MALAWI'S STORY:

Improved economic conditions in Malawi: Progress from a low base

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Progress from a low base

Key messages

1. Between 2004 and 2009, Malawi achieved economic growth rates well above the sub-Saharan African average. Over the same period, poverty and inequality fell and child health improved.

2. Improved conditions are a result of improved macroeconomic stability and of the targeting and tailoring of key policies to sectors and areas where the poor work and live. Controversially, Malawi's government chose an input subsidy programme to stimulate agricultural growth, the results of which have generally been positive.

3. A growing agricultural sector both contributes to and benefits from macroeconomic stabilisation. In Malawi, agricultural growth has contributed significantly to economy-wide growth and the stabilisation of inflation. Meanwhile, improved macroeconomic stability has attracted private sector investment and donor assistance to the country.

"Malawi ranks among the top 20 performers on several MDG indicators in terms of both absolute and relative progress."

Summary

Malawi is a small and landlocked sub-Saharan African country, with a population of 13 million. Agriculture contributes about 35% to the country's gross domestic product (GDP)[1] and employs 85% of its workforce.[2] The national poverty rate in 2009 was 39%, with significant regional and rural-urban variation: about 14% of the population in urban areas lives in poverty compared with 43% in rural areas. Rural populations depend on agriculture for their livelihoods, mostly maize.

Between 2004 and 2009, Malawi averaged 7% annual GDP growth, well above the sub-Saharan African average. This has been paralleled by significant poverty reduction and a notable drop in inequality. Progress on human development is also evident: the country ranks among the top 20 performers on several Millennium Development Goal (MDG) indicators in terms of both absolute and relative progress.[3] However, the reality is more complicated than the macro indicators reflect.

Malawi is essentially a story of progress in economic conditions since 2004, thanks to macroeconomic stability, an effective input subsidy programme, improved policy coherence and strengthened national ownership of development policy. The UN Secretary-General has lauded Malawi for its progress: 'In a few short years, Malawi has come from famine to feast; from food deficit to surplus; from food-importing country to food exporting country.' [4]

What has been achieved?

Since independence, Malawi's experience with development can be broadly categorised into three periods: the first, which lasted from 1964 to 1994, was one of uneven and inequitable growth; the second, from 1994 to 2004, is broadly considered a lost decade, as macroeconomic figures corroborate. Malawi's claim to progress in economic conditions thus relates to the most recent period: 2004 to date.

Economic growth

Malawi has sustained seven years of uninterrupted economic growth. Between 2004 and 2009, the annual GDP growth rate was 7%, reaching almost 8% in 2009. This was well above the sub-Saharan African average of 5% over the same period and the Latin American average of 4%. Since 2004, Malawi's GDP has increased over 40%, from $1.8 billion to $2.5 billion (2000 US$ prices).[5] Controlling for population growth, GDP per capita has risen by almost a third, from $130 to $166 (constant 2000 US$).[6] The country has also managed to sustain growth amid global recession, thanks to 'generally sound macroeconomic policies'.[7]

More equal income distribution

More equitable distribution of income began in the early 1990s:[8] the Gini coefficient fell from 62 to 39 between 1993 and 2004.[9] The income share held by the poorest 20% of the population increased from 4.8% in 1998 to 7.0% in 2004, and that of the richest 20% decreased from 56.0% to 46.5%. This indicates a redistribution of wealth to middle and poorer quintiles.[10]

Falling income poverty

Poverty rates fell from 52% to 39% between 2004 and 2009, according to national statistics. Poverty reduction has been fastest in urban areas and in the north of the country, as Table 1 shows.

1 AfDB and OECD (2010) 'Malawi. African Economic Outlook.' Paris: OECD.
2 GoM (2010) 'A Medium-Term Plan for the Farm Input Subsidy Programme 2011-2016.' Lilongwe: GoM.
3 ODI (2010) 'Millennium Development Goals Report Card: Measuring Progress Across Countries Report.' London: ODI.
4 www.unmultimedia.org/radio/english/detail/96331.html.
5 WDI.
6 WDI.
7 Randall, R., Matlanyane, A., Yartey, C.A. and Thornton, J. (2010) 'Malawi's New IMF Loan Boosts Prospects for Sustained Growth.' *IMF Survey Magazine: Countries & Regions*.
8 Tsoka, M.G., Nyirenda, N., Haves, E. and Chulu, O. (2002) 'Millennium Development Goals: Malawi 2002 Report.' Lilongwe: GoM.
9 www.wider.unu.edu/research/Database/en_GB/wiid/. More recent data on Gini coefficients are not available.
10 http://data.worldbank.org/. More recent data could not be found. Respondents indicate that the targeting of FISP and spill-over effects have contributed to reductions in inequality.

Table 1: Trends in growth and poverty across Malawi, 2004-2009[11]

	2004	2005	2006	2007	2008	2009
Economic growth						
Annual GDP growth (%)	5.7	2.6	8.2	8.6	9.7	7.7
Poverty (%)						
Malawi	52	50	45	40	40	39
Urban	25	24	25	11	13	14
Rural	x	53	47	44	44	43
Northern region	56	51	46	46	35	31
Central region	47	46	40	36	40	41
Southern region	64	60	55	51	51	51

Human development

Between 1990 and 2008, the under-five mortality rate declined steadily and equitably, from 225 to 100 deaths per 1,000 live births.[12] Household survey data show an equitable reduction from 238 to 121 between 1992 and 2006, as Figure 1 shows.[13] Stunting and wasting of under-fives fell from 6.4% and 6.8% in 2005, respectively, to 4.9% and 5.8% in 2007.[14]

The MDG Database shows a notable reduction in the proportion of 15-49 year olds living with HIV, from over 13% in 2001 to under 11% in 2007. Tuberculosis is also coming under control. Meanwhile, the number of children under five sleeping under an insecticide-treated bed net rose from 3% in 2000 to 25% in 2006.

Challenges remain in maternal health and in achieving universal primary education and improving education quality.

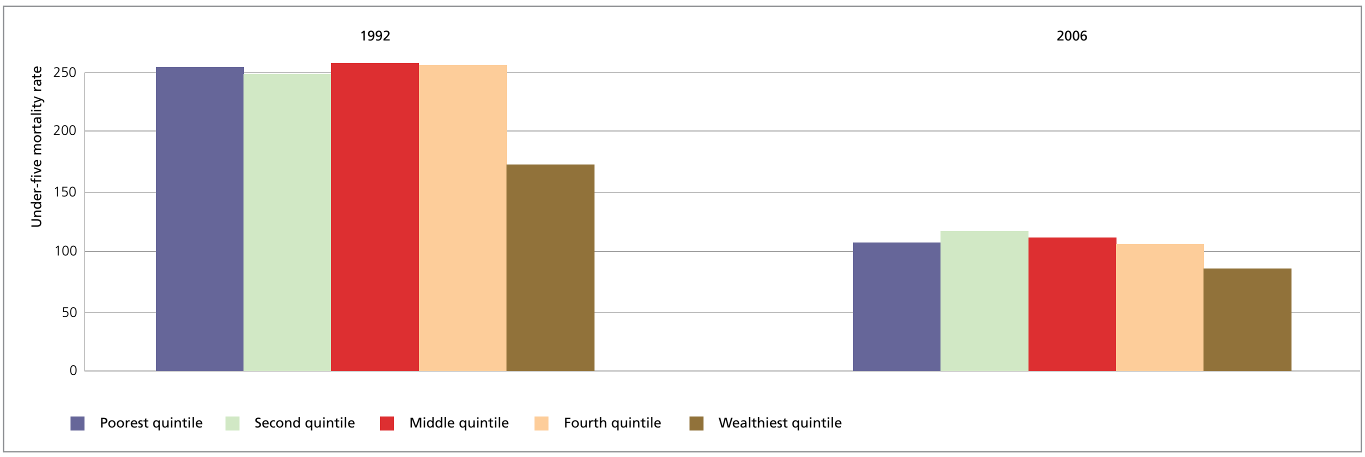
What has driven change?

Effective and appropriate agricultural input subsidies

Malawi relies on agriculture for its economic development. In addition, a great majority of the 84% of Malawians living in rural areas depend on the sector for their well-being. Of these, 97% grow maize, and more than half of households grow no other crop.[16] The country's large-scale input subsidy programme provides subsidised fertiliser and seed to farmers, which has increased maize production, farm incomes and household food security.

The success of the Fertiliser Input Subsidies Programme (FISP) lies in its design and in the broader context. Key factors include:

Figure 1: Under-five mortality rate in Malawi by quintile, 1992-2006[15]



11 NSO 2009 data (2004 based on IHS2 data, 2005-2009 based on WMS surveys). Economic growth: WDI (accessed October 2010).
12 MDG Database.
13 DHS and MICS data.
14 Waage, J. et al. (2010) 'The Millennium Development Goals: A Cross-Sectoral Analysis and Principles for Goal Setting after 2015.' *The Lancet* 376(9745): 991-1023.
15 Authors' calculations based on DHS and MICS data.
16 World Bank (2009) 'Seizing Opportunities for Growth through Regional Integration and Trade.' Malawi Country Economic Memorandum. Washington, DC: World Bank.

“Malawi has made significant positive strides in economic conditions in recent years.”

- High coverage and effective targeting through the use of vouchers;
- A large input package of fertiliser and seed;
- Strong government backing, as there is political mileage in increased food security; and
- Favourable rainfall since the programme’s inception.

The FISP is not without its critics, who underline issues relating to potential regressivity, agro-ecological and fiscal unsustainability, market distortion, leakages and high opportunity costs. Moreover, some suggest that, while progress in economic conditions in Malawi is undeniable, the scale reported in national figures is inflated. These assessments reflect the controversial nature of the FISP among development practitioners, but also the inherent methodological challenges in measuring agricultural production in a largely smallholder farming sector.

Macroeconomic stability: Fiscal balance and reduced interest and inflation rates

Between 2004 and 2010, national policy that focused on macroeconomic stability, low interest rates and the control of inflation both contributed to and benefited from increased agricultural production.

For example, Malawi’s inflation rate, which reached levels above 70% in the 1990s and early 2000s, fell to 7% per year at the end of July 2010.[17] As a large part of the Consumer Price Index basket is food (58%), and as maize is a large component of this, increased supply in recent years has helped control inflation and contributed to overall stability. It has also been one of the outcomes of increased macroeconomic stability in the country.

National ownership and coherence of development policy

For a long time after independence, Malawi’s national development planning was disjointed and donor-driven. Recently, though, policy coherence and national ownership have improved, and the Malawian government has become more assertive in terms of its own development programming.

This has contributed to progress in economic conditions in a number ways. For example, it has reduced the inefficiencies that resulted from disjointed policymaking, it has ensured that development policy is coherent and it has enabled the government to prioritise allocations according to nationally agreed objectives.

Lessons learnt

Malawi has made significant positive strides in economic conditions in recent years. However, progress has been underpinned by a set of precarious factors. This raises valid concerns about sustainability but also illustrates that development is neither linear nor perfect. Malawi thus provides a more realistic picture of development progress: three steps forward, two steps backward, one step sideways. If the country addresses the fundamental macroeconomic and structural challenges facing it, though, it should continue to benefit from equitable improvements in its economic conditions. Lessons learnt include the following:

- Targeting and sequencing development policy in the sectors and areas where poor people work and live contributes to poverty reduction, improved food security and equity. Malawi’s government chose an input subsidy programme. Different countries may find that other policies are more sustainable and efficient in terms of achieving growth in agriculture, depending on their political, economic, environmental and social context.
- Tailoring the design and implementation of the subsidies programme to the target group’s needs has been essential to its effectiveness. Good targeting results in controlled costs, less displacement and more effective use of subsidies, which together enable increased land and labour productivity.[18] Political backing has also been critical to the success of the FISP.
- Macroeconomic stability contributes to and benefits from agricultural growth. In Malawi, improvements in agricultural production have contributed significantly to economic growth and to the control of inflation. Inversely, a stabilised macro-economy has stimulated private sector investment and donor assistance, enabling increased investment in agriculture.

17 National Statistical Office.
18 Dorward, A. and Chirwa, E. (2011) ‘The Malawi Agricultural Input Subsidy Programme: 2005-6 to 2008-9.’ *International Journal of Agricultural Sustainability* 9(1): forthcoming.

- Historically, Malawi's development planning has been disjointed and donor-driven. Increased national ownership has enabled policymakers to adhere to a more coherent and long-term policy agenda for the country, which has contributed to recent progress in economic conditions.
- Macroeconomic, structural and political-economic challenges remain in Malawi. Although the government is trying to manage these, they have the potential to undermine the sustainability of recent progress. Macro-level challenges include foreign exchange constraints and the country's over-reliance on agriculture. Structural challenges include a shortage of skilled labour, a weak enabling environment for private sector development, thin maize markets and small landholdings. Patronage politics are also an issue.

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