Social Protection and Informal Workers in Malawi

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Presented by

Wezi Galera Shaba,
University of Livingstonia.
Introduction

Social protection has been defined differently by several authors. The United Nations define social protection as a set of public and private policies and programmes undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work; to provide assistance for families with children as well as provide people with health care and housing (UN, 2001). On the other hand, van Ginneken (2003) sees it as benefits that society provides to individuals and households; through public and collective measures; to guarantee them a minimum standard of living and to protect them against a low or declining living standards arising out of a number of basic needs. Varied the definitions may be, social protection aims at income redistribution in order to protect everyone against poverty.

It is well documented that social protection systems were established to replace the traditional family or neighbourhood solidarity which were greatly undermined by industrialisation, rural emigration and urban development. Without social protection, poor people are prone to increased risks of sinking below the poverty line; worse still, to remain stuck in poverty. Above all, Social protection is also a human right as defined by Article 22 of the Universal Declaration of Human Rights: ‘everyone has a right to social security and is entitled to realisation through national effort and international cooperation’ (UN, n.d). Though it is a human right, coverage of social protection, especially for those in the informal sector is very limited in many developing countries including Malawi. This paper discusses the history and evolution of social protection in Malawi, explores the coverage of existing social security schemes, highlights the legislative frameworks governing social security in the country and examines the extent of the informal economy in the country. The paper concludes by exploring ways in which social protection coverage could be extended to the excluded majority including those in the informal economy.

History and evolution of Social Protection in Malawi

Social Security arrangements in Malawi for a long time were predominantly based on traditional solidarity and networks based on social relations. As such, extended family ties, friends, the community and neighbours' were the main source of social support and security. Under this arrangement, when one is in need of help, either a friend or a neighbour would come in hence everyone in a community had some sort of security.

However, with the passage of time, it has become more evident that the traditional family and its functions have weakened due to various reasons including dependency on cash economy and migration¹. The dependence on cash influences people to migrate from rural to urban areas in search of employment or from rural to rural in order to work in the estates. Additionally, rapid population growth which often leads to land degradation, rising incidences of HIV and AIDS resulting in many orphans, modernization and the recent economic crises have also contributed to weakening social ties.

Tango (2004) agrees that in Malawi, informal safety nets are breaking down and that the poor are increasingly dependent on formal safety nets provided by the government and Non Governmental Organisations (NGO’s). Thus formal social protection schemes are steadily increasing in Malawi.

Though the history of social protection pre-dates the country's independence during which it took various forms, in Independent Malawi (from 1964), Social Protection initiatives, according to Slater and Tsoka (2007), could be categorized in four broad bands as discussed below;

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First Phase: 1964-1981

During the first phase, Social Protection took the form of price controls and subsidies. Prices of inputs and outputs were controlled by the government and not market forces. There were universal subsidy for both fertilizers and seed as the government was convinced that subsidizing production is cheaper than consumption. Input credit facilities mainly through farmer’s clubs were readily available for the smallholder farmers. This period was characterized by very few formal safety net interventions beyond price control and subsidies. However, this period offered protection from exposure to effects of poverty and covariate shocks.

Second Phase: 1981-1990

Between 1981 and 1990, the first phase Social Protection measures had become financially unsustainable, hence the phasing out of universal subsidies as well as agricultural input/output price de-controls. This period witnessed the removal of price support and subsidies and nothing established in their place. The Structural Adjustment Programs forced the government to dismantle the social protection system with no replacements.

During this period, there was no effective protection of the poor and vulnerable except in serious emergencies where ‘targeted’ nutrition programs (food relief) to those in emergency situations were implemented.

Third Phase: 1990-1994

From 1990 to 1994, interventions under the social dimension of adjustment were introduced. These included ‘projectised safety net programs’. New programs, many of which were market oriented were introduced. The Malawian Social Action Fund (MASAF) for example, was established as a mechanism to support the community based activities that would alleviate poverty. This shift corresponded to a change in government which brought a refined focus on poverty. The policy framework for the poverty alleviation program specifically provided for the work of an institutionalized social action fund and space for the civil society organizations to undertake safety net interventions in aid of the poverty alleviation program. Regrettably, the policy framework did not provide for an effective institutional framework for coordinating the poverty alleviating safety net activities.

Fourth Phase: 1994-2006

The 4th phase (1994-2006), witnessed the emergence of MSME’s credit schemes, public works programs, cash for work, input transfers (starter pack then targeted input programs), food transfers, school feeding, integrated livelihoods support, cash transfers (pilot) amongst others dominating the social protection mode. Funding for these various programs was, and is still being provided by the government, external donors and NGO’s. Most of these interventions are in the spirit of safety nets hence partial and selective protection.

It is worth mentioning that since late 1990’s, government and developing partners, mainly the World Bank, DFID and EU recognized that the safety net interventions were having little impact on poverty². This assertion was also echoed by Smith and Subbarrao (2003), who recorded 15 distinct donor funded social protection programs in Malawi and noted ‘that the interventions are generally uncoordinated, poorly targeted and projectised rather that institutionalised’.

Thus despite several social protection programs being implemented in Malawi, in recent years, the evidence on the ground shows that vulnerability is rising rather than falling, suggesting that these interventions are not adding up.

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With a background of uncoordinated and ad hoc implementation of social security interventions by various players, the government and other stakeholders agreed on the need to shift from safety nets to social protection, hence the inclusion of Social Protection and Disaster Risk Reduction as the second theme in the Malawi Growth and Development Strategy (MGDS)³. This led to the formulation of a Social Protection Policy (referred to as a Social Support Policy) which was launched in March 2013. This policy provides a holistic framework for designing, implementing, coordinating, monitoring and evaluating social protection interventions.

**Coverage of existing Social protection schemes**

Social protection coverage is not only a numbers game but also relates to scope and benefit levels. The concept of coverage emphasizes the need for broad-based social protection systems that cover more people and more risks. According to the ILO, coverage of social protection is identified using two approaches. The first, legal coverage; is where the population group can be considered covered if there are existing legal provisions that such a group should be covered by a given branch of social protection or will be entitled to specified benefits under certain circumstances, for example, to an old age state pension upon reaching the age of 65 or to income support if the income falls below a specified threshold. The second, effective coverage; is the actual number of people benefiting from any given branch of social support, social insurance or pension (ILO, 2010, p. 22). Effective coverage is usually lower than legal coverage and it reflects how in reality the legal provisions are implemented.

Using effective coverage, it is estimated that only one-third of countries globally, which are inhabited by 28% of the global population have comprehensive social protection systems (ILO, 2010). Furthermore, most of those covered are in the formal employment as wage or salary workers. The following paragraphs highlight some of the regulatory framework that guide the provision of social protection in Malawi.

**Legal and Regulatory framework for Social Protection in Malawi**

The extent of legal coverage for social protection in the country is still narrow. Up until 2011, there was no clear law governing social protection in Malawi. Thus, relief for the provision of some contingencies had to be found within labour legislations that have an element of social protection. The discussion below highlights some sections in the Employment Act of 2000, Workers Compensation Act, Social Support Policy and the Pension Law of 2011 which have an element of social protection.

**The Pension Law of 2011**

Approved as an Act of Parliament in 2011, the Pension Law provides for mandatory pension in Malawi. Under this legislation, every employer in Malawi other than those specifically exempted⁴ by the Minister in certain circumstances is obliged to make provision for pension for its employees.

This law aims at; i) ensuring that every employer to which this Act applies provides pension for every person employed by that employer, ii) ensuring that every employee in Malawi receives retirement and supplementary benefits as and when due, iii) promoting the safety, soundness and prudent management of pension funds that provide retirement and death benefits to members and beneficiaries and; iv) fostering agglomeration of national savings in support of economic growth and development of the country.

The law introduces a contributory National Pension Scheme for the purpose of ensuring that every employee in Malawi receives pension and supplementary benefits on retirement. Under this law, pension contributions are mandatory as such every employer has to make provision for every person under his employment to be a member of the registered pension fund.

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³ Malawi Growth Development Strategy (MGDS) is the government’s main policy document which is the country’s overarching framework for development for the period between 2006-2011. The MGDS provides that its long term goal for Social Protection is “to improve the life of the most vulnerable.”

⁴ Those to be exempted in the bill include; those who have worked for less than a year, those below a certain salary threshold, which is at MK 10,000.00 at the moment.
Though this law became operational in June 2011, not much is happening on the ground. Most employers are yet to comply and enforcement is nearly non existent. Even the government is yet to establish the National Pension Scheme.

By its design, this law puts much emphasis on those in the formal sector, where you have a clear work relationship of the employee and employer. It does not take much care of those found in the informal economy such as street vendors, the self employed and subsistence farmers, just to mention, but a few.

The Employment Act number 6 of 2000.

Before the enactment of the Pension Law, the Employment Act of 2000 was one of those legislations being referred to on issues of social protection. Generally, this Act aims at guiding employment relationship between the individual employee and the employer. The Act establishes, reinforces and regulates minimum standards of employment. Amongst others, it provides the minimum level of benefits and conditions which the employer must give to the employee. However, a closer analysis of the Act clearly point to the fact that some clauses were deliberately included so as to provide the worker with some sort of protection (Shaba, 2012). For instance, the Act provides for sick leave and pay during sickness (Section 46), paid maternity leave every 3 years for women of up to 8 weeks (Section 47), and severance pay upon termination of employment by mutual agreement with the employer or unilaterally by the employer (section 35). The Act also protects workers through provision of a minimum wage (ibid). Just as the Pension law, this Act also caters for those in formal employment.

The Workers Compensation Act number 7 of 2000

The Workers Compensation Act provides for compensation of all injuries suffered or disease contracted by workers in the course of their employment or death resulting from injury or disease. This works as an employer (single) liability type of scheme where the company/employer pays directly to the victim through the Workers Compensation Commissioner (ibid). This Act, just like the two above (Employment Act and Pension law) mainly covers those who are in formal employment, leaving out the majority who are in the informal sector and the self employed.

Social Support Policy

Originating from the Malawi Growth and Development Strategy (MGDS), the National Social Support Policy is the medium term policy that has been formulated to reduce poverty and vulnerability. The policy has been developed as a prelude to program development and provides a holistic framework for designing, implementing, co-ordinating, monitoring and evaluating social support interventions. It is envisaged that the implementation of a comprehensive social protection policy, integrated with other pro-poor development policies would also contribute significantly to Malawi's economic growth as lessons learnt from other countries confirm that social protection, far from being a drain of resources, is a driver of economic growth.

Launched in March, 2013 by the Vice President of the Republic of Malawi, the policy has four themes namely; welfare support, protection of assets, promotion through productivity enhancement and policy linkages and mainstreaming. This policy also has linkages to the Malawi Constitution, the Vision 2020\(^5\), the MGDS and other sectoral policies and relevant international conventions.

From the foregoing, it is quite evident that legal coverage has paid little or no attention at all to the majority of the population, who ironically desperately need some sort of social protection; those who are out-

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\(^5\) Vision 2020 is the governments long term development perspective for Malawi. It was launched in 2000 and envisages Malawi to be a technologically driven middle economy country by 2020.
side the formal economy; the unemployed, the elderly, the youth and the destitute in general. Concentration is on those who are on salaried work and are capable of contributing.

**Effective Coverage of Social Protection**

As of 2013, Malawi does not have a comprehensive national Social Protection Scheme. Instead, a number of multiple schemes in form of social insurance are provided by private financial institutions on the one hand while the government provides ‘means tested’ assistance to the targeted ‘ultra poor’ on the other hand. Interventions by the government are mostly in the form of projects as discussed below.

Before discussing the interventions that have been put in place by the government to provide social protection to its vulnerable citizens, it is worth pointing out that government employees (Civil servants) benefit from the Public Pension Scheme (GPPS) which is non-contributory, but provides a retirement package in form of a regular income on a monthly basis upon retirement. As of July 2010, there were at least 28,000 pensioners on this scheme. During the same period, Old Mutual Malawi, one of the major private pension administrators in the country had at least 210 pension funds, 900 pensioners and 65,000 people on the pension scheme (Shaba, 2012).

**Means Tested Schemes**

Due to its limited economic capacity to implement national social security programs, the government has from the recent past implemented a number of ‘means tested programs to benefit those who are vulnerable. Most of these programs have been supported by donors and targets the poor, unemployed, rural masses. Below is a summary of the programs implemented by the government in the recent past.

**Malawi Free Inputs Program (MFIP)**

In order to compensate for the effects of higher prices of inputs following the removal of subsidies and liberalisation of markets and production, the Malawi Government introduced the MFIP in 1998/99 to provide ‘free fertiliser and improved seed’ to the small holder farmers who could not afford to buy them in order to increase household food security. While initially, the program targeted all smallholder farmers, it was later scaled down due to operational costs and became known as the Targeted Input Program (TIP). By the 2001/02 growing season, the number of beneficiaries had been scaled down to 1 million.

While receipt of a voucher always granted receipt of a pack, not all who were registered received the voucher. An evaluation by Levy and Barahona in 2002 indicates that only 81% received the TIP of the total number of households on the TIPLU register, leaving out 19% of the registered poor.

**Farm Input Subsidy Program (FISP)**

The FISP, being currently implemented by the government aims at increasing food security at household and national levels. Specifically, the program aims at increasing the smallholder farmer’s access to improved farm inputs and adoption of improved technologies in maize production systems. Chirwa (2009) found out that there were at least 1.6 million beneficiaries during the 2009/10 growing season.

FISP is a coupon based scheme, which entitles eligible smallholder farmers receive two coupons, one for 50kg basal dressing and another for top dressing, entitling the holder to purchase the fertiliser at a subsidised rate (approximately U$ 1.5 instead of the market price of U$ 48 per bag in the 2012/13 growing season).
Public Works Programs (PWPs)

Public Works Programs (PWP’s) refer to activities which entail the payment of a wage in return for the provision of labour. In Malawi, PWP’s go back to at least 1995, when the Malawi social Action Fund (MA-SAF) was created. Public works are popular with policy makers because they offer the potential of simultaneously creating useful assets and transferring food or income to the poor because of the work requirements. Examples of PWPs in the country include; food for work, cash for work and inputs for work. The main objective of PWPs is to provide an ‘employment based safety net’.

As observed above, both FISP and PWPs demand something from the intended beneficiary; minimum payment for FISP and labour from PWPs, implying that the most vulnerable groups who could not afford a subsidised price, the weak, frail and elderly are technically excluded from the benefit. It is no wonder that cases are rife where targeted beneficiaries sell their coupons in order to raise money for buying food for the day.

Social Cash Transfer Scheme (CTS)

Since its inception in 2005, the CTS is being implemented in the country on a pilot basis. Starting with one district at its inception, by 2012, the program had been scaled up to 7 districts, benefiting up to 28,864 households (110,345 individual beneficiaries) in the 2012/13 financial year alone (Ministry of Gender, Children and Social Welfare, 2013). Effective July 2013, the program has been extended to a further 8 districts, thus reaching 15, out of the 28 districts of the country.

The CTS is a poverty alleviation program targeting 10% of the ultra poor, incapacitated and labour constrained households. The program receives technical and financial support from UNICEF, the Global Fund, and the Government of Malawi. As indicated in the Social Support Policy document, 250,000 households would require support under the program nationally. This translates to about 1,030,000 individuals. Though still on a pilot basis, the CTS is carried out as a means of providing social security to the elderly and the unemployed in the selected districts of the country. The value of the cash transfer ranged from K1, 200 to K2000 (approximately U$4 to U$ 6) per individual per month during the 2012/13 financial year.

The Informal Sector

The informal sector refers to ‘the sum of all income earning activities with the exclusion of those that involves contractual and legally regulated employment’ (Gerxhani, 2004, p. 273). The informal economy covers a multiplicity of activities and different types of work relationships. Included in this sector are the self employed, casual workers without a fixed employer, street vendors, hawkers and others in the agricultural sector. It is quite evident that recently, attention has been focused to the informal economy because evidence on the ground suggests that this sector is here to stay. Besides, the informal sector is growing rapidly at the expense of the formal economy.

Causes of the Informal Sector

Gallin (2001, p. 533) argues that the growth of the informal sector since the 1980s is a result of the ‘global economic crisis and the way production is being organised by the transnational capital’. The global recession has led to mass job losses, forcing people to turn to the informal sector for survival, since not many people worldwide are covered by social protection. In Malawi for example, introduction of the Structural Adjustment Programs (SAPs) from the early 1980s was followed with massive retrenchments in the civil service as well as privatization of several public companies. The result was massive job losses and high levels of unemployment.

Again, the transnational capital has witnessed firms relocating to regions where the labour law is weak, where production cost is low due to the lowering of labour standards, including the high use of casual la-
bour, with no job security for the workers. Gallin (2001) claims that the dependency on subcontracting work by the transnational enterprises has led to massive job cuts, and deterioration of employment conditions in the sub contracted companies such as low wages and unstable form of employment, forcing people into the informal sector. This is also a common trend in Malawi.

The rapid growth of the informal sector in Malawi could also be attributed to the availability of surplus labour. Breman (1980 cited in Gerxhani, 2004) claims that the presence of few productive industries and the availability of abundance labour account for the existence of the informal sector in the developing countries, since the formal economy cannot absorb all the labour force.

Characteristics of the Informal Economy

The major characteristic of the informal sector is the absence of regulations. ‘Most establishments in the informal sector are unregistered and unlicensed’ (Gerxhani, 2004). As a result, the sector does not comply with the existing labour regulations, hence is associated with poor working conditions which include low wages and lack of job security and social benefits.

It is a fact that the emergence of the informal sector is a response by people who have been denied entry into the formal economy to survive. Ease of entry is another feature associated with the informal economy. Many people are introduced to the informal economy through social networks.

Extent of the Informal Economy in Malawi

Recent data suggest that labour participation rate in Malawi was 88% in 2011 (Welfare Monitoring Survey, 2011), of which 81% of the employed were not paid as they were mostly subsistence farmers (ibid). According to the same survey report, only 8% were salaried workers while a further 5% were the self-employed. Thus, well over 80% of those employed are in the informal sector which is largely characterised by the working poor. What is more particular about the informal sector is the absence of rights and social protection of the workers involved in it. After all, people turn to the informal sector as a survivalist strategy.

As discussed above, the informal sector is not currently legally covered by any type of social protection. All legal and regulatory frameworks put much emphasis on covering those in the formal sector, as most ‘protected’ schemes are ‘employment related’.

How could Social security coverage be extended to majority in the informal sector?

It is undisputable that the current arrangement in which social protection initiatives are delivered to a fraction of the needy population in Malawi is discriminatory. Errors of inclusion and exclusion are also evident which have resulted in who can financially support themselves benefiting while leaving out the poor and vulnerable. It is again a fact that a majority of Malawians do not realize that accessing social protection is a right, as such they are not vigilant in claiming the same.

Thus, there is urgent need for the civil society, including trade unions to increase awareness for the need for social protection so that it becomes a national issue. The masses need to be mobilized so that they collectively demand the provision of a universal basic social protection floor from the government. Both trade unions and innovative activists can take the lead in this process. Forming coalitions between trade unions and other social movements could result in a force that the government cannot easily ignore. At the end, coverage could be extended to both the working poor and those in the informal sector.

The civil society must advocate for the abolishment of the ‘projectisised’ interventions and call for the institutionalisation of a universal basic social protection floor. The communities too must be encouraged to form small groups (of between 4 to 10 members) which would pool their resources together, mainly through periodic contributions and give total contributions of a particular time to a member on a rota-
tional basis. Though this arrangement is very popular amongst women and small scale business owners, it could be replicated to other groups of people as well.

Political will and prudent use of resources are key in determining the scale and level of social protection coverage. Politicians must show commitment towards institutionalising social protection interventions, moving away from the ‘projectised’ donor dependent approach which is currently common. Additionally, encouragement of contributory, often community based schemes for informal sector workers is vital in reducing the coverage gap that exist within the current system. But above all, promoting a tax-financed social benefit for poverty stricken individuals who are unable to benefit from contributory schemes could play a significant role in narrowing the coverage gap.

**Conclusion**

The extent of social protection coverage in Malawi is still very low. Though those in the formal sector are legally covered with the enactment of the Pension Law that makes provision of pension by employers mandatory, the situation on the ground does not attest to that. Effective coverage has not fully extended to the majority of workers in the private sector and the working poor. Inspite of evidence on the ground indicating that the informal sector is steadily growing in Malawi, there is very little attempt being made to extend social protection coverage to those in the informal economy. The few initiatives being undertaken are means tested hence subject to errors of inclusion and exclusion. Additionally, most of these initiatives are in form of projects and are highly donor dependent, as such, their continuity is not guaranteed. A new paradigm shift is needed by the government, private sector, civil society and communities to explore ways of making the provision of a basic social protection floor universal in Malawi.
References


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