

Executive Summary

Poverty Analysis and Profile

Poverty in Malawi is widespread, deep and severe. According to the 1998 Integrated Household Survey¹, 65.3 percent of the population was poor, or roughly 6.3 million people. Within this figure, about 28.7 percent of the population were living 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 goods and services. Consumption was also more unequally distributed within urban areas where the Gini coefficient² was 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. In 1998, about 52 percent of the poor were female and females headed 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 for adults aged 25 years and above, and only 6.2 percent for women. The national gross enrolment ratio was estimated at 132 and the pupil to qualified teacher ratio was 114, leading to overcrowding in schools and lower quality of education.

In terms of health indicators, 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 births³, a rise from 620 in 1990.

The 1998 Integrated Household Survey demonstrated that subsistence agriculture remained the main source of income for the rural poor, accounting for 63.7 percent of income. Notably, income from agricultural sales was *not* the most important source of cash income in rural areas. The major source of *cash income* for Malawian households was wage income, which contributed about 13.0 percent of income for the rural poor. However, there was limited participation in the cash economy by the poor.

Lessons from Past Experience

Since 1981, Malawi has implemented a series of policy interventions through World Bank and IMF backed Structural Adjustment Programmes (SAPs) in order to address structural weaknesses and adjust the economy to attain sustainable growth. From 1994, these interventions have been complemented by the Poverty Alleviation

¹ Government of Malawi (2000) *Profile of Poverty in Malawi: Poverty Analysis of the Integrated Household Survey 1998*

² Gini coefficient is a measure of income inequality within a given population.

³ Malawi Government (2000) *Malawi Demographic and Health Survey 2000*

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. Inconsistent implementation of the SAPs led to only short-lived economic recovery and failed to create sustainable broad based growth. Further, many of the high costs of adjustment were borne by the poor. Despite some successes, the PAP suffered from the absence of a well-articulated action plan to ensure a holistic approach to implementation. In particular, there have been inadequate linkages to the Budget, little prioritisation and a lack of target setting.

The Malawi Poverty Reduction Strategy

To achieve meaningful poverty reduction and learn lessons from this past experience, 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 generating employment. The most fundamental challenge for the pillar is to offer the poor an opportunity to generate their own incomes, whilst providing the medium and large-scale private sector an enabling environment for investment. 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 macroeconomic stability, access to credit, and improved rural infrastructure. Efforts will also be made to improve enabling infrastructure, strengthen trade and investment arrangements and review taxation policy. Macroeconomic stability is a prerequisite for private sector development and economic growth. Access to affordable credit is one of the most important factors affecting 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 other enabling 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 rationalised and corporate tax will also be reviewed.

Human Capital Development

The MPRS 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, to incorporate 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, which will provide the capacity necessary to implement the MPRS and ensure sustainable national development. 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 (TEVET) 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, and on improving the quality and relevance of all TEVET activities. 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, and decentralising management and administrative responsibilities.

Malnutrition is both a cause and a consequence of poverty. In order to improve the nutritional status of Malawians, the MPRS includes strategies aimed at 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 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. Firstly, 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 poor by employing them to create and maintain 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 affected 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 by 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. Instead, efforts should be made to disseminate 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. 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 decentralisation.

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, eradicate gender based violence, and enhance 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. Strategies include strengthening the legal and institutional framework to encourage local communities to control and sustainably manage natural resources, 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.

Macroeconomic 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 savings and investment. High interest rates make credit inaccessible to the poor and further discourage investment. In order to rectify this, Government will adopt strong fiscal, monetary and external policies. In terms of fiscal policy, further efforts will be made to improve public expenditure management, strengthen the independence of the Reserve Bank of Malawi (RBM) and accelerate the reform of the parastatal sector.

Macroeconomic projections suggest that the resource envelope consistent with a stable macro-economic environment will be K41.3 billion during 2002/3, K44.0 billion in 2003/4 and K50.3 billion in 2004/5. These projected resource envelopes are deliberately based on realistic assumptions based on past experience and technical knowledge.

This resource envelope is then linked to the costs associated with the MPRS. Three types of costs are presented: statutory, statehood and MPRS. Statutory activities are by definition those 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. Any extra-budgetary expenditure on statehood activities automatically necessitates a reduction in MPRS expenditure. MPRS costings are the core of the costing framework and are based on the estimated cost of each individual MPRS activity to be implemented by or through Government. Where possible, unit cost analysis was used to link output targets with costs.

MPRS Implementation, Monitoring and Evaluation

The implementation of the MPRS will involve all stakeholders⁴. However, the responsibility for overall co-ordination of implementation will rest with Government, and in particular, the Ministry of Finance and Economic Planning. 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. 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. This system will involve all interested stakeholders at each of these

⁴ The general objectives and strategies contained in the MPRS apply to all stakeholders. However, the costing of detailed activities is limited to those activities implemented by or through Government.

levels, with overall co-ordination provided by the National Economic Council. District-level monitoring and evaluation systems are currently being designed and will be reviewed and fully integrated after the first annual review process.

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.

