

The state of Malawi's poor: The incidence, depth, and severity of poverty

Special points of interest:

- 65.3 percent of Malawi's population is poor. These individuals are unable to meet their basic needs.
- Poverty is worse in the rural areas. The Southern region is the poorest of the three regions.
- There is considerable variation in poverty levels within regions, with both very poor and relatively well-off districts found in the same region.
- The annual cost of eliminating poverty in Malawi is put at MK 17.3 billion in September 2000 prices (US\$ 345 million).

PMS

Poverty Monitoring System

The Poverty Monitoring system is an activity under the Poverty Alleviation Programme of the Government of Malawi. The core research activities of the PMS involve four institutions:

- National Economic Council,
- National Statistical Office,
- Centre for Social Research of the University of Malawi,
- International Food Policy Research Institute.

The poverty monitoring research program has been designed to gain a comprehensive understanding of poverty in Malawi. The findings presented here are part of a series of briefs designed to inform policy makers about the current state of poverty and the methodologies used to measure poverty.

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The number of poor in Malawi

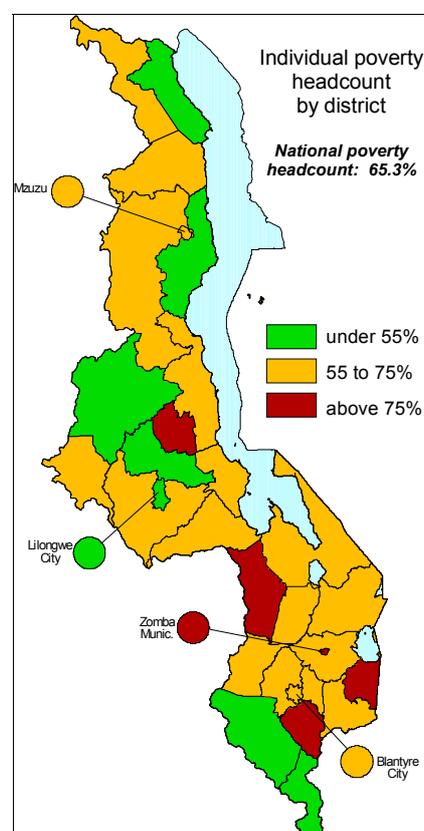
Poverty reduction is the ultimate goal of development policy. To reduce poverty, policy makers first need to know the incidence, depth, and severity of poverty. This policy brief summarizes the different poverty measures for Malawi derived from the analysis of the 1997-98 Integrated Household Survey (IHS).

Using poverty lines for four areas of the country and per capita consumption levels, the poverty headcount estimates show that 65.3 percent of the Malawian population was living in poverty in 1998, over 6 million people.

The table below provides additional details on the percent of the population which is poor by region and rural-urban.

| | Poverty headcount (percent) | Percent of Malawi's poor |
|-----------------|-----------------------------|--------------------------|
| MALAWI | 65.3 | 100.0 |
| Southern region | 68.1 | 49.2 |
| Central region | 62.8 | 40.2 |
| Northern region | 62.5 | 10.6 |
| Rural | 66.5 | 89.7 |
| Urban | 54.9 | 10.3 |

The map provides the same information by district. We see that there is considerable variation between districts in the incidence of poverty, even within the same region.



The cost of eliminating poverty in Malawi

Extrapolating the poverty gap for the IHS survey population to that of the nation as a whole, the total annual poverty gap in Malawi is estimated at MK 17.3 billion (US\$ 345 million) in September 2000 prices.

This aggregate consumption shortfall from the poverty line is an amount equivalent to about 20 percent of the gross domestic product (GDP) in the year of the survey.

This amount is the absolute minimum needed to raise the consumption levels of

all of Malawi's poor to above the poverty line. In reality there will be inefficiencies in targeting and in the administration of poverty reduction programs which will raise this cost substantially.

Note that, poverty reduction programs cannot (and should not) close the total gap through income transfers every year. Rather, poverty reduction programs should contemplate raising incomes of the poor through income generating activities.

Poverty lines

The measure of welfare used in the poverty analysis of the IHS is the total daily per capita consumption reported by a household. In the analysis, this measure is expressed in Malawi Kwacha deflated to April 1998 prices.

The poverty line – that level of welfare which distinguishes poor households from non-poor households – is also expressed in the same unit of consumption and is based on the cost-of-basic-needs for an individual. These costs are determined by considering the food requirements of an individual and his or her critical non-food consumption. Food needs are tied to ones recommended daily requirements for calories.

Using this method, poverty lines were developed for four separate areas of the country: Southern rural, Central rural, Northern rural, and Urban. The three rural poverty line areas correspond to the administrative regions of the country, but do not include the four urban centers of Blantyre, Zomba, Lilongwe, and Mzuzu. District administrative centers, *bomas*, are included in the rural poverty line areas.

The different poverty lines reflect different prices, different household demographic composition, and different consumption preferences between the poverty line areas.

Although in the poverty analysis April 1998 prices were used, the poverty lines shown here are adjusted to more current September 2000 prices.

| | Poverty line (per person per day) (Sept. 2000 prices) |
|----------------|--|
| Southern rural | MK 15.33 |
| Central rural | MK 18.30 |
| Northern rural | MK 22.04 |
| Urban | MK 50.15 |

Poverty gap and poverty severity indices

The poverty gap index is the ratio of the average extra consumption that would be required to bring all poor people up to the poverty line. The poverty gap is interpreted as measuring the depth of poverty.

The squared poverty gap index takes into account not only the consumption shortfall of the poor from the poverty line, but also inequality among the poor. This measure decreases if, for example, income is transferred from a poor individual to a poorer individual. The squared poverty gap index is often interpreted as measuring the severity of poverty.

For both indices, the higher the index, the greater is the degree of poverty in an area. These indices are important for the planning of poverty reduction programs. All things being equal, areas with the

higher indices should receive priority.

The results are shown in the table here. These two poverty indices suggest that poverty is deeper and more severe in rural Malawi than in the four urban centers. Poverty is also shown to be slightly deeper and more severe in the Southern region than in the Northern or Central regions.

| | Poverty gap | Poverty severity |
|-----------------|---------------|------------------|
| MALAWI | 0.2336 | 0.1194 |
| Southern region | 0.2535 | 0.1343 |
| Central region | 0.2118 | 0.1048 |
| Northern region | 0.2306 | 0.1107 |
| <i>Rural</i> | <i>0.2385</i> | <i>0.1220</i> |
| <i>Urban</i> | <i>0.1913</i> | <i>0.0967</i> |

Policy implications of the poverty measures

The poverty gap and poverty severity measures have important implications for the targeting of poverty reduction efforts.

- An analysis of the measures for Malawi suggest that raising the consumption of the poorest 10 percent of the poor to above the poverty line would reduce the poverty gap by 19 and poverty severity by 29 percent.
- In contrast, the poverty gap and poverty severity will decline by only 1.2 and 0.1 percent, respectively, if the top 10 percent of the poor - those poor whose consumption is just under the poverty line - are made non-poor.
- Eliminating poverty of any 10 percent of the poor, regardless of their location beneath the poverty line, would reduce the incidence of poverty by 6 percent.
- The ultra-poor headcount - those whose consumption is less than 60 percent of the poverty line - was 28.7 percent in 1998. If the consumption

of all of these individuals is brought to above the ultra-poverty line, the poverty gap would reduce by 22 and poverty severity by 46 percent.

This analysis suggests that to achieve maximum impact in reducing the sufferings of the poor with available resources, the government should reduce the poverty gap from the bottom up. Moreover, it may be more desirable to reduce poverty for a larger number of the poorest than to eliminate poverty for a smaller number of the poor. This will require identification of the poorest.

However, in any targeting effort, the challenge is to develop a feasible, accurate, and low-cost system to identify the poorest. A promising way to do this is by a “proxy means test.” This approach uses household indicators that are highly correlated with household expenditure, yet are easy to collect, observe and verify. The IHS data can be used to develop a proxy means test model for Malawi.

Other policy briefs

- *The state of Malawi’s poor: Their health*
- *The state of Malawi’s poor: Their economic characteristics*
- *The state of Malawi’s poor: Agriculture and making a living from the land*
- *Activities of the Poverty Monitoring System*
- *The state of Malawi’s poor: Who they are*
- *The state of Malawi’s poor: Their education*