



**3<sup>RD</sup> DRAFT**

**Malawi Poverty  
Reduction Strategy  
Paper**

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## Acronyms

ACB	Anti Corruption Bureau
ADD	Agricultural Development Division
ADMARC	Agricultural Development and Marketing Corporation
AGOA	African Growth Opportunities Act
AIDS	Acquired Immuno-Deficiency Syndrome
ARI	Acute Respiratory Infection
ARV	Anti-Retrovirals
BFC	Budget and Finance Committee
BFHI	Baby Friendly Health Initiative
BMP	Best Management Practice
CBCC	Community Based Child Care
CBM	Commercial Bank of Malawi
CBNRM	Community Based National Resource Management
CBO	Community Based Organisation
CCA	Credit Ceiling Authority
CCS	Commitment Control System
CDSS	Community Day Secondary Schools
CHAM	Christian Health Association of Malawi
CIDA	Canadian International Development Agency
CMS	Central Medical Stores
COMESA	Community of Eastern and Southern Africa
CONGOMA	Council for Non-Governmental Organisations in Malawi
CPI	Consumer Price Index
CRIMP	Community Road Improvement and Maintenance Project
CSO	Civil Society Organisations
CVA	Current Vulnerability Assessment
CWIQ	Core Welfare Indicator Questionnaire
DANIDA	Danish International Development Agency
DC	District Commissioner
DDF	District Development Fund
DDPRR	Department of Disaster Prevention, Relief and Rehabilitation
DEMAT	Development of Malawian Enterprises Trust
DfID	Department for International Development
DHS	Demographic and Health Surveys
DPE	Direct Poverty Expenditure
DPP	Director of Public Prosecutions
DRIMP	District Road Improvement and Maintenance Project
DTED	Department for Teacher Education
EAP	Environmental Action Plan
EBA	Everything But Arms
ECD	Early Childhood Development
EHP	Essential Health Care Package
EMIS	Education Management Information System
EPA	Extension Planning Area
ESAF	Enhanced Structural Adjustment Facility
ESCOM	Electricity Supply Commission of Malawi
EU	European Union
FEWS	Famine Early Warning System
FPE	Free Primary Education
FRDP	Fiscal Restructuring and Deregulation Programme

FTEP	Full Time Equivalent Public
GAD	Gender and Development
GBV	Gender Based Violence
GDI	Gender Development Index
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GoM	Government of Malawi
GSP	Generalised System of Preferences
HES	Hygiene, Education and Sanitation
HIPC	Highly Indebted Poor Countries
HIS	Integrated Household Survey
HIV	Human Immuno-Deficiency Virus
HQ	Headquarters
HR	Human Resources
ICT	Information and Communication Technology
ICWG	Industry Cluster Working Groups
IEC	Information and Education Campaign
IFMIS	Integrated Financial Management Information System
IGAS	Income Generating Activities
IMF	International Monetary Fund
INSET	In Service Training
IPRSP	Interim Poverty Reduction Strategy Paper
JCE	Junior Certificate of Education
JICA	Japan International Cooperation Agency
LRR	Liquidity Reserve Requirement
M&E	Monitoring and Evaluation
MANEB	Malawi National Examinations Board
MASAF	Malawi Social Action Fund
MASIP	Malawi Agriculture Sector Investment Programme
MASSAJ	Malawi Safety, Security and Access to Justice
MBC	Malawi Broadcasting Corporation
MCDE	Malawi College of Distance Education
MDC	Malawi Development Corporation
MEPC	Malawi Export Promotion Council
MFI	Micro-Finance Institutions
MHRC	Malawi Human Rights Commission
MIE	Malawi Institute of Education
MIITEP	Malawi Improved Intensive Teacher Education Programme
MIPA	Malawi Investment Promotion Agency
MIRTDC	Malawi Industrial Research and Technical Development Centre
MIS	Market Information System
MOAI	Ministry of Agriculture and Irrigation
MOCI	Ministry of Commerce and Industry
MOEST	Ministry of Education, Science and Technology
MOFEP	Ministry of Finance and Economic Planning
MOGYCS	Ministry of Gender, Youth and Community Services
MOHA	Ministry of Home Affairs
MOHP	Ministry of Health and Population
MOJ	Ministry of Justice and Constitutional Affairs
MPA	Malawi Procurement Authority
MPRS	Malawi Poverty Reduction Strategy
MRA	Malawi Revenue Authority
MRFC	Malawi Rural Finance Company

MSB	Malawi Savings Bank
MSIS	Malawi Social Indicator Survey
MSMES	Micro, Small and Medium Scale Enterprises
MSPAP	Minister of State Responsible for Poverty Alleviation Programmes
MTEF	Medium Term Expenditure Framework
MTL	Malawi Telecommunications Limited
NACP	National Aids Control Programme
NAO	National Audit Office
NASFAM	National Smallholders Farmers Association of Malawi
NBM	National Bank of Malawi
NBS	New Building Society
NEAP	National Environmental Action Plan
NEC	National Economic Council
NER	Net Enrolment Rate
NEWS	National Early Warning System
NGO	Non Government Organisation
NHP	National Health Plan
NRA	National Roads Authority
NRC	Natural Resources College
NRCM	National Research Council of Malawi
NRM	Natural Resources Management
NRUs	Nutrition Rehabilitation Units
NSO	National Statistical Office
NSSA	National Sample Survey of Agriculture
OECD	Organisation of Economic Co-operation
OMO	Open Market Operations
OPD	Out-Patients Department
OPV	Open Pollinated Variety
ORT	Other Recurrent Transactions
PAC	Public Accounts Committee
PAP	Poverty Alleviation Programme
PEA	Primary Education Advisor
PEM	Public Expenditure Management
PER	Public Expenditure Review
PERMU	Public Enterprise Reform and Monitoring Unit
PIF	Policy Investment Framework
PMS	Poverty Monitoring System
PPE	Priority Poverty Expenditure
PRA	Participatory Rural Assessment
PRISAM	Private Schools Association of Malawi
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSLCE	Primary School Leaving Certificate of Education
PSMR	Public Sector Management Reform
PTC	People's Trading Centre
PTR	Pupil:Teacher Ratio
PWP	Public Works Programme
QUIM	Qualitative Impact Monitoring
R&D	Research and Development
RBM	Reserve Bank of Malawi
RDP	Rural Development Programme
RICs	Rural Instruction Centres
ROMARP	Road Maintenance Rehabilitation Project

S&T	Science and Technology
SACCO	Savings and Credit Cooperative Organisation
SADC	Southern Africa Development Community
SAPs	Structural Adjustment Programmes
SEDOM	Small Enterprises Development Organisation of Malawi
SET	Science, Engineering and Technology
SIPs	Sector Investment Programmes
SME	Small Medium Enterprises
SOER	State of the Environment Report
SPP	Starter Pack Programme
STIs	Sexually Transmitted Infections
SWAP	Sector Wide Approach
TB	Tuberculosis
TDC	Teacher Development Centre
TEVET	Technical, Entrepreneurial, Vocational Education and Training
TIP	Targeted Input Programme
TRF	Textbook Revolving Fund
TTC	Teacher Training College
TVM	Television Malawi
TWC	Technical Working Committee
TWG	Thematic Working Group
UNIMA	University of Malawi
UR	Uruguay Round
USAID	United States Agency for International Development
VAM	Vulnerability Assessment and Mapping
VCT	Voluntary Counselling and Testing
VIP	Ventilated Improved Pit
VSAT	Very Small Aperture Terminal
WB	World Bank
WID	Women in Development
WTO	World Trade Organisation



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## 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 coefficient<sup>1</sup> 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 births<sup>2</sup>, 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

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<sup>1</sup> Gini coefficient is a measure of income inequality within a given population.

<sup>2</sup> 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.

## **Chapter 1 - Introduction**

The Malawi Poverty Reduction Strategy Paper (MPRSP) is Malawi's overarching statement of strategy. It will form the basis for all future Government activities and provides a guiding framework for Government's development partners, both domestic and international. It is the product of a highly consultative process involving a broad range of stakeholders. Thus, it represents a consensus about how Malawi can develop and achieve its core objective of poverty reduction.

The MPRSP focuses on what Malawi as a nation can do to meet its poverty reduction targets. The strategy as a whole belongs to the nation, but many of the specific activities within it and the overall co-ordination of implementation will be done by Government<sup>3</sup>. The private sector and civil society<sup>4</sup> will play important roles in working with Government to implement and monitor the strategy. As a statement of national strategy, the MPRSP does not go into detail on the specific actions and spatial distribution of the activities it proposes. These details will be provided by the sector specific plans (for example, the Sector Investment Programmes – SIPs) and District Development Plans (DDPs) that will be developed in line with the MPRSP.

### **1.1 Distinguishing features**

The Malawi Poverty Reduction Strategy (MPRS) is a major departure from previous plans and strategies. Firstly, the MPRS differs in its underlying philosophy. The overall goal of the MPRS is to achieve “Sustainable poverty reduction through socio-economic and political empowerment of the poor”. It moves away from seeing the poor as helpless victims of poverty in need of hand-outs and passive recipients of trickle-down growth. Instead, the poor are seen as masters of their own destinies. Government and development partners' role is to create the conditions whereby the poor can reduce their own poverty. This change in philosophy is reflected across the MPRS.

The second distinguishing feature of the MPRS is its focus on implementation. At the heart of this focus is the emphasis on prioritisation and action. In the past, Malawi's development objectives have not been met because Government has tried to do too much and as a result

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<sup>3</sup> Government here is defined broadly as the three branches of Government: The executive (including the civil service), the legislature (parliament) and the judiciary. This is at both national and district level.

<sup>4</sup> Civil society includes NGOs, faith community organisations, labour organisations and traditional authorities.

has spread itself too thinly and has achieved too little. Many previous Government plans have not been implemented because of lack of action planning, broad ownership and realism. The MPRS has been designed to address these problems.

A third and related distinguishing feature is the participation involved in the MPRS preparation process. A broad range of stakeholders were involved in the formulation of the strategy, through national level consultations, district consultations and Thematic Working Groups (TWGs), as detailed in Section 1.2 below. This participation will continue during the monitoring, evaluation and reviewing of the MPRS.

Fourthly, the MPRS differs in its comprehensiveness. Rather than treating poverty reduction as an issue separate from the bulk of Government operations, the MPRS covers the whole of Government. It is the starting point for a reorientation of Government towards meeting its core objective of poverty reduction so that all of its activities are poverty focussed (either directly or indirectly). As such, Government will ultimately implement **only** the MPRS, through various supporting mechanisms of which the budget is the most important. All poverty reduction and development initiatives and programmes will fall under the umbrella of the MPRS. As such, it will not only be Government that implements the MPRS – all stakeholders in Malawi have a role to play in implementation.

Finally, the MPRS will be implemented in the context of decentralisation. The devolution of functions and responsibilities to the districts represents a fundamental change in the way Government will work, bringing itself closer to the poor themselves. In future years, the strategies detailed in the MPRS will be implemented more by local Governments than by central Government line ministries, whose role will be reduced to national policy-making, setting standards and regulations and co-ordination. In addition, the design of the MPRS itself will be based on district level poverty reduction plans as an input into national level discussions. The integration of decentralisation into the MPRS will be achieved through the annual review process, as the process of decentralisation proceeds and as functions are devolved to the district assemblies.

## **1.2 The MPRS Process**

As detailed in Annex 1, the preparation of the PRSP was achieved through a highly consultative process involving a broad range of stakeholders. The process was iterative both



between Government and other stakeholders and between the MPRSP Technical Committee and the sectoral working groups.

Many of the details of the strategy were provided by 21 Thematic Working Groups (TWGs). These TWGs were drawn from a broad variety of stakeholders, including Government, civil society, NGOs, donors, private sector, and faith communities. They drafted sectoral contributions that were prioritised and costed to reflect the focus on poverty.

The process also involved consultations on more general issues at a district level. Stakeholders in all the 27 districts and 4 cities and municipalities were consulted. Issues which emerged from these consultations are highlighted in Annex 1. The stakeholders involved in these consultations included Traditional Authorities, Members of Parliament, Ward Councillors, political leaders of various parties, district chief executives and their staff members, local NGOs and some ordinary citizens representing the voices of the poor.

After the consultations and the completion of the sectoral contributions by the TWGs, a drafting team was formed, drawing members from the Technical Committee, civil society, private sector and NGOs. The resulting draft was discussed at a series of stakeholders' workshops, involving Government officials, Principal Secretaries, Members of Parliament, the private sector, Traditional Authorities, councillors, donors, NGOs, civil society, faith communities and trade unions. The comments arising from these workshops were then incorporated by the drafting team, with a focus on refining the costing and prioritisation in consultation with the TWGs. This revised draft was then commented on by Principal Secretaries, donors and Cabinet and subsequently the National Symposium draft was prepared.

### **1.3 The Malawi Poverty Reduction Strategy**

The MPRS outlined in this paper has four pillars. These pillars are the main strategic components grouping the various activities and policies into a coherent framework for poverty reduction. These are:

1. *Sustainable Pro-Poor Economic Growth* – economically empowering the poor by ensuring access to credit and markets, skills development and employment generation.
2. *Human Capital Development* – ensuring the poor have the health status and education to lift themselves out of poverty.

3. *Improving the Quality of Life for the Most Vulnerable* – providing sustainable safety nets for those who are unable to benefit from the first two pillars.
4. *Good Governance* – ensuring that public and civil society institutions and systems protect and benefit the poor.

In addition, there are four issues that cut across these pillars: HIV/AIDS, Gender, Environment, and Science and Technology.

#### **1.4 The content of the MPRSP**

The paper gives essential background information and outlines the strategy itself. Chapter 2 answers the question: “Who are the poor and why?” by giving a situational analysis of poverty. This analysis sets the stage for the rest of the paper by defining what the problem is that needs to be solved.

Chapter 3 gives some overall background of Malawi’s developmental efforts and performance. It discusses why Malawi has in the past failed to meet its objectives and outlines lessons from this experience.

Chapter 4 is the core of the MPRSP, since it outlines the underlying philosophy and approach of the MPRS based in part on the lessons learned from Chapter 3. It then summarises the strategies under each pillar of the MPRS, justifying them with reference to their impact on poverty and to lessons from past and present experience.

Chapter 5 outlines the macroeconomic framework and expenditure framework within which the MPRS will operate. In particular, it provides macroeconomic targets and the associated resource availability. It then presents a summary of the cost implications of the strategies summarised in Chapter 4 and compares them to resource availability.

Chapter 6 summarises the modalities for implementing the MPRS. In particular, it outlines the relationship between the MPRS and the annual Budget, presents the institutional framework for the monitoring and evaluation of the MPRS, and describes the process for reviewing the MPRS.

The document also contains seven annexes. The first presents the action plan for the MPRS. The second presents a summary of the costings of the MPRS activities by objective. The

third presents certain large-scale infrastructure development projects. The fourth annex contains a selection of monitoring indicators. The fifth presents a glossary of terms whilst the sixth contains a summary of the MPRS Preparation Process. Finally, the seventh annex contains the bibliography.



## Chapter 2: Poverty Analysis and Profile

In general, Malawians characterise poverty “...as a state of continuous deprivation or a lack of the basics of life.”<sup>5</sup> Basic needs include economic, social, psychological and physiological requirements. Poverty therefore has many dimensions including income poverty and human or capability poverty. Poverty exists, and is observable, at various levels: at the individual, household, community and national levels. Qualitative<sup>6</sup> information from the poor themselves also defines poverty in terms of lack of felt basic needs at household and community level. This section provides an overview of poverty in the country.

### 2.1 Poverty Situation

Poverty in Malawi is widespread, deep and severe. Based on 1998 Integrated Household Survey (IHS) consumption data, 65.3 percent of the population is poor, or roughly 6.3 million people. The poor, in this case, are defined as those whose consumption of basic needs (both food and non-food), is below the minimum level estimated at MK 10.47<sup>7</sup> per day in 1998. Within this number of the poor, 28.2 percent are said to be living in dire poverty. In general the poor have the low level of access to or acquisition of certain basic social services or capabilities.

The level of inequality is well illustrated by the fact that in 1997/98, the richest 20 percent of the population consumed 46.3 percent while the poorest 20 percent consumed only 6.3 percent of total reported consumption of goods and services. In urban areas, the richest 20 percent consumed 58.4 percent while the poorest 20 percent consumed a meagre 4.5 percent. Consumption is also more unequally distributed within urban areas where the Gini coefficient<sup>8</sup> is 0.52 as opposed to 0.37 for rural areas (see Table 2.1).

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<sup>5</sup> Malawi Government/UN (1993), Situation Analysis of Poverty in Malawi

<sup>2</sup> Malawi Government: Qualitative Impact Monitoring Survey (QUIM) 1997 ; World Bank (1999), Consultations with the Poor.

<sup>7</sup> Average Exchange Rate in 1998 was MK31.1 = 1 US Dollar.

<sup>8</sup> Gini coefficient is a measure of income inequality within a given population.

Table 2.1: Indices of inequality in consumption

	Gini coefficient <sup>9</sup>	Consumption of group as percentage of total consumption of population	
		Poorest 20%	Wealthiest 20%
<b>National</b>	0.40	6.3	46.8
<b>Rural</b>	0.37	6.7	44.3
<b>Urban</b>	0.52	4.5	58.4

Source: Malawi Government, 1997/98; Profile of Poverty in Malawi.

Despite this pervasiveness, some sections of the population are generally more affected than others. These include land-constrained smallholder farmers; labour-constrained female-headed households; estate workers or tenants; *ganyu*<sup>10</sup> and other casual labourers; destitute or disadvantaged children, like orphans, street children and child heads of households; persons with disabilities; low income urban households; and the elderly; the uneducated and the unemployed.

## 2.2 Causes of poverty

Poverty in Malawi is caused by a myriad of factors. Many of these are constraints on the economic productivity of land, labour, capital, and technology. Constraints on the productivity of land include rapid environmental degradation and limited or inadequate access to land. Constraints on labour include generally low levels of education, poor health status, lack of or limited off-farm employment, and rapid population growth. The key constraint on capital is lack of access to credit. All of these factors causing poverty are exacerbated by generally weak institutional capacity within the country.

## 2.3 Spatial Distribution of Poverty

Poverty is more prevalent in rural areas than in urban areas. It is estimated that 66.5 percent of the rural population live in poverty as compared to 54.9 percent for urban areas. While as many as 90 percent of the population live in rural areas, 91.3 percent of the poor and 91.5 percent of the ultra poor also live in rural areas.

The Southern Region has the highest proportion of poor households compared to the other two regions in the country. Using IHS data, 68.1 percent of the population in the Southern Region were poor as compared to 62.8 percent for the Central Region and 62.5 percent for

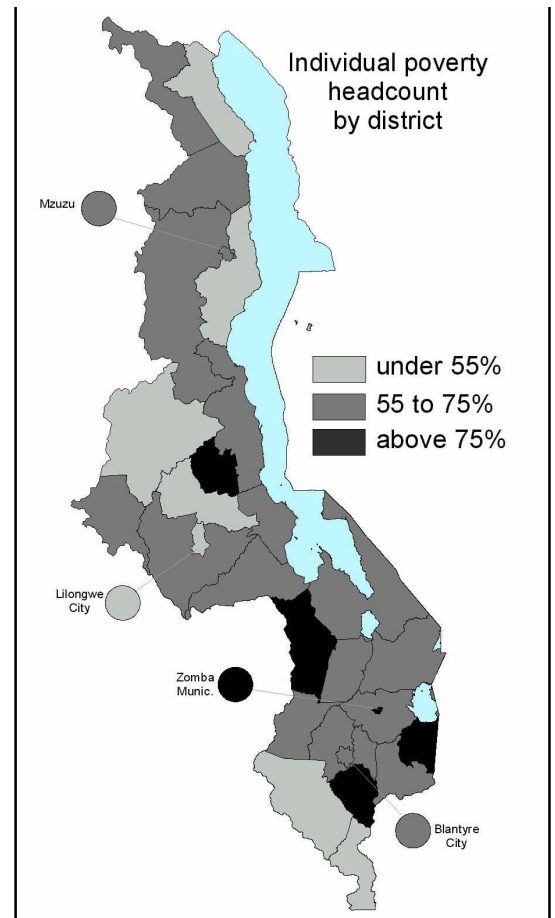
<sup>9</sup> The 1997/98 Gini-coefficient cannot be compared with the 1991/92 Gini-coefficient of 0.62 due to methodological differences.

<sup>10</sup> *Ganyu* is piecework in return for cash or in kind

the Northern Region. The Southern Region's poverty situation can partly be explained mainly by migration into the Region and by the small size of cropland holdings per capita estimated at 0.176 hectares compared to 0.257 hectares and 0.256 hectares for Central and Northern regions respectively.

However, the aggregate regional picture of the incidence of poverty hides considerable variation. As the map shows in Figure 2.1, not all urban centres have low poverty head counts nor are all districts in the Central and Northern Regions. Pockets of poverty are found throughout the country. The areas with the highest poverty headcount are Ntcheu (84.0 percent); Phalombe (83.9 percent); Zomba Municipality (78.0 percent); Thyolo (76.8 percent); and Ntchisi (76.3 percent).

Figure 2.1 Spatial Distribution of Poverty



## 2.5 Sectoral Analysis of Poverty

### 2.5.1 Demographic characteristics

Poor households tend to have larger families with many dependents. The national dependency ratio (dependents per person of working age) is 0.89. However, the dependency ratio for poor households is higher at 1.05.

Females head 25 percent of all households and these households have always been disproportionately poor, especially in the rural areas. In urban areas, female headed households are less likely to be poor and tend to be more educated and in formal employment. It is notable that about 48 percent of the poor are female.

Orphans are one of the groups most affected by poverty. According to the 1998 census it was found that 1.5 percent of those aged 20 years or younger had lost both of their parents. Most of these orphans lived with grandparents who were in most cases single and resource constrained. The 1998 IHS revealed that 3.6 percent of households were headed by women

aged over 65 years, whilst 0.6 percent of households were headed by individuals under the age of 20, which is a reflection of the emergence of child headed households.

### ***2.5.2 Educational Characteristics***

Malawi has a low adult literacy rate, which was estimated at 58 percent in 1998. In addition, the female literacy rate was estimated at 44 percent. Adults who complete at least standard 8 are likely *not* to be poor. This was particularly true in urban areas. However, few Malawians attained that level of education as only about 11.2 percent of adults aged 25 years and above completed Standard 8, where 16.2 percent was for male and 6.2 percent for female (IHS 1998).

There is very little difference between poor and non-poor households in regard to the proportion of primary school-aged children who are currently in school. However, poor children are likely to drop out of school before reaching Standard 5. Drop-out rates increase with the educational ladder and are higher for girls and in rural areas. The male drop-out rate was estimated at 9.5 percent while the female rate was at 14.1 percent (DHS, 2000). The national gross enrolment ratio was estimated at 132 and the pupil to qualified teacher ratio was 114. These indicators have large implications for the quality of education. There is a lot of repetition as classes become too big to manage. Repetition is highest in standard 1 (45.3 percent) and in rural areas (47.1 percent). In urban areas the repetition rate was estimated at 29.1 percent (DHS, 2000) This is also compounded by the use of unqualified teachers. Despite the introduction of Free Primary Education (FPE), the Net Enrolment Rate (NER) has remained at 78 percent implying that there are other factors that prevent children from attending school.

According to administrative records of the education sector,<sup>11</sup> about 750,000 people enter primary school annually. While 150,000 complete primary school, only 50,000 enter secondary school. In addition, only about 30,000 get absorbed in formal employment implying that there are many out of school youth and people without formal employment.

### ***2.5.4 Health, Fertility, and Nutrition Characteristics***

Life expectancy has dropped from 43 years at birth in 1996 to 39 years in 2000. This could be a result of the HIV/AIDS epidemic. Infant, child and maternal mortality rates in Malawi are

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<sup>11</sup> Ministry of Education administrative records.



high by global standards. 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 births<sup>12</sup>. This might be due to limited access to health services as evidenced by a low percentage of births attended by health workers of 43 percent.

Children in Malawi are generally malnourished. In 2000, 49 percent of children under age 5 were found to be stunted (low height for age). In addition, the poor consume only 66 percent of the recommended daily calorie requirement showing that malnutrition affects adults as well. Malawi too has a high total fertility rate estimated at 6.3 children per woman. It is, however, evident that the wealthier and more educated the mother, the less likely her children are to be malnourished and the lower the total fertility rate.

### **2.5.3 Economic characteristics**

Almost half of poor households are self-employed and agriculture is the predominant economic activity, especially for rural areas. However, most of the poor are constrained in terms of both land and labour. About 81 percent of the poorest 10 percent of households have landholdings of less than 0.5 hectare. By contrast, 64 percent of the richest 10 percent of households cultivate more than 1 hectare of land. Females are the ones most hit by labour constraints as they spend more time caring for their families including the sick.

Around 50.4 percent of the population is engaged in non-farm business activity, and this proportion is higher in urban areas (67.5 percent) than in rural areas (47.9 percent). Trading is the commonest non-farm business activity for both the urban and rural areas. However, in the urban areas trading is more common among the poor while in the rural it is dominated by the non-poor. Small-scale lending institutions appear to be operating more in rural areas than in urban areas. About 19.8 percent of households in the rural areas reported having acquired a loan while for the urban areas it was only 10.5 percent of households.

#### *2.5.3.1 Sources of Income*

As shown in Table 2.2, subsistence agriculture is the main source of income for the rural poor and it accounts for 63.7 percent of income. Despite this, most agricultural production is home-consumed. Notably, income from agricultural sales is *not* the most important source of cash income in rural areas. The major source of *cash income* for Malawian households is

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<sup>12</sup> Malawi Government (2000) Malawi Demographic and Health Survey 2000

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.

*Table 2.2: Major sources of income (percent of total per capita income)*

	National		Rural		Urban	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
<b>Home production consumed</b>	55.9	38.1	63.7	59.1	11.8	3.1
<b>Wages and salaries</b>	21.5	30.9	13.0	17.3	69.2	53.7
<b>Business income</b>	2.3	10.5	1.3	2.6	8.1	23.6
<b>Agricultural sales</b> (net of input costs)	8.0	4.9	9.5	7.6	-0.6	0.7
<b>Income transfers</b>	6.2	5.0	6.5	6.0	4.6	3.2
<b>Other income</b>	6.1	10.6	6.0	7.4	6.9	15.7

Source: Malawi Government: Profile of Poverty in Malawi 1998.

### 2.5.3.2 Expenditure Patterns

Generally, poor households spend most of their income on food. Food insecurity is considered to be a major attribute of a poor household (QUIM, 2000). As shown in Table 2.3, about 76.0 percent of the income of the poor was used for food, while non-poor households used only 55.4 percent of their income for food. The rural poor also are likely to spend more on food (80.9 percent) than the urban poor (57.5 percent). Notably, the urban poor spend relatively more on housing and utilities than the rural poor. Thus there is inadequate income to be spent on other basic needs as well as productive means.

*Table 2.3: Top five household expenditure categories (percent of the value of total consumption)*

	National		Rural		Urban	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
<b>Food</b>	76.0	55.4	80.9	69.7	57.5	29.8
<b>Utilities and Housing</b>	2.8	9.5	0.6	2.8	11.2	21.3
<b>Clothing</b>	5.2	7.2	5.1	7.3	5.5	7.0
<b>Gifts, transfers, or loans</b>	2.0	6.4	1.4	4.7	4.2	9.4
<b>Fuels</b>	4.3	3.4	3.5	3.6	7.7	3.0

Source: Profile of Poverty in Malawi 1998, Table 36.

### 2.5.3.3 Ownership of Assets

Low income results in low levels of ownership of assets. Assets like beds, tables, chairs, and bicycles are absent in two-thirds of Malawian households. Qualitative studies have confirmed that lack of assets at household level is an attribute of poverty. However, even those who reported to have acquired assets, the quality of such assets is generally poor.

## **2.6 Summary of Poverty Issues**

The prevailing poverty situation points to the areas and gaps that the MPRS has to direct its focus in terms of policy and programme implementation. This information is also to serve as the basis for monitoring the progress in the implementation of the MPRS. It is evident that a large proportion of the people in Malawi are living in poverty and most peoples basic needs at household and community levels have not been addressed in the past.

Most of the poor are concentrated in the rural areas where there are limited economic activities. Rural development would therefore form the core of programme implementation with the aim of increasing people's cash incomes and access to basic services. Pro-poor economic growth strategies are outlined in Pillar 1 of the MPRSP and ensure that that the poor both participate and benefit from growth.

The poor socio-economic indicators point to the need to improve access and delivery of social services and therefore increase and improve human development. There are implementation gaps in the quality and access to health services both in terms of prevention and treatment of diseases. Improving the quality and access to education is a pre-requisite to developing the country's appropriate skills and knowledge. Social service delivery is treated under human capital development strategies in Pillar 2 of the MPRSP.

Food security is a serious threat to better life and this often translates into problems of malnutrition. Food security is very dependent on size of land, education, available factors of production and a person's income purchasing power. The stability or erosion of purchasing power of incomes also has strong linkages on the macroeconomic stability of the economy. Chapters 3 and 5 of the MPRSP relate macroeconomic framework issues to poverty and indicate how unsustainable deficits lead into inflationary pressures, which adversely harm the poor.

There are some core poor, who may or may not be in a position to take advantage of any economic opportunities that arise. They will therefore require deliberate redistribution programmes under safety nets. Pillar 3 on safety nets outlines various strategies aimed at meeting the needs of the vulnerable people at the same time assisting the transient poor to be self-supporting after the programme.



## **Chapter 3 - Structural Adjustment and Poverty**

Malawi has implemented a series of structural adjustment programmes (SAPs) to address structural weaknesses and adjust the economy to attain sustainable growth and poverty reduction. The major areas of focus of the SAPs included the liberalisation of the agricultural sector, parastatal sector reform, privatisation, trade liberalisation, financial sector reform, exchange rate liberalisation, interest rate liberalisation; and the rationalisation of the Budget. Nonetheless, the adjustment programmes have had limited impact on economic growth and poverty reduction due to a number of factors outlined below.

This chapter presents an overview of the structural adjustment policies and their impact with respect to poverty reduction, and finally outlines rationale for the new approach to Poverty Reduction Strategies.

### **3.1 Overview of Structural Adjustment Policies**

Between 1981 and 1994, Malawi implemented several structural adjustment programmes supported by the International Monetary Fund (IMF) and the World Bank (WB). From 1995 to date, Malawi has implemented three Fiscal Restructuring and Deregulation Programmes (FRDP), another form of SAP supported by the World Bank. Malawi has also been through a series of Enhanced Structural Adjustment Facilities (ESAF) supported by the International Monetary Fund (IMF). In parallel to the introduction of the PRSP approach internationally, the IMF has adopted Poverty Reduction and Growth Facilities (PRGF) as its main instrument in Malawi.

Given that Malawi is an agro-based economy, many of the reforms were focussed on the agricultural sector. The first key reform was price decontrol, which was aimed at allowing market forces to drive resource allocation in production. Secondly, market liberalisation was intended to foster competition and ensure that smallholder farmers get good input and producer prices. In particular, the repeal of the Special Crops Act in 1995 lifted restrictions on smallholder production of burley tobacco and allowed smallholder farmers to generate more income and reduce poverty.

In the financial sector, the Reserve Bank of Malawi (RBM) and Banking Acts were reviewed in 1998/99 to allow, among other things, easy entry of new banking institutions into the financial sector and to give the Reserve Bank greater independence in the formulation of

monetary policy. The revision of the Acts also strengthened the RBM's powers to supervise the banking industry. The liberalisation of the financial sector also meant that monetary policy had to shift from direct to indirect instruments of monetary policy.

The liberalisation of interest rates began in 1987 when lending rates were freed. Deposit interest rates were deregulated in 1988 together with the abolition of preferential interest rates to the agricultural sector. By May 1990, all interest rates became fully liberalised.

Another notable policy reform undertaken was the liberalisation of the exchange rate system in order to promote the country's competitiveness in international trade. The Kwacha's flotation in February 1994 was meant to enhance flexibility in achieving this goal.

During the same adjustment process, Government also undertook the privatisation of public enterprises through the enactment of the Privatisation Act passed in 1995. This was aimed at improving efficiency, fostering competition and establishing a wider base of share ownership. Although privatisation has in general been characterised as a success, a number of social and redistributive issues, such as employment and popular ownership, remain unresolved.

Major industry and trade reforms were implemented in 1988 through the Industrial and Trade Policy Adjustment Programme. The programme eliminated quantitative restrictions and rationalised trade taxes. Malawi's tariff bands were reduced to four. The foreign exchange market was also liberalised to ensure efficiency in foreign exchange allocation.

Locally produced goods were exempted from surtax in 1992 as a way of offering protection to local producers. The rationalisation of trade taxes ensured that only import duties were used as instruments of protection, while domestic taxes emphasised taxing consumption rather than production.

To promote Public Sector Management the Government also undertook civil service Reform. The Civil Service Reform programme included a census of civil servants and the retrenchment of 20,000 temporary employees. In addition, strategic and functional reviews of Ministries formed the basis for rationalisation of Government through contracting out certain functions and removal of operational overlaps.

Government also adopted the Medium Term Expenditure Framework (MTEF) in 1997 to improve the allocation and quality of public expenditure in view of the great need for an efficient public service and the very limited financial resources available. Specifically, efforts were made to strengthen expenditure prioritisation and to increase allocation to priority sectors such as education and health. As noted these reforms were supported by the Fiscal Restructuring and Deregulation Programme, which also sought to reduce domestic financing of deficits and retiring of domestic debt.

Government has also initiated several measures to improve financial management and accountability. Significant progress has been made in the design of a computerised Integrated Financial Management Information System (IFMIS) with a view to strengthening the monitoring of expenditure, and creating an integrated fiscal reporting system linking the Treasury with the Reserve Bank of Malawi and line ministries to ensure timely reconciliation of accounts.

### **3.2 Effects of Structural Adjustment on Poverty**

The impact of the wide ranging policy reforms implemented during the adjustment period has been mixed and mostly unsatisfactory insofar as poverty reduction is concerned. Although there have been periods of macroeconomic stability, sustainable growth has proved elusive. The instability has to a large extent arisen from external shocks, inconsistent implementation of reforms, fiscal policy slippages and the narrow base of production capacity. The inability to sustain high rates of growth over a long period has undermined any poverty reducing impact of growth. Furthermore, macroeconomic instability has aggravated the poverty situation.

### **3.3 Economic Performance During Adjustment**

From independence through to 1979, the Malawi economy registered impressive growth. Real output growth, mainly spurred by the agricultural sector, averaged 6.7 percent during this period. However, the benefits of this growth were poorly distributed, as growth was narrowly based on estate agriculture. Starting from 1979, Malawi suffered from a series of exogenous shocks, including high import costs due to oil price shocks, disruptions in trade routes, the influx of refugees from Mozambique and droughts that disrupted the pattern of growth. In addition, policy weaknesses and slippages exacerbated the effect of these external shocks.

As a result of these internal and external factors, real GDP growth fluctuated between 1979 and 1987, recovering to a high of 6.8 percent in 1984 following droughts in previous years. The agricultural sector continued to be the main source of growth and domestic saving.

Following another round of SAPs, Malawi started to experience relatively buoyant economic growth between 1988 and 1991. Real GDP growth rose from 3.3 percent in 1988 to 7.8 percent in 1991. However, the gains arising from this growth were short-lived as growth fluctuated through the 1990s, largely as a result of external shocks such as droughts and the reduction of donor financial support between 1992 and 1994. For example, the economy recorded growth rates of -7.9 percent in 1992 and -11.6 percent in 1994, before recovering with a growth rate of 14.5 percent in 1996. Growth has averaged 2.6 percent between 1997 and 2000 and stands at 1.8 percent in 2001.

This poor economic growth performance implies that the majority of the population experienced no change in their economic status. The situation was more serious among the poor whose household consumption even in times of relative growth has stagnated. Thus economic performance during the adjustment period from 1981 to date had minimal impact on poverty reduction.

### ***3.3.1 Inflation and Money Supply***

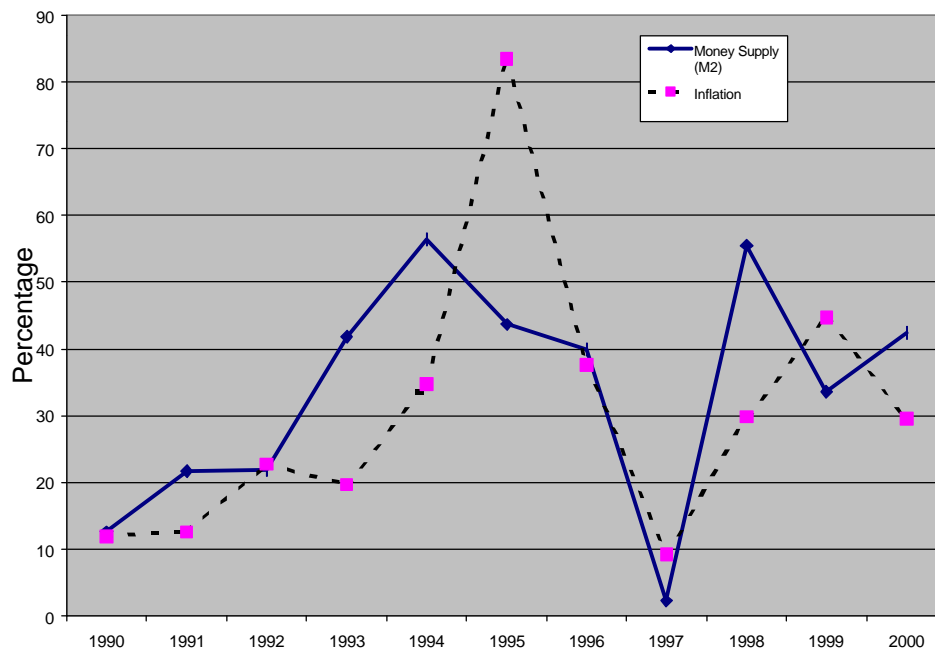
Between 1980 and 1990, the inflation rate, as indicated by the Consumer Price Index (CPI), remained stable averaging 16.6 percent. During the period of 1990-2000, the annual inflation rate fluctuated. As figure 3.1 below indicates, inflation moved from 11.9 percent in 1990, to 34.7 percent in 1994, and 83.4 percent in 1995, mainly due to fiscal slippages and external shocks. Prudent fiscal policies introduced in 1995 reduced inflation to 37.6 percent in 1996 and to 9.2 percent in 1997. The depreciation of the Kwacha in August 1998 led to cost-push inflationary pressure<sup>13</sup> resulting in annual inflation rates of 29.8 percent and 44.7 percent in 1998 and 1999, respectively. In recent years inflation averaged 30 percent.

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<sup>13</sup> Cost push inflation results from a sudden shock to certain prices, which then has further effects on other prices (including wages). In this case the shock was caused by a depreciation of the Kwacha that increased the price of imports, such as fuel.



Figure 3.1: Trends in Money Supply (M2) and Inflation 1990-2000



Source: Malawi Government, Economic Report (various Issues)

As Figure 3.1 above demonstrates, inflation in Malawi has been caused by high money supply (largely as a result of excessive Government borrowing) and the cost-push effects arising from movements in the nominal exchange rate. Inflation is a regressive and arbitrary tax, which places a heavy burden on the poor who have no other means of countering the associated adverse effects such as interest bearing accounts. In particular, high inflation is damaging to disposable incomes as it erodes purchasing power.

There is a correlation between movements in money supply and in inflation. Usually, increases in the growth of money have been followed by increases in the rate of inflation. The main source of increases in money supply is Government borrowing, from financial and non-financial institutions to finance its operations. It therefore follows that reducing the fiscal deficit will be followed by deceleration in the growth of money, and hence low inflation.

*Table 3.1: Basic Macroeconomic Indicators*

<b>% unless otherwise indicated</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
GDP growth rate	-10.2	9.6	8.2	4.9	2.0	4.0	1.7
Average Annual Inflation	34.7	83.1	37.7	9.1	29.8	44.8	29.6
Fiscal deficit/GDP inc. grants – Fiscal Year	15.0	5.7	4.4	5.2	3.4	5.6	5.7
Domestic Saving/GDP	-3.0	-3.0	3.0	0.9	6.0	3.1	3.1
Investment/GDP	29.1	17.0	11.6	12.2	13.3	14.8	15.9
Current Account Deficit/GDP inc. grants	-13.4	-1.7	-7.7	-10.5	-2.5	-8.3	-4.9
Exchange rate (MK:1USD, average)	8.7	15.3	15.3	16.4	31.1	44.1	59.5
External debts/GDP	150.6	139.1	88.6	90.8	142.7	144.0	150.3

Source: Economic Report, various years

### **3.3.2 Nominal Exchange Rate**

During the period of reforms, the exchange rate between the Malawi Kwacha and the United States Dollar moved from MK1.05 to the dollar in 1982 to MK4.4 in 1993. As shown in Table 3.1, the Kwacha exchange rate moved further from MK 8.7 in 1994 to MK59.5 in 2000. By February 2001 the United States Dollar traded at MK80.5 although later in that year, the Kwacha appreciated to MK61.3 to 1US\$.

### **3.3.3 Interest Rates**

High fiscal deficits as shown in Table 3.1 above have during the Structural Adjustment period necessitated excessive Government borrowing, which in turn has led to high interest rates. Interest rates (lending) moved from 17 percent in 1980 to 29.5 percent in 1993. The rate moved further from 31.0 percent in 1994 to 52 percent in 2001. This has led to the crowding out of the private sector. High interest rates act as disincentive to investment as they increase the cost of borrowing and hence retard economic growth. High interest rates have worsened poverty as the poor fail to raise credit resources to maximise agricultural production and other income generating activities.

## **3.4 Effects of Agricultural Reform**

The initial impact of the reforms implemented in the agricultural sector led to a substantial increase in the production of tobacco as well as private sector participation in marketing of agricultural produce. The liberalisation of burley tobacco production alone generated around US\$185 million of revenues for the rural sector<sup>2</sup>, which stimulated the growth of trading, transport and other income. However, over time, these benefits have been offset by input prices increasing faster than producer prices. The lifting of price controls and elimination of fertiliser subsidies have contributed to increased input costs. Again, during years of bumper

crops, farmers have lost out because producer prices have often collapsed without any remedial Government interventions.

The failure to foster competition in both the input and output markets in response to the liberalisation compromised the sector's ability to consolidate and sustain the benefits accruing to the poor.

### 3.5 Fiscal Policy and Expenditure Allocations

Apart from the poor fiscal and tax policies relating to the size of deficit, the allocation of resources through the budget plays a major role in poverty reduction. As indicated in Table 3.2 below, Government has allocated the largest share of the total budget to Social and Community Services from the mid-1990s, with Education receiving the highest share within this category.

*Table 3.2 Functional Analysis of Total Government Expenditures: Estimates 1995/96-1999/2000(Percent)*

percent	1995/6	1996/7	1997/8	1998/9	1999/2000
<b>General Administration</b>	21.8	37.0	35.1	22.9	30.7
General Public Services	15.6	29.3	27.5	16.9	24.3
Defence	3.2	4.0	3.5	2.5	2.8
Public Order and Safety	3.1	3.8	4.1	3.5	3.7
<b>Social and Community Services</b>	40.6	24.3	38.9	40.5	41.7
Education	17.4	11.1	17.5	14.9	15.6
Health	11.1	6.0	9.6	12.2	11.6
Social Security	7.6	4.9	6.7	5.4	7.2
<b>Economic Services</b>	15.6	9.3	9.5	20.0	20.2
Agriculture	9.2	6.2	4.7	12.4	11.0
<b>Unallocable</b>	22.0	29.4	16.5	16.6	7.4
<b>Total</b>	100.0	100.0	100.0	100.0	100.0

Source: Economic Reports

However, despite this positive trend towards increased allocations to priority poverty reducing areas, Table 3.2 also demonstrates that this prioritisation has not been adequate. In particular, General Administration continues to account for a large share of the Budget (averaging around 30 percent over the period). The significant variations in the percentage shares from year to year can partly be explained by changes in the levels and recording of donor funding.

Although allocations to priority areas, such as social services, have increased, the quality of expenditure has not fully reached the beneficiaries. As the 2000 Public Expenditure Review

(PER) clearly demonstrates, resources within the priority sectors of education, health and agriculture have not been used efficiently and effectively. In particular:

1. Education: the share of the Recurrent Budget for primary education has risen from 50 percent in 1993/94 to around 60 percent in 1999/00, with the poorest sections of the population benefiting from an increasing share of primary education expenditures. However, expenditures per pupil are 8 times higher in secondary education than in primary education, and 202 times higher in tertiary education.
2. Health: only 18 percent of the Health Budget is spent on primary health services, which most directly benefit the poor, with tertiary health services receiving the highest share of the budget.
3. Agriculture: the highest share of the agriculture budget is spent on administration, with Headquarters receiving a significant proportion of this, partly because all donor funds are channelled through Headquarters and because of the centralised structure of the Ministry. Expenditures on agricultural research and extension as a percentage of GDP have fallen, with extension spending declining from 0.6 percent in 1995/96 to 0.3 percent in 2000/01.

Thus, the detailed analysis in the PER highlights the fact that although Government has reallocated funds to those Ministries that have direct impact on poverty reduction, these funds were not always directed within the Ministries to those particular sub-sectors and activities that directly benefit the poor. This would explain why the overall reallocations in expenditures have had a limited impact on poverty reduction in the 1990s.

### **3.6 New Approach to Poverty Reduction**

As noted in the preceding section, the various structural reform programs did not translate into poverty reduction. To address this situation the Poverty Alleviation Program (PAP) was instituted in 1994 as the main strategy for addressing poverty in Malawi. The PAP emphasised the need to raise national productivity through sustainable broad-based economic growth and socio-cultural development. Some of the notable projects under the PAP included: Free Primary Education, Malawi Social Action Fund (MASAF) funded Community Projects, European Union (EU) Micro-Projects and the Bakili Muluzi Health Initiative.

However, the main constraint of the PAP was the absence of a well-articulated action plan to ensure a holistic approach during implementation. In addition, the PAP Policy Framework was silent in terms of setting poverty targets that needed to be achieved either in the medium or long-term. The result was the existence of disjointed initiatives, which lacked proper coordination.

It is against this background that Malawian stakeholders, including Government, have recognised the need to do a balancing act between measures to promote medium and long-term growth and policies to reduce the short to medium term plight of the majority of the population. It has also been noted that for poverty reduction to be achieved, pro-poor economic growth must be stimulated whilst investing in social sector development and ensuring that Government intervenes to help those who cannot benefit from growth. The strategy must also address a number of cross-cutting issues, such as the HIV/AIDS epidemic, gender equality, the sustainable use of natural resources, and the creation of a science and technology culture.



## Chapter 4 – The Malawi Poverty Reduction Strategy

The MPRS has been designed in the light of the severe poverty situation and the lessons learnt from past experience. It is the result of extensive consultations as described in Annex 1.

In the past, Malawi has failed to achieve sustainable and equitable growth. In the 1970s, there was sustainable growth, but this was centred in the estate and large-scale sectors and did not benefit the poor. In the 1980s, SAPs succeeded in achieving relative economic stability, but this was not translated into economic growth, in part due to a lack of national ownership and poverty focus. In the 1990s, there were periods of equitable growth driven by the smallholder agricultural sector, but this growth was not sustained as a result of external shocks and policy reversals. As a result, as Chapter 2 demonstrates, income poverty has remained high, and distribution remains highly unequal. This experience points to a strategy of pro-poor growth. This is growth that involves and benefits the poor. This will be complemented by some deliberate transfers to the poor.

The strategy also deals with the rural concentration of poverty. The concentration of poverty in rural areas requires proportional concentration of poverty reduction efforts and activities in rural areas. The poor social indicators described in Chapter 2 will be addressed through human capital development interventions, which will ultimately have a major impact on long term income poverty.

The medium goal of the MPRS is that by 2004/5 the incidence of poverty in Malawi should be reduced by 6 percent, that is from 65.3 percent of the population to 59.3 percent. In other words, about 140,000 people move out of poverty and start generating their own income sustainably. The medium term poverty reduction goal will be met through a number of poverty reduction targets. The targets are summarized in Table 4.1 below.

*Table 4.1 Selected major impact targets for the MPRS 2002-2004*

Type	Current Status	Target 2004
Poverty headcount measured by consumption based poverty line	65.3%	59.3%
Extreme poverty headcount, measured by consumption based ultra-poverty line	28.8%	20%
Life expectancy	39 years	43 years
GDP per Capita (constant 2001 prices)	MK 10,500	MK 11,400
Literacy rate (female)	58% (44%)	70% (60%)
Infant mortality rate (per 1000 children)	104	90
Maternal mortality rate (per 100,000 live births)	1,120	800

The MPRS has been built around four strategic pillars. The first pillar contains strategies that will enhance rapid sustainable pro-poor economic growth and structural transformation. In the second pillar, strategies focus on human capital development. The third pillar captures strategies on improving the quality of life of the most vulnerable. The fourth pillar covers issues of good governance.

Finally, the MPRS will ensure that cross cutting issues: such as HIV/AIDS, Gender, Environment and Science and Technology are streamlined in all strategic activities of the PRSP because of their casual and consequential impact on poverty.

#### **4.1 Sustainable Pro-Poor Growth**

Pro-poor growth is growth that involves and benefits the poor. It is a prerequisite for broadening income distribution and generation of employment. The consultations country-wide revealed a number of short-comings in the previous approaches to stimulating growth and reducing poverty. Major inadequacies were identified in agricultural production, micro-enterprises and micro-finance, rural infrastructure and macroeconomic stability.

Pillar 1 is divided into two main elements: the promotion of specific sectoral sources of pro-poor growth, and the creation of an enabling environment for pro-poor growth.

##### ***4.1.1 Sources of Pro-Poor Growth***

The key specific sectoral source of pro-poor growth in the medium term is agriculture. Efforts will also be made to diversify into sectors with greater value-addition, especially through Micro, Small and Medium Scale Enterprises (MSMEs). The key sectors identified for diversification are natural resources, manufacturing, tourism and small-scale mining.

###### ***4.1.1.1 Agriculture***

As Chapter 2, clearly shows, agriculture remains the most important source of income accounting for 63.7 percent of total income of the rural poor. Thus, increasing agriculture incomes would be one main source of poverty reduction, at least in the medium-term. The agriculture sector contributes about 36 percent to GDP of which smallholder sector contributes about 27 percent of GDP. In addition, agriculture accounts for approximately 87 percent of total employment and supplies more than 65.3 percent of the manufacturing sector's raw material requirements.



Government and its partners will promote agriculture by providing farmers with the necessary services and conditions for them to increase their incomes. This will involve expanding and strengthening access to agricultural inputs; improving research and extension services, introducing smallholder friendly technologies, improving access to local and international markets; reducing land shortage and degradation; increasing investment in irrigation; and developing farmer co-operatives and associations. Further, issues of rural infrastructure and security, which are crucial to poverty reduction through agriculture, are covered under the sections on rural infrastructure in Pillar 1, and on security and justice under Pillar 4.

#### 1. Expand and strengthen access to agricultural inputs

Low agricultural productivity is mainly due to unavailability or lack of access to essential inputs such as fertilizers, manure and quality seeds. Use of fertilizer and improved hybrid seed by the majority of farmers, especially smallholders, has been extremely low. Given the low level of average incomes, farmers can only buy inputs through credit. However, financial institutions are reluctant to lend to the agriculture sector due to inherent risks of farming, lack of collateral and high default rates. Increases in input supply through safety nets to the rural poor have resulted in increased production in the past. For instance, in 1998/99 and 1999/2000, Malawi experienced bumper harvests, among other things, owing to the implementation of free seed and fertiliser distribution under the Starter Pack Programme (SPP).

The solution to these problems is threefold. Firstly, increasing access to credit to the farmers with more emphasis on reaching the productive poor, who have in the past been non-creditworthy. The detailed strategies on credit are elaborated in the subsequent section. Secondly, encouraging the production and use of compost and other sources of manure, and linking farmers to markets that demand organically produced agricultural crops. Thirdly, ensuring access to inputs to the most vulnerable through the Targeted Input Programme (TIP) and Public Works Programme (PWP) as elaborated in Pillar 3. Finally, to operationalise credit system for farmers, the groups or farmer associations that will be formed throughout the country will be organised into Savings and Credit Co-operative Organisations (SACCOs) for the purposes of mobilising savings and providing credit to members. In addition the SACCOs will be used as collateral for accessing credit from commercial banks and other financial lending institutions.

2. Improve agricultural production through improved research and extension services.

Agricultural research institutions have developed technologies that have not been fully adopted by smallholders because of high costs of technology and inadequate linkages between research and extension. Some of the technologies (such as motorised irrigation) developed are inappropriate for use by the low capital and small land holding farming communities in Malawi.

In view of resource constraints, which have resulted in failure to maintain basic extension activities in the field, the Department of Extension in the Ministry of Agriculture and Irrigation (MOAI) has embarked on a Core Function Analysis with the aim of making extension service delivery more effective and responsive to farmers' needs. This has resulted in a new extension policy document, which emphasises demand driven pluralistic extension services, allowing farmers to determine the information required, and involving NGOs (including private institutions) in the delivery of extension services. While the government will still remain the main provider of free extension services especially to smallholder farmers, some progressive and fully commercialised estate farmers will have to pay for extension services which will be provided by some private institutions such as NGOs, ARET, NASFAM. In addition, some more private institutions will be encouraged to provide extension services.

The resulting strategies involve, firstly, improve extension and research delivery services by strengthening research and extension linkages through creating synergies between the two so that farmers do not consider them as separate institutions but as one. To this effect, a joint research extension strategic planning fora involving crops animal specialists and farmers representatives will be conducted biannually to identify farmer's technology requirements in order to come up with appropriate technologies to be transferred to farmers. A multi media communication approach involving research, extension and farmers will be created. A systemic approach to technology development, problem identification, and promotion and utilisation of appropriate technology will be advocated. On farm impact assessment surveys will be carried out every year to determine usefulness and adoption rates of the technologies imparted. In addition the farmer to extension worker ratio will be reduced to increase farmer access to extension services. This requires training and employing more extension workers to fill the gap created by high attrition rate (9 percent), mainly due to deaths and retirement. In

addition, some existing extension workers will be retrained to enhance their knowledge and reorient them to the new extension policy.

Secondly, Government will facilitate the formation and development of product specific farmer co-operatives and associations for easy access to credit and extension messages on production and marketing. The associations will be encouraged to engage into contract farming and farmers will be mobilised to actively participate in prevention and mitigation of HIV/AIDS.

Thirdly, Government will strengthen its research efforts in crops and animal production technologies, which are responsive to the needs of farmers and easily adopted while being cost effective in nature.

Fourthly, the Government will enhance and perfect production and dissemination of appropriate agricultural statistics including weather, crop production estimates, and price and market information., which will enable effective planning for production and marketing of agricultural products.

*Table 4.1.1 Extension Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Maize yield (kg/ha)	1137	2000
Cassava yield (kg/ha)	16618	18000
Cotton yield (kg/ha)	776	1500
Groundnuts (kg/ha)	820	1000
Soya Beans (kg/ha)	685	1000
New extension workers trained	-	232
Farmers' groups and co-operatives formed	-	3000

### 3. Improve access to domestic, regional and international markets

There has been a general lack of understanding of domestic, regional, and international markets among Malawian farmers and small agro-enterprises such that they have not taken advantage of the market opportunities created by bilateral and multilateral trade agreements. Most stakeholders have very limited access to information on local and international markets especially smallholders and small scale traders, leading to lack of knowledge of the quality, quantity and type of products to be produced and targeted to specific markets. The competitive position of agricultural products in Malawi is relatively weak due to high transport costs and low on-farm and agro-industrial productivity. Extension agents focus on

production rather than marketing information and do not provide marketing support to farmers.

The strategic actions towards addressing these problems will include developing an efficient and effective Market Information System (MIS). This will be achieved through creating a better marketing network, which will link farmers to markets. Extension workers will be oriented towards imparting marketing knowledge such as grading, good storage and gross margin analysis. Dissemination centres will be created in all district assemblies and other conveniently accessed areas (schools, health centres, and agricultural offices). Market Information Systems in existing institutions for both inputs and outputs will be strengthened, be demand driven and based on partnership between Government and the private sector. Farmers will be trained in how they can access markets ( for example, by being informed by extension workers, through market research by farmer association representatives, and traders) and how to take advantage of specialised market opportunities. International linkages will be strengthened, for example, through trade fairs and other buyer/seller meetings, internet access, marketing bulletins and membership of local and international commodity trade associations

Rural farmers are not effectively involved in the direct marketing of their produce due to lack of producer organizations, lack of cottage industries, lack of remunerative prices and weak rural infrastructure. In order to eliminate these problems, Government will facilitate the development of co-operatives to improve supply development. Export villages will be established for selected clusters of crops to improve their marketability. Government will also initiate market development programmes to capture both domestic and export markets. Specific actions will involve creating and enhancing farmers markets, promoting buyer-seller contacts, designing and producing promotional literature and collecting and disseminating market information. Further, Government will protect rural farmers from sub-standard imported agricultural products.

#### 4. Promote small scale irrigation schemes and drainage

The current irrigation system has failed to maximise its production potential and impact on poverty for two main reasons. Firstly, smallholder farmers have in the past been provided with motorised equipment whose utilisation was not economically viable, particularly due to high maintenance costs. Secondly, there have been inadequate trained personnel and training programmes for farmers in irrigation issues, leading to low adoption of irrigation

technologies. As a result, total irrigable land (potential land for irrigation) is 200,000 hectares while only 57,000 hectares<sup>14</sup> is currently under irrigation, of which only 8,000 hectares is by small-holder farmers. By promoting small-scale irrigation and drainage, greater efficiency will be achieved in the use of water, hence increasing productivity and raising crop yields. Farmer associations and cooperatives will be encouraged to develop and maintain irrigation schemes in order to increase production of specific commodities. This will include training, technical advice and linkages to credit institutions.

To this extent, the MPRS will facilitate the development of these small-scale irrigation schemes and undertake the drainage of marshland where necessary. Strategies will include: supporting the construction of small scale irrigation infrastructure; promoting irrigation schemes based on manual lifting devices, sprinklers and motorised pumps; rehabilitation and construction of community small earth dams, introducing training programs to build capacity in management; and draining and reclaiming wetlands for agricultural use where environmentally sustainable.

*Table 4.1.2 Irrigation Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Treadle pumps supplied on loan to farmers		100,000
Area under motorised pump irrigation (hectares)	1,300	3,700
Community dams rehabilitated		90
Area under irrigation per ADD (hectares)		2,000

#### 5. Encourage production of livestock and specific crops

The Malawi economy has largely relied on tobacco for income and employment. Since the repeal of the Special Crops Act,<sup>15</sup> there has been a tremendous increase in the production of barley tobacco as indicated in Figure 4.1.1. However, efforts to encourage diversification of crop production away from tobacco have been ineffective, particularly as a result of the reliable market for tobacco compared to other crops.

<sup>14</sup> Ministry of Agriculture and Irrigation *Irrigation Department Annual Workplan 2000/2001*

<sup>15</sup> An act which prohibited smallholder farmers from growing high value cash crops such as tobacco,

*Table 4.1.3 Final Smallholder Crop Estimates for Major Crops (metric tonnes)*

<b>Crop</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Maize	1,327,865	1,793,463	1,226,476	1,534,326	2,245,824	2,211,859	1,899,185
Paddy Rice	39,073	72,629	65,690	68,802	92,859	67,084	89,120
Groundnuts	30,664	40,327	68,718	97,228	124,604	116,363	147,624
Tobacco	35,438	68,978	83,567	94,063	84,555	98,614	85,715
Cotton	25,207	82,591	45,122	36,336	50,589	34,907	39,584
Sorghum	20,090	54,710	39,514	41,401	41,401	36,799	37,278
Millet	13,259	20,262	16,424	19,638	20,224	19,508	19,926
Pulses	99,772	183,093	179,226	208,859	233,811	248,243	306,560
Cassava	328,424	534,549	713,566	829,821	895,420	2,757,186	3,153,988
Sweet Potatoes	317,705	569,469	858,129	1,432,383	1,680,313	1,634,268	2,478,355

Source: MOAI Agricultural Statistical Bulletin 2001.

Government will take action to diversify and encourage the establishment of viable production units of selected key export crops which will have a direct market link with industry to facilitate agro-processing for more value adding. Key crops, apart from tobacco, such as cotton, cassava and soya beans have been selected on the basis of their high productivity by smallholder farmers and that the crops could easily be processed into a number of products. These crops also have high export marketing prospects. It is envisaged that crop specific associations of these crops will be formed in areas with high comparative production advantage. To kick-start the process, Government will encourage the introduction of schemes to provide loans to the associations.

In terms of livestock, past government efforts have had minimal impact in increasing production of livestock because emphasis was placed on disease prevention services with less emphasis on production-oriented programmes. In addition, the private sector was not encouraged to produce livestock. As a result, there has been very little increase, and in some cases decline, in livestock production, as shown in Table 4.1.2 below.

*Table 4.1.4 Trends in Livestock Production 1994-2000*

<b>Species</b>	<b>Population</b>						
	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Cattle	748,891	748,830	780,069	589,175	611,040	750,000	775,333
Pigs	252,112	340,129	312,925	420,772	-	425,000	451,051
Sheep	91,915	86,827	93,018	97,916	-	117,000	119,466
Goats	850,313	843,362	947,028	1,566,514	-	1,460,500	1,620,103
Poultry	-	-	12,807,000	10,005,000	10,366,000	12,000,000	10,000,000

Source: Department of Animal Health and Industry (DAHI) 2000/01 Work Plan

In order to address these problems, Government in conjunction with NGOs will strengthen its advisory services in production and marketing of livestock and its products. To this end, the

formation of livestock production schemes will be facilitated, and special effort will be geared towards creating loan facilities for livestock production. In addition, the establishment of viable feed industries will be encouraged, to make animal feed more affordable to smallholder farmers.

Basic animal health services such as dipping tanks will be expanded, upgraded and supported. Surveillance and control of animal diseases will be revamped and strengthened. These will partly be sustained by cost sharing.

*Table 4.1.5 Livestock Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Number of farmers reached by animal husbandry extension	-	1,120,000
Production of cattle	775,333	868,373
Production of pigs	451,051	676,577
Production of Sheep	119,466	155,306
Production of goats	1,620,103	2,106,134

Source: DAHI

#### 6. Reduce land shortage and degradation.

Land constraints in Malawi arise mainly from low productivity of fragmented pieces of smallholder land, lack of security of tenure, high population density and an unorganised land market system. High population densities and lack of off farm employment opportunities have exacerbated the land scarcity problem in most parts of the country. Current land inheritance patterns encourage fragmentation of holdings and discourage long-term investments and improvements on land. Poor implementation of land policies and enforcement of the law has led to cultivation on slopes and river-banks, resulting in deforestation and serious soil erosion. There has been weak planning and coordination among sectors dealing with land. The absence of proactive policy interventions and limited capacity for dynamic monitoring of land administration may have directly contributed to current problems of poverty, food insecurity, and perceived inequalities in access to arable land.

The strategies for achieving this objective are the implementation of the Land Policy, including providing land to the landless; increasing productivity of small land holdings; promoting low cost conservation technologies, consolidating reproductive and gender issues into land management, and ensuring sustainable environmental and natural resource management. This will be achieved through redistributing 14,000 ha of land to 3,500 farming households, guaranteeing security of customary land tenure, conducting soil conservation and fertility campaigns; and training and promoting family planning to reduce pressure on land.

#### 7. Promote and Expand Farm Mechanisation.

Agricultural mechanisation in Malawi is presently at low levels. The predominant source of power is human power and the hand hoe is the main implement. This limits the performance of critical operations like tilling, planting and weeding. Currently only about 13.5 percent of farmers in Malawi are using animal drawn implements, mostly in the central and northern regions. Motorised power is essentially limited to estate farms, which cover just 30 percent of the total cultivated land. Despite the low use of basic animal drawn implements, their demand and the demand for work oxen has been on the increase in the period from 1992 to 2000. However, it has been difficult to fully satisfy the demands because of reduced numbers of animals and increased costs of farm implements. Past government initiatives towards improving mechanisation such as the use of power tillers in the rice schemes, draught animal power utilisation, motorised maize shelling, and aerial spraying of cotton failed. The reasons for the failure ranged from lack of spare parts, high cost, poor consultations with farmers, poor hiring arrangements, lack of accountability of funds collected from farmers and inadequate care for animals.

These problems will be addressed by the following strategies: increasing access to draught animals and animal drawn implements by expanding training of work oxen and encouraging use of alternative source of animal power such as donkeys. More farm implements will be made available at cheaper cost by providing conducive fiscal incentives to companies who will be investing in production of farm implements. Local artisans and suppliers will be supported and linked to industry.

Efforts will also be made to increase access to tractors for hire. Existing schemes have been unsuccessful because of small and fragmented land holding size. The new approach will involve provision of tractors for hire to groups of farmers in co-operatives with land consolidated for easy operation with tractors.

*Table 4.1.6 - Targets for Mechanisation.*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Number of animals trained	-	60,000
Number of artisans trained in production of animal drawn implements	-	300
Number of donkeys in use		865



8. Reduce weaknesses in institutional and policy framework.

Farmers are unable to participate in the formulation of agriculture programmes voice owing to a lack of co-ordination between farmers, the MOAI and other organisations in the agricultural sector. The respective roles of Government and private sector are not clearly stated or understood and in many cases lead to confusion and wastage of resources, due to lack of a core functional analysis for the MOAI. Ineffective decision-making mechanisms have led to poor development and implementation of policies. Policies and legal frameworks in most cases exist to guide the activities of the MOAI but resources for implementation are diverted to non-core functions.

In order to address these problems, the Malawi Agriculture Sector Investment Programme (MASIP), under formulation, will provide a framework for partnerships between Government, donors, Non-Governmental Organisations (NGOs), and the private sector in development of the agriculture sector. In particular, this will involve strengthening co-ordination between farmers and other institutions within the agricultural sector, redefining and restructuring the MOAI around its core functions and in response to impending decentralisation, and instituting clear arrangements for implementation of non-core functions by the private sector, NGOs and farmer associations.

9. Increase gender balance, prevent and mitigate HIV/AIDS in the agricultural sector.

In the past, agricultural services have not been equally provided to females and males. In most cases, services such as development of technologies and dissemination favoured men, leaving women, boys and girls at a disadvantage. Conversely, technology dissemination in food and nutrition was targeted at women, leaving out men. This gender imbalance has resulted in inequity in uptake of knowledge and competence necessary for understanding and benefiting from agricultural technologies between and among different gender groups of the farming community. On the other hand, HIV/AIDS issues have not been adequately incorporated within the agricultural programmes. In order to ensure quality participation, the sector will strive to design and implement activities that will generate, disseminate, avail and promote use of appropriate technologies that impact on basic and economic needs for the various gender groups.

The MPRS endeavours to achieve gender balance, prevention and mitigation of HIV/AIDS through the following strategies. Firstly, campaigns for mainstreaming gender and

HIV/AIDS will be undertaken for both communities and the work place. This will involve conducting gender and HIV/AIDS awareness meetings, which will involve participation of the local community to expose them so that they support services on gender and HIV/AIDS. Secondly, diagnostic surveys will be undertaken to bring about deeper understanding of needs, issues and links of HIV/AIDS, gender and agriculture development in selected areas (model villages and sample areas). In this regard, there will be a situation analysis at work place and communities. Thirdly, policy and programmes will be developed to support the activities of HIV/AIDS and gender in the agriculture sector. Fourthly, technical backstopping to agriculture training institutions, communities and workplace on gender and HIV/AIDS interventions will be provided. There will be training for skills development in dealing with HIV/AIDS impacts, prevention and reducing gender disparities in agriculture development through short courses for officers, on the job training for field staff at ADDs, RDPs, research stations and EPAs, and mobile training for community mobilisers on gender and HIV/AIDS.

#### *4.1.1.2 Natural Resources*

Malawi's abundant natural resources in the form of land, forestry, water and fish are currently dwindling and are rapidly being exploited unsustainably, primarily by the poor. At present, forestry and fisheries contribute about 12 percent to GDP. About 21 % of Malawi is forest reserves, national parks and wildlife reserves or conservation areas. However, the expansion of development in these sectors has been restricted by previous management policies, which put communities at the periphery and stressed natural resources conservation. Communities were prohibited from utilising and deriving tangible benefits from natural resources in forest and wildlife reserves. This situation resulted in conflicts between communities and Government and further violation of the laws by the communities. In addition, Government was managing the natural resources directly.

In forestry, for example, despite Government policing mechanisms, Malawi has experienced a rise in wanton cutting of trees for conversion to agricultural land, firewood and charcoal production, resulting in environmental degradation, soil erosion and river sedimentation. Forest cover is currently 28 % and has declined at by 19 % over the past 25 years, a loss of 2.0 ha million. Demand for wood currently outstrips production by 33 %. At the same time, existing forestry resources that could be used sustainably as a source of rural livelihoods have not been fully nor efficiently utilised.

Fish is the single most important source of protein in Malawi, contributing about 60-70 percent of national animal protein. However, due to over-exploitation, the total production has declined by 40 %, to 40-45 000 tons per year, from a peak in production in the early 1990's. This has resulted in a concomitant reduction of 45 % in the average per capita fish consumption rate. Malawi has 2 strategies whereby to increase production, One would be through fish farming the other to develop as yet un-tapped deep water stocks. However, fish farming in Malawi, despite being promoted aggressively, farmers have not taken advantage of the potential marshy areas to construct small dams and ponds for fish farming. Malawi has for a long time used primitive methods in catching of fish in the lake. There is need to explore more advanced methods especially for the undeveloped deep-water fishing.

Natural resource management activities will therefore be focussed on three key sub-sectors of forestry, fisheries and wildlife. For each of these sub-sectors, the aim will be to promote Community Based Natural Resources Management (CBNRM). In particular, the legal and institutional framework will be strengthened so that rural communities are organised and trained to empower them to effectively participate in decentralised environmental management and to sustainably benefit from natural resources. Communities will be encouraged to sustainably manage fishery, forestry and wildlife resources based on clear mechanisms of ownership and control. Secondly, efforts will be made to promote alternative livelihood strategies, for example by encouraging natural resources-based enterprises (including value-adding activities) for generation of more income in the rural areas. Finally, mass awareness of environmental management issues will be created. For example, communities will be given civic education on the importance of sustainable utilisation and conservation of natural resources to providing habitat for wildlife, reducing soil erosion, reducing global warming, increasing soil fertility and influencing weather.

These general strategies will be applied to each sub-sector as outlined below:

1. Increase sustainable utilisation of fishery resources

In fisheries, the empowerment of rural communities will focus on Beach Village Committees (BVCs). The key livelihood strategies will be to promote off-shore fishery, and local fish farming. The promotion of off-shore fishery will involve encouraging the use of more advanced equipment such as boats and deep water trawlers. Local fish farming will be encouraged by promoting aquaculture through expanding fish farming research and extension

services. Further, efforts will be made to promote the establishment of better markets and marketing practices for fish. Awareness of environmental management issues will be achieved through improving fisheries curricula at extension training colleges, and translating existing fisheries research data into user-friendly information materials.

2. Encourage sustainable utilisation of forestry resources

In addition to devolution of forestry co-management to CBNRM groups, the private sector will be encouraged to add value to non-timber products and to manage plantations through contracts and lease agreements. Management plans for potential plantations will be developed for use by the private sector. Further, mass tree planting campaigns will be conducted, focussing on the economic benefits of planting. Finally, the forestry curriculum at training colleges will be improved and existing research translated into user friendly material.

3. Encourage sustainable utilisation of wildlife resources

In addition to devolution of wildlife co-management around national parks and reserves to CBNRM groups, the strategy will also involve privatisation of wildlife through encouraging game farming and ranching. Efforts will be made to minimise contact between wildlife and animals, for example through fencing park boundaries and training hunters on control of dangerous animals.

*Table 4.1.7 - Targets for Natural Resources.*

Indicator	Current Situation	Target 2004/5
Fish farming production (tonnes)	500	1,000
BVCs trained and functional	-	270
Forest under private sector		50,000
Parks under private sector		50,000

4.1.1.3 *Micro, Small and Medium-Scale Enterprises (MSMEs)*

Apart from small-holder agricultural production, pro-poor growth will rely on Micro, Small and Medium Scale Enterprises (MSMEs). It is these MSMEs that have the potential to allow the poor to generate their own incomes. The Gemini Baseline Survey 2000 estimates that there are about 747,363 MSMEs, of which 83 percent are located in rural areas. In terms of sectoral distribution, 75 percent of the MSMEs conduct off-farm activities including manufacturing, commerce and trade and services. The remaining MSMEs are based on crop production (22 percent), with just 3 percent on other primary activities such as livestock production, fishing, forestry and mining.

About 91 percent of these firms fit into the micro category of 0-4 employees according to the national enterprise size classification. The primary production sector, especially fishing, mining crop and livestock production, tend to have more employees.

About 34 percent of all the MSMEs are owned by women, a proportion that is significantly lower than the average of 60-75 percent recorded in most other African countries. Women's MSME activities are concentrated in the off-farm sector, primarily in commerce (mostly vending farm produce) and in manufacturing (mostly processing foods and brewing beer). On the other hand, married couples and multiple owners of businesses tend to be concentrated in crop production and trade. These ownership patterns, also observed in other studies, are determined not only by economic factors but also by certain social and cultural relations.

The development of MSMEs has been hampered by lack business skills and technological expertise, lack of capital, and inadequate supportive infrastructure for efficient production and marketing. The following strategies will be put in place to create an enabling environment for MSMEs development and operation, providing financial support for development of MSMEs and improving institutional coordination and support.

1. Provide support for development of MSMEs

This will involve special schemes on entrepreneur development, marketing, infrastructure and finance. These schemes will enable urban and rural industries to have better access to financial resources and credit facilities. Efforts will be made to improve marketing, supply of raw materials, productivity, technology, product design and management capabilities of the MSMEs. Finally, local and foreign markets for MSMEs' products as backward and forward linkages will be promoted.

2. Improve institutional coordination and support.

There are a number of activities that will be implemented under this objective. The structure and operations of MSMEs will be strengthened through the formation of product specific associations and cooperatives. Entrepreneurship development will be included as one of the key subjects not only in training schools but also in secondary schools. This will involve preparing self-employment programmes for school leavers and linking them to support institutions; formalising the apprenticeship programmes; and linking TEVET and other business growth programmes. Finally, laws and regulations affecting the development of

MSMEs will be reviewed and appropriate technology transferred through training programmes.

#### 4.1.1.4 Manufacturing and Agro-Processing

Malawi's industrial growth will be greatly influenced by the success in raising agricultural output and incomes. The bulk of manufacturing activities are highly dependent on agriculture and natural resources as sources of raw materials and provider of foreign exchange for the importation of inputs and components. In addition, increased agricultural incomes will stimulate greater demand for manufactured goods. At present, the industrial sector is relatively small, with manufacturing activities concentrated in a few agro-processing activities as shown in Table 4.1.4. However, research<sup>16</sup> suggests that Malawi's current comparative advantage in these agro-processing industries will not last into the long-term unless deliberate efforts are made to increase efficiency and introduce up-to-date technologies.

*Table 4.1.8: Structure of Manufacturing Sector, Sub-Sectoral Shares (Percent) in Manufacturing Value Added, 1994 – 2000*

	1994	1995	1996	1997	1998	1999	2000
<b>Agro processing</b>	<b>45.1</b>	<b>45.6</b>	<b>43.8</b>	<b>46.3</b>	<b>41.7</b>	<b>41.8</b>	<b>43.2</b>
Food	13.8	14.4	13.9	14.4	11.2	11.8	12.3
Beverages	15.2	16.4	14.5	14.2	13.4	13.4	14.3
Tea	3.8	3.7	3.7	4	2.9	2.5	2.6
Tobacco	2.2	2.3	2.9	3.2	2.7	2.8	2.9
Textiles, Nettings and Blankets	4.2	2.5	2.3	2.3	2.7	2.1	2
Clothing, Leather Goods and Footwear	2.6	2.6	2.5	4.1	4.4	4.4	4.3
Sawmill and Wood Products	3.3	3.8	3.9	4.1	4.4	4.7	4.9
<b>Manufacturing</b>	<b>52.1</b>	<b>52</b>	<b>53.2</b>	<b>50.4</b>	<b>55</b>	<b>54.3</b>	<b>52.9</b>
Packing Materials, Printing and Publishing	10.9	12.1	12.2	14.1	14.8	15.7	13.7
Chemicals and Fertilizers	5.3	5.8	6	5.3	6.2	4.3	3.8
Pharmaceuticals, Paints and Soaps	13	14	13.4	14.1	13.6	13.8	14.2
Plastic Products and Tyre Retreading	5.2	3.8	4	3.6	3.5	2.4	2.4
Non-metallic Mineral Products	4.1	3.5	3	2.4	3.2	3.4	3.7
Metal Products other than Machinery	9.3	9.2	10	7	9.8	10.3	10.8
Machinery and Motor Vehicle Assembly	4.4	3.6	4.5	3.9	4	4.3	4.3
<b>All Other Manufactures</b>	<b>2.8</b>	<b>2.5</b>	<b>3.1</b>	<b>3.3</b>	<b>3.3</b>	<b>3.9</b>	<b>3.9</b>
Total	100	100	100	100	100	100	100

Source: National Statistical Office, Monthly Statistical Bulletin (Various Issues)

The major constraints in the manufacturing sector are limited linkages with MSMEs, use of obsolete technologies, inadequate standards and quality assurance and limited international

<sup>16</sup> Malawi Government (1995) *Malawi Industrial Sector Opportunity Study 1994*

marketing capabilities. In addition, the Malawi Investment Promotion Agency (MIPA) reports that most local firms cite the need for collaboration with foreign firms as a necessary condition for their growth and survival, because of their capacities, capital and access to markets. In order to facilitate the development of the manufacturing sector, efforts will be made to broaden the industrial base, develop new cluster-based industries, integrate MSMEs in industrial development and establish a credible institutional framework.

#### 1. Broaden the industrial base

MIPA will spearhead the identification of new sources of growth and promote them so as to strengthen and diversify the industrial base. New approaches will be adopted to target and focus on the development of export-oriented, high value-added, high technology industries, with greater assistance and support from domestic research and development. These will ensure that labour intensive, capital intensive and technologically advanced industries have the capability to produce quality and competitive products that are integrated with the regional and international markets.

#### 2. Develop new cluster-based industries

Emphasis will be placed upon development of competitive industry clusters through integration of key industries, suppliers, supporting industries, critical supporting business services, requisite infrastructure and institutions. Value chains with significant backward and forward linkages, domestic spin-offs and value added will be developed with more emphasis on domestic MSMEs. The following industry cluster groups are earmarked for active development, promotion and support: textiles and apparel; agro-based and food products (cassava, soya, fish and fish products, livestock and livestock products, floriculture, fruits and vegetables); resource-based industries (wood and wood products, gemstones, handicrafts); chemical products (pharmaceuticals, fine chemicals), engineering industries (automobile consumables and components) and consumer manufactures.

#### 3. Accelerate Regional Development

In order to accelerate regional development and reduce transport costs, Government will continue to promote spatial development initiatives. In particular, it will focus on Nacala and Mtwara development corridors. For each initiative, the approach will be to identify the resources in the area, and then involve all stakeholders to plan and promote infrastructural investments.

#### 4. Improve Product Standards and Quality

Standards and quality control systems will play an increasingly vital role in enhancing exports as more and more value-added products are produced. Manufacturers will be encouraged to institute in-house quality control measures in order to produce products that are consistent in quality and competitive in price. The public sector will work with the private sector to indicate concern for quality and standards.

#### 5. Integrate MSMEs in industrial development

Measures will be taken to facilitate and maximise participation of MSMEs by strengthening their competitiveness through improved access to finance, markets, infrastructure, information, results of research and development and training. Government efforts shall focus on identification and review of the financial, fiscal, administrative and legal constraints inhibiting growth of the MSMEs.

#### 6. Establish a credible institutional framework

A credible institutional framework (Business Council) will be established to provide guidance on the implementation of the industrial strategy. The Business Council will facilitate a productive flow of information among the key actors, act as a forum to remove misunderstanding, and enhance mutual respect and forge relationships between the public and the private sectors.

#### 4.1.1.5 *Tourism*

The tourism sector has potential for income and employment generation. Most tourism developments have been led by foreign investors with limited participation of local communities. Tourism is currently hampered by poor product development, lack of clear standards and guidelines, lack of innovation in marketing and inadequate supporting infrastructure.

In order to facilitate poverty reduction through tourism, the MPRS will encourage community-based tourism, increase the efficiency and effectiveness of tourism marketing, ensure the enforcement of standards, and provide infrastructure where necessary.

#### 1. Promote community based tourism

New tourism products will be developed in their original and traditional settings. The major activities will include involving rural communities in tourism development, from construction



of new facilities to running and maintaining them, and through tourist villages, curio markets and cultural events.

2. Increase efficiency and effectiveness of tourism marketing

The primary strategy will be the creation of a distinct and unique image of Malawi's natural heritage and cultural resources. Strengthening Malawi's identity as the "Warm Heart of Africa" will be an important component of tourism development. Further effort will be made to intensify marketing in both old and new markets, utilising developments in information technology.

3. Regulate tourism on the basis of defined standards

Standards, classification guidelines and licensing will form key components in ensuring highest possible standards of accommodation, catering establishments, incoming tourism agencies, travel agencies, destination management companies and other tourism service providers. There will be need to set physical standards and regulations for various elements of the tourism product, set processing guidelines for new development and reclassify and license existing establishments according to standards.

4. Provide infrastructure to support tourism

Infrastructure such as access roads and airfields will be improved in conjunction with the private sector. In addition, there will be periodic identification and review of infrastructure improvement. The Lake is a prime tourism venue, however, since the early 1990s, the increase in the incidence in bilharzia amongst the communities living around the Lake, which averages 60 percent<sup>17</sup>, could be a deterrent to the expansion of the sector. Thus, tourism development will therefore also be coupled with bilharzia control through mass building of latrines, awareness and treatment campaigns.

5. Promote tourism investment

Tourism is one of the leading sectors in the world in terms of the efficiency of backward and forward linkages and yet Malawi has not taken advantage of the potential to develop and promote it aggressively. In order to redress this situation, proactive activities will be undertaken to attract private investment in tourism physical infrastructure such as business and resort hotels, casinos and international conferencing facilities.

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<sup>17</sup> Bilharzia Study of Cape Maclear 2000

#### 4.1.1.6 *Small-Scale Mining*

The mining sector offers the opportunity for creation of rural income and employment generation. The sector employs nearly 3,000 people and there is scope to increase the employment level to 10,000 by 2004, while informal employment is expected to double within the same period<sup>18</sup>. Whilst Malawi is endowed with a variety of mineral resources, such as bauxite, coal and uranium, the MPRS will focus on small-scale mining involving quarry stone, lime, gemstones, pottery-ceramics, gemstones, salt aggregate, limestone, sand and clay (pottery and brick moulding).

The key objectives in promoting small-scale mining are to disseminate information on mineral availability, identify mineral resources suitable for small scale mining, encourage the development of small-scale mineral based industries, provide technical and financial support, ensure appropriate mining legislation, improve understanding of value adding methods and promote marketing.

##### 1. Disseminate information

In order to have proper dissemination of information relating to availability of minerals, exploration-status, mining and setting up of mineral based industries, a focal point will be created in the Department of Mines to undertake a number of activities. Firstly, the preparation and updating of an inventory of minerals available and produced in the country, including district-wise tenement maps. Secondly, the introduction of a quarterly publication of the 'Malawi Mineral Bulletin', including studies in the field about mining methods, reduction and utilisation of mining waste and development of mining machinery and equipment for use in small mines. Thirdly, brochures will be prepared for target minerals like granite, ceramic minerals, decorative and dimensional stones to facilitate setting up of mineral based industry.

##### 2. Provide technical and financial support

Technical support on both mineral extraction and value-adding will be provided by the Department of Mines and Geological Survey through district-based training programmes. Credit institutions will be encouraged to extend credit facilities to small-scale miners (see Credit and Microfinance section in Pillar 1).

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<sup>18</sup> Malawi Government *Economic Report 2000*

### 3. Identify mineral resources suitable for small-scale mining

Although a variety of mineral deposits and resources suitable for small-scale mining are known to occur in the country, very little detailed information on quality and quantity of the minerals is available. The Geological Survey Department will identify and evaluate more mineral resources, which can be mined and processed by small-scale miners. In order to assist the small-scale miners the Geological Survey Department will focus its exploration and evaluation on minerals that can be developed or utilised locally. Where possible, preliminary and prefeasibility studies will be jointly conducted by the two departments. Minerals such as gemstones, kaolintic clays, gypsum, phosphate, alluvial gold and graphite can easily be developed by this category of miners.

### 4. Encourage the development of mineral based small-scale industries

To accelerate the deliberate development of mineral based small-scale industries, there is an urgent need to strengthen existing research centres, which will develop simple technologies in the manufacturing of finished mineral based products. The Geological Survey Department will extend its research activities in the application and utilisation of indigenous mineral raw materials. The existing laboratories in the Department of Mines and Geological Survey need to be upgraded. The research centres will thus provide training and extension services to small-scale entrepreneurs in mining, mineral processing and manufacturing of finished mineral based products.

### 5. Ensure appropriate mining legislation

Emphasis will be placed on the smoothening the prevailing office procedures for greater convenience, avoidance of delays and reduced time lag in grant and renewal of mining leases and streamlining the system to ensure greater objectivity, transparency and proper application of the law.

### 6. Promote value-addition, marketing and exports

Small-scale miners will need assistance to improve the quality standards acceptable to foreign markets. This will in part be achieved through the formation of miners' clubs and associations. In addition, suitable incentives will developed to increase exports. The following measures will be taken to promote export of minerals: Fairs and exhibitions will be organised locally, periodically, so that the type of minerals and decorative stones available in the country may have the desired publicity; visits to national and international trade fairs, exhibitions and seminars will be organised both, for potential exporters and Government; and

standard equipment will be used to improve and maintain quality standards suiting the requirements of foreign buyers.

#### ***4.1.2 Creating an Enabling Environment for Growth***

The key factors that will contribute to an environment conducive for pro-poor growth are macroeconomic stability, access to credit, and improved rural infrastructure. Efforts will also be made to improve other infrastructure, strengthen trade and review taxation policy.

##### *4.1.2.1 Macro-economic Stability*

Macro-economic stability is a precondition for economic growth. Strategies to ensure macro-economic stability, which include improved fiscal discipline and tight monetary policy, are described in Chapter 5.

##### *4.1.2.2 Credit and Micro-Finance*

Micro-finance plays an important contribution to poverty reduction by increasing access to credit by the productive poor. Programmes and schemes run by the Government through Development of Malawian Entrepreneurs Trust (DEMAT), Small Enterprise Development Organisation of Malawi (SEDOM) and NGOs have been seen to have positive impact on the lives of the recipients in terms of increased food consumption, increased savings, increased self-employment, access to other basic necessities and business expansion. However, these can only be targeted at the productive poor who are able to make sufficient return on their investments. The unproductive poor who cannot generate surpluses will only become indebted and therefore worse off, and are better served with safety net interventions, as outlined in Pillar 3.

Limited access to affordable credit has emerged as one of the important factors affecting production by poor households. The problem of access is in three main forms, namely, geographical coverage, costs or affordability of the credit available, and the insufficiency of loanable funds, particularly as they relate to micro-finance institutions. Where credit is available, access has been hindered by prohibitive collateral requirements. From the financial institutions' point of view, the high rates of default, particularly in agriculture or rural-based enterprises, have significantly reduced the willingness of financial institutions to lend to farmers and small business. As a result of these constraints, farmers have not been able to

buy inputs such as fertilisers, seeds and other chemicals, leading to lower yields and inability to help themselves.

High default rates are commonly attributed to a poor credit culture in Malawi. This is caused by a number of underlying factors. Firstly, lending methodologies directly affect repayment behaviour – there are some institutions that have maintained repayment rates of over 95 percent due to well-designed methodologies. Secondly, schemes with conflicting objectives or political motives tend to create confusion as to whether the programmes offer loans or grants. Thirdly, credit programmes targeting the unproductive poor are likely to have low repayment rates and will force the poor into debt. Finally, agricultural loans are subject to additional risks due to weather and international market factors.

Access to credit by rural communities has also been hindered by collateral requirements and high cost of borrowing due to high interest rates. Finally, the micro-finance sub-sector has in the past been segmented and poorly coordinated. While a micro-finance network has been established to create and promote common rules and standards for the sector, there is need for additional efforts from practitioners, government and donors to increase the coordination of the sector and establish a regulatory framework.

Government's goal in micro-finance is to promote the development of a sustainable micro-finance industry, which provides credit, savings opportunities and other financial services to the poor thereby creating wealth and employment. This necessitates strategies to address the broader financial sector, which support micro-finance.

1. Reduce the cost of credit.

Government will strive to restore macro-economic stability through the observance of strict fiscal discipline and tight monetary policy to bring down inflation and interest rates, as discussed in Chapter 5.

2. Strengthen the institutional framework

The regulatory authorities (such as the RBM) together with the micro-finance institutions (MFIs) will establish an appropriate framework to regulate and supervise the activities of MFIs. This will ensure that activities carried out by Governments institutions, NGOs, banks, financial institutions, commercial companies and the donor community are co-ordinated and have a common agenda of sustainable poverty reduction. Specific actions include the

development of legislation describing the regulatory framework including the self-regulatory mechanism and the thresholds for full supervision by the regulatory authorities.

Further, Government in collaboration with the micro-finance network will carry out an impact assessment study to evaluate the impact on the lives of poor clients. The micro-finance network will develop a code of conduct to promote performance standards in the industry with an aim to maximise the poverty impact through increased outreach in terms of client and portfolio and cost effective operations. Government will assist the micro-finance network to establish an operational secretariat and encourage their micro-finance partners to join the network.

To address the problems of high default rates among the low-income credit clientele, tougher and more efficient legal sanctions will be introduced to ensure that borrowers make an effort to repay their debts. Recovery of bad debts by the lending institutions also requires enforcement legislation to be strengthened so that the legal process of dealing with defaulters is speeded. In addition, Government will promote the formation of farmers clubs and co-operatives to reduce problems of identity and collateral.

Finally, in order to overcome the high risks associated with lending to rural communities, Government will encourage the use of other forms of collateral such as land and life policies. Where these may not be available, an appropriate credit guarantee scheme or insurance fund will be established.

### 3. Expand competition and efficiency in the credit market

Government will strive, at the appropriate time, to commercialise and privatise all Government controlled micro-finance institutions to enhance efficiency and competition. This strategy will reduce political interference, which is contributing to misallocation of resources and high default rates.

In addition, in order to expand coverage and innovative lending by institutions, there is need to further encourage competition in the system. Specifically, interlocking ownership linkages among the two dominant commercial banks will be eliminated through full privatisation of the two banks and by encouraging new entrants into the system.

#### 4. Diversify and expand coverage

Government will increase its efforts to mobilise donor support to provide financial resources to act as seed capital to strengthen and expand the geographical coverage of most MFIs. In collaboration with the micro-finance industry, Government will design and provide incentives for the development and expansion of MFIs operating in rural areas. Domestic resource mobilisation by formal institutions such as the Malawi Savings Bank (MSB), commercial banks and other financial institutions will be encouraged and linked to MFIs so that they can be channelled to the poor. Finally, as outlined under agriculture, village banks and SACCOs will be promoted and capitalised.

##### 4.1.2.3 *Rural infrastructure*

Rural infrastructure is highly deficient. Improving rural infrastructure is an essential requirement for the commercialisation, modernisation and growth of agriculture and MSMEs. Better market incentives will be irrelevant if the physical barriers to and economic costs of doing business in rural areas are too high. Hence, there is need to provide good rural roads (including bridges), water and sanitation, energy, and telecommunications.

Investment in rural roads has direct impact on linking the rural areas, urban and peri-urban areas. Improved access to rural areas reduces transport costs and leads to the creation of marketing networks to enhance value adding. Rural feeder roads also have social benefits through better access to social services such as health centres and freedom of movements. The rural population will benefit directly from the construction of the rural roads through employment generation under the Public Works Programme (see Pillar 3).

The provision of and equitable access to potable water supplies and reasonable sanitation facilities are central to poverty reduction as they have a direct impact on health status and therefore productivity. The need to improved access to safe drinking water was also amongst the top priorities during the MPRS district consultations. The MDHS 2000 shows that only 65.6% of households have access to potable water supplies. However, only about 60 percent of existing boreholes are currently functional.

Further to this, there is a limit to the extent to which the nation's groundwater resources can effectively be exploited through construction of boreholes without irreversible damage to the

environment. Thus, borehole construction will be complemented by an expanded programme of construction and rehabilitation of rural gravity-fed piped water schemes.

Increased access to safe water must be complemented by sanitation measures. At present, only 81.4 percent of households have reasonable access to a latrine. Finally, in order to sustain the borehole and piped water system construction, it is important for the sector to equally continue to put in place mechanisms for the conservation and management of the nation's water resources

Stable energy supply is essential to materialise the growth of the sectors identified above in the section on sources of pro-poor growth. The demand for power and other forms of energy will increase as the growth sectors increase their economic activities and electrification proceeds. Electricity is also an essential input to improved social services and mass-communication through television. Providing households with alternative energy other than wood fuel is essential for reducing poverty and environmental degradation. Renewable energy technologies such as solar and wind power will be an area of focus.

Malawi's internal telecommunications coverage is low at around four lines per thousand persons and is concentrated in urban and semi-urban areas. Telecommunications can benefit rural firms and people by giving them direct access to customers and linking them to information about markets, suppliers, technology, and government regulations. Such networks can also make it less expensive and more efficient for firms to locate in rural places, and can enable small towns to import services like healthcare through telemedicine technology and education through distance learning facilities.

#### 1. Construct and maintain rural feeder roads

Government and other stakeholders will improve feeder roads to increase accessibility and productive potential of rural areas. Government through the National Road Authority (NRA) has formulated a five year programme in the road sub-sector based on: improving the accessibility of the road network, reducing transport costs, increasing network coverage particularly in the rural areas, and improving road safety.

Firstly, priority sections of the road network will be restored from a state of severe deterioration to a fair condition through rehabilitation and maintenance. Government will further ensure that a sustainable road maintenance programme is in place to preserve the road



network infrastructure as a capital based asset in which government has already made substantial investment

Government will also improve accessibility to remote areas through the construction of new feeder roads. Finally, Government will decentralise responsibilities for planning and management of urban and district road maintenance and construction to local assemblies.

*Table 4.1.9 Rural Feeder Roads Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Kilometres graded		480
Kilometres rehabilitated		1,320
Kilometres upgraded		6,900
Metres of other infrastructure (bridges, waterways etc.)		15,000

2. Increase accessibility to good drinking water and sanitation

The strategies under this objective are to construct and rehabilitate water facilities, extend water supply capacity, promote community based management and improve water resources conservation and management.

Government will combine an expanded borehole rehabilitation and construction programme with effective borehole maintenance strategies. This will be achieved through capacity building among rural communities to own, operate and maintain their facilities. In addition extension workers will be trained in borehole maintenance and will subsequently be used to assist rural communities as technical experts. This borehole programme will be complemented by an expanded programme of construction and rehabilitation of rural gravity-fed piped water schemes.

Secondly, capacity to meet the growing demands from industry and domestic users will be expanded. This will involve the extension and rehabilitation of the existing infrastructure, water loss reduction measures, enhancement of cost recovery measures and strengthening of the viability of the water supplies. Further, reforms to improve the operational autonomy and commercial viability of the nation's water boards will be pursued more vigorously.

The conservation and management of water resources will include the construction and rehabilitation of small community multi-purpose earth dams and instruction of catchment management authorities. In addition, institutional capacity will be strengthened to improve

the collection and quantification of hydrological data vital for the determination of viable water resources.

Finally, measures will be taken to reduce the incidence of waterborne diseases. This will include the introduction of VIP latrines and other appropriate rural water sanitation technologies.

*Table 4.1.10 Water and Sanitation Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Households with access to potable water	65.6%	84%
Rehabilitation of boreholes (% functional)	60%	100% (rehabilitate 2,000)
Construction of new boreholes		7,000
Rehabilitation of rural piped water supply schemes		20
Households with sanitary excreta disposal	81.4%	100%

### 3. Increase access to affordable and sustainable rural energy

The objective is to increase access to modern and commercial energy, and to ensure economic efficiency in supplying and utilising energy at affordable prices. The first strategy is to increase rural and peri-urban electrification from the present 4% national average. This will involve rehabilitation and extension of national grid distribution lines, creation of mini-grids powered by mini-hydro, diesel or photovoltaic power generation.

The second strategy is to reduce pressure on wood fuel. The rate of utilisation of fuel wood greatly exceeds the rate of its natural growth in Malawi. Rural communities will be encouraged to use more energy efficient charcoal and wood stoves. There will be need to develop reliable, economically accessible and appropriately priced alternative energy supplies (such as biogas) and to assist low-income urban families with appropriate credit and interventions for purchasing stoves and appliances that use these fuels.

Thirdly, the MPRS will expand electricity supply options and to provide incentives for the development of fuel retail outlets in rural areas.

*Table 4.1.11 Rural Energy Targets*

<b>Indicator</b>	<b>Current Situation</b>	<b>Target 2004/5</b>
Number of new sites electrified	-	73
New biogas plants	-	105
Dissemination of charcoal and wood stove technology coverage	2 districts	27 districts

#### 4. Improve rural telecommunications

The first strategy is to develop the rural telecommunications policy in order to encourage the private sector to provide telecommunications services in rural areas, for example through rural cellular based telephone bureaux. In order to complement this, network providers will be encouraged to expand their networks to serve these private sector providers. Finally, demand for telecommunications will be cultivated by providing training opportunities, public-access terminals, and demonstrations.

##### *4.1.2.4 Other Enabling Infrastructure*

The key component in the enabling environment for the private sector is the quality and availability of investment infrastructure. The provision of reliable economic infrastructure is crucial in the development process. Regular power supply, availability of water and sanitation services, good transportation and good port facilities, efficient telecommunications and infrastructure are necessary to complement public and private initiative in production and commerce. Major investments will be required to clear the backlog of maintenance and rehabilitation, and undertake new investments to match the excess demand for infrastructure needed to support productive sectors.

The growth sectors identified above cannot deliver without energy. As the sectors grow, the demand for energy rises roughly in step with economic growth. All businesses use some form of energy in their operations. The demand for electricity is likely to increase due to industrial expansions as well as urbanisation and general increased coverage. In terms of energy supply, there is need to diversify to other renewable sources.

The telecommunications sector was liberalised following the enactment of the Communications Act in 1998, which has led to an increase in the number of operators as well as the separation of postal services from telecommunications. Malawi Telecommunications Limited (MTL) was incorporated in May 2000 and it is now undergoing privatisation. Government has also liberalised non-basic telephone services such as e-mail and internet. As a result, there has been an increase in the number of mobile operators and a proliferation of

other associated service providers. However, these developments have not yet achieved the desired goal of facilitating growth and diversification as MTL is still a monopoly and does not meet demand.

Radio and television play an important role to growth and diversification by mobilizing people and creating awareness among them on socio-economic issues. The electronic media faces a lot of challenges in informing, educating and entertaining the masses because of inadequate equipment and resource mobilisation.

The goal of Government is to ensure that a full range of modern communication services is accessible by all the population of Malawi. Those living in rural areas should at least have access to basic communication services. Government's over arching objective in the postal sector is to ensure that people of Malawi especially those who live in the rural areas are provided with the necessary services to enable them communicate with one another through letters and telegrams at affordable cost.

1. Rehabilitate, maintain and expand the core road network

Government will complement its efforts as regards rural feeder roads with efforts to rehabilitate, maintain and expand the core road network.

2. Increase access, efficiency and reliability of modern energy supply

The main focus is in the sub-sectors of electricity, liquid fuels and renewable energy. The objective is to increase access to reliable, and equitable electricity services and to ensure economic efficiency in the supply chain of liquid fuels and their end utilisation at affordable prices.

Given that growth and diversification rely on power, it is evident that Electricity Supply Corporation of Malawi Limited (ESCOM) should implement strategies that will lead to reduction of electricity losses, and improve its operation through the setting of tariffs at economic levels and separating into semi- autonomous operational units. Reforms in this sector will continue to include strategies aimed at increasing the number of players through provisions in the Electricity Act. The other strategies will include the interconnection with neighbouring countries and utilising coal and petroleum products and other sources of energy in electricity generation. These strategies will aim at satisfying the energy requirements for the medium-term and beyond, in a scenario of stable economic growth and diversification.

### 3. Expand telecommunications coverage

MTL will continue to expand its coverage, aiming at increasing the number of working telephone lines to not less than 150,000 by 2004 and reach two lines for every one hundred people as soon as possible after that date. In addition, Government will continue liberalisation of the sector by opening up the provision of telecommunications to the private sector. This will help to raise the quality of service and reduce charges.

### 4. Improve quality of and access to broadcasting

Efforts will be made to improve the quality of radio broadcasting by restructuring the Malawi Broadcasting Corporation (MBC), the replacement of obsolete transmission equipment with modern equipment, and computerisation of radio studios. In order to provide televised information to the population, Television Malawi (TVM) will migrate from analogue to digital formats, install more low power transmitters to ensure maximum television reach in the country, improve the transmission network, establish community-viewing centres, improve studio infrastructure and open regional centres to ensure regional coverage of news issues. Further, adequately trained personnel will be required to ensure professional packaging of information to the viewer. Finally, efforts will be made to ensure that programmes forecast have a poverty and development focus.

### 5. Improve postal services

Access to postal services will be improved by increasing the number of post offices, including renting existing infrastructure. Efforts will be made to ensure sustainability of postal services, by increasing charges to cost recovery levels, and introducing innovative methods of service delivery, such as contracting out mail delivery services and mutual arrangements with other public institutions that frequently visit rural areas.

#### 4.1.2.5 *Domestic and External Trade*

Both domestic and external trade continue to play a major role in the growth and development of the economy. Trade has facilitated the development of both economic and social sectors, particularly agriculture, manufacturing and tourism. There are a number of constraints to growth of domestic and international trade and these include lack of access to credit, lack of appropriate skills, weak linkage to markets, inadequate quality assurance and standards, and poor packaging.

The objectives to address the development and promotion of domestic and international trade include the provision of supportive infrastructure, expansion of domestic market share, expansion of export market share and negotiation of preferential arrangements.

1. Provide supportive infrastructure

Road networks and trade administrative infrastructure will be established, including the creation of a sustainable export credit refinancing. Infrastructural developments, particularly road networks and warehousing, will play a major role in facilitating the modernization of the distributive trade sectors.

2. Expand domestic market share

Local manufacturers and producers will be encouraged to increase their share of the domestic market. This will also help in the expansion of the domestic market for Malawian products and reduce the current preference for imported goods. The main emphasis will be placed on instilling a sense of loyalty and national pride among domestic consumers to purchase local goods. Other measures will include giving recognition to manufacturing companies that will have achieved high standards and quality in the production of goods.

Specific measures will be instituted to enforce more transparent preferential treatment of local entrepreneurs. Other measures will include the encouragement of bulk purchases, joint advertisements and promotions, joint ventures and buy-outs. Formal and informal networking among the traders will be supported through collation and sharing of market information and consumer behaviour.

Steps will be taken to protect consumers by enforcing the competition law, ensuring that consumers are protected from unethical and unfair trade practices, misleading advertisements, unsatisfactory services and other unethical marketing practices. There will be need to promote growth of consumerism to educate the public of their rights. The private sector trade associations are expected to play a more effective role than in the past.

3. Expand Export Market Share

Continuous efforts will be made to expand the market shares within the existing as well as new market and non-traditional markets. Regional trade will not only cover SADC, but also extend to COMESA. At the same time special initiatives to take advantage of AGOA and the opportunities emerging with EU.

The promotion and development of exports will be further strengthened. Malawi Export Promotion Council will re-orient its activities to be business like to ensure full co-ordination and consolidation of export promotional activities. The specific measures will include establishment of trade promotion centers abroad and rationalization of existing trade representations, improve the collection and dissemination of market information in order to strengthen market analysis and international marketing intelligence for Malawi's exports, establish an efficient information system to support the export efforts of individual companies.

#### 4. Negotiate Preferential Arrangements

Government will ensure compatibility of these agreements and ensure reciprocity in the implementation of regional and bilateral arrangements. The multiplicity of trade agreements offer a challenge in terms of compatibility and implementation. Malawi is a member of both Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). The objectives of COMESA and SADC, include among others, to facilitate, increase and promote intra-regional trade through the gradual reduction and eventual elimination of tariff and non-tariff barriers. They also aim at promoting cross border foreign investment to enhance the economic development, diversification and industrialization of the region. Malawi also has bilateral trade arrangements with South Africa and Zimbabwe. Proposals are underway for bilateral with Zambia, Mozambique and Tanzania.

Government will focus on improving efficiency of the private sector in order to maintain competitiveness. The implementation of the results of the Uruguay Round is eroding the preferences enjoyed under these arrangements. There are a number of Preferential Trade Arrangements maintained by developed countries which offer non-reciprocal preferential market access to a wide range of products from developing and least developing countries. These include the Lome Convention and the Generalised System (GSP). In addition to the preferential agreements mentioned, the EU has also introduced the Everything But Arms (EBA) Initiatives. Malawi is also a beneficiary of the US Africa Growth and opportunity Act (AGOA).

Government will link trade liberalization to a process of viable industrial and export development by utilizing multi-lateral trade concessions and preferential market access. The conclusion of the Uruguay Round (UR) of the Multilateral Trade Negotiations has created more competition for manufactured products from developed countries. It has also eroded the margin of preferences offered to developing and least developed countries under some existing schemes including those under the Lome convention and the Generalised System of Preferences (GSP). Government recognizes that least developing countries, including Malawi, can make use of the special clauses of the Uruguay Round providing differential and more favourable treatment and implement and benefit from the commitments undertaken.

#### *4.1.2.6 Taxation*

Government has undertaken tax reforms during the past decade. However, there is need to develop a longer-term taxation framework which can help to establish an enterprise support agenda for future action. The major policy areas will be to develop the control of public finances to facilitate a process of tax reduction and reform in order to drive enterprise, employment and wealth creation.

A fundamental change is needed in the approach to planning public finances. At present, the tendency is to decide on public spending first and then identify the sources of funding. The new approach should move towards deciding the level of taxation and expenditure consistent with the level of taxation and tax burden.

##### 1. Review Corporate Tax

There is need to give a fundamental consideration to the corporate tax rate that will apply in the future in the context of regional developments and of the changing nature and source of employment and investment in the business in Malawi. There will be need to address limitations in the double taxation and distortions emanating from provisional tax payment.

##### 2. Widen the Tax Base

A further widening of the tax base will be accelerated to facilitate the lowering of tax burden on the enterprise sector. Tax reliefs and incentives will be rationalised and retained in highly selective circumstances for fixed period where it can be shown that they are most likely to achieve increases in employment and investment.



## **4.2 Human Capital Development**

Human capital is key to poverty reduction in Malawi. A healthy and educated nation leads to increased productivity, better income distribution and a generally improved standard of living. A deteriorating health situation will undermine the ability of individuals to lift themselves out of poverty and will lead to a general decline in productivity. Similarly, an uneducated population does not understand and appreciate better the need and means for achieving higher incomes, reducing infant mortality and population growth as well as improving nutrition and health. Functionally, the major economic sectors of agriculture and industry demand an educated, skilled and healthy workforce to take on the new challenges and aspirations of the sectors. At the same time, with appropriate human capital, the public and private sectors, civil society and poor people themselves would be able to positively influence and impact on processes and outcomes of the entire poverty reduction strategy.

Statistics show that there is much room for improvement on human capital in Malawi. The national illiteracy rate stands at 42 percent<sup>19</sup> due to problems of access to and quality of education. There is also lack of skills development due to inappropriate education curricula at all levels and low access and intake into technical, entrepreneurial and vocational training institutions. In terms of health, life expectancy at birth has reduced from 43 years<sup>20</sup> in 1996 to 39 years in 2000 mainly due to the HIV/AIDS epidemic. Malnutrition is also high among children resulting into about half of all the children being stunted and 30 percent underweight.

In order to address these problems, this pillar has four goals, ensuring the development of human capital through implementation of education, technical, vocational and entrepreneurial education and training (TEVET), health, and nutrition programmes.

### **4.2.1 Education**

Education yields broad social and economic benefits. Not only is education positively associated with agricultural productivity, higher incomes, lower fertility rates and improved nutrition and health, it is also a prerequisite for attaining these outcomes. Hence, education is the centrepiece for the poverty reduction strategy. In particular, basic education will be accorded highest priority in the MPRS. It is recognised, however, that this is not a sufficient

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<sup>19</sup> According to the MDHS 2000

<sup>20</sup> According to MDHS 2000

condition for an individual to escape poverty. Sustainable national development also requires the development of secondary, higher and pre-school education.

Poverty reduction through education in Malawi is faced with a number of challenges as some indicators testify. On a positive note, the introduction of Free Primary Education (FPE) in 1994 led to an increase in enrolment from 1.9 million (1993/94) to 2.9 million children (1994/5). This led to an increase in the gross enrolment rate to 132 and the net enrolment rate of 78<sup>21</sup> by 1999. However, the challenges in primary education include dealing with the large numbers of over-aged pupils resulting in high repetition rates.<sup>22</sup> Moreover, this increase in the quantity of primary education has been offset by a decline in quality. For example, there is a serious shortage of teaching and learning materials such as textbooks; the pupil to qualified teacher ratio is high at 118 and the pupil to classroom ratio is high at 95. The national target for the latter two ratios is 60.

Partly as a result of the above problems of quality, retention of children in school is low, especially among poorer households and females. At present, it is estimated that only 30 percent of children who start primary school complete Standard 8<sup>23</sup>. There have also been significant problems of access to basic education for children with special needs, as the necessary enabling environment and infrastructure has been inadequate.

At the secondary level, access is still very limited, with a gross enrolment ratio of 18 percent. Access is also highly unequal, particularly affecting children from low-income families and girls. The latter account for only around 37 percent of gross enrolment (1999). The quality of secondary education is also inadequate and unequal, as demonstrated by poor examination results and the disparities between Conventional Secondary Schools (CSSs) and Community Day Secondary Schools (CDSSs). This is in part caused by the crowding out of quality inputs (such as enough qualified teachers, teaching and learning materials) by expenditures on boarding and administration<sup>24</sup>.

Access to higher education in Malawi remains low, with fewer than 4000 places available. Females occupy less than 30 percent of the places. Enrolment is limited by inadequate school

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<sup>21</sup> For definition of GER and NER, see Glossary

<sup>22</sup> See Chapter 2 on Poverty Profile

<sup>23</sup> Government of Malawi – Public Expenditure Review 2000, pg. 7

<sup>24</sup> *ibid.* pg. 8

places, boarding facilities and financial resources. As a result, capacity in terms of physical infrastructure and human resources, is frequently under-utilised. Furthermore, the limited financial resources received are used inefficiently by the University of Malawi, which spends more than half of its resources on boarding and administration<sup>25</sup>, yet student to staff ratios remain very high. In addition, the quality of higher education has been undermined by poor linkages to industry in the curriculum and frequent closures of colleges due to the high burden on Government resources.

In light of the positive link between education and poverty reduction, there is a clear need to increase access to and improve the quality of education *at all levels*. To achieve this, there are five main objectives applicable at each level: (1) improve quality and relevance of education; (2) increase access and equity in education, focusing on special needs and girls; (3) strengthen management, planning and finance; (4) respond to HIV/AIDS pandemic; (5) strengthen co-ordination across all players in the education sector, both public and private.

#### 4.2.1.1 *Basic Education*

In the context of basic education, the objectives are as follows:

1. Improve the quality and relevance of primary education

Improving the quality and relevance of primary education involves four main strategies: teacher recruitment, training and incentives, development of relevant curriculum, teaching and learning materials and supervision and inspection.

In terms of teacher recruitment, training and incentives, Government will improve Teacher Training College facilities to enable the recruitment and training of more primary teachers. In addition, existing unqualified teachers will be provided with initial training and qualified teachers' skills will be upgraded using in-service training (INSET). Moreover, the Teacher Development Unit will be upgraded and further strengthened. Finally, Government will revise teachers' remuneration packages, to ensure retention of teachers, particularly in rural areas.

In order to improve the quality and relevance of education, the teacher and basic education curricula will be revised so that they meet the needs of pupils, potential employers and the

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<sup>25</sup> *ibid.* pg. 100

nation. Students should be offered a curriculum that will equip them with knowledge of life skills, such as technical, entrepreneurial, and agricultural skills. Maintaining quality will also depend on government ensuring that all pupils have access to an adequate supply of instruction materials. This will require a change in management and planning such that the distribution of education materials will be decentralised to a zone based system.

Finally, Government will promote a well-coordinated and more effective supervision and inspection service. Schools will have to meet both instruction and physical infrastructure standards. This will involve training of school communities in community based management, verifying adequacy of pit latrines and safe water points, increasing the Primary Education Advisors (PEAs) to teacher ratio and increasing the number of advisory visits per term.

*Table 4.2.1: Selected Basic Education Quality Targets*

<b>Indicator</b>	<b>Current Situation (1999)</b>	<b>Target 2004/5</b>
Number of teachers	45,784	51,323
Teacher Trainee graduates	6,317	34,023
Pupil to teacher ratio	118	85
Teacher to school inspector ratio	145	81
Number of boreholes	242	500
Number of pit latrines	3,000	15,000

2. Improve access and equity at the primary level, focusing on special needs education and girls.

Basic education for children with special needs (the visually and hearing impaired, those with learning difficulties and the physically challenged, to name some of the categories) has much room for improvement in Malawi. The current enrolment level of children with special needs is only 5 percent. Special needs education suffers from inadequate learning centres, non user-friendly infrastructure, lack of learning materials and inadequate specialist teachers. In terms of infrastructure, there are currently 15 resource centres for the visually impaired and only 4 centres for the hearing impaired at primary level.

The strategies to improve access, quality and relevance of basic education for children with special needs will involve the establishment of adequate learning centres with adequate accommodation, recruitment and training of specialist teachers, development of relevant curricula for teacher training, procurement of learning materials and equipment and introduction of a bursary scheme for these students. Special needs students will be integrated into conventional schools.

In addition to promotion of special needs education, equitable access will also require social mobilization campaigns which target orphans, those affected by HIV/AIDS, girls and out of school youths.

*Table 4.2.2: Selected Primary Education Access Targets*

<b>Indicator</b>	<b>Current Situation (1999)</b>	<b>Target 2004/5</b>
Number of new classrooms (cumulative)	1,000	5000
Number of classrooms rehabilitated	-	6,500
Female enrolment	1.4 million	1.5 million
Percent of female enrolment	48 percent	50 percent
Total special needs enrolment	6,745	6,745

3. Increase and improve functional adult literacy and numeracy,

To achieve increased and improved adult literacy Government will revise the adult literacy policy and curriculum, train 24,000 literacy instructors (including primary school teachers) and print and distribute adequate adult literacy teaching and learning materials. Efforts will also be made to open up more Rural Instruction Centres (RICs) in existing communities for adult literacy.

*Table 4.2.3: Selected Adult Literacy Education Targets*

<b>Indicator</b>	<b>Current Situation (1999)</b>	<b>Target 2004/5</b>
Number of adults enrolled	37,500	300,000
Number of centres	2,500	24,000
Number of instructors	2,000	24,000

4. Provide special education for the out of school youth

The objective will be achieved through the development of multi-purpose youth centres, equipped with appropriate learning materials to impart vocational and technical skills. There will also be a strengthening of out of school youth clubs, lead by trained youth patrons, where it is envisaged that youths will gather to exchange ideas.

5. Expand pre-school education/Early Childhood Development (ECD)

It is important that an adequate supply of motivated new care givers are provided and trained, including training of existing ECD teachers. There will then be a need to identify ECD centres and to construct new ones, where appropriate. Efforts will also be made to provide adequate learning materials and communities will be encouraged to contribute locally made materials.

6. Respond urgently to problems created by the HIV/AIDS epidemic  
The HIV/AIDS pandemic has adversely affected the education sector. The toll through loss of teachers and the related burden of welfare costs erodes the resources provided for the sector. So far there has been no coordinated and consolidated effort to fight the disease.

In order to deal with HIV/AIDS in the education sector, Government will implement a sector-specific strategic plan on HIV/AIDS, involving prevention and mitigation among teachers and pupils. In addition, HIV/AIDS education will be imparted to the youth through the media and youth clubs.

7. Decentralise administrative and planning responsibilities  
Decentralisation will be the major driving force in strengthening efficiency and accountability of resources and results. Basic education will be made accountable to local level authorities with development and operational responsibilities transferred from central government to the districts. In addition, teacher training and institutions will be decentralised by making them independent coast centres and by reducing central controls. Further strategies include the strengthening of monitoring and evaluation systems so that data collection and analysis is carried out in order to make informed decisions, through the establishment of an Education Management Information System (EMIS).

#### 4.2.1.2 *Secondary School Education*

Whilst basic education is the minimum necessary for an individual to escape poverty, secondary education is also necessary for equipping students with the skills required for private and public sector employment. Moreover, secondary education is expected to enhance entrepreneurial skill and business management, capabilities which are important for self-employment. In addition, secondary education encourages further studying.

The objectives of secondary education will be as follows:

##### 1. Increase access and equity to secondary schools

There are two aspects to access and equity issues in secondary education: firstly, increasing access to secondary education for girls, children from poor families and children with special needs and secondly, increasing the total number of secondary school places to absorb the increasing number of primary school graduates.

In order to increase access for girls, children from poor families and those with special needs, a combination of bursary schemes and more secondary school places is needed. Further, school blocks will be made user-friendly for students with special needs.

In terms of general access, Government will introduce double shifting to improve efficient utilisation of existing infrastructure, provide distance learning and build new school blocks.

## 2. Improve quality and relevance of secondary education

This objective involves eight key strategies: (i) upgrading facilities and equipment; (ii) curriculum development, (iii) teacher recruitment, (iv) training and remuneration, and (v) increased teaching and learning materials

The upgrading of facilities and equipment will focus on bringing Community Day Secondary Schools (CDSSs), to which the poor have more access, up to the standards of Conventional Secondary Schools (CSSs). In addition, Government will ensure that there are adequate resources for the maintenance and rehabilitation of existing infrastructure, much of which is in a state of disrepair. Initially, only minimum standards will be enforced.

In order to improve the relevance of education, the teacher and secondary education curricula will be revised so that they meet the needs of students, potential employers and the nation. Students should be offered a curriculum that will equip them with knowledge of life skills, such as technical, entrepreneurial, and agricultural skills. The curricula will be reviewed every ten years to ensure it is up-to-date. Finally, there will be periodic reviews of the examination system to improve efficiency and effectiveness.

Quality secondary school education also depends on the recruitment, training and retention of teachers. This will involve instituting a rigorous programme of teacher education in all higher education institutions, both public and private. Non-residential training will also be introduced and subject specialisation encouraged. Various refresher courses will be undertaken for teachers. These actions, in combination with a revision of remuneration packages, will create an environment conducive to teacher retention.

Finally, Government will ensure an adequate supply of teaching and learning materials. This will involve the strengthening of textbook revolving funds and the introduction of cost sharing, in conjunction with the bursaries mentioned above.

*Table 4.2.4: Selected Secondary School Targets*

<b>Indicator</b>	<b>Current Situation (1999)</b>	<b>Target 2004/5</b>
Number of students	236,500	324,031
Number of private students	16,555	64,806
Number of students entering MCDE	-	11,550
Number of teachers	5,269	11,000
Female gross enrolment	19%	25%
Schools teaching information and communication technology	8	100

3. Improve management and administration of secondary education

Efforts will be made to improve the efficiency and effectiveness of secondary education by decentralising responsibilities, strengthening managerial capacity at district and school level, and rationalising the use of resources. This rationalisation will involve phasing out or introducing cost recovery for non-core services, such as boarding, and ensuring that human and financial resources are allocated according to needs. This, in turn, will require ensuring the Education Management Information System (EMIS) covers the secondary system.

4.2.1.3 *Higher Education*

The MPRS will transform the higher education system to respond to new realities and opportunities within the context of poverty reduction. The sector will increase the participation rate for both men and women to meet the demand for highly trained graduates in different fields taking into account labour market and poverty reduction needs. The sector will strive to advance high-level capacity through the expansion of post-graduate training to support scientific and technological improvement and social development.

The main focus of the MPRS will be on improving efficiency and quality education measured by increased access of females, males and disadvantaged students in higher education, reduced unit costs, production of highly qualified graduates and less dependency on subvention through cost recovery and decentralization. The sector will also focus on increasing motivation of teaching and research staff.



### 1. Increase access and equity in higher education

The first strategy is to ensure full capacity utilisation of facilities including the introduction of double shifting and distance learning. The University Education Act will be reviewed to accommodate private sector initiatives.

In order to increase equity, about 30 percent of intake will be reserved for girls and this proportion will be increased to 50 percent by the year 2012. In the context of increasing user fees discussed below, scholarship schemes will be introduced for girls and needy students and loan schemes will be strengthened for other students.

### 2. Improve quality and relevance of higher education

Higher education institutions will introduce programmes in non-traditional subjects such as science and technology, gender, food security, human rights, biodiversity and HIV/AIDS, among others. This will involve the establishment of adequate research centres that would be addressing emergent development issues, providing grants to graduate students so that they participate in teaching undergraduate courses and as research assistants.

The second strategy is to increase the motivation of teaching and research staff, by reviewing salary packages and encouraging privately funded research. The private sector will also be encouraged to participate in the definition of subjects, curricula and research and to give visiting lectures and classes so as to improve the relevance of higher education.

### 3. Reduce reliance of higher education on subventions

Reducing the reliance of higher education on Government subventions involves two types of interventions: firstly, reducing costs of provision of higher education and secondly, generating alternative sources of resources. In order to reduce costs, non-core services such as catering and boarding will be commercialised and contracted out. Further, administrative staffing levels will be reduced and administration decentralised to constituent colleges of the University of Malawi. As a result, the role of the central University of Malawi Office will be reviewed so that staffing and costs are substantially reduced.

In order to generate alternative resources, the University will introduce cost recovery for non-core services, such as boarding, and will increase cost sharing for tuition, both in the context of strengthened scholarship and loan schemes. Institutions will create business development

units to generate resources by charging for the use of existing facilities and for collaborative programmes outside school sessions.

*Table 4.2.5: Selected Higher Education Targets*

<b>Indicator</b>	<b>Current Situation (1999)</b>	<b>Target 2004/5</b>
Number of students	3,526	6,824
Students in private colleges	35	1,100
Number of distant learners	0	558
Number of female students	698	2,047
Number of needy students	500	1,706
Females in non-traditional subjects	225	801
Number of students with disabilities	20	30
Number of students in information technology	821	1,500

#### ***4.2.2 Technical, Entrepreneurial Vocational Education and Training***

According to the labour market survey of 1998, about 300,000 people leave the formal education system every year. However, only 30,000 enter formal employment annually. This leaves 270,000 people who enter the labour market annually and seek some other source of income other than wage employment and therefore it is this number of people who can be helped through skills training. These figures indicate that technical, entrepreneurial vocational education and training (TEVET) needs to cut across all levels of education for people to become active players in poverty reduction. This will require development of relevant competence based curricula at primary, secondary and post-secondary levels as well as the development and acquisition of appropriate teaching and learning materials and equipment. In addition, qualified teachers will be necessary to impart the vocational and technical skills.

The existing TEVET system has failed to satisfactorily meet the potential demand for a number of reasons. In terms of providing places, the current annual capacity within the public technical colleges is 1,441 and within private provider institutions is 18,000. These capacities are not adequate to cater for prospective entrants into the TEVET system. The focus on formal, full-time residential training, particularly in public technical colleges, has undermined the possibilities of achieving better coverage and outreach, and at the same time, has taken attention away from the potential offered by more flexible, demand-driven training, such as that provided by the Malawi Entrepreneurship Development Institute (MEDI). Demand for places has also been limited by a number of factors. Firstly, lack of basic education, high illiteracy and lack of knowledge, exposure and information pertaining to the

provision of vocational training. Secondly, cultural factors have led to lack of exposure to the prospective subsistence and career opportunities. Thirdly, lack of access to funds catering for tuition fees, boarding fees, transport and utilities. Finally, limited recognition of vocational skills has led to poor investment in human resources and infrastructure.

It is therefore envisaged that the MPRS will address some of these problems. To achieve this, the following strategies will be implemented:

1. Promote self employment through skills development initiatives

The MPRS will empower the poor in the informal sector through establishment of skills development initiatives in the rural areas. Government will expand and increase outreach and coverage of TEVET programmes through mobile village polytechnics<sup>26</sup> in all districts. This will involve establishing and running polytechnics, mounting and running mobile training units, and linking decentralised units to designated resource colleges in catchment areas.

Further, skills development will involve implementing on the job training programs in specific occupations for the youth in collaboration with MASAF and other stakeholders, conducting demand-driven specialised skills training programmes, and training of trainers for entrepreneurship development in the informal sector.

Youth specific skills development will be achieved through developing multipurpose youth centres and providing resource and educational information, training youth patrons and leaders and providing actual vocational training.

2. Improve quality and relevance of TEVET

The relevance and quality of TEVET will be improved by reviewing, developing and implementing competency-based curricula. This will involve revising all existing curricula in primary and secondary schools and within the TEVET sector, developing new curricula within all occupations (including HIV/AIDS prevention messages and the use of appropriate technologies), and training teachers in using new curricula.

The quality of TEVET will also rely on the development of appropriate and sufficient human capacity by establishing a flexible and cost effective technical teacher training system.

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<sup>26</sup> Village polytechnics involve setting up simple structures at EPA level to train people in specialised skills they require in that area

3. Rehabilitate existing infrastructure and equipment

The MPRS will ensure sustainability and quality standards by promoting maintenance and effective operation of equipment in education institutions and other training colleges. Strategies include taking stock of existing equipment and assessing needs within public technical colleges, training staff from public colleges and private providers in preventive and corrective maintenance, and rehabilitating classrooms, workshops and existing public colleges.

4. Strengthen management and financing of TEVET

Government will strengthen the partnership between the public and private sector, and take measures to improve compliance with the TEVET Levy.

*Table. 4.2.6 – Vocational Training Targets*

<b>Indicator</b>	<b>Current Situation (1999)</b>	<b>Target 2004/5</b>
Public training capacity % of population	0.01%	0.03%
Public vocational training % of districts	21.43%	28%
Private training capacity % of population	0.18%	0.20%
Private vocational training of districts	75%	78%
Enrolment ratio female	20%	26%
Enrolment ratio male	80%	74%
HIV infection rate students	15%	13.5%
HIV infection rate teachers	15%	14.2%
Boarding Capacity (% of training capacity)	22.7%	20.5%

### **4.2.3 Health and Population**

The health of an individual is directly related to economic and social well-being. An improved health situation will strengthen the ability of individuals to lift themselves out of poverty and will lead to a general increase in productivity. However, as described in Chapter 2 and Table 4.2.8, health indicators in Malawi have remained poor despite a relative increase in resource allocation towards the sector over the past ten years.

Health interventions (both preventative and curative) take place at four levels: community, primary, secondary and tertiary. Preventative interventions are focussed on nutrition, sanitation and public information campaigns, for example on the use of mosquito nets. Preventative interventions relieve pressure on other levels of healthcare and are less costly to the poor. Community level healthcare is delivered through Health Surveillance Assistants (HSAs), some of whom manage Drug-Revolving Funds and Bakili Muluzi Health Initiatives in conjunction with Village Health Committees (VHCs). Primary healthcare is delivered through health centres and clinics, is aimed at improving maternal and child health and the

promotion of early treatment of common disease conditions. Secondary healthcare, delivered through the district hospitals, is aimed at treating more specialised conditions. Finally, tertiary healthcare, delivered through central hospitals, provides referral services for highly specialised conditions.

*Table 4.2.7 Comparative Health Indicators*

	<b>Public Health Expenditure per capita (US\$)</b>	<b>Infant Mortality rate (per 1000 live births) 1999</b>	<b>Under-five mortality rate (per 1000 live births) 1999</b>	<b>Maternal mortality rate (per 100000 live births) 1999</b>	<b>Life expectancy at birth 1999</b>
Kenya	79	76	118	590	52.2
Malawi	36	132	211	620	40.7
Zambia	52	112	202	650	40.5
Zimbabwe	-	60	90	400	42.9
South Africa	623	54	69	-	56.7
Uganda	65	83	131	510	41.9
Mozambique	28	127	203	1100	40.6
Sub-Saharan Africa	-	107	172	-	48.8
OECD	-	13	15	-	76.4

Source: UNDP Human Development Report 2001, p.159-169

An overview of the health sector shows that the health system had been centralised with a lot of centrally designed and vertically managed projects, resulting in substantial duplication of effort, poor co-ordination and high administration costs. In addition, there has been inadequate support to private sector providers, such as the Christian Health Association of Malawi (CHAM) and certain NGOs.

A major problem leading to Malawi's poor health indicators is a lack of qualified and adequately compensated medical staff, in terms of doctors, nurses and related personnel. This problem is particularly acute in rural areas, and has been exacerbated by the HIV/AIDS pandemic and internal and external "brain drain" due to low remuneration and poor career prospects. This results in extremely high population per physician ratios, estimated at 45,737<sup>27</sup>. Furthermore, access to drugs is a problem, again particularly in rural areas. This is caused by a combination of low (but increasing) allocations to drugs, and distribution problems, including pilferage and inefficient allocation.

There is also an acute shortage of clinical and technical support services in most hospitals and health centres. These include laboratory services, pharmacy services, radiology, ambulance

services, district and regional-level blood bank, orthopaedics and physiotherapy. This is due to low investment in these facilities particularly in district hospitals. Technical support services play a crucial role in empowering persons with disabilities to undertake activities for daily living.

Referral bypass currently poses major challenges to the health sector. This is both a cause and a consequence of poor health facilities and services at primary level, particularly in rural areas. People seeking medical services avoid clinics, due to the poor quality of infrastructure and the shortage of medical workers, drugs and medical supplies. As a result, it is estimated that as many as 85 percent of central hospital admissions could be treated at lower-level facilities<sup>28</sup>. This concentration of cases at secondary and tertiary levels further draws resources away from primary facilities.

The primary healthcare system has suffered disproportionately from the general problems outlined above. In particular, it has suffered from a combination of high human resource demands in terms of Health Surveillance Assistants (HSAs), nurses and clinical officers, with low levels of financial resource allocations. In addition, physical access to health centres has remained poor, with only 3 percent of the population living in a village with a health centre. Existing health centres are in poor condition, and have an inadequate supply of drugs and medical supplies.

In addressing these problems, the overriding objective is the design and implementation of an Essential Healthcare Package (EHP). Essentially an EHP is a bundle of health services provided at primary and secondary levels, supported by the necessary administrative, logistics, and management systems. 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. In recognition that not all services can be provided to all people, an EHP can be seen as having a particular equity focus, through guaranteeing access to a minimum standard of health care for everyone. Thus an EHP is an explicit form of rationing, through identifying certain services as high priority. This is contrasted to the current implicit rationing of health services as witnessed through drug stock-outs, staff inavailability and long queues. The EHP development process provides an

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<sup>27</sup> World Bank (2001) "Malawi Public Expenditures: Issues and Options", pg.37

opportunity to revisit the distribution of funding in order to determine whether the relatively scarce resources might achieve greater impact through a shift in their allocation.

*Table 4.2.8 Conditions Addressed in the Proposed Malawian EHP*

Disease Condition	Selection Criteria	Services
Malaria	1 <sup>st</sup> cause of outpatient first attendance: 36.4% under-5; 28.8% 5 and over	IEC, including promotion of ITNs Vector control Diagnosis and treatment of simple malaria Referral
Acute respiratory infection and immunisable diseases	Upper respiratory infection 2 <sup>nd</sup> cause of outpatient first attendance: 13.8% under-5; 11.5% 5 and over	BCG immunisation Polio, measles, DPT Diagnosis and treatment of ARI Referral
Acute diarrhoeal disease	Other diarrhoeal disease 3 <sup>rd</sup> cause of outpatient first attendance: 8.8% under-5; 5.7% 5 and over	IEC Water and sanitation facilities at health centres Treatment of mild diarrhoea with ORS Case management of acute diarrhoea and cholera Referral
Nutritional conditions/deficiencies	49% stunting among under 5s, half of whom are severely stunted;	Provision of Vitamin A Provision of iodine Anaemia Deworming
Maternal conditions/pregnancy complications	Maternal mortality estimated between 600 and 1100 per 100,000 live births	Antenatal care Clean and safe delivery Postnatal care (tetanus injections) Family planning Referrals IEC
Sexually transmitted diseases, including HIV/AIDS		IEC Screening for syphilis, contact tracing, treatment VCT Treatment of opportunistic infections Condom promotion
Tuberculosis	Leading cause of inpatient mortality	IEC Screening, contact tracing, treatment Referral
Eye and ear infections		
Injuries		
Schistosomiasis		Vector control Treatment (mass)

Source: EHP Design Team

#### 4.2.3.1 Preventative Healthcare

The key areas for preventative healthcare are nutrition, water and sanitation, and prevention of common diseases such as malaria. Issues of nutrition and water and sanitation are covered under separate sections in Pillar 2 and 1 respectively. Issues of common disease prevention

<sup>28</sup> *ibid.* p. 37

are covered under the EHP, as shown in Table 4.2.9 above, and described under the section on the EHP below.

#### 4.2.3.2 *Essential Healthcare Package (EHP)*

The EHP covers issues of community, primary and secondary healthcare. EHP strategies are grouped under three main objectives: improving quality and availability of essential healthcare inputs, improving access to and equity of essential healthcare, and strengthening administration and financing of essential healthcare services.

##### 1. Improving quality of essential healthcare

The first component of the EHP is to promote clinical human resource development. Human resources are an absolutely critical delivery input of the EHP implementation. This will involve ensuring that clinical teaching and training institutions are fully utilised and expanding the training of various clinical cadres like HSAs, nurses, medical assistants, clinical officers, and technical support services (such as radiographers, orthopaedic technicians and pharmacists). Government will also review the remuneration and career structures for medical staff in order to address problems of attrition through “brain drain”.

The second component is to increase the availability of drugs and medical supplies. The drugs and medical supplies required in an EHP must be constantly present in health facilities, both in adequate quantities and of appropriate quality. To achieve the availability, there is need to ensure that: the procurement, logistical, management and information of drugs is reviewed so that all drugs procured reach the intended patients and are prescribed properly. There is also need to reform the Central Medical Stores to function efficiently. Only if these steps can be achieved, and current funding of drug levels used more efficiently should the drug budget be increased beyond current levels.

The third strategy is to expand and promote clinical and technical support services. This will involve expanding and promoting clinical and technical services by ensuring that certain services are present in district hospitals and health centres. These include; laboratory services, pharmacy services, radiology, ambulance services and district or regional-level blood bank.



2. Improving access to and equity of essential healthcare

Government will ensure increased access to healthcare facilities by rehabilitating existing infrastructure and increasing mobile health services. In particular, delivering the EHP at health centre level will depend on the existence of well-maintained health centres with fully functioning support systems, piped or bore-hole water supply, solar, stand by generator or ESCOM power and radio and telephone communication systems.

3. Strengthening management and financing of essential healthcare services.

The first strategy is to develop financial and managerial resources so as to strengthen planning, budgeting and transport management, particularly at a district level. This will involve training and retraining financial managers/accountants, administrators, senior nurses and matrons.

In order to improve the financing of essential healthcare, Government will develop and implement an integrated financing strategy for the EHP. Operational research will guide the decision as to whether the EHP will be free at the point of entry, or subject to user fees charges with an exemption mechanism for poor or targeted groups. Non-EHP services in government facilities will be financed through cost-recovery schemes (for example, mandatory user fee schemes) or health insurance coverage. The financing strategy is also likely to recommend voluntary user fees for core EHP services that have an additional comfort or practical element (such as private wards, better food, faster attention etc). This element will also be part of expanded health insurance coverage. This financing strategy will take full account of the fact that many Malawians can afford to contribute towards better health care: the National Health Accounts (2001) has shown that the richest 40 percent spent K822 million in 1999 to 2000 on health care.

The financing and management of essential healthcare services will also be strengthened through the development of a Sector Wide Approach (SWAp) in the health sector. The major role of the SWAp is to coordinate, strengthen and make more effective donor and government financing of the EHP. This will largely leave private sources of finance to develop the rest of the (non-EHP) health sector. In its early stages the SWAp will detail a joint vision of the donor and government funded component of the health sector, and describe a joint programme of work and monitoring systems.. In later stages, joint financial systems maybe developed and utilized, including the co-mingling of funds.

Finally, the ongoing decentralisation of the health sector, within the context of the broader devolution to the local government through district assemblies, will create the setting in which the EHP is to be delivered. One common objective of decentralisation is to take the planning of health services closer to the people they are intended to serve. If local involvement is to be meaningful, there should be flexibility for district managers, in consultation with health staff and community members, to “weight” resource allocation to the various components of the EHP according to local needs (e.g. less bilharzia or more malaria in specific districts).

#### 4.2.3.3 Tertiary healthcare

In tertiary healthcare, the key challenges are to reduce referral bypass, to reduce crowding out of tertiary services by primary and secondary services. This will in large part rely on the improvements to primary and secondary healthcare at health centre and district hospital level outlined in the above section on the EHP. However, in addition, Government will strengthen the referral system and promote hospital autonomy.

##### 1. Strengthen referral system

In order to ensure only genuine cases are referred to central hospitals, a strengthened formal referral system will be introduced, with unsubsidised outpatient fees for self-referral cases and civic education on the role of central hospitals.

##### 2. Hospital autonomy

Government will autonomise central hospitals within 3 years. Once the hospitals attain full autonomy, they will be able to introduce cost recovery programmes, re-capitalise their facilities to compete with other providers for insurance of referral contracts. Further, the autonomised hospitals will be encouraged to contract out non-core services (such as catering, laundry and mortuary services) to the private sector and to improve the efficiency of resource allocations.

*Table 4.2.9 Health Targets for 2007/8*

Indicator	Current Situation (1999)	Target 2007/8
Infant mortality (per 1,000 live births)	104	90
Under 5 mortality rate (per 1,000 live births)	189	150
Maternal mortality rate (per 100,000)	620	400
Nutrition (% children underweight)	30%	20%
Population (fertility rate)	6.1	5.5

#### **4.2.4 Promotion of Good Nutrition**

Malnutrition is both a cause and a consequence of poverty. Increased illness and mortality as well as reduced work productivity due to malnutrition have exacerbated poverty and continue to slow down economic growth and development. Therefore good nutrition is a precondition for, and not merely a result of human and economic development.

The immediate cause of malnutrition is inadequate dietary intake, which is caused by a combination of underlying factors including household food insecurity, poor child-feeding and care practices, and inadequate education and lack of knowledge. The situation is further worsened by frequent and persistence infections, especially malaria, diarrhoea, acute respiratory infections (ARI) and HIV/AIDS.

Statistics show that 49 percent of children are stunted (height for age); 25 percent are under weight and 6 percent are wasted. In addition, malnutrition has caused widespread mental retardation. For the past decade there has been no significant improvement in the nutritional status, as shown in table 4.2.10.

*Table 4.2.10 Nutrition Indicators*

Year of Survey	Stunted growth rate %	% of underweight	% of wastage
1992 MDHS	44%	27%	7%
1995 MSIS	48%	30%	7%
2000 MDHS	49%	25%	6%

If the situation remains unchanged loss of life, reduce productivity and increased poorly will continue. The goal is therefore, to prevent and control protein, energy and micronuteint deficiencies. This will be achieved through:

1. Improve infant and young child feeding

Poor infant and young child feeding practices contribute greatly to malnutrition. For instance the majority of infants are not exclusively breast fed up to 6 months and they are later fed on low energy and nutrient-dense complimentary foods. In order to address these problems, the MPRS includes strategies to promote exclusive breastfeeding and complementary feeding through Baby Friendly Health Initiative (BFHI). Conducting campaigns on breastfeeding, complementary feeding, and feeding during illness and convalescence.

## 2. Diversification and modification of diets

Dietary diversification is very poor in Malawi. The diet is monotonous, predominantly with *nsima* made from maize with vegetables. This lack of diversification is reinforced by inadequate awareness of nutrition issues among policy makers and the general public. There is need to change peoples attitude towards making *nsima* from one type of cereal as it could be made from different starchy foods. Therefore it is important for to diversify diets using other locally available foods.

This will be achieved through community awareness campaigns on nutrition, food and security and nutritional policy, together with campaigns on HIV/AIDS and nutrition. Further, Government will organise short courses for various workers in all districts on the prevention and control of malnutrition, will train senior personnel on food and nutrition, and will review the curricula of extension agents, primary and secondary school teachers in order to incorporate nutrition issues.

## 3. Strengthen institutional capacity

Effective implementation of nutrition interventions requires well co-ordinated efforts from different stakeholders. Currently nutrition activities and research are uncoordinated and have resulted in little impact. In order to address this problem, Government will create a Food and Nutrition Council as a technical machinery to spearhead the implementation and coordination of nutrition activities and research. In particular, it will coordinate relevant research on food and nutrition, monitoring of fortified foods, evaluation of food nutrition programs and establishing sentinel nutrition surveillance system.

### **4.3 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.

Malawi has sought to improve the quality of life of the poor in the past in a number of ways. Firstly, Government sought to protect the poor by the use of market-based policies including price controls, price subsidies and minimum wages. Secondly, Government and other development partners, especially NGOs, have also used administered safety nets programmes like nutrition supplements, free food distribution, free input distribution, food or inputs for work and public works programmes to assist the vulnerable and the poor in general. Thirdly Government provided direct assistance and social welfare transfers through the Department of Social Welfare, the Malawi Council for the Handicapped (MACOHA) and the Department of Disaster Preparedness, Relief and Rehabilitation (DDPRR). Finally, the poor have traditionally relied on informal safety nets, such as the extended family.

However, these efforts have faced many problems. Most of the market-based policies were inefficient, fiscally unsustainable and mostly benefited the non-poor and missed the core poor. Consequently, all the market based protection policies, with the exception of minimum wages, were abolished under the economic reforms. The administered programmes were fragmented, uncoordinated and were poorly targeted, suffering from both inclusion and exclusion errors. Direct assistance and social welfare transfers have been small in size and limited in coverage, largely due to financial constraints. The informal safety nets, likewise, have become over stretched and vulnerable to shocks due to increased poverty and the HIV/AIDS scourge. Poverty-stricken extended families and communities are increasingly being put under unbearable pressure, as they take care of HIV-infected chronically sick and AIDS-related orphans.

To deal with these problems, a multi-faceted approach is required. The most vulnerable are broadly defined to include individuals or households affected by disasters; households headed by orphaned children, elderly and single-parents (especially female headed); persons with disabilities; under-five children, lactating and pregnant mothers; orphans in streets, orphanages, foster homes and extended family member households, the unemployed and underemployed in urban areas; the land constrained in rural areas; and technology-constrained small-scale farmers. It is noted, however, that this general categorisation does not mean that all people or households falling under these categories are the most vulnerable. The determining factor is their ability to meet their basic needs. Figure 4.4.1 below presents the safety nets programme on the basis of poverty characteristics.

Figure 4.4.1: Conceptual Framework for Safety Nets

Characteristics	Target Group	Intervention	Type	Outcome	
<p>Chronically ("core") poor. No Capacity to generate income</p> <p>↑</p> <p>↓</p> <p>Transient ("marginal") poor. Ability to move out of poverty</p>	Chronically ill Elderly Persons with critical disabilities*	Welfare Transfers	Welfare Support	Livelihood Provision	Poverty Alleviation
	Malnourished under-5s Vulnerable pregnant/lactating mothers	Targeted Nutrition			
	Rural poor with labour Urban poor	Public Works	Productivity Enhancement	Livelihood Protection	Poverty Reduction
	Rural poor with land	Targeted Inputs			

\* The group "persons with critical disabilities" includes those persons with disabilities that are unable to create their own income.

In general, the poor with some resources like land and labour require productivity enhancing interventions like targeted inputs and public works as indicated in the bottom half of the figure. Meanwhile, the capacity or resource-constrained poor require welfare support in the form of interventions like targeted nutrition and welfare transfers, as indicated in the top half of the figure. The productivity enhancing interventions generally reduce poverty while the consumption support interventions alleviate poverty.

### 4.3.1 Safety Nets

The overall goal of this pillar is to ensure that the quality of life of the most vulnerable is improved and maintained at an acceptable level by providing social safety nets. These safety nets will consist of productivity enhancing interventions for the transient poor (those within the poorest 30 percent of the population who are capable of moving out of poverty) and substantial welfare transfers to the chronically poor (the poorest 5 to 10 percent of the population).

For each of these types of safety nets, there are common challenges. In particular, the programmes must be designed to ensure good targeting, distribution, co-ordination and management. These challenges are addressed below for each type of safety net:

#### 4.3.1.1 *Productivity Enhancing Interventions*

As highlighted in Pillar 1, low incomes and inaccessibility of input credit have prevented small-holder farmers from increasing their productivity and therefore their incomes. Similarly, the IHS has shown that 81 percent of the poorest 10 percent of households have landholdings of less than 0.5 hectare and most of their cash income is generated from non-agricultural, mainly piecework (*ganyu*). There are therefore two types of productivity enhancing interventions: targeted distribution of inputs for the capital-constrained poor, and public works programmes for the land-constrained poor<sup>29</sup>.

The Targeted Input Programme (TIP) will therefore provide a pack containing open pollinated maize and legume seeds and two types of inorganic fertilizers for a period of three years to identified poor small-holder farmers. This pack is expected to be applied to 0.25 hectare of land. Each targeted household is expected to graduate after three years. The programme will target 340,000 beneficiaries.

Public Works Programmes (PWP) will play a major role in providing alternative sources of income and food for the poorest segments of the population apart from providing long-term benefits to communities through the created socio-economic infrastructure. In essence PWP give a chance to the participants to develop themselves, and be self reliant instead of depending on handouts; especially if the wage income is invested in income-generating activities.

Beneficiary and impact assessments have shown that most of these programmes had positive welfare effects. Some participants of the cash-for-work PWPs have managed to use the cash received under PWP to start up micro-businesses. It has also been established that half-day work schedule give time to labour-constrained households to work in their fields while participating in PWP. Major problems of PWPs are their short-term nature and timing

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<sup>29</sup> The categories “land constrained” and “capital constrained” are not mutually exclusive. Certain households may qualify and benefit from both programmes.

mismatches. The average engagement is 60 days yet most of the core poor who are supposed to benefit from these remain vulnerable for at least half of the year. Secondly, these programmes are not available when they are needed ; that is in the months of December to April.

1. Distribute free inputs to capital constrained poor farmers

Unlike the previous targeted inputs programmes, the packs will be distributed through major retail outlets. For areas not covered by the participating retail chains, non-governmental organizations will be asked to tender for the delivery of the packs. The selected NGOs and the retail chains will be responsible for the procurement and delivery of the packs. The selected beneficiaries will be issued with vouchers that will be exchanged with the packs at the participating retail shops.

The office of the Minister of State Responsible for Poverty Alleviation Programme (MSPAP) will have the overall coordination and management of the programme. Among other responsibilities, MSPAP will design the programme, manage the tendering, and reimburse retailers on the basis of vouchers exchanged at their outlets. District Assemblies are to assist in geographical and beneficiary selection. Communities are to be responsible for the selection of beneficiaries. The Ministry of Agriculture and Irrigation is to work with MSPAP in designing the programme as well as recommending the pack composition and mounting agricultural extension campaigns specific to the recommended pack.

The beneficiaries will be selected using a two-stage selection process. The first is geographical targeting, selecting areas on the basis of food insecurity and vulnerability. The second stage will involve selecting the beneficiary household, using community-based beneficiary selection committees. In designing the guidelines for the selection of beneficiaries, priority will be given to households taking care of orphans, the elderly, chronically sick and dependent persons with disabilities. Finally, public awareness campaigns will be conducted, involving the training of communities, supervisors and field staff, designing and mounting public awareness–building campaigns, and discussing with retailers and NGOs.



## 2. Implement Public Works Programmes for Land-Constrained and Urban Poor

The works to be undertaken include rehabilitation of earth roads, construction of small earth dams and other rainwater harvesting structures, storm water drainage channels, flood protection structures, afforestation and road maintenance. Some of these PWPs will run all year round to provide a continuous source of livelihood for the beneficiaries. The rehabilitation of earth roads works will take advantage of existing designs and capacities of District Roads Improvement and Maintenance Programme (DRIMP). In some cases, small-scale contractors used will be encouraged to employ women as is the case under Community Roads Improvement Maintenance Programme (CRIMP).

The Public Works Programme will generate employment for as many as 250,000 participants<sup>30</sup>. Targeting will be done in two stages. The first stage is geographic areas selection using Vulnerability Assessment and Mapping (VAM) verified by the District Assemblies using TA-level food production assessment. The second level is beneficiary selection, using wages as a self-selection mechanism combined with traditional leaders, project committees and rotational targeting. Public awareness campaigns will also be conducted at community level to encourage voluntary participation, especially amongst women.

Cash is the form of transfer for most of the PWPs. However, others adopt payments-in-kind (mostly maize) and vouchers to maximise food security. Food vouchers will give households freedom to choose when to get their rations since they allow beneficiaries to acquire the food when they need it.

The public works will be carried out by small-scale contractors using labour employed from communities. The selection of the small-scale contractors will be done jointly by MSPAP, District Assemblies and the Community Development Committee. The Community Development Committee will be responsible for the selection of the beneficiaries and the communities are to be responsible for the election of the committee and selection of the public works. National coordination of PWPs will be managed by MSPAP, whilst District

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<sup>30</sup> It should be noted, however, that the proposed PWP is not a guaranteed employment scheme because such a system would require a lot of resources (human and financial). Further, guaranteed employment scheme would require continuous availability of public works through the year and in all parts of the country where the poor are.

Assemblies will be responsible at district level. The role of sectoral ministries and departments will be to assist in the development of the common standards by providing technical specifications and assist in the supervision of the relevant works. All public works projects will be required to implement training and capacity building components to enable the District Assemblies to implement the sub-projects efficiently and effectively.

#### *4.3.1.2 Welfare Support Interventions*

There are two types of welfare transfers: targeted nutrition interventions for malnourished children and vulnerable pregnant and lactating mothers, and direct welfare transfers for the poor who cannot be supported by any of the other three programmes. These include groups like the chronically ill, the elderly and orphans. Persons with disabilities falling in the category of the poor will be considered alongside the other poor depending on their poverty status and capabilities. However, as a group, persons with disabilities will continue to work with institutions like MACOHA that are specifically set up to deal with their needs.

Malnutrition is a key cause of the high infant, child and maternal mortality rates depicted in Chapter 2. Further, nutrition status in a child's early years (from conception to five years) determines in part the child's future potential. This malnutrition is largely attributable to poverty and lack of appropriate diets for children and pregnant and lactating mothers. The provision of nutritious food to these vulnerable groups would assist reduce malnutrition and illnesses and deaths of infants, children and pregnant mothers.

As outlined in Figure 4.4.1, there is a group of people who are unable to fend for themselves and have to rely on others. This group will not be able to take advantage of the other three types of safety nets either because they are unable to work or have no resources. Further, some households and communities are affected by drought and floods, undermining their ability to provide for themselves. Finally, as a result of over-stretched informal safety nets, some individuals (especially orphans) are forced to move to urban centres to beg and live in unhealthy conditions.

1. Implementation of targeted nutrition programmes to malnourished vulnerable groups

The programme will provide nutrition packs<sup>31</sup> to moderately malnourished children and vulnerable pregnant and lactating women and administer therapeutic feeding in nutrition rehabilitation centres to severely malnourished children. Beneficiaries are expected to graduate after five months. In addition, the pilot phase will include the provision of training in basic nutritional behaviour, cultivation of the contents of the pack better weaning practices, and cooking demonstrations.

The nutrition packs, just like inputs packs, will be stocked by retailers and exchanged with the vouchers. For remote areas where retail coverage is inadequate, the procurement and delivery will be tendered out to NGOs or commercial companies for delivery direct to health facilities. Households that qualify for this programme will automatically be assessed for inclusion in the other safety nets programmes.

The children will be selected on the basis of their age and weight. The mothers will be selected on the basis of clinical examination. Key factors in the examination include signs of malnutrition, anaemia, multiplicity of births (twins or triplets) and age (less than 15 years and older than 35 years). Apart from providing food transfers, the programme will also admit severely malnourished children for medical treatment and therapeutic feeding.

2. Provision of direct welfare transfers to the core poor and disaster affected households.

The Targeted Welfare Transfer programme will involve the direct transfer of cash or a cash proxy (retail voucher). Since the programme has not been carried out extensively in Malawi, its implementation will be done on a pilot basis. The programme will be implemented alongside TIP, utilising the community based targeted approach and alongside the Targeted Nutrition Programme. The programme will also use specific support groups such as those for the elderly, orphaned and the chronically ill.

After beneficiaries are identified, cash transfers will be made through District Assemblies. In some cases, the programme will use value-based welfare retail vouchers (flexi-vouchers). To reduce security risk, the vouchers will be both beneficiary and date specific. The value of

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<sup>31</sup> Mothers will be given vouchers that can be exchanged for a pack containing a 10-kg bag of *Likuni Phala*, 10-kg bag of Mgaiwa (unrefined maize flour), 3-kg packet of legume seed, and a packet of vegetable seeds.

transfer will be determined by resource availability and factors such as household monthly food requirements and minimum wage levels<sup>32</sup>.

One of the key institutions for this programme is the District Assemblies. However, implementation will be done by a number of stakeholders. The MSPAP will be responsible for the overall program design, coordination of the piloting, policy support, as well as monitoring and evaluation. District Assemblies are to take over the management of financial resources. In addition, the District Assemblies will assist in the beneficiary selection exercises, delivery of cash/vouchers as well as the redemption of vouchers. The Department of Disaster Preparedness and Rehabilitation will also be strengthened and linked accordingly with its stakeholders. The civil society and other specific support groups will be responsible for distribution of vouchers.

### 3. Improve capacities of support groups

As already seen, the informal safety nets are under strain. However, it is recognised that these safety nets are the best mechanisms for taking care of orphans, the elderly and people with disabilities. Government and other stakeholders will therefore work to strengthen the capacity of families and communities to provide support and protection to orphaned children, the aged and persons with disabilities. Further, the problems faced by the extended family system caring for these vulnerable groups have led to the growth of community-based support groups. The work of these support groups has been recognised as important hence their use under the direct welfare transfers. It is, however, recognised that the capacity of these support groups needs to be strengthened. This will involve training of foster care parents, volunteer counsellors, and home-based carers and committees, and establishing community-based childcare centres.

#### ***4.3.2 Improving Disaster Management***

Malawi is frequently affected by natural disasters and calamities. The Lower Shire has been declared a disaster area a number of times due to floods, which occur almost annually. Other areas, in particular lakeshore areas, are also prone to floods during years of heavy rains as was the case in 2001 when 15 out of the 27 districts were hit by floods. The MPRS therefore recognises the impact of such weather-related calamities on the poor and the need to put in place adequate disaster management measures.

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<sup>32</sup> The value of the transfer is expected to be about US\$83 per beneficiary per annum

Natural disasters like floods and hailstorms destroy crops, livestock, and other infrastructure thereby reducing the poor's productivity and removing their sources of livelihoods. The MPRS recognises that different categories of the poor are affected differently according to their specific production potentials affected by the disaster. It also recognises that for the poor not to be annual victims, disaster management must go further than emergency response. The MPRSP will regard disaster management in a continuum that addresses problems of preparedness, prevention, mitigation, reduction of impact, relief (emergency response), as well as rehabilitation and reconstruction.

### 1. Disaster Preparedness

The strategies under disaster management include the full use of established early warning systems like the Famine Early Warning System (FEWS) and the National Early Warning System (NEWS). This will be done in close collaboration with the Ministry of Agriculture and Irrigation as well as the Meteorological Department. At a regional level disaster preparedness will take advantage of SADC Disaster Management Unit in forecasting weather related calamities, and therefore institute necessary impact mitigation tools. This will also ensure foresight in assessing risks and hazards and coming up with solutions ahead of calamities, as well as identifying the vulnerable groups using VAM.

### 2. Disaster Relief

Disaster victims will also be covered under relief programmes. The DDPRR will continue to prepare Emergency Operation Programmes, which run for 90 days to ensure that disaster victims maintain sustenance while they reconstruct their shelter. On the other hand seed will be provided for *dimba*<sup>33</sup> planting to produce a replacement crop. Alternatively seed will be provided for the next crop production season. Basic necessities of non-food items will also be distributed.

### 3. Rehabilitation and Reconstruction

Disaster victims will also benefit from rehabilitation and reconstruction of destroyed amenities such as boreholes as well as infrastructure such as roads, schools, clinics, and police units. In certain disaster situations, the DDPRR will cooperate with the World Food Programme (WFP) and NGOs to introduce income generating activities as a post-disaster

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<sup>33</sup> A dimba is a small vegetable garden

activity. Other small-scale programmes such as replacement of small livestock like goats, and the Food for Work (FFW) programmes will target poor communities to ensure food security.

Except for disaster preparedness, the strategies under disaster management are in concert with the four main strategies in Pillar 3. Therefore an assessment of the impact of disaster on the livelihoods of the affected individuals, households and areas will be done in terms of the best response. Depending on the assessment, any or a combination of the four safety nets types will be implemented. For example, food distribution will be implemented if food production is affected. Likewise if the disaster requires some rehabilitation of the affected area or if income-generating capacities are reduced, public works programmes will be implemented.

#### **4.4 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. Good governance in this sense consists of three elements: political will and mindset, security and justice, and responsive and effective public institutions. For example, the technical design of the MPRS will be irrelevant unless there is the political, bureaucratic and popular will to implement it. The poor must also be protected from crime, violence, arbitrary state power and injustice. Finally, public institutions must be transparent and held accountable (including through checks and balances) so that they are responsive to the needs of the poor and effective in the implementation of the strategies outlined in this paper. The overall objective of Pillar 4 is therefore to ensure that public institutions and systems protect and benefit the poor.

##### ***4.4.1 Political Will and Mindset***

A recurring theme of the MPRS process and other recent consultations has been the problems caused by a lack of political will and wrong mindset. In particular, a consensus is emerging that poverty reduction cannot be achieved without a change in mindset and strong political will. This recognition is in itself a major step forward, since there has in the past been a culture of denial of such problems.

However, the issues of political will and mindset cannot be addressed by bemoaning the decline of work ethics or the dominance of short-term individualism over medium to long-

term local and national prosperity. Nor can they be addressed by blaming others for their mindset – all stakeholders must accept their own responsibilities first. Similarly, the issues cannot be solved by civic education – there are underlying reasons for peoples’ behaviour that cannot be addressed by persuasion alone. Instead, the solutions lie in the identification of the root causes of this behaviour, and a concerted effort by all Malawians.

#### *4.4.1.1 Political Will*

In order for development and poverty reduction to become reality, political leaders from all political parties must depoliticise development, make and accept constructive criticism and be prepared to make hard decisions. A strong message emerging from the MPRS District Consultations was the need to depoliticise development. In particular, all stakeholders should be involved in planning, implementation, monitoring and evaluation of all poverty reducing activities regardless of political affiliation, and political leaders must recognise the need to foster development in all districts and constituencies, regardless of political representation. A recurring theme from the stakeholder consultations was the need to reduce political interference in their sector – for example in public expenditure management, security and justice, credit, taxation and infrastructure.

Malawian politics is characterised by patronage and regional relations rather than ideological or policy commitment. There has been an apparent lack of political will on all sides to make and implement the hard prioritisation decisions required to improve the effectiveness of Government activities. In particular, prioritisation requires that certain low priority activities must either be scaled down or stopped altogether.

Again, it is not enough to bemoan the lack of commitment of politicians and their short-term populist focus. There are several reasons for the observed behaviour. Firstly, the dominance of patronage politics is a result of historical experience, and the lack of education and short-term focus of the poor. Similarly, the very nature of politics, particularly in democracies, dictates that politicians favour short-term gains and populist acts over medium to long-term reforms, which often have short-term costs, such as unemployment.

It must also be accepted that politicians are elected to make decisions – many reform proposals involve reducing substantially the scope for altering policy and therefore undermine their democratically justified powers. However, the political leadership is often

not fully briefed on the negative consequences of its actions and the benefits of alternative actions, since those advising the political leadership depend on those leaders for their careers. Finally, donor driven reform programmes are frequently introduced and reformed. Government, therefore, has an incentive to commit to the programme long enough to receive the associated aid, then to abandon it.

These reasons must be recognised and addressed. They suggest a two-tier strategy. In the short to medium term, leaders and technicians should ensure that the design of reform programmes includes short-term benefits, so that the reforms have broad-based support. In addition, the timing of reforms should be linked to the electoral cycle, so that unavoidable short-term costs of reform do not have a disproportionate political impact. Reforms should also be flexible and country-owned so that there is broad commitment to their full implementation. The short to medium strategy should also include efforts to change the terms of political discourse away from undeliverable promises and creating expectations of material gain in return for electoral support. Finally, efforts must be made to restore the neutrality and professionalism of the public service. This, in part, will involve change management training for political leaders, focussing on how to interact with their team of civil servants. In addition, it will involve clearly defining the dividing line between Government and party political roles, functions and resources.

In the long term, the strategy consists of strengthening parliament and civil society so that they are able to play their role of providing checks and balances on the executive. In addition, it is important that the people participate in decision-making processes through decentralisation. Education, both basic and political, is also part of the long-term strategy – only an educated population will be able to hold its leaders to account. Finally, the reduction of donor dependence is crucial if Malawi is to avoid policy reversals.

#### *4.4.1.2 Mindset*

The issue of mindset arises in the public service, the general population, the private sector and in the donor community. In the public service, the mindset is perceived as one of “business as usual”, laziness and personal greed. This is in large part caused by the existing incentive structure in the public service, which is characterised by low basic salaries, lack of performance monitoring, lack of sanctions against poor performance and rewards for good performance, and promotion systems based on regionalism, tribalism, seniority and political



affiliation rather than merit. In this context, an elaborate structure of allowances has emerged as effective salary support that is ripe for abuse and distorts management priorities.

The solutions to this problem of public service mindset lie partially in the public sector reforms described below. In particular, Government should introduce stronger accountability mechanisms and increase salaries whilst simultaneously removing all but essential allowances from the system.

The mindset of the general population is often regarded as one of laziness and dependency on Government. Again, it is important to look at the root causes of this perceived mindset. Firstly, it is due to the lack of economic empowerment of the poor who in many cases lack the knowledge or capacity to seize productive opportunities. This can be addressed through appropriate education and improving access to credit and markets. Secondly, the perceived dependency on Government handouts is based on historical experience that Government and donors will provide for the poor, especially in times of severe hardship. This is further encouraged by the terms of political discourse, which create expectations of material gain in return for political allegiance. The dependency culture can be addressed by ensuring that where possible, safety net activities focus on empowerment, by concerted efforts to change the terms of political discourse, and by disseminating the message that Government has limited resources and cannot do everything.

In the private sector, there is a culture of blaming Government for all its troubles – although this may be partially true, it enables the private sector to deny its own problems, such as poor management skills, lack of entrepreneurial spirit and lack of meritocratic recruitment and promotion. In addition, the private sector simultaneously demands tax cuts and exemptions, higher public infrastructural expenditure, lower utility prices and protection from international competition. These demands are not consistent. The private sector should, therefore, focus on building its own capacities and professionalism whilst working with Government and appreciating its constraints.

There is often an underlying assumption on the part of development partners that because they are benevolent donors, everything they do is in the best interests of Malawians and they are above criticism. However, the reality is that at best, donors do not effectively use their resources for poverty reduction, and at worst, help to exacerbate poverty by undermining

Government's planning and priority setting and adding to Malawi's debt burden. Efforts to build Malawian ownership of programmes, employ more local staff, move from loans to grants, and shift from project to programme funding have begun to improve the situation. However, to a large extent, these shifts are limited to rhetoric – ultimately, donor Governments still make the crucial decisions on funding, and pressure is still put on Government to conform. The MPRS offers an opportunity to move beyond the rhetoric – donors should buy in to the MPRS and genuinely only fund programmes and projects within it. Ultimately, however, Malawi must learn to live on its own resources and not rely on donors.

Another theme related to mindset that has been emphasised throughout the process is that of patriotism. There is consensus that the problems of mindset and political will arise partly because of a lack of patriotism across Malawian society. In particular, it appears that regionalism, tribalism and individualism outweigh considerations of patriotism. In order to reverse this trend, efforts should be made to inculcate positive values and attitudes (including the Malawi First concept) through sports, youth development, community development, information and broadcasting, and cultural events. This will not generally involve additional expenditure or events, but rather involve a shift in the emphasis of existing programmes, events and broadcasts. Secondly, the “Malawi Incorporated” concept should be promoted so as to increase the complementarity between the public and private sectors.

#### ***4.4.2 Security and Access to Justice***

Issues of security<sup>34</sup> and justice are closely linked to issues of poverty. Protection from crime, violence, arbitrary state power and injustice is a fundamental part of welfare. Equally importantly, insecurity makes it too risky for the poor to accumulate assets and wealth, particularly in a rural setting, as any assets or wealth are likely to be stolen. This undermines the ability of the poor to generate their own incomes and reduce their own poverty. Crime has a disproportionate impact on the poor since they are the most vulnerable and least able to cope. An accessible and efficient justice system can help to reduce crime by punishing offenders, and creates a level playing field for the poor so that they can protect themselves from those with more economic and political power.

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<sup>34</sup> Security is defined narrowly as physical security of individuals and assets.

Poverty and crime can also be part of a vicious cycle – crime reinforces and increases poverty, and poverty causes crime. For the ultra-poor, the only means for survival may be stealing food or assets from other poor people. It is therefore important that this cycle is broken – by poverty reduction efforts, by exploring non-custodial sentences for minor offences, and by ensuring that prisoners are well treated and taught skills they can use to sustain themselves once released.

However, it is not only through the theft of the poor's assets that crime impacts on poverty reduction. Crime and insecurity also have significant indirect impacts on the poor. For example, fraud, corruption and tax evasion reduce the resources available for Government to spend on poverty reducing activities. Insecurity also negatively impacts the growth of foreign investment and tourism, which in turn affects economic growth potential.

Security and access to justice in Malawi has a sad history. Between independence in 1964 and 1994, the police was used as a tool of the one party state and was implicated in many human rights abuses. Similarly, the state exercised power arbitrarily, imprisoning opponents and those accused of crimes with little or no recourse to the justice system. Prisons were overcrowded and inhumane.

Since 1994, extensive efforts have been made to reverse this situation through police reform programmes, the closure of the most notorious prisons, and the creation of human rights bodies. However, these efforts have not been able to prevent a rising trend in crime, a continuation of political violence and a general decline in security. The police:population ratio stands at 1:1667 against a regional standard of 1:500. As a result, the rate of crime has risen by 6 percent over the past five years, whilst the crime detection rate has not moved above 20 percent. This has been in part blamed on increases in illegal immigration in the country, which has also contributed to a reduction in economic opportunities for Malawian citizens and has undermined the integrity of Malawian passports. Finally, prisons have remained overcrowded and inhumane. The prison population has risen from 4000 in 1995 to 8000 in 2001, and the warder:prisoner ratio has fallen to 1:14, against an international standard of 1:5.

This situation is partly a result of lack of financial and human resources. There is insufficient police presence, especially in rural areas, and the justice system does not have enough

lawyers, judges or courts to process cases effectively and timely. As a result, the number of prisoners has expanded with many individuals on remand, whilst little additional prison infrastructure has been built. Further, a breakdown of discipline and professionalism coupled with low salaries has contributed to an increase in police corruption and the HIV/AIDS epidemic has worsened the shortage of police officers and lawyers. Finally, some stakeholders have expressed concern that the police and the justice system are becoming politicised, both in terms of recruitment, deployment of the police and protection of certain individuals from justice.

Currently there is little appreciation amongst the general public of the role the law plays and the potential it offers for empowerment. The law is an essential tool for social and economic development since it seeks to establish order in a society. It does not just relate to crime and the Police, but affects virtually every aspect of life. However, the supremacy of the law is currently undermined by a general failure to respect the rule of law.

In response to these problems, an integrated approach to security and justice has been adopted, as reflected in the Malawi Safety, Security and Access to Justice programme (MASSAJ)<sup>35</sup>. This programme recognises that the various elements are interdependent. For example, although crime reduction has traditionally been seen as the sole responsibility of the police, this approach recognises that the police will have a minimal impact on crime reduction if there is an ineffective justice system. The resulting strategy has three interlinked objectives:

1. Reduce crime

In terms of crime reduction, the way forward is on five levels. Firstly, crime control capacity will be increased, particularly by deploying more officers in rural and urban areas and building associated police infrastructure. Secondly, a crime prevention strategy will be reviewed and implemented, to include enhanced community involvement in policing, development of counselling methods at all levels (for example, household, community, police, and prisons), reduction in abuse of firearms and the supporting role of the Malawi Defence Forces in crime prevention. Thirdly, co-ordination with and regulation of private sector security firms will be improved through the introduction of a new regulatory framework. The fourth strategy involves efforts to improve the quality of investigation, using

modern technology. Finally, there will be further organisational development of the Police, Prisons and Immigration services to ensure that they are transparent and accountable. This will also involve ensuring that mechanisms are in place to deal with emerging human resource issues, including putting in place strategies to prevent the spread of HIV/AIDS, mitigating against the impact of the pandemic, and ensuring that the recruitment system is not biased in terms of gender.

2. Improve access to and delivery of efficient and effective justice

The judicial system will work to ensure improved access to and delivery of effective and efficient justice, particularly to the poor and vulnerable. The highest priority will be on increasing the crime prosecution rate by recruiting more prosecutors, lawyers and judicial staff, and by constructing more court-rooms. The independence of the Judiciary must also be strengthened as one of the three branches of Government. The second priority will be to enhance the capacity to provide access by the poor to justice, by increasing the availability of lawyers through the Legal Aid programme, and civic education on their legal rights. The third area of focus will be on safeguarding the rights of victims, suspects and perpetrators of crime, by establishing victim support units, improving prison conditions and encouraging community service for petty offences to relieve pressure on prisons and act as a measure of compensation to the community. Finally, effective rehabilitation programmes for prisoners will be developed so that the cycle of crime and poverty is broken.

3. Ensuring respect for the rule of law

Respect for the rule of law depends to a large extent on strengthening of the capacity and independence of the Judiciary referred to above. For the rule of law to prevail across Malawian society, a clear example must be set by national leaders and institutions. This requires an independent Judiciary that has power to ensure that those leaders and institutions operate within the Constitution and Laws of the Republic of Malawi. It also requires strong political will to respect the independence of the Judiciary and abide by Laws and judicial decisions.

In addition, this objective will involve strengthening the oversight bodies of security organisations, depoliticising the police and justice systems and civic education on rights and

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<sup>35</sup> There are, however, strategies outside the MASSAJ strategy document that are proposed here.

responsibilities under the constitution. A summary of the objectives and associated targets is produced in Table 4.4.1:

*Table 4.4.1 – Security and Access to Justice Indicators and Targets*

Indicators	Current	2004/5 target
Police:Population ratio	1:1912	1:1200
Crime detection rate	20%	40%
Prosecution rate (cases per year, using homicide as proxy)	150	300
Community service cases	525	5000
Warder:prisoner ratio	1:14	1:9

#### **4.4.3 Ensuring responsive and effective public institutions**

The second main element of this pillar consists of strategies that enable Government as a whole to implement its planned strategy, and enable the populace to ensure that the Government keeps its promises and is responsive to the needs of the population.

##### *4.4.3.1 Public Expenditure Management*

Good public expenditure management (PEM) is increasingly being recognised as one of the prerequisites for economic growth and development and hence for poverty reduction. Good PEM guarantees that public resources are allocated to priority areas as identified by the MPRS, produces value for money in service delivery, and ensures adherence to aggregate fiscal policies and targets.

The central tool for public expenditure management is the budget process, which since 1995 has been based on the principles of the Medium Term Expenditure Framework (MTEF). The MTEF was introduced in order to ensure strategic medium term budgeting, bringing together policy-making, planning and budgeting roles of Government into a rolling three-year horizon. The chosen focus was on the reallocation of resources to priority activities. The role of the budget under the MTEF was to change from a centralised inventory of inputs adjusted on an incremental basis to an output focused approach based on costings of priority activities and projections of available resources.

However, there has been dissatisfaction with the implementation of the MTEF. Firstly, the strategic prioritisation process is not influenced by extensive costing of activities. By and large, sector policies remain unaffordable and resources end up being spread too thinly across many activities. Secondly, there have been persistent and significant divergences between approved and actual expenditures, undermining the set priorities. This reveals an apparent

lack of appreciation at both the political and technical level of the significance of resource constraints.

Finally, Budget execution has been undermined by pressures to finance new and unbudgeted activities at the expense of identified priorities. This extra-budgetary funding causes major damage through two channels. Firstly, the process of planning and budgeting stops working effectively. The way Government spends money is no longer decided through a process of careful analysis, discussion and selection of priorities, but through the success of each ministry in winning resources through extra-budgetary requests. Secondly, Government loses control of the macro-economy. Each year Government borrows more money than it can really afford, leading to high interest rates, which destroy the private credit market, and poor control of the money supply, and hence inflation. In such a situation, it is the poor who are hurt more than the rich.

Hence, the major challenge of the PEM in the context of the MPRS will be to ensure an effective, medium-term output focussed system by strengthening the MTEF. The MTEF Review of 2000 identified a number of essential characteristics of a successful MTEF<sup>36</sup>. Government will implement a number of activities aimed at achieving these characteristics, with the overall goal of ensuring effective use of resources for poverty reduction.

1. Improve Budget implementation by creating hard Budget constraints

The first strategy under this objective is to strengthen political leadership of the Budget process so that there is broad-based popular and political participation in the formulation and execution of the budget. This would ensure that political intentions are reflected in stated policies, which are translated into the Budget and reality. This will involve improving the structure and presentation of the Budget (ensuring a transparent activity focus), submitting activity-based expenditure reports to Parliament and the Cabinet and strengthening the capacity of political oversight bodies such as the Budget and Finance and Public Accounts Committees of Parliament. Finally, there will be basic public finance training for MPs, Cabinet Ministers and Controlling Officers, emphasising the impact of expenditure decisions on the economy and on poverty.

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<sup>36</sup> The characteristics are: political involvement and commitment; effective management and coordination of reforms; predictability in the funding of services; clear, consistent and affordable policies; transparent preparation and presentation of the Budget; comprehensiveness of Budget coverage; and accountability

The second strategy is to ensure accountability by improving financial management and expenditure control mechanisms so that fiscal targets are met and unauthorised expenditures are eliminated. In order to achieve this, Government will implement the Integrated Financial Management Information System (IFMIS) and will further strengthen the Credit Ceiling Authority (CCA) system and the Commitment Control System (CCS). To reinforce these measures, the current Finance and Audit Act will be split into a new Finance and Management Control Act with clear and strong public financial management regulations including sanctions against those who break the regulations, and a new Public Audit Act ensuring the independence of the National Audit Office. Finally, Government will strengthen monitoring of expenditure inputs and outputs, and introduce expenditure tracking systems as outlined in Chapter 6.

The third strategy will be to strengthen resource forecasting in order to improve the predictability of resource flows to service providers. This will involve a quarterly review of revenue collections and the according re-alignment of expenditures. Also, there will be regular reviews of donor inflows to ensure that they are less erratic.

## 2. Improve public expenditure planning and Budget preparation

The first strategy under this objective will be to increase the comprehensiveness of the Budget, so that all public expenditures are subject to the same decision-making criteria based on MPRS priorities. In the past, planning has been made difficult by donor-funded projects that have been outside the budget and whose recurrent cost implications have not been planned for. Expenditures by state-owned enterprises and NGOs need also be included to ensure comprehensive planning. Of particular concern is the MASAF project, which needs to be aligned to the MPRS.

Secondly, Government will formalise and strengthen Budget scrutiny, in order to ensure that budgets are clearly focussed on affordable outcomes and policies. Under this strategy, the process of Budget formulation will be revised to ensure that Budget submissions are in line with MPRS priorities, and Ministers will report to parliament annually on achievement of outputs of their respective ministries. In addition, there will be a capacity building programme for the Ministry of Finance and Economic Planning to improve budget scrutiny and monitoring.



#### 4.4.3.2 *Public Sector Reform*

Public sector reform will ensure efficiency and effectiveness in service delivery, which is crucial for poverty reduction. The public sector constitutes the core competence of the nation for formulating, implementing and monitoring national, sectoral and district/community level policies and actions.

Government is undertaking public sector management reform (PSMR) as a key part of governance improvement. The PSMR seeks to develop the capacity of the public sector so that in the long run it can become the national instrument for the attainment of MPRS objectives. Despite some reforms, there is urgent need to strengthen the overall capacity of the public sector to make it an effective instrument for the effective delivery of public goods and services.

##### 1. Improve public sector conditions of service and work ethics

The major challenge for the public sector is the need to establish an effective incentive structure that will improve work ethic and productivity. The first strategy to meet this objective is to review and establish realistic and equitable remuneration. Under this strategy, many benefits and allowances will be monetised and integrated into basic salaries, whilst revising and strictly enforcing equitable regulations on allowances. In addition, Government will review the performance related contract scheme, focussing on setting and monitoring financial management performance criteria. After this review, the scheme will be expanded to all professional levels of the civil service.

Apart from this, Government will devise and implement a comprehensive wage policy to ensure appropriate and equitable remuneration across Government. This will include ensuring that front-line service delivery agents (for example, nurses and teachers) have remuneration packages more in line with their counterparts in central Government headquarters. In order to complement this strategy, Government will simultaneously improve the enforcement of standards for the Civil Service. This will involve developing and enforcing a code of conduct for public officials, designing and implementing a performance based appraisal system for civil servants, and reviewing the Public Service Act.

Finally, Government will introduce a new public pensions system in order to ensure that pensions are linked to the cost of living, and that they have a fixed, predictable budgetary

impact. This will include a feasibility study on the introduction of a funded, privately managed pension fund.

2. Review the structure of the civil service

The second objective of the public sector reform component is to review the structure of the civil service so that it focuses on poverty reduction. This will involve revisiting the functional review process and redefining Ministry functions and staffing on the basis of MPRS priorities. This restructuring will be implemented in the context of decentralisation, which will also help to ensure that Government resources, both financial and human, are used for poverty reduction.

3. Address capacity constraints across Government

The third objective is to address capacity constraints across Government. This is related to the issue of increasing the number of qualified personnel in key posts through a training programme of existing public servants, improving secondary and tertiary education, promoting the training of key professional cadres (such as accountants, lawyers, engineers and economists) as well as mitigation against the impact of HIV/AIDS. Furthermore considerable attention will be paid to the development and implementation of management development programmes so as to build capacity to ensure continuous delivery of quality services to the public.

4. Strengthen public policy-making

The fourth objective of public sector reform is to strengthen public policy-making at all levels. This will include ensuring broad participation in policy-making, particularly through the annual MPRS review process described in Chapter 6. In addition, the capacity of central Government Ministries (including the Cabinet Office, the Ministry of Finance and Economic Planning and the National Economic Council) will be strengthened, particularly as regards the implications of new policy proposals, including their input on expenditure and poverty. Further, efforts will be made to ensure that the operations of all ministries are governed by clear and transparent policy guidelines.

5. Improving effectiveness of parastatals

The fifth objective is to improve the efficiency and effectiveness of public enterprises. Special measures will be taken to eliminate inefficiencies by recruiting competent managers. In addition, boards of parastatals will be continuously reviewed to improve governance and

only qualified individuals with relevant experience will be considered. Efforts will also be made to ensure charges by utility companies cover costs, and to accelerate privatisation, particularly in telecommunications, power and water. Finally, the Public Enterprise Reform and Monitoring Unit (PERMU) in the Ministry of Finance and Economic Planning will undertake continuous scrutiny of the financial performance of public enterprises and will co-ordinate reform efforts.

#### 4.4.3.3 *Fraud and Corruption*

The MPRS district consultation process showed that corruption is one of the major concerns of the people. High levels of corruption and fraud reduce economic growth by discouraging legitimate business investment, and reduce the public resources available for the delivery of services to the poor. In addition, corruption gives disadvantages to the poor in selling their agricultural produce, and reinforces the unequal distribution of wealth and power in society – only those who can afford to pay a bribe benefit while the poor, the weak and the vulnerable suffer.

In order to address issues of corruption, Government established an independent Anti-Corruption Bureau (ACB) to check corruption of any kind and at any level. However, the Bureau's effectiveness is hampered by weak human and financial capacity and systemic institutional weaknesses. As a result, corruption is still growing in most sectors of the economy.

##### 1. Improve the prevention of corruption and fraud

The key strategy to achieve this objective is to reduce the opportunities for corruption and fraud through the creation of a new Malawi Procurement Authority (MPA). This Authority will oversee decentralised procurement across Government, enforcing clear procurement guidelines so that all public procurement is transparent. In addition, the Anti-Corruption Bureau (ACB) will continue to conduct and encourage anti-corruption campaigns. Finally, the prevention of corruption and fraud is dependent on the improved detection and prosecution of cases so that a clear message is sent to potential offenders.

##### 2. Increase detection and prosecution of corruption and fraud cases

This will involve reviewing the legal framework and relationships between and among the Anti-Corruption Bureau, the Director of Public Prosecutions (DPP), the National Audit Office (NAO), the Malawi Revenue Authority (MRA) and the Public Accounts Committee

(PAC). In particular, steps will be taken to ensure the independence of the ACB so that political interference is eliminated. In addition, the capacity of these institutions must be built, so as to improve coverage and timing of audit, ensure tax compliance, strengthen investigation and prosecution of corruption and fraud cases, and ensure speedy processing and prosecution of corruption and fraud cases. In addition, in the context of decentralisation, efforts will be made to ensure that each district has an officer responsible for anti-corruption activities, co-ordinated by the ACB.

#### *4.4.3.4 Decentralisation*

Decentralisation focuses on the empowerment of the people for effective popular participation and decision making in the development process in their respective areas. In the past, there have been many competing and fragmented development projects, which were largely uncoordinated and managed centrally. This has resulted in substantial duplication of effort and has tended to confuse rather than help the beneficiaries.

In order to address these problems, Malawi is undergoing a process of decentralisation, or more specifically, devolution. In the past, a number of line ministries have undergone a process of administrative decentralisation, or deconcentration. However, this form of decentralisation has not yielded the benefits expected because the decision-making power and resources have remained in central Government. Devolution will fundamentally transform the way Government works and interacts with the public, both administratively and politically. Local Governments have been created at district level to perform functions previously performed by central Government, and crucially will be accountable to the population of their district, through the District Assemblies.

Since the passing of the Local Government Act in 1998, significant progress has been made in establishing the legal and administrative framework for decentralisation. A number of laws have been revised to ensure consistency, local government elections were held on 21<sup>st</sup> November, 2001, and Interim Assembly Administrations have been formed. Progress has also been made in establishing the financial framework for decentralisation, including the design of an Inter-Governmental Fiscal Transfer System, the devolution of business licensing and the functioning of the District Development Fund in most assemblies. Finally, there has been progress in preparing for the devolution of functions to the Districts, through the

preparation of Sector Devolution Guidelines and the establishment of District and community level planning structures and guidelines.

Despite this progress, a number of challenges remain. Firstly, the political will and technical commitment needed to complete the preparation and successful implementation of devolution plans must be sustained. Secondly, capacity building programmes in the Assemblies must be consolidated and accelerated. Also, a sustainable financial base for the Assemblies needs to be developed whilst institutionalising accountability and transparency of resource use at a district level. In addition, there must be continuous consensus building and commitment to the devolution of functions from line ministries to assemblies, whilst building a democratic culture and participatory institutions in the community so that people are empowered to participate fully in local governance of these functions. Finally, there is need to integrate HIV/AIDS issues into training programmes at a district level and to design programmes that address gender equity with regard to decision making and access to and control of resources.

The resulting decentralisation strategy has seven strategies grouped under two objectives:

1. Develop institutional capacity for local governance

The first strategy under this objective is to develop an appropriate accounting and financial management system. This will involve computerisation of local financial management systems, building the capacity of assembly personnel in financial management, and introducing activity based budgeting in co-ordination with Ministry of Finance and Economic Planning. The second strategy is to establish effective administration systems for local Government. This will involve training assemblies and management and strengthening national coordination of decentralisation.

2. Transfer functions, resources and planning to districts

The first strategy under this objective is to establish a local government financing system. This will be attained through fiscal reforms, including the development and implementation, in a phased manner, of a system for Inter-Governmental transfer, the strengthening of revenue collection by assemblies and training of accounting personnel. The second strategy is to devolve functions to the assemblies. The main activity will be to prepare and implement sector plans in a phased manner.

These two main strategies will be backed up by efforts to ensure an effective local development planning and management system integrated in to the national planning system (especially the MPRS), to create a consistent legal and operational framework for decentralisation by reviewing government policies, procedures and regulations and review of bye-laws, and to ensure that the public understands and appreciates decentralisation through civic education programmes and coordination with civil society institutions.

#### *4.4.3.5 Democratisation*

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. However, the authority of the constitution cannot be taken for granted, and in particular, elected leaders must continuously respect the supremacy of the people. In practical terms, this principle operates through elections and the existence of checks and balances on the Executive. Empowering the poor through elections ensures that Government is held accountable to the people and that the poor have an influence over policy. This is crucial when decisions are to be made on the use of scarce national resources. Checks and balances ensure that Government is held accountable for its actions and remains responsive to the needs of the poor between elections. These checks and balances are both formal (for example, Parliament and Judiciary) and informal (such as the media and civil society). A multi-party system offers a transparent choice between potential governments and ensures that Parliament offers effective scrutiny of Government activities.

Malawi adopted a new democratic constitution in 1995. This followed the transition that ushered in a new era of political liberalisation and democratic governance. The constitution established the institutions of democracy outlined above, enshrines fundamental freedoms and rights and established a number of constitutional watchdogs (for example, Office of the Ombudsman, Malawi Human Rights Commission). Since 1994, Government has moved to consolidate the fundamental transformation that introduced multiparty democracy. A second general election was held successfully in 1999, followed by Local Government Elections in 2000. Informal checks and balances have strengthened over time, as demonstrated by the emergence of vocal civil society groups.

However, there is a perception amongst many observers that progress in the consolidation of democracy has slowed down in recent years and that many elements of the previous regime

have been retained or have resurfaced. In particular, there is concern that the principle of a multi-party system is being undermined by the continued dominance of strong patronage networks. Similarly, people have noted that the principle of equitable participation has been weakened by political violence associated with elections and other national functions, the persistence of regionalism, tribalism and nepotism, and the terms of political discourse, which offers direct material gain in return for electoral support.

In addition, there are worries that the rights and responsibilities involved in a democratic system have been misunderstood and the rights abused at the cost of responsibilities. There is a perception that informal checks and balances have been weakened by the inequitable access to the broadcast media, the lack of professionalism of the print media, and the focus of the media on political rather than development issues.

Thus, there is need to strengthen the governance system and institutions enshrined in the constitution and informal checks and balances to ensure popular and equitable participation in governance. Much of this cannot be done technically. The problems of democratisation are largely related to the questions of political will and mindset. However, there are specific actions that can be taken to improve the quality of democracy:

1. Strengthen formal governance institutions

In terms of formal institutions, there is need to further strengthen electoral processes by improving law enforcement related to elections, strengthening the capacity of the Electoral Commission and through civic education to increase voter turnout and create awareness of the respective roles of Members of Parliament (MPs) and local councillors. Also, civic education through traditional modes of communication can help to improve understanding of democratic rights and responsibilities. Between elections, improved participation of the poor in national policy dialogue can be achieved using the MPRS concept, and the Executive can be made more accountable to Parliament by providing support to parliamentary committees, training MPs and strengthening political parties.

2. Strengthen informal governance institutions

Informal checks and balances can be strengthened by ensuring the independence and professionalism of the mass media, particularly radio broadcasters, and by increasing the capacity and accountability of civil society organisations such as NGOs.

#### 4.4.3.6 *Human Rights*

Human rights are also an essential part of democracy and are fundamental to poverty reduction. Declarations of human rights are intended to protect the poor from mistreatment by more powerful individuals and organisations such as Government, and guarantee access of the poor to basic services. Prior to 1994, Malawi's human rights record was amongst the poorest in the region, if not the world. Since then its record has improved. The Constitution through Sections 12 and 13 explicitly guarantees the right to basic economic and social rights. In addition, Government has ratified major international human rights instruments as well as key human rights related International Labour Conventions. A number of civil society organisations (including churches and NGOs) play the role of additional watchdogs. However, there is still limited observance and enforcement of human rights provisions. Issues of human rights have not yet taken centre stage because of conflicts between customary practices and the bill of rights, low level of professional skills in human rights organisations and inadequate systems to monitor human rights violations. In addition, the many human rights institutions in Malawi do not have clear roles and do not use their limited resources effectively.

##### 1. Ensure observance of human rights

In order to address these problems, the capacities of the many human rights organisations will be developed by Government and its development partners. This will involve clearly defining their roles, hiring and training personnel and increasing funding where the organisations demonstrate their effectiveness. In addition, all public servants, particularly those in enforcement agencies, will be trained in human rights issues. Finally, efforts will be made to raise the awareness of citizens about their constitutional rights and obligations.

## **4.5 Cross Cutting Issues**

In addition to the above components of the MPRS, there are a number of cross-cutting issues that are crucial and have been mainstreamed in the four Pillars. A detailed discussion of these cross-cutting issues is meant to underline their importance for poverty reduction.



#### 4.5.1 HIV/AIDS

Malawi has one of the highest HIV infection rates in the world. HIV infection rapidly penetrated the population during the early 1980s and the impact of this in terms of illness and death is now being increasingly felt throughout the country. Recent estimates made by the National AIDS Commission indicate infection rates in women attending antenatal clinics varying from 13 percent in rural areas to nearly 25 percent in urban areas<sup>37</sup>. In recognition of the fact that there is about 30 percent risk of mother to child transmission, the current high infection rates of HIV in women of child-bearing age suggest that many children are born HIV infected. The National AIDS Commission estimates the number of infected children at 65,000 in 2001<sup>38</sup>.

Conservative estimates put the HIV infection rates in the 15-49 age group at around 15 percent nationally<sup>39</sup>, and this rate is significantly higher in urban areas (25 percent) than in rural areas (13 percent). The HIV infection in people aged 15-49 is concentrated in younger age groups, particularly women. There is evidence that HIV infection in younger females aged 15-24 is about 4 to 6 times higher than the infection rate in their male counterparts. The NACP further estimates that 46 percent of all new adult infections in 1998 occurred in youth aged 15 to 24. Of these new infections, 60 percent of the new infections in young people occurred in women and 40 percent occurred in men. These already high infection rates seem to continue growing in spite of the apparent high awareness of HIV/AIDS amongst the general population. It should however be noted that most of these HIV infected individuals do not yet know their status.

The impact of the HIV/AIDS pandemic threaten all developmental efforts. For example, around 70,000 children become orphans every year, adding to the already large number of orphan, estimated at about 850,000<sup>40</sup>. Further, there has been a three to four fold increase in tuberculosis (TB) cases, from 5,000 cases in 1985 to about 25,000 cases in 1999. High infection rates also cause increased absenteeism from work due to AIDS related illnesses and funerals, increased medical bills, funeral costs, and payment of premature death benefits. In

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<sup>37</sup> National AIDS Commission (2001) *National HIV Prevalence Estimates from Sentinel Surveillance Data*

<sup>38</sup> National AIDS Commission (2001) *National HIV Prevalence Estimates from Sentinel Surveillance Data*

<sup>39</sup> *ibid.*

<sup>40</sup> Ministry of Gender, Youth and Community Services estimates

general, HIV/AIDS will continue to divert labour from productive activities to care provision, thereby increasing food insecurity and threatening the survival of communities.

There are clear links between HIV/AIDS and poverty. Poverty is one of the major underlying factors driving the epidemic. People living in the state of serious and worsening poverty are more vulnerable to HIV infection due to a number of factors. Firstly, they have poor access to health care facilities, both because they cannot afford to pay for quality care and that the general free health services are inadequately resourced as a result of the overall national poverty. This poor access to health care means that the people are in poor general health enhancing risk of HIV infection and progression of AIDS.

Secondly, in search of income for subsistence and survival, people living in poverty participate in labour migration which results in breakdown of male and female relations, increasing likelihood of multiple sexual partners or casual sexual partners and risk of HIV infection. In addition, women in poverty can be forced to enter into high risk sexual relationship in battering sex for subsistence. This increases their vulnerability to HIV infection. Finally, people who are poor also have poor access to information, including information on HIV/AIDS issues which is critical for them to make informed decisions and choices about their sex and sexuality. This is compounded by the fact that the poor also have poor access to education services and are generally illiterate to benefit from IEC campaigns.

Just as poverty deepens the HIV epidemic, the epidemic also deepens poverty in a serious vicious cycle. The HIV/AIDS affects the productive people in all sectors, who are central to poverty reduction. At national level, national productivity is reduced, and ability to provide social services diminished because of HIV/AIDS. Further, at community and individual level HIV/AIDS diverts household incomes to care, and reduces time spent on productivity thereby worsening poverty. Indeed unless HIV/AIDS is addressed comprehensively, including all the three components of a national response, namely prevention, care and mitigation, all attempts at poverty reduction will not succeed. HIV/AIDS erodes gains made on reducing poverty at a faster rate than any attempt to improve the poverty situation. Therefore, efforts to reduce poverty must go hand in hand with efforts to contain the HIV/AIDS epidemic.

These effects of HIV/AIDS on the productive population requires improvement of human resources planning and training in all sectors. In addition, it calls for well-designed

workplace programmes for prevention and mainstreaming HIV/AIDS as a factor of human resources management in all sectors. Given current levels of poverty and incomes in Malawi, it is highly unlikely that most Malawians will be able to afford any future effective AIDS drug. The only sustainable and effective strategy to combat HIV/AIDS is therefore prevention through behavioural change. However, there is increasing evidence that the response against HIV/AIDS will be more effective where prevention efforts are combined with care and impact mitigation services. To address the HIV/AIDS problem, Government has designed a Comprehensive National Strategic Framework, coordinated by the National AIDS Commission and supported by cooperating partners. The Strategic Framework directs the National HIV/AIDS response in the period 2000-2004. It forms the basis for formulating policies, operational programmes, projects and activities. The Strategic Framework has three main objectives: to reduce the incidence of HIV/AIDS, to improve the quality of life of those infected, and to mitigate against the economic and social impacts.

#### 1. Reduce incidence of HIV/AIDS

The first strategy is to prevent HIV infection among the youth so as to maintain a youth free of HIV infection. This will involve incorporating HIV/AIDS in school curricula at all levels including teacher-training colleges. Further, adolescent reproductive health services will be increased, including voluntary counselling and testing, management of sexually transmitted infections, encouraging people to abstain from extra-marital sexual activities and increasing condom distribution and education on proper usage. Emphasis will also be put on the promotion of use and distribution of female condoms. Secondly, efforts will be made to improve implementation of HIV prevention activities for the general public including commercial sex workers. This will involve programmes for controlling mother to child transmission of HIV, voluntary counselling and testing services at all levels, strengthened blood safety, improved condom promotion, distribution and use, and promoting infection prevention practices in health facilities.

#### 2. Improve quality of life of those infected with HIV/AIDS

The main strategy under this objective is to improve the management of HIV related conditions, including putting in place guidelines for treating Opportunistic Infections (OI) to improve care at both hospital and community levels. In addition, it is crucial that Government puts in place clear guidelines and policies for Anti-Retrovirals (ARVs) and negotiate for reduced prices to enable poor people to afford them. Finally, Government will

put in place standards and regulations on the management and control of drugs in general to ensure availability and access.

### 3. Mitigate against the economic and social impacts of HIV/AIDS

The mitigation of the impact of HIV/AIDS is essential if poverty reduction is to become a reality. Impact mitigation needs to be integrated into planning at all levels and across all sectors and actors. The first strategy is to provide frameworks that support those who are affected indirectly by the HIV/AIDS pandemic, such as orphans, widows, widowers and households. This will include supporting legislation on inheritance, introducing less labour intensive crops, and providing food to affected households. The second strategy is to work with herbalists and traditional healers. The third strategy is to include a budget line item in all line ministries for workplace programmes and other HIV related interventions. Finally, Government will improve the management and co-ordination of the HIV/AIDS response at national level, focusing on the strengthening of the National AIDS Secretariat and District AIDS committees.

#### ***4.5.2 Gender Empowerment***

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. It has to be noted that poverty has a gender dimension due to various social, economic and cultural constraints, options, opportunities and needs. As such, addressing gender inequality is a critical prerequisite for attaining increased economic growth and sustainable human development.

From independence to the 1980s, Malawi's efforts in the area of gender focused on targeting various initiatives at women, such as credit, family planning, domestic science and home economics. This Women in Development (WID) approach sidelined men and failed to address the fundamental causes of gender inequality. Further, the approach did not recognize women as active participants and beneficiaries in the development process. As a result, the impact of the interventions was less than anticipated. Consequently, a Gender and Development (GAD) approach has been adopted in recent years, which explicitly deals with gender relationships and includes both women and men in all initiatives. However, insufficient attention has been paid to the implementation of these initiatives. As a result, poverty in Malawi has increased in recent years with visible gender disparities in all sectors of the economy, becoming more persistent in agriculture, education, employment, health, politics and decision-making at all levels. Malawi is ranked 163 out of 174 countries in the

world, with a Gender Development Index (GDI) of 0.374, implying large disparities between women and men.

There is a positive relationship between the level of education and movement of social indicators. In Malawi social indicators reveal low education levels among women, with a 44 percent adult literacy rate for women against 72 percent for men. This affects women's access to gainful employment and other economic resources, and further contributes to the poor infant mortality and morbidity rates, high fertility rate, high HIV infection rate. This emphasises the need for greater gender equality in education.

Full-time female farmers make up 70 percent of the agricultural labour force. However, women continue to have limited access to agricultural extension, training and inputs. This situation is exacerbated by migration of men to towns and estates to seek paid employment, leaving behind low literate women to manage the farms and families. Consequently, over 71 percent of men are in formal employment compared to only 24 percent of women who are mostly concentrated in lowly paid and female-related traditional jobs such as nursing, teaching, home-craft and secretarial jobs.

Currently, very few women are in decision-making positions with almost 91.5 percent of all management positions being occupied by men compared to 8.5 percent females. There are only 17 women Members of Parliament compared to 193 men and only 8 women Cabinet Ministers against 29 men. As such, most of the decisions are male biased and perpetuate gender disparities.

In view of the current situation the national challenge on gender and empowerment is to create an enabling environment where, women, men, girls and boys are empowered to actively participate in, and benefit from socio-economic activities that meet their basic and strategic needs for poverty reduction and sustainable development. The following strategies will therefore be implemented in the context of the National Gender Policy and its mainstreaming:

1. Strengthen the institutional capacity for implementation of the National Gender Policy

Attaining this objective will involve strengthened sectoral linkages between the Ministry of Gender and other stakeholders, by establishing gender focal points in stakeholder institutions and developing tools for gender monitoring and evaluation. Once these linkages have been made, Government will build capacity for gender responsiveness, planning, implementation, monitoring and evaluation by training the gender focal points on gender analysis and establishing a gender documentation centre. Finally, Government will develop a policy on engendering Budgets.

2. Establish gender sensitive formal and informal legal environment

Firstly, Government will identify and document negative traditional practices, beliefs and values and disseminate information on the effects of these. Secondly, Government will facilitate a review of laws and legislation that impact negatively on women.

3. Eradicate gender based violence

Government will prevent occurrence of gender based violence and further establish and operationalise mechanisms for support of victims of violence and strengthen institutional capacity of all relevant stakeholders. This will involve expanding victim support units in police stations, sensitizing the public on expanding community based groups monitoring gender based violence, and incorporating gender based violence issues into the curriculum of training institutions.

4. Enhance women's participation in leadership and decision making processes

This will involve providing leadership and assertiveness training to women and girls, including training programmes and monitoring and evaluation of the effectiveness of the training.

### **4.5.3 Environment**

Poverty and the environment are linked in a complex, cyclical relationship. High population growth, high illiteracy and poverty lead to environmental degradation by forcing the poor to rely on natural resources for survival (especially as regards fuelwood energy, agriculture, water, fisheries and wildlife). As a result, Malawi's natural resources are threatened by the demand placed on them by the poor leading to unsustainable levels of usage. It has been estimated that the discounted, economic loss in 1994 associated with the loss in soils,

forestry, fisheries and water was US\$240 million<sup>41</sup> (See Pillar 1). It is estimated that 70-80 % of Malawi's biomass is burned in any one season from the burning of crop residue, bush and forest fires, use of fire for hunting and clearing grazing pasture, from wanton pyromania and for fuelwood. This burning is leading to catchment damage and erosion and there is now evidence that aquatic chemical changes in Lake Malawi can be attributed to the atmospheric fall out from fires.

The high degradation rates of the environment in turn exacerbate poverty, since the poor depend on the environment and natural resources for survival. In particular, soil erosion and degradation, deforestation, depletion and degradation of water resources, threats to fish resources and bio-diversity and the degradation of the human habitat that are caused by poverty themselves reduce the ability of the poor to survive and thrive. There is therefore urgent need to reverse this downward spiral.

In recent years, a number of measures have been taken to break this cyclical relationship. The National Environmental Action Plan (NEAP) of 1994 led to the National Environmental Policy of 1996. In order to implement the Policy, the Environment Support Programme was introduced in 1996 to be an umbrella investment framework for the integration of environmental concerns into national planning. This includes the production of bottom-up State of the Environment Reports and inclusion of mitigation actions in Environmental Action Plans at national, district and area levels. As a result of this effort, awareness of environmental issues has increased, and the concept of Community Based Natural Resource Management (CBNRM) has become established. CBNRM empowers communities to have joint control over their own natural resources, discouraging individual overuse and reducing damage from external actors.

However, despite all these efforts environmental degradation continues apace. The resulting environment strategy has three basic components:

1. Strengthen legal and institutional framework

This will involve mainstreaming environmental management into the local government administration, in particular the new assembly councillors. CBNRM will be encouraged through district by-laws, accelerating the devolution of responsibility for environment

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<sup>41</sup> National Environmental Action Plan, 1994

monitoring and planning to the local level, and ensuring that the new Land Policy is consistent with CBNRM by providing, in return for a licence fee, the private sector and communities time-bound, conditional access rights to resources. The concept shall be to treat environment as economic goods and to see that they are properly valued. Further strategies dealing with natural resources are described under Pillar 1.

### 2. Develop alternative livelihood strategies

The development of alternative livelihood strategies will ensure that the poor can survive and thrive without damaging the environment. This will be achieved by establishing a supportive technology development and transfer mechanism so that the poor change their behaviour, particularly with regards to use of fuel wood for energy and the wanton burning of biomass. Issues of energy are discussed under Pillar 1 as part of rural infrastructure. In addition, Government will promote trade and markets in non-consumptive, value-added products from natural resources so that the poor can benefit more by making and selling products from natural resources than by consuming (especially burning) those resources. Similarly, fiscal incentives such as tax breaks or small grants will be made available to communities (and private investors) so that they can practice sustainable resource management and income generation. Finally, under-developed resources such as deep-water fisheries and forest plantations will be commercialised. Strategies in these areas are described under Pillar 1 as part of natural resources.

### 3. Create mass environmental awareness

This will be achieved through integrating environmental issues into the school curriculum, providing training for communities in environmental management, initiating mass media campaigns based on prioritised environmental concerns (for example, anti-bush fire campaigns) and the dissemination of information to communities and political leaders. This will include the distribution of information on sustainable resource use with the targeted input distribution.

#### **4.5.4 Science and Technology**

Science and technology (S&T) contributes significantly to socio-economic development. This notwithstanding, Malawi is characterised by low application of science and technology in all sectors of the economy largely arising from poor integration of science and technology in socio-economic development planning. The low content of science and technology in national economic development programmes is a barrier to economic growth leading to the



high levels of poverty among Malawians. This situation is exacerbated by weaknesses in the national system for science and technology manifested in a weak framework for planning decision-making indicated by the lack of national guidance with respect to science and technology, inadequate attention to programmes that promote, coordinate and finance science and technology indicated by insufficient funding for S&T programmes and poor science culture, weak research and development institutions indicated by low quantity and quality of S&T human resources and poor institutions' infrastructure, and low quality scientific and technology services indicated by lack of and ineffective S&T information services.

Government has taken measures to address these constraints with the development of a new S&T policy as the starting point. The policy attaches great importance to the assurance of political commitment to S&T, integration of S&T into national development planning, maximization of productivity through the application of S&T, promotion of international cooperation, creation of a conducive policy environment for the advancement of science and technology, investment in and retention of S&T human resources, promotion of sustainable socio-economic development; and promotion of S&T culture among civil society.

In view of the current situation the objectives of S&T are to improve the capacity and capability of the national system for science and technology; intensify promotion and transfer of technologies to key livelihood systems; increase investment in research and development in Science Engineering and Technology (SET); enhance the role of science and technology in the expansion, diversification and sustainability of national production systems; improve and increase productivity of national production systems; and encourage value addition to raw materials and indigenous knowledge systems. The achievement of these objectives will create the enabling environment for S&T to contribute to poverty reduction in a sustainable manner. The following strategies will be implemented in the context of the National Science and Technology Policy and its mainstreaming.

#### 1. Strengthen national science and technology capacity

Government will build the capacity of the national system for science and technology. This will be achieved by improving the framework for planning and decision-making through the adoption of a new National Science and Technology Policy and the establishment of a National Commission for Science and Technology Act. In addition, Government will, in partnership with the private sector, improve the promotion, coordination and financing of

science and technology; and outline a comprehensive human resources development and management programme for science and technology.

2. Intensify the application of science and technology

Key measures to be taken will be to improve sustainable productivity in the major livelihood systems of agriculture and livestock production, enterprises and fisheries by implementing national technology transfer programmes in these livelihood systems. Research in science and technology will be diversified through multidisciplinary research institutions including the Malawi Industrial Research and Technology Development Centre (MIRTDC) which is the only industrial research institute. Intensified application of science and technology will be facilitated by the creation of a science and technology culture in order to encourage appreciation of S&T in Malawian society.

3. Enhance utilization of information and communication technologies

Enhanced utilization of information and communication technologies will improve mass communication, information retrieval; and facilitate the establishment of national and sectoral databases thereby enhancing access to the technologies whose use will reduce poverty.

Government will provide a favourable ICT regulatory and operating environment by developing a national ICT policy and related action plans which will integrate ICT utilization and development into Malawi's social economic and poverty reduction strategies. In particular, the Government will enhance provision of infrastructure for enhanced communication and information exchange, invest in ICT for education, vocational training, health, agriculture, financial management, governance, and development of ICT skills.

## **Chapter 5 - Macroeconomic and Expenditure Framework**

### **5.1 Introduction**

Macroeconomic stability<sup>42</sup> and efficient utilisation of public resources are essential conditions for economic growth and poverty reduction. Macroeconomic stability requires prudence in fiscal management and tight monetary policies. This demands that Government spends within its means, and therefore that expenditure requirements are balanced with resources available in a stable macroeconomic environment. This chapter outlines the macroeconomic and expenditure framework within which the MPRS will operate. It is crucial to the implementation of the strategy as it balances the expenditure requirements based on costing of the poverty reducing activities outlined in Chapter 4 with resources available.

### **5.2 Macro-economic Framework**

#### ***5.2.1 Economic Growth and Poverty Reduction***

Economic growth is a necessary but not sufficient condition for sustainable poverty reduction, as without growth, there will be no rise in incomes, and no additional resources available for Government to spend on poverty reducing activities. However, for growth to be effective in reducing poverty, it must involve and benefit the poor (pro-poor, or “quality” growth).

In the past, both the quantity and quality of growth in Malawi have been poor. The quantity of growth has been erratic and low on average. The distribution of growth has been highly skewed towards the wealthy. This is clearly demonstrated by a World Bank study in 1998, which demonstrated that assuming past patterns and distributions of growth, the economy would have to grow at 5.3 percent a year just to maintain constant levels of poverty. This compares unfavourably to the average of 4.5 percent growth in the period 1994-2000. However, the study also shows that changes in the distribution of growth would have a far greater impact on poverty reduction. The challenge for Malawi is therefore to improve both the quantity and quality of growth.

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<sup>42</sup> Macroeconomic stability involves low and stable inflation, low interest rates and a stable exchange rate

### ***5.2.2 Macroeconomic Stability and Poverty***

As described in Chapter 3, although there have been periods of relative stability, the economy has generally been characterised by high inflation rates, an unstable nominal exchange rate, and high interest rates. This was caused by poor fiscal and monetary policies, adverse weather conditions and other external factors. For Malawi to attain macroeconomic stability, Government will adopt policies which will improve public expenditure management and reduce government borrowing; control money supply and inflation; maintain a stable and competitive exchange rate; and improve the trade regime and investment environment.

#### *5.2.2.1 Fiscal Imbalances and Poverty*

High fiscal deficits have necessitated excessive Government borrowing, which in turn has led to high interest rates and the crowding-out of the private sector. In addition, excessive borrowing has resulted into increased interest payments thus reducing the net resource envelope available to fund government activities, of which some are crucial to poverty reduction. Excessive Government borrowing from the Reserve Bank of Malawi (RBM) has contributed significantly to macroeconomic instability. There have been times when government borrowing from the RBM has exceeded the stipulated limits, leading to increases in interest rates and inflationary effects.

A number of measures to improve fiscal discipline are outlined under Public Expenditure Management in Pillar 4 of the strategy outlined in Chapter 4. In particular this involves improving the budget implementation by creating hard budget constraints, through strengthening political oversight of the budget, improving financial management and expenditure control mechanisms (including stronger sanctions against those that break financial management regulations), and the strengthening of resource forecasting.

In addition to these reforms focussed on controlling Government expenditure, a number of activities will be undertaken. Firstly, efforts will be made to increase the independence of the Reserve Bank of Malawi from government. This will be achieved through a review of the Reserve Bank Act, including revising the appointment procedures for the Governor and Deputy Governor, and the current stipulated agreement on borrowing from the RBM. Also, there is need for stronger monitoring and enforcement procedures against overspending in parastatals. This will be achieved through the Public Enterprise Reform and Monitoring Unit (PERMU) and relevant Parliamentary committees, to be governed by a single, all

encompassing Act covering parastatals. Government will also revise the legal framework governing the roles of the Secretary to the Treasury and the Budget Director, to ensure a degree of autonomy in the execution of the Budget. Finally, the powers of the Public Appointments Committee will be strengthened in order to ensure transparency in appointments of senior officials in government and parastatals.

#### *5.2.2.2 Monetary Imbalances and Poverty*

The ultimate objective of monetary policy is the pursuit of low and non-volatile inflation. This is premised on the fact that high rates of inflation discourage saving and investment, and thereby damage an economy's potential for economic growth. Inflation is also a regressive and arbitrary tax that places a heavy burden on the poor as it erodes their purchasing power. Volatile inflation also introduces uncertainty in the business environment and thereby adversely affecting growth prospects and poverty.

To achieve stable inflation, authorities will continue to target the growth in reserve money in order to reduce the growth of money supply. The management of reserve money will involve Open Market Operations (OMO)<sup>43</sup>, adjusting the Liquidity Reserve Requirement (LRR)<sup>44</sup>, and exchange rate operations<sup>45</sup>.

High interest rates have an adverse effect on economy particularly on the poor. Changes in interest rates affect real demand in an economy that in turn affects output and prices. High interest rates act as a disincentive to investment and therefore retard economic growth. High rates also reduce the affordability of credit, especially for the poor.

As a result the second objective of monetary policy is to reduce interest rates by improving the efficiency of the financial system. This will be achieved through the review of the regulatory and institutional frameworks and encouragement of new financial institutions and instruments to increase competition.

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<sup>43</sup> Sales and purchases of securities (Treasury and Reserve Bank of Malawi Bills),

<sup>44</sup> A statutory requirement that banks maintain a minimum percentage of their deposits in cash at the Reserve Bank. Adjusting the LRR is a means of realising and withdrawing reserves from the banking system

<sup>45</sup> The purchase or sale of foreign exchange by the Reserve Bank of Malawi.

### 5.2.2.3 External Sector Imbalances and Poverty

An exchange rate can have an adverse effect on the poor. A depreciating exchange rate erodes incomes and purchasing power of the poor through inflationary effects. Thus Government will strive to attain a stable Malawi Kwacha that is competitive with other foreign currencies, and will avoid the appreciation of the Real Effective Exchange Rate (REER)<sup>46</sup>. The strategic policies which will assist in containing exchange rate pressures include: sound fiscal and monetary policies, low and stable inflation, increased competition in the foreign exchange market and lastly improved market information. These strategies can be achieved through encouraging the development of an interbank foreign exchange market, broadening the participation of the private sector in exchange rate management and a review of the regulatory framework which promotes the growth in non-traditional exports.

The country's deteriorating balance of payments position has been the major cause of exchange rate instability. This has emanated from the unfavourable terms of trade and shortfall in donor inflows. The country has in the past heavily relied on traditional exports like tobacco that have not generated the desired level of foreign exchange. There should therefore be a deliberate policy to encourage the diversification of exports.

### 5.2.3 Resource Envelope and Macroeconomic Projections

The gross resource envelope envisaged for the MPRSP during the fiscal year 2002/03 will be K44.9 billion. This is based on several assumptions, as shown in Table 5.1 below. For the 2003/04 and 2004/05 fiscal years, the projected resource envelopes are K48.5 billion and K55.6 billion respectively (see Table 5.2 below). The declining trend in the inflation rate is premised on the envisaged tight fiscal and monetary policies.

Table 5.1 – Macroeconomic assumptions for resource envelope

Indicator	2001	2002	2003	2004
GDP growth (%)	2.7	3	4.5	5.2
Inflation (%)	27.6	11.5	5	4.4
Exchange rate	70	71	74	78
% of donor pledges honoured	90	90	90	90

<sup>46</sup>The Real Effective Exchange Rate is a measure of a country's competitiveness, calculated from the nominal exchange rate adjusted by the inflation differential between the foreign and domestic prices

These projected resource envelopes are deliberately based on realistic assumptions. These do not mean that the Malawian economy should not aim for higher levels of growth. Instead, they are realistic estimates based on past experience and technical knowledge. If the MPRSP is fully implemented and there are no negative external shocks, growth and revenues may be higher than projected. In that case, the additional activities that currently fall outside the resource envelope will be implemented.

*Table 5.2: Gross Resource Envelope*

<i>Million kwacha</i>	<b>MPRS projection</b>		
	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>
Domestic Revenue	28,545	32,471	36,917
of which non-tax revenue	2,857	3,137	3,443
Grants and Loans	14,277	15,158	18,157
Domestic Financing	- 1,399	- 3,245	- 4,597
HIPC	3,513	4,144	5,139
Gross resource envelope	44,936	48,528	55,617

The resource envelope (total resources available) is derived from projections of total domestic taxation and non-tax revenue, in addition to conservative estimates of donor inflows. At present, the latter are based on aggregate donor pledges. In order to make the projections more realistic, Government will undertake a survey to ensure that the resource envelope is comprehensively derived so that it can accurately be compared to the costings. In particular, Government will undertake a survey of existing donor and NGO programmes and projects. As the 2000 PER clearly demonstrated, a large proportion of these programmes and projects do not currently appear in the Budget and are not factored into the projection of the resource envelope.

Where ongoing projects involve activities identical or similar to MPRS activities, the financial resources funding the MPRS activities within those projects will be counted as part of the resource envelope. However, projects and parts of projects that do not involve activities contained in the MPRS will be noted and the associated resources excluded from the MPRS resource envelope. Government will continue to welcome the implementation of the project until any review phase or the end of the project life-span. However, any new projects and any mid-term project reviews will be required to take into account the MPRS so that ultimately all programmes and projects involve only MPRS activities.

### **5.3 Expenditure Framework**

The expenditure framework consists of three main elements. Firstly, statutory and statehood expenditures. Secondly, the costing of the MPRS activities outlined in Chapter 4. Where possible, this costing has been done on the basis of targets and unit costs, so that planned expenditure reflects a realistic estimate of the resources needed to meet national objectives. These first two elements are combined to compare total costings to gross resource availability. Thirdly, the expenditure framework presents certain large-scale infrastructure development projects. These projects involve large investment by the private sector and/or external donors and are not included in the MPRS costings and are will not be in the Budget. Although they are not a priority for poverty reduction, their funding is important for the development of the nation.

#### ***5.3.1 Statutory and Statehood Expenditure***

Before the costing of MPRS activities can be compared to the resource envelope, two types of activities must be considered. Firstly, projected expenditures on statutory activities must be allocated a share of the resource envelope. These statutory activities are by definition ones that have to be funded and cannot be scaled down, and include items such as interest payments, debt repayments and pensions and gratuities.

Secondly, a share of the resource envelope must be allocated to statehood activities. These 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. Examples include ensuring external security, supporting the President, conducting national public events and gathering and disseminating information to the nation. As with any other set of activities and resource allocation, the use of these resources must be as efficient and effective as possible, and there must be transparency and accountability. Equally importantly, 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 this Chapter. Any additional expenditure on these activities translates into reduced allocations to the MPRS activities. The MPRS is in part intended to clearly demonstrate these trade-offs, for example by demonstrating the impact that additional unplanned statehood expenditure has in terms of reduced expenditure on health and education activities.



Table 5.3 below presents a summary of statutory and statehood expenditures. Statutory expenditures will require around K11.5 billion in 2002/3 (accounting for 23.5 percent of total costings), decreasing to K11.2 billion in 2003/04, before increasing to K12.2 billion in 2004/05 (20.9 percent). Statehood activities have been allocated K3.2 billion in 2002/03 (6.5 percent of total costings), increasing to K3.5 billion in 2004/05 (6.0 percent).

*Table 5.3 Statutory and Statehood Expenditure*

	2002-3	2003-4	2004-5
<i>Million kwacha</i>			
Total costings	48,859.9	51,591.8	58,085.8
Statutory	11,483.3	11,186.1	12,157.9
<i>Of which Public Debt Charges</i>	9,468.6	9,017.1	9,817.7
Statehood	3,191.0	3,332.0	3,463.0
<i>As percent total costings</i>			
Statutory	23.5%	21.7%	20.9%
Statehood	6.5%	6.5%	6.0%

### 5.3.2 MPRS Costings

The MPRS gives a costed and prioritised description of the set of activities that are seen as those that will reduce poverty in Malawi. These activities were designed in large part through a bottom-up approach – the needs of the poor were defined first and strategies designed to help them reduce their poverty. These activities were then costed, where possible on the basis of unit costs applied to relevant targets<sup>47</sup>. These targets and costs were adjusted to ensure realism, especially as regards implementation capacity<sup>48</sup>. Once all activities were costed, the total cost of the MPRS activities was derived. The next stage was to reprioritise, rephrase and rescale the activities so that the total costings were in line with the total resources available. A summary of the resulting costings are shown in Tables 5.4 and 5.6, and a more detailed break-down by objective is produced in annex 2<sup>49</sup>.

These summaries of costings are not Budgetary allocations<sup>50</sup>, but an indication of how much certain groups of activities will cost. The costs are derived bottom-up rather than top-down. The total numbers for each Pillar were derived from costing the constituent activities and then rephrasing where possible as a result of capacity and resource constraints, rather than starting

<sup>47</sup> For example, in education the total teacher wage bill was derived by multiplying the required number of teachers in a particular year by the cost of paying each teacher in that year.

<sup>48</sup> For example, although it may be desirable to have a pupil:teacher ratio of 50, this is not possible given the capacity of teacher training institutions and the supply of educated potential recruits.

<sup>49</sup> The break-down of costings by strategy and activity is also available as a separate data source.

<sup>50</sup> Except in the case of Statehood Expenditures, which were not separately costed.

with a total allocation and splitting it between activities or ministries. Further, the costings refer to activities rather than to institutions. In the MPRS, the activities are the focus – the responsible institutions are secondary.

However, there are important similarities with the Budget that will help to ensure that the MPRS is translated into the Budget. Firstly, the MPRS costing is comprehensive, so that it covers all Government and development partner activities<sup>51</sup>. Similarly, the resource envelope contains all sources of funding, be they domestic taxation, donor grants, loans or HIPC resources. Secondly, the MPRS matrix outlines the responsible institution(s) for each activity, so that the costing of the activities can be easily translated into institutional allocations for comparison with the Budget.

*Table 5.4 MPRS Costing Summary by Pillar*

	2002-3	2003-4	2004-5
<i>Million Kwacha</i>			
Total MPRSP	34,185.61	37,073.63	42,464.92
Pillar 1	9,137.19	8,709.43	8,821.76
Pillar 2	16,322.15	19,009.89	22,885.48
Pillar 3	1,755.95	1,985.60	2,388.69
Pillar 4	5,470.10	5,375.94	5,895.25
Cross-Cutting	1,302.07	1,714.18	2,203.54
Implementation, Monitoring and Evaluation	198.16	278.59	270.20
<i>As % MPRSP costings</i>			
Pillar 1	26.7%	23.5%	20.8%
Pillar 2	47.7%	51.3%	53.9%
Pillar 3	5.1%	5.4%	5.6%
Pillar 4	16.0%	14.5%	13.9%
Cross-Cutting	3.8%	4.6%	5.2%
Implementation, Monitoring and Evaluation	0.6%	0.8%	0.6%

### **5.3.3 Large scale Infrastructure Development**

As mentioned above, a number of large-scale infrastructure development projects have been treated separately, since they are generally funded by development partners and have high, lumpy costs. Whilst these projects are not priorities for poverty reduction, they are important for the development of Malawi. They will not be financed by Government, which will concentrate its resources on the MPRS activities. However, Government will actively seek private sector investors and international development partners to fund these projects.

These projects fall under three main categories: telecommunications, electrification and roads. For all three, smaller scale and more poverty focussed activities are included in the MPRS. The main telecommunications project covered here is the expansion of rural telecommunications (expected to be largely funded by the private sector). In the electricity sector, the projects include the interconnection of electricity grid systems with Mozambique, the rehabilitation of existing transmission and distribution power systems and the expansion of main grid electricity supply capacity. Finally, in roads, the projects include the reconstruction and expansion of the core road network, including the Karonga-Chitipa road. More details of these can be found in Annex 3.

## 5.4 Resource Gap

In order to derive the resource gap, the gross resource envelope in Table 5.2 is compared to the costings of Statutory and Statehood activities contained in Table 5.3 and the MPRS costings contained in Table 5.4. As shown in Table 5.5, the resulting resource gap is K3.9 billion in 2002-3, K3.1 billion in 2003-4, and K2.5 billion in 2004-5.

*Table 5.5 Resource Gap (Millions of Malawi Kwacha)*

	2002/3	2003/4	2004/5
Gross resource envelope	44,936	48,528	55,617
Statutory & Statehood	14,674	14,518	15,621
Total MPRS costings	34,186	37,074	42,465
Resource gap	3,924	3,064	2,469

This resource gap may not require closing, since many of the activities included in the MPRS costing are already funded by donors and other development partners but are not counted as part of the resource envelope. In order to define a more accurate resource envelope, Government will undertake a survey on ongoing projects and future commitments in order to ascertain the extent to which MPRS activities are already funded. Once this exercise is completed, a further round of reprioritisation, rephasing and rescaling will be undertaken to ensure that the costings are brought into line with the resource envelope. Any remaining resource gap will be filled through resource mobilisation efforts.

Finally, Table 5.6 presents a more detailed summary of costings within each pillar, at the goal and sub-goal level (reflecting the headings and sub-headings in Chapter 4). The costings

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<sup>51</sup> Apart from Statehood, Statutory and some largescale infrastructure development projects, which are treated explicitly elsewhere in this section.

reflect the MPRS priorities, with K7.3 billion allocated to basic education, K4.6 billion to essential healthcare, K1.6 billion to safety nets, and K2.6 billion to supporting agricultural livelihoods in 2002/03. The further details of the costing and resulting expenditure allocations can be found in annex 2 and the separate costing data source, together with a breakdown of costs into recurrent and development expenditures.

*Table 5.6 Detailed Costings by Goal and Sub-Goal (Millions of Malawi Kwacha)*

	2002-3	2003-4	2004-5
Pillar 1 - Sustainable Pro-Poor Growth	9,137.19	8,709.43	8,821.76
Goal 1.1 - Sources of pro-poor growth	4,264.90	4,263.37	4,246.33
Sub goal 1.1.1 - Increasing agricultural incomes	2,715.28	2,740.47	2,722.16
Sub-Goal 1.1.2 - Natural Resources	726.20	799.45	841.92
Sub-Goal 1.1.3 - Develop MSMEs	364.75	311.30	299.90
Sub-Goal 1.1.4 - Manufacturing and Agro-Processing	183.01	273.00	299.00
Sub-Goal 1.1.5 – Tourism	235.51	113.00	63.00
Sub-Goal 1.1.6 - Small Scale Mining	40.15	26.15	20.35
Goal 1.2 - Creating an Enabling Environment for Growth	4,872.29	4,446.06	4,575.43
Sub-Goal 1.2.1 - Macroeconomic Stability	-	-	-
Sub-Goal 1.2.2 - Credit and Micro-Finance	124.00	60.00	60.00
Sub-Goal 1.2.3 - Rural Infrastructure	3,496.25	2,980.45	3,166.29
Sub-Goal 1.2.4 - Other Enabling Infrastructure	410.52	314.09	372.47
Sub-Goal 1.2.5 - Domestic and external trade	189.69	379.93	191.95
Sub-Goal 1.2.6 – Taxation	651.83	711.60	784.72
	-	-	-
Pillar 2: Human Capital Development	16,322.15	19,009.89	22,885.48
Goal 2.1 Improving quality and access to education	10,354.84	12,502.68	15,556.68
Sub-goal 2.1.1 - Basic education	7,216.04	8,746.05	10,492.89
Sub-Goal 2.1.2 - Secondary School education	2,298.89	2,909.16	4,185.68
Sub-Goal 2.1.3 - Higher Education	678.67	678.67	678.67
Sub-Goal 2.1.4 - MANEB	131.00	131.00	131.00
Sub-Goal 2.1.5 - MIE	30.24	37.81	68.45
Goal 2.2 Better Technical, Vocational and Entrepreneurial Education and Training	532.40	530.12	591.39
Goal 2.3 Improved Health Status	5,321.55	5,837.03	6,562.41
Sub-Goal 2.3.1 - Preventative Healthcare	-	-	-
Sub-Goal 2.3.2 - Essential Healthcare	4,937.48	5,430.00	6,132.00
Sub-Goal 2.3.3 - Tertiary Healthcare	384.07	407.03	430.41
Goal 2.4 - To prevent and control Protein, Energy, Malnutrition and micronutrient deficiencies	113.36	140.06	175.00
	-	-	-
Pillar 3 - Improving the Quality of Life for the Most Vulnerable	1,755.95	1,985.60	2,388.69
Goal 3.1 - Safety Nets	1,599.98	1,815.33	2,202.69
Sub-Goal 3.1.1 - Productivity Enhancing Interventions	997.75	1,118.41	1,271.73
Sub-Goal 3.1.2 - Welfare Support Interventions	602.23	696.92	930.96
Goal 3.2 - Improving disaster management	155.98	170.27	186.00
	-	-	-
Pillar 4 - Governance	5,470.10	5,375.94	5,895.25
Goal 4.1 - Political Will and Mindset	2.00	5.00	8.00
Goal 4.2 - Improved safety, security and access to justice	3,324.62	3,684.56	4,193.81

Goal 4.3 - Ensuring responsive and effective public institutions	2,143.47	1,686.37	1,693.44
Sub-goal 4.3.1 - Improved Public Expenditure Management	428.75	353.61	320.98
Sub-Goal 4.3.2 - Public Service Reform	173.26	164.80	175.82
Sub-Goal 4.3.3 - Corruption and Fraud	111.21	118.46	126.51
Sub-Goal 4.3.4 - Decentralisation	811.18	420.69	425.49
Sub-Goal 4.3.5 - Democratisation	495.93	509.43	524.28
Sub-Goal 4.3.6 - Human Rights	123.15	119.38	120.36
	-	-	-
5 - Cross cutting	1,302.07	1,714.18	2,203.54
Goal 5.1 Ensure national response to the HIV/AIDS pandemic	289.75	320.45	346.23
Goal 5.2 Reduce gender inequalities	72.62	78.92	65.11
Goal 5.3 Ensure environmental sustainability	294.00	334.00	372.00
Goal 5.4 - Create a Science and Technology driven economy	645.70	980.80	1,420.20
	-	-	-
Monitoring and Evaluation of MPRS	198.16	278.59	270.20
Goal: Ensure implementation of the MPRS	198.16	278.59	270.20



## Chapter 6 – 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. Furthermore, many of the specific activities within the strategy will be the responsibility of Government, at both national and local levels. In implementing activities within the MPRS, Government will use existing national mechanisms as well as emerging district level mechanisms. At a national level, Government MPRS activities will be implemented through the line Ministries and the Budget, co-ordinated by central Government Ministries - in particular, the Ministry of Finance and Economic Planning, the Office of the President and Cabinet, and the National Economic Council. However, in the context of the on-going decentralisation process, the activities in the MPRS will increasingly be implemented at a district level, through the District Assemblies rather than central Government. Furthermore, a number of MPRS activities will be implemented by Non-Governmental Organisations (NGOs) and communities, where capacities exist.

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. Thus, the issues of Public Expenditure Management and strengthening the MTEF covered under the fourth pillar of Governance, Political Will and Mindset are central to implementation.

In general, the MPRS will not lead to new and parallel systems for implementation, monitoring and evaluation. Instead, the emphasis will be on building capacity for and strengthening existing systems, including the inclusion of a broader range of stakeholders, including civil society and the media.

Crucial to the success of the MPRS is the need to implement **only** the MPRS. The Poverty Reduction Strategy outlined in this document has been designed to be comprehensive and has been costed so that it is in line with Government's overall resource envelope. It reflects a consensus on Malawi's priorities that has been built through a highly participatory process and reference to ongoing programmes. Hence, the omission of an activity from the MPRS does not mean it has been forgotten – it means that it is not considered a priority at this stage

and therefore should not be undertaken in current implementation period until it becomes a priority, if at all.

In terms of ongoing donor-funded projects, implementation of the MPRS will involve a transition phase. During this phase, ongoing donor funded projects will continue, with adjustments made where possible to ensure that the projects are in line with MPRS activities. However, all new projects will have to fit into the MPRS by implementing the activities as outlined in Chapter 4 and the matrix of action.

Where unforeseen circumstances arise (for example, natural disasters), it may be necessary to implement alternative activities. In such circumstances, Government will be transparent in clearly explaining the need for the alternative activities and more importantly, will explain which MPRS activities will be scaled down or dropped to create space for the alternative activity in terms of financial and human capacity. Where there are changes in priorities or less urgent circumstances, Government will continue implementing the MPRS activities until the next annual review process and subsequent Budget, when changes will be made on the basis of consensus.

A number of measures have been taken to ensure that this MPRS is implementation-friendly. Firstly, the MPRS has focussed on prioritisation. In the past, Government has failed to implement its plans and strategies because the activities were not prioritised in line with the limited availability of resources. Government has tried to do too much with too little resources and achieving too little because the resources were spread thinly across activities. Prioritisation involves making hard decisions on which activities to implement, and which to scale down or drop altogether. This is done in the context of comparing Government's available resources with the costs of implementing the priority activities, so that the strategy is realistic.

Secondly, the MPRS process focused on designing an action plan for the strategy (annex 2). The action plan and the activities within it will form the basis for the Budget. Implementation has been further assured by the emphasis on ownership and participation. The MPRS preparation process was designed to ensure that consensus on the strategy was built across Malawian society. Government, political parties, civil society, donors and private sector representatives, as stakeholders, were engaged in the process on an equal



footing. This was done to achieve broad ownership, generate commitment to the implementation of the MPRS and spark interest in the monitoring of the strategy.

In addition to the measures already outlined, there are two critical components of the implementation strategy: a thorough monitoring and evaluation system and high-level coordination supported by technical level committees.

## **6.1 The MPRS in context**

In the past, there has been no coherent institutional and management structure for the planning<sup>52</sup> of public expenditure and policy. Rather, there have been a variety of loosely coordinated donor-driven reform initiatives that have been half-implemented by a number of central government bodies and line ministries with little overall management or coordination. Initiatives such as the MTEF, SIPs and SWAps and Vision 2020 have been seen as separate, add-on activities rather than part of a coherent whole. The implementation of the MPRS and the success of the other initiatives depends on the definition and coordination of an integrated and coherent planning and budgeting system coordinated by the Ministry of Finance and Economic Planning, with the MPRS and the Budget at the core. This system must be clearly understood by all key stakeholders. The structure of the system is explained in Figure 6.1 below.

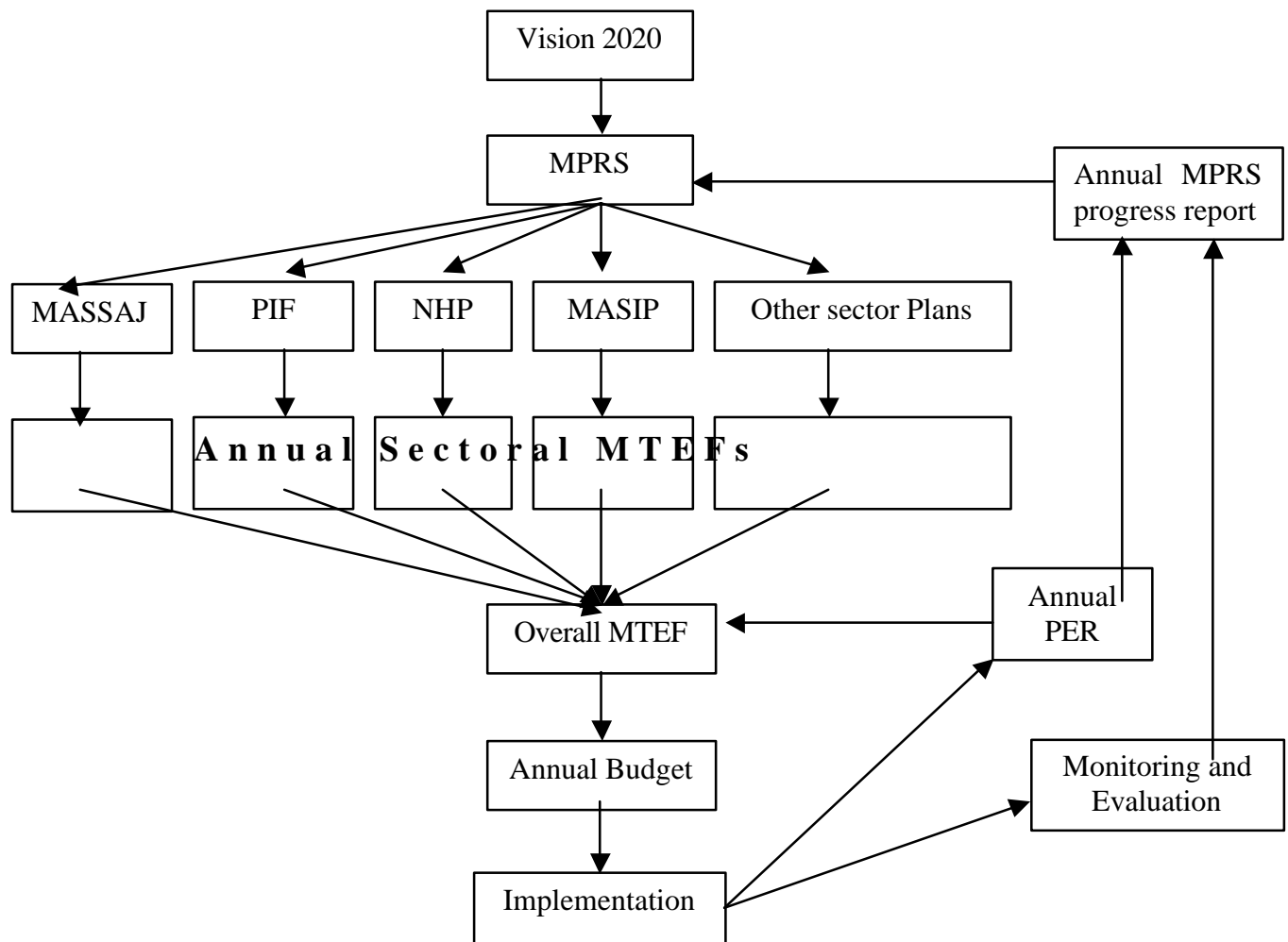
As demonstrated in Figure 6.1, the MPRS has its roots in country's overall vision as defined in Vision 2020. In effect, the MPRS translates the aspirations captured in Vision 2020 into more practically defined and prioritised strategies. These strategies are then further clarified into more detailed sector-specific plans either in the form of Sector Investment Programmes (SIPs) or Sector Wide Approaches (SWAps) or cross-sectoral programmes or projects, such as the National Safety Nets Strategy and the Environmental Support Programme (ESP). SIPs exist in education (the PIF) and health (the NHP). Others are being developed in agriculture (MASIP) and security and justice (MASSAJ). The MPRS, by giving a national overview of poverty reduction efforts, acts as a starting point for the sector-specific plans. It is essential that these plans are consistent with the MPRS – the plans should contain only strategies that are contained in the MPRS. In practice, the relationship between the MPRS and the plans

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<sup>52</sup> “Planning” does not just refer to development Budget activities as traditionally understood, but equally to the recurrent and development budget. Planning is understood here to mean the prioritisation of scarce resources (both financial and Government capacity) so as to achieve national objectives.

will go both ways – existing and future plans have and will be used in formulating the MPRS and revisions made to the plans incorporated into the MPRS during the annual review where agreed.

Figure 6.1.- Public Policy and Planning Framework



The next stage in the process is for the sector specific plans to be translated into three-year sectoral Medium Term Expenditure Frameworks (MTEFs) on an annual basis by the line ministries, with the first year of the MTEF<sup>53</sup> representing the annual budget. After revisions made during the budget hearings, these individual MTEFs and budgets are consolidated into the national MTEF and Budget as presented to Parliament. This process of defining national and sectoral strategies and translating these strategies into budgets will help to ensure that the annual budget reflects Government’s priorities and the opinions of those consulted throughout the process.

<sup>53</sup> The MTEF is a way of doing the Budget process, focussing on activities and outputs rather than inputs.

In order to ensure that the MPRS and ultimately the MTEF/Budget continue to reflect the best poverty reduction strategies, the public expenditure policy and planning framework described in figure 6.1 also includes two annual review vehicles – the MPRS review and the Public Expenditure Review. The PER will look in detail at expenditure trends and impacts in certain sectors, and will act as an input into the annual MPRS review, which will review progress with the whole MPRS and will revise the MPRS accordingly.

A major challenge to Government is to integrate decentralisation into this framework. Many districts are in the process of developing District Development Plans (DDPs), which are the district equivalent of the MPRSP. As with the Sectoral Plans, these DDPs will have a two-way relationship with the MPRSP – they will use the national strategy as a starting point and will be consistent with it, but subsequent reviews of the MPRSP will use input from the District planning process. The relationship will be further clarified during the first annual review process after consultations between the Ministry of Finance and Economic Planning, the Ministry of Local Government and the District Assemblies.

## **6.2 MPRS and the Budget**

At the core of the public expenditure planning and management system is the relationship between the MPRS and the Budget. The system is designed to ensure that the Budget is a detailed cost estimate of the implementation of MPRS priorities, rather than just a list of inputs by Government institutions.

The budget preparation and scrutiny stage of the budget process is central to the success of this system. The Ministry of Finance and Economic Planning will ensure that line Ministries use the MPRS when preparing their Budgets. More importantly, the Ministry of Finance and Economic Planning will scrutinise proposed budgets, in line with MPRS-based budget guidelines, during Budget hearings. Budget submissions that include activities outside the MPRS or exclude activities inside the MPRS will be rejected.

Equally importantly, the implementation of the MPRS depends on the implementation of the MPRS-based Budget. As the 2000 Public Expenditure Review and the MTEF Review clearly demonstrate, the implementation of the Budget is beset with problems. It is therefore crucial that the measures outlined in the Public Expenditure Management section of the fourth pillar

are fully implemented. In particular, Parliament will play a crucial role in ensuring the implementation of the Budget by providing on-going scrutiny of Budget implementation through its various committees, especially the Budget and Finance Committee and the Public Accounts Committee.

### 6.3 Monitoring and evaluation

Monitoring and evaluation of the MPRS implementation is key to the achievement of the goals of the MPRS. Monitoring of the implementation is to assist in the annual review of the MPRS and its comprehensive review after three years. Starting immediately after its launch, MPRS implementation is to be monitored using various indicators provided in the action plan for each component of the MPRS. The action plan has outlined a variety of monitoring indicators ranging from input, output, outcome to impact indicators. A brief definition of these various levels of indicators are in Box 6.1 below:

*Table 6.1 Monitoring indicators*

The various levels of monitoring indicators to be used during MPRS implementation are described below, with an example for each from the education sector:

1. **Input** – The use of resources by Government – these resources can be financial (expenditure), labour (personnel) and capital (equipment). The focus will largely be on financial monitoring on an activity basis. *e.g. resources spent on primary education*
2. **Outputs** – The quantity and quality of services and transfers provided by Government using the inputs. These are generally directly linked to the efficient and effective use of inputs. *e.g. pupil:teacher ratio, number of textbooks per pupil*
3. **Outcomes** – The quantity and quality of effect of the services provided to the recipients of Government services. These are related to input and output performance but may be affected by other factors. *e.g. enrolment ratios, examination pass rates.*
4. **Impact** – The effect on welfare indicators, like income, consumption, poverty headcount etc. These may be affected by inputs, outputs and outcomes, but with a significant time lag and are also affected by many external factors. *e.g. literacy rates, poverty headcount*

In some cases, agents monitoring process indicators (inputs and outputs) are different from those monitoring outcome and impact indicators. Likewise, in some cases one data collection method is used for more than one set of indicators, while in others, several methods are used to collect data for the monitoring of one type of indicators. The need for coordination, therefore, cannot be overemphasised.

Monitoring and evaluation of these various levels of indicators will take place both 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. For example, Government will introduce, on a trial basis, schemes to enable communities to monitor Government performance on all four levels. The rest of this chapter focuses on the national monitoring and evaluation system.

The formal monitoring and evaluation system for the MPRS will be based on existing systems, and strengthened by including a broader range of stakeholders and refining the mechanisms used. Apart from this formal internal system, the MPRS will encourage the development of other external systems, for example through civil society institutions. To this end, Government will ensure that monitoring information is widely disseminated, and that Government systems are transparent. In particular, civil society and the media will be used to disseminate information to all stakeholders.

### ***6.3.1 Monitoring Inputs and Outputs***

The first level of monitoring and evaluation will be the monitoring of Government inputs. This will be based on activities, as detailed in the MPRS action plan and translated into the budget. Expenditure tracking will start at the source of funding (the Ministry of Finance and Economic Planning) and then move all the way to the actual expenditure point. Expenditure tracking will involve identifying specific pro-poor programmes or line items in the Budget. These will be tagged and expenditure on those will be closely monitored.

Controlling officers are to be responsible for providing data on actual expenditure and output levels, on monthly basis during the request of monthly funding. This will be done through the existing reporting system, which will be adjusted to take into account the demands of MPRS reporting. The Ministry of Finance and Economic Planning will thus be responsible for collecting, aggregating and disseminating this information. The input and output monitoring is to have in-built incentive mechanisms. The Ministry of Finance and Economic Planning will continue to withhold funding for Ministries and Departments that fail to submit satisfactory monthly activity-based reports on input and output indicators.

To strengthen monitoring, beneficiary communities, with the help of civil society, are to be involved in the expenditure tracking and output monitoring on the basis of the budget and funded activities. Civil society organisations should, therefore, mount capacity building exercise for communities to get involved in input and output monitoring at the local level. Further, the existing government ministries' monitoring and evaluation systems will be enhanced to allow for consistent and quality tracking of expenditures.

Finally, the use of resources (in terms of inputs and outputs) will be monitored and evaluated using the annual Public Expenditure Review (PER). Annual PERs will focus on a different group of sectors each year, analysing expenditure trends, effectiveness and efficiency and making recommendations to be incorporated in the annual MPRS Review and the formulation of the Budget. The PER will be conducted by officials from the Ministry of Finance and Economic Planning together with officials from relevant line ministries and appropriate civil society organisations.

### **6.3.2 Monitoring Poverty Outcomes and Impacts**

Outcome and impact monitoring is to be assisted by the use of various sources of data. At a national level, a number of indicators are crucial for the monitoring of poverty outcome and impact indicators. The indicators and their sources of data are presented in Table 6.1 below.

*Table 6.2 Key Monitoring Indicators*

<b>Area/Sector</b>	<b>Indicator</b>	<b>Indicator Type</b>	<b>Sources of data</b>
Overall	Consumption	Impact	IHS, QUIM
	GDP per capita	Impact	National income statistics
	Nutrition status Morbidity Mortality Life expectancy	Outcome	DHS, IHS, administrative records, QUIM
	Composite Welfare Index	Outcome, Output and Impact	All sources
Agriculture	Food production Cash crop production Animal production	Outcome	Crop estimates, NSSA, PPI

Health	Access to potable water Access to sanitation Access to health services	Output	DHS, IHS , QUIM
	Total fertility rate HIV infection	Outcome	IHS Administrative records
Education	Literacy rate	Impact	IHS
	Net enrolment Education attainments	Outcome	Administrative data and HIS

The monitoring of outcome and impact indicators is to rely on complementary and supplementary sources of data. Administrative records and management information systems are critical sources for facility-based goods and services. These will feed into a district data bank to be managed by a professional statistician. Other more frequent data collection activities are to include Core Welfare Indicator Questionnaire (CWIQ) surveys, crop estimates, and food price surveys. The CWIQ, for example, is an integrated service survey that is to be conducted annually, which allows quick and cost effective measurement of outcomes. A more comprehensive Integrated Household Survey (IHS) is to be conducted once in five years. This is also true for Demographic and Health Surveys (DHS). The Qualitative Impact Monitoring Survey (QUIM) is a participatory beneficiary service and poverty assessments tool. It is to complement the quantitative surveys and is to be implemented once in three years.

A critical factor in outcome and impact monitoring is the quality of the administrative and management information systems. The current administrative data collection systems and their higher-level management information systems are plagued by quality problems. One such quality problem is the coverage of the data. In many cases, the forms used leave out important information. Another problem is the lack of capacity and incentives for those filling in the administrative records. As a first step, administrative data collection systems are to be assessed for their use in monitoring of the MPRS. Forms are to be redesigned to suit the requirements of MPRS. Secondly, adequate staffing with requisite qualifications and incentives are to be deployed in key sectors like education, health and agriculture. The assessment of these systems and quality control of all other monitoring activities are to be done under the framework of the MPRS monitoring system institutional set-up.

#### **6.4 Coordination of Implementation, Monitoring and Evaluation**

The Ministry of Finance and Economic Planning will co-ordinate the implementation of the MPRS where public expenditure is involved. In particular, a MPRS Unit will be created in the Ministry to drive the implementation of the MPRS across Government, and ensure that essential complementary reforms to the MTEF and Budget are made. In addition, the Unit will co-ordinate the Annual PER and work with the Secretariat of the MPRS Monitoring System to co-ordinate the annual MPRS Review process. Finally, the Unit will work with the Budget Division to coordinate all activities dealing with monitoring of inputs and output indicators. In particular, the Unit, in co-operation with the Budget Division will draw up guidelines for input and output monitoring by Ministries, District Assemblies and controlling officers. The Unit will also be responsible for workshops and meetings for all units and personnel involved in inputs and output monitoring, including civil society representatives, at most once in three months.

The National Statistical Office (NSO) is to be responsible for coordinating all outcome and impact monitoring activities across all sectors. Apart from conducting surveys or assisting in the design of surveys by other agents, NSO is to collect all district level data produced by the statistical units of district assemblies, and all sectoral data collected by the line ministries. These data from the districts and sectors need not be only outcome or impact indicators. NSO is to act as a databank for all indicator data from the district level. NSO is also to conduct preliminary analysis (aggregation, etc) of district-level data.

The National Economic Council is to be responsible for producing poverty-related analysis based on data from NSO, the Ministry of Finance and Economic Planning's input and output monitoring as well as the financial information system and other ad hoc surveys conducted within and outside the MPRS Monitoring System. Thus NEC is to be a focal point for finished and polished poverty statistics and analysis. NEC is to disseminate poverty statistics and information through media like internet, newsletters and newspaper articles and columns.

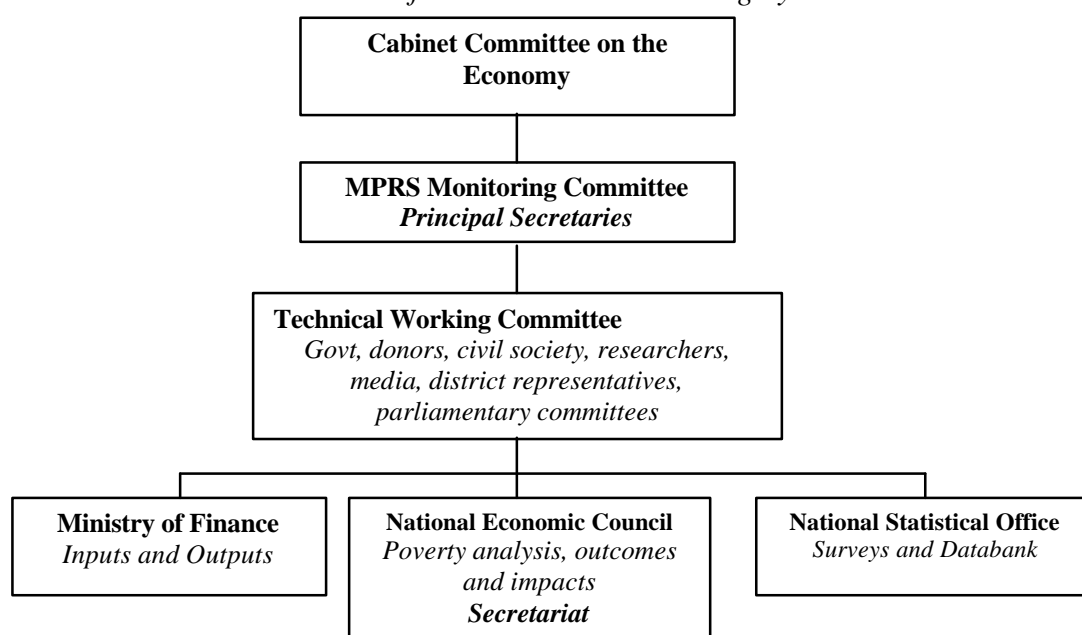
All MPRS monitoring and evaluation activities will be co-ordinated through a MPRS Monitoring System based on the existing Poverty Monitoring System (PMS). This MPRS Monitoring System will have four levels. Firstly, the Cabinet Committee on the Economy will assume overall control of the system. Beneath this will be a policy-making MPRS Monitoring Committee, consisting of Principal Secretaries from relevant Ministries, including



Finance and Economic Planning, National Economic Council, Agriculture and Irrigation, Education, Science and Technology, Health and Population, Transport and Public Works, Local Government, Gender, Youth and Community Services, Natural Resources and Environmental Affairs, the Accountant General, and the National Statistical Office.

The MPRS Monitoring Committee will be served by a Technical Working Committee (TWC) that will co-ordinate monitoring and evaluation efforts and provide analysis. The membership of the TWC will include officials from the Ministry of Finance and Economic Planning (the MPRS Unit and Budget Division), the National Economic Council (Poverty Analysis Section), National Statistical Office, other key ministries (in line with the membership of the MPRS Monitoring Committee), representatives from District Assemblies (one representative from the Malawi Association of Local Government Authorities – MALGA – and one representative of district assemblies from each region), representatives of relevant parliamentary committees, members of the donor community, researchers (including Centre for Social Research, Centre for Education Research and Training and the Agricultural Policy Research Unit), civil society groups (including CONGOMA, and one group for each Pillar), and a media representative. The Poverty Analysis Unit of the National Economic Council will serve as the Secretariat for this TWC. On the Government side, the TWC will be served by the Ministry of Finance and Economic Planning (MPRS Unit and Budget Division), which will provide information on input and output monitoring, the National Statistical Office, which will conduct surveys and maintain a databank drawn from line Ministries and District Assemblies, and the National Economic Council (Poverty Analysis Section), which will provide poverty analysis, particularly on outcome and impact indicators. This institutional framework is summarised in Figure 6.2 below:

Figure 6.2: Institutional Framework for the MPRS Monitoring System



Apart from this framework, all Cabinet Committees will be encouraged to monitor the performance of applicable sectors within the MPRSP. Likewise, various Parliamentary Committees will have to monitor expenditures and performance using any of the MPRS committees or other mechanisms as they see fit. Since the MPRSP will be translated into the Budget as Government’s statement of strategy, these committees will play a crucial role in ensuring implementation, monitoring and evaluation.

### 6.5 Capacity Needs for Implementation, Monitoring and Evaluation

All district assemblies are to establish statistics units responsible for data collection and processing, database management as well as report production. These units are to be staffed by qualified and trained personnel. To ensure data quality uniformity from all districts, the MPRS Monitoring Committee, through the Secretariat, is to mount training and orientation for staff of statistics units. Under the same framework, district staff will receive training from NSO on quantitative data collection (including sampling), entry, analysis and reporting, from NEC on qualitative data collection and analysis, and from the Ministry of Finance and Economic Planning (including the Accountant General’s Department) on input and output monitoring.

Of necessity, NEC is to develop capacity to conduct poverty analysis. The MPRS Monitoring Committee is also to draw on expertise of its members, mainly the research

centres. NSO is to designate or recruit specific officers to liaise with district level statistics units. The officers should be designated particular districts for maximum attention. These officers are to be in a stand alone section responsible for collecting district reports, maintaining districts database and producing databank abstracts for dissemination or use by NEC.

The Ministry of Finance and Economic Planning will continue to build capacity to monitor monthly allocations and expenditures vis-à-vis the MPRS within the Budget Division. In addition, the MPRS Unit will work closely with the Budget Division and NEC's monitoring and evaluation division. Again, line ministries are to have strong Monitoring and Evaluation sections to be collecting input (including expenditure) and output indicators and producing poverty monitoring reports. These should have formal and working links with the Ministry of Finance and Economic Planning and NEC.

Community participation in monitoring and evaluation of the MPRS is crucial for its success. Community Development Committees are to have their capacity built to assist them monitor community level activities. Civil society organisations are to be used in this process. The civil society organisations are to be free to join in the monitoring of the process independently as well as through the MPRS Monitoring System.

## **6.6 Review process**

As already indicated, the monitoring and evaluation system will assist in the review of MPRS. The MPRS is meant to be a living document. It is to be revised on a rolling basis to adapt to circumstances and reflect changing priorities. This is to be achieved through a two-tiered review process. Firstly, there is to be an annual review in January/February of each year, following the annual PER process. The first stage of this review is to analyse progress in implementing the MPRS and achieving the targets within it. This is to be done by the MPRS Monitoring Committee on the basis of the results of the input and output monitoring and evaluation. This document, together with a review of emerging issues, will be widely circulated.

The second stage of the review is to take the form of stakeholders' workshops. These workshops will have two interlinked roles: Firstly, as a national accountability forum for implementers to be held accountable to all stakeholders. In this way, the workshops will

supplement the on-going work of the Technical Working Committee on MPRS monitoring by allowing all stakeholders to participate in the assessment of the implementation of the MPRS. The second role will be to revise the MPRS in line with lessons learned from implementation, monitoring and evaluation, and to take into account emerging priorities where a consensus emerges during the discussions. The third stage of the review is to involve the dissemination of a report on the review process and the revised MPRS.

The annual reviews will be Malawi's central policy review process. As such, other existing or planned national level processes will either be integrated into the MPRS review process or will be cancelled. For example, sectoral review processes will provide input into the overall review process.

The annual reviews are to 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.