



Ministry of Environment and
Climate Change Management

- Creating formal sector jobs through high rates of economic growth
- Creating incentives for green industry development and reforestation programs.
- Improve enforcement of environmental regulations on producers and developers.
- Protect the natural resources that sustain economic growth by increasing budgetary allocations to departments responsible for natural resource management.
- Encourage a transition to less resource-intensive modes of production by improving energy and transport infrastructure.
- Maintain high rates of excise duties on products which pollute the environment.

Conclusion

Adequate and affordable basic services for the poor are central to promoting environmentally sustainable healthy and liveable human settlements. The urban and the rural poor in Malawi continue to face problems in housing, clean water supply, sanitation, solid waste management and transport.

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Making the link:

Environment and Economic Development

Executive Summary

The economy of Malawi is linked to the environment in many ways. Several economic activities, including production, consumption and waste disposal affect and are affected by the environment. Ultimately, the state of environment determines the level of prosperity now and in the future. However, despite high economic value of natural resources and their role in the economy, they continue to be used unsustainably.

The Malawi Growth and Development Strategy (MGDS) II (2011-2016) identifies Climate Change, Natural Resources and Environment Management as one of the key priority areas for generating rapid economic growth necessary for long term sustainable economic development. This brief explores the linkages between environment and economic development in Malawi.

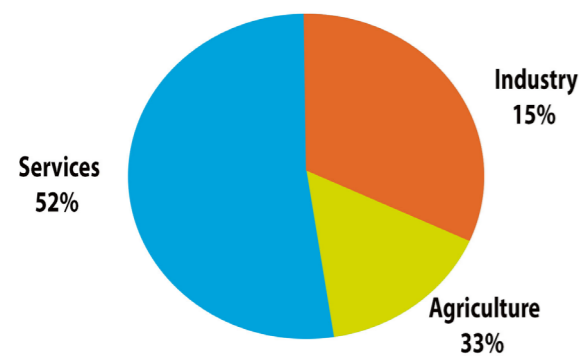
Introduction

The economy of Malawi is linked to the environment in many ways. Several economic activities, including production, consumption and waste disposal affect and are affected by the environment. For example over 90% of the value of the country's exports derives from natural resources (GoM 2010a), and 84% of people employed are engaged in natural-resource dependent occupations (NSO 2009).

Size and structure of the economy

Environmental sustainability is one of the most pressing challenges facing the economy of Malawi. The country's Gross National Income (GNI) at 2008 market prices totalled K441, 428.40 Billion, representing a per capita income of K33, 784, (US\$240) (GoM, 2010a). Natural resources sector services (fisheries, wildlife, forest), agriculture and industry contribute 52%, 33% and 15% respectively (Figure 1). This means that economic growth and poverty alleviation initiatives are supported almost totally by the environment. However, despite high economic value of natural resources and their role in the economy, they are not used in a sustainable manner. Figure 1 below shows distribution of GDP by sector in 2008.

Figure 1.2: Sectoral Distribution of GDP in 2008



Source: Government of Malawi, Economic Report 2010

Poverty Distribution in Malawi

A recent report indicates that poverty has declined from 52.4% in 2005 (NSO, 2005) to 39% (UNDP, 2010), mainly attributed to increased food production facilitated by the subsidized fertilizer programme; and recent high rates of economic growth (GoM 2010a). As a consequence, this high level of poverty results into high dependence on natural resources leading to environmental degradation. Similarly, increased surface runoff is linked to the eutrophication of rivers

and Lake Malawi, and general soil degradation, both of which could have negative economic consequences.

Impacts of Environmental Degradation

Unsustainable use of natural resources adversely impacts on the rate of economic growth in Malawi. For example, it has been estimated that Malawi's GDP would be higher by 5.3% (MK26.6 billion) per year were it not for unsustainable use of natural resources (Yaron et al. 2010). This is much higher than the 2009 budget for Ministry of Education, Science and Technology and Ministry of Health. The main contributor to annual revenue loss due to resource degradation are forestry degradation (47.8%), soil degradation (33.8%) and (14.7%) due to unsustainable fishing.

Economic Development and Strategies

The official tool for pursuing sustainable development is the Malawi Growth and Development Strategy II (MGDS II), which is the country's medium-term (2011–2016) development strategy. It is designed to enable Malawi to realize the aspirations of Vision 2020 and targets of MDGs by creating wealth through sustainable economic growth and infrastructure development as a way of reducing poverty.

The document identifies priorities within priorities, which are crucial for effective and efficient resource allocation and generating rapid economic growth necessary for long-term sustainable development. Among the priority areas are Climate Change, Natural Resources and Environment Management, which addresses environmental issues directly.

Threats to the Environment

Due to global economic meltdown, emerging economies and low income developing economies including Malawi have been affected. For example, the crisis first adversely affected stock markets, reduced foreign direct investment and contributed to a 24% fall in investment in 2009. Further, reduced remittances from abroad has negatively impacted on household incomes which may have created pressure on the environment by causing people to over-exploit natural resources to survive.



Similarly, high population density and dependence on subsistence agricultural production in the absence of other economic opportunities are among the underlying factors causing environmental degradation.



This is exacerbated by poverty because, in order to subsist, a large proportion of the population rely on what they can forage from natural resources causing ecosystem degradation. Thus, environmental

degradation exacerbates poverty which leads into a vicious cycle.

In the same way, inflation exerts pressure on the environment by reducing the real value of government expenditure earmarked for rehabilitating the environment, and decreasing the real value of user and pollution charges. It also exerts pressure on the environment through an increase in investment in agriculture for food production, and increases in forestry and fisheries harvesting so as to offset the effects of inflation on real household incomes.

Environment and National Savings

One of the components of a nation's wealth is natural capital. This consists of things such as forests and soils. Recently, research has suggested that forestry contributes significantly more to GDP, roughly 5.3% of the total in 2008 (Yaron et al. 2010). Clearly, Malawi's long term economic growth can be jeopardized if the natural resources can be depleted. Therefore, good management is needed if it is to contribute fully to the increasing output and prosperity.

Policy Responses and recommendations

While government is pursuing monetary and fiscal policies that will maintain macroeconomic stability in terms of low inflation, low interest rates, and a stable exchange rate, there is also need to address the drivers of environmental change that are structural in nature by:

- Improving the quantity, affordability and reliability of supply of alternative sources of energy;
- A reduction in population growth rate from 2% to 1.5 % by lowering fertility rates through advocacy programmes;