Master thesis for the Master of Philosophy Degree in Environment & Development Resource Economics

Title
The Malawi Structural Adjustment Program:
an investigation of its socio-economic impact on employment, rural-urban wage gap and migration

by

Justice Dunstan Chimgonda-Nkhoma

Supervisor: Øystein Jørgensen

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Department of Economics, University of Oslo

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To the Lord Jesus Christ be the Glory.

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LIST OF ACRONYMS

NSO	Malawi National Statistical Office
SAPs	Structural Adjustment programs
WB	World Bank
IMF	International Monetary Fund
GDP	Gross Domestic Product
UNDP	United Nations Development Program
HIV	Human Immune-deficiency Virus
AIDS	Acquired Immune Deficiency Syndrome
ADMARC	Agricultural Development and marketing Corporation

EXECUTIVE SUMMARY

Since 1981, Malawi like other developing nations has implemented a series of policy interventions through the World Bank and the International monetary Fund Structural Adjustment Programs (SAPs). The purpose was to revive the county's declining economy and to adjust it to attain sustainable growth (Harvard Institute for International Development 1994).

Despite these efforts, poverty in Malawi has continued to rise. Current estimates show that about 65% of the 12 million Malawians are poor (United Nations Development Program (UNDP) 2006). There is now growing evidence to suggest that SAPs have contributed to the worsening of the economy and people's living conditions in general within Malawi and elsewhere. Little is however documented to assess SAPs impact on employment, the rural-urban wage gap and, migration in Malawi. The present study was therefore conducted using Harris- Todaro model in attempt to fill this knowledge gap. The study's specific objectives were the following:

- To find out whether the wage gap between the rural and urban informal sectors has been increasing, decreasing or is constant.
- To determine how this wage gap has affected migration between these sectors.
- To advise the policy makers on how to allocate resources for development in the country targeting at poverty reduction.

Time series data for the whole Malawi was obtained from the Malawi National Statistical Office (NSO) covering the period between 1964 through 1998. This was then analyzed using Microsoft Excel software. The initial plan was to run econometrics analysis using Stata program. However, because the data that came through contained limited variables and was also already aggregated, this was not possible. This study is probably the first of its kind since SAPs implementation in Malawi. It is of its kind because it has mainly been based on review of several literatures on SAPs in Malawi. Therefore, it still gives a valid picture about Malawi's situation during and after the SAPs.

The study results have revealed that, during the SAPs period, there has been increased employment levels in all sectors which contradict the predictions of the model used. Furthermore, the internal migration has continued to take place although at low levels. The rural-urban wage-gap again has been widening but not that the poor have been getting poorer than before; rather the rich are becoming richer at faster rate than the poor can cope with. In general, the poor are also getting rich though slowly.

The above results should however be interpreted with caution because regression analysis was not done, hence making it difficult to establish the specific causality relationships between the SAPs and the variables under study. This is because of several other socio-economic changes which were also taking place alongside the SAPs which would as well explain the above observations. These include among others, uplifting of rural-urban migration restriction and change of governance from autocratic rule to multiparty democracy.

It is therefore recommended that a large scale study be done to help run the regression analysis in order to establish the true cause-effect relationships of the variables under investigation.

CHAPTER ONE

1.1 Introduction

Malawi is a relatively small, landlocked country in Southern Africa with a population of approximately 12 million people. The country lies between latitudes 9^0 45' and 17^0 5' S and longitudes 33^0 and 38^0 E. It is bordered by Tanzania in the north and northeast, Mozambique in the east, south and southwest; and Zambia in the west and North West. Malawi is 901 km long and has a total area of 118,484 square kilometers of which one third is Lake Malawi, one of the largest fresh water areas in Africa you may refer to fig 1 below. The population density is estimated at 105 persons per square kilometer (Malawi National Statistical Office 2000).

Figure 1: Southern African Map showing where Malawi is located
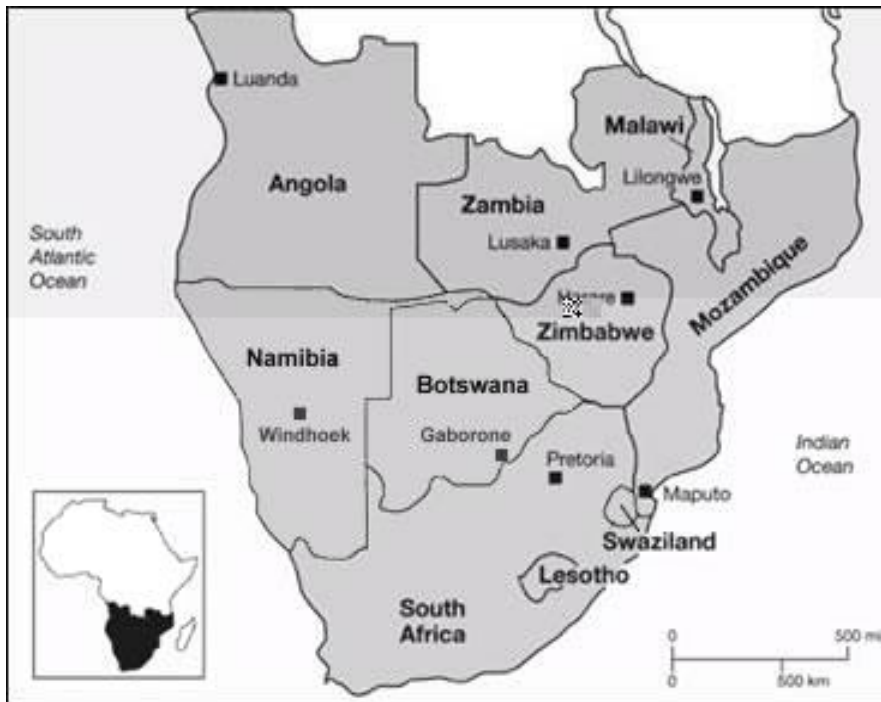
Source: www.canoncollins.org.uk

1.2 Malawi's economy

Malawi has one of the world's lowest per capita incomes ranking 166th of the 177 countries on the UNDP development index (UNDP 2006). According to the Malawi National Economic Council (2000); more than 80% of the country's total population lives in the rural area with an estimated 65.3% living in poverty out of which 27% are in extreme poverty. In the absence of a variety of natural resources, the agricultural sector remains the most important sector of the economy contributing up to approximately 35% of the gross domestic product (GDP); employs about 80% of the labor force, and contributes up to about 90% of the Malawi's export earnings. This is followed by non manufacturing industry which contributes up to about 20% and manufacturing, 13-14% to the GDP. The rest is contributed by other services (ibid)

1.3 Urbanization

According to data from population censuses 1977 through 1998, there has been a steady rise in urbanization from 9% in 1977, to 11% in 1987 and to 14% in 1998 in Malawi. This is however regarded as still low compared to other countries within the sub Saharan region. This situation has largely been attributed to a complex array of factors related to long lasting poverty. For instance, factors such as severe droughts and prolonged rainy seasons, have resulted into recurring years of food shortages (Malawi National Economical Council and NSO 2000). Furthermore prior to structural adjustment programs (SAPs), discussed in detail in section 1.4, Malawi's agricultural policies were mostly in favor of commercial farmers hence restricting small-holder farmers from growing high cash income crops like tobacco.

High rates of the Human Immune deficiency virus (HIV) (affecting about 15% of the adult population) especially amongst the productive age group (15- 34 years) have again played a significant role on urbanization. The disease has affected the labor supply and efficiency. Furthermore, it has led to considerable reduction of resources allocated to agricultural activities by most rural households. This is because part of the resources meant for agricultural production is being diverted to the caring for the sick and the dying (Grant &

Logie 2005). Consequently as a survival strategy, segments of the rural population are migrating to urban areas where they are engaging themselves with non-agricultural activities street vending and to a lesser extent, getting employed (Ibid).

In view of the above background, one would argue that the agricultural sector is an important springboard for the country's economic growth and development. The major challenge however has been that this sector has over the decade continued to rely on external factors of declining terms of trade, climatic conditions and donor assistance. This has in turn made Malawi's economy to remain fragile. It is therefore important to keep track of the trend of Malawi's development and to understand how socio-economic policies such as the SAPs have impacted on the country's economy.

1.4 The trend of Malawi's development and the introduction of the structural adjustment programs (SAPs)

Until the 1960s, Malawi's economic development was commodity based and focused on enterprises with export potential of agricultural products like tobacco, tea, coffee and cotton. Production of these crops was mainly by large white-owned estates who could afford expensive inputs required for plantation crop production. The indigenous farmers were only involved in non-cash crop production. Gradually, these indigenous small- scale farmers adopted the new agricultural technologies brought by the white farmers for fear of penalties from the colonial government rather than the technologies' appropriateness. This coercive agriculture eventually led to progressive poverty among the indigenous people (Moyo 2002).

After the attainment of independence in 1964, Malawi focused its attention on food production especially maize to ensure self-reliance at both house-hold and national levels. To achieve this goal, agricultural inputs (inorganic fertilizers and hybrid seeds) were heavily subsidized and credit, both short and medium term, was made available to farmers. The challenge was that not enough cash was generated from these crops. Consequently, poverty in Malawi has remained a major economic problem at all levels (ibid).

The 1970-80s were characterized by strengthening of the agricultural research system including the involvement of socio-economists in agricultural research in an approach termed as "adaptive research". Within this approach were teams which comprised of agronomists and economists who were deployed to rural areas across the country. The purpose of introducing these teams was to increase agricultural productivity amongst the smallholder sub-sectors which was believed to have been constrained not only by the technology alone but also, by socioeconomic factors. These ranged from access to credit, to some cultural values within the farming system (Mwenda 2000).

The 1980-90s saw the emergence of the SAPs which were designed by the World Bank (WB) and the International Monetary Fund (IMF) during this period. These were economic policies which were introduced with the goal of preventing economies of most developing countries from collapsing. This was immediately after the global economic recession of the late 1970s. SAPs have got many components but those that apply to this study are trade liberalization and the agricultural reform policies. These were chosen because Malawi's economy is agrarian and, the agricultural sector alone employs more than 85% of the country's economically active population (Mwenda 2000).

1.5 Structural Adjustment Programs in Malawi

Malawi adopted SAPs in 1986 to help alleviate the country's worsening poverty whilst achieving sustainable economic growth. The major reforms within the Agricultural sector were the gradual removal of agricultural subsidies and agricultural market liberalization. This meant that farmers were no longer limited to sell or buy agricultural products from the Malawi Agricultural Development and Marketing Corporation (ADMARC); which was then the only state owned enterprise that was mandated to provide market to the agricultural sector in Malawi. Instead, farmers were allowed to trade with other private traders. Coincidentally, small-scale farmers were again allowed to start growing high valued cash crops like burley tobacco and coffee. Taken together, these reforms have to some extent contributed to a shift from reliance on a few agricultural crops to a diversified tradable agricultural base for the small scale farmers (Mwenda 2000).

Other developments during the SAPs period among others include:

- The uplifting of rural-urban migration restriction which was imposed in the early 1970s.
- Political transition from one party to multi-party system of governance in 1994.
- Re-introduction of massive agricultural subsidies during 1990-1993 periods.
- Two consecutive drought years and flooding in some major agricultural areas of Malawi (1992/93 and 1993/94 growing seasons).

1.6 The impact of SAPs in the Malawi's agricultural sector

The initial impact of SAPs on agriculture in Malawi was the substantial increase in tobacco production and private sector participation in marketing of the agricultural produce Malawi**.** This has however been offset by input prices which have been increasing at a faster rate than produce prices (Ministry of Finance and Economic Planning 2001). In turn, critics have argued that SAPs have led to the rise in the cost of production inputs with subsequent decrease in food crop production. This has led to generalized food insecurity across the country and in turn, has triggered rising food costs. Again, lack of public subsidies has stressed the ability of urban incomes to meet their minimum socio-economic needs. Similar criticisms against SAPs have been documented in other countries. In Ghana for instance, Agyemang (2000) reports increased income inequalities between the rich and the poor and that, the socio-economic situations of individual Ghanaians have generally worsened.

Besides the above criticisms, some proponents of SAPs have argued otherwise. Chirwa (2001) for instance states that privatization, a component of SAPs, has improved the technical efficiency of all privatized enterprises in Malawi by 5% than the period prior to SAPs implementation. Again, Agyemang (2000) asserts that SAPs have had a positive impact on the macro level in Ghana by preventing the collapse of the country's economy and maintaining the average growth of the Gross Domestic Product (GDP) at 6%. He further states that SAPs have reduced inflation, created budget surplus and increased export

earnings. Based on the above evidence, it becomes apparent that SAPs have had both positive and negative impacts at micro and macro-levels.

1.7 Problem statement

Despite the implementation of the structural adjustment programs in Malawi, poverty, urbanization and unemployment have continued to rise instead of declining. As shown by the 1998 Malawi Integrated Household Survey, 65.3% of the population is living in poverty and a further 27% in absolute (extreme) poverty (Malawi National Statistical Office 2005).

That aside, the 1995 Malawi Social Indicators Survey indicate that there has been a steady increase in urbanization (see sections 1.3. and 1.4). Further more, unemployment rate within the economically active population is estimated at 93%. This percentage includes those in informal employment and the agricultural sector. In view of this, it was not clear to determine whether the SAPs had contributed to Malawi's developments or not. The next section is a review of literature on the present study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Formal and informal sector employment in sub-Saharan Africa

Urban and rural sectors have varied definitions depending on a number of factors like the physical boundary, population density and the nature of activities prevalent in those areas. For the purpose of this study, the rural sector is defined as a sector where the primary activity (employment) of its population is agricultural production. The urban sector on the other hand is characterized by a variety of activities other than agricultural production and comprise of the formal and informal sectors. The formal sector is where there is registered employment under salaried conditions. Examples of such institutions include government departments.

The informal sector mainly has people who are self-employed and are mostly engaged in such activities like construction, manufacturing and vending and are paid on wage basis. Potts (1995) says that this sector formerly acted as a source of the training arena particularly for people deprived of education who in turn served as a source of labor supply for the formal sector. With the implementation of the SAPs, the situation has to a greater extent changed. The informal sector now acts as the most convenient avenue for the absorption of retrenched workers, creating alternative employment for migrants and for the unemployed youth. Furthermore, he asserts that the trade liberalization policies pursued by African governments have led to the collapse of many local industries that could not compete with cheap imports from abroad. This has also led to many people being thrown out of employment in the formal sector into the informal sector. Most of these workers move into the informal sector for survival.

Again with the shrinking of the formal sector, the informal sector has continued to absorb more than a half of the active population in different countries. For example, the proportion of workers absorbed by the informal economy in Burkina Faso and Mali is 80%, 90% in Ghana, 72% in Kenya, 50% in Tunisia and 53% in South Africa (ibid).

In summary, the informal economy alone today accounts for a significant share of employment and economic output although a remarkable range of informal work arrangements are not recognized by any legislation.

2.2 Formal and informal sector employment in Malawi

Until in 1979, Chipeta (1993) says that Malawi continued to experience rapid growth both in terms of agriculture and industrial development. Within the same time, exports and domestic markets were built on the premise of rising living standards of workers. Transport infrastructures and utilities were also built during that time.

Deterioration of the country's economy however started in the early 1980's as a result of several droughts including increases in oil prices at the international level. This led to the worsening terms of trade and the disruption of overland transport due to the war in Mozambique (Ibid). All these factors contributed to the decline in GDP growth from 0.4 % in 1980 to -5.2 % in 1981. The railway line disruption resulted in costly road transportation of commodities which in turn triggered the increase in commodity prices. As a result of this war there was also an influx of refugees from neighboring Mozambique which were also supported by the same weak economy.

The formal and informal employment sectors contribute to less than 18 % of the Malawi economy; with everyone somehow connected to smallholding farming; the formal sector jobs annual growth rate was estimated at 8.2% between the period 1968-1977 well before the SAPs were introduced. During the SAP period, this figure decreased to about 3.7 % between 1977 and 1986 (Ibid).

That aside, Potts & Mutambirwa (1998) state that trade liberalization and the growth of export oriented agriculture have also resulted into the marginalization of smallholder farmers who must turn to non-agricultural rural employment or migrate to the urban sector. On the other hand Kamete (1998) says significant numbers of retrenched urban workers in most parts of the sub-Saharan Africa including Malawi, are thought to be returning to the

rural sector. Whilst in the rural sector, the seasonal-waged agricultural work has also provided temporary employment for the low-income urban groups. Thus there are some rural-urban linkages because of these activities.

2.3 Economic activities in the informal sector

The type of activities and skills in the informal economy differ from country to country and there are various categories of workers in this sector. For example, there are own account workers who are usually self-employed like street vendors. These work alone or engage themselves in unpaid work. They are generally family members and apprentices. Their activities are however hindered by lack of skills for conducting their business, credits for investments, raw materials and access to amenities like water and electricity.

The roles of own account workers as suppliers of a wide range of goods and services to low and middle-income families are very significant. These, especially street vendors are seen as unfair competitors by shopkeepers and are mostly subjected to harassment and eviction from public areas by the authorities. Often times, they have been the targets of exploitation by officials who confiscate their goods or have fallen victims of natural disasters such as water or fire. Their plight is prolonged as a result of their inability to have access to space and basic facilities for business growth and development.

Another category of the informal sector workers are the dependant workers who work in micro-enterprises. These mostly work under harsh, unsafe and unhealthy conditions and do not usually have access to the benefits that they accrue for their counterparts in the formal sector. Included in this group are the unpaid workers who are in most cases family members and apprentices. Their activities are not recorded in statistics because of the nature of their work which is often based on tradition and customs. These are mostly employed on contractual terms and are often at the very end of an invisible chain of sub-contractors.

Outsourcing home workers and paid domestic workers are another segment of dependant workers whose activities are invisible in nature. Because of various cultural and religious reasons; in most African traditional societies domestic work is the only possible way for women to satisfy their family responsibilities and income needs. As for the paid domestic workers, women constitute a large part of the labor force in the informal economy in Africa. They however usually face the problems of long working days, low wages, lack of maternity benefits including no child care, daily threats of dismissal and are exposed to trafficking, exploitation and sexual harassment.

In summary, working conditions in the informal sector are usually precarious, unsafe, and very poor both in terms of remuneration and occupational health and safety. The wages are also generally low with no structures for rewarding long service or productivity. Low level of incomes is furthermore compounded by the fact that there is high level of risk, poor relationships between the employer and employee especially because of having neither legislation nor regulations with jurisdiction prescribed for this kind of relation. This in turn further renders incomes unstable and irregular, and with no social security; feelings of job insecurity are high thus aggravating poverty levels for the operators.

2.4 Migration

Fall (1998) asserts that those who migrate often tend to be the youth, the physically fit and many a times those who have got better education than the average who have access to urban based social net-works. He further states that the elderly and the poorest, especially women usually do not migrate. He therefore argues that labor availability during the peak agricultural season may in turn become scarce.

Further arguments suggest that in most circumstances, women who remain behind often have limited control over the remittances sent by their male counterparts. This to some extent reflects the culturally specific gender relations especially in most parts of the sub-Saharan region. This in turn makes the women to have limited access over the assets (Ibid).

In view of this, poverty has become endemic within the region with more than half the population living on less than 1 US dollar per day, absolute poverty, (ibid). Adding on to this is that the recent economic recovery has not been sufficient especially in this region to prevent the continued growth of unemployment and underemployment in both urban and the rural areas.

Opportunities for decent employment and income are also extremely scarce for the vast majority of the population. Consequently, due to the low economic performance coupled with the high population growth, civil strife, debt and its adverse effects, the situation has become worse.

The non-employment situation has further been aggravated by the low absorption capacity within the labor market, low literacy rates among adults, inadequacy of technical and vocational training, and the increasing number of countries affected by armed conflicts in the region.

2.5 Trends in migration and wages from the colonial period

Most sub-Saharan African states were considered 'labor reserves' during and soon after the colonial period. 'Labor Reserve' in this thesis means that most parts of the rural areas in these countries provided cheap labor to the urban centers both within and outside their countries to work in various industries like the mines and the plantations. Thus the role of the rural sector was limited to that of reproduction of labor as viewed by the capitalists colonial masters who were export oriented.

This paper focuses on internal migration which is the movement of people within a country. In this study it is the movement of people between rural and urban sectors. Potts (1995) reports that men from his study in Zambia would migrate to urban centers with wage-labor and returned to their homes at later ages in life when they would no longer be economically active. He further states that at the time of migration, the rural economy was expected to carter for the families left behind by the migrants. Has goes on to say that

because migration provided cheap labor, this tendency continued until development of the rural commodity production declined. For example Evans (1990) found that 68% of all male heads of the households in his study area had spent sometime in wage employment in the urban areas for the period ranging from 1 to 26 years (ibid).

According to Chijere-Chirwa (1996) in Malawi the rates of rural-urban migration were generally low during the colonial period though there was much emigration to other sub-Saharan southern African countries like South Africa and Zimbabwe. This was because they had mines; hence Malawi provided cheap labor to them. This was however stopped following orders by the then president of Malawi, Hastings Kamuzu Banda to stop recruiting Malawian workers to these mines. This was a result of a plane crash in 1974 that killed all Malawians who were on board. Apparently, they were the Malawian mine workers who were going to their homes on vacation. This led to a complete change in the trends of migration.

Instead, the then government under the leadership of Kamuzu Banda developed the agricultural estate sector and relocated most of the deported mine workers to the agricultural estates to provide labor. This relocation strategy combined with migration restriction helped to reduce migration to the urban centers. This resulted in high agricultural production and ensured food availability. At the same time this ensured enough availability of labor supply especially during the agricultural peak periods (ibid).

Chipeta (1993) also reports that before independence of most of the southern African countries, there were low rates of rural-urban migration due to migration controls. However after independence in the early 1960s, there were rapid rates of this rural-urban migration as the result of the abolition of the migration controls brought in by the white masters. This therefore led to more people migrating from the rural to the urban areas.

With regard to wages, Potts & Mutambirwa (1998) report that in the immediate post independent period, the urban formal sector real wages increased rapidly in most parts of the sub-Saharan African region. For example in Zambia, an estimated 40% increase

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between 1964 and 1968 compared was recorded compared to 3% increase in the farmers' rural sector real wage. In contrast in Tanzania, the urban wage increased by four fold between 1957 and 1972 (ibid).

Potts further argues that the wage gap between the urban and rural sector became very wide and it continued to widen. This resulted into high rates of rural-urban migration leading to high rates of urbanization which was by then still considered urbanization at its low levels. This urban-rural wage gap coupled with the rapid rates of urbanization were therefore seen by the WB and IMF as a sign of inefficiency of African governments regarding resource allocation. This therefore led to the emergence of SAPs as discussed in more detail above.

The 1970s, according to potts (1995), were characterized by the emergence of the urban informal sector. Activities in this sector have been discussed in more detail in sections 3.2 and 3.3. With regard to wages, Jamal & Weeks (1988) state that during the 1970s and 1980s, the rural-urban informal wage/income ratio in many African countries had either been reduced or shifted in favor of a farmer. This was because of the emergence of the informal sector even though the even though the urban formal wages were still high. In Nigeria for example, Jamal and Weeks found that in 1978 the ratio of average informal urban unskilled wage to that of the average rural household was one to one. In Sierra Leon, they found that the average wage for an urban informal sector worker was 72% less than that of the average rural income. Again in Tanzania, the urban informal wage was   21 % less than that of the average rural income (Ibid).

Jamal & Weeks (1998) continue to argue that the early rise in urban incomes were indeed necessary to be adjusted for the urban workers' family consumption needs. They go on to say that this was particularly important since the colonial wage setting tended to ignore these families but instead paid more attention to the 'single workers'. One can therefore argue that the wage increase did not necessarily mean that the workers had enough money at their disposal even for the non-essentials since the rise merely covered their essential needs and just enough to carter for their families residing in the urban sector. Amis (1988) mentions that during the late 1970s, the gap had been narrowing in Zimbabwe. He

attributes this to the emergence of trade unions which were pressing hard on these African governments to increase wages for the urban formal sector employees. These trade unions were however seen by these governments as more of being opponents than collaborators in development. Despite this being the case, the trade unions continued to fight for higher wages.

From the early 1990's, Englund (2002) states that political reforms in Malawi coupled with the SAPs brought some dramatic economic changes in the country. The new multi-party regime encouraged private small scale entrepreneurship resulting into a lot of people migrating to the urban centers. The small scale businesses set by these people included among others the street vending, tinsmith, hawkers, butchering and traditional healing. This economic freedom was short lived as the economy started declining drastically because of the previous two consecutive years of drought which resulted in severe food shortage. For example, he further found that the inflation rate rose to 116% in 1994 and had decreased to 70% in 1996. Since then, it has been fluctuating within the ranges of 30 to 40%. Surprisingly he also found out that the credit accessibility in the urban centers by the informal small scale business people was very difficult as most lending (credit) institutions demanded evidence of cash flows and credit guarantors before they could grant credits. These were some of the requirements that most small scale business men could not manage to fulfill.

Again, Englund (2002) further found that the low rates of urbanization that began during the late colonial period in Malawi were much smaller than elsewhere in the sub-Saharan region. For example, he found that upon independence in 1964, 95% of Malawi's population lived in rural sector. He also noted that urban population had increased from 200,000 to 879, 000 between 1966 and 1987 in Lilongwe city alone. This represents 5% and 11% of the total population respectively. By 1998, it was reported that only 14% of the total population lives in urban sector (ibid)

2.6 The rural-urban linkages

The rural-urban linkages are mostly influenced and often intensified by macro level changes including the SAPs and economic reforms. These linkages can be categorized into two: linkage across space (flow of people, goods and money) and sectoral interactions which include rural activities taking place in the urban sector. Kelly (1998) cites such examples like indulging in agriculture within the urban area or urban activities like manufacturing and services taking place in the rural sector.

These rural-urban linkages affect both urban and rural populations. For example, Kamete (1998) states that remittances from urban-based family members may be an important source of income for the rural-based members who have the responsibility to look after their migrant relative's children and properties. Although this is the case, Kamete argues on that because of job insecurity and general increases in prices in the urban sector, these expectations to some extent makes it increasingly difficult for the urban dwellers to support their dependants who either stay with them or live in the rural sector.

Regardless of these responsibilities however, evidence especially in most parts of the sub-Saharan African region shows that such efforts are under-recognized by the policy-makers.

2.7 Gaps in Knowledge

Since the implementation of SAPs in Malawi, little or no effort has been made to evaluate and to assess the impact of these reforms on employment, the wage gap between the rural and urban sectors as well as the internal migration. In view of this, the present study attempted to explore this knowledge gap.

2.8 Study purpose

The study findings were intended to provide insight into SAPs and their effects on socio-economic development efforts for Malawi. This information would be valuable in informing policy on how to direct developmental aid to different sectors in order to avoid

unnecessary sectoral migration thereby contributing to poverty alleviation. Chipeta (1993) states that Malawi has low level of urbanization such that there is a need to use this situation (low urbanization) to strategically plan for efficient labor allocation and timely plan for rural development (rural growth centers). To achieve this, there is need to understand how some programs have impacted on the internal migrations, the wage gaps and employment which this study has strived to provide.

2.9 Broad Objective

Therefore this study investigated the impact of these two above mentioned structural adjustment programs on the wage gap between urban and rural sectors in Malawi with reference to employment and internal migration.

2.9.1 Specific objectives:

- To find out whether the wage gap between the rural and urban informal sectors has been increasing, decreasing or is constant.
- To determine how this wage gap has affected migration between these sectors.

This study has used the Haris-Todaro theory of migration and development. This theory states that in dual economy, the sectors are different in terms of poverty and that workers migrate from the sector with low wages to that with expected high wages. Malawi has this kind of dual economy. This is discussed in more details later on.

CHAPTER THREE

3.1 Theoretical Perspective of the Study

For the purpose of this study; the Harris-Todaro Rural-Urban Migration Model with endogenous wages was used to investigate the wage gap between the urban informal and that of the rural sector. The model postulates that people migrate in response to urban-rural differences in their expected rather than actual wages. They migrate from the low wage sector to the expected high wage sector in search for better living conditions (Ray 1998).

The model looks at the dualistic nature of an economy like that of Malawi. 'dualistic' refers to the fact that there are two sectors of economy which in this case are the urban and rural.

The Rural-Urban migration takes place until the expected income of moving to the cities is higher than the rural sector actual income.

This model has been very influential in demonstrating policy implications in pursuant of poverty reduction. This is interesting as it provides the basis of discussion of the strategies of poverty reduction with a focus on the principle trade-offs of the policy implications if the principle of aid is either trickling down to the poorest or that of spilling-over of the effects of the same aid to the other sectors if it is directed to one sector.

However this study focused on the wage gap between the rural and urban sectors as this is mostly the major factor which determines one's decision on migration. This is particularly important as it shows whether the battle of fighting poverty is being won or not.

This theory was therefore found particularly suitable for this study because it shows the backward and forward linkages of issues affecting both urban and rural sectors especially in terms of the wage gap differences and the labor dynamics. This study however did not aim at testing the model fully. Instead, it focused on the wage differences in the rural and

urban sectors and demographic factors in relation to sex, level of education and age of the migrants between these sectors.

In the model, the urban sector is decomposed into two parts namely urban formal and urban informal sectors. The former is characterized by legalized, regulated, organized and registered, well paying jobs and it is geared towards capital-intensive and large-scale production mostly using increasing returns to scale of production technologies. On the other hand, the latter is the opposite of the formal sector and it is characterized by self-employment in small-scale family enterprises such as hawking, street vending and knife sharpening; or wage employment like being engaged in construction companies, house-keeping, flower gardening and security jobs in households of formal sector employees (Ibid).

The rural sector which is also referred to as the agricultural sector on the other hand; is characterized by smallholder subsistence farming either on small portions of land or the farmers being engaged in tenancy farming or wage employment in estates (Ibid). This describes the Malawi's economy very well which is mainly dependent on agriculture. In this study the main goal was to find out the policy implication of removal of subsidies on the agricultural inputs which was one component of structural adjustment program.

It is in this sector where the significant fraction of the population especially in developing countries lives and the majority of them connected to agriculture as a way of life. Thus this sector usually exhibits constant returns to scale production technologies (Ibid).

In view of the above scenario, the decision to migrate as Ray (1998) asserts is determined by a number of factors such as expected high wage, probability of getting a formal job, duration taken to get that job and the survival strategy in the new sector.

Because the urban formal sector wages are much higher than rural wages and may be even higher than the urban informal wages; migration therefore occurs until average or expected rather than actual income is equal across regions. Consequently, as Todaro (1997)

proposes, this generates equilibrium unemployment or underemployment in the urban formal sector. Todaro further argues that extensive rural-urban migration may produce high social costs hence resulting into lowered output thus straining on the limited infrastructure.

Due to this extensive migration, the urban sectors are becoming more over-crowded with people mostly from the rural sector in search of employment resulting into increased labor supply than is demanded. These being the case, low wages are often offered to those who secure jobs in the informal sector. Again, more pressure is exerted on the urban infrastructures and hence making the people in the informal sectors the poorest of all. Concurrently, the rural sector is deprived of those with better education and the more socio-economically productive people resulting into low output production due to the nature of its constant returns to scale of production technologies. Meanwhile, the actual wages in the rural sector are higher than those offered for the urban informal sector due to high demand for the scarce labor force.

With regard to age and sex of the migrants, migrants tend to be those who are socio-economically productive especially young people and the better educated who usually come from all socio-economic strata. Almost by definition they are thought to be of above-average entrepreneurial drive. Thus paradoxically; migrants are believed to have slightly better prospects in the rural areas than those who do not migrate as the latter may not be capable of surviving before landing onto the urban job (Ibid).

The model emphasizes efficient economic linkages and physical infrastructure development connecting farmers and other rural producers with both domestic and external markets. According to Evans (1990) the mechanisms of how these linkages work are as follows: The rural households earn higher income from producing agricultural goods such as tobacco for non-local markets and increase their demand for consumer goods. This then leads to the creation of non-farm jobs and employment diversification, especially in rural urban centers close to agricultural production areas. This in turn absorbs surplus rural labor, raises demand for agricultural produce and again boosts agricultural productivity and rural incomes.

Evans (1990) further observes that in certain circumstances, the above virtuous circle may increase income in-equalities and vulnerability of those with least assets. Such circumstances include for example un-equal land ownership and the government policies and subsidized credit institutions set up in small towns that tend to benefit the already privileged urban elites and large farmers.

Thus in summary, there is a virtuous circle between the rural and urban sectors as both seem to be benefiting from each other.

3.2 The Model and assumptions

The model assumes the following according to (Moene 2006).

➢ The urban informal sector is the poorest followed by the rural sector while the urban formal experiences least poverty.

➢ Both the rural (agricultural) and formal sectors face given world market prices for their products while the price of the informal sector output is endogenously given.

➢ The demand for the informal sector goods and services depend on the urban incomes further assuming that a constant share of the formal sector wage incomes are used on the informal sector goods and services.

➢ Entry into the formal sector employment is restricted by the inflexible wages such that the probability of obtaining a formal sector job is negatively or inversely depending on the fraction of informal sector workers to the urban sector workers. However the number of workers in the formal sector is determined by the profit maximization and that the capital is assumed to be complementary to labor.

➢ Income per worker in the rural sector is assumed to be a decreasing function of the rural population and also depends on the subsidy policy of the factors of production. In the case of Malawi economy, the subsidies in agricultural inputs such as inorganic fertilizers and seeds. Per capita income in the rural sector (agriculture) that are declining in the number of agricultural workers can of course be consistent with a number of institutional arrangements in the rural sector such as labor market for

agricultural workers, land rental market, common land ownership and peasant proprietors.

It is important to note that there is free entry to both informal urban and rural sectors in terms of employment seeking. However, there exists a barrier to the urban formal employment in that it has nonflexible wages and, requires its employees to meet certain criteria like having academic and professional qualifications. The latter reason justifies for such a sector division. The academic and professional qualifications are not included in this model because this would make it impossible for non educated skilled workers from the other two sectors to get a job in the formal urban sector.

Both rural and urban informal sectors have predetermined market prices for their products while the urban informal depends on the urban formal wages. Usually in terms of migration, urban informal sector acts as a springboard for those seeking urban formal employment. It tries to absorb the migrants in terms of employment seeking from both the rural sector as well as the urban formal sectors.

Different from the other two sectors, prices of the informal sector goods are endogenously determined. One reason for this difference might be that formal sector and agricultural products are traded internationally, while the informal sector goods (or services) are traded domestically only. Therefore in this model, wage determination within this sector depends on the assumption that demand for informal products depends on the urban formal sector incomes. This implies that a constant share of income is used on purchasing these products and services. Lets say W is the formal urban income and α is the constant share such that αW is the share of urban formal income that is spent on the informal sector products. The total demand for the informal sector products is $\alpha W L m$, where Lm is the formal sector employment. There is supporting evidence from literature cited in this thesis that informal producers are taken as self employed such that it is reasonable to assume that the total supply of their products is proportional to the number of informal workers and further that labour is the only input. In view of this, let uLm denotes the employment level in this sector and u denotes the fraction of informal sector workers to the modern sector

workers. Also assumes that there is perfect competition in the production and marketing of goods and services in this sector such that its production function would be thought to take this form $Y = Li$ where Y is the unit output and Li unit labour input in this sector.

The other main assumption is that total supply of goods in informal urban sector following the assumption of perfect competition is $\bar{S}uLm = \alpha WLm$ thus total supply equals total demand.

The worker is paid the wage $\bar{S}$ which is the marginal price P of the output plus the government subsidy t.

Finally, the income for an informal sector employee would therefore be determined by

$$S = \frac{\alpha W}{u} + t \qquad (1)$$

There is also free entry to the informal sector such that any new migrant can immediately find employment. However, this migrant faces resistance in form of inflexible wages in obtaining an urban formal sector job. If s/he gets it, then that probability is f and, s/he gains W-S. The probability of not gaining this is 1-f. Typical in this sector also is that there are some turnover jobs such that those who quit are proportional to the number of those employed. Therefore, the employment acquisition rate, f, is inversely related to u which is the fraction of the informal workers to urban informal sector workers. In this equation, the expected income, V, can be determined as follows:

$$V = f(u)(W - S) + S \quad \text{where } f(0) = 1 \text{ and } f'(.) < 0 \qquad (2)$$

The urban sector differs from the other sectors in various aspects. For instance, its production exhibits increasing returns to scale implying that there is some modern type of technology used in this production while the other two exhibit constant returns to scale. There is higher production than in the other sectors. There are also high per worker productivity levels although it is difficult to monitor each worker's efforts. This means that firms need to pay premium to workers above their fallback positions in the informal sector

incomes in order to enforce the required effort levels. There are again possibilities in this formal sector that workers can (i) put the required effort level to keep their jobs or (ii) put less effort at the risk of being caught and get fired. The probability of being detected as s/he puts less effort being q and the gain of his leisure at work place a are both exogenous. Therefore if s/he chooses (i) thus working hard, s/he gets W and (ii) being lazy, s/he gets $(1-q)(W + a) + qV$. Another assumption is that firms in this sector provide premium in setting wages such that workers prefer (i) to (ii) thus $W \geq (1-q)(W + a) + qV$. When this is incorporated into the expected income equation thus (2) the solving for the lowest value that fulfils the constraint, then the following is obtained:

$$W = (1-q)(W+a) + qf(u)W + (1-f(u)S)$$

$$W\{1-(1-q)-qf(u)\} = (1-q)a + q\{1-f(u)\}S$$

$$W\{q-qf(u)\} = (1-q)a + q\{1-f(u)\}S$$

$$W = \frac{(1-q)a + q\{1-f(u)\}}{q\{1-qf(u)\}}S$$

Therefore

$$W = S + \frac{(1-q)a}{q\{1-f(u)\}} = S + \frac{A}{1-f(u)} \qquad (3)$$

Where $A = \dfrac{(1-q)a}{q}$ is >0 is a constant while $\dfrac{A}{(1-f)}$ is the employment rent inversely related to u.

The number of employees in the urban formal sector is determined by profit maximisation and its total labour demand is as follows:

$Lm = G(W,C)$ where $G'<0$ and $G''>0$ (4)

with the assumption that C is fixed capital and is labour augmented in the short run. It can be observed that high wages will lower the demand for labour and vice versa.

The per worker rural income, Q, is assumed to be a decreasing function of the rural population denoted Lr. The following function determines this income:

$Q = \phi(Lr) + \tau$ where $\phi'(.) \leq 0$ (5)

τ is the Malawi government policy subsidy parameter on agricultural production. Rural per capita incomes depend greatly on the subsidy and they are also declining in the number of agricultural employees (farmers). The structural adjustment programme removed τ from the agricultural sector.

The economic rural-urban migration takes place until the expected income of moving to urban sector is the same as the rural income thus

$Q = V$ (6)

Finally, the total labour force given in this model is denoted L

$L = lm + uLm + Lr$ (7)

At this point it is shown that all the seven endogenous variables, thus W, V, S, Q, u, Lm, and Lr can be determined.

The income relationships among and between the sectors are as follows

$$W = \frac{u}{\{1 - f(u)\}} \frac{1}{(u - \alpha)} A + \frac{u}{u - \alpha} t \equiv\equiv W(u,t)$$ (8)

$$V = \left[\frac{u}{\{1 - f(u)\}(u - \alpha)} - 1 \right] A + \frac{u}{u - \alpha} t \equiv V(u,t)$$ (9)

$$S = \frac{\alpha}{\{1 - f(u)\}(u - \alpha)} A + \frac{u}{u - \alpha} t \equiv S(u,t) \tag{10}$$

The urban formal wage W is higher than urban informal wage. This implies that $u > \alpha$ in equilibrium. Moreover it has already been determined that all incomes are declining in u except in the urban formal sector. By taking the partial derivatives of equations (8), (9) and (10) we find that

$$\frac{\partial W(u,t)}{\partial u} = \frac{\partial V(u,t)}{\partial u} < \frac{\partial S(u,t)}{\partial u} < 0 \tag{11}$$

The lower value of u increases the informal wage less than the formal sector wage because the formal urban wage goes up as u declines. A higher employment rent in the formal sector raises the demand for informal products and services.

CHAPTER FOUR: METHODOLOGY, FINDINGS, DISCUSSION AND CONCLUSION

4.1 Methodology

This study covered the whole Malawi. Time series data was obtained from Malawi government through the Malawi National Statistics Office 2000. The data was already aggregated such that this was a limitation in coming up with more variables as the data only contained very few variables. The data covered rural, urban informal and formal sector wages and wage employment. It was planned to run econometric regressions using *starta package version 9* but the provided data was found not worthy to do so. Eventually, this has been a major limitation for this study. However the study has used graphical results which have been produced using *microsoft excel.*

4.2 Findings and Discussion

4.2.1 Model predictions

The model used in this thesis predicts several policy implications in an effort of poverty reduction. For the sake of this thesis, the implications have been limited to only those which come as a result of subsidy provision or withdrawal from the rural sector. An attempt has been made on the effects of population changes though the model is not dynamic.

Considering the rural sector, the subsidy to this sector, thus to agricultural production have the following notable implications onto the overall sectors:-

- The living conditions of the informal sector workers improve
- The wage gap (income differentials) between sectors widen
- The number of urban poor declines
- Agricultural production increases while that of urban formal declines.

It should be noted that free sectoral migration does not equalise wages (incomes) in equilibrium. However, the poverty ranking of the sectors in the model is that the urban

informal is the poorest followed by the rural sector and finally the urban formal. This means that their incomes can be classified as follows:-

$$W > Q > S \qquad\qquad (12)$$

This can be directly observed in equation (3) which shows that urban formal wage is greater than informal sector wage, $W > S$.

To show the mechanisms through which the agricultural subsidies work and have positive spill-over effects to the other sector it is worth while to consider the following derivations but for more details refer to (Moene 2006):

If equations (4), (5), (7), (8) and (9) are inserted one at a time into equation (6) they result into

$$V(u,t) = \tau + \phi\{L - (1+u)G(W(u,t),K\} = V(u,t) \qquad\qquad (13)$$

If equation (13) is differentiated with respect to u, the result is

$$du = \frac{1}{D}\left[-d\tau + \phi'\{1+u)G_1 + 1\}\frac{u}{u-\alpha}dt + \phi'(1+u)G_2 dK \right] \qquad\qquad (14)$$

Where $D = -\phi'\left[G + (1+u)G1\frac{\partial W}{\partial u} \right] - \frac{\partial W}{\partial u} > 0$

From equation (14) the following results can be obtained $\dfrac{du}{d\tau} = \dfrac{-1}{D} < 0$ and further using

equations (6), (8) and (9) it can be found that $\dfrac{dW(u,t)}{d\tau} = \dfrac{dV(u,t)}{d\tau} = \dfrac{dQ}{d\tau} = \dfrac{\partial W}{\partial u}\dfrac{\partial u}{\partial \tau} > 0$ and

from equation (2) it can be found that $\dfrac{dS}{d\tau} = \dfrac{dW}{d\tau} - \dfrac{f'(W-S)}{1-f(u)}\dfrac{du}{d\tau} < \dfrac{dW}{d\tau}$ which shows

that income differentials widen. To show that the incomes of informal sector improve it can be expressed by taking the derivative of informal income with respect to the rural subsidy

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thus $\dfrac{dS}{d\tau}$. Using equation (8), it can be written $\dfrac{\partial W}{\partial u} = \left[\dfrac{f'}{1 - f(u)} - \dfrac{\alpha}{u(u - \alpha)} \right] W$

(15)

Then from the equation (15) it can be found that $\dfrac{dS}{d\tau} = \dfrac{1}{D} \left[\dfrac{\alpha}{u(u - \alpha)} W - \dfrac{f'}{1 - f} S \right] > 0$

To show that the number of urban poor declines and also that agricultural production goes up while the urban informal production declines, then one can consider the fact that higher level of urban formal income, W, implies that there is a reduction in formal employment level, thus Lm according to equation (4) goes down. Also uLm, thus urban informal employment level goes down too. This means finally the rural population goes up thus $Lr = L - (1 + u)Lm$ goes up as $(1 + u)Lm$ declines.

The subsidy to agricultural production increases the rural sector wage as it reduces the cost of production and hence improves the life or agricultural workers. This boosts up both agricultural employment and production because the subsidy works as an incentive to the agricultural workers. Consequently this reduces the number of the people wishing or migrating to urban sectors seeking for employment. Eventually, the urban labour market tightens up as the labour supply does not increase. Therefore the informal incomes rise.

With this increase in the urban informal wages, there is a consequent reduction in the number of urban informal dwellers seeking for the urban formal employment. This then shows that urban formal employment declines such that urban formal employers have to bid up the wages above the new informal sector wages in order to attract and maintain their workers.

The boost in the agricultural production means increased supply of raw materials for some urban formal agricultural based industries. These industries can expand their productions hence increase both the urban formal and informal employment.

The effects of population increase can be shown to be as follows:-

- the poorest sector (urban informal) becomes more poorer than before

- income gaps are narrowed

- number of urban poor goes up

- Both agricultural production and formal urban production go up respectively.

The following derivations show the mechanisms through which the increase in population affects income distribution and production in different sectors:

Differentiating equation (12) with respect to population L while assuming $\tau = t = 0$ results into $\dfrac{du}{dL} = \dfrac{-\phi'}{D} > 0$

Considering that D>0 is defined according to (14). If (11) is taken into account, $\dfrac{dW(u,t)}{du} = \dfrac{dV(u,t)}{du} < \dfrac{dS(u,t)}{du} < 0$, then it shows that poorest people become poorer and also that both income and income differentials are reduced. However it is also easy to observe that the urban formal population, Lm, and production decline since its sector income, W, goes down and $V = Q$ declines giving the impression that there is an increase in rural population, Lr and also in agricultural production. Finally the number of urban poor must also go up because both u and Lm go up.

4.2.2 Real findings and their discussions

In Malawi, the situation was different during the period before the SAPs were implemented. The rural sector was the poorest while the urban informal sector was the better-off poor and lastly the urban formal sector being the richest (Mkandawire 1999). This situation had risen from the fact that the implementation of minimum wage limit was poorly adhered to in the rural sector than in the urban sectors. This was purposely done as a means of providing cheap labour to the estate agriculture. For instance, in some cases, wages were paid below the minimum limit. This is reflected from the fact that wages that were offered to men and women employed in the agricultural sector were 20% and 30%

respectively below the minimum wage limit (ibid). To ensure the availability of this labour, there was both an internal and external migration restriction after recalling most Malawian labourers working in mines and other industries from the neighbouring countries like South Africa, Zimbabwe and Zambia. This happened after the plane crash of 1974 as already stated (ibid).

The subsidies in agriculture have been implemented since Malawi became independence up until the time the structural adjustment programs were started being implemented. The onset of SAPs meant the withdrawal of the input subsidy to agricultural sector Malawi (Ministry of Finance and Economic Planning 2001). The above policy implications can therefore be predicted in the other way. That is to say:-

- The living conditions of the informal workers worsen.
- The wage gap (income differentials) between sectors closes and the wages in general decline.
- The number of the urban poor goes up (massive rural-urban migration).
- Agricultural production declines and that of the urban Increases.

Due to data limitations experienced, econometric regressions were not done. Therefore the results do not necessarily reflect the causal relationship but the general development of the trend during the entire period this study has covered. These findings are presented in both tabular and graphical forms.

The first observation on the employment level refer fig 2 below:

Figure 2: Employment Levels for all sectors
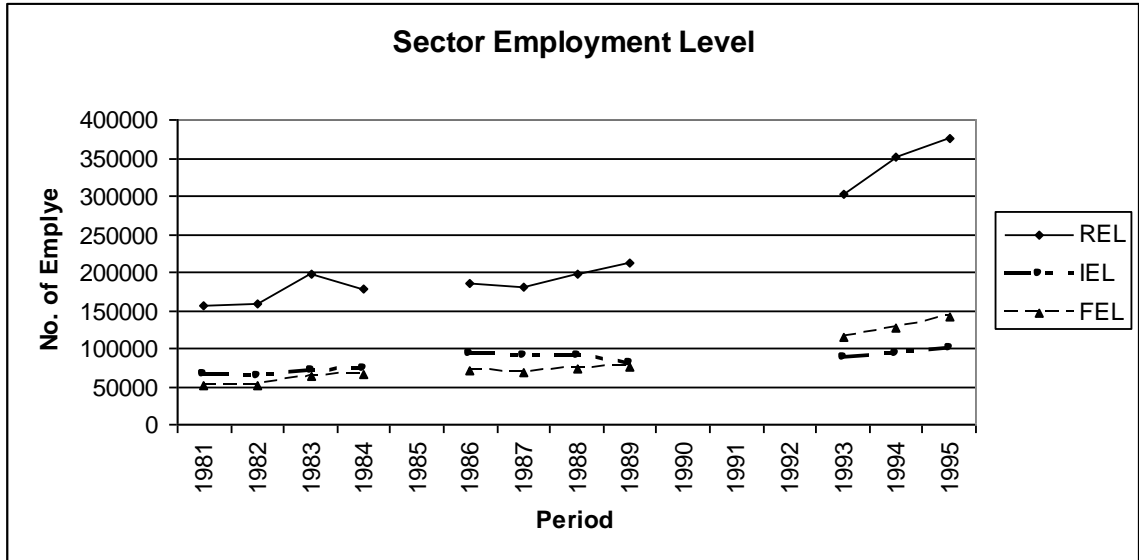
REL…..Rural Sector Employment Level

IEL….Urban Informal Sector Employment Level

FEL….Urban Formal Sector Employment Level

Source: (Malawi National Statistical Office 2000).

It is clearly observed that employment levels have been growing in all sectors. This has been highest in the rural sector and growing rapidly even during the SAPs period. This contradicts the model prediction as we expected to see employment level to decline in the rural sector as a result of subsidies removal though in the model the population is assumed to be constant. There is still higher employment increase in the rural sector relative to other sectors which cannot be accounted for by the national population growth alone but something else. We further expected massive rural-urban migration to have taken place. The migration survey results provided agree with this expectation. This is discussed in more detail later in the section.

It appears that in all sectors, employment level has not been growing fast during the pre-SAPs period, thus before 1986. But after 1986 it can be clearly observed that rural employment level started to grow rapidly. This can be attributed to many factors, among

them, liberalisation of cash crops, thus allowing the smallholder farmers to grow such crops like burley tobacco as well as coffee. Before, these were restricted to estate farmers only. With the liberalisation, a lot of smallholder farmers have started growing these crops. Burley tobaccos as well as coffee are labour intensive crops, such that this meant a lot more people were employed to work on these farms.

This may be true as Mkandawire (1999) also found out that more smallholder farmers started growing burley tobacco during the same period of the onset of SAPs refer to table 1. However it can also be observed that urban informal sector employment level declined immediately after the same year fig 2. This may mean that some urban informal employees opted to migrate to the rural areas either to work as wage employees or started growing the tobacco which is nicknamed the Malawi's gold hence the decline in urban informal sector employment level. Massive rural-urban migration was not observed during per SAP period and this has been attributed to the migration restrictions. The same observation applies during SAPs period and it is attributed to the liberalisation of tobacco production to small holder farmers. This meant improvement in the rural household (small holder farmers) as they are now allowed to grow burley tobacco which is a high cash crop earner in the country. This cash crop is also labour intensive such that its production requires a lot of people. This explains why in Malawi about 90% of human population lives in the rural areas.

Table 1: Number of estates and hectare, 1970-89

Year	Cumulative number of estates	Cumulative area ('000 ha)	Mean size of estates (ha)
1970	229	79.0	345
1970-79	1,105	255.8	231
1980	1,321	273.1	207
1981	2,086	320.0	153
1982	3,806	386.0	101
1983	4,806	435.2	91
1984	5,292	460.1	87
1985	5,655	491.5	87
1986	6,247	517.9	83
1987	8,114	588.1	72
1988	11,953	695.8	58
1989	14,355	759.4	53

Source: (Mkandawire 1999)

The urban formal sector responded to this 'love at first sight' attraction in the rural sector in two ways. The first was that it may have jacked up its wages so that it could prevent its wage employees from migrating to the rural areas. This may be true as the graphical presentation of wages, fig 3, indicate that the urban formal wages started increasing rapidly after the introduction of SAPs. The other explanation may be that some wage employees moved to the other sectors more especially to the rural sector thereby reducing the fraction of employees in the urban sector, thus, u, according to the model. This means low labour supply and high labour demand hence increase in labour wages. Both the wage and employment results are well supported by the model as the model shows that wages decline in u as well and also in certain situations through premium offers to workers in the urban formal sector.

Figure 3: Wage levels for all sectors
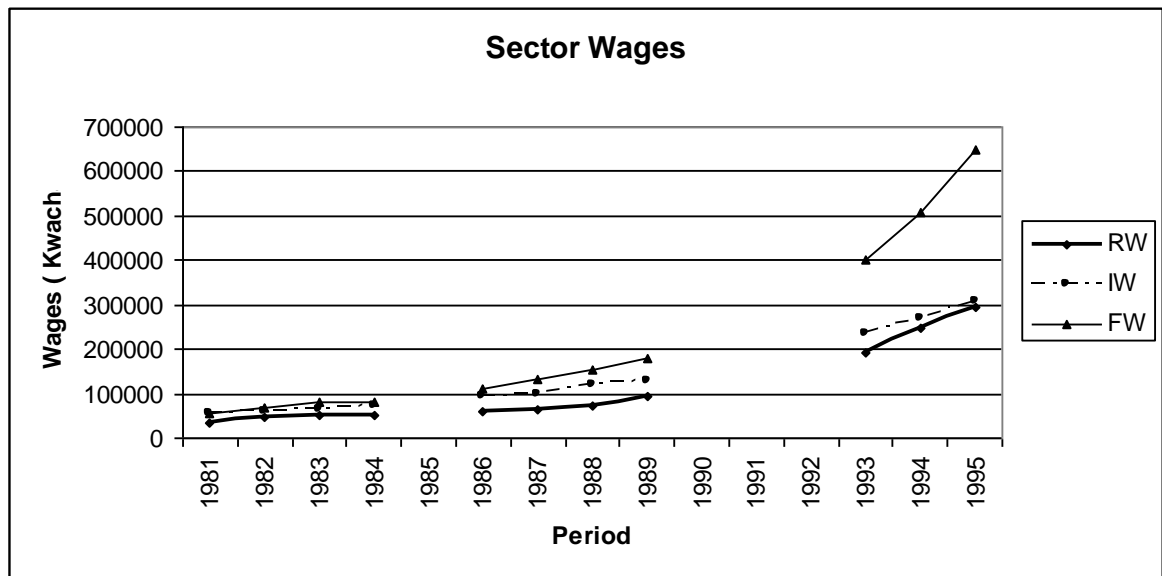
RW…..Rural Sector Wage Level

IW….Urban Informal Sector Wages Level

FW….Urban Formal Sector Wage Level

Source: (Malawi National Statistical Office 2000).

As indicated before, Malawi's situation is a special case as it differs from that explained by the model. In terms of poverty defined on income basis the poorest was the rural sector during the period before SAPs were implemented. The reasons have already been explained which include, discriminately policies which favoured estate sub-sector like the prohibition of smallholder farmers from growing burley tobacco which is the high value cash crop among others. Also the other important reason being the deliberate poor implementation of the minimum wage limit policy in the rural sector (mainly estate sub-sector) to provide cheap labour. At the same time, the restriction on rural-urban migration which ensured the availability of cheap labour to the estate sub-sector through the mechanisms of low labour demand and high labour supply. The urban informal sector was the better off poor. It could be the possibility of underreporting the rural wages as well. The country was experiencing low level of urbanisation. Mkandawire (1999) found that only a small percentage of the labour force in Malawi is employed in the urban sector as wage employees while the majority is in the rural sector in agriculture as tenants or wage labourers.

The employment level presented before supports. This may also explain why the informal urban sector wages have been higher than the rural sector ones. However with the coming SAPs and coupled with the change from one party to multi party democracy in the early 90s all the above mentioned policies have changed. There have been agricultural reforms such that smallholder farmers have started growing some cash crops like tobacco, coffee. Generally, the validity of the data provided is questionable. Other possible explanations are discussed at the end of this chapter.

In relation to the wages, the report stipulates that there is at least good governance such that the minimum wage limit policy is well implemented in the rural sector than before the SAPs era. The results also indicate that per worker wages were lower during the pre SAPs period than if compared to the SAPs period. It can also be clearly observed that few years after SAPs implementation; the wages started increasing (except during 1990 to 1993 where the data is missing). It can be projected that the rural wage incomes will increase beyond those for informal urban sector in the long run.

On the wage levels the results show that the wages have been growing and further that the highest wages are observed in the informal urban sector. This as well contradicts the model predictions. We expected that the wages would be increasing in the rural sector and further that they would be highest in the urban formal sector and that the rural sector would be the better off poor than the urban informal. More discussion of this, refer to the section 4.3 towards the end of this chapter.

On the wage gap, it can be clearly observed that the gap between the urban formal and informal sector is not widening rather it may in the long run be narrowing considering other factors constant. The same with the rural urban informal wage gap, the gap may in the long run be narrowing considering the background information of the rural sector.

On migration, the Malawi government conducted a national migration survey in 2006. This has been termed the first of its kind because it has been the only national survey on migration since the country's independence in 1964. However, it has been difficult to

access this data from Malawi government. Nevertheless, a compiled report on migration was accessed from NSO which has been used to provide some explanations in this study (Malawi National Statistical Office2006) as discussed below.

The report shows that urban population growth rate has been 4.7% while that of rural has been 1.6% during the period of SAPs. It can therefore be crudely concluded that migration trend has been that of rural to urban and that to some extent, SAPs have played a role. The report further projects that there are 1.7 million Malawians living in the urban sector compared to 26,000 in 1966 giving a 6% increase in urbanisation. Since the official figure for formal urban employment is less than 600,000, it means the remainder is employed in the urban informal sector.

The report further states that the major influence of the rural-urban migration in Malawi has been employment seeking in search of higher expected wages. This agrees with the model prediction. The migrants again tend to be both male and female in the age range from 15 to 34 years who have completed at least primary school (7 years of schooling). This is the economically active group with a high likelihood of seeking for employment.

Chirwa (1996) reports that in the 1960s, many male Malawians were recruited to work in the mines and within the agricultural sectors of its neighboring countries such as South Africa, Zimbabwe and Zambia. This tendency was however terminated following the death of some migrant workers in a plane crash of 1974. As a result, rural employment levels were noted to have started to increase from the middle 1970's (ibid).

Table 2.1 below, illustrates the growth of the estate sector in the 1970s and 1980s. The demand and the recruitment of workers for the estate sector grew significantly in these two decades. As can be see, it grew from 49, 250 at independence in 1964 to the high of 197, 200 by 1983 with the greatest increases taking place from 1975 onwards. This shows that in agriculture there was little unemployment but rather too much underemployment before the SAPs period. This has changed after the SAPs period.

Table 2: Number of Hired Workers in Malawi Estate Sector from 1964 to 1989

Year	Number of Estate Workers	Year	Number of Estate Workers
1964	49,250	1975	107,551
1965	49,700	1976	120,118
1966	50,150	1977	154,696
1967	50,600	1978	169,334
1968	51,044	1979	182,295
1969	55,821	1980	181,137
1970	62,081	1981	157,195
1971	66,341	1982	158,200
1972	73,699	1983	197,200
1973	88,159	1984	177,700
1974	92,934		

Source: (Chijere-Chirwa 1996)

The expansion of the agriculture estate sector was a precursor to the growing movements of Malawians from the rural to rural areas and also from urban to rural sector and even from the countries where they had gone in search of employment to Malawi. This pattern can also be seen by the dwindling numbers of the mineworkers in table 3.

Table 3: Number of Malawians Employed in South African Mines between 1964 and 1989

Year	Number of Malawian miners	Year	Number of Malawian miners
1964	35,658	1977	3,495
1965	38,580	1978	17,910
1966	39,014	1979	15,033
1967	38,182	1980	13,569
1968	47,446	1981	12,937
1969	53,315	1982	13,565
1970	78,492	1983	14,287
1971	92,782	1984	15,120
1972	111,768	1985	16,849
1973	119,141	1986	17,923
1974	108,431	1987	17,620
1975	27,904	1988	13,090
1976	571	1989	2,212

Source: (Chijere-Chirwa 1996)

As explained above, the return of workers from South Africa and Zimbabwe (return migration) has been linked to the economic developments in Malawi. Of particular importance was the rapid growth of the estate sector during the 1970s that meant a

substantial increase in the demand for wage employees. The government of the time met part of this demand by inducing Malawians working outside the country to come and work in the country. The demand was also met by the transfer of labor from the peasant subsistence farming sector.

The removal of subsidies from agriculture started in 1986 till 1991. The removal was gradual but they were completely removed in 1991. However it can be said that this removal did not have a very big negative impact on the income of the smallholder farmers since by then they had started growing the burley tobacco which is a high income cash crop. It can be therefore said that the subsidy removal effects had been watered down by the liberalization of burley tobacco production by smallholder farmers. At the same time, the Malawi government massively reintroduced the subsidies soon after their removal.

The period from 1991 to 1993 has been one of the most crucial periods for Malawi for the following reasons:

- It was the political transition period from one party state rule to multi party democratic government.
- The country experienced the most severe two consecutive droughts which saw the deaths of many Malawians due to food shortages.
- It was when the rural urban migration restriction was removed.
- And finally this was when the liberalization of agricultural production and marketing was effected.
- The government of Malawi reintroduced massive subsidies to agriculture with support from some international donors.

All these reasons directly affected the socioeconomic conditions of Malawians. This may explain why the government did not provide the miss data to the author.

4.3 Some possible explanations to the paradox of why urbanization is not high.

There have not been any observations on massive rural-urban migration. According to figure 3, both informal and formal urban sector wages are higher than rural wages. This means that the expected urban wages should be much higher than rural wages and expect massive rural-urban migration taking place. This should result in high urbanization yet it has been reported that there is still low urbanization which has increased by 14% since 1966 from an initially low level.

This could be as a result of entry barriers to the urban sector in terms of high cost of living. As the model states, the decision to migrate depends on several factors including high expected wages through the probability of getting employment.

Some of the results to some extent seem to contradict with the model predictions. The following may be the possible reasons for such discrepancies:

Data on wages available for the rural sector may have been under reported. This is because the information that was provided did not include the description on how the rural wages were defined. Again, it is not clear whether the wages were from causal labor or seasonal labor or even incomes from the sales of farm produce. It could be that the wages of the formal employees in the rural sector were not included. Similarly for the urban informal sector, the wages are not defined. Again, the wages may have been over reported while that from the urban formal sector may have been under reported.

It appears that the urban informal wages were again not price- adjusted. This could overlook the cost of living in the urban informal sector as the wages may seem to be high and yet, the cost of living could even be much higher than one would expect. However, the rural sector might be the better off poor since there is a possibility that this sector is self-sufficient in terms of food as it produces its own. This may also be a possible explanation for the low wages in this sector as wages may have been adjusted to the food prices. This again is supported by evidence that there was an increase of agricultural production during the initial period of SAPs' implementation.

In view of the above, it is possible to suggest that the rural sector is the better off poor whilst the urban informal sector is worse off and that the urban formal sector is the richest. This agrees with the model assumptions.

It has to be pointed out that due to lack of data, the population data did not control for fertility and mortality. The same applies to data on employment which does not control for compositional changes in population. In this situation it is very difficult to make meaningful conclusions. However, it is possible to make a general picture that may accrue to the impact of SAPs.

4.4 Conclusion

From this study's results, despite the general negative picture the SAPs are deemed to have caused in the Sub-Saharan African Region, it can also generally be concluded that some components of the SAPs have had positive impact in poverty alleviation. In Malawi it can be concluded that wage employment seems to have generally improved after implementation of the SAPs. Also in the long run the wage gaps seem to be narrowing. Interesting is the observation that it seems the wages are increasing in all sectors, however without the regression analysis, it would be risky to conclude that this is attributed to the SAPs. This is because there are other possible explanations which can be attributed to those observations rather than the SAPs. The other important conclusion which is interesting is that made by (Harvard Institute for International Development 1994) that the problem had been the sequence in which the SAPs were implemented not that they were necessarily bad programs.

So far there has been no time frame for the SAPs such that it has been difficult to when to study their impacts.

4.5 Recommendations

It is therefore recommended that a similar study be done on a large scale basis that should be able to run the regression analysis in order to establish the true cause-effect relationships of the variables under investigation. It would also be interesting to carry-out a similar study at macro level to check the impact of the SAPs on international migration and other aspects. There is a great general outcry in most developing countries on brain drain to other western developed countries. It would be interesting to observe the impact of SAPs on this brain drain issue.

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