

The Humanitarian Crisis in Southern Africa: Malawi

Submission to the International Development Committee

October 2002

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Introduction

1. We address in this submission three issues:

- ◆ Immediate causes of the 2001/2 food crisis in Malawi
- ◆ Underlying causes of the 2001/2 food crisis in Malawi
- ◆ Long term options for improved food security

In our discussion we use the following terms to describe general categories of players:

Donors: official multilateral and bilateral aid agencies

NGOs: both national and international non-governmental organisations

Government: political leaders (e.g. Ministers, Members of Parliament), government ministries (civil servants), and direct agents of the state such as parastatal bodies

It is not our intention to discuss the roles of any particular players within these categories.

Immediate causes of the 2001/2 food crisis in Malawi

2. Devereux (2002) provides a comprehensive description of the events that led up to the food crisis of increasing severity during the course of 2001. We summarise the main elements as follows:

2.1 *A fall in maize production*: There were two elements in this. First yields were below average, due to too much rainfall and lack of sunshine. Second, the two preceding seasons had bumper harvests, with good rainfall supported by widespread distribution of free maize production inputs under the Starter Pack input distribution programme, but this programme was scaled back in the 2000/1 season, and the effects of this were exacerbated by very late distribution of much of the inputs.

2.2 *Delays in recognising the maize shortfall*: Three types of information were available for use in famine prediction: crop production estimates, reports from rural areas, and maize prices. Crop production estimates are the most costly of these, but are now widely recognised to commonly contain large errors, particularly as regards estimates of root crop production (cassava and sweet potatoes). They seem, however, to have been the major type of information used by donors and higher levels of government. By October we were aware, in the UK, of reports from rural areas that were raising alarms about looming and very serious food shortages. These appear to have been largely ignored, at this stage, by donors and by government. Most surprising to us is the lack of examination of price changes. By October it was common knowledge that maize prices had spiralled (from around MK4 to around MK17 per kg). Theory and historical experience of the causes of famines around the world

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both suggest that rapid rises in staple food prices relative to purchasing ability are the key problem and symptom of famine situations, and therefore need to be taken very seriously. They are also relatively easy to monitor. Malawi has an extensive system of market surveys, and even without formal surveys many people know what is happening to prices. It therefore seems extraordinary that the dramatic rise in maize prices was not recognised as a key indicator of widespread and rapid deterioration in food security over the period June to October 2001.

- 2.3 *Shortages in national food stocks:* Devereux discusses the complex and controversial issues associated with the sale of the national food reserve. Key problems that we would highlight are (a) delays in recognising the maize shortage (as discussed above); and (b) problems with the National Food Reserve Agency's financial structure and grain management systems (the latter covering both the mechanisms for turning over maize stocks and systems for ensuring transparent and accountable disposals of stock).
- 2.4 *Difficulties and delays in importing maize:* As a consequence of delays in recognising the extent of the problem (delays which were compounded by donor complaints about economic mismanagement and corruption in government), attempts to import maize did not begin until food shortages had already led to very large maize price increases, with associated hardship and destitution. Simultaneous shortages elsewhere in the region, together with difficulties in managing the demands placed on an already difficult transport system meant that maize imports came into the country very slowly.
- 2.5 *Absence of appropriate distribution and access systems:* Within the country there seem to have been difficulties in (a) distribution to rural areas and (b) access by poor consumers. The physical and management infrastructure did not exist to manage the processes of identifying areas of need and directing supplies to them. There were widespread reports of hoarding, pilfering, and profiteering, so that maize prices did not fall even to the unsubsidised import price, which was itself far above what the poor could afford. This is in partial contrast to the situation which prevailed in the 1970 and 1980s, when government had greater (but far from perfect) capacity to identify regional shortages, and to ship-in and distribute food.

Underlying causes of the 2001/2 food crisis in Malawi

3. One of the questions that Devereux addresses is why a smaller production shock in 2001/2 led to a much larger food crisis as compared with the 1991/92 drought. This can be explained in terms of the other four elements described above. In 1991/92 these were, on the whole, dealt with rapidly and efficiently but in 2001/2 these problems compounded each other. Once the initial maize supply shock began to work through the system its effects were exacerbated by the weakness of the Malawian economy, weak governance, and deteriorating government/ NGO/ donor relations. These may be seen as the underlying causes of the food crisis.
 - 3.1 *The weakness of the Malawian economy:* Over the last few years the Malawian economy has gone into a dramatic decline, although estimates of economic growth (or decline) have been confused by problems with crop production estimates (mentioned earlier). Although liberalisation of agricultural markets, and in particular of burley tobacco production, should have opened up market access for rural areas, this has been patchy. The commercial agricultural sector has suffered from low commodity prices, and diversification out of tobacco has generally been unsuccessful, while tobacco production on large farms has become much less profitable: employment opportunities on tobacco estates have contracted dramatically. Other sources of formal employment in urban centres have also declined, and formal and informal wages have fallen in real terms, with high rates of inflation and devaluation of the Malawi Kwacha. This has been associated with increasing inequality in incomes in Malawi. High incidence of HIV/AIDS has been removing productive people from the working population, increasing dependency ratios, and eroding households' and communities' assets. Despite the growth in burley tobacco production and the higher than average harvests in 1999/2000 and 2000/1, the fall in maize production in 2001/2 therefore hit an increasingly vulnerable rural economy: rural people had very little

to fall back on in terms of assets and alternative income sources, and markets and market systems were very weak.

- 3.2 *Weak governance:* Any examination of conditions in Malawi today must recognise the difficulties posed by government systems that are often ineffective in managing resources and delivering services. Reports of corruption and patronage are widespread. These difficulties are illustrated by our examination of the elements contributing to the 2001/2 food crisis: unaccounted shortages in national food stocks, difficulties and delays in importing maize, and the absence of appropriate distribution and access systems are all associated with ineffective management at best, with common reports or rumours of misappropriation of maize or funds, reports which it seems are rarely subject to official investigation or action. Endemic problems make it very difficult for competent and upright officials to operate effectively. Further problems arise as a result of HIV/AIDS' effects on the administrative and professional cadres in government and in the economy as a whole. Another dimension of weak governance is the widespread increase in crime. Weak governance undermines the functioning of the national economy, and of rural economies within it, as well as inhibiting the effectiveness of government responses to crises.
- 3.3 *Poor government/ NGO/ donor relations:* Problems of weak governance lead to difficult relations between government, donors and NGOs. Differences in ethos, objectives, resources and operating procedures, but mutual dependence, lead to sometimes uneasy partnerships and lack of trust. This is particularly true of government/ donor relations: it was a major factor in delayed recognition of and response to emerging evidence of a famine crisis, and undermines donors' ability to work with government to promote development. Given the governance problems discussed above, the weakness of the Malawian economy, and its dependence on donors and NGOs for foreign exchange inflows and for budgetary support (both directly and through NGO provision of services normally provided by government), poor relations have a serious impact on economic development and on welfare and other services. A further cross-donor issue is internal changes in conceptual frameworks and resource allocation. There has been a run-down in interest in and expertise for the agricultural sector, consequent on a trend to switch support fostering a non-farm rural economy; while conceptually food access is seen almost exclusively as an "income" issue, rather than one that has important dimensions relating to farm production, stock policy and marketing systems. Thus it is very likely that 10 years ago donors would have had the expertise in country to spot, analyse and communicate the problem at an earlier stage.

Long term options for improved food security

4. Two broad approaches should be followed in pursuing improved food security in the future. The most fundamental need is to develop a market economy that delivers accessible food to all Malawians, with appropriate welfare support to the weak and vulnerable. This must be a long term task, which we discuss in more detail below. In the meantime lessons must be learnt from the failures in dealing with the recent crisis, to prevent these recurring in the future.
- 4.1 *Lessons for crisis management:*
Critical lessons emerge from our analysis in section 2.
- 4.1.1 Early warning systems should place more emphasis on maize price monitoring and on reports from rural areas.
- 4.1.2 The national food stock system needs to be redesigned to ensure proper stock control, access to finance, and transparent management of stocks.
- 4.1.3 Contingency plans and systems should be developed and put in place for the financing, purchase and transport of maize when an impending crisis is recognised

4.1.4 Contingency plans and systems should be developed and put in place for the financing and distribution of affordable food within the country when an impending crisis is recognised. This would involve identification of critically affected geographical areas and social groups within them, as well as development of transport and local distribution systems, and financing of at least targeted grain subsidies. This task would be much easier if an effective market system existed, and the development of this must be a key element in wider economic development, which we discuss below.

Development of these systems would have to address problems of moral hazard associated with any social insurance system, as well the endemic problems of weak governance discussed above. These are not easy issues to address. They should, however, be easier to address, if the rural economy could be strengthened, as this should simultaneously reduce the likelihood of these systems being required, and both reduce the demands made on them and strengthen their capacity when they are required.

4.2 *Developing a market economy:*

4.2.1 Four possible strategies are commonly proposed for rural development in Malawi: rural diversification out of agriculture; cash crop production; more intensive maize production; and diversification away from maize towards other staple crops (such as cassava and sweet potato). These are not mutually exclusive, indeed all of them are important and complementary, with their relative potential varying between different communities, different people within those communities, and over time. We would argue, however, that the strategy that is most likely to benefit the most people in the short term is intensification of maize production. This is the preferred staple of most Malawians (for good dietary and agro-economic reasons as it has very high calorie yields per ha) and accounts for a major proportion of their expenditure; there are tested technologies for increasing production; it is relatively easy to store, market and transport; and it is well suited to those parts of Malawi where the majority of people live. In contrast, rural diversification needs a significant and growing local demand for rural goods and services, financed by increased household income available for spending on non-agricultural goods and services, with falling real costs of food purchases: this is patently not a likely scenario for most Malawians without changes that increase food supplies and household incomes. Cash crop production can help with the latter, but faces difficulties in identifying suitable cash crops: there are possibilities apart from burley tobacco - for example paprika, pigeon peas, birds eye chillies – but all of these face questions about long term demand and the ability of Malawian smallholder farmers to meet exacting specifications in internal markets.

4.2.2 What then is the way forward? Historically, dramatic poverty reduction in other parts of the world has most commonly been achieved by technological and institutional changes that have led to increased labour productivity, increased demand for labour, and increased wage incomes in relation to staple food prices. This has generally involved in its earlier stages sustained increases in productivity in staple food production (wheat, rice or maize), outstripping population growth. Increased cash crop production has played a supporting role, and then once growth has been stimulated by increased agricultural productivity stimulating labour markets, diversification into non-farm activities has taken off, and taken over as the engine of poverty reducing growth. It should be noted that these processes do not necessarily involve technical and institutional interventions that directly target the poorest: they may be helped most by interventions that stimulate economic growth directly benefiting less poor people, but in doing so stimulate the demand by these people both for productive labour and for local goods and service that the poor can supply.

4.2.3 This perspective of the processes of poverty reduction suggests a development strategy that proceeds on three fronts: stimulating labour intensive agricultural production; support to the weak and vulnerable with safety nets; and investment in social infrastructure and human capital to enable the poor to take advantage of opportunities in growing labour markets. In Malawi this is a complex and challenging agenda, given the extent of poverty, the lack of education, the appalling health problems (for example AIDS, malaria and under – and mal- nutrition), weak governance, poor infrastructure, external

transport costs; etc. What then needs to be done that is not being done? What should be the priority for change in current policies? The current 'Cinderella' is *in the development of markets and institutions effectively supporting agricultural growth*.

4.2.4 We have argued elsewhere (Dorward and Kydd, 2002) that Malawi's rural communities are caught in poverty trap as low levels of agricultural productivity lead to low levels of market demand and marketed produce; low levels of market activity lead to high marketing costs and risks, preventing market development; and lack of market development prevents the use of more productive agricultural inputs and sales of farm produce (see also Dorward et al, 2002). It is widely recognised that the poverty trap affects individual households, but it is less widely recognised how it also affects the wider rural economy, and in particular agricultural input, finance and produce markets. Key conditions necessary for the rural economy to emerge from this trap are

- ◆ crops, technology development and input and output prices and interest rates that make investments in farming and in marketing profitable;
- ◆ systems that provide farmers and traders with reliable and coordinated demand and supply , together with some protection from risks of opportunistic behaviour (for example default on loans, exploitative prices, sale of adulterated seed or fertiliser, or use of biased scales);
- ◆ improved roads and other communications (such as mobile telephones);
- ◆ a momentum of growth and increasing trust in rural markets and services

4.2.5 While it is possible to list these necessary conditions for economic development, it is much more difficult to specify how they should be achieved. Our argument above suggests that a critical area needing attention is growth in maize production and in the markets and services needed to support this. We emphasise two critical issues needing urgent attention.

- ◆ First, development of input supply systems, secure financial services for saving and seasonal borrowing, and stable maize markets buying from and supplying rural areas at prices that both provide a reasonable return to producer investments and are affordable by food deficit households. We do not at present understand exactly what prices are necessary to achieve these conditions, nor do we know what systems might be able to deliver these prices and the sort of coordination and protection needed to nurture fragile market development. A return to old ADMARC systems is not viable, but there may be other more effective ways of achieving these goals, for example private companies tendering for franchises to deliver specific services at pre-determined, if necessary supported, prices
- ◆ Second, while considerable advances have been made in the development of maize technologies in terms of varietal development and specification of fertiliser rates, more progress is needed in the development of practical organic methods of providing soil nitrogen for maize production, to complement, and reduce, the application of inorganic fertilizers needed to support sustained higher yields.

4.2.6 These are both medium to long term agendas, needing investment and time for workable systems to be developed and introduced, and for their effects to impact on rural livelihoods. In the meantime support systems are needed. Food supplies are needed to begin to recapitalise the rural economy and to allow people to survive from one harvest to the next. It is essential, however, that all short and medium term aid should be working towards longer term goals, as regards improved governance, reduced dependency, development of functioning and equitable markets, infrastructural development, and increased agricultural productivity. One promising approach here may be 'agricultural inputs for work' programmes. If designed and administered appropriately these can be used to develop input supply markets and maize markets, improve rural roads, increase national and household maize production and food security, strengthen rural administrative capacity, and reduce dependency. They are also to some extent self targeting, though like all self targeting programmes other measures are needed to support the infirm, women with child care responsibilities, and others unable to participate in the work.

4.2.7 A final comment is needed regarding the sustainability of the proposals put forward here. None of them are sustainable in the sense that they are working towards a situation where the Malawian national economy is self sufficient: with current technologies Malawi needs, and will need for the foreseeable future, foreign exchange to import either food or fertiliser to feed itself. The challenge we address is the achievement of national and individual food security at reasonable cost and with wider poverty reducing social benefits. Malawi has never operated without substantial foreign exchange and budgetary support from donors, and its high (and increasing) population density, land locked situation, and lack of skills, institutions or natural resources to produce high value exports mean that there are no prospects or scenarios which we can currently identify and work towards to change this situation. The only realistic hopes for higher national income without continued subventions from donors are large scale movement of people out of Malawi into less densely populated areas in other countries, the development of new (bio-)technology that dramatically raises maize or other food crop production without the need imported inputs, or discovery of high value natural resources that transforms the economy (although even here other African countries' record in utilising oil and mineral wealth is not generally encouraging).

4.2.8 The need for long term support poses particular problems for donors in the context of weak governance and poor relations between government, donors and NGOs. There are no easy answers here, but we have suggested elsewhere (Dorward and Kydd, 2002) the following four principles to work towards in pursuing this agenda:

- ◆ *The fiscal costs of rural development must be set against the human, economic and financial costs of development failure, either continuing poverty and sporadic relief (with unacceptable human costs that are particularly apparent in the current crisis) or indefinite safety nets.*
- ◆ *Institutional innovation is needed to develop more imaginative solutions that reduce risk and promote coordination, sustainable investment, confidence and market development, addressing the twin problems of state and market failure that have each bedevilled in different ways both the market intervention and the market liberalisation approaches to development.*
- ◆ *Policies and interventions should be designed to be flexible and to address and match the varied and changing opportunities and constraints of different areas, with different balances of emphasis between wealth creation and safety nets and between different opportunities and different institutional mechanisms in different areas. This needs a phased approach that seizes opportunities as they arise and is prepared to move forward fast in areas where the way forward is clearer, while acting more cautiously where problems are more intractable. Varying emphasis is also needed on different types of technical change, and different technologies will need different types of phased institutional development.*
- ◆ *Policies and interventions should also be mutually consistent and long term, so that players have time to learn how to operate in a stable economic and institutional environment and have confidence that investments will yield returns in the short, medium and long term, and so that policies and interventions in different sectors and different areas do not work against each other. It is particularly important that short and medium term relief and poverty alleviation interventions should support rather than undermine longer term policies and processes of market and wealth creation.*

These are difficult issues to address, and we discuss elsewhere (Dorward and Kydd, 2002) some ideas as to how these principles might be pursued.

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