Women in Informal Employment Globalizing and Organizing

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Budgeting and the Informal Economy in Lilongwe, Malawi

Debbie Budlender

Summary of report written by Sera Gondwe

WIEGO Budget Briefs

Budgetary analysis has been used widely to understand how government budgets differentially address the needs and interests of women and men, girls and boys. The global research policy network Women in Informal Employment: Globalizing and Organizing (WIEGO) has initiated a series of informal economy budget analyses (IEBAs). These aim to understand how government budgets address the needs and interests of informal workers, and also investigate what opportunities exist for informal workers, or their representatives, to participate at different stages of the budget process. WIEGO Budget Briefs provide popular versions of the longer IEBA reports for wider dissemination of the research findings. The longer report that corresponds to this brief, "WIEGO Resource Document: Informal Economy Budget Analysis – Lilongwe, Malawi," was written by Sera Gondwe and is available from www.wiego.org.

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Introduction

In 2013, 89 per cent of Malawi's 5.5 million employed people were informally employed. Informal economy budget analysis (IEBA) explores the extent to which government budgets address the needs of informal workers. The IEBA in this brief focuses on Lilongwe, Malawi and specifically on the needs of informal vendors, who constitute the largest single group of informal workers in Lilongwe City.

Women in Informal Employment: Globalizing and Organizing (WIEGO) and the Malawi Union for the Informal Sector (MUFIS) commissioned this study as part of the support that WIEGO is providing to MUFIS to promote the implementation of ILO Recommendation 204 (R204) on formalizing the informal economy.

Information for the study was collected through reviewing budget and other documents, interviewing key stakeholders, and focus group discussions with representatives of market vendors.

The informal economy and legal framework in Lilongwe

Lilongwe is the capital city of Malawi. It has an estimated population of 1.2 million. About three quarters of the population live in the informal settlements, which cover 12 per cent of the city's land area.

Informal economic activity is common in the city. About half of all households in the city operate a non-farm enterprise. Most of these enterprises – especially those run by women – are unregistered and informal.

Malawi has two levels of government, national and local. At the local government level, there are districts, cities and municipalities. The country is divided into 28 districts, each of which is governed through an elected council. Some districts include cities, which are treated as "districts in their own right". Lilongwe City is one of these.

Malawi's Constitution states that local government is responsible for welfare provision, the promotion of democratic institutions and participation, and the advancement of infrastructure and the economy through local development plans (LDPs).

The Lilongwe City Council (LLC) has demarcated 41 places in the city as open markets. City Council officials feel that street vendors contribute to city congestion and block access to formal businesses. The Council therefore has banned trading from places outside the markets. Lilongwe City Council officials report that 14,468 vendors operate in the 41 designated markets. However, this represents fewer than half of the City's vendors.

About a third (31 per cent) of women-run enterprises operate in the designated market places, about a fifth (20 per cent) operate outside a residence, and about a tenth (11 per cent) are mobile. Women operators are more likely than men to work in market places while men are more likely than women to be mobile or operate outside a residence.

Understandably, vendors prefer to trade in areas where there are lots of potential customers. Vendors in Lilongwe have therefore established their own informal markets along busy roads. For example, they established the Wakawaka market on private land, and the Tsoka market on public land.

Lilongwe City by-laws state: "*No person shall establish a private market or engage in street vending without first seeking council approval.*" The City Council designated Tsoka as a market after it was established and collects market fees from vendors operating there. The Council has not done this for Wakawaka market, which was established recently.

Malawi's Decentralisation Policy of 2010 states that local government must provide a conducive environment for all businesses and monitor adherence to standards. This mandate includes provision of market space and the necessary basic amenities. However, some designated markets do not have infrastructure of the required standard. Further, there are not enough spaces in the markets for all the people who want to trade.

Lilongwe City by-laws state that each vendor operating in a market must pay a daily license fee of MWK100. People operating restaurants must pay MWK200 per day. In return for this fee, vendors expect to be offered quality services by the Council.

All councils in Malawi are required to generate own revenue to supplement grants from the national budget. City councils are expected to generate more revenue than district councils. Lilongwe City Council, in particular, is expected to generate 80 per cent of its total revenue. Own revenue sources include property rates and rentals, fees and service charges, licenses and permits. Fees charged to market vendors contribute between 6–9 per cent of Lilongwe's total revenue.

The City Council is meant to develop a medium-term City Development Plan. This plan will then guide where markets can be established. It should also guide budgets. Lilongwe City Council's first development plan covered the period 2010–15. By mid-2018, Lilongwe still did not have a new plan to guide its current budget.

Inadequate space and infrastructure

Vendors have many complaints even when they find space in the open market. They report that the Council does not collect refuse regularly, especially over weekends and on public holidays. This creates a public health hazard and can also scare away potential customers.

Some markets do not have toilets, and in others the toilets are in poor condition. In 2009, the Council organized for private contractors to provide sanitation and water in the markets. The contractors pay rent to the Council and the vendors pay the contractors to use the facilities. The facilities improved after the contractors were brought in. However, the facilities are still inadequate. For example, Lilongwe central market has only three functioning taps for more than 2,000 vendors.

Vendors in the markets also pay the Electricity Supply Commission of Malawi (ESCOM) for the electricity they use. Previously the Council paid ESCOM's bills. In 2009, the Council said it did not have enough funds to pay and ESCOM disconnected the electricity. Vendors organized themselves to have the power turned on again and now pay the bills themselves. However, the Council is meant to provide this service.

Over the past five years, two markets in the City have been damaged by fires caused by electrical faults. The Council said it did not have the funds to rebuild the markets. Well-wishers, including the vendors themselves, contributed funds to do some repairs. However, the markets are still not in good shape.

There are no child care facilities in the markets to support women entrepreneurs who have children under school-going age.

Some vendors in the market do not pay the Council fees. They ask why they must pay fees when minibus operators who load and off-load passengers at the market do not pay fees. Some vendors also feel that the fee should differ according to the goods and services they sell.

Market vendors also see that mobile vendors do not pay fees. In fact, mobile vendors are operating illegally. However, the Council does not enforce the law and allows them to continue operating. The Council knows that the mobile vendors need the money and also that it is unable to allocate sufficient space for everyone who wants to trade.

The challenges described above not only contribute to poor welfare standards for vendors and consumers but also contribute to vendors' non-compliance with payment of daily fees. This, in turn, further reduces the revenue of the City Council and ultimately its ability to provide basic services to the residents of Lilongwe, including the many dependent on income from trading.

Organizing and representing vendors

The Malawi Congress of Trade Unions (MCTU) is the national trade union centre. It had more the 150,000 contributing members in 2016. Many informal workers are affiliated to MCTU through the Malawi Union for the Informal Sector (MUFIS).

MUFIS was established in 2004. It is affiliated to StreetNet International and WIEGO at the international level. Within Malawi, the MUFIS General Secretary is a member of the new Tripartite Labour Advisory Council. This Council is not yet operative, but will advise the Minister of Labour, Youth, Sports and Manpower Development on issues relating to labour and employment.

In 2018, MUFIS had more than 15,000 members, of whom 60 per cent were women. The majority of members are vendors, but membership is open to all informal workers. MUFIS has branches in various cities and districts of the country. Through these branches, MUFIS collaborates with other member organizations.

The Lilongwe Urban Vendors Association (LUVA) was established to represent vendors. The LUVA chairperson has a seat on the City Council to represent vendors' interests but does not have voting rights in the Council's meetings. LUVA reports a membership of more than 90,000 members. Membership includes market vendors but also urban vendors operating from the streets and other locations.

In addition to these organizations, at a grassroots level, the vendors in each market are organized into sections according to the type of goods they sell or the service they provide. Each section has a market committee, with a chairperson. All the chairpersons sit on the overall market committee.

Similar market committees also exist in other parts of the country. The local government authorities (LGAs) established these committees so that they could engage with vendors. However, Lilongwe City Council and the committee do not have regular meetings together. They usually meet only when there is a crisis, such as a fire.

At community level, vendors – like other citizens – participate in election of councillors in the areas in which they live. These councillors, unlike the LUVA representative, have voting rights at Council meetings. Currently the ordinary councillors do not take a special interest in the needs of informal workers.

Composition and structure of local government in Malawi

On the administrative-executive side, Lilongwe City has different directorates for each of the 17 sectors, or areas of responsibility, that have been allocated to LGAs. The following directorates are of special interest for vendors:

- Public works: Focuses on infrastructure provision including market infrastructure
- Health and social services: Has a cleansing sub-section that is responsible for, among other things, cleanliness and waste management in the markets
- Planning: Allocates land designated for markets
- Engineering: Designs new market infrastructure
- Commerce and industry: Focuses on revenue collection, marketing and managing all commercial activities

Lilongwe City Council has approximately 1,600 officials. More than 600 workers are in the Health directorate, and many of them are cleaners. The top official in the City Council is the chief executive officer (CEO).

On the legislative side, the majority of city councillors are elected by people in the different wards. Since 2010, members of parliament (MPs) are full members of the LGA council in the ward in which they were elected.

LGA councils can also have up to five representatives of special-interest groups as non-voting ex-officio members. The special-interest group members are appointed by the elected members on the basis of applications from interest groups. However, in Lilongwe, there are currently only three special-interest representatives – one to represent people with disabilities, one to represent youth, and LUVA to represent the business community.

City councillors sit on, and chair, service committees. Vendors' issues are largely addressed by the planning, public works, health and environment committees. The finance committee is responsible for the overall coordination of the budgeting process through the Director of Finance.

At community level, councillors are meant to engage with ward development committees comprised of community members. At present, these committees do not function in Lilongwe.

Malawi's development goals

Malawi's long-term goals are stated in Vision 2020, which is a twenty-year development strategy. The strategy states that by 2020 Malawi will have a middle-income economy. The Government of Malawi also develops five-year National Development Strategies (NDS) that set the direction and establish the key milestones.

The third Malawi Growth and Development Strategy (MGDS III) covers the period 2017 to 2022. The strategy notes the importance of creating enough rural and urban jobs and entrepreneurship opportunities for both men and women. It also notes the importance of widening the tax base to finance Malawi's development and meet the needs of citizens. However, the key strategies in MGDS III do not explicitly refer to the informal economy. This is a problem because the five-year development strategy is meant to guide preparation of Ministry Strategic Plans and budgets.

The structure of the government budget

The national budget has two sides. The revenue side records the sources of financing, while the expenditure side records the estimates of expenditure.

Expenditure is made up of the recurrent and development budgets. Recurrent expenditure comprises the operating costs of government. It is divided into personal emoluments (reflecting remuneration of government officials) and other recurrent transactions. Development expenditure reflects the cost of implementing investment projects. This includes infrastructure projects such as construction of new roads and markets.

The LGA budget also has revenue and expenditure sides. Part of the LGA's revenue comes from central government. The share received from central government varies depending on the LGA's potential to raise its own revenue. City Councils are meant to raise enough own revenue to cover the costs of service delivery because the size of their population and relative wealth mean that they can do this more easily than rural areas. However, Lilongwe – like other cities – struggles to achieve this.

Local government budgets also have both recurrent and capital (development) expenditure components.

Lilongwe City Council currently receives transfers from central government in the form of the General Resource Fund (GRF), Constituency Development Fund (CDF), Infrastructure Development Fund (IDF), city roads rehabilitation, and devolved sector funds.

LGAs can decide on the detail of how to use the transfers from central government. However, for all the funds except the GRF, there are rules about how the funds can be used. These limit the LGA's discretion. For example, the CDF must be used for development projects in each constituency.

The budget process and participatory budgeting

The LGA executive prepares the draft budget and presents it to the Finance Committee. The latter reviews the budgets together with relevant service committees and directorates. The executive then presents the endorsed budget to the full council for discussion and voting. However, only the councillors and MPs have a vote on the council. Interest group representatives do not vote.

After the Council has approved the budget, the LGA sends it to the National Local Government Finance Committee (NLGFC). The NLGFC brings together the budgets from all LGAs and presents the consolidated budget to the National Assembly (parliament) for noting. The National Assembly does not deliberate on or approve the local government budgets.

In addition to these formal actors, the Local Budgeting Manual of 2006 says that LGAs must facilitate participation of local people in the formulation and implementation of the three-year LDP. In 2013, the NLGFC developed guidelines for participatory budgeting for LGAs. These guidelines aim to involve communities in decision-making on the allocation of resources as well as implementation of the budget.

The main stages for participatory budgeting in local governments are:

- *Stage 1* (November–December)
  Communication of participatory budgeting programme and information
- *Stage 2* (January–February)
  Pre-budget consultation meetings: LGAs inform development committees at community level what funds are available. They ask the committees to identify their development needs and priorities.
- *Stage 3* (February–March)
  Budget conference/hearing: Representatives of different groups come together to discuss needs and priorities. Central government officials may also attend.
- *Stage 4* (February–June)
  Review of draft budgets: Sectoral staff draft budgets for the directorates that are then reviewed by council service committees. The urban executive committee reviews the consolidated budget from all directorates. Input from non-governmental organizations and other actors is also considered during this stage.

After the budget is approved, the LGA must make it available to any organization or member of the public requesting it.

Despite this prescribed process, to date market vendors in Lilongwe have not participated in the budgeting process.

Budget analysis

Central government is meant to allocate at least 5 per cent of national revenue, excluding grants from donors, to LGAs. The NLGFC distributes the funds it receives from central government between the LGAs, using a formula that includes factors such as population size and the level of development of the specific LGA.

Table 1 shows the 2018/19 allocations in the national budget that are most relevant to the informal economy and/or to LGAs. The four central agencies combined (the first four rows in Table 1) receive only 4.4 per cent of the total national budget. The Local Development Fund (LDF) receives only 1.7 per cent. And all the LGAs combined receive only 17.4 per cent.

Table 1: National budget allocations, 2018/19

	Amount (MK million)	% of total budget
Ministry of Local Government & Rural Development	11,921	1.0%
NLGFC	22,004	1.8%
Ministry of Trade	4,832	0.4%
Ministry of Labour	14,244	1.2%
Local Development Fund	20,492	1.7%
Total of transfers to individual LGAs	**210,855**	**17.4%**

The transfers to LGAs have, however, increased from only 5.3 per cent in 2015/16 to 2018/19's 17.4 per cent. The increase reflects the introduction of the CDF, District Development Fund and Infrastructure Development Fund (IDF).

Table 2 shows that the largest share of the LGA transfers goes to City Roads. This can assist vendors as it facilitates development, access and movement of people and goods. However, the funds allocated for City Roads go to the Road Fund Authority. They are therefore not shown in the budget of an individual LGA, such as Lilongwe City Council.

Table 2 shows that, at national level, the IDF is the smallest of the five funds. The allocation for this fund fell from MWK1.6 million in 2015/16 to MWK0.4 million in 2018/19. This is unfortunate, as these funds could be used to fund market infrastructure. However, as seen below, the IDF is the smallest of the transfers for Lilongwe City Council.

Table 2: LGA transfers for LGAs by funding category, 2018/19

Fund	MK million
General Resource Fund	1.2
Infrastructure Development Fund	0.4
District Development Fund	1.5
City Roads	4.6
Constituency Development Fund	2.0

In addition to the funds allocated directly to City Councils from the national budget, LGAs can also access funds from the Local Development Fund (LDF) if they comply with LDF requirements. The total amount allocated to the LDF fell from 3.5 per cent of the total national budget in 2015/6 to 1.7 per cent in 2018/19. Lilongwe City Council has struggled to access LDF funds. The main reason is that the Council does not have audited accounts.

In 2018/19, the GRF accounted for 16 per cent of Lilongwe's transfers from national government, the CDF for 14 per cent, and the IDF for 26 per cent. The remaining 43 per cent was made up of allocations to directorates for specific sectors.

The Lilongwe City Council's main source of revenue is locally-generated funds, in line with the requirement that these must constitute at least 80 per cent of total revenue. However, total local revenue for Lilongwe City Council fell from MWK2,814 million in 2015/16 to 2,143 million in 2017/18. The City Council reports that it has challenges with collection of all types of fees.

In 2017/18, nearly half (48.8 per cent) of the Council's own revenue came from property rates (excluding Central Government property rates). Market fee income accounted for 7.9 per cent of the total. If the Council's estimate of the number of market vendors is correct, it should collect MWK45 million per month, or MWK540 million per year, in market fees. However, in 2017/18 it collected only MWK163 million.

The Revenue Enhancement Strategy for LGAs states that LGAs must use at least 25 per cent of locally-generated revenue for capital projects. However, Lilongwe City Council reinvested only 14 per cent of local revenue in 2015/16, 4 per cent in 2016/17, and no local revenue in 2017/18.

Nevertheless, in 2016/2017, Lilongwe City Council's development expenditure more than doubled. In that year it constructed three shelters at the central market and five curio sheds. However, in 2017/18 development expenditure declined to 5 per cent of total expenditure.

On the expenditure side, remuneration of Council employees accounted for 70 per cent of recurrent expenditure in 2017/18 and 67 per cent of total expenditure.

In terms of function, the health and social welfare directorate accounted for 20 per cent of total expenditure. About 25 per cent of the directorate's expenditure goes to refuse collection, but only a small part of this (MWK1.5 million) was for purchasing of carts and litter bins.

Conclusion: Suggestions for advocacy

The publicly available budget documents in Malawi provide only relatively aggregated information. Information on the detail of how funds will be used is not easily available. This hampers advocacy by vendors and other interest groups. It also makes it difficult to hold the City Council accountable for spending funds in line with how they were allocated. It is, however, clear that vendors in Lilongwe have unmet needs that fall within the City's mandate.

The City Council is required to reinvest 25 per cent of locally-generated revenue in capital expenditure. Lilongwe City Council does not currently do this. Market vendors contribute directly to locally-generated revenue through payment of market fees. Vendors' membership-based organizations (MBOs) such as MUFIS and LUVA can use this fact to advocate for the funds to be used to improve sanitation and services in markets.

The MBOs can advocate to be involved in monitoring registration of vendors and collection of market fees. Having accurate information on the number of vendors operating from the market could inform recruitment targets and strategy. It also could strengthen advocacy as to how the revenue could be utilized.

The MBOs could engage the City Council around changing the market fee structure, given that the Council no longer provides and manages sanitation and water facilities.

The MBOs could engage the Council secretariat, heads of section and the CEO on provision of specific services. The organizations could engage councillors and MPs in respect of development projects such as market and road infrastructure.

The MBOs should keep informed about the process to update the Lilongwe Development Plan so as to be able to advocate for inclusion of market vendors in the process.

More generally, MBOs could advocate for the budget process to be more participatory.

About WIEGO: Women in Informal Employment: Globalizing and Organizing is a global network focused on securing livelihoods for the working poor, especially women, in the informal economy. We believe all workers should have equal economic opportunities and rights. WIEGO creates change by building capacity among informal worker organizations, expanding the knowledge base about the informal economy and influencing local, national and international policies. Visit www.wiego.org.

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