PLANNING BEYOND
THE NEXT HARVEST
ADVANCING ECONOMIC STABILITY AND
AGRICULTURAL COMMERCIALIZATION
SECTION 1
RECENT ECONOMIC DEVELOPMENTS
After a tepid rebound in 2021, Malawi’s economy entered another slowdown this year.

According to most recent WB estimates, GDP growth slowed to 0.9% – a 1.8% contraction in per capita GDP.

This was driven by adverse weather conditions, pervasive power and fuel shortages, and a severe balance-of-payments crisis.

**Growth prospects have weakened significantly**

Real GDP forecasts

Source: World Bank Macro Poverty Outlook
SUSTAINED IMBALANCES HAVE BEEN EXACERBATED BY SHOCKS WITH THE BIGGEST IMPACTS ON AGRICULTURE

The late onset of the rains followed by multiple tropical storms have led to decreased yields for both smallholders and commercial farmers.

In turn, agriculture became a drag on growth rather than its principal driver, declining by 1.0 percent relative to 2021.

In 2022 agriculture was a drag on growth

Real GDP growth by sector

Source: World Bank Macro Poverty Outlook
RECENT ECONOMIC DEVELOPMENTS

AS THE COST-OF-LIVING RISES,
HOUSEHOLDS STRUGGLE TO MAKE ENDS MEET

Inflation reached its highest point since 2013, pushing many more people into poverty

Inflation has been driven by rising food prices, especially for maize and rice

Kilograms of maize per MWK 1,000

New WB simulations find that sustained food price increases of 32 percent, in the absence of rising incomes, would push an additional 7 percent of the population into poverty.

The rural areas of the South will see the largest number of additional poor Malawians but in relative terms increasing food prices affect people in cities the most.

Source: World Bank with data from NSO.
Over two thirds of small enterprises report a decline in sales over the last year

Reported revenue change in the last thirty days compared to the same period a year earlier by BPS respondents

Rising input costs and forex unavailability have had a catastrophic impact on one in six small firms

Share of BPS respondents estimating the effect of input costs and forex availability since the beginning of 2022 on their businesses' net operating profits*

Source: World Bank Business Pulse Survey
MALAWI’S DIFFICULTIES ARE PERPETUATED BY A VICIOUS CYCLE

RECENT ECONOMIC DEVELOPMENTS

COVID
Climate change
Russia-Ukraine war

Accelerates existing dynamics

Low growth
High inflation
Business failures
Weak job creation
Increasing poverty

Weak export growth
Reduced fiscal space
Excessive borrowing
Low forex reserves
Exchange rate pressures
The Government has revised the fiscal deficit for FY2022/23 to 7.0 percent of GDP. However, if the performance for the first half of the FY is maintained, the fiscal deficit is expected to widen to 8.6 percent.

Despite strong performance on tax collection, revenues overall slightly underperformed. Together with higher recurrent spending this contributed to the widened fiscal deficit.

However, planned expenditure reductions could still significantly narrow the gap between the current fiscal trajectory and the target.
Malawi’s public debt is assessed to be in distress, increasing from 64.0 percent of GDP in 2021 to 76.6 percent in 2022.

Debt servicing costs, especially to commercial creditors are increasing by 34 percent (y-o-y) in FY22/23.

Financing of fiscal deficits through domestic resources has led to the accumulation of domestic debt and crowded out borrowing by domestic firms.

However, the Government is implementing a debt-restructuring strategy to bring debt onto a sustainable path over the medium term.

**Source:** World Bank calculations, with data from RBM and MoFEA.
Recent Economic Developments

Depleted reserves have led to a dramatic compression of imports

Foreign exchange reserves remain low, caused by a structural trade deficit and rising debt-servicing payments

In the face of severe foreign exchange shortages, imports have declined dramatically

Monthly import values (real 01/2022 MWK billion)

Source: World Bank staff calculations based on RBM data.

Source: World Bank staff calculations based on NSO data.
The May 2022 exchange rate adjustment only temporarily reduced the spread between the official and cash MWK-US$ exchange rate.

This spread grew to 46 percent in mid-November, surpassing the pre-devaluation level, driven in part by increases in the current money supply and inflation differentials.

Misalignment can reduce exports, create uncertainty for businesses and reduce liquidity in the market.

![Graph showing spreads between TT and bureau MWK-US$ exchange rates](image-url)

**Spreads between TT and bureau MWK-US$ exchange rates continue to widen**

RBM telegraphic transfer (TT) and forex bureau cash MWK/US$ rates and spreads through Nov 17.

- **25% devaluation**

Source: World Bank staff calculations based on RBM data.
Tobacco exports have consistently declined, and other leading export sectors have not been able to provide sufficient inflows of foreign exchange.

Although record amounts of soya beans and pigeon peas have been harvested in recent years, rising exports in these goods have not been reflected in official statistics.

Malawi’s terms of trade have improved somewhat in the last six months, but Malawi can still buy less than half of its commodity imports with its commodity exports.

While tobacco exports has fallen over the past decade, other goods have not been able to compensate.

Source: World Bank staff calculations based on RBM data.
SECTION 2
OUTLOOK
AND POLICY PRIORITIES
As macro conditions stabilize and agriculture recovers, growth in 2023 is projected to increase to 2.2 percent.

But this is subject to significant uncertainty related to:
- Global macroeconomic conditions and commodity prices
- The ability of the private sector to recover
- Weather conditions in the coming growing seasons
- The performance of emerging export sectors
- Agreement on an ECF and the resumption of budget support

- Maintaining budget discipline
- Debt restructuring
- Supporting diversification and commercialization
- Exchange rate flexibility
- Rebuilding forex reserves
KEY POLICY REFORMS TO STABILIZE THE ECONOMY, GROW BUSINESSES, AND STRENGTHEN RESILIENCE

OUTLOOK AND POLICY PRIORITIES

RESTORE MACROECONOMIC STABILITY

- Build foreign reserves by continuing the progression towards a market-based exchange rate, gradually increasing forex purchases and strengthening RBM reserve management.
- Addressing fiscal pressures by continuing fiscal consolidation reforms, strengthen budget planning and improving tax collection capacity and compliance.
- Achieving debt sustainability by finalizing debt restructuring negotiations, adhering to an annual borrowing plan, and enhanced debt transparency.
- Improve public financial management through implementation of the PFM Act.

ENHANCE EXPORT COMPETITIVENESS AND MARKET-ORIENTED GROWTH

- Implement Malawi’s National Export Strategy, promoting access to key regional and global markets.
- Increase access to reliable power by ensuring the financial sustainability of ESCOM, advancing the realization of Mpatamanga and improving the off-grid infrastructure.
- Build, upgrade and rehabilitate infrastructure to withstand climate change shocks through improved use of public sector resources and greater access to international climate finance.

PROTECT THE POOR AND STRENGTHEN RESILIENCE

- Implement emergency cash transfers across both urban and rural areas to help vulnerable households access food and other necessities and accelerate roll out of climate smart public works programs.
- Improve efficiency and effectiveness of public expenditure for basic services at the district level.
- Submit to parliament and pass the Disaster Risk Management Bill to provide clarity on climate and disaster-related response efforts across MDAs.
SECTION 3

STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS
Yet, agriculture alone is insufficient — rural households will need to turn to employment outside agriculture to avoid or escape poverty.

- Agriculture has contributed over 40% to overall economic growth
- Agriculture employs over 3/4 of all adults
- Farming currently provides only 21% of the total income of the typical Malawian farming household
Rural labor markets in Malawi account for a significant share of employment and output, presenting a strong case to promote a more robust and vibrant rural economy.

94 percent of all poor households in Malawi are in rural communities.

The rural poverty headcount ratio at the national poverty line (57%) is almost three times that found in urban areas (19%).
Even with high levels of productivity, many are unable to meet basic needs through farming alone.

Small cropland holdings mean incomes from crops are generally low.

Crop prices – particularly for food crops – are volatile from year to year.

Households reporting any member engaged in various economic activities or receiving regular income

Percentage of overall population covered in the 2019/20 IHS5 survey in respective household categories

The average farming household is dependent on off-farm employment to supplement its income.

Around 2/3 of the income of farming households comes from off-farm labor.

3 main types of off-farm employment come with their own advantages and challenges.
There is a high level of entrepreneurial spirit in Malawi despite policy challenges.

38% of Malawian households own or engage in commercial enterprise.

This is an important resource to draw upon as the Malawian economy evolves.
SMALLHOLDER AGRICULTURAL COMMERCIALIZATION:
A VIABLE MODEL
FOR RURAL DEVELOPMENT
Medium-scale commercializing farms (5–100 ha) control ~ 20% farmland in Kenya, 32% in Ghana, 39% in Tanzania, and over 50% in Zambia.

- In Tanzania, medium-sized farms → estimated 13 million labor days/year.
- Reflects increased interest in land and greater share of savings re-invested in farming and agribusiness — financed by (largely urban) non-farm income.

Medium-sized farms’ share of total crop value in Tanzania increased from 14 to 30 percent in six years.

Share of total crop value by scale of farms:

Nationally the share of commercializing smallholders is 7% and hasn’t changed significantly since 2004/2005.

But commercial farming trends in Malawi have strong spatial and temporal characteristics.
While structural transformation is not yet happening at scale, smallholder commercialization is occurring at localized levels.

This is especially true where farmers have better access to land and irrigation and are closer to markets.

Commercial farming households are heavily concentrated in the North and Central region.

Maps by district and major urban centers of households that fall into rural households:

- **Commercially oriented farming households**: 7 percent of households nationally fall in this category.
- **Other productive rural households**: 63.6 percent of households nationally fall in this category.
- **Not economically productive households**: 13.4 percent of households nationally fall in this category.

Source: Benson and De Weerdt (2023, forthcoming).
PRODUCTIVE ALLIANCES PLAY IMPORTANT ROLES IN ADVANCING AGRICULTURAL COMMERCIALIZATION
PRODUCTIVE ALLIANCES OFFER A ROBUST MODEL FOR LOCAL ECONOMIC DEVELOPMENT

Productive alliances characterized by:

- **strong farmer organizations** [farmers in the driver’s seat]
- **links to off-take markets** [access to markets and partnerships]
- **improved access to finance**
- **improved enabling environment** [land tenure security, standards and certifications]
- **greater inclusion** [especially for women]

All geared toward improving smallholder agricultural commercialization.
STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

POSSIBLE PATHWAYS FOR STRUCTURAL TRANSFORMATION DRIVEN BY SMALLHOLDER AGRICULTURAL COMMERCIALIZATION

Source: Figure adapted from Thomas Jayne (2018) using data from Malawi (2019/20 IHS5) on farm/non-farm population shares and farmer typology in this chapter.
OPPORTUNITIES FOR GOVERNMENT SUPPORT OF SMALLHOLDER COMMERCIALIZATION IN MALAWI

Strengthen Commercialization Mechanisms
- Increase farm-level productivity
- Improve targeting according to farmer typology
- Develop functional farmer organizations
- Support local economic development to improve off-farm opportunities

Reform & Strengthen Implementation of Sectoral, Multi-sectoral & Macro Policies
- Improve the business-enabling environment through policy reforms
- Reduce uncertainty of government policy-making process
- Improve efficiency and effectiveness of agricultural public expenditure programs

Investment in Productive Infrastructure
- Invest in sustainable irrigation development
- Develop more efficient logistics and trade corridors
- Prioritize investments in productive rural infrastructure via geographically targeted approaches
EMERGING THEMES THAT CAN GUIDE THE DESIGN OF PUBLIC SUPPORT PROGRAMS FOR SMALLHOLDER COMMERCIALIZATION

- Convergence of interests between agribusinesses, commercializing farmers, and subsistence-oriented smallholders
- Variation among smallholders on potential for commercialization that requires different targeting strategies
- Hurdles to overcome to accelerate agricultural growth in Malawi in terms of rural poverty, and household risks and vulnerabilities