

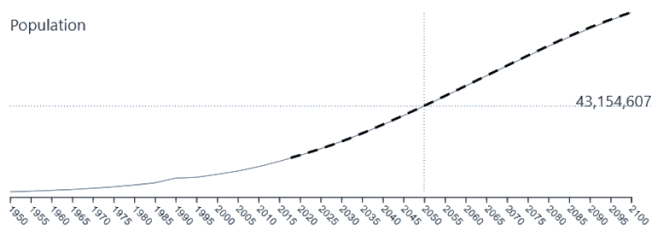
Malawi's Challenging Employment Landscape: Any Signs of Structural Transformation? Synopsis

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1. BACKGROUND

Malawi's population is growing rapidly. Malawi's population is 17.6 million people according to the September 2018 Census (NSO 2019) and is projected to reach 43.2 million by 2050 (see Figure 1, below). Malawi has also one of the youngest age structures in the world with 44 percent of the population under the age of 15, and 34 percent between 15 and 35 years old (NSO 2019).

Figure 1. Population projections in Malawi



Source: www.populationpyramid.net/malawi/2050/ (accessed April 28, 2019); based on the United Nation's Statistic Division's median growth scenario; using 2008 Census data; dotted lines are projection estimates)

More than four-fifths (84 percent) of Malawi's population lives in rural areas. The country remains one of the 20 world economies most dependent on agriculture, which contributed 26 percent of Malawi's total gross domestic product in 2017 (World Bank 2019). While this share has fallen over the last 50 years and the services sector has grown significantly over the past 20 years and a small manufacturing sector has developed, agriculture remains central to most economic production.

Estimates from the Integrated Household Survey (IHS) 4 indicate that 88 percent of employed people worked in agriculture in 2016/17. Rising population figures exert pressure on natural resources and lead to shrinking farm sizes. Mean farm size in Malawi now is around 0.6 hectares per household, although half of the population cultivates 0.45 hectares or less. (IFPRI 2018; NSO 2010). Therefore, the growing youth population amplifies the need for development of larger non-farm sectors—that is, structural transformation of the economy away from agriculture—to create new employment opportunities.

Furthermore, Malawi's youth—especially females—are becoming more educated, a trend that started with the launch of Malawi's free primary education program in 1994. Years of education completed for youth between 15–24

years of age increased from 5.0 years in 1998 to 7.3 years in 2016. These factors indicate that more and more Malawians, especially young and educated ones, will seek sustainable livelihoods and brighter futures for themselves and their families in coming years. How, if at all, can the agricultural and rural economy support this growing need?

This policy note examines employment patterns for evidence of the extent to which a structural transformation is underway in Malawi. We explore whether Malawi's labor force shifted out of the subsistence agriculture sector and into the industry and service sectors. To better understand the role of the large youth population in structural transformation, we assess the extent of youth employment in agriculture and in services, and the factors shaping their choices. We conclude with a discussion of how policy can support transformation and job creation for youth.

2. METHODOLOGY

Our study analyzed three rounds of Malawi's Integrated Household Survey (IHS) series, IHS2 (2004/05), IHS3 (2010/11), and IHS4 (2016/17) to identify changes in patterns of employment for individuals of working age (Box 1).

Box 1: Employment and age categories

Economically active

Employed: persons working for pay or self-employed during the reference period

Unemployed: persons lacking employment, but actively seeking opportunities for employment and currently available to start work during the reference period

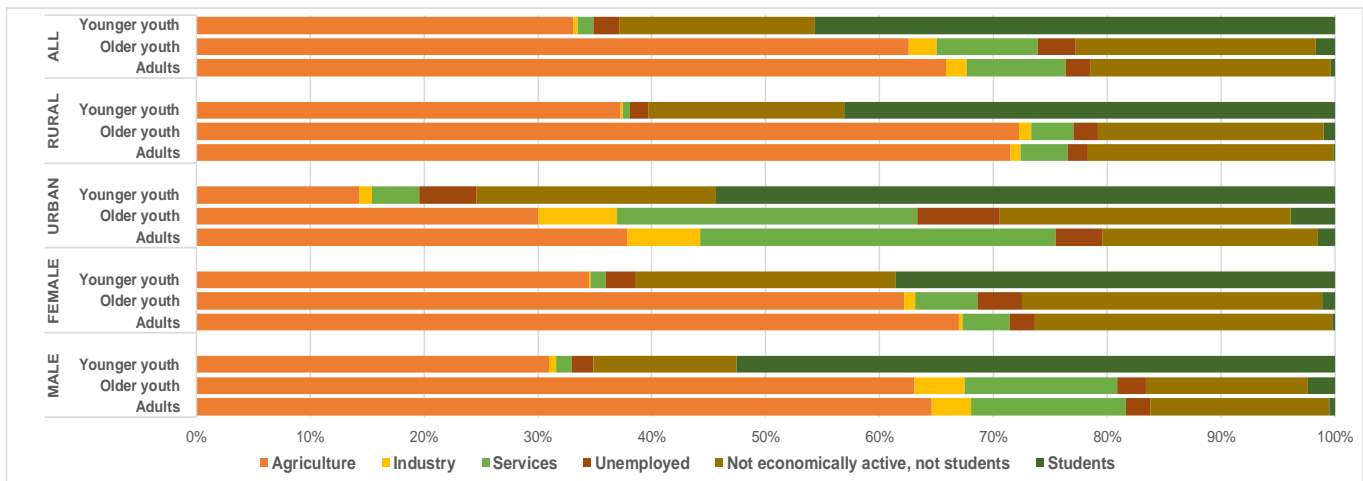
Economically inactive

Persons not engaged in economic activities nor actively seeking employment during the reference period

Working age:	15–64 years
Younger youth:	15–24 years
Older youth:	25–34 years
Adults:	35–64 years

The study is primarily a descriptive analysis of the data, beginning with an examination of the structure of employment in 2016 for people aged 35–64 years. We then examined how employment patterns have changed using data from the two prior IHS surveys, focusing on the compound annual growth rate of employment.

Figure 2. Size of employment categories by age cohort, percentage share of population, 2016–2017



Source: Analysis by authors of IHS4. Weighted analysis.

Notes: Younger youth: 15–24 years; Older youth: 25–34 years; Adults: 35–64 years

Finally, we conducted a multivariate analysis, using a logit regression model followed by a multinomial logit model of the factors associated with an individual’s specific pattern of employment, including age, education, household assets, access to markets, and ethnicity.

3. RESULTS

The descriptive analysis provides a snapshot of the distribution of employment and the change that has occurred since 2004. The models contribute to our understanding of the factors determining whether an individual is economically active or not (Box 1), and the sector(s) of employment for those employed.

Structure of employment

Agricultural employment clearly dominates across demographics (Figure 2). Of all older youth and adults, over 60 percent work in agriculture. Students form the largest part for the younger youth group and most members of this age group who are not students work in agriculture. Across all age groups, women are slightly more likely than men to work on-farm. Agriculture is the default employment category for all, including those residing in urban centers. The share of each group employed in industry and services is relatively small compared to agriculture. Not surprisingly, in cities and towns, more people work in non-farm sectors, and particularly in services.

Over a third of the working-age population is economically inactive, primarily younger youth, women, and urban dwellers. More than two-thirds of younger youth are students (and therefore classified as economically inactive). Women are more likely than men to be economically inactive, reflecting maternal responsibilities, particularly for older youth. Urban dwellers are more likely to be economically inactive than rural residents. This might reflect the greater barriers to employment in towns and cities, where opportunities for obtaining work (particularly formal employment) remain quite restricted.

Overall employment in the agriculture sector, in terms of number of individuals employed, remained relatively stable from 2004 to 2016.

Employment in the industrial sector declined, and growth in the service sector was modest, with no evidence in growth of higher productivity jobs.

Employment fell across all sectors for younger youth. Forty-five percent of younger youth remained as students and delayed entry into the work force. The greatest increases in those attending school were younger youth in rural areas and among females. However, educational attainment levels differ between rural and urban younger youth, with urban youth going on to secondary and higher education more than those in rural areas. The number of older youths working in services increased. Older youth tend to live independently, and about 88 percent of older youth are household heads or spouses.

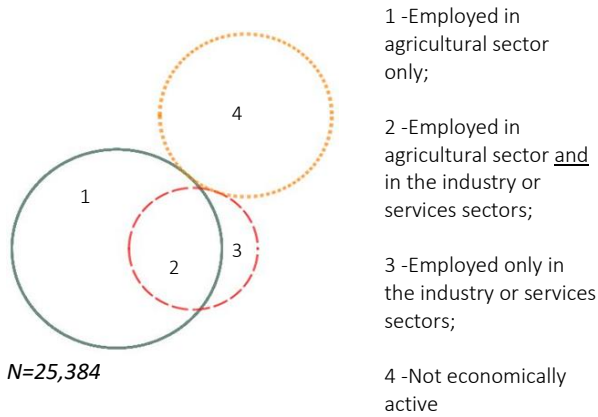
Many have higher educational levels than their elders in the non-youth age cohort, providing them with skills that could be used in the services sector. However, the largest growth in employment in services was among adults, suggesting that financial capital accumulation over time may have been a more important factor than education in enabling individuals to find employment in the services sector. In contrast, employment in the industrial sector declined between 2004 and 2016.

Overall, there is little evidence of a structural transformation in Malawi’s economy or of youth being in the vanguard of any changes in cross-sectoral patterns of employment.

Determinants of employment

Our models allowed us to examine the factors shaping employment choices, and to consider individuals working in more than one sector. We looked specifically at employment in agriculture, in informal household services, and in non-farm formal employment. Figure 3 provides a graphical representation of employment in the various categories and illustrates how employment across sectors overlaps. The dominance of exclusive agricultural sector employment is apparent.

Figure 3. Venn diagram of the relative sizes of the employment categories for IHS4 working-age sample



Source: Analysis by authors of IHS4.

Who is economically active?

Our analysis found that men of working age are significantly more likely to be economically active than women. Younger youth, ages 15–24 years, are significantly less likely to be working than adults. This is expected, given that younger youth are still completing their education. Older youth, ages 25–34 years, are more likely to be economically active than adults, except for those working in the household enterprise. Dependent individuals are much less likely to be economically active than household heads or their spouses.

What determines who works outside of agriculture?

In terms of the sector in which people work, men are more likely than women to combine agricultural work with non-farm work. Furthermore, men are more likely to work exclusively in a household enterprise. Employment outside of agriculture is strongly associated with educational attainment—workers who have completed primary education are about twice as likely to have non-farm work. However, younger youth work predominantly in agriculture, suggesting they cannot readily work outside of agriculture when they enter the labor force. It is only later in life that Malawian workers, primarily men, are likely to obtain employment outside of agriculture, particularly in the services sector. There is also a strong association between the level of household wealth (proxied by the quality of housing) and engagement in non-farm employment. This again points to capital or other financial hurdles restricting working age people from poorer households obtaining non-farm employment.

Given the customary land tenure system that provides access to land for almost all Malawians, agriculture is the default employment option for all, including many urban dwellers. However, household enterprises in the industry and service sectors and wage employment are strongly associated with smaller landholdings. This suggests that declining landholding size, driven by population pressure, may be a significant push factor towards non-farm wage labor.

What other factors play a role?

While agro-ecological potential does not have much overall impact on employment choice, residence in the Lakeshore zone, which experiences more erratic or lower

rainfall and is subject to more weather-related shocks does result in a lower likelihood of combining agriculture with wage employment in the industry and service sectors. The variables on market access (travel time) to small (population of at least 5,000) and large (more than 50,000 people) urban centers provide contrasting results. Increasing distance to small urban centers increases the likelihood to engage in non-farm activities. On the other hand, travel time to large urban centers reduces the probability of non-farm employment. The association of travel time to smaller population centers on the employment choices of individuals located close to them calls into question whether these smaller towns have much of a role to play in changing employment patterns in Malawi.

Finally, recent economic shocks are positively associated with engaging in non-farm employment. This may be a result of the economic costs of such shocks (in particular ill-health) driving household members to seek non-farm employment (Kochar, 1995). In contrast, workers residing in communities that experienced drought in the last five years are no more likely to engage in non-farm employment either exclusively or in combination with farming. This result reflects the limited employment opportunities and general economic downturn following the poor harvests of 2015/16 and 2016/17.

4. REGIONAL PERSPECTIVE IN AFRICA

Malawi's employment landscape fits well into the wider African context. In a forthcoming edited book, Mueller and Thurlow (eds.) analyze the role of youth in structural transformation of African economies using five case studies from Ethiopia, Ghana, Malawi, Senegal, and Tanzania. Overall, they note that while Africa's populations are urbanizing, and its economies are growing, there has not been a major shift towards high value manufacturing. Structural change in Africa is rather driven by workers moving out of agriculture into informal services, particularly small-scale retail trade. However, as urbanization is more advanced in other countries than Malawi, movements into informal services are faster in the other four countries.

In general, African agriculture is transforming slowly. Agricultural land and labor productivity are growing together with increasing population densities. As lands become more and more scarce, agriculture's contribution to future job creation may become more and more limited.

Mueller and Thurlow also find a trend towards urbanization in African countries and that increasing numbers of people live in peri-urban areas. These areas will play an important role in creating work for rural job seekers, and particularly youth.

While the case studies show considerable differences across countries, they all conclude that if youth are leaving agriculture, they all are likely to have low productivity jobs.

5. CONCLUSIONS AND POLICY IMPLICATIONS

The key conclusions and policy implications from this analysis are:

1. Little evidence exists of any structural transformation of the Malawian economy. Agriculture remains the primary sector of employment. The share of those of working age who work in agriculture increased slightly between 2004 and 2016, while the share of those work in the industrial sector declined.
2. There is an association between education and employment outside of agriculture. Also, the number of youths continuing their studies is increasing. Further investment in improving the quality and quantity of education can be expected to support a greater shift to non-farm employment.
3. Growth in the service sector primarily absorbed older youth and adults. Younger youth stay in school for longer and then generally work first in agriculture though some of them later move to other sectors. This suggests that there may be other important factors in addition to education in enabling individuals to find employment outside of agriculture.
4. As Malawi's population continues to grow, more and more youth will enter the job market. Scarce land, dwindling natural resources, and current farm productivity cannot sustain their growing needs. To generate employment for the growing youth population, Malawi's economy will need to diversify.
5. Most of Malawi's educated youth struggle to find good jobs both in agriculture and other sectors. Many of the non-farm jobs created today are relatively low-productivity ones. Designing programs and incentives to supply higher quality jobs, in which better educated Malawians can use their skills, should therefore be a priority.
6. Promoting foreign direct investment may provide the technology and markets needed to create higher income jobs. Attracting more investment will require improvements in transport infrastructure, energy supplies, and urban development—as most new jobs will be in cities and will require reliable power and better connections to markets. Public investment is therefore critical to promote employment opportunities inside and outside agriculture for Malawi's youth.
7. Increased value addition through processing of agricultural products, light mechanization that reduces the drudgery of farming, and agricultural diversification are all likely to be central components in a successful structural transformation. A more dynamic, diverse, and productive agriculture sector should catalyse growth and product diversification in the non-farm sectors, and to generate more new jobs for Malawi's youth.
8. Agriculture will remain the primary sector for employment in Malawi for the foreseeable future. Therefore, public investments made to promote change in the structure of the economy must not neglect agriculture. Investments that strengthen agriculture's linkages with the industry and services sectors are especially important.

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