

The Capacity Foundation

Ending Aid Dependency by Releasing Community Potential

A look at our work in Malawi



Why do we have to keep doing this?

In Britain we are locked into a perpetual cycle of fundraising for good causes. Comic Relief, founded in 1985, is closely associated with helping developing countries and is part of the international aid effort. But will it ever end?

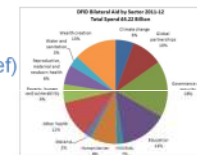
And if not, why not?

Why do we have to keep doing this?

Malawi is too severely under-resourced to help itself

- The UK has a large tax base. Malawi's is tiny.
- The UK has a welfare system. Malawi doesn't.
- Nearly 40% of Malawi's budget is provided by aid.
- Services funded by aid are framed by external agendas
- Aid necessarily comes with strings but it's restrictive.
- £billions have been spent but at village level it isn't apparent.

- The UK spends about £12 billion a year on aid.
 - 40%+ goes to organisations such as the UN (e.g. disaster relief)
 - About a third of the rest goes to Africa.

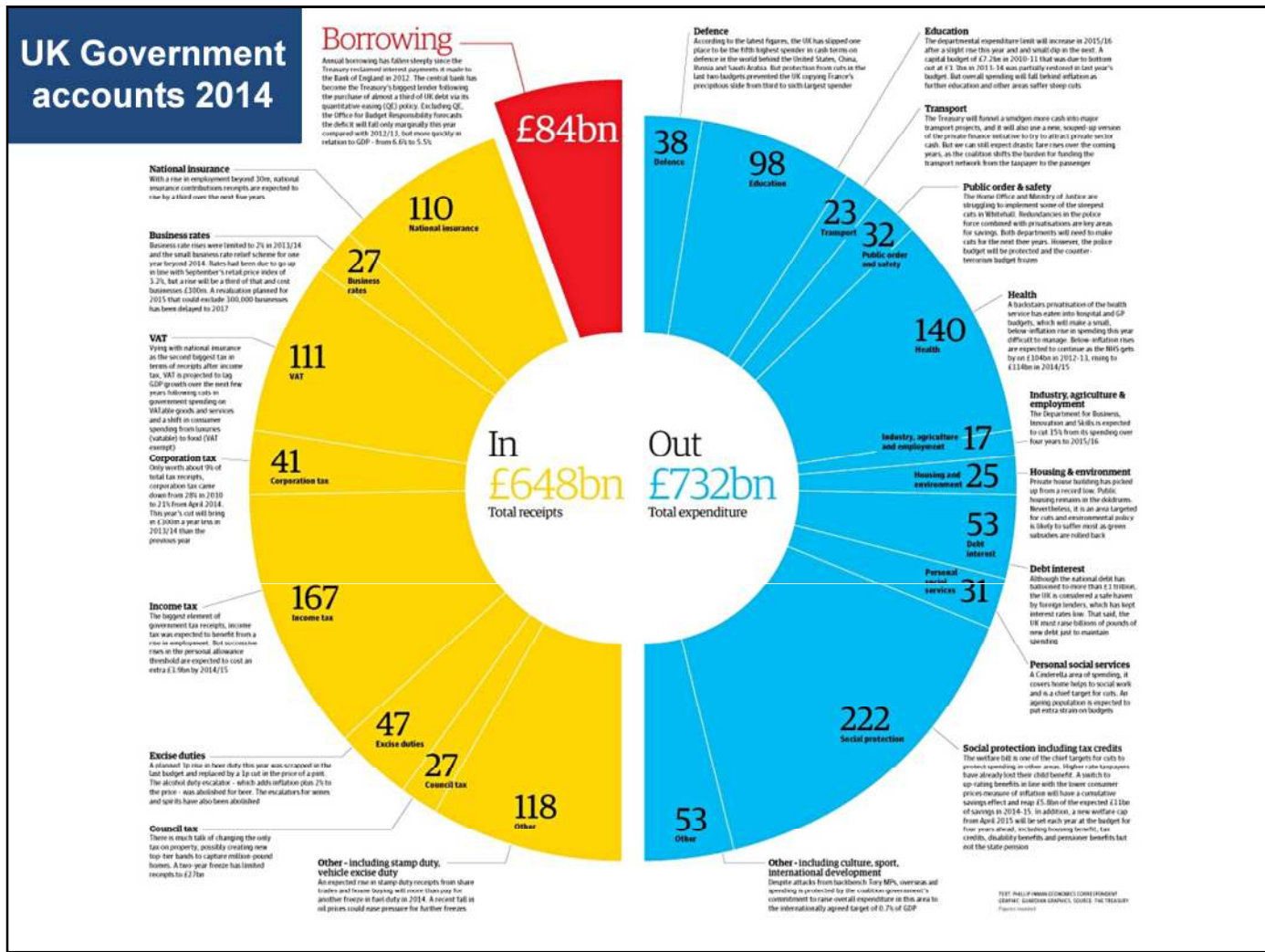


We have to keep giving financial support to poor countries because their economies and internal financing are so poor.

Despite its economic travails, the UK has a large tax base by which to fund public services. The UK Government chooses to spend more than it receives, so borrows a large chunk each year to bridge the gap. That ability is in turn a measure of the UK's relative economic strength – the economy is strong enough to attract funds willing to lend to it.

The UK's wealth enables it to provide a welfare system to support people both short-term and where necessary, long-term.

By contrast Malawi's tax base is very small. Public services could not run at all without substantial amounts of aid from outside. Aid tends to go in at the top (government) level but it's difficult to see how much gets to the grassroots – and where it does reach down, it's selective and piecemeal about what it can do. At village level, it can seem non-existent.



This chart shows the UK Government's accounts from four years ago but the picture hasn't changed materially since then. A considerable sum was spent on servicing the country's debt (the accumulated borrowings year-on-year that enable us to maintain public services at something like an acceptable level).

Good aid – but limited impact

Kamuzu International Airport

- £23 million construction and makeover
- Funded by the Japanese Government
- Benefits for Malawi
 - construction phase
 - long-term commerce
- Payback for Japan
 - international aid obligations
 - exports and repatriated profits
- Burden for Malawi
 - additional staff and equipment
 - future maintenance



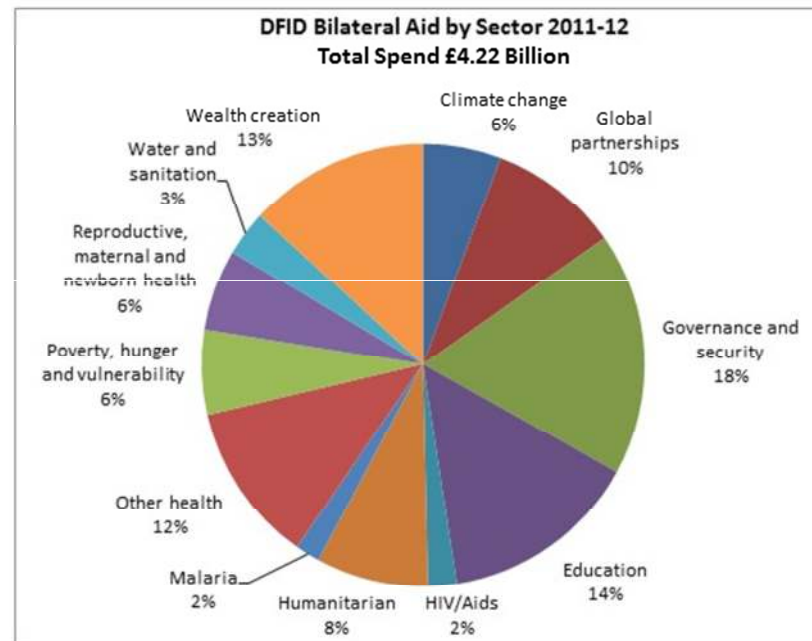
National-level infrastructure has no impact at rural level

The impression shouldn't be given that international aid is somehow all bad. The international airport in Malawi's capital, Lilongwe, is being upgraded by the Japanese Government. This slide shows that aid can benefit the donor as well as the recipient – but also, the refurbished airport has to be staffed and maintained by Malawians after it's finished and there may be no aid for either commitment.

Where the money goes

Wealth creation accounts for 13%

Governance and security takes 18%



The Capacity Foundation's interest is partly poverty relief. Only 13% of the UK's international aid is spent on poverty relief as such – rather less than the proportion spent on governance (18%). It's shocking that nearly a fifth of the UK's aid is spent on making sure the donated money doesn't go missing.

Anti-poverty statistics don't stack up

Size of Malawi's economy 2016	£ 4.2 billion (64p)
Population	18 million

Size of Malenga Mzoma's economy

Population 20,000 (1/900 of national population)

Malenga Mzoma's economy (1/900 of national economy) £ 4.67 million (64p)

Actual size of Malenga Mzoma's economy (survey) £ 3.48 million (48p)

25% difference

Much is made of a particular measurement to show whether people are in poverty: if someone in the developing world earns less than \$1.25 (**97p**) a day, they are in absolute poverty.

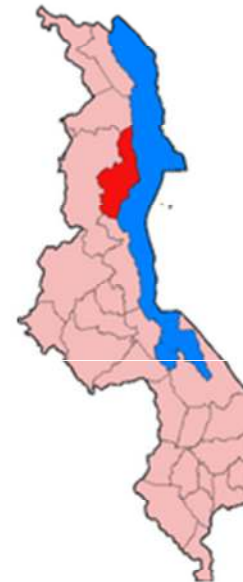
These statistics indicate that the average income per day nationally is only 64p, barely two-thirds of the absolute-poverty mark.

The situation is even more dire in the area where the Foundation works. Malenga Mzoma is little more than a thousandth of the Malawi population. If Malawi's economy was evenly distributed, Malenga Mzoma's economy would be about £4.67 million. In fact, evidenced by the household-level survey we carried out, it's about £3.48 million. This means that the 'income per day' for an average person living in Malenga Mzoma is about 48p a day, almost exactly half the 97p a day at which they are technically out of absolute poverty.

Malenga Mzoma's true economy

Monthly income of households in Malenga Mzoma

5-person family (MK)			Ave £	pppd (£)
20,000 people/5 per family			monthly/family	individual
Zero to	10,000	12.6 %	5.39	0.04
11,000 –	20,000	18.1 %	16.16	0.11
21,000 –	50,000	26.8 %	37.72	0.25
51,000 –	100,000	21.3 %	80.82	0.53
100,000 –	500,000	15.4 %	269.40	1.47
Over	500,000	5.8 %		



\$1.25 a day = 97p = MK 900 = MK 136,875 per month

pppd = per person per day

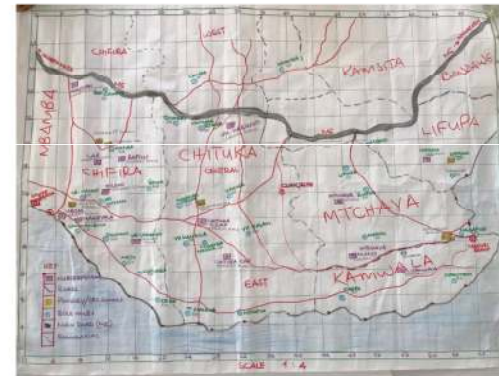
This table shows the income distribution among Malenga Mzoma's 4,000 families/households. Something over 80% of the families live below the absolute poverty line.

As noted at bottom right, the 'pppd' column represents income per person per day – so at the most distressed end of society, people are existing on 4p a day. These will be the families who get only one meal a day.

Malenga Mzoma as an economy

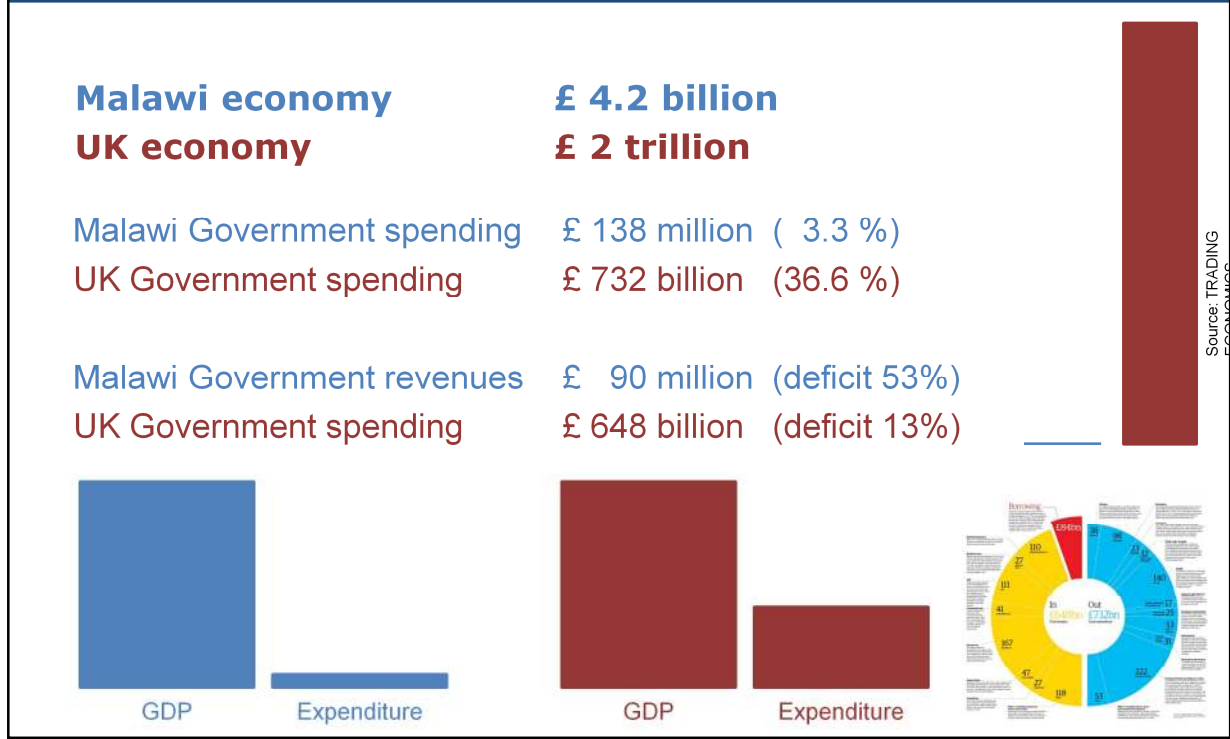
Sources of income

		no. of families
Fishing	24.5 %	980
Farm job	21.7 %	870
Production/crops	14.7 %	590
Support from others	12.6 %	500
Trade/business	9.2 %	370
Part-time job	8.9 %	360
Other	8.4 %	340



The table demonstrates the dependence on fishing and farming.

Malawi can't support public services



This illustration of the relative size and shape of the UK and Malawi economies shows clearly the limits of the Malawi Government to provide services for its own people. The two columns at top right show the relative sizes of the two economies.

The UK Government spends equivalent to over a third of the UK's economic output on public services. By contrast, Malawi's Government spends the equivalent of only 3.3% of the country's economic output – and that's 3.3% of a much smaller 'cake.'

Malenga Mzoma's solutions

- 1. Identify community priorities from within**
 - income, education, clean water, secure food, health
- 2. Don't wait for unreliable government and NGO provision**
- 3. Use existing ADC and VDC system to channel desired projects**
 - handle funds at most local level to avoid corruption
- 4. Stimulate the local economy to create opportunities and wealth**
 - make stepped loans available, train and mentor – and don't foreclose
- 5. Create a community fund from business profits**



Business skills training



Adult literacy classes

National Government
28 District Councils
Area Development Councils
One per Traditional Authority
Village Development Councils
About 60 villages in MM

The Foundation's microloan programme is designed both to stimulate the local economy so that it grows – making people more affluent – and to provide essentially a local tax system where some of the proceeds from business success are channelled into a fund for community benefit.

Concentrate effort in one place

Financial loans, providing capital for growth, are the foundation

- Building on existing village banks, loans begin at £60 repaid over 10 months
- Service charge of 30% covers cost of training and mentoring and funds **SAF**
- Loans are being repaid in full and on time, often with well over 100% growth
- Adult literacy and numeracy classes enable more people to qualify for training and loans
- Farming Improvement Project aims to boost production, variety and income
- Social enterprises to boost trading
- Foundation expects to be fully self-funding within 5 years

Social Action Fund provides 'public expenditure'

- Government spending in MM unknown – but £153,000?
- CF loan book of £500,000 would add **£100,000**
- CF so far has a loan book of £7,600 (1.52%) to 70 loantakers
- Average current loan is just over £100
- **Equates** to 1000 families – a quarter – with loans of £500 each

Social Action Fund

A kind of 'community chest' controlled by the community, it effectively acts as a tax system. The community as a whole decide how it is spent – repairs to infrastructure, school supplies, water security, improved and varied crop production ...
20% of the loan book funds the SAF

The service charge attached to the financial loans – 30% of the loan value (principle) for first loans, 25% thereafter – is divided between the Social Action Fund (20%) and supporting the charity's overheads (10% on first loans, 5% thereafter). The Foundation's overheads are £25,000 a year, so a loan book valued at £500,000 would be enough (at 5%) to cover the overheads.

£500,000 sounds like a lot of money for the local economy to absorb, but is only the equivalent of a quarter of the families borrowing £500 each repayable over ten months. Some individuals will borrow rather more: the average loan is already £100 with some loantakers borrowing twice that sum.

A loan book of £500,000 would also produce £100,000 (the 20%) toward the Social Action Fund. That sum is comparable to the amount that the Malawi Government gives to the District Council to spend in Malenga Mzoma.

Further information

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