

# PLANNING BEYOND THE NEXT HARVEST

ADVANCING ECONOMIC STABILITY AND  
AGRICULTURAL COMMERCIALIZATION



**SECTION 1**

**RECENT ECONOMIC**

**DEVELOPMENTS**

## RECENT ECONOMIC DEVELOPMENTS

# WITH SEVERAL SHOCKS AND AN ESCALATING MACROECONOMIC CRISIS, 2022 HAS BEEN A DIFFICULT YEAR FOR MALAWI

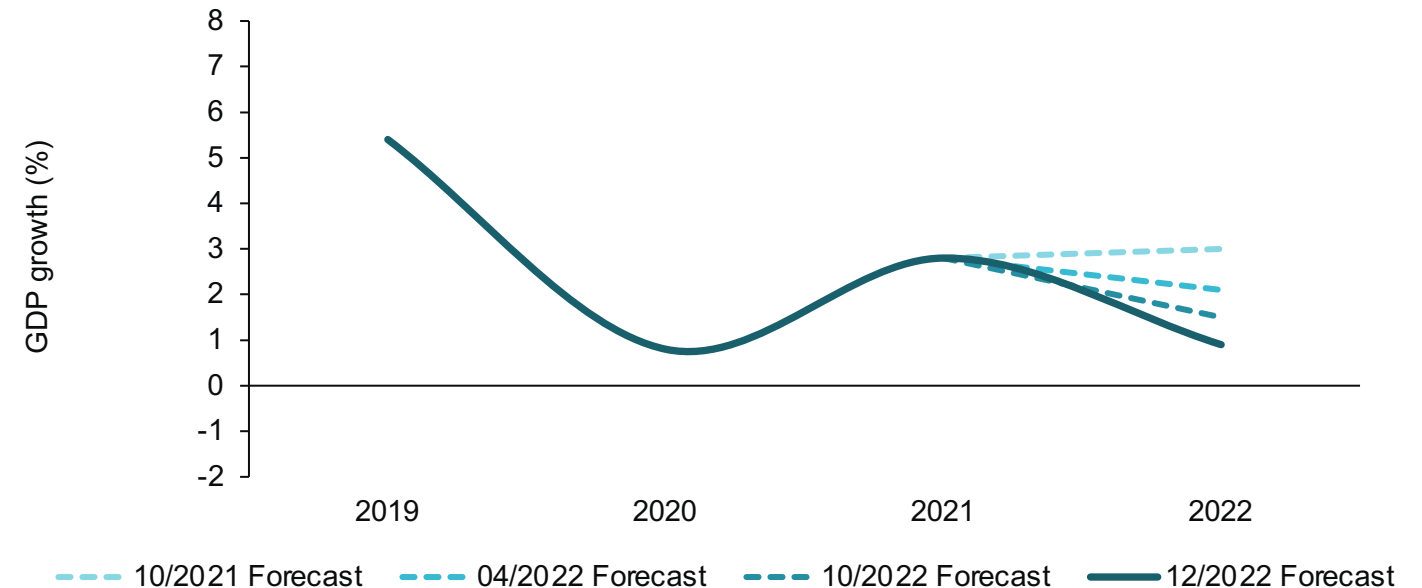
After a tepid rebound in 2021, Malawi's economy entered another slowdown this year.

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

## RECENT ECONOMIC DEVELOPMENTS

# SUSTAINED IMBALANCES HAVE BEEN EXACERBATED BY SHOCKS

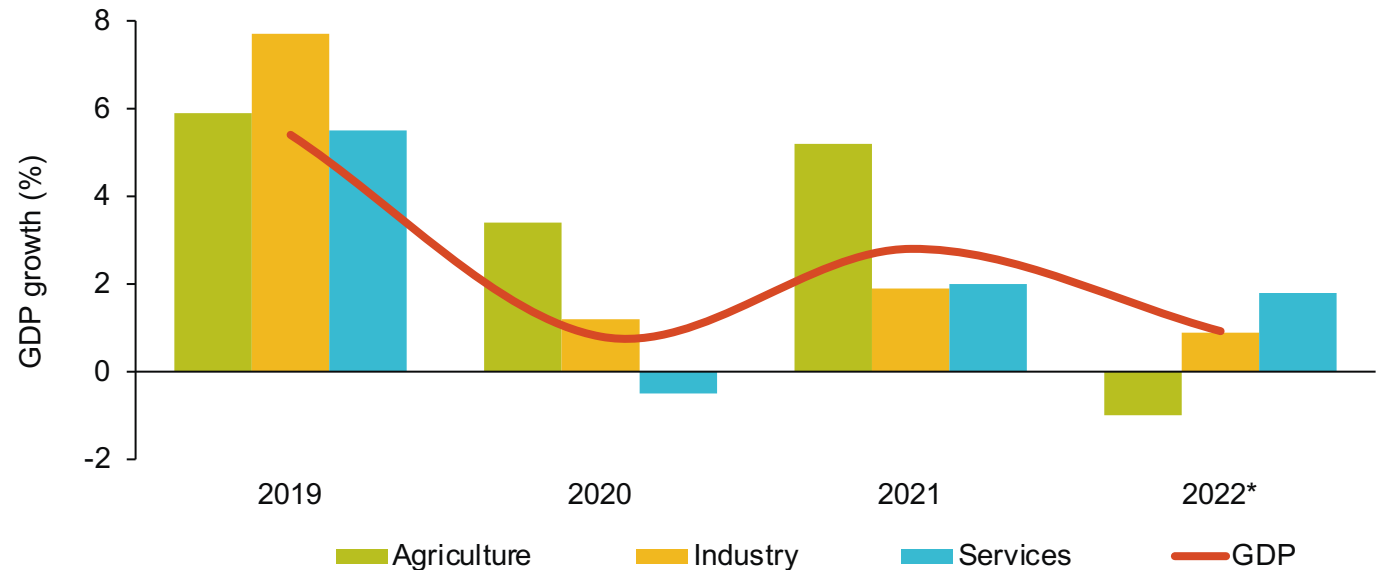
## WITH THE BIGGEST IMPACTS ON AGRICULTURE

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



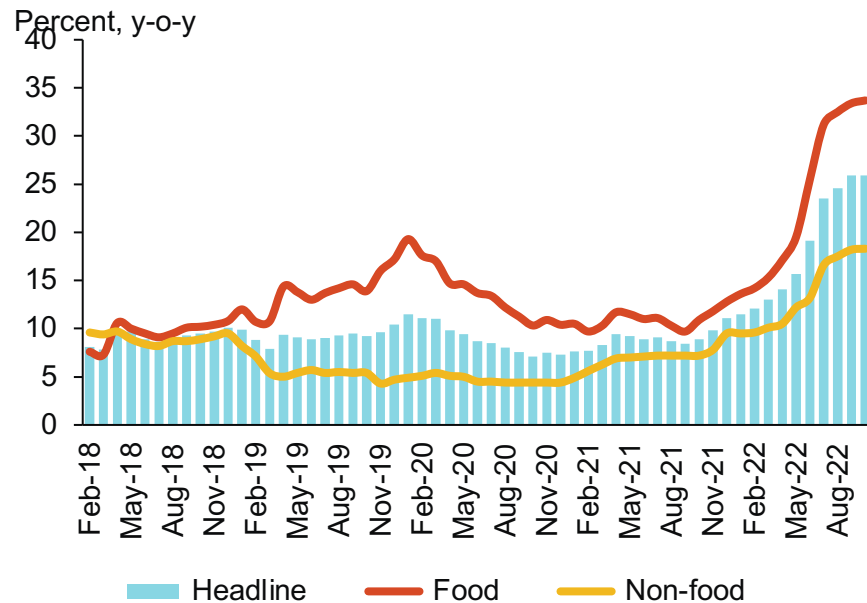
Source: World Bank Macro Poverty Outlook

## RECENT ECONOMIC DEVELOPMENTS

# AS THE COST-OF-LIVING RISES,

# HOUSEHOLDS STRUGGLE TO MAKE ENDS MEET

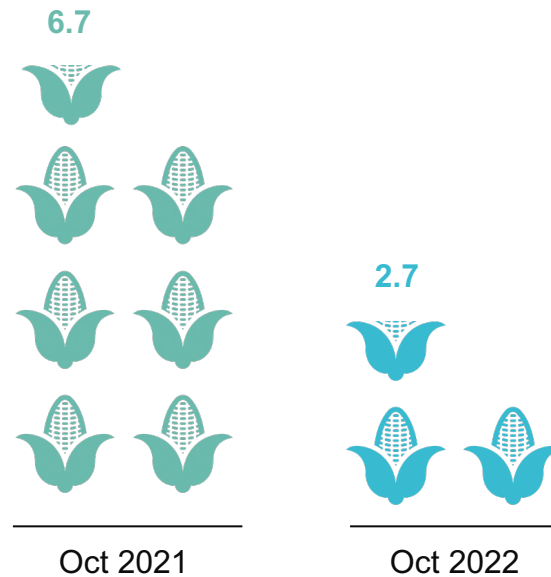
Inflation reached its highest point since 2013, pushing many more people into poverty



Source: World Bank with data from NSO.

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.

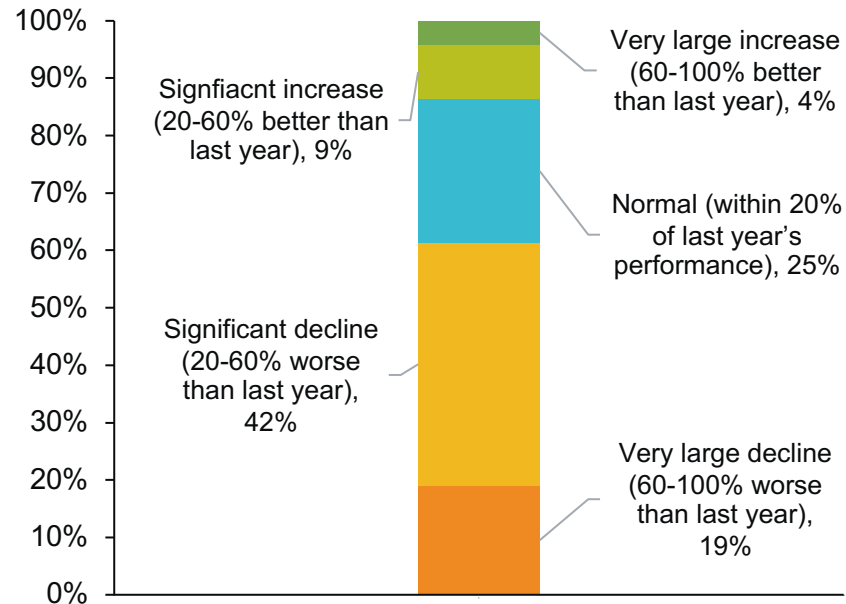
## RECENT ECONOMIC DEVELOPMENTS

# FOREX AND ENERGY CONSTRAINTS

# HAVE HAD A CHILLING EFFECT ON BUSINESS PERFORMANCE

### Over two thirds of small enterprises report a decline in sales over the last year

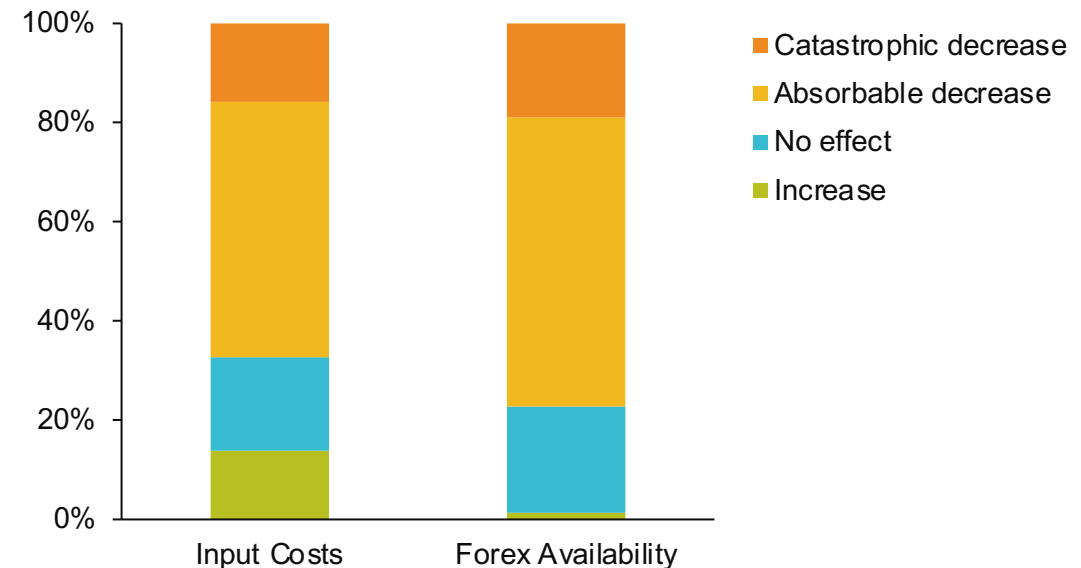
Reported revenue change in the last thirty days compared to the same period a year earlier by BPS respondents



Source: World Bank Business Pulse Survey

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

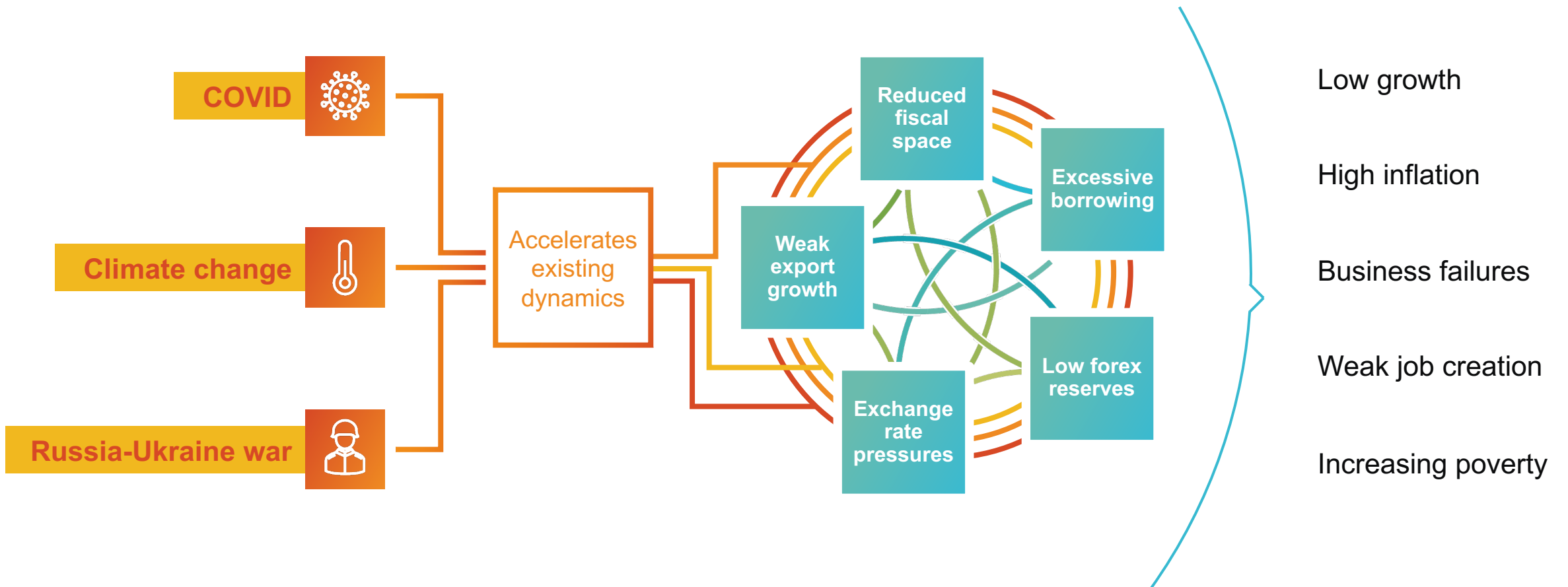
Share of BPS respondents estimating the effect of input costs and forex availability since the beginning of 2022 on their businesses' net operating profits\*



Source: World Bank Business Pulse Survey

## RECENT ECONOMIC DEVELOPMENTS

# MALAWI'S DIFFICULTIES ARE PERPETUATED BY A VICIOUS CYCLE



## RECENT ECONOMIC DEVELOPMENTS

# DESPITE PROGRESS TOWARDS FISCAL CONSOLIDATION, BUDGET DISCIPLINE REMAINS A CHALLENGE

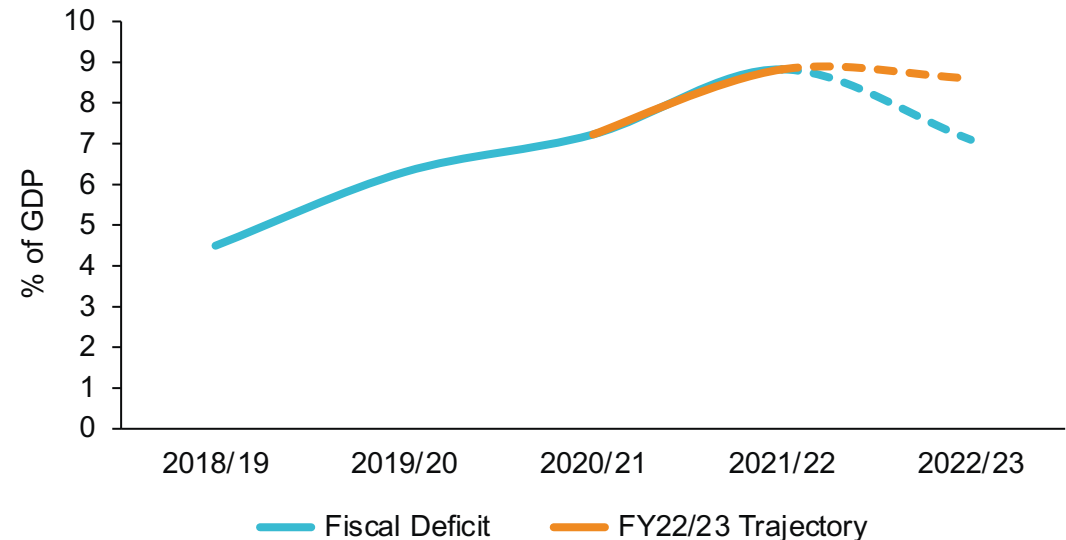
The Government has revised the fiscal deficit for FY2022/23 to 7.0 percent of GDP. However, if the performance for the first half of the FY is maintained, the fiscal deficit is expected to widen to 8.6 percent.

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.

### Higher-than-expected expenditures will make it difficult to reach the 7 percent deficit target

Fiscal deficit as share of GDP according to the mid-year budget (blue) and if current trends continue (orange)



Source: World Bank, with data from MoFEA



## RECENT ECONOMIC DEVELOPMENTS

# PUBLIC DEBT IS IN DISTRESS, BUT ONGOING RESTRUCTURING

## PROVIDES A PATH TOWARDS SUSTAINABILITY

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.

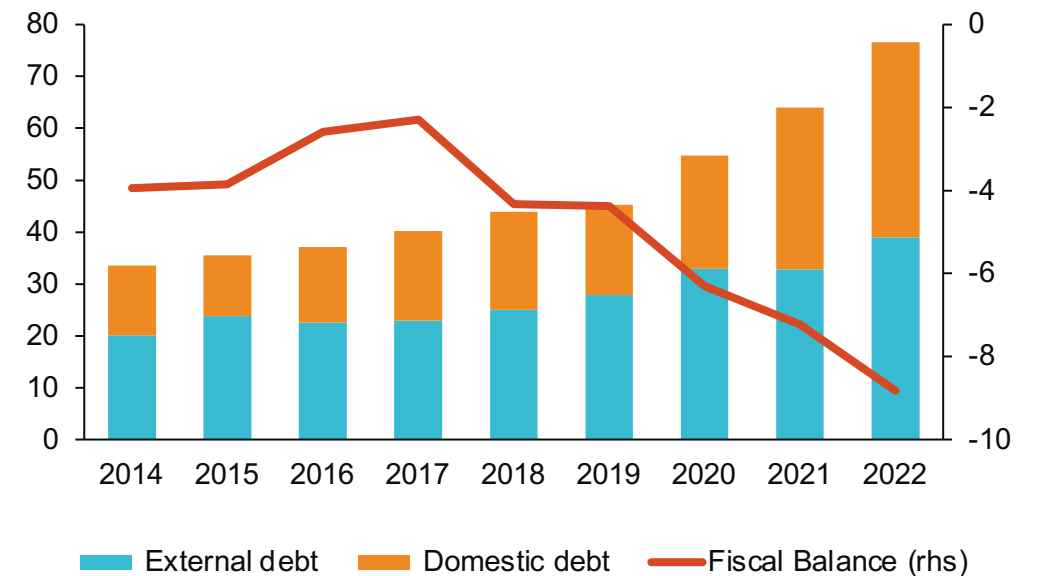
Debt servicing costs, especially to commercial creditors are increasing by 34 percent (y-o-y) in FY22/23.

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.

### Malawi's public debt has grown as fiscal deficits have increased

(%, as a share of GDP)



Source: World Bank calculations, with data from RBM and MoFEA.

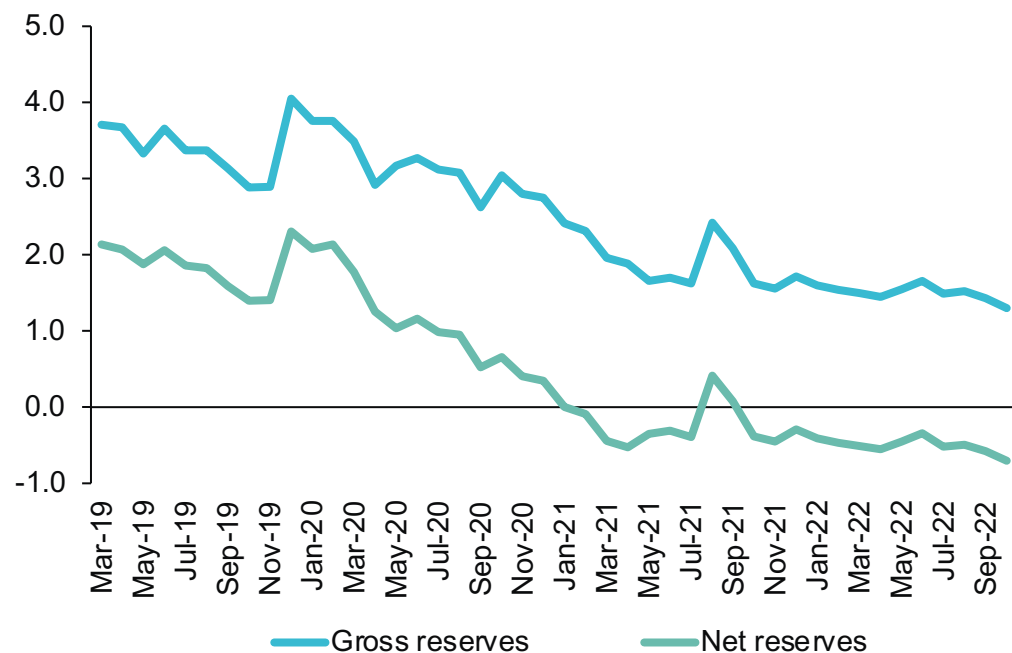
## RECENT ECONOMIC DEVELOPMENTS

# 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

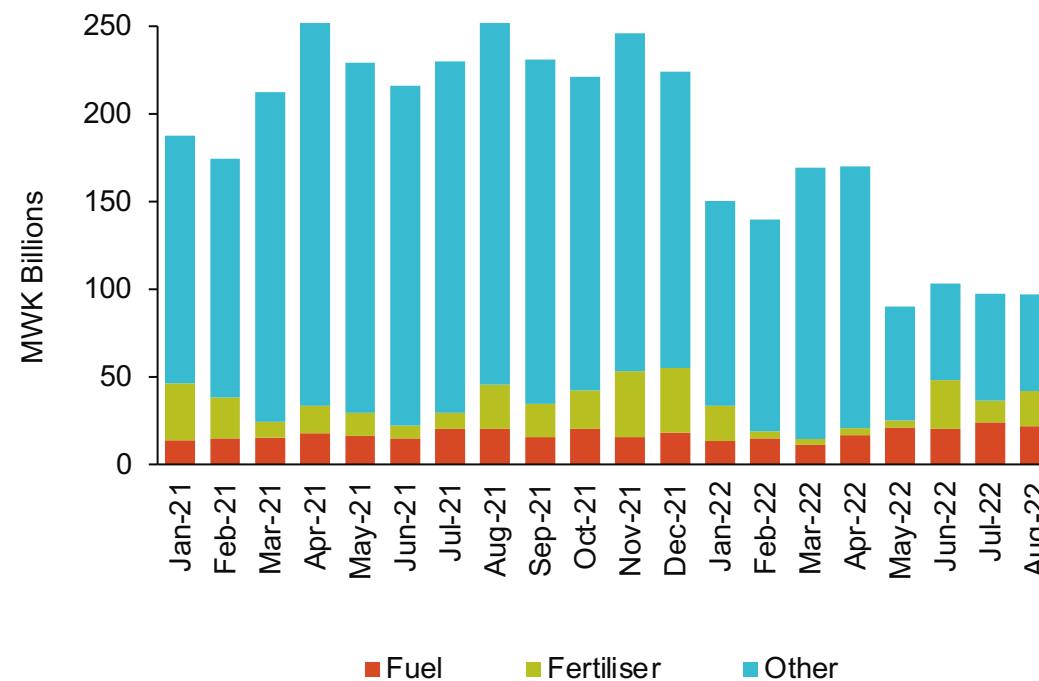
Official gross and net reserves, months import cover



Source: World Bank staff calculations based on RBM data.

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 NSO data.

## RECENT ECONOMIC DEVELOPMENTS

# DESPITE THE RECENT DEVALUATION,

# THE TT-BUREAU EXCHANGE RATE SPREAD HAS WIDENED AGAIN

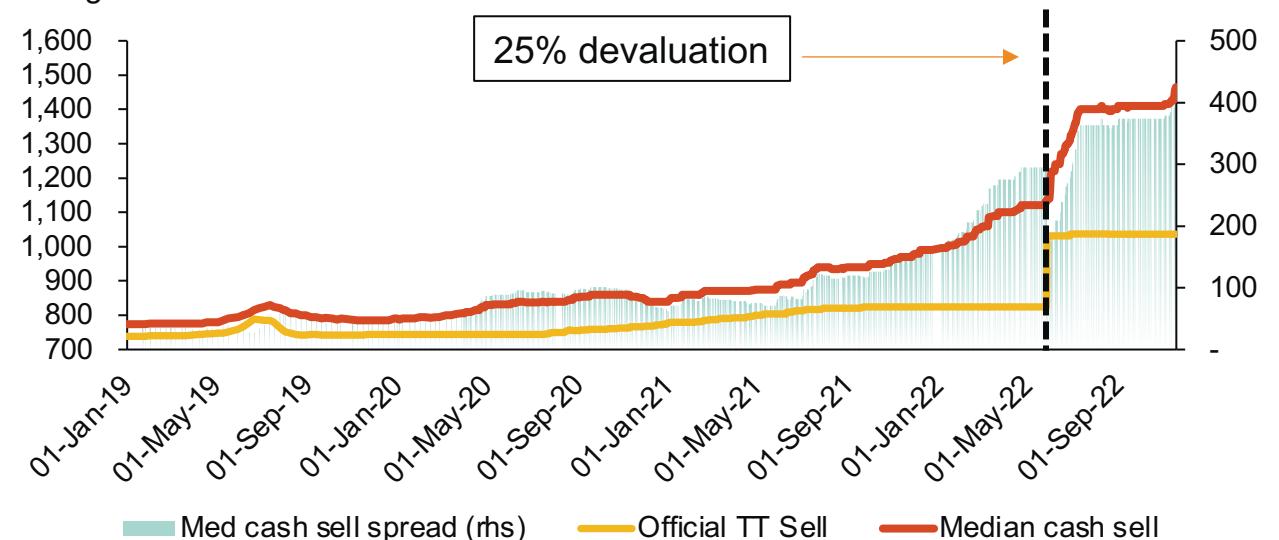
The May 2022 exchange rate adjustment only temporarily reduced the spread between the official and cash MWK-US\$ exchange rate.

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.

## 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



Source: World Bank staff calculations based on RBM data.

## RECENT ECONOMIC DEVELOPMENTS

# EXPORT PERFORMANCE REMAINS WEAK, LIMITING

# THE PROSPECTS FOR GROWTH AND MACRO-STABILIZATION

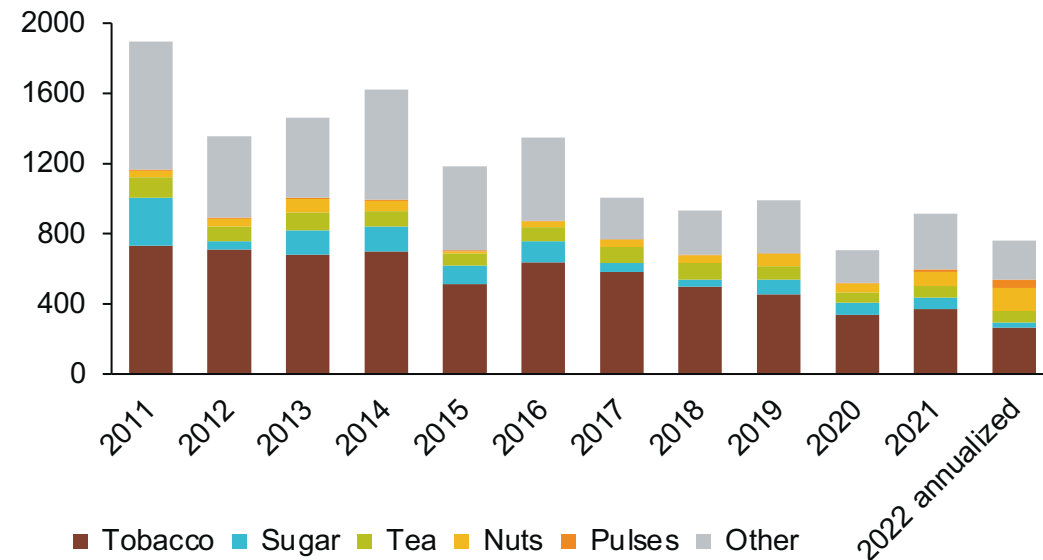
Tobacco exports have consistently declined, and other leading export sectors have not been able to provide sufficient inflows of foreign exchange.

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**

Annual exports by category (real 01/2022 MWK billion)



Source: World Bank staff calculations based on RBM data.

**SECTION 2**

**OUTLOOK**

**AND POLICY PRIORITIES**

## OUTLOOK AND POLICY PRIORITIES

# AN IMPROVED OUTLOOK DEPENDS ON CONTINUED REFORM MOMENTUM

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



## OUTLOOK AND POLICY PRIORITIES

# KEY POLICY REFORMS TO STABILIZE THE ECONOMY, GROW BUSINESSES, AND STRENGTHEN RESILIENCE



### 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**



## STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

# AGRICULTURE WILL REMAIN MALAWI'S LARGEST EMPLOYER AND CONTRIBUTOR TO GROWTH OVER THE NEXT DECADE

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 HOLD THE KEY TO ECONOMIC GROWTH

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%)

## STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

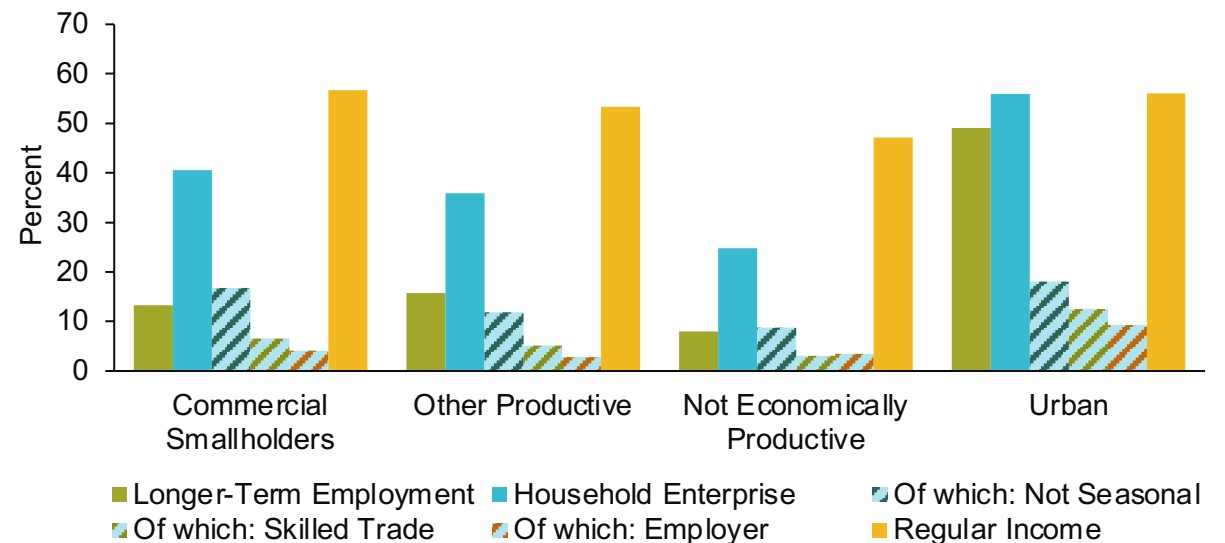
# RURAL MALAWIANS ENGAGE IN A WIDE RANGE OF LIVELIHOOD

## ACTIVITIES IN SEARCH OF BETTER ECONOMIC PROSPECTS

- 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



Source: World Bank staff calculations based on Benson and De Weerd (2023, forthcoming).

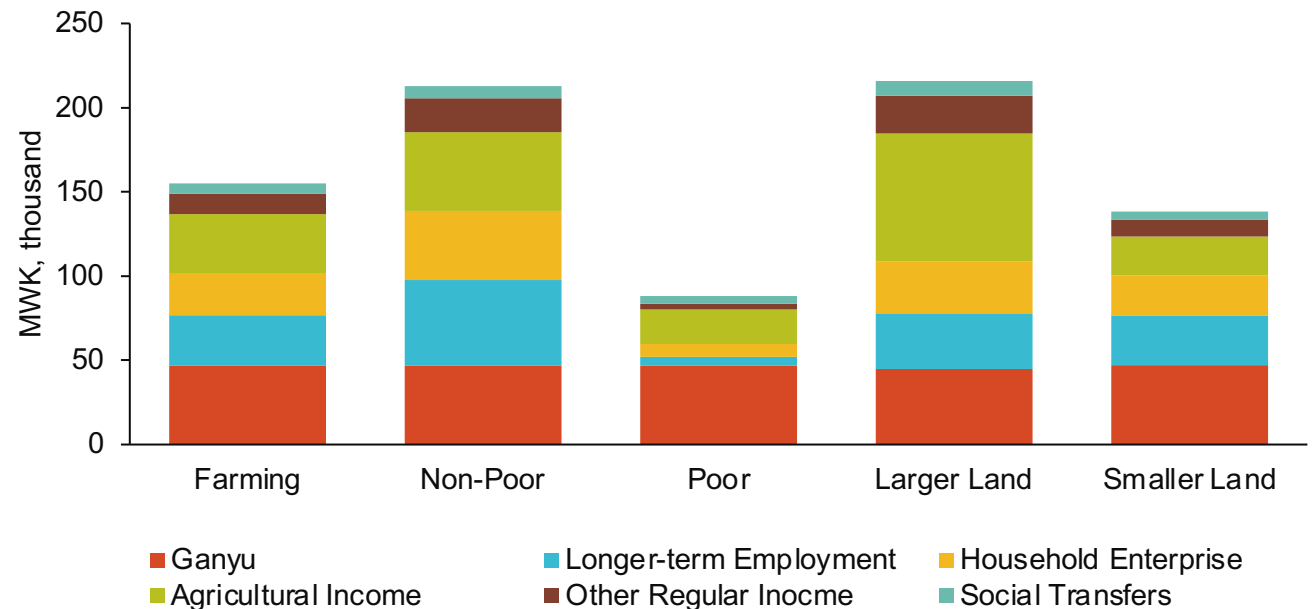
## NON-FARM ACTIVITIES HAVE BECOME

## THE MAIN SOURCE OF INCOME

- 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

### Average farming household reported income by source

In current MWK ('000) per capita per year



Source: World Bank staff calculations based on Benson and De Weerd (2023, forthcoming).

## THERE IS A HIGH LEVEL OF ENTREPRENEURIAL SPIRIT

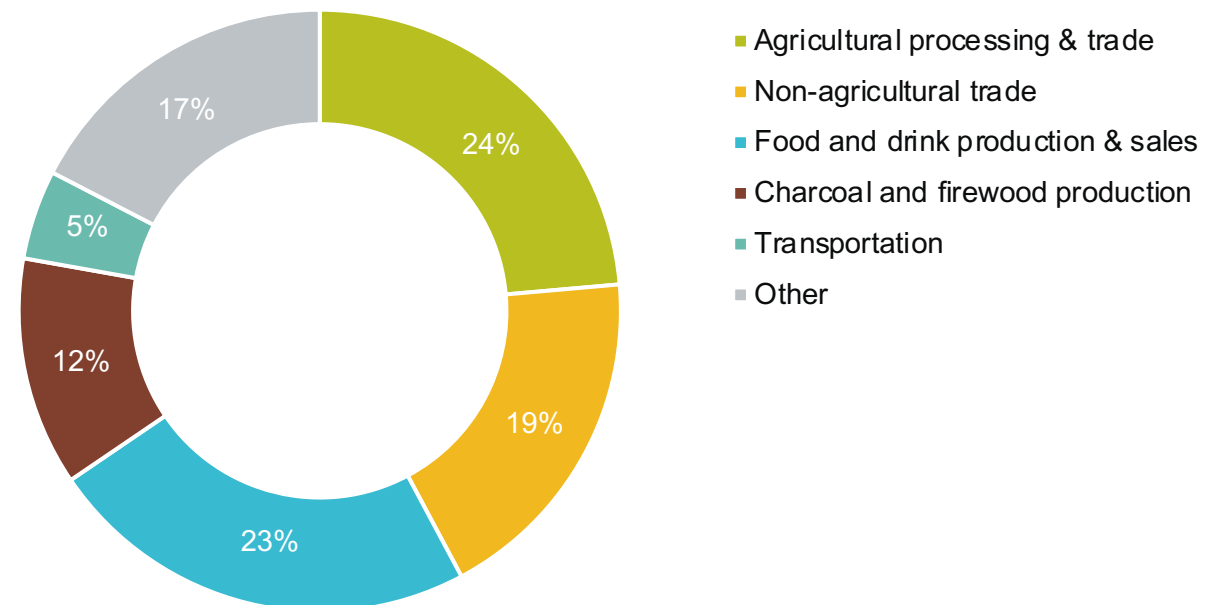
## IN MALAWI DESPITE POLICY CHALLENGES

38% of Malawian households own or engage in commercial enterprise

**This is an important resource to draw upon as the Malawian economy evolves**

### Types of activities household enterprises are engaged in

Percentage share of all household enterprises



A vibrant outdoor market scene in a rural setting. In the foreground, a woman in a red top and patterned skirt sits on a wooden bench, surrounded by large woven baskets filled with fresh green leafy vegetables. To her right, a young boy in a patterned shirt stands near more produce. In the middle ground, a man in a blue and red t-shirt stands with his hands on his hips, looking towards the camera. Behind him, another man in a light blue shirt is seen from the back, and a person in a white t-shirt with 'COMMS 50' on it is walking away. The market is set up under a series of simple, open-sided structures with thatched or corrugated metal roofs. Various goods, including bags of produce and hanging items, are visible. The background shows more market stalls and trees, suggesting a bustling community hub.

**SMALLHOLDER AGRICULTURAL COMMERCIALIZATION:**

**A VIABLE MODEL**

**FOR RURAL DEVELOPMENT**

# STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

## INTERNATIONAL & REGIONAL

## EXPERIENCES SHOW

## THAT A VIBRANT COMMERCIAL

## SMALLHOLDER SECTOR

## GIVES RISE TO BETTER,

## NON-FARM LIVELIHOOD

## OPPORTUNITIES, SPARKING

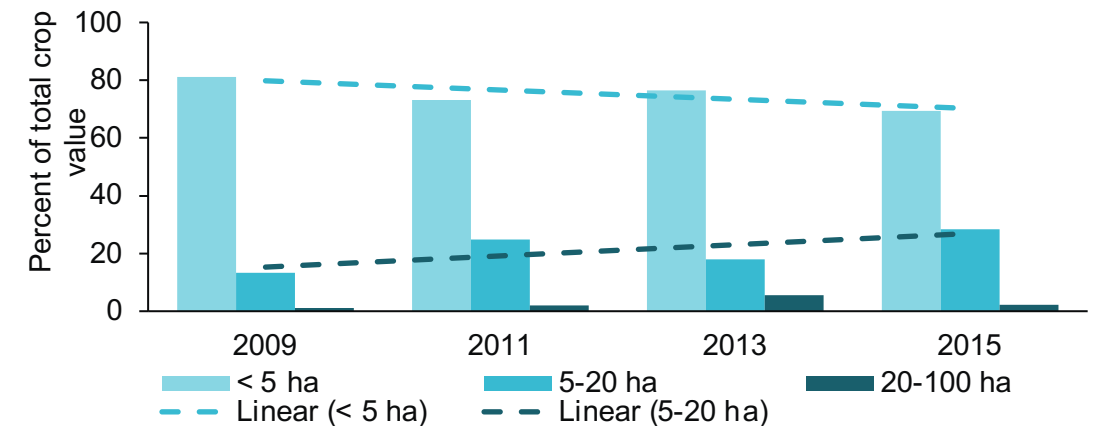
## RURAL ECONOMIC

## TRANSFORMATION

- 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



Sources: Tanzania National Bureau of Statistics, National Panel Survey and Wineman, Jayne, Modamba, and Kray (2020).

# STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

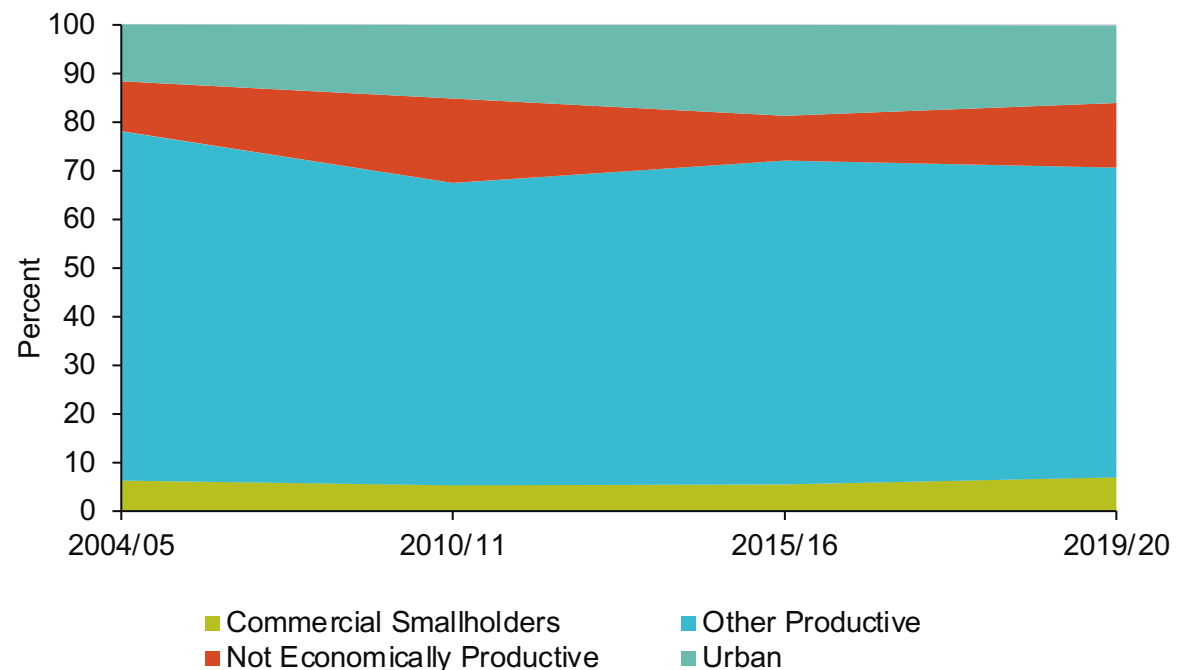
## NATIONAL LEVEL AGRICULTURAL COMMERCIALIZATION

### TRENDS MASK INTERESTING LOCALIZED TRENDS

- 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

#### Share of household types by IHS wave

Percentage share of households



Source: World Bank staff compilation based on Benson and De Weerd (2022).

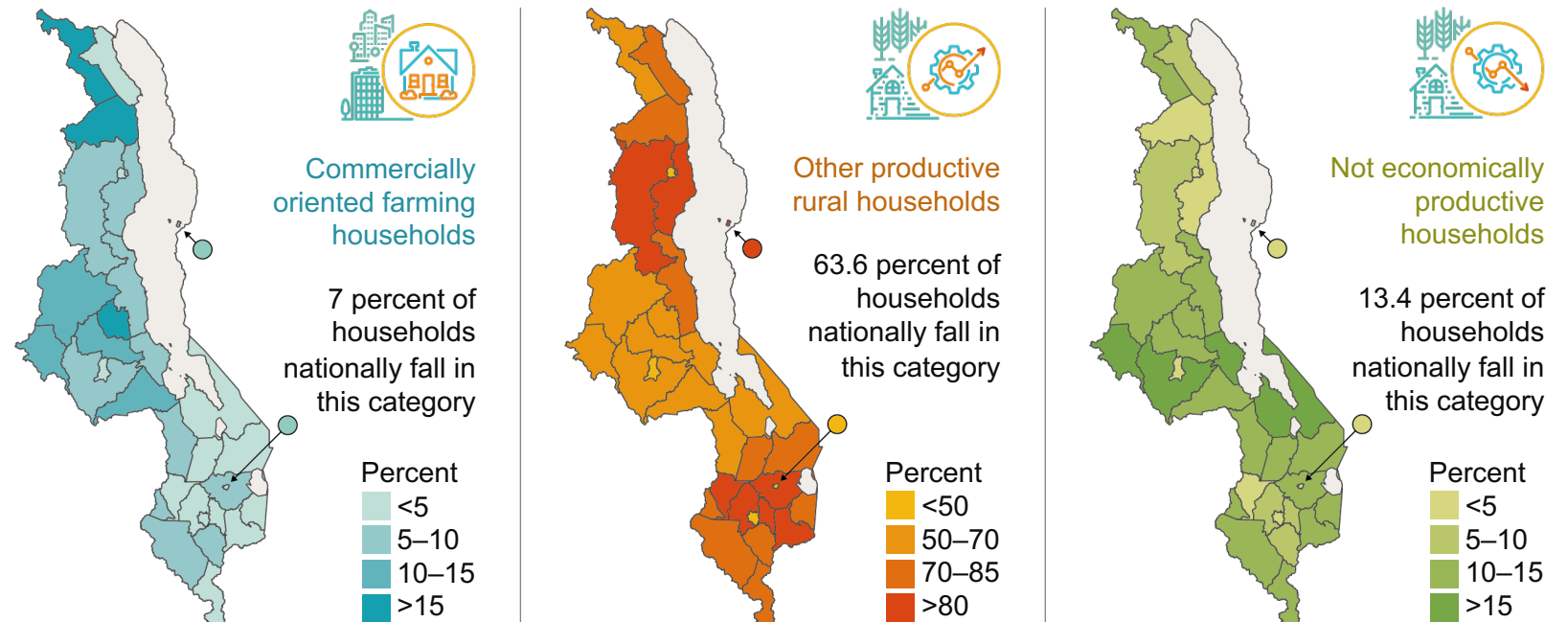


## THERE ARE STRONG SPATIAL TRENDS IN AGRICULTURAL COMMERCIALIZATION ACROSS THE COUNTRY

- 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



Source: Benson and De Weerd (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]



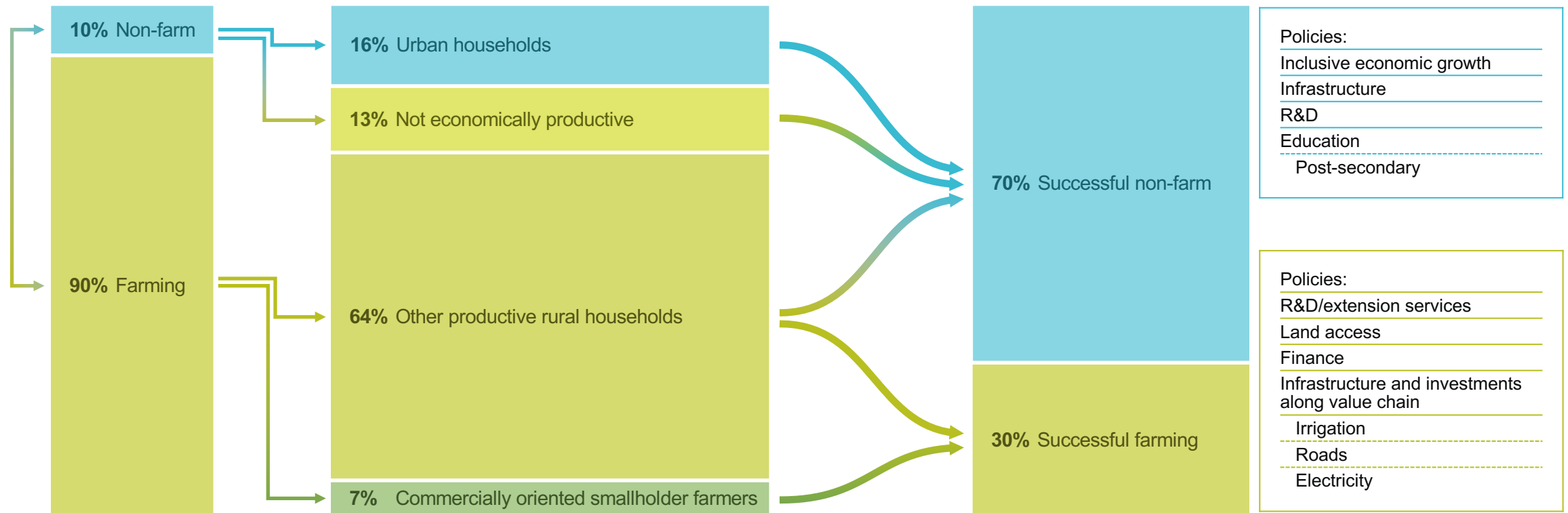
**greater inclusion**  
[especially for women]

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.

# STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

## 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

STRENGTHENING AGRICULTURAL COMMERCIALIZATION AND RURAL LABOR MARKETS

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

