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TRUE CONTRIBUTION OF AGRICULTURE TO ECONOMIC DEVELOPMENT AND POVERTY REDUCTION IN MALAWI: WHO NEEDS TO KNOW WHAT?

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The contribution of agriculture to economic development is enormous, as evidenced by the favourable direct and indirect impacts of agricultural growth and investment on Malawi's economy, in terms of national income, inflation, interest rates, exchange rates and other macro economic variables.

Following the Maputo declaration, expenditure on agriculture increased, entailing recognition by key decision makers of the true contribution of agriculture. However, more emphasis needs to be put on agriculture as a lead sector for growth and poverty reduction by both the public policy framework and civil society advocacy agenda.

Key Policy Messages

With the current mode of production – smallholder farming - agricultural investment will only contribute to growth if favourable weather conditions prevail hence the need to invest in less vulnerable means of production such as irrigation.

Dialogue is still necessary to achieve the full recognition of agriculture's potential as the lead sector for growth.

Collection and analysis of agriculture-related data needs to be improved as current statistics on the contribution of agriculture to the economy do not take into account most of the backward and forward linkages between agriculture and the rest of the economy. Without a clear understanding of agriculture's true contribution, its relevance in the economy will still be underestimated and underutilized.

Introduction

The performance of the agricultural sector has always crucial to achieving economic growth. An evidence based account of agriculture's contribution to economic growth can be deduced from improved macroeconomic performance of Malawi after the bumper harvests in years between 2006 and 2009. Malawi's economy registered a 9.7% growth in 2008, an increase by one percent point from a growth of 8.6% registered in 2007. On the other hand, when agriculture is a low priority in terms of investment like after the structural reforms of 1980's to mid-1990's. The consequences are devastating; specialist services such as research services, extension services are undermined resulting in non-decreasing levels of poverty (1998 – 2005) and productivity traps that have further constrained input and output market development.

Despite the presence of substantial evidence from research and past experiences, little evidence exists to suggest that the agriculture sector has ever been considered as a lead sector for economic growth. This paper aims at analyzing the levels of awareness in both the private and public sectors on the contribution of agriculture beyond food production to overall economic growth and poverty reduction.

Public sector awareness - Policy framework

Economic growth and poverty reduction in Malawi is guided by the Malawi Growth and Development Strategy (MGDS) in medium term. The MGDS is the overarching strategy for Malawi for the next five years, from 2006/07 to 2010/2011 fiscal years.

The purpose of the MGDS is to serve as a single reference document for policy makers in Government; the Private Sector; Civil Society Organizations; Donors and Cooperating Partners on socio-economic growth and development priorities for Malawi. Under this strategy, the economy is expected to grow at least 6% per annum with growth emanating from growth in agriculture, manufacturing, mining as well as service sectors. It recognizes agriculture as an importance sector in terms of providing employment, foreign exchange and food security. However, the strategy does not identify agriculture as the lead sector but only a potential growth sector.

As it was the case in past strategies; Malawi Poverty Reduction Strategy (MPRS), Malawi Economic Growth Strategy (MEGS) and Poverty Alleviation Program (PAP), agriculture is recognized as a priority sector but only as far as provision of food and not as a lead sector for growth.

National Resource Allocation (Budget)

Agricultural sector was treated as a number three priority in late 1990s and early 2000s hence the undermining of the specialist services such as research and extension. The recent years show increasing allocation to the agriculture sector; however the major beneficiary of the increased agriculture expenditure in the latter years is the input price subsidy programme.

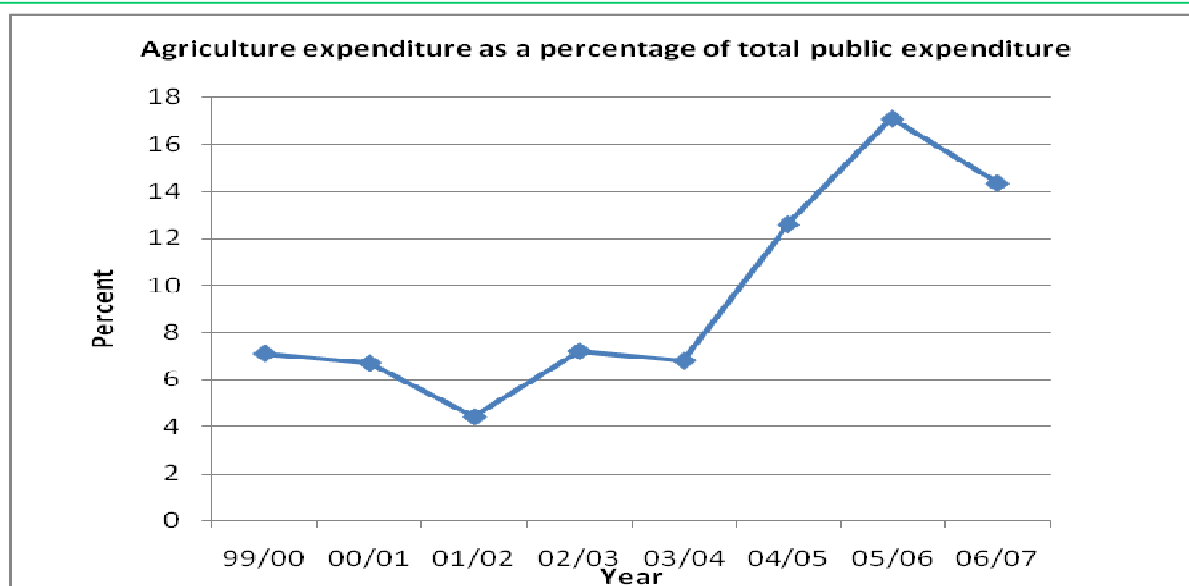


Figure 1: Agriculture expenditure as a proportion of total public expenditure

Figure 1 shows that agriculture expenditure as a proportion of total public expenditure has constantly increased since 2001/02. However, the increase observed from 2005/06 is due to the implementation of agricultural input subsidies which accounted for around 5% of the total budget in 2005/06. Otherwise, the growth in expenditure on other expenditure items has been decimal. The agriculture budget is comprised of two comparing recurrent expenditures against development expenditures, the analysis shows that recurrent expenditures have hovered around 73% against 27% for development. The lack of a sustainable approach to agriculture development seems to suggest that agriculture is still being used to meet the short term food requirements of the country but to improve its performance and achieve economic development.

Private sector awareness - Civil society position

Civil society advocacy and contribution to economic management in Malawi is spearheaded by the Malawi Economic Justice Network (MEJN). MEJN is a coalition of more than 100 civil society organizations, which have activities in the field of economic governance. Its memberships include NGOs, Community Based Organisations, Trade Unions, representatives of the Media, the academia, among others. In the citizen manifesto of 2004 and the people's manifesto of 2009 the civil society reiterates the need to raise agricultural productivity.

Agriculture shall be a priority for government budgeting in order to achieve food security. Improving national productivity requires promotion of value adding processing of raw materials and provision of incentives specifically aimed at encouraging Malawians to venture into manufacturing and promotion of foreign direct investment, facilitating access to capital through lowering interest rates and provision of micro credit at community level and enhancement of the skills base of the economy through expansion of business financial establishment (MEJN, 2009). This entails that in terms of economic growth and poverty reduction the two manifestos emphasize on prudent management of macro-economic variables to facilitate the development of the manufacturing sector as a lead sector for growth.

POLICY RECOMMENDATIONS

The contribution of agriculture to economic development is enormous, evident by the favourable direct and indirect effects of agriculture growth/investment on national income, inflation, interest rates, exchange rates and other macro economic variables. However, national statistics do not reflect all the backward and forward linkages that agriculture has with other sectors. Despite evidence of success in Malawi and elsewhere, on using agriculture for economic development, caution must be exercised in selecting the strategy for channelling investment in agriculture as past strategies in Malawi (such as the target Input Programme (TIP) from 2000 to 2004) did not achieve any significant results towards economic development. Largely because agriculture is also affected by rainfall patterns because of the over dependence on rain fed agriculture.

However, agriculture in Malawi has inherent potential to grow with most of the crop yields falling far below potential.

Following the Maputo declaration, expenditure on agriculture increased entailing recognition by key decision makers of the true contribution of agriculture. However, emphasis has not been put on agriculture as a lead sector for growth and poverty reduction by both the public policy framework and civil society advocacy agenda. However, in terms national budgets, agriculture now a priority receiving the largest share but it is mostly recurrent and not development expenditure suggesting that the contribution of agriculture to economic development in medium term to long term is not the focus of government.

Results also indicate with current mode of production agriculture investment will only contribute to growth if favourable weather conditions prevail hence the need to investment in less vulnerable means of production such as irrigation.

Dialogue is still necessary to achieve the full recognition of agriculture not only as a vital sector in economic development but its potential to be the lead sector for growth.

Current statistics on the contribution of agriculture to the economy do not take into account most of the backward and forward linkages that agriculture has with the rest of the economy. Without a clear understanding of agriculture's true contribution its relevance in the economy will still be underestimated and underutilized therefore, there is need to improve on data collection.

Figure 1: Public expenditure priorities

Year	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
1996/97	Education	Health	Agriculture	Roads	
1997/98	Education	Health	Agriculture	Roads	
1998/99	Education	Health	Agriculture	Roads	
1999/00	Education	Health	Agriculture	Roads	
2000/01	Education	Health	Agriculture	Water & Sanitation	
2001/02	Health	Education	Water & Sanitation	Community Services	Agriculture
2002/03	Education	Health	Agriculture	Water & Sanitation	Roads
2003/04	Education	Health	Agriculture	Water & Sanitation	Roads
2004/05	Education	Health	Agriculture	Transport	
2005/06	Agriculture	Information & Tourism	Trade & Private Sector Development	Water & Sanitation	Industry Science & Technology
2006/07	Agriculture	Transport Infrastructure	Energy	Rural Development	

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About FANRPAN

The Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) is an autonomous regional stakeholder driven policy research, analysis and implementation network that was formally established in the Southern Africa Development Community (SADC) in 1997. FANRPAN was borne out of the need by SADC governments who felt that comprehensive policies and strategies were required to resuscitate agriculture. FANRPAN is mandated to work in all SADC countries and currently has activities in 13 Southern African countries namely Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

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