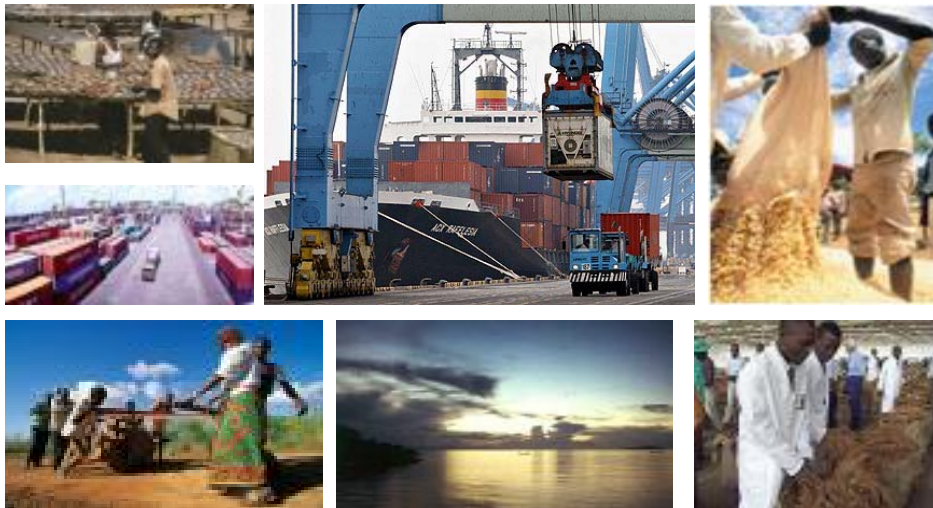


Government of Malawi



Ministry of Trade and Private Sector Development



The Case for a National Export Strategy: Key Issues and Possible Response

Final Draft for Presentation at the National Symposium
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Foreword

There is a clear need to develop a National Export Strategy for Malawi. Over recent years Malawi's trade performance has lagged behind expectations and behind the performance of many other developing countries in the region. Our country's trade remains highly dependent upon a limited range of primary commodities, in several of which we have experienced a decline in international competitiveness and market share. Malawian enterprises have struggled to overcome the many obstacles they face in bringing competitive products to overseas markets.

The Malawi Economic Growth Strategy aims at achieving high economic growth through the stimulation of trade and investment and the restoration of macroeconomic stability. Trade is a fundamental and powerful catalyst for economic growth. Although the exact correlation between trade and economic growth is not definitively understood, no country has developed successfully without increasing domestic and international trade and stimulating long-term capital inflows. For a small country such as Malawi, where the domestic market does not provide sufficient scope for many enterprises to gain critical mass, trade plays an even more important role in economic development.

The Ministry of Trade and Private Sector Development recognises the importance of exports as a driver of growth and is now working in partnership with our partners in Government, with the private sector and with civil society to develop a National Export Strategy for Malawi. The strategy seeks to highlight export issues as development issues. Exporting activities need to be put more clearly onto the political agenda as a key element in the Government's efforts to reduce poverty, generate employment and raise living standards for the people of Malawi.

The strategy must be comprehensive, and respond to all issues which affect the international competitiveness of the private sector as a whole. An effective National Export Strategy must also take special steps to improve performance in those product and service sectors with high export potential. The strategy needs to strike the right balance between this requirement to respond to the general needs (and demands) of the private sector and the specialised needs of sectors with high export potential. However, sustained improvement in export performance relies on the existence of a realistic national export strategy and the capability to manage it.

I invite all stakeholders to engage fully in this process of developing a National Export Strategy for Malawi, as I believe it has the potential to make exports the driver of economic growth and poverty reduction in our country.

Hon. Dr. Martin O. Kansichi
MINISTER FOR TRADE AND PRIVATE SECTOR DEVELOPMENT

Executive summary

Over the last ten years, Malawi's economic performance has consistently fallen below the level required to significantly reduce poverty. Similarly, export performance has been poor with Malawi rarely achieving a trade surplus on the current account. This paper aims at strategising Malawi's export performance as a crucial way for achieving sustainable economic growth and poverty reduction. Chapter 1 of this paper presents a vision for the National Export Strategy, aligned with the vision of the President to transform Malawi from a predominantly importing and consuming country to one that produces and exports.

Chapter 2 maps the current status and trends of export performance in Malawi. While the economy of Malawi is relatively open, the country consistently experiences shortages of foreign exchange, as earnings from exports do not cover import requirements. In addition, Malawi has experienced declining competitiveness and market share in a number of key product, service and commodity markets. The economy is highly dependent on a limited number of commodity exports, most of which have seen declining terms of trade and are exported to a narrow range of destinations.

Low investment due to macroeconomic instability, low savings rates and high interest rates cumulatively translate into annual manufacturing value addition of just USD 25 per capita. Similarly, productivity growth has been very poor due to an over-reliance on rain-fed agriculture while capacity utilisation is below 50 percent in some key export industries.

Malawi's export performance is constrained most significantly by the high transactions costs of trade, most significant of which are transport costs. On average, some 55 percent of the costs of production in Malawi are taken up by transportation costs. This is much higher than the average for either other LDCs or landlocked countries and is a major drain on national competitiveness. The high transactions costs of doing business weaken effective demand and in particular the high cost and poor quality of utilities (electricity, water and telecommunications) undermine incentives in the private sector to produce for export.

Similarly the institutions in Malawi's trade support network involved in enforcing the regulatory framework are weak and deliver poor service quality.

The business environment is damaged by high Government deficits contributing to high government borrowing requirements, high interest rates and the crowding out of credit to the private sector, perceptions of excessive taxation, and foreign exchange rate volatility. In addition, the interests of the banking sector are insufficiently aligned with the needs of the export community.

In terms of trade facilitation, exporters suffer from a number of bureaucratic difficulties including delays in the processing of export documentation; differing working hours between Malawi's border posts and foreign border posts; and sites for regulation, business registration and licensing are scattered thereby increasing the costs of starting a new business.

Malawi has struggled to attract a meaningful share of international FDI flows due to limited investment opportunities and opaque and discretionary incentives.

While the performance of Malawi's export sector has been poor by almost every means of measurement, Chapter 2 concludes by noting grounds for optimism, particularly how trade can (and does) provide the engine of development for poor countries to break out of the cycle of low incomes, low savings, low investment and low productivity.

Chapter 3 focuses on how Malawi can achieve the vision of producing and exporting by looking at the ideal situation if there were no resource constraints. Issues that constrain exports are grouped into four headings: supply side issues (border-in issues), business operating environment and the cost of doing business issues (border issues), market development and promotion issues (border-out issues), and pro-poor issues (development issues).

From the client perspective, export sectors are analysed and grouped according to current export performance or future export potential. Tobacco, sugar and tea are classified as Malawi's high performing sectors or champions by virtue of their significance in Malawi's current export revenues. However, all three sectors face serious challenges. Coffee and fisheries are classified as declining sectors, not in the sense that these industries have no future in Malawi, but that their contribution has fallen over recent years due to severe difficulties. Transport equipment and groundnuts are highlighted as submerged industries where Malawi previously had the capacity to export, but no longer does so.

The cotton, textiles and garments, tourism and agro-processing sectors are classified as potential exporters that have the capacity to play a much larger role in the future given the correct incentives and business operating environment. The mining, services (including transport, culture and labour exports etc.) and handicrafts sectors are noted as sectors that have under performed in terms of exports in recent years, but aspire to play a major role in the future, given the right conditions and investment. Rubber products, leather products and horticulture are also noted as sectors that are potentially attractive to Malawi in terms of export potential in the longer term.

The challenges faced by exporters in general in Malawi are seen to be in terms of improving value addition and retention in Malawian exports, improving trade information and commercial intelligence, improving the availability of trade finance, capacity building in the private sector in terms of business competency, quality assurance and conformity, and export packaging.

Capacity building in general is required in order to strengthen the services delivery network i.e. those institutions responsible for providing trade support services to exporters, and in the strategy support network (those institutions responsible for formulating and implementing the National Export Strategy).

Chapter 4 attempts to match the specific needs highlighted in Chapter 3, with available resources. Essentially this concerns the need to prioritise challenges and constraints to export development to ensure that limited resources are spent appropriately to ensure maximum impact and benefit.

The strategy aims to achieve on-the-ground results using two approaches: firstly a number of supply-side interventions will be targeted to improve the enabling environment for exporters in general across all sectors; and secondly a number of potential and aspiring export sectors will be chosen for specific support measures.

Based on the analyses conducted in Chapter 3 and in Annex 4, the following sectors have been identified as target sectors where modest interventions to provide support

using limited domestic resources are most likely to achieve results and where the potential for substantially increased output, exports and value addition is most clearest:

- **Cotton** (and the development of an integrated domestic cotton-textiles-garments value chain);
- **Tourism** (regional and long haul markets);
- **Agro-processing** (principally for the regional market);
- **Services** (including transport, culture and labour exports etc. for regional markets and beyond), and;
- **Handicrafts.**

The five selected sectors above have been provisionally chosen based on their realistic export potential taking into account the significant supply-side constraints that Malawi-based exporters face, the competency and skills base of the private sector in Malawi, and the technological leap required to raise output at international quality levels in these sectors.

Given the problem of high transport costs and the fact that Malawi's largest trade imbalances are with regional trading partners, the target sectors are predominantly those that have strong potential for south-south trade and can be realistically oriented to the regional market. This of course does not mean that exports to more distant markets such as the USA, Europe and Far East should be neglected.

Table 11 (page 38) shows a preliminary prioritisation of the long list of issues (border-in, border, border-out and development) classified by strategic consideration, required resource intensity (moderate or high) and the required time frame (short/medium term or long term) necessary to achieve results.

With only limited domestic resources available, it is important to choose interventions that add the most value given finite resources. Hence, *domestic resources* made available under the National Export Strategy are likely to be targeted predominantly at resolving the issues that require moderate resource intensity and are achievable in the short/medium term while *international resources* from aid donors will be sought to finance resources that predominantly require higher resource intensity and are achievable only in the longer term.

Chapter 5 briefly outlines the next steps in the National Export Strategy design process including the purpose of holding a National Symposium in September 2005 to officially launch the strategy writing process, the completion of priority sector strategies, and the main strategy document itself. It is envisaged that implementation of the strategy will commence in earnest in the first quarter of 2006.

The accompanying annexes contain background information relevant to the response paper and the strategy design process including selected economic and financial indicators (Annex 1) and a diagram of the trade support network in Malawi (Annex 2). Annex 3 contains information obtained during consultations with the private sector on the issues constraining exporters and the optimal response to these issues. Annex 4 is a brief assessment of Malawi's competitiveness in key export sectors vis-à-vis international competitors.

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INTRODUCTION

This response paper has been drafted by a team from both Malawi's public and private sectors, and represents the first technical milestone in the process of formulating a realistic national export development strategy for Malawi. It is expected that the National Export Strategy document itself will be completed and launched by the third quarter of 2005. Implementation of the Strategy will then follow for a five year period from 2005 until 2010.

The National Export Strategy design process represents a follow-up to the Malawi Poverty Reduction Strategy and the Economic Growth Strategy that is consistent with Malawi's medium-term export potential, market opportunities and the level of resources (financial, institutional and human) that are available within the public and private sectors to devote to export development.

The paper presents a *long-list* of medium and long-term priorities that should ideally be addressed in a national effort to develop Malawi's competitiveness and improve export performance.

The objective of the paper is to provide an analysis from which all stakeholders can express their views on specific priorities and, in this regard, the paper identifies, in a preliminary fashion, a *short-list* of priorities that the analysis to date suggests should be the focus of the new National Export Strategy.

The scope of the Malawi National Export Strategy will go beyond the traditional focus of export market development and focus on the four "gears" of export strategy: "border-out", "border-in", "border" and "development". Hence while the strategy will address improved market development and promotional services to the export community (border-out services), it will also aim to address issues of capacity and competency development (border-in issues) and will aim to minimise the international transactions costs of exporting (border issues). A strategy driven by these three gears together is much more likely to improve the longer-term competitiveness of the Malawi economy. Linking these three issues together, is the fourth gear (development issues) that aims to make exporting a driver of socio-economic development and poverty reduction.

While the full National Export Strategy will specify a detailed plan of action for implementation under resources available within the country for export development, a complementary objective is to identify priorities for which the Government of Malawi will seek supplementary resources from the international donor community. Immediate action is certainly required within the context of a working partnership between public and private sectors if Malawi's export performance is to be turned around.

The purpose of this response paper is not only to provide focus for a concerted effort to improve the country's competitiveness, but to establish the basis for this partnership.

Finally, it should be noted that this response paper should be seen as a consultation document. The tentatively suggested priorities for the focus of the National Export Strategy will be reviewed and subject to comment and contribution at a *National Stakeholders Symposium* to be held in September 2005, following which detailed strategies will be developed for each of the priorities agreed at the Symposium.

1) THE VISION

Over the last ten years, Malawi's economic performance has consistently fallen below the level required to significantly reduce poverty. Similarly, export performance has been poor with Malawi rarely achieving a trade surplus on the current account.

In his inauguration speech in 2004, His Excellency, the State President outlined his "vision" for Malawi:

"It is my vision to see that our country transforms from being a predominantly importing and consuming country to being a predominantly producing and exporting country..."

Efforts to develop a National Export Strategy for Malawi should be seen in the context of both this statement and the general thrust of the Malawi Economic Growth Strategy.

The draft vision for the Malawi National Export Strategy is as follows:

"By 2010, Malawi will have vibrant public and private sectors, working in partnership to promote broad-based, dynamic, competitive exports with growing value addition that will encourage both domestic and foreign direct investment to enhance socio-economic development and poverty reduction."

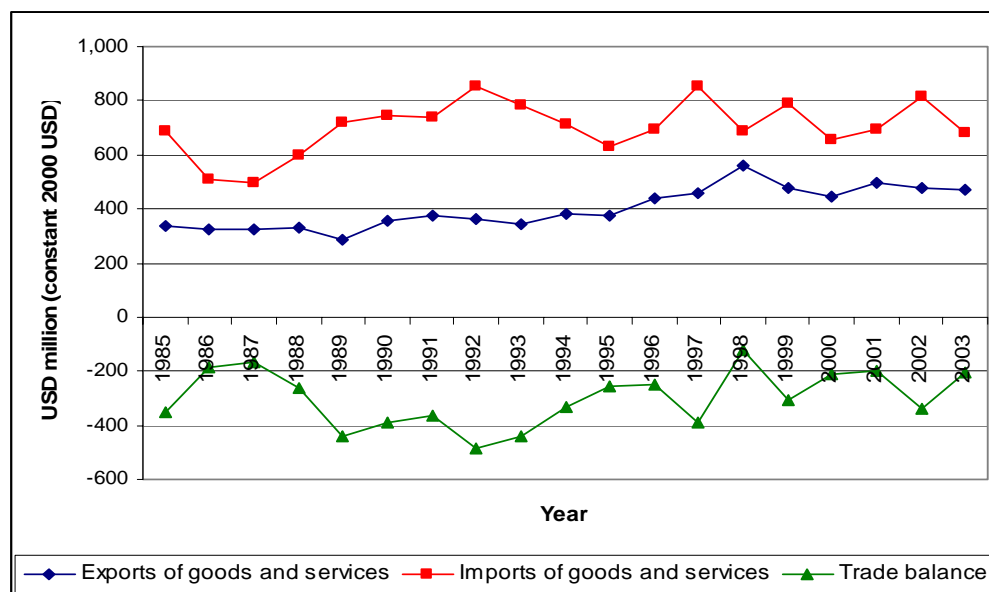
However, Malawi's export performance is hindered by a large number of obstacles. While some of these obstacles can be addressed through concerted action in the short to medium term, others require effort over the longer term and on a larger scale. Hence this 2006-2010 strategy should be seen as an initial, coordinated effort to deal with long term concerns (which can only get worse if concerted remedial action is not taken), while taking care of "manageable" issues and opportunities in the medium term. Issues that are more structural in nature and those that require very large resources (e.g. transport costs, new export industries) will be addressed in the longer term (2010-2020).

2) CURRENT STATUS AND TRENDS OF EXPORT PERFORMANCE

2.1. Export mix – diversity and performance

Over recent years, Malawi has consistently run a large and unsustainable deficit on the current account (see chart below) in the order of USD 200-500 million per year. This dollar deficit has essentially been financed by balance of payments support from international donors.

Figure 1: Malawi's overall trade performance (1985-2003)



Source: World Development Indicators 2004

Malawi's exports are heavily dependent on a narrow range of primary commodities with tobacco accounting for nearly 70 percent of export earnings (see Table 1 below). This leaves Malawi highly vulnerable to demand shocks in the tobacco sector. Demand for tobacco has been declining in traditional markets due to anti-smoking lobbies in Europe and the US. However this is more than offset by growth in demand in Asian developing countries.

Table 1: Structure of Malawi's export trade, 1990 and 2000

Product	1990		2000	
	Value (USD million)	% Share	Value (USD million)	% Share
Tobacco	208.7	66	278.3	69
Tea	38.3	12	35.5	9
Clothing	5.3	2	26.3	6
Sugar	25.7	8	22.5	6
Coffee	11.0	3	6.5	2
Textiles	5.9	2	3.8	1
Cotton	4.4	1	3.7	1
Nuts	2.6	1	2.5	1
Other ¹	17.1	5	29.1	7
Total	314.8		404.6	

Source: UN COMTRADE / DTIS 2004

¹ Including tourism and other services exports.

In recent years, Malawi has seen modest growth in non-traditional exports of textiles and garments, although the overall position is still not diversified. However, with the phasing out of import quotas applied to producers such as China and India under the WTO Agreement on Textiles and Clothing (ATC) on 1 January 2005, uncertainty surrounds the prospects of Malawi's garments exports to the US under the provisions of the African Growth and Opportunity Act (AGOA). Tea and sugar are the other major commodities that account for sizeable shares of Malawi's exports, however these two commodities are also facing challenges in developed country export markets. (See Annex 1 for additional selected economic and financial indicators.)

2.2. Value addition

The formal manufacturing sector in Malawi consists of seven main sub-sectors (see Table 2 below). The food and agro-processing sector (which includes sugar and processed tobacco exports) is responsible for more than 30 percent of manufacturing output while value addition is estimated in the range of 30-35 percent. Most of Malawi's manufacturing industries are using relatively simple technology and rely on imports for their intermediate inputs. In terms of value addition in other products, the picture is somewhat mixed.

Table 2: Value addition in manufacturing by sector (percent)

Sector	1994	1996	1998	2000
Agro-processing (includes Food)	35	35	30	33
Textiles, clothing, leather	7	5	7	5
Wood products, publishing	14	16	19	15
Chemicals, plastics, rubber	24	23	23	19
Non-metallic mineral products	4	3	3	4
Metal products, machinery	14	15	15	20
Other manufactures	3	3	3	4
Total (MK in 1994 prices)	1323.7	1389.3	1423.1	1405.6

Source: CSO (from World Bank 2004)

In 2000, manufacturing value added per capita in Malawi was USD 25, which compares with USD 591 per capita in South Africa, USD 130 in Zimbabwe, and USD 34 in Kenya (UNIDO 2004).

2.3. Productivity

In terms of agricultural produce, over-reliance on rain-fed agriculture has resulted in fluctuations in production and a very short growing season. Because of the high risks in agricultural production, poor access to and the high cost of credit, investment and re-investment has been poor, with traditional methods of production still prevalent and productivity stagnant.

Productivity growth in general in the economy has been very low due to a prolonged lack of investment resulting from macroeconomic instability and a difficult business environment. National savings rates in Malawi are just 9.5 percent of GDP, considerably less than Zambia (39.4 percent), Mozambique (35.9 percent), and South Africa (15.7 percent), (World Economic Forum 2004).

Lack of investment has particularly characterised the cotton growing, ginning, textiles and clothing industrial value chains and most manufacturing industries. Technology is virtually obsolete, the cost of production is high and firms are unable to compete against imports in a liberalised domestic market.

2.4. Capacity utilisation

The low and declining level of manufacturing activity is reflected in low capacity utilisation across almost all sub-sectors in Malawi (Table 3 below). Major sub-sectors such as food processing, beverages, and textiles are operating below 50 percent capacity.

Table 3: Capacity utilisation in manufacturing sector (percent)

Sub-sector	1997	1998	1999	2000
Food processing	65	54.6	47.5	50
Beverages	60	55	60	43
Textiles	53.5	50.5	46	46
Wood products	63.3	68.3	67.5	85
Paper and packaging	60	65	62.5	61.5
Chemicals	90.9	74.2	78.9	74.3
Metal fabrication	12.7	23.1	21.5	30
Mineral products	42	55	62	63

Source: APRU Baseline Surveys (from World Bank 2004)

The most likely cause of these low capacity utilisation figures is the continued effect that the high transactions costs of doing business in Malawi have in terms of weakening effective demand. While supply capacity exists; the high transportation costs (for both exporting finished goods and importing raw and intermediate goods), high interest rates (high cost of working capital) and the high cost and unreliability of utilities all reduce the incentives for production.

2.5. Internal and external infrastructure

Recent research from the Ministry of Transport and Public Works (MoTPW) has estimated that for Malawian exports, on average some 55 percent of the costs of production (CIF) are taken up by transportation costs (applied throughout the value chain)². The equivalent figure for the average LDC is 17 percent, and for the average OECD country just 8 percent. This indicates just how much transport costs affect Malawi's competitiveness.

The road transport infrastructure and network in Malawi has improved significantly over recent years. However there still remain a number of bottlenecks. For instance, inadequate resources for maintenance means that new and rehabilitated roads deteriorate rapidly (limited enforcement of maximum vehicle loads at weighbridges also contributes to road deterioration). Domestic road transport costs remain high, partially due to the high cost of capital and poor road maintenance (that contributes to higher than average wear and tear on vehicles). Weak of competition in the road haulage sector, and major coordination problems during the peak tobacco selling season also add to costs. The poor quality of rural feeder roads means that the economies of many rural areas are only weakly integrated with the national economy.

The table below demonstrates that since 2000, Malawi has depended disproportionately on relatively high-cost road transport for internal trade. Traffic has been diverted away from lower-cost rail transport due to the dramatic fall in the quality of the rail infrastructure.

² Data from Strategic Planning Presentation, Ministry of Transport and Public Works, January 2005.

Table 4: Domestic freight traffic by transport mode (000 tons)

Mode	1998	1999	2000	2001	2002
Rail	167.0	196.8	249.7	172.5	183.5
Road	96.0	177.0	201.0	229.1	279.1
Lake	14.0	11.0	10.0	5.0	8.5
Air	2.0	2.0	1.0	0.7	0.6
Total	279.0	386.8	461.7	407.3	471.7
% change	-	38.6	19.4	-11.8	15.8

Source: CEAR Ltd and Economic Report 2003

Malawi suffers from two main problems concerning the supply of containers; firstly Malawi's exports are highly seasonal and a large proportion of (agricultural) exports are shipped in a comparatively short growing season. Hence the demand for containers to export produce from Malawi is not uniform. Secondly given that Malawi runs a major trade deficit, outside of the peak agricultural exporting season there is a large oversupply of containers. This means that shippers are reluctant to release containers for shipment to Malawi given that turnaround times can be 3-4 months and this imposes a significant additional cost on shipping lines. Since Malawi's exports have to be transhipped through transit countries and via multiple modes of transport, exporters are reluctant to export other than in containers as the risk of pilferage and damage is much higher using other means.

The major issue is that Malawi does not have a significant "known demand" for export trade, hence shipping lines are reluctant both to release containers to Malawi and to establish direct services (and therefore reduce costs) to Nacala. Until Malawi can create export traffic this situation is unlikely to change.

External infrastructure remains a considerable barrier to trade for Malawi. While Nacala is undoubtedly the least-cost route (especially by rail), firms in most of the major trade sectors still use the other higher cost routes as these tend to be more reliable.

As Nacala represents the least cost route for Malawi's foreign trade, clearly it is beneficial to the country to use this route as much as possible. As seen in Table 5, the previous heavy reliance on Durban (48 percent) has decreased to 17 percent, the use of Beira has doubled while 19 percent of foreign trade now passes through Nacala.

Table 5: Comparative routing of Malawi's foreign trade (percentage shares)

Route	1989	2003
Dar es Salaam	11	5
Beira	10	20
Durban	48	17
South Africa (origin/dest.)	28	37
Other Africa	3	2
Nacala	0	19
Total	100	100

Source: WB / MoTPW Transport Costs Study 2004

Estimates from the WB/MoTPW Transport Costs Study showed that for 2003, Malawi's cost for moving imports and exports was estimated at approximately USD 190.8 million per year. As a comparison, if the 1989 routings were used today for imports and exports, the annual transport costs would be USD 211.2 million, some USD 20.4 million higher than the total transport cost calculated for 2003. Further

gains could be achieved if more trade was shifted to the Nacala route. However, major constraints remain in terms of the quality of the rail line in Mozambique and severe capacity limitations at the port of Nacala. The use of rail transport to seaports has a considerable cost advantage over road transport, but requires large scale investment. The completion of the Beira rail link would significantly reduce costs on this route.

In terms of air transportation, Malawi is now the only country in SADC without direct air links to Europe after the withdrawal of all intercontinental flights in recent years. Prior to withdrawal of services, airlines generally cited the very high costs of landing fees, taxes, aviation fuel charges, levies and oncosts. The lack of direct flights to Europe seriously undermines the potential for both tourism and the exportation of high value fresh agricultural produce and horticulture.

2.6. Legal framework

Some progress has been made towards instituting a legal framework conducive to the needs of business. Steps taken include the establishment of an Industrial Relations Court, the enactment of a Competition Law and Policy and Consumer Protection Law. Efforts are at an advanced stage to put in place an Anti-Counterfeit Law and legislation against money laundering. However, speeding up the review of Tax Law and Reserve Bank Act to respond to and be in line with the current dynamics of the economy would contribute positively to improving investment incentives. Efforts are also underway to develop a Trade Remedies Law to protect the domestic private sector from import surges and anti-competitive practices by foreign firms.

However, the institutions involved in enforcing and facilitating the regulatory framework do need strengthening.

2.7. Business environment and competitiveness

Malawi's macroeconomic environment has recently become more stable than in the past in terms of tighter inflation control and the maintenance of a competitive real exchange rate. However, budget deficits have been consistently high contributing to high commercial interest rates (the Reserve Bank of Malawi's base rate is currently 25 percent), crowding out the private sector and making many investment projects unviable, thereby limiting competitiveness.

Unduly high interest rates force private firms into carrying excessive working capital as the costs of running short and being forced to borrow to cover operational expenses are very high. High interest rates also have the effect of encouraging firms to undervalue future revenue streams. Firms may be discouraged from exporting where the time between cost outlays and revenue inflows is long and hence a large amount of (costly) working capital is required. Similarly, those firms that do seek credit from banks are likely to only borrow to finance short-term investment opportunities.

Finally, high interest rates act as a de-facto barrier to entry into the market for new firms and entrepreneurs who do not already have access to capital. This results in lack of competition and acts as a considerable brake on economic and social mobility, not least for indigenous Malawian entrepreneurs.

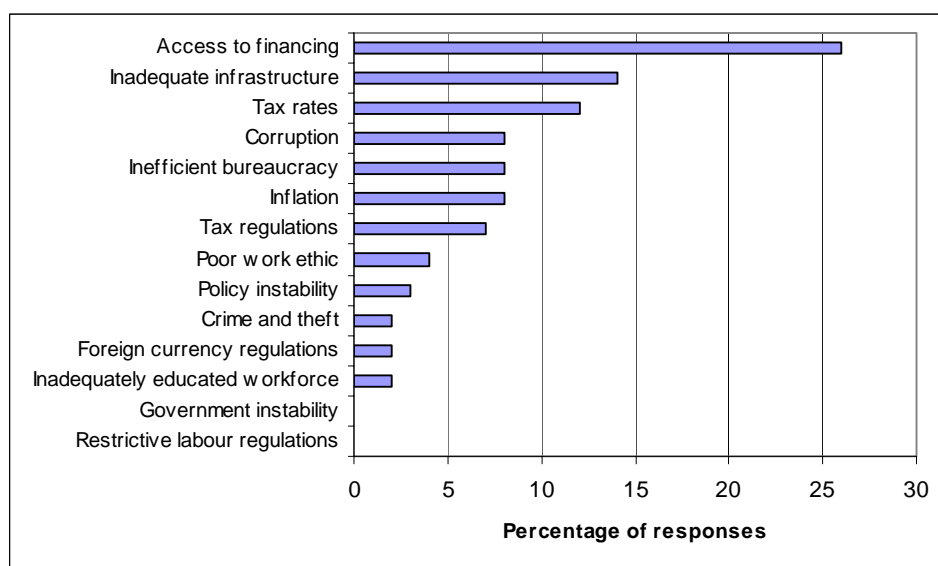
The banking sector in Malawi operates like a quasi-oligopoly, which means that there is limited competition in this sector. Furthermore the sector has limited orientation to

small and medium sized enterprises (SMEs); bank staff receive little training to help them assess SME-lending risks and specialist loans for export-oriented SMEs are extremely difficult to source. Since interest rates have been high for a prolonged period of time, there is little incentive for banks to make risky commercial lending decisions, when returns of above 40 percent can be made from holding Treasury Bills. Fortunately, as the government reduces the size of the deficit, interest rates have begun to fall somewhat. In time, banks seeking to maintain current rates of return will need to increase the share of their loan portfolios directed towards private sector lending operations.

There is currently no sector specific strategies to attract FDI and very little if at all resources are spent on product development. Although there are few import controls and tariff/non-tariff barriers to trade, Malawi's trade and industrial regime is not export-oriented. The foreign investment strategy remains underdeveloped and investment promotion representatives in foreign embassies have only very limited capacity and effectiveness. Also, the investment incentives existing have no objective criteria and are provided at the discretion of the responsible Ministries/Minister hence subject to abuse.

Malawi's competitiveness domestically, regionally and internationally varies by sector. The sector with some competitive edge is tobacco - especially burley tobacco. As regards other sectors such as cotton, sugar, tea, tourism, textiles and garments and non-traditional agriculture (including agro-processing), Malawi faces stiff competition both regionally and internationally.

Figure 2: Principle factors affecting the business-enabling environment in Malawi



Source: World Economic Forum, Executive Opinion Survey 2004

Figure 2 shows the most problematic factors affecting the enabling environment for business in Malawi according to a survey of the private sector in 2004. Access to financing was by far the most significant constraint, followed by “inadequate infrastructure”, and “tax rates”.

The World Economic Forum's global competitiveness index ranks Malawi against 104 other countries on a large number of exporting issues. This benchmarking analysis suggests that that priority needs to be given to improvements in macro-

economic stability, followed by basic human capital infrastructure (as basic requirements) and advanced human capital infrastructure (as an efficiency advancer).

2.8. Market access

Malawi is signatory to a number of regional and international agreements through which trade takes place (see Table 6 below). The SADC Region presents a large and conveniently close market for Malawi's products. However, the bulk of Malawi's exports go to developed economies where Malawi enjoys moderate trade surpluses while imports are sourced from the region (see Table 7 above).

Malawi stands to gain increased access to markets once it reduces transaction costs, improves on product quality and standards and increase supply chain efficiency.

Table 6: Summary of Malawi's bilateral, regional and multilateral trade agreements

Agreement	Type	Reciprocity	Degree of liberalisation	Phase-out schedule
Malawi – South Africa	Bilateral	Non reciprocal (Malawi has duty-free access, SA - MFN treatment)	FTA	In force since 1990, until 2008 (when SADC tariff = 0)
Malawi - Zimbabwe	Bilateral	Reciprocal	FTA	In force since 1995
Malawi - Botswana	Bilateral		FTA	Since 1968
COMESA	Regional	Reciprocal	FTA to CU	FTA (start: 2000), CU (start: 2005/6)
SADC	Regional	Reciprocal	FTA	Phase I: 2000-2004, Phase II: 2004-2008
WTO	Multilateral	Non-reciprocal	ITA	Member since 1995
EU-ACP Cotonou Agreement	Multilateral	Non-reciprocal (shifting towards reciprocal)	PTA to FTA	Signed 2000, EPA negotiations until 2008, implementation by 2018
AGOA	Multilateral	Non-reciprocal	PTA	Recently extended to 2015
EBA	Multilateral	Non-reciprocal	PTA	Proposed 1997, extended 2000, effective from 2001, or 2008 for rice, sugar and bananas

Disappointingly, even though South Africa is a massive net food importer (approximately USD 8 billion per year, the majority coming from the SADC region), Malawi has struggled to penetrate that market, even with the benefit of a non-reciprocal trade agreement. Yet again, this suggests that the binding constraint to Malawi's export development is on the supply side in terms of Malawi's capacity to take advantage of market access.

2.9. Market diversification

In recent years, efforts to diversify Malawi's exports from the current limited number of products and product destinations have met with only limited success. Hence the

Malawian economy remains inherently vulnerable to external shocks. Malawi is one of only five countries (all LDCs) that rely on just one commodity for more than 50 percent of foreign exchange. As can be seen in Table 7, Malawi's exports are overwhelmingly to developed countries, while imports are sourced mostly from developing countries in the region.

Table 7: Malawi's main export destinations and import sources (percentage shares in 2002)

	Exports	Imports
Developed countries	61.1	23.7
<i>European Union</i>	34.4	12.5
<i>Japan</i>	6.4	2.8
<i>North America</i>	17.7	6.3
<i>Others</i>	2.6	2.2
Eastern Europe	12.6	0.1
Developing countries	19.6	76.2
Other countries	6.7	0.0

Source: UNCTAD 2004

A lot of the blame for Malawi's inability to further penetrate the lucrative export markets of the European Union and United States is placed on the barriers to entry for developing country exports raised by these major markets. However, the reality is that for Malawi, although access to the US market under AGOA and the EU market under the Everything But Arms (EBA) agreements is almost universal, sanitary and phyto-sanitary (SPS) requirements and Rules of Origin requirements still impede access. Analysis of Malawi's trading position shows that Malawi does actually enjoy moderate trade surpluses with the EU, Japan and the US. Malawi's massive trade deficits are with its regional neighbours, principally South Africa, Mozambique and Zimbabwe. This implies that the major binding constraints to export expansion are on the supply side. Imports from these countries tend to comprise of inputs into traditional industries and others such as agricultural commodities for which Malawi has weak domestic capacity. Malawi's industrial sector has been in-ward looking and consumer goods oriented to the extent that there has been poor domestic inter-industry integration and some two-thirds import dependence for input value.

2.10. Trade facilitation

Most exporters experience delays in processing documentation at the borders when exporting as there is a lack of transparency and frequent delays in the customs process. Also, different working hours between Malawi's border posts and foreign border posts affect trade negatively. The Malawi Revenue Authority (MRA) has so far taken steps to speed up processing of documentation at the border. These include establishment of an ASYCUDA (Automated System for Customs Data) system and on-going negotiations with Zambia and Mozambique, Tanzania and Zimbabwe to streamline border processes.

Sites for regulation, business registration and licensing are scattered thereby increasing the costs for starting new businesses. More investment is needed in trade facilitation infrastructure such as warehouses, business incubators, quality control and management facilities.

2.11. Domestic investment and FDI

In recent years following the trend for Poverty Reduction Strategy Papers (PRSPs), both the Malawi Government and international cooperating partners have tended to

shift the focus of interventions away from agriculture (productive) towards health and education (non-productive). Consequently, agriculture, industry and trade related infrastructure, which tend to have an effect on poverty through more indirect but sustainable means have suffered. Sustained poverty reduction requires the efficient development and utilisation of production capacities in a way in which the working-age population becomes more and more fully and productively employed.

Table 8: Total financial flows (ODA and FDI), USD million

	1985	1990	1999	2000	2001	2002
ODA	113	503	447	446	404	377
FDI	5	15	-10	-15	53	12
Total	118	518	437	431	457	389

Source: UNCTAD 2004

The table above demonstrates that Official Development Assistance (ODA) inflows have consistently dwarfed Foreign Direct Investment (FDI) inflows into Malawi. Malawi struggles to attract a fair share of the already low foreign investment into the African continent. Foreign investors have largely shunned Malawi for many obvious reasons including macroeconomic instability, weak governance, corruption, lack of rule of law, fiscal mismanagement and generally poor investment opportunities.

In addition, the availability of investment incentives are often unclear to the private sector and the procedures for benefiting from incentives are opaque, cumbersome and inflexible.

2.12. Competency and capacity of the business sector

Most of the private sector lacks the capacity to meet the quality requirements of international markets. This is partly an issue of seed capital, the lack of capital financing and liquidity problems of businesses as they wait for payment from importing companies abroad. It is also the case that following liberalisation of the economy, business leaders have been slow to adjust to the new realities of globalisation and international competition. This could be either because of the speed of liberalisation or because of inherent rigidities as a result of operating in a closed economy for a long period of time. Similarly, supporting business services institutions have lagged behind.

Quality standards are still seen by many in the private sector as a Government imposition and not beneficial to firms (merely a requirement under Malawi law). This is a major problem and the culture within the private sector needs to adapt to focus more on quality. Furthermore, there is little effort by firms to *sustain* quality practices other than for the purpose of meeting minimum requirements. The link between high quality and export potential is still not clear to many firms.

There is a general lack of awareness of standards and quality in the education system (although engineering is an exception). Standards have to be seen as a universal minimum, rather than merely optional targets.

2.13. Competency and capacity of the trade support network

Organisations involved in trade and competitiveness support have improved in coordination although numerous challenges still remain largely due to capacity constraints. In the provision of services such as utilities, logistics (clearing and forwarding and road transportation), trade promotion, the level of effectiveness is quite poor. However, some progress has been made in brand promotion in tourism,

industrial relations and training, customs facilitation and revenue collection, quality and standards, skills and entrepreneurship development, research and information development by both private and public sector organisations.

Most of the constraints faced by the relevant institutions relate to financial constraints (poor budget provisions and reliance on donors), poor or lack of institutional facilities (transport, communication services), inadequate and lack of specialised personnel. There are also few institutions that have low capacity utilisation of resources. However, as coordination of efforts improves, most of the constraints will be overcome.

With much of the trade support network, a key problem is that few trade support institutions are able to achieve any kind of cost recovery on service provision to the private sector. Hence, institutions rely heavily on government and donor financing which is often inadequate. This therefore leads to low quality of service provision, making the private sector even less inclined to contribute towards the costs of trade support services, especially given the existing burden of taxation and reluctance by the private sector to be “taxed twice”.

Numerous obstacles remain in terms of improving the capacity and capability of Malawi’s trade support institutions, not least in the public sector funded institutions. It has become clear that government lacks the funds to provide the type of investment and export promotion services considered necessary by the private sector, and is unable to prioritise effectively. Hence, it may now be time to consider alternative funding mechanisms.

2.14. The export sector’s contribution to employment generation

Despite the high ratio of Malawi’s trade to GDP (“openness”), the country’s exports were not a major contributor to economic growth in the 1990s. This reflects dependence on low value-added commodity exports and the weak linkages to the rest of the economy for some of the main products exported. Malawi’s average GDP growth rate during the 1990s was higher than those of many Least Developed Countries, yet, its export growth rate was noticeably lower.

The formal manufacturing export sector remains tiny and is restricted to a few enclaves. A recent modest success story has been the growth in the garments exports (supporting some 8,000 jobs) to the US under the African Growth and Opportunity Act (AGOA). However, other countries such as Lesotho and Kenya have dwarfed Malawi’s performance under AGOA. Now with the expiration of the Agreement on Textiles and Clothing (ATC) on 1 January 2005, there are major question marks over the viability of Malawi’s garments exports to the US, given that more competitive producers such as China and India and are now unrestrained by quotas.

According to the World Travel and Tourism Council (WTTC), tourism is expected to generate 7.1 percent of new jobs annually in Malawi. It is the ability of tourism to create both direct and indirect employment, which makes it one of the key service sectors with a high job creation element.

2.15. The export sector’s contribution to poverty reduction

Malawi is one of the ten poorest countries in the world, with socio-economic indicators that compare badly, even with Sub-Saharan Africa (see Table 9 below).

Table 9: Selected social and demographic indicators in Malawi and other countries

	Malawi	Sub-Saharan Africa
Population below the poverty line	65	-
Per capita income (USD)	167	470
Illiteracy rate (percent of people aged 15 and above)	40	39
Life expectancy at birth (years)	39	47
Infant mortality (per 1,000 live births)	1,120	1,100
HIV/AIDS prevalence rate (percent, ages 15-49)	15	8.4

Source: DTIS 2004

It is no surprise that as Malawi's trade and wider economic performance has faltered, so have efforts to reduce poverty on a meaningful scale.

Of the major export-oriented industries, only for tobacco would there be an expectation of strong linkages between export performance and a wide set of income, employment and poverty multipliers within Malawi. (Recent expansion of out-grower schemes in the sugar industry are, however, also having a strong poverty impact). The liberalisation of Malawi's tobacco subsector in the early to mid 1990s resulted in a massive redistribution of income from a small number of estates to a large number of smallholder farmers. This redistribution of income, together with the continued profitability of the crop at that time, undoubtedly contributed to the relatively high rates of GDP growth recorded during the 1995-97 period. However, since then tobacco prices have declined substantially, thus eroding the profitability of the crop. The returns to smallholder burley tobacco growers are now less than 10 percent (see Table 10 below). There is little prospect for these returns to increase in the near future.

Table 10: Net returns for (NASFAM) smallholder burley growers

	1997	1998	1999	2000	2001
Average sales price (\$/kg)	1.56	1.30	1.42	1.05	1.10
Net returns / kg (\$)	0.36	0.37	0.34	0.17	0.09
Net returns per farmer (\$; output=300kg)	108	111	102	51	26
Net returns per hectare	540	555	510	255	130
Net returns as % of average price	23	28	24	16	8

Source: DTIS 2004

Tourism in Malawi plays a key role in rural development, job creation, empowerment of rural communities in resource conservation and sustainable utilisation. Overall, local communities have benefited from projects and programmes that have emanated from tourism in form of community upliftment programmes.

Even when Malawi has managed to achieve solid export performance (such as during the period 1990-95), the effect on poverty has been virtually insignificant. While it is true that a country with declining exports will almost certainly have a rising incidence of poverty, increasing exports do not necessarily lead to poverty reduction. The trade-poverty relationship in Malawi is a weak one as the level of value-added in the value chain for Malawi's exports is so low and smallholder producers are not integrated into export value chains. The majority of Malawi's exports are unbranded bulk commodities sold at low and declining world prices. While other countries have managed to earn above world prices in commodities through brand building and by aiming at premium markets (e.g. Rwanda's coffee, Kenya's tea), Malawi has not

been able to do this to a meaningful extent. In several commodity markets, Malawi has become trapped in a spiral of declining quality of export crops over recent years as farmers cut corners and reduce inputs in order to boost returns. However, this has led to further declines in prices, even lower returns, and a damaged reputation for Malawian agriculture.

In manufactured products (such as garments) the level of local value-added is very low (probably less than 10 percent) as almost all the inputs are imported. Domestic value addition is limited to low cost labour assembly and this is required to remain low if Malawi is going to stay cost-competitive.

2.16. The export sector's contribution to backward areas/regions

The structure of Malawi's primary export sectors limits the effects of exports on the rest of the economy. The bulk of Malawi's tea and coffee is produced by a limited number of large-scale estates, with few forward and backward linkages. The same applies to sugar as some 90 percent of production takes place on Illovo's estates (although recently the out-grower schemes have expanded significantly, thus increasing the linkages between the sugar industry and the local economy). The sugar and tea industries do employ large numbers of people; yet, their level of employment has remained broadly constant over the past decade.

As stated above, of the major export-oriented industries, only for tobacco would export performance be linked to regional economic development. Although, tourism development has the potential to provide more economic opportunities in rural areas.

2.17. The export sector's contribution to the environment

With such an undeveloped economy, the reality is that Malawi lacks the commercial capacity to create industrial air pollution to any significant extent. All of Malawi's energy is generated by hydro-power which has only a minimal environmental impact. Pollution of water courses has become a problem in recent years, with many rivers that were previously potable, now unsafe for drinking. However, it is unclear whether the cause of this pollution is related to the export sector, or as a result of domestic industrial production or human effluent.

Tourism as export sector plays a key role in environmental conservation and preservation. The country's tourism strategy, which focuses on ecotourism, places emphasis on development of tourism that preserves the natural and cultural resource base. Protected areas have embarked on community based natural resource management where local communities sustainably harvest natural resource as one way of making the local communities identify with the local resources.

The most pressing environmental concern is that of soil degradation through over-farming and lack of crop rotation. In addition, overdependence on rain-fed agriculture remains a critical issue; a three week dry spell during the 2004 growing season has seriously reduced the quantity and quality of this year's crop, with severe implications for food security. As a result, much needed foreign exchange will have to be diverted from productive investments to finance maize imports to avert hunger.

2.18. The export sector's contribution to women's involvement in the economy

Women tend to be underrepresented in all sectors of the economy in Malawi, with perhaps the exception of the informal sector. Many non-traditional export industries,

such as light manufacturing, which act as a source of waged labour for women in other developing countries, are underdeveloped in Malawi. The export sector has not provided a significant improvement in the number of opportunities for women to gain waged employment outside the home. Where non-traditional manufacturing industries have experienced modest expansion, the majority of workers have been men.

2.19. Past and current export strategy – impact and lessons learned

The Malawi Poverty Reduction strategy Paper and the Malawi Economic Growth Strategy both outline the supply side constraints and acknowledge that progress cannot be made until these issues are addressed. However, there still remains a considerable gap between acknowledgement of the constraints, and the commitment of adequate resources to address those constraints. As with so many of Malawi's policies, actual implementation is the major cause of policy failure.

For a number of reasons, pessimism has come to constitute one of the greatest obstacles to trade playing a key role in economic growth and poverty reduction in Malawi. However, international economic relations can play a strong role in helping Malawi break out of the vicious circle that causes generalised poverty to persist. The following key points suggest grounds for optimism:

- Access to foreign savings (through FDI) can play a catalytic role in helping poor countries to break out of the cycle of low incomes, low savings, low investment and low productivity;
- Exporting to international markets enables land and labour resources, hitherto underutilised owing to the weak effective demand associated with mass poverty, to be productively mobilised;
- Increased access to available modern technologies enables latecomers to achieve significant productivity increases without continually having to reinvent;
- Increased FDI can increase investment and provide technology and managerial skills; and,
- Increased international migration enables poor people in poor countries to find employment abroad even if opportunities are limited in their own country. International remittances are becoming one of the principle sources of foreign exchange for many LDCs. These remittances now account for approximately 70 percent of world FDI flows and are significantly larger than international ODA flows. Remittances also have a strong impact on poverty as they tend to go direct to poor households in developing countries.

3) ACHIEVING THE VISION - THE IDEAL SITUATION IF THERE WERE NO RESOURCE CONSTRAINTS

3.1. Conceptual framework

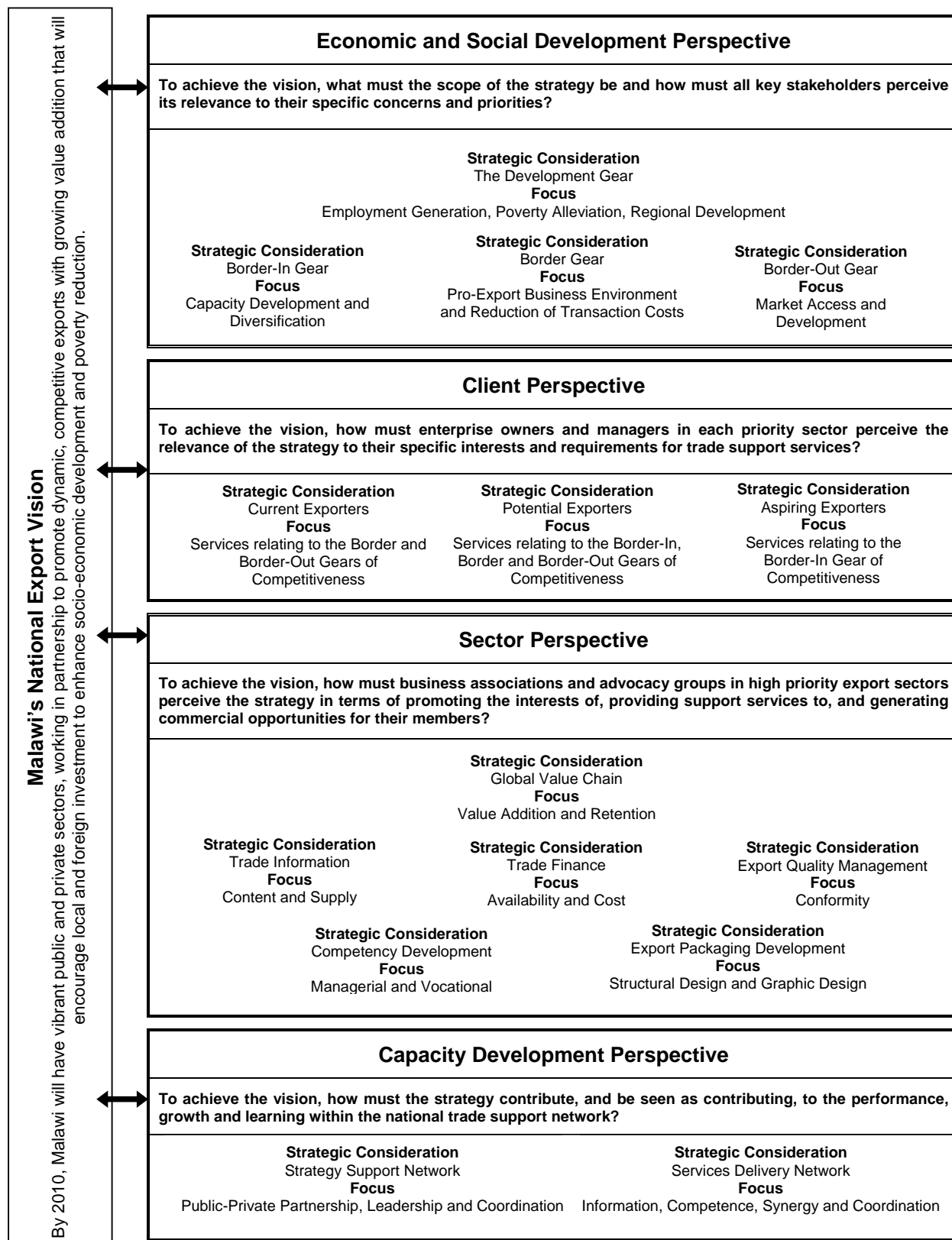
For the national export vision to have any chance of being realised, it is essential that all stakeholders identify directly with it and that they assume a proprietary role in ensuring that the vision be achieved. Government, the private sector, civil society and the public in general, must all feel that the vision's overall *Economic and Social Perspective* relates directly to their individual (and varied) concerns and to the issues that they consider require priority attention.

Sector-level business associations and advocacy groups, and prospective investors (foreign and domestic), in each key export sector must feel that the vision's *Sector Perspective* addresses their particular requirements. Similarly, all categories of exporter – current, potential or aspiring – within in each target sector must feel that the strategy's *Client Perspective* takes into account their specific interests and needs.

Finally, the organisations that will be responsible, either directly or indirectly, for facilitating implementation of the strategy (i.e. the strategy support network), and those agencies – public and private – responsible for delivering export support services to the business community, must feel that the vision's *Capacity Development Perspective* attends to their respective needs for coordination, performance, learning and growth.

The conceptual framework for ensuring that all stakeholders support the national export vision, and the recommended strategy to realise this vision, is illustrated in the following diagram (Figure 3).

Figure 3: The strategy design and management framework for the National Export Strategy

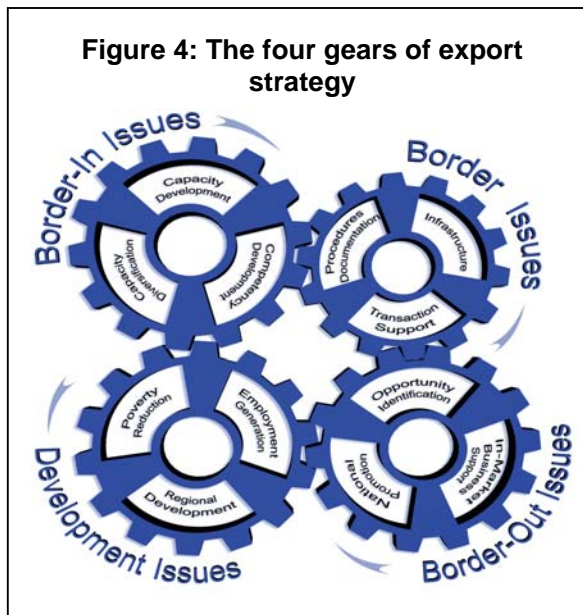


3.2. Economic and social development perspective

There are a number of constraints that impede the performance of Malawi's export sectors highlighted below. Some of the issues require large scale investment over many years, while others require a more modest response. A key element of the National Export Strategy design process will be conducting a detailed cost-benefit analysis to ensure that the interventions and policy steps that represent greatest "value-for-money" in terms of improving the climate for exports are given the highest priority. Section 4 gives a preliminary prioritisation of the issues.

The issues are classified according to the four "gears" of export development: border-in, border, border-out and development (see Figure 4).

Additional information on the optimal response for each of the issues is included in Annex 3.



While the strategy aims to have a "pro-poor" orientation and highlight exporting across society as a development issue as well as promoting an "export culture", it should also be recognised that Malawi suffers from a vicious circle of poor export performance, poor economic performance and poor poverty reduction results. If this vicious circle is to be broken, then action must include focus on competitiveness issues, as becoming competitive in a wide range of traditional and non-traditional export sectors, can have an appreciable impact on development.

3.2.1. Strategic consideration: **Border-in issues (developing the supply side)**

- High inflation and interest rates that act as a disincentive to saving and invest;
- Large current account deficit;
- The discouraging investment climate for both FDI and domestic investment (including tax and incentive structures);
- Insecure land tenure;
- Inadequate pro-industrial policies;
- Slow process for processing of incentives;
- Inefficiencies of statutory institutions;
- Access to affordable finance for inputs and working capital;
- High cost and unreliability of the electricity and water supply;
- Heavy reliance on imported intermediate goods;
- Narrow based economy;
- Lack of capacity to meet quality requirements of international markets (e.g. SPS, poor participation in international regulatory organisations);
- The lack of industrial clusters, effectiveness of EPZ scheme and the limited availability of well serviced factory shells;
- Limited extension services (not just agricultural extension);
- Skills development in production and marketing; and,

- The economic and social burden of HIV/AIDS.

3.2.2. Strategic consideration: Border issues (the business operating environment and the cost of doing business)

- Unreliable, seasonal, slow, costly transport;
- Lack of transparent systems at borders lengthening the time it takes to process exports;
- High cost and slow processing spend of pre-shipment inspections;
- Delays in transit countries;
- Numerous road blocks;
- High transit charges;
- Corruption / pilferage;
- Air transport limited for perishables. Services to and from Malawi (freight and passenger) are quite limited;
- Synchronization of customs working hours;
- Levies on trucks in transit countries;
- Slow turnaround and limited availability of sufficient containers;
- Slow documentation processing for exports;
- Bilateral trade agreements with Mozambique and Tanzania are still not complete; and,
- No export credit guarantee scheme, pre-shipment financing etc.

3.2.3. Strategic consideration: Border-out issues (market development and promotion)

- High infrastructure costs (transport);
- Lack of national branding / poor market development making products unknown;
- Lack of representation / participation at trade fairs and other promotional activities;
- Lack of an “export culture” / poor “mind set”;
- High costs of telecommunications;
- High cost of production making products uncompetitive; (border-in issue)
- Supply of containers is limited as they are set aside for priority sectors such as tobacco;
- Lack of resources and capacity among trade attaches in embassies abroad;
- MEPC-MIPA merger issues need resolving;
- Inadequate access to (and dissemination of) clear information on the international market (e.g. product portfolios) with regard to foreign consumer demand; and,
- Unrealised potential of the service sector because of lack of emphasis.

3.2.4. Strategic consideration: Development issues (a pro-poor focus)

- The empowerment of rural people to be more productive;
- Poor infrastructure in rural areas;
- The poor literacy level of the community;
- Lack of productive skills among the youth;
- Weak and often exploitative linkages between rural and urban economies;
- Empowerment of school leavers to be entrepreneurs (curriculum does not promote entrepreneurship);
- Lack of skills across the board - lack of development of technical skills;
- Need for Government commitment in terms of budget lines for MIPA, MEPC and MTPSD;
- Poor access to technology;
- High staff turn-over (in both public and private sectors);

- Poor commitment (contributions) to international bodies to which Malawi has membership; and,
- No systematic interaction between training institutions and private sector to meet the needs of private sector.

3.3. The client perspective

Section 3.3 summarises the issues facing Malawi's existing, potential and aspiring export sectors. For a more detailed competitiveness assessment of each of the sectors, see Annex 4.

3.3.1. Strategic consideration: **Existing exporters and traders (formal sector)**

The **tobacco**, **sugar** and **tea** sectors are classified as Malawi's high performing sectors, or champions by virtue of their significance in Malawi's current export revenues.

There is a long tradition of tobacco production in Malawi, it is grown by a large number of producers and the acreage is high. Technical assistance is provided to growers as well as duty-free inputs, tax incentives and extension and research services. Malawi is the world's largest exporter of burley tobacco although this position is being challenged by Brazil. The increased cost of inputs, together with stagnant or even declining auction prices have, however, reduced the returns to tobacco farming significantly over recent years.

The sugar sector performs well in Malawi due to the availability of water resources (irrigation), a strong local market and the technical back up of the Illovo Sugar Corporation. Out-grower schemes contribute significantly to the local economies surrounding sugar estates. However, EU sugar reforms threaten Malawi's preferential quota in the EU market.

While tea exports have faltered over recent years, the sector is still considered a champion given the flavour, favourable growing conditions, long tradition and strong brand potential of Malawi's tea crop. The sector suffers from weak branding, low investment and slow progress in replanting new high-yielding varieties due to land uncertainties. Malawi is also overly dependent on the traditional UK market for tea exports.

The **coffee** and **fisheries** sectors have been classified as declining sectors. This does not mean that the sectors have no future in terms of contribution to Malawi's export performance, rather that they have experienced decline over recent years due to a wide variety of reasons.

Malawi's coffee crop is considered to have good flavour and taste and the country has favourable growing conditions, a good skills base, good research and extension services and strong pro-poor linkages through smallholder production. However, the crop suffers from high rates of disease and pests, unstable world prices, and has a weak brand. Estate production has declined and in general the sector has received only very limited support from government.

In terms of fisheries, Malawi is well endowed with fresh water resources, biodiversity, high value aquarium fish, a good skills base, commercial fishing capacity, and a unique product (chambo). However, in spite of strong international demand, Malawi's exports in this sector have struggled due to depleted fish stocks, poor eco-system

and environmental management, poor brand marketing, poor SPS conformity, lack of cold storage facilities (and uninterrupted power supply); limited air services for export and lack of deep water fishing technology.

3.3.2. Strategic consideration: **Submerged exporters**

The **transport equipment, confectionary groundnuts** and **organised labour** were previously promising sectors that hit snags.

Malawi previously had the capacity for quality production of transport equipment; a sector of production where value addition is high and there is potential for import substitution as well as the possible revival of pre-existing export markets. However, capacity has been lost through the application of hostile rules of origin contributing to firm liquidation. Import competition has increased and manufacturing in Malawi now faces a multitude of constraints.

Malawi had a market for confectionary groundnuts of the Chalimbana variety in the United Kingdom. This market was lost partly because of competition from the smaller variety from the USA. Recently, there have been indications that the market and others could be available if adequate effort were put into addressing the factors that contributed to the earlier problems such as strengthening supply and SPS issues.

Up to the mid 1980s, Malawi had an organised labour export arrangement with South African mines. This generated income and organised savings for the workers and foreign exchange earnings for the country. A number of service markets exist in the region and beyond. Mauritius and Botswana have been interested in artisans and the latter has also been recruiting accountants, etc. Beyond the region, medical auxiliaries, public health workers, teachers, are in demand but currently Malawi is not taking advantage of these opportunities in an organised and strategised approach.

3.3.3. Strategic consideration: **Potential exporters**

The **cotton, textiles and garments, tourism** and **manufacturing (including agro-processing)** sectors have been identified as Malawi's growth sectors where there is potential for significant expansion of current exports.

The cotton, textiles and garments sector has the potential to be a significant contributor towards Malawi's exports if the value-chain can be better integrated from cotton growing to final assembly and packaging of finished garments. The demand trend towards natural fibres should support the development of an integrated industry in Malawi. However, the sector faces difficulties in terms of a very weak domestic market (given the demand for imported second-hand clothing), the scaling down of the local spinning industry (breaking the value chain) and limited capacity to produce diversified products. The end of the Agreement on Textiles and Clothing threatens Malawi's export gains in the United States.

Tourism has the potential to be a significant source of foreign exchange and therefore a key component in the export of services. The multi-sectoral linkages that tourism has leads to multiplier effects that cut across the whole economy. The Malawi tourism product comprises of the lake and water bodies; national parks, forestry and game reserves; scenery and landscape; culture and history. Over the next 20 years according to the World Tourism Organisation Vision 2020, the major growth in tourism will be in the product lines of ecotourism, cultural tourism, adventure tourism, and thematic tourism. Malawi is well endowed in these tourism product lines and therefore the potential for the sector to grow is high. However, the

major constraints to tourism development and promotion in Malawi include poor road and telecommunications infrastructure, limited air services, limited banking services, limited number of hotels of international class, the high cost of accommodation and food, weak or no linkages within the sector, poor hotel standards, lack of destination marketing, lack of innovations and promotional packages by operators and the weak brand of Malawi as a tourism destination.

Manufacturing (including agro-processing) demonstrates great potential for value addition and employment generation, however the limited availability of raw materials as inputs constrains domestic value addition. The high cost and unreliability of infrastructure, high domestic and foreign transport costs, limited skills availability, poor quality standards and the limited availability of competitive finance all undermine the productivity and profitability of manufacturing enterprise. Agro-processing of spices such as chillies, turmeric, coriander and paprika holds real potential for export growth.

3.3.4. Strategic consideration: **Aspiring exporters**

The **mining, services (including transport, culture and labour exports etc.) and handicrafts** sectors have been highlighted as sectors that have under performed in terms of exports in recent years, but aspire to play a major role in the future.

Malawi is endowed with some high value ore deposits and a competitive labour supply. The mining sector has the potential for value addition and minerals are in strong demand on world markets. However, the high cost and uncertain environmental impact of extraction in Malawi, finite resources, high cost and poor availability of electricity (given the intensity of energy demand for mining), high transport costs and weak skills based all make the sector difficult to operate in at the present time.

Services exports hold tremendous potential as a source of foreign exchange for Malawi given the strong and abundant services skills base, strong English language skills and the global demand for outsourcing. Restrictions on labour movements (internationally), poor telecommunications infrastructure, “brain drain” issues and the poor formal financial sector incentives to transfer savings back to Malawi (by workers aboard) all inhibit the growth of the sector though.

The handicrafts sector faces strong demand and high prices in export demand and are a labour intensive sector with strong pro-poor linkages. Quality has improved and there is a good local skills base. Local content is also very high given the supply of raw materials. However, yet again high transport costs reduce the profitability of the sector along with poor marketing, product quality inconsistency, limited bulk capacity, lack of organisation, depletion of resources, poor environmental management, product misrepresentation, and limited access to formal credit.

Rubber products, leather products and horticulture have been highlighted as sectors that are potentially attractive to Malawi as contributors to export performance.

With respect to rubber products, Malawi is endowed with raw materials and the sector holds potential for local value addition, employment generation and import substitution. However, there is a limited skills base and the sector suffers from poor marketing and widespread theft and vandalism in the rubber estates.

Similarly with leather products there is great potential for import substitution, high local value addition and employment generation as well as the development of strong

pro-poor linkages. Currently, raw materials (hides and skins) are exported directly limiting domestic value addition. Malawi also suffers from limited tanning capacity and skinning techniques are poor (therefore reducing the availability of quality of hides and skins).

Other African countries such as Kenya have carved out a strong niche in exporting cut flowers to Europe. Malawi has experienced modest success in this regard, but without direct flights to Europe it is unlikely that this sector can really play a major role in Malawi's export performance.

Finally the **National Export Strategy should not ignore the informal export sector**. Many of Malawi's rural regions are more integrated with regions in neighbouring countries than with the rest of Malawi and lively cross-border trade takes place. Formalising such trade has the potential to improve national export performance.

3.4. The sector perspective

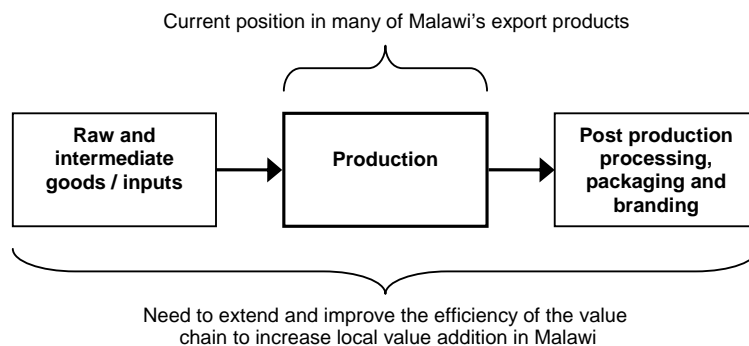
The aim of Section 3.4 is to map out how business support associations, advocacy groups and service providers in high priority sectors must perceive the strategy in terms of promoting the interests of, providing support services to, and generating commercial opportunities for their members and clients in order that the vision be achieved.

3.4.1. Strategic consideration: Value addition and retention

Increasing value addition is a major challenge in all of Malawi's major export sectors. Commodity exports such as tobacco, tea, sugar and coffee are generally unbranded and exported in bulk with only minimal processing. As a consequence Malawi's exports in these sectors are subject to the vagaries of fluctuating world prices (with the exception of EU and US sugar quotas where the price is fixed well above world traded prices). Similarly, Malawi's manufactured exports tend to have only minimal value added with large amounts of intermediate goods imported. Currently Malawi's garments exports have only very modest domestic value addition (almost entirely limited to assembly), hence the need to integrate the value chain from cotton to textiles to garments production.

There is a clear need to focus on both extending the value chain in Malawi's key export sectors and increasing the efficiency of the existing national component of the value chain. Not only would such efforts strengthen Malawian exporters ability to set prices (almost impossible for unbranded commodities traded in bulk), but such efforts will help to improve the trade-poverty relationship in Malawi by integrating more of the domestic economy into the export sector value chain (see Figure 5 below).

Figure 5: The value chain



Efforts to encourage increased local content in production, however, run the risk of forcing producers to use lower quality local intermediate goods, rather than higher quality imported intermediate goods, thereby causing damage to export performance. Interventions to support extension of the value chain need to be subtle and create the right incentives for producers of both final and intermediate goods to aim for quality output.

Malawi's tourism sector is mainly comprised of the many small to medium scale players. Over the years there has been little or no collaboration in the sector which has had a affect on value creation, retention and addition in the sector. The setting of clusters for the sector at both local and national level will ensure that there is increased value addition and retention in the sector, which at the moment is characterised by high leakages. To attain this, it is important to link the tourism value chain in the country with related clusters such as cuisine, handicrafts and entertainment and therefore the development of higher level clusters such as product development and enhancement and destination marketing.

3.4.2. Strategic consideration: **Trade information / commercial intelligence**

Inadequate trade and commercial intelligence, while undoubtedly an obstacle to export growth in Malawi in general, is unlikely to be a major binding constraint to any of the export sectors on the priority list.

The limited capacity of Malawi's overseas trade attachés has been repeatedly cited as a weakness as this leads to only very limited feedback on market opportunities, and limited intelligence is provided on other countries investment incentives, EPZ schemes, private sector activity and competition etc.

There is also a need for full-time representation at the WTO in Geneva to improve communication and lobbying.

3.4.3. Strategic consideration: **Trade finance**

Limitations of financial services (cost and availability) affect all export sectors.

Since interest rates have been very high in Malawi for a considerable period of time, investment rates have fallen to extremely low levels. Few investment projects yield profitable returns when the cost of borrowing is in the region of 20-30 percent. High interest rates also discourage firms to enter export markets without significant working capital as export orders tend to require larger volumes than orders for the domestic market and longer trade credit.

Steps currently being taken by the Government of Malawi to increase fiscal budget discipline have already had an impact in terms of reducing net public sector borrowing requirements, and therefore leading to a fall in interest rates to currently (April 2005) 25 percent. However, this is still too high. If the interest rate can fall to under 10 percent by end 2005 then there is likely to be significant increases in the provision of credit to the private sector. A notable intervention is the MARDEF five billion kwacha fund currently commencing operations. While this fund is welcomed, it should not be seen as a long term substitute to lower bank interest rates or a banking system that is more in tune with the needs of the private sector, especially small and medium sized enterprises.

The market for trade finance and export credit is still very under-developed in Malawi and the banking sector appears to be unwilling / unable to offer bills of exchange to exporters with confirmed orders from credit-worthy buyers.

3.4.4. Strategic consideration: Quality assurance and conformity

Poor quality standards throughout the production process are a major impediment to better export performance by all Malawian export sectors. There still appears to be an information gap in that too many enterprises are unaware of the potential “quality premium” that can be earned by producing to higher standards.

Box 1: The case of chilli sauce

A leading Malawian chilli sauce manufacturer learnt the hard way the price of failure to meet international food sanitary standards. There is no universal quality standard for chilli sauce; therefore importers into the US market have to submit themselves to US Food and Drug Administration (FDA) inspections. The company has found it difficult to get into the US market after failing an FDA inspection. The company is now exporting sauce in drums to South Africa where the product is bottled for re-export. This is the best interim solution for the firm as it allows the company time to improve product quality, consistency and sanitary standards in the Malawi supply chain. However, value-addition is “lost” to South Africa.

While basic quality conformity capacity exists in Malawi via the Malawi Bureau of Standards, there is a clear need for further investment. Public awareness of quality requirements also needs to be improved.

3.4.5. Strategic consideration: Competency development

Competency development refers to the importance of developing the competency and capacity of firms in each of the key export sectors of Malawi. This covers both management and vocational / productivity considerations. Certainly the evidence would suggest that given Malawi’s poor export performance, that improvements in these areas are needed. However, most of the main current export sectors already have reasonably strong sector level competence. Undoubtedly in the tobacco and sugar sectors the competency of the private sector (firms and representative institutions) is very high. Other primary sectors, while not as strong as in tobacco and sugar, do have sector representation and coordination. Across the private sector as a whole, the National Action Group acts as a forum to raise issues pertinent to private sector development across government and the private sector.

3.4.6. Strategic consideration: Export packaging

Too many Malawian exports are exported bulk and unbranded; hence a large section of the post-production value addition is “lost” to other countries. There is enormous potential to increase export revenues by increasing the level of processing and packaging completed in Malawi. However, this requires a degree of market information regarding client tastes and preferences as well as legal requirements in export markets. Such information is highly product specific and unlikely to be captured in generic demand surveys or analyses. There may be a rationale for providing “link-up” services between aspiring exporters in Malawi, and buyers and importers in export markets so that information on product requirements can be exchanged.

3.5. Capacity building perspective

3.5.1. Strategic consideration: Services delivery network (quality, cost, synergy and coordination)

Malawi has a large services delivery network on paper in that a large number of industry and trade services institutions and organisations exist. However, while the framework exists, the level of service provided is often quite poor as far as the demands of the export community are concerned. There are several sectoral support organisations that exist to provide services to specific sectors in terms of addressing border-in, border and border-out issues. Part of the reason why these sector organisations are so large is due to the weakness of public institutions in the services delivery network that provide issues based services (border-in, border etc..) rather than sector based services. The public institutions suffer from inadequate central funding and therefore tend to provide substandard services as a result, therefore the private sector is unwilling to cost-share given low expectations, thus exacerbating the funding difficulties.

Malawi’s large inflows of Official Development Assistance (ODA) mean that there are a large number of institutions focusing on development issues and in general these are the most well-endowed members of the services delivery network.

A diagram of the services delivery network can be seen in Annex 2.

3.5.2. Strategic consideration: Strategy support network (leadership, coordination and structure)

The strategy support network generally suffers from a lack of coordination. Most members (Government ministries) tend to see exports as a responsibility purely of the Ministry of Trade and Private Sector Development and see the private sector more as a source of revenue rather than a driver of economic growth and poverty reduction. Government and civil society do not generally recognise the extent of the export sector’s contribution, actual and potential, to development. In many circles, exporting is seen as benefiting a few. To the majority, exporting is “business” not “development”. As a consequence, the political commitment to export-related objectives remains weak. Without this commitment, export strategy is caught in a vicious cycle. First, government will not make adequate resources available to the national effort to improve international competitiveness. Without adequate resources, the national trade support network cannot be effective. As a result, national export performance will be held back. Thus the sector will have minimal impact on development, reinforcing the original low political commitment.

The National Export Strategy needs to be mainstreamed into the overall planning process, by focusing strategic initiatives on the core development issues of poverty reduction and employment generation.

A diagram of the strategy support network can also be seen in Annex 2.

4) RESOURCE CONSTRAINTS AND THE NEED TO PRIORITISE

4.1. Resources

A diagram of the trade support network can be seen in Annex 2. As discussed in Section 3.5, although the export strategy and service delivery networks in Malawi exist on paper, many of the institutions within the two networks currently fail to perform to the level necessary to stimulate improved export performance.

As the leading national institution operating in support of trade development, the Ministry of Trade and Private Sector Development suffers from a low budget priority in government and hence lacks the kind of budget necessary to implement its programmes. As an institution, its capacity is generally quite weak and is constrained by a large number of unfilled posts. The other two principle institutions in the trade support network, the Malawi Export Promotion Council (MEPC) and the Malawi Investment Promotion Agency (MIPA), suffer from similar difficulties. MEPC and MIPA have also been seriously affected by ongoing proposals in recent years that the two institutions are to be merged. This continuing uncertainty has had a highly detrimental effect on their performance.

Other public sector institutions and ministries suffer from similar difficulties, although not to the same extent as those involved directly in trade and private sector development. Key institutions in the strategy support network such as the Ministry of Agriculture, the Ministry of Transport and Public Works and the Ministry of Foreign Affairs, although reasonably well resourced, tend to view trade-related issues as low priority. A clear majority of exporters, while recognising the need for the Government to collect tax revenue, consider the Malawi Revenue Authority to be acting in a particularly hostile manner with respect to business interests.

Private sector organisations operating in the trade support network tend to generally have better financial, institutional and human resources than their public sector counterparts. Institutions supporting specific sectors and those focusing especially on development issues in the services delivery network tend to be the strongest.

A major issue affecting overall performance on the trade support network is the lack of coordination. This is partly due to the lack of any current export strategy (although the Economic Growth Strategy does target export sectors, it is not an export strategy) and partly due to the lack of a strong coordinating institution. It is proposed that a *National Export Development Council* act as the central anchor linking together the institutions of the strategy support network with those of the services delivery network. This body would be tasked with managing implementation of the National Export Strategy and acting as the principle “voice” and “champion” for exporters and export issues in Malawi. A merged MIPA-MEPC would be a strong contender for this role and the natural choice as long as merger issues can be adequately resolved soon. Alternatively, such a council might be based in the Malawi Confederation of Chambers of Commerce and Industry.

4.2. Priorities and recommended strategic approach

The detailed priorities of the National Export Strategy will be established at the National Stakeholders Symposium; hence the suggested prioritisation outlined in this response paper should be seen as merely a suggested approach. The strategy aims to achieve on-the-ground results using two approaches: firstly a number of supply-

side interventions will be targeted to improve the enabling environment for exporters in general across all sectors; and secondly a number of potential and aspiring export sectors will be chosen for specific support measures.

Based on the sectoral overview conducted in Section 3.3 and in Annex 4, the following sectors have been identified as target sectors where modest interventions to provide support using finite domestic resources are most likely to achieve results and where the potential for substantially increased output, exports and value addition is most clear.

- **Cotton** (and the development of an integrated domestic cotton-textiles-garments value chain);
- **Tourism** (regional market and long haul);
- **Agro-processing** (principally for the regional market);
- **Services** (including transport, culture and labour exports etc.), and;
- **Handicrafts**.

The five selected sectors above have been provisionally chosen based on their realistic export potential taking into account the (significant) supply-side constraints that Malawi-based exporters face, the competency and skills base of the private sector in Malawi, and the technological leap required to raise output at international quality levels in these sectors.

Given the problem of high transport costs and the fact that Malawi's largest trade imbalances are with regional trading partners, the target sectors are predominantly those which have strong potential for south-south trade and can be realistically oriented to the regional market. This of course does not mean that exports to more distant markets should be neglected.

While the above sectors have been selected as priorities, there is also the need to ensure that the actual strategy document itself takes into account other non-priority sectors. In particular it will be key that appropriate attention is given to manage the transition of Malawi's exports from the more traditional sectors to those with greater potential for growth in value addition.

Table 11 shows a preliminary prioritisation of the long list of issues (border-in, border, border-out and development) classified by strategic consideration, required resource intensity (moderate or high) and the required time frame (short/medium term or long term).

With only limited domestic resources available it is key to choose interventions that add the most value given finite resources. Hence, *domestic resources* made available under the National Export Strategy are likely to be targeted predominantly at resolving the issues in the top left corner of Table 11 (moderate resource intensity and achievable in the short/medium term), at some selected issues in the bottom left corner (high resource intensity and achievable in the short/medium term) and at some selected issues in the top right corner (moderate resource intensity and achievable in the long term).

International resources from aid donors will be sought to finance resources predominantly in the bottom right corner of Table 11 (high resource intensity and achievable in the long term), and at selected issues in the bottom left and top right corners of the table.

Table 11: Preliminary prioritisation of the long list of issues, classified by strategic priority, required resource intensity and time frame for achievement

	Short/medium term achievement	Long term achievement
Moderate resource intensity	<p><u>Existing and potential exporters:</u></p> <ul style="list-style-type: none"> - Poor documentation processing for exports (border-in issue). - Slow process for processing of incentives (border-in issue). - Lack of transparent systems at borders lengthening the time it takes to process exports (border issue). - High cost and slow processing speed of pre-shipment inspections (border issue). - Numerous road blocks (border issue). - Synchronization of customs working hours (border issue). - Levies on trucks to be incorporated as part of transit charges (border issue). <p><u>Aspiring exporters:</u></p> <ul style="list-style-type: none"> - Lack of access to information on the international market (e.g. product portfolios) with regard to foreign consumer demand (border-out issue). - Unrealised potential of the service sector because of lack of emphasis (border-in issue). - The empowerment of rural people to be more productive in the production of crops and other products (development issue). - Bilateral trade agreements with Mozambique and Tanzania still not signed into law (border issue). <p><u>Value addition and retention:</u></p> <ul style="list-style-type: none"> - Inadequate pro-value addition policies (border-in issue). <p><u>Trade information / commercial intelligence:</u></p> <ul style="list-style-type: none"> - Limited/lack of commercial representation overseas and lack of competent trade attaches in missions abroad (border-out issue). - Lack of representation/participation at trade fairs and other promotional activities (border-out issue). <p><u>Trade finance:</u></p> <ul style="list-style-type: none"> - <p><u>Quality assurance and conformity:</u></p> <ul style="list-style-type: none"> - Lack of capacity to meet quality requirements of international markets (e.g. SPS, poor participation in international regulatory organisations) (border-in issue). <p><u>Competency development:</u></p> <ul style="list-style-type: none"> - Skills development in production and marketing (border-in issue). <p><u>Export packaging:</u></p> <ul style="list-style-type: none"> - <p><u>Services development network:</u></p> <ul style="list-style-type: none"> - MEPC-MIPA merger issues need resolving (border-out issue). 	<p><u>Existing and potential exporters:</u></p> <ul style="list-style-type: none"> - High inflation and interest rates, which act as a disincentive for saving and investment (border-in issue). - Unreliable, slow, costly transport (border-in issue). - Delays in transit countries such as Mozambique obstruct Malawi's trade and add to the image that Malawian producers are unreliable (border-in issue). - High transit charges (border-in issue). Corruption/pilferage (border issue). - Inefficiencies of statutory institutions (border-in issue). - Transport seasonality increasing cost of transport (border issue). <p><u>Aspiring exporters:</u></p> <ul style="list-style-type: none"> - Poor mind set and lack of an "export culture" (border-out issue). - The discouraging investment climate for both FDI and local investment (border-in issue). - Poor market development activities (border-out issue). - Container supply limited as they are set aside for priority sectors such as tobacco (border issue). <p><u>Value addition and retention:</u></p> <ul style="list-style-type: none"> - Lack of national branding (border-out issue). <p><u>Trade information / commercial intelligence:</u></p> <ul style="list-style-type: none"> - <p><u>Trade finance:</u></p> <ul style="list-style-type: none"> - No export credit guarantee schemes and limited availability of pre-shipment finance for exporters (border-in issue). <p><u>Quality assurance and conformity:</u></p> <ul style="list-style-type: none"> - <p><u>Competency development:</u></p> <ul style="list-style-type: none"> - Limited extension services (not just agricultural extension) (border-in issue). - Lack of productive skills among the youth (development issue) - Empowerment of school leavers to be entrepreneurs, curriculum does not promote entrepreneurs (development issue). <p><u>Export packaging:</u></p> <ul style="list-style-type: none"> - <p><u>Services development network:</u></p> <ul style="list-style-type: none"> - The poor literacy level of the community (development issue). <p><u>Strategy support network:</u></p> <ul style="list-style-type: none"> -

	Short/medium term achievement	Long term achievement
High resource intensity	<ul style="list-style-type: none"> - No systematic interaction between training institutions and private sector to meet the needs of private sector (development issue). <p><u>Strategy support network:</u></p> <ul style="list-style-type: none"> - <p><u>Existing and potential exporters:</u></p> <ul style="list-style-type: none"> - <p><u>Aspiring exporters:</u></p> <ul style="list-style-type: none"> - The lack of industrial clusters, effectiveness of EPZ scheme and the limited availability of serviced factory shells (border-in issue). <p><u>Value addition and retention:</u></p> <ul style="list-style-type: none"> - <p><u>Trade information / commercial intelligence:</u></p> <ul style="list-style-type: none"> - Poor commitment (contributions) to international bodies to which Malawi has membership (development issue). <p><u>Trade finance:</u></p> <ul style="list-style-type: none"> - <p><u>Quality assurance and conformity:</u></p> <ul style="list-style-type: none"> - <p><u>Competency development:</u></p> <ul style="list-style-type: none"> - Poor access to technology (development issue). <p><u>Export packaging:</u></p> <ul style="list-style-type: none"> - <p><u>Services development network:</u></p> <ul style="list-style-type: none"> - Need government commitment in terms of budget lines for MIPA and MEPC (development issue). <p><u>Strategy support network:</u></p> <ul style="list-style-type: none"> - Need government commitment in terms of budget line for MTPSD (development issue). 	<p><u>Existing and potential exporters:</u></p> <ul style="list-style-type: none"> - High cost and unreliability of the electricity and water supply (border-in issue). - The economic and social burden of HIV/AIDS (border-in issue). - Insecure land tenure which acts as a disincentive to investment (border-in issue). - Poor infrastructure development (border-in issue). - High infrastructure costs (transport) (border-out issue). - High costs of utilities (telecommunications) (border-out issue). <p><u>Aspiring exporters:</u></p> <ul style="list-style-type: none"> - Air services to and from Malawi (freight and passenger) are quite limited. No direct flights to Europe creating a serious problem for those exporting perishables (border issue). <p><u>Value addition and retention:</u></p> <ul style="list-style-type: none"> - Heavy reliance on imported intermediate goods (border-in issue). - High cost of production making products uncompetitive (border-out issue). <p><u>Trade information / commercial intelligence:</u></p> <ul style="list-style-type: none"> - <p><u>Trade finance:</u></p> <ul style="list-style-type: none"> - Access to affordable finance for inputs and working capital (border-in issue). <p><u>Quality assurance and conformity:</u></p> <ul style="list-style-type: none"> - <p><u>Competency development:</u></p> <ul style="list-style-type: none"> - <p><u>Export packaging:</u></p> <ul style="list-style-type: none"> - <p><u>Services development network:</u></p> <ul style="list-style-type: none"> - Lack of skills across the board. Lack of development of technical skills (development issue). <p><u>Strategy support network:</u></p> <ul style="list-style-type: none"> - Narrow based economy (border-in issue). - Large current account deficit (border-in issue).

The majority of the issues outlined above reflect supply-side issues and are non-sector specific. This is essentially a consequence of the fact that the primary constraints to export development in Malawi at this time are on the supply side. Of course a number of these issues are symptoms of a weak and underdeveloped economy and are likely to be resolved only indirectly through improved export performance.

4.3. Strategy implementation, coordination and management

Malawi remains a highly undeveloped country with both widespread and severe poverty. In recent years, numerous strategies, reforms, programmes and adjustments have tried and failed to address the challenges that Malawi faces in terms of socio-economic development. The challenge, as ever, is to ensure that a wide ranging coalition incorporating both public and private sectors is built around a strategy, committed to successful implementation.

If the National Export Strategy is to be fully implemented, then it is important that the strategy builds and maintains momentum. In this regard, it is proposed that the interventions of the strategy initially be focused towards “short-term achievable objectives”. Hence if the National Export Strategy can be seen to be achieving real, on-the-ground results, then momentum within the implementation process is more likely to be maintained and therefore the strategy is more likely to be successful in tackling some of the larger constraints to export development.

5) THE NEXT STEPS IN THE PROCESS

The next phase of the National Export Strategy design process is the holding of a **National Symposium**. This has four objectives:

- First is to demonstrate to all stakeholders that the strategy design exercise involves an ongoing process of consultation and dialogue between public and private sectors;
- Second is to provide stakeholders who have not been directly involved in the analysis an opportunity to comment on the response paper's findings and conclusions (including recommended priorities), and to introduce additional ideas that the strategy core team may wish to take into account (and fill in any gaps in the analysis thus far);
- Third is to establish a strong foundation (in terms of stakeholder support and participation) for the development of detailed strategies for each of the priorities identified in the response paper and endorsed at the National Symposium; and,
- Fourth, to establish a modus operandi and work plan for the preparation of the detailed National Export Strategy (a process which is estimated to take approximately four months in total).

It is envisaged that the follow-up strategy design work will see the establishment of specialised teams working to design individual strategies for (i) all priority sectors; (ii) all priority trade support services (trade information, quality management, finance, etc.), (iii) the development/upgrading of the services delivery network, and (iv) strategy management. Ideally each specialised design team (sectors and services) will be navigated by a member of the core team, include 4-5 members and have a public-private sector balance.

It is expected that the National Export Strategy document itself will be completed and launched by the fourth quarter of 2005. Implementation of the Strategy will then follow for a five year period from 2005 until 2010.

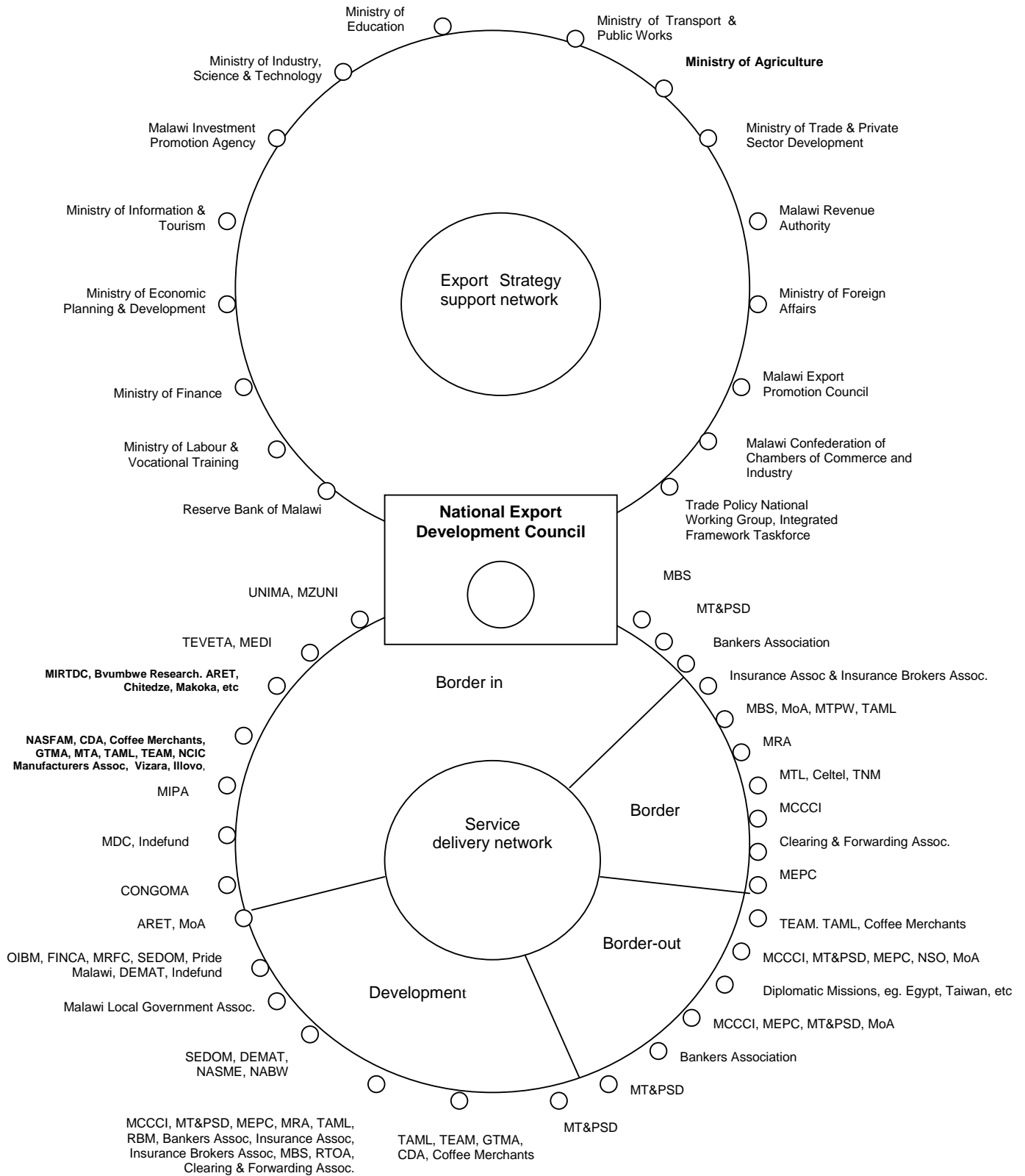
Annex 1: Selected economic and financial indicators, 2000-2004

	2000	2001	2002	2003	2004
<i>(Annual percentage changes, unless otherwise indicated)</i>					
GDP and Prices					
Real GDP	1.8	3.4	1.8	4.5	3.6
Inflation (period average)	29.6	27.2	14.8	9.6	12.0
<i>(Change as percentage share of broad money at the beginning of the period)</i>					
Money and quasi money					
Net Foreign Assets	42.4	32.1	25.2	2.7	-
Net Domestic Assets	146.8	-8.4	-37.5	26.6	-
Net Domestic Credit	29.8	26.5	49.2	19.3	-
Credit to the Government	-4.4	40.5	62.7	11.2	-
Credit to the rest of the economy	12.4	1.5	3.7	8.9	-
<i>(As a percentage share of GDP, unless otherwise indicated)</i>					
Central Government					
Revenue	18.7	14.9	16.0	16.9	17.5
Expenditure	32.8	28.5	32.4	31.9	28.4
Current	22.6	21.3	26.4	25.5	20.2
Development	10.3	7.2	6.0	6.4	7.9
Overall deficit excluding grants	-14.1	-13.5	-16.3	-15.1	-10.7
Overall deficit including grants	-2.0	-7.4	-12.8	-8.9	-0.3
Savings and investment					
Domestic savings	3.4	4.8	-3.5	-7.9	-7.8
National savings	9.7	10.9	2.8	-3.9	-4.4
Foreign savings	3.9	3.0	7.7	11.2	11.0
Gross investment	13.6	13.9	10.5	7.3	6.6
External sector					
Exports f.o.b.	23.1	25.0	21.9	16.3	16.9
Imports c.i.f.	35.4	36.8	38.5	26.1	26.1
Current account deficit excluding official transfers	-10.9	-10.4	-15.0	-15.9	15.1
External debt	197.6	191.4	92.3	121.3	98.4
Kwacha per U.S. dollar (period average)*	59.5	72.2	76.7	97.5	108.6
Gross official reserves					
End-Dec stock (in U.S. dollars)	278.3	203.1	162.0	123.1	189.0
In months of imports of goods and non-factor services	4.7	3.5	2.6	2.0	3.0

* Increase means depreciation

Source: Ministry of Economic Planning and Development, National Statistical Office, Treasury and Reserve Bank of Malawi

Annex 2: The trade support network in Malawi



Annex 3: Long list of issues affecting export development in Malawi

The following issues contained in Annex 3 are a compilation of issues constraining exporters in Malawi collected during a series of consultations with the private sector during February and August 2005.

A3.1 Border-in issues (developing the supply side)

Border-in issues	Key institutions	Optimal response
High inflation and interest rates, which act as a disincentive for saving and investment	EPD, RBM, Treasury and NAG	This is dealt with by the Monetary Policy Committee. The NES needs to be practical, it cannot influence macro-economic variables but it can be part of the lobby. The major driver of the poor macroeconomic indicators in question is GoM tendency to spend what it does not have, and lack of appropriate prioritising, i.e. poor governance and therein lies the solution.
High cost and unreliability of the electricity and water supply	MCCCI, NAG, ESCOM, Water Boards	Poor management at all levels is considered the major problem in utilities, however reforms are currently taking place that should bring about change. The main issue is electricity as the cost and reliability of water is directly affected by the cost and reliability of electricity. The “quick win” in this area is to support current efforts. MCCCI and the NAG have made representations on the electricity situation direct to the President. Incompetent, politically aligned boards and management need to be replaced with professional personnel.
Heavy reliance on imported intermediate goods	MCCCI	There needs to be a deliberate effort to ensure adequate supplies of raw materials domestically for the domestic value-chain. MEPC needs to play a greater role, not just in terms of identifying markets and passing on orders, but in terms of production mobilisation in the domestic economy (e.g One Village – One Product (OVOP) schemes). Local companies might be required to obtain a certain minimum level of raw materials / intermediate goods from the domestic market.
The economic burden of HIV/AIDS	MCCCI	HIV/AIDS is a cross-cutting issue and beyond the scope of a national export strategy. However, the private sector should be encouraged to set up HIV/AIDS policies in the workplace.
Insecure land tenure which acts as a disincentive to	Lands, MIPA, MTPSD	Government had reports on land issues from 1996 to 2000 and carried out a research that came up with the issues of land use on customary, public land and estates. Problems include limited access to land for Malawians, land tenure and improper land use. A Commission of Enquiry on the land sector formed in 2000 proved that government has to come up with a policy to improve access to land, promote tenure security and

investment		<p>proper land use. There is a World Bank project, worth US\$ 27 million for the Government to buy idle estates and allocate people to use it to the best of their ability. Starter packs will be issued out to help these people produce more and tenure security will be guaranteed for commercial farming exports. The pilot areas for this project are Mulanje, Thyolo, Machinga and Mangochi.</p>
Lack of capacity to meet quality requirements of international markets (e.g. SPS, poor participation in international regulatory organisations)	MBS, Bvumbwe Research, Agriculture, NASFAM	<p>For many agricultural export products such as groundnuts and paprika, certified tests for aflatoxins cannot be carried out in Malawi, hence samples have to be sent to other countries (e.g. SA) for certification. This imposes costs on exporters and causes delays to shipments. A key focus of the NES therefore should be to build capacity within Malawi to ensure that such tests can be carried out domestically. Quality standards are still seen by many in the private sector as a Government imposition and not beneficial to firms (merely a requirement under Malawi law). This is a major problem and the culture within the private sector needs to adapt to focus more on quality. Furthermore, there is little effort by firms to <i>sustain</i> quality practices other than for the purpose of meeting minimum requirements. The link between high quality and export potential is still not clear for enough firms. There is the need to instil more of an “export culture” within firms. One proposal is to put companies “serious about quality” on a fast track where concrete incentives/benefits are tied to quality improvement. Such a program would have clear demonstration effects for other firms. There is a general lack of awareness on standards and quality in the education system (although engineering is an exception). Standards have to be seen as a universal minimum, rather than merely optional targets. Industry doesn’t appreciate or fully utilise the facility of MBS as the national enquiry point on product standards. MBS could work more closely with MEPC on key export product strategies. More “bottom-up” initiative from industry is required on the development of new standards, currently this process is driven “top-down” from government. Also there is the need for the private sector to look at participation in standards development more positively. This allows companies to influence the process of establishing Malawi standards and avoids firms being “surprised” by new standards. There is a continual need to sensitise farmers on quality issues as SPS requirements change regularly. A major problem is that no one institution has taken the lead on SPS issues, hence lack of coordination. MTPSD should be the lead, with MoA, MBS and Bvumbwe acting in support. Poor storage and post-harvest techniques also means that product quality is not maintained. Overdependence on rain-fed agriculture remains the central issue, a three week dry spell during this year’s growing has seriously reduced the quality of this year’s crop.</p>
The discouraging	MIPA	There needs to be coordination across government institutions to address this issue.

investment climate for both FDI and local investment.		The reality is that foreign investors choose to make investments where an economy is growing, while the Malawi economy remains depressed, it is unattractive as a destination for FDI.
The lack of industrial clusters, effectiveness of EPZ scheme and the unavailability of factory shells	MIPA, MTPSD	While there are initiatives to establish factory shells, actual construction has still not yet taken place and concerted action is required to speed up implementation.
Access to affordable finance for inputs and working capital	EPD, Finance, MCCI, ECAMA	Affordable finance is directly related to government overspending, over-borrowing and “crowding out” of credit to the private sector. Additionally there is the issue that in recent years the formal banking sector has been able to make significant profits from buying government bonds. As a result the willingness and capacity to assess loan projects and risk in the private sector has been weakened. There is a need for fiscal discipline and also diversification of products by financial institutions.
Inadequate pro-industrial policies	MIST	Industrial development is guided by the Vision 20/20, MPRSP, Integrated Trade and Industry Policy and MEGS. There is not so much a problem of lack of policy but implementation. There is also a need to review the policies to ensure relevance. Already the MIST has started in house reviews of the Integrated Trade and Industry Policy. The current focus of the MIST is on agro-processing, value addition, productivity improvement, quality and skills development.
Narrow based economy	EPD, ECAMA	Despite efforts to diversify the economy, Malawi remains vulnerable to shocks in a narrow range of commodities. Movement into agro-processing where prices for processed goods are more stable than pure commodities would be a good strategy. Action is needed in priority sectors.
Slow and discretionary processing of incentives	Treasury, MRA	A comprehensive tax review is underway. MRA is required to deposit all funds collected into a revenue account for the Treasury. Hence when large requests are placed for rebates, MRA does not always have adequate cash-flow and must in turn ask Treasury for the rebate. This inevitably causes delays. A request has been made to Treasury to allow MRA to carry larger cash balances in order to speed up the processing of rebates. A more general problem is that incentives offered to inward investors are not attractive enough.
Large current	Finance,	According to RBM, the current account deficit is at K50bn due to the large quantities of maize imports and low

account deficit	RBM, ECAMA	production quantities of tobacco for exports in 2004, compounded by low prices. The large current account deficit is due to the high interest rates and small reserves in Malawi. ECAMA prefers more concentration on the 'buy Malawian' campaigns as well as having FCDAs more inclined to the stable exporters. Information flow of exporters and importers' performance is necessary.
Inefficiencies of statutory institutions	OPC, PEM	Need to restructure and commercialise/privatise commercial SOEs and beef up support to priority socially oriented SOEs. GoM should ensure merit-based appointments within statutory institutions, especially at the management board level.
Limited extension services (not just agricultural extension)	MEPC, Agriculture, GTMA	Due to retirement and other forms of attrition, farmer extension services have been affected. However, the proliferation of NGOs in the sector has reduced the extension burden. Realising that such effort should be coordinated; the Ministry has adopted a pluralistic extension system which draws on synergy effects from many players in extension. Among other things, the problem of attrition was caused by the closure of NRC which was turned into a privately run Trust. As a short-to-medium term measure, the MoA is training 350 extension staff at this institution to beef up on capacity gaps.
Skills development in production and marketing	Labour, TEVETA, Universities, MIST, MCCCI	Currently the system does not respond to the needs of the private sector. However institutions such as TEVETA are changing. More coordination and engagement with the private sector is still needed. MIST is spear-heading the establishment of a University of Science and Technology to upgrade skills developed at vocational level. The aim is for the University to train student in skills relevant to industrial development and the private sector. The aim is to bridge the gap between the private sector and skills needed to encourage industrialisation. TEVETA carries out formal and informal training through Skills Development Initiative that enables youth to identify their skills. The Private Sector Training Program is for companies identified with skill gaps and training needs. TEVETA finds proper trainer for the companies and these contribute 1% of their previous wage bill to the organization. Lastly, people's skills are developed through clusters (associations) to identify a common training need.

A3.2 Border issues (the business operating environment and the cost of doing business)

Border issues	Key institutions	Optimal response
Unreliable, slow, costly transport	Transport	Transport costs are high because of long distances to ports, the high cost of fuel and anti-competitive behaviour among road transport operators, as well as poor road infrastructure. The Malawi transport industry acts as a cartel that agrees on setting freight rates. Cartel-like operations

		would be impossible if the domestic transport market was fully liberalised. Many of the operators are small and inefficient family businesses that lack critical mass. The Ministry plans to introduce a training program for these operators to build their capacity, creativity and reliability. Ultimately, investment in the rail sector and the Shire/Zambezi watercourses is the key to reducing domestic transport costs, congestion and wear-and-tear on roads.
Lack of transparent systems at borders lengthening the time it takes to process export documentation	MRA, Foreign Affairs	MRA operates an open office system at border posts, documents are deposited and two separate officers must sign and countersign. CAMA is carrying out a study on the transport delay problems. Corruption is also on the increase when passengers and drivers pay money on the borders to pass through more quickly.
High cost and slow processing speed of pre-shipment inspections	Finance, MRA	The issue is being considered under the tax review. Pre-shipment inspections are charged at a fixed percentage and the service is outsourced. MRA is scheduled to take over and internalise this service in 3-4 years once capacity is sufficient to operate the scheme. WTO rules will outlaw this setup in 2008, therefore serious need for capacity building at MRA to take over this operation.
Delays in transit countries such as Mozambique obstruct Malawi's trade and add to the image that Malawian producers are unreliable	Transport, Foreign Affairs	Corridor Committees deal with trade facilitation issues like customs, immigration operations and how these can be sorted out. A workshop on capacity building of stakeholders from Malawi, Mozambique, Zambia and Zimbabwe will take place in Beira to address how borders should operate. Regulatory framework is underway to give stakeholders guidance on legal operations. Representations by Malawi need to be made at the highest level with Mozambique to solve transit delay problems.
Numerous road blocks	Transport, Home Affairs	Home Affairs states that there are more than 30 road blocks throughout the country which are mounted for security checks and not to block trade activities. This is a weak justification and one of the recommendations of the NES should be the removal of all road blocks.
High transit charges	Transport, Foreign	This is a bilateral issue and therefore there is a need for negotiations with neighbouring countries at the regional level, (particularly non-tariff barriers).

	Affairs	
Corruption / pilferage	MRA, ACB	This is a transit issue as containers are sealed. Efforts to discipline MRA officers found guilty of illegal acts are underway.
Transport seasonality increasing cost of transport	MCCCI	<p>Malawi suffers from two main problems concerning the supply of containers. Firstly Malawi's exports are highly seasonal and the majority of (agricultural) exports are shipped in a comparatively short growing season (April-August). Hence the demand for containers to export produce from Malawi is not uniform. Secondly given that Malawi runs a major trade deficit, outside of the peak agricultural exporting season there is a large oversupply of containers. This means that shippers are reluctant to release containers for shipment to Malawi given that turnaround times can be 3-4 months and this imposes a significant additional cost on shipping lines.</p> <p>Given that Malawi's exports have to be transhipped through transit countries and via multiple modes of transport, exporters are reluctant to export other than in containers.</p> <p>Irrigated agriculture would ensure sufficient demand for containers outside the peak (rain-fed) growing season.</p> <p>Inland depots should be responsible for clearing. Improvement in Information Technology for easy tracking of Malawian containers released at Nacala is essential.</p>
Air transport limited for perishables. Services to and from Malawi (freight and passenger) are quite limited	Transport (Civil Aviation), MCCCI, MIPA	<p>The lack of direct flights is a direct consequence of a lack of demand for flights.</p> <p>Air travel – what is the open skies policy under Comesa? Airport departure taxes in Malawi of USD 30 are high, as are landing fees. This acts as a disincentive for non-scheduled services. Liberalisation might encourage more investment, more tourists and the opening of more flights into Malawi.</p>
Synchronization of Working hours	MRA, Immigration / Home Affairs, Transport, Foreign Affairs, Finance	Malawi has signed MoUs with Mozambique, Tanzania and Zimbabwe already, and agreement is being sought with Zambia. Border posts used to be open 24 hours, currently they are open almost 24 hours for light goods but heavy goods can only be processed during daylight hours. Agreements need to be signed with neighbouring countries so MRA officials know that if they allow goods to pass through a border post then the foreign border post will allow the goods to pass also. Otherwise there is the risk for goods being re-imported into Malawi on the grey market. A balance needs to be struck between the costs of maintaining open borders for 24 hours against the amount of business.

Levies on trucks to be incorporated as part of transit charges (Sugar only?)	Transport, Illovo, MCCCCI	Mozambique charges USD 150 per convoy to trucks carrying sugar. The charge seems to only be applied to trucks carrying sugar from Malawi, it is then passed on as a premium by trucking companies to the sugar exporters. Levies have been applied for at least several years and are collected at Tete. The major issues is not so much the cost (although the imposition of levies exclusively on Malawi sugar is seen as being very unfair), but the delays that the collection of the levies causes as trucks are sometimes held up for several days. This affects shipping deadlines, often causing sugar containers to miss slots onboard ships and incurring deadweight charges on Illovo. It is unclear where the revenue from sugar levies goes or for what purpose it is collected.
Slow documentation processing for exports	MRA, MEPC, MTPSD	MRA has taken steps to simplify and streamline the process for exporters. Now there is just one form required for exporters (for goods that do not require an export permit). Part of the problem with delays is exporters using “cheap” clearing agents who fill the form in incorrectly and this often this is the cause of delays (awareness/education issue)

A3.3 Border-out issues (market development and promotion)

Border-out Issues	Key institutions	Optimal response
High infrastructure costs (transport)	Transport with NAG	The World Bank and Ministry of Transport and Public Works have just produced a comprehensive Transport Costs Study of Malawi, this is a very good source of information and the Export Strategy can build upon it. Reducing the tax on vehicle spares would be a good start. There is expertise at the sugar and tobacco companies who employ full-time shipping departments – good source of information on what works. Transport issues should probably be looked at more in terms of “logistics”. The Mtwara and Nacala corridor initiatives, while welcome, will inevitably fail unless bilateral trade agreements are reached between Malawi and Mozambique and between Malawi and Tanzania. In the longer term, the port facilities at Nacala need major investment.
Lack of national branding / Poor market development making products unknown	MCCCCI, Tourism	National branding needs to be backed up with quality products, An activity to reward quality exporters with a Malawi “quality accreditation stamp” might prove effective (quick win). Malawi is branded as ‘the Warm heart of Africa at the international level and research shows that Malawi is 95 percent recognised overseas but the government has not taken advantage of this brand strength to sell Malawian products. In 2002, Malawi was marketed by the Ministry of Tourism as a cultural destination which was wrong since there was no unique selling proposition identified. The new strategy is to promote Eco-tourism (forests,

		national parks) and other products of Malawi through the projection of a fun, soft, adventurous image. Inserting the Malawi logo on product packaging, official government documents is another way of branding.
Lack of representation / participation at trade fairs and other promotional activities.	MCCCI, MEPC, MIPA, GTMA	There is a general problem with lack of follow-up after receipt of orders at trade fairs. Often large orders (up to several million USD) are unfilled as the private sector is unable to supply the product and fill orders – no working capital, trade finance etc. Companies need to be “export ready”, especially those who participate in international trade fairs.
Lack of an “export culture”	MTPSD	There is a definite need to create an “export culture” in Malawi. Not just in the private sector but in the public sector and general public. Most of the public sector sees export promotion as just the responsibility of MEPC. Export promotion should be a cross-cutting issue right across government.
High costs of utilities (tele-communications)	MACRA, Competition Commission	A major cause of the high cost of telecommunications and internet service is the high cost of IT equipment in Malawi. Higher duties on components (100%) than finished hardware (0 or 20%) acts as a disincentive to local assembly. Celtel and TNM are, however, allowed to import equipment duty-free. A third mobile operator was granted a license to operate in Malawi two years ago (Malawi Mobile Ltd) but has still not begun operations. Entry would increase competition and hopefully bring prices down. The license will expire in May 2005, however, so this is looking unlikely. The difficulty in accessing Celtel and TNM from landlines is “purely a traffic issue” (according to MACRA). Broadband internet is still seen as an “elite” service and is only available via wireless services, no ADSL. The costs of call termination (from MTL to mobiles is falling). In 2000 it was 20c/min, now 4c/min. MACRA would like to see these costs drop to less than 1 c/min. Telkom Malaysia is planning to sell its 60% stake in TNM. The future of TNM and MTL’s 40% stake in TNM is an issue for the Privatisation Commission given MTLs impending privatisation. An ICT Policy Review is being submitted to cabinet shortly. The document maps out how ICT can assist in the development of the Malawi economy. This document will be very useful for the export strategy drafting team.
High cost of production making products uncompetitive.	EPD with NAG and Transport	The Tax Review has isolated inputs for agriculture, the same exclusions could be made for export transport equipment. SOCAM, MCCCI, NAG and ECAMA have formed a private sector tax review group, some of the issues raised in this form could be taken and put into the export strategy (especially surtax issues). MoF has to be fully engaged in the NES process if these issues are going to be successfully addressed during implementation of the export strategy.

<p>Container supply limited as they are set aside for priority sectors such as tobacco</p>	<p>Transport with Clearing and Forwarding Assoc</p>	<p>Malawi suffers from two main problems concerning the supply of containers. Firstly Malawi's exports are highly seasonal and the majority of (agricultural) exports are shipped in a comparatively short growing season (April-August). Hence the demand for containers to export produce from Malawi is not uniform. Secondly given that Malawi runs a major trade deficit, outside of the peak agricultural exporting season there is a large oversupply of containers. This means that shippers are reluctant to release containers for shipment to Malawi given that turnaround times can be 3-4 months and this imposes a significant additional cost on shipping lines. Given that Malawi's exports have to be transhipped through transit countries and via multiple modes of transport, exporters are reluctant to export other than in containers as the risk of pilferage and damage is much higher using other means.</p>
<p>Lack of competent trade attaches in embassies abroad</p>	<p>MTPSD, MEPC and Foreign Affairs</p>	<p>Lack of trade attaches is not considered by MCCI to be a critical issue as even when market opportunities are passed from foreign trade missions to Malawian firms, they are not able to supply quality and quantity at the right price. The issue is more one of information about quality and passing on information about accessing premium market segments (e.g. coffee – Rwanda and Burundi are getting four times world prices for premium branded coffee). Trade attaché posts in Zimbabwe and South Africa are currently unfilled. At other foreign missions, trade attaches are often political appointments and completely unqualified for trade promotion. Not only does this lead to very limited feedback on market opportunities, but there is no intelligence provided on other countries investment incentives, EPZ schemes, private sector activity and competition etc... Ideally Malawi needs qualified trade attaches in South Africa, Zimbabwe, US, EU, Taiwan and Kenya to cover Malawi's key export markets. One possible option would be to appoint private sector personnel as trade attaches perhaps for one or two year secondments. There is also a need for full-time representation at the WTO in Geneva. There are 19 Malawian embassy offices across the globe. In the past, incompetent international representatives were chosen on a political basis and could not manage to attract overseas trade partners for Malawi. Foreign Affairs states that "there more important issues for the Ministry than sending people outside the country at the moment and adequate resources are needed to expose and train these representatives". The Ministry of Foreign Affairs has been pressing for an office in Geneva at the WTO, but this is a political decision which needs time.</p>
<p>MEPC-MIPA merger issues need resolving</p>	<p>MTPSD, Finance</p>	<p>MIPA-MEPC merger issues exacerbate problems leading to uncertainty and poor staff morale. There was the promise of private sector support to a combined MIPA-MEPC but now this is uncertain. The decision to merge MIPA with MEPC has now been formally made.</p>
<p>Poor "mind set"</p>	<p>MCCI</p>	<p>Malawi's long term reputation as a poor country (LDC) has reduced pride in being Malawian and people are</p>

		now sometimes ashamed to be a Malawian. Pride in traditions such as hard work, discipline and being peace loving has been lost. Hence there is limited thinking along the lines of “how do my actions affect Malawi’s industry?” Success is often criticised and seem as ill-gotten. Establishing an “export culture” comes direct from the top – quality of leadership.
Lack of access to information on the international market (e.g. product portfolios) with regard to foreign consumer demand	MEPC	Capacity building is necessary at MEPC and MTPSD. More emphasis on facilitating “business linkages” between Malawian exporters (current, potential and aspiring) with foreign buyers and importers would be a good strategy.
Unrealised potential of the service sector because of lack of emphasis	MTPSD, Tourism	The Ministry of Tourism has no funds to market the country overseas effectively, however, the Government acknowledges that tourism should be prioritised. The Malawi Tourism Association deals with many stakeholders in both public and private sectors but the small fragmented private sector sends out conflicting messages, making it difficult to market the tourism industry. The major issue is lack of funding from the government and the Ministry used to charge a 10% service charge with levy for government, staff and Malawi Institute of Tourism of 5%, 4% and 1% respectively. The charge was recently withdrawn by the Ministry of Finance. The Tourism Act should be reviewed in Parliament and destination marketing should be launched. Malawi has not marketed tourism internationally for the past two years due to lack of funds.

A3.4 Development issues (a pro-poor focus)

Development issues	Key institutions	Optimal response
The empowerment of rural people to	Agriculture, NASFAM, MEPC,	MoA has several projects and programmes targeting smallholder farmers who are in the rural areas. These projects and programmes aim at strengthening farmer capacity in the production and marketing of crops. Furthermore the MoA’s extension programme is encouraging farmers to take farming as a business and not

be more productive	EPD, MTPSD	<p>casually.</p> <p>The lack of large scale farming in Malawi backed by R&D activities is the reason why there is not enough produce being grown in large quantities and of consistent size, colour, taste and appearance.</p> <p>Poor quality of produce is a continuing problem in Malawi as even when extension services are provided, farmers do not always follow advice.</p>
The poor literacy level of the community.	Education, Gender (Com Services), MEJN	<p>The Ministry of Education deals with literacy levels in primary, secondary and tertiary levels of education for which it is responsible. The major issue is the high dropout rate of the pupils in the primary level and the ministry plans to retain these pupils by creating a better environment for learning through the provision of desks and chairs.</p> <p>Limited resources contribute to the poor education quality. There is a shortage of 8000 qualified teachers, however, 2000 are on training and will be readily available in 2006. New textbooks provided by CDA are now available to every pupil. Currently, a new curriculum for standard 1-4 pupils that is sensitive to the needs of the pupils and the nation is underway.</p> <p>The Ministry of Gender, Child Welfare and Community Services deals with adult literacy and 34% of Malawians are illiterate (i.e. 3, 700, 000). The National Literacy Program was introduced in 1986 to train this sample, funded by UNESCO and UNDP.</p> <p>There is need for more operating partners with the Ministry to train illiterate Malawians across the country. Rural information centres (libraries) should be established to sustain the literacy.</p> <p>Improvements on literacy have long term impacts and significant changes are not recognized by the community in a short term.</p> <p>Concentration on aggressive advertisement on adult literacy classes will make more people aware of the training. This can be achieved through advocacy meetings, radio programs and community services with adequate funding.</p> <p>Bills to make primary school compulsory should be implemented and policy on literacy should be formulated and implemented as well.</p>
Lack of productive skills among the youth	Labour, TEVETA, MIST, Youth	<p>TEVETA plans to impart skills to pupils in primary schools through a TEVETA Induction Program which is underway in Pinda and Khunda Mchinji.</p> <p>The Ministry of Labour has planned programs to capture the youth and school leavers at district level through MEDI and would like to work with the Ministry of Education.</p>
Empowerment of school leavers to be entrepreneurs	Labour, TEVETA, MEDI,	<p>MEDI receives inadequate funds from the Government which cannot facilitate its expansion project. This is done through Graduate Credit Scheme and is meant for the unemployed school leavers. Previously, MRFC could not run the program, targeting technical colleges under TEVETA because of student's low turn-up and</p>

<p>- Curriculum does not promote entrepreneurship</p>	<p>Education, Universities</p>	<p>poor business aspects instilled in them. Small Business Development Activity is underway in Blantyre with plans to expand while embarking competency based education training to move away from apprenticeship technical training system. TEVETA acknowledges that entrepreneurship is the core survival of the company and the organization needs funds to implement the entrepreneurial programs.</p>
<p>Lack of skills across the board - Lack of development of technical skills</p>	<p>Labour, TEVETA, MEDI, Education, Universities</p>	<p>MEDI trains students who are not qualified to go to Technical Colleges in Malawi under the Ministry of Labour. MEDI acknowledges the need to introduce the country to entrepreneurial culture because according to Malawians, entrepreneurship is associated with only petty businesses which is not the case. However, there are training sessions in Technical or Business Management in carpentry, bricklaying or “start a business” courses. In-house or out-reach programs help the students to choose an ideal business and discover their personal traits, funded by donors and the Government.</p>
<p>Need government commitment in terms of budget lines for MIPA, MEPC and MTPSD</p>	<p>Finance, MTPSD</p>	<p>Need to raise the profile of trade (and in particular) exports as a driven of economic development and poverty reduction.</p>
<p>Poor access to technology</p>	<p>MIST, MIRTDC</p>	<p>MIST is undertaking establishment of technology park which will result in the development and commercialisation of technology. The technology park will also be the focal point for the monitoring of adoption and development of new technologies. The lack of affordable finance and limited availability of long term finance (especially the risk of banks calling in loans) acts as a disincentive for investment in fixed capital and technology. MIRTDC was originally set up as a project of MBS, then given a mandate to operate as a separate institution. Currently the focus is on small-scale industry serving the domestic market. A critical issue is that the private sector is generally unwilling to pay for services provided by MIRTDC as it is a publicly funded institution.</p>
<p>High staff turnover</p>	<p>Labour, OPC, MCCCCI</p>	<p>High staff turnover is a major problem in the public sector. It is not just about inadequate salaries, also limited opportunities for training and a hierarchical system that inhibits ambition and influence at lower levels causes high turnover. There is a high turnover of teachers in vocational training schools. Incentives for the trainers are important to retain them.</p>

<p>Poor commitment (contributions) to international bodies to which Malawi has membership</p>	<p>Treasury, relevant line ministries</p>	<p>Malawi is often unable to participate in international regulatory organisations due to non-payment of membership fees. The responsible body is the planning division at MoA but the root of the problem is confusion over who is responsible for payment – MoF, MoA or MTPSD.</p>
<p>No systematic interaction between training institutions and private sector to meet the needs of private sector</p>	<p>TEVETA, Education, Universities, MCCCCI</p>	<p>There is regular interaction between private sector and the Ministry of Education through the Primary Schools Association of Malawi. Apart from that, there is no formal communication with the university system at the moment.</p> <p>There is no proper interaction between TEVETA and companies as well as other colleges. More companies have to adapt to the training needs of their employees which can be taken care of by TEVETA, for example, lecturers should be sent for further training to provide quality lectures to students.</p> <p>Parts of the core university courses are relevant: e.g. open economies, competition, trade policy etc. however there are a number of gaps. More prioritisation is needed to match the (limited) current resources in the higher education system against the express priorities of the national economy (markets, sectors and issues).</p> <p>The teaching curriculum could be re-oriented and offer elective courses in areas such as entrepreneurship and more practical, work based skills.</p> <p>In terms of trade policy (including WTO issues), the universities have the literature and expertise but need to be more linked to MTPSD – both informally and more formally. Universities could organise specialist short courses hosted by MTPSD and universities. Assistance is needed though in terms of library support, information systems and training materials on trade related issues.</p> <p>MIST is spear-heading the establishment of a University of Science and Technology to upgrade skills developed at vocational level. The aim is for the University to train student in skills relevant to industrial development and the private sector. The aim is to bridge the gap between the private sector and skills needed to encourage industrialisation.</p>

Annex 4: Competitiveness assessment for key export sectors

Sector		<i>Tobacco</i>
Country	Current situation	Forecast situation
Zimbabwe	Flue Cured - Highly competitive due to long experience and higher technology used and investment. Burley - less competitive as Malawi has more experience and produces larger quantities.	Stable - Zimbabwe tobacco was mostly grown by large scale estates using higher technology to achieve better quantities and qualities. In Malawi most of the large scale sector has collapsed and there is an emerging smallholder sector which is less experienced. Political and economic problems in Zimbabwe have resulted in a decline in their competitiveness. Malawi should avoid falling into similar problems.
Mozambique	Less competitive - Malawi has more experience in growing and marketing Burley tobacco.	More competitive - Contract Growing is practiced hence Buyers support growers to produce a good quality crop. Quality concerns (NTRM) have put the industry under threat in Malawi. Better access to land in Mozambique poses a threat to Malawi. Mozambique also has a more flexible land policy and conducive investment climate (especially with respect to RSA). Access to seaports. Statutory deductions at buying points are also lower in Mozambique, making it more competitive than Malawi. Opening of a tobacco processing factory in Tete is a major threat.
Zambia	Less competitive - Zambia has less experience in growing Burley Tobacco.	More competitive - Access to land to increase production is high. Contract Growing is practiced hence the Buyers support growers to produce and market a good quality crop. Statutory deductions are less in Zambia and incentives are better, so the farmers receive higher net pay.
Tanzania	More competitive - Flue Cured Tobacco, buyers support growers.	More competitive - Due to access to land Tanzania has high potential to be more competitive. High potential for market linkages, more attractive domestic market. Value addition to make cigarettes brings more returns to the growers
Brazil	More competitive in Flue Cured and stable in Burley.	More competitive - use of higher technology results in better

		quantities and qualities of tobacco. Closer proximity to ports and the US market. Access to large tracts of land can easily increase production within a short period of time. Contract growing arrangements bring better returns to growers.
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Sector		Cotton
Country	Current situation	Forecast situation
Zimbabwe	More competitive - better infrastructure and farmers are more experienced and supported with contract growing. Zimbabwe has two growing seasons versus only one growing season in Malawi.	More competitive - Malawi needs to be better organised and bring in the Cotton Council to regulate the industry. Better incentives should be introduced to smallholder farmers through input credit provision, extension, stable prices and improved transport access.
Zambia	More competitive - better infrastructure and farmers are more experienced and supported with contract growing.	More competitive - as Zimbabwe above. The capacity of Mapeto DWS to refurbish the factory and add value to cotton by spinning and weaving should be supported.
Tanzania	More competitive - better infrastructure and farmers are more experienced and supported with contract growing.	More competitive - better access to transport and ports for exports.
South Africa	More competitive - better infrastructure, access to transport and ports and, communication systems.	More competitive - Malawi needs to increase yields and quality and address current challenges to be more competitive. Problem of contamination with plastics (same as NTRM).
Mozambique	Less competitive - has just emerged from political problems. Large tracts of land are underutilised.	Stable - can easily increase production by putting more land under production. Attractive destination for investments. Have ready access to transport and ports.

Sector		Sugar
Country	Current situation	Forecast situation
Brazil (in terms of its ability to dismantle EU price)	More competitive - Brazil produces sugar as a by-product to ethanol (for domestic fuel), hence sugar can be dumped on world markets. Gravity fed irrigation.	More competitive - Brazil (along with other non-ACP producers) is has forced the EU to dismantle domestic price supports and preferences for ACP producers.

supports).		
Australia	More competitive - higher technology, irrigation systems, no land constraints, favourable climate.	More competitive.
Thailand	More competitive - lower costs of production, lower transport costs (rail and sea).	More competitive.
EU (sugar beet)	Equally competitive - subsidies, closer to final customers, technology.	Less competitive - reform of the Common Agricultural Policy is inevitable as the EU expands eastwards, subsidies are not sustainable. EU sugar reforms currently underway.

Sector		<i>Tea</i>
Country	Current situation	Forecast situation
Sri Lanka	More competitive - better branding (Ceylon tea), more value-added in blending.	More competitive - Malawi's tea industry is under threat from a large number of political (land) and economic problems.
Kenya	More competitive - Kenyan tea is exported bulk as well as branded, more local value addition, better technology and practices, lower transport costs (access to sea ports), two growing seasons.	More competitive - Malawi's tea industry is under threat from a large number of political (land) and economic problems.
Zimbabwe	Less competitive - currently small, but lots of potential if not for political problems.	More competitive - huge potential to expand production and exports. Tea is a priority sector under the Beira corridor initiative. Domestic fertilizer manufacturing capacity (two companies).
Mozambique	Less competitive - currently small but lots of potential.	More competitive - large potential to expand production, availability of land, proximity to sea ports.
Great Lakes (Uganda, Rwanda, Burundi)	Less competitive - limited experience in growing tea but close to Kenya (auctions, producers, buyers).	Stable - limited capacity, also landlocked (high transport costs), political difficulties.

Sector		<i>Tourism</i>
Country	Current situation	Forecast situation
South Africa	More competitive - infrastructure, availability of frequent direct flights, marketing, no malaria, wide range of	More competitive – although high crime and overcrowded beaches are possible weaknesses.

	tourism products, hotels, internal transport, sports events, etc.	
Kenya	More competitive - infrastructure, frequent direct flights, facilities, wide range of tourism products, better internal transport, cost-effective hotels, food, services etc. Better marketing.	More competitive – but high crime rates also limit growth.
Zimbabwe	Equally competitive - better tourism infrastructure but political problems are discouraging tourism. Victoria falls and Great Zimbabwe are large attractions. Cheaper hotels and food.	Stable - recovery depends on resolution of political and economic problems.
Zambia	Equally competitive - similar tourism products, stable, Victoria falls (tourists attracted from Zimbabwe because of political problems), more air transport links.	Stable.
Tanzania	More competitive - bigger country, better infrastructure, better air transport links, stronger brand, wide range of tourism products (Kilimanjaro, Serengeti, Zanzibar, Masai culture).	Stable.

Sector		<i>Textiles and garments</i>
Country	Current situation	Forecast situation
China	More competitive - much more cost-efficient, higher productivity, integrated supply chain, lower transport costs to western markets, higher technology, wider range of products, design capabilities, economies of scale, more focused marketing and sector management.	More competitive - massive growth potential in the US and EU after end of the ATC on 1 Jan 05.
India	More competitive - much more cost-efficient, higher productivity, integrated supply chain, lower transport costs to western markets, higher technology, wider range of products, design capabilities, economies of scale, more focused marketing and sector management.	More competitive - massive growth potential in the US and EU after end of the ATC on 1 Jan 05.
South East Asia	More competitive - cost-efficient labour supply, lower transport costs, good quality but limited local value-	Stable - also under threat from China and India.

	added.	
Kenya	More competitive - access to sea ports (lower transport costs), better infrastructure, focused marketing strategy, larger domestic market, integrated supply chain.	Stable - AGOA exports under threat.
Lesotho	More competitive - conducive investment climate, proximity to South Africa (member of SACU) provides easy access to trimmings. Close to port of Durban. Shorter lead times.	Stable - AGOA exports under threat.

Sector		<i>Non-traditional agriculture (including agro-processing)</i>	
Country	Current situation	Forecast situation	
Zimbabwe	More competitive - better infrastructure, more capital invested, more processing companies, availability of raw materials (strong agricultural base), lower international transport costs (sea and air), larger domestic market.	Stable - poor political and economic climate is discouraging investment, potential for Malawi to gain market share and/or encourage producers to transfer businesses to Malawi through incentives.	
South Africa	More competitive - better infrastructure, better marketing and international outlets, lower transport costs, larger capacity.	More competitive.	
Kenya	More competitive - better infrastructure, better economic environment, sector specific investment incentives, greater SPS capacity, highly developed cooperative movement.	More competitive.	
Zambia	More competitive - better infrastructure, investment climate, foreign direct investment, strong raw material base.	More competitive.	