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Economic Empowerment Pilot Project in Malawi

Qualitative Survey Report

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Abbreviations

BRAC	Bangladesh Rural Advancement Committee (Bangladeshi NGO)
COMSIP	Community Savings and Investment Promotion
CSSC	Community Social Support Committee
CT	cash transfer
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
MWK	Malawian kwacha (national currency)
NGO	non-governmental organisation
SCTP	Malawi's Social Cash Transfer Programme
UNICEF	United Nations Children's Fund
USD	US dollar
VSL	Village Savings and Loans

Executive summary

Malawi is one of the poorest countries in the world. To alleviate poverty and food insecurity, particularly in rural areas, in 2006 the social cash transfer Programme SCTP was launched. It has gradually expanded, targeting the ultra-poor (the 10 per cent poorest households in each district) and labour-constrained households. The large scheme, which is heavily funded by the United Nations Children's Fund (UNICEF), has significantly improved its beneficiaries' access to basic goods and services, but so far has had limited effects on their potential to graduate out of poverty in a sustainable manner.

For this purpose, the Government of Malawi, the Mwanza District Council, and the Community Savings and Investment Promotion (COMSIP) Cooperative Union, with the support of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Social Protection Programme, have designed and implemented the Tingathe Economic Empowerment Pilot Project in the district of Mwanza. The pilot programme targets the same beneficiaries as the SCTP and is implemented in six randomly selected clusters (small geographical areas) of the district. The main rationale behind this project is that the root causes of poverty are lack of income and knowledge/access to information. Therefore, the project provides the following three types of services, in addition to the regular SCTP:

- **Training package:** Households in two randomly selected clusters were offered training in *group formation, financial literacy* and *business management*. The trainings took place from January to May 2016. The group formation was meant to lead to the formation of *COMSIP Village Savings and Loans (VSL) groups*. VSL groups, which are widespread in Malawi, pool their savings and give out loans among the group members. On top of the activities of classical VSL groups, COMSIP promotes group business activities within its groups.

- **Lump-sum payment for business investment:** On 15 June 2016, households in another two randomly selected clusters received an additional payment of MWK 50,000,[1] which could be used for business investments. This amount is equivalent to about 58 per cent of the 2013 national poverty line (MWK 85,852) and 94 per cent of the ultra-poverty (or food poverty) line (MWK 53,262) (Handa, Mvula, Angeles, Tsoka, & Barrington, 2016).

- **Lump-sum payment and training:** In two other randomly selected clusters, households received both interventions described above.

As most of the recipients are labour-constrained, the pilot offers to the main receivers the option to choose a proxy, i.e., someone who attends the training or engages in business activities on their behalf. This is an innovative feature of the project, which sees beneficiaries as potential entrepreneurs or investors, and not just as workers.

The general objective of the ongoing impact evaluation is to verify whether the lump-sum (business capital) transfer, the business/financial literacy training or the combination of the two have a substantial impact on agricultural and business activities, savings, assets accumulation, consumption and food security. The expectation is that, while people

1 In 2016, the exchange rate between USD and MWK was around 1: 715. So, MWK 50,000 was equivalent to USD 70.

continue to use the money from the SCTP to meet their basic needs, they would use the one-off lump-sum payment to invest in productive assets and activities. In addition, the evaluation of this pilot can assess the value added by the training, by comparing beneficiaries who receive only the lump-sum with those that receive the lump-sum and the training. By adopting a mixed-methods approach, the evaluation will also explore the channels by which the project can have an impact, and how results are affected by the specific local context and the occurrence of other events. Finally, the study provides insights into the potential graduation pathways followed by the beneficiaries.

While the comprehensive, quantitative impact assessment will take place in mid-2017, this report provides the first, qualitative evidence of the immediate effects of this programme. This report also provides the necessary orientation for the upcoming quantitative evaluation, by highlighting which types of beneficiaries engage in which types of business activities and by identifying all relevant impact channels and possible barriers to investments and business activities. Furthermore, the report synthesises evidence and possible lessons learned for similar interventions in other developing countries.

In order to achieve the above objectives, we conducted three rounds of qualitative interviews. First, we interviewed 30 households one week after the lump-sum transfer in June 2016. These households were randomly selected from the six treatment clusters using the baseline survey of the SCTP beneficiaries. Shortly afterwards, in July 2016, we conducted a second survey round. Of the 30 households, 14 were selected to be interviewed because they had spent only a very small portion of the lump-sum and/or had mentioned business plans in the first survey round. The third survey round, which took place in October 2016, involved 29 of the 30 initial households as one had been erroneously selected to be a beneficiary. In addition to the household interviews, we conducted 10 focus group discussions with members of the COMSIP VSL Groups during the first and third rounds of the qualitative survey, nine expert interviews and eight interviews with purposely selected households.

Key findings

Our qualitative findings highlight the importance of providing poor households with a one-time lump-sum transfer to support their income generation and diversification and, therefore, reduce their vulnerability. Moreover, basic financial/business training has thus far proven to be very important in ensuring that people spend the transfer in a productive way. The training has also been the key driver for the creation of village savings groups, which continue to function long after the implementation of the intervention. An increase in savings, especially combined with lump-sum transfers that increase productive investments, can smooth consumption and improve beneficiaries' living standards in the long run. Two important aspects, however, must be considered. First, in 2016, Malawi faced one of the worst droughts of the past decades, which may limit the long-term effects of the project. Second, as most of the beneficiaries bought livestock, GIZ introduced livestock training sessions during the project because of the beneficiaries' limited knowledge about livestock rearing, feeding and health.

Zooming into the details of our findings, the **lump-sum** transfers were primarily used to purchase livestock (nearly 35 per cent of total lump-sum transfers). None of the beneficiaries stated that they bought livestock for immediate consumption purposes, which is in line with the findings of many other studies in Malawi and elsewhere; therefore, we regard livestock as a productive asset. If we include investments in tools and utensils for business purposes (e.g. hoe), 40.5 per cent of all lump-sum transfers were used productively for business investments. The beneficiaries also used a considerable amount of the lump-sum transfers to buy **housing material** (in particular iron sheets) and **maize**. The driving factor behind spending the lump-sum on maize was acute food insecurity, a condition exacerbated by one of the worst droughts to hit Malawi in recent decades. We noticed a remarkable increase in the use of the lump-sum for maize purchases between July and October (as revealed in our third survey), which was when the negative consequences of the drought peaked, maize prices were extremely high, and households' food reserves were almost depleted. Looking at the differences between the types of intervention, we found that those who received the lump-sum transfer and training used the lump-sum significantly more for productive investments and savings (44.4 per cent and 14.6 per cent of the total lump-sum transfers, respectively) compared with those that only received the lump-sum transfer (36.1 per cent and 3.3 per cent of the total lump-sum transfers, respectively).

With regards to the **training** component, we found that the training was essential **in getting beneficiaries to join savings and loans groups (COMSIP VSL groups) and group businesses**, irrespective of whether they additionally received the lump-sum transfer. Only 15 per cent of the interviewed beneficiaries from training clusters were in a savings group before attending the training. After the training, all of them became members of COMSIP VSL groups, which is an immediate output of the project. In October, about four months after their creation, 95 per cent of the beneficiaries were still part of the VSL groups.

Between June and October 2016, the surveyed members of the VSL groups saved on average MWK 8,100, and 82 per cent of all group members obtained loans. However, most of the loans were used for non-productive purposes, mostly to buy maize in order to cope with the drought. At this stage, it is clearly too early to anticipate the potential effects of the increase in savings and loan uptake on the beneficiaries' living standards: only the upcoming impact evaluation will be able to shed light on these matters and whether the outcomes of the training may help beneficiaries to graduate out of poverty.

In addition, we found that because they received the training and the lump-sum transfer, **almost 17 per cent** of all surveyed beneficiaries started **new business activities** and now sell self-produced items such as beer, mats and meat. This is a conservative figure as we did not include "livestock rearing" as a business activity since it is unclear to what extent the occupation generates additional income for the household. We found that in most of the cases in which respondents reported that they had initiated a new business activity, the training was instrumental in coming up with the business idea. The lump-sum transfer functioned as a business enabler with an important complementary enabling role for the training and thus may have put beneficiaries on poverty graduation pathways.

Irrespective of the treatment received, the resilience of the beneficiaries and the viability of their income-generating activities increased, but the project's results were constrained by the drought and high maize prices of mid-2016. Besides by buying maize using the lump-sum transfers and loans of the VSL groups, beneficiaries coped with the drought by reducing their households' meals in terms of quantity and quality, for example by eating *gaiwa* (a dish cooked with flour made from maize husks). In general, as most beneficiaries were excluded from emergency food assistance because they were already part of the SCTP, the findings stress the critical importance of these assistance programmes in mitigating household food insecurity and contributing to the success of the pilot intervention. So far, we have found no evidence that the drought has forced beneficiaries to sell the assets (primarily livestock) that were initially bought thanks to the pilot project.

1 Introduction

Prolific empirical literature has recently analysed the effects of cash transfer (CT) programmes – the most diffused social protection scheme – in several countries in sub-Saharan Africa. While the success of these programmes depends heavily on several factors, such as institutional arrangements and design features, these studies highlight the positive role played by the CTs in alleviating poverty and hunger in the short- to mid-term (see Bastagli et al., 2016; Burchi, Scarlato, & d'Agostino, 2016). However, CTs alone are unlikely to tackle all aspects of food insecurity and ensure beneficiaries' graduation out of poverty in the long term. To achieve this, they need to be accompanied by other types of interventions, for example other social protection schemes, or nutritional and economic policies (Burchi & Strupat, 2016). This study aims at providing qualitative evidence of the effects of the Tingathe Economic Empowerment Pilot Project in Malawi.

Malawi's Social Cash Transfer Programme (SCTP) has been operating since 2006: it targets the ultra-poor (the 10 per cent poorest households in each district) and labour-constrained households. It began as a pilot project, but has been extended to include half of Malawi's districts thanks to the support of the United Nations Children's Fund (UNICEF). While rigorous impact evaluations (e.g. Miller, Tsoka, & Reichert, 2011; Handa et al., 2016) suggest that the programme has significantly improved the standard of living of its beneficiaries, the studies also indicate that the programme has very limited effects on beneficiaries' graduation, that is, recipients remain dependent on the SCTP and do not manage to escape extreme poverty. For this purpose, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Social Protection Programme has designed and implemented the Tingathe Economic Empowerment Pilot Project in the district of Mwanza on top of the existing SCTP. This pilot intervention is implemented by the Government of Malawi, the Mwanza District Council, and COMSIP Cooperative Union[2]. It extends the bimonthly small CT with a larger lump-sum transfer and training conducted by COMSIP.

GIZ has appointed DIE to evaluate this intervention. The project is a cluster randomized control trial, and every phase of its design and implementation has been conducted under close collaboration between DIE and GIZ. Thus, from its inception the project has been suitable for rigorous evaluation. On the basis of their participation in different programme components, it is possible to distinguish four categories of beneficiaries: a) those who receive monthly transfers, training and a business lump-sum; b) those who receive monthly transfers and training; c) those who receive monthly transfers and a business lump-sum; and d) those (the control group) who receive only the monthly transfers and are not participants in the Economic Empowerment Pilot Project. The general objective of the ongoing evaluation is to verify whether the lump-sum transfer (business capital), the business/ financial literacy training, or the combination of the two have a substantial impact on agricultural and business activities, savings, asset accumulation, consumption and food security. The expectation is that, while people continue to use the money from the SCTP to meet their basic needs, they would use the one-off lump-sum payment to invest in productive assets and activities. In addition, the evaluation of this pilot can assess the value added by the training, by comparing beneficiaries who receive only the lump-sum with

2 COMSIP Cooperative Union Ltd. is a member-owned union of savings and investment cooperative societies. It evolved from the third phase of the Malawi Social Action Fund Adaptable Programme Loan 1(MASAF III APL1) as the implementing agency for savings and investment activities.

those that receive the lump-sum and the training. In doing so, the study provides insights about the potential graduation pathways followed by the SCTP beneficiaries.

While the comprehensive, quantitative impact assessment will take place in mid-2017, this report provides the first evidence of the immediate effects of this programme, based on three rounds of qualitative interviews conducted after the start of the pilot project. This report will also provide the necessary orientation for the following quantitative evaluation, by highlighting which type of beneficiaries engage in what type of business activities and by identifying all relevant impact channels and possible barriers to investment and business activities. Furthermore, the report synthesises evidence and possible lessons learned from similar interventions in other developing countries.

The remainder of the report is structured as follows: Section 2 reviews the existing literature on similar interventions; Section 3 describes the project in detail; Section 4 explains the theory of change of the Economic Empowerment Pilot Project; Section 5 presents the data and methodology; Section 6 illustrates the findings; and Section 7 presents our conclusions and policy recommendations.

2 Review of existing evidence

In order to provide a point of reference, the latest empirical insights into the potential of regular CT programmes are briefly summarised by drawing on a recently published systematic review that provides evidence from 165 studies of 56 programmes in 30 low- and middle-income countries (Bastagli et al., 2016). The authors conclude that if such programmes provide an adequate transfer size over a substantial period of time, are designed in a way that is appropriate for the country context, and are well-implemented, CTs are an effective instrument for mitigating temporary shortages of food and consumption deficits in the short term. Similarly, a study by Burchi et al. (2016) highlights the positive effects of well-designed CTs on hunger alleviation and asset accumulation in sub-Saharan Africa. However, the same study shows that CTs alone are unlikely to generate significant improvements in nutritional outcomes; to obtain this result and produce long-term benefits, these programmes need to be combined with other interventions. CTs also lay the foundation for breaking the inter-generational transmission of poverty by contributing to improvements in the intermediate outcomes in key dimensions of human development (e.g., nutrition, health and education) and by strengthening livelihoods during the programme duration, for example through increased investments in livestock agricultural inputs. However, the evidence is less strong when it comes to indirect and long-term impacts on human development and income.

In only a few cases, regular small CT payments have been complemented by one-off lump-sum transfer payments. In some other cases, one time lump-sums have been paid instead of regular small CT payments. The model that comes closest to the approach followed in the Economic Empowerment Pilot Project is the graduation model championed by the Bangladeshi non-governmental agency (NGO) called the Bangladesh Rural Advancement Committee (BRAC). The BRAC approach is to complement a regular CT, or food transfer in some instances, for the ultra-poor with: a) grants to buy productive assets, b) intense business advice tailored to the specific livelihood context and the purchased productive assets, c) a formal savings account to encourage saving, d) health care support and advice and e) mobilisation of the community to facilitate social integration and boost confidence (BRAC, 2013). A rigorous multi-country randomised control trial conducted in six countries, including Ethiopia and Ghana, found that a two-year programme intervention along these lines led to a sustained increase in consumption and income among the beneficiaries that persisted for at least one year after the end of the intervention (Banerjee et al., 2015; Fahey, 2015). The improvements in well-being were mostly the result of increases in income from self-employment. The impact tended to be large enough to lift beneficiaries out of ultra-poverty, but not necessarily out of ‘moderate’ poverty. Assuming that the consumption increases persist over time, it has been argued that the benefits would exceed the substantial costs of the full two-year programme, which ranged from USD 1,455 per household (in India) to USD 5,962 per household (in Pakistan), in purchasing power parity terms. Positive evidence over a longer time horizon, namely four and seven years after the end of the intervention, exists from Bangladesh (Raza, Das, & Misha, 2012; Bandiera et al., 2017). The findings of these studies suggest that the gains in various dimensions (e.g. food security, income and assets) persist. However, Misha, Raza, Ara and Van de Poel (2014) find substantially smaller effects of similar interventions in Bangladesh after nine years.

Macours, Premand and Vakis (2012) analysed *Atención a Crisis*, a one-year conditional CT pilot programme in Nicaragua that targeted the main female caregivers from poor households in drought-prone areas where subsistence farming constitutes the main livelihood. The programme aimed at improving households’ risk-management through income diversification. Through a participatory lottery, 3,000 households were allocated to one of the following three types of interventions: a) a CCT only, b) a CCT and a scholarship for an occupational training, or c) a CCT and a one-time grant of USD 200 for productive investments.[3] Results were estimated about two years after the end of the interventions. In contrast to the CCT alone, the CCT in combination with either of the two complementary interventions provided full protection against drought shocks. However, only the combination with the productive grant increased average consumption (by 8 per cent) and income (by 4 per cent) compared with the control group.

The mechanisms that explain these outcomes become apparent when looking at the changes in livelihood activities, the income from these activities and how the income varies depending on the intensity of shocks. In terms of changes in livelihood activities, the ***grant*** was particularly effective at enabling beneficiaries to start profitable self-employed non-agricultural activities (13 percent of beneficiaries succeeded in doing so) that they had not previously engaged in, mainly in the form of simple food processing and small commerce (e.g., small bakeries or corner stores). Annual return rates on the initial investment of USD 200 amounted to a substantial 15 to 20 per cent. Participation in the training intervention led to rather limited diversification. First, small yet significant increases in the number of people who engaged in self-employed service activities were observed. Second, the findings suggest that strong shocks may have incentivised beneficiaries to apply their learned skills in non-agricultural wage employment whereas they do not pursue such employment options when shocks are less strong, possibly due to the transaction costs of doing so (e.g., the cost of temporary migration to cities). Third, qualitative research identified short training durations, lack of labour demand, remoteness, and labour market imperfections as possible constraints to stronger impacts of the training

3 In addition, approximately 1,000 households were randomly sampled in control communities.

on wage employment. Fourth, intensified livestock rearing seems to have helped participants in the training (as well as basic CCT recipients) to partly cope with the effects of shocks. More generally, the study highlights that risk-management is facilitated by households with non-agricultural activities (i.e., primarily lump-sum recipients) selling products or services to households from other communities less affected by shocks. However, the effectiveness of this mechanism is undermined when large shocks hit an entire area. Thus, such productive transfers are no substitute for response mechanisms to mitigate the effects of substantial covariate shocks.

Macours and Vakis (2009) analysed the same programme but rather than two years after the end of the pilot they took stock nine months after the beginning of the one-year pilot and they disregarded the training arm of the intervention. Their primary research objective was to investigate whether social interactions with leaders[4] that received the productive investment package affected investments and attitudes of other beneficiaries. Analysing aspirations matters because other research has shown that low aspirations may limit investment, whereas high aspirations may foster investment. Overall the empirical evidence supports the hypothesis that examples of, and communication with, motivated and successful leaders led to higher *aspirations* and corresponding investment behaviour by other beneficiaries. By contrast, the evidence does not provide support for the alternative mechanisms in the form of economic spill-overs or technical learning. In general, the study findings highlight the importance of evoking changes in aspirations to encourage beneficiaries to fully capitalise on the investment opportunities offered through lump-sum payments. The implication of the findings for the Economic Empowerment Pilot Project is that the group-based approach of COMSIP (explained in Section 3.2) may add value more so than individual-based approaches, provided that the interactions and dynamics during the training sessions and within the COMSIP VSL groups create an atmosphere that is conducive to heightening aspirations.

In a randomised controlled trial, Haushofer and Shapiro (2016) studied the impacts of an unconditional CT programme in rural Kenya that was financed by the international NGO *GiveDirectly*. The programme targeted poor households, using a means-test with "living in a house with a thatched (rather than metal) roof" as the sole poverty indicator. Most interestingly, the study shed light on the role of different policy specifications by cross-randomising[5] the gender of the transfer recipient, the temporal structure of the transfers (nine monthly transfers vs. one lump-sum transfer), and the transfer size (USD 300 vs. "USD 300 as a monthly or lump-sum transfer plus an additional USD 700 in seven monthly instalments"). The study reports only short-term impacts given that the end line survey was administered just over a year after the first transfers were paid out.[6] The main outcome variables were as follows: value of non-land assets, non-durable expenditures, total revenue, a food security index, a health index, an education index, a psychological wellbeing index, and a female empowerment index. With respect to *transfer size*, the results are relatively unambiguous. The large transfers produce more desirable results on

4 Leaders are self-selected women who were expected to take the initiative within groups of approximately 10 beneficiaries to meet frequently with the group members to talk about the objectives and the conditionalities of the programme.

5 With the exception that the randomly chosen recipients of the large transfers were informed after they had already been told that they would receive the basic transfer amount.

6 Furthermore, one should note that the statistical power is low in the cross-randomisations and therefore null effects should not be over-interpreted.

most outcome measures, including asset holdings, consumption, food security, psychological wellbeing, and female empowerment (although not on revenue, health, or education), but the returns to transfer size appear to be decreasing. With respect to the *temporal structure of the transfers*, monthly transfers are superior to lump-sum transfers in terms of their effects on food security, while lump-sum transfers show larger effects than monthly transfers on asset holdings. In general, the study findings highlight the existence of savings and credit constraints that may be overcome through CTs.

In the Youth Opportunities Programme of 2008, the government of Uganda offered a lump-sum of USD 382 (which was about equivalent to the average yearly income in the country at the time). What set this programme apart from others is that the lump-sum was not paid to an individual or a household. Instead, people from the target group, namely poor underemployed young adults aged 16 to 35, had to form small groups and share the money in those groups. The grants were essentially unconditional given that even though the groups were in theory asked to submit a business proposal, compliance was not monitored. Blattman, Fiala and Martinez (2014) studied this randomised intervention using panel data collected at baseline, then two and four years after receipt of the grant. They found that grants are mainly spent on tools, materials and, to a lesser extent, skills training. Compared with the control group, people from the treatment group had 57 per cent more business assets, worked 17 per cent more, and earned 38 per cent more. Around half of them practice a skilled trade after four years and many even formalised their businesses and employed additional workers.[7] Thus, credit constraints appeared to have been the main obstacle holding them back.

A recently published paper by Beazley and Farhat (2016), summarises the theoretical and empirical arguments on whether and how complementing regular CTs with a lump-sum payment may increase the productive potential of CT programmes. In the paper, lump-sums are defined as "cash transfers that take place not more than three times per year with the size of each transfer greater than the size of regular consumption support payments". One should note that the authors explicitly do not include the BRAC model in their review. In their view, the BRAC interventions are "different" due to the substantially higher demand in terms of resources and management commitments of BRAC, which results in lower potential outreach. Nicaragua's *Atención a Crisis* pilot is also not reflected in their review. Although they conclude that "robust evidence is scarce and findings are by no means conclusive" they draw a number of tentative policy conclusions.

First, they find that transfer size should be commensurate with the programme objective, that is, with the costs of achieving the desired productive impacts. Second, reliability and predictability of payments is critical. In cases where the lumpiness was not by design but the result of payment arrears, productive impacts were limited, probably due to the lack of predictability. Third, timing matters because spending priorities, including investment priorities, may differ over the course of a year. Fourth, lump-sums may be more effective as an emergency response mechanism than as a response to chronic poverty. The underlying reasoning is that replenishing a productive asset base is more effective than venturing into unfamiliar productive activities (Beazley & Farhat, 2016). Thus, in contexts of chronic poverty, as in Malawi, training may be a necessary complement to lump-sum if the goal is to convince people to try new activities.

7 No impact was detected on social cohesion, anti-social behaviour or protest.

To sum up, the existing evidence suggests that lump-sum payments have more pronounced productive impacts than regular CT programmes because they are more likely to enable beneficiaries to overcome capital constraints. While programmes targeted at the poorest and most vulnerable households are still likely to lead to positive productive impacts, the impacts tend to be smaller than those targeted at other groups, such as business owners or young underemployed men (Haushofer & Shapiro, 2016, p.2). Thus, in addition to capital constraints there are other constraints that may impede productive impacts, for example, low aspirations, lack of business ideas and/or skills, and labour constraints. With respect to the impact channels, the main channels through which lump-sum transfers are likely to improve the livelihoods of recipients in settings like Malawi is through increased income either from agricultural activities or from self-employed micro-enterprise activities but rarely through (formal or informal) wage employment.

3 The Economic Empowerment Pilot Project

3.1 Malawi's Social Cash Transfer Programme

The Economic Empowerment Pilot Project in the district of Mwanza in Malawi is implemented by COMSIP, the Government of Malawi and Mwanza District Council, with support of the GIZ Social Protection Programme within the country-wide SCTP, an unconditional CT programme that was initially launched as a pilot in Mchinji district in 2006. Since then, it has been scaled up to 18 out of 28 districts in Malawi. The programme is targeted specifically at households that are both ultra-poor and labour-constrained. The coverage per district is limited to 10 per cent of all households. While various e-payment modalities are tested in pilots in some districts, manual payments, usually on a bimonthly basis, remain the standard as of now, including in Mwanza district. The monthly transfer values per household are determined as follows:

- 1 member: MWK 1,700
- 2 members: MWK 2,200
- 3 members: MWK 2,900
- 4+ members: MWK 3,700
- Each primary school child[8]: MWK 500
- Each secondary school child/member[9]: MWK 1,000

3.2 Economic Empowerment Pilot Project intervention

General objectives of the pilot project

CT programmes like the one in Malawi are unlikely to enable ultra-poor and labour-constrained beneficiaries to sustainably escape from poverty (in the sense that their livelihoods are sufficiently strengthened through programme participation to prevent them

8 Criterion: household residents age 21 or below enrolled in primary school.
9 Criterion: household residents age 30 or below enrolled in secondary school.

falling back into poverty once they are no longer in the programme). Therefore, this pilot proposes an alternative CT model that might yield better results in addressing ultra-poverty. The pilot project will generate comparative data on how households perform when equipped with skills and/or cash.

Project design

The pilot extends the SCTP in the sense that the bimonthly payments are still made to all SCTP beneficiary households as they would be in the absence of the pilot. In other words, the pilot interventions are add-ons rather than substitutes. The reasoning behind this is that the regular small payments help the beneficiaries to meet their consumption and other basic needs so that the lump-sum payment can, in principle, be put to productive use rather than going to consumption. SCTP beneficiaries in Mwanza received their first regular bimonthly payment in November 2015.

The pilot is being implemented in six randomly selected clusters and introduced as three different sets of support. There are three treatment groups and the control group, which consists of recipients of the SCTP only. The three treatment groups each receive one of the following:

- **A training package:** In randomly selected locations, households were offered training on group formation, financial literacy and business management, which included some case studies for business investment. The trainings took place from January to May 2016. Counselling is on demand but should be proactively offered by the Community Social Support Committee (CSSC),[10] which in each cluster consists of six extension workers and six volunteers from the communities. In August 2016, after two of our three rounds of qualitative data collection, the training component included coaching and mentoring by district staff. It consisted of four refresher trainings (two trainings on financial literacy, one training on business management and one training on environmental and social safeguards), which were combined with monitoring visits. This additional training ended in December 2016.

- **A lump-sum payment for business investment:** In June 2016, households in randomly selected locations obtained an additional payment of MWK 50,000 (70 USD) that could be used for business investment. This amount is equivalent to about 58 per cent of the 2013 national poverty line (MWK 85,852) and 94 per cent of the ultra-poverty (or food poverty) line (MWK 53,262) (Handa et al., 2016). Households were informed about this lump-sum payment one month in advance and were asked about their primary spending intention. The payment took place on 15 June 2016. An information leaflet was distributed at the time of payment to remind the beneficiaries that this was a one-off transfer, and separate from the CT they regularly receive. The leaflet also highlighted the pilot project objective and suggested that the funds be used for business investment. However, the households were free to decide what to spend the money on.

- **A lump-sum *plus* training:** The third group received a combination of the two interventions described above.

10 The CSSC was formed by the SCTP and assumes, for example, targeting tasks in the community.

Due to budget constraints, the project is limited to six clusters. We randomly selected these six clusters out of 30 randomly selected clusters from Mwanza and Neno district.[11] Thus, in the upcoming impact evaluation six clusters will form the intervention group, and 24 clusters will form the comparison group.[12] For the random selection of the intervention clusters we used a two-step approach. First, we used household baseline data (SCTP household registry data) of the beneficiaries to build strata of comparable clusters with regards to the average education level and the size of the clusters. We randomized the treatment within the six strata resulting from this stratification to ensure that the resulting treatment and control groups are balanced with regard to the stratification criteria. Furthermore, we applied a min/max t-stat method to assure balance for further important baseline criteria that could not be accounted for in the stratification because of dimensionality reasons. Examples for such "secondary" balancing criteria are housing wealth indicators, age, land ownership, food security situation and household assets. In order to check whether the randomisation worked, and clusters with and without the project were not fundamentally different at baseline, we created a balance table to show the means of the baseline variables. The table indicated that both groups are balanced across all baseline variables. In a second step, we randomly select three pairs of clusters from the six treatment clusters, to allow for the two cross-cutting interventions, training and lump-sum payment, and their interaction. We created further balance tables comparing all three pairs of clusters with the control clusters, with the result that most of the baseline variables do not reveal statistically significant differences.

Table 1 presents an overview of the intervention's components and timeline.

11 We decided to use a random selection on the cluster level in order to avoid spillover effects between direct neighbours and also to prevent tensions between beneficiaries and non-beneficiaries.

12 To increase the statistical power of the study we included 10 randomly selected clusters from Neno district in the comparison group.

Table 1: Overview of the intervention components and timeline

		Training package		Lump-sum payment and training package		Lump-sum payment	
Number of clusters		2		2		2	
Name of clusters		Chimulango	Govati	Kanduku II	Tulonkhondo	Nthache	Ziyaya
Number of households		100	95	98	87	75	102
Sets of support	**Jan 16**	Group formation training	Group formation training	Group formation training	Group formation training		
	Mar - Apr 16	Financial literacy training (10 days)	Financial literacy training (10 days)	Financial literacy training (10 days)	Financial literacy training (10 days)		
	May16	Business management training (8 days)	Business management training (8 days)	Business management training (8 days)	Business management training (8 days)		
	May 16			Information about lump-sum payment	Information about lump-sum payment	Information about lump-sum payment	Information about lump-sum payment
	15 June 16			Lump-sum payment	Lump-sum payment	Lump-sum payment	Lump-sum payment
Qualitative surveys	**June 16**	First round					
	July 16	Second round					
Extra training	**Aug 16**	Horticulture and livestock training (5 days)	Horticulture and livestock training (5 days)	Horticulture and livestock training (5 days)	Horticulture and livestock training (5 days)		
	Aug - Dec 16	Training refreshers	Training refreshers	Training refreshers	Training refreshers		
Qualitative survey	**Oct 16**	Third round					

As indicated, two types of training were offered to SCTP beneficiaries in the training clusters before the qualitative evaluation was conducted. First, beneficiaries could attend **financial literacy training** for a total of 10 expected training outcomes, structured in accordance with the three modules of the training manual. They expected outcomes are presented in Table 2.

Table 2: Expected outcomes of the financial literacy training

Module 1: Savings mobilisation	Module 2: Group savings	Module 3: Financial management
➢ Understanding lifeline financial needs and how to meet them ➢ Ability to budget for household needs ➢ Knowledge of different forms of savings and their respective strengths and weaknesses • Individual savings • Group savings (including procedures) • Banks	➢ Knowledge on criteria for accessing loans ➢ Understanding the benefits of loans to the group and individual members ➢ Understanding the process of loan disbursements in a group setting ➢ Understanding dividends ➢ Knowledge on record keeping ➢ Understanding what investments are and knowing available investment options	➢ Knowledge on how to maintain cash books ➢ Knowledge of the steps to ensure that cash is managed at the optimal level ➢ Knowledge on how to profitably invest surplus cash and avoid cash shortage

Second, beneficiaries in training clusters could attend **business management training** for a total of eight days. The expected training outcomes, structured in accordance with the training contents, are highlighted in Table 3.

Table 3: Expected outcomes of the business management training

1. Business idea generation	• Creation of business ideas • Knowledge of the qualities that a good business person should have
2. Business idea evaluation	• Ability to do a SWOT analysis for individual and group business activities
3. Market research	• Ability to conduct a market research for individual and group business ideas
4. Marketing	• Conceptualisation and understanding of one’s market and target group • Knowledge of the 7 Ps: (1) product, (2) promotion, (3) price, (4) place, (5) people, (6) process and (7) physical environment
5. Costing and pricing	• Understanding of the difference between direct, indirect and fixed costs • Understanding of the importance of costing and pricing for a successful business • Ability to cost and price one’s business idea
6. Business planning	• Knowledge of what a business plan entails • Formulation of group/individual business plans
7. Environmental and social safeguards	• Formulation of environmental and social mitigation measures for individual/group business plans

The poor, especially the ultra-poor, tend to lack the savings to smooth consumption, cope with shocks, and engage in productive activities that require capital. With the additional income from the SCTP and the lump-sum payment (where applicable), they have the possibility to save for such purposes. Therefore, the pilot project aims to foster a savings culture among the beneficiaries. VSL groups are a wide-spread instrument in Malawi to promote pooled savings and give out loans, but they do not usually include the poorest of the poor, and thus few SCTP beneficiaries.[13] In addition to conveying the above-mentioned skills and knowledge to the beneficiaries, the training was intended to result in the formation of savings groups similar to VSL groups. On top of the activities of classical VSL groups, COMSIP promotes group business activities within its groups (henceforth called **COMSIP VSL groups**), with the ultimate goal of developing into cooperatives. While COMSIP originally focused primarily on public works programme participants (who are usually not labour constrained), it adapted its approach for the Economic Empowerment Pilot Project to suit the needs of SCTP beneficiaries and the timeframe of the pilot. Considering that the SCTP is targeted at labour-constrained households, the pilot offers main receivers the option to choose a proxy, that is, someone who attends the training on behalf of the beneficiary and/or engages in business activities on their behalf.[14] The same logic is applied in the SCTP, where the main receivers can be represented by an alternative receiver.

4 Theory of change

The findings from the literature review and theoretical considerations suggest that the pilot intervention may boost incomes of beneficiaries through one or more of the following three impact channels: (i) farm activities, (ii) livestock activities and (iii) non-agricultural business activities. Financial literacy and business skills, membership in a COMSIP VSL group and encouragement through the training may boost and/or stabilise income through any of these impact channels. Some mechanisms require business capital and are therefore enabled through the lump-sum and (COMSIP VSL) loans. Others may result from training. Still others may require a combination of both. While it can probably be safely assumed that all beneficiaries are capital constrained and, thus, require extra capital to put business plans into practice, the extent to which training is needed is expected to be more heterogeneous because some aspects may be known to some but unknown to others. In what follows, the more specific impact mechanisms of the various channels are highlighted with the primary enabling intervention component(s) in parentheses.

(i) Farm activities: Increased income/production through

- more land (business capital)
- (more) inputs, e.g., fertiliser, pesticides or seeds (business capital)
- new tools (business capital)

13 Put simply, VSL groups are community-based organisations that pool members’ savings into funds from which members can borrow. VSL groups range in size from 10 to 25 people. During each meeting, members buy shares of the group for a fixed price per share. While the number of shares that can be bought is usually limited, some groups additionally allow group members to deposit voluntary savings. In contrast to shares, voluntary savings can be withdrawn at any time. Every transaction is made in the presence of the members. The group members grow the pooled money through (a) interest on loans, which varies between group members and non-members (provided non-members are eligible), and (b) fines which are imposed on non-conformists, e.g., in case of late loan repayments. Once or twice a year, the accumulated savings are shared out (share-out). The proportion that each member receives varies depending on the number of shares bought and the number and size of loans taken out by that person.

14 The specific cooperation arrangement is left to the respective parties to decide and not prescribed by the programme implementers.

- more capital-intensive techniques, e.g., irrigation (business capital)
- new crops (training and/or business capital)
- hiring labour (business capital)

(ii) Livestock activities: Increased income through

- purchasing (more and/or different) livestock that is (re-)sold (business capital)
- selling in a different form, e.g. alive or meat (business capital)
- new rearing techniques (business capital)
- improved livestock health/resilience, e.g., by vaccinating livestock (business capital)

(iii) Non-agricultural business activities: Increased income through

- trading activities that exploit regional price variations, including cross-border activities (training)
- baking activities (training)
- brewing activities (training)
- preparing and selling other processed food items (training)
- producing and selling non-food items (training)
- offering services (training)

The application of improved financial literacy and/or business management skills, related to the expected training outcomes listed in Table 2 and Table 3, can increase income through any of these three impact channels. Furthermore, membership in a COMSIP VSL group is expected to benefit members through loans that can help to overcome capital constraints and thus fuel business activities and group business activities that can offer an (extra) source of income through group-based activities related to any of the impact channels. The training participation can encourage SCTP beneficiaries by not only providing them with the necessary skills but also the necessary self-confidence and motivation to engage in business activities, especially in activities that are new, unfamiliar, complex, risky, more capital-intensive, or with fewer immediate benefits, and thus can increase income through any of the impact channels (i) to (iii).

5 Data and methodology

This report is mainly based on interviews with randomly sampled households, integrated with some interviews with purposely sampled households and focus group discussions with members of the COMSIP VSL Groups and expert interviews with CSSC members. In addition, we drew on the baseline data collected during the SCTP targeting process (SCTP household registry data).

For this report, we conducted three rounds of qualitative interviews, guided by a semi-structured household questionnaire. Given the limited time and resources, as well as the intention to conduct several rounds of interviews, the initial sample consisted of **30 households** who participated in the Economic Empowerment Pilot Project. These households were **randomly selected** from the registry of SCTP beneficiaries in the six pilot clusters. No interviews were conducted in the control clusters. Our initial sample consisted of

- 10 lump-sum recipients: five living in the cluster of Nthache and five living in the cluster of Ziyaya;
- 10 training recipients: five living in the cluster of Chimulango and five living in the cluster of Govati; and
- 10 recipients of both the lump-sum and training: five living in the cluster of Kanduku II and five living in the cluster of Tulonkhondo.

After the first two rounds of interviews, we noticed that there was an error in the inclusion of one beneficiary living in Nthache, as their economic status was much better than that of the other beneficiaries. We decided not to include them in the third round of interviews, and to exclude their answers from the tables and graphs presented in this paper, as doing so would have biased the results. This reduced the number of actual interviews with the beneficiaries of (only) the lump-sum to nine, and the total number of surveyed beneficiaries to 29.

The first interviews with these households were conducted between 22 June and 26 June (one week after the lump-sum payment on June 15). The first follow-up interviews were conducted with 14 of the 30 households between 4 July and 8 July (about three weeks after the lump-sum payment and, thus, two weeks after the first round of interviews).[15] Given the short timeframe between the first and the second interviews, we focus only on those households that had not spent a substantial amount of the lump-sum and/or that had mentioned business plans in the first round. The second follow-up interviews were conducted with 29 households between 17 October and 26 October.

In addition, we interviewed eight purposely selected households, using the same semi-structured household questionnaire. The purpose of these interviews was to identify some best-practice examples, that is, households that used the training and/or the lump-sum to start a particularly promising/innovative income-generating activity. We expected that such cases would offer insights into the underlying success factors. In order to find such households, we used three different methods: (i) asking local CSSC members who know the SCTP beneficiaries in their area well, (ii) asking during the meetings of the groups that had developed out of the training sessions and (iii) checking the lists provided by GIZ that indicated the beneficiaries' intentions to spend the lump-sum.[16]

15 The 14 interviews of the first follow-up survey were conducted as follows across the different clusters and intervention types: three in training-only clusters (two in Chimulango and one in Govati), five in lump-sum-only clusters (three in Nthache and two in Ziyaya) and six in lump-sum-plus-training clusters (three in Kanduku II and three in Tulonkhondo). These households were selected according to two criteria: first, those that had not spent a substantial amount of the lump-sum and second, those that had mentioned business plans in the first round.

16 These interviews were conducted as follows across the different clusters and intervention types: one interview in Chimulango, a training-only cluster, five interviews in Kanduku II, a lump-sum-plus-training cluster and two interviews in Ziyaya, a lump-sum-only cluster. No interviews were conducted in the control clusters (i.e., SCTP-only). The bias towards Kanduku II among the purposely selected interviewees is due to practical reasons: the research teams conducted the interviews relatively spontaneously when a free time slot opened up on a given day in a given area, which happened to be in Ziyaya and Kanduku II.

Furthermore, we arranged meetings with all 10 COMSIP VSL groups that had been formed as a result of the COMSIP training. During these meetings, we gathered information through focus group discussions that were guided by a set of questions that were prepared in advance. The purpose of meeting the groups was two-fold: (i) to investigate whether and how individual households may benefit from participating in the activities of those groups, and (ii) to use the opportunity to gather more data on the use of the lump-sum and the individual business plans of the group members.[17]

Third, we conducted interviews with nine CSSC members to hear their perspectives and ask them to guide us in the selection of particularly interesting households for the purposely selected household interviews. The short interviews were structured around a few guiding questions that had been prepared in advance.[18] We used the baseline data collected during the SCTP targeting process as a reference point to highlight changes in livestock ownership.

6 Results

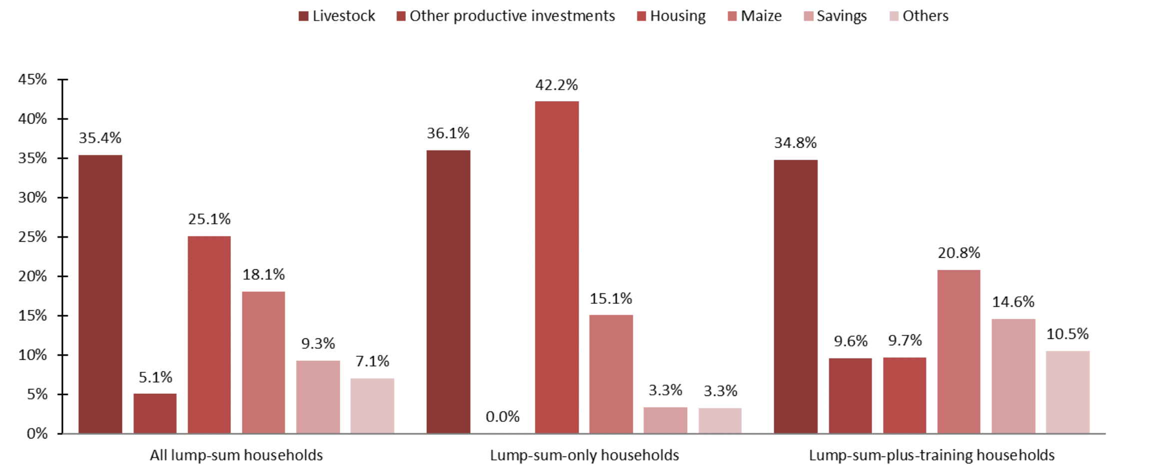
6.1 Use of the lump-sum and intentions behind the spending decisions

The main uses of the lump-sum transfers can be classified into the following six categories: (1) livestock; (2) other productive investments, which include farming tools (e.g., hoe); (3) housing; (4) maize; (5) savings; and (6) others. The category “others” consists mostly of clothes, education and gifts to relatives (in some cases, the proxy). The patterns of lump-sum use at the end of the three rounds of interviews are highlighted in Figure 1.

17 The groups are distributed as follows across the different clusters and intervention types: five focus group discussions in lump-sum-plus-training clusters (two in Kanduku II and three in Tulonkhondo) and five focus group discussions in training-only clusters (three in Chimulango and two in Govati). Given that no training had been offered, no groups have been formed in the lump-sum-only clusters Nthache and Ziyaya.

18 The CSSC are distributed as follows across the different clusters and intervention types: four interviews in lump-sum-plus-training clusters (three in Kanduku II and one in Tulonkhondo), two interviews in training-only clusters (one in Chimulango and one in Govati) and three interviews in Ziyaya, a lump-sum-only cluster.

Figure 1: Share of lump-sum transfer allocated to different spending categories, by category of beneficiaries



Source: Authors

If we consider the entire group of beneficiaries who received the lump-sum, the main expenditure category is **livestock**. On average, they spent 35.4 per cent of the lump-sum on livestock, followed by housing (25.1 per cent) and maize (18.1 per cent). Only two of the 19 interviewees did not allocate at least a part of the business capital to the purchase of some kind of livestock. Livestock is generally considered to be a productive asset that can be used for breeding, rearing and obtaining products such as milk or eggs, and that can be sold later at a higher price (e.g. Handa et al., 2016). However, we would like to understand the intention behind the decision to spend the lump-sum on livestock, therefore we asked the interviewees to specify whether they purchased it as a form of savings, a consumption item, or as a productive asset.[19] Many beneficiaries did not make a clear distinction between these purposes, but they were well aware of livestock's multiple purposes. For most interviewees, the attractiveness of livestock lies in its dual function of being a fungible form of savings that allows consumption smoothing and an income-generating asset whereby the offspring are equivalent to interest on bank deposits. In fact, one beneficiary in the Nthombe group explicitly said that "buying livestock is like keeping money in a bank". By contrast, regarding livestock as a consumption item played a subordinate role. There were only a few examples where livestock was regarded first and foremost as a business investment. One household in Kanduku II stood out in this respect because it used the lump-sum to start a fried pork business. The case is highlighted in Box 1. Many households planned to sell the livestock offspring without concrete plans for how to maximise the income from that activity, for example, by improving rearing techniques or choosing a particular customer group, or place or time to sell it. One exception was a

19 These observations concerning intentions are also applicable to livestock spending in training-only clusters. As highlighted in the Annex, compared with the baseline questionnaire, livestock ownership increased for the full sample, for each intervention type and for each cluster. Disaggregation by intervention type shows the most impressive gains for the lump-sum-plus-training cluster, followed by the lump-sum-only cluster, and the smallest gains were achieved by those in the training-only clusters. Furthermore, SCT beneficiaries who did not receive the lump-sum mainly purchased chicken, probably because they could not afford bigger livestock, whereas the lump-sum recipients mainly purchased pigs and goats.

purposely interviewed household from Kanduku II that decided to focus on selling pigs to fried pork sellers, probably the customer group with the highest and most predictable demand for pigs. Therefore, to a large extent the individual interviews confirm the validity of the assumption that livestock is an important productive asset for the poor in Malawi.

One further relevant piece of information came up during some individual interviews and group meetings. We were told that some beneficiaries were encouraged to invest in livestock, sometimes during the training or on payment days, and sometimes by extension workers. Some beneficiaries changed their spending priorities as a result of these messages. Thus, these messages had a soft conditionality effect in some cases.

Given its peculiar nature, we decided to keep the category "livestock" separated from "other productive investments", which consists of farming tools (e.g., hoe) and in one case utensils for frying fish, which is the business activity the individual planned to start. This spending category does not play a significant role as, in total, only about 5 per cent of the budget was used for this purpose. However, this brings the use of the lump-sum for "overall productive investments", calculated as the sum of livestock and other productive investments, to 40.5 per cent.

There is a very different pattern of expenses for the two groups of beneficiaries (those who received only the lump-sum and those who received the lump-sum and the training). Productive investments count for about 36 per cent of total expenses in the former and 44.4 per cent in the latter. This difference is triggered by investments in assets other than livestock; the training seems to stimulate the purchase of business tools. This first, preliminary finding is in line with the logic of the project: people who are trained in financial literacy and business-related matters are more inclined to use the lump-sum for productive purposes compared with lump-sum only beneficiaries.

Box 1: Best-practice example

Fried pork business: At the time of our second interview with a household in Kanduku II, around three weeks after they had received the lump-sum, they were about to purchase the third pig for their business since the first two rounds of butchering, frying, and selling had been successful. In their case, both the lump-sum and the training had an enabling role. The training opened the proxy's mind about business possibilities. She emphasised the usefulness of the training element during which the group went to the market to observe other traders and business people. Thus, the general idea to sell meat came from the training, but the idea to sell fried meat was the proxy's idea, which was driven by the intention to earn quick money in order to be able to build a house for the main receiver as soon as possible. The key enabling factor was the lump-sum as it allowed her to immediately start the business. Without the lump-sum, the proxy claims, she would have done *ganyu*[20] to start the same business. Without the training, they would not have used some of the lump-sum productively, but instead spent all of it on housing and instead of selling fried pork the proxy may have started selling fish.

Housing was the second largest expenditure category (25.1 per cent of the total) in the full sample. Most of the expenses that fall into this category were for iron sheets and, to a lesser extent, other housing materials. As the beneficiaries reported, they did it for practical reasons, namely to improve the quality of living and to protect their (children's)

20 *Ganyu* is short-term manual work for a very low wage. *Ganyu* activities include, for example, clearing a field or digging a canal.

health. Only one interviewee said that he wanted to get iron sheets because he values them as a status symbol.[21] In general, there was no business intention behind these purchases.

This aggregate result is, again, the consequence of very different behaviour of the two groups of beneficiaries. Housing is the first expenditure category for lump-sum-only recipients: these people spent, on average, 42.2 per cent of the total business capital. This percentage is significantly lower (9.7 per cent) among recipients of both the lump-sum and training. Given that this use of the capital is for consumption purposes, it is not surprising to find out that training reduces the incentives to rely on this type of expense.

Figure 1 shows that our full sample of lump-sum recipients spent, on average, 18.1 per cent of the lump-sum on **maize**. This was mainly due to temporary food shortages, and therefore to combat food insecurity. Given the severe drought in 2016, the food security situation of most interviewed households became critical. The situation was aggravated by the wide-spread exclusion of SCTP beneficiaries from emergency free maize programmes. Due to the high price of maize, the regular SCTP payments are often not sufficient to purchase enough maize for the household. Therefore, the interviewed households used the lump-sum to purchase maize. The interviews confirmed that maize is viewed as a fundamental consumption good; there was only one case in which a beneficiary expressed interest in trading maize, but at the same time stressed that he was unlikely to do so given the large distance to market. These considerations work for both groups of beneficiaries, as no significant difference is found between them.[22]

The last interesting expenditure category is **savings**, which accounts for 9.3 per cent of the lump-sum transfers. Households mostly save through the (COMSIP) VSL groups, while in some cases they keep the money in the house or carry it with them. As expected, recipients of both the lump-sum and training save significantly more.[23] VSL groups are formed in these clusters, and people are trained on modalities to save, take out a loan and keep a small business. Only one beneficiary of the lump-sum-only clusters reported participating in a savings group, a private group composed of some SCTP recipients living in the same village. Thus, the differences between the two groups seem to be due to the training.

In light of the illustrated evidence on the pattern of lump-sum payment use, we can conclude that a substantial part (40.5 per cent) has been directly used for productive

21 Generally, we noticed that having iron sheets is regarded as an indicator of success. For instance, some people wanted to join savings groups because they had seen others who had done so and who had since bought iron sheets or an entirely new house.

22 The fact that recipients of both project components spend a larger proportion of the lump-sum transfer for maize (20.8 per cent) compared with lump-sum-only beneficiaries (15.1 per cent) could be regarded as counter-intuitive given that maize is a consumption good. However, the main explanation lies in the fact that the first group spent less during the period between June and July. As discussed in detail later in this section, between August and October (when the third survey was conducted) the negative consequences of a severe drought peaked. This led some beneficiaries to change their plans and increase their maize purchases. As recipients of both interventions had more money left, in October they spent more money for this purpose. This is reflected in overall higher figures in Figure 1 (which account for all three rounds of qualitative interviews). Taking into consideration only the first two rounds of interviews, in fact, the beneficiaries who also received training spent less on maize than lump-sum-only recipients (11 per cent vs. 13 per cent).

23 Part of the difference is due to the peculiar behavior of one beneficiary of both lump-sum and training, as he decided to save the entire amount received.

purposes, that is, to buy livestock or other productive assets. Nearly 9 per cent has been saved; it is probable that at least a part of those savings will be used for productive purposes. Moreover, the amount of the lump-sum transfer destined to productive investments might have been higher had communication of the rationale behind the use of **proxies** been better.[24] In fact, some proxies reported that they restrained themselves from using this amount for productive purposes because they did not think it was foreseen by the programme. Programme officials should communicate that this is allowed (and even encouraged) as long as the beneficiary benefits from it. On the other hand, interviews showed that prior to the project's implementation beneficiaries did not always have a clear understanding of how to use the lump-sum transfer. Sometimes, the decision to purchase livestock seemed to be based on what other beneficiaries decided to do or, anyway, not the result of a well-thought out plan. This, for example, is confirmed by the fact that some beneficiaries requested further training on livestock rearing. Part of this choice was also due to some soft conditionalities that some officials might have introduced. At this stage, it is too early to anticipate the potentialities of the different business activities; only the upcoming impact evaluation will be able to shed light on these matters.

While business activities other than livestock rearing do not play an important role in the sample of randomly selected beneficiaries, we have gained more insight into the potential use of the lump-sum from the interviews with purposely selected beneficiaries. Three of them spent a substantial share of the lump-sum on grocery business activities, and two spent a large share on a maize trading business. One particularly interesting example is highlighted in Box 2.

Moreover, the pattern of expenses depends on the intervention received. Receiving the training in addition to the business capital is conducive to more productive investments (44.4 per cent vs. 36.1 per cent) and more savings. As a consequence, less is destined to, broadly speaking, consumption purposes: housing, maize, and other consumption goods (particularly clothes).

Box 2: Using the lump-sum as a productive grant to overcome capital constraints that impeded existing business plans

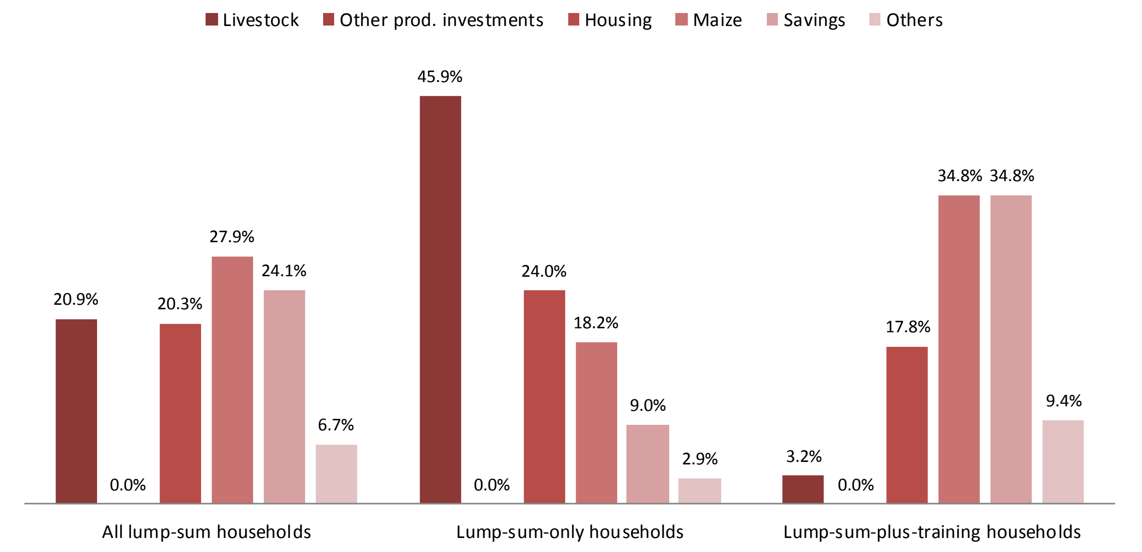
(Kanduku II, female, 35 years): The lump-sum enabled this woman to make her long-cherished dream to open a grocery a reality. She used the full lump-sum amount to construct and stock a little grocery store. While the idea was old, the training helped her run the business, for example, with the allocation of her money (she saves MWK 1,000 per day and uses this money to buy new grocery items).

Besides examining the overall expenses and the differences between the two groups of beneficiaries, it is interesting to analyse whether there were differences in the use of the lump-sum between the first two rounds of interview (June and July) and the third round (October), as a considerable amount of cash was yet to be used after July. The nineteen surveyed households had an average of MWK 18,450 (37 per cent) left from the initial MWK 50,000 after the interviews in June and July. This amount is higher for the group that received both components of the project (46 per cent) than for the lump-sum-only group (32 per cent). Figure 2 illustrates how the beneficiaries spent the remaining money between July and October. A clear difference is noticeable between the two groups of

24 A detailed analysis of the profiles of the proxies and the role they've played so far in the project can be found in Annex B.

beneficiaries. Lump-sum-only recipients used almost half of the remaining money to purchase livestock and one-fourth to purchase iron sheets or other housing materials. Part of this was predictable as the June and July interviews indicated that some beneficiaries had already ordered livestock and/or housing material, but had not yet spent the money. Between the second and third survey rounds there was also an increase in the use of the lump-sum to buy maize. That change is far more evident in the group of beneficiaries who received both the lump-sum transfer and the training. They used nearly 35 per cent of the remaining money to buy maize, and the same amount for savings. Very little was used for productive purposes after July: 3.2 per cent for livestock and nothing for other productive investments. Why do we experience such a sudden change in the use of the lump-sum within two to three months?

Figure 2: Use of lump-sum between July and October (reported in 3rd round of interviews) as percentages of remaining budget, by category of beneficiaries



Source: Authors

The main reason lies in the local contingencies in Mwanza. Between August and the beginning of October, households in Mwanza (as well as other districts in Malawi) experienced an exacerbation of their food situation as a consequence of the drought.[25] Many recipients reported that in 2016 they harvested one-quarter or even less of their regular harvest. Many people said that the maize they usually harvest is sufficient for them, but this year they had to buy extra maize. Some have specifically stated that due to the drought they had to buy maize for consumption purposes and this, in turn, delayed the implementation of their business plans. By August or September their food reserves had vanished. Moreover, as highlighted before, some of the beneficiaries of the Economic Empowerment Pilot Project were excluded by other social assistance programmes. Therefore, they had to change their plans, and substantially increase their maize purchases.

25 According to the latest figures from the World Food Programme's mVAM (mobile Vulnerability Analysis and Mapping), maize prices in Malawi in July 2016 are between 35 per cent and 120 per cent higher than in July 2015 and between 62 per cent and 167 per cent higher than the national average for the past three years. Unfortunately, price developments are not reported separately for Mwanza District, but generally the Southern Region (where Mwanza is located) was hit hardest by the drought (WFP Malawi, 2016).

6.2 Training

The training was essential **in getting beneficiaries to join savings and loans groups (COMSIP VSL groups)**, irrespective of whether they additionally received the lump-sum transfer. Only 15 per cent of the interviewed beneficiaries from training clusters were in a savings group before attending the training. After the training, all of them became members of COMSIP VSL groups, which is an immediate output of the project. In October, after about four months from the creation of these groups, 19 out of 20 members (95 per cent) remained.

By contrast, only one beneficiary of the lump-sum-only component is part of a VSL group.[26] When asked why they did not join a VSL group earlier, some of the interviewed COMSIP VSL group members replied that they had not properly understood the benefits of it in the past. Others indicated that they had hitherto thought they lacked the money to participate, and still others mentioned that there simply were no VSL groups in their area to join. Furthermore, some men told us that they always thought VSL was only for women because, in fact, classical VSL groups are typically entirely, or at least predominantly, made up of women. Thus, the training is responsible for bringing SCTP beneficiaries into such groups. As highlighted in Section 4, the group members can potentially benefit through three channels, namely savings, loans, and group business activities:

Savings: It appears that most group members are able to purchase at least the minimum number of shares, which ranges from MWK 50 to MWK 500 per week. Almost all beneficiaries continued purchasing shares between the three rounds of interviews.[27] Between June and October 2016 every project beneficiary involved in a VSL group saved on average about MWK 8,100, or MWK 675 per month. We found no evidence that the drought changed the saving behaviour of the group members, thus it seems that in contrast to beneficiaries that save individually, membership in a VSL group prevents beneficiaries from having lower savings rates.

Loans: Generally, the observations concerning loans from the COMSIP VSL groups, based on the insights gained during the group meetings, are that all ten groups have started giving out loans. The number of loans ranges from seven to the total number of the group members. The maximum loan size varies per group, and often also per group member (depending on the number of shares purchased); the maximum tends to be around MWK 20,000 for a loan with a repayment period of one month. According to the steering committees of the groups, loans were mostly used for productive purposes like starting *mandasi* (local doughnuts) businesses, alcohol brewing, and trading bananas or tomatoes, and to a lesser extent for school fees, food or housing. Interestingly, three larger loans (MWK 50,000) for chili, fish and meat businesses were obtained. The typical interest rate is around 20 per cent and so far, default rates are zero in all groups.

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26 Although one beneficiary joined a different group of five SCT beneficiaries that does not give out loans. The concept is that five SCT beneficiaries that know each other well form a group. After each SCT payment they each give MWK 1,000 to one member of the group. The group rotates so that at every fifth cash-out she is receiving an extra MWK 4,000. No interest is charged on the lump-sum.

27 Only one beneficiary left the COMSIP VSL group between June and October 2016. She left because she could not afford the group shares as she needed the money for food.

However, the findings from individual interviews are very different from the those obtained from the group meetings. Between June and October 2016, 14 out of 17 members of a COMSIP VSL group obtained loans: nine were used to buy food (maize), three to buy business inputs, and two for medicine and soap. The three beneficiaries who had not yet taken out a loan declared that they intended to use it for a brewing business, food and school uniforms, respectively. The conclusion from these individual interviews is that most of the loans (76.5 per cent) are used for non-productive purposes, which is interesting as the group members must pay interest. Those that stated they would use the loan for consumption purposes carried out *ganyu* labour activities or asked family members for money in order to repay the loan plus interest. So far, almost none of the beneficiaries have experienced problems in repaying the loan.[28] In conclusion, further research is needed to understand whether the information gathered in the group or individual interviews corresponds to reality, as this has relevant implications for the sustainability of the VSL groups and the overall pilot project.

Group businesses: Two groups in Kanduku II have set up group businesses: Tigwirizane grows *masamba* (green leafy vegetables), while Mwaiwathu grows and sells *masamba*, rice and maize. The remaining groups have not put their ideas into practice. Their ideas include group gardening, fish trading, pottery, poultry farming, goat rearing and maize trading (two groups). The obstacles they face are first and foremost capital constraints, but sometimes also a lack of knowledge on how to run the intended business. The groups are in the process of raising the necessary capital through savings. We found no indication of use of the lump-sum for the group businesses.[29] To overcome knowledge constraints, some groups plan to ask extension workers for advice and hope for additional training through the programme. It seems that the CSSC members are helping the groups, mostly by advising them on different issues (like checking records, clarifying training contents, demonstrating the use of fertilizer or encouraging group businesses), and providing ideas on how to use the loans productively. Some groups wish that the CSSCs would support them in finding farmland, but it seems that in general the groups are satisfied with their work. The exclusion from the emergency food assistance managed by the Malawi Vulnerability Assessment Committee (MVAC), financial restrictions, and internal issues, such as showing up late for meetings or the fact that not all people understand the processes and structures of the groups, are ongoing challenges.

Individual business activities: Figure 3 gives an overview of the individual **business activities** across the three intervention arms for all respondents. The business activities can mostly be categorised as petty trading (e.g., selling livestock, fruits, vegetables, pastry or fish). However, almost 17 per cent of all beneficiaries are selling self-produced products such as beer, mats and meat, while 30 per cent are not doing any kind of business activities (the only income-generating activity for these households is *ganyu*). Interestingly, producing business activities are only present in the training and lump-sum-plus-training parts of the project.[30] We found that in all of these producing business cases, the training intervention was instrumental in conceiving the business idea. Thus, five out

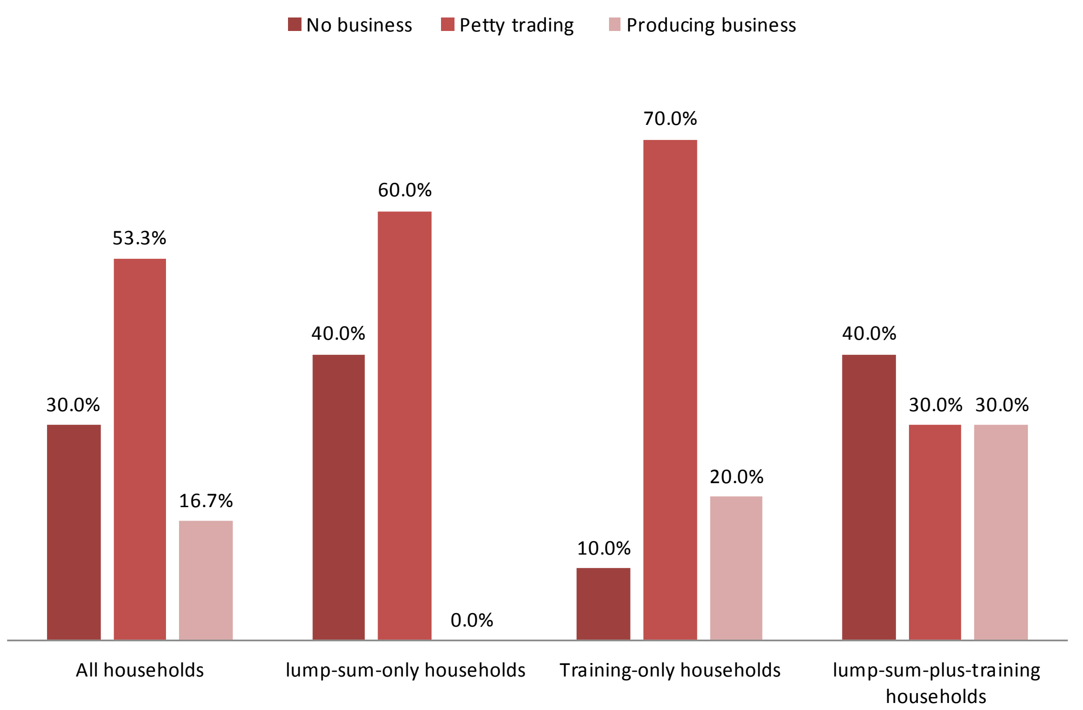
28 Only two interviewees mentioned a default and had to pay a fine for the late repayment.

29 See Table A2 of the Annex for a more detailed description of the group business activities.

30 We observed that in just one case of the lump-sum-only component was a beneficiary considering starting a business. A woman was toying with the idea of launching a salt trading business and she planned on using part of the lump-sum to start it, however in the end she did not put this plan into practise.

of 29 respondents started new business activities after the project: two in the training group and three in the lump-sum-plus-training group. The lump-sum transfer did indeed function as a business enabler with an important complementary enabling role for the training (44.4 per cent of the lump-sum transfers were spent for productive investments, see Section 6.1). In all other business cases, especially with regard to the petty trading activities, the ideas existed before the training took place.

Figure 3: Overall distribution of individual business activities, by category of beneficiaries



Source: Authors

However, most beneficiaries with ongoing business activities emphasised the benefits of the training in running their businesses. The knowledge on how to calculate profits and the necessity to think about the cash flows, that is, to retain earnings for reinvestment, were repeatedly highlighted as being helpful. Some beneficiaries set up a budget and earmarked money for savings, business and consumption purposes when they receive money. In addition to ongoing business activities, several other beneficiaries from training-only clusters mentioned business skills and ideas that they got from the training that they would be able to apply if they could overcome their capital constraints. Some are working eagerly towards accumulating the necessary seed capital, for example, through saving part of their income from the SCTP, *ganyu* or other income-generating activities. While some training effects came to the fore in most interviews, there were a few households in which the training had no noticeable effect – neither directly nor indirectly through the proxy – on the main receiver.

It seems that the training did not change the inclination to make riskier choices, but provided those who already had some sort of a business with extra encouragement. In Box 3, the interaction effects of both components of the intervention are highlighted by a purposely selected elderly woman.

Box 3: Highlighting the interaction effects between training and the lump-sum
(Kanduku II, female, 63 years): Without the lump-sum, this entrepreneurial woman has focused on selling green vegetables. The training made her more aware of the need to prioritise her business activities by taking opportunity costs into consideration, especially in light of the seasonality of produce-based activities. As a result, she decided to focus on the more profitable *maize trading* at the expense of her green vegetable sales. By July 2016, she had spent MWK 19,200 of the lump-sum on maize trading. Ultimately, her plan is to use the proceeds to start a *cross-border trading business*, an idea she got from the training. Furthermore, the training encouraged her to try many different business ideas and to eventually stick with the most profitable one(s). Therefore, she additionally plans to take out a VSL loan to trade *usipa*, a small fish that is rare in her community. She also wants to give some of the lump-sum money to her 20-year-old lastborn son (who is her proxy) once he is finished with his secondary school exams so that he can buy chicken locally and sell it at the border on her behalf.

Probably the most widespread effect was that beneficiaries came to better understand the importance of savings and now have a better knowledge of the various savings options. In particular, they often realised that saving is possible even if one has little money. In the third round of our qualitative survey, the intended use of the savings and how the savings rate develops during the lean season were investigated. We found that the financial literacy training dealing with savings was mentioned in a positive light in many interviews. Somewhat at odds with such positive statements is the impression that some beneficiaries do not understand the long-term purpose of saving money. The reason why they are saving is simply that they were told to save. Thus, the intended use of the savings was very often not clear. Regarding the savings rates during the drought season, it seems that saving money was not perceived as the first priority as more emergent needs, such as buying maize and paying school fees were of higher importance. Had the drought not occurred, individual savings rates would have probably been higher.

7 Conclusion

Our qualitative findings highlight the importance of providing poor households with a one-shot lump-sum transfer that supports their income generation and diversification and, therefore, reduces their vulnerability. Moreover, a basic financial/business training has thus far proven to be very important in ensuring that people spend the transfer in a productive way. As the training was oriented towards forms of collective savings, formal village savings groups were established right after the training and initially all beneficiaries participated. After about four months, 95 per cent of their initial members were still members, and nearly 82 per cent of them had access to at least one loan. An increase in savings, and easier access to loans especially, combined with lump-sum transfers that increase productive investments, can ensure consumption smoothing and improve beneficiaries’ living standards in the long run.

The recent impact evaluation of the SCTP in Malawi highlights that such transfers are usually spent on basic needs like food, clothing, and education (Handa et al., 2016). Our preliminary study shows, instead, that the lump-sum transfer component of the Economic Empowerment Pilot Project is primarily spent on productive assets, which suggests that the combination of a lump-sum transfer with a smaller regular CT leads to productive investments. Furthermore, our survey shows that the pilot project has incentivized some households to engage in non-farm business activities; this was not detected among the beneficiaries of the SCTP. Thus, it seems that the pilot intervention supports new business activities, diversification of incomes and resilience building by households.

However, we have doubts about its potential to graduate the beneficiaries out of poverty in the long run. We expect that the drought will limit the recipients' capacities to engage in long-standing economic activities. It will be critical that beneficiaries receive continued support in the form of coaching tailored to their specific income-generating activities to support their graduation potential. For instance, those who plan to earn income from livestock and farming need to be linked with the corresponding extension workers. GIZ reacted to this problem by implementing a Livestock Management and Horticulture training course in August 2016 and some refresher training sessions between August and December 2016, which were highly valued by all participating beneficiaries. Thus, it is important that similar projects anticipate in which productive activities people might engage and design the training accordingly. A closer investigation of the costs of coaching and mentoring activities is needed to verify their financial sustainability. The upcoming impact evaluation of the project, which DIE will conduct in mid-2017, will shed more light on these dynamics and whether the pilot intervention helps beneficiaries to graduate out of poverty.

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Annex

Annex A

Table A1: Overview of randomly interviewed households and reasons for including/excluding a household from the first follow-up interview

#	Cluster	Intervention	First follow-up	Reasoning
1	Chimulango	Training	Yes	criterion (ii)
2	Chimulango	Training	No	neither (i) nor (ii)
3	Chimulango	Training	Yes	criterion (ii)
4	Chimulango	Training	No	neither (i) nor (ii)
5	Chimulango	Training	No	neither (i) nor (ii)
6	Govati	Training	No	neither (i) nor (ii)
7	Govati	Training	Yes	criterion (ii)
8	Govati	Training	No	neither (i) nor (ii)
9	Govati	Training	No	neither (i) nor (ii)
10	Govati	Training	No	neither (i) nor (ii)
11	Kanduku II	LS+T	Yes	criterion (ii)
12	Kanduku II	LS+T	Yes	criterion (ii)
13	Kanduku II	LS+T	No	neither (i) nor (ii)
14	Kanduku II	LS+T	Yes	criterion (i) and (ii)
15	Kanduku II	LS+T	No	neither (i) nor (ii)
16	Nthache	Lump-sum	Yes	criterion (ii)
17	Nthache	Lump-sum	No	neither (i) nor (ii)
18	Nthache	Lump-sum	No	neither (i) nor (ii)
19	Nthache	Lump-sum	No	neither (i) nor (ii)
20	Nthache	Lump-sum	Yes	criterion (i)
21	Tulonkhondo	LS+T	Yes	criterion (i) and (ii)
22	Tulonkhondo	LS+T	Yes	criterion (ii)
23	Tulonkhondo	LS+T	Yes	criterion (i)
24	Tulonkhondo	LS+T	No	neither (i) nor (ii)
25	Tulonkhondo	LS+T	No	neither (i) nor (ii)
26	Ziyaya	Lump-sum	Yes	criterion (i)
27	Ziyaya	Lump-sum	Yes	criterion (i)
28	Ziyaya	Lump-sum	No	neither (i) nor (ii)
29	Ziyaya	Lump-sum	Yes	criterion (i)
30	Ziyaya	Lump-sum	No	neither (i) nor (ii)

Note: *Follow-up interviews were only conducted in those cases where one or both of the following criteria were satisfied: (i) a substantial share of the lump-sum (i.e., one-third or more) had not yet been spent at the time of the first interview and there was reason to expect that the household would spend more of it a week later, especially if there was uncertainty how it would be spent; (ii) interviewees mentioned business plans where it was worth checking whether they had indeed put it into practice and/or how it had worked out (enablers/challenges), irrespective of how much of the lump-sum remained or whether they received it in the first place (training-only clusters).*

Table A2: Group business activities of the COMSIP VSL groups		
Group name (cluster)	**Group business description**	**Status**
Dambo (Chimulango)	The group is considering starting a fish trading business (buying near Lake Malawi in Mangochi District and selling in their area).	Plan
Katongole (Chimulango)	The group is considering starting a pottery business but must accumulate the necessary capital first.	Plan
Likhati (Chimulango)	The group members are considering starting group gardening, but first they must raise the necessary capital, which they estimate to be MWK 50,000.	Plan
Chikondi (Govati)	The group plans to start a poultry business for which they have already identified a plot. They were planning to build the sheds in July and ask the livestock extension workers for advice.	Plan
Tikondane (Govati)	The group initially considered producing honey together but given that many group members are too labour constrained for such arduous work they changed their plans to group goat rearing – which they have not yet put into practice.	Plan
Mwaiwathu (Kanduku II)	The group cultivates a garden together on a plot of rented land. The proceeds from selling the vegetables go into the treasury to be reinvested for inputs, such as utensils, fertiliser, seeds, chemicals and ultimately, a larger plot of land.	Ongoing
Tigwirizane (Kanduku II)	Just like the other group in this cluster, all group members cultivate a vegetable garden together in which they grow cabbage, tomatoes and green vegetables.	Ongoing
Nafisi (Tulonkhondo)	The group is considering starting a maize trading business but they have not yet discussed the details yet.	Plan
Nthobwe (Tulonkhondo)	The group started cultivating a plot of land that they were able to borrow for free from the father of a group member. They plan to reinvest half of the profits and share the other half.	Ongoing
Manjenje (Tulonkhondo)	The group had the vague idea to start a maize trading business but according to the group it would be too late to start it this year. They were planning to reconsider their group business plan.	Plan

Annex B: Proxies

- **Number of proxies:** 17 of the 29 households that we randomly selected for interviews had a proxy.
- The proxies are usually, but not necessarily, also the registered alternative receivers of the main beneficiaries.
- **Proxies are usually close relatives that live nearby:** The impression from both the household interviews and the group meetings was that most proxies are close relatives that live in the same household as the main beneficiary or in a neighbouring house. Thus, communication between the main recipient and the proxy are usually short and regular exchanges. In many cases, main receivers regularly eat together and support each other in various other ways. Furthermore, probably as a result of the interconnectedness, we did not observe formal agreements on the nature and conditions of the beneficiary-proxy relationship between the households of the main receivers and the proxies (e.g., on how to share income from business proceeds).
- **How the proxy option is used:** For those who have a proxy, the degree to which – and the way in which – proxies are utilised by beneficiaries varies substantially. It ranges from very active proxies who make decisions more or less independently of the beneficiary (as discussed below, mostly, but not always, with the assumed interests of the beneficiaries in mind) to very inactive proxies who are merely a backup in case the (usually elderly or fragile) beneficiaries fall ill. Between those two extremes are cases of cooperative relationships with regular exchanges about how to proceed and cases where the proxy is involved in business activities, but the main recipient is in charge of decision-making. The latter comes closest to taking an investor position, but we observed such arrangements only in family settings, i.e., between close relatives.
- **Most proxies attended the training on behalf of the main receiver:** In most but not all cases, the proxy attended the training on behalf of the main recipient. Among the randomly sampled interview households only two main receivers who had proxies attended the training themselves, whereas four out of five of the purposely interviewed main receivers attended (at least partly). However, even where the main recipient attended personally, the proxy was sometimes involved. For instance, there was one case in which the main receiver, who is illiterate, attended the training herself, but she discussed with her proxy (her son) afterwards and asked him to take notes so that she would not forget.
- **Satisfaction of main receivers with their proxies:** Generally, those who chose a proxy were pleased that the option exists and convinced that they will be better off than they would be without a proxy. However, there were some instances when beneficiaries had chosen a proxy that they did not really trust (even though they were from their own family). Often, they chose those proxies when they saw no better alternative but were urged by officials or extension workers to choose a proxy. In such cases, the proxy-beneficiary relationship produced few positive outcomes. By contrast, the most beneficial proxy-beneficiary relationships appear to be those in which the main receiver chose someone who already took care of them before the intervention.

No cases were encountered in which the quality of the relationship significantly worsened or improved after the proxy choice was made.

- **Active business-driven proxies as an enabling factor:** In general, it appears that an active business-driven proxy is a powerful enabler for the productive use of the lump-sum. While such a proxy is not essential to households if the main recipient is business-oriented and capable of effectively implementing their business plans, they are critical to households where that is not the case. All lump-sum households that did not choose a proxy could have profited from an active business-driven proxy given that the six other main recipients displayed low entrepreneurial spirit (including the two that had attended the trainings) and were old and classified as "not fit to work" at baseline (again, with one exception).

- **Cases in which the proxy's activities do not benefit the main receiver:** Judged on the basis of the impressions gained during the individual interviews, most proxies have the interest of the main receivers at heart when they act on their behalf. However, some proxies in the *Nthobwe* group in Tulonkhondo openly admitted that their participation in the COMSIP VSL group does not benefit the main receiver even though the businesses of the proxy profited from loans they took out in the groups. Among the individually interviewed households there was one case in Govati in which encouragement through the training led the proxy (who attended the training) to start a small business that, as the proxy admitted, does not benefit the main recipient. We observed nothing to the same end during any of the other group meetings or individual interviews. It may generally be advisable to clearly communicate through the COMSIP VSL groups that the main receivers should benefit from these groups and the income-generating activities. This is particular critical in cases where (a) the main receiver is not part of the same wider household as the proxy, (b) loans from the VSL group rather than the lump-sum fuel the proxy's business, and (c) the main receiver is (no longer) in full possession of his/her full mental capacity.

  Then, there was one case in which the proxy (or rather the husband of the proxy) supposedly appropriated part of the lump-sum (MWK 10,000), arguing that it should be compensation for attending the training, even though there was evidence that the main receiver had benefited from his proxy's actions.

- **Elderly proxies:** During some group meetings (especially in Tulonkhondo) we observed that many main receivers had chosen elderly proxies (> 60 years) to attend the training on their behalf. Judged on the basis of the show of hands during those meetings and the two cases in which individually interviewed beneficiaries had chosen elderly proxies, the use of elderly proxies was not often associated with a substantial uptake of new income-generating-activities or the expansion of existing ones.

  Children as proxies: We encountered a few cases in which beneficiaries had chosen adolescents as proxies. Some of them were still going to school and were therefore limited in their ability to take up income-generating activities on behalf of the main receiver without neglecting their schoolwork. In Chimulango (Dambo group), we observed one case in which an underage child who currently goes to standard four attended the training as a proxy.

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