

**THE POLITICS OF AGRICULTURE:
UNDERSTANDING MALAWI'S TRANSITION FROM
ESTATE BASED EXPORT CROPS TO SMALLHOLDER
FOOD CROPS**

by

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ABSTRACT

This paper seeks to reveal the motivations for the Malawian government's decision to firstly, change its agricultural policies away from the estate bias to a clear smallholder bias and secondly, to undergo a fertilizer subsidy introduction and removal cycle throughout the period of Structural Adjustment. This paper will argue economic crisis forced President Banda to turn to the World Bank and accept the macroeconomic conditions imposed. Upon the advent of democratic transition, the Muluzi administration focused on building political support among the smallholders through the popular fertilizer input subsidy programme. Although the World Bank sought the removal of the programme, the government continued to reintroduce it, as it was politically beneficial. Additionally, unanticipated negative outcomes met each removal attempt, such as economic crisis or drought, reversing the removal. Consequently, the fertilizer subsidy programme has become a mainstay of Malawi's agricultural policies.

Keywords: estate bias; fertilizer subsidy; democratic transition; Structural Adjustment
smallholder bias

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1: INTRODUCTION

Food insecurity in much of sub-Saharan Africa is of paramount concern to both governments and individuals alike; however, the apparent trade-off between national food self-sufficiency and export-oriented growth based upon cash crops creates a complex dichotomy within agricultural policy. The case of Malawi illustrates this dichotomy well as its agricultural policy, originally biased towards the estate sector for the export of cash crops whose origins lie in the colonial period, has shifted to a focus on national food self-sufficiency reliant on the increased productivity of the smallholder food sector, primarily in maize. This new focus on the food crop sector has led to a large agricultural input subsidy program for smallholder farmers to increase yields, which tripled maize production in 2007 and took Malawi from a 43 percent national food deficit in 2005 to a 53 percent food surplus in 2007 (World Bank 2009). Additionally, Malawi exported a portion of the maize produced to neighbouring food insecure countries (World Bank 2009). Malawi has seen impressive growth rates in the past four years averaging 7.5 percent GDP per capita and 9.7 percent in 2008 (World Bank 2009). This paper seeks to explain the changes in Malawi's agricultural policies through the colonial and post-colonial periods in order to address the distinct transition from an estate bias to a smallholder one. The existing literature fails to explain why the government of Malawi made the drastic policy change from an estate bias to a smallholder bias; thus, this paper will address this question.

This paper will first examine the state of sub-Saharan Africa's agricultural sector as well as theoretical explanations that address changes in agricultural policy. Many traditionally characterize sub-Saharan Africa as being labour scarce and land abundant; however, Malawi is atypical to the common story (Edriss et al. 2004). In fact, it is quite the opposite with relative land scarcity and labour abundance. Therefore, this paper will next address the factor endowments and physical constraints in Malawi, as understanding the differences in Malawi is essential in order to adjust the conceptual framework commonly applied to sub-Saharan Africa. Following this discussion, this paper will study the case of Malawi in order to assess whether the theoretical explanations of African agriculture apply. For the purposes of this paper, I will distinguish Malawi's agricultural policies into five stages, each signifying a crucial change in Malawi's agricultural policy. The first is the colonial period from 1891 to 1964, which laid the foundation for the estate bias in agriculture. The second stage is independence, which followed the estate bias from 1964 to 1979 under the patrimonial rule of President Banda. The third stage is Structural Adjustment to democratic transition from 1979 to 1994, which reversed the estate bias and focused instead on smallholder maize production. This led to the fourth stage of democratic transition, which signalled a momentous turning point in Malawi's history, with the election of President Muluzi as well as a defined focus on the smallholder maize sector from 1994 to 2004. Finally, agricultural input subsidies are the focus of the current stage with President Mutharika in office, where significant growth in the production of smallholder maize has occurred. The paper will conclude that the estate bias was largely a product of colonial legacy, facilitated through the persistence of marketing boards. These boards enabled the post-

independence government to continue favouring the estate sector while achieving export-led growth at the expense of peasant producers. However, upon the advent of economic crisis, severe droughts, donor pressure and democracy, the interests of the government shifted to appeasing a broader populace of new voters. Indeed, President Mutharika was re-elected in 2009 largely because of his popular fertilizer input subsidy program aimed at food self-sufficiency and poverty reduction. Therefore, prior to the democratic transition, President Banda was able to engage in self-interested politics where the estate sector was favoured. However, following an economic crisis and the shift to democracy the government became responsible to a growing rural and food insecure population; thus, the current input subsidy program for increased productivity of the maize sector can be viewed as a political tool to secure votes.

2: THE STATE OF AFRICAN AGRICULTURE

2.1 Assessing the Agricultural Sector

Many assume that agriculture in sub-Saharan Africa is a failure or at best stagnant; however, this generalization is far too broad (Kydd & Doward, 2003). Many countries in Africa, including Malawi, have undergone several periods of strong agricultural growth. In fact, during the estate bias the agricultural sector was experiencing strong growth. Nonetheless, this occurred at a time when the majority of agricultural producers in the country were struggling primarily resulting from unfair prices offered by monopsonistic agencies. Therefore, this paper will examine theories that seek to explain why governments biased agricultural policies against the smallholder sector that comprised the majority of the population. Additionally, the existing literature fails to reveal why agricultural policy in Malawi changed from a strong estate bias to an extensive smallholder bias; thus, the purpose of this paper is to understand why this change occurred.

Much of the current literature focuses primarily on distinct events or periods in time, rather than addressing why the government of Malawi changed its policy focus throughout its history. Jonathan Kydd has contributed substantially to the literature on Malawi's agricultural policies, covering the colonial period and the creation of the estate bias (1982), the Structural Adjustment period and its effect on the agricultural sector (1986), as well as the current smallholder fertilizer subsidy program (2006) among others. Although his work is comprehensive, it does not address why the government of

Malawi would choose to change its policy focus away from the estate sector to the smallholder sector. Additionally, Lea and Hanmer (2009) have contributed to the literature on Malawi, providing useful insight into the current agricultural subsidy program and the subsequent growth of the smallholder maize sector through a historical analysis. They utilize Rodrik's binding constraints model and find that throughout Malawi's history, the exchange rate has been the most significant factor in effecting economic growth (Lea & Hanmer 2009). Although their article does address important factors that affected the agricultural policy changes, such as economic shocks, it does not reveal the rationale for the decision by the government. Finally, Jane Harrigan has greatly enhanced the literature relating to Malawi's agricultural policies; however, her articles focus on one primary policy or event, such as the Starter Pack Programme (2007) and Structural Adjustment (2003), rather than a comprehensive history that uncovers political motivations. Therefore, this paper seeks to fill this gap in the literature to understand why the government of Malawi made the drastic policy change from an estate bias to a smallholder bias. The following section will focus on a succession of theories that provide partial insights into this question.

2.2 Theoretical Explanations

2.2.1 Robert Bates

During the 1970s, many African countries were facing severe economic crisis, particularly in their agricultural sector. Robert Bates' seminal work *Markets and States in Tropical Africa: the Political Basis of Agricultural Policies* constructed an analytical model that predicted the rational behaviour of African politicians, using a rational choice approach in order to address the sector's problems. His model focused primarily on

explaining why African governments chose to tax the agricultural sector in order to obtain foreign exchange and promote industrialization. He based his theory upon the assumption that African policy-makers made decisions based upon political rather than economic rationality (Berry 1993). For example, in order to industrialize, governments sought to create incentives for farmers to expand their production through either price increases or subsidies for agricultural inputs, in which the latter tended to be the favourable policy as it was more politically attractive as officials could strategically allocate subsidies to garner political support (Bates 2005). Moreover, in order to withdraw revenues from the agricultural sector, the government used existing marketing boards to purchase and export agricultural goods at pre-determined prices (Bates 2005).

Marketing boards were established by European colonizers (Bates 2005) “partly in response to the widespread belief that they would raise prices, farm incomes, and export proceeds,” with the expressed intention to benefit farmers who were at a bargaining disadvantage due to the lack of a marketing system (Jones 1987, 375). Following independence Bates stated, “As public bodies, the marketing boards derive their powers from official statutes, and these statutes can be – and repeatedly have been – revised to make the boards more faithful servants of government” (2005, 15). Consequently, the government was able to use their capacity to coerce and control the markets to fragment rural opposition, tax export crops, and provide the generated rents to appease and produce support from the urban population and elites through food subsidies and development projects (Bates 2005).

Ultimately, Bates' theory articulated that governments followed a strategy of industrialization at the expense of the agricultural sector, where elites were the beneficiaries. Furthermore, governments went beyond merely taxing export crops in an effort to industrialize; rather, they produced negative incentives for essentially all agricultural producers, especially smallholder farmers of food crops, mainly in an effort to accumulate foreign exchange to develop the industrial sector. In order to maintain inexpensive food prices in the urban market, the government would import food, effectively decreasing the price of food on the domestic market and directly competing with smallholder producers (Bates 2005). Thus, one can conclude that, according to Bates, governments made a conscious decision to have an 'urban bias,' as Lipton suggested, and sought development at the agricultural sectors' expense.

Bates' theory provides a strong theoretical understanding to explain why governments chose to tax the agricultural sector; however, it does not explain why governments changed their agricultural policies away from taxation. Furthermore, Bates clearly argued that governments favoured the urban sector; however, this was not the case in Malawi. Rather, the government initially taxed the smallholder agricultural sector and directed the revenue into the estate sector instead of the urban sector. Nonetheless, the choice to favour the estate sector was a rational decision by the Banda government, as he and his officials, who comprised the elite, would personally benefit; therefore, this decision fits within Bates' rational choice framework.

2.2.2 Alternative Theoretical Explanations

Although Bates' theory provides a strong starting point in analyzing the agricultural policy decisions made by African governments, it is necessary to consider

alternative theoretical explanations to explain agricultural policy changes. Platteau stated that Bates assumed that policy choices were made in a manner that was seemingly unaffected by external factors, such as aid donors, the world economic situation, and investors (Platteau 1988). He argued that Bates' premise "is questionable and inherently limited in so far as it assumes that individuals implicitly apply a material benefit-cost calculus to their involvement in politics" (Platteau 1988, 461). Nonetheless, it may be equally presumptuous to assume politicians do not take some form of cost-benefit into account when making political decisions. For instance, President Banda of Malawi clearly calculated the personal benefit he could receive by further developing the estate sector at the expense of the smallholder producers. Additionally, Berry stated that Bates' argument "rests on two key, unstated assumptions: (a) that it is possible to identify unambiguously separate economically rational and politically rational courses of action, and (b) that African governments exercised complete freedom in their choice of agricultural policies" (Berry 1993, 1056). These assumptions did not take into account the economic realities of the time. Indeed, "turning the terms of trade against agricultural commodities was widely regarded as an effective, economically rational strategy for accelerating development in low-income countries, and African governments were encouraged, even pressured by donor governments and agencies to adopt such policies (Keynes 1943; Johnson 1953; Bhagwati 1952; Lewis 1954; Hirschman 1958; Prebisch 1949; Singer 1950) (Berry 1993, 1056). Consequently, given the volatility of the economy at the time, governments rationally pursued interventionist policies, which many economists supported. Therefore, it is unlikely that the governments made decisions entirely independently from outside influences as Bates implied.

Keith Hart offered an alternative hypothesis, arguing, “Modern states in Africa cannot be viable and achieve their historical objective of transforming the economy unless they can assure that reliable revenues flow into their treasury. As a result, most of their efforts tend to concentrate on undertaking large-scale projects oriented towards cash crops and on controlling agricultural trade through parastatals or publicly sponsored co-operatives which are able to provide the public exchequer with regular and sizeable proceeds for the least administrative cost” (Platteau 1988, 461). Hart stated that “the problem faced by all modern regimes, pre-colonial, colonial, and post-colonial, has been how to extract from a largely agricultural population a reliable income sufficient to support the regime's expenditure needs” (Hart 1982, 83). Thus, although the government of Malawi did favour the estate sector, it did not do so out of a specific anti-rural bias, but rather due to the necessity of generating consistent revenue, which marketing boards withdrew. Nevertheless, his hypothesis did not address the inefficiencies of these agencies largely “attributed to political favouritism in allocation of supplies and selection of staff – with consequent ineffective performance of basic functions of storage, transport, and processing – and to a ponderous bureaucracy that inhibits on-the-spot decision-making” (Jones 1987, 379) in conjunction with the substantial misuse of funds. Bates stated that marketing boards can afford inefficiencies due to their price-setting power and can therefore afford to be inefficient by passing the costs onto the farmers (Bates 2005). Therefore, if governments were operating primarily with the intention to accumulate substantial revenues, inefficient monopsonies would likely not be agencies to turn to. Similar to Bates, Hart focused primarily on understanding why governments tax

the agricultural sector; however, no explanation was provided that would clarify why the government of Malawi changed their agricultural policy away from the estate bias to favour smallholder maize production. Given Hart's hypothesis that revenue generation was central to the government's agricultural policy motivations, favouring smallholder maize production where the producers consume the majority of the crop, is contrary to his theory.

Conversely, Sara Berry noted that perhaps the issue was not a consistent, rational bias against agriculture, nor an attempt to generate reliable revenue, but rather a failure in the capacity of governments to communicate and make decisions effectively (Berry 1984; Platteau 1988). Indeed, it is only when the marketing agencies, government ministries and development groups are assumed to "act consistently and cooperatively in pursuit of single, well-defined sets of goals" that Bates and Hart could conceive their theories (Berry 1984, 65-66). Nonetheless, although it is likely that a substantial degree of miscommunication and poor information problems existed, it may be presumptuous to assume governments and marketing boards were incompetent to work together, particularly due to their proficiency in setting producer prices. The Banda regime in Malawi was extremely effective and organized in working with the marketing boards to restrict smallholder tobacco production as well as to set smallholder maize prices. This clearly indicates that governments had the capacity to communicate and act consistently. Berry's argument highlights the clear communication and organizational challenges in many African bureaucratic structures; however, it does not provide greater insight in understanding Malawi's agricultural policy changes.

Rodrik provided an alternative theory that can help illuminate why trade reforms have often been unsuccessful in sub-Saharan Africa, which applies to the case of Malawi following Structural Adjustment. He argued that implementation failures and reform reversals occur due to politics. Rodrik provided a useful modification to Bates' model, arguing that the problem with reforms was often due to external factors, such as extreme fiscal distress and macroeconomic instability, where no interest group benefited (Rodrik 1998). Similar to Berry, Rodrik's theory focused on the problem of misinformation over the beneficiaries and losers of reforms; however, he did not assume that governments were incapable of enacting efficient reform as Berry did (Rodrik 1998). Rodrik argued that following reform implementation, some experienced unexpected backlash, leading to the reversal of unpopular reforms, inhibiting their potential future success. The removal and reintroduction cycle of agricultural input subsidies in Malawi followed this pattern, which clearly resulted in a strong resentment of any agricultural reform that targeted the removal of the subsidy, thereby impeding any further reform. Thus, although the decision to enact a reform was rational and based upon particular interests as Bates argued, it may also lack some of the relevant information to determine the outcome, which led to inconsistent reforms and recurring policy changes.

Finally, this paper will argue that the transition to democracy in Malawi changed the stakeholders in agricultural policy. Prior to democracy, the elites retained economic and political power, influencing the government's agricultural policy, which focused on an estate bias. Indeed, Acemoglu and Robinson argued that the rich elite control non-democratic societies and exclude the poor from political power (2001). Moreover, the poor pose a revolutionary threat to the elite, particularly during times of economic

recession; therefore, the elite may attempt to placate the peasants in order to prevent democratic revolution (Acemoglu & Robinson 2001). The case of Malawi will illustrate that the smallholders, in conjunction with a small urban sector, both of whom the government neglected, did force a democratic transition in 1994 following significant economic crisis in the country. In an attempt to prevent this transition, the government provided smallholders with a fertilizer subsidy programme in an attempt to appease them. However, this attempt was not sufficient and democratic transition occurred. Subsequently, under the democratic regime, the smallholders became stakeholders in the government as they had the power to vote; therefore, the government's policies shifted from focusing on the elite to the smallholders in Malawi.

These theories have provided partial insights into understanding policy change in Malawi. Bates' model predicted that Malawi would experience an urban bias through the taxation of agriculture. Although an urban bias did not exist, an estate bias did where the elites benefited through taxing smallholder agriculture; therefore, Bates' model applies to the estate bias period. Additionally, Rodrik provided a useful framework to understand policy change that occurred in Malawi through his examination of reform implementation and reversal. Malawi experienced agricultural policy change away from the estate bias largely due to economic crisis and the influence of the World Bank through Structural Adjustment. Rodrik indicated that due to the uncertainties regarding the impacts of reforms, the government would reverse unpopular reforms, which occurred to Malawi's fertilizer input subsidy. Finally, Acemoglu and Robinson's democratic transition theory helps illuminate the shift of political power from the elite to the smallholders, as experienced in Malawi. The following section will analyse Malawi's factor

endowments, which reveal that although Malawi is typical to sub-Saharan Africa in her fragile soils, she is unique in being land scarce and labour abundant.

3: MALAWI'S FACTOR ENDOWMENTS

It is essential to understand the factor endowments in Malawi, in order to differentiate which theoretical assumptions about African agriculture apply. Most theories assume land abundance and labour scarcity in sub-Saharan Africa; however, the opposite is true of Malawi. It is a land-locked country with 9.4 million hectares of land, 56 percent being cultivable, with a high dependence on agriculture (Mataya 2002). The majority of Malawi's population is rural, with a relatively small urban population (Smale 1995). Malawi does not benefit from significant mineral endowments and is disadvantaged due to high transport costs, particularly because of the severely damaged export corridor through Mozambique due to the war of independence from 1964 to 1974 and the civil war from 1977 to 1992 (Lea & Hanmer 2009).

Malawi, similar to much of sub-Saharan Africa, suffers from fragile soils, which are thin and depleted particularly in phosphorous and nitrogen and "if they are easy to cultivate by hand, they are not very productive and they require long periods of time to recover after they have been farmed" (Platteau 1988, 483). Furthermore, Malawi suffers from a high vulnerability to recurrent drought and other harmful climactic conditions, which put a large strain on the agricultural sector. Indeed, there have been four severe droughts in Malawi in the past 25 years. Additionally, due to land scarcity, smallholder plot sizes are typically small leading to land overuse and soil depletion.

Furthermore, agriculture in Malawi is somewhat paradoxical as, unlike many countries in Africa, which are land abundant, and labour scarce, Malawi is land scarce

and abundant in labour; however, often during the peak cropping seasons, labour shortages still arise. This occurs mainly due to *ganyu* labourers, which is casual employment “used by better-endowed households or by estate owners mostly for agricultural production. *Ganyu* wages tend to be low and paid in cash or food” (Alwang 1999, 1463). Therefore, several studies (Evans, 1997; Peters, 1993) indicate that “land-scarce households neglect their fields to work as casual labourers” (Alwang 1999, 1463) as labour can be easily converted into cash.

This section has identified the key physical constraints and unique factor endowments in Malawi. One must pay particular attention to its land scarcity and relative labour abundance as this shaped the agricultural policies employed by the colonizers as well as the post-colonial government, mainly through controlling labour and restricting land use. These policies led to an estate bias in agricultural policy; however, this changed to a smallholder bias in 1979. Yet the existing literature does not reveal why this change occurred; thus, the purpose of this paper is to explain this policy change.

4: COLONIZATION OF NYASALAND: 1891 – 1964

The colonization of Nyasaland had a significant impact on Malawi's agricultural sector as it formulated the estate bias, which dominated Banda's agricultural agenda following independence. In order to understand why the government of Malawi decided to change its policy away from the estate bias towards a smallholder bias, it is first essential that one recognize the origin of the policy. This paper will draw several conclusions from the colonial period: the creation of an estate bias, a focus on smallholder maize production and food self-sufficiency, as well as a distrust of smallholder peasants by the estate sector.

The British established Malawi, formerly known as Nyasaland, as a protectorate in 1891. During the 1920s, many native farmers were involved in the cultivation of cotton and increasingly in dark-fined tobacco, which became the basis for the colonial economy (Green 2009). Nonetheless, the majority of tobacco production was “dominated by settler production on the enormous estates of the Shire Highlands” (McCracken 1983, 173). However, in an effort to maintain steadfast control over the production and marketing of cash crops, the colonial administration established the British Cotton Growing Association in 1923. The BCGA held monopoly rights to the trading of cotton in Nyasaland, with the administration stating that the African producer “does not understand market fluctuations” and thus they must not be in control of the marketing of the product (Green 2009, 252). Furthermore, many white farmers distrusted the native farmers and feared they would focus on quantity rather than quality of their

crops, leading to lower prices and consequently lower revenue for the government (Green 2009). Subsequently, in 1926 the Tobacco Ordinance was established which created the Native Tobacco Board that “required all tobacco growers and buyers to be registered, and the duties of the NTB were to assist and supervise growers on Crown Lands while tenants were left to act on their own” (Green 2009, 253). Additionally, the NTB ensured compulsory grading and quality and quantity control in order to cut and tax peasant production; however, the government did not impose these standards upon the estate producers (Van Donge 2002). Working in conjunction with the Tobacco Ordinance, the creation of the *thangata* system (also known as the visiting-tenant system) ensured control over peasant tobacco production. Under the system, peasant families lived on estate land where they were responsible to grow mainly tobacco that they sold to the estate at prices set by the owner (Kydd & Christiansen 1982). Therefore, from 1926 “the major strategy pursued by the NTB was to restrict the production of tobacco by independent peasants while ignoring increases of production by tenants on European estates” (McCracken 1983, 178).

Although the colonial government justified the utilization of the marketing boards to peasant producers by stating that they would benefit from a regulated and stable market and extension services would be provided, it was clear that the restrictions placed on the peasant were not created to benefit or protect them (Williams 1985). Indeed, even G. W. Kenyon-Slaney, a high-ranking colonial official stated: “While I have little sympathy with the Lilongwe native in most respects, one cannot help feeling that as a primary producer he has been the play thing of a rapacious middleman and that the Native Tobacco Board has done remarkably little – beyond collecting an enormous

revenue for itself – in the way of protecting him from these powerful interests”
(McCracken 1983, 172).

During World War II, the government used many African staff as soldiers and resources had essentially ceased from the British government, leaving Nyasaland financially strained (Green 2009). Additionally, “the depression revealed inefficiencies of a marketing system which relied upon avaricious middlemen (who extracted) ‘exorbitant prices’ when the economic climate was favourable and pulled out of the market if it was not so favourable, leaving growers despondent” (Ng’ong’ola 1986, 259). Yet the utilization of marketing boards continued, and in fact increased through the 1950s. In 1949 the government created the Maize Control Board and the Cotton Control Board; however, in 1956 all marketing boards in Nyasaland were amalgamated into the Agricultural Production and Marketing Board which was then superseded into the Farmers Marketing Board in 1962 (Chilowa 1998).

The colonial period also had a lasting legacy on the production of maize in Malawi as well as the notion of food security and food self-sufficiency. Until 1935, Nyasaland had not improved its transportation system or built a railway and thus the town sizes were much smaller than those in other colonies were; therefore, most Europeans settled elsewhere (Tindall 1968). In fact, in 1953 the ratio of Africans to Europeans in Nyasaland was 1:500, whereas it was 1:13 in Zimbabwe and 1:40 in Zambia (Thompson & Woodruff 1954). Given this small ratio of settlers, one can infer that the colonialists viewed Nyasaland as an extractive colony, which served the purpose of generating revenue rather than developing the settler economy. European land holding was only 14

to 15 percent of all land at its height in Nyasaland compared to 50 percent in Zimbabwe (Pachai 1973).

This relatively small settler population in Nyasaland enabled the colonizers to maintain greater individual control over their land and export crops. Accordingly, due to this small European population in conjunction with the *thangata* system “Malawi’s colonial planters, unlike Zimbabwe’s settler farmers, did not need to concern themselves with feeding plantation labourers and urban workers” (Smale 1995, 821). Rather, tenants were responsible for growing their own food and peasants were restricted from growing most cash crops and therefore primarily grew maize on customary land. Under this system, concerns of maize self-sufficiency did not demand government attention until the Great Famine of 1948/1949, which caused the administration to increase maize prices in order to raise maize output, which was exported (Smale 1995). However, the lack of a world market for maize during the 1950s, led the administration to set producer prices low enough to “coax only enough maize onto the official markets to support a small urban population and administration and maintain a modest level of stocks” (Smale 1995, 822). Therefore, the reliance on maize for food security resulting from large-scale drought began during the colonial period and continued well into Malawi’s history. Moreover, Malawi’s high transportation costs due to being landlocked also contributed to the high degree of price volatility for maize, which led to Malawi’s “historical commitment to food price stability and associated market regulation” (Jones & Jayne 1997, 1507).

Bates argued that colonial administrations utilized marketing agencies in order to generate revenue from the colonies, which was certainly the case in Nyasaland. The

British established large tobacco estates and restricted smallholders from growing lucrative varieties of tobacco, apart from the *thangata* system, which laid the foundation for the post-colonial governments' estate bias. The agricultural policies enacted during the colonial period clearly indicated bias against smallholder agricultural producers through the marketing boards and agricultural restrictions placed on farmers, which left a lasting legacy and largely affected the policy bias of the new administration.

5: ESTATE GROWTH: INDEPENDENCE 1964 – 1979

Nyasaland obtained independence in 1964 and renamed itself Malawi, becoming a single-party state with President Banda steadfastly in control. One can characterize this period as being highly influenced by the estate sector and the state marketing board, ADMARC, successor to the Farmers Marketing Board and the NTB, created in 1971. It is worth noting that “while the term ‘estates’ conjures up images of large farms, in Malawi estates are defined in terms of their right to grow certain – mainly export – crops, to employ labour, to sell produce at world prices, and to rent out land to tenants” (Lele 1990, 1208). Unlike many other countries in sub-Saharan Africa, Malawi “pursued an outward-oriented, agriculturally-based development strategy” (Government of Malawi 1971); however, there existed a severe bias within the agricultural sector in favour of the estate sector (Harrigan 2003). Bates’ argument regarding deliberate government policies to augment power and provide incentives to the rural elite while discriminating against the peasants can depict this era in Malawi’s history quite well. The use of marketing boards “provided a convenient way for governments to maintain control over the marketing of strategic commodities, such as the food staples and import export crops” (Barrett & Mutambatsere 2005, 5). Additionally, Jones noted, “an elemental reason for the persistence of marketing boards after independence in Anglophone Africa is simply that they were there. They had been a prominent part of the administrative apparatus inherited by the new nations, and were highly regarded as engines of government by their officers and staff, if only for reasons of self-interest” (1987, 389). As well, they

maintained a proven record of generating significant revenue and were weapons “against the possible extension of private dominant monopolies and the perceived threat of international trading companies” (Jones 1987, 389). Thus, ADMARC maintained a dominant position throughout President Banda’s period in office in order to continue the policy of estate bias.

Early after independence in 1967, the new estate owners were concerned with the over-production and poor quality of the smallholder tobacco crop, which resulted in President Banda imposing strict quotas through the NTB to exclude inefficient production by smallholders, leading to resentment, rioting and the burning of tobacco at markets (Thomas 1975). Soon thereafter, Banda increased investment in the estate sector, and held the position that “if smallholders could not produce the required increases, then economic growth was to be generated by the large-scale capitalist sector of agriculture” (Thomas 1975, 40). Conveniently, the government diverted most of the investment provided into estates that were “often owned by Banda and other senior members of the MCP” (Thomas 1975, 41). Clearly, Banda sought to develop the sector of the economy, estate agriculture, which was most personally advantageous to him. Evidence of this can be provided through ADMARC records which show that in March of 1972 investment from ADMARC totalled K4.6 million, of which over half, K2.42 million, went to estates, and only K0.29 million to government securities, K0.57 million to agro-industry, K0.60 million to other manufacturing and K0.72 million to services (Thomas 1975, 41). Although Banda stated that he was operating under a particular development strategy that sought to establish a high annual growth rate for 15 years through the estate sector, which was viewed as the ‘engine of growth (Smith 1995);’ it is

clear that Banda sought to increase his personal wealth through an estate-oriented development strategy.

Within two years of Malawi's independence, Banda "had secured for himself not only the Presidency of the country and its only legal political party, but also the Ministry of Agriculture, Foreign Affairs, and Public Works. In 1971, he was designated president-for-life. Parliament became a rubber-stamped institution filled with Banda's sycophants, where Banda exerted a strong measure of personal control over more than 50 percent of the entire national economy" (Posner 1995, 134). Through Banda's role as Minister of Agriculture, he was able to maintain acute control over the sector as well as develop its growth strategy. At independence in 1964, estate production accounted for 30 percent of total production, yet by the early 1980s, it accounted for 80 percent (Smale 1995, 822). The estate-based growth strategy enabled the political elite to gain economic strength as well as allowed new elite to form (Smale 1995; Lele 1990). Political favouritism to the elite was evident through the ground rents they were charged; "most estate land being leased from the state at annual ground rents of K1 per acre – for most Malawian landowners even this was not collected" (Kydd & Hewit 1986, 358).

Additionally, in 1965 the government of Ian Smith announced the Unilateral Declaration of Independence in Zimbabwe, which resulted in UN sanctions against the regime. Consequently, international buyers pushed Malawi to increase its tobacco and sugar production in order to compensate for the reduction in sales from Zimbabwe, illustrating the powerful role of the international market on production in Malawi (Smale 1995; Chembezi 1991; Gulhati 1989). Malawi gladly increased its production of flue-cured tobacco to supply the Virginian market and further encouraged international buyers

to support the development of burley tobacco (Kydd et al 2006). New estates opened from smallholder land, financed by bank loans with little to no equity, operated by political elite who had very little knowledge of agriculture or business (Kydd et al 2006). Moreover, ADMARC annexed smallholders' land and provided cheap labour for the development of the estates (Harrigan 2007). Furthermore, "after the 1973 Lome Convention, Malawi's tobacco also attained preferential access to the EEC market over US and South American tobacco through duty-free market status," (Smale 1995, 823) which enabled exponential growth in the estate sector. Therefore, Banda was able to significantly develop and expand the estate sector; yet the remainder of the economy remained stagnant at best.

Although export agriculture was thriving during the initial post-colonial period, food crops did not experience the same growth and political favouritism. In 1972, the government followed upon the Tobacco Ordinance from their colonial predecessors and introduced the Special Crops Act, which once again restricted smallholders from growing most varieties of tobacco. As a result, many smallholder farms got smaller using the land they did have for the country's largest monocrop, maize (Smale 1995). Due to the low prices farmers received for maize through ADMARC, they could not allow their land to lie fallow as they could not afford to absorb the costs of producing no maize for a season and thus, the quality of the land continued to deteriorate as the soil quality depleted from overuse. Furthermore, although estates could sell their crops at auction and could therefore earn market value for their tobacco, the government forced smallholders to sell the varieties of tobacco they could produce as well as maize, groundnuts and other crops, to ADMARC, receiving well below the world market price (Christiansen & Stackhouse

1989; Mtawali 1993; Van der Laan 1993). In fact, the average price smallholders received for their tobacco through ADMARC was one-third to one-half of what ADMARC earned at auctions, (Lele 1990) clearly indicating predatory pricing policies (Duncan & Jones 1993). Nonetheless, Banda stated that national food security through self-sufficiency was a priority throughout the 1970s and noted that he found it a matter of political prestige (Kydd et al 2006; Harrigan 2007). However, his food policy programme had both pro and anti poor aspects; the anti poor comprising poor pricing through ADMARC and the pro poor resulting through the Integrated Rural Development Programme (IRDP) which provided smallholders with useful agricultural inputs, including seed and fertilizer (Kydd et al 2006). Ultimately, Banda's food self-sufficiency policies consisted more of political rhetoric than policies to enhance the food security of peasants.

It is important to note that food self-sufficiency does not necessarily beget food security as often the majority of the food produced was consumed by the producers and did not make it to the market, as well as smallholder production could be volatile and strongly affected by market fluctuations and climactic conditions. Scholars generally accept that food security should be a priority over food self-sufficiency, which may take the form of importing food rather than producing it domestically (Platteau 1988).

One could view Banda's food security policies through self-sufficiency in maize as a political strategy to ensure smallholders continued producing low revenue generating crops, although essential to the country's stability, such as maize, while the elite could continue dominating the highly valued revenue generating export sector, largely through tobacco. Although it was surely necessary to ensure food security in order to appease the

populace, Banda took clear measures to restrict high-valued crop production to the elites. This action prevented smallholders from producing tobacco, which would earn much more in the competitive world market, and would generate significant revenue for the government. This illustrated that Hart's hypothesis based upon generating revenue for the public exchequer does not fit, as this was not Banda's primary concern. If Banda had focused on food security, he likely would not have restricted smallholder production of tobacco or other export crops that could have generated greater income for the producer as well as the government through export where they would acquire foreign exchange. This would have allowed smallholders to purchase imported or domestically produced food and could have spurred economic growth. Additionally, he could have encouraged a portion of the estate sector to rotate their tobacco production with maize in order to regenerate the land while producing greater maize supplies through a more efficient means than by many smallholders. Moreover, given the relatively small urban population in Malawi, the government could have provided higher producer prices to smallholders for maize in an effort to increase production and allow smallholders to purchase necessary inputs, rather than subsidizing the inputs. A policy of food self-sufficiency in conjunction with predatory pricing policies for the crop through a marketing board does not seem compatible, and thus one must conclude that Banda's priority was the estate sector rather than self-sufficient food production.

Banda did both tax and subsidize agricultural producers, with the estate sector receiving the majority of the subsidies. Although, Banda did not tax agriculture in order to industrialize, as Bates predicted, he instead chose to tax smallholder producers in order to develop the estate sector, where he was a significant beneficiary, both personally

through a significant accumulation of wealth and politically by profiting a faithful elite who supported his policies. Therefore, Bates' model can help explain Banda's agricultural rationalization, as the government channelled revenue from ADMARC into the estate sector, where the government had the most to gain, as opposed to the urban sector.

Malawi experienced an average economic growth rate of 6 percent per capita from 1964 to 1979 (Sen & Chikunda 2002, 4). Nonetheless, in 1979 Malawi faced economic collapse, which led to a shift in focus from the estate to the smallholder sector. Marketing boards were no longer raising substantial revenues, thereby inhibiting the development of the estate sector. Additionally, the government had no option but to turn to the World Bank for financial support, which led to a significant restructuring of the economy and agricultural policies.

During the late 1970s, several external shocks had a significant impact on Malawi's economic performance. Rising energy prices due to the oil shock, disrupted trade routes due to the civil war in Mozambique and high flows of refugees, drought and falling terms of trade all led to a large decline in economic growth, falling to 3% in 1980 (Sen & Chinkunda 2002; Lea & Hanmer 2009; Lele 1990). The second oil shock in 1979 had a significant impact on the economy. "The price increase was followed by a fall in the price of tobacco and a drought, resulting in an increase in the current account deficit that exceeded 12 percent of GDP in 1980, and a virtual doubling of the debt service ratio between 1978 and 1980" (Lele 1990, 1210). Moreover, the cost of transportation through Mozambique increased by \$50 million and the population increased 6 percent due to refugees from the Mozambican Civil War during a drought season in 1980 (Lele 1990).

Additionally, the tobacco estates were experiencing financial trouble largely due to poor management and high loans, causing significant strain on the banking system in Malawi (Kydd & Hewit 1986). As well, ADMARC was facing mounting debt and financial insolvency. Given these factors, Banda had no choice but to reach out to international donors to help restructure the troubled economy; the imposed solution came in the form of Structural Adjustment. These macroeconomic and external factors signify the motivation that caused Banda to depart from his favoured policy of an estate bias to accept Structural Adjustment, which would surely alter his agricultural policies; however, he had little choice, as his alternative of not accepting donor support would lead to macroeconomic and potentially political collapse.

6: FROM STRUCTURAL ADJUSTMENT TO DEMOCRATIC TRANSITION: 1979 - 1994

The *Accelerated Development in Sub-Saharan Africa* report written by Elliot Berg in 1981 was highly influential in the decision to employ Structural Adjustment programmes in developing nations, particularly in Africa. This report, heavily influenced by Robert Bates' theory, evaluated the state of the economies of sub-Saharan Africa (Berry 1993, Whitaker 1986). The Berg Report stated that "the high level of taxation of export crops through export taxes, marketing board levies, excessive marketing costs, and overvalued exchange rates have kept export production in many countries below what it could have been, and hence contributed to the steep fall in Africa's share in the world market" (1981, 55). Thus, it took the view that the inefficiencies of state marketing boards played a crucial role in Africa's failing economies, and consequently, liberalization of these entities would be essential. In fact, it found that many marketing boards were no longer generating development capital but rather simply multiplying their bureaucratic structures in order to provide employment to elites (Kadyampakeni 1988). Additionally, it found that "agricultural output is the single most important determinant of overall economic growth (and) its sluggish record in recent years is the principal factor underlying the poor economic performance of Africa" (World Bank 1981, 45). The role of agriculture for African economies was paramount due to the theory that a positive price elasticity of supply encourages higher prices leading to greater production, and increased production stimulates demand for purchased inputs, including hired labour (Barrett & Carter 1994). Indeed, "larger agricultural incomes have significant multiplier

effects due to relatively poor farmers' high marginal propensity to consume; thus a liberalized agricultural sector is expected to propagate prosperity across all sectors of the economy in a distributionally progressive manner" (Barrett & Carter 1994, 1). In order to liberalize the agricultural sector, the World Bank proposed that marketing boards should be liberalized by allowing marketing to be taken over by the private sector, decreasing or eliminating the provision of subsidies for inputs and reduce their price setting powers (Baker 1984).

Following a severe economic crisis in 1979 in Malawi, the government recognized it had no option than to turn to international donors for aid, which would inevitably require significant macroeconomic reform. Malawi received Structural Adjustment Loans from the World Bank in three reform phases totalling \$224 million (Lele 1990). The dogmatism of the World Bank and their price focused and state minimalist policies dominated the first phase, from 1981 to 1987 (Harrigan 2003; Lipton 1987). The second phase, between 1988 and 1994, was more flexible in its reform structure and acknowledged the critique of earlier reforms (Harrigan 2003). However, the third phase, between 1994 and 2003, experienced a growing schism between the new government of Malawi and the World Bank, largely in response to agricultural input subsidies for smallholder production of maize provided by the government, which the World Bank opposed (Harrigan 2003).

The World Bank's initial aim in Malawi was to eliminate the bias against smallholders. They sought to achieve this through removing smallholder restrictions of cash crops, namely tobacco, and by increasing producer prices offered by ADMARC (Harrigan 2003). Although the World Bank sought to liberalize ADMARC, the

government refused to do so, although it did allow ADMARC to offer higher prices to producers. Additionally, the price of maize remained low in order to promote smallholders to produce export crops. The reforms clearly focused on reducing the significant government intervention in the agricultural sector and easing the price distortions and restrictions that impeded smallholder growth. In 1987, the marketing of smallholder agriculture was deregulated by an Act of Parliament, which eliminated ADMARC's quasi-monopsony power in smallholder agricultural price setting; (Sen & Chikunda 2002) although it remains an important actor and continued to be the dominant purchaser of maize and distributor of inputs (Barrett & Mutambatsere 2005).

Additional conditions involved “eliminating consumer price subsidies; an ill-fated effort to eliminate the fertilizer subsidy; exchange and interest rate adjustments; higher fees for public utilities and services; cuts in public expenditures; and within agriculture, a shift away from the National Rural Development Program (NRDP) toward agricultural research and extension and the liberalization of parastatals” (Lele 1990, 1211). During 1985 to 1988, the government of Malawi agreed to a phased Fertilizer Subsidy Removal Programme (FSRP); however, the government abandoned the FSRP in the second year due to poor rains, rising costs of imported fertilizer due to the disrupted trade routes through Mozambique, a large influx of refugees, and large currency devaluation (Kherallah et al 2000; Sahn & Arulpragasam 1991). It is important to note that the subsidy removal process led to the liberalization of fertilizer prices; consequently, the large currency devaluation in conjunction with the high transportation costs led to exorbitant fertilizer prices unattainable by most producers.

The sudden change to smallholder export crop production led to a national food crisis in 1987 where the government was forced to import 140 000 million tonnes of maize (Harrigan 2007). Indeed, the first SAL “contains not a single reference, either direct or oblique, to the issue of how to maintain food supplies during the period of the first SAL, even though this was at the time a major preoccupation of Malawi’s national media” (Kydd & Hewit 1986, 357). Therefore, it is understandable that Banda chose to ignore the Bank’s advice on particularly the FSRP given the “incoherent analysis of what were achievable levels and composition of peasant production” (Kydd & Hewit 1986, 357). It is clear that when Banda chose to accept the FSRP he could not predict the outcome or the external factors, such as the 1987 food crisis. Rodrik argued that misinformation and uncertainty of the outcomes of reforms often lead to reform reversal, which clearly fits with the rescinding of the FSRP in Malawi. Therefore, due to the misinformation in conjunction with negative outcomes of the reform, Banda chose to reverse the reform, following Rodrik’s hypothesis.

Following the food crisis, a schism between the World Bank and the government grew based upon the Bank’s position that market liberalization through the elimination of fertilizer subsidies and promotion of cash crop production would lead to greater food security whereas the Ministry of Agriculture believed that food security required food self-sufficiency and state intervention (Harrigan 2003). However, the 1987 food crisis as well as the growing anti-reform sentiment led Banda to violate the first SAL conditions. Consequently, in mid-1987 he increased the producer price of maize by 36 percent and reintroduced the fertilizer subsidy at 22 percent above the pre-reform levels (Harrigan 2003).

In light of the dramatic actions taken by Banda's administration as well as the food crisis, the World Bank approached Malawi's second SAL in a more flexible manner. The new Agricultural Sector Adjustment Credit (ASAC) programme addressed key constraints in Malawi which included a "smallholder land shortage and under utilization of estate land; the crop growing restrictions placed on smallholders; lack of credit and extension services especially for smallholder farmers; inadequate market and transport infrastructure; lack of research into improved maize varieties acceptable to farmers and a lack of fertilizer uptake by smallholder farmers including subsistence producers" (Harrigan 2003, 851). Finally, after years of smallholder restriction to produce burley tobacco, the government repealed the Special Crops Act in 1991 and in the years that followed, smallholder production increased 70 percent (Lea & Hanmer 2009; Kydd et al 2006). Additionally, the ASAC programme discontinued the transfer of customary land to estates; increased estate rents; continued the fertilizer subsidy program; encouraged the development of private traders; and increased public sector investment in agriculture (Harrigan 2003).

The ASAC programme represented a clear policy reversal by the World Bank to accept the fertilizer subsidy program. However, these reforms were interrupted by a wide spread drought in 1992 and 1994, as well as a large influx of refugees from Mozambique and the suspension of non-humanitarian aid to Malawi due to protests of Banda's non-democratic activities in 1992 and 1993 (Harrigan 2003). The democratic transition in 1994 constituted a pivotal year for Malawi with the election of President Muluzi

7: DEMOCRATIC TRANSITION: 1994 – 2004

Malawi held its first democratic election in 1994, following thirty years of authoritarian rule by President Banda, leading to the election of President Muluzi of the United Democratic Front (UDF). Following anti-democratic behaviour during the early 1990s and continued resentment among smallholder agricultural producers, the poor began protesting for political change. Furthermore, pressure from the international community, particularly international donors for the protection of human rights and democracy, had a significant impact on the unseating of Banda's regime.

Additionally, it is worth noting, "Had Banda's ownership of most of the country's commercial enterprises and agricultural estates been less well known, the class resentments of poor Malawians might have been aimed at the business community rather than at Banda personally. That they were not aimed at business made possible the alliance between rural farmers and urban commercial interests that was crucial to the ultimate unseating of the MCP regime" (Posner 1995, 137). According to this statement, it is evident that Banda's food security and pro-poor rhetoric did not convince smallholder farmers, as well as, Banda's political favouritism and personal motivations ultimately led to his own political destruction. Moreover, it is interesting to note that due to Banda's personal agricultural agenda, his lack of attention to the urban commercial sector in conjunction with the rural smallholder sector also led to his unseating. Bates stated that governments would engage in anti-agricultural policies, such as utilizing marketing boards to tax the agricultural sector, in an effort to industrialize (2005).

However, Banda did not tax agriculture to industrialize; rather, he taxed smallholder agriculture in order to develop estate agriculture, while neglecting the industrial sector. Therefore, over the course of his political rule, he antagonized two distinct yet essential sectors of the economy. Bates also argued that generally, rural peasants were unable to mobilize to oppose government due to their lack of resources and time as well as the widespread nature of rural agriculture (2005). Nonetheless, due to Malawi's high population densities and small size (generally 0.5 hectares) of plots, rural peasants' ability to mobilize was greater than other more land abundant countries. In addition, Banda's disregard of the urban sector, who could mobilize easily, further illustrates that his overriding priority was his own personal economic advancement rather than the development of his country; otherwise he would have invested more heavily in the urban sector in an effort to placate opposition. As the events of 1994 illustrated, the people would not tolerate this indefinitely.

Malawi's politics experienced a dramatic transformation in 1994 due to both the election of President Muluzi as well as the signing of the Mozambique peace treaty, which had a significant effect on Malawi's economy (Harrigan 2003). Muluzi's platform prioritized poverty reduction and divorced itself from the agricultural policies of the past (estate-based growth), in spite of recent agricultural growth. Nonetheless, the new administration continued with the agricultural reforms, which resulted in a 43.6 percent growth in agriculture in 1995 and 41 percent in 1996 (Harrigan 2003, 852). Additionally, in these years, the economy grew 14.3 percent and 10.9 percent respectively and smallholder burley tobacco production increased from 3,000 tonnes in 1991/1992 to 81,000 tonnes in 1997/1998 (Harrigan 2003, 852), chiefly due to the lifting of restrictions

to smallholder tobacco production. Moreover, the government changed the maize pricing system from a pan-territorial and pan-seasonal system to a price band, entrusted to ADMARC; though it was also able to determine and change the price across markets and seasons (Chilowa 1998).

However, the schism between the World Bank and the new government regarding fertilizer subsidies continued as the new regime believed that the subsidy programme was essential to their pro-poor development strategy as well as national food self-sufficiency. In the early 1990s, the government had introduced the Drought Recovery Inputs Programme (DRIP), which distributed free maize seed and fertilizer to 1.3 million smallholder households (Harrigan 2007). Nevertheless, in 1994/1995, under pressure from the World Bank, the government dropped the programme, which coincided with the collapse of the Smallholder Credit Association (SACA) (Harrigan 2007). Furthermore, in 1996/1997 the government agreed to phase out additional fertilizer subsidies and free input packages in accordance to the World Bank's loan conditions (Harrigan 2003). However, with a sharp devaluation of the kwacha in 1997 fertilizer prices were among the highest in the world, and smallholder hybrid maize became less profitable, leading to a collapse of the smallholder maize sector (Sen & Chikunda 2002; Harrigan 2003). In 1997, the World Bank's country report for Malawi stated "Do not reintroduce credit or fertilizer subsidies: not only are they fiscally unsustainable but they encourage inefficient resource use and undermine other efforts to develop sustainable market-based institutions" (World Bank 1997, xii). In 1999, the government of Malawi failed to fulfil the conditions for their first Fiscal Restructuring and Deregulation Program Loan and therefore did not receive the second loan for \$30 million (Harrigan 2003).

Rodrik's theory regarding the reform reintroduction and reversal cycle can explain Malawi's post democratic transition, as a clear reform bias formed resulting from misinformation of reform outcomes. It is unlikely that the government of Malawi would choose to agree to the World Bank conditions with the intention of reversing the reforms and forfeiting the loan money. Rather, unforeseen outcomes and external factors caused the government to renege on their loan commitments. Indeed, there is no evident benefactor based upon Bates' model that explains the choice to reverse the reform resulting in a loss of a \$30 million World Bank Loan; thus, Rodrik's model is more compatible with the policy choices in Malawi throughout the Structural Adjustment period.

Muluzi's populist agricultural policies had become highly politicized and the World Bank chose to change their strict position against subsidies in Malawi. Beginning in 1998, the UDF responded to a food crisis in Malawi by introducing a \$23.5 million Starter Pack Programme that provided 15 kilograms of free fertilizer, 2 kilograms of hybrid maize seed, 1 kilogram of legume seed and agricultural extension services for all smallholders to cultivate 0.1 hectares of land (Crawford et al 2005; Harrigan 2003). The intention of the program was to "increase maize yields and food security, countering soil nutrient depletion, and making a new line of fertilizer-responsive semi-flint hybrids available to smallholder farmers who otherwise might not take the risk to experiment with them" (Crawford et al 2005, 22). However, the program received a great deal of criticism due to the unsustainable cost, logistical weaknesses, as well as the undermining of the development of the private sector; therefore, the program was reduced to the Targeted Input Programme (TIP) in 1999 to 2001 (Sen & Chikunda 2002; Harrigan

2007). Nonetheless, Levy argued that the Starter Pack Programme contributed to the re-election of President Muluzi in 1999 due to the national popular support of the program (2003). Additionally, in 2000 price bands for maize, controlled through ADMARC, were abolished and replaced with indicative prices; (Mataya 2002) as well as the National Food Reserve Agency was created to manage the Strategic Grain Reserve, which was a fundamental tool for the government's food self-sufficiency policy (GoM 2006).

The transition to a new government and the policies that resulted clearly indicated inconsistencies of both the new administration as well as the World Bank. Indeed, "both donor and recipient have been turning full circle, the Bank retreating back toward its state minimalism of the early 1980s and the government edging toward its interventionism of the 1970s" (Harrigan 2003, 847-8). The Muluzi government had an increasingly troubling macroeconomic situation, with inflation reaching 83 percent in 1995, finally controlled to 10 percent in 2003 (Lea & Hanmer 2009, 4). Additionally, the government borrowed excessively from the treasury with a real interest rate of over 20 percent between 2000 and 2004, effectively deterring investment (Lea & Hanmer 2009, 4). This poor macroeconomic situation ultimately led Muluzi to succumb to Mutharika in the next election.

8: AGRICULTURAL GROWTH & FERTILIZER SUBSIDIES: 2005 – 2009

The transition to democracy in 1994 in Malawi had significant and lasting implications for the country, specifically through the new focus on smallholder producers within agricultural policy. President Muluzi was elected by the population comprised mainly of smallholder agriculturalists; thus, he targeted his agricultural policies to benefit the masses in an effort to retain power. Prior to democracy, President Banda did not have the same pressure to satisfy the demands of the smallholders. Acemoglu and Robinson argued that in non-democratic societies the elites restricted the peasants from political power (2001). Consequently, Banda was able to focus his agricultural policies and growth strategy in a manner that would personally benefit him and the elites, as evident through the estate biased policies he enacted, as Bates predicted. President Muluzi, however, implemented developmental policies focused on smallholder agriculture, shifting away from the estate bias of the past. Nonetheless, these policies resulted in a troubled economy and ultimately he was defeated by the new President Mutharika of the Democratic Progressive Party in 2004, although supported by Muluzi.

The new administration followed a similar development strategy of smallholder maize expansion for food self-sufficiency through fertilizer subsidies. In fact, Mutharika had proposed a fertilizer subsidy programme as a part of his larger Malawi Economic Growth Strategy during the election, which contributed to his electoral victory (Kydd et al 2006). In 2009, Mutharika was re-elected to the Presidency obtaining 66 percent of the

popular vote (World Bank 2009). His continued success is largely due to his agricultural and development agenda which targets smallholders and therefore, generates support among the masses. The power of the rural smallholders to mobilize and effect political change in Malawi is a significant departure from Bates' theory. Bates argued that rural peasants were unable to mobilize whereas urban inhabitants could mobilize in opposition; therefore the government would seek to appease the urban rather than the rural population. However, given the relatively small urban population in Malawi, as well as the moderately small plot sizes and continued use of ADMARC as a distribution agency for subsidies, smallholders were able to assemble. Moreover, the democratic process provided smallholders with the ability to vote and, thus, play a part in the political process, which Bates did not factor in to his theory.

Under the Mutharika administration, a development agenda was set which focused on food-self-sufficiency largely through the utilization of agricultural input subsidies. The Malawi Growth and Development Strategy 2006-2011 is focused on "poverty reduction through sustainable economic growth and infrastructure development" and targets six priority areas, with the first being agricultural and food security (Government of Malawi 2006, 1). The MGDS is the means to achieve Malawi's Vision 2020, which states that "by the year 2020 Malawi as a God fearing nation, will be secure, democratically mature, environmental sustainable, self-reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and a technologically driven middle-income economy," and builds upon the Malawi Economic Growth Strategy (Government of Malawi 2006, 2). The mainstay of this policy agenda is focused on increasing maize yields by deeming maize a 'strategic

crop,' where it is "subject to import and export bans (more recently intervening to set the domestic price). Together with good rains, the increased use of fertilizer has increased yields and in the last three seasons has substantially strengthened food security" (Lea & Hanmer 2009, 8). Nonetheless, although maize is essential to the welfare of Malawians, it does not contribute much to the GDP or economic growth, due to the majority of the crop being consumed domestically often before it is marketed (Lea & Hanmer 2009). In fact, the Poverty and Vulnerability Assessment finds that only 10 to 15 percent of the total maize crop in Malawi is sold, which is a significant factor for Malawi's long term growth (World Bank 2006).

Exports have been the main driver of economic growth dominated by tobacco (60 percent of 1994-2008 revenue) followed by tea, sugar, cotton and apparel (Lea & Hanmer 2009). These exports experience a multiplier effect, where each additional 1 percent increase in the real domestic value of the export crop influences GDP to increase 1.9 percent (Lea & Hanmer 2009). Additionally, Malawi's "domestic price of key exports and the devaluation of the real exchange rate continue to be a central policy tool for growth (Lea & Hanmer 2009). During 2002 to 2005, Malawi was not achieving the 7 percent growth rate deemed necessary to address poverty reduction, although growth was slowly occurring (United Nations 2005). Thus, in 2005 the government used budget funds along with UN support to import fertilizer and improved maize seed through a large-scale new subsidy programme (Denning et al 2009). The programme was based upon the allocation of coupons to provide fertilizer for one hectare (0.4 ha); seed was sold at one third of the world price (worth US\$44 and paid US\$16.40) totalling a 63 percent subsidy (Denning et al 2009). Although the programme had no specific pro-poor

targeting, it resulted in a bumper harvest in 2006 valued at an additional US\$117 million in crop production (Denning et al 2009). The “budgetary allocation, representing less than 7 percent of the 2005/2006 national budget (US\$5/person/year), supplemented in 2006/2007 by donor support (less than US\$1/person/year), is a remarkably small price to pay for achieving national food self-sufficiency and widespread household food security. By comparison, the cost of importing food in 2004/2005 was US\$110 million (about \$US8/person/year)” (Denning et al 2009, 7). Nonetheless, the price of fertilizer rose substantially in 2007 and 2008 nearly doubling the cost of the programme leading to a projected budget shortfall of nearly US\$80 million (Denning et al 2009). Additionally, the World Bank noted that due to the scale of the programme, the budgetary costs are difficult to control and smallholder commercial fertilizer sales have been, for the most part, displaced (2008).

Although the fertilizer subsidy programme has led to increased food self-sufficiency, it does not directly contribute to GDP growth and is very vulnerable to increasing world market prices for the inputs, particularly for imported fertilizer. If fertilizer prices increase, the government will lose significant revenue trying to sustain the subsidy program, which will not replenish much revenue in the future due to the low quantity of maize sold at the market. Additionally, the lack of crop diversification throughout the country places Malawi in a continually susceptible position as recent growth is due to rising tobacco prices and a depreciation in the real exchange rate (Lea & Hanmer 2009). However, “the majority of Malawi’s tobacco crop is burley which is used mainly as neutral flavoured filler in the market for high-end cigarettes” (Lea & Hanmer 2009, 17). Consequently, there is a ceiling demand for burley tobacco, which makes it

“unlikely that Malawi could multiply up tobacco production over the medium term without bringing about a decline in the world market price” (Lea & Hanmer 2009, 17). Nonetheless, the increased production and availability of maize to the urban and rural population has improved food security, allowing additional smallholder farmers to produce lucrative cash crops. These cash crops in turn act as the largest source of export revenue, which enables the government to develop the industrial and manufacturing sector, which has seen an increase recently, specifically in apparel. Indeed, the growth that has occurred in Malawi is largely due to the multiplier effect of the export sector, as well as the use of devaluing the exchange rate (although the exchange rate is still overvalued) (Lea & Hanmer 2009).

In response to Malawi’s economic growth, the World Bank stated that they “strongly support Malawi’s efforts to improve smallholder production. The national input subsidy has made an important contribution to this objective” (World Bank 2009). Additionally, they stated that it is an error to assume that “Malawi’s subsidy program was ‘against Bank advice’” (World Bank 2009), asserting, “The World Bank is not against subsidies per se” (World Bank 2009), rather they advise that the subsidies should be targeted and provide exit options (World Bank 2009). Nonetheless, the 1997 World Bank Country Report for Malawi did unabatedly target the removal of all input subsidies. Thus, with new donor support of the subsidy programme, the government has sought to increase the distribution of vouchers to farmers (World Bank 2008). It is clear that the World Bank changed their position on Malawi’s agricultural subsidies throughout this period, likely due to the Malawian government’s unwillingness to remove them along with recent economic growth. However, the World Bank does urge the Malawian

government to consider an exit option for the subsidy, as it is not sustainable in the long term.

With the apparent support from international donors, the fertilizer subsidy programme in 2008/2009 totalled 4.6 percent of GDP, or approximately one third of the aid inflows; therefore, foreign aid has enabled the subsidy programme to continue, in spite of concerns over the fiscal sustainability of the programme (Lea & Hanmer 2009). Under the current Malawian government, the reform bias against subsidy removal has solidified and the subsidy has become a mainstay of agricultural policy; thus, it is unlikely that the input subsidy programme will cease to exist any time soon, especially in light of the recent growth in the economy and the food sector.

9: CONCLUSIONS & LESSONS LEARNED

This paper has sought to reveal the motivations for the Malawian government's decision to firstly, change its agricultural policies away from the estate bias to a clear smallholder bias and secondly, to undergo a fertilizer subsidy introduction and removal cycle throughout the period of Structural Adjustment. The existing literature does not address why the above changes in agricultural policy occurred in Malawi, which this paper has sought to explain. This section will discuss the implications of the theories previously discussed in relation to the above historical narrative in order to explain why agricultural policy changes occurred in Malawi.

Bates' model predicted that governments in Africa would impose an urban bias through the taxation of agriculture. Although an urban bias did not exist in Malawi, an estate bias did where the elites benefited through taxing smallholder agriculture. Moreover, Rodrik argued that misinformation regarding the outcomes of reforms would cause a reform reversal process due to the creation of a reform bias, which occurred to Malawi's fertilizer input subsidy. Finally, Acemoglu and Robinson argued that peasants lacked political power in non-democratic regimes; therefore, they would push for democratic transition and obtained more power once the transition occurred, as experienced in Malawi.

During the initial post-colonial period, under the Banda regime, Malawi followed an estate-based growth strategy biased against smallholder agricultural producers. Rather than taxing agriculture in order to promote industrial growth as expected by Bates and

Hart, Banda taxed smallholder agriculture in order to develop the estate sector, for which he was a beneficiary through his personal ownership of large tobacco estates. This paper has utilized Bates' theory, based upon rational choice, to uncover the motivation for Banda's agricultural policies. Rather than assume that government focused its policies on industrialization, it is more important to find the most politically and economically fruitful sector to the government elites, as this was likely the favoured sector of the economy, and clearly was in the case of Malawi. Bates argued that governments used subsidies rather than increasing food prices, as they were more politically attractive. Indeed, the government of Malawi used subsidies historically and currently in agriculture. Nonetheless, during the estate bias, the elites benefited from the subsidies as a form of political patronage, whereas following democratic transition, the smallholders benefited in order to increase maize production for food self-sufficiency and to ensure votes.

Following the financial crisis beginning in 1979, Banda had no choice but to turn to the World Bank, which inevitably led to macroeconomic change. The decision to turn to the World Bank was a choice of last resort for Banda as the economy was in shambles and the likelihood that he could remedy this situation without international support was highly improbable. Therefore, his decision to remove the estate bias and adhere to the World Bank's conditions of developing the smallholder agricultural sector through changes to pricing policies and removing agricultural restrictions was not due to personal motivations or benefit, as Bates predicted. Rather, the decision was due to a lack of alternatives due to unanticipated external occurrences, such as economic crisis and disrupted trade routes due to the Mozambican civil war, as Rodrik hypothesized.

Moreover, Banda's policy choice to move away from the estate bias was plagued with misinformation about the effects of the reform as no previous policies in Malawi had focused on developing the smallholder sector over the estate sector. Consequently, Rodrik's argument that governments lack information on who will gain and who will lose due to reforms is more applicable to the post-1979 Malawian story. Therefore, following the financial crisis, the assumption made in Bates' original model no longer applies, as the government could no longer afford to make policies based solely upon personal advancement, as the government could not appropriate funds domestically.

Following the democratic transition, universal suffrage created a new paradigm, which focused on subsidizing smallholders in order to cast the net for political support as wide as possible. Additionally, a bias against the fertilizer subsidy reform developed, which will impede future subsidy removal, as Rodrik explained. Moreover, the democratic elections of Presidents Muluzi and Mutharika were highly influenced by their support for the fertilizer subsidy programme; thus, political security and longevity now relies on food security through self-sufficiency in Malawi facilitated by the fertilizer subsidy programme. It is evident that agricultural input subsidies will play a significant role in Malawi's political future, both in the attempt to attain sustainability as well as in influencing the popular vote and consequently, electoral outcomes.

This paper has sought to explain the changes in Malawi's agricultural policies during the colonial and post-colonial periods through the dominant theoretical explanations that address African agriculture. This paper has revealed that the policy of estate bias changed due to a lack of financial resources to facilitate it in a manner that was beneficial to the elites. Economic crisis forced Banda to turn to the World Bank and

accept the macroeconomic conditions imposed. Upon the advent of democratic transition, the Muluzi administration focused on building political support among the smallholders through the popular fertilizer input subsidy programme. Although the World Bank sought the removal of the programme, the government continued to reintroduce it, as it was politically beneficial. Additionally, unanticipated negative outcomes met each removal attempt, such as economic crisis or drought, resulting in reintroduction. As a result, a distinct bias against the subsidy removal formed, as Rodrik argued. However, the longevity of the fertilizer subsidy will remain uncertain in the future due to the question of the subsidy's sustainability. Nonetheless, one could characterize Malawi's agricultural success as Africa's first Green Revolution, which is likely to have a large impact on the rest of the continent as a model for agricultural growth. Consequently, agricultural input subsidies have the potential to dominate African agricultural policies, which may lead to more questions than answers. Are agricultural input subsidies the answer to obtaining Africa's long awaited Green Revolution? If so, can they be sustainable? Malawi has shown that subsidies can produce agricultural growth; however, it would be prudent to retain a country specific perspective and, thus, not suggest yet another African 'panacea' that will inevitably lead to disappointment. At the Africa Summit of the World Economic Forum in South Africa, President Mutharika stated, "Enough is enough. I am not going to go on my knees and beg for food. Let us grow the food ourselves. And indeed we have" (Denning et al 2009, 7).

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