

# SPACE, MARKETS AND EMPLOYMENT IN AGRICULTURAL DEVELOPMENT: MALAWI

## KEY ISSUES:

- The extent to which agriculture generates employment – both on-farm and in the rural non-farm economy – depends on various factors, such as the characteristics of agricultural production, structure of agro-food value chains (including inputs and outputs) and the nature of larger spatial context.
- In Malawi, ‘smallholder’ and large scale ‘estate’ agriculture differ in terms of their respective scales of operation, crops, patterns of employment and the extent to which their linkages (e.g. input supply, marketing and expenditure linkages) extend outside of the local economy. In the estate sector it is larger-scale production, cash crops, and linkages to distant locales that predominate.
- In contrast, smallholder farmers have comparatively ‘denser’ linkages to local labour markets, input and output supply networks. More of their expenditure is local and thereby stimulates higher levels of local non-farm employment. Smallholders’ locally-consumed horticultural crops also offer the promise of more local multipliers.
- Smallholder farmers face a shortage of credit, which means their local-funded investments are often small. This ultimately limits the extent to which they can stimulate the local non-farm economy and employment.

## BACKGROUND

Agriculture plays a significant role in Malawi’s national economy, contributing 35% to gross domestic product, 90% to foreign exchange earnings and providing employment to more than 80% of the labour force. Particularly in such agricultural-based economies, growth in the agricultural sector has long been assumed to benefit the rural non-farm sector. Agriculture potentially benefits the non-farm sector through various production or consumption expenditure ‘linkages’, including local expenditure by farmers and their workers (Haggblade et al., 2010). However, the economic and employment benefits of agriculture crucially depend on the spatial patterns of agricultural production, processing and marketing (and their linkages to local markets). These are considered in what follows.

The dualistic nature of agriculture in Malawi, in which the smallholder and estate systems co-exist and operate at different scales, provides unique opportunities to understand the spatial articulation of linkages between farm and non-farm employment activities. Using detailed case studies of the smallholder and estate sectors in Mchinji District in central Malawi, the research examined the roles different types of agriculture play in facilitating non-farm employment in the local economy (Chirwa & Matita, 2015).

### SUPPORTED BY



## SMALLHOLDER AND ESTATE SECTOR AGRICULTURE

The case studies in the smallholder sector focused on farmers who sold at least some of their agricultural produce. The smallholder sector consists of small-scale (approximately 1ha) producers, often with customary land tenure, self-financing and relying on kin and intermittently employed casual labourers.

The study finds that smallholder farmers grow a diversity of food and cash crops, mainly maize for own consumption and other crops for both home consumption and cash sales in distant markets outside the local economy. More interesting in the smallholder case studies is the cultivation of horticultural products, for own consumption and sale using rain-fed cultivation or/and small-scale drip irrigation along perennial streams and wetlands. In the smallholder sector, horticultural products identified included cabbage, tomatoes and Irish potatoes, while common non-horticultural commodities were soya beans and groundnuts. The estate sector, in contrast, typically has larger leasehold farms (over 50ha), hires managers and produces cash crops (sometimes under contract). Estates employ larger numbers of workers per unit (average of 250 casual labourers), who are recruited both locally and from all over the country. Distant owners or head offices outside of the local area often make the estate's input sourcing and marketing decisions.

In terms of downstream linkages in Mchinji there are two kinds of markets for smallholder produce, depending on the nature of the products. On the one hand, for horticultural products, smallholder farmers sell these locally at farm gates or at local markets. The study finds that smallholder farmers tend to exercise more control over the prices of these horticultural crops, and multiple plantings often even out seasonal income variations. On the other hand, for non-horticultural cash crops, smallholders sell their produce to powerful external buyers and are price-takers, so incomes from such outputs can be lower or more erratic. Such products are typically consumed outside the local economy. These external buyers include small-scale traders (vendors), agents of large-scale manufacturers and commodity exporters. In the estate sector, there are no downstream linkages within the local economy, since all the output produced by the estates is sold outside the local economy by owners or head offices located in major urban centres in Malawi.

### The rural non-farm economy

Rural Malawi is a context where settlement patterns are scattered and rural infrastructure and connections are relatively poor. The rural non-farm economy (RNFE) is therefore concentrated in small towns ('trading centres') where retailing and wholesaling predominate. However, these towns are

important sites in the articulation of farm and non-farm linkages. The linkages are shaped by expenditure for household consumption or intermediate consumption (viz. production inputs), but take different forms for the smallholder and estate sectors.

Research reveals both the backward and forward linkages from smallholder to the RNFE are 'denser' than for estate agriculture. In terms of backward linkages, smallholder farmers purchase inputs from a range of importer distribution outlets, independent agro-dealers, supermarket chains, cooperative managed outlets and even other smallholder farmers. They also contribute to the local economy's transport services, rural credit markets, remittances, retailing and wholesaling and output markets, thereby supporting local employment. By contrast the sourcing of inputs in the estate sector often takes place outside the local economy. The inputs are procured through distant urban head offices, and therefore generate fewer backward linkages within the local economy. In terms of forward linkages, the smallholder-produced locally consumed horticultural crops tend to have dense links compared to their non-horticultural crops that are usually marketed to external traders (outside the local economy). This suggests higher multiplier effects from production of products that are consumed within the local economy.

A major conduit between agriculture and the non-farm economy is household consumption. Both the smallholder and estate sectors generate incomes from sales of produce,



and pay wages that are spent mainly locally on consumption goods, ultimately contributing to employment. However, the key difference driving this linkages, between smallholders and estates, is that incomes from crop sales, wages and income from a diversity of non-farm services are critical drivers of consumption expenditure, while in the estate sector wage incomes (largely at government minimum wage) tend to be critical. In addition, more of the estate sector's surplus (profit) is spent outside the local economy, owing to the fact that many estate owners reside in distant locales.

Finally, although estates generate more paid employment per estate (but low employment per unit land) for labour drawn from within and outside the local economy, their facilitative role in supporting non-farm employment is through workers' consumption of final products from local shops, with very few backward linkages to input suppliers. This is in contrast to smallholder farmers who provide both backward and forward linkages in the local economy, and hence offer larger multiplier effects and prospects for employment in the non-farm sector.

## POLICY IMPLICATIONS

Agricultural development remains crucial to growing employment, but also supporting local multipliers in the RNFE. Yet the performance of Malawi's agricultural sector has often been uneven and rural poverty remains high (Deichmann et al., 2009). Policy responses to address these challenges include the need to:

**Recognise and respond to the constraints smallholder farmers face.** Smallholder farmers often lack resources (such as credit to purchase key inputs) and profitable markets to utilise their small landholdings efficiently (Government of Malawi, 2010). A significant constraint in smallholder agricultural growth, especially for smallholders, is a lack of capital. Smallholder agricultural investments in rural Malawi are financed from internal sources that are generally limited. The self-financing nature of smallholder agriculture therefore often limits its innovation and expansion. There is a need to examine how to overcome credit market failures and provide credit to smallholders, in addition to the subsidy on maize production, in part to support growth and employment creation in the RNFE.

**Support the development of the horticultural sector in rural areas and facilitate linkages with urban markets.** The study also underscores the importance of local demand in facilitating the linkages between farm and non-farm economy within the local economy. As the case of horticultural products shows, promotion of horticulture as a way of agricultural income diversification should be

encouraged, for example through promotion of small-scale irrigation for smallholders. A critical factor here is that local informal markets and small-scale retailers function effectively as channels of intermediation between farmers and local consumers: this contrasts strongly with the experience of large, vertically integrated supermarkets with highly sophisticated distribution networks, which often bypass the local economy. Although there may be limited market for horticultural produce expansion in the local economy at present, the excess can easily find markets in the urban centres particularly in districts located close to cities.

### **Sustain and deepen support to agriculture beyond subsidies on maize production, including through small-scale irrigation.**

The promotion of horticultural produce, which can be produced throughout the year with irrigation, can provide the necessary scale for development of a local, independent retail sector into the vegetable market that is currently non-existent in Malawi. The differential impacts of smallholder local demand-based agriculture and estate agriculture imply that a 'one-size-fits-all' policy for promoting farm and non-farm employment linkages may not be appropriate. Policies that promote better wage incomes for workers on estates may better facilitate farm and non-farm employment links through consumption of spending of workers in the local economy. On the other hand, promoting profitable smallholder agriculture (including through irrigation) and small-scale agri-business services can enhance links between farm and non-farm employment through consumption spending among smallholder farmers and capital spending (farm inputs).



## RECOMMENDATIONS

1. Recognise and respond to the constraints smallholder farmers face, including market failure to provide credit.
2. Support the development of the horticultural sector in rural areas and facilitate linkages with urban markets including links with supermarkets.
3. Sustain and deepen support to agriculture beyond subsidies on maize production by including small-scale irrigation for locally demanded products in order to strengthen rural livelihoods and employment.

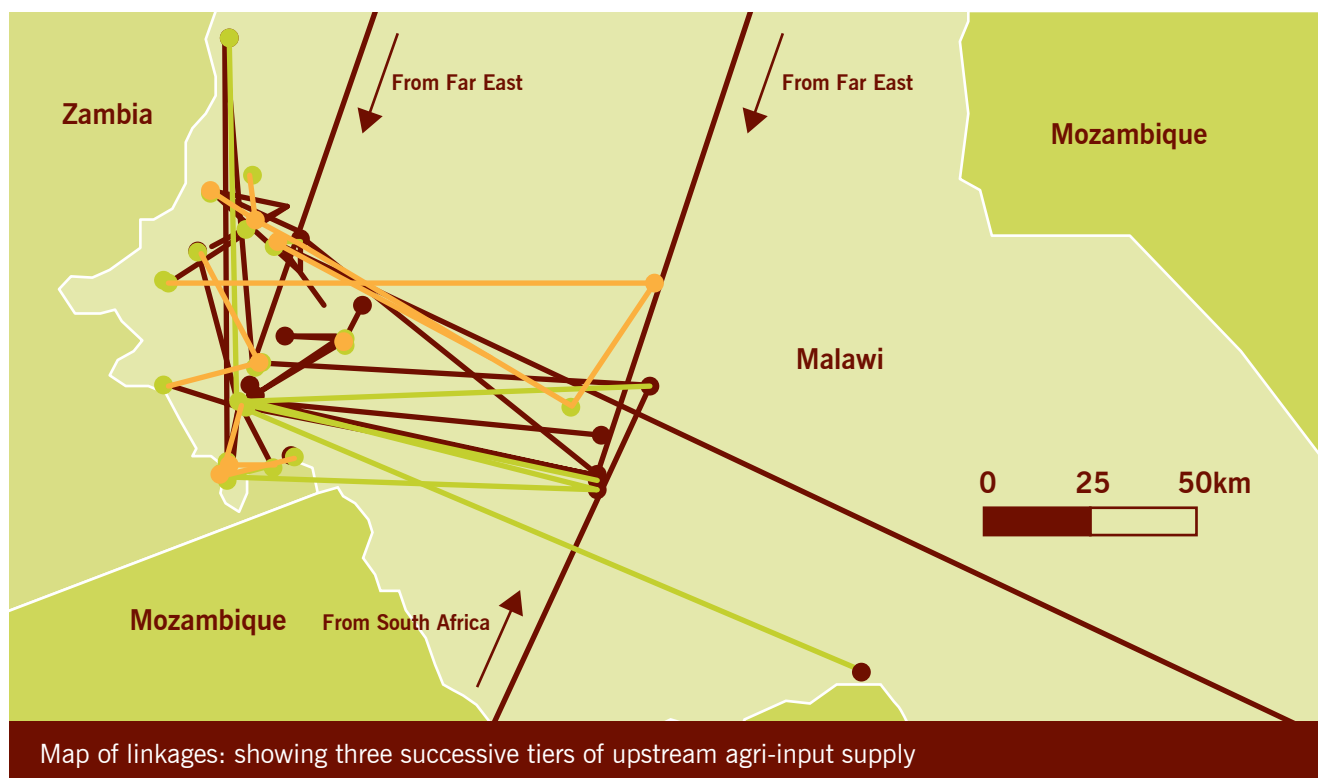
## GLOSSARY

### Rural non-farm economy:

economic activities in rural areas other than agricultural primary production. Agricultural processing and non-agricultural activities fit into this category.

### Linkage:

A trade or economic relationship where the value created in one sector or locale contributes to another sector or locale.



## REFERENCES AND RESOURCES

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