Towards a Malawian Social Protection Floor

International Labour Organization

Extracts from the Full Report: Assessment of Social Protection Programmes and Costing of Policy Options

Programme Specific Report: Village Savings and Loans

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1 Objectives, policy and legal framework

In Malawi poverty is more widespread in rural areas. Such "rural economies are characterized by long time spans between input and output of the agricultural production, uncertainty and weather dependency", making the "ability to smooth consumption, to access credit and to employ risk coping strategies very important" (Ksoll et al, 2013).

Over the last few decades there has been a significant increase in access to financial services though the growth of the microfinance industry. However, these institutions often underserve rural communities (Karlan &Thuysbaert, n.d.).

These gaps tend to be filled by community methods, such as Rotating Savings and Credit Associations (ROSCAs), which provide an opportunity to save but often do not allow borrowing or facilitate investments (ibid.). Oftentimes these ROSCAs do not provide the opportunity to borrow when needed because only "one lottery-selected member is able to keep the proceeds from each meeting" (ibid.). Alternatives are so-called Village Savings and Loans Association (VSLAs), which "address these shortcomings by forming groups of people who can pool their savings in order to have a source of lending funds" (ibid.). VSLAs combine a variety of services normally provided by the formal financial market, including "savings accounts, access to loans, and insurance" (ibid.). In order to provide credit and insurance to its members, VSLAs need to raise sufficient amounts of savings, which is guaranteed through compulsory weekly minimum contributions.

2 Eligibility criteria and direct beneficiaries

In Malawi there are a number of organizations implementing and supporting VSL schemes. The two largest programmes using the VSL methodology are the World Bank's Community Savings and Investment Promotion (COMSIP) programme and the Enhancing Community Resilience Programme (ECRP), which is jointly implemented by six NGOs. Most programmes employ voluntary self-selection as their targeting mechanisms and are in principle open to all rural poor in districts in which the programmes operate.

A recent mapping exercise conducted by the MoFEPD and Care Malawi found 67 organizations currently implementing VSL programmes in Malawi with a total of 37,461 savings groups and 610,596 members (Ministry of Finance, Economic Planning and Development, 2015)

Table 1: Selected village savings and loans programme overview

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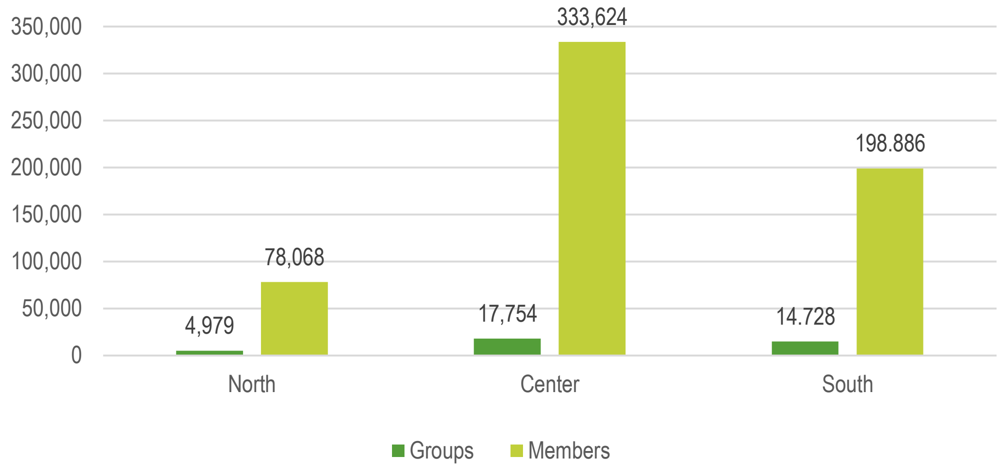
	COMSIP	**Care Malawi**
Donors	World Bank	DfID, Norway and Irish Aid
Implementers	COMSIP Cooperative Union	Various NGOs
Time-frame	2014-18 (current phase)	
Benefit	Financing of grants to increase household incomes and assets	Training in group dynamics, financial governance and money management
Districts	Nationwide	
Targeting	Self-selection	Self-selection
Groups	6,008	3,958
Cooperatives	133	
Group Members	106,371	118,064
Cooperatives Members	4,308	
Source: Implementers		

3 Geographical coverage

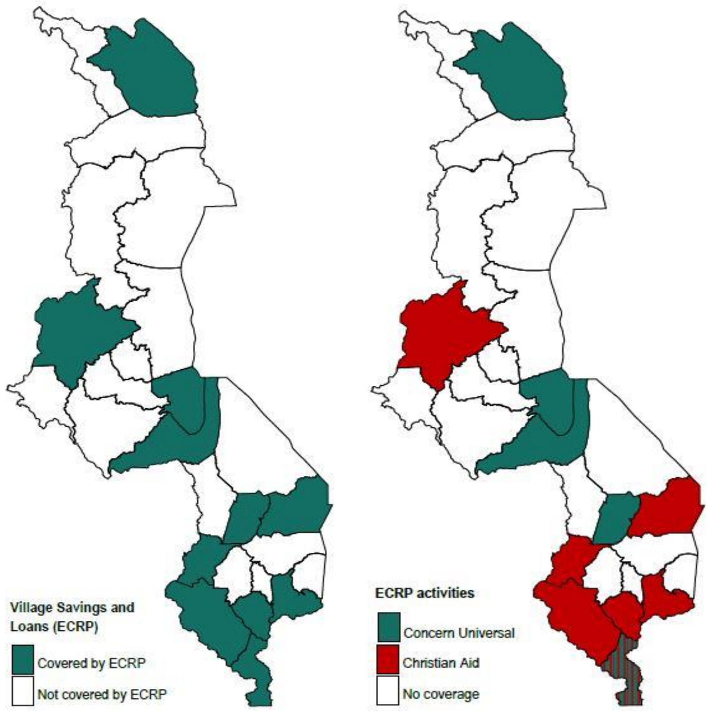
The World Bank's COMSIP programme implements VSL schemes in all 28 Malawian districts. The ECRP only works in select districts. In each district, programmes focus on a number of traditional authorities (TA), sub-district administrative units.

Figure 1: Village Savings and Loans programmes in Malawi



Source: Ministry of Finance, Economic Planning and Development, 2015

Figure 2: ECRP Village Savings and Loans district coverage



Source: Implementers

4 Programme impact

In recent years there has been an increased understanding on the necessity to improve financial infrastructure and access to financial services for the world's poor. Various form of microfinance have become increasingly popular with donors as well as governments. Several randomized impact studies have assessed different types of microfinance and often found rather disappointingly low effects (Stewart et al., 2010; Copestake et al., 2011). With regards to VLSA, however, there has yet been little “rigorous impact evaluation that addresses program placement and selection bias of VSLAs” (Karlan &Thuysbaert, n.d.).

One of the few rigorous impact assessments conducted on VSLAs analysed the impact of the approach on household outcomes in northern Malawian villages. Out of 64 villages, 23 were randomly chose to participate in a VSLA project and the remaining villages served as a control group by delaying entry to the programme by two years (2009-2011). A baseline survey of 1,775 households was conducted before and after programme implementation. The impact of the introduction of the VSLA association was assessed by analysing developments in food security, income-generating activities and household income (Ksoll et al, 2013).

The study found that food security, as measured by number of meals per day, has significantly improved in treatment villages. There is also evidence of improved income generating activities as “households held significantly larger savings in VSLAs, although there are weak indications that the total number of income generating activities has decreased” (Ksoll et al). In addition, the number of rooms per dwelling increased by 0.16. The authors of the study found only four out of ten selected indicators to be significant. Nonetheless, they are certain of the positive impact of the VSLA as the “estimated impacts have only had a two-year time horizon to materialize” and the impact estimates are averages “across both participating and nonparticipating households at village level” (ibid.).

Literature on VSLA has suggested a number of ways though which improved financial access and participation in savings associations can impact household poverty. Most importantly, savings associations enable households and especially farmers to smooth consumption over the agricultural season. This can either be done via savings or access to credit. In addition, such groups often provide simple insurance products. While the specific type of the insurance product varies from group to group, it “it almost always involves insurance against illness and death of household members” (ibid.). These types of insurances are an explicit risk coping device, which can “encourage households to discard inefficient ex-ante coping strategies, such as low risk-low return activities” (ibid.). Even as the insurance may not always pay out, household’s consumption could increase as activities with higher risk and rewards are chosen (Zimmerman & Carter, 2003).

5 Implementation Challenges

A 2015 mapping of VSLAs in Malawi conducted by the Ministry of Finance, Economic Planning and Development together with Care Malawi has observed the following implementation challenges:

- Poor coordination and lack of collaboration of VSL stakeholders at district level. As a result there are overlaps, competition and dual memberships in VSL groups. This challenge was mention by partners from all the three regions of the country.

- Different implementing agencies are using different approaches and different implementation models, which end up confusing the community.

- Limited collaboration between VSL implementation organizations and community development offices at district level.

- Lack of legal framework regulating VSL implementation in Malawi is affecting VSL groups to be formally recognized by law, which is problematic especially when there are conflicts between members.

- Some micro-finance institutions are exploiting VSL groups through linkages especially after projects that facilitated formation of those groups phase out.
- Low literacy levels of VSL members are also affecting the quality of the program as evidenced by poor record keeping some members' difficulties in understanding and following the methodology.

- Organizations are implementing VSLs on demand even though they do not have adequate capacity (There is a huge demand for VSL services in the communities against the capacity of implementing organizations to meet such a demand).

- Lack of business skills amongst VSL members affects program performance as it leads to defaults and late loan repayments (Ministry of Finance, Economic Planning and Development, 2015).

6 Recommendations

- Government capacity to oversee, monitor and coordinate social protection is currently limited. Efforts should be undertaken to support Government's capacity and ownership over social protection in Malawi. This should include an analysis of fiscal space and financing modalities to increase Government's contribution to social protection expenditure.

- Malawi's social protection system currently lacks integrated MIS and M&E systems. Developing such systems would be an important step towards improving the coordination and harmonization of the country's social protection system.

- Currently there is little exploitation of linkages between programmes and between programmes and complementary services, such as agriculture, health, and education. It would be important to develop a detailed strategy on linkages to ensure that vulnerable Malawians who are enrolled in programmes also benefit from other important services or received additional support. Linkages to other programmes can provide important support for households to graduate out of poverty.

- Currently the county's social protection programme (MNSSP) is not well aligned with the broader system of social protection, namely the MVAC humanitarian response. It is recommended that stakeholders identify ways to improve the harmonization of the 'regular' social protection interventions with the MVAC to improve impacts and exploit synergies.

- Complex targeting criteria, the prevalence of community targeting, widespread and deep poverty with a very flat income distribution, and strict cut-off points all contribute to inefficient poverty targeting outcomes, as observed in a number of evaluations. It is recommended to re-visit the targeting approaches of MNSSP programmes, as well as the FISP. In the long-term, Malawi may consider more categorical transfers that could be better suited to the country's widespread and mostly uniform poverty.

- The current transfer share of the SCT relative to pre-transfer incomes is 23 percent, which is slightly above the crucial threshold of 20 percent that transfers need to be effective. For all programmes there is a strong need to remain attentive to the real value of the transfers over time in order to safeguard programmes' effectiveness.

- In the short to medium term we strongly recommend to extend the coverage of the current NSSP programmes, in particular the Social Cash Transfer, the School Feeding Programme and the Village Savings and Loans programmes.

- Currently there is little exploitation of linkages between programmes and between programmes and complementary services, such as health services and education. It would be important to develop a detailed strategy on linkages to ensure that vulnerable Malawians who are enrolled in programmes also benefit from other important services or received additional support. Amongst programmes there are a number of positive linkages, such as connecting beneficiaries of the Social Cash Transfer and Public Works Programmes to Village Savings and Loans association, where they can safe their transfers and slowly start making productive investments.

- Village Savings and Loans groups are very popular in Malawi but nonetheless there remains a significant unmet need for such groups. Evaluations found positive impacts the VSL approach. However, there are concerns about sometimes inadequate training of beneficiaries and 'poaching' of VSL members from microfinance providers. It is therefore important for the Government to work closely with VSL associations to improve the literacy and business skills training of beneficiaries as well as to improve the regulation oversight of the VSL and microfinance sectors.

7 References

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