MALAWI : DEVELOPMENT CONTEXT

Sustained economic growth has been very difficult to achieve in Malawi during the1990's, (Tables1and 2). The economic performance of the country during the period 1990-2003 was largely influenced by both political developments and climatic changes. This period was characterised by cycles of droughts, deterioration in the terms of trade and slippages in microeconomic management, as well as intermittent disruptions in donor inflows. The economy was disrupted between 1992 and 1995 when non-humanitarian donor aid to Malawi was suspended in order to force the Government to accept political liberalisation. From 1994-2003, the annual average growth rate was 3 per cent. This growth was mainly attributed to strong agricultural performance, combined with a booming economic activity in the distribution sector. Meaningful poverty reduction is expected to take place when there is a sustained high economic growth rate of over 5 percent, but GDP growth rate in the early 1990s followed a very unpredictable pattern.

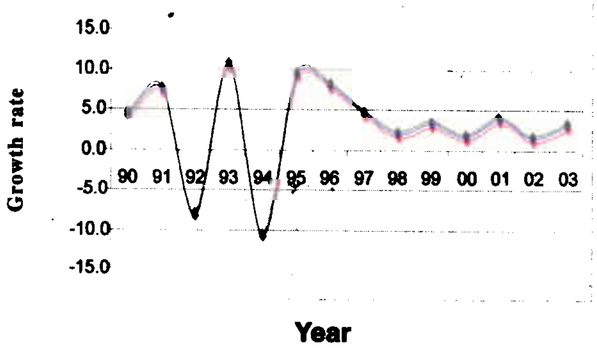
Table 1: Basic Macroeconomic Indicators

Indicator	year			
	1994	2000	2002	2003*
GDP growth rate	-10.4	2.0	1.8	3.4
Inflation rate (average, %)	34.7	29.6	14.8	10.0
Domestic savings/GDP (%)	-3	3.4	-3.5	-0.4
Investment/GDP (%)	29.1	13.6	10.5	9.9
Interest rate (lending rate, %)	31	53.6	44.1	46
Current account deficit/GDP(incl. grants, %)	-13.4	-2.0	-12.8	-
Exchange rate (MK/US$, averag	8.7	59.5	76.7	-
External debt/GDP (%)	150.6	197.6	92.3	135.4

Note: * refers to preliminary outturn for 2003.

Periods of high economic growth from depressed years were followed by periods of negative growth up to 1994, mainly due to droughts. Between 1995 and 2002, GDP growth rate declined (Table1 and Figure1). The fiscal position was not healthy either, especially when grants were excluded. The fiscal imbalances are generally mirrored in the current account balance, in the external sector, whose consistent deficits have been funded by grants and loans.

Figure 1: GDP Growth Rate



The financing of the fiscal imbalances, as well as deterioration of the Terms of Trade, have been translated into persistent depreciation of the Malawi Kwacha (Table 1 and Figure 2). Consequently, the country has experienced high inflation rates, as well as, unstable exchange rates, (Figure 2). One of the few positive aspects, during the period 1995/96, was an increased spending on social services, especially in education.

Social services consumed an average of 31 percent of the total public expenditure while the share of the education sector, during the period 1994/95-1999/2000, was approximately 14 percent of the total budget.

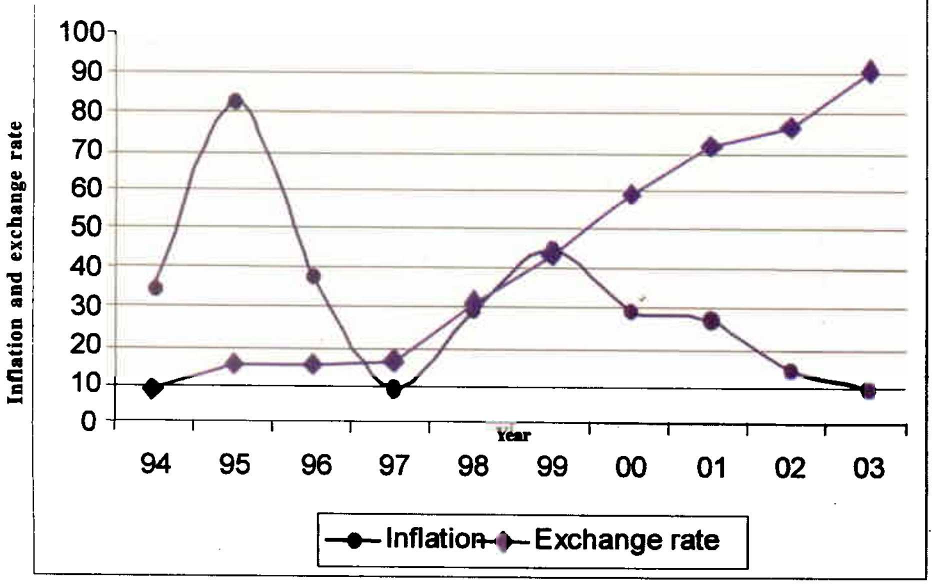
Table 2: Key Development Indicators

Indicator	Value	Year
GDP Per Capita (US$)	195.3	2003
Population in millions	9.99	1998
Population growth rate (1998 Census in %)	1.9	1998
Population below poverty line (%)	65.3	1998
Pop. without food 4-6 months before harvest (%)	50	2000
Rural Pop. with chronic food insecurity (%)	55	2000
Pop. unable to satisfy their basic calorific needs (%)	40	2000
Adult literacy (%)	59.2	1999
Adult literacy - male (%)	73.8	1999
Adult literacy - female (%)	45.3	1999
Combined primary, secondary and tertiary GER (%)	73	1999
Primary Gross Enrolment Rate (%)	132	1999
Primary Net Enrolment Rate (%)	78	1999
Life Expectancy at birth (years)	39	2000
Pop expected to live up to 40 years (% of cohort)	50.4	95-2000
Population with access to essential drugs (%)	44	1999
Population with access to safe water (%)	57	1999
Population with access to sanitation facilities (%)	77	1999
Proportion of under-five children stunted (%)	48	95-2000
Infant mortality rate (per 1,000 live births)	104	2000
Under-5 mortality rate (per 1,000 live births)	189	2000
Maternal mortality rate (per 100,000 live births)	1120	2000
HIV/AIDS prevalence rate (% of the 15-49 age group)	14.4	2003

Source: UNDP, NSO, World Bank, UN, GoM.

Only a few indicators registered some progress,such as the HDI, infant and under-five mortality rates, combined school enrolment and adult literacy, respectively. On the other hand, retrogression was registered with regard to some indicators, particularly the maternal mortality rate, which nearly doubled in the past few years.

Figure 2: Inflation and Exchange Rates



Relevant Planning Frameworks and Strategies

The period 1990 to 2000 was influenced by a number of policy frameworks, which included the Second Statement of Development Policies (DEVPOL), which ran from 1987 to 1996. The second DEVPOL was supported, in the 1990s, by Policy Framework Papers (PFPs), the National Programme of Action for the Survival, Protection and Development of Children (NPASPD), which was produced in response to international agreements and conventions such as Education for All (EFA) and the Convention for the Rights of the Child (CRC). After the change of Government in 1994, the present Government launched the Poverty Alleviation Programme (PAP). Sectoral policy frameworks and other planning tools, such as Medium Term Expenditure Framework (MTEF), Sector Investment Progarammes (SIPs) and Sector Wide Approach (SWA), were developed in support of PAP. Later in 1996, the Government embarked on a long-term perspective study to capture the aspirations of the people and define the future of the country. The study culminated in the Malawi Vision 2020, which was launched in 1998. However, both the PAP and the Malawi Vision 2020 lacked effective implementation mechanisms.

In order to address this acknowledged shortcoming, Government took advantage of the Highly Indebted Poor Countries-led (HIPC) process to prepare MPRSP as a first step in the operationalisation of the Malawi Vision 2020. The MDGs will be implemented and monitored in the context of MPRSP.

Frameworks and Strategies for Pro-poor Growth in the 1990s

The key message in the policy frameworks in the 1990s stressed the need for growth with equity. This was to be achieved through greater involvement of the private sector, particularly in agriculture, micro and small enterprises development, and the informal sector. Specific measures were undertaken to create an enabling environment to facilitate this growth strategy. Key measures taken included trade liberalisation, tax reform, privatisation of parastatals, review and repeal of out-of-date legislation, administrative procedures and processes, creation of institutions to support the private sector, and clearing up the backlog of infrastructure maintenance. An active programme of new investments in economic infrastructure complimented the action taken.