



# Development Progress



## Progress in economic conditions:

### A recent example of progress in Malawi

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# Table of contents

	<b>List of abbreviations</b>	<b>2</b>
<b>1.</b>	<b>Introduction</b>	<b>4</b>
<b>2.</b>	<b>Context</b>	<b>5</b>
2.1	Country background	5
2.2	Political economic context	6
2.3	Malawi's economy: sectors and exports	7
2.4	Poverty context	8
<b>3.</b>	<b>What has been achieved</b>	<b>10</b>
3.1	Defining progress in economic conditions	10
3.2	Progress in economic conditions	10
3.3	Progress on inequality and poverty	14
3.3.1	<i>Income inequality</i>	14
3.3.2	<i>Income poverty</i>	14
3.4	Progress in human development	15
3.4.1	<i>Progress in child health</i>	16
3.4.2	<i>Progress on food insecurity, stunting and wasting</i>	16
3.4.3	<i>Stabilising HIV/AIDS and indications of progress on Malaria</i>	17
3.4.4	<i>Insecticide-treated bed nets</i>	17
3.4.5	<i>Setbacks in maternal health and education</i>	17
<b>4.</b>	<b>Drivers of progress</b>	<b>18</b>
4.1	Agriculture input subsidies programme	18
4.1.1	<i>Increased coverage and improved targeting.</i>	18
4.1.2	<i>An increase in the size of the input being subsidised</i>	20
4.1.3	<i>Strong national ownership and political backing</i>	20
4.1.4	<i>Favourable rainfall</i>	21
4.2	Macroeconomic stability: fiscal balancing, reduced interest and inflation	22
4.3	National ownership and coherence of development policy	23
4.4	The current situation with regard to sustaining recent progress	24
4.4.1	<i>Macro-level challenges</i>	24
4.4.2	<i>Structural challenge</i>	25
4.4.3	Political-economic challenges: patronage politics	26
<b>5.</b>	<b>Conclusions</b>	<b>27</b>
5.1	Key lessons	27
5.2	Challenges	27
	<b>References</b>	<b>28</b>
	<b>Annex 1: Equity-adjusted indicator explained</b>	<b>31</b>
	<b>Annex 2: Principal changes in Malawi's agricultural subsidy programme design and implementation, 2005/06 to 2008/09</b>	<b>32</b>

## List of abbreviations

<b>ADB</b>	African Development Bank Group
<b>ADMARC</b>	Agriculture Development and Marketing Corporation
<b>AfDB</b>	African Development Bank
<b>AIDS</b>	Acquired Immune Deficiency Syndrome
<b>CISANET</b>	Civil Society Agriculture Network
<b>DFID</b>	UK Department for International Development
<b>DHS</b>	Demographic and Health Survey
<b>DPP</b>	Democratic Progressive Party
<b>ETIP</b>	Extended Targeted Inputs Programme
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FISP</b>	Fertiliser Input Subsidies Programme
<b>GDP</b>	Gross Domestic Product
<b>GoM</b>	Government of Malawi
<b>GTPA</b>	Grain Traders and Processors Association
<b>HDI</b>	Human Development Index
<b>HIV</b>	Human Immunodeficiency Virus
<b>IDA</b>	International Development Association
<b>IFPRI</b>	International Food Policy Research Institute
<b>IHS</b>	Integrated Household Survey
<b>IMF</b>	International Monetary Fund
<b>MCP</b>	Malawi Congress Party
<b>MDG</b>	Millennium Development Goal
<b>MEJN</b>	Malawi Economic Justice Network
<b>MGDS</b>	Malawi Growth and Development Strategy
<b>MICS</b>	Multiple Indicator Cluster Survey
<b>MoAFS</b>	Ministry of Agriculture and Food Security
<b>MoDPC</b>	Ministry of Development Planning and Cooperation
<b>MoF</b>	Ministry of Finance
<b>MPRS</b>	Malawi Poverty Reduction Strategy
<b>NSO</b>	National Statistics Office
<b>ODI</b>	Overseas Development Institute

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<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OPV</b>	Open Pollinated Varieties
<b>SOAS</b>	School of Oriental and African Studies
<b>SPIS</b>	Starter Pack Initiative Scheme
<b>TIP</b>	Targeted Inputs Programme
<b>U5MR</b>	Under-Five Mortality Rate
<b>UCLA</b>	University of California, Los Angeles
<b>UDF</b>	United Democratic Front
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNDP</b>	UN Development Programme
<b>UNICEF</b>	UN Children's Fund
<b>US</b>	United States
<b>USAID</b>	US Agency for International Development
<b>VDC</b>	Village Development Committee
<b>WDI</b>	World Development Indicators
<b>WIDER</b>	World Institute for Development Economics Research
<b>WIID</b>	World Income Inequality Database
<b>WMS</b>	Welfare Monitoring Survey

# 1. Introduction

Malawi is a new and increasingly recognised example of progress in economic conditions. The country has enjoyed seven years of uninterrupted economic growth. Between 2004 and 2009, it averaged 7% annual gross domestic product (GDP) growth rates, performing well above the sub-Saharan average of 5% per year. This progress has been paralleled with notable poverty reduction (NSO, 2009). Nationally reported figures show a decline in the rate of poverty from 52% to 39% between 2004 and 2009. There has also been a notable drop in inequality, with the Gini coefficient falling from 62 in 1993 to 39 in 2004.<sup>1</sup> In terms of human development, using Millennium Development Goal (MDG) indicators, the country ranks among the top 20 performers, in relation to both absolute and relative progress (ODI, 2010). The International Monetary Fund (IMF) and the UN Secretary-General have both lauded Malawi as a success story.

The reality is more complicated than the macro indicators reflect, however. Malawi presents a complex and mixed picture of progress. It is essentially a story of progress in economic conditions since 2004, driven by macroeconomic stability, an appropriate and effective input subsidy programme, improved policy coherence and strengthened national ownership of development policy. Nevertheless, the story is complicated in that a set of precarious factors has underpinned progress, which raises valid concerns about sustainability. This illustrates that progress in development is neither linear nor perfect, and not all good things occur simultaneously. Malawi provides a more realistic picture of progress in development: three steps forward, two steps backward, one step sideways. Nevertheless, if the country is able to address the fundamental challenges facing it, it may continue to enjoy progress in economic conditions.

## 2. Context

### 2.1 Country background

Malawi is a small landlocked country situated in sub-Saharan Africa, with a population of 13 million, comprising over 10 ethnicities and two main religions.<sup>2</sup> It gained independence from the British in 1964.

Malawi has three regions divided into 28 districts. The northern-most region enjoys the highest education levels in the country, and is also where the uranium mine is located. The southern region is the most populous region and exhibits the highest levels of poverty in the country. The central region houses the administrative capital, Lilongwe.

Figure 1: Map of Malawi

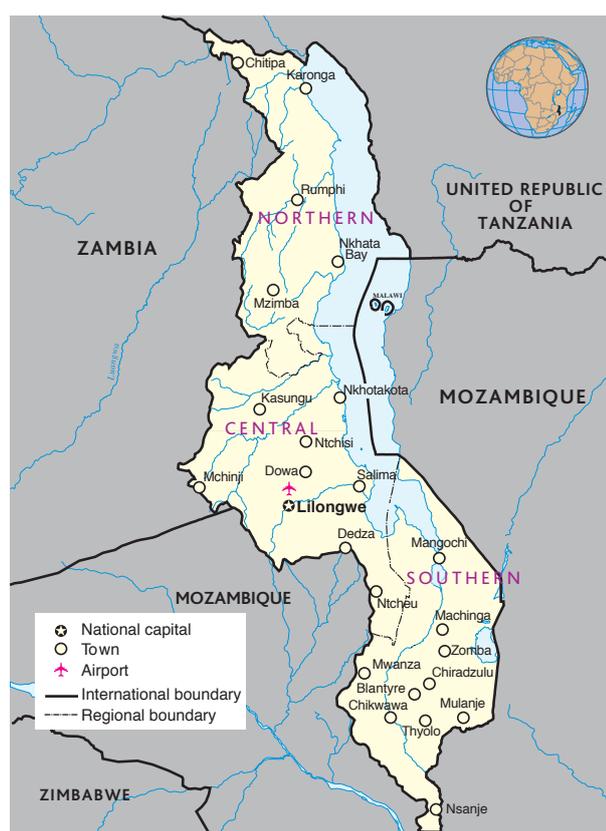


Table 1: Population of Malawi, by region

Malawi	13,077,160
Northern region	1,708,930
Central region	5,510,195
Southern region	5,858,035

Source: [www.nso.malawi.net/data\\_on\\_line/general/malawi\\_in\\_figures/Malawi\\_in\\_Figures.pdf](http://www.nso.malawi.net/data_on_line/general/malawi_in_figures/Malawi_in_Figures.pdf) (March 2011).

<sup>2</sup> Ethnicities include Chewa, Nyanja, Tumbuka, Yao, Lomwe, Sena, Tonga, Ngoni, Ngonde, Asian and European. The two main religions are Islam and Christianity.

## 2.2 Political economic context

Malawi's political economic history, since independence, can be categorised into three republics.

### Dr. Hastings Kamuzu Banda (1966-1994)

Dr. Hastings Kamuzu Banda, head of the Malawi Congress Party (MCP), became president in 1966 (previously he was prime minister). He was voted president for life in 1971. His 30-year single-party rule curtailed freedom of the press and speech (Chipeta and Mkandawire, 2002).

Poverty was not considered a priority: the focus was on economic growth. Between 1964 and 1979, Malawi enjoyed growth rates averaging in excess of 5% (especially between 1964 and 1974). However, this was enabled by encouraging the estate farm sub-sector to produce tobacco for export and the smallholder sub-sector to produce maize for subsistence while providing cheap labour to commercial farms (Devereux, 2009). Growth was uneven, with smallholders and landless tenant farmers becoming increasingly impoverished (Cammack, 2010). State intervention in the economy was insufficiently imaginative, discouraging diversification. It supported traditional agriculture and some import substitution but no attempts were made to promote indigenous capitalism or foreign direct investment (FDI) in non-traditional exports and manufactures (ibid).

Malawi's progress slowed following the oil shocks of 1974 and 1978/79, and as a result of the civil war in Mozambique, which led to the closure of transport routes to the sea. During the 1980s, pressure on land tightened to the point that smallholder diversification became difficult, poverty increased and public services deteriorated, as government spending declined as a result of debt servicing requirements (Cammack et al., 2010). The following economic crisis required intervention from the IMF and World Bank. Malawi received stabilisation funding in 1979 and implemented a series of structural adjustment programmes in the period between 1980 and 1994. Among other interventions, deregulation during this period removed significant sources of patronage from government control (Devereux, 2009). Meanwhile, opposition to Banda's totalitarian one-party rule was growing, mainly through three key forces. A referendum on multiparty politics was held in 1993. Banda's party lost this and the subsequent election in 1994.

### Dr. Bakili Muluzi (1994-2004)

The United Democratic Front (UDF) won the first multiparty elections, with Dr. Bakili Muluzi becoming President. Muluzi is a Muslim, but his power base was more regional (southern) than religious. He described himself as a democrat and introduced policies that initially deepened liberalisation, stabilised the macro-economy and improved social welfare (Cammack et al., 2010). Between 1995 and 1997, investment and public finances recovered, performance in the smallholder sector improved, growth reached 10% and the economy began to diversify (ibid).

As Muluzi sought a second and then a third term, however, corruption and the distortion of policy undermined early progress. Problems deepened in every sector: Muluzi's regime exhibited loose macroeconomic policy (high inflation, increased current account deficit, high interest rates); periodic famines; deepening and widespread corruption;<sup>3</sup> worsening environmental degradation; a shrinking of the industrial sector; increased unemployment; deteriorating infrastructure; a deterioration in public service delivery; and fiscal instability (Cammack et al., 2010). Donors have also been criticised for compromising policy coherence during the process of transition to democracy, with individual donor agencies backing specific policy changes (Chinsinga, 2008b).

### Dr. Bingu wa Mutharika (2004-present)

President Mutharika was elected in May 2004 under the auspices of the UDF, but within a year had left the party to establish a new Democratic Progressive Party (DPP), allegedly because of UDF opposition to his anti-corruption campaign. By-elections in late 2005 and early 2006 saw the first direct election of DPP MPs (six), but President Mutharika continued to govern without a majority. He won re-election in May 2009 by a large margin, this time with a parliamentary majority.

<sup>3</sup> Muluzi's UDF did not centralise and control the collection and distribution of rents as Banda's regime had. His was a predatory form of patronage politics, and the regime was a fairly classic example of decentralised, short-horizon rent creation, driven by competitive, non-inclusive (i.e. winner takes all) politics (Cammack et al., 2010). Government jobs were seen as a stepping stone to personal wealth. Funds from Muluzi's extensive business interests supported patronage networks, to encourage politicians to join the UDF and to fund gifts for Malawians attending UDF rallies.

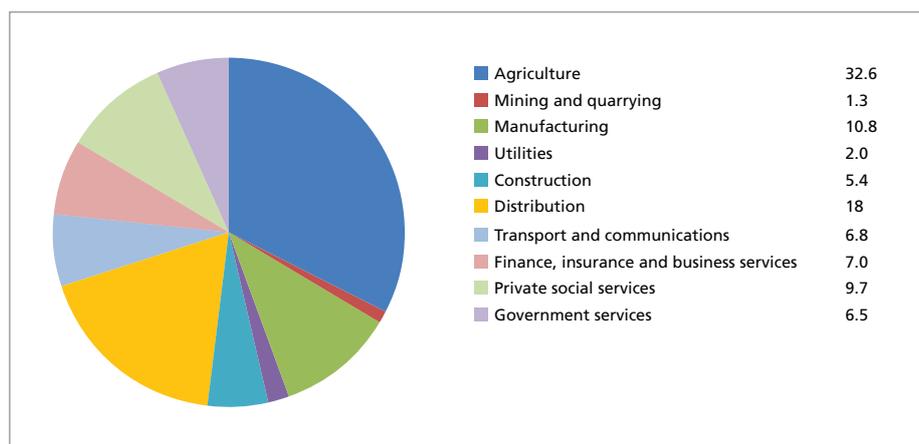
Mutharika's policies are more growth-oriented than his predecessor's (Cammack et al., 2010). His administration has put maintenance of macroeconomic stability at the heart of national policy (AfDB and OECD, 2008) – and has done so successfully, although recent decisions are challenging the sustainability of this. For example, Mutharika's second term has seen the implementation of populist economic policies (e.g. fixing cotton and tobacco prices and the exchange rate), which has undermined stability, economic growth and donor confidence. The economy has become more volatile, with a decline in demand for Malawian cotton and tobacco. There have been foreign exchange shortages, the exchange rate has been kept artificially high and there have been fuel shortages and budget overruns (Cammack et al., 2010). Mutharika is also making more economic management decisions himself, with negative consequences for economic stability (ibid).

Nevertheless, development policy has become more coherent and nationally owned. Mutharika's development policy emphasises infrastructure and agricultural development (particularly food security), while maintaining fiscal discipline, tackling corruption and implementing public sector reform (Cammack et al., 2010). Widespread political support has been built by rolling out a fertiliser subsidy (see below).

### 2.3 Malawi's economy: sectors and exports

Malawi's is predominantly an agricultural economy. Agriculture contributed 32.6% to GDP in 2006 (Figure 2). Additional contributors are small in comparison, and include manufacturing and private social services.

Figure 2: GDP by sector, 2006 (%)

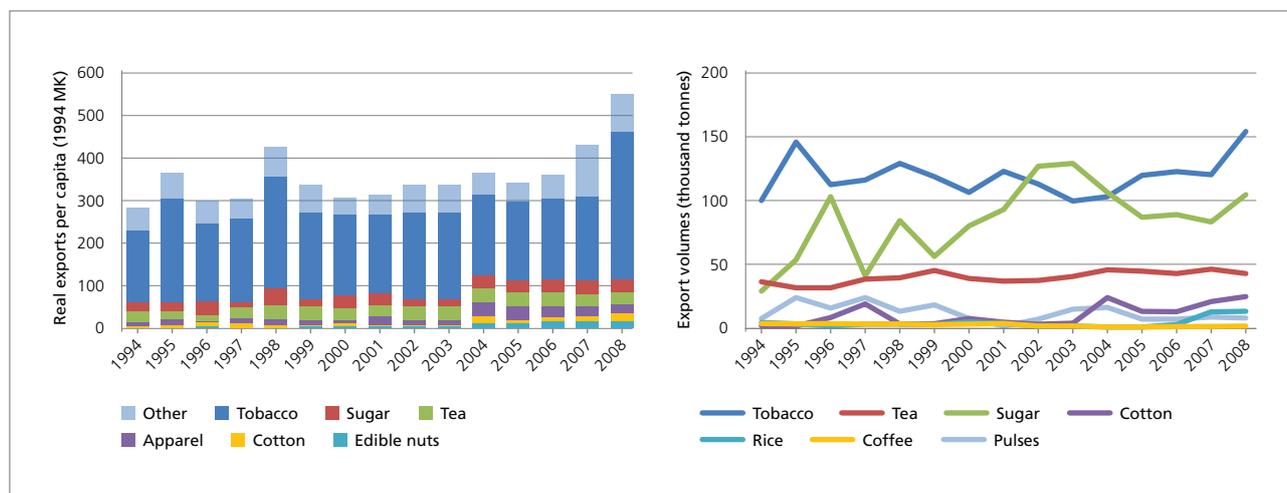


Source: AfDB and OECD (2008).

Tobacco still dominates Malawi's exports. Since 1994, it has consistently accounted for around 60% of export revenue (World Bank, 2009). Other items of export are tea, cotton, sugar, coffee, peanuts, apparels and wooden products (Figure 3).

4. Although corruption continues, it is much scaled down, and the creation of rents for patronage has been reduced. Many UDF politicians and some of Mutharika's own officials are now in court for corruption (Cammack et al., 2010).

**Figure 3: Real export per capita and export volume, 1994-2008**

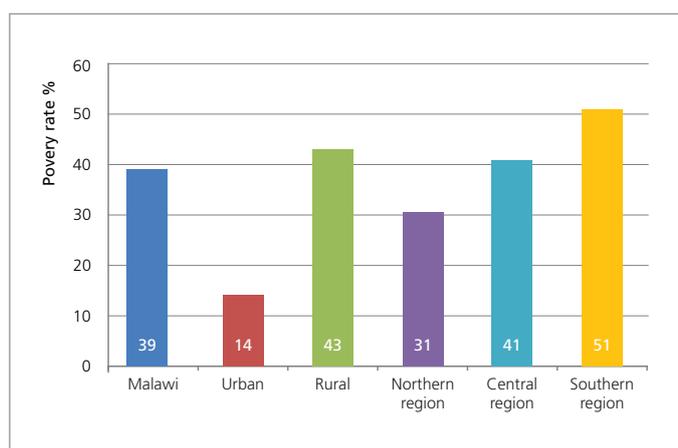


Source: World Bank (2009), based on NSO, Balance of Payments and World Bank staff estimates.

## 2.4 Poverty context

While the reported national poverty rate in 2009 was 39%, there is notable urban-rural variation. Figure 4 shows these differences. About 14% of the population in urban areas is living in poverty, compared with 43% of the rural population. A rural Malawian is three times as likely to be poor than her urban counterpart. The Southern region has the largest poverty rate, with half of its population living below the poverty line. The Central region has the second highest rate of poverty, at 41%, and the Northern region has the lowest.

**Figure 4: Poverty rates in Malawi, 2009 (%)**



Source: Constructed by authors, based on NSO (2009).

Most rural poor depend on agriculture for their livelihoods, and most of these depend on maize as their main crop. Table 2 provides background information on smallholder agriculture in 2004/05. A notable 97% of smallholders in Malawi are maize growers.

**Table 2: Background information on smallholder agriculture (2004/05)**

	<b>North</b>	<b>Centre</b>	<b>South</b>	<b>National</b>
<b>Rural population</b> (% total national population)	10	38	40	88
<b>Income and poverty</b>				
Median expenditure/capita (MK '000s)	17	20.9	16.9	17.5
Poor households (% rural population)	56	47	64	52
<b>Nutrition and food security</b>				
Mean rural daily per capita consumption (kcal): poor	1,738	1,811	1,703	1,746
Incidence of stunting in children (% 6 months-5 years)	39.6	47.9	40.8	43.7
Incidence of underweight children (% months-5 years)	16.1	20	17.2	18.3
Share of calories from own production	0.53	0.58	0.47	0.52
Median month own food exhausted after 2004/05 harvest*	NA	NA	NA	4
Suffered large rise in food prices in past 5 years (%)	NA	NA	NA	79.2
<b>Smallholder agriculture</b>				
Landholdings less than 0.5 ha/hh (%)	12.1	15.4	25.4	19.9
Landholdings less than 1.0 ha/hh (%)	31.4	40.6	54.1	46.2
Suffered crop yield loss in past 5 years (%)	NA	NA	NA	68.8
Maize growers (%)	93	97	99	97
Access to credit for food crop inputs (%)	2.5	4.2	3.0	3.4
Percentage of smallholder farmers purchasing fertiliser (%)	37	44	39	41

Note: \$1 = MK140 for most of the period covered in this table.

Source: SOAS (2007), in Dorward and Chirwa (2011). Based on data from the Second Integrated Household Survey 2003/04 survey except \* (NSO).

## 3. What has been achieved

### 3.1 Defining progress in economic conditions

Economic conditions, as defined here, include economic growth, improvements in equity and poverty reduction.<sup>5</sup> Improvements in economic conditions are important to achieve progress. However, their impact on improvements in human development depends on the distribution of benefits across the population. Equitable and sustainable progress in economic conditions means that the benefits of development are shared across the population and that the pattern of growth serves an equalising function.<sup>6</sup>

### 3.2 Progress in economic conditions

Since independence, Malawi has experienced ‘three republics’ (see Section 2). Many similarities exist between the Banda republic (1964-1994) and Mutharika’s republic (2004 to date); respondents for the most part consider the Muluzi republic (1994-2004) a lost decade – which is corroborated by macroeconomic figures. Malawi’s claim to progress in economic conditions here relates to the period from 2004 to date.

Malawi has sustained seven years of uninterrupted economic growth – rising to a 7.7% annual GDP growth rate in 2009. Between 2004 and 2009, it averaged 7.1%, well above its counterparts in sub-Saharan Africa, which averaged 5.2% annual GDP growth, and in Latin America, where economies grew at an average of 3.9% per annum over the same period.<sup>7</sup> Table 3 shows annual GDP growth during Malawi’s three republics.

**Table 3: Average GDP annual growth rate, Malawi vs. sub-Saharan African average, 1964-2009 (%)**

Period	Malawi	Sub-Saharan Africa
1964-1993	4.4	3.2
1994-2003	2.3	3.3
2004-2009	7.1	5.2

Source: WDI database (October 2010).

Since 2004, Malawi has seen an increase in its GDP of over 40% – rising from \$1.8 billion to \$2.5 billion (in 2000 \$). When controlling for population growth, GDP per capita has risen by almost a third, from \$130 to \$166 per capita (constant 2000 \$).<sup>8</sup>

Figure 5 shows Malawi’s GDP at constant 2000 \$ prices and the annual inflation rate over the three republics (between 1960 and 2009). The second republic, from 1994-2004, reflects some volatility, coupled with exceedingly high inflation rates. The third republic, that of Mutharika, shows controlled inflation with the fastest-rising GDP.<sup>9</sup> According to an IMF report, Malawi’s sustained growth amid a global recession ‘reflects the benefits of generally sound macroeconomic policies’ (Randall et al., 2010). Section 4 discusses how macroeconomic policies contributed to economic growth.

<sup>5</sup> Three aspects of improvements in economic conditions are: 1) growth; 2) poverty; and 3) inequality. Indicators used to capture these aspects include: 1) annual GDP growth rates and household final consumption expenditure per capita; 2) proportion of the population below the international and the national poverty lines; and 3) the Gini coefficient. As these indicators capture macro and average trends, distribution of progress remains concealed. Even the Gini coefficient, a measure of inequality, is relatively insensitive to changes in the middle range of a distribution. To identify examples of equitable and sustained progress in economic conditions, we used analysis drawing on complementary qualitative and quantitative data (e.g. trend analysis, calculating annual average rates of progress of quantitative indicators).

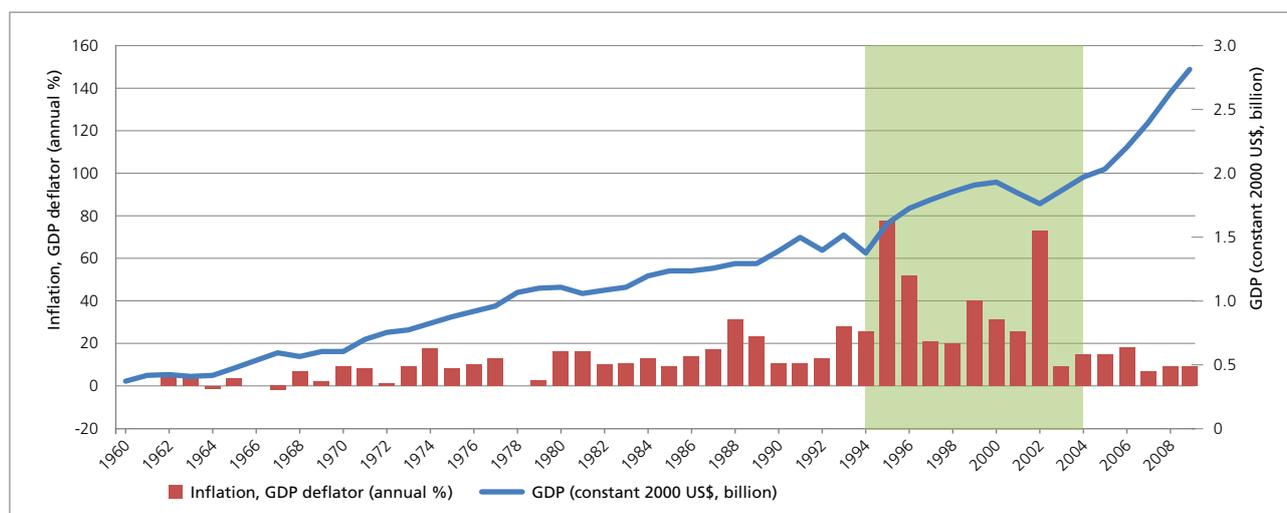
<sup>6</sup> High inequalities undermine economic growth and its poverty-reducing potential. They are related to political and social instability and contribute to ill-health in the population.

<sup>7</sup> WDI database (October 2010).

<sup>8</sup> WDI database (December 2010).

<sup>9</sup> This recovery to 1978 levels was achieved under a distinct governmental and institutional arrangement.

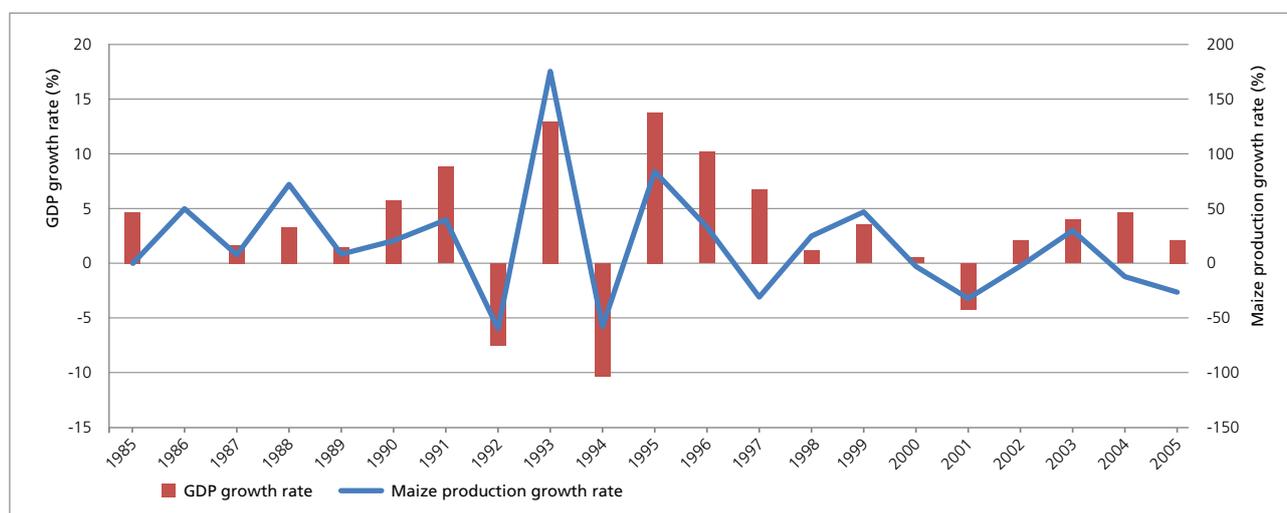
**Figure 5: Phases of GDP and inflation in Malawi, 1960-2009**



Source: WDI database (October 2010).

Malawi's progress in economic growth is driven largely by agricultural growth. Agriculture contributes about 39% to the country's GDP and employees 85% of its workforce (GoM, 2010). Variability in Malawi's growth rate has been driven in great part by fluctuations in maize production. Figure 6 shows a strong relationship between maize production and GDP growth in Malawi between 1984 and 2005.

**Figure 6: Maize production and GDP growth in Malawi, 1984-2005 (%)**



Source: GoM and World Bank (2006), based on NSO and IMF statistics.

The government recognises this persistent dependence of the economy on agriculture, and the Mutharika regime has made concerted efforts to diversify. Under the second republic (between 1995 and 2003), agriculture accounted for almost three-quarters of growth; since 2004, the growth pattern has been structurally different, 'being composed of increasingly important contributions from distribution, finance, construction and manufacturing (World Bank, 2009). Table 4 outlines key sources of growth in Malawi. Agriculture remains a key contributor, but figures point to increasing (albeit marginal) diversification towards transport, communications, financial and professional sectors, construction and manufacturing. Reports from the Ministry of Finance indicate that mining grew by 83% in 2009/10 and is projected to grow by 72% in 2010/11 (mostly uranium mining), especially as there are prospects for another uranium/niobium mine.

**Table 4: GDP and sources of growth in Malawi, 1995-2007**

	95	96	97	98	99	00	01	02	03	04	05	06	07
<b>National Account (US\$ m)</b>													
GDP (\$US m)	1925	3149	3669	2451	2447	2402	2365	2665	2425	2625	2755	2917	3324
Exports, fob (\$US m)	444	510	539	539	447	402	427	414	433	499	509	543	706
Imports, fob (\$US m)	508	588	697	497	573	460	471	595	684	810	1006	1055	1182
<b>Trade ratios (as percentage of GDP)</b>													
Export (fob)	23.1	16.2	14.7	22.0	18.3	16.7	18.0	15.5	17.9	19.0	18.5	18.6	21.2
Import (fob)	26.4	18.7	19.0	20.3	23.4	19.2	19.9	22.3	28.2	30.9	36.5	36.2	35.6
Trade balance	-3.3	-2.5	-4.3	1.7	-5.1	-2.4	-1.9	-6.8	-10.3	-11.8	-18.0	-17.6	-14.3
<b>Growth in GDP (factor cost)</b>													
	<b>13.8</b>	<b>10.0</b>	<b>6.6</b>	<b>3.0</b>	<b>1.6</b>	<b>0.8</b>	<b>-3.9</b>	<b>1.9</b>	<b>3.9</b>	<b>5.1</b>	<b>2.2</b>	<b>8.6</b>	<b>9.2</b>
Agriculture	9.8	7.8	0.0	5.3	1.6	2.0	-2.4	1.0	2.3	1.1	-3.5	4.3	3.5
Mining, quarrying	0.0	1.5	-0.4	0.1	0.0	0.1	0.1	-0.6	0.2	0.5	0.8	-0.5	0.0
Manufacturing	0.9	-0.1	0.1	0.2	0.2	-0.4	-1.8	0.0	0.4	0.8	0.9	0.7	1.0
Electricity, water	0.0	0.0	0.1	0.1	0.0	0.1	-0.1	0.1	0.0	0.1	0.1	0.1	0.1
Construction	0.1	0.2	0.1	0.0	0.3	0.0	-0.1	0.3	0.3	0.3	0.4	0.4	0.9
Distribution	0.6	-0.2	3.7	-1.6	-0.4	-0.1	0.2	0.3	-0.2	1.4	2.8	1.8	1.3
Transport, communications	0.9	-0.4	0.4	0.0	0.2	-0.2	0.1	0.6	0.4	0.4	0.5	0.4	1.3
Financial, professional	0.7	1.3	2.5	-0.7	0.0	0.2	-0.2	0.5	0.5	0.8	0.7	1.7	1.1
Ownership of dwellings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Government services	1.0	-0.3	0.2	-0.5	-0.2	-0.1	0.1	0.0	0.2	0.2	0.1	0.3	0.6

Note: GDP is from 2002 series back-adjusted using 1994 series rates of growth. GDP levels are distinct from that reported in figure 5, given different units. Source: World Bank (2009), based on NSO 1994 series of accounts.

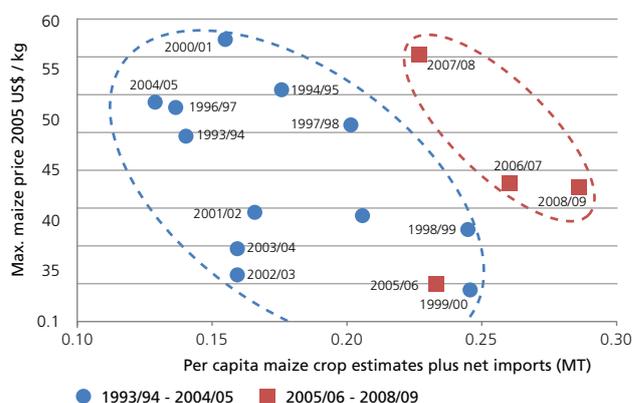
Malawi has also begun diversifying its export sector away from traditional core products, particularly into rice, coffee and pulses (AfDB and OECD, 2008). However, diversification has not been coupled with improvements in the trade deficit, which has widened since 2003 (World Bank, 2009).

### Box 1: Inflated statistics?

Some respondents caution that, although progress in economic conditions in Malawi is undeniable, the scale reported in national figures is inflated. For example, respondents highlighted the incongruence of a peak in maize prices in 2007 outside the historical pattern (see Figure), while the government reported a surplus of maize production of almost 850,000 metric tonnes (Ministry of Agriculture and Food Security, in GoM, 2010) and exported over 300,000 metric tonnes to Zimbabwe. When asked about real maize price increases, one civil society respondent wrote, *'Probably we had a political maize surplus rather than a real surplus.'*

Although some make a political case for the apparent discrepancy, there are a number of alternative explanations: an increase in national demand resulting from an increase in real incomes; falling poverty and a rising population; an increase in storage losses resulting from increased cultivation (however, data point to low losses); higher real income and welfare following the 2005/06 harvest with low maize prices, possibly encouraging retention and consumption of the 2006/07 harvest, pushing for a tighter and thinner market; and potential bias from field workers estimates of crop area and yield (Dorward and Chirwa, 2011).

**Maximum monthly maize prices by estimated maize supply by season, between 1993/94-2004/05 and 2005/06-2008/09 (2005 \$/kg)**



Source: Dorward and Chirwa (2011).

Interviews with experts corroborated that assessing the scale of progress is far from straightforward. The following example illustrates the mixed messages provided. One donor respondent, optimistic about the scale of progress, reported an abundance of maize in a rural area recently visited; another, sceptical of progress, reported a dearth of maize sacks on sale in the rural area visited. These mixed assessments reflect the controversy among development practitioners, but also the inherent methodological challenges of measuring agricultural production in a largely smallholder farming sector. Estimates of aggregate agricultural production are based mostly on household surveys. Given high variations in production across districts (owing to soil quality, weather conditions, infrastructure, etc.), the sample can produce very different results. The Ministry of Agriculture and Food Security estimates 30% more farm households than the National Statistics Office (NSO) and each provides distinct results on agricultural production (Dorward and Chirwa, 2011).

### 3.3 Progress on inequality and poverty

#### 3.3.1 Income inequality

There has been a move towards more equitable distribution of income expenditure since the early 1990s (Tsoka et al., 2002). There has been a significant drop in inequality as measured by the Gini coefficient, from 62 in 1993 to 39 in 2004.<sup>10</sup> The income share held by the lowest 20% of the population increased from 4.8% in 1998 to 7.0% in 2004. Over the same time period, the income share held by the highest 20% decreased from 56.0% to 46.5%, pointing to a redistribution of wealth to the middle and poorer quintiles.<sup>11</sup>

#### 3.3.2 Income poverty

International poverty figures for Malawi do not capture the impact of recent economic growth, covering only the period prior to 2005. Meanwhile, national figures point to poverty reduction and a reduction in inequality. As a large component of growth has been driven by smallholders' maize production (underpinned by the input subsidies programme), and over 85% of the population depends on subsistence agriculture, it follows that a large majority of the population has benefited from increasing agricultural yields.

In terms of actual national figures from 2004 to 2009, based on the most recent Welfare Monitoring Survey (WMS) – conducted on an annual basis by NSO – poverty rates in 2009 stood at 39%, down from 52% in 2004. Poverty is higher in rural areas than in urban areas, and the Southern region is the poorest. Table 5 suggests improvements across the country. Poverty reduction has been fastest in urban areas and in the north of the country, with the largest reduction in the Northern region, representing a 25 percentage-point fall, from 56% to 31% between 2004 and 2009. Both rural and urban areas saw a reduction of approximately 10 percentage points over the same period.<sup>12</sup>

**Table 5: Trends in poverty rate across Malawi, 2004-2009 (%)**

	2004	2005	2006	2007	2008	2009
Survey	IHS2	WMS	WMS	WMS	WMS	WMS
Malawi	52	50	45	40	40	39
Urban	25	24	25	11	13	14
Rural	-	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

Source: NSO (2009).

Poverty is seasonal in Malawi, so when the WMS was conducted determines the reported level of poverty. Chirwa et al. (2010) adjust for seasonality in the surveys and point to a distinct trend in the poverty reduction in Malawi as compared with the data reported in Table 5. Figure 7 shows this trend.<sup>13</sup> Authors conclude that Malawi has experienced poverty reduction, but estimate an 11-12% reduction compared with the unadjusted 13%.

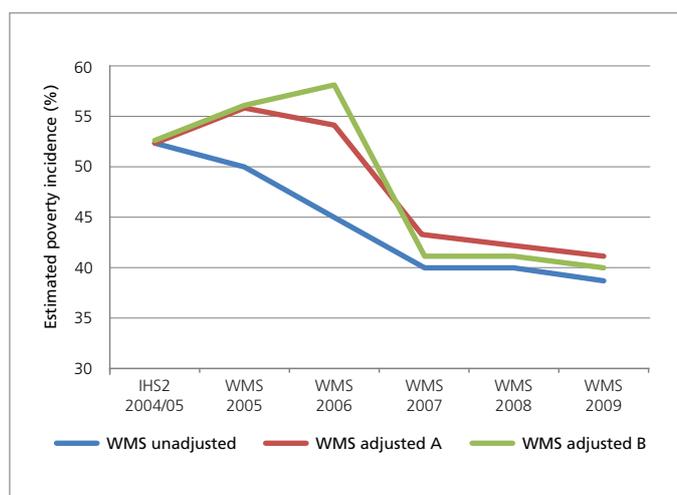
<sup>10</sup> WIID2c (February 2010). Based on the MDG Database (February 2010), the Gini coefficient fell from to 50 in 1998 to 39 in 2004 (ranking it among the top performers in its region).

<sup>11</sup> <http://data.worldbank.org/>. At the time of writing, data from after 2004 were not available. A third Integrated Household Survey (IHS) (considered independent) is currently being conducted. Results, expected to be released in early 2011, will clarify the extent of poverty reduction and improvements in inequality associated with recent progress.

<sup>12</sup> Rural data are available only from 2005 to 2009.

<sup>13</sup> "WMS Adj A" shows the effects of standardising the WMS reported estimates of poverty incidence by the ratio of overall annual poverty incidence to average poverty incidence across the months of data collection reported for the WMS each year as reported in NSO (2006), NSO (2007), NSO (2008), NSO (2009) and NSO (2010); "WMS Adj B" is adjusted in the same way as "WMS Adj A," but using the ratio of overall annual poverty incidence to average poverty incidence across the central months of reported data collection (i.e. assuming the majority of households were interviewed in the middle of the reported data collection period)' (Chirwa et al, 2010).

**Figure 7: Effects of seasonal adjustments on WMS estimates of poverty incidence**



Source: Chirwa et al. (2010).

Poverty is a structural problem in Malawi. People are excluded from contributing to and benefiting from economic growth for several structural reasons, including lack of education and the skills to be employable and lack of market penetration into particular areas.

### 3.4 Progress in human development

Progress in economic conditions has been coupled with improvements in some areas of human development, particularly related to child nutrition. The UN Secretary-General has lauded Malawi for its progress on human development – ‘we can and we will achieve the Millennium Development Goals’ – explaining that the reason for his optimism was right there in Malawi:

*‘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. There is nothing miraculous about it. It is the result of one simple truth: where we try we succeed, where we don’t try, we fail. It is a message that Malawi can proudly proclaim across the world.’<sup>14</sup>*

Progress in human development since 1990 has been undermined by the HIV/AIDS epidemic, as well as by three droughts that have undermined food security and nutrition among Malawians. Progress based on UN MDG indicators points to improvements in child health and setbacks in maternal health and education. Recent figures also point to AIDS and tuberculosis coming under control. However, reductions in international financing for antiretroviral drugs may undermine sustained progress – approximately 40% of Malawi’s national budget is financed by international assistance. Here, progress in human development is discussed in relation to child health and food security, HIV/AIDS and education.

<sup>14</sup>. <http://www.unmultimedia.org/radio/english/detail/96331.html>.

<sup>15</sup>. U5MR reflects a host of social, economic and basic service-related factors, and in turn influences average life expectancy at birth. It also reflects: nutritional health and the health knowledge of mothers; level of immunisation and oral rehydration therapy use; availability of maternal and health services (including antenatal care); income and food availability in the family; availability of clean water and safe sanitation; and overall safety of a child’s environment. The UN Children’s Fund (UNICEF) thus identifies U5MR as its single most important indicator of the state of a nation’s children.

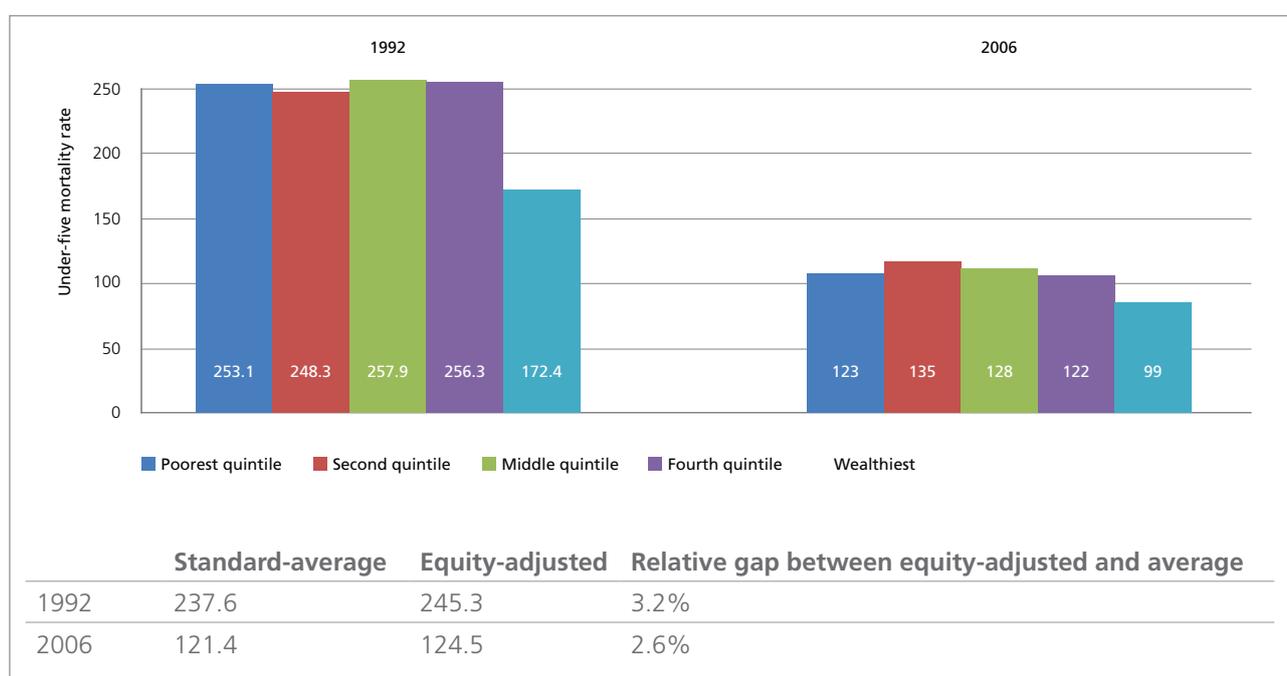
<sup>16</sup>. MDG Database (February 2010).

### 3.4.1 Progress in child health

Rates of child mortality have seen notable and equitable progress. Underweight prevalence among children under five fell from 27.2% in 1992 (among the highest in sub-Saharan Africa – Randall et al., 2010) to 20.5% in 2006.

Progress on under-five mortality in Malawi has been substantial and equitable.<sup>15</sup> Between 1990 and 2008, the under-five mortality rate (U5MR) declined steadily, from 225 deaths per 1,000 live births to 100 in 2008.<sup>16</sup> Demographic and Health Surveys (DHSs) and Multiple Indicator Cluster Surveys (MICSs) cover a shorter period of time: they show a notable reduction in the U5MR from 237.6 to 121.4 between 1992 and 2006. Improvements have been distributed equitably, as Figure 8 shows. The gap between the standard-average and equity-adjusted indicator has shrunk from 3.2 to 2.5 – demonstrating this widening in disparities (see Annex 1 for a methodological discussion of the equity-adjusted indicator).

**Figure 8: U5MR in Malawi by quintile, 1992-2006 (per 1,000 live births)**



Source: Authors' calculations, based on DHS and MICS data.

### 3.4.2 Progress on food insecurity, stunting and wasting

According to an IMF report, Malawi's recent robust economic growth has enabled one of Africa's poorest countries to make real strides in reducing national-level chronic food insecurity (Randall et al., 2010). The Malawian government reports that, since 2005, maize production has been in surplus of national consumption requirements,<sup>17</sup> which has contributed to recent improvements in child health. A Lancet article reports that 'implementation of the agricultural input subsidy has enabled the country to produce more food, with the stunting and wasting of children younger than 5 years falling from 6.4% and 6.8%, respectively, in 2005, to 4.9% and 5.8% in 2007' (Waage et al., 2010). However, several structural issues have meant high levels of food production have existed alongside food insecurity, whereby food has not reached certain markets and poor people in certain districts and areas have not been able to afford food in the markets (see Davies and Davey, 2008).

<sup>17</sup> It also exported 300,000 metric tonnes of Maize to Zimbabwe in 2007.

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### 3.4.3 Stabilising HIV/AIDS and indications of progress on Malaria

International figures (MDG Database) point to a reduction in the proportion of people 15-49 years old living with HIV, from 13.3% in 2001 to 11.9% in 2007. National statistics point to a reduction in HIV prevalence among 15-24-year-old pregnant women, from 24% to 12% between 1998 and 2006 (GoM, 2009). Malawi's HIV/AIDS prevalence is high when compared with other sub-Saharan African countries, ranking 37th among the 45 countries with data.<sup>18</sup>

Since 2004, the National AIDS Commission has provided antiretroviral treatment across the country. There are reports of a stabilisation in HIV prevalence since rollout, with AIDS deaths falling, largely because of a determined approach to testing, education and treatment, supported by open debate by senior officials.<sup>19</sup>

### 3.4.4 Insecticide-treated bed nets

Although it can be overshadowed by the grim figures on HIV/AIDS, malaria remains the most common cause of illness and death among children under five and pregnant women in Malawi. Malaria alone accounts for 40% of outpatient consultations in most health facilities in the country (GoM, 2009). In this context, improvements in the number of children under five sleeping under an insecticide-treated bed net are significant: figures rose from 2.8% in 2000 to 24.7% in 2006 (MDG Database).

### 3.4.5 Setbacks in maternal health and education

Challenges remain in improving maternal health and achieving universal primary education in Malawi. Births attended by skilled health personnel have dropped slightly, from 54.8% to 53.6% between 1992 and 2006 (MDG Database). The maternal mortality rate is high, at 1,100 maternal deaths per 1,000 live births in 2007. This places Malawi 35th among the 46 African countries with available data.<sup>20</sup>

Primary school net enrolment soared in the mid-1990s, when universal primary schooling was introduced under Muluzi. The government made a concerted effort to address education through an increase in budget allocation so as to be able to abolish school fees. However, quality of education may have been undermined by this expansion in provision, which exceeded teaching resources and was associated with a decrease in the percentage of certified teachers (Wold et al., 2005). More recently, primary school net enrolment fell from 98.8% in 1999 to 91.2% in 2008 (MDG Database).<sup>21</sup> Moreover, although youth literacy increased from 68% in 2000 to about 82% in 2008 (GoM, 2009), levels remain low. Disparities between women and men are high: 56% of women are illiterate, compared with 28% of men (ibid).

<sup>18</sup>. MDG Database (October 2010). A decline in life expectancy as a consequence of HIV/AIDS resulted in a decline in Malawi's Human Development Index (HDI). Compared with other countries (not necessarily facing an AIDS epidemic), Malawi dropped from 138 out of 178 countries in 1990 to 166 in 2006. In absolute terms, Malawi saw an improvement in its HDI from 1985 to 2007, rising from 0.38 to 0.49 in 2009. Its value remained relatively stagnant between 2000 and 2009, at 0.48 and 0.49 in these respective years ([http://hdrstats.undp.org/en/countries/country\\_fact\\_sheets/cty\\_fs\\_MWI.html](http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_MWI.html)).

<sup>19</sup>. <http://uk.oneworld.net/guides/malawi/development>.

<sup>20</sup>. MDG Database (October 2010).

<sup>21</sup>. National statistics paint a more positive picture, including improvements in the retention rate at primary level. The proportion of pupils starting Grade 1 who reach Grade 5 without repeating a grade increased from 64.4% in 1992 to 75.7% in 2008. Youth literacy increased from 68.1% in 2000 to about 82% percent in 2008 (GoM, 2009).

## 4. Drivers of progress

### 4.1 Agriculture input subsidies programme

Malawi is largely reliant on agriculture for its economic development. Given that 88% of Malawians live in rural areas; a large majority of them depend on agriculture for their well-being; 97% of farmers grow maize and more than half of households grow no other crop (World Bank, 2009); and 52% of poor people live in rural areas (Dorward and Chirwa, 2011) – it is not surprising that an appropriate and effective agriculture input subsidies programme has contributed to recent progress in economic conditions (specifically poverty reduction and improvements on inequality). Currently, the programme is titled the Fertiliser Input Subsidies Programme (FISP).

The central objective of FISP is ‘to increase resource poor smallholder farmers’ access to improved agricultural inputs in order to achieve food self sufficiency and increase resource poor small holder farmers’ incomes through increased food and cash production’ (Dorward and Chirwa, 2011). Although Malawi has tested several approaches to stimulating agricultural growth, it was not until 2005 that such interventions produced the scale of economic progress FISP has reported. In the 1970s and 1980s, smallholder inputs received general price subsidies and received subsidised credit. In 1998, the first universal ‘starter packs’ – the ‘targeted inputs’ – were provided.

FISP’s contribution to progress in economic conditions lies in the broader context (macroeconomic context and climate) and in the programme design itself, through the following key factors.

#### 4.1.1 Increased coverage and improved targeting.

The core element of the programme is the use of vouchers or coupons to target approximately half of the farmers in the country (Dorward and Chirwa, 2011). Previous agricultural programmes, conceived of as safety nets, targeted the poorest households (e.g. the Targeted Inputs Programme (TIP)) (see Table 6). Others, designed to stimulate agricultural growth, were universal (e.g. the Starter Pack Initiative Scheme (SPIS); the Extended Targeted Inputs Programme (ETIP)). FISP targets ‘resource constrained but productive maize farmers’ (Kumwenda and Phiri, 2009) who would otherwise have difficulty obtaining inputs. It aims to support smallholder farmers achieve food security and to increase poor smallholder farmers’ incomes through increased food production. Coverage increased from 1.3 to 1.7 million households between 2005/06 and 2008/09. In 2008/09 there were an estimated 2.5 million farm households in Malawi, thus coverage captured two-thirds of farming households.

**Table 6: Overview of agricultural input programmes in Malawi, 1998-2009**

Years	Subsidised fertiliser sales (metric tonnes)	Estimated coverage* (million households)	Package
<b>Malawi Free Input Programme</b>			
<b>Aim:</b> To reverse some of the negative effects of liberalisation and abolition of subsidies (GoM, 2010)			
SPIS**	1998: 15,000 1998-2000 1999: 66,522 2000: 68,330 <sup>1</sup>	2.8 (all smallholders)	15 kg of fertiliser 2 kg of improved maize seed 1 kg of legume seed <sup>2</sup>
TIP***	2000/01 27,301 <sup>1</sup>	1.5 (poorest HH)	
	2001/02 15,281 <sup>1</sup>	1.0 (HH looking after vulnerable members of society)	
ETIP	2002- 2005**** 2002: 35,425 2003: 21,829 2004: 53,500 <sup>1</sup>	2.82	26 kg of fertiliser 5kg of seed <sup>3</sup>
<b>Farm Input Subsidy Programme*****</b>			
<b>Aim:</b> To increase food security at household and national levels (GoM, 2010)			
	2005/06 131,388 <sup>4</sup>	1.3	<b>Fertiliser (maize and tobacco):</b> 50 kg basal fertiliser and 50 kg top dresser <b>Seed:</b> maize seed (OPV)
	2006/07 174,688 <sup>4</sup>	1.5	<b>Fertiliser (maize and tobacco):</b> 50 kg basal fertilizer and 50 kg top dresser <b>Seed:</b> maize seed (hybrid & OPV)
	2007/08 216,553 <sup>4</sup>	1.7	<b>Fertiliser (maize and tobacco):</b> 50 kg basal fertiliser and 50 kg top dresser <b>Seed:</b> maize seed (hybrid & OPV); legume seed (limited); cotton seed and chemicals
	2008/09 202,278 <sup>4</sup>	1.7	<b>Subsidised fertiliser (coffee, tea, maize and tobacco):</b> 50 kg basal fertilizer and 50 kg top dresser <b>Seed:</b> maize seed (hybrid & OPV); legume seed; cotton seed and chemicals; maize storage chemicals
	2009/10 161,495 <sup>4</sup>	1.6	

Notes: \* These figures are based on assumptions on the distribution of fertiliser to households and extrapolations from survey data (where available – e.g. no survey data are available for 2000/01). Subsidised fertiliser sales may provide a more reliable indication of coverage.

\*\* The objective was that every farm household received sufficient seed and fertiliser to plant 0.1 ha of land (Kumwenda and Phiri, 2009).

\*\*\* Scaled-down version, owing to high operational costs of SPIS.

\*\*\*\* Given uncertainty as to whether the government would implement a universal fertiliser subsidy programme in 2004/05; there was a scarcity of fertiliser on the market even for those farmers who could afford it at prevailing market prices, distribution of inputs was delayed and in most areas crops had developed past the critical stage. This inefficiency, combined with a drought during the 2004/05 growing season, resulted in a severe hunger crisis affecting approximately 4 million people. The food deficit was estimated to be 0.7-1.0 million metric tonnes out of the 2.1 million metric tonnes annual food requirement (Chinsinga, 2007).

\*\*\*\*\* Full time smallholder Malawian farmers. Targeting varied across regions: 'These variations in targeting are due to (a) vagueness in the definition of target beneficiaries in the guidelines and (b) differences in the way communities dealt with problems of shortages. These meant that those that were targeting beneficiaries placed different emphasis on different criteria and processes' (Dorward and Chirwa, 2011)

Sources: GoM (2010), based on 1 SOAS et al. (2008); 2 Kumwenda and Phiri (2009); 3 Chinsinga (2007); 4 Dorward and Chirwa (2011).

Coupons are distributed by district, then within districts. Distribution within districts is done in consultation with traditional authorities, local government and Ministry of Agriculture and Food Security (MoAFS) staff. Distribution within villages is done in consultation with village development committees (VDCs) and other local stakeholders to identify recipients. There has been extensive variation, over time and between regions, in the criteria for and approach to targeting,<sup>22</sup> to increasingly emphasise vulnerable households. This is reflected in increased allocations to the Southern region, where poverty is most prevalent (Dorward and Chirwa, 2011).

Over the course of the programme, targeting has also become more transparent and reporting has improved. Dorward and Chirwa (2011) provide concrete examples, for example:

*'[...] introduction of beneficiary registration and more open and more tightly managed beneficiary selection, voucher distribution and market monitoring systems with less involvement of traditional authorities, more involvement of MoAFS staff and, in 2008/9, the use of open meetings for coupon allocation and distribution.'*<sup>23</sup>

#### 4.1.2 An increase in the size of the input being subsidised

Compared with previous programmes, the size of the FISP package of inputs is larger. The 1998 programme, for example, offered 5 kg of fertiliser, while the 2002 ETIP offered 26 kg. The current subsidies programme offers 50 kg of basal fertiliser and 50 kg of top dresser. This increased size of inputs, coupled with wider coverage of farming households, has meant that the acreage of land where fertiliser is used has increased significantly, contributing to increased agricultural productivity.

#### 4.1.3 Strong national ownership and political backing

Farming input subsidy programmes in Malawi are largely politically driven, and their effectiveness is determined by strong national ownership and political backing. Prior to the 2004/05 programme, agricultural policy in Malawi was shaped predominantly by donor demands. In the 1990s, Bretton Woods Institutions advocated for the removal of agricultural subsidies and complete liberalisation of the agriculture market (Kumwenda and Phiri, 2009). Meanwhile, donor influence was evident in 2000 when the TIP (which was demonstrating clear impacts) was scaled down for financial sustainability, rather than technical, reasons. In 2005, the UK Department for International Development (DFID) pulled out its funding, which led to the termination of the programme (Kumwenda and Phiri, 2009). Malawi's government then took up its reins.

The 2004 election campaign reflected a strong national consensus for a shift from free input distribution to subsidies. Two main political parties held similar positions on the subsidy programme – advocating for universal fertiliser – both pledging to reduce fertiliser prices if voted into power (Kumwenda and Phiri, 2009).<sup>24</sup> With continuing food insecurity (especially after the poor 2004/05 season), political will to build on the election manifesto and expand the subsidies programme strengthened. To the winning Mutharika regime, fertiliser became a strategic commodity to gain political mileage by achieving food sufficiency and stabilising the macro economy (Kumwenda and Phiri, 2009; World Bank, 2009), thereby maintaining credibility for re-election in 2009.

Government interest in ensuring the programme's effectiveness was great. Respondents indicate that strong government backing contributed to a sizeable budget allocation, as well as to consistent amendments, revisions and improvements to the design and targeting approach.<sup>25</sup> In 2008/09, the programme represented 74% of the agriculture budget and 16% of the total national budget (Dorward and Chirwa, 2011), and in 2009/10 official development assistance accounted for 17% of the programme (ibid).<sup>26</sup> According to Kumwenda and Phiri (2009), it is the 'configuration of political interest that has determined the policy outcome [of the programme] on the ground.'

<sup>22</sup> 'There has been considerable variation over time and between areas in the criteria determining prioritization and selection of beneficiaries, numbers of people receiving coupons, and numbers of coupons received per recipient household. Criteria and systems for subsequent supplementary rounds of coupon allocation and distribution later in the season are less clear but are intended to respond to problems of pressures from unmet demand in the first round distribution. There have also been different systems for coupon redemption for different inputs (seed and fertiliser) in different years, with varying involvement of parastatal and private sector input retailers' (Dorward and Chirwa, 2011).

<sup>23</sup> See also Annex 2.

<sup>24</sup> 'Two broad positions on fertilizer subsidy could be distinguished during this campaign. The ruling United Democratic Front (UDF) and its coalition partners advocated for a universal fertilizer subsidy for maize producers only [...] The opposition block led by the Malawi Congress Party (MCP) advocated for a universal fertilizer subsidy programme for both maize and tobacco producers' (Kumwenda and Phiri, 2009).

<sup>25</sup> Improvements have included increasing the involvement of private sector fertiliser imports to supply parastatal fertiliser sales, with improved tender procedures or changes in the extent and modalities of private sector involvement in fertiliser sales (Dorward and Chirwa, 2011).

<sup>26</sup> International assistance accounts for approximately 40% of the national budget, a large portion coming in as general budget support. This arguably provides the government with fiscal space to finance most of FISP.

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#### 4.1.4 Favourable rainfall

Malawi's agricultural production is heavily dependent on rainfall, and fluctuations in rainfall determine to a major extent whether the country experiences surpluses or deficits. Since the inception of the input subsidies programme, Malawi has enjoyed favourable rainfall (see GoM, 2010). Respondents and literature indicate this is a key factor contributing to the success of input subsidies (Dorward and Chirwa, 2011; GoM, 2010). This important role for rainfall in the success of FISP undermines the impact of the progress on economic conditions.

#### Box 2: The political economy of Malawi's fertiliser subsidy

Malawi's fertiliser subsidy provides an interesting case study of a country's political economy. Agricultural policies are important in Malawi because of the proportion of the population absorbed by the sector, its contribution to the economy and repeated food security crises over recent years.

Between the 1970s and the 1990s, Malawi went from being a food surplus country to having a substantial food deficit (Chinsinga, 2008a). Food insecurity became widespread, with 70-80% of rural households having a 'hungry gap' lasting four or five months each year (ibid). Repeated shocks impoverished many households, leaving them with limited assets to support resilience and prevent further declines into poverty (Chinsinga, 2008b). Repeated food security crises during the 1990s and two episodes of severe hunger during the 2001/02 and 2004/05 growing seasons turned food security into a highly charged political issue, leading to a high bill to import maize to meet national food needs (Chinsinga 2008a; Chirwa et al., 2010) and providing context for the introduction of the fertiliser subsidy.

Historically, agricultural subsidies have formed an important plank of government policy, especially through the 1960s and 1970s, and there is reportedly an implicit 'social contract' in Malawi between smallholders and the state, with state organisations (e.g. the Agriculture Development and Marketing Corporation (ADMARC)) perceived as having an important role to provide in times of need (Chinsinga, 2007). Agricultural subsidies were removed under structural adjustment, leaving just the DFID-funded TIP, until this was withdrawn in 2004, prompting a political backlash.

The possible reintroduction of a fertiliser subsidy became a major campaigning issue during the 2004 presidential election (Chinsinga, 2007), and in June 2005 the new president announced the expansion of the TIP, to be targeted at resource-constrained, but productive, maize farmers, using coupons (ibid). The programme would reach about 2.8 million farmer households (of an estimated 3.4 million). This was more than the 1.5 reached by TIP, but fell short of expectations of a universal subsidy. Opposition parties lobbied for a universal subsidy and eventually this was agreed. Critics saw this as regressive, fiscally unsustainable (costing \$35 million per year)<sup>27</sup> and likely to undermine years of attempting to liberalise Malawi's markets and countering the policy to enable private sector investment. There were concerns that huge wastage and corruption would result. No donors supported the 2005/06 programme: government bore the full cost (ibid).

There were divergent views within the donor community, with some arguing against all subsidies because they would undermine the private sector (IMF, US Agency for International Development (USAID)) and others questioning the government's capacity to deliver and highlighting the difficulties of targeting (World Bank, European Union (EU), DFID), while others still backed the subsidy because of the importance of improving food security but supported phasing-out over time, once farmers had built up their capacity and asset bases (UN agencies, Scandinavian donors) (Chinsinga, 2007). Because the policy to introduce a fertiliser subsidy was clearly backed by the electorate, donors reluctantly toned down their anti-subsidy rhetoric and identified ways to improve targeting and limit damage to the private sector. They analysed the programme and placed conditions on supporting the subsidy in subsequent years. They wanted to see greater involvement of the private sector in procurement and distribution of subsidised fertiliser, for farmers to have a choice in the type of fertiliser they received and the outlets they could obtain it from; an extension of the subsidy to crops other than maize and tobacco (to support diversification); and the development of plans for marketing and storage, particularly for periods of surplus production (Chinsinga, 2008a). (The programme was subsequently adjusted to be more narrowly targeted, and expanded to cover not just maize but a range of other crops. The private sector has been involved in distribution in some years but not in others.)

Good rains and reasonable fertiliser distribution led to bumper crops in 2005/06, reversing the food insecurity of the previous year (Chinsinga, 2007), reducing maize prices and increasing wages for casual labour (Chinsinga, 2008a). Malawi became a net exporter of maize.

<sup>27</sup>. Costs ballooned in 2005/06 to \$53 million or 8% of the national budget.

### Box 3. Critiques of FISP – highlights

Several critiques of the input subsidy programme include:

**Regressive:** Subsidy may have unintended regressive effects, with large farmers more able to afford the subsidised fertiliser than poor smallholder farmers.

**Agro-ecological sustainability:** Widespread use of inorganic fertilisers can have detrimental effects on water courses, soil fauna and soil health. Maize farming dominated by hybrid maize can reduce genetic diversity of the crop (Dorward and Chirwa, 2011).

**Market distortion and leakage:** Subsidies – particularly where parastatals are involved in their delivery – can distort markets, crowding out the private sector (Ricker-Gilbert et al., 2011) and creating opportunities for corruption (Dorward et al., 2008a). Effective targeting of fertiliser subsidies can be challenged by diversion and leakage (to large farmers, across borders), which raise the cost of the subsidy programme and reduce its efficiency (ibid). The subsidy may lead to overuse by the target group or the adoption of input-intensive rather than labour-intensive farming methods.

**Fiscal unsustainability:** It is not clear the programme is building a sustainable basis for poverty reduction by enabling poor farmers to accumulate assets and graduate from reliance on the subsidy (Chirwa et al., 2010b). Benefits experienced so far are more likely to persist if the subsidy is complemented by social protection interventions (such as a well-managed strategic grain reserve), agricultural policies (especially research and extension and seasonal finance) and other essential investments (notably in rural road infrastructure) (Devereux, 2009; Dorward et al., 2008a).

**Opportunity costs:** When considering the cost effectiveness of the programme, it is worth questioning whether the resources invested in the programme are matched by similar investments in infrastructure or the health and education sectors.

#### 4.2 Macroeconomic stability: fiscal balancing, reduced interest and inflation

Increased agricultural production has contributed to and benefited from macroeconomic stabilisation, low interest rates and controlled inflation. There has been a two-way causality, a mutual reinforcement. Between 2004 and 2010, macroeconomic policy focusing on **fiscal discipline** contributed to Malawi's current economic growth (World Bank, 2009). As one respondent said, the 'macroeconomic policy [of the Mutharika regime] is one area that helped to anchor growth.' Loose fiscal and monetary policy under Muluzi (prior to 2004) resulted in a widening fiscal imbalance, real interest rates exceeding 20% and inflation reaching almost 80% in early 1995. This resulted in the retreat of donors from the country and a collapse in private investment (World Bank, 2009).

The Mutharika regime, which gained power in 2004, brought about rapid change in public finance. For the first time since 1994, Malawi remained within its planned budget, and consequently enjoyed a drastic improvement in its fiscal position (AfDB and OECD, 2008; World Bank, 2009). The positive implication of fiscal discipline was an increase in donor inflows, which reduced the crowding-out effect of government borrowing and freed up resources for private sector investment. The private sector is reported to have resumed growth in 2004 (ibid).

Malawi has reduced its **inflation rate**, reported at 7% per annum at the end of July 2010 (NSO). The Reserve Bank of Malawi has therefore not considered it necessary to tighten monetary policy, which would entail increasing interest rates (OECD and AfDB, 2008). The **base rate** was cut from 15% to 13% in August 2010. From a base rate that reached 60% in 2002/03, this is a notable achievement. A large component of the Consumer Price Index basket is food, which represents 58% (largely maize). Thus, adequate maize supplies in recent years have contributed to stabilising inflation.

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### 4.3 National ownership and coherence of development policy

Since independence, Malawi's national development planning has been largely disjointed and donor-driven. Recent policy processes show that policy coherence and national ownership of development policies have improved. This has contributed to progress in economic conditions by reducing inefficiencies that resulted from disjointed policymaking, prioritising the allocation of government funds according to nationally agreed objectives and supporting sustained coherency of development policy.

Until 1994, poverty did not feature on the development agenda; rather, the country focused on economic growth. Development planning was approached through 10-year plans.<sup>28</sup> After Banda's regime, the goal shifted to poverty reduction, and policies and programmes were introduced. These include the Medium-Term Economic Framework in 1994, the Policy Framework for Poverty Reduction in 1995, the Malawi Poverty Reduction Strategy (MPRS) in 2002 (Wold et al., 2005) and, more recently, the Malawi Growth and Development Strategy (MGDS) in 2007. Such initiatives were largely externally driven by the donor community, rather than by national stakeholders, and tended to be disjointed.<sup>29</sup> Tchale et al. (2001) note that,

*'The picture emerging from the experience with a number of policies and strategies implemented so far in Malawi is that in most cases there appears to be transitory and often short-term successes unlikely to bring about sustained growth and poverty reduction.'*

In the mid-1990s, the government of Malawi engaged in a nationwide consultation to identify national development goals and objectives. This involved ordinary Malawians at the district level, the private sector, academics, civil society members and more. It culminated in Vision 2020, which reportedly reflects the goals and objectives of Malawians for 2020, setting out a foundation for long-term development.

Meanwhile, the MGDS,<sup>30</sup> designed to run from 2006 to 2011, outlines the overarching operational medium-term strategy for Malawi to attain Vision 2020. To ensure the appropriate allocation of resources to roll out the MGDS, it is aligned with the budget.<sup>31</sup> The MGDS provides a framework under which the international community can contribute to development planning. As one government respondent stated, 'no donor in Malawi can talk about a programme or project without someone linking it with the MGDS.'

Improved policy coherence was complemented by a deepening sense of national ownership. This is reflected in increased government assertiveness vis-à-vis international actors. When compared with the disjointed and donor-driven policy processes of the 1990s, research and respondents point to a significant shift in government's attitude towards its development planning in the mid 2000s (Kumwenda and Phiri, 2009). Key informants across the board indicate increasing national ownership of development policy processes, contending that, both on paper and in practice, the MGDS is more strongly nationally owned than previous development strategies. As one donor respondent reported, 'it is coming out clearly, the government is taking ownership of the development agenda.' A concrete example of national ownership includes the monitoring and dissemination of the MDG indicators by the Ministry of Development Planning and Cooperation (MoDPC). Although the process is largely financed by donors, development partners are reportedly not included in data collection or analysis.

<sup>28</sup>. The first Statement of Development Policies covered the period 1971 to 1980, the second 1987 to 1996 (Vision 2020).

<sup>29</sup>. The country's Vision 2020 report, outlining development objectives, states that, 'There is increasing concern that in spite of past economic growth rates which compared favourably with other sub-Saharan countries, progress on basic long-term development goals has been slow and somewhat disjointed [...] [and] has necessitated the use of long-term strategic thinking and management of the development agenda. The Vision framework provides one such long-term strategic approach to development management' (GoM, 1998).

<sup>30</sup>. A 2005 review of the MPRS by the government showed the strategy emphasised poverty reduction without much focus on growth (Kumwenda and Phiri, 2009). The MGDS attempts to reconcile the poverty focus in the MPRS with a growth strategy.

<sup>31</sup>. However, challenges remain. Respondents highlighted two key operational challenges to ensuring all parts of government are work towards a single set of objectives and share an overarching plan of action. First, the disjoint between sectoral and national development policy: sectoral policies were developed by their respective ministries prior to the MGDS, without significant amendments post-MGDS. Nonetheless, sectoral policies are assessed against MGDS objectives. Meanwhile, the incentives are not in place to promote coordination between ministries, undermining policy coherence. Second, although ministries develop a five-year plan and budget, parliament passes budgets on an annual basis. Each year, the case must be made for a long-term plan. Changes in priorities, leadership or government thus undermine the sustainability of a medium-term development plan: budgeting for subsequent years of the plan is not guaranteed.

#### 4.4 The current situation with regard to sustaining recent progress

A number of key challenges have the potential to undermine the sustainability of recent progress in Malawi. The government seems to be conscious of these challenges and is trying to manage them.

##### 4.4.1 Macro-level challenges

###### Foreign exchange constraints

Foreign exchange is important for Malawi's sustained progress in economic conditions, for two main reasons. First, it enables Malawi to manage its exchange rate. Without sufficient foreign exchange, the government is unable to prevent significant fluctuations on the exchange rate or to foster investors' confidence in the currency. Second, few inputs are produced in Malawi, therefore sustained progress (through agriculture as well as through diversification) requires high levels of imports. Fuel and fertilisers are two key imports and inputs into Malawi's economy. Insufficient foreign exchange limits the extent of imports into an economy, thus undermining the country's potential for growth, as well as entrepreneurship and diversification initiatives.

Malawi relies on two main sources of foreign exchange: donor aid and tobacco exports. Both can be erratic, and thus provide insufficient sources of foreign exchange for sustainable development. Aid flows can be unreliable and inconsistent, and are often subject to unilateral decisions by donor countries. Recent falls in aid flows following the 2008 financial crisis are a concrete example of this risk. Commitments do not necessarily reflect the amount of funds allocated to a country. In 2010, for example, DFID retracted £3 million from its budget support, following the controversial purchase of a presidential jet by the government, which argued that it had used proceeds from the sales of an old jet through the Ministry of Defence budget.<sup>32</sup>

Malawi's foreign policy has shifted away from conventional donors. One government respondent indicated that, although the UK remains the single largest donor, Malawi has diversified its portfolio. It has received development assistance from China and has approached Iran and Cuba.

Agriculture contributes 90% to the country's foreign exchange earnings (GoM, 2010). However, revenue from tobacco is subject to international prices and to weather conditions. Demand for Malawi's burley tobacco is also at risk of declining, as additives used in the production of this type of tobacco have been banned in Canada, given their health hazards (Chiyembekeza, 2010). Although Canada is not a significant buyer of Malawian tobacco, this has set a precedent, and Norway and the EU are pushing for a world ban. A large majority of tobacco produced in Malawi is of the burley type, so a global ban on burley tobacco would have devastating implications for Malawi's economic and social development (ibid). Malawi is also disadvantaged by transfer pricing, whereby the value of tobacco exported does not match international market value because companies based in Malawi sell tobacco to their sister companies, which then sell the tobacco at higher prices and do not remit the full value to Malawi. To address these challenges, Malawi aims to produce cigarettes in Malawi and thus eliminate the middlemen. One government respondent indicated that contracts had been secured with two companies to start cigarette production in Malawi. By exporting higher value-added cigarettes, rather than tobacco, Malawi's profit margin on tobacco increases.

###### Reliance on agriculture for progress in economic conditions

A significant portion of Malawi's progress in economic conditions has been underpinned by agriculture, which in 2006 represented 33% of GDP (Figure 2). Shocks to agriculture (stemming from climate, crop prices, input prices or pests) pose a real threat to Malawi's progress. Meanwhile, high fertiliser prices threaten to undermine the input subsidy programme and its impact on poverty, food security and growth (Dorward and Chirwa, 2011).

To address vulnerabilities relating to the vagaries of the weather, Malawi has implemented two key strategies. In the late 2000s, Malawi has been buying weather-indexed insurance from the International Development Association (IDA), with DFID funding. The premium is \$500,000, and a payout of \$5 million is provided if harvests fall below 90% of the national food requirement (2.5 million metric tonnes in 2010). Although the payout is very small, it is enough for Malawi to intervene in the food market and lock in lower prices in the event of generalised food deficits in the region. Second, Malawi has developed an irrigation programme, the Greenbelt Initiative, to wean itself off dependence on rain-fed agriculture. As the initiative is largely dependent on electric pumps, its success will depend on energy supply, which has been erratic. Another strategy to reduce dependence on rainfall is diversification of the economy away from agriculture. This is currently limited by lack of foreign exchange availability and the low skills base of the labour force.

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#### 4.4.2 Structural challenge

##### **Lack of skilled labour undermines sustained growth and diversification efforts**

Lack of skilled labour is a significant impediment to diversification, private sector development and economic growth. There is widespread agreement that shortage of skills is one of the leading constraints in Malawi's development (AfDB and OECD, 2008). This has two underlying causes: a weak education system and a curriculum that does not meet employers' requirements (Ibid). As we have seen, there is a shortage of teachers, schools often lack basic facilities and access may involve difficult travel.

##### **Weak enabling environment for private sector development**

Although improvements are evident, the weak enabling environment for private sector development remains a key challenge for development in Malawi. This comprises primarily poor access to finance, high costs to business and infrastructure constraints. It is a legacy of high levels of corruption (particularly until mid-2004) and limited investments in infrastructure, which has meant an inadequate business environment to attract FDI to support economic diversification.

Poor access to finance is the principle barrier. Although interest rates have fallen, several structural challenges in the finance sector inhibit access to credit. For example, 'the lack of a national identification system makes it difficult for banks to share credit-scoring information' (AfDB and OECD, 2008); such a system would enable banks to make informed decisions on whom to lend to, reducing risks and potentially further reducing interest rates.

Weak infrastructure is among the most significant barriers to long-run economic development in Malawi. This challenge is shared with countries in the sub-Saharan region. For example, lack of an adequate water and sanitation system, especially in the dry season, inhibits private sector and industrial development (Kaluwa et al., 1997). Malawi is a landlocked country: transport costs are high both from port of entry and internally. For example, transport costs may account for up to 50% of the costs of production in some export sectors – such as tobacco, sugar, tea, cotton and coffee (AfDB and OECD, 2008). This undermines product competitiveness on the international market. Malawi also suffers from inadequate energy-generating capacity. To enable private sector development, particularly in mining, requires a significant expansion in this regard.

##### **Thin maize markets and small landholdings**

A thin maize market is one where only a small proportion of output reaches the market and, thus, small changes in production contribute to high price instability across the country.<sup>33</sup> This 'thinness' in Malawi results from a farm structure in which most farm household do not sell maize. There are numerous constraints to production: inadequate landholding size to produce a surplus (the average farm household has a meagre landholding size of 1.25 ha;<sup>34</sup> inability to afford fertiliser; sub-optimal use of available inputs owing to limited knowledge; etc. (Jayne et al., 2010).

Surplus of food production in Malawi exists alongside high levels of food insecurity, whereby food does not reach certain markets and poor people in particular areas do not have the purchasing power to obtain maize. Despite being a relatively small country, Malawi is diverse in terms of weather and land conditions. Some areas are more prone to drought and floods. This, coupled with a thin maize market, means aggregate surpluses reported by government do not necessarily reflect surpluses in maize production across all regions. Respondents cited two bordering districts in the north: Chitipa is a lush district with a constant and vibrant crop production, whereas Karonga tends to be much drier. Price differences across these borders can differ by 30% to 60%.

Deepening the maize market through better distribution systems of maize<sup>35</sup> or increasing landholding size to enable farmers to produce surpluses, for example, is essential to sustained progress in both poverty reduction and human development.<sup>36</sup>

<sup>32</sup>. [www.africanews.com/site/list\\_message/29704](http://www.africanews.com/site/list_message/29704).

<sup>33</sup>. This owes to an inelastic demand for grain (Jayne et al., 2010).

<sup>34</sup>. According to results from a 2008/09 survey.

<sup>35</sup>. Although markets tend to ensure the efficient allocation of goods across an economy, when people lack the purchasing power to buy maize (for example because their crop fails), markets fail. Government intervention is necessary at this point, to avert a food crisis. Key challenges undermining the redistribution of maize in Malawi are dual. First, poor transport and communication links hinder domestic and international linkages. Second, administrative systems are slow to respond when markets fail. Respondents explained that ADMARC, which is charged with intervening when markets fail, is inefficient and creates market distortions (GoM and World Bank, 2006; World Bank, 2009).

<sup>36</sup>. There is also a cross-border trade of goods, to and from Mozambique and Zambia. Districts running surplus or deficit maize production often link with neighbouring countries' maize markets.

#### 4.4.3 Political-economic challenges: patronage politics

Malawi is a neo-patrimonial state. It has performed better than might have been expected for significant periods. This seems to have been influenced by the way rents<sup>37</sup> have been created and distributed, the existence of a disciplined economic technocracy and inclusive politics. Malawi's neo-patrimonial politics also help explain decision making around agriculture and social protection since independence (see Devereux, 2009).

Neo-patrimonial politics can also distort policymaking and budgetary allocations, undermine policy coherence and therefore undermine sustained progress in economic conditions. Ethnic rivalries are made worse by politicians strengthening local power bases through patron–client relations (Chirwa, 1998, in Wold et al., 2005). This practice is said to have been inherited from Banda's time, when the distribution of government budgetary resources was influenced by a desire to consolidate power bases (Chipeta and Mkandawire, 2002). Malawian politics is still characterised by patronage and regional relations rather than ideological or political commitment. Some are alarmed by recent developments, with Mutharika attempting to centralise political power, disputes over who will next lead the DPP and appointments being made based on ethnicity and region (Cammack et al., 2010).

<sup>37</sup>. Rents are taken to mean profits from monopoly trading, income from subsidies, income that comes from owning (naturally or artificially) scarce resources and/or income from corruption (Cammack et al., 2010).

## 5. Conclusions

Malawi has made significant progress in economic conditions. Between 2004 and 2009, it achieved economic growth rates well above the sub-Saharan average, it enjoyed notable poverty and inequality reduction and it saw improvements in child health. Key factors that contributed to progress included: an appropriate and effective agriculture input subsidies programme; the stabilisation of macroeconomic fundamentals; increasing national ownership; and improved development policy coherence.<sup>38</sup>

### 5.1 Key lessons

Malawi illustrates that progress in development is neither linear nor straightforward. Rather, it is a difficult and circuitous process of successful and failed attempts at development, with intentional and unintended effects: two steps forward, one backward and another sideways. Key lessons are as follows:

- **Development policy targeted to sectors and areas where the majority of poor people work and live.** Malawi is in a low productivity trap that contributes to food insecurity and poverty and constrains economic growth and diversification out of maize and agriculture (Dorward and Chirwa, 2011). As most people work in agriculture (mainly maize), and as rural areas account for 88% of Malawi's population and 52% of its poor people, enabling this group of people to increase maize and other crop yields has, by extension, led to poverty reduction, improved food security and more equity in society.
- **An appropriate and effective agriculture input subsidies programme.** Tailoring the design and implementation of the targeted programme to the target group's context and needs is essential. Effective targeting enables controlling costs, reducing displacement and increasing effective use of subsidies to generate incremental production and to increase land and labour productivity (Dorward and Chirwa, 2011). The most recent programme has been successful for a number of reasons relating to programme design: a target group of productive but resource-constrained smallholder farmers – as opposed to the poorest farmers; a coupon/voucher approach to targeting; a larger package of fertiliser and seed when compared with previous packages; a subsidy; and a vested interest by politicians to revise and amend programme design to improve its effectiveness.
- **Increased agricultural production can contribute to and benefit from macroeconomic stabilisation.** In Malawi, agricultural growth has contributed significantly to economic growth and the stabilisation of inflation. Inversely, a stabilised macro economy has stimulated private sector investment and donor assistance to the country, enabling investment in agriculture.
- **Development planning that is nationally owned contributed to more coherent and effective policymaking.** Historically, Malawi's development planning has been disjointed and driven by external actors. Increasing national ownership has enabled policymakers to adhere to a more coherent and long-term policy agenda. Respondents provided various examples of increased assertiveness of government officials vis-à-vis donors and international actors, such as in the design of the MGDS and FISP and their monitoring of the MDGs. The commitment to poor people means that poverty and inequality in Malawi is being addressed, which has had positive implications for the pattern of growth in the country.

### 5.2 Challenges

The sustainability of progress in Malawi depends on whether the country can address its foreign exchange constraints, reduce its reliance on rain-fed agriculture, improve the international competitiveness of its labour force, strengthen its enabling environment for the private sector and deepen the maize market in the country. Please see Section 4.4 for a more detailed analysis of the challenges.

<sup>38</sup>. To examine Malawi's recent progress, one has to triangulate academic and grey literature, quantitative data (produced by international and national statistics offices) and key informant interviews. Factors contributing to and undermining Malawi's progress are multiple and linked. Identifying the most important factors means some other important factors have not been included: their inclusion would exceed the ambit of a brief case study. For more detail, we refer the reader to the bibliography. Malawi provides several lessons and policy recommendations on progress in development.

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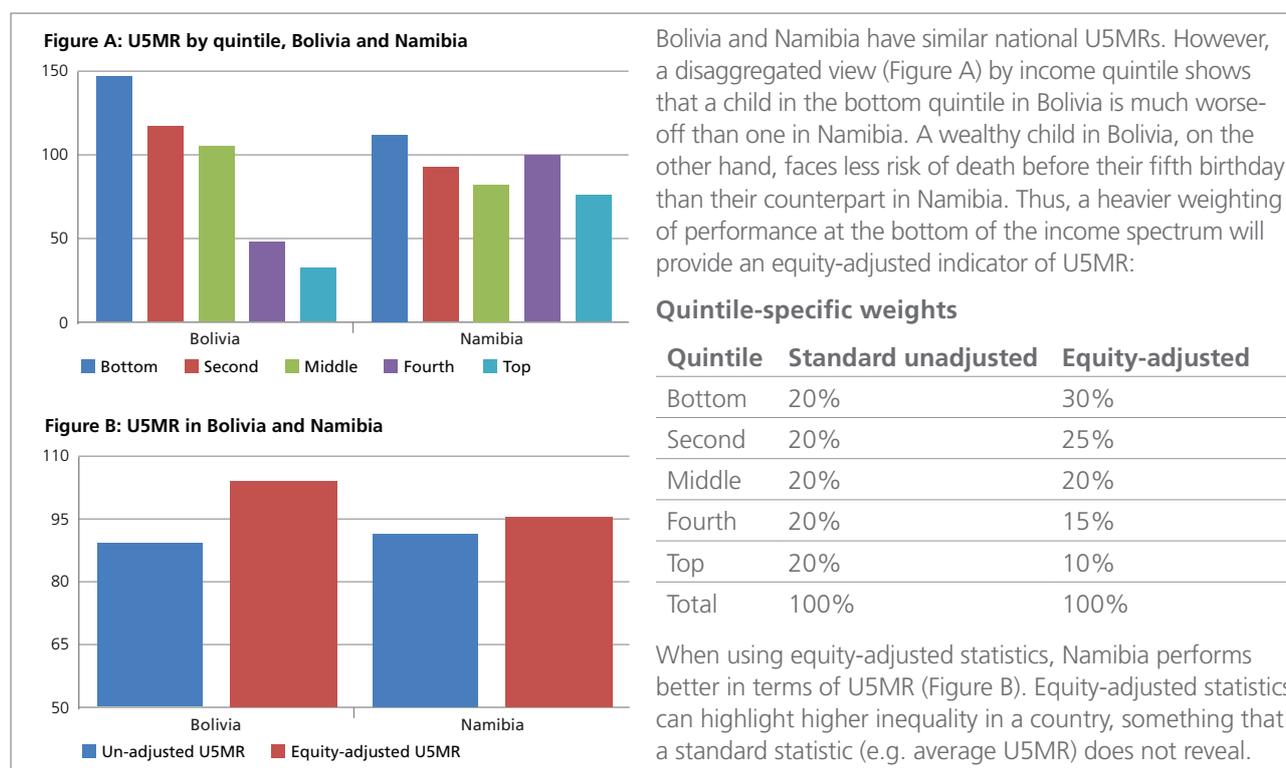
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# Annex 1: Equity-adjusted indicator explained

Aggregate data (MDG and WDI databases) point to substantial progress, and disaggregated data on child health (the DHS and MICS) point to equitable progress. This paper focuses on U5MR,<sup>39</sup> which was selected because it reflects wider health and education problems and because it is well-documented statistically.

Equity-adjusted indicators aim to capture the distribution of human development outcomes. Here, the equity-adjusted indicator used is derived from the Vandemoortele and Delamonica (2010) methodology, whereby progress among poorer quintiles is weighted more heavily (see Box below). Equity-adjusted indicators capture both the scale and distribution of performance on a human development indicator. Essentially, equity-adjusted indicators reflect the level of performance, and are adjusted upward for more equitable performance and downward for inequitable progress.

## What does equity-adjusted analysis look like? Equity-adjusted indicators by income quintile, U5MR in Bolivia vs. Namibia



Source: Vandemoortele and Delamonica (2010).

To measure the distribution of progress (i.e. distinct from the scale), the gap between the equity adjusted and standard indicator is compared (in relative terms). A widening of this gap points to inequitable progress. In other words, poorer quintiles experienced fewer improvements than their wealthier counterparts.

<sup>39</sup> U5MR reflects a host of social, economic and basic service-related factors, and in turn influences average life expectancy at birth. It also reflects: nutritional health and the health knowledge of mothers; level of immunisation and oral rehydration therapy use; availability of maternal and health services (including antenatal care); income and food availability in the family; availability of clean water and safe sanitation; and overall safety of a child's environment. UNICEF thus identifies U5MR as its single most important indicator of the state of a nation's children.

## Annex 2: Principal changes in Malawi's agricultural subsidy programme design and implementation, 2005/06 to 2008/09

	<b>Subsidised inputs</b>	<b>Voucher distribution system</b>	<b>Voucher redemption systems</b>	<b>Other system innovations</b>
2005/06	Maize and tobacco fertilisers, maize seed (OPV)	District allocation by maize areas, distribution through traditional authorities	Only through Smallholder Farmers Fertiliser Revolving Fund of Malawi and ADMARC	
2006/07	Maize and tobacco fertilisers, maize seed (hybrid & OPV)	District allocation by maize areas, distribution varied, through local government, traditional authorities, VDCs, MoAFS	Fertilisers also through major retailers; flexible maize seed vouchers through wide range of seed retailers	Coupons specific to fertiliser type; fertiliser buyback system; involvement of logistics unit
2007/08	Maize and tobacco fertilisers, maize seed (hybrid & OPV); legume seed (limited); cotton seed and chemicals	District allocation by farm hh and area, distribution through MoAFS and VDCs	Fertilisers also through major retailers; flexible maize and legume seed vouchers through wide range of seed retailers; cotton inputs through agricultural development divisions	Reduced copies of coupons; remote extension planning area premium; fertiliser buyback system
2008/09	Maize, tobacco, tea and coffee fertilisers, maize seed (hybrid & OPV); legume seed, cotton seed and chemicals; maize storage chemicals	District allocation by farm hh and area; use of farm household register, open meetings for allocation and disbursement led by MoAFS	Fertilisers only through ADMARC and SFFRFM; flexible maize and seed vouchers through wide range of seed retailers; cotton inputs through agricultural development divisions	Extra coupon security features and market monitoring; no remote extension planning area premium; ADMARC computers for voucher processing

Source: Dorward and Chirwa (2011), based on Logistics Units reports; 2005/06 (CISANet), 2006/07 (SOAS et al.) and 2007/08 (MoAFS) evaluation reports; key informants; and MoAFS Implementation Guidelines.