# UNDERSTANDING THE ISSUE 2/2007

## Deadly Combination: The Role of Southern Governments and the World Bank in the Rise of Hunger

Author: Mark Curtis

FOLKEKIRKENS NØDHJÆLP
VI TROR PÅ ET LIV FØR DØDEN

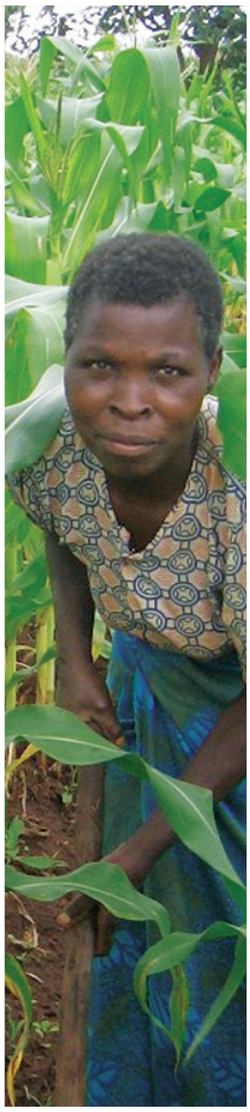
Brot für die Welt

Church of Sweden

NORWEGIAN CHURCH AID

# DEADLY COMBINATION:

## The Role of Southern Governments and the World Bank in the Rise of Hunger.



**Research commissioned by:** Norwegian Church Aid (NCA), Church of Sweden (CS), Danish Church Aid (DCA), Brot-fuer-die-Welt (BfdW).

**Funded by:**
NCA, CS, DCA, BfdW who are member agencies of APRODEV, which is the association of the 17 major development and humanitarian aid organizations in Europe, which work closely together with the World Council of Churches. APRODEV agencies engage in many kinds of activities related to development cooperation: fund raising, funding of emergency, relief, rehabilitation and development activities, capacity building, consultancy, awareness raising, education, and advocacy.

Views here presented do not always correspond to those of the funding organizations.

**Author:**
The consultant and lead author on this report was Mark Curtis. The text was revised and edited by the funding organizations.

**All photos:**
Mark Curtis

**Layout:**
Antenna

**Coordinator:**
Helene Hoggen, Norwegian Church Aid

Big thank you to Danish Church Aid Offices in Malawi, Ethiopia and Zambia for assisting the author of this report on his field trips.

Front page: *Alecsina Mbwat grows maize in Chilembampita, Malawi.*

# CONTENTS

► APRODEV PROJECT:
THE IMPACT OF ECONOMIC LIBERALIZATION ON
HUNGER-PRONE PEOPLE:

# SYNTHESIS REPORT:

DEADLY COMBINATION:

THE ROLE OF SOUTHERN GOVERNMENTS AND THE WORLD BANK IN THE RISE OF HUNGER

## CONTENTS

# INTRODUCTION

*Around 4 million people - lives in "ultra poverty" and thus is likely to suffer from chronic hunger.*
*Amahara region, Ethiopia*

This is a study of the impact of economic reforms on hunger-prone people in three of the world's poorest countries - Malawi, Zambia and Ethiopia. Its primary purpose is to assess whether food security has improved or worsened, and why.

These three states are among the large number of developing countries that have promoted extensive liberalization of their economies over the past 15 or so years, under the auspices of the World Bank and International Monetary Fund. The study focuses on the agricultural policies pursued by country governments and the World Bank, and the impact of polices on small-scale poor farmers, who comprise the overwhelming majority of the people in these three countries.

The analysis covers the whole of the reform period but it is important to distinguish between two phases – one of deep liberalization in the late 1980s and 1990s; and a phase of 'partial liberalization' in the early years of this century. In the first phase, these states transformed their agricultural sectors, in effect by privatizing them by abolishing or reducing the dominant role of the state and allowing free markets and private companies to operate. Yet in the more recent phase, government intervention in agriculture has increased in certain areas in some countries: Zambia and Malawi have re-introduced new fertilizer subsidy programs after abolishing them in the 1990s while in Ethiopia government-backed companies dominate the fertilizer supply markets and continue to intervene to set grain prices. At the same time, the World Bank and other donors have pulled back from their earlier promotion of virtually unfettered liberalization in the first phase of the reforms; now they at least tolerate a greater degree of government intervention, for example, (limited) government subsidy programs. Currently, all three countries are pursuing a mix of state intervention and liberalization policies in agriculture.

This study assesses these countries' experience of partial liberalization as well as of the reforms over the entire period. The conclusion is that not only has deep liberalization increased hunger for the poorest people, but also that 'partial liberalization' is barely an improvement. The faults lie as much with national governments as with the World Bank, which are both essentially undemocratic, elitist actors, who are ignoring the needs of poor farmers. The price for the current non-strategic mix of (government and liberalization) policies is being paid by some of the poorest people in the world.

There are around 820 million hungry people in the world, of whom 150 million are children. This number has, according to the UN's Food and Agriculture Organization (FAO), risen by 20 million over the past decade.[1] If hunger is to be halved by 2015 – one of the Millennium Development Goals – this deadly combination of policies needs to be broken.

This analysis combines an extensive review of the literature on the experience of liberalization with visits by the researcher to the three countries between November 2006 and January 2007, in which semi-structured interviews were conducted with poor farmers in a number of villages (see country chapters for more details). The study has a particular focus on subsistence farmers, those whose families are dependent solely on crops grown on family plots and who sell little or nothing in the market. It also focuses on the recent experience of liberalization and is not intended as a holistic study of these three countries' agricultural sectors as such; it also does not cover, or rather only touches on, other important issues in these three countries, such as HIV and AIDS or climate change.

## 1. POVERTY AND HUNGER IN MALAWI, ZAMBIA AND ETHIOPIA

Deep poverty is endemic in all three countries: around 65 per cent of the population in Zambia and Malawi lives in poverty, while the figure for Ethiopia is 44 per cent. These figures mask significant regional variations, however – 80 per cent of people in Zambia's northern provinces live on less than $1 a day. The worst indicator is life expectancy. Zambians born today can expect to live on average just 33 years, 18 years less than those born in 1980, due mainly to the HIV/AIDS pandemic which afflicts an estimated one in five of the population aged 15-49. Malawians fare little better – they can expect to live just 38 years, Ethiopians 42.[2]

These three countries are in a state of more or less permanent crisis when it comes to hunger.

• Most of Malawi's 11 million population go hungry for at least some time of each year: 36 per cent of the population – around 4 million people – lives in 'ultra poverty' and thus is likely to suffer from chronic hunger, while a further 28 per cent of the population experiences food insecurity at certain times.[3] Women are the worst affected – around 40 per cent of rural households that go hungry are headed by women.[4]

• In Zambia, over 5 million people, or nearly half the population, are undernourished.[5] Only a third can afford to eat three times a day – half have an average of two meals while one in ten survives on just one meal a day.[6]

• In Ethiopia, the FAO notes that 6-13 million people risk starvation every year[7]; while the World Bank counts 7-8 million people as chronically food insecure (meaning they cannot feed themselves for more than six months even in a year when drought does not occur)[8].

Most farmers cannot feed themselves and their families all year round and suffer prolonged periods of hunger, even in good harvest years. In the good harvest of 2000 in Malawi, for example, the average household maize deficit was four months; after the poor harvest of 2001, it was nearly six months.[9] In all three countries, the researcher spoke to farmers who lacked sufficient food from anything from 3 to 9 months in a year.

The overwhelming majority of farmers in the three countries are smallholders, producing most of the countries' food. Zambia's 800,000 smallholder farmers produce 65 per cent of the country's maize, 75 per cent of its groundnuts and 85 per cent of its sorghum.[10] Smallholder farms produce 80 per cent of Malawi's food.[11] One third of farming households in Malawi, and one fifth in Zambia, are headed by women. Yet women own on average half the amount of livestock as male-headed households while they produce on average one third less than male-headed households, due mainly to the lack of labor for critical farming operations like tilling.[12] Government figures suggest that 15 per cent of all female-headed households in Zambia survive on just one meal per day (compared to 9 per cent for male-headed households) – less than a third eat three meals.[13]

Ethiopia's main crop, teff, produces the country's staple and national dish, injera, while maize is the main food staple in Malawi and Zambia and dominant crop occupying most arable land. Maize is grown in the rainy season, usually lasting from November to March, by human labor using hand-held hoes. A porridge made from maize (Nsima in Malawi, nshima in Zambia) is the principal meal. In a 2002 survey in Malawi, nearly 80 per cent of the rural population had eaten nsima as their main meal for lunch and supper the previous day – a very undiversified, less nutritious, diet even when sufficient food is available.[14]

There is broad consensus in all three countries that pro-poor agricultural growth needs to come principally from increasing productivity in smallholder farming. Yet smallholders face numerous problems in their farming, the most important of which are:

**Small plots.** An increasing number of households farm small and unproductive plots, thus becoming more vulnerable to the vagaries of unpredictable rainfall. In the southern highlands of Ethiopia, average farmland per household has decreased to less than a quarter of a hectare.[15] In Malawi, the average landholding size is declining and now stands at around 1.2 hectares per family but most farmers farm on plots less than one hectare in size - in the poor south, average plots are a minuscule 0.1 hectares, meaning farmers are in effect landless.[16]

**Degraded land.** In Ethiopia, due to increasing human and livestock population pressure, large areas of the country are exposed to loss of soil fertility and degradation. A recent study suggested that of the 54 million hectares of land in highland areas, 29 million hectares were either seriously or moderately degraded or had soil cover too shallow to cultivate crops.[17] In Malawi and Zambia, partly due to increasing land pressure, the traditional practice of leaving land fallow for a year has been replaced by continuous cropping whereby maize is grown on the same land year after year, resulting in declining crop yields and increasing soil erosion.

**Lack of irrigation.** In Ethiopia and Malawi only 1 per cent of arable land is irrigated.[18] Farmers practicing rain-fed agriculture are thus dependent on rains and at the mercy of the weather – especially serious in Malawi and Zambia which rely on a single, short rainy season.

**Lack of technology and access to inputs.** Most farmers use basic farming techniques, relying on family labor, recycled seeds and a hoe. Cereal yields are low and post-harvest losses are frequently high due to inadequate structures for grain drying and storage.[19] Most farmers cannot afford any modern technology or inputs such as fertilizer and seeds. This is an especially serious problem since much of the land is becoming degraded and large increases in the amount of nutrients applied to the soil are generally believed to be needed if smallholder farming is to increase its productivity. The World Bank

notes that fertilizer use in Ethiopia is the lowest in sub-Saharan Africa.[20]

**Inadequate access to markets.** Food markets in rural areas are generally underdeveloped and, since the collapse of the state's role in buying farmers' produce at guaranteed prices, they are often dominated by exploitative private sector traders paying low prices for farmers' produce. Road infrastructure is poor in remote areas, with many roads impassable in the rainy season, which constrains the ability to buy and sell crops in local markets. In Zambia, the most efficient markets and the large export-oriented farms which are linked to buyers are located along the 'line of rail' where about 60 per cent of the population lives. One in five rural Zambian households live more than 5 km from their nearest food market while 3 in 5 live more than 5 km from their nearest market to purchases inputs such as fertilizers.[21]

**Few extension services and credit.** There is a lack of adequate, or any, credit facilities for most smallholder farmers while government extension services, such as training and support, are generally weak and often non-existent, especially in more remote rural areas.

**Weather.** Erratic weather, varying from droughts to floods, severely affects crop production and hinders planning and investment. Zambia has experienced two major droughts in the past decade – in 1991/92 and in 1995/96, while the 2000/01 and following seasons were also beset with poor rainfall and a large amount of food aid was required to avert hunger.[22] Major drought-related famines have occurred in Ethiopia 1973, 1984 (causing over one million deaths) and 2003 (when a fifth of the population required emergency food aid). In Malawi, droughts and major food shortages have occurred in 1992, 1994, 1997, 2001, 2002 and 2005.[23] Climate change is increasingly recognized as likely to impact severely on African agriculture – with increased temperatures causing reductions in (often already scarce) water availability and crop yields.

**HIV/AIDS** is exacting a huge toll on farming communities and food security. In Malawi and Zambia, for example, it is estimated that around one in every six adults is living with AIDS. AIDS-related deaths can lead to a loss of labor and agricultural production knowledge while those living with AIDS can have less energy to cultivate their crops and incur additional medical costs that could be used for farming investments.

Alongside all these factors are bad government and donor policies, which are considered further in the sections below.

## 2. LIBERALIZATION AND THE WORLD BANK

Agricultural strategy in the three countries has been transformed in the past two decades under World Bank/IMF reforms. Before these were implemented, government policy was dominated by state intervention, involving the provision of subsidized fertilizers and maize/grain to farmers supported by government-administered credit schemes, while state marketing agencies - ADMARC in Malawi, NAMBOARD in Zambia and the AMC in Ethiopia - set guaranteed prices for farmers and bought their produce from depots around the country. Farmers had an assured market for their produce and access to farming inputs at affordable prices.
In Malawi, the performance of the agricultural sector was impressive in the 1960s and early 1970s but stagnated in the late 1970s and early 1980s. By the early 1980s ADMARC resorted to heavy borrowing from commercial banks to finance its crop purchases; yet in spite of this, it was still unable to buy all that farmers offered to sell or meet the demand to provide fertilizer. Government intervention was defended on the grounds of promoting national food security and ensuring that all smallholder farmers, especially those in more remote areas, had access to markets to buy and sell their produce at guaranteed prices – but these policies came at a heavy financial cost, as the subsidies contribu-

*Farmer family, Amhara region, Ethiopia*

ted to large government budget deficits.[24] Malawi experienced an economic crisis in 1979/80 that led the government to adopt structural adjustment programs (SAPs) under the auspices of the World Bank and IMF beginning in 1981.

Economic liberalization reforms began in Zambia in the mid-1980s and in Ethiopia in 1992 following the end of the civil war. The reforms involved:

• lifting restrictions on private sector participation in grain movements;

• removing price controls on agricultural commodities (pan-territorial pricing);

• reducing or removing fertilizer subsidies and liberalization of the fertilizer market;

• devaluation of the currency, and maintaining tight fiscal and monetary policy;

• trade and labor market liberalization;

• privatization of state-owned companies

In Zambia, NAMBOARD (the National Agriculture Marketing Board) was abolished in 1989 and its functions allocated to local cooperatives, while prices of most agricultural commodities (excluding maize) were liberalized. Fertilizer and other input subsidies were removed in 1992 and consumer food subsidies in 1994.[25] In Malawi, Bank and Fund-supported reforms deepened after the 1994 election, ending the system of guaranteed producer prices (except for maize), undertaking several devaluations of the currency and liberalizing maize pricing. ADMARC's monopoly in purchasing maize and some other crops from smallholders was eliminated.

Ethiopia agreed a Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF in 2001 and finalized its Poverty Reduction Strategy Paper (PRSP) in 2002. Zambia signed a three-year PRGF loan agreement with the IMF in June 2004 while the Bank approved a three-year country assistance strategy running from 2004-2007. Since 2000 Malawi has been implementing a PRGF program aimed at promoting macro-economic 'stability'. The program went off track in 2001 due to the government's fiscal slippages that prompted donors to withhold budget support; it resumed in 2003 after donors deemed Malawi to have improved fiscal management.[26]

Bank/Fund loans in the 1990s invariably came with numerous conditions attached, notably involving the sweeping privatization of the economy generally and, in agriculture, the removal of subsidies and the privatization of state marketing boards. The Bank notes that between 1992 and 2003, it lent Zambia US$ 2 billion, stating: "adjustment credits in support of sweeping liberalization of the economy dominated, accounting for nearly 40 per cent of total commitments".[27] As a 2006 Norwegian government-sponsored study concluded, privatization and liberalization are still included in Bank/Fund loans, notably in Zambia, where they are linked to the privatization of state-owned banks and utilities.[28] Currently, however, there are few, if any, formal conditions attached to agricultural policy in these three countries, although one major exception is the Bank's ongoing push to privatize Malawi's state marketing board, ADMARC (see Malawi chapter).

In recent years, the Bank has modified its previous opposition to various policies of government intervention (see Box 1). Regarding subsidies, the Bank is currently going along with fertilizer subsidy programs in Malawi and Zambia. Although it is consistently arguing for the government to bring these to an end within a short space of time, loans are not conditional on this. Its concerns are mainly about transparency in the program, ensuring that distribution is not determined by political considerations and enhancing rather than undermining the role of private fertilizer suppliers.[29] In Ethiopia, the Bank is pushing for the government to end its de facto control of the fertilizer market, but again, without specific conditions or benchmarks being attached to loans

**Box 1: The World Bank and liberalization**

The World Bank has been strongly pushing for liberalization of agriculture in the three countries for the past 20 years, but there have been shifts. In the 1980s, conditions attached to loans required removing subsidies and liberalizing prices within a rigid framework to roll back the state to a minor role. This position was somewhat revised towards the end of the 1980s and until the mid-1990s the Bank accepted the need for targeted subsidies in order to raise agricultural productivity. What followed was a reversion to a dogmatic belief in markets, opposition to fertilizer subsidies and a push for a complete government withdrawal from agricultural markets.

Currently, the Bank has again pulled back from a belief in unfettered markets. It is still strongly pushing trade liberalization and market reforms, but with qualifications:

• On liberalization, it states that "market reforms have sometimes been implemented before the private sector gained the capacity to step in when public companies were closed. Policies to liberalize or privatize marketing functions must be sequentially implemented over time to ensure that the institutional framework for competitive markets develops, that support services are in place during the transition and that complementary investments are made that enable the private sector to function smoothly". And it accepts the need for "appropriate transitional arrangements that may require some involvement of the public sector, but aiming for a medium- to long-term strategy that creates an enabling environment for private investment".

• On subsidies, the Bank states that "subsidies may be useful in the transition to a more liberalized trading environment", although it adds that "but when maintained over the longer run, they reduce equity and efficiency". It also states that "sudden elimination of input subsidies...can cause a radical decline in the use of inputs" and that "until private input suppliers become established, the public sector must assist poor producers by carefully phasing the removal of subsidies and/or supporting such institutions as voucher systems".

• On privatizing parastatal organizations, the Bank notes that "policies to liberalize or privatize marketing functions must be carefully phased".

• On price setting, it notes that "for sensitive commodities, including food staples, price bands and price floors might be used". Price floors help to keep prices from falling while price bands help stabilize prices between a floor and a ceiling.[30]

Governments in all three countries continue to play a role in setting prices for maize or grain. In Malawi, the Bank currently accepts that ADMARC can continue to play a role in the more remote regions of the country, but argues that it should withdraw from the more profitable areas where the private sector should operate. As regards Zambia, Bank officials told the researcher that the issue was not so much whether government price intervention was right or wrong per se, but if it could be implemented more transparently and predictably and if the price set could be closer to the prevailing market price.[31]

Although the Bank and Fund have pulled back from explicit conditionality in agriculture, their overwhelming focus remains on pushing the 'commercialization' of agriculture in all three countries within a context that if countries generally perform well in pursuing their 'reform' agenda, they will receive higher amounts of aid than if they do not. In Malawi, for example, the Bank's current Country Assistance Strategy (CAS), approved in February 2007, is stated to provide around $340 million in aid over the years 2007-2010. The CAS notes that among Malawi's donors, the Bank will take a leading role in agriculture and food security and also private sector development, and makes clear that the level of aid is conditional upon the government's continuing overall economic reforms: "The IDA program will be calibrated against continued reform progress...Coherent sector strategies and prioritized investment plans will be crucial in transport and energy in particular, and planned IDA investments in these areas would be contingent upon the Bank being satisfied that resources were being effectively utilized in accordance with such strategies".[32]

In agriculture, the Bank's aim in Malawi is "to improve smallholder agricultural productivity and integration into agro-processing", which involves a focus on four key areas: (i) farmers' vulnerability to weather-related shocks; (ii) "distorted incentives (including government policies) that keep farmers in subsistence farming including limited knowledge and thus demand for crop diversification"; (iii) "poorly functioning input/output markets"; and (iv) "weak institutional capacity to manage the risk of food insecurity".[33]

In Ethiopia, an Interim Country Assistance Strategy (ICAS) was drawn up in May 2006, and proposes lending Ethiopia US$ 491 million in 2006 and between US$ 400-550 million in 2007, depending on "government performance in implementing" its plans "particularly in respect to governance".[34] In November 2005 the Donor Assistance Group of international donors, chaired by the Bank, cut off direct budget support to the Ethiopian government and said it would reduce aid over time if governance did not improve, in protest at the government's clampdown on opposition following the elections in May. When donors met again in March 2006, they also stressed that aid volume "will depend on Ethiopia's progress on governance".[35] In agriculture, the Bank is focused on supporting the government's transition towards "small-scale market oriented agriculture".[36]

## 3. THE PLIGHT OF FARMERS: FINDINGS FROM THE FIELD

The researcher visited farmers in the three countries asking them of their experiences with hunger and farming – in Ethiopia's North Wollo zone around 700 km north of Addis, mainly a highland region where farmers practice rain-fed agriculture, principally of crops such as teff, barley and wheat; in Malawi, in western Dowa district, a two hour drive north of Lilongwe where farmers grow maize, groundnuts, soya beans, cassava and sweet potatoes; and in Zambia, in Chipata District of Eastern province, 550 km east of Lusaka, where the principal crop is also maize.

Around half of the woredas (districts) in Ethiopia's North Wollo zone are classified as food deficient and in some people go hungry for 6-9 months of the year. Mesven Tadesse and Daniel Kuma[37] are wheat and barley farmers each working a very small plot – around a third of a hectare – near the town of Bilbala. They do not use improved seeds or fertilizers saying that there is not enough rain for them to take effect. When asked how their yields perform each year, they reply: "Down, down, down. The land is getting worse every year". Both farmers fail to produce a surplus for sale in the market and cannot produce enough from their land to feed their families; every February, their families go hungry and are forced to cut out some meals, sometimes eating only once a day.[38]

When the food runs out in North Wollo, many farmers look for work (which is hard to come by, especially for those far away from towns) or are forced to sell their assets, such as livestock. As for the problem of land degradation, the farmers interviewed said either that yields vary from year to year, depending on the rains, or that productivity is decreasing year by year. The poor quality land through soil erosion is visible all around and can be seen in numerous parts of the zone.

Zambia's Chipata district has relatively good soils and usually sufficient rainfall, giving it high potential for producing crops like maize, groundnuts, cotton, sunflower, tobacco and soya beans. Yet most people in the province go hungry for long periods; around half of families do not produce enough food themselves for more than six months a year in a normal season, the problem being worse in drought years.[39]

*Farmers in North Wallo Zone, Amhara region, Ethiopia*

Government figures suggest that 11 per cent of all households in Eastern province survive on just one meal per day – half have two meals and 38 per cent three.[40]

A quarter of the farming households in Chipata district are female-headed. One of them is Priscilla Sagala, a farmer aged 52 from Kalonji village 10 km outside the province's main town, Chipata, who grows maize and groundnuts on a two acre plot. She says that many farmers in the village only produce enough food for two months a year, while she herself can feed her family for "a few months". Priscilla tells us that: "When the food runs out, I eat less, sometimes eat roots, and sometimes I just have to go to bed and sleep". She would like to grow other crops "as long as the seed is available, but it's not available. I would like to grow sunflower but I'd have to buy seeds which needs money. I'd need 35,000 kwachas (US$ 8.70) for 5 kg". When asked what support she needed, she replies: "Fertilizer. If fertilizer was available, production would go up. The main problem is a shortage of fertilizer and the fact that the soil is bad. Food finishes very quickly due to our shortage of inputs like fertilizer. I don't have money to buy it".

**Lack of inputs**

Fertilizer was recognized as the single most important aid to farming among the farmers the researcher spoke to in all three countries. Few can afford to buy it, yet everyone that the researcher questioned would use it if it were available free of charge or at affordable prices. In Chilembampita village in Malawi's Dowa district only 11 of the 46 households can afford to pay for the subsidized fertilizer in the government's voucher program. At 950 kwacha (US$ 7) per 50 kg bag, this was beyond most farmers' reach but even this buys only enough for use on 0.4 hectares of land. In the private market, fertilizer is available only at an astronomical 3,075 kwacha (US$ 23). No credit is available to farmers to borrow money since the rural credit program has collapsed. The researcher was also told that the fertilizer vouchers distributed under the government-administered program often went to the wrong people, sometimes the better-off farmers rather than the poorest, or else were politically-motivated, going to headmen, for example, who used it for their own purposes or to curry favors.

> ***"Very few farmers in my area use fertilizer because they can't afford it. But if they use fertilizer what they get from the land is less than what they pay in interest. Most of the farmers who have irrigation want fertilizer very badly but they want to buy small amounts of fertilizer for small amounts of money". Government development agent, North Wollo district, Ethiopia***

Of 91,000 households in Zambia's Chipata district, 12,000 bought subsidized fertilizer in the government's Fertilizer Support Program (FSP), while a further 1,600 received 'food security packs'. This means that the other 86 per cent of farmers must buy fertilizer at market prices, which the overwhelming majority is not able to do, given the high price. But even the government's subsidized price is beyond the reach of most farmers - farmers in the FSP have to pay 40 per cent of the market price of fertilizer, meaning they usually need to find 460,000 kwacha (US$ 115) (for 8 bags, which is fixed). In Ethiopia, farmers said that under the government's agricultural extension program, fertilizer was available at a cost of 370-380 Birr (US$ 43) which they can receive on credit at a 12.5 per cent interest rate, which is too high for many farmers.

> ***"Those who come and buy from us cheat us. They can make three times as much. They just come and say I'll buy this at that price. There's no discussion or anything like that", Harold Kanyerere, villager in Chilembampita, Malawi.***

Clara Pande, 65 year old farmer who grows maize and groundnuts on her 1.5 hectares farm, told us that when she uses fertilizer, production goes up. She recently clubbed together with others in the village and bought fertilizer for 210,000 kwacha (US$ 52). "Most of the time I can't afford it. I'm a widow. If we join with others, we can afford a little. My relatives and I put our money together".

**Low prices**

Farmers universally complained of the very low prices they receive for selling their produce in local markets. In Malawi's Dowa district farmers say that maize generally sells for 10 kwacha (US$ 0.07) per kg (while some had recently been 'offered' as low as 8 kwacha), a pitifully small amount which many farmers said was below the cost of production. The government sets a minimum price for maize at 20 kwacha (US$ 0.14) but the parastatal, ADMARC, which used to guarantee buying produce from farmers at set prices, now has no resources to buy farmers' produce in this area, meaning that farmers are forced to sell to private sector traders. "These companies are in Lilongwe, though they come here and buy at a cheap price and then sell back our maize at a higher price", one local development worker said. Traders were making a 100 per cent profit on maize. In Lilongwe, maize was being sold for 1,000 kwacha (US$ 28) per 50 kg bag, after being bought in the Dowa area for 500 kwacha. "The companies are rich people", the development worker added "and the problem is that farmers have no other place to sell". Farmers received a better price for groundnuts - at 65 kwacha (US$ 0.5) per kg, but private traders were selling these for 120 kwacha (US$ 0.9) in Lilongwe and Kasungu, another major town nearby.

**Poor extension services**

Farmers receive pitifully little support from government extension services, which have been massively cut back under the reforms. In Zambia's Chipata province, extension officers are supposed to visit

*Clara Pande, Kalonji, Zambia*

each zone twice a month but the reality is much less because the area each officer is expected to cover – 20 km radius – is too great. When the researcher asked the District Agricultural Officer where he would spend any increased funding from the government on agriculture, he pinpointed extension services as the critical area, to improve the knowledge base of farmers in crop management and growing techniques, including in the use of fertilizer. Other spending needed to take place on roads and bridges, he said, to make transportation easier between villages and towns. The lack of adequate infrastructure was the main reason why only a few private traders operate in the area to deliver inputs to farmers, he told us. "It is wishful thinking to think the private sector will come here. Look at our infrastructure. We're not commercialized enough for this to work. It's not profitable enough for the private sector except when they come in and knock down the price to farmers for their produce".

Several farmers in Malawi recalled how farming had changed since the early 1990s, the beginning of the deeper phase of the reforms, all saying that farming was much easier then and that they produced more food and were less hungry. In Undi village, a group of older farmers recalled how they used to use fertilizer but after prices rocketed (in the mid-1990s) they could no longer afford it. All said their production was much lower now and that their land produced less than previously. Other older farmers said that, although in the past farming was still hard, it was formerly easier to obtain fertilizer and seeds, that credit schemes were available to give them affordable loans and that they received higher prices for their maize sales. One further important change now was the lack of predictability in price – farmers have no idea in advance what price they will get for their produce.

Most farmers also said they would like to grow other crops, such as Irish potatoes, rice or sorghum, to reduce their dependence on growing maize – mainly since the selling price of maize was so bad and since, for many, their productivity was going down year on year. Preventing such diversification is partly the high price of new seeds and partly the lack of advice and support for growing and managing new crops. A packet of vegetable seed on the market currently costs 410 kwacha (US$ 3) per kg, rice seed costs 130 (US$ 1) kwacha and Irish potatoes seeds cost 400 kwacha - too much for many.

Most farmers told the researcher that their productivity had been declining over the years, as their land produced less and less. And many of the farmers selling their produce said that if they received a better price for their outputs they would reinvest that income in their farming by buying fertilizer to increase their output. So farmers are locked into a vicious circle - low prices mean less money to buy fertilizer, meaning less ability to increase output, meaning less overall income etc.

**Box 2: The dilemma of contract farming in Zambia**

Outgrowers are essentially contract farmers who grow cotton and tobacco for specific companies in exchange for the latter providing loans to buy inputs such as fertilizer on credit at the beginning of the season. The theory is that farmers benefit by gaining access to needed inputs with a guaranteed market to sell in. The reality is that all contract farmers interviewed by the researcher complained of the low price they received for their produce. The price they are led to believe they will receive at the beginning of the season is almost always reduced by the companies when buying the produce after harvest, meaning that farmers receive much less income than they often plan for.

Contract farming is a key outcome of liberalization and almost a third of small farmers in the country are organized in some form of contract farming arrangement, the majority with cotton companies. The World Bank and the government are the key promoters. Bank literature refers to the "partnerships between smallholders and commercial farmers or agro-entrepreneurs" and that "the reason behind the upsurge of contract farming is the appreciation that these arrangements respond to the reciprocal needs of both the agri-businesses and the small-scale farmers".[41]

There have been some benefits to some farmers from the contract farming schemes: the private sector has moved into some areas of surplus agricultural production and has provided loans to farmers to buy inputs, thus raising production. But a recent major study by the Catholic Centre for Justice, Development and Peace in Lusaka is little short of a complete indictment of the whole system. The study concludes that most contract farmers experienced either no change or a worsening of their livelihoods since engaging in contract farming. The main problems experienced were "low prices, unfair input and produce pricing mechanisms, unfair input credit conditions and punitive loan recovery methods". "Outgrower company practices such as under-grading and underweighing of farmer produce contributes to the perpetuation of poverty among outgrowers," while "outgrower schemes have an adverse effect on rural household food security through the diversion of resources from food crop cultivation to cotton and tobacco. Labor and time are the main resources diverted to outgrower crops at the expense of food crops." Furthermore, "outgrowers have no channels of communication through which they can influence decisions regarding outgrower schemes", which is compounded by the lack of a comprehensive government policy on contract farming and the fact that companies are unregulated there being no government supervision of the operations of the companies at national or local levels.[42]


*Vainness Malanda, Vinba, Zambia*

**Box 2 continue:**

Vinba village is 45 km west of Chipata town and contains around 100 farming households, around 20 of whom can feed themselves for the whole year, villagers said. There are many cotton farms in the area. Chris Kalumba is a contract farmer producing cotton for Cargill. The father of three daughters, he also grows maize, groundnuts and sunflower on a 9 hectare farm, relatively large for the district, of which 4 hectares is devoted to cotton. This is his first season of growing with Cargill; the previous year he was with Clark Cotton Zambia. "Last year, Clark gave us a very bad price. They offered us only 800 kwacha (US$ 0.2) per kg of cotton. We farmers complained and for two months refused to sell all over the area. The government intervened but the companies only raised the price to 850", he told the researcher. "They went back on their promise of a higher price. As a result, some farmers went back to maize since they didn't make any money from cotton, especially the smaller farmers". He added: "Managers come here and say we'll take the matter to our superiors but they never do." It is impossible, Chris told us, for farmers to negotiate a better price with the companies. Farmers the researcher spoke to thought that 2,000 kwacha (US$ 0.50) was the least that they should expect as a fair price; many other farmers believe that much more is needed for them to be able to recoup their loans. Yet most farmers were hoping to receive only 900-1,200 (US$ 0.2-0.3) kwacha this year.

Vainness Malanda, a woman farmer of 30 years in Vinba, and a widow with four children, told us that: "It's difficult to protest against the company because our loans for our inputs come from them. If the government provided the fertilizer it would make it easier to get a better price from the companies." Thousand Phiri, another contract cotton farmer, said that "the government should be asked to mediate to raise the price with the companies. If we protest, the companies would say give us back the loan you have with us, so it's difficult to change things".

Some contract farmers the researcher spoke to said they were better off as a result. Lazarus Banda in Sisinje village, 35 km north west of Chipata town, told us that last year, despite the very low price, he made 275,000 kwacha (US$ 69) profit from cotton, as a contract farmer with Dunavant, a prominent company in the area. After three years as a contract farmer, he now makes much more than he used to from maize growing. But he adds that "some of the farmers are no better off than before, because of the price. Those people with smaller land don't benefit so much. Those who have bigger land are improving. Those with cattle and livestock are improving; those only using their hands in the field face a problem".

Farmers also told the researcher of their worries about the use of pesticides included in the packs they buy from the companies at the beginning of the season. Some companies, such as Dunavant, appear to always provide protective clothing such as goggles and gloves for safe use in spraying. But the researcher was told by many farmers that other companies, such Cargill, do not always provide farmers with such protective gear. Chris Kalumba, for example, had just bought a bottle of Delta-X insecticide from Cargill to use on his cotton crop. Warnings on the bottle make clear that protective equipment must be worn in using the insecticide, but no protective gear was supplied by the company as part of this package. "Every year we tell the companies to supply protective gear and gloves but they don't", he says, referring to his previous experience as a contract farmer with Clark, which also did not supply protective equipment. Asked what the effects might be of using this insecticide without protection, he replies: "This is very dangerous. It can kill. It causes itchy skin".

Chris and other farmers from Vinba, Sisinje and other villages in the area told us that farmers regularly suffered from itchy skin after using these pesticides. Some had taken to spreading petroleum jelly over their arms as protection. Some villagers told us of chest pains, sneezing and coughing after use. Simon Sakara, from Kalonga village near Sisinje, and a cotton grower for Mulungushi had just paid 110,000 kwacha (US$ 28) for seed and pesticide. He told us that the company did not supply protective equipment as part of this package and that neither did Clark, for whom he worked previously. "I wasn't using any protective clothing before when I was working with Clark. I didn't have problems since I was told not to spray when it was very hot or windy". But he had seen other farmers with itchy skin after using pesticides.

These interviews with farmers provide a snapshot of many of the key impacts of the reforms. The reduction of the state role in buying produce has left farmers prey to exploitative private traders, its reduced role in providing key inputs such as fertilizer has put its use beyond most farmers while cuts in extension services are restricting diversification and preventing increases in output. Farmers – eking out an increasingly precarious existence – have essentially been left to themselves, farming in the dark. All this occurs not only in remote, inaccessible areas in these countries, but quite generally – the villages the researcher visited in Malawi, for example, are just off a good road, the M1 in Malawi, less than two hours from the capital city. Farmers' own perceptions and experience are largely borne out by analyses in the secondary literature of the impacts of the reforms, considered in the next section.

## 4. THE IMPACT OF THE REFORMS

This section first considers studies assessing the overall impact of the reforms, before turning to the effects on specific policy areas.

In Malawi, the 1990s saw an acceleration of market liberalization begun in the previous decade, resulting in large maize price rises and rapid input price rises. The removal of subsidies mid-decade together with the collapse of the government credit scheme and currency devaluations (which caused a basic food prices to double in 1998) hit many poor farmers hard and increased food insecurity. Some policies – notably the liberalization of tobacco production - benefited the large farmers while poorer households became worse off, as did women in particular. After 1998, the transition from parastatal marketing structures to liberalized markets left a vacuum in terms of institutions responsible for safety nets or supplying key farming inputs. When the state pulled out, either the private sector did not move in at all (especially in more remote, rural areas) or else only a small number of private agents did, meaning they could easily exploit poor farmers, by hoarding food supplies and charging exorbitant prices.

Overall, "market liberalization has increased rural inequality and stratification", a major study for the NGO Care, notes, adding that "government policy and implementation, particularly over the last decade, has increased rather than ameliorated differentiation, both because policy has tended to favor better-off farmers and because of weak capacities and corruption entailed in the implementation of policy". A 2005 study by the Overseas Development Institute notes that Malawi's "overall economic performance has deteriorated over the last 20 years", with negative outcomes from economic liberalization in the 1980s and 1990s. Poor macro-economic management associated with patronage-based politics have accentuated Malawi's poverty reduction and economic growth crisis, reducing economic growth rates from a 6 per cent average until 1979 to around 1 to 2 per cent more recently. A re-

cent modeling exercise predicted that, even under the best conditions, average per capita income in 2002 will be no more than at independence in 1964, in real terms.[44] Another UK study from 2002 noted that "thirty years of neglect, dysfunctional markets, weak supply response and fragile fiscal foundations are manifesting themselves in widespread economic stagnation" while "the enthusiasm of the World Bank and IMF in pushing for continued reform is further hurting the economy and pushing the regime into a crisis of confidence".[45]

In Zambia, following the collapse of state institutions previously providing services in the rural areas, studies suggest increasing food insecurity among smallholder farmers, due to poor roads, lack of inputs and the collapse of channels for providing credit. Before liberalization, inputs were delivered to farmers by parastatals despite poor roads; after liberalization, the task fell to private traders to perform the same functions, which depended upon profitability, in turn depending on road conditions and proximity to large centers of consumption. Private sector activity has thus been limited to areas where there are sufficient volumes of production where transaction and transport costs are lower - those farmers benefiting from the outgrower schemes have been limited to a few areas along the line of rail, putting many farmers in outlying areas at a disadvantage.[47]

The 1990s was also a lost decade for Zambia. Over the period, the country's growth rate was just one per cent; per capita incomes halved from their value in 1975, employment fell by 75,000 affecting the livelihoods of 600,000 people, and high inflation eroded livelihoods. World Bank loans were conditional on "a reckless privatization program that was not adequately monitored for its economic and social effects on the people", in the words of the Zambian NGO, Jesuit Centre for Theological Reflection (JCTR).[48]

***World Bank officials interviewed by the researcher in Lilongwe refused to accept that liberalization had harmed Malawians or that the Bank had provided bad advice. Since 1996, the Bank has provided US$ 850 million to Malawi along with "a number of analytical products". Yet recent internal evaluations concluded that "the performance of the World Bank programs in Malawi has produced limited results". It explains this principally by "the lack of economic growth over the last decade" and high population growth.***[46]

The Ethiopian Economic Association (EEA) – an independent organization which has produced numerous studies on the performance of agriculture in the reform period - has consistently argued that the performance of Ethiopian agriculture has been disappointing over the reform period and that "the 1990s economic reforms didn't bring a notable impact either in raising agriculture's contribution to the export sector or in generating surplus to the development of the non-agricultural sector. On the other hand, the relative price for agricultural products compared to the prices of non-agricultural commodities was not in favor of agriculture".[50] Following the liberalization of the agricultural output and input markets in the 1990s farmers have not been guaranteed good prices for their outputs at the same time as facing high costs for inputs (such as fertilizers and seeds). The input markets continue to be monopolized by a small number of traders and market infrastructure remains undeveloped, while marketing information provided to farmers is poor and fragmentary.[51]

Various positive changes can be recorded over the reform period, and are also included in the sections below. As regards Ethiopia, the EEA notes that "in comparison to the decade that preceded the reform of the 1990s, Ethiopian agriculture has been doing better". Agricultural output has increased, the rate of decline in farm productivity has been slowed and the use of fertilizers and seeds has improved. Overall, however, the EEA notes: "But all those improvements have not been sufficient to lift up agriculture's role in the development process of the Ethiopian economy".[53]

***"Liberalization of domestic maize markets benefited consumers in deficit rural areas since it enabled flows of maize grain (formerly banned) to these areas, where it could be milled at low cost at small local hammer mills... Small farmers in remote areas suffered income losses due to the liberalization, however, not only because of the end of high-priced government procurement of maize, but also because of less access to inputs and credit". World Bank report on the 1990s***[49]

Some diversification of cropping away from a dependence on maize has occurred in Zambia and Malawi. In Zambia, there has been some diversification into relatively more profitable crops such as beans, groundnuts, sunflower, cassava and sweet potatoes, although maize remains the overwhelmingly dominant crop. Over the 1990s, the area devoted to maize cultivation dropped from around 70 per cent of the cropped area in the 1980s to around 55 per cent. Farmers' diversification has come most likely in response to the decline in subsidies on maize production and marketing in the 1990s. The World Bank notes that "a major reason for this decline [in maize production] was the abandonment of the policy of pan-territorial prices and large-scale government procurement, which reduced price incentives for maize cultivation, particularly in more remote areas". It also notes that following liberalization in the 1990s the area cultivated to groundnuts doubled and cotton increased by 50 per cent. In Malawi, although maize also remains by far the dominant crop, the production of burley tobacco and the area grown to groundnuts and pulses has increased and dramatic increases in the production of cassava and sweet potato have occurred. However, there has been little diversification of the economy away from a dependence on agriculture for nearly 40 per cent of GDP and 80 per cent of export earnings.[54]

**The impact on poverty**

Most studies show that poverty in Malawi has remained static or deepened for many while life and livelihoods in rural Malawi has become ever harder. The FAO has noted "a worsening situation of food insecurity" while a study for USAID states that "Malawi has grown increasingly vulnerable to food insecurity"[55] with "a gradual but steady deterioration of agricultural productivity per capita while eroding livelihoods"[56]. The World Bank states that "there has been virtually no progress in reducing poverty and inequality over the past decade" with poverty levels unchanged since 1998.[57] The country's GDP per capita has declined from US$ 210 in 1992 to US$ 200 in 1997 to around US$ 160 in 1999, while income inequalities have significantly grown from 0.48 in 1968 to 0.62, as measured by the Gini ratio. FAO figures show that per capita energy consumption declined from 2,018 kcal per day in 1985-9 to 1,899 in 1990-4, before rising to 2,081 in 1995-9. Protein consumption has declined from 57 grams per day in 1985-9 to 53 grams per day in 1995-9.[58]

Most studies also suggest deteriorating living standards and conditions for most of Zambia's people over the past two decades. The country was reclassified in 1985 from a low-middle-income country to a

low-income country and in 1999 it slipped still further to a least developed country. Per capita GDP was US$ 1,494 in purchasing power parity in 1976, declining to US$ 877 in 2003.[59] The UN noted in 2000 that the average percentage of household income being spent on food was rising, indicating that Zambian households were finding it increasingly difficult to feed themselves.

Zambian Government figures show that the percentage of people living in poverty increased from 70 per cent in 1991 to about 74 per cent in 1993, decreased to 69 per cent in 1996 and then rose again to 73 per cent in 1998.[60] Other studies show that while poverty in urban areas has risen over the whole reform period, poverty in rural areas may have declined over the whole reform period, rising from 88 per cent in 1991 to 92 per cent in 1993 but then falling to 83 per cent in 1998 and 74 per cent in 2003. The authors note that that the current rural poverty level may be higher than in the 1970s and 1980s, although data is not available from that period.[61]
Some Ethiopian government sources suggest a slight decline in the poverty headcount since 2000[62], yet this is hard to square with the apparent increases in vulnerability and the steady increases in the numbers of people needing food aid. Analysis by the EEA shows that during the last days of the imperial regime of Haile Selassie in 1974, 1.5 million people (or 5 per cent of the population) required food aid; by the mid-1980s, under the Mengistu dictatorship, this had risen to 7 million (17% of the population); whereas now around 14.5 million people (22 per cent of the population) are unable to feed themselves in times of drought.[63]

**Box 3: Changes in poverty over the 1990s**

**Malawi**
A Harvard University analysis of 2004 considered changes in income and poverty levels between 1986 and 1997. It concluded that for the population as a whole incomes rose by 59 per cent but that most of the benefits from the policy reforms accrued to the richest quartile. Households in the poorest quartile of the population suffered an income decline in absolute terms over this period, evidenced most clearly in the fact that they were spending a higher proportion of their income on maize in 1997 than a decade earlier, due food prices rising faster than incomes under structural adjustment. Inequality also rose dramatically; in 1986, the poorest quartile of the population was three times poorer than the richest; by 1997, they were 11 times poorer. Those that gained were principally tobacco growers who expanded into production of burley tobacco; most households not growing tobacco were worse off over the period.[64] A previous study in 1996 by the same author concluded that liberalization in Malawi provided new income opportunities (through tobacco and maize sales) that disproportionately benefited the better-off households. The poorest 25 per cent experienced a relative worsening in income and food security despite increasing the proportion of maize harvest retained and the share of their cash budget spent on purchasing maize.[65]

**Zambia**
Studies show that in the 1990s poverty increased in urban areas and reduced somewhat in rural areas. The University of Sussex in the UK suggested that poverty rose by 16 per cent among those below the poverty line from 1991-8 and that, while poverty reduced in 1996-8, this was not enough to offset the rise over previous years. The rise is explained by deepening poverty in urban areas – in rural areas, poverty levels were slightly lower in 1998 than in 1991. The rise in poverty in 1991-6 was due to "the combined effect of stabilization, subsidy removal and parastatal restructuring". The removal of pan-territorial maize pricing and maize subsidies in urban areas is likely to have benefited maize producers close to the line of rail whilst harming maize producers in the more remote areas. The authors also note the "near collapse of maize marketing and fertilizer and credit provision to some rural areas between 1993 and 1995", which is likely to have increased poverty for some. Although rural poverty declined slightly over the period, this was mainly due to gains by medium and large-scale farmers; poverty among small farmers, who are net consumers of maize, rose slightly in the 1991-6 period, for example.[66] Other studies show that the slight overall decline in rural poverty masks a differentiation in rural areas – in some provinces rural poverty markedly increased over the 1990s.[67]

**Ethiopia**
A study by the Norwegian University of Life Sciences of the period 1993/94 to 2000/01 concludes that the increased use of fertilizer and learning by doing raised output in areas with the potential for more productive growth, but that productivity declined in less productive areas. In recent years, population growth, land fragmentation and the continuous cultivation of lands without measures to restore soil fertility and soil erosion have led to a high degree of land degradation which, combined with frequent droughts, have resulted in increasing food insecurity and risk of hunger. Overall, "it is therefore clear that the reforms have not been successful in reducing the widespread poverty in the country" and "farmers became more and more vulnerable to famine due to natural factors".[68]

A study by Stefan Dercon at Oxford University of six villages to assess changes in poverty during 1989 and 1995 concludes that "about half the poor at the end of the 1980s benefited, about half did not". Poverty declined in four villages but increased in two, decreasing by 16 per cent overall but with levels remaining high overall, at around 50 per cent. Inequality increased, although the very poorest households experienced the highest growth rates.[69] The reforms were pro-poor for only some of the poor. The study distinguishes between two groups of poor people. The first group - which has experienced good rains, is farming generally good land, receiving high crop producer prices and with good access to roads and towns – contributed 80 per cent of the estimated reduction in poverty. The second group - with small land endowment living in remote areas with poor road connections - benefited little or not at all from the reforms, and failed to experience substantial output price increases.[70]

## 4.1 OUTPUT AND PRODUCTIVITY

Increasing productivity is one of the keys to ending hunger in all three countries. Yet statistics show that while overall food production is tending upwards, productivity is declining. Low productivity results from a number of problems, principally small landholdings, inadequate inputs, especially fertilizer, lack of access to credit and unfavorable prices, as well as droughts and floods.

In Ethiopia, for example, overall production has increased over the past decade but this is due to an expansion in the area under cultivation, not through productivity improvements.[71] Zambia's agricultural GDP grew at an average of nearly 4 per cent per year in the 1990s, but this slowed to 1.7 per cent during the 2000s. In the 1980s and 1990s population growth was higher than production increases, whereas in the last decade food production increases have marginally outstripped population growth. The production of the staple, maize, has, however, fluctuated between high and low output over the reform period but has generally been falling over the past decade and has regularly been below national requirements, meaning that large quantities of grain have had to be imported to meet the deficit.[72]

**Productivity has been declining in all three countries:**

• **In Zambia,** statistics on productivity vary widely, with figures for average maize yields estimated as being between 400-800 kg per hectare – this compares to the potential to produce between 2 and 4 tons per hectare.[73] After remaining static in the 1990s, yields have been falling for all major crops except one in the three years from 2002/03 to 2004/05.[74]

• **In Ethiopia,** agricultural growth has been slightly below population growth in the past decade, with productivity per person low by African standards and amongst the lowest in the world.[75] The EEA notes that rural labor productivity has been declining for the last four decades and that productivity in the primary sector (i.e. principally agriculture) is declining by around 0.2 per cent each year. The principal explanation for this is the increase in population in rural areas rather than an absolute decline in productivity.[76] According to the EEA the rate at which productivity is declining has been reduced since the reforms were introduced in the 1990s.

• **For Malawi,** maize productivity, after increasing in the late 1990s, is now lower than in the early 1990s. Over the whole reform period, tobacco yields have fallen, while that for groundnuts has increased and sugar remained static. Maize yields in 2004/05 were 809 kg per hectare, a decline from 1,137 in 2002/03 and 1,700 in 1999/2000; comparing 2004/05 with 2002/03, yields for other main crops such as cotton, groundnuts and soya beans were also all lower with only cassava registering an improvement.[77] It has been estimated that maize yields in the small farm sector in Malawi are around just one third of their potential.[78]

**Box 4: Fertilizers and the importance of organic farming**

Organic farming is a form of agriculture that avoids the use of synthetic fertilizers and pesticides and which relies on environmentally sustainable methods such as crop rotation and animal manures to maintain soil productivity. A major debate still rages about the relative merits of using fertilizers versus low-input organic farming. According to the FAO, "many organic agriculture methods can provide higher yields with minimum dependence on external inputs by using better management practices as the major improvement and input". It notes that "fertilizers are only cost effective under good soil and water regimes and appropriate commodity prices"[79] – none of which are present in the three countries under study in this report. Indeed, the FAO notes that "in rain-fed systems, organic agriculture has demonstrated to outperform [sic] conventional agricultural systems under environmental stress conditions".[80] Increasing independent research shows that organic farming can achieve dramatic increases in yields while being more environmentally sustainable.[81]

Declining soil fertility is a major cause of declining per capita food consumption in Africa while soil erosion through continuous cultivation of crops, particularly maize, coupled with low application of external sources of nutrients, is a major cause of nutrient depletion (declining soil fertility) in the region. However, since the high price of fertilizer is beyond the reach of most poor farmers, soil nutrient improvement practices that require less use of chemical fertilizer, more organic fertilizer and other cheaper practices can be recommended for maize and other cereal crops. Organic fertilizer can be produced with locally available natural resources such as animal droppings and plant materials and is environmentally sustainable compared to chemical fertilizer which is expensive to produce, unsustainable and harmful to the natural environment in the long run. Inorganic fertilizer can be profitable on crops like maize and cotton but often it is not. Risks can be high if weather and soil and crop management practices do not enable crop responses to the fertilizer. Under the scenarios where inputs are not available or late, where there is a lack of resources for adequate weeding, weather risk and initial soil fertility constraints, the use of fertilizer may be unprofitable.

The World Bank and donors remain overwhelmingly focused on promoting high-input, fertilizer-based agriculture as the solution to food security, alongside recognizing the importance of other factors such as improving institutions and markets. Global research in agriculture has overwhelmingly focused on maximizing yields under chemical fertilizers and conventional agriculture, to the extent that, as the FAO has stated, "no global evaluation on the contribution of organic agriculture to food security exists, essentially due to the small place it occupies within the agriculture sector as a whole".[82] The World Bank's major analysis of agricultural strategy, produced in 2005, devoted only four lines out of nearly 200 pages to low input, sustainable agriculture.[83]

Aprodev NGOs believe that the donor community, and indeed Southern governments, need to invest much more in promoting organic farming techniques and that "green revolution-style" technological fixes such as depending on expensive inputs such as fertilizers cannot be the magic bullet solution to hunger. That said, in the following analysis, we devote considerable attention to tracking changes in access to fertilizers under liberalization – since fertilizer use has been central to the agricultural strategies of those promoting economic liberalization and therefore shows how far they have been failing even on their own terms.

*Left to Right Cathrine Banda, Tiseluko Combe and Esme Miale, Sisinje, Zambia*

## 4.2 ACCESS TO FERTILIZER AND OTHER INPUTS

Although the use of chemical fertilizers has generally been seen as critical by the advocates of liberalization, access to fertilizer has generally declined over the reform period.

In Malawi, the price of fertilizers and hybrid seed rose massively after the removal of subsidies and the devaluation of the kwacha under liberalization. The Malawi Economic Justice Network, an NGO, states that prices have risen by 400 per cent over the reform period. In 1998, the government estimated that high prices reduced access to less than one third of all smallholder farmers. The proportion was estimated to be the same in the three years from 2000-2003 – and those that did buy fertilizer, tend to buy only small amounts. Total fertilizer use therefore remains very low, with data suggesting that the level of usage in the past decade has been lower than in the previous decade.[84]

In Ethiopia, the government abolished fertilizer subsidies in 1997 as a condition for a World Bank loan, after introducing them two years earlier to contain rising prices. "The complete removal of the subsidy", according to Debela et al, "resulted in a persistent low level of fertilizer usage in farming and subsequent productivity decline".[85] The government's extension program has resulted in fertilizer use more than doubling in volume between 1992 and 2004.[86] However, in recent years, fertilizer use has been stagnant. Between 60-70 per cent of households has used inorganic fertilizer in the past year, but with wide variation between regions (i.e. in some remote areas farmers have no access to fertilizer).[87] However, Ethiopia uses small quantities of fertilizer in comparison with other countries, suggesting that the increase in fertilizer used over the past few years has been due to the expansion of the area under cultivation and not intensified application.[88]

In Zambia, the number of farmers using fertilizer declined from 31 per cent in 1991 to 22 per cent in 2000. The proportion using hybrid seed declined from 44 per cent to 17 per cent.[89] Exorbitant fertilizer prices and high interest on loans have resulted in only a minority of farmers being able to afford fertilizer. Now, according to government figures, the largest percentage of farmers applying chemical fertilizer in their maize fields was 27 per cent in Southern province and 23 per cent in Eastern province.[90]

A 2000 World Bank study of Zambia noted that the removal of all subsidies on maize and fertilizer under structural adjustment led to "stagnation and regression instead of helping Zambia's agricultural sector". Similarly, an UNCTAD study noted that "agricultural credit and marketing by the private sector turned out to be uneven and unpredictable, and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off".[91] Partly owing to the disastrous adverse impacts of their removal, fertilizer subsidies were recently reintroduced. In 2002 the government began implementing the Fertilizer Support Program (FSP), which is managed by the government but implemented by various NGOs. It provides subsidized agricultural inputs (whereby farmers pay 40-50 per cent of the price) such as fertilizers and seeds (mostly maize seeds) to small farmers. However, government policy, under donor pressure, has been to consistently scale down the program, and since its introduction the number of recipients has declined. The FSP reached around 150,000 farmers in 2004, declining to 134,000 in 2005.[92] In addition to the FSP, another government program funds the distribution of 'food security packs' by the NGO, Programme Against Malnutrition (PAM). In 2006, these were reaching around 20,000 farmers, a small number which is a consequence of very low levels of funding from the government.[93]

Thus only a small proportion of Zambia's 800,000 small farmers receive subsidized fertilizer. Nearly half of all the fertilizer used in 2004/05 was by commercial or large-scale farmers owning more than 20 hectares, who are a small proportion of all farmers. However fertilizer use has been fairly constant in recent years, which, according to the FAO, means that with the reduction in the number of beneficiaries under the FSP, an increasing number of smallholders may be buying unsubsidized fertilizer.[94] This is, however, likely to be the better-off farmers.

**Subsidies have often been critical for raising output.....**

Experience shows that subsidies have sometimes been critical in raising output, but they can also suffer from numerous problems producing little positive impact.

A study of Ethiopia simulated the effects of a removal of the 20 per cent subsidy on fertilizers that was present up to 1997. It showed that the reduction in fertilizer subsidy reduced household incomes by 1.6–2.3 per cent. Cereal production decre-

ased in most cases and also had a negative effect on livestock production because fodder production (crop residues) became more costly. The reduction of the subsidy also caused a fall in the demand for fertilizer by 18–24 per cent and a decrease in the marketed surplus (i.e. that exported from the village) of teff but an increase in the export of other cereals and of pulses – overall, exports were reduced by 1.3 per cent. The authors also factor into their study the effect of output price increases on farmers and conclude that: "Our model simulations for a village economy with high agricultural potential and fairly good market access in the Ethiopian highlands indicate that both the output price increase and the removal of fertilizer subsidies that were implemented in the late 1990s lead to more rapid land degradation" – meaning a "more rapid decline in land productivity".[95]

Many academic analysts put down the stagnation in smallholder production in Malawi in the 1990s to reduced access to hybrid maize and fertilizers.[96] The collapse of the state agricultural system resulted in low harvests in 1997 and 1998.[97] It was as a consequence of rising food insecurity that subsidies were reintroduced in the form of Starter Packs in the 1998/99 season, which provided free packs containing fertilizer and seeds to 2.8 million rural households. These packs contributed to two good harvests producing 2 million tons of maize (a level considered sufficient to meet the country's demand), compared to 1.5 million tons before their introduction. Donors, however, insisted on scaling back the program because the subsidies were general rather than targeted. Renamed the Targeted Inputs Programme (TIP), subsidized inputs reached a smaller number - 1.5 million households - in 2000/01, resulting in a fall in production to 1.5 million tons. Further donor pressure scaled back the program to 1 million beneficiaries in 2001/02, which coincided with a further fall in production to 1.3 million tons (with a food gap estimated at 600,000 tons). With the country facing another food crisis, the TIP was scaled up again to reach 2.8 million households in 2002/03.[98] Since the ending of the TIP, the government has introduced other subsidy programs. Village authorities currently allocate vouchers to households who are entitled to buy two 50 kg bags of fertilizer from ADMARC sales points for 950 kwacha (US$ 7.3), equivalent to a 70 per cent subsidy on the market price.

Evaluations show that these subsidy programs have been critical for food security and production. Maize yields achieved by poor beneficiaries of subsidies were found to be 40 per cent higher than those achieved by better-off non-beneficiaries. As the figures above suggest, studies also show that the implementation of Starter Packs/TIPs coincided with greater maize production than before they were introduced or since they ended. In 2002/03, for example, it has been estimated that around 20 per cent of total maize production came as a result of the TIP inputs provided to farmers.[99]

> ***"Only in two years (1999/2000 and 2000/2001) in the past decade has the maize production level [in Malawi] exceeded the estimated demand. This was mainly due to government interventions, notably the agricultural productivity investment program, which expanded access to credit, and the starter pack program, which provided limited quantities of free inputs to smallholder farmers. Cost implications and sustainability concerns forced the government to reorient the starter pack program towards resource-poor and disadvantaged segments of the rural communities, thus significantly reducing the number of beneficiaries. The reduction in size of the free input program was a major factor contributing to the decline in maize production in the 2001/2002 season". FAO***[100]

**Problems with government programs**

However, there are also major problems with the subsidy programs in Malawi and Zambia and the extension program in Ethiopia:

• Political patronage. Since independence, heads of state have relied on subsidized inputs to promote their candidacies and political agendas and to maintain popular support. Subsidies are open to abuse at village level with many of the beneficiaries being the better off and not the poorest farmers.

• Reaching better-off farmers. While Zambia's 'food security' packs are targeted at the poorest farmers, the beneficiaries of the government's subsidy program are likely to be better-off farmers who can afford to pay the price. The cost of even subsidized fertilizer is currently beyond the reach of most farmers, as the researcher's interviews showed. So even the current level of subsidy – which already suffers from many problems – is not enough to significantly reduce hunger. A Zambian NGO study notes that while farmers felt that the FSP was critical for increasing maize production, the amount provided per household was not adequate to make any meaningful contribution to maize yields.[101]

• Cost and capacity. The programs are costly to implement and involve a large drain on the budget, though it is a crucial point as to whether it is more costly not to implement them than to do so. Capacity within government to manage these programs effectively, and to ensure good targeting, is limited. The 2004 TIP in Malawi was so poorly implemented that DFID, the main funder, decided to end its support for the program.[102]

• Crowding out private suppliers. In the 2005/06 season in Malawi, the government relied on parastatals to distribute the fertilizers, and precluded a role for the private sector role in this, which crowded out private sector suppliers. This reduced private sales of fertilizer by 60-70 per cent.[103] This has serious impacts - the FAO noted in 2005 that "commercially very little fertilizer was available in the markets, which also significantly contributed to the reduced harvest".[104] Under pressure from donors the government has allowed private suppliers to participate in the 2006/07 program.

• Uncertainties. The Malawian and Zambian government have been advocating for continuing widespread subsidy programs while donors have generally insisted in scaling these back and ensuring more targeting. This battle shows the deep division between government and donors over food production and has resulted in a myriad of different free input and subsidy programs in recent years. Together with untransparent and often sudden government policy decision, massive uncertainties as to future policy exist, making long term planning impossible.

Although Ethiopia does not apply fertilizer subsidies and its fertilizer sector has been deregulated and opened for private competition since the mid-1990s, the market is far from liberalized in practice and is generally regarded as uncompetitive, inaccessible and untransparent.[105] Around 25 per cent of all fertilizer sales in 2005 were made by one parastatal agency – the Agricultural Inputs Supply Organisation (AISO) - while the other 75 per cent were sold by nine (state-backed) cooperative unions and two (ruling party-backed) 'pri-

vate' companies. Only a few private retailers are involved in fertilizer sales and distribution.[106] Ethiopia's alternative to fertilizer subsidies – the government's extension program, PADETES – appears to have had little positive impact on reducing hunger in the country (see Ethiopia chapter).

The World Bank has gone along with the reintroduction of subsidy programs in Malawi and Zambia, a change from its previous complete opposition. In the researcher's interviews with officials in Lilongwe, the Bank claimed it would continue to support subsidies in Malawi as long as the government could provide justified economic arguments for continuing them. Yet they also said that they were seeking the phase out of subsidies within 3-5 years. After this point, officials told us, the private sector will be sufficiently developed, and the road infrastructure improved, to provide fertilizer at affordable prices to smallholders.[107] This is a deeply worrying conclusion – it recalls the optimism expressed in the 1990s about the speed with which private supplies replace the state.

### 4.3 AGRICULTURAL MARKETS AND PRICES

Agricultural prices have different impacts on farmers depending on whether they are primarily consumers or purchasers of food. Many farmers practice subsistence agriculture producing principally for their own needs, and are therefore more consumers than producers of food. In Zambia, the poorest third of the rural population spend 77 per cent on food, mostly maize.[108] They are thus hit by higher food prices for staples like maize. For farmers selling some of their produce in the market, which includes many hunger-prone people, a major problem is the fluctuating and sometimes very low output price for their farm produce, even in years of good harvest. The prices obtained by these farmers for their agricultural produce help determine their income, and thus their ability to buy inputs that can in turn lead to productivity increases. Getting prices right is therefore difficult, and often amounts to a political choice, but one critical aspect of this is stability and predictability of price. However, all three countries have been plagued by volatile prices and often non-strategic government interventions to help stabilize prices (see further below).

The researcher interviewed many farmers who go hungry for large parts of the year but who at harvest time are able to produce enough food to feed their families plus to sell a little at the market. For them the small income difference between receiving a good or bad price can be great indeed. But our visits to farmers showed that poor farmers are often at the mercy of exploitative private traders offering low prices when it comes to selling their produce – a direct consequence of unregulated liberalization. Farmers lack bargaining power to negotiate higher prices and there is pressure to sell quickly after harvest when prices are lowest, which is caused by inadequate storage facilities and few alternative sources of income. Poor roads in more remote areas also constrain the ability of private traders to offer inputs such as fertilizers at affordable prices. The private sector has generally failed to move into the less profitable rural areas to provide services previously provided by the state.

A particular problem is the price of outputs compared to the high price of inputs such as fertilizer. One study in Ethiopia compares prices over the reform period for the years 1991 and 2001. It shows that the ratio of the price of DAP fertilizer to the price of teff increased from 0.6 to 1.8 over the ten year period. This means that only 0.6 quintal of teff was required to buy a quintal of DAP in 1991 but that 1.84 was required ten years later – a threefold increase in the amount of teff required to buy a quintal of DAP.[109] Another study notes that Ethiopia's reforms have resulted in higher grain prices in the major grain-producing areas and lower prices in the grain-deficit areas. There was a reduction in marketing costs for grain - which are significant, accounting for 40-60 per cent of the price consumers pay for staple cereal commodities – representing a gain for farmers. But the authors note that Ethiopia's grain marketing system faces numerous problems, and in particular price volatility has not been reduced.[110]

A major problem in all three countries has been the lack of good market information systems. Farmers' knowledge of prices in the market can be critical for maximizing income. Yet the EEA's analysis in Ethiopia is that a massive 96 per cent of farmers receive no market support from any agency.[111] Farmers receive most of their information about the market through their own interactions with traders and neighbors; they can be unaware of prices in other markets, even those close to them. Traders, in turn, get most of their information from brokers and transporters with knowledge of prices in the Addis Ababa market. The Ministry of Agriculture does have plans to implement a market information system but this is under review.[112]

The prices of agricultural commodities – formerly set mainly by the state – have been liberalized and are set primarily by market forces. The major exception is maize (in Zambia and Malawi) and grain (in Ethiopia), where the government intervenes. Such government intervention has both helped and harmed the poor in different ways.

• In 1995, the Zambian government established the Food Reserve Agency (FRA) to purchase maize from small farmers around the country at favorable prices and to attempt to stabilize market prices through sales of maize to selected maize mills at below market prices. In 2005, the FRA purchased 84,000 tons of maize at a total cost of K73 billion (US$ 18.2 million), which was aimed at building the country's national strategic food reserves targeted at 120,000 tons. Other crops purchased included rice, cassava, groundnuts and soya beans.[113] Yet government purchases are seriously limited by the funding available. The combination of exploitative private traders in rural areas alongside limited government intervention produces a vicious circle - since FRA purchases do not occur in some rural areas, and therefore the minimum price that it sets is defunct in reality, private traders come to the rural areas, buy at a low price and sell at much higher prices elsewhere. Some of the private traders will buy from farmers and then sell to the FRA itself for a higher price, which then in turn sells back to farmers.

• In Ethiopia, the Ethiopian Grain Trade Enterprise (EGTE) is tasked with purchasing specific crops from producers in given areas as and when necessary in order to maintain prices and incentivize continued production. In 2005, for example, the EGTE purchased around 80,000 tons of grain. Its capacity for purchasing is also limited by the funds it has available – the researcher was told this amounted to only 80-90 million Birr (US$ 9.2-10.3 million).[114] The government sees its continued role in price stabilization as critical, especially in drought-prone regions. The FAO has pointed out, however, that although the extent of the EGTE's intervention in the market is relatively small (buying less than 10 per cent of production) its purchases can have a large ad-

verse effect on the market due to the traditional respect that producers and traders pay to prices offered by the EGTE (which are commonly regarded as official prices) and since it offers direct cash payment and is therefore easily able to attract sellers. The larger merchants have also indicated a clear preference for dealing with the government as a more reliable purchaser than with small local wholesalers.[115]

• In Malawi, where the decline of ADMARC's role has also left many of the poorest farmers without access to inputs and markets, ADMARC, against the advice of donors, sets a minimum price for maize producers and a ceiling price for maize buyers in all of Malawi's 28 districts. In some remote rural areas, many households still depend on ADMARC for supplying inputs and buying their maize. However, ADMARC's ability to play this interventionary role is limited by shortage of funds, meaning that farmers are often forced to sell maize to private traders at below ADMARC's minimum price (which therefore becomes in effect meaningless). Many independent analysts argue that this government intervention contributes to crowding out the private sector and undermining agricultural markets, while its price setting (at too low prices for farmers) tends to penalize maize producers in favor of urban consumers.[116]

Here are good examples of the worst of both worlds – government intervention is insufficient to protect producers but great enough to undermine the development of private traders in the market. At the same time, agricultural marketing at wholesale level is not competitive, and is dominated by a few large traders, while in remote rural areas retailing is financially unviable for the private sector especially given lack of adequate government investment in roads. Further problems with 'partial liberalization' are taken up in section 6.

**Box 5: Privatizing ADMARC in Malawi**

A fierce political debate rages about the future of ADMARC. Donors, especially the World Bank, have long pushed for its privatization, and noted its poor financial performance, as well as accused it of corruption and lack of transparency. Full privatization has been fiercely resisted by Malawian governments, anxious to maintain a strong government role in controlling the national staple. In 2004, the government was forced to speed up ADMARC reform as a condition for a World Bank loan but the new government has taken virtually no steps to implement this.

The debate currently is over the extent of privatization and the difference between ADMARC's "commercial" and "social" functions. The Bank is pushing for an end to ADMARC's role in setting minimum prices across the whole country but accepts it could still play a role in price setting and buying maize in remote rural areas, even "for decades", the researcher was told. The Bank has pulled back from demanding complete privatization, conceivably in light of civil society and political opposition in Malawi; a 2003 World Bank study indicated the positive impact that access to ADMARC markets has on household welfare in areas where private markets are undeveloped.[117] The Bank believes that ADMARC should withdraw from more "profitable" areas of the country and auction off its facilities to the private sector. Bank officials accept there will be "short-term costs" – i.e. effects on people - to this further reduction in the state's role but that "in terms of economic growth, risks have to be taken", and that a competitive private sector will soon emerge for the market to set prices.[118]

There is some logic to the Bank's arguments. But even in "non-remote" areas, close to the capital with decent roads, a competitive private sector has not yet emerged and is not immediately likely to. More generally, there will be many smallholders who will not be able to afford maize even at (somewhat lower) competitive market prices. One recent proposal is for ADMARC to become a joint venture between government and the private sector, a qualified privatization that would aim at beefing up ADMARC's "commercial" functions' while retaining its "social" functions.[119]

*Undi, Malawi*

### 4.4 EXTENSION SERVICES AND GOVERNMENT SPENDING

Extension services provided to farmers have been massively cut over the reform period due to the lack of government funding. The researcher was told that in Malawi there is an average of just one government extension worker per 3,000 households. One estimate in Zambia is that only around a third of rural farmers get some kind of extension support from government services.[120] Even this may be an over-estimate; in some areas of all three countries extension services have become virtually non-existent as the number of trained extension officials has diminished and many training schools have closed down. Most of the poorest farmers, such as female-headed farming households, are now unlikely to be in touch with extension officials. Even in areas where there are extension officers, they often lack the necessary transportation to visit farmers.

In all three countries, farmers consistently told the researcher of the importance of good extension services and how their farming suffered as a result of a lack of them – especially important is increasing farmers' knowledge of techniques to promote diversification, whether and how to use new seeds as well developing alternatives to high-input, fertilizer-based agriculture. Such a lack of capacity poses major problems for helping to increase productivity among Malawi's small farmers.

***The World Bank has noted as regards Zambia:***

***"Following the economic reforms of the early 1990s, the government discontinued its heavy involvement in the sector. Declining government role and budget for agriculture has led to the deterioration of service delivery by public sector [sic]. Investments in staff development, provision of necessary facilities and equipment have basically ceased, while budget resources for operational purposes have reached the bare minimum. This has hurt most smallholder farmers who were ill-prepared to exploit the emerging market opportunities or address the issues that come with market liberalization".***[121]

Given the Bank's role in cutting public expenditure as a condition of loans in the 1990s, such a comment is quite audacious. The Bank also states that "declining government funding of agriculture will imply that growth in agriculture will increasingly rely on private extension and advisory services and private financing of infrastructure development".[122] This can hardly be assured, however, to put it mildly.

Governments have failed to invest sufficiently in spending and research on agriculture. In 2005, the Zambian government allocated 352 billion kwacha (US$ 88 million) to agriculture – amounting to only 5 per cent of the budget, although the fourth highest spending category (after education, health and transport).[123] In Ethiopia, over the period from 1993/94 to 2000/01, analysis suggests that agriculture's share of government spending in Ethiopia declined from 9 to 7 per cent,[124] although more recently the government has increased its spending on agriculture - an increase of 66 per cent in 2000/01–2003/04, for example.[125] The government has invested, however, considerable resources in road development and has expanded the network from 23,000 km in the early 1990s to 37,000 km in 2005.[126] What is spent is often poorly targeted at small scale farmers. In Zambia and Malawi, most commentators regard governments as having neglected rural areas. Some observe that as little as 18 per cent of total spending on agriculture is actually spent on development projects.[127]

***One outcome of the collapse in government extension in Zambia is the increasing outbreak of diseases among livestock. The veterinary services were privatized in the early 1990s but have not been successful as evidenced in the high livestock mortality rate, especially among smallholder farmers. In 1996/7 the total cattle population halved from 5.5 million to 2.7 million animals due to frequent outbreaks of contagious diseases, which had major impacts on food production and family assets. An extensive program of animal vaccination increased the cattle population to 2.9 million in 1999.***[128] ***In Chipata district, which the researcher visited, many cattle had recently died from diseases such as East Coast fever and Foot & Mouth disease, which resulted from lack of dipping after the government policy of free provision of dipping services changed to one where farmers are required to meet the costs of maintaining the health of cattle themselves. This has increased hunger in the district since the loss of cattle reduced crop production and increased women's workload by reducing the use of animal draught power, as well as reducing the quantity of nutritional milk and occasional beef that some households enjoyed.***[129]

### 4.5 TRADE AND EXPORTS

All three countries have deeply liberalized their trade regimes under the reforms, mainly as part of structural adjustment programs, but also (in Malawi and Zambia's case) as members of the WTO (which Ethiopia is planning to join in 2009). Currently, Ethiopia's trade protection system includes no quotas, no seasonal tariffs and quantitative restrictions have been almost entirely eliminated. As a result of tariff reforms, the tariff range narrowed from 0–240 per cent at the beginning of the 1990s to 0-80 per cent in 1995. The current tariff structure, introduced in 2003, consists of six rates ranging from 0 per cent to the highest at 35 per cent.[130] Zambia's liberalization reforms, implemented as part of SAPs, went further in opening borders than its obligations in the WTO agreements. The major reduction in tariffs occurred in 1993, before the WTO was established while most tariff reductions were completed by 1996.[131]

These countries are now among the most liberalized in Africa, indeed the world. At the same time, most statistics show that trade performance has weakened over the reform period:

• Zambia has witnessed a rapid growth in imports compared to exports, presenting the country with balance of payments problems. Its export earnings continue to be low due to the narrow export base and reliance on a few products, poor terms of trade and market access restrictions in developed countries as well as subsidies, for example on cotton, which depress world prices. During the 1990s a massive drop in output from the mining sector, together with copper price declines, devastated the industry, contributing to increasing poverty. However, according to the World Bank, agricultural exports have increased over the period 1995-2004, averaging 22 per cent, led mainly by cotton and vegetable exports.[132]

• In Ethiopia, the capacity of export earnings to finance imports rose in the mid-1990s before declining, and was only slightly higher in 2001/02 (24 per cent) than in 1992/93 (22 per cent), for example.[133] Earnings from coffee – the major export, accounting for 40 per cent of total export earnings - significantly rose after devaluation in 1993 but were fairly static in the late 1990s.[134] The reason is essentially Ethiopia's continuing dependence on largely unprocessed commodities and the vulnerability of the economy to volatile interna-

tional prices – coffee prices dropped by 49 per cent in the years 1998-2004.[135]

• In Malawi, the contribution of trade to GDP declined from 1994-2002 – exports fell from 30 per cent to 26 per cent of GDP while imports fell from 67 per cent to 44 per cent. The share of agricultural exports in total exports declined only marginally from 87 per cent in 1993 to 81 per cent in 1999. Exports remain heavily concentrated in a few sectors only – mainly tobacco, tea and sugar - leaving the economy vulnerable to fluctuations in agricultural commodity prices. Tobacco exports still account for 60 per cent of Malawi's export earnings, only a small decline on the 70 per cent level of the early 1990s.[136] The FAO notes that structural adjustment contributed to a temporary increase in the volume of trade in the 1990s due to improvements in pricing policies and the increased involvement of the private sector in marketing smallholders' inputs and produce - but that the disappointing overall performance is explained by SAPs´ failure to address unfavorable terms of trade and poor access to credit and extension services along with limited access to fertilizer – all of which "further weakened the export base of the economy".[137]

The researcher visited Malawi at a time when import surges of manufactured goods from China – mainly clothes - and South Africa – mainly food products such as tomatoes, eggs and chickens - were posing concerns for local producers. Some civil society groups were in the process of analyzing how serious these impacts have been on domestic farmers. In Zambia goods from South Africa dominate the wholesale retail and wholesale sectors not only in the urbanized areas of Lusaka and the Copperbelt but also in the capitals of the outlying provinces. This means it is difficult for local production of, for example, red palm oil from Luapula province and beef from Western province to compete with imports, which are often subsidized.[138] As well as competing with cheap, sometimes subsidized imports, domestic producers have also suffered as a result of the decline in input subsidies, which has made many of them less competitive in domestic markets.

A further major current concern arises from the Economic Partnership Agreements (EPA) the EU is negotiating with groups of regional states in Africa and elsewhere. A 2006 analysis by the UN Economic Commission for Africa (UNECA) concludes that Ethiopia can expect only "limited gains in consumer welfare" from the EPA and that these gains are "not proportional to the cost of the agreement". UNECA argues that Ethiopia stands to lose up to 4 per cent of its current public revenue – or up to around US$ 65 million – from abolishing tariff revenues as a result of free trade with the EU. The report estimates that Zambia will lose US$ 16 million from EPAs, mainly from reductions in import taxes, which provide around 30 per cent of total government revenue. Most of the trade creation will accrue to EU companies, not Zambia, which will face increasing competition from EU exporters. "Above all", UNECA concludes, "the EPA is inimical for the long-term strategy" of African countries. Instead of leading them to deepen regional integration and diversity its output, EPAs "will revitalize the trading partnership with Europe, as well as the traditional agricultural specialization of the country". The major beneficiary of EPAs would be the EU which "stands to gain significantly in terms of expanded trade" into these countries.[139]

## 5. THE HUMAN COSTS OF THE REFORMS

The consequences of the three countries' failure to address hunger are stark:

• Over 5 million people in Zambia, or nearly half the population, are undernourished.[140]

• In Ethiopia, nearly half the population (46 per cent or 33 million people) is undernourished, around 38 per cent is underweight while 47 per cent are stunted.[141] Though these levels have decreased on figures from 2000, they remain abnormally high, describing a population that is permanently affected by the consequences of poor nutrition and poor health.[142]

• Malawi's children suffer from deep and persistent malnutrition. Nearly half are all under-fives are stunted (too short for their age), 40 per cent of these severely stunted. The levels of child stunting are the same as for 1990. As a result, an estimated 40,000 children under five years of age die each year from nutrition-related diseases, such as malaria, acute respiratory infection and gastroenteritis[143] - although the under-five and infant mortality rate has declined from 1990 to 2000[144]. In addition, the poor consume only 66 per cent of the recommended daily calorie requirements, implying that malnutrition affects the adults too.[145]

**Box 6: Zambia's shocking statistics**

• Half of Zambia's children under five are malnourished, over a quarter are underweight and half are stunted.

• Between 1991 and 2002/03 the proportion of stunted children increased from 40 to 49 per cent, the proportion of underweight children rose slightly over this period, while that of wasted children (low weight for height) decreased slightly from 7 to 5 per cent.

• Low birth weight is also an indicator of poor maternal nutrition before and during pregnancy – over 10 per cent of children born in Zambia have a low birth weight while around the same percentage of Zambian mothers of children under 3 are malnourished.[146]

• Eastern province, which the researcher visited, has one of the highest malnutrition rates in Zambia – over half of all children aged between 3-59 months are stunted.[147] This proportion increased over the reform period from 48 per cent in 1992 to 59 per cent by 2000.[148]

• A recent World Bank report notes that total calorie consumption has been decreasing since 1980, largely because of the decline in domestic maize production and consumption. Total calorie consumption fell from 2,200 calories per person per day in the 1980s to less than 1,900 in 2001.[149]

Malawi and Ethiopia both rank in the top four countries in the world for levels of chronic malnutrition, according to UNICEF.[150] The following table shows the levels of stunting (too short for age), wasting (too thin for height) and underweight (too thin for age) for the three countries:

| | *Stunting* | *Wasting* | *Underweight* |
|---|---|---|---|
| *Malawi* | *49* | *5* | *25* |
| *Zambia* | *47* | *5* | *28* |
| *Ethiopia* | *51* | *11* | *47* |

*Source: Elizabeth Cromwell and Nambusi Kyegombe, Food security options in Malawi: Good neighbours make good friends?, ODI, London, January 2005, p.2, drawing on government data*

In Undi village in Dowa district of Malawi farmers told the researcher of how their health deteriorates during the hungry season. As farmers go down to one meal a day, some even going for whole days without any food, the health of the children suffers in particular. They complain of their stomach hurting, cry a lot, and become ill quicker, a situation exacerbated by the lack of safe drinking water in the area and the fact that the nearest health post is 20 km away while health visitors do not come to the village. Health facilities are often no longer available to address people's health needs. A study for Care, for example, notes that in Zambia the collapse of the state's role in the more remote rural areas has left a gap where health services have become dependent on donors and mobile campaigns to provide preventative services such as immunization and Vitamin A supplementation.[151]

***"Of concern are the high prevalence rates of child stunting, which likely reflect long term-inadequate access to health services, sanitation, potable water and dietary quality and diversity...It can be hypothesized that children who become malnourished later in the year are more likely to do so because of inadequate food access associated with dwindling household food stocks and declining terms of trade for market purchase of staple foods". FAO***[152]

## 6. SUMMARY OF THE IMPACT OF REFORMS

The major impacts of the reforms, under these countries' 'partial liberalization' experience, can be summarized as follows:

• Overall, the **number of people hungry** or vulnerable to hunger has increased and the poorest farmers have got poorer. Overall poverty levels have remained the same in Malawi and may have slightly decreased in Zambia (in rural, not urban areas) and, possibly, in Ethiopia, although in the latter ever larger numbers of people require food aid. Given population growth, poverty therefore remains alarmingly deep and entrenched while per capita incomes have fallen and inequalities between rich and poor have risen.

• Overall **food production** has increased but productivity in nearly all key crops has generally declined (although in Ethiopia, the rate of decline has slowed under the reforms).

• Economies have not substantially **diversified** away from dependence on agriculture, but in Malawi and Zambia there has been some diversification away from a dependence on maize towards other crops as a result of liberalization policies.

• Smallholders' access to critical **inputs such as fertilizer** has declined, mainly due to increased prices. In Zambia, use of fertilizer has declined from around a third to around a quarter of small farmers over the reform period while in Malawi only a third of smallholders use fertilizers and then only in small amounts. In Ethiopia, the amount of fertilizer used has increased over the whole period of the reforms but has been stagnant in recent years. The use of fertilizer remains very low in all three countries in comparison with others countries and is far below recommended rates to seriously increase productivity. Access to seeds and credit is also low.

• **Subsidy programs** have helped the poor and raised output but they reach only a small number of farmers and suffer from numerous problems, such as crowding out private sector suppliers and reinforcing political patronage.

• Liberalization has deprived many farmers of **access to markets** and made farmers prey to exploitative private traders offering **low prices** for their produce. Government maize buying and price setting is critical for some farmers yet it has crowded out the development of private traders. Farmers have no adequate market information system for basic information such as market prices.

• Major cutbacks in government spending on **extension services** have deprived farmers of important sources of knowledge and advice to aid increases in productivity and diversification. Government spending on agriculture is low and also poorly targeted at small farmers.

• Deep **trade liberalization** has been accompanied by generally worsening trade performance, with imports rising faster than exports, vulnerability to import surges and ongoing dependence on a small number of commodities for export, which suffer from declining world prices. The three countries are likely to suffer further from the EU's proposed regional free trade agreements (EPAs).

The major impact of these reforms is on the health of the population, especially widespread malnourishment and the high levels of chronic malnutrition and stunting among children under five.

Chronic hunger is not only debilitating people but is holding back countries' economic growth. Poor farmers' lack of access to fertilizer is preventing increases in output and productivity while low prices for farmers' produce is, by depriving people of income, hindering smallholders from diversifying and investing in the future. These countries could in principle easily feed themselves and current productivity is merely a fraction of what it could be. Governments and donors may have learnt lessons from recent food crises but even if their emergency responses have improved, the critical point is that farmers' underlying vulnerabilities remain and are getting worse. Government and donor policies are increasing hunger and exacerbating a permanent, silent crisis.

## 7. THE PROBLEM OF PARTIAL LIBERALIZATION – THE MIX OF GOVERNMENT AND WORLD BANK POLICIES

*"The government is protecting its people, while the private sector is making them poorer. In between are ordinary people, especially the farmers"- interviewee in Lilongwe*

The three countries' agricultural policies are a mix of continued government intervention and liberalization. This combination could in theory provide the best of both worlds – it is a strategic mix which has been pursued successfully by many, indeed most, successful developed and developing countries. Yet in Malawi, Zambia and Ethiopia, the failure to address hunger is the result of a messy, non-strategic combination of policies. For one thing, liberalization was pursued quickly, deeply, and at the behest of outside actors, notably the donors, especially the World Bank, and therefore lacked real internal ownership. For another, the continued state intervention is presided over by governments that are often untransparent, elitist and unaccountable, and where 'patronage' politics is the rule. The outcome is that they have the worst of two worlds – government intervention is not far-reaching, or good, enough to really benefit the poor, but it is sufficient to crowd out badly needed growth in private sector development that could provide farming inputs in competitive markets and functioning markets for outputs.

In Malawi, various policy statements argue that government intervention to increase fertilizer supply and maize prices is critical to food security and will continue, implying that free markets in Malawi are not up to the task. On the other hand, the Malawi Poverty Reduction Strategy, agreed with the World Bank, and other economic growth strategies, are silent on the issue of this government role, maintaining the free market orientation favored by donors who claim that government intervention is precisely why fertilizer is not sufficiently available in Malawi.[153] The situation is regularly one of policy commitments that contradict one another or else a mismatch between stated government policy (enhancing the free market) and actual policy (continued intervention). Such uncertainty makes it impossible for poor farmers to plan future crop production and for private sector traders to take the risk of investing resources.

In Ethiopia, the World Bank's public documents outline a push for further liberalization and stress supporting the government's commitment to the 'commercialization of agriculture'. Yet government documents stress the importance of a continuing state role in agriculture. The current PRSP notes the government's commitment to "the transition to the market-based agricultural system" but also a variety of roles it will continue to play in agriculture, notably that "parastatal business enterprises are expected to play significant roles in stabilizing prices as well as reaching farmers who are far from agricultural input market [sic]". The document also stresses the role of the (government-backed) farming cooperatives which "play key roles in reducing the time required for trade transactions and cutting marketing costs, thereby creating an efficient agricultural marketing structure" and which "also render vital services" such as providing financial and social services in rural areas and purchasing agricultural machinery and leasing them to farmers.[154] Compare this to the Bank's Interim Country Assistance Strategy, which states that "progress in freeing up agricultural markets and reducing transaction costs has to date been hampered by centralized control of key markets (e.g. for fertilizer) and preference for quasi-official cooperatives", and which calls for "a greater focus on the private sector, incentives for FDI in agriculture and competitive markets".[155]

The way in which subsidy programs have been implemented in practice may well have benefitted the poor in the short term but harmed them in the medium or long term. The reason is that in all three countries, the government's role in the fertilizer market has crowded out the development of the private sector. Fertilizer subsidies can be critical to raising agricultural productivity on small plots but they need to be part of a clear strategy that is well-implemented and that enhances the role of private companies. If not, private suppliers will not enter the market, and farmers will also be hindered in diversifying away from maize, by the fact of continuing subsidies on maize.

In Zambia, the government's involvement in fertilizer distribution has been widely seen as going beyond its core business of managing the country's grain stocks and gradually as assuming the much larger role of (the abolished) NAMBOARD. In Malawi in 2005, the government embarked on a universal fertilizer subsidy, targeting maize and tobacco, as noted above. 147,000 million tons of fertilizer was provided under this program, amounting to 91 per cent of the total market, but which left only 9 per cent of the market for private sector companies. This, as the Malawian NGO, Cisanet has noted, "was reported by the private sector to be a serious threat to their survival as their market shrank". Government parastatals distributed the fertilizer in country though fertilizer procurement was extended to private companies, who supplied around half of the imports.[156]

As for government intervention to support maize and grain prices, the justification for this is the concern that if trade is simply left to private agents, prices will be higher or more volatile and there might be a lack of maize in some parts of the country for some periods. But another motive – as with fertilizer supply – appears to be to maintain support among politically important constituencies.[157] In Malawi, ADMARC's role in setting prices, although it benefits some of the poor, discourages the private sector due to the uncertainty caused.[158] It was recently reported that the ADMARC subsidized price was attracting many poor consumers to its markets but that it didn't have adequate stocks to meet the demand; at the same time, the cost price of maize from most supply sources was above the prevailing ADMARC price, making it difficult for private traders to compete with ADMARC.[159] Although expected to play a role in marketing and pricing, in reality ADMARC lacks sufficient funds to do either well, resulting in opportunistic traders filling the gap.[160]

This messy mix of policies is the direct result of years of battles between the government and donors over the food production and food security strategy to be followed in the country. This is especially the case in Malawi, where donors provide some 50 per cent of annual recurrent costs, and therefore have a big lever in shaping the country's policies. The EU has conditioned its funding on Malawi developing indicators to measure progress in implementing its Poverty Reduction Strategy, DFID finances and drives policy on fertilizer subsidies while World Bank aid is conditioned on restructuring ADMARC. A report for USAID notes that "given Malawi's traditional reliance on external funding, it is unclear whether the GoM [Government of Malawi] or its donor partners are in charge of the policy-making process".[161] It states that "competing views, interests and demands have polarized stakeholders, compromised policy coherence and subjected policy-making

and implementation to ideological leanings. Hence, policy is marked by erratic swings and the social contract between the GoM and its citizens is eroding".[162] Indeed, the significant position of donors in food security policy-making has remained unchanged if not strengthened by recent crises; for example in 2004/5 donors financed about 83 per cent of the development budget of Malawi, leaving major uncertainties among Malawians about the explicit or implicit conditions attached to so much financing.[163]

***The researcher's analysis is that some government interventions under the reforms have improved food security for the most hunger-prone. Fertilizer subsidies, for example, have reached some of the poorest farmers. Their removal, under full liberalization, would have increased hunger. Government intervention to set minimum prices has also benefited some of the poor, who otherwise would have to sell at low prices to exploitative private traders. Some of these policies have been pursued in defiance of donors. Yet neither subsidies nor price setting has reached enough farmers to make a difference to hunger across the country, but at the same time the continued government role has set back the cause of building the capacity of the private sector to develop competitive markets. The reason why government intervention has not been sufficient is that it has lacked a good enough strategy to develop the private strategy (or indeed fears the loss of political control that an enhanced private sector would bring). And also – critically – since the institutions presiding over government intervention have not been driven by the needs of the poor, and lack accountability.***

Farmers in the three countries suffer from the lack of governments that are truly democratic, accountable and driven by a strategy to prioritize their needs. Over the past two decades, government spending and priorities have been driven more by the short-term interests of the elite, oriented towards consumption and maintaining power, rather than towards poverty reduction and food security for the majority. The World Bank is correct in noting that in respect of Malawi "regionalism and patronage continue to be factors in Malawi's political economy" with "concerns in civil society that regionalism is reflected in public sector appointments and policy decisions". And also that the delivery of public services suffers from a shortage of accountability, as well as of trained personnel at all levels of government.[164]

NGOs' have noted Zambian governments' colossal lack of political will to distribute the limited resources of the country' towards the poor majority.[165] Where policies do exist, there is a wide gap between them and actual implementation. Some analyses suggest that the main weakness is over-centralized decision-making and a reluctance to decentralize responsibility for planning and resources to district and community level. Budget formulation is centralized and the flow of resources to communities is very low. Some governments have recently made greater efforts to involve farmers' organizations in discussions on policy formulation and implementation – but the voice of farmers is still marginal in decision-making. Rather than championing a critical role for civil society in national debates, all three governments have at times been hostile to NGOs advocating pro-poor policies.[166]

Government intervention can merely be a euphemism for political patronage in systems that lack transparency and accountability, including when it comes to the Zambian government's involvement in the distribution of fertilizer. MMD party agents were appointed as distributors of fertilizer before the 2001 elections and in 2003 one study notes that one hundred 50 kg bags of fertilizer were distributed to every chief in Southern province "because they should not need to stand in a queue for relief maize, like everyone else".[167]

In Ethiopia, the government has recently closed down the independent media and locked up the political opposition. A form of 'patronage politics' is practiced where the government has virtually paralyzed the private sector through favoring parastatal and party-affiliated enterprises. The political, and even legal, system is geared more to serving the interests of those in power than the general population while government decisions rarely undergo legislative scrutiny or widespread discussion. Added to loan conditions imposed from outside by donors, reducing national ownership of policies, it is a decidedly undemocratic outcome.

All three countries suffer from being 'patrimonial states': 'hybrid regimes' where modern bureaucracies coexist beside political authority based on the granting of favors. Clientilism is at the core of relationships and office holders appropriate public resources for their own use, within a centralized system presided over by a single individual with ultimate control over most clientilist networks. Food security policies are formulated and implemented with a view to maintaining patronage networks for guaranteeing political support

***Maize, Chilembampita, Malawi***

rather than improving food security, state resources are directed away from critical food security needs while government is accountable primarily for its performance as a dispenser of patronage and not for the effectiveness of its policies. This system of poor accountability to the public is maintained because of the relative weakness of organized civil society.[168]

Government policies are keeping the poor poor. Governments have never been simply helpless victims of donor policies. In reality, they have often ignored loan conditions as in their continued interventions in maize and grain and in subsidy programs. Some recent policy failures that have increased hunger in Malawi, for example, have more to do with poor government policy than donor pressure – such as the collapse of the smallholder credit program in the mid 1990s, economic mismanagement leading to currency devaluations, which helped cause massive price rises for fertilizer, and the confiscation of customary land for use by estates, which exacerbated land shortages.

Added to this are the policies of the World Bank itself. The Bank shares much of the blame for the deep liberalization policies inflicted on the three countries in the 1990s, detailed in the previous sections. Some of these policies involved forced liberalization (although some governments more willingly pursued) and undermined national ownership of policies, setting back the cause of developing cultures of democracy - governments have become used to being more accountable to the World Bank and donors rather than their people. Although the Bank has pulled back from unfettered liberalization and accepts the need for policies of government intervention, this long legacy remains. Furthermore, it is still promoting various policies that are likely to harm the poor and increase hunger:

• Its advocacy of the ending of subsidies within a short time-frame is likely to be disastrous

• Its promotion of contract farming, as in Zambia (see above), is if anything increasing food security

• Its promotion of (virtually unfettered) trade liberalization as the only model for developing countries, with few qualifications, is continuing to undermine countries' trading positions.

The Bank has a general overwhelming focus on commercial farmers, i.e. wealthier smallholders growing mainly cash crops, rather than subsistence farmers, who are the majority of the population. As regards Zambia, for example, the researcher was told by a Bank official that the lack of access to input markets for fertilizer *"was not that important unless you think everyone should grow maize. The main point is to diversify"*. There is truth in the need to diversify but the fact remains that access to fertilizer is critically important for most smallholders. Also, such Bank thinking is accompanied by the recognition that "only 20-25 per cent of smallholders in Zambia, those close to the urban centers, can become commercial farmers and graduate from subsistence". The others – the majority of farmers in the country – should all be subject to safety net measures rather than subsidized inputs, according to the Bank's apparent thinking.[169]

**Accountability and democracy**

The Bank retains a curious notion of democracy. Its Country Assistance Strategy for Malawi, released in February this year, states that "substantial political risks exist to reform momentum" and that local elections in 2007 and parliamentary elections in 2009 "are likely to further constrain the already limited political space for economic reform measures". It continues:

*"While the government has demonstrated resolve in implementing fiscal control, as demonstrated during the 2005/2006 food crisis, institutional and procedural systems for the formulation, analysis and implementation of policy remain weak and vulnerable. Moreover, while the increasing role of the*

*Cathrine Banda, Sisinje, Zambia*

*Malawian parliament in providing oversight to the executive is welcomed as crucial to accountability and transparency, there remain risks that the maturing political system will crucially constrain the ability of the minority government to implement difficult reforms. In order to mitigate these risks the Bank is engaging more forcefully with parliament and civil society in order to disseminate and make the case for the growth-oriented reforms and policies".*[170]

In other words, the Bank laments the possibility that democratically-elected politicians may prevent Bank-supported policies. This aversion to democracy was confirmed by a Bank official based in Lilongwe, a Malawian, who told the researcher of the key importance to the Bank of the privatization of ADMARC. He noted that "one of the problems we have in Malawi is that some decisions have to go through parliament". Asked why he was concerned about this, he said: "because it will come out unsuccessfully. Many people don't understand the issues in terms of government no longer intervening in the market. It's difficult for them to come to terms with that". He did accept that ADMARC should play a role in the remote rural areas but not in the areas where the private sector might thrive.[171]

The basic problem in all three countries is that people have never determined policies. One academic study of Malawi's poor economic performance over the past two decades states that "the fundamental weakness to the country's development efforts is the government's belief in a top-down strategy that excluded the poor from the means of driving economic growth", citing the conversion of one million hectares of land from customary use to idle leasehold held by estates and the government's repeated refusals to allow smallholders to grow burley tobacco.[172]

In Ethiopia, all governments – whether imperial, Marxist-Leninist or current - have adopted top-down, non-participatory approaches to agricultural strategy. The EEA notes that "in Ethiopia, government officials and even professions unconsciously believe that agricultural development ventures will be achieved through the efforts of government and development agencies. They do not reflect on the possibility that sustainable agricultural development can only be achieved through the efforts of rural people themselves working for their own benefits". The EEA's study found that most development agents do not involve farmers in the planning of extension activities. In particular, the extension program does not acknowledge women as farmers in their own right.[173] Decisions are made by two undemocratic actors and the combination is explosive: donors, such as the World Bank, who are accountable to themselves; and governments, in reality accountable to the Bank, and a small domestic elite. In the middle is the general population, especially the small farmers, who are largely voiceless. Hunger can be largely laid at the door of this terrible mix.

*Farmers, Sisinje, Zambia*

## References

[1]See FAO at http://www.fao.org/newsroom/en/news/2006/1000433/index.html
[2] World Bank, Country Assistance Strategy (CAS), 4 January 2007, p.15; FAO/WFP, Special report: FAO/WFP crop and food supply assessment mission to Zambia, FAO, 24 June 2005, p.3; Government of Zambia, Central Statistical Office (CSO), Living conditions monitoring survey report, 2002-2003, Lusaka, p.125; DanChurch Aid (DCA), 'Zambia: Food security programme document, January 2006-December 2010', October 2005, p.27
[3]These are government figures in Elizabeth Cromwell and Nambusi Kyegombe, Food security options in Malawi: Good neighbours make good friends?, ODI, January 2005, p.14; The World Bank gives slightly different figures, stating estimating that just over one in five of the population – 2.7 million people - goes hungry, ie, unable to meet daily food needs. CAS, p.4
[4]Care, Livelihood erosion through time: Macro and micro factors that influenced livelihood trends in Malawi over the last 30 years, March 2003, p.vii
[5]FAO, 'Food security statistics – Zambia', www.fao.org
[6]Central Statistical Office (CSO), Living conditions monitoring survey report, 2002-2003, Lusaka, p.124; DanChurch Aid (DCA), 'Zambia: Food security programme document, January 2006-December 2010', October 2005, p.32
[7]FAO/WFP, 'Crop and food supply assessment mission to Ethiopia', 24 February 2006, FAO/WFP, p.30
[8]World Bank, Interim Country Assistance Strategy for the Federal Democratic Republic of Ethiopia, 1 May 2006 (hereafter, World Bank, ICAS), p.6
[9]Kjell Esser et al, 'Opportunities for Norwegian support to agricultural development in Malawi', Noragric report No.27, June 2005, p.67
[10]FAO/WFP, Zambia, p.4
[11]FAO, 'WTO agreement on agriculture: The implementation experience - Malawi', www.fao.org
[12]FAO/WFP, Zambia, p.23
[13]CSO, p.124
[14]Cromwell and Kyegombe, p.18
[15]Cited in Stephen Devereux, 'Food insecurity in Ethiopia: A discussion paper for DFID', Institute of Development Studies, Sussex, October 2000, p.4
[16]CAS, Malawi, p.14; FAO/WFP, Malawi, p.2
[17]FAO study cited in Samuel Gebreselassie, 'Recent economic and agricultural policy development module of the role of agriculture: Research project of the UNFAO', Ethiopian Economic Association, August 2003, p.35
[18]World Bank, Country Assistance Strategy for the Federal Democratic Republic of Ethiopia, 24 March 2003 (Hereafter, CAS, Ethiopia), p.13
[19]FAO/WFP, Malawi, p.4
[20]World Bank, CAS, Ethiopia, p.13
[21]DCA, p.26
[22]DCA, p.23
[23]Cromwell and Kyegombe, p.8
[24]Ragnar Oygard et al, The Maze of Maize: Improving input and output market access for poor smallholders in Southern Africa region – The experience of Zambia and Malawi, Agricultural University of Norway, 2003, p.33
[25]Carol del Ninno, Paul Dorosh and Kalandhi Subbarao, 'Food aid and food security in the short and long run: Country experience from Asia and sub-Saharan Africa', Social Protection Discussion Paper, World Bank, November 2005, p.73
[26]Afrodad, 'The impact of the Poverty Reduction and Growth Facility on social services in Malawi: Study report', 2005, Draft, p.11
[27]World Bank, Zambia Country Assistance Strategy, 9 March 2004, p.13
[28]Benedicte Bull et al, The World Bank's and the IMF's use of conditionality to encourage privatization and liberalization: Current issues and practices, report for the Norwegian Ministry of Foreign Affairs, November 2006, pp.vi, 37-8
[29]Interviews in Lusaka
[30]World Bank, Agricultural growth, pp.xix, 39, 54-7, emphasis added
[31]Interviews in Lusaka
[32]CAS, Malawi, p.23
[33]CAS, Malawi, p.25
[34]World Bank, ICAS, Ethiopia, p.24
[35]World Bank, ICAS, Ethiopia, p.13
[36]World Bank, CAS, Ethiopia, p.16
[37]The names in this report have been changed to protect people's identities.
[38]Farmers in North Wallo Zone, Amhara region, Ethiopia
[39]Lutheran World Federation (LWF), 'Food security and livelihoods: Zambia, Eastern province', December 2005, p.5
[40]CSO, p.124
[41]World Bank, 'Project Information Document: Agricultural development support program', November 2005, www.worldbank.org
[42]Catholic Centre for Justice, Development and Peace (CCJDP), Growing poverty: The impact of outgrower schemes on poverty in Zambia, Lusaka, November 2005, pp.viii-ix
[43]Care, pp.viii, 48
[44]Elizabeth Cromwell et al, 'Poverty reduction strategies and the rural productive sectors: Insights from Malawi, Nicaragua and Vietnam', ODI working paper 258, ODI, November 2005, p.5
[45]Kalonga Stambuli, 'Political change, economic transition and catalysis of IMF/World Bank economic models – The case of Malawi', September 2002
[46]CAS, pp. i, 22
[47]ODI, pp.21-3
[48]JCTR Policy Brief, Zambia's experience with HIPC, 2004, p.4
[49]Ninno et al, p.76
[50]Gebreselassie, 'Recent economic...', p.37
[51]Gebreselassie, 'Recent economic....', p.40; Samuel Gebreselassie, 'ADLI and Ethiopian agriculture: Potentials and limitations of ADLI to deal with the problem of Ethiopian agriculture and rural poverty', EEA, Addis Ababa, 2002, pp.7-8
[52]Samuel Gebreselassie, 'The roles of agriculture in the development process: Recent experiences and lessons from Ethiopia', EEA, Addis Ababa, undated, p.20
[53]Ninno et al, p.73
[54]CAS, p.6
[55]FAO, Malawi
[56]Caroline Sahley et al, The Governance dimensions of food security in Malawi, USAID, 20 September 2005p.58
[57]CAS, Malawi, p.3
[58]FAO, Malawi

[59]DCA, p.10
[60]Care, Changing landscapes and the outliers: Macro and micro factors influencing livelihood trends in Zambia over the last thirty years – Literature review, care, May 2003, p.35
[61]T.Jayne et al, 'Trends in agricultural and rural development indicators in Zambia', 24 August 2006, unpaginated
[62]Federal Democratic Republic of Ethiopia, Ethiopia: Building on progress - A plan for accelerated and sustained development to end poverty (PASDEP), 2005/06-2009/10, Ministry of Finance and Economic Development, Addis Ababa, 2005
[63]Gebreselassie, 'The roles of agriculture', p.6
[64]Pauline Peters, 'The differential effects on rural income and poverty during a decade of radical change in Malawi, 1986-97', BASIS brief, October 2004
[65]Pauline Peters, 'Failed magic or social context? Market liberalization and the rural poor in Malawi', Harvard Institute for International development, 1996
[66]Julie Litchfield and Neil McCulloch, 'Poverty in Zambia: Assessing the impacts of trade liberalization in the 1990s', University of Sussex, Poverty Research Unit, January 2003; Neil McCulloch, Bob Baulch and Milasoa Cherel-Robson, 'Poverty, inequality and growth in Zambia in the 1990s', Institute of Development Studies, Sussex, September 2000
[67]Care, Zambia, p.5
[68]Adane Tuffa Debele, Almas Heshmati and Ragnar Oygard, 'An evaluation of the impacts of economic reforms on performance of agriculture in Ethiopia', Discussion Paper DP-01/05, Norwegian University of Life Science, 2005, pp.6, 7
[69]Stefan Dercon, 'Growth and poverty in Ethiopia in the 1990s: An economic perspective', Centre for the Study of African Economies, University of Oxford, October 2000; Dercon, 'Economic reform, growth and the poor: Evidence from rural Ethiopia', Centre for the Study of African Economies, University of Oxford, May 2001
[70]Dercon, 'Economic reform', passim and p.34
[71]World Bank, ICAS, Ethiopia, p.7
[72]FAO, Zambia; World Bank, World Bank, 'Project Information Document: Agricultural development support program', Zambia, November 2005, www.worldbank.org
[73]DCA, p.15
[74]Government of Zambia, Ministry of Finance and National Planning (MFNP), Economic Report 2005, March 2006, p.31
[75]World Bank, ICAS, p.13; Devereux, 'Food insecurity in Ethiopia', p.5
[76]Gebreselassie, 'The roles of agriculture', p.5
[77]CAS, Malawi, p.66; FAO/WFP, Malawi
[78]Cromwell and Kyegombe, p.8
[79]FAO, 'Key lessons learned (1994-2006) in the special programme for food security (SPFS), undated, www.fao.org
[80]FAO, 'Organic agriculture at FAO – Frequently asked questions', www.fao.org
[81]See, for example, www.soilassociation.org and the research work of Tewolde Berhan Gebre Egziabher and Jules Pretty
[82]FAO, 'Organic agriculture at FAO – Frequently asked questions', www.fao.org
[83]World Bank, Agricultural growth, p.106
[84]Malawi Economic Justice Network (MEJN), Trade liberalization: A poverty trap for the poor in Malawi, May 2005, p.6; Levy, pp.2; see table in Ragnar Oygard, 'Malawi's persistent food crisis', 6 December 2005, p.10
[85]Debela et al, pp.2, 6
[86]Gebreselassie, 'The roles of agriculture', p.14
[87]Ethiopian Economic Association (EEA), Evaluation of the Ethiopian agricultural extension with particular emphasis on the Participatory Demonstration and Training Extension System (PADETES) (Hereafter, EEA, PADETES), EEA, Addis Ababa, p.86, 195; Stephen Devereux, 'Vulnerable livelihoods in Somali region, Ethiopia', Institute of Development Studies, Sussex, April 2006, p.13
[88]EEA, PADETES, p.114
[89]Overseas development Institute (ODI), 'Zambia food security issues paper', ODI, London, 2003 p.45
[90]DCA, pp.16-17
[91]Cited in World Development Movement (WDM), Zambia: Condemned to debt – How the IMF and World Bank have undermined development, London, 2003, p.8
[92]Figures vary on the number of recipients. See Civil Society for Poverty Reduction (CSPR), Targeting small scale farmers in the implementation of Zambia's poverty reduction strategy paper (PRSP): An assessment of the implementation and effectiveness of the Fertilizer Support Programme, CSPR, Lusaka, May 2005, p.10; FAO/WFP, p.5
[93]Interviews in Lusaka
[94]FAO/WFP, Zambia, p.8
[95]Stein Holden, Hans Lofgren and Bekele Shiferaw, 'Economic reforms and soil degradation in the Ethiopian highlands: A micro CGE model with transaction costs', undated, p.12
[96]See, for example, Kalonga Stambuli, 'Political change, economic transition and catalysis of IMF/World Bank economic models – The case of Malawi', September 2002
[97]HTSPE, Comprehensive review of stakeholders' responses to the 2005-2006 food crisis – Report to the Food Security Joint Task Force, Main report, June 2006, p.5
[98]Levy, Sarah Levy, 'Starter packs and hunger crises: A briefing for policymakers on food security in Malawi', September 2003, p.4
[99]Neil Spooner, Comprehensive review of stakeholders' responses to the 2005-2006 food crisis – Module 4: Inputs distribution programmes, HTSPE, June 2006, pp.14-15
[100]FAO, Malawi
[101]See CSPR, passim
[102]Oygard, p.11
[103]HTSPE, Main report, p.33
[104]FAO/WFP, Malawi
[105]Gebreselassie, 'Recent economic...', p.27; Dercon, 'Growth and poverty', p.16
[106]Interviews in Ethiopia; FAO/WFP, Ethiopia, p.11
[107]Interviews in Lilongwe
[108]Ninno et al, p.81
[109]Cited in Derese Getachew, 'Peasant reflections on the agricultural development-led industrialisation (ADLI) programme', Addis Ababa University, undated, p.11
[110]T.Jayne, A.Negass and R.Myers, 'The effect of liberalization on grain prices and marketing margins in Ethiopia', MSU international development working paper, No.68, 1998, passim
[111]EEA, PADETES, p.xviii
[112]EEA, PADETES, p.xviii; FAO/WFP, Ethiopia, p.24; EEA, Ethiopia, p.29
[113]Government of Zambia, p.32
[114]Interviews in Ethiopia
[115]FAO/WFP, Ethiopia, p.25
[116]FAO/WFP, Malawi, pp.3, 13; HTSPE, Main report, p.53
[117]CISANET, 'Cisanet policy paper on agricultural social marketing reform', Lilongwe, undated, p.4
[118]Interviews in Lilongwe.

[119]Khwima Nthara, 'What needs to be done to improve the impact of ADMARC on the poor?', Oxfam, July 2002; see also CISANET
[120]Interviews with NGOs in Lusaka
[121]World Bank, 'Project Information Document: Agricultural development support program', November 2005
[122]World Bank, 'Project Information Document'
[123]Government of Zambia, Ministry of Finance and National Planning (MFNP), Economic Report 2005, March 2006, p.18
[124]See Gebreselassie, 'Recent economic...', pp.20-22 for various figures provided.
[125]Teigist Lemma, Case study on Ethiopia', Ad hoc expert meeting for the mid-term review of the programme of action for the least developed countries for the decade 2001-2010, UNCTAD, Addis Ababa, May 2006, p.8
[126]Federal Democratic Government of Ethiopia, Ethiopia: Building on progress – A plan for accelerated and sustained development to end poverty (PASDEP), Ministry of Finance and Economic Development, Addis Ababa, 2005
[127]Simon Mwamba, 'Zambia's agricultural policy: Does it cater for small farmers?', Ground Up, Vol.2, No.15, Lusaka, June 2006, p.5
[128]ODI, Zambia, p.46
[129]LWF, p.6
[130]Hakim Ben Hammouda et al, 'Assessing the consequences of the economic partnership agreements on the Ethiopian economy', UNECA, Addis Ababa, October 2006, undated, p.6
[131]Dale Mudenda, 'Zambia's trade situation: Implications for debt and poverty reduction', JCTR, Lusaka, p.8; WDM, p.31
[132]FAO, Zambia; World Bank, 'Project Information Document'
[133]Gebreselassie, 'Recent economic...', p.10
[134]Gebreselassie, 'Recent economic...', p.24
[135]Gebreselassie, 'The roles of agriculture', p.15; EEA, Report on the Ethiopian economy, 151
[136]CAS, Malawi, p.6; Oygard et al, The Maze, p.30
[137]FAO, Malawi, p.7
[138]Care, Zambia, p.40
[139]Hammouda et al, passim and p.29
[140]FAO, 'Food security statistics – Zambia', www.fao.org
[141]FAO statistics on Ethiopia, www.fao.org
[142]FAO/WFP, Ethiopia, p.31
[143]Sahley et al, p.11
[144]Cronwell and Kyegombe, p.17
[145]Esser et al, p.66
[146]DCA, pp.28, 29, 34
[147]LWF, p.6
[148]Care, Zambia, p.6
[149]Ninno et al, p.80
[150]Sahley et al, Mal, p.11
[151]Care, Zambia, pp.5-6
[152]FEWS, 'Malawi: Food security update', July 2006, www.fews.net
[153]Sahley et al, p.24
[154]Federal Democratic Republic of Ethiopia, Ethiopia: Sustainable development and poverty reduction programme, Addis Ababa, July 2002 (hereafter Government of Ethiopia, SDPRP), pp.67, 59
[155]World Bank, ICAS, Ethiopia, p.21
[156]Nakhumwa, p.4
[157]Oygard et al, The Maze, p.63
[158]Cromwell and Kyegombe, p.23
[159]FEWS, 'Malawi: Food security update', September 2005, www.fews.net
[160]Cromwell and Kyegombe, p.23
[161]Sahley et al, p.17
[162]Sahley et al, p.2
[163]Sahley et al, p.25
[164]CAS, Malawi, pp.2, 18
[165]DCA, p.9
[166]DCA, p.13
[167]Care, Zambia, p.4
[168]Cromwell and Kyegombe, pp.25-6
[169]Interviews in Lusaka
[170]CAS, Malawi, p.34, emphasis added
[171]Interviews in Lilongwe
[172]Stambuli
[173]EEA, PADETES, pp.240-9
[174]World Bank, Agricultural

▶ APRODEV PROJECT:
THE IMPACT OF ECONOMIC LIBERALIZATION ON HUNGER-PRONE PEOPLE:

# MALAWI CASE STUDY:

CONTENTS

# 1. INTRODUCTION

## POVERTY AND HUNGER IN MALAWI

*Chilembapita, Malawi*

Malawi's statistics make grim reading. It is one of the ten poorest countries in the world where around 65 per cent of its population lives in poverty.[1] Malawians can expect to live on average just 38 years – one of the lowest life expectancy rates in the world. With around 14 per cent of adults aged 15-49 HIV-positive, Malawi ranks eighth in the world in terms of the severity of the epidemic.[2] Gross inequalities mean that the richest 5 per cent of the population consume a quarter of the national wealth while the bottom 20 per cent consume less than one-twentieth.[3]

Most of Malawi's 11 million population go hungry for at least some time of each year: 36 per cent of the population – around 4 million people – lives in 'ultra poverty' and thus is likely to suffer from chronic hunger, while a further 28 per cent of the population experiences food insecurity at certain times.[4] Women are the worst affected – around 40 per cent of the rural households who go hungry are headed by women.[5]

Malawi is in a state of more or less permanent crisis when it comes to hunger. Most farmers cannot feed themselves and their families all year round and suffer prolonged periods of hunger, even in good harvest years. In the good harvest year of 2000, for example, the average household maize deficit was over four months; after the poor harvest of 2001, it was nearly six months.[6] In 2002/03 half of all farming households lacked adequate food for six or more months of the year.[7] As outlined in section 3.1 below, the researcher spoke to farmers who lacked sufficient food from anything from 3 to 9 months in a year.

Emergency food assistance was required for 15-30 per cent of the population in the four years from 2001-2005.[8] In June 2005, over 4 million people – around one third of the population – had insufficient production or income to feed themselves in the 2005/06 marketing year, according to the FAO/WFP. At this time, people in the Southern region faced food deficits of 50-70 per cent of their food needs.[9] By July 2006, the FAO/WFP estimated that almost one million people were "at risk of food insecurity" for the coming consumption period.[10] Droughts and major food shortages have occurred in 1992, 1994, 1997, 2001, 2002 and 2005.[11] In 2004, agricultural productivity fell 7 per cent and the 2005 maize crop was estimated to be almost 30 per cent lower than the previous year, resulting in the worst maize season for ten years. This drop in maize production meant that the country was one fifth short of its total food requirements between April 2005 and March 2006.[12] A joint FAO/WFP report notes that "food security has steadily deteriorated especially in the southern and parts of the central region in the country where problems of access to food are traditionally more acute".[13]

Maize is the main food staple and dominant crop occupying most arable land and is grown in the rainy season, usually lasting from November to March, by human labor using hand-held hoes. Nsima, a kind of porridge made from maize, is the principal meal for most Malawians. In a 2002 survey, nearly 80 per cent of the rural population had eaten nsima as the main meal for lunch and supper the previous day – a very undiversified, and less nutritious, diet even when sufficient quantities of food are available.[14]

The overwhelming majority of farmers in Malawi – around 2 million of them - are smallholders cultivating very small plots of land. One third of these farming households are headed by women. The average landholding size is declining and now stands at around 1.2 hectares per family but most farmers farm on plots less than one hectare in size - in the poor south,

average plots are a minuscule 0.1 hectares, meaning farmers are in effect landless.[15] Yet it is from these smallholder farms that 80 per cent of Malawi's food comes.[16] There is broad consensus in Malawi that pro-poor agricultural growth needs to come principally from increasing productivity in smallholder farming. Agriculture is the mainstay of the economy, accounting for around 40 per cent of GDP and employing 85 per cent of the workforce. The biggest export earners are tobacco, tea and sugar.

But poor smallholder farmers in Malawi face numerous problems alongside small plot size. The simple hoe continues to be the main farming tool since most farmers cannot afford any modern technology or inputs such as fertilizer and seeds. This is an especially serious problem since much of the land is becoming degraded and large increases in the amount of nutrients applied to the soil are generally believed to be needed if smallholder farming is to increase its productivity. Partly due to increasing land pressure, the traditional practice of leaving land fallow for a year has been replaced by continuous cropping whereby maize is grown on the same land year after year, resulting in declining crop yields and increasing soil erosion. Most plots also lack irrigation – less than one per cent of the country's arable land is irrigated - and are dependent on rains and thus are at the mercy of the weather – especially serious in Malawi which relies on a single, short rainy season. The road infrastructure is poor in remote areas, with many roads impassable in the rainy season, which constrains the ability to buy and sell crops in local markets.

Farmers also face major problems associated with poor government and/or donor policies. There is a lack of adequate, if any, credit facilities for most smallholder farmers while government extension services, such as training and support, are generally weak and often non-existent, especially in more remote rural areas. Food markets in the rural areas are underdeveloped and often dominated by exploitative private sector traders able to pay low prices for farmers' produce. Meanwhile untransparent, and often unpredictable, government interventions regularly penalize maize producers, create market uncertainties, or undermine the fledging private sector and the development of more competitive markets that might deliver cheaper inputs to farmers. These factors are considered further below.

## 2. LIBERALIZATION AND THE WORLD BANK

Agricultural strategy in Malawi has been transformed over the past two decades. Government policy before World Bank/IMF reforms were introduced in the 1980s was marked by major state intervention. The smallholder agricultural development strategy mainly focused on increasing the productivity of maize. Policies promoted in support of this included the provision of subsidized hybrid maize and fertilizers to farmers supported by a government-administered credit scheme, while the state marketing agency, ADMARC (the Agricultural Development and Marketing Agency) set guaranteed prices and bought produce from farmers at those prices from its large infrastructure of depots around the country. Farmers thus had an assured market for their produce as well as access to the necessary farming inputs at affordable prices.

The performance of the agricultural sector was impressive in the 1960s and early 1970s but stagnated in the late 1970s and early 1980s. Many commentators argue that government strategy favored the expansion of large estates over smallholders whose welfare was squeezed by the government's pricing policy.[17] By the early 1980s ADMARC resorted to heavy borrowing from commercial banks to finance its crop purchases; yet in spite of this, it was still unable to buy all produce that farmers offered to sell or to meet the demand to provide fertilizer. Government intervention was defended on the grounds of promoting national food security and ensuring that all smallholder farmers, especially those in more remote areas, had access to markets where they could buy and sell their produce at guaranteed prices – but these policies came at a heavy financial cost, as the subsidies contributed to large government budget deficits.[18]

Malawi experienced an economic crisis in 1979/80 that led the government to adopt structural adjustment programs under the auspices of the World Bank and IMF beginning in 1981. In agriculture, the stated objectives included to diversity exports, expand the role of the private sector in the marketing of agricultural produce and increase the overall efficiency and incomes of smallholder farmers. These reforms included the phased removal of fertilizer subsidies beginning in 1984, liberalization of agricultural marketing activities and the introduction of private sector trading in 1987 and deregulation of fertilizer marketing in 1990.

Malawi's first multi-party elections were held in 1994, leading to the end of 30 years of authoritarian rule under President Banda since independence from Britain in 1964. Bank and Fund-supported reforms then deepened, with the ending in 1995 of the system of guaranteed producer prices (except for maize), several devaluations of the currency in the early 1990s, the creation in 1999 of the National Food Reserve Agency, charged with managing the strategic grain reserve previously managed by ADMARC, and liberalization of maize pricing in 2000. ADMARC's monopoly in purchasing maize and some other crops from smallholders has been eliminated. Currently a major political debate rages in Malawi over the extent to which ADMARC should be privatized; this has long been a demand of the World Bank and a condition attached to its loans (see section 4.3 below).

Since 2000 Malawi has been implementing an IMF-supported economic program under the Poverty Reduction and Growth Facility (PRGF) aimed at promoting macro-economic 'stability'. This follows budgets in the 1990s which overran expenditures and failed to meet targets agreed with the IMF. The program went off track in 2001 due to the government's fiscal slippages that prompted donors to withhold budget support; this resumed in 2003 following improvements in fiscal management when Malawi was deemed to be back on track.[19]

The World Bank's current Country Assistance Strategy (CAS) for Malawi, approved in February 2007, covers the years 2007-10 and is slated to provide around US$ 340 million in aid. Currently, Malawi receives nearly US$ 500 million in aid from all donors, accounting for 12 per cent of GDP. The CAS notes that among Malawi's donors, the Bank will take a leading role in agriculture and food security and also private sector development. The CAS makes clear that the level of aid is conditional upon the government's continuing overall economic reforms: "The IDA program will be calibrated against continued reform progress", it notes. "Coherent sector strategies and prioritized investment plans will be crucial in transport and energy in particular, and planned IDA investments in these areas would be contingent upon the Bank being satisfied that resources were being effectively utilized in accordance with such strategies".[20]

In agriculture, the stated Bank aim is "to improve smallholder agricultural productivity and integration into agro-processing", which involves a focus on four key areas: (i) farmers' vulnerability to weather-related shocks; (ii) "distorted incentives (including government policies) that keep farmers in subsistence farming including limited knowledge and thus demand for crop diversification"; (iii) "poorly functioning input/output markets"; and (iv) "weak institutional capacity to manage the risk of food insecurity".[21]

The World Bank has been strongly pushing for the liberalization of Malawi's agricultural sector for over 20 years. There have been some shifts, however. In the 1980s, conditions attached to loans focused on the removal of all subsidies and price constraints within a rigid framework to roll back the role of the state to a minimum. The position was somewhat revised towards the end of the 1980s and until the mid-1990s the Bank accepted the need for targeted subsidies in order to raise agricultural productivity. What followed was a reversion to a dogmatic belief in markets, opposition to fertilizer subsidies and a push for a complete government withdrawal from agricultural markets.

Currently, however, the Bank has modified its previous complete opposition to subsidies and government price interventions: as discussed further below, it has gone along with the government's limited fertilizer subsidy program and does accept the need for ADMARC to continue to play an interventionary role in more remote regions that are deemed 'unprofitable' for the private sector to operate. In examining the impact of 'liberalization' in Malawi, therefore, it is important to stress that, like the other two countries considered in this report, it has only partially liberalized its agricultural sector. The argument throughout this report is that government policies, as well as World Bank/donor policies – and in particular, the messy combination of the two - are partly responsible for increasing hunger in Malawi. It is this 'partial liberalization' paradigm that is under review here.

## 3. THE PLIGHT OF FARMERS IN MALAWI: FINDINGS FROM THE FIELD

The plight of some of the poorest farmers becomes very apparent very soon after leaving the capital city, Lilongwe. Although farmers in the most remote areas have suffered the most from the reduction of the state role in agriculture, the effects of the reforms have also been felt by those close to the urban centers. A one and half hour drive from the capital on a good road and a further 18 km up a track brings one to the villages of Chilembampita and Undi, in the western part of Dowa district. The researcher's interviews and focus group discussions with farmers brought home the precariousness and harshness of farming in present-day Malawi.

Farmers in the area grow a range of crops, principally maize but also groundnuts, soya beans, cassava and sweet potatoes, most on very small plots of land. Many of the households are headed by women, who generally spend as much time on farm work as they do on domestic activities and who also work as much as men on the farm, sowing, weeding and harvesting the crops. This area is extremely poor – only around one in ten households is estimated to be self-sufficient in terms of food production, i.e. able to feed its family all year round. All farmers the researcher spoke to went hungry for some of the time, many for as many as nine months of the year, and most for at least 3 months, with the most difficult months being the growing season in January-March. In Undi village, a maximum of 10 of the 79 households produced enough food all year round – some people died here during the 2002 food crisis. When food runs out, people drop down to one meal a day or sometimes go without food for days at a time. At this time, most seek casual labor on other farms and get paid in food but there is invariably not enough work to go round. "If there's no work, we just pluck pumpkin leaves and roots and eat them", Patricia Tchale, a villager in Chilembampita, told us.

Fertilizer was universally recognized as the single most important aid to farming since it can significantly increase output. Yet few farmers in the area can afford to buy fertilizer for use on their farmland despite the fact that everyone that the researcher questioned would use it if it were available free of charge or at affordable prices. In Chilembampita village only 11 of the 46 households can afford to pay for the subsidized fertilizer under the government's voucher program. At 950 kwacha (US$ 7) per 50 kg bag, this was beyond most farmers' reach but even this buys only enough for use on 0.4 hectares of land. In the private market, fertilizer is available only at an astronomical 3,075 kwacha (US$ 23). No credit is available to farmers to borrow money since the rural credit program has collapsed. The researcher was also told that the fertilizer vouchers distributed in the government-administered program often went to the wrong people, sometimes the better-off farmers rather than the poorest, or else were politically-motivated, going to headmen, for example, who used it for their own purposes or to curry favors.

Those farmers who sell their produce – around a third of farmers in both villages - all complained of the low price they received for their goods. Maize generally sells for 10 kwacha (US$ 0.07) per kg (although some farmers said they had recently been 'offered' as low as 8 kwacha), a pitifully small amount which many farmers said was below the cost of production. The government sets a minimum price for maize of 20 kwacha (US$ 0.14) but the parastatal, ADMARC, which used to guarantee buying produce from farmers at set prices now has no resources to buy farmers' produce in this area so farmers are forced to sell to private sector traders offering only 10 kwacha. "These companies are in Lilongwe, though they come here and buy at a cheap price and then sell back our maize at a higher price", one local development worker said. Traders were making a 100 per cent profit on maize. In Lilongwe, maize was being sold for 1,000 kwacha (US$ 28) per 50 kg bag, after being bought in the Dowa area for 500 kwacha. "The companies are rich people", the development worker added "and the problem is that farmers have no other place to sell". Farmers received a better price for groundnuts - at 65 kwacha (US$ 0.5) per kg, but private traders were selling these for 120 kwacha (US$ 0.9) in Lilongwe and Kasungu, another major town nearby.

> ***"Those who come and buy from us cheat us. They can make three times as much. They just come and say I'll buy this and that price. There's no discussion or anything like that", Harold Kanyerere, villager in Chilembampita.***

Most farmers told the researcher that their productivity had been declining over the years, as their land produced less and less. And many of the farmers selling their produce said that if they received a better price for their outputs they would reinvest that income in their farming by buying fertilizer to increase their output. So farmers are locked into a vicious circle - low prices mean less money to buy fertilizer, meaning less ability to increase output, meaning less overall income etc.

Most farmers also said they would like to grow other crops, such as Irish potatoes, rice or sorghum, to reduce their dependence on growing maize – mainly since the selling price of maize was so bad and since, for many, their productivity was going down year on year. What prevents such diversification is partly the high price of new seeds and partly the lack of services (advice and support) for growing and managing new crops. A packet of vegetable seed on the market currently costs 410 kwacha (US$ 3) per kg, rice seed costs 130 (US$ 1) kwacha and Irish potato seed costs 400 kwacha - too much for many. As for services, villagers would like support from government extension workers in the areas of animal husbandry, irrigation techniques, crop management and crop growing techniques. But they complained of a lack of visits from government extension workers – in Chilembampita, a government extension worker visited only three months previously, in November before the planting season; in Undi village, one worker comes once a month, but then has to split his time across the 79 households living there.

Several farmers recalled how farming had changed since the early 1990s, the beginning of the deeper phase of the reforms, all saying that farming was much easier then and simply that they produced more food and went less hungry. In Undi village, a group of older farmers recalled how they used to use fertilizer but after prices rocketed (in the mid-1990s) they could no longer afford it. All said their production was much lower now and that their land produced less than previously. Other older farmers said that, although in the past farming was hard, it used to be easier to obtain fertilizer and seeds, that credit schemes were available to give them affordable loans and that they received higher prices for their maize sales. One further important change now was the lack of predictability in price – farmers have no idea in advance what price they will get for their produce.

*Undi, Malawi*

| **Summary results of focus group discussions**<br>**Question areas** | **Responses from farmers** |
|---|---|
| Main crops grown | Maize, soya beans, cassava, sweet potatoes, groundnuts |
| Length of hungry period | Varies from household to household, most households 3-6 months, some 9 |
| Coping mechanisms at this time | Reducing meals (usually down to one a day), seeking paid work (ganyu), eating pumpkin leaves as a main meal |
| What support would make most impact on food production? | Primarily, greater use of fertilizer. Also, better prices for outputs, especially maize, more irrigation, ability to take out loans, more livestock. |
| Proportion of people able to afford fertilizer | Less than a third of the group in Undi; less than a fifth in Chilembampita |
| What would be most useful support from extension officials? | Training/advice in crop management, new farming techniques, animal hus bandry, irrigation techniques |
| Last time a government extension official visited the village | Chilembampita - 3 months ago; Undi – one month ago |
| What barriers are there to growing crops other than maize and current crops? | Price of seed and lack of training in new crop techniques |

Source: Two focus groups were conducted with 75 farmers in Chilembampita and Undi villages, Dowa district, in January 2007.

These interviews with farmers provide a snapshot of the many of the key impacts of the reforms. The reduction of the state role in buying produce has left farmers prey to exploitative private traders, its reduced role in providing key inputs such as fertilizer has put its use beyond most farmers while cuts in extension services are restricting diversification and preventing increases in output. Farmers – eking out an increasingly precarious existence – have essentially been left to themselves, farming in the dark. All this, not in a remote, inaccessible area where transport cannot reach – but just off a good road – the M1 in Malawi - a total of less than two hours from the capital city. Farmers' own perceptions and experience are largely borne out by analyses in the secondary literature of the impacts of the reforms, considered in the next section.

## 4. THE IMPACT OF THE REFORMS

*"In retrospect, the timing, pace and substance of liberalization reforms were inappropriate for Malawi. Not only did they weaken the public sector, but they also exacerbated poverty and malnutrition".*
Study for USAID[22]

Most studies show that Malawi's overall economic and agricultural growth performance over the past two decades has been very poor - moreover, that poverty has remained static or deepened for many, while life and livelihoods in rural Malawi have become ever harder. In short, things have been getting worse for most poor people over the reform period. The FAO has noted "a worsening situation of food insecurity"[23] in Malawi while a study for USAID states that "Malawi has grown increasingly vulnerable to food insecurity" with "a gradual but steady deterioration of agricultural productivity per capita while eroding livelihoods"[24]. A study for the Agricultural University of Norway notes: "over the past 10-15 years, Malawi has shifted from being a nationally self-sufficient producer of maize in non-drought years to being dependent on commercial food imports and foreign assistance to achieve a national food balance".[25]

The 1990s saw an acceleration of market liberalization begun the previous decade, resulting in large maize price increases and rapid input price increases. The removal of subsidies in mid-decade together with the collapse of the government credit scheme and currency devaluations (which caused basic food prices to double in 1998) hit many poor farmers hard and increased food insecurity. Some policies – notably the liberalization of tobacco production - benefited the large farmers disproportionately while poorer households became disproportionately worse off, as did women in particular. Overall, "market liberalization has increased rural inequality and stratification", a major study for the NGO, Care, notes, adding that "government policy and implementation, particularly over the last decade, has increased rather than ameliorated differentiation, both because policy has tended to favor better-off farmers and because of weak capacities and corruption entailed in the implementation of policy".[26]

After 1998, the transition from parastatal marketing structures to liberalized markets left a vacuum in terms of institutions responsible for safety nets or supplying key farming inputs. When the state pulled out, either the private sector did not move in at all (especially in more remote, rural areas) or else only a small number of private agents did, meaning they could easily exploit poor farmers, by hoarding food supplies and charging exorbitant prices.

A study by the Overseas Development Institute in 2005 notes that Malawi's "overall economic performance has deteriorated over the last 20 years" with negative outcomes from economic liberalization in the 1980s and 1990s. Poor macro-economic management associated with patronage-based politics has accentuated Malawi's poverty reduction and economic growth crisis, reducing economic growth rates from a 6 per cent average until 1979 to around 1 to 2 per cent more recently. A recent modeling exercise predicted that, even under the best conditions, average per capita income in 2020 will be no more than at independence in 1964, in real terms.[27] Another UK study from 2002 noted that "thirty years of neglect, dysfunctional markets, weak supply response and fragile fiscal foundations are manifesting themselves in widespread economic stagnation" while "the enthusiasm of the World Bank and IMF in pushing for continued reform is further hurting the economy and pushing the regime into a crisis of confidence".[28]

***"The economic liberalization policies pursued from the late 1980s onwards have not been successful in transferring responsibility for agricultural growth and food security to the private sector, as hoped: input prices have increased dramatically; producer prices have fallen, particularly in more remote areas; and a competitive private sector has not developed." ODI[29]***

***By contrast, although Bank policy on agriculture in Malawi has shifted over the years, Bank officials interviewed by the researcher in Lilongwe refused to accept that liberalization had harmed Malawians or that the Bank had provided bad advice. Since 1996, the Bank has provided US$ 850 million to Malawi along with "a number of analytical products". Yet recent internal evaluations concluded that "the performance of the World Bank programs in Malawi has produced limited results". It explains this principally by "the lack of economic growth over the last decade" and high population growth.[30]***

The World Bank states that "poverty continues to be widespread in Malawi, and there has been virtually no progress in reducing poverty and inequality over the past decade". It states that there has been "no statistically significant difference" in poverty levels since 1998.[31] The country's GDP per capita has declined from US$ 210 in 1992 to US$ 200 in 1997 to around US$ 160 in 1999, while income inequalities have significantly grown from 0.48 in 1968 to 0.62, as measured by the Gini ratio.[32] FAO figures show that per capita energy consumption declined from 2,018 kcal per day in 1985-9 to 1,899 in 1990-4, before rising to 2,081 in 1995-9. Protein consumption has declined from 57 grams per day in 1985-9 to 53 grams per day in 1995-9.[33]

A Harvard University analysis of 2004 considered changes in income and poverty levels between 1986 and 1997. It concluded that for the population as a whole incomes rose by 59 per cent but that most of the benefits from the policy reforms accrued to the richest quartile; households in the poorest quartile of the population suffered an income decline in absolute terms over this period. This was witnessed most clearly by the fact that the poorest households were spending a higher proportion of their income on maize in 1997 than they were a decade earlier, due to structural adjustment that caused food prices to rise faster than incomes. Inequality also rose dramatically: in 1986, the poorest quartile of the population was three times poorer than the richest; by 1997, they were 11 times poorer. Those that gained were principally tobacco growers who expanded into production of burley tobacco; most households not growing tobacco were worse off over the period.[34] A previous study in 1996 by the same author concluded that market liberalization in Malawi provided new income opportunities (through tobacco and maize sales) that disproportionately benefited the better-off households, while the poorest 25 per cent experienced a relative worsening in income and food security despite increasing the proportion of the maize harvest retained and the share of the cash budget spent on purchasing maize.[35]

### 4.1 OUTPUT AND PRODUCTIVITY

Increasing productivity is one of the keys to ending hunger in Malawi and elsewhere. Yet figures suggest that although total maize production in Malawi has tended upwards over the past two decades, its productivity, after increasing in the late 1990s, is now slightly lower than in the early 1990s. Tobacco yields have also fallen over the whole reform period, while that for groundnuts has increased and sugar remained static, as the following table suggests.

**Average annual yields (tons per hectare) for select agricultural commodities**

| | 1992-95 | 1996-99 | 2000-05 |
|---|---|---|---|
| **Maize yield** | 10.7 | 14.1 | 10.4 |
| **Tobacco yield** | 11.1 | 11.1 | 7.1* |
| **Sugar yield** | 1.0 | 1.0 | 1.1* |
| **Groundnut yield** | 4.9 | 6.7 | 7.3 |

* Figures for 2000-03 only. Source: Ragnar Oygard et al, The Maze of Maize: Improving input and output market access for poor smallholders in Southern Africa region – The experience of Zambia and Malawi, Agricultural University of Norway, 2003, p.27; World Bank, Country Assistance Strategy, 4 January 2007, p.66

As regards the past few years, maize yields in 2004/05 were 809 kg per hectare, a decline from 1,137 in 2002/03 and 1,700 in 1999/2000; comparing 2004/05 with 2002/03, yields for other main crops such as cotton, groundnuts and soya beans were also all lower with only cassava registering an improvement.[36]

Low productivity results from a number of problems, principally small landholdings, inadequate inputs, especially fertilizer, lack of access to credit and unfavorable prices as well as droughts and floods. It has been estimated that maize yields in the small farm sector in Malawi are around just one third of their potential.[37]

Improving agricultural productivity was one of the goals of the World Bank's previous Country Assistance Strategy, running from 2003-06. But the Bank notes that by the end of this period – 2006 – "agricultural growth was low while productivity continued to decline", which it puts down to the failure by government to increase access to input and output markets and to implement land reform.[38] The performance of the agricultural sector in the past decade has been "weak and highly erratic", the Bank notes, with an average growth rate of 3 per cent, which has fallen to less than 1 per cent on average since 2000, due mainly to the impact of recurrent droughts, it states. The World Bank notes that "there has been little diversification of the economy" away from a dependence on agriculture for nearly 40 per cent of GDP and 80 per cent of export earnings.[39]

Within the agricultural sector, however, other analysts note that there have been some improvements in diversification of crops in the past decade as a response to government policies and liberalization. Although maize remains by far the dominant crop, the production of burley tobacco and the area grown of groundnuts and pulses have all increased and dramatic increases in the production of cassava and sweet potato have occurred. This is not all rosy, however: conversion from maize to cassava cultivation can be a sign that soils are depleted of their nutrients and replacement of maize by cassava in people's diets implies a decline in their protein intake.[40]

### 4.2 ACCESS TO FERTILIZER AND OTHER INPUTS

Using increased quantities of fertilizer is generally seen as critical to raising agricultural productivity and thus alleviating hunger in Malawi. Studies suggest that soil degradation in the country is causing an enormous reduction in the productive value of smallholder farmland; one estimate is that the annual loss in the productive value of land in Malawi is US$ 21 per hectare.[41] And declining agricultural productivity in Malawi can be partly, perhaps principally, explained by the lack of adequate use of fertilizer by smallholder farmers.

The price of fertilizers and hybrid seed rose massively following the removal of subsidies and the devaluation of the kwacha under liberalization. The Malawi Economic Justice Network, an NGO, states that prices have risen by 400 per cent over the reform period, putting access beyond most farmers. In 1992, it took 10 kg of maize for pay for one kg of fertilizer; by 1996 it took 22 kg of maize to obtain the same quantity.[42] In 1998, the government estimated that high prices reduced access to less than one third of all smallholder farmers.[43] The devaluation of the kwacha in the 1990s drove fertilizer prices beyond the reach of almost all maize growers, and

*Alecsina Mbwat, Chilembampita, Malawi*

may have been more responsible for the reduction in fertilizer use than the removal of subsidies.[44]

In the three years from 2000-2003 it is estimated that only around one third of smallholder farmers bought any fertilizer, and that those that did bought only small amounts.[45] Total fertilizer use therefore remains very low, with data suggesting that the level of usage in the past decade has been lower than in the previous decade.[46] Sarah Levy, an expert on Malawi's subsidy programs closely involved with DFID, notes that "by 2003 increases in the price of fertilizer meant that no smallholder farmer was able to make a profit from selling maize at prices compatible with food security in Malawi".[47]

Many academic analysts put down the stagnation in smallholder production in the 1990s to reduced access to key inputs such as hybrid maize and fertilizers, which required resources or credit (both of which were lacking).[48] The collapse of the state agricultural system resulted in low harvests in 1997 and 1998.[49] It was as a consequence of rising food insecurity that subsidies were reintroduced in the form of Starter Packs in the 1998-99 season, which provided free packs containing fertilizer and seeds to 2.8 million rural households. These packs contributed to two good harvests producing 2 million tons of maize (a level considered sufficient to meet the country's demand), compared to 1.5 million tons before their introduction. Donors, however, insisted on scaling back the program because the subsidies it provided were general rather than targeted. Renamed the Targeted Inputs Programme (TIP), subsidized inputs reached a smaller number - 1.5 million households - in 2000/01, resulting in a fall in production to 1.5 million tons. Further donor pressure scaled back the program to 1 million beneficiaries in 2001/02, which coincided with a further fall in production to 1.3 million tons (with a food gap estimated at 600,000 tons). With the country facing another food crisis, the TIP was scaled up again to reach 2.8 million households in 2002/03.[50]

> ***"Only in two years (1999/2000 and 2000/2001) in the past decade has the maize production level exceeded the estimated demand. This was mainly due to government interventions, notably the agricultural productivity investment program, which expanded access to credit, and the starter pack program, which provided limited quantities of free inputs to smallholder farmers. Cost implications and sustainability concerns forced the government to reorient the starter pack program towards resource-poor and disadvantaged segments of the rural communities, thus significantly reducing the number of beneficiaries. The reduction in size of the free input program was a major factor contributing to the decline in maize production in the 2001/2002 season". FAO***[51]

Evaluations show that these subsidy programs have been critical for food security and production. Maize yields achieved by poor beneficiaries of subsidies were found to be 40 per cent higher than those achieved by better-off non-beneficiaries. As the figures above suggest, studies also show that the implementation of Starter Packs/TIPs coincided with greater maize production than before they were introduced or since they ended. In 2002/03, for example, it has been estimated that around 20 per cent of total maize production came as a result of the TIP inputs provided to farmers.[52]

Since the ending of TIPs, the government has introduced other subsidy programs, most recently a universal fertilizer subsidy voucher program, targeting maize and tobacco. Village authorities currently allocate vouchers to households who are entitled to buy two 50 kg bags of fertilizer from ADMARC sales points for 950 kwacha (US$ 7.3), equivalent to a 70 per cent subsidy on the market price.

The World Bank has gone along with the subsidy programs in Malawi, a change from its previous complete opposition. In the researcher's interviews with officials in Lilongwe, the Bank claimed it would continue to support subsidies as long as the government could provide justified economic arguments for continuing them. Yet they also said that they were seeking to phase out subsidies within 3-5 years. After this point, officials told us, the private sector will be sufficiently developed, and the road infrastructure improved, to provide fertilizer at affordable prices to smallholders.[53] This is a deeply worrying conclusion and recalls the optimism expressed in the 1990s about the speed with which private supplies replace the state.

**There are, however, major problems with the Malawi's subsidy programs:**

• **Political patronage.** Since independence, heads of state have relied on subsidized inputs to promote their candidacies and political agendas and to maintain popular support. Subsidies are open to abuse at village level with many of the beneficiaries being the better-off and not the poorest farmers. Some beneficiaries are apparently decided upon according to political patronage considerations.

• **Cost and capacity.** The programs are costly to implement and involve a large drain on the budget, though it is a crucial point as to whether it is more costly not to implement subsidy programs than to do so. Capacity within government to manage these programs effectively, and especially to ensure good targeting, is limited. The

2004 TIP was so poorly implemented that DFID, the main funder, decided to end its support for the program.[54]

• **Crowding out private suppliers.** In the 2005/06 season, the government relied on parastatals to distribute the fertilizers, and precluded a role for the private sector role in this, which crowded out the development of private sector suppliers. Private sales of fertilizer slumped by 60-70 per cent in 2005/06, for example.[55]This has serious impacts - the FAO noted in 2005 that "commercially very little fertilizer was available in the markets, which also significantly contributed to the reduced harvest".[56] Under pressure from donors, the government has allowed private suppliers to participate in the 2006/07 program.

• **Uncertainties.** Put simply, the Malawian government has been advocating for continuing widespread subsidy programs while donors have generally insisted in scaling these back and ensuring more targeting. This battle shows the deep division between government and donors over food production in Malawi and has resulted in a myriad of different free input and subsidy programs in recent years. Together with untransparent and often sudden government policy decisions, massive uncertainties as to future policy exist, making long term planning impossible.

• **No solution to hunger by itself.** It should be said that the cost of even subsidized fertilizer – at the current price in Malawi - is beyond the reach of most farmers, as the researcher's interviews showed. So even the current level of subsidy – which already suffers from many problems – is not enough to significantly reduce hunger in Malawi.

Finally, as for access to credit by farmers, the FAO and WFP note that formal and informal credit is now almost non-existent, with interest rates on formal credit (currently 27-30 per cent) prohibitive for the majority of farm households.[57] The national system of rural credit operated from the late 1980s until its collapse in the early 1990s as loan recovery rates, which had previously been amongst the highest in the world, declined due to drought and election year promises.[58]

### 4.3 AGRICULTURAL MARKETS AND PRICES

*"Privatizing ADMARC without putting in place sufficient market incentives left the most vulnerable rural communities without access to inputs and agricultural markets and did not resolve the commercial or food security problem confronting Malawi". Study for USAID*[59]

Malawi's current agricultural marketing system suffers from several severe problems that penalize small farmers and maintain hunger. In 1987 the government introduced private trading of maize, thus ending ADMARC's monopoly on marketing of the national staple which was followed in subsequent years by ending its monopoly on produce and input pricing and an opening up of agricultural marketing services to the private sector. The decline of ADMARC's role in buying and selling in remote rural areas has left many of the poorest farmers without access to inputs at affordable prices and without a market to sell their maize output. The gap has not generally been filled by the private sector where transport costs are high (due to bad roads). Where private agents do operate, they often do so in a monopoly, offering to buy produce at extremely low prices, often below the cost of production, as farmers told the researcher. Farmers generally are too weak, and disorganized, to have the bargaining power to influence the prices they receive for their products. Getting prices right, especially for maize, is critical in Malawi, where most poor households, including farmers, are net purchasers of maize, as well as vendors, meaning they will be hurt by higher maize prices. The dismantling of the previous system of state-controlled maize distribution and pricing of agricultural inputs resulted in greater volatility in prices within and between seasons.[60]

ADMARC still plays a key role, however, emphasizing the hybrid nature of Malawi's 'partial liberalization'. Against the advice of the Bank and other donors, it sets a minimum price for maize producers and a ceiling price for maize buyers in all of Malawi's 28 districts. The reality is that in some remote rural areas, many households still depend on ADMARC for supplying inputs and buying their maize. However, ADMARC's ability to play this interventionary role is in practice limited by its shortage of funds from the government, meaning that farmers are often forced to sell maize to private traders at below ADMARC's minimum price (which therefore becomes in effect meaningless).

Most donors and many independent analysts argue that government intervention in the maize market through ADMARC – even though it is limited, accounting for a small proportion of total maize sales - contributes to the crowding out of the private sector and the underdevelopment of functioning agricultural markets, while its price setting (at too low prices for farmers) tends to penalize maize producers in favor of urban consumers.[62] The FAO and WFP note that "uncertain government pricing policies and intentions to intervene in the market has discouraged traders to engage in imports of maize, while stocks of fertilizers and other commodities are kept at inadequately low levels to avoid the risk of losses due to unannounced government policy change". Here is a good example of the worst of both worlds – government intervention is insufficient to protect producers but great enough to undermine the development of private traders in the market. At the same time, agricultural marketing at wholesale level is not competitive, and is dominated by a few large traders, while in remote rural areas retailing is financially unviable for the private sector especially given the lack of adequate government investment in roads.

A fierce political debate now rages about the future of ADMARC. Donors, especially the World Bank, have long since pushed for ADMARC's privatization, at the same time as noting a deterioration in ADMARC's financial performance, as well as accusations of corruption and lack of transparency. Full privatization has been fiercely resisted by Malawian governments, anxious to maintain a strong go-

***Maize produced in the more remote rural areas is mainly sold to mobile traders who visit those areas to buy from producers at prices fixed by them. Some producers who are able to will take their produce to local markets while others will sell at home to members of their own community. One maize farmer in Balaka said that the 'vendors' could use fake weighing machines and buy more maize at a false (low) price. Other farmers said that in most instances the vendors could take the 50 kg bag and press the maize hard so that it would weigh 70 kg and still buy as if it was a 50 kg bag. The 'vendors' buy the maize and sell at local markets, and in towns at huge profits. The sale of tobacco at the auction floors have been characterized by unpredictable, but low, prices for farmers, amongst allegations of collusion and price fixing by business players in the market. One tobacco farmer said that "these intermediate buyers are thieves in broad daylight".***[61]

vernment role in controlling the national staple. In 2004, the government was forced to speed up ADMARC reform as a condition for a World Bank loan but the new government has taken virtually no steps to implement this.

The debate currently is over the extent of privatization and the difference between ADMARC's 'commercial' and 'social' functions. The Bank is pushing for an end to ADMARC's role in setting minimum prices across the whole country but accepts it could still play a role in price setting and buying maize in remote rural areas, even "for decades", the researcher was told. The Bank has pulled back from demanding complete privatization, conceivably in light of civil society and political opposition in Malawi; and a recent World Bank study indicated the positive impact that access to ADMARC markets has on household welfare in areas where private markets are undeveloped.[63] But the Bank believes that ADMARC should withdraw from more "profitable", developed areas and auction off its facilities to the private sector. Bank officials accept there will be "short-term costs" – i.e. effects on people - to this further reduction in the state's role but that "in terms of economic growth, risks have to be taken", and that a competitive private sector will soon emerge for the market to set prices.[64]

There is some logic to the Bank's arguments. But the researcher's experience is that even in "non-remote" areas, close to the capital with decent roads, a competitive private sector has not yet emerged. More generally, there will be many smallholders who are likely not to be able to afford maize even at (lower) competitive market prices. It is clear that a total privatization of ADMARC, which forced it to withdraw from the remote areas, would have disastrous consequences, yet ADMARC is in need of major reform. One recent proposal is for ADMARC to become a joint venture between government and the private sector, a qualified privatization that would aim at beefing up ADMARC's 'commercial' functions while retaining its 'social' functions.[65]

### 4.4 GOVERNMENT SPENDING AND EXTENSION SERVICES

Farmers consistently told the researcher of the importance of good extension services and how their farming suffered as a result of a lack of them – especially important is increasing farmer's knowledge of techniques to promote diversification, whether and how to use new seeds as well as developing alternatives to high-input, fertilizer-based agriculture. Yet extension services are universally recognized as having significantly declined under the reforms. Extension services are now widely regarded as hopelessly inadequate, with the number of trained extension staff low and declining over the past few years and many training schools closed down. The researcher was told that there is an average of just one government extension worker per 3,000 households. The government has recently renewed efforts to develop a policy to address the inadequacy of services, but is starting from a low base.[68] Such a lack of capacity poses major problems for helping to increase productivity among Malawi's small farmers.

### 4.5 TRADE AND EXPORTS

Since beginning trade liberalization in the late 1980s, Malawi substantially lowered its import tariff rates throughout the late 1980s and 1990s and is now one of the most liberalized countries in Africa. At the same time, Malawi's trade performance has worsened in the reform period. The contribution of trade to Malawi's GDP declined between 1994 and 2002 – exports fell from 30 per cent to 26 per cent of GDP while imports fell from 67 per cent to 44 per cent. The World Bank notes that "despite being a relatively open economy and having non-reciprocal trade preferences with the EU and the US, exports grew by only 2 per cent in Malawi in the past 10 years (compared to 6.4 per cent growth in world exports)".[69] This low export growth has contributed to Malawi's poor overall economic importance and reflects the continuing fall in commodity prices – especially tobacco – as well as domestic macro-economic instability.[70]

Malawi has failed to diversify its exports significantly. The share of agricultural exports in total exports declined only marginally from 87 per cent in 1993 to 81 per cent in 1999.[71] Exports remain heavily concentrated in a few sectors only – mainly tobacco, tea and sugar - leaving the economy vulnerable to fluctuations in agricultural commodity prices. Tobacco exports still account for 60 per cent of Malawi's export earnings, only a small decline on the 70 per cent level of the early 1990s.[72] The World Bank notes a range of "supply-side constraints" to improving Malawi's trade performance, such as the need to improve infrastructure and trade capacity.[73] Malawi also suffers from EU and US phyto-sanitary requirements which have the effect of restricting exports, and subsidized cotton production in developed countries, which contributes to depressed world prices. The FAO notes that structural adjustment contributed to a temporary increase in the volume of trade during the 1990s due to improve-

***The 2002/03 food crisis***

***Much has been written about the food crisis of 2002/03 and the contribution of economic reform policies to it. Most independent analyses conclude that the causes were multi-faceted and complex, but that liberalization policies played a significant role. The crisis in early 2002 was the worst in living memory, resulting in hundreds, perhaps thousands, of deaths. The immediate cause was a food production failure and subsequent major price rises of food, combined with an under-estimation of the food gap by the government and donors and the selling off, just before the crisis, of the Strategic Grain Reserve at the insistence of the IMF. The food production failure resulted from a range of factors concerning the intensified pressure on land due to population growth and the HIV/AIDS pandemic, which has decimated the labor force – but also partly from the falling use of agricultural inputs such as fertilizer, exacerbated by liberalization measures, and reduced consumer subsidies and government intervention to stabilize food prices.[66]***

***The decision to sell Malawi's grain reserves just before the food crisis hit was a hugely controversial decision, many facts around which remain disputed, and which received significant international attention. It followed apparent advice from the IMF to reduce operational costs and the level of buffer stocks in order to repay a loan to a South African bank. The IMF also apparently advised that maize be exported to neighboring countries in disregard of the impending food crisis in Malawi.[67] The Malawi government, in defiance of the IMF, sold most of the reserve on local markets to private traders, who subsequently stockpiled it and profiteered from hunger. The government was unable to deliver food quickly and was late in declaring the need for food aid, while the donor response was delayed owing to the dispute over the reserve. The food crisis was brought to international attention only by NGOs; hundreds of people died during this period.***

*Alecsina Mbwat and daughter, Chilembampita, Malawi*

ments in pricing policies and the increased involvement of the private sector in marketing smallholders' inputs and produce - but that the disappointing overall performance is explained by SAPs' failure to address unfavorable terms of trade and poor access to credit and extension services along with limited access to fertilizer – all of which "further weakened the export base of the economy".[74]

The researcher visited Malawi at a time when import surges of manufactured goods from China – mainly clothes - and South Africa – mainly food products such as tomatoes, eggs and chickens - were posing concerns for local producers. Some civil society groups were in the process of analyzing how serious these impacts have been on domestic farmers.

## 5. THE HUMAN COSTS OF THE REFORMS

In Undi village in Dowa district farmers told the researcher of how their health deteriorates in the hungry season. As farmers go down to one meal a day, some even going for whole days without any food, children's health suffers in particular. They complain of their stomach hurting, cry a lot, and become ill quicker, a situation exacerbated by the lack of safe drinking water in the area and the fact that the nearest health post is 20 km away while health visitors do not come to the village.

This experience is replicated across the country. Malawi's children suffer from deep and persistent malnutrition. In 2004, UNICEF noted that Malawi's level of chronic malnutrition was the fourth highest in the world (after Ethiopia, Yemen and Burundi). As a result, nearly half of all under-fives are stunted, 40 per cent of these severely stunted. The levels of child stunting are the same as they were in 1990. As a result, an estimated 40,000 children under five years of age die each year from nutrition-related diseases, such as malaria, acute respiratory infection and gastroenteritis[75] - although the under-five and infant mortality rate has declined from 1990 to 2000[76]. In addition, the poor consume only 66 per cent of the recommended daily calorie requirements, implying that malnutrition affects the adults too.[77]

> ***"Of concern are the high prevalence rates of child stunting, which likely reflect long term-inadequate access to health services, sanitation, potable water and dietary quality and diversity... It can be hypothesized that children who become malnourished later in the year are more likely to do so because of inadequate food access associated with dwindling household food stocks and declining terms of trade for market purchase of staple foods". FAO***[78]

These are the consequences of Malawi's failure to address hunger.

## 6. THE PROBLEM OF PARTIAL LIBERALIZATION – THE MIX OF GOVERNMENT AND WORLD BANK POLICIES

"The government is protecting its people, while the private sector is making them poorer. In between are ordinary people, especially the farmers". Interviewee in Lilongwe

Malawi's failure to address hunger is the result of a messy, non-strategic mix of policies of liberalization and government intervention. Various government policy statements argue that government intervention to increase fertilizer supply and maize prices is critical to food security and will continue, implying that free markets in Malawi are not up to the task. On the other hand, the Malawi Poverty Reduction Strategy, agreed with the World Bank, and other economic growth strategies, are silent on the issue of the government's role, maintaining the free market orientation favored by donors who claim that government intervention is precisely why fertilizer is not sufficiently available in Malawi.[79] The situation is regularly one of policy commitments that contradict one another or else a mismatch between stated government policy (enhancing the free market) and actual policy (continued intervention). Such uncertainty makes it impossible for poor farmers to plan future crop production and for private sector traders to take the risk of investing resources.

In 2005, the government embarked on a universal fertilizer subsidy, targeting maize and tobacco, as noted above. 147,000 tons of fertilizer were provided under this program, amounting to 91 per cent of the total market, but which left only 9 per cent of the market for private sector companies. This, as the Malawian NGO, Cisanet has noted, "was reported by the private sector to be a serious threat to their survival as their market shrank". Government parastatals distributed the fertilizer in the country though fertilizer procurement was extended to private companies, who supplied around half of the imports.[80]

The justification for continued government intervention in maize is the concern that if trade is simply left to private agents, prices will be higher or more volatile and there might be a lack of maize in some parts of the country for some periods. Another motive may be to maintain support among politically important constituencies.[81] Yet ADMARC's role in setting prices discourages the private sector due to the uncertainty caused.[82] The Famine Early Warning System recently reported, for example, that the ADMARC subsidized price was attracting many poor consumers to their markets but it didn't have adequate stocks to meet the demand; at

the same time, the cost price of maize from most supply sources was above the prevailing ADMARC price making it difficult for private traders to compete with ADMARC.[83] Although expected to play a role in marketing and pricing, in reality ADMARC lacks sufficient funds to do either well, resulting in opportunistic traders filling the gap.[84]

This messy strategic mix of policies is the direct result of years of battles between the government and donors over the food production and food security to be followed in the country. Donors provide some 50 per cent of Malawi's annual recurrent costs, and therefore have a big lever in shaping the country's policies. The EU has conditioned its funding on Malawi developing indicators to measure progress in implementing its Poverty Reduction Strategy, DFID finances and drives policy on fertilizer subsidies while World Bank aid is conditioned on restructuring ADMARC. A report for USAID notes that "given Malawi's traditional reliance on external funding, it is unclear whether the GoM [Government of Malawi] or its donor partners are in charge of the policy-making process".[85] It states that "competing views, interests and demands have polarized stakeholders, compromised policy coherence and subjected policy-making and implementation to ideological leanings. Hence, policy is marked by erratic swings and the social contract between the GoM and its citizens is eroding".[86] Indeed, the significant position of donors in food security policy-making has remained unchanged if not strengthened by recent crises; for example in 2004/05 donors financed about 83 per cent of the development budget of Malawi, leaving major uncertainties among Malawians about the explicit or implicit conditions attached to so much financing.[87]

Malawi's current mix of agricultural policies is not based on a concerted overall development strategy for the rural poor – still the overwhelming majority of the population, despite the plethora of government/donor programs in place. Rather, current policies reflect a messy, non-strategic compromise between national politics and donor pressure. The researcher was told by all sides in this debate – donors, the government, civil society and farmers' organizations – that Malawi currently has the "worst of both worlds". On the one hand, a state role that is not far-reaching enough – or well-implemented enough - to address the needs of the rural poor, and on the other hand, free markets that are so limited and uncompetitive that they exploit the poor. Put simply: government intervention is not sufficient to really help poor farmers, but it is sufficient enough to deter the development of the private sector.

The situation would be very different if Malawian governments were truly democratic, accountable and driven by a strategy to prioritize the needs of poor farmers. But over the past two decades, government spending and priorities in Malawi have been driven more by the short-term interests of the elite, oriented towards consumption and maintaining power, rather than towards poverty reduction and food security for the majority. The World Bank is surely correct in noting that "regionalism and patronage continue to be factors in Malawi's political economy" with "concerns in civil society that regionalism is reflected in public sector appointments and policy decisions". And also that the delivery of public services suffers from a shortage of accountability, as well as of trained personnel at all levels of government.[88] Corruption is also a serious problem, though appears to be being more seriously tackled under the present government of President Bingu Mutharika.

An ODI study notes that Malawi conforms to the classic description of a 'patrimonial state': a 'hybrid regime' where modern bureaucracies coexist beside political authority based on the granting of favors. Clientilism is at the core of relationships and office-holders appropriate public resources for their own use, within a centralized system presided over by a single individual with ultimate control over most clientilist networks. This means that in Malawi, food security policies are formulated and implemented with a view to maintaining patronage networks for guaranteeing political support rather than improving food security, that state resources are directed away from critical food security needs and that government is accountable primarily for its performance as a dispenser of patronage and not for the effectiveness of its policies. This system of poor accountability to the public is maintained because of the relative weakness of organized civil society.[89]

Not only World Bank policies, but also Malawian government policies, are keeping the poor poor. The government has never been simply a helpless victim of donor policies. In reality, it has often ignored loan conditions as in its continued interventions in maize and in preserving a government role in ADMARC. Some recent policy failures that have increased hunger have more to do with poor government policy than donor pressure – such as the collapse of the smallholder credit program in the mid 1990s, economic mismanagement leading to currency devaluations, which helped cause massive price rises for fertilizer and the confiscation of customary land for use by estates, which exacerbated land shortages.

Yet if the problem is one of a basic lack of democracy, this is enhanced by World Bank decision-making. The World Bank's Country Assistance Strategy, released in February this year, states that "substantial political risks exist to reform momentum" and that local elections in 2007 and parliamentary elections in 2009 "are likely to further constrain the already limited political space for economic reform measures". It continues:

*"While the government has demonstrated resolve in implementing fiscal control, as demonstrated during the 2005/06 food crisis, institutional and procedural systems for the formulation, analysis and implementation of policy remain weak and vulnerable. Moreover, while the increasing role of the Malawian parliament in providing oversight to the executive is welcomed as crucial to accountability and transparency, there remain risks that the maturing political system will crucially constrain the ability of the minority government to implement difficult reforms. In order to mitigate these risks the Bank is engaging more forcefully with parliament and civil society in order to disseminate and make the case for the growth-oriented reforms and policies".*[90]

In other words, the Bank laments the possibility that democratically elected politicians may prevent Bank-supported policies. The Bank's aversion to democracy was confirmed by a World Bank official based in Lilongwe, a Malawian, who told the researcher of the key importance to the Bank of the privatization of ADMARC. He noted that "one of the problems we have in Malawi is that some decisions have to go through parliament". Asked why he was concerned about this, he said: "because it will come out unsuccessfully. Many people don't understand the issues in terms of government no longer intervening in the market. It's difficult for them to come to terms with that". He did accept that ADMARC should play a role in the remote rural areas but not in the areas where the private sector might thrive.[91]

In summary, agricultural policy-making in Malawi has long been a messy compromise between national politics – made by often unaccountable elites protecting their interests - and international donors, with their own (changing) agenda and ideologies. The basic problem is that the population of Malawi has never been able to drive actual policies. One academic study of Malawi's poor economic performance over the past two decades states that "the fundamental weakness to the country's development efforts is government's belief in a top-down strategy that excluded the poor from the means of driving economic growth", citing the conversion of one million hectares of land from customary use to idle leasehold held by estates and the government's repeated refusals to allow smallholders to grow burley tobacco.[92]

Rather, decisions are made by two undemocratic actors: donors, such as the Bank, accountable to other donor governments; and the government, in reality accountable to the Bank and a small domestic elite. In the middle is the general population, especially the small farmers, who are largely voiceless. The recurrent food crises of the past decade or so can be partly laid at the door of the absence of an effective long-term development strategy that prioritizes the needs of the rural poor, the majority of the population.

## 7. CONCLUSIONS

The major impacts of the reforms, under Malawi's 'partial liberalization' experience, can be summarized as follows:

• Overall, Malawi's economic and agricultural performance has deteriorated over the past 20 years with the effect of decreasing food security and increasing hunger, poverty remaining at a high level and deepening for the poorest in society (especially in the 1990s), declining per capita income, and rises in inequality.

• Overall food production has increased but productivity has declined for several crops, notably maize, compared to the early 1990s. The economy has not diversified away from its dependence on agriculture, although there has been some diversification away from a dependence on maize towards other crops as a result of liberalization policies.

• Access to critical inputs such as fertilizer has declined, due to increased prices, with only a third of smallholders using fertilizers and then only in small amounts. Subsidy programs have helped the poor and raised output but they reach only a small number of farmers and suffer from numerous problems, such as crowding out private sector suppliers and reinforcing political patronage.

• Liberalization has deprived many farmers of access to markets and made farmers prey to exploitative private traders offering low prices for their produce. Government maize buying and price setting is critical for some farmers yet it has crowded the development of private traders.

• The major cutbacks in government spending on extension services have deprived farmers of important sources of knowledge and advice to aid increases in productivity and diversification.

• Malawi's trade performance under liberalization has worsened, with imports rising faster than exports. The share of agricultural exports in total exports has fallen slightly but Malawi is still vulnerable to falls in world commodity prices due to major continuing dependence on a few exports.

The major impact of these reforms is on the health of the population, especially the high levels of chronic malnutrition and stunting among children under five. Given its natural resources, Malawi could easily feed its people. It has plenty of sunshine, a reasonable amount of good land and plenty of water.[93] But a combination of government and donor policy is mainly to blame for the failure to address hunger. It has been estimated that maize yields in the small farm sector in Malawi are around just one third of their potential.

Government and donors certainly learnt lessons from the 2002/03 crisis and improved their response during the 2005/06 food shortages. Yet even if national emergency response has improved, the critical point is that farmers' underlying vulnerabilities remain and are, if anything, getting worse. Continuing low access to inputs to increase productivity, and an underdeveloped private sector to deliver inputs and markets, as well as uncertain and unpredictable government policies all suggest that Malawi is in permanent crisis from which currently neither donor nor government policies are allowing it to escape.

*Undi, Malawi*

## References


[1]GoM figure from 2000. According to the latest World Bank figures, 52 per cent of the population (6.4 million people) live below the poverty line and 22 per cent (2.7 million) live in ultra-poverty, whereby they are unable to meet their daily recommended food needs; World Bank, Country Assistance Strategy (CAS), 4 January 2007, p.3
[2]CAS, p.15
[3]FAO/WFP, Crop and food supply assessment mission to Malawi, 20 June 2005, p.1; Care, Livelihood erosion through time: Macro and micro factors that influenced livelihood trends in Malawi over the last 30 years, March 2003, p.i
[4]These are government figures in Elizabeth Cromwell and Nambusi Kyegombe, Food security options in Malawi: Good neighbours make good friends?, ODI, January 2005, p.14; The World Bank gives slightly different figures, stating estimating that just over one in five of the population – 2.7 million people - goes hungry, ie, unable to meet daily food needs. CAS, p.4
[5]Care, p.vii
[6]Kjell Esser et al, 'Opportunties for Norwegian support to agricultural development in Malawi', Noragric report No.27, June 2005, p.67
[7]Sarah Levy, 'Starter packs and hunger crises: A briefing for policymakers on food security in Malawi', September 2003, p.5
[8]FAO/WFP, p.18
[9]FAO/WFP, p.i
[10]FEWS, 'Malawi: Food security update', July 2006, www.fews.net.
[11]Cromwell and Kyegombe, p.8
[12]CAS, p.47
[13]FAO/WFP, p.18
[14]Cromwell and Kyegombe, p.18
[15]CAS, p.14; FAO/WFP, p.2; FAO
[16]FAO, 'WTO agreement on agriculture: The implementation experience - Malawi', www.fao.org
[17]Ephraim Chirwa, 'Access to land, growth and poverty reduction in Malawi', August 2004, p.5
[18]Ragnar Oygard et al, The Maze of Maize: Improving input and output market access for poor smallholders in Southern Africa region – The experience of Zambia and Malawi, Agricultural University of Norway, 2003, p.33
[19]Afrodad, 'The impact of the Poverty Reduction and Growth Facility on social services in Malawi: Study report', 2005, Draft, p.11
[20]CAS, p.23
[21]CAS, p.25
[22]Caroline Sahley et al, The Governance dimensions of food security in Malawi, USAID, 20 September 2005, p.63
[23]FAO
[24]Sahley et al, p.58
[25]Oygard et al, The Maze, p.45
[26]Care, pp.viii, 48
[27]Elizabeth Cromwell et al, 'Poverty reduction strategies and the rural productive sectors: Insights from Malawi, Nicaragua and Vietnam', ODI working paper 258, ODI, November 2005, p.5
[28]Kalonga Stambuli, 'Political change, economic transition and catalysis of IMF/World Bank economic models – The case of Malawi', September 2002
[29]Cromwell and Kyegombe, p.22
[30]CAS, pp. i, 22
[31]CAS, p.3
[32]FAO
[33]FAO
[34]Pauline Peters, 'The differential effects on rural income and poverty during a decade of radical change in Malawi, 1986-97', BASIS brief, October 2004
[35]Pauline Peters, 'Failed magic or social context? Market liberalization and the rural poor in Malawi', Harvard Institute for International development, 1996
[36]CAS, p.66; FAO/WFP
[37]Cromwell and Kyegombe, p.8
[38]CAS, p.52
[39]CAS, p.6
[40]Esser et al, p.4; Oygard et al, The Maze, p.28
[41]T.Nakhumwa, 'Rapid evaluation of the 2005 Fertilizer Subsidy Programme in Malawi', CISANET, 2005, p.7
[42]Care, p.18
[43]Malawi Economic Justice Network (MEJN), Trade liberalization: A poverty trap for the poor in Malawi, May 2005, p.6
[44]Esser et al, p.14
[45]Levy, pp.2, 4
[46]see table in Ragnar Oygard, 'Malawi's persistent food crisis', 6 December 2005, p.10
[47]Sarah Levy, 'Production, prices and food security: How starter pack works', in Levy (ed), Starter packs: A strategy to fight hunger in developing countries? Lessons from the Malawi experience, 1998-2003, CABI publishing, Wallingford, 2005,p.110
[48]See, for example, Stambuli
[49]HTSPE, Comprehensive review of stakeholders' responses to the 2005-2006 food crisis – Report to the Food Security Joint Task Force, Main report, June 2006, p.5
[50]Levy, 'Starter packs', p.4
[51]FAO
[52]Neil Spooner, Comprehensive review of stakeholders' responses to the 2005-2006 food crisis – Module 4: Inputs distribution programmes, HTSPE, June 2006, pp.14-15
[53]Interviews in Lilongwe
[54]Oygard, p.11
[55]HTSPE, Main report, p.33

[56]FAO/WFP
[57]FAO/WFP, p.3
[58]Oygard et al, The Maze, p.19
[59]Sahley, et al, p.29
[60]Cromwell and Kyegombe, p.16
[61]Cited in MEJN, p.4
[62]FAO/WFP, pp.3, 13; HTSPE, Main report, p.53
[63]CISANET, 'Cisanet policy paper on agricultural social marketing reform', Lilongwe, undated, p.4
[64]Interviews in Lilongwe.
[65]Khwima Nthara, 'What needs to be done to improve the impact of ADMARC on the poor?', Oxfam, July 2002; see also CISANET
[66]Stephen Devereux, State of disaster: Causes, consequences and policy lessons from Malawi, ActionAid, June 2002
[67]World Development Movement (WDM), Structural damage: The causes and consequences of Malawi's food crisis, WDM, London, October 2002, p.14; Sahley, et al, pp.47-8
[68]FAO/WFP, p.3
[69]CAS, p.6
[70]MEJN/ActionAid Malawi, The ABC of the WTO and Malawi's involvement, Lusaka, 2005, p.37
[71]FAO, p.7
[72]CAS, p.6; Oygard et al, The Maze, p.30
[73]CAS, p.6
[74]FAO, p.7
[75]Sahley et al, p.11
[76]Cronwell and Kyegombe, p.17
[77]Esser et al, p.66
[78]FEWS, 'Malawi: Food security update', July 2006, www.fews.net
[79]Sahley et al, p.24
[80]Nakhumwa, p.4
[81]Oygard et al, The Maze, p.63
[82]Cromwell and Kyegombe, p.23
[83]FEWS, 'Malawi: Food security update', September 2005, www.fews.net
[84]Cromwell and Kyegombe, p.23
[85]Sahley et al, p.17
[86]Sahley et al, p.2
[87]Sahley et al, p.25
[88]CAS, pp.2, 18
[89]Cromwell and Kyegombe, pp.25-6
[90]CAS, p.34, emphasis added
[91]Interviews in Lilongwe
[92]Stambuli
[93]Esser et al, p.20

► APRODEV PROJECT:
THE IMPACT OF ECONOMIC LIBERALIZATION ON HUNGER-PRONE PEOPLE:

# ZAMBIA CASE STUDY:

CONTENTS

# 1. INTRODUCTION

## POVERTY AND HUNGER IN ZAMBIA

*Vinba, Zambia*

Zambia's poverty statistics make terrible reading. Zambia has the lowest life expectancy in the world – at just 33 years. Zambians born today can expect to live 18 years less than those born in 1980, due mainly to the HIV/AIDS pandemic which afflicts an estimated one in five of the population aged 15-49. Of the population of nearly 11 million people, 64 per cent lives below the poverty line of US$ 1 a day – a level that reaches nearly 80 per cent in Northern provinces. A massive 87 per cent lives on less than US$ 2 a day. Average income fell by 60 per cent between 1975 and 1995 and now stands at a mere US$ 361 per year. [1]

Hunger is endemic in the country. According to the FAO, over 5 million people, nearly half the population, are undernourished.[2] Only a third can afford to eat three times a day – half have an average of two meals while one in ten survives on just one a day. The Zambian diet generally lacks variety with maize consumption alone – in the form of nshima, a porridge made from maize – accounting for the overwhelming majority of energy obtained from food.[3] Zambia has experienced two major droughts in the past decade – in 1991/92 and in 1995/96, while the 2000/01 and following seasons were also beset with poor rainfall and a large amount of food aid was required to avert hunger.[4] The FAO and WFP estimated in June 2005 that nearly 200,000 people required food aid with the number rising to 1.2 million by the hungry season in early 2006.[5]

In Zambia, maize is the staple food crop and is grown around the country by three quarters of all farming households, with other important crops being sorghum, millet, cassava, sweet potatoes and pulses. The vast majority of farmers, around 800,000 households, are smallholders, most of whom farm small plots of around 2 hectares of land. Most use very basic farming techniques, relying on family labor, recycled seeds, a hoe and minimal quantities of fertilizers. These smallholder farmers produce 65 per cent of Zambia's maize, 75 per cent of its groundnuts and 85 per cent of its sorghum, most of which is retained for self-consumption. Less than 10 per cent of the land is irrigated, mostly by commercial farmers cultivating cash crops like sugar and wheat. Cereal yields are low and post-harvest losses are frequently high due to inadequate structures for grain drying and storage.[6]

One in five farming households in Zambia is headed by a woman. Women own on average half the number of livestock as male-headed households while they produce on average one third less than male-headed households, due mainly to the lack of labor for critical farming operations like tilling.[7] According to government figures, 15 per cent of all female-headed households in the country survives on just one meal per day (compared to 9 per cent of male-headed households) – less than a third eat three meals.[8]

Agriculture accounts for 40 per cent of Zambia's GDP and provides employment for nearly 70 per cent of the labor force. The main problems causing hunger in Zambia are structural, due to inadequate policies and priorities, poor basic food production techniques and knowledge, inadequate access to key farming inputs such as fertilizer and credit, volatile food prices, all exacerbated by the frequency of natural disasters such as severe droughts and the severity of the HIV/AIDS epidemic and all contributing to poor agricultural growth. The most efficient markets and the large export-oriented farms which are linked to buyers are located along the 'line of rail' where about 60 per cent of the population lives. The small farmers in more remote areas have limited access to markets and face high transaction and trans-

port costs, mainly due to bad roads, that reduce the profitability of their produce.[9] One in five rural households lives more than 5 km from their nearest food market while 3 in 5 live more than 5 km from the nearest market where they can purchase inputs such as fertilizers.[10]

## 2. LIBERALIZATION AND THE WORLD BANK

Economic liberalization reforms began in Zambia in the mid-1980s. The National Agriculture Marketing Board (NAMBOARD), which performed functions similar to ADMARC in Malawi, buying farmers' produce at guaranteed prices and setting prices, was abolished in 1989 and its functions allocated to local cooperatives, while prices of most agricultural commodities (excluding maize) were liberalized. After the Movement for Multiparty Democracy (MMD) took power in 1991 economic reforms were deepened under the auspices of the IMF and World Bank. A package of structural reforms was implemented, which involved cutting public expenditure, removing capital and import controls, closing or privatizing public enterprises considered costly, and opening up the economy to foreign investors. In agriculture, fertilizer and other input subsidies were removed in 1992. Food subsidies on maize had reached nearly 14 per cent of government expenditure in 1990. When the sales price was raised in 1986, riots ensued, leaving 86 people dead and the subsidy was reinstated. But consumer subsidies were finally abolished in 1994.[11]

The World Bank notes that between 1992 and 2003, it lent Zambia US$ 2 billion, stating: "adjustment credits in support of sweeping liberalization of the economy dominated, accounting for nearly 40 per cent of total commitments".[12] Over the past decade, much Bank/IMF funding has been conditional on Zambia privatizing state-owned companies. According to the British NGO, the World Development Movement, the IMF in 2002 withheld US$ 1 billion in debt relief if the government did not go ahead in privatizing the state bank, the ZNCB. "If they don't sell, they will not get the money", IMF representative Mark Ellyne is reported to have said. This was after Zambia's elected national parliament had voted for a motion urging the government to revoke its previous decision to privatize the bank.[13]

The IMF approved a three-year PRGF loan to Zambia in June 2004. The World Bank currently has US$ 630 million in aid committed to Zambia within the current Country Assistance Strategy, running from 2004-2007. According to the Bank, the three priority areas for assistance are: "(a) removing constraints to sustainable and diversified growth; (b) improving governance; and (c) increasing access to basic services and direct poverty interventions". The Bank is funding a number of agricultural projects, aiming to "advance smallholder agriculture commercialization" and in particular by promoting contract farming.[14]

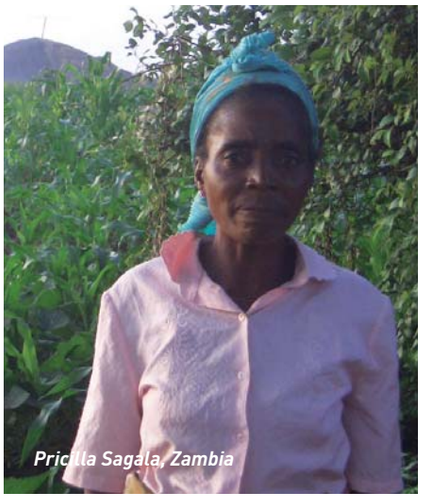
Zambia has only partly liberalized its economy and retains a key role in subsidizing fertilizer and in intervening to set minimum prices for maize. The World Bank has gone along with these policies and is not currently insisting on – or making loans conditional on – their ending. Bank officials told the researcher in Lusaka that, as regards the government's intervention in maize, the issue was not so much whether this was right or wrong per se, but if it could be implemented more transparently and predictably and if the price set could be closer to the prevailing market price. With fertilizer subsidies, the Bank's concerns were again with transparency in the program, with ensuring that distribution was not determined by political considerations and also ensuring that the development of private suppliers was not harmed in the process.[15]

Where Bank strategy currently gives cause for concern is, firstly, in its specific promotion of contract farming (see section 3.1) and secondly, related to this, its general apparent overwhelming focus on commercial farmers, i.e. wealthier smallholders growing mainly cash crops, rather than subsistence farmers, who make up the majority of the population. The researcher was told by a Bank official that the lack of access to input markets for fertilizer "was not that important unless you think everyone should grow maize. The main point is to diversify". There is truth in the need to diversify but the fact remains that access to fertilizer is critically important for most smallholders. Also, such Bank thinking is accompanied by the recognition that "only 20-25 per cent of smallholders in Zambia, those close to the urban centers, can become commercial farmers and graduate from subsistence". The others – the majority of farmers in the country – should all be subject to safety net measures rather than subsidized inputs, according to the Bank's apparent thinking.[16]

## 3. THE PLIGHT OF FARMERS IN ZAMBIA: FINDINGS FROM THE FIELD

The researcher's interviews with farmers in Chipata District of Eastern province, 550 km east of Lusaka, show the stark reality of farming in rural Zambia. The relatively good soils and usually sufficient rainfall in the province give a high potential for the production of crops such as maize, groundnuts, cotton, sunflower, tobacco and soya beans. Yet most people in the province go hungry for long periods: around half of families do not produce enough food themselves for more than six months a year in a normal season, this problem being worse in drought years.[17] According to government figures, 11 per cent of all households in Eastern province survives on just one meal per day – half have two meals and 38 per cent three.[18]

A quarter of the farming households in Chipata district are female-headed. One of them is Priscilla Sagala, a farmer aged 52 from Kalonji village 10 km outside the province's main town, Chipata. Priscilla grows maize and groundnuts on a two acre plot.


*Priscilla Sagala, Zambia*

She said that many farmers in the village only produce enough food for two months a year, while she herself can feed her family for "a few months" each year. When food runs out, the most common coping strategies are to reduce the number of meals taken followed by a reduction in consumption of other household items such as soap and cooking oil as well as receiving assistance from friends and neighbors. Priscilla told us that: "When the food runs out, I eat less, sometimes eat roots, and sometimes I just have to go to bed and sleep." She would like to grow other crops "as long as the seed is avai-

lable, but it's not available. I would like to grow sunflower but I'd have to buy seeds which needs money. I'd need 35,000 kwacha (US$ 8.7) for 5 kg". When asked what support she needed, she replied: "Fertilizer. If fertilizer was available, production would go up. The main problem is a shortage of fertilizer and the fact that the soil is bad. Food finishes very quickly due to our shortage of inputs like fertilizer. I don't have the money to buy it".

The lack of fertilizer was echoed as the major issue by all the dozens of farmers that the researcher spoke to in three villages in the district that we visited. Of 91,000 households in the district, 12,000 bought subsidized fertilizer in the government's Fertilizer Support Program (FSP), while a further 1,600 received 'Food Security Packs' – programs which are discussed further below. This means that the other 86 per cent of farmers needs to buy fertilizer at market prices, which the overwhelming majority is not able to do, due to the high price. But even the government's subsidized price is beyond the reach of most farmers - farmers in the FSP have to pay 40 per cent of the market price of fertilizer, meaning they usually need to find 460,000 kwacha (US$ 115) (for 8 bags, which is fixed).

Clara Pande, 65 year old farmer who grows maize and groundnuts on her 1.5 hectare farm, told us that when she uses fertilizer, production goes up. She recently clubbed together with others in the village and bought fertilizer for 210,000 kwacha (US$ 52). "Most of the time I can't afford it. I'm a widow. If we join with others, we can afford a little. My relatives and I put our money together".

Of the 67 households in Kalonji village, only two are able to buy fertilizer by themselves. One of them is John Saxbotha, a 35 year old farmer growing a range of crops - maize, cassava, groundnuts, soya beans - as well as raising chickens and livestock on his 6 hectare farm, the largest in the village. He is one of the few able to feed his family all year round in a good year. He told us: "I can afford fertilizer and am better off than the other farmers. I spend 1.2 million kwacha on fertilizer". For other farmers, he told us that "It's impossible to get a loan to borrow money to pay for fertilizer. The government should provide soft loans to farmers, especially for livestock. They say if you don't have titled land, you cannot get a loan." Another problem was the difficulty in encouraging farmers to diversify away from dependence on maize. "The problem is finding money to pay for new seeds", he said.

Government extension services have been massively cut back in the reform period and are generally poor in the area, due to lack of government funding. Extension officers are supposed to visit each zone twice a month but the reality is much less because the area each officer is expected to cover – a 20 km radius – is too great. When the researcher asked the District Agricultural Officer where he would spend any increased funding from the government on agriculture, he pinpointed extension services as the critical area, to improve the knowledge base of farmers in crop management and growing techniques, including in the use of fertilizer. He told us: "Without more extension services, farmers won't be able to diversify away from maize. They don't know enough about growing other crops. Who is going to bring the knowledge of cassava processing to farmers? The only vehicle that can do this is extension".

Other spending needed to take place on roads and bridges, he said, to make transportation easier between villages and towns. The lack of adequate infrastructure was the main reason why only a few private traders operate in the area to deliver inputs to farmers, he told us. "It is wishful thinking to think the private sector will come here. Look at our infrastructure. We're not commercialized enough for this to work. It's not profitable enough for the private sector except when they come in and knock down the price to farmers for their produce". Also critical issue was subsidized inputs to farmers: "To reduce food insecurity for households, the food security packs are really important. It makes them aspire to further ventures that create income. In the first instance, let us make sure that farmers have access to cheap inputs. And good extension services".

Most farmers said that their annual yields varied but that the overall trend was to get less and less from their land each year. Low agricultural productivity is likely to result from declining soil fertility and the lack of adequate use of inputs such as fertilizer, as well as erratic rainfall and an overdependence on a narrow range of crops.

### 3.1 THE DILEMMA OF CONTRACT FARMING

Further interviews with farmers engaged in the 'outgrowers' scheme reveal other major issues facing small farmers. Outgrowers are essentially contract farmers who grow cotton and tobacco for specific companies in exchange for the latter providing loans to buy inputs such as fertilizer on credit at the beginning of the season. The theory is that farmers benefit by gaining access to needed inputs with a guaranteed market to sell in. The reality is that all contract farmers interviewed complained of the low price they received for their produce. Also, the price they are

*Chris Kalumba, Vinba, Zambia*

led to believe they will receive at the beginning of the season is almost always reduced by the companies when buying the produce after harvest, meaning that farmers receive much less income than they often plan for.

Vinba village is 45 km west of Chipata town and contains around 100 farming households, around 20 of which can feed themselves for the whole year, villagers said. There are many cotton farms in the area. Chris Kalumba is a contract farmer producing cotton for Cargill. The father of three daughters, he also grows maize, groundnuts and sunflower on a 9 hectare farm, relatively large for the district, of which 4 hectares is devoted to cotton. This is his first season of growing with Cargill; the previous year he was with Clark Cotton Zambia. "Last year, Clark gave us a very bad price. They offered us only 800 kwacha (US$ 0.2) per kg of cotton. We farmers complained and for two months refused to sell all over the area. The government intervened but the companies only raised the price to 850", he told the researcher. "They went back on their promise of a higher price. As a result, some farmers went back to maize since they didn't make any money from cotton, especially the smaller farmers". He added: "Managers come here and say we'll take the matter to our superiors but they never do." It is impossible, Chris told us, for farmers to negotiate a better price with the companies. Farmers the researcher spoke to thought that 2,000 kwacha (US$ 0.5) was the least that they should expect as a fair price; many other farmers believe that much more is needed if they would be able to recoup their loans. Yet most farmers were hoping to receive only 900-1,200 (US$ 0.2-0.3) kwacha this year.

> "These companies don't come here to improve the lives of the farmers. They come here to rip them off and the government doesn't do anything but watch. The government doesn't care about the rural areas. So the people in rural areas will remain poor for a long time. Slowly, the farmers are growing cotton not out of choice but because there is no alternative, we are slowly seeing that other crops can be grown to make money".
>
> *Thousand Phiri, farmer in Vinba village*

Vainness Malanda, a woman farmer of 30 years in Vinba, and a widow with four children, told us that: "It's difficult to protest against the company because our loans for our inputs come from them. If the government provided the fertilizer it would make it easier to get a better price from the companies." Thousand Phiri, another contract cotton farmer, said that "the government should be asked to mediate to raise the price with the companies. If we protest, the companies would say give us back the loan you have with us, so it's difficult to change things".

Some farmers told the researcher they were better off after becoming contract farmers. Lazarus Banda in Sisinje village, 35 km to the north west of Chipata town, told us that last year, despite the very low price, he made 275,000 kwacha (US$ 69) profit from cotton, as a contract farmer with Dunavant, a prominent company in the area. After three years as a contract farmer, he now makes much more than he used to from maize growing. But he adds that "some of the farmers are no better off than before, because of the price. Those people with smaller land don't benefit so much. Those who have bigger land are improving. Those with cattle and livestock are improving, those only using their hands in the field face a problem". Esme Miale, for example, a 55 year old farmer in Sisinje with one hectare said that "I didn't grow cotton this year because of the price last year. I lost some money and made the decision to stop". She grows enough food to last three months of the year – for the rest she works for food in the fields of other farmers. She says that if the cotton price improved, she would go back to growing cotton and be able to earn more money. The District Agricultural Officer told us that "outgrowers are not going to choose to work with the poorest farmers, those on a dollar a day. They won't give money or credit to the poorest".

Farmers also told the researcher of their worries about the use of pesticides included in the packs they buy from the companies at the beginning of the season. Some companies, such as Dunavant, appear to always provide protective clothing such as goggles and gloves for safe use in spraying. But the researcher was told by many farmers that other companies, such Cargill, do not always provide farmers with such protective gear. Chris Kalumba, for example, had just bought a bottle of Delta-X insecticide from Cargill to use on his cotton crop. Warnings on the bottle make clear that protective equipment must be worn in using the insecticide, but no protective gear was supplied by the company as part of this package. "Every year we tell the companies to supply protective gear and gloves but they don't supply", he says, referring to his previous experience as a contract farmer with Clark, which also did not supply protective equipment. Asked what the effects might be of using this insecticide without protection, he replies: "This is very dangerous. It can kill. It causes itchy skin".

Chris and other farmers from Vinba, Sisinje and other villages in the area told us that farmers regularly suffered from itchy skin after using these pesticides. Some had taken to spreading petroleum jelly

***Vainess Malanda, Vinba, Zambia***

**CONTRACT FARMING** is a key outcome of liberalization and almost a third of small farmers in the country are organized in some form of contract farming arrangement, the majority with cotton companies. The World Bank and the government are the key promoters. Bank literature refers to the "partnerships between smallholders and commercial farmers or agro-entrepreneurs" and that "the reason behind the upsurge of contract farming is the appreciation that these arrangements respond to the reciprocal needs of both the agri-businesses and the small-scale farmers". [20]

There have been some benefits to some farmers from the contract farming schemes; the private sector has moved into some areas of surplus agricultural production and has provided loans to farmers to buy inputs, thus raising production. But a recent major study by the Catholic Centre for Justice, Development and Peace (CCJDP) in Lusaka is little short of a complete indictment of the whole system. The study, conducted in four districts in the country, one of which was Chipata, reaches a number of conclusions that are much more consistent with the researcher's findings than the claims of the World Bank:

- Most contract farmers experienced either no change or a worsening of their livelihoods since engaging in contract farming. The main problems experienced were "low prices, unfair input and produce pricing mechanisms, unfair input credit conditions and punitive loan recovery methods".
- "Outgrower company practices such as under-grading and underweighing of farmers' produce contributes to the perpetuation of poverty among outgrowers", while "outgrower schemes have an adverse effect on rural household food security through the diversion of resources from food crop cultivation to cotton and tobacco. Labor and time are the main resources diverted to outgrower crops at the expense of food crops. Food insecurity is exacerbated by the fact that income from outgrower crops typically lasts between three and four months".
- Contract farming has increased gender inequality between women and men since in these schemes women tend to spend more time in the field than men.
- "Outgrowers have no channels of communication through which they can influence decisions regarding outgrower schemes", which is compounded by the lack of a comprehensive government policy on contract farming and the fact that companies are unregulated, there being no government supervision of the operations of the companies at national or local levels.[21]

over their arms as protection. Some villagers told us of chest pains, sneezing and coughing after use. Vainness Malanda had also just bought a bottle of Delta-X. It cost her 61,000 kwacha (US$ 15) together with 500 kg of fertilizer. Asked if she was worried about using it, she replied: "Yes, because I know it burns the skin". Simon Sakara, from Kalonga village near Sisinje, and a cotton grower for Mulungushi had just paid 110,000 kwacha (US$ 28) for seed and pesticide. He told us that the company did not supply protective equipment as part of this package and that neither did Clark, for whom he worked previously. "I wasn't using any protective clothing before when I was working with Clark. I didn't have problems since I was told not to spray when it was very hot or windy". But he had seen other farmers with itchy skin after using pesticides.

To this snapshot of farmers' current experience can be added analysis of the secondary literature on the impact of the reforms.

## 4. THE IMPACT OF THE REFORMS

The 1990s was a lost decade for Zambia. Over the period, the country's growth rate was a mere one per cent; per capita incomes halved from their value in 1975, employment fell by 75,000 affecting the livelihoods of 600,000 people, and high inflation eroded livelihoods. World Bank loans were conditional on "a reckless privatization program that was not adequately monitored for its economic and social effects on the people", in the words of the Zambian NGO, Jesuit Centre for Theological Reflection (JCTR).[22] The UNDP's Deputy Representative in Zambia stated that "Zambia probably has the most liberalized economy in the world. But 30 years into our liberation, we don't have the variety of industries to penetrate other markets, and we were ill-equipped for such a competitive mode. Maybe the government should have done more to care for the people and develop industries other than mining, rather than devoting so much of its resources and energy to free trade".[23]

Most studies suggest deteriorating living standards and conditions for most of Zambia's people over the past two decades. The country was reclassified in 1985 from a low-middle-income country to a low-income country and in 1999 it slipped still further to a least developed country. Per capita GDP was US$ 1,494 in purchasing power parity in 1976, declining to US$ 877 in 2003. The UN noted in 2000 that the average percentage of household income being spent on food was rising, indicating that Zambian households were finding it increasingly difficult to feed themselves.[24]

Some positive changes can be recorded over the reform period. There has been some diversification away from maize into relatively more profitable crops such as beans, groundnuts, sunflower, cassava and sweet potatoes, although maize remains the overwhelmingly dominant crop. Over the 1990s, the area devoted to maize cultivation dropped considerably in some zones of the country: in the Southern and

**CHANGES IN POVERTY**

Government figures show that the percentage of people living in poverty increased from 70 per cent in 1991 to about 74 per cent in 1993, decreased to 69 per cent in 1996 and then rose again to 73 per cent in 1998.[25] Other studies show that while poverty in urban areas has risen over the whole reform period, poverty in rural areas may have declined over the whole reform period, rising from 88 per cent in 1991 to 92 per cent in 1993 but then falling to 83 per cent in 1998 and 74 per cent in 2003. The authors note that that the current rural poverty level may be higher than in the 1970s and 1980s, although data is not available from that period.[26]

Two analyses of the 1990s by the University of Sussex, suggested that poverty in Zambia increased by 16 per cent among those below the poverty line from 1991-8 and that, while poverty reduced in 1996-8, this was not enough to offset the rise over previous years. The rise is explained by deepening poverty in urban areas – in rural areas, poverty levels were slightly lower in 1998 than in 1991. The authors note that the rise in poverty in 1991-1996 was due to "the combined effect of stabilization, subsidy removal and parastatal restructuring". The removal of pan-territorial maize pricing and maize subsidies in urban areas is likely to have benefited maize producers close to the 'line of rail' while harming maize producers in the more remote areas.

The authors also note the "near collapse of maize marketing and fertilizer and credit provision to some rural areas between 1993 and 1995", which is likely to have increased poverty for some. Although rural poverty declined slightly over the period, this was mainly due to gains by medium and large-scale farmers; poverty among small farmers, who are net consumers of maize, rose slightly in the 1991-1996 period, for example.[27] Other studies show that the slight overall decline in rural poverty masks a differentiation in rural areas – in some provinces rural poverty markedly increased over the 1990s.[28]

*Esme Miale, Sisinje, Zambia*

Western provinces, the area devoted to maize dropped from 50 to 37 per cent, while in the Northern provinces, the area dropped from 34 to 24 per cent. In Zambia as a whole, the area devoted to maize cultivation has declined from around 70 per cent of the cropped area in the 1980s to around 55 per cent. Farmers' diversification has come most likely in response to the decline in subsidies on maize production and marketing in the 1990s. The World Bank notes that "a major reason for this decline [in maize production] was the abandonment of the policy of pan-territorial prices and large-scale government procurement, which reduced price incentives for maize cultivation, particularly in more remote areas". It also notes that following liberalization in the 1990s the area cultivated to groundnuts doubled and cotton by 50 per cent.[29]
Some studies also note that that under liberalization, the private sector has quickly moved into areas of surplus agricultural production and that the outgrower schemes are facilitating small-scale production of products such as cotton, sunflower, vegetables and tobacco through provision of agricultural services, such as extension, credit and marketing previously supplied by the government.[30]

However, there is a long list of negative outcomes of the reforms. Most importantly, following the collapse of state institutions previously providing services in the rural areas, studies suggest increasing food insecurity among smallholder farmers, due to poor roads, lack of inputs and the collapse of channels for providing credit. Before liberalization, inputs were delivered to farmers by parastatals despite poor roads; after liberalization, the task fell to private traders to perform the same functions, which depended upon profitability, in turn depending on road conditions and proximity to large centers of consumption. Private sector activity has thus been limited to areas where there are sufficient volumes of production where transaction and transport costs are lower – those farmers benefiting from the outgrower schemes have been limited to a few areas along the 'line of rail', putting many farmers in outlying areas at a disadvantage.[31]
This analysis now considers some of the impacts of the reforms in more detail.

**A WORLD BANK REPORT NOTES OF THE 1990s:** "Liberalization of domestic maize markets benefited consumers in deficit rural areas since it enabled flows of maize grain (formerly banned) to these areas, where it could be milled at low cost at small local hammer mills... Small farmers in remote areas suffered income losses due to the liberalization, however, not only because of the end of high-priced government procurement of maize, but also because of less access to inputs and credit".[32]

## 4.1 OUTPUT AND PRODUCTIVITY

According to the World Bank, from 1990 to 2000, agricultural GDP grew at an average of nearly 4 per cent per year, but this slowed to 1.7 per cent during the 2000s "as a result of a series of droughts, which exposed the sector's vulnerability to external shocks". In the 1980s and 1990s population growth was higher than production increases, whereas in the last decade food production increases have marginally outstripped population growth. The production of the staple, maize, has, however, fluctuated between high and low output over the reform period but has generally been falling over the past decade and has regularly been below national requirements, meaning that large quantities of grain have had to be imported to meet the deficit.[33]

Yields for all crops are very low and declining. The following table shows that the total land area devoted to agricultural production in Zambia has increased since the 1980s, but total output has fluctuated while productivity/yield fell in the 1980s and remained static in the 1990s:
Statistics tend to vary according to the source. Some analysts argue that maize yields are lower than those suggested above, at an average are about 400 kg per hectare. This compares to the potential to produce between 2 and 4 tons per hectare.[34]
According to government figures, smallholder farmers are able to meet only 15 per cent of their maize needs from their own production.[35]

| | 1980-89 | 1990-99 | 2000-04 |
|---|---|---|---|
| Agriculture, total area (000 ha) | 982 | 1,215 | 1,187 |
| Maize production (000 tons) | 1,171 | 986 | 881 |
| Maize yield (tons/ha) | 1.9 | 1.5 | 1.5 |
| Cereals production (000 tons) | 1,243 | 1,137 | 1,041 |
| Cereals yield (tons/ha) | 1.8 | 1.5 | 1.5 |
| Cassava production (000 tons) | 1,340 | 1,324 | 1,271 |
| Cassava yield (tons/ha) | 1.5 | 1.5 | 1.4 |

Source: Carol del Ninno, Paul Dorosh and Kalandhi Subbarao, 'Food aid and food security in the short and long run: Country experience from Asia and sub-Saharan Africa', Social Protection Discussion Paper, World Bank, November 2005, p.73

Recent government figures covering the three years from 2002/03 to 2004/05 show yields falling for all crops – including maize, sorghum, rice, millet, groundnuts and mixed beans – except for one, wheat. Maize yields were 1.04 tons per hectare, a significant fall from the figures outlined above.[36]

### 4.2 ACCESS TO FERTILIZER AND OTHER INPUTS

The number of farmers using fertilizer declined through the 1990s from 31 per cent in 1991 to 22 per cent in 2000. The proportion using hybrid seed declined from 44 per cent to 17 per cent.[37] Exorbitant prices of fertilizer and high interest on loans have resulted in only a minority of farmers being able to afford to use fertilizer on their farms. Now, according to government figures, the largest percentage of farmers applying chemical fertilizer in their maize fields was 27 per cent in Southern province and 23 per cent in Eastern province.[38]

A 2000 World Bank study noted that the removal of all subsidies on maize and fertilizer under structural adjustment led to "stagnation and regression instead of helping Zambia's agricultural sector". Similarly, an UNCTAD study noted that "agricultural credit and marketing by the private sector turned out to be uneven and unpredictable, and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off".[39]

Partly owing to the disastrous adverse impacts of subsidy removal, fertilizer subsidies were recently reintroduced. In 2002 the government officially began implementation of the Poverty Reduction Strategy Paper, involving the Fertilizer Support Program (FSP), noted above in section 3.1. The FSP is managed by the government but implemented by various NGOs and provides subsidized agricultural inputs (whereby farmers pay 40-50 per cent of the price) such as fertilizers and seeds (mostly maize seeds) to small farmers. However, government policy, under donor pressure, has been to consistently scale down the program, and since its introduction the number of recipients has declined. The FSP reached around 150,000 farmers in 2004, declining to 134,000 in 2005.[40] In addition to the FSP, another government program funds the distribution of 'Food Security Packs' by the NGO, Programme Against Malnutrition (PAM). In 2006, these were reaching around 20,000 farmers, a small number which is a consequence of very low levels of funding from the government.[41]

Thus only a small proportion of the 800,000 small farmers are receiving subsidized fertilizer. Its use in Zambia therefore remains very low - nearly half of all the fertilizer used in 2004/05, for example, was by commercial or large-scale farmers owning more than 20 hectares - a small proportion of all farmers. However, fertilizer use has been fairly constant in recent years, which, according to the FAO, means that with the reduction in the number of beneficiaries under the FSP, an increasing number of smallholders may be buying unsubsidized fertilizer.[42] This is, however, likely to be the better-off farmers.

There are also a number of problems with the implementation of the current subsidy program. A major study of smallholders' views of the FSP by the Zambian NGO network, Civil Society for Poverty Reduction, concludes that it has had very little positive impact on food security and poverty reduction. The major problems include: the inadequate supply of farm inputs; delays in their supply; high input prices; few buyers and poor transport facilities. The study also notes that while farmers felt that the FSP was critical for increasing maize production, the amount provided per household was not adequate to make any meaningful contribution to maize yields.[43] There are also concerns about the government subsidy program deterring more private traders entering the market and the crowding-out effect that even this limited program has on the development of competitive markets. While the 'food security' packs are targeted at the poorest farmers, the beneficiaries of the FSP are likely to be the better-off farmers – those who can afford to pay the subsidized price. Also, many interviewees told the researcher that many of the beneficiaries were chosen for their political affiliation and to maintain support for the government.

Cheap rural credit for poor farmers is non-existent while this lack of sufficient use of fertilizer is having a direct impact on hunger. The low productivity of Zambian farmers, noted above, is partly due to the low and reduced use of fertilizer, as well as often poor agricultural practices, declining soil fertility and unpredictable weather.

### 4.3 AGRICULTURAL MARKETS AND PRICES

The impact of the economic reforms on agricultural marketing has been similar in Zambia as in Malawi, with the decline of the state's role in the rural areas and the setting of most prices through the market leaving many poor farmers more vulnerable. As the researcher's visits to farmers showed, poor farmers are often at the mercy of exploitative private traders offering low prices when it comes to selling their produce: they lack bargaining power to negotiate higher prices and there is pressure to sell quickly after harvest when prices are lowest, which is caused by inadequate storage facilities and few alternative sources of income. Poor roads in the more remote areas also constrain the ability of private traders to offer inputs such as fertilizers at affordable prices. The private sector has generally failed to move into the less profitable rural areas to provide services previously provided by the state.

Poor people spend most of their money on food – the poorest third of the rural population spends 77 per cent of its budget on food, most of which goes on maize.[44] Prices have been liberalized in Zambia and are generally set by the market, the main exception being maize. In 1995, the government established the Food Reserve Agency (FRA) to purchase maize from small farmers around the country at favorable prices and to attempt to stabilize market prices through sales of maize to selected maize mills at below market prices. In 2003, for example, the FRA is believed to have purchased around 34 per cent of the country's domestically marketed maize.[45] The government notes that in 2005, the FRA purchased 84,000 tons of maize at a total cost of 73 billion kwacha (US$ 18.2 million), which was aimed at building the country's national strategic food reserves to a targeted 120,000 tons. Other crops purchased included rice, cassava, groundnuts and soya beans.[46] However, government purchases are seriously limited by the funding available. The combination of exploitative private traders in rural areas alongside limited government intervention produces a vicious circle - since FRA purchases do not occur in some rural areas, and therefore the minimum price that it sets is defunct in reality, private traders come to the rural areas, buy at a low price and sell at much higher prices elsewhere. Some of the private traders will buy from farmers and then sell to the FRA itself for a higher price, which then in turn sells back to farmers.

### 4.4 GOVERNMENT SPENDING AND EXTENSION SERVICES

Extension services provided to farmers have reduced over the reform period due to the lack of personnel, compounded by the failure of government to offer good salaries to trained extension officers, who have thus moved elsewhere.[47] One estimate is that only around a third of rural farmers get some kind of extension support from government services.[48] Even this may be an overestimate; in some areas extension services have become non-existent with most of the poorest farmers, such as female-headed farming households, unlikely to be in touch with extension officials. Even in areas where there are extension officers, they often lack the necessary transportation to visit farmers.

The World Bank has noted:
**"Following the economic reforms of the early 1990s, the government discontinued its heavy involvement in the sector. Declining government role and budget for agriculture has led to the deterioration of service delivery by public sector [sic]. Investments in staff development, provision of necessary facilities and equipment have basically ceased, while budget resources for operational purposes have reached the bare minimum. This has hurt most smallholder farmers who were ill-prepared to exploit the emerging market opportunities or address the issues that come with market liberalization".[49]**

Given the Bank's role in cutting public expenditure as a condition of loans in the 1990s, such a comment is quite audacious. The Bank also states that "declining government funding of agriculture will imply that growth in agriculture will increasingly rely on private extension and advisory services and private financing of infrastructure development".[50] This can hardly be assured, however, to put it mildly. In 2005, the government allocated 352 billion kwacha (US$ 88 million) to agriculture – amounting to only 5 per cent of the budget, despite being the fourth highest spending category (after education, health and transport). [51]

Government spending on agriculture is not especially targeted at small-scale farmers and most commentators regard governments as having neglected rural areas. Only 4 per cent of government spending on agriculture is allocated to agricultural research, and of that, three-quarters goes towards salaries and wages.[52] Some have observed that as little as 18 per cent of total spending on agriculture is actually spent on development projects.[53] As one NGO notes, as well as a lack of adequate agricultural policies, government programs do not adequately support innovative programs dealing with restocking of animals, soil erosion management, small-scale irrigation, crop diversification, seed grain banks, savings and credit schemes or reforestation.[54]

One particular outcome of the collapse in government extension services has been the increasing outbreak of diseases among livestock. The veterinary services were privatized in the early 1990s but have not been successful, as evidenced in the high livestock mortality rate, especially among smallholder farmers. In 1996-1997 the total cattle population halved from 5.5 million to 2.7 million animals due to frequent outbreaks of contagious diseases, which had a major impact on food production and family assets. An extensive program of animal vaccination increased the cattle population to 2.9 million in 1999.[55] In Chipata district, where the researcher visited, many cattle had recently died from diseases such as East Coast fever and Foot & Mouth disease, which resulted from lack of dipping after the government policy of free provision of dipping services was changed to one where farmers are required to meet the costs of maintaining the health of cattle themselves. This has increased hunger in the district since the loss of cattle reduced crop production and increased women's workload by reducing the use of animal draught power, as well as reducing the quantity of nutritional milk and occasional beef that some households enjoyed.[56]

*Cathrine Banda and Tisuleko Combe, Sisinje, Zambia*

### 4.5 TRADE AND EXPORTS

Since 1992 Zambia has implemented a range of trade liberalization measures, involving a reduction in import duties and charges, the elimination of quantitative restrictions, the reduction of trade tariffs by 60 per cent early in the economic reform program and a simplification of the tariff regime. These measures were implemented as part of structural adjustment programs and went further in opening Zambia's borders than its obligations under World Trade Organization agreements. The major reduction in tariffs occurred in 1993, for example, before the WTO was established the following year, under a World Bank facility, while most tariff reductions were completed by 1996. Zambia now has one of the most liberal trading regimes in Africa.[57]

At the same time, Zambia's overall trade performance has been poor as reflected in the rapid growth in imports compared to exports, presenting the country with balance of payments problems. Zambia's export earnings continue to be low as a result of the narrow export base and reliance on a few products, poor terms of trade and market access restrictions in developed countries as well as subsidies, for example on cotton, which depress world prices. During the 1990s a massive drop in output from the mining sector, together with copper price declines, devastated the industry, contributing to increasing poverty. However, according to the World Bank, agricultural exports have increased over the period 1995-2004, averaging 22 per cent, led mainly by cotton and vegetable exports.[58]

Zambia faces the perennial developing country problem of import surges, not just from rich countries but from regional trade partners. Goods from South Africa dominate the wholesale retail and wholesale sectors, not only in the urbanized areas of Lusaka and the Copperbelt but also in the capitals of the outlying provinces. This means it is difficult for local production of, for example, red palm oil from Luapula province and beef from Western province to compete with imports, which are often subsidized.[59] As well as competing with cheap, sometimes subsidized imports, domestic producers have also suffered as a result of the decline in input subsidies, which has made many of them less competitive in domestic markets.

A particular fear is that Zambia, like the other two countries in this study and most other African countries, will lose still further as a result of free trade Economic Partnership Agreements (EPAs) being negotiated with the EU. The African Union estimates that Zambia will lose US$ 16 million from EPAs, mainly from reductions in import taxes, which provide around 30 per cent of total government revenue. Most of the trade creation will accrue to EU companies, and not Zambia, which will face increasing competition from EU exporters.[60]

## 5. THE HUMAN COSTS OF THE REFORMS

Hunger and food insecurity contribute to malnutrition. As noted above, according to the FAO, over 5 million people, nearly half the population, are undernourished.[61] Half of Zambia's children under five are malnourished, over a quarter are underweight and half are stunted (low height for age). Between 1991 and 2002/03 the proportion of stunted children increased from 40 to 49 per cent, the proportion of underweight children rose slightly over this period, while that of wasted children (low weight for height) decreased slightly from 7 to 5 per cent. Low birth weight is also an indicator of poor maternal nutrition before and during pregnancy – over 10 per cent of children born in Zambia have a low birth weight while around the same percentage of Zambian mothers of children under 3 are malnourished.[62]

> **"As shown throughout this literature review the provinces where malnutrition has been highest are the outlying provinces. These are the least developed provinces with the poorest infrastructure and distant facilities such as health services and markets. With the exception of the Eastern province, the non-line of rail provinces are not the major maize producing areas. Thus they have not benefited from government support of maize production, and associated spin-off benefits to the same extent as the line of rail provinces".**
>
> *Care* [65]

Eastern province, which the researcher visited, has one of the highest malnutrition rates in Zambia – over half of all children aged between 3 and 59 months are stunted.[63] This proportion increased over the reform period from 48 per cent in 1992 to 59 per cent by 2000.[64]
A recent World Bank report notes that total calorie consumption has been decreasing since 1980, largely because of the decline in domestic maize production and consumption. Total calorie consumption fell from 2,200 calories per person per day in the 1980s to less than 1,900 in 2001.[66]

The problem is compounded by the health facilities that are no longer available to address people's health needs. A study for Care, for example, notes that the collapse of the state's role in the more remote rural areas has left a gap where health services have become dependent on donors and mobile campaigns to provide preventative services such as immunization and Vitamin A supplementation.[67]

## 6. THE PROBLEM OF PARTIAL LIBERALIZATION – THE MIX OF GOVERNMENT AND WORLD BANK POLICIES

As noted above, Zambian agricultural policy is not fully liberalized, with the government retaining a role in providing subsidized fertilizer and in maize marketing. Zambia runs the risk of having the worst of two worlds: that government intervention is not enough to really benefit the poor, but that it is sufficient to crowd out badly needed growth in private sector development. Much of the analysis in this section in the Malawi chapter also applies to Zambia.

The government's interventionary roles reduce private sector confidence in providing commercial services in those areas. Fertilizer subsidies may well be critical to raising agricultural productivity on small plots but they need to be part of a clear and well-implemented strategy – if not, not only will private suppliers not enter the market, but farmers will also be hindered in diversifying away from maize, by the fact of continuing subsidies on fertilizer for maize. The government's involvement in fertilizer distribution has been widely seen as going beyond its core business of managing the country's grain stocks and gradually as assuming the much larger role of NAMBOARD. Commenting on the FRA's role in managing the strategic grain reserve, an ODI analysis notes that:

"The existence of the FRA deters the development of the private trade, which, if left to operate in a market, in which there was no government intervention, would have the incentive, and probably the capacity, to import whatever maize and other foodstuffs are necessary to meet domestic demand. Thus the FRA's activities tend to perpetuate the problem for which it was seen as a temporary solution. The only

justification for the existence of the FRA would be if there were a genuine instrument for market stabilization, withdrawing maize from the market at times of surplus and pumping grain into the market at times of deficit. However, such a role is necessarily loss making and requires a high degree of management skill. Thus, it is not a suitable activity for the Zambian government now".[68]

> "The farmer is the poorest man, the lowest of all, and we feed the government, but they don't care. He can cry but they don't care".
>
> *Farmer in Vinba village, Chipata district*

Government intervention can merely be a euphemism for political patronage in systems that lack transparency and accountability, including when it comes to the Zambian government's involvement in the distribution of fertilizer. MMD party agents were appointed as distributors of fertilizer before the 2001 elections and in 2003 one study notes that one hundred 50 kg bags of fertilizer were distributed to every chief in Southern province "because they should not need to stand in a queue for relief maize, like everyone else".[69]
NGOs have noted Zambian governments' "colossal lack of political will to distribute the limited resources of the country" towards the poor majority.[70] Various government commitments on food security have been made in recent years, in an array of documents agreed with donors, such as the Poverty Reduction Strategy Paper, the Agricultural Sector Investment Program (1996-2001), its successor the Agriculture Commercialization Program (2002-05), and the National Agricultural Policy - yet for many years Zambia had no explicit written policy on food and nutrition and the National Food and Nutrition Policy was only approved in 2005.

Where policies do exist, there is a wide gap between them and actual implementation. Good policies on paper therefore invariably suffer from poor implementation or insufficient funding. Some analyses suggest that the main institutional weakness is over-centralized decision-making and a reluctance to decentralize responsibility for planning and resources to district and community level. Budget formulation is centralized and the flow of resources to communities is very low. The government has recently made greater efforts to involve farmers' organizations in discussions on policy formulation and implementation – but the voice of farmers is still marginal in decision-making. Rather than championing a critical role for civil society in national debates, the government has also at times been very hostile to NGOs advocating pro-poor policies.[71]

Thus Zambia suffers from a 'neo-patrimonial' policy environment similar to that seen in Malawi. First, policy dualism ensures that declarations are made, for example in response to donor conditionality, which the government has little intention of adhering to; second, sincere policy declarations are constrained either by the budget or unforeseen political circumstances; and third, policies tend to be reactive rather than long-term or strategic, made in response to particular crises or opportunities, rather than in the interests of pro-poor growth.[72]

## 7. CONCLUSIONS

The major impacts of the reforms, under Zambia's 'partial liberalization' experience, can be summarized as follows:

- Overall, Zambia has experienced generally low growth and declining per capita incomes over the reform period, with urban unemployment and poverty increasing in the 1990s before falling over the last 10 years, but only to levels similar to the 1980s.

- Food production has outstripped population growth in the last decade but maize production has generally been falling. There has been some diversification away from maize towards other crops and the outgrowers scheme has resulted in some production increases. Yet productivity has been steadily decreasing for nearly all crops.

- Use of fertilizer by small-scale farmers has declined from around a third to around a quarter over the reform period, while those using seed and declined even more. Subsidy programs reach only a small number of farmers and suffer from problems, such as crowding out private sector suppliers and reinforcing political patronage.

- The reduction of the state's role in agriculture has deprived many farmers of access to markets and made farmers prey to exploitative private traders offering low prices for their produce. Government maize buying and price setting is critical for some farmers yet it has crowded out the development of private traders.

- Government extension services have been cut back to the extent that only a small proportion of farmers are helped while services are non-existent in some areas. The privatization of veterinary services contributed to an increase in the number of livestock deaths. Government spending on agriculture is poorly targeted at small farmers.

- Trade performance under liberalization has been poor overall, with imports rising faster than exports, although agricultural exports have grown in the past decade. Zambia remains vulnerable to falls in world commodity prices due to major continuing dependence on a few exports and also to import surges from regional trade partners, especially South Africa.

The human costs of the reforms can be measured by the impact on people's health, and the rising levels of stunting, a sign of malnutrition, among children.

Zambia is quite capable of growing enough food to feed its population. The problem is that the poor are too poor to buy food and that farmers do not have access to adequate inputs to raise their productivity. Agricultural policy in Zambia – of the government and the World Bank - is geared more to the better-off farmers than the majority of vulnerable, hungry smallholders. Governments have taken only minimal steps to develop competitive markets that might deliver inputs to farmers at lower prices while the poorest farmers are bypassed both by very limited fertilizer subsidies – since they cannot afford them – and the promotion of contract farming, which is geared towards the better-off farmers. With massively reduced extension services – not to mention poor health care and limited access to safe water, especially in the more remote areas – farmers have been left to themselves, perhaps to go to the wall, as a matter of policy.

# References

[1]FAO/WFP, Special report: FAO/WFP crop and food supply assessment mission to Zambia, FAO, 24 June 2005, p.3; Government of Zambia, Central Statistical Office (CSO), Living conditions monitoring survey report, 2002-2003, Lusaka, p.125; DanChurch Aid (DCA), 'Zambia: Food security programme document, January 2006-December 2010', October 2005, p.27
[2]FAO, 'Food security statistics – Zambia', www.fao.org
[3]CSO, p.124; DCA, p.32
[4]DCA, p.23
[5]FAO/WFP, p.1
[6]FAO/WFP, p.4
[7]FAO/WFP, p.23
[8]CSO, p.124
[9]FAO/WFP, p.17
[10]DCA, p.26
[11]Carol del Ninno, Paul Dorosh and Kalandhi Subbarao, 'Food aid and food security in the short and long run: Country experience from Asia and sub-Saharan Africa', Social Protection Discussion Paper, World Bank, November 2005, p.73
[12]World Bank, Zambia Country Assistance Strategy, 9 March 2004, p.13
[13]World Development Movement (WDM), Zambia: Condemned to debt – How the IMF and World Bank have undermined development, WDM, London, 2003, p.10
[14]WB, 'Zambia – Country brief', www.worldbank.org
[15]Interviews in Lusaka
[16]Interviews in Lusaka
[17]Lutheran World Federation (LWF), 'Food security and livelihoods: Zambia, Eastern province', December 2005, p.5
[18]CSO, p.124
[19]CSO, p.124
[20]World Bank, 'Project Information Document: Agricultural development support program', November 2005, www.worldbank.org
[21]Catholic Centre for Justice, Development and Peace (CCJDP), Growing poverty: The impact of outgrower schemes on poverty in Zambia, Lusaka, November 2005, pp.viii-ix
[22]JCTR Policy Brief, Zambia's experience with HIPC, 2004, p.4
[23]Cited in WDM, p.30
[24]DCA, p.10
[25]Care, Changing landscapes and the outliers: Macro and micro factors influencing livelihood trends in Zambia over the last thirty years – Literature review, care, May 2003, p.35
[26]Jayne et al, 'Trends in agricultural and rural development indicators in Zambia', 24 August 2006, unpaginated
[27]Julie Litchfield and Neil McCulloch, 'Poverty in Zambia: Assessing the impacts of trade liberalization in the 1990s', University of Sussex, Poverty Research Unit, January 2003; Neil McCulloch, Bob Baulch and Milasoa Cherel-Robson, 'Poverty, inequality and growth in Zambia in the 1990s', Institute of Development Studies, Sussex, September 2000
[28]Care, p.5
[29]Care, p.26; Ninno et al, p.73
[30]ODI, 'Zambia food security issues paper', ODI, London, 2003, p.21
[31]ODI, pp.21-3
[32]Ninno et al, p.76
[33]FAO; World Bank, ibid
[34]DCA, p.15
[35]DCA, p.16
[36]Government of Zambia, Ministry of Finance and National Planning (MFNP), Economic Report 2005, March 2006, p.31
[37]ODI, p.45
[38]DCA, pp.16-17
[39]Cited in WDM, p.8
[40]Figures vary on the number of recipients. See Civil Society for Poverty Reduction (CSPR), Targeting small scale farmers in the implementation of Zambia's poverty reduction strategy paper (PRSP): An assessment of the implementation and effectivness of the Fertilizer Support Programme, CSPR, Lusaka, May 2005, p.10; FAO/WFP, p.5
[41]Interviews in Lusaka
[42]FAO/WFP, p.8
[43]See CSPR, passim
[44]Ninno et al, p.81
[45]Jayne et al, unpaginated
[46]Government of Zambia, p.32

[47]DCA, p.35
[48]Interviews with NGOs in Lusaka
[49]World Bank, ibid
[50]World Bank, ibid
[51]MFNP, p.18
[52]Jayne et al, unpaginated
[53]Simon Mwamba, 'Zambia's agricultural policy: Does it cater for small farmers?', Ground Up, Vol.2, No.15, Lusaka, June 2006, p.5
[54]DCA, p.10
[55]ODI, p.46
[56]LWF, p.6
[57]Dale Mudenda, 'Zambia's trade situation: Implications for debt and poverty reduction', JCTR, Lusaka, p.8; WDM, p.31
[58]FAO; World Bank, ibid
[59]Care, p.40
[60]See Mudenda, pp.22-3
[61]FAO, 'Food security statistics – Zambia', www.fao.org
[62]DCA, pp.28, 29, 34
[63]LWF, p.6
[64]Care, p.6
[65]Care, p.50
[66]Ninno et al, p.80
[67]Care, pp.5-6
[68]ODI, pp.23, 52-3
[69]Care, p.4
[70]DCA, p.9
[71]DCA, p.13
[72]Care, p.42

▶ APRODEV PROJECT:
THE IMPACT OF ECONOMIC LIBERALIZATION ON HUNGER-PRONE PEOPLE:

# ETHIOPIA CASE STUDY:

CONTENTS

# 1. INTRODUCTION

## POVERTY AND HUNGER IN ETHIOPIA

*Amhara region, Ethiopia*

Around 44 per cent of Ethiopia's population of 70 million lives in poverty while average life expectancy is only 42 years. The country faces constant food insecurity and emergency food aid has become a routine need. Major famines have occurred in 1973 (causing 250,000 deaths), 1984 (causing over one million deaths) and 2003 (when a fifth of the population required emergency food aid). Currently, the UN's Food and Agricultural Organization (FAO) notes that 6-13 million people risk starvation every year[1], while the World Bank counts 7-8 million people as chronically food insecure (meaning they cannot feed themselves for more than six months even in a year when drought does not occur)[2]

Over 2 million people were in need of immediate humanitarian assistance throughout 2006, most pastoralists in the Somali region in the remote south-east of the country.[3] Pre-famine conditions were being reported, involving widespread human and livestock distress migrations, deterioration of livestock body conditions and cases of livestock deaths. In February 2006, the FAO and the World Food Programme (WFP) were reporting that 2.6 million "acutely food insecure people" required emergency food assistance and 7.2 million "chronically food insecure people" required food assistance through the government's safety net program. Those most in need were vulnerable crop-dependent farmers or livestock-dependent pastoralists affected by acute shocks such as below normal or erratic rainfall. This was "despite the good harvest" and "the expected good domestic grain production in Ethiopia", according to the FAO and WFP.[4] The FAO and WFP note:

> **"The causes of poverty are of a multidimensional nature. The most important factors include sub-optimal levels of agricultural technology, high population growth rates and underdeveloped rural infrastructure. The low level of agricultural technology is characterized by low use of fertilizers, high-yielding crop varieties and irrigation systems. Recurrent drought and the accompanying degradation of the natural resource base and political instability as well as wars have contributed to the persistence of poverty and frequency of food insecurity in Ethiopia."[5]**

The World Bank notes that fertilizer use in Ethiopia is the lowest in sub-Saharan Africa while only 1 per cent of arable land is irrigated.[6]

An increasing number of households have become dependent on small and unproductive plots, thus becoming more vulnerable to the vagaries of unpredictable rainfall. In the southern highlands, for example, average farmland per household has decreased to less than a quarter of a hectare. Between 1960 and 1990 the population doubled from 23 to 48 million while per capita landholding shrunk from 0.28 to 0.10 hectares and per capita food output collapsed by 41 per cent from 240 to 142 kg.[7] Most households are too poor to leave land fallow or to invest in it, leading to a progressive deterioration of their asset base.

Due to increasing human and livestock population pressure, large areas of the country, especially in the northern and central highlands, are exposed to loss of soil fertility and degradation. A recent study suggested that of the 54 million hectares of land in the highland areas, 29 million hectares were either seriously or moderately degraded or had soil cover too shallow to cultivate crops.[8] Another study sampling farmers across the country showed that 39 per cent identified land degradation as a problem – of whom 59 per cent identified soil erosion as the major cause.[9] Yet every year Ethiopia

needs to produce an extra 750,000 tons of food to keep pace with population growth.[10]

84 per cent of Ethiopians live in rural areas and the economy is dominated by agriculture, which accounts for half of GDP and 80 per cent of export earnings. The country comprises three distinct regions: the agriculturally productive areas, mainly in the western and southern parts of the country, where farm output has recently risen due to productivity gains and increases in the area cultivated; and the highland areas, mainly in the north, and the large pastoralist areas of the southeast, both where productivity appears to be declining due to environmental degradation and population pressure. The main crops grown in the semi-temperate climate of the middle lands are teff, wheat, barley and maize, with more barley and enset grown in the highlands and more sorghum, maize and sesame grown in the lowlands. Coffee is the main cash and export crop while livestock is integrated into the farming systems of the highland areas and is raised in the lowland areas in pastoral and agro-pastoral systems. Ethiopia has the largest livestock population in Africa.

## 2. LIBERALIZATION, THE GOVERNMENT AND THE WORLD BANK

Ethiopia's economic reforms began with a structural adjustment program (SAP) under the auspices of the World Bank and IMF in 1992 following the end of the civil war and the change of government in 1991. These policies were essentially continued by the government led by the EPRDF (the Ethiopian Peoples' Revolutionary Democratic Front) after its election in 1995. The macro-economic reforms have included: devaluation of the currency; the maintenance of tight fiscal and monetary policy; trade liberalization; elimination of price controls on all products (except prices of petroleum and petroleum products); privatization of state-owned retail shops and stores (around 200 enterprises have been privatized since 1994); and labor market liberalization.

These reforms reversed the previous agricultural policies of the Derg regime of Mengistu Haile Mariam (1974-91). Agricultural strategy then involved nationalization of private and commercial farms, the prohibition of private investment in agriculture, the banning of private traders from grain trading and restrictions on the free movement of grain in the country, the forced collectivization of peasants into producer and service cooperatives, government control of all agricultural markets, forced villageization and forced food grain deliveries to the state's Agricultural Marketing Corporation (AMC) at predetermined low prices.

Under the reform program of the 1990s, these policies were abolished:

- restrictions were lifted on private sector participation in grain movements;
- price controls on agricultural commodities (pan-territorial pricing) were eliminated;
- the quota system of grain delivery was dismantled;
- state-owned farms were privatized;
- subsidies on fertilizer were removed (in 1997) and the fertilizer market liberalized (allowing private traders to engage in fertilizer supply alongside the cooperatives and the state).

Following the SAP in 1992, an enhanced SAP (ESAP) was introduced in 1996, intended to increase economic growth, lower inflation, and further liberalize the economy and investment climate. A Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF was approved in 2001 while in July 2002, the Ethiopian government finalized its Poverty Reduction Strategy Paper (PRSP).

The World Bank has thus been driving the liberalization of the Ethiopian economy, seeking to "to build a free market economic system" and focused on "efforts to support free enterprise, innovation and entrepreneurship".[11] Bank funding to Ethiopia, as outlined in its current Interim Country Assistance Strategy document: "reflects the necessity of continued investments to support long-term economic growth and recognizes the importance of good governance in promoting economic growth by raising investor confidence and promoting free enterprise, building infrastructure rapidly, improving the provision of critical basic services for poor people, managing vulnerabilities, and preserving the potential for scaling up of ODA by protecting institutional capital".[12]

In agriculture, the Bank is focused on supporting the government's transition towards "small-scale market oriented agriculture", including "modernizing the research and extension system and making it demand-driven...; improving competition and increasing efficiency in agricultural input and output markets; improving the rural credit system; improving irrigation and water management; ensuring land tenure security; creating a conducive environment for commercial agriculture; and reducing the vulnerability of families living in regions prone to drought".[13]

The ICAS, drawn up in May 2006, proposed lending Ethiopia US$ 491 million in 2006 and between US$ 400-550 million in 2007, depending on "government performance in implementing" its plans "particularly in respect to governance".[14] In November 2005 the Donor Assistance Group of international donors, chaired by the Bank, cut off direct budget support to the Ethiopian government and said it would reduce aid over time if governance did not improve, in protest at the government's clampdown on opposition following the elections in May. When donors met again in March 2006, they also stressed that aid volume "will depend on Ethiopia's progress on governance".[15]

Ethiopia has only partly liberalized its agricultural sector (and economy). The fertilizer market, for example, is currently far from liberalized in practice and is controlled by government-backed organizations (see section 4.2 below). Also, although prices are set principally by market forces, the government does intervene to purchase grain in times of surplus to support prices, which can have a significant effect on the market. The World Bank notes that:

> **"The last several years have seen a number of improvements in the investment climate – in land, tax administration and business regulation procedures. However, Ethiopia is still in transition from a system in which the state was heavily involved in almost all production and distribution activities, and there remains a heavy influence of the state and political parties in the market. Key sectors which greatly influence the productivity of business – wholesale and retail trade, banking, communications and transportation – are closed to foreign investment or dominated by state firms".[16]**

Official documents reveal an uneasy mismatch between government and donor strategies. The Bank's public documents

clearly outline a push for further liberalization and stress supporting the government's commitment to the "commercialization of agriculture". Yet government documents tend to stress the importance of a continuing state role in agriculture. For example, the current PRSP, drawn up in 2002, notes the government's commitment to "the transition to the market-based agricultural system" but also a variety of roles the government will continue to play in agriculture, notably that "parastatal business enterprises are expected to play significant roles in stabilizing prices as well as reaching farmers who are far from agricultural input market [sic]". The document also stresses the role of the (government-backed) farming cooperatives that "play key roles in reducing the time required for trade transactions and cutting marketing costs, thereby creating an efficient agricultural marketing structure" and that "also render vital services" such as providing financial and social services in rural areas and purchasing agricultural machinery and leasing it to farmers.[17]

Compare this to the Bank's ICAS, which states that:

> **"Progress in freeing up agricultural markets and reducing transaction costs has to date been hampered by centralized control of key markets (e.g. for fertilizer) and preference for quasi-official cooperatives. A greater focus on the private sector, incentives for FDI in agriculture and competitive markets would improve the growth orientation, with the main priority in this regard being the need to build private seed and fertilizer markets and develop small towns and growth corridors in rural areas as centers of activity and employment".[18]**

The government has a range of agricultural strategies in place. Its flagship strategy – ADLI, or Agriculture Development-led Industrialization, introduced in 1994 - sees agriculture as the engine of growth and industrialization through its effects on demand for industrial goods, the supply of raw materials and exports, and forms the basis of the PRSP. ADLI aims to promote the adoption of improved technological inputs and practices in order to raise agricultural productivity and generate savings for investment in other sectors. Its main features include the provision of inputs to peasants, promotion of small-scale irrigation, improved livestock herds, grain marketing efficiency, promotion of farmers' organizations and women's participation in agriculture, and expanding rural roads.[19]

An important part of the ADLI strategy is the Participatory Demonstration and Training Extension System (PADETES) whose main component has been to disseminate modern farm inputs such as fertilizers, improved seeds and modern farming practices to smallholders. Beginning in 1994 with a pilot reaching 32,000 farmers, the program expanded to reach 2.8 million farming families by 1999 and four million by 2001, according to government figures.[20] Substantial resources have been allocated by the government to this system, with support of multilateral and bilateral donors, including the World Bank which is supporting the program's future extension.[21]

The government's Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) represents the second phase of the Poverty Reduction Strategy process begun in 2000, and focuses on improved crop production and productivity and increased access to other non-farm income sources through agricultural and non-agricultural activities.[22] 2005 saw the beginning of the Productive Safety Net Program (PSNP) in which the needs of chronically food insecure households in bridging income gaps are being addressed through multi-annual resource transfers (cash or food) in exchange for participation in community based asset building. This switch from direct food aid to cash aid is intended to stimulate the development of local markets and enable internal trading between surplus and deficit areas while intended to improve the efficiency and productivity of transfers to food insecure households.[23]

## 3. THE PLIGHT OF FARMERS IN ETHIOPIA: FINDINGS FROM THE FIELD

The researcher visited North Wollo zone in November 2006, conducting semi-structured interviews with a random selection of smallholders. Located in Amhara region, North Wollo lies around 700 km north of Addis, mainly a highland region where farmers practice rain-fed agriculture, principally of crops such as teff, barley and wheat. Around half of the woredas (districts) in the zone are classified as food deficit and in some people go hungry for 6-9 months of the year. The official poverty headcount for North Wollo is 60 per cent. Ninety per cent of the population in the zone lives in rural areas, many of which are remote from towns and markets with poor main roads (though road building is everywhere to be seen) and even fewer feeder roads.

Mesven Tadesse and Daniel Kuma[24] are two wheat and barley farmers who each work a very small plot – around a third of a hectare – near the town of Bilbala. They do not use fertilizer since there is not enough rain for it to take effect; neither do they use improved seeds. When asked how their yields perform each year, they replied: "Down, down, down. The land is getting worse every year". Both farmers – one who is around 50, the other around 25 - fail to produce a surplus for sale in the market and cannot produce enough from their land to feed their families; every February, both their families go hungry and are forced to cut out some meals, sometimes eating twice, sometimes only once, a day. At these times, Mesven and Daniel

***Mesven Tadesse and Daniel Kuma.***
*(The names have been changed to protect peoples identities)*

know of other farmers who can get work in the safety net program but neither of them is enrolled in this program; last year, they had to sell a cow to earn enough money to buy food.[25]

A similar story was repeated among other farmers the researcher spoke to. When the food runs out many farmers look for work (which is hard to come by, especially for those far away from towns) or are forced to sell their assets, such as livestock. As for the problem of land degradation, the farmers interviewed said either that yields vary from year to year, depending on the rains, or that productivity is decreasing year by year. The prevalence of poor quality land through soil erosion is visible all around and can be seen in numerous parts of the zone.

The overwhelming majority of farmers the researcher interviewed did not use fertilizer or improved seeds, with high prices and insufficient moisture being the major reasons for this. Farmers said that under the government's agricultural extension program, fertilizer was available at a cost of 370-380 Birr (US$ 43) which they can receive on credit at a 12.5 per cent interest rate, a rate simply too high for many farmers.

> "Very few farmers in my area use fertilizer because they can't afford it. But if they use fertilizer, what they get from the land is worth less than what they pay in interest. Most of the farmers who have irrigation want fertilizer very badly but they want to buy small amounts of fertilizer for small amounts of money".
>
> *Government development agent, North Wollo district*

The government's claim that everyone who wants fertilizer or credit receives it, is contradicted by what farmers told the researcher. Getachew Abebe, a 35 year old farmer of barley and peas near the town of Ahuntegen told us that if he could afford fertilizer and seeds, he would use them on his plot: "In the past, I spent 70 Birr to use it [fertilizer] on a quarter of my land". Now, he can't afford either fertilizer or seed.[26]

Only a tiny proportion of farmers in the zone (or indeed in the country) have any irrigation on their land – and what does exist tends to be rudimentary. However, the researcher spoke to several farmers who did irrigate their land, and who would benefit from fertilizer, but who could still not afford to buy any or enough of it. Mulualem Girma, a 50 year old farmer of beans, teff and chickpeas, works two plots, each of one hectare, near the town of Gashene. As he was diverting a stream coming down a nearby mountain into gullies ploughed in one of his plots, he told us that his land is fairly well irrigated and that using fertilizer does make a difference to his output but that he can only afford to use a little. He recently paid 10 Birr (US$ 1.10) for 3 kg, and also buys a little seed – 3 kg of barely seed for 13 Birr (US$ 1.50). "The cost is quite a burden", he told us. "In the 2003 drought, I was hit hard, lost money and had to sell. We've been asking the government to reduce the price of fertilizers, but they haven't". He also told us: "We hardly eat even twice a day. We don't know what to call three meals a day. Everyone around here is hungry; they have hardly enough for six months". Even now – when the harvest was good - he still could not produce enough and is getting less and less from the land every year.[27]

*Mulualem Girma, Ethiopia*

Fantabil Kebede, a farmer aged 55, works on a half a hectare plot near Lalibela town farming wheat and barley. He is unusual in being one of the few farmers the researcher spoke to (indeed, throughout Ethiopia) buying improved seeds on credit, although he does not use fertilizer. The teff seeds cost him 13 Birr (US$ 1.50) for 3kg. He told us that: "This is very expensive and it's hard to afford. It is not enough. I need four times as much". He told us that he normally grows enough food for the family for seven months each year, and that they go hungry for the other five. Under the safety net program, he can earn 6 Birr (US$ 0.70) per day or else receive 15 kg of grain per month. His daughter Tringo, 18, is one of his three children at school. "My life is now only my children and sending them to the school for their future. They are my social security for my future".[28]

The government's safety program is clearly a lifeline for many of the poorest farmers in this area who are food deficit and cannot feed themselves for the whole year (nearly 10 million Ethiopians are beneficiaries of the safety net program or food aid). The 6 Birr per day provided is usually in exchange for a day's work on public projects such as terracing or planting; though a small number receive it for free. In one town that the researcher visited, 2,500 people out of a population of 7,000 were supported by the safety net program – 15 per cent of whom were paid for free while 85 per cent received cash for work. In another area, we were told that of a population of 4,000, only 1,000 were supported by safety nets. In one woreda between Sekota and Lalibela, officials said that around one third of the 100,000 population were supported in the safety net program. Many people are on quotas, meaning they can only access the daily rate for a maximum of ten days per month. The researcher spoke to several farmers who were food deficit and yet received no safety net – the safety net program does not appear to cover all even of the poorest families.

One beneficiary of the safety net program is Misaye Getachew, a single mother of four children. Misaye is one of the female-headed households which, according to a recent study, are four times more likely to be destitute (i.e. unable to meet household needs) than male-headed households in

the region.[29] She lives in the hamlet of Segnogebeya and mainly grows beans on a half a hectare plot and to supplement her meager income brews a local 'beer' to sell, for which she needs to buy barley from the market. "You can't afford to eat more than twice a day", she tells us. "So I work on doing terracing, and helping to build irrigation or planting seeds in the cash for work program".[30]


Misaye Getachew

Many of these findings are mirrored in a study of farmers' views on the availability of inputs and the government's agricultural policy by Addis Ababa University and the International Food Policy Research Institute. This was conducted in fifteen villages in 2003. Most of the farmers' concerns and complaints centered on:

- the meteoric rise in fertilizer prices after liberalization
- failure to supply inputs on time
- inappropriate type of fertilizers often provided
- lack of expertise among rural development agents to advise and support farmers
- lack of price support measures by the government to ensure good output prices
- lack of subsidies
- poor rural infrastructure, especially roads.[31]

**4. IMPACT OF THE REFORMS**

This section first highlights various analyses that consider the overall impact of the reforms. Unfortunately, there are few *empirical* studies of the effects of the reforms on Ethiopian agriculture.[32] However, one such study - by Debele, Heshmati and Oygard at the Norwegian University of Life Sciences - compares survey data from 1993/94 with 2000/01 and seeks to measure several factors such as technical, allocative and economic efficiency, productivity growth and technological progress in agriculture. It concludes that "there is evidence of significant technical and allocative inefficiencies among the farmers. From the findings, there is no evidence that policy reforms have improved technical efficiency in production over the period significantly. On the other hand, allocative and economic efficiency have deteriorated over the period".[33]
The authors note that although the increased use of fertilizer and learning by doing has raised output in areas with the potential for more productive growth, productivity has declined in less productive areas. In recent years, population growth, land fragmentation and the continuous cultivation of lands without measures to restore soil fertility and soil erosion have led to a high degree of land degradation which, combined with frequent droughts, has resulted in increasing food insecurity and risk of hunger. Overall, "it is therefore clear that the reforms have not been successful in reducing the widespread poverty in the country" and "farmers became more and more vulnerable to famine due to natural factors".[34]

Another empirical study, by Stefan Dercon at Oxford University, provides micro-level panel data from six villages in rural Ethiopia to assess changes in poverty during the period of economic reforms between 1989 and 1995. It concludes that "about half the poor at the end of the 1980s benefited, about half did not". Poverty declined in four villages but increased in two, decreasing by 16 per cent overall but with levels remaining high overall, at around 50 per cent while inequality increased, although the very poorest households experienced the highest growth rates. Crop output prices increased in five out of six villages, by an average of 26 per cent, following liberalization and devaluation of the currency, which contributed almost half of the total growth in consumption and even more to poverty reduction. Food consumption grew in five out of the six villages, on average by more than 8 per cent each year.[35]

Dercon's study concludes by noting that the reforms have been pro-poor for only some of the poor. Poverty reduction was concentrated in particular communities and among particular types of households. The study distinguishes between two groups of poor people: a first group which has experienced good rains, is farming generally good land, receiving high crop producer prices and with good access to roads and towns; and a second group with small land endowment living in remote areas with poor road connections. The first group outperformed the rest of the sample and contributed 80 per cent of the estimated reduction in poverty. The second group benefited little or not at all from the reforms, and specifically failed to experience substantial output price increases, and for them "most of the poverty benefit from the reforms was furthermore wiped out by poor rains and illness shocks".[36]

The study notes that:

> **"In the data, about half the poor in 1989 were responsible for the entire poverty reduction between 1989 and 1995. The other half had typically virtually unchanged consumption levels and poverty levels... The conclusion is that the current patterns of growth in rural Ethiopia will have a significant poverty impact, but will not manage to reduce poverty of a substantial part of the poor".[37]**

A third source for the overall impacts of the reforms is one of Ethiopia's foremost independent public policy research institutes - the Ethiopian Economic Association (EEA) – which has produced numerous studies on the performance of agriculture in the reform period. The EEA has consistently argued that the performance of Ethiopian agriculture has been disappointing and that ADLI and PADETES have not met their expectations. Gebreselassie argues, for example, that overall:

> **"The contribution to food security both through its direct impact on food production and indirect effect on farm incomes (i.e. improving entitlement capacity) has failed to recover even after the economic reforms of the 1990s. Despite some short-lived successes in some areas and years, the impact of the country's new development strategy that is commonly known as ADLI and its main instrument, PADETES... was too little to affect per capita agricultural production or productivity at the national level or in a sustainable manner. In addition,**

**the 1990s economic reforms didn't bring a notable impact either in raising agriculture's contribution to the export sector or in generating surplus to the development of the non-agricultural sector. On the other hand, the relative price for agricultural products compared to the prices of non-agricultural commodities was not in favor of agriculture".** [38]

The EEA does note, however, that "in comparison to the decade that preceded the reform of the 1990s, Ethiopian agriculture has been doing better". Agricultural output has increased, the rate of decline in farm productivity has been slowed and the use of fertilizers and seeds has improved – all of which are considered in more detail below. Overall, however, the EEA notes: "But all those improvements have not been sufficient to lift up agriculture's role in the development process of the Ethiopian economy".[39] Thus food insecurity remains endemic.

The EEA also argues that following the liberalization of the agricultural output and input markets in the 1990s farmers have not been guaranteed good prices for their outputs at the same time as facing high costs for inputs (such as fertilizers and seeds). The input markets continue to be monopolized by a small number of traders and market infrastructure remains undeveloped, while marketing information provided to farmers is poor and fragmentary.[40]

As regards, ADLI, Gebreselassie argues that it has overemphasized the technological problems of Ethiopian agriculture and has poorly addressed the more concrete issues behind the vicious cycle of low productivity, low income and poverty that characterize Ethiopian subsistence agriculture – such as rural finance and markets, population growth, labor mobility and the development of non-farm sectors.[41]

The EEA produced a comprehensive evaluation of the PADETES program in March 2006, based on a survey sample of 4,500 rural households in all regions of the country except one. The study notes a large number of deficiencies and drawbacks to the program, especially the lack of farmers' real participation in it, the failure to increase farmers' bargaining power, the failure to provide market information to farmers, and the low overall use of inputs such as fertilizer and seeds (some of which points which are considered further below). Some positive gains have been made – for example, the extension package has reached an increasing number of farmers and participation in it has improved the use of seeds and fertilizer. Yet overall, the study concludes that:

> **"After a decade of an extension package program that aims to improve the level of food security at household level, about 65 per cent of the surveyed farmers, of whom the majority are food grain producers, are food deficit (net buyers of food grains). In addition to what they produced, each of these households needs on average about 8.8 quintals of grain. Based on this assessment, it is possible to say in general terms that while there are some positive impacts, farmers and pastoralists' productivity and income have not been increased in a significant and sustainable way so as to improve their living standard".**[42]

The study notes that the level of farm income across the sampled households is very low, which shows the limitations of the extension system in fighting rural poverty; close to a quarter of households earn less than 200 Birr (US$ 23) per year from their crop and livestock activities while nearly half (46 per cent) earn less than 1000 Birr (US$ 115), levels which are too low to improve living standards.[43]

According to the EEA's study, the PADETES program has also had only a very limited impact on the pastoral and agro-pastoral communities in the country, who comprise around 7 per cent of the population and who are among the most vulnerable, hunger-prone people, especially those in the remote southeast of the country. The pastoral areas support two-thirds of the country's goat population and more than a quarter of its cattle and sheep. The pastoral communities face a range of current problems such as increased human population pressure, recurrent drought, environmental degradation and the shrinkage of grazing land. The government has put programs in place to address some of these issues as well as animal disease control and livestock marketing but they have generally failed to live up to expectations, and tended to be top-down and non-participatory. "As a result, most of the interventions in the pastoral areas did not bring a tangible change on the standard of living of the pastoralist communities", according to the EEA.[44]

Finally, a fourth recent study is of the impact of IMF/World Bank's PRGF program on the provision of social services in Ethiopia by the NGO network Afrodad. The PRGF was approved in 2001 and amounted to US$ 110 million. Afrodad's draft study concludes that the reforms have not had a major adverse impact on the poorest 40 per cent of the population and indeed that the government's poverty-reducing spending under the PRGF rose from 8 per cent of GDP in 1999/00 to 15 per cent in 2002/03 – a doubling from 4.5 billion to 9.2 billion Birr. However, the study also notes that little progress has been made in achieving the government's objectives on agriculture and food security for increasing employment, income and exports. Productivity has remained broadly unchanged in the reform period; marketing support to farmers remains poor while food security remains a critical problem with the population still vulnerable to recurring droughts.[45]

Let us now consider the effects of the economic reforms on specific areas of agriculture.

### 4.1 OUTPUT AND PRODUCTIVITY

Most studies suggest that Ethiopia has significantly increased its agricultural output (production) in recent years but that per capita productivity is declining. The World Bank notes that agricultural growth has been slightly below population growth in the past decade, with productivity per person low by African standards and amongst the lowest in the world.[46] Overall production has increased over the past decade but this is due to an expansion in the area under cultivation, and not through productivity improvements.[47] The World Bank also notes that "moreover, these supply increases have been insufficient to benefit consumers through lower real prices. Thus neither producers nor consumers have achieved the gains needed to sustain longer run growth, boost demand for industry and spur structural transformation of the economy".[48]

Other studies also suggest that output increases are the result of an increase in the areas under cultivation rather than of improved yields.[49] The EEA notes that rural labor productivity has been declining for the last four decades – a process the reforms have not halted – and that productivity in the primary sector (principally agriculture) is declining by around 0.2 per cent per year. The principal explanation for this is the increase in population in rural

areas rather than an absolute decline in productivity.[50] Indeed, according to the EEA the rate at which productivity is declining has been reduced since the reforms were introduced in the 1990s. Yet crucially this improvement is still not enough to be sufficient for ensuring food security – in general, average per capita grain production in Ethiopia has fluctuated at 106 - 165 kg in the past decade, which on average indicates a deficit of 60 to 100 kg per person. Even the 2003/04 record level of production of 117.5 million quintals of grain only amounts to 165.3 kg per person.[51] The author notes that the estimate of the food security deficit is based on the assumption that all energy requirements come from grain (cereals, pulses and oil crops) – consumption which reflects the reality especially in most parts of central and northern Ethiopia. The minimum daily calorie requirement per person used to compute the food balance sheets is 2,100 kcal.

Other figures suggest that grain production increased by 17 million tons between 1995/96 and 2003/04 yet per capita grain production declined from 183 kg per person to 170 kg per person over the same period.[52]

Table 1 shows that cereals yields have declined over the reform period, though coffee has marginally increased.

TABLE 1
– Yield/Production of cereals and coffee

| CROP | MEASURE | UNIT | 1993 | 1996 | 1999 | 2002 |
|---|---|---|---|---|---|---|
| Cereals | Yield | Quintals/ hectare | 13.1 | 12.1 | 11.1 | 12.3 |
| | Production | Million Quintals | 52.9 | 93.8 | 80.1 | 92.1 |
| Coffee | Yield | Quintals/ hectare | 7.2 | 9.2 | 8.7 | 9.4 |
| | Production | Million Quintals | 1.8 | 2.3 | 2.2 | 2.3 |

Source: FAO, cited in Ethiopian Economic Association, Ethiopia: Trade and transformational challenges, Vol.2, Annex 8: Agriculture and trade, April 2003, EEA, Addis Ababa, p.3

A study by the EEA also notes that in Ethiopia's pastoral and agro-pastoral areas, the productivity of livestock is also dwindling, "thus threatening the life support system of the pastoralists as a whole".[53] Overall, agriculture generates only a meager surplus for the overall economy, contributing only 3 per cent of the government's direct tax revenue in recent years.[54] Agriculture's share of the country's GDP has in fact been declining in recent decades – from 57 per cent in 1983 to 53 per cent in 1993 to 39 per cent in 2003.[55]

## 4.2 ACCESS TO FERTILIZER

The government abolished fertilizer subsidies in 1997 as a condition for a World Bank loan, after introducing them two years earlier to contain rising prices. Due to the government's extension program, PADETES, the volume of fertilizer used more than doubled from 152,000 tons to 313,000 tons between 1992 and 2004.[56] However, in recent years, fertilizer use has been stagnant as Table 2 below shows. All the chemical fertilizer used in Ethiopia is imported from abroad, and there are various constraints to its increased use, notably poor rural road networks and high transportation costs.

TABLE 2
– Fertilizer used

| | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 |
|---|---|---|---|---|---|---|---|
| Fertilizer Used (MT) | 281,371 | 290,264 | 297,907 | 279,602 | 232,270 | 264,349 | 313,387 |

Source: Ministry of Agriculture and Rural development, cited in EEA, Report on the Ethiopian economy, Vol.IV, 2004/05, EEA, Addis Ababa, December 2005, p.352

The EEA found that between 60-70 per cent of households used inorganic fertilizer in the past year, but with wide variation between regions (in some remote areas farmers have no access to fertilizer).[57] However, Ethiopia uses small quantities of fertilizer in comparison with other countries – as low as 30 kg per hectare compared to 68 kg in Latin America, 92 kg in South Asia and 205 kg in East Asia.[58] The current average rate of fertilizer application of 31 kg per hectare in Ethiopia is very low compared to the recommended optimal rate of 150-200 kg per hectare for DAP or Urea – the two main fertilizers available in Ethiopia - suggesting that the increase in fertilizer used over the past few years has been due to the expansion of the area under cultivation and not intensified application.[59]

The high price of fertilizer puts its use beyond many farmers, especially the poorest and most hunger-prone. One study found that 50 per cent of farmers cited high price as the major problem faced by them in accessing fertilizer.[60] In the year 2004/05, the prices of Urea and DAB increased by 30 per cent and 15 per cent respectively, according to government figures.[61] In 2005, DAP base prices were around 380 Birr per quintal (US$ 439 per ton) and Urea prices 318 Birr per quintal (US$ 368 per ton). The FAO notes that these current prices connect to FOB prices for DAP at around US$ 209 per ton, which are around twice the retail price of compound/nitrogenous fertilizers sold to farmers in the UK.[62]

Farmers seeking access to fertilizers were hit hard by the effects of liberalization in the 1990s. In the early years, fertilizer prices shot up, especially after the devaluation of the currency in 1993. The emerging situation forced the government to introduce fertilizer subsidies – these amounted to 15 per cent, 20 per cent, 30 per cent and 20 per cent of fertilizer prices in 1993, 1994, 1995 and 1996 respectively. When subsidies were finally eliminated in 1997, prices rose still further. "The complete removal of the subsidy", according to Debela et al, "resulted in a persistent low level of fertilizer usage in farming and subsequent productivity decline".[63]

A study by Holden, Lofgren and Shiferaw simulated the effects of a removal of the 20 per cent subsidy on fertilizers that was present up to 1997. It showed that the reduction in fertilizer subsidy reduced household incomes by 1.6 – 2.3 per cent. Cereal production decreased in most cases and also had a negative effect on livestock production because fodder production (crop residues) became more costly. The reduction of the subsidy also caused a fall in the demand for fertilizer by 18 – 24 per cent and a decrease in the marketed surplus (i.e. that exported from the village) of teff but an increase in the export of other cereals and of pulses – overall, exports were reduced by 1.3 per cent. The authors also factor in to their study the effect of output price increases on farmers and conclude that: "Our model simulations for a village economy with high agricultural potential and fairly good market access in the Ethiopian highlands indicate that both the output price increase and the removal of fertilizer subsi-

dies that were implemented in the late 1990s lead to more rapid land degradation" – meaning a "more rapid decline in land productivity".[64]

Poor farmers are even harder hit by the high price of fertilizer in the context of (often) low or declining output prices for their farm produce. Between 1996 and 1999, for example, the price of fertilizer increased on average by 8.5 per cent while that of teff and maize increased by only 0.27 per cent and 2.1 per cent respectively.[65]

Although the fertilizer sector has been deregulated and opened for private competition since the mid-1990s, the market is far from liberalized in practice (as noted above) and is generally regarded as uncompetitive, inaccessible and untransparent.[66] Around 25 per cent of all fertilizer sales in 2005 were made by one parastatal agency – the Agricultural Inputs Supply Organization (AISO) while the other 75 per cent were sold by nine (state-backed) cooperative unions and two (ruling party-backed) 'private' companies. Only a few private retailers are involved in fertilizer sales and distribution. The financing of fertilizer credit is also closely controlled by government structures.[67]

In 1993 the government reached an agreement with the World Bank for a large fertilizer supply program on the condition that the private sector would take over import and retailing. The 1996 Food Security Strategy confirmed that "the government will disengage itself from direct sales of fertilizer and encourage the emergence of private retailers", a policy underlined in the updated 2002 strategy. But, as also noted above, the Bank is pushing for further liberalization of the fertilizer sector to end its dominance by trading companies associated with the state and ruling party.[68] Other analysts argue that PADETES has interfered with the further development of the private sector in fertilizer supply; since its introduction, the number of private retailers has dropped. One study from 1999 notes that the lack of free market competition has raised fertilizer prices by almost 5 per cent.[69]

### 4.3 ACCESS TO SEEDS

The use of improved, high-yielding seeds is often seen as a requirement for raising productivity and ensuring food security for poor farming families, and is another key part of the government's agricultural strategy. Yet the proportion of Ethiopian farmers using improved seed varieties is extremely low – at only around 8 per cent, according to the EEA's evaluation of the PADETES program.[70] A much larger proportion of farmers (72 per cent) uses their own seeds or seeds obtained from other farmers in their communities.

The price of most improved seeds for most crops has risen significantly throughout the period of economic reform, as shown in Table 3.

**TABLE 3**
**– Seed selling price for certain crops (Birr per quintal)**

| | 1992 | 1996 | 1999 | 2002 |
|---|---|---|---|---|
| Wheat | 140 | 214 | 245 | 197 |
| Teff | 153 | 360 | 324 | 385 |
| Barley | 140 | 229 | 267 | 209 |
| Composite maize | 115 | 202 | 222 | 180 |
| Hybrid maize | 160 | 500 | 578 | 560 |
| Sorghum | 128 | 225 | Na | 316 |

Source: Ethiopian Seed Enterprise, cited in EEA, Report on the Ethiopian economy, Vol.IV, 2004/05, EEA, Addis Ababa, December 2005, p.255

Debele et al note that although the share of smallholders using improved seeds increased following the introduction of the economic reforms, the total sale of seed has fallen since then. The quality of improved seed is also low in Ethiopia due to low genetic quality and inadequate storage facilities. As with the market for fertilizer, the seed market is not fully liberalized in practice and remains dominated by a single parastatal company, Ethiopia Seed Enterprise.[71]

### 4.4 OUTPUT PRICES

In Ethiopia, most farmers practice subsistence agriculture producing principally for their own needs, and are therefore consumers more than producers of food. They can therefore be hit by higher prices of staples. For those selling in the market, including many hunger-prone people who can generate a surplus at harvest time, a major problem is the fluctuating and sometimes very low output price for their farm produce, even in years of good harvest. The prices obtained by farmers for their agricultural produce helps determine their income, and thus ability to buy inputs that can in turn lead to productivity increases.

As noted above, a particular problem is the price of outputs compared to the high price of inputs such as fertilizer. Various studies are instructive:

- One study by Tadesse compares prices over the reform period for the years 1991 and 2001. It shows that the ratio of the price of DAP fertilizer to the price of teff increased from 0.6 to 1.8 over the ten year period. This means that only 0.6 quintals of teff was required to buy a quintal of DAP in 1991 but that 1.84 was required ten years later – a threefold increase in the amount of teff required to buy a quintal of DAP.[72]
- Another analysis compares the price of food with the price of non-food items (DAP fertilizer and transport and communication) over the years 1995-2001. The price of food items rose by 12 per cent whereas that of DAP fertilizer rose by 77 per cent and that of transport and communication by 65 per cent. The terms of trade appear to have been moving against agriculture in the reform period.[73]
- A third study of the PADETES extension program showed that participating farmers benefitted only marginally (to the tune of an average of Birr 134 [US$ 15]) after comparing the costs of their inputs (fertilizer, seeds etc) to the prices received for their outputs. The study concludes that the existing level of productivity and output price are too low to induce sustainable intensification of smallholder agriculture.[74]

Prices of agricultural commodities have been set primarily by market forces in Ethiopia since the economic reforms abolished the previous system of fixed pricing, grain deliveries to the state and controls on grain movement. Yet prices are not fully liberalized and there is a degree of government intervention in the market by the Ethiopian Grain Trade Enterprise (EGTE). The EGTE is tasked with purchasing specific crops from producers in given areas as and when necessary in order to main-

tain prices and incentivize continued production. In 2005, for example, the EGTE purchased around 80,000 tons of grain. Its capacity for purchasing is limited by the funds it has available – the researcher was told this amounted to only 80-90 million Birr (US$ 9.2-10.3 million).[75] The government sees its continued role in price stabilization as critical, especially in drought-prone regions.[76]

The FAO has pointed out, however, that although the extent of the EGTE's intervention in the market is relatively small (buying less than 10 per cent of production) its purchases can have a large effect on the market due to the traditional respect that producers and traders pay to prices offered by the EGTE (which are commonly regarded as official prices) and since it offers direct cash payment and is therefore easily able to attract sellers. The larger merchants have also indicated a clear preference for dealing with the government as a more reliable purchaser than with small local wholesalers.[77]

### 4.5 ACCESS TO CREDIT

Credit can be vital for smallholders in increasing their output and earn more income, in turn encouraging them to invest in new inputs and improving productivity. The volume of credit disbursed has increased in recent years; currently, more than 2.5 million farmers, accounting for 25 per cent of smallholder agriculture, obtain credit annually for the purchase of inputs, mainly fertilizer. The bulk of the credit is provided by the commercial banks – notably the Commercial Bank of Ethiopia (CBE), the largest source of agricultural credit in the country - with the intervention of the state governments to underwrite the loans, at an interest rate of 7.5 per cent.[78]

However, while the amount of credit disbursed has been increasing, many farmers in Ethiopia still suffer from relatively poor access to credit on sufficiently cheap terms. When the researcher visited North Wollo zone in late 2006, farmers were being offered credit to obtain fertilizer at an interest rate of 12.5 per cent – a rate that is simply unaffordable for most farmers we spoke to (see section 4).

Repaying credit has become notoriously difficult for many Ethiopian smallholders. To be eligible for receiving credit, the farmer must have repaid the previous loan completely. Farmers can fail to repay their loans when the yield is low, which risks their being denied credit the following year, in addition to being fined for failing to do so. No grace periods or debt write-offs are given in drought years and poor farmers are often forced to sell their food production at low post-harvest prices to repay their loans.[79] In some areas farmers are regularly forced to sell their assets (such as oxen) to repay their debts. And the inability to repay debts has in turn often led to reductions in the use of fertilizer and improved seeds in some areas.[80] These factors combine to put many farmers off taking credit, and thus using fertilizer, at all.
Some analysts refer to further problems in the credit market associated with the bureaucratic allocation of loans and the fact that only firms nominated by the authorities are nominated as suppliers.[81] Equally, in order to pay back their debt all farmers are forced to bring their produce to the market at the same time, as a result of which supply exceeds demand and prices fall sharply whenever farmers are pressed for repayment. This system does not accommodate the interest of farmers willing to incur additional interest costs by delaying crop sales in the hope that prices will rise later in the year.[82]

### 4.6 AGRICULTURAL MARKETS

The economic reforms have reduced the role of the state in agriculture and substantially liberalized the agricultural marketing system. Jayne et al note that "the experience of Ethiopia during the 1990s represents a case in which a relatively consistent and internally-driven program of grain market liberalization has been pursued with the general approval of international lenders and donors". This has involved the reduction (though not complete abolition) of the role of the state marketing board and the removal of the regulatory constraints on private trade. According to Jayne et al reform has resulted in higher grain prices in the major grain-producing areas and lower prices in the grain-deficit areas. There was a reduction in marketing costs for grain - which are significant, accounting for 40-60 per cent of the price consumers pay for staple cereal commodities – representing a gain for farmers. But the authors note that Ethiopia's grain marketing system faces numerous problems, and in particular price volatility has not been reduced.[83]

The FAO summarizes the current situation by noting that "agricultural markets in Ethiopia are fragmented, unregulated, lacking in open market information systems, saddled with high transaction costs, constrained by inadequate liquidity, tending to operate only when price differentials are considerable".[84] Most traders operate through specialized brokers located mainly in Addis Ababa who control flows to and from the capital in a system based on personal contact and trust and which is hierarchical. As a result, there is little direct flow of grain between surplus and deficit areas – the market structure does not facilitate this since there are few personal contacts between wholesale merchants on different routes; rather, surplus grain moves first to Addis and is then redistributed to deficit areas, considerably increasing cost (and the length of delivery).[85]

Farmers' knowledge of prices in the market can also be critical for maximizing income. Yet the EEA's analysis is that a massive 96 per cent of farmers receives no market support from any agency, showing that "agricultural extension programs in Ethiopia have not focused on delivering market information to farmers".[86] There are no functioning market information systems in the country that could be used by traders to discover opportunities for trade. This means that producers receive most of their information about the market through their own interactions with traders and neighbors; they can be unaware of prices in other markets, even those close to them. Traders, in turn, get most of their information from brokers and transporters with knowledge of prices in the Addis Ababa market. The general tendency is for farmers to sell produce earlier than in the mature grain market and many do so immediately after harvest for fear of post-harvest loss to get cash or to pay back debt. This significantly reduces the economic gain that farmers can make from their crops.[87]

Livestock marketing is constrained by numerous factors such as the lack of information on livestock numbers, and an acute shortage of market infrastructure especially in remote lowland areas where organized markets, resting places and quarantine stations are all in short supply. The EEA notes that "the private sector has little interest in investing in the livestock sector because of these and many other problems".[88]

The Ministry of Agriculture does have plans to implement a market information system but this is under review.[89] The PRSP states that "the role of government is crucial for the provision of such a public good (information) during the early

stage in the development of agricultural marketing systems" and that the government is committed to "improving the supply of market information".[90] Thus the government has not established a functioning market information system, but neither is the private sector showing much interest in investing in it given the lack of government investment in infrastructure etc – again, Ethiopian farmers are shown to be caught between state and market failures.

### 4.7 GOVERNMENT SPENDING

The PRSP document committed the government to spending 9.9 billion Birr (US$ 1.1 billion) on the agricultural sector for the three years 2002/03 – 2004/05. This is a considerable investment and some analyses of figures note the government's recent large increases in public spending on agriculture - an increase of 66 per cent in 2000/01 – 2003/04, for example.[91] Over the period from 1993/94 to 2000/01, however, other analysis suggests that agriculture's share of government spending actually declined from 9 to 7 per cent.[92] The EEA also notes that the government's spending on agricultural research has made only marginal contributions to the major objective of increasing productivity.[93] The government has invested considerable resources in road development and has expanded the network from 23,000 km in the early 1990s to 37,000 km in 2005.[9494] Federal Democratic Government of Ethiopia, Ethiopia: =Building on progress – A plan for accelerated and sustained development to end poverty (PASDEP), Ministry of Finance and Economic Development, Addis Ababa, 2005

### 4.8 TRADE LIBERALIZATION AND EXPORTS

Ethiopia is not a member of the World Trade Organization (the government is planning to join in 2009) and has not therefore been subject to the WTO's trade liberalization commitments. But trade liberalization has been pursued as a major component of the SAP since 1992 and has involved deregulation of domestic prices, the privatization of public enterprises, the gradual abolition of export subsidies and taxes, and a significant reduction in tariffs and non-tariff barriers. Currently, Ethiopia's trade protection system includes no quotas, no seasonal tariffs and quantitative restrictions have been almost entirely eliminated. As a result of tariff reforms, the tariff range narrowed from 0 per cent – 240 per cent at the beginning of the 1990s to 0-80 per cent in 1995. The current tariff structure, introduced in 2003, consists of six rates ranging from 0 per cent to the highest at 35 per cent.[95]

Trade liberalization appears to have failed to improve the overall performance of Ethiopia's export sector. The capacity of export earnings to finance imports rose in the mid-1990s before declining, and was only slightly higher in 2001/02 (24 per cent) than in 1992/93 (22 per cent), for example.[96] Export earnings from coffee – the major export, accounting for around 40 per cent of total export earnings - significantly rose after devaluation in 1993 but then were fairly static in the late 1990s.[97] The reason is essentially Ethiopia's continuing dependence on largely unprocessed commodities and the vulnerability of the economy to volatile international prices – coffee has lost 49 per cent of its value in the years 1998-2004.[98] This is exacerbated by the WTO's failure to address commodity price issues, along with the maintenance of high subsidies in developed countries that tend to depress world prices for agricultural products.

The coffee sector has undergone substantial changes under the reforms. The researcher was informed in interviews in Ethiopia that after liberalization exporters and traders – rather than farmers – remain the dominant actors in the sector. Coffee producers earn between 50-55 per cent of the final FOB export price, meaning that the rest goes to traders and exporters. Before liberalization, the percentage was 40 per cent – an improvement for farmers but still low compared to other countries (we were told that in Brazil the percentage is around 90 per cent[99]).

A major current concerns arises from the Economic Partnership Agreements (EPA) which the EU is negotiating with Ethiopia and 15 other states in the region in the Eastern and Southern Africa grouping, and which the EU envisages will create free trade between the two actors. A recent report by the UN Economic Commission for Africa (UNECA) concludes that Ethiopia can expect only "limited gains in consumer welfare" from the EPA and that these gains are "not proportional to the cost of the agreement". UNECA argues that Ethiopia stands to lose up to 4 per cent of its current public revenue – or up to around US$ 65 million – from abolishing tariff revenues as a result of free trade with the EU. It also argues that imports could increase by 7.5 per cent or by US$ 120 million. "Above all", UNECA concludes, "the EPA is inimical for the long-term strategy of Ethiopia. Instead of leading the country to deepen regional integration and diversity its output, the EPA will revitalize the trading partnership with Europe, as well as the traditional agricultural specialization of the country". The major beneficiary of any EPA would be the EU which "stands to gain significantly in terms of expanded trade into Ethiopia".[100]

## 5. THE HUMAN COSTS OF THE REFORMS

The effects of food deprivation are especially severe in Ethiopia – nearly half the population (46 per cent or 33 million people) is undernourished, around 38 per cent is underweight while 47 per cent are stunted. [101] Though these levels have decreased on figures from 2000, they remain abnormally high, describing a population that is permanently affected by the consequences of poor nutrition and poor health. According to the FAO and WFP, the "underlying causes of malnutrition throughout the year are significantly worsening the vulnerability level of the population and their resilience to shocks".[102]

A recent study of the prevalence of destitution in an area of Amhara region formerly known as Wollo province – and which includes the North Wollo zone which the researcher visited for this study – notes that the proportion of destitute households (i.e. those unable to meet their basic needs) has risen nearly threefold in the past ten years, while those categorized as 'vulnerable' (i.e. those struggling to meet basic needs) increased from 17 per cent to 55 per cent, implying that the majority is at risk of falling into destitution in the future.[103]

## 6. THE PROBLEM OF PARTIAL LIBERALIZATION

The suggestion here is that Ethiopia has suffered both from government policies and from donor policies, principally those of the World Bank – and that, certainly in combination, they have failed Ethiopia's hunger-prone people. The researcher's analysis is that Ethiopia is currently caught between promoting two different economic models which, in combination, are failing to deliver for Ethiopia's most vulnerable citizens.

After pursuing the economic liberalization reforms, there remain significant elements of government intervention in the economy – such as limited purchasing of

*Farmer in Amhara region, Ethiopia*

grain by the government to support prices in a context where market forces are otherwise determined by market forces, and the de facto control of the fertilizer market by government-backed companies in a market that has technically been liberalized and where there are no formal or official restrictions on private sector involvement. The researcher's analysis is that these government interventions have benefited the poor and improved food security for the most hunger-prone – in the sense that their absence would certainly make things worse in the short-term. The government's PADETES programs, although with many flaws, is at least an attempt to provide small farmers with necessary inputs, and clearly benefits some. Left solely to market forces currently it is likely that the poor would have been even worse off. As the World Bank noted in 1999, "the expected level of competition and private sector participation [in agriculture] has not developed".[104] This remains true now with private actors discouraged by high transaction costs due to poor road and infrastructure networks, especially in the more remote areas, among other things. So too have the poor benefited from a degree of government commitment to promoting agriculture and the extension program which has achieved some (limited) positive impacts.

However, although (limited) government intervention may have had some positive impacts, it has been *too limited* to reduce food insecurity and increase farm productivity. Poor farmers are generally becoming worse off while productivity continues to decline. Much greater government intervention would be needed to provide all farmers with the necessary fertilizers, seeds and marketing support etc to raise productivity. At the same time, the level of intervention pursued by the government, although limited, has still been enough to discourage more private actors from entering markets and making agricultural inputs and services cheaper by creating competitive markets. This is stifling private sector development in, for example, the fertilizer market, where not enough farmers are able to access fertilizer at affordable prices.

Ethiopia suffers from a mix of policies that are non-strategic and a messy compromise between its own national politics and bargaining with the donors. Matters are made more complex, and worse, by the untransparent and undemocratic nature of national decision-making, as well as 'patronage politics' where the government has virtually paralyzed the private sector through favoring parastatal and party-affiliated enterprises. The political, and even legal, system is geared more towards serving the interests of those in power than the general population while government decisions rarely undergo legislative scrutiny or widespread discussion. Combined with loan conditions imposed from outside by donors, reducing national ownership of policies, it is a decidedly undemocratic outcome.

The people who really matter – principally, the farmers – are lost in the process. It should be noted that all Ethiopian governments – whether imperial, Marxist-Leninist or current, have adopted top-down, non-participatory approaches to agricultural strategy. The EEA notes that "in Ethiopia, government officials and even professions [sic] unconsciously believe that agricultural development ventures will be achieved through the efforts of government and development agencies. They do not reflect on the possibility that sustainable agricultural development can only be achieved through the efforts of rural people themselves working for their own benefits". The EEA's study found that most development agents do not involve farmers in the planning of extension activities. In particular, the extension program does not acknowledge women as farmers in their own right. The EEA therefore calls for the more systematic involvement of farmers in designing support packages, especially focusing more on indigenous farming practices. These may include practices that shun using high-cost inputs such as fertilizers and focus on planting low-yielding but drought-resistant crops.[105]

## 7. CONCLUSIONS

**"Despite the indisputable potential Ethiopia has in terms of agricultural development, the great efforts made by the Ethiopian government in the course of establishing an enabling framework and elaborating suitable strategies and policies and the continuous assistance provided by various donors, Ethiopia is still one of the most impoverished countries in the world". FAO[106]**

The evidence suggests that the effects of the economic reforms have increased hunger and food insecurity for Ethiopia's poorest people. In summary:

- Overall agricultural *production* has increased under the reforms but per capita *productivity* has continued to decline - although the rate of decline has slowed under the reforms. This means, in short, that people are becoming more food deficit, or hunger prone, each year.

- The volume of *fertilizer used* – seen by the government and the World Bank as a critical part of agricultural strategy – has increased over the whole period of the reforms but has been stagnant in recent years. The use of fertilizer remains very low in comparison with other countries and is far below recommended rates to seriously increase productivity.

- The high *price of fertilizer* has put its use beyond many farmers, especially the poorest and most food deficit. The price shot up after liberalization, including after the withdrawal of price subsidies, which also reduced land productivity and increased environmental degradation.

- The price of inputs has risen much faster than *output prices* received by farmers who sell their produce in the market. Farmers have continued to face fluctuating and often low output prices.

- The price of *improved seeds* – the use of which is a key part of government/World Bank agricultural strategy - has risen significantly throughout the period of economic reform. While total sales increased in the early years of reforms, they have more recently fallen. Currently, less than one in ten farmers is believed to use improved seeds.

- The volume of *credit* disbursed to farmers has increased under the reforms and now a quarter of all farming households receive loans. Yet credit remains beyond the reach of many of the poorest farmers, especially due to the often high interest rates on offer, while repaying loans continues to pose problems.

- The reduction of the role of the state marketing board has left a technically liberalized *agricultural marketing system* that is unregulated, hierarchical and controlled by a few brokers and traders in Addis Ababa. No functioning market information system has been established so farmers can only access basic information, such as market prices, through personal contacts.

- Although there have been increases in recent years in *government spending* on agriculture, including important infrastructure investments, the share of spending allocated to agriculture appears to have fallen in the first decade of reforms.

- Trade liberalization appears to have failed to improve Ethiopia's overall *export performance* while revenues have suffered severely from the past collapse in the world price for coffee. Ethiopia is likely to suffer further revenue losses by agreeing to establish a free trade agreement sought by the EU in the EPA process.

Currently, the Ethiopian government acknowledges a "serious *and growing* problem of food insecurity in Ethiopia".[107] One conclusion is clear. Neither the policies of the imperial regime, nor that of the Soviet-backed Derg, nor those of the current reform period under review have been able to significantly improve food security in the country, still less poise Ethiopia for agricultural take-off. Taking the situation over a timescale of decades, the situation has worsened for Ethiopia's poor. Analysis by the EEA shows that during the last days of the imperial regime of Haile Selassie in 1974, 1.5 million people (or 5 per cent of the population) required food aid; by the mid-1980s, under the Mengistu dictatorship, this had risen to 7 million (17 per cent of the population); whereas now around 14.5 million people (22 per cent of the population) are unable to feed themselves in times of drought.[108]

## References


[1]FAO/WFP, 'FAO/WFP crop and food supply assessment mission to Ethiopia', 24 February 2006, FAO/WFP, p.30
[2]World Bank, Interim Country Assistance Strategy for the Federal Democratic Republic of Ethiopia, 1 May 2006 (hereafter, World Bank, ICAS), p.6
[3]Fews Net, 'Ethiopia: Food security update', August 2006, www.fews.net
[4]FAO/WFP, 24 Feb 06, p.1
[5]FAO/WFP, p.6
[6]World Bank, Country Assistance Strategy for the Federal Democratic Republic of Ethiopia, 24 March 2003 (Hereafter World Bank, CAS), p.13
[7]Cited in Stephen Devereux, 'Food insecurity in Ethiopia: A discussion paper for DFID', Institute of Development Studies, Sussex, October 2000, p.4
[8]FAO study cited in Samuel Gebreselassie, 'Recent economic and agricultural policy development module of the role of agriculture: Research project of the UNFAO', Ethiopian Economic Association, August 2003, p.35
[9]Ethiopian Economic Association (EEA), Evaluation of the Ethiopian agricultural extension with particular emphasis on the Participatory Demonstration and Training Extension System (PADETES) (Hereafter, EEA, PADETES), EEA, Addis Ababa, p.180
[10]FAO/WFP, pp.5, 30-1
[11]World Bank, CAS, p.1; World Bank, ICAS, p.18
[12]World Bank, ICAS, p.1
[13]World Bank, CAS, p.16
[14]World Bank, ICAS, p.24
[15]World Bank, ICAS, p.13
[16]World Bank, ICAS, p.11
[17]Federal Democratic Republic of Ethiopia, Ethiopia: Sustainable development and poverty reduction programme, Addis Ababa, July 2002 (hereafter Government of Ethiopia, SDPRP), pp.67, 59
[18]World Bank, ICAS, p.21
[19]Devereux, 'Food insecurity in Ethiopia', p.5
[20]Clive Robinson, *Nothing to fall back on: Why Ethiopians are still short of food and cash*, Christian Aid, London, January 2003, p.14
[21]World Bank, ICAS, p.13
[22]FAO/WFP, p.32
[23]FAO/WFP, p.32
[24]The names in this report have been changed to protect people's identities.
[25]Photos: AA, AB
[26]Photos: AZ
[27]Photos: AV, AW, AX, AY
[28]Photos: AF, AG, AGA
[29]Kay Sharp, Stephen Devereux and Yared Amare, Destitution in Ethiopia's northeastern highlands, Save the Children UK, London, 2003, p.xv
[30]Photo: AD, AE
[31]Getachew, passim
[32]Adane Tuffa Debele, Almas Heshmati and Ragnar Oygard, 'An evaluation of the impacts of economic reforms on performance of agriculture in Ethiopia', *Discussion Paper DP-01/05*, Norwegian University of Life Science, 2005, p.3
[33]Debele et al, pp.33-4
[34]Debele et al, pp.6, 7
[35]Stefan Dercon, 'Growth and poverty in Ethiopia in the 1990s: An economic perspective', Centre for the Study of African Economies, University of Oxford, October 2000; Dercon, 'Economic reform, growth and the poor: Evidence from rural Ethiopia', Centre for the Study of African Economies, University of Oxford, May 2001
[36]Dercon, 'Economic reform', passim and p.34
[37]Dercon, 'Growth and poverty', pp.19-20
[38]Gebreselassie, 'Recent economic...', p.37
[39]Samuel Gebreselassie, 'The roles of agriculture in the development process: Recent experiences and lessons from Ethiopia', EEA, Addis Ababa, undated, p.20
[40]Gebreselassie, 'Recent economic....', p.40; Samuel Gebreselassie, 'ADLI and Ethiopian agriculture: Potentials and limitations of ADLI to deal with the problem of Ethiopian agriculture and rural poverty', EEA, Addis Ababa, 2002, pp.7-8
[41]Gebreselassie, 'The roles of agriculture', p.13
[42]EEA, PADETES, p.xxv
[43]EEA, PADETES, p.216
[44]EEA, PADETES, p.170
[45]Afrodad, 'The impact of the poverty reduction and growth facility on social services in Ethiopia', First draft, 2005, passim
[46]World Bank, ICAS, p.13; Devereux, 'Food insecurity in Ethiopia', p.5
[47]World Bank, ICAS, p.7
[48]World Bank, ICAS, p.7
[49]EEA, *Ethiopia: Trade and transformational challenges*, Vol.2, Annex 8: Agriculture and trade, April 2003, EEA, Addis Ababa, p.2; Dercon, 'Growth and poverty', p.15
[50]Gebreselassie, 'The roles of agriculture', p.5
[51]Gebreselassie, 'The roles of agriculture', pp.13-14.
[52]EEA, *Report on the Ethiopian economy, Vol.IV, 2004/05*, EEA, Addis Ababa, December 2005, pp.163-4
[53]EEA, PADETES, p.172
[54]EEA, *Report on the Ethiopian economy*, p.150
[55]Gebreselassie, 'The roles of agriculture', p.6
[56]Gebreselassie, 'The roles of agriculture', p.14
[57]EEA, PADETES, p.86, 195; Stephen Devereux, 'Vulnerable livelihoods in Somali region, Ethiopia', Institute of Development Studies, Sussex, April 2006, p.13
[58]EEA, *Report on the Ethiopian economy*, p.357

[59]*EEA, PADETES, p.114*
[60]*EEA, PADETES, p.114*
[61]*EEA, Report on the Ethiopian economy, p.352; The FAO notes price rises of 20 per cent for DAP and 18 per cent for Urea – FAO/WFP, p.11*
[62]*FAO/WFP, p.17*
[63]*Debela et al, pp.2, 6*
[64]*Stein Holden, Hans Lofgren and Bekele Shiferaw, 'Economic reforms and soil degradation in the Ethiopian highlands: A micro CGE model with transaction costs', undated,p.12*
[65]*Gebreselassie, 'ADLI;', p.15*
[66]*Gebreselassie, 'Recent economic...', p.27; Dercon, 'Growth and poverty', p.16*
[67]*Interview in Ethiopia, November 2006; FAO/WFP, p.11*
[68]*Robinson, pp.14-15*
[69]*EEA, Ethiopia, p.28*
[70]*EEA, PADETES, p.xix*
[71]*Debele et al, p.7*
[72]*Cited in Derese Getachew, 'Peasant reflections on the agricultural development-led industrialisation (ADLI) programme', Addis Ababa University, undated, p.11*
[73]*Gebreselassie, 'Recent economic...', p.18*
[74]*EEA, PADETES, p.199*
[75]*Personal interviews in Ethiopia, November 2006*
[76]*Government of Ethiopia, SDPRP, pp.55, 56, 59, 67-8*
[77]*FAO/WFP, p.25*
[78]*FAO/WFP, p.10*
[79]*Devereux, 'Food insecurity in Ethiopia', p.6*
[80]*EEA, Ethiopia, p.27*
[81]*Gebreselassie, 'Recent economic...', p.29*
[82]*Gebreselassie, 'Recent economic...', p.30*
[83]*T.Jayne, A.Negass and R.Myers, 'The effect of liberalization on grain prices and marketing margins in Ethiopia', MSU international development working paper, No.68, 1998, passim*
[84]*FAO/WFP, p.25*
[85]*FAO/WFP, pp.24-5*
[86]*EEA, PADETES, p.xviii*
[87]*EEA, PADETES, p.xviii*
[88]*EEA, Report on the Ethiopian economy, p.341*
[89]*FAO/WFP, p.24; EEA, Ethiopia, p.29*
[90]*Government of Ethiopia, SDPRP, p.59*
[91]*Teigist Lemma, Case study on Ethiopia', Ad hoc expert meeting for the mid-term review of the programme of action for the least developed countries for the decade 2001-2010, UNCTAD, Addis Ababa, May 2006, p.8*
[92]*See Gebreselassie, 'Recent economic...', pp.20-22 for various figures provided.*
[93]*Gebreselassie, 'Recent economic...', p.30*
[94]*Federal Democratic Government of Ethiopia, Ethiopia: =Building on progress – A plan for accelerated and sustained development to end poverty (PASDEP), Ministry of Finance and Economic Development, Addis Ababa, 2005*
[95]*Hakim Ben Hammouda et al, 'Assessing the consequences of the economic partnership agreements on the Ethiopian economy', UNECA, Addis Ababa, undated, p.6*
[96]*Gebreselassie, 'Recent economic...', p.10*
[97]*Gebreselassie, 'Recent economic...', p.24*
[98]*Gebreselassie, 'The roles of agriculture', p.15; EEA, Report on the Ethiopian economy, 151*
[99]*Personal interviews, Ethiopia, November 2006*
[100]*Hammouda et al, passim and p.29*
[101]*FAO statistics on Ethiopia, www.fao.org*
[102]*FAO/WFP, p.31*
[103]*Sharp et al, p.xvi*
[104]*Devereux, 'Food insecurity in Ethiopia', p.12*
[105]*EEA, PADETES, pp.240-9*
[106]*FAO/WFP, p.9*
[107]*Government of Ethiopia, SDPRP, p.66; emphasis added*
[108]*Gebreselassie, 'The roles of agriculture', p.6*

# DEADLY COMBINATION:

## SOME COMMENTS ON THE REPORT BY THE FUNDING ORGANIZATIONS

*Amhar region, Ethiopia*

**INTRODUCTION:**
This is a study of the impact of economic reforms on hunger-prone people in three of the world's poorest countries - Malawi, Zambia and Ethiopia. Its primary purpose is to assess whether food security has improved or worsened, and why. These three states are among the large number of developing countries that have promoted the extensive liberalization of their economies over the past 15 or so years, under the auspices of the World Bank and International Monetary Fund.

This analysis combines an extensive review of the literature on the experience of liberalization with visits by the researcher/consultant to the three countries between November 2006 and January 2007 – in Ethiopia's North Wollo zone around 700 kms north of Addis, mainly a highland region where farmers practice rain-fed agriculture, principally of crops such as teff, barley and wheat; in Malawi, in western Dowa district, a two hour drive north of Lilongwe where farmers grow maize, groundnuts, soya beans, cassava and sweet potatoes; and in Zambia, in Chipata District of Eastern province, 550 kms east of Lusaka, where the principal crop is also maize.

The analysis covers the whole of the reform period but distinguishes between two phases – one of deep liberalization in the late 1980s and 1990s; and a phase of 'partial liberalization' in the early years of this century. In the first phase, these states transformed their agricultural sectors, in effect by privatizing them by abolishing or reducing the dominant role of the state and allowing free markets and private companies to operate.

In the more recent phase, government intervention in agriculture has increased in certain areas in some countries: Zambia and Malawi have introduced new fertilizer subsidy programs, after abolishing them in the 1990s while in Ethiopia government-backed companies dominate the fertilizer supply markets and continue to intervene to set grain prices. At the same time, the World Bank and other donors have pulled back from their earlier promotion of virtually unfettered liberalization in the first phase of the reforms; now they at least tolerate a greater degree of government intervention, for example, (limited) government subsidy programs, but within a clear push for greater 'commercialization' of agriculture. Currently, all three countries are pursuing a mix of state intervention and liberalization policies in agriculture.

The conclusion of the report is broadly that not only deep liberalization increased hunger for the poorest people, but 'partial liberalization' is barely an improvement. The report identifies weaknesses in the World Bank as well as national government policies. However, the conclusions drawn in terms of the need for policy change is primarily directed at the World Bank, partly in terms of the need for capacity building to strengthen southern governments and partly in terms of the need for a re-evaluation of the advice provided by this donor in the South. Additionally, this summary will set out a larger picture including a greater number of dimensions that previous research has also illustrated that we need to take into account in recommending solutions to these problems of immense proportions.

The price for the current non-strategic mix of policies is being paid by some of the poorest people in the world. There are around 820 million hungry people in the world, of whom 150 million are children. This number has, according to the UN's Food and Agriculture Organization (FAO), risen by 20 million over the past decade. If hunger is to be halved by 2015 – one of the Millennium Development Goals – this deadly combination of policies needs to be broken. The overwhelming majority of farmers in the three countries are smallholders, producing most of the countries' food. Zambia's 800,000 smallholder farmers produce 65 per cent of the country's maize, 75 per cent of its groundnuts and 85 per cent of its sorghum.[i] Smallholder

farms produce 80 per cent of Malawi's food.[ii] One third of farming households in Malawi, and one fifth in Zambia, are headed by women. Yet women own on average half the size of livestock as male-headed households while they produce on average one third less than male-headed households, due mainly to the lack of labor for critical farming operations like tilling.[iii] Government figures suggest that 15 per cent of all female-headed households in Zambia survive on just one meal per day (compared to 9 per cent for male-headed households) – less than a third eat three meals.[iv]

**THE HUMAN COSTS OF THE REFORMS:**
After well over a decade of sweeping economic reforms and then 'partial liberalization', deep poverty is endemic in all three countries: around 65 per cent of the population in Zambia and Malawi lives in poverty, while the figure for Ethiopia is 44 per cent. These three countries are in a state of more or less permanent crisis when it comes to hunger.

• Most of Malawi's 11 million population go hungry for at least some of the time each year: 36 per cent of the population – around 4 million people – lives in 'ultra poverty' and thus is likely to suffer from chronic hunger, while a further 28 per cent of the population experiences food insecurity at certain times. Malawi's children suffer from deep and persistent malnutrition. Nearly half of all under-fives are stunted (too short for their age), and 40 per cent of these are severely stunted. The levels of child stunting are the same as for 1990. As a result, an estimated 40,000 children under five years of age die each year from nutrition-related diseases, such as malaria, acute respiratory infection and gastroenteritis - although the under-five and infant mortality rate has declined from 1990 to 2000.

• In Zambia, over 5 million people, or nearly half the population, are undernourished. Only a third can afford to eat three times a day – half have an average of two meals while one in ten survives on just one a day.

• In Ethiopia, nearly half the population (46 per cent or 33 million people) is undernourished, around 38 per cent is underweight while 47 per cent is stunted. Though these levels have decreased on figures from 2000, they remain abnormally high, describing a population that is permanently affected by the consequences of poor nutrition and poor health. The UN's Food and Agriculture Organization (FAO) notes that 6-13 million people risk starvation every year.

Malawi and Ethiopia both rank in the top four countries in the world in terms of chronic malnutrition levels, according to UNICEF. Chronic hunger not only debilitates people; it also restricts countries' economic growth. The lack of adequate government investments in farming and in particular poor farmers' lack of access to inputs, extension services and markets is preventing increases in output and productivity while low prices for farmers' produce, by depriving people of income, hinders smallholders from diversifying and investing in the future. These countries could in principle easily feed themselves and yet current productivity is but a fraction of what it could be. Governments and donors may have learnt lessons from recent food crises but even if their emergency responses have improved, farmers' underlying vulnerabilities remain and are getting worse. Government and donor policies are increasing hunger and exacerbating a permanent, silent crisis.

**CRITICAL ASSESSMENT OF THE FINDINGS IN THE REPORT:**

• **Partial liberalisation promoted by the World Bank and recipient governments:** The three countries' mix of continued government intervention and liberalization could in theory provide the best of both worlds, yet the failure to address hunger is the result of a messy, non-strategic combination of policies. Liberalization was pursued quickly, deeply, and at the behest of outside actors, notably the donors, especially the World Bank, and therefore lacked real internal ownership. Now, continued state intervention is presided over by governments that are often non-transparent, elitist and unaccountable, and where 'patronage' politics is the rule. The outcome is that they have the worst of both worlds – government intervention is not far-reaching, and has never been designed in participation with small scale farmers and thus not been good enough to really benefit the poor, but it is sufficient to crowd out badly needed growth in private sector development that could provide farming inputs in competitive markets and functioning markets for outputs. Some government interventions under the reforms have improved food security for the most hunger-prone. Fertilizer subsidies, for example, have reached some of the poorest farmers. Their removal, under full liberalization, would have increased hunger. Yet neither fertilizer subsidies nor price setting have reached enough farmers to make a difference to hunger across the country, but at the same time the continued government role has set back the cause of building the capacity of the private sector.

• **World Bank non-binding conditionality (benchmarks, PSIA etc) and informal advice are equally harmful as binding ones (prior actions, triggers etc):**
There are few examples of binding conditions today being attached to agricultural policies in the three countries. One exception is, however, the Bank's conditions regarding privatization of Malawi's state marketing board ADMARC. Numerous examples of less formal advice from the Bank are provided in the report. As an illustration the World Bank is consistently arguing for governments in Malawi and Zambia to bring subsidy programmes to an end, although loans are not conditional in this regard.

• **Lack of democratic ownership of World Bank plans:** This report illustrates that there is a tendency for the World Bank to rush reforms and give too little policy space to recipient countries. Democratic ownership of reforms are lacking in all three cases as no impact assessments were made by the Bank and as although authorities in some cases may have supported reforms, there was no support for the reforms among farmers, consumers and civil society. One particularly stark example of lack of ownership can be seen in Malawi where the government's own statements hold that government intervention is needed to increase fertilizer supply and maize prices. However, the Malawi Poverty Reduction Strategy (PRSP) agrees with the World Bank, and is silent on this issue, maintaining the free market orientation favoured by donors. It should be noted that the Norwegian Ministry of Foreign Affairs in a report (2006)[v] emphasised that in order to confront ownership problems recipient countries should be presented with a range of policy options rather than one solution when advised by the World Bank (or the International Monetary Fund - IMF).

• **Although not the main target of this report, the EU (EPAs) is also criticised:** All three countries that were studied have liberalized their trade regimes deeply under the reforms, mainly as part of structural adjustment programmes, but also (in Malawi and Zambia's case) as members of the WTO (Ethiopia is planning to join in 2009). These countries are among the most liberal in Africa, and in the world, including their low level of tariffs in the face of recent import surges from China and South Africa. Membership in the WTO does nothing to reverse this trend. Furthermore, the Economic Partnership Agreement (EPA) between the EU and African Caribbean Pacific countries will lead to even lower tariff levels, which will lead to large public income losses for these countries. The major beneficiary from the EPAs would be the EU, which would gain expanded trade into these countries, while regional integration and diversification would be undermined.

• **The number of people who are hungry or vulnerable to hunger has increased and the poorest farmers have become poorer:** As already mentioned (p. 1), the number of hungry people in the world is alarmingly high, going worse over the last decade. Overall poverty levels have remained the same in Malawi and may have slightly decreased in Zambia (in rural areas not urban) and, possibly, Ethiopia, although in the latter ever larger numbers of people require food aid. Given population growth, poverty therefore remains depressingly deep and entrenched while per capita incomes have fallen and inequalities between rich and poor have risen.

• **There is a negative trade balance in all three case countries (a reinforcing trend of lower exports than imports):** Liberalization policies have led these countries to lower their tariff barriers at an early stage (1993, 1995/6 and 2003) where production within the country had no chance of competing with products that were being dumped on their markets from abroad. The case countries are among the most liberalized in Africa and indeed the world. This fact should provide evidence that liberalization alone, as promoted by the World Bank and the IMF the last decades and the WTO more recently, is not the solution for poor countries. Deep trade liberalization has been accompanied by generally worsening trade performance and a lack of progress in the development of agriculture and strengthening of food security in all three cases. There seem to be a link, but the link has not been elaborated on in this report.

• **Low prices:** The problem of the low price of outputs as compared to the high price of inputs such as fertilizers is highlighted in the report. There is clearly a need for governments to guarantee minimum prices in certain cases. It should be recalled that guarantee prices have played a crucial role in early agricultural development in many parts of the world, including the EU. The prices of agricultural commodities – formerly set by the state – have been liberalized and are set primarily by market forces (with exception of maize in Zambia and Malawi and grain in Ethiopia).

• **The role of traders:** The governments need to deal with the problem of traders or retailers buying produce from farmers at low prices and selling at a much better price. Farmers also need better access to and information about markets and prices. Farmers' knowledge of prices in the market can be critical for maximising income. Farmers receive most information about markets through interaction with traders and neighbours and can be unaware of prices in other markets (even close to them) and additionally lack of stocking facilities is a problem for rural farmers.

• **Lack of inputs:** Lack of technology and access to inputs, e.g. fertilizers, seeds and credits, is identified as a major problem in the report. Many farmers believe that access to cheap fertilizers would be the solution to many of their problems. The merits and demerits of promoting fertilizers in Africa is itself subject to much debate, which is not the focus of this report. Suffice it here to note that the use of fertilizers must be seen in a much broader perspective. For example, water scarcity and water management may be as important factors as access to fertilizers, and fertilizers will not improve yields when there is a lack of rain. The fact that many farmers ask for fertilizers can in itself be seen as an expression of their need for quick solutions in a desperate situation, and as an expression of the lack of information about alternative methods and techniques to increase production.

• **Agricultural support:** Cutbacks in government extension services and farm credit, as a result of liberalization policies, have deprived farmers of important sources of knowledge and advice. Especially important is increasing farmers' knowledge of techniques to promote diversification, whether and how to use new seeds as well as developing alternatives to high-input, fertilizer-based agriculture. Additionally, there is a need for the government to secure investments in areas where short-term profit does not encourage private actors to invest.

• **Subsidy programmes:** The report has shown how free or cheap inputs and extension services to poor farmers were reduced or removed as subsidy programmes in the South have been abolished. The report illustrates that the World Bank has now gone along with the reintroduction of subsidy programmes in Malawi and Zambia, but seems to be reluctant to see this as a long-term process. The report illustrates that there is a need for subsidised inputs in the agriculture sector in developing countries. In our view, when subsidies are to be directed to inorganic fertilizers, they need to be integrated into a more comprehensive and sustainable agricultural approach.

• **The need for participatory processes and democracy to be developed:** The right to organize is one important part of this. There is clearly a need for poor farmers' voices to be heard both at national as well as global level. The right to organize is important as well as support from abroad to do so, in order for farmers to make powerful statements and strengthen their bargaining power – within the market as well as in political processes.

*Alecsina Mbwat, Chilembampita, Malawi*

**The report has not made a comprehensive analysis of all the elements, which would need to be included in donor advice and national policies to promote agricultural development and food security among farmers. In such a comprehensive analysis, the following aspects in particular would need to be further elaborated:**

• **Water supply** is vital for farmers and different types of water supplies will be critical for different types of farmers (cash crop versus subsistence). For instance, subsistence farmers need small-scale irrigation from sun-dams and micro-dams (as opposed to large-scale dams), built on community based technology and sustainability. Accelerating climate change will make these issues even more crucial.

• **Education** has a positive impact on modernisation of agricultural methods applied by farmers as well as on their ability to make informed arguments to authorities about their own rights and needs. Education should therefore be identified as an investment rather than an expense, particularly in the recommendations made by the World Bank as well as the IMF.[vi]

• **HIV and AIDS** have not been addressed by agricultural reforms promoted by the IFIs[vii]. These issues are fundamental to the functioning of any society, although they are not illuminated by this report. In some cases HIV and AIDS are impediments for people regarding access to land rights. Health expenditure should be seen as investment rather than expense by the World Bank as well as the IMF.

• **The right to land and distribution of land, and related gender issues.**
The right to land in many societies is traditionally afforded the male, whereas women are dominant. Competition for resources between subsistence farming and export oriented farming is very much a gender issue as well.

• **Gender issues** in agriculture as well as in society in general has only been dealt with to some extent in this report, but should be placed high on the agenda. It is illustrated by the fact that 70 per cent of farmers in Malawi are women farmers (while 87 per cent of the total agriculture labour force in Malawi is female[viii]. Furthermore, women are often single parents. If women lack access to food, children will also suffer. Children suffering from malnutrition will have less capacity to learn, and as a result hunger tends to be inherited.

• **Sustainable agriculture strategies** are not extensively analysed in this report. There is growing evidence to suggest that sustainable and organic agricultural methods can increase yields substantially in developing countries. Sustainable agriculture includes a wide range of methods and techniques: soil and water conservation, the use of compost and manure to maintain and increase soil fertility, crop rotation, biological pest management, increased biological diversity, livestock management, and many others. For agriculture to be sustainable, it must take into account the local social and economic conditions, as well as the physical environment in term of soils, climate, and ecosystem. Sustainable agriculture should be farmer-led, economically viable, ecologically sound and should contribute to the empowerment of the poor by promoting their control over resources. Ensuring that agriculture contributes to poverty reduction requires more than simply focusing on increasing agricultural productivity and improved access to fertilizers. Increased efficiency and technological development must be combined with adequate ways to deal with the scarcity of arable land, water, fuel, as well as environmental problems like salinization, erosion and pollution. In addition, increased productivity must be matched by effective mitigation of environmental and natural resource degradation to ensure the sustainable and productive management of natural resources.

• **Use of Genetically Modified Organism (GMO) seed** is an aspect that is not discussed in this report. Experience has illustrated, however, that GMO seed is costly and largely irrelevant for small farmers. Research to date has not come up with any advantageous crop variety, which would increase food security for subsistence farmers, but has rather been focused on cash crops. Moreover, GMO technology weakens farming systems since control over seeds is one of the pillars of sustainable farming systems and important for cultural identity. In combination with patents on seeds, GMOs will create new forms of dependency for peasants and unjust market systems. Additionally, GMOs may not be safe. Unpredictable adverse effects have shown that GMOs bear great risks for both the environment and human health. GMOs should therefore not be seen as an adequate solution for combating poverty and hunger in the world.

• **Coherence between IMF macroeconomic and World Bank microeconomic advice and strategies** is necessary and has been highlighted by the Malan report[ix] and the IEO report[x]. This is an aspect not covered by this report. In general the World Bank is subject to more extensive criticism than the IMF in this report, but this does not mean that the IMF is not to blame. Earlier reports have illustrated

that for instance in Malawi macroeconomic advice in PRGFs regarding inflation targets and wage caps has had dramatic consequences for the public sector (for instance health and education)[xi]. Such advice from the IMF will indirectly have effects on agriculture. Moreover, IMF advice has also directly affected recipient countries. For instance in the case of Malawi during the food crises of 2002/3, the IMF advised the national food reserves agency in Malawi to dispose of the reserves in 2002. Subsequently, Malawi was advised to deal with the crisis by receiving food aid, which included GMO maize from the US[xii].

**RECOMMENDATIONS:**
Taking the perspective of poor farmers themselves, they principally highlighted three needs in the interviews with the researcher:

• To grow more food, meaning increasing their productivity. This in turn can mean having greater access to inputs such as fertilizer, improved seeds, and being able to receive credit. And/or, it can mean improving knowledge of new farming techniques, including organic farming that does not require expensive inputs like fertilizer, and techniques that enable farmers to diversify to other crops (i.e. usually away from a dependence on maize or teff).

• To receive better prices for the sale of their produce in easily accessible markets.

• To have opportunities for alternative sources of employment, either locally or in bigger urban centers, given the current reality of constant food shortages. Of course, in the absence of growing more food to become food self-sufficient, a key is to buy food at low prices

**HOW TO ACHIEVE THESE GOALS:**

**THE WORLD BANK AND DONORS NEED TO PRIORITIZE:**

**1)** A promising World Bank (donor) strategy for reducing hunger and poverty must start with a clear identification of affected and vulnerable social groups. In most countries these groups are marginalized smallholders, landless rural people, pastoralist fishermen and people whose livelihoods depend on the forest;

**2)** Reduction of hunger should not be reduced to a question of charity because every person has a RIGHT to a life in dignity, to adequate food, shelter, education, health etc;

**3)** Agricultural policies promoted by donors should be re-oriented to address the UN Millennium Development Goals (MDGs) in general, and more particularly the core problems of sustainable agriculture, rural poverty, the escalating HIV/AIDS pandemic and the marginalization of women;

**4)** Donors should build the capacity of the recipient governments to undertake Poverty and Social Impact Assessments (PSIA) with the participation of civil society, on all major policies;

**5)** The World Bank and other donors should stop promoting privatization informally, as well as formally. The World Bank's formal and informal advisory role has been and still is problematic because it undermines the democratic ownership of policies in recipient countries. Furthermore, governments should be presented with real policy choices rather than being pushed in the direction of liberalization. Consequently, the Bank needs to focus more on assessing the consequences of reforms and to help governments shape alternative policies rather than providing them with one recipe for reform;

**6)** The global trade imbalance where the North continues to subsidies agriculture, where as the South has been deprived of protection through tariffs and other measures needs to be corrected. Multilateral institutions such as the World Bank, the IMF as well as the WTO have not adequately responded to the needs and rights of people in the South. It should not be assumed that markets are able to meet social aims. This has been proven a flawed strategy in numerous cases;

**7)** Northern countries (donors) should stop dumping their subsidized agricultural products and pushing for even lower tariffs in multilateral (WTO) and regional (EPAs) trade agreements as this creates problems, for instance in terms of policy choices for developing countries in general and ACP countries in particular (in EPAs).

**AFRICAN GOVERNMENTS NEED TO PRIORITIZE:**

**1)** Increased financing of core public goods and services such as agriculture R&D, food security and infra- structure, also ensuring that resources are better targeted at poor subsistence farmers and women in particular;

**2)** Increased investments in extension services for small farmers, with a clear focus on sustainable techniques;

**3)** Regulation of private companies, which operate on liberalized markets, so that exploitation of farmers is prevented;

**4)** Institutions for the development of efficient markets, in particular mechanisms for dissemination of market information;

**5)** Ensuring that government interventions are transparent and predictable, in order to enable better coordination between private and public decisions;

**6)** Reforming land tenure and security, which will mean more equitable land redistribution policies;

**7)** The recipient governments must take the lead in economic policy-making, through democratic ownership processes, and donors should play a role in building, not supplanting, the capacity of the government to do so with full accountability to parliament, farmers, consumers and civil society.

[i] FAO/WFP, Zambia, p.4
[ii] FAO, 'WTO agreement on agriculture: The implementation experience - Malawi', www.fao.org
[iii] FAO/WFP, Zambia, p.23
[iv] CSO, p.124
[v] Bull et al (2006): "The World Bank's and the IMF's use of Conditionality to encourage Privatisation and Liberalisation: Current Issues and Practices".
[vi] See Action Aid, 2007.
[vii] WDM, 2002.
[viii] WDM, 2002.
[ix] Malan et al (2007):"IMF, World Bank Need to Work Better Together" in IMF Survey Magazine, 19.03.07.
[x] Independent Evaluation Office Report (2007):"The IMF and Aid to Sub-Saharan Africa", 12.03.07.
[xi] Action Aid, 2007.
[xii] WDM, 2002.

This report is a study of the impact of economic reforms on hunger-prone people in three of the world's poorest countries: Malawi, Zambia and Ethiopia. Its primary purpose is to assess whether food security has improved or worsened and why.

This research is relevant because there is a crisis of global hunger in the three countries studied. There are around 820 million hungry people in the world, of whom 150 million are children. This number has, according to the UN's Food and Agriculture Organisation (FAO) actually risen by 20 million over the past decade.

This report states that not only have past policies of 'deep liberalization' insisted on by the World Bank increased hunger for the poorest people, but current 'partial liberalization' - the mix of imposed liberalization from the outside together with ongoing state intervention in certain areas - is barely an improvement. The faults lie as much with national governments as with the World Bank, which are both essentially undemocratic, elitist actors, who are ignoring the needs of poor farmers. The price for the current unstrategic mix of policies is being paid by some of the poorest people in the world.

Antenna

NORWEGIAN CHURCH AID

**www.nca.no**
Tel.no: +47 22 09 27 00
Adr.: Bernhard Getz' gate 3
P.O.Box 7100 St. Olavs plass
0130 Oslo