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Republic of Malawi

Diagnostic Trade Integration Study (DTIS) Update

Reducing trade costs to promote competitiveness and inclusive growth

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ABBREVIATION AND ACRONYMS

ADD	Agricultural Development Division
ADMARC	Agricultural Development and Marketing Corporation
AGOA	African Growth and Opportunity Act
APEI	Accelerated Program for Economic Integration
ASYCUDA	Automated System for Customs Data
ATCC	Agriculture Technology Clearing Committee
CAGR	Compound Average Growth Rates
CD1	Currency Declaration Form
CET	Common External Tariff
CFA	Clearing and Forwarding Agent
COMESA	Common Market for Eastern and Southern Africa
CPC	Customs Process Codes
DFID	Department for International Development
DTIS	Diagnostic Trade Integration Study
DTI	Direct Trader Input
EDF	Export Development Fund
EAC	East African Community
EIF	Enhanced Integrated Framework
EQCS	Export Quality Certification Scheme
ERP	Economic Recovery Plan
FDI	Foreign Direct Investment
FISP	Farm Input Subsidy Program
GDP	Gross Domestic Product
GCI	Global Competitiveness Index
GMO	Genetically Modified Organism
GNI	Gross National Income
GOM	Government of Malawi
HS	Harmonized System
IAF	International Accreditation Forum
IHS3	Third Integrated Household Survey
ILAC	International Laboratory Accreditation Cooperation
ITC	International Trade Center
IMF	International Monetary Fund
IQMS	Import Quality Monitoring Scheme
MAST	Multi-Agency Support Team
MBS	Malawi Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MDG	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
MFN	Most Favored Nation
MIT	Ministry of Industry and Trade
MoAFS	Ministry of Agriculture and Food Security
MRA	Malawi Revenue Authority

MTS	Metrology Service Department
NAB	National Accreditation Body
NASFAM	National Smallholders Farmers Association of Malawi
NES	National Export Strategy
NQI	National Quality Infrastructure
NSB	National Standards Bureau
NSC	National Steering Committee
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measures
QASP	Quality Assurance Services Department
SABS	South African Bureau of Standards
SACU	Southern African Customs Union
SADC	Southern African Development Community
SANAS	South African National Accreditation Service
SFFRFM	Smallholder Farmers Fertilizer Revolving Fund
SPS	Sanitary and Phyto-Sanitary Measures
SOCAM	Society of Accountants in Malawi
SPAC	Standards Policy Advisory Committee
SQAM	Standardization, Quality Assurance, Accreditation and Metrology
STR	Simplified Trade Regime
TBT	Technical Barriers to Trade
TIR	Transports Internationaux Routiers
TPRM	Trade Policy Review Mechanism
UNCTAD	United Nations Commission on Trade and Development
VAT	Value Added Tax
WEF	World Economic Forum
WFP	World Food Program
WTO	World Trade Organization

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Executive Summary

1. **The Government of Malawi (GOM) is committed to reducing poverty through increasing employment-generating growth and has prioritized the expansion and diversification of exports in the Malawi Growth and Development Strategy (MGDS) II, the National Export Strategy (NES) and the Economic Recovery Plan (ERP).** The 2012 economic reforms restored macroeconomic stability and improved the business enabling environment. While this provides a solid foundation for building competitiveness and increasing investment, the government also realizes that reducing trade costs will be essential to improve competitiveness, stimulate inclusive economic growth and encourage economic diversification. Smaller producers and farmers often face particular difficulties in overcoming trade costs which are incurred per transaction and need to be distributed over smaller trade volumes. Reducing trade costs will therefore allow particularly smaller producers and farmers to enter new markets, thereby generating new growth and employment opportunities for a wider range of economic actors.

2. **The absence of significant product diversification over the past decade reflects Malawi's inability to enter or join global or regional supply chains because trade costs are simply too high**. Reducing trade costs will enable all sectors of the economy to obtain imports at more competitive prices and increase the competitiveness of Malawian exports in both neighboring and international markets, opening up opportunities for Malawi to participate in both regional and global supply chains. Recent changes in the global economy have changed the economic landscape, with many industrial markets stagnating while strong economic growth took place in emerging countries, including in Malawi's neighbors. There are significant new opportunities in neighboring countries that could be exploited, and a number of companies indicated they had already identified potential opportunities, demonstrating opportunities for regional linkages in the short run.

3. **Lowering trade costs is essential if Malawi is to move from being dependent on a narrow range of resource based activities to more diverse higher value activities**. Successfully diversifying into new production and service sectors requires increasing engagement in international trade both regionally and internationally. Recognizing the necessity for this transition, the government of Malawi developed a NES, which establishes a road map aimed at diversifying the production base and puts in place an inter-governmental coordination mechanism for implementation. The NES identifies three priority sectors in which Malawi has a potential comparative advantage. These include oil seeds, sugar cane products and agro-manufactures, in addition to the existing clusters. The NES recognizes that achieving economic diversification requires a positive business enabling environment, appropriate supporting institutions and increased training and empowerment for workforce development.

4. **To complement the recommendations of the NES and to help prioritize trade policy reforms, this DTIS Update focuses on the importance of reducing trade costs and identifies the key cross-cutting policy constraints to trade.** Addressing these cross-cutting barriers to

trade integration which mainly result from high trade costs, is a prerequisite for the success of the very valid sector-specific recommendations developed under the NES. This DTIS therefore complements the analysis undertaken as part of the NES and proposes a series of targeted reforms to promote competitiveness, deliver employment creating and poverty reducing inclusive growth, through mainstreaming trade into the MGDS II and the ERP. Implementing the recommendations of this report will be critical to the success of the NES and other strategies.

5. **Infrastructure constraints remain a critical issue for Malawi and initiatives to address them are under way and need to be further supported however, it is also necessary to focus on the 'soft infrastructure'**. Recognizing that the (Enhanced) Integrated Framework and the DTIS's (including the 2003 DTIS for Malawi) have not been effective in addressing many of the broader issues requiring large-scale physical investments in most countries, this DTIS Update focused on specific trade related policy and regulatory issues within the mandate and policy space of the Ministry of Industry and Trade (MIT) and the National Implementation Unit (NIU).

6. **Regional Integration can play a key role in reducing trade costs as long as commitments are implemented and the regional agenda is premised on a vision of creating an open, internationally competitive market in goods and services**. As a landlocked economy Malawi is dependent on transport corridors and ports in neighboring countries for all their trade. Unreliable and unpredictable delivery times prevent producers from competing in regional and international markets and serve to highlight the importance of the GOM actively engaging in regional cooperation initiatives (COMESA, SADC, TFTA) to harmonize regulations and fast-track the reduction in non-tariff measures where possible (for example through the Accelerated Program for Economic Integration (APEI) and the tripartite NTM-elimination mechanism). Malawi also stands to benefit from the successful outcome of the WTO Negotiations on Trade Facilitation. A comprehensive agenda to reduce trade costs through lowering tariffs, removing loopholes, and addressing Non-Tariff Measures (NTMs) will encourage investment. The recently adopted APEI Action Matrix represents a welcome development and is consistent with the recommendations contained in the DTIS Update.

7. **However, opportunities for Malawi to supply neighboring countries with agricultural and agro-food products are currently held back by restrictions on trade**. These include licensing limitations on agricultural inputs (which restricts choice), protection of local transport providers which increase costs, import and export licensing and minimum prices. Policies that restrict trade in basic commodities with the aim of promoting food security serve to destabilize growth, encourage illegal trade, increase price variation, discourage production for sale by smallholders and ultimately reduce the living standards of the most vulnerable groups in society. Such policies are inconsistent with the objectives set out in the NES, ERP, and MDGS II.

8. **It is therefore essential that the trade agenda is effectively integrated and mainstreamed into Malawi's development strategy**. The recent launch of the NES by

President Banda in December 2012, and the subsequent release of the second draft of the National NTB Elimination Strategy in May 2013 signal the mainstreaming of trade issues into the national development agenda, although inconsistencies across various policies remain and need to be addressed comprehensively. These positive developments indicate a break from the earlier marginalization of the DTIS 2003 Action Matrix where only 8 actions out of 67 were fully implemented. Limited or no progress was recorded in strengthening institutional capacity for effective coordination, negotiation and implementation of trade agreements, reducing the adverse trade impact of non-tariff measures, and export diversification. Overall, the lack of implementation of the recommendations of the 2003 DTIS Action Matrix mainly resulted from the absence of a constituency or high level champion with the mandate, capacity and commitment to push through cross-cutting reforms that require coordination among various ministries (paragraphs 63-68).

9. **Learning from the past experience of many similar studies, this DTIS Update presents a very focused and prioritized updated Action Matrix that can guide policy making going forward**. Lessons from earlier DTIS throughout the world show that developing a long list of constraints and hurdles is not helpful in framing priorities and mobilizing the necessary inter-agency and diverse stakeholder commitment to reform required to effect change. Focusing on national level policy issues in need of strong political support and broad stakeholder engagement, the authors hope the prioritized policy matrix with key activities will serve as an effective basis for dialogue among the various government ministries, business and civil society and also in the dialogue with development partners. Addressing the limited and focused priority activities will have a significant impact and should be achievable with strong leadership of the MIT, high-level support from the Ministry of Finance and the President's office, strong linkages with other strategies such as the NES, and strong support from the development partners. The implementation mechanism established under the NES could therefore be used to ensure priority recommendations of the DTIS update will be implemented and coordinated with the NES.

10. **For Malawi to increase export growth and diversification, key policy barriers in five areas need to be addressed**. These include a) **reviewing the trade policy framework** to make it more transparent and neutral, and increase transparency in its implementation; b) **reviewing existing Non-Tariff Barriers** resulting from outdated technical regulations and the way these are applied at borders; c) **improving trade logistics** by improving border and transit procedures and increasing competition in the transport sector with a view to shorten delivery, increase reliability and reduce costs; d) address a number of **binding constraints facing the expansion of agricultural trade and trade in agro-industrial products**; and e) addressing key **regulatory constraints increasing the cost (and reducing availability) of professional services**.

11. **Trade policy should be revised to simplify the multiple schedules and adopt a transparent and well publicized policy on eligibility for duty rebates (paragraph 125)**. The tariff schedule is characterized by multiple tariffs-many of which are less than 5 per cent on preferential imports- and widespread and non-transparent exemptions (virtually exclusively

restricted to large enterprises). A large number of products continue to require import and export licenses (paragraphs 140-146). Even though the Cabinet has taken a decision to reduce the number of products requiring such export permits from 25 to 10, this policy remains to be implemented. Implementation of this policy should be a priority, and the government should work towards eliminating all non-automatic requirements as it will encourage increased production in agriculture.

12. **Malawi imposes many NTMs which increase the landed price of imports and the ex-factory price of finished products**. Most of these result from the import inspections mandated under the Import Quality Monitoring Scheme, which often duplicate tests undertaken by qualified laboratories in countries of origin. Unlike tariffs, NTMs are non-transparent may also have a differential impact on producers depending on their size or the products. NTMs must be assessed on a case-by-case basis and developing transparent NTMs that minimize restrictions on trade requires countries to pursue a best practice approach to regulation that highlights the importance of transparency and dialogue and the need to draw heavily on international norms and best practices. As a priority all new mandatory technical regulations should be publicized with time allowed for discussion and subjected to a regulatory impact assessment.

13. **The list of mandatory standards should be reduced and redundant mandatory testing eliminated to enable Malawi Bureau of Standards (MBS) to focus on ensuring product safety while facilitating competitiveness and meeting its role in implementing the National Quality Policy (paragraphs 195-202)**. Ensuring citizens have access to safe and healthy food products and reliable consumer goods represent important and legitimate public policy objectives and are addressed through the National Quality Infrastructure. The MBS currently implements its mandate largely through controls at borders, with many of the activities more focused on revenue generation rather than advancing consumer safety and promoting competitiveness. Eliminating the mandatory testing for imports of products with certificates from regional or internationally accredited conformity assessment bodies by gradually introducing risk analysis on such shipments under the IQMS, and increasing the role of post market surveillance, would allow the MBS to take a more targeted approach to addressing consumer concerns. It is also recommended that the MBS adopt a more transparent pricing policy, review the list of mandatory standards and request SADC and COMESA partners to recognize MBS tests. Increasing market surveillance would justify the MBS receiving a subvention from the GOM.

14. **Existing regulations and procedures impose higher fixed costs on small companies relative to large commercial activities, stifling export diversification and effectively discriminating against such smaller economic operators**. Analysis of trade data at the transaction level reveals that exporters in Malawi are dominated by a small number of long established large traders exporting a narrow range of products dominated by agricultural products. New entrants moving into new markets with new products are conspicuously absent or frequently do not manage to sustain exports for more than one year and consequently to generate sustainable new employment. Key factors contributing to this outcome include high fixed costs

of exporting resulting from the unpredictability of applied trade policy such as burdensome and non-transparent border and other administrative procedures, as well as high transport costs.

15. **While Malawi has made progress in modernizing customs clearance procedures since the earlier DTIS, the Update identified considerable scope for reducing transit times, increasing reliability and lowering trade costs (paragraphs 221-223)**. An effective regional transit mechanism (paragraphs 224-229) remains a goal, and multiple border agencies undertake duplicative and redundant checking and demand redundant submission of information. This increases delays and information on current border charges and procedures are not readily available. The government has realized that the lack of coordination among multiple border agencies represents a key constraint and Cabinet has taken a decision in March 2013 to reduce the number of agencies from 14 to 5. This is an important and welcome development although implementation is still pending. Positive effects will only be felt by the trading community once this decision is implemented, so implementation should be a priority. Complementing this reform, it will be important to establish a National Trade Portal that would bring together all the information and forms required for moving goods across the border and would serve large and small traders. Increased transparency regarding the correct application of trade policies and administrative procedures would increase the predictability of trade costs and transit times, making it easier for companies to integrate into regional and global value chains.

16. **High trade costs result from long supply routes (a factor outside the control of the government) and high domestic freight rates that remain more than 20 times higher than international freight rates (paragraphs 230-246).** Reducing high domestic transport costs is a priority and demands government to complement investment in feeder roads with regulatory change. To reduce domestic transport costs, the government could start by gradually removing cabotage restrictions for domestic road transport that restrict access and result in increased transport costs within Malawi. Setting clear targets for identifying and opening selected internal routes for cabotage would increase competition, reduce prices, stimulate demand and increase the availability of transport options to regional ports, permitting companies to expand the array of export products and export destinations. At the same time, such a gradual approach coupled with reviewing current regulations that increase operating cost (such as excise duties on re-treaded tires, discriminatory use of road user charges across COMESA, or tax incentives) would reduce concerns in the domestic transport industry about their ability to compete which has prevented similar reforms in the past.

17. **Small traders in basic agricultural commodities exported from Malawi to Zambia face significantly higher trade costs as the specific fees per transaction result in economies of scale for the large traders (paragraphs 304-319)**. The COMESA Simplified Trade Regime (STR) which eliminates all customs duties fails to compensate for these higher trade costs and is therefore not widely used. A detailed assessment showed that prices per truck crossing the border increased with the size of the operation, but that these costs were highly regressive on a per ton basis, effectively discriminating against smaller traders. A large share of the costs is driven by

the costs of permits that are issued per transaction and are therefore highly regressive, encouraging informal trade. The governments of Malawi and Zambia should work together to review existing fees and documentary requirements, expand the common list of products covered, and implement the decision taken in June 2013 to reduce the transaction costs for small to traders to USD 1.

18. **The majority of small traders are women and there are frequent complaints about harassment by border officials which particularly affect women.** This also contributes to traders choosing informal channels. It will therefore be important to complement the review of the STR with the publication of a Traders' Charter that would clearly outline basic rights and obligations that both traders and border officials have to comply with in local languages. Identifying constraints that are particularly affecting women traders and establishing an impartial and anonymous reporting mechanism for complaints would also be critical to support small traders. These recommendations were strongly endorsed by traders during a workshop with traders from Malawi and Zambia in Chipata in November 2013.

19. **Widespread government intervention in the determination of agricultural prices, along with regulations governing the access to agricultural inputs and the absence of an effective system for controlling aflatoxin all contribute to reducing agricultural growth and lowering rural incomes (paragraphs 321-334)**. It would be important to establish a phone (text) based price information system that would increase the access to price information by rural farmers to increase their negotiation position with intermediaries. At the same time, the minimum prices established by government fiat should be removed. Cumbersome requirements for testing new seed varieties and fertilizer mixes constrain farmers from accessing improved and more competitive inputs. Poor storage conditions increase farm losses and limits trade. Establishing a public private partnership to introducing a more effective aflatoxin control mechanism has the potential to substantially increase farmer incomes even at existing levels of production.

20. **Ensuring efficient access to a wide range of services from the backbone services of transport, electricity and communications to professional services is a key determinant in international competitiveness and efficiency (paragraphs 336-395)**. The report identifies the constraints to the development of professional services, noting how inadequate regulations in conjunction with a lack of regional cooperation are holding back the development of the national market for professionals with adverse knock-on effects for competitiveness. The Action Matrix recommends targeting three major regulatory constraints. This would include easing entry requirements, eliminating dis-proportionate restrictions that limit competition, establishing transparent procurement procedures, and reviewing non-transparent licensing procedures. Undertaking regulatory audits in all examined professional service sectors would be important to identify specific areas where reforms could be fast-tracked in the context of the COMESA, SADC, Tripartite and APEI services dialogues. Expanding the growth of the professional

services sector and enabling access by small and medium size firms will increase their productivity.

21. **There are no known examples of countries successfully transitioning to middle income status based on inward looking development.** Such policies lead to significant anti-export bias as companies serve protected domestic markets to capture rents rather than generating additional growth and jobs by serving export markets. Reducing trade costs and increasing trade represents the most powerful policy package available to the GOM for reducing poverty and placing Malawi on the path to meeting the MDG and advancing to middle income status. Malawi can benefit from the experience of other developing countries that have effectively traded their way out of poverty.

22. **The Draft Action Matrix presented below summarizes the recommended policy reforms identified in the DTIS Update and outlined in this section**. They are all critical to reducing trade costs and thereby permitting Malawian enterprises and farmers to more successfully compete in regional and global markets and achieving the government's stated policy objectives of expanding and diversifying exports for increased economic growth.

Proposed DTIS Update Action Matrix

Identified Constraint	Action	Responsible Agencies	Priority/Difficulty/Payoff
I Trade Policy			
Multiple Tariffs/Nuisance Tariffs	Review tariff policy to eliminate tariffs on all items currently 5 per cent or less, reduce tariff peaks and reduce/tariffs on inputs	MOF/MRA	High/Low/Modest
Tariff Exemptions/Trade Bans/Export restrictions/Trade licenses	Adopt and Publicize a clear policy on tariff exemptions and preferences and restricted products, minimize products requiring import and export licenses	MIT/MOF/MRA/MoAFS	High/High/High
Removal of existing NTB and prevention of new NTM	Review and remove existing priority NTBs. All new Regulation Measures to be publicized and subject to Regulatory Impact Assessment.	MIT/MoAFS/Ministry of Transport	High start with preventing new NTM/Medium/High
National Quality Infrastructure	Implement NQI, gradually eliminate compulsory testing for imports from regional partners and those with certificates from internationally accredited conformity assessment bodies by gradually introducing risk analysis on such shipments, review and reduce the list of mandatory standards, request SADC partners to recognize MBS tests. Increase the role of market surveillance.	MIT/MoAFS/MBS	High/Medium-need to address MBS revenue and safety concerns/ High
Improve the operation of the Simplified Trade Regime and increase transparency at borders to reduce discrimination against small traders	Reduce the processing fee for use of the STR, review fees required for obtaining permits for import and export, expand the common list of products benefitting under the STR, implement the Charter for Cross-Border Trade, and identify specific constraints impacting on women traders	MIT/MoAFS/MBS	High/Difficult requires multi-agency coordination/positive welfare impact on lower income groups
II Trade Logistics, Transit and Customs			
Absence of a regional transit mechanism	Work with regional partners to introduce a TIR scheme	MIT/MOF/Ministry of Transport	
Multiple Border Agencies	Amend legislation to empower the core	MRA/All Agencies at the	High/Difficult required multi

resulting in delays	border agencies –MRA and Immigration to perform cross border functions.	Border	agency coordination
Difficulty in obtaining information on trade rules and regulations	Introduce a National Trade Portal that would contain all legally binding information on trade procedures, easily accessible to the public	MRA/MOF/MIT	High/ Medium/Donor Interest in financing
Cabotage restrictions increase transport prices	Using a gradual but time-bound approach, identify selected internal routes and reduce restrictions on foreign truckers delivering and collecting goods in Malawi	Ministry of Transport	High/Difficult
III Agriculture			
Absence of market-based price information for agricultural commodities	Introduce SMS based price information and dissemination system	MoAFS in partnership with a private firm or NGO	
Use of minimum prices for agricultural commodities	Phase out the use of statutory minimum prices	MoAFS in partnership with a private firm or NGO	
Regulations governing access to agricultural inputs (seeds/fertilizer)	Review Seed Act and fast track implementation of SADC Harmonized Seed System Fast track system allowing for increased regional trade in fertilizer	MoAFS with MIT	
Lack of effective system for aflatoxin control	With private sector and parastatal marketing companies develop and implement a strategy to promote testing of aflatoxin at first point of sale and provide trading in simple storage techniques and other cost-effective control methods	MoAFS (Plant Health Office) with private sector, ADMARC and other crop traders	
IV Professional Services			
Non-transparent procurement procedures; Lengthy and burdensome licensing /accreditation procedures, and competition issues	Fast-track regulatory audits in all examined professional service sectors, and work to fast-track reforms in the context of the COMESA, SADC, Tripartite and APEI services dialogue	MIT, Professional Associations, Employers' Association	High/Difficult as opening protected sectors to competition when the Professional Associations influence the regulations/high

Chapter 1. Introduction

23. **The Diagnostic Trade Integration Study (DTIS) Update identifies the trade related constraints holding back Malawi from diversifying and deepening its production base, and increasing trade**. The Update takes stock of the progress in implementing the priority recommendations from the earlier 2004 DTIS study (specifically the Action Matrix agreed at the Stakeholder Meeting in 2003) and focuses on identifying and quantifying the trade costs constraining Malawi's competitiveness within regional and international markets as the basis for developing a streamlined and updated Action Matrix.

24. **The GOM prioritizes poverty reduction through creating employment, expanding exports, and diversifying productive activities to achieve the goals of Vision 2020, the Malawi Growth and Development (MGDS II), the Economic Recovery Plan (ERP) and the National Export Strategy (NES).** The MGDS and the ERP commit to ensuring macroeconomic stability and improving the business enabling environment to stimulate growth. The NES sets out a road map for diversifying the production base through identifying priority sectors in which Malawi is perceived to have a comparative advantage. Realizing economic diversification and attracting investment in value added activities requires a reduction in trade costs. The DTIS Update identifies and quantifies specific trade costs that determine the availability and price of inputs and the ability of producers to get their products to regional and international markets. The report focuses on tariff policies, regulatory issues impacting on trade, trade facilitation and logistics, and policies affecting agricultural trade and trade in services.

25. **While Infrastructure constraints remain a critical issue for Malawi and initiatives to address them are under way and need to be further supported, it is also necessary to focus on the 'soft infrastructure'.** Recognizing that the (Enhanced) Integrated Framework and the Diagnostic Trade Integration Studies (including the 2003 DTIS for Malawi) have not been effective in addressing many of the broader issues requiring large-scale physical investments in most countries, this DTIS Update focused on specific trade related policy and regulatory issues within the mandate and policy space of the Ministry of Trade and the National Implementation Unit or similar implementation mechanisms.

26. **This section provides a short introductory overview of the key themes contained in the main report**. Chapter 2 outlines the current macroeconomic position and the level of trade openness, summarizes the status of the business enabling environment. The chapter draws out the linkages between the Vision 2020 and Growth and Development Strategy to reducing poverty, creating employment through inclusive growth and the importance of expanding trade. Finally the chapter summarizes the progress made in implementing the recommendations from the earlier Action Matrix.

27. **Chapter 3 describes Malawi's current trade policy with a detailed review of the existing tariff schedules.** The nominal rate of protection is followed by an outline of the effective rates of protection which takes into account the impact of tariffs on both the inputs and the final product. Increasing export growth and diversifying the production base requires a more neutral trade policy along with the ability to source inputs and deliver the final product at more internationally competitive prices. A neutral trade policy will consider Malawian consumers and not simply prioritize import competing industries or large exporters. The current trade regime creates incentives to produce for the domestic market as firms recover the high costs of their intermediate inputs through increasing the price of their final product. The tariff schedules could be streamlined and simplified through reducing the number of bands and eliminating nuisance (all those less than 5 per cent) tariffs. Finally the report outlines the key characteristics of exporting firms using a detailed database of exporters. Exports are concentrated in a small number of product categories and across a relatively small number of firms

28. **Chapter 4 addresses a range of the key regulatory issues that raise costs for all producers in Malawi.** The chapter is organized in four sections which focus on import and export licenses, the National Quality Infrastructure, Customs and Border related issues and transportation and transit corridors. In addition to import tariffs, firms are confronted with non-tariff barriers including the requirement for import/export permits on virtually all agricultural products and strict licensing requirements for fertilizer, seeds and other agricultural inputs that increase costs, reduce choice and delay the introduction of new technology.

29. **The high cost of obtaining inputs and high transport costs continue to constrain Malawi from diversifying its productive base beyond agricultural commodity production and mining.** Manufacturing is dominated by a relatively small number of relatively large long established firms serving the domestic market with a small number of labor intensive apparel companies whose exports are dependent on either regional or multilateral preferences. Following the decision by SACU not to renew the derogation from the apparel rule of origin several apparel exporting firm's closed down. While the mining sector had recently been increasing in importance, recent developments such as placing the uranium mine into 'care and maintenance' put the future role of the sector into question.

30. **As a landlocked small economy Malawi is also dependent on the efficiency of transit corridors and trade logistics in neighboring countries.** Regional cooperation on trade facilitation and transport regulations is vital for Malawi. While SADC and COMESA are both working to harmonize regulations and streamline transit mechanisms to date progress in driving down costs and improving reliability has been modest. Establishing an efficient transit mechanism on the main routes to Mozambique (Beira/Nacala) and to South Africa (Durban) would reduce costs and increase competitiveness.

31. **Efficient and predictable border operations are essential.** The Malawi Revenue Authority has made good progress over the past decade however challenges remain in introducing a comprehensive customs valuation, risk assessment, advance declaration and the Authorized Economic Operator scheme. It is also necessary to streamline the roles of the multiple agencies operating at the border to eliminate duplicative checks. Establishing a Trade Portal containing all the forms, processes, charges required for importing and exporting should be a priority, along with prioritizing the existing commitment to Integrating Border Management processes. This trade portal should be designed in a way to serve large and small traders alike.

32. **Ensuring product safety is important and the Malawi Bureau of Standards (MBS) has a vital role to play in ensuring illegal counterfeits and non-conforming products which might pose health risks to consumers are not distributed within the country.** Currently the MBS requires the frequent retesting of many imported products that have already satisfied equivalent safety requirements. This imposes additional costs, creates uncertainty over delivery and approval times and takes scarce resources away from targeting high risk products and faulty weighing scales which cheat smallholders and consumers. The MBS should provide automatic recognition for all accredited imports.

33. **Chapter 5 looks in depth at how the trade and regulatory policies within the agricultural sector impact on competitiveness.** Competitiveness is held back by the absence of transparent rules and market driven pricing. The recourse to bans on imports and export of particular commodities and government intervention in price setting are counterproductive. Attention is also given to how the regulations governing essential imported inputs, such as seeds and fertilizer, restrict choice, increase costs, and reduce growth. Importers and exporters are also required a range of Certificates and approvals which all carry a flat fee. These include the SPS Fumigation Certificate and Non-GMO Certificate (for certain agricultural products), Certificate of Origin (if using one of the preferences), the Currency Declaration Form processing fee, and for the Clearing Agent. The chapter also shows how existing costs for cross border agricultural trade between Malawi and Zambia has a disproportionate effect on the small traders. These specific charges and fees results in smaller exporters-exporting loads of 2 tons or less-incurring trade related costs more than three times higher than firms exporting containers or fully laden trucks.

34. **Finally, Chapter 6 addresses the important issues of trade in services through focusing on professional services such as engineering, accounting, and law.** Access to high quality professional services is essential for reducing the costs of doing business and increasing international competitiveness. The survey of users of professional services found those using accounting, architectural and legal services had significantly higher productivity. The report recommends reducing explicit trade barriers that limit the movement of natural persons and the commercial presence of professional services.

35. **The recommendations of all chapters are summarised in the Executive Summary which also presents the revised Action Matrix.** Appendix 1 presents a more detailed matrix with suggested next steps.

Chapter 2. Trade and Inclusive Growth

36. **The MGDS II and the Economic Recovery Program (ERP) launched in 2012 both prioritize the commitment of the GOM to realize more inclusive economic growth in order to reduce poverty by raising productivity, diversifying production and expanding export growth.** Expanding trade both within the region and internationally along with broadening the product range are identified as priorities. The GOM recognizes that delivering these results requires a reduction in trade costs, improvements in the business enabling environment and regulatory reforms that reduce non-tariff barriers. These commitments are embodied in the recently launched NES and the draft Non-Tariff Barrier Elimination Strategy. The chapter outlines the existing macroeconomic situation, discusses Malawi's relative performance on the World Bank's Doing Business Indicators, and summarizes existing income, welfare and poverty levels, before concluding with a discussion of the lessons from the implementation of the 2003 Action Matrix.

37. **The MGDS II 2011-16, approved in April 2012 and launched in September along with the ERP seeks to deliver rapidly more inclusive economic growth that will reduce unemployment and poverty, and contribute towards realizing the Millennium Development Goals (MDGs).** The ERP focuses on restoring macroeconomic stability, improving the business enabling environment and providing social protection for the most vulnerable as the economy transitions to a higher growth path. The MGDS II maintains the strategic focus of the earlier MGDS I through emphasizing increasing productivity and diversifying the economy, especially in the agricultural sector.

38. **The MGDS II focuses over the next three years at developing more diversified commercial agriculture, tourism, energy, and mining sectors, as well as infrastructure development.** It prioritizes increasing exports as a key growth driver for creating jobs and reducing poverty through advancing productivity (p.58). The MGDS make reference to on-going trade reforms aimed at reducing trade costs, and includes specific reference to both the simplified trade regime (STR) and one stop border posts. The Update shows how trade costs effectively negate the benefits of the STR and also highlights how the multiple agencies with border responsibilities requires a comprehensive approach to addressing cross border issues. Specific challenges highlighted by the MGDS include high transportation costs, lack of market information, the narrow market base, low levels of trade expertise, lack of adherence to international standards and inadequate energy supply. The DTIS Update addresses the challenges that raise trade costs which increase the price of inputs and reduce international competitiveness.

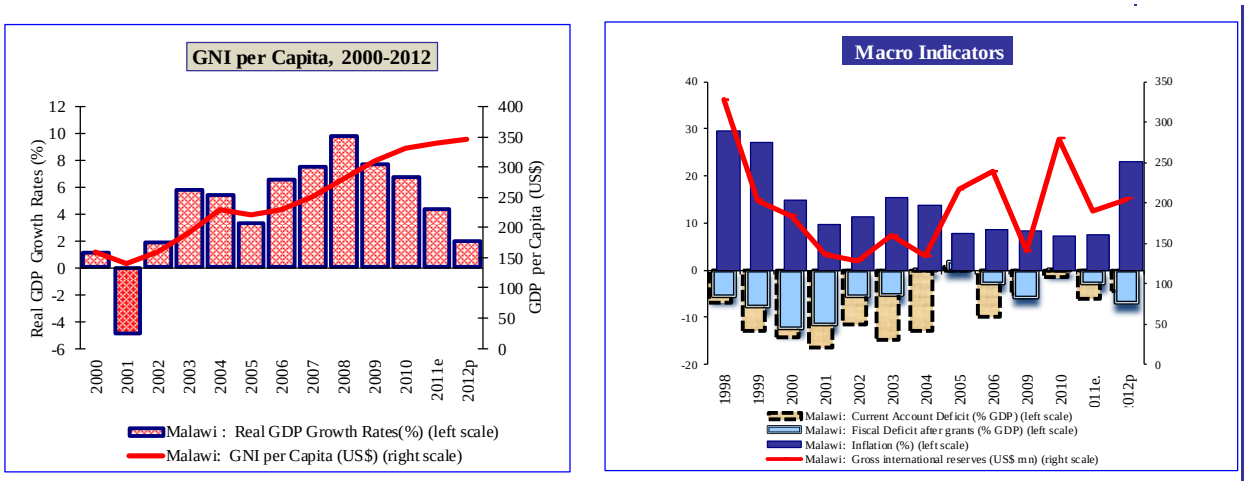
Macroeconomic Overview

39. **The Malawi economy is dominated by a small number of primary commodities making it susceptible to shocks.** Malawi's economy has for decades been subject to exogenous shocks partly due to the structure of its economy, as largely a rain-fed agricultural economy

locked into subsistence maize production, prone to adverse weather conditions, landlocked and poorly integrated into the region in terms of both trade and physical infrastructure. The concentration of its economy in a few primary commodities and its high dependence on imports and aid inflows renders it vulnerable to shocks, especially adverse movements in the terms of trade. These economic vulnerabilities have been compounded by weaknesses in the management of the public finances through macroeconomic channels and resource losses, the infrastructure deficit (especially energy and transport) and a history of policy reversals.

40. **The economy remains vulnerable.** Despite the implementation of a series of broad macroeconomic and structural reforms over the past two decades, Malawi's economy remains vulnerable. During 2001-2004, the macroeconomic performance was characterized by high level of domestic borrowing, which resulted in a high interest burden, thus compromising the government's ability to allocate resources for critical poverty reducing expenditure. The economy made a remarkable turnaround during 2006-2010, through strong stabilization measures that were geared towards instilling discipline and controls in the overall management of public finances, which helped to restore macroeconomic stability during 2006-2007. This was a period where real GDP growth averaged 7 per cent.

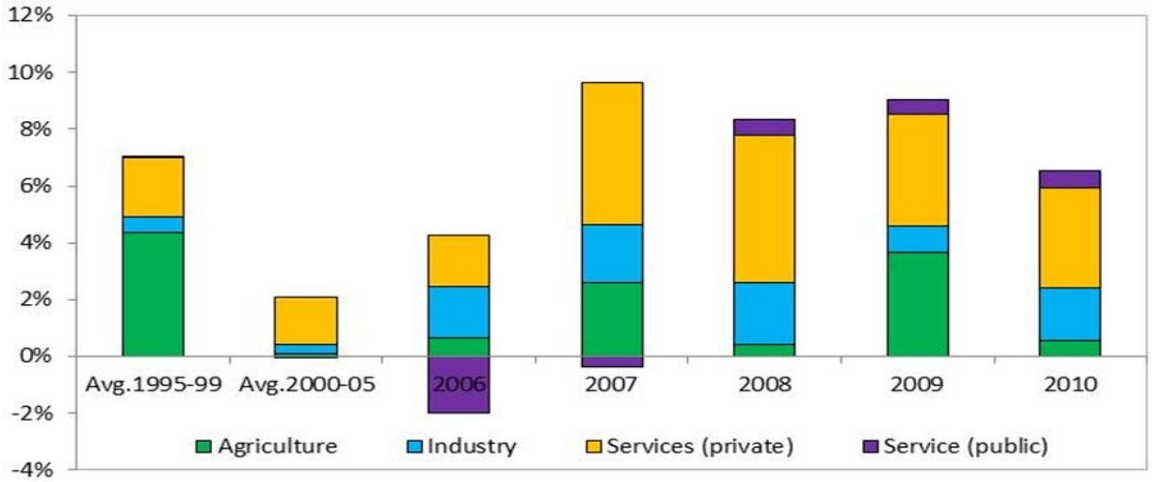
Figure 1: Trends in the Economic Indicators



Source: Bank and IMF Staff, World Economic Outlook, Sept 2012

41. **The high rates of economic growth (Figure 1) were largely driven by agricultural exports (mainly tobacco), aid inflows, and rising FDI (especially in the mining sector).** The agriculture sector has been a key pillar of economic growth over the past 30 years, although over the last decade the importance of services in GDP has increased to about 53.2 per cent of GDP, driven largely by telecommunications, retail and wholesale trade, and financial services. The population and labor force remain predominantly rural largely locked into low productivity subsistence agriculture as shown by the low share of GDP. There has been limited progress in transitioning smallholders from subsistence to commercial production.

Figure 2 Trends in Sector Distribution of GDP



Source: Bank and IMF Staff

42. **In 2011 Malawi's balance of payments position significantly weakened on account of a strong deficit in the current account resulting from lower tobacco earnings and cuts in external aid in 2011/12.** The country's official exchange rate was still overvalued and according the IMF staff report (EBS/12/96), the overvaluation of the real effective exchange rate (REER) was around 34 percent before the devaluation in May 2012. The country was facing a severe shortage of foreign exchange, especially with the loss of credit lines, with a huge demand for FOREX to clear private sector external payment arrears to suppliers/creditors, which amounted to over US$ 700 million. The FOREX shortages were also manifested in shortages of critical imports (including fuel, inputs for production, and medicines) and a much lower capacity utilization in the industrial sector (less than 30 percent). Economic growth had slowed significantly to 4.3 percent in 2011, after averaging over 7 percent real GDP growth a year during 2007-10. Inflation was also on an upswing, with the year-on-year headline rate jumping to 17.3 percent in May 2012.

43. **In order to arrest the downward spiral of the economy and restore macroeconomic stability the GOM liberalized the foreign exchange and fuel markets in May 2012.** These reforms[1] facilitated the removal of market distortions (especially in the energy sector and foreign exchange markets) and strengthened macroeconomic management (aimed at containing growth in aggregate demand and inflationary pressures) while also putting in place support programs for the most vulnerable groups. The GOM also addressed a range of governance issues, including the normalization of relations with its neighbors and the international community, which has

[1] The reforms included unifying the official and the parallel market exchange rates (a de facto devaluation of 50 percent), adopting a floating exchange rate regime; removing the requirement for foreign exchange earnings to be surrendered to the RBM; canceling the requirement for the RBM to review all applications for external payments over US$50,000; reinstating the automatic adjustment mechanism for retail prices of petroleum products to reflect import parity prices movements in the international fuel prices and exchange rate; adjusting electricity tariffs to move towards cost recovery and scaling up the subsidy program. Inflationary pressures were contained by tightening monetary policy.

yielded positive results as evidenced by the significant increases in grants, especially budget support and dedicated grants.

44. **Following these reforms real GDP growth recovered in 2013, and inflation declined.** In 2013 real GDP growth is expected to bounce back to exceed 5 percent, driven largely by recovery in agriculture production and manufacturing. Inflationary pressures have eased; after peaking at 37.8 percent in February 2013, headline inflation decreased to 23.3 percent in August 2013, on account of a marked decrease in food inflation, and the deceleration of non-food inflation. The overall fiscal deficit declined from 8.4 percent in 2011/12 to 1.2 percent in 2012/13. Similarly, after registering a significant depreciation following the May 2012 reforms, the Kwacha appreciated sharply in May 2013 in response to improved foreign exchange inflows from tobacco sales and market recognition of the improved growth prospects resulting from the implementation of prudent monetary and fiscal policies.

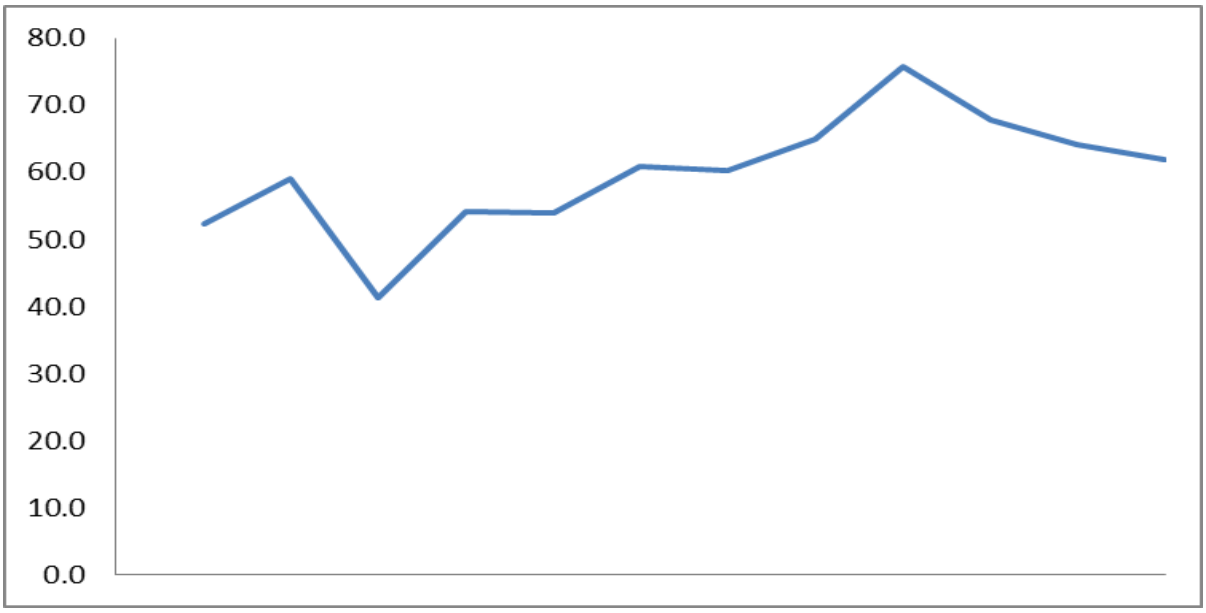
45. **The performance of the external sector remains weak, with persistent merchandize trade deficits.** Malawi's balance of payments improved in 2012, with a surplus of 0.9 percent of GDP, from deficit of -1.9 percent of GDP in 2011. Foreign Direct Investments (FDIs) picked up slightly to 1.5 percent of GDP in 2012, from 1.1 percent of GDP in 2011, partly reflecting a gradual return in investors' confidence and inflows in the mining sector. The narrow economic base renders the economy vulnerable to changes in the terms of trade, weather and other exogenous shocks, including an uncertain future for the tobacco in international markets.

Malawi's trade openness

46. **In 2011 agriculture accounted for just over one third of total GDP and almost 80 per cent of exports.** Tobacco remains the dominant commodity exported, accounting for more than 40 per cent of total exports by value, valued by sugar, tea, and raw cotton.

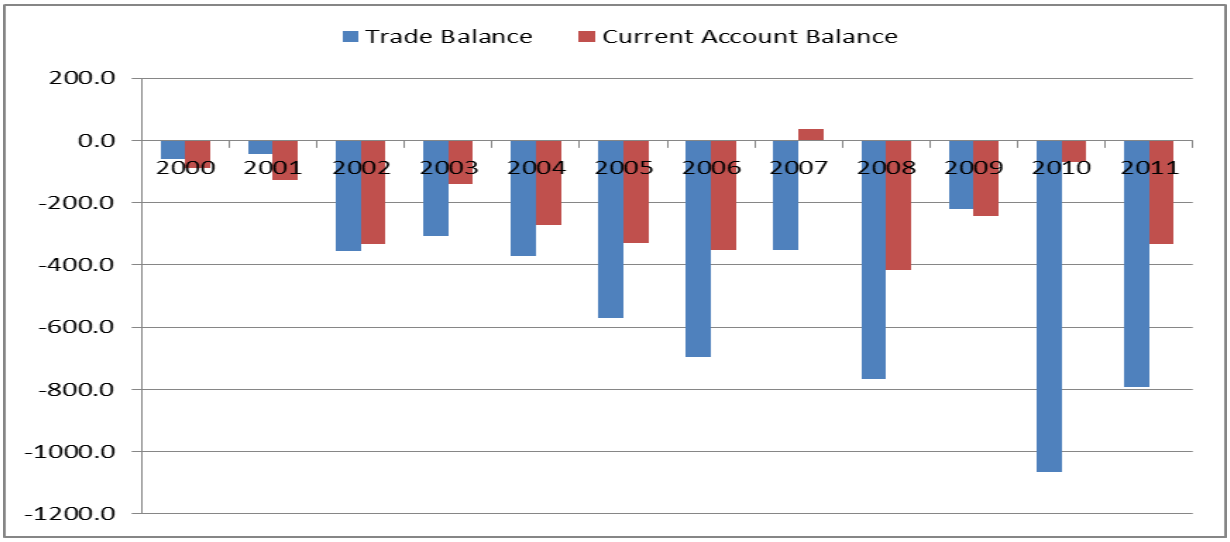
47. **Figure 3 shows how trade in goods as a share of GDP increased from two thirds in 2003 to 83 per cent in 2009.** This was largely driven by a surge of imports and a deteriorating balance of trade which is shown in Figure 4. In 2010 Malawi imported $2.3 billion of goods and services and exported $1.2 billion. This structural deficit was funded in the short term by Aid flows and increased borrowing. The excess demand for foreign exchange resulted in foreign exchange restrictions which limited imports through 2011. In May 2012 the Kwacha was devalued by 49 per cent and has since fallen further against the dollar and other major trading currencies. While this has reduced the structural deficit Malawi remains vulnerable to exogenous shocks arising from drought and adverse movements in the terms of trade.

Figure 3 Merchandise Trade as per cent of GDP, 2000-2011



Source: http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS

Figure 4 Trade and current-account balance, 2000-2011



Source: http://data.worldbank.org/indicator/

Malawi Financial Sector

48. **The Malawi banking sector comprises twelve commercial banks.** The three largest banks account for over 60 percent of gross loans, deposits and total capital. The three midsize banks account for 24.1 percent of gross loans, 19.5 percent of deposits and 23 percent of total capital. The six smaller banks account for 14.8 percent of gross loans, 20.1 percent of deposits and 14.7 percent of total capital.

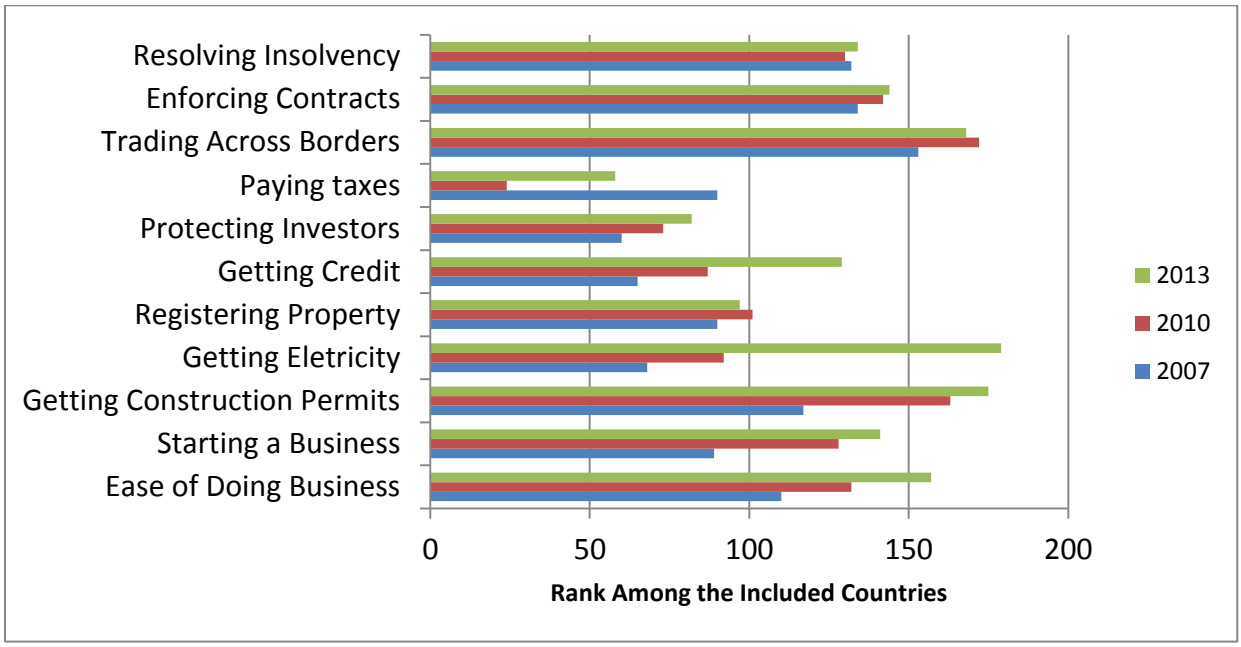
49. **Risks to banks' portfolios remain elevated due to the difficult macroeconomic environment, which characterized the year 2012.** In the wake of the exchange rate liberalization in May 2012 and the ensued liquidity crisis in the banking system, some banks suffered losses, although deposits at systemic level remained stable. Banks faced severe liquidity pressures as interbank, repo and long-term funding markets all suffered major disturbances. The credit risk was manifested in a reduction in asset quality with the ratio of non-performing loans (NPL) to gross loans and leases rising to 11.8 percent in March 2013, from 6.5 percent in September 2012.

50. **While the banking sector remains well capitalized with a total capital and core capital ratios registering well above the minimum regulatory requirements, the credit risk remains.** The RBM has taken steps towards addressing weak banks and identifying banking risks and plans to strengthen its framework for addressing emerging banking problems as well as its bank supervision capacity. The build-up of NPLs is likely to prevail in the short term and this raises concern on the soundness of a number of banks. Banks are also expected to be fully Basle II compliant by January 2014 and as such need more resources for capital regulatory requirements and for boosting up their informed human capital. The planned third party diagnostic assessment of the banks will help identify the underlying weaknesses in the sector as well as the sector's readiness for Basle II.

Business Enabling Environment

51. **The business environment in Malawi remains challenging.** The country ranks behind its neighbors in indicators that measure attractiveness of the business environment, such as the Global Competitiveness Index (GCI) of the World Economic Forum and the World Bank's Doing Business Report. Business Climate Surveys highlight the following among the main obstacles to doing business in Malawi: (i) lack of access to finance; inadequate infrastructure (especially electricity); (iii) inefficient government bureaucracy; (iv) policy instability; and (v) inadequate education and skilled workforce. Enabling Malawi to benefit more fully from the large export and growth opportunities offered by the regional and global economy requires improvements in the business environment; reducing the infrastructure deficit, especially energy and water supply; facilitating trade and regional integration; making credit more available and affordable, especially to smallholders; and addressing the skills gap. Existing initiatives include the establishment of a one-stop-shop to facilitate the setting up of businesses and to inform investors of available incentives. In November 2012, parliament approved the Single License Bill aimed at reducing the number of procedures and time required to start a business. The government has also launched NES in December 2012 which puts in place inter-governmental coordination aimed at removing road blocks to export development and identifies three priority sectors. In April 2013 import and export permits were removed on many (but not all) agricultural products. While commendable progress is being made to stabilize the economy, improving the business environment will depend on policy certainty and predictability, and the removal of legal and regulatory hurdles.

Figure 5 Doing Business Rankings for Malawi (2007, 2010, 2013)



Source: Doing Business Reports

52. **The World Bank Doing Business benchmarks indicators for over 183 countries to show the time and costs required for a local entrepreneur to open and run and a small to medium sized business when following the regulations.** It measures and tracks changes in in the regulations that are applied at various stages in the life cycle of a business from start up to exit and closure. Doing Business has stimulated discussion amongst policy makers and raised awareness on the importance of the business enabling environment to advancing growth. The major indicators used include ease in starting a business, ease in paying taxes, protection given to investors, ease in getting credit, enforcing contractors, ease of trading across border, ease in resolving insolvency, registering property, getting electricity, and getting construction permits. Malawi has participated in the Doing Business Survey since 2004.

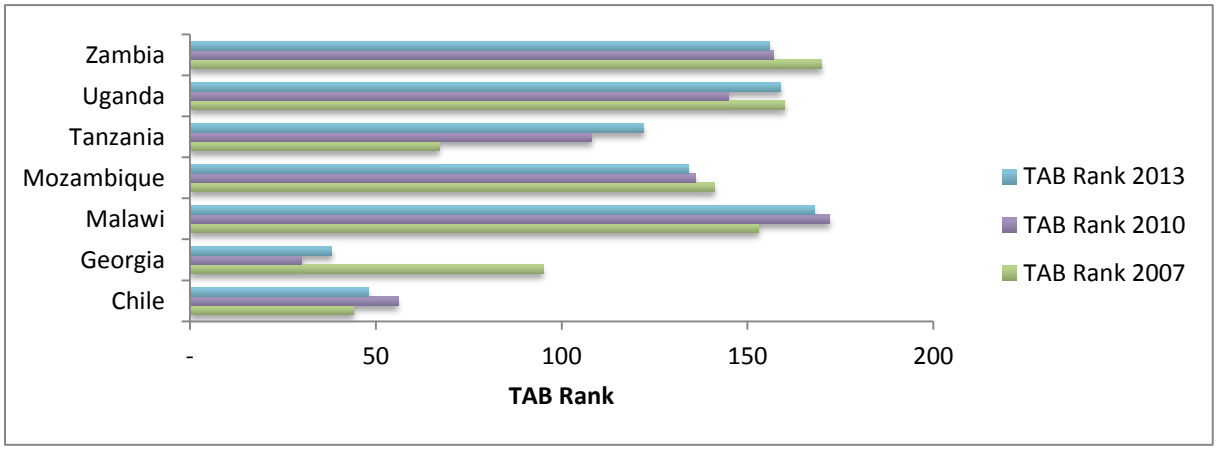
53. **Malawi's performance relative to other countries has been poor across all factors except for paying taxes (Figure 5).** On ease of doing business, the overall country ranking among all 183 countries dropped from 110 in 2007 to 127 in 2010 and 157 in 2013. This can be attributed to a lack of significant reforms undertaken to improve the business regulatory environment relative to other countries. It is also notable that the 'Trading across Borders' category is one of the weakest for Malawi.

54. **Over the past 6 years Malawi has reduced the number of days to import and export from 60 and 44 in 2007 to 43 and 34 days respectively in 2013.** This principally resulted from the on-going customs modernization program at MRA. During the same period, the cost to import per container from a sea port increased from US$ 1,590 in 2007 to US$2,870 in 2013 according to data from the Doing Business indicators, while the cost to export per container

increased from US$ 1,565 in 2007 to US$ 2, 175 in 2013. Progress was also achieved on reducing the number of documents required for importing from 16 in 2007 to 9 in 2013. However, the number of documents required to export increased from 8 in 2007 to 10 in 2013. For reasons of comparison, the Doing Business Indicators report the number of documents needed for a container with standard goods not requiring special documentation, so the overall number of documents required could differ depending on the type of cargo.

55. **Comparing the trading across borders rankings for Malawi with comparator countries shows that it is relatively easier to import and export in Chile and Georgia than in the neighboring African countries namely of Zambia and Tanzania.** Over the past four decades Chile transitioned from a dependence on mineral exports to become a major supplier of diversified fruit and vegetables throughout the Americas. The transition was facilitated by substantial reforms which reduced trade costs and lowered the cost of doing business.

Figure 6 Trading Across Border Ranks for Malawi and Comparator Countries

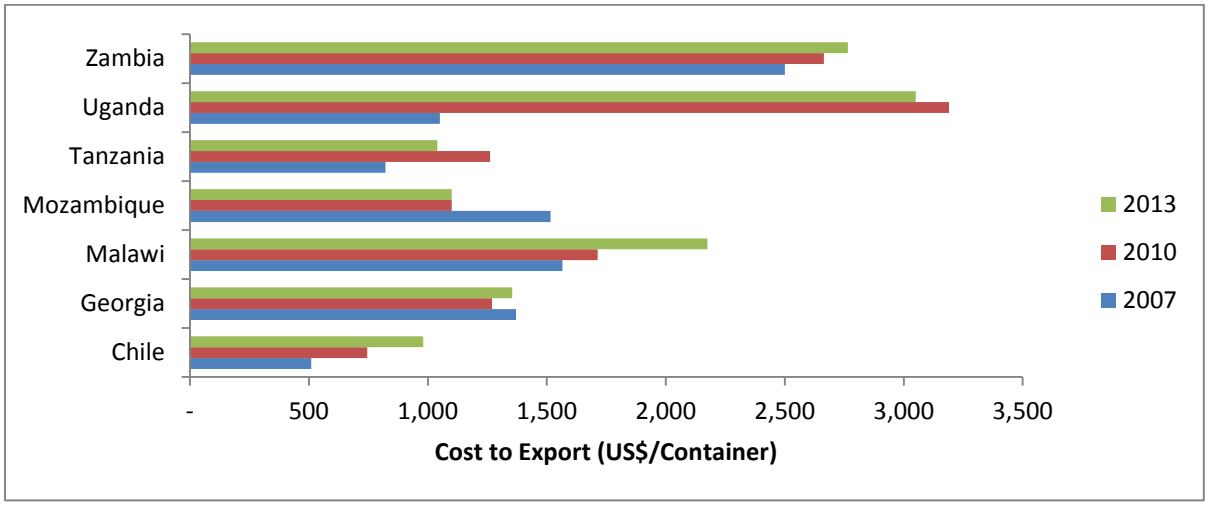


Source: Doing Business Reports

56. **Figure 6 above shows that Georgia has undertaken considerable reforms to improve the procedure, the length of time and cost to import and export relative to their African counterparts.** Within the region, Tanzania and Mozambique have better rankings for trading across borders than Malawi, Uganda and Zambia.

57. **Figure 7 below shows the cost to export per container.** Chile and Georgia costs are about half those experienced by Malawian exporters. In Malawi, the cost to export per container has increased consistently from US$ 1,565 in 2007 to US$1,713 in 2010 and US$ 2, 175 in 2013. Malawi's cost to export is relatively high and has been increasing whereas both Tanzania and Zambia have managed to reduce the cost of exporting, although Zambia continues to face higher costs.

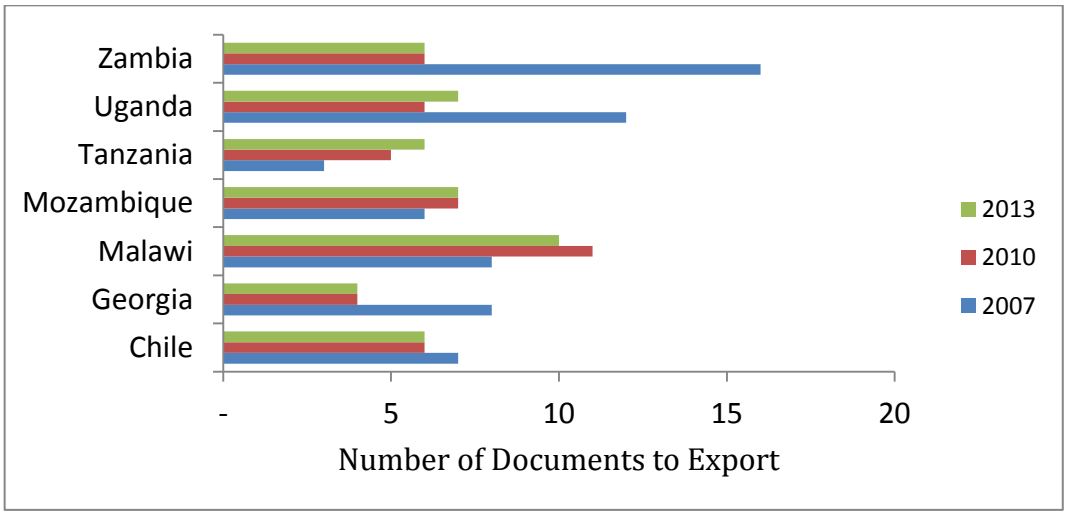
Figure 7 Cost to Export (US$/Container)



Source: Doing Business Reports.

58. **Figure 8 below compares the number of documents required to finalize export sales.** The figure shows that Chile, Georgia, Uganda and Zambia have made some considerable reforms to reduce the number of documents required to export. In 2013, Malawi reported the highest number of documents required at 10 though it is an improvement from the 12 required in 2010. Further reforms are required to reduce the number of required documents to less than 5.

Figure 8 Number of Documents to Export



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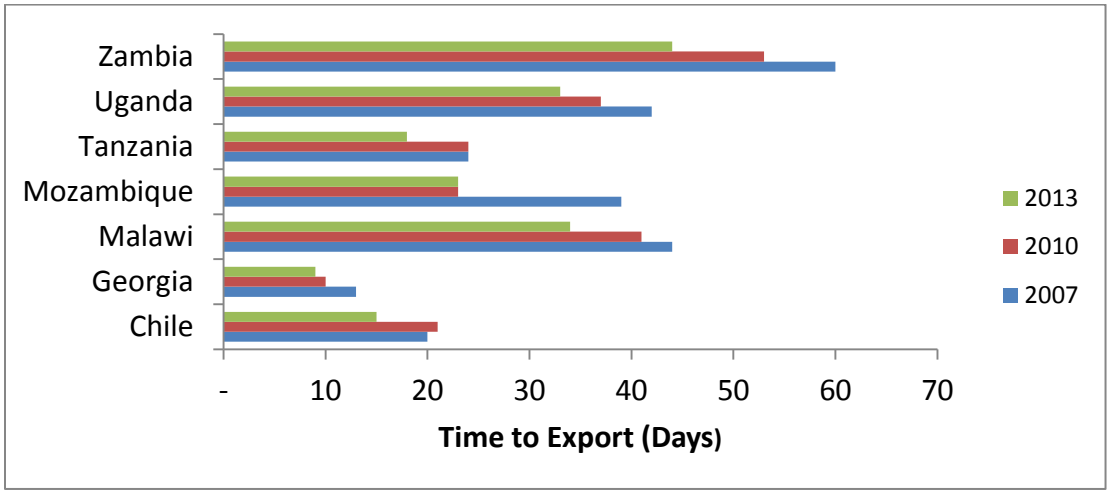
Source: Doing Business Reports

59. **Figure 9 below compares the time it takes to export goods among the comparator countries.** The figure shows that both Georgia and Chile are among the top performers as it takes less than 15 days to export. In the region, Tanzania and Mozambique are, again, better performers as between 15 and 22 days are taken to export whereas Zambia takes 45 days to export. Malawi and Uganda are in-between at 35 days to export. The time needed for document

preparation is a key driver of these differences, demanding 12 days in Mozambique, and 21 days in Malawi. It is worth noting that all countries have made considerable reforms to reduce the number of days it takes to export between the periods 2007 and 2013, with Malawi reducing from 44 days to 34 days.

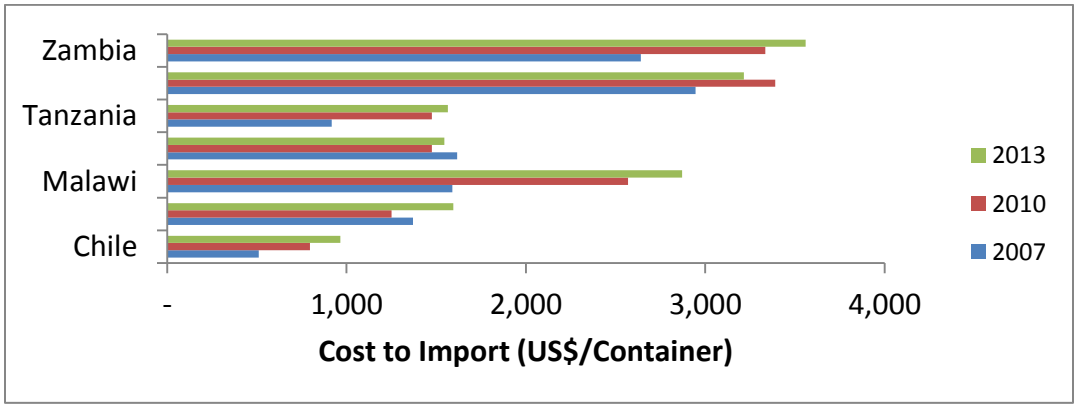
Figure 9 Time to Export (Days)



Source: Doing Business Reports

60. **Figure 10 below compares the cost to import per container for the comparator countries.** The figure shows that the cost to import per container has generally increased between 2007 and 2013. Within the region, Tanzania and Mozambique has cost to import comparative advantage as the cost are less than US$1,700 while among the landlocked countries Malawi has the lowest import cost. However, it is worth noting that there was a significant increase in cost to import between 2007 and 2010 as it increased from US$ 1,590 to US$2,570 and climbed further to US$2, 870 in 2013.

Figure 10 Cost to Import (US$/Container)



Source: Doing Business Reports

Welfare, Poverty, and Inequality

61. **Malawi remains a low income developing country with GNI per capita (Atlas Method) of US$320 in 2012 and is ranked 170 out of 186 countries surveyed in the United Nations Human Development Index of 2012.** According to the Third Integrated Household Survey (IHS3 2010/11), poverty headcount in Malawi has declined by less than 2 percent since 2004/05, to 50.7 percent. Although poverty in urban areas reduced from 25.4 percent in 2005 to 17.3 percent in 2011, this gain was counterbalanced by deterioration in rural poverty from 55.9 percent to 56.6 percent. Stagnant poverty levels raise questions on the effectiveness of public investment programs, including the Malawi's Farm Input Subsidy Program (FISP), in alleviating poverty and food insecurity in a sustainable manner.[2] With the majority of the poor living in rural areas, rural growth through agricultural transformation is clearly critical as Malawi strives to reduce the number of its people who live in absolute poverty.

62. **Poverty and inequality outcomes have been particularly disappointing over the period (2005-2011).** The *poverty headcount* has fallen from 52.4 to 50.7, a reduction that is not statistically significant. Poverty has fallen significantly in urban areas from 25 to 17 per cent, and has remained stagnant in rural areas, i.e., slightly moving up from 56.2 to 56.7 per cent. In urban areas, there has been a significant reduction in poverty among female-headed households, while the rates increased more significantly for that group in rural areas. Changes in *ultra-poverty* (the proportion of households with total expenditure below the food poverty line level) have been more severe, with increases observed nationally and for rural areas and less accentuated reductions in urban areas, when compared to reductions observed in those areas for total poverty. Over this period, there has also been an increase in *wealth concentration/inequality*. Nationally, the *Gini Concentration Ratio* increased from 0.39 to 0.45. Urban inequality remains relatively higher than that in rural areas, but has not aggravated significantly, increasing from 0.48 to 0.49. Rural inequality increased more substantially from 0.34 to 0.38, which means that the disparity between rich and poor widened in those areas.

Table 1 Selected Social and Demographic Indicators: Malawi and SSA, 2012

	Malawi	Sub-Saharan Africa
Population, total (millions)	15.3	875
Population growth (annual %)	3.0	2.5
GDP (current US$) (trillions)	0.5	1.2
GDP per capita (current US$)	320	1,258
GDP growth (annual %)	1.8	4.7
Life expectancy at birth, total (years)*	54	55
Mortality rate, infant (per 1,000 live births)*	53	69
Literacy rate, youth female (% of females ages 15-24)**	87	66
Prevalence of HIV, total (% of population ages 15-49)	10.6	4.9
Source: World Development Indicators		

[2] FISP account for over 60 percent of the total budget allocated to the Ministry of Agriculture and Food Security.

Lessons from the Implementation of the 2004 Action Matrix

63. **The Action Matrix made recommendations across five broad areas:** (i) macroeconomic and social stability; (ii) transportation: (iii) export sector-specific measures (tobacco, sugar, groundnuts and spices, tea, cotton, textiles and clothing, and food products); (iv) customs reform and other institutional capacity; and (v) trade policy. In total implementation was endorsed for 67 actions, many with numerous sub-actions, spread across the five broad subject areas with responsibility across Ministries, Agencies, Regulatory Bodies, technical working groups and other stakeholders.

64. **Out of 67 recommended actions, only 8 were fully implemented** and these were driven by other strategies and programs such as the MGDS, the Privatization Program and individual agency initiatives. Thirteen actions were largely implemented and a further twelve were half implemented. 19 actions were started and then stopped or have shown progress recently following years of minimal or no action. 15 actions have not been implemented. A summary of the progress is contained in Table 2. A detailed assessment of each recommended action in the Matrix is contained in Appendix 2.

65. **The actions implemented include a comprehensive modernization program by the Malawi Revenue Authority which resulted in some advances in trade facilitation**, opening the long-haul international road routes resulted in more competitive international transport costs (although internal transportation remains expensive), and the updating of several commercial laws and regulations. However in many areas there was either limited progress or no action. These include: strengthening institutional capacity for ensuring effective coordination, negotiation and implementation of trade agreements, reducing the adverse trade impact of non-tariff measures on imports and exports, diversifying exports and benefiting from increased investment and growth through advancing regional integration.

Table 2 Summary of Implementation of DTIS 2004 Action Matrix

Action Category	Number of Recommendations	Implementation Status in %	Degree of Impact in %
Macroeconomic and Social Stability	3	65	55
Transportation	10	28	20
Export Sector Specific Measures	25	41	26
Customs Reform and Other Institutional Capacity	20	60	41
Trade Policy	9	33	17

66. **The actions implemented following the DTIS would have been implemented independently of the DTIS process.** In each case the stakeholders were committed to implementation, independent of the DTIS. Why did the vast majority of actions witness either no implementation or at best a partial implementation? An assessment of the progress found the absence of a constituency or high level champion with the mandate, capacity and commitment to

push through the reforms as the prime reason for weak implementation. Lacking a strong mandate the Ministry of Trade and Industry and the EIF National Implementation Unit did not have the ability to overcome the resistance to reform or to gain support from other, more influential, parts of government which could have supported the Ministry of Trade in its reform efforts.

67. **The review of the progress on the Action Matrix interviewed a wide range of stakeholders in Malawi and found many implementing agencies were unaware that the activities remained priorities for mainstreaming through government programs.** The earlier Action Matrix was largely only known to those who had been directly involved in its development. The Ministry of Trade and Industry was not held accountable for implementation, following up on progress, and reporting to the Cabinet Committee on the Economy. Following the validation workshop in 2004 it is difficult to avoid concluding that the Action Matrix was not used as a key input for guiding either policy or programs.

68. **The experience of the past decade on mainstreaming and implementing the Action Matrix provide salient lessons for the Update.** Firstly, the Update should identify and quantify the key trade related issues that require addressing in order for the GOM to steer the economy towards more inclusive growth and economic diversification. Secondly, these activities should only include those could realistically be addressed through the leadership of the National Implementation Unit in the Ministry of Industry and Trade and with support by the development partners in the context of the Enhanced Integrated Framework, and hence should focus on policy reforms rather than infrastructure reforms. Thirdly, the updated Action Matrix must be endorsed and integrated into existing Government programs and strategic documents. Specifically the Action Matrix could be added to the NES and linked to the MGDS and ERP. The NES implementation mechanism or sector-wide approach could therefore be used to ensure priority recommendations of the DTIS update will be implemented.

Chapter 3. Trade Policy and Performance

69. **This chapter describes aggregate trends in exports performance since the 2004 DTIS and then dives down to examine the characteristics of exporters using a rich new dataset on exporting firms for Malawi and a range of comparator countries between 2009 and 2012.** This is followed by a description of the structure of nominal protection, or price raising impact of tariffs, under both the Most Favored Nation and Regional trade preferences schedules, prior to focusing on the use of duty rebates by both import competing and exporting firms.

70. **Multiple tariff schedules in conjunction with rebates on imported inputs and duty preferences in regional and international markets results in creating significant incentives for Malawian firms to sell into the domestic market.** Simplifying and streamlining trade policies will create a more neutral environment between producing for the domestic or international market. Reducing anti-export bias will encourage investment in a wider range of economic activities that promise to expand linkages to the existing domestic agro-industries and manufacturing sectors. Furthermore, reducing anti-export bias will increase Malawi's attractiveness as a location for activities linked to either regional or global value chains.

Malawi's Export Performance

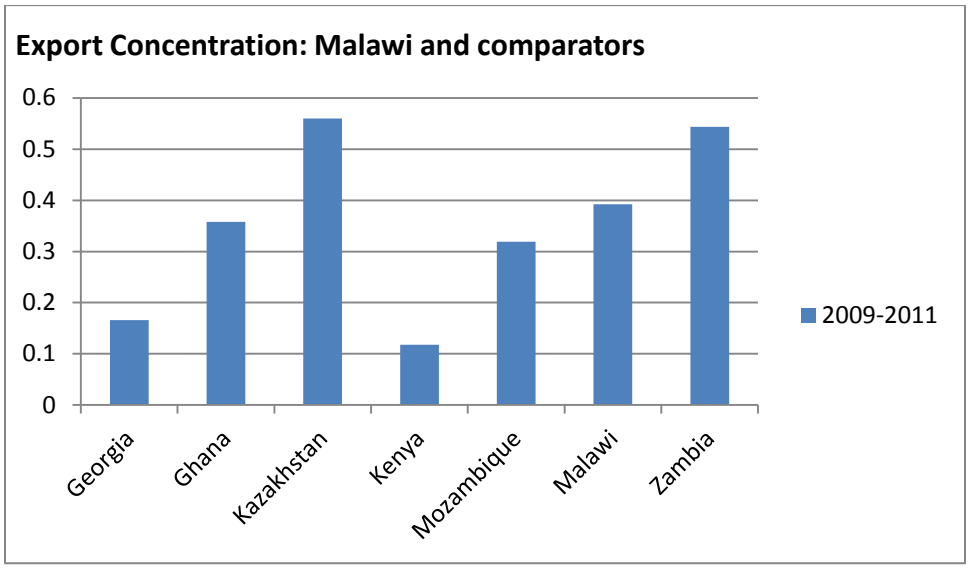
71. **The earlier DTIS (2004) summary of Malawi's trade regime and performance noted that exports were dominated by tobacco which accounted for two-thirds of the total.** Furthermore relative to similar least developed economies export growth had been sluggish through the 1990s. Even though Malawi has a relatively high ratio of trade to GDP the 2004 DTIS noted the limited linkages between exports and the domestic economy constrained trade from making a broader contribution to economic growth. The modest response to the substantial liberalization of MFN Tariffs as part of the structural adjustment process in the late 1980's was attributed to the continued existence of binding supply side constraints.

72. **With hindsight it is apparent that reducing tariffs without addressing the numerous non-tariff measures left trade costs at high, and for many prohibitive, levels and consequently constrained further significant export growth.** Recent work focusing on the costs of moving goods across borders has also identified the highly regressive impact of fixed costs which crowd out small and medium scale enterprises for engaging in trade (see for example Brenton and Isik, 2012). Worsening trade deficits and a fixed exchange rate during the second half of the last decade served to undermine export competitiveness. Liberalizing the exchange rate in May 2012 has improved export competitiveness however, trade costs remain high.

73. **Malawi is similar to many least developed economies in having a very narrow export basis.** There is a strong correlation between export diversification and income levels. Figure 11 shows Malawi to have higher concentration of exports, measured by the Herfindahl Index based on average over the period 2010-2012, than Mozambique but is slightly more diversified relative to Zambia, and is similar to Ghana.

74. **In 2000 the largest five commodity exports accounted for almost 90 per cent of the total value, by 2011 the same commodities accounted for 77 per cent of the total with the newly opened uranium mine accounting for almost 9 per cent.** Mineral exports are expected to increase further as new mines come on stream. The continued dominance of agricultural commodities within total exports is shown in Tables 4 and 5. Agriculture accounts for almost 80 per cent of total exports and is concentrated in a small number of firms. More than 50 per cent of total exports are traded outside the region to the EU and North America, with African markets accounting for approximately one quarter. Imports are sourced more widely with almost two-thirds originating from Africa, and South Africa accounts for 40 per cent.

Figure 11 Export Concentration: Malawi and Comparators



Note: Herfindahl index calculated at HS chapter (HS2) level. Source: Derived from WITS Database www.wits.worldbank.org/

75. **The Paladin uranium mine at Kayelekera opened in 2009 and exports all of its production for processing in Canada, but operations will be put on hold around mid 2014.** With falling uranium prices, the uranium mine will be put in "care and maintenance" and exports are expected to cease once remaining chemicals for operations are used up. According to reports, operations are only likely to resume following a "significant" recovery in the price for uranium. Substantial additional investment in mining could take place with the Kanyika niobium mine and other possible investment for mining rare earths and heavy mineral sands under exploration. Another notable development in exports has been the increase in regional exports of plastic household products from less than $1m in 2004 to over $25m in 2011 as Arkay Plastics sells to the major South African retail chain stores. Apparel exports from Malawi to South Africa, which accounted for most of the exports classified under textiles and clothing, traded duty free with a simple rule of origin (which allowed all the cloth to be imported) under the SADC Trade Protocol. This facility was scheduled to terminate in 2008 and was finally revoked in 2011. Since 2011 several apparel plants, employing approximately 4,000 workers have closed down. The agricultural sector has seen a significant expansion in sugar production and the growth of non-

traditional agricultural products such as oil seeds. Oil seeds have grown from close to zero to reach almost 3 per cent of total exports in the past 7 years (see tables 3 and 4).

Table 3 Malawi Exports 2005 – 2011 (US $ million)

Industrial Classification	2005	2006	2007	2008	2009	2010	2011
Agricultural Materials	415.4	576.5	735.0	771.9	1,089.0	865.0	1,147.3
Agricultural Raw Materials	19.9	27.4	34.0	44.8	41.1	45.6	73.0
Chemicals	2.9	7.2	11.3	9.1	12.5	49.5	87.6
Food	107.1	137.6	237.7	212.8	300.2	245.8	418.4
Ores and Metals	1.1	1.6	1.5	1.8	5.9	59.1	79.4
Manufactured Goods	75.7	85.8	123.7	104.0	89.5	138.2	195.9
Textiles and Clothing	53.2	62.3	62.9	70.0	59.4	54.7	77.3
Transport and Machinery	12.0	13.4	56.6	38.8	22.5	29.4	32.7
Services (excluding Govt. Services)	104.2	104.6	117.5	121.6	126.5	141.5	n.a.
Total Exports (Goods and Services)	602.0	773.2	988.5	1,003.4	1,318.6	1,207.7	1,425.3

Source: Trademap

Table 4 Malawi Export Shares 2005 – 2011

Product Category	2006	2007	2008	2009	2010	2011
Tobacco	61.7	48.7	67.1	64.0	54.9	40.0
Sugar	7.1	7.4	6.0	5.9	6.5	15.1
Uranium Ores	0.0	0.0	0.0	0.7	10.7	8.8
Cereals	0.9	11.8	1.7	1.2	0.5	6.7
Coffee/Tea/Spices	8.6	7.1	4.8	7.1	8.2	6.7
Cotton	2.3	2.7	2.7	2.5	1.7	3.4
Oil Seeds	2.0	5.8	2.4	4.6	1.6	2.4
Vegetables	0.9	1.9	1.9	2.8	2.6	1.9
Plastic Products	0.4	2.1	0.4	1.4	1.9	1.9

Source: Derived from COMTRADE

76. **In a notable contrast with exports Malawi's imports are relatively diversified with the ten largest HS 2 digit chapter headings accounting for 62 per cent of total imports by value.** The largest import categories are fuel and gasoline, machinery, fertilizer, pharmaceuticals, vehicles, electrical machinery, plastics, tobacco and cereals.

77. Trade in services which accounted for 12 per cent of total trade 2010 is discussed in Chapter 6.

Direction of Imports and Exports

78. **The main trends in the direction of imports and exports may be observed from Table 5.** The past decade has witnessed considerable changes in the sourcing of imports as South

Africa has declined in relative importance as the Gulf States (primarily UAE), China, India and the neighboring states of Zambia and Tanzania have all more than doubled and in some cases trebled there relative shares. Almost 60 per cent of Malawi's imports originate from Sub-Saharan Africa with SADC accounting for 47 per cent, while this remains the largest regional supplier they have lost market share over the past decade. East and South East Asia have increased their market share from 10 per cent in 2001 to 24 per cent in 2011. The EU share remained broadly constant at 13 per cent while the NAFTA region increased their share from 3 to 5 per cent.

Table 5 Malawi Imports by Country of Origin and Exports by Destination (per cent)

Imports			**Exports**		
Country of Origin	**2001**	**2011**	**Destination**	**2001**	**2011**
South Africa	43.7	25.0	Canada	0.1	8.8
Zambia	1.8	4.5	Zimbabwe	1.7	8.6
Tanzania	0.8	3.1	South Africa	9.7	8.2
India	5.5	11.5	United Kingdom	10.1	7.7
Peoples Rep. of China	2.7	9.3	Belgium	1.1	6.5
UAE	0.8	3.1	USA	14.4	5.4
			Kenya	3.9	5.2
			Egypt	10.9	4.4

Source: Trademap

79. **The geographical pattern of Malawi's exports has diversified over the past decade reflecting changes in the international markets for tobacco and cotton, and the new uranium mine.** In 2001 the US and Egypt were major destinations for tobacco, however, there shares have declined as tobacco is now sent to Spain, Belgium and also Zimbabwe. Canada has emerged as the single largest trading partner as it receives all the uranium Concentrate from the new Paladin mine.

80. **The share of imports from SADC countries other than South Africa increased through the past decade to reach 30 per cent before declining during the global economic downturn to 20 per cent.** Imports from India, China and the Middle East have displaced many of the consumer goods that were previously imported from South Africa. South Africa remains the single largest source for imports and continues to export a wide range of products to Malawi although it is possible that many of these are actually imported into South Africa as the major regional distribution hub. It is not possible to separate out products that are produced in South Africa from those that originate elsewhere. The largest dutiable items from South Africa are fuel, motor vehicles and commercial vehicles, and ovens/cookers. In aggregate these three sectors account for more than half of all customs duties levied on South African imports. The other SADC countries export a narrow range of products to Malawi. For example, five products – cement, soap powder, cotton seeds, fertilizer, and chemicals –account for two thirds of Zambia's exports to Malawi.

Characteristics of Exporters in Malawi

81. **An analysis of firm level export data found a number of stylized facts on exporter competitiveness**.3 Using data for 2009-2012 for Malawi and eight comparator countries (Kenya, Mauritius, South Africa, Tanzania, Uganda, Zambia, Cambodia and Guatemala)

82. **Malawi has a smaller number of exporters to the comparator countries and this remains the case even when accounting for differences in the levels of development and relative size**. Malawi also has the highest churn rate-entry and exit- among all the comparator countries over the period 2006-2012. The sheer magnitudes are striking. In any given year between 2009 and 2012 half of the exporters had not exported in the previous year. Over the same period Malawi also showed the lowest survival rates for new entrants with an average of only one third of all exporters remaining in the following year. The relatively small number of exporters and the low survival rates of new exporters suggest a challenging business environment.

83. **Although there was a modest reduction in concentration between 2009 and 2012 exports in Malawi continue to be dominated by a very small number of large firms.** In 2012 the largest five firms accounted for 62 per cent of total exports and the top 20 firms accounted for 81 per cent. The share of total exports account for by the largest exporters are shown in Table 6. Given the high concentration of exports in the top 50 firms it follows that the vast majority of exporters are small. Over 65 per cent of firms exports less than USD 50,000 per year. The dominance of large exporters has implications for the design of an export strategy as further rapid growth would be heavily dependent on expanding the number and size of large firms. Except for the tobacco sector more than 75 per cent of new exporters do not survive past the second year. Firms registered in customs date as exporting vehicles (likely resale of used cars) have a turnover of almost 80 per cent annually and account for less than 5 per cent of total exports.

Table 6 Share of Total Exports Accounted for By Top Exporters - Malawi 2009-2012

	Share of Malawi's Exports Accounted for by:			
	Top 5 Exporters	Top 10 Exporters	Top 20 Exporters	Top 50 Exporters
2009	70%	80%	88%	96%
2010	63%	77%	87%	95%
2011	56%	69%	81%	93%
2012	62%	73%	81%	92%

Source: Author's calculations based on data used for the Exporter Dynamics Database.

84. **Recent work by the World Bank (2012) explained the observed low survival of export flows in African countries** to: (i) the difficult business environment with high trade costs due to both high freight rates, long supply routes, burdensome customs and administrative procedures and restrictive non-tariff barriers, and (ii) the constraints of productive capacities in

[3] These data are part of the new *Exporter Dynamics Database* presented in Cebeci, Fernandes, Freund, and Pierola (2012). The Appendix provides all details on the dataset as well as on the export competitiveness indicators that will be presented below.

terms of access to finance which prevents exporters from responding to potential opportunities. Improvements in the business enabling environment will contribute to increasing export survival through reducing transport costs.

85. **Through 2009-2012 only 180 exporting firms exported each year**. These continual exporters represented 13 per cent of the total number of firms that operated at some point through the period while accounting for 94 per cent of total exports. They were larger more diversified and served more destinations than occasional or intermittent exporters. Over the same period continual exporters in South Africa also accounted for over 90 per cent of total exports, however, they accounted for more than a third of all exporters.

86. **Malawi's exports continue to be dominated by tobacco** which accounts for half of the total. However, the opening of the Paladin uranium mine in 2009 resulted in minerals increasing in importance from 2010, but uranium exports are expected to cease by mid-2014 as the Kayelekera mine is being put in 'care and maintenance'. In Table 7, vegetable products and oils also includes the traditional agricultural exports of sugar and tea. The fifth largest sector, textiles includes the export of raw and ginned cotton.

Table 7 Distribution of Malawi's Exports across Sectors

HS 2-digit codes	Sector	2009	2010	2011	2012
HS 24	Tobacco	68.83%	55.76%	42.11%	54.37%
HS 06-15	Vegetable Products & Oils	14.07%	14.18%	19.43%	16.42%
HS 25-27	Minerals	0.71%	11.29%	9.22%	11.39%
HS 16-23	Food & Beverages	6.10%	7.49%	17.77%	5.04%
HS 50-59 & 41	Textiles (Including Leather)	2.59%	1.89%	3.73%	4.84%
HS 28-40	Chemicals & Plastics	1.69%	3.16%	2.87%	2.61%
HS 44-46 & 94	Wood & Articles Thereof	1.28%	1.27%	1.03%	1.73%
HS 86-89	Transportation Vehicles	0.79%	0.42%	1.01%	0.89%
HS 60-67 & 42-43	Apparel & Footwear (Including Leather Articles)	2.21%	1.97%	1.43%	0.76%
HS 47-49	Paper	0.13%	0.14%	0.21%	0.66%
HS 84 & 91-92	Mechanical Machinery (Including Clocks & Music Instruments)	0.93%	1.45%	0.58%	0.64%
HS 01-05	Live Animals & Animal Products	0.06%	0.18%	0.26%	0.25%
HS 72-83	Base Metals	0.31%	0.46%	0.15%	0.20%
HS 85 & 90	Electrical Machinery (Including Optical, Medical, Photographic Instruments)	0.22%	0.27%	0.13%	0.17%
HS 71 & 93 & 95-97	Others	0.05%	0.05%	0.03%	0.03%
HS 68-70	Cement, Ceramics & Glass	0.03%	0.02%	0.03%	0.02%

Source: Author's calculations based on data used for the Exporter Dynamics Database. Note: HS 27 is excluded from our analysis therefore it is not part of the HS 2-digit codes covered by the sector 'Minerals'. Some firms export products in multiple sectors, and the sums for some of the sectors may not exactly match the percentage commodity pattern identified in Table 4.

87. **The small number and large size of exporters of agricultural commodities –in tobacco, oilseeds, sugar, tea- largely reflects the importance of traders/wholesalers in promoting exports**. The traders/wholesalers are agents whose transactions are captured by the exporter-level customs data and in many cases they are acting as intermediaries while the agricultural production is undertaken by a large number of small holders and smaller farmers. The dearth of small and medium sized exporters (who survive) is indicative of high fixed trade costs and uncertainty in exporting. These include the many charges/fees that are more onerous

for small traders, the uncertainty and time required to obtain import and export permits for agricultural products, transport costs, finance constraints, and the costs of building up a reliable network.

Multiple Tariff Schedules: MFN and Regional Preferences

88. **The regional agreements with COMESA and SADC, bilateral preferences and the multilateral Most Favored Nation (MFN) under the WTO result in Malawi having multiple tariff schedules**. Overlapping membership between regional neighbors adds to the complexity as importers can be classified in one of five different schedules depending on both the origin of the imports and whether the goods conform to rule of origin requirements under the preferential trade agreements. The tariff schedules include General for the non WTO countries, MFN for all WTO members, COMESA, SADC, and South Africa. Malawi also has bilateral agreements that allow for preferential access with Mozambique and Zimbabwe. However, these have now been superseded by the tariff concessions provided under the regional agreements and are not listed as separate schedules.

89. **The Most Favored Nation (MFN) tariff comprises eight bands of applied tariffs: duty free, 5 %, 7.5%, 10%, 15%, 20%, 25% and 200%.** All tariffs are applied on an ad valorem basis to the c.i.f. value of the import, there are no specific tariffs. The 2013 MFN tariff schedule contains 5,537 lines at the HS 8-digit level and is based on the HS-2007 nomenclature.

90. **Almost one third of the MFN tariff lines are now at zero and a further 28 per cent are at 10 per cent**. More than half of all imports enter at zero rates of duty, with a further 32 per cent incurring MFN duties of 10 per cent. The modal (or most common) tariff rate is the 25 per cent band accounting for almost 40 per cent of the tariff lines but less than 14 per cent of total imports. The economy wide simple average MFN tariff is 14 per cent. The simple average tariff is higher for agriculture relative to industry with HS Chapters 1-24 show a simple average of 19.6 per cent and HS Chapters 25-98 registering 11.5 per cent.

91. **More than 50 per cent of imports in 2012 entered through zero rated tariff lines (see Table 8)**. Most capital goods and fertilizers are classified as duty free. The 5 per cent tariff applies to raw materials and basic foodstuffs, while higher rates applied to industrial goods and 'non-essential' consumer goods. Customs Duties on many agricultural commodities and products, including vegetables, fish, coffee, tea, nuts and spices were increased to 25 per cent in 2009 with the stated objective of protecting the domestic industry. The five tariff lines at 200 per cent relate to imported international brands of cigarettes and cigars.

92. **In 2012 the average tariff weighted by the commodity composition of imports was 6.9 per cent** which would have yielded approximately 30 Billion Kwacha in 2012. However, the MRA collected 14.6 billion Kwacha in customs duties (the ex post tariff) which represents an average collection rate of 3.4 per cent. The difference between the ex-ante and the ex post tariff rates is accounted for by duty exemptions and preferential tariffs. The dependence on tariff

revenue has declined over the period 2007-2012 from accounting for 10-12 per cent of total government income in 2007/8 to 7.5 per cent in 2012.

Table 8 Malawi 2013 Tariff Structure

Tariff (%)	Number of Tariff Lines	Per Cent Tariff Bands	2012 Imports (MK. million)	2012 Imports Per cent
Zero	1,773	32	225,795	51.97
5	61	1.1	2,803	0.64
7.5	2	0.1	9	0.01
10	1,573	28.4	142,531	32.80
15	6	0.1	716	0.16
20	8	0.1	2,005	0.46
25	2,109	38.1	60,615	13.95
200	5	0.1	37	0.01
Total	5,537	100.0	434,511	100.0

Source: Derived from the MRA ASYCUDA Database

93. **The ex post (based on tariffs paid) duty rate is significantly lower than the ex-ante (or published/statutory MFN) tariff rate because of exceptions from the standard MFN tariff**. Table 9 presents the information on average tariff rates by major sector groupings and shows the divergence between the published schedules and the actual duty paid on imports. These include regional and bilateral preferential trade agreements, rebate or duty remission schemes, and exceptions for imports from international organizations, diplomats and returning migrant workers. It shows the MFN simple average for various import categories, presents the trade-weighted average statutory rate (ExAnte Tariff %) and compares this to the effectively collected customs duties obtained from MRA data, expressed as ExPost Duty %. The table shows that effectively collected duties are significantly lower than statutory duty rates.

94. **While the basic tariff structure has remained unchanged since the mid 1990's a small number of new tariff lines have been added since the publication of the Full Tariff Schedules as a supplement to the Malawi Gazette in December 28, 2007**. This is available electronically on the Malawi Revenue Authority Website (www.mra.mw/), however, it has not been updated. The tariff schedules listed on the web site differ considerably from the applied tariff schedules that are taken from the ASYCUDA database, partially because tariffs change frequently. The MRA has published Annual Notices which outline the amendments to the Customs and Excise Tariffs Order. The notices (which are on the MRA website) provide a product description rather than the 8 digit HS Code and are a summary that does not contain detailed duty rates. Information on the 8 digit HS tariff code is provided in the ASYCUDA tariff database which is available to all registered customs brokers since it is used for the Direct Trader Input (DTI) which cannot be accessed by the general public from the MRA website. To increase transparency, however, it is important for the general public to always have access to up-to date information, without the need of consulting a customs broker.

Table 9 Sector Groups: Tariffs, Collection Rates, Imports and Exports

Values in MK (million)

HS chapter	Sector Groups	MFN S. Avg. Tariff	ExAnte Tariff %	ExPost Duty %	Import (cif)	ExPost Duty	Export (fob)
01-05	Animal Products	14.7	6.6%	6.3%	1,896.7	119.8	711.4
06-15	Vegetable Products	14.2	8.8%	1.3%	18,465.9	236.0	48,464.8
16-24	Foodstuffs	23.3	12.7%	9.2%	6,566.9	604.3	170,283.6
25-26	Minerals	9.6	5.9%	0.2%	32,238.5	66.3	32,704.1
27	Mineral Fuels	3.3	9.2%	8.0%	59,132.8	4,721.1	389.6
28-38	Chemicals	9.1	0.9%	0.4%	144,579.9	573.3	510.1
39-40	Plastic and Rubber	11.1	6.5%	3.9%	14,335.6	562.0	6,902.1
41-43	Hides and Skins	21.4	25.0%	23.5%	376.1	88.2	501.8
44-49	Wood	13.9	7.1%	2.6%	17,104.8	442.5	6,784.3
50-63	Textiles & Clothing	18.7	20.4%	14.4%	10,129.9	1,457.5	15,604.0
64-67	Footwear	24.6	23.0%	21.2%	2,101.2	445.0	62.2
68-71	Stone and Glass	16.2	15.8%	8.9%	3,816.1	339.0	80.8
72-83	Metals	11.5	10.6%	4.9%	15,635.0	772.7	581.4
84-85	Machinery & Elect.	6.4	3.4%	2.4%	54,291.8	1,286.1	1,401.6
86-89	Transport Equip.	9.1	16.7%	9.8%	25,372.5	2,493.5	2,419.9
90-98	Miscellaneous	19.5	14.4%	1.4%	28,467.5	391.4	1,048.1

Source: Derived from MRA Data.

95. **The 2009 WTO TPRM reported that the MFN tariff scheduled contained 5,436 lines. In March 2013 this had increased to 5,537 tariff lines**. Table 11 shows the number of 8 digit HS tariff lines that either increased or decreased over the period 2007-2012. It is notable that while virtually no tariff lines changed on the MFN scheduled significant changes took place under both the SADC and COMESA regional preferences. Table 10 shows the total number of tariff bands taking into account both MFN and preferential tariff schedules. While the MFN tariff schedule has 8 bands when COMESA, SADC and South Africa (under the SADC Trade Protocol) are considered the combined total number of tariff bands increases threefold to 24.

96. **The COMESA tariff preference also contains a large number of 'nuisance' tariffs, defined by the WTO as tariffs of 2 per cent of less, and has a smaller number of zero tariff lines than under the MFN which is anomalous**. Under COMESA 90 per cent of the tariff lines are below 10 per cent (see Table 10). Malawi's tariff preferences to SADC, excluding South Africa have resulted in 94 per cent of tariff lines being at zero customs duty, while the offer to South Africa under the SADC offers duty free access to 65 per cent of tariff lines (3613), with virtually all of the remaining lines at 15 per cent. The offer to South Africa also includes over 200 tariff lines at 30 per cent which is higher than the MFN rates (which is anomalous).

97. **The review of tariffs at the HS 8 digit level highlighted a small number of inconsistencies where preferential tariff rates exceed the MFN rate**. In most cases these relate to tariff lines where there is minimal or no trade, however, they should be made consistent with no preferential tariffs exceeding the applied MFN rates. More important, the complexity of

the tariff schedule with its multiple rates and prevalence of nuisance rates of less than 2 per cent should be simplified. This would have a minimal impact on revenue while reducing red tape and the time required for customs clearance at the border. The justification for having 2 tariff lines at 7.5 per cent is not apparent.

Table 10 Malawi Customs Tariff Schedules

	Number of Tariff Lines			
Customs Tariff	**MFN**	**COMESA**	**SADC**	**South Africa**
0	1773	1621	5222	3613
1	0	959	0	0
2	0	123	110	0
3	0	364	0	0
4	0	279	0	0
5	61	575	44	94
6	0	651	0	0
7	0	31	0	0
7.5	2	0	0	0
8	0	3	0	0
9	0	171	0	0
10	1573	6	25	21
11	0	2	0	0
12	0	488	0	0
12.5	0	0	1	0
13	0	238	0	0
14	0	5	0	0
15	6	0	36	1593
18	0	1	0	0
19	0	14	0	0
20	8	5	4	1
25	2109	1	94	0
30	0	0	1	215
200	5	0	0	0
Total 24	**5537**	**5537**	**5537**	**5537**

Source: Derived from the ASYCUDA Tariff Schedule (provided by MRA in March 2013)

Table 11 Summary of Tariff Line Changes, 2007-2012

Tariff Schedule	Increase	Decrease	Number of Lines
MFN	21	9	30
COMESA	331	340	671
SADC	272	13	285
South Africa	305	19	324

Source: Derived from the Malawi Gazette Supplement dated 28th December 2007 and the ASYCUDA Tariff files provided by MRA in March 2013.

98. **Recent changes in the MFN tariff have been justified as bringing the tariff in line with the structures agreed for the CET under COMESA Customs Union**, namely the removal of import duty on Chapters 28 and 29 (chemicals) and an increase in tariffs from 5 to 10 per cent on electric transformers and cathode lamps. A line by line review of the published tariff schedule with the ASYCUDA database revealed more than 100 cases of tariff splitting as

Malawi adopted HS 2007 and introduced a number of new national level HS Codes are with different tariffs. The majority of the tariff line changes relate to implementation of the COMESA and SADC FTA under agreed phase down schedules (see Table 11).

Regional Trade Preferences

99. **Malawi has participated in the COMESA FTA since its launch in 2000 and offers duty free access to all tariff lines for those COMESA members implementing the Free Trade Agreement**[4]. For those members of COMESA not implementing the FTA-DRC, Eritrea, Ethiopia, Swaziland and Uganda- Malawi offers preferential access to almost 4,000 tariff lines. The COMESA tariff schedule in the Tariff Book only refers to imports from these five non implementing members. Malawi applies an average preferential tariff of 4.3 per cent to these 5 members of COMESA.

100. **In June 2009 Malawi, along with other COMESA FTA members committed to align their national tariffs with the COMESA Common External Tariff (CET) within five years**. The proposed COMESA CET has three tariff bands: zero for raw materials and capital goods, 10 per cent for intermediate goods and 25 per cent for finished products. The COMESA CET contains 6,912 tariff lines and detailed work will be required to match this with the existing MFN external tariff. To date there has been no assessment of the expected economic impact on incentives and revenue of transitioning to the COMESA CET. A simple comparison of the existing MFN tariff with the proposed COMESA CET, where the MFN HS codes were matched with the corresponding COMESA tariff codes at the 6 digit level indicated that Malawi would be required to increase applied tariffs for 885 tariff lines -mainly from tariff lines currently at rates between zero and 5 per cent to 10 per cent.

101. **Malawi sources almost 40 per cent of its total merchandise imports from SADC, mainly from South Africa, while exports to SADC account for less than 25 per cent**[5]. The SADC Trade Protocol was launched in August 2008 following an 8 year transition period. Each member committed to liberalizing 85 per cent of trade by 2008 and phasing out the remaining tariffs by 2012 (except for Mozambique which phases out tariffs by 2015). SADC notified the Trade Protocol to the WTO under Article XXIV. Under the terms of the Trade Protocol, Malawi as a Least Developed Country was scheduled to begin liberalizing against South Africa in 2005 and against all the other SADC countries from 2003.

102. **The SADC tariff phase down schedule was arranged in three baskets**. Category A products which were mostly capital goods and raw materials and accounted for 1,788 tariff lines with very low or zero MFN tariffs were liberalized on the Trade Protocol entering into effect.

[4] This includes 13 countries: 8 since 2000, Djibouti, Egypt, Kenya, Madagascar, Mauritius, Sudan, Zambia, and Zimbabwe: plus Rwanda and Burundi in 2004; plus Comoros and Libya in 2006; and Seychelles in 2009.

[5] This percentage is based on Malawi's ASYCUDA trade data which is consistent with the COMTRADE mirror data.

Category B accounting for 2,850 tariff lines were scheduled to be phased down by 2008, and Category C representing 850 tariff lines were to be phased down by 2012.

103. **In 2012 the Southern African Trade Hub Audit of the SADC Trade Protocol found that Malawi had not implemented any tariff phase downs since 2004 in accordance with the original commitment which is shown below in Table 12**. The reason stated for the lack of implementation was budget constraints. At the beginning of 2012 2,947 tariff lines representing 54 per cent remained to be liberalized in terms of Malawi's commitment under the Trade Protocol. In June 2012 all duties on goods imported under the SADC Trade Protocol were reduced to zero, however, South Africa continued to be treated differently with the announcement stating 'removal of duty of specified goods produced, grown and manufactured from South Africa under the SADC trade protocol.' The announcement also listed a range of products on which the duty would be reduced to 15 per cent from 25 per cent[6]. Notwithstanding this announcement the ASYCUDA database continues to show tariffs on a wide range of tariff lines for imports from SADC, South Africa.

Table 12 Malawi Tariff Removal Commitments under the SADC Trade Protocol

Offer	# Tariff Lines	2001 %	2004	2006	2007	2008	2010	2012	Excluded
SADC	5,443	33.4	45.0	48.7	85.3	85.3	85.3	99.7	0.3
South Africa	5,443	33.4	33.4	34.8	34.8	84.9	84.9	99.7	0.3
Implemented/Actual									
SADC	5,443	33.4	45.0	45.0	45.0	45.0	45.0	94.3	0.3
South Africa	5,443	33.4	33.4	33.4	33.4	33.4	33.4	65.3	0.3

Source: Original SADC Tariff Offers to SADC, SADC Trade Audit 2012

104. **The SADC Trade Audit over-estimated the reliance on customs duties for government revenue, stating that 40 per cent of total revenue derived from import tariffs**. Actual customs duties or tariffs accounts for between 9 and 10 per cent of total tax revenue while excise duties and VAT which are levied on imports account for more than 25 per cent of total revenue. It is important to note that implementing the SADC Trade Protocol would not require Malawi to change their policies of levying VAT and Excise Duty on imports, although since Excise is levied on the duty inclusive value, and then VAT is levied on the duty and Excise inclusive value, a reduction in tariffs would also result in a proportionate reduction in Excise and VAT levied on imports. If all imports were to switch to be sourced from SADC and entered duty free tax revenue would decline by 10-12 per cent.

105. **Assuming the existing pattern of import sourcing remains constant eliminating tariffs on all imports from South Africa and the rest of SADC would reduce total government revenue by 3 percent**. In 2012 Malawi collected MK 6,023 million in customs duties on South African imports (see Table 13). This is approximately 41 per cent of total tariff revenue and represents 3 per cent of total government revenue. However, 43.5 per cent of all

[6] These included: fruit juices, powdered milk, vegetables, fruits, cooking oil, ordinary bread, sugar, liquor, spirits, cosmetics, vehicles and furniture.

customs duties levied on South African imports are on fuel and gasoline (see Table 14) which could be switched to an equivalent Excise duty to ensure revenue neutrality. Motor Vehicles account for a further 6.6 per cent of total tariff revenue. Switching the import duty on fuel/gasoline to an Excise tax and offering duty free access for South Africa on the remaining tariff lines in compliance with the SADC tariff offer, at 2012 import values would reduce government tax revenue by 1.8 per cent. The potential 1.8 per cent revenue foregone most likely overestimates the shortfall as many imports from South Africa, facing a low MFN tariff will continue to enter under MFN status in order to avoid the compliance costs required to qualify for SADC preferences.

Table 13 Malawi Value of Tariff Preferences under SADC and Aggregate: 2012

Imports	South Africa	Rest of SADC	Total SADC	Total Imports
CIF value MK million	85,413	76,016	161,435	434,511
Tariff Duty Collected	6,023	2.098	8,122	14,599
Tariff Duty Preference	2,801	2,501	5,302	13,825

Source: Mission calculations derived from MRA data

106. **Imports from South Africa and SADC classified by the MRA as eligible under the SADC Trade Protocol (i.e., classified as imports for customs purposes under Columns 8 and 9 in the Published Tariff Schedule) were significantly less than the value of total imports from South Africa and SADC**. This implies that many imports from SADC countries are either ineligible (because they do not quality under the rules of origin) or importers choose to pay the MFN tariff. Customs Brokers/importers choose to import under the MFN schedule (Column 6 in the Published Tariff Schedule) to avoid the compliance costs required under the SADC Trade Protocol.

107. **Tariffs on SADC imports in 2012 accounted for MK 763.7 million in customs duties on SADC Trade Protocol eligible imports**. This represents just over 5 per cent of the total customs duties collected with imports from South Africa accounting for 95 per cent of the tariff revenues (MK725.5 million) levied on SADC eligible imports. The balance of customs duties paid on South Africa imports were classified as MFN and not deemed eligible for preferential tariff rates. Table 14 shows the value of tariff preferences accruing to imports from South Africa under the SADC Trade Protocol. To qualify for SADC preferences the regulations require a Certificate of Origin in hard copy, with one copy for every item (or tariff line) which is onerous for multiple loads. These obstacles to utilizing the SADC tariff preference are documented in the recent World Bank report (2011), *Harnessing Regional Integration for Trade and Growth in Southern Arica*, which notes how Shoprite, a major retail company may be required to have up to 1,600 documents per truck as each load contain up to 750 tariff items. These compliance costs in conjunction with the absence of significant tariff preferences because of either low or zero MFN schedules or the lack of implementation (of the agreed tariff phase down schedule) work to negate the economic impact of the SADC Trade Protocol.

Table 14 Imports, Customs Duties and Preferences on Imports from South Africa, 2012

	Import cif (MK million)	Duty Collected MFN	Duty Collected SADC	% of Total Gov. Tax Revenue	Duty Foregone	Duty on Fuel
Tariff Levied	55,300	5,259	763.7	3.11	2,153	2,612
Zero Duty	30,113	0	0	Na	648	Na
Total	85,412	5,259	763.7	Na	2,801	2,612

Note: All values in MK. Million. Duty Collected on MFN and SADC imports is cumulated 6,023) to derive its share of total government revenue. The duty foregone (or 'duty lost') is calculated as the duty that would be collected if the MFN tariff was levied on imports from SADC. Source: Mission calculations derived from MRA data.

Duty Preferences on Imported Inputs

108. **The MRA provided data showing the 'duty lost' at the eight digit HS tariff level by country of origin**. The 'duty lost' was equal to the tariff preferences provided under the different trade agreements and duty rebate arrangements. With this information it is possible to compare the total duty that would have been collected if the import paid the statutory MFN tariff rather than the zero duty or one of the preferential rates. The estimated foregone revenue calculated by the MRA on imports eligible for preferences or rebates underestimates the value of the preferences because imports under the COMESA FTA are not taken into account. Imports eligible for COMESA FTA were treated as zero rated for duty purposes and were not recorded by MRA as a 'cost of the preference.' This resulted in the 'duty lost' being underestimated by MK 1.7 billion. Including the COMESA FTA preference increases the total foregone revenue to MK 15.5 billion in 2012.

109. **In principle all imports from third countries are classified according to whether they are General or WTO in order to determine the appropriate tariff schedule**. This does not seem to be completed in all cases, a significant number of transactions have no preference listed, and many are classified as General, which should only apply to non WTO members. This included imports recorded as originating from WTO members. In practice this may be because for many tariff lines the General tariff rate was equivalent to the MNF rate so the classification was not relevant. Adjusting the General rate to be equal to the MFN would remove this unnecessary complication. Many imports from SADC, COMESA or South Africa are also classified as entering under General or WTO which presumably reflects there ineligibility for tariff preferences under COMESA or SADC.

110. **Using data for 2012 and comparing listed imported duties with ex post duties we found that more than half of the tariff revenue foregone was recorded against imports originating from countries that did not have any trade preferences with Malawi (Table 15)**. In order to provide an estimate of the magnitudes of trade preferences relative to duty rebate schemes imports were classified by country and regional groupings and matched against the utilization of preferences. In reviewing the data for imports by country it was assumed that all products eligible for regional preferences used that option, however, as shown above this almost certainty overstates the value of SADC/COMESA preferences as some of the imports will have been imported under either Schedule 8 (which provides for full duty rebates for approved

domestic firms) or in one of the duty exempt Customs Process Codes (see also Table 18). The largest products receiving duty rebates from South Africa were prefabricated buildings, armaments and munitions (for the MDF) and motor vehicles (for qualifying officials, diplomats, donor projects etc.).

Table 15 Geographical Share of Imports and Duty Preferences, 2012

Country/Grouping	Percentage of imports originating there	Percentage of total duty preferences granted
European Union	15.6	8.9
ASEAN	1.7	2.0
China	9.2	7.7
India	7.0	5.0
North America	4.2	5.4
C.& S. America	0.6	2.5
Other	22.2	21.9
Sub Total Rest of the World	**60.5**	**53.5**
South Africa	19.7	18.0
SADC (Excl COMESA & SA)	12.6	15.8
COMESA	6.9	12.6
COMESA (non FTA)	0.3	0.0
Sub Total Regional	**39.5**	**46.4**
Total	100.0	100.0

Notes: COMESA includes all COMESA countries except the non FTA members. A proportion of these imports were deemed eligible for duty and MK84 million was paid on dutiable imports of MK13.565 million and the remaining MK16.392 of imports were zero rated. SADC excludes the COMESA countries (to avoid double counting) and South Africa as their imports are subject to a separate schedule. This category included Botswana, Lesotho, Namibia, Mozambique, and Tanzania.

111. **While it is relatively straightforward to calculate the statutory tariff revenue that Malawi would hypothetically have collected if all imports had paid the full MFN tariff, allocating the source of the foregone revenue between duty rebates and trade preferences is more difficult**. Tariff revenue is foregone on qualifying imports from the COMESA and SADC countries, for domestic producers in Malawi (under Schedule Eight) and also for the government (military, hospitals, education etc.), NGOs, donor projects, diplomats, and other eligible individuals (such as returning migrants). Over the period 2009-2011 imports entering under Schedule 8 which qualified for full duty remission accounted for between 30-40 per cent of the total value of the foregone tariff revenue. This is slightly less than the share of duty preferences recorded against imports from non-preferential countries. Although the total value of duty preferences also includes imports for government, the military, donor projects, and returning migrants during this period there were large imports of military materiel in support of Malawi's involvement in African peace keeping. The application of incentives and rebates is not transparent and larger and politically better connected companies seem to have easier access to such preferences, making it more challenging for new domestic competitors to emerge.

112. **The distributional share of imports, duties collected and rebates has not changed significantly over the period 2005-2012, with most of the duties being levied on a small proportion of imports**. Table 16 shows the trend in customs duties and rebates over the period

2007-2012. The share of duty rebated on imports in the highest tariff bracket with ex ante tariff rates of 20 per cent or higher has declined in relative importance while rebates on tariffs in the 5 to 9.99 per cent range register a modest increase. This reflects a trend for more firms to apply for duty rebates on a wider range of products.

Table 16 Imports, customs duties and customs rebates, 2005-2012

Year	Imports MK(million)	Customs Duty	Ex Post Duty Rate	Duty Preferences	Ex Ante Duty Rate
2005	110,869	4,374	3.95	3,001	6.65
2006	86,408	3,646	4.22	3,428	8.19
2007	181,557	8,877	4.89	3,140	6.62
2008	282,573	11,755	4.16	5,033	5.94
2009	253,222	11,533	4.55	7,039	7.33
2010	306,293	11,990	3.91	6,123	5.91
2011	290,148	8,959	3.09	6,040	5.17
2012	434,511	14,599	3.36	13,825	6.54

Source: Derived from MRA ASYCUDA Database

113. **Tariff revenues and tariff exemptions are both highly concentrated on a limited number of import flows.** Approximately 14 percent of imports are classified against MFN tariff lines of 15 percent or higher. They account for 41 per cent of the total duty collected and represent 38 percent of the duty foregone. Table 17 presents the distribution of duty collected and duty rebates against the statutory MFN tariff schedule.

Table 17 Imports, Customs Duty Collected and Duty Rebates by Tariff (2005 and 2012)

MFN Customs Duty Rate	Imports cif %		Duty Collected % within MFN Tariff Bands		Duty Preferences % within MFN Tariff Bands	
	2005	2012	2005	2012	2005	2012
Zero-4.99	46.7	46.7	11.8	7.6	8.9	5.8
5 – 9.99	28.8	30.9	38.0	42.8	16.0	35.9
10 – 14.99	9.7	9.5	11.6	8.7	31.7	20.1
15 – 19.99	8.5	8.7	18.4	22.0	21.1	22.7
20 +	6.3	4.3	20.2	18.9	22.3	15.4

Note: Duty Rebates include all duty preferences from bilateral and regional trade agreements and the Malawi Duty Rebate scheme under Schedule Eight. Source: Derived from data provided by MRA.

114. **A wide range of industries are eligible for duty and tax concessions (VAT and excise) under the Eighth Schedule of the Customs Tariff Act (see Table 19)**. The WTO TPRM estimated revenue foregone due to exemptions and regional trade concessions at MK 15 billion in 2008/09. The MRA data for the Financial Year ended March 31 2013 shows foregone customs duties of MK 12.7 billion. This was allocated across 3,531 tariff lines, however, 12 tariff lines accounted for half of the total value. Adjusting this figure to account for the duty free imports from COMESA members of the FTA increases the total to MK 15.5 billion in 2012. The Customs Process Codes (CPC) providing for duty remission listed in the tariff book cover a wide number of beneficiaries including diplomatic missions, registered non-government organizations, the military, government to government imports, imports by registered medical, pharmaceutical,

and educational entities. These special categories of importers which are usually zero rated by standard conventions accounted for 32 percent of total imports in 2012.

115. **Imports under duty rebate in accordance with Schedule 8 accounted 5 per cent of total imports in 2012** (Table 18). The major products imported under duty rebate included cement, soya beans, soap nodules, and woven fabric. Tariff rebates are provided to many of the larger registered manufacturers for all inputs in the named end-user industries. Registered manufacturers are required to maintain records to show that the imported inputs have been used in the industry. In most of these industries the rebate of excise taxes is also granted on the total production –which includes those sold on the domestic market.

Table 18 Schedule 8 Import Duty Concessions, 2009 – 2012 (MK million)

Category of Imports	2009	2010	2011	2012
Schedule 8 Imports	24,417	18,4689	9,380	20,872
Total Value of Imports	253,222	306,293	290,148	434,511
Total Value of Preferences	7,042	6,125	6,040	13,825
Total Value of Schedule 8 Preferences	1,980	1,925	1,204	2,178
Schedule 8 Preferences as % of Preferences.	28.1	31.4	19.7	15.8
Government and Military as % of Preferences.	6.0	11.2	8.2	24.9
Govt. to Govt. Preferences as % of Preferences	32.4	22.5	22.4	39.2
Other Preferences Percent	33.5	34.9	49.5	20.1

Note: Derived from data provided by MRA. The Schedule 8 preferences are the sum of CPC 4000401 and 4082401, Government and Military are the sum of CPC 4000403, 4000405, 4000406 and 4000421, and Government to Government Agreements are CPC 4000445. The other preferences are spread over more than 80 CPC's many of which are not listed in the published schedule, Customs and Excise (Tariffs) Order, 2007.

116. **Malawi offers a wide range of duty exemptions.** This include government imports, defense and military equipment, approved and registered Non-Government Organizations, imports under Government to Government Agreements as well as imports for a wide range of specific economic activities including 'goods for use in the fishing industry', goods used in the production of horticultural produce intended for export, goods for direct use in irrigation and goods for hotels, lodges and inns (although only for those with more than 50 rooms). While duty free privileges for military equipment, diplomats, and donor projects are widespread and are accepted practice the proliferation of exemptions for specific activities with each case requiring approval from the Commissioner General lacks transparency and leaves the use of these CPC codes open to abuse. Designating specific activities as deserving duty free privileges also introduces end-user discrimination within the tariff structure.

117. **Import Duty Concessions in 2012 totaled MK13.8 billion, which was equivalent to 95 per cent of total tariff revenue and covered almost 30 per cent of the total value of imports**. The duty preferences granted under the COMESA and SADC Free Trade Areas are included in the total value of the preferences. Breaking down the import data according to the Customs Processing Code indicates that many of the imports that originate from within COMESA and SADC enter duty free because the importer/end user qualifies. Consequently the tariff revenue is foregone irrespective of the duty concessions under COMESA and SADC.

Table 19 List of Manufacturing Industries Eligible for Tariff Rebates

1. Adhesives and Other Glues
2. Agricultural Tools
3. Alcoholic Beverages
4. Aluminium, Hollow and Enamel Ware
5. Audio Sound Reception Apparatus
6. Bio-Diesel
7. Blockboards, Plywoods, Sawn Timber, and Allied Products
8. Boot and Shoe
9. Button Manufacturing
10. Candles, Polishes and Skin Lotions
11. Chalk
12. Chemical
13. Clips, Pins and Staples
14. Clothing
15. Cordage and Nets
16. Cycles
17. Dental or Oral Hygienic Preparations
18. Domestic Electrical Appliances
19. Transformer
20. Industrial Appliances and Machinery
21. Cable and Insulated Electrical Wire
22. Edible Fats and Oils
23. Fertilizer
24. Fishing Fly
25. Food (Biscuits, snacks, meat, sugar confectionary, dairy)
26. Foam and Mattress
27. Fuel
28. Furniture
29. Hair Mesh
30. Industrial Fastening
31. Knitwear
32. Leather Tanning
33. Matches
34. Medicaments and Pharmaceuticals
35. Medical Apparatus
36. Metallurgy
37. Nails, Brickforce and Weld Mesh
38. Non Alcoholic Beverages (soft drinks)
39. Packaging
40. Paints, Colors, Varnishes and Ink Manufacturing
41. Plastic Products
42. Pottery
43. Prepared unrecorded medial for sound recording
44. Primary Cells and Batteries
45. Printing, Publishing and Book Binding
46. Reception Apparatus for Televisions
47. Refrigerator and Refrigerating Equipment
48. Roofing Sheets
49. Rubber Products
50. Sacks
51. Slide Fasteners
52. Soaps and Soap Substitutes
53. Sugar
54. Tarpaulin, Tents and Awnings and Camping Tools
55. Tea
56. Textiles (Fabric, Blankets)
57. Tobacco Products
58. Toothbrushes
59. Trailers
60. Travel Cases and Similar Containers

118. **At the two digit HS level the five largest sectors receiving rebates included, vegetable/animal oils, motor vehicles, plastics, articles of iron and steel and iron and steel**. In 2012 approximately 9.5 per cent of imports (MK 41.4 billion) benefited from rebates/preferences of 10 per cent or more on the MFN tariff. These benefits were collectively valued at MK 6.1 billion and accounted for 44 per cent of the total value of rebates and preferences.

119. **Only 14 firms are registered and operating under the Export Processing Zone Act of 1995.** This allows for the duty free import of capital machinery and raw materials used in the direct production of goods for export (CPC 400.475). In 2012 the total value of imports was estimated at MK 40.3 million with a duty loss of MK 5.4 million-less than one tenth of one percent of the value of preferences.

120. **The rationale for these concessions targeted at production for the domestic market is not clear**. The long list of sectors (shown in Table 19) does not reflect the structure of the existing manufacturing sector-it includes many industries that do not exist in Malawi Many of the eligible items are inputs and would therefore qualify for a zero tariff rate. Ensuring zero rates for all inputs would be more transparent as it would apply to all importers, and remove the requirement for a special customs processing code and reporting criteria. Eligibility for these end-user tariff concessions under the Eighth Schedule is complex and not clearly defined. General criteria relating to obtaining raw materials and the level of value addition are delegated to an Advisory Committee consisting of MRA staff. The current rebate policy creates the potential for discrimination between firms, and increases the rate of effective protection within the domestic market which acts as a disincentive to diversifying and expanding exports.

121. **For those firms using largely imported inputs with relatively low domestic value added the ability to obtain duty rebates create substantial incentives to sell in the domestic market rather than to produce for export**. The Effective Rate of Protection quantifies the combined effect of price distortions on both the inputs and the outputs. It measures the proportion by which an activity's (firm) value added at domestic prices differs from that which would be realized if the prices of its products and inputs were not distorted through tariffs. Positive effective rates of protection indicate that domestic industries are able to operate with a higher level of value added that would prevail with reduced MFN tariffs, increasing financial profits and/or allowing reduced levels of efficiency and thus constituting a subsidy. Even relatively modest levels of preference such as 10 per cent can generate significant effective protection in the domestic market. A simple example of the effective rate of protection is shown in the text box

Box 1: Example of Effective Rate of Protection

A food processing factory employing 75 persons produces Cooking Oil for the domestic market. Its main input is the bulk import of sunflower oil which enters duty free. Other Inputs such as bottles, containers, and packaging materials and consumables are conservatively assumed to be purchased at world prices as are non-traded goods such as electricity, water, and security charges. The total value of all inputs accounts for 70 per cent of the total value of the ex-factory price of the cooking oil. Sunflower cooking oil is protected in the domestic market with a tariff of 20 per cent.

The firm produces 3 million liters of oil at $2 per liter per annum in domestic prices. Assuming all production is sold domestically this generates an annual turnover of $6m. At world prices 70 per cent by value is either imported or sourced locally at world prices. With a zero tariff on the inputs the firm pays 0.7 of the total sales at world prices which is 0.7 *($6m*0.83) for all its inputs, $3.499 million. Assuming it sells all its production domestically at $6m, it then realizes domestic value added of $2.501 million which is shared between employees (labor) and the owners (returns on capital). However, if it were to sell its product overseas it would have to sell at world prices ($1.67 per liter) because other countries also protect their domestic cooking oil production with a 20 per cent tariff. Therefore any sales overseas would only realize 83 per cent of the price achieved in Malawi. Assuming the firm where to sell all its production overseas its total revenue would decline to $4.998m. So although it would have a positive value added, it would be reduced significantly to 16.5c/liter relative to producing for sale in the domestic market where value added would be 83.1c per liter. On this basis it is not surprising that the firm would try and expand its domestic production before entering foreign markets as the former is much more profitable. If the firm were able to sell duty free (through COMESAS/SADC preferences) into neighboring markets which were also protected by a tariff on the final product this would also be more profitable that selling to the world market

Under these assumptions value added on sales in the domestic market is more than double value added on sales in the foreign market. The Effective Rate of Protection is 125 per cent.

122. **Excluding government and military preferences, the value of duty drawbacks and user specific preferences is estimated to be approximately MK 10.3 billion in 2012 (approximately $42.7 million**). While many of the specific preferences are required by

international agreements (almost one third of the total value of preferences), the widespread use of duty drawback or duty remission for firms producing for the domestic market serves to provide high levels of effective protection and creates anti-export bias for exports outside of the region. By deepening the ability of a firm to increase its rate of return on sales to the domestic market, it reduces the incentives for expanding into foreign markets, where the product would have to be sold at lower prices. To the extent that regional markets are also protected by an equivalent or similar external tariff the firm will be able to maintain its level of effective protection providing it can meet the origin requirements.

Will implementing Regional Free Trade Agreements result in Trade Diversion?

123. The proposed COMESA CET will result in Malawi having to increase some MFN tariff rates, and the proposed cascading tariff structure with higher tariffs on finished products will maintain the existing anti-export bias while also raising the risk of trade diversion. Malawi is committed to modifying its MFN tariff to the rest of the world to implement the proposed COMESA CET rates while removing tariffs selectively for members of COMESA and SADC at the current proposed tariff rates this will exacerbate anti-export bias. Trade diversion occurs when a country substitutes more expensive imports from its SADC/COMESA partners for less expensive imports from more efficient producers in the rest of the world. The continued existence of the MFN (COMESA CET) tariff may also result in final consumer prices being little changed, while the government loses tariff revenue. To date there is little evidence of trade diversion as the share of imports from the rest of the world have increased since 2009, however, this may reflect both the slow implementation of tariff preferences and the widespread use of tariff rebates on MFN imports (valued by MRA at more than MK 8.5 billion in 2012). Many of the rebates on MFN imports is consistent with international norms and relate to exemptions for government education/health, security/defense, NGO's and registered charities, returning migrants, and donor projects. Rationalizing the use of rebates under Schedule 8, reducing the MFN tariff rates and implementing the SADC Trade Protocol concurrently would minimize the risk of trade diversion, reduce anti-export bias and have a modest impact on government revenue. Furthermore all customs tariffs are levied on the c.i.f. value of the import which given the high transportation costs of goods from outside the region provides additional 'natural' protection.

Export Duties

124. **The existing tariff seeks to discourage the export of wood and levies a 50 per cent export duty on all wood for fuel, raw wood, and also sawn, chipped and sliced wood**. While there are no ad valorem export duties on agricultural commodities they are subject to licensing. The impact of import and export permits on agricultural items is discussed in Chapter 5.

Summary

125. **The review of Malawi's tariff policy highlights the widespread use of exemptions under international agreements for government and NGO/donor imports, the use of duty**

rebates under Schedule 8 for large import competing firms. Implementing the SADC Trade Protocol on imports from South Africa would have a much more modest impact on total government revenue than has previously been estimated as a large proportion of the tariff revenue on imports from South Africa relates to oil and gasoline and this revenue could be maintained by switching the taxation to non-discriminatory excise taxes and eliminating import tariffs. The detailed analysis of firm level exporters finds that exports are dominated by a small number of long established very large firms. There are few new exporters who are able to remain as exporters for more than one year. This lack of dynamism reflects the existence of significant barriers to entry in competing in export markets.

Chapter 4. Non-Tariff Barriers in Malawi

126. **Awareness of the importance of Non-Tariff Measures (NTM) has increased considerably over the past decade as the reduction in tariffs has served to highlight the cost raising impact of regulatory requirements and administrative procedures**. A NTM is any measure other than customs tariffs that can potentially have an economic effect on trade. These include regulations aimed at ensuring consumer safety, health, environmental protection and other public policy objectives that are desirable and permissible under the WTO and all the regional agreements providing they are applied equally to domestic products and imports, designed to minimize the trade impact, and in the case of sanitary and phyto-sanitary measures have a basis in scientific knowledge.

127. **A Non-Tariff Barrier (NTB) refers to a NTM which has a negative impact on trade.** This may result from a measure having a differential impact on importers vis a vis domestic producers and also from procedural obstacles that stem from the business enabling environment and existing administrative and institutional arrangements. While the intent of the regulation may legitimately aim to deliver consumer safety the way in which the measure is implemented may unintentionally have an adverse impact on potential exporters by imposing high market entry costs which are prohibitive for small and medium scale operators.

128. **Malawi as a member of both SADC and COMESA participates in the SADC/COMESA/EAC on line Non-Tariff Barriers (NTB) Reporting, Monitoring and Eliminating Mechanism that is managed by TRADEMARK Southern Africa**. The three Regional Economic Communities (RECs), COMESA, East African Community (EAC) and SADC, have established a Non-Tariff Barriers (NTB) reporting, monitoring and eliminating mechanism. The information is available on a public website www.tradebarriers.org .Under the mechanism stakeholders, including the REC secretariat, government departments/agencies, firms, private sector associations, or individuals, can report the barriers they encounter in cross-border trade within the Tripartite Community. The website provides instructions on how to submit a report on line. The website went live in 2009 and by the end of June 2013 had formally registered 457 complaints and reported that 349 complaints had been resolved, leaving 108 outstanding. Out of these 108 complaints 100 had been outstanding longer than 60 days.

129. **Malawi has registered 30 complaints which have all been formally resolved.** Out of these 30 complaints 10 related to NTB's within Malawi, 7 in South Africa, 7 in Mozambique, 3 in Zambia, and one each in Zimbabwe, Mauritius and throughout SADC. Malawi has only one NTB outstanding relating to lengthy and costly customs procedures at Dedza. Virtually all of the 'resolved' NTBs relate to issues that continue to be raised by the private sector, such as cumbersome and non-transparent testing procedures, SPS procedures, lack of information, export certification, restrictions on imports. These are the same issues identified in the recent ITC report (noted below) and highlighted from interviews with the private sector for the DTIS.

130. **The NTBs are all classified in accordance with the 8 categories agreed by the 2009 Multi-Agency Support Team (MAST)**:

Category 1: Government participation in trade and restrictive practices;
Category 2: Customs and administrative entry procedures;
Category 3: Technical Barriers to Trade (TBT);
Category 4: Sanitary and Phyto-sanitary (SPS) measures;
Category 5: Specific Limitation (captures restrictive trade policies such as prohibitions and import licensing);
Category 6: Charges on imports;
Category 7: Other procedural problems;
Category 8: Transport, Clearing and Forwarding.

Table 20 Tripartite NTB Reporting Mechanism, 2009-2013

NTB Category	Total	Resolved	>60 Days	30-59 Days	Current <30 Days
1	40	33	7	0	0
2	174	143	29	1	1
3	18	15	3	0	0
4	26	19	7	0	0
5	47	44	3	0	0
6	9	7	1	0	1
7	69	57	11	0	1
8	74	31	39	1	3

Source: Compiled from www.tradebarriers.org accessed on June 28, 2013.

131. **The allocation of the complaints between the different categories is shown in Table 20**. Customs and administrative entry procedures accounts for almost 40 percent of the total followed by transport, clearing and forwarding policies and procedures and Category 7 which includes arbitrary behavior, discrimination, corruption, and complex and costly procedures. Given the importance of the agriculture sector throughout the region it is not surprising that SPS shows up more often than TBT.

132. **The Tripartite NTB Monitoring Mechanism database rich source of data that can be used to assess the volume and type of NTB that concern cross border traders within Eastern and Southern Africa**. A unique reference number is assigned to each complaint, and information is provided on the type of NTB, date of the incident, location, reporting country, a description of the complaint (provided by the plaintiff), the progress (or response by the officials from the country with the NTB), the current status (new/in process/resolved) and the date resolved. At first blush the proportion of resolved complaints relative to those outstanding would appear to imply a success rate of over 75 percent.

133. **However, when the resolved cases are examined it becomes apparent that removal from the online database does not necessarily translate in removal of the NTB or a reduction in trade costs**. A NTB may be classified as resolved and removed from the database,

and classified as Non-Tariff Measure (NTM) and therefore justified by public policy and not unnecessarily trade restrictive, simply because the country applying the trade restriction responds with an explanation. However, in virtually all cases the explanation does not result in any material change for the potential importer and does not meet the criteria of being 'least trade restrictive' as required by the WTO and the regional agreements. The government should commit to a thorough review of the existing complaints that have been submitted through the mechanism to identify the underlying issues and address them in this spirit.

134. **The ITC found NTMs affected over three quarters of all firms exporting and more than two thirds of all companies surveyed**. The ITC Malawi firm level NTM survey covered the period October 2009 –June 2011. From a telephone survey of 129 firms, 89 firms were affected by NTMs. From these 89 firms 65 firms completed detailed face to face interviews. Comparing Malawi across countries already surveyed by the ITC shows a much higher share of exporters affected by trade relative to many other countries in Sub-Saharan Africa and significantly higher than Mauritius where 30 per cent of companies reported NTMs. The range of responses across the comparator countries is shown in Table 21.

Table 21 Cross Country Comparison of ITC NTM Firm Level survey results

Country	Per Cent of Companies Reporting Trade Impediments
Malawi	81.5
Kenya	74.8
Rwanda	71.0
Sri Lanka	69.7
Paraguay	68.9
Madagascar	67.3
Burkino Faso	63.2
Uruguay	56.0
Jamaica	42.0
Peru	41.9
Egypt	36.7
Morocco	34.6
Mauritius	30.5
Hong Kong	23.1

Source: Table 5 Malawi: Company Perspective: An ITC Series on Non-Tariff Measures, 2013

135. **The interviews reported widespread NTMs imposed by Malawi on its own firms whether producing for the domestic or foreign markets**. In export markets, conformity assessment procedures, such as certification which is accepted as proof of compliance with the underlying technical requirements was the most commonly reported measure. As outside SADC and COMESA countries do not recognize test results issued by either MBS or the Department of Agricultural Research and Technical Services (DARTS). Other NTMs mentioned included pre-shipment inspections, additional charges, and problems related to the certificate of origin. Domestically applied NTMs were dominated by export licenses which accounted for half of the total, followed by export inspections, technical certification and foreign exchange conversion requirements (with the liberalization of the current account in May 2012 the foreign exchange

conversion is no longer applicable). There were also complaints over the delays in testing results from MBS and DARTS for Technical Regulations and SPS requirements, according to ITC (2012), these could range from few days to four weeks, but the report also noted exceptional cases of several months.

136. **The most common import constraint reported by firm in the ITC survey (after foreign exchange regulations which have now been removed) was the import inspections mandated under the Import Quality Monitoring Scheme (IQMS**). This is discussed in more detail in the section on National Quality Infrastructure. Procedural obstacles relating to the modalities governing implementation of a technical regulation were reported by more than 90 per cent of respondents. Domestic procedural constraints encompass a wide range of complaints including multiple checks, inconsistent behavior, administrative delays, high fees and charges, inadequate facilities. Procedural complaints and administrative requirements are often considered to be more straightforward to remedy as they do not reflect the intent of government policy. However, such reforms are rarely implemented solely by 'stroke of the pen' actions as they are specific to institutions/departments and agencies and frequently require considerable investments in training, organizational development, funding that will only happen with a strong commitment from the highest level of government.

137. **The recent release of the second draft of the National NTB Elimination Strategy in May 2013, as part of the National Export Strategy (NES) is a positive development, however, both political commitment and support is required to remove the administrative and organizational hurdles**. The Elimination Strategy proposes an institutional framework for addressing and monitoring NTB and identifies four main NTB categories:

- Trade Policy Issues: Import and Export Licenses, Bans, Quotas;
- National Quality Infrastructure: Standards and Accreditation;
- Transportation and Transit Corridors; and
- Trade Facilitation: Customs Border Related and Rules of Origin.

138. **The NTB Committee work program must build on the work to date by engaging in a review of existing regulations**. This might include reviewing existing Technical Regulations and evaluating those that are necessary from those where a voluntary standard would be sufficient. Requiring all new Technical Regulations to have a Regulatory Impact Assessments (RIA) with the aim of improving the quality of regulations to ensure they are 'smart' and least trade restrictive and promoting transparency and public debate on appropriate levels of regulatory protection. The recent World Bank NTM Policy Toolkit (*Streamlining Non-Tariff Measures: A Toolkit for Policy Makers*, 2012) provides a useful approach and checklist for identifying the issues, assessing the costs and benefits, and streamlining the processes and institutions.

139. **This chapter follows the categories presented in the Malawi National NTB Elimination Strategy by focusing on: trade policy regulations; national quality infrastructure; trade logistics; and trade facilitation**.

Trade Policy Issues: Import and Export Licenses

140. **At the time of writing, virtually every type of agricultural commodity imported to or exported from Malawi requires a special Trade Permit**. Similar licensing requirements also apply to: fertilizer, seed, agrichemicals, and machinery (see Table 22), and a number of other products. In June 2013 in a positive development the Minister of Industry and Trade decided to remove the export licensing requirements for most agricultural commodities except for maize (meal) and rice. As part of this decision, such products would also no longer need an authorizing letter from the Ministry of Agriculture either. However, this decision has to date not been gazetted and therefore most agricultural exports were effectively still in need of documentation from Ministry of Agriculture and Ministry of Trade at borders. There has been no decision to reduce the requirements for import permits yet.

141. **For goods requiring a permit the Control of Goods Act requires importers and exporters to write a letter to the Ministry of Agriculture and Food Security providing details (product, quantity, value, origin) of the proposed transaction**. On review of the application, the Permanent Secretary (PS) must sign a Recommendation Letter which is then physically collected by the applicant and hand carried to the Ministry of Industry and Trade (MIT) for further review and issuance of permit. MoAFS says the main function of its review is to ensure that the proposed transaction is within the firm's capacity. In order to obtain MoAFS approval to import or export, the company must be formally registered in Malawi as a trader.

142. **Upon receiving the MoAFS Recommendation Letter, the Ministry of Industry and Trade may, in turn, request further information on the transaction or recommend the application for approval**. For the approval to take place, a Recommendation Document must be prepared and sent to the Minister of Industry and Trade for personal signature. According to the interviews, the previous Minister frequently requested additional information from applicants that often resulted in considerable delay. The Ministry indicated that the current policy is to issue the Trade Permits without requiring any additional information. The MIT employs two persons to work on import and export permits. Abolishing the requirement for trade permits would enable these staff to be redeployed more productively..

143. **Export Permits are valid for three months from the date of issue while Import Permits are valid for six months**. Dairy importers, however, complain that permits for milk and milk products, licensed under the Ministry of Agriculture, are valid for only four weeks thereby making business risky and difficult to negotiate favorable contracts. Both import and export permits cover one specific type of commodity only and specify the total quantity and value that can be traded from the date of issue. In principle the permits are to be stamped each time they are used until the total quantity has been exhausted, however, officials noted that it was virtually impossible to monitor the quantities being traded. The absence of effective monitoring raises further questions over the rationale for having any license requirement. The uncertainty over the

issuing of licenses and the costs of delays both discourage trade and discourage banks from providing financing since the increased trade costs increase the risk of failure.

144. **The operation of the permit system is regressive and effectively discriminates against small traders and small farmers**. Essentially the requirement for permits restricts formal trade to organized large scale and Lilongwe based traders/firms as the permits have to be obtained in person (or by an employee) from the Government Offices. The applicant has to be a registered commercial enterprise or cooperative. This process excludes smallholders-they can only participate through NASFAM, organized cooperative, or indirectly by selling to a larger trader.

145. **While the Ministry of Industry and Trade does not charge a fee for Import or Export Permits, all the firms interviewed for the DTIS considered the time and costs of obtaining Trade Permits represented a major constraint to their business**. On the one hand, most agreed it "is possible" to obtain a permit in just one day except that all companies said this depends on whether they are lucky enough to find all individuals around who must sign-off on the permit and on having someone from the company who can go from office to office to push the process throughout the day. Without this kind of constant follow-up, exporters said it usually takes four to six weeks for a permit to be approved. Because many business transactions depend on fast turnaround, some companies said that their usual practice is to keep a supply of Trade Permits on hand in order to avoid delay when a real business deal comes through.

146. **Export permits are also required for petroleum products, gemstones, scrap metal and raw hard round wood timbers**. A number of metals including uranium, thorium, titanium, niobium also require permits although this is related to the regulation of the mining sector. The government has recently decided to reduce the number of products requiring export permits from 25 to 10, but this policy has not yet been implemented although it has been announced on June 20, 2013. Import permits remain in force for a large number of products as outlined above.

Table 22 List of Agriculture Commodities Requiring a Trade Permit 2013

Import Permits	Export Permits
All grains (including barley, maize, millet, rice, sorghum, and wheat in every form)	All grains (including barley*, maize, millet*, rice, sorghum*, and wheat* in every form)
Bananas	Bananas*
Beans	Beans*
Beetroot	Beetroot*
Cabbage	Cabbage*
Carrots	Carrots*
Cauliflower	Cassava*
Citrus fruits (oranges, lemons, grapefruit, etc)	Cauliflower*
Cotton lint, cotton seed, cotton cake and all other forms of cotton	Citrus fruits (oranges, lemons, etc)*
Eggplants	Cotton lint, cotton seed, cotton cake and all other forms of cotton*
Fresh beans	Eggplants*
Fresh chilies	Fresh beans*
Fresh peas	Fresh chilies*
Green pepper	Fresh peas*
Groundnuts	Green pepper*
Hides and skins in processed and non-processed form	Groundnuts*
Irish potatoes	Hides and Skins in processed and non-processed form*
Lettuce	Irish potatoes*
Live fish and animals	Lettuce*
Maize including dried maize, crushed maize, samp but excluding green maize on the cob	Live fish and animals
Maize Meal (including maize grits, cones, hominy chop or maize offal)	Maize including dried maize, crushed maize, samp
Millet (munga or munga meal)	Maize Meal (including maize grits, cones, hominy chop, maize offal or processed maize meals)
Oilseeds, oil meals, oil cake and offal and residues from oil seeds	Oilseeds, oil meals, oil cake and offals and residues from oilseeds*
Onions	Onions*
Potatoes (all types)	Potatoes (all types)*
Poultry and poultry products (including frozen broiler chickens, eggs, day old chicks and breeding stock)	Poultry and poultry products (including frozen broiler chickens, eggs, day old chicks and breeding stock)
Radishes	Radishes*
Rape	Rape*
Rupoko meal and grams	Seed for planting*
Salt	Salt*
Seed for planting	Seeds for planting in quantities greater than 90kg*
Sorghum, including meals and malts	Sorghum meal or sorghum malt*
Soybeans, soy meals and all other forms of soya	Sorghum, including meals and malts*
Tomatoes	Soya Beans, meals and all other forms*
Turnips	Tea*
Vegetable oils	Tobacco*
Wild animals	Tomatoes*
	Turnips*
	Vegetable oils*
	Wild animals*

Note: In June 2013 many of the export permits were abolished, these are indicated by *.

Elements of a National Quality Infrastructure

147. **The National Quality Infrastructure (NQI) includes standardization, testing, certification, metrology and accreditation which are all necessary for proving that products or services meet public policy objectives such as health and safety**. The relationship between the different components of the NQI is shown in Figure 12.

148. **Standards are formal documents containing the requirements that a product, process or services are expected to meet**. Best practice policy supports maximizing the use of international standards and removing obsolete standards. International standards should be adopted in areas with adequate domestic technological conditions and high trade potential. Technical Regulations are often referred to as mandatory standards since they must be complied with. Standards can also be set by industries or international bodies as recommendations and these are referred to as private standards. When countries set Technical Regulations it is best practice to adopt international standards that have been agreed by industries and international bodies.

Standards define characteristics or performance and convey information to the buyer/user and are voluntary. Standards are frequently set by Specialist International Agencies representing industry groups, or even private firms, or groups of private firms. They are not set by the WTO.

Technical Regulations are sometime referred to as mandatory standards. They define characteristics or performance required by Government statute. Technical Regulations can be set by Governments, adopted from international or regional bodies, or private firms. To be compliant with the WTO they should be least trade restrictive and follow international standards where applicable.

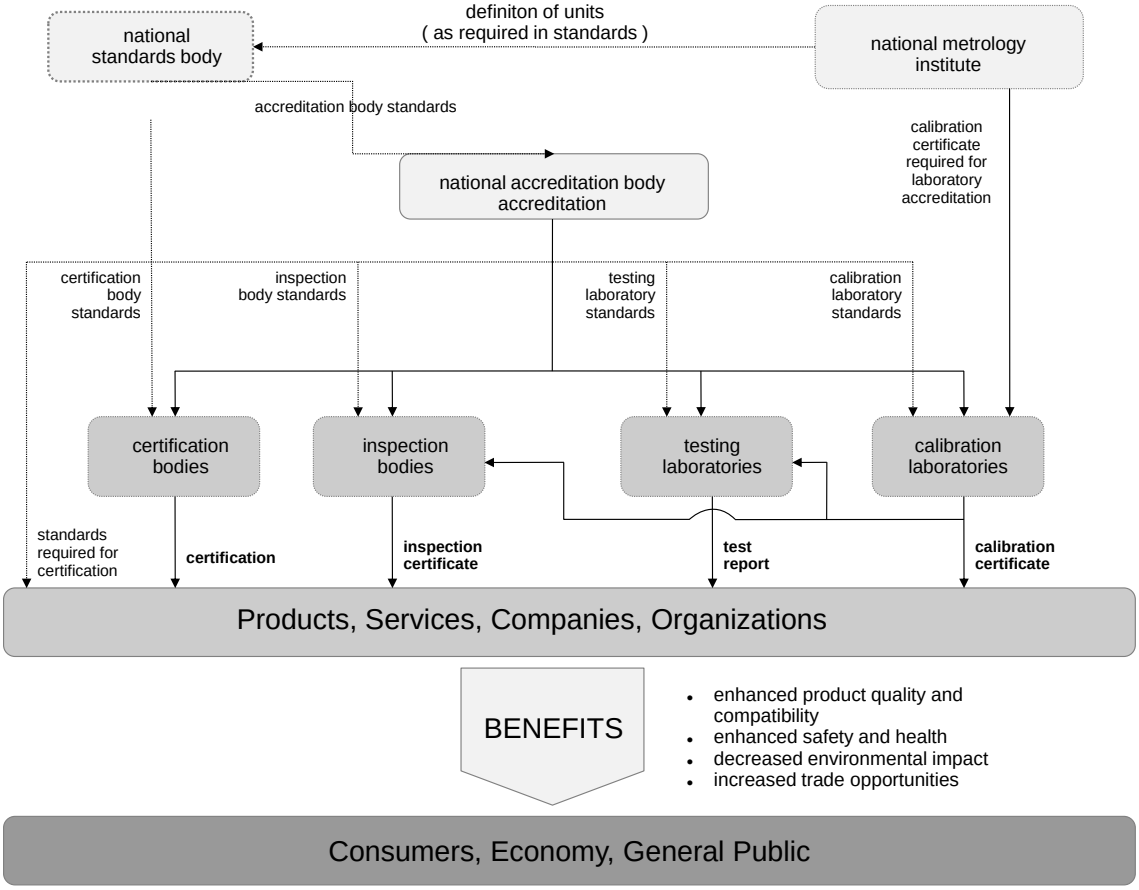
149. **Conformity Assessment includes testing, inspection and certification services**. Testing refers to either public or private services which determine certain product characteristics against the requirements of a standard. Inspection is mostly conducted on consignments in order to ensure that the entire consignment is equivalent to the product sample tested. One example is import inspection done at the border. Inspection services are provided by private or public institutions. Certification means the formal substantiation by a certification body (which can be either public or private) an evaluation following testing that a product, service, organization or individual meets the requirements.

150. **The Malawi Bureau of Standards operates as regulatory body and has the monopoly on testing and certification of imports subject to Technical Regulations**. They also provide voluntary business services. Good regulatory practice separates regulation from conformity assessment (testing and certification). South Africa has separated the governance of mandatory standards from the South African Bureau of Standards (SABS) by establishing the National Regulator for Compulsory Standards (NRCS). The NRCS is not allowed to run its own laboratories. Malawi's new National Quality Policy (NQP) also foresees this separation of powers in accordance with best practice, and its implementation would bring significant positive benefits (see also para 194).

151. **Metrology is the technology of measurement and is divided into scientific metrology, legal metrology and industrial metrology**. Scientific metrology is concerned with the development of the highest measurement standards whereas legal metrology concerns assuring the correctness of measurement. Industrial metrology deals with the functioning of measurement instruments used in industry.

152. **Accreditation provides independent conformance as to the competence of conformity assessment services (testing, inspection, and certification).** Accreditation services are offered by National Accreditation Bodies (NABs), regional accreditation bodies and the international network of accreditation bodies under the umbrella of the International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Forum (IAF).

Figure 12 Element of a National Quality Infrastructure



Source: Based on Guasch et al. (2007) and Racine (2011)

The National Quality Infrastructure of Malawi: Overview

153. **The NQI in Malawi is dominated by the MBS although the private sector does play a minor role in voluntary conformity assessment and calibration services**. Internationally accredited certification companies (e.g. the Kenyan based AfriCert Ltd or the German TÜV Rheinland) offer conformity assessment services for compliance with voluntary standards

required by importers in the European Union or North America. Calibration services are also offered by private companies such as SGS S.A. Subsidiaries from multinational companies operating in Malawi are also part of the NQI. For example, the laboratory of the Carlsberg brewery in Blantyre is also used by other companies to test for conformity with private standards.

154. **Established in 1972 the MBS is a statutory organization** with the mandate as described on its website to: (a) advance the national economy; (b) benefit the health, safety, and welfare of the public; (c) assist and protect consumers; (d) facilitate domestic and international trade; and (e) furthering international cooperation in the field of standardization.

155. **The MBS interprets it mandate as protecting consumers from substandard products.** Frequent campaigns in the media warn that Malawi will be turned into a "dumping ground" for substandard products without widespread checking and testing by MBS and growing consumer awareness.[7] Ensuring consumers are protected from substandard, adulterated, or counterfeit, products represents an important and legitimate role for the MBS but cannot be done with border inspections alone. However, it is not apparent that this objective is best served by the compulsory testing of all imports regulated under the Import Quality Monitoring Scheme, and the predominant focus on border operations. Increasing the role of market surveillance, introducing risk analysis on imports under the IQMS and recognizing already accredited imports would allow a more targeted approach to addressing consumer concerns. Increasing market surveillance would justify the MBS receiving a subvention from the GOM.

156. **During interviews with private sector stakeholders it was apparent that they considered the MBS implementation of the mandatory conformity assessment requirements as an implicit tax which served to increase costs and contributed to border delays rather than as payment for the provision of a legitimate and valued service**. The mandatory IQMS requires all imports subject to Technical Regulations to be tested, including the products that had already been tested by internationally accredited firms prior to arrival in Malawi. Many firms never received their test results, or only did so following enquiry, and some observers suspect that not all samples are actually tested. The MBS is not accredited by either the SADC Accreditation Agency or either of the two international bodies (ILAC and IAF). While the MBS accepts test results from its own laboratories, it does not recognize test results from overseas accredited testing bodies.

157. **The MBS is the National Enquiry Point for the WTO Agreements on Sanitary and Phytosanitary (SPS) measures (Food Safety only) and Technical Barriers to Trade (TBT) as well as the National Codex Contact Point**. MBS is therefore responsible for providing information on national food safety measures, standards and conformity assessment requirements.[8] The MBS is a member or affiliate member of a number of regional or

[7] http://www.nyasatimes.com/2012/02/16/regulators-making-malawi-a-dumping-ground/

[8] There are two additional enquiry points, the Department of Animal Health, and the Bvumbwe Agricultural Research Station, and one notification authority, the Ministry of Industry and Trade, creating a potential for confusion and increasing the risk of obtaining incomplete

international standards bodies. At the regional level, MBS participates in the SADC Standardization, Quality Assurance, Accreditation and Metrology (SQAM) activities, the COMESA Committee on Standardization and Quality Assurance, the Intra-Africa Metrology System, and the African Organization for Standardization. At the international level, MBS is a member of the International Organization for Standardization (ISO), and an affiliated member of the International Electrotechnical Commission (IEC), the International Organization of Legal Metrology, and Codex Alimentarius Commission (Gama 2011).

158. **The MBS has five departments**: (1) Standards Development Department; (2) Quality Assurance Department; (3) Testing Services Department; (4) Metrology services; and (5) Finance and Administration Department. Besides accreditation service, the MBS provides all NQI services in one organization. The Standards Development Department is responsible for issuing voluntary standards and technical regulations (i.e. mandatory standards). Conformity assessment services are provides by the Quality Assurance Department and the Technical Services Department and measurement services are offered by the Metrology Service Department. Finally, the Financial Department provides horizontal services for all MBS departments including financial and human resource management.

Standards Development

159. **Standards development in Malawi is a demand driven process and commences with a representative from a trade association, consumer group, or Government submitting a proposal to the MBS**. The proposal is then examined to determine whether it is consistent with the principles for the preparation of standards. After successful examination, the proposal is sent to an appropriate Technical Committee (TC). The TC officer prepares a draft standard or alternatively appoints a subcommittee or working group (WG). The subcommittee or WG extensively discusses and reviews the proposal if required. After a draft standard has been prepared by the subcommittee or WG, the TC discusses and reviews it and then passes it to the MBS secretariat for wide circulation.

160. **The circulation of the draft aims to inform interested parties in Malawi and abroad which may be affected by the standard**. The TC incorporates comments to the draft standards. The draft is submitted to the Divisional committee where the draft is examined. The final draft is then sent to the Standards Policy Advisor Committee (SPAC) and the Malawi Bureau of Standards Board. After approval by these committees, the MBS submits the approved standard to the Ministry of Trade and Industry for gazetting. Standards developed by MBS can be voluntary or mandatory. According to the MBS, standards that have an impact on health and safety of the consumer are made mandatory. The TCs can make a recommendation whether or not a standard should be voluntary or mandatory. The Malawi Standards Board makes the final decision on the implementation status (SDD 2012). The steps of standards development are shown in Figure 13.

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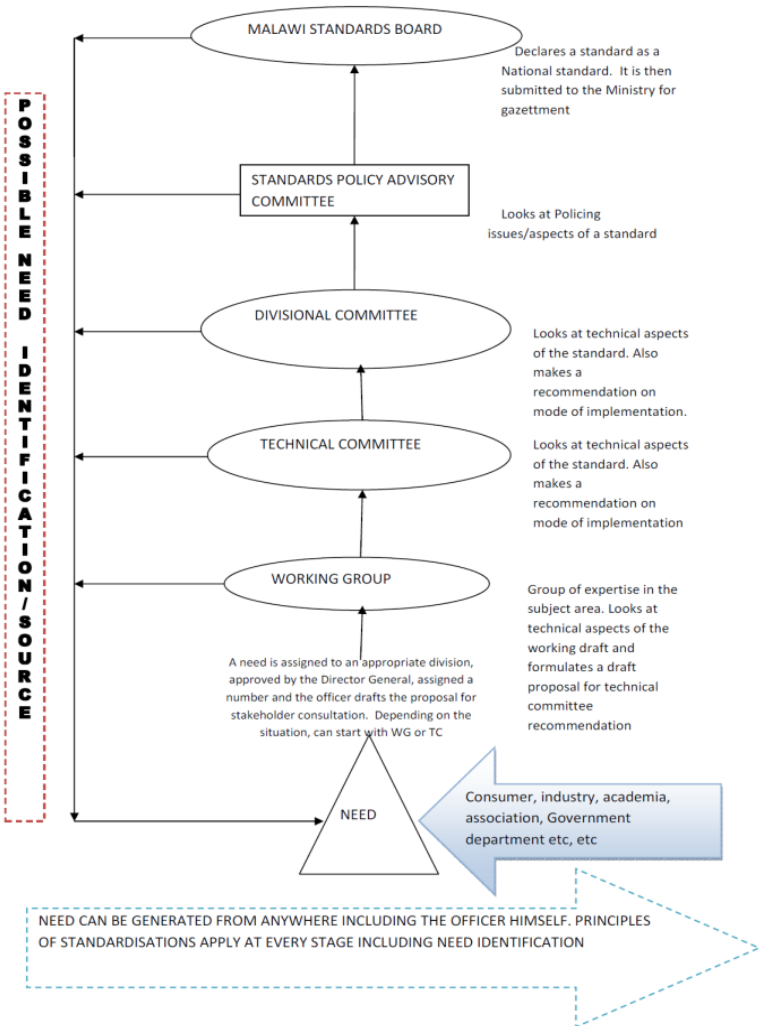
information. In the process of creating a centralized Trade Portal, it would be important to identify one authority responsible to coordinate all relevant agencies.

161. **According to interviews with private sector companies in Malawi, standards development in MBS - which includes stakeholder consultation - is working well**. The representative from the Malawian subsidiary of the Swiss based SGS S.A., an inspection, verification, testing, and certification company, said during the personal interview that MBS regularly informs SGS about new standards developments and workshops. The Malawian subsidiary of Illovo Sugar Ltd also participates in MBS standards setting. There have been no complaints about obstacles with regard to participation in standards setting, a lack of transparency, the length of standardization process or a lack of consultation opportunities among large companies.

Figure 13 Standards Development in MBS



Source: MBS 2012

162. **To ensure standards reflect the needs of consumers (and not primarily the interests of established producers) it is important to engage society at large.** It is less clear to which degree smaller companies and society at large are involved in the standard setting processes, and it is important to publicize discussions and draft standards or technical regulations early on. This

can help prevent setting of standards which are overly stringent, for example by simply adopting international standards, and which would make it impossible for producers to meet, or overly costly such that consumers could not afford final products.[9]

163. **The Standards Development Department conducted the stakeholder consultation process for developing the Malawi standardization strategy with the support of the International Organization for Standardization (ISO)**. In 2011, the ISO provided standardization training for standardization strategies in which an official from the MBS' Standards Development Department participated. The stakeholder consultation process resulted in identifying more than 1300 proposals for new or revised standards (SDD 2012b).

164. **According to the Catalogue of Malawi Standards from 2012, Malawi has developed a total of 934 standards, an increase of 304 standards since the year 2000**. From the 934 standards, 560 are mandatory standards (technical regulations) and 374 voluntary. 38% of technical regulations and 19% of voluntary standards are based on international standards (ISO, IEC or Codex). According to interviews with representatives from the Standards Development Department, about 86 Malawi Standards (less than 9% of the total[10]) are harmonized with Common Market for Eastern and Southern Africa (COMESA) standards and 56 Malawi Standards are harmonized with Southern African Development Community (SADC) standards. The standards listed in the Catalogue of Malawi Standards represent the "supply side" of Malawian standards.

165. **When the Malawi Standard is harmonized with either the COMESA or SADC regional standard this is indicated on the cover of the standard**. In order to increase the transparency of Malawi Standards, the name of the standard should also reference the specific regional or international standards that have been referenced. This practice is used in the European Union. For instance, a German standard is called DIN EN ISO when it is based on a standard issued from the European Standards Organization (CEN) and ISO. Harmonization of standards and technical regulations helps exporters to save costs related to double certification or double testing of goods. However, the current practice is that foreign certification marks are not recognized in Malawi. This includes certification marks from the SADC/COMESA region as well as mark from internationally accredited certification bodies. This practice undermines the potential benefits from regional and international harmonization of standards and technical regulations.

166. **Malawi Standards are relatively old and it would be useful to review existing standards to assess their impact on the economy and continued relevance.** While the majority of national standards have been developed in the last twelve years, the average age of voluntary standards and technical regulations is fifteen years. Some requirements of the technical regulations are outdated and seem overly restrictive. For example, MS 109 (mandatory Malawi standard on Casual and fashion plastic shoes – Speciation) specifies the thickness of straps and

[9] For an example of standards in the dairy sector in East Africa, see Jensen, Keyser, and Strychacz (2010).

[10] This figure also results from the fact that there are only about 380 harmonized COMESA standards, of which Malawi has adopted 86 (23%).

bands of shoes. A container of shoes from China was rejected in February 2013 by the Quality Assurance Service Department for non-compliance with the requirements specifying the thickness of straps and bands. While correctly applying existing legislation, this requirement seems to be more of a design or fashion feature than a safety requirement requiring a mandatory standard, raising questions regarding the usefulness of that standard. As stated earlier, the recent World Bank NTM Policy Toolkit (*Streamlining Non-Tariff Measures: A Toolkit for Policy Makers, 2012*) provides a useful approach and checklist for identifying the issues, assessing the costs and benefits, and streamlining the processes and institutions.

167. **The "demand side" for standards is reflected by the number of standards sales**. The voluntary standard MS-ISO 9001 for quality management systems has been sold more often than any other standard. There is also high demand for MS-ISO 19011 Guideline for Quality and/or environmental management system auditing and ISO 22000 for Food safety management systems. The demand for technical regulations (mandatory standards) is largest for standards concerning Food and food processing units (MS 21) and Labelling of pre-packaged Food – General standard (MS 19).

Conformity Assessment

168. **The Quality Assurance Services Department (QASD) and the Testing Service Department (TSD) are responsible for conformity assessment services in Malawi**. The QASD has several mandatory certification schemes for domestic and imported goods to ensure compliance with Malawi Standards: (a) the permit scheme for domestically produced goods, (b) the designation scheme for domestic catering services, and (c) the imports quality monitoring scheme (IQMS) for imported manufacturing products. The department also offers the voluntary export quality certification scheme (EQCS). Under the EQCS, products aimed for the export markets can be inspected and tested for compliance with overseas specifications.

169. **The TSD operates laboratories for general and food chemistry, petrochemicals, pesticides residue, microbiology, radiochemistry, engineering and materials (Gama 2011)**. The laboratories provide their testing services for other MBS departments (e.g. the product certification schemes of the QASD) or on demand of customers. Laboratories of the TSD are not accredited to international standards. Foreign countries, except for some countries within SADC, do not accept certificates or test reports issued by MBS. Therefore, Malawian exporters need to use foreign laboratories which are accredited to international standards in order to show compliance with foreign buyer requirements. Exporting companies have to bear the extra export costs.

170. **Interviews with private sector highlight the absence of accredited laboratories as a major problem for exporting companies**. According to the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) companies who want to export their products outside the SADC region have to retested or recertify their products in the accredited laboratories. According to Sable Farming Limited, costs for re-testing amount to about 1,200 US$ for each sample that has to be sent to a foreign accredited laboratory. All interviewed companies which

export their products outside the SADC region argue that absence of private or public laboratories that are accredited lead to additional costs. This is consistent with the ITC report on Non-Tariff measures (ITC 2012).

171. **A 2011 evaluation of laboratory facilities in Malawi facilities found serious weaknesses.** The evaluation (under a USAID project) included the Chitedze Agricultural Research Station, International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), Valid Nutrition, and the laboratory of MBS. According to the report, all laboratories show unacceptable conditions. The laboratories lack funds for consumables (e.g. reference materials), maintenance, service of instruments, etc. Basic infrastructure, such as reliable electricity and acceptable water quality is not available. Service quality and laboratory management, a critical factor for accreditation, have been evaluated as poor. Customers have to wait up to eight weeks for results and sometimes doubt the accuracy of the results. The report saw little prospect of the laboratories achieving and maintaining ISO 17025 accreditation. Without such accreditation, investment in physical testing equipment will not be sufficient to achieve accreditation.

172. **Problems with the quality of MBS laboratories, and their management, were also confirmed in many interviews with the private sector despite ongoing investments**. To give some representative examples, the representative of Sable Farming said that results of laboratories are inaccurate, equipment is often non-functional, and product samples are regularly lost. The representatives of Makandi Tea and Coffee Estates Ltd said that MBS laboratories are missing the adequate testing equipment for macadamia nuts. Serious management issues such as the loss of samples that were frequently mentioned strongly point to the need to improve management, procedures and processes at labs, rather than focusing on equipment.

Table 23 Consignments inspected under the Quality Monitoring Schemes 2008-2013

		2008	2009	2010	2011	2012	2013
Mandatory Import Quality Monitoring Scheme							
No. of consignments under the Import Quality Monitoring Scheme		1825	1857	1841	1486	1485	597
	Import certificates issued (complying with MBS standards)	1041	1139	1173	992	992	358
	Report processed (non-complying with MBS standards but import allowed)	784	718	668	494	493	239
	Rejections (non-complying with MBS standards and no import allowed)	14	47	180	180	46	34
	Percentage of non-complying consignments	57.0%	61.3%	63.7%	66.8%	66.8%	60.0%
	Percentage of rejections	0.8%	2.5%	9.8%	12.1%	3.1%	5.7%
Voluntary Export Certification Scheme							
No. of consignments und the Export Quality Certification Scheme (=Export certificates		37	25	56	56	24	3

Notes: Figures have been compiled by G. Mwakikunga and A. Gama from the Quality Assurance Services Department of the Malawi Bureau of Standards in March 2013.

173. **Table 23 shows that much more consignments are processed under the mandatory IQMS compared to the voluntary EQCS.** The demand for export certification is relatively low and seems to have decreased over time. The low and decreasing demand for voluntary conformity assessment services is consistent with the complaints of laboratory quality by the private sector and the observations by USAID (Louw 2011).

174. **Between 57% and 67% of all consignments under the IQMS are found to be non-compliant** (see Table 23). MBS rejects between 0.8% and 12.1% of the consignments at the border. Based on interviews with representatives of the QASD, import rejections are issued when (a) one or more microbiological parameters in case of food products fail; (b) two or more failures of non- microbiological parameters, (c) deviation of more than 10% of non-microbiological parameters; (d) failure of labeling requirement (expire date, name and address of manufacturer, country of origin); (e) the importer fails to address failure after three failures; and (f) failure on one or more parameters for pre-shipment sample.

175. **Mandatory import inspections (IQMS) are a burden for importing companies.** This concerns the costs for the mandatory conformity assessment, a lack of transparency regarding the costs, and time delays at the border and for the release of goods. Almost all of the importing companies interviewed report problems with mandatory inspections. For example, Bata Shoes - a subsidiary of the Swiss based footwear and fashion Company - report time delays for their imports. Bata also reports that that all imports consignments are inspected and tested by MBS which contradicts MBS rules about how to handle import consignments that conform to Malawi Standards. According to MBS, an annual import certificate is issued if four consecutive consignments of the same manufacturer are complying with Malawi Standards. IQMS fees are then waived for the next 12 months with the annual import certificate. However, Bata Shoes claims it had to pay IQMS fees for all its shipments in 2012 (20 containers) in contrast to MBS rules. The 2 million MKW fees represent about 1% of the import value and effectively results in higher prices being passed to consumers. In addition to the high trade costs, the representative from Bata Shoes complains about a lack of transparency regarding the IQMS fees.

176. **The South African based retailer Shoprite also reports burdensome procedures with mandatory IQMS. The representatives said that for all its imports foreign certificates are not recognized by MBS including certificates issued by SADC or COMESA countries as well as certificates from EU countries**. Moreover, the retailer representative found the actions of MBS to be unpredictable and non-transparent. For example, the representative mentions that testing costs for IQMS are unknown at the time MBS officers take samples from the warehouses and the costs for testing are high and are increasing. Unpredictable behavior by MBS officers includes taking several items as samples. In one case MBS officers took 100 pens. Test results are obtained weeks after samples are taken but only when the retailer specifically asks for the test results. Without such requests, test results are delivered after months or in some case not at all.

177. **Burdensome mandatory import inspections under the IQMS scheme are also reported by companies in the ITC report on non-tariff measures and make up 19% of the import measures**. Companies report that IQMS controls are redundant since SADC, COMESA and certification from internationally accredited are not recognized by MBS officers at the border. Companies also report that delays due to IQMS control laid to significant delays which range from a couple of day to several month (ITC 2012).

178. **MBS re-test imports although they have been tested by SADC/COMESA or internationally accredited conformity assessment bodies**. Company representatives interviewed for the ITC report on non-tariff measures also complain about the non-acceptance of certificates issued by SADC or COMESA conformity assessment bodies although mutual recognition of certificates applies for the SADC and COMESA region. In the ITC report, MBS argues that product quality can change during transport which justifies that some products need to be inspected before they enter the Malawian market (ITC 2012).

179. **Over the period 2010-2012 food products were rejected more than 160 times**. The most frequently rejected products are salt (46), spices (26), and milk (13). Rejected industrial goods are fertilizer (30), lead acid batteries (20), and corrugated sheets (11 times). Consumers good have rejected more than 80 times and include primary batteries (26 times), matches (13 times), and light bulbs (6). Most of the rejected imported goods (147) originate from SADC. Rejections from SADC countries include South Africa (88), Zambia (27), Mozambique (17), Tanzania (11), Mauritius (8), Botswana (4), and Zimbabwe (3). The SADC region is followed by Switzerland (43), United Arab Emirates (38), COMESA countries (32), and China (22). COMESA countries include Kenya (31) and Egypt (1).

180. **MBS collects information on the sampling date and reporting date for the import rejections but it was not comprehensive and was only available for 17 cases from the total of 351 (5 per cent).** Thus, the time importers have to wait to get the results can only be calculated for those cases. The minimum time was 18 days and the maximum time was 88 days. The average time between sampling date and reporting date was 53 days. In some cases, importers had to wait about three months to get a test report from the MBS.

Table 24 Samples Tested in the Testing Service Department

	2011	**2012**	**2013**[1]
No. of samples tested under domestic certification schemes	1756	1336	317
No. of samples tested under import certification scheme	1916	4380	845
No. of samples test on demand of clients	1507	1567	372
Total no. of samples tested	5179	7283	1534
Percentage of samples tested under domestic certification	33.9%	18.3%	20.7%
Percentage of samples tested under import certification scheme	37.0%	60.1%	55.1%
Percentage of samples test on demand of clients	29.1%	21.5%	24.3%
Total	100%	100%	100%

Notes: 1) Numbers until March 14th 2013; All figures have been compiled by Patrician Kondowe, at Malawi Bureau of Standards in March 2013.

181. **Mandatory import testing represents a large part of laboratory work in TSD (about 60%).** Table 24 shows the number of product samples processed in laboratories of TSD in the last two years and the first two months of 2013. The product samples are differentiated into those that have been analyzed under mandatory scheme for locally produced products, mandatory scheme for imported products and product samples tested on demand of clients. Mandatory tests for domestic products represent between 20% and 30% of all product tests in TSD and the same is true for samples tested voluntary on demand of clients. The numbers of samples tested in TSD laboratories suggest that there is some demand for laboratory services of MBS. The demand for voluntary tests comes from exporters who want to know, for example, if their products comply with specifications in export destinations.

182. **Besides mandatory and voluntary conformity assessment services provided by MBS, international certification companies are also active in Malawi in order to certify companies who demand certification from internationally accredited certification companies**. Although the demand for quality management standards in Malawi seems rising over the last year, the demand is nevertheless very low. Based on statistics provided by the International Organization for Standardization (ISO) only 10 companies have been certified with ISO 9001 standard for quality management systems.

183. **In Malawi the low demand for accredited certification reflects the limited range of products exported.** This was confirmed by the representative of an international certification company (SGS S.A. in Blantyre). The demand is so low that it is not worthwhile for SGS S.A. to train local auditors. Instead, auditors come from South Africa to Malawi. The representative from SGS S.A. mentions that the situation is different in neighboring countries. For example, the SGS S.A. subsidiary in Mozambique employs trained auditors for quality management standards. The demand for accredited certification in Mozambique is larger because the seaports enable companies to export overseas where customers demand accredited certifications.

Metrology Services

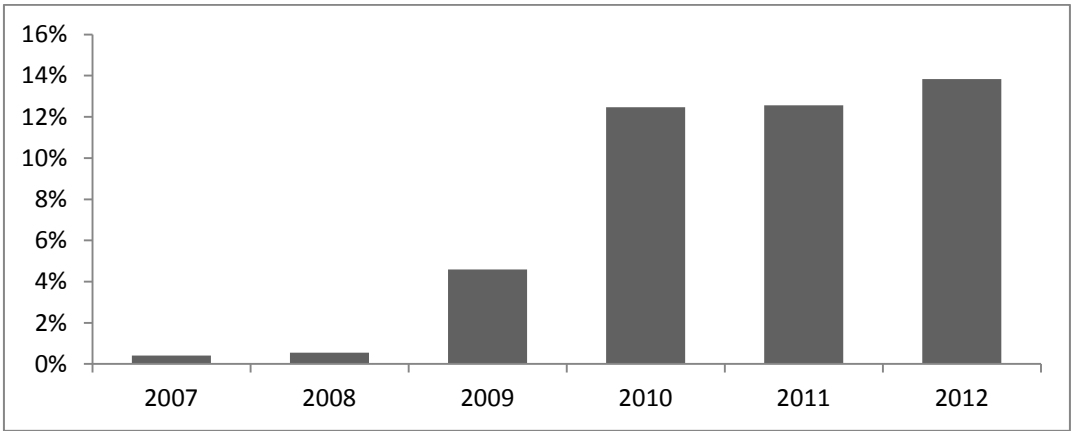
184. **The Metrology Service Department (MSD) of the MBS is responsible for legal and industrial metrological services. Malawi has no independent National Metrology Institute**. Metrology services are offered in MBS since the Trade Department of the then Ministry of Commerce and Industry moved the Assize Unit to the MBS in 1996 (Gama 2011). Through the Weights and Measure Act (CAP 48:04), the objective of the Department is to verify the correct calibration of weighing and measuring instruments used in commercial transactions (MBS 2011). According to personal interview with the Department Director, 17 people work in the Metrology Department. The MSD suffers from a lack of personnel and physical equipment. For example, MSD had no test equipment for the calibration of pressure equipment as of late 2013 but is said to have subsequently been procured. The lack of adequate resources makes it difficult to meet demands made by its customers.

185. **The MSD is divided in two subdivisions: the Legal Metrology Division (LMD) and the Industrial Metrology Division (IMD).** LMD has offices in Blantyre, Lilongwe and Mzuzu and IMD is based in Blantyre. Legal metrology services are related to the verification of measuring equipment either in the three regional offices or during verification tours. During Verification tours MBS officers travel to trading centers throughout Malawi in order to verify traders weighing instruments. Metrology officers also visit companies (in-situ verification) in cases where the instruments cannot be carried to MBS for verification. Calibrated measurement equipment includes: weighbridges, platform scales, spring balances, counter scales, length measures, capacity measures, bulk flow meters, fuel dispensers, and weights.

186. **In cases where officers of the Metrology Department find measurement instruments that fail to comply with legal requirements (Weights and Measures Act of Malawi, chapter 48:04), the instruments are prevented from being uses for commercial purposes and the owners of the equipment are advised to repair their equipment**. If there is evidence of malfeasance the officers in MBS are empowered to initiate legal action. When traders are found guilty, fines are imposed and scales are destroyed. From the interviews it was not clear how the officers distinguished between malfeasance and simple miscalibration of the scales. Given the serious welfare implications for smallholders stemming from inaccurate measuring instruments consideration should be given to introducing automatic penalties (fines).

187. **Illegal measurement instruments are a serious problem in Malawi**. Spring balances are used on markets throughout the country for agricultural products and particularly for maize, the staple food for most Malawians. MBS officers regularly find illegal spring balances during verification tours. Figure 14 shows the percentage of rejected spring balances from 2007 to 2012. On average, 7% of the more than 14,000 tested spring balances fail to comply with Weights and Measures Act of Malawi. The percentage is higher in the last three years. According to the Metrology Department, increased import of non-trade scales on the market is responsible for the recent increase. According to personal interview with the Department Director the revised Metrology Bill will allow MBS to control the import of non-trade scales.

Figure 14 Percentage of Rejected Spring Balances by MBS 2007-2012



Source: Metrology Service Department Reports 2007-2012

188. **The MSD also conducts awareness rising and education campaigns for consumers to explain how to recognize calibrated scales**. During a campaign with village communities organized in 2011, the communities raised concerns that verification of weighing instruments only happens once a year which is not enough to protect farmers from the fraudulent use of scales. Furthermore, the communities requested that Malawi Police Service and District Trade Officers of MIT support MBS with verification of weighing instruments (MBS 2011). However, the MSD Department Director in a personal interview that this is not possible due to logistic challenges and lack of knowledge of the Malawi Police Service and lack of personnel of the District Trade Officers.

189. **The Industrial Metrology Division (IMD) is responsible for maintaining traceability of industrial measuring equipment according to international standards and offers calibration services for measuring equipment for industrial use**. Eighty per cent of the revenue generated by the MSD, the Department Director comes from mandatory legal metrology activities. Industrial metrology services are also offered by private sector companies in Malawi. The industrial metrology section of MBS competes with the private sector. For instance, SGS S.A. offers calibration services for bulk-flow meters for the largest petroleum importer of Malawi, Petroleum Importers Ltd, as well as international organizations such as the United Nations World Food Programme.

Accreditation

190. **Malawi has no independent accreditation body. MBS conformity assessment bodies are also not accredited by foreign or regional accreditation bodies.** If importing countries demand certificates issued by internationally accredited certification bodies, Malawian exporters need to use the services of foreign certification bodies. Lack of accredited facilities has been recognized as a constraint and there are now plans for the MBS to achieve accredited status with the assistance of the EU funded project by 2016.

Funding

191. **Since 2008 MBS has been self-financing with income from the CESS, testing fees and the sale of standards**. As both a regulator and a service provider MBS has considerable flexibility in setting its fees and charges. MBS more than doubled its revenue over the period 2009-2012. The quality development CESS Order of 0.2 per cent on the value of imports has to be paid on 91 (rather broadly) defined products and 89 of these are imported. In practice slightly more than one third of total imports are eligible for the CESS tax (since all textiles and clothing are listed as just one product, as are all agricultural imports). The CESS is levied to cover development and investment in quality infrastructure and is paid at the point of importation. For those products where a mandatory Malawi standard exists, additional charges are then levied under the IQMS for inspection and testing. While the IQMS fees represent 0.65 per cent of FOB, there is a minimum payable of MK 15,000, effectively increasing the rate to shipments valued at

less than 6000 USD. The mandatory requirement to pay both the CESS Order and inspection and testing fees arguably requires the importer to pay twice for the statutory mandated services of MBS to test products that have often already been tested and approved by an accredited agency.

192. **Revenue from testing fees on imports and the CESS account for two-thirds of total MBS revenue (see Table 25). The introduction of the IQMS has enabled testing fees to double their share of total revenue from 8 to 16 per cent over the past four years**. Revenue from domestic sources comes from metrology fees and testing fees for domestic certification schemes now account for less than half of MBS' revenue. 84% of total revenue is generated through the enforcement of legal requirements with voluntary business services accounting for only 16% of MBS' annual income.

Table 25 Revenue of the Malawian Bureau of Standards 2009-2012

Total Revenue	2009	2010	2011	2012
Testing Fees	7.8%	16.5%	11.5%	16.1%
Mark Fees	41.3%	34.9%	31.7%	39.0%
Trade Metrology Fees	5.3%	4.6%	4.1%	3.5%
Quality Development Fees (CESS)	45.5%	44.0%	52.7%	41.4%
Total	**351,125**	**385,036**	**545,843**	**725,252**

Notes:All figures are shown in thousands Malawian Kwacha. All figures are taken from the Financial Statements Reports 2010 and 2012. The reports are written AMG Global, Public Accountants and Business Advisors, Blantyre, Malawi.

193. **The MBS income structure encourages revenue generation at the expense of quality improvement, efficiency and service delivery**. It is able to generate fees through its authority as a regulatory agency. Enforcing mandatory standards (as a monopoly service provider) providers MBS with a secure income. Many firms within the private sector consider MBS fees as equivalent to a tax rather than as payment for a required service. Indeed when Malawian companies were request to participate in interviews on NQI issues one firm representative declined because they considered previous comments on NQI issues had resulted in additional inspections and delays.

194. **The recently adopted National Quality Policy (NQP) advocates, in accordance with best practice, the separation of institutions between those responsible for setting technical regulations or mandatory standards from their enforcement**. Under the NQP the GOM is committed to enhancing national quality infrastructure including at the MBS and establishing a new regulatory agency reporting to the MIT, responsible for regulating commercial activities which may impact the health and safety of people or the environment (MIT 2012). Implementation of the NQP will demand continued support and attention by high-level policy makers. Changes in the focus of the MBS might also demand the allocation of resources from central government as MBS focus shifts to market surveillance and other activities that are not directly revenue generating but aim to achieve public policy objectives.

Recommendations

195. **Accept conformity assessment results from regional partners and accredited certification bodies and from private testing companies that are internationally accredited or accredited by SADCAS**. The MBS demands mandatory retesting or recertification for products from both SADC/COMESA countries and from imports that have been tested in accordance with internationally accredited certification bodies. Recognition of foreign conformity assessment results and the removal of mandatory retesting will reduce the costs and time delays at the border and eventually reduce the costs of imports and increase the welfare of consumers. Such a move should also include the acceptance of test results from private national laboratories that have obtained international accreditation. Because their test results would then be accepted by MBS, permitting importers to choose laboratories for conformity assessment, this would generate additional incentives for the establishment of private laboratories in Malawi, and could contribute to reducing costs for importers and exporters.

196. **Increase visibility of regional standards**. MBS should continue to harmonize Malawi standards with partners in the SADC and COMESA region and international standards and publicize how these are linked.

197. **Increase transparency through publicizing fees, procedures, waiting times and allowing the right of appeal**. The fee structure and payment mechanism should be made more transparent and integrated more closely with MRA and other border agencies. Companies should know in advance the fees and the time it takes for MBS to deliver the test results. MBS should collect and publish statistics on average waiting times at the border as well as statistic on import rejections. Fees for imports - including the quality development cess - should be reduced. MBS would benefit from benchmarking their fees to international best practices.

198. **MBS should ensure a consistent approach in accordance with their own published procedures**. It is not clear why imports listed as 'failing' are subsequently imported. If the imports do not meet the accepted minimum mandatory standards surely they should not be imported. It is not clear how this achieves the regulatory intent of increasing consumer safety? In the interests of transparency data on inspections, test results, and rejections should be published.

199. **Continued participation in the Integrated Border Management initiative aimed at ensuring increased co-operation with other border agencies will also be critical.** This should include streamlining procedures, increasing transparency by including requirements and procedures in a Trade Portal, feeding risk selectivity criteria (and keeping them updated) into the risk management system managed by customs. These activities would prepare the basis for introducing a Single Window as the next stage.

200. **To more effectively achieve its mandate, the MBS should shift emphasis towards market surveillance which will require increased cooperation with law enforcement.** For example, to more effectively address fraudulent weighing scales, the MBS will have to allocate more resources to the Metrology Department and increase the capacity for legal metrology

services. This will have a positive impact on the poorest and most vulnerable groups. Spring scales are used in markets throughout the country for measuring agricultural products, including maize flower, the staple food of most Malawian. Data provided by the MBS Metrology Department shows that a large and increasing percentage of such scales are not calibrated. Fraudulent use of weighing scales acts represents a tax on consumers and impacts most on the poor and very poor. In order to increase activities for verification and market surveillance of weighing instruments other non-MBS authorities (e.g. Malawi Police Service or District Trade Officers of Ministry of Industry and Trade) should support the MBS officers of the legal metrology department.

201. **Support to the MBS and accredited laboratories of the Technical Service Department should be complemented by policy reforms that would allow the emergence of private accredited laboratories.** Test results issued by MBS are only accepted in the SADC/COMESA region but due to the non-accreditation of the MBS not in other markets. Having internationally accredited private or public laboratories in Malawi that could meet testing demand from exporters would eliminate the need for retesting in accredited laboratories outside the country, which is costly for Malawian companies and reduces their international competitiveness. This recommendation is in line with the objectives of the EU funded project which aims to obtain accreditation with ISO/IEC 17025 (General requirements for the competence of testing and calibration laboratories).

202. **To demonstrate its commitment of improving the national quality infrastructure, the government should prioritize effective implementation of the NQP.** This will provide the basis for ensuring the NQI delivers efficient business services in support of companies producing quality products for both domestic and export markets. An increased focus on post market surveillance is an important element of this strategy and will assist MBS to more effectively ensure consumer health and safety. Increasing post market surveillance would justify the MBS receiving a subvention from the GOM.

Customs Clearance and Transit Mechanisms

203. **Since the 2004 DTIS the GOM has implemented a number of reforms aimed at improving the environment for trading across borders**. In 2008 the MRA introduced risk management and post clearance audit units which enabled compliant traders to benefit from fewer customs interventions. In 2009, pre-clearances for compliant traders were introduced. In 2011, the authorities reduced the number of documents required for processing a customs transaction from 30 to 6. Furthermore, remote electronic filing of declarations was introduced in 2011. This has enabled Clearing and Forwarding Agents (CFA) to electronically track the progress of their declarations. MRA introduced the Declaration Processing Center (DPC) in 2012 and this has facilitated on line uploading and declaration processing by all major customs offices. The DPC has ensured the uniform application of customs law, valuation, classification and reduced corruption (or its perception) which has eliminated the practice of border shopping by some traders. All of these reforms have, in principle, enabled MRA to release goods within 30

minutes when all the required information is in order. Earlier this year, the MRA has begun to implement non-intrusive inspections and plans to roll out scanners at the major border stations to minimize physical inspections.

204. **Notwithstanding significant positive developments from the MRA program of customs modernization many challenges remain**. The major challenges are outlined below.

Integrated Border Management

205. **There are currently up to 14 government agencies represented at the Mchinji, Dedza and Mwanza, border posts, plus private support entities such as clearing and forwarding agents (CFA), insurance companies and banks are also based at the border**. Each of the government agencies represents a distinct legal purpose while performing functionally similar and relatively uncomplicated work, e.g., inspecting permits, taking samples and ensuring payment of fees. Multi-agency interventions stem from laws granting powers to the various agencies to inspect, take samples, and collect taxes and fees. CFA are critical to the clearance process by acting on behalf of the trader to convert commercial information into the standard language and administrative format required by the regulatory agencies and also play an unusual (and perhaps inappropriate) part in the regulatory function.

206. **Placing multiple government institutions at the border is based on the misplaced view that only officials from the relevant agencies can or should make the interventions (presupposing that the interventions are necessary at all.).** In other cases, there is a desire to insure or augment the importance of the particular agency through the presence of officials and the collection of fees. This manifests in territorial or competitive behavior between agencies (seemingly driven more from head office than at the border itself). This result is added cost, unpredictable cross border times and delays.

207. **The main roles of the regulatory agencies could be absorbed by the MRA and the Department of Immigration.** Other agencies are responsible for ensuring that goods (imports or exports) subject to certain restrictions, have been issued with the relevant permits or licenses; for physically examining goods to ensure compliance (e.g., free of disease, properly marked etc.); for taking samples; and ensuring that any fees are paid. Logically the MRA would be able to absorb the functions of fee collection, inspection and sample selection that are carried out by the MBS, Environment and others, while Immigration could address the human health concerns. Amending the legislation to empower Customs and Immigration officials to perform additional relevant functions is straightforward.

208. **A recent Presidential Decree (2013) limited the border agencies to the MRA, Department of Immigration, MBS, Malawi Police Services and Ministry of Health, although this has not yet been implemented**. The rationale for selecting these agencies is not known. Streamlining institutional and administrative controls at the border should be a priority. This initiative could build on the momentum generated following the Southern African Trade Hub assessments of border coordination at Mchinji, Dedza and Songwe. Linking better

coordination to reducing the number of border agencies will require regulatory requirements to be streamlined. Agreeing on the derogation of regulatory responsibilities from transport, MBS and other Agencies to MRA will require negotiation. Introducing a Trade Portal, which does not require any regulatory or organizational changes, would be an important first step and should be prioritized.

209. **The MRA has the lead role at the border, the area being a Customs area designated under the law and all imported and exported goods passing through the border are subject to Customs control**. After the formation of the MRA in 1998, Customs role was principally directed to revenue collection, aligning with the MRA mission. A reduced focus on the control of prohibited and restricted goods may have led other agencies to assume more direct controls themselves. The Immigration Department has no direct role in the border clearance of goods but does control the movement of people, which means that all people, including drivers of motor vehicles and their passengers must undergo an immigration clearance process.

210. **Despite improvements in risk management by the MRA, other agencies' selectivity criteria are not part of the system, and across all agencies, physical inspection at borders remains extremely high.** The MRA abolished Pre Shipment Inspection in 2007,[11] transitioned to UNCTAD's Automated System for Customs Data (ASYCUDA++) and selectively implements advance clearance and post-clearance audits.[12] However, interview with CFA at Mwanza reported that virtually all commercial imports were subjected to physical inspection by one or more agencies resulting in delays and increased costs. Green lane declarations (release without check) are also frequently subject to documentary check of physical inspection. Further, the recent organization change separating import clearances from export appears to be based on the premise that greater controls are required for imports for revenue reasons. Import entries for goods with a value of over MK 300,000 (>$1000) may be lodged remotely but are processed in Blantyre. However, documents are said often not to be available until the trucks arrive at the border. Other goods, including informal clearances are made at the border post. All exports are cleared at Blantyre, Lilongwe, Mzuzu, or at border stations.

211. **Duplication of Data amongst Agencies** Basic data elements such as the name of importers/exporters, goods description, value, origin etc. is partly or wholly common to most of the agencies and functions. But data required by each relevant agency is collected independently. The outcome is that same data has to be presented to various agencies in different formats and using different processes. Presenting the same information multiple times increases error rates and wastes resources.

212. **Excessive use of manual procedures centralized in Lilongwe.** There are eight agencies that issue permits or licenses for imported and exported goods. All processes are manual and must be carried out in Lilongwe. This requirement incurs time and direct cost handicaps to trade

[11] This means that MRA has resumed full responsibility for valuation, origin and classification functions and valuation decisions can now be appealed to higher authorities inside MRA and through an external administrative appeals process.

[12] Not all border stations are yet connected directly to ASYCUDA ++. CFAs are linked, either locally or directly to Blantyre, but no other agencies are connected.

as each permit or license (and there may be more than one per consignment) requires one or more trips to Lilongwe to visit each relevant agency. Absences or complications increase the risk of further delays and add to the trade cost. Many of the fees are specific to a shipment or transaction and consequently highly regressive and work to discourage small cross border shipments.

213. **Lack of Transparent regulations and procedures.** Access to information about trade regulations, procedures, fees and charges is limited and indirect, i.e., largely through the Ministry of Trade or CFAs. Some agencies operate websites. The MRA website contains a range of general information but this is neither comprehensive nor up to date (as noted in Chapter 3 on the Tariff Schedules). Furthermore it is not possible to download a comprehensive set of forms from the MRA website. Malawi does not have a single or central source, or any organized distribution of comprehensive information.

214. **Infrastructure issues are not the main cause for delays.** In general, the facilities at all posts are constrained with frequently cramped office spaces, overcrowded public areas and a shortage of office furniture, computers, telephones and consumables. While these could all be improved it is important to note that the major cause of delays, increased costs and uncertain delivery times rests with the need to obtain approvals across multiple independent (and un-coordinated) agencies that results in processes and data being duplicated along with redundant checking of documents and cargo.

215. **Frequent and lengthy power cuts disrupt all border related processes.** According to officers and stakeholders, system downtime occurs once to three times per week and lasts several hours. Currently the MRA uses generators which are expensive to operate and unreliable, and are also frequently out of action. Whilst this disrupts the Customs process, a worse problem is that CFAs cannot process and lodge Customs declarations and other agencies also have to switch to manual processing. Customs and CFA should cooperate in developing a parallel manual system as a fall back for the power failures. For example, Mozambique has introduced solar panels to back up the main supply but there is very limited output and power storage is a problem. MRA plans to install solar panels at all border stations to support the operation of ASYCUDA ++.

216. **The most important MRA corporate and individual performance measurement criterion is revenue collected – equally so in Customs.** Annual and monthly targets are set and if achieved form the basis of bonus payments. The recent restructuring of the MRA into an import and export division (with the latter being equated to trade facilitation) raises concerns that trade facilitation is not considered of central importance to import transactions but rather for exports. The priority on raising revenue creates pressures for Customs to ensure a high valuation which creates incentives for importers to submit under-valuations in the expectation that they will be routinely increased in value. Some Customs staff agreed, explaining that undervaluation by traders is rife and without up to date and accurate valuation data they have no way of being sure about values. Private sector representatives say that overvaluing goods is safer in case of

recheck and helps to achieve monthly revenue targets. This encourages a high rate of physical inspections which adds to and increases the unpredictability of clearance times.

217. **Valuation has improved since 2003 but the Agreement on Customs Valuation is still not applied fully and valuation adjustments are frequent.** Price lists, minimum prices and domestic prices are still used to determine the customs value. Private sector representatives, including CFAs allege that invoice prices are not respected, even when genuine. As a guide to 'real' values, MRA has created and maintains its own valuation database of historical reference prices based largely on duty free imports of each commodity. Its usefulness is limited by its lack of comprehensive coverage of the commodities being imported, the inability of MRA to keep it updated and current and a lack of reliable and relevant information. In the past, this data was loaded into the ASYCUDA ++ valuation database, but it has not been maintained and so has fallen into disuse. At a practical level, border officers resort to a combination of value lists distributed from Blantyre, their own written lists and internet research locally to try to assess values and typically a single officer can only make 4 to 5 valuation decisions per day.

218. **Improving the quality and professionalism of the CFA is essential**. A modern customs clearance operation requires efficient and reliable CFAs who acting on behalf of the owner of the goods mitigates risk by ensuring the provision of accurate declaration information, providing security bonds and in the case of Malawi (assuming a role tacitly assigned by the MRA) directing which agency requirements must be applied. The efficacy and efficiency of trade clearance is dependent on the quality of the CFAs as they manage and control all the required information. Currently there are 100 licensed agencies in Malawi, each with a number of employees. There is limited quality control through pre-license assessments or examination of post-license performance measurement. Further it was confirmed that CFAs have a less than adequate understanding of customs and border procedures, controls and regulations. It is rare for the MRA to sanction a CFA with a suspension or ban. Enforcing efficient and transparent criteria for licensing MRA is a necessary step for improving trust and efficiency at the border.

219. **It is important for MRA to introduce improved standards for CFAs with sanctions for abuse and continued transgressions**. The 2003 DTIS recommended reviewing the licensing of Customs agents to include more stringent criteria and performance standards and MRA amended legislation in 2010 to introduce new and higher standards with a more effective overall regime. Examinations set in 2012 resulted in only 45 of the 300 applicants passing but subsequent lobbying resulted in failed MRAs being re-registered. The changes were shelved but it is important to urgently review and implement revised legislation applying more stringent entry criteria. The CFA Association is also committed to promoting greater professionalism for both CFAs and Customs Officials and works to promote dialogue as well as training.

220. **Increasing gender awareness and gender balance at borders will be critical to reduce discrimination at borders**. The National Association of Business Women reported that women account for 80 percent of cross-border traders and reported many incidences of harassment. In general, border officials are mainly men with few notable exceptions. MRA has

one third women staff at Mwanza and two thirds at Mchinji, however, all heads of post are men. More than half the CFAs at Mwami are women. Several international, regional and national organizations, advocate that a more gender-balanced presence at borders, together with formal gender training, might help to alleviate many of the difficulties faced by CBTAs.

Recommendations

221. **Recent USAID reports on Malawi border posts recommend introducing more coordination of border agencies and infrastructure development and building one stop border posts (OSBPs**). The former needs to be predicated on rationalizing agencies present and consideration may be given to the possibility of establishing a single border post. The latter, if planned and executed strategically, might provide effective solutions to several of the main issues. This would be a large and expensive undertaking and it carries the risk of failure (see the Case Study of the Chirundu Border Post). It requires the introduction of a new 'philosophy' which is much more challenging that constructing the new infrastructure.

222. **The Government of Malawi has committed to implementing a Single Window as a solution for automation, connectivity, sharing data and providing information**. Developing a Single Window is complex, expensive and involves a lengthy process of re-engineering processes as administrative and legal responsibilities are streamlined. The experience of MCNet in Mozambique, and many countries within ASEAN should provide pause for thought on how to frame priorities and allocate scarce resources in order to achieve tangible reductions in trade costs in the shortest possible time.

223. **For Malawi the short term, immediate priority and an achievable interim step is to establish a Trade Information Portal** which will place on one web site all the regulatory requirements, procedures and fees required for importing, transiting and exporting goods to and from Malawi. Users should also be able to download all the forms for permit applications and perhaps even submit online. A good example of a recent Trade Information Portal may be observed at http://laotradeportal.gov.la/index.php?r=site/index .

Transit Cargo and Bond Guarantees

224. **Zambia and Malawi, and Malawi and Mozambique do not have 'door to door' transit systems**. A transit system is a transport activity under customs control. It is not a clearance or a series of clearances. Regional transit between Malawi and Mozambique requires procedural and document harmonization, and internationally accepted guarantee system and mutual control of transit operations.

225. **In Southern Africa transit cargo is not routinely separated from cargo for clearance,** in many cases the time at the port initiating transit is similar to time required for clearance. The traditional fragmented markets of customs brokers and country specific guarantees can results in multiple transactions where the same information is entered into the computer twice at each border crossing. Transit cargo from Durban to Blantyre may go through 8 different customs brokers-one on each side of the four borders along the corridor.

226. **The failure of Southern African countries to implement a cross-border or regional bond guarantee mechanism keeps the financing costs high**. On average in Sub-Saharan Africa a bond guarantee can cost between 0.25 and 0.5 per cent, while for countries implementing the TIR system it averages 0.1 per cent. In Malawi, Mozambique and Zambia, the bond guarantee systems contribute significantly to high costs and long delays for Malawian imports and exports. CFA's are directly responsible for posting the required amounts which limits the number of CFAs who can provide the service. Fewer CFAs means higher demand on each to provide security bond coverage.

227. **In April 2013, Mozambique introduced the transit element into their Single Electronic Window (SEW), thereby forcing customs agents and freight forwarders to use statutory mechanisms that had long been circumvented**. This generated significant delays at borders in Malawi and for transit goods in Mozambique ports. Prior to this change, bonds were issued informally, allowing for faster processing but also allowing for potential leakage as transit declarations remained outside the control system of the SEW. While the inclusion of transit operations under the SEW permitted the Mozambique authorities to close some loopholes, it led to significant delays of shipments as customs brokers were not ready for the change and were not able to issue sufficient customs bonds as needed under the application of existing procedures. The MCNet system is also said to crash at times, creating further delays. With informal procedures no longer an option, some shipments were held for up to four weeks while CFAs adapted to the new procedures.

228. **In addition to the limited availability of bonds in Mozambique, acquittals can also be very slow**. CFAs who have reached their financial ceiling are not able to transact more business until sufficient acquittals are made and accepted by the system. Delays in receiving enough cash from clients also hamper the bond guarantee process. The amount of bond that must be provided by the CFA is very high (Malawi and Zambia require 50% of the value; Mozambique, 35% of the value), again limiting the CFAs capability to cover the volume. Following discussions between Mozambique and Malawi, the Mozambique Authorities expanded the number of products exempt from transit bonds due to limited risk of leakage, including tobacco and sugar. This has improved the situation though delays continue to be reported.

229. **The existing bond guarantee systems adversely impacts Malawian trade**. The risk to government revenues may be reduced to almost zero, but at what cost? This appears to be a case of administrative convenience being imposed without regard to the economic consequences in the country concerned and in neighboring countries. A more workable system, consistent with the application of customs risk management principles, would be to allow approved CFAs to lodge a bank guarantee covering a proportion of the amount likely to be outstanding at any one time (e.g., 20%). The CFA could then operate within the ceiling amount without having to put up cash on a transaction by transaction basis.

Pricing and Competition in the Road Transport Sector

230. **The earlier DTIS highlighted the key role of the transport sector in determining the domestic price of staple foods, the cost of imports, and the international competitiveness**. The 2004 World Bank Country Economic Memorandum noted that notwithstanding recent policy reforms aimed at increasing competition on the international routes and measures aimed at improving the transport infrastructure transport prices on both the domestic and international routes remained high and continued to undercut Malawi's competitiveness.

231. **A decade later transport prices continue to be a major factor for both producers and consumers in Malawi**. During the 2012 planting season transport costs accounted for 32 per cent of the delivered price of fertilizer in Malawi, with internal transport costs estimated at $0.136 per ton/km adding further to the final delivered cost. This is not significantly different from the estimates of transport costs in 2004 when they accounted for 47 per cent of the retail price of fertilizer (based on delivery in Kasungu), 24 per cent of the pump price of diesel (cost from Beira only), and 12.5 per cent of the auction price of tobacco (excluding transport from farms to the auction floor).

232. **Transport prices in Malawi reflect both structural conditions and the regulatory framework**. The structural factors over which the Government has little impact in the short run include limited backhaul, the seasonal peaking of demand (tobacco harvest, fertilizer distribution) in an agricultural dominated economy, and low demand on the feeder routes in the rural areas. During the tobacco harvesting season many trucks are parked for days and even weeks while they wait to be weighed and off-loaded, adding further to transport costs. This is because trucks effectively function as warehouses, charging fees to farmers, and because truck cycle time is increased. This increases average costs to truckers as they can transport less loads in a season and reduces competition in the trucking sector as trucks remain immobile, driving up prices. Regulatory issues include licensing restrictions limiting competition on domestic routes which inflates prices on the feeder routes

Table 26 Distance by Road to the ports and Indicative Transport Prices

	From Lilongwe (km)	From Blantyre (km)	Cost/US$/ton/km Full Container/Truck	Cost/US$/ton/km Small load 1 ton
Beira	1,194	846	0.16-0.18	
Durban	2,678	2,323	0.09	2.52 (to J/Burg)
Nacala (Rail)	1,085	959	0.055- 0.092	
Dar-es-Salaam	1,667	2,031	0.40	

Note: *The transport prices are based on a small sample of trucking/freight forwarding companies and should be considered indicative, a more accurate estimate of transport prices is being compiled as part of a proposed Transport Sector Study.*
Source: *Distances from CEM (2009) Costs from interviews with private firms March 2013, none of the firms interviewed used Dar-es-Salaam and one of the firms quoting for Nacala stated ' the railway is so inefficient that we cannot use it.'*

233. **The efficiency of transit corridors is a key element in determining Malawi's competitiveness as its geographical status requires trade to transit through neighboring**

countries in order to access regional and international markets. Table 26 shows the four alternative transport corridors, through which Malawi has access to the sea, and how they vary by distance, reliability and costs. Durban is the most reliable and cheapest on a ton/km basis, but also the furthest and therefor the most expensive in terms of total cost because of the added distance. Malawi's trade volume is relatively small and was estimated in 2009 to be approximately 2 million tons per year. Almost half of the tonnage is routed through Beira, with Durban accounting for up to 20 per cent and Nacala, which is the nearest port, slightly more than 10 per cent. It is important to note that both Nacala and Beira are feeder ports to Durban which adds to the cost and time indicated in tables 26 and 27, reducing the comparability of these figures as far as total costs to final markets are concerned. In 2012, indicative transit time from Beira to Durban was 6-7 days, with one weekly service,[13] but following the capital dredging of the port in 2011, the number and size of vessels calling has been increasing. The traffic is dominated by relatively time insensitive high bulk/volume exports of tobacco and minerals which accounts for the relative preference of Beira and Nacala over the quicker and more reliable Durban route. The MGDS II focuses on improving the quality of the physical transport infrastructure (paved roads and effective road maintenance) and services to economic development (p.38). While these are undoubtedly important they do not represent the binding constraints to reducing transport costs and prices.

Table 27 Characteristics of Main International Transport Corridors

Port	Transport Mode	Infrastructure Condition	Port Reliability	Port Delay	Transit Time Freight	Transit Time Passenger
Beira	Road	Good/Fair	Medium	2 -4weeks	2-3 days	10 hours
Durban	Road	Good	High	1 day	5 days	30 hours
Nacala	Railway	Poor	Low	>3 weeks	Unpredictable	14 hours
Dar-es-Salaam	Road	Good/Fair	Medium	4 weeks	4 days to 3 months	21 hours

Note: Malawi Leaf sent a trial consignment of 4 containers by train to Dar-es-Salaam in 2012 and it took 3 months; Beira is very congested during the harvest season and wait times can exceed one month; Source: CEM (2009), interviews with Malawi Leaf and Freight Forwarders (March 2013) and www.travelmath.com

234. **Trade Logistics and Trade Regulations are key determinants of delays and generate uncertainty in travel time**. If infrastructure constraints were the major cause of delay one would expect private passenger traffic which is using the same route to take a similar period of time to commercial freight traffic, however, this is clearly not the case as may be observed from Table 27. A small survey of trip trucking times from Dedza to Beira and back to the Mwanza border found that almost half (3 days) of the total time (6 days) was spent waiting at Beira port to load the vehicle. Likewise, delays at ports are often significant in Beira, Nacala and Dar-es-Salaam. A recent study[14] found that 88 per cent of total transit time from Beira to Lilongwe and Blantyre was spent in the port, and 80 (82) per cent of total transit time was spent in the port of Nacala when importing to Lilongwe (Blantyre). Port performance remained poor as of 2010, with

[13] Southern Africa Trade Hub, 2012, Logistics Review of the Beira and Nacala Corridors.
[14] Southern Africa Trade Hub, 2012, Logistics Review of the Beira and Nacala Corridors.

container throughput and crane productivity significantly lower than in comparator ports, container dwell times exceeding that of Durban container port by a factor of eight or more, and high average truck cycle time. These figures indicate that improvement in port management could lead to significant improvements although more detailed analytical work will be needed. The actual time spent crossing the borders ranged from one hour when empty on the outward journey to four hours on the return (at Mwanza) for customs clearance. The absence of 24 hour customs clearance services results in the journey taking at least one extra day as truckers time their 'rest stops' to coincide with the border operating hours.

235. **In line with standard practice transport prices are significantly higher for smaller loads**. Transport prices overland for imports from Johannesburg vary depending on the cargo with break bulk cargo and small loads being significantly more expensive per ton/km. One freight forwarder provided a current (March 2013) quotation of $2.52 per ton/km for a minimum one ton load.

236. **In 2004 domestic transport rates in Malawi were double the rates in South Africa and Zimbabwe for rural roads and over 3 times more expensive per ton/km when compared with trunk roads (World Bank, 2003)**. These high rates were explained by the relatively poorer infrastructure, the lack of warehouses along the Blantyre/Lilongwe/Mzuzu route, and high taxes on the transport sector. A 2009 study based on a survey of transport providers found internal transport rates remained high (Lall et al, 2009). Relatively low volumes and high fixed costs reduced the number of transport operators. The poor quality of feeder roads connecting villages to the main road network also increased costs. Interviews with transport service providers reaffirmed this finding and highlighted the segmentation between the domestic and international market and also within the domestic market between those serving the main trunk roads between Mzuzu-Lilongwe and Blantyre and smaller firms serving more remote areas. These interviews also revealed a preference by transport service providers to allocate fleets to domestic transport services rather than to regional transport operations, as overall profit expectations were higher for a variety of reasons.

237. **The large contracts issued by the Government of Malawi for the delivery of fertilizer under the FISP have also influenced transport rates**. Most of these contracts appear to have been won by larger companies or consortia of businesses based in Lilongwe who then subcontract to smaller transport operators. In 2011 the transport costs for the World Food Program (WFP) were 30 per cent lower than equivalent transport contracts through the GOM for distributing subsidized agricultural inputs (fertilizer). The WFP was able to negotiate lower prices using a small number of large transport operators compared to the FISP. While several firms observed that internal transport costs varied widely depending on the season, with rates peaking during harvest time and during the subsidized distribution of fertilizer, this nevertheless raises questions on the way the transport contracts under FISP were allocated.

238. **Dependence on agriculture and narrow production base results in large seasonal swings in demand and reduces the opportunities for backhaul**. Outside of the period August-

November, when fertilizer is being imported the volume of traffic from Beira back to Malawi is very low which results in low backhaul. Many road transport operators would rather bring a rig back immediately than have it waiting for a return load. The tobacco buying season is in April-June with many exports going straight to Durban a high proportion return empty with the result that they increase the prices for the first leg of the journey to cover the absence of backhaul.

239. **Local transport from villages to market centers is characterized by low volumes, poor roads, empty backhauls, and few transport service providers**. The 2008 survey of trucking companies (Lall et al., 2009) found an average transport cost of $1.63 per ton/km for transport from a village to a market center, compared with $0.073 from the center to the port. In interviews with transport companies and large domestic users of internal and international transport services it became apparent that the transport sector was segmented between large firms with a relatively modern and reliable fleet with management systems showing their vehicles and drivers were compliant with all the road regulations and small scale operators with one or two trucks which were primarily used for short haul transport from the rural areas to market centers. Major international employers in the tobacco, sugar and cement sectors would only contract their transport requirements to trucking companies with modern management systems that could show they were compliant.

240. **Transport policies in neighboring countries impact adversely on Malawi's competitiveness.** Mozambique requires trucks entering from Malawi to travel with an escort. One major importer and exporter stated that owing to delays at the port of Beira and the time spent waiting for a convoy they allowed an extra four weeks over Durban. Mozambique also requires that goods in transit are insured through a bond arranged through a Mozambique registered clearing agent. This requires all Malawian transport operators to appoint a local agent, most of the larger companies have offices in each country however this is a hurdle for smaller traders.

241. **Regional inland transport from Malawi to Mozambique (Tete), Lusaka, and Bulawayo are 20 to 50 times more expensive per ton/km relative to inbound traffic from Durban and Johannesburg**. One company –Malawi Packaging- quoted prices per ton/km of $5.09, $2.32 and $3.09 for delivery to Tete, Lusaka and Bulawayo. This contrasts strongly with $0.11-0.13 per ton/km for imports from South Africa and $0.09 per ton/km for imports in transit through Durban.

242. **High transport costs are equivalent to a tax on producers since they increase the cost of all imported inputs (regardless of any import duties or other charges) and have a similar impact on exports.** The net effect of high transport costs –from farm to auction to regional and international markets- is to crowd out production for the market which impacts most on the smallholder. The potential reduction in transport costs resulting from improving logistics, deregulating domestic transport (allowing foreign carriers to deliver and collect goods throughout Malawi will significantly reduce costs by eliminating off-loading and re-loading charges), increasing road maintenance on feeder roads, would also have a positive impact on

reducing poverty in the rural areas. The earlier DTIS estimated that more fully utilizing the Mozambique ports along with more efficient farm to market transport services could increase smallholder's cash income by up to 50 per cent. Since 65 per cent (243,000) of tobacco growers are poor and ultra-poor, improvements in transport could potentially impact positively on up to 1.1 million persons (assuming an average family size of 4.56 based on the Third Income and Household Survey, 2010-11).

243. **Effective implementation of the COMESA and SADC regional initiatives on transport harmonization will benefit Malawi.** Both COMESA and SADC have committed to trade facilitation initiatives on the simplification and harmonization of procedures, the use of a single administrative document (by customs), harmonized axle loading, harmonized road transit charges, a regional Carrier's license (allowing 5th freedom) and the COMESA Yellow Card Scheme (Third Party Insurance). Negotiations continue on harmonizing Third party Vehicle Insurance throughout COMESA, SADC and the EAC. This would cover all Malawi's neighbors and key regional trading partners. Malawi stands to reap considerable benefits if neighboring states along the transport corridors implement all these measures and should continue to put these issues on the table during regional talks.

244. **Malawi stands to benefit from fully implementing the Yamoussoukro Declaration and permitting cabotage**. Malawi has active bilateral air services agreements covering the first four freedoms of the air with South Africa, Zimbabwe, Zambia, Mozambique, Kenya, Tanzania and Ethiopia. The four freedoms allow designated airlines of the two parties to operate services between specified city pairs in their respective countries. Air Malawi, a government owned company has the exclusive traffic rights for regional service (currently Dar-es-Salaam, Harare, Lusaka, and Johannesburg. Malawi allowed 5th freedom rights under the Yamoussoukro Declaration (aimed at liberalizing Africa's air transport markets) through COMESA Legal Notice number 2 but this was revoked while Ethiopian Airlines negotiated to purchase of Air Malawi, so Malawi does not permit cabotage for foreign airlines and Kenya Airways had to stop exploitation of the Lusaka-Lilongwe route in March, 2014. The Department of Civil Aviation functions both as the regulator of the sector and the operator of all Malawi's airports except Kamuzu International Airport which is operated by a government company, Airports Developments Limited (ADL).

245. **The rail line under construction from Moatize to Nacala presents an opportunity for Malawi to reduce the cost of importing and exporting bulk freight.** The rail sector has operated under a private concession with the Central East African Railways (CEAR) since 1999. Demand declined considerably following severe flooding and the destruction of the Rivirivi Bridge. Reduced demand and lower revenues resulted in the company cutting back on maintenance which led to further declines in demand as more traffic switched to road transport. The development of the Moatize coal fields has spurred investment in a new rail line linking the coal field to the CEAR network. This has the potential to provide improved access from Malawi to Nacala, however, the line will be used primarily for coking coal exports which will be

transported in coal hoppers and cannot be used to transport general cargo. The GOM agreement with Vale provides for the movement of coal from Moatize through Malawi but the GOM also renegotiated the concession agreement for the CEAR network (where Vale is also a majority shareholder), with the draft agreement reserving some traffic for non-coal freight both to and from Malawi. Improvements at the Nacala port will also be required for Malawi to benefit from improvements in rail access for general cargo.

246. While many of the factors contributing to relatively high transport costs are dictated by the existing level of economic development and geographical location, government regulations also influence competition within the road sector. To encourage competition in the domestic transport sector and to reduce domestic transport costs, the government could start by gradually removing restrictions on foreign truckers transporting goods within Malawi. Using a gradual but time-bound approach that would set clear targets for identifying selected internal routes for cabotage. This would encourage more competitive prices and bring down domestic prices per ton/km that remain more than 20 times higher than international freight rates. At the same time, such a gradual approach coupled with reviewing current regulations that increase operating cost (such as excise duties on re-treaded tires, discriminatory use of road user charges across COMESA, or tax incentives) would reduce concerns in the domestic transport industry about their ability to compete which has prevented similar reforms in the past. More structural issues affecting transport prices such as seasonality of production and limited backhaul or the landlocked status will only be mitigated as demand increases in Malawi and within the region.

Chapter 5. Trade and Regulatory Polices: Agriculture

Agriculture: Background

247. **Agriculture plays a central role in the Malawi economy currently contributing around 30% of GDP and 75% of total export earnings**. Although some successes have been recorded in agriculture diversification with recent gains in non-traditional crops including various kinds of pulses, cotton, and oilseeds, Malawi remains overwhelmingly dependent on tobacco. With over 85% of the population living in rural area, the vast majority people in Malawi have a direct stake in the country's trade policies for crop inputs (seed, fertilizer, chemicals, farm machinery, etc.) and outputs (tobacco, maize, cotton, sugar, pulses, etc.) in regional and other international markets.[15]

248. **The majority of farmers in Malawi have access to very little land**. According to the World Bank's 2007 Poverty and Vulnerability Assessment, the average cultivable land holding in Malawi is just 0.87ha or barely 0.2ha per capita. Overall, 58% of the farmers cultivate on less than 1ha while 11% are nearly landless. Only 13 % of households cultivate on more than 2ha and the majority of these are in the north where population density is lower compared with central and southern Malawi.[16] This gives rise to a particular challenge for export diversification in that farmer profits from tobacco are among the very best per hectare. The GOM has long recognized the importance of diversifying crop production to reduce vulnerability and improve environmental sustainability. While other crops are available that also provide high profits from a limited area, these commodities mostly have much smaller markets and/or involve complex value chain linkages that will take time to develop. The current strong market for tobacco provides time for Malawi to create the conditions for diversifying crop production and growing new value chains.

249. **To help policymakers, agribusiness firms, farmers, donors, and other sector stakeholders map the way forward for agriculture trade, this study specifically aims to**:

- Increase understanding of strategic bottlenecks to agriculture trade;
- Consider how trade policies affect the competitiveness of Malawi's agriculture; and
- Identify opportunities for enhanced trade performance.

250. **Beyond the opportunities to enhance Malawi's own agriculture trade, some of the greatest opportunities for improved trade performance involve, and would also benefit, Malawi's trade partners**. Problems with fragmented regional markets are not only a burden to Malawi, but are increasingly recognized as a major factor underlying Africa's growing dependence on global food imports.[17] Through increased trade and closer economic integration, Africa could easily feed itself and it is hoped the discussion here will serve as a practical starting

[15] Data compiled from World Development Indicators (http://data.worldbank.org/country/malawi#cp_wdi), FAO 2012, NKC 2010, and World Bank, 2010.
[16] World Bank, 2007.
[17] World Bank, 2012

point for the kind of on-going dialogue needed to integrate trade policy as a central part of agriculture development strategy in Malawi and beyond (see Box 2).

251. **This chapter assesses the main trade management challenges facing Malawi agriculture** including obtaining agricultural inputs at competitive prices, the continued reliance on centrally determined minimum farm gate prices, import and export licensing requirements for all types of agriculture commodities, and mandatory standards inspection requirements for imports.

Box 2: The Importance of Regional Agriculture Trade

Rising prices for basic food products are back in the headlines and when food prices go up poor people, who spend the majority of their income on simple foodstuffs, suffer. Rising food prices are also having important macroeconomic impacts on many African countries since more and more food is being imported from the global market leading to worsening balances of trade. This issue is not going to go away. Demand for food in Africa is projected to double by 2020 with consumers increasingly located in rapidly growing cities.

The recent report, *Africa Can Help Feed Africa* (World Bank, 2012b), shows how the continent has the means to deliver improved food security to its citizens. If African farmers were to achieve the yields that farmers attain in other developing countries, the output of food staples would more than double.

For this to happen, however, farmers need to be better linked to both inputs and to consumers. Often the nearest source of demand is across a border yet fragmented regional markets, high trade costs, and lack of predictable trade policies deter much needed private investments – including small investments by poor farmers in raising productivity to large investments in input supply, seed multiplication, and food marketing. Given that different seasons and rainfall patterns are not conveniently confined within national borders, and that variability in production is expected to increase with climate change, facilitating cross-border trade is essential to providing farmers and traders with the opportunity to meet Africa's rapidly growing food requirements.

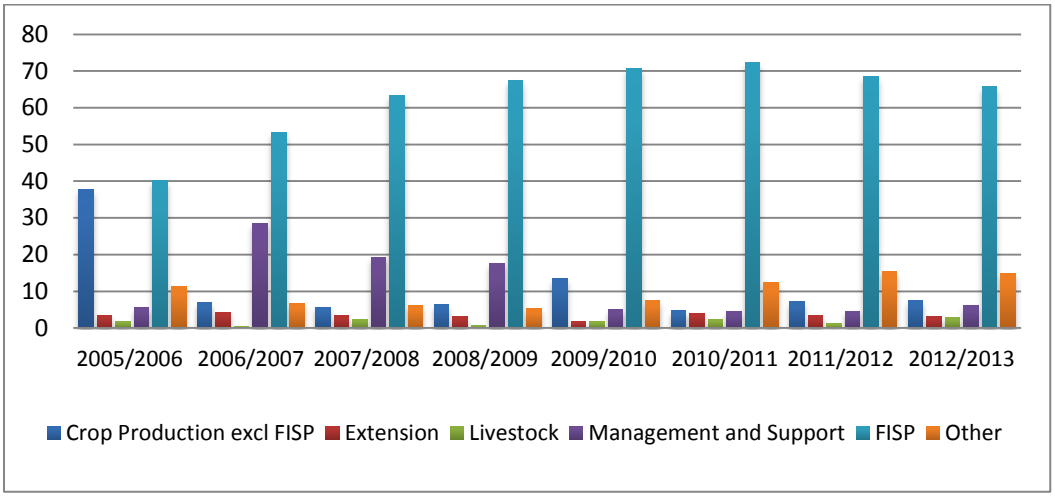
252. **This is followed by two case study examples of actual trade costs at the Mwami/Mchinji border with Zambia which shows how formal sector trade requirements discriminate against smaller traders, undermines agriculture competitiveness and holds back opportunities for economic diversification**. The chapter concludes with a review of the main areas where policy improvements or other institutional changes could help set Malawi on a track to realize its full potential for agriculture trade.

The Supply of Agriculture Inputs

253. **Agriculture trade competitiveness begins with the decisions farmers make based on the access and prices of essential inputs such as seed and fertilizer**. Since 2005/06 Malawi has made significant progress in increasing farmer access to hybrid maize seed and fertilizer through the Farm Inputs Subsidy Program (FISP). Since the 2008/09 season, farmers have also been able to select one type of legume seed in addition to maize. The FISP is also designed to provide subsidized storage pesticide to minimize losses of maize and pulses retained for home

consumption. These gains, however, have come at a very high cost to the government's budget with the FISP accounting for over 60% of total spending on agriculture in recent years. Apart from sustainability issues, the expenditure on the FISP has crowded out investment on irrigation crop production, research, and extension (see Figure 15).

Figure 15 Functional Allocation of Malawi's Agriculture Budget (% of total)



Source: *World Bank, 2013 Malawi Public Sector Expenditure Review.*

254. **Malawi imposes many administrative costs on seed and fertilizer importers**. With seed, for example, it takes a minimum of two years to test a new variety at a cost of approximately $13,000-15,000 per year per seed even if the variety has already been released in another country. Once a variety has been approved, additional costs are incurred for seed certification with imported seed often being retested even when it arrived with a quality certificate issued by the exporting country. Re-registration charges also apply for already approved varieties.

255. **Studies of fertilizer markets throughout Africa show that reducing trade costs together with increased reliance on domestic blending to avoid transportation of inert fillers can easily save USD 30-40 per ton.**[18] In 2012/13, Malawi imported a total of 154,000 tons of fertilizer through the FISP meaning the total potential savings from trade facilitation and domestic blending could be more than USD 6 million.

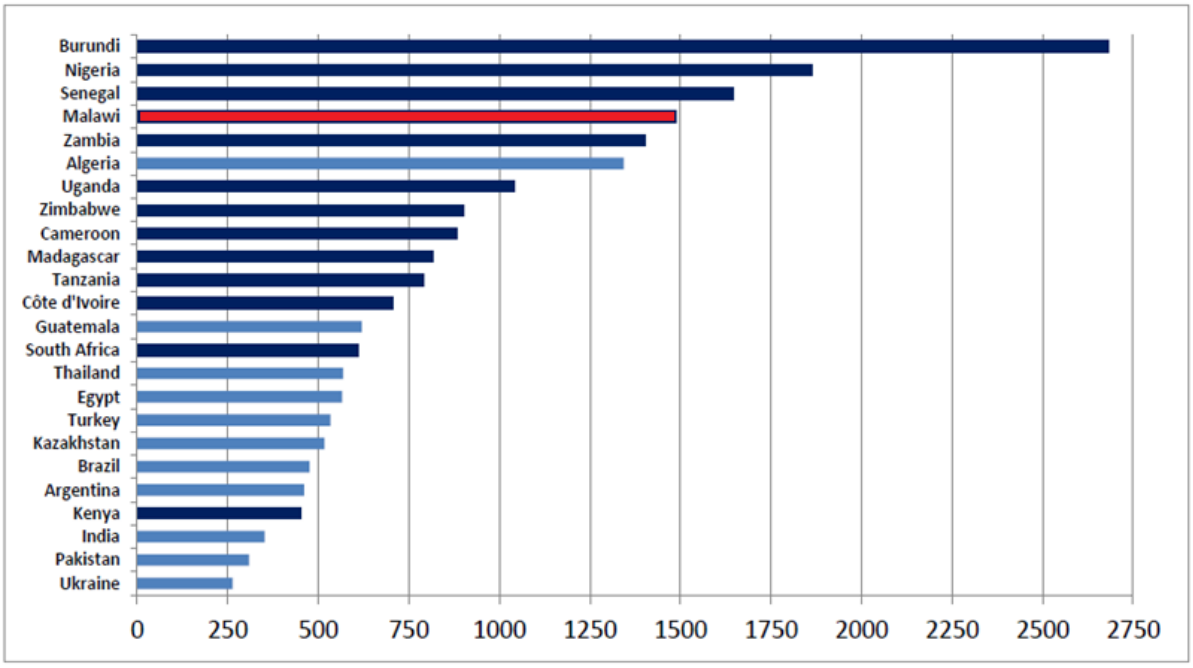
256. **Input dealers also complain of not being able to import inoculant needed to improve soybean germination.** According to private input dealers, the National Research Station at Chitedze has an unofficial monopoly on the supply of soybean inoculant. Making matters worse, companies complain that the inoculant supplied by Chitedze is dead and has no effect. When private seed companies have attempted to import active inoculant to sell with their product, Chitedze has refused to issue the required permits.

[18] See Bumb, et. al. 2011.

Fertilizer trade

257. **While tender awards under the FISP are generally competitive with fertilizer contracts spread widely, unit prices vary substantially from one company to the next with some of the highest prices being paid to the state-owned companies ADMARC and SFFRFM**. All of the private importers interviewed complained that the process of importing FISP fertilizer is unnecessarily expensive and time consuming as they are required to go through various tender procedures and procedures to obtain the required foreign exchange, but also have to price in expected delays in GOM payment together with exchange rate and inflation risks over this period. Compared with Malawi's regional competitors these factors result in fertilizer prices being among the highest in eastern and southern Africa (see Figure 16). Since 2009/10, FISP has accounted for around 55-70% of all fertilizer imported to Malawi including fertilizer used by large estates. Recently, around 20% of the total value of FISP fertilizer contracts has been awarded to parastatal firms.[19]

Figure 16 Nitrogen Based Fertilizer Prices in 2010 (USD per ton of nutrients)



Source: World Bank, 2012.

258. **Introducing new types of basal fertilizer based on different soil types and growing conditions found around Malawi promises to reduce fertilizer costs**. Under the FISP, the only kind of basal fertilizer made available is 21:23:0+4S, which is common only in Malawi so has to be custom made at a small scale and correspondingly high unit cost.

259. **Fertilizer suppliers agreed that the universal application of 23:21:0+4S on maize is an outdated and inappropriate recommendation.** Measures to provide farmers a choice of different types of fertilizer, or at least to introduce regional differences or even differences by

[19] Chirwa and Doward, 2012.

Agriculture Development Division (ADD), would contribute to improving the overall efficiency of Malawi's subsidy program and the potential to trade in maize.

260. **Promoting domestic fertilizer blending capacity and opening up regional trade in fertilizers has the potential to reduce input costs**. Inert fillers account for 52% of the volume of Malawi's 23:21:0+4S fertilizer and domestic blending and/or regional trade of fertilizers made in neighboring countries would to save on international shipping. Limited port capacity constrains regional traders from being able to realize significant economies of scale on imports (through importing on a larger 'boat'). Regional trade and/or domestic manufacture of different products adapted to local conditions could, however, still create the potential for realizing improved economies of scale and savings on transport.

Seed trade

261. **Malawi has created space for the private sector to participate in the seed component of Malawi's input subsidy program**. Whereas fertilizer is only distributed through ADMARC and SFFRFM, private agro-dealers have been allowed to redeem seed coupons since the second year of FISP implementation (i.e. since 2006/07).

262. **Each variety of seed sold in Malawi must be tested and registered with Malawi Seed Services**. As in other countries, registration and testing requirements are intended to ensure that each variety of seed sold domestically is well suited to local conditions and of good quality. In terms of new variety development, Malawi Seed Services reports that it typically takes a minimum of seven to eight years for the agency to develop and test a new seed before it is approved for general release. A private company that wishes to import a seed to Malawi or register a variety for domestic multiplication that it developed elsewhere must make the seed available for a minimum of two years of domestic on-station and farmer field trials by Seed Services before it can be registered and approved for domestic sale. In other countries, the testing period sometimes requires a minimum of four years.

263. **Following the results of the field trails, each new variety in Malawi must then be reviewed by the Agriculture Technology Clearing Committee (ATCC) to receive formal approval**. The ATCC is mandated to approve all agriculture technologies in Malawi including different kinds of fertilizer, agrichemicals, and farm machinery. Once the variety is registered by ATCC, all certified seed multiplied in Malawi must be inspected by Seed Services throughout the growing season. Imported seed multiplied elsewhere must undergo germination tests on arrival in Malawi to ensure its quality.

264. **The cost of registering a new seed type is high and unpredictable**. The official costs of registering a new type of seed are modest at only MWK 1,400 (USD 3.50) per line for statistical trial and MWK 2,000 (USD 5.00) per line for release trial. However the actual amount is much higher and unpredictable as the private company is required to cover all transport costs and out of station allowances for seed officers, seed inspectors, assistant seed inspectors and drivers of Seed Services. In one example from the 2011/12 season, the total costs quoted by Seed

Services for eight on-farm and four on-station field trials for one variety totaled MWK 1.94 million (nearly USD 13,000 based on the exchange rate of the time) but came in even higher after additional bills for materials were received with over 85% of the costs going to cover travel expenses and staff allowances against just 15% for materials and analysis of results (see Table 28).

265. **Onerous seed registration results in private companies registering fewer varieties in each country rather than all of the seeds in their portfolio that may be better suited or offer better value for certain end users**.

Table 28 Costs Quoted to Evaluate Soybean Varieties (2011/12 Season)

	Price (MWK)	Unit	Qty	Total MWK	Total USD
Site selection and delivery of farm inputs					
Seed Inspector	17,000	night	5	85,000	566.67
Seed Officer	15,000	night	5	75,000	500.00
Assistant Officer	8,000	night	5	40,000	266.67
Driver	6,000	night	5	30,000	200.00
Monitoring and Inspection visits					
Seed Inspector (4 nights x 3 visits)	17,000	night	12	204,000	1,360.00
Driver (4 nights x 3 visits)	6,000	night	12	72,000	480.00
Land preparation					
Fuel contribution	60,000	ls	1	60,000	400.00
Casual Laborers					
Planting (6 workers @ 3 days per site)	40,000	ls	1	40,000	266.67
Weeding (6 workers @ 3 days per site)	38,000	ls	1	38,000	253.33
Harvesting (6 workers)	45,000	ls	1	45,000	300.00
General Supplies					
Jumbo bags (assorted sizes)	35,000	ls	1	35,000	233.33
Paint (1 black & 1 white) for each station	15,000	tin	2	30,000	200.00
Flat metal sheets	15,000			15,000	100.00
Vehicle operation and maintenance					
Fuel (site selection)	250,000	trip	1	250,000	1,666.67
Fuel (inspection visits)	200,000	trip	3	600,000	4,000.00
Parts for servicing	50,000	trip	4	200,000	1,333.33
Preparation of final report					
Data compilation and analysis	120,000	ls	1	120,000	800.00
Total budget excluding farm inputs				**1,939,000**	**12,926.67**

Note: Costs Quoted by Malawi Seed Services for On-Farm and On-Station of Evaluation of Soybean Varieties for the 2011/12 Season: Cost for eight on-farm and four on-station trials. Assume USD 1.00 = MWK 150 as 2011/12 exchange rate.

266. **Many of the domestic tests are redundant and divert scarce resources that could be better used to control the sale of counterfeit products to end users**. To improve the situation, SADC has developed a harmonized system of seed rules that would allow any variety that has been registered in two other SADC Member States to be listed in the SADC Seed Catalog and then be freely traded throughout the region without the need for further variety registration or in country testing. A similar harmonized seed system is also being developed by COMESA.

267. **Implementing the SADC and COMESA Harmonized Seed Systems should be a priority**. The SADC Seed System was developed over more than 15 years with extensive input from Malawi and other SADC Member States. In 2008, full details of the system were released and by June 2013, the necessary two-thirds majority of SADC Ministers of Agriculture had signed a Memorandum of Understanding to allow implementation to begin. Similarly, in COMESA, all of the rules of the regional seed system have basically been agreed and Member Countries are now only waiting for final approval from the Council of Ministers expected in early 2013. Before either regional agreement can take effect, however, Malawi's domestic seed laws need to be amended to ensure conformity with the regional approach. While Malawi has recently begun the process of reviewing its 1996 Seed Act (with World Bank assistance) much still needs to conclude the review and push the revised legislation through Parliament. Other partner countries in SADC and COMESA also need to adopt appropriate legislation to allow regional trade under the harmonized system. Malawi's partners in APEI (Zambia, Mozambique, Seychelles and Mauritius), for example, are all members of SADC and fast track implementation of regional seed agreement would be good strategy for increased trade..

Trade in Farm machinery

268. **Malawi agriculture is not widely mechanized**. There is no reliable figure for the total number of working tractors in Malawi, but was estimated to be around 1,400 total units equal to just 4.8 machines per 100km^2 of arable land. Neighboring Zambia also suffers from a lack of mechanization, but has a reported 6,000 working tractors equal to equal to 11.4 machines per 100km2 of arable land.[20]

269. **Price controls and export restrictions constrain the adoption of mechanized agriculture.** Local sources report that Malawi has imported a total of around 50 tractors per year through commercial channels since 2011. The most popular size is the relatively small 60-80hp. Tractor importers observed that sales in Malawi are fundamentally constrained by the fact that estates and other larger-scale farmers cannot sell or export grain, soybeans, and other crops suited to extensive production at real market prices. The setting of maximum consumer prices to protect poor consumers and blocking exports at parity prices has been a particular problem for the profitability of large-scale grain and oilseed production which is required for Malawi to guarantee its own food security and potentially become a reliable food exporter.

270. **Consider adapting successful innovative approaches to facilitate mechanization among medium and small scale farmers**. In Zambia a commercial cotton company with financial support from with Gates Foundation, USAID, and World Food Program (WFP), has put 34 tractors on the ground since 2011 by establishing a revolving fund whereby "lead farmers" are given credit and training in tractor operation and management of local hire services. Other farmers in the area are able to pay for the tractor service through a deduction from their cotton payment, which is refunded to the operator. USAID provided management training and helped to

[20] See www.tradingeconomics.com.

get the program off the ground; WFP's Purchase for Progress (P4P) program and Gates Foundation provided the original finance for the revolving fund. Plans are now underway to expand the smallholder tractor program with commercial credit from a local bank.

Trade management: tariffs, domestic polices and trade requirements

271. **Improving the trade environment for agriculture is necessary for attracting investment in the new production systems and alternative agriculture enterprises required for improving rural incomes and delivering sustainable growth**.

Agriculture Tariffs

272. **Through Malawi's membership of SADC and COMESA Free Trade Areas, duty exemptions are available for all types of qualifying goods from Member Countries.** Obtaining duty free status, however, requires the exporter to provide a SADC or COMESA Certificate of Origin. To the extent that some foreign producers have not registered their products or are trading in small quantities that do not justify the cost of obtaining a Certificate of Origin, Malawi importers may still be required to pay import duty. The same situation applies to Malawi's exports. If the domestic company cannot provide the foreign buyer a Certificate of Origin, Malawi will not enjoy the benefit of duty free status in regional markets.

273. **In 2007, 10 out of 19 COMESA countries introduced a Simplified Trade Regime (STR) whereby a Simplified Certificate of Origin could be obtained at the border for consignments with a total value less than USD 500**. In September 2011, six countries (namely Malawi, Zambia, Zimbabwe through COMESA, and Kenya, Rwanda and Uganda through the EAC) agreed increase the STR threshold to USD 1,000 per consignment. Despite this change, border officials and small-scale trader representatives say the STR has had very little uptake. At the Mwami/Mchinji border with Zambia, for example, officials say there are fewer than 20 STR transactions per month and almost no transactions in agriculture. Even with the STR, small agriculture traders are still required to provide all other kinds of export and import documentation including trade licenses, phytosanitary certificates, certificates of standards compliance, foreign exchange certificates, and certificates of non-GMO conformity. As a result, it is often much cheaper and more practical for small traders to use informal routes to avoid border procedures completely.

Tariffs on agriculture inputs

274. **Malawi maintains a very liberal tariff regime on most agriculture inputs**. All types of fertilizer and agrichemicals can be imported duty-free and are zero-rated for value added tax (VAT) regardless of where they are from. Day old chicks used to raise broiler chickens can also be imported without duty and are VAT exempt.[21] Most types of seed attract 5% import duty and are VAT exempt. While this policy may provide a modest amount of protection to domestic seed

[21] Zero-rated supplies are taxable supplies subject to VAT at zero percent. Exempt supplies are not taxable for VAT purposes and therefore do not form part of a business' VAT-related enterprise. A business may only recover input tax on expenses incurred in the course of making taxable supplies. No input tax deductions may be claimed on goods or services acquired for the purposes of making exempt supplies.

producers, farmer income and trade competitiveness begins with the inputs producers use. Given that crop yields in Malawi are notoriously low, any effort to improve farmer access to better planting material would be a worthwhile strategy to explore. Planting seed for cotton attracts 15% import duty and is VAT exempt. Even though Malawi may wish to be reliant on its own cotton seed production, a far more urgent challenge for trade is to ensure farmers have access to the best inputs at competitive prices.

275. **All sizes of tractors and tractor attachments can be imported without duty and are VAT exempt**. Tractor spare parts, however, are treated the same as any other automotive part and attract a relatively high 30% import duty and standard (16.5%) VAT. Knapsack sprayers of the type used by smallholder cotton farmers attract 0% duty and are VAT exempt.

Tariffs on agriculture commodities

276. **With respect to agriculture outputs, Malawi maintains relatively high tariff rates on many products** as shown in table 29 below.

Table 29 Import Tariffs and VAT Rates for Selected Agriculture Commodities

Category and Item	Customs Rate	VAT Rate
Livestock, meat, and dairy		
Live animals (most types)	10%	E
Beef and pork (meat)	15%	E
Processed meats (most types)	30%	16.5%
Poultry (meat)	30%	E
Fish	30%	E
Dairy (most products)	15-30%	E
Grains and Flour		
Maize grain	0%	E
Maize flour	15%	E
Wheat grain	0%	E
Wheat flour	30%	16.5%
Rice	10%	E
Sorghum	15%	E
Malt (for brewing)	15%	E
Oilseeds and Edible Oil		
Soybeans	15%	E
Sunflower	15%	E
Oilcake	15%	16.5%
Edible oil (soybean, sunflower, palm, etc)		
- crude oil	25%	16.5%
- refined oil	30%	16.5%
Sugar		
Cane sugar & confectionery	30%	16.5%
Other sugar	15%	16.5%
Other Foods		
Fresh and dried vegetables (most types)	30%	E
Prepared foods (canned goods, pasta, etc.)	30%	16.5%

Source: Compiled from http://www.mra.mw/customs_tariff.php; E = VAT Exempt

277. **While these tariff rates on agriculture commodities help to protect domestic producers from international competition, this is at the cost of raising consumer prices and perpetuating domestic inefficiencies**. For example, maize and wheat grain can be imported without duty or VAT, whereas maize flour (mealie meal) attracts 15% duty while wheat flour attracts 30% duty and 16.5% VAT.

Minimum Farmgate Prices

278. **The Government's continued use of centrally determined minimum producer prices further distorts the incentives to expand production**. Each year, the Ministry of Agriculture and Food Security (MoAFS) announces minimum farmgate prices for around 23 different commodities including maize, groundnuts, rice, millet, beans, soybeans, sunflower, and various other minor products excluding tobacco that are meant to be enforced by the police and the parastatal marketing company, ADMARC. According to the official press release, these prices are "set as incentives to assist farmers to make informed business decisions" during the agriculture season. In practice, however, ADMARC does not have the financial strength to buy all of the crops at the set price. Since 2008, Government has also announced minimum producer prices for seed cotton.

279. **Established formal sector marketing companies are obliged to pay the minimum price, but only do this at their factory gate meaning that farmers often sell to primary assemblers and other local traders for less**. Moreover, there is a significant risk that floor prices announced at the beginning the season bear little resemblance to the commodity's actual value when the transaction takes place. Before the 2013 marketing season even began traders interviewed for the DTIS said the GOM/ADMARC price for maize is barely relevant as a measure of the commodity's worth.

280. **The goal of ensuring farmers receive a "fair" price is commendable, however, there are many other potentially less harmful and less risky ways to achieve this objective such as support for radio or SMS price information systems and/or defense of market driven prices.** Setting arbitrary prices discourages innovation, suppresses production and encourages informal cross-border selling. For example, in 2009 the government set minimum cotton prices above world market conditions which resulted in Cargill, the country's largest ginner and out grower credit provider, closing its operations in Malawi. Government responded the following year by launching the Cotton Up-scaling Program that among other things replaced the private sector out grower support with a new (government financed) USD 10.6 million revolving fund.

281. **Price formulas based on assumed types and levels of input use discourage innovation.** Growing conditions and optimal levels of input use vary from place to place so unrealistic to determine a farmer's "fair" price based on one crop model for the entire nation. Such an approach can easily undermine trade competitiveness by encouraging farm practices that are not driven by fundamental agronomic and/or economic realities.

Export Development Fund

282. **To improve conditions for agriculture exporters, the GOM established an Export Development Fund (EDF) in February 2012 managed by the Ministry of Finance**. Under the EDF, government issues loan guarantees through private financial institutions for up to 70% of the cost of exporting (i.e. loans for working capital to finance export operations). Plans are also underway to include a facility specifically targeted at commercial farmers growing maize, soybeans, pigeon peas, groundnuts, chilies, paprika, orange squash, coffee, forestry products, and cut flowers.[22]

283. **EDF finance may represent a partial solution to accessing trade finance but the major constraint remains the much high costs faced by small traders in complying with Malawi's formal sector trade requirements (as outlined in the next section)**. Potential EDF clients interviewed during the DTIS claimed the benefits are undermined by having to pay a 3% fee to cover EDF administration costs in addition to existing commercial bank interest rates. Small exporters targeted by the EDF, for instance, currently pay 40-42% interest rates on bank loans (or 43-45% including EDF fees), whereas established traders with a record of borrowing pay around 35% interest. With such costs the EDF is unlikely to represent more than a partial solution to accessing trade finance.

Trade Requirements

284. **From a value chain perspective, each transaction cost reduces the total profit available to flow upstream to farmers, traders, transporters, processors, and all other domestic value chain participants**. Streamlining trade procedures, therefore, is not only important for improving Malawi's trade competitiveness, but can also have a direct, positive impact on rural incomes and incentives for on-farm improvement and agriculture diversification.

Table 30 Overview of Agriculture Import and Export Requirements

To Export	To Import
Export permit	Import permit
Phytosanitary certificate	Phytosanitary inspection
Fumigation certificate	Fumigation certificate
Standards certification (optional)	Standards inspection and testing
Non-GMO certificate (depending on market)	Non-GMO certificate (from foreign supplier)
Foreign exchange documentation (CD-1)	Application for foreign exchange
Certificate of origin (to avoid duty)	Certificate of origin (to avoid duty)
Testing and registration of seed and other inputs in foreign market	Testing and registration of seed and other inputs in Malawi
Customs documents	Customs documents

[22] FUM, 2012.

285. **Malawi imposes (and encounters) a wide variety of paperwork and product registration requirements –listed in Table 30- that make trade difficult and expensive**. This is seen on many levels beginning with the use of trade permits and the risk of outright trade bans through to multiple certification and inspection requirements that add to trade costs. On the one hand, phytosanitary and many other trade rules serve legitimate purposes in terms of protecting human, animal, and plant health, yet in practice there are frequently institutional overlaps whereby traders are required to obtain certificates for the same or similar requirements from different agencies and to submit their goods for duplicate inspections by both the exporting and importing country. In Malawi and many other African countries, the same standards bodies and other institutions that set trade rules depend on the fees charged for issuing trade certificates to cover salaries and other operating costs so can easily be more interested in revenue collection than in actual trade facilitation.

Import and Export permits

286. **As described in the previous Chapter import and export permits are required for virtually all agricultural products**. These requirements discourage production for export, drive down prices, encourage illegal trade, contribute to increased food insecurity and exacerbate initiatives aimed at reducing poverty.

Phytosanitary certificates

287. **Under the rules of the International Plant Protection Convention (IPCC) Phytosanitary certificates are required by importing countries**. These are issued by the Plant Health Inspection Office near Lilongwe, Blantyre, and Mzuzu. Each certificate costs MWK 500 (about USD 1.21 at the current exchange rate). Phytosanitary certificates can also be issued at the border for individuals carrying 1-2 bags of commodity. For larger consignments, or for traders traveling in a bus, the phytosanitary certificate must be issued in advance at one of the three designated Plant Health Inspection offices. To be issued with a phytosanitary certificate for maize or rice, exporters must show a valid export permit. Individuals may export up to 100kg of rice, groundnuts, and beans as a "personal allowance" without an export permit, but still require a phytosanitary certificate. There is no personal allowance for maize.

288. **For small traders traveling by bus with up to about 4-5 bags of commodity, plant health inspectors will issue the certificate at their office without physical inspection of the commodity**. They say this is because they "know the markets" where the commodities come from and carry out occasional spot inspections of these locations to check for quarantine pests.

289. **For larger consignments, however, a physical inspection of the commodity usually takes place**. Sometimes an exporter may bring a sample to the Plant Health Inspection office, but otherwise the exporter must collect a Plant Health Inspector from their office and drive them to where the product is stored. Inspectors explained that this is because their budget allocation is not enough to cover cost of vehicle operations so have no choice but to pass the cost to the

exporter. Out-of-station allowances are usually also paid by the exporter for time spent in the field. There was recently talk of increasing the cost of a permit to MWK 2,000 (about USD 4.87) but this was rejected because of complaints from tobacco and tea exporters. As part of the inspection, and to verify that the product has been fumigated, Plant Health Inspectors say the usual practice is to bring a sample back from the inspection site to keep under observation for any pests that emerge. Only after a suitable period of observation will the Plant Health Officer then issue a phytosanitary certificate.

290. **For imports, Malawi mostly recognizes the certificates issued by other countries and only carries out physical inspection at the border to check for signs of pests**. Animal products including all dairy items are likewise subject to border inspection by the Veterinary Department. When the Government of Malawi plans to import a large quantity of foodstuffs on official basis, however, standard procedure is to send a three to four person delegation consisting of representatives of the Ministry of Agriculture, Ministry of Trade, and Office of the President and Cabinet to inspect the consignment in the country of origin before it is dispatched. Sometimes a representative of the National Food Reserve Agency may also be included. Since the exporter is still required to provide an internationally recognized phytosanitary certificate from the exporting country, and to submit a pre-shipment sample for analysis by MBS, the justification for sending an official delegation to do its own inspections are not entirely clear.

291. **The absence of an effective system for aflatoxin control and management is a serious constraint to Malawi's export competitiveness in groundnuts, Birdseye chilies, paprika, maize, and oilseeds**. The Chitedze Research Station was recently equipped with laboratory facilities for aflatoxin analysis of export consignments, but this is unlikely to have a significant impact unless matched with measures to control aflatoxin, where the problems actually arise - on the farm and in storage. A 2012 report prepared for the USAID Southern Africa Trade Hub outlined the key elements of a commercially viable system for aflatoxin control that included interventions at the buying, grading and storage, and export levels.[23] Aflatoxin test kits capable of testing up to 1.2 tons of groundnuts at the farmgate level, for example, costs USD 10.00 (about MWK 4,100) and would be a very cost-effective intervention at only USD 0.008 per kg (MWK 3.42). The introduction of "platform tests" on product reception by ADMARC and other buyers could therefore go a long way to minimizing Malawi's aflatoxin problem. A recently piloted test using smart phones could also significantly improve the situation.

Fumigation certificate

292. **Proof of fumigation is usually covered as part of the phytosanitary certificate.** Depending on the importing country's own SPS declaration requirements, however, Plant Health Services says they can easily issue a separate Certificate of Fumigation. All grains imported to Malawi must be fumigated prior to dispatch with full details of the fumigation stated in the accompanying phytosanitary certificate.

[23] Emmott, 2012.

Non-GMO certificate

293. **All maize and other agriculture commodities imported to Malawi must be accompanied by a non-GMO certificate**. Malawi is currently undertaking trails for genetically modified (GM) cottonseed, but is otherwise a GMO-free country. Other non-GMO countries in eastern and southern Africa include Botswana, Mozambique, Tanzania, Uganda, Zambia, and Zimbabwe, while South Africa and the Democratic Republic of Congo do not have restrictions on GMO imports.

294. **In Malawi, non-GMO certificates cost MWK 3,500 (about USD 8.53) each and are required to export all types of commodity including pulses, groundnuts, chilies, and maize to other non-GMO countries**. Non-GMO certificates are issues by the same Plant Health Inspection Office that issues phytosanitary certificates. Malawi does not have capacity to test for genetically modified organisms. The Non-GMO Certificate is a letter that states Malawi does not allow GMO seeds into the country all therefore all exports are non-GMO. Although this approach is very simple (and perhaps begs the question of why a standard letter should cost MWK 3,500), the procedure makes sense for Malawi. Exporters whose buyers require detailed analysis can send samples to independent laboratories and should not be required to submit samples for detailed GMO analysis if the buyer does not demand it.

295. **In Zambia, by contrast, non-GMO certificates cost ZMW 150 (about USD 30) each**. One original certificate is required per truck meaning the cost works out to USD 1.00 per ton for a full size 30-ton truck but can be much higher for traders dealing in small quantities. In addition to the cost of the certificate, Zambia requires various levels of testing to determine the shipment's non-GMO status before the certificate is issued. The type of test depends on buyer requirements, but some kind of chemical analysis must be performed for every shipment.

Standards certificate

296. **Although Malawi does not require its exports to be accompanied by a quality certificate, proof of compliance with Malawi Standards is compulsory for 226 different categories of imported product**.[24] Virtually all imports in the agriculture and food sectors are subject to mandatory MBS inspection. Malawi does not recognize foreign quality certificates and to avoid delay at the border, importers are advised to send a pre-shipment sample for MBS testing at least two weeks before the expected arrival in Malawi.

297. **Malawi does not recognize international test certificates provided by fertilizer manufacturers and importers must pay MBS for analysis of every consignment brought into the country**. The mandatory MBS inspection for imported fertilizer cost is equivalent to 1.6% and 1.2% of the non-subsidized fertilizer price for traders bringing in a single truckload and convoy of five truckloads respectively. Based on a total cost of the 154,000 tons of fertilizer procured for the 2012/13 FISP of approximately USD 131 million, this results in the

[24] In Zambia, standards analysis is mandatory for just 44 different categories of product. In agriculture, these are: animal feeds for cattle, pigs, and poultry; maize meal; wheat flour; refined edible vegetable oil; and all types of fertilizer.

Government paying between USD 1.6 to 2.1 million to MBS for quality analysis.[25] If the trucks do not cross at the same time, each shipment must be analyzed separately. Importers of all types of goods have complained they never hear back from MBS on the quality test results and must pay for separate private tests is they wish to have the results for their own commercial use.

298. **Although Malawi does not require MBS inspection of exports, similarly high charges apply in foreign markets for quality tests by other standards bodies**. Companies exporting pigeon peas to Kenya and South Africa, for example, say they can pay around USD 600-700 for between 500 to 1,500 tons of product (i.e. USD 0.40 to USD 1.40/ton).

299. **Companies importing custom blended fertilizer made in Mozambique and Zambia reported that their products were rejected by MBS** because the composition did not match one of the 16 types specified in Malawi's domestic standards for compound fertilizer (i.e. the specifications approved by MBS and the ATCC). The products were made of perfectly good active ingredients according to customer demand for specific soil types in Malawi, but were rejected by MBS. Importers said the matter was being reviewed by MBS and MoAFS, although to date no one has been able to give a definitive answer on whether different blends form the ones listed in Malawi's domestic standards specifications are allowed to be imported. Domestic blenders, on the other hand, indicated they are free to make and sell whatever blends of customers demand since domestic products are not subject to MBS analysis.

Certificate of Origin

300. **A Certificate of Origin must be purchased from the Chamber of Commerce office in Blantyre.** The travel and transit time can represent a hurdle for smaller businesses not located in the major cities. The certificates are required under the terms of the SADC and COMESA Trade Protocols to qualify for duty preferences. Certificates cost MWK 1,500 (USD 3.65) for non-members and MWK 1,400 (USD 3.41) for members. One original certificate is required per truck.

Foreign Exchange Documentation

301. **Malawi monitors foreign exchange movements at its borders**. For goods with a value above USD 5,000 at the official exchange rate, exporters must file a Currency Declaration Form (CD-1 Form) which is provided by the exporter's commercial bank and used to ensure the foreign currency comes back to Malawi (or for a foreign exporter to show that the money came into Malawi at the official exchange rate). The Malawi Revenue Authority does not officially charge a fee to process the CD-1 Form at the border, but some traders claimed during interviews that they nevertheless had to pay MWK 5,000 (about USD 12.20). For imports, customs clearance documentation (i.e. Customs Form 12) is used to verify that the goods came into Malawi and must be submitted to the importer's bank to account for all foreign exchange paid to the supplier.

[25] Based on a tender price of USD 850/ton.

Customs Documentation

302. **For all import and export transactions of goods valued above USD 5,000 at the official exchange rate, a licensed clearing agent must be used to ensure all the correct documents are filed, including the CD-1 for exports and Customs Form 12**. To complete these forms, the exporter/importer is required to provide an original invoice. The fees for this service vary, but typically work out at around USD 75 to 150 per commercial invoice handled.

Case Study: Trade Costs between Malawi and Zambia at the Mwami/Mchinji Border Crossing

303. **Two case studies of cross border trade highlight the high costs of complying with Malawi's trade procedures, and shows how these effectively crowd out small traders**. The first example looks at the costs of exporting rice to Zambia and the second example looks at the costs of importing maize meal to Malawi. For both examples, the analysis covers three different size loads including (i) a full size 30-ton truck of the sort used by large traders; (ii) a smaller 7-ton truck of the sort a medium-size trader might use; and (iii) a small 2-ton truck that a small local trader might use. For the small 2-ton load, the analysis further compares the costs of crossing the border with and without the COMESA STR facility.

Costs of Exporting Rice

304. **The cost of a formal sector border crossing at Mwami/Muchinji for two different size loads of exported rice are shown in Table 31**. As shown, exporters require the full range of Malawi trade certificates including an Export Permit, Phytosanitary/Fumigation Certificate, and Non-GMO certificate to cross the Malawi border. Zambia charges 15% import duty on rice and a COMESA or SADC Certificate of Origin is also required to avoid paying this charge. Traders stated they had to pay a CD-1 processing fee of MWK 5,000 (about USD 12.20) for foreign exchange controls and use a licensed clearing agent (which in the example below is assumed to be slightly less expensive for the 7-ton truck than a 30-ton truck).

305. **On top of the fees charged in Malawi, Table 31 shows that even higher charges apply to enter Zambia**. Whereas Malawi does not charge for import/export permits, Zambia does charge for these at a rate roughly equal to USD 150 per 510 tons. Zambian trade permits are valid for 30 days only and any unused portion does not carry forward. Zambia also charges around USD 10 for use of its automated systems of customs entry (ASYCUDA) and levies a carbon tax on all foreign registered vehicles that depends on engine size. COMESA Yellow Card insurance must also be purchased and a licensed clearing agent must be used to handle all document entries. For its part, the Zambia Bureau of Standards (ZABS) does not require rice imports to be analyzed for standards compliance, but would require standards analysis of maize, maize meal, animal feeds, fertilizer, and 44 other potential exports from Malawi. Given that even higher trade costs arise outside of Malawi, dialogue with Zambia and other regional partners through COMESA, SADC and the Accelerated Program for Economic Integration (APEI) on

opportunities to reduce trade costs would be a good strategy for Malawi to pursue.[26] In the above analysis, fees charged by clearing agents account for almost two-thirds of the total cost of a formal border crossing excluding the costs of acquiring all required permits.

Table 31 Cost of Formal Rice Exports to Zambia at Mchinji (30t and 7t truck)

	30-ton Truck		7-ton Truck		Notes
	USD/truck	USD/ton	USD/truck	USD/ton	
Costs to Exit Malawi					
Export permit (free)	-	-	-	-	Free, but takes 4-6 weeks w/o constant follow-up
Phytosanitary/fumigation certificate	1.22	0.04	1.22	0.17	MWK 500 each
Non-GMO certificate	8.54	0.28	8.54	1.22	MWK 3,500 each
Certificate of origin (to avoid duty)	3.66	0.12	3.66	0.52	Zambia charges 15% duty on imported rice
CD-1 processing fee	12.20	0.41	12.20	1.74	MWK 5,000 per invoice
Clearing agent (customs entry)	100.00	3.33	75.00	10.71	About USD 75 to 100 depending on agent and load size
Total cost to exit Malawi	**125.61**	**4.19**	**100.61**	**14.37**	**Total excluding cost of obtaining certificates**
Costs to Enter Zambia					
Import permit	8.82	0.29	2.06	0.29	USD 150 for 510 tons (valid 30 days, assume use all)
ZABS quality analysis	-	-	-	-	Not required for rice (would be for maize)
ASYCUDA fee	10.00	0.33	10.00	1.43	Fixed cost per customs entry
Insurance card	40.00	1.33	40.00	5.71	Quoted price
Carbon tax	37.74	1.26	28.30	4.04	ZMW 200 large truck, ZMW 150 medium truck
Clearing agent	100.00	3.33	75.00	10.71	Typically USD 50 to 100 depending on agent
Total cost to enter Zambia	**196.56**	**6.55**	**155.36**	**22.19**	**Total excluding cost of obtaining certificates**
TOTAL FEES FOR FORMAL CROSSING	**322.17**	**10.74**	**255.97**	**36.57**	
As % of Malawi minimum farmgate price		2.4%		8.2%	MWK 110/kg paddy (USD 447/ton @ 60% milling outturn)
As % Lusaka wholesale		1.8%		6.1%	USD 600/ton cif for aromatic variety
Plus estimated cost of acquiring Malawi permits					
Export permit	46.90	1.56	46.90	6.70	10lt fuel to/from Capitol Hill + 2 days staff and phone
Phyto/fumigation/Non-GMO certificate	107.61	3.59	107.61	3.59	40lt fuel to/from NPPO and site + staff time and phone
Certificate of origin	31.90	1.06	31.90	1.06	10lt fuel to/from Chamber + 1 days staff and phone
Total estimated costs	**186.41**	**6.21**	**186.41**	**11.35**	
TOTAL INCLUDING COST OF ACQUIRING MALAWI PERMITS					
Total fees plus costs of acquisition	**508.58**	**16.95**	**442.39**	**63.20**	Excludes time/fuel for acquiring Zambia import permit
As % of Malawi minimum farmgate price		3.8%		14.2%	MWK 110/kg paddy (USD 447/ton @ 60% milling outturn)
As % Lusaka wholesale		2.8%		10.5%	USD 600/ton coif for aromatic variety

306. **The fixed costs of exporting are highly regressive with medium-size traders paying significantly more per ton than large traders**. In the above example, an exporter with only a 7-ton load pays almost three and half times more at USD 36.57/ton vs. USD 10.74/ton paid by large exporters with a full-size 30-ton load excluding the costs of acquiring the required permits. Compared with the GOM's minimum farmgate price for paddy rice (converted to milled rice equivalent at 60% outturn), the prescribed costs paid by a 7-ton trader to enter Zambia are equal to 8.2% of the farmgate price. A 30-ton trader, on the other hand, would pay just 2.4% of the GOM minimum farmgate price to cross the Malawi-Zambia border. Compared with the wholesale price in Lusaka, the costs paid by a 7-trader are equal 6.1% of the landed CIF value vs. 1.8% of the CIF value when handled by a larger-scale, 30-ton trader.

307. **In addition to the official costs detailed above, traders also incur fixed costs of USD 186.41 to acquire the Malawi trade certificates**. As discussed in the section on trade

[26] The APEI is an initiative started by Malawi, Mauritius, Mozambique, Seychelles, and Zambia aiming at accelerating the implementation of reforms aimed at strengthening regional integration and facilitating the flow of goods and persons across borders. The initiative largely aims at implementing commitments that the countries have already made at regional for a. APEI was launched in September 2012 and operates within the framework of variable speed and variable geometry endorsed by SADC and COMESA.

management, the practical reality is that exporters must send staff to Lilongwe to facilitate the process of getting an export permit through MoAFS and MIT for the procedures to be completed in a timely manner. Exporters must likewise travel to the nearest Plant Health Inspection Office and take an inspector to where the product is stored in order to receive a phytosanitary certificate. They must also visit the Chamber of Commerce to get a Certificate of Origin. On a per ton basis, the total costs of trade are therefore estimated to equal 3.8% of the minimum farm gate price for a large 30-ton load and 14.2% of the minimum farm gate price for a 7-ton load.

308. **To improve conditions for small traders, COMESA launched a Simplified Trade Regime (STR) for traders handling goods valued less than USD 1,000**. Under the STR they are able to obtain a Simplified Certificate of Origin at the border to avoid paying import duty and use a Simplified Customs Form to avoid using a clearing agent. In this regard, Table 32 shows the costs of exporting a small 2-ton load of rice through the formal channel with and without the COMESA STR. Based on an FOB value of around USD 470, two tons is about the maximum that can be carried under the STR's ceiling of USD 1,000 per load.

309. **The COMESA STR provides a considerable amount of savings**. By not having to use a licensed clearing agent, a small trader is able to save approximately USD 150 in total costs or USD 75 per ton for a 2-ton load. The trader is also able to save on the costs of a Certificate of Origin including USD 3.66 for the certificate itself and an estimated USD 12.44 for bus fare and other expenses associated with visiting the Chamber of Commerce.

310. **Nevertheless, even with the STR (see Table 32) small traders still pay a very high price to follow all legal procedures at an estimated USD 67.18 per ton or 15.1% of the minimum farm gate price and 6% of the Lusaka wholesale price just to cross the border**. Because of poor economies of scale, these costs are USD 3.98/ton higher than the amount paid by a medium scale (7-ton) trader and USD 50.23/ton more than the amount paid by a large (30-ton) trader. Moreover, to use the formal route, small traders must be formally registered as an exporter, have a valid taxpayer identification number, and bank account. For these reasons, Customs officials at the Mwami/Mchinji border say that most small traders prefer to use the "bush route" where they can avoid formal sector trade requirements completely. Currently there are fewer than 20 STR transactions per month at Mwami/Mchinji and almost none in agriculture.

311. **High trade costs and harassment encourage small cross border traders to avoid the formal border crossings.** The Cross Border Traders Association of Malawi (CBTAM) believes that the majority of informal traders actively avoid the formal border crossing as many members (of whom 80 per cent are women) complain of harassment and humiliation ranging from overvaluation of the goods, delays, bad language and physical abuse. Obtaining the required permits from Lilongwe can represent a prohibitive cost, yet in the case of agricultural products these are required for all traders irrespective of size apply even when the product can benefit from the Simplified Trade Regime (STR). The CBTAM also reported allegations of sexual harassment including rape and cited cases of some women providing 'favors' to officials to

ensure smooth clearance of goods. As a result of these high personal, monetary, travel, and time related costs, traders prefer crossing the border informally.

312. **Acknowledging that many traders were not aware, or did not understand, the prerequisites for using the STR, COMESA trade desk officers have recently been posted to the border crossing where they explain the STR and provide assistance with completing the forms**. While this represents an important first step, initiatives to improve the STR will also have to address issues related to harassment and costs related to obtaining permits. As a first step, it would be important to publicize all relevant information on key products for traders in local languages, including a description in simple terms of all documentary requirements, applicable fees and charges, and how they should be computed in simple terms. Publicizing these requirements should also include the description of basic rights and obligations that both traders and border officials have to comply with, and establish an impartial and anonymous mechanism for complaint. These activities are outlined in the Charter for Cross-Border Trade whose principles were discussed by the AU Trade Ministers in Ghana in 2011. Complementing improvements of the STR with the implementation of this charter could reduce discrimination and harassment at borders, increase mutual trust between traders and border officials and lead to more formal trade transactions, also by small traders.

Table 32 Cost of Formal Rice Exports to Zambia at Mchinji (2t – with(out) using COMESA STR)

	2-tons w/o STR		2-tons w/ STR		Notes
	USD/truck	USD/ton	USD/truck	USD/ton	
Costs to Exit Malawi					
Export permit (free)	-	-	-	-	Free, but takes 4-6 weeks w/o constant follow-up
Phytosanitary/fumigation certificate	1.22	0.61	1.22	0.61	MWK 500 each
Non-GMO certificate	8.54	4.27	8.54	4.27	MWK 3,500 each
Certificate of origin (to avoid duty)	3.66	1.83	-	-	Zambia charges 15% duty on imported rice
CD-1 processing fee	12.20	6.10	12.20	6.10	MWK 5,000 per invoice
Clearing agent (customs entry)	75.00	37.50	-	-	About USD 75 to 100 depending on agent and load size
Total cost to exit Malawi	**100.61**	**50.30**	**21.95**	**10.98**	**Total excluding cost of obtaining certificates**
Costs to Enter Zambia					
Import permit	15.00	7.50	15.00	7.50	USD150 for 510 tons (valid 30 days, assume use 10 tons)
ZABS quality analysis	-	-	-	-	Not required for rice (would be for maize)
ASYCUDA fee	10.00	5.00	10.00	5.00	Fixed cost per customs entry
Insurance card	40.00	20.00	40.00	20.00	Quoted price
Carbon tax	18.87	9.43	18.87	9.43	ZMW 100 for small truck
Clearing agent	75.00	37.50	-	-	Typically USD 50 to 100 depending on agent
Total cost to enter Zambia	**158.87**	**41.93**	**83.87**	**41.93**	**Total excluding cost of obtaining certificates**
TOTAL FEES FOR FORMAL CROSSING	**259.48**	**92.24**	**105.82**	**52.91**	
As % of Malawi minimum farmgate price		20.7%		11.9%	MWK 110/kg paddy (USD 447/ton @ 60% milling outturn)
As % Lusaka wholesale		15.4%		8.8%	USD 600/ton cif for aromatic variety
Plus estimated cost of acquiring Malawi permits					
Export permit	12.44	6.22	12.44	6.22	Bus to/from Capitol Hill + time and phone
Phyto/fumigation/Non-GMO certificate	16.10	8.05	16.10	8.05	Bus to/from NPPO + time and phone
Certificate of origin	12.44	6.22	-	-	Bus to/from Chamber + time and phone
TOTAL INCLUDING COST OF ACQUIRING MALAWI PERMITS					
Total fees plus costs of acquisition	**300.45**	**150.23**	**134.36**	**67.18**	Excludes time/fuel for acquiring Zambia import permit
As % of Malawi minimum farmgate price		33.7%		15.1%	MWK 110/kg paddy (USD 447/ton @ 60% milling outturn)
As % Lusaka wholesale		25.0%		11.2%	USD 600/ton coif for aromatic variety

313. **Gender issues must be integrated into all initiatives aimed at reducing formal trade costs and facilitating cross border trade.** Given the dominance of women in informal trade, it will be particularly important that trade facilitation interventions specifically target women. Explicitly identifying the constraints faced by women will enable more accurate interventions to reduce harassment and trade costs and promises to have a direct positive impact on reducing poverty. Establishing a Charter for Cross-Border Trade would be an important step forward in this regard. This would ensure that initiatives to improve overall border management will also benefit small traders, particularly women who represent the majority of traders.

Costs of Importing Maize Meal

314. **The second case study example looks at the costs of importing maize meal from Zambia**. These costs are summarized in Table 33 for a full size (30-ton) load and medium size (7-ton) load. As shown, traders must obtain the usual range of Zambian trade certificates including an export permit, phytosanitary certificate, and non-GMO certificate. Exporters of maize meal must also have a COMESA or SADC Certificate of Origin to avoid paying Malawi's 15% import duty (maize grain would not attract import duty, but milled flour does). In this example, the costs of obtaining Zambian trade certificates are not included in the calculations but as in Malawi, these costs can be quite high. For example, even though Malawi does not require laboratory analysis, Zambia demands that all maize exports be physically tested to confirm their non-GMO status at a minimum cost of around USD 5/ton for a 30-ton load. On the Malawi side of the border, traders must show a Malawi import permit, Zambia phytosanitary certificate including proof of fumigation, and Zambia non-GMO certificate. Malawi importers must also make special application for hard currency and use a special form (Customs Form 12) to show that the consignment entered Malawi so that the importer's bank can remit foreign exchange to the supplier.

315. **The fees charged by the importing country (in this case, Malawi) are higher than the ones charged by the exporter (i.e. Zambia).** The main reason in this case is that all importers to Malawi must pay for mandatory standards inspection by the Malawi Bureau of Standards (MBS). As discussed in the section on trade management, MBS requires of 226 different categories of product to be tested upon entry to Malawi regardless of whether the consignment has already been approved by a foreign standards bureau. Charges vary depending on the product and materials used for the test, but for maize and maize meal the fee includes a base charge of MWK 15,416 (USD 110) per consignment plus 0.65% of the FOB value for certification. The cost of sending a pre-shipment sample to MBS is separate and works out to around USD 100-150 per shipment. At this level, Malawi's charge is somewhat lower than the fees imposed by the Zambia Bureau of Standards (ZABS) for analysis of maize meal where the base charge is USD 281.75 (MWK 115,502) plus 0.5% of fob value. ZABS, however, requires domestic analysis of relatively few agriculture goods compared with Malawi where most every kind of import is subject to mandatory analysis regardless of the consignment's size or value. MBS reports that it

takes a minimum of 14 days to complete the tests and advises importers to send a pre-shipment sample as far in advance as possible to avoid delays at the border.

Table 33 Cost of Formal Maize Meal Imports from Zambia at Mchinji (30t and 7t truck)

	30-ton Truck		7-ton Truck		Notes
	USD/truck	USD/ton	USD/truck	USD/ton	
Costs to exit Zambia					
Export permit for maize or mealie meal	8.76	0.29	5.32	0.76	USD 150 for 510 tons (valid 30 days)
Phytosanitary certificate	3.13	0.10	3.13	0.45	USD 62.50 for book of 20 (1 per truck)
Non-GMO certificate	30.00	1.00	30.00	4.29	Needed for Zambia permits, not required by DRC
Certificate of origin (to avoid duty)	9.43	0.31	9.43	1.35	Not req for maize grain (0% duty); 15% on flour
ASYCUDA fee	10.00	0.33	10.00	1.43	Fixed cost per customs entry
Clearing agent	100.00	3.33	75.00	10.71	Typically USD 50 to 100 depending on agent
Total cost to exit Zambia	**161.33**	**5.38**	**132.89**	**18.98**	
Costs to enter Malwi					
Import permit (free)	-	-	-	-	Free, but takes 4-6 weeks
Customs Form 12 (MWK 5,000 per invoice)	35.71	1.19	35.71	5.10	Needed for bank to pay forex to foreign supplier
Fumigation certificate (from Zambia)	50.00	1.67	11.69	1.67	About USD 50 per 30/ton truck
Malawi Bureau of Standards	160.70	5.36	121.83	17.40	MWK15,416 (USD110) + 0.65% of fob (ex air freight)
Insurance card	40.00	1.33	40.00	5.71	Quoted price
Clearing agent (customs entry)	75.00	2.50	75.00	10.71	Typically USD 50 to 100 depending on agent
Total cost to enter Malawi	**361.41**	**12.05**	**284.23**	**40.60**	
TOTAL COSTS OF FORMAL CROSSING	**522.74**	**17.42**	**417.12**	**59.59**	
As % of Zambia farmgate price		7%		23%	USD 260/ton paid by Food Reserve Agency
As % Lilongwe wholesale		3%		12%	USD 500/ton quoted price for maize meal

316. **The analysis of the costs to import maize meal shows that formal sector trade costs are highly regressive whereby small traders using a 7-ton truck pay 259% more per ton than large traders do using a full-size 30-ton truck**. These high costs, together with the time and expense of compiling all of the required documents, are a large part of what drives many traders to use the informal route where legal charges can be avoided.

317. **Because most fees relating to border crossing are paid as fixed amounts per crossing, the per ton costs of crossing the border increase as the value of the transaction decreases.** Smaller traders have to divide these fixed costs over smaller quantities. Unlike rice exports to Zambia for which ZABS analysis is not required, the Malawi Bureau of Standards also imposes mandatory analysis of maize meal even when shipped in very small consignments, generating significant costs. For example, minimum IQMS fees of MK 15,000 would represent 3.75 percent of the value of a 1000 USD shipment of maize.

318. **The STR would facilitate transactions and reduce costs, but the common list of products that can benefit from the STR between Zambia and Malawi is extremely limited.** For products on the common list, traders could obtain a certificate of origin, and would not have to use clearing agents, reducing their costs significantly. But maize meal, for example, is not part of the common list of products despite the fact that maize meal is a major commodity that is widely carried by small traders.

319. **During a workshop in November 2013 in Chipata, Zambia, customs officials and traders from Malawi and Zambia discussed key recommendations to make the STR more**

effective.[27] Traders expressed a need to expand the list of products during the workshop, and other recommendations developed by all participants called for eliminating and adjusting certain taxes and fees to reduce costs, increasing the threshold for transactions, and making information regarding the STR more easily available to traders and customs officials. There were also calls for piloting a "Traders' Charter" which would outline rights and responsibilities of traders and border officials, and putting in place a mechanisms to facilitate reporting of abuse. Participants felt that implementing these measures would bring more informal traders into the formal system. Following similar thinking, the Malawi government already announced (in June) in the 2013 budget speech, that the processing fee for small traders under the STR would be reduced to USD 1 as agreed at COMESA level, but that policy is yet to be implemented and traders continue to pay MK 5,000 per transaction.

Opportunities for Enhanced Trade Competitiveness

320. **The DTIS Update shows that agriculture importers and exporters face uncertain conditions and high costs that undermine Malawi's trade competitiveness and militate against the opportunities for economic diversification**. These problems not only arise within Malawi itself, but also occur in neighboring markets. Strengthening of Malawi's trade performance therefore depends on carefully planned domestic policy reforms and focused dialogue with regional trade partners.

Transparent Rules and Market Driven Pricing

321. **Establishing transparent trade rules and market driven pricing are essential for advancing agriculture growth and diversification**. There needs to be a firm commitment to keeping Malawi's borders open to agriculture imports and exports. The risk of trade restrictions or even outright trade bans together with price distortions caused by reliance on centrally determined minimum farmgate prices deters private investment and contributes directly to problems with volatile production and lack of competitiveness.

322. **Achieving domestic food security, fair prices, and export growth are not mutually exclusive or even opposing objectives and would be complementary in an improved policy environment**. With a firm, clear, and reliable commitment to keeping Malawi's borders open to agriculture exports together with reliance on market driven pricing, there would be strong incentives for estates and other commercially minded smallholder farmers to expand production of food crops and invest in new technologies needed to produce reliable surpluses.

323. **A specific strategy would be for government to guarantee export permits for a certain percentage of private maize and rice purchases while the remainder is held in reserve for domestic use until the overall food balance is known.** Such a policy would enable forward contracting by agriculture marketing companies at regional export parity prices and

[27] For more information on the detailed discussions and recommendations, please refer to the workshop report in **World Bank (2013).**

provide a strong incentive for large and small estates and even individual smallholder farmers to grow food they would not otherwise produce to the benefit of Malawi's export development and national food security overall.

324. **Improved information on which goods are allowed for trade, which ones are not, and what restrictions apply would assist with minimizing trade costs and helping sector participants cope better with the risk of trade bans**. Case-by-case review of import and export applications for virtually every kind of agriculture commodity including products without any food security implications such as tea, cotton, and tobacco are unnecessary. Even for major food crops, there is little reason for MoAFS and MIT to review each and every trade application. As a priority for improved trade performance, Malawi needs to introduce a more transparent and streamlined framework that clearly states whether importing and exporting specific commodities is allowed and eliminates the unnecessary time and expense of the current system for both private sector and government workers.

325. **Information on which commodities are allowed for trade could easily be disseminated through the internet using an official website**. The possibility of setting up a regional website to communicate what trade rules apply and when trade bans or other trade restrictions are put in place and when they are lifted would be a good area for immediate dialogue with Malawi's partners in APEI.

326. **A longer-term objective should be to make implementation of trade bans or other restrictions much more predictable**. This may be difficult to achieve, but efforts to agree a set of verifiable conditions under which Malawi and other regional governments could exercise their discretion to implement different kinds of trade restrictions would be a good area for regional dialogue, especially if such a system were geared to provide an early warning of when these measures might be put in place. The USAID project, FEWS NET has done extensive work in Africa to develop systems for predicting food shortages that could be a practical starting point for such a system.

327. **Launching an SMS-based price information system would significantly improve market transparency to the benefit of smallholder farmers and traders**. This would replace the GOM's outdated approach of relying on centrally determined minimum farmgate prices. SMS-based information systems have been used extensively in other countries to provide small farmers real time price information for different commodities and market locations. Cell phone access is increasing in rural Malawi and GOM could solicit international technical and financial support to develop a price system to provide farmers the type of transparent, market-driven information they need to make good business decisions.

Streamlining of Trade Procedures

328. **Many duplicate and overlapping procedures exist which add to the costs of trade and undermine Malawi's export competitiveness**. While economies of scale are natural and to be expected, the worst effect of these policies are felt by small-scale traders for whom the

charges are significantly higher on a per ton basis. As illustrated by the case study analysis of trade costs at Mwami/Mchinji, the requirement for all importers to submit a sample of their goods for MBS testing negates the benefits of the COMESA STR and leaves small traders little practical choice other than to engage in informal trade outside the legal system.

329. **Promoting dialogue at the national and regional levels on opportunities to eliminate unnecessary trade procedures will build consensus for reform**. In addition to eliminating trade permits for all types of imported and exported commodities, streamlining the procedures for standards certification through mutual recognition of other countries' standards marks would be a major improvement. As noted earlier eliminating the redundant testing of agricultural imports when the product has already been certified in another countries would reduce costs.

330. **Fees, standards, or other trade requirements need to match actual buyer requirements and supplier capabilities**. Malawi has no use for advanced regulations that cannot be enforced or that do not serve genuine commercial and/or public health interests. Malawi's trade negotiators need to pay careful attention to these issues and avoid agreeing to unnecessary standards, testing procedures, and other trade requirements that its producers cannot easily meet or that its consumers cannot afford in regional trade negotiations. A focus on mutual recognition and equivalence rather than negotiating to harmonize requirements is likely to be more productive in minimizing the trade effects of technical regulations.[28]

Regional Trade of Inputs

331. **There is considerable scope for Malawi and neighboring countries to streamline the trade of crop inputs (seeds, pesticides and fertilizer) through mutual acceptance of other countries' registered products and quality test results**. Agriculture production and trade competitiveness begin with the inputs farmers use. Breaking down the barriers to regional trade of seed and fertilizer would not only be a good strategy for increasing rural incomes and improved food security, but could also provide the Malawi Government significant savings on the cost of FISP subsidies.

332. **Permitting different blends of fertilizer to be traded freely within the region (SADC/COMESA) would lower costs and promote increased production**. At present, regional exporters face problems moving different blends across borders that do not correspond with each country's national specifications and have to submit samples for laboratory analysis in each destination market. Details of a regional free trade system for fertilizer would need to be worked out, but the like the SADC Regulatory System for Seed, the idea of such an approach would be to (i) permit free entry of fertilizer between members; (ii) provide for acceptance of fertilizer compounds that have been approved by another member; and (iii) allow shipments of fertilizer inspected by another member. Harmonized regional policies for fertilizer would reduce transaction costs, and the resulting (larger) regional market could be of considerable commercial interest to blending companies in Malawi.

[28] See Keyser, 2012 for a fuller discussion of the risks of harmonization and potential benefits of alternative approaches.

Improved Systems for Aflatoxin Control

333. **Aflatoxin management and control is important for Malawi**. Despite this constraint, relatively little attention has been given by the Plant Health Office to aflatoxin control. This might include promoting platform testing of aflatoxin sensitive crops at the first point of sale and other critical control points by ADMARC, NASFAM, and others, together with training of farmers and handling agents in simple storage methods to minimize the risk of aflatoxin. Laboratory facilities at Chitedze do not address Malawi's underlying aflatoxin problem and will have limited impact unless matched with improved systems along the value chain.

334. **The Ministry of Trade with support from USAID also identified aflotoxin control for groundnuts as one of the key areas for SPS capacity building.**[29] Following that work, the WTO's Standards and Trade Development Facility (STDF) provided funding to the MIT to take stock of existing government and donor supported initiatives to address aflatoxin contamination, address outstanding gaps and priorities, and promote effective coordination and synergies between the various stakeholders. This is a welcome development and supports the recommendation of introducing effective controls for managing aflatoxin.[30]

Summary Recommendations

335. Improving the agricultural trade environment requires a number of critical reforms. First, the government should eliminate the risk of trade bans or other forms of export restrictions. It should also abolish the use of statutory minimum prices for selected products and reduce the number of mandatory standards inspections to those essential for public health, safety and the environment. To improve the access to agricultural inputs, it will be key to streamline procedures to ensure the fast track registration of new seed types and remove import restrictions on fertilizer to enabling farmers access a wider range of fertilizers. To support the export of agricultural products, the government should also work towards introducing effective controls for managing aflatoxin. Last, to reduce biases against small traders and improve the functioning of the Simplified Trade Regime, the government should review existing fees and documentary requirements conjointly with the Zambian government. It should then remove selected fees, expand the common list of products covered, and implement the decision taken in June 2013 to reduce the transaction costs for small to traders to USD 1. These recommendations relating to the STR were strongly endorsed by local traders and government officials who participated in a pre-validation workshop of the Zambia and Malawi DTIS in Chipata, Zambia in November 2013.

[29]The Multi-Criteria Decision Analysis (MCDA) tool was applied in Malawi, identifying four priorities: http://www.standardsfacility.org/Files/EconAnalysis/Countries/MCDA%20Malawi%20final%20report%2017%20July%202012.pdf
[30]http://www.standardsfacility.org/Files/Project_documents/Project_Preparation_Grants/STDF_PPG_400_FinalReport_Sep-13.pdf

Chapter 6. Trade and Regulatory Polices: Professional Services

336. **Services matter for Malawi's growth and diversification.** Malawi's heavy reliance on a few agricultural commodities and limited ability to deal with exogenous shocks resulted in volatile government revenues and unstable expenditures. Services sectors can help diversify Malawi's highly concentrated trade away from agricultural commodity dependence. Given that services provide the inputs to many other economic activities, they can also have significant positive spillover effects throughout the economy and contribute to poverty reduction. Owing to limited resources the DTIS has focused on professional services which have been largely neglected to date in discussions on the trade in services agenda.

337. **The tourism sector remains a key export sector for Malawi, but challenges remain which are mostly not trade-related.** Although it has grown significantly and contributed 5.8 per cent of Malawi's GDP in 2008 (representing a higher contribution to GDP than in other SSA countries), export potential remains for the travel and tourism sector. Key constraints identified in a recent World Bank report[31] related to missing skills, limited linkage with the domestic economy, marketing, lack of attention to cultural sites and events, but also infrastructure related challenges (roads, energy) and poor air access. The report recommended improving overall competitiveness, improving the availability of skilled workers, improving overall investment policies, and more effective marketing. The cross-cutting recommendations of this DTIS confirm this. Recommendations to improve air connectivity and promote overall competitiveness are confirmed as central recommendations to improve the overall trading environment. Recommendations regarding professional services would also directly contribute to improving the quantity and quality of trained supervisors and managers. Given extensive recent work and the establishment of a Tourism master plan, it was agreed that this DTIS would not look at the tourism sector in greater detail.

338. **The expansion of infrastructure as well as higher-value knowledge-intensive services can bring significant economic and social benefits to the country**. For example, while the agricultural sector is viewed as an important engine of trade growth, it has remained far below its potential. To increase agriculture production the productivity of farms will have to improve. That means better transport infrastructure, agricultural technology and support services. Opening up to services imports and foreign direct investment (FDI) can be an effective mechanism to increase the availability, affordability and quality of these services, and enhance productivity and increase technology and skills transfers. In addition, services offer dynamic new opportunities for exports. Exports of services are of particular importance for land-locked countries like Malawi for which opportunities to diversify into the export of manufactures is more limited by the high costs of transporting goods.

339. **The GOM recognizes the importance of services for the economy**. In the past, services were rather neglected as a potential source for growth and export diversification. For

[31] World Bank (2010), Malawi Travel and Tourism – Realizing the Potential, World Bank Report No. 62353-MW

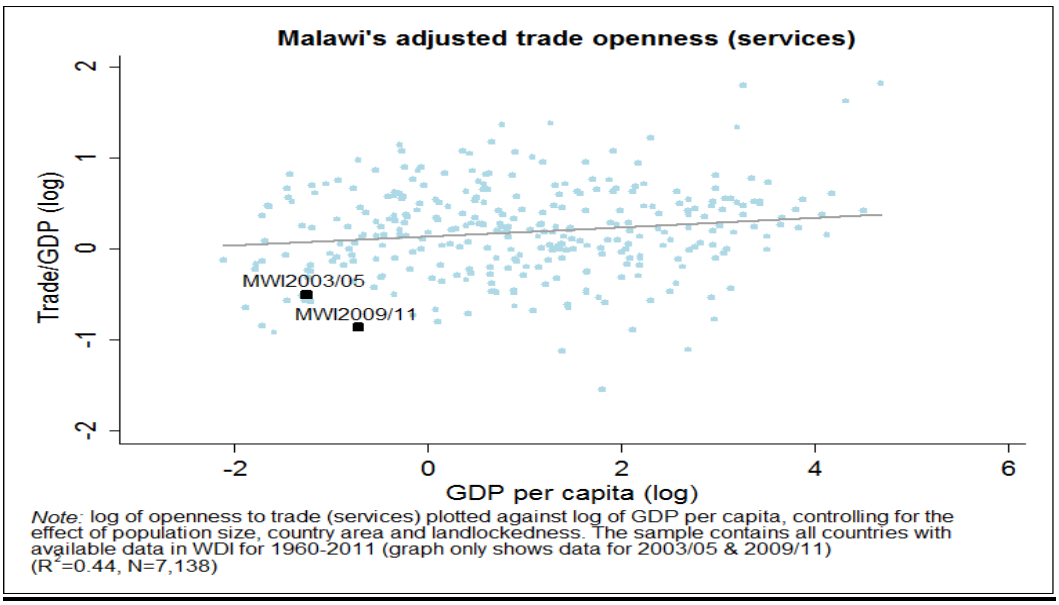
example, the 2004 DTIS Action Matrix focused almost exclusively on trade in goods. However, several recent strategic documents highlight the need to improve the performance of services and the need to open them up to imports and foreign direct investment and in regional initiative the GOM has identified priority services sectors for trade negotiations. For example, as part of the COMESA services negotiations, transport, communication, financial and tourism services have been identified as top priority sectors for deeper integration with neighboring countries with business, construction and related engineering and energy services to follow in the next phase.

340. **To guide and support the government's services reform, the DTIS Update provides an assessment of Malawi's services sectors.** Particular emphasis is put on professional services as a priority identified by both Government and the NIU.

Malawi's main services trade developments and challenges

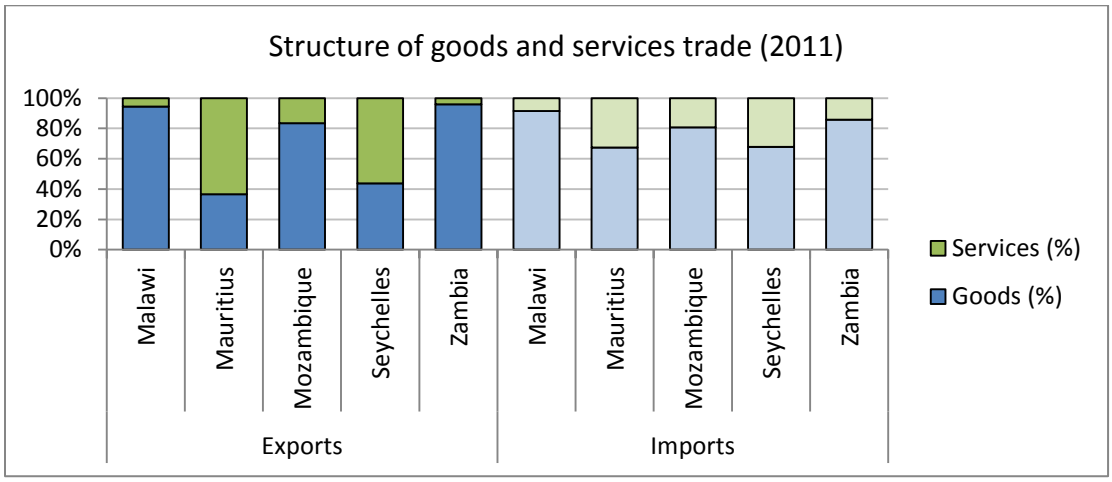
341. **During the last decade, the services sector has increased its share to more than 50% of GDP.** This positive development is, however, not reflected in Malawi's services trade performance. In fact, the scatter diagram that plots the country's overall services openness measured as the percentage of cross-border services trade in GDP against its per capita income, shows that the 2003/05 and 2009/11 ratios of services trade-to-GDP for Malawi were both below the benchmark for a country at its level of economic development. In addition, the ratio deteriorated by 2011, indicating that Malawi's poor services trade performance has worsened over the examined period (Figure 17). Moreover, cross-border services exports and imports remain a small part of Malawi's total trade with shares of 5 and 8 percent of total trade respectively (Figure 18).

Figure 17 Malawi's adjusted trade openness in services



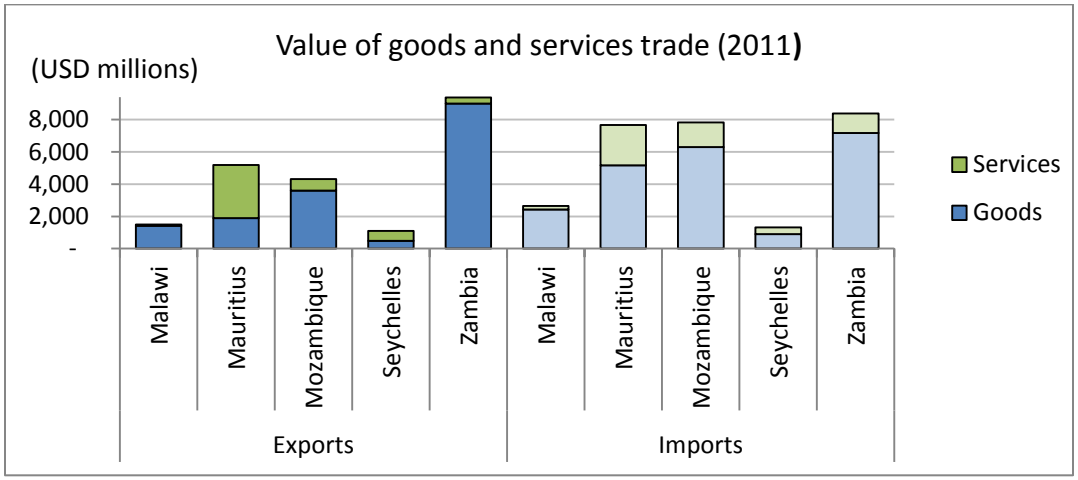
Source: WDI 2013.

Figure 18 Structure of goods and services trade (%), Malawi and comparators 2011



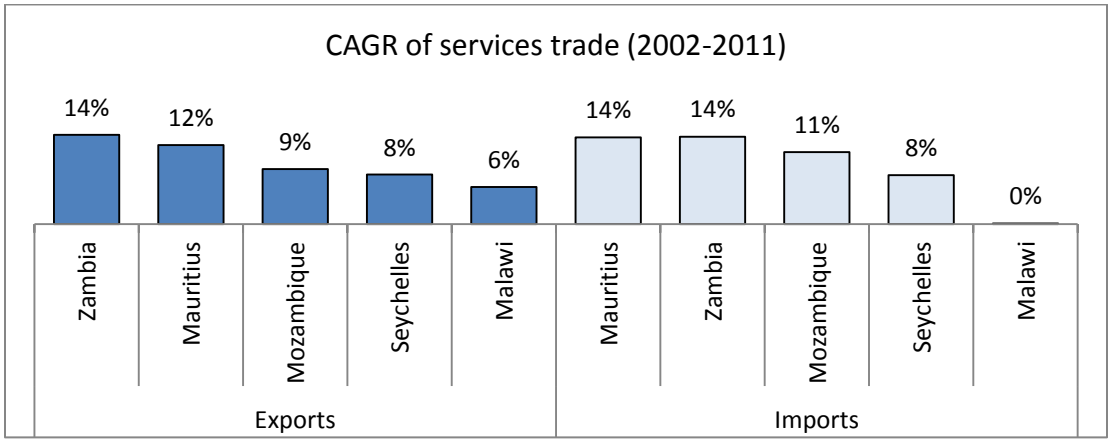
Source: IMF BOP 2013.

Figure 19 Value of goods and services trade, Malawi and comparators 2011



Source: IMF BOP 2013.

Figure 20 Growth rates of services trade, Malawi and comparators



Source: IMF BOP 2013.

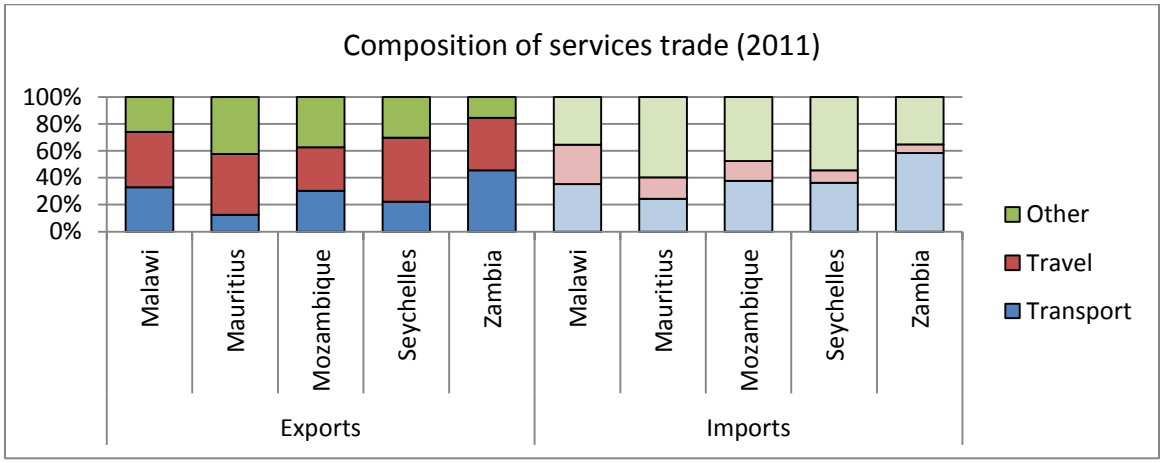
Table 34 Malawi's trade in services, 2011

USD millions (and % of total)	Exports	Imports
Commercial services	75 (92%)	199 (89%)
Transport	27 (33%)	79 (35%)
Travel	34 (41%)	66 (29%)
Other services	21 (26%)	79 (35%)
Government services	7(8%)	25 (11%)
Total	82 (100%)	224 (100%)
Commercial services CAGR (2002-2011)	*6%*	*0.1%*
Source: Calculations based on IMF BOP 2013		

342. **Malawi remains a modest regional player in terms of services trade with exports of about 82 million USD and imports of 224 million USD** (Figure 19). Both exports and imports of services have grown very modestly during the last decade, with average growth rates significantly lower than those recorded by neighboring countries (Figure 20).

343. **Malawi's services trade is composed primarily of transportation and travel services**. In 2011, travel accounted for more than 40 per cent of total services exports, followed by transportation services with 33 per cent. Other service sectors such as construction, communications, insurance, and finance, combined, accounted for about 26 per cent of Malawi's total services exports and 35 per cent of Malawi's total services imports (Table 34).

Figure 21 Composition of services trade (%), Malawi and comparators 2011



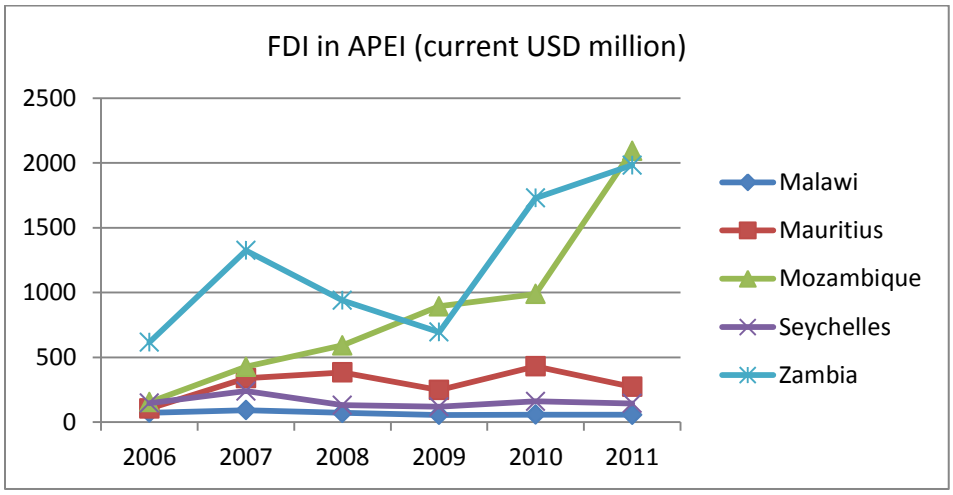
Source: Calculations based on IMF BOP 2013

344. **Furthermore, Malawi has so far not managed to diversify its services exports (Figure 21)**. This is in contrast with other neighboring countries where exports of both traditional (e.g. travel and transport) and non-traditional (e.g. other services such as communication, financial and business services) services sectors are beginning to emerge. Together with Malawi, Mauritius, Mozambique, Seychelles, and Zambia aim to accelerate

reforms aimed at removing barriers to trade in services as part of the Accelerated Program for Economic Integration (APEI).

345. **Foreign direct investments (FDI) to Malawi did not register improvements over the last five years** (Figure 22). FDI inflows per capita are still lower in Malawi than in other APEI countries. Malawi's capacity to attract FDI is undermined by numerous factors, including its poor business environment, high trade costs and small market size.

Figure 22 FDI in Malawi and comparators, 2006-2011



Source: UNCTAD, FDI Online Database (March 2013) and World investment Report 2012.

346. **Malawi's services are underdeveloped with performance indicators well below the Sub-Saharan average**. For example, compared to many of its African neighbors, Malawi is characterized by a lower number of fixed and mobile phone subscribers, lower number of firms with lines of credit or loans from financial institutions, higher number of power outages in a typical month, and higher delays in obtaining an electrical connection (Table 36). This suggests that Malawi does not have a robust supplier base from which to draw high quality services inputs, and translates into an important competitive disadvantage given that services are essential inputs for most economic activities.

347. **Trade agreements can play an important role in delivering a wider variety of lower cost services to consumers in Malawi by locking in reforms and stimulating greater flows of foreign direct investment in services**. The establishment of regional markets such as COMESA, SADC or APEI offers new opportunities in terms of trade in services and FDI, conditional on the continuation of liberalization and privatization processes and of investment climate reforms. The increased size of the regional market and the increased FDI would be a major asset to facilitate export diversification.

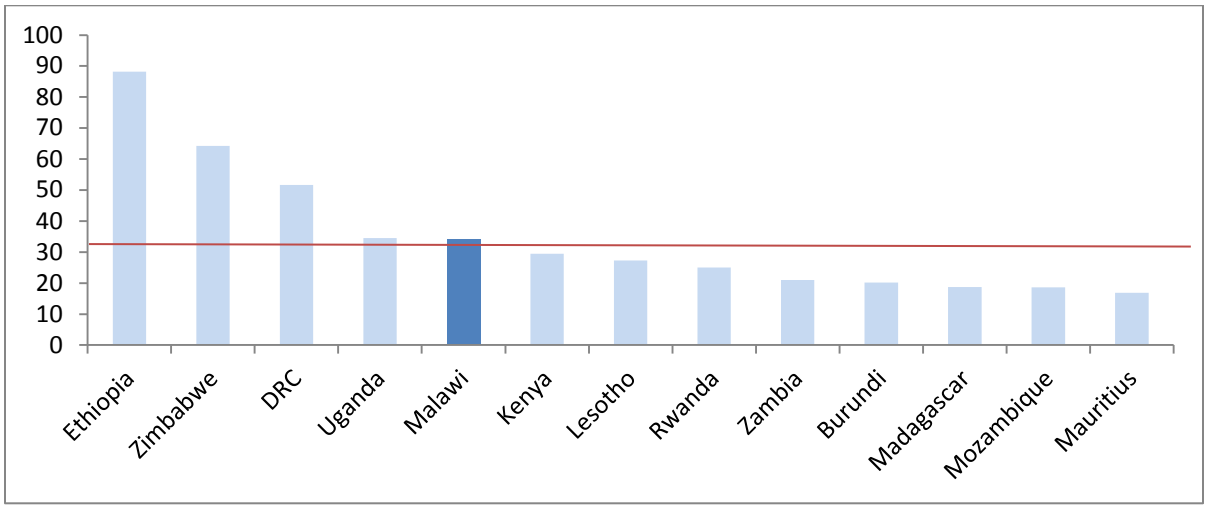
Table 35 performance indicators for selected services sectors

Indicator	**Malawi**	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Financial services					
Financial market development index (1-7: lowest - highest)[1]	3.38	4.35	3.17	4.10	3.80
Domestic credit to private sector (% GDP)[2]	38.00	110.04	24.96	45.77	18.05
Account at a formal financial institution (% age 15+)[3]	16.54	80.12	39.90	n/a	21.36
Accounts per 1,000 adults at[4]:					
- commercial banks	163.44	2,109.04	140.50	n/a	27.59
- cooperatives and credit unions	12.13				n/a
- microfinance institutions	n/a				0.17
Branches per 100,000 adults of[4]: - commercial bank	2.16	20.11	2.89	n/a	3.64
- cooperatives and credit unions	n/a	n/a	0.10	n/a	n/a
- microfinance institutions	n/a	n/a	0.30	n/a	1.56
Loan from a financial institution in the past year (% age 15+)[3]	9.19	14.27	5.87	n/a	6.13
Saved at a financial institution in the past year (% age 15+)[3]	8.24	30.83	17.46	n/a	11.77
Debit card (% age 15+)[3]	9.36	50.94	37.35	n/a	15.69
ATMs per 100,000 adults / per 1,000 sq.km.[4]	1.23	0.21	6.45	n/a	10.96
Telecommunication services					
Fixed and mobile cellular subscriptions (per 100 people)[2]	27	128	33	178	61
Internet users (per 100 people)[2]	3.33	34.95	4.3	43.16	11.5

Source: [1]WEF Global Competitiveness Index 2013; [2]World Bank WDI (2011 data); [3] World Bank Global Findex (2011 data) ; [4] CGAP Branchless Banking Database (2011 data)

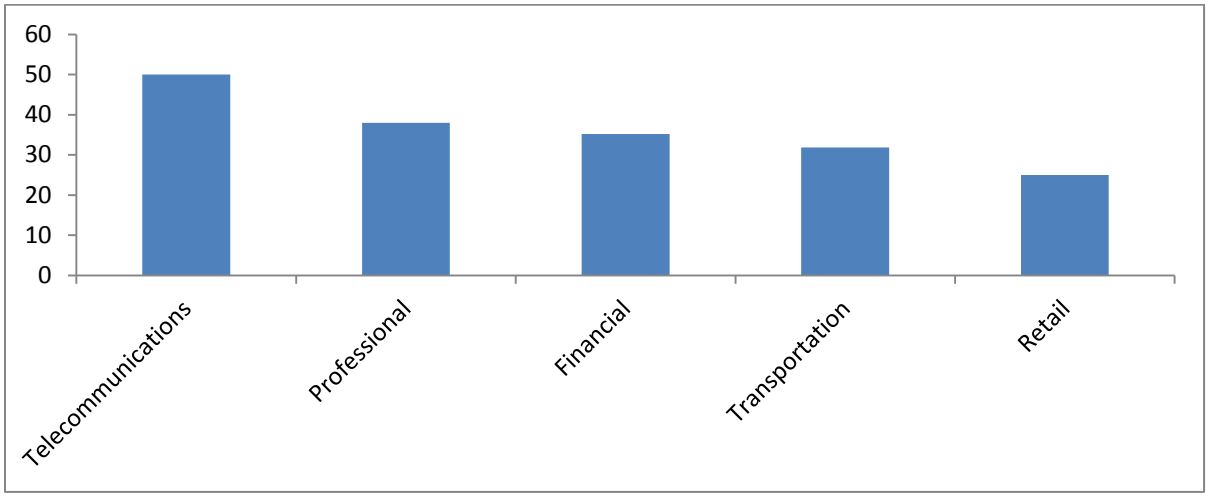
348. **Malawi is currently participating in several regional negotiations on trade in services.** A 2008 World Bank survey of applied trade policies in five services sectors - financial services (banking and insurance), telecommunications, retail distribution, transport and professional services in over 80 countries shows that Malawi's overall restrictiveness index of applied services policies (explicit market access and national treatment barriers plus selected discriminatory regulatory measures) is moderate and slightly below the COMESA average (Figure 23). The most protected sectors seem to be telecommunication and professional services (Figure 24).

Figure 23 Services Trade Restrictiveness Index, Malawi and comparators



Source: World Bank (2012), Services Trade Restrictions Database, Data for Malawi is from 2008

Figure 24 Malawi's Services Trade Restrictiveness Index by type of service



Source: World Bank (2012), Services Trade Restrictions Database. Note: the sector scores are averages across subsectors and modes of supply; Data for Malawi is from 2008.

349. **Reducing or eliminating explicit trade barriers is only one part of the story**. To improve the performance of services sectors trade reform needs to be integrated into an open and transparent process of regulatory reform, in which decisions on the nature and pace of reform are informed by careful analysis and an understanding of good practices. For example, it is important to ensure that the regulatory frameworks in place do not restrict directly or indirectly competition in service markets and slow down their expansion in spite of the extensive liberalization measures. An equally important problem is the absence of regulation, which can create a legal vacuum that actually constrains business growth and allows many opportunities for unfair competition and corruption.

350. **Thus, a key challenge of services reforms relates to the coordination of regulatory reform with liberalization**. Indeed, coordinating regulatory reform with liberalization of trade in services is the main recurring challenge raised by Malawian officials in several services talks. Liberalizing services trade is typically more complex than liberalizing goods trade and can require considerable technical capacity. The ability to implement such a reform process is constrained by limited capacity within government and the private sector.

351. **The analysis presents a diagnostics regarding the level of development and the availability of professional services and services providers in Malawi**. These sectors, selected in consultation with the government, are important for the country's growth, skills generation and export diversification, and are priority sectors in the COMESA and APEI services discussions. The analysis also identifies which policies explain the underdevelopment of professional services in Malawi and the segmentation of these markets in Sub-Saharan Africa. While the focus is on trade policies and domestic regulation, limiting the analysis to those areas would only partially address the diagnosed problems. It is also important to analyze the education challenges, in order to remedy the origin of the skills shortages and skills mismatches in financial and professional services. Similarly, the general immigration restrictions have to be analyzed to address the free movement of various professionals.

352. **Particular attention is given to policy action at the regional level to illustrate how Malawi can benefit from regional regulatory cooperation that can advance its domestic services reforms and facilitate trade.** For example, the report shows that the mutual recognition of qualifications and licensing requirements in professional services can accelerate the development of these services in Malawi and reduce the fragmentation of services markets in Africa. Concrete technical assistance activities related to the implementation of this section's recommendations could be pursued also through as part of the on-going Accelerated Program for Economic Integration which is being supported by the World Bank and other development partners.

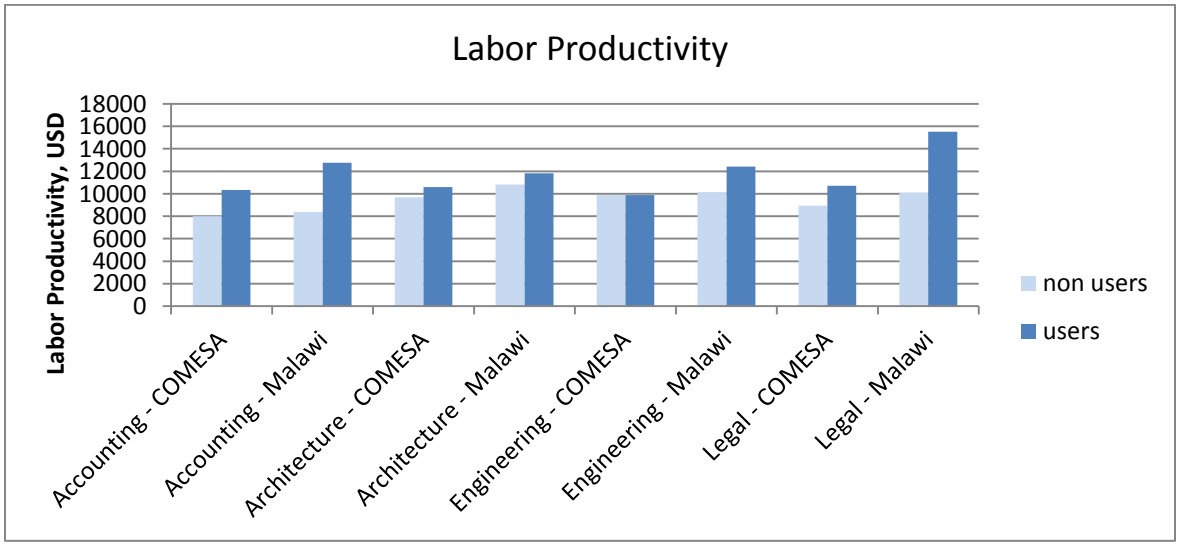
Professional services are essential for Malawi's growth

353. **High value, knowledge-intensive services such as professional services contribute directly and indirectly to economic growth, including by lowering transactions costs and by creating spill-overs of knowledge to other sectors**. For example, engineering and IT services are knowledge-intensive sectors essential to the productivity and sustainability of other economic activities, including the oil sector. Civil engineering is critical for the development and maintenance of a country's physical infrastructure, while electrical engineering is important to the operation of public networks such as utilities or commercial facilities and communication systems (Cattaneo et al., 2010). IT –based services including application services (such as application development and maintenance, system integration, IT infrastructure services, IT consulting), or IT engineering services (such as manufacturing engineering and software product development) also have an important impact on productivity and growth (World Bank, 2011).

Accountancy is critical for accountability, sound financial management, and good corporate governance (Trolliet and Hegarty, 2003).

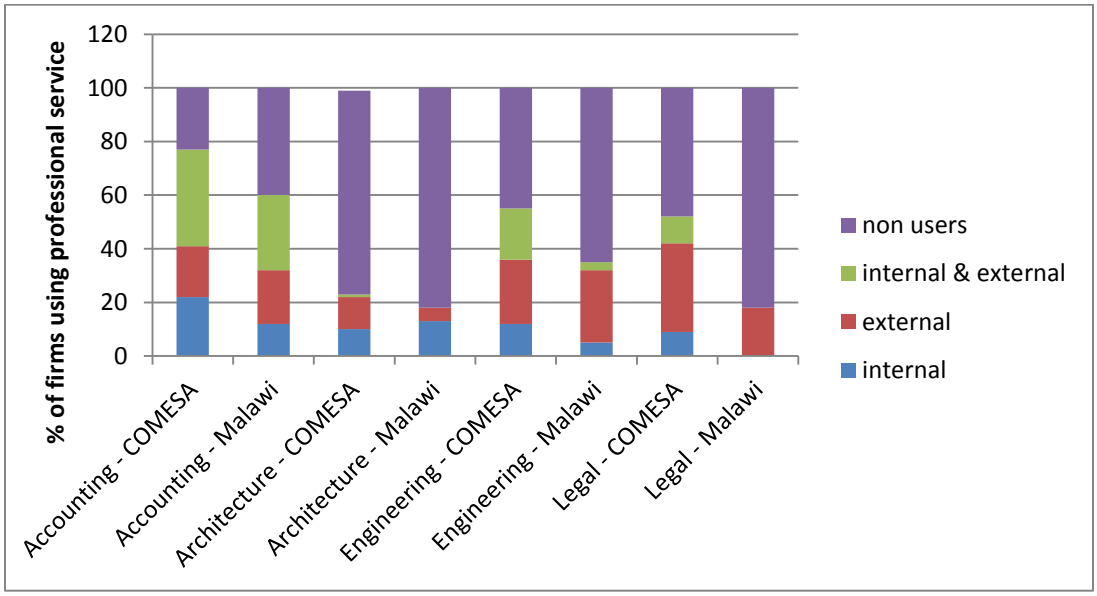
354. **Firms using accounting, architectural, engineering and legal services — whether externally outsourced or provided in-house — have higher average labor productivity than firms without such professional services linkages.** Based on data from the 2012/2013 World Bank Survey of Users of Professional Services in Malawi, these results are in line with the findings for most COMESA countries, but interestingly the productivity differential between users and non-users seems more pronounced in Malawi (Figure 25).

Figure 25 Average Productivity of Users vs. Non-Users of Professional Services



Source: World Bank Surveys of professional services in COMESA, 2013

Figure 26 Usage of professional services in Malawi and COMESA, %



Source: World Bank Surveys of professional services in COMESA, 2013

355. **Demand for all examined professional services sectors is already important and is expected to increase with economic growth in Malawi**. A surprising finding of the business surveys undertaken in Malawi is the relatively high level of demand reported by the surveyed firms. For example, the results of the user surveys suggest that about 60% of the surveyed firms use accounting services and almost 40 % of the interviewed firms use engineering services. By contrast, demand is less important in architectural and legal services, and is significantly lower than the COMESA average in the legal sector (Figure 26).

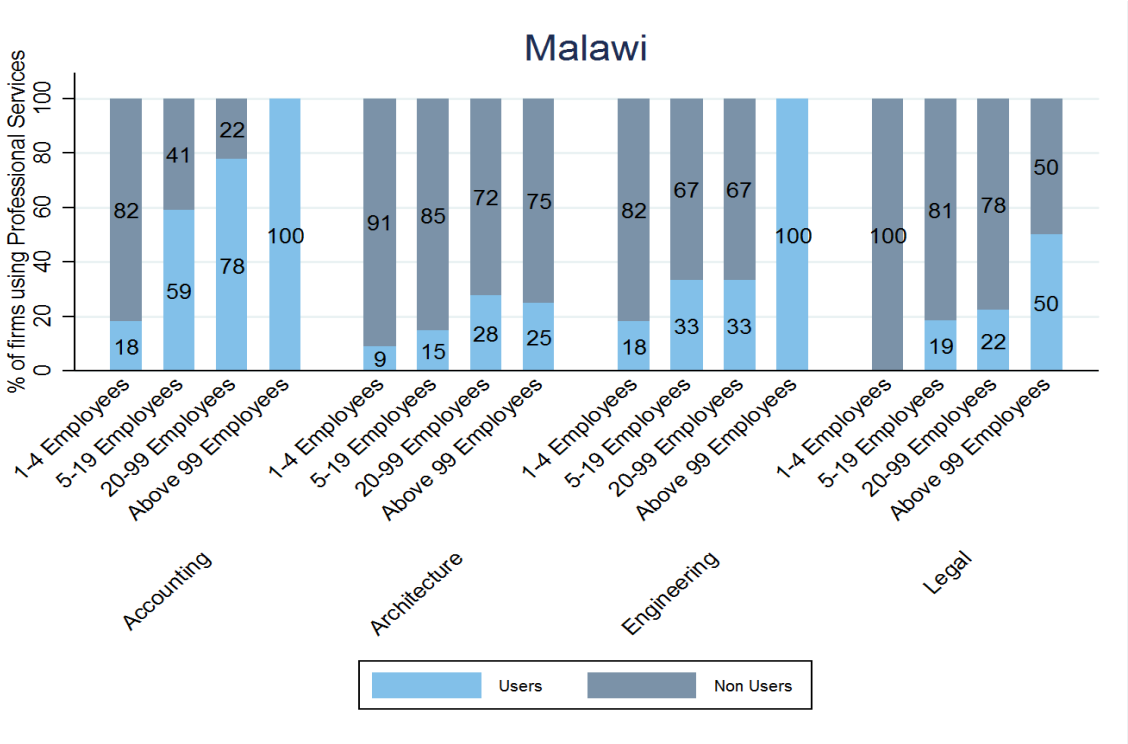
High demand for professional services in Malawi

356. **While usage of professional services is higher among large firms, it is interesting to note that micro- and small firms are also starting to use professional services** (Figure 27).

357. **Respondents to the World Bank Survey of Users of Professional services listed a number of channels through which professional services affect their productivity and performance**. First, basic accounting services are important for most firms, including (formal) SMEs and microenterprises. While many respondents indicated that they use accounting services because of statutory requirements, they also name accounting services as useful for maintaining and improving existing activities within enterprises and as helpful in accessing loans. Accounting and audit services also help manage costs, expenses and income of the firm, disclose the company's financial health, undertake future planning and comply with tax laws and requirements. Engineering services help firms understand technological advancements and how to use them effectively to construct, install, and maintain their machineries in normal operating condition. Still, such knowledge intensive services remain largely neglected and their development and export potential remains overlooked.

358. **Across all examined professional services subsectors, micro and small firms are key clients of professional service providers and play a more important role than in many COMESA countries.** The demand exists across the whole spectrum of professional services – from simple basic services such as bookkeeping to auditing, tax advice and management consulting in accountancy, from advice on domestic and international law, title transferring, and court representation to representation before administrative agencies, tax advice, insolvency practice, business advisory services, and advice on patent law in legal services, from engineering consulting services, design and planning to tender and contract administration in engineering services. These results, assessed by size and ownership profile of the main clients of professional service providers as well as their main source of revenue, are in line with findings obtained for other Sub-Saharan African countries.

Figure 27 Usage of professional services in Malawi and COMESA, %



Source: World Bank Surveys of professional services in COMESA, 2013

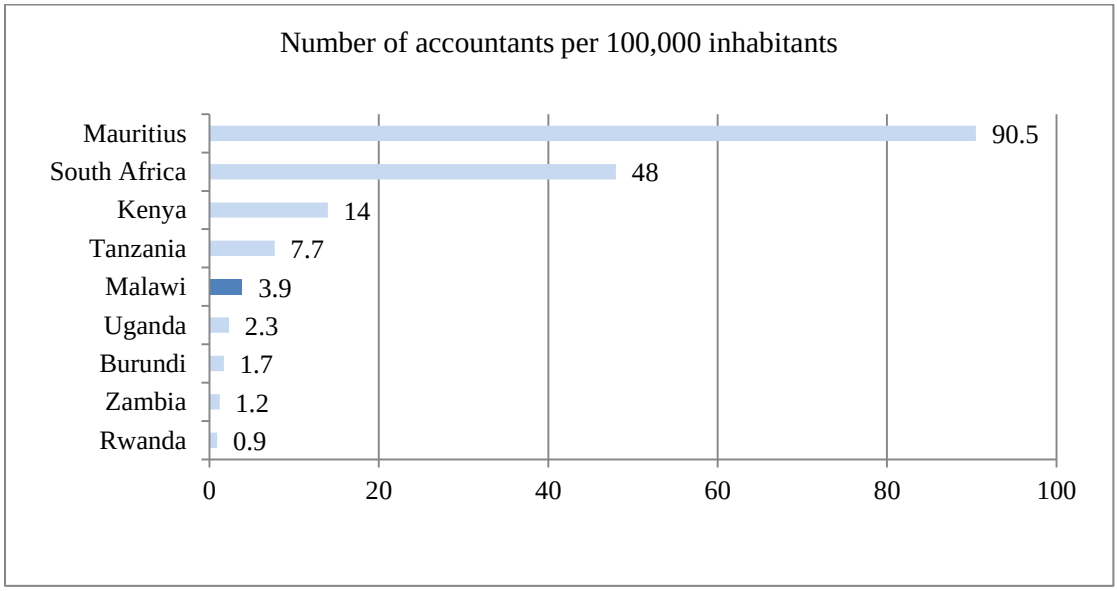
359. **Some observers suggest that the informality and the status of business regulation in Africa restrict demand for professional services.** For example, the prevalence of informal arrangements such as handshakes and oral agreements, customs and practice may imply that in case of disputes even if the law is available, recourse to it is usually the last step. Furthermore, in the absence of adequate protection of property rights, individuals and groups will revert to private protection and avoid usage of legal services. Limited or inadequate monitoring of compliance with financial reporting standards or safety standards may suppress demand for accounting and engineering services, respectively.

360. **However, the consensus among stakeholders and the available literature suggest that the accounting, legal, and engineering needs and concerns in developing countries are as pressing – if not more so – as those in developed economies.** Also, the higher productivity of Malawian firms that use professional services relative to non-users may suggest that professional services are equally important for the development of the Malawian economy as they are in more developed economies and that similar forces prevail in Malawi as in more developed countries. The expansion of sectors such as construction and electricity as well as the Government plans to attract increased foreign direct investment services are expected to generate new demand for such services and provide many new opportunities for professionals in Malawi.

The limited availability of professionals in Malawi

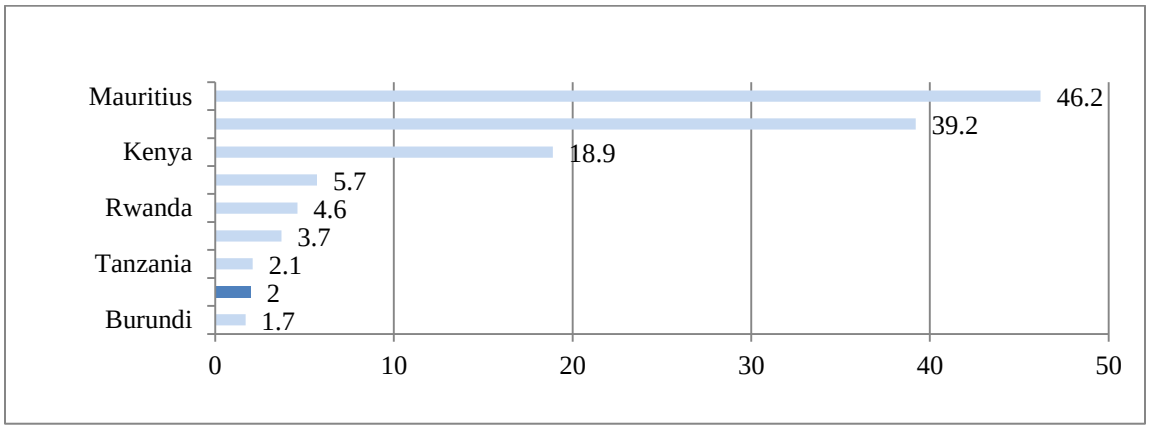
361. **Malawi is facing an acute shortage of professionals and skills mismatches**. Skills shortages of both highly skilled and middle level professionals are observed across all examined sectors in Malawi. Figure 28 and 29 present the density of accountants and lawyers per 100,000 inhabitants for Malawi and a sample of Sub-Saharan African countries. They reveal significant variations in the availability of professionals, with relative scarcity in Burundi, Rwanda, Zambia, Malawi, and Tanzania and relative abundance in Mauritius, South Africa, and Kenya.

Figure 28 Number of accountants per 100,000 inhabitants



Source: World Bank (2010); Niyongabo (2011) and OPC figures for Burundi, Chamkakala (2013) for Malawi

Figure 29 Figure 29 Number of lawyers per 100,000 inhabitants



Source: World Bank (2010); Niyongabo (2011) and OPC figures for Burundi, Chamkakala (2013) for Malawi

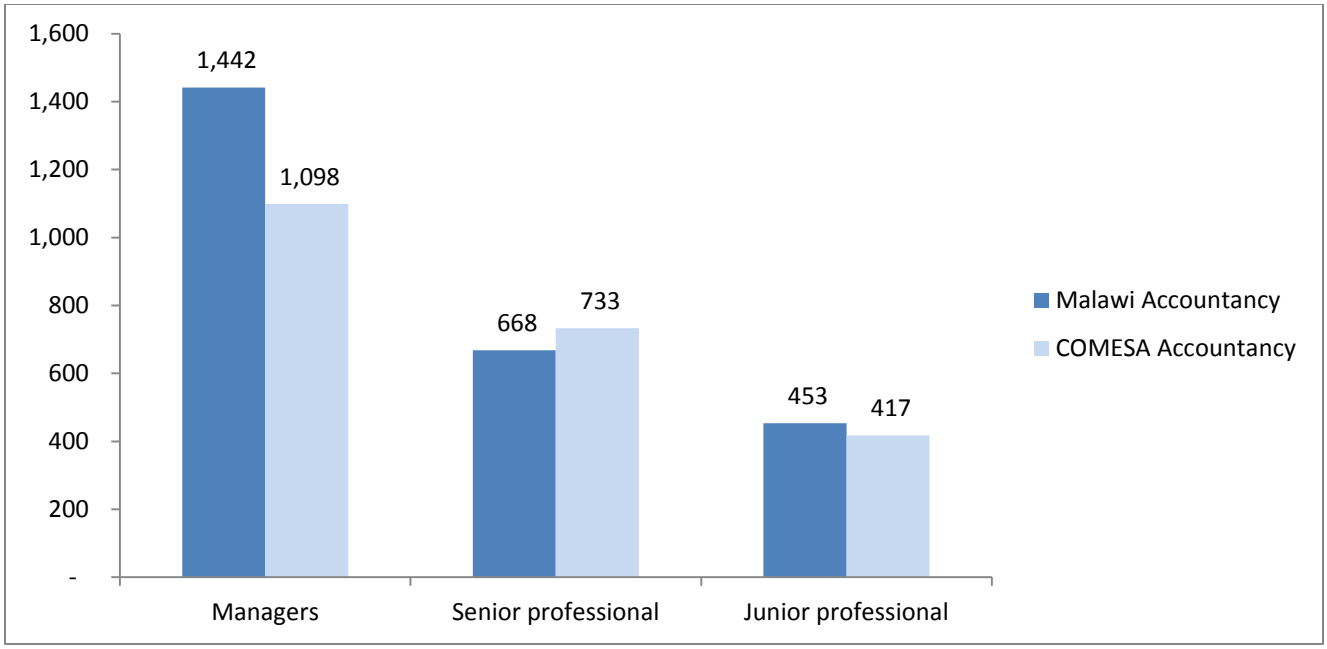
362. **Relative to other countries in Sub-Saharan Africa, Malawi performs rather poorly in terms of the availability of qualified accountants**. In 2013, 607 chartered accountants and auditors were members of the Society of Accountants in Malawi (SOCAM). Stakeholders note,

however, that it is possible that the actual number of accounting professionals is higher than the 607 SOCAM members since registration is mandatory only for accounting professionals engaged in public practice. According to World Bank (2007) Report on the Observance of Standards and Codes (ROSC) for Malawi, the country seems to have a shortage of locally produced accountants as there is evidence of a significant presence of foreign accountants working in Malawi, often they are brought to the country by foreign investors. The ROSC suggests that Malawi should better market local accountants and local qualifications to the foreign investors.

363. **Malawi is also poorly endowed with legal professionals relative to the other countries in the sample**. Malawi had 285 practicing lawyers in 2008, 2 of which were foreign nationals. Note that the legal profession in Malawi operates a fused system whereby there is no segregation between barristers, solicitors, attorneys, advocates, and notaries. Any registered professional can operate in any of these forms. In Malawi, the availability of registered engineers is dependent upon projects being undertaken in the country. Between 2000 and 2008, 40 engineering professionals were registered in Malawi. This figure suggests an acute scarcity of engineers in the country.

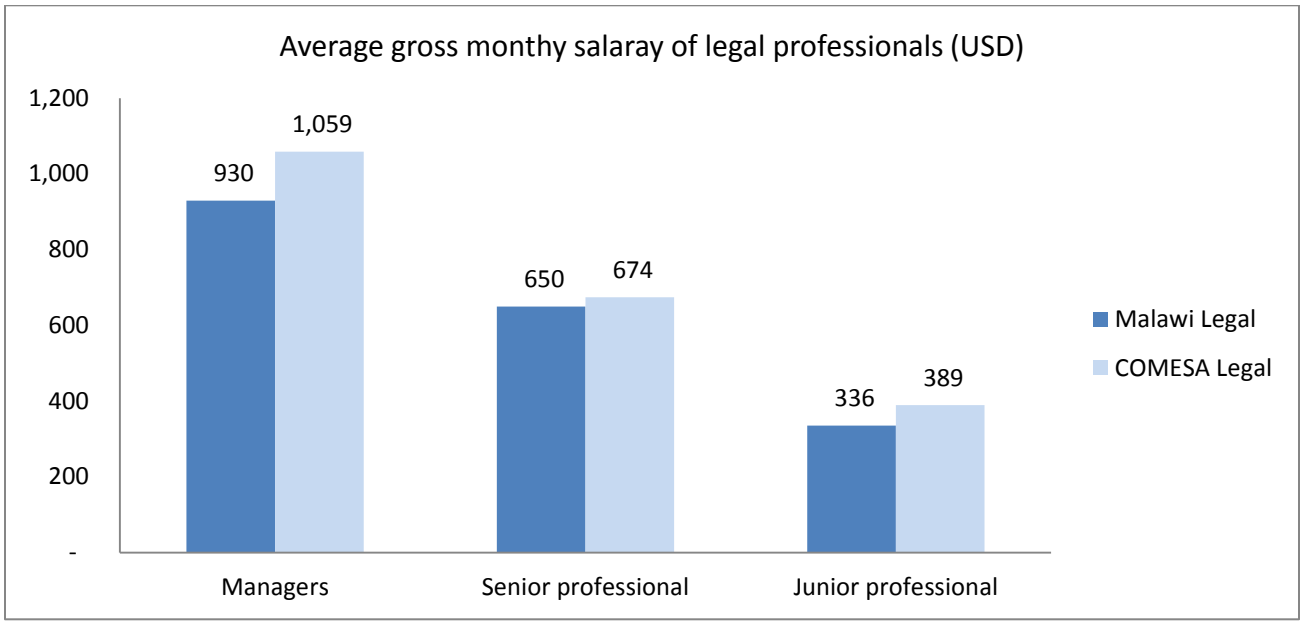
364. The scarcity of professionals is confirmed by data on wages. Professionals in Malawi receive higher or comparable nominal wages relative to their counterparts in other African countries reflecting their scarcity relative to demand for their services (Figures 30 and 31).

Figure 30 Average gross monthly wage of accounting professionals (USD)



Source: World Bank Surveys of professional services in COMESA, 2013

Figure 31 Average gross monthly wages of engineering professionals (USD)

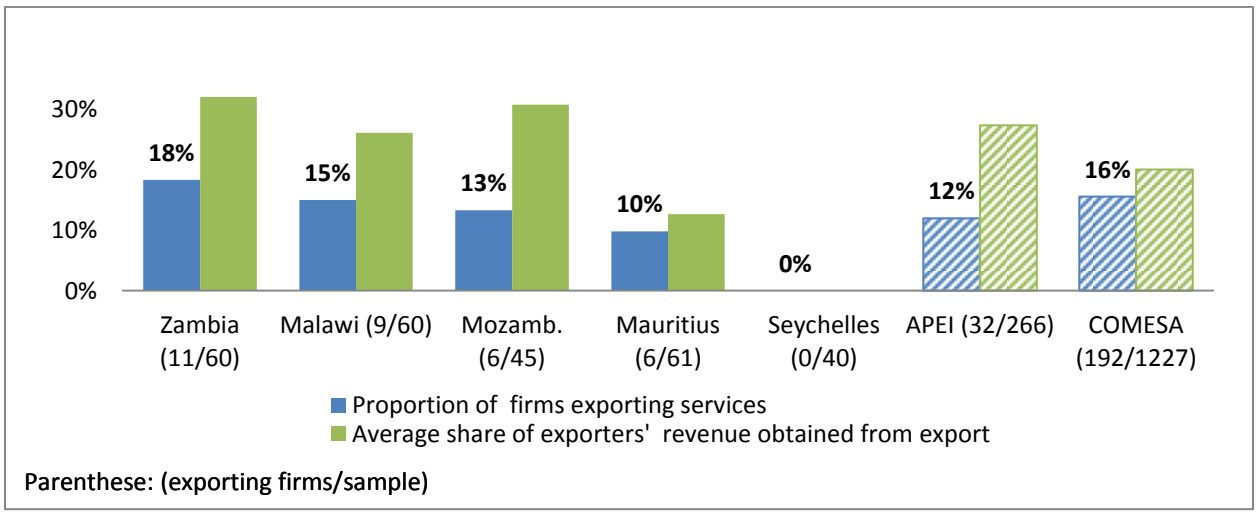


Source: World Bank Surveys of professional services in COMESA, 2013

Trade in professional services

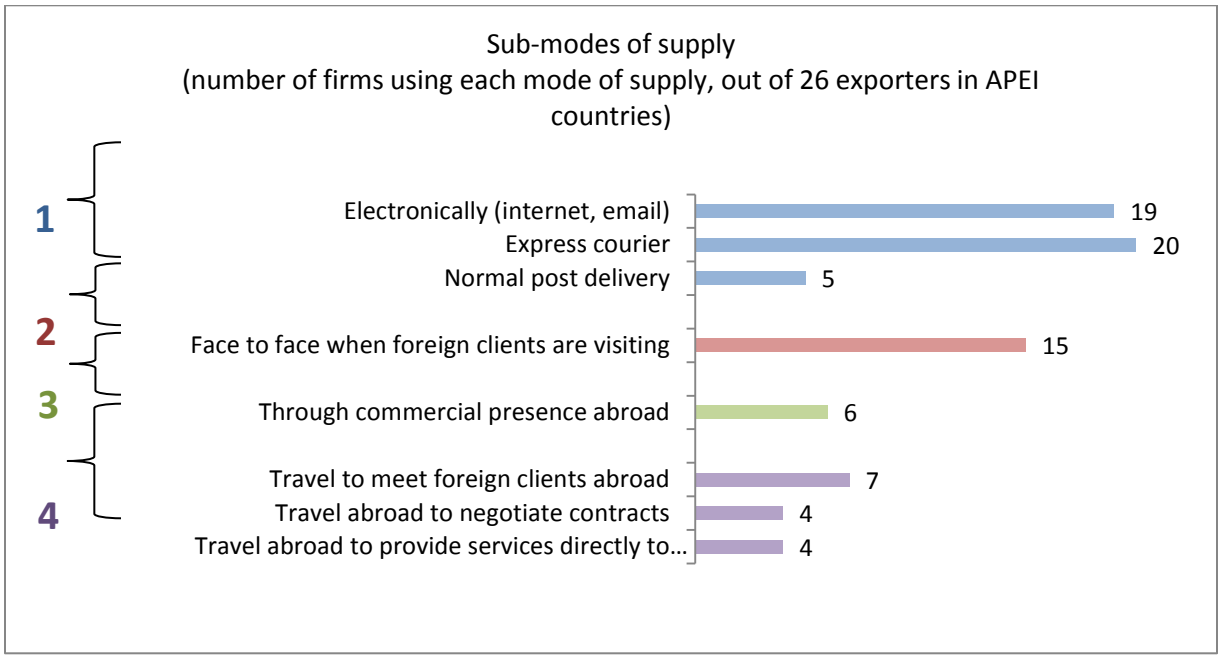
365. **The business surveys undertaken in 2012-13 in Sub-Saharan Africa show that about 15 per cent of the interviewed firms in Malawi already export professional services** (Figure 32). The predominant mode of trading professional services is cross border supply (Figure 33). The question is whether mode 1 is indeed the preferred mode of supply of Sub-Saharan professional services firms or whether this is a way of circumventing barriers affecting other modes of supply.

Figure 32 Export of professional services, Malawi and comparators



Source: World Bank Surveys of professional services in COMESA, 2013

Figure 33 Modes of supply, professional services exports in APEI countries



Source: World Bank Surveys of professional services in COMESA, 2013

366. **A successful initiative that resulted in Malawian exports of legal services is worth highlighting**. Several initiatives have been pursued to encourage the education, training, and development of new paralegals in Malawi. Paralegals are important because they can provide services in alternative dispute settlements and legal empowerment. Similarly, paralegals can play a role in commercial dispute settlement and mediation, where the services of lawyers are not always needed. Finally, paralegals can provide a range of services throughout the legal system that may otherwise be unaddressed by lawyers due to a lack of capacity. In Malawi, the Paralegal Advisory Service is an innovative initiative that offers paralegal aid in criminal cases. The project was set up so that candidates receive training from NGOs working in partnership with key stakeholders including Malawi Prisons, Police Services, and the court system. In return, the paralegals were able to work with these same institutions, making the arrangement a positive one for both sides. The program has been such a success that the organization is being transformed into the Paralegal Advisory Services Institute, and is introducing similar programs throughout the region and even further abroad in Bangladesh.

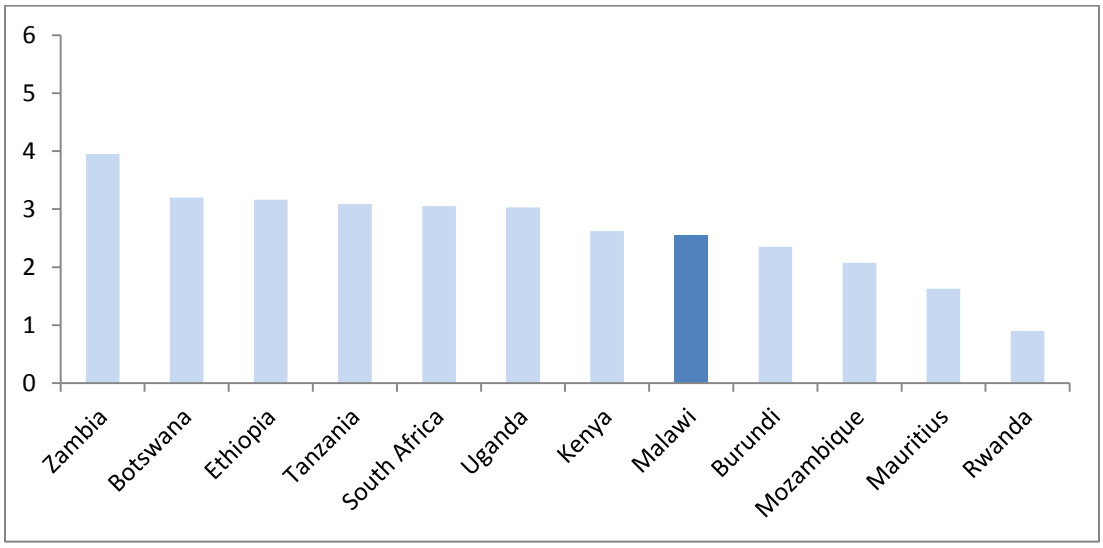
Explaining the underdevelopment of professional services in Malawi

367. **Education issues contribute to existing skill shortages and skill mismatches in professional services in Malawi.** Some key education-related reasons for these shortages are: (i) the weaknesses in secondary and tertiary education witnessed in Malawi limit the ability of students to acquire professional skills; (ii) institutions that offer specialized post-graduate courses, as well as institutions that offer academic and professional training courses for middle-level professionals, are insufficient or absent; and (iii) the missing links between educational systems, employers, and users of services can explain skills mismatches.

368. **Professional services have traditionally been subject to a high degree of regulation in many countries,** both resulting from direct governmental regulation and from rules adopted by self-regulatory bodies (professional associations). These regulatory measures affect the entry and operation of professionals and professional services firms, and can undermine competition and constrain the growth of the sector. Information compiled in several African countries on domestic entry regulation (such as licensing and educational requirements, quantitative restrictions on the number of suppliers of professional services and exclusive rights granted to suppliers in certain activities), as well as on regulations on the operations of firms (such as restrictions on prices and fees, advertising, form of business, and inter-professional cooperation), are used to calculate the regulatory indices presented in Figures 34 and 35.

369. **While Malawi has *relatively* moderate regulatory indices for accounting and legal services, existing regulations still lead to underdevelopment and segmentation of markets in Malawi.** Entry requirements, such as pre-qualification requirements, licensing or membership in a professional association tend to be lighter than in most neighboring countries. The range of exclusive activities[32] reserved to accounting and legal professionals in Malawi is comparable to that in most other Sub-Saharan African countries. The regulation affecting the conduct/operations of professional service providers in Malawi is heavier - this is notably explained by price regulations in architectural, engineering and legal services, and advertising prohibitions in accounting, architectural and legal services. A more detailed description of the regulatory framework in all examined professional services in Malawi is presented in Box 3.

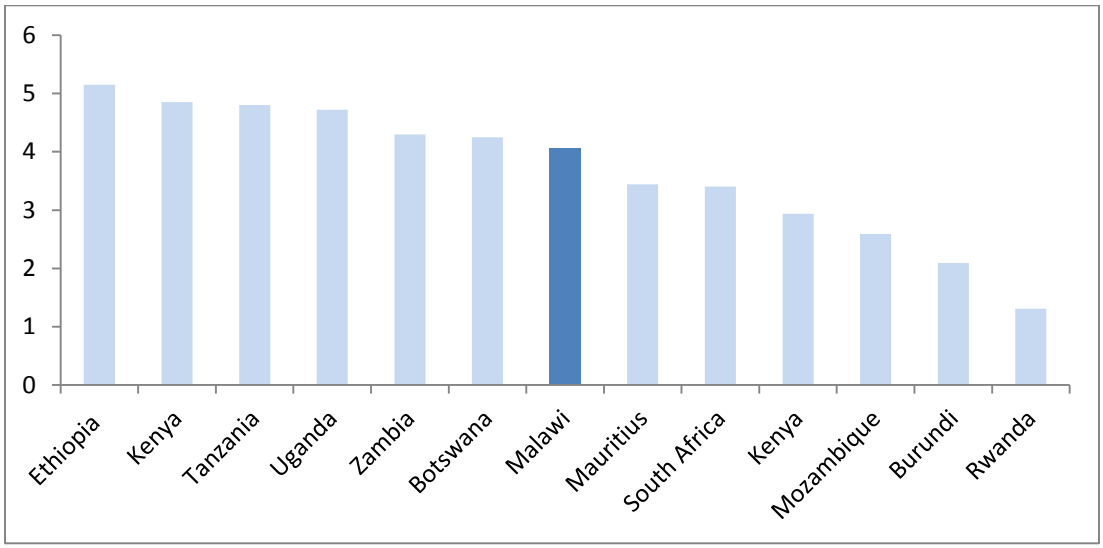
Figure 34 Overall Regulation Index Accounting



Source: OECD Regulatory Database on Professional Services and World Bank Regulatory Surveys in Africa, 2009, 2010, 2012 and 2013; Notes: A higher value of the index indicates a more stringent regulation

[32] Highly skilled professionals in the different professional services sectors generally have exclusive rights to perform certain activities.

Figure 35 Overall Regulation Index Legal



Source: OECD Regulatory Database on Professional Services and World Bank Regulatory Surveys in Africa, 2009, 2010, 2012 and 2013; Notes: A higher value of the index indicates a more stringent regulation

370. **While some qualitative entry requirements are necessary, they can limit the number of professionals and services available if they are excessive.** Qualitative regulatory measures may be necessary to guarantee high-quality services and avoid adverse selection. However, excessive entry requirements set by rent-seeking professionals and professional associations may disproportionately restrict access. In addition, if the profession gains a monopoly over the organization of the required training, the education of necessary professionals may be limited. This may be especially the case when entry restrictions are combined with exclusive tasks for the regulated profession (OECD, 2007).

371. **Exclusive rights can improve the quality of service but can also generate negative price and allocation effects.** For each of the professional services categories, there are a number of activities that might be affected by exclusive rights.[33] These rights can lead to increased specialization of professionals, but where these restrictions are too strong and created monopolies, negative effects can be substantial. This is particularly the case where they are granted for standardized services that can be provided at a lower cost by less-regulated or non-regulated providers – such as the middle-level professionals in these sectors.

[33] **Architectural activities include** feasibility studies; topographical determination, demarcation, land surveying; planning (elaboration of blueprints); request for construction permit; preparation and monitoring of construction/execution; technical control and certification; construction cost management; urban and landscape planning; interior design; and other architectural services.

Legal activities include advice on matters predominantly regulated by domestic law, advice on matters predominantly regulated by international law, advice on matters predominantly regulated by foreign law, transferring of title to real estate, wills and regulation of family matters (conveyance), representation of clients before courts, representation before administrative agencies (including tax matters), and advice and representation on patent law.

Accounting and auditing activities include statutory audit, non-statutory audit, audit of mergers & contribution in kind, public sector audit, accounting, insolvency and restructuring practice, tax advice, tax representation, management consultancy, investment advice, legal advice and representation, expert witness in accounting, forensic auditing.

Typical engineering activities encompass the following: feasibility studies, environmental assessments, design and planning, representation for obtaining permits (signature of designs), tender and contract administration, project management, including monitoring of execution, construction cost management, planning and managing maintenance, survey sites, testing and certification, expert witness activities.

Box 3: Domestic Regulation in Professional Services in Malawi

Entry regulations in Malawi are moderate in all professional services sectors. With the exception of paralegals, accounting technicians and certified accountants all examined professions face qualitative entry requirements in Malawi. The academic pre-qualification requirements for highly skilled professionals consist of university degrees in all examined professions (the time required to complete these academic degrees in Malawi ranges from 5 to 6 years: minimum 5 years to obtain an engineering degree, 6 years to obtain an architectural degree). Additional practical training (between 2 and 3 years) is mandatory to become a fully certified accountant or medium and highly skilled architectural and engineering professional in Malawi. A lawyer is admitted to practice after working under the supervision of a mentor for a year.

Furthermore, passing a professional exam is required in accounting, architectural and engineering services. Every person who seeks to be admitted to practice law in Malawi has to pass the Malawi Law Examination. Except for accounting technicians, membership in the relevant professional association is mandatory in all examined professional services for both middle and highly skilled professionals. Compulsory licensing is a must in all professional services with licenses issued by SOCAM in accounting services, the Malawi Institute of Architects in architectural services, the Malawi Board of Engineers in engineering services, and the Malawi High Court and Law Society in legal services. Continuing education is an obligation for architects in Malawi; there are no such requirements in the other examined professional services sectors.

Regarding exclusive activities, the scope is wider in legal and architectural services than in accounting and engineering services in Malawi. The number of activities reserved to architectural and legal professionals ranges from 9 to 11 out of 10 and 13 activities, respectively. In architectural services, architects enjoy exclusive rights in all activities except interior design, while in legal services, lawyers have exclusive rights to provide all activities except insolvency related issues and advice on patent law. In accounting services, auditors and accountants enjoy exclusive rights to provide traditional accounting (bookkeeping) services, statutory audit and public sector audit services, international audit and expert witness in accounting – that is 4 out of 13 possible activities. In engineering services, the profession does not seem to have exclusive rights to provide engineering activities.

Regulation affecting the conduct/operations of professional services providers in Malawi tends to be heavier than entry regulation. This result is explained by price regulations, advertising prohibitions, restrictions on firms' business structure and on multidisciplinary activities.

In accounting services, professional services' fees tend to be negotiated freely between practitioners and clients, but prices are regulated in the architectural, engineering and legal sectors. [34] Advertising remains prohibited in all examined professional services.[35]

Malawi also imposes **restrictions on the legal form of businesses in professional services**. These regulations restrict the ownership structure of professional services companies, the scope for collaboration within the profession and with other professions and the opening of branches, franchises, or chains. For example, in accounting limited liability partnerships or corporations are prohibited. Also, there are restrictions on fee sharing and multi-disciplinary associations between architecture professionals and other professionals.[36]

[34] Price regulations aim to prevent adverse selection problems, but such regulatory instruments can also restrict competition. Less restrictive mechanisms, such as better information on the services provided, are available.

[35] Advertising restrictions may aim at protecting consumers but private interest theories maintain that there is no justification for prohibiting advertising that is relevant, truthful, and not misleading. Advertising fosters competition by informing consumers about different products and allowing them to make better-informed buying decisions. Advertising, especially comparative advertising, can also be a crucial competitive tool for new firms entering a market.

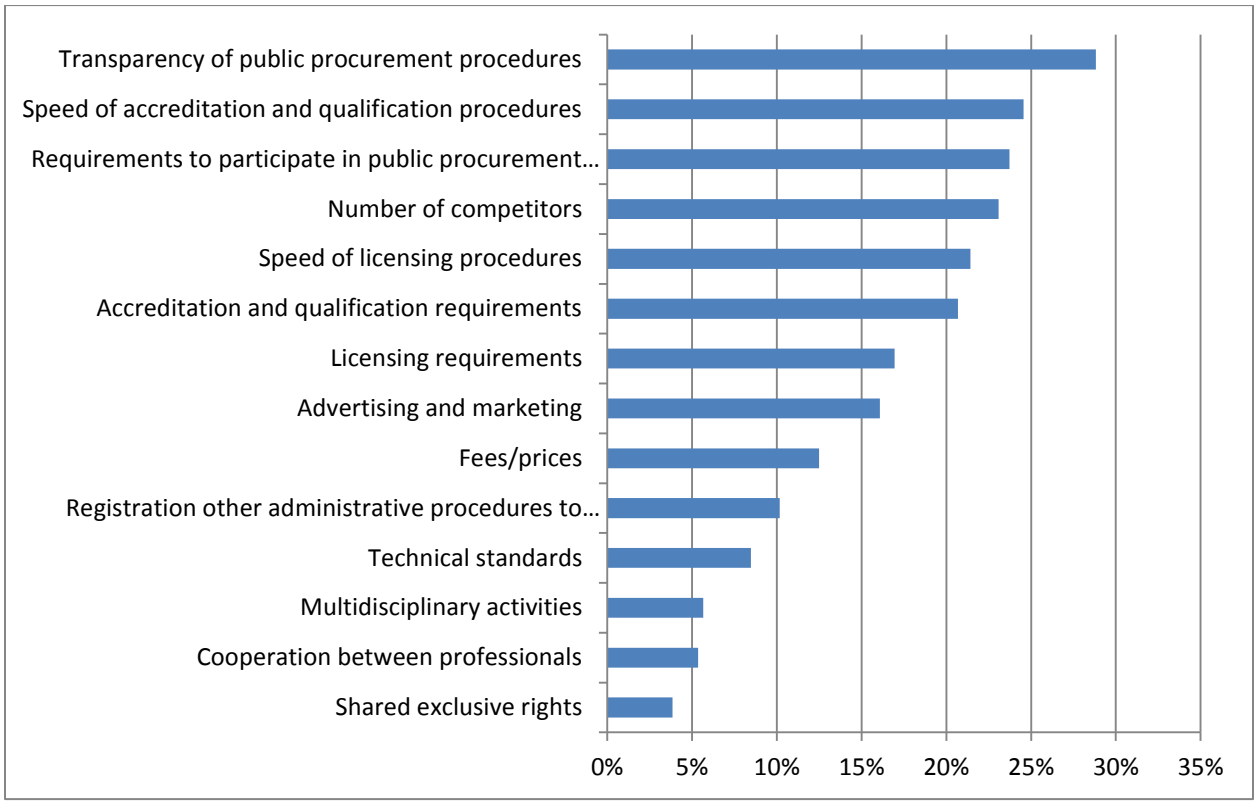
[36] To justify these regulations, professional associations argue that professionals are more likely to give independent advice if certain forms of intra-professional partnerships are prohibited, while restrictions on multidisciplinary activities prevent potential conflicts of interests that are detrimental to consumers. But private interest theories stress that these regulations are clearly anti-competitive and may harm consumers by

Finally, the absence of regulation or guidance in areas such as the recognition of qualification obtained abroad of licensing requirements especially for middle level professionals was highlighted as a barrier by respondents to the survey.

Source: Chamkakala (2013)

372. **Transparency in public procurement and accreditation issues are among the top regulatory constraints faced by professional services providers in Malawi**, as indicated by the 2012-13 World Bank business surveys. Restrictions affecting competition such as advertising prohibitions and fees/price regulations are also important barriers for business (Figure 36).

Figure 36 Top regulatory constraints to professional services providers in Malawi



Source: World Bank Surveys of professional services in COMESA, 2013

373. **Issues related to transparency in procurement and the speed of accreditation also affect Malawian services providers operating abroad, but a large number of additional restrictions affect them as well.** These restrictions relate to registration, special tax treatment abroad, barriers to cross border provision of professional services and issues with the recognition

preventing providers from developing new services or cost-efficient business models. For example, these regulations might prevent lawyers and accountants from providing integrated legal and accountancy advice for tax issues.

of professional qualifications pose additional difficulties to exporting professional services firms (Figure 37).

Figure 37 Top regulatory constraints faced by Malawian professional services providers abroad

Source: World Bank Surveys of professional services in COMESA, 2013

Explaining the Segmentation of Markets for Professional Services – Trade Barriers and Immigration Regulation[37]

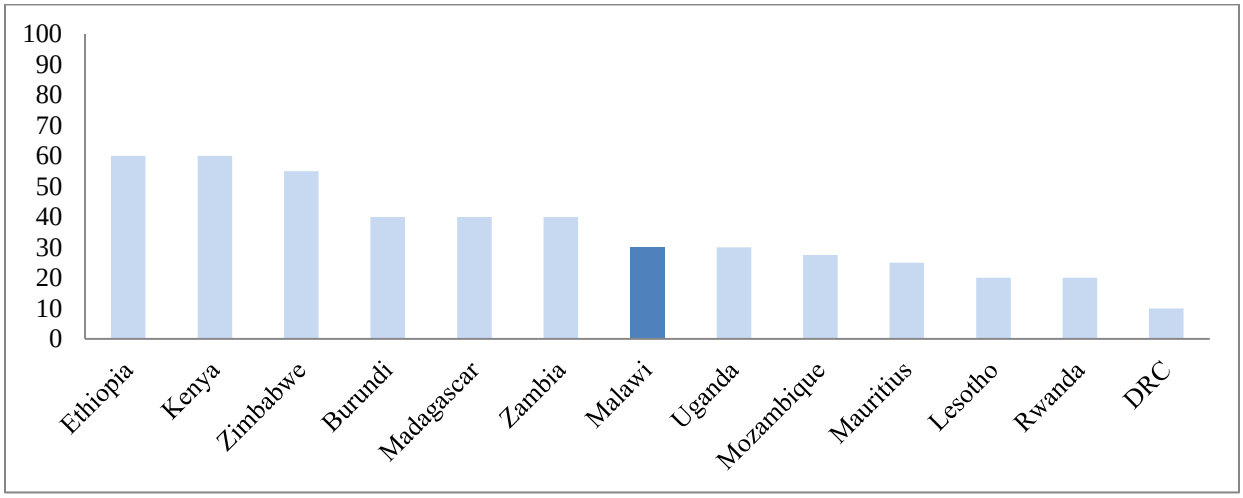
374. **Malawi has a relatively moderate services trade restrictiveness index**. Trade barriers can limit competition and the efficiency of professional service providers in Africa. Foreign entry restrictions include: (i) Restrictions on the movement of natural persons (nationality and residency requirements, quotas, economic needs test, limits on the length of stay, recognition of academic and professional qualifications); (ii) Restrictions on the establishment of commercial presence (restrictions on foreign ownership, limits on the type of legal entry, limits on the scope of business); (iii) Restrictions on cross border trade (entry restrictions and limits on the scope of

[37] Data on trade barriers come from the WB/DECTI Survey on Foreign Services Restrictions. Only accounting and legal services are covered at this stage.

business); and (iv) Restrictions on labor mobility (procedures for hiring a foreign worker). The Services Trade Restrictiveness Indices that take into account such restrictions reveal that Malawi is not more restrictive than most sub-Saharan African countries in accounting and legal services (Figures 38 and 39).

375. **It is important to highlight that the estimates based on the methodology of the STRI are inherently subjective and uncertain.**[38] Therefore, rather than drawing detailed policy conclusions based on these estimates, we would recommend a more flexible, qualitative interpretation of the quantitative results, combined with rank ordering of countries for indicative purposes. More details on concrete policy recommendations emerge from the qualitative analysis based on business survey results and interactions with local players.

Figure 38 Services Trade Restrictiveness Index Accounting

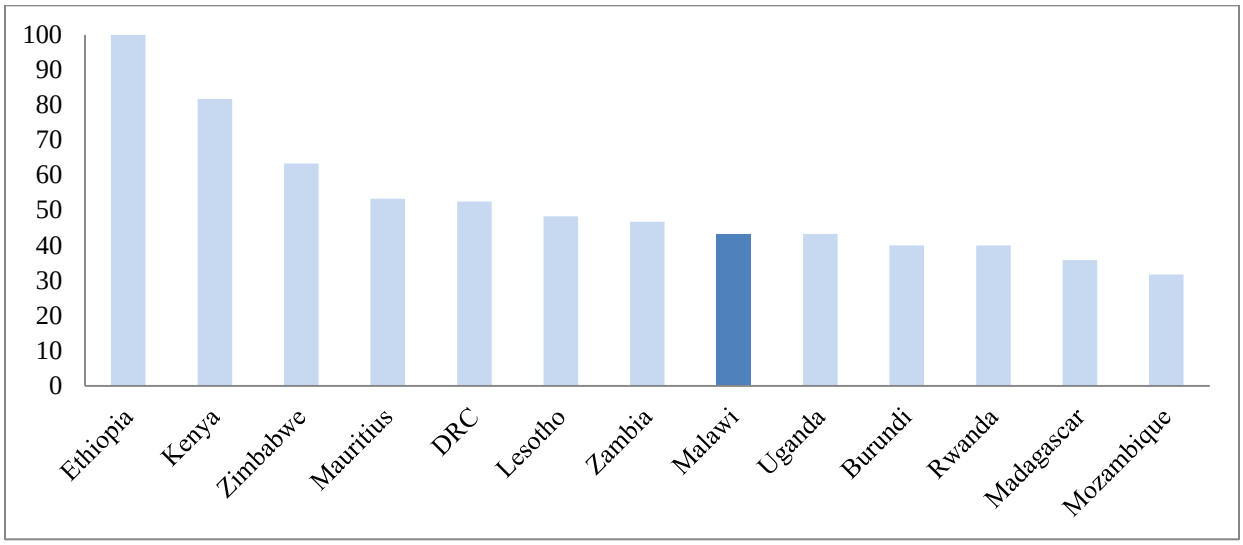


Source: World Bank (2012) Services Trade Restrictions Database;

376. **Trade restrictions in professional services in Malawi include: nationality requirements to provide certain professional services, prohibitions to use the name of the parent company, requirements to employ a certain percentage of nationals and restrictions on the composition of management of foreign professional firms established in Malawi**. Foreign degrees are recognized on an ad-hoc basis. Similarly, work permits are allocated and extended on a case by case basis. Finally, the trade-migration linkage is an important part of the debate on migration reform. Trade policy officials should not neglect the immigration and labor market perspectives when considering temporary entry or mode 4 issues. Policies related to visas, work permits, and treatment of foreign workers must be considered. More details about the explicit trade barriers affecting professional services by mode of supply are presented in Box 4.

[38] While the specific restrictions affecting the various modes of supply are being considered, the calculation of the index relies on the following methodology: within each subsector-mode policy regimes are assessed in their entirety and the bundle of applied policies is mapped into five broad categories (with associated scores): "Completely open" (0); "Virtually open but with minor restrictions" (25); "Major restrictions" (50); "Virtually closed with limited opportunities to enter and operate" (75); and "Completely closed" (100).

Figure 39 Services Trade Restrictiveness Index Legal



Source: World Bank (2012) Services Trade Restrictions Database; available at www

Box 4: Explicit trade barriers affecting professional services in Malawi

Explicit barriers to trade that cover foreign entry restrictions and discriminatory conduct restrictions, and broader labor mobility limit competition and the efficiency of professional service providers in Malawi. Trade in legal services tends to be more restricted than trade in accounting/auditing services in Malawi and elsewhere.

The establishment of foreign professional firms (mode 3 of trade in services in GATS) is permitted in Malawi. With the exception of engineering services there are no limits on ownership or control in a foreign firm's office in Malawi by foreign natural or juridical persons, but some forms of entry such as standalone foreign branches or subsidiaries are required in all examined professional services sectors. Also, there are some requirements regarding the composition of the board of directors of an office of a foreign professional service firm in Malawi – for example, at least one of the directors need to be nationals, residents or locally licensed in engineering services.

The movement of natural persons (mode 4 of trade in services in GATS) is substantially more restricted than the establishment of foreign professional firms in Malawi. Mode 4 is not allowed in legal services and statutory audit subsector, while entry is subject to certain conditions such as nationality requirements in subsectors such as insolvency practice. All foreign professionals require visas to enter Malawi and a work permit o practice in the country. Also, foreign professionals in all sectors are subject to labor market tests and economic needs tests in Malawi. Finally, it is worth noting that there remains significant confusion among respondents about the types of entry available for foreign professionals to enter Malawi for the provision of services.

Cross-border trade (mode 1 in GATS terminology) in accountancy and architectural services is not allowed for certain activities in Malawi. For example, auditing and insolvency practice work must be done by an accounting professional or accounting firm duly licensed in Malawi to be acceptable to government offices.

Source: Chamkakala (2013)

Recommendations for policy action

377. **Policy action is required to address the constraints to the development of professional services**. The national markets for professionals and professional services in Malawi are underdeveloped, with performance indicators below the averages of countries at a similar level of development. Inadequate domestic regulations, combined with a lack of regional coordination among countries, further constrain foreign investment and Malawi's integration with other Sub-Saharan African countries. These outcomes are the result of constraints that suggest policy action in the following areas: education, regulation of professional services, trade policy, and labor mobility. International and regional cooperation (for example, WTO, APEI and COMESA services negotiations) would ideally complement domestic policy reform. Trade liberalization and regional integration can be used to advance regulatory reform, enhance competition, and address labor mobility issues that are crucial in professional services. The key recommendations are highlighted in the Action Matrix.

378. **Policy reforms at the national level need to focus on the development of framework conditions** that address skills shortages and skills mismatches, and that attempt to facilitate the growth of professional services in Malawi through regulatory reforms.

379. **Education reforms**: Faculties and other training programs must be improved and expanded to satisfy professional training needs, but this must be planned and carried out in a manner that will increase not only the quantity but also the quality of offerings. Merely certifying schools and granting more degrees or certificates to poorly-trained students would not address the needs, and instead would worsen the overall situation in the long run by infusing poorly equipped graduates into the system.

380. **International and national experiences related to quality assurance of secondary and higher education could serve as a model for Malawi**. For example, the program that is currently being developed by the Inter-University Council for East Africa (IUCEA) in terms of designing university curricula and research, and creating university/industry partnerships for fostering knowledge, could provide guidance for education reforms in Malawi and other Southern African countries.

381. **Moreover, Malawi needs to put special emphasis on the development of programs for middle level professiona**ls. Malawi's experience with courses for middle-level legal professionals could be a useful model for other professional services sectors in the country.

382. **Finally, improving links between educational systems, employers, and users of services would help young graduates to find employment and could reduce the attrition of skills in several professions.** Several stakeholders from the private sector have emphasized the coordination problems between employers, professional associations, and education institutions in the content of educational programs for engineers and accountants. Policy actions to encourage collaboration between universities, professional associations, and the private sector, for example through internships, could help students acquire skills and practical training. The

Structured Engineers Apprenticeship Program (SEAP) for Graduate Engineers developed by the Engineers Registration Board in Tanzania provides an example that could be followed by Malawi.

383. **Regulatory reform was, once again, identified by the business community as a priority area for reform**. The business surveys indicate that reforms regarding regulations on entry -- such as addressing opaque public procurement processes and long accreditation and qualification procedures for professionals - and regulatory reforms affecting the operation of professionals and professional firms -- such as eliminating price regulations and advertising prohibitions - need to be on the top of policy makers' reform agenda.

384. **Regulatory reforms need to focus on incremental, qualitative improvements in domestic regulation.** Specifically this requires developing adequate regulations that ensure that professionals are equipped with market-relevant skills. Disproportionate cumulative entry requirements need to be relaxed. For example, narrowing the scope of exclusive tasks in certain professions would contribute to this goal. Exclusive rights can lead to increased specialization of professionals and guarantee a higher quality of service, but if they create monopolies they can have adverse price and allocation effects, especially when granted for services for which adequate quality can be provided at a lower cost by less-regulated middle-level professionals.

385. **Disproportionate restrictions that limit competition as outlined earlier need to be eliminated:** Price regulations affecting legal services and public procurement contracts in engineering are supported and introduced by professional associations or the government, who claim that they are useful tools to prevent adverse selection problems. Malawi needs to adopt less restrictive mechanisms, such as better access to information on services and services providers to accomplish the same goals at lower economic cost.

386. **Advertising prohibitions are imposed by Malawi in accounting and legal services and should be reviewed.** The country needs to allow advertising of professional services, which facilitates competition by informing consumers about different products and which can be used as a competitive tool for new firms entering the market.

387. **The key issue regarding regulatory reform is not less regulation but better regulation; that is regulation that more effectively achieves public policy objectives while ensuring efficiently produced low cost services**. Tools and procedures can be put in place to assist policy makers to assess whether existing or new regulation will achieve the sector-specific public policy objectives while contributing to market openness. Box 5 presents such regulatory tools – Malawi could learn from these experiences:

Box 5: Regulatory initiatives that could be used as a model by the COMESA countries

The OECD principles on key market-oriented and trade-and-investment-friendly regulation could offer guidance to the regulation of services sectors in Africa. Furthermore, the APEC-OECD Integrated Checklist on Regulatory Reform (adapted to developing countries' needs) could provide further guidance on how to undertake such a combined assessment of regulatory and competition policies, and market openness policies. The Checklist highlights key issues that should be considered during the process of development and implementation of regulatory policy and could be useful in building domestic capacities for quality regulation.

The APEC-OECD Checklist is a voluntary tool that Malawi and other African economies may use to evaluate their respective regulatory reform efforts. The checklist has four sections including 40 specific open questions in total. The first is a horizontal questionnaire that deals with the degree of integration of regulatory, competition and market openness policies across levels of government, and on the accountability and transparency mechanisms needed to ensure their success. The second is on regulatory policies which are designed to maximize the efficiency, transparency and accountability of regulations based on an integrated rule-making approach and the application of regulatory tools and institutions. The third is on competition policies which promote economic growth and efficiency by eliminating or minimizing the distorting impact of laws, regulations and administrative policies, practices and procedures on competition, and by preventing and deterring private anti-competitive practices through effective enforcement of competition laws. The fourth is on market openness policies which aim to ensure that an economy can reap the benefits of globalization and international competition by eliminating or minimizing the distorting effects of border as well as behind-the-border regulations and practices.

Other regulatory experiences such as the ASEAN Mutual Recognition Arrangement Framework on Accountancy Services, the ASEAN Mutual Recognition Arrangements on Engineering Services and on Architectural Services could provide further guidance to Malawi and other African countries which are willing to engage in mutual recognition discussions. Furthermore, the experience of the EU with the internal recognition of professional qualifications as well as the regulatory dialogues and regulatory platforms established with third countries could give additional guidance to Malawian policy makers.

Sources: OECD, APEC, ASEAN

388. **Removing barriers to regional and multilateral trade and reducing regulatory differences could generate large welfare gains.** The fragmentation of regional markets for professional services and professional education by restrictive policies and regulatory heterogeneity prevents Malawi from taking advantage of gains from trade based on comparative advantage, as well as gains from enhanced competition and economies of scale. Trade barriers would ideally be liberalized on a most favored nation (MFN) or non-preferential basis, since this would generate the largest welfare gains, and complemented with regional cooperation to reduce regulatory differences.

389. **Steps need to be taken to relax the explicit trade barriers applied by Malawi to the movement of natural persons and commercial presence of professional services.** Examples of possible reforms would include i) articulating the economic and social motivation for nationality and residency requirements; ii) minimizing restrictions on the forms of establishment allowed; and iii) developing a transparent and consistent framework for accepting professionals

with foreign qualifications. The reduction of explicit trade barriers also needs to be complemented with the reform of immigration laws and rules on the hiring of foreign workers.

390. **Trade liberalization needs to be coordinated with regulatory reform and cooperation at the regional level**. Deeper regional integration, through regulatory cooperation with neighboring partners who have similar regulatory preferences, can usefully complement non-preferential trade liberalization. Regional integration would also enhance competition among services providers, enable those providers to exploit economies of scale in professional education, and produce a wider variety of services. Regional integration brings further benefits in that a larger regional market is able to attract greater domestic and foreign investment; and regionalization may help take advantage of scale economies in regulation, particularly where national agencies face technical skills or capacity constraints.

391. **Opening up regional boundaries and establishing Mutual Recognition Agreements (MRAs) would facilitate Malawi's services integration with its African partners**. The free movement of APEI/COMESA/SADC nationals without work permit requirements would be of great help to increase business opportunities within the region and boost service exports. Regional discussions in Southern Africa on MRAs in professional services are in a very preliminary phase with a higher progress potential among APEI countries. Interested countries could learn from East Africa's experience with MERAs in account and architectural services. The EAC Common Market Protocol, adopted by the Multi Sector Council in 2009, includes an annex on a framework agreement on MRA of academic and professional qualifications. The five EAC countries have already signed an MRA in accounting services and implementation focuses on the following areas: requirements for education, examinations, experience, conduct and ethics, professional development and re-certification, scope of practice, and local knowledge. To assist with the preparation of potential MRAs Malawi and other interested countries could benefits from technical assistance in the context of the APEI program.

Conclusion

392. **Malawi needs to engage in deep regulatory cooperation at the regional level and use multilateral trade liberalization and regional integration to reform and strengthen its professional services sectors.** The government could engage with donors to secure technical and financial assistance to strengthen the capacity of regulatory organizations, and develop appropriate regulation.

393. **The pace of integration is largely dependent upon Malawi's political motivation and conviction that such liberalization is beneficial to the domestic constituencies.** To improve such prospects, the promotion of more frequent and open dialogue between the key stakeholders involved in professional services - professional bodies, private sector providers, users of services, higher education institutions, trade negotiators – is important. Malawi's participation in the APEI program as well as other regional initiatives can help the country with the development

of a meaningful reform program that includes the elimination of explicit barriers and regulatory, education and immigration reforms.

394. **An important first step to improve regulations would be to undertake regulatory audits in all examined professional service sectors.** This would increase transparency and predictability and allow identifying specific areas where reforms could be fast-tracked in the context of the COMESA, SADC, Tripartite and APEI services dialogues.

Appendix 1 – Next steps for implementation

Area of constraint	Specific next steps	potential indicators
Multiple Tariffs/Nuisance Tariffs	Simplify tariffs for COMESA imports by reducing them to the next lower band. Reduce all tariffs that are below 5 percent to zero, and those between 5 and 10 to 5, those below 25 to 10.	number of effective bands reduced to 4
	Review tariff schedule, ensure it is updated on the website, and remove irregularities	Online-tariff schedule up-to-date at any given moment and in line with commitments
	Review Tariff bands and consolidate all tariffs to main four bands	Published tariff shows that all tariffs fall into four bands
	Replace import tariffs at 200 percent with excise duties	200 percent tariff band removed and excise duties published
Tariff exemptions/trade bans/export restrictions/trade licenses	Implement decision taken in June to reduce products needing export licenses to 10 categories	Government decision has been gazetted and no new licenses are introduced
	Remove or automate all import licenses	No reports of traders complaining about not obtaining import licenses
	Undertake quarterly analysis of which products/importers have obtained exemptions: undertake economic and revenue impact analysis	Detailed report on exemptions published on MRA website
	Based on analysis, reduce general duties on those products that have obtained most exemptions	Tariff Schedule Gazetted with lower rates for major products receiving exemptions
	Review criteria and procedures for granting exemptions to ensure it does not discriminate against small and medium-sized enterprises	Revised Guidelines for Exemptions Published
	Remove all remaining export bans	No reports of traders complaining about remaining export bans
Removal of existing NTBs and prevention of new NTBs	Validate and update NTM stocktaking that has been done in 2011	NTB Committee publish report listing NTM.
	Publicise all existing NTMs, NTBs, procedures and regulatory agencies	All NTMs publicly available on the web
	NTB Committee to start reviewing NTMs for their effectiveness	NTB Committee publishes report on NTMs

Area of constraint	Specific next steps	potential indicators
National Quality Infrastructure	Introduce risk-based approach to IQMS where certificates of conformity from internationally accredited laboratories are provided.	MBS Publishes Annual Data on number of acceptances/number of retesting
	Review all mandatory standards for their economic and regulatory impact	Regulatory Impact Assessment Completed
	Eliminate or make voluntary those TRs that constitute NTBs	Identified NTB TR's revised and gazzetted
	Strengthen market surveillance	Share of budget for market surveillance doubled
Improve operation of the STR and increase transparency at border to reduce discrimination against small traders	Implement the decision already announced to reduce the processing fee for small traders to USD 1	Decision gazetted
	Implement the charter for Cross-Border Trade at Mchinji border post together with Zambia	Charter is published at Mchinji
	Undertake a survey to identify specific constraints affecting women in cross-border trade	Survey completed and results published
	Review list of documents needed for transactions under the STR	Documents required for STR published
	Review need for payment of additional fees for documents or taxes under the STR, and remove/reduce such fees where possible	Costs of using the STR have been reduced by 20 per cent
	Increase/review the common list for products eligible under the STR with Zambia	Common list expanded and published at relevant border crossings
Absence of regional transit mechanism	Discuss ways to introduce such a scheme with customs, transporters, CFAs, and other government departments from Malawi, Zambia and Mozambique under the APEI	Minutes from the meeting published
	Agree on pilot implementation of TIR along the Beira-Blantyre-Lusaka corridor	Agreement published

Area of constraint	Specific next steps	potential indicators
Multiple border agencies resulting in delays	Implement government decision to reduce agencies at borders in Malawi	Decision gazetted
	Review and revise mandates of agencies that are, or will no longer be, at borders	Findings of review published, and laws to adjust mandates in force
	Introduce delagation of powers to those agencies remaining at the border	Regulations granting derogation of authority published
	Establish integrated risk-management system by including selectivity criteria from ALL agencies in customs system to strengthen collaboration	MRA's selectivity criteria contain relevant criteria from other agencies including Agriculture, and MBS
Difficulty in obtaining information on trade rules and regulations	Take stock of all procedures, regulations, fees, requirements, and involvement for imports and exports at the product level	Trade Portal launched and work plan published
	Put together information in a publicly accessible Trade Portal	Trade Portal launched
	Change legislation to ensure only procedures and regulations described on the Trade Portal are legally in force to ensure all agencies keep updating relevant information	Legislation Gazetted
Cabotage restrictions increase transport prices	Assess transport costs for specific routes, establish a time table for removing cabotage restrictions on specific routes, and start phasing out restrictions	Agreement on routes for lifting cabotage restrictions
	Estalish an exchange for transport service providers that could improve matching of back-hauls, allow evaluation of service providers, and increase competition	
Use of minimum prices for agricultural commodities	Establish an SMS-based system to disseminate market prices to farmers	SMS based pricing system launched
	Abolish the use of statutory minimun prices	

Area of constraint	Specific next steps	potential indicators
Regulations governing access to agricultural inputs (seeds/fertilizer)	Implement the new Seed Act	Seed Action Published
	Fast track implementation of SADC Seed System	
	Make system for the importation of fertilizer imports more flexible	
	Remove monopoly on innoculant	Regulation removed
Lack of effective mechanisms for aflotoxin control	Investigate simple methods for platform testing of aflatoxin	
	Promote routine adoption of platform testing and have buyers of groundnuts and other aflatoxin sensitive commodities incorporate platform testing as part of their buying strategy to pass price signals for aflotoxin-free products to farmers	Prices for products are differentiated based on aflotoxin levels
	Complement these approaches with training of farmers in simple storage techniques that can be used to limit/prevent aflatoxin contamination	
Address top three regulatory constraints faced by professional service providers in Malawi and for those exporting	Undertake regulatory audits in the engineering, legal services, architecture, and accounting sectors	Regulatory audits completed and published
	Implement reforms identified as part of the regulatory review	Revised regulations gazetted
	Engage with neighboring countries in the context of the APEI, SADC, and COMESA, to harmonize regulatory requirements	
	Start negotiating MRAs at the technical level in selected sectors	

Appendix 2 – DTIS 2003 Action Matrix Scorecard

In this annex, the status of each action of the DTIS 2003 is presented, as per January 2013. The status is presented based on the following key:

- 100% - Fully implemented
- 75% - Mostly implemented, but key areas are missing
- 50% - Half implemented
- 25% - Implementation has started, but implemented is well below half way
- 0% - Implementation has not started, or implementation started but the effort ended over the past ten years.

The degree of impact is presented based on the following key (where relevant this impact is represented by the author's perceived decline in trade costs. E.g 25% represents a low reduction in trade costs caused by the action in 2013 compared with 2003):

- 100% - Full intended impact
- 75% - Above average rate of impact
- 50% - Average rate of impact
- 25% - below average rate of impact but above insignificance
- 0% - insignificant or zero impact

Opportunity or Barrier	**Action(s)**	**Implemen-tation Status**	**Degree of Impact**	**Reasons For Success/Failure**
I Macroeconomic and Social Stability				
Macroeconomic instability and volatile exchange rates inhibit investment and business	1 Adhere more strictly to fiscal targets as a part of a macroeconomic framework: a. Implement effective expenditure control mechanisms;	75%	50%	Improvements based on introduction of IFMIS and various control measures, such as wage control measures. Ongoing austerity measures in place. **Driven by MGDS and IMF programs etc**. Nevertheless, lack of drive to establish program based budgeting.
	b. Improve parastatal finances, accelerate privatization program;	50%	75%	Parastatal finances improved for same reason as above. Privatization Program stalled with change in policy by 2004 Government. Almost all companies which were meant to be privatized are now private.
	c. Make explicit budgetary provisions for emergency food relieve and institutional reforms to ensure that food security is addressed without unplanned budgetary demands.	75%	75%	Budgetary provision for food relief made, because this was the primary Government focus over past ten years was food security (existence of constituency)

	2 Further stabilize real exchange rate by consistent adherence to the monetary and fiscal targets set in the macro framework and develop a more active nominal exchange rate policy to avoid sharp short-run fluctuations (this will require a higher level of international reserves.	25%	25%	Exchange Rate not stabilized due to failure to prevent the growth in the structural trade deficit. Trade deficit rose from 7% of GDP in 2001 to 21% in 2010. **The main reason is a lack of institutional capacity for long term economic management and planning, and a parallel lack of understanding of market-based development.**
Social Stability is an essential precursor to an environment in which economic growth and development can be pursued	3 Implement a set of safety net programs (as per the MRSP) to provide supplemental employment, improved food security, and transfers to the most vulnerable population groups. Pursuing this will require refinement of the poverty focus of public works, development of appropriate systems for targeting of crop pack distribution etc.	100%	50%	Most safety net programs had significant support from both government and donors **(the presence of a constituency).** Successful because it was in line with political goals, and the welfare goals and expertise of donors.
II Transportation-Critical for Increasing Trade Value and the Income of the Poor				
High cost of transport remains a major constraint to trade, growth and poverty alleviation	4 Work with the Government of Mozambique to improve the Nacala corridor. Urgently assist in fixing the 77km stretch that is damaged. a. Work on the port's security and capacity	25%	25%	Vale is now investing in this area, but there was little progress prior to Vale's arrival in 2010. The 77km stretch has not been completed. **The issue is therefore the creation of a constituency, overriding the impact of lack of institutional capacity.**
	b. Assess opportunities and create an action plan with the Nacala secretariat	25%	25%	Creation of an action plan only materialized after the arrival of Vale in 2010 (as above). The impact is minimal since the Vale project has just commenced
	c. Study options for rail extension to Lusaka	25%	25%	The rail way was extended to Chipata but no action thereafter, until arrival of Vale in 2010, which has created Zambian interest to connect the TAZARA line to Chipata.
	5 Address the issue of the domestic trucking cartel. Ensure access for foreign truckers to Malawi traffic in order to bring internal transport costs more in line with regional norms. a. Look for means of equitable liberalization of the internal transport market	50%	50%	The introduction of foreign truckers into Malawi and the allowance of the 3rd party rule have helped, but cabotage continues to protect domestic routes. **Resistance from the domestic trucking cartel,** which includes politician investors, is the main obstacle to implementation. The CFTC has only been established in 2010, so there has been a lack of competition debate, compared to the strength of the trucking lobby group and political vested interests. **Lack of progress at the international level on cabotage is also a key hindrance.**

	6	Reassess tax structure on transport equipment and services with a view toward lowering costs and increasing competitiveness a. Tax Committee to examine tax structure in transport	25%	25%	**Little institutional capacity** in Malawi to develop tax policy to support productive sectors, such as transport. Tax policy remains ad hoc and is driven by IMF pressure to balance the budget. Some tax incentives were introduced on buses and trucks to try to support domestic truckers, due to the latter's strong lobby. These tax incentives had a positive impact of lowering costs and increasing competitiveness in the transport sector, but the cost of transport remains high.
	7	Review existing restrictions on air transport landing rights and existing landing and associated fees with a view toward increasing services and lowering costs a. Implement Open Skies Agreement Yamoussoukro Declaration that Malawi is party to	25%	0%	Failure for Malawi to allow the application of the 5th freedom of air traffic due to the desire to protect Air Malawi. Malawi has been trying to find a strategic investor in the airline since 2002, and this process is ongoing (possible deal with Ethiopian Airlines in 2013). It is therefore unwilling to open up its airline markets, as yet and for the foreseeable future, **thus resisting this liberalization.**
	8	Explore opportunities for improved freight transport management involving more back-hauling and thus reduced regional freight rates	0%	0%	This sector has to be private sector driven, but importers are not organized. Prior to September 2012, the Shippers' Council was never revived to fill this gap, probably as importers operate individually in a 'closed deals world' (**therefore causing a lack of constituency**) and because the responsibility stood with government, **who lacked organization capacity.**
	9	Lake transport: opportunity needs to be developed to enhance domestic trade and increase the freedom of movement for and of people and goods	25%	0%	Lake transport has not been seen as part of a multi modal transport system, and this is necessary for its development. **There is lack of constituency as lake transport is derived demand**. It ties in to Dar es Salaam and Mtwara Corridors but these are not the priority – which is the Nacala Corridor. The inaction here was also due to the lack of investment in railways (such that it made sense for sugar and other crops to be transported by road and not by lake to then connect to the railway). Mota Engil given concession on lake transport in 2012. Therefore, lack of resources is also a major limiting factor.
	10	Mtwara corridor (part of Mozambique-Malawi-Zambia growth triangle)	0%	0%	It has not been developed due to the poor state of the Mtwara-Songea Road, which also remains a low priority in Tanzania where the focus is the Mbeya to Dar Corridor. The private sector believes that the Mtwara route will not become viable without major infra structural development in both Malawi and Tanzania. **The main issue is a lack of constituency: the Mtwara corridor is not a priority for Tanzania (or Malawi), both countries have other corridor priorities (SACGOT and Nacala, respectively.)**

	11 Strengthen public and private sector partnerships and create entrance opportunities for private sector	25%	25%	Little progress was made because the Public Private Partnership Act was only passed in 2011. This was due to **a lack of institutional capacity** to push through this act prior to 2011.
	12 A separate Infrastructure Strategy should be drawn out of the Growth Strategy and further developed	50%	25%	There were efforts in this direction, and the Transport Sector Investment Program is now based on Vision 2020. But it was not based on a growth strategy. This is because of the MGDS II does not provide a robust economic growth strategy to which the transport policy/strategy can tie in to. Rather, the transport plans serve as an input into MGDS II. This boils down to a lack of **economic planning capacity** in the Government. It is important to tie the current updating of the transport policy to the National Export Strategy.
	13 District Assemblies to plan and manage feeder roads and enhance public/private sector partnerships for feeder roads	0%	0%	Lack of investment in District Assemblies: they **lack the institutional capacity** to manage primary and secondary roads.
III Export Sector Specific Measures				
Tobacco Lack of collective strategic vision on the prospects and national development role of the industry	14 Formulation of tobacco sub-sector strategy	25%	25%	This collective strategy plan was not formulated until a draft was prepared in 2012. Lack of progress over the past ten years was because the debate focused on the introduction of the Integrated Production System (contract farming in tobacco), stakeholders did not assume the responsibilities set out in 2004 and it was only when the risks for certain value chain players arose that the Government recognized a need for this strategy. **In other words, there was a lack of constituency.** The quality of the consultants in the 2012 effort was also poor.
Weak governance structure inhibits policy formulation and effective regulation of the tobacco industry	15 Restructure the board of the TCC to render it autonomous of vested interests	25%	25%	Restructuring did take place. However, there remains political influence since the CEO is appointed by the President of Malawi. **The reason is resistance**: a lack of willingness by Government to relinquish control of what remains Malawi's major export sector.
	16 Strengthen TCC's analytical, monitoring, and market intelligence capacities	25%	25%	Lack of recognition of this need to protect farmers. TCC relies heavily on buyers for market information and has limited capacity to verify such information. Lack of recognition of need to invest in **institutional capacity of TCC and** how this is crucial to regulate the sector and protect farmers, also under the Integrated Production System.

	17 Restructure TAMA as an association representing and supporting commercial agriculture (not tobacco-specific)	0%	25%	TAMA lacks resources to support commercial agriculture in other sectors – **it is overburdened with settling farmer debts from the 1990s** and its levy revenue was cut in 2003. Limited institutional and management capacity also played a part. TAMA was also never aware of the DTIS up to this research being conducted.
	18 Revamp grower registration system to increase transparency and reduce evasion of taxes, levies and loan payments	25%	0%	A biometric system has been launched but it is small and has many teething problems. The biometric system is expensive and the manual registration is prone to double registration, which makes it attractive for certain parties. **It is resisted by those who stand to lose from not being able to manipulate the registration scheme.**
Opportunity to improve the efficiency and equity of tobacco marketing arrangements	19 Remove 7 per cent withholding tax from smallholders	75%	75%	This tax was removed for clubs and not for estates. Currently there is a flat 3% tax rate across clubs and estates to counter tax evasion tendencies by estates. Poor and fluctuating prices received by farmers are a key problem here, as this limits their capacity to pay this tax.
	20 Negotiate reduced AHL auctioning fees	75%	50%	This was implemented through a directive by Government, not a negotiation, in an effort to support smallholder farmers. Mixed outcome: has hindered investment in auction services.
	21 Implement a transparent and non-discriminatory 'designated buyer' system plus permit contract farming in tobacco	75%	25%	Contract farming is permitted and farmers have a choice to be contracted or not. However the IPS system (contract farming) has critics who question if farmers stand to benefit. On the other hand IPS is required by Malawi's tobacco customers – it is therefore **imposed by the global market.** This is driving the move to contract farming.
	22 Develop "code of practice" + performance monitoring system for satellite depots	25%	0%	Developed but not implemented possibly **because of resistance by what are known as briefcase associations** (businessmen who set up associations to attract levy revenue, without having a real membership.
Sugar Uncertain policy environment constrains further investment in production and processing capacity	23 Develop a sugar sector policy and strategy	100%	0%	This strategy was not developed until 2012 through the National Export Strategy, because the NES identified sugar as a priority export crop. Government viewed sugar as an estate crop with little farmer benefits. **This view is changing, largely driven by crisis management in reaction to the foreign exchange shortages.** Impact at 0% as strategy has only just been launched
	24 Remove 7 per cent withholding tax from smallholders	75%	75%	It was removed in 2005, but then raised to 3% for the same reasons as those in the tobacco sector

Groundnuts and Spices Low productivity and inconsistent quality limit the realization of export potential for groundnuts, other legumes, and various spices, all widely produced by smallholders	25	Improve the availability of quality seed and of technical information to farmers. Direct public sector activity or financing may be needed for foundation seed multiplication for legumes, Farmer advisory services can be coordinated by industry association in collaboration with MOAI.	50%	25%	The Farm Input Subsidy Program was the main reason for the recent improvement in seed availability. However the slow progress to implement SADC and COMESA MoU on seed harmonization **(resistance by domestic testing services**) and a l**ack of investment in extension services** (because of FISP and a lack of focus on the productive economy) mitigated progress.
	26	Apply international standards and develop necessary quality control systems. Develop industry code of practice which incorporates these standards.	25%	25%	This is because the MBS is not internationally accredited and very little SPS and standards capacity has been built in the past 10 years. One reason is the crowding out effect of FISP. Another is **the failure to view standards as a trade facilitation role (lack of constituency for such services also as firms perceive MBS to be unreliable and test in South Africa),** rather than a revenue generating or consumer protection role.
Tea Uncertainty regarding the future viability and competitiveness of tea industry	27	Assess the impact of the recent (January 2003) revision of electricity rates on the viability of irrigation in tea production. Make additional revisions if necessary	0%	0%	Tea development in Malawi is affected by lack of implementation of the new land policy. Tea has limited scope for expansion, **and lacks a constituency** also because the industry has limited drive to expand.
	28	Ensure the management of STA/MATECO is professional and independent from political interference; and strengthen the smallholder production support capacities of the organization	2%	0%	This did not occur, largely due **to lack of smallholder capacity and external support.**
	29	Develop a successor scheme to the Stabex program to assist tea growers to replant and shift further to clonal varieties	0%	0%	Lack of Government interest in the tea sector due to **limited scope for expansion** and limited smallholder benefits and economic spillovers.
	30	Design and implement a code of practice to enable the industry to comply with the technical and social standards being set by the Tea Sourcing Partnership	100%	50%	The Tea Association of Malawi took the lead because it was essential for market retention **(success due to constituency).** Although most of the industry has adopted third party codes such as Fair Trade.
	31	Remove 7 per cent withholding tax from smallholders	75%	75%	This was implemented through 2004 reforms across most sectors, (see tobacco and sugar)

Cotton Very low productivity and declining quality, low ginnery capacity utilization, and uncoordinated interventions inhibit growth and income generation	32	Through the planned Cotton Council, create and implement a focused program of cotton R&D, farmer advisory services, farmer group development, and industry quality standards and monitoring.	50%	25%	The cotton council was never established mainly due to lack of progress to enact the Cotton Bill. The main reason was a stop-start approach by **Government due to a lack of institutional capacity**. Its approach to developing the sector has been too piecemeal such that the private sector and NGOs took the lead through the Cotton Development Trust. The piecemeal effort boils down to lack of Government capacity beyond its investment in maize for food security. In terms of impact: some progress being made, but the key challenges remain unaddressed.
Textiles and Clothing Generally unrealized opportunity for garment exports to the United States under the AGOA initiative Weak performance and uncertainty surrounding DWS inhibits textile exports as well as forward and backward linkages	33	Evaluate the implications of AGOA post 2004 rule of origin requirements for the Malawi garment industry, in particular in relation to its sourcing of cloth and accessories. Develop negotiating strategy with government and regional counterparts in preparation for successor AGOA programs	50%	25%	The evaluation was never carried out **because the AGOA third country fabric source rule was extended in 2004, 2008 and 2012.** Negotiating strategy for all AGOA products developed in 2010, because of technical assistance to the Ministry of Industry and Trade through the ODI Fellowship. The impact was less significant because there was unrealized opportunity by Malawi for garment exports to the United States. In addition MMTZ preferential access was lost.
	34	Intensify efforts to encourage FDI in the garments sector	0%	0%	This action was misplaced given the loss of market following the end of the MMTZ preferential agreement with South Africa. No FDI in the sector since 2003 because of this. Businesses have shut.
	35	Facilitate the strengthening of the Garment and Textile Manufacturers Association in order to address emergent industry problems and improve public/private sector consultations	0%	0%	The Association has weakened significantly following the closing down of most garment manufacturers.
	36	Strengthen the capacities for product design and development among SME garment companies	0%	0%	The capacity was weakened due to the loss of the MMTZ preferential access to South Africa.
	37	Accelerate the process of privatizing DWS and if necessary during an interim period put in place a management contract	100%	75%	This was completed through the Privatization Program, which i**n turn was driven by efforts to raise government revenues (existence of constituency).**
Food Products Generally unrealized opportunities to penetrate the South African market for higher value-added food products	38	Encourage joint venture investments and other strategic marketing arrangements	50%	25%	The challenge still remains to attract investment on a necessary scale that can tap on growing regional markets. Progress has been made compared to 2003, but not on required scale. The slow process to form MITC (which took 10 years) was due to the **lack of prioritization of the productive economy**: if there was such a prioritization, Government would have given sufficient attention to this issue to drive the merger through in a much quicker period of time. It also would have ensured the

				allocation of sufficient resources to this activity. Impact at 25% as the food processing industry has grown in the past 10 years, but way below its potential.
IV Customs Reform and Other Institutional Capacity				
Trade Finance Transit Issues and Fees	39 Facilitate establishment of a trade finance scheme	25%	0%	No such scheme until 2012 when RBM launched the Export Development Fund (EDF). The government was reluctant to provide the MEPC with resources because focus was mainly on food security. Main underlying reason was lack of strategic focus to develop productive economy: **the Government relied on tobacco for revenue and hence did not see the need to support exports**. Impact at 0% as the EDF was only just launched.
Customs Documentation Insurance and transit bond Border post operating hours	40 Enforce compliance mechanism for harmonized transit fees	25%	25%	Negotiations for harmonized transit fees in SADC and COMESA are still underway hence a compliance mechanism has not yet been developed. **Driven by speed of regional integration process.**
	41 Streamline customs documentation especially for MSMEs	75%	50%	The BESTAP project was a helpful intervention, and also the simplified rules of origin have been very significant. MRA has also invested in streamlining. **Driven by constituency: MRA effort to improve image and regional integration process.**
Regional Trade Payment system	42 Establish system similar to COMESA Yellow Card	100%	75%	The insurance companies were in a position to set this up. **This is driven by the regional integration process.** However, non COMESA countries are not that cooperative.
	43 Harmonize border operating hours with neighbors	100%	75%	These have been harmonized even though the hours differ by each border, on the back of trade facilitation efforts in SADC and COMESA. **This is driven by the regional integration process.**
More fully harmonize with regional systems and procedures	44 Infrastructure development e.g. Electricity, telephone and roads	75%	25%	Investments made by MRA for SADC/COMESA trade facilitation efforts – **driven by regional integration process** – but infrastructure remains weak. Very remote areas remain hard to reach though and vandalism is still a major challenge.
Phase out of PSI procedures and implementation of the WTO Customs Valuation Agreement have not received sufficient management attention	45 Need for standard pay system. Administration needs computerizing	100%	75%	Commercial Banks have made it possible for contract payment and also there is e-filling. **This is driven by the regional integration process.**
	46 A speedy and standardized payment system needed	75%	50%	Online transactions have been made progress even though some bureaucratic procedures still slow things down. **There has been slow progress on the implementation of tariff bands and this is why there has been no action here.**

Compliance with Customs Regulations is lacking	47	Benchmark current status of harmonization with regional initiatives and develop program for further implementation	0%	0%	**Member states are still discussing the benchmarking regional initiative**, so MRA has been unable to move on this.
	48	Senior managers workshop to assess the implications of, and plan for, the retirement of PSI services and the full implementation of WTO valuation	75%	75%	PSI has been phased out. MRA says full implementation of WTO valuation has not been possible because the lack of a system to prevent false declarations. **The elimination of PSI was driven by regional integration efforts.**
	49	Development of plan for sequencing the retirement of PSI services	100%	100%	This was completed, as per Action 48. **The elimination of PSI was driven by regional integration efforts.**
	50	Customs and staff to be trained prior to retirement of PSI services and introduce post-importation clearance	75%	50%	It was done as part of the PSI retirement process, although more training is required. **The elimination of PSI was driven by regional integration efforts.**
	51	Set up Customs Commercial Investigation, Intelligence and Post-Clearance Audit Units (to be conjoined with the Tax Audit and Investigation Directorate of MRA). This will entail (i) identifying resource requirements, (ii) writing position profiles, (iii) recruiting/training personnel, and (iv) supervising start-up operations.	75%	25%	The Customs Commercial Investigation Unit has not been established, but the Customs and Tax Investigation Division has. **The main reason for progress here was constituency: MRA's internal effort to improve its image relative to corruption and inefficiency.**
Ineffective implementation of duty drawback schemes	52	Strengthen institutional capacity to administer drawback program	75%	25%	MRA now has a duty drawback desk and has invested in this as it facilitates its operations and reduces administrative costs. **The main reason for progress here was constituency: MRA's internal effort to improve its image relative to corruption and inefficiency. Tax revenue pressure also played a part.**
	53	Speed up establishment/implementation of the drawback fund	50%	75%	Improvements made, but the challenge in delivering speedy refunds remains is because of the need for checks at MRA and also Ministry of Finance. Government revenue pressures also play a part. Reason, as with Action 52.
Lack of confidence in the integrity of the organization	54	WCO workshop on Integrity	50%	25%	MRA still has a lot of political interference. In 2012, MRA launched a Customs-Business Forum to enhance the MRA's interface with business community. Staff integrity remains a challenge given the incentive structure. **The main reason for the mixed progress here was constituency: MRA's internal effort to improve its image relative to corruption.**

	55 Develop and implement an integrity strategy following the principles of the WCO's Arusha Declaration	25%	0%	Implementation has not yet taken place despite the strategy has been developed. Staff integrity remains a challenge given the incentive structure. **The MRA has lacked the resources and institutional capacity to address this issue head-on.**
	56 Create clear perception: conduct workshops, hold road shows and create civic education program to and for the public	50%	25%	MRA holds road shows around the country for taxpayer education, but these rarely focus on integrity and they are more focused on reporting rather than stopping the abuse of power. Progress here is ultimately tied to Action 55.
Opportunity for standards harmonization and regional collaboration in ensuring standards compliance	57 Support Malawi's participation in SADC and COMESA regional standards and technical regulations initiatives	25%	25%	Lack of inter-ministerial coordination. Lack of investment in capacity by the Department of Agricultural Research Services and Malawi Bureau of Standards, because of the lack of management and financial resources allocated to such activities by Government
	58 Procure equipment to speed up testing services	25%	25%	There was little technical assistance for international standards bodies over the past ten years. The main reason was a dearth of institutional capacity and constituency: a **lack of government prioritization of this area, and hence limited long-lasting donor investments, and in addition the lack of reliance placed by the private sector on the MBS.**
V Trade Policy				
Weak analytical capacity for trade policy analysis and implementation. Improve capacity for negotiating at the WTO and in regional and bilateral agreements	59 Strengthen institutional structure for formulation and implementation of trade policy and insure that sufficient human resources are trained and deployed.	25%	0%	**The main reason for limited progress is institutional capacity**: the lack of government prioritization over past ten years to develop economic institutions, trade and the productive economy. This is because improvements here require strong Government leadership and commitment. Lack of human resources in the Ministry of Trade especially on trade policy. Government institutional capacity is too weak in the area, and numerous donor support programs have proved unsustainable because they have failed to tackle this institutional deficit: and as such those trained have either left or are assigned tasks that are unrelated to their training. This suggests a different prioritization by government.
Overlapping regional trade integration efforts create confusion among policymakers and the business community	60 Improve understanding of the WTO within the government and private sector	25%	25%	There is less coordinated effort to train core staff to undertake trade analysis work. The focus is piecemeal and short term: those trained in WTO matters do not work on WTO issues, suggesting **a lack of institutional capacity for** long-term planning and prioritization.
	61 Improve understanding of SADC, COMESA, and AGOA within the public and private sector	50%	25%	MoIT has hosted a number of good workshops but some areas such as trade in services remain unaddressed. Furthermore, Malawi is not benefiting from these initiatives, even though it is a participant, because of trucking and transport issues. Those trained often work in different areas, suggesting a **lack of institutional capacity for**

				long-term planning.
	62 Improve negotiating skills with respect to on-going bilateral, regional, and multilateral trade liberalization	25%	0%	Negotiating skills have been lost over the past decade as staff left, there is a shortage of applied trade economists and revenue shortages constrained full participation in a number of regional meetings. Government institutional capacity is too weak in this area: e.g. SADC only has 1 officer and that officer is not full-time on SADC. So negotiation planning meetings are organized at the last minute.
	63 Improve inter-ministerial coordination	25%	25%	Lack of prioritization of the development of economic institutions by government and development partners over the past decade. It was reported that staff are too busy to plan regular coordination meetings.
	64 Conduct economic assessment of the opportunities for increasing the economic benefits from regional integration	75%	25%	Only one study was conducted (PSIA) but there was little focus on building the productive economy since focus has been more on welfare poverty reduction programmes. This was conducted as part of the National Export Strategy. **Reason is lack of priorisation of the need for such economic analysis.**
	65 Encourage dialogue between SADC and COMESA members on a process of rationalization of the integration process	75%	50%	In 2004, there were significant efforts' leading to the launching of the tripartite regional framework in 2008. However, there is limited understanding on the key issues relating to the upcoming Tripartite Free Trade agreement, due to limited capacity to coordinate and outreach at regional and local level. **Reason for progress is the institutionalization of the regional integration process.**
Regional Integration efforts continue to evolve and to alter the business environment	66 Assess opportunities and risks from negotiations of US-SACU FTA and other initiatives	0%	0%	This action was not done as it was **not relevant** since there were some other more important issues such the Economic Partnership Agreement (EPA) with the EU.
Lack of coordination between institutions and stakeholders is hampering progress and creating duplication of effort	67 Improve liaison with private sector advisory groups such as the National Action Group and the National Steering Committee on Trade Policy	0%	0%	There was limited will to improve liaison on trade policy over the past decade, as other Government strategic objectives (food security, above others) were prioritized. In interviews the private sector claimed: **there was lack of interest by government to focus on trade policy and the productive economy.** Consequently the private sector considered such meetings were of limited value, and learned to operate through lobbying for firm or industry specific deals. **The Government claims a lack of organizational capacity to manage a constructive liaison program.**

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