

Executive Summary

Poverty Analysis and Profile

Poverty in Malawi is widespread, deep and severe. According to the 1998 Integrated Household Survey, 65.3 percent of the population is poor, or roughly 6.3 million people. In addition, about 28.7 percent of the population were in extreme poverty. The level of inequality is well illustrated by the fact that the richest 20 percent of the population consumed 46.3 percent while the poorest 20 percent consumed only 6.3 percent of total consumption of goods and services. Consumption is also more unequally distributed within urban areas where the Gini coefficient¹ is 0.52 as opposed to 0.37 for rural areas.

The key causes of poverty are limited access to land, low education, poor health status, limited off-farm employment and a lack of access to credit. Sectoral analysis of poverty shows that social, human capital and income indicators are very poor. About 52 percent of the poor are female and females head around 25 percent of households. The literacy rate was low at 58 percent where female literacy rate was at 44 percent. Education attainment, defined as completion of Standard 8, was only 11.2 percent of the adults aged 25 years and above, with only 6.2 percent for women. The national gross enrolment ratio was estimated at 132 and the pupil to qualified teacher ratio was 114. These indicators have negative implications for the quality of education.

In terms of health indicators, the life expectancy at birth has dropped from 43 years in 1996 to 39 years in 2000. In 2000, infant and under-five mortality rates were estimated to be 104 and 189 deaths per 1,000 live births, respectively. The maternal mortality rate in 2000 was 1,120 deaths per 100,000 live births², a rise from 620 in previous years.

Subsistence agriculture is the main source of income for the rural poor and it accounts for 63.7 percent of income. Notably, income from agricultural sales is *not* the most

¹ Gini coefficient is a measure of income inequality within a given population.

² Malawi Government (2000) Malawi Demographic and Health Survey 2000

important source of cash income in rural areas. The major source of *cash income* for Malawian households is wage income, which contributes about 13.0 percent of income for the rural poor. However, there is limited participation in the cash economy by the poor.

Structural Adjustment and Poverty

Since 1981, Malawi has implemented a series of policy interventions through the Structural Adjustment Programmes to address structural weaknesses, adjust the economy to attain sustainable growth and reduce poverty. From 1994, these interventions have been complemented by the Poverty Alleviation Programme (PAP), which emphasises the need to raise national productivity through sustainable broad-based economic growth and socio-cultural development. Despite these interventions, poverty has remained a reality for the majority of Malawians. The main constraint of the PAP was the absence of a well-articulated action plan to ensure a holistic approach to implementation, priorities, and poverty targets to be achieved in the medium to long-term.

To achieve meaningful poverty reduction, the process to develop the Malawi Poverty Reduction Strategy Paper (MPRSP) was initiated. The Malawi Poverty Reduction Strategy (MPRS) outlined in the MPRSP is the overarching strategy that will form the basis for all future activities by all stakeholders, including Government. The MPRS is the product of a highly consultative process involving a broad range of stakeholders and represents a consensus about how Malawi can develop and achieve its core objective of poverty reduction.

The overall goal of the MPRS is to achieve “sustainable poverty reduction through empowerment of the poor”. Rather than regarding the poor as helpless victims of poverty in need of hand-outs and passive recipients of trickle-down growth, the MPRS sees them as active participants in economic development. The MPRS also emphasises prioritisation and action.

The MPRS is built around four pillars. These pillars are the main strategic components grouping the various activities and policies into a coherent framework for poverty reduction. The first pillar promotes rapid sustainable pro-poor economic

growth and structural transformation. The second pillar enhances human capital development. The third pillar improves the quality of life of the most vulnerable. The fourth pillar promotes good governance. The MPRS also mainstreams key cross cutting issues such as HIV/AIDS, gender, environment and science and technology.

Sustainable Pro-Poor Growth

Pro-poor growth is economic growth that involves and benefits the poor. It is a prerequisite for broadening income distribution and generation of employment hence poverty reduction. The most fundamental challenge for the pillar is to offer the poor an opportunity to generate their own incomes. This will be achieved through the promotion of specific sectoral sources of pro-poor growth, and the creation of an enabling environment for pro-poor growth.

The key specific sectoral source of growth is agriculture, although efforts will be made to diversify, especially through Micro, Small and Medium Scale Enterprises (MSMEs), into natural resources, manufacturing, tourism and small-scale mining. In agriculture, the focus is on the provision of necessary services and conditions to farmers for increased incomes. This involves interventions ranging from availability of inputs through improved production technologies and value addition to marketing. These interventions will where possible be targeted at farmers' clubs, associations and co-operatives. In natural resources, community-based management will be promoted in order to ensure conservation and sustainable utilisation of natural resources as an additional off-farm source of income. As regards MSMEs, emphasis is on creating an enabling environment for the development and operation of MSMEs. The MPRS reorients industrial and trade strategies to ensure increased contribution of the manufacturing, tourism and small-scale mining sectors to GDP. Deliberate attempts will be made to develop sector-specific clusters and to attract foreign capital in these sectors.

The key factors that will contribute to an environment conducive for pro-poor growth are access to credit, macro-stability and improved rural infrastructure. Efforts will also be made to improve other infrastructure, strengthen trade and review taxation policy. Access to affordable credit is one of the most important factors affecting the production and therefore income of the poor. The goal in micro-finance is therefore

to promote the development of a sustainable micro-finance industry. Under rural infrastructure, the key issues are to ensure rehabilitation and maintenance of existing infrastructure, and to increase investment. These issues are common to rural feeder roads, rural water supply and sanitation, rural electrification and rural telecommunications.

The MPRS refocuses resources on infrastructure development by giving priority to maintenance and rehabilitation of facilities, outlining selective investments in new facilities, promoting greater participation of the private sector, encouraging cost recovery and guaranteeing long term financial support for maintenance and rehabilitation. This applies to the core road network, power, telecommunications and broadcasting. Finally, the MPRS will further widen the tax base to facilitate the lowering of tax burden on the enterprise sector. Tax relief and incentives will be rationalized and corporate tax will also be reviewed.

Human Capital Development

MPRSP recognises that human capital is key to poverty reduction in Malawi. A healthy and educated population leads to increased productivity, better income distribution and a generally improved standard of living. The overall goal of the pillar is to ensure that human capital of the whole population is developed to fully participate in the socio-economic development of the country. This will be achieved through the provision of basic education, technical, entrepreneurial and vocational education and training (TEVET), an Essential Healthcare Package (EHP), and the promotion of good nutrition.

In education, efforts will be made to improve quality and relevance, access and equity. Quality will be enhanced through training and adequately compensating and supervising teachers, increasing access to teaching and learning materials and revising the curricula, incorporating cross-cutting issues, practical skills and entrepreneurial culture. In terms of access and equity, focus will be on increasing the participation of girls and children with special needs. The administration of all levels of education will also be reformed, focussing on decentralisation and focussing resources on core activities.

Whilst the focus of Government's efforts and resources will be on basic education (primary education up to Standard 8 and adult literacy programmes) as the minimum requirement for poverty reduction, attention will also be paid to secondary and higher levels of education. However, at these levels, efforts will be made to reduce the fiscal burden by introducing cost recovery and encouraging the involvement of the private sector, together with targeted bursary schemes.

Technical, entrepreneurial and vocational education and training is essential in providing the population with practical and usable skills that can be used to increase income. The MPRS focuses on promoting self-employment through skills development initiatives, particularly in rural areas. The target population is not just school drop-outs but covers all persons interested in acquiring new skills.

The overall objective of the health sector is to improve the health status of Malawians by improving access to, quality and equity of health services. This will be achieved through the design and implementation of an Essential Healthcare Package (EHP). The EHP will address the major causes of morbidity and mortality among the general population and focuses particularly on medical conditions and service gaps that disproportionately affect the rural poor.

The key strategies under the EHP are to recruit, train and adequately remunerate nurses and other health workers, to promote the construction of health facilities, especially through the construction of rural health centres and to increase the availability of drugs. These delivery components will be supported by ongoing reforms to health services, focussing resources on preventative and primary healthcare, decentralising management and administrative responsibilities, and introducing cost recovery for secondary and tertiary healthcare with support for the poor.

Malnutrition is both a cause and a consequence of poverty. In order to improve the nutritional status of Malawians, the MPRS includes improving infant and young child feeding, promoting community based nutrition interventions, and encouraging people to diversify and modify their diets.

Improving the Quality of Life of the Most Vulnerable

The proposed broad-based growth in Pillar 1 and the inclusive human capital development in Pillar 2 will go a long way in reducing the numbers of the poor. However, it is recognised that there are still going to be some sections of the population that are not going to benefit and will need direct assistance for them to improve their living standards. The overall goal of the third pillar is, therefore, to ensure that the quality of life of the most vulnerable is improved and maintained at an acceptable level by providing moderate support to the transient poor and substantial transfers to the chronically poor.

To support the overall goal, four types of safety nets have been designed. The first one, the targeted inputs programme, will enhance the productivity of the capital-constrained poor. by distributing free agricultural inputs. Secondly, public works programmes will increase the productivity of the labour abundant but land constrained by employing them to create socio-economic infrastructure. Thirdly, targeted nutrition programmes will assist malnourished children as well as lactating and pregnant mothers. In addition, direct welfare transfers will be effected to support the poor who cannot be supported by any of the three programmes. Finally, areas, individuals and households affected by disasters will benefit from any or a combination of the safety net programmes depending on the nature of the disaster. Beneficiary targeting and selection mechanisms will be strengthened through the introduction of community-based methods.

Good Governance

Even with the best strategies for pro-poor growth, human capital and safety nets, poverty will not be reduced unless there is development-oriented governance, political will and mindset. In particular, the technical design of the MPRS will be irrelevant unless there is the political, bureaucratic and popular will to implement it. The overall objective of Pillar 4 is therefore to ensure that public institutions and systems protect and benefit the poor.

Strategies to address problems of governance will focus on strengthening systems of transparency and accountability across the public sector and ensuring popular participation in decision-making processes. Strong political will must be

demonstrated by political leaders from all parties and other decision-makers through willingness to make and implement hard prioritisation decisions and to avoid politicisation of development. Issues of mindset can be addressed by a concerted effort to change the terms of political discourse away from creating expectations of material gain in return for electoral support, and towards disseminating the message that the poor have to solve their own problems and that Government alone cannot do everything.

Protection from crime, violence, arbitrary state power and injustice is a fundamental part of welfare. Insecurity makes it too risky for the poor to accumulate assets and wealth, particularly in a rural setting. To address the problem, Government will implement an integrated approach to security and justice, involving the development of increased crime control capacity through increasing police presence, and improved crime prevention through enhanced community involvement in policing and the development of counselling methods at all levels. The judicial system will work to ensure improved access to and delivery of effective and efficient justice, particularly to the poor and vulnerable. Finally, efforts will be made to ensure that the prison system is focused more on rehabilitation than punishment.

Good public expenditure management (PEM) is central to the MPRS as it will ensure that Government's limited resources are channelled to the priority activities with impact on poverty reduction. To ensure effective public expenditure management, MPRS will improve Budget implementation by strengthening the political leadership of the Budget process and ensure accountability by improving financial management and expenditure control mechanisms. Thirdly, the planning of public expenditure will be improved by increasing the comprehensiveness of the budget and strengthening links between the MPRS and the Budget. Finally, Government will promote accountability and transparency by sharing information with civil society and the media.

The efficiency and accountability of the public sector is critical to the success of the MPRS since the public sector has the mandate to lead the formulation, implementation, and monitoring of national, sectoral and district policies and actions.

The MPRS will therefore involve establishing an effective incentive structure that will improve work ethics and productivity. Government will also review the structure of the civil service so that it focuses on poverty reduction.

High levels of corruption and fraud reduce economic growth, discourage legitimate business investment, and reduce the public resources available for the delivery of services to the poor. The MPRS will take further steps to eliminate corruption and fraud by improving prevention measures, especially through the creation of a Malawi Procurement Authority (MPA) and by improving detection and prosecution, by reviewing the legal framework and strengthening the Anti-Corruption Bureau (ACB).

Decentralisation focuses on the empowerment of the people for effective popular participation and decision making in the development process in their respective areas. In order to address these problems, Malawi is undergoing a process of decentralisation, or more specifically, devolution. Thus, the MPRS includes activities aimed to developing institutional capacities for local governance, transferring functions to local governments and revising institutional frameworks across Government to ensure consistency with decentralization.

At the heart of effective governance is democracy. By formally recognising that all legal and political authority rests in the people, democratic constitutions empower the people. In practical terms, this principle operates through elections and the existence of checks and balances on the executive. The MPRS includes activities to further strengthen formal checks and balances, especially parliament and the judiciary, in addition to efforts to strengthen informal checks and balances such as the media and civil society.

Respect and exercising of human rights are fundamental to poverty reduction. In order to strengthen the protection of human rights, the MPRS includes a review of the roles and functions of the many human rights organisations and provides for capacity building where the organisations demonstrate their effectiveness. In addition efforts will be made to raise the awareness of citizens about their constitutional rights and obligations.

Cross Cutting Issues

In addition to the above components of Government's poverty reduction strategy, there are a number of cross-cutting issues that are crucial to Government's efforts to reducing poverty, such as HIV/AIDS, gender, environment and science and technology.

The spread of HIV/AIDS is threatening to undermine all attempts to reducing poverty in Malawi, both directly through the prevalence of HIV/AIDS and indirectly through the resulting shortages of skilled human resources in all sectors. The MPRS will focus on reducing incidence of HIV/AIDS, while attention will also be paid to improving the quality of life of people living with HIV/AIDS and mitigating against the economic and social impacts of HIV/AIDS.

Inequalities and disparities between women and men are still very pronounced in Malawi and this is one of the major causes of poverty among women and men. In view of this situation, efforts will be made to establish a gender sensitive formal and informal legal environment, eradicating gender based violence, and enhancing women's participation in leadership and decision-making processes.

Malawi's natural resources are threatened by the demand placed on them by the poor. Despite several efforts aimed at addressing the problem, environmental degradation continues. Henceforth, the goal is to achieve poverty reduction through wise, sustainable and economic use of natural resources and the environment. Strategic action will include: strengthening legal and institutional framework, developing alternative livelihood strategies and creating environmental awareness.

The low content of science and technology in national economic development programmes is a barrier to economic growth and therefore exacerbates poverty. Therefore, the MPRS will improve the capacity and capability of the national system for science and technology, intensify promotion and transfer of technologies to key livelihood systems and increase investment in research and development.

Macro-economic and Expenditure Framework

Macroeconomic stability is a precondition for economic growth and poverty reduction, and requires fiscal discipline and tight monetary policies. Prudent fiscal management requires that Government spends within its means, and therefore that expenditure requirements are balanced with resources available in a stable macroeconomic environment.

Economic instability in the past has been characterised by high inflation and interest rates and an unstable exchange rate. This has exacerbated poverty since inflation erodes purchasing power, particularly of the poor, and acts as a disincentive to investment. High interest rates make credit inaccessible to the poor and further discourage investment. In order to rectify this, Government will adopt stronger fiscal, monetary and external policies. In terms of fiscal policy, further efforts will be made to improve public expenditure management, by strengthening the independence of the Reserve Bank of Malawi (RBM) and accelerating the reform of the parastatal sector.

Macro-economic projections suggest that the resource envelope consistent with a stable macro-economic environment will be K44.9 billion during 2002/3, K48.5 billion in 2003/4 and K55.6 billion in 2004/5. These projected resource envelopes are deliberately based on realistic assumptions based on past experience and technical knowledge.

The expenditure framework is based on the costing of MPRS activities. The expenditure framework will first allocate resources to statutory and statehood activities. Statutory activities are by definition ones that have to be funded and cannot be scaled down. Statehood activities do not directly reduce poverty, but are essential in any country as the basic activities that enable the functioning of state by promoting and protecting national integrity, security and leadership. As with any other resource allocations, these activities must have a hard budget constraint. Expenditure must not exceed the resource allocation in the budget, which will be guided by the allocation outlined in the MPRSP.

MPRS Implementation, Monitoring and Evaluation

The implementation of the MPRS will involve all stakeholders. However, the responsibility for overall co-ordination of implementation will rest with Government. Crucial to the success of the MPRS is the need to implement **only** the MPRS. The strategy has been designed to be comprehensive and has been costed so that it is in line with the resources available. To be implemented, the MPRS must at all levels be translated into the Medium Term Expenditure Framework (MTEF) and the Budget, and that Budget itself must be fully implemented.

Monitoring and evaluation of the MPRS implementation is key to the achievement of the goals of the MPRS and will assist in the annual review of the MPRS and its comprehensive review after three years. MPRS implementation will be monitored using various indicators provided in the action plan for each component of the MPRS. Monitoring and evaluation of these various levels of indicators will take place at national, district and local levels. District level monitoring and evaluation systems are currently being designed and will be reviewed and fully integrated after the first annual review process.

The Ministry of Finance and Economic Planning will co-ordinate the implementation of the MPRS where public expenditure is involved. The National Statistical Office (NSO) will be responsible for coordinating all outcome and impact monitoring activities across all sectors. The National Economic Council (NEC) is to be a focal point for poverty analysis and documentation and dissemination of finished poverty statistics.

All MPRS monitoring and evaluation activities will be co-ordinated through a MPRS Monitoring System headed by the Cabinet Committee on the Economy served by an MPRS Monitoring Committee of Principal Secretaries and a Technical Working Committee comprising Government officials, donors, researchers, civil society, the media, representatives of relevant parliamentary committees and district representatives.

The monitoring and evaluation system will assist in the annual review of MPRS. This will take the form of stakeholders workshops and dissemination of reports on the

review process and the revised MPRSP. Annual reviews will be complemented by a comprehensive review process every three years. This comprehensive review is to be more like the initial MPRS Preparation Process, involving District Workshops, Thematic Working Groups and a complete redesigning of the MPRS.