

MALAWI INVESTMENT PROMOTION AGENCY

**CONCEPT PAPER ON THE
DEVELOPMENT OF THE
INDUSTRIAL POLICY FOR MALAWI**

MALAWI INDUSTRIAL POLICY

Foreword

The past several years has seen the emergence of developing countries and regions whose course of development began relatively late in time, but which have succeeded in economic development through industrialisation. Japan in the post-war period, Korea and Taiwan from the 1960s onward are such examples. The success countries have captured worldwide attention. Although their industrialisation began well after industrialisation of the western world, Japan has now become a world economic superpower, and Korea and Taiwan, two of the so-called Newly Industrialising Economies are becoming rivals for industrialised countries.

While the market mechanism was utilised in Japan, Korea and Taiwan, industrial development was also given a boost by government intervention. "Industrial Policy" or promotion measures directed at a particular industry were widely employed in Japan and those, which proved effective, were adopted by Korea and Taiwan.

The Ministry of Commerce and Industry has for some time been conducting a series of activities directed at assisting development of export industries and at promoting such exports in the region and elsewhere. In the course of undertaking these activities it has become clear that Malawi needs a comprehensive industrial promotion policy. As a response to this the Malawi Investment Promotion Agency (MIPA) during its annual forum included as a topic for intense discussion a topic on the need for the development of a comprehensive Malawi Industrial Policy. Consequently, the experience of industrial policy in East Asia was analysed and its relevance for Malawi clarified.

The aim of industrial policy must be to prevent damage to domestic industries as a result of liberalisation. Malawi must go about reorganising industry, coordinating capital investment, and coordinating fields of production to strengthen the international competitiveness of its industry. In the process, every attempt must be made to introduce incentives for certain "strategic industries". In effect, however, these measures must be realized and the market mechanism and coordination between government and industry must be used. Consequently, Malawi industry must undergo unprecedented high growth during this period and that its own system of "free" business must become firmly entrenched. Due to the significant progress in liberalisation of trade and capital and the widespread recognition of the effectiveness of market

mechanisms, industrial policy must come to emphasise a "vision", meaning the formulation of a blueprint for a future industrial structure of Malawi. The main thrust of the government should be to establish such a vision through coordinating government and private sectors and providing information for guiding industrial activity. In addition, the range of subsidies , low-interest financing, and tax incentives must be unlimited.

The protection and promotion of export industries must be supported mainly by tariffs, taxes and financial measures. In particular, the exemption of production facilities and raw materials from import tariffs, the exemption of export industries from business taxes and low interest financing using foreign loans will prove very effective.

The government must set its sights on developing advanced industries as strategic industries. Promotion efforts should include the encouragement of foreign investment, R&D and technical transfers by public organisations combined with low-cost financing and tax and tariff incentives. The government should encourage leading companies to build ties with and transfer technology to small businesses. These measures will assist in promoting the development of high-tech industries and expanding exports by supporting the activities of the Malawian's private companies.

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CONTENTS

| | |
|---|----------|
| EXECUTIVE SUMMARY | Page i |
| Introduction..... | Page i |
| Background to Industrial Policy | Page i |
| Recommendations | Page iii |
| Credit | Page iii |
| Science and Technology | Page iii |
| Macro-economic Environment..... | Page iv |
| Human Resource | Page iv |
| | |
| 1.0 THE WAY AHEAD | 1 |
| | |
| 2.0 OBJECTIVE OF MALAWI'S INDUSTRIAL POLICY | 2 |
| Competition..... | 2 |
| Government Participation | 2 |
| Private Sector Development | 2 |
| Human Resource Development | 2 |
| Development of technological capabilities | 3 |
| Macro-economic Environment..... | 3 |
| | |
| 3.0 FACTOR INPUTS | 3 |
| 3.1 CAPITAL | 3 |
| 3.1.1 Financial Capital | 3 |
| 3.1.2 Physical Capital | 4 |
| 3.1.3 <i>Science and Technology</i> | 4 |
| 3.2. LABOUR | 4 |
| 3.2.1 <i>Costs escalation</i> | 4 |
| 3.2.2 <i>Low human resources development and Low Productivity</i> | 5 |
| 3.2.3 <i>Brain retention/drain</i> | 6 |
| 3.2.4 <i>Employment of Expatriate workers</i> | 7 |
| 3.2.5 <i>Labour Relations</i> | 7 |
| 3.3 LAND..... | 7 |
| 3.3.1 <i>Tenure</i> | 7 |
| 3.3.2 <i>Zoning</i> | 7 |
| 3.3.3 <i>Land Transfer</i> | 8 |
| 3.3.4 <i>Availability</i> | 8 |
| 3.3.5 <i>Cost</i> | 8 |
| 3.4 RAW MATERIALS | 8 |
| 3.5 INFRASTRUCTURE | 9 |
| 3.5.1 <i>Utilities</i> | 9 |

CONTENTS

| | | |
|---------|--|----|
| 3.5.2 | Transport | 10 |
| 3.5.2.1 | Road | 10 |
| 3.5.2.2 | Rail..... | 10 |
| 3.5.2.3 | Air | 10 |
| 3.5.2.4 | Lake..... | 10 |
| 3.5.3 | Industrial Parks and Factory Shells | 11 |
| 3.6 | OUTPUT MARKETS | 11 |
| 3.6.1 | <i>Protection</i> | 11 |
| 3.6.2 | <i>Domestic market orientation</i> | 11 |
| 3.6.3 | <i>Government procurement practice</i> | 12 |
| 3.6.4 | <i>Product Development and improvement</i> | 12 |
| 3.6.5 | <i>Dumping/aid</i> | 12 |
| 3.6.6 | <i>Specific industries & right products (Picking up winners)</i> | 12 |
| 3.6.7 | <i>Sunset industries</i> | 13 |
| 4.0 | PROPOSED INSTRUMENTS | 13 |
| 4.1 | Raw Materials..... | 13 |
| 4.2 | Capital..... | 14 |
| 4.3 | Labour..... | 15 |
| (i) | <i>Costs, wages/bargaining policy, labour laws revision</i> | 15 |
| (ii) | <i>Human resource development</i> | 15 |
| (iii) | <i>Vocational Education</i> | 16 |
| (iv) | <i>Cultural re-orientation</i> | 16 |
| (vi) | <i>Technical Assistance</i> | 16 |
| (vii) | <i>Appraisal system</i> | 16 |
| (viii) | <i>Brain drain/retention</i> | 17 |
| (ix) | <i>Employment of expatriates</i> | 17 |
| 4.4 | INFRASTRUCTURE | 17 |
| 4.4.1 | General | 17 |
| (i) | <i>Roads</i> | 17 |
| (ii). | <i>Rail and Lake Transport</i> | 18 |
| (iii). | <i>Air</i> | 18 |
| (iv). | <i>Utilities (Power, Water, Sewerage)</i> | 18 |
| (v). | <i>Industrial Infrastructure</i> | 19 |
| 4.5 | OUTPUT MARKETS | 19 |
| (i) | <i>Concentration</i> | 19 |
| (ii) | <i>external marketing</i> | 20 |
| (iii) | <i>Sunset Industries</i> | 21 |
| 5.0 | THE INSTITUTIONAL FRAMEWORK | 21 |
| 5.1 | <i>Policy Formulation and Regulatory Institutions</i> | 21 |
| 5.1.1 | Registrar General's Department | 21 |

CONTENTS

| | | |
|-------|---|----|
| 5.1.2 | Ministry of Lands and Valuation | 21 |
| 5.1.3 | Department of Immigration | 22 |
| 5.1.4 | Department of Customs and Excise | 22 |
| 5.1.5 | Department of Income Tax | 23 |
| 5.1.6 | Ministry of Commerce and Industry | 23 |
| 5.1.7 | Other Sectoral and Central Ministries | 23 |
| 5.2 | <i>Financial Institutions</i> | 24 |
| 5.2.1 | Banking Financial Institutions | 24 |
| | Reserve Bank of Malawi | 24 |
| | Commercial Banks | 24 |
| 5.2.2 | Other Financial institutions | 24 |
| 5.3 | <i>Specialised Service Institutions</i> | 24 |
| 5.3.1 | Malawi Investment Promotion Agency | 24 |
| 5.3.2 | Malawi Export Promotion Council | 24 |
| 5.3.3 | Malawi Bureau of Standards | 24 |
| 5.3.4 | Municipal Water Boards..... | 25 |
| 5.3.5 | ESCOM..... | 25 |
| 5.3.6 | Posts and Telecommunications Company of Malawi | 25 |
| 5.3.7 | Malawi Industrial Research and Technological Development Centre..... | 26 |
| 5.3.8 | Other Specialised Bodies | 26 |
| 5.4 | Business Organisations | 27 |
| 6.0 | CONCLUSION AND RECOMMENDATIONS..... | 27 |

list of abbreviations

MALAWI INDUSTRIAL POLICY

EXECUTIVE SUMMARY

1. Introduction

Malawi has a basic agricultural economy, with a population heavily dependent on subsistence agriculture, a weak industrial base, an insignificant service sector, low human resource development and a weak inter and intra sectoral linkages. This paper conceptualises the development of a new industrial policy for Malawi that would build on an increased demand in the agricultural sector to complement the industrial growth. Malawi now needs to put together the various disjointed pieces of statements and policies to formulate a comprehensive industrial development policy.

2. Background to Industrial Policy

The Statement of Development Policies lacks precision and proper institutional framework for implementation. What is required is a more focused approach to support industrial development in Malawi.

Since independence, Malawi's economy was market-oriented signified by free international trade between 1964 and 1979. During this period, given a stable exchange rate, domestic inflation stood at an average of 8 percent and was close to international inflation. From 1980 to 1987 the economy was characterised by rising protection via foreign exchange rationing and other quantitative restrictions. During this period the environment for development of industry had deteriorated. Subsequent liberalisation and stabilisation measures were aimed at restoring the market-oriented industrial development.

The contribution of Malawi's industrial sector to economic growth, employmen and exports has declined during the last ten years. This contrasts greatly with the performance of the sector during the last two decades where manufacturing grew by an average of 9% per year and contributed nearly 13 per cent to GDP. The upsurge of performance of the sector was largely attributed to external shocks such the disruption of external trade routes, drought, world recession, etc. However, some factors were internal to the policy makers. When the external situation worsened in the 1970's, the authorities did not respond quickly but instead increased external borrowing on commercial terms and instituted protective measures resulting in progressively closing the economy. Higher tariff and quantitative restrictions through foreign

MALAWI INDUSTRIAL POLICY

exchange rationing were the major instruments of protection.

The evolution of an industrial policy in Malawi has emerged not as part of a co-ordinated planning effort. More often than not programmes have evolved as a reaction to external shocks on the economy, falling prices of export commodities, soaring oil prices, and gradual disruption of external transport routes. Structural adjustment programmes implemented between 1981 and 1987 were primarily in response to the problems faced by the economy owing to the disruption of the rail-links to Beira and Nacala. Sector adjustment credits between 1987 and 1993 were principally aimed at assisting the government to counter the effects of drought, influx of refugees, and other disasters.

Government recognised that sustained economic performance will require a return to the policies that nurtured Malawi's Industrial Sector. In this regard, a number of measures have been implemented to support a market-driven economy:

- the price of foreign exchange being determined by market forces.
- trade taxes are being rationalised.
- export industry is being placed on a free-trade equivalent situation with respect to price of inputs and outputs.
- measures to deepen financial system

There were some positive measures implemented under broad-based structural adjustment loans (SALs I-III) and a number of policy-based and sectoral support programmes key among which included price decontrol, elimination of foreign exchange rationing, elimination of authority to grant exclusive products rights, introduction of surtax credit system, repeal of industrial development act, reform of commercial parastatals, introduction of market-based instruments for monetary policy management, elimination of monopsonists, publication of Statement of Investment Policies, Investors Guide and establishment of MIPA, etc.

MALAWI INDUSTRIAL POLICY

Malawi's development strategy should therefore build on the success of previous policies emphasising infrastructure, agricultural and industrial development.

Recommendations

The recommendations of this report covers more than the realm of organised commerce and industry. Its scope has been broadened to cover not only industry, finance and trade, but also a multisectoral approach covering agriculture, education, and other social services.

Credit

The most severe constrain on private sector in Malawi relates to credit availability and allocation. Government priority should focus on reform of financial institutions and credit policy to allow flow of resources for long-term investment and production. The SME sector deserves special attention in this regard.

Science and Technology

Technology, technical capability and national technical capacity are inadequate. Government policies should enhance the ability to screen, assess, develop technology that is appropriate to the changing circumstances.

In particular special effort must be made to undertake the Following:

- encourage sector-specific research and development in public institutions as well as firms
- provide incentives for industrial research and development
- make effective arrangements for improving standards and controlling quality of products
- prevent environmental pollution and maintain ecological balance
- expedite development of labour intensive industries through acquisition and improvement of appropriate technology
- stimulate development of industries based on domestic raw materials and technology appropriate for the local environment

MALAWI INDUSTRIAL POLICY

Macro-economic Environment

Government must create conducive stable macro-economic environment through appropriate monetary, fiscal and other policies consistent with industrial development targets

Human Resource

Low education and health levels have limited the ability of the population to respond to incentives. The Government must continue to strengthen basic social services delivery and provide adequate budgeting resources. Efforts must be made to train and develop entrepreneurs.

Infrastructure

Infrastructure in Malawi is not fully developed to support private sector development. Government policies must therefore focus on improving availability, quality and efficiency of road, water, and air transport system. The Government must facilitate the development of industrial sites, factory shells, dry port facilities, efficient telecommunication and power supply.

Institutional Arrangements

There are a number of important institutions in Malawi which can be broadly categorised in the following three major categories:

- { Government ministries, department and other public organisations which are involved in policy formulation and implementation;
- { banking and non-banking financial institutions which provide credit to private sector; and
- { organisations which provide specific advice and services

By and large these organisations lack basic capacity, manpower, equipment and other facilities to perform their functions efficiently and effectively.

Next course of Action

The paper recommends that Government should act expeditiously towards developing a comprehensive industrial policy. As a first step Government should recruit a consultant/expert to refine the proposals contained in this

MALAWI INDUSTRIAL POLICY

report. Government should establish a Committee to work with and oversee the consultant in accomplishing the tasks assigned

1.0 THE WAY AHEAD

Malawi has not achieved noticeable results in the creation of employment and generation of foreign exchange from the industrial sector. Industry contributes only 12% to GDP. Imports of industrial raw materials are close to 70 percent of total imports. Out of a population of 10 million and a labour force of 4 million, paid employment has stagnated at about 500,000 over the years while population has been growing at an estimated 3.2% per year. Thus, in the next decade, Malawi has to place greater attention on industrial development than was the case before.

The basic description of Malawi's economy above and some of the constraints outlined in this paper will necessitate the undertaking various policy measures to address two major development objectives namely alleviating poverty and restructuring the Malawian economy. In line with these development objectives, the industrial strategy during the next decade should, therefore, aim at a competitive industrialisation programme that would generate massive employment led by export-oriented industrialisation. The programmes should also aim at promoting greater participation of the indigenous Malawians in the industrial development process of the country. This strategy should be aggressively pursued by establishing a supportive industrial and institutional infrastructure.

The paper has been prepared by a technical team (Appendix 1) and is divided into 6 sections. Section 1 sets the layout of the paper. Section 2 outlines the objectives of the industrial policy in Malawi. Section 3 analyses the factor inputs namely capital, labour land raw materials as well as infrastructure and output markets. Section 4 puts together the possible instruments that could be used in addressing these identified constraints. Section 5 looks at the various institutions including their constraints to achieve a pragmatic policy formulation and implementation. The final section makes some concluding remarks and makes some recommendations on how the Government should proceed.

2.0 OBJECTIVE OF MALAWI'S INDUSTRIAL POLICY

The objectives of the Policy are to:

Competition

- rationalise trade taxes to make domestic industry more competitive
- develop export-oriented, and efficient import-substitution industries;
- allow free entry of firms into and exit from various businesses
- create anti-trust laws to unbundle/restrict units
- price decontrol

Government Participation

- provide conducive environment for private sector development
- facilitate private sector led industrialisation focusing on institutional infrastructure and wherever possible participate in strategic industries
- improve efficiency of the public sector
- enforce fair labour practices

Private Sector Development

- mobilise financial and technical resources for private sector development
- encourage the development of agro-based and agro-supportive industries
- implement a privatisation programme
- attract investment in the intermediate and basic industries
- create possible opportunities for revitalizing and rehabilitating sick industries
- encourage the development of industrial sites
- examine options to break up current industrial conglomerates.
- more active support to the SME sector in the form of policy instruments to ease entry and enhance operational efficiency and profitability
- privatise and commercialise parastatals
- examine options for unbundling existing industrial conglomerates

Human Resource Development

- embark on the development of human resources required for specific targeted areas through consultations with the relevant

bodies to ensure proper foundation at primary, secondary, university and even vocational levels.

Development of technological capabilities

- encourage sector-specific research and development in public institutions as well as firms
- provide incentives for industrial research and development
- make effective arrangements for improving standards and controlling quality of products
- prevent environmental pollution and maintain ecological balance
- expedite development of labour intensive industries through acquisition and improvement of appropriate technology
- stimulate development of industries based on domestic raw materials and technology appropriate for the local environment

Macro-economic Environment

- create conducive stable macro-economic environment through appropriate monetary, fiscal and other policies consistent with industrial development targets

3.0 FACTOR INPUTS

3.1 CAPITAL

3.1.1 *Financial Capital*

The key objective of the financial system is the provision of financial services at prices that reflect the true cost. In Malawi the financial system has undergone some evolution starting with the system which administratively allocated credit to a liberal and market determined rates regime.

The financial sector has constrained industrial development in Malawi. Most entrepreneurs cite the following constraints in the financial system:

- (i) **Collateral:** Demand for heavy collateral requirements
- (ii) **Lack of conventional forms of collateral:** Most of the population is rural based and poor and as a result will not have any conventional forms of collateral.
- (iii) **Crowding Out:** Expanding public sector deficits spurred inflation with the result that less resources are available for

private investment. Generally this arises out of extra-budgetary expenditures by the Government over and above the approved estimates by parliament.

- (iv) **Lack of equity funds:** Start-up capital from owners is scarce in an environment characterised by high inflation and low savings.
- (v) **Limited lending to smaller enterprises:** Due to high administrative costs and perceived risk smaller enterprises have problems in accessing capital through the financial system.
- (vi) **Fragmented and oligopolistic financial system:** The financial market, oligopolistic in nature, is still shallow and relatively undeveloped. Financial assets held by the public are essentially limited to currency and deposits. The inter-bank market is virtually non-existent and the capital market is mostly dominated by the Government local registered stock, treasury bills and private issuance of shares.
- (vi) **Monetary Policy:** Expansionary monetary policy during the last two years has fuelled inflation and exchange rate depreciation.

3.1.2 *Physical Capital*

A large proportion of physical capital used in the production process is imported.

3.1.3 *Science and Technology*

Technology, technical capability, and national technical capacity are inadequate in Malawi. Technology and technological change are the driving force behind the structure of production. Technology can be used successfully if the country has the ability to scan, assess, develop technology that is appropriate to the changing circumstances.

The government and private sector have not fully interacted to develop technology suited for the local conditions. The important role for the government is to develop the basic technological and human capital infrastructure. However, private sector should complement through technological improvement and development. Private sector involvement in technological advancement is still in embryonic stages and this entails more government participation until firms in the industrial sector mature.

3.2. LABOUR

3.2.1 *Costs escalation*

The Labour policies in Malawi have been based on the "low wage" principle which was used as a tool for stimulating agricultural production and exports and attracting foreign investment. This policy which was a key tool in Malawi's income policy, also served to reduce the rural - urban migration. The Statutory minimum wage structure was, thus created to cater for the unskilled workforce as well as the artisans or semi-skilled workers. Revisions of minimum wages before 1992 was sporadic and in most cases there was a long lag before any adjustments could be made.

The political setting which influenced the labour market behaviour stifled the wages since the labour force had no voice with unionisation under 10%. Because of the sensitivity in belonging to a union, the leadership and membership of the few unions was such that it could not articulate the views and demands of the workers and provide negotiating partners. With the majority of the workforce in the agriculture sector whose wages, for a long time, have been five times lower than those of industry, the cost of exogenously pushed wage increases have always been anticipated to be high. This cost to industry has been felt since May, 1992 when labour went on copy-cat strikes. These strikes have been repeated since then. The change in the political setting, therefore, has a direct impact on the cost escalation in the industry and sooner than later Malawi will be denied of its past comparative advantage of having lower wages.

Malawi has an abundant labour force, but the cost of training this labour force to cope with the new technological reality may be high if one considers the education curriculum that the country has vis-a- vis the training institutions on the ground.

3.2.2 *Low human resources development and Low Productivity*

Human resource development is essential for the acquisition, adaptation and exploitation of R&D and technological capabilities for greater competitiveness of the industry. Malawi's human resource development has not, over the past years, satisfied the requirements of a growing economy that requires manpower to cater for the expansion of the manufacturing sector. There is scarcity of human resource in key professions required for the manufacturing sector namely: engineers, technicians, architect, accountants, economist, chemists etc. There is equally a scarcity in complimentary professions such as doctors, managers etc. Added to this there is lack of in-service training in industry, absence of a National Vocational Training Board and training in primary, secondary and university has not been geared up to the challenges of industrial development (ie as no specific industries have

been targeted for development). Equally important, our training programmes and human resource development policy has been developed in disregard of the competition in the region. In other words, we have not been looking at developments around us. All this has contributed to the low productivity of the labour force.

Apart from the inadequate human resource development, the low productivity resulting from cultural traditions and ill health promote absenteeism.

~~There is noticeable absence from work, especially from the women workforce, due to varying reasons. The most common ones being the attendance of funerals for relatives, friends and neighbours. For the women workforce, apart from attending funerals, absence is as a result of the health in the family. The illness of a woman, her husband or child will lead to absence from work. This has led to industry preferring to employ men than women.~~

~~The other cultural aspect affecting productivity is the mixing of women and men in the same factory. Men have often found it very difficult to accommodate women within the same premises. In addition, until recently, it was difficult for women to get into some professions because of the dress limitations.~~

~~Malawi's health situation is relatively poor if compared with that of Zimbabwe and other countries in the region. Absenteeism is, therefore, higher as most of the workforce are vulnerable to diseases related to malnutrition, hygiene and recently Aids.~~

3.2.3 *Brain retention/drain*

Malawi continues to face brain drain and have failed to come up with programmes for brain retention. Since Malawi got its independence, it has been sending students abroad to study in various disciplines including: economics, engineering, quantity surveying, architectural, business management, law, accounting, agriculture, medicine etc. A significant number of those sent have remained in the countries of study, mostly in Europe and America. Some returned only to migrate to regional countries of South Africa and Botswana. The major reason for their departure and remaining abroad has been economical resulting from lack of incentives, although in isolated cases politics played a part.

The other brain drain was from the Government to Industry. This led to industry not putting up training programmes for their own staff as they easily acquired trained professionals from Government since they

offered a lucrative pay package. This weakened the Government machinery as it had to adjust with the high turnover in crucial professions.

3.2.4 *Employment of Expatriate workers*

The processing has often been rather restrictive. In addition, the Government has not reconciled the need for quick processing of the applications and lack of skills in the country — ~~continues to process these permits for expatriate workers as if they have the relevant skills available to boost up the manufacturing sector.~~

Four different types of permits are provided depending on the reason for the visit and the length of stay in the country:

- i) **Temporary Residence Permit** is issued for visitors (including temporary workers) who wish to extend their stay for longer than 90 days, but not for longer than six months.
- ii) **Business Residence Permit** Foreigners who, as shareholders, wish to establish and carry on a business in Malawi need to obtain a Business Residence Permit. This permit is valid for five years and is renewable.
- iii) **Temporary Employment Permit** Expatriate workers employed by Malawi firms or firms undertaking Government contracts must obtain a Temporary Employment Permit when they expect to remain in the country for longer than six months. This permits entry for up to two years, and must be renewed if any extension beyond this period is required.
- iv) **Permanent Residence Permit** Permanent Residence Permits are issued to close relatives of permanent residents, or persons of assured income, who, for health or other reasons wish to take up residence in Malawi.

3.2.5 *Labour Relations*

3.3 **LAND**

3.3.1 *Tenure*

Land tenure and conveyancing systems have restricted availability of land for commercial use

3.3.2 *Zoning*

There are limited plots to satisfy investor demand even where land has been zoned for industrial or commercial use

For those applying for un-zoned land, the procedures to zone the respective land is cumbersome and takes a long period of time.

3.3.3 *Land Transfer*

Private purchase of land for industrial development is difficult. The overall amount of freehold land is quite small. Transfers of customary land and public land are difficult undertakings.

The process of obtaining a serviced plot for industrial use, even if one was available, is long and cumbersome. In spite of the fact that an offer of a Lease may be available in less than 90 days, when bank financing is involved, obtaining the necessary Title Deed which is often required as collateral, can still take more than one year. This is unacceptably long waiting time and therefore pose a significant disincentive to investments especially foreign investment.

There is also lack of a framework to enable private investors to develop industrial sites. Un-serviced land is usually given with great hesitation. For a long time, there has been an absence of privately developed and/or managed industrial estates.

3.3.4 *Availability*

There is limited land available for industrial and commercial use in the major urban centres where the necessary infrastructure such as electricity is available. In addition, inefficient productivity in the agriculture sector means land intensive practices, increasingly leave less and less land for industrial use.

3.3.5 *Cost*

The high cost of land is attributed to either a heavy concentration of ownership of freehold land in private hands, for example, in Southern region in general and Blantyre in particular or the demand for land being relatively high if compared to its availability. The latter is true for public land vested in the Government. Due to high cost, prospective investors can only get land at exorbitant prices or even fail to acquire the same.

3.4 RAW MATERIALS

The efficiency of the industrial sector is dependent on the extent to which raw materials are transformed into outputs. Raw materials can be sourced locally and internationally. However, what has been observed in recent years is that Malawi's imports of raw materials and intermediate goods accounts for about 40% of imports. The economy therefore does not have major control on the demand and supply factors.

From the domestic resource pool most of the raw material can be obtained from the agricultural, forestry, fisheries and mining sectors. At the moment these sectors are lacking backward and forward linkages in particular the linkages between SME's and large scale industries. The dependence on imported raw materials and primarily for import-substitution industries has led to wide variances in capacity utilisation due to external factors such as foreign exchange scarcity. The policies tended to focus on high protection on consumer goods (not on inputs) have created bias against domestic production of both inputs for domestic industries as well as exports. For instance, high duties on consumer goods and low duties or exemptions for intermediate and capital goods tended to create high effective protection for final stage assembly and made the economy depend largely on imports of capital and intermediate goods. Thus, there was little incentive to invest in industries that were needed to establish a more integrated industrial structure.

Although the Government instituted duty drawback scheme, this was not backed by administrative capacity in the Department of Customs and Excise.

High transport costs have exacerbated the cost of raw materials, more especially when the bulk of Malawi's imports is hauled by foreign transporters who have to be paid in convertible currency.

SMEs are placed in a disadvantaged position in accessing capital goods, intermediate goods and spare parts. This arises from the biases, limited administrative resources to obtain incentives and other authorisations.

3.5 INFRASTRUCTURE

3.5.1 *Utilities*

The availability, quality and cost of public utilities namely power, water, posts and telecommunications is a constraint to investment. The present capacity of the public utilities can not satisfy existing industrial demand. This poses a serious constraint for new investors.

3.5.2 Transport

3.5.2.1 Road

The state of internal and external transport infrastructure is below standard in terms of availability, quality and cost. The use of long overland road transport increases costs, inefficiency and delivery time. The poor quality of roads increases maintenance costs. The coverage of the road network is limited and this implies a high cost of operation in those areas which are not serviced by road.

3.5.2.2 Rail

The efficiency of the national rail network is limited as measured by availability, quality and cost. The network only serves and connects to selected sites in the southern and central regions whilst the rolling stock is very old to efficiently serve the needs of the business community. The deteriorating efficiency of the rail network over the years has resulted into a diversion of freight traffic to the road and haulage industry which is competitive in terms of reliability and delivery time that meet the deadlines of industry.

The rail traffic industry is a sunset (dying) industry which calls for major restructuring to enable it acquire its world status as a cheap mode of transport.

The operation of the rail connecting Malawi to the ports of Beira and Nacala had been adversely affected during the Mozambican civil war. Transport cost as a consequence significantly increased as freight had to be shipped to the ports of South Africa at high costs as a result of long distance and costly trucks.

3.5.2.3 Air

Low traffic, limited cargo facilities and lack of co-operation in the air transport industry contributes to increases in air transport costs. Malawi's two international airports of Kamuzu International Airport and Chileka lack adequate warehousing

and cold storage facilities. Air cargo space is expensive and limited. Further, Malawi's air connections are not oriented to the Far East which renders high transport costs and inefficient trans-shipment for traffic and freight to and from the Asia.

3.5.2.4 Lake

While the lake offers a comparatively cheap mode of transport, the lake transport system has inadequate capacity and facilities which are not inter-connected with the rail and road transport.

It can generally be observed that Malawi is land locked with restricted, and costly access to the sea ports. The constraints associated with the transport network translates into high domestic cost and loss of competitiveness on the export market.

3.5.3 Industrial Parks and Factory Shells

There has been lack of privately owned or managed industrial parks in the country for a long time. There is also a noticeable absence of ready made factory shells for those investors who would want to make a quick start. At the moment, some industrial parks are being put up but the supply is insignificant.

A frame work lacks to enable private investors to develop industrial sites.

The small and medium enterprise sector does not have specialised industrial estates. These have not been forthcoming due to lack of incentives and absence of an enabling legislation.

3.6 OUTPUT MARKETS

3.6.1 Protection

Malawi's output market is characterised by a high degree of concentration due to several barriers to entry. The most common barriers to entry have been associated with the lack of technical and financial skills, inability to access technology, regulatory, legal and bureaucratic impediments etc. The Government , over the years, had also protected some industries using legal, tariffs, political and

administrative instruments to deny new players entry in various industries. These instruments ranged from industrial licence, surtax suspension/waiver and administrative controls

3.6.2 *Domestic market orientation*

There is also a high domestic market orientation thereby making the demand for foreign exchange exceed the supply of foreign exchange which is mainly dependent on tobacco exports. However, the domestic market is small and the purchasing power of the larger part of the population is very low.

3.6.3 *Government procurement practice*

The major market, especially for SMEs, for the consumer products would be the Government. However, over the years because of the Government's procurement policy and practice, SME's have been discriminated against. The policy of allowing Government ministries and departments to import products duty free has almost paralysed the SME as imported goods seemingly look cheaper than the locally produced products. To produce similar products the local industry use imported inputs for which they have to pay duty and surtax at the point of importation.

Another major constraint in the output market that has also decreased the potential of the SMEs is the lack of trading houses that would procure in bulk from SMEs and directed to one single consumer like Government.

Further to this, there is a problem with the time period for payment between delivery of a product and collection of payment especially for SMEs.

3.6.4 *Product Development and improvement*

Quality management has not been emphasized because of the domestic market orientation and lack of greater competition. Adoption and use of local technology has also not been promoted to a significant extent and where technology has been imported, mechanisms that ensure diffusion have not been put in place.

3.6.5 *Dumping/aid*

Dumping of goods can easily destroy domestic manufacturers in the absence of anti-dumping policies and the right tariff structure. In certain

instances, products that come into the country as aid can crowd out domestic producers.

3.6.6 *Specific industries & right products (Picking up winners)*

Industries which have the opportunity to develop have not been supported by targeted policies.

~~Malawi's industries are at different stages of development and have different needs based on different parameters including availability of resources, production costs, labour requirements, level of technology etc. The tariff reform programme has been moving towards a unified tariff system. Whereas this is desirable, in the long term, the situation described above would make such a structure detrimental to the development of Malawi's industry.~~

3.6.7 *Sunset industries*

Malawi has some sunset industries especially in sectors that for a long time have been monopolies eg. the textile industry. Normally such industries have obsolete technology, are loss making but employ the major part of a country's labour force. The collapse of such industries have a major impact on the economic, social as well as political setting and must, therefore, be handled with care.

4.0 PROPOSED INSTRUMENTS

The following chapter outlines some of the critical instruments that can be used in dealing with the various constraints contained above.

4.1 Raw Materials

The critical aspect pertain to availability of resources and their cost to industry. Availability of resources depends largely on economic growth in Malawi and international markets. In the short-run, increasing capacity utilisation depends on foreign exchange availability for needed raw materials and space parts. This raises a number of questions on how to ensure availability and therefore the Government must consider instituting the following measures:

- (i) providing incentives to exporters.
- (ii) ensuring a pro-market exchange rate to increase the return for exporters relative to other activities.

- (iii) rationalisation of protection with a view to stimulating firms or industries which enhance the supply of domestic raw material base and intermediate goods.
- (iv) Encouraging the formation and existence of co-operatives and business associations which can act as agent for their members in obtaining materials. and linking up with larger industrial firms as suppliers or sub-contractors.
- (v) Promotion and adoption of technologies appropriate for locally available materials.
- (vi) Transformation of SMEs workshops into modern factories.

4.2 Capital

- (i) Establishment of a venture capital fund/Bank and Credit Guarantee scheme.
- (ii) Strengthening existing institutions which serve SMEs.
- (iii) Foster a competitive banking/financing sector to increase availability of loanable funds, and improve operational efficiency and quality of services.
- (iv) Embark on rehabilitation of sick industries and promote modernisation of tools and equipment.
- (v) Allow parastatals, government and other official entities to transfer banking services from The Reserve Bank of Malawi to commercial banks.
The Reserve Bank Act limits the public sector borrowing to 20% of approved revenue estimates. More often than not these estimates have been exceeded. What is required is for the public sector to institute fiscal discipline. The Government should also speed up the privatisation process to relieve itself of the budgetary constraints.
- (vi) Ensure positive real deposit rates to enhance the efficiency of the financial system. The government should strive for positive real interest or deposits in the long term although in the short-term real deposit rates could be negative. Commercial banks should diversify resource mobilisation and be encouraged to lend long-term, including leasing.

(vii) Promote new entry into the financial system and in the long-term allow the financial institutions to offer equity shares to the public as a way of de-concentrating ownership.

(viii) (iv) *Research and Development*

Institute a deliberate policy be embarked to increase private and public sector investment in Research and Development with the objective of attaining a higher Research and Development - GNP share. In order to sustain the development in the industrial and agricultural sectors, new and existing technology must be absorbed and utilised more efficiently with a view to strengthening domestic technology capabilities, increase overall productivity and promoting international competitiveness.

4.3 Labour

(i) *Costs, wages/bargaining policy, labour laws revision*

Ensure that the wage bargaining policy is strengthened. A number of strategies and policies could be adopted to deal with the problems of the cost escalation. The Government will have to look at the various anti-inflation policies including the use of government budget deficit control and a tight monetary policy. Trade unions will need a lot of education and strengthening to be able to appreciate and understand the economic trends to avoid unnecessary wage demands and strikes.

(ii) *Human resource development*

Reorient our national human resource development giving special attention to requirements of private sector including SME and women in various disciplines including science, engineering, management, technology, finance, etc. This will require to review operations and programmes of various institutional set-ups including HRMD, MOLMD, UNIM, SEDOM, DEMATT, MEDI, MIM, POET, MCI etc.

Plan and develop of human resources towards ensuring adequate supply of suitably skilled manpower to meet the growing needs of the country. Greater emphasis should be placed on the training of labour to equip them with the required skills. A closer rapport should be established between training institutions and the private sector to increase the relevance and cost-effectiveness of the training programmes. In addition, greater involvement of the private sector in skill development

should be encouraged to reduce the training cost borne by the public sector and to ensure that skills provided would be consistent with market needs.

Aside from skills development, positive values and work ethics which stresses on diligence, loyalty, dedication and the need to be self reliant through individual determination and initiative should be instilled as this is crucial in raising productivity and enhancing efficiency. The Government therefore has to introduce a "Look Far East Policy" for Malawians to emulate the work ethics and attitudes as well as adopt management practices of successful eastern nations such as Malaysia, Taiwan and South Korea.

(iii) *Vocational Education*

Establish a National Vocational Training Board to coordinate vocational training development. To ensure relevance of training sub-sectoral industry training councils could also be established with representatives from manufacturing firms. Training programmes would be industry specific eg training programmes for garment, leather, footwear, textile, food processing etc.

(iv) *Cultural re-orientation*

Restructure society through a cultural re-orientation which will reduce and eventually eliminate the practices that promote absenteeism. ~~This will be necessary because the system of Government during the last 30 years has made a Malawian a stranger in his own country. A Malawian has no self confidence and this needs to be restored. For the labour force to be competitive, it needs to undergo Attendance of funerals has to be restricted and deliberate policies will have to be made to ensure that funerals are only done during the weekends. This will stimulate private investment in the areas of funeral parlours to increase the availability of mortuaries. Alternatively, the number of hours away from office will have to be stipulated such that any extra hours should be treated as leave days.~~

(vi) *Technical Assistance*

The available technical assistance resources should be used productively and well managed.

(vii) *Appraisal system*

Encourage a performance-Incentive (open appraisal systems) in all sectors of the economy especially in the civil service.

(viii) *Brain drain/retention*

Review, rationalise and enforce bonding system to ensure that private sector develop training programmes for their workforce. Develop an incentive package to facilitate the return of Malawians abroad. ~~A good example is the TOKTEN programme that was used to facilitate the medical doctors abroad.~~

(ix) *Employment of expatriates*

Peg permits to the amount of investment made plus the number of local jobs created. Employment of expatriates is inevitable in any developing country. Malawi has to recognise the fact that it has no adequate skills in various sectors to utilise in its ambition of developing its industry. In addition, it is common that a foreign investor will trust his own workers and professionals, especially when establishing a new plant. The employment of locals is normally embarked upon after the firm has solidly established itself. Some foreign investors will also insist on some posts being filled up by their nationals for the life time of the project. The Government, therefore, needs to review and revise the methods used to grant temporary employment permits and business resident permits. The system must be transparent and objective.

4.4 INFRASTRUCTURE

4.4.1 General

~~Instruments for general infrastructure relate to the strategies, measures and mechanisms that will improve the availability, quality and efficiency of the road, rail, lake, and air transport systems.~~

(i) *Roads*

Private sector must play a major role in the road construction as well as financing in particular road construction and maintenance programmes within the industrial parks. ~~including upgrading arrangements must be established by Government with the support of the private sector. Financing of road~~

~~construction programmes should not only depend on public projects funded by donors.~~ Government should also put in place a mechanism for road usage toll and a mechanism to raise funds through fuel pump price to be used for the maintenance of the road transport network.

A weight regulation should be enforced in order to preserve and sustain the availability, quality and efficiency of the existing capacity.

(ii). *Rail and Lake Transport*

The rail and lake transport system require restructuring and commercialisation in order to improve its efficiency. The rail and lake system should be integrated with functional linkages with the rest of the internal and external transport system facilities.

(iii). *Air*

The national airline and other activities related to air travel should be commercialised and/or privatised to increase efficiency and improve competitiveness. Airline schedules should be improved and ways should be looked at how to reduce costs of trans-shipment of containers.

The air transport flight network should re-orient towards possible new markets and sources of capital, especially the Far East where there is growing interest to invest in Southern Africa.

Wide bodied aircraft and other handling facilities, including cold rooms should be put in place for cargo.

Government should review landing rights for other carriers for the purpose of introducing stop over connections for long land/cross-continental connections.

The banning of charter flights and other impediments should be reviewed.

(iv). *Utilities (Power, Water, Sewerage)*

The existing capacity cannot serve the growing needs of an expanding economy. Large projects such as smelting of bauxite cannot, at the moment be implemented unless power is imported. There is, therefore need to increase and modernise the existing capacity.

Services should be improved through the exploration of innovative financing packages.

There is a need to re-orient public utilities management while the provision of efficient utilities require an incentive package that would pave the way for private sector partnerships.

There is a need to explore efficient means of delivery of utilities where, for example in the case of ESCOM, the power generation could be separated from distribution and maintenance functions. This would ensure efficient delivery of services.

Government should facilitate investment in rehabilitation to reduce costs due to wastage and losses.

Sub-contracting arrangements should be encouraged and set up for such specialised activities as management, disposal of industrial waste etc.

Government should explore the possibility of importing electricity from counties in the region which have excess capacity.

(v). *Industrial Infrastructure*

Government should, with the involvement of the private sector expand industrial park facilities and provide these facilities for the SME sector. It will be necessary to outline incentives for private sector development of the industrial parks.

Existing infrastructure, including road networks, water supply and sewage should be maintained in a usable state.

Government should facilitate the setting up of export processing zones (EPZs), including dry ports. Private sector involvement should be encouraged through award of appropriate incentives.

4.5 OUTPUT MARKETS

(i) *Concentration*

~~There are a number of policy interventions and change in practices that could be implemented to stimulate the output market in Malawi. The following are some of these possibilities:~~

- a) Remove barriers to entry associated with technological capabilities
- b) Strengthen the finance capabilities and skills
- c) Reduce the bureaucracy and streamline some regulations and thereby stream-lining the Investor Roadmap to doing business
- d) Remove the predatory buying practices by large enterprises by instituting dis-incentives for such practices
- e) Establish anti-trust laws
- f) Enhance the capacity of SME to purchase inputs in bulk alongside a commitment by Government to purchase of SME products.
- g) Redress the remaining unnecessary protection in various forms be it through legal means, tariff, political and/or administrative.

(ii) *external marketing*

- a) Encourage external orientation and an aggressive marketing drive through strong Government support by launching programmes such as the hire or contracting of brokerage/marketing firms even for single-line products
- b) Re-orient exports towards non-traditional destinations. (see IDDA)
- e) Remove procurement bias against locally made products to allow Government budgets to be inclusive of duty and surtax
- f) Advocate a deliberate policy to ensure that there is prompt payment for products. eg time limited (legal cf. U.K.) to re-dress the problem of limited access to working capital from the banking sector.
- g) Institute practical safeguards for quality of inputs, raw materials and outputs through the existing institutions. ie Malawi Bureau of Standards and Malawi Industrial Research and Technological Development Centre.
- h) Improve anti-dumping awareness and ensure that aid does not have a negative impact on the local industries.

- j) Government ought to have a special orientation towards winners (non-traditional more efficient industries). Picking up winners will be achieved by instituting new promotional laws and strategies, areas of government/private collaboration, and the strengthening of research and development for example in electronics, electrical equipment, lighter steel from titanium, engineering, rubber, aluminium. The identification of industries must be done as a matter of urgency.
- k) Develop an Input-Output table for Malawi. It will be essential for the model to be completed so as to use it as a tool for analysing the changing historical patterns and projected future sectoral developments. Countries in Asia, notably Malaysia, has successfully used an input-output model for its industrial development. The Government may wish to consider having Malawian economists sent to Malaysia to see how our colleagues developed their model. The following criteria could be used to identify these industries:
 - o downstream products development potential
 - o export potential
 - o value added
 - o employment
 - o linkage effect and;
 - o technology

This exercise will be complemented by other studies already undertaken such as the Industrial Sector Opportunities Study.

(iii) *Sunset Industries*

- a) Government needs a long-term strategy for endangered industries by looking at several possibilities including rehabilitation, restructuring re-investment and technological modernisation.

5.0 THE INSTITUTIONAL FRAMEWORK

The institutional framework or set-up will be the kingpin in a successful implementation of an industrial policy. Several institutions are expected to play a crucial role in trying to achieve this goal. These are outlined below.

5.1 *Policy Formulation and Regulatory Institutions*

5.1.1 Registrar General's Department

The time involved in processing company incorporation applications is reasonable, however, all processing is done manually and the files are stored manually. Improvements in the area of records management will require computerization of the function.

5.1.2 Ministry of Lands and Valuation

The procedure is cumbersome, unduly lengthy and frustrating for potential investors. The most inhibiting factor is that serviced sites are virtually nonexistent in any of the urban areas as a result of the unavailability of funds within the Department to install services such as entrance roads and sewage disposal facilities. A further bottleneck relates to the time taken to process applications, although this is being addressed through more stringent management control on the flow of work within the Department.

5.1.3 Department of Immigration

The principal problem for foreign companies in dealing with the Department of Immigration resides in the operation of Temporary Employment Permits. This permit allows expatriates to work in Malawi for a period not less than six, or longer than 24 months, but is renewable prior to expiry. There are two identifiable areas of difficulty.

- ii) Rather than imposing an upper limit, the permit should be opened to (a) remove the necessity for re-applying at the end of two years which requires an undefined and uncertain waiting-period, and (b) allow the applicant company to match the time required for the worker to be in-country with the duration of the Temporary Employment Permit. In many cases, contracts are required for longer than the two-year period specified.
- ii). Remove the requirement that mandates hiring Malawians if similar skills can be located domestically. Foreign companies, in particular, need to be able to use their own employees without restriction where this is considered necessary by them, whether or not similar skills are available domestically.
- iii) Review the procedure in terms of pegging the permits to levels of investment and employment

5.1.4 Department of Customs and Excise

The Department of Customs and Excise's responsibility for

implementing the Customs and Excise Act is balanced with the need to incentives industrial development through an equitable but competitive revenue-generating system. In moving towards a more competitive system to improve private sector diversification, several other incentives can be undertaken in the short to medium-term. These include the following

- i) A review of rates of duty payable on capital equipment which is too high, and constitutes a substantial disincentive, especially to small and medium-scale manufacturers producing intermediate goods or final products for the domestic market.
- ii). The duty drawback system needs a review following the many complaints raised regarding lengthy delays in settling the final payment, due to the complex nature of the paperwork involved. Other alternatives to the system could also be looked at.
- iii). Training of staff in Customs and Excise especially in surtax management, tariff classification systems, customs valuation; and customs enforcement. etc.

5.1.5 Department of Income Tax

Areas where improvements are needed include the following:

- i). The system suffers from a lack of transparency, in particular in regard to the sequencing, clarity, language and design of the forms used by the Department.
- ii) Payment of corporate taxes in advance is difficult for first-year manufacturers, since they have no established record of tax payments.

5.1.6 Ministry of Commerce and Industry

Ministry of Commerce and Industry has not been pro-active partly because of a limited budget and partly because of some technical problems internally. There is need to restructure the Ministry to take up a more aggressive and active role as they are the main implementing agent of the Government in industrial development.

5.1.7 Other Sectoral and Central Ministries

Other sectoral and Central organs of Government have major impact on the development of industry in malawi. these include Ministry Economic Planning and Development, Ministry of Finance, Ministry of

State, Sectoral Ministries (Energy, Health, Education, Transport, Agriculture and Livestock Development, etc), Ministry of Labour and Manpower Development, Ministry of Physical Planning and Surveys, Ministry of Research and Environmental Affairs, Ministry of Natural resources, Ministry of Tourism,

5.2 *Financial Institutions*

5.2.1 Banking Financial Institutions

Reserve Bank of Malawi

Reserve Bank issues a banking licence as mandated under the Banking Act. Time limit for processing needs to be legalised.

Commercial Banks

Commercial banking has traditional been undertaken by National Bank of Malawi and Commercial Bank of Malawi although the authorities are keen to accept more players in retail banking.

5.2.2 Other Financial institutions

These have increased importance in mobilisation of savings and credit allocation. These include the Malawi savings bank, MUSCCO, Finance houses, a building society, development financial institutions and pension fund and insurance companies

5.3 *Specialised Service Institutions*

5.3.1 Malawi Investment Promotion Agency

MIPA is principally charged with the responsibility of promoting, encouraging, facilitating and assisting both foreign and local investors. MIPA's effectiveness as a facilitator for investment depends on the efficiency of the approval-granting institutions

5.3.2 Malawi Export Promotion Council

MEPC has not be effective in promoting exports partly because the budget is insufficient. There is a need to review the organisation and restructured if necessary, and a corporate plan developed to establish goals for the organization and a plan for achieving those goals.

5.3.3 Malawi Bureau of Standards

The Bureau of Standards performs an important function in developing

standards for Malawi products and publicizing the worldwide adoption of ISO 9000 Standards.

The Bureau is constrained by inadequate staff to handle an increasing workload; lack of equipment; lack of office space; and inadequately trained scientific officers.

The Bureau needs to expand its services in the area of industrial metrology, a key component of industrial standardisation and to that end additional capacity is required that will focus on infrastructure and human resource development.

5.3.4 Municipal Water Boards

The Water Boards of Blantyre and Lilongwe provide an adequate service to users within the city boundaries. The major bottleneck being dealt with is the difficulty of obtaining equipment supplies when these have to be imported. This bottleneck can lead to significant delays in water connections.

5.3.5 ESCOM

The ready availability of a reliable, uninterrupted supply of electricity represents a significant bottleneck to private sector development in Malawi. In particular: supplies of electricity are not available in remoter areas without substantial costs and extensive delays; investors who require infrastructural work to obtain supplies are subject to installation delays; where the infrastructure is in place, subscribers may also be subject to delays in connection; and subscribers also suffer from interruptions in supply

While additional capacity is being installed, ESCOM needs to be more aware of the needs of industry. To improve the communication process, the Malawi Chamber of Commerce and Industry should consider carrying out a review of its members to determine the extent of the problems in electricity supplies, with the objective of communicating industry's concerns to ESCOM.

5.3.6 Posts and Telecommunications Company of Malawi

Applicants for telecommunications services in Malawi are likely to face delays unless (a) the equipment needed is available and (b) they apply at an early stage in the process. Additionally, they are unlikely to be supplied with the number of lines they request. While lines are available in Blantyre, installation is slow. In Lilongwe the exchange

capacity is adequate but the subscriber line network is inadequate - most cables are old and need to be replaced and increased. The Mzuzu and Zomba exchanges have been at capacity for a number of years and lines become available only when an existing subscriber terminates service.

Telephone and facsimile services are a basic part of doing business. International business, in particular, relies heavily on an effective communications network. The indications are that this may not be available in Malawi, or at least not at satisfactory levels, both in terms of quality and availability. Accordingly:

- i) Increasing the country's telecommunications facilities needs to be considered as a priority.
- ii) There is a need for a mechanism to better inform the utility company when development of industrial sites is planned so that their plans may be integrated accordingly.

5.3.7 Malawi Industrial Research and Technological Development Centre

MIRTDC has the mandate to undertake industrial research and technology development work. Its contribution towards enhanced industrial development in Malawi will have to expand through the following mechanisms:

- X providing research and development services aimed at enhancing use of local industrial materials,
- X providing technical solutions to industrial problems especially in SME sub-sector,
- X providing advisory services in technology transfer, acquisition and negotiations, and
- X providing technology training services through demonstration pilot plants.

MRITDC would have to work closely with MEPC and MBS in the area of export product development and quality improvement research. In order for this to be realised, MRITDC would have to build its capacity to perform its role efficiently and effectively.

5.3.8 Other Specialised Bodies

Other specialised agencies involved in entrepreneurial development

and training include MEDI, DEMATT, Technical training Colleges, University of Malawi, Malawi Institute of Management and Agricultural Research Institutions

5.4 Business Organisations

There are a number of associations and business organisations in Malawi that act as lobby for private business interests. Some of the prominent organisations include Malawi Chamber of Commerce and Industry, National Association of small and Medium Scale Enterprises, national Association of businesswomen, Women's World banking, African Businessmen Association, and Society of Accountants in Malawi. Given a proper government-private sector dialogue these institutions can have major impact on government policy.

6.0 CONCLUSION AND RECOMMENDATIONS

This paper has proposed new objectives and instruments, which can be used in the formulation of a comprehensive industrial policy. In particular a new vision within the sphere of industrial policy formulation, review and implementation has been added.

The paper recommends that Government should act expeditiously towards developing a comprehensive industrial policy. As a first step Government should recruit a consultant/expert to refine the proposals contained in this report.

Government should establish a Committee to work with and oversee the consultant in accomplishing the tasks assigned