Contents:

- Investing more in agriculture will boost Malawi’s economic growth
- Input subsidies programme benefits more households in Malawi
- Technology and investment will drive Mozambique’s agricultural “Green Revolution”
- Social Accounting Matrix, a correct measure for the true value of agriculture

Investing More in Agriculture Will Boost Malawi’s Economic Growth Says Study

With adequate investment and strengthening of production linkages, Malawi’s agriculture can drive economic growth and reduce poverty, says a study commissioned by the Food Agriculture and Natural Resources Policy Advocacy Network (FANRPAN).

While Malawi has prioritised the development of agriculture, allocating it more than 14 percent in its national budget annually, it still has to position it as a long term growth sector, according to the study report, *True contribution of agriculture to economic development and poverty reduction in Malawi*. The report presented at the 2009 FANRPAN regional stakeholders’ dialogue held in Maputo, Mozambique from 31 August to 2 September 2009, found that Malawi had increased its expenditure on agriculture after the 2004 Maputo Declaration under which governments in Africa committed to developing agriculture as a vehicle for economic growth.

“Following the Maputo Declaration, expenditure on agriculture increased entailing recognition by key decision makers of the true contribution of agriculture”, the report said, noting though that there has been no emphasis on agriculture as a lead sector for growth and poverty reduction in the public policy framework and civil society advocacy agenda in Malawi.
“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”, said the report.

As a result of implementing the Agricultural Input Subsidy Programme (AISP) Malawi has had bumper harvests for three successive years. During the 2005/2006 crop season, Malawi realized a food surplus of over 500,000 metric tons. In 2006/2007, the food surplus amounted to 1.3 million metric tons over and above the national food requirements. Malawi is now able to export grain to countries in Southern Africa.

In Malawi, agriculture has had positive impacts on the economy because growth in the sector has increased rural demand for consumer goods and services from outside.

Malawi’s economy has steadily grown over the past three years largely due to an increase in agricultural production resulting from good weather conditions and the improved access to farm inputs.

In 2008, Malawi’s economy registered a 9.7% growth, an increase of a percent point from a growth of 8.6% registered in 2007. This was attributed to high production in the agricultural sector but also increased performance in other sectors such as mining and quarrying, manufacturing, wholesale and retail, information and communication and electricity and water also contributed to this sound performance in 2008. The Ministry of Development Planning and Cooperation (2009) Annual Economic Review says Malawi’s economy is projected to grow by 7.9% in 2009.

As a result of an increase in maize production in Malawi - thanks to the AISP - there has been a fall in food prices and this has also led to a slowdown in overall inflation since 2006. The AISP largely financed by government constituted 6.2 per cent of the national budget in 2007/08 and one of its implications was the crowding out of private sector in financial markets which would normally have increased interest rates through government borrowings. However, since 2000 the base lending rate has been on the decline in Malawi as an indirect result of the subsidy and high crop production that also resulted in low inflation. Furthermore, there were direct and indirect benefits for the beneficiaries of the AISP.

Despite agriculture having massive potential to improve the economy, the report noted that agricultural production in Malawi and other sub Saharan countries was associated with high risk, which had to be reduced for consistent and positive contribution of the agricultural sector to the economy.

Part of the risk mitigating strategies included increasing investment in irrigation programmes because Malawi was dependent on rain-fed agriculture which was affected by rainfall patterns.

According to the report, with the current mode of production, agricultural investment in Malawi will only contribute to sustained growth if favourable weather conditions prevailed. Negative or meagre economic growth rates were registered in the years 1980, 1992, and 1994 and in the early 2000s, the same years, characterized by low and erratic rainfall. As a result, Malawi needs to shift from almost total dependence on rain-fed agriculture to increasing the proportion of irrigated fields. Malawi has implemented several initiatives such as the Irrigation and Rural Livelihoods Agricultural Development project (IRLAD) to increase the hectares of land under 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,” the report said adding that, “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.”
A 2004 study by the Inter-American Institute for Cooperation on Agriculture (IICA) indicated that to measure the “real value” of agriculture to economic development, traditional methodology should include the growing demand for environmental goods and services from urban centres to rural areas. In addition, account must be taken of agriculture’s effects on income distribution among rural and urban dwellers to evaluate the impact of agriculture on poverty alleviation strategies.

Input Subsidies Programme Benefits More Households in Malawi

While helping address the food crisis, Malawi’s Agriculture Input Subsidy Programme (AISP) has also boosted household incomes, increased the adoption of technologies and improved land use.

In the 2005 the government of Malawi, acting against the advice of the Breton Woods Institutions, introduced a programme to give farmers subsidized inputs such as seed, fertilizer and agro chemicals as an intervention strategy to boost agricultural productivity and food security.

The strategy paid off. Malawi has enjoyed successive bumper maize harvests and turned from a perennial food importer to a bread basket over the last three years.

For example, the proportion of maize area planted under hybrid seed per year doubled between 2004 and 2008.

Malawi has been producing surplus quantities of maize ranging from 300,000 metric tonnes (MT) to 500,000 MT per year.

Malawi proved that concerted investment to improve seed security for the smallholder sector can significantly improve household food security.

Several microeconomic effects on poverty levels have been linked to the agriculture input subsidies.

Access to subsidized agricultural inputs resulted in a number of benefits; additional income resulting from money that could otherwise have been spent on inputs, increased crop production emanating from use of inputs and additional income arising from the sale of vouchers.

In addition, a 2008 SOAS Evaluation of the 2006/7 Agricultural Input Subsidy Programme noted that the AISP had the direct impact of increasing households access to cash. This resulted in other types of investments.

“Households now have money from the sales or indirectly from cash that would otherwise have been spent on fertilizer,” the report said, adding that, “There are also investments in productive assets in the short term such as purchase of small livestock.”

In addition, the AISP increased the use of technologies - including fertilizer and hybrid seeds. Households were increasingly exposed to examples of how technology can work and they adopted it with enthusiasm. In some districts of Malawi, farmers adopted other changes in their cropping systems.

The report also noted a change in attitudes of farmers towards their land as a result of the AISP. Feelings of hopelessness have been replaced by confidence and enthusiasm about households’ own capacity to be more productive and increase the potential to earn income from agriculture. Intra-household disputes are fewer and there has been wide anecdotal evidence of increased social capital.

The AISP was largely financed by the Government of Malawi.

In 2005/06 fiscal year, the government spent MK6.9 billion on the subsidy programme, which was 45 per cent above the budgeted level. In 2006/07 and 2007/08 fiscal budget, the subsidy accounted for 45 percent and 51 per cent of the Ministry of Agriculture and Food Security budget respectively.

Malawi’s success story in food production was celebrated during the 2008 FANRPAN Regional Policy Dialogue held in Lilongwe, Malawi from 2-5 September 2008. The annual policy dialogue brought together more than 200 delegates comprising farmers, government officials, the private sector, NGOs, donors, researchers and the media. The four-day Policy Dialogue had the theme, “Strategies for Addressing the Global Food Crisis” and was held at a time Southern Africa grappled with food shortages and high prices of food which triggered social unrest in some countries.
Technology and Investment Will Drive Mozambique’s Agricultural ‘Green Revolution’

Adopting new farming techniques and improved inputs will accelerate Mozambique’s agricultural ‘Green revolution’ which helped reduce poverty and malnutrition by 15 percent in the last five years, says a national study on the agriculture sector.

A study, The True Contribution of Agriculture to the Economic Development of Mozambique, commissioned by the Food Agriculture and Natural Resources Policy Advocacy Network (FANRPAN) identified technology adoption and value addition as opportunities to boost agricultural productivity.

Presenting the study at the 2009 FANRPAN regional stakeholders’ dialogue held in Maputo from 31 August to 2 September 2009, the Director for Academic Reform and Regional Integration at the Eduardo Mondlane University, Professor Firmino Mucavele, said Mozambique was endowed with natural resources, including numerous fertile agro-ecological zones, but only 10 percent of its 36 million arable hectares of land were cultivated. The country has 104 river basins, 20 million hectares of forests, and a long coast line with three major ports. It is estimated that about 3.3 million hectares of land can be irrigated, but at present only about 50,000 hectares of land are under irrigation.

President Armando Emilio Guebuza -- who received the 2009 FANRPAN Food Security Policy Leadership Award for spearheading his country’s Green Revolution -- has prioritised agriculture as the basis for national development. In 2007, agriculture contributed 27.4 percent of the GDP.

In accepting the FANRPAN Food Security Policy Leadership Award, the government of Mozambique agreed to increase investment in agriculture from the current 8% to 10% and to increase the use of fertilizer per hectare as well as productivity per hectare. FANRPAN has committed to supporting Mozambique in domesticating its seed policy and implementing the Women Accessing Realigned Markets (WARM) project as a way of increasing women’s access to produce markets.

Mozambique has made impressive gains in restoring food production, making it self-sufficient in terms of grain production with the exception of wheat and rice. However, the growth has been affected by poor infrastructure and natural disasters such as floods and droughts.

In 2008, Mozambique approved the Food Production Action Plan, a three-year implementation plan of the green revolution to reduce the deficit in food production. Over US$30 million was set aside for seed and fertilizer distribution and the government was promoting partnership between the private and the public sectors to widen the seed programme.

The Food Production Action Plan complements the Programme for the Reduction of Absolute Poverty (PARPA) launched in 2000 as a strategic framework for sectoral work, including agriculture. As it evolved, PARPA shifted from a short to a medium- and long-term focus to promoting fast, widespread growth as the best way to uplift Mozambique’s poor.
are capable of raising agricultural productivity by 67%.

The study found that agro-dealers in Mozambique lacked capital to purchase agricultural inputs, particularly fertilizers and improved seed. Due to lack of collateral, agro-dealers in the country's districts were not able to access bank loans. Besides, there were few microfinance institutions operating in the districts, and the existing ones financed the purchase of agricultural products and not inputs.

Mozambique approved the New Green Revolution Strategy (GRS) in 2007 to increase overall agriculture production and the productivity of smallholder farmers. The strategy sought to promote sustainable use of the natural resources and improve access to new technologies, market, information, training and financial services by smallholder farmers.

"There is a lack of financing in agriculture due to concurrent natural crop diseases and disasters as well as livestock diseases including foot and mouth and Newcastle disease outbreaks," said Prof. Mucavele, who highlighted that low returns in agriculture and weak capital markets were a drawback to investment in agriculture.

According to the study many farmers in Mozambique faced problems in accessing local and international markets, while climate risks and uncertainties associated with inefficient production processes further hampered agricultural viability.

Maize was the most important cereal crop grown in Mozambique, ranking first in terms of number of producers, area grown and total production.

Since 1997, Mozambican imports of maize and maize meal have averaged approximately US$4 million annually. Studies estimate that using improved seeds and farming methods can double Mozambique’s yields per hectare, from 800 kg/ha to 1,600 kg/ha. Cotton is the country’s most important cash crop. Exports exceeded $20 million in four of the last five years accounting for as much as 30 percent of Mozambique’s agricultural exports.

"The current sources of agricultural growth are not sustainable. Without close attention to the use and adoption of improved agricultural technologies, production growth may slow and rural poverty will remain widespread," the study said.

Mozambique exports of citrus, especially grapefruits and lemons have declined and there is need to explore opportunities of exporting citrus concentrate to take advantage of a new 25-percent margin of preference phased into the South African market in 2004. Despite producing pineapples, Mozambique was not exporting the fruit which now enjoyed a 20-percent margin of preference in the Southern Africa Customs Union (SACU) market.

In a success story, local banana producers who have failed to sell their produce to a South African supermarket group, have since established a brand, Sweet Mozambique, and displaced South African imports in Maputo. The producers have proved they can deliver on the quality and quantities needed locally and have set their eyes on exporting Mozambican superior bananas to the South African market.

However, Mozambique’s livestock sector has not thrived owing to a combination of constraints such as poor rain seasons, overgrazing, high feed costs, disease outbreaks and substantial capital required in cattle production.

Prof. Mucavele said there was evidence that crop diversification was a coping mechanism for a majority of smallholder farmers in Mozambique.

From 1995 to 2005, the mean number of crops almost doubled from 5 to 9 per household across all income groups; especially with food crops given that smallholders farmers practiced rain fed agriculture. A limited number of smallholder farmers used drought-resistant varieties or had access to improved seeds.

"Although constraints exist, Mozambique possesses the fundamentals to realize its considerable agricultural potential. The Government of Mozambique is committed to rural growth and development, however, the potential can only be achieved through public-private partnerships in which the Government provides an enabling environment and the private sector assumes the risks and reaches out to rural areas”, the study noted.

The study concluded that poor roads, low markets penetration and unexploited irrigation potential were key constraints to agricultural development in Mozambique. In addition, key infrastructure such as power and telecommunications were poorly developed, especially in rural areas, as were irrigation facilities. “Food security is still a concern for rural households given Mozambique’s vulnerability to the vagaries of climate,” said
Prof. Mucavele adding that, “The Government should continue to ensure that its food aid policy does not undermine domestic production incentives while instituting monitoring mechanisms that enable it and donors to respond quickly during emergencies.”

Prof. Mucavele said there was evidence that crop diversification was a coping mechanism for a majority of smallholder farmers in Mozambique. From 1995 to 2005, the number of crops planted almost doubled from 5 to 9 per household across all income groups; especially with food crops given that smallholders farmers practiced rain fed agriculture. A limited number of smallholder farmers used drought-resistant varieties or had access to improved seeds.

“Although constraints exist, Mozambique possesses the fundamentals to realize its considerable agricultural potential. The Government of Mozambique is committed to rural growth and development, however, the potential can only be achieved through public-private partnerships in which the Government provides an enabling environment and the private sector assumes the risks and reaches out to rural areas”, the study noted.

The study concluded that poor roads, low markets penetration and unexploited irrigation potential were key constraints to agricultural development in Mozambique. In addition, key infrastructure such as power and telecommunications were poorly developed, especially in rural areas, as were irrigation facilities.

“Food security is still a concern for rural households given Mozambique’s vulnerability to the vagaries of climate,” said Prof. Mucavele adding that, “The Government should continue to ensure that its food aid policy does not undermine domestic production incentives while instituting monitoring mechanisms that enable it and donors to respond quickly during emergencies.”

Social Accounting Matrix, a Correct Measure for the True Value of Agriculture: Lessons from the Caribbean

Despite its huge potential to drive economic and national development, agriculture has remained undervalued because the tools used to assess its contribution do not capture the forward and backward linkages within the sector.

In a paper presented at the 2009 FANRPAN Regional Dialogue held in Maputo, Mozambique, Dr Francis Asiedu, Technical Services Manager at the Caribbean Agricultural Research and Development Institute (CARDI) said the importance attached to agriculture by the public and by governments was weak in most developing countries. He attributed this to the perception that agriculture did not contribute much to the GDP.

Dr Asiedu said the contribution of agriculture to nation building was measured by an agricultural GDP that is generally low.

Therefore, it was difficult for agricultural practitioners to successfully seek the necessary resources, garner political will and support. Therefore, agriculture players need to adopt strong advocacy skills if the value of agriculture was to be realised.

The World Bank in its World Development Report, 2008, highlighted the importance of agriculture as a key driver in sustainable economic, social and environmental development, stating that, “In the 21st century, agriculture continues to be a fundamental instrument for sustainable development and poverty reduction.”

In demonstrating the real contribution of agriculture to economic development, Dr Asiedu cited a 2004 study conducted by the Inter-American Institute for Cooperation and Agriculture covering 11 countries. The study, “More Than Food on the Table: Agriculture’s True Contribution to the Economy” has attempted to show the real value of agriculture through Social Accounting Matrices (SAMs). The matrices offer an accounting framework that makes it possible to examine the structural links between production, consumption, trade, accumulation and distribution of income in agriculture. The matrices can also be used to develop economic models that simulate the impact of public policies and other changes in the economy. Using the matrix increased the value of agricultural production seven fold.
The SAMs revealed that as economies developed and diversified, the primary agricultural sector lost importance in terms of GDP but developed strong linkages with the rest of the economy. Agriculture has strong backward and forward linkages within and outside of the sector, supports and promotes the development of rural areas and also exhibits strong multiplier effects with other economic sectors.

“Agriculture’s performance and its contribution to our countries’ economic development has traditionally been undervalued, since it is measured using information about harvests and the sale of raw materials, mainly crops and livestock,” the study found. “As a result, the backward and forward linkages with agro-industry, the services and trade sectors, and, in general, the rest of the economy, are undervalued. The value added generated by these linkages throughout the economy does not appear in the basic agricultural statistics of most countries.”

According to the study the methods traditionally used to measure agriculture’s contribution have overlooked its role in meeting the growing demand for environmental goods and services from urban centres. In addition, agriculture was an economic bridge between rural and urban areas through the provision of food, work and natural resource services.

Dr Asiedu said to properly measure agriculture’s performance and contribution; account must be taken of its effects on the distribution of income among rural and urban households, wage earners and owners.

“This is key to evaluating its impact on poverty alleviation strategies and, in particular, on the livelihoods of rural dwellers,” said Dr Asiedu. “This importance of agriculture as a key development driver must be kept foremost in mind when planning the repositioning of agriculture which requires human, technological and financial resources.”
Disclaimer: The work reported in this publication was made possible through support provided by the Regional Center for Southern Africa, U.S. Agency for International Development, under the terms of Cooperative Agreement No. 690-A-00-05-00185-00. The opinions expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Agency for International Development.

This document has been produced with the financial assistance of CTA. The views expressed herein are those of the author(s) and can therefore in no way be taken to reflect the official opinion of CTA; representative of FANRPAN or of the cosponsoring or supporting organisations.

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.