Spending on Safety Nets for the Poor: How Much, For How Many? The Case of Malawi

William James Smith
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SPENDING ON SAFETY NETS FOR THE POOR: HOW MUCH, FOR HOW MANY? THE CASE OF MALAWI
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ABSTRACT

The paper looks at the general question of affordability of safety net programs in low income countries such as Malawi where a large proportion of the population are very poor subsistence farmers. With a very tight budget, and significant numbers of absolute poor, any program large enough to have a substantial impact would be extremely costly. However narrow targeting is difficult, both because the data base does not allow the authorities to identify particular groups or households (for example even the most basic attributes like age, landholding, and income are generally not known with any accuracy); and because the administrative capacity to target is very weak. The author examines what the objectives of public safety net programs should be under these conditions, and which groups of beneficiaries it makes most sense to support. The paper analyzes the cost-effectiveness of existing programs in depth, including public works, food distribution, and a free fertilizer distribution program. The paper concludes that programs must contribute to some wider development goal (to minimize the fiscal trade-off) and as far as possible be self-targeting (to overcome the information and administrative constraints). In conclusion a specific package of programs for the next 10 years is recommended.

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This paper presents analytical work done as background to a joint government-donor effort to assess the appropriate safety net strategy in Malawi, in 1999. The document however is the responsibility of the author, and does not necessarily reflect the views of the World Bank, the government of Malawi, or of the other donors involved, although its findings have been discussed widely. Valuable contributions and comments were provided by Kalanidhi Subbarao, Maxton Tsoka, Rob Geddes, Judith Appleton, Kevin Billings, Steven Devereux, Trina Haque, Paul Harnett, Philip White, Lawrence Kachikopa, John Rook, Bob Leverington, Marie Lisa Santonocinoto, Ana Christina Amaral, Sanjay Kotecha, and Bob Liebenthal. Gene Tidrick and Harold Alderman served as Peer Reviewers for the original work. The report is based on missions to Malawi in March and July of 1999; as well as consultations with numerous villagers, field workers and program managers, representatives of civil society, government officials, donors, and NGOs.
Exchange Rate

Malawi Kwacha 44 = US$ 1 (mid-1999)

List of Acronyms

ADMACR Agricultural Development and Marketing Corporation
BNPL Basic Needs Poverty Line
CPAR Canadian Physicians for Relief and Development
DfID Department for International Development
EMOP Emergency Operation
EPA Extension Planning Area
ESNP Emergency Safety Net Operation
EU European Union
FEWS Famine Early Warning System
FFW Food for Work
GDP Gross Domestic Product
Ha. hectare
HH Household
K. Kwacha
m. million
MASAF Malawi Social Action Fund
MEGS Maharashtra Employment Guarantee Scheme
MoHP Ministry of Health and Population
NEC National Economic Council
NGO Non-Government Organization
NSSA National Survey of Smallholder Agriculture
p.a. per annum
p.c. per capita
PWP Public Works Program
SPI Starter Pack Initiative
UNDP United Nations Development Program
WFP World Food Program
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A Safety Net Strategy for the Poor – How Much, For How Many?

Introduction

Malawi typifies the problems of trying to provide a public safety net in very low-income countries:

- a large proportion of the population are absolutely poor; with incomes around the subsistence minimum; and they are also prone to severe shocks (such as drought, and the widespread threat of AIDS);
- growth is not likely to be rapid enough – at least in the near-to-medium term – to dramatically reduce the numbers of the poor;
- with such a large share of the population in poverty, and with little surplus to redistribute, it is not clear what role safety net transfers should play;
- the data base is weak, making it difficult to identify and target the poorest;
- there is limited administrative capacity, making it difficult to manage complex programs; and,
- although there is no formal safety net program, a lot is already spent on transfers under various ad hoc donor initiatives, but with little impact on poverty.

This paper looks at the desirability of public safety nets in the case of Malawi: how big a role they should play in the development strategy, how much it makes sense to spend on them, and what the best choice of programs might be.

The World Bank’s earlier analysis of household survey data suggested that there are about 4.8 million absolute poor in Malawi. A more recent poverty profile shows that something like 65% of the population live below the current basic needs poverty line; and that 29% constitute the ‘ultra-poor’, surviving on less than US 25 cents per day. By any measure these are clearly among the world’s poorest people.

At the same time projections show that a GDP growth rate of about 6% p.a. would be required over the next ten years, just to prevent the number of poor from increasing. To put this in perspective, growth in Malawi has averaged just 2.9% p.a. over the past 20 years. Table 1 shows the number of poor projected under various GDP growth rates, assuming that the growth is distributionally neutral:

<table>
<thead>
<tr>
<th>Table 1 - Projected Number of Poor</th>
<th>1998</th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>4% GDP Growth Rate</td>
<td>4.2</td>
<td>4.3</td>
<td>4.6</td>
<td>4.9</td>
</tr>
<tr>
<td>6% GDP Growth Rate</td>
<td>4.2</td>
<td>4.1</td>
<td>4.0</td>
<td>3.9</td>
</tr>
</tbody>
</table>
Obviously under any scenario there are going to remain a very large number of very poor people in Malawi for the foreseeable future. It therefore makes sense to consider some kind of safety net or transfer program. However with a per capita income of less than $200 equivalent, the surplus available to redistribute under any sustained “safety net” program is relatively small. At the same time, the large proportion of the population that are absolutely poor mean that:

(a) any program large enough to have a substantial impact would be extremely costly; and,
(b) affordable options will likely only be able to reach some fairly limited portion of the population in need, and/or to have a limited effect on household incomes.

Under these conditions the challenge for Malawi (and indeed for very low income countries generally) is to carefully consider the options for public policy, and to be highly selective in choosing interventions which are cost-effective in delivering benefits to the poorest.

Historically there has been no coherent strategy, and there remain in Malawi a number of uncoordinated, fairly small-scale interventions. In the face of obvious need, the government and donors have launched ad hoc, and often not very consistent programs to address the needs of the poor in the short run. Currently, for example, there are over 15 public works, feeding, and transfer programs funded by various donors (see Chapter 4). While each of these has merits, most do not reach more than a few tens of thousands of beneficiaries, nor do they deliver sustained benefits to the poor.

During 1999 therefore the government and donors undertook a joint piece of work to develop a national safety net strategy. The objective was to pull together what is known of poverty in Malawi, and of experience with programs in Malawi and elsewhere, and to come up with an agreed safety net program for the next ten years. This paper is presented to share some of the analytical findings more widely, to help those confronting the issues of public safety nets in very poor countries.

The central questions asked were:

- What are the realistic objectives of a publicly funded safety net – given the nature and characteristics of the poor; and revealed political and social preferences?
- Which groups (or sub-groups) among the poor should benefit?
- What choice of safety net programs is most cost-effective in terms of achieving the desired objectives?

The analysis then examines three key issues that arise in considering these questions: the affordability and appropriate size of transfer program; the problem of targeting approaches – how much selectivity is appropriate, and how much is feasible; and finally the questions of institutional capacity.
It must be emphasized that the objective is not to lay out a poverty alleviation strategy for Malawi, but rather to look more narrowly at what it makes sense to do in terms of direct transfers to the critically poor. The paper looks at programs such as public works employment, food and feeding programs, subsidies and transfers; but it does not include programs designed to raise incomes more permanently, such as agricultural, credit, or income-generating schemes, which are treated as part of the broader growth and poverty reduction strategy.

The main vehicle for poverty reduction needs to be growth – and especially pro-poor growth that absorbs labour. To achieve this in Malawi depends on efforts to diversify agriculture, to shift to higher-productivity activities, and to ensure the education, infrastructure, and financial markets are in place to facilitate off-farm employment. Within this framework, safety nets represent but one, limited aspect of the poverty reduction strategy. It is important to recognize, however, that safety net transfers are not just an effort to improve the immediate consumption of the poor, but also represent an investment in Malawi's future – by ensuring the productivity of the next generation, and preventing the economic collapse of families in times of stress.

Structure of the Report

This report presents the findings of that work. Chapter I describes what is known of poverty in Malawi, and what implications that has for the choice of safety net interventions. Chapter 2 lays out the broad fiscal options for a safety net strategy open to the government and donors, and very roughly, what each might cost. Chapter 3 looks in more depth at the complex question of what the objectives of a safety net might be in a society like Malawi, and the possible target groups. Chapter 4 summarizes existing programs, and Chapter 5 evaluates the pros and cons of various program options. Finally Chapter 6 presents a recommended safety net program, and a program of immediate work.
Chapter 1 - The Nature of Poverty In Malawi

Not only is Malawi among the world's poorest countries, with a per capita income in 1998 of only US$180; but it also - simultaneously, and somewhat perversely - suffers from an extremely skewed distribution of income, with a Gini coefficient lower only than that of Brazil. As a consequence poverty is both widespread and deep. Figure 1, below, illustrates this graphically, showing household incomes from the poorest 10% (decile 1) to the richest 10% (decile 10).

By and large, Malawi remains in the early stages of the transition out of subsistence agriculture. Most of the population are still reliant on cultivation of maize by hand for their survival, and have limited involvement in the cash economy. There is significant production of tobacco, and tea and sugar, but the benefits are concentrated among a fairly small share of the population. This is in part a legacy of the previous regime, which was characterized by an inequitable distribution of land, and policies which favoured large estate-owners.

Malawi is overwhelmingly rural: only about 15% of the population lives in cities, and only perhaps a tenth of the labour force is engaged in formal sector wage employment. The strategy being pursued - of intensification of smallholder agriculture - is the right one, given the limited range of other growth options in the near-term, but there are some fundamental constraints: the absence of private markets, low levels of education, and over-reliance in the past on a system of hybrid maize and fertilizer, which has retarded agricultural diversification; all limit the scope for rapid growth, and the pace at which smallholder incomes can be increased.
Recent Developments

At the same time, the nature of poverty in Malawi is evolving. There have been a number of developments over the past five years that have had a fundamental impact on the composition of poverty. These include:

(i) a population that is increasingly less dependent on subsistence agriculture; partly because there has been a shift into cash crops on the part of smallholders -- into tobacco, but also into traded food crops;

(ii) as a result of population pressure and the sub-division of holdings, there is growing landlessness, as well as increasing urbanization; and therefore a greater dependence on off-farm incomes;

(iii) in addition, the dismantling of the previous system of state-controlled maize distribution and pricing of agricultural inputs has resulted in greater volatility in prices and incomes.

As a consequence of all of these factors, there has almost certainly been a widening of the income distribution among the poor (who previously had uniformly low incomes). There have been winners and losers; qualitative surveys suggest that those in the cash economy, and some of the 'middle poor' are better-off than they were, but there is no doubt that some households are substantially worse off, and that there is, in addition, a growing new category of urban poor.

Meanwhile there was increasing concern in Malawi, and among the donor community, with the food security situation throughout the second half of the 1990s. Food insecurity is of course primarily a problem of insufficient purchasing power, although it is exacerbated by national foodgrain deficits in some years. Certainly there is no doubt that it is a cause of great political and popular concern. While the lack of data on food consumption and incomes makes it difficult to draw firm conclusions, all of the fundamentals suggest that there is a very large proportion of the population living in circumstances of such acute poverty as to be unacceptable - both to the government and to the international community. As a result there is a general consensus that some kind of more consistent safety net program is needed.

1.1 The Poverty Profile

An Integrated Household Survey has recently been completed, and an updated poverty profile is being produced at the time of writing. Data by income decile is not yet available, however the preliminary results suggest that the story told by the earlier data still broadly describes the poverty situation in Malawi.

Having updated the estimated income distribution, we have constructed the following rough profile for a preliminary discussion of targeting issues.
Table 2 - Approximate Distribution of Income and Attributes of Income Classes

<table>
<thead>
<tr>
<th>Income Deciles</th>
<th>Adult-Household Equivalent Size (MK/capita)</th>
<th>Estimated 1998 Income (MK)</th>
<th>Average Landholding (Ha./HH)</th>
<th>Average Landholding (Ha./capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5.4</td>
<td>101</td>
<td>0.25</td>
<td>0.05</td>
</tr>
<tr>
<td>2</td>
<td>5.5</td>
<td>246</td>
<td>0.46</td>
<td>0.08</td>
</tr>
<tr>
<td>3</td>
<td>5.2</td>
<td>396</td>
<td>0.55</td>
<td>0.11</td>
</tr>
<tr>
<td>4</td>
<td>5.2</td>
<td>570</td>
<td>0.65</td>
<td>0.13</td>
</tr>
<tr>
<td>5</td>
<td>5.2</td>
<td>773</td>
<td>0.74</td>
<td>0.14</td>
</tr>
<tr>
<td>6</td>
<td>5.1</td>
<td>1029</td>
<td>0.81</td>
<td>0.16</td>
</tr>
<tr>
<td>7</td>
<td>4.9</td>
<td>1368</td>
<td>0.91</td>
<td>0.19</td>
</tr>
<tr>
<td>8</td>
<td>4.9</td>
<td>1880</td>
<td>1.07</td>
<td>0.21</td>
</tr>
<tr>
<td>9</td>
<td>4.5</td>
<td>2779</td>
<td>1.12</td>
<td>0.24</td>
</tr>
<tr>
<td>10</td>
<td>4.2</td>
<td>5930</td>
<td>1.55</td>
<td>0.37</td>
</tr>
<tr>
<td>Average</td>
<td>5.0</td>
<td>1507</td>
<td>0.79</td>
<td>0.16</td>
</tr>
</tbody>
</table>

Source: NSSA; 1992, updated to 1998 prices

Using the updated poverty survey, a picture emerges similar to that painted in the earlier poverty studies: with about 65% of the population having incomes below the Basic Needs poverty line, and 29% existing below the ‘ultra-poor’ poverty line of about K.6 per day (US 25 cents). It should be emphasized that the raw income data is suspect, and almost certainly understates actual incomes. The important point is not so much the absolute levels of income, but the distribution (which we believe to be fairly accurate); the picture that emerges remains valid: of a large proportion of the population – about the 2nd through 5th deciles – living at very low consumption levels, and a bottom 10-20% or so who are so poor as to be living at the margins of survival.

1.2 Characteristics of the poor

A few other characteristics emerge from the poverty profile which can potentially help us think about who should be targeted by safety nets in Malawi. One is the strong correlation between poverty and landholding size. As can be seen from Table 2, average household landholdings are universally small among the poor – at about 0.5 hectare – but are dramatically lower for the very poor, averaging only 0.25 ha. per household in the lowest decile.1

Another characteristic that may be helpful in defining who safety nets should target is that of female-headed households (FHH). There is an unusually high proportion of FHHs in Malawi generally (representing about a quarter of the rural population) and a

1 The more recent IHS data shows higher average landholdings among the poorest – close to 0.7 ha. per household - although it is not clear whether the two surveys are methodologically comparable.
disportionate number among the poor. The recent household survey classifies 63.5% of rural female-headed households as below the poverty line. Micro-level studies suggest that they are particularly labour-constrained, and therefore less likely to be able to take advantage of off-farm employment opportunities, as well as being unable to optimally exploit their own landholdings. Female-headed households suffer triple-jeopardy in this regard: (i) they have fewer potential adult workers than other households; (ii) there are more demands on the primary adult breadwinner - because she also has primary responsibility for childcare and household management; and (iii) she is - by both custom and skills - less readily employable outside the household, and is typically paid less when she is employed.

Thirdly, there is a growing group of orphans, mostly as a result of AIDS, estimated to reach about two-thirds of a million within the next few years. These orphans are generally unable to provide for themselves, and at the moment are supported, if at all, by a combination of relatives, their communities, and limited charity programs run by churches and NGOs. However traditional support systems are increasingly strained, and while one wants to avoid duplicating community support, some kind of carefully designed program that reinforces the grandparents, communities, and NGOs that are struggling to cope with the growing number of orphans almost certainly needs to be part of the safety net strategy.

1.3 Risks Faced by the Poor

The poor in Malawi face four distinct types of risk. Firstly, there is the seasonal shock of annual food shortages and price increases. Each year food stocks run low by about November, and for the next three or four months many households subsist on one meal a day, or on wild foods. At the same time, due to scarcity, the price of maize increases dramatically, sharply reducing their capacity to buy food from the market. The following table illustrates the ratio of lean-season (November-March) to post-harvest (April-June) maize prices, in nominal kwacha per kg.:

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-Harvest Price</td>
<td>0.27</td>
<td>1.19</td>
<td>1.98</td>
<td>2.46</td>
<td>3.87</td>
</tr>
<tr>
<td>Lean-Season High</td>
<td>0.38</td>
<td>3.53</td>
<td>3.22</td>
<td>7.62</td>
<td>9.53</td>
</tr>
<tr>
<td>Intra-season Increase</td>
<td>41%</td>
<td>196%</td>
<td>62%</td>
<td>209%</td>
<td>146%</td>
</tr>
</tbody>
</table>

This is a predictable annual shock, but the poor have little way of insuring against it, and it severely affects their welfare, resulting in extreme nutritional stress for many households.

Secondly, Malawi is vulnerable to the periodic droughts that affect eastern and southern Africa, as the following graph indicates. With the population (and particularly the poor) relying heavily on rainfed agriculture, these have tremendous impact on household welfare. Major droughts in 1991/92 and 1993/94 resulted in widespread hunger and hardship. The poor are particularly hard-hit, as they tend to have fewer...
diversified sources of income, and are more susceptible to the sharp prices rise, and contraction in off-farm income opportunities, that also accompany droughts.

Thirdly, vulnerability to external conditions (such as commodity price swings, and disruption of transport links), combined with inconsistent economic management, have resulted in large periodic macroeconomic shocks. Cumulative devaluations between 1982 and 1992 amounted to 131% in nominal terms. In 1994 the kwacha was floated, and by the end of the year had depreciated 300% against the US dollar; and in the past two years it has lost a further two-thirds of its value. Given the openness of the Malawi economy, these shocks quickly translate into significant inflation. Table 3 below, for example illustrates the price increases faced by the poor following last year’s devaluation:

**Table 3 - Selected Prices Following August, 1998 Devaluation**

<table>
<thead>
<tr>
<th></th>
<th>Pre-Devaluation</th>
<th>Post-devaluation</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize (administered price)</td>
<td>K.195</td>
<td>K.382</td>
<td>+96%</td>
</tr>
<tr>
<td>Maize (private market)</td>
<td>K.250</td>
<td>K.440</td>
<td>+76%</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>K.400</td>
<td>K.820</td>
<td>+105%</td>
</tr>
<tr>
<td>Baking flour</td>
<td>K.450</td>
<td>K.1,000</td>
<td>+122%</td>
</tr>
<tr>
<td>Local bus fare</td>
<td>K.5</td>
<td>K.10</td>
<td>+100%</td>
</tr>
</tbody>
</table>

a/ prices are per 50 kg. Bag. Source: Devereux, 1999

Fourthly, there is the threat of AIDS. Malawi has one of the world’s highest rates of HIV prevalence, with an estimated lifetime risk of dying of AIDS of about 45%. AIDS tends to affect those in the most productive age-groups -- according to WHO, in Malawi the probability of dying between the ages of 15 and 59 is a staggering 63% for males, and 60% for females -- and almost every family in Malawi is affected, either directly or indirectly, by the loss of a breadwinner to AIDS. While cross-country evidence shows that households are remarkably resilient to such losses, the magnitude of
the pandemic in Malawi is such that traditional coping mechanisms are overwhelmed, and there are increasingly many households where both parents have died.

We do not know enough to be able to quantify the relative importance of these risks in affecting consumption of the poor; and this is an area that needs further analysis (see discussion in Chapter 3.). however, during the consultative process the over-riding importance of the annual lean-season shortfall in consumption was emphasized again and again as the most critical issue facing the poor.

These considerations also underline the importance of locating safety nets in a wider development context. It is important not to lose sight of the fact that in Malawi issues such as land reform, the pattern of growth pursued, and the nature of agricultural diversification, will have more impact on reducing risk (and of course on raising incomes) than any explicit safety net measure. Furthermore, some forms of risk can be addressed in the medium-term by means other than safety nets – for example AIDS risk can be reduced by behavioural change, and the risk of seasonal price rises by better functioning private storage and trade.
Chapter 2 – Affordability: Broad Options For a Safety Net Strategy

Magnitude of the Problem and Costs

To lay the basis for a discussion of costs and targeting, we first need to consider some very broad options for possible transfers. One could, for example, consider raising the incomes of everyone below the poverty line to the minimum subsistence level, or alternately, providing for some proportion (say a third) of essential food requirements, on the grounds that this accords approximately to the shortfall during the four-month lean season.

Very simplistically, the following are the approximate costs per person of some such transfers in Malawi:

<table>
<thead>
<tr>
<th>Approximate Cost per Person per Year (1998 Prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To raise incomes of the poorest 20% by a third: K 500 (US$11.50)</td>
</tr>
<tr>
<td>To raise incomes of the poorest 40% to the Basic Needs Poverty Line: K 950 (US$22)</td>
</tr>
<tr>
<td>To provide equivalent of 1/3 of minimum food requirement: K 350 (US$8)</td>
</tr>
</tbody>
</table>

Given the numbers of poor involved, a safety net program would probably have to reach a minimum of something like 10-20% of the population to be meaningful. Just illustratively, a program designed to reach the poorest 15% of the population, and transfer only $1/month to them, would cost something like US$34 million per year.

Affordability and Opportunity Costs

Malawi's annual budget is currently about $500 million (K.21 billion in 1998 prices); of which the discretionary recurrent budget\(^2\) is about $180 million (K.8 billion). A program costing $34 million p.a. is therefore just about affordable – it represents about 3% of GDP, 20% of recurrent spending, and about 10% of annual aid inflows. But there are significant opportunity costs involved in funding what is essentially current consumption at the expense of investments that could raise incomes of the poor more permanently (such as roads, or education); or of other expenditures that could immediately improve welfare of the poor at current income levels (such as primary health care, or rural water supply).

Evaluating these trade-offs is difficult, but to give an idea, in Malawi the $34 million (K.1.5 billion) per year that such a program would cost is equivalent to the annual salaries for 40,000 primary teachers; or is about double the current budget of the

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\(^2\) Regular budget, net of pensions and debt payments.
Ministry of Health. This raises some fundamental questions: as to whether either taxpayers or donors are willing to fund such transfers; and if so, at the expense of what other programs they might otherwise finance?

Conversely, we might want to ask what, for a given amount of expenditure allocated to safety nets, Malawi would be able to finance in the way of transfers, subsidies, and the like. Suppose 1% of GDP were to be allocated to a transfer program, this would finance a transfer of K.190 ($4.50) per capita to the poorest 20% of the population (representing about 10% of the minimum consumption income), or alternately provide 12% of the population with the equivalent of four months' of maize. Table 4 illustrates very roughly the amount that could be transferred for a given allocation of expenditures:

Table 4 - Illustrative Transfers Possible for a Given Level of Funding
(1998 Prices)

<table>
<thead>
<tr>
<th></th>
<th>1% of GDP</th>
<th>2% of GDP</th>
<th>5% of Discretionary Public Expenditure</th>
<th>10% of Aid Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of per capita transfer to poorest 20% (a)</td>
<td>K 190 ($4.60)</td>
<td>K 400 ($9.30)</td>
<td>K 300 ($7.00)</td>
<td>K 560 ($13.10)</td>
</tr>
<tr>
<td>Share of population provided w/ 4 months worth of food (b)</td>
<td>13%</td>
<td>25%</td>
<td>19%</td>
<td>35%</td>
</tr>
<tr>
<td>Amount of universal Maize subsidy (MK/kg.) (c)</td>
<td>K 1.80</td>
<td>K 3.60</td>
<td>K 2.65</td>
<td>K 5.00</td>
</tr>
<tr>
<td>Quantity of free fertilizer Per household (d)</td>
<td>13 kg.</td>
<td>25 kg.</td>
<td>19 kg.</td>
<td>34 kg.</td>
</tr>
</tbody>
</table>

(a) Assuming efficiency of 75%; (b) Assuming $8 per capita, and 75% efficiency; (c) Assuming marketed maize of 300,000 mT. subject to subsidy; (d) Assuming costs of K.800/50kg., 2.3 million HH, and 15% administrative costs.

There is, of course, no way of saying what the 'right' amount to spend on safety nets is. However it seems clear, given the critical need for investment in long-term growth\(^3\), that it should be strictly limited. At the same time, the pervasive poverty, and the fact that much of public expenditure does not reach the poor, argues for allocating some proportion of spending to direct transfers. To some extent spending on safety nets should be seen as an investment in future productivity and human capital, rather than a pure consumption cost. The opportunity cost problem can also be reduced by selecting instruments (like public works) that contribute to lifting the constraints to income growth in the longer run. Part of the answer to how much it makes sense to spend depends on what objectives decision-makers want to achieve with safety nets, and how wide a coverage of the population is desired. This is the subject of the next chapter.

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\(^3\) For example-- for education (currently there are only secondary school places for about 7% of those leaving primary school), and infrastructure (only 4% of the population currently has electricity).
Chapter 3 – Objectives and Target Groups

3.1 The Debate Over Objectives

There is much debate over what the objectives of a safety net - and of social protection measures more broadly - should be in Malawi. Table 5 summarizes the typography of safety net objectives that one can think of.

Table 5 - Consumption Risks and Possible Objectives of a Safety Net in Malawi

<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>Examples</th>
<th>Affected groups</th>
<th>Frequency/ timescale</th>
<th>Numbers affected</th>
<th>Appropriate response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disasters, shocks</td>
<td>Drought</td>
<td>Whole regions, most agriculture dependent households</td>
<td>Occasional, transitory/up to 12 months</td>
<td>Up to 100% in affected areas</td>
<td>Disaster relief (food, inputs, cash) in short term, diversification and preparedness measures in longer term</td>
</tr>
<tr>
<td></td>
<td>Flood</td>
<td>Whole communities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural failures of development, (deepened by precipitous adjustment shocks)</td>
<td>Severe rural &quot;lean period&quot; food stress</td>
<td>Labour or land scarce smallholders</td>
<td>Chronic/2-4 months each year</td>
<td>2-3 million</td>
<td>Productivity enhancements, land tenure measures, micro-credit/IGAs, alternative employment, self-targeting safety nets</td>
</tr>
<tr>
<td></td>
<td>Growing urban poverty</td>
<td>Urban unemployed, working poor.</td>
<td>Chronic/year-round</td>
<td>120,000?, growing</td>
<td>Employment, microcredit, self-targeting safety nets</td>
</tr>
<tr>
<td>Personal adversity</td>
<td>Disability, disease (AIDS), accident, crime</td>
<td>Disabled, elderly or orphans without carers</td>
<td>Chronic/year-round</td>
<td>600,000?, growing</td>
<td>Cash and/or food transfers</td>
</tr>
</tbody>
</table>

Source: [P.White]

Following substantial public consultation, two views emerged: the general view of Malawian civil society is that given the depth of poverty a fairly widespread program of support – say for bottom third of the population – is probably justified. Among some Malawian leaders, donors and international NGOs, on the other hand, there was more concern that a widespread program would create dependency, and undermine other development initiatives, and that therefore a more selective approach should be taken.

Whether this is true or not depends in part on what view policy-makers take of whether chronic poverty is transitory or permanent - that is, on whether very poor households could realistically be expected to rise out of poverty as a result of other interventions, and/or of broad economic growth, in the foreseeable future. It also depends on the proportion of poor households who remain among the chronically poor on
a continuous basis – as opposed to ‘cycling’ in and out of poverty year to year – although unfortunately there is no data available to allow us to assess this in Malawi.

Another aspect of the debate is whether safety nets should be designed *primarily* to address shocks (eg. drought years), or to raise incomes to relieve chronic poverty more generally. The answer to this depends how tightly focused society wants safety nets to be on the very poorest; as opposed to serving as a more general insurance policy for a broader spectrum of the population.

Chapter 2 identified a number of important risks faced by the poor: large seasonal food price rises, drought, economic shocks, and AIDS. The second-round question becomes how can these risks be insured against cost-effectively, and which should be insured against first? Part of the problem is measuring them in way that is meaningful for designing public interventions. All of the risks outlined above contribute to variance in consumption, but without knowing how much each contributes, we don’t know whether it is better, as a social protection measure, to devote public resources to – for example – financing agricultural credit (to allow farmers to purchase agricultural inputs), or to smooth inter-seasonal price variation by providing a targeted foodgrain subsidy in the lean season.

These issues are still under discussion, but a consensus seems to be emerging that:

(a) as far as possible safety nets in Malawi need to be productivity-enhancing (for example in the form of public works, or agricultural inputs supplementation), rather than pure transfers – both to reduce the risk of dependency, and to maximize long-term income growth among the poor; and,

(b) recognizing that the question of objectives is complex, and is not going to be resolved overnight, that in the first instance, safety nets should be selective of limited sub-groups that everyone can agree are needy, while in parallel the policy debate over objectives can continue, further data can be gathered, and experience gained in piloting approaches.

### 3.2. Possible Target Groups

*Who are the logical beneficiaries of a safety net program in Malawi? and how could one target them?*

One of the central questions surrounding any safety net program is who the beneficiaries should be. In Malawi, one can think of three broad categories of target groups:

- There are “The Poor” broadly-defined; that is, those living below some given poverty line - say the bottom two income deciles, or below the Basic Needs poverty line;
There are the chronically poor or food deficit; for example the effectively landless; those without food for four months each year; or those in particularly food-insecure geographical areas;

And finally there are selected particularly vulnerable groups; those who are not capable of looking after themselves -- the elderly, the infirm, and orphans, are obvious examples.

All present problems with respect to targeting. The problem with targeting "the poor" generally is that they are too large and undifferentiated a group. As we have seen earlier, depending on the poverty line one chooses, between 30 and 65% of the population are in absolute poverty. Also, the measurement of income is extremely difficult, and the cut-off point will always be arbitrary -- raising questions such as "why is one household included, and not another?"

In considering safety nets, it is often useful to consider some sub-group of the ultra-poor. It is not clear whether it makes sense to talk of the "ultra-poor" in Malawi -- after all, even the poor broadly defined, with incomes of less than $50 per capita p.a., would be among the ultra-poor in most other countries. Nonetheless, as Table 2 illustrated, the average per capita income of the bottom decile is less than half that of people in the next decile, and only a quarter of that among the poor generally -- so there is a group out there that are significantly worse off than others -- the question is whether one can effectively identify them.

Geographical Targeting – The Famine Early Warning System (FEWS) ranks areas by foodcrop production and other indicators. While highly imperfect, it provides a surrogate measure of welfare on a geographical basis. According to the 1998 FEWS data there are some 33 EPAs representing about a fifth of the country (with a population of 1.6 million people) with less than the minimum requirement of 1800 kcals. per capita, and the bottom six (representing about 500,000 people) providing less than half of their food requirements.

The problem with targeting geographically is one of exclusion and inclusion. If we direct benefits only to "poor" areas - as has been done under most of the food-based programs in Malawi - then large numbers of the poor will be left out, as there are, for example, many food-deficit households in non-food-deficit areas. Conversely, while targeting at poor areas is simple, and cheaper, in any "poor" area in Malawi there will be large numbers of non-poor, and targeting geographically will lead to transferring resources to them at the expense of coverage of others, who are truly poor, elsewhere.

Finally, the problem with selecting more narrow groups - for example the ultra-poor, or members of female-headed households - is the administrative burden of identifying and targeting them individually. (Everyone may suddenly become an orphan, or a female-headed household, if benefits are only directed at them.)

4 Administrative subdivisions with a typical population of 50-100,000.
Table 6 summarizes the numbers involved, in broad terms, in some of the potential target groups in Malawi:

Table 6  Approximate Numbers in Various Poverty Groups in Malawi (1998)

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Approximate Number</th>
<th>Approximate Proportion of Pop'n</th>
<th>Approximate Annual Cost (of transferring $10 p.c.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Those below Basic Needs poverty line</td>
<td>3.9 million</td>
<td>39%</td>
<td>$ 59 m.</td>
</tr>
<tr>
<td>Poorest 10% of population</td>
<td>1.1 million</td>
<td>11%</td>
<td>$ 17 m.</td>
</tr>
<tr>
<td>Extremely food-deficit areas</td>
<td>500,000</td>
<td>5%</td>
<td>$ 7 m.</td>
</tr>
<tr>
<td>Moderately + extremely food-deficit areas</td>
<td>1.6 million</td>
<td>15%</td>
<td>$ 24 m.</td>
</tr>
<tr>
<td>Effectively landless (&lt;0.2 ha.)</td>
<td>1 million ?</td>
<td>10%</td>
<td>$ 15 m.</td>
</tr>
<tr>
<td>Female-Headed Households</td>
<td>2.7 million</td>
<td>27%</td>
<td>$ 41 m.</td>
</tr>
<tr>
<td>Malnourished Children</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 5 – moderately stunted</td>
<td>890,000</td>
<td>9%</td>
<td>$ 13 m.</td>
</tr>
<tr>
<td>Under 5 – moderately wasted</td>
<td>130,000</td>
<td>1%</td>
<td>$ 2 m.</td>
</tr>
<tr>
<td>AIDS orphans</td>
<td>500,000 (est.)</td>
<td>5%</td>
<td>$ 7 m.</td>
</tr>
</tbody>
</table>

\(a/\) Assuming administrative and delivery costs of about 50% of the value of transfers. Costs shown are illustrative, merely to demonstrate the fiscal cost of an arbitrary US$ 10 (K.440) per capita transfer to that group.

Clearly given the fiscal realities, any safety net program in Malawi is going to have to be selective. The box below shows the results of the consultative process on these issues within Malawi. Tentative agreement was reached that a public safety net should concentrate on supporting four groups:

1) The rural landless (because of the strong correlation of extreme poverty with landholding size)
2) Female-headed households (especially those which are labour-constrained);
3) AIDS orphans; and,
4) Selected people unable to look after themselves (the elderly, infirm, and disabled poor, who are not located in households which can look after them).

In addition, there is consensus that a safety net should be selective in time, focusing mostly on the four-month lean season, during which a large proportion of the population suffer severe nutritional stress.
Box 1 – What Should the Objective of a Safety Net Be? - Voices from the Consultative Process

The following are quotes from community and religious leaders, NGO workers, officials, and villagers themselves, that emerged during the rounds of consultative meetings.

“Hunger is the greatest single medical problem faced in villages. The need for safety nets is self-evident” - (NGO doctor working at the village level)

“The need and desire is there (for a safety net) but it’s useless, unless you link it with other efforts to raise incomes”

“Let’s accept upfront that this is not sustainable. That it needs to be there for the long run. We should plan for 20-30 years. The poor will still be there” - Donor representative

“What do the poor themselves want? They would say food.” - field worker

“The object is to reduce the level of real hunger during the four months of the year”

“Targeting female-headed households is almost impossible, but we can target women.”

“Elderly (single) men, the sick, and chronically poor [should be supported]” – religious representative

“The link with landholding size is so clear. So targeting should be geographical, by land scarcity.” – local official

“In the first year go for orphans, female-headed households, or similar readily-identifiable groups that everyone agrees should benefit. In parallel work on better registering, identifying, selection processes, to expand in second year.”

“We probably can’t go for all 4 million poor in the first stage; possibly go for the first 2 million – the poorest 20% initially – focus on geographically poor areas; the elderly women, orphans.”

“For a mass program, it either has to be self-selection, or no targeting at all” – NGO representative

“The people at the grassroots can tell you who the poor are, therefore a collaborative process is very important; The poor need to be the ones to decide.” – women’s organization representative

“About selectivity: the chiefs, the churches, and NGOs should all be able to do this – I know there will be bias, but get them together and they should present the results in a public meeting.”

“...It will be DIFFICULT to do, but some kind of public validation (eg. group of chiefs, church elders, etc.) is needed.”

“The moment you try to identify(individual) households you are doomed”

“Geographical targeting will leave [some people] out? Anything we do will leave some people out!”

“WHO IS TO IMPLEMENT is the most important question. For example a task force in the District – church, NGOs, government to oversee (don’t give it to only one or two agencies). We need to invest in improving such structures.”
3.3 Political and Social Considerations

A number of social and political concerns come into play when the question of safety nets is raised in Malawi. Firstly, it is not clear that there is a consensus, neither at the political level, nor among society as a whole, on the desirability of large-scale transfers to the poor under a safety net. There are concerns with the dependency that such transfers might create (especially when there is a hope that such poverty is temporary, and will that many of the poor will move out of poverty with development and hard work). There are concerns with respect to targeting, which is understandably seen as politically sensitive, difficult, and potentially divisive. In this regard, one often hears the sentiment expressed that "everyone is poor in Malawi", and therefore a preference for universal subsidies.

A good example is the experience in the last several years with Starter Packs (see Chapter 5), when despite a technical recognition that it was wasteful to provide free fertilizer to 100% of the population, there was strong political pressure for a universal program. Although after 3 years this has been acknowledged as being unaffordable, and a targeted version is being piloted in 2000/01. Similarly there is continuing pressure in some quarters to re-introduce universal fertilizer and maize subsidies, despite the fact that they would primarily benefit the non-poor.

The political economy of these decisions needs to be acknowledged. There is no doubt that universal programs enjoy wider popular and political support than those that are narrowly focused. However they are very expensive, and in the case of Malawi are unlikely to be fiscally sustainable. Programs that support very specific groups that are widely accepted to be deserving of help (eg. orphans, the disabled) will prove more politically palatable than those targeted at the poor generally [See Box].

Informal Safety Nets and Social Protection. One consequence of being a very poor country is that the overlap with informal safety nets is less of an issue than it is elsewhere. While there is little hard data available, a recent review [Tsoka/Devereux] concluded that transfers represent a minor part of the incomes of poor households. This is in part because many people are uniformly poor, and have little to share; because relatively few are engaged in formal employment compared to elsewhere in Africa; and, more recently, because urban dwellers have had their purchasing power eroded by inflation, and are thus less willing (or able) to provide transfers to relatives.

This is consistent with findings elsewhere [Murdoch], but nonetheless, there is substantial informal borrowing from friends and relatives in times of need, and transfers of fertilizer and maize from the urban employed (and large landholders) to their rural relatives – which are almost certainly under-reported in the survey work. In designing public safety net interventions one wants to be careful not to displace these with public transfers unnecessarily. However given the breadth and depth of poverty in Malawi, the risk of displacing some redistributive private transfers is probably outweighed by the net gain, especially since most transfers take place from the poor to the poor.
Box 2: To Target or Not to Target? - The Costs and Political Economy of Being Selective

As the diagram below illustrates, there is a trade-off between universal coverage and narrow targeting.

The question is to determine where along that curve is the ‘right’ place to be. Unfortunately the data do not allow us to rigorously evaluate those trade-offs for Malawi, but there are a number of considerations for policy-makers to bear in mind:

- Universal programs enjoy wider political and popular support.
- Targeting can cause perverse incentive effects – for example if benefits are provided only to orphans who are on their own, there may be an incentive for orphans not to be taken in by households.
- Information is expensive; community targeting can reduce both the information and transaction costs of targeting.
- It may not be administratively possible to target.
- Programs targeted at very identifiable groups – for example the disabled, or orphans, often enjoy more popular support than those catering to the poor generally.
- Universal programs are expensive; we have shown in Chapter 2 that a program to transfer just $10 per capita universally would cost K4.4 billion annually, or 20% of public expenditure.
- They provide benefits to many people who don’t need them – for example, very roughly, the food subsidy costs $2.50 for every $1.00 of benefit to the poor.
- Universal programs have eventually had to be abandoned because of cost in Sri Lanka and Tunisia, and even in the richest countries there is intense debate regarding their affordability (eg. reforms to the welfare system in Sweden, and the fiscal concerns surrounding the Social Security program in the United States.)

Malawian policy-makers will have to decide how to weigh these competing claims in evaluating individual program choices, but we conclude that (i) in Malawi universal programs are generally unaffordable and not efficient in reaching the poor; (ii) because of the information and administrative constraints, self-targeting solutions should be pursued as far as possible; (iii) that targeted programs be used primarily for particular narrowly-identified groups – especially orphans – because the likelihood of popular support will be greater; and that community targeting be tried as a means of implementing them.
Chapter 4 - Existing Safety Net Programs

Despite not having a defined safety net program in place, significant resources have been devoted to transfers of one type or another – mostly as the result of individual donor programs. Various short-term food distribution programs have been implemented, originally justified in response to droughts, but increasingly as a permanent fixture. In fact substantial amounts of food aid have been distributed in both drought and non-drought years recently. Various public employment and food-for-work schemes have been mounted by Government, donors, and NGOs; as well as a number of initiatives to distribute free seed and fertilizer on a large scale, on the grounds that it is more cost-effective to provide the poor with agricultural inputs than with food. In aggregate we estimate Malawi spent something like US$ 68 million on various transfer programs in 1998/99.

<table>
<thead>
<tr>
<th>Program</th>
<th>Expenditure</th>
<th>Direct Beneficiaries</th>
<th>Estimated Coverage</th>
<th>Average Transfer /Participant</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works Program</td>
<td>$ 4 million (e)</td>
<td>50,000</td>
<td>250,000</td>
<td>K.950</td>
<td>MASAF</td>
</tr>
<tr>
<td>Food-for-Work</td>
<td>$ 3 million</td>
<td>40,000</td>
<td>200,000</td>
<td>K.1200</td>
<td>WFP/Various</td>
</tr>
<tr>
<td>Emergency Safety Net Program (food distribution &amp; nutrition)</td>
<td>$10 million</td>
<td>215,000</td>
<td>1.1 million</td>
<td>K.1250</td>
<td>WFP/MoH</td>
</tr>
<tr>
<td>School Feeding</td>
<td>$ 1.5 million</td>
<td>25,000</td>
<td>75,000</td>
<td>K 2000</td>
<td>WFP</td>
</tr>
<tr>
<td>Starter Packs</td>
<td>$ 27 million</td>
<td>2.4 million</td>
<td>8 million (e)</td>
<td>K. 400</td>
<td>GoM/Various</td>
</tr>
<tr>
<td>Assistance to Malnourished (p)</td>
<td>$ 3.2 m.</td>
<td>43,000</td>
<td>86,700</td>
<td>n/a</td>
<td>WFP</td>
</tr>
<tr>
<td>Disaster Mitigation (p)</td>
<td>$ 4.7 million</td>
<td>est.20-30,000</td>
<td>100,000+</td>
<td>n/a</td>
<td>WFP</td>
</tr>
<tr>
<td>Public Employment Program (p)</td>
<td>$ 5 million</td>
<td>20,000 +</td>
<td>100,000+</td>
<td>K.4,000</td>
<td>EU</td>
</tr>
</tbody>
</table>

Note: Estimates in Table 1 are approximations only on the basis of information provided by various agencies, with varying degrees of accuracy, and bases that are not necessarily comparable with one another. (e) = estimated. (p) = proposed new program in 1999/2000. Exchange rate = K441/US$.

Notes on Table 7:
PWP (MASAF) – levels of planned expenditure and employment are unclear – varying sources provided different estimates. Last year 2.8 million person-days (= approx. 45,000 persons), assumption is this year slightly larger. Calculations here assume avg. person employed 60 days (= 3 months).
Assistance to Malnourished – replaces this year’s food distribution program. Expenditure is for year 2000. Nationwide, covers primarily feeding at Nutrition Rehabilitation Centres, plus maize distribution to women from affected HHs.
Food-for-Work. Expenditure is for 2000. Wage 2.5 kg. maize/day, here assumes avg. employment of 60 days/beneficiary. Program plans 5.2million person-days over 2 years; estimate 40,000 beneficiaries in first year, rising to 75,000 in second year.
School Feeding expenditure is for CY 2000. Plan is for 12,000 children in 1999, rising to 80,000 in 2000. Coverage assumes build-up in current year. Provides one meal per school day to all students at covered schools, plus 25 kg. maize/month to girl students to take home. (est. value at MK 250/month * 10 months = 2,500/HH) Assumes direct beneficiaries of 25,000, plus HH members of 12,500 female students.

Disaster Mitigation – program scope and modalities not yet clear. Intended to replace this year’s Safety net food distribution program – understood to involve free distribution of food up front to disaster-affected HHs, followed by food-for-work type distribution on basis of Coverage very rough estimate only.

Public Employment Program – Proposed expenditure of Euro 15 million over 2.5 years, and coverage of 48,000, with effectively full-time employment. Assumption here is of moderate build-up in first year. Plan is for transfer of K5,500 per HH.

Starter Packs – In absence of other decisions, assumes same design and coverage as this year. Assumes value of pack at US$ 9 (approx. K400); and value of incremental output of approx. US$ 25 (K 1,100).

Public Works Program. The main employment program, operated by the Malawi Social Action Fund, provides transfers to the poor, self-targeted on the basis of a low wage rate. The program is a good start, but on the current scale (about 40,000 households) it is not large enough to constitute a wide-scale safety net. However it provides a basis for expansion, providing issues of wage rate, seasonality, and absorptive capacity can be worked out (see section 5.1 below).

Food-for-Work. The main food-for-work program pays participants 2.5 kg. per day of maize, using food aid provided by WFP. Various forms of food for work (FFW) are also being operated by NGOs and Gtz, but total coverage is limited, having averaged something like 65,000 persons annually in recent years, and furthermore is generally restricted geographically, to about 10% of the country.

Like the public works program, it is self-targeting on the basis of a work requirement and relatively low wage rate. The advantage is that food payments are more selective of women (and probably of the poorest) than are cash, and, due to the weakness of markets, food is simply not available in some parts of Malawi at some times of the year. The drawback is that the logistics of moving food around the country, and of paying in food, is cumbersome and expensive. FFW initiatives in Malawi have always been plagued by logistical problems, with the result that coverage has generally been lower than was intended.

Free Food Distribution. The most recent WFP food transfer program distributed maize to 100,000 households in 1998/99, identified on the basis of having at least one malnourished child. It appears to have been successful in targeting the poor, but coverage was very limited, with large exclusion errors. Part of the problem is that each family was given 50 kg. of maize per month, or almost the entire food requirement – severely limiting the number of households that could be covered. Also the program is limited geographically to about a third of the country.

While it requires strengthening in the areas of administration, and ease of targeting, this program (or something like it) holds promise, but at the moment is too small to be meaningful as a safety net. Unfortunately this program was not planned to be repeated in the 1999/2000 season – however it is the latest in a long series of food distribution programs, and it is almost certain that some similar effort will continue to exist in the future. Part of the problem is that a uniform approach is not sustained on a year-to-year basis.
The Starter Pack Initiative (SPI) provided 10 kg. of fertilizer, along with seed, to all smallholder households at a cost of K.1.2 billion ($27 million) in 1998/99, and was repeated in 1999/2000. The objectives were in part safety net – in the sense of raising household food self-sufficiency - and in part to maintain total national-level food production in the face of a 100% fertilizer price increase. The concept was that every household should be provided with enough inputs to produce an additional 6 weeks’ supply of food. While providing agricultural inputs is not an obvious safety net strategy, there is a certain logic to it in a country like Malawi where the vast majority of the poor are subsistence farmers, and the ‘multiplier’ effect - resulting from the poor investing their own labour and land in the process – is such that the value of benefits produced is about double the cost of the inputs given out.

The drawbacks are that the program was universal, so the government spent $27 million p.a. on transfers of which only a proportion goes to the poor. While there is an element of self-targeting due to the small size of the pack, at least half went to households who either would have bought the fertilizer themselves anyway, and/or for whom the incremental income effect is negligible. It also does not particularly benefit the very poorest, who may have no land, or be incapable of farming due to labour constraints or disability.

New Programs: In addition to these established programs, there is a school feeding program, launched in 1996, but still in pilot form, covering only about 24,000 out of 3 million primary students (see Chapter 5); and a new intensive public works program, funded by the European Union, designed to provide intensive cash injections (about four times the level of per capita transfer under the existing PWP program) to the poor in 6 Districts.

Institutional Issues

As in many countries, there is no clear institutional home for safety net issues. While implementation responsibility clearly falls to the line agencies, there is no central body with a clear mandate to set the government’s safety net strategy – for example to determine who the government wants to target, what scale of transfers, or choice of programs it wishes to implement. Responsibility nominally falls under the National Economic Council. While this is an appropriate home, NEC has historically had only limited power to direct the design of interventions, and to co-ordinate programs or financing. Lacking a clear institutional home, it has also been difficult to engage the political leadership on such intensely political questions as what degree of redistribution the society wants to pursue, and who the beneficiaries should be.

In this vacuum, donors have been designing and implementing programs in isolation. In the absence of any central strategy, bilateral deals are made between individual Ministries, donors, and NGOs, resulting in an ad hoc collection of programs with limited impact.
For example, there are various Food-for-Work and employment programs funded by WFP, Gtz, CPAR, CARE, the World Food Program, the Malawi Social Action Fund, and a new employment scheme proposed by the European Union – each with different design, pay rates, and incentives; each doing different analytical and evaluation work; and each proposing different methodologies and modalities with respect to targeting, contracting, community participation.  

This proliferation of programs over-stretches limited administrative capacity, dilutes impact, and confuses signals and incentives. It also results in uncoordinated targeting – for example programs may cover some target households (or areas, or groups of beneficiaries) several times, while others are not reached at all.

Another concern is that programs are launched by donors, and then only sustained for a few years. In the past 5 or 6 years there have been about 20 different safety net programs of various kinds, many of which don’t last more than a few years. This stop-and-start approach not only has little impact on poverty, but, perhaps equally importantly, results in a failure to build institutional capacity to deliver benefits. In countries like Malawi, where managerial and administrative capacity is at a premium, establishing simple, repetitive systems that function efficiently is particularly important.

Although it is hard to quantify the costs of these duplicating programs, and of the stop-start approach, it seems almost certain that developing a simple, unified national safety net program would be both cheaper, and more effective than the current approach.

Note - all of these ongoing programs are food-for-work, with the exception of the MASAF PWP, and the new EU program, which is just becoming operational.
Chapter 5 - Evaluation of Options

5.1 Public Works

Public works provides perhaps the single most attractive option for safety net transfers in Malawi. The benefits are that it is one of the few self-targeting instruments available, and thus gets around the difficult problem of trying to target transfers; it also has the capacity, if well-managed, to create productive infrastructure; and, because there is a work requirement, it avoids the dependency, and potential distortions, of pure give-away or subsidy programs. The drawbacks are that it is expensive, with about $2 being spent for every $1 worth of benefit transferred in wages; and is administratively difficult to manage compared to pure transfer schemes. The current program provides a good basis for expansion as the core of a nation-wide safety net program, but needs substantial investment in expanding the scale, and refining the poverty focus, in order to have the desired poverty impact.

Scale

The current PWP has been running as part of the social fund since 1996. After hitting a peak of about 2.8 million person-days of employment in 1998 (equivalent to about 60,000 persons employed), the program then contracted. If public works is to serve a significant safety net function, it would have to employ something like 200,000 to 400,000 persons annually (say 12 million person-days of employment - or about 4 times the peak level reached in 1998). There are two main constraints to effective expansion: the ready availability of projects, and implementation capacity.

Potential Scale. The question is whether there are enough productive projects to effectively employ the kind of numbers of poor workers we are aiming for. While the infrastructure requirements in Malawi are extremely large, the complexities of finding productive projects, and of managing their implementation, limits what is possible in the short run. Based on a sample analysis of one District it is estimated that it is potentially possible to create 33 million days of employment on public works annually. [see Geddes and Billings, 1999]. Roads provide the most obvious pool of potential works, but a shift into dams, reforestation, and land conservation works is needed to absorb the numbers required. However all of these present management and organizational challenges. The other obvious way of expanding employment is to move from construction of new works to maintenance, which has historically been underfunded in Malawi.

However to move from the potential to an implementable program will need a significant investment in developing a pool of project designs. (Developing a shelf of

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6 The analysis in this section focuses mostly on the public works scheme operated under the Malawi Social Action Fund, as it is the only established scheme at this time.

7 Assuming an average of 2 months (40 days) per person employed.

8 Estimates range up to 192 million person days, if one includes the possibility of contour ridging and other land conservation works on private land.
project proposals will also make it easier to expand employment quickly in drought years). The best way of doing this is to integrate the planning of the PWP with the development of District-level development plans.

Another part of the solution clearly has to be to integrate PWP employment into the wider capital works program of the government. Each year Malawi is spending something like K5.5 billion ($125 million) on public works; if the methodology of low-wage public employment could be extended to a proportion of those works, it would create a significant pool of income opportunities for the poor.

Malawi cannot afford to be investing in sub-optimal projects, and if significant resources are to be spent through the PWP, then they need to be part of a cost-effective investment program. At the moment projects are largely chosen by communities, on the basis of community desires – which while they are legitimate, may in many cases not reflect the most cost-effective infrastructure solution. One thus sees roads being built to areas of limited potential, or which duplicate other routes of access. Bringing the selection of PWP works under the District infrastructure planning process should reduce, if not eliminate, this problem.

An investment of effort is needed in: (i) developing a shelf of project proposals; (ii) examining in more detail the scope for, and constraints to, developing ‘alternative’ works such as river training, irrigation dams, and reforestation, and (iii) determining how best to shift the PWP from a discrete projects-based approach, to a more continuous program of maintenance and execution of the Government’s ‘normal’ capital works program, but utilizing PWP-like employment practices.

Implementation Capacity. Currently the PWP is implemented by a fairly ad hoc combination of District officials, and MASAF supervisory staff. This has proven a constraint to implementation, and is one of the reasons for the contraction from 60,000 to 20,000 persons employed in 1999. There is a need both to expand local supervision capacity (and therefore to tie the program in more closely with local government), and, equally importantly, to shift to greater use of contractors. The consultants in fact calculated that contractor capacity was binding constraint to expansion of PWP. A major effort should be mounted over the next two years to develop a cadre of small local contractors specializing in the execution of labour-based works.

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9 In the 1999/200 budget: K5.3 billion on formation and maintenance of capital assets in the Development budget, and K.314 million in the Regular Budget.
Box 3. Public Works: Some Best Practice Examples from International Experience

Public works have been an important countercyclical intervention in industrial and developing countries. Public works programs have an obvious relevance in many developing and transitional countries: they are eminently suitable for regional targeting and self-targeting. They are also highly suitable for consumption smoothing, and hence very relevant for Malawi. The scale of public works operations has been as high as 21% of the labor force in Botswana in 1985-86, 13% in Chile in 1983, and 5% in Honduras in 1990-93. One merit of public works is that they are flexible – contracting and expanding as needed.

International experience suggests that the principal design feature that contributes to success of public works programs is a program wage that does not exceed the prevailing market wage for unskilled labor. In countries where the program wage exceeded the market wage, the program crowded out the poorest from participation. A number of countries did manage to keep the program wage lower than the market wage. Chile ran a public works program in the mid-1980s which maintained the program wage at 70 percent of the minimum wage, which was also the market wage for unskilled labor. The program’s outreach was vast covering almost 13% of the Chilean labor force. In India’s Maharashtra Employment Guarantee Scheme – one of the longest and most celebrated of safety nets in the world – the program wage was equal to the minimum wage. Until 1988, the minimum wage itself was low so that the program could be self-targeted. However, after 1988, the minimum wage, and hence the program wage, was doubled. The increase in program wage resulted in job rationing and erosion of the guarantee of the program, apart from reducing its self-targeting character. More recently, in South Korea, a public works program was introduced following the financial crisis. The program was maintained at about 15 percent lower than the market wage; moreover as the market wage fell, the program was further adjusted downward. The program was very successful in providing short-run transfer benefits to the unemployed poor.

Other design features that rendered India’s MEGS program successful included: timing of the program that synchronizes with the slack agricultural season, provision of employment within 5 km. from the place of residence (a feature that was responsible for enabling many women to participate), and a focus of creation of assets that contributed to enhancing agricultural/rural infrastructure (rural roads, irrigation structures, soil conservation, etc.). Further, maintaining a high labor-intensity is important to be effective as a transfer program. The share of labor in total costs has ranged from 40 to 70 percent in different countries.

Experience also suggests that the implementation of the program should generally avoid two weaknesses: poor supervision and poor quality of assets created. If the economic benefits from the assets created are not substantial, the program could prove to be cost-ineffective. Incentives must be built into the program – both to workers and program managers – to ensure quality of assets created. It may also be helpful to ensure appropriate mediation of the NGOs for protecting the rights of the poor vis-à-vis program managers and contractors.

Poverty Impact

The underlying principle of any public-employment scheme is that it should self-select the poor, by paying less than the prevailing market wage (see Box). This ensures that in general the non-poor will not be attracted, and that those who can find employment (or otherwise generate their own incomes) elsewhere will not divert their labour to the program. It also increases the probability of employing women, as informal wage rates for women are generally below those for men.

While there is no good analytical study of the impact, it appears that the current public works program is not particularly selective of the poor. The one assessment done [Zgovu, 1998] found little difference in estimated incomes and assets between participants and non-participants; and site visits suggest that both the poor and non-poor in villages are participating.

Table 8 – Characteristics of Public works Participants and Non-Participants

<table>
<thead>
<tr>
<th></th>
<th>Participants</th>
<th>Non-Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Landholding (ha.)</td>
<td>0.57</td>
<td>0.54</td>
</tr>
<tr>
<td>% Using Fertilizer</td>
<td>26%</td>
<td>33%</td>
</tr>
<tr>
<td>Mean Household Expenditure (MK.)</td>
<td>2,388</td>
<td>2,615</td>
</tr>
<tr>
<td>% Owning Bicycle</td>
<td>26%</td>
<td>33%</td>
</tr>
</tbody>
</table>

This may in part be due to the fact that, as someone has said, “everyone is poor” in rural Malawi, and that the areas selected are generally already poorer than average. But it also reflects a failure to distinguish between the poor, generally, and those who are very poor – who would have no alternative source of income without the PWP employment. However if public works is going to form the core of an affordable safety net strategy - directed at the bottom 20% of the population (as opposed to the bottom 50%) - it is essential that it be targeted. Getting the wage rate right is thus at the center of any successful PWP effort.

Arguments have been made that the current MASAF PWP wage is both too high, and too low.¹⁰ To be fair, it is difficult to get the wage rate ‘right’ in an inflationary

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¹⁰ In 1998 the PWP paid 15.80 Kwacha for a four-hour day, as opposed to the reported agricultural daily wage rate of about K.24 for a full day’s work. The effective rate is thus almost 50% above the market alternative. Most participants work on public works sites until about 9:00 or 10:00 a.m., and then go to work on their own farms, or to pursue other income opportunities. While this is understandable, it also suggests that PWP employment for many is supplementary, and not providing an essential safety net function. The impression from site visits was that many participants were using the PWP to generate additional cash income, to buy things such as cooking oil, soap, or kerosene. Again, while this is reasonable (and in fact in most countries this would be a legitimate aim of a public works program), in the case of Malawi, where the poorest are desperately short of food, the limited transfer opportunities must be used to benefit those who would not be able to adequately feed themselves otherwise.
environment. The figure below shows the real MASAF PWP wage rate over the past three years. This is an issue that needs further quantitative analysis, and if the wage rate proves too high, in the short run the best solution is to allow the real wage rate to be eroded somewhat by inflation. In the longer run, the answer is to add some more poverty-analysis capacity to the program (see below), with specific responsibility to carefully monitor and adjust the wage rate.

Questions have been raised about the ‘fairness’ of the market wage rate, and the appropriateness of comparing the PWP rate with the ganyu (agrarian) wage. There is a widespread belief that ganyu and estate wages are exploitative, and that in this sense putting upward pressure on wage rate is not a bad thing. The PWP wage is after all only about US cents 35 per half-day - low by international norms. But this is a functioning labour market: for example able-bodied construction workers are paid only K.40 (US$0.90) for a full 8-10 hour shift. Much as one may decry the fairness of these wages, the fact is that with an over-abundance of unskilled labour, and very few off-farm employment opportunities, the market wage has been bid down to a subsistence minimum, and offering a wage rate above it will inevitably lead to rationing of PWP jobs, and equally to their capture by the non-poorest.

**Seasonality.** Public Works employment presents some particular challenges in Malawi. There is a long dry season, which lasts from about April till December, during which the majority of rural the population are chronically underemployed. However the time when the additional income is most needed is in the November-March lean season, when food stocks run low, and market prices increase dramatically. But this is also the period when: (a) households most need the labour on their own farms for field preparation, planting, and harvesting; and (b) it is hardest to execute public works, because of the high rainfall. There is thus a fundamental mismatch between when

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11 Ganyu is the local term for daily agrarian piece-work. The difficulty is that it covers a multitude of employment arrangements, including normal daily work on the farms of others, exploitative labour practices, and welfare-type transfers from larger landowners to poor in the same community.
families have excess labour available (and works can be easily implemented), and when the poor most need the additional income.

There is no obvious solution to this dilemma. One option is to increase the ‘transferability’ of benefits to the lean season by paying in vouchers – either for fertilizer or price discounts on maize (or other foodstuffs) – which can only be redeemed later during the lean season. Given that the poor cannot be expected to forego immediate payment, vouchers might be in addition to the cash payment; or redeemable either immediately, or for say a 50% greater value later in the season.

The Need for Sustained Transfers. To have a meaningful impact on poverty, transfers need to be sustained over a period of time. The experience with the Maharashtra Employment Guarantee Scheme in India, and other successful public works programs, is that the existence of the expected employment income stream is what has affected behaviour, consumption, and ultimately, poverty status. At the moment the PWP schemes in Malawi are ‘project’ based – being implemented in a selected EPA in a given year, and the program then moving on to another area, with no expectation of continued employment opportunities under the program in that village for several years, if ever.

This is in part an inevitable consequence of the budget constraint, but also reflects the ‘project’ approach of the PWP as currently structured. To increase the poverty impact the PWP needs to: (i) shift towards more continuous employment, either through a pool of District works, or a shift to maintenance; and (ii) operate on a larger scale, allowing wider continuous coverage.

Institutional Issues. Consideration was given to where a large-scale public works program should be located. The conclusion of the consultants was that for the time being it should remain under the Social Action Fund, which has an established methodology and institutional capacity. In the longer run however, it needs to be integrated more deeply into both the District works programs, and into the Government’s public works program more broadly. Even within the existing framework, there is a need to: (i) shift the focus more from works implementation to employment; (ii) strengthen the poverty-orientation of the program, adding staff who are responsible for poverty analysis, examining labour market linkages and wage rate issues, and monitoring quantitatively who is benefiting; and (iii) improve data collection – on numbers employed, duration, amount of transfers, etc. There is also an urgent need to rationalize the various public works programs, with respect to coverage and modalities; and to assign responsibility to a central agency for providing overall direction to the different PWP initiatives.

5.2 Food and Feeding Programs

As outlined in Chapter 4, there have been a range of large-scale food distribution programs in the recent past. Originally introduced as relief measures, they have increasingly been used as generally welfare programs in non-drought years.
There have basically been three incarnations of the same program over the past five years.\textsuperscript{12} All build on an earlier \textit{Vulnerable Group Feeding program}, originally intended to support malnourished children and lactating mothers, but which has evolved into a mechanism for distributing large amounts of maize to households, using the fact that they have a malnourished child as a basis for targeting. The most recent version was called the Emergency Safety Net Program (ESNP).

Working through an established child-monitoring system, children whose weight falls below the normal weight-for-age receive supplemental food (Likhuni phala) at the health post, and the mother (or father) is entitled to a 50 kg. bag of maize per month, which is distributed on certain days at fixed points on presentation of the child's growth monitoring card. While there has not been an analytical survey of beneficiaries, the assessments done suggest that targeting has been good (see Box at the end of this section); and that there have been beneficial effects on household food security and on the nutritional status of children.

The program represents perhaps the only successful example of administered targeting in Malawi. The problems are its limited coverage, and high costs, due to excessively large transfers per household. At its peak it has covered about a third of the country, and even within those areas, health post officials believe that a large proportion of families with malnourished children are not being captured.

To expand the program nationwide would cost something like $35 million per year, and even at the recent levels of $10-12 million p.a., is probably not sustainable. Part of the problem is that the amount of the transfer (50 kg. of maize per household per month, which represents almost the entire basic family food requirement) is too large – equivalent to over K.1,250 ($30) per household.\textsuperscript{13}

More broadly, a large-scale food transfer program is probably not tenable, and should not generally form part of the safety net strategy. Apart from the fact that it is unaffordable, there is – except in selected circumstances - little justification for providing food rather than cash: it undermines local markets, and further retards the development of private traders (which are only just beginning to develop competitively in many parts of rural Malawi). In addition, moving food grain around the country in large quantities is logistically difficult, and expensive. There are instances in which providing food is beneficial (e.g. where markets have failed entirely – although continuing to provide food will discourage them from ever developing in these areas) – and because there is generally a higher probability of control over food being retained by women, and therefore having a greater impact on family welfare – but more evidence is needed to determine whether the equity benefits are worth the extra costs.

\textsuperscript{12} EMOP ---, Drought Relief (1995/96); EMOP 5639, Assistance to Drought Victims (1996/98); and Emergency Safety Net Operation EMOP 5997/02 (1998/99).

\textsuperscript{13} Assuming a household receives 50 kg. per month for four months, at an average value of K 6.25 per kg., plus the value of the likhuni phala and other supplementation
It is recognized that large-scale food distribution in drought years still needs to be part of the safety net strategy, but even this function should increasingly be taken over by the newly-established National Food Reserve Agency, which can release stocks onto the market on a commercial basis, leaving free food distribution to be focused on the very poorest, and/or substituted for by public-employment- or cash-based transfers.

There is nonetheless room for a selectivé nutrition program, which could either supplement PWP transfers, or reach those not able to participate in public works. The justification is both that malnutrition is in general a good indicator of poverty status, and that improving nutrition, especially among the very youngest, is a good investment in future productivity and long-run poverty-reduction.

The current ESNP has some faults, but provides a credible basis for expansion. In addition there exist a number of promising nutrition supplementation exercises (including micro-nutrient programs, those run through Nutrition Rehabilitation Units at hospitals, and various donor-supported programs.) these should be rationalized, and funding expanded to a single nation-wide program.

The current program can form the core of this expanded program, although it needs substantial strengthening, primarily by shifting to a more focused emphasis on early childhood nutrition, and freeing it of the wider food-distribution responsibilities.

A risk is overloading the already strained administrative capacity of health posts, and within the MOHP generally. If the program is to continue, and be expanded, it needs to be accompanied by a parallel effort to strengthen delivery capacity, or else consideration be given to contracting delivery out to NGOs.

Further work is needed to formulate the nation-wide nutrition program. It is recommended that a quick consultancy be undertaken, and/or a working group of Government and donors be established to: (i) review all existing programs, and (ii) come up with a proposal for a unified, nation-wide nutrition program, targeted at the poorest. Finally, to be meaningful, there needs to be a shift to more sustained funding and implementation. The ESNP depends on year-to-year funding from WFP, and other programs are dependent on discrete funding from donor projects. In formulating a program, the GoM/donor work group needs to also agree on a long-term financing plan.
Box 4. Food Transfers: Lessons from International Experience

Untargeted food transfers — whatever the form — have generally proven unsustainable fiscally. Bangladesh, Egypt, India, Pakistan, Sri Lanka, and Tunisia all initiated universal food transfers in the early 1950s. The budgetary cost of the programs gradually increased in all these countries. Thus in early 1980s, the cost of a universal program was as high as 5 percent of GDP in Sri Lanka and 4 percent in Tunisia. When the program was universal, the share of the transfer benefits of the poor (bottom quintile) was generally low; in many countries the benefits were evenly distributed across quintile groups.

Many countries began to switch from universal to targeted programs. The targeting approach of self-selection was resorted to in Tunisia while Sri Lanka switched to targeted food stamps. Other countries such as Bangladesh, Honduras, Jamaica, Jordan and Mexico have also switched from universal programs. Apart from a lowering of budgetary costs, significant gains in targeting efficiency were observed after a switch from universal programs. For example, in Tunisia, the share of the poorest quintile increased from 8 percent under a universal regime to 25 percent after switching to a self-targeted food products program, whereas the cost of the program fell from 4 percent to 2 percent of GDP.


School Feeding As has been noted in chapter 4, a school feeding program was launched in 1995 and is being expanded in the period 1998-2000. The program provides an arrival snack, plus a mid-morning meal of blended food and tinned fish to all children in schools in the areas covered, as well as a free distribution of 20 kg. of maize per month (about 40% of the household food requirement) to the families of all girls that attend.

At the moment the areas covered are selected on the basis of the vulnerability assessment mapping system, and coverage is limited to 24 schools in one district. The problem of course is that this is expensive, and it is untargeted within schools. The value of the meal transfer is $19.30 per student per year, while the value of the maize transfer to families of girl students is $55.50 per year. This is admittedly a pilot, but nonetheless, the total program cost is a staggering $95.65 per student covered per year.

While the objectives are partly developmental, school feeding does not appear to provide a cost-effective part of a safety net strategy for Malawi. The main problem is that it is not selective of the poor, and if coverage were wide enough to cover the poor, it would be prohibitively expensive.
On the one hand, it is impossible to target benefits to the poor within a school – one cannot include some children and exclude others in the same class. And there is no reason to believe that the poor are more likely to be represented in school than among the population as a whole. In fact the reverse is probably true; both an earlier incidence study14, and evaluation of the program suggest the poor are less likely to be in school than the non-poor. [see Box]. On the other hand if the program remains narrowly targeted geographically, it does not provide benefits to the majority of the poor who live in areas not covered. To expand the program to a level at which it would have a meaningful transfer effect would cost something like $ 36 million p.a.

| Table 9 – Costs of An Expanded School Feeding Program |
|-------------------------------------|-----------------|-----------------|-----------------|
|                                     | Cost            | Share of Poor   | Cost per $ Benefit transferred |
|                                     | Covered | Not Covered | to Poor |
| Current Pilot (34,500 children)    | $3.3 m. | 1%           | 99%     | $5.38 |
| Poorest Third Of Country (495,000) | $36 m. | 19%          | 81%     | $2.76 |
| Nationwide Version (3.1 million)  | $222 m. | 80%          | 20%     | $4.50 |

In addition to the direct costs, there is the administrative burden placed on schools, and, as with food for work, the logistical difficulties of moving large quantities of food around the country.

While school feeding may well be an effective means of attracting children to school, and retaining them there, this is an educational objective, not a safety net one. As a safety net transfer it appears highly cost-ineffective, and even as an educational intervention, its cost-effectiveness would need to be carefully evaluated vis-a-vis. other possible educational uses of funds.

School feeding may in the future have a role in Malawi, but that day is a long way off, when the country can afford it. At the moment, given the scarcity of funds, and the need for a focused approach, we would argue that these resources should be redirected to support of a targeted nutrition program.

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Box 5 – Voices from the Village

School Feeding vs. Free Food Distribution

The following quotes capture the sense among those involved of the relative effectiveness of food distribution to families of malnourished children through health posts (referred to here as the ‘clinic distribution program’, and more recently called ESNP), and the school feeding program.

“The very poor are not attending school [and therefore do not benefit from school feeding...] – they don’t have clothes, they need to do ganyu”- Headmaster

“Concern was often expressed that a significant portion of poor people, those without school-aged children, were not being reached.” - Evaluation survey - Dil

“The more well-to-do have more children in school. Poorer families are more likely to have children at home during the lean time” – School committee member.

“Clinic staff, and village chiefs and elders felt [the feeding through health posts] to be a good channel to reach needy children and households. - Evaluation survey – Dil.

“A statement that was heard often was that clinic distribution targets the needy households more accurately than school distribution.” – WFP evaluation report

“Pressure on clinic staff...were cited as the only negative effects [of the clinic distribution program]. These were perceived to be surmountable, and outweighed by the positive effects cited above.” Evaluation survey - Dil

5.3 Starter Packs

The provision of agricultural inputs, and especially fertilizer, enjoy a special place in the popular hierarchy of poverty alleviation measures in Malawi. There are a number of reasons for this: for 30 years the government promoted a system of hybrid maize and subsidized fertilizer as a means of securing food security among subsistence farmers, who were otherwise prevented from participating in the cash crops market. This system evolved to the point where a large proportion of the population are now reliant on the use of fertilizer, even though, with the removal of subsidies and successive devaluations, it is only marginally economic for small farmers growing dryland maize on small plots. In this environment there is continuous political and popular pressure to find ways of providing fertilizer – either free or subsidized – to smallholder farmers. But the question is whether perpetuating this system of subsidized fertilizer and maize, through continuing the subsidy, or giving away small packs of fertilizer, is the best way of providing a safety net for the poor in Malawi.
In fact, the inclination to want to use fertilizer provision as a safety net makes some sense: a large proportion of the poor are small farmers, and the benefits, if well-used, can be up to three times the cost of the fertilizer transferred. However the Starter Pack Initiative (SPI) suffered from trying to achieve multiple objectives: to compensate for fertilizer price increases, and credit market failures\(^{15}\); to promote national-level food self-sufficiency (which has relatively little to do with household poverty); and to serve as a safety net.

Table 10 shows the estimated incremental effects of the Starter Pack in 1998/99.

<table>
<thead>
<tr>
<th>Yield Without Pack (kg/ha.)</th>
<th>Incremental Yield (kg/ha.)</th>
<th>Area Applied (ha.)</th>
<th>Incremental Production (kg.)</th>
<th>Value of Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,033</td>
<td>871</td>
<td>0.11</td>
<td>95.8 kg.</td>
<td>K.600 ($13.60)</td>
</tr>
</tbody>
</table>

Source: SPS evaluation

The average value of the output is thus about $13.60 per pack, as opposed to a cost for the program of about $ 9.50 per pack.

While it is not possible to distinguish benefits by income level, the recent evaluation found that in general better-off farmers - defined by landholding size, and asset ownership - obtained somewhat greater incremental output than poorer ones. [Note, with respect to Table 10, that if the poor were to plant nothing on the 'without' plot (because they could afford neither seed nor fertilizer) then the incremental value could be double that shown - or about $25-30 per pack.\(^{16}\) – however the poor are least likely to have unused land, and in the absence of the starter pack are probably planting all their available smallholdings with unfertilized local maize.]

There was some leakage in distribution, with about 14% of households receiving more than one pack, (and some receiving three or four); again the evidence suggests that in general multiple packs were captured by those with larger landholdings; although there is little evidence that the poor were excluded (only 4% of households surveyed received no Starter Pack). The problem is rather that the packs in many cases go to those who do not need them.

The SPI got around the targeting problem by being universal, but this is also it’s shortcoming as a safety net. The following table shows the estimated distribution of benefits resulting form a universal SPI scheme.

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\(^{15}\) There is a shortage of effective revolving agricultural credit for small farmers, many are not credit-worthy, and interest rates are currently 50%.

\(^{16}\) Because the incremental output would be the full 1,904 kg./ha, on 0.11 ha, yielding 209 kg. of incremental maize.
The cost per dollar of benefit delivered to the poor and the poorest together is about $1.65; while the cost per dollar of benefit to the poorest is $5.86. (See annex for incidence assumptions).

Universality of course eases the administrative burden and this is widely acknowledged to have been one of the reasons for the program’s initial success; and it also ensures wide popular and political support. Against this has to be weighed the costs of an untargeted program. Ultimately of course the problem is that Malawi cannot afford to run a program on the scale of costs of the current SPI indefinitely. Alternatives might include a program targeted at the bottom 50% of smallholders, (which we estimate might cost $11 million p.a.), or at the bottom 25% ($6 million p.a.)\(^{17}\).

So while the SPI is a potentially attractive transfer mechanism for some of the poor, it suffers from the following drawbacks:

- It is expensive, Malawi is spending $27 million p.a, of which perhaps two-thirds is going to the non-poor, or at least to groups other than the poorest;
- It perpetuates a sense of dependency on the part of the population generally – well beyond the poor;
- It continues to promote reliance on fertilizer-hybrid maize, which while understandable in the short run, retards the diversification that is ultimately going to have to be part of a poverty alleviation strategy for rural Malawi.

Thus while it has some attractions, if the objective of a safety net is to tightly focus scarce resources on those who most need them, SPI is not the instrument to use without substantially tighter targeting. Confronted with the fiscal constraint, the government has subsequently decided to try a targeted version of the program. In 200/01 funding has been substantially reduced (to a total of about US$11 million equivalent), and district administrators and leaders have been given an allocation about half of the previous year’s, with responsibility for identifying a list of the poorest households to receive starter packs.

We would not, however, entirely rule out some form of directed fertilizer subsidy in the long run as a safety net intervention – provided it can be directed only at the poor for basic food production. One possibility may be to link qualification for free benefits with participation in some other poverty-related program – such as public works, or the

\(^{17}\) Assuming very roughly overheads of 20% for targeting the bottom half of the population, and greater proportional overheads (of 25%) for a smaller program targeting the bottom quarter.
child nutrition program. Another, which requires further work, is to shift to a fertilizer-voucher-for-work scheme, perhaps tied in with the proposed large scale PWP expansion.

### 5.4 Subsidies

It is estimated that Malawi spent about MK 855 million ($19.5 million) on maize subsidies in 1998/99\(^{18}\), the amount was particularly large that year, as the government tried to protect consumers from the effect of a major devaluation. While this no doubt has some impact on lean season consumption of the poor, there is little justification for an untargeted subsidy as a safety net measure: it is costly, it undermines the development of markets, and, most importantly, it does not primarily benefit the poor.

There is no good survey evidence on the incidence of the subsidy, but certainly at the subsidized price there are significant problems of equity: of well-connected or well-to-do customers getting preferential access to maize, and of subsidized maize being bought by traders for either resale at the market price, or in Mozambique or Zambia at more realistic market prices. At any rate, there is no evidence that the poor get preferential access to the subsidized maize, and quite a lot that they have less access to it.

One of the problems in Malawi has been the absence of an effectively functioning food grain market (and this is one of the reasons for the failure of inter-seasonal storage mediation, and hence the excessively large price swings that tax the poor.). The evolution of such markets will be undermined, however, as long as there is arbitrary price and supply intervention by the government and ADMARC.

Thus while the inclination to want to control the price is politically understandable, attempts to do so, in an increasingly open economy are fraught with difficulties:

- The government is not a large enough player, nor can it afford to be, to have more than a moderating influence on prices;
- With increasingly open borders, the price will eventually equilibriate at import parity (in times of shortage) or export parity (in times of surplus), whatever the government tries to do; and,
- General price subsidies have eventually proven unsustainable everywhere they have been tried.

In the meantime, however, there is no doubt that the seasonal price rise represents a major cost to the poor, and the compunction to try to moderate it is understandable. Some form of intervention to smooth inter-seasonal price rises may form a legitimate part

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\(^{18}\) This was composed primarily of an effort to maintain the consumer price of maize at K3.90 per kg., and then at K7.25, while the cost of the maize was approximately K.11-12/kg.
of the safety net strategy, but it needs to be done in a way that is as non-distortionary, and fiscally neutral, as possible. This should be the subject of further analysis.

The preferred solution is to increase the purchasing power of the poor during the lean season (for example through cash or voucher transfers – under the PWP or otherwise), while simultaneously tackling the supply side through improved agricultural productivity, reducing transport costs, unblocking credit markets, and otherwise developing competitive grain markets. In periods of relative scarcity, when the maize price increase would be expected to be particularly severe, we would recommend the release of maize from a commercially-based reserve as a way of increasing supply and putting downward pressure on prices, rather than a general price subsidy.

If there is to be a continuing subsidy then it needs to be targeted – both in the lean season, and at the relatively poor. However we do not think that such a targeted subsidy is likely to be feasible or desirable. One option is to consider provision of discount vouchers, redeemable commercially, to allow the poor to get maize at a lower price during the lean season. These could perhaps be targeted on the basis of participation in other poverty-oriented programs, such as the PWP or child nutrition programs.

Another is to consider the provision of inferior goods – such as yellow maize or cassava flour – which are generally not preferred by those who can afford white maize flour, and thus can be self-targeted at the poor. Such programs have been used to target subsidies successfully in numerous countries, including Sri Lanka (with coarse rice) and Mozambique (using yellow maize). The drawbacks are that in Malawi the imported price of yellow maize is not much cheaper (and at times is more expensive) than white maize; and that, being imported, it requires foreign exchange, and undermines local maize markets. Cassava flour, while produced domestically, has the drawback of being a preferred food in some areas and thus may not be particularly suitable as an inferior good, nonetheless, we feel that the use of both yellow maize and cassava flour should be piloted the next time there is provision of either free or subsidized relief maize during a deficit year.

5.5 Cash Transfers

Pure cash transfers to the poor have not been tried in Malawi, for all the obvious reasons of cost, the large numbers of poor, the risk of dependency, and the extreme difficulty of targeting individual beneficiaries. Nonetheless it seems clear that many of the most vulnerable that should be supported with a safety net in Malawi – the poor disabled, infirm, and elderly who are not in households; and, increasingly, orphans - will not be reached by traditional self-targeting mechanisms such as public works, nor will they benefit from starter packs. Therefore we believe that some kind of direct transfer system should be tried.

The options being considered are: (i) a program of transfers to the most vulnerable, in the form of either cash or vouchers; and (ii) an orphan support program, to provide direct transfers to orphans not in households, or very poor families or agencies supporting orphans. The problem, in both cases, is how to target them.
The Problem of Targeting

Given the administrative weakness, and difficulty in distinguishing the poor from the non-poor, self-targeting – either through a work requirement (as in the public works program), or offering small, or inferior benefits (as in the starter pack, or yellow maize) - is the most obvious solution. The problem remains of how to direct transfers to those who are not amenable to self-targeting. The challenge is complicated by the fact that not all of the disabled are poor, nor are all female-headed households, nor all orphans.

There are essentially two options: administered targeting, or community targeting. Administered targeting is difficult in Malawi, both because the data base does not allow the authorities to identify particular groups or households (for example there is no vital registration or identity system, and basic attributes like age, landholding, and income are generally not known). Even if they were measured, the administrative capacity to target is simply not there. To operate targeted programs requires skilled middle-level supervisors and managers, who are in very short supply in Malawi. To establish the capacity to operate administered targeting on a large scale would be extremely expensive.

The trick is to design administrative targeting that fits with the existing data and managerial constraints. One possibility is to develop proxy “markers” for poverty, identifying characteristics such as type of housing, or household composition, for example, which are highly correlated with poverty status. The feasibility of doing this will be explored as data becomes available from the recent household survey. One such example is the current food distribution program, which uses the nutritional status of the child to target household food transfers, and the existing capacity of the health service to target beneficiaries through health posts.

Community Targeting. The alternative to administered targeting is to let the community decide who the poor are (or to decide who fulfills certain entitlement criteria), and to direct benefits to them. Opinion on the feasibility of community targeting in Malawi is evenly divided. About half of those participating in the consultative process argue that a village committee – consisting of the traditional chief, church elders, and perhaps NGO or political leaders – will know who the poor are, and should be able to direct benefits to them. Others argue equally strongly that such a system will never work – even if it is not open to favoritism and abuse, that the process of selecting some households and excluding others will prove too divisive for local leaders. The limited experience to date in Malawi has been mixed; in the 1995/96 supplementary inputs program, village leaders in some instances preferred to distribute small amounts among everyone equally rather than have to make difficult choices of inclusion and exclusion. In any event, such a process will still be fairly intensive in the need for resources to mobilize and train village groups. Given the uncertainty, over the next two years a series of pilot attempts at community targeting should be tried and carefully monitored. In parallel, further work will take place on administered targeting – both because it holds some promise, and because it is quite possible that community targeting will prove unworkable.
AIDS orphans should be treated somewhat separately, because they represent so pervasive, and growing, a problem; and also because a program specifically to support orphans is more likely to enjoy broad political support, because they are such a clearly identifiable group, and because there is currently widespread social concern with the orphan problem. Until recently communities and extended families have supported orphans, and clearly one does not want to undermine these informal systems. But the traditional support systems are being overwhelmed, and there are increasingly cases of grandparents supporting five or ten orphans, or of households of children left entirely on their own.

However not all orphans are poor, and the trick is in directing transfers to those truly in need. Fortunately there are a growing number of community groups and church organizations working with AIDS sufferers, and it is expected that these can be used to identify the neediest orphans (or families supporting orphans) and direct benefits to them. One option is to provide grants to these agencies, along with guideline for how they should pass them on to support orphans. What is needed now is to develop: (i) criteria for determining who should receive transfers; (ii) guidelines as to how much they should get; and (iii) to establish a small central group with the capacity to check the legitimacy of community groups, and undertake selective monitoring of their performance. Substantial work will be needed on the form of transfer (for example whether as cash or a voucher); and on the institutional arrangements to manage distribution and targeting.

5.6 Summary of Alternative Programs.

Table 11 – Estimated Transfers and Incidence Costs for Various Transfer Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Total Cost</th>
<th>Coverage</th>
<th>Transfer per Beneficiary</th>
<th>Approximate Cost per unit ($ or K.) Transferred to the:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Moderately Poor</td>
</tr>
<tr>
<td>Starter Pack</td>
<td>$ 27 m.</td>
<td>2.86 million</td>
<td>K. 600 ($13.60)</td>
<td>$1.48</td>
</tr>
<tr>
<td>PWP</td>
<td>$ 2.5 m.</td>
<td>62,500</td>
<td>K. 630 ($14.36)</td>
<td>$3.09</td>
</tr>
<tr>
<td>Food for Work</td>
<td>$ 2.8 m.</td>
<td>66,600</td>
<td>K. 656 ($14.90)</td>
<td>$2.97</td>
</tr>
<tr>
<td>Nutrition</td>
<td>$ 7.3 m.</td>
<td>1 million</td>
<td>K. 275 ($5.85)</td>
<td>$1.46</td>
</tr>
<tr>
<td>Food Subsidy</td>
<td>$ 16.2 m.</td>
<td>3 million</td>
<td>K. 1,187 ($27.00)</td>
<td>$2.50</td>
</tr>
<tr>
<td>Cash Transfers</td>
<td>$ 4.3 m.</td>
<td>250,000</td>
<td>K. 625 ($14.20)</td>
<td>$1.34</td>
</tr>
<tr>
<td>Orphan Transfers</td>
<td>$ 3.9 m.</td>
<td>100,000</td>
<td>K.1,350 ($30.75)</td>
<td>$1.41</td>
</tr>
<tr>
<td>School Feeding</td>
<td>$ 3.3 m.</td>
<td>34,500</td>
<td>K.1,740 ($39.50)</td>
<td>$4.08</td>
</tr>
</tbody>
</table>

Note: Calculations based on broad assumptions regarding value and distribution of benefits; see Annex for detailed assumptions.
Table 11 is based on some fairly broad assumptions regarding the distribution of benefits, but nonetheless it provides an indication of the relative efficiency of various program instruments in reaching the poor.\textsuperscript{19} Starter Packs are competitive with other programs in terms of providing benefits to the moderately poor – the drawback however (as with the food subsidy) is their high \textit{absolute} cost as a universal program, which is fiscally unaffordable. Both are less efficient than cash transfers, which appear attractive – however the potential scale is limited by the unknown capacity to manage them, and the risk of distortions.

Public works is a relatively expensive way of delivering benefits, but has the attraction of being self-targeting, and of at least half of the expenditure going to create productive infrastructure - provided of course that the right infrastructure is chosen. School feeding and the general maize subsidy do not appear competitive with other instruments under any circumstances (although the school feeding costs are based on a pilot program, and will come down over time, but would unlikely to do so enough to be a cost-effective means of delivering benefits to the poor.)

\textsuperscript{19}Note – the estimated costs of food-for-work and public works per unit benefit are probably over-stated, and need to be confirmed; school feeding reflects pilot program costs. Assumptions are discussed in Annex.
Chapter 6 – Conclusions and Recommendations

6.1 The Choice of Safety Net Strategy

Table 12 on the next page illustrates the broad options for a safety net strategy for Malawi.

The first option, leaving poverty alleviation almost exclusively to economic growth, and providing safety net support to only the most vulnerable 2-3% of the population (the disabled, infirm, etc.), is not adequate in the case of Malawi. The large share of the population living close to the subsistence minimum, and at frequent risk falling below it, and the depth of poverty among the bottom 10-20%, both argue for a more comprehensive approach. Furthermore, as we have seen in Chapter 1, even the most robust economic growth will leave very large numbers of absolutely poor for the next 10 years or so.

At the same time, the third option – of a major redistributive program, attempting to reach all of those who are “poor” (i.e. the 40-60% or more who fall below the Basic Needs Poverty Line) - is not recommended. It is unaffordable, runs the risk of creating dependency, and undermining incentives to change economic behaviour; and the same resources could be better used to promote long-run income growth through education or infrastructure. (Note that while such a strategy may seem extreme, it is effectively the approach that Malawi has been pursuing recently, with expenditures of almost $70 million on transfers in 1998.)

We would instead recommend that Malawi adopt a version of the ‘moderate intervention’ strategy for the coming ten years, with the following objectives:

- increasing lean season consumption of the poorest 20% or so;
- providing direct assistance to those unable to look after themselves; and,
- providing increased coverage in years of adverse economic events or shocks such as droughts.

Although this will only reach a proportion of the poor (perhaps half), in Malawi’s tightly-constrained fiscal environment, this level of coverage is likely to be the best that it is possible.

The policy implications of choosing this option would be to adopt a more selective approach to transfers, (for example shifting from universal give-away programs to targeted, and especially self-targeted schemes), and to invest substantial effort in targeting mechanisms, and in determining the best ways of insuring against risk.
<table>
<thead>
<tr>
<th>Strategies</th>
<th>Approximate Cost</th>
<th>Coverage</th>
<th>Target Groups</th>
<th>Possible Program Instruments</th>
<th>Policy Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) 'Minimalist' Strategy</td>
<td>$3-4 million p.a.</td>
<td>250,000</td>
<td>Only most vulnerable: disabled, elderly, infirm who are not in households; or in very poor households; only poorest orphans.</td>
<td>Targeted direct transfers through NGOs; possibly nutrition supplementation program for malnourished children.</td>
<td>Drop starter packs, public works, and food distribution programs (except in drought years); redirect resources to growth activities; basically leave safety nets to NGOs.</td>
</tr>
<tr>
<td>2) Moderate/Limited Intervention Strategy</td>
<td>$25-30 million p.a.</td>
<td>1-2 million</td>
<td>Labour-constrained female-headed households, rural landless, poorest urban poor; elderly, disabled, etc. who are not in households; orphans in poor households</td>
<td>Moderate-scale PWP, much more-tightly-focused Starter Pack e.g. voucher for work scheme; targeted transfer program, but only for poorest.</td>
<td>Invest substantial effort in targeting mechanisms; restrict scale of starter packs and food transfers; self-targeting (e.g. through work requirements) for all but the poorest</td>
</tr>
<tr>
<td>(3) Significant Redistribution</td>
<td>$50-70 million p.a.</td>
<td>3-4 million</td>
<td>All poor rural farmers; urban poor; all vulnerable groups as above.</td>
<td>Large-scale self-targeted PWP; continued Starter Pack Program — perhaps targeted at bottom 50%; substantial transfer program for those unable to support themselves</td>
<td>Don’t worry too much about leakage; accept going to be needed for a substantial time; work up exit/transition strategy over next few years.</td>
</tr>
</tbody>
</table>
The target groups for a safety net would thus be, in descending order of priority:

- the elderly, disabled, or infirm who are **not** in households, or who are in very poor households;
- orphans – but only those who are not in households, or are in very poor households;
- labour-constrained female-headed households;
- the rural landless;
- the urban poor, and rural poor with very small landholdings.

The instruments proposed to reach these groups are: (i) **public works** (for the landless, urban poor, and some female-headed households), because it is self-targeting, and creates productive assets; (ii) a **nation-wide targeted nutrition program** (for malnourished children from any of these groups); and (iii) **selected, targeted, cash transfers** (for those who are unable to look after themselves: orphans, the disabled, elderly, and infirm who are not in households).

### 6.2 Recommended Safety Net Program

The following specific safety net program is recommended for Malawi:

**Public Works.** A consolidated program of low-wage employment on public works, aimed at employing 300,000-400,000 persons per year\(^{20}\). Such a program would reach about 15-20% of the population, and provide transfers of about K.630 ($15) to each, at a total cost of about $12-15 million p.a. [Possibly supplemented by vouchers for food and/or agricultural inputs/fertilizer]

**Nation-wide Nutrition Program.** A program of selective child feeding, nutrition supplementation, and possibly micro-nutrients, that provides almost universal coverage for malnourished children below the age of 5, and especially below 30 months. This would primarily build on the existing Ministry of Health program. Not enough is known about the estimated numbers, but very roughly, such a program might cover 500,000 to 1 million children, and cost in the neighbourhood of $3-5 million annually.

**Transfers for Orphans.** A program of directed transfers to assist the growing numbers of orphans who cannot be supported by their communities, or who are in households which are overwhelmed with the cost of supporting them. The mechanics require further work and piloting, but the expected model is one of channeling grants through community groups working with AIDS sufferers and

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\(^{20}\) For an average of 40 days each, for total employment of about 12-15 million person-days per year.
orphans. A conservative program to target 100,000 orphans, and transfer half of
the Basic Needs income to them, would likely cost about $4 million annually.\footnote{Assuming 100,000 orphans, transfer of K.1,350 ($31.40) per orphan per year (1/2 of BNPL); plus 20% overhead for NGOs and community groups, and $200,000 p.a. for central monitoring group.}

Selected Cash Transfers. A program designed to provide half of the minimum food requirement to the absolutely vulnerable, who cannot be reached otherwise: the disabled, elderly, and infirm who are not supported by households. Careful piloting is needed to test the feasibility and costs of such a scheme in Malawi. If it were to reach 250,000 people (the bottom 2 1/2 \% of the population) we estimate it would cost about $4-5 million annually.

Some food distribution will still be needed in drought years, but should increasingly be substituted for by large-scale expansion of the public works and nutrition schemes; and release of stocks from the commercial grain reserve. At the same time, it is recommended that Government:
- target the Starter Pack Initiative, possibly by replacing it with a fertilizer voucher-for-work scheme in the dry season;
- phase out food distribution and feeding programs, and school feeding, and redirect the resources freed up to the nutrition program;
- discontinue general food subsidies;
- consider piloting the provision of inferior goods (such as yellow maize and cassava flour) as a way of self-targeting free or subsidized food distribution. – if there is to be any continued food distribution

It is estimated that the proposed program would cost about $28 million (K.1.2 billion) per year [see Table 13]. It would address most of the chronic poverty in the country, without undermining long-run growth, or the incentive for the able-bodied to work to raise their own incomes. In addition it would:

✓ contribute to longer run income growth, through the construction of infrastructure and improved health and nutritional status of the next generation;
✓ reduce the risk of dependency and distortions associated with free hand-outs and subsidy programs
✓ would be affordable; and,
✓ if carefully managed should be: (a) financeable on a sustained basis over the coming ten years; and (b) implementable with the administrative capacity available in Malawi (provided the current plethora of competing programs are consolidated or rationalized).
### Table 13 – Recommended Safety Net Program – 2000-2020

<table>
<thead>
<tr>
<th>Program</th>
<th>Approximate Coverage</th>
<th>Annual Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded Public Works</td>
<td>1.5 million (a)</td>
<td>K. 528 million ($12\ m.$)</td>
</tr>
<tr>
<td>Child Nutrition Program</td>
<td>1 million</td>
<td>K. 321 million ($7.3\ m.$)</td>
</tr>
<tr>
<td>Orphan Support Program</td>
<td>100,000 (b)</td>
<td>K. 172 million ($3.9\ m.$)</td>
</tr>
<tr>
<td>Selected Transfers to Most Vulnerable</td>
<td>250,000</td>
<td>K. 190 million ($4.3\ m.$)</td>
</tr>
</tbody>
</table>

Notes: See Annex -- for assumptions. \(a\) 1.5 million beneficiaries, number actually employed is 300,000. \(b\) assumes support for about 100,000 poorest orphans initially.

### 6.3 Next Steps

To make this program operational, a number of immediate steps need to be taken:

1. **Laying the basis for expansion of public works** by developing a stock of projects, shifting to maintenance, and building contractor and management capacity; and rationalizing the various existing efforts into a common nation-wide program.

2. **Designing and piloting the Orphan Support scheme**, including setting up the institutional mechanisms to channel and monitor grants.

3. **Further developing the Nutrition Program proposal** including a quick review of the existing programs.

4. **Pilot community targeting**, and further assess the scope for administered targeting.

5. **Refining the poverty focus of public works**, an examination of how PWP can be made more selective of the poorest.

6. **Further analytical work to better understand the nature of poverty and risk**, so safety net interventions can be more narrowly focused only on those in absolute need; and respond more narrowly to income variance and shocks;

7. **Looking further at the form of transfers** (whether in cash, vouchers, food, or fertilizer) to better understand the costs and benefits of each.
6.4 Closing Observations: Institutional Issues

A significant impact on poverty can be achieved at an affordable level, but only if a focused approach is adopted. The proposed program cannot be additional, but must represent a rationalization (and in some cases replacement) of the existing multiplicity of programs.

Donors and government need to recognize that this program will require a long-term commitment, with funding sustained over a period of 10 years or more. There is frankly little point in proceeding on the basis of the past stop-start model of donor programs. It only makes sense to move ahead with the proposed safety net program if it is approached as a common, nationwide program. To increase ownership, and continuity, consideration should be given to moving to a mix of domestic and external financing for a long-run safety net scheme.22

Despite the improved dialogue of the past year, the reality is that the government still is largely in the mode of being reactive. There is a pressing need to move away from framing the approach in terms of reacting to individual donor funding proposals, for donors to shift away from proposing discrete projects, and for government to take the lead on a collective, government-directed program.

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22 One way of doing this, without threatening fiscal indiscipline, to use the Government's own ongoing capital works and maintenance program as means of implementing a large part of the public employment program.
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Annex – Assumptions Underlying Evaluation of Program Options

Assumptions Underlying Estimates of Program Scale and Costs

The following broad assumptions underlie the estimation of program costs, coverage, and transfers used in comparing options in Chapter 5.

**Public Works**

- Assumed cost of a program in the long run is US$1 per person day of employment created (the average cost of employment created to date under the MASAF public works program).
- Average employment is assumed to be 40 days for any given beneficiary. (Data is unreliable, but historical average appears to be about 42)
- Thus 300,000 persons employed would correspond to 12 million person days of employment, at a cost of US$12 million annually.
- Coverage of such a program, in terms of poverty impact, would be about 1.5 million persons, or 15% of the population, assuming a household size of 5, and only one directly-employed beneficiary per household.
- Average transfer per beneficiary at the current wage rate would be about K.630 (40 days at K15.80 per day)
- Program size of 62,500 shown in Table 11 is based on peak level in 1998/99

**Food-for-Work**

- Costs are also estimated at about US$1 per person day of employment, which has been the average under recent programs. (Although some administrative overheads may not be captured in these costs).
- Benefits are based on an assumed ration of 2.5 kg. of maize per participant.
- Maize is valued at K.6.25/kg. (in valuation of benefits under all food transfer programs); on the basis that this represents a weighted average of the replacement value of own-produced maize (K.3-5) and of maize purchased from the market (K.8-9 per kg.) in 1998/99.
- Program size of 62,500 persons employed shown in Table 11 is approximate total level of existing WFP, CPAR and Gtz FFW programs in 1998.

**Starter Pack**

- Costs and coverage are based on the 1998/99 program actuals.
- Value of output generated is valued at K.6.25/kg. of maize, as under food-for-work.
- All other assumptions are provided in text footnotes.
Nutrition Program

- The actual costs of delivering a widescale child nutrition program in Malawi are not known, an estimate of US$ 7.30 per beneficiary was used, based on the average of the costs of programs in a range of low-income countries.

Food Subsidy

- Costs are estimated on the basis of the difference between cost and selling price of maize, it is assumed there is no transactional costs to a general price subsidy. The value of benefits and costs are therefore precisely equal.
- Table 11 based on an illustrative subsidy of K4.75 per kg. of maize sold, based on continuing the 1998/99 price retail of K.6.25/kg., and the 1998/99 import cost of K.11/kg.
- Table 11 assumes public sales of 150,000 mt. of subsidized maize (approximately the level in recent years); and that households buy 50 kg. per month of subsidized maize each during the 4-month lean season. 150,000 mt. thus benefits 750,000 households, or 3.8 million people.

Cash Transfers

- Assumes value of transfer is to be half of the minimum food requirement, estimated at 200 kg. of maize per person annually. (Assumption here, for illustrative costing purposes, is that transfer is not the sole source of income, and is intended as a top-up. The level of half of minimum food requirement is arbitrary. The level of transfer is of course a policy variable and can be set at any level desired
- In tables 11 and 13 cash transfer is assumed K.900 per beneficiary per annum.
- Delivery and targeting costs are arbitrarily assumed to be 20% of the value of the transfer. (which is within the range of international standards).
- Coverage is arbitrarily assumed at 250,000 persons, representing the most vulnerable 2 ½ percent of the population. Again, this is a policy variable that can be set at any level the government wishes.

Orphan Support Program

- Transfer is assumed to be one-half of Basic Needs Poverty Line income - currently estimated at K.1,350 per capita p.a. (BNPL is minimum food requirement, plus an allowance of 50% for other essential expenditures).
- Costs are assumed to be the value of transfers, plus 20% overheads for delivering NGOs or community organizations, and a cost of US$200,000 per annum to operate a central secretariat to disburse and monitor NGOs.
- Assumption is of an initial program to reach the poorest 20% of orphans – or approximately 100,000 beneficiaries.
**Assumptions Underlying Estimated Incidence of Program Benefits**

Among the overall population, the assumed distribution is:

- The Poor: 50%
- Of which: The Moderately Poor: 35%
- The Poorest: 15%
- The Non-Poor: 50%

The definitions are somewhat arbitrary in the absence of recent income data and poverty calculations, but 'the poor' accord roughly to the proportion of the population living below the Basic Needs Poverty Line using updated NSSA data (see Chapter 2); 'the poorest' are arbitrarily defined here as being the bottom 15% of the population; although this proportion is consistent with micro qualitative surveys, and with the distribution of landholdings - which suggest a substantially poorer group in the bottom 10-20% than among the poor generally.

The following very rough distribution of benefits is assumed for comparing various programs:

<table>
<thead>
<tr>
<th>Program</th>
<th>Non-Poor</th>
<th>Poor</th>
<th>Poorest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works</td>
<td>10%</td>
<td>70%</td>
<td>20%</td>
</tr>
<tr>
<td>Food-for-Work</td>
<td>5%</td>
<td>70%</td>
<td>25%</td>
</tr>
<tr>
<td>Nutrition</td>
<td>15%</td>
<td>65%</td>
<td>20%</td>
</tr>
<tr>
<td>Food Subsidy</td>
<td>60%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Cash Transfers</td>
<td>10%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>Orphan Transfers</td>
<td>10%</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Starter Packs</td>
<td>53%</td>
<td>34%</td>
<td>13%</td>
</tr>
<tr>
<td>School Feeding</td>
<td>40%</td>
<td>45%</td>
<td>15%</td>
</tr>
</tbody>
</table>

It must be emphasized that these are estimations only, for the purposes of illustrating the relative costs of delivering benefits to various groups, using various programs. To rigorously analyse the incidence of benefits would require data on beneficiaries by income class, which should be generated by forthcoming panel data surveys.

Notes on the table: Starter Packs assumed to be distributed in proportion to the rural population, with the degree of over-issue (which the evaluation showed was higher for those with larger landholdings) assumed to be distributed 65% to the non-poor, 35% to the poor, and 5% to the poorest.

Public works programs are assumed to be fairly selective of the poor, given the locations chosen and the wage rate. The poorest are under-represented (proportionally) because many in the bottom 15% are unable to participate in work-based programs (eg. the disabled, elderly infirm, and orphans).

Food for work is assumed to be somewhat more selective of the poorest; again although there is not firm data by income class, this is consistent with the qualitative evaluations, the greater proportion of female participants, and the intentional selectivity of the very poorest areas.
Nutrition programs are assumed to be fairly well targeted, on the basis of experience with Vulnerable Group Feeding and clinic distribution programs. Some of the very poorest are assumed not to be captured (eg, those without children) and it is assumed that some share of the non-poor are legitimately covered because they have malnourished children.

The food subsidy is assumed to be captured somewhat more by the non-poor, given the preponderance of sales in urban areas (about 30-40% of maize sold by ADMARC); and the anecdotal evidence of leakage to traders and speculators; however-- if the amounts sold are large enough (eg. at the level of 3-4 million persons covered assumed in Table 12) it is assumed that the benefits are also reaching the poor and poorest even if not in the same proportions as the non-poor.

Cash transfers are assumed to be fairly efficiently delivered to the poorest, for whom they are specifically intended, with some limited leakage to the non-poor (10%) and the moderately poor (20%).

Similarly transfers to orphans are assumed to be relatively well targeted to poor orphans (which is the design intent) – although the incidence on the moderately poor is substantially higher, since orphans (and particularly the households supporting them) may equally come from either group.

Both of these programs are proposals only, so the estimates are hypothetical – however targeting is the specific design objective of the proposed programs, so if they are not targeting at something like this level of precision, they probably should be dropped.

School feeding is assumed to be moderately selective of the middle-poor, if it is targeted only at poorer geographical areas. Otherwise the distribution of benefits follows the overall distribution of the population, although the very poorest are under-represented because both qualitative and quantitative studies show they are less likely to have children in school.
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