



*REPUBLIC OF MALAWI*

*INTERIM POVERTY REDUCTION AND GROWTH STRATEGY PAPER –  
A ROAD MAP*

**AUGUST 2000**

# MALAWI INTERIM POVERTY REDUCTION AND GROWTH STRATEGY

## INTRODUCTION

Malawi is in the process of preparing a Poverty Reduction and Growth Strategy Paper (PRSP). The final PRSP will reflect detailed analysis of macro-economic and sectoral policies and the most recent data on poverty. It will define Malawi's growth strategy and make detailed recommendations for the prioritisation of public expenditure to address the targets outlined in the strategy.

Both Government and the donor community will use the PRSP as the key paper for programming. As such, it is vital that the new framework reflects a broad consensus on effective policies targeted to growth and poverty reduction. In this regard, it is important for Government to assume full ownership of the process of developing the PRSP. The PRSP will draw on existing work on policy formulation and budgetary analysis. The PRSP will also include the most recent data on poverty from the Integrated Household Survey (IHS). The process of developing the PRSP will require the broad participation of civil society and other stakeholders including Parliament, civil society institutions and the poor themselves. This participation will help to enhance commitment to poverty reduction and also to build ownership of the process.

Consequently, the Government will embark on a preparatory process for the PRSP and will ensure that it contains the following elements:

- i) an updated poverty analysis with a gender perspective;
- ii) an examination of public expenditure and its poverty impact;
- iii) a commitment to the principle of poverty reduction;
- iv) an agreement on a sound macro-economic framework;
- v) a process of detailed consultation and specific poverty outcomes/strategies.

In the meantime, the Government has prepared a Road Map outlining the steps to be taken in developing a comprehensive PRSP, which will be developed towards the end

of this year. *It is important to stress that this is an "interim" paper intended to outline a "Road Map" for development of the final PSRP.*

#### Government commitment to poverty reduction

The PRSP presents an opportunity for the Government to re-visit its poverty reduction strategy. While poverty alleviation has been an over-arching theme, there is need to improve the process of articulating macro-economic and sectoral strategies for investment so as to have the greatest impact on raising incomes of the poor.

The Government articulated its commitment to poverty reduction in the Poverty Alleviation Programme of 1994. Since 1994, the Government has continued implementing a comprehensive economic and structural reform programme. The PRSP provides an opportunity for stock-taking, to evaluate the impact of the economic and structural reform programme and to re-focus Government's programme in light of this review.

The PRSP is intended to be a well-focused policy document, which will promote rapid economic growth and ensure that the benefits of this growth are equitably distributed. Sustainable economic growth is a pre-condition for poverty reduction, but it is necessary to define a pattern of growth in which the poor can fully participate. Broad-based and sustainable economic growth will require macro-economic stability, prudent fiscal and monetary management and sound structural and sectoral policies. This will lead to an environment of stability, low inflation and interest rates, which is conducive for robust private sector activity and investment in employment and growth. At the same time, it is recognised that entrenched poverty and lack of economic opportunities and asset endowments can themselves limit growth.

The preparation of the PRSP will ensure transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation. The strategy paper will ensure consistency between Malawi's macro-economic and structural policies and the goals of poverty reduction and social development.

The preparation of the PRSP builds on the wealth of existing work by Government aimed at developing priorities for macro-economic and sectoral performance. The Government started the process in 1996 with nation-wide consultations with civil society in order to reach consensus on national goals and aspirations. The Vision 2020 Document completed in March 1998 reflects peoples' aspirations in the areas of good governance, population, sustainable economic growth and development, vibrant culture, development of economic infrastructure, food security and nutrition, quality of social services, achieving science and technology-led development, a fair and equitable distribution of income and sustainable management of natural resources. All these will be crucial components of the planned PRSP.

The PRSP will also draw on the wealth of subsequent work by Government to articulate strategies to reach the goals specified in Vision 2020. These include the following:

- i) "Reaching the Vision: An Analysis of Growth Options", National Economic Council, 1999;
- ii) "Policy Analysis Initiative", Office of the Vice President, May 1999;
- iii) "National Strategic Framework for HIV/AIDS", Ministry of Health and Population, October 1999;
- iv) "Draft Policy Framework Paper", National Economic Council, November 1999;
- v) "Public Expenditure Review", Ministry of Finance, April 2000; and
- vi) The Medium-Term Expenditure Framework (MTEF) Review, Ministry of Finance, April 2000

The PRSP will also draw on the detailed analysis conducted by the Ministries of Education, Sports and Culture, Health and Population, and Agriculture and Irrigation for the development of Sectoral Investment Programmes (SIPs) and Sector Wide Approaches (SWAPs). The PRSP will also include recent policy statements from the Ministries of Commerce and Industry, Environment and Natural Resources and

Transport and Public Works. The PRSP will, therefore, incorporate and reflect the most recent thinking by Government on policy formulation and expenditure prioritization.

### Structure of the Paper

The Interim PRSP - A Road Map is structured in four parts. Part One reviews economic performance and reforms since 1980 and incorporates the following sections: i) economic performance and ii) structural reforms. Part Two outlines the poverty situation in Malawi. It reviews and evaluates current initiatives on poverty reduction and evaluates deficiencies in past poverty alleviation efforts. It presents some data on poverty and outlines the studies that will be used for the analysis of poverty during the preparation of the final PRSP. Part Three presents an analysis of poverty reduction and growth options. It includes a section examining options for growth and poverty reduction. The sectoral analysis of growth and poverty reduction is in three areas: super-sectoral issues, the social sectors and sustainable economic growth. The section on super sectoral issues includes an examination of HIV/AIDS and population. The section on social sectors includes analysis of education and health, while the section on sustainable economic growth includes agriculture, natural resources and environment, private sector development, economic diversification, and economic infrastructure. The discussion of the social and economic sectors reflects recent analysis of issues as is appropriate for an interim document. Sectoral priorities will be updated in the final version of the PRSP. Part Four outlines the Road Map for the development of the PRSP. It addresses issues related to the outline of the final document, the institutional framework for developing the final PRSP and establishes modalities for consultations with the donor community. The discussion of the formulation process for the Poverty Reduction and Growth Strategy Paper outlines consultations planned and the methodology, which will be adopted to determine sectoral recommendations for the final document. Part Four also concludes with a provisional timetable for preparation of the final document.

## **PART ONE: ECONOMIC PERFORMANCE AND REFORMS SINCE 1980**

Despite periods of growth, Malawi has not been able to resolve many of the economic imbalances that emerged in the 1980s. As a consequence, it has been difficult to achieve sustained growth in real output. The period has been characterised by recurring high fiscal deficits and exchange rate depreciation.

### **A. Economic Performance : Output, Inflation and Monetary Developments**

Growth in real output had been moderate from 1980 to 1989 with real GDP growth averaging 2.3 percent. Between 1988 and 1991, the country experienced remarkably buoyant growth. Real GDP growth grew from 3.3 percent in 1988 to 7.8 percent in 1991. These gains were short lived as real output growth plummeted in 1992 and 1994 due to drought. GDP growth was a negative 7.9 percent in 1992 and a negative 11.6 percent in 1994. Average annual growth in GDP was 4.3 percent between 1990 and 1999. The main challenges for Government through most of the 1990s was high inflation and interest rates, fuelled by exchange rate depreciation.

### **B. Structural Reforms**

The major focus of the early Structure Adjustment Programs (SAPs) in the early 1980s included elimination of some structural impediments through decontrolling prices, parastatal sector reform, and fiscal and monetary sector reforms. The Government focused on the private sector as an alternative source of growth. Government embarked on export diversification and expansion of the country's productive base and promoted import liberalisation since 1988. Tax and tariff reforms since 1987 were intended to rationalise the tax base while reducing tax rates. Steady progress has been achieved through the introduction of surtax, abolition of the poll tax and strengthening of tax administration. Reforms were supported by the IMF's Enhanced Structural Adjustment Facility, the World Bank's Industrial and Trade Policy Adjustment Credit and the Agricultural Sector Adjustment Credit.

These reforms led to the gradual removal of several restrictions on smallholder agriculture and allowed for the participation by private traders and access to burley tobacco production by smallholder households. This was the first explicitly pro-poor operation in Malawi. The result was a substantial increase in production and trading of cash crops by smallholder farmers leading to substantial increases in income.

The financial sector reform programme allowed the entry of new banking institutions into the financial sector and gave the Reserve Bank of Malawi greater independence in the formulation of monetary policy and strengthened its supervisory power over the banking industry. A market based exchange rate system was adopted in 1994 and the conduct of monetary policy also shifted from direct to market based instruments of monetary policy. This has increased the number of providers of credit to the private sector to spur employment creation. Despite this policy, high interest rates have had an adverse impact on private sector investment.

Recent reforms related to expenditure management, monitoring and control; civil service reform; and private sector development, have been implemented with the support of the World Bank's first and second Fiscal Restructuring and Deregulation Programmes (FRDPI and II).

The adoption of the Medium Term Expenditure Framework (MEFMI) was a fundamental reform in 1997. The MTEF was aimed at making improvements in both the allocation and quality of public expenditures in view of the great need for efficient public services and the very limited financial resources, which are available. Specifically, efforts have been made to strengthen expenditure prioritisation and to increase allocations to education and health.

The Government has also initiated several measures to improve financial management and accountability. Progress has been made in the design of a computerised Integrated Financial Management Information System (IFMIS) to strengthen the monitoring of expenditure, and an integrated fiscal reporting system linking the

Treasury with the Reserve Bank of Malawi and the line Ministries to achieve timely reconciliation of accounts.

Considerable progress has been made in the areas of Civil Service Reform and Privatisation. The Civil Service Reform Programme has included a census of civil service and the retrenchment of 20,000 temporary employees. In addition, strategic and functional reviews of Ministries form the basis of rationalisation of Government through contracting out certain functions and removal of operational overlaps. The Job Evaluation Study and Personnel Audit will allow for Civil Service Reforms to start from July 1<sup>st</sup>, 2000. The overall objective is to improve the efficiency and delivery of public services, especially those benefiting the poor - by allowing the Government to focus its efforts on the highest priority functions, and by increasing effectiveness with which expenditures are converted into services delivered.

The Privatisation Programme is intended to improve efficiency, foster competition and establish a wider base of share ownership. So far, about 25 public owned enterprises have either been privatised or brought to the point of sale. The intention is to open up opportunities to create employment generation by the private sector and to limit the burden on the Government, allowing it to focus more specifically on pro-poor public services.

#### Response to policy reforms

The wide ranging economic and structural reform programme which has been implemented since the early 1980s aimed at improving economic and sectoral performance has had major impacts on the economy. At present, there is limited analysis of the impact of economic and structural reforms on the poor. This is a complex area of analysis which will be developed in detail over the coming months, during the process of preparing the full Poverty Reduction and Growth Strategy Paper. The analysis will examine the impact of reforms in the agricultural and private sectors to assess their impact on the poor.



## **PART TWO : THE POVERTY SITUATION IN MALAWI**

### Introduction

There is no universally accepted and agreed upon definition of poverty. Indeed, contrary to common belief, poverty is not easy to quantify. Most analysts and policy makers now accept that poverty has many dimensions, which include income and basic needs elements and embraces "non-measurable" attributes such as the right to dignity, non-discrimination and social inclusion. The most recent Malawi poverty profile is five years old and is based on data from 1993. There is still need to identify and define the poor. Recent criticism of the Poverty Alleviation Programme focused on this issue arguing that the poor were not defined correctly. There is, therefore, the need to arrive at a clear definition of poverty and to consistently apply this definition to the analysis of data.

Since 1997, Government has been carrying out work intended to obtain a clear picture of the poverty situation in Malawi to understand how to reduce poverty. The first work in this area "A Study to Develop Research Policy for and the Operational Definition of Poverty in Malawi" underscored the need for some poverty definitions in revealing the dimensions and extent of poverty in Malawi.

Poverty is multi-dimensional and its definition needs to be broad enough to include both income and consumption, socio-economic well being, empowerment and an enabling environment. Poverty is, therefore, centred on the deprivation of goods and services. The final PRSP document will include data and analysis from existing data on the incidence and nature of poverty in Malawi<sup>1</sup>. Two other recent surveys will be used in the analysis. These include the Population and Housing Census and the Integrated Household Survey (IHS). This data is currently being analysed and results from the

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<sup>1</sup> Growth through Poverty Reduction, The Situation Analysis of Poverty in Malawi, A Profile of Human Resources and Poverty in Malawi, A Poverty Profile of Rural Households in Malawi, Policy Reform in Malawi, A Survey of a Decade of Experience, Participatory Poverty Assessment Using Participatory Rural Appraisal, Malawi Social Indicators Survey, Malawi Indicators of Poverty and Living conditions A Safety Net Strategy for the Poorest.

preliminary analysis are anticipated in June with the release of the 1998 Census Data and the 1997-98 IHS data. The two data sets will provide a much clearer picture of current living conditions. The data sets will be used to derive poverty lines. Analysis of both surveys will continue during the process of preparing the Final PRSP Document.

#### Current initiatives on poverty reduction

The Government is deeply concerned about the high incidence of poverty in Malawi. Despite the attainment of positive rates of economic growth, poverty remains very high. In response to the high level of poverty, Government has implemented a number of programmes and policies. The Policy Framework for Poverty Alleviation was the initial attempt to highlight areas for action. The Policy Framework emphasised that poverty alleviation was a process by which the poor are empowered economically. It also included a Safety Net Programme for those who are adversely affected either by the economic and structural reform programme or by natural disasters. Line Ministries have also reviewed their policies to determine strategies that reflect a poverty focus. The final PRSP will outline macro-economic, structural and sectoral policies and assess the impact of these policies on poverty alleviation.

The Government's poverty reduction strategy consists of a three-pronged approach :

- (i) an emphasis on smallholder agriculture, to raise the productivity and income of the rural poor.
- (ii) Promoting private-sector growth to expand off-farm employment; and
- (iii) Expanding social services.

Since 1994, the following measures have been undertaken: liberalising the growing of burley tobacco (previously the monopoly of large estates); dismantling of Government monopolies and controls on agricultural marketing, trade and commerce; substantial investments in infrastructure, and gearing up to the private provision of infrastructure, especially in telecommunication; and introducing of free universal primary education, accompanied by a doubling of expenditure on education and an increase in spending on health care.

In addition, the Government has launched programmes to empower communities and develop rural social infrastructure (the Malawi Social Action Fund, Microprojects, and District Development Funds); to help smallholder farmers increase their own productivity (the Starter Pack Scheme, Agriculture Productivity Improvement Programme (APIP), and establishment of the Malawi Rural Finance Corporation); and provided direct transfers to the vulnerable groups through the Public Works Programme, Food for Work and Nutrition and Feeding Programmes.

#### Evaluation of deficiencies in past poverty alleviation efforts

A range of institutional and structural issues have had an adverse impact on the successful implementation of a poverty alleviation programme. These issues will be examined in greater depth through an in depth literature review during the preparation of the final PRSP. These issues will include the following: i) inadequate human capacity at all levels, ii) poor incentive structures within the civil service, iii) the difficulty of targeting programmes to poorest households, and iv) issues related to appropriate sequencing of reforms and programmes.

#### Poverty data

This will be developed in detail following the review of the IHS data. The final PRSP Document will also include an in depth analysis of the nature of poverty and income levels. Available information on the extent of poverty in Malawi demonstrates that over 60 percent of Malawi's population live below the poverty line. Per capita income was estimated at US\$220 in 1999. Income distribution is highly inequitable with a gini-coefficient of 0.62. Population density is high and data from the 1997/98 IHS survey estimate that 32.3 percent of smallholder households cultivate between 0.5 and one hectare, and 24 percent of households are female headed.

HIV/AIDS is pandemic in Malawi with the sero-prevalence rate estimated at 14 percent. Life expectancy has fallen from 48 years in 1990 to 43 years in 1997. Child mortality,

estimated at 234 per 1000, is one of the highest in the region. Less than half the population has access to safe water and two fifths of the population are illiterate.

The Qualitative Impact Monitoring Study (QUIM) and consultations with the poor have both been used to give a clearer picture of the poverty situation in the country. The results from qualitative and quantitative analysis will be used during the preparation of the final PRSP Document. In addition, the causes of poverty will be examined in greater depth following the analysis of recent data from the IHS during the preparation of the final PRSP Document.

The Situation Analysis of Poverty (1994) identified the following factors as key determinants of poverty: low agricultural productivity, rapid population growth, lack of off-farm employment opportunities, low levels of education, poor health status, limited access to credit and limited or inequitable access to productive assets. Malawi's poverty profile will be developed in more detail in the final PRSP. The following data sets will be used to inform this analysis:

- Malawi Poverty and Human Resources Poverty Profile (1996);
- Demographic and Health Survey (1996);
- Accelerating Malawi's Growth (1997);
- The Malawi Knowledge and Attitudes to Health (1997);
- Malawi Social Indicators Survey (1997); and
- The Public Expenditure Review (2000).

## **PART THREE : ANALYSIS OF POVERTY REDUCTION AND GROWTH OPTIONS**

### Options for Growth and Poverty Reduction

The Government has developed and evaluated three possible growth options (Reaching the Vision, NEC 1999). The first is an agriculture scenario which focuses mainly on agriculture sector interventions and strategies that directly target the poor. The focus is on improving agricultural productivity, improving land utilisation, and developing safety nets for the poorest. The second focuses on stabilising the macro-economic environment, increasing investment and pursuing economic growth. The focus is on creating a supportive macro-economic environment, increasing savings and investment, strengthening the financial sector, promoting industry and exports and commercialising agriculture. The third focuses on social development and improving the social status of Malawians through the provision of infrastructure and investing in human capital (education and health) thereby raising productivity and living standards. Strategies in this scenario include supporting good governance, providing basic social services and supporting the environment and natural resources development.

The Government's analysis of the three potential growth options demonstrates that all three approaches are necessary. No single approach is sufficient. In the long term, the Growth scenario performs worse than expected because it leads to a decline in per capita GDP due to the lack of investment in social services (education, health and population). The agricultural based scenario achieves the best levels of agricultural production. However, it does not perform well in any of the non-agricultural sectors. The social development scenario performs well in the social sectors. However, its impact on the economic sector is not felt until the long term. The results of the analysis further show that none of the scenarios fully satisfy all the long-term development aspirations of the nation. Overall, their analysis implies that difficult decisions must be made regarding resource prioritization if the aspirations of Vision 2020 are to be met.

Government concluded that there is need to prioritise investments in all three areas in order to lead to growth. Broad based and sustainable economic growth will require macro-economic stability, prudent fiscal and monetary management and a focus on priority investments. Economic growth also requires a supportive environment where democracy is consolidated, where the rule of law prevails and where the private sector takes the leading role. This will require investment in human capital through improving the quality of educational and health services. The major constraints to economic growth also have to be addressed. The HIV/AIDS epidemic threatens to undermine growth prospects and sectoral performance. Population growth implies that there is need to expand services to meet the needs of the growing population. Malawi's investment environment is unattractive due to very high internal and external transport costs, unreliable power supplies and the deteriorating security situation. This implies that there is need for a multi-sectoral approach to economic growth. Given resource constraints, there is an urgent need to prioritise public expenditure in order to maximise the potential for economic growth and development (Policy Analysis Initiative, Vice President's Office, 1999).

## **SUPER-SECTORAL ANALYSIS**

### HIV/AIDS

HIV/AIDS is having a devastating impact on the economy and threatens to undermine prospects for growth and poverty reduction. Malawi's HIV/AIDS statistics are among the worst in the Africa Region and the World. Sero-prevalence rates are estimated at 25.3 percent in urban areas, 21 percent in semi-urban areas and 11 percent in rural areas.

HIV/AIDS is reducing life expectancy making it an unprecedented catastrophe in world history. AIDS targets the most productive and active members of society, implying that AIDS has a uniquely devastating impact on development. Child mortality is rising, research suggests that by 2005 to 2010, infant mortality will be 60 percent higher than it would be without HIV/AIDS. Worldwide, half of all infections occur within the 15 to 24 age group, women are disproportionately affected. The disease mainly strikes

people in their prime years. This increases the dependency ratio and deprives society of skilled professionals. Children are being orphaned in huge numbers. Care for orphans often falls on extended families, stretching the capacity of these social safety nets. National income is affected as the illness and death have a major impact on national productivity and savings. Labour productivity is also likely to drop, the benefits of education will be lost and resources that would have been spent on investments are used for health care, orphan care and funerals. Savings rates will decline, and the loss of human capital will affect productivity for years to come.

In response to the AIDS crisis, the Malawi Government launched the National Response to HIV/AIDS in October 1999 and the Strategic Framework for HIV/AIDS in January 2000. The multi-sectoral Strategic Framework for HIV/AIDS was developed following detailed consultations at community and national level. The National Strategic Framework was discussed at a Round Table Resource Mobilisation Conference in March 2000. Government is fully committed to implementing the Strategic Plan to reduce the devastating impact of HIV/AIDS in national development. Making progress in this area is fundamental to the national poverty reduction and growth strategy.

### Population

Analysis of the IHS and the Census results will provide data on dependency ratios and mean household size for urban and rural data. It will also give recent information on population density by District and Region and the proportion of households living within urban areas and towns. This will enable Government to target interventions more effectively to resource poor households. The final PRSP Document will include data from the IHS on the above variables.

## **THE SOCIAL SECTORS**

Recent analysis confirms that ensuring universal access to an integrated package of basic social services is one of the most efficient and cost effective contributions to poverty reduction. Providing basic services to children is key to building their capabilities to live in dignity. Children often bear the brunt of poverty, and this causes

lifelong damage to their minds and bodies. They are, therefore, likely to pass poverty on to their children. Poverty reduction must therefore start with children. However, it is noted that one of the main reasons why Governments under-invest in basic social services is due to the crippling weight of the external debt burden in the national budget. External debt accounted for an average of 22 percent of Malawi's recurrent budget between 1994/95 and 1998/99.

### Education

Since 1995, the Government has increased allocations to the education sector in line with the Free Primary Education Policy and in recognition of the key role which education plays in poverty reduction. Education lowers fertility rates, improves agricultural productivity, health and nutrition and increases earning power. There is a strong correlation between the education status of the household head and the poverty status of the household. Therefore, increased access to education and improved quality of education will be key components of the poverty reduction and growth strategy.

Government's objective at the primary school level is to attain 90 and 95 percent enrolment and retention rates by 2003. Improving the quality of primary education is a key priority. Government policy in partnership with the private sector is to maintain access and improve quality of education by providing the necessary infrastructure, equipment, teaching and learning materials and qualified teachers. Government will also develop and implement a curriculum that addresses both academic and non-academic needs of students.

In secondary education, Government will create a secondary school system that will increase access from the present 16 percent to 23 percent. Special focus will be placed on improving the quality of Community Day Secondary Schools by improving teaching quality and rationalising allocation of resources within the secondary school system. In this regard, it is important to introduce a greater level of cost sharing in secondary education with progressive removal of subsidies on boarding costs in secondary



schools. Government will also prioritise science and technology and business and communications skills in the secondary school curriculum.

Tertiary education will continue to provide middle and high level manpower requirements for the management of the economy. There is an urgent need to expand access to tertiary education through expanding Distance Education in order to meet the manpower requirements of the country. There is also need to remove subsidies on tertiary education. In the area of vocational training, the Government is committed to implement the Technical, Entrepreneurial and Vocational Educational Policy. These reforms will allow Government to promote quality in primary education. The final PRSP will reflect recent analysis within the context of the Public Expenditure Review and Sectoral Investment Programme for Education, Science and Culture.

### Health

Malawi's major health problems include malnutrition, diarrhoea diseases; acute respiratory infections; high levels of maternal, infant and child mortality; HIV/AIDS; and an increase in the number of cases of Tuberculosis. Poverty contributes to these poor health statistics, while the poor health status of the population undermines prospects for growth and poverty reduction. Investing in basic health care is, therefore, a crucial component of the growth strategy.

The overall policy goal of the health sector is to raise the level of the health status of all Malawians by reducing the incidence of disease and occurrence of death. To support this goal, Government has put in place a number of policy measures, which will have a significant impact on the health status of the Malawi population. In particular, the Essential Health Package (EHP) will focus on promotive, preventative and curative health services. The Bakili Muluzi Health Initiative (BMHI) follows from the Primary Health Care strategy, and focuses on making free selected basic essential drugs with the EHP. The EHP and BMI also focus on measures such as the promotion of clean water and sanitation, the Expanded Programme of Immunization (EPI), family planning, treatment and prevention of malaria and HIV/AIDS.

Other initiatives in the health sector include the introduction of a Sector Wide Approach, decentralisation of health care management and the introduction and strengthening of cost recovery/user fees. In this regard, all hospitals will be encouraged to establish fee-paying wards and Outpatient Departments (OPD-1) services for users with the ability to pay. Further reforms include drug administration and procurement and the introduction of drug revolving funds. In addition, Government will consider introducing a national health insurance scheme. The Government has also recently developed a policy for human resources development in light of the critical human resource constraints in the health sector. HIV/AIDS is a developmental issue, the response to HIV/AIDS is through the National Strategic Plan as outlined in the section on Super-Sectoral Issues.

In the area of population, the focus of population policy will be in line with achieving the overall goal of raising the standard of living of all Malawians. Strategies will include the following: expansion and improvement of reproductive health facilities; strengthened advocacy on HIV/AIDS and reproductive health through information, education and communication campaigns; and expansion of family life education for the youth on reproductive health issues. Initiatives in civic education will sensitise Malawians on gender issues to minimise gender discrimination and on environmental protection. The final PRSP will develop and refine the above policies to reflect on-going work through the PER, SIPS and SWAPs programming.

## **SUSTAINABLE ECONOMIC GROWTH**

### Agriculture

Eighty-five percent of Malawi's population derive their livelihood from agriculture. The sector accounts for over 30 percent of GDP and close to 70 percent of export earnings. The sector is therefore key to sustained economic growth and poverty alleviation. Due to the dependence on agriculture, the economy remains fragile and vulnerable to external shocks.

Correspondingly, Government's overall policy objective in the agricultural sector is to improve the well being of Malawians through growth and poverty reduction. Government is committed to intensifying its efforts to tackle long-term structural constraints facing the agriculture sector and the farming community in particular. Government is also embarking on a number of programmes aimed at complimenting policy reform by cushioning the effects of market liberalisation on poor households. These include the Starter Pack Programme which is likely to be more targeted, and the Agricultural Productivity Investment Programme.

Government is committed to increasing agricultural productivity and to enhanced food security on a sustainable basis. Soil conservation, promoting soil fertility and strengthening environmental conservation will be key. Other interrelated objectives include improving household level food security and the nutritional status of the population, expanding and diversifying crop and livestock production and exports. Government will also identify and develop areas of irrigation potential and implement irrigation schemes, which focus on environmental and financial sustainability. These include the rehabilitation and construction of earth dams, support to indigenous irrigation schemes and improved participation of the private sector and cost sharing.

The medium to long-term strategy is to increase the role of the large scale sector in terms of national food security as well as a source of economic growth and inter-sectoral linkages through water utilisation and commercialisation of agriculture. The major challenges in this sector include improving soil fertility, increasing land and water use efficiency and strengthening farmers and rural community organisations.

The issue of export diversification also needs to be addressed on an urgent basis. Malawi is over-dependent on tobacco as a source of export revenue. This makes the economy very vulnerable to adverse movements in the terms of trade and long term unfavourable prospects for tobacco. In this regard, there is need to strengthen efforts to diversify Malawi's export base. Options should be explored to increase and diversify export production in the following areas: tea, coffee, sugar, cotton, groundnuts, pulses and non traditional exports including paprika, cut flowers and horticulture.

Government strategy is also to enhance the role of the private sector in agriculture through the liberalisation of agricultural marketing and pricing policies and commercialisation and privatisation of state-owned enterprises including ADMARC, SFFRFM, Smallholder Crop Authorities and some livestock services. The final PRSP will develop and refine agricultural policies to reflect the on-going work in the development of MASIP and will also draw on recommendations from the Public Expenditure Review.

### Natural Resources and Environment

The management of Malawi's natural resources, including land, forest and water is crucial to the achievement of sustainable economic growth and poverty reduction. Government has become increasingly concerned about the deterioration and the associated loss of natural resources. Current initiatives in this area include promoting sustainable use and management of natural resources, facilitating restoration and maintenance of essential ecosystems and ecological processes. The Government will also focus on enhancing awareness on the importance of sound environmental management, promoting co-operation between Government, local communities, NGOs, the private sector and other stakeholders in sustainable use and management of the natural resources and environment. Policies will be elaborated further in the final PRSP.

### Private sector development

Government recognises and acknowledges the role of the private sector as the engine of growth of the economy. Government is aware that several constraints hinder the development of the private sector. These include the following: weak structure of the private sector, non-competitive environment, dependence on a narrow product base, macro-economic instability, a small domestic market, low productivity, legal and regulatory constraints, and problems in terms of access to infrastructure.

The main thrust of Government policy in the medium term for promoting private sector development will include putting in place new policies, legislation and institutions to

support private sector development. The new policies include the Integrated Trade and Industry Policy, Small and Medium Scale Enterprises Policy, the Co-operatives Society Act and the Competition and Fair Trading Act. Other on-going private sector development strategies include the Privatisation Programme designed to foster increased efficiency in the economy, increase competition and reduce monopoly, and promote participation by the Malawi public in enterprises and raise revenue for Government. Further policies include investment promotion, industrial technology promotion and improvement of the quality of economic infrastructure and effective collaboration with the private sector in trade and industry matters.

Foreign direct investment is the best way in which the wide gap between the country's low savings rate and investment requirements can be bridged in the short run. Therefore, efforts to make Malawi a conducive investment environment to attract private foreign investment need to be encouraged. In this regard, promoting macro-economic stability and improving access to and the quality of local infrastructure will be key. Policies to promote private sector development will be refined further in the development of the final PSRP.

#### Economic diversification including mining and tourism

The mining sector in Malawi currently contributes about 3 percent to total GDP. The sector can play a significant role in promoting economic growth and diversification. This will be achieved by reviewing the legal framework to improve competitiveness with the sector to promote private sector investment. Government will promote the exportation, exploitation and processing of minerals to enhance exports and import substitution through private sector development.

Tourism currently plays a relatively small role in the economy of Malawi. However, the Government recognizes that tourism is critically important for the Malawi economy, perhaps more so given the poor performance of tobacco in recent years. Malawi is home to some of the most striking natural beauty in all of Africa, having a diversity of features like the lake, mountains and national parks. Tourism can be an engine of growth, capable of dynamizing and rejuvenating other sectors of the

economy. It can significantly increase the country's foreign exchange earnings; it can provide immediate employment; and it can significantly contribute to national income.

Tourism also has potential for growth and economic diversification. Options will be explored to promote eco-tourism and adventure tourism. At present, the performance of the tourism sector is adversely affected by inadequate and poor infrastructure, lack of clear investment incentives and problems in accessing finance due to high interest rates. Improving economic infrastructure will be key to promoting private sector development and economic diversification. Steps in this area are underway as the 2000/01 Budget has made provisions for the roads improvement programme to specifically target tourist resorts. Policies in this area will be elaborated in the final PRSP.

### Infrastructure

Government's broad policy objective in the economic infrastructure sector is to encourage and facilitate competition in the delivery of utility services. To this end, the Government will establish a Competition Authority and facilitate competition, private sector investment and greater cost sharing in infrastructure maintenance. Internal and external transport costs continue to be one of the highest in the region. High transport costs are a constraint to economic growth as export competitiveness is adversely affected while the external transport component of imports is very high. Despite recent progress in telecommunication policy and liberalisation, telecommunications sector coverage remains poor and has not grown in line with overall economic growth. This is evidenced by low telephone penetration rates compared with other SADC countries. In the power sector, ESCOM, which is not financially viable, has increasingly proved unable to provide reliable and efficient power supplies resulting in losses for industry.

Government is currently investigating options to strengthen the management and financial viability of ESCOM and to promote private sector investment in generation, transmission and distribution of power.

To address constraints in the area of transport, Government has implemented the Road Maintenance Initiative aimed at improving the quality of existing road infrastructure and addressing the maintenance backlog. The National Roads Authority (NRA) acts as an autonomous entity with a predominantly private sector board. The NRA is partially financed by a fuel levy which ensures financial sustainability. Government is also exploring options to upgrade the Nacala Corridor which will be key to promoting export competitiveness and reducing import costs. In telecommunications, Government has established an independent Malawi Communications Regulatory Authority (MACRA) to regulate telecommunications, posts, broadcasting and radio. Government is also exploring options to increase private sector investment in telecommunications.

The final PRSP Document will update information on strategies to improve the quality of economic infrastructure as a crucial component of economic growth.

### Decentralisation and Poverty Reduction

Malawi decentralisation process aims to pass on political and administrative authority to the district level. The key objectives of the policy include creating a democratic environment and institutions that will promote good governance, development and community participation. The policy seeks to eliminate dual administration existing at the districts level by establishing one unified structure, the District Assembly, to achieve cost effectiveness and efficiency in service delivery. The policy seeks to promote accountability and transparency with the purpose of assisting government reduce people's poverty. Progress has been made in reviewing the legal framework and proposals have been made for the amendment and the repeal of some existing laws.

As part of the decentralisation process, a number of administrative reforms have been effected. In addition, Government has made a commitment to ensure that adequate resources are made available to the assemblies. This has necessitated the design of a Local Government Financial Management System. Government realises that sector devolution requires technical expertise, consensus building and commitment.

## **PART FOUR: ROAD MAP FOR THE PREPARATION OF THE PRSP**

### Poverty Profile

In the final PRSP, a section on the Poverty Profile will contain a sectoral analysis of poverty. Each of the sectors will analyse trends in sectoral performance and identify key recommendations for implementation. It is noted already that although urban poverty is a growing phenomenon, the majority of the poor reside in rural areas.

### Overall aims

The Broad Vision Statement will draw on the PRSP consultative meetings, the Vision 2020 Document and other key papers including "Reaching the Vision" and the "Policy Analysis Initiative". This section will identify and define the degree to which poverty should be reduced by 2020. This section will also articulate the overall multi-sectoral strategy for providing for the poorest. This will provide a pragmatic assessment of what is desired and what can be achieved, given current resource constraints.

### Specific Sectoral Strategies

This will reflect recent policy analysis and refinement of recommendations due to a process of consultations scheduled between May and November 2000. The PRSP will identify strategies and targets for implementation. Recent analysis through the Public Expenditure Review and the Medium Term Expenditure Review demonstrate that improving the quality of macro-economic management and budgetary implementation will be key to assuring growth and poverty reduction. There is, therefore, need to invest in upgrading capacity for policy analysis,

### Strategies for poverty reduction and growth

This chapter is the key to the PRSP Document. The strategies will draw on the key Government documents outlined above but will also reflect the outcome of consultations with civil society. The definition of appropriate poverty alleviation strategies will require considerable analysis. Sectoral bench-mark indicators for poverty



alleviation will be established. A specific timetable will be established for each of the targets identified. Where possible, short and medium term targets should be established to allow mid-term assessment of the implementation of the poverty alleviation policies.

### Strategic Priorities for Poverty Reduction and Growth

This analytical input will be necessary to determine which of the potential policies should receive priority in the final PRSP. In this regard, the previous chapter should also be limited to those policies, which have been demonstrated to have the most potential to reduce the level of poverty. The IHS data will be analysed to identify key determinants of poverty. This will be modelled to simulate the impact of changes in key variables on sectoral and macro-economic performance. This analysis will be complemented by additional data from the line Ministries on the potential impact of poverty alleviation strategies proposed.

### Institutional Framework

The implementation of the activities proposed for each strategic component of the PRSP presupposes the existence of an institutional framework in line with the proposed objectives. Both Government ministries, decentralised local authorities and implementing agencies need an appropriate organisational structure to enable them to perform efficiently, effectively and within the timeframe proposed. The institutional framework required to implement the PRSP needs to be able to command sufficient resources to meet agreed objectives and deadlines. The institutional framework will also require a strong, rapid and effective co-ordinating structure.

National ownership of the programming exercise is key. However, there is need to establish modalities for consultation with the donor community through the Aid Co-ordination Group. This is judged to be more effective than individual donors requiring consultations with the team tasked with preparation of the PRSP. The Technical Committee on the PRSP and the Aid Co-ordination Group will agree on a timetable for such consultations.

The Minister of Finance and Economic Planning will have the overall responsibility over the PRSP process. A National Steering Committee will comprise the Minister of Finance and Economic Planning; the Governor of the Reserve Bank of Malawi; the Director General of the National Economic Council; the Minister of Education, Science and Technology; the Minister of Health and population; the Minister of Agriculture and Irrigation; and the Minister of Transport and Public Works. This Steering Committee will be chaired by the Minister of Finance and Economic Planning. The Minister of Finance and Economic Planning will report to the Cabinet Committee on the Economy and the Cabinet. This Committee will be assisted by a Committee of Principal Secretaries comprising the Secretary to the Treasury; the Secretary to the National Economic Council; the General Manager (Economic Services), Reserve Bank of Malawi; the Principal Secretary, Ministry of Agriculture and Irrigation; the Principal Secretary, Ministry of Health and Population; and the Principal Secretary, Ministry of Transport and Public Works. This Committee will be chaired by the Secretary to the Treasury.

The PSRP process will call for enhanced capacity in both human and financial resources and sustained investment in economic capacity building in the key economic management institutions. The Committee of Principal Secretaries will oversee the work of the Technical Committee on the PRSP drawn from the National Economic Council, the Ministry of Finance and Economic Planning and the Reserve Bank of Malawi. Other than drawing its membership from the three institutions/organisations, the Committee will also coopt members from the sectoral ministries on a need basis. This Technical Committee will be led by the National Economic Council. The Technical Committee will, among other things, be responsible for carrying out nation-wide consultations, doing analytical work and drawing up strategies with the guidance of the Committee of Principal Secretaries.

The Monitoring and Evaluation Division of the National Economic Council will be responsible for monitoring and evaluating the implementation of the PRSP. The National Economic Council, in collaboration with the Ministry of Finance and Economic Planning, will identify resource requirement for PRSP preparation following detailed

sectoral analysis through the identification of strategic priorities for Growth and Poverty Reduction.

#### Formulation Process for the Poverty Reduction and Growth Strategy Paper

Necessary activities include consultations with the groups, which have been identified for consultation. These will include political parties, the private sector, NGOs and civic societies. The process will also include consultation with the poor. The consultations with the poor will develop and amplify the results of QUIM2 and Outcome of Consultations with the Poor.

A great deal of work has already been done on sectoral assessment through Vision 2020; the Policy Analysis Initiative; the Task Force on SIPs and SWAPs in Education, Agriculture and Health and other line Ministries; and through the Public Expenditure Review. Existing work will be used in the design of strategy such that the PRSP will not duplicate existing work or "reinvent the wheel".

While the PRSP will draw mainly on existing data, scope exists for additional analysis to be done with existing data, particularly in undertaking assessment of which policies will be the most productive in alleviating poverty without reducing growth prospects. Specific poverty analysis is also planned for the IHS Data between May and October 2000. Additional data sets will be used where appropriate to facilitate the process of prioritization.

#### **TIMETABLE FOR THE PREPARATION OF THE PSRP**

The Interim Poverty Reduction and Growth Strategy - A Road Map was discussed and endorsed at the Consultative Group Meeting held in early May, 2000. Since the Consultative Group Meeting, a list of stakeholders for consultation has been drawn-up. Guidelines for consultations have been established and a schedule developed for the process of consultation.

As the PRSP becomes more developed, clear gaps in our understanding of poverty in Malawi and the impact of Government policies on poverty will become more apparent. These gaps will need to be identified and appropriate analysis will be conducted to fill the gaps. Data suitable for the required assessment will be collated.

The Integrated Household Survey (IHS) data will be used to establish a poverty line and poverty profiles as a basis for drawing strategies and targets. Consultations are scheduled for the period between September and October 2000, and these will include round table discussions.

The final PRSP will be drafted during a period starting in November, 2000. The drafting will be done by the Technical Committee. The Technical Committee will be guided by the Committee of Principal Secretaries in undertaking this exercise. These will bring together all the information from consultations, analysis of household data and past policy analysis. More extensive poverty analysis/profiles material will be made available as the IHS data is discussed. Detailed outlines will be prepared and discussed. The draft PRSP will be discussed at a series of workshops with NGOs, traditional authorities and local administrative officers. Previous groups will be consulted for a second time.

### **TIME TABLE FOR COMPLETING THE PRSP**

- 1) August – Preparations for the consultative process to draw sectoral strategies
  - a) Public Sector: For sectoral strategies on both economic growth and poverty reduction,
  - b) NGOs: Social sector strategies including safety nets
  - c) Private sector: For private sector development
  - d) Donors: economic growth, poverty reduction
- 2) 9<sup>th</sup> August – Establish level of resources required for PRSP work. Issues paper ready. List of stakeholders drawn
- 3) 16<sup>th</sup> August Donor consultation briefing.

- 4) 9<sup>th</sup> August – Initial poverty line-based poverty analysis results from the Integrated Household survey
- 5) 20<sup>th</sup> August 2000 IHS poverty analysis continued drawing poverty profiles and identification of determinants of poverty at all level.
- 6) 31<sup>st</sup> August, 2000 - Government established the desired poverty reduction levels for the next ten years
- 7) September, 2000 Commencement of a series of consultations

These may take a variety of forms: Roundtable discussions in the line ministries and working sessions. Workshops with NGOs. District workshops with traditional authorities and local administration officers.

All consultations transcribed and synopses prepared.

- 8) October, 2000–continuation of consultations - analysis of sectoral strategies

Bring together all the information that was collected from the previous consultations, analyses, and past policy analyses. More extensive poverty analysis/profile material will also be available as the IHS analysis progresses.

- 9) End November, 2000-Draft discussed and revised

Draft institutional framework for managing and coordinating the implementation of the PRSP.

Costing of all the strategies and determine the resources requirement and gaps.

Series of workshops donors, government, NGOs and the Private sector, Cabinet, Parliament, public to discuss PRSP draft

- 10) Mid Jan. 2000 – draft PRSP document officially submitted as a draft working document to all stakeholders

- 11) Mid February, 2001 National Symposium on the PRSP

- 12) End February, 2001 Final Revision

- 13) End March, 2001 submit to cabinet

- 14) July, 2001 PRSP ready for implementation

Note: Please see Annex 2 for PRSP Process Proposal

**Annex 1: IPRSP MATRIX**

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
<b>1. Poverty Reduction-Broad Strategy</b>		
<b>1.1 Develop full Poverty Reduction Strategy</b>		
Develop strategy based on poverty analysis	Complete detailed poverty analysis on basis of IHS data; produce poverty lines and poverty profiles.	September, 2000
	Complete analysis of effectiveness of Poverty alleviation Program, 1995-2000	October, 2000
	Consult with all stakeholders	November, 2000
	Draw up sectoral strategies to increase poverty reduction impact.	2000-2001
	Undertake analytical research on poverty issues (e.g. social security, criteria for poverty focus, labour market issues).	2000-2001
Set targets for reduction of level of poverty	To be determined in context of preparation of the Poverty reduction Strategy Paper	
Improve Poverty and Programme monitoring	Put monitoring and evaluation systems in place and create data bank	On-going 2000-2002
<b>1.2 Social Safety Nets</b>		
Introduce and implement targeted safety nets mechanisms, and emergency relief.	Draw a National Disaster Management Action Plan	2000
	Adopted a safety net strategy with clearly defined instruments, and coverage for targeting poor groups. Obtain Cabinet approval for the strategy	June 2000  by end 2000
	Expand public works program, develop child nutrition program, orphan support program, and selected cash transfers	
	Consistent with safety net strategy, develop National Food Reserve Agency (NFRA) as disaster relief agency	December, 2000

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
<b>1.3 Growth and Income Distribution</b>		
<b>a. Growth</b> Raise annual growth rate to 6%	Maintain macroeconomic stability, reduce distortions, and increase competition. (see Private Sector Development and economic management sections)	
<b>b. More Equitable Income and Assets</b>	<p>Complete land reform policy on basis of findings of Presidential Commission on Lands.</p> <p>Increased accessibility to technical entrepreneurial vocational education and training (TEVET)</p> <p>Micro-credit facility accessibility increased; adopt micro finance strategy, selectively expand financially viable programs.</p> <p>Provide directed support, social infrastructure, and empowerment to poorer communities, through MASAFA, microprojects, and decentralization process.</p> <p>Equip poor for long-run income growth via large-scale investment in education (see Social Sectors section)</p>	<p>Ongoing</p> <p>On-going</p>
<b>1.4 Food Security and Agriculture</b>		
<b>a. Reduction of chronic and transitory food security</b>	<p>Increase use of hybrid maize seeds and fertilizer by smallholders. Implement targeted starter pack scheme and revised APIP</p> <p>Improve storage to minimize losses – through efficient use of NFRA and promotion of community storage banks.</p> <p>Target food insecure households through food-for-work, cash –for-work, and inputs for assets programs. Improve marketing of grain by letting market forces work effectively, through commercialization and privatization of ADMARC.</p>	<p>2000 planting season</p> <p>On-going</p>

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
b. Increase agriculture production	Improved provision of inputs  Increase the use of hybrid maize seeds and fertilizer by smallholders  Reduce post harvest loses  Promote irrigation	1999-2004
c. Strengthen livestock development.	Promote artificial insemination services as well as encourage provision of mini dairies  Promote an expanded livestock feed industry	On-going  On-going
c. Agriculture Credit	Credit availability and accessibility improved through financial institutions such as Malawi Rural Finance and Agricultural Productivity Investment Programme Seek strategic partner for MRFC  Restructure APIP program to provide financing to intermediary organizations financial intermediation.	On-going  ?  ?
<b>2. Social Sector Development</b>		
<b>2.1 Education</b>		
Reduce illiteracy	Maintain the budgetary allocation for recurrent budget for the Ministry of Education to at least 23%	
Improve teaching and learning in Schools	Establish a medium-term teacher development programme to train 6,000 per annum	1998-2001
Improve retention and completion rates in primary	Reduce pupil-qualified teacher ratio to 60:1 across all standards  Construct 8,000 classroom  Train more teachers at all levels  Provide teaching materials	1998-2001



<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
Shift to wider and more egalitarian coverage of secondary schooling	Construct – new Secondary Schools  Reduce boarding subsidy  Increase university intake	2000-2001
Improve administration Planning and efficiency of Schools	Approve Policy Investment Framework (PIF) for education sector.  Develop costed PIF implementation plan.  Undertake institutional policy implementation capacity development program.	2000  2000  2000-01
Technical and Vocational Education	Technical, Vocational Training Systems & practices changed to be demand driven not supply driven.  Create Labour Market Information System  Encourage Private Sector participation in TEVET system including the TEVET levy	2000-2003  Dec 2001  On-going
<b>2.2 Health</b>		
Improve primary health care services	Introduced Essential health care Package (EHP)  Introduce Revolving Drug Funds at clinics:  Complete the Central Medical Stores reform analysis.  Implement CMS reforms	2000  Dec. 2000  2000  2000-01
Improve the availability and efficient use of resources including drugs	Establishment of paying wards and OPD-1 services at district hospitals	On-going
Reduce staff shortage	Implement management and incentive reforms	On-going

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
<b>2.3 Population</b>		
Reduce population growth by reducing fertility rates from 6.7 to 5.0	Introduce a comprehensive and integrated community-based distribution system.	December 2002
<b>2.4 AIDS/HIV</b>		
Implement Aids/HIV Strategic plan	Mainstream Aids/HIV in all sectors and improve orphan care  Intensify efforts on primary prevention  Integrate Aids and TB Control programmes  Strengthen Aids Secretariat	
<b>2.5 Community Services</b>		
Improve the welfare of disadvantaged groups, orphans, destitutes, juvenile delinquents	Establish national community based reformatory programs	2000
	Increase assistance to destitutes and families in social difficulties	2001
Improve survival, protection, participation and development of children	Raise early childhood care and education from under 1% to over 30%	2002
Mainstream gender issues in all government policies	Strengthen the implementation and monitoring of National Gender Policy	On-going
	Raise the awareness of gender issues, women's legal rights, and economic empowerment of women reduced rate of gender imbalances	Ongoing
Develop capacity of people with disabilities to participate effectively in economic development.	Promote access to equitable and meaningful vocational, pre-employment & on job training for persons with disabilities	On-going
	Develop skills including adult basic education.	On-going
<b>3. Economic Management</b>		
<b>3.1 Fiscal Policy</b>		
Promote macroeconomic stability and reduce the size of government.	Reduce domestic budget deficit (excluding grants) to 1.2 percent of GDP in 2000/01.	2000/01
	Extend the surtax to wholesale and	2001

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
	retail stage.  Made Malawi Revenue Authority fully operational	February, 2000
<b>Expenditure policy</b> Reduce total expenditure while re-orienting the structure towards social sectors	Reduce current expenditure by a phased reduction of low priority outlays, including outlays on travel and embassies abroad.  Revitalise the medium-term expenditure framework in all ministries and prioritize expenditure by line items.  Incorporated recommendations of Public Expenditure Review in FY2001 budget  Complete review of development budget projects, adequately fund priority projects, restrict entry of new projects to highest priority	2000/01      2000-2002
Strengthen expenditure control and monitoring	Introduced new system to monitor and control spending commitments, including monthly reports to the Ministry of Finance and Economic Planning  Quarterly public reporting of revenues, expenditures, and parastatal accounts	July, 2000      October, 2000
<b>3.2 Monetary Policy</b>		
Reduce 12-month inflation to 19 percent by end 2000 and 10 percent by end 2001	Reduce the growth of reserve money to 14 percent per annum end of 2001	2000-2001

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
Improve effectiveness of monetary policy and liquidity management; encourage secondary market development	Established Monetary Policy Committee	April 2000
	Reduce the cash reserve requirement by 5 percentage points	June, 2000
	Provide a ceiling to the provision which allows deposits of commercial banks with CDH to be counted against their reserve requirement.	July, 2000
<b>3.3. External Sector</b>		
<b>Exchange rate policy:</b> Increase the flexibility in exchange rate.	Encourage development of an inter-bank forex market and broaden participation of the private sector.	2000
<b>4. Private Sector Development</b>		
<b>4.1 Trade Policy</b>		
Reduce barriers to trade to offset high transport costs	Maintain the lowered levels of tariffs as approved in the Customs and Excise (tariffs) Amendment no.2 order of 1998	On-going
<b>4.2 Industry Sector/Investment Promotion</b>		
Promote manufacturing for exports; product diversification and market development; Reduce start-up time for the establishment of new investment	Strengthen export promotion activities	On-going
	Accelerate processing of licenses, permits, land approvals	1998-2003
<b>4.3 Competition and Consumer Protection</b>		
Increase efficiency and broaden the ownership base by privatizing public enterprises	Privatize non-core operations of ADMARC and Malawi Development Corporation (MDC)	May 2000
	Eliminated govt. involvement in purchase and marketing of petroleum products	May 2000
	PCC acts solely as a regulator	May 2000

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
Encourage competition and fair trading	Establish a Competition Authority	1999-2000
Facilitate consumer protection	Expedite enactment of Consumer Protection Law	1999-2000
<b>4.4 Mining Sector</b>		
Promote mining by the private sector	Revise the relevant Acts and enhance exploration  Strengthen the capacity of support institutions	2000
<b>4.5 Tourism Sector</b>		
Formulate a tourism policy	Finalization and adoption of the draft tourism policy  Intensify promotional activities	2000
<b>5.0 Infrastructure</b>		
<b>5.1 Transport</b>		
Improve the operations of the transport system and reduce the cost of transport services	Institute mechanisms to ensure adequate and sustainable funding of the Road Fund for road maintenance and rehabilitation	1999-2002
	Implement strategies to improve road safety with defined targets	1999-2001
	Finalised reforms to private Malawi Railways	1999-2000
	Finalise reforms to introduce private sector participation in the operation of lake transport and facilities	1999-2000
	Consolidate reforms to deregulate the air transport industry and privatize Air Malawi	1999-2002
	Initiate work on the commercialization/privatization of some airports	1999-2002

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
<b>5.2 Communications</b>		
Improve viability of postal services	Devise and implement measures to improve the financial position and sustainability of postal services	2002
Improve telecom services and reduce costs by encouraging private sector participation	Granted licence for a second mobile telephone services	1999
	Separated postal from telecom services	2000
	Secure private strategic partner for Malawi Telecomm	2000/01
	Liberalise entry of internet services	
<b>5.3 Energy</b>		
Formulate a National Energy Policy	Establish a mechanism which will facilitate the formulation of the National Energy Policy	1999-2000
Improve the operations of the power sector and increase coverage of the operations	Implement measures to reduce electricity losses	1999-2002
	Electrify rural trading centres/institutions	Ongoing
	Implement reforms to allow for entry of private firms into production of electricity	1999-2002
	Establish mechanisms to utilise electricity from neighbouring countries	1999-2002
Improve the efficient use, security and availability of petroleum products	Devised and implemented a petroleum pricing formulae to allow for flexibility in response to procurement costs and products	1999-2000
Develop and promote sustainable and renewable energy sources in Malawi	Encourage and support private sector and NGOs involvement and renewable energy sub-sector	1999-2002
<b>5.4 Lands, Housing and Physical Planning Policy</b>		

<i><b>Sectoral Issues Objectives and Policies</b></i>	<i><b>Strategies and Measures</b></i>	<i><b>Timing</b></i>
Create a dynamic, efficient and equitable urban land market	Reduced delays in title registration  Transfer stocks of Government residential land to local authorities  Decentralise land registers and create information system  Amend the Land, Surveys and Town and Country Planning Acts, respectively	2000  2001
<b>5.5 Housing Policy</b>		
Improve access to land by low-income households and vulnerable groups	Issue long term leases to residents of Traditional Housing Areas and other low income settlements  Introduce safety nets through land reservations to vulnerable groups	On-going  Ongoing
Improve competition in the conventional housing finance market	Establish a discount facility to serve housing finance institutions, and establishing a mortgage bank	2000
Improve access to housing finance by low and medium income groups	Promote the formation of housing cooperatives and their affiliation to MUSCO	Ongoing
Improve the quality and performance of Rural Housing Programme	Encourage participation of more NGOs and Private sector in the delivery of rural housing	2001
<b>6 Natural Resources and Environment</b>		
<b>6.1 Forestry</b>		
Enable and promote the participation of local communities in improving forest conservation and management	Encourage co-management of forest and forest resources and foster ownership;  Establish a fund to support local community forest activities	2001  2001

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
Empower rural communities to manage forest resources, foster ownership and rights of trees	<p>Introduce regular local meetings to discuss and explain changes in the Forestry Policy;</p> <p>Encourage and promote fuelwood sales from planted trees; Introduce marketing and pricing reforms.</p> <p>Promote the leasing of plantation areas for tree planting and management by the private sector;</p>	Ongoing
<b>6.2 Water Resources</b>		
Improve and strengthen water resources management	<p>Conduct studies on development of resources</p> <p>Review and revise policy and legislation</p> <p>Strengthen Water Resource Board</p> <p>Establish Catchment Management Authorities</p> <p>Conduct an environmental audit related to water resources degradation and pollution</p> <p>Catchment protection</p> <p>Expand and rehabilitate existing water resources and monitor network</p>	<p>On-going</p> <p>1999</p> <p>On-going</p> <p>On-going</p> <p>2003</p> <p>On-going</p> <p>On-going</p>
<b>6.3 Fisheries</b>		
Promote the development of aquaculture production systems	<p>Conduct research on integrated aquaculture systems</p> <p>Disseminate technologies to the farming communities and promote commercial fish farming</p> <p>Promote community fisheries management in Lake Malawi</p>	<p>Ongoing</p> <p>2000</p>



<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
	Develop guidelines for the study	2000-2001
Improve infrastructure in the Protected Areas in Malawi	Upgrade access and game viewing roads in all protected areas	On going
Develop collaborative wildlife management with local communities	Review guidelines for Collaborative Wildlife Management; establish incentives for stakeholders participation	2000-2001
<b>6.4 Environment</b>		
Promote the sustainable use and management of natural sources	Promote community based projects on Natural Resources	2000
Facilitate the restoration and maintenance of essential ecosystems and ecological processes	Review of policy and development of legislation on Waste Management and Sanitation	2002
	Undertake study on requirements for legislation on air and noise pollution	2000
	Conduct research on bio-diversity endangered species	2000
<b>7. Governance and Public Sector Management</b>		
<b>7.1 Civil Service Reform</b>		
Establish a lean, more qualified, and better motivated civil service, with greater focus on priority areas by rationalizing government ministries, departments, and agencies	Maintain a temporary freeze on hiring, except for essential functions, until decisions are taken in light of the ongoing functional reviews of major ministries	On-going
	Complete detailed functional reviews of all ministries following the completed strategic reviews of functions and take decisions on recommendations arising out of the reviews	June 1999
	Complete the rationalization process (outsourcing, privatization, elimination, and redeployment) based on recommendations arising from the completed strategic reviews	On-going

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
	Introduced performance-related contracts for senior civil servants	July 2000
	Rationalized remuneration structure by monetising housing allowance for all civil servants	November 2000
	Undertake a Civil Service Training Needs Assessment	2000
<b>7.2 Public Sector Transparency and Accountability Anti Corruption</b>		
	Review work methods & systems to eradicate corruption opportunities	On-going
	Conduct managerial accountability & transparency workshops	
Investigating corruption cases & prosecuting offenders	Investigation units establishment Liaison with offices of Director of Public Prosecutions	On-going
	Provision of adequate legal advice to investigation	
Educating members of the public on the causes & effects of corruption on society and soliciting their support in fight against corruption.	Reorganisation of resource centres for media preparations	On-going
Strengthen the role of anti-corruption Bureau to improve transparency & accountability in private & public sector.	Set up specialised courts for fraud cases	2001
	Revise Finance & Audit Act to facilitate prosecution	
Development of policy to direct attainment of accountability, transparency and financial probity in public institutions	Legislation on public procurement, guide lines on ethics, review of administrative procedures and identification of weaknesses within institutions of governance	
Improve public sector accounts and audit functions	Separate Finance and Audit Acts	2001
	Introduce IFMIS system	2001-2002

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
Improve efficiency, transparency and accountability in the procurement process	Establish a new Procurement Code and a new Procurement Authority	2000-2001
Improve policy framework	Establish mechanisms for improving employer/employee relations, strengthen capacity and effectiveness of trade unions, develop improve legal framework	On-going
Improve security and safety	Implement public awareness campaigns and strengthen community policing.	
<b>7.3 Decentralization and Local Government</b>		
Strengthen the legal and financial framework for local -authorities	Review legislation in conflict with the Local Government Act  Determine fiscal decentralization arrangements  Develop implementation plan for next steps in decentralization.	2000-2005
Transfer of power and functions to local assemblies	Conducting local government elections; Merging district administration and local government;  Sector ministries devolving functions to local assemblies	November 2000  2000-2005  2000-2005
Promote local government development management  Enhancing network between the Office of Ombudsman and employers Human rights service delivery	Capacity building in development management for local assemblies  Civic education to ensure local empowerment and participation	2000-2005  2000-2005
<b>7.4 Human Rights and Service Delivery</b>		
	Train members of Appointments and Disciplinary Committees on effective complaint resolution	1999
Promote advocacy on the functions of the Office of the Ombudsman and the Human Rights Commission	Sensitize members of the media	1999 On-going

<i>Sectoral Issues Objectives and Policies</i>	<i>Strategies and Measures</i>	<i>Timing</i>
Intensify investigation on maladministration	Receive and investigate grievances	
Strengthen the capacity to develop, manage an effective national Civic Education and Human Rights protection Programme	Policy formulation and priority setting  Development and implementation of a National Civic Education and Human rights promotion, protection and enforcement programme.	On-going

## *Annex 2 – PRSP Process Proposal*

The primary objective of the PRSP process is to design a Poverty Reduction Strategy that will be implemented. A key element in ensuring implementation is building broad Malawian ownership of the strategy, together with consensus over the measures proposed. However, building ownership and consensus is not as simple as holding “consultations” to validate a strategy prepared by a small number of civil servants and donors. Instead, all stakeholders must be included in all stages of the PRSP process, through a mobilisation, preparation and validation process. In fact, the PRSP mobilisation, preparation and validation process should not be seen as distinct from the PRSP process. The overall objectives of the mobilisation, preparation and validation process are to:

1. Build broad Malawian ownership of the PRSP.
2. Build consensus on Malawi’s Poverty Reduction Strategy in order to enhance likelihood of policy adoption, implementation and sustainability.
3. Ensure donor “buy in” to PRSP process to improve donor co-ordination
4. Meet donor requirements for participatory processes and thereby avoid later duplication of effort.

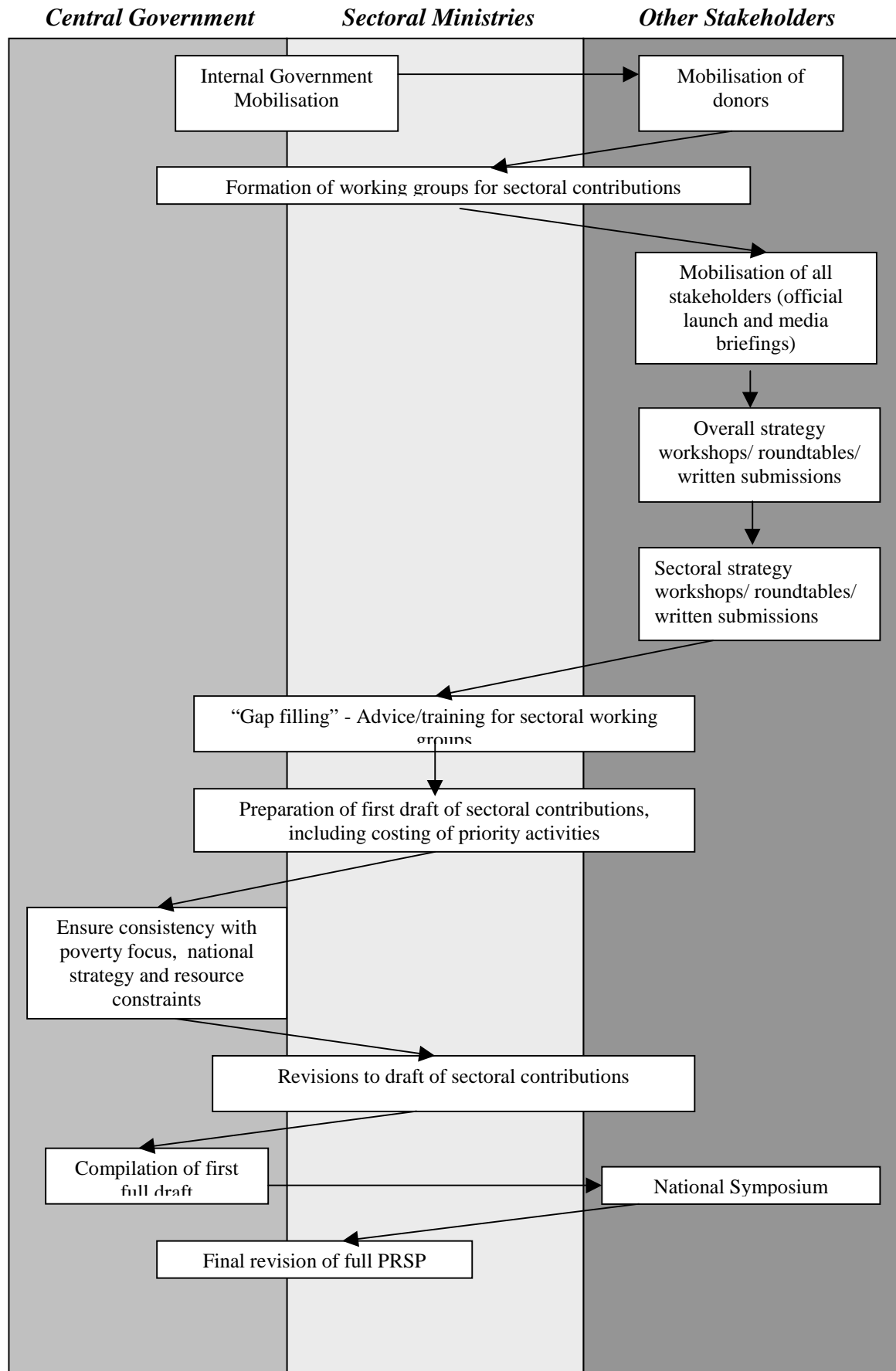
In order to achieve these objectives, the PRSP process must include a broad range of stakeholders and offer these stakeholders genuine opportunities to provide input into the process. In order to achieve this, the proposed process is divided loosely into three segments: firstly, mobilisation of key stakeholders, particularly within Government, to contribute to the design and implementation of the PRSP. Secondly, preparation of the strategy with the participation of all stakeholders. This segment consists of two parts: an initial information gathering part where the thematic working groups<sup>2</sup> seek information and inputs into the prioritisation process from other stakeholders. Where significant work has already been done, for example in the education and health sectors, this part may be minimal. Once sufficient information is in place, the working groups will then draft the thematic contributions, with technical assistance where necessary. The third segment consists of validating the draft strategy, largely focussed on a National Symposium.

Overall, the process is designed to be iterative, both between Government and other stakeholders and between the Central PRSP Committee Structure (including the secretariat) and the sectoral working groups. This is demonstrated in the diagram below.

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<sup>2</sup> For details of the proposed working groups, see “Guidelines for Sectoral Contributions”. Essentially, the working groups will consist of representatives from the relevant ministries for each contribution, together with a small number of other stakeholders as appropriate.

**Iteration** – both between Government and other stakeholders, and between overall and sectoral strategy; the position of the activity indicates which groups are the focus of the activity.



Past experience with consultative processes and experience in other countries with the formulation of the PRSP suggest that there is need to carefully design the mobilisation, preparation and validation process, with a clear notion of the objectives of each activity. Government should resist the temptation to consult for consultation's sake to pacify the donor community. In particular, it is important not to create excessive expectations amongst those consulted and to avoid "consultation-fatigue". Most stakeholders in Malawi have been repeatedly consulted, for example during the Vision 2020 preparation process, in the preparation of sectoral strategies (e.g. PIF, NHP), during the Consultative Group Meetings, before the 2000/2001 Budget and as part of the Policy Analysis Initiative (PAI). If these groups are to be involved in the PRSP process, there is need to ensure that there is something new that Government is seeking from their participation. The case of the private sector is a clear example of the problems of excessive unfocussed consultation – having been consulted on many occasions, there is now clear evidence of "consultation fatigue" and recognition that consultation does not necessarily involve participation in decision making. As a result, Government needs to adopt a new and flexible approach to mobilisation, preparation and validation, and clarify to participants what is new both about the PRSP itself and about the process.

In the matrix below, mass activities of the type usually associated with consultation in Malawi are limited to the initial official launch (mobilisation) and the final National Symposium (validation). Stakeholder input into the PRSP process is intended to come through preparation activities – participation in working groups, the submission of written comments, and focussed sectoral specific sessions as necessary. These activities have been largely left to the discretion of the working groups, subject to the approval and budget constraints of the PRSP Secretariat.

### **Mobilisation**

The timing of the activities involved in the mobilisation, preparation and validation process is crucial to the success of the PRSP, particularly in building ownership and support that will ultimately be translated into implementation. The most important starting point for the process is to ensure that all areas of Government "buy in" to the PRSP process. If sectoral ministries and local governments see the PRSP as a donor-driven, Ministry of Finance owned process, implementation of the resulting document will be very difficult. In order to ensure this buy-in, there is need for mobilisation sessions as soon as possible. As a starting point, all PSs would be briefed on the PRSP: what it is, why it is necessary, how it will be prepared, how it fits in with other initiatives and so on. The PSs will then be responsible for disseminating this information in their ministry and to their Minister. Once there is broad understanding of the PRSP process across Government, Government would brief the donor community on the Malawian PRSP process. After this, other stakeholders and the general public would be informed through the official launch of the PRSP process.

In summary, the specific objectives of the mobilisation segment of the PRSP process are as follows:

1. Create awareness of the PRSP process and its implications.
2. Reach consensus on the understanding of poverty in Malawi.
3. Encourage stakeholders to focus on poverty reduction.
4. Inform potential contributors of how they can participate.

5. Create awareness of potential trade-offs and the need to prioritise given limited resources.

Mobilisation of stakeholders and explanations of how the PRSP process will proceed should be based on a number of papers to be distributed. Distribution of the papers should be done in advance of the mobilisation sessions, to allow time for the stakeholders to read them, make comments and form opinions on the issues raised.

- A. *Mobilisation paper* – Brief introduction to the PRSP process, answering such questions as: What is the PRSP? What is new about the PRSP? How does the PRSP fit in with other initiatives?
- B. *Issues paper* – outline of the current poverty situation, review of past and present strategies and discussion of challenges.
- C. *Outline of the mobilisation, preparation and validation process* – edited version of current paper
- D. *Guidelines for thematic contributions*
- E. *Thematic group preparation outline* – to be determined by lead ministry in thematic group and detailing membership of thematic group, involvement of other stakeholders (timetable, objectives, format of inputs).

## **Preparation**

The preparation of the PRSP should include a broad range of stakeholders through a number of channels: membership or representation in the thematic working groups, participation in workshops or roundtables on overall and theme-specific strategy, submitting written comments and so on. The focus of the preparation phase will be on the thematic working groups, which will have significant discretion over the methods used to draw up their contributions to the overall strategy, guided by the guidelines on thematic contributions and the secretariat and overall committees. Where gaps exist in knowledge, analysis or capacity of the thematic working groups, “gap filling” sessions or technical assistance (funded where possible by donors) should be employed. In summary, the objectives of activities held in the preparation phase are:

6. “Brainstorming” – develop new strategies
7. Prioritise overall strategy
8. Prioritise thematic strategy
9. Secure focussed and targeted information
10. Set realistic targets
11. Design implementation and monitoring system and enlist support.
12. Ensure consistency of the proposed strategy

## **Validation**

The third phase of the PRSP process is intended to obtain validation of the strategy from the stakeholders involved, and to disseminate the final PRSP as well as to define the way forward. In summary, the objectives of activities held in the validation phase are to:

13. Obtain validation of the proposed strategy
14. Define and explain the way forward







Timing	Group	Information	Activity type	Specific Objectives	Activity title/Other remarks
Week		A - Mobilisation	M1 - Info. Dissem	1 - PRSP awareness	
		B - Issues paper	P1 - Overall strategy	2 - Poverty consensus	
		C - Process	P2 - Written comment	3 - S' holder poverty focus	
		D - Thematic guide	P3 - Gap filling	4 - Outline participation	
		E - Thematic process	P4 - Strat. Formuln	5 - Prioritisation awareness	
			P5 - Them. Workshop	6 - Brainstorming	
			V1 - Nat. Symposium	7 - Overall prioritisation	
				8 - Thematic prioritisation	
				9 - Secure information	
				10 - Set realistic targets	
				11 - Design implementation	
				12 - Ensure consistency	
				13 - Strategy validation	
				14 - Way forward	
21	Secretariat				Distribution of draft PRSP to all stakeholders
23	All stakeholders				National Symposium on PRSP – with sessions on thematic contributions
23-25	Secretariat, thematic working groups				Final Revision of PRSP
26	Cabinet				Seek Cabinet approval
30	All PRSP committees, All thematic working groups, all donors				Defining the way forward with the PRSP

## **Objectives:**

### ***Mobilisation objectives***

1. Create awareness of the PRSP process and its implications.
2. Reach consensus on the understanding of poverty in Malawi.
3. Encourage stakeholders to focus on poverty reduction.
4. Inform potential contributors of how they can participate.
5. Create awareness of potential trade-offs and the need to prioritise given limited resources.

### ***Preparation objectives***

6. "Brainstorming" – develop new strategies
7. Obtain input into overall prioritisation process
8. Obtain input into intra-sectoral prioritisation process
9. Secure focussed and targeted information
10. Set realistic targets
11. Design implementation and monitoring system and enlist support.

### ***Validation objectives***

12. Ensure consistency of proposed strategy
13. Ensure effectiveness of participation
14. Obtain validation of the proposed strategy
15. Define and explain way forward

## **Types of Activity**

### ***Mobilisation***

- M1. Information dissemination – distribution of papers, press releases etc. without direct contact
- M2. Mobilisation meetings – briefing sessions based on papers

### ***Preparation***

- P1 Overall strategy workshops/roundtables
- P2 Invite written comments on distributed papers
- P3 Training/"gap filling" for thematic working groups
- P4 Strategy formulation by thematic working groups
- P5 Thematic workshops/roundtables

### ***Validation***

- V1 National Symposium – check on final draft.

## **Information for distribution**

- F. **Mobilisation paper** – Brief introduction to the PRSP process, answering such questions as: What is the PRSP? What is new about the PRSP? How does the PRSP fit in with other initiatives?
- G. **Issues paper** – outline of the current poverty situation, review of past and present strategies and discussion of challenges.
- H. **Outline of the mobilisation, preparation and validation process** – edited version of current paper
- I. **Guidelines for thematic contributions**
- J. **Thematic group preparation outline** – to be determined by lead ministry in thematic group and detailing membership of thematic group, involvement of other stakeholders (timetable, objectives, format of inputs).