MALAWI
Strategy Support Program

INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE
IFPRI
A member of the CGIAR Consortium

WORKING PAPER 11 | January 2015

Challenges to Soya Export Promotion

An Institutional Analysis of Trade Policy in Malawi

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDIX TABLES

LIST OF APPENDIX FIGURES

Abbreviations and acronyms

MCCCI	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 Services
SADC	Southern Africa Development Community

ABSTRACT

Malawi relies heavily on tobacco for export earnings. One strategy for promoting a more stable and vibrant economy is to diversify away from tobacco and broaden its export base to high potential commodities like soya. We hypothesize that there are institutional barriers impeding consistent growth in soya exports and seek to identify the critical ones. This study undertakes an institutional analysis of the soya export sector. Using a qualitative research approach based on semi-structured interviews, we examine: a) the policy environment, b) the exporters and the regulatory actors, c) the framework of legal rules and requirements for exporting soya, and d) the ways in which the policy environment and regulatory framework influence actor behavior.

We find a highly centralized policy and governance environment that, when faced with a decision, is more likely to add layers of regulation than rely on market forces, in spite of low enforcement capacity. Regarding actors' behavioral responses to the regulatory framework and the policy environment, we find inconsistent application of rules and regulations, highlighted by time variations, perceived discretionary power, and lack of enforcement; these inconsistencies are driven by lack of capacity to implement the requirements effectively due to understaffing and infeasibility of enforcement.

Key words: Soybean, exports, trade, institutions/ institutional economics, Net-Map, governance

1. INTRODUCTION

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. In 2013, Malawi imported USD 2.8 billion worth of goods and services, but managed to export only USD 1.2 billion (ITC 2014); this USD 1.6 billion trade deficit represents 36 percent of Malawi's GDP (World Bank 2014a).

Malawi's economy relies heavily on agriculture—it contributes one-third of the country's GDP. Agriculture is critical to Malawi's trade—agricultural products make up 90 percent of export revenues, with tobacco alone accounting for 60 percent of Malawi's exports by value (World Bank 2010a). The country's reliance on tobacco as its primary export revenue earner leaves its economy vulnerable to exogenous shocks. In 2012, for example, the impact that the erratic rains of that cropping season had on the tobacco crop reduced real GDP growth by 2 percent (Reserve Bank of Malawi 2013). Furthermore, with the official poverty rate at 50 percent of the population and an estimated 1.9 million people at risk of food insecurity in 2013-14, 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 Malawi's 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). Within the oilseeds sector, soya is identified further as a commodity that has strong domestic and regional demand, has high potential for improved incomes for farmers, and is a sub-sector of the economy in which Malawi already has a comparative advantage. 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 (Jayne and Rashid 2013; Salvagiotti et al. 2008; Ecker and Qaim 2011). One part of developing a more dynamic soya sector in Malawi is to develop the soya export sector. However, data shows that, while soya production has steadily increased over the last decade (12.5 percent compound annual growth rate[1]), exports have been volatile in spite of rising international prices (Appendix 1).

In order to stimulate consistent growth in Malawi's soya export sector, the academic literature on trade policy reform generally advocates reducing existing barriers to trade in order to improve linkages between domestic and international markets (ITC 2012; Hoppe et al. 2013). In addition, many developing countries, such as Malawi, face challenges in the implementation and enforcement of the formal laws and regulations on agricultural exports in place. The uncertain regulatory environment that results may be equally or more limiting for trade than more formal barriers, since it increases risk and, thus, transaction costs for exporters (Kirsten et al. 2009; Andrews and Bategeka 2013).

This study undertakes an institutional analysis of the soya export sector in Malawi to determine the critical institutional barriers to engaging in and expanding soya exports. Institutional economics allows for the study of both formal and informal rules, examining the impact of both on transaction costs and resultant actor behavior. Institutions can be defined as systems of established and prevalent social rules that structure the interactions of economic actors (Hodgson 2006). Where institutions are weakly developed, individuals engaging in that particular arena often bear high transaction costs due to weak coordination and enforcement (Kirsten et al. 2009). Examination of the global and regional market shows Malawi soya to be competitive in these markets (Appendix 1). Thus, we hypothesize that there are institutional barriers impeding consistent growth in soya exports from Malawi and seek to identify the critical ones.

The focus of this study is on the institutional and policy environment, the exporters and the regulatory actors, the framework of legal rules and requirements for exporting soya from Malawi, and the way in which the environment and the regulatory framework influence actor behavior. We combine quantitative and qualitative research methods. The following section describes the study methodology, sampling design, data collection, and analysis. Then the paper presents the study results through describing the policy and governance environment in the soya export sector, the actors involved and their attributes, the details of the regulatory framework, and actor responses to these institutional characteristics. Finally, the implications for policy are discussed.

2. METHODOLOGY

This study undertakes an institutional analysis of the soya export sector in Malawi to determine the role of institutions in impeding growth of soya exports. Institutions are characterized by various degrees of formality. This study assesses both the formal rules and regulations associated with the soya export sector as well as the social norms and conventions that determine how the rules are complied with and enforced (Ostrom 2005; Buchanan, Chai, and Deakin 2013).

Buchanan, Chai and Deakin (2013) explore a range of methods for assessing institutions and argue that quantitative methods, while helpful, are limited and do not sufficiently answer many institutional questions. They point out that

[1] Authors' calculations based on MoAIWD production estimates.

institutional phenomena are path-dependent and contingent on local factors, making it critical to ascertain the aspects of the social environment that have shaped the institutions of study. Furthermore, qualitative approaches can more easily reveal non-linear and cumulative effects, clarify issues of sequencing, and delve into assumptions of quantitative research methodologies. Finally, where social norms and conventions do not yield a high level of respect for laws and rules, issues of enforcement and implementation—which are challenging to measure quantitatively—generally are more important in guiding actor behavior than are *de jure* laws.

Consistent with the above discussion, this study takes a mixed-methods approach to assessing the institutional environment for the soya export sector in Malawi. The focus is on the *action arena*—the exporters themselves and the regulatory bodies they engage with to fulfil the legal requirements—and on the broader policy and governance environment, particularly in terms of how it influences trade policy rules and governance structures.

Data collection and sampling

Primary data was collected through semi-structured interviews with exporters, regulators, government actors, and other policy stakeholders. We undertook a *criterion sampling* approach, wherein individuals with rich information on a topic are identified for interview (Cohen and Crabtree 2006), and interviews continued until saturation was reached. In addition to recording actors' narratives about the formal requirements for exporting soya and the institutional environment in which these requirements are embedded, quantitative information was also recorded, including:

a) Costs and time requirements for completing formal export requirements;

b) Perceptions about the amount of discretion that regulatory actors employ in the soya export process, quantified into a ranked score of 1 to 5;

c) Social network data reflecting policy actors involved in pressuring for or, alternatively, blocking reform of the formal export requirements for soya.

The key research tool utilized is a participatory mapping method, Net-Map (Birner, Cohen, and Illukor 2011; Schiffer and Hauck 2010), which allows for the collection of quantitative and qualitative data in the context of a semi-structured interview. The Net-Map method is an interview-based mapping tool that layers actor interactions—in the form of social network data—with principles from stakeholder mapping and power mapping to assess how different actors influence outcomes (Schiffer and Hauck 2010). 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.

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 variant of Net-Map, Process Net-Map, was specifically designed to understand implementation of complex processes in practice, a critical piece of understanding the action arena (Raabe et al. 2010). This tool was applied here to track the steps required to export soya from the farm gate to the border. Adaptations made to the tool include the addition of questions on the time and cost requirements for each step of the process and framing discussion of power in terms of the discretionary power of each regulatory actor, as discussed above.

In order to collect qualitative and quantitative information, semi-structured individual interviews were held with nine policy stakeholders (which accounts for approximately 70 percent of the soya trade policy actors[2]) using the Net-Map method and with eight soya exporting firms (which accounts for approximately 40 percent of firms who planned to export in the year leading up to the study[3]) using the Process Net-Map method. In addition, unstructured interviews were held with all government and private sector entities involved in implementing the formal export policy rules. Furthermore, formal government documents were sought and acquired whenever possible in order to triangulate the information collected through the semi-structured interviews.

Analysis

Qualitative data was recorded through detailed notetaking during interviews and, when permitted by the interviewee, interviews were recorded. This data was used in forming the narrative of the study and for triangulation of the quantitative data collected.

[2] An actor generation activity was undertaken with each of the policy stakeholders, asking interviewees to list all the actors involved in influencing soya trade policy in a given time frame, in order to confirm that none were missing. Those that were included in the population of actors were agreed to across at least three interviewees.

[3] Based on a review of MoIT-issued export licenses for soya for the period 2011 to 2013.

Social network analysis data was compiled and analyzed for network and actor characteristics using UCINet software (Borgatti, Everett, and Johnson 2013).[4] The mapped soya export process was compiled and confirmed across interviews. In addition to the export process map, we report on two additional outcomes for each step in the process: time (in number of calendar days) and cost (in USD). For time requirements for a given step, we present the median values. For costs, only official fees and fees for legal services required by law are reported; any unofficial or informal payments are excluded.[5]

To complement the qualitative and social network analysis where necessary, we studied formal exports of soya using Malawi Revenue Authority (MRA) data, informal exports based on the Famine Early Warning Systems Network (FEWSNET) border monitoring reports, and price data from the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) and from the South African Futures Exchange (SAFEX).

Ethics

All respondents' identities have been kept confidential given the possibly politically sensitive nature of the discussions. In addition, the study was approved by IFPRI's Institutional Review Board.

3. POLICY AND GOVERNANCE ENVIRONMENT

The policy and governance environment is a key aspect of the institutional environment in which the institutional action domain is embedded. Characteristics of the environment will condition how actors react to institutions. Kirsten et al., (2009) describe the policy and governance environment as a set of fundamental political and social ground rules in which institutions are developed. The environment is considered to be fixed in the short and medium-term.

This section examines the characteristics of the policy and governance environment for the soya export sector that, in part, determine trade policy rules and governance structures. We use social network analysis to assess the policy network structure and characteristics. The network analysis is complemented with qualitative data obtained from interviewees further describing the network and its characteristics. The network, shown in Figure 1, depicts the way in which actors try to influence soya export policy. (See Appendix 2 for information on each actor considered in this analysis.) The trade policy network includes 11 actors. The size of the circle representing each actor reflect the perceived power of each to influence policy – the larger in size the more powerful the actor – and their color reflects their position on trade policy reform: i.e., supportive, opposed, conflicted, or undecided.

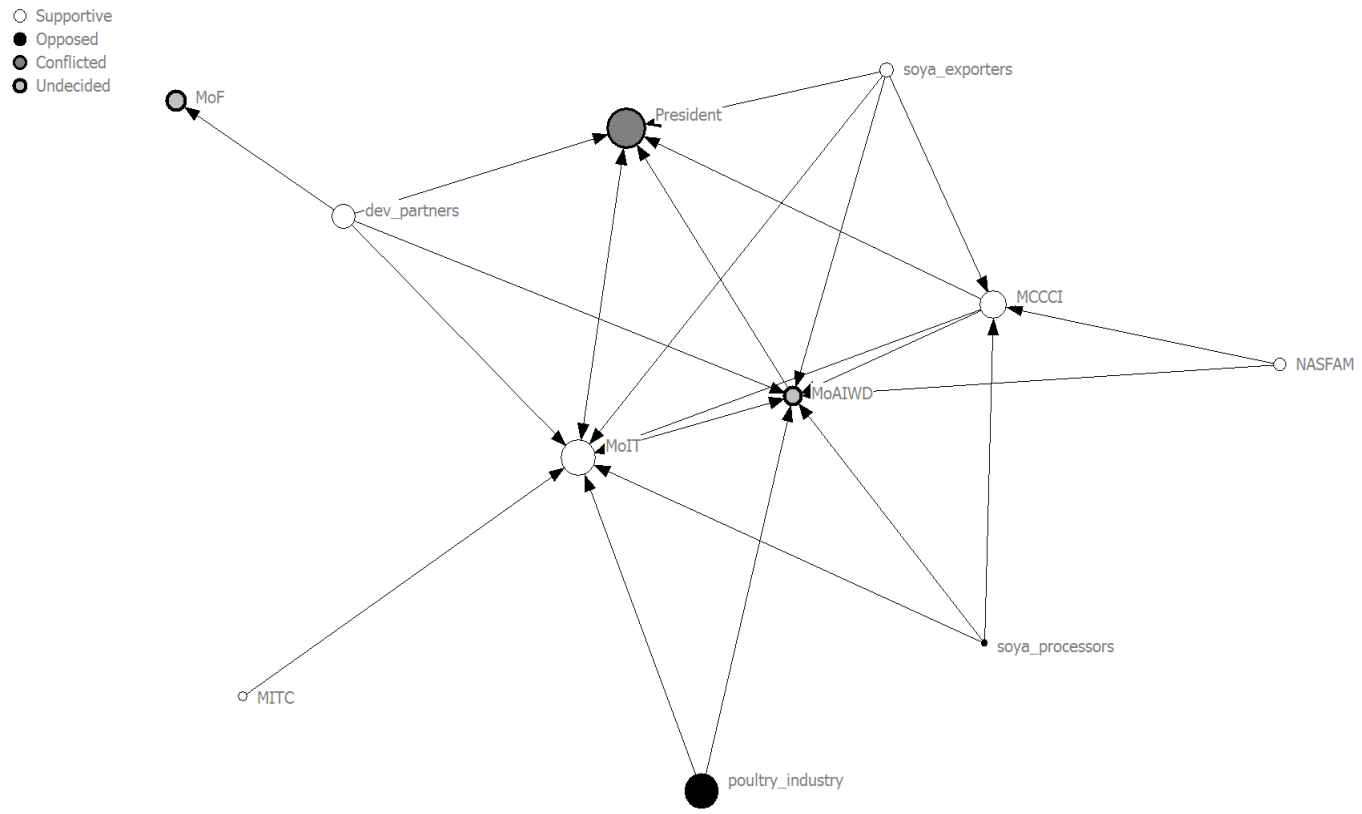
The network structure depicts a highly centralized and top-down government decision-making structure. This network structure agrees with the qualitative interview data in that it indicates that policy reforms are more likely to be determined according to political concerns, rather than technical concerns. Technical advisors within the ministries are not likely to risk pushing for reforms that are not favored by the political leadership, even if they are technically sound. The centralized network also gives the impression, supported by the qualitative data collected and previous research, that the key ministries—the Ministry of Industry and Trade (MoIT) and MoAIWD—are not undertaking their own technical analysis to inform policy decisions. Rather, such policy advice is received by these Ministries largely from external stakeholders. This is not an uncommon characteristic of such policy networks in Africa. Other policy network research in Malawi has yielded similar results (Aberman et al. 2012; Resnick 2012). Interviewees also described how past presidential administrations in Malawi have varied in their degree of openness to trade policy reform, to the extent that technical staff within the MoIT refrained from passing pro-reform technical advice up to the senior leadership under previous administrations, reflecting the top-down structure of the policy network.

This top-down governance reflects a culture of strong leaders and highly controlled policy environments that is more likely to add layers of regulation to agricultural export processes rather than to rely on market forces, in spite of low enforcement capacity. While the current 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 an underlying culture of weak governance. It is not clear if this trend toward reform will continue in coming years and under future administrations.

[4] Network data was collected in the form of complete network, rather than ego networks, which is the more common approach in the social network analysis literature. The complete network approach was preferable because: a) we did not know the bounds of the network as a policy network is ill-defined, and b) some actors are no longer available or not willing to submit to interviews (such as the President). We rationalize the validity of a few actors' ability to represent the whole network based on research by Krackhardt (1987), who suggests an actor's perceptions of a given network structure and the power of the relative actors in the network are associated with objective measures of structure and power. However, an actor's position in the network will influence their perception. As such, we ensured that data was sought from different types of actors in different positions in the network and aggregated the data obtained in order to capture all the relevant perspectives of the network and to mitigate positional bias.

[5] This approach is a direct application of the *Doing Business* method (World Bank, 2014b) of measuring the time and costs.

Figure 1—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. MCCCI: Malawi Confederation of Chambers of Commerce and Industry. NASFAM: National Association of Smallholder Farmers. Actors are sized according to power score. Policy position legend at top left.

4. ACTOR POWER AND POLICY POSITIONS

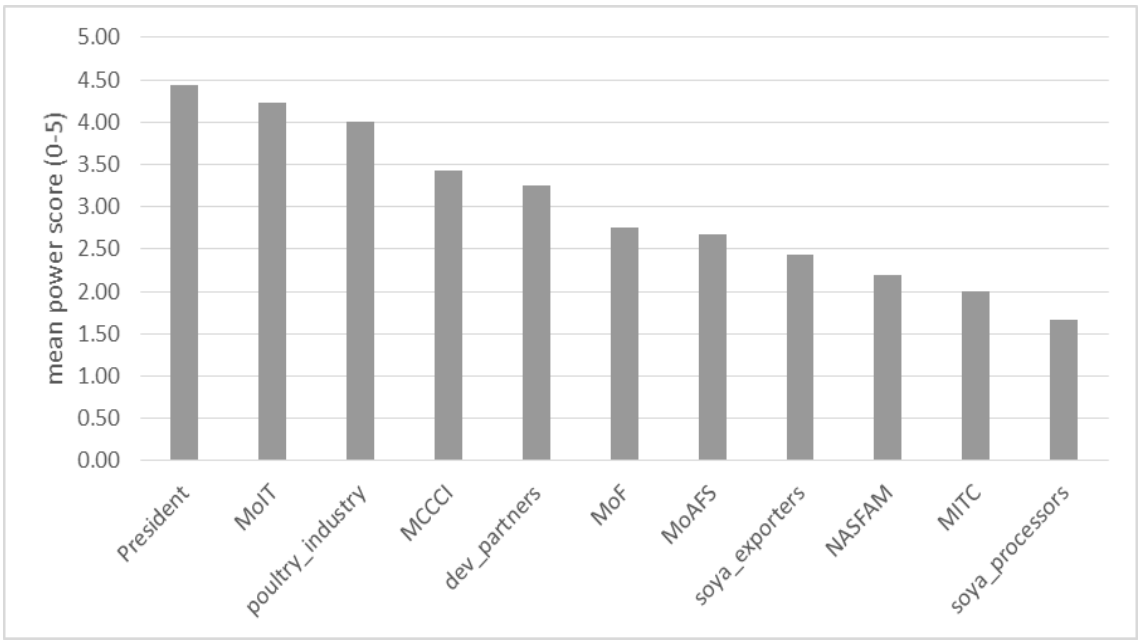
Various characteristics of the actors involved in soya exports from Malawi and related policy development will determine the institutional landscape. There are just a handful of firms consistently exporting soya from Malawi. These firms are all prominent large-scale firms in Malawi. We were unable to locate any medium-scale firms or farmers' cooperatives engaged in formal soya exports.

MoIT is the focal government body for the promotion and regulation of exports. MoAIWD is also relevant to the soya export sector as the Ministry regulates domestic marketing of agricultural products and plays a role in the approval process for firms who want to export soya. Other relevant regulatory bodies are the Reserve Bank of Malawi, which works with a firm's commercial bank to issue a Currency Declaration form, the Plant Protective Services, and the Malawi Revenue Authority, the main authority for ensuring that fees are paid for all imports and exports.

The most influential actors in terms of influencing soya export policy are the President, followed by MoIT and the poultry industry within the private sector. Power measures in social network analysis are based on the perceptions of interviewees averaged from across all interviews and are depicted in Figure 2. Interviewees pointed to the highly top-down nature of government to explain the power of the President and MoIT. MoAIWD, in contrast, is less engaged in these issues and so has a lower power score.

The poultry industry, which is made up of a handful of companies who are the primary domestic consumers of soya in Malawi, have a high power score. Poultry is largely a luxury good in Malawi with only wealthier Malawians consuming it regularly. With very little industry in the country, the commercial poultry firms are among the few successful, and thus influential, businesses in Malawi. Soya processors largely produce soya oil and use the by-product, soya cake, to produce feed for poultry companies. These two industries, thus, are closely related and, in some cases, even jointly owned, although interviewees perceived the poultry industry to be the more powerful influencer of policy. Both the poultry industry and soya processors were described both by themselves and by other stakeholders as opposed to reforming the soya export regulation to increase exports.

Figure 2—Actor power in trade policy reform



Source: Authors' calculations 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. MCCCI: Malawi Confederation of Chambers of Commerce and Industry. NASFAM: National Association of Smallholder Farmers.

Exporters, not surprisingly, were in favor of reforming the soya export regulations to make it easier to export. Development partners and the MoIT were both in favor of policy reform as a mechanism for improving the business environment and spurring private sector development.

During the Bingu wa Mutharika administration from 2004 to 2012, the President was considered to be opposed to reforming the soya export policy to facilitate exports, while MoIT was considered to be conflicted about the policy reform. These policy positions have since changed. President Joyce Banda, who succeeded President Bingu wa Mutharika was vocal about reforming policies to improve the business environment, with export policy reform as one item in her reform agenda. However, other stakeholders considered President Banda to be conflicted over these reforms, as they thought she likely had important constituents advocating both for and against reform. The MoIT was considered to be supportive of reforms during her administration. The policy position of President Peter Mutharika on export policy reforms that will affect trade in soya has not yet been established, as he only recently assumed power in May 2014.

The Ministry of Agriculture had been perceived as undecided on the issue of soya export policy reform, reflecting that agriculture policy in Malawi has been largely concerned with food security and the Ministry is only now beginning to see trade as relevant to its mission and scope of work. This change in outlook is indicated by the formation in 2014 of a MoAIWD Technical Working Group on Commercialization and engagement in a new private sector-focused policy framework—the New Alliance Framework for Food Security and Nutrition—that is increasingly guiding policy action by MoAIWD.

Finally, the research literature on industrial policy highlights the importance of public-private dialogue in industrial policy formation (Rodrik 2004). There is such a forum in Malawi, the Public-Private Dialogue Forum, facilitated by the MCCCI. While many stakeholders stated that they were able to voice their opinions with regards to trade policy reform at past meetings of the PPD forum, however, at the time of writing it was considered defunct by most informants, as it had not met since August 2013.

5. REGULATORY FRAMEWORK GOVERNING SOYA EXPORTS

This section describes the implementation and enforcement of policies governing soya exports. It describes the steps required to export soya from the vantage point of an exporter who procures the soya at the farm gate and then follows all of the rules and regulations required to formally export soya within the Southern Africa Development Community (SADC) region. Using data collected in the Process Net-Map interviews, we also quantify the time and cost requirements for exporters. Thereafter, we use findings from the interviews to examine how consistently the rules and regulations governing the export process are enforced on exporters.

From start to finish, formally exporting 30 metric tons of soya requires 21 calendar days and USD 95 to comply with the administrative requirements imposed by the government of Malawi.[6] In addition to these cost and time requirements, exporting legumes requires a total of 15 unique supporting pieces of documentation, 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.[7]

The process to export soya requires the exporter to obtain the following six official documents:[8]

1. Buying License
2. Export License[9]
3. Currency Declaration Form
4. SADC Certificate of Origin
5. Phytosanitary Certificate
6. Customs and Excise Declaration Form (Form 12)

Figure 3 shows the institutions responsible and the reported time and cost requirements for each step in the export process for soya from Malawi. These time and cost requirements pertain to a first-time exporter who has not previously engaged in the export of soya in a given year. As each of these documents is valid for less than one year and a unique copy is required for a single container – here, a 30 metric ton truck – being exported, these time and costs requirements align with the World Bank's methodology for its "Trading Across Borders" indicator (2014b).[10]

[6] All costs are reported in USD and time is reported in calendar days; the Reserve Bank of Malawi's 9 June 2014 exchange rate of 397 MWK/USD is used for all currency conversions.

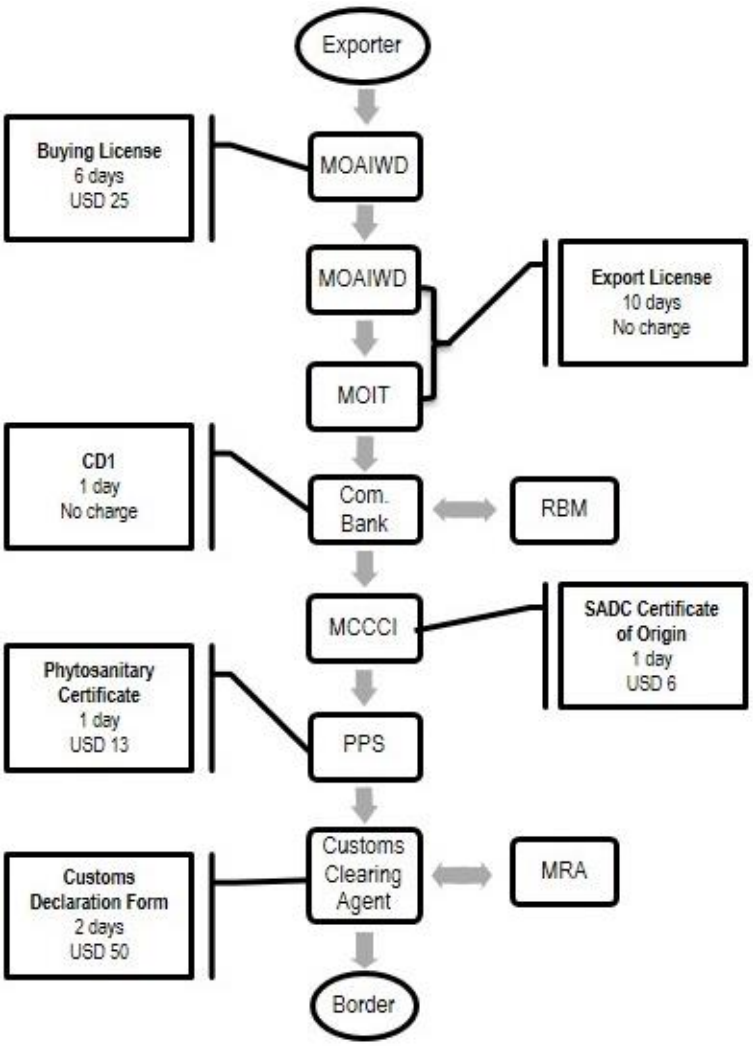
[7] This study assumes that the exporting entity has already established itself as a legal company within Malawi; based on the World Bank's Doing Business survey (2014b), this requires an additional 38 days and USD 243.

[8] See Appendix 3 for further details on the soya export process.

[9] According to the explanation of MoAIWD and MoIT officials of the export license step, the exporter does not need to visit MoAIWD and then take the application to MoIT. Consequently, it should count as one step. In practice, however, exporters report that they visit both institutions to expedite the process. The requirement of an export license was removed through a September 2013 policy reform. Exporters who were interviewed were asked to map out the export process for the exporter's *most recent export*. As these interviews were conducted in early 2014, several exporters reported still needing to obtain an export license. Exporters indicated that the removal of the export license was a positive development, but that the permanency of the reform was uncertain. See section 6 for further discussion.

[10] As most soya exporters engage in multiple exports throughout the season, some documents can be used for multiple export consignments, whereas other documents are required in original for each truck within a given export consignment. In order to capture these complexities, we pro-rate the time and cost requirements outlined above for a typical soya export consignment of 30 metric tons and report these results, along with an estimate of costs incurred due to time delays, in Appendix 3.

Figure 3—Soya export process



Source: Authors' calculations from interview data

Note: CD1: Currency Declaration Form. MCCCI: 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.

Discretionary power and consistency of enforcement

We also sought from our interviewees to determine the consistency with which rules and regulations governing the export process are applied and enforced and the degree to which discretionary power was applied by regulatory bodies. This was done in three ways. First, we asked exporters about the average or "normal" amount of time a particular step in the process took. We then inquired about the shortest and longest amounts of time each particular step of the export process took for exporters. With these measures we can better understand how much the time taken for a given step in the export process deviates for a given exporter across multiple exports. If rules and regulations are being applied consistently across exports for a given exporters, then these times should converge.

Second, we asked exporters about the relative discretionary power of each institution involved in the export process. If a given institution has little ability to speed up or slow down the process, then rules and regulations are being applied consistently for that step of the process; if, however, an exporter has the impression that an institution has the discretion—either through deliberate actions or increased efficiency—to speed up the export process, then this is an indicator that rules and regulations are not being applied consistently across exporters or across the different export experiences of a given exporter.

Finally, we asked exporters to describe the effectiveness with which the rules and regulations of the export process were enforced. In other words, to what extent does the formally stated process for fulfilling the rules differ from how the exporter navigates the process in practice? If enforcement is effective, then the underlying reason for which a particular administrative requirement was originally put in place—assuring the sanitary state of the export through the phytosanitary certificate, for example—is being satisfied.

Table 1—Discretionary power by institution

Step	Days			Institution	Power
	Min	Median	Max		(0-5)
Buying License	5	6	15	Ministry of Agriculture, Irrigation, and Water Development	2.8
Export License	5	10	30	Ministry of Industry and Trade	2.3
Currency Declaration Form	1	1	10	Reserve Bank of Malawi	0.0
SADC Certificate of Origin	1	1	3	Malawi Confederation of Chambers of Commerce and Industry	0.0
Phytosanitary Certificate	1	1	3	Plant Protection Services	0.0
Customs and Excise Declaration Form	1	2	3	Malawi Revenue Authority	1.6

Source: Authors' calculations from Process Net-Map data

For time requirements, the period needed to obtain the export license (5 to 30 days) and the buying license (5 to 15 days) exhibited the most variation; the other four steps of the export process showed little variation in time requirements (Table 1). Not surprisingly, the two regulatory institutions involved in issuing the export and buying licenses, MoAIWD and MoIT, were ranked as having the most discretionary power in the soya export process.

Regarding consistency of enforcement, information from interviews indicated that enforcement was either inconsistent or non-existent for the following requirements:

1. **Buying License:** exporters reported that they were rarely required to show evidence of having a buying license when procuring soya from farmers.
2. **SADC Certificate of Origin:** exporters reported that they could obtain this certificate without showing any proof that the soya was actually grown in Malawi.
3. **Phytosanitary certificate:** exporters reported that they could obtain this certificate by taking their own sample of soya to Plant Protection Services (PPS), rather than having PPS staff come to visit the export consignment and randomly sample the soya. In some cases, exporters obtained the certificate without showing any evidence of the condition of the soya that they were to export.

For two of the other procedures, the currency declaration form and the export license, enforcement of the requirements did not provide government with the information the requirements were put in place to obtain. Officials reported that the currency declaration form, intended to ensure that foreign exchange earned on exports was being repatriated to Malawi, was being underreported by exporters, but that resources for enforcement were lacking. The export license requirement was originally put in place to ensure that only registered exporters were engaged in exporting and to enable government to track exports. However, exporters reported not being asked to show proof of being a registered exporter when applying for the license and government did not have a mechanism in place to track which export licenses had been used and for what quantity of goods.

Finally, a review of detailed informal export data from 2013 shows that both registered and many other smaller-scale unregistered exporters shipped consignments of soya across Malawi's borders illegally. These ranged in size from 120 to 600 metric tons.[11] In these cases, firms did not show any documentation, but rather bypassed the formal border checkpoint altogether. The existence of these large-scale informal exports means that, in at least some instances, none of the requirements for formal soya export were enforced.

These findings all point to inconsistent application of the rules and regulations governing the export process for soya. In particular, administrative processing time variations, perceived discretionary power, and lack of enforcement could be being driven by different factors. One cause could be lack of capacity to implement the export requirements effectively and in a timely manner. In the case of PPS, for example, the agency simply lacks the resources to effectively sample and test soya exports and to issue a phytosanitary certificate that can be trusted by exporters and buyers in the importing country. For the buying license, the large time variations in obtaining the license and the lack of enforcement of its use could be due to understaffing of officers to issue such licenses and the impracticality of randomly checking farm-gate procurers for whether they possessed buying licenses. As several exporters reported that whether one has access to Ministry and other regulatory officials has an effect on how quickly one could complete certain export regulatory processes, another driver of this inconsistency could be that actors are using their regulatory power over the export procedures to extract rents from exporters.

[11] Source: Authors' analysis of FEWSNET informal trade data.

6. NAVIGATING THE INSTITUTIONAL SET-UP: ACTOR RESPONSES

The critical reason to study institutions is to understand how they affect the behaviors of economic actors. As mentioned above, institutional weakness and inconsistency can increase transaction costs for economic actors. In order to avoid the commercial risks associated with an inconsistent and weakly enforced institutional environment, exporters may decide not to engage in economic activity—to stop exporting or decide not to enter the sector—or to find ways to cope with or bypass the institutional challenges, all of which may carry implicit costs. Institutional weaknesses may also provide opportunities for certain actors to benefit from patronistic or rent-seeking behaviors.

Soya exporters in Malawi tend to cope with the inconsistencies in the implementation of the rules and requirements for exporting soya through patronism: making use of their personal connections. Exporters say that contacting people within the regulatory agencies with whom they have personal connections is an effective way to cut down on administrative delays. They also use their connections to bypass or simplify some of the less-enforced export requirements.

In addition, the soya exporters interviewed have developed their own distinct ways of fulfilling regulatory requirements. New entrants to the soya export sector find it challenging to navigate the requirements with which seasoned exporters do not have problems.[12] This points to a lack of clarity about the regulations and how they are to be fulfilled that acts as a significant barrier to entry into the sector. Those that have invested in learning the soya export regulatory system generally are able to navigate it effectively, but new entrants are likely deterred from entering due to high risks associated with the possibility of long administrative delays. Even those firms that understand the system have likely incorporated the cost of administrative delays into their prices, making them less competitive in the regional market to which they export than soya exporters supplying the same regional market, but from other countries with less regulatory constraints than Malawi.

In all of the regulatory bodies with oversight on soya exports, unclear and inconsistent information about how an exporter fulfills the regulatory requirements was pervasive. This appears to be based on low government capacity to inform and enforce regulations. For instance, MRA staff rely on hard-copy memos entitled “MRA Circulars” for policy changes. At one border post, some MRA representatives were not aware of recent policy reforms because the relevant Circular was lost. Furthermore, low government salaries likely add to the propensity for patronage, as many officials are unable to obtain sufficient income to meet the needs of their household without extracting rents from the system.

Finally the centralized and controlled style of regulation of exports and the likelihood that rents are being extracted somewhere along the way, means that once export regulations are put in place, even if found to be hard to enforce or otherwise unsuccessful at fulfilling their desired effect, they are unlikely to be retracted.

SOYA EXPORT BANS

Domestic industrial consumers of soya have actively opposed reforms to make soya exports from Malawi easier in order to ensure an adequate supply of low-cost domestic soya for their businesses. Of particular consequence to the soya export sector, they have successfully lobbied government officials to ban the export of soya in the past, keeping domestic prices low relative to the international price, but disrupting trade volume flows and distorting price signals from the global soya market.

According to interviewees in government and the private sector, to implement a ban on soya exports, the Minister of Industry and Trade exercises powers derived from the Control of Goods Act[13] to (a) invalidate all previously issued export licenses that have not yet been exercised and (b) stop issuing new export licenses. The Government of Malawi then communicates the export ban through the media, including press and radio. Without an export license, MRA will refuse to issue the Customs Declaration document required for export and border officials will refuse to allow an export consignment to leave Malawi. Legally speaking, an export ban should also be printed in the Government Gazette as an official Government Notice. Up to now, however, we have not been able to find any of these press releases, records of radio announcements, or any official communications announcing the start and end of past soya export bans. However, soya exporters and MoIT representatives reported that the export of soya was banned in June and July 2010, from June through October 2011, and from March through October 2012. These export bans are evident in the soya export information presented in Appendix Figure 1.

The International Trade Centre (ITC 2012), UNECA (2013), and the World Bank (2014a) all highlight the export license requirement and the frequent imposition of export bans as critical obstacles to increasing exports of agricultural commodities from Malawi. A recent simulation of the economywide costs of a soya export ban estimates that the ban

[12] This point is based on interviews with a first-time exporter of soya cake, not raw soya. However the export process is the same for both products.

[13] Malawi Law Chapter 18:08.

alone could cost Malawi 12 percent of the overall economic activity generated by the soya sector and reduce soya farmers' net revenue by 56 percent in a given year (USAID 2013).

In September 2013, the Government of Malawi took a major step towards addressing these non-tariff barriers by removing the export license requirement for soya. It did so by amending the Third Schedule of the Control of Goods Act to remove soya from the list of goods requiring an export license and, at least in theory, making it impossible to ban soya exports (Government Printer 2013). It was a simple amendment to enact because, as it was an amendment to one schedule of the Act, rather than an amendment of the Act itself, it only required a letter from the Minister of Industry and Trade to the Minister of Justice to have the policy reform take effect. No Parliamentary approval was required. Because of the nature of how the amendment was enacted, however, it is an amendment that would be quite easy to reverse; all that would be required is a similar letter from the Minister of Industry and Trade to the Minister of Justice requesting that soya be added back to the Third Schedule of the Control of Goods Act. In other words, the export license requirement could be resumed at any time, thus making it possible to put in place another export ban through the same mechanism as past bans. Furthermore, even if the export license requirement is not resumed, soya could be banned under the powers granted to the Minister of Agriculture, Irrigation, and Water Development through the Special Crops Act.[14]

Exporters and traders of soya found this unpredictability in the regulation of the Malawi soya market to be a significant hardship to their business. One multinational agricultural commodity trader and exporter noted that his firm has largely divested its activities on soya in Malawi due to the impact of the soya export bans on their business.

7. DISCUSSION AND POLICY IMPLICATIONS

An institutional analysis of the soya export sector to determine the critical institutional barriers to engaging in soya exports was conducted through this study. We assess the institutional environment in terms of the influences that determine trade policy rules and governance structures. In addition, we assess the soya export process in terms of official regulatory requirements and how they influence actors' behavior.

Our analysis of the soya export process found that it takes 21 calendar days, 15 supporting pieces of documentation, 11 separate office visits, interactions with eight institutions, and costs USD 95 to satisfy the administrative requirements for a one-time, formal export of a 30 metric ton consignment of soya. Beyond the costs of complying with the official requirements, the degree of variation in terms of the time required and the inconsistent enforcement of rules and regulations creates considerable uncertainty for exporters, increasing their risk and associated transaction costs. Our analysis shows that the minimum time required to complete the official requirements for an export consignment is 14 days, while the maximum is 61 days. Furthermore, the lack of clarity about how official regulatory requirements are supposed to be met creates opportunities for patronage and rent seeking behavior. Exporters often rely on personal connections or their substantial stature in the community to have their export requirements attended to efficiently and to advocate for changing or maintaining rules or requirements governing the export of soya. Regulatory bodies are seen to apply their discretionary power in the export process in a biased manner, further weighting the system in favor of well-connected actors. Finally, some regulations governing the export of soya were enforced either inconsistently or not at all, while other regulations were enforced, but this enforcement did not ensure that the original intent of the regulations was being achieved.

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 source of information that provides an explanation of requirements, the legal basis for a requirement or rule, the costs involved, and the documentation needed to fulfill it. UNCTAD's eRegulations provides a good example of a framework that fulfills this role by setting up systems to "help government make rules and procedures fully transparent and to help facilitate business, trade and investment" (UNCTAD 2005).

Furthermore, the government can promote and legitimize forums for public-private dialogue to further cut down on preferential behavior by regulators. MCCCI, in its role as representative of the private sector and particularly in its facilitation of the PPD Forum, was described by most actors as playing a central role in the debate around policy reform. However, some influential actors bypass this forum by going directly to the ministry level to advocate for their own specific interests with regard to soya exports from Malawi. Rodrik's writing on industrial policy processes points to the importance of embedding the private sector in the process of policy decision-making (2004). It is clear from the above analysis that MCCCI fills this need by bringing together private and public sectors, bringing together the powerful with the less power-

[14] Malawi Law Chapter 65:01.

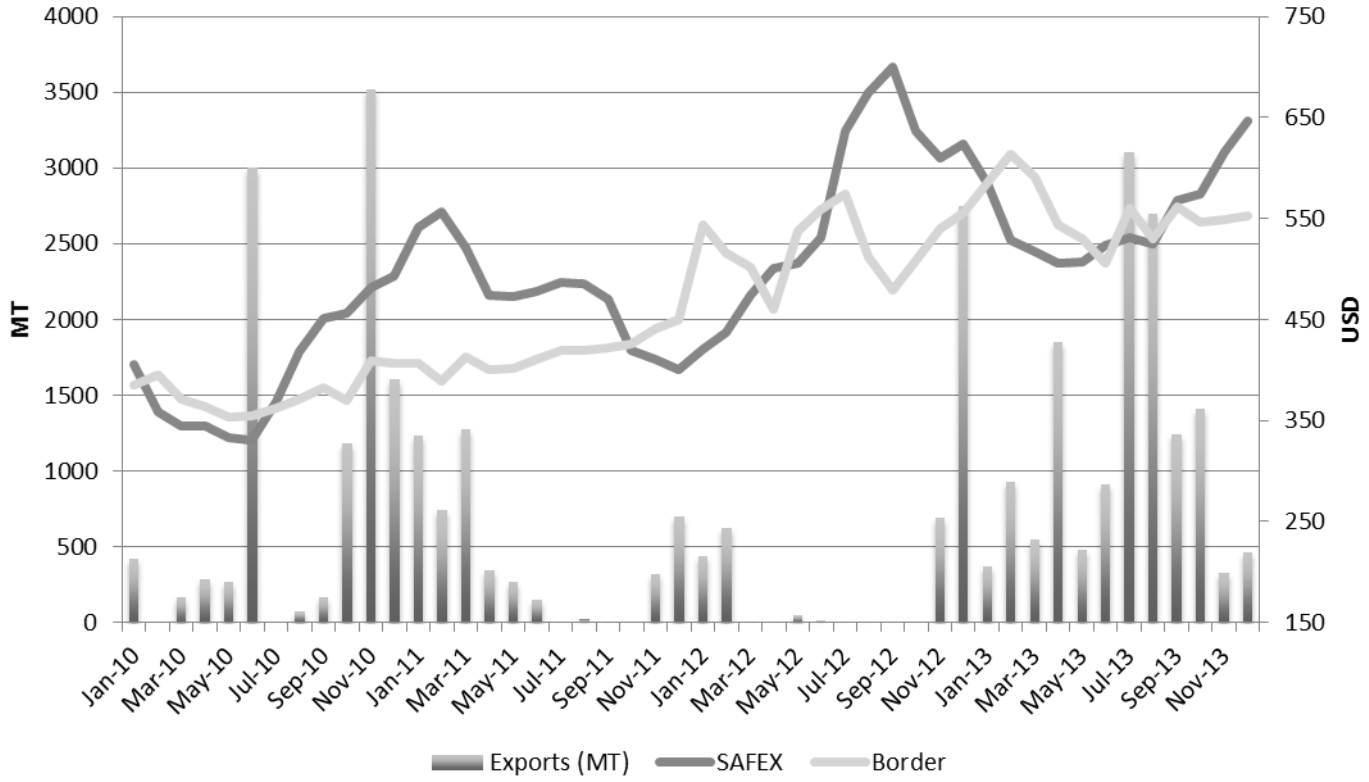
ful, and galvanizing the pro-reform actors. However, this strategy is only effective if the government, particularly the President and the Minister of Industry and Trade, emphasize and legitimize this forum through high-level attendance and attributing importance to the messages that come out of it.

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 and thereby require 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 additional 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.

APPENDIX 1: SOYA PRICES AND EXPORTS

As shown in Appendix Figure 1, there is little relationship between the competitiveness of Malawian soya – as measured by the domestic price of soya relative to the regional soya price – and exports.[15] Soya exports are close to zero at times when the domestic price is below the regional price. Alternatively, there are times when soya exports are high, even though Malawi soya is more expensive than regional soya.[16] Further price analysis indicates international soya prices have no statistically significant influence on domestic soya prices.[17]

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



[15] Malawi soya prices are measured by the market price of soya plus domestic transport and administrative costs required to get the commodity from market to the Malawi border. Regional prices are calculated as monthly averages of the South African Futures Exchange (SAFEX) spot prices for soya.

[16] One potential explanation is the imposition of export bans on soya. See Section 6 for further analysis of soya export bans.

[17] Source: Authors' calculations.

APPENDIX 2: NET-MAP ACTORS

Appendix Table 1—Net-Map actor abbreviations, attributes, and centrality scores

Actor	Complete Name	Power	Position	Type	Out-degree	In-degree
dev_partners	Development Partners	3.25	supportive	development partner	18	0
FMoIT	Former Ministry of Industry and Trade	3.00	undecided	government	0	3
FPresident	Former President	4.33	opposed	government	1	5
FUM	Farmers Union of Malawi	2.25	supportive	civil society	3	0
MCCCI	Malawi Confederation of Chambers of Commerce and Industry	3.43	supportive	private sector	18	15
MITC	Malawi Investment Trade Centre	2.00	supportive	government	3	0
MoAIWD	Ministry of Agriculture, Irrigation and Water Development	2.67	undecided	government	5	21
MoF	Ministry of Finance	2.75	undecided	government	2	4
MoIT	Ministry of Industry and Trade	4.22	supportive	government	10	46
NASFAM	National Smallholder Farmers Association of Malawi	2.20	supportive	civil society	9	0
poultry_industry	Poultry producers and Poultry Industry Association of Malawi	4.00	opposed	private sector	7	0
President	President of Malawi	4.44	conflicted	government	4	19
soya_exporters	Soya exporters	2.43	supportive	private sector	13	0
soya_processors	Soya processors, including soya oil and poultry feed	1.67	opposed	private sector	15	0
SOYAMA	Soya Association of Malawi (incorporates soya processors and users, e.g., poultry industry)	2.50	opposed	private sector	0	2

APPENDIX 3: SOYA EXPORT PROCESS DETAILS

Step 1: Acquire a Buying License

Before a prospective exporter can purchase soya from a farmer, she or he is required by law (Agricultural General Purposes Act and Smallholder Marketing Regulation Act) to apply to the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) for a Buying License. Authorities can enforce the Buying License requirement – if an exporter does not have a valid Buying License, the entire consignment can be confiscated. Threats to enforce this requirement appeared in the press as recently as 1 May 2013.

Required paperwork: In order to apply for the Buying License, the applicant needs the following four documents:

- Business license (must state that the exporter operates in agriculture)
- Cover letter on company letterhead
- Application for license to buy smallholder agricultural produce
- Receipt for payment of fee for Buying License

Time and cost: The process takes 10 days and costs 10,000 MWK per commodity.

Process: The application process requires three office visits:

1. Submit business license, cover letter, and application to MoAIWD in Lilongwe.
2. If application is approved, return one week later to pay for license.
3. Three days after that, return to MoAIWD to pick up license.

Validity: The Buying License is valid from the date of approval until March 31 of the following year, but not for longer than one year, as applications are accepted only after March 31 of the current year.

Step 2: Acquire an Export License

Up until September 2013, prospective exporters of soya were required by law (Control of Goods Act) to have a valid Export License issued by the Ministry of Industry and Trade (MoIT). Exports without a valid Export License were subject to detainment at the border and possible confiscation. In September 2013, the Minister of Industry and Trade amended the Third Schedule of the Control of Goods Act to remove soya from the list of goods requiring an export license (Malawi Government Printer 2013). Exporters who were interviewed were asked to map out the export process for the exporter's *most recent export*. As these interviews were conducted in early 2014, several exporters reported still needing to obtain an export license. Exporters indicated that the removal of the export license was a positive development, but that the permanency of the reform was uncertain. See section 6 for further discussion.

Required paperwork: In order to apply for an Export License, the applicant needs the following three documents:

- Buying License
- Cover letter on company letterhead
- Application for license to export

Time and cost: The process takes 10 days and has no official cost.

Process: The application process requires the following three office visits:

1. Submit Buying License, cover letter, and application to MoAIWD in Lilongwe.
2. If MoAIWD approves application, 10 days later MoAIWD sends the application to MoIT.
3. If MoIT approves application, go to MoIT in Lilongwe to pick up Export License.

Validity: The Export License is valid for three months from the date of issue.

Step 3: Complete the Currency Declaration Form

The Currency Declaration Form (Form CD1) is a legally required foreign exchange and currency control document (Exchange Control Act) that must be submitted by the exporter's commercial bank on behalf of the exporter to the Reserve Bank of Malawi for any export valued at more than 1000 USD. Parliament is now debating raising this threshold to 5000 USD.

Required paperwork: In order to complete the Currency Declaration Form, the applicant needs the following three documents:

- Application
- Commercial Invoice
- Export License

Time and cost: The process takes one day and has no cost.

Process: The process to complete the Currency Declaration Form requires the following three office visits:

1. Go to exporter's commercial bank to pick up Currency Declaration Form application. Each application has a unique serial number; as a result, applications cannot be emailed or duplicated.
2. Return with completed Currency Declaration Form, Commercial Invoice, and Export License.
3. One day later, return to commercial bank to pick up Currency Declaration Form.

Validity: The Currency Declaration Form is valid for six months from the date of issue and three months from the date of export.

Step 4: Obtain a Phytosanitary Certificate

The Phytosanitary Certificate is a document issued by Malawi's Plant Protection Services (PPS) stating that the consignment is free from any pests specified by the importing contracting party. As such, it is not a legal requirement to export but is required in order to apply for the Customs and Excise Declaration Form in Step 6.

Required paperwork: No paperwork is required in order to apply for the Phytosanitary Certificate.

Time and Cost: The process takes two days and costs 5000 MWK, plus any associated chemical costs.

Process: The process to receive the Phytosanitary Certificate requires the following two office visits:

1. Contact PPS to come to storage facility of exporter to fumigate the consignment.
2. One day later, contact PPS to return to de-gas the consignment and issue the Phytosanitary Certificate.

Validity: It is unclear for how long the Phytosanitary Certificate is valid.

Step 5: Obtain a SADC Certificate of Origin

The SADC Certificate of Origin is a document issued by MCCCI stating that the product being exported was indeed produced in a SADC country. As with the Phytosanitary Certificate, the SADC Certificate of Origin is not legally required to export but necessary in order to apply for the Customs and Excise Declaration Form in Step 6.

Required paperwork: In order to apply for the SADC Certificate of Origin, the applicant needs the following three documents, two of which were required for previous steps:

- Application
- Commercial Invoice
- Export License

Time and cost: The process takes one day and costs 2500 MWK.

Process: The process to apply for the SADC Certificate of Origin requires the following office visit:

1. Take Commercial Invoice and Export License to MCCCI, complete application form, pay application fee, and receive stamped SADC Certificate of Origin.

Validity: It is unclear for how long the SADC Certificate of Origin is valid.

Step 6: Obtain the Customs and Excise Declaration Form

The Customs and Excise Declaration Form (also known as Form 12) is a legally required document issued by the Malawi Revenue Authority. While the law or act governing the Customs and Excise Declaration Form is yet to be determined, no export can leave Malawi without the Form.

Required paperwork: In order to complete the Customs and Excise Declaration Form, the applicant needs the following five documents, all of which were obtained in previous steps in the export process:

- Buying License
- Export License
- Currency Declaration Form

- Phytosanitary Certificate
- SADC Certificate of Origin

Time and cost: The process takes two days and costs 20,000 MWK; of this, 5000 MWK is the official fee paid directly to the MRA and 15,000 MWK is the service charge paid to the authorized customs clearing agent.[18]

Process: The process to receive the Customs and Excise Declaration Form requires the following two office visits:

1. Take the five required documents listed above to an authorized customs clearing agent.
2. Two days later, receive the Customs and Excise Declaration Form.

Validity: It is unclear for how long the Customs and Excise Declaration Form is valid.

Costs of the Soya Export Process

In order to prorate the time and cost requirements so that they align with a typical export consignment of 140 metric tons in 4.7 trucks, we use the following findings from the export process Net-map interviews:

- **Buying License:** validity is one year and do not need unique copy for each export; for our calculations, prorate across 15.6 export consignments; can obtain the license in one visit to MoAIWD
- **Export License:** do not need unique copy for each export but since validity is 3 months, need to obtain 4 export licenses per year in 4 trips to MoAIWD/MoIT (one visit per export license); prorate across 3.9 export consignments
- **Currency Declaration Form**: need one unique copy per export consignment; obtain in one visit to Commercial Bank
- **SADC Certificate of Origin:** need one unique copy for each truck within a given consignment, implying 4.7 copies per consignment; obtain all copies in one visit to MCCCI
- **Phytosanitary Certificate**: need one unique copy for each truck within a given consignment, implying 4.7 copies per consignment; obtain all copies in one visit to PPS
- **Customs Declaration Form:** need one unique copy for each truck within a given consignment, implying 4.7 copies per consignment; obtain all copies in one visit to customs clearing agent/MRA. The fees are split into two parts: MRA charges USD 13 for each unique copy of the Customs Declaration Form; the customs clearing agent charges USD 38 for a given export consignment

As each of these documents is valid for less than one year and a unique copy is required for a single container – here, a 30 metric ton truck – being exported, these time and costs requirements align with the World Bank's methodology for its "Trading Across Borders" indicator (2010b). In reality, most soya exporters engage in multiple exports throughout the season, some documents can be used for multiple export consignments, and other documents are required in original for each truck within a given export consignment. In order to capture these complexities, we pro-rate the time and cost requirements outlined above for a *typical* soya export consignment

Based on 2014 MRA data, the typical exporter sends 140 metric tons per export consignment and engages in five such exports per year. These results are reported as "Direct cost" and "Days" in Appendix Table 1.

Appendix Table 2—Compliance costs and time requirements for a typical soya export consignment

Step	Direct cost (USD)	Days	Cost of time (USD)	Total cost, USD
Buying License	1.60	0.4	34.80	36.40
Export License	0.00	2.6	231.70	231.70
Currency Declaration Form	0.00	1.0	90.10	90.10
SADC Certificate of Origin	29.30	1.0	90.10	119.40
Phytosanitary Certificate	58.60	1.0	90.10	148.70
Customs clearing agent fee	37.80	0.0	0.00	37.80
Customs and Excise Declaration Form	58.60	2.0	180.20	238.80
Total	**185.90**	**8.0**	**716.90**	**902.80**

Source: Authors' calculations from Process Net-Map data

[18] Customs clearing agent service charges ranged from 15,000 to 50,000 MWK; the agent must be authorized by the Malawi Revenue Authority in order to have access to the computerized system required to process the Customs and Declaration Form.

Next, we estimate the opportunity cost of time for an average soya export consignment. Based on MRA data, the average value of a typical soya export consignment (140 metric tons) was USD 88,420. At a lending rate of 37 percent per annum,[19] shortening the export process by one day would save the exporter USD 90. The logic used here is that, if the exporter could complete the export process and receive payment one day earlier, he/she could use these funds to either pay down an operating loan or apply the funds to another activity and thereby avoid having to borrow the funds for that activity. Granted, exporters expect to encounter these time delays in the export process and likely build these time-related costs into their pricing for the export market. Still, eliminating these time-related costs would enable exporters to price soya more competitively for the export market.

From Appendix Table 1, we can draw several conclusions. First, when prorating the time requirements across multiple export consignments and trucks, the number of days required for one export consignment falls from 21 to 8 days; this reduction is driven by the fact that both the buying license and the export license can be used for multiple export consignments. The direct costs – the formal payments made in exchange for completing all the steps of the export process – come to USD 185.90; as a proportion of a typical export consignment valued at approximately USD 88,420, these costs amount to 0.2 percent. When factoring in the cost of time, however, the costs increases to USD 902.80, representing one percent of the value of the soya export consignment. Two steps of the export process, the export license and the customs declaration, represent 56 percent of these total compliance costs.

In absolute terms, these costs are minimal – just over 1 percent of the value of the soya. Transport, another major cost associated with exporting soya, adds an additional 10 percent – USD 70/metric ton – to the cost of an export.[20] Regarding the costs associated with the time delays, exporters most likely anticipate these delays and price their soya for the export market accordingly. Reducing these direct and time-related costs, either through the streamlining of the export process or removing certain requirements altogether, represents an opportunity for Malawi to increase its competitiveness in the soya market without incurring significant additional costs or investment. The export license, for example, generated no revenue for the Government of Malawi, yet it represented the single-largest cost component of the export process. And for steps like the Customs Declaration form, the Government of Malawi could preserve the revenue generated by this requirement but still reduce the cost to the exporter by speeding up the process.

[19] This annual lending rate is calculated as the average of the base lending rates for 9 June 2014, reported by the eight largest commercial banks in Malawi.

[20] According to interviews with exporters and transporters, this is a typical rate charged for shipping goods from Lilongwe, Malawi, to Harare, Zimbabwe.

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Acknowledgments

The authors would like to thank USAID/Malawi for their financial contribution that has made this study possible, Neil Orchardson, Technical Assistant at the Ministry of Industry and Trade, for guidance and input into the design and write-up of the study. In addition, the authors thank Karl Pauw, Danielle Resnick, and Todd Benson for substantial edits and suggestions. Finally, the authors thank all the interview respondents for their time and Henry Kankwamba and Cynthia Kazembe for their research support.

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This publication of the Malawi Strategy Support Program is made possible by the generous support of the American people through the United States Agency for International Development (USAID). It has not been independently peer reviewed. The contents are the responsibility of the author(s) and do not necessarily reflect the views of USAID, the United States Government, or the International Food Policy Research Institute.