



Poverty in Malawi: Current status and knowledge gaps

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As in many developing countries, poverty reduction is a primary development goal in Malawi. The country is committed to the Millennium Development Goals (MDGs), which seek, among other things, to eradicate extreme poverty and hunger. Over the years, the Malawian government has pursued poverty reduction efforts through various strategies emphasizing economic growth, infrastructural development, and the provision of basic social services. These strategies have included: the Poverty Alleviation Program (1994); the Malawi Poverty Reduction Strategy (2002–2005); and, more recently, the Malawi Growth and Development Strategy (MGDS) (2006–2011 and 2011–2016). Despite these various policies and measures, poverty remains widespread in Malawi. This brief reviews the poverty literature and data in Malawi with the aim of developing a poverty profile, describing recent poverty trends, and identifying the determinants of poverty. Based on the analysis, existing knowledge and research gaps are identified and briefly discussed.

Socio-economic context

Malawi's recent growth experience (2004–2010) has been hailed as an African success story. GDP grew at an average annual rate of 6.8 percent, while the poverty headcount rate declined from 52 to 39 percent (Table 1). These outcomes should be understood within the context of the much acclaimed Farm Input Subsidy Program (FISP) that dominated the policy front during this period. Implemented in 2005/06 as a response to low input use generally and severe food supply shortages during the 2004/05 growing season in particular, the policy primarily aimed to provide low-cost maize and tobacco fertilizer and improved maize seeds to poor smallholders (a legume seed component was later added but the focus remained on maize). It did so with great effect: official crop statistics show that maize yields more than doubled from around 0.8 to 2.0 metric tons per hectare between 2004/05 and 2009/10. Tobacco farmers also expanded production at an average annual rate of 13.1 percent over the same period.ⁱ

Since maize and tobacco are key agricultural sectors in Malawi, the growth in these two sectors was largely responsible for Malawi's strong agricultural GDP growth of 7.5 percent per annum during 2004–2010. Agriculture, in turn, is the backbone of the Malawian economy, not only in terms of its share of GDP (estimated at around 30 percent), but also in terms of its socioeconomic importance (around 80 percent of the workforce are employed in the sector, many of whom are poor). Agricultural growth therefore also plays a key role in reducing poverty.

Poverty profile and poverty trends

Despite recent advances, poverty remains widespread in Malawi. Table 1 shows poverty headcount rates measured at two poverty lines distinguishing “poor” and “ultra poor” individuals. Results are shown for rural/urban areas as well as across the three regions of Malawi, and are based on: the Welfare Monitoring Surveys (WMS) (2005–2009), and two waves of the Integrated Household Survey (1998 or IHS1, and 2005 or IHS2), all conducted by the National Statistical Office in Malawi.

Unlike the more comprehensive IHS, the WMS does not collect consumption expenditure data, a standard metric for measuring poverty; instead, consumption is imputed. Comparisons between WMS and IHS should therefore be made with caution. Nevertheless, the series does suggest a sharp decline in poverty, from 52 to 39 percent, and in ultra poverty, from 22 to 15 percent, over the FISP implementation period. Table 1 further reveals a much higher incidence of poverty in rural areas compared to urban areas. Since 85 per cent of the Malawian population lives in rural areas, the vast majority of the poor are in fact located in rural areas (96 percent).ⁱⁱ Both rural and urban areas have experienced significant reductions in poverty; for instance, urban poverty reduced from 25 to 14 percent between 2004 and 2009, while rural poverty declined from 56 to 43 percent over the same period.

The more rapid rate of decline in urban poverty may seem puzzling given that FISP almost exclusively

targeted rural households. This outcome may be due to three possible factors. Firstly, as net consumers of maize, urban households benefit from low prices arising from an increase in maize production under FISP. Rural households, on the other hand, and especially those that are net producers, may in fact be affected negatively by low prices. Secondly, 2004–2010 saw sharp growth in urban-based industries such as construction, while many urban-based firms benefited from FISP service contracts. Finally, measurement error may have occurred, particularly since poverty estimates from the WMS are based on imputed consumption expenditures rather than actual values. The third integrated household survey (IHS3) will hopefully provide more reliable estimates of the expenditure changes between 2004 and 2010.ⁱⁱⁱ

Table 1: Poverty rates in Malawi: 1998–2009

	IHS 1998	IHS 2004	WMS 2005	WMS 2007	WMS 2009
<i>Proportion poor</i>					
National	54	52	50	40	39
Urban	19	25	24	11	14
Rural	58	56	53	44	43
Northern region	56	56	51	46	31
Central region	48	47	46	36	41
Southern region	68	64	60	51	51
<i>Proportion ultra-poor</i>					
National	24	22	21	15	15
Urban	5	8	8	2	3
Rural	26	24	23	17	17
Northern region	25	26	21	18	9
Central region	16	16	16	11	13
Southern region	35	32	30	22	23

Source: National Statistical Office (various years).

Notes: “Poor” and “ultra poor” poverty measured at poverty lines of MK16,165 and MK10,029 per capita per annum respectively (equivalent to US\$575 and US\$357 in PPP Dollars).

Table 1 disaggregates rural poverty rates across Malawi’s three regions. Poverty rates in the rural south have historically been highest, while those in the north are lowest. The relative disadvantage of southerners relates in part to land constraints in the face of high population density: the 2008 Population Census puts the population density in the south at 184 persons per square kilometer compared to only 63 in the north. Plot sizes are thus smaller in the south, which results in lower agricultural output per capita.

Although not reported in Table 1, poverty in Malawi takes on a distinct gender dimension. Data from the IHS2 indicate that in rural areas, about 55 percent of people in male-headed households are poor, compared to 60 percent in female-headed households. By contrast,

one in four people in male-headed urban households are poor, compared to about a third of those in female-headed urban households.

Finally, poor households in general tend to be larger than non-poor ones and have higher dependency ratios. Household heads in poor households typically have little or no education, and have a lower likelihood of being in salaried employment or of working in a household enterprise. Instead, heads of poor households often rely on household farming, fishing activities, and *ganyu* (informal off-farm labor) for income.^{iv}

One feature of Malawi that stands out is its fairly equal distribution of income, compared to other countries in the region. The most recent estimates from the *World Development Indicators* puts the Gini coefficient at 0.39 in 2004, compared to 0.47 in Mozambique (2003), 0.51 in Zambia (2004), and 0.58 in South Africa (2000). Of course, the degree of inequality changes over time and comparability with other countries is uncertain due to paucity of good data.

Vulnerability and the determinants of poverty

Malawian households are vulnerable to a number of shocks that may increase their likelihood of being poor. A World Bank study in 2006 lists four major shocks deemed important by households. First, given the prominence of rain-fed agricultural production systems in Malawi, climatic shocks have potentially severe implications for household welfare.^v Second, animal and plant diseases, which may lead to major crop and livestock losses. Third, price volatility of maize, tobacco, and fertilizer is a major source of vulnerability to households. Finally, health shocks mostly due to HIV/AIDS, malaria, tuberculosis, and anemia are pervasive in Malawi. The economic implications of poor health are wide-ranging; for example, household income may be negatively affected by illness and death of productive adults, but also due to medical and funeral costs incurred by family members and time lost caring for the sick.

A number of studies have looked at the determinants of poverty in Malawi.^{vi} In summary, the studies find that human capital, physical infrastructure, ownership of productive assets, access to wage employment, and participation in agriculture all tend to lower the likelihood of being poor. Having additional children, on the other hand, is found to increase monetary poverty, but reduces subjective poverty. Severe weather shocks often drag households below the poverty line and limit the extent to which they can invest in inputs for the next production cycle. In addition to this, Malawi’s high

import intensity means real exchange rate fluctuations or international price shocks have a significant impact on the domestic economy.



Groundnut farmer in Khulungira, Central Malawi.

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What are the knowledge and research gaps?

Although several poverty studies have been conducted in recent years in Malawi, research gaps still exist, which, if filled, would further improve our understanding of poverty in Malawi. Without purporting to be exhaustive, we briefly present a list of these knowledge gaps and also reflect on the feasibility of undertaking such studies.

Poverty and income distribution: Despite the documented decline in poverty between 2004 and 2009, no study has investigated how much of this decline is due to a redistribution effect and how much arises from growth itself. The decomposition method by Datt and Ravallion (1992) or its variants can be used, and the data required is available.^{vii}

Regional poverty and migration: No study has determined to what extent changes in poverty can be attributed to gains or losses within sectors or region as opposed to migration between sectors or regions. The decomposition technique of Ravallion and Huppi (1991) or its later modifications can be used, and this is also feasible with the available data.^{viii}

Vulnerability: Poverty is dynamic and stochastic; households might not currently be poor, but they may be prone to become poor due to adverse shocks. It is not always clear who are vulnerable, and accordingly, eradicating poverty entails both the identification of who are poor today and of ways to protect households that may become poor in the future. A sound poverty reduction strategy must therefore incorporate two

elements: (i) poverty alleviation programs to mitigate the adverse effects of current poverty; and (ii) poverty prevention programs that reduce the risk of becoming poor. Strictly, speaking, such vulnerability analyses require panel data, although the World Bank (2006) uses static probabilistic concepts of vulnerability to poverty in lieu of panel data. Still more needs to be done.

Chronic and transient poverty: The dynamic nature of poverty entails that some households may be poor temporarily (transient poverty), while others may be persistently poor (chronic poverty). Such a classification is useful to policymakers; for instance, programs that offer insurance against asset depletion may be ideal to address transient poverty, but for the chronically poor appropriate policies may constitute social assistance or programs aimed at accumulation of human and physical assets. Such an analysis also requires panel data, with the Jalan and Ravallion (1998) methodology or its variants being appropriate.^{ix}

Multidimensional poverty: The empirical analysis of poverty and inequality often tends to be based on income or consumption expenditure as a measure of well-being. Malawi is no exception in this regard. However, the weak correlation between income (or consumption) and welfare means income may not be a good indicator of welfare; hence, as Sen (1985) argues, poverty measurements should go beyond income and look at other dimensions of well-being such as health, education, empowerment, freedom of association, and so on.^x Income is often instrumentally important as a means of achieving other dimensions of well-being, but the other dimensions of well-being are intrinsically significant, and hence deserve recognition.

Future research

The IFPRI-Malawi research team intends to contribute to filling the knowledge gap on multidimensional poverty. The literature in this area is scanty. Mussa's (2010) analysis includes only three dimensions, namely a monetary dimension, educational attainment, and health (measured by height-for-age scores). The analysis disregards possible correlation among dimensions, and also fails to disentangle the contribution of each population subgroup and each dimension to overall multidimensional poverty. Using the 2004 Demographic and Health Survey, Alkire and Santos (2010) also conduct a multidimensional poverty analysis for Malawi including several education, health, and living standard dimensions, although monetary income measures are not available in the data they use.^{xi}

The proposed IFPRI analysis will contribute in three ways. First, the soon-to-be-released IHS3 will allow for a more detailed analysis across more dimensions (including monetary income) and in greater analytical detail. Second, the Alkire and Foster (2008) method will be used, which permits recognition of possible

correlation between and among dimensions, as well as subgroup and dimensional decompositions.^{xii} Finally, the study will evaluate trends in multidimensional poverty by comparing IHS2 and IHS3. In particular, this would permit an assessment of changes in multidimensional poverty from a time prior to the implementation of FISP.

Endnotes

- i. GDP growth estimates from National Statistical Office (national accounts); crop statistics from Ministry of Agriculture. Poverty estimates from the Welfare Monitoring Surveys and the Integrated Household Surveys (rounded to the nearest percentage point in the Welfare Monitoring Survey report of 2009).
- ii. See Mussa, R. 2010. Spatial comparisons of poverty and inequality in living standards in Malawi. MPRA Working Paper Number 23576, University Library of Munich, Germany.
- iii. Also see MaSSP Policy Note 8, which reports on a CGE modeling exercise in which the consistency between national growth and poverty estimates are examined.
- iv. Ganyu A detailed poverty profile is presented in World Bank. 2006. Malawi Poverty and Vulnerability Assessment: Investing in Our Future. Washington, D.C: World Bank.
- v. See Pauw, K. Thurlow, J., Bachu, M. and Van Seventer, D. 2011. The economic costs of extreme weather events: a hydrometeorological CGE analysis for Malawi. *Environment and Development Economics* 16(2):177-198.
- vi. In addition to studies cited earlier, see Mukherjee, S and Benson, T. 2003. The Determinants of Poverty in Malawi, *World Development* 31:339-358; Bokosi, F.K. 2006. Household Poverty Dynamics in Malawi: A bivariate probit analysis. *Journal of Applied Sciences* 7:258-262; Chirwa, E. 2005. Macroeconomic Policies and Poverty Reduction in Malawi: What Can we infer from Panel Data? Working Paper No. 2005/06, Department of Economics, Chancellor College, University of Malawi; and Benson, T, Chamberlin, J and Rhinehart, I. 2005. An investigation of the spatial determinants of the local prevalence of poverty in rural Malawi. *Food Policy* 30:532-550.
- vii. Datt, G and Ravallion, M. 1992. Growth and Redistribution Components of Changes in Poverty Measures: A Decomposition with Application to Brazil and India in the 1980s. *Journal of Development Economics* 38:275-295.
- viii. Ravallion, M., and Huppi, M. 1991. Measuring changes in poverty: a methodological case study of Indonesia during an adjustment period. *World Bank Economic Review* 5:57-82.
- ix. Jalan J, and Ravallion, M. 1998. Transient Poverty in Post reform Rural China. *Journal of Comparative Economics* 26: 338-357.
- x. Sen, A. 1985. Commodities and Capabilities, North Holland, Amsterdam; Sen, A. 1987. The Standard of Living: Lecture II, Lives and Capabilities in Hawthorn, G (ed.), The Standard of Living, Cambridge University Press, Cambridge, MA.
- xi. Alkire, S. and Santos, M.E. 2010. Malawi Country Briefing. Oxford Poverty & Human Development Initiative (OPHI) Multidimensional Poverty Index Country Briefing Series.
- xii. Alkire, S. and Foster, J. 2009. Counting and Multidimensional Poverty. Chapter 3 in Von Braun, J., Hill Vargas, R. and Pandya-Lorch, R. (eds.). The Poorest and Hungry. International Food Policy Research Institute (IFPRI): Washington, D.C.

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