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Informal Economy Budget Analysis for Lilongwe City in Malawi

Sera Rose Gondwe and Debbie Budlender

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The authors take responsibility for any omissions, misrepresentation of facts or any other errors in this report.

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Summary

Transitioning from informality is increasingly recognized as one of the main development challenges worldwide. An estimated 89 per cent of employed people in Malawi are in informal employment, implying that transitioning from informality would contribute to improved livelihoods for many households. This informal economy budget analysis was conducted to examine how budgets address the needs and interests of the informal economy workers, specifically focusing on market traders and vendors in Lilongwe City. Consultations with key stakeholders provided insights about the status of the informal economy. Budget allocations and expenditures for the years 2015/16, 2016/17, 2017/18 and approved estimates for 2018/19 were also analyzed.

Open markets, a major source of income and food in Malawi, are developed and regulated through councils. The council develops and lets trading spaces, at a fee that is supposed to be paid by every trader in the city in accordance with the by-laws. The councils generate revenue in this way, among others, as mandated through the decentralization policy. Fees charged to market traders contributed eight per cent (MK169Mn) to total revenue in 2017/18. Lilongwe City has an urban master plan with details of designated market places. However, not all the market spaces have the required infrastructure, hence creating a situation where traders scramble for the available small space. Also, the councils must buy or lease land if it is to develop further market spaces. Lilongwe City's development plan, a key document to guide resource allocation, is still being reviewed.

Market traders and vendors face persistent challenges in Lilongwe City, including limited space allocated to each trader within the designated market spaces, lack of standardization of infrastructure type allowed on the designated space, irregular waste collection, lack of childcare facilities for women traders and differential market fees. The challenges contribute to poor welfare standards for traders and consumers but also contribute to traders' non-compliance with payment of daily fees.

Informal workers are organized into associations and unions that help to promote and protect their rights. The Malawi Union for the Informal Sector at national level and the Lilongwe Urban Vendors Association are vibrant groups operating in the city. While there is available space for engagement with council officials, councillors and budget processes, not all space is being utilized effectively. Efforts have been made for the two groups to work together productively, but more needs to be done for effective engagement.

The budget process for Malawi is an interactive process involving both local and national stakeholders, including councils and communities. The process is governed by several legislatures. At council level, inclusion of special interest groups in the council provides space for informal workers' groups to engage with the process. Trader groups can also engage through councillors. However, awareness and knowledge on how best to engage at the various levels is limited among trader groups.

The national budget incorporates transfers to city councils for both recurrent and development expenditures. However, city councils are required to generate 80 per cent of their revenue. While other funds transferred are ceded, the council decides on the utilization of the rest of the transfers. Policies, strategies and guidelines are in place at higher levels to provide opportunities for engaging in the budget process and holding office bearers accountable. At Lilongwe City Council level, the expired City Development Strategy and Local Development Plans have not been reviewed, and this

hampers allocation of funds to priority development needs. In 2016, to support continued growth, Lilongwe City Council committed to reinvesting 25 per cent of market fees into market establishments.

A general decrease in revenue collection has been observed since 2015, contrary to the resource mobilization strategy expectations. Using estimated statistics for the number of market traders, the council collects less than half of potential fees. From this, about six per cent of market fees goes to the council's capital outlay. The council has been contributing about one per cent of its locally generated revenue to capital outlay. Inefficiencies in fees collected and resource allocation prioritization could be contributing factors to the low investments into improving market establishments. Provision of a conducive operating environment for traders could contribute to improving their households' livelihoods. Ultimately, if revenue generated from markets is used effectively, the council could provide better services in the markets.

Recommendations:

- The capacity of both trader representatives and LCC could usefully be built on advocacy and how to hold office bearers accountable on budget allocations and implementation.
- Trader organizations can use the city council commitment to 25 per cent reinvestment of market fees to advocate for the funds to be used to improve sanitation and other services in markets.
- Efforts need to be made to support collaborative development and implementation of efficient fee collection systems for the City of Lilongwe. Finalization of the MoU between MUFIS and LCC can be a starting point.
- Trader organizations can advocate to be involved in the development of a registration system, monitoring registration of traders and collection of market fees.
- MUFIS and LUVA could benefit from a joint campaign to inform traders of their different roles and the benefits to traders from joining the organizations.
- Trader organizations could engage the city council around possible modification to the market fee structure, given that the council no longer provides and manages sanitation and water facilities.
- Trader organizations could engage the council secretariat, section heads and the CEO on provision of specific services. They can engage councillors and MPs in respect of development projects such as market and road infrastructure.
- Trader organizations could engage with other civil society groups that deal with economic issues to seek information and assistance with budget-related issues, as well as related capacity building.

List of Acronyms

ADC	Area Development Committee
AIP	Annual Investment Plan
BPFP	Budget Policy Framework Paper
CDF	Constituency Development Fund
CDP	City Development Plan
CDS	City Development Strategy
CEO	Chief Executive Officer
DC	District Commissioner
DDF	District Development Fund
DEC	District Executive Committee
ESCOM	Electricity Supply Commission of Malawi
FEDOMA	Federation for Disability Organizations in Malawi
FGD	Focus Group Discussion
GoM	Government of Malawi
GRF	General Resource Fund
IDF	Infrastructure Development Fund
IEBA	Informal Economy Budget Analysis
IHS	Integrated Household Survey
ILO	International Labour Organization
KII	Key Informant Interview
KPA	Key Priority Area
LCC	Lilongwe City Council
LDF	Local Development Fund
LDP	Local Development Plan
LGA	Local Government Authority
LGR	Locally Generated Revenue
LRESP	Local Revenue Enhancement Strategic Plan
LUANAR	Lilongwe University of Agriculture and Natural Resources
LUVA	Lilongwe Urban Vendors Association
MBO	Member-Based Organization
MCTU	Malawi Congress of Trade Unions

MDA	Ministries, Departments and Agencies
MGDS	Malawi Growth and Development Strategy
MITT	Ministry of Industry, Trade and Tourism
MLFS	Malawi Labour Force Survey
MLGRD	Ministry of Local Government and Rural Development
MLYSMD	Ministry of Labour, Youth, Sports and Manpower Development
MoFEPD	Ministry of Finance, Economic Planning and Development
MP	Member of Parliament
MSP	Ministry Strategic Plan
MSU	Michigan State University
MTEF	Medium-Term Expenditure Framework
MUFIS	Malawi Union for the Informal Sector
NLGFC	National Local Government Finance Committee
NSO	National Statistics Office
ORT	Other Recurrent Transactions
PE	Personnel Emoluments
PFMA	Public Finance Management Act
UEC	Urban Executive Committee
VDC	Village Development Committee
WIEGO	Women in Informal Employment Globalizing and Organizing

Section 1: Background

Worldwide, transitioning from informality is increasingly recognized as one of the main development challenges. This is because the informal economy is the main and often only source of livelihood for disadvantaged groups. (ILO 2009). Generally, informal workers face challenges including job insecurity, irregular incomes, lack of access to social protection and fewer chances to engage in social dialogue (ILO 2018). Specifically, for Malawi, with most workers in informal employment, this implies that the majority are in vulnerable employment situations.

The International Labour Organization (ILO) defines the informal economy as "all activities that are in law or practice not covered or insufficiently covered by formal arrangements" (ILO 2002). This includes both the enterprise someone works for (working in the informal sector) and informal characteristics of the worker's job (informal employment) (ILO 2015). Informal workers thus fall into the two broad categories of (a) self-employment (i.e informal sector employers and owner-operators, members of informal producer cooperatives, unpaid contributing family workers); and (b) wage employees without formal contracts or social protection from their work, whether they work in the formal or the informal sector (Budlender 2009). The informal economy therefore includes most household domestic workers, street vendors, waste collectors, and hawkers, among others.

International Labour Organization (ILO) 2015 Recommendation 204, concerning the transition from the informal to the formal economy, affirms that this transition is essential to achieve inclusive development and to realize decent work for all. The implementation of this recommendation is therefore important to developing countries in sub-Saharan Africa, including Malawi, where most workers labour in the informal economy.

Malawi has development commitments guided by five-year strategies. The current Malawi Growth and Development Strategy (MGDS III), spanning 2017-2022, directly relates to the informal economy through its aim of creating sufficient rural and urban jobs and viable entrepreneurship opportunities for both men and women and widening the tax base to finance Malawi's welfare requirements.

Employed people in Malawi are predominantly engaged in informal employment (National Statistics Office (NSO) 2013). Therefore, deliberate efforts to transition those in the informal economy to the formal economy would ensure provision of decent work to many Malawians. Achieving this would be in line with the Sustainable Development Goal 8 aimed at promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

According to World Bank (2018), macro-poverty in Malawi, as measured by the population living below the international poverty line (US$1.90 per day per capita), had not changed between 2010 (79.9 per cent) and 2016 (69.6 percent). The dire situation is further evidenced by the 2018 ranking of the country third from last on the world poverty index.

In Malawi, 89 per cent of the 5.5 million employed people are in informal employment (NSO 2013). Malawi had an estimated population of 18 million in 2016, and is demarcated into three administrative regions of Southern, Central and Northern. There are 28 districts across the three regions of the country. In line with the Local Government Act (2010), each district is governed through an elected council. Within some districts there are cities and municipalities that administratively are treated as "districts in their own right"[1]. Lilongwe City, on which this analysis focuses on, is a district.

1.1 Aims of the Study

Informal Economy Budget Analysis (IEBA) examines how government budgets address the needs and interests of different groups of informal workers. It also explores the opportunities that exist for informal workers' participation in the budget process. Women in Informal Employment Globalizing and Organizing (WIEGO) and the Malawi Union for the Informal Sector (MUFIS), commissioned an IEBA for Lilongwe City in Malawi in mid-2018. The study was conducted under the broader support that WIEGO is providing to MUFIS to promote the implementation of Recommendation 204.

Budget analysis presents a potentially powerful tool that can assist informal workers' member-based organizations (MBOs) in monitoring, assessing and advocating for allocations that enhance their opportunities and situation. Ultimately, the organizations can contribute to transitioning of the informal economy to the formal one, and hence improved livelihoods. It is expected that the findings in this report will support advocacy efforts for (1) inclusion of informal workers' interests in the decision-making processes and (2) addressing their needs through policy instruments and the budget.

The analysis was conducted with an understanding that budget analysis, like any other tool for human or economic rights advocacy, comes with tensions between "absolutism and pragmatism, radical and gradual changes, long-term and short-term gains" (Dudai 2014). This IEBA focuses on street and market vendors because they provide a key source of incomes for most of the population in urban areas. They also represent the largest share of Malawi's informal economy, which provides goods and services. The financial year for the Malawi government runs from July to June, and hence the analysis focused on the budgets for the years 2015/16, 2016/17, 2017/18 and the approved estimates for 2018/19.

1.2 Methodology

Information was collected mainly through comprehensive document review, interviews with key informants including officials at council and ministry level, and focus group discussions with representatives of market traders. Statistics on budget allocations and expenditures at national, ministry and local levels were collected and supplemented with qualitative data from discussions with the key informant stakeholders.

Key informant interviews (KII) were conducted in May and June 2018 with stakeholders from both the supply and demand sides of budget allocation, and expenditure. From the supply side, interviews were conducted with one official from the Ministry of Finance and Economic Planning (MFEP), two from the National Local Government Finance Committee (NLGFC), one each from the Ministry of Local Government and Rural Development (MLGRD) and the Ministry of Industry, Trade and Tourism (MITT), and two administrative officials from Lilongwe City Council (LCC). The interviews provided insights into the budgeting cycle and process, the national budget architecture including revenue

[1] They have own vote in the national budget allocations.

collection, budgetary allocations and expenditures and clarification on how the informal workers' needs are addressed through both budgets.

From the demand side, KIIs and focus group discussions were conducted with a leader of the Lilongwe Urban Vendors Association (LUVA), eight leader and member representatives from five markets in Lilongwe City, five MUFIS leaders for Lilongwe Branch and one from the MUFIS national secretariat. The purpose of the interviews was to understand:

- whether and how workers' needs and interests are addressed by government;
- their knowledge levels of the national budget and its processes;
- how they engage with local authorities/government, so that their interests can be considered; and
- how the vendors and market traders interact with informal workers' member organizations.

The information gathered provided the required narrative to the figures in the budgets. Semi-structured interview guides were used as presented in Appendix 1.

The research design was informed by the WIEGO Budget Analysis Technical Brief (2003) as well as researchers' insights into the local context. All budget figures were adjusted for inflation to provide the basis for calculation of real percentage changes in the budget allocations.

The remainder of the report is structured into five sections. The following section describes the size of informal economy in Malawi and Lilongwe. Section 3 presents an overview of the situation of market and street vendors in Lilongwe, the focus area for this report. Section 4 follows with an explanation of informal workers' MBOs, which provide the opportunity for engagement with stakeholders. The governance structure and budget processes are explained in section 5, followed by budget analysis in section 6. The conclusions are presented in section 7 and recommendations in section 8.

Section 2: Size of the Informal Economy in Lilongwe and Malawi

This section describes the size and structure of the informal economy in Malawi. The informal employment[2] statistics are used as proxy indicators for the size of the vendor workforce. This was done due to non-availability of verifiable current data on the number of market traders and street vendors for Lilongwe and for Malawi as a whole.

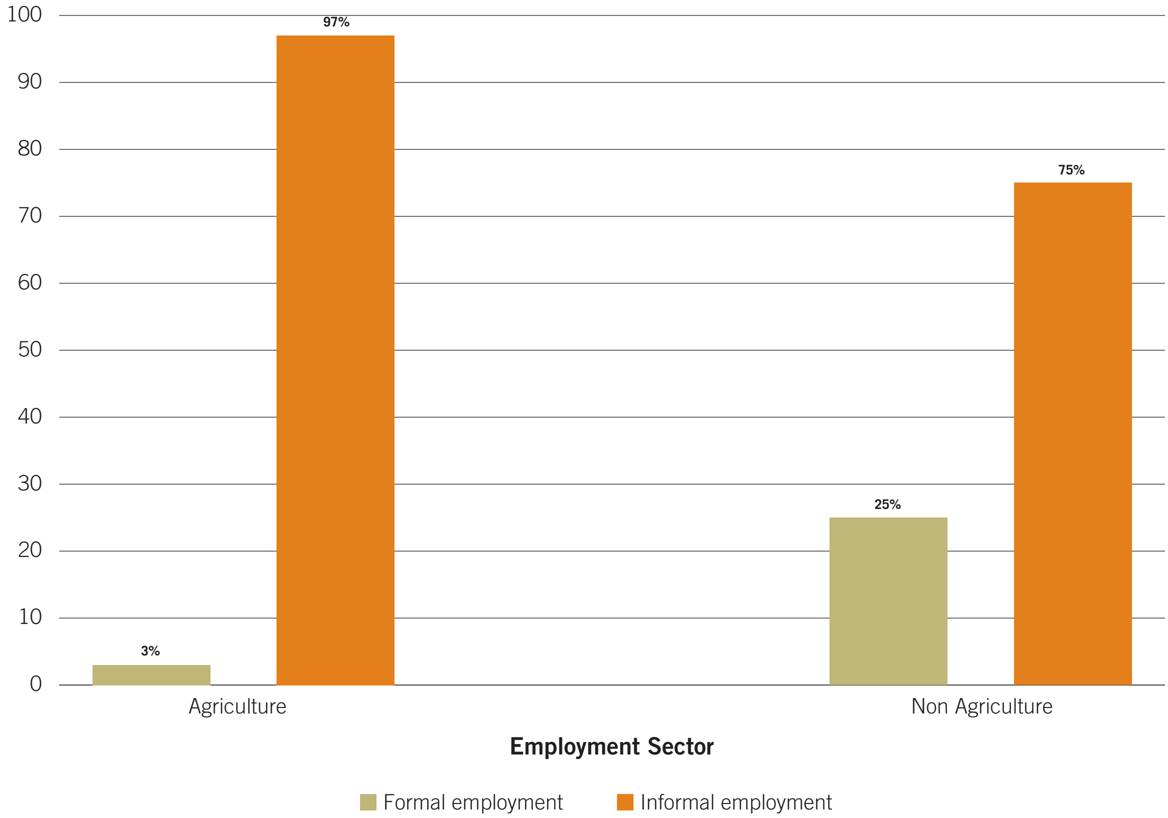
2.1 The Informal Economy in Malawi

According to the Malawi Labour Force Survey of 2013, of the 5.8 million people in the country who were employed, 89 per cent were engaged in informal employment (NSO 2013). The agriculture, forestry and mining sector accounted for the largest (65 per cent) proportion of people who were employed. In Malawi, like many developing countries, employment in the agricultural sector dominates. This picture is key to informing policymaking for job creation.

[2] Jobs that do not have social or legal protection, or employment benefits. For example, self-employment, contributing family labour, casual labourers (common in agricultural and construction sectors).

The Malawi labour market profile report notes that the market is fragmented, with a very small formal sector and a vast informal economy (Danish Trade Council for International Cooperation 2016). Within the agricultural sector, 97 per cent of the 3.78 million workers are in informal employment, as depicted in Figure 2. Non-agricultural sectors employed 1.97 million people. Gender disparities are also prevalent, with 94 per cent of 2.87 million employed women and 85 per cent of 2.95 million employed men in informal employment.

Figure 1: Extent of Informal Employment in Malawi



Source: National Statistics Office, Malawi Labour Force Survey, 2013

The 2013 Labour Force Survey further categorized employed people by status in employment into employee, employer, own-account worker and contributing family worker, which accounted for 38 per cent, 1 per cent, 54 per cent and 9 per cent respectively. This further demonstrates that most of the working population are likely to be in the informal economy. Therefore, all policies need to address issues affecting the informal economy in Malawi if development efforts are to materialize.

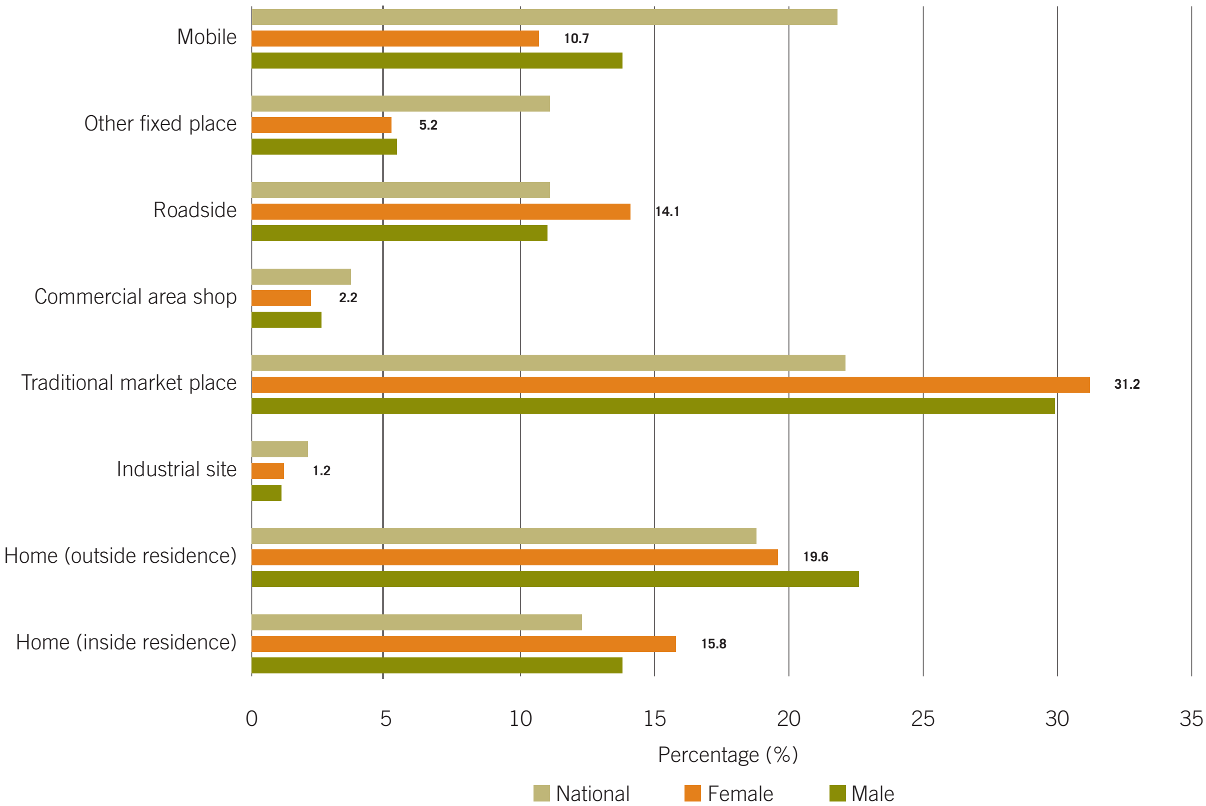
2.2 The Informal Economy in Lilongwe

Lilongwe is the capital city of Malawi with a population of 1.2 million, which is projected to grow to 2.2 million by 2028 (NSO 2008). It is the fastest-growing city in the country, with its annual growth rate averaging four per cent. An estimated 76 per cent of the population live in informal settlements, which account for 12 per cent of the city's land area (UN-Habitat 2011). Administratively, Lilongwe is divided into areas, which are given a number in chronological order. In line with the city council's mandate to provide a conducive environment for conducting business in the city, selected places within the areas are demarcated for development of markets, or maintenance of existing markets.

Urbanization is on the rise and there are inadequate decent employment opportunities within the city, which further contributes to high poverty rates. According to the Integrated Household Survey (IHS) 2016-2017 Report, 50 per cent of households in Lilongwe City operate a non-farm enterprise. The vast majority (98 per cent) of the enterprises run by women are sole proprietorships,[3] while 88 percent of those owned by men are in that category. Most sole proprietorships are micro-enterprises.

According to the Urban Structure Plan for Lilongwe City (2013), the number of people in the informal economy was expected to grow from 110,000 in 2008 to 212,000 in 2020, and 307,000 by 2030 (GoM 2010). The composition of the informal economy is further represented in Figure 2. The figure shows the distribution by place of operation and gender of the proprietor of the household non-farm enterprises. The figure also shows enterprises operating in traditional[4] market places and mobile enterprises as the two largest categories, followed by those outside a residence. These three categories together account for more than half of all enterprises. Female operators are somewhat more likely than male to operate in traditional market places, on the roadside and from inside the residence. Male operators are more likely than female to be mobile or to operate outside the residence.

Figure 2: Place of Operation for Household Non-Farm Enterprises in Lilongwe



Source: National Statistics Office, IHS 2016-2017

[3] Enterprise run and owned by one person, with no clear distinction between owner and the business.

[4] Designated places authorized for market activities by city or district council by-laws regardless of whether there is a physical structure or not.

Figure 2 also indicates that the proportion of traders operating at home (inside or outside the residence), in traditional market places and on the roadside, for Lilongwe, is higher than the national average. This indicates potential market demand for authorized trading places. However, despite the city council's obligation to provide specified market places for traders, Figure 2 shows a higher percentages of enterprises operating in non-market designated areas, or mobile vending. Discussions with council officials revealed that in their view street vendors contribute to city congestion and can hinder access to formal businesses, among other issues. Council authorities therefore ban them from trading in unauthorized spaces. Despite this general stance, not all traders operate from the authorized 44 market places.

Evidence from Kampala, Uganda, confirms that proximity to population densities and low-income housing matters in selection of places to operate from for traders in the informal economy.[5] Similar observations have been made for Lilongwe, which has recently experienced the development of a flourishing market, popularly known as Wakawaka market, on private land along a busy road. Another market, Tsoka, developed in a similar way following an operation to relocate street vendors. Tsoka is on public land. At the time of conducting this study, Wakawaka was not yet officially authorized in accordance with city by-laws. However, Tsoka is listed as one of the markets from which the city council collects market fees from traders.

Section 3: The Situation of Market Traders and Street Vendors in Lilongwe

This section presents the situation under which street vendors[6] and market traders are operating in Lilongwe. The importance of markets is described first, followed by a description of the available trading space. The section finishes with a discussion of challenges faced by the traders.

3.1 Importance of Open Markets

Open markets as opposed to supermarkets are a major source of income and food for most households in rural and urban areas of developing countries like Malawi. According to the Decentralization Policy (2010), councils (district, city and municipal) are mandated to provide a conducive environment for all businesses, and hence monitor adherence to standards. This mandate includes provision of market space and all necessary basic amenities.

In Lilongwe, over 80 per cent of residents rely on open markets as a food source, largely because food is made available in these markets in very small quantities, which is important for a food system that must meet the needs of poor households (White *et al.* 2018). Street vendors contribute to the food security of many poorer urban households (Riley & Legwegoh 2014). In 2017, Lilongwe

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[5] http://blogs.worldbank.org/africacan/understanding-the-informal-economy-in-african-cities-recent-evidence-from-greater-kampala

[6] This includes any type of sellers along the streets, pavements, squares, public parks or in other public spaces, including those selling prepaid phone cards, newspapers, fruits and vegetables, second-hand clothes, as well as shoe shiners and tailors (Jimu 2004).

City Council reported a total of 41 open markets that accommodated 14,468 traders.[7] According to clause 5(1) of the City of Lilongwe Market By-laws) (2017), "a person shall not sell goods of any description unless he (sic) pays to the Council the appropriate market fees". Each trader operating in a public market pays a daily licence fee of MK100, although those operating restaurants reported to be paying MK200. According to the second schedule in the City of Lilongwe By-laws (2017), the following market fees should be charged: market fees – MK100/day; shops within market – MK300/day; and shops constructed by vendors – MK500/day, among other fees demanded. By paying this fee, traders as rent payers have a right to be offered services by the council in line with the decentralization policy (2010). Market fees are user charges to the council in respect of the space and services provided (NLGFC 2006).

The open markets therefore do not only impact on the food systems and people's livelihoods, but are also a source of revenue for the councils. All councils are mandated to generate their own revenues to fund both recurrent and capital expenditures, although the expected local revenue generated is more for city councils than district councils. Lilongwe City Council is expected to generate local revenues of at least 80 per cent of their total revenues annually. The generated revenues come from property rates and rentals, fees and service charges, market fees, licences and permits. Fees charged to market traders contributed six per cent (MK136Mn), nine per cent (MK167Mn) and eight per cent (MK169Mn) of total revenues for 2015/16, 2016/17 and 2017/18 respectively.

Products and services offered within the open markets span many categories, including food, both raw and cooked (including fresh or dried meat and fish, and fruits and vegetables), and non-food items (hair products, clothes, groceries, shoes, tinsmith services, carpentry, machinery and car spare parts, and hardware) and the list goes on. The demarcation of where these are located within the markets is done by the traders themselves, through the market committees. The spacing between the demarcations for different products is not done systematically, and hence the overall appearance of the market is compromised. The goods and services offered in these markets are like those sold by the traders along roadsides or in other places.

Another group of traders, comprising curio sellers, carpentry and joinery services, negotiated with the city council to be allocated designated spaces. The City Assembly responded positively by constructing shelters that the traders rent. However, there are still not enough shelters.

3.2 Available Trading Spaces

A Lilongwe City Urban Master Plan details all planned land use and has designated places for all commercial activities. However, despite the Plan, not all designated market places have the required standard infrastructure, and the capacity of the available markets has been surpassed by the demand for the markets. Discussions with city council officials and selected traders indicated that at the Lilongwe market (the largest in the city), traders work in shifts (day and evening) in the allocated spaces. Additionally, in response to the lack of market space, several markets have sprung up, on both public and private land, along the roadsides.

[7] 2017 city council estimates collected during interviews from database maintained by the Directorate of Commerce.

For example, there is a recently established and fast-growing market on private land (commonly referred to as Solomon or Wakawaka market), which offers traders space on a first-come-first-served basis. Due to the private nature of the market, the traders operating there perceive themselves, and are perceived by other traders, as "special" because they are not members of the vendors' association They do not pay fees to the council, but instead to the owner of the land on which they operate. As with the council-owned markets, the traders are organized into market committees, with sub-committees consisting of section members. Although this market is responding to traders' need for market space, it is not serviced by the council and hence the council has limited control over it.

The current by-laws do not allow establishment of markets of this nature, except where approval is sought. Where this is not done, it raises challenges in relation to enforcement of standards. Traders risk the closure of the markets at any point, with a negative impact on their livelihoods. Closure can occur, for example, if the owner decides he or she no longer wants the place to be a market, or if the council does not approve its existence.

Clause 4(3) of the City of Lilongwe By-law (2017) states that "a person shall not establish a private market or engage in street vending within the City of Lilongwe unless he (sic) has obtained prior written permission from the Council". The establishment of the Wakawaka market, approval for which was sought from the city council, had not yet been approved by the council at the time this report was being compiled, despite operating for more than two years. The representative traders who were interviewed, perceived that the council lacked the capacity to assist them and therefore appreciated the available space on private land, despite some challenges to normalize provision of quality services as mandated by the council. The presence of MUFIS as a registered union presents an opportunity to mediate discussions on this issue to ensure mutual benefits to the city council and the traders.

Provision of market space by the city council is further challenged by the existence of multiple landlords in the city. The available land in the city comprising the Central Business District and industrial area is administered by Ministry of Lands, Housing and Urban Development. Some of the same land is administered by the Malawi Housing Corporation, a parastatal. The city council administers only the land earmarked for high density residential settlements called traditional housing areas. The council therefore must buy or lease land like any other client to use it for physical market space.

Ideally, all activities implemented by the city council must be guided by a medium-term city development plan and the overall long-term urban master plan that currently covers 2010-2030 (GoM 2010). The Lilongwe City Council's first-ever development plan (2010-2015) has expired and is yet to be reviewed and a new one put in place. Therefore, at present, resource allocation to departments within the council follows an incremental pattern. Activity prioritization is done at departmental level. Most fixed-place traders, who are operating outside designated market spaces, occupy the space first and the city council reacts to enforce standards. This approach creates chaotic situations. Supporting the development of a medium-term development plan is necessary. During its development, inclusion of aspects aimed at transforming the informal economy in the city can be advocated for.

3.3 Challenges Faced by Market Traders

Desktop research and discussions with traders revealed persistent challenges faced by market traders. Traders complained of (1) limited space allocated to each trader within the designated market spaces, and (2) lack of clear standards for infrastructure allowed on the allocated trading space. The city council used to allocate spaces, but market committees currently make the allocations in all the markets without an oversight role by the council. Equitable access to the trading space thus relies on how well the market committees are governed. Space might not be accessible equitably if governance measures are not properly implemented. However, it is ideal for the traders to take a leading role in the allocation while the city council collaborates with them in monitoring.

Traders reported that despite the council's provision of waste collection points, the council does not collect refuse regularly. This is especially troublesome during weekends and on public holidays. Ultimately, an unsanitary market environment is created, which can be a public health hazard as well as scare away potential customers.

Sanitation facilities in some markets are non-existent, or not kept in good condition, despite a change in how these services are managed. In 2009, the council decided to outsource provision of the services as a measure to deal with the stated challenges. The facilities are managed by private contractors, who rent from the council. Users pay to use the facilities. This setup is similar to that for the management of water facilities. In some markets, the water and toilet facilities are managed by traders operating within those markets. Although the outsourcing has contributed to refurbishment of some sanitation facilities, the conditions are not monitored and hence are still below the expected standard. Additionally, the market spaces have limited available water points to service all traders as required. For example, Lilongwe Central Market, which is one of the largest retail open markets, has only three functioning taps to service more than 2,000 traders.

Traders, as tenants in the markets, pay electricity fees to the energy-providing statutory body, the Electricity Supply Commission of Malawi (ESCOM). Previously, the electricity bills were settled by the council. However, with an increasing number of traders and challenges with monitoring usage, the council could not manage to pay the bills and disconnections were done in 2009. Traders organized themselves to have power restored in the established market spaces and have since been settling the bills. Provision of this service is within the council's mandate, but the council is not fulfilling it, and yet demands payment of daily licence fees or daily market fees from traders. The burden of dealing with the poor service is left to the traders, who have now gone to extraordinary lengths to ensure that the necessary services are supplied. There is a need for traders to engage with the local authorities to demand that they fulfil their service delivery mandate.

Within the past five years, two markets in the city – including the Central Market – have been gutted by fire. The fires reportedly started due to an electrical fault. Due to lack of resources, the council has failed to fully rebuild the markets. This means that some traders whose spaces were gutted but not rebuilt have either relocated or started engaging in mobile vending. Enforcement of trading in designated market spaces is therefore challenged, since the city council has not yet managed to refurbish the market. Well-wishers, including the traders themselves, contributed to the restoration of the Central Market, but more work needs to be done to bring the market up to a modern standard.

Currently, providers of some categories of goods and services operating on council premises do not pay licence fees. Traders complained that the council does not charge minibus operators daily fees, despite minibuses using the council's premises for loading and off-loading passengers. At the time of data collection, there was no clear documentation on payment of fees to the council by service providers such as lodging services and minibus operators. Payments made by these operators were mostly membership to their associations. This presents another opportunity as a source of revenue for the council, and hence potential resources for improving trading spaces. This issue was also highlighted in the 2016-2021 Resource Mobilization Strategy, which acknowledges the lost opportunity in collecting revenues from lodging services, minibus parking fees, and departure fees in bus depots. However, the city council is yet to introduce fees for these operations halfway through the strategy period.

Traders also complained about differences in daily market fees charged by the council. At the time of this study, each trader was charged MK100 per day, regardless of product sold, with those operating restaurants charged MK200 per day. City council officials explained that the differences were introduced as a measure to discourage the use of fire in the markets as prohibited through City of Lilongwe Market By-law (2017) clause 10 (1) and (2).

The mobile vendors, estimated at 18 per cent of all traders, do not pay the market fees as they trade in contravention of the city by-laws. The council, therefore, has to decide whether to enforce the law or allow the mobile traders to continue trading. It is faced with the choice between empathizing with the traders' wish to support their households and acknowledging the lack of suitable premises allocated for trading as required by law.

There are no child-care facilities to support women entrepreneurs who have children under school-going age. Women traders have no choice but to bring their children to the markets if they cannot afford to hire caregivers.

In summary, the noted challenges not only contribute to poor welfare standards for traders and consumers, but also contribute to traders' non-compliance with payment of daily fees. This, therefore, further reduces revenues flowing to the city council and ultimately provision of basic services for Lilongwe residents, all other things being equal.

Section 4: Representation and Engagement on Informal Trade

This section discusses how informal traders, particularly in Lilongwe City, are organized to allow for better engagement with relevant authorities. The section starts with presenting roles played by two main informal traders member organizations, followed by description of the available fora for engagement at national and city levels. The section concludes with highlights on collaboration challenges among informal workers' organizations in Lilongwe City.

4.1 Informal Workers' Membership-based Organizations

Malawi labour laws allows for workers to form or join associations or unions of their choice. According to the 2013 Malawi Labour Force Survey, union membership is dominated by managers, professionals and clerical or support staff (NSO 2013). The Malawi Congress of Trade Unions (MCTU) is the national trade union centre in Malawi, with over 150,000 contributing members in 2016 (Danish Trade Council for International Cooperation 2016). Informal workers are among the members, through the Malawi Union for the Informal Sector (MUFIS). Apart from MUFIS, there are also several unions and associations, mostly sub-sector specific, that represent the interests of informal workers, for example, those on plantation crops, teachers, employees, street vendors, minibus operators and curio sellers. However, all workers in the informal economy are welcome to join MUFIS.

MUFIS is an affiliate of the MCTU and was established in 2004. It organizes, promotes, protects and negotiates for rights for informal economy workers, and builds their capacity. This organization, therefore, provides opportunities for engagement with decision makers at national level. MUFIS is also affiliated to Street Net International and WIEGO at international level.

Executive members of the Lilongwe branch confirmed that before joining MUFIS they had no idea about their rights as informal workers. Capacity-building initiatives enabled them to start researching and hence use evidence-based arguments when handling various issues relating to informal traders. This is in line with MUFIS' vision to assist, represent and educate its members, which can contribute to improving their welfare and livelihoods.

The MUFIS General Secretary is also a member of the Tripartite Labour Advisory Council, which has the mandate to advise the Minister of Labour, Youth, Sports and Manpower Development (MLYSMD) on issues relating to labour and employment, freedom of association, international labour standards and human resource development. Although this council is not active, it is an available space for engagement with policymakers that is worth supporting. MUFIS is therefore a recognized critical link between informal workers and decision-makers at various levels.

As of 2018, MUFIS was reported to have 15,850 members of which 60 per cent were women. Membership comprised mostly traders, however discussions with executive members revealed that efforts are underway to have representations from other sectors like domestic workers. Considering that 89 percent of the 5.8 million employed people in Malawi are in informal employment (NSO 2013), efforts to open membership to all informal workers should be encouraged. One of the key reasons why most people are not members of any union is a perceived low value of joining the union relative to the membership fees, along with lack of awareness (Danish Trade Council for International Development and Cooperation 2016). Increased membership numbers can increase the collective bargaining power of the union.

MUFIS has established branches in various cities and districts in Malawi. Through these branches, it collaborates with other member organizations. Specifically for Lilongwe City, there is a vendors' association as another available space for traders to engage with authorities.

The Lilongwe Urban Vendors' Association (LUVA) is one of many vendors' associations throughout the country. It was established to represent vendors' needs to various stakeholders and its leaders claim to have over 90,000 members operating in 36 markets. However, this figure could not be verified as most members were reportedly not registered and do not pay market fees to the city council. Discussions with traders revealed that some LUVA members were also MUFIS members. The chairperson of LUVA has a seat on the city council committee to represent traders' interests, but does not have voting rights.

Strong collaborations between the two MBOs can contribute to the informal economy transformation agenda. Efforts have been made for the two groups to work together. For example, LUVA and MUFIS in collaboration with the city council were working on introducing a micro-insurance product. However, progress on this had stalled. Additionally, discussions with members from LUVA and MUFIS indicated that there are some challenges with their coordination.

One underlying challenge is that information provided by the different role-players appears contradictory. For example, Lilongwe City Council officials reported a total of 41 functional open markets that accommodate 14,468 traders,[8] while LUVA estimated their membership at over 90,000 (which implies that most are not trading in registered markets), and MUFIS reported 22,619[9] traders from only 20 out of 34 markets for Lilongwe City.

4.2 Forum for Engagement at City Level

Traders have an established forum through which they could potentially engage with the council, as well as with other stakeholder groups within the society. At grassroots level, traders within 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 who is a member of the overall market committee. This setup is similar across all markets countrywide because the market committees were established by the Local Government Authorities (LGAs) in a bid to enhance engagement between the parties.

Although the market committees are well established, they do not have an established system of regular meetings with the council. In the past, quarterly meetings were conducted but this no longer happens. They engage on an ad hoc basis, mostly when an urgent issue arises. In such cases, either party can organize a meeting, but participation by the other party is not guaranteed. For example, the traders indicated that they have weekly meetings, where representatives from various markets convene and councillors and all other public officers are welcome to join. However, they expressed dissatisfaction that the only time councillors or officers visited them was when the fire gutted the Central Market in 2016. An established forum is worth formalizing with the council for continued engagement. MUFIS reports that it concluded a draft memorandum of understanding (MOU) with Lilongwe City Council, which was last discussed between the two parties in September 2017.Interestingly, most other categories of workers within the informal economy are organized into groups, some of which are registered, for example, curio sellers, minibus operators, indigenous businesses and urban vendors. However, there is no linkage for a holistic structure at city level that can connect with the national level structure, MUFIS. Thus, there seems to be a need for more awareness-raising about the mandates and operations of MUFIS and other groupings of informal workers at city level, such as LUVA. The groupings at city level can then affiliate with MUFIS for national level representation. However, communicating the value that each of the groups brings to the envisaged members is key to getting all eligible players to be members. The greater the numbers, the greater the bargaining power. MUFIS and LUVA are available mouthpieces for the market traders and other informal economy workers.

[8] 2017 City Council estimates collected during interviews from database maintained by the Directorate of Commerce.

[9] Compared to the MUFIS membership, this represents the number of traders in the markets of Lilongwe as recorded by MUFIS. However, not all of them were members of MUFIS.

At community level, traders, like any other citizens, have representation through the councillors in the areas in which they live. These councillors also have voting rights at city council level. However, this link is currently weak. Strengthening engagement and the capacity of councillors to advocate on informal economy issues would be key to improving the information flow between communities and the council. Section 5 of this report explains how the councillors fit within a governance structure, which could support implementation of ILO Recommendation 204.

Despite these gaps, MUFIS Lilongwe branch's influence assisted in the collaborative efforts with a local (LUANAR[10]) and international (MSU[11]) university, whose action research efforts contributed to the development of Lilongwe's Local Revenue Enhancement Strategy (2016-2021) and installation of water, electricity, a market gate and toilets for selected markets within the city.[12] The influence was exerted through provision of a dialogue forum between the city and the traders, whose perceptions about each other were noted to be negative and hence retrogressive.

The dialogue was timely as it took place at the time the city council was developing the resource mobilization strategy. Interviews with the council further revealed that the city has plans to do things differently in terms of how it can innovatively provide space for markets, as well as efficiently collect applicable fees using electronic payments. However, for these plans to be implemented, buy-in from the users – the traders – is necessary, in addition to deliberate allocation of resources to fund such plans. If the traders are better organized and capacitated at city-wide level, enhanced engagement can help solve some of the persisting challenges.

Section 5: Governance Structure and Budget Processes

This section describes the budget process and how this process is governed at both national and city council levels. It starts with an overview of the key stakeholders in the budgeting process, followed by a discussion on governance structures for local government and, specifically, for Lilongwe City Council. The legal framework is described next, followed by the national and local government budget frameworks. The section concludes with a discussion on the sources and uses of budgeted funds by the Lilongwe City Council.

5.1 Key Stakeholders in the Local Government Process

Budgeting in local government is an interactive process involving both local and national stakeholders. An understanding of the stakeholders' roles is key to identification of entry points or spaces available for advocacy. Figure 3 displays the key stakeholders, with lines depicting the two-way flow of information and where, in terms of hierarchy, they come into the process. The dotted lines indicate how central government structures link with local government structures.

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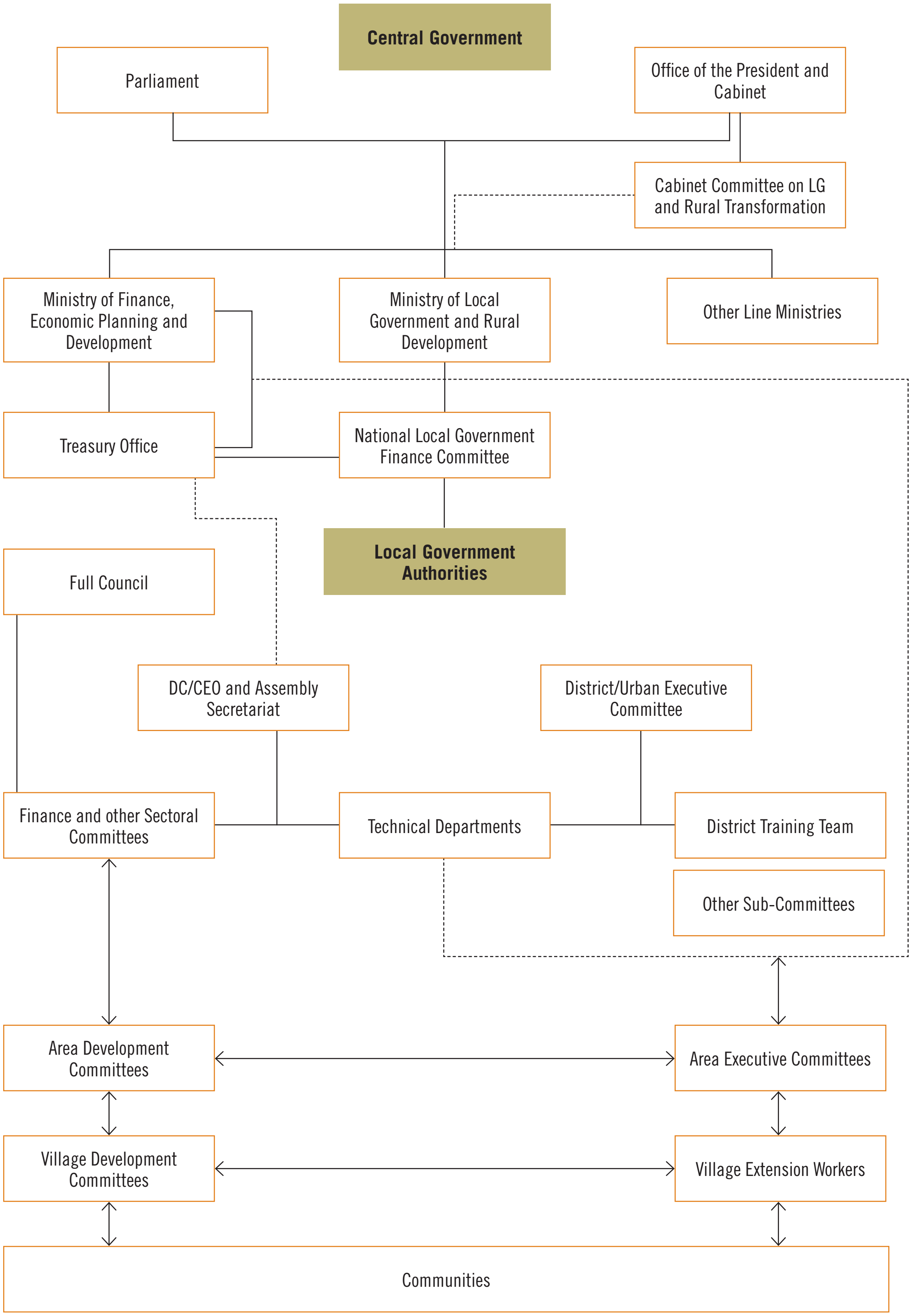
[10] Lilongwe University of Agriculture and Natural Resources.

[11] Michigan State University.

[12] https://msufoodfix.wordpress.com/2018/04/09/student-innovators-advocate-for-lilongwe-market-vendors/

Figure 3: Stakeholders and Institutional Linkages



The roles and responsibilities of the stakeholders depicted in Figure 3 are as follows:

- **Ministry of Local Government and Rural Development (MLGRD)**: The responsibility for street vendors and market traders falls primarily under the local authorities with MLGRD as the parent ministry. The ministry's strategic objectives include provision of policy and legal frameworks for the efficient and effective operations of the LGAs. It is responsible for policy formulation, supervision, provision of technical guidance, mentoring and monitoring local governments. It presents approved consolidated local government budgets to Parliament for noting and acts as the main link between LGAs and central government. With regards to Recommendation 204, the MLGRD needs to coordinate efforts with other relevant ministries including the Ministry of Labour, Youth, Sports and Manpower Development and the Ministry of Finance, Economic Planning and Development.
- **Ministry of Finance, Economic Planning and Development (MoFEPD):** MoFEPD is mandated to formulate economic and fiscal policy, and manage the financial and material resources of the Government of Malawi. In this role, it manages the National Budget, a key instrument for delivery of services and development. The ministry is responsible for formulation of the Public Sector Investment Programme (PSIP),[13] coordinates development and implementation of Medium-Term Expenditure Framework (MTEF),[14] issues circulars and budget ceilings to LGAs through the National Local Government Finance Committee (NLGFC), consolidates the Local Development Plans (LDPs) submitted by MLGRD, manages the consolidated funds and is responsible for releasing funds to each LGA.
- **The Ministry of Labour, Youth, Sports and Manpower Development:** This ministry is the custodian of labour issues including registration and regulation of trade unions. In respect of implementation of the ILO conventions and recommendations, it is the responsibility of this ministry, as the one that represents government within the ILO system, to sensitize the informal economy stakeholders on labour issues affecting them. It is expected to initiate relevant implementation activities.
- **Line Ministries:** There are a total of 18 ministries through which government implements and monitors delivery of its plans, policies and interventions. The line ministries are responsible for sector policies, standards and oversight on sector plans. At council level, the ministries are represented by technical departments, in the form of District or Urban Executive Committees (DEC/UEC), which implement sector activities. The key ministries (listed above) provide technical guidance on budgeting process on devolved functions, monitor performance of sector budgets and mentor local governments in their respective sector policies and strategies.
- **National Local Government Finance Committee (NLGFC):** The agency was established in terms of the Constitution to act as a financial regulator for local governments. It supports the local authorities with financial management and the budgeting process. The Constitution mandates it to coordinate and consolidate local government budgets, allocate grants using agreed criteria, guide and assist local governments in financial management, coordinate audits for councils and oversee central government transfers to LGAs (cash flows and expenditures).
- **Local Development Fund (LDF):** This fund ensures harmonized and decentralized development funding for LGAs. The fund places resources in the hands of the local government administration, rather than earmarking it for sector offices. It was originally conceptualized as a discretionary

[13] PSIP is a comprehensive listing of all priority public programmes in the form of a five-year rolling plan. It guides the country's public sector investment within the context of the Malawi Growth Development Strategy.

[14] The MTEF is an annual, rolling three-year expenditure planning. It sets out the medium-term expenditure priorities and hard budget constraints against which sector plans can be developed and refined.

fund to meet locally defined needs as summarized in the LDPs. Since 2009, the ring-fenced funds limit use of the funds to respond to specified emerging local needs as well as diversion to political projects (Chiweza 2013). Since 2018, the NLGFC and LDF have been merged into one institution, although the 2018/19 budget still provides for separate budget votes.

- **National Assembly:** Parliament debates and approves the national budget. It endorses the consolidated budgets for LGAs submitted by MLGRD and receives and acts on audit reports from LGAs.
- **Councils:** The actors at the council level consist of elected councillors, MPs and civil servants in the secretariat. The councillors and MPs are elected during tripartite[15] elections that take place every five years. Each council is semi-autonomous within its designated local government area, performing functions devolved to it. Councils link with communities through the councillors and are responsible for ensuring that the budgeting processes and budgets are in line with set plans and the law. They approve the budgets and provide oversight at the council level.
- **Council Secretariat:** This is the implementing arm of the council. It is responsible for implementing various sector programmes, policies and activities under the leadership of the District Commissioner (DC) or Chief Executive Officer (CEO). It comprises directorates according to the functions of the council. The secretariat is also responsible for the technical aspects of budgeting such as developing budget ceilings for the council directorates, preparing the budget calendar, coordinating budget consultations, drafting budgets and monitoring implementation, among other duties.
- **Communities:** They are consulted by the Council Secretariat to provide input on issues to be included in the budget. This is done to promote ownership of projects and programmes, encourage accountability and ensure that the “power to the people” principle of decentralization is being adhered to.

5.2 Local Government Structure

Malawi is a democratic republic with two levels of government: central (national) and local (in the form of districts, cities and municipalities). Local government is enshrined in Chapter XIV of the Constitution (1994) that mandates Parliament to provide for local government under Article 146(3)[16]. The Constitution stipulates that LGAs are responsible for welfare provision, and promotion of democratic institutions and participation. Its mandate is also to promote infrastructural and economic development through formulation, presentation to central government and execution of LDPs. The district councils existed even in the 1950s, but by 1965, with the adoption of the one-party system, councillors were selected by the then President of Malawi (Chiweza 2013). This ensured that the central government maintained control. The 1998 National Decentralization Policy subsequently devolved administrative and political authority to the district level and laid the basis for the Local Government Act (2010).

The MLGRD provides primary guidance and support to the LGAs and is the custodian of the Local Government Act of 1998 that was amended in 2010. Nine provisions were amended including:

[15] President, Members of Parliament and Councillors voted for in one election. The next elections are due to take place in May 2019.

[16] Parliament shall, where possible, provide that issues of local policy and administration be decided on at local level under the supervision of LGAs.

- The inclusion of Members of Parliament as voting members of councils (Section 5(1)(b));
- Removal of the policymaking function from the councils' responsibilities (Section 6(1) (a)); and
- Provision for appointments of Chief Executive Officers (CEO) for city councils and a District Commissioner (DC) to be done by the Minister[17] (Section 11(2)).

The amendments reflected a novel effort to increase central government authority and rebalance power by weakening councillors and strengthening MPs' powers within councils (Chiweza, 2013). This effort was also reflected in the increased size of wards and a resultant reduction in the number of wards, through an amendment to the Electoral Commission Act in 2010. At the district level, there are now two wards per constituency. For cities, the Act now provides a maximum number of wards in each council. For instance, both Lilongwe and Blantyre city councils can have a maximum of 30 wards each. LCC has a total of 27 wards and 4 constituencies. Overall, the number of wards was reduced from 861 to 462.

With the inclusion of MPs in the council, engaging them to garner support and commitment to transforming the informal economy is necessary. The MPs' interests are usually to ensure they are voted into Parliament and hence they might tend to influence decision-making on development projects that can show impact in the short term. Unfortunately, such projects might not be addressing the pressing needs of informal economy workers and others within the constituencies. Prioritization of projects tends to follow a political line rather than responding to the needs on the ground. Therefore, traders need to engage MPs to ensure their interests are made known and aligned to the serving MPs' political interests.

5.2.1 Devolved Functions

The council is the main political decision-making body comprising elected local councillors and MPs for the relevant constituencies as voting members. These members elect a council chairperson (mayor for cities) from among themselves. The councils also include Traditional Authorities (TAs) in the case of districts, and five representatives of special-interest groups as non-voting ex-officio members (Oneil and Cammack 2014). The special interest groups are appointed by the elected members. Of the available five representative spaces for a seat in the full Lilongwe City Council meetings, only three seats were filled at the time of this study. The three seats were for the Federation for Disability Organizations in Malawi (FEDOMA) representing people with disabilities, St Peter's Youth Organization[18] representing the youth, and LUVA representing the business community. Although there were two vacancies, the council can only consider interest groups that are not already represented. However, the appointments will expire alongside the term of office for the councillors. The tripartite[19] elections in May 2019 provide an opportunity for MUFIS to express interest to be included as one of the allowed other groups in the council. If granted a seat, their representation would be more inclusive and powerful if all other categories in the informal economy were MUFIS members. Applications for consideration to be a member interest group are received through the councillors or the mayor.

[17] MLGRD.

[18] The study established that the representative had never attended council meetings since appointment.

[19] A situation where the President, National Assembly and local councillors are elected on the same day.

Since the development (in 1998) and amendment (2010) of the decentralization policy and other related legal frameworks, a devolution of functions from ministries to LGAs has been observed. Currently, 17 sectors have been devolved to LGAs, and for Lilongwe City the functions are mirrored in the directorates which include Commerce and Industry, Health and Social Welfare, Engineering, Finance, Administration, Parks Recreation and Environment, and Planning and Development. Out of these, the following directorates, working in collaboration with Finance, have some link to the traders:

- **Public works:** Focuses on infrastructure provision including market infrastructure.
- **Health and social services:** Have a sub-section that is concerned with cleanliness (sweeping) and waste management in the markets, among other areas in the city.
- **Planning:** Allocates land or plots designated for markets.
- **Engineering:** Involved with architectural designs and estimation of bills of quantities for new market infrastructure.
- **Commerce and industry:** Focuses on revenue collection, marketing and managing all commercial activities.

5.2.2 City Council Management Structure

The DCs/CEO, who are appointed by the MLGRD, are the controlling officers of the LGAs, and hence responsible for managing all funds generated within and transferred to the LGAs. The CEO reports directly to the council and MLGRD. The departments are managed by the CEO and their line ministries. LCC has about 1,600 employees of whom 1,453 constitute the unskilled workforce. The unskilled workers are mostly within the departments of engineering, parks recreation and health. With more than 600 employees, the health department has the largest allocation. This allocation is mostly under the cleansing sub-section of the health department, with staff working as street and market sweepers, responsible for keeping the city and markets clean.

Councillors provide a link between the council and communities. They work in consultation with service committees of the council. The service committees for LCC include finance, public works, education, health and environment, planning and human resources. Traders' issues are largely addressed by the planning, public works, health and environment committees, in line with the directorate mandates. Councillors chair the service committees. The finance committee is responsible for the overall coordination of the budgeting process through the Director of Finance. It is responsible for all matters relating to raising revenue, expenditure oversight, control of finances and implementation of financial policies (NLGFC 2006). In this way, sector heads are directly responsible to the council for overall performance in their sector, in addition to reporting lines to the CEO and the line ministries (Chiweza 2013).

At community level, councillors are required to establish ward development committees comprising community members. However, discussions with traders and city council representatives, coupled with local knowledge, revealed that these are dysfunctional.

5.3 Legal Framework Governing Budgeting and Financial Management

The legal framework outlines the political and administrative process that the budget needs to follow, and defines the key actors, their roles and responsibilities. There are many laws and regulations that inform government budget design, approval, implementation and evaluation processes. The major laws are the Constitution of the Republic of Malawi, Public Finance Management Act (PFMA), 2003; Public Audit Act, 2003; and the Procurement Act, 2003. In addition to these, the local authorities derive their powers from the 1998 Local Government Act that was amended in 2010.

5.4 The National Budget Framework

The National Budget is the policy and management tool for government to translate the economic and development goals into reality by allocating scarce resources to prioritized programmes. Malawi's long-term goals are stated in Vision 2020, a 20-year development strategy that sets the vision and strategic objectives for the country. Vision 2020 states that by 2020, Malawi, "as a God-fearing nation, will be secure, democratically mature, environmentally sustainable, self-reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and a technology-driven middle-income economy" (GoM 2000). Transforming the informal economy will contribute to attaining this vision.

To attain this vision, the government through the MoFEPD spearheads the development of five-year National Development Strategies (NDS) like the Malawi Growth and Development Strategies. The MGDS sets the direction for national growth and development and establishes the key milestones for achieving it over a five-year period. The strategy guides preparation of Ministry Strategic Plans (MSPs) and programme-based budgets. These documents also contain key priority areas (KPAs), themes, objectives, implementation strategies to achieve these objectives, medium-term outcomes, outcome performance indicators and budget estimates for KPAs based on sector costing.

Currently, government is implementing the third Malawi Growth and Development Strategy (MGDS III) that covers the period 2017-2022. One of the key priority areas in the MGDS III is energy, industry and tourism development, which covers the industrialization and structural transformation of the economy. The strategy acknowledges that this is essential to maintain the rapid long-term economic growth of a country; to raise per capita income; create sufficient rural and urban jobs and viable entrepreneurship opportunities for both men and women; and widen the tax base to finance Malawi's welfare requirements. Issues concerning the informal economy and the market traders would be covered under this priority area. However, the key strategies stated to achieve this outcome do not explicitly refer to the informal economy or indicate how to formalize the informal economy. The main resource tool for implementing the MGDS is the annual national budget[20] through the MTEF.

5.4.1 Sources of Revenue

Structurally, the national budget has a revenue side that outlines the different sources of financing. On the other side is estimates of expenditure. The expenditure budget comprises the recurrent and development budgets. Recurrent expenditure comprises the costs of running government services and is divided into other recurrent transactions (ORT) and personal emoluments (PE).[21] Development expenditure refers to the cost of implementing investment projects[22] and is split into domestic

[20] This includes transfers to LGAs.

[21] ORT budget is meant for paying for goods and services such as pensions and gratuities, servicing public debt, goods and services, subsidies, transfers, compensations, utilities, etc, and PE is the budget for salaries and wages.

[22] Mostly infrastructure such as constructing new roads, bridges markets, hospitals and information technology.

financed projects (sometimes referred to as Part 2 budget or expenditure) and foreign financed projects (sometimes referred to as Part 1 budget or expenditure).

Similarly, the local government budget has revenue and expenditure components. Though the local authorities have revenue-mobilizing powers, they also receive a share of their revenue from central government. According to the LRESP (2015), city councils are required to generate 80 per cent of their annual revenue, implying that they rely on generated revenues to finance service delivery expenditures. However, the amount of mobilized revenues is generally lower than what could potentially be mobilized. This is due to inefficiencies in local revenue mobilization combined with lack of political and administrative will to enforce implementation of agreed revenue collection strategies (Kutengule *et al.* 2014). The local budgets also have both recurrent and capital (development) components.

For local government, the capital budget is not categorized into part 1 or 2 as in the national budget. However, they have own capital outlay comprising the locally generated revenue, funds from development partners and development transfers from central government.

The LRESP stipulates that 25 per cent of the locally generated revenue should be re-invested. The greater the revenue generated in a given year, the greater the reinvested funds should be, all other things being equal. Locally generated revenues contribute to both recurrent and capital expenditures of the council. In addition, Lilongwe City Council 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. It once received a grant from the Decent and Affordable Housing Subsidy programme (DAHSP), in 2015.

5.4.2 Utilization of Revenue

The detail of the utilization of the development funds from central government is at the discretion of the councils. However, funds from the revenue streams listed in 4.4.1, other than the GRF, have restrictions on how the revenue can be used. For instance, the councils receive CDF, which are meant for development projects within each constituency. The choice of development projects is at the discretion of the MP for a constituency. The MLGRD developed guidelines on CDF implementation but, in most cases, the procedures are not followed strictly. Political party structures are mostly used for the identification of development projects.

Councils also receive District Development Funds (DDF) for districts and IDF for cities, such as Lilongwe. The council decides on the utilization of these funds informed by the LDPs. However, this study established that there was no harmonized approach across the councils, with regards to the utilization of the funds. Some councils were being guided by LDPs as required, while others would simply share the funds equally across wards or constituencies without necessarily responding to development priorities on the ground. For traders to benefit from both the recurrent and development budgets, it is essential to engage the council secretariat, particularly heads of section or the CEO, on service provision. It is also important to engage councillors and MPs on development projects such as market and road infrastructure. Engagement and advocacy efforts should target the relevant standing committee.

Expenditure lines for the GRF are decided by the council, while national budget allocations for city roads and sector funds, indicated under city council, are used strictly for the specific allocated activities. Funded devolved sectors for Lilongwe City include gender, education, environment, youth and sports. Funding for these sectors is channelled to directorates handling those sectors. The funding to the sectors is mostly for recurrent expenditures.

National budget submissions from MDAs that include activities not aligned to the MGDS III are ideally rejected. The MGDS III has, at least implicitly, prioritized informal sector issues as explained in section 5.4. Therefore, to ensure that issues and needs of workers in the informal economy are addressed at the local level, understanding the development planning system or calendar for the targeted councils is crucial. This knowledge can contribute to effective consultation and engagement processes at different levels.

5.4.3 Engagement Levels

Government uses the Public Sector Investment Programme (PSIP) to implement the MGDS. The PSIP is the government's instrument for coordinating implementation of Malawi's development priorities. It is aligned to the medium-term outcomes and strategies. Every financial year, the MoFEPD develops the PSIP preparation guidelines to guide all government ministries, departments and agencies (MDAs).[23] The MDAs pre-appraise and rank the projects relevant to them in order of priority. The prioritized projects are submitted to the MoFEPD for overall appraisal. The ministry then produces a recommended list of projects for inclusion in the MTEF and the national budget. This is what informs the development budget. The PSIP lists the programmes and projects and indicates whether they are to be funded using government's own resources or donor resources. This, therefore, underscores the importance of ensuring that informal economy issues are adequately covered in the MGDS if development (i.e. non-recurrent) funding is to be provided through the national budget.

At the local government level, there is also a linkage between development planning and budgeting. The local authorities have been charged with the overall development of the districts. Therefore, councils are required to provide for participation of local people in the formulation and implementation of the LDPs. As described in the Local Budgeting Manual of 2006, all local authorities are expected to develop rolling three-year LDPs.[24] This means that the development plan is presented in three annual phases with projects for financial year 1 constituting the first Annual Investment Plan (AIP). The following year, financial year 2 of the LDP becomes financial year 1 and a new year 3 is added.

The development budget of the council should ideally be developed from the yearly approved AIP, as part of the rolling LDP. However, local authorities are also provided with policy guidance through the line ministries and special local government institutions like the NLGFC (Chiweza, 2010). At the beginning of each budgeting cycle, the central government releases budget ceilings[25] for all sectors for the councils, including budgeting guidelines. The guidelines stipulate government priorities in line

[23] It should be noted the NLGFC and LDF secretariat are part of the MDAs.

[24] Urban Development Plans (UDP) for urban and District Development Plans (DDP) for district councils.

[25] Includes both recurrent and development expenditures for funds transferred from government for councils.

with the national development strategy. The budget ceilings and guidelines are shared with the councils through the NLGFC. Ideally, the council's expenditures should be guided by the development plans and, through the engagement levels, proposed projects should ideally come from LGAs as well.

One of the challenges traders face is the lack of adequate markets to accommodate all traders, as discussed in section 3. Construction of markets falls under infrastructure development and thus the development budget. To ensure inclusion of such projects in the council's budgets, market actors need to participate or advocate for their participation in the decision-making process for the urban or City Development Plan (CDP). Consultations with city council officials revealed that the LCC had a five-year City Development Strategy (CDS) that expired in 2015. However, a new strategy or plan has not yet been developed, giving the impression that it is not perceived to be of great importance. This situation hinders development within the city. As locally-generated revenues contribute to both recurrent and capital expenditures of the council, participation in the consultation process to development a new CDS is an available opportunity worth pursuing for informal economy representatives.

5.5 The Budgeting and Approval Process

The full council is responsible for approving the budget for their local authority once presented with it by the executive. However, only the councillors and MPs have a vote on the council. Interest group representatives do not vote.

Before the budget is tabled before the full council, it is presented to the finance committee, which reviews it together with other relevant service committees and departments. The endorsed budget is then presented to the full council for consideration and approval. The approved budget is sent to the NLGFC for consolidation and presentation by MLGRD to the National Assembly. The National Assembly does not deliberate on the local government budgets, but the consolidated budget is presented for noting. Thus, advocacy efforts for the needs of the street vendors and market traders to be addressed through the local government budget should be targeted primarily at the councillors and full councils, including MPs as voting members, at that level.

5.5.1 Timeline for Participatory Budgeting

Malawi uses a participatory approach to develop the national budget. The annual calendar of events provides timing of entry points for various stakeholders to take part in the budget development process.

The policy and budget process utilize both top-down and bottom-up approaches. The top-down approach involves a strategic phase, preparation of the Budget Policy Framework Paper (BPFP) and determination of budget ceilings by the Ministry of Finance. The bottom-up approach consists of the preparation of programme-based budgets, detailed budget estimates and draft budgets by the MDAs and local governments (Malawi Government 2009).

In 2013, the NLGFC developed guidelines for participatory budgeting for local authorities in Malawi. All local authorities are encouraged to involve communities when deciding on the allocation of resources as well as implementation of the budget. The main stages for participatory budgeting in local governments are shown in Figure 4. Further details on the budget calendar are presented in Appendix 2.

Figure 4: National Budget Process

Stage 1 provides for stakeholder participation and in stage 2 LGAs communicate the potential resource envelope to development committees at community level.[26] At this level, communities identify priority needs, which LGAs use to update the AIP, and hence roll over the LDP. Stakeholders include non-state actors, extension workers (area executive committees) and Village Development Committee (VDCs) for consultation at group village level alongside urban neighbourhoods,[27] members of Area

[26] Including Village Development Committees (VDC) and Area Development Committees (ADC) at district council level.

[27] Residents as represented in ward committees.

Development Committees (ADCs) and budget task forces[28] at ADC level. In stage 3, issues identified in stage 2 are harmonized and key stakeholders (from stage 2) representing special interest groups are invited to participate at this level. MLGRD, NLGFC, line ministries and other government agencies may be invited to participate as guests (at their own cost). In stage 4, budgets are reviewed by the council's service committees and harmonized by the executive committee. The views of NGOs and other actors can also be included at this stage. In stage 5, LGAs develop draft budgets with technical backstopping from NLGFC and these are then submitted to full council for approval, through the finance committee. Once approved, the LGA submits the budget to the NLGFC for consolidation with other LGA budgets. The consolidated budget is then submitted to MLGRD who presents it to Parliament for noting.

In stage 6, budget documents are disseminated to stakeholders, and stage 7 is for implementation and monitoring throughout the financial year. The public expenditure reviews are in October and November. However, throughout the budget cycle, there are monthly management progress reviews, quarterly DEC/UEC reviews, and quarterly council reviews by service committee members, among other activities. The October reviews mark the start of the new programme-based process.

Consultations with the sampled stakeholders for this study revealed that the Lilongwe City Council operates on the (generally mistaken) assumption that the councillors – who are the link to the residents – consult and engage with members of their constituencies. Further, it is assumed that the inclusion of the Lilongwe Urban Vendors' Association as one of the special interest groups in the full council provides sufficient link to the business committee. Capacity building to enhance how informal workers' groups can advocate and hold office bearers accountable for inclusion of their issues at the various engagement levels is key.

Further discussions with selected market traders confirmed their lack of participation in the budgeting process. MUFIS and LUVA are available mouthpieces for the market traders and other informal economy workers. The groups can request to be among the stakeholders invited to pre-budget consultations and budget hearings.

Section 6: Budget Analysis

This section describes revenue sources and expenditure patterns of local governments. The focus is on local government budgets and is based on the actual budgets for each year, except for the 2018/19 budget where the approved budget estimates are used.

As part of the overall Public Finance Management Improvement Programme, Malawi's government through MoFEPD has moved from output-based to programme-based budgeting. The 2017/18 budget was the first programme-based budget. Because of this change, in some cases comparison of budget figures was challenging. Where necessary, the budget figures have been analyzed in line with output-based budgets for 2015/16 and 2016/17 and programme-based budgets for 2017/18

[28] Includes members from sector representatives and the finance department who are chosen by the council considering their capabilities.

and 2018/19. The consumer price index was rebased to 2017, and hence the 2018 analysis uses the values as of 2017.

6.1 Revenue

There are five main sources of government revenue:

- Taxes on income and profits of companies and individuals, including Pay as You Earn (P.A.Y.E), Withholding Tax and Fringe Benefits Tax.
- Taxes on goods and services that are bought, including domestic surtax, excise duties and international trade taxes, import duties, import surtax, excise duties and miscellaneous duties.
- Non-tax revenue from government property rentals, departmental receipts, levies, parastatal dividends, treasury fund receipts, licences, business and professional fees, stamp duties, etc.
- Grants or donations from foreign governments and international financial institutions.
- Loans from local and foreign institutions.

The main revenue sources for financing local governments are locally generated revenues, ceded revenue and central government transfers.

6.1.1 Ceded Revenue

Government is required to cede some of its non-tax revenue to LGAs. Government collects the ceded revenue that should later be redistributed to councils using a formula approved by cabinet. Non-tax revenue that is ceded includes toll fees, gambling and casino fees, fuel levy/fee (road maintenance levy), motor vehicle registration fees, and industrial registration fees. However, no specific budget line represents this revenue line in the local authorities budget. Instead, revenue from all taxes and fees become part of total central government revenue, part of which is allocated as revenues to LGAs.

6.1.2 Central Government Transfers

Government is required to make available to councils at least five per cent of national revenue, excluding grants from development partners, to be used for the development of districts. Establishing the percentage allocated to LCC was challenging because funds transferred to councils are not reported according to source. The NLGFC is responsible for the distribution of the transfers using a formula approved by Parliament. The formulae encompass factors such as population size and level of development.

However, operationally, it seems that central government does not take this formula into consideration. Instead, separate budget ceilings for each sector at council level are circulated each year. The ceilings are determined by Treasury with limited or no scope for negotiations by the LGAs. It is understood that Treasury comes up with the ceilings based on the resources that are deemed available for that year. This limits the space and ability of the councils to use government transfers to address the needs and challenges faced on the ground.

Table 1 shows the allocations to the four ministries most relevant to the informal economy (see corresponding actual amounts allocated in Appendix 3). Local authorities and the development fund constitute a very small share of the total national budget – less than two per cent each for the four ministries and a maximum of 3.5 per cent for the LDF. The allocated transfers to LGAs, who bear the main responsibility for directly addressing traders' issues, increased from 5.3 per cent in 2015 to 17 per cent in 2018. Transfers to LGAs as a percentage of domestic revenue have also been increasing, from seven per cent in 2015/16 to an estimated 20 per cent in 2018/19, surpassing the minimum five per cent.

Table 1: National Budget Per Cent Allocations to Selected Institutions

	2015/16 %	*2016/17* %	*2017/18* %	*2018/19* %
MLGRD*	0.6	0.5	1.2	1.0
NLGFC*	1.6	1.2	1.1	1.8
MITT*	0.4	0.5	0.3	0.4
MLYSMD*	0.5	1.0	0.9	1.2
LDF*	3.5	2.9	3.3	1.7
Transfers for LGAs	5.3	11.2	17.6	17.4
LGA transfer as % of domestic revenue	7	13	20	20
LGAs transfers for LCC	1.03	0.5	0.3	0.3

Source: National Budget documents

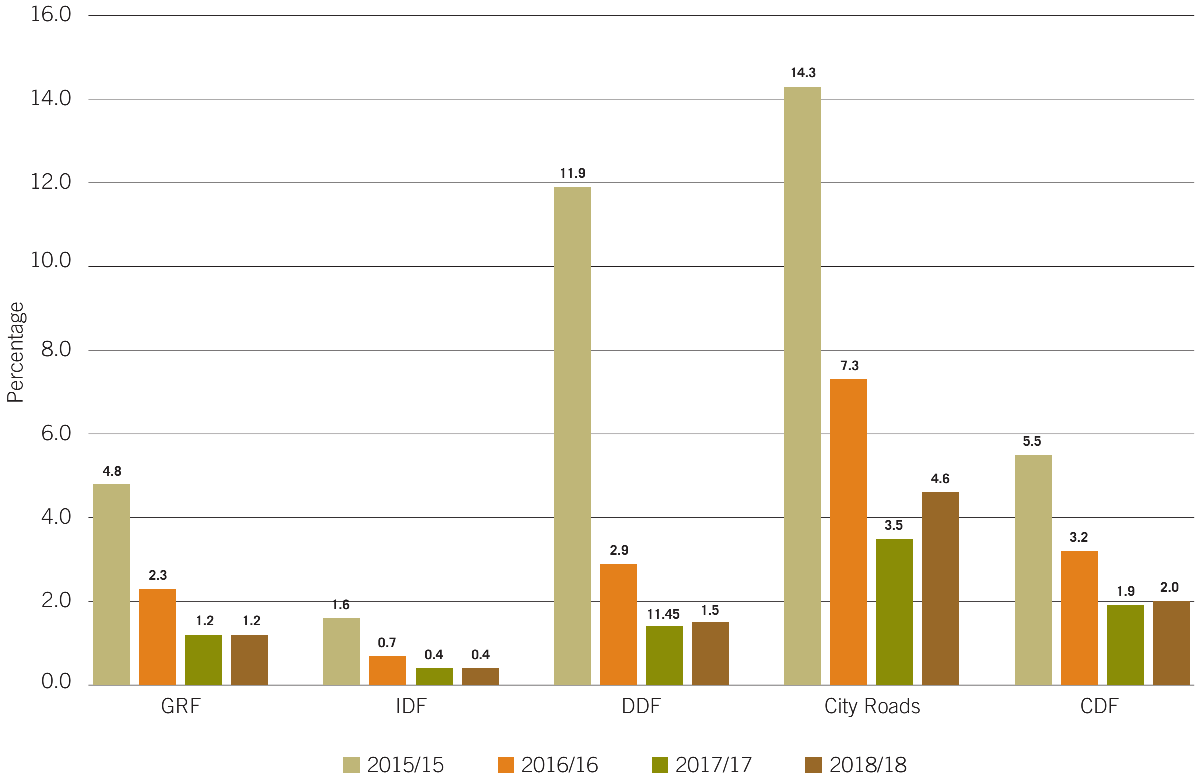
*Note: LGA allocation includes all funds given to local government authorities from the national budget. *Ministry of Local Government and Rural Development (MLGRD); National Local Government Finance Committee (NLGFC); Local Development Fund (LDF); Ministry of Industry, Trade and Tourism (MITT); Ministry of Labour, Youth, Sports and Manpower Development (MLYSMD).*

The increase in the LGA transfers shown in Table 1 reflects the establishment of the DDF, CDF and IDF, which make up the largest percentage of the funds transferred to local authorities. Expenditures of these funds is decided on by the councils as shown in Figure 5.

Furthermore, the largest share of the total transfer for local authorities always goes to city roads, which is commendable because road infrastructure encourages development by enhancing access for traders and other actors. In 2015, the Lilongwe City Council was allocated MK1.2Bn, and in 2018/19 MK3Bn for city roads. Funds allocated for city roads are administered by the Road Fund Authority, and hence not reported in expenditure statistics by councils. However, in the national budget allocation, the figure is indicated as part of funds going to city councils.

The IDF to LCC has been decreasing since 2015, and it is the smallest allocation for all LGAs combined, as shown in Figure 5. Despite the increasing amount of funds allocated to local authorities, there is a general decrease in proportionate allocations of transfers over which councils have a say regarding utilization of the funds.

Figure 5: Allocation Transfers for Local Authorities by Funding Category

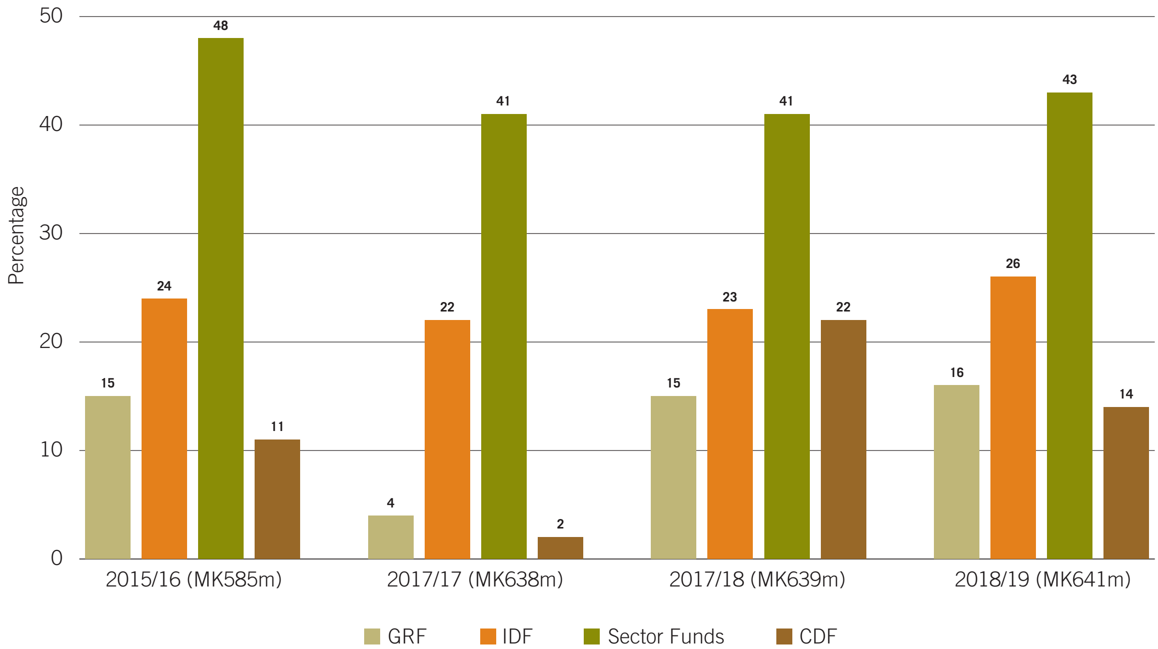


Apart from the funds allocated directly to city councils from the national budget, councils can also access development funding from the Local Development Fund (LDF). However, access is made available only when councils comply with the LDF requirements. The total allocated to the LDF fluctuates and decreased from 3.5 per cent of the total budget in 2015 to 1.7 per cent in 2018 (see Table 1). The LDF has local development and urban development windows, for funding labour- and capital-intensive socio-economic infrastructure development. The urban window is for urban centres such as cities. Lilongwe City Council has had challenges with accessing this fund. This is largely due to non-availability of audited accounts, which is one of the requirements, among others. Building capacity for the council to access these funds could add to resources available to invest in enhancing the environment in which the traders operate. Notably, MK440Mn in the 2017/18 budget and MK5.7Bn in 2018/19 was allocated for urban development under LDF budget by economic classification.

A similar trend in allocations to that shown in Table 1 for all local authorities combined is observed for funds allocated to Lilongwe LCC as presented in Figure 6. The allocations have been consistent across the categories since 2017. Overall, the amounts allocated to LCC have remained constant. An incremental allocation of the nominal value ceilings is used. The sector allocations get the largest share.

Besides these allocations, traders receive indirect support through other line ministries whose activities have a bearing on their enterprises, and/or who provide and/or maintain infrastructure that can support informal economy players. For example, in 2017/18, the Ministry of Industry, Trade and Tourism implemented the Buy Malawi Strategy, aimed at building capacity for local producers and consumers.

Figure 6: Allocations to City Council by Category



Source: LCC Financial Statements

6.1.3 City Council Generated Revenue

LCC's main source of revenue is locally generated funds, which must constitute at least 80 per cent of the total revenue (LRESP 2015). Local revenue is generated from a range of sources, including market fees as depicted in Table 2. Note that for 2015/16 and 2016/17, the format for reporting the sources was different from the 2017/18 to current format. All generated revenue, apart from market and government property rates, was recorded under all other income for 2015/16 and 2016/17.

Table 2: Proportion of Locally Generated Revenue for Lilongwe City Council by Source

Source	***2015/16 %***	***2016/17 %***	***2017/18 %***
Central government property rates	6.6	5.2	9.2
Other property rates			48.8
Income from market establishments	6.5	8.7	7.9
Fees and service charges			21.3
Licences and permits			12.8
All other income	86.9	86.0	
Total local revenue*	82.8	76.9	76.8

*Note: * is total revenue including government transfers and local revenue as a proportion of total revenue. Licences and permits can include trading licences for wholesalers, retailers, commercial travellers, travel agents, auctioneers and many more.*

The city council officials reported that the council has challenges with collection of all expected fees. Supporting this revelation, a 2018 local media article[29] reported that LCC realized MK3Mn more revenue when temporary staff were engaged in collection of market fees during an investigation. An opportunity to collect higher revenues exists, if LCC works on inefficiencies in fee collection.

There has been a decrease in the local revenue collected over the period 2015/16 to 2017/18, with fluctuating levels of revenue generated from market establishments and government property rates. According to the Local Government Budget Manual, market fees are user charges to provide better services in the markets and to communities (NLGFC 2006). The expectation was a general increase in revenue collection following the development of the resource enhancement strategy in 2016, as described earlier in sections 4.2 and 5.4.1. If the council could give effect to the commitment to reinvest 25 per cent of market fees into the market establishments, this could go a long way towards improving standards and hence the environment for market traders. It might also encourage higher rates of payment of market fees among traders.

To illustrate the lost revenue collection potential, the earlier reported numbers of traders in Lilongwe City are used to present two scenarios. Using the earlier reported numbers of traders by MUFIS of 22,000, Lilongwe City Council should have been collecting a minimum of MK66Mn per month.[30] Using the city council's estimated figures, they should have collected a minimum of MK45Mn per month in 2016/17. However, the amount reportedly collected in 2016/17 was only an average of MK15Mn per month (MK183Mn in a year). The collected figure dropped to an average of MK13Mn a month (MK163Mn in a year) in 2017/18. The annual market fees collected represented 7.9 per cent of locally generated revenue.

According to discussions with LCC officials, market establishment fees are not collected from traders in open markets alone, but also from traders in other areas where shades have been built. For example, curios sellers pay monthly rental fees for occupying trading shades built by LCC. Efforts to increase revenue collection from traders can be made in the short term. However, such efforts need to be implemented through matching revenue collection with service delivery by the councils as a starting point for any other planned initiatives on the same issue. Also, the city council must work hand in hand with the traders from design to implementation.

Fee collection inefficiencies by the council could be just one of the challenges faced that result in a raw deal for traders. Understanding expenditure patterns could shed more light on how the generated funds are utilized to support traders.

6.2 Expenditure

LCC expenditures are categorized into personal emoluments, other recurrent and capital expenditures. Apart from the devolved sector funds and funds allocated for rehabilitation of city roads, all other expenditures are allocated at council level. Table 3 indicates the allocations and shows that personal emoluments make up more than 60 per cent of recurrent and total expenditures. The percentage

[29] https://www.nyasatimes.com/lilongwe-city-council-get-k3mil-revenue-per-month-temporary-staff/

[30] Assuming each trader pays every day a minimum fee of MK100 per day for 30 days in a month.

share for this category has increased since 2015. The largest (over 80 per cent) portion of generated revenue funds finance recurrent expenditures. This confirms that the council has a large workforce, as discussed in section 5.2.2. However, this undermines implementation of the commitment to reinvest locally generated revenue. The city council has a large labour force comprising mostly unskilled workers. Many of the unskilled workers provide maintenance and cleaning services.

According to the 2016 Local Resource Enhancement Strategy, the council must reinvest 25 per cent of locally generated revenues. Capital outlay is used for development expenditures and hence any investment in market establishments would be part of this allocation. As indicated in Table 3, capital outlay as a percentage of locally generated revenue stood at only one per cent in 2015/16 and 2016/17. This is an extremely small portion of the required 25 per cent. The lack of a development plan to guide resource allocation could be a contributing factor to this trend, in addition to limited resources.

Table 3: Expenditure Allocations in MK'000,000

	2015/16	*2016/17*	*2017/18*
Personal emoluments	1,839	1,478	1,813
Other recurrent transactions	1,032	462	766
Total recurrent	2,872	1,940	2,580
Capital outlay (development)	139	270	126
Total expenditure	3,011	2,210	2,706
PE % of total recurrent	64	76	70
PE % of total expenditure	61	67	67
Recurrent % of total expenditure	95	88	95
Development % of total expenditure	5	12	5
Total locally generated revenue (LGR)	2,814	2,147	2,143
Market fees collected	185	188	169
Own capital outlay	19	12	–
Own capital % of development	14	4	–
Own capital % of LGR	1	1	

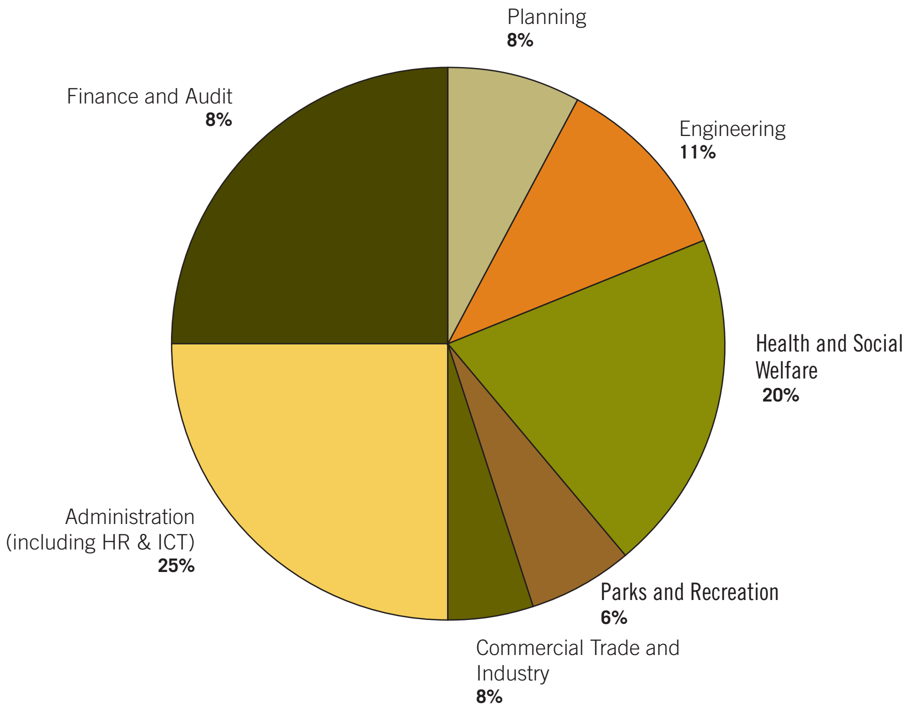
In 2016/17, the development expenditure more than doubled from the previous allocations. Achievements reported for this year included construction of three market shelters at the Central Market,[31] five curio shades and upgrading of 5.4 km of roads. In 2017/18 development expenditure declined to five per cent of total expenditure. Notably, the trend in the (central government) allocations to LCC across the years (2015-2017) is similar, suggesting that it should be possible to reallocate the funds and focus on priority areas.

[31] One of the markets that was gutted with fire.

Government transfers are not only used for sector-specific and other recurrent expenditures, but also to fund capital expenditures. However, not all funds allocated for developmental expenditures are used strictly as budgeted. For example, in 2015/16 when the IDF was introduced, the council spent 21 per cent more than the total allocation for CDF and IDF activities on capital expenditure. However, in 2016/17, utilization of the allocated development funds towards capital expenditure stood at 97 per cent of what was allocated. Expenditure declined further to only 44 per cent of what was allocated in 2017/18. This suggests that there is room for negotiation on utilization of the CDF and IDF funds, and hence an opportunity for traders to advance their agendas. Additional funds for capital expenditure could also be found from locally generated revenues, among other sources.

Apart from contributing to capital expenditure, locally generated funds are also used for recurrent expenditures. Figure 7 indicates expenditures by LCC directorates. In 2017/18, the administration and finance directorates together accounted for 50 per cent of total expenditures using locally generated revenues. Commerce and Trade, which is charged with improving systems for collection of revenues in the city, was allocated five per cent, and yet the council is failing to collect all expected revenues. Delivery of services for traders is under other directorates.

Figure 7: Expenditure Allocations for Locally Generated Revenue



The Health and Social Welfare directorate, which accounted for 20 per cent of total expenditure, houses a cleansing section that deals with improving refuse collection in all areas including the markets. Refuse collection expenditures accounted for 25 per cent of the directorate's allocation. The 25 per cent was dominated by MK70Mn for fuel and lubricants, MK45Mn for hiring costs and MK52Mn towards the purchasing of vehicles. A smaller allocation, of MK1.5Mn, was directed towards the purchasing of carts and litter bins. Considering the outcry from market traders on the council's inefficiencies in refuse collection, it is pleasing to note that the directorate dealing with this issue was the third-highest funded in 2017/18. However, traders could advocate for more funding and its efficient use. Provision of a conducive operating environment for traders could contribute to improving their households' livelihoods. Ultimately, if revenue generated from markets is used effectively, the council could provide better services in the markets.

Conclusion

This report examines whether and how government budgets address the needs and interests of market traders in Lilongwe and explores opportunities that exist for traders to participate in the budget process. These issues are important because more than 89 per cent of all people employed in Malawi are in informal employment. Additionally, for Lilongwe City, more than 50 per cent of the city's households operate a non-farm enterprise either at home, on the roadside, in designated market places or mobile vending. These operators fall in this informal employment category.

The number of people in the informal economy in Lilongwe is expected to reach 307,000 by 2030, and vendors and traders constitute the single largest grouping within the city's informal economy. The city council is responsible for the provision of specified market places for traders. However, most enterprises operate in non-designated areas or engage in mobile vending. The high demand for trading places has resulted in the development of private markets, most of which are operating without applicable authorization from the city council, as stipulated in the by-laws.

Two main organizations represent Lilongwe's traders. The first, MUFIS, is a national organization that initially focused on organizing traders but has recently opened membership to other informal workers. The second, LUVA, organizes only in Lilongwe, with membership spanning both market traders and street traders. LUVA occupies one of the five "special-interest" group seats on the city council. Those occupying these seats do not, however, have voting rights. MUFIS does not have a seat on the council but has, over the years, engaged with the city council around the needs of its members.

Markets not only provide a source of livelihood for Lilongwe residents, but also contribute to revenues generated by the city council. Unfortunately, there are serious inconsistencies between the number of traders operating in Lilongwe recorded and/or reported by MUFIS, LUVA and the city council. This makes it difficult to determine the total revenue that would be available from this source if all traders operating in the markets paid the daily licence fee. What is clear is that not all traders currently pay the fee. One reason for non-payment is traders' dissatisfaction with the services offered by the council.

Traders complain about inadequate trading spaces, poor sanitation facilities and lack of childcare facilities, among others. After ESCOM imposed a blackout due to non-payment of the electricity bills by the city council, traders now pay ESCOM directly. Although strategies have been developed to address some of these problems, these have not yet been operationalized half way through the strategy period.

A range of different stakeholders at both national and local levels are engaged in budget formulation and implementation. The formulation process alone spans a full financial year, with different stakeholders involved at different points.

Malawi has recently moved to programme-based budgeting. This approach emphasizes the need for budget to follow policy rather than the other way around. Malawi's overarching development framework, the MGDS III, incorporates broad issues relating to traders. However, the key strategies that aim to achieve the outcome do not explicitly refer to the informal economy or indicate how to formalize the informal economy. This reduces the opportunities for advocating for budget allocations that address these issues.

MPs and councillors are voting members of the city council and thus have the ultimate say in how resources are allocated. However, these actors will not necessarily prioritize, or even be aware of, traders' needs and interests. Ward development committees, which are meant to inform councillors about priorities on the ground, are currently dysfunctional in Lilongwe City.

Policies, strategies and guidelines are in place at higher levels to provide opportunities for engaging in the budget process and holding office bearers accountable. At LCC level, the expired CDS has not been reviewed, and this hampers allocation of funds to priority development needs. Additionally, traders and other stakeholders are not aware of how best to engage, and how to hold the duty bearers accountable.

While Lilongwe City Council is required to cover 80 per cent of its recurrent budget using own (locally generated) revenue, it is heavily dependent on transfers from central government for development expenditures. Some of these transfers are designated or ring fenced, and must be used for specific purposes, while use of the General Revenue Fund is under the discretion of the council. Even with the designated transfers, the city council decides on the detail of how the funds will be used. However, with the expiry of the development plan meant to guide resource allocation at city level, MPs and councillors have a greater say over allocations than would otherwise be the case.

Despite the move to programme-based budgeting, the publicly available budget documents provide only relatively aggregated information. Information on the detail of how funds will be used is thus not readily available. This hampers advocacy by traders and other interest groups and reduces opportunities for holding the city council accountable for spending funds in line with allocations.

Recommendations

A better trading environment is possible for the market traders in Lilongwe, but advocating for inclusion of their priority needs in the decision-making processes must be done. The following are advocacy issues that can be considered to ensure that traders' interests are addressed in Lilongwe City Council's budget:

- The city council is required to reinvest 25 per cent of locally generated revenue in capital expenditure. Market traders contribute directly to locally generated revenue through payment of market fees. Trader organizations can use this fact to advocate for the funds to be used to improve sanitation and services in markets.
- Efforts need to be made to support collaborative development and implementation of efficient fee collection systems for the City of Lilongwe. This can improve revenue collection, and hence more

funds if the reinvestment allocation is implemented. Finalization of the MoU between MUFIS and LCC could be a starting point, and hence inclusion of LUVA to the MoU is commendable.

- Trader organizations can advocate to be involved in the development of a registration system, monitoring registration of traders and collection of market fees. Having accurate information on the number of traders operating from the market could inform recruitment targets and strategy. Having accurate information on fee collection could strengthen advocacy as to how the revenue could be utilized. If the information is sex-disaggregated, it can be used to advocate to address gender issues such as lack of childcare facilities.
- While both MUFIS and LUVA have market traders as members, their actual and potential roles differ. Both organizations could benefit from a joint campaign to inform traders of their different roles and the benefits for traders of joining the organizations. Visible collaboration between leaders of the two organizations could also serve to strengthen the effectiveness of both. When this is done, it will not matter who has a seat on the council.
- Trader organizations could engage the city council around possible modification to the market fee structure, given that the council no longer provides and manages sanitation and water facilities.
- Trader organizations could engage the council secretariat, and heads of section and the CEO, on provision of specific services. They can engage councillors and MPs in respect of development projects such as market and road infrastructure. Engagement and advocacy efforts could also target the relevant service committee.
- Trader organizations can advocate to be involved and kept informed about the process to update the Lilongwe City Development Plan and the City Development Strategy. Once these are developed, the focus can shift to advocating for resource allocation towards planned items that can improve the trading environment of operators in Lilongwe City. Generally, trader organizations need to take part in the participatory budget process, an available engagement space, to advocate for resource allocation towards transforming the informal economy.
- Trader organizations could engage with other civil society organizations that deal with economic issues to seek information and their assistance with and capacity building on budget-related issues. One such organization is the Malawi Economic Justice Network.
- The capacity of both trader representatives and LCC could usefully be built on advocacy and how to hold office bearers accountable on budget allocations and implementation. Awareness of the available engagement opportunities within budget processes would need to be known by all trader group representatives. Advocating for an active Tripartite Labour Advisory Council could be another starting point.

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Appendices

Appendix 1: Data Collection Tools

Key Informant Interview (KII) Guidelines – Line Ministries

- Describe your understanding of informal economy? Is size of the informal economy monitored, and how?
- Are you aware of the ILO Recommendation 204? How is the ministry contributing to the implementation of the recommendation?
- How are policy frameworks i.e MGDS inform national budget allocations/formulations? Which policies specifically target the informal economy
- Describe the budget process?
- What are the direct and indirect budget allocations targeted for the informal economy
- How are the needs of the informal economy catered for? What roles do the local development fund, district development fund and constituency development fund play to support the informal economy?
- At what point of the budgeting process do/can the informal economy participate?
- What strategies do they have to enable the ministry to tax the informal economy?
- How are revenues, if any, from the local government authorities accounted for as one of the revenue streams for the national budget? Who decides on how to spend the revenue generated by local government authorities (city/district councils?)
- Is there any funding from development partners that specifically caters for the informal economy?
- How is city/district council empowered to meet their financial commitments (such as 25 per cent investments scheme from market ticket sales)?
- What challenges are you facing in the delivery of public services specifically targeted for the traders/vendors (informal economy)?
- Are there established platforms for frequent engagement with the informal economy? Describe, if any.

KII Guidelines – Traders/Vendors

- How do you understand the role of government, local government (city/district council) in addressing their needs?
- Do you get support from government?
- Do you contribute to government finances? What fees, charges and taxes do you pay to trade, and to who? Why or why not?
- Have you ever been involved in budget consultation process, how?
- From your opinion, are your needs addressed in the budget?
- Do you always do business from designated areas? Why or why not?
- Describe the role that MUFIS plays, and how you support that role.
- What key challenges are you facing that require MUFIS support? Local government support? How can they be fixed in the short, medium and long term?
- Are there established platforms for frequent engagement with local government? Describe, if any.

KII Guidelines – Local Authority – Lilongwe City and District Council

- Describe your understanding of informal economy. Is size of the informal economy monitored, how? …probe to get information on numbers of the different categories of informal economy from 2015 to date.
- Are you aware of the ILO Recommendation 204? How is the district/city council contributing to the implementation of the recommendation?
- Which section or department deals with issues of the informal economy?
- What are the direct and indirect budget allocations targeted for the informal economy…request for council budgets, allocations and actual disbursement reports… (2015-2018).
- How are the needs of the informal economy catered for? What roles do the local development fund, district development fund and constituency development fund play to support the informal economy?
- At what point of the budgeting process do/can the informal economy participate?
- What strategies do they have to enable the ministry to tax the informal economy?
- Is there any funding from development partners that specifically caters for the informal economy?
- What are the main sources of revenue for the council (ask for income and expenditure reports). Is city/district council mandated to raise a certain portion of revenues for the national budget or just for the councils?
- Who has the powers to allocate or make decisions on how the revenue generated should be utilized? Can refer to the resource mobilisation strategy of reinvesting 25 per cent investments scheme from ticket sales from market traders.
- Who decides on how to spend the budget allocations?
- Are you involved in budget consultation process, coordinated by the ministry of finance? Do you organize any budget consultations with informal economy or other traders? How is it done?
- Are there established platforms for frequent engagement with the informal sector? Describe, if any. Do you have any formal agreements with advocacy groups promoting rights of informal workers like MUFIS? Explain why or why not.
- Do you have any plans in respect of changing policy and/or budgets for vendors?
- What challenges are you facing in the delivery of public services specifically targeted for the informal sector, especially market traders and vendors? How are they being resolved… in the short, medium and long term?

FGD Guidelines – MUFIS or Other Trader/Vendor Groups

- Describe how the roles of your organization are interlinked with other similar organizations like Malawi congress of trade unions, Indigenous business association, Minibus operators' association, Lilongwe Urban Vendors Association (LUVA), Malawi Local Government Association (MAGA) etc.
- How do you advocate for rights of members? Involvement of organization in budget allocation at local level? Involvement of organization in advocacy that has a budget element?
- Does MUFIS have any formal agreements with national or local government? If so, what issues do these agreements cover?
- Entry requirements to membership, how? Membership? [Membership or other payments?]… request membership figures from 2015 to date.
- How is the interaction with vendors done and how often?

- Are you involved in the budget consultative process, how?
- What strategies does your organization have to implement the ILO Recommendation 204? (helping to transform informal sector to formal sector).
- What challenges are you facing in the delivery of public services specifically targeted for the informal sector, especially market traders and vendors? How are they being resolved… in the short, medium and long term?

Appendix 2: Budget Process and Calendar

Participatory budgeting process (stages)	***Period***	***Activity***	***Responsibility***
	July-June	Implementation/Monitoring – all round the year	DC/CEO, councillors, all
	July-Aug	Preparation of final accounts for previous financial year	DC/CEO, DOF
	September	Presentation of final un-audited accounts to Council	DC/CEO, Full Council
	October	Facilitating audit of LA in preparation for audit by National Audit Office (NAO)	NLGFC
Stage 1 (Nov-Dec) Communicating PB programme and information on the current budget	November	• External audit of final accounts by the Auditor General • Review and update of Annual Investment Plan (AIP) and the rolling over of the LDP/DDP using DEC Task Force • Consultation with communities on AIP and LDP	NAO DPD
	December	• Release of indicative planning figures for central transfers by NLGFC • Production of the year's budget calendar • Projection of locally raised revenues • Formulation and approval of budget policy • Release of budget circular to sectors/departments in the council • Specification and prioritization of programmes by departments/ sectors	NLGFC Budget officer DOF Full Council DC/CEO Heads of Departments

Stage 2 (Jan-Feb) Pre-budget consultation meetings	January (first 2 weeks)	• Consultation with communities on sector programmes and priorities (in the process roll over the LDP and update the AIP • Release of the revised central transfer ceilings and budget frameworks/guidelines by NLGFC reflecting instructions from MoFEPD	DPD/DEC, DC/CEO NLGFC
	January (last 2 weeks)	• Approval of the revised AIP & sector programmes and priorities by Council • Revision and issue of the revised sector allocation – sector/ department budget ceilings – by the finance committee • Development of departmental budgets	Full Council, Finance Committee Finance Committee Heads of departments
Stage 3 (Feb) Budget Conference	February	• Circulation of budgets to Full Council • Holding budget consultations	DC/CEO Chairman/Mayor
Stage 4 (Feb to Mar) Budget preparation	March	• Revision and finalization of the budget, complete with executive statements, summary of revenues, summary of expenditures and budget notes	Budget officer
Stage 5 (Mar-June) Budget approvals		• Discussion and approval of the draft budget by the Council before 15th March • Submission of the approved budgets to NLGFC before 1st April • Submission of the annual sector Investment Plan to line ministries for review and inclusion in the Public Sector Investment Programme (PSIP)	Secretary of the Finance Committee DC/CEO Finance Committee, heads of departments, service committees
	April	• Assessment of the approved budgets submitted by local authorities to NLGFC through meetings with local authorities • Approval of revised budget incorporating issues raised by NLGFC by Full Council	NLGFC Chairman/Mayor, NLGFC
	May	Preparation of a consolidated budget	NLGFC
	June	Presentation of the consolidated local authority budgets to Parliament	MLGRD

Stage 6 (July-Aug) Dissemination			
Stage 6 (July-June) Implementation			
Stage 7: budget implementation follow-up Monitoring (July-June) Reviews (Oct-Nov)			

Appendix 3: Budget Allocations in MK'000,000

National Budget Allocations to Selected Institutions

	2015/16	***2016/17***	***2017/18***	***2018/19***
MLGRD	6,669	5,514	13,617	11,921
NLGFC	16,661	134,731	12,542	22,004
Ministry of Trade	4,592	5,711	3,562	4,832
Ministry of Labour	5,043	10,772	9,772	14,244
Local Development Fund	37,042	32,324	37,290	20,492
Transfer to LAs	56,945	123,495	198,469	210,855

Locally Generated Revenue by Source

Source	***2015/16***	***2016/17***	***2017/18***
Central Government Property Rates	185	113	198
Other Property Rates	–	–	1,045
Income from Market Establishments	183	188	169
Fees and Service Charges	–	–	456
Licences and Permits	–	–	274
All Other Income	2,446	1,847	–
Total Local Revenue*	2,814	2,148	2,143

About WIEGO: Women in Informal Employment: Globalizing and Organizing (WIEGO) 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. For more information visit: www.wiego.org.

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