POLICY BRIEF

Re-Examining the Growth-Poverty-Inequality Nexus in an Unstable Low-Income Economy: Case of Malawi

Chinyamata Chipeta

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Context

Malawi suffers from a high incidence of poverty that has not fallen significantly over the last two decades. When the first integrated household survey was conducted in 1997/98, it was found that 54.1 percent of its population was living below the national poverty line. Six years later, the proportion of people living below the national poverty line had declined to 52.4 percent, before declining further to 50.7 percent in 2010. But, subsequently, it increased to 51.5 percent in 2016, then fell again to 50.7 percent in 2019. Thus, apart from the brief period when poverty rates decreased, the rate of poverty has been stagnant, fluctuating marginally.

About one-half of the population of Malawi lives on very low incomes. These impoverished people suffer from food insecurity, undernutrition and poor health, have little education, live in environmentally degraded areas, and attempt to earn a meagre living on small and marginal farms or in dilapidated urban slums. In this policy brief, we set the stage for re-examining the problem of poverty in Malawi and how it can be reduced.

Policy research

Previous research has investigated the factors which lead to reduction in poverty, using two methods. The first is the identity approach under which poverty is decomposed into income elasticity and inequality elasticity. The second is the regression analytical framework in which poverty as the dependent variable is explained by independent variables. In this research, we have made use of the regression analytical framework, with poverty as the dependent variable; and household mean income, inequality as measured by GINI coefficient, literacy, non-farm enterprise.

The data used in this study is taken from three integrated household surveys conducted by the National Statistical Office of Malawi. The numbers of households sampled in these surveys were 12,288 in 2010-2011, 12,480 in 2016-2017, and 11,434 in 2019-2020.

Key findings

This study has re-examined the growth-poverty-inequality nexus in Malawi which is an unstable low income country. In this connection, the study has estimated the income elasticity of poverty reduction, the inequality elasticity of poverty reduction, and other elasticities of poverty reduction, using fixed effects estimators. It has reconfirmed that income elasticity is higher than inequality elasticity of poverty reduction in Malawi. But it is lower than it was in 2014 when it was elastic. It is also lower than the average income elasticity of SSA which now is only unitary, whereas in developed countries it is between 2 and 3.

A relatively low growth rate is responsible for the low reduction in poverty over time. Between 1994 and 2020, for example, growth averaged about 5 percent, below the policy target of 6 percent, which in itself is relatively low, implying that policy must target a growth rate above 6.2 percent.

The inequality elasticity has also fallen below the 214 value and now compares with only a handful of SSA countries. Together, these changes in levels of income and inequality elasticities, being comparatively low, have ultimately failed to reduce poverty rates.

An unstable poverty headcount ratio is its characteristic of Malawi. Correspondingly, the number of poor people also fluctuates. The instability in poverty headcount ratio is caused by instability in the rate of growth, which is episodic, implying that a sustainable growth rate is required to reduce instability in poverty headcount ratio. To a less extent, instability in inequality also imparts instability in the poverty headcount ratio. But the relationship between inequality and poverty headcount ratio is less clear than the relationship between income and poverty headcount ratio.

Literacy tends to impact on reduction of poverty. So improving education will reduce poverty further. Other factors that tend to impact on reduction of poverty are multiplicity of shocks, non-farm enterprises, coupons, and household size.

Policy implications

Mw 2063 envisages a reduction from 51 percent to 26 in the poverty headcount ratio between 2020 and 2030, nearly halving it in just 10 years. This is ambitious. The low income and inequality elasticities will not facilitate this change. Neither will the low rate of growth of household mean income and stagnation in economic growth.

To accelerate poverty, Malawi can attempt to increase the rate of economic growth. In this respect, it can learn from the experience of China which in 20 years reduced its poverty rate by 45 percentage points. This feat was achieved through an average rate of economic growth of 9 percent per year. Malawi is not comparable with China in terms of structure. It is far less industrialised. It is more dependent on agriculture which makes its economy unstable.

The planned growth rate for period of 20 years in Malawi is 6.2 percent. If this growth rate is realised, the poverty ratio would decrease by 27 percentage points. The likelihood is that the planned growth rate will not materialise.

Malawi can also attempt to increase mean household income, and decrease inequality, as well as attempt to increase the contribution of literacy, non-enterprises and coupons to poverty reduction. In addition, it must minimise the impact of shocks and house size.

Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

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Contact Us
African Economic Research Consortium
Consortium pour la Recherche Economique en Afrique
Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@aercafrica.org