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Developed by the Ministry of Industry and Trade
PO Box 30366
Lilongwe 3
Malawi
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<td>United Nations Economic Commission for Africa</td>
</tr>
<tr>
<td>UNICEF</td>
<td>The United Nations Children’s Fund</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
<tr>
<td>YEDF</td>
<td>Youth Enterprise Development Fund</td>
</tr>
</tbody>
</table>
Annex 6 – Action Matrix for Priority Area 3:

Supportive Economic Institutions

This Annex presents prioritised capacity development interventions for critical organisations that shape the productive base of the economy, and hence determine Malawi’s export capacity. This is Focus Area 3 of the National Export Strategy. For a number of institutions, this document makes a reference to relevant sections in Annexes 5 and 7, because the actions to develop the capacity of many institutions are closely tied to the actions they are required to perform under the Focus Areas 2 (Conducive Environment) and 4 (Access to Skills) of the NES.
Annex 6 - Contents

Central Government Role ................................................................. 15
Development Partner Role ............................................................. 16
It is essential that capacity development efforts are tied in to these actions for sustainability purposes. As discussed in Annex 1 of the NES (the Implementation Plan), the critical factors required to develop capacity in key agencies in a sustainable and permanent manner are:

1. **Genuine** prioritisation by central Government;

2. **Appropriate** support by development partners based on the reality of existing institutional capacity and not based on the expectations of development partners. Support mechanisms such as shadowing and mentoring are strongly recommended, together with the terms of references of technical assistants being focused on capacity development of local staff rather than solely on technical outcomes;

3. **Investing for long-term, permanent gains** and through not short-sighted, ineffective capacity-building mechanisms; and

4. **Proper understanding** of where an institution is coming from, where it lies on its development path and what it requires to meet its mandate in supporting the emergence of the productive base of the economy, and hence Malawi’s export capacity.

5. **Tie institutional development to the NES priority clusters** so that the limited human and financial resources available are focused on supporting clusters that have the potential to drive export growth. Such a direction, focus and targeted approach is also essential to increase the odds of permanent capacity development.

To secure these critical factors, there will first be a capacity needs assessment with genuine support from the institution relative to their mandate under the National Export Strategy and Trade, Industry and PSD Joint Sector Strategy. These mandates are summarised in Section 3.4 of the main document of the NES and in Annex 11. Specific actions for the institutions are provided in Annexes 5, 6 and 7 for institutional development and Annex 2, 3 and 4 for actions specific to the prioritised clusters. The capacity needs assessment will be overseen and driven by the relevant Technical Working Group of the Trade, Industry and PSD SWAp.

The capacity needs assessment should aim to detail number of staff required and ideal budget size, relative to scope of mandate. This assessment should not be a cumbersome exercise and it should build on any recent assessments and institutional reviews. Where no recent assessment has been conducted, it may need to be more detailed. Such is the case with the Department of Agricultural Extension Services for example.

Once this capacity needs assessment is complete it is essential for there to be a clear and strong government role and a supportive development partner role. If the central government role (as opposed to merely the targeted institution) is not being fulfilled, development partners should significantly taper down their support.

### Central Government Role

- Ensure genuine prioritisation in policy documents and cabinet meetings.
- Ensure effective, dynamic and passionate leadership of the institutions.
- Ensure a scaled increase in the budget resources for staff numbers and operational expenses as called for in the respective capacity needs assessments.
- Assign the following levels of priority:
  - **Top Priority Organisations and Departments:**
    - Ministry of Industry and Trade
    - Malawi Investment and Trade Centre
    - Small and Medium Enterprise Development Institute
    - Malawi Bureau of Standards
    - Department of Agricultural Extension Services and Human Resources in the Ministry of Agriculture and Food Security
    - Technical, Entrepreneurial and Vocational Education and Training Authority
    - Ministry of Labour
    - Ministry of Economic and Development Planning, Real Sector Policy Analysis
    - Departments of Planning in various Ministries, such as the Ministry of Industry and Trade, Ministry of Education, Science and Technology and Ministry of Agriculture and Food Security, Ministry of Irrigation and Water Development
    - Ministry of Lands and Housing, Departments of Land, Physical Planning, Policy and Planning and Surveys
    - Financial Sector Policy Unit
    - Micro-finance Department, Reserve Bank of Malawi
    - Warehouse Receipts Department, Reserve Bank of Malawi
    - Department of Cooperatives
    - Department of Irrigation
  - **Second Tier Priority Organisations and Departments:**
Departments:
- Export Development Fund
- Department of Energy
- Ministry of Justice
- Ministry of Agriculture and Food Security
- Secondary, TEVET and Higher Education Departments, Ministry of Education, Science and Technology
- Competition and Fair Trade Commission
- National Statistics Office
- Third Tier Priority Organisations and Departments:
  - Reserve Bank of Malawi
  - Malawi Industrial Research and Technical Development Centre
  - Greenbelt Initiative
  - Directorate of Registrar General
  - Malawi Revenue Authority
  - Department of Immigration
  - Public Private Partnership Commission
  - Commercial Court

**Development Partner Role**

One development partner will assume a support role for each prioritised institution. The support role is a delicate one that needs specific attention. It is not about engaging consultants and sitting back. Rather it is all about development partners building a long-term constructive relationship with the management and staff of the institution and to facilitate tailored mentoring, shadowing and support programmes for key departments and staff in a way that they ensure knowledge transfer and the development of departments. It is about building the capacity of the departments and the institution, rather than about delivering a deliverable on a TOR.

There is no single way to provide such support, so the development partner and the institution will need to work out the appropriate mechanisms based on the objective of long-term institutional development. It must be based on the principle that support for and engagement with an institution will be provided at the pace of the institution and not at the pace of the development partner. It requires patience and an adjustment of expectations to the absorptive capacity of the institution. Another key principle is that institutional development is all about human capacity. Infrastructure, cars and computers are secondary. Development partner support needs to take into account competencies and skills relative to time available for staff to work to their TOR. Often staff have the necessary competencies and skills to meet their TOR but do not have the time to do so as they get taken up in day-to-day administrative duties and fire fighting. Recent capacity building programmes have failed because it has not adequately taken into account this factor. The number of skilled staff per function is important and needs to be adequately accounted for, which is why the central government role is fundamental.

Support could include management advisory, support for resource advocacy, staff mentoring and shadowing, demand-driven tailored courses and demand-driven tailored technical advisory whose objective is capacity building not merely box-ticking. Infrastructure support should then be provided where the costs are too high for the government to bear (such as with the Malawi Bureau of Standards) or where infrastructure is critical for the development of the organisation. It is important to note that the critical factor for institutional development is not infrastructure, but rather it is local human capacity.

The key factor is that services by development partners are demand driven and that there is adequate backing by central government to the management and resourcing of the institution. Where there is a sense that there is official support for an institution but it has not yet translated into a commitment to resourcing and management staffing, then development partners should tailor their support appropriately. In such cases it is essential to lower expectations for the pace at which an institution’s capacity can be developed and work with existing staff and management to make a case to central government for the legal, financial and human resource commitment required to kick-start the development of the organisation.

Another key principle is that development partners should not merely provide consultants as technical assistants and then sit back, checking only where the consultant has ticked the boxes of their TOR. They need to be engaged and ensure that the consultant is transferring knowledge, has the flexibility to adapt their TOR where needed and truly cares about the development of the target staff, unit or department. Part of this is developing TORs that prioritise knowledge transfer, mentoring and shadowing. The development partner then has to ensure that these factors are enabled by the institution, so that target staff are allowed adequate time to work with technical assistants.

Such support should ideally be provided as a central component of development partner projects and should be focused on the NES priority clusters, in order to ensure the focus of limited resources on areas that can provide Malawi with the highest growth and development returns.

The strategy is set out below.
## CROSS-CUTTING EXPORT ENABLER STRATEGY

### 2. EFFECTIVE ORGANISATIONS THAT SHAPE ENVIRONMENT TO BUILD THE PRODUCTIVE BASE OF THE ECONOMY

<table>
<thead>
<tr>
<th>Code</th>
<th>Organisation and Activity</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>2.1</strong> Policy Coherence and Focused Coordination under MGDS to develop Productive Base of Economy</td>
<td></td>
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<tr>
<td>2.1.1</td>
<td>Establish core stakeholder group to ensure implementability of NES</td>
<td>Private Sector</td>
<td></td>
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<tr>
<td>2.1.2</td>
<td>Review MGDS II to include priority NES clusters and priority cross-cutting issues (these are in line with the PSD Strategy and Policy)</td>
<td>MEPD</td>
<td>OPC</td>
<td>MoIT</td>
</tr>
<tr>
<td>2.1.2</td>
<td>Ensure Real Sector Policy Analysis Section prioritises implementation of productive sections of MGDS</td>
<td>MEPD</td>
<td>DPSM, MoF</td>
<td></td>
</tr>
<tr>
<td>2.1.3</td>
<td>Ensure Real Sector Policy Analysis Section is adequately staffed, trained and mentored, and is allowed to spend all its time on implementation work, and not on administrative work of other departments</td>
<td>MEPD</td>
<td>DPSM, MoF</td>
<td></td>
</tr>
<tr>
<td>2.1.4</td>
<td>Expedite Trade, Industry, PSD SWAp built on NES development phase framework. Ensure clarity of roles and a comprehensive organogram for stakeholder collaboration under the Swap.</td>
<td>MoIT</td>
<td>DPSM, MoF</td>
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<tr>
<td>2.1.5</td>
<td>NES Steering Committee to transition, with additions to Sector Working Group</td>
<td>MoIT</td>
<td>DPSM, MoF</td>
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<td>2.1.6</td>
<td>Ensure linkages with ASWAP, ESWAP, Financial Sector Working Group and others</td>
<td>MoIT</td>
<td>DPSM, MoF</td>
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</tr>
<tr>
<td>2.1.7</td>
<td>Establish Dedicated Secretariat to serve as full-time secretary and coordinator of the Trade, Industry and PSD SWAp</td>
<td>MoIT</td>
<td>DPSM, MoF</td>
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<td>2.1.8</td>
<td>EIF to be based off of the Trade, Industry and PSD SWAp</td>
<td>MoIT</td>
<td>DPSM, MoF</td>
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<td>2.1.9</td>
<td>Adopt NES as base strategy to guide the Trade, Industry and PSD SWAp Joint Sector Strategy</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
</tr>
<tr>
<td>2.1.10</td>
<td>Link NES Institutional Framework as permanent structure within MGDS</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
</tr>
<tr>
<td>2.1.11</td>
<td>Recognition by MGDS of criticality of NES Institutional Framework and SWAp to building productive base of the economy and hence to achieving MGDS objectives</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
</tr>
<tr>
<td>2.1.12</td>
<td>Establishment and continuous operations of Sugar Cane Products TWG. Ensure synchronisation or merger with SADC Sugar Committee</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
</tr>
<tr>
<td>2.1.13</td>
<td>Establishment and continuous operations of Oil Seed Products TWG. Link to Legumes Development and Trade Association, Cotton Development Trust and Bio-fuels Association</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
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<td>2.1.14</td>
<td>Establishment and continuous operations of Prioritised Manufacturers TWG</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
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<tr>
<td>2.1.15</td>
<td>Establishment and continuous operations of Access to Skills &amp; Labour TWG</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
</tr>
<tr>
<td>2.1.16</td>
<td>Establishment and continuous operations of Access to Markets TWG</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
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<tr>
<td>2.1.17</td>
<td>Establishment and continuous operations of Access to Finance TWG</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
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<tr>
<td>2.1.18</td>
<td>Establishment and continuous operations of Access to Inputs and Information TWG</td>
<td>MoIT</td>
<td>OPC</td>
<td>MEPD</td>
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<td></td>
<td><strong>2.2</strong> Department of Energy</td>
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<td>See Annex 5, Section 5.1</td>
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<td></td>
<td><strong>2.3</strong> Malawi Bureau of Standards</td>
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<td></td>
<td>See Annex 5, Section 3.6</td>
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<td></td>
<td><strong>2.4</strong> Malawi Industrial Research and Technology Development Centre</td>
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<td></td>
<td>See Annex 7, Section 1.5</td>
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<td></td>
<td><strong>2.5</strong> Malawi Investment and Trade Centre</td>
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<tr>
<td></td>
<td>See Annex 5, Actions 3.1.1 to 3.1.4</td>
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<td><strong>2.6</strong> Malawi Revenue Authority</td>
<td></td>
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<tr>
<td></td>
<td>See Annex 5, Sections 3.2 (trade facilitation), section 3.3 (customs), section 8.1 (taxation)</td>
<td></td>
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<td></td>
<td><strong>2.7</strong> Ministry of Agriculture and Food Security</td>
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<td></td>
<td>See Annex 5, Section 7.1 (extension services) and Section 5.4 (seed/research services)</td>
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<td></td>
<td><strong>2.8</strong> Ministry of Economic Planning and Development</td>
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<tr>
<td>2.8.1</td>
<td>Invest in Real Sector Policy Analysis to give it the capacity to effectively coordinate the development of the productive base of the economy together with the Ministry of Industry and Trade</td>
<td>MEPD</td>
<td>DPSM, MoF</td>
<td></td>
</tr>
<tr>
<td>2.8.2</td>
<td>Ensure close, positive working relationship between Real Sector Policy Analysis section and Trade, Industry, PSD SWAp secretariat (NES implementation mechanism) and the MoIT departments</td>
<td>MEPD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.8.3</td>
<td>Provide the section with a tailored course on the Cluster Prioritization Method of the NES and on Industrial Policy, starting with simple excel modelling</td>
<td>MEPD</td>
<td>TIPSD SWAp</td>
<td></td>
</tr>
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<td></td>
<td><strong>2.9</strong> Ministry of Education, Science and Technology</td>
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<td></td>
<td>See Annex 7</td>
<td></td>
<td></td>
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<td><strong>2.10</strong> Ministry of Finance</td>
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<td></td>
<td>See Annex 5, Sections 5.1 (financial sector policy), 8.1 (taxation policy), 9.1 (monetary/exchange rate policy)</td>
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<tr>
<td>Code</td>
<td>Organisation and Activity</td>
<td>Lead Implementing Agency</td>
<td>Critical to Successful Implementation</td>
<td>Other Implementing Agencies</td>
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<tr>
<td>2.11</td>
<td>Ministry of Industry and Trade</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
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</tr>
<tr>
<td>2.11.1</td>
<td>Develop capacity in all departments to take holistic approach to development of productive base of economy</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.2</td>
<td>Strengthen coordination capacity between departments and with other Ministries by doubling staff numbers in Department of Planning (to also allow 2 dedicated full-time staff to Trade, Industry, PSD SWAp) and add one staff to each other Ministry department to allow linkage to SWAp</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.3</td>
<td>Strengthen institutional structure for formulation and implementation of trade policy and industry policy centred around the NES priority clusters. Ensure that these are part of a concerted effort to develop productive base of the economy</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.4</td>
<td>Create positions and recruit staff as per findings of Institutional Review of 2011</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.5</td>
<td>Revise Strategic Plan to ensure delivery of actions 2.2.1-2.2.4</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.6</td>
<td>Ensure that sufficient human resources are trained and deployed to implementation of strategic plan</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.7</td>
<td>Improve understanding of various trade agreements and trade blocks within government, private sector and other stakeholders.</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.8</td>
<td>Improve negotiating skills with respect to ongoing bilateral, regional and multilateral trade liberalization.</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.9</td>
<td>Improve inter-ministerial coordination.</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.10</td>
<td>See Annex 5, Section 7.1 for development of Department of Cooperatives</td>
<td>OPC</td>
<td>DPSM, MoF, MEPD</td>
<td></td>
</tr>
<tr>
<td>2.11.11</td>
<td>Deliver to economists in the Ministry and all interested staff members a tailored course on the Cluster Prioritization Method of the NES and on Industrial Policy, starting with simple Excel modelling</td>
<td>MoIT</td>
<td>DPSM, MoF, MEPD</td>
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<tr>
<td>2.11.12</td>
<td>For Trade Negotiation Capacity, Please refer to Annex 5, Section 3.5</td>
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<tr>
<td>2.11.13</td>
<td>For Trade Facilitation, please refer to Annex 5, Sections 3.2 and 3.4</td>
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<tr>
<td>2.12</td>
<td>Ministry of Irrigation and Water Development</td>
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<td>2.13</td>
<td>Ministry of Justice</td>
<td></td>
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<tr>
<td>2.13.1</td>
<td>Establish a dedicated unit solely focused on prioritisation expedited enactment of NES priority legislation</td>
<td>MoJ</td>
<td>DPSM, MoF</td>
<td></td>
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<tr>
<td>2.14</td>
<td>Ministry of Labour</td>
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<tr>
<td>2.15</td>
<td>Ministry of Land, Housing and Urban Development</td>
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<tr>
<td>2.16</td>
<td>Ministry of Transport and Public Works</td>
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<tr>
<td>2.17</td>
<td>National Statistics Office</td>
<td></td>
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<tr>
<td>2.17.1</td>
<td>National Statistics improved capacity for statistics of the productive capacity through capacity building for responsible departments and explicit prioritisation by NSO of such statistics</td>
<td>OPC</td>
<td>MEDP, DPSM, MoF</td>
<td></td>
</tr>
<tr>
<td>2.18</td>
<td>Registrar General Department</td>
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<td>2.19</td>
<td>Reserve Bank of Malawi</td>
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<td>2.20</td>
<td>Small and Medium Enterprise Development Institute</td>
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<tr>
<td>2.21</td>
<td>TEVETA</td>
<td></td>
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</tr>
</tbody>
</table>
Annex 7 – Action Matrix for Priority Area 4:

Competences, Skills and Knowledge
Annex 7 - Contents

Competences, Skills and Knowledge 21
This document presents the complete matrix of actions for Focus Area 4 of the NES: Competencies, Skills and Knowledge. Actions are prioritised. For key actions, as mentioned in the main document and Annex 1 of the NES, indicative costs are provided. Indicative costs are not provided for all actions in the matrix.

### CROSS-CUTTING EXPORT ENABLER STRATEGY

<table>
<thead>
<tr>
<th>Code</th>
<th>Category and Activity</th>
<th>Action</th>
<th>Priority Level (Highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>If No, Desired Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td><strong>Competencies,Skills and Knowledge</strong></td>
<td></td>
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<tr>
<td>1.1.1 Effective Labour Market Information: Linking Demand and Supply for Skills/Knowledge</td>
<td></td>
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<tr>
<td>1.1.1 Develop a National Competencies and Skills Plan that takes into account Private Sector and Public Sector competencies and skills requirements to allow for productive base of country to emerge. Link to MGDS and NES:</td>
<td>6</td>
<td>OPC</td>
<td>MoIT</td>
<td>No</td>
<td>PSD Donor Group, Public finances</td>
<td>$1,000,000</td>
<td>2014</td>
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<tr>
<td>1.1.1.1 Prioritized clusters under the NES, via outcome of actions Q5.1.1 (oil seed products), SCI.1.1 (sugar cane products), M1.1 (manufacturing)</td>
<td>6</td>
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<tr>
<td>1.1.1.2 Key enabling sectors such as identified and prioritized in this cross-cutting action plan (energy, finance)</td>
<td>6</td>
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<tr>
<td>1.1.1.3 For the public sector, an analysis of the competencies and skills required to allow key agencies to shape a conducive environment for the productive base to grow, as discussed in the Institutional Capacity Assessment</td>
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<tr>
<td>1.1.1.4 Provide strategic direction for TEVET and Higher Education</td>
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<tr>
<td>1.1.1.5 Provide assistance for strategic direction for Basic and Secondary Education with regards to competency development</td>
<td>6</td>
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<tr>
<td>1.1.2 In National Competencies and Skills Plan include:</td>
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<tr>
<td>1.1.2.1 Capacity Needs Assessment of MoL/TEVETA relative to ability to maintain an effective Labour Market Information System</td>
<td>6</td>
<td>MoL</td>
<td>MoIT, MoE, MEDP, MoEST</td>
<td>TETEVA</td>
<td>No</td>
<td>PSD Donor Group</td>
<td>$50,000</td>
<td>2014</td>
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<tr>
<td>1.1.2.2 Capacity Needs Assessment needs to include a review of mechanisms to ensure retention of trained staff who operate Labour Market Information System</td>
<td>4</td>
<td>DPSM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>with above</td>
<td>2014</td>
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<tr>
<td>1.1.2.3 Capacity Needs Assessment needs to include a review of how to institutionalise cross-agency linkages necessary to maintain Labour Market Information System</td>
<td>4</td>
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<tr>
<td>1.1.2.4 Ministry of Labour and TEVEETA dedicate 2 full-time staff each (secure new budget from central government for new positions) to Labour Market Information System</td>
<td>4</td>
<td>MoF, MoE</td>
<td>TETEVA</td>
<td>No</td>
<td></td>
<td>PSD Donor Group</td>
<td>$15,000 per year per agency</td>
<td>2014</td>
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<td>Code</td>
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<td>If No, Desired Resources</td>
<td>Indicative Cost, US$</td>
<td>Desired End of Implementation</td>
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<td>1.1.2.5</td>
<td>Implement programme to develop capacity of MoL and TEVETA to manage an effective Labour Market Information System, including institutionalised cross-agency linkages with TEVETA and NSO</td>
<td>5 MoL MoF, MoEST, OPC</td>
<td>TEVETA</td>
<td>Yes</td>
<td></td>
<td></td>
<td>$1,000,000</td>
<td>2014</td>
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<tr>
<td>1.1.2.6</td>
<td>Develop a Labour Market Information System that is effective and can be maintained by MoL/TEVETA</td>
<td>5 MoL MoF, MoEST, OPC</td>
<td></td>
<td>with above</td>
<td>2014</td>
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<tr>
<td>1.1.2.7</td>
<td>Include in Labour Market Information System the capacity to conduct a detailed analysis of the situation of labour market information in rural areas, including the agricultural sector, and in collaboration with MoL and MoAAMD. Such analysis should address issues of employment quality and vulnerability, type of contracts, gender and age based inequalities, youth specific demands and challenges as well as child labour issues.</td>
<td>4 MoL</td>
<td>MIE</td>
<td>No</td>
<td>ESWAP, PSD Donor Group</td>
<td>with above</td>
<td>2014</td>
<td></td>
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<tr>
<td>1.1.2.8</td>
<td>Ensure MITA and MCCCI are an integral member of the Labour Market Information System</td>
<td>4 MoL MIE, MCCCI TEVETA</td>
<td></td>
<td>with above</td>
<td>2014</td>
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<tr>
<td>1.1.2.9</td>
<td>Ensure Malawi Institute of Education (MIE), which is responsible for TEVET curriculum, is integral part of the Labour Market Information System</td>
<td>3 MoL MIE</td>
<td></td>
<td>with above</td>
<td>2014</td>
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<tr>
<td>1.1.2.10</td>
<td>Ongoing development of Malawi Industrial Training Association (MITA) chairman is PIM engineer. MITA, through TEVETA who finds trainers/consultants, offers practical courses geared to members. Members finances them.</td>
<td>5 MITA Private Sector</td>
<td>TEVETA</td>
<td>Yes</td>
<td>Private Sector members</td>
<td>n/a</td>
<td>2014</td>
<td></td>
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<tr>
<td>1.1.2.11</td>
<td>Conduct a review of feasibility of options for market-based public private partnerships, such as voucher schemes, to serve as an automatic flow of labour market information and complement the Labour Market Information System</td>
<td>4 MoEST OPC</td>
<td>TEVETA, MITA, MCCCI</td>
<td>No</td>
<td>PSD Donor Group</td>
<td>$30,000</td>
<td>End of 2012</td>
<td></td>
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<tr>
<td>1.1.2.12</td>
<td>Introduce skills training market based voucher scheme similar to coupons in Farm Input Subsidy Programme. Maximise financial sustainability through ability of benefactors to pay.</td>
<td>4 OPC MoL, MoIT, MoL, MoFDP</td>
<td>No</td>
<td>PSD Donor Group, ESWAP, Public Finances, 1% Levy</td>
<td>$10,000,000</td>
<td>Running by start 2014</td>
<td></td>
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<tr>
<td>1.1.2.13</td>
<td>Secure true champions of voucher scheme and secure benefactors if deemed feasibility</td>
<td>4</td>
<td></td>
<td>PSD Donor Group</td>
<td>n/a</td>
<td></td>
<td></td>
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<tr>
<td>1.1.2.14</td>
<td>HEST Programme sets as its top priority permanent development of the capacity of the Ministry of Labour to allow for an appropriate linkage between the demand for skills and the supply of skills; while allowing a strong linkage between the informal TEVET sector and the formal TEVET sector.</td>
<td>3 MoEST MoL, UoM, MoFDP</td>
<td>Yes</td>
<td>ADB, Government (10%)</td>
<td>$46,531,000</td>
<td>2017</td>
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### CROSS-CUTTING EXPORT ENABLER STRATEGY

#### COMPETENCIES, SKILLS AND KNOWLEDGE

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<th>If No, Desired Resources</th>
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<th>Desired End of Implementation</th>
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</thead>
<tbody>
<tr>
<td>1.1.2.15</td>
<td>Expedite completion of HEST construction programme: classrooms, lecture theatres etc. in the 4 public technical colleges</td>
<td>3</td>
<td>MoEST</td>
<td>MoI, UoM, MoFDP</td>
<td>Yes</td>
<td>ADB</td>
<td>as above</td>
<td>2015</td>
<td></td>
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<tr>
<td>1.1.2.16</td>
<td>Review resource and policy implications through a reconciliatory report that links the NES and the Trade, Industry, PSD Joint Sector Strategy competencies and skills requirements to education policy makers, the private sector and to development partner support from both the education sector and the Trade/PSD sector to filling the gaps between competency and skills required.</td>
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<td>1.1.2.17</td>
<td>Develop a scarce-skills list and integrate into immigration policy for temporary movement and/or work permits for skills to fill short-gap domestic gaps</td>
<td>4</td>
<td>Ministry of Home Affairs</td>
<td>OPC, MoI</td>
<td>MoIT, TEVETA</td>
<td>No</td>
<td>PSD Donor Group, ESWAP</td>
<td>2015</td>
<td></td>
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<tr>
<td>1.2</td>
<td>TEVET</td>
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<td>1.2.1</td>
<td>In development of ESIP 2, prioritise the following actions for TEVET</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No cost</td>
<td>2014</td>
<td></td>
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<td>1.2.2</td>
<td>Expedite review of TEVET policy and then of TEVETA Act: had previously left out focus on how administered. Previously had too much focus on the TEVET levy. Current focus has to shift to expenditure and sectors to prioritise. TEVET policy will take into consideration different contexts needs and requirements (urban - rural / industry - agriculture etc), taking into account also non-formal participatory education methodologies (like FFS or JFFLS).</td>
<td>5</td>
<td>MoEST</td>
<td></td>
<td>Yes</td>
<td>MoEST</td>
<td>2014</td>
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<tr>
<td>1.2.3</td>
<td>Review to ensure TEVETA is a regulator and facilitator of job-linked skills development, not a training provider. Mandate to improve mindset on youths on value of TEVET training. Ensure clarity of roles, particularly relative to Ministry of Labour. Ensure no duplication and review optimal location for TEVETA - under Ministry of Labour or Ministry of Education, Science and Technology</td>
<td>5</td>
<td>MoEST</td>
<td></td>
<td></td>
<td>MoEST</td>
<td>2014</td>
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<tr>
<td>1.2.4</td>
<td>Policy and Act to institutionalise mechanisms to ensure transparency of TEVET expenditures to the public and to the private sector</td>
<td>4</td>
<td>MoEST</td>
<td></td>
<td></td>
<td>MoEST</td>
<td>2015</td>
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<td>1.2.5</td>
<td>Implement revised TEVET policy and amendments to TEVETA Act enacting from 1.2.1, including TEVETA to serve as a regulator not as a training provider</td>
<td>5</td>
<td>MoEST</td>
<td></td>
<td>No</td>
<td>MoEST</td>
<td>2015</td>
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<td>1.2.6</td>
<td>Raise education budget for TEVET to 4.4% by 2017 (0.7% in 2006), and ensure equal funds among urban and rural schools. Target needs revision, at 1% in 2011/12.</td>
<td>3</td>
<td>MoEST</td>
<td>OPC, MoE, MEDP, ESWAP</td>
<td>No</td>
<td>Public Finances</td>
<td>2017</td>
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<tr>
<td>1.2.7</td>
<td>Pay full 1% TEVET Levy (MK500 million) in 2012/2013 and maintain full amount thereafter</td>
<td>5</td>
<td>MoF</td>
<td>MoEST</td>
<td>No</td>
<td>Public Finances</td>
<td>2013</td>
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<tr>
<td>1.2.8</td>
<td>Fast-track ongoing harmonisation of TEVET system with clarity of roles, especially between trade testing and CBET</td>
<td>4</td>
<td>MoEST</td>
<td>MoI, TEVETA</td>
<td>Uncertain</td>
<td>Public Finances</td>
<td>2014</td>
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<tr>
<td>1.2.9</td>
<td>Ensure TEVET institutions can meet mandate, via effective management and strategy, so that in-take can rise to 20,000 per year (9,200 in 2011)</td>
<td>5</td>
<td>MoEST</td>
<td>MoF, MEDP, ESWAP</td>
<td>Uncertain</td>
<td>ESWAP, PSD Donor Group</td>
<td>2016</td>
<td></td>
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<td>Code</td>
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<td>Indicative Cost, US$</td>
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<tr>
<td>1.2.9.1</td>
<td>Develop a resourced implementation plan for Teveta Strategic Plan 2013-2017, which is currently being developed</td>
<td>5</td>
<td>TEVETA</td>
<td>MoF, MEDP, MoEST</td>
<td>Uncertain</td>
<td>ESWAP, PSD Donor Group</td>
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<td>1.2.9.2</td>
<td>Include capacity to develop a TEVETA communication strategy, also indicating wage potentials for various skill sets to individuals, and to develop trainer capacities to mentor students on job options. Ensure linkage to Labour Market Information System</td>
<td>5</td>
<td>TEVETA</td>
<td>MoF, MEDP, MoEST</td>
<td>Uncertain</td>
<td>ESWAP, PSD Donor Group</td>
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<tr>
<td>1.2.9.3</td>
<td>Develop Capacity of Malawi Institute of Education to meet its Teveta mandate of developing appropriate curriculum</td>
<td>3</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<td>1.2.9.4</td>
<td>Ensure Trade Testing Dept. has capacity to service informal sector, in harmonisation with TEVETA and that all its 40 trades are synchronised with TEVETA as opposed to the just the current 9 trades.</td>
<td>4</td>
<td>MoF, MEDP, MoEST</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.9.5</td>
<td>Ensure Malawi National Exams Board has adequate capacity to effectively assess TEVET exams</td>
<td>4</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
<td></td>
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<tr>
<td>1.2.9.6</td>
<td>Increase capacity of 4 public technical institutes based on outcome of actions OS1.1, SC1.1 and M1.1</td>
<td></td>
<td></td>
<td></td>
<td>ADB (HEST)</td>
<td>Yes</td>
<td>2017</td>
<td></td>
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<tr>
<td>1.2.9.7</td>
<td>Confirm annual budget allocated to technical institutes for rehabilitation and maintenance, or MK10m</td>
<td>4</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.9.8</td>
<td>Build 2 new technical institutions, as per Education Implementation Programme, after operationalise existing 4 technical institutions</td>
<td>3</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.9.9</td>
<td>Construct and rehabilitate training and testing institutions</td>
<td>5</td>
<td>MoL</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<td>1.2.10</td>
<td>Propose amendment to the ESWAP Joint Financing Agreement, to make expenditures on TEVET education eligible for financing under the ESWAP. Key thing is targeting of informal youths through TEVET</td>
<td>5</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.11</td>
<td>Conduct a review of skills training incentive structure and amend structure to ensure adequate private sector incentives to train in vocational trades</td>
<td>4</td>
<td>TEVETA</td>
<td>Private Sector, MoF, MEDP</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.12</td>
<td>Implement appropriate skills training incentive structure</td>
<td>4</td>
<td>TEVETA</td>
<td>Private Sector, MoF, MEDP</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.13</td>
<td>Ensure 2013 National Education Sector Plan update places an increased and tangible focus on technical skills</td>
<td>4</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
<td></td>
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<tr>
<td>1.2.14</td>
<td>Implementation of TEVET agreement on formal &amp; informal TEVET</td>
<td>4</td>
<td>MoF</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<tr>
<td>1.2.15</td>
<td>Recognition of Prior Learning through Trade Testing</td>
<td>3</td>
<td>MoL</td>
<td>MEDP, MoEST</td>
<td>No</td>
<td>PSD Donor Group</td>
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<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>If No, Desired Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2.14</td>
<td>Introduction of teacher-training wing for Technical Colleges, placed in one of the Technical Colleges, as short-term solution to shortage in technical teachers</td>
<td>4</td>
<td>MoEST</td>
<td>MoF; MEDP; ESWAP</td>
<td>No</td>
<td>ESWAP; PSD Donor Group</td>
<td>2015</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1.2.15</td>
<td>Establish Technical Teacher Training College, as long-term solution to shortage in technical teachers</td>
<td>4</td>
<td>MoEST</td>
<td>MoF; MEDP; ESWAP</td>
<td>No</td>
<td>ESWAP; PSD Donor Group</td>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.16</td>
<td>Develop and Adopt Trade Testing Policy and Law, that is coherent with TEVETA</td>
<td>3</td>
<td>MoL</td>
<td>No</td>
<td>Public Finances, PSD Donor Group</td>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.17</td>
<td>Ensure that National Qualification Framework incentivises key skills as identified in NES reviews</td>
<td>3</td>
<td>MoEST</td>
<td>No</td>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

#### 1.3 Secondary Education

##### 1.3.1 In ESIP 2, prioritise the following actions for secondary education

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>MoEST</td>
<td>ESWAP</td>
<td>No</td>
<td>ESWAP</td>
<td>2015</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

##### 1.3.2 Redefinition of Basic Education to include Form 1 and 2 to allow for increased application of ESWAP to Secondary Education

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MoEST</td>
<td>ESWAP</td>
<td>No</td>
<td>ESWAP</td>
<td>2015</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

##### 1.3.3 Develop plan to drive the enrolment rate up from 50% & improve throughput at MSE to at least 65% (38.6% in 2006).

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>MoEST</td>
<td>OPC, MoFDP, ESWAP</td>
<td>No</td>
<td>ESWAP</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

##### 1.3.4 Ensure budget allocation of MK63m to the Strengthening Mathematics & Science & entrepreneurship in Secondary Ed. Programme is raised by 10% annually

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>MoEST</td>
<td>MoFDP, ESWAP</td>
<td>JICA</td>
<td>Yes</td>
<td>Public Finances</td>
<td>2018</td>
<td></td>
</tr>
</tbody>
</table>

##### 1.3.5 Amend the ESWAP Joint Financing Agreement, to make expenditures on secondary education eligible for financing under the ESWAP

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>GPE, World Bank, DFID, Unicef, GIZ</td>
<td>OPC</td>
<td>No</td>
<td>GPE, World Bank, DFID, Unicef, GIZ</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

##### 1.3.6 Implement a new fee structure for secondary schools by revising current unrealistic 500MK fee for boarding and feeding for Community Day Secondary Schools

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>MoEST</td>
<td>No</td>
<td>MoEST Management Time</td>
<td>2018</td>
<td></td>
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</tr>
</tbody>
</table>

##### 1.3.7 Support MoE to revive technical primary & secondary schools; current lack of funding; needs ESWAP

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>MoEST</td>
<td>MoFDP, ESWAP</td>
<td>No</td>
<td>ESWAP</td>
<td>2018</td>
<td></td>
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</tbody>
</table>

##### 1.3.8 Increase teaching staff to student ratio in Community Day Secondary Schools from 1:104. NESP target is 1:40 by 2017 but this is unrealistic as little progress to date

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MoEST; Teacher Training Dept</td>
<td>OPC, MoFDP, ESWAP</td>
<td>No</td>
<td>ESWAP</td>
<td>2017</td>
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</tbody>
</table>

##### 1.3.9 Ensure secondary education budget reaches 16.6% of education budget by 2017, and raise further if possible

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MoEST</td>
<td>OPC, MoFDP, ESWAP</td>
<td>No</td>
<td>Public Finances</td>
<td>2018</td>
<td></td>
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</tr>
</tbody>
</table>

##### 1.3.10 In 2012 review of the curriculum for secondary education, include entrepreneurial, agr-business, management technical and skills courses tied in to key sectors in the National Export Strategy

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>MoEST</td>
<td>No</td>
<td>2013</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

#### 1.4 Higher Education

##### 1.4.1 Ensure ongoing pro-activeness of the Public Universities Working Committee

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MoEST</td>
<td>No</td>
<td>2014</td>
<td></td>
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</tr>
</tbody>
</table>

##### 1.4.2 Ensure pro-activeness of working committee remains through effective secretariat, membership and ongoing follow-up to decisions made

<table>
<thead>
<tr>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MoEST</td>
<td>No</td>
<td>2014</td>
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</tbody>
</table>
### CROSS-CUTTING EXPORT ENABLER STRATEGY

#### COMPETENCIES, SKILLS AND KNOWLEDGE

<table>
<thead>
<tr>
<th>Code</th>
<th>Category and Activity</th>
<th>Action</th>
<th>Priority Level (highest is 6)</th>
<th>Lead Implementing Agency</th>
<th>Critical to Successful Implementation</th>
<th>Other Implementing Agencies</th>
<th>Adequately Resourced? (Y or N)</th>
<th>If Y, Resourcers</th>
<th>If No, Desired Resourcers</th>
<th>Indicative Cost, US$</th>
<th>Desired End of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.3</td>
<td>Include discussion on link between Universities &amp; industry on research and development, science and technology</td>
<td>4 MoEST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>1.4.4</td>
<td>Increase in tuition fees for Public Universities, as proposed by Tertiary Steering Committee</td>
<td>3 MoEST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>1.4.5</td>
<td>Conduct a review of mandate of Board of Governors at Polytechnic to ensure compatibility with Malawi’s need to invest in technical skills and management/leadership skills</td>
<td>4 MoEST</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2016</td>
</tr>
</tbody>
</table>

#### 1.5 Research and Technology

1. **1.5.1 Increase budgetary allocation to MIRTDC to MK300m by 2017**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoF
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: Public Finances, US$2017

2. **1.5.2 Develop an institutional development plan focused on providing industrial extension and access to technology facilitation services to MSMEs linked to NES priority clusters**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoE, DPSM
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: PSD Donor Group
   - Adequately Resourced?: No
   - Indicative Cost: US$2015

3. **1.5.2.1 Set clear role for MIRTDC that fits in within NES**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoE, DPSM
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: US$2015

4. **1.5.2.2 In strategic plan of MIRTDC, prioritise NES clusters**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoE, DPSM
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: US$2015

5. **1.5.2.3 Focus MIRTDC services on technology-access support and industrial extension for MSMEs: address information gap on technology and work with SNEDI and financial sector on access to finance for improved technology in MSMEs**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoE, DPSM
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: US$2015

6. **1.5.2.4 Recruit and train staff of MIRTDC, with this strategic focus**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoE, DPSM
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: US$2015

7. **1.5.2.5 Implement infrastructural development project for MIRTDC**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT, MoE, DPSM
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: US$2015

8. **Ensure MIRTDC is part of Manufacturing TWG, Oil Seed Products TWG and Sugar Cane Products TWG**
   - Priority Level: 4
   - Lead Implementing Agency: MoIT
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: PSD Donor Group, US$2013

9. **1.5.3 Include Sub-Committee under Universities Working Committee to focus on R&D capacity of Universities, linked to Private Sector needs and TIPSD SWAp**
   - Priority Level: 3
   - Lead Implementing Agency: MoIT
   - Critical to Successful Implementation: No
   - Other Implementing Agencies: No
   - Adequately Resourced?: No
   - Indicative Cost: US$2013
Annex 8 – Support Plans for Tobacco, Mining, Tourism, Tea and Services
Annex 8 - Contents

1. Tobacco ................................................................. 33
2. Mining ................................................................. 33
3. Tourism ................................................................. 35
4. Tea ........................................................................ 36
5. Services ................................................................. 37
In this annex to the National Export Strategy, support plans for key sectors that are not priority clusters under the NES are presented. The National Export Strategy recognises the importance of these sectors to the economy. The purpose of these support plans is to facilitate the goals of stakeholders and institutions in these sectors.

In this annex, support plans for the following sectors are presented:

- Tobacco
- Tourism
- Mining
- Tea
- Services

The support plans below detail why these sectors are not top priorities under the National Export Strategy and explain why they are nonetheless important sectors for the economy. The key underlying factor is the need for Malawi to prioritise a few clusters such that those which have the potential to drive export growth on a scale required by upward pressures on imports are developed to their potential.

1. Tobacco

Please refer to the Tobacco Strategic Plan from the Tobacco Control Commission once published. It had not been completed prior to publication of the NES. Reference is made to the key points that emerged in the July 2012 National Dialogue on the Economy in Mangochi:

- The conference noted that the marketing mechanism for tobacco, that is (auction system), does not guarantee stability of prices and volumes in the industry.
- The conference further recognised that in the short term, while the auction system could continue, Malawi should seriously consider adopting (Integrated Production System) which will promote contract farming;
- The conference proposed the creation of a stakeholders forum, namely Tobacco Council, to foster dialogue for the proposed reforms in the industry. This will overcome vested interest that hinders reform of the industry;
- The conference recognises the challenge that the industry poses to the environment and recommends parallel programmes that are aimed at improving aorestation.

2. Mining

Mining, as with other extractive industries, is not one of the three prioritised clusters in the NES because while the NES recognises its potential to be a major foreign exchange revenue earner, few countries in the world have developed on extractive industries. Of those that have, such as Australia, this was done on the back of a strong institutional structure which ensures that revenues are invested into other productive clusters. At this stage in its development path, Malawi does not have such strong institutional structures. In addition, mining has limited economic spillovers unless a strong manufacturing base can be developed. The NES is therefore prioritising the development of manufacturing such that in the long-term it can have the capacity to add value to extractive resources within Malawi. This, however, has a 15-20 year horizon and requires significant investment in the manufacturing base (Annex 4), the conducive environment (Annex 5), the institutional structure (Annex 6) and skills, competencies and knowledge (Annex 7).

That said, it is essential for the NES to facilitate the Department of Mining to guide the development of the sector. Support for the mining sector is based on re-enforcing efforts to implement the main findings of the Minerals Sector Review of 2009. Priority actions are listed below. As with the priority cluster strategies in the NES, it is recommended that an official dialogue and stakeholder representation body be established to drive these actions. This body will need appropriate membership, including of local communities and civil society.

As with the prioritised cluster TWGs, there is need for a development partner to take a lead role in providing external support. Ideally a flexible budget is provided through a sector support programme that allows for various actions below to be supported. This budget should depend on the degree of government and stakeholder commitment to implement the actions below and to develop local effective regulatory capacity as is required.

There is also recognition of the key call from the Dialogue on the Economy held in Mangochi on 29th June 2012, that there is a need for capacity for concession negotiations, for an ability to abide to contractual obligations and for a predictable legal regime for conflict resolution. These are to be included among the list of priority actions for the sector, which are detailed below. These are taken from the Minerals Sector Review of 2009:

1. Legal and regulatory framework
   a. Operationalisation of the National Mineral Sector Policy.
   c. Enact new law as per the review recommendations.
d. Develop supporting regulations and a model minerals agreement to complete the legal and regulatory framework.

e. Strengthen key regulatory institutions to ensure effective implementation of the sector policy and the new mining legislation.

f. Starting point is a sector-wide assessment of all management arrangements and needs in the minerals sector. This assessment should encompass all institutions and agencies, both at national and sub-national levels, which are expected to exercise responsibilities for assuring sound regulation and good governance in the minerals sector (see complementary recommendation in respect of environmental and social management below). This should include an assessment of the implementation of the National Decentralization Program in mining districts.

g. The sector-wide assessment will inform the design of a multi-year institutional and capacity building program for which the Government would likely seek support of the donor community. The following is a (non-exhaustive) list of components that would be typical of such a program:

- Further development of geo-data programs and capabilities;
- Establishment of a modern computer-based mineral licensing system (mining cadastre) supported by institutional setup, administrative process design, equipment, training and IT systems;
- Strengthening of monitoring, evaluation and enforcement functions within MEM, EAD and other relevant government agencies relating to mineral operations performance and planning (including rehabilitation and closure), mine health and safety, and environmental and social management supported by institutional setup, administrative process design, equipment, training and IT systems;
- Design and implementation of programs of education and skills development in mining-related disciplines to be undertaken by suitable institutions in Malawi and in the sub-region.

2. Revenue Generation and Management

a. Define standardized mineral royalties.

b. Develop regulations to enforce the Resource Rent Tax or examine further the range of fiscal instruments, other than Resource Rent Tax, available to vary the share of resource rent it obtains from mineral projects.

c. Strengthen revenue administration. Key elements in achieving this will be to:

1. consolidate tax regulations and compliance guidance;
2. develop robust tax assessment capability backed up by an effective audit function;
3. introduce processes for data sharing and collaboration by revenue agencies;
4. equip the revenue agencies with tax models for mines; and
5. carry out training and staff development of specialized personnel in the revenue agencies.

d. Establish robust transparency arrangements and procedures to enhance public accountability.

e. Examine the benefits that EITI could bring to efforts to improve transparency.

f. Conduct a scoping study in which stakeholders from government, the industry and civil society are engaged to evaluate their support for EITI participation. Implementation is achieved by publication of revenue reconciliation reports and validation of the EITI process in the country within two years of joining EITI.

g. Examine policy options both for minerals revenue management and allocation.

3. Environmental and Social Management of the Sector

a. Conduct a social and environmental strategic assessment (SESA) to incorporate environmental and social considerations
in the sector reform process. The SESA could form a component of the sector-wide assessment of all management arrangements and needs in the minerals sector which has been recommended above and be performed in the same timeframe. The SESA should include an assessment of the implementation of the National Decentralization Program in mining districts.

b. Undertaking the following actions to strengthen the EIA process:
   
   i. Ensure access to environmental and social data on existing and proposed mineral operations; terms of reference, EIA reports and results of monitoring activities should be freely available to the public; and

   ii. develop guidelines for and strengthen public consultation processes in EIA to ensure the meaningful participation of weak and vulnerable stakeholders, like women and farmers.

c. Review all legislation and regulation on human resettlement, compensation and reclamation for mining activities, so that these issues are clearly addressed in line with applicable international standards and best practice.

d. Conduct a multi-year institutional and capacity building programme following completion of a sector-wide assessment of all management arrangements and needs in the minerals sector (Recommendation C). The following environmental and social actions at the sub-national level should have priority:

   • Strengthen village and district capacities for environmental and social monitoring in mining regions;

   • Strengthen administrative, planning and development capacities of villages and districts in mining regions in line with the current decentralization process;

   • Strengthen transparency and accountability of decision makers in mining villages and districts; and

   • Establish mechanisms for distribution of mineral revenues at the district and village levels to strengthen ongoing decentralization processes and to optimize the contribution of mining growth to sustainable development at the local level.

In addition, the government is keen to set a target of 1 new mine every five years in order to build on the income generated from the Kayelekera uranium mine that opened in 2009. According to the Mineral Sector Review of 2009, such a new mine could include Kanyika for niobium/uranium, Chimimbe Hill for nickel, Kangankunde Hill for monazite and Salima/Chipoka for heavy minerals.

Finally GIS mapping of mining resources is a key planning component that needs to be carried out. This is being supported by a JICA Project for the Establishment of an Integrated Geographic Information System (GIS) Database for Mineral Resources, due to end in July 2013.

3. TOURISM

Tourism is an important cluster in Malawi and one that does have significant potential. While this is recognised by the NES, it also recognises that in the short to medium term it will struggle to deliver the export growth that Malawi needs in order for exports to match the level of growth of imports. However the cluster has major long-term potential, although this sits squarely with whether the government will make an appropriate investment in the institutional structure of the cluster. Before the Malawi Tourism Authority is operationalised and before there is an effective stakeholder dialogue platform that allows private operators to interact with relevant government agencies, Malawi’s aspirations for the cluster will struggle to materialise. For the cluster to meet its potential it needs dedicated staff and institutional capacity to drive a long-term plan to develop the cluster. The absence of this over the past ten years is a key reason why the cluster is not a top priority in this National Export Strategy.

The Tourism Strategic Plan 2008-2013 has not been effectively implemented. Tourism in Malawi has great potential, but it has yet to be translated into actual productivity. The key objective of the cluster should be the development of a marketable, branded product that can target key markets, which will require institutional capacity development. Otherwise Malawi will continue to fail to meet its tourism potential. The first step of the tourism support strategy under the NES is to establish a stakeholder wide dialogue and implementation mechanism whose focus is solely to implement the Tourism Strategic Plan 2008-2013 and the recommendations of the World Bank review of the travel and tourism sector of 2010.
This stakeholder dialogue and implementation mechanism requires adequate representation of stakeholders and an effective secretariat. **It needs a dedicated lead development partner to support it.** It needs to then adopt the tourism strategic plan and World Bank recommendations as its sole focus. It can then drive the establishment of an effective institutional structure focused on the cluster, **led by the establishment and operationalisation of the Malawi Tourism Authority** and/or a Tourism and Hotels Board that the strategic plan calls for. Establishing a functioning Malawi Tourism Authority would assist the Ministry of Tourism, Wildlife and Culture to focus on its core functions of policy making and advocacy for budget allocations by central government and development partners. The Authority will be responsible for licensing, grading, marketing and investment promotion activities. These are currently executed by the Department of Tourism even though this is not its role. The Authority would be similar to the Tanzania Tourist Board and Kenya Tourist Board that, as indicated by the World Bank Tourism and Travel Review of 2010, ‘have been able to regulate and promote the T&T sectors in those countries effectively through a public private partnership’. It is essential that if the government is serious about tourism that it allocates the base financing and funding necessary to establish the Malawi Tourism Authority.

Until this Authority is established with management and staff dedicated to the development of the cluster, the tourism cluster will continue to develop in a piecemeal manner, failing to meet its potential. Once established all the actions stakeholders and the strategic plan call for, such as improving facilities and infrastructure and running effective market promotion programmes, will then become possible. Similarly it is only through the establishment of this Authority that the actions called for in the National Dialogue on the Economy in Mangochi on 29th June 2012 can be achieved. These are:

- Restock game reserves and national parks;
- Attract more direct, cost effective international flights into Malawi thereby promoting competition;
- Decisively resolve issues surrounding Air Malawi;
- Improve infrastructure including roads, utilities (water and power) and airports;
- Simplify the system of visa issuance for tourists;
- Improve tourism investment climate, including establishment of tourism industry board; and
- Broaden the tax incentives for investment in the industry.

The key constraints the sector faces are:

- Very strong competition from neighbouring countries, which are more well-known tourist destinations, with more popular assets (better stocked national parks, Mount Kilimanjaro, Victoria falls etc.) means that Malawi has to compete for every tourist dollar.
- High travel costs: 27 per cent of an average tourist package to a national park or the lake consists of transport costs and this is not inclusive of international airfares which are more expensive than to destinations such as Kenya due to poor international air links to Malawi.
- Uncompetitive taxation structure disincentivises the medium to long term investments required by investors to develop the tourism industry (for example tourism vehicles – which need to be custom built, are no longer exempt from import duty).
- Current graduates from public and private institutions are not sufficient in their skill sets, quality or numbers.

The strengths and opportunities for the sector are:

- Tourism has a strong impact on some of the poorest sections of Malawi as a tourist destination are typically away from commercial hubs.
- Malawi is geographically positioned to benefit from externalities of popular tourism destinations nearby in South Africa, Zambia, Mozambique and Tanzania as increasingly tourists are purchasing multi-country holiday packages.
- There has been strong growth in the sector, with it contributing 5.8 per cent to GDP in 2008 compared to three per cent in 1995.
- A low multiplier effect on Malawian tourism income compared to other countries in the region suggests good potential for growth if better ways can be found for keeping tourism money within the economy (supplying tourists with domestic brands of alcohol over imports etc.)
- Malawi has extensive natural assets which have great potential for eco-tourism from Lake Malawi and Mount Mulanje to Malawi’s national parks.
- Tourism income is unrelated to rainfall or commodity prices and as such offers a strong source of income diversification for Malawi away from traditional agricultural products.

### 4. Tea

The tea cluster has limited scope for expansion through increased land allocation to tea agriculture. The cluster has too few economic spillovers into the wider economy to drive the degree
of development that Malawi requires. This is why it is not a top priority in the National Export Strategy. However tea will remain an important contributor to Malawi’s export basket, as per the targets set in Chapter 2. The greatest need is for an effective and comprehensive stakeholder dialogue platform that has the drive to develop a competitiveness strategy for the cluster, and then implement it. Without true stakeholder buy-in this will not be achieved. The strategy needs to focus on productivity improvements through investing in nurseries, in composting, improved plucking, and through improved smallholder agriculture. It is important for the stakeholders in the cluster to collaborate to take advantage of branding through Fair Trade among others.

Stakeholders in the cluster also need to work together to attain the goal of having a viable, efficient smallholder factor in Thyolo. This requires an effective smallholder representation body. Another key need in the cluster is for increased dialogue between tea exporting companies and the government on capital flight and export remittances to ensure a balanced, fair outcome. Another important area, as highlighted by the USAID Multi Criteria Decision Analysis, is the need to invest in pesticide controls for tea.

5. Services

Most non-tourism services are primarily dealt with as enabler sectors and are therefore mostly dealt with in Section 3.3: Focus Area 2: Conducive Environment for the Productive Environment. This is because the majority of priority services – which are transport, energy, finance, communication, construction and tourism – are major enablers for the productive economy.

In addition to the prioritisation plans for these services presented in Section 3.3 below and in Annex 5, there is a general need to develop a core negotiating team for trade in services to drive Malawi’s trade in services agenda in SADC, COMESA, the Tripartite and with the WTO. The key capacity need is to better understand the implications of offers in the schedule for trade in services. There is a need for a dedicated core team who know regulations, gaps and strengths of the sector through robust analysis and then to negotiate effectively. Importantly the team needs to have the capacity to understand the contribution that competition and trade can make to the development of these priority services, and hence cross-cutting enablers, to the productive base of the economy. The team also needs to be able to fully internalise the MGDS II and the NES in to their negotiations.

In professional services, it is important to view these services as key to strengthening Malawi’s productive base and hence its capacity to export. By supporting the development of such services, such as legal and accountancy services, for the domestic market, this will naturally spillover to increased exports of such services to the region.

For legal services it is essential to improve the competitiveness of legal fees to allow an increased number of private operators, such as farmer organisations, youth entrepreneurs, MSMEs and women’s groups to access affordable legal services. It is essential to reduce unfair competition in the legal sector by not restricting entrants to practise as commercial lawyers for the sake protecting the market share of practising lawyers. This has to be balanced with ensuring a sufficient degree of quality of service.

In accountancy it is essential to increase the pool of accountants and to improve the quality of accountancy. The first step is to undertake an analysis to determine whether Malawi has the capacity to supply the quantities and quality of accountants needed to develop productive sectors. There also needs to be a review of the Public Accountants and Auditors Bill, which was drafted in 2006 but is now outdated. Recommendations of the review need to be fast-tracked. There is also a need to establish the Chartered Accountants Institute of Malawi, who will serve as the custodian for the development of the sector, particularly focused on ensuring the correct balance between fair competition and quality of service.
Annex 9 – Description of the NES Cluster Prioritization Method and its Outcome
Annex 9 - Contents

Questionnaire for Expert and Stakeholder Survey ................................................. 47
Review of Existing Value Chain Analyses ............................................................... 50
The following is a description of the Cluster Prioritization Method (CPM) that has been developed and applied for Malawi’s National Export Strategy. As mentioned above, the CPM has 6 components:

1. Trade and Market Analysis
2. Expert and Stakeholder Survey
3. Review of Value Chain Analysis
4. Competitiveness Analysis
5. Resource Analysis
6. Risk Assessment

The methodology is the following:

- **Step 1: First Phase of Trade and Market Analysis.** The first step was an application of the 2010 Product Space Model to Malawi’s 2010 Export and Production Baskets. The Product Space Model is a model developed by Hausmann and Klinger in 2006 (Structural Transformation and Patterns of Comparative Advantage in the Product Space, Harvard CID Working Paper No. 128, 2006).

  The product space refers to a mapping of the economic proximity of different products to each other. Theoretically, economic proximity implies the degree to which the input base of different products is similar. Such inputs include information, skills, financing, transport, infrastructure, packaging and equipment. If these inputs are similar between two products, then these products are said to be ‘close’ in economic terms. In the model such proximity is measured using the concept of revealed comparative advantage (Balassa, 1965) whereby if 100 countries have a revealed comparative advantage (RCA) in Product A and 80 of those countries also have an RCA in Product B, then Products A and B are said to be 80 per cent close. This measure is based on the notion that if a business is invested in Product A, and Product A is closer to Product B than Product C, then that business faces a lower risk of investing in Product B than in Product C. If these relationships are aggregated across an economy, then it is much more likely for an economy that holds an RCA in Product A to also hold an RCA in Product B rather than in Product C. The product space is therefore a mapping of all products in the world economy. A product’s location in the product space is determined by its proximity to other products.

  This first phase of the Trade and Market Analysis provided the following measures:

  - **Measure 1: Economic Proximity**
    - We developed the world product space using 2010 export data for all countries included in the UN’s Comtrade trade map and for all products at HS-Code 4-Digit Level. This includes 1,256 products.
    - Using Trade Map, the products in which Malawi has an RCA were identified. This is Product List A.
    - A list of products that Malawi exports but does not have an RCA was also developed. This is Product List B.
    - Using FAO Stat, a list of products that are produced but not exported in significant quantities was developed. This is Product List C.
    - These three lists provide the current RCA, export and production baskets for Malawi.
    - The location of each product on the 2010 product space was identified for three product groupings. These groupings are products in which Malawi has an RCA, products that Malawi exports and products that Malawi produces. The proximity of products in each of these groupings was identified relative to all 1265 products in the 4-digit HS-Code.

  - **Measure 2: Associated Income Level of Close Products**
    - Based on Hausmann, Hwang and Rodrik’s 2006 paper ‘What You Export Matters’, we apply the 2010 measure for Prod-Y to each of these products. Prod-Y is the trade-weighted average GDP per capita of all countries that have an RCA in a particular product. In other words, Prod-Y is the implied level of income of a particular product.
    - Combining Measures 1 and 2 provides an indication of ‘close’ products to the current RCA, export and production baskets for Malawi, as well as the inherent income level of those close products. From this we extract a ranking of industrial products based on the degree to which they are within reach.
and based on which products are more likely to generate added value.

- We use the ranking of products based on measures 1 and 2 to obtain a shortlist of products that are accessible and desirable. This narrows the list of products from 1,256 in the 4-digit HS Code to 204 accessible and desirable products.

**Measure 3: Size of cluster**

- For this shortlist we count the number of products that are economically close, thus providing a measure of the size of the cluster of each product in the current RCA, export and production baskets. We have calculated closeness at different percentages (20 per cent, 30 per cent, 40 per cent, and 50 per cent) and then taken a weighted average across these 4 thresholds.

**Measure 4: Income level of cluster**

- For this shortlist of 204 products we identify the average income level (i.e. the Prod Y) of the products within a product’s cluster.

**Measure 5: Proximity to high-value products**

- For this shortlist of 204 products we identify the economic proximity (i.e. distance) from products that have a high value. We calculate high value at different thresholds ($10,000, $15,000, $20,000 etc) and then take a weighted average.

**Other support measures.** In order to inform the analysis, the following variables were also added: whether the product has a revealed comparative advantage; whether a product is produced in Malawi (being a known product is a positive), Malawi’s share of the world market, recent export growth, the growth of total world exports (CAGR 04/06 to 08/10) as a proxy of world demand, the share of employment from Indstat, the value added per worker from Indstat and labour output as a share of the unit cost, also from Indstat.

- The outcome is a scoring and a ranking of products across a range of measures that were assigned various weights in the first instance. The first five measures were given the highest weights.

### TABLE A9.1: OUTCOME OF COMPONENT 1 OF THE CLUSTER PRIORITIZATION METHOD

<table>
<thead>
<tr>
<th>Implicit Income of Cluster, average GDP per capita of exporting countries</th>
<th>Average number of economically close products</th>
<th>Average Implicit GDP per capita of Economically Close Products</th>
<th>Proximity to High Value Clusters</th>
<th>Proximity to Malawi’s Export Basked</th>
<th>Proximity to Malawi’s Production Basket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>$9,144</td>
<td>68</td>
<td>$11,477</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td>Top Quartile</td>
<td>$14,540</td>
<td>105</td>
<td>$13,186</td>
<td>14%</td>
<td>29%</td>
</tr>
<tr>
<td>Tea</td>
<td>$2,347</td>
<td>16</td>
<td>$3,330</td>
<td>8%</td>
<td>20%</td>
</tr>
<tr>
<td>Tobacco - inc Cigarettes</td>
<td>$9,813</td>
<td>79</td>
<td>$12,676</td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>Tobacco - unmanufactured</td>
<td>$2,581</td>
<td>59</td>
<td>$9,800</td>
<td>8%</td>
<td>39%</td>
</tr>
<tr>
<td>Meat inc. poultry</td>
<td>$15,124</td>
<td>50</td>
<td>$15,837</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Dairy products</td>
<td>$18,061</td>
<td>73</td>
<td>$14,432</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td>Pulses products</td>
<td>$3,546</td>
<td>36</td>
<td>$5,537</td>
<td>7%</td>
<td>27%</td>
</tr>
<tr>
<td>Fruit, vegetables, flowers</td>
<td>$9,553</td>
<td>72</td>
<td>$10,359</td>
<td>11%</td>
<td>26%</td>
</tr>
<tr>
<td>Nuts excluding groundnuts</td>
<td>$6,573</td>
<td>21</td>
<td>$5,934</td>
<td>7%</td>
<td>22%</td>
</tr>
<tr>
<td>Cassava, potato &amp; products</td>
<td>$7,916</td>
<td>12</td>
<td>$5,290</td>
<td>3%</td>
<td>22%</td>
</tr>
<tr>
<td>Paprika &amp; chillies</td>
<td>$7,831</td>
<td>59</td>
<td>$9,022</td>
<td>11%</td>
<td>26%</td>
</tr>
<tr>
<td>Coffee</td>
<td>$2,571</td>
<td>19</td>
<td>$4,463</td>
<td>7%</td>
<td>25%</td>
</tr>
<tr>
<td>Wheat products</td>
<td>$15,230</td>
<td>116</td>
<td>$15,675</td>
<td>16%</td>
<td>24%</td>
</tr>
<tr>
<td>Millet &amp; products</td>
<td>$7,334</td>
<td>71</td>
<td>$11,966</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Maize &amp; products</td>
<td>$11,680</td>
<td>80</td>
<td>$13,501</td>
<td>13%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: NES Technical Team, Imani Development
Step 2: Expert and Stakeholder Survey. The 204 products shortlisted from Step 1 were grouped into clusters. For example, there were 6 different dairy products. These were grouped into the dairy cluster. We obtained 29 clusters. The survey, which is attached in Annex B, was sent to 280 stakeholders. The survey asked stakeholders to score each cluster against 7 criteria that are necessary for the development of a cluster. These were: the expected demand, the ability for scale in the sector, the ability for competition, the degree to which the government can act as a catalyst, the degree to which stakeholders in a cluster are likely to collaborate, the degree to which Malawi can sustain a competitive position and the degree to which support sectors can facilitate the development of the sector. Seventeen responses were received, and weighted according to the knowledge base of the responder: for example agronomists were given stronger weights than law firms. These seventeen represented a good cross-section of stakeholders and included experts. The stakeholder groups who replied are:

- Agronomists 3
- Private Sector 7
- Development Partners 2
- Government 4
- Civil Society 1

This provided us with 7 variables, one for each criteria, each as a percentage.

Step 3: Review of Existing Value Chain Analyses. In this component, the NES Team in the Ministry of Industry and Trade reviewed the outcomes of 12 value chains, extracting major constraints and potential. These conclusions are presented in Annex C below. This research informed the CPM in a qualitative fashion, by serving to corroborate the analysis and outcomes of Steps 1 and 2. In addition, a number of scores were assigned across clusters based on this review, for the following criteria: potential for value added, potential for scale and the trend in demand. These were developed to inform Step 9 below.

Step 4: Presentation of Initial Findings to the Steering Committee. At the 2nd NES Steering Committee Meeting in December 2011, the initial findings were presented. These are presented in Table A9.2 below. What the outcome showed is a divergence between the outcome of the Trade and Market Analysis and of the Survey. This is to be expected, because the former is primarily concerned with medium term spillovers and linkages, while the latter reflects stakeholders’ experiences at the time and their awareness of growth sectors which is mostly dependent on government and development partner programmes. Stakeholders do not typically think in terms of economic spillovers.

At the 2nd NES Steering Committee stakeholders asked for two more components to inform the analysis: a competitiveness analysis and a resource analysis.

---

### TABLE A9.1: OUTCOME OF COMPONENT 1 OF THE CLUSTER PRIORITIZATION METHOD

<table>
<thead>
<tr>
<th></th>
<th>Implicit Income of Cluster. average GDP per capita of exporting countries</th>
<th>Average number of ‘economically’ close products</th>
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<th>Proximity to High Value Clusters</th>
<th>Proximity to Malawi’s Export Basked</th>
<th>Proximity to Malawi’s Production Basket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>$6,909</td>
<td>32</td>
<td>$7,740</td>
<td>9%</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Groundnuts &amp; products</td>
<td>$2,919</td>
<td>76</td>
<td>$11,294</td>
<td>15%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Soyabean products</td>
<td>$10,493</td>
<td>45</td>
<td>$13,390</td>
<td>12%</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>Oil seed products</td>
<td>$12,193</td>
<td>74</td>
<td>$11,661</td>
<td>12%</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>Essential Oils</td>
<td>$2,765</td>
<td>43</td>
<td>$9,769</td>
<td>13%</td>
<td>31%</td>
<td>23%</td>
</tr>
<tr>
<td>Sugar &amp; sugar products</td>
<td>$11,039</td>
<td>61</td>
<td>$10,313</td>
<td>10%</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Beverages</td>
<td>$12,028</td>
<td>62</td>
<td>$11,782</td>
<td>12%</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>Uranium, limestone, minerals</td>
<td>$11,756</td>
<td>78</td>
<td>$13,502</td>
<td>16%</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Soaps, perfumes etc</td>
<td>$8,734</td>
<td>100</td>
<td>$12,691</td>
<td>13%</td>
<td>34%</td>
<td>27%</td>
</tr>
<tr>
<td>Articles of Plastic</td>
<td>$18,529</td>
<td>104</td>
<td>$14,675</td>
<td>17%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>Leather, hides/skins</td>
<td>$3,932</td>
<td>52</td>
<td>$7,518</td>
<td>12%</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Wood &amp; wood products</td>
<td>$8,692</td>
<td>65</td>
<td>$10,715</td>
<td>12%</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>Packaging, paper, prints</td>
<td>$16,736</td>
<td>92</td>
<td>$13,100</td>
<td>16%</td>
<td>24%</td>
<td>19%</td>
</tr>
<tr>
<td>Cotton &amp; textiles</td>
<td>$7,860</td>
<td>98</td>
<td>$10,430</td>
<td>14%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Glass &amp; glassware</td>
<td>$13,075</td>
<td>137</td>
<td>$16,094</td>
<td>17%</td>
<td>25%</td>
<td>21%</td>
</tr>
</tbody>
</table>
• **Step 5: Final shortlisting.** Prior to proceeding to the deeper level of analysis, the Steering Committee agreed for the clusters in Table A1 to be shortlisted to a manageable number. The shortlisting took place through a joint ranking of clusters, together with a corroboration with the outcome of the review of existing value chain analysis. The final shortlist included the following clusters: coffee, dairy, groundnuts, pigeon peas, maize products, manufacturing (packaging, plastic, beverages, glassware), oil seed products, rice, soya beans, sugar products, wheat products. Other high ranking products were omitted for the following reasons:

  • Cotton is already a government priority and the NES was already keen to support the Cotton Strategic Plan. It is also an oil seed.

  • Tourism: it was agreed that the sector is more of a medium to long term sector, and requires a support plan.

  • Mining: the sector has legs of its own (the sector jumped to 11 per cent of exports in 2010 from 1 per cent in 2009 and 0 per cent in 2008 with little strategic and management effort). A support plan through the Mining and Mineral Review was deemed sufficient by the Steering Committee.

• **Step 6: Competitiveness Analysis.** The aim of this exercise was to compare Malawi’s prices in import markets relative to those of its competitors. Comparing imports prices is more accurate than export prices as it takes into account costs such as those of crossing borders and transport costs. The 11 shortlisted clusters were expanded to 49 products for this exercise. In certain cases the 6-digit HS Code was applied to account for differentiation in the value of products within the same 4-digit HS Code.

For each of the 49 products in the 11 shortlisted clusters, this exercise produced a number of variables:

  • The distribution of Malawi’s exports for a particular product;

  • The share of Malawi’s exports in its primary markets

  • The compound annual growth in the value of exports to its primary markets

  • The compound annual growth in the volume of exports to its primary markets

  • The largest and second exporters to Malawi’s primary export markets and their shares of total imports

  • The unit value (a proxy for import price) of imports from Malawi

  • The unit value of imports from all other major competitors in those markets

### Table A9.2 Preliminary Findings of Trade & Market Analysis and Stakeholder/Expert Panel, as Presented to the 2 NES Steering Committee in December 2011

<table>
<thead>
<tr>
<th>Trade and Market Analysis</th>
<th>Stakeholder/Expert Panel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Packaging, paper, prints etc</td>
<td>1 Groundnuts</td>
</tr>
<tr>
<td>2 Bread, cereal meals, yeast etc</td>
<td>16 Beverages</td>
</tr>
<tr>
<td>3 Articles of plastic</td>
<td>2 Tourism</td>
</tr>
<tr>
<td>4 Wheat and products</td>
<td>17 Other services</td>
</tr>
<tr>
<td>5 Soaps, perfumes etc</td>
<td>3 Coffee</td>
</tr>
<tr>
<td>6 Dairy products, honey</td>
<td>18 Edible oils</td>
</tr>
<tr>
<td>7 Glass and glassware</td>
<td>4 Rice</td>
</tr>
<tr>
<td>8 Edible oils</td>
<td>5 Sugar and sugar products</td>
</tr>
<tr>
<td>9 Uranium, limestone, minerals</td>
<td>6 Soya and products</td>
</tr>
<tr>
<td>10 Beverages</td>
<td>7 Maize and flour of maize</td>
</tr>
<tr>
<td>11 Millet and products</td>
<td>8 Legumes and pulses, exc groundnuts</td>
</tr>
<tr>
<td>12 Maize and flour of maize</td>
<td>9 Paprika and chilies</td>
</tr>
<tr>
<td>13 Rice</td>
<td>10 Cotton and textiles</td>
</tr>
<tr>
<td>14 Sugar and sugar products</td>
<td>11 Uranium, limestone, minerals</td>
</tr>
<tr>
<td>15 Groundnuts</td>
<td>12 Legumes and pulses, exc groundnuts</td>
</tr>
</tbody>
</table>

TABLE A9.2 PRELIMINARY FINDINGS OF TRADE & MARKET ANALYSIS AND STAKEHOLDER/EXPERT PANEL, AS PRESENTED TO THE 2 NES STEERING COMMITTEE IN DECEMBER 2011
• A summary value comparing the unit value of Malawi imports with the average import price of African competitors and of non-African competitors.

• **Step 7: Resource Analysis.** The aim of this exercise was to determine whether Malawi has sufficient resources to compete in the cluster and to account for the impact of a developed cluster on those resources (i.e. the environment). The primary method to assess resource availability was land, given that most clusters are agriculture based. Land Suitability Data from the Department of Land Resources at the Ministry of Agriculture, Irrigation and Water Development was compiled. This is the data that is used for the development of GIS maps. At a stakeholder meeting, it was also noted to take into account climate change, particularly through rain fall risk. This exercise has been incorporated in the Agriculture Diversification Study of the Agriculture Sector Wide Approach. Indeed this study is synchronised with the NES analysis of key sectors, in that it adopted the outcome of this analysis when it comes to issues of exports, value addition and income. It therefore focus on other priority areas such as food security, nutrition, gender and the environment.

• **Step 8: Risk Assessment.** A brief risk assessment was carried out based on a review of the range of variables produced by Components 1 to 5 of the CPM. The risk assessment was carried out by an economist in the Ministry of Industry and Trade, with the aim of minimising developmental risk. Development risk relates to the impact on Malawi’s ability to finance its development should the cluster fail to grow.

• **Step 9: Final Ranking of Short-Listed Clusters.** The range of variables, a total of 32, developed from all the components of the CPM were sorted according to a range of 5 criteria. These criteria were based on a combination of the Hausman and Rodrik (2005) papers, described above, Michael Porter’s Diamond Model and others. The grouping of variables into the criteria is based on relevance and appropriateness as well as on the preliminary findings from the Review of Cross-Cutting Export Enablers. The criteria are:

  • Ability for Malawi to compete and sustain a competitive advantage
  • Ability to generate spillovers and contribute to development (the MGDS)
  • Expected favourable long-term demand
  • The degree to which agro-processing in cluster is within reach
  • The potential for collaboration among cluster stakeholders

  Two additional criteria were qualitative in nature:

  • Favourable natural resources relative to potential value added & favourable impact on resources
  • Risk Assessment

Using a weighting system and a normalisation process (where all variables are converted to percentages) we combine these measures to obtain a weighted average score for each criterion. We then apply weights to the 6 criteria (the risk assessment was used a corroborative mechanism after the ranking was completed) and obtain a final score. This analysis provides a ranking of products based on the degree to which they are attainable (i.e close in economic terms to the current basket) and the degree to which they are desirable from the perspective of value addition and spillovers. In other words the ranking will indicate which industrial products are most likely to support a phased approach to development. The weights and final ranking was as per Table A9.3 below.
Based on the scores of each of the final shortlisted clusters and the review of value chain analysis and stakeholder survey, a final categorisation was made as per Table A9.4 below.

### TABLE A9.4 FINAL CATEGORISATION OF SHORTLISTED CLUSTERS

<table>
<thead>
<tr>
<th>Final Shortlisted Clusters</th>
<th>Final Categorisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>Short term, quick win, few spillovers</td>
</tr>
<tr>
<td>Dairy products</td>
<td>Domestic</td>
</tr>
<tr>
<td>Groundnuts &amp; products</td>
<td>Short-Medium term, some spillovers</td>
</tr>
<tr>
<td>Pulses products</td>
<td>Short term, few spillovers</td>
</tr>
<tr>
<td>Maize &amp; products</td>
<td>Potential for export, but food security priority</td>
</tr>
<tr>
<td>Oil seed products</td>
<td>Export Long-Term, spillovers</td>
</tr>
<tr>
<td>Rice</td>
<td>Short term, quick win, few spillovers</td>
</tr>
<tr>
<td>Soyabeans products</td>
<td>Domestic, but has export potential</td>
</tr>
<tr>
<td>Sugar cane products</td>
<td>Export Long-Term, spillovers</td>
</tr>
<tr>
<td>Wheat products</td>
<td>Domestic</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Export Long-Term, spillovers</td>
</tr>
</tbody>
</table>

Source: NES Technical Team, Imani Development

- **Step 10: Presentation of Recommendation to Steering Committee.** A recommendation was made to the 3rd Steering Committee to adopt a phased approach to development based around structural transformation, as adopted in Mauritius, based around targeting sectors in which Malawi has a competitive advantage and which can also deliver inherent spillovers. All clusters listed below require support from 2012, but this will vary according to the constraints affecting the development of the cluster. The presentation is done on the basis of growth cycles, but all clusters will need varying levels of support from Year 0. This support will be the content of the cluster strategies.

**First cycle of export growth, Year 0 to Year 5+:**

- Legumes via Legumes Development and Trade Association; groundnuts and soya have potential to feed into oil seed products
- Cotton (via Cotton Strategic Plan), and include as Oil Seed Products
- Mining (via World Bank funded support plan)
Second cycle of export growth, Year 0 to Year 15+:

- Oil Seed Products (predominantly sunflower, groundnuts, cotton & soya for public sector planning, but also sesame, castor, rubber, macadamia & others were supported by the private sector)
- Sugar Cane Products
- Manufacturing (Beverages, Plastics and Packaging, Assembly and Agro-Processing – predominantly dairy, wheat and maize products and horticulture)

Third cycle of export growth, Year 7 to Year 20+:

- Tourism (via Tourism Development Plan)
- Other Services (via Cross-Cutting Issues, since many such services originally need to be developed for the domestic market since these are enabler sectors. Clusters such as finance, transport and business development services are captured in the Cross-Cutting Export Enablers section of the NES).

This recommendation was adopted by the NES Steering Committee at its fourth meeting, held in February 2012.

Questionnaire for Expert and Stakeholder Survey

National Export Strategy

Cluster Diversification Survey

This Product/Service Cluster Diversification Survey is divided into 2 parts. The survey will take approximately 45 minutes to complete, but it is an essential exercise to help give Malawi economic direction, particularly from a policy perspective. Your best effort to fill out Part A will be particularly appreciated – it will take some time to fill out this table – it is key to help us make the right decision. We strongly value your support for this process. Your responses will feed into a comprehensive, robust model that links what Malawi can produce to Malawi’s markets.

Part A is a numerical survey where you need to write a number from 0 to 5 in each box indicating the likelihood of various criteria holding true in the next 3 to 5 years. Your answers will feed into the Ministry of Industry and Trade’s model of cluster prioritization that links Malawi’s current production and export base to external market possibilities. The output will contribute toward a ranking of product groupings that has been developed by the National Export Strategy (NES) team for the Ministry. The outcome will suggest to local stakeholders and development partners about which product groupings should have a facilitation strategy developed as part of the NES process. Only 3 or 4 of such strategies will be developed given resource constraints. It is therefore essential to make the right decisions.

We have grouped products and services into 26 clusters. Please provide a score for each cluster and each criteria. This will take some of your valuable time, but it is important for us to capture your views. This is how we can ensure that we make the right decisions. Completing this exercise is essential to help policy makers allocate limited resources toward facilitating the development of a few key product groups that can drive Malawian exports.

This survey is designed to capture clusters that can be developed both for export potential and also for import substitution. Please take this distinction into account when filling out the table.

Part B of the survey is where you have the opportunity to provide your views in statement form. All these questions are optional. These responses will be used by the NES team to substantiate the model and by stakeholders in consultations that will be held at a later stage in the NES process.

On behalf of the Steering Committee for the National Export Strategy, thank you for your time in responding to this survey.

Part A

For EACH product/service cluster on the side of the table below, please indicate the degree to which that cluster meets EACH criteria that is described across the top of the matrix. Please indicate your answers by writing a number from 0 to 5 in each box in the table, whereby:

- A score of 0 means that it is definitely not possible 0 per cent
- A score of 1 means that it is highly unlikely 20 per cent
- A score of 2 means that it is unlikely 40 per cent
- A score of 3 means that it is possible 60 per cent
- A score of 4 means that it is likely 80 per cent
- A score of 5 means that it is highly likely 100 per cent
- Write ‘don’t know’ if you don’t know

The time horizon spans the next 2 to 5 years.

IMPORTANT: If you do not know the answer for a particular criteria or product cluster, please write ‘Don’t Know’.

By way of an example, we have answered the survey using tobacco as an example. The criteria are based on the question,
Please complete this table by inserting a number from 0 to 5 in each box, by answering the questions. The time scale is in the next 2-5 years. To what extent...

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Demand</th>
<th>Scale</th>
<th>Competition</th>
<th>Gov’t Support</th>
<th>Sector Leadership</th>
<th>Sustainability</th>
<th>Support Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent in the next 2-5 years...</td>
<td>...will external demand be favourable &amp; strong?</td>
<td>...can the sector be developed on a national scale, to one day equal the size of products such as tobacco or tea?</td>
<td>...can the sector support more than 10 fairly large processors that have the incentive to compete and generate jobs?</td>
<td>...can the Government serve as a catalyst for the development of the sector?</td>
<td>...can there be strong industry leadership &amp; collaboration, &amp; cohesion of stakeholders in this cluster?</td>
<td>...does Malawi have the opportunity for a clear niche/market position that it can sustainably exploit?</td>
<td>...will support sectors (finance, research, energy, policy, seed, water etc) be able to provide the required level of support?</td>
</tr>
<tr>
<td><strong>Product/Service Cluster...</strong></td>
<td>Tobacco (this is only an example!)</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

**Meat inc. poultry**

**Dairy products & honey**

**Legumes & pulses exc groundnuts**

**Fruit, vegetables, flowers**

**Nuts excluding groundnuts**

**Cassava, potato & products**

**Paprika & chillies**

**Coffee**

**Wheat & products**

**Millet & products**

**Maize & flour of maize**

**Bread, cereal meals, yeast,**

**Rice**

**Groundnuts**
Annex 9

<table>
<thead>
<tr>
<th>Soya</th>
<th>Edible oils</th>
<th>Non-edible &amp; essential oils</th>
<th>Sugar &amp; sugar products</th>
<th>Beverages</th>
<th>Uranium, limestone, minerals</th>
<th>Soaps, perfumes etc</th>
<th>Articles of Plastic</th>
<th>Leather, hides/skins</th>
<th>Wood &amp; wood products</th>
<th>Packaging, paper, prints</th>
<th>Cotton &amp; textiles</th>
<th>Glass &amp; glassware</th>
<th>Tourism</th>
<th>Finance &amp; other services</th>
</tr>
</thead>
</table>

Part B

Please respond to these questions as you feel is appropriate:

- Which Malawian products or services do you think have the greatest potential in the next 2 to 5 years? This is where you can mention product clusters that we not listed in Part A.
- Looking toward the next 5 years, which product or service clusters that Malawi can produce do you think will experience the greatest market growth?
- For the clusters indicated in Q2 above, which are the key target markets?
- To what extent can Malawi generate significant value added and jobs from the clusters mentioned in Q2 above, rather than exporting raw commodities?
- How can the government facilitate market access for the clusters mentioned in Q2 above?
- What taxation and regulatory recommendations do you have to boost the export-ability of the clusters that you mentioned in Q2 above?
- Which crops are best suited to serve as a complement to tobacco, given considerations such as land, climate, knowledge, support industry, stakeholder cohesion?
- Why is it difficult for farmers to move away from planting tobacco to other cash crops?
- What crops can be grown at a high yield across the country, taking into account prevailing geographic and skills conditions?
- Which product clusters that Malawi can produce have a similar knowledge base and support structure to tobacco and maize?
- Which product/service clusters can realistically generate at least 20 per cent of the value added generated by the tobacco industry in the past 10 years, given geographic and skills conditions in Malawi?
- To what extent can support structures such as those developed in tobacco and cotton be applied to other sectors?
- Relative to Question 12 and given current players in the sectors, which clusters are best placed to have such structures developed?
- What is the greatest challenge in meeting export standards and what is the role that the Malawi Bureau of Standards should play?
- How can access to finance be improved for Malawi’s top export potential clusters?
• Access to market and other information is critical for cluster development. What sustainable solutions can be put in place to ensure better access to information for all stakeholders?
• To what extent can Commodity Platforms be useful to strengthening market linkages?
• What is the most important role that you expect the Malawi Investment and Trade Centre to play?
• To what extent should the extension of irrigation be prioritised to boost Malawi’s ability to export?
• To what extent should Malawi’s export efforts take into account efforts to develop the domestic market?
• Do you think the tourism sector has a strong potential, not merely in terms of Malawi’s geography, but also the extent to which it can be translated into a marketable product?
• What is the key factor that limits businesses from exporting?

**Review of Existing Value Chain Analyses**

This section provides the outcome of Component 3 of the Cluster Prioritization Method: the review of existing value chain analysis. The conclusions on 12 value chains is provided, in terms of key constraints and potential.

**Cassava**

Key Constraints:

• The majority of Cassava (70 per cent) is consumed on farm and therefore there is little development of market linkages between starch processors, smallholder farmers and markets.

• There are no areas where cassava production can be improved without reducing other crop production. To improve output, better fertilisers and farming techniques must be used.

• A lack of consistent cassava supplies limits processors abilities to expand; in contrast farmers are unwilling to grow more cassava until they are sure of a reliable market.

• There is a lack of communication between the value chain actors leading to a lack of trust and understanding – this results in the underinvestment described in the above point by both farmers and processors.

Potential:

• Cassava is drought tolerant and effectively utilises mineral reserves in infertile soils making it suited to Malawi’s environment.

• There is some evidence that farming contracts can be used to overcome rural finance constraints and allow farmers and processors to partner each other in a mutually beneficial manner for example to provide a guaranteed market for farmers and the supplies required for processors. This could potentially overcome the last two constraints mentioned, if developed successfully.

• There is an export market for cassava starch in South Africa.

**Chillies**

Key Constraints:

• There exist huge efficiency differentials between smallholder farmers and estates, with estates producing up to four times the output per hectare of small holders.

• Irrigation is required to produce good yields. This limits the feasibility of scale and the degree of pro poor impact.

• Large variations in prices mean that poor farmers are heavily exposed to price fluctuations.

• Quality inputs are expensive and most farmers cannot afford them, this is worsened by a lack of contract farming in Malawi which means that companies are reluctant to invest in small farmer production, as farmers then proceed to sell their crops later to whoever offers them the best price.

• There is a problem in processing as long transport times (months) leaves powdered chillies exposed to quality degradation.

• The market is characterised by few buyers and many producers, meaning that buyers can exploit sellers (offering a low price knowing that the farmer must accept). This disincentivises long term investment by small holder farmers as this type of treatment encourages them to change their crop.

Potential:

• The growing conditions (climate etc.) required are very similar to tobacco, meaning that it is easy for smallholder farmers to transfer into this crop.

• There are numerous reasons to be optimistic about production: Using the correct inputs, production could easily be tripled. This includes using the correct seed types and the use of irrigation.

• Profit margins for chillies are good (up to 76 per cent)
and there is a strong degree of investment interest in the market such as from Africa Invest.

### Coffee

**Key Constraints:**

- The low and unstable world market prices following the collapse of the International Coffee Agreement and continued world oversupply of the product has resulted in progressive decline of the industry with some growers leaving the industry or reducing production hectarage;
- Lack of introduction of new genetic material due to lack of new investment in the sector has affected production volumes as well as quality.

**Potential:**

- There has been an increasing consumption of specialty coffee worldwide although breaking into the specialty market created requires considerable attention to quality and appropriate marketing mechanisms.
- Meanwhile, coffee produced in Malawi is mainly sold as green beans to the international market which include the United States and Europe as key importers.
- The coffee beans imported from Malawi are then blended and processed into the branded end-product that bears little relationship to the Malawian source. As such there is potential to invest in Malawian coffee and promote ‘speciality coffees’ which promote the Malawian brand.

### Cotton and Garments

**Key Constraints on Production:**

- Low usage of inputs because of cost and availability resulting in low yields;
- Lack of credit for buying farm inputs;
- Lack of farmer organization for buying inputs and marketing cotton, and also for an efficient delivery of technical support and training;
- Poor husbandry practices due to limited knowledge of basic issues like spacing, etc.;
- Limited effectiveness of government extension workers who in addition to not being cotton specialists, they are not able to reach the vast majority of cotton growers;
- Weak world prices for cotton which are beyond the control of the industry directly but impact on the relative attractiveness of growing cotton;
- Reduction in the number of cotton buying points resulting in smallholder farmers getting worse terms and being exploited by not only the buying points but also traders (middle men);

**Key Constraints on Cotton Lint Production:**

- Low Ginning Out-Turn in the country reported at 33 per cent to 35 per cent which results in lower returns for the Ginners;
- High contamination of polyprylene which reduces cotton attractiveness in the international market.

**Key Constraints on Garment Production:**

- Production inefficiencies, delay and product defects especially in textiles have limited the use of locally produced cloth for quality and price reasons;
- Poor finishing of fabrics as a result of insufficient investment to maintain and upgrade equipment has constrained the textile industry from providing the appropriate product;
- Relatively low levels of productivity with a high ratio of supervisors to workers required;
- High cost of electricity, as the industry tends to be charged at peak usage rates or “Maximum Demand tariff”;
- Problems with In-House theft resulting in high security costs;
- Inefficiencies in the operation and support for companies in export processing zones resulting in lost entitlements, inefficiencies and added costs on producers.

**Potential:**

- Cotton has been one of the major cash crops in Malawi, ranking fourth as a foreign exchange earner after tobacco, tea and sugar.
- Grown on approximately 30,000 ha of land the crop supports the livelihood of up to 80,000 to 90,000 farm families and production is mostly suited in the lower lying areas of the country.
- The country’s medium and long term advantage is in the production of garments made from locally woven cotton as opposed to imported synthetic fabrics. This would allow the use of the advantages of AGOA, SADC and COMESA if there is considerable investment in the textile industry.

### Dairy

**Key Constraints:**

- The main constraint on import substitution in the
dairy industry is the cost of processing. It is unlikely that processed dairy products can be produced at a competitive price in Malawi. Although smallholders can produce milk, and there are milk processing units throughout Malawi, it is not thought that the pro-poor impact can progress beyond this simple processing stage.

- Domestic milk has high bacterial content and standards set by the MBS are low.
- Farmers have low skills for necessary functions like marketing, calculating the profits/losses of their business, working out the benefits of expansion etc.
- Strong competition from importers and a poor business climate makes it difficult for firms to be competitive.
- Poor rural road systems and cold chains are highly problematic for bringing the product to market.
- Estate farms converting to dairy production are far more competitive than smallholders due to superior husbandry and management skills.

Potential:
- Low cost entry allows smallholders to participate easily in a production system which is highly resistant to drought and as such provides stable and lower risk income.
- Many suitable areas for development of the dairy industry exist, especially close to urban consumers.
- Good husbandry techniques have evolved in certain parts of the country.
- There exists a strong and well run Dairy Farmer Association.
- Domestic milk products are cheaper than exports and at present demand for pasteurised milk cannot be fulfilled.

Groundnuts

Key Constraints:
- Poor storage techniques lead to large losses before crops can be brought to market.
- Smallholder farmers use inefficient production techniques meaning that they experience low yields comparable to what is possible.
- New seed varieties, developed by ICRISAT, offer large yield improvements but experience low take up due to their upfront expense.
- The largest constraint of Malawian exporters is their inability to control Aflatoxin levels (a carcinogenic fungus which grows on groundnuts), preventing them from exporting to the EU.

Potential:
- Widely grown and adaptable to numerous environments, groundnuts are an easily scalable crop.
- There is potential for value addition for groundnuts by converting them into oil.
- Global demand for groundnuts is growing, both for the nuts themselves and for the oil that they can be used to produce.

Pigeon Peas

Key Constraints on smallholders:
- ICRISAT has developed improved seed varieties including ICP 9145, ICEAP 00040, ICEAP 00020, and ICEAP 00053. Studies show that farmers have not adopted these varieties — low education levels and a lack of access to rural finance are a constraint which partially explains this. ICEAP 00040 in particular is under produced as it has a high demand internationally as a white seeded pigeon pea.
- Limited competition with sometimes only one trader in more remote areas means that smallholders are disadvantaged when selling their crop and are forced to sell it for very low prices.

Key Constraints on exporters:
- Being landlocked Malawi faces higher freight costs and longer shipment times than neighbouring countries, the cost of exporting a 20-foot container of pigeon peas to Mumbai in India is US$ 1800 for Malawi compared to US$ 800 — 1200 for Tanzania, and US$ 500 — 800 for Kenya.
- As noted above, very few white seeded large grain pigeon peas are produced by Malawian farmers, this limits exporter’s supply of high quality pigeon peas to export, which are required to compensate them for the high cost of shipping.

Potential:
- Pigeon pea potential as a valuable export commodity is high. It is already produced in Malawi, who significantly contribute to the world export market.
- There exists a large knowledge base with over ten millers based in Blantyre with the potential to process approximately 20,000 metric tons of tur dhal per annum; many of these millers have extensive experience with some having been in business for over fifty years.
• There is high and growing demand in India, whose own production of pigeon peas has plateaued, providing a clear market to export to.

• There is great potential for value added due to the ability to process pigeon peas into tur dhal.

**Soya Beans**

**Key Constraints:**

- Low productivity (around 0.5MT/ha) is a major limiting factor for Malawi’s competitiveness. Low yields can be attributed to poor quality seeds, poor soil fertility and low use of inoculants, low plant density and poor access to technical assistance. Despite the existence of improved seed varieties, these are seldom available in the rural areas.

- High, and growing, production in South America is a constraint on market capacity. This coupled with high production and transport costs in Malawi, means that it is unlikely that soya production in the country will ever be internationally competitive.

- In terms of scaling there are questions as to the environmental suitability of the crop i.e. it cannot be grown in all areas of Malawi.

- There is a high degree of processing required to create value addition – Soya beans MUST be processed before they are fit for human consumption.

- Lack of reliable market linkages has resulted in a high degree of uncertainty regarding market opportunities. Part of the problem is that there is little coordination, both between farmers, as well as between farmer groups and potential trading partners.

- The lack of facilities for storing soya beans by smallholder farmers also constitutes a problem for reaping the maximum advantage from market dynamics. Farmers will sell early in the season for a low price rather than wait for higher prices later in the season in order to meet short term consumption needs and because the post-harvest losses from poor quality storage are greater than the price compensation.

**Potential:**

- Soya is competitive with maize and cassava from a nutritional standpoint.

- Soya bean demand has risen by 43 per cent over the past ten years and there is strong regional demand from countries such as Zambia and Zimbabwe.

- The majority of soya crop production reaches market as only 30 per cent of it is consumed locally or by the household.

- Soya can be simply processed by a farmer to make milk, oil, and other products but this practice is not engrained in the Malawian culture.

**Sugar**

**Key Constraints:**

- Poor infrastructure which tends to inflate the cost of the exporting and distribution of sugar.

- Lack of production and management skills by out growers limits the sustainability of out grower schemes.

- Future free access to the EU by Brazil.

- Liberalisation of the beet sugar market in the EU.

**Potential:**

- Sugar is the second most important foreign exchange earner from tobacco and accounts for 20 per cent of the total national exports to the EU as well as 9 per cent of total export earnings. It contributes 5-6 per cent to the country’s GDP.

- The sugar industry is a low cost producer due to exceptional favourable agro-climatic conditions for sugar cane growing and the virtually unlimited access to land and water. There are several advantages of the sugar industry in the country’s economy including:
  - Increased market access to the EU market under the EBA initiative.
  - Increased involvement of out growers, thus improving poverty reduction and rural development.
  - Diversification in new products, such as ethanol and electricity production for sale to the national grid, adding value to industry’s by-products.

**Tea**

**Key Constraints:**

- Reliance on one single rainy season and lack of irrigation investment, especially among smallholder tea farmers.

- Lack of capital for investing in tea replanting, factories and irrigation. This results in lost output due to lower green leaf yields achieved in the early years.

- Failure by farmers to shift to new clonal varieties which have a high premium price, are more productive and of higher quality than the bulk being grown now.

- Excessive use of pesticides arouse environmental concerns including deforestation, water pollution, erosion, landslides, and reduction of biodiversity.
Potential:

Tea is one of the major cash crops of the world and Malawi has been the second largest tea producer in Africa after Kenya producing approximately 10 percent of African tea and 3 percent of global tea exports. The country’s current annual tea exports stand at about 43,000 metric tons contributing 7.9 percent of total export earnings. Malawi was the first country in Africa to grow tea on a commercial scale and tea has been produced in Malawi for over 100 years. Currently Malawian tea is grown in the southern districts of Thyolo and Mulanje and the northern lakeshore district of Nkhatabay. The sector employees about 70,000 people and is the largest organized employer of direct labour in private sector.

Given this large existing production there is little room for tea expansion. Furthermore tea is a crop with little potential for value addition and it is not highly linked with other productive industries, so there is little spillover benefit. Compare this to sugar where there are spillovers into other industries such as distilleries and energy.

Tourism

Key Constraints:

- Very strong competition from neighbouring countries, which are more well-known tourist destinations, with more popular assets (better stocked national parks, Mount Kilimanjaro, Victoria falls etc.) means that Malawi has to compete for every tourist dollar.

- High travel costs: 27 per cent of an average tourist package to a national park or the lake consists of transport costs and this is not inclusive of international airfares which are more expensive than to destinations such as Kenya due to poor international air links to Malawi.

- Uncompetitive taxation structure disincentivises the medium to long term investments required by investors to develop the tourism industry (for example tourism vehicles – which need to be custom built, are no longer exempt from import duty).

- Current graduates from public and private institutions are not sufficient in their skill sets, quality or numbers.

Opportunities:

- Tourism has a strong impact on some of the poorest sections of Malawi as a tourist destinations are typically away from commercial hubs.

- Malawi is geographically positioned to benefit from externalities of popular tourism destinations nearby in South Africa, Zambia, Mozambique and Tanzania as, increasingly, tourists are purchasing multi-country holiday packages.

- There has been strong growth in the sector, with it contributing 5.8 per cent to GDP in 2008 compared to 3 per cent in 1995.

  - A low multiplier effect on Malawian tourism income compared to other countries in the region suggests good potential for growth if better ways can be found for keeping tourism money within the economy (supplying tourists with domestic brands of alcohol over imports etc.)

  - Malawi has extensive natural assets which have great potential for eco-tourism from Lake Malawi and Mount Mulanje to Malawi’s national parks.

  - Tourism income is unrelated to rainfall or commodity prices and as such offers a strong source of income diversification for Malawi away from traditional agricultural products.

Wheat

Key Constraints:

- The Malawian wheat market is highly underdeveloped with 97 per cent of domestic consumption being imported. This is in spite of there being favourable conditions for domestic wheat production. This is in part due to the propensity for Malawians to grow maize instead.

- The availability of inputs are a major problem, fertilisers and pesticides are expensive, seeds, while available, have not successfully been distributed to farmers and there is a lack of rural finance to support procurement.

- Irrigation is missing meaning that wheat in Malawi is a rain fed crop, if it were irrigated, then it would be possible to collect two harvests a year.

- The market is characterised by monopsonistic behaviour. There are only two companies in Malawi involved with wheat processing, this, combined with weak farmers associations specialising in wheat, mean that farmers are exploited when it comes to price negotiations.

- The domestic market for flour, bread, cakes etc. is weak due to low Malawian purchasing power.

Potential:

- There exists an estimated 30,000 ha of land where production could be expanded to.

- Yields could be tripled to 3 ton/ha if the proper inputs and agricultural techniques were used.

- Finally there is a large potential market domestically, regionally and internationally.
Annex 10 – Review of Cross Cutting Export Enablers
## Annex 10 - Contents

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Introduction
This document was prepared between February and April 2012 to inform the development process of the National Export Strategy. It is up to date as of April 2012.

This document contributes to the National Export Strategy process by identifying the status of cross-sector export enablers that are necessary to allow for the development of export capacity in Malawi.

Export enablers are defined as those factors that all exporters and potential exporters, irrespective of their size or products, require to allow them to develop the capacity they need to be able to compete on external markets.

These are divided into ten enablers, based on the needs of exporters and potential exporters to develop the capacity to export. These are:

1. Access to Skills – exporters and potential exporters, as well as public institutions, require access to a pool of skills necessary to allow for the required capacity to be able to compete on external markets

2. Institutional Capacity – exporters and potential exporters require effective institutions that can address market failures in an appropriate manner and provide the necessary institutional service of trade facilitation

3. Access to Markets – this includes the facilitation of trade, favourable trade policy, affordable transportation to markets, affordable cost of meeting standard requirements, affordable cost of required packaging

4. Access to Inputs – this includes affordable access to water, energy, fertilizer and seed

5. Access to Finance and Contract Law – this includes the affordable ability to finance capital, inputs and the ability to secure the returns from assets

6. Access to Business Development Services – this includes affordable access to legal, accountancy, technical specialised services, marketing, extension services, MSME, entrepreneur and start-up support

7. Ease of Meeting Tax and Regulatory Obligations – every exporter and potential exporter has to meet their tax and regulatory obligations. This therefore includes identifying the minimum obligations and facilitating the ease of meeting these obligations.

8. Macroeconomic Prudence and Stability – price stability, affordable access to foreign exchange, affordable access to debt

9. Access to Information – this includes access to key information on consumer preferences, on accountability, to policy coherence and constructive stakeholder dialogue

10. Fair competition – exporters and potential exports require a level playing field to maximise output

In this document the status of each of these ten enablers is identified, as well as the implementation issues in efforts to improve these ten enablers. Gaps in providing support to these enablers are also identified.

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Access to Skills

Main Priority: Broaden Education SWAp so that it is much more focused on secondary and in Technical, Entrepreneurial and Vocational Education and Training (TEVET) education than present. Make the case that ultimately it is secondary and TEVET education that will allow employability, thereby creating jobs for both rural and urban contexts.

Second Priority: Implement concerted effort to link demand for skills to supply for skills through adequate investment in a sustainable, effective TEVET system that accounts for both formal and more importantly, informal youths. Account for age and gender differentials to ensure appropriateness of supply.

Third Priority: Ensure fast-track implementation of programme to improve enrolment and access to mathematics and science training in secondary sector. Include agri-business, management and technical skills in secondary curriculum.

Fourth Priority: Investigate the use of market-based public private partnerships, such as voucher schemes, to serve as an automatic flow of labour market information to training institutions and regulators; and to incentivise increased private sector skills training.

Fifth Priority: Develop a scarce-skills list and integrate this into immigration policy for temporary movement and/or work permits. Investigate possibilities for a Points-based Immigration Scheme.

Limited access to a required skill set by the public sector and the private sector is Malawi’s largest constraint to developing its ability to export. Exporters and potential exporters feel that technical skills are not readily available in the market and that there is inadequate Government funding for technical schools thereby not producing graduates that are not relevant to most value addition sectors. There used to be sufficient supply of these skilled artisans (fitters, turners, machinists, welders etc), technicians and engineers in Malawi but now they are much harder to find and this area is in desperate need of investment.

The main targets are that 20% of total government recurrent discretionary expenditure must be allocated to the education sector and 60% of the recurrent expenditure of the Ministry of Education, Science and Technology must be allocated to primary education.

The reasons for this are:

• **Major underinvestment in the secondary and TEVET sectors.** This is epitomised by the lack of focus on these sectors in the Education SWAp. While primary education is critical, secondary and TEVET are equally critical because these are the sectors that allow for employability and value addition job creation based in productive sectors of the economy. Indeed, the Joint Financing Agreement, which was drafted in the course of the introduction of the education sector wide approach\(^2\), there is a list of eligible expenditures which outlines 7 areas in which the MoEST needs to spend at least as much as the development partners’ pooled financial in a financial year. Higher education and secondary education, apart from Teaching and Learning materials, are not treated as eligible expenditures. The main ESWAP donors are GIZ, the Global Partnership for Education, DFID, UNICEF and the World Bank; and

  • A major disconnect between the supply of labour and the demand of labour, in a manner that productive private sectors and important public service sectors are not accessing the skill set they need to ensure that collectively, Malawi’s resources are enabling export growth, and also wider economic development.

Currently nearly all funding through the Education SWAp is for primary education. Multilateral donor support for the secondary education sector is only from ADB and the World Bank, through loan financing, while the only bilateral support is from JICA for the Enhancing Mathematics and Science Programme. JICA is also assisting to expand Community Day Secondary Schools. None of the other development partners support secondary education, while the Government’s budget is severely constrained relative to the size of demand for secondary education.

There is need for more discussion as to the demand side requirements for skills with little in the way of civil society networks or market mechanisms to reflect demand impulses. The government has tried previous co-ordination strategies with the private sector, but they are always poorly attended suggesting a different modality is required. In addition, there are also few tax or other incentives for private sector investment in training, such that only larger firms train their workers while SMEs do not.

Therefore while recent education sector reforms such as curriculum development; improved teaching and learning materials; infrastructure development and rehabilitation and teacher-training have been important and must be recognised, more needs to be done if Malawi is to become competitive in value added products, rather than merely in commodities. This is because the boosting of Malawi’s competitiveness to required levels requires scaled reforms that taken into account Malawi’s burgeoning youth population and demographics. *Therefore, the key word is scale: what matters is providing competencies and skills through secondary and TVET education on the scale necessary to allow the productive sectors to absorb an increasing number of youths into the export and value addition process.* If such youths are not skilled as artisans, agro-entrepreneurs, technicians or operators, then they will...
struggle to contribute to the value addition process. This has a
direct correlation with Malawi’s ability to raise foreign exchange.
In addition, responsiveness/adequacy/relevance of education
to market demand as well as affordability are also important.

A problem of quality and relevance of education seems to persist
in addition to the concern of scale.

1.1 Secondary Education

Main Priority: Develop a concerted, highly prioritised strategy
to drive the enrolment rate up from 50 per cent and improve
throughput at MSCE to at least 65 per cent (38.6 per cent in
2006). Raising this requires increased inclusion of secondary
education in ESWAp.

Second Priority: Ensure timely and adequate implementation
of the Strengthening Mathematics and Science in Secondary
Education Programme, by ensuring enough budgeting
through the Government, to replace current JICA funding.

Third Priority: Introduce a plan with Domasi College of
Education to increase teaching staff to student ratio in
Community Day Secondary Schools from 1:104 in 2006.
Target in NESP is for 1:40 by 2017 although this is unrealistic
as not much progress has been made since 2006.

Fourth Priority: Ensure secondary education budget reaches
16.6 per cent of total education budget by 2017, and boost
further if possible.

Fifth Priority: Ensure adequate resourcing to the Ministry
of Education, Science and Technology’s effort to revive
secondary and primary technical schools, through ESWAp.

The greatest issue in secondary education, from the perspective
of Malawi’s ability to export, is the low number of graduates as a
share of Malawi’s student population. According to the Ministry of
Education, Science and Technology, 90 per cent of primary school
graduates are eligible to attend secondary school but there is only
capacity for 20 per cent. It is therefore critical to continually expand
secondary school capacity, primarily through increasing the size of
existing schools. Average school size in secondary schools is very
low (212 students in secondary vs. 642 in primary). Economies of
scale savings are possible by favouring bigger secondary schools
(more than 150 students. Therefore it is important to expand the
size of schools by building new classrooms and deploying new
teachers.

It is also essential to prioritise and ensure the implementation
of concerted effort to drive a rapid increase of enrolment from
50 per cent of those eligible for normal public schools, open,
distance and private learning as called for in the National
Education Sector Plan.

The second great challenge is the dramatic lack of secondary
teachers in the sciences. It is important to ensure the successful
implementation of the Strengthening Mathematics and Science in
Secondary Education (SMASSE). This has been funded by JICA and
is being rolled out across the country. JICA funding ends in August
2012 and the programme is being institutionalised with its own
budget line. There are plans to ensure the Government provides
the same amount of funding as provided by JICA. It is also critical
to increase availability of mathematics and science teachers in
all schools by 2017. JICA is currently developing a programme
to address this at a national level, including capacity building
at a national level. It is essential to ensure the adequate
design, resourcing and timely implementation of this
programme.

The allocation of other recurrent transactions (ORT) to secondary
schools is also very weakly related to the number of students.
Community Day Secondary Schools (CDSSs) are systematically
less well endowed (in teachers and in ORT per student) than
Conventional Secondary Schools (CSSs) and have high enrolment
rates. The only realistic solution is to allow schools to charge
higher fees. No secondary school in the country charges the
official, low rates since no school can operate for instance on 500
MK boarding and feeding. The OPC and Ministry of Finance and
Development Planning have given authority to increase fees but
the Directorate of Secondary Education is yet to propose a new
fee structure.

There is also an inadequate supply of qualified teachers
especially in Community Day Secondary Schools, and inadequate
basic infrastructure such as science laboratories and hostels and
teaching and learning materials.

Another key requirement, in terms of Malawi’s ability to export,
is providing adequate support (in terms of management time
and resourcing) to the Ministry of Education, Science and
Technology’s initiative to revive technical schools and teaching
in primary and secondary schools. The Ministry is currently reviving
1 model primary technical school in Dowa with the support of
the Canadian International Development Agency, and has plans
to revive another 27 if the first works well. The Ministry also
would like to revive 12 secondary technical schools (e.g. the
Lilongwe Technical School) but has limited funding to maintain
old equipment and purchase new equipment. It first would like to
assess the quality of equipment. The Ministry believes teachers
can be found, particularly through training at the Polytechnic —
the greatest challenge is the maintenance of machines. Such
programmes will struggle to take off without a proper inclusion of
secondary education in the ESWAp.

It is also essential to include entrepreneurship in the review
of secondary education that has just started, while refresher
courses in technical schools also need to be provided,
1.2 Technical, Entrepreneurial, Vocational Education and Training (TEVET)

Main Priority: Identify a sustainable structure to ensure permanent and adequate information flow between demanders of skills and suppliers of skills.

Second Priority: Try to raise the education budget allocation to TEVET to gradually to 4.4 per cent by 2017 (0.7 per cent in 2006). It stood at MK102 million in 2011/2012, and unfortunately remains constant in 2012/2013. Note: this target may be unrealistic; it stands around 1 per cent in 2011.

Third Priority: Identify and implement appropriate skills training incentive structure. The first step is to conduct a review.

Fourth Priority: Develop plan to increase capacity of technical institutes, including new ones. There are plans for two more in the Education Sector Implementation Plan, but there is no funding allocated to them. This requires support from the Education SWAp.

Fifth Priority: Ensure formal and informal TEVET systems are synchronised to collectively match demand, both in terms of curricula but also in terms of capacity and context (urban and rural)

Sixth Priority: Invest in the capacity of TEVET organisations so that they have the required skills set to meet their mandate.

Seventh Priority: Ensure adequate development of Malawi Industrial Training Association as an active input into TEVET.

Eighth Priority: Strengthen programmes to support entrepreneurship in TEVET, including through the Youth Development Fund: there is currently a disconnect between the Fund and the Ministry of Education, Science and Technology that needs to be addressed.

The largest contributor to the extraordinary skills gap in Malawi is the limited capacity that is available in technical, entrepreneurial and vocational education training (TEVET). Indeed the largest skill set that is required are technicians and artisans — as these are the ones who can implement the plans and visions developed by engineers, managers and investors. There is strong underinvestment in technical training and this must be addressed if Malawi is to move toward value added exports.

For example Universal Industries, one of the leaders in the agro-processing sector said — like numerous other value addition companies — that they face a lack of skills. It expects recruits to have a base level of skills, but ‘it is always lower than expected and it takes more management time. It is a cost. There is a need more training. TEVETA is helping a lot. We receive a tax break of 50 per cent of the training cost. TEVETA also covers part of cost of training. TEVETA is doing a good job but there is a need for more technical knowledge and TEVETA courses can be improved. There is a need for better trainers and a rigorous follow up on courses, which is currently lacking.’

The Technical, Entrepreneurial and Vocational, Education and Training Authority (TEVETA) lacks adequate funding support and capacity and as a result its training only covers certain skills requirements as such the private sector is relied upon to provide training for employees. Malawi, with a population of 15 million has only seven technical colleges, four of which are publicly owned (Society, Lilongwe, Nasawa and Salima) and three are owned by church-based organisations. The last three are grant-aided by the Government. This compares with six public universities, suggesting a strong imbalance between TVET and Higher Education. The technical colleges have capacity for 600 places per year but applications total around 14,000. This was recently expanded through the inclusion of 700 places at private colleges (such as the Don Bosco Technical College in Lilongwe), but such positions are less affordable due to the higher fees that they charge. Even with these additional places only ten per cent of applicants are allocated a place. Indeed there are 39 private technical colleges and these receive training subsidies from TEVETA. Nonetheless capacity remains highly limited relative to the demand. The AfDB supported programme HEST is planning to help the four public technical colleges increase their capacity, but there are no plans for new technical colleges. It is critical for Malawi to match the supply of TEVET, whether formal or informal, to the demand and the current system does not allow this.

The National Education Sector Plan (NESP), which will be updated in 2013, has identified the following key issues in Malawi’s Technical and Vocational Education & Training (TVET):

- Unsystematic management and operation of TVET has led to inadequate funding, lack of prioritization and poor link with TEVETA; Therefore institutions have obsolete and inadequate equipment and low funding allocation. Although private sector gives one per cent levy to TEVET, there is no appropriate machinery (governance and management) ensuring funds remitted are channelled for needs of colleges. The levy is one per cent of the previous years’ wage bill.

- A consequence of poor funding is under-performance of graduates in industries and government. Curricula are often outdated and overlap across different certificates.

- There is no teacher training college for technical colleges. In addition, the non-availability of a teacher training wing in Domasi College of Education that is geared technical colleges so that colleges and secondary schools do not over depend on Polytechnic for its instructors and teachers. The Polytechnic has proved inflexible in this regard.

The National Education Sector Plan (NESP), which will be updated in 2013, has identified the following key issues in Malawi’s Technical and Vocational Education & Training (TVET):
In addition the Government believes that the current TVET system prevents many potential students from accessing the training. This because applications must have attained the Malawi Education Certificate to be eligible because TEVETA training is through Competence Based Education Training (CBET). An expensive system due to equipment requirements, the modular approach and the constant method of assessment. Malawi simply does not have the resources to run such training on the scale that is required. The lack of definition of which occupations fall under TVET, outdated information systems and weak institutional structures contribute to the existing disconnect between skills demand and skills supply.

An alternative for non-eligible students is trade testing. Trade Testing is voluntary and does not have a prerequisite in terms of qualification. Roughly 8,000 students are trained and tested each year. All the trade testing happens in companies and at private institutions, also through on the job training. As a result, the private sector generally prefers certificates from the trade testing centres as they were typically awarded to individuals who had more vocational experience relative to TEVET qualifications.

As a result of a sub-optimal structure, Malawi has had three parallel qualification systems that co-exist: trade testing, Malawi Advanced Craft and the TEVET/Competency Based Education and Training (CBET). Currently these all maintain their own assessment and certification structures. This is unnecessarily costly for students and government and hampers quality improvements and the school level.

TEVET Policy of 1998 and TEVET Act of 1999, assigned regulatory and policy-making authority for the broad TVET system to the newly created TEVETA. Stakeholder involvement is facilitated through the TEVET Board. However TEVETA’s role does not appear to be unanimously accepted by all major ministerial stakeholders, as shown in parallel initiatives of standard and curriculum development and examination regulations. This lack of clarity about roles and responsibilities in the national TVET system reinforces existing obstacles to the development of an integrated and labour-market driven TVET system. It particularly affects training quality in a negative way as scarce resources available at TVET institution level are used to accommodate different requirements, procedures and standards of various authorities with regulatory functions.

This effort has commenced with ongoing efforts to better define roles and responsibilities in order to streamline the system. The TEVET Act being reviewed to all TEVET to cover a broader scope. In February 2012 the Ministry of Education, Science and Technology agreed to harmonise the TEVET curriculum so that there will now be only two systems: the informal sector (for students who fail to pass the Malawi Certificate Examination) and the formal sector (for those that do). The informal sector will be covered by the trade testing system, and the formal sector by TEVET. The Malawi Institute of Education will be responsible for the curriculum, while the Malawi National Examination Board will run the assessment scheme. TEVETA will serve as the regulator and facilitator. This ongoing review of the TEVET system will aim to broaden the range of skills that are targeted under TEVET. It will aim to include courses such as agriculture and forestry to take on board all colleges that provide courses up to the diploma level. All colleges that provide such courses will fall under TVET for such courses. Industry specific colleges will continue to fall under their respective line Ministries while a number of sector advisory committees are being formed, such as in construction, automobiles etc. The Ministry of Labour will continue to be responsible for the informal sector and for the connection between the demand for skills and the supply of skills. This issue is discussed in the next section.

Going forward, it will be essential to ensure that the informal and formal sectors are synchronised, and that both allow for a scaled response to the demand for skills training, both by students and by businesses.

The priorities of the Ministry of Education, Science and Technology in TEVET that need to be accelerated through the National Export Strategy process are:

- The reform governance of technical and vocation training institutions;
- Securing internal efficiency of the TEVET system, both formal and informal;
- Improve curriculum delivery for TVET teacher training, both formal and informal;
- Update curriculum(s) to address both rural and urban contexts of labour demands;
- Rehabilitate public technical colleges’ infrastructure to improve learning conditions and environment; Note: This has been moved from the centrally held development budget to ORT for 2012-13. Each college has been given 10,000,000MK for Rehabilitation and Maintenance.
- Strengthen and improve examination modalities, certification and mode of assessments and services in technical colleges so students have added value in minimum time possible;
- Improve staffing, coordinating and sourcing research in technical studies, science and technology and commissioned studies by government agencies and private sector on industrial growth and development of the economies;
- Enhance provision and management of relevant equipment, teaching and learning materials bearing in mind gender, special needs and other factors; and
These priorities have specific targets linked to them, as detailed in the National Education Sector Plan, and need to be prioritised sooner rather than later if Malawi is to become competitive in value added sectors, rather than merely in commodities.

Tracer studies have also demonstrated that the informal sector is not only an important target labour market for TEVET graduates in terms of absorption numbers, but also a rather attractive destination as incomes tend to be relatively high. The formal TEVET system however is still largely orientated on formal sector needs. For example, informal entrepreneurs including producers’ organisations are not targeted as cooperation partners in the formal apprenticeship training. The trade testing system is accessible and presents the most important avenue to formal skills certification for informal sector operators and traditional apprentices. However the system’s standards are outdated.

It is therefore essential to systematically incorporate the informal sector as a target employment destination into TEVET with special modules oriented toward apprenticeships for the agriculture sector. Institutions that support the informal sector should serve as a partner in TEVET planning (including labour market assessments). In addition previous activities to strengthen traditional apprenticeship training in order to increase quality and enrolment should be revived. There is a need to integrate trade testing with the CBET qualification system, allowing for students who fail to qualify for the Malawi Examinations Certificate.

Another key need is for the TEVET system to provide flexible modes of training delivery and program duration. This would help ensure better targeting to specific competence and qualification requirements in the labour market. Flexibility is important because the TEVET tracer study showed that no correlations exist between duration of training and expected incomes. This means that graduates of four-year apprenticeship programmes are not significantly better remunerated than graduates from shorter TEVET programmes, suggesting that the market is not honouring the long training duration that is common in the formal TEVET system.

It is also essential to significantly strengthen the link with the work of the Ministry of Youth. In 2010 the Government established the Youth Enterprise Development Fund (YEDF). The objective of the fund is to ease youth access to enterprise development and financing. Since the launch, Government has undertaken sensitization campaign in all the districts in collaboration with the Malawi Rural Development Fund. However, there is a disconnect between the Fund and the Ministry of Education, Science and Technology; this Ministry is meant to train youths on business courses such as bookkeeping and technical subjects, prior to them receiving the loans. Although this is a budget item in the Ministry of Education, Science and Technology’s budget, there is no funding allocated so that such trainings do not take place. However loans are being given out under the YEDF.

In addition, the former Malawi Young Pioneer Training Bases have been rehabilitated to become the Neno Youth Development Centre. These are both programmes that can strengthen the TEVET system, as long as there is adequate coordination and synchronisation. Efforts to strengthen this coordination are already occurring between the Ministry of Labour and the Ministry of Youth.

Similarly, the implementation National Employment Labour Policy needs to take into account efforts to address the skills supply and demand disconnect, as efforts to improve labour conditions have to be tied to efforts to generate value addition.

A critical recent development has been the establishment by the Malawi Industrial Training Association (MITA) by TEVETA. This has been established in conjunction with companies such as Illovo and Packaging Industries.

1.3 Labour Market Information

Priority: Investigate the use of market-based public private partnerships, such as voucher schemes, to serve as an automatic flow of labour market information to training institutions and regulators.

Second Priority: Ensure that the African Development Bank funded Higher Education, Science and Technology Programme (HEST) sets as its top priority the permanent development of the capacity of the Ministry of Labour to allow for an appropriate linkage between the demand for skills and the supply of skills; while allowing a strong linkage between the informal TEVET sector and the formal TEVET sector.

Third Priority: A proper analysis of the required capacity of the Ministry of Labour to meet this mandate is essential; so that a judgement can be made on whether it can be achieved. This is critical given the centrality of the skills gap to Malawi’s ability to export and its forex shortages.

Fourth priority: Conduct a proper analysis of the situation of labour market information in rural areas, including the agricultural sector, and in collaboration with MOL and MOAIWD. Such analysis should address issues of employment quality and vulnerability, type of contracts, gender and age based inequalities, youth specific demands and challenges as well as child labour issues.

TEVET and Higher Education planning in Malawi suffer from serious data and information gaps about labour market needs and trends, including age and gender sensitive data. There are no up to date labour market statistics, making it very difficult to monitor the demand for skills and supply responses. TEVETA has recently initiated a labour market database, however the analytical approach appears limited to occupational fields that target current TEVET programmes. Tools to rapidly and cost-effectively identify new and emerging occupational fields and their...
training and qualifications are not yet in place.

It is therefore essential to streamline the current network between TEVETA, higher education institutions, investment planners, Ministry of Labour, NSO and other potential partners with a concerted strategy to systematically and continuously assess labour market trends and related skills requirements. Yet the current public sector structure for the flow of labour market information is not producing the required results. This is led by the Ministry of Labour, but it is poorly resourced and lacks the capacity to meet this mandate. It is often dependent on one-off projects by external development partners. The Ministry of Labour has offices in each district. The critical issue though, is the fact that such a network is expensive to maintain, given current cost constraints as dictated by the zero-deficit budget. The Labour Market Information System has its weaknesses, as it is a big administration cost. This is an area where it is important to investigate whether a private sector or market-based solution can lead to the desired outcome. One method of doing this is through voucher schemes. Voucher schemes, as applied in the Farm Input Subsidy Programme in agriculture, introduce an element of demand and allow for automatic information flows, because they allow businesses to choose the courses that they need, allowing for a proportionate response by training institutions. Such voucher schemes can reduce the administrative burden on the public sector and need to be further investigated.

When looking in particular at employment-related data and rural labour statistics, including labour statistics in the agricultural sector, the situations appears very challenging. Aside from generic ‘gaps’ relating to the quality, accuracy and timeliness of data, specific challenges limit the current analysis of rural labour markets and a deeper knowledge of labour market characteristics and complexity in rural areas represents a major priority.

Agricultural work is often informal, temporary and/or seasonal with workers frequently being involved in a variety of farm and non-farm activities and moving between different segments of the rural economy. This complexity is difficult to analyse. Also, many information gaps concern the lack of workplace information in the context of small-scale agricultural settings, lack of information on under-employment and vulnerability in rural labour markets (e.g., hidden unemployment, under-utilization of skills, multiple job-holding, informal recruitment practices and networks), lack of data on rural migrants and migration flows; lack of gender and age disaggregated information and/or analysis, particularly by agricultural sub-sectors. Information on rural women’s and youth’s time use, asset ownership, unpaid and paid work and income is often very poor and this reduces the possibility of taken informed strategic decisions fostering women and youth economic empowerment.

### 1.4 Domestic versus Imported Supply of Skills

**Priority: Develop a scarce-skills list and integrate into immigration policy for temporary movement and/or work permits. Investigate possibilities for a Points-based Immigration Scheme.**

A further need is for Malawi to draw up a list of desired skills, and as a component of this, a list of scarce skills. In developing its ability to export, Malawi will require a certain skill set. A large part of this can be provided locally, if the disconnect between supply and demand that is discussed above is addressed. However part of this will need to be imported. A practical example is that it is currently difficult to employ Malawian engineers, because many of these have been attracted to work with Paladin at the uranium mine. A supply side response by the training institutions will take time, so it might be worth, for the sake of short-term and medium-term productivity to allow the easy immigration of engineers for other key sectors.

Currently there is a lack of knowledge about what can and cannot be provided locally, so it is essential to develop a skills requirement list for the NES, and from that work with the education sector to develop a scare skills list. If this is approved, also by the Department for Immigration, then there could be an option to develop a points-based immigration scheme that takes into account the skills shortages in Malawi. This will be critical in allow Malawi the capacity to raise foreign exchange in the short and medium terms.

### 1.5 Higher Education

**Priority: Continue ongoing support for the Public Universities Working Committee. Ensure pro-activeness of working committee remains through effective secretariat, membership and ongoing follow-up to decisions made.**

Access to higher education is the lowest in the world, with only 64 higher education students per 100,000 inhabitants. This compares to a Sub-Saharan African average of 538 higher education students per 100,000 inhabitants. There is lack of investment in increased infrastructure and rehabilitation of old infrastructure has constrained enrolments and the introduction of new programmes in public institutions. Private institutions are still relatively new and small, although their contribution to enrolments and new programmes is increasing.

There is also a fair degree of weakness and deficiencies in university management system, including absence of clear regulations governing such processes as the creation of posts, tenure system, and appointment of staff. There are also governance problems in the system such as poorly defined structures, lines of authority and delegation of powers and addressing this is important given that the unit cost of educating student in public universities is relatively high. A large proportion of total education spending is devoted to higher education. The MoEST is trying to reverse this trend by working towards an increase in tuition fees for 2013-14. An internal steering committee has been established and recommendations have been presented to Cabinet for a decision.

The private sector and public sector are members of the Public...
Universities Working Committee, which is behind the development of the Malawi University of Science and Technology and establishment of the Lilongwe University of Agriculture, among others.

Priorities in the National Education Sector Plan that should be fast tracked with support of the National Export Strategy are:

- Double enrolment over the next 5 to 10 years focusing on critical academic areas while increasing efficiency in public universities to keep spending by the state to approximately current levels, expanding access to open and distance and/or part-time studies and increase the number of private universities;
- Significantly increase female access;
- Raise academic staff profile through continuous professional development;
- Develop national research policy that will utilize expertise in the public universities so that expertise is incrementally relevant to dynamics of national and global economy;
- Retain experienced academic staff through motivation packages;
- Focus infrastructure development on science and technology labs, workshops and ICT;
- Upgrade teaching and learning infrastructure in colleges;
- Improve staff qualifications, especially lecturers without PhDs and rationalise the use of those with PhDs to enhance quality of teaching, learning, research and development;
- With relevant govt departments, institute a semi-autonomous accreditation and quality assurance agency under the supervision of the council for higher education;
- Develop and implement other programmes to improve quality and efficiency and set institutions for science and technology funded by the universities themselves through their own sources and/or support from government (inc recurrent Govt grant) In response the Government, with funding from the Government of China, is constructing the Malawi University of Science and Technology (MUST) in Thyolo which will offer among others, research and courses in health and medical sciences, applied engineering and technology, earth and climate change sciences, and cancer research. There are also plans to establish a University of Bangula in Chikhwawa with special faculties devoted to Cotton Research and Water Resources Management. There are also plans to establish a Research Institute in Mangochi for the Green Belt Initiative. Bunda College of Agriculture is being upgraded and re-established into the Lilongwe University of Agriculture and Natural Resources. It will integrate the Natural Resources College, the Chitedze Research Centre and the Agricultural Research and Extension Trust (ARET). There are also efforts to expand the Mzuzu University and the establishment of a new Mineral Research College and a Rice Research Institute in Karonga.

The African Development Bank is funding a Higher Education and Science and Technology Project which will:

- Rehabilitate and construct new infrastructure in TVET and higher education institutions of University of Malawi and Mzuzu University.
- Provide capacity building for the Ministry of Education, Science and Technology, the relevant Technical Entrepreneurial Vocational Education Training (TEVET) and university staff of the above institutions through formal and informal training.
- Focus on skills improvement for private sector development and to assist the Government to review relevant existing policies to inform the development of a national policy on skills development.
Institutions

A separate review of institutional capacity was conducted. Please refer to that document, in Annex 11.
ACCESS TO MARKETS

3.1 Reduction of Trade Tariffs and Quotas

Priority: Malawi requires a simplification of its tariff scheme for both exports and imported inputs.

Summary of Current Status

The current tariff system is complex because it has numerous exemption schemes, preferential rates and the Most Favoured Nation (MFN) tariff has six bands rather than a simple average rate which existed in the past. However Malawi benefits from development-focused pro-LDC trade agreements with the EU and USA, such as the African Growth and Opportunity Act (AGOA).

While the preferential treatment given to Malawi by developed countries is undoubtedly beneficial for export facilitation, the discretionary and non-transparent nature of tariff schemes imposed by Malawi leave room for abuse. A simplification exercise would remove this element as well as promoting efficiency in the system, reducing administrative costs and raise more export tax revenues. A simplification exercise on tariffs applied to inputs necessary for export production would also significantly boost Malawi's export capacity.

Regional Tariffs

Preferential tariff rates are complex because Malawi is a member of both the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). The two blocs have different speeds of tariff elimination and in addition, imports from Malawi's main trade partner South Africa are governed by a completely separate schedule of tariff elimination. The 26 member states of SADC, COMESA and the East African Community (EAC) agreed to negotiate a Tripartite Free Trade area and the Draft Agreement and Annexes were finalised in December 2010. The new FTA will create a larger market and should lead to improved trade performance and competitiveness for the region. Following the Second Tripartite Summit in June 2011 timeframes have been agreed and formal negotiations have begun with the area due for launching in 2012.

EU Tariffs

Barriers to trade with EU member states have undergone a number of changes in the last decade. The Everything But Arms (EBA) agreement was designed by the EU and implemented in 2001. It provides duty-free access to EU imports of all products except arms and ammunition from 49 Least Developed Countries without any quantitative restrictions. In addition to this, the Cotonou Agreement guided the EU's relationship with 79 African, Caribbean and Pacific (ACP) countries from 2000 to 2007. The extensions of the Cotonou Agreement manifested themselves in the form of Economic Partnership Agreements (EPAs) through which developing country members gain free access to EU markets but they must also offer preferences to EU imports in their markets. Malawi is one of the few remaining countries in the Eastern and Southern Africa regional bloc not to have signed the EPA because of the many benefits that they gain under the EBA initiative, the costs outweigh the benefits.

Other Key Partner Tariffs

Through the Chinese Tariff Preferential Scheme for Less Developed Countries, Malawi is exporting tobacco and cotton to China. The United States has extended benefits under the Generalised System of Preferences program through the African Growth and Opportunity Act (AGOA) of 2000. It provides trade preferences for quota and duty-free entry into the US for certain goods such as textile and apparel goods and has been extended to 2015.

Bilateral agreements also exist with India, China, Mozambique, South Africa, Zimbabwe, Zambia, Tanzania, and Botswana and initiatives such as the Growth Triangle and Spatial Development Initiative offer important opportunities to increase trade and investment.

3.2 Trade Negotiation Capacity and Unfair External Competition

Priority: Invest in trade negotiation capacity so that Malawi's efforts to develop value addition is safeguarded by trade policy and not undermined by it. Trade Policy in Negotiations has to be led and determined by real efforts to develop Malawi's productive base.

With the general decline in tariffs and quotas, through the proliferation of regional blocs such as SADC and COMESA, and through trade deals such as the EU's Everything But Arms, countries are increasingly resorting to Non-Tariff Barriers (NTBs) as tools to protect their industries from trade. The application of product standards to imported goods is the most common NTB. Malawi's capacity to address this is discussed in the section 3.3 below.

Apart from standards, NTBs arise in different forms, from rules of origin – which determine the location of the creation of the value added of a product for trade purposes – to government subsidies

3 WTO, (2010), Trade Policy Review
5 Government of Malawi, (24th May 2010), Building National Capacity for Sustained Growth and Development: State of the Nation Address [speech]
6 MCCCI, (August 2011), Quarterly Trade Update Notes
to domestic exports. The latter is a key issue facing LDCs such as Malawi because competitor products in areas such as agriculture, packaging and others receive subsidies in the European Union, the US and Asia. This makes it difficult for Malawi to compete both in foreign markets and also in domestic markets.

Having the capacity to negotiate effectively in trade circles is essential to Malawi’s effort to move from the export of commodities to the export of value added products. This is important because counterpart countries will often resort to unorthodox measures to secure a position favourable to them, such as altering draft texts after the end of a negotiation session or sending a top official to make a deal with a Minister that counters the position of the technical team.

It is therefore essential for Malawi’s National Export Strategy to build a strong trade negotiation team that has the capacity to argue, from a robust economics point of the view, the importance of having trade negotiations, whether with SADC, COMESA, EU, US, China and bilaterals, be led by Malawi’s effort to develop value addition exports, rather than be used as a tool by trade partners to ensure their access to commodities without helping Malawi to truly develop its skills base and its institutional capacity.

### 3.3 Facilitation of Meeting Standards Requirements

**Priority: Significantly strengthen the capacity of the Malawi Bureau of Standards to act as a facilitator of trade.** This needs to occur not merely through infrastructure, but more importantly through innovative and concerted efforts to develop systems through staff development and retention. Sanitary and Phytosanitary Standards (SPS) is one key area for initial focus.

**Second Priority: Implement a concerted, holistic plan for the MBS to be internationally accredited.**

Malawi does not currently have the capability to test and certify products to internationally accepted standards while the MSME review that is currently being conducted by the Ministry of Industry and Trade has found that products produced by Malawian manufacturers tend to compromise on quality, particularly when they are produced by MSMEs who are still in the learning stages.

The Malawi Bureau of Standards (MBS), the designated National Enquiry Point (NEP) for standards and certification, is not internationally accredited, its tests are not reliable and it lacks skills capacity to serve as a facilitator of accreditation. The Malawi Bureau of Standards is more of a regulator than a facilitator, except in the area of metrology, while the staff establishment is small and it has limited revenue, so it is financially handicapped. This serves as a large cost for export-oriented businesses. A small and it has limited revenue, so it is financially handicapped.

The kind of certification and standards required are to some extent specific to the region that is being targeted and therefore have different levels of importance to Malawian exporters. Malawi currently exports mainly to the SADC region but achieving and maintaining international standards demanded by places such as the UK and China will be vital to retaining their share of these markets as well as reaching markets further afield. One of the standards which are accepted at the more global level is the European Food Safety Inspection Service – EFSS which is comprised of the ISO22000, HACCP, and BRC amongst others.

Sanitary and phytosanitary (SPS) certificates are considered to be a potentially very important barrier to trade and a recent publication by SADC lists SPS measures amongst the main barriers to improved export performance in Malawi. These measures set out how food safety measures can be applied in reference to the basic rules of the WTO and hence barring the measures being used as an excuse for protecting domestic producers. The Ministry of Industry and Trade is applying the WTO Standards and Trade Development Facility (STDF) framework to prioritise SPS capacity building options and enhance decision-making processes on the

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9 Malawi Industrial, Research and Technology Development Centre (MIRTDC), (June 2010), Manufacturing Industries Technology Needs Assessment Report
10 Imani Development, (2010), Draft annex on Enabling Environment in Malawi
allocation of resources. This framework aims to: (1) enhance the economic efficiency of SPS capacity building decisions such that scarce resources are allocated in a manner that best meets a country’s economic development, poverty alleviation, public health and/or other objectives; (2) promote more transparent and accountable choices between multiple SPS capacity building options; and (3) facilitate dialogue and more inclusive decision-making processes involving multiple stakeholders.

An initial Multi-Criteria Development Analysis is currently being conducted. Implementation of the recommendations will require government commitment and development partner support to ensure their implementation. This is essential to build Malawi’s ability to export.

### 3.4 Facilitation of Customs Clearance and Trade Licenses

**Main Priority:** Rationalise institutional systems of agencies that play regulatory roles that also impact on export capacity to also meet their trade facilitation mandate.

**Second Priority:** Institutional development, particularly Customs and license providing agencies, through staff development on international trade documentation, procedures, practices and policies; and through implementation of technology-based systems necessary to reduce transaction costs.

**Short-term Priority:** Rationalise imported input and export license system.

According to the MCCI 2010 Malawi Business Climate Survey, customs regulations and procedures/bureaucracy are rated as major obstacles to business. According to data collected by the World Bank’s Doing Business Report, Malawi stands at 164 in the ranking of 183 economies on the ease of trading across borders. This ranking is significantly below the regional average ranking for Sub-Saharan Africa of 134¹³. The cost of transport of input materials is typically between 25 and 40 per cent of the total amount which many addition sectors spend on supplies. The private sector corroborates this view citing examples such as the requirement to clear imports that are eligible to the export rebate system in the main cities rather than at the borders.

The MGDS highlights that need to streamline and simplify trade and custom procedures as well as the need to modernise border infrastructure.

Some important reforms have been implemented in recent years. For instance a risk-based inspection regime and a post-destination clearance program for preapproved traders were implemented in 2010. Customs procedures have been modernized using UNCTAD’s Automated System for Customs Data (ASYCUDA) but a large proportion of import shipments are still subject to physical inspection at the border. The regulations are product-specific because Malawi applies non-automatic procedures for infant industry protection, and for health, safety, security, and environmental reasons¹⁴. This is contributing to significant delays, hence costs, of importing inputs into export production.

With support from USAID, the Malawi Revenue Authority has also implemented the Revenue Authority Digital Data Exchange System (RADDEx). The system is an electronic tool for transmitting customs declaration data through all affected transit points using minimal bandwidth. This automatic system eliminates the potential for duplication, provides advanced notification, and helps with the risk analysis process. It also improves accountability¹⁵.

However, there remains scope for further improvements in efficiency. The Trade Facilitation Benchmarking Study that is currently being undertaken by the Ministry of Industry and Trade have the following recommendations, which serve as priorities for reform in this thematic area:

- Staff development training for public and private sectors on international trade documentation, procedures, practices and policy required;
- Streamline the bureaucratic process of issuing import and export permits by Ministry of Industry & Trade;
- Under use of technology to reduce transaction costs for both the public and private sectors in the administration of international trade;
- Need to rationalise documentary / data requirements informed by relevant regional obligations (COMESA / SADC) and recognised international best practice;
- Need to institutionalise inter-agency co-operative working at the border;
- Lack of ‘Single Window’ approach to border management, though efforts to launch One-Stop Border Posts are a step in the right direction.

The DTIS 2002 also found that decisions at Customs were typically pushed upwards, ‘’. It also found that ‘’. The DTIS also concluded that while customs officials were reasonably competent, but needed training and financial resources to be properly effective. These all suggest the need for a concerted effort to develop the institutional capacity of customs and of other key border agencies. A key part of this is improving the mindset of agency management so that trade facilitation is given equal importance as regulation enforcement.

The Malawi Growth and Development Strategy II also says that it would also be useful for the MRA to harmonise their systems internally so that their operations in Lilongwe and Blantyre could be synchronised. In this respect, a Single Point of Declaration

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¹⁵ Imani Development, (2010), Draft annex on Enabling Environment in Malawi
should be introduced which would reduce the time it takes to process multiple transactions in one location and limit the multiplicity of regulatory institutions at the border. A standardised and speedy payment system would also contribute to the efficiency of the process\textsuperscript{16}.

The border agencies also suffer from a lack of systems skills to carry out their functions effectively because decision-making is handled at headquarter offices and the methods for evaluating the performance and efficiency of border operations are lacking because there are not any kind of monitoring systems in place\textsuperscript{17}.

There is also a limited understanding by private sector practitioners of trade regulations, requirements and procedures including the specific roles and mandates of each border agency. Communication with the private sector on the procedural and documentation requirements for trade could therefore be improved to ensure that businesses can achieve their goals of reaching different markets. The Malawi Trade Logistics Technical Working Group agreed in March 2011 that the Malawi Export Promotion Council (now integrated into the Malawi Investment and Trade Centre) should take a leading role in sharing information on export requirements and CAFAA also offered to assist with training of importers and exporters\textsuperscript{18}.

3.5 Cost-Effective Transportation

**Top Priority:** Support emergence of market structure that ensures relatively fair competition, through application of Competition Policy. Investing in infrastructure by itself will not necessarily lead to lower transport costs.

**Second Priority:** Focus on capacity building for contractors and policy implementers.

**Third Priority:** Support Implementation of Transport Sector Investment Programme.

**Fourth Priority:** Strengthen the implementation capacity for multi-modal linkages with regional markets and ports, particularly rail, through the use of public-private partnerships.

**Fifth Priority:** The major issue in the railway sector is the need for a proper regulator for CEAR to ensure proper funding and proper staff. The capacity to enforce the contract is fundamental. The regulator needs to be answerable to Parliament. There is also need to ensure that contracts are such to force concessionaire to not breach the contract. There are currently no penalties for lack of compliance to the contract.

The Industry, Trade and Private Sector Development Sector Wide Approach (SWAp) Issues Paper of 2011\textsuperscript{19} identified transport costs to be high due to the poor quality of rail connections to markets in Malawi, in the region and to sea ports, while road connections to ports in Mozambique are also weak. As a landlocked country, distances for exporting outside the region are costly. Unfair competition practices also significantly raise the cost of transportation. Transport costs to markets such as the United Kingdom can be as high as 50 per cent of the value of the product\textsuperscript{20}, while the cost of transport of input materials is typically between 25 and 40 per cent of the total amount which many addition sectors spend on supplies.

The World Bank Country Economic Memorandum (2009) said that often the problem in addressing transport constraints arise in the implementation stage\textsuperscript{21} of policies. Opening up domestic transport service delivery to private and international competition is one suggested method for improving the infrastructure along key transport corridors\textsuperscript{22}. Public Private Partnerships (PPPs) are effective in filling the gaps in the government’s ability to provide the necessary infrastructure. A legal and institutional framework for PPP has been prepared and the PPP Act has been enacted. It requires the establishment of a PPP unit to allow for its implementation\textsuperscript{1}.

The top priority for the Ministry of Transport & Public Infrastructure is to supply a multi-model transport system to reduce the dependence on road transport, particularly for bulk transportation. A key part of this is rail transport, while marine transport is also important, as outlined in the Transport Sector Investment Programme and the National Transport Policy of 2004.

There is agreement by the Ministry of Transport & Public Infrastructure on the importance of prioritising skills and institutional development, also in the transport sector. The highest cost over time tends to be maintenance and rehabilitation, not the initial infrastructure. The Institutional Support for Transport Public Sector Bodies project was used to build capacity in the transport public sector, but this has ended and the mode of financing is now through Road Sector Budget Support (this includes a capacity building component) and for other modes, through the Public Sector Investment Programme and the Budget.

**Fair Competition in Transport Services**

According to a study of Competition in the Transport Sector ‘Although, the sector is largely regulated by the Ministry of Transport and Public works, a number of possible anti-competitive practices have been observed in the form of cartels in freight transport, particularly trucks. According to the Ministry of Transport, 55 percent of the costs of production in Malawi are taken up by transportation costs. This is much more than the average for many developed countries, and similar to what the World Bank said in 2009 when discussing the problem.\textsuperscript{23}’

\begin{itemize}
  \item \textsuperscript{16} Government of Malawi, (2011), MGDS II
  \item \textsuperscript{17} IBM, (2011), Program Concept Note
  \item \textsuperscript{18} Malawi Trade Logistics Technical Working Group (March 2011), Meeting minutes
  \item \textsuperscript{19} Ministry of Industry and Trade, (2011), Issues Paper for the Sector Working Group on Trade, Industry and Private Sector Development
  \item \textsuperscript{20} Imani Development, (2010), Draft annex on Enabling Environment in Malawi
  \item \textsuperscript{21} World Bank, (2009), Country Economic Memorandum: Seizing Opportunities for Growth Through Regional Integration and Trade
  \item \textsuperscript{22} Government of Malawi, (2011), MGDS II
\end{itemize}
higher than the average for either other LDCs or landlocked countries and is a major drain on national competitiveness. It is therefore not surprising that Malawi’s export performance is constrained by the high transaction costs of trade, most significant of which are transport costs.23

This report made a number of recommendations to improve fair competition in the transport sector. The relevant ones were:

1. “On cross-border bus operations, the RTD should strictly enforce bilateral transport agreements which expressly prohibit the unauthorised picking up and dropping of domestic passengers by foreign bus operators. The licenses of these operators should be revoked.

2. Efforts at the regional level to do away with cabotage agreements should be speeded up with a view of exposing inefficient local operators to foreign competition with the view to improve general service delivery.

3. For domestic road haulage for tobacco, as the current system of allocation to tobacco delivery slots to the auction floors results in the inefficient utilization of vehicles, a situation that results in a seasonal shortage of vehicles that effects non-tobacco users of haul transport, it is recommended that the relevant authorities, Auction Holdings Limited, devise a more efficient delivery system.

4. The role of the RTOA in price setting should be closely scrutinised and ensure that the practice does not violate section 33 (3) (b) and (c) of the Competition and Fair Trading Act.

5. The Government should urgently work with CEAR to solve current bottlenecks impeding the operation of an efficient and reliable railway. The absence of such a rail network means that there is no reliable and effective competitor to road haulage, a situation that results in continued high haulage rates.

6. The RTA and MRA should work together and share data on number of operators and cost structures to avoid ambiguities in data presentation as well as avoid operators taking advantage of the loophole to over declare costs and under declare profits.

7. The road traffic regulations should be properly interpreted by the road enforcement agencies to ensure that the benefits of liberalisation and deregulation of the road transport sector are not lost.

8. The Road Traffic Directorate (RTD) and MRA should enforce regulations relating to requirements for legal operation of taxis and car-hire vehicles. The continued operation of unregistered operators in these sub-sectors means an un-level playing field with unregistered operators being able to offer lower rates because of lower insurance premiums and no VAT to add to their costs.”

The sense among the private sector and service sector experts is that the transport sector remains a barrier to trade. This is because it is not liberalised and issues of unfair competition persist. There is a lack of focus. The Ministry of Industry and Trade has just engaged the Southern Africa Trade Hub to conduct an analysis on the impact of liberalising the road transport sector. This will include developing schedules of commitment for this sector as an input into the upcoming COMESA services negotiations. The Ministry believes that this is necessary because there is a lack of evidence to demonstrate the importance of a liberalised transport sector as a pre-requisite for Malawi’s ability to compete in value addition exports. Regulators are yet to appreciate this essential linkage, such that the transport sector continues to support the small local transport sector, rather than enabling exports.

**Rail**

Since road transportation is expensive, rail is being made a priority in the Malawi Growth and Development Strategy II. For example Illovo has found that if it were to transport its sugar from Dungwa to Salima by rail or boat rather than by road, this would be significantly cheaper.

However transportation by rail currently remains expensive and slow. As identified in the report on Competition Issues in the Transport Sector(2007) ‘a key contribution to performance in terms of service quality and prices on the existing structure and behaviour of the Malawi International road haulage industry is the absence of a reliable and efficient rail system for export and import cargo. Most large current and potential users of rail mention reliability and time as key concerns in terms of their preference of road over rail. For example, currently, it takes about 10 days to transport clinker from Nacala to Blantyre while the same journey takes 6 days by road. The journey should ideally take about 3-4 days by rail. While there is a significant cost advantage to using rail, this advantage is lost when time and reliability are factored.

The problems of Malawi’s railway system to Nacala and within Malawi have been well documented and discussed ranging from bureaucracy, inadequate locomotives and carriages as well as poor rail maintenance and repair. These problems will have to be resolved if rail is to offer real competition to road haulage. The MGDS calls for the improving of operational efficiency and acquiring commercial viability of the existing railway infrastructure and levels of service to all users including people with disabilities at an affordable cost; while also ensuring rail linkages between ports, industrial sites and borders.

The Government of Malawi has recently resumed the review of
the concession agreement with the Central East Africa Railways (CEAR) for the management of the Malawi rail network with completion in 2012. The review is designed to bring about improved service delivery and bring the industry in line with the Public Private Partnerships Act after the acquisition of a majority stake in CEAR by Vale Mining of Brazil and concerns for the poor quality of infrastructure and services.

Part of this review is looking at the need for improvements along the rail link from the Western Mozambique coal mine, through Malawi, and on to the Nacala port. In December 2011 the government signed an agreement to allow Vale Mining to rehabilitate the line over three years at a cost of US$2 billion. Once the required rehabilitation work has been completed the journey from Limbe to Nacala would decline to 38 hours from 5-7 days.

The remainder of the rail network, particularly the connection from Nsanje to Blantyre and to Lilongwe remains in need of rehabilitation, maintenance and capital investment.

The major issue in the railway sector is the need for a proper regulator for CEAR to ensure proper funding and proper staff. The capacity to enforce the contract is fundamental. The regulator needs to be answerable to Parliament. There is also need to ensure that contracts are such to force concessionaire to not breach the contract. There are currently no penalties for lack of compliance to the contract.

Road

The high cost of road transport significantly affects the competitiveness of Malawian products. However, the quality of the main arterial roads in Malawi has improved drastically over the past years, through significant donor attention and funding. The greatest road requirements are in the feeder road network. The feeder network remains unpaved, thereby increasing the cost of transporting agricultural inputs to production centres.

According to the Transport Policy of Malawi, there is a need for improving the poor quality feeder road connections to key production areas and connection routes and a rationalisation of levies included in the price of fuel. The Policy recognises the underfunding of the feeder network over a number of years. The 2006 Public Expenditure Review also declared funding for road maintenance to be inadequate. The funding of the rehabilitation of roads and bridges is also affected by dues of at least MK4.2 billion by fuel importers to the Road Fund Administration (RFA) in fuel levies.

The Malawi Growth and Development Strategy calls for:

1. Increased capacity for independent roads authorities to continually maintain the road network;
2. A fuel levy in line with the maintenance threshold for 5 years and implement appropriate road-user charges;
3. Increased attention to improve the quality of rural roads including replacing all timber-decked bridges;
4. Tackling unfair business practices by domestic trucking companies who are accused of acting as a cartel. Increasing access by foreign truckers would assist this, as well as supporting the development of the Competition and Fair Trading Commission.

The 2007 Diagnostic on Trade Integrated Study (DTIS) called for a review of the domestic trucking policy, as well as the tax structure on transport equipment.

The Government’s 1999 Transport Sector Policy provides for this by calling for the private sector to play a major role in transport operations and infrastructure. The Policy incorporates the principle that users should pay for services provided, including for the maintenance of infrastructure. This forms the basis for charges collected from road users and for the Roads Fund Administration to finance both road maintenance and rehabilitation.

The key road programme is the Road Sector Programme 2010-2020 that is being implemented by the Ministry of Transport & Public Infrastructure. Its objectives are:

1. Provision of an adequate network of roads based on appropriate standards through rehabilitating and upgrading the ‘all weather’ roads to meet sub-regional agreed standards;
2. Implementation of routine road maintenance to clear backlog through use of performance-based term maintenance contracts;
3. Building the capacity of local private sector to build and maintain roads through the national construction industry;
4. Replacing timber-deck bridges with concrete decks;
5. Improve all unpaved roads from fair to good condition by 2015;
6. Implementation of appropriate road-user charges.

The Road Sector Programme (RSP) explicitly recognises the importance of skills development to implement the programme.

26 Malawi: 2010,
28 Government of Malawi and World Bank, (2007), Public Expenditure Review
Capacity limitations in the medium/large contractor categories need to be addressed to ensure that the RSP is fully implemented. There is a shortage of supervisory staff such as foremen, clerks of works and skilled manual works such as plant operators. This is due to emigration and a lack of domestic training facilities. The lack of supervisory capacity is partly due to the cessation of Diploma civil engineering courses at the universities and polytechnics in Malawi.

The National Construction Industry Council (NCIC) is planning to mitigate this by offering diploma courses. It is privately funded through training fees and contractor registration fees. This is important to finance its mandate to build capacity in the contractor sector, but small contractors claim that training fees are too high, inhibiting them from participating in training. The NCIC has also introduced a policy whereby foreign contractors need to partner with local companies.

The effective implementation of the RSP also requires capacity development in the Ministry of Transport and Public Infrastructure, the Roads Department in the Ministry, the Roads Authority and relevant local government institutions. In the Roads Authority there is a lack of capacity building in planning, design, project appraisal and contract preparation. Local government bodies require skills in tender preparation and supervision. The Central Materials Laboratory within the Roads Department of the Ministry needs capacity in material technologies and testing.

The implementation of the Joint Road Plan with Mozambique is also important – this includes improvements to border posts.

**Water Transport**

Congestion and reduced efficiency at international ports adds to the cost of importing and exporting from Malawi. In 2009 the Beira port in Mozambique was operating at 40 per cent of its capacity due to the need for investment in dredging capacity\(^{30}\). With increased investment in dredging capacity and also the significant improvement in the road to Beira, the cost of trading through Beira has declined. In contrast performance at the port of Nacala currently remains poor. Being a natural deep water port, infrastructure and communication improvements in Nacala, as well as planned improvements in the rail connection could reduce the cost of heavy loads, for example, by 60 per cent.

The Shire-Zambezi waterway project began in 2009 and is designed to deliver a transportation route between Nsanje in Southern Malawi and the Mozambican port of Chinde. The port connects with the Malawian road and rail network. The base infrastructure of Nsanje Port has been completed, though the facilities necessary to allow the functionality of the port have not been installed. The Government of Mozambique is also arguing that to allow Malawi to use the Shire and Zambezi rivers for navigation requires a comprehensive feasibility study and proper treaties. To tackle this, the African Development Bank approved $3.5 million for the study which was expected to begin early this year. The current base infrastructure is not being maintained while many parts such as metal bolts have been stolen\(^{31}\). There is also a need for navigation and hydrographical charts to be provided, a review of concession agreements for inland shipping needs to be conducted and the port facilities needs to be maintained in line with modern shipping through commercialisation and potentially privatisation. Resuscitation of the National Shippers Council would also be useful.

The AfDB is currently expressing most interest to the Government in developing ports on the lake. Through its research Illovo has found that transportation of sugar from Dwangwa down to Salima is cheaper if done by boat or rail than by road.

**Air**

In line with the multi-modal approach to transport policy, the government is also trying to expand the opportunities for airfreight transportation by building new infrastructure at airports – new runways at Likoma, Kamuzu International airport, Karonga airport and new terminal buildings at Chilleka airport and Karonga airport\(^{32}\). However airfreight costs remain higher than in neighbouring countries. Furthermore, the landing rights are restrictive and necessary services such as storage facilities at the international airports are either non-existent or below international standards. Therefore, some changes are required to get the airports up to international standards. For instance, the provision of appropriate information facilities and packages to visitors or increasing the facilities available at international airports would all help to promote and facilitate a competitive, sustainable and efficient industry which complies with international standards\(^{33}\). Air travel also remains prohibitive for the development of the Malawian tourist sector.

### 3.6 Export Promotion and Investment Facilitation

**Priority:** There is a need to fast-track the operationalisation of MITC through ensuring dynamic leadership and adequate funding. MK80 million for the export promotion arm of MITC is inadequate.

**Second Priority:** Establish Special Economic Zones that provide significant benefits (not just tax incentives) to export-oriented businesses, with a focus on the NES priority clusters and the targeting of regional markets.

Significant attention and coordination is needed to ease investment procedures and export promotion capacity. The process to invest

\(^{30}\) World Bank, (2009), Country Economic Memorandum: Seizing Opportunities for Growth Through Regional Integration and Trade


\(^{32}\) Government of Malawi, (24th May 2010), Building National Capacity for Sustained Growth and Development: State of the Nation Address (speech)

\(^{33}\) Government of Malawi, (2011), MGDS II
is cumbersome and fairly bureaucratic, while many exporters and potential exporters complain about the death of export information from above bodies. For example Tete is booming. Yet if Malawian exporters want to find out market information on potential customers in Tete, the MITC does not have the capacity to inform business about who are the right people and businesses to contact. Businesses require information on specific companies to create market linkages. Many businesses tend to refer to the Mozambican Embassy in such cases, although this comes at a cost due to rent seeking.

Recent key developments in this area include the formulation of the National Investment Policy and the draft Investment Law which aim at improving the regulatory environment for investment.

**Special Economic Zones**

Another key aspect of export promotion and investment facilitation are Special Economic Zones tied to priority NES clusters. Malawi currently has an Export Processing Zones Act. However the benefits accrued to companies are solely fiscal and linked to the foreign exchange Retention Scheme. As with the investment certificate provided by MITC, the export processing zone certificate has little benefit, such that there is minimal support given through this scheme. What is required are Special Economic Zones that provided clear benefits to the NES priority clusters, through infrastructure support, electricity support, agglomeration, business development services, facilitation of trade, and facilitation of dialogue forums between tenants and with central government. If targeted and supported, such zones could be a valuable tool to help develop key export oriented clusters. The Export Processing Zones Act does not achieve this function.

3.7 **Trade Facilitation Dialogue**

Priority: Establish a Trade Facilitation Dialogue Body that drives improvements to Malawi’s trade facilitation system, and ensure it has adequate capacity to do this through an active chair and secretariat. The Body must include adequate representations of the private sector. This could be a re-invigoration of the Trade Logistics Working Group, which has already undertaken some important work in this regard.

According to the Ministry of Industry and Trade’s review of trade facilitation, Malawi lacks an effective National Trade Facilitation Body to ‘drive’ improvement to Malawi’s trade facilitation systems, on which all relevant public and private sector stakeholders are represented. The purpose of this body would be to improve coordination between all agencies involved in trade facilitation processes and systems to consolidate efforts and reduce costs. The body would be also streamline roles and tasks for trade facilitation institutions to avoid duplications, while driving the implementation of programmes to secure a consistent SADC/COMESA transit regime in the form of a regional carnet-bond system, as called for by the World Bank’s Country Economic Memorandum. It would also support the harmonization of road charges within SADC.

The Trade Logistics Working Group should serve as the basis for this, but with a review of its membership, an active chairperson and a dedicated secretariat. The Working Group was active up to the first half of 2011 and had put together an action plan focused on the following areas:

- Expediting the process to obtain import/export licenses, e.g. through a Single Administrative Document and one-stop shops;
- Clarification of documentation requirements;
- Operationalisation of ASYCUDA, introduction of a risk management system, improvements in the valuation process at MRA;
- Developing Integrated Border Management Systems and improving inter-agency coordination;
- Use of e-commerce;
- Improving information dissemination structures;
- Improving payment mechanisms.

However this working group is not as effective as it needs to be. Critically it excludes exporters (as opposed to representative body officials) and as a result it does not always capture critical issues that exporters face. More importantly, it also does not have a dedicated secretariat that can ensure action follow up and that can secure agency ownership. These two limitations serve as a major constraint on stakeholder buy-in, and therefore effectiveness. The greatest benefit of such a dialogue body is to expose the private and public sectors to each of the constraints faced by other stakeholders.

3.8 **Cost-Effective Packaging**

Priority: Develop clear government policy and legal framework for sector and create connection to skills suppliers.

Having cost-effective packaging services in the country is an important contributor to Malawi’s export competitiveness, and also to certain sectors that are oriented toward the domestic economy that need to compete with imports.

Malawi has a burgeoning packaging industry that with adequate support can serve as a key facilitator of Malawi’s efforts to boost exports. However the industry faces a disadvantage due to long...
routes for both input materials and finished goods that render local packaging products less competitive than African economies with sea ports.

However, cost-benefits to exporting industries can be secured through a supported local packaging sector. The support that is required is in the form of:

a) a clear government policy and legal framework;

b) the provision of adequate skills in the labour market;

c) the provision of adequate standards.

In terms of skills, technical education is detached from the packaging industry to the degree that there is no interaction with the sector for mutual benefit. The sector itself also lacks a common vision in producing and training technical staff. There is no local packaging association.

In terms of the provision of adequate standards, local standards do not meet export packaging requirements and this is a significant cost for Malawian exporters and potential exporters that renders them less competitive against their competitors.

Other forms of support would be in the form of taxation. There is currently a limited list of packaging input materials that are eligible for the customs rebate system, while the reduction of export incentives for non-traditional exports including packaging materials in the 2011 government fiscal budget makes them less competitive.

Finally, as with numerous other sectors, outages in both electricity and water supplies affect operational efficiencies of the sector.
4.1 Energy

Main Priority: Prioritise implementation of new National Energy Policy, based on reviews of supply and demand.

Second Priority: Conduct an institutional implementation capacity needs assessment and prioritise investment in institutional capacity to implement the policy.

Third Priority: Connect to the Southern Africa Power Pool to import supply shortage until Malawian supply rises, as per IAEA supply side study.

It is the stakeholders’ view that there is under investment in increasing electrical power generation, transmission and distribution and that there is a need to acquire the ability to connect to the regional electricity grid, the Southern Africa Power Pool, to import supply. Indeed despite the rehabilitation of Tedzani I and II Hydro Plants, that restored 40 megawatts to the grid, ongoing and extensive power shortages persist. These are predicted to worsen as net peak demand is projected to increase by more than seven per cent per year so there is a pressing need for diversification and expansion in the generation and purchase of electricity. As a result the current cost of accessing energy by exporters and potential exporters is currently very high, given its unreliability. Companies that usually pay grid usage charges of MK400,000 per month have to rely on generators and the cost of diesel alone for this equates to MK700,000 per month.

At present almost 99 per cent of power is generated from hydroelectric stations on the Shire River which could cause a drought-induced power crisis if the Shire was to dry up, as it has done in the past.

Developing additional power stations to meet increasing demand remains a key target of the MGDS. The Kapichira Hydropower Project is in the pipeline for implementation and when completed is set to deliver an extra 64 megawatts to the system. Seven other potential locations have also been identified through the Millennium Challenge Account feasibility study and the Nkula hydropower stations could also be rehabilitated. There is the continued desire to develop renewable power plants and provide the necessary training and infrastructure for the adoption of modern technologies to limit the depletion of natural resources. The MGDS recognises the need for improved management of the sector and hence suggests some reforms to the industry and preferably the implementation of some Public Private Partnerships in power distribution. Developing an Energy Development Master Plan and reviewing the current energy policy is also called for.

Building investment in the transmission and distribution infrastructure would reduce the irregularity of supply. However electricity tariffs are too low to allow ESCOM to fund new investment and the power sector is not attracting private sector investment due to uncertainty over the structure of the industry and the creditworthiness of ESCOM. Malawi could also import electricity, although at present it currently lacks the transmission infrastructure to connect to the regional grid.

The National Energy Policy for Malawi, which was enacted in January 2003, is currently being revised. The policy was designed to:

1. Make the energy sector robust and efficient to support the Government’s agenda of economic growth and poverty reduction
2. Catalyse the development of a more efficient, private sector driven industry
3. Reduce the country’s reliance on biomass for energy generation by diversifying into other areas.

Through programmes such as the Malawi Rural Electrification Programme and others, implementation of the policy has been partly successful in reducing the proportion of the population relying on sold fuels from 95 per cent in 2005 to 78 per cent in 2010.

The Energy Policy is currently being reviewed by the Department of Energy and will be based on two comprehensive energy studies that were carried out with support from the International Atomic Energy Agency. One study analysed future electricity demand patterns while the other analysed supply options. Demand for energy is projected to rise from 48,000 GWh in 2008 to 60,000 by 2030, with tradition fuels (charcoal and wood) declining from 42,000 GWh to 21,500 GWh as people moved to urban centres. This decline is expected to be countered by an increase in electricity demand from 1,200 GWh in 2008 to 20,900 GWh, with motor fuel demand, fossil fuel demand and modern biomass demand also increasing. The supply side study is largely based on rehabilitation and expansion of hydro-electric power up to 2015, supported by other sources such as wind and solar, with coal becoming a major energy source from 2015 to complement hydro-electricity. This will be necessary to meet the rise in electricity demand.

In addition, the Millennium Challenge Account Energy Sector Support Project for Malawi completed a feasibility study in 2010 that identified seven potential sites for hydro–electric expansion. The initiative was launched in June 2011 although it stalled shortly after due to a disagreement between development partners and...
the Government. It is set to span a period of 5 years. The objective of the project is to increase the quality and reliability of electricity provision to the locations which use high volumes through four main strands:

- Upgrading and expanding the electricity network
- Generation and transmission feasibility studies for new hydropower generation and transmission
- Financing demand-side management and energy efficiency activities in urban areas to address capacity deficit
- Capacity building and technical assistance to the Ministry of Natural Resources, Energy and Environment and ESCOM

As short-term measures to ease the persistent energy shortages, the World Bank Country Economic Memorandum recommended:

- Government investment in two additional generating units at the existing Kapichira plant.
- Getting parliamentary approval of the transmission interconnector with Mozambique.
- Implement demand-side management programmes to reduce overall energy needs and especially demand at peak times e.g. distribute energy saving light-bulbs, instigating a time-of-use tariff to disincentivise the power use at peak times.
- Improving revenue collection and streamlining of costs to improve ESCOM’s financial situation.
- Investigating the potential for a high quality of service tariff for industries with critical energy requirements.

4.2 WATER

Priority: Accelerate efforts to ensure coordination and coherence between Greenbelt Initiative, ASWAP, National Irrigation Policy and the National Export Strategy, to ensure that investments in new irrigation schemes and rehabilitation are timely and reap the greatest economic rewards. The latter requires secure market linkages that will ensure crops can be sold and value addition maximised.

Water accounts for in excess of 21 per cent of Malawi’s surface. This resource is greatly underutilised for uses such as irrigation and industry. Present water demand is dominated by agriculture (72 per cent) but there are competing demands for water for public water use, hydro power and irrigation. Such competition will increase as the economy and the population grow.

In 2011 the Ministry of Industry and Water Development completed a Water Resources Assessment as part of the Water Resources Investment Strategy — which is a component of the Second National Water Development Project. The Ministry, which is now integrated into the Ministry of Agriculture, Irrigation and Water Development, is currently using this assessment to develop a National Water Resource Investment Strategy.

The key finding of this report is that a significant expansion of irrigation upstream of the hydropower station on the Shire River would increase the probability of reducing the water flow falling below the minimum level required for power generation to 42 per cent. Therefore in order to not jeopardise power generation, which is critical for economic development and exports, only 150,000 hectares of land upstream of Kapichira is available for irrigation. The Government believes that this allowance is actually higher because of other water sources that were not taken on board in the Water Resources Assessment. Nonetheless, the key idea is that only irrigation which delivers high benefits relative to its water use is economically justified upstream of Lake Malawi because of adverse impacts on Shire Hydro Power generation, which accounts for 98 per cent of Malawi’s electricity.

Yet irrigation has the potential to boost agricultural production and diversification in the country, reduce rural-urban migration, improve food security and rural livelihoods and decrease dependence on the increasingly unreliable climate however it is an extensive undertaking and can only be justified for high yielding high value crops. Therefore to ensure such high benefits from irrigation, it is essential that irrigation is allocated toward a concerted effort to ensure sustainable value added generation from irrigation schemes through concerted strategies to develop export and domestic oriented value adding clusters.

Irrigation intensification is also identified as a priority in the MGDS II. The implementation of this priority is through the Green Belt Initiative which aims to irrigate 1 million hectares of land, compared to the current 90,000 hectares. A strategic plan is being finalised. Four fifths of the land being targeted for irrigation is customary land. The GBI Strategic Plan intends to irrigate 200,000 hectares up to 2016 to promote food security.

It has three thematic areas:

- Infrastructure development and rehabilitation — new schemes and the much needed rehabilitation of existing schemes;
- Agricultural production;
- Agricultural marketing and agro-processing.

43 Government of Malawi, (2011), MGDS II
Annex 10

Area specific business plans were developed in order to translate vision into a concept, before it could be transformed into a strategy. Agricultural production plans are focused both on food security and cash crops. Irrigated land will be allocated across three types of stakeholders: smallholder farmers, commercial farmers and public-private partnerships. With regard to smallholders, once irrigation schemes are identified, farmers will have the option to be brought in to the scheme as a community. The Greenbelt Initiative seeks to minimise relocation of farmers and to ensure the buy in and participation of communities.

Fees will be charged for canal maintenance, electricity and water usage. With regard to commercial farms, the government plans to identify potential opportunities. The concept would follow that of a public private partnership and would be designed to alleviate some of the cost burden on government.

Funding for the Greenbelt Initiative is largely sourced from government (K76 billion) with some tied aid from India (K7 billion) for machinery. The initiative has a Steering Committee chaired by the Chief Secretary and the membership of the committee consists of the relevant ministry principle secretaries. There is also a technical committee which deals with the technical issues for the SC. There are then district assemblies below this with their own organisational structures. As of late 2011 there were are only six people working on the greenbelt initiative, but further positions have been advertised. It is essential to ensure that the secretariat has the capacity to meet its mandate effectively.

A critical issue that is essential to the success of the Greenbelt Initiative, and therefore to Malawi’s National Water Development Project, is addressing the current distinct lack of market linkages. It is easy for government to recommend for a crop to be grown in a particular irrigation scheme, but if the crop does not sell, farmers will stop growing it. Therefore market linkages need to be prioritised, and therefore it is essential to closely link the Greenbelt Initiative with the Ministry of Industry and Trade’s National Export Initiative, and therefore to Malawi’s National Water Development Project, is addressing the current distinct lack of market linkages.

A few years ago it was illegal to set up a private seed company in seed distribution. The benefits of liberalisation in this area are currently being evidenced in the maize sector.

The greatest seed issue is not multiplication, but distribution. There is a great need for incentives for the private sector to invest in other key crops (oil seeds, etc) apart from maize. The Farm Inputs Subsidy Program (FISP) is a good example of a policy that can support market development. While fertilizer distribution occurs through government channels, seed distribution for maize is through private companies. Farmers can cash their seed coupons at any supplier. This increases farmer access to seed.

What remains unknown is whether this is improving access to seed through the private market compared to before the FISP.

The FISP is as an initiative to increase smallholder incomes and food security. In the 2010/2011 agricultural season the FISP package included 160,000 tonnes of fertiliser for maize, 8,000 tonnes of improved maize seeds and 1,600 tonnes of legume seeds. The scheme achieved its goals with the 2010 annual surplus of 900,000 tonnes of maize above the requirement even with a period of abnormally dry weather.

Priority: Restructure part of FISP to incentive private sector (commercial and smallholder) distribution of quality seeds, targeted to priority export growth sectors.

Fertilizer Sector

1. Tweak FISP to incentivise, and not crowd out, private sector from non-maize crops to ensure affordable and well-distributed access for prioritised export and domestic sectors

2. Liberalise distribution of fertilizers under FISP

Seed Sector

1. Support the ongoing development of sector through research and private-sector supported distribution

2. Build on liberalisation efforts to improve remote access

3. Incentivise private sector to ensure affordable and well-distributed access to good quality seed for prioritised export and domestic sectors, including Competition Policy

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Plots that were planted with improved maize under the FISP scheme had 21 per cent higher yields than those planted with traditional maize but the supply of high quality improved maize seed is currently constrained by limited seed development and production. Furthermore, increased maize production was achieved at the expense of other crops and to achieve the objectives of food security and crop diversification highlighted in the ASWAp, improved seed for legumes and draught


45 African Economic Outlook, (2010), Malawi: 2010, ADB, OECD, UNDP, and UNECA
tolerant crops is required\textsuperscript{46}. The distribution of new varieties that are not just maize small packs could be offered by seed companies, and they could be sold in normal venues, and media campaigns could even be introduced\textsuperscript{47}.

FISP can be an important tool to support the development of the seed and fertilizer sectors. This is because of the time inconsistency problem, whereby commercial seed companies and small holder seed agro-dealers would only invest in a seed if they knew the market existed for it. However for the market to develop, the presence of quality seeds is important. It is therefore essential that the development of the seed and fertilizer seed is tied to priority sectors that can truly sustain market demand over time. It is only in this way that a Government intervention to support the development of the seed sector outside of maize can be justified. The intervention should incentivise large commercial seed companies as well as the Association of Smallholder Seed Multipliers (AISMA). This Association is in its infancy and lacks capacity to multiply seed. However it can play an important role in ensuring the effective distribution of the seed. The Association is also subsidized at present.

There is also variation between crops. The hybrid maize market has developed rapidly, also because of the constant need for new maize seed. This is not the case with bean seeds for example, as these can be used for many years therefore reducing demand.

Malawi has invested in seed agro dealers, who buy seed from commercial seed companies. However market inefficiency remains. For example a USAID/IFC funded project aimed to build their capacity and secure commercial linkages to seed companies. But once development partner funding ended, the linkage collapsed and agro-dealer capacity building could not be sustained. Monsanto was reluctant to deliver to agro dealers in rural areas because of the high cost of transport, while agro-dealers lacked access to finance and the support of an active association.

Monsanto also lacked the incentive in its business model to deliver seed to rural areas. These all strengthen the case for the government to support seed in other crops apart from maize.

A further issue is fair competition in the seed sector. There are currently three commercial providers and it is essential for the prices to not be kept artificially above normal profit level.

A further issue in the seed and fertilizer sector is the inability of farmers to access the finance necessary to buy better seed and fertilizer.

Similarly, it is important to use the FISP to incentivise the private fertilizer market. Currently the private sector is crowded out of the fertilizer market due to the design of the subsidy.

Fertiliser is the single most important cost component in the production of most arable crops and accounts for between 20 and 50 percent of the farm-level costs of production for all crops in the analysis making it generally a more expensive input than for other countries in the region\textsuperscript{48}.

The provision of agricultural inputs is often used as short-term solutions to mitigate the effects of adverse weather shocks to the food security of Malawians. For example because of erratic rains the Ministry of Agriculture, Irrigation and Water Development distributed inputs such as maize seed to villagers in three districts in early 2012\textsuperscript{49}. Furthermore, it has also been used to support certain industries in Malawi such as the cotton industry which are deemed significant for increasing export earnings\textsuperscript{50}. The fact that seed production is closely tied to institutional clients such as the government and NGOs may be cause for some concern because the sustainability of these initiatives is questionable. To help smallholder farmers fund their own seed purchases and drive the seed sector in Malawi some have suggested rural savings and loans schemes.\textsuperscript{51}

\begin{itemize}
\item \textsuperscript{46} International Food Policy Research Institute, (2011), The Impacts of Agricultural Input Subsidies in Malawi
\item \textsuperscript{47} Seed System Security Assessment: Southern Malawi, October 2011
\item \textsuperscript{48} Cited in World Bank, (2009), Country Economic Memorandum: Seizing Opportunities for Growth Through Regional Integration and Trade
\item \textsuperscript{49} The Sunday Times, (15\textsuperscript{th} January 2012), Government Moves to Avert Hunger
\item \textsuperscript{50} The Sunday Times, (11\textsuperscript{th} December 2011), Cotton Takes Over Shire Valley
\item \textsuperscript{51} Seed System Security Assessment: Southern Malawi, October 2011
\end{itemize}
Access to Finance and Contract Law

The Malawi Growth and Development Strategy recognizes the problem of poor access to micro-credit and high default rates, for example, under the fifth sub-theme (sustainable economic growth), but analysis of the financial sector and measures for its development are mostly absent.

Lending risk is too high and this causes interest rate and collateral requirements to keep many small holder farmers and MSMEs out of the market. Access to finance is much less of a constraint to business development for large companies — particularly since banks are becoming more open to financing purchases above the value of company assets, unlike previously. The loosening of controls means that banks are seeking to expand through actively targeting large businesses.

In terms of the key constraint of access to finance for smallholder farmers and MSMEs, one key problem is the lack of long term financing in Malawi. Financing is available for micro firms and large firms, but the gap is for SMEs. Two commercial banks – Indebank and OIBM – are now explicitly trying to capture the SME market. But to solve this issue, a holistic approach needs to be taken which includes:

- Establishing a bond market (a few large companies are planning to raise money on the bond market).
- Developing the capacity stock exchange to attract companies to raise finance through the non-bank financial sector. The privatisation of the stock exchange has been slow and it needs to be transformed into a well-governed profitable business.
- Ensuring fair competition by the banks with respect to the non-bank financial sector.
- Ensure an effective credit bureau sector — and improving access to information.
- An effective Registrar of Deeds.
- Establishing the movable collateral registry.
- Addressing land policy.
- Establishing the venture capital sector.

5.1 Development of the Financial Sector

The Malawi National Strategy for Financial Inclusion (2010-2014) asserts that “The existence of a stable, liquid, competitive and efficient inclusive financial system in Malawi is one of the preconditions for expanding agricultural production, micro and small enterprise operators, creating employment and increasing household income in a sustainable way”.

The formal financial sector in Malawi remains small, concentrated, and services a narrow clientele base, with a limited choice of savings and credit products.

While the Malawi Growth and Development Strategy recognizes the problem of poor access to micro-credit and high default rates, for example, under the fifth sub-theme (sustainable economic growth), analysis of the financial sector and measures for its development are mostly absent.

The factors limiting the development of Malawi’s financial sector are outlined below.

Institutional factors

Top Priority: Develop capacity of Reserve Bank of Malawi to balance its regulatory function between providing adequate risk-based supervision and supporting development of the financial sector, and developing capacity of the Ministry of Finance in coordinating the formulation of financial policies and regulations effectively.

1) Underdeveloped regulation: the legal, regulatory and institutional framework for the financial sector is still immature. Reserve Bank of Malawi (RBM), through technical assistance from FIRST Initiative, is in the process of enacting a package of financial sector laws designed to modernise the existing legal framework to bring it in line with international standards and to better define the RBM’s regulatory obligations. Recently enacted legislation include the Anti-Money Laundering Act, the Credit Reference Bureau Act, an Amendment to the Reserve Bank of Malawi Act, the Banking Act, the Financial Services Act, the Insurance Act, the Securities Act, the Microfinance Act, the Pensions Act, the Financial Cooperatives Act and the National ID Act. The National Payments Systems Bill has yet to be presented in Parliament.

Efforts are being made by the RBM to build the capacity required to meet its new responsibilities for failed bank resolution, risk-based supervision, macro-prudential analysis, market liquidity forecasting, foreign exchange reserve management, payments system strategy, credit bureau policy, and Government debt management. However, further technical assistance is needed to
develop supporting regulations and implementation manuals in the context of the new Financial Services Act, enhance regulations for capital market and the insurance and pension industries, and upgrade RBM’s capacity for off-site supervision and financial stability reporting. The World Bank financed, Financial Sector Technical Assistance Project (FSTAP) will aim to provide support in these areas.

2) Lack of risk-based supervision: The capacity of supervisors to implement regulations and to assess and manage the real risks in the sector is low. Supervisory resources, including qualified staff and appropriate analytical tools, are limited. Supervisory processes focus on compliance with regulatory requirements, but are not designed to identify and manage the changing risks in the financial system, nor are they adequately focused on supporting financial sector development.

3) Limited capacity at the Financial Sector Policy Unit (FSPU) of Ministry of Finance (MoF): The MoF lacks capacity to fulfil its mandate of coordinating formulation of financial policies and regulations effectively. The FSPU of MoF has been entrusted with the promotion of a vibrant and inclusive financial sector. Yet, the FSPU has faced issues in becoming fully operational and faces capacity constraints.

Institutional and other supply-side factors

Top Priority: Encourage greater competition between financial institutions in lending and non-lending businesses in order to encourage innovation in lending markets and greater targeting of the SME market.

Second Priority: Fast-track the following institutional reforms;

- the merger of SEDOM, DEMAT and MEDI into a new institution to be known as the Small and Medium Enterprise Board;
- the merger of MARDEF with the Youth Enterprise Development Fund to form the Malawi Rural and Youth Enterprise Development Fund;
- the proposed partial divestment from the MSB through an IPO on the Malawi Stock Exchange; and
- Invest in regulatory capacity to ensure Malawi Stock Exchange has an inherent incentive to attract businesses to raise finance through the MSE.

4) Limited competition and innovation: The average return on equity of the Malawian banking sector was estimated at 43.6 percent at the end of 2008. This level of bank profitability indicates that there is little competitive pressure on commercial banks to diversify their client base and develop new markets for their financial services. Lack of competition and diversity, in turn, has reduced pressure to innovate and keeps costs high.

High profit margins in the non-lending business drive the high profitability of Malawi’s banking system. Since a significant portion of the profits is derived from the foreign exchange market, more competition in this segment would give banks further incentives to develop the lending and deposit markets more aggressively and go down market.

One problem regarding deepening of the market to provide more products for MSMEs is that the top banks are saturated with the ten or so big companies, and fail to develop new products for SMEs. Having said this, there has recently been increasing competition between OIBM and FMB in this area. Furthermore, banks have started to look down market in recent years as arbitrage opportunities on T-bills have started to fall. However, this trend may not continue given that government is once again increasing borrowing due to the recent fall in donor support.

These factors are reinforced by excessively rigid regulatory requirements which often halt innovation where it would be desirable.

It is therefore also important to apply an effective Competition Policy that supports the development of the financial sector through mitigating any unfair business practices and monitoring mergers and acquisition activity. The implementation of the Competition and Fair Trading Competition Act in this regard is important.

The Implementation of the Insolvency Bill, the Secure Transactions Bill and the amendments to the Companies Act are also important.

5) Lack of shared market infrastructure: The lack of effective interbank transaction switching has resulted in duplication of investment in access devices, and thus limits outreach and gains from economies of scale arising from fixed costs being shared across more transactions and more efficient usage of technology.

6) Possible distortionary effects of government institutions and programmes: Despite playing an important role in broadening access to finance, some Government programmes (through MSB, MRFC) may have contributed to the distortion of the lending environment. This is partly due to unclear policy mandates, mission drift in attempt to diversify risk, and limited oversight.

52 FSTAP Project Appraisal Document, February 2011
The Government intends to strengthen the ownership, oversight, and governance structures of state owned financial institutions and programs including MSB and INDEBANK, MRFC, MARDEF, SEDOM, DEMAT.

FSTAP will support the development of an ownership policy for state investment in the financial sector. The policy will communicate the rationale and objectives of state ownership, the state’s role in corporate governance, and how it intends to implement its ownership policy. As such the policy will clarify the goal of state ownership in key state owned financial institutions. It will also clarify the role of ex-officio public officials in the boards of state owned financial institutions.

7) Lack of adequate products and capacity to serve client needs: Financial institutions do not have the technological and human capacity to offer the appropriate financial services needed. Only 8.5 per cent of the outstanding loan portfolio of Malawian financial institutions was related to the agricultural sector, despite farming generating 35-40 per cent of GDP and over 90 per cent of export earnings.53

Financial products available to MSMEs do not meet their needs, as so many MSMEs are in the start-up phase and hence heavily under-capitalised.

One key problem is the lack of long term financing in Malawi. Loan terms are short-term, while the MSMEs need long-term finance. The mismatch can lead to early foreclosures. Addressing the problem of limited access to long-term finance requires the development of alternative sources of finance including capital markets (developing the Malawi Stock Exchange and establishing a bond market), establishing the venture capital sector, and expanding the use of leasing. The Financial Sector Development Strategy 2010-2015 calls for the development of a sovereign bond market in order to finance the infrastructure development agenda of the Government while offering long-term investment opportunities for pension funds, insurance companies, and even banks. The development of a bond market is also seen as a way to deepen the Malawi Stock Exchange. The Government of Malawi is also committed to a development fund (operating as a joint venture with the private sector) which would provide venture capital and long-term loans to business. This idea is still in modality phase.

Demand-side factors

Top Priority: Increase attractiveness of MSMEs as clients for financial institutions by improving financial literacy, increasing formality of the sector, and improving the amount and quality of information available on entrepreneurs through development of a Credit Reference Bureau and a national identification system.

Medium-term Priority Develop a concerted strategy, possibly through the Export Development Fund and with banks, to guarantee production short-falls for investments in agro-processing capacity. Such production guarantee schemes must be on a ‘phase-out basis’ so that once local agriculture production quality and quantity reaches required levels the processors are no longer insured by the scheme. Incentives along the value chain need to remain undistorted. The scheme could potentially work as a credit guarantee scheme, depending on potential size of the market. Repeated in Access to Information Section.

8) Lack of scale: The small size of the economy and of local businesses makes the provision of financial services inefficient and costly, particularly for commercial banks. Banks may be reluctant to spend disproportionate amounts of time and costs with (often remotely located) MSME clients relative to the size of the loan.

9) Lack of information: Financial institutions face significant information asymmetries about their clients, and lack information on the markets they operate in. It is essential for Malawi to secure an agriculture production guarantee scheme, or an agriculture guarantee scheme. Such a scheme is working well as a self-sustaining trust in Tanzania (Private Agriculture Support Services). It will become a private company in a few years. It started off as a donor funded project in the late 1990s.

Licenses have been awarded to two Credit Reference Bureaus (CRBs) to Credit Data and CRB Africa, which should go some way towards rectifying information asymmetries. However, both are yet to become operational. There is also a need to work on sensitisation of customers to the CRBs going forward. Currently the CRBs are only permitted to work with banks only but RBM is looking at opening up the CRBs’s to MFIs and non-banking financial institutions. RBM may also look at including provisions for positive information collection.

Complementary to the CRBs is the creation of a national financial identification system. Such a system will facilitate access to finance for those segments of the population for whom obtaining an ID card is cumbersome and/or costly. Such an identification system would help better enforce “Know Your Customer” and other anti-money laundering policies. The National Registration Bureau is currently registering Malawian nationals for this purpose and a tender for the issuer of National Identification Cards was held in 2011.

Lack of awareness among consumers on available products is also a limiting factor, and many MSMEs do not fully understand what banks look for in loan applications. However, some companies have said that the loosening of controls means that they now

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have banks approaching them to offer them loans and market their products.

10) Perceived riskiness of demand for financial services from MSMEs: The 2008 World Bank-IMF Financial Sector Assessment Programme report stated that for most financial institutions, rural households and SMEs are unattractive as business propositions. Perceived high lending risk leads to high interest rates and collateral requirements which keep many small holder farmers and MSMEs out of the market.

The 2008 OVOP report notes that high government borrowing made financing of MSMEs by banks relatively more risky (reduced government borrowing and lower interest rates, meanwhile, force banks to lend more to the private sector).

Some perceptions of risks associated with lending to MSMEs stem from low financial management skills among entrepreneurs; poor record keeping; difficulty in providing evidence of a market for products in loan applications; lack of documentation to support loan applications (e.g. cash flow statements, valuation reports, legal fees); the agricultural nature of many MSMEs (dependent on climate factors and therefore risky). Some of these “quality of demand” issues could be improved with business development services and improved consumer literacy. The Government has undertaken initial measures to develop a legal and institutional framework for financial consumer protection and financial literacy. The important step of setting up a multi-stakeholder National Taskforce on Consumer Financial Education (NTCFE), under the leadership of the RBM, has been taken. The taskforce has developed a draft outline of a financial literacy action plan.

In addition, MSMEs may have difficulty in furnishing appropriate collateral; also weak regulatory protection for creditors in areas such as property rights, contract enforcement, bankruptcy laws, credit information and disclosure requirements affect the availability of credit.

The World Bank and EU-funded Business Environment Strengthening Technical Assistance Program (BESTAP) has sought to introduce reforms to improve protection for creditors and improve the ease with which a business can be wound up. These have included improving access to commercial justice by strengthening and expanding the capacity of a newly established High Court Commercial Division and reducing the time it takes to resolve commercial disputes; and, improving Land Registration Processes by reducing the time that it takes to facilitate the registration and securitisation of land-based assets via computerisation of procedures, streamlining of documentation and procedures, and restructuring the registries’ procedures. Whilst BESTAP is due to conclude in June 2012, there is a need for follow-up activities to optimise the above reforms, such as further capacity building for the Ministry of Lands in dealing with new registration processes, and training for the courts in dealing with commercial cases.

There has also been a review of regulations for dealing with insolvent businesses and a new Insolvency Bill has been drafted to bring Malawi’s procedures and regulations in line with international standards. Once enacted, this should reduce the cost associated with winding up a business and increase the recovery rate for creditors. The bill has been processed by Cabinet. The Ministry of Justice (MoJ) is expected to gazette it once Parliament provides a slot. The next sitting of Parliament is in June.

11) Informality: Informality of client enterprises, and also of the markets within which they work, is a challenge as it reduces the extent to which information is available on enterprises, the reliance which can be placed on systematic documentation, and often means enterprises lack a fixed place of business.

BESTAP has sought to introduce reforms to improve the time and cost for businesses in becoming formalised. For example, the review of Company Law aims to increase the ease of starting a business, including doing away with several complex and antiquated provisions currently required by law, such as the need for a company seal. BESTAP has also improved the business registration process at the Registrar General’s Directorate (RGD) via the digitisation of records and computerisation of the process. Following the conclusion of BESTAP in June 2012, there will be a need to continue certain activities such as further support for process computerisation in order for the system to become fully functional, and capacity building for the RGD to manage the computerised system.

5.2 DEVELOPMENT PARTNER APPROACHES TO ACCESS TO FINANCE

World Bank

The World Bank is currently the most active donor in the area of access to finance. In 2011 they launched the World Bank-funded Financial Sector Technical Assistance Project (FSTAP), which will contribute towards increasing access to financial services, making payment systems more efficient and interoperable, improving the regulatory framework and increasing financial literacy in Malawi. FESTAP will also finance the Financial Sector Deepening Trust, which will finance innovative solutions to access to finance constraints which will also be co-funded by the UK’s Department for International Development (DfID) and the United States Agency for International Development (USAID).
The World Bank’s approach to the financial sector addresses three issues:

1) **Stability**: This concerns regulation, the Reserve Bank Malawi’s capacity to supervise, compliance with Basel II and III, and capital adequacy ratios. The World Bank believe that most Capital Adequacy Ratios are sufficient and banks are well capitalised. MSB is the only concern, as the laws of supervision appear to be more loosely applied to it compared to other Financial Institutions. It is also high risk for its tendency to lend to politically connected companies. Governance is also a potential issue for MSB.

2) **Deepening**: This concerns the lack of products tailored to MSMEs.

3) **Access**: One of the primary initiatives being taken by World Bank in addressing this is Mobile Banking. Please refer to the section below for further information.

**African Development Bank**

The African Development Bank would like to finance SMEs but are unable to since many are unable to prove creditworthiness. Instead their strategy is to support initiatives of Financial Institutions to support SMEs. For example they have lent support to OIBM, Standard Bank and NBS. They can also provide grant resources of up to $1 million. This falls under their Private Sector Operations (PSO) strategy and business plan for increased involvement in supporting private enterprises in access to finance.

The African Development Bank-funded Competitiveness and Job Creation Support Project, which will run from March 2012, includes an access to finance component to incentivise commercial banks to develop innovative lending practices. Activities under this component will include incentivising commercial banks through matching grants that will finance innovative activities such as i) the creation or expansion of an MSME Departments and the development of better systems (e.g. cash flow-based loan appraisals); ii) the development of new products for MSMEs (e.g. invoice-based and warehouse receipt-based lending; and loaning to MSMEs through financial management intermediaries to bridge the skills & governance gaps that hamper lending to MSMEs); iii) investment in ICT solutions that deepen and widen access to finance (cell phone & mobile banking, extension of networks); iv) creation of partnerships with international banks with expertise in MSME lending and thereby increasing access to finance; v) providing embedded financial services to MSMEs; and vi) up-scaling microfinance operations to MSMEs; and downsizing large business operations to MSMEs.

The African Development Bank have had discussions with banks on providing letters of credit to address access to finance for SMEs, but they say the banks now want to wait until there has been a devaluation in 2012 before proceeding with this. This could come with capacity building for the supported SMEs.

The African Development Bank already finances tobacco inputs, such as fertiliser, through lines of credit.

**DFID**

DFID are currently targeting the issue of access to finance through the Financial Sector Deepening Trust (FSDT). DFID funded a study on the potential for a FSDT which was completed in May 2011. This is the only one of DFID’s five Growth Programmes targeting access to finance.

**USAID**

USAID have funded the Development Credit Guarantee Facility which provides a 50-50 risk sharing facility to a number of financial institutions. However, the facility has had a low utilisation rate of 20 per cent. One reason is that USAID excluded financing activities related to tobacco, which was limiting in a country relying largely on this commodity.

USAID have also run the Deepening Microfinance Sector (DMS) project which aimed at improving the sustainability and outreach of MFIs through retail-level capacity building, facilitating access to greater flows of commercial capital for financial intermediaries through targeted capacity-building, linkages and brokering, and contributing to a more enabling regulatory, supervisory and legal framework for microfinance.

A forthcoming USAID initiative is expected to finance back-office automation (including regulatory reporting) for MFIs.

**5.3 Programmes and Strategies to Address Issues of Access to Finance**

**Financial Sector Development Strategy (FSDS) 2010-2015**

The Government prepared and adopted the Financial Sector Development Strategy (FSDS) for 2010 – 2015, following extensive stakeholder consultations, using FIRST Initiative (a multi-donor grant facility providing technical assistance to promote financial sector strengthening) funding.

The FSDS is a two-stage strategy: the first stage focuses on bringing greater alignment of the financial sector with those sectors driving economic growth in Malawi. Increasing the number of people participating in the financial system is an important aspect of this strategy. Once this alignment process is underway, the FSDS will then focus on financial deepening and competitiveness.

Two dimensions of competitiveness have been considered: (i) the level of competition between Malawian financial institutions, and (ii) the competitiveness of the Malawian economy itself. While the first aspect will focus on reducing the costs of financial intermediation (e.g., interest rate spreads) in Malawi, the latter component will support efforts to make the Malawian economy more competitive, especially through economic diversification. Cutting across both stages however will be the need for targeted policy interventions on issues such a financial literacy and improving the business
National Strategy for Financial Inclusion (2010-2014)

The National Strategy for Financial Inclusion (2010-2014) was developed under the Financial Inclusion in Malawi project, implemented by MoF and supported by UNDP and UNCDF.

The strategy highlights the importance of financial literacy and consumer protection. The financial literacy dimension includes activities such as: conducting a baseline study on financial literacy, developing a strategy for financial literacy, establishing a national financial literacy network, and providing training. The action plan for consumer protection includes activities such as conducting a baseline study on consumer protection, enacting a consumer bill of rights, establishing a national consumer protection network, and conducting a public awareness campaign.

As part of the Strategy, the Government has established the Financial Sector Policy Unit (FSPU) within the MoF. The FSPU is entrusted with the promotion of a vibrant and inclusive financial sector. Yet, five months after the establishment of the FSPU, the unit had not become fully operational and faces serious capacity constraints. The Government intends to increase the capacity of the FSPU using resources drawn from the proposed project.

Financial Sector Technical Assistance Project (FSTAP)

The World Bank-financed FSTAP supports reforms which align directly with the priorities and actions identified during the FSDS, as well as the MGDS. The main areas to be financed under the project include:

1. **Financial Sector Regulation and Supervision:** assisting the Reserve Bank of Malawi to strengthen regulation and supervision of banking, microfinance, insurance, and pension industries;

2. **Financial Infrastructure Upgrades:** including a legal review of the payment system, an upgrade of its infrastructure (such as supporting the modernization of the Real Time Gross Settlement system and developing of an interoperable central switch for processing payments), and assistance in enabling microfinance institutions to utilise the system for small-value payments;

3. **Financial Consumer Protection and Financial Literacy:** technical assistance to strengthen the legal and regulatory framework for financial consumer protection including developing a consumer awareness and financial literacy program; and

4. **Ministry of Finance’s Financial Sector Policy and Governance Capacity and Long-term Finance:** technical assistance to the Ministry of Finance on financial management and state interventions in the financial sector. This component will also support the establishment of a policy framework and the legal and institutional infrastructure to facilitate the provision of long term finance and covers, amongst other areas, working with MoF to encourage the bond market, and establishment of a CRB.

The Financial Sector Deepening Trust (FSDT)

The FSDT will be part funded by FSTAP, USAID and DFID, and will operate as a challenge fund targeting Financial Institutions, with an initial term of five years.

There are a number of FSDTs already in existence in Kenya, Nigeria and Tanzania, these are run with the World Bank. Kenya is the most successful of those.

It is being run as a separate entity to FSTAP so that it can continue after the funding for that project concludes. It also allows it to be run in a quasi private sector way.

The trust will be very flexible and will be able to give grants and loans to, and even take equity in, private sector entities which are involved in increasing access to finance. This might include credit bureaus, MFIs, insurance companies and NGOs. (For example, in Kenya the FSDT funded M-PESA and cooperative insurance product development).

It will work as a cross between a Venture Capital fund and a challenge fund, taking bids from these entities. Financing will not be given directly to entrepreneurs under the scheme.

The FSDT will target the poor, MSMEs and smallholder farmers. It will not have quotas for certain target groups within the above category. The focus is broad, not just based on agriculture.

There have been some issues with determining an appropriate legal structure for the scheme, i.e. whether it operates as a trust or a company limited by guarantee. This will determine the governance arrangements for the scheme. If structured as a company, it will have a board which would consist of MoF, RBM and MoI amongst others. It is currently envisaged that there will be four or five full time staff who would work for the FSDT.

FIRST Initiative’s Non Banking Financial Institutions Capacity Building Project

With funding from FIRST Initiative, this project provided support as part of the post Financial Sector Assessment Program follow-up activities in the areas of insurance, pensions, capital markets, and microfinance activities, including the development of the legislative and regulatory framework for a number of related financial sector related bills mentioned above.

Bank-Led Initiative for Financial Inclusion

In February 2010 the CEOs of commercial banks agreed to set up a Financial Inclusion Task Force to develop a strategic framework which will govern the banks’ approach to developing solutions to increase access for the unbanked but bankable population.

A Memorandum of Understanding was developed by commercial banks to increase the banking population from nineteen per cent of the total bankable population to 40 per cent across all banking
institutions in Malawi; and have at least one banking institution represented within every 20km radius in every economically active and densely populated locality in Malawi.

**Mobile Banking**

One challenge in serving the Malawian population with financial products is the high cost or lack of access to the rural population. It would be prohibitively expensive to build enough traditional bank branches to achieve widespread coverage so alternative outreach methodologies, such as mobile banking, are being explored.

Opportunity International Bank of Malawi (OIBM) was the first institution in Malawi to develop its own mobile banking programme in Malawi. The country had no telco-led programmes when this project began in 2008. As a result, OIBM had to construct a bank-led model.

OIBM is currently offering its clients two branchless banking channels: “Banki M’khonde” and “Banki M’manja” service. “Banki M’khonde” allows customers to use their bank cards at local agents to perform cash in and out transactions whereas through “Banki M’manja” customers can access their bank accounts using mobile phones.

OIBM is now implementing a Consumer Education for Branchless Banking (CEBB) programme in Malawi, in partnership with Microfinance Opportunities, to test the use of financial education in supporting branchless banking among low-income populations.

The World Bank has started a new mobile and branchless banking initiative with USAID. As part of this they will look to develop the agent market and literacy.

The biggest issue in this field currently is the non-interoperability of the system. World Bank and USAID have engaged a consultant to look at addressing this and have set aside funds to help the government purchase an interoperable system.

A subcommittee on mobile banking is to decide the way forward, with endorsement from the financial sector. FTSAF funds could be used for regulatory reform in the area of mobile banking and in improving financial literacy. However the World Bank believes there is also a problem with the agent-banking business model, and there was a need to look at different models. The World Bank said it will work with government to encourage piloting projects.

In terms of reforming the regulatory environment to foster the development of mobile banking, a national payment system bill originally prepared in 2002 has been updated to take into account recent developments - in particular, the introduction of mobile phone based payments. It will shortly be re-submitted to relevant Government agencies for finalisation and submission to Parliament. The development and usage of retail payment media, such as mobile, card and internet payments and particularly building an extensive branch network or non-bank agency network (i.e. branchless banking) on a national basis depends on transformation of the payments system. As part of this transformation, the Government should undertake a fundamental re-evaluation of the need to provide continuing support for Malswitch.

Furthermore, the RBM has: (a) stipulated regulatory guidance for both bank and non-bank based models for mobile payments; (b) authorized the piloting of mobile payment technology; and, (c) initiated the process of setting up an interoperable central switch by the Bankers’ Association of Malawi (BAM).

**5.4 Development of the Micro-Finance Sector**

**Main Priority: Implement the Micro-finance Policy and develop a plan to move toward definition of roles in sector:** Public sector provides conducive environment, Private-sector runs agencies. The current growth of the sector is in privately owned agencies such as OIBM and MLF. This has to be recognised and actively supported if Malawi’s agricultural potential is to be met.

**Second Priority: Operationalise Micro-finance Act and Financial Cooperatives Act through gazetting of required directives.**

**Third Priority: Invest in capacity of Reserve Bank of Malawi’s directorate for micro-finance.** Its staff currently have banking experience, which is very different from micro-finance experience. This is key for the RBM to be a facilitator of the sector while also being an effective regulator.

**Fourth Priority: Assess opportunities for independence of public-sector agencies such as MRFC, MARDEF and SEDOM/DEMAT and MEDI, possibly supported by an Apex public fund.**

The 2008 World Bank-IMF Financial Sector Assessment Programme report cites the chief constraints to the nascent micro-finance industry has limited financial resources, poor physical infrastructure and lack of financial literacy. The industry is dominated by large government-funded MFIs, with the others largely dependent on donor-funding.

The sector remains heavily focused on the urban population. There remains a clear need for operational and human capacity building and promotion of new rural focused models. There may be potential for partnerships between MFIs and banks to reach out to rural customers. Malawi Savings Bank did not have an SME unit 3 years ago while Standard Bank had abandoned their SME department.

Loan recovery rates are also low across the sector. Currently some state-run institutions are distorting markets by subsidising interest rates and continuing operations with very poor recovery rates.

MFIs were previously not regulated by the RBM and are prohibited from collecting voluntary deposits, which explained in part the limited expansion of the scope and scale of their operations. However, a recent development in the sector is that MFIs can now take deposits, and are therefore less reliant on donor funds.
In this respect, Malawi is developing two key laws for the sector, the Microfinance Act and the Financial Cooperatives Act. These sectors will now be regulated by the Reserve Bank of Malawi. RBM is trying to familiarise SACCOs through the Financial Cooperatives Act. Yet it is essential for the regulation to be guided by a concerted plan to allow micro-finance to help the productive sectors emerge.

The Microfinance Act will allow 3 types of micro-finance agencies:

- **Non-deposit taking institutions** – will provide credit and other services such as money transfers and insurance etc;
- **Deposit taking institutions** – will act like a bank, except they will not be allowed to provide foreign exchange;
- **Micro-credit institutions** – will only be allowed to provide credit.

Despite being approved by Parliament in June 2010, the Microfinance Act is not yet operationalised. Likewise the Financial Cooperatives Act is also not operationalised, despite being approved in February 2011. The issue is that the directives that need to be developed to allow for operationalisation have not been completed by the Ministry of Finance and Development Planning. The directives for micro-credit institutions are about to be finalised, but the directives for the other types of agencies have not been drafted. The Economic Affairs Division, which is tasked with this duty, has limited capacity relative to the scale of work that it needs to carry out.

Most MFIs are currently registered at the Registrar General Directorate. Registration will now occur with the Reserve Bank of Malawi. However, lack of capacity has driven the RBM to delegate this task to the Micro-finance Network. The Reserve Bank of Malawi has just opened new microfinance directorate, with new staff who do not know the sector. Their experience is in commercial banking. The directorate had first applied commercial bank directives to micro finance agencies but this does not work as half of the activities are manual, not automatic in MFIs. There is need for significant capacity building in the RBM to ensure it is an effective regulator that facilitates the development of the sector.

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The public-sector micro-finance sub-sector is larger than the privately owned sub-sector. Agencies like MRFC, MARDEF, SEDOM, DEMAT, MEDI and Pride Malawi are all owned by government. The efficiency and effectiveness of such agencies is weak when compared with OIBM, MUSCCO, MLF and other private microfinance agencies. There is a big difference in how services are delivered. Private players view micro-finance as business. They are working toward providing a service that is self-financing and because this is such a challenge, it is essential for the profit motive to be present. The difference in sustainability and effectiveness of service between OIBM and MRFC is astounding, and this has to be acknowledged as a basis for allowing the sector to develop through private ownership. This is key if the outreach of micro-finance into rural areas is to be improved, as it is ultimately the profit motive that will ensure obstacles, such as poor infrastructure, are overcome. In turn this is critical for Malawi’s ability to raise agricultural yields which is key to allow for value added exports.

Some of public sector agencies started well, particularly as they were initially funded by development partners. However their performance declined when donor funding ended and the Government became too involved with directives that changed the objectives of the agencies. The ideas are good but the delivery of service distorts the market and does not lead toward sustainability. This has led to most public micro-finance agencies being unprofitable and requiring ongoing Government subsidies. For example, MARDEF is designed to serve its clientele through members of parliament making services linked to politics rather than to productivity. As a result, such agencies do not know their clients well enough. In certain cases, they provide good loans, but all too often the financial risks are too high to ensure sustainability.

The Microfinance Policy was approved by Government in 2002 and it clearly states roles of stakeholders. The policy states that the Government role is simple: it must create a conducive environment and legal framework. Yet there is little awareness outside the Ministry of Industry and Trade, where it is based, of this policy so the Government is not moving in this direction. This is limiting the sectors’ ability to contribute to Malawi’s efforts to meet its export potential.

The suggestion of the Micro-finance Network is that if the Government has resources to allocate to the sector, the optimal way would be through an Apex fund. This would be run independently from Government, but the management would report to it. It would have clear rules for engagement and for access to financing, based on ensuring good coverage, applying best practices and on investing in key productive sectors aligned to the National Export Strategy. Financing should only be provided through loans, rather than current subsidies. Currently such funds are placed in vehicles such as MARDEF, MRFC and the Youth Entrepreneur Development Fund (approximately MK10 billion) through grants – there is no accountability and so such funds are dispersed quickly with no ability to monitor impact.

There is also need for clarity in the Government on which Ministry is responsible for micro-finance. Changes happen just because of donor projects and this has a bearing on how sector operates. Before the FSTAP project, The Ministry of Finance was unaware about the existence of Microfinance Policy in MoIT. The Ministry of Gender is also implementing micro-finance programmes. The Ministry of Local Government also runs microfinance supported by AfDB. Coordinating such Ministries can have a significant impact.

A final note on financial literacy is that while it is good and needed, the impact of such programmes will be low if they are not closely tied to education, particularly the provision of base competencies necessary to then become financially literate.

### 5.5 Property Rights through Access to Land

**Priority: the operationalisation of the Lands Bill through the completion of its legal framework and an appropriate programme to ensure sufficient registration capacity for smallholder private land.**
Second Priority: For commercial and industrial land, improve mapping capacity to allow synchronisation between title registries and mapping information.

Third Priority: Ensure completion of BESTAP support for commercial and industrial land title registry. Ensure adequate capacity in Land Title Registration Department.

In common with other Southern African countries, Malawi inherited a rural settlement structure in which rich farmers held some of the most fertile and well-watered lands. Land ownership in Malawi is highly unequal due largely to the 1967 land reforms. Instead of rectifying the unequal land ownership and distribution pattern, these instituted mechanisms for converting customary land into leasehold land that reinforced the postcolonial agricultural strategy that distinguished estate farming from smallholder agriculture. This scheme had resulted in the latter being marginalised in terms of the crops that could be grown and access to credit and input markets.

While 55 per cent of smallholder farmers cultivate less than a hectare, there are about 30,000 estates cultivating between ten to 500 hectares. In addition it is estimated that about 28 per cent of the country’s cultivable arable land (about 2.6 million hectares), falling under freehold, lies idle in the rural areas.

Approximately 84 per cent of Malawians earn their livelihoods directly from agriculture: in fact agriculture contributes over 90 per cent to export earnings, 40 per cent to gross domestic product (GDP) and accounts for 85 per cent of total employment.

The land situation has precipitated a series of land invasions and incidents of encroachment across the country. These have been quite widespread in southern Malawi, particularly in the districts of Thyolo and Mulanje where land scarcity is most acute. The increasing intensity of incidents, coupled perhaps with the tragic turn of events in neighbouring Zimbabwe’s land reform programme, has prompted – the government in collaboration with its development partners – to adopt a new National Land Policy to guide the country’s land reform process. This policy proposes three land types:

1. Government land – land acquired and privately owned by the Government and dedicated to specified national use;

2. Public land – land held in trust and managed by the Government or traditional authorities and useable by public at large. In the past, the absence of any distinction between Government Land and Public Land caused a lot of mistrust and confusion among citizens and land administrators. Because the public land designation was used to effectively expropriate customary land without compensation, it remained at the root of most of Malawi’s land problems. This new distinction makes the Government’s acquisition plans more transparent. The distinction is also necessary for separating land held in trust by the Government from land acquired by the Government for which ownership is actually transferred to the Government;

3. Private land - land that is exclusively owned, held or occupied under:
   - freehold tenure or
   - customary land allocated exclusively to a clearly defined community, corporation, institution, clan, family or individual.

This land reform process has proved highly sensitive particularly because of concerns about poor farmers to understand how a formal land market operates and their ability and willingness to use their land for commercial purposes. Reforms in the tenure system are transitional, in which group titles that offer rights under leasehold title will eventually be converted to family customary estate once the new Land Act is in place. The Ministry of Lands, Housing and Urban Development is responsible for access to land and land tenure security. The basis for this is Malawi’s Land Policy of 2002. As mentioned above the primary feature of the policy is to establish the basis for the registration of customary land.

The Land Policy advocates for the registration of customary land, despite this, the policy (2002) is now outdated. It is meant to be accompanied by the Land Bill. The problem is the development of the legal framework. The draft legal framework was completed by the Ministry in March 2010 and sent to the Ministry of Justice. It is still there.

It sets the procedures for the registration of customary land. The other forms of land already have a framework. Currently customary land is communal land. The law will allow for customary estates to be set up, where an individual can register their land. This will allow private ownership. There will be no ground rent paid. A deed is a document that describes an isolated transaction. Title includes the registering of the legal consequence of the document, so it is legally binding. A deed is therefore not good for the banks, so there is a need to move from deeds to title.

BESTAP has computerised titles in registries for private land, but information on the ground remains manual. Current maps are actually merely sketches and are not in GIS form. A consultant was been engaged to design the registration system for titles and deeds but the system remains incomplete.

One challenge is mapping. Titles in registry do not properly reflect maps and land on the ground. Therefore there is a mismatch between land registry information and actual demarcations. This compromises land security.

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54 http://www.malawi.gov.mw/publications/landpol.htm#_Toc524602004
BESTAP’s scope does not include mapping. BESTAP is procuring computers to run a registration system in the Title and Deeds Registration System under the Department of Lands. It will be implemented in Blantyre, Mzuzu and Tikwere Building (Lilongwe) Land Registries. It will be networked between regions. This work has to be completed by December 2012 when BESTAP ends. This is a very tight timeline and it is very likely that such activities will require follow on support after 2012.

In terms of access, there is a lack of resources to provide public services (like roads, electricity and water) to pre-zoned areas that can be allocated to investors. For industrial and commercial zoning there is no clear plan in this regard; investors apply for plots and then are required to pay a development charge which is meant to finance public service provision. However this system is ineffective, resulting in many plots not being serviced for long periods of time.

There is a need for more zones but this also requires surveying capacity in the Ministry, which is limited. Zoning is carried out by Dept of Physical Planning and the councils. Generally businesses can get land, the problem is servicing.

For smallholders land security, the key thing is the bill. The land reform package will require registration of all parcels of land in Malawi. For the Ministry to register customary land, a legal framework is required.

The Community Based Rural Land Development Programme finished (CBRLDP), in December 2011. There is meant to be a successor project. This is meant to be broader in scope as CBRLDP was a pilot. The design has been completed and it is awaiting funding and for the land bill package to be passed. It focuses on capacity building: training and equipment for the implementation of agriculture-related land issues. It will also focus on awareness of law, and includes some capacity to build capacity of registration department in the Ministry of Lands. It will be implemented as a component under ASWAp. CBRLDP is deemed to be a successful pilot. For the project to be successful, the legal framework has to be operationalised. This needs capacity building. This requires decentralisation of the work, so there is a need to build capacity in districts for registration, conflict resolution.

The CBRLDP relocated more than 15,000 beneficiaries from different districts or within district (from Mulanje/Thyolo) to Balaka, Ntcheu, Mangochi, and Machinga. They were moved because they were landless/land poor. There was over population in Mulanje and Thyolo relative to available land, a lot of which is consumed by tea estates. In Ntcheu and Balaka, movement of persons was within the same district. Smallholders were also given group titles and were registered in the registry to allow security.

Access to property and infrastructure for commercial use should be made as simple and inexpensive as possible to incentivise business development and expansion in Malawi, especially for disadvantaged groups including smallholders, rural women and youth. Ensuring formal property rights is a fundamental part of that as well as the ease of getting construction permits so that the necessary premises and facilities can be built for businesses to function.

Having reliable property rights allows investors to be sure of their potential to gain full rewards from their investment. A focal role for the government to play in this arena is to ensure that all contracts that are made are enforceable. In this respect having a properly functioning commercial court, as Malawi does, plays an important role in easing investor’s confidence that if an investment is made, there is a designated institution that will deal with the commercial disputes which arise. However it is recognised that sometimes the Commercial Court is limited by its administrative, management and human capacity. To aid the institution, an alternative Dispute Resolution system has been established and through the Business Environment Strengthening and Technical Assistance Programme, funded by the World Bank, the Commercial Court is receiving assistance and funding in all the necessary areas55. Assistance through BESTAP will end in December 2012, and the Ministry is keen to allow for continued support to its development.

The process of registering property to attain formal property rights in the first place is a fairly complex one and Malawi stands 95 out of 183 economies in its ranking of ease of registering property56. This is below the regional average which is 66. In the last year Malawi relapsed on its time efficiency gains made in 2010 by increasing the time needed to acquire Compliance Certificates at the ministry of Lands.

Regulations on construction are critical to protecting the public but they need to be efficient to ensure that business’s expansion plans are not deterred by them. The Department of Physical Planning empowered city planning committees to concentrate on large projects meaning that smaller projects could be handed over to technical committees. This has achieved greater efficiency in attaining construction approvals alongside a further improvement which was the cap on the approval time for permits of 60 days57. However in the Doing Business Report for 2012 these improvements have not registered an improvement in the ranking for the “dealing with construction permits” category. Malawi stands at 167 out of 183 economies surveyed because of the high cost involved and lengthy procedure. These barriers need to be addressed to create a more favourable business environment.

Commercial Farming

A key part of access to land is access to land for commercial farming that is tied in to the priority clusters. Having clear land guidelines and titling for commercial farmers, and allocating sufficient suitable land for commercial farming (1 million hectares would be the ideal) is fundamental for Malawi to develop its productive and export base. However this commercial farming should follow the Principles for Agriculture Investment:

- Respecting land and resource rights
- Principle 1: Existing rights to land and associated natural resources are recognized and respected.
- Ensuring food security

55 Imani Development, (2011), CSR in Malawi Update
57 African Economic Outlook, (2010), Malawi: 2010, ADB, OECD, UNDP, and UNECA
• Principle 2: *Investments do not jeopardize food security but rather strengthen it.*

• Ensuring transparency, good governance and a proper enabling environment

  • Principle 3: *Processes for accessing land and other resources and then making associated investments are transparent, monitored, and ensure accountability by all stakeholders, within a proper business, legal, and regulatory environment.*

• Consultation and participation

  • Principle 4: *All those materially affected are consulted, and agreements from consultations are recorded and enforced.*

• Responsible agro-enterprise investing

  • Principle 5: *Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value.*

• Social sustainability

  • Principle 6: *Investments generate desirable social and distributional impacts and do not increase vulnerability.*

• Environmental sustainability

  • Principle 7: *Environmental impacts due to a project are quantified and measures taken to encourage sustainable resource use while minimizing the risk/magnitude of negative impacts and mitigating them.*

### 5.6 Property Rights for Movable Property

While land and buildings are widely accepted as collateral for loans, the use of movable collateral (such as inventory, accounts receivable, livestock, crops, equipment, and machinery) is restricted by absent or ill functioning secured transactions laws and registries. Reforming the movable property framework should thus enable businesses to leverage the greatest part of their assets and obtain credit for growth.

The term “secured transactions” refers to credit transactions where a creditor holds an interest in a debtor’s movable property to secure a loan or a debt obligation.

In Malawi, the Personal Property Security Bill seeks to introduce a new law which consolidates the regulations for using movable property such as plant and machinery as collateral. This should facilitate access to finance by SMEs. The Bill seeks to centralise the register of loans over movable and immovable property and provides for a legal framework for establishing an electronic property registry at the Registrar General’s Department. The register will interface with the Integrated Business Registration platform.

The bill has been processed by Cabinet. Ministry of Justice (MoJ) is expected to gazette it once Parliament provides a slot. The next sitting of Parliament is in June.

The World Bank does not believe that operationalising the moveable collateral registry should be problematic once the bill is enacted. USAID have expressed interest in co-financing this activity (for circa US$200,000) once the bill has been enacted. The human capacity element is likely to be the hardest part of this activity.
Access to Business Development Services

6.1 Cooperatives & Farmer Organisations

Main Priorities: Raise the profile and importance of cooperatives and farmer organisations to increase budgetary allocations and improve management structures. Such organisations are an effective mechanism to provide business development services.

Second Priority: Ensure that the Department of Cooperatives has a full establishment and is properly resourced and implement tailored staff development schemes. In the short-term raise staff numbers to 21 (up from the current 8).

According to the Cotton Development Trust: ‘Extension services have essentially collapsed, so how can we deliver skills to farmers to allow them to respond accordingly? This is great challenge. The government has stated that it does not have money to recruit required extension staff. So there is a need for farmer organisations/cooperatives to receive needed services. Financial institutions are desperate to provide services to farmers, but they can only do this via groups. Farmer organisations will make this easier.’

The greatest Business Development Service need in Malawi is the provision of key services to farmers, Malawi’s largest productive base. This typically comes in the form of Government provided extension services, but the provision of such services through cooperatives and farmer organisations is much more critical. This is because ultimately it is farmers themselves who are responsible for Malawi’s agricultural productivity. This is a critical determinant to Malawi’s export capacity.

Likewise non-agriculture based cooperatives are also an important mechanism for delivering key enabling services such as finance, transportation and market information.

Farmer organisations can come in the form of clubs, which are members of associations such as the National Smallholder Farmer Association of Malawi (NASFAM) and the Farmers’ Union of Malawi (FUM), or in the form of cooperatives. It is essential for both these forms of organisations to be strengthened because they serve as a cost-effective manner to provide business development services, market information, financial services, transport services and others.

Farmer Organisations

The National Association of Smallholder Farmers of Malawi (NASFAM) was set up in 1994 originally to help tobacco farmers. It was reorganised in 1998 into a development wing that focuses on advocacy and into a commercial wing that provides inputs, buys produce off member farmers and sells it on. NASFAM currently has approximately 100,000 members. Membership is at a fee. NASFAM is involved in the following sectors: Rice, Ground Nuts, Cotton, Chilli, Paprika, Soya and Pigeon Peas. The key constraints that NASFAM faces are:

• Lack of access to finance. Bank interest is very high (17 per cent to 20 per cent from regular banks and 60 per cent from microfinance organizations). This limits NASFAM’s ability to invest in much need warehouses and machinery for processing – which in turn are require to raise value add and stabilize prices;
• The Bureau of Standards is not accredited;
• Small holder farmers need to improve their productivity (consistency of quality and supply) and marketing;
• Lack of access to information and reliance on the government for data on crop production etc.
• Lack of farmer ability to respond to market forces and switch crops.
• Lack of collective policy advocacy and capacity. NASFAM needs to explain price movements and market forces to farmers; while it also lobbies government for smallholder farmer interests.

Cooperatives

There are currently 600 primary co-ops belonging to four co-operative unions. A fifth co-operative union is being registered in the timber sector. Certain co-operatives, such as in macadamia and coffee have export potential, while others have significant export potential through the provision of export enabling services and through the development of Malawi’s broader productive base. There is currently a large demand for the formation of cooperatives in Malawi and it is the government’s role to help actualize this through investing in infrastructure and human capital.

If adequately supported, cooperatives can play an instrumental role in helping to ensure that rural populations participate in Malawi’s effort to be competitive. This is because of their ability to deliver essential services that respond to the needs of rural communities. However, the cooperative movement in Malawi is in its infant stages.

One key issue that cooperatives face is that they are all financially constrained. The Ministry of Industry and Trade is keen to
support the establishment of a cooperative bank. However this would need to depend on scale to ensure a feasible bank that can cover its costs. There is therefore a need to explore financial support for cooperatives through the Export Development Fund.

Another key need is investment in a skills base that is familiar with the management of cooperatives. The Department of Cooperatives at the Ministry of Industry and Trade is currently in contact with the United Kingdom Co-operative College to find out better what is required of such an institution. The Ministry would like to establish such a college in Malawi. In terms of cost-effectiveness, it is probably feasible to establish the college as part of an existing education institution or through specific courses in existing colleges.

A national co-operative union has been proposed so that Malawi may join the international cooperative alliance.

OVOP is a duplication of what is done by the Department of Cooperatives. Therefore it is important to merge efforts to increase the effectiveness of co-operatives, thereby increasing the ability to integrate rural populations into Malawi’s value added process.

### 6.2 Agriculture Extension Services

**Priority:** Invest in the capacity of the Department of Research & Extension Services to attain the scale necessary to meet farmer requirements. Increase the farmer to extension worker ratio.

**Second priority:** Prioritise new ways of delivering extension services, such as through the use of mobile phone information services such as Esoko.

Agriculture Extension Services serve as an important complement to farmer organisations and co-operatives. The provision of technical farming skills on the scale that is required is essential if Malawi is to ensure the productivity necessary to meet the demands of export sectors.

The Government agricultural extension service reached out to 17 per cent of households in Malawi in the 2006/07 agricultural season according to the Integrated Household Survey (NSO)\(^58\). There is little evidence to suggest that this trend has changed in recent years. Of this, 12 per cent received extension services through village meetings, while 4 per cent either attended an extension course or were visited on the farm. About 38 per cent of the households who had not attended extension services had not done so because no extension worker was available, while almost half the households said the service was available but they had not been visited.

The main constraint facing the agricultural service is the poor farmer to extension worker ratio. A lack of funding to the service and a constrained management structure are the main drivers of the current state of the service.

The Integrated Household Survey also distinguishes between the access of males and females to government extension. Of those receiving extension, 64 per cent were male and 36 per cent female. Almost all (94 per cent) of males found the advice they received useful however this figure slips slightly to 89 per cent for females. Fewer women have access to extension services as they generally have other household tasks that prevent them from travelling to training sessions. It may also be the case that the male of the household feels it is his responsibility to attend such a training session and therefore prevents the women from attending. Either way, as it is the female that is responsible for the household agricultural production it is clearly detrimental that such low numbers are able to receive extension.

According to the Agriculture Sector Wide Approach (ASWAp), “public expenditure on agricultural research and extension is low and major investment is needed to revitalize the research and extension services if their support for increased agricultural production is to be successful. Furthermore, international and regional as well as private technology flows need to be further integrated and used for farmers to benefit from the most appropriate technology options.”

“The success of these programs will depend to a large extent on appropriate technologies being developed and used by farmers of all gender categories. The ASWAP will therefore strengthen technology generation (research) and technology dissemination (extension) services and hence focuses on the following:

- Increasing the capacities of the research and extension systems to respond to farmers’ technology needs of all gender categories, by generating and disseminating appropriate technologies for sustainable agricultural productivity increases.
- Strengthening result-oriented gender sensitive research and extension activities and improving the relevance and responsiveness of services that farmers need.
- Provision of technical services such as artificial insemination service for dairy cattle, dip tanks, vaccines and vaccination services for livestock, seed certification services, sanitary and phytosanitary services, production and certification of foundation and basic seed and vegetative planting materials, development and monitoring of quality standards, soil analysis for site specific fertilizer recommendations, pesticide residue analysis for food safety and analysis of aflatoxin in groundnuts and other food grains.”

Given the weak government agricultural extension service many NGOs, donors or farmer associations, such as NASFAM, have developed their own extension officers. In the case of NASFAM...
their extension service is used in order to train farmers on Global Agricultural Practices, post harvest handling, and also as a mechanism by which to deliver market information. NASFAM has two categories of extension workers; field officers and farmer-farmer trainers. The field officers operate per EPA or per sub-association and have a degree in agriculture or similar. The farmer-farmer trainers are community members and are ‘lead farmers’. They have received extensive training from the NASFAM Farmer Services Unit. NASFAM try to encourage at least 30 per cent participation of women in their extension service programme.

USAID’s Market Linkages Initiative Project (MLI) is working with Chitzyotsa Trading to pilot information packages for extension services, through Esoko – the mobile phone information service. This sends out informed messages throughout the season about planting all the way through to marketing. This will be tried for groundnuts, maize and soya.

MLI want to test this and to see if can raise returns for players such as OIBM. This tool is valuable for contract farming too, as it lowers the cost of management to integrate buyers and producers. The constraint is the cost of dealing with thousands of farmers and the inefficiencies of communication. After piloting this, MLI wants to share the results with other banks and MFIs, and to target companies that do contract farming in food crops (and the Ministry of Agriculture’s extension service). MLI has 2 key objectives in the assistance of extension service provision:

- Support the introduction of Esoko technology for Agriculture Extension Services.
- Improve the quality of extension on marketing and post harvest handling. Extension is very good on production, but not as good as needs to be in these areas.

6.3 MICRO, SMALL AND MEDIUM BUSINESS SUPPORT

Priority: The merger of MEDI, SEDOM and DMAT into the SME Board is critical to Malawi’s ability to meet its export target, because its target (which is set by its level of imports) cannot be achieved through the export of commodities. The development of MSMEs through effective, scaled support is essential to ensure that Malawi can develop the value addition necessary to meet its export target and address its forex shortage in the medium and long-term.

Second Priority: Embed the MSME strategy in Malawi’s efforts to develop a productive base for both export and domestic-market oriented sectors.

Third Priority: Ensure that the MSME strategy is practical, appropriate and fully implementable. Ensure allocation of adequate resources (including management/administrative time) to prioritise its implementation.

Fourth Priority: Ensure that the strategy supports private or development partner efforts that seek to establish self-financing or quasi self-financing, MSME support services.

According to the 2009 Private Sector Development Strategy, manufacturing is mainly comprised of agro-processing oligopolies related to the country’s three main crops: tobacco, tea and sugar. It says “The private sector is also characterised by a ‘missing middle’ with comparatively few enterprises in between the larger multinationals and the many micro and informal sector enterprises.” The 2009 Economic Empowerment Roadmap (EER) notes that previous efforts have fallen short and many Malawians remain in unprofitable businesses, while foreign investors dominate in larger, profitable firms, with a lack of vibrant businesses in between to link and eventually upscale enterprises across the country.

The two greatest constraints to MSME development are access to finance and access to skills. The former is covered in section 5 above.

According to the Finscope survey of 2009, only twenty per cent of Malawi’s population graduated in secondary education or higher, while only four per cent completed tertiary education. This means that some three quarters of the population are unable to develop their talents and skills. These could be technical, managerial or organizational skills. This significantly reduces MSMEs ability to operate and develop.

The greatest challenge that MSMEs face is access to skills. While the availability of skills is also a challenge for large businesses, it is greater for smaller firms because the success of a micro, small or medium enterprise is dependent upon the skills of fewer personnel. Therefore the skills required to make a business successful need to be concentrated in fewer people. MSMEs are required to use the skills of few personnel with different characteristics to overcome the day-to-day challenges that they face in running their business. Because of MSME’s requirement to rely on a smaller skill set, the available skills set is spread over a range of functions, allowing less man time to core business issues, thereby impacting productivity and their ability to export. The size and quality of the pool of skills that MSMEs can access is central to ensuring that these businesses remain competitive, particularly in the light of the liberalization of trade and of increased regional integration.

It is therefore essential to link the development of MSMEs to the availability of effective and targeted MSME development services based on skills. This needs to allow for the emergence of a sustainable MSME service provider sector that is effective and feasible. The use of private sector based training institutions is effective, preferably through schemes such as an MSME training voucher scheme. Such a scheme would introduce an element of

consumer preferences so that training institutions can better assess the training and human capital development needs of MSMEs.

There is also a need to restructure the government MSME service provision sector. According to the BESTAP report, the fact that government has created a number of MSE support institutions almost single-handedly has created a financial burden on it. It adds, “the proliferation of support institutions in some cases has led to duplication of efforts and unhealthy competition. This warrants proper coordination to reduce wastage of scarce resources and enhance efficiency and effectiveness in the delivery of services.”

The BESTAP report also argues that government-owned SME support institutions have been reclassified as commercial parastatals, making them ineligible to receive government subvention. This has forced them to “change their focus from development to commercial activities to ensure their own survival.” BDS activities have been scaled down to a handful of districts or the main urban centres and some have become microfinance institutions. There is also high staff turnover in SME support institutions due to the uncertain future of these bodies due to financial constraints and a long-standing proposal to merge DEMAT, SEDOM and MEDI into the SME Board that has not yet occurred.

Demand for BDS remains high and unmet, and there is little attempt to link business promotion efforts with measureable outputs to justify investments.

In response to the difficulties in supporting MSME development, the Government of Malawi is revising the Micro, Small and Medium Enterprise (MSME) strategy and policy that will build on a number of important strategic development documents, including the existing MSME policy document from 1998 and Malawi’s Private Sector Development Strategy (PSDS). The objectives of the revised MSME strategy and policy are to:

- Increase the contribution of MSMEs to economic growth, employment and poverty alleviation in Malawi;
- Improve coherence in policies that impact on MSMEs with measurable outcomes and robust monitoring and evaluation;
- Strengthen the MSME business support infrastructure; and
- Develop a coherent, integrated and practical framework to guide stakeholders engaged in MSME development in Malawi.

The revised MSME strategy will focus on three core policy areas:

1. Improved access to finance;
2. Enhanced access to markets, through improving productivity and innovation;
3. Creating an enabling regulatory environment.

Since ultimately Malawi’s export capacity will be driven by MSMEs, it is essential to ensure that the National Export Strategy and the MSME policy and strategy are coherent with each other, while complementing each other in ensuring the implementation of critical policies in the above three areas. These are also identified as critical export enablers in this report. The MSME policy and strategy will be completed in August 2012, in order to take on board the outcome of an MSME survey that is currently being conducted by the National Statistics Office and the Ministry of Industry and Trade.

Other Government responses included the construction of three rural Enterprise Development Centres in Thyolo, Nkhotakota and Mzimba with the aim of supporting 1,800 businesses.

**Business Growth Scheme**

The Business Growth Scheme (BUGS) is a matching grant scheme funded by the World Bank as part of the BESTAP government programme. BUGS was initially planned to run alongside an SME finance institution/investment fund through the Ministry of Finance. The establishment of either an SME investment fund or loan guarantee fund would support improved access to finance for small-scale businesses. The main challenge faced by BUGS was the fact that the SME investment fund initiative was scrapped by GoM in order to prioritise a Development Bank (which is still to emerge). The lack of the SME fund meant that capital was not available for potential clients for machinery etc and thus participation in BUGS dwindled. At the start of 2011 only 40 per cent of potential funds had been dispersed. This is in comparison to Uganda where 100 per cent of funds had been dispersed in the first 18 months of the project. BUGS ends in December 2012.

Improvements are also suggested through investments or assistance in developing venture capital funds (A fund where soft loans are provided (at around 10 per cent interest) for investment in machinery and equipment. These are the things that farmers need to improve productivity: tractors (which can be communally bought), drainage and irrigation, processing machinery, storage facilities etc.), priority given to MSMEs diversifying, adult literacy and further investigating the Export Guarantee Scheme being developed by the Malawi Export Promotion Council.

Many of the applications that were not approved were because they were requests for funding to buy equipment. Around 70 per cent of completed BDS activities are business training, while 20 per cent are for technical training. The scheme generally finances firms with less than 10 employees (roughly 60 per cent) and the emphasis has been in the Southern Region, mainly because the BUGS are based in Blantyre.

**NGO Based MSME support services**

Development partners are increasingly supporting services for MSMEs. One example is the Business Information and Services Centre (BISC), a programme of CISP, an Italian NGO. BISC offers
business management skills training, counselling, general business advice and referrals for entrepreneurs to start or improve their businesses and create employment for owners and others.

Presently the services provided by BISC have focused around the training of entrepreneurs, business counselling and financial referrals, this leaves room for a restructuring of the BISCs in order to face the new challenges posed by the introduction of the new partner, to broaden the activities offered to “generalist entrepreneur”, and to shift the activities of BISCs to a particular group of entrepreneurs, those who require specific “off house” incubation services. The objective of the BISC model is to create an incubation mechanism for SMMEs who become BISC clients with the aim of developing and growing them into financially viable businesses. BISC identifies specific enterprises that will show most or all the following characteristics:

- Endogenous potential of growth
- Job creation potential
- Innovative products
- Good market analysis
- Integrity of entrepreneurs

MSMEs identified will receive “ad hoc off house” incubation assistance, which incorporate both financial and non-financial support. In particular, business development services including:

- Accounting/Bookkeeping services,
- Business counselling,
- Marketing – accessing broader markets for clients,
- Assistance with bulk purchasing,
- Financial referrals,
- Support in the preparation of a business plan to pass on to the partner financial institution with which a particular financial product has to been developed and agreed upon to address the needs of the selected entrepreneurs.

It is essential for the regulatory framework to support efforts such as these, so that Malawi can maximise the number of MSME support agencies that are financially sustainable, or that are able to minimise their dependence on external financing, which is justified due to positive externalities.

6.4 Professional Services (Accountancy, Law, Marketing, Engineering, Agronomists, Management & Other Services)

Priority: Regulators need to view service sectors as essential for Malawi’s ability to export. There is a need to mainstream this realisation in immigration policy, initially by developing a scarce-skills list that is based on the Prioritised Export Clusters.

Second priority: Support efforts to liberalise business services sector to allow increased international competition. Match this with increased efforts to improve local services.

Third priority: Develop governance structures in profession specific associations that limit conflict of interest that incentivising limiting size of sector to raise prices, thereby limiting professions' capacity to contribute to the development of the economy.

The core issue in professional services is the lack of understanding by regulatory agencies about the importance of such services as enablers for Malawi’s ability to export. A study by the World Bank61 shows that businesses that have access to legal and accountancy services are typically 45 per cent more productive than businesses that are not. Agriculture also needs access to better services in order to reduce farmer production costs and raise yields. Since Malawi is unable to provide enough extension services (as discussed in the previous section, only 17 per cent of farmers have access to extension services), there is a strong economic rationale to allow Temporary Extension Permits to agricultural technicians be prioritised by the Department of Immigration. If such a position on all service sectors can be agreed to between the Ministry of Industry and Trade and the Department of Immigration, then this could serve as a negotiation chip in Malawi’s hand in the upcoming negotiations on services in COMESA and later in the Tripartite.

Negotiations on services in COMESA are expected to start this year, yet Malawi is not prepared as it is not aware which service sectors can be supplied locally and which services need to be imported. See the note on this in the Access to Skills section in Chapter 1. Protocols and guidelines for the negotiations have already been agreed. The duration of the negotiations will depend on flexibility of countries. These negotiations will also be extended under the Tripartite Agreement between EAC, COMESA and SADC. There are 160 service sub-sectors. Most of these are critical for Malawi.

61 De-fragmenting Africa, World Bank, 2012
Importantly, this upcoming move toward the liberalisation of services should be seen as a tool to strengthen Malawi’s drive to export its products in a competitive manner in regional markets. To do this, it is essential for the Government to form a position on service provider investment that can then guide investment and immigration policy in this area. There is currently no prioritisation of investment and immigration into specific service sectors, meaning that all service sectors get equal treatment irrespective of their importance to the economy. As part of this it is essential to identify which service sectors local people can and cannot supply, so that the short fall can be address through temporary immigration schemes.

Currently Malawi has fairly mature legal and accountancy sectors, though these can be strengthened through effective support to ensure the effective implementation of policy frameworks in these sectors through the Law Commission and the Society of Accountants in Malawi. Affordable legal and accountancy services are generally available to small, medium and large formal companies, though less so to informal companies and micro businesses. Training in accountancy, auditing and bookkeeping is generally well provided, and some accountants are now completing ACCA qualifications. The College of Accountancy is the prime public sector training institute, and some private works exist too. Accountancy education is liberalised and certificates are recognised. There is a degree of specialisation in taxation.

The accountancy and audit sector is dominated by the large accountancy firms (PWC, KPMG, Ernst & Young, Deloitte and BDO), though there are a number of local companies.

In terms of architecture, there is a small local supply of architects and civil engineers, supported by the Society of Architects. Services are expensive. As with lawyers and accountants, the association can sometimes set prices. The association is responsible for providing licences for practising, and this raises a conflict of interest issue as members have the incentive to limit licenses to keep the profession small and raise prices. The license is necessary to practice in Malawi, thus serving as an entry barrier.

Engineering is a niche market and likewise there is a gap. For example Illovo claims that it has lost a number of engineers to Paladin Mines, and has struggled to replace them.

Another area where there is a short-fall of services is education services. COMESA member states have not considered education to be a critical sector in SADC. Yet this is essential, particularly for Malawi given the shortage of teachers in the education system.

Education is the basis for other service sectors to develop it is therefore important to allow international schools to open in Malawi, particularly those that provide technical and research training.

Other sectors that are not developed and where there is a shortage is in marketing services, management services, quality control services, engineers and others. Such jobs can raise productivity thus generating jobs for Malawians.

In the financial sector, there is adequate supply of management and clerk level services, but there is a shortage of administrative and IT skills. Nico Insurance is an example where the strength of the domestic sector is allowing Malawi to export services. Nico has offices in Zambia, Zimbabwe and Tanzania.

The ICT sector also needs to increase skills, and as per the Kenyan model, there is scope for the development of local skills. However this can only be provided if the secondary and TEVET sector are strengthened — this is one of the reasons why these sectors need to be prioritised.

A further area where service liberalisation is essential for Malawi’s ability to export is in transportation. This is primarily discussed in Chapter 3 above, but allowing for regional competition in transport services is essential if the transport is to not continue to contribute to 55 per of the cost of production62.

In conclusion, the liberalisation of service sectors needs to be done on a sector by sector basis, and be based on the needs of the productive economy. Currently it is generalised. This will inform Malawi’s position in COMESA and Tripartite negotiations, while also allowing for bi-lateral arrangements with countries that have developed sectors in which Malawi has a shortage that cannot be addressed in the short and medium terms. To create jobs, Malawi must open up key sectors and match this with a strong investment in the education sector.

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Ease of Meeting Taxation and Regulatory Requirements

7.1 Taxation of Exporters and Potential Exporters

Priorities in this section are divided between short-term measures and long-term measures.

Short-term Priorities:

- The export strategy and public finances need to be seen as one, because exports are required to finance the budget, and export capacity cannot be built without a supportive tax system. Taxation Policy has to be part of a concerted effort to develop the productive base of the economy and export clusters. Private Sector Development Policy, Export Policy and Taxation Policy need to be coherent and equally prioritised if fiscal imbalances are to be addressed.

- MoF develops a package that supports the NES while not undermining Government revenue and that addresses the Government concerns on transfer pricing. The package could take into account:
  - Conduct a review of the anti-export bias in the tax system, direct and indirect e.g. taxes on imported inputs for export products.
  - Export tax incentives (corporate tax & investment allowances) need to be simplified and provided for clusters that have potential to drive export & domestic growth, as identified in Cluster Prioritisation Method. There are currently conflicting tax measures, where incentives are overridden by taxes.
  - Given persisting fiscal imbalances and an inability to widen the tax base, it is essential for a re-think of tax incentive schemes through the Export Processing Act. Tax incentives (on imported inputs, corporate tax and investment allowances) need to be provided for clusters that have the potential to drive export growth and drive domestic market growth, as identified in the Cluster Prioritisation Method. The tax incentive scheme has to be simplified and consistently adhered to in order to be effective.

- In the same context, review the recently introduced turnover tax.

- In the same context, review the 30 per cent corporate tax and tax of imported inputs for Export Processing Zones, with a priority on export and domestic market growth clusters, and secondly on short-term revenue generated sectors, as identified in the Cluster Prioritization Method of the NES. Consider a rebasing of taxes away from exports and productive industries and toward consumption and importing industries (exc. imported inputs for export industries).

- Evaluate – relative to international trade commitments – whether government can raise duty on imports of consumption goods. Many, such as the import of wheat for bread making, brooms and vegetables, are duty free imports, while imports for value addition products are not duty free.

- Similarly, duty free imports for raw materials should only be applied to exports, not for domestic consumption. We need more incentives for certain sized exports. These incentives could also be scaled for different export percentages.

Long-term Priority: Conduct a detailed analysis as a basis for tax reform, in order to widen the tax base, simplify the tax regime and align tax policy to concerted efforts to develop the productive base, with an export bias. A simplified tax system that is conducive to allowing tax predictability is essential to building Malawi’s ability to export.

The core issue with the tax system is that it is a victim of a lack of a concerted and effective effort and strategy to develop Malawi’s productivity. The lack of productivity and ability to export coupled with a rapid growth in personal and government consumption and a sudden decline in aid, has placed Malawi in a fiscal crisis, as well as a foreign exchange and trade crisis. As a result, in the 2011/12 budget the government requested the Malawi Revenue Authority (MRA) to collect enough revenue to finance MK203.5 billion of the MK307.7 billion Zero Deficit Budget in the 2011/2012 financial year. This is represents 83 per cent of the total domestic revenue63. However, tax revenue collection in the first quarter (July – September) missed its target by eight per cent potentially because the assumptions made under the budget

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63 Malawi Revenue Authority, (24th June 2011), Budget Pegs Tax Target at K203.5 billion, Accessed at: www.mra.mw/news_details.php?newsID=116 [on 02/02/12]
are overly optimistic\textsuperscript{64} and hence the role of tax collection for financing spending is being stretched. As a result the current tax regime is placing an even larger strain on Malawi’s ability to export, hence further widening the gap between consumption and Malawi’s ability to finance that consumption.

The lack of economic productivity coupled with the narrow tax base is the underlying reason for transfer pricing — and in turn, this is the main reason why a number of tax measures have been introduced in productive businesses.

The main features of the zero deficit budget, and other recent budgets, are:

- The introduction of a minimum tax of two per cent of company turnover. One of Malawi’s key export sectors, agro-processing, is reliant on relatively low margins so the tax has a significant impact on its ability to compete in export markets. The new turnover tax is estimated to cost a medium sized exporting business an extra MK27 million per year, although some relief has been provided through the reduction of certain duties and capital taxes.

- The introduction of a 30 per cent tax on imported inputs for production in Export Processing Zones. Under the Export Processing Act, such inputs are meant to be tax exempt, as an incentive to develop Malawi’s ability to export.

- The reduction of the two fiscal export incentives:
  - Export allowance of 12 per cent of export turnover. This has now become twelve per cent on taxable profits, rather than on turnover. Since profits are typically ten per cent of turnover, this allowance has become negligible.
  - International transport cost incentive of 25 per cent. If the cost of transportation is 100,000MK, this can be expensed at 125,000MK for tax purposes. This was reduced to fifteen per cent in 2011. It is a tax claim.

- The investment allowance has been abolished.

- There used to be a 100 per cent investment allowance of investment. This has fallen to 40 per cent for new investment. For used buildings it declined from 40 per cent to twenty per cent.

- The Export Processing Zones companies are now subject to the standard corporate tax at 30 per cent.

- The standard rate of VAT of 16.5 per cent has been introduced on goods including: water supply, bread, meat, motor vehicles for transport of goods, milk and dairy products, machinery, spare parts, trailers, NGOs, goods for use in electricity generation, and educational, health and tourism institutions where it was previously not applicable.

- Increased emphasis on taxation of companies with foreign holding, including inability to remit dividends — this drove Illovo, the largest tax payer in Malawi, to relocate an investment it was planning to make in Malawi to Mali. This is aimed at addressing tax avoidance through transfer pricing.

A contributing issue to the rationale behind the zero deficit budget is an underdeveloped tax system whereby only a relatively narrow sector of formalised tax-compliant companies in Malawi is taxed, and because of an inability to balance the budget, such companies are often over-taxed. In the past, the Government has made conscious efforts to minimise the tax burden on companies in Malawi, but due to the high target set by the Zero Deficit Budget some of these efforts have been undone.

Since 2006 the Government has been implementing a number of reforms to improve fiscal management and tax efficiency through the streamlining of procedures, greater use of electronic payment systems, enhanced monitoring if revenue performance of collecting institutions and the implementation of an Integrated Tax Administration System\textsuperscript{65}. These reforms are being implemented within the framework of the revised Public Financial and Economic Management (PFEM) Action Plan. One of the key reforms includes the rolling out of the Integrated Financial Management and Information Systems (IFMIS) to local assemblies, tax administration in areas of improved VAT and introduction of the Electronic Tax Register (ETR). The country is also embarking on reforms to widen the tax base in order to capture more tax revenue from the informal sector.

However, because of a lack of a concerted plan to develop productivity and export capacity such reforms are bearing limited impact. This has resulted in agencies that are critical to the development of Malawi’s productivity, such as the Malawi Bureau of Standards and Malawi Revenue Authority, becoming revenue collectors rather than trade facilitators, thereby undermining Malawi’s ability to balance its fiscal books. Due to the increasing fiscal imbalances, although a tax incentive scheme exists, the Ministry of Finance is also usually reluctant in the dispersal, according to the private sector. Therefore, few companies have been able to access the incentives in recent years. This adds to a fairly non-transparent system whereby the rules frequently change\textsuperscript{66}, thereby undermining the ability of firms to plan their business to respond to incentives.

The basis for current tax incentive system for exporters is the 1991 Investment Promotion Act, which provided tax benefits to exporters and pioneering industries, and also established the

\textsuperscript{64} The Nation, (3\textsuperscript{rd} November 2011), Malawi’s Q1 revenue twenty per cent off mark, Accessed at: www.mwnation.com/index.php/business-news/business-review-/26900-malawis-q1-revenue-20-off-mark.html [on 06/02/12]

\textsuperscript{65} Report on Revised PFEM Action Plan, (January 2011)

\textsuperscript{66} Ministry of Industry and Trade, (2011), Issues Paper for the Sector Working Group on Trade, Industry and Private Sector Development

ANNEX 10
Malawi Investment Promotion Agency (MIPA) to promote and facilitate domestic and foreign investment. In the following years the tax incentives were introduced mainly for the manufacturing and agro-processing industries but also came to include the horticultural, dairy, fishing, mining, tourism, telecommunications, water supply and electricity generation sectors. The duty and tax concessions were mainly in the form of suspensions, rebates, remissions and refunds under the Customs and Excise Act. Significant advantages were also given to exporting companies in the “Export Processing Zone” (EPZ). Once companies achieved status as an export company through the appraisal committee they received allowances for export, for transport, for training personnel, for losses from trading operations, the initial year and for each year following that (at a lower rate). Investors operating in the Zones were to also enjoy:

- Zero corporate tax;
- No withholding tax on dividends;
- No duty on capital equipment and raw materials;
- No excise taxes on purchases of raw materials and packaging materials made in Malawi;
- No value added taxes.

A key problem with the design of the EPZ system is a lack of focus on how it can truly develop productive capacity rather than being piecemeal. For example, a very limited list of packaging input materials are eligible to the customs rebate system, despite packaging being a necessity for value addition exports. As Malawi is currently discovering, it is costly to provide tax incentives if they are not targeted to clusters that really do have the potential for growth and if they are not part of a concerted effort to develop those clusters. This lack of direction also manifests itself in doubt as to whether Malawi is heading toward a SADC or a COMESA customs union.

In view of making the tax regime simpler for companies there have been some efforts to get some Investment Promotion and Protection Agreements (IPPAs) off the ground with various bilateral partners. The IPPAs will provide a mechanism for dealing with double taxation across countries. Lead by the Ministry of Finance, the first IPPA has been concluded with Germany and others with India, Mauritius and Zambia are under preparation.

### 7.2 Ease of Meeting Regulatory Obligations

**Priority:** Help regulatory agencies understand that they play a critical role in allowing Malawi to develop its productive base and generate value addition; and then help such agencies develop permanent institutional structures that can safeguard their regulatory mandate, while not constraining productive capacity. If the regulatory environment is to be eased, this effort has to be pro-actively led by the Ministry of Finance and Development Planning.

**Second Priority:** It is important for the Government to not view export licenses as a tool to counter practices such as transfer pricing, as this will only worsen the fiscal imbalances.

**Third Priority:** Incentivise informal businesses to register through lowering cost of formalisation, favourable taxation and ease of access to finance and business development services.

As with taxation, the greatest problem in easing the ability of firms to meet their regulatory obligations is limited institutional capacity and the lack of a concerted effort to develop productive capacity. Many regulators play a dual role: regulatory and facilitator of value addition, productivity and trade, but due to institutional constraints and recently pressure from fiscal managers to increase revenue collection, regulatory agencies struggle to support Malawi’s ability to develop its productivity, competitiveness and ability to trade. Trade is not mainstreamed. Therefore the key to improving the regulatory framework for exports lies in the implementation of a concerted effort to develop productivity and trade, through the Ministry of Finance and Development Planning, and also the prioritisation of institutional capacity. The latter is essential so that such agencies contain sufficient volumes of necessary skill sets to allow the agency to facilitate productivity, value addition while at the same time safeguarding the regulatory mandate.

This applies across the board to agencies such as MRA, MACRA, MERA, MBS, MITC, TEVETA, Ministry of Finance and Development Planning, MoIT, RBM, the Police Force, the Immigration Department, the Judiciary and the Legal System, the Competition and Fair Trading Commission, the Deeds Authority, the Department of Land and others.

The lack of such an effort to develop institutional capacity in such agencies is the underlying reason for the well accepted notion that Malawi has a poor regulatory framework for businesses, particularly for micro, small and medium sized enterprises (MSMEs). There are a number of examples of where the regulations imposed on the private sector are inhibiting to growth and thereby undermine Malawi’s ability to export, hence exacerbating Malawi’s foreign exchange shortage. The main constraints which the legal and regulatory environment might enforce are the efficiency cost for business of following the obligations (through the extra time and expense involved in compliance) and the non-compliance costs.

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67 Imani Development, (2011), CSR in Malawi Update
70 SADC, (2011), Malawi
72 Imani Development, (2011), CSR in Malawi Update
(including risks of being fined or having to pay bribes). A particular boundary to the expansion of the private sector and therefore export capacity in Malawi is the high cost of formalisation for businesses which means that many MSMEs in Malawi are trapped in the informal sector and that competition and innovation is not necessarily encouraged. Firms which are trapped are therefore unable to grow and benefit from economies of scale or access the additional benefits of formalisation such as easy access to finance, the law courts or to business development services. Addressing this constraint would increase government revenue because if more entrepreneurs could formalise their businesses and create more jobs there would be greater tax gains for government. According to the Doing Business Report 2012 for Malawi, the cost of starting up a business has been in decline since 2007 but it is still on average equivalent to 91 per cent of income per capita and the process takes an average of 39 days. Therefore Malawi ranks at 139 out of 183 economies whilst the regional average ranking is 68. The informal sector and unofficial cross-border trades are not incentives to register their business because the cost of formalisation is high and the taxes which they will have to pay upon formalisation are unappealing, despite potential benefits of easier access to finance and business development services. The Government needs to encourage formalisation so that it can increase the tax base and the level of foreign exchange going through the banking system. Therefore one area in need of improvement in Malawi is the process of formalising a business.

The insolvency system is also important for ensuring that economically efficient companies survive and that inefficient ones are quickly and cheaply liquidated and the related finances are reallocated effectively. Hence, insolvency systems can be instrumental in facilitating a well-functioning market economy. In recent times the Government of Malawi has engaged the World Bank in reviewing their insolvency program and hence introduced reforms. These include the adoption of a limit to liquidator fees and new rules outlining the requirements and expected time-frames for insolvency procedures. Therefore there has been a decrease in the cost involved in the process and an increase in the recovery rate (cents on the dollar recovered by creditors through reorganisation, liquidation or debt enforcement procedures). The ranking for Malawi in the “Resolving Insolvency” indicator of the Doing Business Report 2012 is 132 out of 183 economies which is very poor but effectively on a par with the regional average of 127.

There are also fairly laborious processes to go through for registering property and getting construction permits which are discussed in Chapter 5.

In addition, the need to secure export permits prior to exporting is a large constraint for exporting companies in Malawi in terms of time input required. It used to be that each permit would take between 10 days and 2 weeks to register and would be valid for three months. However, some companies are recently reporting their longest delays yet - one of their applications has been being processed for 2 months. Another, an export of value added products has not had its export licence renewed. The reasoning behind such a laborious and inhibitive process is related to the fiscal imbalances, because the government is attempting to raise revenues in the immediate term by clamping down on processes such as transfer pricing. However, in doing so, this represents a strong barrier to export that undermines Malawi’s ability to become a producing economy. Therefore, as with other taxation issues, it is essential for issues such as transfer pricing to be addressed within a wider concerted effort to incentivise investment in Malawi, such that transfer pricing bears much less of an impact on government revenues.

The Government has in recent times banned the export of certain products (e.g. maize) and is phasing out the export of others (e.g. raw soya beans) which is designed to improve food security in Malawi because of the recent poor harvests domestically. However, for the private sector in the agro-processing industry, the Government interference creates an uncertainty in the market which hinders their potential for financially planning their annual export volumes.

### 7.3 Minimum Pricing

In some industries, regulatory burdens come in the form of minimum prices which are set by the government sometimes in collaboration with the private sector. These minimum prices are sometimes set too high meaning that the goods are priced out of the international markets. In this instance, deregulation would be more profitable in order to ensure Malawi is more competitive.

Such minimum prices are identified by the private sector as one of their major constraints to export. For agricultural commodities (both in the value added stages and when they are in their raw form), the minimum buying prices in practice are often completely unrealistic and out of step with international prices meaning they distort the natural market. The prices are set on a cost-plus basis to ensure that the costs of production are covered and that firms make an adequate return. However the private sector is only consulted on the margins on top of the cost price and efforts to present evidence about their concerns with the initial pricing are not generally taken into account. A Grain Advisory Council was set up to advise the Government on price setting but this platform collapsed due a poor functioning capacity.

To improve the current situation, there would ideally be a removal of minimum buying prices on agricultural commodities and regulations in the market so that the prices could be fairly and competitively set. In this instance, when demand is high the prices will be high, for example in the cases of soya or pigeon peas in the last 2-3 years, but this would be difficult to do because it would not help address the driving factor behind the installation of minimum prices in the first place.

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73 SBP, (1st September 2011), Development of Malawi MSME Policy and Strategy, Pre Workshop Discussion Note
74 Ministry of Industry and Trade, Government of Malawi, (2005), Formulating a Strategy for Private Sector Development in Malawi - A Concept Paper
77 Imani, (2012), SADC Interviews on Doing Business in the Region
MACROECONOMIC PRUDENCE AND STABILITY

General

- **Main Priority:** There is a critical need for monetary and fiscal policy managers to recognise that monetary and fiscal policy have to take into account the underlying economic reality on which they are based. Macroeconomic prudence and stability are attained when monetary and fiscal policy are used as tools to stimulate the economic productivity that is necessary to support sustainable economic growth. In other words, monetary, exchange rate and fiscal policy have to be part of a concerted effort to develop the productive sectors.

Short-term

- **Priority:** The key need in terms of foreign exchange is for the case to be made to the government that the short-term and long-term cost of maintaining the exchange rate at an over-valued level is substantially greater than the negative impact on interest due by the Government to foreign lenders if the Kwacha is allowed to devalue to a level that is more in line with a balance international trade.

- **Identify political mechanism to secure an exchange rate mechanism that incentivizes exports.** An exchange rate devaluation is imperative to allow Malawi to develop its export capacity. However this has to be matched with a package of adequate measures (worked out by RBM, MoF, OPC and MoIT) that include monetary policy, tax policy, trade facilitation and others in order to be successful.

- **With RBM, MRA and MoIT, develop a package of measures to stabilize the foreign exchange imbalances:**
  - **Rationing of foreign exchange to export oriented industries and commodities.** Only six per cent of foreign exchange allocations go to the manufacturing sector. There is a need to review this to ensure that export oriented sectors have access to the foreign exchange that is required to be able to export value products.
  - **EDF aligned toward industries targeting exports.**
  - **Strengthening of Retention Scheme.**
  - **Synchronise with tax incentive package (section 5A).**

- **Use of external support, via concerted plan to stabilise forex shortage and develop productive base of economy via NES.**

- **Ease/remove forex controls ($50,000+ transactions) and export bans on commodities.**

- **Use EDF to guarantee production in priority clusters to enable investment by processors.**

- **Use EDF for export credit guarantees.**

- **It is essential not to use industrial policy as a reason to ban exports of raw or semi-raw products. This will only further undermine Malawi’s ability to export. Value addition exports can only be attained with adequate incentives, and not regulation, for companies to transition from raw products to higher value products.**

- **Rationalise import/export license system.**

Long-term

- **Priority:** Embed monetary, exchange rate and fiscal policy in a concerted, nationwide plan to appropriately prioritise skills development and institutions. Because of limited institutional capacity to effectively transfer value added from value adding sectors such as tobacco to higher value clusters and because of the time requirement to develop institutional capacity to do this, monetary, exchange rate and fiscal policy have to form and drive a concerted effort to facilitate trade, particularly in those sectors that can inherently transfer value added to higher value exports and sectors, as identified in the Cluster Prioritisation Method.

Malawi’s GDP per capita rose to MK35,578 per year in 2010 from MK26,896 in 2002. GDP per capita rose above the level in 1980 for the first time in 2007.

This increase in Malawi’s GDP per capita came on the back of nine years of uninterrupted positive economic growth. With the exception of 2002, which was a transition year following the 2001 recession, and 2005, when Malawi experienced an extensive drought, Malawi has registered average annual growth above 5.5 per cent in real terms since 2002. Between 2008 and 2010, Malawi succeeded in registering economic growth above the government’s six per cent poverty alleviation threshold.

A number of factors contributed to this period of strong and rapid growth, such as increasing macroeconomic stability and a reduction in official inflation from 40 per cent in 2000 to single

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78 The Government of Malawi has estimated that, given its high rate of population growth and entrenched levels of poverty, Malawi requires an average annual GDP growth rate of six per cent in real terms in order to alleviate poverty — as set out in the MGDS.
digits. Expansionary fiscal and monetary policies – which were made possible through the 2005 HIPC debt relief initiative and large amounts of aid assistance – also played a key part in driving growth. Official development assistance accounted for 40 per cent of government revenue in the 2010/11 fiscal year and 15 per cent of GDP in 2009. The debt relief also supported a sharp increase in the gross national savings rate. Another factor that played a major part was the pegging of the exchange rate above the market equilibrium. This resulted in a sharp increase in consumption – mostly of imported goods – as evidenced by the rapid increase in Malawi’s trade deficit. The trade deficit for goods as a percentage of GDP rose from seven per cent in 2001 to 21 per cent in 2010.

Recent strong economic growth in recent years has also been supported by several bumper harvests for tobacco – the principal export – and maize, stemming from good rainfall and the distribution of subsidized, imported fertilizer across the country through the Food Input Subsidy Programme. Successive plentiful harvests also contributed to improved food security and a moderation in inflation. From 1990 to 2007, child malnutrition rates fell from over 24 per cent – at that time among the highest in sub-Saharan Africa – to about 18 per cent, and child mortality rates were almost halved, from 221 per 1,000 children under five to 120 per 1,000.

Malawi’s financial sector weathered the global economic recession of 2008, remaining well capitalized and profitable on the back of donor aid and loose monetary and fiscal policies. Although Malawi’s net debt as a percentage of GDP fell from 137 per cent in 2005 to 31 per cent in 2006 and 29 per cent in 2007 as a result of debt relief, an increase in government expenditure led to an increase in this ratio to 45 per cent in 2009 and 38 per cent in 2010. An increase in aid, largely through budget support, helped minimize a recent increase in the government debt-to-GDP ratio.

However despite these economic gains, poverty remains entrenched and there are strong signs that not enough is being done to sustain the required rapid rate of growth. Malawi remains vulnerable to weather and aid-related shocks owing to the undiversified nature of the economy and heavy donor dependence. Indeed in 2011 and 2012, Malawi stumbled across an aid shock, with a sharp reduction in budget support leading to a foreign exchange crisis and extensive input shortages.

The large trade deficit, coupled with an expansionary monetary policy, has resulted in a depletion of international reserves. International Monetary Fund government repayment and international reserve targets were missed by wide margins in 2009, 2010 and 2011. The weak balance of payments threatens medium-term growth as well as exchange rate and price stability. Although the government has recently adopted a number of measures to address the external imbalance – including initial steps at market liberalization, gradual depreciation of the exchange rate and strengthened budgetary spending controls – indications are of strengthening structural imbalances and a continued macroeconomic dependence on imports and aid.

As a result, many companies are currently exporting, solely to be able to buy the imports they require for their sales. The issue

The underlying reason for this vulnerability to aid and weather shocks is not macroeconomic in nature, but macroeconomic policies are central to minimising such risks to development and growth. Indeed, the key reasons for this vulnerability are:

1. An inability of the institutional system to transfer the value added gained from productive sectors such as tobacco, tea, sugar and others into higher value product clusters. As demonstrated by the Cluster Prioritisation Method tobacco and tea, which together account for around 70 per cent of exports are not favourable to such a transfer of value added, making it tougher on significantly capacity constrained institutions to effect such a transfer.

2. An inability to recognise the importance of balancing the value of imports with the value of exports. A number of factors have contributed to this:

   - The distortionary effect of aid on long-term macroeconomic stability, through giving the false pretence of free money. This often translates itself into the pretence of free aid;
   - The distortionary effect of recent exchange rate policy, whereby an overvalued Kwacha makes imports appear cheaper than they are and makes Malawan exports appear more expensive that they are in regional and international markets. In 2009 and 2010 this distortion stood at 30 per cent, though in 2011 it rose to 50 per cent. The de facto pegging of the Malawi Kwacha to the US dollar from 2006 helped to moderate inflation. Yet persistent inflation differentials with trade partners and the peg led to an appreciation of Malawi’s real effective exchange rate.
   - In turn, the 2011 aid shock revealed a large fiscal deficit that in turn exacerbated an excessive focus on the regulatory and tax revenue collection role of institutions and a lack of balance between the regulatory role and their role in facilitating private sector development and therefore foreign and domestic trade. For example the Reserve Bank of Malawi must now approve forex requests from the private sector to commercial banks for imports of goods worth in excess of US$ 50,000. This process is very costly and time consuming for businesses that depend on imported inputs, such as manufacturing and agro-processing businesses, further undermining Malawi’s ability to export and hence to address the structural trade deficit.
is that since industrial policy has been geared toward import substitution, the import bill of companies is not matched by an equivalent export bill. Currently 53 per cent of companies import inputs but only six per cent of companies export. Only fourteen per cent of manufacturing output is exported, according to the MCCCI. Therefore companies have too large an import exposure relative to their export capacity. Due to the current situation and the poor appropriation and regulation of foreign exchange, companies are required to buy foreign exchange through banks but banks are able to charge a premium, further undermining Malawi’s ability to generate foreign exchange.

The overall outcome has been a lack of a concerted effort to develop the productive base of the economy that is necessary to drive Malawi’s economic competitiveness. In turn this is necessary for Malawi to be able to afford its rising standard of living, as set by the growth in imports, the fast rate of urbanisation and rapidly growing expectations of spending power and incomes.
**Access to Information**

**9.1 Agriculture – Agro-Processing Information Gap**

Priority: Develop a concerted strategy, possibly through the Export Development Fund and with banks, to guarantee production short-falls for investments in agro-processing capacity. Such production guarantee schemes must be on a ‘phase-out basis’ as local agriculture production quality and quantity reaches required level. Incentives need to remain undistorted. Scheme could potentially work as a credit guarantee scheme, depending on potential size of the market. This is repeated in the Access to Finance section of this document. Match such schemes with dialogue platforms for quality, price and quantity agreements between value chain players, where the cost of such dialogue is presently too high to be borne by value chain players.

Information gaps are one of the greatest obstacles to economic development. Such gaps arise in areas such as the financial sector, whereby banks find it difficult to distinguish between good and bad MSME loans. They also arise in the agriculture and agro-processing sector: farmers in Malawi continue to invest in tobacco as their primary cash crop as they know they will sell it and expect good prices. However they are reluctant to invest in other cash crops, resulting in low production levels. In turn, these low production levels often deter investment in value addition because if a business is to invest in processing machinery, it will need to be confident that it will have enough supply of the basic agricultural input to allow it to finance the cost of the machinery.

This section explores methods how such information asymmetries can be addressed. One way is through the use of stakeholder dialogue platforms, which allow players along a value chain the ability to interact with each other and agree to targets for production for the industry. Another is through the use of information technology such as commodity exchanges and mobile phones. These are discussed below.

A number of information asymmetries are addressed throughout this review, for example in the Access to Finance section for financial sector information gaps. One critical information gap that requires special attention is the agriculture production/processing information gap. This gap, as discussed above, justifies specific support by the Government or by Public-Private Partnerships. Many agro-processors have told the NES Technical Team that if the quantity and quality of a particular crop that is produced – for example cotton, soya or sunflower oil seeds – could be guaranteed, they would invest in increased processing capacity. For example Unilever claims that 80 per cent of all the raw materials that it needs to produce cooking oil and soaps can be sourced within Malawi. However at present only 15 per cent is sourced locally due to low production. There would be cost savings if it were sourced domestically.

The issue is a lack of linkages between producers and buyers. This linkage is too costly for both parties.

It is therefore essential for Malawi to develop and incentivise credit guarantee schemes that will serve as insurance schemes for production short-falls. Such models have proved successful as stand alone businesses or trusts in a number of countries (for example the Private Agriculture Support Scheme in Tanzania), although it normally takes years to develop and requires seed funding from Government or external donors to start-up. Malawi lacks an effective method for addressing this market failure, and this is a major obstacle to the development of agro-processing in Malawi and a contributor to Malawi’s reliance on the export of agricultural commodities.

It might also be necessary for such schemes to be matched by a stakeholder platform to ensure constant feedback on quality and prices between producers and processors.

**9.2 Stakeholder dialogue platforms**

Priority: Recognise that such platforms are the most effective tool in the short-term to build Malawi’s ability to produce and export. They are also an inexpensive tool in this regard.

Second Priority: Invest much more management and administrative time in supporting effective stakeholder dialogue platforms, both in key export and domestic oriented clusters, and also in cross-cluster export enablers. In other words, recognise the value of such platforms as a measure to improve coordination and the effective implementation of policies.

Third Priority: Learn from recent lessons: ensure ‘true’ comprehensive local stakeholder buy-in through a pro-active, passionate chairperson, through an effective secretariat and through appropriate membership.

As identified in the 2005 National Export Strategy, implementation is the greatest policy failure in Malawi. Stakeholder dialogue platforms are essential tools to help overcome extensive difficulties in stakeholder and institutional coordination, and therefore in implementation. They are also essential mechanisms to improve the allocation of Malawi’s limited pool of resources, whether owned by the public sector, private sector or development partners, because if they work effectively, they can help ensure that such resources are allocated to areas where they can be most effective. Most of the time, areas of effectiveness are best identified by users on the ground, but owners of resources are public institutions or development partners, thus creating a disconnect in the mechanism to allocate resources, such that these resources are often allocated in a piecemeal and ineffective manner.

Therefore in order to build Malawi’s export capacity, it is essential to actively support and invest in stakeholder dialogue platforms, both in key export (and domestic-oriented) clusters and also...
across thematic groups.

Dialogue platforms need to include adequate representation of all stakeholder groups, including:

- Government, including all relevant Ministries and agencies
- Civil Society
- Smallholder Farmer Organisations
- MSME representations
- Private Sector representatives
- Cooperatives
- Women’s groups
- Youth representatives
- Development Partners

The best example of a successful stakeholder dialogue platform is the tobacco industry in Malawi. This was key to ensuring that Malawi could respond to the strong worldwide demand for tobacco. It enabled stakeholders to pro-actively identify and implement solutions to obstacles to the development of the sector. The Cotton Development Trust is also an important example, and was modelled on the tobacco sector.

An example from a neighbouring country is a pilot that was run in the Tanzanian rice sector in 2006, whereby stakeholders met regularly and were committed to the implementation of a holistic yet singular approach to develop the sector. Smallholder rice farmers are now reaping yields of eight tonnes per hectare, compared to at best, 2.4 tonnes per hectare in the most productive rice growing areas in Malawi. The success of this pilot, and others, helped bring together stakeholders to: holistic and practical manner to develop agro-processing capacity across thematic groups.

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1. identify areas with high agricultural potential and reasonable access to existing backbone infrastructure;
2. analyse of the constraints on commercial agriculture and how these can be addressed;
3. establish a partnership organisation, which helps to ensure public- and private-sector programmes and investments are properly targeted and coordinated to address these constraints;
4. provide support to the commercial agriculture sector through new types of financing mechanism, on the condition that smallholder and emergent farmers are incorporated and that there are clear benefits for local communities; and
5. recognise the important roles of different public and private sector players in the successful execution of the Agricultural Growth Corridor approach.

Similarly, Mozambique is implementing a similar partnership in the Beira Agriculture Growth Corridor. Crudely, this is what Malawi needs.

The Sector Wide Approach that is being applied in Education, Health and Agriculture is an example of an application of a stakeholder dialogue platform within the public sector. The move toward this approach in these cross-cutting sectors has been beneficial, in helping different stakeholders to better understand the constraints and limitations that other stakeholders face. This knowledge gap is a key contributor to Malawi’s recent inability to drive its export capacity and its domestic oriented sectors, because the private sector and the public sector generally fail to take into account the constraints and limitations faced by their counterpart. This often results in a lack of a coordinated approach and an inefficient allocation of resources.

It is essential that Malawi learns from previous mistakes in the development of stakeholder dialogue platforms. There have been a number of efforts to establish platforms that have not succeeded. Two examples are efforts to launch legume platforms by USAID in 2002 and by DFID through Research Into Use. Both failed because of a lack of true stakeholder ownership, which meant that the platforms were dependent on donor funding.

It is therefore essential for such platforms to sustain local stakeholder interest through being effective. Securing such effectiveness requires an engaged, pro-active chairperson and a strong secretariat, which are able to ensure that the right information is available at the right time to allow for effective decisions by agencies and organisations. The key role that an effective chair and secretariat play is to help stakeholders understand the constraints and limitations faced by other parties, thus allowing stakeholders to better identify root causes of face value problems. The institutionalisation of the secretariat is important so that it has the resources and management attention necessary to meet its mandate, but it must also be given flexibility to build strong relationships with key stakeholders. If a platform secretariat cannot follow up on actions agreed to by stakeholders by the following meeting, then the platform will in nine out of ten times, prove ineffective and stakeholder buy-in will be lost.

This is critical particularly where stakeholders may struggle to see early benefits from the platform, or where the revenue potential was clear, as was the case with tobacco. It is also important to allow institutions to recognise the need to invest in their own capacity so that they can meet the needs of organisations that must ultimately develop Malawi’s ability to produce and to export.

Another important issue that Malawi has to learn in this field is adequate membership. Often stakeholder dialogue platforms

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80 http://www.beiracorridor.com/about.php
failed because either ultimate users of a system (e.g. the private sector) or ultimate implementers of solutions (e.g. agencies such as Malawi Bureau of Standards etc) are not adequately represented on the platform. This is a key failure that in the past has contributed to ineffective platforms that do not support institutional development that as a result depend on development partner financing. Adequate membership does not mean large membership. Rather what is important is that objective representatives who can accurately and comprehensively represent the issues of implementers of solutions and of beneficiaries of those solutions.

If such lessons are not accounted for in future stakeholder dialogue platforms, they risk proving ineffective, thereby jeopardising Malawi’s ability to develop its export capacity.

The Ministry of Industry and Trade is launching a Trade, Industry and Private Sector Development Sector Wide Approach (SWAp). However the process to launch the SWAp is proving protracted because of an inability to secure an effective and pro-active chairperson and secretariat. Sorting this out is essential if Malawi is to be able to build its productive base – because institutional limitations mean that key export and productive sector oriented institutions are detached from the difficulties of developing exports and capacity, and therefore do not invest in their ability to incentivise productivity and to facilitate trade. Ideally this is a role that the Ministry of Industry and Trade has to play, so that agencies such as MRA, MBS, Ministry of Finance and Development Planning, TEVETA and others are better able to support the emergence of Malawi’s productive base and hence export value added products. An effective SWAp is an inexpensive way to support the Ministry of Industry and Trade to play this role.

9.3 INFORMATION AND COMMUNICATION TECHNOLOGY SECTOR

Priority: Ensure the continued development of the sector through minimising barriers to entry caused by infrastructure and fair business practices

In general the ICT and telecommunication services in Malawi are fairly good and not much of a hindrance to daily business activities. There are some shortages in service delivery but it is suspected that this is likely to be linked with power outages. Furthermore, there are other providers such as mobile providers that they can use when shortages arise.

As such access to telecommunications technology has improved enough to make it less of an obstacle to exporters than factors such as electricity and transportation. There has been a recent expansion of information and telecommunication services in Malawi both in respect to internet access and telephone and mobile use. Greatest progress is being made through the growth of the mobile phone sub-sector and the market is set to move beyond the duopoly held in the mobile industry as the Government introduces a converge licensing regime which will allow the two fixed-line operators Malawi Telecommunications and Access Communications to enter the mobile market. Internet service provision already is fairly competitive with 15 licensed ISPs but the limited availability and high cost of international bandwidth has kept the broadband prices elevated. Costs will be reduced once Malawi links up with the rest of the world via the East African submarine cable systems which require further infrastructural construction.

The greatest challenge is the relatively low penetration rates for mobile telephone services which are the lowest in Africa, and services remain expensive particularly for rural households.

9.4 COMMODITY EXCHANGES AND MOBILE PHONE INFORMATION

Priority: Fast-track regulatory support to efforts to establish and commercialise commodity exchanges such as ACE and to improve farmer access to information through mobile phones and other similar technologies.

Commodity exchanges are an effective mechanism to help ensure that Malawi’s production base is led by market demand. Often this role is played by traders, but often this is done in a sub-optimal manner because traders only carry a limited amount of information. Commodity exchanges also serve as an effective method of competition for traders through their ability to link supply and demand. This disconnect, particularly in the agricultural sector, has been a significant constraint on Malawi’s ability to develop its export capacity – because farmers are seldom aware of what markets are demanding in terms of quality, quantity and pricing. The development of commodity exchanges must be supported, although there is a need for more trial and testing to find models that can ensure the financial sustainability of the sector. Currently it is dependent on development partner support. A key argument to be made is that the information sector bares significant positive externalities like the education sector. Therefore if there is to be an argument to be made for ongoing support by development partners, if commercial sustainability cannot be reached due to the small scale of trade in Malawi, then it would be in this sector and in education.

As with stakeholder dialogue platforms, it is essential for Malawi to learn from previous mistakes. The Government-led Malawi Agriculture Commodity Exchange (MACE) is essentially defunct because it was reliant on donor funding. It was active for five years. It collected and distributed prices through email and radio. It helped to manage the collection of prices in 70 markets for the Ministry of Agriculture, but it was not accurate and timely, and therefore remained donor dependent and could not be sustained commercially. It was used for food security monitoring.

On the other hand, the Agricultural Commodity Exchange (ACE) is operational and expanding. While it is not close to becoming self-financing, it is a dynamic, customer oriented exchange that is actively seeking ways as to how it can become financial self-

82 WTO, (2010), Summary of the Trade Policy Review
83 Government of Malawi, (2010), Private Sector Development Strategy
sustaining. It is funded through USAID Compete and receives some other funding from the Commodity Development Fund. ACE was launched in 2006 and the majority of turnover is through the World Food Programme (roughly 30,000 tonnes of trade per year). The system is based on a bid-volume only approach (reverse auction). Members include GTPA, Export Trading, Mully Brothers, Rabs Processing and others.

ACE also supports regional trade, by brokering cross border deals, but there is the problem of default that undermines trade on ACE. It is therefore piloting a warehouse receipts project (with NASFAM, Farmers World, OIBM and NFRA), in which farmers can place a commodity deposit at certified warehouses, to allow for confidence in trading with international buyers. However the warehouse is currently only operational for maize due to low volumes of other crops, existing silo infrastructure and scale. There was only one small deposit last year but the scale is expected to improve in 2012. There is therefore a case to be made for external support for other key export crops, at least until such crops acquire sufficient scale to become self-financing.

OIBM is providing the financing for the warehouse receipts project: once maize is deposited, OIBM provides a loan to the farmer/trader worth 60 per cent of the value. When the crop is sold, the loan is settled and storage/interest fees are settled. It therefore also supports access to finance.

It is difficult to go beyond maize in warehouse receipts, because of the need of scale (in both storage capacity and product volumes). Also people need to understand cost structures — there is a risk involved if the price of the commodity drops, then it will be hard to cover storage and interest costs.

The USAID project Market Linkage Initiatives (MLI) is supporting ACE, and will do so in 2012 and 2013 through the Bridging Project prior to the launch of Feed the Future in 2013. MLI wants to develop some modelling tools to help explain warehouse receipts to traders and cooperatives. Groundnuts and Soya need warehouse space but there is not enough capacity in the system and there are concerns on the capacity to maintain quality. The Reserve Bank of Malawi’s Export Development Fund is assessing how it can support ACE to help formalise cross-border trade. ACE’s clearing account is at the Reserve Bank of Malawi.

It is also essential to develop the mobile technology sector, through firms such as Esoko from Ghana and M-Pesa from Kenya. Such services use mobile phones to provide market and price information to farmers at an affordable cost. The economic value of such a service is significant because it helps bridge the gap between the demand for agricultural produce and its supply. Esoko is struggling to take off in Malawi due to the unfavourable business environment, and therefore because of their extensive positive externalities, it is essential for regulatory agencies to facilitate the meeting of regulatory and taxation obligations by such firms.

9.5 Corporate Governance

Priority: Promoting the adoption of good corporate governance code of best practices.

Second Priority: Strengthen the role of the Institute of Directors to facilitate the adoption of the good corporate governance code of best practices.

Third Priority: Mobilizing the support of the private sector to facilitate the sustainable operations of the new Institute of Directors.

Fourth Priority: Training specialised personnel in the field of corruption and fraud to improve human capacity in the Anti Corruption Bureau (ACB), Auditor General Office and Accountant General Office.

Corporate governance plays an important role in boosting the competitiveness of Malawi’s export and domestic-oriented growth sectors, and also in ensuring that the poor can benefit from these sectors. This is because it ensures that managers are accountable to the owners of businesses while also helping minority shareholders in receiving adequate returns to their investment. This also serves as the framework within which households that save could invest in the private sector through the stock exchange.

Models of corporate governance in Malawi are based on the English corporate law, with the separation of owners (shareholders) and the employed executive (managers).

The biggest concern and focus of corporate governance initiatives has been around the area of corruption. In 2011, Malawi was ranked 100 out of 182 countries for its perceived level of public sector corruption which means that in recent years the country’s ranking has declined. However, in terms of the private sector perception of the impact of corruption 13 per cent of firms identify corruption as a major constraint to their operations. This may be in the form of paying informal sums to public officials to expedite procedures, or giving gifts in meetings with tax officials, or to get operating licenses or government contracts.

A key product of the Corrupt Practices Act of 1995 was the Anti-Corruption Bureau, which remains a functioning organisation for investigating corruption in public and private bodies. It seeks to eradicate corruption by investigating complaints and prosecuting offenses under the Act. The Business Action Against Corruption initiative (BAAC) also has a lot of momentum behind it, with 40 companies now signed up to the Business Code of Conduct for Combating Corruption in Malawi (BCCCCM). The group has now become self-sustaining and is in the process of developing a rating system to measure performance against the code and developing an outreach strategy to get more of the private sector involved.

The code primarily relates to establishing policies, procedures and systems that seek to eliminate corruption, reporting and prosecution of cases and setting the incentives and the culture within the companies to drive out corruption.

A call for a regional effort against corruption would also be valid because there is a high incidence of corruption and extortion

84 Transparency International (2011), Corruption Perception Index 2011
85 World Bank, (2009), Malawi Enterprise Survey Data
86 Imani Development, (2011), CSR in Malawi Update
87 This section is sourced from http://pdf.usaid.gov/pdf_docs/PNA-DR932.pdf
in other countries such as Mozambique\textsuperscript{88} which affects Malawian importers and exporters on their transport routes.

The Malawi Growth and Development Strategy recognises that:

‘strengthening good corporate governance will be one of the key tools of addressing the problem of fraud and corruption within the private sector. In the past, the major problem has been lack of the code of good practices that would govern the operations of the private sector. This problem is now being addressed with the development of the code of best practices by the private sector. In addition, the Institute of Directors has been established so that it plays a leading role in championing corporate governance issues in the country.’

In the medium term, the strategy calls for a focus on the implementation of best practices to improve transparency and accountability. The activities called for in the MGDS are:

- Promoting the adoption of good corporate governance code of best practices;
- Popularising the role of the Institute of Directors to facilitate the adoption of good corporate governance code of best practices; and
- Mobilizing the support of the private sector to facilitate the sustainable operations of the new Institute of Directors.

With respect to public sector governance and corruption, the Malawi Growth and Development Strategy II calls for the following activities:

- Training specialised personnel in the field of corruption and fraud to improve human capacity in the Anti Corruption Bureau (ACB), Auditor General Office and Accountant General Office;
- Promoting the accountability of the ACB and the Auditor General to Parliament;
- Reducing political interference in the public sector by redefining and separating roles between Cabinet Ministers and Principal Secretaries;
- Promoting transparency and accountability in the procurement and delivery of goods and services by enforcing the relevant rules and regulations;
- Deepening the process of devolution of authority and resources to local Governments in order to improve transparency and accountability.

To ultimately address this issue, it is essential to support the capacity development of local civil society to recognize the implications of weak governance structures on development and to advocate in a strategic manner with key stakeholders for the full support by Government to agencies such as the ACB – which is a key agency in this regard – as well as the Auditor General Office and Accountant General Office. They could also actively engage in the development of capacity of the Institute of Directors. This institute was established in 2003 and is supported by nineteen members – some of which are companies and some are associations\textsuperscript{89}.

The basis for an engagement in this field comes out of the MGDS itself, which says:

‘The successful implementation of various strategies suggested under this theme [the Improved Governance theme of the MGDS] relies mainly on political will among other factors. Government and Parliament will have to demonstrate that policies and legislations being implemented take into account the nation’s priorities. In addition, support from civil societies, donors and the public will be key for the achievement of the long-term goals and medium-term expected outcomes through the strategies suggested in this document.’
FAIR COMPETITION

Main Priority: Make the case to stakeholders the economic value of effective Competition and Consumer Protection Policy

Second Priority: Develop concerted plan to invest in Competition and Fair Trading Commission, through securing of sustainable funding for staff expertise.

Competition is critical to drive firm efficiency, build firm capacity and technical know-how, encourage constant innovation and investment, reward successful entrepreneurship and produce better quality goods and services for export. Fair competition helps to ensure that the prime driver of the economy — consumers — are able to meet their preferences, have their property rights protected and can make well-informed decisions about whether to participate in a market place or not. When consumers are happy and able to play an active role in the market, trade increases and so does the economic development of Malawi as planned in the Vision 2020 and in the Malawi Growth and Development Strategy.

An infringement on the free market, in the form of monopolies, oligopolies, collusion or abuse of dominant position detracts from economic growth and distorts trade. Consumers and productive sectors ultimately lose out either through higher prices, lower standards or poor service. Lack of fair competition, in sectors such as transport and finance can serve as a major handicap on the country’s ability to be export. Potential new entrants into the market also lose out from anti-competitive practices and a lack of competition. Such new entrants could range from the one-man entrepreneur to a small business, or firms participating in other markets or in other countries. And when new entrants are prevented from entering a market to compete, this contributes to Malawi’s inability to compete in value addition exports, driving it to rely on the export of commodities.

This is why Competition Policy is crucial. The objective of Competition Policy is to ensure that the economic benefits of free markets in a single market place are maximized, through supporting free competition. Competition Policy acts as the custodian of the free market economy, by supervising market structures and consumer interests, and by allowing for intervention only in those markets where market failure (in strict economic terms) exists — such as international barriers to entry - and where increased domestic and regional competition could address those failures.

Many private sector players believe that there is a lack of fair competition in many sectors. For example there are claims that often decisions on supply tenders are often pre-determined. There are also claims of collusion in sectors such as finance and transport. Issues of unfair business practices in Malawi and abuses of dominant position bear a large economic cost because of their ability to undermine innovation, entrepreneurship and pro-active investment. This economic cost is all too often not recognised by stakeholders, including the government and development partners.

The way to address this is through effective Competition and Consumer Protection Policy. The Competition and Fair Trading Act was enacted in 1998. Its method of implementation is through the Competition and Fair Trading Commission. This was established in 2003, but the first board of Commissioners was elected in 2005. The Ministry of Industry and Trade is the interim secretariat.

However, the Commission had a lack of staff and this remains the greatest challenge today. Initially the Commonwealth Secretariat funded a consultant to develop operationalisation instruments, such as forms, guidelines and procedures. This process took two years. The Commonwealth Secretariat then funded an interim CEO for two years, George Lipimide (who is now that the COMESA Competition Commission). The Ministry had also seconded three economists to the Commission, but it has no lawyers.

In January 2012 the Commission recruited a Director for the Mergers and Acquisition Section and an accountant. A legal counsel will commence work in March 2012.

The Commission has so far only handled mergers and acquisitions cases. This has mostly been with local companies but also a few international cases such as the Wal-Mart takeover of Game and the Puma takeover of BP in Malawi and a few other countries. There is no capacity to address issues of abuse of dominant position, unfair business practices and consumer protection meaning that the act is not implemented in these areas. There have also been no cases of successfully resolved complaints, because of a lack of staff and expertise. There is a lack of understanding of competition law and the economics of competition policy.

Through COMESA, SADC and UNCTAD, staff in the commission have received some training, though not sufficiently. These programmes also targeted the judiciary who however remain with a lack of understanding of the importance of competition and the role of the commission. There is therefore need for further judiciary sensitization.

Sensitization is also required for the wider public: not much has been carried out to consumers, businesses and the government. However in the past 3 or 4 years, the Commission has engaged large business associations (such as MCCI) and a few large businesses about the work of the Commission. A few large businesses have voluntarily approached the Commission when they suspect cases, confirming that there is a demand for Competition Policy. On some occasions the Commission is alerted to competition issues through the newspapers, although most are not resolved due to the knowledge gap. There remain many anomalies that require effective competition policy.

Funding for the Commission should be through fees and penalties, although in the interim the Government is supposed to provide seed money. This is currently minimal and is only enough for salaries and a few operational costs such as telephones and computers. Funding for the Commission has recently been cut due to the zero-deficit budget.
Annex 11 – Review of Institutional Capacity to Build Product Base and Export Capacity
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**Introduction**

This assessment is linked to the Review of Cross-Cutting Export Enablers (Annex 10), because most of the time, the cross-cutting issues are dependent on the organisation or organisations that own those issues. In addition, numerous interviews have been held with users of the system, experts and agencies themselves. The institutional capacity assessment is an ongoing exercise, given the nature of the work involved.

The Review of Cross-Cutting Export Enablers has raised numerous issues that need to be addressed to allow for Malawi’s export capacity to be reached. The nature of many of these issues highlights the capacity of the institutions that determine those issues. Most of the time these are public sector agencies, though in certain cases the issues are to do with private sector organisations.

What is essential is that as part of this NES, the government and the private sector, prioritise investment in agencies whose behaviour shapes the environment under which Malawi’s productive base has to operate and grow. Crucially, investment in agencies does not mean reliance on a capacity-building donor-funded programme. Rather, ensuring that such agencies acquire, on a permanent basis, the ability to ensure that their actions effectively support the development of Malawi’s productive base, and hence trade, rather than disincentivise the emergence of that productive base. It is critical for central government management to understand the impact of policy incoherence and of ad hoc policy measures on Malawi’s ability to trade and generate foreign exchange. This understanding needs to be to an extent that it leads to a genuine, concerted effort to build the systems and structures of key agencies, so that they facilitate trade and not distort it. Such a concerted effort should ideally include staff development plans, clear career paths, performance-based remuneration and rewards and, importantly, effective management whose primary interest is the long-term development of the capacity of the agency, such that it may fulfil both its regulatory mandate and also its mandate to facilitate trade. In those agencies where there is scope for conflict between the regulatory and facilitation role, it would be beneficial to have an appropriate balance between the two written explicitly into the agency’s statute or Act.

Institutions are fundamental because they lie at the basis of private operators’ (farmers, women’s groups, youths, MSMEs, large businesses etc) ability to access the factors they need to grow, add value and create jobs. These factors are set out in the diagram below.

**Diagram A11.1: The ten enablers of value addition and job creation**

- 1. Access to Markets (NTBs, Transport, Standards, Trade Policy etc)
- 2. Access to inputs to production, tech & capital
- 3. Access to finance & secure tenure of property
- 4. Availability of business development services
- 5. Ease of meeting tax & regulatory obligations
- 6. Stable & conducive macroeconomy
- 7. Degree of fair competition
- 8. Access to information
- 9. Institutional Development
- 10. Human Capital & Access to Skills

Source: NES Technical Team, Imani Development. Note the arrows given an indication of which factors are typically dependent on other factors.
A summary of critical institutional weaknesses, that limited the affordable availability of these ten factors of value addition, are:

- The Department of Cooperatives only has 9 technical staff: their mandate is to facilitate the organisation of smallholder groups, such as farmers, into cooperatives across the country;
- MEDI, whose mandate is to support the development of entrepreneurs across all of Malawi, has only 8 technical staff. It is a similar case for SEDOM and DEMAT;
- Only 17 per cent of smallholder farmers have access to extension services from the Department of Agricultural Extension Services;
- The total budget for the Malawi Investment and Trade Centre is only approximately MK 160 million (US$ 0.6 million). In addition, it has yet to be granted the regulatory powers to allow it to perform its function effectively;
- The Ministry of Industry & Trade needs to be more effective in making the case for trade, industry and private sector development with central government, as it currently receives limited budget and therefore has very limited capacity to play its role of coordination. Trade, industry and private sector development are cross-cutting in nature, yet the Ministry has limited capacity to secure the buy-in of the range of public agencies that shape the business environment. A symptom of this, is the piecemeal approach to building Malawi’s productive base, such that Ministry efforts are dependent on development partner programmes, rather than on a concerted drive to develop clusters and the business environment. Likewise, trade, industry and private sector policy are not connected into one concerted cross-cutting strategy;
- Limited capacity in the Lands Department and Ministry of Justice to make the case for and drive the speedy enactment of the lands bill, while also limited capacity in the Lands Registry to develop an effective registry in which banks can, at low cost and speedily, verify ownership of land titles;
- The lack of an operational conducive regulatory framework for the development of private sector microfinance. In turn this has demonstrated the limited capacity in the Reserve Bank of Malawi to regulate and legislate for the sector. Regulation of micro-finance is very different to that of the banking sector;
- The Competition and Fair Trade Competition has a negligible budget and only employs 3 technical persons, yet lack of fair competition in the local transport sector (as identified in the Review of Competition in the Transport Sector) and the financial sector (as identified in the Financial Sector Development Strategy), are key constraints to Malawi’s ability to be productive;
- TEVET, which is critical in addressing Malawi’s skills gap, only receives 1 per cent of the education budget, while the private sector claims it sees little returns on the 1 per cent TEVET levy it pays every year on the previous years’ wage bill;
- Reserve Bank controls of foreign exchange demonstrate a disconnect between monetary and exchange rate policy, and efforts to build Malawi’s productive base.
- The Ministry of Finance currently has limited ability to fulfil its mandate of coordinating formulation of financial policies and regulations effectively. It also has limited capacity to ensure a predictable, consistent and supportive tax policy that is essential to attract investment and build Malawi’s productive base. This has resulted in a zero-deficit budget that is leading to over-taxation of Malawi’s businesses.
- On the private sector side, what emerged from the Sub-Committee meetings is that the MCCCI lacks the capacity to effectively communicate outcomes achieved in trade negotiations, or likewise to ensure adequate participation and buy-in of the private sector in trade policy formulation and negotiation.

Outcome of Institutional Capacity Assessment on Critical Agencies that Determine Productive Base

Please note that significant positive strides have been made in building the capacity of all agencies listed below. The purpose of this section is to provide constructive feedback from the perspective of building Malawi’s productive base and export capacity. We apologise if milestones that have been reached in the development of these agencies are not explicitly recognised. We recognise that each agency is going through its own learning and development curve, and that this takes time.

Ministry of Finance and Ministry of Economic Planning and Development

- The Ministry of Finance and Ministry of Economic Planning and Development have made important strides in strengthening Malawi’s institutional capacity to address poverty, welfare concerns, social issues and general development. The sense from the NES Technical Team is that while there is a desire to support
the development of the productive base of the economy – which is essential to fund Malawi’s development – it is not given enough priority. This indeed is difficult to do given the range of priorities that government has. Yet there is need for a stronger recognition of the fact that ultimately, Malawi’s development is dependent on the development of the productive base and on trade.

• There is recognition that the private sector is the engine for growth, although there is also caution at which part of the private sector benefits from private sector development. Having experiences such as those of tobacco and tea where the markets are dominated by a few businesses that make large margins with relatively little returns for smallholder farmers, has increased scepticism and caution on driving private sector development. The problem is that private sector development is not seen in a holistic manner. Private sector development and trade are not just about big businesses, but rather about all private operators in an economy. The most important private operators in Malawi’s economy are smallholder farmers and workers. Yet all too often, private sector development is not perceived to capture efforts to strengthen their bargaining power, through exposing them to markets and competition and then enabling such players to participate in those markets. In turn, this undermines efforts to build the productive base because it undermines efforts to set the right enabling environment for pro-poor, participatory economic growth.

• There is therefore a need for a better understanding of how Malawi can boost its productive base through all private operators in a manner that maximises the fairly rewarded participation of the masses and of the poor. The sense of the NES Technical Team is that there has not been any effort to build this capacity to better understand:

  • how to balance market-led growth and competitiveness with broad and adequately-rewarded participation in value addition;
  • the importance of education and skills in allowing a broader spectrum of the economy to benefit from economic growth;  
  • market structures and the importance of fair competition;
  • the distinction between commodity-based low transaction crops such as tobacco and tea, and high transaction, spill-over crops and products;
  • how to improve farmer bargaining power in markets in a manner that does not undermine economic competitiveness;
  • how to improve access to market and agricultural information in a manner that is sustainable and not centrally planned;
  • how to improve farmer and MSME access to inputs, finance and business development services;
  • how to develop clusters and sectors in a sequenced manner such that it leads to a favourable outcome whereby not only large businesses benefit. Sequencing in building strong foundations for the development of sectors in a manner that benefits all stakeholders is fundamental in preventing ad hoc distortionary policies such as export bans and turnover taxes;
  • the impact of policy incoherence on allowing clusters to develop in a manner that benefits all stakeholders;
  • how to engage with the private sector more constructively on how to address the issue of transfer pricing; and
  • that export bans and minimum prices are ad hoc, piecemeal approaches to trying to incentivise value addition or better farmer returns, that nearly always backfire.

• As a result of a not a strong enough understanding of these issues, the MGDS II, while robust and strong in many areas, needs to be more focused when it comes to building Malawi’s productive base. There are activities that support the productive base, but these are scattered in various places without providing a concerted strategy to build the competitiveness and productive base of the economy. The scale of Malawi’s economic challenges merits such a concerted strategy in which market-led sequenced skills and institutional development are prioritised. It is therefore essential for the NES to be appended to the MGDS, and not to be viewed merely as a line Ministry strategy. The MGDS I and II are visions, and correct visions. But the complex nature of private operators (who include farmers, MSMEs and large businesses) in market places involves a wide range of incentives and factors, and ensuring policy coordination to get a favourable enabling environment for trade and productivity, requires a clear, concerted, targeted and focused strategy that is actively implemented, rather than a vision.

• There was an explicit request by the Ministry of Economic Planning and Development to learn how to apply the product space model and the Cluster Prioritization Method to Malawi, so that they can work with the model.
to inform future policy making. This initiative should be fully supported.

**Ministry of Industry and Trade**

- The Ministry of Industry and Trade has made an excellent contribution to securing market access for Malawi’s products, through SADC, COMESA and other trade agreements (e.g. with Mozambique). Malawi has duty free, quota free access to numerous economies, both regional and extra-regional.

- Yet there is a difference between market access and market penetration. The latter is cross-cutting in nature, because building the productive base of a country for domestic and international trade depends not only on the action of the Ministry of Industry and Trade, but on the actions of many various Ministries and agencies that often have conflicting priorities and mandates. The Ministry has not been given the capacity it needs to reach out in a consistent and coordinated manner to the range of agencies and Ministries involved in shaping the business environment. Its staff spend most of their time on day to day administrative matters or in managing donor-managed programmes rather than in pushing through strategic reforms necessary to allow for private sector development, industrial development, trade and market penetration. Given the administrative burden, its staff have no or negligible time to spend on conducting analytical research necessary to convince central government of the importance investing in the enabling environment for private operators and in the institutions that shape that environment. As a result, when budget time comes it lacks the analytical depth and rigour necessary to defend crucial budgets necessary to build Malawi’s export capacity. And when given such budgets, it struggles to expend them in an effective manner, either because of their cross-cutting nature or because of institutional weaknesses.

- It is important for the Ministry to raise its profile among central government, through a concerted strategy to develop Malawi’s productive base, tied in to the MGDS. Donor funded programmes can then tag along as resource providers, rather than being the lead for the Ministry’s work.

- The Ministry needs to better understand what is required to build the productive base of the economy through large competitive clusters that can generate value addition. It needs to recognise that value addition is not easy to achieve: it requires coordinated focus and alignment between many Government Ministries, departments and agencies so that sufficient private investment is incentivised and enabled. It needs to recognise that export bans do not help to incentivise value addition because they reduce consistency of supply of inputs for processors.

- It is essential that in the next phase of the development of the MoIT that, preferably on the back of this NES, there is concerted effort to build the ability of the Ministry to be able to make a strong enough case for a concerted effort to develop Malawi’s productive base by central government.

- Given Malawi’s current move to balance welfare priorities with trade and productivity priorities, it is critical for this Ministry to be given increased priority in central government. The Departments of Commerce in the US and Japan and Minicom in Rwanda have a much higher status in central government, because of the recognition that it is ultimately trade and private sector development that can finance growth and economic development.

- The Department of Cooperatives is highly constrained: it is supposed to have 21 employees but only has 9. It is merely a division of PSD not even its own separate department. It does not have the budget to visit cooperatives around the country in order to support them. The departments main responsibilities under the cooperatives act are:
  - Legal: registration, the formulation of policies, inspection and enquiries, auditing if the coop cannot afford it itself.
  - Development: research (although not much of this is done due to resource constraints). Education as to co-operatives rights and obligations, linkages to markets, training leaders and staff (for example in a simplified accounting system the department has developed).

- There is also a critical need to invest in the capacity of the Department of Industry, particularly to re-orient itself from a history of import substitution and defending of industries, toward an export oriented approach that is very much based on exposure to competition, particularly of enabling sectors such as transport. For many years Malawi’s industrial policy, and still up to today, is based on import substitution. This is not sustainable because, as reported by MCCCI, ‘investment across the country is less than 2% of GDP. Currently 53 per cent of companies import inputs but only six per cent of companies export. Only fourteen per cent of manufacturing output is exported’.

**Ministry of Agriculture and Food Security and Ministry of Irrigation and Water**
Development

• The focus of the Ministry of Agriculture and Ministry of Irrigation and Water Development has rightly been on food security in recent years. The Ministries, with the support of ASWAp, is now going through a re-orientation exercise as it seeks to balance food security with value addition. As with the mandate of the Ministry of Industry and Trade, the latter requires an understanding of what is necessary to allow the productive base to develop in a manner that it is market-led. Given its history, the Ministry's focus has been on raising agricultural production without being market-led. There is the risk of this continuing, given the view that 'the market is there, all you need to do is produce'. However, in value addition it does not work like this. In line with the case that the NES is making, Malawi has to move away from low-transaction agricultural commodities such as tobacco and tea to high transaction commodities that have spillovers into various high value products, this requires a constant flow of information between consumers and farmers. Value addition is dependent on a certain level of production, which may not be reached unless there is a constant flow of information, as well as a certain level of quality. For example, despite an increase in the production of cotton seed in 2011/12, low seed quality meant that the cotton seed produced had low protein content, such that the vegetable oil produced from the seed was red in colour, as opposed to golden. Such vegetable oil can barely be sold in Malawi, let alone exported.

• To secure a balanced position between food security and value addition from the agriculture sector, there is therefore a need for the Ministry of Agriculture and Food Security and Ministry of Irrigation and Water Development, through the ASWAp component on commercialisation, to better understand what is necessary to secure sustainable value addition. This does not emerge as strongly as it needs to from the ASWAp document. There is a need to better understand the importance of and build capacity in:
  • extension services and vocational education and training that are linked to market demand and specific contexts (urban and rural);
  • developing sustainable farm input sectors tailored toward Malawi's growth clusters (of which certain crops serve as a base, e.g. sugar cane and oil seed products);
  • secure access to land and access to micro-finance and savings schemes;
  • of agriculture processing credit guarantee schemes;
  • of linking irrigation efforts to a national value addition and export strategy, such that Malawi's limited irrigation investment resources are not piecemeal;
  • how to balance large scale farming with smallholder farming;
  • developing the information sector through the private sector to ensure sustainability: agricultural commodity exchanges, mobile phone extension and price services, storage and warehouse receipts and farmer organisation. Indeed, since Malawi's agriculture is smallholder based, farmer organisations are critical for value addition as this lowers the transaction costs of linking to processors;
  • running a coordination programme for NGO's sustainable livelihood programmes to assist in a coordinated extension service that is focuses primarily around priority NES clusters; and
  • strengthening ties with the Dept of Cooperatives, Dept of Industry, MITC, MBS, RBM, Export Development Fund and Dept of Trade to ensure policy coherence.

• It is also important to emphasise the capacity building effort of the Agriculture SWAp:
  • 'The successful pursuit of an agricultural PBA/SWAp requires strengthening of the capacities of the Ministry of Agriculture and Food Security to design and implement a coordinated investment programme. Improvement in systems and processes in programme planning, budgeting, procurement, financial management, monitoring & evaluation and administration will encourage donors to contribute directly to a national investment plan. Furthermore training programmes targeting the resolution of critical gaps in technical skills will enhance the capacity of the ministry to implement the agreed agenda. Institutional development and capacity building are crosscutting in nature and are a pre-requisite to the success of the ASWAp. But, an important innovation under ASWAp is that capacity will be built not just in the public sector, but in partnership with community organisations, faith communities, and the private sector. This will add a degree of sustainability, depth and diversity to the capacity building
effort that has been absent from previous, institutionally based programmes.’

- Institutional Development and Capacity Building activities under the ASWAp will take into account the core function analysis (CFA) process underway in the MoAFS. A completed CFA process will determine the specific functions and activities that different players in the sector need to undertake based on their identified competences and capacities. The following strategies will be pursued for all departments and sections to achieve the objectives:

  - Improving knowledge and skills of existing frontline staff through long term and short term training programs at Certificate, Diploma, BSc and PhD levels.
  - Improving staffing levels through filling of existing vacancies and recruiting new staff in critical specialised areas.
  - Improving resource allocation to institutions to ensure that programs have adequate human, physical and financial resources.
  - Strengthening capacity by improving leadership and management capacity systems and procedures.

- There are critical shortages in the Department of Irrigation (only 160 technical staff compared to an establishment of 400), the Department of Agricultural Extension Services (the extension worker to farmer ratio is 1,500:1, this needs to be reduced to below 500:1) and the Human Resources Department. There is also limited capacity in the agri-business section of the extension services. This needs significant attention. The development of these departments is of the greatest priority.

MALAWI INVESTMENT AND TRADE CENTRE

- The MITC is a critical agency for the success of the NES and for Malawi’s ability to build its productive base. It is currently being formed through the merger of the Malawi Export Promotion Council and the Malawi Investment Promotion Centre.

- Given the country’s recent and correct focus on food security, MITC’s predecessors did not receive much support from the government. Its budget stands at 160MK million, which is inadequate for an agency whose mandate is to facilitate investment, brand and market Malawi and provide essential information to businesses and potential investors. Given its status effectively as a department under the Ministry of Industry and Trade, it also has not been given the capacity to drive investment and export reforms necessary to allow it to make robust and rigorous pitches to potential investors and exporters. The number of years taken to merge MEPC and MIPA – the idea was conceptualised in the 1990s – epitomises this.

- As a result, one comment received during the NES Expert Panel in Blantyre was that when the agency was approached by a Malawian business for contact information on companies in a particular industry operating in Tete, Mozambique (which is currently booming), the MITC was not able to provide any information. This symposiumises the opportunity cost of not prioritising a concerted effort to allow MITC to meet its mandate.

- It is essential for the status, authority, budget allocation and profile of MITC to be significantly raised because otherwise it cannot be a one-stop shop. The success of the NES depends on this, because it is the mandate of the MITC to approach potential investors, to brand and market Malawi, to facilitate investors and banks in clusters that can complement tobacco as export drivers and to provide business contact information.

- The conclusion of the Investor Road Map study of 2010 was clear: ‘It is no longer true to say that MIPA is One-Stop-Shop. It is recommended that if the agency were to serve truly as a one-stop-centre for investors in the country, this would make a huge difference. MIPA should be given the necessary authority to receive and process applications on behalf of prospective investors. It would appear that this has worked in the past because of relevant Government Departments have decided to support this move. However, there would appear that there was no legislative provision with the force of law that required them to do so. As a result it has been successfully argued that any administrative arrangements that have been agreed are to run against the letter of the law. It is thus recommended that going forward, MIPA should be empowered by legislation to be a One-Stop-Shop empowering it to issue all required approvals, certificates, work permits, and land allocation and that any decision reached by MIPA shall be final and binding. This is being done in Botswana, Ethiopia etc’

- Zamtrade, Zimtrade and the Tanzanian Investment
Centre are examples of neighbouring countries where the MITC equivalent is a pro-active agency that has the resources necessary to attract investment and facilitate exports.

- MITC has no strategic plan or vision. It is essential to develop this and embed it in a Malawi’s development agenda.
- The government’s objective is for the MITC to be self-financing as it cannot afford to provide it with the necessary funding from the government budget. This is the priority. Yet to achieve this, the MITC must be able to offer a service valued by investors and exporters. To do this it needs:
  - Fully functioning, effective and appropriately supported management, including a dynamic board of directors and pro-active CEO;
  - A prioritisation of staff and system development efforts, including performance based remuneration and career plans;
  - Recent computerisation efforts to be completed and fully integrated into the operational procedures;
  - Increased responsibilities distinct from other agencies including the Ministry of Industry and Trade, particularly to:
    - become a true one-stop shop for registration for investment and export incentives, trade licensing and provision of market and investor information. This requires it to be a registering authority for all foreign investors in Malawi. Currently there are no benefits of registration so that it is a bureaucratic office, not a facilitation office;
    - lobby for and know about land zoning for investors;
    - own and manage an up-to-date and relevant database of investment opportunities;
    - provide relevant Investment Certificates that allow for effective after-sales services, possibly at a renewable fee; and
    - Capacity development needs to be focused on targeted services to the NES priority clusters and key enabling sectors (e.g. finance, business development services and energy).
- Establish a department solely focused on Export Processing Zones;
- Government support to identify land for EPZ development;
- The restructuring of the organisation to align it with this new mandate as per the Malawi Investment and Export Promotion Act 2010;
- Develop capacity to brand and market priority exports;
- Develop and implement a strategic plan; and
- Report directly to the Office of the President and Cabinet to help ensure that adequate support is provided. There is empirical evidence that similar agencies that are successful are those that report directly to the President.

MALAWI BUREAU OF STANDARDS

- Given the domestic orientation of the Malawian economy, for many years the MBS’ focus was not on export facilitation. Rather it was on ensuring Malawian products meet domestic consumer standards. Therefore the MBS is more of an enforcer of domestic consumer interests, rather than a facilitator of trade. When it comes to domestic trade, regulation is important given the weakness of domestic consumers to protect their interests. Given the growth in Malawi’s trade deficit over the past 10 years, and its implications, Malawi is increasingly recognising that it needs to move away from domestic orientation to export orientation. MBS is undergoing the same transition. The MBS was built with a domestic focus in mind, while the export focus is rather different. This is why the private sector view the MBS as more of a regulator than a facilitator, with certain exceptions such as in the area of metrology.
- There is therefore need for the MBS to re-orient itself toward being an export facilitator. This requires increased support by Government to the implementation of the MBS strategic plan. This should be despite the MBS being a self-sustaining agency. There is a strong economic case for facilitating MSMEs and farmer organisations to meet export standards, particularly those of regional markets, in line with the regional thrust of the NES.
- It is important for the agency to be proactive: while ultimately it is the private sector’s duty to meet international standards, farmer organisations, start-
ups, entrepreneurs and MSMEs require the MBS to also be a facilitator because of the high cost of meeting international standards. The social benefit tends to outweigh the private net benefit, hence justifying government support through the MBS.

• Given its history as a domestic regulator, the staff establishment is too small relative to the scope of export facilitation, while MBS’ revenue is too limited. The view of the private sector is that its training programmes are not adequate and its qualified people are too few relative to the scope of its export facilitation mandate. The greatest shortage is of the right skill set on the required scale. This ranges from technical skills to management skills and to knowledge of international market requirements in standards. There is a need for the strategic plan to be the drive for the institution to build its capacity: this requires the plan to be realistic and also prioritise active and focused staff development programmes, together with stable and pro-active management. It is essential for these programmes to be focused on the priority clusters prioritised under the NES, given capacity constraints.

• There are ongoing efforts to build capacity for certification e.g. uranium from Malawi can now be certified and there is radioactive analysis available, while the MBS has developed capacity in the metrology field. Aligning such efforts to the NES is critical.

• There is a large risk in the MBS’ perception of its role. It is important for this to be clarified. Given its regulatory background, there is a belief that the MBS should certify Malawian products prior to being exported. There is an argument for this, in that it protects Malawian branding. However, there is also a counter argument that this approach can end up leading to additional costs on businesses, which may actually exceed the necessary costs. Such an approach risks meaning that the MBS applies higher quality standards than Malawi’s target markets actually desire. The NES is focused on exports to regional markets, so it is essential.

• The MBS’s development needs to be closely aligned to the NES. There is a critical need to ensure that investment in MBS capacity is streamlined to those clusters that can drive export growth, as per the NES Cluster Prioritization Method. The NES is targeted to regional exports, so it is important to align Malawi’s infrastructure to such markets, and not just to the EU market. Because of the high cost of such an investment, it is essential to align investment in infrastructure to target markets. Many tests currently take place in South Africa – due to resource shortages, aligning accreditation and infrastructure to prioritised clusters under the NES is critical.

• There is need for fees to be more responsive to demand. Where demand and willingness to pay is high, there is a rational for higher fees. Where it is not, particularly when it comes to farmer organisations and MSMEs, there is a rational for low fees. It is important to develop a clear and transparent pricing policy to facilitate MSMEs and farmer organisations in meeting testing requirements for external markets.

• Another issue is that the MBS is only present in Blantyre. This raises the cost of testing a lot, because businesses have to cover the cost of transport, accommodation etc, and only the MBS can certify a number of products.

• The MBS Act is outdated. It was enacted in 1972. It is currently being revised and is currently in Parliament. The act must be responsive to current requirements.

• Another challenge is the current lack of coordination in the legal framework. This gives institutions different mandates that cause difficulties for the MBS. For example there is little coordination between MITC and OVOP with the MBS. Often external agreements are made and then the MBS is retrospectively asked to be in line with the agreement. Yet it may be very difficult and expensive to be in line. This is a wider coordination issue, but it also reflects MBS’s capacity to be pro-active and pre-empt such outcomes.

• MBS is privately funded and is not funded through the Government. The institution is therefore dependent on heavy external investment to get systems up to scratch, to train staff and to receive technical assistance. However, there have been numerous development partner assistance programmes in the past, but little capacity has been developed relative to the scale of the support. There are two reasons for this.

  • First is that institutions such as MBS can only become facilitators of trade if there is a concerted effort by government to enabling it to assume this role. Otherwise issues such as staff attrition and morale, lack of scale in skilled staff, lack of adequate funding and an inability to utilise and maintain testing equipment and other infrastructure granted by development partners will continue to undermine external assistance to the agency. The outcome is ineffective, piecemeal capacity development programmes that do not tie in with clear career packages and vision.

  • Second, many-a-time development programmes have proceeded into implementation without prioritising institutional development, and therefore staff development, of the MBS. The prioritisation of hard infrastructure over the development of permanent systems is an approach that can only succeed if true government buy-in
to develop the institution exists. Since the latter has not been the case, and alternative approach that prioritises systems and staff over hard infrastructure is essential. Such an approach is important for the upcoming Standards, Quality, Accreditation, Measurement programme financed by the European Union.

- A number of African role models exist on how to secure an effective Bureau of Standards that serves as an asset to a country’s efforts to develop. Such models include Botswana, Uganda and Rwanda. The Botswana Bureau of Standards is an excellent example with standards in place for diamonds, fish, meat and other key exports. It is viewed as a world-class certifier, thereby facilitating Botswana’s exports. This was because of a concerted effort to develop the institution, backed by adequate funding.

- It is essential to prioritise human and infrastructure development, focused on targeted services to the NES priority clusters and key enabling sectors (e.g. finance, business development services and energy).

**MINISTRY OF FINANCE AND MALAWI REVENUE AUTHORITY**

- Given the existing fiscal deficit, the pressure for revenue collection on the narrow tax base is significant. Performance rewards are currently too focused on revenue collection: this becomes counter productive when a country has a narrow tax base. There is need for more constructive engagement with the productive base to develop concerted strategies to expand productivity, and hence widen the tax base.

- The private sector’s view is that the MRA, due to pressure from central government, is currently acting as a revenue collector and not as a facilitator of trade. Discussions on policy at the top level do not seem to filter to the junior staff, where performance is only based on tax collection.

- There is little support given to businesses, particularly MSMEs on tax management and this incentivizes tax avoidance. To address this, it is important to have a dialogue platform between private operators, the MRA and the Ministry of Finance because the current dialogue framework is solely between private operators and the MRA, meaning there is no arbitrary representation that can assess matters from a policy perspective, taking into account the need to develop the productive base of the economy.

- There is a need for increased capacity in financial sector policy and implementation. The Financial Sector Development Strategy remains largely not implemented, while many banks continue to make profits of around 40% while MSMEs can only access finance at above 20% interest with high collateral requirements. There is too little capacity (capacity here does not mean a lack of highly skilled staff; what it means is that the workload is too high relative to the number of skilled staff, often meaning that skilled staff spend their time on administration and day to day exigencies rather than implementing reforms). There is therefore need to establish a Financial Sector Policy Unit and give it enough skilled staff time to drive through various financial sector and secure tenure of property reforms.

- There is a need to build the capacity of the Risk Management Unit of the MRA as currently all customs declarations are inspected. There is also need to build the capacity of the Valuation Team and to upgrade to Asycuda World as Ayscuda++ is not user friendly and is not delivering the benefits of an automated tax and customs information system as it should.

**SMALL AND MEDIUM ENTERPRISE DEVELOPMENT INSTITUTE (MERGER OF SEDOM, MEDI, DEMAT)**

- The rationale behind the establishment of MEDI, SEDOM and DEMAT was to assist Malawian’s entrepreneurs and start-ups in growing as a business. The thinking was for MEDI to provide entrepreneurship training, SEDOM to provide financing and DEMAT to provide business advisory services.

- Yet these agencies, while making an effort to provide services, are generally viewed as ineffective, particularly when compared to the scale of Malawi’s economic challenge. They are all working in a piecemeal fashion and lack financial and management support. We present MEDI’s story as a case study:

  - MEDI was established as the Vocational Training Institute in 1981. The thinking was for youth to establish their own businesses. Two studies commissioned in 1984 found that graduates were competing for the same jobs with students from technical colleges and that the institution operated like a Government department. The institution was not effective as decisions required the involvement of the Ministry of Labour.

  - In 1990 the name was changed to the Malawian Entrepreneurs Development Institute and there was an effort to increase the independence of MEDI. The aim was solely to develop Malawian entrepreneurs. It had rigorous processes and was successful
in training road contractors, electrical contractors and manufacturers. Applicants went through screening and successful ones graduated to MEDI. After a week they were sent out to do market research of product of business they wanted. After one or two months they returned and were helped to identify the best business model for them. Some graduates opened their own private schools. For example Share World, which is owned by a MEDI graduate, offers Masters and PhD courses. MEDI received adequate funding, funded by donors and Government.

- Donors pulled out in 1992 due to Malawi’s inability to meet Paris Club aid repayment conditions. This compromised everything, right up to today. For MEDI’s survival it runs a petrol station, a hostel, workshop and other small businesses in Mpondola. Financial limitations mean that most of MEDI staff are applied to these income generation activities, and MEDI is therefore an ineffective institution relative to its nationwide mandate.

- What is critical is for these three institutions to be given an active vision that is part of Malawi’s development agenda. Therefore tying the vision and plans for these institutions into the NES is fundamental. In addition capacity development needs to be focused on targeted services to the NES priority clusters and key enabling sectors (e.g. finance, business development services and energy).

- If appropriately supported through a committed government (and in a second instance by development partners), these agencies can play a key role in building the capacity of entrepreneurs, start ups and MSMEs to be part of Malawi’s effort to be productive.

- This requires the Government to set a clear vision and role for these agencies.

- The first-step is the fast-tracking of the merger of these 3 agencies into one. But this is not enough. It needs a coherent vision that is linked to the MGDS and prioritized clusters under the NES, and to which there is commitment by central government. The next step is to ensure effective management and leadership that can deliver on this vision. A strategic plan and business plan then need to be developed to deliver on this. There is also a need to study approaches to MSME support provided in different countries, including legislation support and self-financing mechanisms.

- A gender-balanced focus on youths, tied in to TVET programmes is important.

- It is essential for the Ministry of Industry and Trade to have staff whose jobs include ensuring that the agency is working in line with its mandate, that it has enough resources allocated to it to be effective.

**Reserve Bank of Malawi**

- The Reserve Bank of Malawi plays a central role is ensuring the stability of the Malawian Kwacha relative to other countries, and also in supporting the development and maturing of the Malawian financial sector. Its role is critical for exporters, because through its ability to impose regulatory measures to defend the local currency, it also has the ability to significantly raise the cost to exporters and potential exporters to access the foreign exchange that they need. It does so through exchange rate policy and through foreign exchange controls. Economic evidence shows the growth of value added exports is very closely correlated to the growth in imported inputs. Companies cannot add value if they do not import certain inputs. Thus if Malawi is to become competitive in value added exports, rather than merely commodities, then it is essential for the Reserve Bank of Malawi to ensure that exporters and potential exporters have access to the foreign exchange that they need to allow them to compete on regional and international markets.

- At present, the private sector believes that it foreign exchange controls are a key impediment to their ability to export. There are reported difficulties in meeting foreign exchange controls. It is also difficult to secure the required code on line, and it is easier to do this in person. In the NES Sub-Committees, a business reported a case of truck being stuck for 4 days while waiting for the CD1 form by the RBM. The RBM currently has little capacity to regulate the micro-finance sector in an effective manner, because this is a recent addition to its mandate. Fast-tracking the development of this capacity is critical, given that most of Malawi’s productive base is composed of smallholder farmers and their ability to access finance is dependent on a well developed micro-finance sector.

- There is a need to develop the capacity of Reserve Bank of Malawi to balance its regulatory function between providing adequate risk-based supervision and supporting development of the financial sector, and developing capacity of the Ministry of Finance in coordinating the formulation of financial policies and regulations effectively:

  - **Underdeveloped regulation**: the legal,
regulatory and institutional framework for the financial sector is still immature. Reserve Bank of Malawi (RBM), through technical assistance from FIRST Initiative, is in the process of enacting a package of financial sector laws designed to modernise the existing legal framework to bring it in line with international standards and to better define the RBM’s regulatory obligations. Recently enacted legislation include the Anti-Money Laundering Act, the Credit Reference Bureau Act, an Amendment to the Reserve Bank of Malawi Act, the Banking Act, the Financial Services Act, the Insurance Act, the Securities Act, the Microfinance Act, the Pensions Act, the Financial Cooperatives Act and the National ID Act. The National Payments Systems Bill has yet to be presented in Parliament.

- Efforts are being made by the RBM to build the capacity required to meet its new responsibilities for failed bank resolution, risk-based supervision, macro-prudential analysis, market liquidity forecasting, foreign exchange reserve management, payments system strategy, credit bureau policy, and Government debt management. However, further technical assistance is needed to develop supporting regulations and implementation manuals in the context of the new Financial Services Act, enhance regulations for capital market and the insurance and pension industries, and upgrade RBM’s capacity for off-site supervision and financial stability reporting. The World Bank financed, Financial Sector Technical Assistance Project (FSTAP) will aim to provide support in these areas.

- A key factor that also needs to be prioritised is the development of regulatory capacity for the microfinance sector and for a national warehouse receipts system. This is key in helping farmers benefit from value addition efforts and in securing that value addition.

Export Development Fund

- The Reserve Bank of Malawi and Ministry of Finance is currently doing an excellent job at establishing the Export Development Fund. There is a need for this in Malawi given that the financial sector still needs to develop to a level where it can target MSMEs and agro-processors to the extent that Malawi requires. It is essential for the EDF to be established as a credit guarantee facility. As identified in the Review of Cross-Cutting Export Enablers, the lack of such a facility is one of the factors contributing to the existing disconnect between farmers and agro-processors.

- It is essential for the EDF to have enough scope and focus, in line with prioritized clusters under the NES.

- It is also essential for the EDF to be closely designed with the financial sector, while also ensuring that it assumes the appropriate level of risk: this should neither be too high, as this will reduce the incentives on banks to ensure the loan is a good loan and reduce loan supervision, or too low, as this would lead to low take up. Calculating the appropriate level of risk to assume is critical, and will most likely require a number of iterated engagements with borrowers and banks.

- It is also essential for the EDF business model to be sound, with the scope for future financial independence, without the need for annual support by the RBM in the long-term, except if there is a need for a capital investment in the EDF in the short-term to increase or maintain the scope of the EDF.

Ministry of Education, Science and Technology

From the perspective of Malawi’s ability to build its productive base and export, there is not enough understanding among stakeholders about the importance of the skills base. Development partners tend to view education as something that needs to be invested in, but the connection to the productive economy is often tenuous. Investing in higher level or technical skills is viewed as not being pro-poor. Stakeholders do not make the linkage between education and skills on the one hand and economic empowerment and the productive economy on the other. However this link is vital in an economy because it takes skills to run public organisations that need to provide an enabling environment for economic empowerment and it takes skills to develop sectors on a scale sufficient to allow exports to keep the pace of imports and consumption. It is not about a certain profession in an economy, what matters is the quality and quantity that public and private sector organisations need to collectively meet consumer demand and the demands of markets. Currently many businesses employ foreign specialists and experts because although local expertise is available, the standard is not sufficient. Likewise the pool of local specialists and technicians is too small so that if people leave or move job it is very difficult to replace them. Often such specialists are those that create jobs for others.

Since it takes skills to establish the economic institutions necessary to create the jobs and market structures necessary to address poverty and empower youth, women, farmers and the poor, secondary TEVET and higher education is pro-poor.

As a result of the disconnect in the perception of stakeholders about the link between education and the productive economy, there is a lot of focus on basic education, which is important, and not enough focus on secondary, TEVET and higher education and on the development of the skills base. These are important because they are central to export competitiveness, building the
productive base and hence poverty reduction.

What is required is recognition, particularly among the education segment of development partners, and the Ministry of Education, Science and Technology that education (as with wider human development) is at the basis of Malawi’s ability to afford its development. There is need for building the capacity of the Ministry to:

- Envision and develop a National Skills Development Plan that can drive the productive base of the economy and allow for the economic empowerment of youths, women, farmers and the poor through their effective participation in the productive economy. This needs to be based on the priority sectors in the National Export Strategy.

- This is central to give direction to training institutions and organisations such as those in the TEVETA structure, to improve coordination with other Ministries such as those of Youth, Labour, Industry and Trade and Gender and to help address the disconnect between education and the productive base.

- This is key for job creation and economic empowerment.

In addition it is important to:

- Prioritise TEVET, in particular skills for youths in areas such as operators and fitters;

- Ensure clarity of institutional roles (e.g. of TEVETA), conducive legislative framework and sufficient allocation of resources;

- Meet the expenditure targets set in the National Education Sector Plan for TEVET, secondary education and higher education;

- Significantly investing in science and mathematics;

- Improve the TEVET system to make it more effective; and

- Collaborate more closely with the Ministry of Labour and Ministry of Youth in running an effective Labour Market Information System that can feed in the demands of the productive-oriented organisations through to TEVETA and higher education organisations.

**TEVETA**

- TEVETA is a regulatory agency which was primarily designed to overview all skills development in Malawi. This role has developed into one of implementation, although this is not as it should be. TEVETA registers and accredits training institutions and it manages the assessment and certification process of training organisations. It is also responsible for ensuring industry ownership of the curriculum through its consultation process. Extensive interviews and consultations are conducted with industry experts and a Deckham framework is used. Three training programs are run:

  - Formal training: Take high school graduates and train them in skills for four years and place them in industry.

  - Informal training: Skills based training through community based organisations, designed to reach groups outside of major cities.

  - Private sector training programme: Private sector solicits for specific skills and request individuals to be trained to fill specific gaps.

- Central Government and development partners have not had sufficient vision and clarity on how to develop Malawi’s skills base that is linked to wider efforts to build Malawi’s productive base. As a result TEVETA suffers from a lack of vision, purpose and resources.

- The outcome of this is:

  - A failure to match the rapid growth in the youth population with new training institutions and trainee programmes (such as apprenticeships) such that Malawi’s youth bulge risks becoming a development burden rather than a development boon;

  - A failure to maintain an effective labour market information system for policy and programme planning;

  - Few apprenticeships are available for training despite overwhelming and growing demand by youths and industry;

  - Few beneficiaries are reached through the informal sector outreach training programmes so that many youths that fail to complete secondary education receive no further training;

  - A failure to attach apprenticeships and informal training programmes to industry, and a failure to match skills supplied to skills demanded;

  - A lack of training materials and tool boxes in training institutions;

  - Little upgrading of training equipment and machinery in the Technical Colleges and little investment in the training of instructors;

  - A lack of investment in village polytechnics, rural vocational training centres or satellite
The Ministry of Labour has identified the following institutional weaknesses:

- The MGDS 1 was silent on labour and as such meant that the Ministry of labour received little funding.
- The labour market information department is currently very weak, although there is currently a push to increase its capacity.
- The Ministry can only manage to do the testing and certification for eighteen out of the forty trades that is supposed to support.
- As identified in the Review of Cross-Cutting Export Enablers, it is essential to identify a way how the Ministry of Labour can be supported in managing the burden of connecting those who demand skills with those who supply. This requires the capacity to investigate market-based systems such as the use of voucher schemes (as occurs with the coupons in the Farm Input Subsidy Programme). Such a scheme, whereby businesses and youths are given vouchers through TEVETA/MoL would ease the administrative burden of a Labour Market Information System, as preferences would be revealed directly to training institutions.
- The MoL should also improve its capacity to maintain an effective, demand-based labour market information system that can complement schemes such as the voucher scheme. This means building the capacity of the Ministry of Labour in a sustainable manner, and not in a manner that is entirely dependent on donor-financing. This requires middle and junior management as well as technical skills to develop an effective system that can link in, through information technology, the various labour market offices around the districts.

**Ministry of Labour**

From the NES perspective, the critical role that the Ministry of Labour should be playing is, together with TEVETA, addressing the disconnect that exists between demanders of skills (the private sector, civil society and government) and suppliers of skills (the education and TEVET sector). In particular, a large gap exists in middle and junior management, both in the private sector and in government. This has been identified as one of Malawi’s top constraints to building its productive base and hence, its export capacity. Officially, the Ministry of Labour is given the mandate to address this disconnect, by operating a Labour Market Information System. Yet the Ministry of Labour does not have the capacity to maintain such a system in a manner where it eliminates this disconnect. Its skilled staff do not have enough free time to build an effective system, such that it relies on donor-funded programmes, as is currently occurring with the Competitiveness and Growth Programme of the AfDB. This is not a sustainable system.

- The Ministry of Labour has identified the following institutional weaknesses:
  - The MGDS 1 was silent on labour and as such meant that the Ministry of labour received little funding.
  - The labour market information department is currently very weak, although there is currently a push to increase its capacity.
  - The Ministry can only manage to do the testing and certification for eighteen out of the forty trades that is supposed to support.

**Competition and Fair Trading Commission**

- Promotion of competition and fair trading is one of the key business enablers in Malawi. Although the Malawi Government is progressively implementing economic reforms aimed at improving the business environment, the existence of market imperfections constrains competitive conditions necessary to trigger cluster development.
- In 1998 the Malawi Government enacted the Competition and Fair Trading Act to create the legal basis for promoting competition and fair trading and provide strong incentives for achieving economic efficiency and ensure that production of goods and services responds to consumers wants. Implementation of the Act was commenced in 2005 following the setting up of a Commission which is charged with the responsibility of overseeing implementation of the Act.
- It is critical for the Commission to adopt a soft approach. This is the key lesson that emerges from Commissions in other countries, such as the Barbados and Jamaican Fair Trading Commissions. A soft approach is one where companies are informed of the law and of practices which are deemed unfair or abusive of dominant position, and a relationship is built with the companies to gradually amend such behaviour to be in line with the law. Where soft approaches were taken, this often backfired with little collaboration being obtained from businesses. Soft approaches are important as the role of the Commission is not to regulate, but to facilitate the emergence of healthy competition that is conducive to a sector’s potential being maximised. An ongoing healthy relationship with private operators is central to this.
- The Commission also requires both the legal and economics expertise to be able to adequately assess the degree to which there is abuse of dominant position or unfair business practices, and to decipher the most effective approach to address this. Dominant positions are not illegal, and certain mergers, while
reducing competition, might be beneficial to the wider economy if only fewer companies can be feasible in a certain market. It is important for the Commission to have the capacity to analyse markets effectively and comprehensively, and to determine its behaviour off of this. Exposure to counterparts in other countries and a strong link to the counterpart agencies in SADC and COMESA is vital.

- The Commission has been operating on an interim basis as it has been serviced by seconded staff from the Ministry of Industry and Trade. This set up compromised the independence that the Commission is supposed to enjoy as required by the Act. In January, 2012 the Commission started recruiting permanent staff in the Secretariat starting with 3 key positions including the Legal Counsel, Director of Mergers and Acquisitions and Accountant. The Secretariat has since secured its own offices which are located at Red Cross Complex, Area 14 in Lilongwe. Plans are under way to recruit additional staff in 2012/13 financial year.

- The establishment of an independent secretariat for the Commission is the first step towards strengthening the implementation of the Competition and Fair Trading Act. The Commission requires considerable technical assistance relating to both capacity building and institutional development to enable it to effectively serve as a market watchdog.

- In particular, CFTC requires technical support in the following areas:
  - Training of Commissioners and core staff. The Board of Commissioners is an adjudicative body within the setup of the Commission and comprises of members representing interest of the society and professional associations. Being a new area and in light of the technical nature of competition issues, commissioners require considerable technical training. Similarly members of staff for the Commission require training to competently discharge their duties
  - Training of Trainers and stakeholders on competition and consumer issues. This will include the University staff, particularly the Economics and Law Departments;
  - Development of a strategic plan with a comprehensive “roadmap” setting the direction and pace of the Commission work over the next 5 years and beyond in a coordinated and focused manner;
  - Establishment of an advocacy and Public awareness program to ensure coverage of competition issues in Malawi. This will make business people aware of the Act and its provisions as well as inform the customer and all other stakeholders. Thus, the Commission needs to conduct seminars targeting judges, sector regulators, civil society and the business community.
  - Sector Inquiries: Key to building capacity of the CFTC is to conduct an evaluation of the status of competition in key-sectors and use the reports to conduct advocacy programs and encourage voluntary compliance.
  - Logistical support to ensure efficient delivery of service e.g. office equipment; vehicles.

**Export Processing Zones Appraisal Committee**

The Export Processing Act of 1995 allows for the establishment of export processing zones and the function of the appraisal committee is to appraise and review applications for the establishment and operation of these zones. However the committee lacks the capacity to monitor export remittances by EPZ enterprises. A lack of transparency and concerns over the degree to which export proceeds are returning to Malawi has contributed to the limited effectiveness of Export Processing Zones in Malawi. There is need for an effective monitoring system and a dialogue framework on how private operators can be attracted to return the proceeds of their exports to Malawi. Preferably this monitoring function should be of the Reserve Bank of Malawi.

**Ministry of Land and Housing and Land Registry**

The Ministry of Land and Housing plays a vital role in allowing Malawi to build its productive base. This is in ensuring access to land and secure tenure of land for private operators, including farmers, youth, women and the poor, in addition to micro, small, medium and large businesses. Apart from being a cross-cutting issue, this Ministry is also vital for the success of agriculture based export clusters in the NES, such as sugar cane products, oil seed products and the ability for commercial farming. The core tool to deliver this is through the Land Bill which the Ministry is seeking to expedite for enactment. The operationalisation of the bill rests on the capacity in the Ministry to administer customary land titles, and also other land titles. This requires significant investment in the capacity of the Department of Surveys, the Department of Physical Planning and the Department of Lands, in addition to the Land Registry. At present the capacity of these departments is at present insufficient to effectively administer lands as per the Land Bill.

**Ministry of Justice and Constitutional Affairs**
The Ministry of Justice and Constitutional Affairs are critical institutions in Malawi’s economy, and hence in its ability to build its productive base and hence its capacity to export. Together these institutions play a key role in:

- Ensuring property rights, for example in the enforcement of contracts and asset titles such as land titles;
- Helping Malawi to meet trade agreements with its trade partners;
- Ensuring a balance between legal robustness and facilitation of the productive base in Malawi’s legal and regulatory framework; and
- Reviewing, finalising and expediting the enactment of business and private operator-related legislation.

However the Ministry of Justice and High Court does not only focus on these areas, and given requests from other parts of the economy, such as social welfare and justice, it is often difficult for the Ministry and the High Court to devote enough resources as required for the effective development of Malawi’s productive base. For example, at the time of writing of this document there were 41 laws under review by the Business Environment Strengthening and Technical Assistance Programme (BESTAP) with another ten coming on stream and further laws related to the agricultural sector. These laws all play a part in allowing for the productive base to be built. However there is no central unit within the Ministry of Justice focused on agriculture and the productive economy, such there is not enough focus and prioritisation of such laws. Ensuring proper consultation, comprehensiveness and legal robustness is important for laws to reflect what is needed for the economy and to be approved by Cabinet and Parliament. As a result of the lack of focus, many laws are not expedited in their development, review and enactment process such that, for example, processes to enact or merge key institutions takes years.

It is therefore important for the Ministry of Justice and the High Court to also prioritise key laws and structures (such as the capacity of the Commercial Court to handle cases), in a manner that is based on the prioritisations set out in the National Export Strategy.

MALAWI INDUSTRIAL RESEARCH AND TECHNICAL DEVELOPMENT CENTRE

The Malawi Industrial Research and Technical and Development Centre (MIRTDC) was established to foster sustained efforts in industrial research and technology development to enhance industrial productivity and provide momentum for the development of all levels (micro, small, medium and large) of enterprises. The centre was designed to assist with:

- Product development and improvement;
- Process development and improvement;
- Materials research and development;
- Applied research and development; and
- Scientific research.

However limited resourcing has constrained the centre’s ability to provide support in these areas. In particular the MIRTDC lacks the capacity to provide linkages to international research and technology.

What is needed for the centre is for it to have a vision by central government for supporting private operators, particularly MSMEs, to access technology where they lack the financial resources to do this themselves. This should be carried out through targeted industrial extension services tied to the NES priority clusters. Large businesses typically have access to technology through access to finance and expertise that they can bring in, but this is less the case for MSMEs. There is therefore a role for the centre to play, although it is essential that it does this through the Small and Medium Development Enterprise Institute and the TEVETA institutions. This link and synchronisation is not strong enough at present.

Once a clear vision can be secured, resourcing will then follow as part of the wider effort to develop Malawi’s productive base.
PUBLIC PRIVATE PARTNERSHIP COMMISSION

The Public Private Partnership Act of 2011 established the Public Private Partnership Commission with a role to regulate and facilitate public private partnerships in areas such as infrastructure. Being a new commission and given the importance of public private cooperation to provide effective enablers for Malawi’s productive base to be built, it is important to ensure that the Commission has adequate access to the resources it needs to effectively meet its mandate.

PRIVATE OPERATOR ORGANISATIONS

Private Operators Organisations play an essential role in helping to provide favourable economic institutions. They are key in ensuring adequate representation of the interests of private operators in the Malawian economy, in ensuring pro-active and effective advocacy and in ensuring access to services that members may struggle to attain individually.

There are numerous private operators organisations in Malawi ranging from cross-section associations such as the National Association of Business Women, the Farmers Union of Malawi, the National Smallholder Farmer Association of Malawi, the Indigenous Business Association of Malawi, and the National Association of Small and Medium Enterprises, through to sector specific bodies such as the Grain Traders and Processors Association, the Bankers Association, the Tobacco Association of Malawi, the Road Transport Operators Association, the newly formed Soya Association of Malawi and others.

The Malawi Confederation of Chambers of Commerce and Industry is the apex body that represents the wide range of private operators associations. It is fundamental that this body has adequate representation of the various associations and also of non-members. This is difficult to achieve given the link to membership fees and singular interests. However, the success of the National Export Strategy depends on the extent to which private operators of all sizes and key sectors can be effectively represented such that policy and resources are directed toward effectively developing the productive base of the economy. This input is vital since it is private operators who are in touch with consumers and markets, not policy makers and public sector or development partner resource holders.