

**MALAWI'S INSTITUTIONAL NEEDS IN THE AREA
OF TRADE DEVELOPMENT**

Report and Action Plan

1.0 INTRODUCTION AND BACKGROUND

1.1 Introduction

In June 2001, the Government of Malawi with financial assistance from the Department For International Development Central Africa (**DFIDCA**), contracted Oxford Policy Management and Management Solutions Consulting (Mw) Ltd to assist the Ministry of Commerce and Industry (**MoCI**) to identify the key Institutional Development needs which arise from the increasing involvement of Malawi in bilateral, regional and international trade arrangements including the World Trade Organization (WTO). This exercise is being undertaken under the broader umbrella of the Malawi Trade Policy Project (MTPP) financed by the British Government. Project initiation and implementation of work on the first phase of this assignment commenced in July 2001. An Inception Report was presented at the end of the fieldwork stage.

This Interim Report has been prepared for the sole use of the authorities of the Ministry of Commerce and Industry (MoCI). The Interim Report reflects the field work undertaken in July and August 2001. This work took systematic soundings from the Government of Malawi (especially the **MoCI's** top leadership). It involved the participation of all stakeholders, in helping to map out viable strategies to improve Malawi's capacity and performance in the trade sector while at the same time addressing the specific needs and concerns of industry (the business sector) and local consumers.

The study and this Report recognises the current reform initiatives of the Government of Malawi (GoM) in the area of trade and the work already being done under the MTPP. The study is complementary to ongoing efforts of GoM and takes into account the findings and recommendations of the functional review exercise undertaken by the Public Service Change Management Agency (PSCMA) of the National Public Sector Reform Programme. It is not in any way meant to duplicate work already done. It is an internal initiative and is related to the MoCI's own concern to undertake a self-assessment, re-thinking and re-envisioning exercise to enhance its operational efficiency and the quality of service it delivers to its stakeholders.. The MoCI is to be commended for deciding to undertake an objective critique of its own performance. The consultant team hope that the findings and recommendations will not only help to improve performance and service delivery but will also stand a good chance of sustainability.

1.2 Background to the Assignment

The Government of Malawi (GoM) is currently engaged in a number of multi-lateral trade negotiations including the World Trade Organization (WTO), SADC, COMESA and post-Lome conventions. In addition, GoM has also signed bilateral trade agreements with South Africa and Zimbabwe and there are current proposals for concluding preferential agreements with Zambia, Mozambique, Tanzania, Namibia, Cuba, India, etc. Improving external sector performance and maximising the opportunities to be gained from the current trade agreements and the new multilateral and regional trading environments are critical policy objectives of the Malawi Government. The government recognises that to achieve these policy objectives in a more efficient and effective

manner, Malawi needs to develop capacity within both the public and private sectors, specifically with a view to enhancing private sector responses to new trade policies. Over the past several years, GoM has made concerted efforts to secure technical and financial assistance from international donor agencies to enhance its capacity in the trade sector. During the same period, the government has implemented a number of initiatives aimed at liberalising trade under the structural adjustment programmes (SAPs) championed by the Bretton Woods Institutions (the World Bank and the International Monetary Fund).

Within this broad context, the British Government through its development arm, the Department for International Development Central Africa (**DFIDCA**), is assisting Malawi, and the Ministry of Commerce and Industry in particular, with the development of **trade policy** and preparations for trade initiatives, such as the implementation of WTO and COMESA agreements, the SADC Protocol on Trade, the post-Lome relations with the European Union and various bilateral agreements. The MoCI's integrated Trade and Industrial Development Policy Statement states that:

“The policy goal of the Government is to create a conducive environment in which the performance of the private sector will be efficient and market oriented, improving its competitiveness domestically and internationally with a view to ensuring the sector's maximum contribution to the achievement of socio-economic objectives. It is an integrated policy which will ensure that trade and industries policies complement each other.”

The assistance for trade policy development and improved strategies for negotiation is being provided under the umbrella of the Malawi Trade Policy Project (MTPP). This project, execution of which commenced in 2000, is expected to make a significant contribution towards the enhancement of the ability of Malawi institutions and the private sector to meet the opportunities, threats and challenges of increased regional and global trade liberalisation. The main purpose of the project is to improve the capacity and effectiveness of Malawi's negotiating positions in international trade without negatively impacting on the livelihoods of the poor (especially women) participating in the trade sector.

One important component of the MTPP is the current study to undertake an Institutional Review of the ability of the Ministry of Commerce and Industry to deliver its Integrated Trade and Industry Policy and to draw up an Action Plan to deliver improvements. Specifically, this project aims at strengthening the capacity of MoCI to assess the possible impact of international agreements on national interests and provide guidance and support to private organisations in developing efficient responses. Because the delivery of Malawi's Trade and Industry Policy involves several Supporting Institutions, the institutional review has incorporated an analysis of the relationship between the Ministry and other key stakeholder institutions involved in trade development in Malawi within government, the public enterprises, the private sector, the trade unions, the donor community and NGOs operating in Malawi. The overall aim of this exercise is to enhance the capacity of MoCI to implement its Integrated Trade and Industry Policy.

1.3 Structure of the Report

The remainder of this Report is organised as follows.

Section 2 - presents the Project Terms of Reference

Section 3 -provides a statement of the problem that we have sought to address. In this Section we have tried to explain the increased burden of work on the Ministry associated with recent trade reforms and briefly indicate some of the main problems that this extra burden has created. We then proceed to consider some of the logical consequences for trade of the ambitious national objectives embodied, for example, in the *Vision 2020* document. The conclusion is inescapable – without a radical improvement in the institutional capacity for managing trade policy and its implementation, the country cannot achieve the ambitious long-term targets that it has set for itself.

Section 4 – presents a set of benchmarking tools that we have used throughout the project to assess how Malawi performs in relation to an ideal and complete set of institutional arrangements for managing trade policy and its implementation.

Section 5 – presents the conclusions of the project fieldwork regarding Malawi's situation. For the most part this is based on the structured interviews with stakeholders and from the supporting workshop and meetings that were conducted in July and August.

Section 6 – uses the findings from the previous sections to outline what we see as a number of alternative options for reforming the present system of institutional arrangements. These options are not mutually exclusive. Rather they represent a sequence of ideas. At one end they involve modest reforms and a little more capacity in the Ministry. At the other extreme they involve radical ideas for restructuring the present arrangements.

Section 7 – presents our own Recommendations about how to adopt certain ideas from the list of options and gradually phase these in to operational use in Malawi.

Section 8 – formulates these Recommendations as a series of specific steps and presents them as a detailed and phased Draft Action Plan.

2.0 The Terms of Reference (TORs)

The Terms of Reference for this assignment are as follows:

1. Review the Integrated Framework action plans developed under the MTPP and the resulting commitments made by donors to fund trade related activities;
2. Identify all the key institutions involved in trade development in Malawi. These would include: MoCI, the Malawi Confederation of Chambers of Commerce and Industry, Malawi Export Promotion Council, Malawi Investment Promotion Agency, the Malawi Bureau of Standards, Trade Unions and possibly NGOs;
3. Agree with these stakeholders what is required of a well functioning system of trade and industry policy formulation and implementation;

4. Undertake a Problem Analysis of trade and industry policy formulation and implementation in Malawi. This will examine the strengths and weaknesses of current arrangements between MoCI and other stakeholders. It will look in particular at the following:
 - Review of systems and procedures: part of this process will be to validate that the current system can deliver what is required technically;
 - Management arrangements (focussing principally on the MoCI): this will determine whether structures, reporting arrangements, authority and responsibilities are appropriate and functioning;
 - Staffing and skills (focussing principally on the MoCI): this will determine whether numbers of staff are sufficient and whether they are equipped with the right skills to do the job. It will also comment on the work unit culture and work ethic;
5. Identify any other donor-funded activities that involve any of these institutions and assess the impact of these projects and how they may impact on the recommendations from this study;
6. Produce an agreed costed Draft Action Plan for review by stakeholders. The Action Plan will focus principally on the MoCI, but include other institutions to the extent to which they have a direct impact on the MoCI's Integrated Trade and Industry Policy. The Action Plan will make recommendations on systems, management arrangements, staffing, skills and training. At the end of the consultancy, the MoCI should have a clear view on how to address the problems it faces, and the cost (financial and time) of addressing them, in order to implement its Trade and Industrial Policy.
7. Following approval of the plan by GoM, the consultant should facilitate a round table of potential donors (including DFID) to fund the resulting plan.

3.0 Statement of the Problem and Malawi's Vision

3.1 Trade Reform – Recent Developments and Consequences for Institutional Needs.

In the past ten years Malawi's trade policies have changed radically. These changes in turn have created fundamentally new challenges and workloads for the MoCI and the other agencies responsible for the conduct of that policy. Two elements of change are of particular relevance to understanding the needs for further institutional reforms.

1. First, the authorities under the guidance of a sequence of World Bank and IMF programmes have organised the progressive reduction and rationalisation of Malawi's external tariff and non-tariff protection of trade. In recent budgets, for example, maximum tariff rates have been reduced to 25% (1999) and the duties on intermediate inputs have been brought down to 10% and even to 0% in a few critical cases such as computers (2000). Quantitative restrictions are now used only in exceptional circumstances. The Poverty Reduction Strategy Paper (PRSP) process which is now far advanced will continue this trend to greater liberalisation. However, this liberalisation process has failed to bring about a marked change in either the share of trade in GDP or in the structure of Malawi's trade (see also Section 3.2 below). Dependency on a few major primary commodities is still the reality.
2. Malawi's trade policy is increasingly affected by the series of multilateral and bilateral Trade Agreements entered into by Malawi – mainly since the mid 1990s. These include the WTO, to which Malawi acceded in 1995; COMESA, where Malawi is one of the nine countries that have already committed to the Free Trade Area; SADC, including the SADC Trade Protocol that came into effect in September 2000 and that initiates a gradual phase down towards free trade in that area within the next few years; the Cotonou Agreement between the EU and the ACP countries which adapts the Lome Convention and its trade preferences system; a fully reciprocal bilateral trade agreement with Zimbabwe and an asymmetrical bilateral trade agreement with the Republic of South Africa. In addition, work is advanced on the AGOA agreement with the USA and on further possible trade agreements with Mozambique, Tanzania, and Zambia. Earlier stage discussions have also been held on agreements with India, Romania and Cuba.

It is clear that all these substantial developments in trade policy have been associated with some analytical work to identify the likely benefits to Malawi's productive sectors; the parallel threats – for example to those sectors foregoing protection; and the complementary set of policy and institutional reforms necessary to enable Malawi to capture full advantage from these reforms. But it is also evident, based on our field work that:

- much of the substantive analytical work has been undertaken by outside agencies such as the World Bank or consultants contracted by the GoM and has not always been fully internalised within Malawian institutions; and

- the imperatives to introduce some of the changes listed under (1) and (2) have been powerful to the point of overriding judgements that might have come from a more substantive analysis of benefits, costs and other effects. For example, it is clear from our consultations that the extent and timing of trade liberalisation has been driven more by the imperative to gain access to loan facilities from the IMF and the World Bank, than by any guidance coming from in-depth local analysis. Similarly, the proliferation of the various trade agreements listed in (2) above have been motivated in large measure by the political imperatives to be a party to these arrangements rather than from any thorough analytical assessment of the economic benefits and costs to Malawian producers.

These external pressures for reform together with their huge cumulative scale during the past five years, have led to major consequences for the MoCI and the other agencies responsible for trade policy. In particular, insufficient attention has been paid to the Institutional Developments necessary to take full advantage of them. A serious gap has also emerged between the benchmark trade policy institutional arrangements *ideally* required to manage the new policies effectively (see Section 4 below), and the institutional arrangements in place today. This is the essence of the problem being addressed by the current Project. That preliminary view includes a number of components as follows.

The authorities in MoCI and elsewhere have been given insufficient time, capacities, and capabilities to, amongst other things:

- study, analyse and fully comprehend the multifarious economic consequences of all the new policies;
- fully re-define the outputs and outcomes that are required of them if the new trade policies are to be made to “succeed”, and develop the associated internal task assignments, monitoring and evaluation capabilities
- become fully informed, competent and properly resourced to adequately represent Malawi’s interests in the numerous international forums where detailed decisions on the new trade arrangements are agreed;
- design and implement the information and promotional campaigns necessary to communicate the potential benefits and dangers of the new trade policies to the private sector stakeholders in trade;
- develop and manage regular, effective and sustainable modes of interaction with all relevant stakeholders – including both producers and consumers
- establish the routine operational procedures necessary to manage certain dimensions of the new policies (e.g. resolving disputes and rules of origin issues involved in some trade agreements);
- fully represent Malawi’s trade interests abroad;
- recruit and retain sufficient qualified professional staff and train them in the new procedures
- identify the policies and institutional changes complementary to trade policies that must be got right if the new trade policies are to succeed;
- design those complementary policies, lobby hard for their adoption, help raise funding for their implementation etc;

- acquire the self confidence (based on in-depth knowledge and analytical work) as well as the enhanced authority to resist future initiatives on trade where these are driven more by political imperatives rather than by any serious assessment of the balance of economic advantage to Malawi's productive sectors.

3.2 Comment on the Economic Context of Trade Policy Formulation

Malawi's Vision

These institutional problems need to be viewed alongside the high level statements of aspiration that are now common in Malawi. The clearest definition of where Malawi wants to be in the medium to long-term, is to be found in the recent official document *Vision 2020*. The document spells out a range of aspirations for the country, covering all sectors, and we have reviewed those that have a bearing on trade.

The statement that encapsulates the the work of the *Vision 2020* process says that:

“By the year 2020 Malawi, as a God-fearing nation, will be secure, democratically mature, environmentally sustainable, self-reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and a technologically driven middle-income economy”

Because the present assignment is focused on the economic development aspects of the Vision we note in particular the desire for “middle-income” status, and the recognition that technology will play an important role in achieving that.

Vision 2020 has provided government with a clear political direction. It is for the staff in each Ministry, Department and Agency to interpret that direction as it applies to their sector or function, and to develop policies, strategies and actions that can turn the vision into reality. It was pointed out that the current Integrated Trade & Industry Policy was formulated before *Vision 2020* was published. A review is therefore overdue.

In *Vision 2020* the following statements are relevant to trade:

- Industrialisation will provide the dynamism for increasing growth and productivity for all other sectors;
- At present, (1999/2000) the industrial sector makes a small contribution to national income (around 12% of GDP);
- The target for the manufacturing sector is to account for at least 25% of GDP by 2020;
- Most Malawians lack the skills necessary to become businesspeople
- They also have little access to institutional credit
- Malawi needs to become a more export-oriented economy

The challenges to be faced are identified to include:

- pursuing comparative advantage;

- ensuring conformity to international standards;
- improving marketing;
- the growth of SMEs;
- invoking WTO provisions; and
- maintaining an appropriate macro-economic environment.

The options available to address these challenges have been identified to include:

- human resource development;
- training in international marketing management;
- providing advisory services at enterprise level;
- industrial research;
- attracting foreign capital;
- promoting investment in exporting industries;
- provide special incentives;
- establish export targets;
- representation in key foreign markets; and
- Government support services.

This is a truly daunting agenda of strategic objectives and necessary new policy initiatives. It contrasts sharply with the long list of institutional problems facing the Ministry that we articulated earlier. From the comprehensive statement of Malawi's vision for Industry and Commerce we note that the only numerically specified outcome is for ***Manufacturing to contribute 25% of GDP by 2020***. All the other statements relate to the "HOW"s of achieving this target, or to descriptions of some of the barriers that the country faces.

The Ministry of Commerce and Industry for some time has been conducting relevant analyses to help decide which "HOW"s to adopt, and formulating them into Strategies and Plans. We were provided with copies of the Ministry's latest Plans, and wish to acknowledge the comprehensiveness with which they have been compiled, and the clarity of the descriptions of what the Ministry intends to do. We shall comment further on this planning later in the report

For now we merely note the following. Because tobacco and a few other primary products presently represent such a large proportion of **export trade**, the Malawian authorities scope for effecting change is confined to a small element of total external trade.¹ As regards the smaller export sectors, we believe that there are both significant opportunities and threats in the very small scale of Malawi's present international trading activities.

As regards the ***Vision 2020*** targets, the present dominance of primary product exports and Malawi's very small domestic market, mean that **these targets can only be achieved if there is a very large rise in the absolute magnitudes of manufacturing exports**. How

¹ Tobacco and the other primary exports are products whose future export growth has many determinants established in the international arena and/or by key multinational companies. Clearly the institutional arrangements for this sector should be sharply differentiated from those addressed to smaller and more embryonic sectors. For example the tobacco outcomes are very dependent on the actions of the large operating companies. Policy actions here need to focus on active collaborative arrangements with other world producers of tobacco to ensure coherent and substantial interventions in the relevant international forums such as the WTO, and WHO.

realistic is such an increase in relation to actual performance? The answer is that currently Textile and Clothing account for around 6% of total exports and Other Manufactures together account for an additional element of around 7% - so the manufacturing share is around 13%. If it is assumed that the future growth of the major agricultural exports – Tobacco (61% share in 1999); Tea (almost 10%); Sugar (6%); Coffee (4%) - is heavily dependent on global conditions and decisions, then the true realm of influence of trade policy is confined to less than 20% of total exports including the small manufacturing component (around 13% of the total)).

But 13% of exports has a value of around MK. 2.3 billion which is equivalent to US \$32 –40 million at the current exchange rate. This is an absolutely very small number. The challenge is to get this number growing sufficiently to ensure that the resulting level of **manufacturing exports** can provide the major part of the 25% of GDP targeted in Vision 20-20.

This is a daunting challenge and not least because **the trade reforms to-date have had almost no impact on the percentage shares of manufacturing in either export trade or in overall GDP.**² It is therefore clear that radical new ideas in both policy and production will have to be found if the *Vision 2020* targets are indeed going to prove achievable.

But this having been said, the authorities should see some important opportunities as well as threats in the present small size of the manufacturing trade. Examples include:

Opportunities.

- being small, the present level of manufacturing trade could be readily augmented by quite large **percentage** increases (East-Asian type growth rates of 10-15% plus per annum for example) given the right policies as well as favourable external conditions. The fact that these “easy” gains in trade have not yet materialised should alert us to the fact that something must be going wrong!
- equally, the absolute volumes of new investment needed to achieve these large positive rates of growth would themselves be quite modest.
- being small, increments to that export trade are less likely to provoke major disruptions in many of the destination markets to which they are targeted. Any increases achieved would typically be the equivalent of a tiny percentage of the production activities of the same goods in markets such as the RSA and Western Europe. It follows that the likely administrative burden of dealing with future trade disputes would be less if the increments to exports were achieved in the relatively

²The National Statistical Office’s latest Monthly Statistical Bulletin (dated March 2001) includes graphs of the Indices of Industrial Production for the period January ’98 to November 2000. They show that against a baseline of 1984=100, the General Production Index has fluctuated between 140 and 90, and the Total Goods Manufactured Index between 125 and 75. The latest figures are 110 and 90 respectively. It would not be an exaggeration to say that production performance is virtually stagnant at about 1984 levels.

Total export performance over a similar period (January ’98 to September 2000) is difficult to summarise because of the seasonal variations, but averaged out, and measured in Kwacha, appears to be increasing slowly. However, when valued in US Dollars, the trend is negative. In addition the Trade Balance (the difference between imports and exports) has been increasingly negative over the period 1996 to 1999.

larger destination markets. This is an argument that might help to prioritise the type of country with which Malawi seeks future trade agreements.

Threats

- being small, the present manufacturing trade could easily be overwhelmed by poorly designed trade policies. Policy changes that might wipe out Malawi's existing trade in Tobacco or Sugar would be easy to spot and avoid. But local policy changes that could seriously damage a large chunk of a \$32 million trade would not necessarily have to be particularly dramatic. Equally these changes might escape the attention of the authorities IF the institutional framework for policy remained weak. We have seen recent examples of this vulnerability (e.g. poultry exports to Zimbabwe and textile exports to the RSA).
- being small, there ought to be some serious limit on the time and money that Malawi devotes to the trade initiatives to achieve the percentage increases in trade that are possible. At first glance **a small number of well designed and fully implemented initiatives ought to be sufficient to achieve those potential gains. At present Malawi's efforts are almost certainly spread far too thinly.**

4. Benchmarks to Assess Malawi's Trade Policy System.

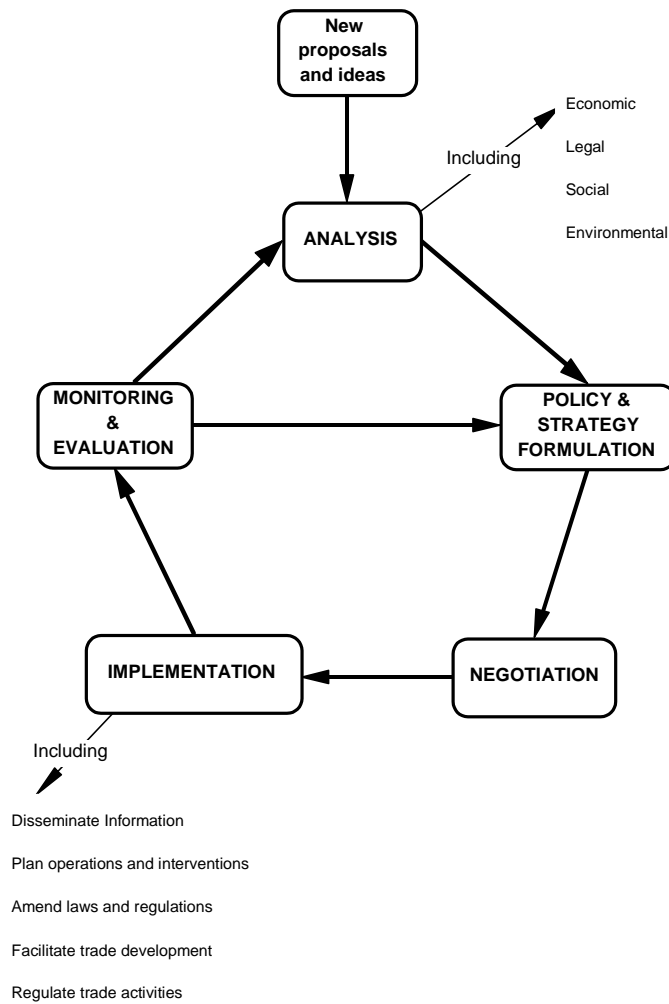
There are many different opinions on how trade and its liberalisation affects the economic and social development of countries. These opinions lead to various formulations of the "best" strategies to maximise the benefits and reduce the risks of negative impacts. **But there is considerable consensus on the basic structure of the system required to manage policy in a liberalised trade environment.**

For the purposes of this Report, we have drawn on the published best practice guidance³ but have also attempted to conceptualise a trade management system from basic principles. This conceptualisation has been used to guide our discussions with stakeholders and with MoCI. Our Benchmark System has two components, namely A - A Benchmark Trade Policy Cycle, and B - an Institutional Framework. The former is shown in Figure 1, and explained in detail in the paragraphs which follow.

³ DAC Guidelines on Capacity Development for Trade in the new Global Context, OECD 2001

Figure 1

BENCHMARK TRADE POLICY CYCLE



A. The Benchmark Trade Policy System

In Figure 1 the activities required to manage a trade system have been reduced to five headings. These five activities are⁴:

- Analysis
- Formulation of Strategies and Policies
- Negotiation
- Implementation
- Monitoring and Evaluation

⁴ For ease of presentation, the simplification of the cycle does not attempt to show where an activity includes consultation between MoCI and other stakeholders. We appreciate from our discussions that all parties recognise that this is absolutely critical to the success of the process, and have noted the emphasis this receives in the MoCI Strategic Plan.

B. The Benchmark Institutional Framework

By “Institutional Framework” we mean a set of organisations, each with clear roles, responsibilities and processes, and with clearly understood relationships between them. These organisations would ideally therefore work together in complementary ways to ensure that all the elements of the management system operate effectively, and that the common goals of the system are achieved.

We found broad agreement in Malawi that a well functioning system of trade and industry management required an Institutional Framework (i.e. a set of responsibilities and practical procedures) that can deliver **all** the activities of the Benchmark Trade Policy System (BTPS) effectively. A Benchmark Institutional Framework would therefore include the following features:

1. A Ministry of Commerce and Industry that was equipped and staffed to lead the trade and industry sector, in particular by developing policies and providing strategic direction, guidance and advice on the development of the enterprise sector;
2. Institutionalised links with other key Ministries and Institutions (both in Government and outside) including procedures to ensure consultation (a) on trade policy issues and (b) to ensure trade policies are coherent with and supported by other government policies (and vice versa).
3. Clear separation between “Policy” and “Execution/Implementation” functions (but with links between them to ensure that information and experience gained in one area is used by the other)
4. A range of “Supporting Institutions” that share a common vision with MoCI, and whose plans and actions are coordinated and mutually supportive.
5. Adequate technical (not just diplomatic) representation at the international fora at which trade issues are discussed and negotiated
6. A national institution independent from Government that can assess the impact of the country’s trade policies and strategies

The following paragraphs contain descriptions of each of the five activity areas in the Benchmark Trade Policy System, together with selected comments on how a Benchmark Institutional Framework should be structured in order to carry them out. This represents a picture of an ideal management arrangement, and a situation to which Malawi should aspire. Later in this Report we shall use it as a basis for comparison with current arrangements (Section 5) and to guide our Recommendations and Action Plan (Sections 7 and 8).

Activity 1: Analysis

The effect of new trade arrangements, for example the reduction or elimination of tariffs, will have some readily identifiable effects on a country’s economy. Improved access to an export market, for example, should result in an increase in the sales of certain commodities and products. But depending on the source and availability of the raw

materials, a corresponding increase in imports could also arise. Increased sales could also result in the creation of additional jobs, and lead to an impact on government revenue through greater Income Tax, as well as increased Company Tax from those involved in that business.

Conversely, lowering existing import duties could reduce the revenue collected by the Customs Department while lower rates might also increase the rate of compliance. In cases where trade with a partner country covers a range of import and export goods, the balance of advantage to Malawi will not necessarily be obvious. The Benchmark System reminds us that detailed analysis of the **complex** effects of a new or modified policy or trade agreement is required in order to assess the benefits and negative aspects likely to occur assuming that the policy or agreement was implemented effectively.

Institutional implications

The MoCI, as the Government's policy authority for Trade should take the lead on the analysis of all proposals to modify policy or enter into new trade agreements. It would not be feasible for the Ministry to possess all the specialist expertise necessary to analyse every aspect. However it should have sufficient analytical capacity to assess trade and industry issues, and to recognise other areas that should be examined and be commissioned to other institutions to contribute specialist advice. Other Ministries, particularly Finance and those responsible for the productive sectors also need analytical capacity and arrangements to feed their results to MoCI. Specialist institutions such as the National Economic Council also have a vital role to play. Procedures for effective communication between specialists in different agencies are vital.

The availability of data on the strengths and weaknesses of the economy as a whole, and the particular challenges facing productive sectors in response to policy changes is of critical importance to those carrying out the analysis. The National Statistical Office is a key institution in this respect, and access to Internet resources and the databases of organisations such as WTO is also vital. The multi-dimensional nature of such analyses dictates that a government-wide approach is needed to define the necessary overall capacity. The staff in MoCI need Project Management skills to coordinate all the various contributions and assimilate the results into their own decision-making processes.

Activity 2: Policy & Strategy Formulation

A government's trade policies and strategies must be based not only on the prior analysis but must also be alert to the various private and other interests likely to be impacted by and to influence likely outcomes. This part of the process has to be explicitly interactive in order to command broad support for new policies from all major players.

This would involve among other things a widely disseminated understanding of the high level political imperatives (e.g. *Vision 20-20*); of the principal bilateral, regional and multilateral agreements to which Malawi is a signatory; and of the international commercial developments that affect its economy. The policy formulation process must be inclusive, involving significant contributions from the enterprise sector. Businesses therefore need to be encouraged to have an understanding of their own competitiveness, and be clear about the market opportunities available to them. To do this they require a

reliable supply of timely and accurate market-oriented data, ideally from their Associations, some of which must be provided by Government Institutions. Some of this data needs to be gathered as “intelligence” by Malawi’s diplomatic missions around the world. Businesses also needs help in keeping abreast of advances in technology, and know how to exploit it to improve productivity.

Institutional implications

The staff in MoCI need skills and experience that enable them to synthesise the results of the analyses mentioned above and, by connecting these to trading and economic conditions generally, to develop strategies and policies. They also need greater capacity to handle the interactive processes that are involved. Systematic consultation, which is vital to ensuring that policies meet national and private sector requirements, will not happen reliably unless procedures and institutions are in place. For trade and industry issues, it is essential that the agents involved in the production of commodities, goods and services are apprised of the issues and options, and that their ideas are systematically assimilated into policy. Representative bodies such as MCCCCI and product specific associations (TEAM, TAMA, Cotton Producers and Textile Manufacturers for example) will have insights on issues that would add to the overall understanding of what are inevitably complex situations. The number of formal “committees” should be kept to a minimum, but fora such as Working Groups and Taskforces are essential mechanisms for the exchange of views and the debating of issues. However, these are all pointless unless the Government is itself committed fully to listening and taking the private sector’s views into account. The civil servants in MoCI and other Ministries, and the politicians must be genuine about consultation and partnership and must work to ensure that it takes place.

The policies developed by government as the means by which the trade objectives are achieved also need to be set in the context of the country’s overall social and economic goals. A process for effective policy integration is therefore of critical importance. For Government as a whole to ensure that all its policies align with national visions and priorities, a mechanism for systematic policy appraisal is required. A Central Unit, containing a small number of high calibre specialist staff, should be given responsibility for examining new or modified policies in order to check that they are coherent with Government’s overall direction, and for providing advice to Ministers.

In brief, the dependencies within and across Ministries, agencies and the private sector /civil society are so important that the failure to recognise and manage them will result in policies which are either inappropriate or are unworkable.

Activity 3: Negotiation

As a full member of the Multilateral Trading System (MTS) and a member of several bilateral trade agreements, Malawi needs to participate fully in the negotiating sessions of the international institutions set up to regulate these systems and the associated practical arrangements. For the negotiations to be successful the delegations need to be equipped with: appropriate skills; comprehensive data; a clear understanding of what Malawi hopes to achieve; specialist technical knowledge; an understanding of the MTS and its rules; intelligence on the positions likely to be taken by other countries; and a “game plan”. Prior to departure, the delegation needs to consider its tactics. The role and

responsibilities (including target outcomes) of each member of the delegation must be clear. Teamwork is essential.

Institutional implications

To achieve agreements that are satisfactory, negotiators need a detailed understanding of the interests, and concerns of all stakeholders. Dialogue with them is essential in order to know what they expect to achieve through the negotiations, what they would be prepared to give up, and in the case of other departments of Government, what implementation issues could arise. This dialogue needs to be formalised far more than is presently the case. A forum is needed and sufficient time must be allowed for views and ideas to be considered and used.

Permanent representation by trade and industry specialists at key international institutions such as the World Trade Organisation is recognised as a cost effective method of extracting maximum benefit from the MTS. For the WTO in particular, costs are likely to be restrained with the help of subsidies available from the Government of Switzerland.⁵ Representation through regional bodies (such as COMESA) of which Malawi is a member is a lower cost possibility but also likely to be less effective. Representation at other locations where Malawi has significant trade interests is also essential. With the increased importance of the AGOA and ACP-EU initiatives, Washington and Brussels are obvious candidates.

Using WTO as the main example, the relevant department of MoCI (see Section 7 for a proposal on this) has to be entrusted with the co-ordination of all WTO issues. That department should rely on a permanent Representative in Geneva for establishing and maintaining relationships with other WTO members and the WTO secretariat. The Geneva office will only be effective if it receives clear instructions from Lilongwe on the positions to be taken at key meetings. That office in turn must have the capabilities to channel information and briefings to the Department of MoCI which in turn should take the responsibility for routinely disseminating these to other parts of government and to the private sector. The office needs to be sufficiently large to participate in all relevant committees and meetings of the WTO and to be able to interact regular with colleagues back in Malawi.

Similar comments apply to representation that might be considered in other international centres.

In order to ensure that the dynamics of complex negotiations are managed effectively, some countries include technical experts and representatives of the enterprise sector in their delegations.

Activity 4: Implementation

This heading covers a multiplicity of actions, with responsibility spread across a wide range of government departments and agencies, and the enterprise sector. Our consultations with stakeholders indicate that it is the area of trade management that is the

⁵ See the recent MTTP Paper prepared by Sheila Page. For details on the likely costs.

least developed in the present organisational arrangements. Examples of the main components are presented below.

(a) Information

The first step should be to document the results of the negotiations and other new trade policies emerging from the other processes, and publish/disseminate them in a form that explains to each responsible party how the results will likely impact them. Each department, agency and enterprise can then feed that information into its planning process in order to ensure that its future decisions and actions are in line with the changed trading environment, and can reap the maximum benefits.

Institutional implications

This task should not require any additional skills or resources. The analyses carried out prior to the negotiations would be reviewed, perhaps in conjunction with the other institutions or specialists previously involved, and impact statements produced.

(b) Legislation

Some aspects of the rules that govern the MTS, and any new bilateral arrangements will need to be implemented by changes to national legislation.

Institutional implications

In order to prepare drafting instructions for the Ministry of Justice (MoJ) the MoCI will need staff with a legal background. Depending on the volume of work, this could be achieved through contracting a lawyer(s) on an as-required basis. The Ministry's budget would need to make provision for the cost of such contracts.

(c) Regulation (Rules and Enforcement)

The protocols, treaties and arrangements agreed during negotiations represent the "theory" of trade relations, but in practice they have to be 'made to work'. Without effective regulation, rules will be flouted by those who believe they can ignore them. This includes governments as well as individuals and corporations. The MoCI has a crucial role to play in supporting Malawi's business community by responding to reports of non-compliance with the rules and procedures of trade agreements. The Ministry must also ensure that other Agencies, such as the Department of Customs, are provided with up-to-date information on trade agreements, and supplied with intelligence on those areas where non-compliance is suspected or can be anticipated. The term "regulation" must be interpreted not only as the writing of the rules but also as the formulation of clear procedures to ensure compliance. Businesses that have their rights under any agreement/policy compromised should have reliable channels through which to seek redress.

Institutional implications

This is a major example of the critical importance of communication and cooperation between government institutions. It is another demonstration of the need for MoCI, the Department at the centre of trade issues, to lead the sector. At present there is something of a vacuum here (see Section 5) and actions are needed to fill this.

(d) Enterprise Development

For those parts of government responsible for facilitating enterprise development or trade more generally, the effects of policy changes and trade agreements on enterprise plans and prospects will need to be discussed and agreed. The importance of the activities under this heading is borne out by the clear evidence that shows how the slow responses to past changes to trade conditions have deprived many countries of the benefits that had been expected by the architects of the trade agreements.

Enterprises of all sizes and levels of maturity need selective specialist technical advice and assistance in the areas of, among others, Standards, Quality Management and technological development. Access to export markets is governed by the standards expected by the eventual consumers, and businesses need information and advice on these locally. Malawi's industries have to be competitive in the global market, even with the preferential rates available from some trade initiatives. In many cases this means modernising production processes through the adoption of new technology. Businesses therefore need access to information and advice on technology developments. Some are also likely to need improved common infrastructure facilities (better roads, appropriate storage etc) to which the authorities might make some contribution.

Institutional implications

The staff engaged in enterprise development need a variety of skills. First and foremost they need to understand how businesses are formed and operated. They must appreciate the pressures and challenges that entrepreneurs face, and the legislation under which they must carry on their businesses. They need to understand the best means available to support new business people, be responsive to their needs, but be aware of the procedures that applicants must follow in order to demonstrate that they are genuine. For those dealing with applications for loans or grants, the staff will need to know how to assess the viability of a business case and the adequacy of a business plan. They will also need to be alert to the limitations on state support associated with the WTO Chapter on TRIMS.

An Institution with staff that have specialist technical expertise on standards, quality management and technology, and with readily available detailed information is also needed. As with all aspects of trade development, this institution should be proactive, and use its staff to gain access to global information and opportunities.

Box 1: The Separation of Policy and Execution

It has been recognised by many Governments that one of the changes that can make a significant contribution to improved effectiveness and efficiency in the delivery of public services is a clearer organisational distinction between those responsible for formulating policies and those charged with executing/implementing them. An examination of civil service performance in the UK in the late 1980s for example, found that those who joined the civil service because of their interest in policy issues did not perform and could not manage implementation duties well. Conversely (and perversely) they were very capable of interfering with others who were trying to do so. As a result, the UK Government decided to create Executive Agencies as its main means of policy implementation, leaving policy formulation and strategic management as the main roles of the Ministries. Over 75% of the UK's civil servants now work in such Agencies.

Creating Agencies is not the only way of achieving the separation of policy and its execution, and in the UK there were other drivers that persuaded the Government to adopt that option. The same effect could be achieved through restructuring the MoCI, with Policy Directorates working alongside Execution/Implementation Directorates for example.

The issue of MoCI's leadership role arises here also. It is essential that the efforts of the sector's Supporting Institutions (MIPA, MEPC etc) are coordinated. The MoCI must therefore provide these Institutions with strategic direction, and be more involved in their planning, objective and target setting, and budget allocation. The Ministry must then measure and evaluate their performance (see also Section 8).

Activity 5: Monitoring & Evaluation

The implementation of policies and agreements does not always achieve the intended results. Forecasts used in decision-making are based on assumptions about external factors beyond government's control, and these need to be checked after the event. A systematic approach to the collection of critical data, and its analysis to determine whether objectives, targets and anticipated outcomes are being achieved is required. A regular evaluation of these analyses will enable government to decide whether corrective action is required. This in turn will feed into future rounds of policy formulation.

Institutional implications

The collection and evaluation of performance information requires the installation of measurement and communication systems. To be effective, monitoring and evaluation needs to be based on an agreed set of performance indicators or measures, which themselves must be linked to objectives and targets that were set during policy formulation and planning. The process is based on asking, "what questions need to be answered in order to determine whether our policies and actions are being successful". Ideally the information should be readily available because it is being measured as part of current business management processes, but this may not always be the case. The cost of additional performance measurement activity needs to be assessed and budgeted, and a judgement made on whether it is cost-effective. The choice of **performance indicators (PI)** is critical. It must always be remembered that "what gets measured gets done". An unbalanced or incomplete set of PIs can lead to some unintended (and surprising) results.

WTO recommends that governments use an independent "Transparency Institution" to assess and analyse the impact of its policies on the economy and advise government accordingly. It is seen as a complementary and valuable instrument that helps to maximise the benefits of WTO membership. Clearly, it would have the same value for other trade agreements also.

Such an institution would enhance the domestic transparency of government decision making on trade policy matters, and identify the costs and benefits for the economy as a whole of sectoral interventions and regulatory regimes more generally. It can advise government on the effects of specific trade policy on a range of issues, including competition and national welfare, and be required to publish regular reports of the effects of the trade and investment policy.

Other groups, such as those representing exporter or consumer interests, should have the right to request investigations into the impact of trade policy.

To be effective, the transparency institution must have its independence safeguarded, perhaps by having its mandate established by law, by ensuring that its funding is statutory and by being able to attract high calibre staff.

Other Key Dimensions of the Present Institutional Arrangements

In moving from this conceptualisation of the five components involved in managing trade to recommendations and an Action Plan, we also need to be cognisant of some of the dimensions of present institutional arrangements and attitudes. The most important of these dimensions are reviewed in the next few paragraphs. Some of the reforms and capacity building initiatives required by those working in Trade and Industry are common to the rest of the civil/public service and some actions are already in place to address these.

The Public Sector Reform Programme is addressing a number of structural and management issues for the civil service. The roles of each Ministry have been re-examined through a series of Functional Reviews. The Recommendations of the PSCMA review of MoCI have just been endorsed by the Cabinet Committee on Public Service Reform. The report recognised that many of the posts in the Ministry were under-graded by comparison with civil servants with similar responsibilities in other Ministries. The PSCMA consultants suggested that this was because Government had not seen the MoCI's functions as a priority. They observed that this under-valuation of the staff and the under-funding of the Ministry's budget had a serious negative impact on morale and motivation. The PSCMA's recommended changes to the MoCI's structure, grading and manning levels have been agreed, and the Ministry's 2001/2002 request for assistance from HIPC funds has been approved in full. Together, these initiatives are expected to achieve some improvement in the morale of at least the senior staff of the Ministry.

The Supporting Institutions to MoCI have not yet been reviewed in a similar manner, and although the staff in these parastatals receive higher salaries than Ministry civil servants, they all mentioned to us that they were seriously under-funded. This is one of the major frustrations for the majority of the staff we have interviewed.

A Performance Management System (PMS) would significantly improve overall service delivery in all agencies, but current efforts to introduce this are at an early stage, and seem to be fragmented. The introduction of performance contracts for senior civil service managers, the new staff appraisal forms and the requirement to produce Strategic Plans are all signs of progress. But until they are "connected" by the other components of a comprehensive performance management system the full benefits will not be realised. The PMS we would advocate is outlined in Annex 5 to this Report, and its early introduction into the MoCI and its Supporting Institutions is considered an essential element of an improved Institutional Framework.

Trade Policy National Working Group.

The Trade Policy National Working Group (TPNWG) has provided a significant enhancement to the dialogue between Government and the enterprise sector. The success achieved through this partnership needs to be perpetuated so that its impact on the development of trade and industry can be sustained. This will only be achieved if the Working Group's role is developed and formalised and it continues to be supported. For the moment, the scope of its work has been limited mainly to SADC.

Private sector mindset

The consultants met with several representatives of the private enterprise sector. Opinions varied greatly. Some business people clearly expect far more Government involvement in industrial development and are disappointed by the present standard of performance. Others expect little from government and argued that they were responsible for their own salvation. But, notwithstanding these differences, the difficulties faced by Malawi's private sector groups are considerable. Prohibitive interest rates and large exchange rate fluctuations are major barriers to investment, and without investment it will be difficult for the manufacturing sector to bring productivity up to an internationally competitive level. Faced with such problems it was unsurprising to find that the private sector was concentrating on satisfying the domestic needs of its biggest customer – the Government. Gearing up to take advantage of existing and future export markets would be a far greater challenge, and there were few signs that this was part of the sector's strategic direction. It was observed that the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) was the apex association representing the private sector. However, it was widely acknowledged that "Commerce" dominated its thinking, and that "Industry" did not have such a strong voice. The establishment of a separate Association of Malawi Manufacturers is to be recommended, and Government should consider encouraging/facilitating its formation, perhaps with donor assistance (see also Section 8).

MTPP.

The achievements, projections and plans of this important Project need to be acknowledged. In particular, the work on the Integrated Framework (reviewed later in this Report) is an important first step in bringing some order into the proliferation of donor support to trade and industry. One ongoing sub-project is exploring the important problems posed by Malawi's involvement in many different trade agreements.⁶

GoM Over-consulted.

Development assistance seems to be a relentless process and one that places large demands on beneficiary agencies. There is a long list of donor organisations prepared to provide help to Malawi, but the process of engagement between them and government is time consuming for both parties. The Integrated Framework reviewed in Annex 4 of this Report reveals a daunting list of donor projects in the area of international trade. In addition, there is a serious imbalance of resource availability. Whereas the donors can afford to recruit consultants to participate in the many studies they consider necessary to ensure the proper direction of support, the government's staff are overwhelmed. The Government does not have the capacity to cope adequately with the numbers of studies being carried out let alone evaluate the reports and recommendations. As a result, many of them are unimplemented. Even for those recommendations that are accepted, the Government's capacity to manage their implementation is limited. This lack of capacity includes the cultural problem of lack of incentives for implementation. Specifically,

⁶ This project is being carried out by Professor G. Massdorp

implementation of new ideas means a **certain** increase in the up-front work-load in return for an **uncertain**, and probably un-rewarded, long term benefit. It also contrasts with the much clearer individual incentives for participating in existing activities such as a study or workshops (e.g. counterpart allowances, and pre diem for overseas travel)

Political Influence,

However well-meaning, political influence in the past has not always facilitated improved national performance in external trade, and has sometimes caused suspicion and uncertainty through lack of transparency. Several stakeholders pointed out to us that appointments to key posts should be more transparent and merit-based; investment decisions should always be based on a fully researched business case, and international trade agreements should not be signed for political rather than economic reasons

Section 5: Results from Stakeholder Consultations and Other Fieldwork

The findings presented here summarise the main comments from stakeholders on the present institutional arrangements for trade. These comments were elicited through a process of structured interviews and workshops with stakeholders during field work in Lilongwe and Blantyre in late July/early August. Questioning was organised around a questionnaire designed from the Benchmark Trade Policy System described earlier. A copy of this is presented in Annex 1. to this present Report. This Section begins with some general comments/results and then discusses stakeholder views in relation to each of the five activities of the Benchmark cycle

The trade & industry sector is under-funded and insufficiently prioritised

It was generally recognised that MoCI and the rest of the administrative infrastructure for trade is seriously under-funded, and has been for several years. This not only results in lower levels of performance/achievement than are necessary and possible, but also gives a signal that Trade & Industry is not one of the Government's priorities. MoCI, partly for this reason, has not been able to build its credibility, and has been unable to provide the leadership that the sector needs.

The resource constraints placed upon Government are of course recognised by stakeholders. These make planning and operating government institutions difficult and frustrating. Under these circumstances, some stakeholders argued that it is necessary to stop trying to do everything that is “desirable”, and concentrate the available resources into a smaller number of priority functions. This requires Government to establish better procedures for making hard choices and implementing difficult decisions.⁷

⁷ For example, The AGOA and ACP-EU initiatives offer great potential to enhance Malawi's export growth. But work on these is submerged within a plethora of other global, regional and bilateral trade agreements. The complexity, confusion and workload that this creates is a barrier to growth because the MoCI does not have the capacity to recognise and deal with all the issues they raise. We understand that the Government has recently submitted its third proposal to join AGOA, whereas Kenya for example has already been exporting under the new preferential arrangements for almost a year. In the absence of leadership from within the enterprise sector, Government (the MoCI and its Supporting Institutions) should ensure that the opportunities and conditions of AGOA and ACP-EU are understood and acted upon. More generally, to enable Malawi to focus on the most beneficial of the Trade Agreements on offer the Government needs a mechanism to decide which to concentrate on, and which to scale down.

The existence of several small, under-funded and therefore poorly functioning Supporting Institutions leads to the fragmentation of the available effort, and has had other unintended negative consequences. Some stakeholders report that instead of working together as a team, which was clearly the intention of those who designed the arrangements over the years, there is competition for resources and duplication of effort. There is a lack of focus on what was intended to be achieved, and ultimately poor results.

The further results are presented in relation to the five activities of the Benchmark Trade Policy Cycle explained above beginning with comments on the Benchmark itself.

Benchmark Trade Policy Cycle

During our discussions with Government officials and representatives of the enterprise sector we found unanimous agreement that the Benchmark Trade Cycle (described in Section 4 above) was indeed an appropriate methodology for the management of Malawi's trade affairs. In our questioning we tested which organisations and individuals were involved in each area of activity; identified perceptions about major gaps; and sought views on how any apparent gaps might be filled.

Activity 1: Analysis

It was agreed that responsibility for initiating the analysis of any new trade policy proposals, including new trade agreements rests with the MoCI. It should and does receive support from specialists in NEC and the MoF, and both of these organisations have some computer modelling facilities to enhance that capability. But the Ministry's own analytical capacity appeared to be seriously limited. There is a reliance on the Directorate of Planning and Research, but it was not clear that there was a systematic method for requesting and then managing research and analysis tasks. It is an important conclusion that most trade policy changes in Malawi are currently under-researched.

It is clear from the evidence of past missed opportunities that insufficient basic analysis has been carried out prior to decisions on policy changes, including the signing of Trade Agreements. Many stakeholders told us that political imperatives dominated the decision-making process: the MoCI being largely required to follow up on decisions already taken. In a sounder system, the role of MoCI's staff should be to provide the politicians with technical advice on the risks, benefits and impact of policy changes. Stakeholders generally felt that today's MoCI is not doing this and maybe is not equipped fully to deliver in this area. A more charitable counterview was that after years of seeing such technical advice ignored, the staff had decided that there was no point committing their scarce resources to it.

Overall, there is no doubt that a more systematic approach to analysing trade-related issues before policies are formulated and decisions are taken is required. Without it Malawi will not achieve maximum benefits from, and minimise the risks inherent in, the Multilateral Trading System. Such an approach should include a clear allocation of responsibilities for carrying out and/or commissioning research and analysis, and specifying those institutions that need to be consulted.

Activity 2: Policy & Strategy

The MoCI has produced its first Strategic Plan for this financial year (2000/2001). This deals comprehensively with the programmes intended to be used to implement policies for supporting enterprise development, including SMEs and Cooperatives. Mk. 62 million have been budgeted for these purposes. The Plan also makes reference to the importance of participating in the negotiations at multilateral, regional and bilateral levels. The accompanying budget includes almost Mk. 12 million for this purpose, most of which would be spent on international travel and allowances. Much smaller sums are allocated for “consultations” and the development of policies and legislation (Mk. 1million). This suggests that the consultative process which is so crucial to sound policy formulation is still under-emphasised. Equally, there is no description/indication in the text of the Plan how these will be achieved. In short the first Strategic Plan is a move in the right direction but it will need substantial refinement in future years in order to become an effective management tool.

If it is to become effective, each official with policy responsibility in the MoCI should be equipped with policy formulation skills, and will need to know where to turn for specialist help. Stakeholders generally noted that consultation within the MoCI and its Supporting Institutions, with other Ministries and Agencies, with the Enterprise Sector and with civil society need to become far more routine/institutionalised. Although some parts of government confirmed that they were consulted, it was said that this was usually *ad hoc*, and at short notice. We found no evidence of procedures that would ensure that decision-makers are routinely informed that these consultations have taken place, and with what results.

As drafted and budgeted, this year’s Strategic Plan leaves the impression of a Ministry focused on “implementation”, with the formulation of policies as a secondary role. It seems to us that this is one of the MoCI’s central problems. In general, there is insufficient “strategic thinking” in MOCI and the Supporting Institutions about their **joint** policy role. There is little real strategy and not enough good quality consultation with stakeholders to improve the quality and effectiveness of those policies that the Ministry eventually has to try to implement.

Activity 3: Negotiation

We have similar observations on the negotiation activity area. Some parts of government are consulted when negotiating positions are being developed and decided, but often too late for meaningful contributions to be made. Some specialists are sometimes invited to join the negotiating team, but only if resources can be found to pay for travelling expenses. Other key players are effectively ignored or involved only spasmodically. In general stakeholders gave the impression of a non-systematic set of arrangements for preparing negotiating briefs and strategies. On occasions things work out well. But there is clearly room for a more systematised approach.

As with the Policy and Strategy areas, stakeholders expected a more systematic approach to be employed, with procedures laid down to enable staff to ensure that all relevant

issues had been addressed prior to a delegation's departure, and that back-up information had been prepared to facilitate the development of fall-back positions as the negotiations unfold. Some MoCI staff have been able to build expertise through attachments to the World Trade Organisation (WTO) for example, and some training has been made available. But these are the exceptions rather than the rule. The capacity building still required includes significant enhancement to negotiating skills, by training and attachments/internships, and the development of systems and procedures to ensure that the new skills are effectively employed.

Activity 4: Implementation

(a) Information

We did not find any real evidence of mechanisms for evaluating the results of trade negotiations and other policy changes in order to produce impact statements. At the very least, stakeholders expect the MoCI to disseminate a comprehensive statement of the results of all such changes to all interested parties - Government Institutions, enterprise sector associations and civil society. Many stakeholders told us that the newspapers were the usual source of information on Trade Deals, but that the frequency and accuracy of their reporting was unreliable.

The MoCI should produce a detailed description of their assessment of the likely impact of any new trade arrangements, and include advice on what actions are recommended. This should be disseminated to key stakeholders in the trade and industry sector.

(b) Legislation

We found that there was great concern that Malawi's legislation was not being kept up-to-date with the conditions that the Government had agreed to when becoming signatories to various trade treaties and protocols. Capacity in the Ministry of Justice (MoJ), particularly in the Parliamentary Draftsman's department was too low to be able to cope. This issue is being addressed in part by the attachment to the MoCI of a WTO legal expert who was undertaking a review of all relevant legislation. But this is only one element of the necessary solution. We were also made aware that a recent Functional Review of the MoJ had just been approved, and that its report contained recommendations to address this lack of capacity.

For the future, there needs to be a mechanism and a set of procedures within the MoCI that ensure the timely review and amendment of trade legislation, and a clear relationship with the MoJ to ensure that amendments are processed expeditiously.

(c) Regulation and Enforcement

Malawi's experience demonstrates very forcefully that there is a huge gulf between trade agreements in their theoretical manifestation and practice on the ground. The dispute with RSA over textile exports is probably the best example to cite. It seems there were faults on both sides, with some businesses breaking the Rules of Origin Regulations and the Government of RSA abusing the anti-dumping duty provision to reduce Malawian imports in order to appease their domestic industry. But comments from stakeholders suggest that this is an example of a more general problem of lack of capacity to regulate for, and enforce key components of trade agreements. In general, insufficient priority is attached to this component of the trade policy cycle.

The area of regulation is another function that is not adequately addressed in the MoCI's new Strategic Plan. It would appear that there are no strategies, and no obvious allocation of resources for improving regulation. We were told by some of the representatives of industry that they desperately needed the Government to be more proactive to ensure that there was not a replication of the RSA textiles incident. It can be argued that a more proactive regulatory regime could have reduced the opportunities for the re-labelling of imported products, and that in turn could have strengthened Malawi's negotiating position when confronting South Africa. A swifter response to the problem could have prevented the closure of the three factories.

In brief, stakeholders take the view that trade agreements and other trade policies have to be "made to work", i.e. their operation has to be effectively regulated, to reduce the likelihood that exporters and importers will break the rules. Otherwise there is little point in committing to the agreements. At the same time, there will be a high budgetary cost to effective regulation. This is a further reason for reducing to a more manageable level the number of Agreements in which Malawi is 'active'.

(d) Enterprise Development

In order for Malawi to take advantage of the globalisation of trade it needs to further develop its productive capacity. In particular, Malawi's vision, as noted earlier includes a significant development of the manufacturing sector, and there are some specific new initiatives that could facilitate such an expansion – AGOA, and ACP-EU, for example. The MoCI and its Supporting Institutions have responsibility for enterprise development, and the Ministry's Strategic Plan describes a range of initiatives and programmes scheduled for the coming year. We understand that significant additional finance will be made available to the MoCI from HIPC funds this year (Kw. 150 million) and that a large proportion of this has been allocated to SME and Cooperative development programmes. But some of the Supporting Institutions are still seriously under-funded, and this could hamper the Ministry's efforts. This situation leads to questions about whether the MoCI has taken a sufficiently holistic approach to its planning; whether it has provided adequate leadership to the trade and industry sector; and whether the Supporting Institutions were adequately involved in the development of strategies and plans. In general, stakeholders report that the present arrangements are not well oriented to take maximum advantage of the new trade opportunities that are presenting themselves.

Malawi has become accustomed to the situation where its economy is predominantly agriculture based, with tobacco exports the largest foreign currency earner by far. Some comfort is taken from the projections of continued strength, and although there are some minor issues to be managed over the coming years, that industry's future looks secure for some time to come. Although it would be an exaggeration to say that there is complacency about this situation, the absence of a "crisis" always makes it more difficult to motivate change. It takes an even more determined effort to diversify into new fields of business, and people with the willingness/desire to change are more difficult to find.

The MoCI and its Supporting Institutions have not received a level of funding that would have enabled them to perform an effective role in supporting the business development needed to achieve that diversification. This year's MoCI funding from HIPC money

suggests that the importance of manufacturing sector growth has now been recognised. However, the Supporting Institutions have not been so fortunate. Examination of the trade and industry sector from a ‘systems’ viewpoint shows that rather like a chain, it is only as strong as its weakest link. Insufficient funding of the support functions will inevitably undermine the prospects for achieving the *Vision 2020* targets.

Also of concern is the fact that the support that is detailed in the MoCI’s latest Strategic Plan has been spread over a large number of projects and programmes. Motivated no doubt by the best of intentions, particularly by the desire to be fair (and to be seen to be fair) to as many communities, groups and constituencies as possible, there is a real risk that none of the programmes will receive sufficient support to be truly effective. Ultimately the results will be “unfair” to everyone. What is needed is a deeper evaluation of the candidate programmes, leading to the identification of those most likely to succeed and create new export potential. These should be funded and supported in full to improve the probability of their success. When they have been completed and become self-sustaining, attention can be switched to other projects. This reform calls for enhanced capacity in MoCI and better co-ordination with other ministries. It is noted again that only a few successful projects are needed to achieve the annual manufacturing growth target. (see Section 3 above).

Activity 5: Monitoring & Evaluation

This area was considered by most of the stakeholders we consulted to be extremely weak. Today, it is very difficult to keep track of whether Malawi’s trade agreements and trade policies more generally are achieving the desired or intended results. Nor is there any systematic feedback to respond to evident failures. This is partly a problem of the absence of relevant data. But it also reflects the lack of any real priority to the collection and analysis of the relevant data about industry performance, constraints etc.

An effective M&E system requires first the supply of accurate and timely information. At present there is little effort to define, collect and analyse the relevant data in a systematic manner. Although progress is being made with the building of capacity in the National Statistical Office (NSO), there is a four-month time lag between collection and publication of monthly financial and trade data. This of itself is not particularly excessive. However, those data that are available are relatively little used for monitoring purposes and there is only limited feedback to NSO about the nature and the quality of the data that are produced. NSO has an Internet website that contains a selection of on-line data, and receives some trade data electronically from the Customs Department’s ASYCUDA system at two of MRA’s main sites. These are encouraging indications of progress, but the overall impression is that Malawi lacks good information. While this situation persists, the MoCI has some good excuses for not doing more work on Monitoring and Evaluation.

The final link in the cycle is the feedback of information into the next round of analysis and policy formulation. In the absence of systematic Monitoring and Evaluation, this feedback loop also gets somewhat neglected.

This is an issue that suggests the need for much clearer “outcome” targets in the MoCI and the Supporting Institutions: a point strongly emphasised by the Ministry of Finance

in the last budgetary round. These targets should provide the basis for justifying the funding of these organisations. They ought also to constitute the basis for designing systems of performance monitoring of the employees.(see Section 8 in the Report).

Benchmark Institutional Framework

We next turn to review our fieldwork findings and stakeholder comments against the conceptual Benchmark Institutional Framework introduced earlier.

1. The MoCI

The Ministry has been characterised as under-funded, under-staffed and unfocused. Its senior staff are hard-working and committed. Stakeholders also recognise that the Ministry should be leading the trade and industry sector, but does not have the resources nor the credibility to do so in all the dimensions of the Benchmark system. In common with most of the civil service of Malawi, most staff are low paid and are unmotivated. “Institutionalised non-performance” afflicts most sections, by which we mean that many staff concentrate their attention on “what we do” rather than on “what we achieve”.

Capacity is still below the requirements of a well-performing institution, although some improvements have been introduced under MTPP (additional PCs, specialist training and close management support from the PMA). The new mechanisms of Strategic Planning are also an important step in the right direction.

The present Ministry is suffering from the legacy of years of under-funding. Not only has this prevented recruitment and retention of sufficient high-calibre staff, but has created the impression that trade and industry is a low priority sector. This has prevented the Ministry from taking the leadership role the sector has needed. This, combined with low salaries, has caused a lack of motivation among the staff that has had predictable consequences for the levels of performance generally.

The recent introduction of Strategic Planning, performance contracts for the most senior staff and the impending new Staff Appraisal forms are elements of a new Performance management System being developed by the GoM. As yet, it seems that these components are not sufficiently ‘joined up’ to have a major impact. However they do represent an encouraging move in the right direction. If our understanding is correct and this is the Ministry’s first Plan in this format/style, then it would be unfair to be critical. But as mentioned in the preceding section, the strategic thinking process seems to have missed some critical policy related issues, and needs to be improved. In particular, the sector’s need for leadership includes managing a fully inclusive strategic planning initiative so that the Ministry can benefit fully from the views of the enterprise sector. In addition it is vital that the development and plans of all the Supporting Institutions’ are aligned better with the Ministry’s overall strategic objectives.

Through the use of strategic thinking, business analysis and planning processes, realistic budgetary requirements can be identified, and a case made to the Ministry of Finance to provide reliable funding. This is a prerequisite to efficient financial management, using streamlined structures, processes and procedures and better management systems, particularly budgetary control and accounting. Critical in all this will be the definition of **outcome** targets to which the MoF can relate and which can justify the enlarged funding.

Effective leadership of the trade and industry sector can only be achieved by a MoCI that is equipped with staff that have the appropriate management as well as technical expertise. From our observations, that management capacity needs to be built.

One of the immediate benefits of adopting a more strategic approach to management would be the ability to prioritise the functions and actions of the sector. We were struck by the degree of sub-optimisation affecting the delivery of outputs by the Ministry and its Supporting Institutions, and were advised by several interviewees, from both private and public sectors, that the lack of focus resulted in the sector's limited financial resources being spread too thinly over too many functions and programmes. As a consequence, most areas were unable to function effectively.

2. Linkages

In addition to the MoCI itself there are several Supporting Institutions (SI) for the sector. Of these the most significant are the Malawi Investment Promotion Agency (MIPA); the Malawi Export Promotion Council [MEPC] and the Malawi Bureau of Standards[MBS] It is important that the MoCI has the ability to align the activities of the SIs with the Government's overall objectives for trade and industry. This requires routine procedures and more regular dialogue. Government should formalise the links between MoCI and the SIs, and stipulate that their Boards should not approve Plans and Budgets without confirmation from the Ministry that they are aligned. At present, the dialogue seems to be *ad hoc*, and we found examples of duplication and "rivalry" between SIs that only the MoCI could resolve. The current role of the Department for Statutory Bodies needs to be critically reviewed. There is a risk that this body could conflict with the orderly implementation of 'technical' policies in the trade and industry area. The SIs may feel as if they have two (or even three) masters.

Of equally great importance are the linkages between the MoCI and the rest of the Ministries. Almost every Ministry has a potential part to play in the development of trade and industrial capacity. But we were told that the Government does not yet have a unit in the 'centre' with the responsibility to examine policy proposals to check that there are no conflicts with other existing policies, and that where necessary these are indeed mutually supportive. We were aware of a range of Cabinet Committees, including those for the Economy and for the Budget but it appears that these committees are not all supported by an equivalent "technical" committee or working group of civil servants and advisers to ensure that Ministers are supplied with the appropriate level of specialist advice. This situation can lead to the adoption of policies, programmes and budgets that are not optimised for the implementation of Government's agreed priorities, and may even be internally contradictory.

A number of substantive failures of policy are associated with the relative weak linkages as between the MoCI on the one hand and the SIs and the other parts of government on the other. The cross cutting issues of Industrial Standards/Quality and Investment/Competitiveness can serve to illustrate this general proposition.

Example One: Standards and Quality

It is self-evident that to sell into export markets goods must be produced to the quality standards expected by the customers. Government has a vital role in creating the environment in which businesses and the workforce automatically adopt a Quality Management culture. But from the evidence we have gathered from stakeholders it seems that this role is all but ignored. The MBS accepts its responsibility as adviser to Government, and implementer/enforcer of the policies and standards it endorses. But the MBS cannot perform these tasks without central government bodies playing their part, and that includes ensuring that the Bureau is adequately funded. Possibly the problem can be traced to the MoCI – more aggressive lobbying on MBS's behalf might have resulted in more realistic budgets – we cannot be sure. An additional issue is duplication as between some of the work of the MBS and some activities of the Department for Environmental Affairs: for example work on the Malawian adoption of certain new ISO Standards on environmental management. This duplication indicates a serious absence of coordination. It is also legitimate to criticise a public service system that has failed to gazette a single Quality Standard in almost ten years. It is similarly difficult to understand why a draft Bill to amend the extant quality legislation (which dates back to 1987) submitted to and considered by Cabinet in 1995 has made no noticeable progress to date.

These examples are not presented in order to criticise any single agency whether the MBS or the MoCI. Rather they are presented as symptomatic of a generic failure to understand and prioritise the key role of Quality in modern trade and of a systematic failure to develop an institutional structure to promote improved compliance with quality standards.

Quality and quality management are not cost-free, and it seems that much of Industry in Malawi is still a long way behind its competitors. According to the MBS only one Malawian company is accredited to ISO 9000. In addition, the Government is committed to encouraging more SME development, which will inevitably involve more people who lack quality awareness and quality management skills in the production and export sectors. This suggests an urgent need to evaluate what training and education programmes can be mounted in the short, medium and long-term to raise awareness of standards to the necessary levels.

Example 2: Investment/Competitiveness.

The recent history of Malawi's industrial sector includes several factory closures. Some were due to the decisions of multinational corporations to relocate their operations to other countries in the region, because of those countries' competitive advantage (decisions triggered in a few cases by the new situation presented by freer trade across neighbouring countries in the region). With the benefit of hindsight, other closures have been blamed on the failure of the private sector and the Government to appreciate the need for investment in modernisation in order to enhance production efficiency and capacity.

There are several issues here for government action and again an integrated approach while needed is largely absent. The first is the need for a concerted effort to overcome the pessimism of those experiences and to learn the lessons of past mistakes. To the extent that the closures were triggered indirectly by government decisions, for example, those

same sorts of decisions have to be the subject of far greater care in the future. The second is that traditional investment promotion, as practised by MIPA has a reverse side which is presently ignored in the Malawian institutional system, namely the avoidance of negative investment where possible. A third suggested by some stakeholders is that some parts of the private sector are more focused on taking profits in the short-term rather than investing sustainably for the long term. This being the case, the Government must be more attentive to any support it provides and, for example, consider making any financial support to industry conditional upon the adoption of a medium to long-term growth strategy.

But above all these experiences indicate the need for government generally (including MoCI and all the SIs) to be much more alert to the importance of Competitiveness as a factor in building and sustaining viable productive activity and exports. This has implications in a wide range of policy areas including Education and Training (additional courses, for example, to supply qualified managers and technicians); Technology promotion (including for example, the technology transfer and access facilities that can be made available under WTO/TRIPS); Immigration (for example Malawi may need to look much more favourably on permits for foreign workers brought in by new investors in order to achieve the earliest possible entry into new markets, and stimulate the acquisition of expertise by Malawians through planned skills transfer programmes).

This is the internal environment that the Government of Malawi needs to manage more effectively. Some of the consequences of past failures to ensure that policies are mutually supportive were pointed out to us by stakeholders. For example, the liberalisation of markets and the consequent reductions in tariffs without policies to encourage and assist businesses to improve their competitiveness resulted in the closure of many factories and the loss of thousands of jobs. Some of these losses might have been avoided with more careful phasing and the adoption of complementary mitigating measures.

The final comment in relation to Linkages is that the views of the enterprise sector and civil society need to be captured better than is currently the case. There are some existing mechanisms for achieving this. The TPNWG has proved itself to be very effective. Set up to facilitate a public/private dialogue on global trade issues, the Group has been advising Government on a range of detailed policy and implementation issues. It has matured over the last five years of its operation and is supported by a jointly staffed secretariat. We found a unanimous view that the WG must be sustained. But there are parallel initiatives that have set up fora for discussing similar issues. They need to be reviewed and rationalised to remove duplication and confusion. A previous attempt to establish a “Business Council” failed through lack of top level political support. Even if such a body could only contribute a little further understanding, the fact that the country’s top politicians wanted a dialogue with business leaders would be powerful signal that a partnership was being developed. The President’s Taskforce on the Economy is another potential vehicle for partnership development and could be used to raise the profile of the MoCI’s work more generally (see Section 8).

6. A Review of the Options for Improving Organisational Arrangements.

The findings of interviews with stakeholders and other fieldwork as summarised above leads inexorably to certain key conclusions, including:

- Malawi's efforts at present involve many gaps in the management of trade policy relative to the Benchmark standard that we defined in Section 4;
- Many of the activities that are delivered involve a quality of delivery that should be improved and that stakeholders expect to be improved;
- In the absence of improvements in the Institutional Arrangements for trade, Malawi is unlikely to come close to meeting its National aspirations as articulated in Vision 2020;⁸
- A radically different approach to trade policy formulation and implementation, including enterprise development, is therefore required.

In this Section we articulate several alternative Options for improving the present Institutional Arrangements for trade and briefly consider the pros and cons of these. In doing this we largely repeat the listing of possibilities that were presented to members of the MTPP Project Steering Committee in Blantyre on August 9th. The feedback obtained from this Seminar has enabled us to be clearer about the requirements and expectations of the stakeholders and about the nature and pace of feasible change. Thus in Section 7 below, we suggest a preferred Option amongst these various alternatives that we feel could gain broad acceptance in Malawi.

Option One: Do Nothing

At one level this is a trivial option and one that does not deserve much serious consideration. It is included for completeness but also to emphasise the unfortunate reality that it is an Option that the authorities will not easily be able to resist. The reason for this is the inevitable inertia present in any institutional system coupled with the special pleading that will undoubtedly be mobilised against any substantive change of the *status quo*. Resistance to change abounds in all societies. Especially in a country where administrative capacity is so scarce, the tactic of being patient and seeing what happens, is a very tempting one.

The negative implications of this course of action would however be very serious. We have already seen how dependent Malawi's high-level objectives are on a greatly expanded level of manufacturing exports. These objectives include poverty alleviation, a four-fold increase in per capita incomes in 20 years, the removal of the country's dependency on a few sensitive primary products; a radical increase in manufacturing's

⁸ In relation to our own assignment we note that most of the substantive activities that will contribute to Malawi's future development (agriculture, minerals and other natural resources, tourism, transport, communications and financial services) have specific sector Ministries to guide their development. Apart from their linkages with trade policy they are therefore outside the Terms of Reference of this assignment. Conversely, the Ministry of Commerce and Industry's responsibility for the development of Industries and Enterprises in Malawi are included. The Ministry's contribution to the achievement of economic growth, and therefore one of its strategic objectives is a significant expansion of the manufacturing sector. Because the domestic market is currently small, this can only be achieved by increasing exports.

share of GDP. **A failure on the trade policy front in the next few years would certainly abort any prospects of building this new and desirable prosperity.**

Option 2: Expanded Capacity Built on the Present Set Up

This Option would provide selective increases in budgets to the MoCI and to some of the other Supporting Institutions of Trade. These increases would permit the Ministry and the other agencies to deal with some of the immediately problematic gaps in their delivery of services. For example, it might enable the Ministry to employ one or more specialist lawyers in order to reduce the backlog of legislation necessitated by Malawi's WTO commitments. It might enable the Ministry to hire some more economists/analysts to begin the task of analysing the economic effects of existing and prospective new trade policies.

However, this approach has two major problems in being selected as the preferred Option. First, it immediately confronts the reality of Malawi's budget situation and the fact that the MoCI is not alone in feeling that an enlarged budget would solve most of its problems. The scope for budget outlays is seriously limited and any solutions that relied on this would be doomed to be partial solutions with prospectively limited sustainability over time even if donor funding would be used to finance some of the interventions. So while we would not reject this approach – it could play a **short term** role in the Action Plan – it does not constitute a full solution.

Second, it would be a solution that flies in the face of the evidence from stakeholders that there are numerous **structural** problems with the present set up that need to be put right. These structural problems include the personal incentives in the system that seem to favour some activities over others; the problems of inter-agency communication that may suggest that fewer agencies could economise on funds; and the failures to prioritise (e.g. chose to focus on a few key trade agreements rather than a multiple of these) which may suggest the need for fundamentally different decision-making processes. While these structural problems might be put aside in developing the short-term components of the Action Plan, they certainly cannot be put aside in the medium and longer term.

Option 3: Expanded Capacity but with Policy Formulation separated from Policy Implementation .

This Option goes one step further than Option 2. It does this by recognising first that the failures of the present institutional set-up in Malawi are more serious in relation to **Policy Implementation** than in relation to **Policy Formulation**. Equally, the skills required, the necessary procedures, the type of service on the ground needed for the former are quite radically different from those needed for the latter. Some of the failings in Policy Implementation are particularly problematic for the type of work that the MoCI and the Supporting Institutions need to be doing in the next few years. For example, what is the point of signing new trade agreements if the implementation of these in terms of monitoring rules of origins and compliance with freer trading principles are absent on the ground with no redress for injured parties? What is the point of opening up new market opportunities in, for example, the RSA if the minimal support to enterprise development needed to take advantage of these is not also provided to a reasonable degree?

The purpose of structurally separating Policy Formulation from Policy Implementation (but still within a single MoCI) would be to initiate a major break with the *status quo* and

to provide the different enhanced capabilities that the two functions need, and to encourage the staff involved to focus more clearly on those separate roles and what they are required to achieve.

Option 4: A More Fundamental Restructuring

This Option would involve restructuring the MoCI as in Option 3. But it would be more radical in the sense that the **Implementation** functions would be rationalised into an Enterprise Development “One-stop-Shop” into which all relevant supporting institutions such as MIPA, MEPC would also be integrated under common management.

This Option would have clear advantages over Option 3 in that it would recognise fully and explicitly the coordination problems that exist as between the Ministry and the Supporting Agencies and bring all these functions under a common unified management. This new Enterprise Development organisation could still retain specialised departments for particular functions but the unified management would make the task of co-ordinating these far more straightforward. So, for example, this arrangement would enable the new body to maintain a single set of unified performance targets and accountabilities that were tied into these. This in turn would facilitate the setting of appropriate budgets.

The down-side of course is that this major restructuring of present functions would be more likely than any of the other options to trigger serious resistance as senior managers in the present separate organisations felt their power and influence coming under attack. This is one reason why this approach could not be proposed or engineered as a **short-term** measure. A careful process of change management would need to be built into the Action Plan to prepare for this shift and to help minimise the opposition that could legitimately be mounted against it.

There are two possible variants of Option 4 depending on how the new Development Agency is set up. It could be done either:

- 4a as a Development Agency i.e. a public institution OR
- 4b as a Development Company i.e. a not-for-profit company with the private sector having a majority share

Option 4a would be more in keeping with the arrangements which until now have been common in Malawi but would leave the Agency subject to the normal private sector criticisms of being insufficiently alert to the needs of private sector agents who are risking their own money to build businesses.

Because of the constraints mentioned throughout this report, Government’s credibility to lead the development of the trade & industry sector is being questioned. The private sector does not believe that the Ministry has the technical or financial resources to use trade as an effective instrument of economic growth. However, the private sector does seem prepared to enter into a partnership with Government to improve the country’s economic performance.

Option 4b would represent such a partnership, and introduce some hard-nosed commercial motivations for the delivery of some services. Issues of how services would be funded, and which might be charged for would need to be addressed during the design and implementation of such a solution. One approach would be for the MoCI to contract

out the delivery of its implementation/support services for industry to the company. The Action Plan goes into a little more detail about where the boundary between in-house and contracted-out services might lie.

7. Recommendations.

In this section we have brought together all the changes that are recommended from the Options just listed. These are based on the results of our fieldwork, and incorporate many suggestions from the stakeholders that we were able to meet.

In essence, the Recommendations adopt the Option 2 approach as the preferred **short-term** reform (the first 12 months approximately) and then gradually build in elements of Option 3 including the separation of the Formulation and Implementation functions. The logic is that these larger changes, and even more the radical change associated with Option 4, could never be achieved without some short-term adjustments to the management arrangements within the MoCI and the SIs. Hence some of these facilitating changes are included in the short-term part of the action plan together with parts of the Option 2 reforms.

The recommended reforms have been grouped under four headings, MoCI, SIs, Rest of Government, and the Enterprise Sector.

The Ministry of Commerce and Industry

1. The Ministry should be restructured.

a. One of the very strong messages that was repeated over and over again during the fieldwork was that the MoCI, and many other Government Institutions, had difficulty “implementing” recommended change. Most of the reasons have already been described above. For the actions listed in section 8 of this report to be successful, a different strategy is required for overcoming these problems. In particular, MoCI needs to create Change Management capacity, a group of staff with an understanding of the difficulties that will be encountered, a knowledge of the techniques available to mitigate them, and the skills, confidence and resources to use them. The options available include using consultancies or forming an in-house team, and **it is recommended** that a dedicated Change Management Team of civil servants be formed. It should be led by a Director and be supported by an Advisor (consultant) with relevant experience who would facilitate the team during its early work (12 – 18 months) and help build the necessary expertise among the staff. This approach would not only involve practical assistance with the change process, but also give a clear signal to the MoCI staff and others across the trade & industry sector that a serious attempt at reform was underway. The use of an Adviser, as opposed to ad hoc consultancy support, has the added advantage of continuity.

b. **We recommend** that the current Directorate of Planning forms the basis of the new Change Management Team (CMT), with responsibility for implementing the

recommendations contained in this report and other elements of ongoing reform. The CMT would also be responsible for dialogue with donors to ensure that programmes were coherent and coordinated. Although they would continue to play a leading role in MoCI and sector planning during the implementation of the change programme, each Directorate must assume responsibility for its own plans, with staff gradually improving their skills over the coming 12 to 18 months. Similarly, Directorates should take over responsibility for carrying out or commissioning any research or analysis needed in support of policy formulation.

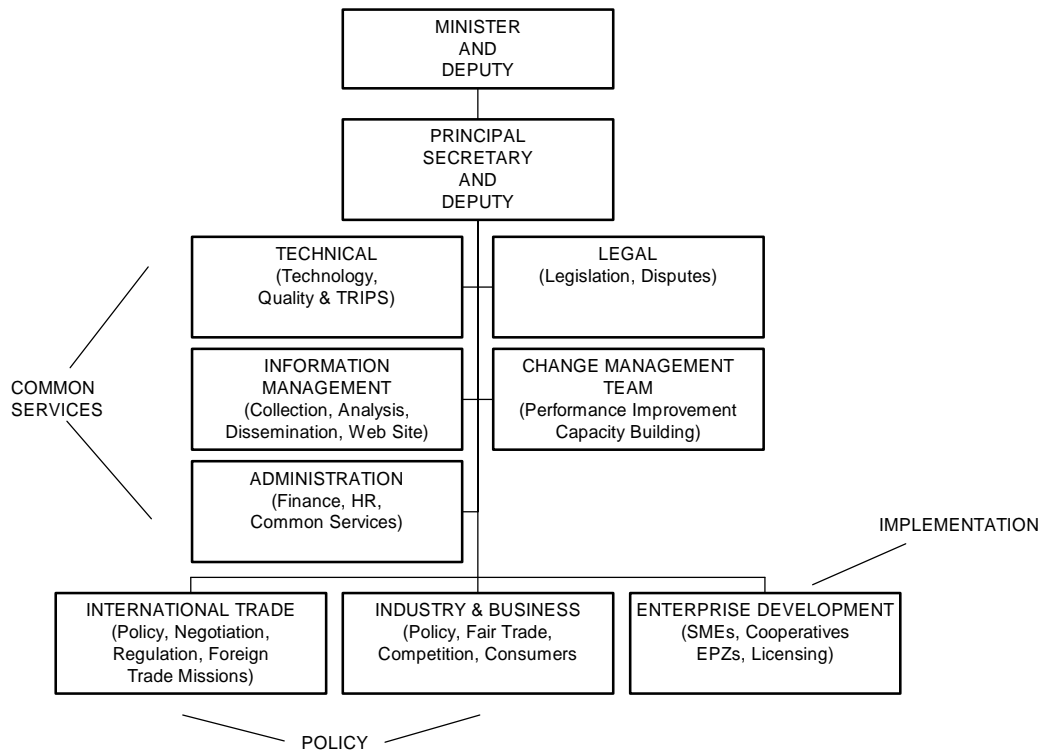
c. **We recommend** that the Policy and Implementation/Execution functions in MoCI be carried out by **separate** Directorates. The current Directorate of Commerce should concentrate on International Trade, and be re-titled accordingly. Its responsibilities should cover trade policy analysis and formulation; negotiation of trade agreements; dissemination of information and guidance; dispute resolution, and impact evaluation. A second Policy Directorate should be formed, with responsibility for Industry and Business Policy. This should cover policy and domestic trade and business policy issues (business regulation, fair trade, consumer affairs, and competition policy). Implementation of MoCI's programmes for Enterprise Development should be combined into a single (third) Directorate (as recommended by PSCMA).

d. We concur with the PSCMA's recommendations to combine the two existing Support Directorates into one Administration Directorate.

e. In addition, **we recommend** that three small specialist units be established. One would provide legal advice across the Ministry and another would provide advice on technological (including Quality Management) issues. In view of the importance of information for all MoCI (and broader trade and industry sector) activities a third unit would be dedicated to Information Management. The responsibilities of the staff in these units would include commissioning research, studies and consultancy in support of their subjects. Budgetary provision will be required in each case. The restructuring that has been recommended will have implications for the MoCI staff dispersed into Regional Offices. **We recommend** that a separate review of their roles and responsibilities be undertaken after the new structure has been agreed.

Our recommendations for a new structure for MoCI are shown in Figure 2 below

Figure 2: Proposed New MoCI Structure



2. Staffing

The PSCMA’s recommendations need to be reviewed. Although those recommendations addressed some of the MoCI’s main barriers, they did not take into account the specific trade policy issues covered in the TOR for this present assignment. The regrading of senior staff should proceed, but **we recommend** that the number of staff and allocation of “policy responsibilities” should be revised. The Directorate of Commerce (International Trade) needs specialists to cover each of the main Trade Agreements: WTO, AGOA, ACP-EU, SADC, COMESA, Bilaterals. The exact numbers to be allocated to each agreement will be dependent upon the relative priorities applied to each, an issue that is the subject of a separate and concurrent MTPP study. **We recommend** that the CMT and consultants from PSCMA review the requirements when that study has reported. That review also needs to embrace the new staffing associated with the possible new representative office in WTO Geneva. It is already clear however that a recruitment campaign will be required.

3. Skills Development

The staff of the restructured MoCI will need training and development in a variety of skills areas. **We recommend** that all professional staff receive general management

development, including project management training. Policy staff will need to develop analysis, policy formulation and negotiation skills, and those dealing with enterprise development will need business management skills. A mixture of formal training, on-the-job training and experiential learning (through attachments, secondments and internships for example), together with skills transfer from an Adviser (such as an ODI fellow) attached to the Ministry **are recommended**.

4. Equipment

MoCI is in the process of analysing the Maxwell-Stamp consultant's report on a new Management Information System (MIS). The report has recommended a comprehensive suite of applications and a number of networked PCs on which to run and use them. There is no doubt that such a network and MIS will considerably enhance the Ministry's performance, and **we recommend** that MoCI critically reappraise the recommendations, taking into account the changes recommended in this and other MTPP studies and by the PSCMA functional review, and pursue the implementation of such a network.. We were also aware of a separate consultancy being carried out in MEPC (with Commonwealth Secretariat funding) and **recommend** that the two projects should proceed in an integrated manner. In view of these complications **we recommend** that MoCI obtain specialist advice and assistance with the evaluation of the MIS being recommended, either from the government's IT staff or from a local consultancy.

5. Performance Management

MoCI needs a comprehensive Performance Management System. **We recommend** that the Ministry negotiates with DHRMD for agreement to introduce a system taking account also of the ideas outlined in Annex 5. In particular, **we recommend** that:

- the use of Performance Contracts be extended down through the structure as a means of motivating staff;
- objective, target and performance indicator setting be introduced to progressively lower levels of staff;
- the strategic and annual planning processes be conducted in a coordinated way across the whole trade & industry sector (under MoCI leadership);
- the staff appraisal sub-system be used as the main instrument for staff development; and
- systematic monitoring and evaluation of organisational performance be introduced.

6. Procedures

Many of our observations about the need for improvements in performance highlighted the need for procedures, that need to be better formalised and documented. Examples include consultation on policy and negotiation positions, dissemination of information, reviews of legislation, and regulation and enforcement. **It is recommended** that a systematic programme of reviews be undertaken in order that procedures can be streamlined, documented and used as a basis for training staff. Performance assessments would include an evaluation of how well procedures were being followed, and routine activities would include built-in checks to ensure that essential steps had been undertaken.

We recommend that this task be undertaken as part of an overall Performance Improvement Programme to be set up and facilitated by the Change Management Team.

7. Representation

In order to maximise the benefits to Malawi of the main Trade Agreements, **we recommend** that a permanent mission, staffed by trade specialists, be established in Geneva. **We further recommend** that based on the experience gained from the operation of that mission, consideration should be given to setting up additional missions in Washington and Brussels to pursue the advantages available from AGOA and ACP-EU respectively. The need for further Missions should be the subject of periodic review as part of the strategic planning cycle.

8. Focus

The implementation of the restructuring and management systems development implicit in the recommendations above should result in a Ministry and staff with a sharper focus on objectives and outcomes. **It is recommended** that the MoCI leadership use the degree of focus as a critical test for the plans and proposals submitted by the Directorates and sections of the Ministry, and ensure that the Ministry's managers understand that they are accountable for the achievement of tangible "**outcomes/results**", not just the completion of "activities".

In order to work effectively within constrained resources **it is recommended** that the MoCI (and the Supporting Institutions) focus on fewer product groups, programmes or other interventions. Those that are assessed as standing a good chance of success should be selected and given strong support. This approach is preferable to spreading effort thinly over many areas, even though this is seen as "being fair". In addition, it is essential that the proportion of the sector's limited resources spent on administration is reduced.

The Supporting Institutions (SI)

1. Consultation

Perhaps because of the way the SIs were established i.e. as parastatals with a fair degree of autonomy as detailed in their Acts of Parliament, there is a feeling that they belong to and are accountable to no one in particular. **We recommend** that each SI reviews its mechanisms for consulting with its stakeholders, especially its clients. The SIs should re-examine what services are needed by those clients and, critically, determine their priorities. The recommended CMT in the MoCI should be involved in facilitating this process.

2. Cooperation

In order to begin to overcome the "rivalry" between SIs that has been observed, **we recommend** a series of joint activities that would enable the staff to examine ways in which they could cooperate more. We have in mind the exploration of closer relationships similar to the One-Stop-Shop concept that MIPA and MEPC are working

on. MIRTDC and MBS for example may be able to develop joint approaches to delivering services to their clients, and SEDOM and DEMATT may also find ways of cooperating. Again, **we recommend** that the CMT assist the Supporting Institutions.

All the staff in the Supporting Institutions that we visited mentioned that they were under-resourced. The approach recommended above would demonstrate to the centre of Government that the SIs were endeavouring to perform well even though resources are constrained, and begin to make the case for additional funding in future years. But this case too must be based on a clear definition of target outcomes.

3. Malawi Bureau of Standards

MBS is singled out for particularly urgent attention because of the central importance of improving the quality of production in the manufacturing sector. We acknowledge that this issue has been highlighted in MoCI's Strategic Plan for this year, but **we recommend** that the level of funding scheduled to be provided to MBS be reviewed immediately so that it can begin to increase the levels of advisory services and training to the enterprise sector.

4. Focus

As with our recommendations for MoCI, one of the aims should be to improve the SIs' individual and collective focus. **We recommend** that the MoCI leadership adopt the same approach to the SIs as for the MoCI Directorates, and check that they are concentrating their efforts on agreed priorities, rather than spreading resources thinly over too many activities, and that a focus on "results" is being introduced. Their outcome targets needs to be set in close collaboration with the MoCI and taken very seriously.

Rest of Government

We have made some recommendations for parts of Government outside the strict definition of the "trade & industry sector" because we have observed that without their full support and cooperation the impact of the detailed improvements we have recommended to the MoCI and its SIs will be limited.

1. The "Centre"

At the "centre" of Government in most people's definition is the Cabinet of Ministers. This is where the economic priorities are discussed and policies decided, and where the 'tone' of a Government is set. We found a general perception that, for whatever reason, the trade and industry sector was **not** one of Government's priorities. We were told that this has made it difficult for the MoCI to develop the credibility needed to lead the sector, which contributes to its lack of performance. **We therefore recommend** that steps be taken to demonstrate that the development of this sector is central to the economic growth that Malawi desires and indeed needs.

For example, there needs to be a much more public recognition of the large **percentage** improvement in international trade performance, and especially manufacturing, that must be achieved if the targets of *Vision 2020* are to be realised (see Section 3 above). This

recognition needs to start with the pronouncements and the actions of the President and the Prime Minister. It then needs to be followed up through regular meetings and events **involving these top politicians** at which progress reports are debated and bottlenecks are publicised and resolved. With this type of leadership, the management and staff of ministries such as MoCI will be provided with far greater motivation for their work and also with enhanced status to achieve the necessary results. The Presidential task Force might be redefined to lead this effort.

A Business Council has previously been proposed, and could serve as a symbolic as well as a useful mechanism for Business Leaders and Political Leaders to share ideas and develop ways to stimulate economic growth. **We recommend** that another attempt be made to set up such a forum. But this on its own will not substitute for the stimulus that can come from stronger high level leadership on the trade questions.

The Cabinet is supported by a number of “Cabinet Committees”, including some on economic matters. But there is concern that the level of technical advice to these Committees is insufficient to ensure that their deliberations are based on a complete understanding of all the complexities of, for example, the protocols and treaties that govern international trade. There is a risk therefore that policy decisions may not fully represent Malawi’s national interest. **We recommend** a review of the support arrangements for the Cabinet Committees dealing with trade and industry issues, with the aim of improving the quality of technical advice available to Ministers. For example, formal meetings of the relevant senior civil servants (PS, Deputy PS and Directors as appropriate) should be held in advance of Cabinet Committees. Cabinet papers and similar policy documents would be reviewed and discussed, and technical advice offered to the politicians on the economy, budget and justice. We are referring here to trade-related aspects of policy, but there could well be other issues that could be addressed in this way.

We understand that Government does not yet have a Central Unit responsible for advising Ministers on the coherence of Government policies. Such a unit would reduce the risk of potential conflicts between proposed new or amended policies, and **we recommend** that a Central Policy Coordination Unit be established. The Office of the Vice President could be a suitable location for the Unit.

2. Pay Reform

We were made aware of some of the progress being made with the general reform of the civil service. One of the components of that programme is Pay Reform, and we observed that the low level of motivation among some of the civil servants in MoCI was having a seriously negative impact on performance. **We recommend** that all possible measures be taken to accelerate Pay Reform. Motivation is a key component of Capacity Building, and **we recommend** that the scope to improve the salaries of more senior staff through the increased introduction of performance contracts be explored, but **we also recommend** that a more general improvement be considered.

3. Ministry of Justice

The lack of capacity in the Ministry of Justice has contributed to a serious backlog of legislative work, particularly amendments to Malawi’s laws that need to be brought into

line with WTO provisions. **We recommend** that all possible measures be taken to implement the recently agreed functional review of the Ministry of Justice expeditiously, and that a ‘catch-up’ programme be introduced.

4. Ministry of Foreign Affairs

International trade needs markets into which Malawi can sell its commodities, goods and services. Producers in Malawi need information and “intelligence” about opportunities and competitors in those markets. Malawi has diplomatic missions in many countries, and **we recommend** that better use is made of the opportunities the staff within them have to gather market-related data. This requires better co-operation between MoFA, MoCI and the Enterprise Sector, so that staff abroad know what information is required. **It is recommended** that MoCI take the initiative and begin the process of defining the data sets required, and opening discussions with the MoFA.

5. Sector Ministries

Relationships between the MoCI and those Ministries responsible for the productive sectors need to be improved. The MoCI noted as a threat in its Strategic Plan the creation of “trade sections” in some Ministries. These moves could be the result of sector Ministries’ dissatisfaction with the service MoCI is providing, although such a possibility was not considered in the Plan. But the sector Ministries do need expertise on trade-related issues. The critical point is that the division of responsibilities between them and MoCI needs to be clearly defined. At the very least a “point of contact” is required to manage the two-way flow of information needed to achieve optimum benefit from trade opportunities. **We recommend** that the points of contact (POC) for trade issues in sector Ministries be clearly identified and that their roles be clearly defined. The MoCI should ensure that those POCs receive up-to-date information on relevant issues, and are used when co-ordination and information is needed from those Ministries.

The Enterprise Sector

Businesses could do more to help themselves. We have commented on some aspects of the attitudes (short-termism, too much focus on domestic markets, expecting unrealistic levels of Government support for example), which are barriers to the scale of export growth required to achieve the national vision. However, many businesses can be expected to respond positively to the package of improved administrative arrangements articulated above. Additionally, **we recommend** that the manufacturing sector be encouraged by Government to set up its own Association – a “Confederation of Malawi Industry”.

Such a body should then enhance the dialogue with the education sector to improve the availability of relevant courses to educate and train the next generations of managers and technicians. Business Development skills seem to be in particularly short supply, **and we recommend** that MoCI sets up a Working Group that includes the Ministry of Education, Ministry of labour and representatives from Industry to consider strategies for improving

the availability of training and education opportunities. Effective dialogue is essential in order to prevent a repeat of the problems with TEVETA.⁹

The enterprise sector is participating in dialogue with Government on a variety of economic development issues in several fora. Clearly this must continue if the necessary partnership between Government and Industry is to be developed. The TPNWG is a particular body that should continue to receive support, and **we so recommend**.

⁹ This is a separate agency set up in 1999 to strengthen capacity in vocational training and other aspects of education. As designed, its financing was based on a small percentage levy on industrial firms- the expected beneficiaries of the training. However, there was a serious absence of consultation on this point and, as a consequence, the expected funding for the body has not materialised. But it still exists with Steering Committees and other trappings of a management system. But its effectiveness, as we understand it, has been extremely disappointing because of the failure to achieve the support of its supposed clients.

8. Draft Action Plan.

The recommendations described in Section 7 are based upon our assessment of what needs to be done to build the Institutional Capacity” to implement Malawi’s Trade & Industry policy. Capacity in this context is the right number of the right people doing the right things at the right time. This implies that as well as having enough people with the necessary expertise (skills and experience), the staff involved need to be motivated, confident and equipped. They also need to know who should be doing what, and on what time-scale. In other words they have to be managed. That means that systems and procedures need to be in place.

A detailed listing showing how our recommendations turn into Actions (each with its own time-scale and cost) is presented in Table 1. For ease of cross-referencing back to the text of the report the Table is presented in nine sections, and uses the same terminology as Section 7. The same information has been entered into a Project Plan in Gantt Chart format. This is Figure 3 below , and will be referred to again later in this section.

The Options described in Section 6 do not have to be seen as simple alternatives. They are not mutually exclusive, but represent different depths of change. We believe that Option 4b has much to commend it as an the ultimate solution. But we recognise the need to be practical, in terms of addressing the immediate priorities, taking affordability into account and dealing with the difficulties of managing radical change.

We do of course recommend the rejection of Option 1 - the status quo.

The choices open to government can be seen as having two dimensions, the **depth** of change, represented by Options 2-4, and the **volume** of change, represented by Phases 1-3. The Project Plan in Figure 3 below is structured to make these two dimensions clear. The diagram outlines that structure – the shaded areas indicate the elements of the planning that are articulated at this stage.

	PHASE 1 Months 1-10	PHASE 2 Months 11-24	PHASE 3 Month 24 onwards
OPTION 2			
OPTION 3			
OPTION 4			

The Action Plan (Table 1) and Project Plan (Table 2) show time-scales based upon our assumptions of MoCI capacity, but can be reviewed and modified after decisions have

been taken on Options and Phasing. Microsoft Project has been used to create the Project Plan, thereby facilitating rescheduling or other modifications as required and subsequent Project Management.

In the remainder of this Section we describe in more detail the critical features of each section of the Action Plan. The following paragraphs should be read in conjunction with the Project Plan – Figure 3

Option 2 – Limited capacity building, based on existing structures

Phase 1

MoCI Structure & Staffing

1. MoCI needs to review, in conjunction with other stakeholders, which Trade agreements are delivering good results for Malawi, and then focus its future activity on those. PS/MoCI-led meetings should start the process, which D/Commerce then takes to a conclusion.
2. DFID are providing financial and technical support to MoCI through MTPP. MoCI needs to discuss whether and how this support will continue past the current Project. PS/MoCI should open discussions with DFIDCA in good time to allow both parties time to plan. It has been assumed that existing MTPP funding will be available to support the early months of this Action Plan.
3. It is understood that PSCMA Functional Review recommendations for organisational change have been accepted by MoCI.
4. Having implemented the organisational changes (3. above) the Job Descriptions should be reviewed and revised.
5. MoCI has insufficient professional staff to populate fully the new structure. A review of the gaps and a recruitment campaign will be required.

Skills Development

1. Managers in MoCI were clear that a full Training Needs Assessment (TNA) was not required, but an internal review of the available data on training needs should be carried out by MoCI's HR managers
2. Each member of staff should be reviewed against the results of the TNA, individual skills gaps identified (general and post specific) and a Personal Development Plan (PDP) drafted.
3. Directors should review their staff's PDPs to ensure that they are realistic and priorities aligned with the requirements of their posts.
4. Negotiation skills development has already been recognised as an urgent requirement for those involved in WTO and other international trade arenas. The negotiations that affect Malawi and which are scheduled for the next 12-15 months emphasise the urgency.
5. Project management skill is considered to be one of the key competencies for all senior professional staff. It enables staff to improve the efficiency and effectiveness with which they carry out complex policy and implementation activities. A tailor-made course at MIM is envisaged.
6. MoCI HR Managers need to collate the results of the PDP exercise and construct a Development Programme that matches MoCI's staff's needs. A range of

development methods should be considered, including training, attachments and internships for example.

7. The Development Programme (produced at 6 above) will require a level of funding that is probably beyond MoCI's budget allocation. Donor organisations should be approached for assistance.
8. MoCI Directors need to take responsibility for the development of their staff, and not just leave it to HR managers. The Directors should therefore review and endorse (or modify) the Development Programme.

Equipment

1. The Maxwell Stamp report on a new MIS for MoCI needs to be reviewed from two standpoints; alignment with the changes being implemented from PSCMA and this study, and the practicability of operating and supporting a system with the complexity recommended by the consultants. Outside consultants (ideally local) should be employed to assist MoCI with this review.
2. In conjunction with the review at 1. above, the Information Management linkages with the Supporting Institutions (SIs) should be addressed. In particular, the separate study ongoing with MEPC should be reviewed. In our view it is essential that the sector's information management needs should be integrated.
3. Taking into account the expert views (2 and 3 above) MoCI need to decide on which MIS recommendations to accept.
4. Based on the decisions at 3. above, an implementation strategy and plan needs to be developed. Outside technical support may be required.
5. A costed proposal and procurement plan based on 4. above needs to be submitted to the organisation (donor) that has agreed to sponsor the new MIS.

Representation

1. Work on developing a case and proposal for a Malawi Mission to WTO has already been carried out. It now needs to be reviewed and a Cabinet submission drafted.
2. After Cabinet approval has been received, MoCI need to identify candidates for the posts in Geneva and initiate the selection and appointment process.
3. Using the assistance available from WTO and the Government of Switzerland, the MoCI need to make the physical and logistic arrangements for the Geneva Mission. Details are available in the earlier MTPP paper.

Supporting Institutions

1. MIPA are already implementing a "one-stop-shop" concept, with the support of MEPC. MoCI needs to become more closely involved with this process, and offer whatever support they can. Opening a dialogue between the Institutions should be the first step, followed by an assessment of their needs, and which of these MoCI can provide.

Rest of Government

1. Poor levels of motivation, largely because of low salaries, has been recognised as one of the greatest barriers to performance improvement. DHRMD is implementing a programme of Pay Reform, and MoCI should lobby for the acceleration of that reform for its professional and technical staff. We were made aware of Government's willingness to consider taking such action where the case can be made, for example with the Ministry of Justice.

2. In support of 1. above, MoCI should lend its support to the Ministry of Justice in its application for enhanced salaries for its staff. The Minister and PS should be briefed on the tactical nature of such an approach.

Phase 2

Skills Development

1. Implement the staff Development Programme designed during Phase 1.

Equipment

1. Manage the procurement, installation and commissioning of the new MIS and Network

Option 3 – Enhanced capacity building and a more fundamental restructuring of MoCI

Phase 1

MoCI Structure & Staffing

1. The restructuring over and above that recommended by PSCMA's Functional Review requires discussion with and the approval of DHRMD. When agreed in principle, some detailed work on staffing levels needs to be carried out in conjunction with PSCMA consultants. It is envisaged that local outside consultancy support would also be required.
2. When the restructuring has been agreed (from 1 above), MoCI should draw up an implementation plan for the creation of its new Directorates and Units, focussing on the physical and staff movements that will be required. Changes of the significance envisaged here will need to be explained to the staff affected, and opportunities created for them to seek clarification.
3. When the implementation plans have been completed, the two Policy Directorates can be formed by re-titling the Commerce and Industry Directorates, and staff moved and/or redesignated accordingly.
4. One of the main innovations of the implementation strategy proposed in this report is the creation of the Change Management Team (CMT). The conversion of the Planning Directorate is our recommended approach, but MoCI needs to ensure that the right type of staff are included in the CMT. An understanding of management and reforms will be needed, together with an enthusiasm for change. Interpersonal skills will be vital, and PS/MoCI will need to be sure that the Team has an appropriate level of credibility. The choice of Director/CM will be particularly critical.
5. As the new Directorates are formed, the policy and execution tasks will need to be redistributed among the various sections. One of the main aims behind the restructuring is the separation of the two so that each group of staff can focus better on their objectives.
6. As with Option 2, the Job Descriptions of all posts will need review and revision, and creation in some cases, when the organisational changes are clear.
7. To assist with the implementation of the changes resulting from this Option, and to build internal change management capacity, a Change Management Adviser has been recommended. MoCI need to decide whether a full-time or part-time adviser is needed, and whether a local or international consultant should be recruited, and

whether for one or two years. Recruitment of an appropriate individual can take several months, hence the suggested early start of this action. This Adviser has a number of key roles, principally advising PS/MoCI and the Directors as the change programme progresses, and working with D/CM and his staff to build capacity.

8. As with Option 2, there will be significant gaps in the new structure because the MoCI lacks sufficient professional staff. These vacancies need to be filled as quickly as possible, and MoCI need to take the initiative with a recruitment exercise.
9. Three specialist Units have been recommended, and now need to be created. The option of appointing “Caretaker” staff from within MoCI or the Supporting Institutions should be considered (so that staff and the rest of the sector see that changes are happening) as an interim measure.
10. After the new structure has had time to settle, attention should turn to the MoCI staff in offices around the country. The roles of those offices should be the subject of discussion, led by D/CM, and should take into account the new separation between policy and execution. The numbers, competencies required and locations of staff should also be reviewed.

Skills Development

1. One of the options for facilitating the development of policy skills is the attachment to the new Directorate of International Trade of a trade policy expert, and ODI has been suggested as a possible source of such an expert. PS/MoCI should open discussions with DFIDCA on the modalities of recruiting an ODI Fellow to fulfil this role.
2. Once agreed (1 above), the recruitment process needs to be initiated and an appointment made.
3. The effectiveness of the Change Management Team would be considerably enhanced by training its members in current change-management philosophy and skills. A tailor-made course delivered by international specialists at MIM is envisaged.

Performance Management Systems

1. A particular form of PMS has been recommended in this report, but it is essential that whatever is implemented does not conflict with the broader GoM intentions. MoCI should therefore explore with DHRMD how the model proposed here fits with their plans. When an agreed way forward has been achieved, MoCI can begin to develop its own plans in more detail.
2. Training in current Performance Management principles is available in a number of locations, particularly in UK. In order to prepare the CMT for the role of facilitating the introduction of PMS in MoCI, they should receive PMS training.
3. Because of its potential as a motivator, the early extension of Performance Contracts down to middle management grades has been recommended. Agreement to this needs to be discussed with DHRMD at 1. above. The aim would be to use existing plans to derive personal objectives and targets that could be included in such Performance Contracts.
4. The introduction of PMS needs careful preparation. When agreement on the scope of the model, and the CMT have been equipped with skills, and the Adviser is in place, the System needs to be designed and an implementation plan produced.
5. To assist the staff of MoCI during the installation of PMS and its operation, a series of guidance documents will be needed. The contents will be dictated by the details derived at 4. above. The knowledge gained during the training at 2. above will be critical to this activity.

Representation

1. The case for trade Missions in addition to Geneva needs to be confirmed. Forecasts of the level of business in USA markets (AGOA) and EU markets (ACP-EU) are required, together with an assessment of the benefits Malawi expects to obtain. The impact of a permanent presence in Washington and Brussels (for example) needs to be evaluated.

Supporting Institutions

1. MoCI and the SIs have many issues in common, but only on very few occasions are they able to meet together. MoCI should take the initiative and organise meetings, seminars or conferences to discuss these common issues. Two meetings have been scheduled in this Phase.
2. Views expressed by stakeholders indicate doubts over the effectiveness of some SIs' consultation processes, and communications with clients generally. MoCI should therefore facilitate a review of those processes, and take this opportunity to establish its leadership role.
3. Based on the results of 1. above, MoCI should assist the SIs to review their clients' needs and priorities with a view to ensuring that future planning reflects those requirements.
4. Building on the results of 3. above, and taking advantage of the improved communications between MoCI and the SIs, the next planning round (2002/2003) should include a series of joint sessions that will enable the sector's plans to be properly co-ordinated. This creates the opportunity for MoCI to lead, and be seen to lead.
5. Quality and Quality Management has been identified as a major factor in the future development of Malawi's manufacturing sector. Because the Malawi Bureau of Standards is the country's focal point for all quality issues we have recommended that it be assisted to review its future, and that MoCI should lead and facilitate the review.

Rest of Government

1. MoCI produced a comprehensive paper during the planning and budgeting round for 2001/2002 that made a convincing case for additional funding. As a result, substantial (as far as MoCI is concerned) HIPC funds have been promised. This paper could form the basis of a ***Position Paper*** that could be submitted to Cabinet as part of a campaign to raise the profile of Trade & Industry, thereby increasing the level of recognition of the sector's importance to Malawi.
2. A forum at which Government and Business leaders meet to exchange views and ideas is seen by many as a priority. A case for establishing a Business Council was previously considered but rejected, but it has been recommended that a further attempt be made. This will need high-level political support, therefore requiring the involvement of the Minister for Commerce and Industry himself.
3. MoCI should canvass support for improvements to the system of providing technical advice to Cabinet Committees. As with 2. above, Ministerial involvement will be required.
4. In view of the ways in which policies promoted by other Ministries can have an adverse impact on trade and industry if cross-cutting issues are not adequately analysed and then harmonised, it would be in MoCI's interests to promote the concept of a Central Policy Co-ordination Unit. This has been described in the report.

5. The MoCI needs the co-operation of sector Ministries in a number of ways. A dialogue with the productive sector Ministries should be initiated in order to determine ways of improving MoCI's contacts with them. The two-way flow of information is the most urgent requirement, but by no means the only linkage that needs to be explored. Separate Economic Units in these Ministries should not be seen as a threat to MoCI.
6. Malawi's Embassies and High Commissions are well placed to gather and feed back trade-related information to MoCI. Such information is of vital importance to those assisting the development of the enterprise sector. MoCI needs to open a dialogue with the MoFA to determine how such information can be made available.
7. Looking further into the future, the next generation of Malawian civil servants and entrepreneurs will need to be able to obtain a range of skills and knowledge that includes trade-related subjects. MoCI should take the initiative by setting up a Working Group (or similar device) that should involve educationalists (including the Universities), the business community and government in a debate on future needs for education and training for international trade.

Enterprise Sector

1. Many stakeholders suggested that the manufacturing sector needed its own Association. In view of the role it could play in enterprise development, which MoCI sees as one of its priorities, it has been recommended that MoCI take the lead in facilitating the setting up process.
2. Alongside the Working Group mentioned at 7. above, a Group should be set up to consider the immediate and medium-term needs for business education and training.
3. The TPNWG has been universally recognised as a valuable mechanism for involving the private sector in discussions on trade policy issues. MoCI should therefore take the lead in formalising an expanded role for this group, and ensuring that it continues to be fully supported.

Phase 2

Performance Management Systems

1. The PMS designed and planned in Phase 1 should now be implemented
2. In order to ensure that the PMS can operate successfully, a programme of training in PMS-related subjects will be required. Those responsible for design, planning and installation of PMS should also design the training.
3. One particular requirement of MoCI's future planning system (which will be part of PMS) is for senior managers to scrutinise the plans submitted by their sections to ensure that they are (amongst other things) realistic and focussed. CMT should therefore provide guidance on how to achieve this requirement.

Procedures

1. When the concept of PMS has been understood within MoCI, staff should be encouraged to progress towards Continuous Performance Improvement. The CMT should design and develop a Performance Improvement Programme (PIP) to introduce this concept, using some of the PMS tools learnt during their training and PMS installation.
2. When designed and tested, and endorsed by MoCI senior management, the PIP should be implemented.

3. Progressively, as processes and procedures are reviewed and improved, the MoCI's procedures should be formally documented. This would enable the Ministry to develop a series of Operational Manuals.
4. As with PMS, the role of senior management needs to be highlighted. Procedures are only valuable if they are followed, and then updated as experience develops. CMT should provide advice to management on mechanisms to be used to monitor and evaluate the use of procedures.
5. In order to embed the concept that processes and procedures should be re-evaluated so that improvements can be identified and implemented, CMT should arrange for a series of formal performance reviews.

Option 4

Phase 3

Supporting Institutions

1. After reviewing the experience with the reforms introduced as Option 3, the further rationalisation of functions carried out by the Supporting Institutions should be carried out, with a view to creating a true one-stop-shop for enterprise development. We have recommended that this new body be formed as a Company, and have significant private sector involvement.
2. When the body at 1. above has been set up, the MoCI should transfer to it its Enterprise Development responsibilities.

The actions under Phase 3 are included only in outline at this stage. Much will depend on the success of Option 3, and more detailed planning will be required when those results are known.

Table 1. Action Plan to Implement Institutional Reform

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
1.	<i>MoCI Structure & Staffing</i>						
1.1	Discuss the MoCI's recommended structure with consultants in PSCMA, including the numbers and grades of posts, and submit conclusions to DMS in DHRMD for approval	3	1	Month 1-2	£4,000	PS	<ul style="list-style-type: none"> • 10 days local consultancy support • Assume approval takes 1 month
1.2	Decide which Trade Agreements should receive priority (based on MTPP study recommendations) and agree with PSCMA on staffing levels and allocation of responsibilities within proposed D/International Trade.	2	1	Month 1-2	£1,000	PS D/Commerce	Stakeholder workshop
1.3	Discuss with DFID the basis for continued financial and technical support (ie MTPP 2 or ATPP)	2	1	Month 1-2	-	PS	
1.4	Draw up plans for the implementation of the new structure.	3	1	Month 2	£3000	PS Directors	Two-day retreat for MoCI senior team
1.5	Form the new single Directorate of Administration	2	1	Month 2	-	PS	
1.6	Form the new Change Management Team	3	1	Month 3	-	PS	

¹⁰ The exact nature of Advisory support needs to be considered by MoCI. Options include a full-time resident adviser for up to 2 years, or regular visits of a part-time adviser, perhaps totaling 6 months per year over 2 years.

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
1.7	Implement the re-grading recommended by PSCMA	2	1	Month 3-5	-	D/Admin	Assumes MoF agreement to some increases to salaries
1.8	Form the new Enterprise Development Directorate by combining sections dealing with SMEs and Cooperatives	2	1	Month 3	-	D/Admin	
1.8	Re-title the Directorate of Commerce as Directorate of International Trade.	3	1	Month 3	-	D/Admin	
1.9	Re-title the Directorate of Industry as Directorate of Business Policy	3	1	Month 4	-	D/Admin	
1.10	Review and revise Job Descriptions for all existing and prospective MoCI posts.	2 & 3	1	Month 3-5	£4000	D/Admin	10 days local consultancy support
1.11	Redistribute functions and staff between the Directorates of International Trade and Business Policy	3	1	Month 3-4	-	D/Admin	
1.12	Recruit an Adviser¹¹ for the Change Management	3	1	Month 3-6	£15,000	D/Admin	Recruitment
1.13	Determine the gaps between new complement and actual strength, and initiate recruitment process	2 & 3	1	Month 2-8	£10,000-	Directors	Progressive activity
1.14	Form the Information Management, legal and Technology Units	3	1	Month 4-6	-	D/Admin	
1.15	Review the role of staff in Regional MoCI offices after new structure has bedded in	3	1	Month 7-9	£ 2000	D/CM Directors	Expenses for consultation visits

¹¹ The exact nature of Advisory support needs to be considered by MoCI. Options include a full-time resident adviser for up to 2 years, or regular visits of a part-time adviser, perhaps totaling 6 months per year over 2 years.

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
1.16	Appoint Change Management Adviser	3	1	Month 7	<£ 220,000	PS	Costs dependent on type of
1.17	Transfer MoCI Implementation responsibilities to the enhanced “One-Stop-Shop” Enterprise Development Agency or Company	4	3	Month 24 onwards	TBA	D/CM D/ED	Programme dependent on progress with Option 3

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
2.	<i>Skills Development</i>						
2.1	Review previous Training Needs Analysis data in light of revised structure and responsibilities. [a progressive approach to be used, dealing with Directorates or sections as their futures are clarified.]	2	1	Month 2	-	D/Admin	
2.2	Prepare draft Personal Development Plans (PDPs) for all staff, discuss them with line managers and staff.	2	1	Month 3-5	-	D/Admin	Must be realistic and prioritised.
2.3	Draft PDPs to be reviewed by senior managers to ensure that proposed skills development is aligned with	2	1	Month 4-6	-	Directors	
2.4	Discuss with DFID and ODI the appointment of an ODI Fellow as a Policy Adviser to work in the Directorate of International Trade¹²	3	1	Month 1	-	PS	

¹² Initially for one year

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
2.5	Recruit ODI Fellow	3	1	Month 2-5	£ 2,000	PS D/Admin	Recruitment expenses (International)
2.6	Arrange training in negotiation skills for staff involved in international trade policy **	2	1	Month 1	£ 25,000	D/Commerce MTPP PMA	International consultant(s) at MIM
2.7	Arrange training in change management for staff appointed to CMT	3	1	Month 3-4	£ 20,000	D/Admin D/CM	International consultant(s) at MIM
2.8	Arrange training in project management skills for staff involved in programme implementation	2	1	Month 4-5	£ 20,000	D/Admin	International consultant(s) at MIM
2.9	Collate results of PDP exercise and design Training Programme to meet requirements	2	1	Month 6-7	-	D/Admin	
2.10	Approach funding agencies (GoM and Donor) for financial support for further training and development	2	1	Month 8-9	-	D/Admin	
2.11	Proposed Training Programme to be reviewed by senior managers for relevance, realism and affordability	2	1	Month 9	-	Directors	
2.12	Appoint Policy Adviser (ODI Fellow)	3	1	Month 5	£30,000	PS	
2.13	Implement the agreed staff development programme	2	2	Month 13 onwards	TBA	D/Admin	Details to be determined

** MoCI have a list of 20 in mind

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
3.	<i>Equipment</i>						
3.1	Commission specialist advice to distil usable actions from pre-existing consultant's (Maxwell Stamp) report on MIS	2	1	Month 2-3	£4,800	D/Admin	<ul style="list-style-type: none"> • 12 days local consultancy • existing recommendations are too elaborate
3.2	Review links between MoCI's Information Management arrangements and those of the SIs, especially MEPC which has its own study in progress, and other institutions, to ensure that the MIS report has taken them into account.	2	1	Month 4-5	£4,800	<i>Directors</i>	Essential that trade-related IT developments are integrated across MoCI and the SIs
3.3	Review MIS report and recommendations, taking into account recent changes, including recommendations from this and other MTPP studies	2	1	Month 5-6	Support covered by above	D/Admin	
3.4	Proceed with MIS and Network project planning, taking into account the possible need for external specialist technical support.	2	1	Month 6-7	Not yet knowable	D/Admin	NB: Budgetary figures are in MIS report
3.5	Submit costed proposals for MIS procurement and implementation to Funding Agencies	2	1	Month 8	-	D/Admin	
3.6	Manage procurement and Implementation of the MIS and Network, , taking into account the possible need for external specialist technical support.	2	2	Month 11-18	Not yet knowable	D/Admin	

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
4.	<i>Performance Management Systems</i>						
4.1	Arrange discussions with DHRMD to determine their plans for the introduction of PMS. Compare those plans with the recommendations of this study and agree a non-conflicting way forward	3	1	Month 4	-	PS	
4.2	Organise training in Performance Management Systems for staff in CMT	3	1	Month 5-6	£ 40,000	D/CM	3-week training/study tour to UK for 6 staff
4.3	Introduce Performance Contracts for additional senior and middle management staff	3	1	Month 5-7		PS D/Admin	Will have salary cost implications
4.4	Organise Team-Building activities for the staff in MoCI and its SIs	3	1	Month 6-10, and regularly thereafter	£18,000	D/CM	6 Retreats @ £3000 (facilitated by Change Management Adviser)
4.5	Design and plan a CMT-led programme to introduce a Performance Management System in line with the model detailed in Annex X	3	1	Month 7-9	-	D/CM	
4.6	Produce a set of detailed guidance on PMS implementation, to include awareness materials, training, procedures and manuals.	3	1	Month 9-10	£1,000	D/CM	Materials
4.7	Implement PMS Programme	3	2	Month 11-20		D/CM	

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
4.8	Management training in PMS-related topics:-planning & budgeting, staff appraisal, target setting, performance indicators,	3	2	Month 11-17	£20,000 (to be confirmed)	D/Admin D/CM	Budget 3 weeks at MIM for senior & middle-level staff, 2 weeks for junior staff. (using Change Management Adviser)
4.9	Provide senior management with mechanisms and procedures to test the focus and realism of Directorate and Section plans	3	2	Month 12	-	D/CM	

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
5.	<i>Procedures</i>						
5.1	Design a Performance Improvement Programme (PIP) that identifies “areas for improvement”, and uses them to stimulate process/procedure review and redesign	3	2	Month 13-16	-	D/CM	
5.2	Implement PIP	3	2	Month 16-24	£18,000	D/CM Directors	6 Workshops @ £3000
5.3	Document redesigned processes and produce a series of MoCI Procedures	3	2	Month 18-22	£1,000	D/CM Directors	materials

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
5.4	Advise senior management on mechanisms to use to monitor that procedures are used correctly and are correctly and effectively	3	2	Month 17-19	-	D/CM	
5.5	Arrange systematic performance reviews to encourage continuous improvement of processes and procedures	3	2	Month 20-24	-	D/CM	

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
6.	<i>Representation</i>						
6.1	Review the case for a GoM Mission in Geneva for WTO activities (refer to the paper from MTPP Second Periodic Report dated 14/3/01) and forward costed proposals to Cabinet	2	1	Month 1-2	-	PS	
6.2	Recruit and appoint staff for Geneva Mission	2	1	Month 4-7	£3,000 (to be confirmed)	D/Admin	<ul style="list-style-type: none"> • Assumes Cabinet approval • Recruitment costs (local)
6.3	Establish Mission in Geneva	2	1	Month 7-10	£100,000 to £200,000 per annum (to be confirmed)	D/Commerce D/Admin	Assumes Cabinet approval

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
6.4	Examine the need for further Missions (in Brussels and Washington for example) and develop a “business case” for each	3	1	Month 6-9	£10,000	D/Int Trade	Funding for visits
6.5	Using lessons learnt from experience in Geneva, finalise case and forward cosrted proposals to Cabinet	3	2	Month 14-16	£8,000	PS D/Int Trade	2 HQ staff to visit Geneva
6.6	Establish Missions in Washington & Brussels	3	2	Month 18-24	£150,000 to 250,000 per annum each	D/Int Trade D/Admin	Assumes Cabinet approval

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
7.	<i>Supporting Institutions</i>						
7.1	Facilitate SIs to review their consultation processes and procedures, and to make improvements as required, to include arrangements for integration of information management, target setting and performance measurement.	3	1	Month 7-8	£3000	D/CM SI GMs	Workshop (facilitated by CMT Adviser)
7.2	Using the new procedures (see above) re-examine clients’ and other stakeholders’ needs and priorities	3	1	Month 9-10	£6000	SI GMs D/CM	£1000 Client Survey costs per SI
7.3	Regular events eg joint meetings /seminars between MoCI and the SIs to discuss issues of common interest	3	1	Months 4 & 11	£2000	PS D/CM	And periodically thereafter

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
7.4	Assist MIPA & MEPC with implementing the current “one-stop-shop” concept	2	1	Month 4-7, but as dictated by their plans	-	D/ED	
7.5	Ensure that the 2002/2003 planning cycle is carried out on a sector-wide basis. This will include joint planning sessions (MoCI & SIs) to ensure that Strategic Direction is defined using an inclusive process. Joint reviews of plans, objectives, targets and performance indicators	3	1	Month 4-6, but to fit Government’s Planning Timetable	£10,000	PS D/CM	Planning meetings
7.6	Conduct joint MoCI/MBS review (including other key stakeholders) of priorities and objectives, and reconsider funding arrangements	3	1	Month 4-5	-	D/ED Head of MBS	
7.7	Transform existing SIs into single Enterprise Development Agency or Company	4	3	Month 24 onwards		D/CM D/ED SI-GMs	Programme dependent on progress with Option 3

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
8.	<i>Rest of Government</i>						
8.1	Develop MoCI’s recent budget paper (used to secure HIPC fBunds) into a “position paper” for wider	3	1	Month 3	-	PS	

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
	circulation and debate with the aim of obtaining broad stakeholder support to arrange higher priority for the trade & industry sector (see also suggestions in main text)						
8.2	Revive the proposal for a high-level forum for Government/Business dialogue (The Business Council)	3	1	Month 5-6	-	PS	
8.3	Stimulate discussion at Cabinet Secretariat level on the need for additional technical support to Cabinet Committees, dealing with the economy and budget	3	1	Month 5-6	-	Minister for Commerce & Industry PS	
8.4	Develop, in conjunction with other senior stakeholders, proposals for a central Policy Coordination Unit, and stimulate discussion on its introduction	3	1	Month 8-10	-	Minister for Commerce & Industry PS	
8.5	Initiate discussions with DHRMD to make the case for accelerated pay reform for MoCI professional staff	2	1	Month 2	-	PS D/Admin	NB: Precedent set in MoJ functional review.
8.6	Add support to the implementation of the MoJ functional review	2	1	Month 1-2	-	Minister PS	
8.7	Initiate discussions with MoFA to improve the flow of trade and market related information from Malawi's diplomatic missions	3	1	Month 5	-	D/Int Trade Head of Info Mngt Unit	
8.8	Discuss with Sector Ministries methods of improving contacts, and thereby relationships, so that issues of common interest are addressed more effectively	3	1	Month 4	-	D/Int Trade D/Business Policy	
8.9	Initiate discussions with Ministry of Education and	3	1	Month 7-9	-	PS	

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
	Academia to consider the future longer-term education and training needed to sustain public and private sector trade related staff requirements						

	ACTIONS	OPTION	PHASE	TIME SCALE	COST	RESPONSIBILITY	REMARKS
9.	<i>Enterprise Sector</i>						
9.1	Encourage and facilitate the Manufacturing Sector to set up its own Association, with a view to the development of policies and approaches to stimulate greater manufacturing activity and exports	3	1	Month 5	£1000	D/CMT D/Business Policy D/Enterprise Devt	Seminar
9.2	Set up a Working Group to stimulate discussion and development of business education and training that would better meet the needs of the enterprise sector	3	1	Month 9	-	D/Enterprise Devt	
9.3	Review the TPNWG with the aim of formalising an expanded role and enhanced status.	3	1	Month 5-7	-	PS D/Int Trade	