



Wages Committee of the Malawi Tea 2020 Programme Progress Report 2020

By Levison Chiwaula, Richard Anker, and Martha Anker, October 2020

Preface

This report was written in the Fall of 2020 in order to be presented at the Annual Progress Meeting of the Malawi Tea 2020 Programme on October 27, 2020. At the time of this meeting, there were two government budget proposals under consideration that would greatly increase the take home pay of low-wage workers in Malawi, including those in the tea sector. These proposals were to substantially increase the tax-free income tax exemption threshold, and to substantially increase the minimum wage.

Because these two proposals were only under consideration when the report for the Annual Progress Meeting was written, the effect they would have on wages and take-home pay and on the gap to a living wage was not thoroughly examined in the report. Subsequent to this, the government adopted these two policies. Implications of this is noted in footnotes throughout this report.

Acknowledgements

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Executive Summary

The original Living Wage Study, which was conducted in 2014 by Martha Anker and Richard Anker, showed that there was a wide gap between wages received by tea workers and a living wage. Partly in response to this finding, the Malawi Tea 2020 Programme: Toward a Living Wage was conceived, and an MOU was signed in July 2015. Achieving a living wage for tea workers was one of the primary Programme pillars. A Wages Committee was established to help monitor progress in closing the gap between actual wages for tea estate workers and living wage benchmarks.

The Wages Committee produced its first report in 2016 and has been producing annual reports since then. As this is the final year of the Malawi Tea 2020 Programme, this annual report is vital as it reports on progress over the previous year and evaluates the extent to which the living wage gap has been closed over the course of the Programme. This is done by comparing the actual prevailing wage of A1 tea estate workers (which are the lowest graded workers and they comprise the majority of tea workers) to the living wage benchmark, which was originally established in 2014 and adjusted for inflation for the purposes of this report.

Prevailing wages of A1 workers are measured using: (i) payroll data for A1 tea workers for 26 two-week pay periods to measure cash wages received over the year, (ii) financial records covering monthly costs to estates of in-kind benefits provided over a 12-month period to measure the cost and value of in-kind benefits, (iii) a TAML (Tea Association of Malawi) census of tea estate housing, and (iv) discussions with workers from the PAWU (Plantations and Agriculture Workers Union) about the overall value of the in-kind benefits provided by tea estates.



When reviewing the living wage gap, it is important to consider the high rate of inflation in rural Malawi and the challenge of maintaining equivalent purchasing power of any living wage benchmark. The net living wage increased from MK1,531 per day in the original 2014 study to MK4,098 per day as of October 2020. The gross living wage benchmark which includes taxes was MK4,969.

This report estimates that the average full wage package (cash wages plus in-kind benefits) received by A1 tea workers was MK2,783 per day in October 2020. This represented 68% of the net living wage. This report estimates that over the life of the Malawi Tea 2020 Programme the difference between the living wage and net prevailing wage narrowed by 16 percentage points, that is, the gap decreased from 48% in January 2014 to 32% as of October 2020. As such, we estimate that 33% of the gap to the net living wage was closed over the course of the Malawi Tea 2020 Programme. The difference between the

¹ The average full wage package was only 55% of the gross living wage in October 2020 prior to the change in tax threshold, but became 66% when adjusting calculations for the tax change.

gross prevailing wage and the gross living wage change from 56% to 45% (9 percentage points) as of October, 2020.

It appears that major progress was achieved early on in the Malawi Tea 2020 Programme followed by slight improvement over the past few years. This could be due to tea estates operating in a difficult macroeconomic environment that includes high inflation rates, a seemingly overvalued (and in recent years roughly constant) exchange rate, high energy costs, political unrest, and now the COVID-19 pandemic.

There are three important exogenous drivers that are expected to help close part of the living wage gap in the future, including: (1) a large increase in the income tax-free bracket from MK45,000 to 100,000 per month, which would eliminate income tax on a living wage and significantly reduce the gross living wage (i.e. living wage); (2) an increase in the official minimum wage from MK1,346 to 1,923 per day proposed in the current government budget, which would force the TAML basic wage to be significantly increased, and (3) the possible slowing down of rural inflation.

In conclusion, we find that tea estates have substantially narrowed the living wage gap between 2014 and 2020. This was achieved in the face of numerous macroeconomic and socio-political challenges. Of course, despite this progress, a large gap remains and there is much more to be done before tea workers in Malawi receive a true living wage. It is important to develop a system to monitor future progress on closing the living wage gap in the tea sector and facilitate further engagement on this between estates and workers and the global supply chain.



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1. Introduction

1.1. Background

This is the final year of the Malawi Tea 2020 Programme, hence the final Wages Committee Annual Report. For this reason, the 2020 Wages Committee Report is an important work that represents the final evaluation the Malawi Tea 2020 Programme and the progress toward achieving a living wage for tea workers.

We compare a living wage benchmark¹ for rural southern Malawi that was updated for inflation to maintain purchasing power equivalency in October 2020 to the estimated actual wage of A1 graded tea workers² who are the lowest graded workers and represent most tea workers. Average wages of A1 graded tea workers were estimated by adding the TAML basic wage, cash bonuses, cash allowances, gratuity, and the value of in-kind benefits.

To estimate average cash wages of A1 workers on Malawi tea estates over the year, we use payroll data on cash wages and cash allowances for 26 two-week pay periods for August 2019 to July 2020, which were provided by the two largest tea estates. These two estates employ well over half of all tea workers in Malawi. We also use detailed data from financial records over

¹ Originally estimated in a January 2014 study by Richard Anker and Martha Anker

² A1 tea workers are used to assess payment of a living because they are the lowest grade for tea workers and therefore the ones who are farthest from the living wage.



the same time period provided by the same estates on their costs for in-kind benefits provided to A1 workers to estimate their value. This analysis allows us to calculate the average prevailing wage for A1 tea workers over a period of 12 months, as well as estimate the prevailing wage of A1 tea workers as of October 2020 using some assumptions. This was made possible thanks to improvements in the quality of payroll and in-kind benefits cost data that have been made available voluntarily by tea estates to the Wages Committee.

Since the 2018-2019 tea growing season, the data that have been provided to the Wages Committee has greatly improved as these data now: (i) cover a complete 12-month period presented for each of the 26 two-week pay periods, (ii) are provided for all A1 workers (who represent the majority of tea workers) omitting the few non-A1 workers inadvertently included in the dataset; and (iii) comprise the two largest tea estates in Malawi. These payroll data enabled the calculation of prevailing cash wages for each of 26 two-week pay periods, which allowed the calculation of the average prevailing cash wages for a typical A1 tea worker over a year. In addition, we were provided with itemized information on the cost of various in-kind benefits by the two largest tea estates based on their financial records.

1.2 Progress in closing the living wage gap

The net living wage (i.e. take-home pay required) and gross living wage (i.e. wage required before taxes) are expressed in Malawi kwacha (MK). As of October 2020, net living wage and gross living wage were at MK4,098 and MK4,969 per day, respectively. This compares to MK3,707 and MK4,407 in October 2019.³

Between October 2019 and October 2020, there was little change in the gap to a net living wage. The average wage of A1 tea workers, who constitute the majority of tea workers, was 68% of the net living wage and has remained the same in October 2019 and October 2020.

However, from the beginning of the Malawi Tea 2020 Programme until October 2020, there has been substantial improvement toward closing the living wage gap. From the baseline used to measure progress of the Malawi Tea 2020 Programme, the

³ Note that the gross living wage equals the net living wage in November 2020 due to the new income tax law that has greatly increased the income tax-free threshold.

ratio of the prevailing wage of A1 tea workers to the net living wage went from 52% to 68%, meaning that 33% of the gap to net living wage was closed (i.e. $(0.68-0.52)/.48$). In addition, wages of A1 tea workers expressed in US dollars (USD) continued to increase in 2020, continuing a trend reported in the 2019 Wages Committee Report. This was primarily due to the stability of the USD/MK exchange rate and increasing tea wages in MK. While a stable exchange rate is not of direct consequence to tea workers, it impacts the tea estates, which sell their tea in USD.





2. Review of Macroeconomic and Social Environment

The macroeconomic and social environment in the 2019/2020 growing season continued to be a difficult one for tea estates. While this was a relatively stable period, there was a continuing high risk of volatility. Rural inflation continued at more than 10% per year although it was slowing. The MK to USD exchange rate (international tea prices are set in USD) continued to be stable, which created difficulties for the tea industry as expenses increased in MK. Tea prices on the international market also continued to be weak in 2020. The social environment was characterized by political violence, demonstrations, and the emergence of the COVID-19 pandemic.

2.1. Inflation and exchange rates

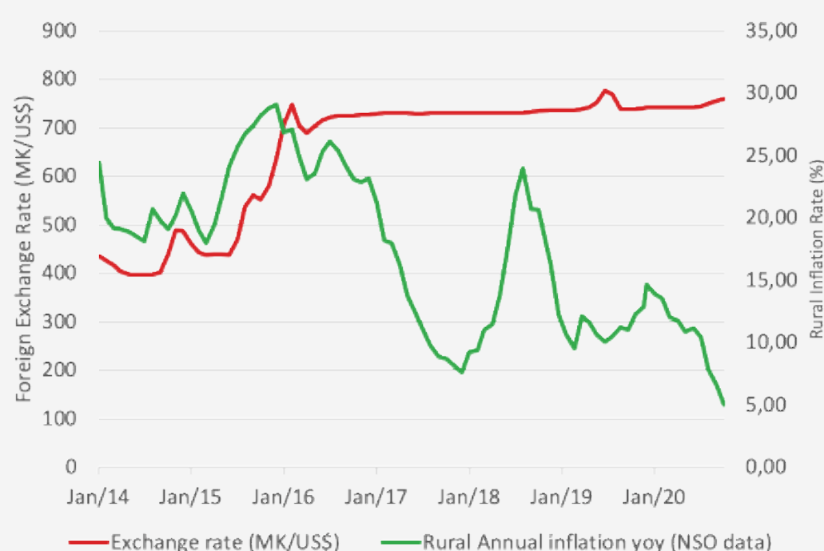
Inflation and exchange rates are two of the most important macroeconomic indicators influencing the welfare of tea estates and tea workers. The exchange rate plays an important role as estates sell tea in USD, but most costs of production are in MK. When a currency is overvalued, tea estates suffer, because they get fewer MK per USD of sales than when the currency is devalued. With an overvalued exchange rate, tea estates pay more MK for the costs of production, and this negatively affects the ability of tea estates to increase wages for workers.

The inflation rate affects the purchasing power of wages received by workers. High inflation rates increase the amount of money required to purchase goods and services, i.e. the wages become insufficient to achieve a basic, but decent life. In Malawi, there is often a difference between the rural inflation rate and national inflation rate. Our analysis references the rural inflation rate, because tea estate workers live in rural areas. We present the trends in rural inflation rate and exchange rate in Figure 1 below.

A downward trend in the rural inflation rate in rural Malawi began in January 2016 and reached 7.6% in October 2017, the lowest rate in the 2014-2020 period. The rate of inflation began to increase again in the early months of 2018 until August 2018 when it began declining. In December 2019, rural inflation rate stood at 14.7%, the highest inflation rate since February 2019. For the past 18 months, the rural inflation rate has been around 10%, with a year-on-year rural inflation rate of 10.2% in October 2020, representing a slight increase from 9.6% in September 2020.

Since January 2016, the MK/USD exchange rate has remained fairly stable. Figure 1 indicates that the exchange rate only depreciated from MK688.89/USD to 736.54/USD from April 2016 to June 2020. The stability in the MK/USD exchange rate can be explained by a steady inflow of foreign reserves, which have been maintained at just above the goal of a three-months minimum import cover. In addition, the kwacha's stability can be explained by the subdued domestic demand for foreign exchange. This is primarily due to structural constraints, including but not limited to the unreliable and inadequate power supply, which has hindered production and reduced demand for foreign exchange to purchase imported inputs. In the past few months, the pressure on the exchange rate increased because the foreign reserves owned by the country seem to be depleting. As such, there has been a small upward movement in the official exchange rate in the past few months. The official exchange rate has moved from MK742 to USD in June 2020 to MK758 per USD in October 2020.

Figure 1: Rural Malawi Year-on-Year Annual Inflation Rate by Month, and Exchange Rate to USD, January 2014 to October 2020⁴



2.2. Unstable Political Environment

Malawi held general tripartite elections on 21 May 2019. The highly contested elections led to conflict and demonstrations and resulted in uncertainty and risks to businesses across urban and rural Malawi. The political environment posed a risk to general prices and exchange rate stability. However, the economy was resilient and both inflation rates and exchange rates were not significantly affected. Following a court ruling on the contested presidential election, the country held a fresh-presidential election on 23 June 2020. Political stability improved after the elections, and the country is once again peaceful. The unstable political environment did not seem to affect the tea sector significantly.

2.3 Emergency of COVID-19 Pandemic

At the height of Malawi's political impasse, the first case of COVID-19 was reported on 3 April 2020. A number of restrictions were imposed by the government to contain the spread of the virus. Despite these, there has been resistance to the government restrictions such that life in most rural areas has been nearly normal. Between mid-August and mid-October 2020, the number of active cases has declined and many restrictions have been eased.

⁴ By the time we were finalising this report, inflation estimates for September and October were not released. We therefore made our calculations based on projections.

Although life is mostly normal in rural Malawi, the tea sector was affected. Interviews with members of the Plantations and Agriculture Workers Union (PAWU) indicated that the PAWU members believed that the pandemic reduced the number of working days for workers, which subsequently reduced wages per month in the process. This resulted in a nearly 50% reduction in PAWU membership. However, as we show later in this report, the reduction in working hours and worker members in the PAWU began prior to the pandemic.





3. Updating the Living Wage

The January 2014 living wage study conducted in rural tea growing regions in Malawi estimated a living wage of MK35,222 per month (and MK1,531 per workday assuming 23 workdays in a month). Due to the high rural inflation rate in Malawi, it was necessary to update the living wage for subsequent years. For this report, the living wage estimates were updated to October 2020 to reflect the rural inflation rate. This ensures that the updated living wage provides for the same basket of goods and services that defines a basic, but decent life.

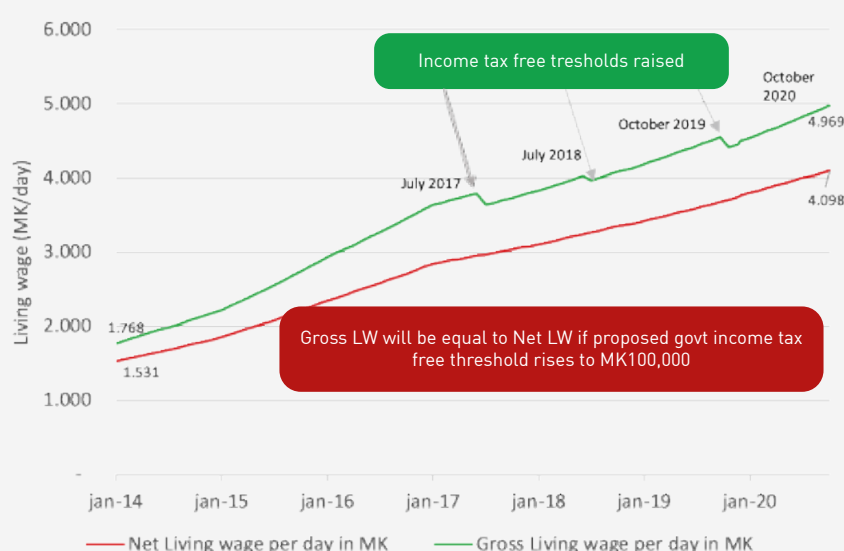
In each calendar year, we updated the living wage to the next January using January year-on-year rural inflation rates. We, then, projected the January living wage to October in that same year by using the average monthly inflation rates for that particular year. This approach helps eliminate the effects of the extreme seasonality in rural inflation rates in Malawi. This means that we updated the January 2014 living wage to January 2020 by using year-on-year rural inflation rates. The January 2020 living wage was updated to October 2020 using the monthly rural inflation rates from January 2020 to October 2020.

Considering January 2014 as a base month with a rural consumer price index of 1, we found that the consumer price index for October 2020 is 2.68, implying that rural prices have almost tripled over less than seven years. As such, the monthly

living wage in January 2014 of MK35,222 (1,531 per day) is, in real terms, equivalent to MK94,256 per month (MK4,098 per day) in October 2020. This updated living wage would purchase the same basket of goods and services as the original January 2014 estimate.

In the initial living wage study, the estimated living wage in 2014 was the net living wage (i.e. take-home pay required), because it was assumed that income taxes would not be paid on such a low wage, even if it could provide for a decent life. Since that time, it has become clear that workers would have to pay income tax if they received a living wage. As a result, we now determine the gross living wage by adding the income tax payment requirement to the net living wage. The gross living wage is the amount that would need to be paid by tea estates to enable workers to pay income tax and still attain a decent life. The estimates for the gross living wage and net living wage are presented in Figure 2, which shows that the gross living wage and net living wage in October 2020 were MK4,969 and MK4,098, respectively. The figure also shows that the gap between gross living wage and net living wage narrowed every time the government increased the income tax-free threshold for workers in Malawi.

Figure 2: Rural Malawi net living wage per workday in Malawi kwacha updated for inflation to maintain the same purchasing power and the gross living wage that includes required income tax on living wage, January 2014–October 2020



Notes: Net and gross living wage per workday assume that there are 23 paid days per month on average (see Anker and Anker 2014 living wage report).

Sources: Malawi National Statistical Office for rural inflation rate. Anker and Anker (2014) for living wage for January 2014.



4. Trends in TAML basic wages

4.1 TAML wages and minimum wages

Between January 2014 and October 2020, the TAML basic wage increased more frequently than the official minimum wage. Figure 3 presents trends in the TAML basic wage and the official minimum wage from January 2014 to October 2020.

Figure 3: TAML basic wage per day compared to rural minimum wage in Malawi kwacha, January 2014 – October 2020





Between January 2014 and July 2015, prior to the Malawi Tea 2020 Programme, the TAML basic wage and the official minimum wage were nearly the same. A gap between the wage rates began emerging in July 2015 when the TAML increased the basic wage from MK560 per day to MK850 per day after signing the Malawi Tea 2020 Programme Memorandum of Understanding (MOU). Since then, the TAML basic wage has been higher than the official minimum wage, which has increased less frequently than the TAML basic wage. Between January 2014 to October 2020, the TAML basic wage was raised eight times while the official minimum wage was raised three times.

Despite increasing less frequently than the TAML basic wage, the increases in the official minimum wage over the last few years have been substantial thereby closing much of the difference between the two wages. For example, in July 2018, the official minimum wage increased by 40% from MK687 per day to MK962 per day. By September 2019, the TAML basic wage was MK1,586, which was 65% higher than the MK962 official minimum wage. In October 2019, the official minimum wage increased 40% more from MK962 to MK1,346 closing the gap with the TAML basic wage to 17.8%, which is much lower than the 65% gap prior to this adjustment. In October 2020, the TAML basic wage was increased to MK1,618 per day bringing the difference between the TAML basic wage and the minimum wage to 20.2%.

There is a proposal in the national budget to increase the official minimum wage to MK1,923 per day. If the proposal is approved, the new TAML basic wage will then be 13% below the official minimum wage. If the proposed minimum wage is passed, this means that tea estates would be required to pay at least the official minimum wage and the two wage rates would converge.

4.2 TAML basic wages in USD

Many factors influence the ability of tea estates to pay higher wages, including the price of tea in USD, the MK/USD exchange rate, local costs in MK, and productivity. Given that the global price of tea is set in USD, the exchange rate directly affects the ability of tea estates to pay higher wages. It was indicated in section 2.1 that the official exchange rate between the Malawi kwacha and the United States dollar has been stable since January 2016.

Figure 4: TAML basic wage in USD, January 2014 - October 2020

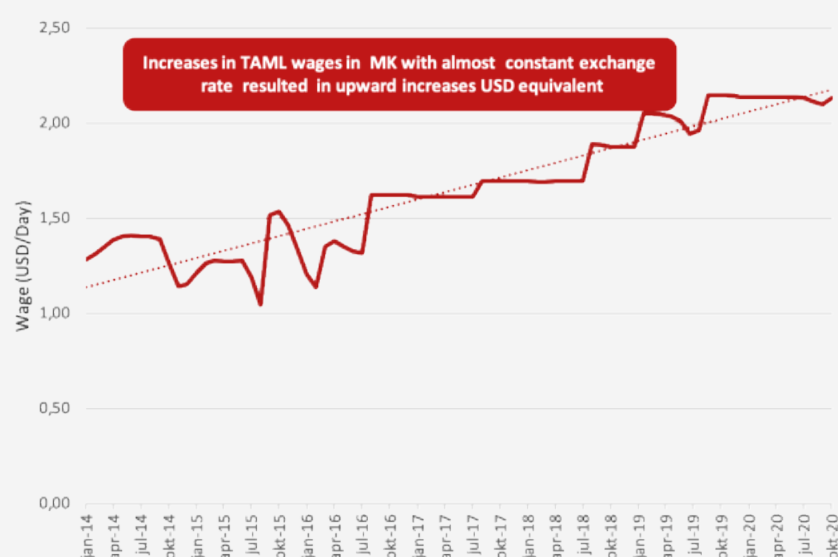


Figure 4 shows that the TAML basic wage expressed in USD has increased fairly steadily since 2014 (see trend line in Figure 4). Given that the MK has been fairly stable against the USD since 2016, increases in the TAML basic wage in MK translated directly into increases in the TAML basic wage in USD.



5. Measuring Prevailing Wage

To measure the prevailing wage of A1 tea workers, we consider the full wage package, which includes cash wage and in-kind benefits. Cash wage is captured in the payroll data provided by the estates. The value of in-kind benefits is assumed to be equal to the tea estates' costs recorded in the financial records that were provided. In the next sections, we describe the nature of the payroll data and the in-kind benefits data we use in this report to measure prevailing wage. It should be stated that this report represents an average for the two largest estates even though there are differences that exist in terms of the practices of these estates and other smaller estates.

5.1 Payroll data used

As it was for the 2018-2019 season, the two largest tea estates provided us with payroll data covering 26 pay periods between August 2019 and July 2020. The first pay date in the data was 3 August 2019 and the last pay date was 19 July 2020, indicating that the data covered the period from mid-July 2019 to mid-July 2020. These data were of acceptable quality, and demonstrated significant improvements in data quality over the past two years. Obvious inconsistencies in the data were identified, and these were cleaned/corrected.

This report reflects the wages of A1 workers who comprise the bulk of tea workers. Labelling of the payroll data provided confirmed that all data submitted represented A1 workers. Looking at the wage rate, we found that 1,230 cases received basic wages that were greater than the TAML basic wage

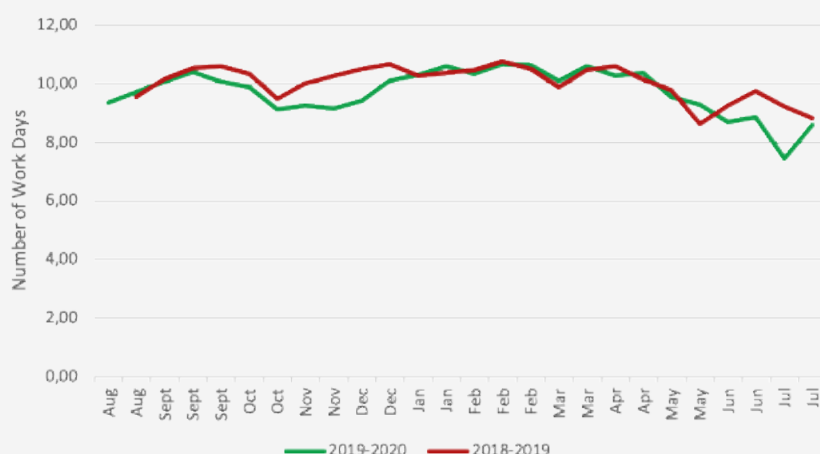
for A1 workers (i.e. were greater than MK1,586). One of the explanations for these cases was that these workers were promoted, but their label in the data was not changed. We therefore removed them from the dataset. We also found that 23 cases received a wage that was lower than the TAML basic wage for A1 workers and these were also deleted from the dataset.

The number of workdays was also checked for consistency. We found that none of the workers worked for more than 14 workdays in a pay period. This reflects positively on the quality of the data. There were only 14 cases where workers were reported to have worked for 14 straight days in any one of the 26 pay periods. Having cleaned the cases, 316,863 remained, and these are the ones we worked with.

5.1.1 Workers and workdays in the payroll data

Improved payroll data provided to the Wages Committee included new information about the amount of time worked and the number of A1 workers per pay period. This enabled us to better explore the working time and pay of A1 tea workers. In Figure 5, we plot the average number of days logged per worker per two-week pay period for the entire 12-month period. This is compared with values in the previous 12-month period.

Figure 5: Number of days logged per worker per two-week pay period for A1 tea workers, 2019-2020 compared to 2018-2019

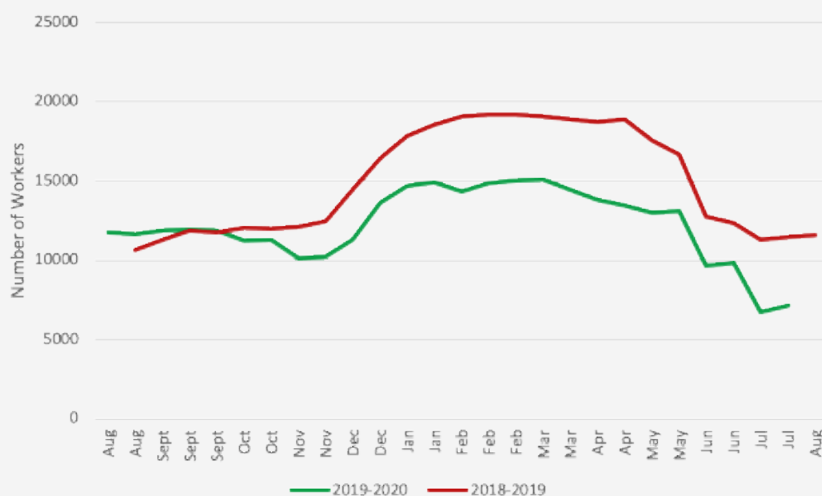




From August 2019 to July 2020, the average number of days worked by A1 tea workers per two week pay period varied between 7.46 days (July 2020) and 10.66 days (February 2020), which is lower than the previous year's range of 8.64 days (May 2019) and 10.76 days (February 2019). The average number of days worked per pay period for the whole year was 9.72 days, which is below the 10.01 days average in 2018-2019. These findings suggest that there was a decline of around 3% in the number of days worked per pay period by A1 tea workers. In terms of seasonal work patterns, the findings indicate similar peak period and slack periods. To explore this further, we looked at the number of tea workers.⁵ In Figure 6, we compare number of workers between 2018/2019 and 2019/2020.

Figure 6 shows that there was a substantial reduction in the number of A1 tea workers between 2018-2019 and 2019-2020. The average number of A1 workers per pay period in 2019-2020 on the two large estates was 12,187, which is 18% lower than the average number of A1 tea workers in 2018-2019 (14,920). This means that the level of employment in the tea estates in Malawi declined over the past year. This was particularly evident in the peak season. Thus, there was both a reduction in the number of workers employed, as well as a smaller reduction in the days worked per two-week period for those employed.

Figure 6: Number of A1 tea workers per two-week pay period in 2019-2020 compared to 2018-2019



⁵ This was estimated by counting all the individuals who were on payroll for the periods.

Members of the PAWU suggested to us that this reduction was due to the effects of the COVID-19 pandemic. We, however, note that this cannot be fully attributed to the COVID-19 pandemic, because tea estates began reducing the number of workers in September 2019, four months prior to the first case of COVID-19 being reported in China, in December 2019. In addition, one of the tea estates indicated to us that they reduced the number of workers because of reduced production.

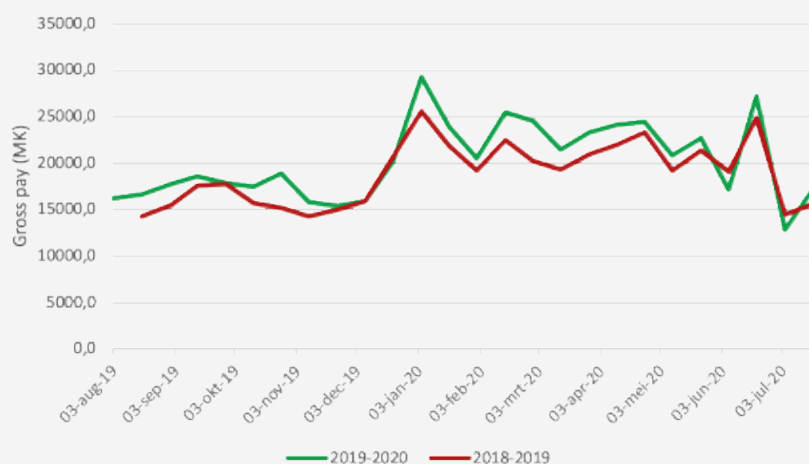
Furthermore, the results show that the seasonal pattern in the level of employment did not change as the two curves share the same shape. More A1 workers are recorded between January and May in both years because this is the peak harvest period, and the estates recruit more workers in this period to meet the work demands.

5.2 Prevailing Cash Wage

We calculated the prevailing cash wage by adding the following components of the payroll data: (i) amount paid for work done based on days worked or tasks performed, (ii) paid sick leave, (iii) paid public holidays, (iv) paid annual leave, and (v) skill allowance. We did not include overtime pay, because it is expected that normal working hours should provide for a living wage.

Figure 7 shows that although A1 tea workers worked for fewer days in 2019-2020 than in 2018-2019, the average gross cash wage in 2019-2020 is higher than the average gross cash wage in 2018-2019. The average gross cash wage in 2018-2019 was MK18,755 per pay period and the average gross cash wage in 2019-2020 was MK20,226 per pay period, representing an 8% increase. During this time, the TAML basic wage increased from MK1,510 per day to MK1,586 per day.

Figure 7: Gross cash pay of A1 tea workers by pay period, 2018-2019 and 2019-2020



5.3 In-kind Benefits

Malawi tea estates provide in-kind benefits to their workers, including meals, housing, school for children, funeral expenses, and medical services. To develop reliable estimates of the in-kind benefits cost to tea estates, we used monthly financial data on costs of benefits provided to us by the two largest estates. These data were supplemented with: (i) results from a focus group discussion with members of the PAWU, and (ii) data from a housing census that was commissioned by TAML.

The focus group discussion was conducted with eight members of the PAWU to further understand how workers value the in-kind benefits provided by the estates. Three women and five men participated. The participants were selected by the PAWU executive committee, and they represented different tea estates from Thyolo and Mulanje.

The monthly financial data from the estates covered the 12-month period from August 2019 to July 2020. This was the primary data we used to estimate the value of in-kind benefits. We estimated the costs to estates separately for each in-kind benefit, and explain how these were derived below.

Before beginning, it is important to keep in mind that when we estimated the cost (or value) of each in-kind benefit, we used the simple average of costs for the two largest tea estates, which sometimes differed substantially by estate. We indicate

below when there is a large difference in the cost/value of an in-kind benefit for these two large estates.

5.3.1 Food costs

All tea estates in Malawi provide workers with the same lunch (maize meal and beans) and breakfast (black tea and sugar). Vegetables are added at least once a week to lunch as per a TAML rule. Before starting with our analysis of meals, it is worth noting that members of the PAWU felt that the quality of the meals they receive is too low to attach a monetary value due to the fact that meals of such low quality are unavailable in the market. However, the estates are still bearing a significant cost for the meals provided to workers, and these meals have considerable calories and proteins. For these reasons (despite the unbalanced nature of meals both nutritionally and esthetically), we consider meals to be a valuable in-kind benefit for workers.

Based on financial data from the two largest estates, MK820,555,925 was spent on meals in the 2019/2020 tea growing season, which translated to MK67,330 per worker per year. If we consider an average of 9.72 workdays per pay period, this means that there were roughly 21 workdays in a month⁶. The average cost per worker per month was estimated as MK5,626. Considering 26 pay periods per year, the cost per worker per workday was MK266.42. This amount is too low for a quality meal in a marketplace and validates the responses of the PAWU, but it is nonetheless valuable to workers as it provides needed calories and proteins.

5.3.2 Medical clinics

Tea estates maintain medical clinics for workers and their families, and this is of significant value to workers. For this reason, it is appropriate to assign a fair and reasonable value for medical clinics in prevailing wages and as partial payment toward a living wage. Members of the PAWU corroborated that the medical services provided by the tea estates help them a lot as government clinics are sparsely located. They also noted that government clinics lack sufficient quantity of medicine and therefore patients who visit government hospitals and clinics

⁶ Number of days in a month were calculated as 365/12. Number of workdays in a month were derived by dividing number of workdays in a month by 14 days per pay period and this was then multiplied by number of workdays in a 14-day pay period



mostly have to buy their medicine. In addition, members of the PAWU indicated that on average, it would cost them MK3,000 in transport to access government clinics.

In 2019/2020, clinics cost the two large estates a total of MK486,423,209. We divided this by the average number of workers over the year (12,187) to arrive at MK39,913.29 per worker per year. We were, however, previously told that approximately 10% of the population that is served by the clinics are not workers or their immediate family members (see 2018 Wages Committee Report), and we assume that the same exists this year. We therefore reduced the annual cost by approximately 10% to MK36,000 per worker. To derive a cost per month, we divided this number by 12 months to calculate the estimated monthly cost of MK3, 000.

5.3.3 Schools

One of the two large tea estates indicated that it continues to provide schools for children on their estates. The other estate indicated that they might construct schools, but that the estate is not currently involved in running schools. The estate with schools provided information on the cost of running school for this report. The cost breakdown to estates for education included school stationery, teachers and support staff salaries, administration, school maintenance costs, and books. To estimate the average cost of running schools per worker, we divided the cost to one estate by the average number of workers per pay period in the two estates. As this is a service provided to the community as well, we assumed that 10% of the school population is children of non-workers. Taking this into consideration, the estimated cost of schools per worker per year was found to be MK2,479, bringing the monthly cost down to MK207. However, this figure is indicative as in reality the actual school cost is roughly double this amount for one large estate and close to zero for the other large estate.

5.3.4 Funerals

The two large estates provided the cost associated with funerals. One estate based their cost on their financial records; the other estate estimated average cost per death and the expected number of deaths. We used the information from the estate that

reported actual cost as representative for both estates, because this cost will vary from year to year depending on the number of deaths that occur in a particular year. In this case, we divided the total annual cost of funerals for that estate by the number of workers for that estate. This resulted in a cost of MK2.67 per worker per day or MK56 per worker per month.

5.3.5 Housing costs

Estimating the value of housing as an in-kind benefit for tea workers in Malawi and including this in prevailing wages, and as partial payment of living wage, is problematic for several reasons:

- Although a clear minority of tea workers live in an estate house, the approach we have taken to estimate the cost and value of estate housing in this, and previous annual reports, uses the average cost of housing per worker to estates (which is a typical approach for valuing in-kind benefits). This means that most A1 tea workers who do not receive the benefit are 'charged' in a sense as they subsidize the housing for the minority of A1 tea workers who live in an estate house. We recognized this issue in previous Wages Committee Annual Reports, and expressed the hope to be able to evaluate housing as an in-kind benefit on a worker by worker basis. Unfortunately, we were not able to do this, because we continue to lack the additional data required to know whether or not each worker lives in an estate house and the quality level of housing. Therefore, we reluctantly decided to continue with the same approach as in previous reports for consistency and because tea estates have been improving housing, and it remains a major cost driver
- The estimated cost and value of housing per A1 worker in this report is affected by the number of workers employed. Thus, in years when the number of A1 workers decreases as in 2019-2020, the cost per worker to estates increases and so the estimated value of housing as an in-kind benefit per worker increases – even though the actual value to workers does not change. This means

that when the number of workers falls, this approach correctly reflects the increased cost to estates per worker, but it does not correctly reflect the unchanged value of housing to workers.

- The number and quality of estate houses we used for our calculations are based on a TAML self-reported housing census. We were unable to verify this information, especially regarding the distribution of housing by quality and in particular the reported increase in the number and proportion of A-quality houses in 2019 compared to 2017. There are several reasons for our scepticism. First, while the total number of A-C quality houses increased in a very believable way from 3,080 in the 2017 TAML housing census to 3,136 in the 2019 TAML housing census, the reported number of A-quality houses increased from 390 to 915, and the number of D houses increased from 203 to 528, both of which seem unlikely in this short time period. Second, PAWU members who we spoke to did not feel that they could distinguish between the quality of estate houses. It could be that the interpretation of the housing standard differed between the 2017 and 2019 housing censuses. Table 1 compares the TAML housing census results from 2017 and 2019.



Table 1: Number of estate houses for A1 workers by house quality for two large tea estates based on TAML censuses of estate housing, 2017 and 2019

House quality	Number of houses	
	2017	2019
A	390	915
B	1,148	962
C	1,542	1,259
D	203	528
Total	3,283	3,664
TOTAL excluding D-quality houses	3,080	3,136

The 2019 TAML housing census report indicates that there were 3,664 houses in the two largest estates, comprising 915 A-quality houses, 962 B-quality houses, 1,259 C-quality houses, and 528 D-quality houses. Given that houses rated D are supposed to be demolished, we removed them from the list which means that according to the 2019 TAML report, there are 3,136 A-C quality houses.

To estimate the cost of housing to estates, we followed the user cost value of housing for owner-occupied housing approach, which is used by statisticians around the world. This approach estimates the depreciation cost of housing and then adds in routine maintenance and repair costs. We followed this approach in part because the data on maintenance and repair costs provided to us by the tea estates did not distinguish between costs for routine maintenance, and repairs and improvements, which are important because of the new TAML policy to improve estate housing. In addition, only one estate provided us with data on maintenance and repair costs.

We started by estimating the monthly depreciation cost of an A-quality house by using information on the cost of constructing a new A-quality house in 2019/2020, and an assumption on its service life expectancy. To derive values for B-quality and C-quality houses, we used their costs relative to an A-quality house, as discussed in our 2018 Wages Report where we determined that a B-quality house is roughly 2/3rds the value

of an A-quality house and a C-quality house is roughly 1/3rd the value of an A-quality house.

To calculate the annual cost of a house to the estates, we considered the depreciation cost and the maintenance cost. Therefore, we needed the cost of constructing a new house, the service life of the house, and the maintenance costs. One of the large estates indicated the estimated cost of constructing a new A-quality house in 2019/2020 at MK5,170,000. We used this figure as the cost of a new A-quality house.

The next step was to estimate the service life of the house and the maintenance costs. These are related, because a house that is well maintained has a longer service life. First, we determined that the service life of a new estate A-quality house was between 35 and 45 years. It is assumed that an A-quality TAML house should have a longer life span than a Habitat for Humanity house, which has a service life of 30 years. For example, as noted in our 2018 report, a Habitat for Humanity house uses wood for window and door frames, which warps quickly in Malawi, whereas TAML A-quality houses use steel window frames. The foundation and the wood beams of new TAML A-quality house are also much better. Our 2018 annual report also noted that 70 years of service life is a typical assumption for high income countries; 50 years for developing countries; and 30 years for a Habitat for Humanity house for Malawi as reported in our original living wage report. For these reasons, we feel that 35 to 45 years of service is reasonable for a new TAML A-quality house (i.e. more than the 30 years of a Habitat for Humanity house, but less than the 50 years of a typical developing country house depending on the amount of routine maintenance and repairs undertaken).

We estimated the depreciation plus maintenance cost of an A-quality house under two scenarios: 45-year service life with 1% maintenance, and 35-year service life with 0.25% maintenance per year. Based on this, we estimated that the monthly depreciation cost of an A-quality house is between MK9,574, i.e. $\text{MK5,170,000}/(45 \times 12)$, and MK12,310, i.e. $\text{MK5,170,000}/(35 \times 12)$. This means that the monthly depreciation cost of a B-quality house is between MK6,383 and MK8,206 while the monthly depreciation cost of a C-quality house is between MK3,191 and



MK4,103. We, then, added 1% of construction cost as annual cost for routine maintenance and repairs (a common assumption) for houses with an expected service life of 45 years, and 0.25% for houses not as well maintained and so with an expected service life of 35 years (MK4,308 and 1,077 respectively). The total monthly cost of housing to estates was then estimated to be MK13,882 and MK13,387, respectively, in these two scenarios for an A-quality estate house. Table 2 indicates results for the 45-year service life scenario discussed above (which is nearly the same as results for the 35-year service life scenario as indicated immediately above).

Table 2: User cost per month of estate housing to A1 tea workers in the two largest estates, 2019/2020

House Category	Number of Houses	Depreciation Cost per month (MK)	Maintenance & repairs per month (MK)	Amount (MK)
A	915	9,574	4,308	12,702,403
B	962	6,383	2,872	8,903,251
C	1259	3,191	1,436	5,825,984
Total				27,431,637

Results in Table 2 show that the monthly cost of housing A1 tea workers for the two estates in 2019/2020 was MK27,431,637 per month. Dividing this by the average number of A1 workers over the year, we find this cost to be MK2,251 per A1 worker per month. However, it is important to note that the two large estates differ greatly in the percent of workers housed on the estate.

Water provided to estate houses

Tea estates also provide water to houses. The cost of providing water includes repairs, chlorine for water treatment, and the cost of operating the water pump. The two largest estates provided data related to the cost of providing water to the houses of workers, although one of the estates only had provision of chlorine as a cost item. The total cost of providing water in the two estates in the year was MK38,729,336. Following the same approach, the cost per A1 worker per month was MK266. This brings the total cost of housing and water to MK2,517.

5.3.6 Total cost of in-kind benefits to two large tea estates

After obtaining individual cost components, the total cost/value of in-kind benefits was aggregated, and this is presented in Table 3. Housing is calculated separately, because it is different from other in-kind benefits because only a minority of A1 workers live in an estate house.

Table 3: Cost of in-kind benefits to estates per worker per month, 2019/2020 and 2018/2019

Item	Cost per month (MK)	
	2018/2019	2019/2020
Food	4,395	5,626
Clinic	2,486	3,000
School	109	207
Funeral	22	56
Sub total	7,012	8,890
Housing		2251
Water		266
Housing + water	1,817	2,517
Total	8,829	11,406

Table 3 shows that the estimated cost of in-kind benefits to tea estates is MK11,406 in October 2020. This is 29% more than estimated for October 2019. Part of the increase was expected due to inflation, but it is uncertain how much of this difference is due to housing improvements and improved data. The largest cost among in-kind benefits is meals, which represent 49% of the total value of in-kind benefit costs. The high proportion represented by meals among in-kind benefits is a cause of concern as most of this enables workers to perform their duties and could be looked at as a cost of production or business expense. Housing represents only 22% of the total in-kind benefits cost, which is due to the fact that a distinct minority of workers lives in tea estate housing. This is despite some tea estates investing heavily to improve the housing for tea workers.

5.4 Prevailing Full Wage of Year Round A1 Worker in October 2020

The prevailing full wage of A1 tea workers is calculated as the summation of the prevailing cash wages, the total monetary value of the in-kind benefits, and gratuity. To estimate the prevailing cash wage of A1 tea workers, the average level of each component was used. In calculating the monthly components of the prevailing wage, we assumed that a full month has 365/12 days. Monthly components were estimated by multiplying the quantities/amounts obtained over a 14-day period by a factor derived from the number workdays in a month divided by 14. The monetary value of in-kind benefits for 2019-2020 is above the 2018-2019 value. Gratuity is received by all workers each year and is calculated as 5% of the total cash wage received.

Table 4: Estimated full pay of A1 workers in tea estates per month in October 2020

Item	Unit	Quantity	Unit rate (MK)	Amount
TAML basic wage workdays and flat kilo days - remunerated based on TAML basic wage	Days	15.84	1618	25,627
Non kilo days – remunerated per unit of output	Days	0.72	1618	1,160
Prorata days- remunerated by activity performed or hours worked	Days	5.13	2825	14,482
Pay for over kilos plucked	Kg	240.64	30.53	7,346
Paid sick days – remunerated based on TAML basic wage	Days	0.11	1618	176
Paid public holidays– remunerated based on TAML basic wage	Days	0.98	1618	1,582
Paid annual leave– remunerated based on TAML basic wage	Days	0.91	1618	1,476
Skill allowance	Lump Sum	2.17	21	45
Sub-total				51,895
Gratuity				2,595
Prevailing cash wage per pay period				54,490
In-kind benefit				11,408
Full wage per month				65,898
Full wage per day				2,783



Results in Table 4 indicate that the full wage (cash wage plus in-kind benefits) per month for A1 tea workers was MK65,898 in October 2020. Cash wages were MK54,490 and in-kind benefits were valued at MK11,408, which represents 17% of the full wage. This shows that in-kind benefits represent a significant contribution to the total wage.

The total paid days of work per month, including paid sick days and paid holidays, from October 2019 to October 2020 was approximately 23.69 days.⁷ Dividing the monthly prevailing full wage by 23⁸ indicates that the prevailing daily wage for A1 tea workers was equal to MK2,783. This is 14% higher than the MK2,446 that was estimated in October 2019. The increase in the full prevailing wage is only slightly higher than the rural inflation rate and the increase in workers' living costs, which implies a minor change in the living standard. One of the sources of the increase in the prevailing wage is the increase in prorate payment which has increased by 18% from 2019. The increase in prorate payment was partly due to the increase in productivity as presented by a 4% increase in kilos plucked per day.

The full prevailing wage represents 66% of the net living wage (MK2,783 compared to 4,189), which is the same as was estimated in October 2019. This represented 55% of the gross living wage as of October 2020 (MK2,783 compared to MK5,099), which is almost the same as the gap in October 2019.

⁷ This is derived by adding all days in Table 3.

⁸ Consistency, we have divided average monthly earnings of workers by a constant 23 workdays per month for all Wages Committee reports.



5.5 Implications of Proposed Increase in Official Minimum Wage

As stated earlier, the national budget under debate as of the writing of this report proposed a revision of the official minimum wage from MK1,346 per day to MK1,923 per day for a 26-day work month. If accepted, this proposal means that TAML would be required to increase its basic wage, which could possibly lead to an increase other cash wage components proportionally to be at least equal to the official minimum wage.⁹ To guide TAML and their stakeholders, the Wages Committee assessed the implications of the proposed official minimum wage on the full pay to A1 workers in this section. We conducted this assessment by introducing a new basic wage and proportionate increase in related forms of pay to the calculation of the full pay. Results are presented in Table 5.

Table 5: Implication of the proposed new official minimum wage on full wage of A1 tea workers

Item	Unit	Quantity	Unit rate (MK)	Amount
TAML basic wage workdays and flat kilo days - remunerated based on TAML basic wage	Days	15.84	1923	30,457
Non kilo days – remunerated per unit of output	Days	0.72	1923	1,379
Prorata days- remunerated by activity performed or hours worked	Days	5.13	3357	17,212
Pay for over kilos plucked	Kg	240.64	36.28	8,731
Paid sick days – remunerated based on TAML basic wage	Days	0.11	1923	209
Paid public holidays– remunerated based on TAML basic wage	Days	0.98	1923	1,880
Paid annual leave– remunerated based on TAML basic wage	Days	0.91	1923	1,755
Skill allowance	Lump Sum	2.17	25	54
Sub-total				61,677
Gratuity				3,084
Prevailing cash wage per pay period				64,761
In-kind benefit				11,408
Full wage per month				76,169
Full wage per day				3,216

⁹ Subsequent to the writing of this report, this new minimum wage proposal was adopted in January 2021.



Table 5 illustrates how the implementation of a new TAML basic wage equal to a higher official minimum wage (along with proportionate increases in related pay such as overkilo pay and gratuity) would increase the full daily wage of A1 tea workers to MK3,216. This would cover 78% of the net living wage, leaving a gap of only 22% (assuming that all related forms of remuneration also increased).

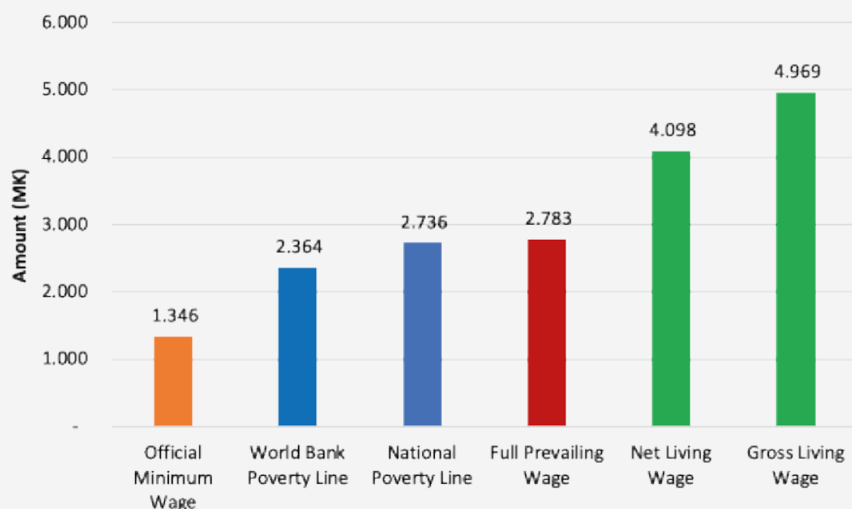
5.6 Wage Ladder

To compare the full prevailing wages of A1 tea workers with other wages, we use a wage ladder presented in figure 8. At the current rate of MK1,346, the official minimum wage is lower than the TAML basic wage. Furthermore, the full prevailing wage (cash wages plus value of in-kind benefits) of MK2,783 is more than double the current official minimum wage, 18% above the World Bank poverty line wage (the wage for a family of 5 with 1.59 workers at this poverty line), and just slightly above the national poverty line wage.

The prevailing wage for A1 tea workers is much lower than the net living wage (MK4,098 per day) and the gross living wage (MK4,969 per day). The full prevailing wage represents 68% of the net living wage and 56% of the gross living wage.

When compared to other benchmarks in the wage ladder, the net living wage and the gross living wage are found to be around 3.0 and 3.7 times higher than the official minimum wage. The gross living wage is roughly twice the World Bank poverty line wage and the national poverty line wage, and the net living wage is around 1.5 to 1.7 times these two poverty lines (estimated assuming a family of 5 with 1.59 full-time workers per family and 23 workdays per month as in the 2014 living wage study report).

Figure 8: Wage ladder for rural Malawi, October 2020 (MK per day)



Notes: National poverty line was updated by inflation to October 2020. Poverty line wages per month were estimated by multiplying the poverty line which is per person by the family size of 5 and dividing by 1.59 full-time workers per family (as these were the values used in original 2014 living wage report). Monthly value was, then, divided by assumption of 23 workdays per month to get wage per workday.

5.7 Gap between living wage and tea wages over time

In previous annual reports, the Wages Committee has assessed how living wage gaps have changed over the course of the Malawi Tea 2020 Programme using the ratio of the full prevailing wage to gross living wage, and the ratio of full prevailing wage to net living wage. It should be noted that the higher the ratio, the narrower the living wage gap and the better the situation. We continue with this approach in this year’s annual report, and the results are presented in Table 6 and Figures 9 and 10.

Table 6: Ratio of full prevailing wage of A1 tea workers to the living wage, January 2014 to October 2020

Date	Event	Ratio prevailing wage to gross living wage	Ratio net prevailing wage to net living wage
Jan-14	Living wage study	0.53	0.58
Oct-14	Baseline	0.45	0.52
Jul-15	Malawi 2020 MOU	0.39	0.46
Oct-15	One year after baseline	0.49	0.59
Aug-16	First CBA	0.51	0.63
Oct-16	First Wages Committee report	0.50	0.61
Aug-17	Mid CBA and tax threshold increase	0.53	0.63
Oct-17	Second Wages Committee report	0.52	0.62
Aug-18	Second CBA and tax threshold increase	0.56	0.65
Oct-18	Third Wages Committee report	0.54	0.64
Oct-19	Fourth Wages Committee report	0.56	0.66
Oct-20	Final Wages Committee report	0.56	0.68

The table and figures show that there has been an improvement in A1 tea worker wages relative to the living wage – that is, the proportion of the living wage that is paid has increased more quickly than inflation since October 2014 when the baseline for Malawi Tea 2020 was established.¹⁰

The October 2014 baseline report found a 0.52 ratio of net prevailing wage to net living wage representing a 48% living wage gap (i.e. 100%-52%). As of October 2019, this gap had fallen to 34% (i.e. 100%-66%). The net living wage gap in October 2020 stands at 32% (i.e. 100%-68%). This means that the net living wage gap narrowed by 2 percentage points in the past year. Over the course of the Malawi 2020 Programme, the net living wage gap narrowed by 16 percentage points (i.e. 68%-52%), which means that 33% (i.e. 16%/48%) of the gap to a net living wage has been closed.

¹⁰ This baseline was set as the midpoint between the time of the original living wage study in January 2014 and the start of the Malawi Tea 2020 Programme in July 2015.

As expected, the pay needed to achieve a gross living wage (i.e. a living wage that includes income taxes that would need to be paid) was higher than the pay needed to achieve the net living wage (i.e. what workers need as take home pay to afford a basic, but decent life in rural Malawi). The difference between the gross living wage and the prevailing wage narrowed by 11 percentage points (i.e. 56%-45%), which meant that 20% of the gap to a gross living wage was closed during the Malawi Tea 2020 Programme (i.e. 0.11/0.56).

Figure 9: Trends in the ratio of full prevailing wage of A1 tea workers to net living wage, January 2014–October 2020

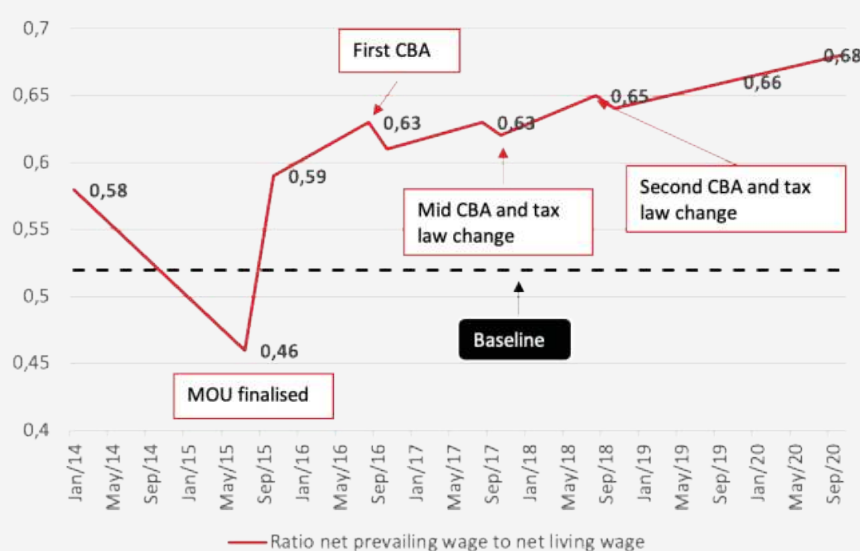
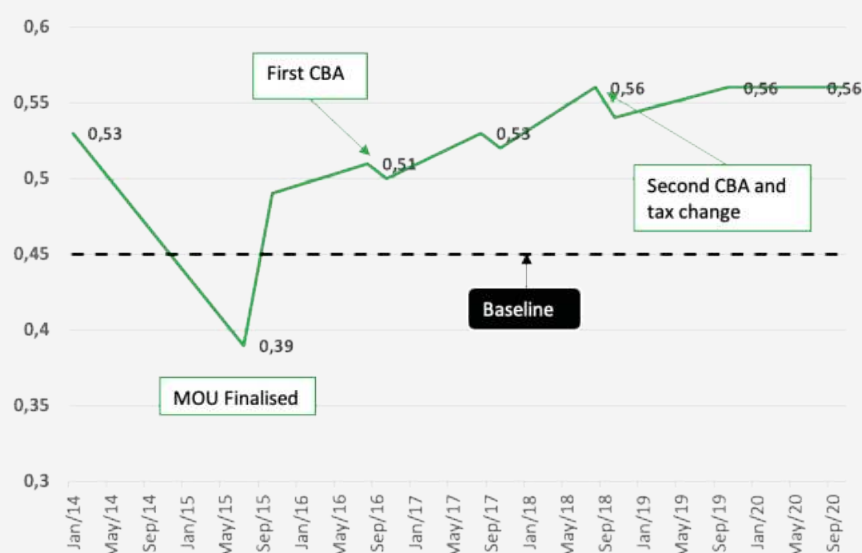


Figure 10: Trends in the ratio of full prevailing wage of A1 tea workers to gross living wage, January 2014–October 2020



¹⁰ However, as noted previously, when the government increased the tax-free income tax threshold to MK100,000 per month in November 2020, the gross living wage became equal to the net living wage.



Summary and Conclusions

This is the final Malawi Tea 2020 Wages Committee Annual Report and marks the end of the Malawi Tea 2020 Programme: Towards a Living Wage. It is important to keep in mind that Malawi is a country with very high levels of poverty and limited job opportunities. Tea estates are an important source of employment, and crucial to the welfare of families in Southern Malawi.

The original Living Wage Study for the Malawi Tea Sector in 2014 estimated the living wage to be MK1,531 per day (based on 23 workdays per month) in comparison with the TAML basic wage, which was MK560 per day. As of October 2020, the net living wage was estimated at MK4,098 per day versus the TAML basic wage of MK1,618. This means that the TAML basic wage has come to represent 39% of a living wage in 2020 from 37% in 2014. During this period, the net living wage grew by 268% due to inflation. The TAML basic wage increased by 189%, indicating that the increased TAML basic wage was unable to keep pace with the rural inflation rate.

At the time of writing this report, income tax needed to be paid on a living wage and so it was necessary to add this to the net living wage (i.e. take-home pay required) to arrive at a gross living wage, or the wage that estates would need to pay workers to pay the required income tax and still attain a decent livelihood. This was estimated at MK4,969 per day in October 2020.

In October 2020, the full prevailing wage per day for A1 tea workers is estimated at MK2,783. This includes the estimated value of in-kind benefits provided by tea estates (meals, clinic, housing, funeral, school), which contribute 17% of the full wage with meals representing the largest proportion of in-kind benefits. Considering the October 2014 baseline used to evaluate the Malawi Tea 2020 Programme, the ratio of the full prevailing A1 wage to net living wage was 52%, representing a 48% wage gap (i.e. 100% - 52%) between the prevailing wage and the net living wage established in October 2014. By October 2020, this gap had fallen to 32% (i.e. 100% - 68%). This means that 33% of the gap to net living wage has been closed (i.e. $(0.48-0.32)/0.48$) since the October 2014 baseline was established. This should be considered as a major gain



to A1 workers. The ratio of prevailing wage of A1 workers to gross living wage increased from 45% of the baseline living wage to 56% in October 2020, indicating that 20% of the gap to gross living wage (i.e. living wage) had been closed. The difference in the performance of Malawi Tea 2020 for net living wage compared to the gross living wage is due to the impact of income tax requirements.



Wages for A1 tea workers expressed in USD increased in the past year, as well as throughout the life of the Malawi Tea 2020 Programme, owing to the stability of the USD/MK exchange rate and the increasing tea wage in MK. Although this increase in wages in USD is not of direct consequence to tea workers, it is of direct consequence to tea estates that sell their tea in USD. It is possible that this upward trend in tea wages in USD may fumble due to a possible weakening of the MK against the USD in the future.

The achievements of the Malawi Tea 2020 Programme have been made against the backdrop of a difficult macro-economic environment for tea estates. Inflation continued to be high at around 9% last year. The MK/USD exchange rate has been stable for a good part of the period, which has created

challenges for the tea industry as expenses in MK increase. The exchange rate has been weakening the past few months and this is expected to continue. Tea prices on the international market have continued to be weak in 2020. Energy supply is likely to be problematic in the future due to low water levels on the Shire River, which produces hydroelectricity, despite improvements in 2018 and first half of 2019 due to heavy rains and the Malawi-Zambia interconnection, which added about 20 Megawatts of electricity to the main grid.

In summary, the gap to the net living wage did not narrow in the past year, however, over the life of the Malawi Tea 2020 Programme, there has been significant progress in closing the living wage gap (especially early on in the Programme). The average full wage package of A1 workers increased from 52% of the net living wage to 68%. This means that 33% of the gap to the net living wage was closed during the course of the project. The reduction in the gap for the net living wage represents an increased purchasing power of the wages of workers.

The gap to the gross living wage, which includes required income taxes, depends to a great extent on tax rates. This has fluctuated considerably over the duration of the project. As of October 2020, the average prevailing wage of A1 tea workers went from 45% of gross living wage at the baseline to 56%, but with the new tax exclusion brackets rolled out in November, the prevailing wage will be 68% of the gross living wage. This means that while the ultimate goal of achieving a living wage by 2020 was not achieved, the Malawi Tea 2020 Programme has made significant progress. And this progress is, in our opinion, impressive given the difficult macro environment facing tea estates in Malawi. This includes high inflation rates, seemingly overvalued currency, energy problems, poor infrastructure, climate change, and the impacts of COVID-19. It is clear that more needs to be done and for this reason we recommend that tea estates establish an independent system for monitoring and auditing future progress.



Annex A: Effect of income tax policy on living wage, tea workers' take-home pay, and living wage gap, August 2020

1. Background

When the first living wage study was conducted in rural Malawi in 2013 (Anker and Anker 2014), it was assumed that there were no mandatory income tax deductions from A1 tea workers that needed to be considered when estimating take home pay required for a living wage. This assumption was made because the wages for A1 tea workers were so low that one could not expect workers would be required to pay income tax. But it was noted in the 2016 Wages Committee Annual Progress Report that A1 tea workers were indeed paying income tax even though their wages were very low.

Based on this observation, the Wages Committee of the Malawi Tea 2020 Programme began to include the effects of income tax in its annual Wages Committee Reports and this led to differentiation between the gross living wage and the net living wage. The gross living wage is defined as the earnings required for a worker to support their family and attain a decent life, as well as meet income tax obligations. The net living wage is defined as the earnings a worker needs, after meeting tax obligations, to support their family and attain a decent life. In the final year of the Malawi 2020 Programme, the Wages Committee decided to conduct a systematic assessment of the effects of tax policy on the wages of A1 tea workers in Malawi. This assessment is presented in this annex.

2. Trends in Income Tax Policy Changes

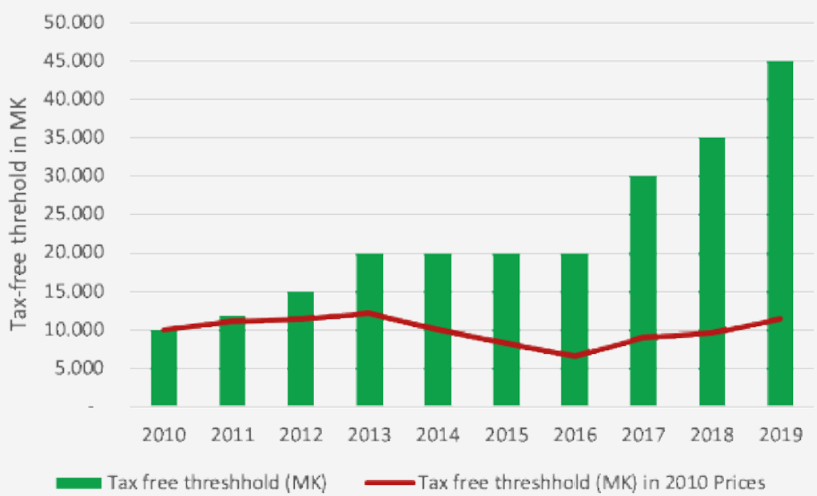
Malawi uses a Pay As You Earn (PAYE) method of collecting income tax from employees on their earnings. Taxes are deducted from wages by the employer when wages are paid, which could be weekly, fortnightly, or monthly, hence the name Pay as You Earn.

A progressive tax policy is used so that high-income individuals pay higher rates than low-income individuals. Following this progressive tax policy, the income tax rates as of October 2020

in Malawi are as follows: the first MK45,000 per month is taxed at 0%; the next MK5,000 per month is taxed at 15%; the next MK2,950,000 is taxed at 30%; and excess of MK3,000,000 per month is taxed at 35%.¹²

Over the years, there have been substantial increases in the 0% income tax bracket. To assess the effective increase in purchasing power, we converted the tax-free threshold to 2010 prices by using inflation rates.¹³ Figure A1 indicates the income tax-free threshold before taxes are assessed for 2010-2019.

Figure A1: Monthly income tax-free threshold for Malawi, 2010-2019



As can be seen in figure A1, low-income individuals have been regularly paying taxes in Malawi. In 2010, workers who received more than MK10,000 per month were paying income taxes. The tax-free threshold steadily increased until it reached MK20,000 per month in 2013 and stagnated at that level for four years. Substantial increases in the tax-free threshold began again in 2017 when there was an increase from MK20,000 to MK30,000 per month representing a 50% increase. This was increased further in the 2018 to MK35,000 per month (16.67% increase) and in 2019 to MK45,000 per month (28.57% increase). Note that at the time of writing this report, there was a proposal under consideration by the government to increase the tax-free bracket to MK100,000 per month, a 122% increase. These changes reflect the country's desire to increase the disposable income of low-income earners.

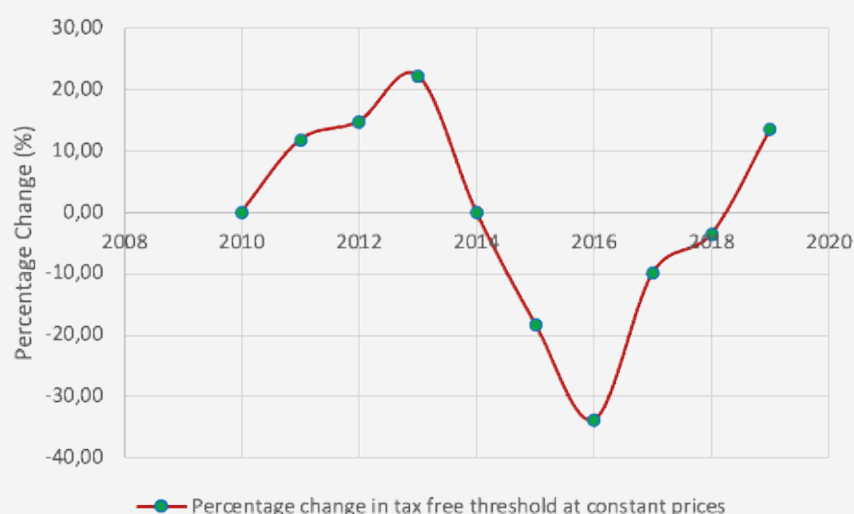
¹² As indicated in the report, these tax rates were changed after the report was written, on November 2, 2020.

¹³ We used the national inflation rate reported by the Reserve Bank of Malawi as the tax policy is not regional specific. We used July as a reference month as the tax policy is mostly implemented at the beginning of a fiscal year on 1 July of the year.

Turning to values in 2010 prices, figure A1 shows that the income tax threshold hardly changed in constant prices between 2010 and 2019 because consumer prices increased by about 296%. This shows that much of the 350% increase in tax-free threshold until October 2020 (i.e. from MK10,000 to 45,000) was eroded by the high inflation rate. The analysis shows that the October 2020 tax-free threshold was only 13% higher than it was in 2010 when we use constant prices.

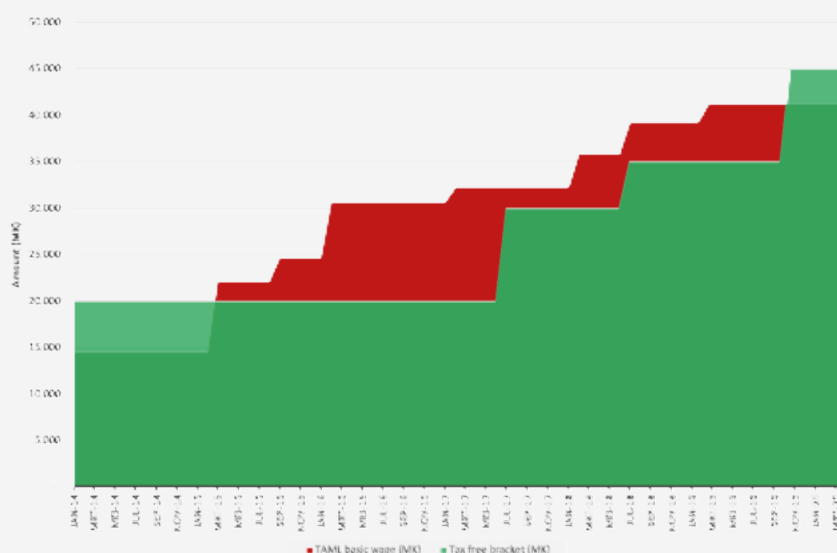
Figure A2 presents the rate of change in constant tax-free threshold relative to the 2010 threshold. The figure shows that real increases in tax-free thresholds were implemented between 2010 and 2013, but the increases in tax-free threshold between 2013 and 2018 were eroded by extremely high inflation rates. The real values during this period were lower than in 2010 when we consider these in constant terms. From 2014, the only meaningful increase is the one that was implemented in 2019, which put the threshold at 13% higher than it was in 2010 in constant prices.

Figure A2: Percentage increases in constant price income tax-free threshold relative to 2010 tax-free threshold



In Figure A3, we compare the TAML basic wage and the income tax-free threshold to show the tax burden of low-income earners. We use 26 workdays to calculate monthly wages. Although workers receive other benefits in the form of in-kind benefits, the comparison below ignores them because in practice, these are not taxed, although according to the law they are supposed to be taxed. We also know that workers receive other bonuses such as over-kilo payments which are taxed, but we also ignore them at this stage for simplicity.

Figure A3: Comparing trends in monthly income tax-free bracket and monthly basic TAML wage, 2014-October 2020



In figure A3, A1 tea workers receiving the TAML basic wage are paying income taxes when the red area is higher than the green area and they are not paying when the green area is higher than the red area. The results show that before September 2015, A1 tea workers who were only receiving the TAML basic wage were not paying income taxes. A1 tea workers earning the TAML basic wage began paying income taxes when the TAML basic wage was raised to MK850 per day (MK22,100 per month based on a 26-day month) in October 2015. This shows that part of the wage increase was taken up by taxes. This has been the case from that time to October 2019 when the tax-free bracket was raised to MK45,000. This surpassed the TAML basic wage of MK41,236 (i.e. MK1,586 per day).

3. Challenges of Implementing the Pay as You Earn Income Tax for Tea Workers

Much of the work performed by A1 tea workers is seasonal which means that their productivity and earnings are also seasonal. In this case, the PAYE approach together with the progressive tax code causes a problem for these workers since taxes are paid on the implied annual income of earnings each two weeks (i.e. as if annual income is 26 times earnings in each two week period). During peak season, most A1 workers earn much more than they do during slack season. This means that if they earn more than the fortnightly income tax-free threshold amount during peak season, they are taxed – even if their annual earnings are less than the annual threshold over the year.

We use 2018-2019 payroll data to illustrate this point. We only analyzed payroll data for A1 workers who had a national identification number in the database because we were able to trace their annual earnings. This gave us a total of 21,261 workers whose average annual earnings were equal to MK351,804; the average annual income tax paid was MK29,194. Dividing the annual earnings by 12, we obtained the average monthly earnings of MK29,317, which is lower than MK35,000, which was the tax-free threshold in 2018-2019 financial year. In this case, the results show that A1 tea workers who were on average not supposed to pay income tax did so because of the seasonality of the tea estate work and related earnings. Taking this approach, we found that out of 21,261 workers, only 18% were eligible to pay taxes, but 93% paid taxes. This means that about 75% of tea workers paid income taxes when their annual income was lower than the tax-free threshold. In terms of tax refunds, we found that only 5% received tax refunds, which means that about 70% of A1 tea workers (i.e. 75% less 5%) paid taxes when they were not supposed to. Note that our earlier discussions with the tea estates revealed that their efforts to have income taxes paid at the end of the year to prevent this issue did not yield the expected outcome. Filing for tax refunds involves a lot of paperwork for the tea estates and most of the workers do not have the capacity to file for the refund from the Malawi Revenue Authority on their own. In the end, it is the workers who lose out from this implementation challenge.

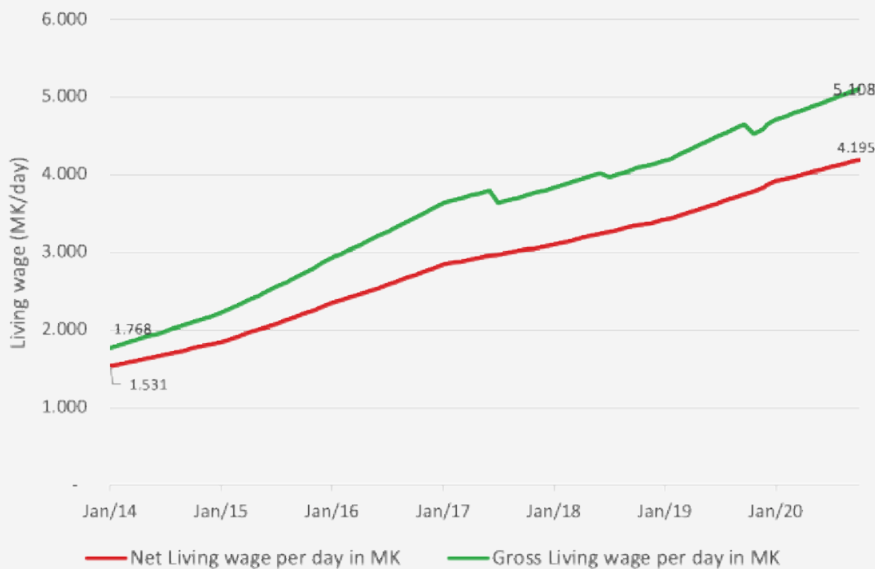
4. Effects of income taxes

Income tax has a number of adverse effects on achieving the living wage target. First, income tax increases the amount of money tea workers need to be paid to achieve a living wage without necessarily improving the welfare of tea workers. It is easier to persuade companies to pay a higher wage to workers if they feel that all of the additional wage directly benefits workers. When a large proportion of additional wages does not benefit workers directly, companies are more reluctant to increase wages toward a living wage. In addition, income tax reduces the net take home pay of workers. These points are explained below.

4.1 Income taxes increase the living wage

Income tax increases the amount required to achieve a living wage. Figure A4 indicates the net living wage (i.e. take-home pay required for a decent livelihood) and the gross living wage (i.e. net living wage plus taxes) from January 2014 to June 2020. As of January 2014, the net living wage was originally estimated to be MK1,531 per workday. The MK1,531 in January 2014 is, in real terms, equivalent to MK4,195 per workday in October 2020 taking into consideration the amount of inflation in rural Malawi between January 2014 (study date) and October 2020. However, tea estates needed to pay MK5,108 in October 2020 to enable the workers to achieve a living wage. In January 2014, tea workers needed MK1,768 per day to attain living wage instead of MK1,531 because of tax payment obligations. This shows that the living wage is higher when income taxes are included. Figure 4 also shows that when the income tax threshold is increased, the gross living wage decreases on account of a reduction in income tax payable. This means that tea companies would more easily be able to pay a living wage if workers were not required to pay income taxes.

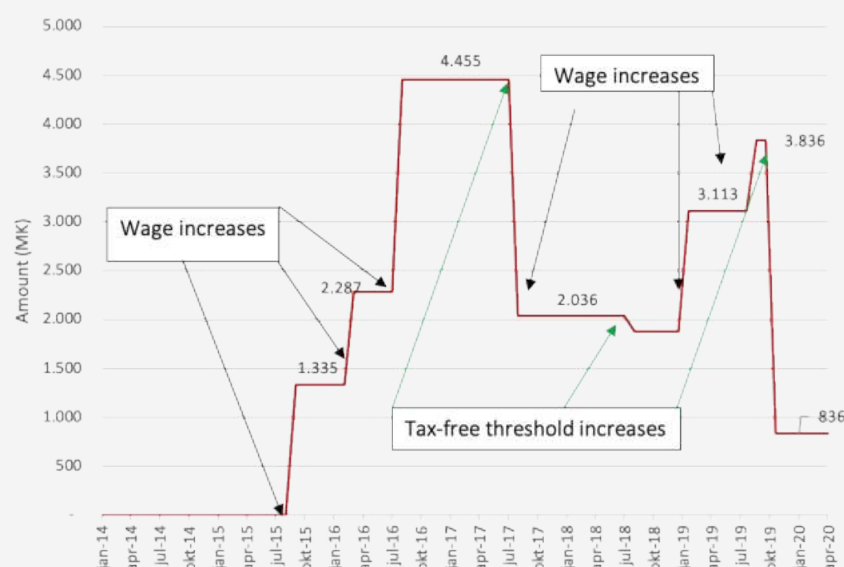
Figure A4: Gross living wage and Net living wage, January 2014 to October 2020



4.2 Income taxes reduces take home pay and invalidates some of the gains from wage increases

High taxes evidently imply lower net wages. To illustrate this point, we use Figure A5, which illustrates the period from January 2014 to June 2020. This chart shows the amount of income tax typical A1 workers would pay when their cash wages were 31% above the TAML basic wage to account for the over-kilo pay of tea pluckers.

Figure A5: Monthly income tax on average wages of A1 workers between January 2014 to June 2020



A1 tea workers did not need to pay income tax in 2014. In October 2015 with major wage increases, A1 tea workers began paying income tax. Just before the first 2016-2018 CBA, income taxes paid by typical A1 workers were high at MK1,335 per month. With the July 2017 increase in the income tax-free threshold, the amount of income tax fell considerably. In January 2019, workers experienced about a 9% increase in wages. Similarly, the further 5% increment in wages in August 2019, without any change in tax regime, resulted in an increase in taxes paid by A1 workers. However, the increase in income tax-free bracket that was enacted in October 2019 from MK35,000 to 45,000 reduced the amount of income tax that A1 tea workers needed to pay. This increased their take home income and their welfare.¹⁵ Summary and conclusions.

Malawi uses a pay as you earn (PAYE) approach to income taxes and the tax rates are progressive. Despite the progressive nature of the tax rates, this report shows that the tax-free threshold has been very low to the extent that A1 tea workers, who earn less than the living wage, are being taxed, which widens the gap between actual wage and living wage. Additionally, the efforts by the Tea Association of Malawi Limited (TAML) to raise wages within the Malawi Tea 2020 Programme have been undermined as roughly 15% of the increase incorrectly goes to income taxes. This annex has illustrated that the use of the PAYE approach puts workers – especially seasonal workers who earn the bulk of their income in the peak harvest season – at a disadvantage. Further to that, we have shown that increases in the tax-free threshold by government authorities does not necessarily yield welfare

¹⁵ It is important to note that the increase in the income tax-free bracket on November 2, 2020 from MK45,000 to MK100,000 per month is likely to bring almost all A1 workers within the tax-free zone and thus significantly improve the welfare of tea workers and reduce the living wage gap.

improvements for tea workers due to high inflation rates. Improving welfare requires that the rate of increase in the threshold exceeds the inflation rate.

These findings show that there is a need to make the tax-free threshold large enough to enable low earners to attain a decent livelihood. The government's increase to a MK100,000 tax-free threshold (which was enacted on November 2, 2020) would help to achieve this – but we would want this value to be adjusted for inflation in the future and adopted as a matter of policy. This report shows that this jump in the tax-free threshold to MK100,000 will have a big effect in reducing the living wage gap for A1 tea workers.



