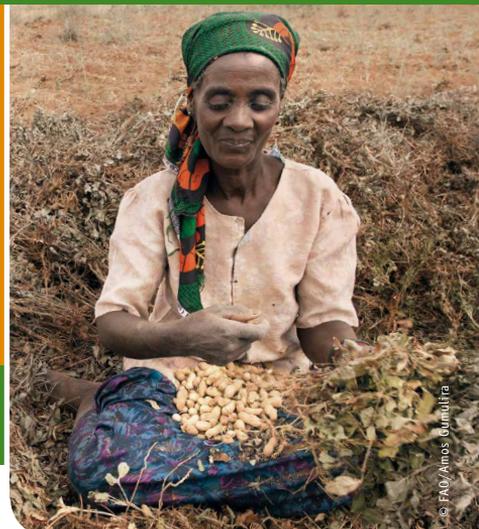


Local Economic Impacts and Cost-Benefit Ratios of Social Protection and Agricultural Interventions in Malawi



Malawi is a landlocked country in Southern Africa, with an economy driven predominantly by the agricultural sector and suffering from widespread and chronic poverty. In this context, the Government of Malawi has identified **social protection as a key instrument in reducing poverty and vulnerability and seeks to enhance agricultural productivity and food security through targeted agricultural interventions.** Despite progress, social protection remains inadequate in relation to need, while agricultural interventions often suffer from unclear objectives, being torn between supporting pro-poor agricultural development and enhancing the productivity and output of more commercially oriented producers.

Supporting efforts to improve the design of agricultural and social protection interventions and to inform resource allocation, a study was commissioned by the Ministry of Finance, Economic Planning and Development (MoFEPD) and the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) to simulate the local economic impacts and cost-benefit ratios of a range of design options for standalone and combined social protection and agricultural interventions in Malawi, namely the Social Cash Transfer (SCT), Public Works Programmes (PWP), the Farm Input Subsidy Programme (FISP), extension services and irrigation.

Developmental interventions can create significant income gains in local communities beyond the direct impact on beneficiaries, as a result of consumption and production spillovers. For example, beneficiaries of the SCT spend some of their cash on goods or services supplied by local businesses. As local production expands to meet demand, incomes in households connected with these businesses rise, together with the demand for labour and other inputs. This generates additional rounds of spending and income growth in the local economy. However, if the local supply of goods and services is not

responsive, there may be inflationary pressures that create costs for consumers and cause real income gains to diverge from nominal ones.

The analytical approach of this study makes it possible to quantify the direct and indirect impacts of interventions on households living in Malawi's rural economy, which are usually missed by evaluations. Further, the economy-wide impacts are used to undertake an economy-wide cost-benefit analysis of individual or combined interventions. This brief outlines key findings of the study.

LOCAL ECONOMY IMPACTS OF SOCIAL PROTECTION AND AGRICULTURAL PROGRAMMES

All programmes have direct impacts on beneficiaries and can also generate positive or negative income and production spillovers affecting non-targeted households. Programmes can create positive income and production spillovers if they raise the demand for goods and services, creating opportunities for beneficiaries and non-beneficiaries engaged in their production. Yet, they can also create negative spillovers by driving up food prices, raising costs for consumers and depressing prices for producers.

Spillovers result in large positive indirect impacts on incomes of beneficiaries and non-beneficiaries and create considerable rural income multipliers. In most cases, each MK invested increases income in rural Malawi by far more than 1 MK. For example, each MK transferred through the SCT increases total real income by 1.88 MK - that is, by the 1 MK transferred plus an additional 0.88 MK of income spillover. Impact evaluations that do not consider such spillovers miss many benefits created (Figure 1).

There are striking differences between real and nominal multipliers, indicating that the nominal income multiplier can be eroded by inflationary pressures, as prices rise in response to increased demand for goods and services. This is particularly relevant for cash transfers. However, programmes

that support production, such as the FISP, impact incomes primarily by increasing supply of goods and services, thus reducing prices. Their real multipliers can therefore be larger than the nominal ones, as the former take into account lowered local prices.

Income spillovers from social protection and agricultural interventions have important implications for equity, as some household groups are in a better position to benefit from income spillovers, whatever their cause.

Non-poor households tend to benefit most from income and production spillovers. For instance, non-poor households benefit significantly from the SCT even though they do not receive the transfer. These ineligible groups benefit from the transfers as they have the resources to expand production in response to rising local demand, capturing positive spillovers. Asset-poor households do not have this capacity and income gains of such households depend mostly on whether they are direct beneficiaries, highlighting the need for the poor to directly benefit from transfers.

All programmes also significantly increase production in the local economy amongst beneficiaries and non-beneficiaries. Interestingly, the simulations show that social protection programmes have similar total production multipliers compared to agricultural interventions (Figure 2).

Traditional social protection programs (SCT, PWP) stimulate production, which expands primarily amongst non-beneficiary household, as they are

Figure 1a. Income Multipliers by Programme (Status Quo)

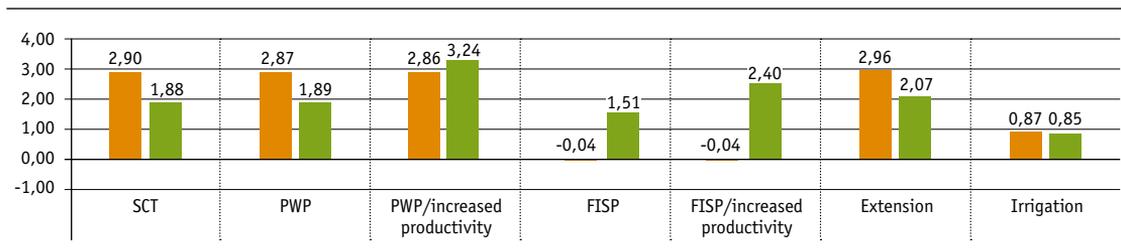
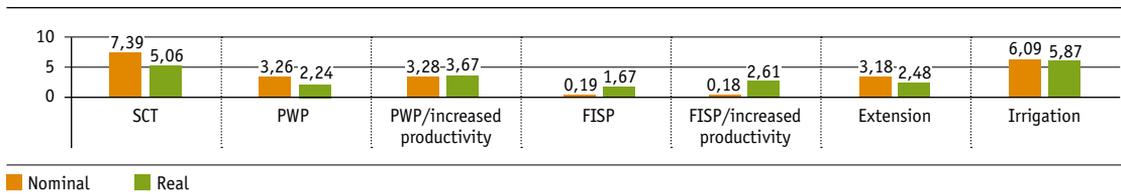


Figure 1b. Percentage Impacts on Income by Programme (Status Quo)



Note: Status quo denotes the design of programmes as of 2017, with the SCT targeting the 10 percent ultra-poor and labour-constrained, PWP targeting the poor and ultra-poor with labour capacity, while the FISP, irrigation and extension target mainly 'productive' smallholder farmers with access to land. The study examines the impacts and cost-benefit ratios of a range of policy reform options for each programme, which are discussed in the full report and programme-specific briefs.

better placed to respond to increased demand in the local markets.

Figure 3 shows that multipliers created by the SCT increase production within all sectors, primarily in retail and cropping, and that non-beneficiaries expand production more than direct beneficiaries.

COST-BENEFIT ANALYSIS

Income spillovers are an important part of cost-benefit analyses and strengthen the argument of the effectiveness of social protection and productive interventions by capturing the full impact of interventions in rural economies.

The study demonstrates that for the SCT, income spillovers tip the cost-benefit scale in favor of SCT, as total benefits, including spillovers, exceed programme costs, including administrative costs. The same is true for nearly all productive agricultural interventions, as well as for all combined social protection and agricultural interventions (Figure 4).

The cost-effectiveness of the FISP and PWP depend crucially on whether they lead to increased productivity of communities and have productive effects beyond the direct impacts. The simulations show that the FISP does not pass the cost-benefit test without an assumption that it increases productivity, highlighting the need focus on complementary interventions. Likewise, PWP are inefficient if they do not lead to the creation of productive rural assets and/ or improve productivity through transfers of skills.

COMPLEMENTARITIES BETWEEN SOCIAL PROTECTION AND AGRICULTURAL PROGRAMMES

There are tradeoffs between goals of raising agricultural productivity and providing social protection of Malawi's poor and vulnerable.

The SCT has the largest direct impact on incomes and poverty amongst targeted households, while the FISP, PWP and extension have larger impacts on agricultural production.

However, there are also important synergies between social protection and agricultural interventions. Interventions that raise agricultural productivity are found to lower food costs, and this has positive real-income effects for poor households. Conversely, social protection interventions, such as the SCT, which increase demand for food, create new markets for production and therefore stimulate agricultural production.

Ignoring spillovers risks missing negative indirect impacts that could be avoided through the implementation of coherent social protection and agricultural interventions. The study finds that if the FISP raises the supply of food crops and pushes down food prices, food producers that do not receive the subsidies could suffer.

In fact, the FISP could be regressive if it does not lower food costs or if it is not combined with cash transfers to poor farmers to mitigate increases in food prices.

Figure 2. Production Multipliers by Beneficiaries and Non-beneficiaries (Status Quo)

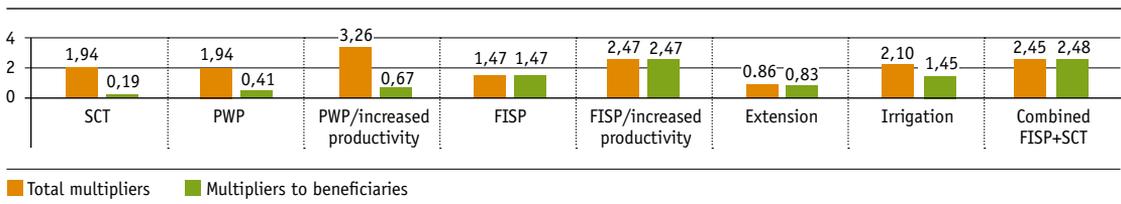


Figure 3. SCT Production Multipliers by Sector and Beneficiary Status

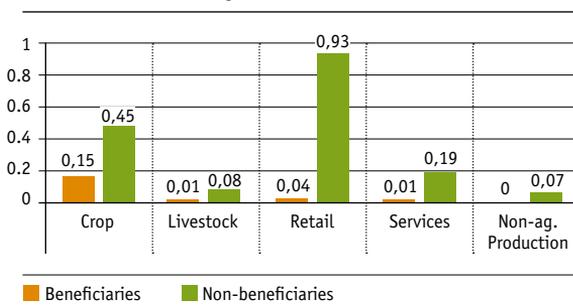
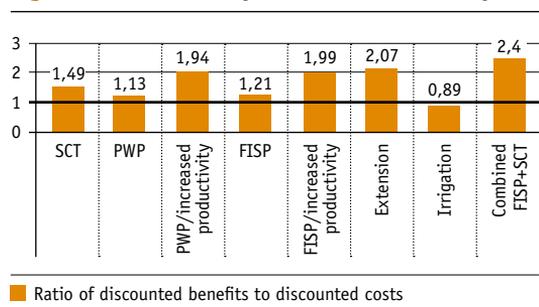


Figure 4. Local Economy-wide Cost-benefit Analysis



Combining agricultural interventions with social protection programmes that increase local demand could alleviate these negative spillovers. Similarly, if the SCT pushes up food prices by raising demand, any household that does not receive the SCT could suffer. Again, the study finds that combined interventions that stimulate local production and demand can yield significant positive spillovers and multipliers.

In fact, the largest decrease in poverty results from combined interventions that provide income to the ultra-poor, while raising overall crop productivity, thus reducing food prices. Increasing crop productivity can be done through the FISP, irrigation, extension services or the creation effective

rural assets through PWP. Income-support can be provided through the SCT or PWP.

The study finds that policy options, where the SCT and FISP have fully or partially overlapping target groups, have consistently higher cost-benefit ratios and poverty impacts than non-overlapping scenarios. For instance, ensuring overlapping targeting of the SCT and FISP would increase the cost-effectiveness of both programmes and is the most cost-effective scenario studied. These findings point to the increased impacts and cost-effectiveness of a more integrated provision of social protection and agricultural support.

Overall, the findings from this study underline the importance of coordinating social protection with interventions to increase crop productivity. This appears to be critical in order to create positive real-income multipliers and stimulate agricultural production while alleviating rural poverty.

THE FOLLOWING RECOMMENDATIONS EMERGE FROM THE STUDY:

- 1. The SCT has the largest impacts on beneficiaries' poverty levels and should be expanded if poverty reduction is the objective.** As asset-poor households have limited capacity to benefit from spillovers and depend mainly on transfers for income gains, it is vital that they benefit directly from adequate transfers.
- 2. PWP are only cost-effective if they build assets and transfer skills that increase productivity.** Ensuring relevance and quality of assets and an increased focus on skills should be a priority.
- 3. The cost-effectiveness of the FISP depends on whether it increases productivity beyond the subsidy,** so implementers should consider providing additional productivity support.
- 4. Targeting the FISP to poor and ultra-poor farmers with land, rather than better off farmers, produces larger income and production multipliers for the economy as a whole,** as the poor and ultra-poor considerably expand production as a result of the FISP. These findings should inform the ongoing discussion on the need to focus the FISP on 'productive' farmers and highlight the productive potential of Malawi's poor and vulnerable.
- 5. A full or at least partial overlap of FISP and SCT on the poor not only produces higher multipliers for the whole economy compared to non-overlapping targeting, but also has a better distributional impact,** with larger increase of incomes and production amongst the poorest households.

FOR MORE INFORMATION

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The full report and more programme-specific briefs can be found here:

www.ilo.org/addisababa/countries-covered/zambia/WCMS_629575/lang--en/index.htm



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