Discussion Note on Targeting in Malawi and Implications for the Future of the Social Cash Transfer

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1 Executive Summary

A critical issue faced by all countries in the development of social protection systems is how to select beneficiaries. Given the tight fiscal constraints on the one hand, and the widespread poverty and vulnerability levels on the other, countries are often not able to cover everyone in need of social assistance. As a result countries have to make hard choices about which people to prioritize and develop effective targeting systems.

While Malawi's social protection system relies to a significant extent on poverty targeting, it often combines this with categorical targeting, resulting in mix-method targeting approaches. There are a number of challenges of implementing poverty targeting in Malawi, which mostly relate to the difficulty in distinguishing between degrees of poverty in environments where poverty is widespread, fluid, and where income remains almost uniformly low for the majority of the income distribution.

Categorical targeting can serve as an effective rationing mechanism that is transparent, acceptable to policy makers and communities, and works well in orienting limited resources towards the poor. It is often often more understandable by communities, primarily due to the method's alignment with observable and culturally appropriate characteristics of vulnerability and the resulting acceptance. It tends to be cheaper to implement than poverty-targeting and requires less data to be collected and analysed. It is compatible with rights-based approaches, as it ensures that anyone fulfilling the selection criteria is eligible.

Although categorical target groups show generally higher than average poverty rates, the use of categorical targeting on its own may lead to levels of inclusion errors that are considered too high. For political economy reasons it may also be desirable for social protection programmes to maintain some level of economic targeting. One way to address the challenges of poverty targeting is to change the paradigm from the selection of the poorest of the poor to the exclusion of the better off (affluence test). In contexts of widespread poverty and limited inequality amongst the poor, a PMT can be more efficient in selecting and excluding "wealthier" (or more appropriately "non-poor") households rather than the poor or ultra-poor.

As a practical application of the categorical targeting discussion and building on the Social Cash Transfer's (SCT) mixed-method targeting approach, the note simulates the coverage and cost of adopting alternative targeting approaches in the expansion of the SCT.

The first step in any future SCT reform should be to extend the transfer to all 28 districts, broadening - within the current framework - coverage to all ultra-poor and labour constrained households in Malawi. Once that is achieved, the paper explores implications of relaxing the tight poverty targeting approach in consideration of the poverty structure in Malawi – for instance implementing an affluence test in place of the current ultra-poverty targeted PMT – and re-defining the categorical targeting approach.

- ❖ **Relaxing the poverty criterion from targeting the ultra-poor to targeting the poor.** If the SCT targeted *all poor and labour constrained households*, it would reach slightly over 20 percent of national households and cost 2.1 percent of GDP.

- ❖ **Adopting an affluence test approach.** If the poverty criteria were to be relaxed further to include all households that are *poor by international standard*s (below the international poverty line of USD 2.00 a day), the SCT would cover about 29 percent of households and cost 3 percent of GDP.

❖ **Adopting a universal approach.** Abolishing the poverty targeting entirely and providing a transfer to all labour constrained households would cover an estimated 33 percent of Malawian households and cost 4.3 percent of GDP.

❖ **Adopting alternative categorical targeting approaches:** For instance, a basic pension-type transfer to *all 'internationally poor' households* (household members living below the international poverty line of USD 2.00 a day) *with a member aged 65 or older* would cover an estimated 11 percent of Malawian households and cost 1.1 percent of GDP. Limiting the eligibility to *all internationally poor households with a member aged 70 or older* would reduce the coverage of the transfer to about 7.7 percent of households and cost 0.8 of GDP. Another example of an alternative categorical transfer is a child grant towards *all internationally poor households with at least one child aged 0-2.* Such transfer would reach about 30.4 percent of households and cost 4.4 percent of GDP.

This note demonstrates through simple simulations that moving from strict poverty targeting towards affluence tests would contain coverage and costs while keeping exclusion errors low.

Based on the preliminary analysis presented in this note, categorical targeting with an affluence test has the potential to be an effective and efficient beneficiary selection mechanism for Malawi's social protection system that merits further discussion and research.

2   Introduction to the beneficiary selection process

Social protection is a key instrument in reducing poverty and responding to the multiple sources of vulnerability that affect households and individuals in developing societies.

In the last decade many countries in Southern Africa have increased their commitment to the provision of non-contributory social protection (social assistance) measures to groups of the populations that are exposed to different sources of risks. This is based on the recognition that social protection represents not only a mechanism to reduce inequality in the short run but also a springboard to achieve long terms gains in terms of human capital development, productivity enhancement and ultimately inclusive growth.

A critical issue faced by all countries in the development of social protection systems is how to select beneficiaries. Given the tight fiscal constraints on the one hand, and the widespread poverty and vulnerability levels on the other, countries are not able to effectively cover everyone in need of social assistance, particularly during the early stages of developing their social protection systems. The numbers of people in need are too great and place excessive demands on a country's limited financial resources.

As a result countries have to make hard choices about which people to prioritize. While there is a growing body of international evidence on the consequences of the range of choices that have been made by countries, both historical evidence from developed countries and contemporary evidence from low and middle-income countries, targeting remains a contentious issue within the social protection community.
This beneficiary selection process - often called 'targeting' - entails decision making at four different levels:

- ❖ **In first stage of the beneficiary selection process the Government should make a decision on which category of the population it wants to prioritize.** This is a *policy choice* that relates to the objective of the social protection scheme. Social protection instruments can be used to address a number of different policy challenges, ranging from poverty reduction to addressing vulnerability in a broader sense: providing income security for the elderly to improving child nutrition, addressing the needs of the unemployed, etc. For instance, a government could decide to address child malnutrition in children and therefore target children regardless of their poverty status.

- ❖ **In a second stage the Government has to decide what proportion of the chosen category** (for instance children) **can be covered given available fiscal resources.** For instance, if a Government does not have the necessary resources to target all children, it could narrow down the category by only covering children living in poor households or children in certain age-groups. In this sense targeting is essentially a 'rationing' process whereby the Government decides to focus resources on a more narrowly defined sub-set (children in poor households) of the target group (children) given the available fiscal resources.

- ❖ **In a third stage the Government needs to design an appropriate selection methodology that can accurately identify the beneficiaries.** Only at this stage the issue is about identifying the best targeting instrument from a technical point of view, whereas the previous stages of the process entail political and financial issues.

- ❖ **The fourth and last stage is the implementation of the selection mechanism on the ground,** which entails making decisions on the concrete application of the registration and selection process.

A large part of targeting problems (inclusion and exclusion errors) arise at this stage of turning the theoretical targeting design into practice.

3 Objective and structure of this discussion note

The objective of this discussion note is to reflect on the advantages and disadvantages of various social protection targeting methodologies in Malawi, with a focus on categorical targeting approaches and their current and potential application in Malawi.

The note is structured as follows. In Section 3, the various beneficiary selection methodologies of Malawi's social protection programmes are presented and communalities discussed. In the Sections 4 and 5, common challenges of traditional poverty targeting are outlined and their consequences for Malawi's social protection programmes discussed. The note then presents in Section 6 a brief assessment of the performance of categorical targeting in Malawi. While discussing the advantages and disadvantages of traditional poverty targeting and categorical targeting, the brief explores in Section 7 the possibility of combining categorical targeting with an "affluence test" to better respond to poverty dynamics in Malawi. Section 8 discusses the possible evolution of Malawi social protection targeting model and Section 9 presents a practical application of alternative targeting options for the Social Cash Transfers, including estimates of coverage and costs of the combination of categorical targeting and an affluence test. Section 10 concludes.

All calculations presented in this brief are based on simulations based on household data from the 2010/11 Integrated Household Survey (IHS) III.

4 Beneficiary selection in Malawi

Beneficiary selection of social protection programmes in Malawi follows a number of approaches, including elements of PMT based poverty targeting, community based targeting, categorical targeting and self-selection.

While Malawi's social protection system relies to a significant extent on PMT based poverty targeting, it often combines this approach with other targeting methodologies, using mix-method approaches. The LDF PWP, for instance, combines self-targeting with a PMT based verification that aims to ensure that applicants are (ultra-)poor. For the same reason the SCT combines community based selection (CBT) with a PMT. This mix-method approach combines categorical with economic targeting (poverty targeting) and allows implementers to benefit both from the straightforward selection process of categorical targeting and the effective rationing of poverty targeting.

Table 1. Presents the targeting criteria and approaches of major social protection programmes in Malawi and indicates that beneficiary selection for social protection programmes tends to follow a certain pattern.

It is common across all main social protection programmes to adopt some kind of **categorical targeting** that consists in providing priority access to a category of people that can be identified by simple socio-demographic characteristics: child headed households, Malawians living with a chronic illness, households with limited

labour capacity. This step reflects a *policy choice* of the Government about which group of people should be prioritized in the provision of support.

Categorical targeting is based on culturally acceptable criteria about the types of households and individuals that are entitled to receive social assistance as they are particularly vulnerable to risks or suffer certain special conditions that justify some kind of public support (disability, old age, etc.).

In a second step, most programmes apply some version of **poverty targeting** to ensure that potential beneficiaries are poor and vulnerable according to more narrowly defined economic criteria. Poverty criteria are often applied to limit the number of beneficiaries within a selected category in line with limited financial resources (*fiscal choice*). This second step in the selection process relies primarily on community based poverty targeting, PMT based poverty targeting or a combination of the two.

Another approach to poverty targeting is self-targeting of beneficiaries. Self-targeting is primarily employed by public works programmes (PWP). The Local Development Fund's (LDF) PWP, for instance, uses a low wage-rate for self-targeting of (ultra-)poor Malawians with labour capacity but limited opportunities for income generation. LDF PWP then attempts to verify the poverty-status of applicants with a PMT.

Box 1. Defining Categorical Targeting

As the name suggests, categorical targeting refers to the process of identifying recipients by selecting a particular category of the population – such as older people or children – to receive a scheme, on the grounds that there is some correlation between this category and poverty.

However, categorical approaches do not have to be poverty-focused and can address a wide range of challenges, depending on the Government's policy choice of which group should receive a benefit. As such, categorical approaches can be considered rather a response to a particular policy objective than a targeting methodology.

Nationally owned schemes often employ some version of categorical targeting because it is considered more transparent and therefore more politically acceptable to beneficiaries and the general population. Categorical targeting has the important advantage over poverty-targeting that it relies on easily identifiable and commonly understood characteristics, such as old-age, disability, or infancy. This reduces inclusion and exclusion errors as well as the scope for community-level misunderstandings of the eligibility criteria.

Table 1. Targeting approaches of major social protection programmes in Malawi

Targeting approaches of major social protection programmes in Malawi		
	Economic Targeting	**Categorical Targeting**
SCT	Ultra-poor: Ranked using proxy indicators of wealth (HH has one meal per day; survives from begging; undernourished; does not possess valuable assets; does not receive support from others)	**Labour constrained:** HH has no member aged 19-64 years fit for work; has members aged 19-25 years attending school; has a member aged 19-64 years fit for work but has to care for more than three dependents.
LDF PWP		**Abled bodied and vulnerable household:** widows and widowers, the aged, orphans and foster parents, the destitute, the disabled, persons affected by HIVIAIDS, and malnourished under-fives.
		Quota for female headed households per project
MVAC	**Economic criteria**: HH owning less than two acres of land and unable to hire labour; HH without major livestock; HH without formal wages; HH without regular income generating activities; households dependent on piece work; HH having less than three months of food stock starting from harvest time; HH that have withdrawn children from school to work.	**Social criteria**: Orphans; chronically ill, HIV/AIDS; child/female/elderly headed HH; had 2 years of crop failure; children receiving supplementary/therapeutic feeding
FISP		**Pre-2016/15 criteria:** Resource poor Malawians with land; guardians looking after physically challenged, vulnerable households and people living with HIV/AIDS.
		Post-2016/15 criteria: Maize producing households.

Based on: Kardan, Andrew (2015). Streamlining targeting mechanisms and processes across national social protection programmes. Developing a concept. Oxford Policy Management.

5   Challenges with poverty targeting in Malawi

There are a number of challenges of implementing poverty targeting, which mostly relate to the various methodologies' abilities to distinguish between degrees of poverty in environments where poverty is widespread, fluid and where income remains almost uniformly low for the majority of the income distribution.

5.1   The income distribution is too flat to effectively identify the ultra-poor

Figure 1. visualizes an important challenge towards poverty targeting in the Malawian context. The green line represents Malawi's expenditure distribution and indicates the proportion of households that attain a given level of expenditure. The distribution rises only very slowly throughout the lowest 8 deciles and remains almost flat in the lowest deciles. The expenditure distribution only starts to rise sharply in between the 8th and 10th decile. This indicates that expenditure levels in Malawi are fairly uniform and that there is only a relatively small difference between the consumption of those living in ultra-poverty, poverty or even those above the poverty line.

As it can be appreciated with the little difference in household expenditure levels, individuals living above but in close distance to the national poverty lines can be considered to live a precarious life not too different from those deemed 'poor' according the national poverty line, with often inadequate consumption levels and high risks of falling into poverty.

Moreover, while the ultra-poverty and poverty lines define poverty in relation to the Malawi context, it is worth noting that around 80 percent of the population can be considered as living in poverty using less context-specific international standards. In 2010/11 about 68.8 percent of Malawi's population lived below the international poverty line of USD 1.25 a day and 81.4 percent of Malawians consume less than USD 2.00 a day, which roughly represents the lowest eight deciles (2010/11 Integrated Household Survey III). This group of households that are poor according to international standards can be referred to as living in precarity.

Figure 1. Ultra-poverty, poverty and precarity in Malawi
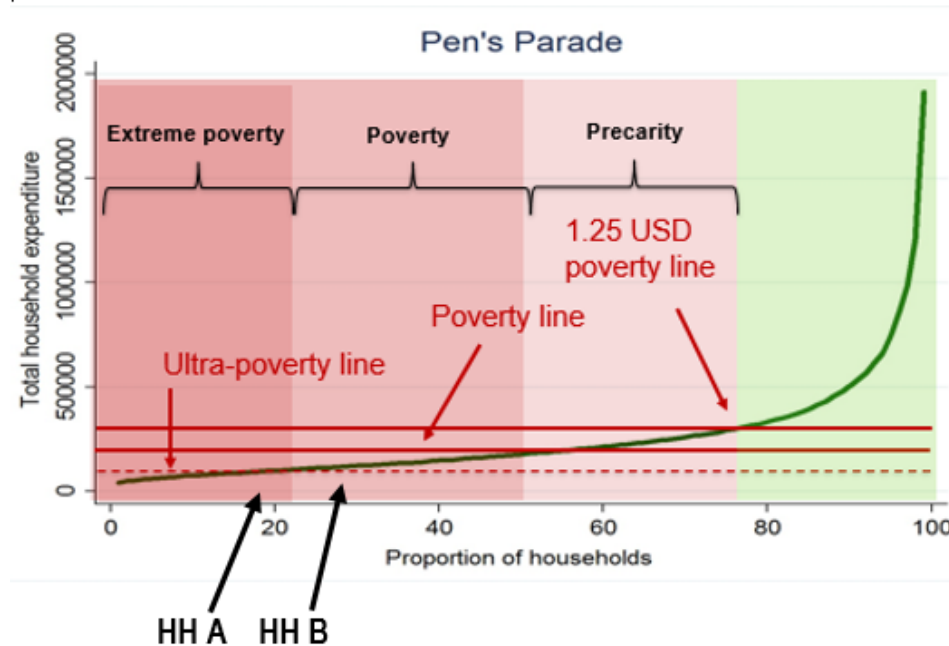
The relatively flat expenditure distribution poses significant challenges to any methodology that aims at distinguishing between households living in ultra-poverty, poverty or those below the international poverty line (precarity). For instance, the consumption levels of HH A and HH B are almost the same and it is very difficult for any targeting mechanism to distinguish between the two in terms of welfare or to rank them accurately.

On the contrary, there is one group that shows significantly different welfare outcomes and could be more easily, and with less errors, identified as part of a targeting process. The "non-poor" are understood to be Malawians that do not live in poverty by Malawian standards and are neither considered to live at risk of poverty or poor according to the higher international poverty line. As showed in the graph above, the income distribution only starts to rise significantly in the 9th and 10th income decile, indicating that only the top 20 percent of Malawians are enjoy welfare conditions that are noticeably different than the rest of the population.

5.2 Poverty is dynamic

The transitory nature of poverty in many developing countries, including Malawi, presents another challenge towards poverty-targeting. Poverty is not a static concept and there is likewise no static group called 'the poor'. Rather, ultra-poverty, poverty and precarity are fluid concepts and the lack of resilience means that many household are just one livelihood shock away from falling into poverty or ultra-poverty. The death of a breadwinner, a sick relative, a bad harvest or pest can quickly reduce household income generating abilities and send households into poverty.

Especially in countries like Malawi, where most households are dependent on agriculture, covariate shocks, such as droughts, floods or erratic rains, can have disastrous impacts on people's welfare. The reverse is also true, as the difference between the incomes of the 'poor' and 'non-poor' are very similar it only takes one good harvest for a household to no longer be considered deserving of support.

Figure 2. Hitting a moving target: Transitory poverty and eligibility thresholds
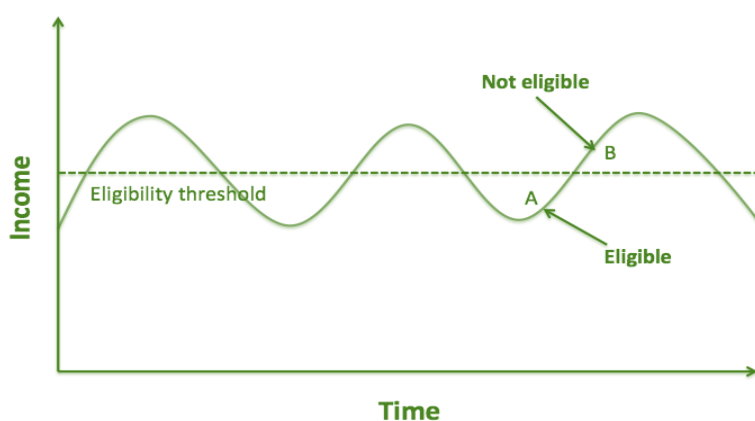
The transitory nature of poverty, the fact that frequently households move in and out of poverty and precarity, is a crucial issue that poverty targeting needs to address. Infrequent retargeting or lack of adequate complaints mechanism may exclude a large number of households that have fallen into poverty after the targeting exercise.

6 Implications of poverty patterns in Malawi for traditional poverty targeting mechanisms

PMTs aim to distinguish between various levels of poverty through an analysis of collected household characteristics that are empirically found to correlate with poverty. Such proxies are often household assets such as agricultural tools or even the quality of the dwelling itself. Based on the collected data, a PMT score is calculated, which is considered to reflect household welfare and can be used to rank households.

However, there are serious concerns as to whether a PTM can accurately measure wellbeing and various studies have found the targeting accuracy of PMTs, especially in environments with relatively little inequality, such as Malawi, to be less than perfect. An environment characterised by widespread poverty and relatively little inequality amongst the bottom half of the income distribution makes it very difficult to difficult to find proxies to isolate the ultra-poor from the poor and those living in precarity. Moreover while, as mentioned,

poverty is often very dynamic, PMTs are relatively static "snapshots", depending on frequency (hence cost) of data collection.

Community based targeting (CBT) is another popular method of poverty targeting but CBT faces similar challenges as PMTs in countries like Malawi, as communities often find it difficult to distinguish their poorest members due to the understanding that (ultra-)poverty is widespread and inequality limited.

A recent World Bank report (see Box 2 below) comes to similar conclusions by suggesting that "given the similarity in characteristics among the bottom 40-60% of the population it seems unlikely that a PMT will be able to accurately identify the poorest 10-15% of the population; however it may be a useful tool for as a secondary filter in conjunction with community targeting (for cash or food transfers), or self-targeting (in PWP are over-subscribed)"

The study concludes by suggesting the use of a combination of community targeting and categorical targeting to identify the most destitute.

Box 2. World Bank study on targeting performance of social protection programmes in Malawi

In 2011, the World Bank commissioned a set of studies on the effectiveness and inclusiveness of targeting mechanisms employed by Malawi's main social protection programmes. These studies present an analysis of poverty and vulnerability in Malawi, evaluate in how far current programmes' methodologies are effective in identifying poor and vulnerable groups and propose alternative targeting mechanisms to increase targeting effectiveness. The studies present a number of conclusions, which are quoted below (author's emphasis):

❖ It is going to be **very difficult to target the bottom 15-25% on the basis of poverty**.
❖ Use **community targeting for the ultra-poor who fall in specific categorical groups**; and use self-targeting for others.
❖ The weaknesses experienced in community targeting suggest that there needs to be more reliance on self-targeting, and **clearer, simpler criteria for community targeting (e.g. categorical).**
❖ There needs to be more focus on targeting in time (as opposed to on households) – this means concentrating benefits in the period October-February for everyone but the most destitute.
❖ **Categorical targeting makes sense for identifying the most destitute** (orphans, elderly and disabled who do not live in households that can absorb them; child- and grandparent- headed households, very-low-income female-headed households, etc.). Only the local knowledge available through community targeting can distinguish which families, orphans, elderly etc. are actually destitute.
❖ There needs to be strengthening of support for community targeting initiatives.
❖ Self-targeting instruments need to be tightened – particularly the wage rate on public works, and possibly the value of fertilizer vouchers.

It further emphasizes that PMTs show "some promise when simulated theoretically. However it should be noted that administration of the PMT system would require a large effort at national and local levels to develop a PMT system and build administrative capacity to implement it. Whether it is feasible in practice to accurately measure the variables involved, and to find the staff to administer and implement the system on a large scale, remains to be seen."

Source: Smith, James; Bezhanyan, Anush; Manjolo, Ida (2011).

7   Assessment of categorical targeting performance in Malawi

Given the challenges with economic targeting mentioned above this section considers the implications of alternative categorical targeting options. Categorical targeting is already a key component of Malawian social protection programmes and is embedded in most programme's beneficiary selection processes.

Table 2. presents a number examples of categorical target groups for Malawi, including estimations of coverage rate and the percentage of households that are poor or internationally poverty.

Table 2. Examples of potential categorical target groups in Malawi

Examples of potential categorical cash transfers in Malawi				
	% of total HHs	% of target HHs that are labour-constrained	% of target HHs that are poor	% of target HHs that are internationally poor
Labour constrained HHs (Dependency Ratio = 3:1)	33.1	100	58.33	85.93
Labour constrained HHs (Dependency Ratio = 4:1)	19.5	100	53.87	82.37
HHs with an elderly (65+) member	14.42	73.02	51.35	83.60
HHs with an elderly (70+) member	10.26	77.22	53.70	84.0
HHs with a disabled member	3.94	67.99	54.41	82.61
HHs with children 0-1	28.58	32.39	56.23	88.50
HHs with children 0-2	40.47	32.15	55.75	88.21
Female headed HHs	23.80	54.44	48.89	80.79
National Poverty Line			**50.7**	
International Poverty Line ($ 2.00 a day)				**81.4**
All calculations by the authors and based on household data from the 2010/11 Integrated Household Survey (IHS3). The USD 2.00 a day international poverty line is based on average prices for all of Malawi in Feb/March 2010 (MK 214.3).				

Lack of labour capacity at household level is a categorical targeting option that is often adopted in social protection targeting in the region. The targeting of households with limited labour, and those containing orphans and vulnerable children, coincides with the fact that social protection programmes were originally funded in these regions as part of response to the impact of HIV/AIDS on traditional support structure. The focus on this group is a consequence of the coincidence of two agendas: domestic concerns with dependency and donor concerns to support households affected by HIV/AIDS, often proxied by those with limited labour or those containing orphans and vulnerable children (OVCs).

The table also shows the coverage and poverty rates associated with the use of other alternative categorical targeting criteria, based on the presence of individuals with specific demographic characteristics in the households. A number of observations can be made based on the estimations presented in Table 2.

❖ First, categorical targeting can be an effective and transparent rationing mechanism allowing to reach levels of coverage that are compatible with funding available, ranging from a relatively narrow coverage – and cost - (e.g. no able bodies, disabled) to bigger coverage (e.g. households with children).

❖ Second, poverty rates associated with most categorical targeting approaches vary to some extent but consistently lie above the national average of about 50 percent. This means that by adopting a pure categorical targeting approach programmes would also implicitly prioritize the poor.

❖ Third, when adopting an international definition of poverty (2.00 USD per day) the correlation between categories and poverty is even more striking. Approximately 15% of selected households would be non-poor if a pure categorical targeting approach is adopted: a level of inclusion errors that is considered small by international standards.

In conclusion it should be noted that the various potential categorical transfers are, while not directly poverty-targeted, quite effective in reaching the poor, as shown through the higher prevalence of poverty within the selected categories.

Box 3. Who are the poor and vulnerable in Malawi?

The following are the principal vulnerable groups identified in studies of poverty in Malawi:

The landless. Most families rely on their own production of maize; half of all calories consumed are home-produced. Households with little or no land are thus less able to produce enough food during the year; and suffer the double-problem of having to buy more maize to fill the gap, while at the same time having lower cash incomes to buy grain. A survey found that 73% of such households had inadequate or borderline food consumption, compared to 48% in the rural population.

Female-headed households, widowed and divorced. Female-headed households make up 23% of the population, tend to own less land, make less from off-farm work, and be more food-insecure; on average they have 14% lower consumption than male-headed households. Widows and divorced women suffer particularly as the result of lack of access to assets.

Child-headed households, elderly and single-headed households; orphans. There were about 873,000 orphans in 2008, representing 12% of the child population. Poverty is particularly acute among child-headed households, and those in which grandparents are supporting orphans with no working aged-adult in the household.

The elderly and the disabled. About 4% of the population is aged 65 or older, and another 3.8% are estimated to live with some form of disability. There is no definitive data on poverty rates among the elderly or the disabled, since poverty is measured at the household level. However, the elderly or disabled may very well be poorer than average.

Households affected by disasters. Households in Malawi are frequently affected by drought and flooding both resulting in low levels of household production of maize, and thus below-acceptable consumption levels.

Persons living with HIV/AIDS. The HIV prevalence rate in Malawi was 11% in 2009, the eighth highest in the world. While HIV/AIDS is a national disaster, and has dramatically reduced life expectancy, households affected by HIV/AIDS do not appear to be poorer on average than those who are not affected. This is likely because of support from extended family and community, combined with the fact that AIDS tends to be primarily a disease of the less-poor.

Unemployed/under-employed in urban areas. Wage employment opportunities are scarce in Malawi, with less than 10% of the work force employed in the formal sector. While the lack of employment results in substantial impoverishment for some urban dwellers, it needs to be emphasized that deep poverty in Malawi is still overwhelmingly a rural phenomenon, with 96% of the 3.4 million ultra-poor living in rural areas in 2005.

Source: Smith, James; Bezhanyan, Anush; Manjolo, Ida (2011).

8 Combining categorical targeting with an affluence test

Categorical targeting approaches have the advantage of improved community-level understanding of eligibility and transparency. Although the most common categorical target group show generally higher than average poverty rates, as showed in the section above, the use of categorical targeting on its own may lead to levels of inclusion errors that are considered too high. For political economy reasons it may also be desirable for social protection programmes to also maintain some level of economic targeting, given the potential cultural resistance to the adoption of universal programmes, although narrowly poverty targeted.

Mix-method targeting approaches can address the need to restrict eligibility beyond a certain category. For instance, a government may want to provide social assistance to elderly households but, due to considerations of fairness and political economy, wants to exclude the non-poor. Such mix-methods approaches would then select households based on a categorical variable (old-age) and, in a second step, exclude the non-poor based on forms of means testing. Such an approaches would have the advantage of being transparent, while at the same reducing leakage and improving political acceptability.

One way to address the challenges of poverty targeting is to change the paradigm from the selection of the poorest of the poor to the exclusion of the better off. In practice this would mean to tailor the design of a PMT (of another similar instruments, such as a Poverty Scorecard) to take the shape of an *affluence test*.

As pointed out above, the widespread and dynamic poverty in Malawi makes it very difficult to accurately identify the bottom 10 % of households, as there is little basis to differentiate between the ultra-poor and the poor. In such contexts, PMT can be more efficient in selecting and excluding "wealthier" (or more appropriately "non-poor") households rather than the poor or even ultra-poor.

An affluence test is essentially a PMT that is set to exclude the "wealthy" or "non-poor", rather than identify the poor or ultra-poor. This is done by setting a relatively high income or consumption threshold and excluding those from the programme that have demonstratively high income or consumption levels. Like a poverty-focused PMT, an affluence test estimates wellbeing through a selected number of proxies or assets. The only real difference between the two approaches is that an affluence test's proxies correlate with high economic wellbeing instead of poverty.

Figure 3. shows why an affluence test may be a good alternative to poverty targeting in Malawi. As discussed earlier, the curve of Malawi's expenditure distribution steepens significantly among the richest 10-20 percent, meaning that it should be easy to differentiate between them on the rest of the population. The steeper the curve, the bigger the differences in expenditure between households and the easier it should be to distinguish their welfare.

A related advantage of affluence testing is that 'wealth' can be quite easily identified, for instance through simple identifiers of wellbeing, such as the value of housing or the size of landholding. While there are often disagreements within communities on what constitutes (ultra-)poverty, the definition of wealth is less controversial and material wellbeing is often relatively easy to observe and identify. This is especially true in rural environments, where there are few well-off households.

This approach has been recently adopted by a number of countries in the region (Zambia, Mozambique) facing similar challenges to those of Malawi with widespread and dynamic poverty.

Figure 3. Affluence test in Malawi
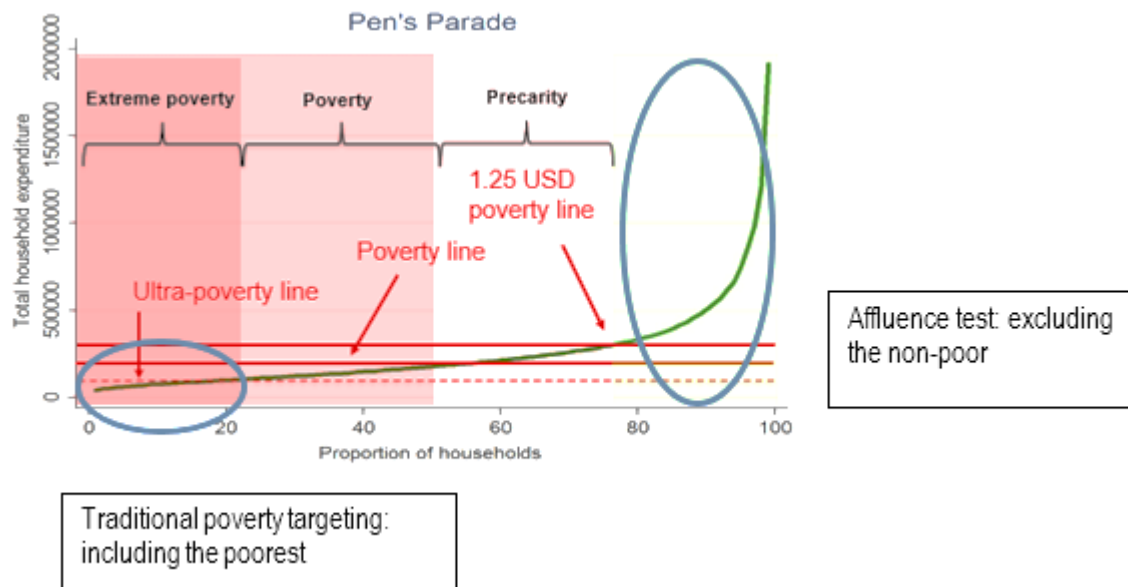
9 Possible evolution of Malawi targeting model for social protection

Like many other countries in the region the social protection system in Malawi is based on a conceptual differentiation of programmes in accordance to the labour capacity of beneficiary households. Some programmes (cash transfers) are directed to household with no (or limited) labour capacity. Other programmes (in the case of Malawi primarily PWPs) are directed to the remainder of the households with labour capacity.

Figure 4. shows the relative size of the two groups and the relative distribution of poverty across the groups. Labour constrained households (here defined as having a dependency ration 3:1) represent approximately one third of the population, while the remaining 2/3rds of households have sufficient residual labour capacity. The back box at the bottom of the labour constrained section represents current SCT coverage, which includes the poorest 10 percent of labour constrained households.

The figure also shows that the incidence of ultra-poverty, poverty and precarity is much higher amongst labour-constrained households than amongst households with more labour-capacity. Essentially, Figure 4. shows that the categorical targeting approach, even without the PMT verification, does already quite a good job at targeting the poor, as indicated by the much higher levels ultra-poverty, poverty and precarity amongst selected households.

Figure 4. Malawi's mixed-method targeting approach
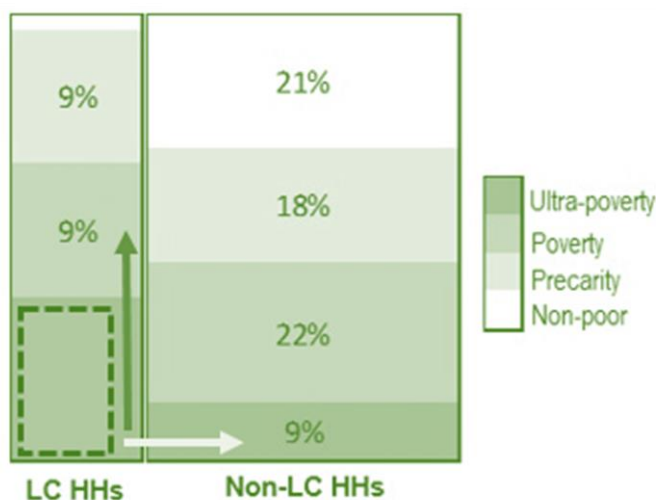
This section looks at how the discussion on challenges with poverty targeting, the categorical targeting options presented, and the potential use of an affluence test could inform decisions on the extension and targeting methodology of the SCT in Malawi. The Social Cash Transfer is currently targeted at ultra-poor labour constrained households (see more on the targeting approach in Box 4. below).

Box 4. The Social Cash Transfer Programme

The SCT is an unconditional cash transfer program targeted at households that are both ultra-poor and labour constrained. The transfer has the objective to reduce poverty and extreme hunger among the 10 percent ultra-poor and labour constrained households; to increase school enrolment of children in beneficiary households; and to improve the nutrition, economic and general well-being of beneficiaries.

The SCT targets ultra-poor labour constrained households

- ❖ Beneficiary households are *labour constrained*, meaning the absence of able-bodied adults in a household or a dependency ratio bigger than 3:1, and *ultra-poor*
- ❖ Ultra-poverty in Malawi is defined as individuals consuming less than MK 22,000 per year and is determined by using a PMT.
- ❖ Further, only the poorest 10 percent of households per district, regardless of the number all eligible households per district are selected into the programme.

As of November 2015, the SCT operates in 18 out of 28 districts with about 159,000 beneficiary households and around 700,000 beneficiaries.

While great progress in expanding coverage under the SCT has been made over the last years, large groups of vulnerable Malawians remain currently uncovered. Building on the SCT's *mixed-method targeting approach*, there are broadly speaking two ways to increase coverage under the SCT:

❖ One way to extend overage would be to **maintain the programme's focus on ultra-poverty-targeting** and extend the programme towards the non-labour constrained ultra-poor. The grey arrow in Figure 4. describes this approach towards the programme's extension towards covering all *ultra-poor regardless of their labour capacity*.

❖ Another, more **categorical route towards extending coverage, would be to extend coverage via relaxing the poverty targeting component**. For instance, the programme could reach all labour constrained households that are below the poverty line (instead of the ultra-poverty line) or even those households that have passed an affluence test and are considered "non-rich" (e.g. living below the international poverty line of USD 2.00 a day). This extension approach would follow the red arrow, describing an extension of coverage *within the labour constrained section of the population*.

In weighing the two potential routes towards the extension of the SCT, the question of political and community support plays and important role. If the objective is to increase political support and community ownership, which targeting choice would be more effective: a transfer with a high coverage within a narrowly defined category or transfer with low coverage across a broad range of categories?

Other aspects to consider range from simplicity and cost of beneficiary selection processes to community understanding and acceptance of the eligibility criteria.

10 A practical application: Options and costs for the "vertical" expansion of the SCT

Figure 5. indicates the coverage associated with various options for the SCT extension, relative to total households in Malawi. Current (November 2015) coverage (159,000 beneficiary households) corresponds to over 4 percent of all households in Malawi. If adopting full coverage under the current targeting model (see Box 4 above) in all district of the country the SCT would reach a tenth of all households. Assuming the discontinuation of the 10 percent threshold[1] per district (see Box 4. above), the programme would reach around 11 percent of national households.

As noted above in Section 6, about 60 percent of labour constrained households are poor according to national standards, and only approximately 15 percent are 'non-poor' (above the international poverty line of USD 2.00 a day). The high prevalence of poverty amongst labour constrained households could be a forceful argument in favour of a covering a larger fraction of labour constrained households.

Alternative scenarios were produced assuming there could be further modifications to the poverty targeting design in the SCT in light of the challenges with economic targeting discussed in this note:

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[1] The discontinuation of the 10 percent threshold means that in this scenario all ultra-poor and labour constrained households in each district will be selected into the programme, regardless of the percentage of eligible households per district.

❖ **Relaxing the poverty criterion from targeting the ultra-poor to targeting the poor.** If the SCT targeted *all poor and labour constrained households*, it would reach slightly over 20 percent of national households.

❖ **Adopting an affluence test approach.** If the poverty criteria were to be relaxed further to include all households that are *poor by international standard*s (below the international poverty line of USD 2.00 a day), the SCT would cover about 29 percent of households.

❖ **Adopting a universal approach.** Abolishing the poverty targeting entirely and providing a transfer to *all labour constrained households* would cover an estimated 33 percent of Malawian households.

Figure 5. Coverage as % of total households under various categorical models
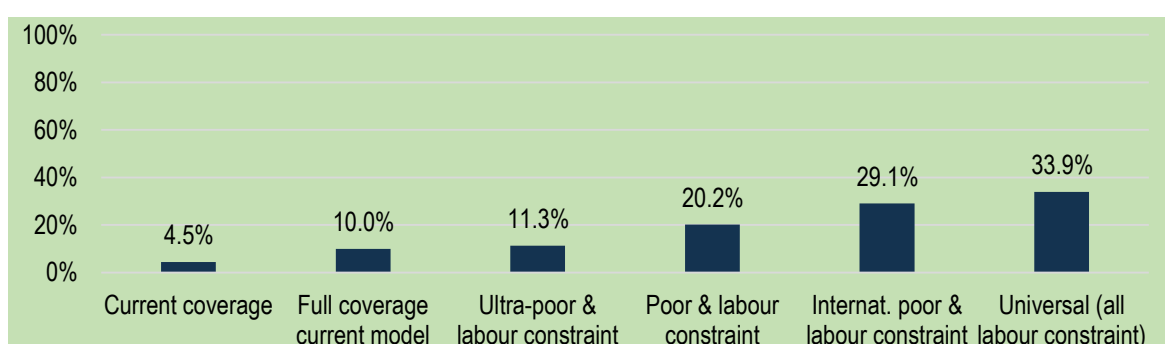

Table 3. estimates the number of beneficiaries and the cost as a percentage of the 2015/16 GDP. The estimated transfer cost[2] as a percentage of GDP range from 1.1 percent at full coverage of the current model to 2.1 for a transfer to all poor and labour constrained households and 4.3 for a programme covering all labour constrained households. A SCT-based transfer to all Malawian households that are poor by international standards as well as labour constrained is estimated to costs 3 percent of GDP.

Table 3. Categorical SCT coverage extension

Categorical SCT coverage extension			
	Coverage of households		**Estimated cost as %**
	%	**Number[3]**	**of GDP**
Current coverage[4]	4.5	159,857	0.57
Full coverage under current model	10	319,000	1.14
All *ultra-poor* and labour constrained households	11.3	329,703	1.18
All *poor* and labour constrained households	20.2	590,379	2.11
All *internationally poor* and labour constrained households (affluence test)	29.1	847,559	3.03
All labour constrained households	33.1	1,223,282	4.3

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[2] All estimations in this discussion note are based exclusively on transfer costs, which are calculated based on the SCT's annual transfer cost of MK 54,000. All calculations exclude administrative costs.

[3] Number of households estimated based on National Statistical office population estimates and Malawi's average households size of 5.6 persons.

[4] November 2015

While the high incidence of ultra-poverty, poverty and precarity within labour constrained households can be considered a strong argument in favour of a categorical transfer to all labour constrained household, relaxing the poverty targeting approach would come with substantial increases in cost.

One way to reduce the cost (and coverage!) would be to implement a different (more narrow) approach to categorical targeting. This is discussed in the remainder of the section.

10.1 Costing alternative categorical transfer options

This section briefly presents a number of costed transfers options based on a combination of categorical and poverty targeting. These can be taken into consideration while determining the targeting model for SCT and other social protection interventions as part of the new Malawi Social Support Programme.

10.2 Redefining labour constrained households

Table 4. estimates the coverage and cost of a categorical transfer reaching all labour constrained households, which is defined in line with the SCT's criteria except a for a small change to the dependency ratio. The SCT defines dependency through a 3:1 ratio of economically inactive to economically active household members. In the present simulation, this ratio is increased to 4:1, which significantly reduces the number of eligible households.

This change to the targeting criteria reduces the percentage of eligible beneficiaries by approximately half. Instead of covering about 20 percent of households, a transfer reaching all poor and labour constrained households now only covers only 11 percent. The percent of households eligible for this 'universal' transfer is likewise reduced by a similar magnitude to 18 percent.

Estimated costs have declined significantly in line with reduced coverage. Consistent with previous simulations, vis-a-vie a universal transfer, adding a poverty criteria to the categorical transfer reduces the percentage of eligible households by about half (44 percent) when using the Malawian poverty line and by about 14 percent in the case of the international poverty line (below USD 2.00 a day). The transfer costs vary significantly by programme but applying poverty-based targeting criteria brings the cost to 1.3 percent of GDP in the case of the national poverty line and 1.75 percent of GDP in case of the affluence test.

Table 4. Coverage of a categorical transfer with a stricter labour constrained criteria

| Coverage of a categorical transfer with a stricter labour constrained criteria			
Targeting scenario (with a labour constrained criteria of 4:1)	Coverage of households		Estimated cost as
	%	Number	% of GDP
All ultra-poor and labour constrained households	5.9	171,841	0.61
All *poor* and labour constrained households	11	390,031	1.3
All *internationally poor* and labour constrained households (affluence test)	16.8	489,312	1.75
All labour constrained households ('universal')	19.5	691,420	2.4

10.3 Other categorical targeting scenarios

Figures 6. and 7. visualize the cost and coverage rate of the potential transfers and show the large differences between the programmes. Cost and coverage rate depend on the incidence of the particular categorical variables in the population, which range from 3.9 percent of total households that are headed by a child to 40 percent of households that have an infant (0-2) member. These large differences are reflected in the cost of the transfers, which range from 0.5 percent of GDP (transfer to households with disabled members) to 5.1 percent (child grant to households having at least one infant aged 0-2).

Figure 6. Percentage of eligible households relative to total households
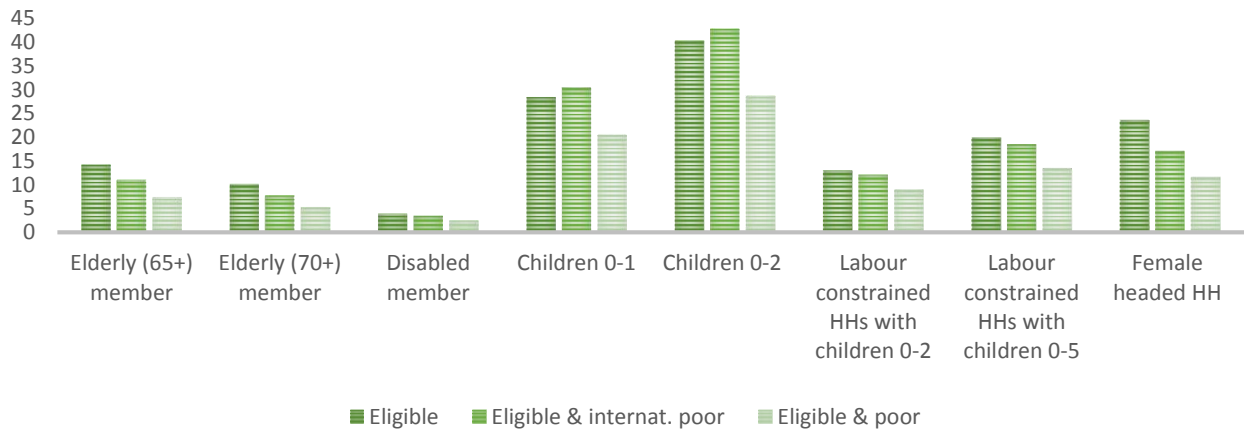
Figure 7. Cost of categorical interventions as % of GDP in 2015/16
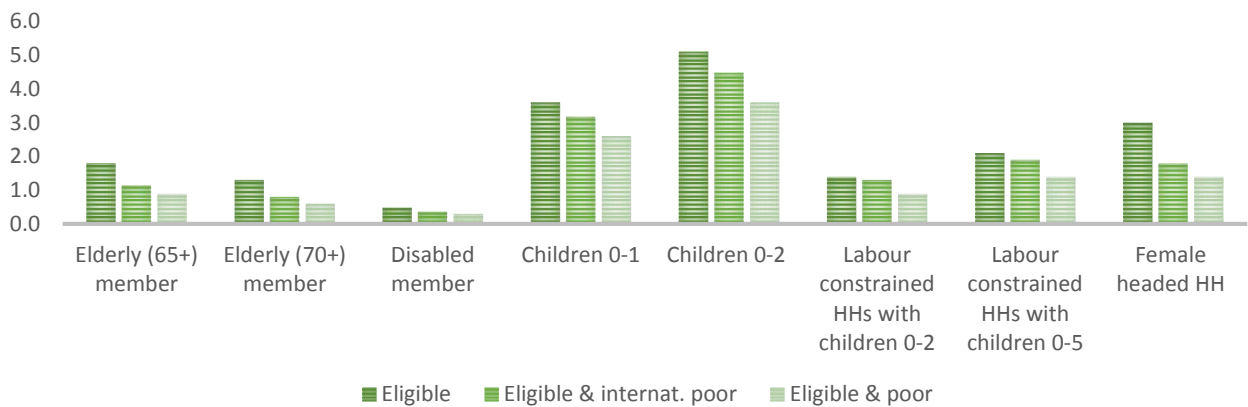
Table 5. Estimated number of beneficiary households and transfer cost of potential categorical cash transfers

Estimated number of beneficiary households and transfer cost of potential categorical cash transfers									
	Universal			With Affluence Test			With Poverty Targeting		
	% of eligible HHs relative to total HHs	Estimated number of beneficiary HHs	Est. cost as % of GDP	% of eligible HHs relative to total HHs	Estimated number of beneficiary HHs	Est. cost as % of GDP	% of eligible HHs relative to total HHs	Estimated number of beneficiary HHs	Est. cost as % of GDP
HHs with an elderly (65+) member	14.4	511,296	1.8	11.08	322,713	1.1	7.43	263,448	0.9
HHs with an elderly (70+) member	10.2	363,793	1.3	7.76	226,015	0.8	5.39	191,115	0.6
HHs with a disabled member	3.9	139,702	0.5	3.59	104,561	0.3	2.56	90,771	0.3
HHs with children 0-1	28.5	1,013,373	3.6	30.47	887,461	3.1	20.54	728,296	2.6
HHs with children 0-2	40.4	1,434,963	5.1	42.80	1,246,582	4.4	28.71	1,017,983	3.6
Female headed HH	23.7	843,887	3	17.23	501,836	1.7	11.70	414,852	1.4
Labour constrained HHs with children 0-2	13.01	378,926	1.4	12.16	354,169	1.3	9.06	263,879	0.9
Labour constrained HHs with children 0-5	20.03	583,389	2.1	18.55	540283	1.9	13.57	395,236	1.4

In line with earlier estimations, abolishing the poverty targeting component tends to approximately double the size of the potential target group. An affluence test, limiting eligibility to those considered poor by international standards but excluding the 'non-poor' (those above the USD 2.00 a day poverty line), however, would contain coverage and costs while keeping exclusion errors low.

The relatively moderate increases in coverage (and cost) that are the result of moving from poverty targeted programmes to programmes with an affluence test or even universal programmes are a good indicator that most of households that fall into one of the categories of Table 5. are either poor or at least poor by international standards.

11 Conclusion

A close examination of Malawi's targeting mechanisms indicate that categorical targeting is already a cornerstone of most programmes' beneficiary selection processes, together with some form of poverty targeting to limit ("ration") the number of beneficiaries.

Poverty targeting fulfills the important role of a rationing mechanism – which is needed given Malawi's limited resources - but there are numerous well-documented challenges of poverty targeting methodologies, especially PMTs, but also CBT, to accurately isolate the ultra-poor. Environments such as Malawi pose significant challenges towards programmes that aim to differentiate the ultra-poor from the poor because of widespread and transient nature of poverty.

Categorical targeting can serve as an effective rationing mechanism that is transparent, acceptable to policy makers and communities, and works well in orienting limited resources towards the poor:

- ❖ Categorical targeting is often more understandable by communities, primarily due to the method's alignment with observable and culturally appropriate characteristics of vulnerability and the resulting acceptance.

- ❖ Well designed categorical social protection schemes have the ability to address not just economic poverty but also more than one dimension of poverty and vulnerability.

- ❖ Categorical targeting is also compatible with rights-based approaches, as it ensures that anyone fulfilling the selection criteria is eligible.

- ❖ Depending on the correlation of a particular category with poverty, categorically targeted programmes can be an effective means of orienting resources to the poor. For example a large percentage of labour constrained households are (ultra-)poor. Less than 15% of households selected via a range of categorical criteria would be non-poor (above the USD 2.00 a day poverty line).

- ❖ Categorical targeting tends to be cheaper to implement than poverty-targeting and requires less data to be collected and analysed.

Yet there are a number of reasons why the use of categorical targeting approach on its own may not be deemed feasible. Universal targeting within a given category may not be attainable from a fiscal point of view. At the same time, and maybe more importantly, political and equity considerations often require Governments to exclude the non-poor from non-contributory transfers. This calls for the adoption of a mixed targeting approach that combines categorical targeting with some kind of economic and poverty targeting.

The concept of affluence testing could provide for an innovative solution to the challenge of means testing in an environment of widespread poverty and limited inequality amongst the poor. In the context of the SCT, a reform that would relax poverty targeting and implement an affluence test in place of the current ultra-poverty targeted PMT, would see coverage increase percent from 319,000 to an estimated 830,084 households at an increase in cost from 1.3 to 2.4 percent of GDP.

It is important to stress that the first step in any future SCT reform should be to extend the transfer to all 28 districts, broadening - within the current framework - coverage to all ultra-poor and labour constrained households in Malawi.
More generally, this note demonstrates through simple simulations that moving from strict poverty targeting towards affluence tests would, would contain coverage and costs while keeping exclusion errors low. Some of the increase in transfer cost could be offset by a reduction in the costs of the targeting process itself (e.g. data collection).

Based on the preliminary analysis presented in this note, categorical targeting with an affluence test has the potential to be an effective and efficient beneficiary selection mechanism for Malawi's social protection system that merits further discussion and research.

12 Selected References

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