvest season. If they ship to town or export, there may be minimal supplies and few sellers later in the deficit season. However, having ADMARC (or its equivalent) step in to ensure supply at that point, and solve the short-run problem, may be very counterproductive in the longer term. Such a step would be expensive for ADMARC and threaten its financial viability; at the same time, it would discourage local farmers and traders from holding supplies through to the "hungry season." Eventually the system will have to swim by itself and it may be best to let it do so as soon as possible.
## Summary of Project Performance Ratings

<table>
<thead>
<tr>
<th>Project</th>
<th>Approval Date (FY)</th>
<th>Closing Date (FY)</th>
<th>Loan/Credit Amount (US$ m)</th>
<th>Overall Rating</th>
<th>Outcome</th>
<th>Sustainability</th>
<th>Institutional Development</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area Development Projects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lilongwe I</td>
<td>68</td>
<td>73</td>
<td>6.0</td>
<td>Unsatisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lilongwe II</td>
<td>71</td>
<td>76</td>
<td>7.25</td>
<td>Unsatisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lilongwe III</td>
<td>75</td>
<td>79</td>
<td>8.5</td>
<td>Satisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shire Valley I</td>
<td>68</td>
<td>74</td>
<td>3.7</td>
<td>Satisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shire Valley II</td>
<td>73</td>
<td>79</td>
<td>10.5</td>
<td>Satisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shire Valley III</td>
<td>78</td>
<td>83</td>
<td>10.7</td>
<td>Unsatisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karonga I</td>
<td>72</td>
<td>79</td>
<td>6.6</td>
<td>Unsatisfactory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karonga II</td>
<td>76</td>
<td>82</td>
<td>9.2</td>
<td>Satisfactory (PCR)</td>
<td></td>
<td></td>
<td>Unsatisfactory ((PAR))</td>
</tr>
<tr>
<td><strong>Adjustment Operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural Adj. Loan</td>
<td>81</td>
<td>83</td>
<td>45.0</td>
<td>Satisfactory</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Second Structural</td>
<td>84</td>
<td>85</td>
<td>55.0</td>
<td>Satisfactory</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Adj. Loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Structural Adj. Loan</td>
<td>86</td>
<td>89</td>
<td>80.0</td>
<td>Satisfactory</td>
<td>Uncertain</td>
<td>Modest</td>
<td></td>
</tr>
<tr>
<td>Agr. Sector Adj. Credit</td>
<td>90</td>
<td>93</td>
<td>70.0</td>
<td>Unsatisfactory</td>
<td>Likely</td>
<td>Modest</td>
<td></td>
</tr>
<tr>
<td>Entrepre. Dev. &amp; Drought Recovery</td>
<td>92</td>
<td>95</td>
<td>120.0</td>
<td>Satisfactory</td>
<td>Likely</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td><strong>Agricultural Projects linked to the Adjustment Program</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smallholder</td>
<td>83</td>
<td>88</td>
<td>5.0</td>
<td>Satisfactory¹</td>
<td>Uncertain</td>
<td>Modest</td>
<td></td>
</tr>
<tr>
<td>Fertilizer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial &amp; Agr. Credit</td>
<td>86</td>
<td>93</td>
<td>7.8</td>
<td>Satisfactory</td>
<td>Likely</td>
<td>Modest</td>
<td></td>
</tr>
</tbody>
</table>

¹: Likely to be satisfactory with additional measures to improve sustainability and institutional development.
<table>
<thead>
<tr>
<th>Project</th>
<th>Approval Date (FY)</th>
<th>Closing Date (FY)</th>
<th>Loan/Credit Amount (US$ m)</th>
<th>Overall Rating</th>
<th>Outcome</th>
<th>Sustainability</th>
<th>Institutional Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Marketing &amp; Estate Dev.</td>
<td>89</td>
<td>96</td>
<td>19.8</td>
<td>Satisfactory</td>
<td></td>
<td>Likely</td>
<td>Modest</td>
</tr>
<tr>
<td>National Rural Development Programme (NRDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NRDP I</td>
<td>79</td>
<td>86</td>
<td>22.0</td>
<td>Unsatisfactory</td>
<td></td>
<td>Unlikely</td>
<td>Negligible</td>
</tr>
<tr>
<td>NRDP III</td>
<td>82</td>
<td>89</td>
<td>6.5</td>
<td>Unsatisfactory</td>
<td></td>
<td>Unlikely</td>
<td>Modest</td>
</tr>
<tr>
<td>NRDP IV</td>
<td>83</td>
<td>91</td>
<td>10.6</td>
<td>Satisfactory</td>
<td></td>
<td>Uncertain</td>
<td>Modest</td>
</tr>
<tr>
<td>Agricultural Sector Wide Projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Agr. Research</td>
<td>85</td>
<td>94</td>
<td>23.8</td>
<td>Satisfactory</td>
<td></td>
<td>Uncertain</td>
<td>Modest</td>
</tr>
<tr>
<td>Agr. Ext. &amp; Planning Support</td>
<td>86</td>
<td>93</td>
<td>11.6</td>
<td>Satisfactory (PCR)</td>
<td>Uncertain</td>
<td>Modest</td>
<td></td>
</tr>
<tr>
<td>Smallholder Agr. Credit</td>
<td>88</td>
<td>95</td>
<td>5.9</td>
<td>Unsatisfactory (PAR)</td>
<td></td>
<td>Unlikely</td>
<td>Negligible</td>
</tr>
</tbody>
</table>

a. Prior to 1986 OED did not rate projects for sustainability and institutional development.

b. Included Credit and Supplement.

c. The same ratings were given for both the PCR/ICR and PAR.

d. The audit rated overall outcome as marginally satisfactory, but maintained the ratings for sustainability and institutional development.
MALAWI FOOD CROP PRODUCTION: 1990 - 1998* (MT)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>1,342,809</td>
<td>1,589,377</td>
<td>657,000</td>
<td>2,033,957</td>
<td>818,999</td>
<td>1,327,865</td>
<td>1,793,461</td>
<td>1,226,478</td>
<td>1,521,791</td>
<td>1,351,842</td>
<td>1,760,197</td>
<td>30%</td>
</tr>
<tr>
<td>Rice</td>
<td>43,280</td>
<td>63,175</td>
<td>23,798</td>
<td>65,360</td>
<td>41,128</td>
<td>39,073</td>
<td>72,629</td>
<td>65,700</td>
<td>72,103</td>
<td>65,702</td>
<td>72,123</td>
<td>10%</td>
</tr>
<tr>
<td>Groundnuts</td>
<td>18,574</td>
<td>31,051</td>
<td>12,060</td>
<td>30,654</td>
<td>60,864</td>
<td>40,327</td>
<td>68,718</td>
<td>104,918</td>
<td>70,850</td>
<td>110,224</td>
<td>56%</td>
<td>39%</td>
</tr>
<tr>
<td>Wheat</td>
<td>1,639</td>
<td>877</td>
<td>613</td>
<td>1,014</td>
<td>208</td>
<td>1,574</td>
<td>2,315</td>
<td>1,339</td>
<td>1,860</td>
<td>1,339</td>
<td>1,860</td>
<td>39%</td>
</tr>
<tr>
<td>Sorghum</td>
<td>15,452</td>
<td>18,557</td>
<td>3,957</td>
<td>21,591</td>
<td>16,667</td>
<td>20,990</td>
<td>54,710</td>
<td>39,514</td>
<td>45,239</td>
<td>39,516</td>
<td>45,239</td>
<td>14%</td>
</tr>
<tr>
<td>Millet</td>
<td>10,113</td>
<td>7,766</td>
<td>3,418</td>
<td>15,228</td>
<td>9,713</td>
<td>13,259</td>
<td>20,262</td>
<td>16,424</td>
<td>21,287</td>
<td>16,424</td>
<td>21,287</td>
<td>30%</td>
</tr>
<tr>
<td>Pulses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beans</td>
<td>27,638</td>
<td>38,755</td>
<td>30,341</td>
<td>45,225</td>
<td>25,169</td>
<td>22,071</td>
<td>49,574</td>
<td>52,803</td>
<td>60,151</td>
<td>53,081</td>
<td>61,367</td>
<td>16%</td>
</tr>
<tr>
<td>Pigeon peas</td>
<td>42,814</td>
<td>28,808</td>
<td>15,772</td>
<td>18,161</td>
<td>36,358</td>
<td>42,269</td>
<td>65,455</td>
<td>72,672</td>
<td>84,624</td>
<td>72,850</td>
<td>84,763</td>
<td>16%</td>
</tr>
<tr>
<td>Cow peas</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6,208</td>
<td>6,953</td>
<td>10,350</td>
<td>21,715</td>
<td>15,527</td>
<td>29,441</td>
<td>15,533</td>
<td>29,444</td>
<td>90%</td>
</tr>
<tr>
<td>Grams</td>
<td>1,945</td>
<td>2,008</td>
<td>181</td>
<td>338</td>
<td>265</td>
<td>304</td>
<td>501</td>
<td>556</td>
<td>797</td>
<td>556</td>
<td>885</td>
<td>59%</td>
</tr>
<tr>
<td>Soya beans</td>
<td>3,284</td>
<td>13,020</td>
<td>10,965</td>
<td>13,660</td>
<td>8,176</td>
<td>15,011</td>
<td>42,374</td>
<td>28,425</td>
<td>30,898</td>
<td>32,771</td>
<td>32,459</td>
<td>-1%</td>
</tr>
<tr>
<td>Dolichus beans</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>158</td>
<td>0</td>
<td>1,046</td>
<td>2,145</td>
<td>2,698</td>
<td>2,145</td>
<td>2,698</td>
<td>26%</td>
</tr>
<tr>
<td>Velvet beans</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3,187</td>
<td>5,424</td>
<td>5,424</td>
<td>3,187</td>
<td>5,424</td>
<td>70%</td>
</tr>
<tr>
<td>Ground beans</td>
<td>411</td>
<td>382</td>
<td>152</td>
<td>391</td>
<td>893</td>
<td>961</td>
<td>1,719</td>
<td>2,822</td>
<td>5,016</td>
<td>2,822</td>
<td>5,016</td>
<td>78%</td>
</tr>
<tr>
<td>interplanted</td>
<td>10,372</td>
<td>11,293</td>
<td>12,642</td>
<td>11,293</td>
<td>12,642</td>
<td>11,293</td>
<td>12,642</td>
<td>12,642</td>
<td>12,642</td>
<td>12,642</td>
<td>12,642</td>
<td>12%</td>
</tr>
<tr>
<td>Chick peas</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>307</td>
<td>17</td>
<td>710</td>
<td>1,089</td>
<td>1,089</td>
<td>1,089</td>
<td>2%</td>
</tr>
<tr>
<td>Guar beans</td>
<td>1,676</td>
<td>4,881</td>
<td>0</td>
<td>1,368</td>
<td>317</td>
<td>0</td>
<td>1,238</td>
<td>1,375</td>
<td>1,873</td>
<td>1,473</td>
<td>1,899</td>
<td>29%</td>
</tr>
<tr>
<td>Cassava</td>
<td>144,760</td>
<td>167,818</td>
<td>128,827</td>
<td>216,005</td>
<td>250,086</td>
<td>328,524</td>
<td>534,549</td>
<td>706,048</td>
<td>885,918</td>
<td>712,433</td>
<td>890,902</td>
<td>25%</td>
</tr>
<tr>
<td>S. potatoes</td>
<td>94,911</td>
<td>176,999</td>
<td>43,074</td>
<td>210,572</td>
<td>195,322</td>
<td>317,705</td>
<td>596,469</td>
<td>858,129</td>
<td>1,412,904</td>
<td>860,085</td>
<td>1,429,028</td>
<td>66%</td>
</tr>
<tr>
<td>L. potatoes</td>
<td>34,200</td>
<td>39,969</td>
<td>49,144</td>
<td>47,975</td>
<td>42,495</td>
<td>79,701</td>
<td>106,422</td>
<td>116,884</td>
<td>128,675</td>
<td>117,022</td>
<td>128,833</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Based on Crop Estimates alone: Does NOT include production on Public and peri-urban lands; production of livestock, poultry, dairy, fish, fruits, vegetables, oils; and only partial coverage of estimate and dimba production.

Source: Ministry of Agriculture and Irrigation
### MALAWI FOOD CROP PRODUCTION: 1990 - 1998* (MT)
#### MAIZE EQUIVALENT PRODUCTION

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>1,342,809</td>
<td>1,589,377</td>
<td>657,000</td>
<td>2,033,957</td>
<td>818,999</td>
<td>1,327,865</td>
<td>1,793,461</td>
<td>1,226,478</td>
<td>1,521,791</td>
<td>1,351,842</td>
<td>1,760,197</td>
<td>48.7%</td>
</tr>
<tr>
<td>Rice</td>
<td>45,914</td>
<td>67,020</td>
<td>25,247</td>
<td>69,338</td>
<td>43,631</td>
<td>41,451</td>
<td>77,050</td>
<td>69,669</td>
<td>76,492</td>
<td>69,701</td>
<td>76,513</td>
<td>2.1%</td>
</tr>
<tr>
<td>Groundnuts</td>
<td>30,795</td>
<td>51,482</td>
<td>19,995</td>
<td>52,859</td>
<td>50,823</td>
<td>50,840</td>
<td>66,861</td>
<td>113,932</td>
<td>173,951</td>
<td>117,467</td>
<td>182,748</td>
<td>5.1%</td>
</tr>
<tr>
<td>Wheat</td>
<td>1,568</td>
<td>839</td>
<td>586</td>
<td>970</td>
<td>199</td>
<td>1,506</td>
<td>2,214</td>
<td>1,281</td>
<td>1,779</td>
<td>1,281</td>
<td>1,779</td>
<td>0.0%</td>
</tr>
<tr>
<td>Sorghum</td>
<td>15,362</td>
<td>18,449</td>
<td>3,934</td>
<td>21,466</td>
<td>16,570</td>
<td>19,974</td>
<td>54,383</td>
<td>39,285</td>
<td>44,977</td>
<td>39,287</td>
<td>44,977</td>
<td>1.2%</td>
</tr>
<tr>
<td>Millet</td>
<td>9,234</td>
<td>7,091</td>
<td>3,121</td>
<td>13,904</td>
<td>8,868</td>
<td>12,106</td>
<td>18,500</td>
<td>14,996</td>
<td>19,436</td>
<td>14,996</td>
<td>19,436</td>
<td>0.5%</td>
</tr>
<tr>
<td>Total</td>
<td>1,688,157</td>
<td>2,037,425</td>
<td>908,436</td>
<td>2,550,643</td>
<td>1,304,829</td>
<td>1,961,029</td>
<td>2,598,054</td>
<td>2,599,352</td>
<td>3,356,103</td>
<td>2,740,428</td>
<td>3,616,226</td>
<td>99.9%</td>
</tr>
</tbody>
</table>

% change from previous year: 21% -55% 181% -49% 50% -11% 29% 32%

Population ('000)**: 8,774, 9,055, 9,345, 9,644, 9,952, 10,271, 10,599, 10,939, 11,289

Per capita kcal/day: 1,819, 2,127, 919, 2,500, 1,239, 1,805, 2,593, 2,246, 2,810

Per capita kg. maize equiv/yr: 192, 225, 97, 264, 131, 191, 274, 238, 297

** 1987 Census (7.98 mil.) growing at 3.2 percent annually

Source: Ministry of Agriculture and Irrigation
References

General References


Ellis, Frank, 1997 *Household Strategies and Rural Livelihood Diversification*. School of Development Studies, University of East Anglia.


World Bank Reports:

Economic and Sector Reports


———. 1990b. *Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit of SDR 52.6*
million (US$70.0 million equivalent) to the Republic of Malawi for an Agricultural Sector Adjustment Program. Report No. P-5189-MAI. Washington, D.C.


*Performance Audit Reports*


1987. *Malawi Structural Adjustment I (Loan 2026-MAI); Structural Adjustment II (Credit 1427-MAI) and Technical Assistance I (Loan 2027-MAI)*. Report No. 6833.


**Project or Implementation Completion Reports**


1990b. *Malawi National Rural Development Program (NRDP) - Phase III Project (Credit 1183-MAI)*. Report No. 8638.


________. 1997b. *Malawi Agricultural Marketing and Estate Development Project (Credit 1966-MAI).*

**Appraisal Reports**


________. 1985b. *Malawi Industrial and Agricultural Credit Project.* Report No. 5815-MAI.

________. 1987. *Malawi Smallholder Agricultural Credit Project (IDA/IFAD Credit).* Report No. 6886-MAI.


President's Reports


