

Synopsis: Challenges to soya export promotion: An institutional analysis of trade policy in Malawi

Noora-Lisa Aberman and Brent Edelman

In spite of relatively strong per capita Gross Domestic Product (GDP) growth, Malawi continues to face a variety of economic challenges, including severe balance of payments shortfalls, fiscal deficits, and pervasive poverty. Its economy relies heavily on agriculture, which contributes one-third of the country’s GDP and make up 90 percent of export revenues. Tobacco alone accounts for 60 percent of Malawi’s exports by value (ITC 2014). The country’s reliance on tobacco as its major export revenue earner leaves its economy vulnerable to exogenous shocks. Furthermore, with the official poverty rate at 50 percent of the population and an estimated 1.9 million people having been at risk of food insecurity in 2013-2014, economic shocks potentially can have dire human consequences (FEWSNET 2013).

One strategy for promoting a more stable and vibrant economy is to diversify away from tobacco and broaden the export base. In the Malawi National Export Strategy: 2013-2018, soya (Glycine max) is identified as a high-potential crop and prioritized for export promotion. (MoIT 2013) Moreover, planting more soya has the potential to increase incomes of the smallholder farmers who produce 93 percent of Malawi’s soya, can improve soil fertility through the ability of the crop to fix atmospheric nitrogen in the soil, and could address dietary deficiencies if consumed by more Malawians. However, data shows that, while soya production has steadily increased over the last decade, exports have been volatile, despite generally higher international prices. Overall, domestic prices show little relationship to international prices, both in terms of price movements from year to year and within the marketing season (Figure 1).

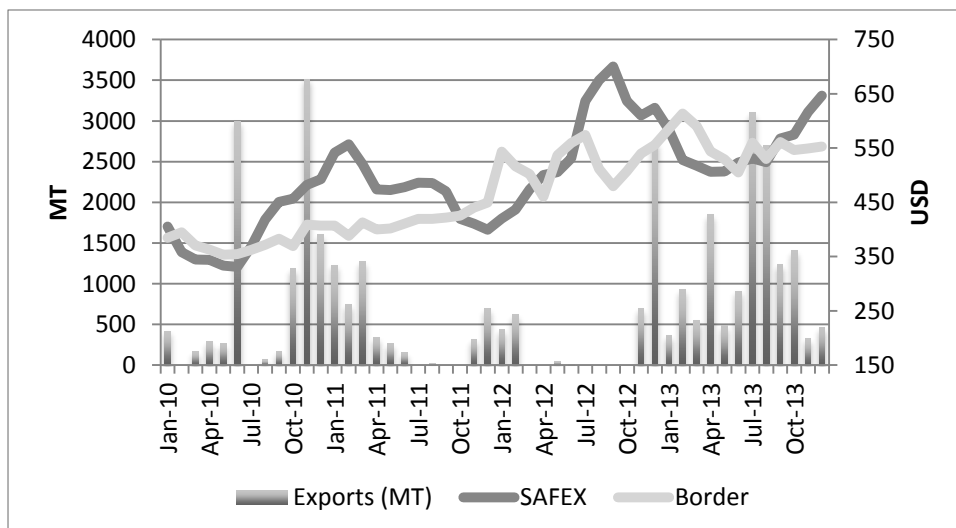
Institutional and Policy Environment Governing Soya Exports

So why are Malawi’s farmers and traders not exporting more soya, especially considering the numerous reforms the government has made to facilitate exports over the past 5 years? We hypothesize that institutional barriers impede consistent growth in soya exports and seek to identify the critical ones. To do so, we study the institutional and policy environment governing soya exports, the exporters and the regulatory actors involved, the framework of legal rules and requirements for exporting soya, and the ways in which the environment and regulatory framework influence actor behavior. In particular, we focus on the action arena—the exporters themselves and the regulatory bodies they engage with to fulfill all of the requirements to legally export

soya—as well as the broader policy and governance environment, in terms of how it influences trade policy rules and governance structures.

Using the Net-Map method, we collected qualitative and quantitative information from eight soya exporting firms (which accounts for approximately 40 percent of firms who planned to export in the year leading up to the study) and nine policy stakeholders (which accounts for approximately 70 percent of the soya trade policy actors). To triangulate data generated by these Net-Map interviews, we interviewed government and private sector entities involved in implementing the formal export policy rules and reviewed relevant government regulations, official communications, and press releases whenever possible.

Figure 1—Soya in Malawi – regional and domestic prices and exports, 2010 to 2013

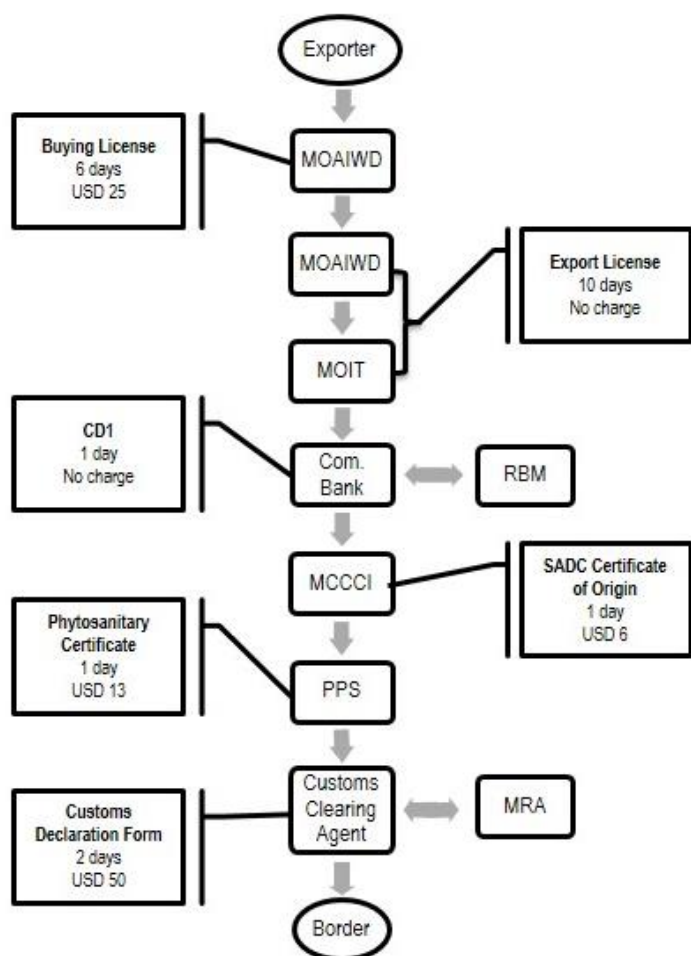


Source: Authors’ calculations based on Agri-Food Market Information Systems (AMIS), Malawi Revenue Authority (MRA), and South African Futures Exchange (SAFEX) data.

Findings

The analysis of the soya export regulatory environment, illustrated in Figure 2, finds that, from start to finish, formally exporting 30 metric tons of soya requires 21 calendar days and US\$95 to comply with the administrative requirements imposed by the government of Malawi. In addition to these cost and time requirements, exporting soya requires a total of 15 unique official documents, 11 separate office visits, and interactions with 8 different institutions. These figures do not take into account the time and costs of transport of the soya within Malawi or the costs and time delays incurred after the export has crossed out of Malawi into a neighboring country.

Figure 2—Soya export process



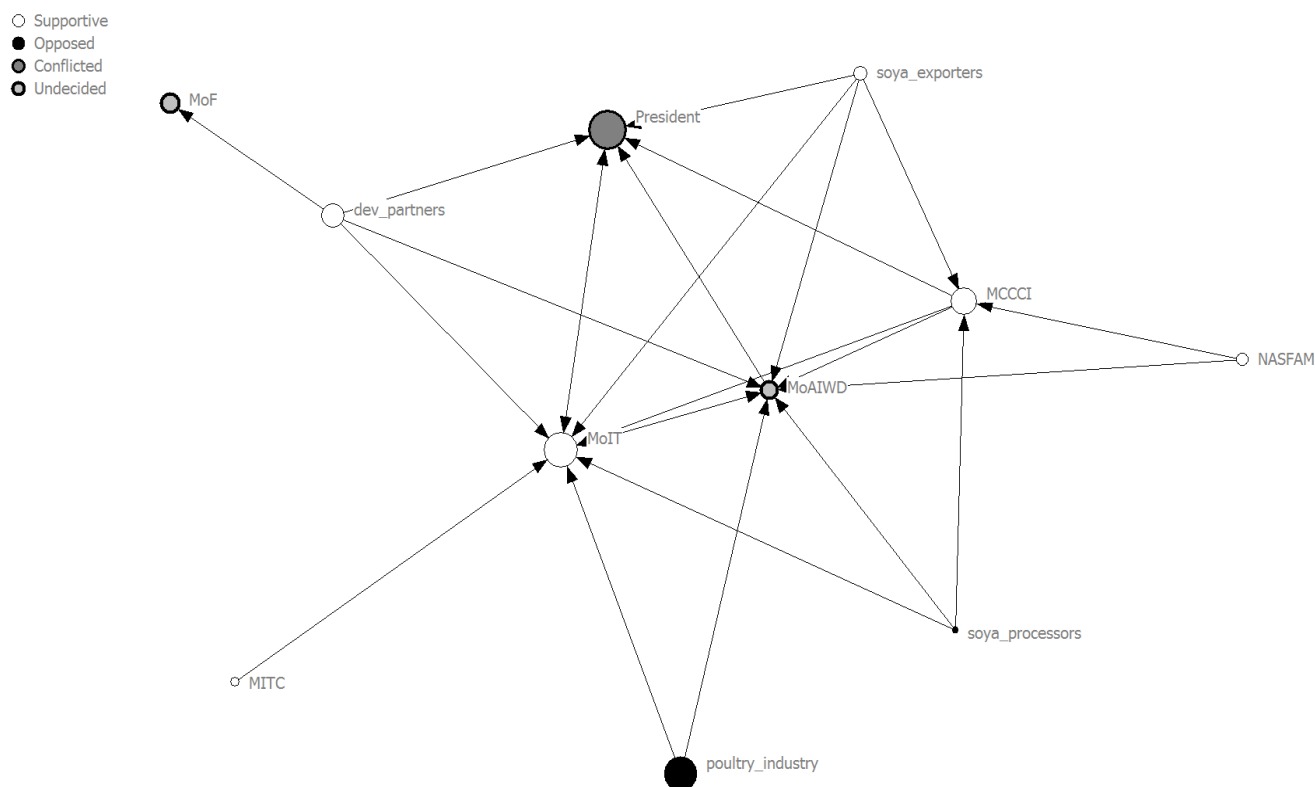
Source: Authors' calculations from interview data

Note: CD1: Currency Declaration Form. MCCI: Malawi Confederation of Chambers of Commerce and Industry. MoAIWD: Ministry of Agriculture, Irrigation, and Water Development. MoIT: Ministry of Industry and Trade. MRA: Malawi Revenue Authority. PPS: Plant Protection Service. RBM: Reserve Bank of Malawi.

Beyond the costs of complying with the official requirements, the degree of variation in terms of the time required and inconsistent enforcement of these rules and regulations generates uncertainty for exporters, increasing their risk and transaction costs: the minimum time required to complete the official requirements for an export is 14 days while the maximum is 61 days. Furthermore, the lack of clarity about how official requirements are supposed to be met creates opportunities for patronage and rent seeking behavior. Exporters often rely on personal connections or stature in the community to have export requirements attended to quickly. And regulatory bodies are seen as applying their discretionary power in the export process, further weighting the system in favor of the well-connected actors. Finally, some regulations governing the export process for soya were enforced either in an ad hoc manner or not at all; others were enforced but this enforcement did not ensure that the original intents of the regulations put in place were being achieved. These findings all point to inconsistent application of the rules and regulations governing the export process for soya.

The export license requirement in particular generated complexity (three unique pieces of documentation and visits to two different ministries required) and uncertainty (a range from five to 30 days for completion of all requirements) for exporters. Although this requirement was legally removed by a September 2013 policy reform, several exporters still reported either needing the export license upon arrival at the border or not being sure if it was required; MRA border officials themselves were unsure if the license was required or not when asked in the course of the study. Because of the way the reform was implemented – a type of amendment that did not require Parliamentary approval, the export license requirement could be reimposed overnight. This policy uncertainty is a legitimate concern for soya exporters considering that the export license is the legal instrument through which soya exports were banned in the three of the past four years due to pressure from domestic industrial consumers of soya, actors that wield considerable power and access in the policy and governance environment (Figure 3).

Figure 3—Trade policy network: policy pressure links, power scores and policy positions



Source: Authors’ calculations with UCINET from interview data.

Note: MoF: Ministry of Finance. Dev_partners: development partners. MoIT: Ministry of Industry and Trade. MITC: Malawi Investment and Trade Centre. MoAIWD: Ministry of Agriculture, Irrigation and Water Development. MCCI: Malawi Confederation of Chambers of Commerce and Industry. NASFAM: National Association of Smallholder Farmers. Actors’ sized according to power score. Policy position legend on top left.

The trade policy network in Figure 3 indicates a highly-centralized, top-down decision making structure that, in the absence of internal capacity to analyze policy positions, relies heavily on advice from external stakeholders. This top-down governance reflects a culture of strong leaders and a highly controlled policy environment that is more likely to add layers of regulation rather than to rely on market forces, in spite of low enforcement capacity by

government. While government at the time of data collection appeared to be supportive of simplifying the soya export regulatory system, this is due to a combination of the individual characteristics of the leadership and pressure from international actors, and despite the governance culture just discussed. It is not clear if this trend toward reform will continue in coming years and under future administrations.

Understanding the Policy and Governance Environment with Net-Map

The policy and governance environment is a key aspect of the institutional environment in which the institutional action domain is embedded (Kirsten et al. 2009). We use a combination of social network analysis, power mapping and qualitative interview data—the Net-Map interview method—to assess the policy network structure and characteristics.

Actor-oriented approaches to research help illuminate how individual actions combine to create a “process of mutual construction” of institutions (Keeley and Scoones 1999). A network can be viewed as a conceptualization of the institutional environment, yet it is also made up of individual relations – also referred to as links or ties – that represent social capital, control of knowledge, or aspects of power, depending on the context (Wasserman and Faust 1994).

A paper-based tool, Net-Map is participatory rather than extractive, is flexible for adapting to various research questions and contexts, and its use in illuminating the structure of the institutional environment is based in actor-network theory and social network analysis. The social network data visualized in Figure 3 shows the network structure and actor characteristics, primarily through analysis of centrality measures. For instance, a highly centralized network is seen as highly controlled while a decentralized network is seen as resilient to shocks and more prone to innovation. An actor with many incoming links—in-degree centrality—is often described as prominent or respected while an actor with many outgoing links—out-degree centrality—is considered influential (Hanneman and Riddle 2005). Qualitative data and power and goal mapping provide additional insight, and opportunities for triangulation, into the policy and governance environment.

The Malawi Confederation of Chambers of Commerce and Industry (MCCCI), in its role as representative of the private sector and particularly in its facilitation of the Public Private Dialogue Forum, was described by most actors as playing an important role in the debate around policy reform. However, some influential actors bypass this forum by going directly to the Ministries concerned to advocate for their own specific interests with regard to soya exports from Malawi. In the past, this combination of a hierarchical decision-making structure with little capacity to inform the policy discussion internally and a lack of forums to facilitate transparent decision-making processes could help explain how export bans on soya were imposed in 2010, 2011, and 2012, with no apparent public discourse or consultation.

Recommendations

With a lack of clarity among regulators and exporters on what the rules guiding the export of soya from Malawi are and how to fulfill them, addressing information gaps could quickly and significantly improve the functionality of the export process. Clear articulation and communication of official rules and requirements can increase transparency and decrease the need for patronage in fulfilling official export requirements. A system should be put in place wherein both civil servants within regulatory bodies and exporters have access to and rely on the same sources of information on requirements, the legal basis for a requirement or rule, the costs involved, and the documentation needed to fulfill it.

Furthermore, the government can promote and legitimize forums for public-private dialogue to further cut down on preferential behavior by regulators. Research on industrial policy processes points to the importance of embedding the private sector in the process of policy decision-making. MCCCI can catalyze this by bringing together private and public sectors, bringing together the powerful with the less powerful, and galvanizing the pro-re-

form actors. However, this strategy is only effective if the government, particularly the President and the Minister of Industry and Trade, emphasize and legitimize this forum through high-level attendance and attributing importance to the consensus that comes out of it.

Finally, the government should make permanent the amendment to the Control of Goods Act removing soya from the list of goods requiring an export license. One way to do this is by amending the Act itself, which requires Parliamentary approval. This way, if lobby groups attempt to pressure government to ban the export of soya in the future, government will have to request that Parliament vote on re-amending the Control of Goods Act in order to empower the Minister of Industry and Trade to legally ban the export of soya. This type of reform would help ensure that a ban cannot be put in place overnight, as has been done in the past, thus helping exporters to plan accordingly and avert having to default on existing contracts. It would also shed more light on the process behind the implementation of an export ban and potentially open up to public debate the topic of whether or not the export ban should be put in place.

In summary, lack of transparency and predictability of the rules and requirements in the soya export and policy formulation processes are the key constraints to an expanded and dynamic soya sector in Malawi. While government capacity to quickly and consistently regulate and coordinate the sector, a challenging and expensive issue to address, underlies the problems of transparency and predictability to some degree, this study has pinpointed a few quick-win policy options that are feasible in the current context and inexpensive to implement. These include the development of an accessible information platform to lay out the soya export requirements and directions for fulfilling them, the further formalization of the export license reform, and the continued promotion and legitimization of the Public Private Dialogue Forum.

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INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

2033 K Street, NW | Washington, DC 20006-1002 USA | T+1.202.862.5600 | F+1.202.457.4439 | Skype: ifprihomeoffice | ifpri@cgiar.org

IFPRI-LILONGWE

P.O. Box 31666 | Lilongwe 3, Malawi | T +265-1-771780 | ifpri-lilongwe@cgiar.org

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