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Reducing inequality and poverty in Malawi: Policy analyses and options

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Acronyms

ADMARC	Agricultural Development and Marketing Board
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
APIP	Agricultural Productivity Improvement Programme
BoP	Balance of Payment
COMESA	Common Market for Eastern and Southern Africa
CDSS	Community Day Secondary Schools
CHAM	Christian Health Association of Malawi
CU	Customs Union
DECs	Distance Education Centers
EAC	East African Community
EBA	Everything But Arms
EDP	Education Development Plan
EHP	Essential Health Package
FPE	Free Primary Education
PIF	Policy and Investment Framework
PpCR	Pupil Permanent Classroom Ratio
PQTR	Pupil Qualified Teacher Ratio
EU	European Union
GABLE	Girls' Attainment in Basic Literacy and Education
GER	gross enrollment
GATT	General Agreement on Tariffs and Trade
GBI	Green Belt Initiative
GDP	Gross Domestic Product
FFA	Food for Asset
FTA	Free Trade Area
FISP	Farm Input Subsidy Programme
FPE	Free primary education
HESLGB	Higher Education Students Loans Grants Board
IHS	Integrated Household Survey
ILO	International Labour Organisation
IMF	International Monetary Fund
LDC	Least Developed Country
LUANAR	Lilongwe University of Agriculture and Natural Resources
MEGS	Malawi Economic Growth Strategy
MFN	Most Favoured Nation

MGDS	Malawi Growth and Development Strategy
MNSSP	Malawi National Social Support Policy
MPRS	Malawi Poverty Reduction Strategy
MPI	Multidimensional Poverty Index
MSCE	Malawi School Leaving Certificate Examinations
MUST	Malawi University of Science and Technology
MZUNI	Mzuzu University
NAPE	Nutrition and access to primary education
NPC	National Planning Commission
NSO	National Statistical Office
NSNS	National Safety Nets Strategy
NSSP	National Social Support Policy
OOP	out-of-pocket
OSHW	Occupational Safety, Health and Welfare
PAP	Poverty Alleviation Programme
PCI	Productive Capacity Index
PWP	Public Works Programmes
RECs	Regional Economic Communities
RBM	Reserve Bank of Malawi
SADC	Southern African Development Community
SAPs	Structural Adjustment Programmes
SCT	Social Cash Transfer
SDGs	Sustainable Development Goals
SHF	Smallholder farmers
SLAs	Service-level Agreements
SMP	School Meal Programme
SP	Starter Pack Programme
SSA	Sub-Saharan Africa
TIP	Targeted Input Programme
UAE	United Arab Emirates
UHP	Universal Health Coverage
UNDP	United Nations Development Programme
UNIMA	University of Malawi
USA	United States of America
VAT	value added tax
WB	World Bank
WDI	World Development Indicators
WTO	World Trade Organization

Executive Summary

The government of Malawi, under its recent national development strategy and vision (Malawi 2063), plans to transform the country into an upper-middle-income country by 2063. Achieving this goal will require strengthening efforts to foster high and sustained economic growth. It will also require ensuring that current and future growth have significant impacts on poverty reduction through accelerating efforts to combat inequality. Malawi has been growing modestly at an average rate of about 4 per cent for the last three decades. However, due to high levels of inequality, poverty rates have marginally improved over the last three decades relative to other countries in Africa with similar growth rates. About 70 per cent of Malawi's population currently lives below the $2.15 international poverty line with about 46 per cent of its national income being held by the top 20 per cent of the population. Against this backdrop, this report examines the role of economic and social policies in understanding the evolution of inequality and poverty in Malawi over the past three decades.

Emphasizing the centrality of policy choices in addressing inequality, the report indicates that most of the key policies that Malawi has been implementing have contributed to reducing income inequality. However, their efficacy is being eroded by several factors including policy incoherence and infrastructure gaps. Free primary education (FPE) is one of the key policies that have equalized access to education across income groups and gender at the primary school level. However, the lack of similar or complementing policies at the secondary level has resulted in very low secondary school completion rates for students from the poorest households. Increasing the number of beneficiaries for the targeted tuition waivers at the secondary school level and exploring partnerships with the private sector to expand tertiary education loan coverage will enhance the poor's access to education and improve their prospects for better options in the labour market.

The report suggests that social safety nets and labour programmes are essential in addressing income inequality in Malawi because they contribute to alleviating vulnerabilities of livelihoods and incomes of most of the poor and ultra-poor households. To enhance the effectiveness and sustainability of these programmes, the report underscores the need for the government to introduce an exit plan for all social safety nets including the farm input subsidies. This should be complemented by scaling down coverage (through better targeting) and increasing the depth of relevant programmes for a sustainable impact on incomes within a specified period. Moreover, the use of a centralized system with up-to-date relevant personal information for all Malawians would effectively address targeting issues in the delivery of these programmes.

The report further argues that extending social security including health insurance and non-employment benefits might further improve income inequality in Malawi. However, this will require an improvement in domestic resource mobilization to ensure financial sustainability and facilitate effective planning in covering the pertinent gaps across sectors.

Land policy has consistently failed to facilitate the equitable distribution of land (a key development resource) for inclusive growth and sustainable development throughout the past three decades. Despite disbanding the transfer of customary to private (estates) land in 1996, the lack of complementary policies to allow for the reconversion of idle estate land resulted in the permanent loss of arable land for the smallholder farmers (SHF) sub-sector despite the increasing prominence of SHF relative to estate farming over the years. Coupled with population growth, an average SHF has access to only 0.3 hectares while the estate farmers hold up to 500 hectares on average. Notwithstanding key changes brought forward by the recent land reforms including the titling of customary land (to enhance security of ownership), historical land inequities have not been adequately addressed. As such, these new land reforms continue to do very little to improve the severe land constraints being faced by most SHFs in Malawi. While a further review of the Land Act to allow for the reconversion of idle estate land into customary land might address the critical land shortages among the poor in the short term, enhancing the agricultural sector's internalization of technology to boost productivity and growth might effectively address these issues in the long term.

Policy incoherence is one of the critical issues affecting the potency of most policies on inequality in Malawi. There are several policies whose sectoral objectives and goals do not complement the goals in other sectors thereby eroding their impact on reducing poverty and income inequality. Furthermore, a lack of coordination between institutions in the formulation and implementation of interrelated policies has also led to policy incoherence and weak inequality outcomes. In this regard, the National Planning Commission (NPC) should strengthen efforts to enhance the coordination of development and review of all policies to ensure consistency in their overall objectives and outcomes. This will be key to ensuring that development policies in Malawi have the desired impacts on inequality and poverty.

1. Introduction

The heightened importance of inclusive growth in pursuit of the central and transformative promise of the 2030 Agenda and the Sustainable Development Goals (SDGs) of "leaving no one behind", affirms the notion that economic growth is necessary but not sufficient for poverty reduction. Often, economic growth has benefitted a few as its potential benefits for the poor have been greatly undermined by increased inequality (Heshmati, 2004). For example, data from the world development indicators (WDI) highlights that between 2004 and 2010, Malawi grew at an average of about 6.5 per cent with average per capita incomes growing at about 3.6 per cent annually. However, this growth translated into improvements in the living standards of only the rich as living standards for the poor and poorest further deteriorated. The incomes of the top 10 per cent grew by about 11 per cent while the incomes of the bottom 10 per cent plummeted by about 32 per cent (See Figure 3). In Africa, these trends are not unique to Malawi (OSISA, 2011; AfDB 2012, UNCTAD, 2021). As such, Africa remains one of the most unequal continents in the world (OXFAM, 2019) with the Gini coefficient ranging from 0.276 in Algeria to 0.633 in South Africa (UNCTAD 2021b) despite impressive growth in most of these countries over the last two decades; affirming that an increase in economic growth does not necessarily entail an increase in the incomes of the poorest in the population.

While there are several reasons why growth does not always translate into improved incomes for the poorest in an economy, empirical evidence underscores the centrality of policy choices in ensuring that the growth process is inclusive. Mussa (2017) and Mwakilama (2018) contend that economic growth in Malawi has not been inclusive mainly because the implemented development strategies implicitly assumed that poverty reduction will automatically result from economic growth. Thus, while focusing on economic growth for poverty reduction, Malawi's overarching development programs/strategies[1] are seen not to have effectively addressed the redistribution component of the resultant growth outcomes, notwithstanding the recognition of inequality as one of the key development challenges by Malawi's vision 2020 (Mussa, 2017). As such, poverty in Malawi remains widespread with about 70 per cent of the population living below the international poverty line of $2.15 per day in 2019 (Povcal Net database, 2023)[2]. Notably, the population living in poverty is even higher at 78.3 per cent, (Povcal Net database, 2023) when poverty is holistically assessed to cover multiple deprivations including access to health, education, potable water, good sanitation and electricity.

In this regard, it is worth noting that while these two and other related studies (see Oxfam, 2014; Oxfam, 2018; Cornia and Martorano, 2017; Chirwa, 2022) provide useful insights into why inequality has continued to undermine poverty reduction efforts in Malawi, they are silent on what has so far worked in addressing inequality. In a bid to draw lessons from the past and effectively inform the direction of future policies in addressing inequality in Malawi, this report assesses how policies across key sectors including agriculture, health and education influenced the direction of inequality in each of the three 10-year periods from 1990 to 2019. Reckoning the heterogeneity of the impact of different policies on inequality, the analysis will also cover taxation, labour and monetary policies over this period. The analysis is premised on the assumption that social and economic policies that focus on ensuring inclusivity in the growth process are more effective for poverty reduction and economic development than non-inclusive policies.

The focus of the discussion is on the period 1990-2019 because the COVID-19 pandemic, which began in 2020, is such a big shock and including the pandemic period will make it impossible to isolate the effects of economic and social policies on inequality and poverty from the impact of COVID-19. That said, a separate section of the paper is devoted to an analysis of the impact of COVID-19 on the economy of Malawi with the understanding that data limitations do not permit a full-scale assessment of its impact.

[1] See for example, the Structural Adjustment Programme (SAPs) (1981), Poverty Alleviation Program (1994); the Malawi Poverty Reduction Strategy (MPRS) (2002-2005); and the Malawi Growth and Development Strategy: MGDS I (2006-10); MDGS II (2011-2016); MDGS III (2017-2022) (GOM, 1994,2002, 2012).

[2] https://pip.worldbank.org/home

The rest of the report is organized as follows: Section 2 looks at the trends in poverty, inequality, and economic growth in Malawi to provide context for the assessments in the subsequent sections of the report. Section 3 discusses the role that key policies have played in reducing inequality in Malawi and section 4 highlights key drivers of inequality in Malawi. Section 5 discusses the impact of COVID-19 on inequality and poverty in Malawi. Lastly, in section 6 we conclude the report and discuss policy measures to effectively reduce poverty and inequality in Malawi.

2. Poverty, inequality, and growth in Malawi

As development practitioners and policy makers continue to pursue a world free of extreme poverty[3], understanding the relative impacts of both income growth and income distribution on poverty reduction remains imperative for effective policy choices. While growth is unarguably an important factor for poverty reduction, empirical evidence equally suggests that the extent to which economic growth effectively translates into poverty reduction is highly contingent on how the additional income at each level of growth is distributed as well as on the initial levels of inequalities across sectors (Ali and Thorbecke, 2000; Fosu 2009; Fosu, 2015; Berardi and Marzo, 2015). Accordingly, this section assesses the trends in poverty, inequality and growth in Malawi to highlight the extent to which inequality (distribution) has influenced the translation of the country's growth outcomes into poverty reduction over the three decades (1990-2019). The assessment will be done within the framework provided in the extant literature which perceives the change in poverty as a function of the growth in mean income and changes in the distribution of relative income. Bourguignon (2004) expressed this framework mathematically as in the equation below:

$$\textit{Change in Poverty} = F(\textit{growth}, \textit{distribution}, \textit{change in distribution})$$

Based on this framework, section 2.1 discusses the relationship between poverty and growth in Malawi and in section 2.2 we focus on the poverty-inequality nexus in the economy.

2.1. Poverty and growth

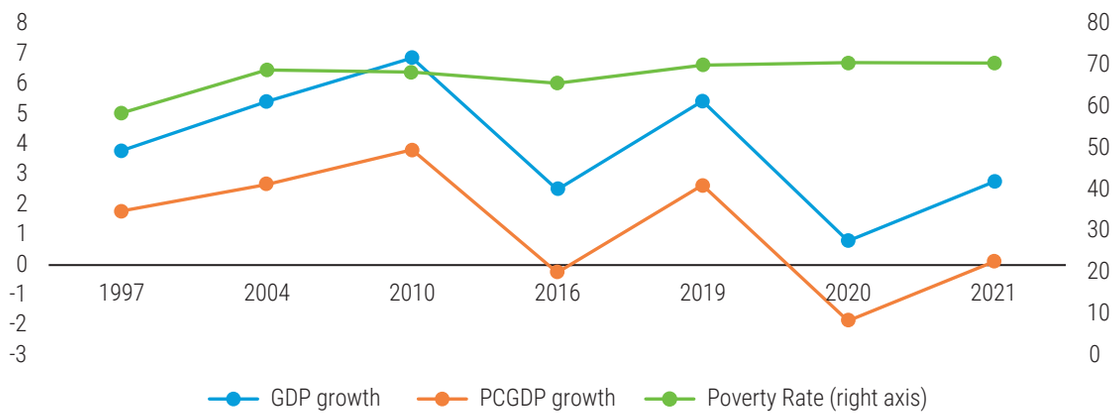
Empirical evidence underscores the importance of economic growth in poverty reduction. However, it is also understood that such a relationship is not always direct or simple. Data from the WDI shows that most African countries have experienced an unprecedented cycle of sustained and prolonged growth. Most countries have been growing at an average of about 4 per cent with exceptions in countries such as Rwanda, Ethiopia, Ghana, Guinea, Tanzania, and Zimbabwe which have been growing at an annual average of about 6 per cent. At the regional level, this growth has been fairly translated into poverty reduction with the poverty rate (at $2.15 threshold) in Sub-Saharan Africa steadily declining at an annual average of about 2 per cent since 1993 (Figure 2). However, this direct linkage at the country level remains elusive as the ability of countries to translate the resultant growth outcomes into poverty reduction is not homogenous. Fosu (2009) as well as Berardi and Marzo (2015) point to inequality as an equally key factor in determining the extent to which growth affects poverty rates and, hence, the differences in poverty reduction at similar levels of growth across countries. Thus, similar growth levels in income among countries will not necessarily imply similar outcomes in the poverty rates depending on their inequality levels. For instance, growing at an average of about 5.9 per cent, Appendix 1 shows that the poverty rate in Malawi marginally declined by an average of only about 0.8 percentage points in the 2000-2019 period. Yet with a similar growth rate in the two decades, the poverty rate dropped by an average of 36.6 percentage points in Mali.[4]

[3] Sustainable Development Goal (SDG) 1: End poverty in all its forms everywhere

[4] Similarly growing at an average of 5.9 per cent, the poverty rate in Zambia increased by about four percentage points on average in the 2000-2019 period while with a similar growth rate, Sierra Leone managed to significantly reduce its poverty rates by 28.9 percentage points on average in the same period.

Figure 1

Poverty and growth in Malawi



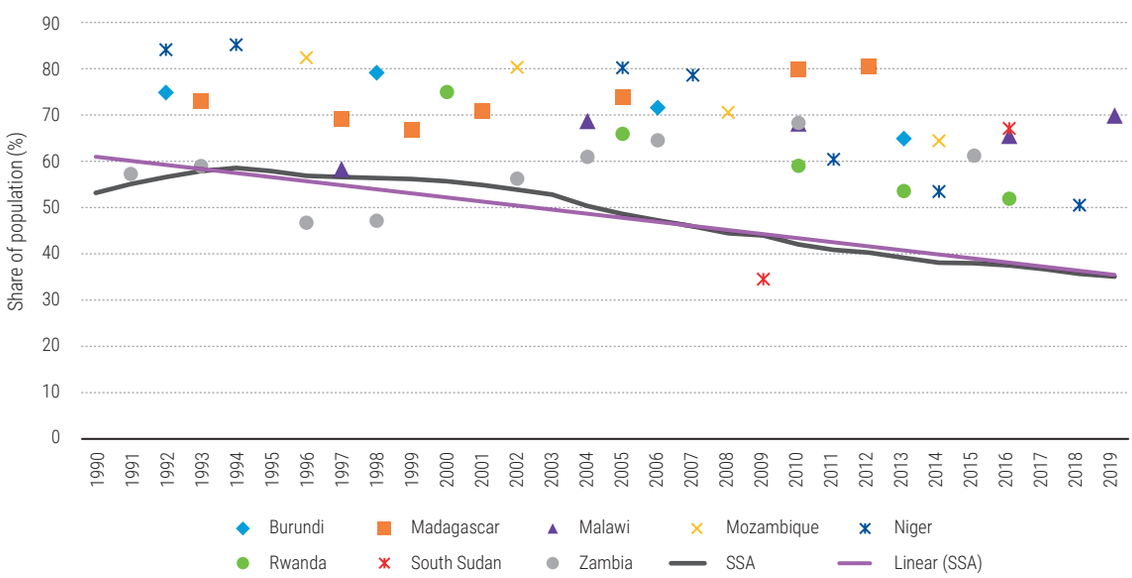
Source: World Development Indicators, PovcalNet database and the World Bank Macro Poverty outlook (MPO)[5]

Notes: The poverty rate was calculated at the poverty line of $2.15 per day.

In the case of Malawi, Figure 1 underscores that an increase in growth will not always be translated into poverty reduction. While the direct relationship between growth and poverty reduction can be easily deduced between 2004 and 2010 where the increase in growth was reciprocated by a decrease in poverty reduction, the trend from 2016 tells a different story. The country has lost the gains in poverty reduction made from 2004 with the poverty rate increasing by 4.4 percentage points from 2016 to 2019 despite the growth in incomes; suggesting an increasing issue with the distribution of the additional income from growth across the population strata. Worth noting in this regard are other countries such as Mali and Mauritania that have had similar growth rates to Malawi, but poverty rates have continued to decline throughout the 2010-2019 decade. Relative to Malawi whose average Gini coefficient in the decade is 0.429, the average Gini coefficient for the decade is 0.36 and 0.326 in Mali and Mauritania respectively. To this end, Fosu (2009 and 2015) concludes that the higher the inequality, the lower the poverty reduction efficacy of a given growth rate in a country. In other words, for a given rate of economic growth, poverty will fall faster in countries where the growth of income of the poorest is not below the growth in average incomes.

Figure 2

Poverty rates for selected African Countries (1990-2019)



Source: UNCTAD calculations based on data from the World Development Indicators and PovcalNet database

Notes: The Figure only includes countries whose average poverty rates for the 2010-2019 decade are above 40 per cent. The poverty rate was calculated at $2.15.

[5] https://thedocs.worldbank.org/en/doc/b3502c65235d8c72aef5f34d87ed6298-0500062021/related/data-mwi.pdf

Overall, most countries in Africa were making good progress towards the attainment of SDG1 with poverty rates dropping by as much as 69.7 percentage points in Mali, 40-53 percentage points in countries including Burkina Faso, Gambia, Eswatini, Guinea and Senegal between 1990 and 2019. On average, the poverty rate in SSA dropped by about 23 percentage points from 58 per cent in 1993 to 35.1 percent in 2019. However, Malawi is one of the 5 countries where on average, poverty rates increased by 10 percentage points or more over the three decades. Malawi is currently the third in the region from Madagascar (80.45 per cent), and Somalia (70.7 percent) with an average of about 68 per cent of its population living below the $2.15 poverty line in the 2010-2019 decade. It is also among the few countries whose poverty rates have been consistently above the SSA average in the last three decades (Figure 2).

Considering that poverty is a multifaceted phenomenon, the UNDP, and the World Bank (WB) have worked on the multidimensional poverty index (MPI). The index looks at poverty beyond the monetary measure to encompass deprivations in other key indicators broadly covered under health and population, education, environment, and work (NSO, 2021). Using the World Bank measure which is based on the $2.15 poverty line[6], shows that Malawi is among the countries in Africa where nonmonetary deprivations play a greater role relative to most countries in Africa. With a multidimensional poverty headcount rate of 78.3 per cent, Malawi comes fourth in Africa after South Sudan (84.9 per cent), Somalia (83.3 per cent) and Niger (80 per cent). Another recent study on inequality in Malawi suggests that 61 per cent of Malawi's population is multidimensionally poor (the poverty headcount or incidence) with a poverty intensity of 54.6 per cent (NSO 2021).

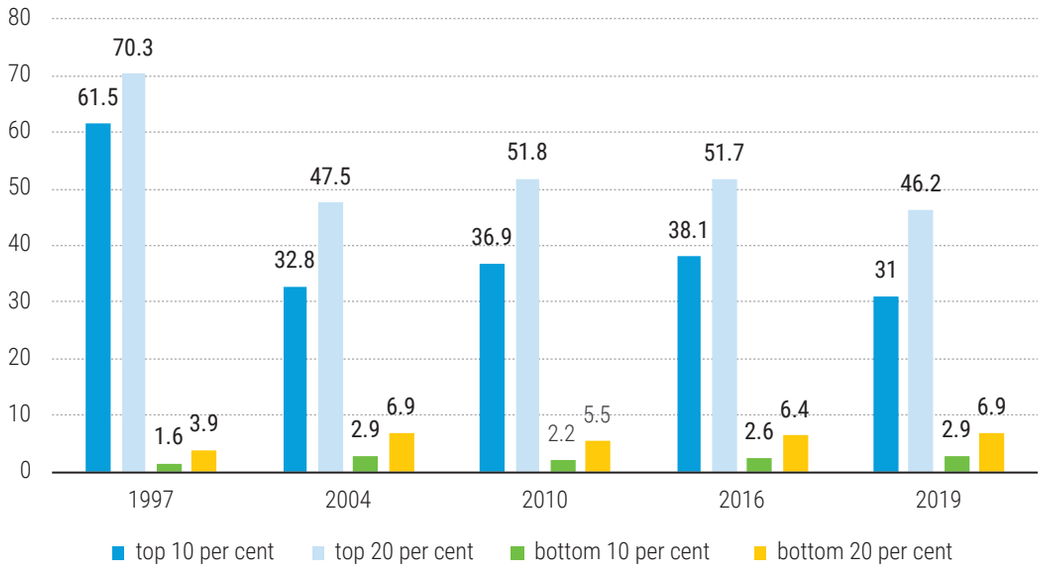
2.2. Poverty and inequality

As highlighted in the above section, the extent to which economic growth translates into poverty reduction is contingent on how the resultant additional income from growth is distributed within a country. Specifically, a significant reduction in poverty at each level of economic growth is only attainable if growth translates into increased incomes for the poorest in the economy. Otherwise, if only the rich benefit from it, then growth effectively translates into increased inequality with minimal impact on poverty reduction. The rise in poverty headcounts is consistent with income distribution levels which show that the percentage share of income that accrues to the bottom 10 per cent of the population has remained virtually stagnant at 2.9 per cent from 2004 to 2019 and only declined marginally in 2010 and 2016. Although the income share of the top 10 per cent of the population rose from 32.8 per cent in 2004 to 38.1 per cent in 2016, there was a marked decline in 2019 to 31 per cent. Despite the marginal changes in the year-to-year comparison of the income distribution from 2000-2019, it is remarkable that the additional income that accrued to the bottom 20 per cent (relative to the bottom 10 per cent) is significantly low compared to the income that accrued to the top 20 per cent (relative to the top10 per cent), hence inequality increases further as the entire population is taken into account despite improvements in per capita incomes. According to Fosu (2009) and other related studies, these high levels of inequality in Malawi are detrimental to its ability to positively change its course on poverty at any level of growth in per capita incomes.

[6] The World Bank data is from the POVCALNET database. Also, the UNDP multidimensional poverty index was calculated using the $1.90 poverty line, hence it has lower values across indicators in all countries relative to the Word Bank multidimensional poverty measure. Nevertheless, they both tell the same story just with different magnitudes.

Figure 3

Income share held by selected population in Malawi

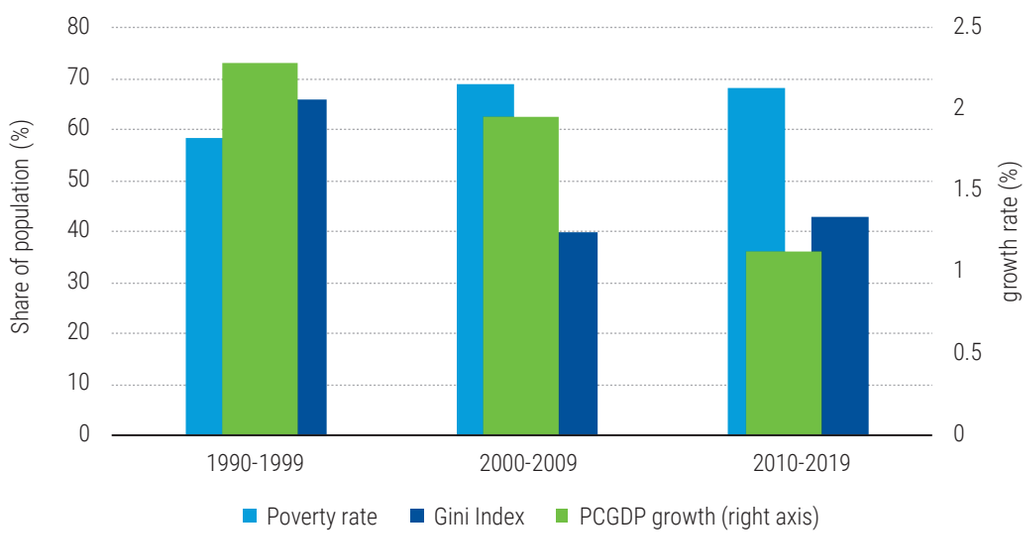


Source: World Development Indicators, 2023

Using the Gini coefficient as a different measure of inequality, Figure 4 shows that on average, inequality in Malawi significantly dropped by about 26 percentage points from 0.658 in the 1990-1999 decade to 0.399 in the 2000-2009 decade. However, poverty rates increased by about 10 percentage points during this period while the growth in per capita incomes also declined, suggesting that while the declining trend in inequality was conducive for translating growth into poverty reduction, the existing high levels of inequality compounded by the compressed growth in per capita incomes were not sufficient for a significant positive outcome in poverty rates. Going to the 2000-2009 decade, Figure 4 further shows that the growth in per capita incomes continued to plummet while inequality rose by 3 percentage points and poverty rates remained substantially unchanged at about 68 per cent. This further shows that while the decreasing growth in per capita incomes was not substantial enough to positively influence the direction of poverty, both high levels of initial and rising inequality further dampened its potency in reducing poverty levels in the decade.

Figure 4

Growth, inequality and poverty in Malawi



Source: UNCTAD calculations based on World Development Indicators, 2023
Notes: The poverty rate was calculated at the poverty line of $2.15 per day.

Overall, in line with the extant literature (Adams, 2004; Fosu, 2009; Fosu, 2015; Berardi and Marzo, 2015; OECD, 2015, UNECA 2017), Figure 4 underscores the importance of both growth in per capita incomes and reduced inequality levels for poverty reduction. While low growth levels in per capita incomes have been detrimental to poverty reduction efforts in Malawi, high and/or increasing inequality has been equally a key factor undermining the poverty-reducing efficacy of growth. Thus, underscoring the importance of understanding the significance of factors that contribute to rising inequality and the policies that will be conducive to successfully addressing inequality if Malawi is to effectively reverse its course on poverty. In other words, while working on growth-enhancing policies for poverty reduction, Malawi should recognize the significant role that inequality is playing in diminishing the impact of its poverty reduction efforts.

3. Impact of key policies on inequality

Section 2 underscores the fact that good coordination of policies that enhance economic growth and simultaneously tackle inequality is key to effectively reducing poverty. Accordingly, as in most countries in Africa, Malawi has witnessed several shifts in its policies in a bid to deal with both poverty and inequality since its independence in 1964. Malawi implemented Structural Adjustment Programmes (SAPs) with support from the World Bank (WB) and the International Monetary Fund (IMF) between 1981 and 1994. The Poverty Alleviation Programme (PAP) was adopted in 1994 which sought to raise national productivity through sustainable broad-based economic development and socio-cultural development (GOM, 2002). Despite some progress in both poverty and inequality, the performance of PAP was seen to have been compromised by a lack of a holistic action plan and clear linkages with the budgeting framework (GOM, 2002). Accordingly, in 1998 Malawi launched the Vision 2020[7] as a long-term national development plan to anchor the direction of policy through short and medium-term development strategies. Notably, Vision 2020 reckoned the importance of tackling economic growth and inequality for sustainable development and poverty reduction. The Vision 2020 was replaced in 2021 with the Malawi 2063[8] vision whose focus remains on fostering inclusive growth for sustainable development and poverty reduction.

The Malawi Poverty Reduction Strategy (MPRS) was the first to operationalize the Vision 2020 from 2002-2005. The strategy was set to achieve "sustainable poverty reduction through the empowerment of the poor" (GOM, 2002). Among other things, its focus was on ensuring that the poor actively participated and benefited from economic growth.[9] The strategy was later complimented with the Malawi Economic Growth Strategy (MEGS) as it was deemed ineffective in stimulating private sector investment growth to enhance the attainment of the sustained economic growth rate of at least 6 per cent (GOM, 2003). In 2006, the MPRS was replaced by the Malawi Growth and Development Strategy (MGDS) I (2006 – 2010), which was followed by MGDS II (2011-2016) and the MGDS III (2017-2022). These three MGDS' have continued to pursue poverty reduction but, through sustainable economic growth and infrastructure development. While the MPRS was committed to delivering pro-poor growth, the MGDS commits to delivering inclusive growth, highlighting that policies emanating from these strategies have continued to tackle both economic growth and inequality for sustainable development and poverty reduction. However, with poverty and inequality still very high after three decades, the question remains as to what extent these strategies have been effective in guiding policy, particularly as it pertains to inequality in Malawi.

The rest of the section will provide a detailed assessment of how the specific key sectoral, tax, labour, social protection, and monetary policies, as guided by the above development strategies have influenced the direction of inequality in Malawi. As indicated earlier, in order not to conflate the role of policies on inequality and poverty with the impact of the COVID-19 pandemic and recent global shocks, such as the food and fuel crises, the focus of the discussion in the section will be on the pre-COVID-19 period. A discussion of the impact of COVID-19 and other recent shocks will be taken up in section 5.

7 https://cepa.rmportal.net/Library/government-publications/Vision%202020-%20The%20National%20Long%20Term%20Development%20Perspective%20for%20Malawi.pdf

8 https://www.undp.org/malawi/publications/mw2063-vision#:~:text=June%209%2C%202022,named%20Malawi%202063%20(MW2063).

9 https://www.imf.org/external/pubs/ft/scr/2007/cr0755.pdf

3.1. Agricultural policy

Agriculture has remained a dominant component of the Malawian economy for decades employing over 60 per cent of its workforce and accounting for over 80 per cent of its export earnings and 30 per cent of its gross domestic product (GDP)[10]. The agricultural sector in Malawi is dualistic, comprising smallholder farms and large estates. Largely characterized by subsistence rain-fed agriculture, the smallholder farming segment is the key sustainer of rural livelihoods in Malawi. It accounts for over 70 per cent of agricultural output constituting largely the country's staple food crops (maize), millet, pulses, beans, potatoes, cassava and some cash crops. Specifically, smallholder farmers (SHF) produce about 80 per cent of Malawi's food and 20 per cent of its agricultural exports[11], highlighting the strategic importance of the sub-sector to the country's food security. Large-scale estate farming is mainly involved in the production of exported cash crops such as tobacco, tea and sugar (Harrigan 2003). Accordingly, since the adoption of an agricultural export-led development model upon independence in 1964 (Cornia and Martorano, 2017), agricultural policy has equally been characterized by this dualistic structure focusing on both the attainment of national food sufficiency through enhanced productivity and growth of the SHF segment and rapid economic growth through the growth of estate farming (GOM, 2010). In this regard, farm input subsidies have been the key policy with equalizing income effects in the sector.

Farm input subsidies

Focusing on food self-sufficiency by enhancing productivity and growth of small holder farmers (SHF) through increased access to and use of improved agricultural inputs, farm input subsidies are perceived as one of the key policies with a strong income equalizing effect in Malawi. The assumption is that with subsidies, the government directly boosts the real incomes of the poor by enhancing their productivity and output[12]. In turn, this has a positive impact on the prices of the key food crops such as maize including during the lean season (Levy, Barahona and Chinsinga, 2004; Dorward and Chirwa, 2013), suggesting more benefits on the purchasing power and overall welfare of the poor who are empirically proven to pay more for maize than the non-poor in Malawi (Mussa, 2014). As such, with most of the poor population in Malawi dependent on subsistence agriculture, the removal of input subsidies is seen to have a direct impact on both poverty and inequality. For instance, Cornia and Martorano (2017) highlight the removal of fertilizer subsidies during the World Bank (WB) and the International Monetary Fund (IMF) Structural Adjustment Programmes (SAPs) period (1981-1994) as one of the key factors for the increase in inequality in the 1990-1999 period. Overall, notwithstanding some positive returns on Malawi's economy, the SAPs are seen to have not been effective in enhancing the incomes and growth potential for most of the Malawian population (Kaluwa et al. 1992).

Underscoring this observation is the reversal in the inequality trends in the 2000-2009 period following several farm input interventions albeit with different approaches and impacts on the overall output and incomes of SHF. In response to the negative impact of the fertilizer subsidy removal under the SAPs on agricultural productivity and food security, the government re-introduced the agricultural input subsidy policy through the "Starter Pack Programme (SP)"[13] in 1998. With universal coverage of the SHF population, the SP increased maize production by about 67 per cent on average and kept maize prices low throughout the year with positive returns on income inequality (Cornia and Martorano 2017). Moreover, while the fertilizer that comes with these packages was essentially meant to be used on maize production in line with the food security objective of the programmes, SHF used the fertilizers on other cash crops including tobacco. As such, SP is also recorded to have enhanced incomes of SHF through increased participation in the production and selling of Malawi's key cash crops like tobacco (Harrigan 2003). Worth noting, the SP was complemented by the Agricultural Productivity Improvement Programme (APIP) which provided inputs on credit to resource-poor farmers from 1998.

[10] https://www.jica.go.jp/Resource/malawi/english/activities/c8h0vm00004bpzlh-att/agriculture.pdf

[11] https://www.fao.org/3/y4632e/y4632e0n.htm

[12] This is on the assumption of a good agricultural season holding all other factors (such as heavy rain/floods, drought) with adverse impact on agricultural output constant.

[13] The Starter Pack Proramme provided free small packs of improved maize and other seed together with appropriate fertilizer depending on their geographical location and farming system.

The SP was replaced by the Targeted Input Programme (TIP) in 2000[14] which continued with the provision of free small input packages under the SP but was only targeting the resource poor SHF with priority given to the most vulnerable households[15]. However, the potency of the programme was heavily eroded by poor targeting and the consequent failure to reach the targeted beneficiaries mainly "*due to the spirit of egalitarianism given the high levels of poverty and limited quantities of inputs allocated to each area*" (Chinsinga, 2005). Compounded with the negative effects of the reduction of APIP beneficiaries by 74 per cent (Chirwa et. Al., 2008) on agricultural output and incomes of the poor SHF, TIPs' poor targeting is seen to have had an eroding effect on the poverty and income equity gains of the universal SP (Chinsinga, 2007). Following the discontinuation of financial support from the TIPs' sole donor DFID (Chinsinga, 2007), the government changed the input subsidy approach with the introduction of the Farm Input Subsidy Programme (FISP) in the 2005/06 agricultural year. Instead of free inputs, the government provided at least a 67 per cent subsidy on the purchase of fixed quantities of inputs through coupons to the selected households (ICL et al. 2007).

However, just like with the TIP, the FISP has also been criticized for having marginal impacts on the incomes of the poor and hence on inequality as in most cases, the poor and most vulnerable are not the primary beneficiaries due to poor targeting (Doward et. Al., 2008; Holden and Lunduka, 2010a; Chirwa et. Al., 2010; Chibwana et.al., 2010). Despite being complemented with other public works programmes (PWP) such as food for work, cash for work and inputs for work[16], incidences of poor SHF selling coupons as they have no cash to pay for the difference have been recorded as these complementary programmes target households that are not labour constrained. As such, notwithstanding the positive immense impacts on the country's food security stance (Chinsinga, 2012), FISPs' impact on income inequality has remained unsatisfactory (Cornia and Martorano, 2017). This is partly reflected in the increase in the GINI coefficient from 0.399 in 2004 to 0.455 in 2010. To this end, it is worth noting that FISP has remained a key policy driving output and growth in the sector since its inception in 2005/06. While the programme has evolved over the years in scale, scope and targeting for enhanced effectiveness in meeting its objectives, targeting remains a key factor compromising its potency on inequality. Its potency has been further undermined by the reduction in its scale from supporting about 67 per cent of the farming households in the 2008/2009 farming season to about 21 per cent of farming households in the 2016/2017 agricultural year[17] as well as inefficiencies in the budgeting process which affects timely procurement and supply of the subsidized inputs. In this regard, it is worth noting that scaling down the programme is largely a function of resource availability as the programme does not have a graduation plan for its beneficiaries (Chirwa and Dorward, 2013). Scaling down of the programme essentially entails reduced output and incomes of the affected households with significant adverse implications for national income inequality. Hence, FISP continues to be considered one of the policies with marginal positive impacts on inequality in Malawi (FAO, 2015) which has continued to increase since 2006 despite the programme's immense potential to significantly reverse the inequality trend.

3.2. Trade policies

In line with the agricultural export-led development model adopted in 1964, trade policy has been the key anchor of agricultural productivity and growth with significant implications on household welfare, poverty reduction, income inequality and ultimately, inclusive growth and sustainable development. The core objective of trade policy in Malawi has revolved around facilitating economic structural transformation including through diversification of exports and markets, empowering small producers, enhancing the productivity and productive capacities of the private sector and ensuring inclusive participation in both domestic and international trade (GOM, 2016). On the domestic market, trade policy in Malawi focused on the deregulation of agricultural produce and inputs markets as well as the liberalization of cash crop production. On the

[14] https://www.fao.org/3/y4632e/y4632e0n.htm

[15] The most vulnerable in this case refers to widows/widowers with no source of income, the aged without any support and families keeping orphans without financial support (Chirwa et.al, 2008)

[16] While under the food for work programme, beneficiaries are offering their labour for specific projects in their community in exchange for food, labour is provided in exchange for agricultural inputs or cash under the inputs for work of cash for work programmes respectively.

[17] https://agra.org/wp-content/uploads/2020/09/Improvement-of-Malawis-Farm-Input-Subsidy-Program-FISP.pdf

international scene, trade policies have protected agricultural markets and facilitated industrialization including through export restrictions. International trade policy has also facilitated access to international markets through bilateral, regional and international trade agreements. This section will assess the potential role that these policies have played on income inequality in Malawi.

3.2.1. Agricultural market liberalization

In line with the centrality of agriculture in sustaining the livelihoods of most of the Malawian population, the coherence of the policies within the sector and the economy at large remains crucial in ensuring progress in reducing income inequality. Until the early 1990s, agricultural production was distinct between the estate and the SHF segments of the sector through government policy. While the estate agriculture concentrated on commercially exportable crops such as tobacco, tea and sugar with free access to both the domestic and international markets, the SHF segment was constrained to the less lucrative varieties of tobacco and the production of the food crops with the Agricultural Development and Marketing Board (ADMARC)[18] as their only channel for procuring their inputs and marketing their produce (AfDB, 2001). Although this ensured SHF reliable markets for their produce, it had limiting implications on their incomes as they could only sell within the uncompetitive government-set price bands which in most cases were below the prevailing world market prices (Chinsinga, 2018). For example, while estate farmers sold their tobacco directly at the auction floors, the less lucrative tobacco varieties from the SHF sub-sector were sold through ADMARC at one-third to half of what ADMARC was getting at the auction floors, accumulating massive profits in the process at the expense of the poor SHF (Harrigan 2001). Moreover, their restriction on burley tobacco further confined their income band relative to the estate sector, suggesting unequal income effects of this policy on the two segments of the sector. Additionally, the land tenure system on which estate farming thrived was very exploitative and without room for income improvement for the poor who were providing cheap labour in the system through contract farming (Mwakilama, 2018; Chinsinga, 2018)

The 1990-1999 decade ushered in a profound shift in the sector's philosophy and strategy with the liberalization of prices for all crops except maize which was partially liberalized in 1996 through the introduction of a price band. Thus, while allowing market forces to determine the prices of all other crops, private sector involvement in the buying and selling of maize was within the set minimum and maximum price limits of the government through ADMARC. Accordingly, except for maize, the liberalization process included the removal of the system for fixing producer and consumer prices, the lifting of the export ban on food crops, the removal of restrictions that prevented smallholder farmers from producing and marketing high-value cash crops in 1995 including burley tobacco, removal of the export levy on tobacco and sugar; and the removal of ADMARC's monopsony on the purchase and sales of SHF tobacco (WTO, 2002; Harrigan 2003; Chinsinga, 2018). As a key staple food, partial liberalization of maize was done essentially for food security reasons. Notwithstanding the potential exploitation of the SHF by the middlemen (private traders), these policies opened the export market to SHF and enlarged their income base through their access to the production of lucrative cash crops.

Along with the re-introduction of the farm input subsidies in the late 1990s, these policies resulted in a shift in the sector's structure as the SHF segment became the driving force of agricultural growth and economic development in Malawi by leading the production of both cash and food crops. For example, Harrigan (2003) highlights that by the end of the 1990-1999 decade, SHF accounted for at least 70 per cent of Malawi tobacco production from only about 13 per cent in 1990. Growing by at least 40 per cent annually in the last half of the decade (Harrigan, 2003), the smallholder agricultural growth which was largely driven by tobacco and followed by other cash crops, had strong income multiplier effects on the rural nonfarm community (Orr and Orr, 2002) and hence, on income inequality. On average, up to 70 per cent of the working population was estimated to be directly or indirectly employed in tobacco (Kapito, 2000; FAO, 2003).

The above highlighted positive impacts on income inequality continued through the 2000-2009 decade as up to 98 per cent of the country's total burley tobacco was produced by the SHF by 2009 (Chirwa 2011; Wood et al. 2013). However, these impacts could not be fully sustained through to the 2010-2019 decade for several reasons. Firstly, the lack of complementary policies and regulatory framework to maintain the quality and supply of tobacco after complete liberalization has seen a gradual decline in tobacco prices and

[18] the state-owned marketing and procurement agency

hence, its profitability to SHF over the years (Chirwa, 2011). This was largely a consequence of poor quality leaf and grading (Kadzandira et al., 2004; Mwasikakata, 2003) as despite the experience from the estate contract farming, most SHF who ventured into burley tobacco after the liberalization did not have the financial capacity and other relevant supporting systems to maintain the quality of tobacco they were producing under the management of estate farming (Chinsinga, 2018). This is reflected in the significant reduction in tobacco productivity from a high of 13, 777 hg/ha in 1997 to 10, 573 hg/ha in 2019 notwithstanding some improvements between 2006 and 2013 (Figure 7). As such, in addition to depressing domestic prices, poor quality and grading have also seen increased rates of rejection by the buyers at the auction floors with significant adverse implications on the incomes of the SHF (Chirwa, 2011).

Secondly, the oligopsonistic nature of the tobacco market in Malawi which is concentrated by very few big companies buying tobacco entails increasing pressure on the farmers to maintain specific leaf quality and volume thresholds. Unlike estate farming which could sustainably meet the increasing market demand both in terms of volumes and quality, low SHF productivity in tobacco production (Figure 7) coupled with the continued production of other cash and food crops by most SHF resulted in significant fluctuations in the year-on-year tobacco supply, and hence the shrinkage of the market and incomes of SHF as the buyers shifted focus to other markets in the region (Chirwa, 2011). Moreover, due to the oligopsonistic powers of the few big buyers (Geist, Otañez and Kapito, 2008), there have been instances of collusions to exploitatively buy tobacco below the minimum government set prices to maximize their profits (Nsiku and Botha, 2007) thereby shrinking the actual incomes of the farmers.

Thirdly, the restriction on selling tobacco only through the auction floors further entails limitations on the farmers' ability to exploit the benefits of competitive international markets. This limitation is further compounded by the imposition of different fees and taxes on the incomes of the farmers such as the input credit, tobacco association fee, tobacco research contributions, auction fee, classification levy, the hessian fee and the withholding tax (FAO, 2014a). While the fees are fixed amounts, withholding tax has the increased potential of eroding tobacco farming profits as it is charged on gross sales without accounting for the cost of production. In this regard, it is worth noting that until the 2009 marketing season, withholding tax was set at 7 per cent of gross tobacco sales with an exemption on sales from poor SHF who belonged to farmers' clubs. However, the reduction of the withholding tax to 3 per cent from the 2010 marketing season was accompanied by the removal of its exemption on the sales of poor SHF in clubs (Chirwa, 2011), suggesting the unequalising effect of this tax policy on incomes relative to the years before 2010. In essence, this shift entails that since 2010, withholding tax increased the incomes of the rich (and middle-income) farmers by 4 percentage points while eroding the incomes of the poor farmers (who were previously exempted) by the new rate of 3 per cent.

Fourthly, inadequate investments in support infrastructure to anchor the sector's growth has been very retrogressive to the potential full impact of the market liberalization policies and farm input subsidies on the incomes of the poor. For example, with ADMARC's depots across all regions including in the hard-to-reach places, all farmers had a ready market for all their produce and easy access to inputs. Nevertheless, private traders have not been able to effectively cover most of these markets, particularly those in hard-to-reach areas. Lastly, with growing competition from private traders and price volatility, ADMARC has not been able to defend the maize price band in most years resulting in a spiral increase in maize prices (Chirwa and Chinsinga, 2015; Baulch and Botha, 2020) with stark implications on both food security and income inequality. Similarly, government enforcement of minimum prices for other cash crops including ground nuts, cotton and tea has been equally very weak, resulting in big profit margins for the intermediate buyers (ultimate exporters) at the expense of the poor SHF who have minimal direct access to the international markets (FAO, 2014b).

3.2.2. Export restrictions

Export restrictions are commonly pursued trade policies to insulate the domestic economy from food shortages and to promote industrial development. Export restrictions are implemented either through export bans where the exportation of the targeted commodity is controlled through licensing/quotas or is completely prohibited. Export restrictions are also implemented through levies particularly if the motivation is to enhance government revenue collection or in retaliation to similar export restriction policies from a trading partner or as a protective measure against the outflow of scarce resources. Furthermore, export levies can also be implemented to encourage agro-processing in which case, a differential tax is imposed with higher rates on the export of unprocessed raw materials.

As a food security policy, export restrictions are meant to enhance food availability in the domestic market at lower prices while as an industrial development strategy to protect infant domestic industries, export restrictions are envisaged to avail the targeted raw materials (intermediate inputs) to the targeted industries at lower prices to enhance the competitiveness of their output both on the domestic and international markets. In this regard, it is worth noting that whether pursued as a food security response or industrial strategy, these policies are essentially meant to benefit the consumers and industrial users and not the primary producers of the raw materials. Moreover, by depressing the prices on the domestic market while restricting exports, these policies are potentially harmful to agricultural development as they effectively create a disincentive for the farmers to produce adequate volumes (even for the domestic market) of the restricted products. As such, while arguably effective on their short-term goals at the national level, empirical evidence underscores their medium to long-term adverse impact on agricultural productivity, prices, incomes of the farmers, and the overall welfare losses, particularly if the policy is used for an extended period (Pauw and Edelman, 2015; Arndt et al. 2016; Aragie, et al, 2018; Fuje and Pullabhotla, 2020). Notwithstanding these potential caveats and restrictions on the use of export bans and quotas/licenses by the World Trade Organization (WTO), they remain among the key trade policies that are used to control agricultural markets (FAO, 2017).

Export bans

Focusing on ensuring food security, export restrictions both in the form of complete embargos and/or licensing are commonly used to control the maize market in Malawi. Maize is a key staple food in Malawi accounting for about 34 per cent of the total food consumption (Fuje and Pullabhotla, 2020), up to 90 per cent of the total cereal intake and up to 54 per cent of the per capita caloric intake (Derlagen 2012). Accordingly, maize is the most widely grown crop in Malawi covering up to 80 per cent of the cultivated land (Stevens and Madani, 2016; Fuje and Pullabhotla, 2020). However, the maize market in Malawi is very thin as most of the SHF do not sell their maize and for those involved in the selling of maize, most only do so immediately after harvesting (Derlagen, 2012; Pauw and Edelman, 2015; Fuje and Pullabhotla, 2020). Overall, only about 12 per cent of the Malawian farmers are net sellers of maize (Pauw and Ederman, 2015) with the majority of the SHF and poor urban dwellers as net buyers (Mussa, 2014). As such food security in Malawi is traditionally defined in terms of maize production and access notwithstanding the relevance of other key food crops such as cassava, ground nuts, potatoes, pulses and sorghum in the country's food security (Chirwa and Chinsinga, 2015; Stevens and Madani, 2016). Hence, the focus of this section is on export restrictions on maize in assessing the potential impact of this policy on income inequality in Malawi without undermining the potential impact of similar policies imposed on the other key cash and food crops.

Export bans are a common trade policy employed in the maize market in Malawi to ensure food security. As highlighted above, this policy intends to enhance the availability of maize on the domestic market by reducing maize outflows and suppressing its prices generally following a poor agricultural season (harvest) due to natural hazards such as droughts as well as major commodity price shocks on the international market. However, several studies that have analyzed the impact of this policy in Malawi highlight that while meeting its short-term food policy objective, the policy has been more distortionary in terms of stability of maize prices and production with ultimate adverse implications on the incomes and net welfare of most of the poor population. In the short run, Fuje and Pullabhotla (2020) found that maize export bans reduce domestic prices of maize and the net effect of seasonality on prices. However, despite low prices following an export ban, domestic prices in Malawi are still observed to be above the prices in the neighboring markets (Pauw and Edelman, 2015, Edelman, 2016, Edelman and Baulch, 2015, Aragie et. Al, 2018). Of the 85 months with export bans (May 2004 to December 2015) in his study, Edelman (2016) found that the maize prices in Malawi were below its export parity prices in only 7 months. Similarly, export bans imposed on other crops such as Soya are also highlighted to be ineffective in reducing domestic prices below the prices in the neighboring market (Edelman and Baulch, 2016). This result underscores Chirwa and Zakeyo (2006) who established a weak link between international and domestic prices of maize and rice in Malawi with a very slow adjustment mechanism of domestic to international prices.

On the one hand, this finding suggests that there are more returns on the incomes of the consumers if they access maize from the neighboring countries. On the other hand, it highlights that the policy is effectively redundant in most periods as it is not binding from the price incentive perspective because the higher domestic prices during these periods are effectively a disincentive to exports for rational producers/sellers.

As such, minimal differences in monthly maize stocks are observed with or without the export ban policy in place (Edelman, 2016), suggesting a minimal eroding impact of the policy on the incomes of the traders while minimally enhancing the incomes of consumers through reduced domestic prices. Nevertheless, in years where the ban effectively reduces domestic prices below international prices, they erode the incomes of the farmers by the price difference. For example, USAID (2013) highlights that export bans on soya could potentially reduce the net incomes of farmers by up to 56 per cent. In this case, this becomes a disincentive to farmers to produce more of the affected products and meet the market demand in the medium to the long term. In essence, the policy effectively perpetuates the subsistence nature of agriculture and undermines economic diversification and industrial development. Hence, ineffective in reducing poverty and inequality.

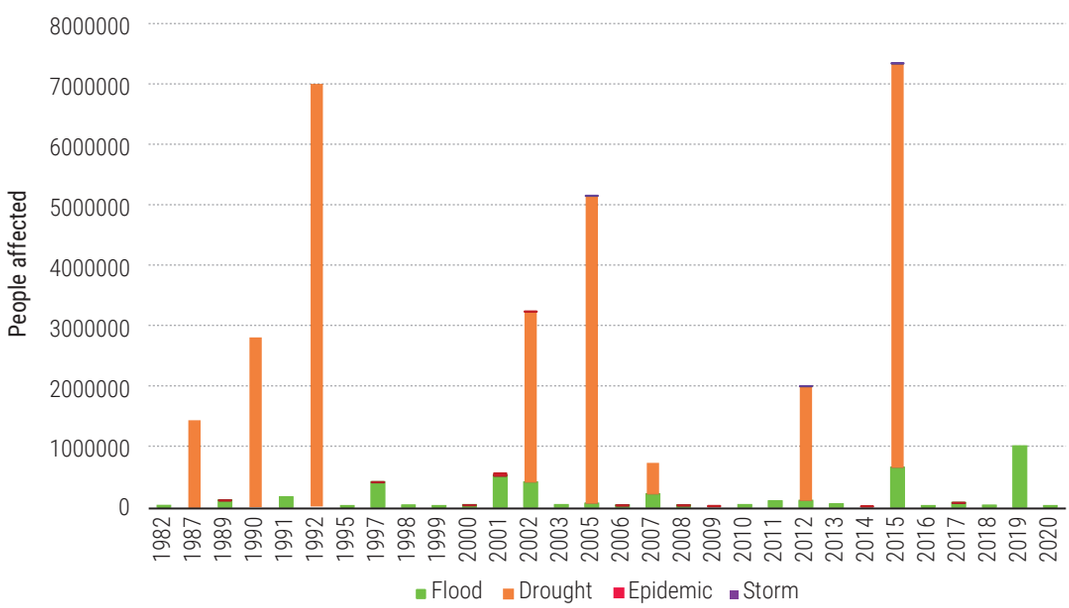
Further potential differences in the incomes of farmers are observed in periods where the maize export ban is augmented by a restriction on domestic private trading of maize. For example, following the 2007/2008 global price spikes, the Malawi government introduced the maize export ban in April 2008 which was later augmented by restrictions on the domestic selling of maize by private traders as only ADMARC was allowed to sell maize (Chirwa and Chinsinga, 2015). While this further protected the consumers by ensuring that prices remained low, the incomes of most traders were further eroded as they were effectively being pushed out of the market.

Lastly, maize prices in Malawi are highly volatile (Chapoto and Jayne, 2009, Aragie et.al., 2018). While they are at their lowest during harvest time and their peak during the lean periods, the direction of the price movement in the transition is very unpredictable. As such, most of the time, the ad-hoc export ban policies are met with highly volatile and unpredictable prices relative to the regional markets. Without a statistically significant positive effect on domestic price stability in Malawi (Porteous, 2017), export bans are further seen to distort the domestic maize market with significant adverse impacts on the responsiveness of farmers and traders to future supply and market opportunities (Aragie et al, 2018).

In sum, Aragie et.al (2018) conclude that maize export bans in Malawi have largely benefited the urban non-poor whilst eroding the incomes of the poor producers and consumers in the medium to long term as farmers have been shifting their resources away from the commercial maize farming. As highlighted above, prolonged use of export bans is self-defeating as their medium to long-term impact is redundant to both their initial food security and industrial growth objectives whilst deepening poverty and rural-urban income inequality (Fuje and Pullabhotla, 2020). For this study, these long-term impacts on inequality are potentially more pronounced in the 2010-2020 period as the export bans were intermittently implemented between July 2005 and August 2009, and they have been a somewhat consistent trade policy since December 2011 despite relatively good agricultural seasons and stable global commodity prices in most years (Edelman, 2016).

Figure 5

Key natural hazards in Malawi, 1990-2020



Source: https://climateknowledgeportal.worldbank.org/country/malawi/vulnerability

Figure 5 shows heavy droughts only in 2012 and 2015 coupled with floods in 2015 and 2019. This suggests that natural hazards may have contributed to poor harvests mostly in these years. Moreover, there are no significant global price spikes affecting cereals that could have warranted the persistent maize export bans since 2011. This underscores the observation that the application of this policy in Malawi is highly discretionary and hence, it is not only a function of output and market prices (Edelman, 2016; Chirwa and Chinsinga, 2015), making it ineffective in addressing the core issues in some years. In this regard, the policy is also seen to unnecessarily depress domestic prices and increase uncertainty on the direction of the prices with significant negative impacts on the commercial maize production and incomes of farmers in most years. To this end, it is worth noting that in July 2020, Malawi restricted the application of this policy to periods of critical food shortages as signified by the persistence of the national food balance sheet below the national food requirements for at least four months with domestic prices below the export parity prices (GOM, 2020).

Import and export tariffs

Tariffs are the key policy tool in Malawi's trade policy which is focused on creating a globally competitive export-oriented economy and ensuring inclusive participation in trade for higher incomes and sustainable livelihoods (WTO, 2016). This entails fostering economic structural transformation by enhancing market access and participation in the regional and global value chains. Accordingly, Malawi embarked on the liberalization of the domestic market in the 1990s (see section 3.2.1) and increased its participation in regional and international trade agreements to secure good international markets. Specifically, Malawi joined the General Agreement on Tariffs and Trade (GATT) and the WTO in 1964 and 1995 respectively[19]. Malawi also joined the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) at their formation in 1980 and 1994 respectively and is a signatory to the Free Trade Areas (FTA) in both regional economic communities (RECs) as well as the Customs Union (CU) in COMESA which became functional in 2009. Under these two RECs, Malawi benefits from the zero or concessional rates following the gradual liberalisation of over 85% of the harmonised tariff lines. Additionally in both RECs, there has been a significant reduction in non-tariff barriers to trade including through elimination of export quotas and harmonisation of trade procedures and documentation within the RECs.

In 2015, Malawi became a member of the COMESA-EAC-SADC Tripartite FTA which gives her access to the East African Community (EAC) market at zero or concessional customs rates and minimal non-tariff barriers. Malawi gained full access to the whole African market after ratifying the African Continental Free Trade Area (AfCFTA) in January 2021[20]. Furthermore, Malawi has maintained bilateral trade agreements with Botswana since 1956, South Africa since 1990, Mozambique since 2005, Zimbabwe since 2006 and China since 2008 with the duty-free status of all its exports to China, South Africa and Botswana[21]. As a Least Developed Country (LDC), Malawi also benefits from the quota and duty-free European Union (EU) market access under the EU's Everything But Arms (EBA) initiative. Malawi is also a beneficiary of the nonreciprocal unilateral trade preference under the US's African Growth and Opportunity Act (AGOA).

The signing of several trade agreements under the regional trade protocols and the WTO heightened the impetus to boost domestic production and enhance the competitiveness of its exports in the 1990s. Accordingly, the decade is largely characterized by significant reductions in import tariffs on intermediate and capital goods with the general maximum tariff rates gradually reduced from 40 per cent in 1994 to 25 per cent in 1999. Import and export licensing (quotas) were removed in 1997 and taxes on manufacturing raw materials were also eliminated in 1997 (Chafuwa et al., 2017). While these were key in enhancing industrial productivity and growth with significant positive impacts on employment and incomes of the population their potential net effect in this context was undermined by other tax policies that the government implemented essentially to raise revenue. For instance, the introduction of a 10 per cent export levy on tobacco, tea and sugar in 1995 which coincided with the liberalization of burley tobacco farming had an eroding effect on the net incomes of the many SHF who embarked on burley tobacco farming during that period. However, it is worth noting that the net effect of export levies on government revenue, poverty and inequality largely rests on the size of the domestic market.

19 https://www.wto.org/english/thewto_e/countries_e/malawi_e.htm

20 https://www.uneca.org/stories/malawi-ratifies-afcfta-after-submitting-instrument-ratification

21 https://mitc.mw/trade/index.php/bilateral-agreements.html

Comparing the efficacy of export taxes on ground nuts and oil seed (soya and sunflower) Aragie et al. (2018) note that following the robustness of the domestic market for ground nuts relative to oil seed, export taxes on ground nuts shifted the farmers' (producers') focus to the domestic market, while export taxes on oilseed eroded the incomes of the producers as it effectively increased their trade costs. Similarly, tobacco in Malawi is largely exported in its raw form highlighting the minimal domestic processing capacity and hence market despite the increasing involvement of the SHF. With increased monopoly in the sugar industry in Malawi, the uniform application of the tax was more distortionary on income inequality. The policy did not consider the net production costs between the SHF and the estate farmers for tea and sugar as it was essentially meant to raise government revenue whose base became larger with the liberalization of burley tobacco production. Nevertheless, it is worth noting such equalizing income effects on tobacco proceeds were obtained through the 7 per cent withholding tax which was only applied to the gross incomes of estate tobacco farmers and those who meet the minimum income thresholds (Jaffee, 2003). However, for the estate farmers, this meant that income from tobacco was taxed at least twice.

The introduction of a 25 per cent import levy on petrol and diesel in 1994 also contradicted the productivity enhancement of the general import tariff reduction in the decade. As a core determinant of transport costs in Malawi, an import levy of petrol and diesel has a way of filtering through into domestic prices and the total production costs. On the one hand, by increasing the cost of production, increased transport costs undermine the competitiveness of Malawi's exports. On the other hand, they are an indirect consumption tax to most of the poor population, particularly if it affects the consumer price of essential commodities. In this regard, the policy potentially affected inequality negatively in the decade.

Along with the gradual reduction of the customs levies, the escalating surtax structure of 5 categories[22] initially underwent gradual reduction and was ultimately streamlined to a standard rate of 20 per cent. Chafuwa et. al., (2017) highlights that this change essentially saw the tax rates on the importation of necessities and intermediate goods being effectively increased by 20 per cent and 10 per cent respectively while that of luxuries was significantly reduced from the 85 per cent maximum rate to 20 per cent. In other words, the government was effectively subsidizing the consumption of the middle class and the rich at the expense of the poor by indirectly raising the cost of the necessities and production through this tax. Moreover, to compensate for the revenue losses from the reduction in import tariffs, Malawi switched from product specific to ad-valorem excise tax rates which ranged from 10 per cent to 60 per cent in 1995.

Focusing on the revenue enhancement objective, the revenue losses from the reduction in import tariffs were compensated by at least a similar margin of excise tax (Chafuwa et.al., 2017). This suggests that the reduction in import tariffs during this decade did not fully translate to improvements in industrial production, reduced domestic prices (including necessities), and hence incomes and the general welfare of the population notwithstanding the positive impact of increased revenue on the same welfare through improved government expenditure on key public services. Chirwa (2002) concluded that the lack of complementarity in the trade policies during the 1994-2000 period worsened industrial development with the manufacturing production for domestic consumption and export markets falling by an annual average of 4.51 per cent and 0.66 per cent respectively. This equally translated into a reduction in employment opportunities with the industrial share in female total employment dropping from 5.04 per cent in 1991 to 4.7 per cent in 2000 while its share in men's total employment dropped from 9.8 to 9.2 per cent in 2000 (See Figure 9).

In the last two decades, Malawi continued with the general reduction of its trade taxes to encourage domestic production and economic structural transformation and enhance the competitiveness of its exports. Key significant changes include the reduction of the standard surtax rate from 20 per cent to 17.5 per cent in 2003, the replacement of this tax with the value added tax (VAT) in 2005 at the same rate which was later reduced to 16.5 per cent with a minimum threshold for its application in 2009 and its extension to domestic wholesale and retail trade (Ligomeka, 2019; Chafuwa et.al., 2017). In this regard, worth noting is the universal application of this tax through retail trade which suggests an increase in the real price of consumables for the poor. The withholding tax on tobacco was reduced from 7 per cent to 3 per cent in 2010 along with the removal of its exemption on SHF (Chirwa, 2011). The government also introduced a 20 per cent excise

[22] Five categories: zero per cent, 10 per cent, 35 per cent, 55 per cent and 85 per cent (Chafuwa et.al., 2017). The zero rate was applied on the importation of necessities and 10 per cent on intermediate goods.

tax on petrol and diesel in 2005 along with a 10 to 20 per cent increase in the general escalating excise tax structure. Among other things, the changes in excise tax included necessities such as vegetables and tubers to the taxable band in 2005. As highlighted above, these effectively increase consumer prices with a significant eroding effect on the incomes of the poor and a dip in income inequality especially if the tax on luxuries had a less than proportionate impact on the incomes of the rich and middle class. Overall, the simple average Most Favoured Nation (MFN) applied tariff was reduced from 21 per cent in 1996 (WTO, 2002) to 12.2 per cent in 2019 (WTO, ITC and UNCTAD, 2020). Notably, the 12.2 per cent MFN applied tariff has not been changed since 2019 (WTO, ITC and UNCTAD, 2023). Malawi has also maintained the escalating customs tax structure of six categories with 0 or 5 per cent rates on necessities and 10 per cent intermediate goods with a maximum rate of 25 per cent. With several taxes used including withholding, import, excise and VAT, Malawi's tax structure remains complex with some goods subjected to all three taxes levied on imports (import, excise and VAT) and a withholding tax on some exports.

This complex tax structure is seen to effectively distort producer incentives and are counterproductive to the escalating import tax structure which is meant to protect domestic markets and enhance industrial productivity. Compounded by low productive capacities as highlighted by an average productive capacity index (PCI) of about 20[23] over the last two decades (Figure 24)), Malawi has not been able to significantly utilize its trade preference opportunities both in the regional and international markets. With scores of 10 (energy), 20.9 (information, communication and technology (ICT)) and 1 (transport) in 2022, the UNCTAD's productive capacity index (PCI) in Figure (24) highlights the problem of poor economic infrastructure to effectively support production and trade (UNCTAD, 2021). Adequate and good quality infrastructure remains key in reducing production and trade costs including through capital deepening, reduction in market information asymmetry as well as easy connectivity and accessibility of markets. The low PCI scores for the core economic infrastructure entail that Malawi's ability to diversify its exports (both in terms of product quality intensification and the addition of new product lines and trading partners) is undermined by high production and transaction costs. To this end, it is worth noting that Malawi mainly exports raw or semi-processed primary products with its manufactured products largely confined to the African market (Figure 6). In the EU, Malawi's exports are concentrated in Belgium and Germany (raw tobacco and sugar)[24] and tea to the UK (Appendix 2) despite the quota and duty-free access to the whole EU market for all its goods except ammunition. Over 90 per cent of its trade in the Americas is with the USA (UNCTAD Stats, 2023) and largely constitutes raw tobacco, tea and nuts[25]. Overall, Belgium has been the largest export market for Malawi seconded by South Africa in the 2016-2022 period, while its top 5 import markets were South Africa, China, the United Arab Emirates (UAE), India and Zambia (Appendix 2).

Worth noting in the African market, is the concentration of Malawi's exports in only 5 countries covering about 69 per cent of its total exports to Africa in the 2016-2022 period (Appendix 3) which further underscores its low utilization of the trade preferences both in COMESA and SADC and let alone in the AfCFTA. As highlighted above, Malawi's exports are poorly diversified largely comprising raw or semi-processed primary commodities. Most of these products are neither essential raw materials for most African industries nor critical for consumption within the region which to a great extent, explains why the EU is the largest market for its primary commodities (Figure 6b) as well as the concentration of its exports in the few African countries. These observations suggest that unlocking the full potential benefits of the AfCFTA for enhanced inclusive participation in trade for Malawi requires drastic policy measures to boost its industrial productivity and diversify away from traditional exports. In this regard, worth noting is the potential increased competition on domestic industries from the implementation of the liberalization commitments under the AfCFTA which without strengthening the industrial productivity, is envisaged to dampen industrial output with minimal improvements in Malawi's exports both in the short and long run (Ndonga, Laryea and Chaponda, 2020; Zembele, 2022).

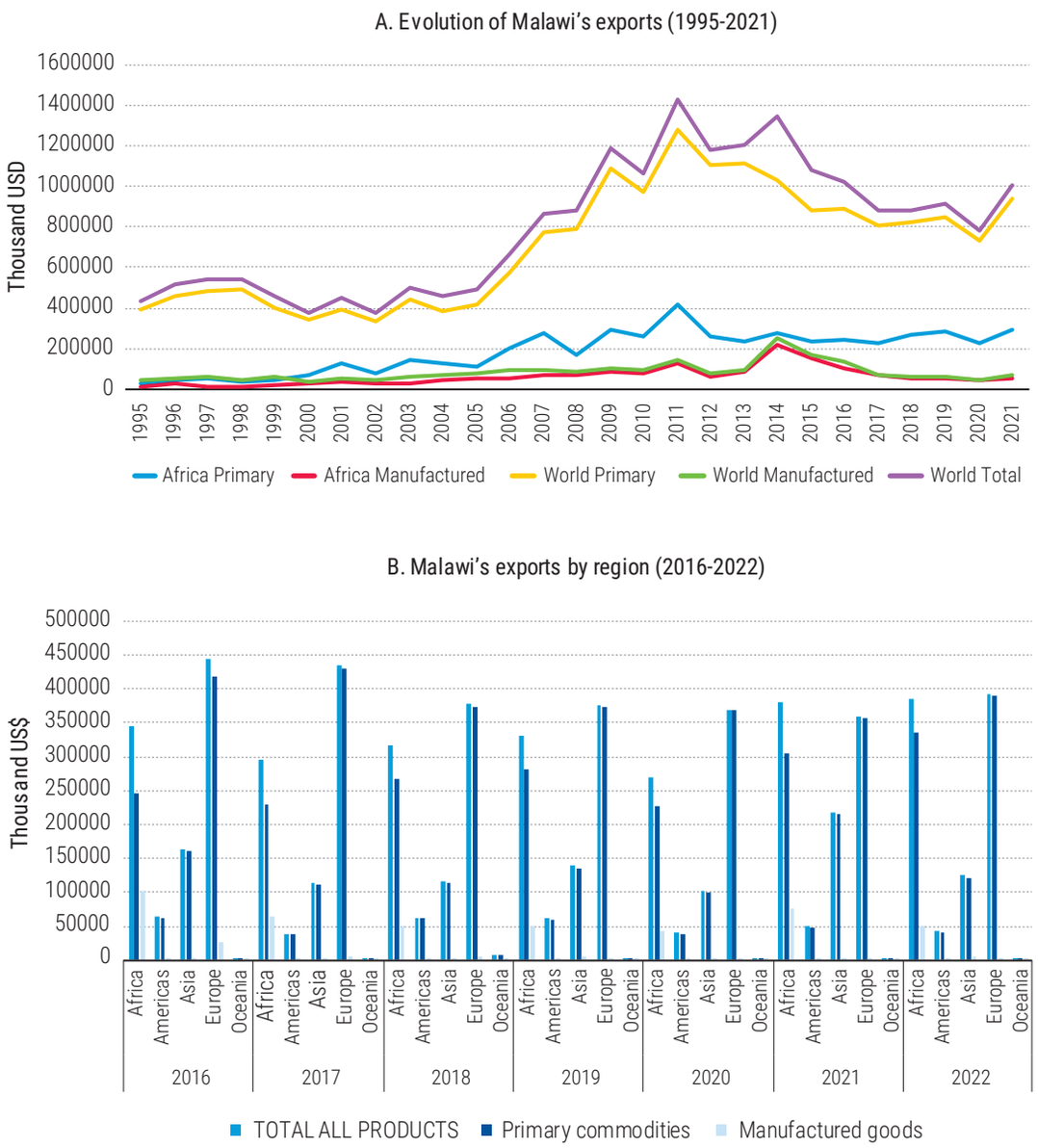
[23] The PCI scores range between 0 and 100 with higher scores representing higher productive capacities. It is important to note that for Malawi, this score is primarily on account of its vast natural resource endowment with an average score of about 67 per cent in the last two decades. This is followed by institutions (46.2 per cent), private sector (defined by the ease of cross border trade) with a score of 28.

[24] https://oec.world/en/profile/bilateral-country/mwi/partner/bel?redirect=true

[25] https://oec.world/en/profile/bilateral-country/mwi/partner/usa

In sum, although Malawi has fairly liberalized its domestic market and enhanced its access to international markets through international and regional economic integration, its ability to effectively leverage these markets has been greatly undermined by its failure to enhance its competitiveness through inconsistent trade policies and low productive capacity. The above assessment shows that in most years, Malawi's trade policy has been self-defeating in its key objective of enhancing domestic productivity and inclusive participation in trade. The steady decrease in import tariffs from the 1990s through to 2019 has been very encouraging to industrial growth through enhanced availability of intermediate inputs. However, key trade policies such as increased fuel levies and withholding tax which are seen to directly reverse the loss in revenue impact of the import duties have significantly undermined the benefits of the import duty rates over time. Similarly, export bans are highlighted to have been a disincentive to agricultural diversification away from tobacco and enhancing subsistence agriculture, suggesting a further limitation on the availability of competitive intermediate inputs on the domestic market for enhanced industrial growth. On the one hand, this has resulted in the persistent dominance of raw or semi-processed primary products in Malawi's exports both to Africa and the rest of the

Figure 6
Malawi's exports



Source: UNCTAD Stats, 2023

world (Figure 6); highlighting minimal returns from international trade for the domestic producers (UNCTAD, 2022) with adverse implication on the employment opportunities for the less skilled labour force. Furthermore, this also suggests weak value chains on the domestic market which highlights minimal involvement in gainful trade especially for the poor in Malawi who have largely been restricted to either subsistence and/or tobacco farming despite its declining profitability over the three decades. On the other hand, the inconsistent tariffs whose net effect has largely benefited the affluent and middle class whilst disproportionately raising the living costs of the poor have been very detrimental to income inequality in Malawi.

3.3. Land policy

As an agro-based economy, land is the most critical productive resource and anchor of livelihood for most Malawians. As such, an efficient and effective land policy is key to the success of agricultural policies and other related policies that focus on enhancing inclusive economic growth and structural transformation. While the quality of land and adequacy matters for its productive utilization, land policy has the ultimate influence on its development and utilization. Through the Land Ordinance of 1951, land in Malawi was categorized into public, private and African trust (later changed to customary under the Land Act of 1965) (Chipeta, 1971; GOM, 2002a). Public land was under the jurisdiction of the government for the establishment of national parks, game reserves and recreational centers among other things. Private land was generally owned under leasehold tenure and was largely used for commercial farming. Customary land was meant to be under the jurisdiction of traditional authorities for the settlement and cultivation of indigenous communities. However, through the 1967 legislative reforms of this Act, the ultimate authority on its utilization rested with the government (Kishindo, 1995). Hence the subsequent lawful transfer of customary land into public or private land many years post-independence as the government deemed fit with zero to modest compensation (Chinsinga, 2017). In this regard, customary land is seen *"as mere species of public land"* which increases the fragility of the right to its occupancy and utilization by Malawians (GOM, 2002a).

Upon independence in 1964, the Malawi government adopted the colonial land policy with insignificant changes in 1965 and 1967 as it was effective in support of the adopted agricultural export-led development model driven by the estate sub-sector. Until the early 1990s, the policy facilitated the transfer of customary land (which under the act, was ordinarily used for cultivation by the SHF) to the estate sector with a total of 104, 434 hectares of land transferred between 1983 and 1990 (Mataya, Gondo and Kowero, 2003). Land transfer in this period was among the key factors that saw impressive growth in Malawi's exports particularly tobacco followed by tea and sugar (Mlay et.al., 2003). However, this policy effectively perpetuated income inequality along the agricultural sector dualism as access to the most productive land was prioritized for the estate sub-sector development and growth at the expense of the SHF (majority of the farming population) who were mainly relegated to marginal lands. Through the policy, the government also significantly expanded public land whose cultivation rights were not extended to the SHF (Mataya, Gondo and Kowero, 2003).

Along with the liberalization of agricultural production and produce markets in the 1990s, the government embarked on land reforms which initially disbanded the opening of new leasehold estates. Notably, this new policy did not constrain the conversion of customary land to leasehold estates (private land) by the incumbents. However, the land transfer policy was completely disbanded in 1996 as the new reform allowed changes in the land tenure from customary to private only under special circumstances (Mlay et.al., 2003). In this regard, it is worth noting that the customary land loss was permanent as there was no complementary policy to facilitate the reconversion of the private land to customary land upon the expiry of the lease which in some cases was up to 99 years (Mataya, Gondo and Kowero, 2003). As such, by 1997, customary land was down from 87 per cent of the total land in Malawi in 1964 to 66 per cent in 1997 while both public and private land sizes significantly increased (Table 1). Coupled with population growth, the permanent customary land loss has continued to constrain the expandability of SHF agriculture despite their freedom on agricultural production choices that were facilitated by the liberalization of the key export crop production. According to the Malawi Integrated Household Survey (IHS) 4, about 60 per cent of SHF farmers cultivate on less than 1 hectare with an average land holding size of 0.6 hectares (GOM, 2017) while the estates hold up to 500 hectares on average (Chinsinga, 2008). In per capita terms, the SHF in Malawi has access to only about 0.3 hectares on average with the ultra-poor holding an average of 0.16 hectares (Chinsinga, 2008; Chinsinga, 2017).

Table 1
Land tenure categories in Malawi in 1964 and 1997

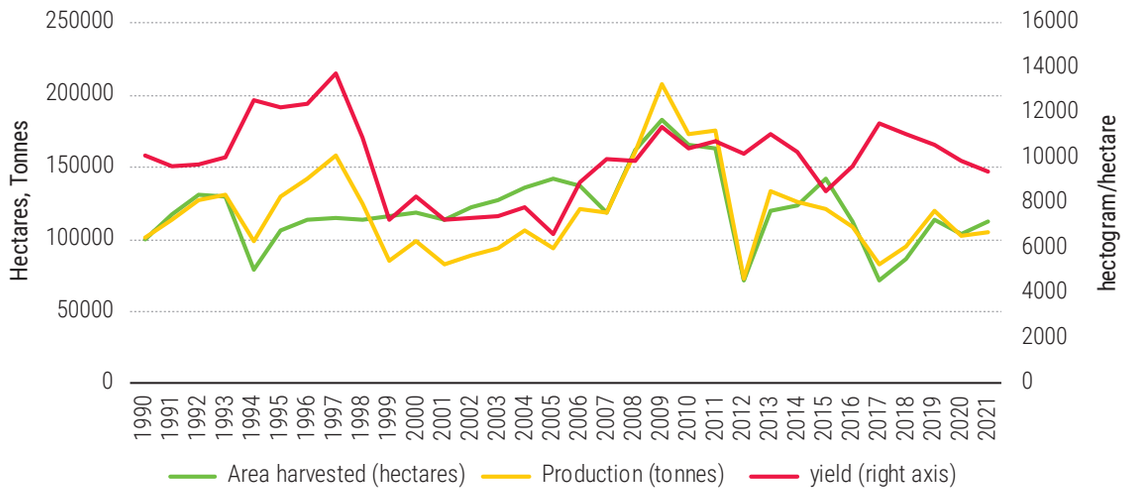
Tenure Category	% of the total land	
	1964	1997
Customary	87	66
Public	11	19
Private	2	12
Urban	-	3

Source: Adopted from Mataya, Gondo and Kowero, 2003

The increase in the number of SHFs producing tobacco undermined the competitiveness of the estate sector through increased cost of production particularly through labour. The liberalization of agricultural production and markets weakened the efficacy of the exploitative land tenure system that anchored estate farming through cheap labour as most of the estate workers found it more rewarding to produce and sell tobacco independently of their estate lords (Mwakilama, 2018; Chinsinga, 2018). Consequently, the number of estates and hence, the total number of farmers producing tobacco has been declining over time (Nsiku and Botha, 2007; Wineman et.al., 2021) with the total area devoted to tobacco falling from the high of 208, 155 hectares in 2009 to 120, 000 hectares in 2019 (Figure 7). On the one hand, this suggests a potential increase in idle productive arable land from the estates as the number of farms producing some tobacco fell from 16 per cent in 2004 to only about 5 per cent in 2019 (Wineman et. Al., 2021). In this context, the lack of complementary policies to facilitate the reconvention of idle estate land to customary land undermines the potential growth of SHF, and hence the overall agricultural productivity and growth with its potential positive impact on poverty and inequality. In essence, the impact of all other agricultural and related policies including input subsidies, production and market liberalization is hinged on the availability of land to the SHF as it determines the extent to which they can expand their production. Notably, with severe land limitations (Wineman et. Al., 2021), their food security and hence subsistence farming will remain their priority notwithstanding government efforts to enhance their productivity and incomes through other policies and programmes.

On the other hand, the decline in the number of farms producing tobacco suggests the potential diversification of agricultural production and exports away from tobacco by the estate sub-sector. Underscoring this contention, Figure (8) highlights that arable land under cultivation was steadily increasing between 1994 and 2005 and has remained relatively stable at around 3.6 million hectares, highlighting the replacement of land under tobacco with other cash crops as partially signified by its declining share in the total value of crop production (Wineman et.al., 2021). Moreover, estate farming diversification away from tobacco is further underscored by government programmes that are supporting the shift from tobacco to other cash crops by the estate sub-sector. Worth noting is the Green Belt Initiative (GBI) which was launched in 2009 with the main objective of enhancing the country's food security through large-scale irrigation farming. The initiative targeted 1 million hectares of customary land with potential for irrigation lying within 20-30km of the country's 3 lakes and 13 perennial rivers (Gausi and Mlaka 2015; Chinsinga 2017).

Figure 7
Tobacco production



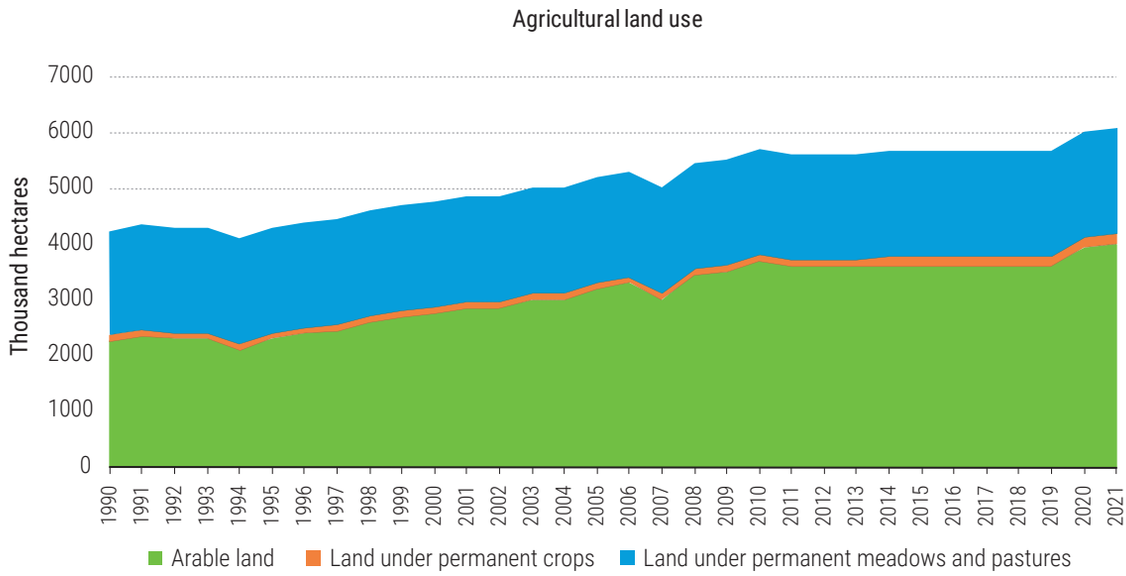
Source: FAO stats, 2023

Nevertheless, the GBI initiative is not only focusing on food security but is also enhancing the country's export revenue by supporting non-tobacco cash crops with a higher potential for meeting its export revenue objective following the decline in tobacco profitability. With enhanced market access in the United States (US) and the European Union (EU) under the Everything But Arms (EBA) initiative, the GBI is supporting sugarcane cultivation through two key out-growers management companies (Chinsinga, 2017). On the food security stance, the GBI offers land for large scale commercial farming to both local and international investors (Gausi and Mlaka, 2015). Notably on account of the financial investment obligations, the poor are naturally left out of such leaseholds. As such, the implication of GBI on income inequality is rather mixed. On the one hand, the government directly increases the incomes of the poor SHF through the sugarcane out-growers scheme and on the other hand, it has resuscitated the conversion of customary land to private/leasehold which was disbanded in 1997 as it was seen to paralyze the growth of the SHF sub-sector which coupled with population growth, resulted in critical land shortages, and hence increased vulnerability of the livelihoods of the majority of the poor population. This negatively affects income inequality as it directly transfers the poor' sole enabler of better incomes and food sufficiency to the rich estate lords.

The Land Act was rerevised in 2016[26] and was supported with other relevant legislations including the *"Land Bill 2016, Physical Planning Bill 2016, Land Survey Bill 2016, Customary Land Bill 2016, Registered Land (Amendment) Bill 2016, Land Acquisitions (Amendment) Bill 2016, Malawi Housing Corporation (Amendment) Bill 2016, Mines and Mineral (Amendment) Bill 2016, Forestry (Amendment) Bill 2016."* (Chikwenda et.al., 2019). Notwithstanding key changes brought forward by the new act, it is important to note that it continues to allow for the conversion of customary land to private land under section 19. However, it is worth noting that through the customary land bill, this provision partly allows the poor to convert their land to customary estates with titles that accord them an opportunity of legal ownership of an essential asset that can be used as collateral for accessing bank loans. Nevertheless, without adequately addressing the historical land inequities, these reforms continue to do very little to improve the severe land constraints being faced by most SHFs in Malawi.

[26] http://www.reforms.gov.mw/psrmu/sites/default/files/Land%20Act.pdf

Figure 8
Agricultural land use in Malawi



Source: FAO stats, 2023
Notes: Arable land: land that is currently under cultivation of temporary crops, temporary meadows and pastures, and land with temporary fallow. Land under permanent crops: Land that is cultivated with long-term crops such as coffee and tea which do not have to be replanted for several years. Land under perm. meadows and pastures: land that is used for this purpose for at least 5 years.

Overall, the net impact of land policy on income inequality in Malawi has been negative throughout the three decades. The policy has consistently failed to facilitate equitable distribution of the key development resource for inclusive growth and sustainable development. While successful in staling large losses of customary to leasehold in the 1990s, the lack of complementary policies to facilitate the reconversion of leasehold to customary land upon the expiry of the lease agreement has resulted in the permanent loss of land for the majority of SHF which coupled with population growth, has resulted in critical land constraints for most of the SHF. With limited ability to adequately meet their food needs, most poor people in Malawi remain vulnerable to the increased volatility and prices of staple food. Moreover, with an average of about 70 per cent of their small land advocated to maize (Chinsinga, 2008) to enhance their food security, inequitable access to land in Malawi significantly perpetuates subsistence farming with minimal returns on their incomes and overall welfare.

3.4. Labour policy

The role of the labour market in combatting inequality cannot be overstated as it is a key determinant of the diversity in household incomes and wealth. However, its functionality in ensuring full and productive employment for all as enshrined in the ILO 1944 Declaration of Philadephia[27] and the subsequent employment policy convention of 1964 (No 122)[28], is highly contingent on the effectiveness of the domestic institutions and policies governing it. According to the ILO, employment is considered productive if it allows for the consumption of the worker and his dependents above the poverty line[29]. This is further summed up under the "Decent Work"[30] agenda which goes beyond minimizing unemployment levels and ensuring productive employment to encompass equity, safety, health and social protection for all. Against this backdrop, this section discusses the extent to which labour policies, programmes and safety nets have influenced inequality in Malawi.

27 https://www.ilo.org/legacy/english/inwork/cb-policy-guide/declarationofPhiladelphia1944.pdf

28 https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312267#:~:text=With%20a%20view%20to%20stimulating,productive%20and%20freely%20chosen%20employment.

29 https://www.ilo.org/global/topics/employment-promotion/WCMS_728352/lang--ja/index.htm#:~:text=Full%2C%20productive%20and%20freely%20chosen,the%20success%20of%20economic%20policies.

30 https://www.ilo.org/global/topics/decent-work/lang--en/index.htm

3.4.1. Labour policy and employment

Malawi has made significant progress in the last three decades in safeguarding the rights of employees and ensuring equity, health and safety in the workplace. In 1996, Malawi passed the Labour Relations Act[31] which focuses on ensuring sound labour relations through freedom of association, effective collective bargaining, and orderly and effective dispute settlement. It provides a framework for the negotiation and recognition of agreements concerning employment terms and conditions concluded by employers or their organizations and trade unions. The Occupational Safety, Health and Welfare Act (OHSW Act)[32] was passed in 1997 as a framework for the regulation of the conditions of employment in workplaces as regards the safety, health and welfare of employees. The act also allows for industrial inspection in enforcing the prevention and regulation of accidents in the workplace. In 1999, the Technical, Entrepreneurial and Vocational Education and Training Act[33] was passed to enhance and co-ordinate Technical, Entrepreneurial and Vocational Education and Training in Malawi. In this regard, the Act provided for the establishment of the Technical, Entrepreneurial and Vocational Education and Training Authority of Malawi and the Technical, Entrepreneurial and Vocational Education and Training Fund. The Act also enforces the functionality and sustainability of the fund through periodical contributions levied on employers and financial support towards various costs and expenses relating to technical education and training.

In 2000, Malawi passed the Employment Act[34] and the Workers Compensation Act[35]. The Employment Act of 2000 ensures equity in industrial relations by enforcing and regulating the minimum standards of employment both in the private and public sectors. However, the act does not apply to employment in the army, prison service or the police unless employed in a civilian capacity (Nkowani, 2008). Key provisions under the Workers Compensation Act of 2000 include compensation for injuries suffered or diseases contracted by workers in the course of their employment or for the resultant death and the establishment and administration of a Workers' Compensation Fund. The Pension Act[36] 2011 provides for mandatory pension contributions for all employees regardless of the salary threshold. These documents have been going through ad hoc reviews of reforms over the three decades in line with the socio-economic changes (Nkowani, 2008). Lastly, the Malawi government developed the National Employment and Labour Policy (2014-2019)[37] in 2014 as a five-year framework for promoting productive and decent employment and enterprise development; compliance with labour standards by employers, investors and workers; social protection and social dialogue.

Complementing the above labour policy legislation is a progressive personal income tax structure that Malawi has maintained throughout the three decades which ensures equitable contributions to government revenue. The tax has been progressively adjusted since the 1990s to include different sources including labour, pensions, interest and dividends (Chafuwa et.al., 2017). To account for the eroding impact of inflation on personal incomes whilst expanding the tax base, income tax has progressively evolved from 2 brackets (0, 38) in the 1990s to 3 brackets (0, 15, 30)[38] in the 2000-2009 period and to 5 brackets (0, 25, 30, 35, 40)[39] from 2010 (Chafuwa et.al., 2017). While the progressive adjustments in both the rates and brackets of the tax have seen an increase in the tax burden on the incomes of the middle class and the rich, it has effectively protected the incomes of the poorest through necessary adjustments of the zero-bracket threshold in line with inflation rates.

In this regard, it is worth noting that the efficacy of both the income tax and the labour policies above is largely confined to the formal sector where it is easy for the government machinery to monitor and enforce

31 https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/44859/92147/F1536317047/MWI44859.pdf

32 https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=en&p_isn=57356#:~:text=Makes%20provision%20for%20the%20regulation,the%20workplace%2C%20and%20for%20some

33 https://media.malawilii.org/files/legislation/akn-mw-act-1999-6-eng-2014-12-31.pdf

34 https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/58791/97712/F992720056/MWI58791.pdf

35 https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/58427/66913/F149646313/MWI58427.pdf

36 https://media.malawilii.org/files/legislation/akn-mw-act-2011-6-eng-2014-12-31.pdf

37 http://lmis.labour.gov.mw/Policies%20and%20Procedures/NELP.pdf

38 Zero per cent to the first MK20, 000 per month; 15 per cent to the next MK5, 000 and 30 per cent to incomes in excess of MK30,000 (MITC and MRA, 2010).

39 Zero per cent to the first MK 100,000 per month, next MK230,000 (25 per cent), Next MK2, 670, 000 (30 per cent) Next MK3, 000, 000 (35 per cent) and 40 per cent to the excess over MK6,000,000 (MRA, 2022)

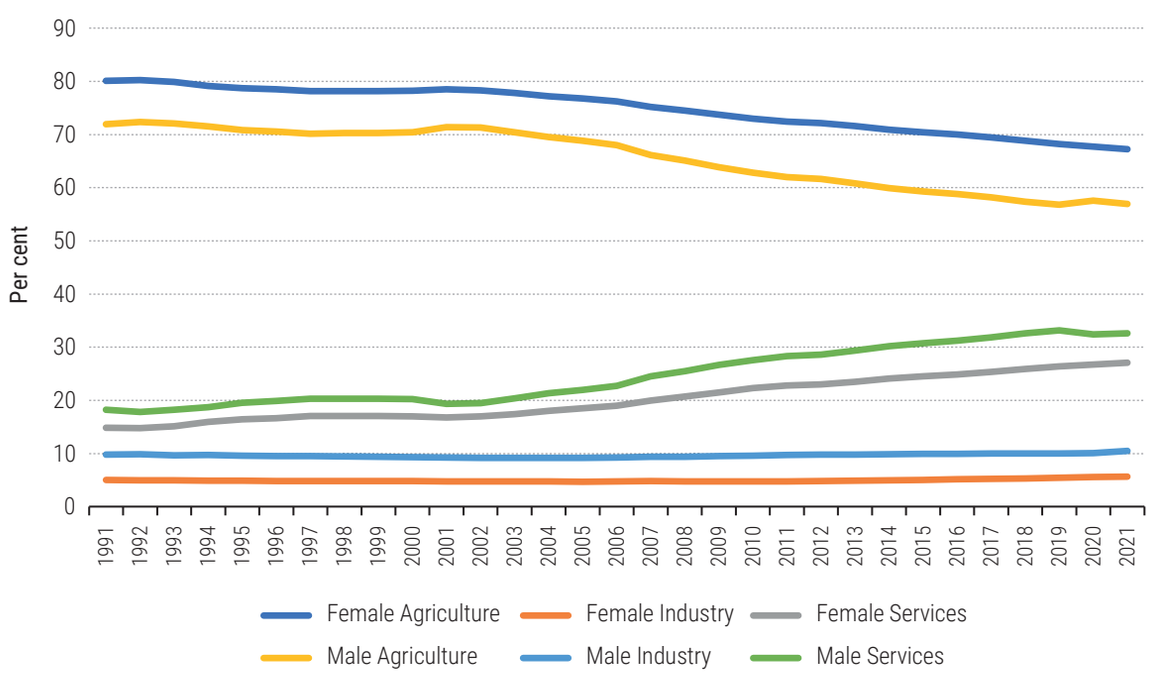
their application. According to the ILO, informal employment is not subjected to labour legislation or income tax, and it is not appended to any social protection and employment benefits (OECD and ILO, 2019). In the case of Malawi where informal employment is pervasive, this suggests that labour laws and policies are not effective in supporting and cushioning the rights, safety and health of most of the working population. Moreover, without the pressure of following any labour and employment regulations and policies, informal workers are generally subjected to poor working conditions, high job insecurity and very low incomes (Daniel et al., 2020).

Sectoral differences in labour productivity

Malawi's labour market is structurally skewed towards the agricultural sector accounting for an annual average of about 66 per cent of the male workforce and 75 per cent of the female workforce in the last three decades (Figure 9). However, like many other low-income countries, Malawi's labour market is characterized by large sectoral differences in labour productivity and suffers from low sectoral interlinkages and rigidities that limit the scope for intersectoral labour mobility, and therefore options for reducing poverty through labour mobility. Selective policy reforms have been a feature of the political economy of Malawi as successive government regimes have attempted to use government subsidies in various sectors to narrow income gaps between the rich and the poor. Selective expenditures on subsidies have been deployed in social services such as health, education, and the provision of essential goods such as fuels, fertilizer and food, but their distributive effects are less precisely understood. The distortions associated with fiscal policies are usually unintended but could worsen the initial income inequalities particularly if the redistributive aspects of the policy fail to take into account the initial conditions and trade-offs that may accompany fiscal reforms (Ostry et al., 2014).

Figure 9

Sectoral employment, (per cent of total employment)

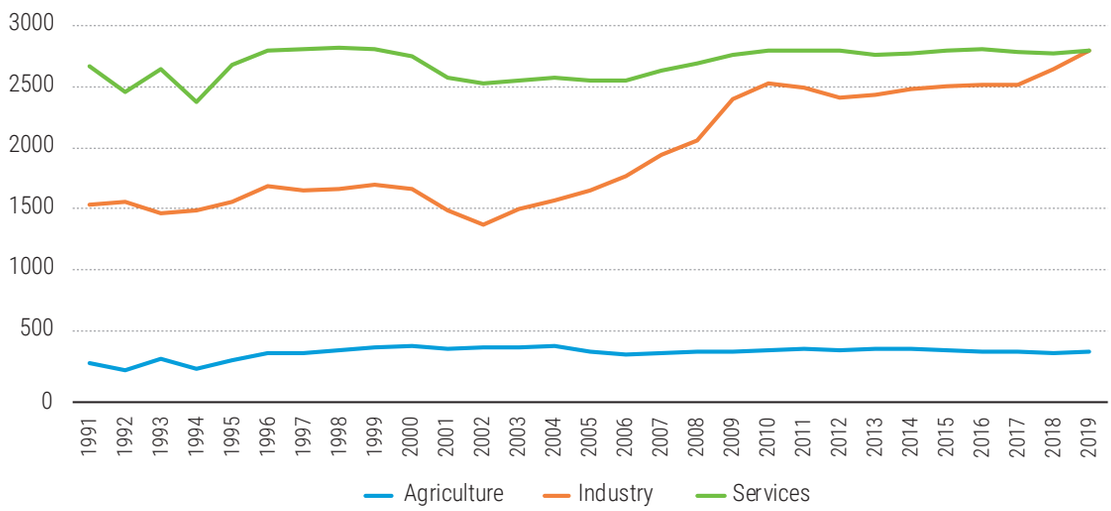


Source: World Development Indicators 2023

Since most of the labour force is in agriculture (Figure 9), the need to level up income across sectors and address rural poverty has led the government to implement selective policy reforms aimed at raising productivity. However, the sectoral interventions have performed dismally, and instead of fostering structural change, they contribute to low labour mobility across sectors. The World Development Indicators (2023) show that labour employed in agriculture declined slowly from 74.3 per cent in 2000 to 61.9 per cent in 2021. In contrast, employment in services rose from about 18.6 per cent in 2000 to 29.95 per cent in 2021. Employment in industry increased marginally from 7.07 in 2019 to 8.13 per cent in 2021, confirming the structural rigidities in the economy which to a great extent, locks most of the working population to low incomes in the agricultural sector with very limited options to break out of poverty.

Figure 10

Value added per worker in US dollars



Source: World Development Indicators

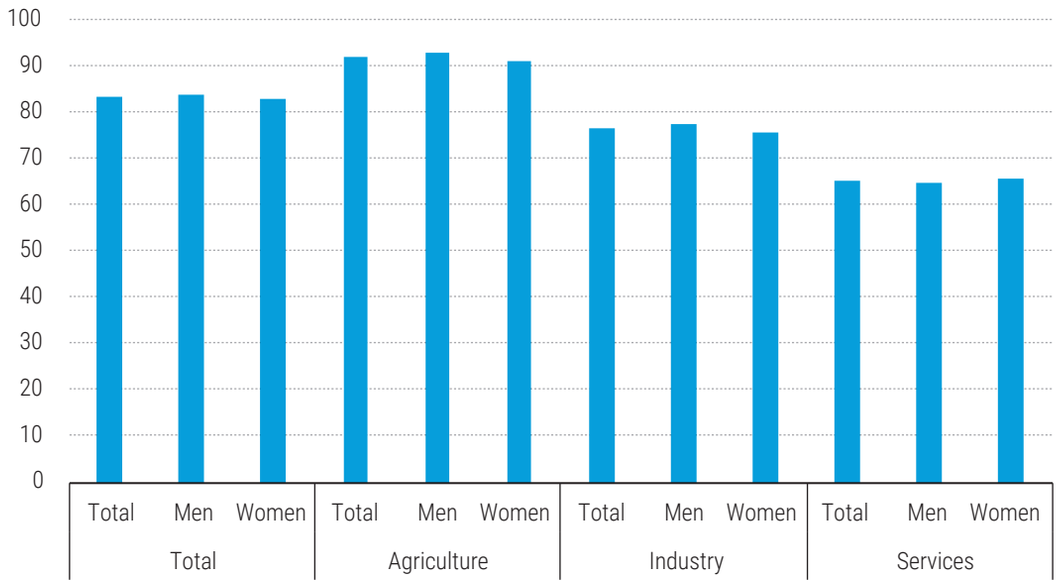
Labour productivity in agriculture is very low compared to other sectors of the economy despite agriculture having the highest share of employment. Figure 10 shows that the value added per worker in agriculture ranged from $304 to $338 and remains very low relative to other sectors. By contrast, the value added per worker for industries increased from about $1500 in 2003 to $2500 in 2010, and although it stagnated in 2011-2018, the period 2018-2019 marked a renewed productivity growth as the value added per worker increased to $2800. The services sector experienced remarkable growth in value added per worker between 2003 and 2010 as it increased from $2555 to $2797. As with the industry value added per worker, the period 2011-2018 marked a stagnation phase for the services sector as well but recovered in 2018-2019 to $2799.

Pervasive informality

Malawi's labour market is entrenched with pervasive informality. About 92 per cent of the total male and female population working in the agricultural sector are informally employed. Similarly, an average of about 76.2 per cent and 64 per cent of the total industrial and service sector workforce is informally employed (Figure 11). With low and highly vulnerable employment and limited options for alternative sources of income, pervasive informality across sectors in Malawi condemns most of the informal employees to chronic income poverty and widens income disparities between formal and informal employees (see OECD and ILO, 2019).

Figure 11

Informal employment in Malawi, (% of total employment)



Source: ILO, 2018

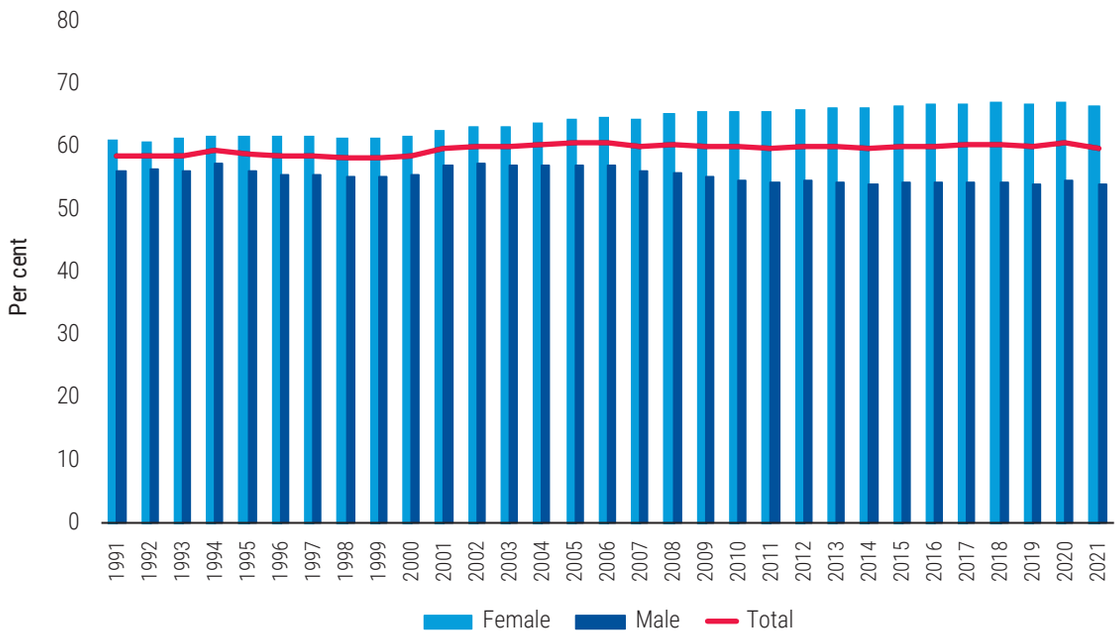
Pervasive informality in Malawi is also reflected by the total proportion of men and women who are precariously employed without any access to employment benefits or social protection programmes throughout the three decades. It is worth noting that contributing family workers[40] and own-account workers constitute the largest proportion of the workforce in Malawi. Figure 12 highlights that since 2001, the proportion of women who are vulnerably employed has been steadily increasing as the proportion of vulnerably employed men marginally declined from 57.1 per cent of the total male workforce in 2001 to 54 per cent in 2021. This suggests that while there are slightly more men than women employed in the informal sector in Malawi (Figure 11), employment opportunities, conditions and hence, incomes for men are generally better than those for women in the sector.

In the Fifth Integrated Household Survey, 61 per cent of households considered their HH's food consumption over the past months as less than adequate for the households. Most respondents (57 per cent) spent most of their time in a week on unpaid household labour, while 13 per cent and 9 per cent respectively, spent most of their time on household non-agriculture business and long term employment. Piecework and short term contracts accounted for 21 per cent of the economic activities of the respondents. Thus, pervasive informality in Malawi does not only perpetuate income inequality between the formal and informal sectors, but it also deepens poverty and widens income inequality across gender. Accordingly, a higher proportion of the female working population than men are living below the $1.90 international poverty line in Malawi (Figure 13), potentially a higher figure if the rate was to be calculated based on the revised international poverty line of $2.15.

[40] Contributing family workers are generally unpaid with their compensation attained through the ross family income. (https://databank.worldbank.org/metadataglossary/millennium-development-goals/series/SL.FAM.WORK.MA.ZS)

Figure 12

Vulnerable employment, per cent of total employment

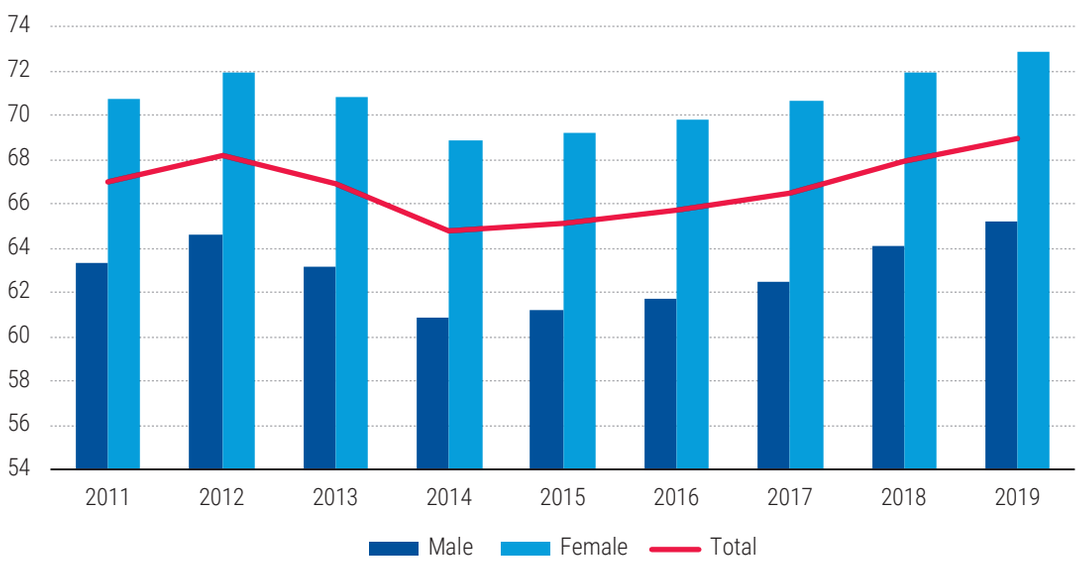


Source: World Development Indicators 2023

Notes: The World Bank defines "vulnerable employment as contributing family workers and own-account workers as a percentage of total employment.

Figure 13

Working poverty



Source: ILO stats, 2023

Notes: The period covered was determined by data availability.

ILO computed the rate based on the US$1.90/ day (PPP)

3.4.2. Social protection, safety nets and labour programmes

The above discussion highlights that informal employment is highly vulnerable to occupational risks and low incomes. As such, functional government social welfare systems and programmes in countries with pervasive informality are essential in cushioning the livelihoods of most of the working population, and more so, in addressing income inequality. Accordingly, Malawi has continued to invest in different social protection programmes targeting different sectors and segments of the population throughout the three decades under study. Although the main thrust of these programmes has been to address food security and alleviate poverty, different programs have been tailored to specific issues ranging from compensation for agricultural production deficits, boosting agricultural production, enhancing child nutrition and literacy rates, and directly boosting incomes of the most vulnerable groups. Moreover, the programmes have also been tailored to the specific characteristics mostly in terms of labour capabilities of the targeted population with in-kind and direct cash transfers mostly targeting ultra-poor households with labour constraints, while public works programmes and input subsidies target poor households without labour constraints. However, there have also been some programmes such as the school feeding and input subsidies that have been universally provided to the targeted communities.

Key programmes in the 1990s included farm input subsidies and credit schemes and the Public Works Programme (PWP) from 1996. The PWP are conditional cash/food transfer programmes that provide limited employment opportunities[41] to the poor and ultra-poor with labour capacity through participation in community-driven public works. In most cases, PWPs focus on infrastructure development including roads in hard-to-reach areas, making them more viable for improving inequality both through direct improvement of the poor's incomes and indirectly by enhancing the poor's access to productivity enhancing economic infrastructure. The school meal programme (SMP) commenced in 1999 to enhance regular school attendance and learning in vulnerable primary schools by providing daily free school meals. While some of the programmes of the 1990s were carried through to the 2000-2019 decades without alterations in approach, but modification on their depth (coverage), key programmes such as the farm input subsidies have continued to revolve both in terms of coverage and implementation approach.

Key social protection programmes developed and implemented in the last two decades include the Social Cash Transfer (SCT) programme which commenced in 2006 with a focus on improving access to basic needs, health, nutrition status and school enrolment of targeted households through regular (monthly or quarterly) cash transfers; The Nutrition and Access to Primary Education (NAPE) programme which has a similar objective to the SMP of enhancing primary school attendance by providing meals but differs on its coverage as it only targets 7 of the 28 districts in Malawi; and the Food for Asset (FFA) programme which focuses on addressing the immediate food security needs whilst building the economic asset base of vulnerable households to enhance food security and alleviate poverty in the long term (World Bank, 2018).

Despite the domination of government social security programmes (funded independently and/or with collaboration from development partners), the number of non-governmental organizations (NGOs) working independently has increased with time. However, the lack of coordination among the different players coupled with the sporadic and short life span of most programmes undermined their intended impact despite the increase in their range and scope in line with the increase in the number of players (Chinsinga, 2007). Focusing on improving coordination, reducing fragmentation of programmes and optimizing resources from different players, the National Safety Nets Strategy (NSNS) was developed in 2000 and was streamlined in the MPRS through pillar three[42]. In 2008, Malawi developed the National Social Support Policy (NSSP)[43] and the Malawi National Social Support Programme (MNSSP) as a medium-term holistic framework for designing, implementing, coordinating, monitoring and evaluating the social protection programmes. For greater impact and improved budgetary allocations of the government-funded social programmes, the NSPP is well aligned with both the national development strategy (The MGDS) and sectoral policies. This was succeeded by the

[41] PWPs generally run for a few weeks in a year (See https://www.ilo.org/wcmsp5/groups/public/---africa/---ro-abidjan/---ilo-lusaka/documents/publication/wcms_524928.pdf)

[42] MPRS Pillar 3: Improving the Quality of Life for the Most Vulnerable – providing sustainable safety nets: Targeted Input Programmes, Public Works Programmes, Targeted Nutrition programmes and direct welfare transfers including cash transfers or cash proxies (retail vouchers)

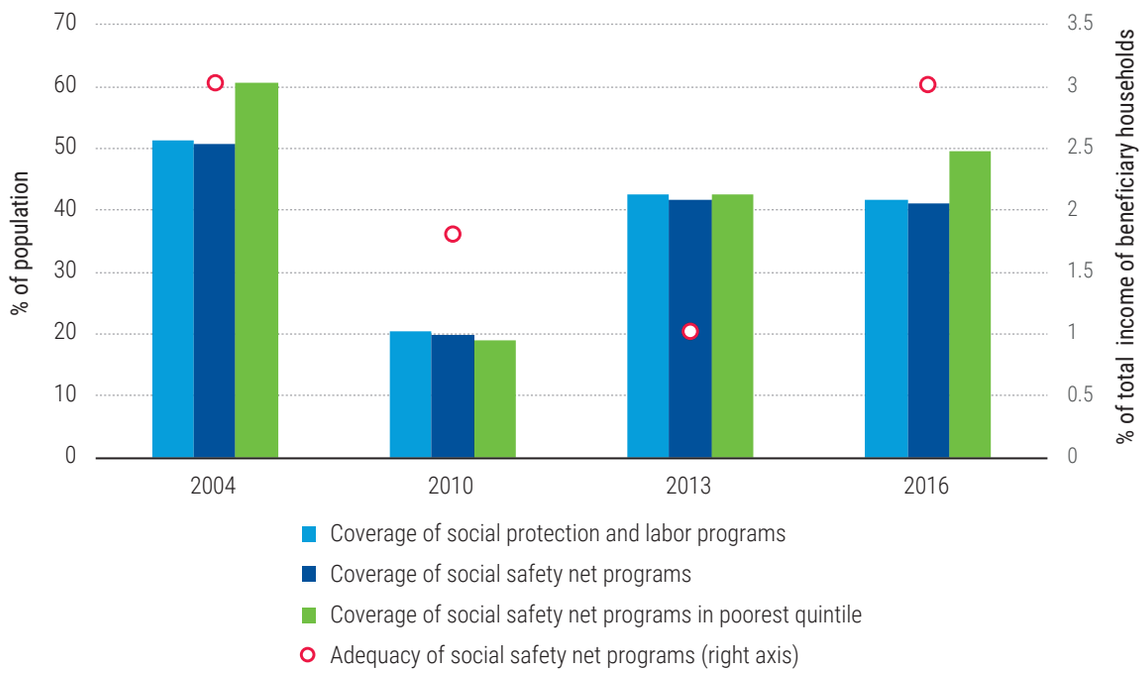
[43] https://cepa.rmportal.net/Library/government-publications/Social%20Support%20Policy.pdf

NSSP II (2018-2023) and the MNSSP II[44] focusing on enhancing coherence, strengthening linkages and systems, and improving the monitoring and evaluation of the different programmes.

Although the implementation of the social protection programmes has significantly improved with their integration into national development strategies and government budgets, their impact on the incomes of vulnerable groups has been undermined by several issues. For instance, poor targeting is frequently highlighted as one of the fundamental issues undermining targeted social programmes in Malawi. Secondly, low and volatile coverage of most programmes also undermines their net impact on incomes, poverty and income inequality. Figure 14 shows that about 60 per cent of the poorest population benefited from social safety nets in 2004. However, the beneficiaries were reduced to less than 20 per cent in 2010 and have remained below 50 per cent notwithstanding significant improvements from 2010.

Figure 14

Social protection, labour programmes and social safety nets



Source: World Development Indicators 2023
Notes: The period covered was determined by data availability

A similar inconsistent coverage trend is also highlighted for the social protection and labour programmes. Figure 14 further shows that in monetary terms, the received social safety nets have been accounting for less than 3 per cent on average of the total incomes of the beneficiary household since 2004, suggesting that despite wide coverage in some years, the received support is hardly sufficient to effectively boost their incomes and meaningfully address income inequality. For instance, beneficiaries under the SCT programme in 2006 were on an unconditional monthly stipend of USD 14 on average (Miller and Reichert, 2019) which was below the poverty line of $1.25 per day. For the extremely poor households with no alternative livelihood options, these incomes were not sufficient for a significant positive impact on their vulnerability let alone, on incomes and poverty levels in the medium to the long term. In this regard, Dicks (2012) observed that despite several benefits attributed to the SCT programmes, most of the beneficiaries are not ready to graduate from the programmes at termination as the programmes are not effective in addressing their long-term income insecurities. Similarly, setting wages for the PWPs below the prevailing minimum wage as a self-selection

[44] https://socialprotection.org/sites/default/files/publications_files/Malawi%20National%20Social%20Support%20Programme%20%28MNSSP%20II%29.pdf

targeting mechanism coupled with their limited number of working days[45] leaves them among the least paying jobs in Malawi with minimal impact on inequality in the short to long term.

3.5. Monetary policy

The centrality of monetary policy in an economy cannot be overemphasized. Among its core functions, the Reserve Bank of Malawi (RBM) is mandated to influence money supply, availability of credit, interest rates and exchange rates to foster economic growth, employment, and price stability"[46]. This section restricts its discussion to price stability (inflation) as one of the core objectives of monetary policy in Malawi with a potentially significant impact on income inequality. The focus will be on exchange and interest rates as the main policy instruments with a significant impact on inflation. To this end, it is worth noting that the main objective of monetary policy in Malawi is to sustain low inflation rates within the 3-7 per cent range (Simwaka and Mkandawire, 2008).

3.5.1. Inflation and inequality

The general perception among policy makers and scholars is that high inflation rates entrench income inequality as it disproportionately affects the population in the lower strata of the income distribution (Bulir, 1998; Narob, 2015; Berisha et. Al., 2022). This is generally because of the increased vulnerability of their income to price volatilities as relative to the rich, the poor and the middle class largely hold their assets in cash and heavily rely on wage employment for incomes while the rich's assets are well hedged from inflation as at least 40 per cent of their income is in activities whose net value rises with the general increase in prices. (Crowe, 2005; Berisha et. Al., 2022). In this regard, Crowe (2005) describes inflation as an implicit regressive tax that largely works in favor of the rich who generally have increased access to high value economic assets and lucrative businesses. As such, for countries like Malawi where most of the poor population are in vulnerable jobs with limited access to productive assets, maintaining low inflation rates is essential for addressing the increasing income inequality as it effectively protects the purchasing power of the poor who are without any means of protection from the continually rising prices.

3.5.2. Exchange rate policy and inflation

There is a perceived direct positive correlation between changes in the exchange rate and prices with debates on the appropriateness of the pegged or free float regimes under specific macroeconomic conditions. While a free float regime allows the value of the currency to be fully determined by the demand and supply forces of the market, governments have some level of control over a pegged regime or managed float. A pegged regime is contended to be anti-inflationary by enhancing monetary and fiscal policy discipline as well as confidence in the currency (Gosh et. al., 1996). However, fears of eroding currency competitiveness through overvaluations with pegged regimes are equally of great concern as they generally lead to heavy devaluations and high inflation rates (Pauw, Dorosh and Mazunda, 2013). Overall, the management of an exchange rate is fundamental to the competitiveness of an economy as it has a direct bearing on the cost of importation of essential inputs and commodities, the overall cost of production and the ultimate quality and cost of domestic products (Pauw, Dorosh and Mazunda, 2013). In this regard, the exchange rate has a direct heterogenous impact on productivity and incomes of households, and hence on income inequality in an economy.

Focusing on domestic price stability, growth in real income and sustainable balance of payments (BoP) position, Malawi has mostly had some level of control on its nominal exchange rates with different outcomes in the last three decades. Until 1994, the Malawi Kwacha was pegged to a trade-weighted basket of seven currencies (US dollar, British Pounds, German Deutschmark, South African rand [ZAR], French franc, Japanese yen, and Dutch guilder). In this context, an understanding of key exogenous factors outside the domain of monetary policy that affect price stability is essential. As highlighted earlier, Malawi's exports are highly dependent on a narrow range of commodities with tobacco accounting for over 60 per cent of its export earnings. However, the sector's productivity and growth are highly volatile as it is largely driven by rain-fed small holder subsistence farming with resultant increased volatility in prices. Domestically, prices are

[45] https://www.ilo.org/wcmsp5/groups/public/---africa/---ro-abidjan/---ilo-lusaka/documents/publication/wcms_524928.pdf

[46] https://media.malawilii.org/files/legislation/akn-mw-act-1989-8-eng-2014-12-31.pdf

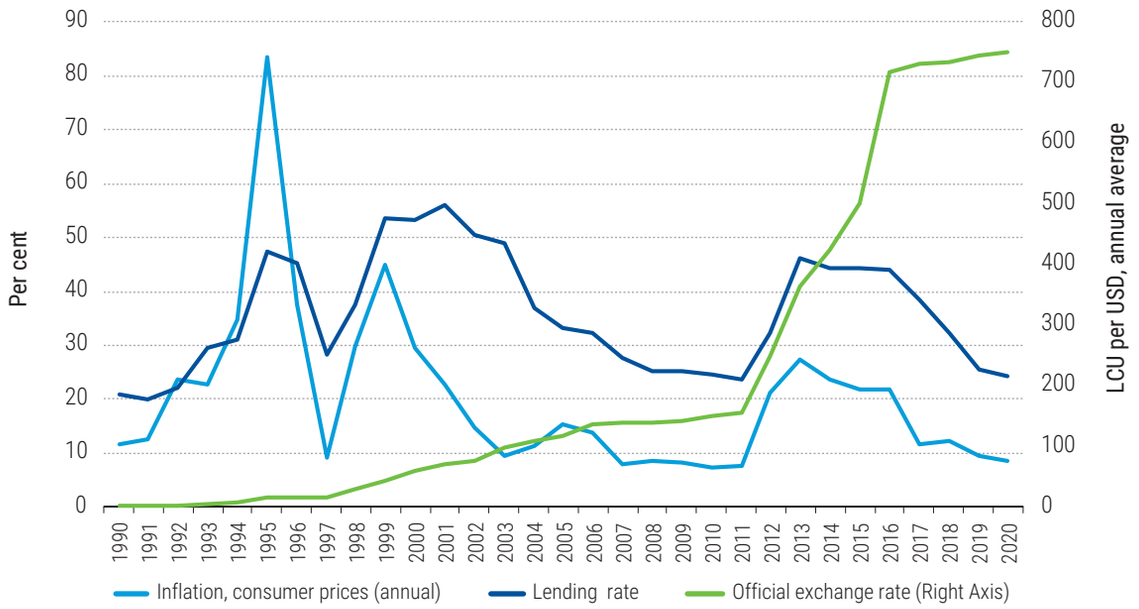
seen to improve during the harvest period and start worsening towards the lean seasons. Similarly, for the export commodities, good inflows of forex should follow good agriculture seasons.

Furthermore, the country's overdependence on the importation of key inputs including fuel also makes it highly vulnerable to imported inflation. Hence, devaluations with the pegged regimes in Malawi are inevitable to enhance its competitiveness on the international market, stabilize domestic prices and improve its Balance of Payments (BoP) position. As such, under the pegged regime in the early 1990s, a devaluation of 7 per cent was effected in March 1990 which was followed by two devaluations of 15 per cent and 22 per cent in March and July 1992 respectively (Simwaka and Mkandawire, 2008). Notably, these devaluations were to a great extent, a direct response to the deterioration of Malawi's trade balance and foreign exchange earnings due to the heavy droughts in 1990 and 1992 (Figure 5) which had precarious effects on agricultural output. Accordingly, inflation during this period rose from an annual average of about 11 per cent in 1990 to about 37 per cent in 1994. However, the kwacha remained overvalued during the period (Pauw, Dorosh and Mazunda, 2013: 2), suggesting that its exports remained uncompetitive with compressed returns to the domestic producers while at the same time, the general price increase further eroded the purchasing power of domestic incomes. As the devaluation and increase in inflation were preceded by droughts (poor agricultural output), it follows that food prices were among the most affected (Wu, 2017) with a disproportionate impact on the incomes of the poor (Mussa, 2014). In this regard, the devaluation potentially worsened income inequality.

To effectively address the foreign exchange crisis and restore Malawi's trade balance, the Malawi kwacha was floated in 1994. However, this resulted in a 62 per cent depreciation of the kwacha against the US dollar (US$) from MK5.92 in February to MK15.58 per in December 1994 (Mangani, 2012) which is equally reflected in the steep rise in inflation from about 35 per cent in 1994 to 83 per cent in 1995 (Figure 15). A managed float regime was adopted in 1995 where the kwacha was allowed to freely float within the stipulated band and a free float was adopted back in 1998 (Simwaka and Mkandawire, 2008). However, most of the adopted interventions in the period did not yield the expected result as the kwacha sharply depreciated by 89 per cent in 1997 (NPC, 2019) and inflation more than tripled from an annual average of 9 per cent in 1997 to about 30 per cent in 1998 (Figure 15). Overall, the kwacha remained volatile in the decade with high inflation rates (annual average of 31 per cent) relative to its key trading partners, suggesting that its exports remained uncompetitive in the 1990- 1999 period when major agricultural production and trade liberalization reforms took place. Thus, while trade and agricultural reforms of the period were meant to encourage domestic productivity and growth, the exchange rate policy with its resultant inflation pass-through effect had the opposite impact as they effectively increased the cost of domestic production. As highlighted above, the impact of high inflation rates on food prices disproportionately erodes the incomes of the poor and exacerbates income inequality.

The floating regime adopted in 1998 was maintained until 2004 and a pegged exchange rate policy was run from 2005 to 2011. However, as highlighted before, the risk of currency overvaluation with this regime is exceptionally high. In the case of Malawi, this exchange rate misalignment resulted in a scarcity of key commodities including fuel. Accordingly, the kwacha was devalued by 59 per cent in 2012 (NPC, 2019) which was also followed by a significant rise in inflation from an annual average of about 7 per cent in 2011 to 21 per cent in 2012. Overall, the pegged exchange rate policy is estimated to have depressed agricultural producer prices by 22 per cent on average from 2005 to 2011 (FAO, 2014b). Furthermore, the exchange rate differences which are seen to improve with the harvesting time (time of sale) further erode the incomes of farmers, particularly tobacco as despite being paid in US dollar at the auction floors, the farmers receive their actual payment in local currency calculated at the prevailing exchange rate (Nsiku and Botha, 2007), suggesting that their actual costs of inputs are not fully accounted for in the process. Similarly, despite paying other associated costs at the point of sale such as the research levy, TCC levy and the association fee to domestic institutions in the domestic currency, they are quoted in US dollar such that their actual value is determined by the adjusted exchange rate which takes into account of the exchange rate misalignment (FAO, 2014a).

Figure 15
Inflation, lending and exchange rates, 1990-2020



Source: World Development Indicators, 2023

After the devaluation of the Kwacha against the US$ in 2012, a free float regime was adopted until 2016 when a managed float was reinstated (Chavula, 2016: 173). Although the kwacha continued to depreciate between 2012 and 2016 from about MK250 to MK718 per US$ (Figure 15), the free float regime reflected the actual value of the currency as reflected by the depreciation in the real effective exchange rate from 78.52 in 2012 to 69.02 in 2016 (World Development Indicators, 2023).[47] This improvement suggests better terms of trade and related incomes through enhanced export competitiveness as equally reflected in the decline in inflation during this period. The kwacha remained relatively stable after the adoption of the managed float in 2016 and this has equally been translated into a further decline in inflation rates (Figure 15). This highlights that allowing the kwacha to freely float for some years since 2012, has been significant in containing inflation and hence, reducing income inequality in Malawi.

3.5.3. Interest rates and inequality

Interest rates are an important component of financial inclusion as they determine the cost of borrowing such that the higher the interest rates, the more difficult it is for the poor to access credit for financing their businesses. Moreover, higher interest rates further limit the opportunities for the poor and middle class to own viable economic fixed assets as it effectively increases their net costs. Although some level of control in the financial sector may be desirable in this regard, it is generally believed such interventions undermine the efficiency of the financial sector. Chirwa (2001) highlights that liberalization of the financial sector results in greater access to finance especially for marginalized borrowers and reduces the role of the informal financial sector. Until the late 1980s, the financial sector in Malawi was heavily repressed including through the control of the commercial banks' deposit and lending rates with significant negative implications on the efficacy of the financial system. During this period, the agricultural sector in Malawi enjoyed preferential lending rates and quota credit allocation to enhance agricultural productivity in line with the agricultural export-led development model that the government had adopted (Ngalawa, 2009).

Key reforms that took place in the late 1980s and early 1990s brought a significant shift in Malawi's financial sector with the partial deregulation of lending rates in July 1987 and deposit rates in April 1988. These two reforms gave autonomy to commercial banks to determine their own lending and deposit rates although the mandate to control the overall direction of the interest rates remained with the central bank through

[47] https://databank.worldbank.org/source/world-development-indicators#

active use of discount rates (Chirwa, 2001; Ngalawa, 2009). Credit ceilings were abolished in 1988 and preferential lending rates to the agricultural sector were abolished and interest rates were fully liberalized in 1990 (Ngalawa, 2009; Mangani, 2012; Chavula, 2016). However, as these key reforms were carried out amidst economic instability including currency overvaluation and the subsequent devaluation in 1990, inflation remained high and unstable. On the one hand, the liberalization of interest rates immediately exerted an upward pressure on the lending rates along with increased inflation until 1995 which was further exacerbated by the currency devaluation (Figure 15), suggesting that the cost of borrowing went up. For the agricultural sector in general, access to credit was further undermined by the removal of lending preferences to the agricultural sector. However, it is worth noting that this policy potentially affected only the estate farmers and a few middle income farmers with access to formal credit. Most of the SHF cannot afford credit as reflected by the reduction in the number of beneficiaries of the tailored credit facility APIP programme by 74 per cent in the 2000-2009 decade due to high default rates (Chirwa et. Al., 2008). As such, until this point, these reforms largely worked against those in the upper strata of the income distribution.

Interest rates are mostly used to control inflation, hence they generally trail in the same direction albeit with a lag. Inflation significantly decreased from 44.8 per cent in 1999 to about 11 per cent in 2004 while interest rates remained high at an annual average of 49.1 per cent. However, it is worth noting that the 2000-2009 decade is largely characterized by both low interest rates and inflation rates relative to the 1990-1999 decade. Interest rates started declining from their peak of about 56 per cent in 2001 and reached their lowest point of 23.7 per cent in 2011 along with the decline in inflation from 44.8 per cent in 1999 to 7.6 per cent in 2011. Although there were no significant policy reforms regarding interest rates in this period, the pegged exchange rate regime which locked out imported inflation significantly contained inflation. Coupled with a good agricultural season and real growth, interest rates remained equally low during the period. Similarly, apart from the rise in interest rates to contain the depreciation-induced inflation between 2011 and 2013, both interest rates and inflation continued to decline from 2014 to 2020. Thus, unlike the 1990-1999 decade where high interest rates potentially affected access to credit and hence net incomes of the middle class, these setbacks are seen to have improved in the last two decades with a potential net income inequality reducing effect.

3.6. Education policy

Education is widely perceived as a fundamental tool for fostering economic growth and development (Kadzamira and Rose, 2003: 501; King 2011) and more so, an indispensable component of poverty and all forms of inequality (Manos, Marcos and Aaron, 2016). Education is highlighted as one of the key determinants of labour productivity and the overall structure of a country's labour market such that the higher the level of education, the better the odds for better employment opportunities and incomes. In other words, the less educated and unskilled labour force are likely to work in the informal sector (Jiménez et.al., 2015; Yang and Qui, 2016) where incomes are generally low and they have limited access to productive assets and credit. Moreover, both within the formal and informal sectors, better incomes and opportunities are equally seen to increase with education qualifications and professional skills (Chirwa and Matita, 2009a, 2009b; Yang and Qui, 2016). Thus, education is indispensable to the productivity of the labor market and income inequality as it determines occupational choices, employment opportunities and remunerations (Dabla-Norris et. Al., 2015). As such, education has remained a key component of government development policy and resources worldwide with good policies reflected by equitable access at all levels without undermining the important role of the education content, process and environment on the quality and relevance of its outcomes to the evolving needs of the labour market and society in general. This section assesses how Malawi's key policies in the education sector have fared in this regard over the last three decades and highlights their potential impact on income inequality.

Education development planning in Malawi has been anchored by several plans and strategies with a different focus on the education levels despite having similar objectives of enhancing equitable access to education that is relevant to its revolving market needs. The first Education Development Plan (EDP-I) (1973-1980) was largely driven by the urgent need to fulfill the labour market needs across professions post-independence (Ng'ambi 2010). As such, EDP-I did not provide a holistic approach to the development of the education sector as it mainly focused on secondary and tertiary education (Kadzamira and Rose, 2003) without effectively tackling most of the key issues that fraught the education system as it pertains to equitable access. As such,

despite the increase in the number of primary and secondary schools relative to the colonial period coupled with the introduction of the Distance Education Centers (DECs)[48], enrollment rates at all levels remained very low largely on account of school fees and other monetary requirements of the school system. Coupled with social and cultural norms that discouraged the participation of girls in formal education, enrollment rates were even lower for girls than boys (Chimombo, 2009). These issues were partially addressed under EDP-II (1985-1995) whose focus at all three levels was on enhancing equity to education access, improving the efficiency of the education system and improving education infrastructure across the country. The vision and goals of EDP-III (1995-2005) were carried through to the Education Policy and Investment Framework (PIF) which steered education planning and budgeting from 1995 to 2005. The PIF mainly aimed at enhancing efficient resource allocation following the increased pressure on the education system in response to the major policy reforms in the early 1990s and it covered other areas that affect primary education such as nutrition and the well-being of the learners. In 2008, the National Education Sector Plan (2008-2017) was launched as a comprehensive sector development plan which saw a review of the curriculum in line with socio-economic development goals, the development of a legal framework (National Education Act[49]) for the sector and the National Education Policy[50] in 2013.

3.6.1. Primary education

Key policy reforms in the education sector with significant impact on inequality for the past three decades took place in the 1990s. Driven by the need to enhance equitable access to education to eradicate poverty, the Malawi government with support from the World Bank embarked on the progressive abolishment of primary school fees between 1991 and 1993 focusing only on the first 4 years of primary school (Kadzamira and Rose, 2001). During the same period, school fee waivers were being provided to non-repeating girls from grades 2-8 under the Girls' Attainment in Basic Literacy and Education (GABLE) project[51]. Jointly, these two school fees waiver policies resulted in an improvement in primary school gross enrollment (GER) from about 78 per cent in 1991 to about 107 per cent in 1994, highlighting the extent to which financial demands from the education system eroded the incomes of most of the poor populations. Worth noting is the significant improvement in gender balance following the implementation of GABLE with the gender parity index (GPI) increasing from 0.86 in 1992 to 0.95 in 1994 (Figure 17).

These two school fee waiver programmes were discontinued following the introduction of Free Primary Education (FPE) in 1994 which completely abolished school fees for all 8 grades of primary school. FPE was responded to with a spike in GER by about 50 percentage points in the 1994/1995 academic year (Figure 16). Nevertheless, this response was skewed towards boys as reflected by the marginal drop in GPI to 0.9 in 1995 from 0.95 in 1994. Despite this initial drop which was sustained for about 4 years, FPE successfully altered gender parity in primary schools within 10 years of its implementation (Figure 17) and has seen a sustained increase in GER with minimal volatility over the last three decades. However, the policy is fraught with increased dropout and repetition rates mainly due to additional cost implications and the quality of the education system.

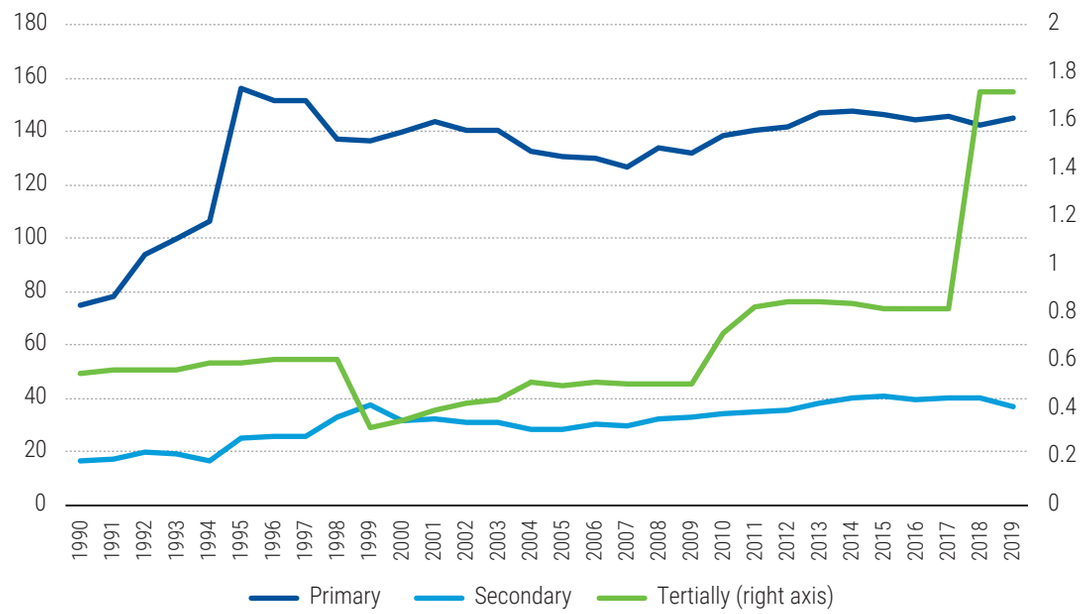
[48] The Distance Education Centers were meant to carter for deserving students who could not make it to the conventional secondary schools

[49] https://planipolis.iiep.unesco.org/sites/default/files/ressources/malawi_education_act_2013.pdf

[50] https://planipolis.iiep.unesco.org/sites/default/files/ressources/malawi_national-education-policy.pdf

[51] https://pdf.usaid.gov/pdf_docs/pnaca916.pdf

Figure 16
Gross enrollment rate, 1990-2019



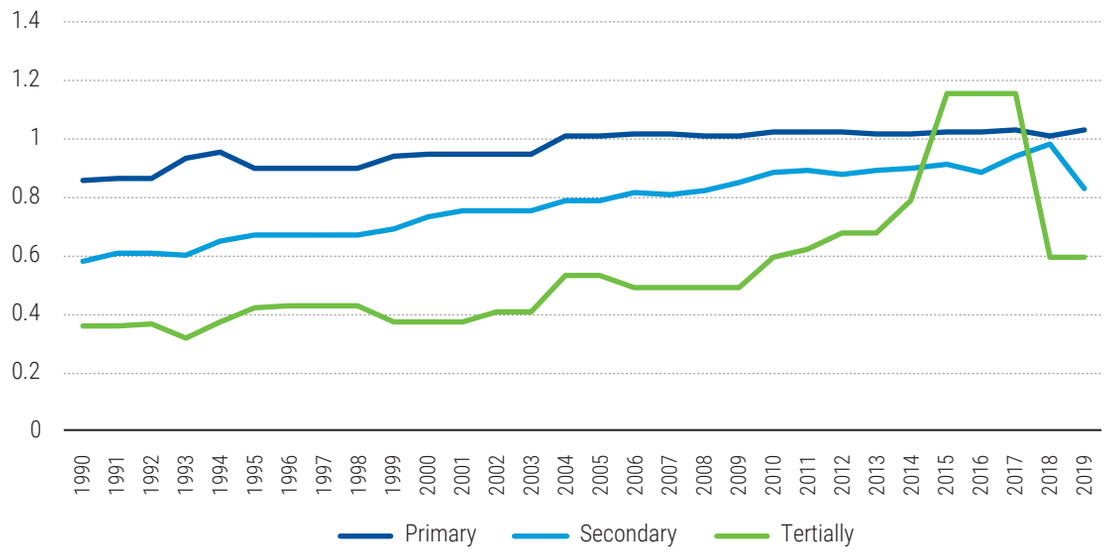
Source: World Development Indicators 2023
Notes: The gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. As such, gross enrollment values of above 100 per cent highlight the proportion of students who are above the official school going at each level of education.

As highlighted above, the spike in GER following the removal of school and other related costs reflects a positive impact of the policy on the incomes of those benefiting from the policy. However, the spike in GER also highlights that education expenditure was initially not factored into the cost function of most poor households who only sent their kids to school in response to the policy. For such households, the policy indirectly increased their household expenditure by the amount of other financial requirements such as learning materials and clothing which are estimated to account for up to 13 per cent of the poor households' expenditure relative to about 7.5 per ccent for the rich households (Kadzamira and Rose, 2003), making it difficult for poorest households to sustain their kids in school as these costs generally increases with classes. This is reflected in the lower primary school completion rates for the pupils from the bottom 40 per cent relative to those from the top 20 per cent of the income distribution (Figure 18). Overall, less than 50 per cent of the total enrolled students complete primary education in Malawi, suggesting the presence of key fundamental factors other than the financial costs that are affecting the sector such as distance to the nearest school, poor infrastructure and facilities especially for girls and in some instances socio-cultural factors and lack of interest by the learners (EMIS, 2015; GOM, 2022).

Most critics of the FPE contend that the rollout of the policy in 1994 was not preceded by a full assessment of the fundamental factors that influence school attendance and more so, the possible implications of the policy on the sector (Kadzamira and Rose, 2003; Sichone, 2019). As such, schools were overwhelmed with the influx of students which drastically undermined the quality of its outcomes and the efficiency of the system including through increased pupil/teacher ratio, insufficient education infrastructure and learning materials (EMIS, 2015). These were highly reflected in poor outcomes which to some extent continues to account for the high repetition and dropout rates. For instance, between 1998 and 2004, the number of children who reached the minimum level of reading in English was reduced by half while 98 per cent had no skills beyond basic numeracy (World Bank, 2010).

Although significant progress has been made over time to address most of the input quality issues that are undermining the quality of its outcomes, poor infrastructure and facilities as well as the need for more qualified teachers remain persistent. Both the number of qualified teachers and classrooms has increased

Figure 17
Gender parity index



Source: World Development Indicators 2023
Notes: The gender Parity index gives the relative proportion of males and females in gross enrollment with values below 0.97 highlighting the disparity in favour of males, values greater than 1.03 highlighting the disparity in favour of females while values from 0.97 to 1.03 indicating gender parity in gross enrollment.

over time as reflected by the improvement in the Pupil Qualified Teacher Ratio (PQTR) from 92:1 in 2011 to 66:1 in 2019 against the target PQTR of 60:1 in NESP; while the Pupil Permanent Classroom Ratio (PPCR) has improved from 122.3 in 2011 to 119.5 in 2019 (EMIS 2015; GOM, 2022). However, it is worth noting that these national aggregates do not adequately reflect the rural-urban differences in the allocation of the above essential inputs in the sector which is largely skewed towards the urban sectors. For instance, the PQTR was 96: 1 in the rural areas against 70:1 in the urban areas in 2011 (JICA, 2012). Furthermore, Chimombo (2009) highlights a higher proportion of schools in rural areas with poor basic infrastructure and no water access relative to the urban areas. These suggest potentially poorer basic education outcomes in the poor segment of the population (largely rural-based) relative to the students from rich households as partially reflected by secondary school performance outcomes (Figure 18).

3.6.2. Secondary education

Although not directly targeting secondary education, the FPE policy has had a significant impact on secondary education in Malawi. The increase in primary education enrolment has put enormous pressure on secondary schools, as reflected in overcrowded classrooms and high pupil-teacher ratios (EMIS, 2015, p. 76). Among other things, this resulted in the expansion of secondary schools including through the establishment of community day secondary schools (CDSSs) and increased utilization of unqualified teachers (Kadzamira and Rose, 2003:509) and the sprouting of private secondary schools. However, these reforms are only effective in increasing enrollment rates but not in sustaining the poor to successful completion of secondary education.

Notwithstanding the critics of FPE which are largely founded on the logistics of its implementation, it remains uncontested that the policy unveiled the extent to which tuition fees are prohibitive to education access for most poor households in Malawi. This highlights that for kids who solely enrolled and completed primary school on account of the FPE, sustaining them through to the successful completion of secondary and tertiary education requires policies and programmes that are similar to the FPE, particularly as regards school fee waivers. However, apart from the shifting of the GABLE programme from covering school fees for non-repeating girls in primary schools to supporting the scholarship scheme for girls in secondary schools from 1995 to 1998 (Kadzamira, 2003)[52], there has not been significant financial support to anchor the education needs of most of

[52] After the introduction of FPE in 1994, GABLE scholarship was shifted to non repeating girls in secondary schools, covering their tuition, boarding and examination fees (Kadzamira, 2003)

the students from the bottom 40 per cent. Government expenditure on education is skewed towards primary education covering an average of about 42 per cent in the 2011-2019 decade while secondary and tertiary education accounted for about 27 per cent and 25 per cent respectively (See Figure 23).

As such, despite increasing enrollment rates in secondary schools in response to the FPE policy impact on primary school enrollment and completion rates, the secondary school completion rates for the bottom 40 per cent have been consistently below 3 per cent mainly due to high withdrawal rates largely on account of education affordability. In this regard, it is worth noting that although the completion rates in primary schools for the bottom 40 per cent and the top 20 per cent differ by only about 2 percentage points, the difference at the secondary school level is much wider by about 38 percentage points (Figure 18). Thus, contrary to the positive impact of government policies on equitable access to education at the primary level, its policies for secondary education encourage unequal access to education.

3.6.3. Tertiary education

Until 2011, Malawi had only 2 public universities- the University of Malawi (UNIMA) which was established in 1965 and the Mzuzu University (MZUNI) established in 1997, suggesting that despite the rapid growth of primary and secondary schools in the 1990- 2009 decades, tertiary education was highly limited by space with specific enrollment thresholds. Overall, limited access to tertiary education remains an issue even with the establishment of two additional public universities- the Malawi University of Science and Technology (MUST) in 2012, and the Lilongwe University of Agriculture and Natural Resources (LUANAR) which was established in 2011. While private universities are an option, such opportunities are largely confined to the middle class and the rich. Efforts to increase access in public universities include the introduction of parallel programmes (non residential programmes) in the early 2000s and the gradual establishment of Open Distance learning in public universities in 2011(Chawinga and Zozie, 2016). Coupled with the establishment of private universities and colleges, tertiary education GER doubled from 0.4 in 2002 to 0.84 in 2012 (Figure 16). However, it is worth noting that for the poorest households' access to higher education is largely confined to government sponsored programmes in public institutions as tuition fees for other programmes (including parallel programmes) are generally much higher (GOM, 2020).

Until the late 1980s, the government used the no tuition fees policy for public universities and other institutions of higher learning. In addition, students were provided with free meals and accommodation (Woodhall, 1991). The no tuition fee policy was changed in 1985 with the introduction of a minimum tuition fee contribution requirement from the students and the abolition of student allowances. This was complemented with the establishment of a revolving student loans fund to cater for the higher educational needs of poor students who could otherwise be eliminated from the system with the introduction of tuition fees. However, the government continued to carter for about 80 per cent of the tuition fees for each student through bursaries. During this period, about 50 per cent of the students qualified for the loans. With the progressive increase in student contribution (tuition fee hikes)[53] coupled with an increase in enrollment rates over time, the number of students requiring loans has equally increased thereby putting more pressure on the revolving fund. For better management of the revolving fund, the Higher Education Students Loans Grants Board (HESLGB)[54] was established in 2015 and has since extended the loans to students in private universities. Although education financing opportunities have further increased with time through different scholarships[55] that are given to students on merit, the loans scheme remains the most reliable education financing option for most students who cannot afford university tuition. However, research shows that it falls short of the increasing demand[56], suggesting that most students from poor households struggle to see themselves through tertiary education in Malawi. Accordingly, Figure 18 shows that students from the poor and poorest households (bottom 40%) hardly complete at least two years of tertiary education.

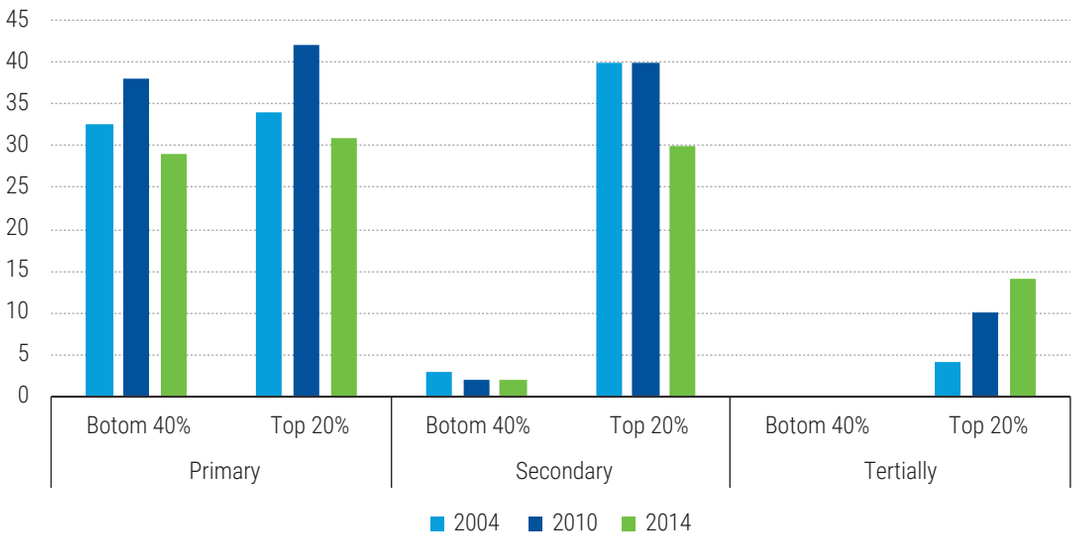
53 https://www.businessmalawi.com/cost-of-education-in-malawi/

54 http://www.heslgb.mw/Home/AboutUs

55 https://www.scotland-malawipartnership.org/assets/resources/Paper-_Fees_Hike_in_Higher_Education_in_Malawi_Discussion_Paper_print.pdf

56 https://www.scotland-malawipartnership.org/assets/resources/Paper-_Fees_Hike_in_Higher_Education_in_Malawi_Discussion_Paper_print.pdf

Figure 18
Completion rates



Source: World Inequality Database on Education[57], 2023
Notes: For tertiary education, the indicator is the completion rate of at least 2 years of tertiary education

As highlighted above, access to public universities under government sponsorship is a better option for most students, particularly those from poor backgrounds as they offer the lowest tuition rates due to the government bursary component. However, instead of allowing the natural competitive admission process based on merit, the public university selection quota system was reintroduced in 2009 after being abolished in 1993 (Mwakilama, 2018; Galafa, 2019). The objective of the system is to enhance equitable regional representation at the university level which was perceived to be skewed toward the northern region with a similar reflection on the formal labour market (Mtika, 2016; Galafa, 2019). Under this quota system, each district is guaranteed 10 university slots to its best performing students in the Malawi School Leaving Certificate Examinations (MSCE) and the rest of the slots are equitably distributed based on the population of each district (Nyondo, 2016).

While the views of several critics and supporters of the policy are largely founded on regionalism politics (see Galafa 2019: 37), commentaries that are driven by the possible impact of the policy on the quality of the university education outcomes, find this policy to be distortionary. In this regard, Mwakilama (2018) contends that the system leaves out very bright students from very competitive districts whilst accommodating average and/or below average students from underrepresented districts, resulting in increased withdrawals of students from public universities on academic grounds. As regards poverty and inequality, Nyondo (2016) finds the system to work against students from the rural areas in Malawi (largely poor) whose ability to compete for the district slots is highly undermined by the very structure of the education system where the schools (both at the primary and secondary levels) are poorly equipped for good quality outcomes relative to the urban schools. Overall, these factors coupled with the unaffordability of the tertiary education system for the poor segment of the society significantly contribute to their low levels of higher education participation and completion rates (Figure 18).

In sum, although key policies in the education sector have successfully addressed gender parity in primary schools, their failure to effectively address gender gaps in the secondary and tertiary levels is highly reflected in the labour market, and hence, they significantly contribute to gender-based income inequality. In other words, effectively tackling gender parity at the primary school level does not adequately address the pending future gender-related income inequalities. Chirwa and Matita (2009a) show that incomes in Malawi increase with education such that for those with just basic education, their earnings potential is improved by only 5 per cent relative to 15.4 per cent for secondary, 22.3 per cent for technical education and 65 per cent for university. As such, in line with the lower

[57] https://www.education-inequalities.org/

levels of educational attainment for most women relative to men, there is an increased vulnerability in women's jobs and incomes such that working poverty is equally higher for women than men.

Similarly, as regards income inequality, the above assessment also shows that equitable access across socio-economic strata is only effectively addressed under basic education. Notwithstanding loan opportunities for tertiary education which in most cases do not cover all the students in need, the high cost of secondary and tertiary education is highly prohibitive to education access for most of the poor population. As such only a handful of the students from poor households relative to the middle class and the rich complete secondary education and let alone tertiary education, suggesting that most of the vulnerable and low paying jobs are done by the bottom 40 per cent, making it difficult for them to break out of poverty. Thus, the lack of policies to sustain students from the bottom 40 per cent through secondary and tertiary education effectively entrenches poverty and inequality in Malawi in the long term.

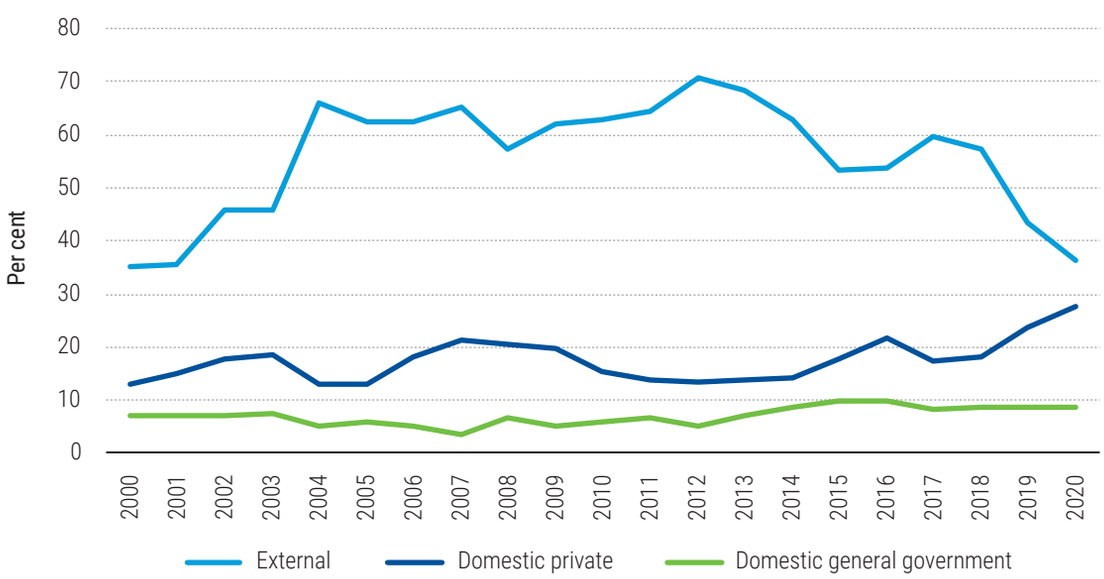
3.7. Health policy

Lack of access to health care and health protection is one of the key drivers of income insecurity and vulnerability to income poverty (ILO, 2008). However, attaining universal access to health services remains a challenge for most countries in Africa including Malawi as the health systems are saddled with a myriad of problems. Most health systems remain underdeveloped with key underlying constraints including inadequate financing, lack of drugs and essential consumables, inadequate infrastructure (including basic equipment and transport), and shortages of core health workers (Gondwe and Mpagalire, 2021) with a significant negative impact on access to health services particularly for the poor in rural areas.

Until the late 2010s, healthcare in public hospitals and health centers in Malawi was free (OXFAM et. al., 2016). However, the efficacy of this policy was greatly undermined by the above highlighted issues coupled with the overall composition of the health service delivery and financing. However, Public facilities only cover about 60 per cent of the healthcare in Malawi while the private not-for-profit Christian Health Association of Malawi (CHAM) covers up to 37 per cent and about 3 per cent is covered by the private-for-profit health practitioners (Abiiro, Bongololo-Mbera and Allegri, 2014; Chirwa et. Al., 2013). Although the government subsidizes the operational costs of CHAM facilities through the purchase of some of its drugs and meeting the local staffing costs, user fees in CHAM facilities are charged to cover other drugs and operating expenses (Chirwa et al, 2013). Thus, effectively limiting the poor's access (potentially none for the poorest) to their services although CHAM has better coverage of the rural and hard-to-reach areas of the country relative to government facilities (Chirwa et al, 2013).

Figure 19

Composition of health expenditure

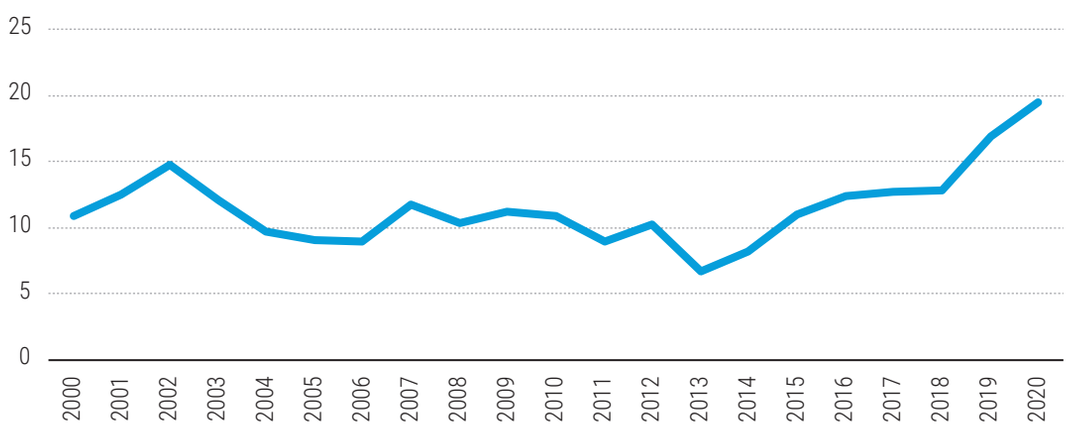


Source: World Development Indicators 2023

The sustainability of the free access policy in government facilities is largely at the mercy of development partners who continue to account for most of the health expenditure in Malawi (Figure 19). As such, the steep reduction in external financing of the health sector following the withdrawal of foreign aid in 2013 on account of high levels of corruption compounded the salient challenges being faced by the sector. Accordingly, in 2015, user fees were experimented in selected government hospitals (OXFAM et. al., 2016). However, the user fees were discontinued within a year (Matonga, 2015) as they significantly affected access for most of the population notwithstanding continued struggles with service delivery due to a lack of drugs and essential consumables which continues to undermine equitable access to health services as the middle income and the rich can afford the same services in private and CHAM hospitals. With free service delivery in public hospitals coupled with high poverty levels, private health insurance coverage is underdeveloped-covering only a handful of Malawians who are mostly operating in the formal sector (Abiiro, Bongololo-Mbera and Allegri, 2014). As such, out-of-pocket (OOP) expenditure on health accounts for about 11 per cent of the total expenditure on health annually. However, out-of-pocket health expenditures are regressive as poorer households spend a higher proportion of their income on health care relative to richer households in Malawi (Mchenga, Chiwaula and Chirwa, 2017; Mulaga, Kamndaya and Masangwi, 2021).

Figure 20

Out-of-pocket expenditure (% of current health expenditure)

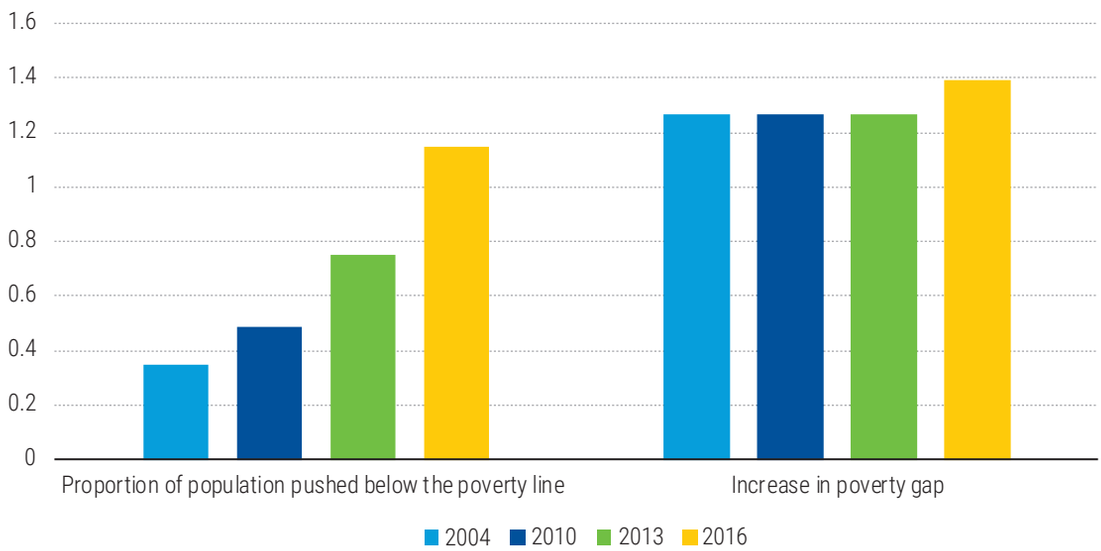


Source: World Development Indicators 2023

Amidst the problems affecting the health sector, tremendous efforts have been made to ensure near-universal access to the Essential Health Package (EHP) (see box 1) which was conceptualized around 2002 (Mueller et. Al., 20119. Leveraging good coverage of CHAM hospitals in rural areas, the government has been entering into service-level agreements (SLAs) with CHAM hospitals for free delivery of key components of the EHP. At least 44 per cent of the CHAM facilities were covered by the SLAs by 2011 (Chirwa et al., 2013). Nevertheless, since the population still must buy most of the drugs that are not covered under the EHP and pay for services in CHAM facilities that are not part of the EHP, coupled with population growth, OOP expenditure on health has not been influenced by the SLAs. Figure 20 shows that OOP declined between 2002 and 2006 which could reflect both increased access to free health services by the poor and/or that the poor are forgoing health services. However, despite the intensification of SLAs and other efforts to increase access across income groups, OOP has been increasing since 2013. This suggests that overall, the net cost of health services in Malawi has been increasing in Malawi with most of its burden being borne by the poorest households as highlighted by the relative increase in the number of people who are being pushed into poverty as well as the deepening in the depth of poverty due to OOP in the last two decades (Figure 21). While the policies being implemented to date under both the EHP and the Universal Health Coverage (UHC) programmes (Mchenga et. Al., 2022) should ordinarily be effective in addressing inequalities in access to health services, Malawi's underdeveloped health sector remains a hurdle to the realization of the goals and objectives of these policies. For instance, despite efforts to enhance access to the EHP, its coverage at about 52 per cent (Mchenga et. al., 2022) is far from being near-universal due to the highlighted underlying issues that are compromising the efficiency of health systems in Malawi.

Figure 21

Poverty due to out-of-pocket health care expenditure



Source: World Development Indicators, 2023
Notes: Data is available only at a $1.90 poverty line threshold.

Box 1

Broad Components of the Malawi Essential Health Package

- Prevention and treatment of vaccine-preventable diseases
- Management of acute respiratory infections (ARI) including pneumonia.
- Malaria prevention and treatment i.e. using insect treated nets (ITNs) and active case management.
- Reproductive health interventions to address adverse maternal/neonatal outcomes (family planning, maternal and neonatal health, PMTCT)
- Prevention and control of tuberculosis
- Prevention and treatment of acute diarrhea diseases including cholera.
- Prevention and treatment of HIV/AIDS and other sexually transmitted infections (STIs)
- Prevention and treatment of schistosomiasis
- Prevention and treatment of malnutrition and nutritional deficiencies.
- Prevention and management of common eye, ear and skin conditions
- Treatment of common injuries and emergencies.
- Cancer treatment
- Other non-communicable disease

Source: Abiiro, Bongololo-Mbera and Allegri, 2014

4. Drivers of inequality in Malawi

Understanding the factors that drive income inequality in Malawi is essential in effectively addressing it and in responding to the challenges it creates as regards poverty and inclusive growth. Following Mussa and Masanjala (2015)[58], this report highlights that inequality in Malawi is driven by disparities in access to education and health. Additionally, the report further adds pervasive informality, poor infrastructure and low agricultural productivity as among the key drivers of inequality in Malawi[59].

[58] Mussa and Masanjala (2015) suggests that inequality in Malawi is driven by limited access to education, unequal access to quality health services, ineffective implementation of gender sensitive policies, corruption, weaknesses in the delivery of social protection and job insecurity.

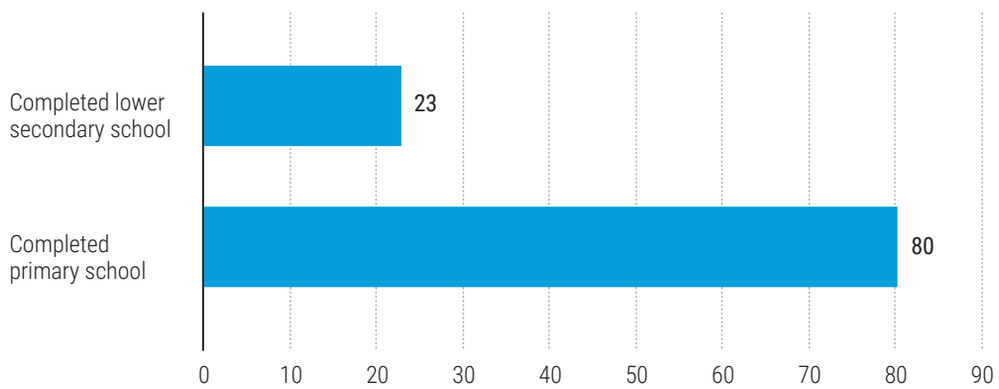
[59] For a detailed assessment of the drivers of income inequality within and across countries see Osakwe and Solleder (2023)

4.1. Inequality increases with disparities in the level of education attained

Access to education and the quality of education are some of the distinguishing factors between the poor and non-poor. According to the World Development Indicators database, the share of youth not in education, employment, or training (per cent of the total youth population) increased from 17 per cent in 2005 to 19 per cent in 2020; and among females, the share increased from 20 per cent of females that are in the youth age bracket in 2005 to 25 per cent in 2020, while among the male youth population, it remained at 14 per cent in 2005 and 2020, respectively. Completion rates are higher at the primary school level for the relevant age group of the population, with 80 per cent of pupils completing the last grade of primary school in 2019. However, the completion rate dramatically drops to 23 per cent of the relevant age group in lower secondary and the enrollment rates fall largely because of lack of access (Figure 22). In this regard, it is worth noting that students from the bottom 40 per cent hardly complete at least two years of tertiary education while less than 5 per cent complete secondary education (Figure 18).

Figure 22

Completion rates (per cent of relevant age group) in 2019



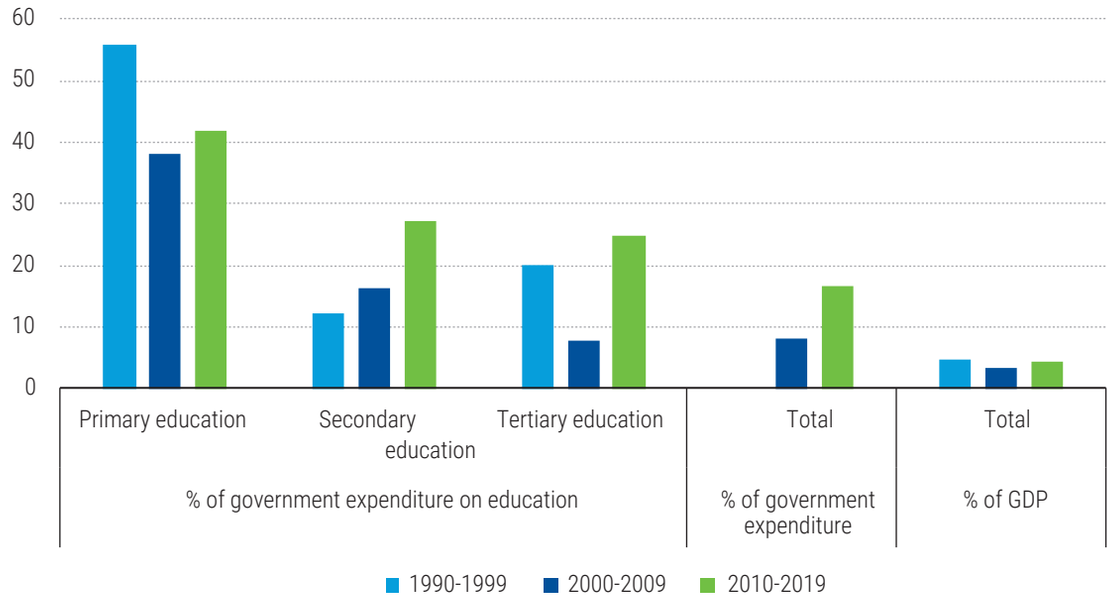
Source: World Development Indicators, 2023

The Fifth Integrated Household Survey data from the National Statistical Office of Malawi show that 58 per cent of respondents who did not continue with their education cited a lack of money for fees and uniforms, another 12 per cent got married or became pregnant, while 15 per cent lost interest. Poor quality of education facilities; poorly trained and low paid teachers; distance to school; and limited access particularly to secondary school and tertiary education are among the leading causes of inequality in Malawi. Although primary school education in public schools is provided at no fee, secondary and tertiary education attracts fees, and demand for places in public institutions far outstrips available spaces in both secondary and tertiary levels (Mussa and Masanjala, 2015).

Government expenditure on education averaged 16.6 per cent of total government expenditure in 2011-2019, translating to about 22 per cent of GDP per capita per student.[60] However, government expenditure on education as a share of GDP averaged 4 per cent from 2011-2020 and declined from the high of 5.6 per cent reached in 2015 to a low of 3.7 per cent in 2019. Nevertheless, government expenditure on education is largely skewed towards primary education covering an average of about 45 per cent over the 1990-2019 decades (Figure 23). Similarly, gender parity in education access has only been attained at the primary level of education while significant gaps are apparent both at the secondary and tertiary levels as equally reflected in the labour market.

[60] This is not much, considering that the GDP per capita of Malawi has increased from $280 in 2004 to $635 in 2021.

Figure 23
Government expenditure on education



Source: UNCTAD calculations based on World Development Indicators

4.2. Inequality increases with disparities in access to health services

Although public health care is free in Malawi, research highlights increasing implicit costs due to a lack of drugs and essential consumables coupled with poor coverage, especially in hard-to-reach areas. On the one hand, an implicit cost is still charged as most people still must pay for drugs that are largely unavailable in hospitals. On the other hand, public facilities only cover about 60 per cent of the healthcare in Malawi while (CHAM) covers up to 37 per cent with only about 52 per cent of the population having access to the EHP. Despite CHAM's better coverage in rural and hard-to-reach areas, user fees are charged for its services excluding services that are under the SLAs with the government. Overall, OOP has been increasing since 2013, suggesting that the net cost of health services in Malawi has been increasing in Malawi with most of its burden being borne by the poorest households as highlighted by the relative increase in the number of people that are being pushed into poverty as well the deepening in the depth of poverty due to OOP in the last two decades.

4.3. Inequality increases with pervasive informality

About 92 per cent of the total male and female population working in the sector are informally employed. Similarly, an average of about 76.2 per cent and 64 per cent of the total industrial and service sector workforce is informally employed (Figure 11). With low and highly vulnerable employment and limited options for alternative sources of income, pervasive informality across sectors in Malawi locks most of the informal employees into chronic income poverty and widens income disparities between formal and informal employees (see OECD and ILO, 2019). In the Fifth Integrated Household Survey, 61 per cent of households considered their HH's food consumption over the past months as less than adequate for the households. Many respondents (57 per cent) spent most of their time in a week on unpaid household labour, while 13 per cent and 9 per cent, respectively spent most of their time on household non-agriculture business and long-term employment. Piecework and short-term contracts accounted for 21 per cent of the economic activities of the respondents.

4.4. Inequality increases with sectoral differences in labour productivity

Agriculture is the largest employer in Malawi accounting for an annual average of about 66 per cent of the male workforce and 75 per cent of the female workforce in the last three decades (Figure 9). However, the sector is largely driven by rain-fed small holder subsistence farming which undermines its overall productivity as the sector remains highly vulnerable to the effects of climate change and natural hazards such as droughts. The net effect of the hazards on the sector's productivity is further compounded by other factors including low mechanization as well as poor access to land and credit. Overall, labour productivity in agriculture is very low compared to other sectors of the economy. While the value added per worker in agriculture has barely improved from an average of $338 since 2000, it ranged from $1500- $2800 and $2555-$2797 in the industrial and service sectors respectively. However, the labour market in Malawi suffers from low sectoral interlinkages and rigidities that limit the scope for intersectoral labour mobility, and therefore options for reducing poverty through labour mobility.

4.5. Inequality increases with disparities in access to social and economic infrastructure

The role of economic and social infrastructure on inequality cannot be overstated as they are central to the quality of the labour force and the overall production and trade costs. However, accessibility to both social and economic infrastructure in Malawi is generally skewed towards the urban sector, thereby effectively undermining the economic potential of the rural poor relative to the urban and semi-urban residents. For example, the report highlights poorly equipped primary and secondary schools which affects the quality of their respective outputs relative to the urban schools as one of the reasons for the lower access to secondary and tertiary education for the rural poor relative to those from urban schools. The report also highlights low access to markets for farmers due to poor roads, particularly following the closure of ADMARC depots in the hard-to-reach areas. The affected farmers incur higher production and trade costs relative to their urban and semi-urban counterparts with good access to markets. Moreover, the report also highlights an increased proportion of OOP among the rural poor due to the increased presence of CHAM facilities which charge user fees at the point of access except for the EHP (Chirwa et al, 2013).

5. Impact of COVID-19 on poverty and inequality

As the global economy went into an unprecedented recession in 2020 following the socio-economic impacts of COVID-19, Malawi was not spared with its GDP contracting by about 4.6 percentage points in 2020 (Gondwe, 2020; World Bank, 2021, 2022 and 2023). As a net importer, the COVID-19 related disruptions in global supply chains affected both its exports and importation of essential commodities including food with glaring implications on food security, income equality and poverty reduction. These have been further amplified beyond 2020 by the global commodity price increase following the Russia-Ukraine geopolitical tension and low agricultural productivity as a result of recent extreme weather events, in particular the cyclone Freddie. Accordingly, the promising recovery from COVID-19 and attendant gains in productivity registered in 2021 have been eroded as the economy went back into a recession in 2022 with its GDP contracting by about 1.8 percentage points (World Bank, 2023). In this regard, it remains imperative to understand the key channels through which these shocks have affected poverty and inequality in Malawi. These include trade, exchange rate and inflation (prices), and employment.

5.1. Trade

Trade remains one of the key channels through which countries experienced the economic impact of COVID-19 as immediate measures for curbing its spread restricted the movement of both people and goods. While the duration for imposing these measures varied across regions and countries, they resulted in a general decline in the global demand for exports, slowed productivity and caused a slump in the prices of major commodities including fuels. In poorer countries, the disruptions in the functionality of markets further aggravated the fragility of systems (including agrifood systems) and livelihoods. In the case of Malawi, exports dropped by 16.9 per cent in 2020 with attendant losses from its key export commodities ranging from 5 per cent in sugar to 21 per cent in tobacco (World Bank, 2021). Thus, at the micro level, there was a significant loss in household income in the agrarian community.

At the macro level, the World Bank (2021) highlights that domestic revenue dropped from 18.8 per cent of GDP in 2019 to 12.5 per cent in 2020. This undermined the ability of the government to import critical inputs for their domestic production and food exports and provide essential public services. Notwithstanding the recovery in 2021, forex shortages amidst rising commodity prices following the Russia-Ukraine geo-political tensions have seen increased shortages of critical imports including fuel, fertilizer and food notwithstanding measures in place to prioritize the importation of these commodities (IMF, 2022; World Bank 2023). Overall, Malawi's official real imports are estimated to have dropped by 6 per cent in 2020 (World Bank, 2021) and are currently estimated to be below their 2016-2021 average by about 65 per cent World Bank, 2023). These have further dampened productivity across sectors and hence incomes across social strata. Moreover, dampened food imports and increasing food prices coupled with below-average crop production as a result of increasing prices for agricultural inputs (such as fertilizer and seeds) and extreme weather events (such as Cyclone Freddy) have put more pressure on the country's food security with disproportionate impacts on the incomes of poor households (see Mussa, 2014).

5.2. Exchange rate and inflation

Section 3.5.2 highlights stability in the exchange rate between 2016 and 2019 under the managed float. However, sustaining a stable exchange rate amid huge structural shocks that have seen increased imported inflationary pressures has been a challenge for Malawi. In particular, the global commodity price increases following the Russia-Ukraine geopolitical tension have seen a spiral in both food and non-food inflation in Malawi with the overall inflation reaching its peak of 26.7 per cent in October 2022 from 11.5 per cent in December 2019 (RBM Statistics)[61]. Coupled with forex shortages emanating from the low export earnings and general external inflows due to COVID-19, the Malawi kwacha continued to weaken resulting in a 25 per cent devaluation in May 2022. However, this did not resolve the forex shortages and currency overvaluation that generally encroaches fixed and managed float regimes as reflected by the widening exchange rate spread between the official telegraphic transfer (TT) and the bureau MWK–US$ exchange rates which is currently above 54 per cent (World Bank, 2023). These continue to put a significant toll on disposable incomes as they are effectively increasing the cost of living through increased consumer prices, and are also undermining industrial productivity and competitiveness of Malawi's exports through uncompetitive inputs and increased transportation costs.

5.3. Employment and household income

Although Malawi did not implement a complete lockdown during the COVID-19 pandemic, global travel restrictions compressed its productivity across sectors with negative impacts on the livelihoods of most Malawians including a decline in income and complete losses of incomes. Several measures in addition to the ongoing social programmes were put in place to alleviate the negative impacts on incomes of the most vulnerable groups. These included the emergency social cash transfer which was meant to compensate for the earning loss incurred by the self-employed. With a total cost of about $50 million (0.6% of GDP), covered about 172,337 households in peri-urban areas with each household receiving a monthly sum of K35,000. (Magalasi, 2021). However, this monthly stipend is way below the international poverty line of $2.15, suggesting that those who completely lost their livelihoods were effectively pushed into poverty by the pandemic. In this regard, it is worth noting that covid-19 affected jobs in both the formal and informal sectors with the latter not appended to any social protection and labour laws. This entails that while to a large extent, employees in the formal sector were somewhat cushioned from the covid-related impacts on their jobs, informal sector employees were the most vulnerable and were largely pushed into poverty. As such, most studies highlight increased poverty and income inequality in Malawi due to COVID-19 (see Magalasi, 2021; Narayan et al., 2022; Sahle and Kayaitsa, 2023)

Overall, unemployment rates increased in 2020 with similar magnitudes of about 0.78 and 0.74 percentage points for men and women respectively (WDI, 2023) suggesting similar impacts on the complete loss of livelihoods across gender. However, a higher proportion of men (0.5 percentage points) relative to women (0.3 percentage points) being pushed into vulnerable employment potentially suggests disproportionate net impacts on incomes against men. This is essentially because Agriculture (food and cash crop industries) which employs a large proportion of women relative to men (Figure 9) was cushioned/exempted from the

[61] https://www.rbm.mw/Statistics/InflationRates/

country's partial lockdowns such that their constraints were only from the severe lockdowns in key trading partners in the region including South Africa and the general slowdown in trade (FAO, 2022). With higher representation of men than women in the non-agro industries and service sectors (Figure 9) which were affected by both global and national travel restrictions, the incomes and livelihoods of most men relative to women had an increased risk to the negative impacts of COVID-19 in Malawi.

6. Conclusion and policy recommendations

While growth is unarguably an important factor for poverty reduction, empirical evidence equally suggests that the extent to which economic growth effectively translates into poverty reduction is highly contingent on how the additional income at each level of growth is distributed as well as on the initial levels of inequalities within and across sectors. Accordingly, data for countries in Africa highlights different poverty outcomes for similar levels of growth generally in line with income levels. For instance, the poverty rate in Zambia increased by about four percentage points in the 2010-2019 decade while with a similar growth rate, Sierra Leone managed to significantly reduce its poverty rates by 28.9 percentage points in the same decade. Similarly in Malawi, the poverty rate marginally declined by only about 0.8 percentage points in the 2010-2019 decade while growing at an average of about 4 per cent. Yet with a similar growth rate in the decade, the $2.15 poverty rate dropped by 45 percentage points in Mali and 9 per cent in Botswana. Overall, Malawi remains one of the poorest countries in Africa despite insignificant diversions to the average growth rates in Africa. It is the third poorest country in Africa with about 70 per cent of its population living below the $2.15 international poverty line after Madagascar and Somalia whose poverty rates currently stand at about 81 per cent and 71 per cent respectively.

While there are several reasons why growth does not always translate into improved incomes for the poorest in an economy, empirical evidence converges on the centrality of policy choices in ensuring that the growth process is inclusive. Data from the World Development Indicators (WDI, 2023) shows that on average, the Gini Coefficient for Malawi significantly improved from 0.658 in the 1990-1999 period to 0.399 in the 2000-2009 period. These gains were however reversed in the 2010-2019 period with the Gini coefficient increasing to 0.429 on average, notwithstanding marginal improvements within this period. The report shows that income inequality in Malawi increases with disparities in the levels of education attained, access to health services, access to social and economic infrastructure, pervasive informality, and sectoral differences in labour productivity.

The report highlights the centrality of policies in effectively addressing income inequality in Malawi. From 1998 to 2020, development planning in Malawi was guided by Vision 2020 which reckoned the importance of tackling both economic growth and inequality for sustainable development and poverty reduction. In 2021, Vision 2020 was replaced by Malawi 2063 which also underscores the importance of fostering inclusive growth. However, not all policies that Malawi implemented over the past few decades have been effective in addressing inequality. The most effective ones (including those whose potential was greatly undermined by another factor) include the social protection and labour programmes, agricultural and trade liberalization policies, exchange and interest rate policies, free primary education, free healthcare services and the ban on the transfer of customary to private land.

6.1. Social protection, safety nets and labour programmes

Malawi's labour market is largely characterized by pervasive informality accounting for about 83 per cent of total employment. Pervasive informality across sectors in Malawi locks most of the informal employees into chronic income poverty and widens income disparities between formal and informal employees. Social protection, safety nets and labour programmes have been providing a relatively good buffer to incomes, notwithstanding the limitations in terms of coverage and depth. In this regard, we recommend that the Malawi government consider adopting the following measures:

▶ Introduce exit plans for all social safety net programmes

Most key social protection programmes in Malawi such as the farm input subsidy programme (FISP) and the social cash transfer (SCT) do not have an exit plan which makes the programmes expensive and unsustainable because with population growth coupled with increasing poverty rates, the number of

vulnerable people qualifying for the programme has been equally increasing over time. Scaling down the programme to increase the payouts in the case of SCT for a specific period might be effective in addressing long term underlying factors of poverty. Currently, most of the beneficiaries on the programme receive a monthly (quarterly) stipend which is below the international poverty line of $2.15 per day. Thus, highlighting the unsustainable levels of the income received to help take the beneficiaries out of poverty, notwithstanding its impact on food and other essentials in the short term.

As regards the agricultural input subsidy programme (AIP), the report highlights that the government has scaled down on the programme in recent years. However, this is not on account of the graduation of beneficiaries, but due to the lack of resources as it has become extremely expensive over time. Additionally, the analysis indicates that inefficiencies in the programme administration have increasingly seen the poorest households being left out whilst benefiting the relatively well-off and better-connected farmers. In this regard, a rethought of how the system is administered to reconsider the targeting strategies and, most importantly, the exit plan might be key in enhancing its efficiency.

▶ Extend social security to the informal sector

In Malawi, like most developing countries, social security is limited to salaried employees who are working in the formal sector. Apart from social safety nets and labour programmes that target the poor and ultra-poor, there are no social protection programmes that target the non-poor that are working in the informal sector. For instance, the pension scheme only covers salaried employees in the formal sector and Malawi does not have an unemployment benefit scheme. This lack of social security coverage in the informal economy increases their vulnerability to income poverty. This was highlighted during the Covid-19 pandemic where curbing its spread through a complete national lockdown meant loss of livelihood and incomes for most daily wage earners and the self-employed, thereby deepening poverty rates and income inequality. Moreover, in the absence of a pension scheme for the informal sector employees coupled with the lack of unemployment benefits, retirement is encountered with a myriad of poverty related issues. In this regard, it is worth exploring innovative ways to incorporate the informal sector into the wider public social protection programmes with a lasting positive impact on poverty and inequality. A good starting point would be for the government to put more effort into private sector development, by promoting small and medium enterprises to create a mass of viable businesses that can create employment and expand the taxable income base for the government to sustainably expand social security and services.

▶ The quality of safety nets and labour market programmes is as important as their quantity for lasting effects on poverty and income inequality

The assessment in the report highlights that wages on the implemented PWPs are generally below the minimum wage rate mainly to encourage self-targeting. However, the low wages condemn the beneficiaries to chronic poverty through pervasive daily wage jobs. As such, scaling down on coverage and increasing the daily (monthly) wage whilst working on an innovative way of targeting beneficiaries would have a more meaningful impact on poverty and income inequality. As highlighted above, a similar effect will be attained if the SCT programme was rationalized to reduce the number of beneficiaries and increase the payouts with a timeline for graduation from the programme.

▶ Enhance coordination in the delivery of social safety nets and labour programmes

There are various government institutions handling different components of the social safety nets each with their systems of delivery and mapping of beneficiaries. This suggests that the mapping of beneficiaries in the same communities is done by different entities although they are essentially targeting the same people. For example, although the AIP and SCT programmes target the same poor and the ultra-poor, beneficiary mapping is done differently and at different times by the relevant institutions. If

these processes were synchronized with other systems of the government, inefficiency in beneficiary identification could be greatly minimized. In this regard, it is worth noting that the National Registration Bureau (NRB) has the key information of all Malawians for the national identity cards. If such information could include relevant employment information and be linked to all other systems of the government with regular updates, such a centralized system could be used to identify beneficiaries for different programmes and improve their overall efficiency.

6.2. Free education policies

The overwhelming response to the FPE policy both in terms of enrolment and completion rates highlights the importance of lifting the burden of school fees on the incomes of the poor and poorest households. By limiting the free education policy to the primary levels, the government has effectively condemned most poor households to generational poverty as the majority are not able to sustain themselves through secondary education and let alone tertiary education. As such, they are the ones who are consistently surviving on vulnerable informal jobs with lean chances of improved incomes and breaking out of poverty across generations. In this regard, the government of Malawi should explore options for enhancing the targeted free tuition programmes at the secondary level for both boys and girls. Moreover, exploring partnerships with the private sector will be key in expanding tertiary education loan coverage.

6.3. Free health access

The free health policy in Malawi is ordinarily meant to ensure that there is universal health coverage. However, this objective remains elusive due to underfunding in the sector which has seen increased gaps in the availability of drugs and essential consumables, failure to meet its objective of having a health center within an 8km radius in every community and shortages of core staff. While efforts to cover some of these setbacks have seen the increased use of the SLAs with CHAM hospitals and the increased use of the health surveillance assistants (HSAs) through regularization of their employment by including them on the government payroll and expanding the array of their roles (APC, 2017), gaps remain apparent. While leveraging on external support, increasing the public domestic financing component will be key in ensuring sustainability in health financing to facilitate effective planning in covering the pertinent gaps in the sector. Reckoning the centrality of primary health care in Malawi's health system (APC, 2017), and prioritizing the development of primary and community healthcare facilities and systems will be essential in improving the efficiency of the free health access policy. Lastly, the assessment in the report highlighted that health insurance in Malawi is not well developed. While private health insurance is largely confined to the elite and middle class (Abiiro, Bongololo-Mbera and Allegri, 2014), public social health insurance does not exist. As such, exploring its establishment remains one of the best policy options to further enhance equal access to health services beyond primary health care with net positive effects on income inequality.

6.4. Trade policies

Although Malawi has fairly liberalized its domestic market and enhanced its access to international markets through international and regional economic integration, its ability to effectively leverage these markets has been greatly undermined by its failure to enhance its competitiveness through strategic trade policies. The report shows that in most years, Malawi's trade policy has been self-defeating in its key objective of enhancing domestic productivity and inclusive participation in trade. While trade liberalization encouraged productivity and growth, it has not been effective in fostering diversification and industrial transformation as production costs remain high in Malawi. Moreover, there has been a significant distortion in the domestic markets arising from government interventions including export bans, quotas and tariffs. In this regard, enhancing consistency of the implemented policies in terms of their overall goals while meeting their respective sectoral objectives will be key in addressing several structural changes that are affecting productivity, intersectoral backward and forward linkages and hence, incomes and inequality.

6.5. Land policy

The report shows that land policy has consistently failed to facilitate the equitable distribution of the key development resource for inclusive growth and sustainable development. While successful in reducing large losses of customary land to leasehold in the 1990s, the lack of complementary policies to facilitate the

reconversion of leasehold to customary land upon the expiration of the lease agreement has resulted in the permanent loss of land for the majority of SHF which, coupled with population growth, has resulted in critical land constraints for most of the SHF. Revisiting the Land Act to allow for the redistribution of idle estate land might help redress the existing arable land issues in Malawi in the short term. However, considering that land is a static resource whose availability will remain entangled with population growth, enhancing technology internalization in the Agricultural sector will be more effective as it will enhance the sector's productivity and reduce its vulnerability to rainfall patterns.

6.6. Policy coherence

The report highlights policy incoherence as one of the critical issues affecting the potency of policies on inequality. The analysis highlights that there are several policies whose sectoral objectives and goals do not complement the goals in other sectors for a greater impact on poverty and income inequality. Incoherence issues also arise from the lack of coordination among institutions that are formulating and implementing different policies.

The analysis highlights several examples where a lack of complementarity in the overall objectives of different policies within and across sectors is undermining their individual and net effect on poverty and income inequality. For example, although the design of the FPE policy is to reduce poverty through improved basic literacy levels, its limitation to primary education does not adequately address poverty let alone income inequality as the system effectively aligns only the rich and middle income to better opportunities in the labour market. The report shows that most of the kids from poor households do not go beyond primary education which condemns them to highly vulnerable jobs in the informal sector with limited access to other productive assets and capacities for lucrative business. This effectively perpetuates generational poverty and income inequality in Malawi.

Secondly, a lack of complementarity in sectoral policy goals is observed between land and agricultural policies. While land policy until the early 1990s effectively supported estate farming in line with the overall objective of agricultural policy, most land reforms post 1994 do not support the growth of SHF despite their increasing role in agricultural growth and development following the key agricultural production and trade liberalization policies since the early 1990s. As such, very little has been done to effectively boost the productivity of SHF which is currently contingent on their land size due to low technology internalization in the sector. As highlighted above, reconversion of idle estate land to customary land is one policy option. However, as land is an inelastic resource, this option will still be caught up with population growth unless well complemented with policies that enhance technology internalization in the agricultural sector.

Thirdly, incoherence is also observed in rationalizing tariff goals for poverty reduction and growth. There is very little complementarity in the tariff reductions with domestic taxes that are meant to compensate for the loss of revenue following trade liberalization. For example, Malawi's complex tax structure which includes withholding, customs, excise and VAT somewhat distorts producer incentives and is effectively counterproductive to the escalating import tax structure which is meant to protect domestic markets and enhance industrial productivity.

Lastly, a lack of coordination between institutions in the formulation and implementation of interrelated policies is seen to bring further controversy to inequality outcomes. For example, better coordination among players in the delivery of social safety nets with other government institutions responsible for personal bio-data could significantly improve targeting which has been highlighted severally as one of the key problems undermining the efficacy of these programmes. Moreover, better coordination on taxation, trade and agricultural policies could also lead to an overall improvement in agricultural productivity, trade and government revenue which currently is being partly undermined by the lack of complementarity in the different policy tools used as the responsible institutions potentially operate independently in designing the respective policies.

In this regard, the National Planning Commission (NPC) should strengthen efforts to enhance the coordination of development and review of all policies to ensure consistency in their overall objectives and outcomes. This will be key for effective outcomes on poverty and inequality.

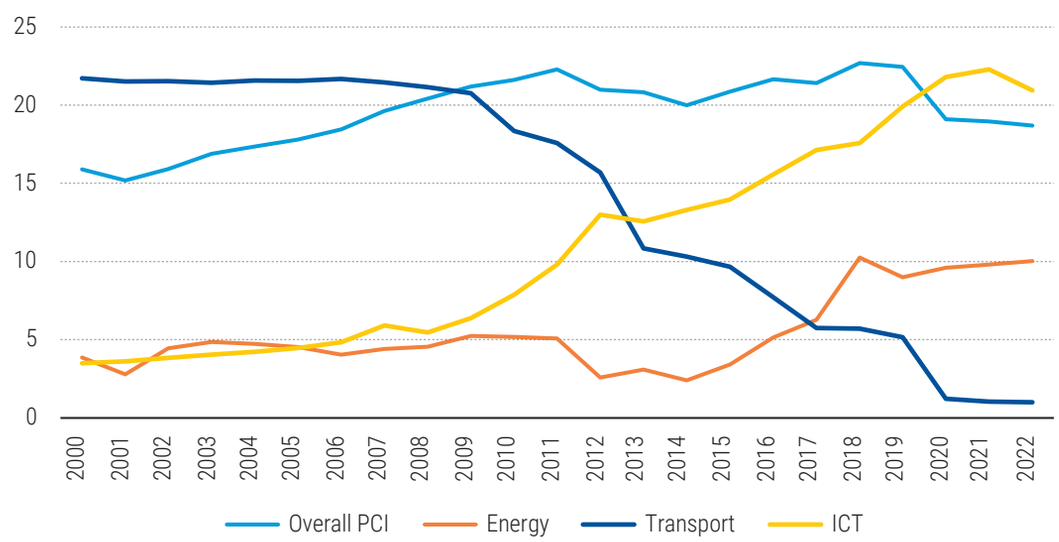
6.7. Infrastructure gaps

It is widely agreed among practitioners and policymakers that good infrastructure sets the pace of economic growth and development. The stock and quality of social and economic infrastructure including schools, hospitals, transport, water and sanitation, energy as well as information, communication, and technology (ICT) provide a solid foundation for efficient production and distribution and hence, development of viable value chains. As a landlocked country, Malawi generally faces higher transportation costs in accessing international markets relative to similar coastal countries. This highlights the importance of a good and reliable domestic transportation network, coupled with better transport networks in neighboring countries, for an overall significant reduction in its production and trade costs. Malawi's low average PCI score of 12.9 (for transport) over the last two decades suggests persistent gaps in Malawi's transport network. Moreover, a drop in the index from a high of about 22 in 2000 to 1 in 2022 further highlights a steady deterioration in Malawi's transport infrastructure particularly from 2009 (Figure 24). With roads as the main mode of transport in Malawi, the drop in the transport PCI component is a huge reflection of how the quality and quantity of the road network is a huge setback to inclusive participation in economic activities and access to essential public services. As highlighted in different sections of the report, it is largely the residents in the remote areas of the country (which largely comprises the poor) that are being disproportionately affected by the poor road network in accessing all essential services including schools, hospitals and markets relative to the urban and semi-urban dwellers.

Figure 24 further highlights that both ICT and energy infrastructure are equally underdeveloped notwithstanding some improvements in recent years. On the one hand, underdeveloped ICT entails low internalization of technology in industrial production to enhance product quality and output. On the other hand, low per capita energy generation comes with high energy costs and unreliable energy supply which also undermines industrial productivity and export competitiveness with stark implications on formal employment generation and delivery of essential public services such as health and education. It is worth noting the huge disparities in energy access across income groups in Malawi. While 42 per cent of the urban population is connected to power, only 5 per cent of the rural population is currently connected (World Bank, 2023). Moreover, electricity access among the top 20 per cent income group is 30 times higher than that of the bottom 20 per cent (World Bank, 2023), underscoring the notion that the poor's social and economic activities are disproportionately affected by the economic infrastructure gaps. As such, a balanced approach in infrastructure development across sectors is essential to foster sustained and inclusive growth and ensure better outcomes on inequality and poverty reduction.

Figure 24

Productive capacity index



Source: UNCTAD Stats, 2023

Notes: The PCI scores lie between 0 and 100, with higher values representing higher productive capacities. The overall PCI score is a geometric average of the values of the eight PCI categories, namely, natural capital, human capital, energy, transport, ICT, institutions, structural change and private sector. Transport measures the roads and railways network, and air connectivity. ICT estimates the accessibility and integration of communication systems within the population. It includes fixed line and mobile phones users, internet accessibility and server security. Energy measures the availability, sustainability and efficiency of power sources.

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Appendix

Appendix 1:

Poverty rates and GDP growth rates in Africa, 10-year averages (1990-2019)

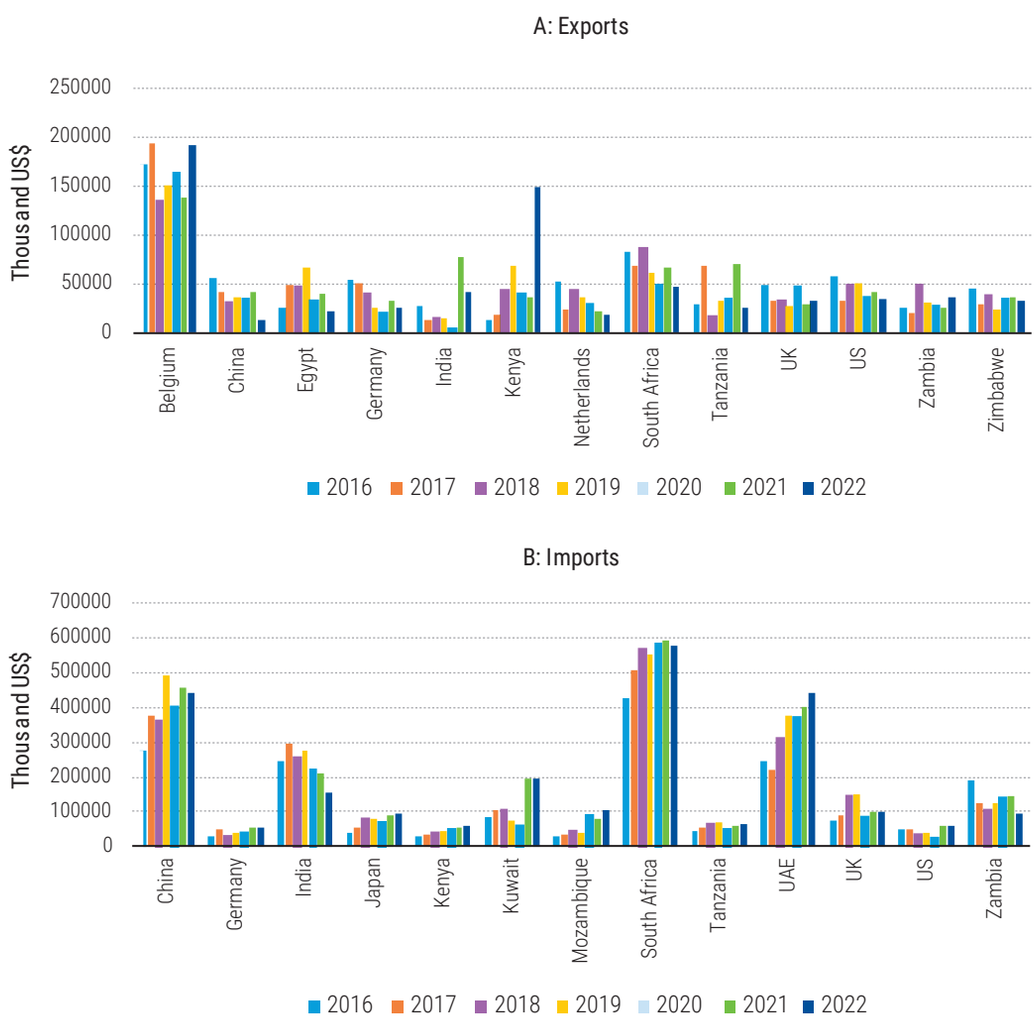
	Poverty rate at $2.15			GDP		
	1990-1999	2000-2009	2010-2019	1990-1999	2000-2009	2010-2019
Algeria	5.80		0.50	1.57	3.89	2.69
Angola		18.00	31.10	1.18	8.75	2.28
Benin		53.10	41.63	4.94	4.26	4.78
Botswana	34.10	23.40	15.40	5.40	2.35	4.73
Burkina Faso	81.00	53.65	35.05	5.12	5.29	6.00
Burundi	77.25	71.80	65.10	-1.43	2.77	2.22
Cabo Verde		15.10	4.60	10.13	7.16	2.75
Cameroon	50.40	28.55	25.70	0.18	4.09	4.28
Central African Republic	82.20	61.90		1.29	2.71	-0.19
Chad		57.80	33.75	2.22	9.61	3.43
Comoros		14.60	18.60	1.55	3.30	3.13
DRC		91.50	69.70	-5.47	3.30	6.23
Congo		49.60	35.40	0.83	4.73	0.45
Cote d'Ivoire	27.80	31.75	11.20	2.93	0.66	6.41
Djibouti		22.50	21.23			3.75
Egypt	3.23	3.00	1.33	4.49	4.98	3.80
Equatorial Guinea				34.31	21.19	-3.31
Eritrea				5.65	0.45	1.09
Eswatini	85.40	52.70	36.10	4.88	3.35	2.66
Ethiopia	58.95	34.30	29.15	2.66	8.10	9.78
Gabon		5.50	2.50	2.48	0.56	4.06
Gambia	74.10	50.70	21.60	3.11	3.50	2.88
Ghana	12.85	42.50	25.50	4.27	5.36	6.77
Guinea	64.35	50.55	19.15	4.09	2.89	6.09
Guinea-Bissau	42.45	53.20	44.20	1.30	2.64	3.93
Kenya	25.90	36.70	29.40	2.24	3.57	5.03
Lesotho	53.70	66.30	32.40	4.41	3.06	2.43
Liberia		53.30	26.75		1.45	3.13
Libya					3.85	2.74
Madagascar	69.87	72.60	80.45	1.62	3.17	2.95
Malawi	58.50	68.90	68.07	3.21	4.30	4.36
Mali	84.50	51.70	14.80	3.91	5.34	4.39
Mauritania	32.30	17.13	6.50	2.27	3.30	4.27
Mauritius		0.30	0.25	5.16	4.45	3.75
Morocco	6.55	6.05	1.40	3.21	4.77	5.15
Mozambique	82.70	75.70	64.60	6.33	7.51	5.56
Namibia		31.40	15.60	3.55	4.39	3.14
Niger	84.95	79.70	54.93	1.63	3.96	6.17
Nigeria	55.40	47.90	32.98	2.31	7.68	3.65
Rwanda		70.65	54.97	1.76	8.33	7.17
Sao Tome and Principe		20.40	19.10		4.30	4.27

Senegal	65.20	46.75	25.15	2.73	3.44	4.83
Seychelles			0.85	4.86	1.73	4.74
Sierra Leone		61.30	32.40	-2.62	6.80	5.05
Somalia			70.70	-1.48		4.87
South Africa	33.50	27.93	19.30	1.39	3.60	1.75
South Sudan		34.50	67.30		0.50	-3.95
Sudan		18.60	15.30	5.18	4.93	-0.85
Tanzania	69.30	70.10	44.80	3.27	6.36	6.31
Togo		61.00	47.23	2.62	1.60	5.72
Tunisia	9.05	3.50	0.80	5.08	4.35	1.91
Uganda	66.50	57.13	40.80	6.88	7.14	5.34
Zambia	52.63	60.73	64.95	1.31	6.82	4.89
Zimbabwe			31.87	2.91	-5.18	6.22

Source: World Development Indicators, 2023

Appendix 2

Malawi's top 13 export and import markets (2016-2022 average)

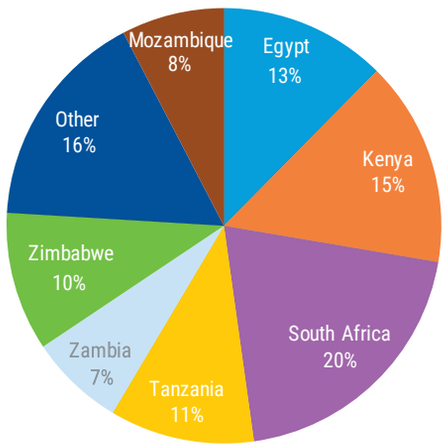


Source: UNCTAD Stats, 2023

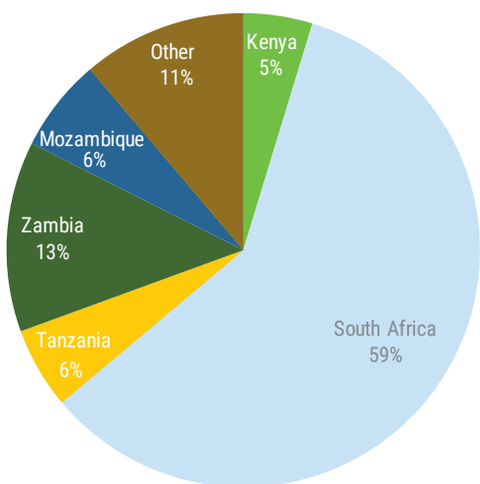
Appendix 3

Malawi's key markets in Africa, 2016-2022 Average (% share of Malawi's exports (Imports) in Africa

A. Exports



B. Imports



Source: UNCTAD Stats, 2023