
CASE STUDY 3 – MALAWI

The National Action Group (NAG)

Jason Agar, Facilitator, NAG Secretariat, and Chancellor L. Kaferapanjira,
Chief Executive, Malawi Confederation of Chambers of Commerce and Industry (MCCCI)

Background to the NAG Process

Malawi moved from a highly centralised, government-dominated economy prior to 1990 to a more diverse and liberalised economy post-democratisation. In the period after independence, Malawi's economy was characterised by high levels of government ownership, influence and control of many industries and businesses, in co-operation with a select and privileged number of private sector partners, both local and international – often through monopolies which were run, sanctioned or supported by the state.

The liberalisation of the economy in the early 1990s led to a greater diversity of private sector ownership and more competition. Previously closed areas of the economy were opened up to new private sector producers.¹ In addition, a privatisation programme has made considerable progress, but with some way still to go, particularly in utilities. The economy has been partially liberalised in areas such as trade, investment, business licensing and to some extent foreign exchange. Progress towards full liberalisation has been patchy and subject to regular reversals.

A good example of change is the sugar industry, which was operated as a state-private sector monopoly (with Lonhro) where quotas and concessions to sell sugar were used as a form of patronage in a protected and regulated market. The system was inefficient and not conducive to economic development. By the late 1990s, a majority stake in the Sugar Corporation of Malawi had been sold to Illovo of South Africa, who changed the model to be based on efficiency and competitiveness, not favour, in its choice of distributors. Unfortunately, the perception of many in government and outside is that it is still operated as a favour-based model.

A second example is Press Corporation, which was a conglomerate controlled by the first President of Malawi that held many manufacturing, service and retail monopolies through its subsidiaries. Press is still owned by a Trust (for the benefit of the nation), but it now operates as a competitive company driven by normal commercial goals: return on capital, and growth. It has relinquished many of its monopolies and spun out many of its subsidiaries. However, once again perceptions of Press in the public sector, media and the general public have not always kept up with such changes.

The experience of this model of government-controlled, monopolistic, regulated business created barriers to effective dialogue between the public and private sectors both at the time and beyond. It created resentment amongst those excluded from power and fostered a general view that the private sector is exploitative and not to be trusted. Levels of distrust, mutual suspicion and misunderstanding are still high on both sides.

¹ Government used to control what crops could be grown in certain areas, which was used as a means of patronage – for example, smallholders were excluded from growing burley tobacco, with a regulated quota system for estates.

With government so entangled with the private sector for so long, civil servants generally took a very dirigistic approach to policy-making and implementation that continued post-liberalisation. Now that businesses are not 'controlled' by government, this has often led to suspicion of both the old and the new businesses. The effect has been that consultation with the private sector by public sector was, and for many individuals still is, very superficial and often cosmetic. And, by virtue of being ignored over many years on the many issues that impacted upon it, businesses generally responded with hostility, criticism and acrimony. Some dialogues degenerated into a running argument in private and in public, resulting in further entrenchment of positions and even abandonment of dialogues.

Although there were attempts in the late 1990s to engage private sector (and civil society) more widely (PRSP), often at the prompting of donors or multi-laterals, these processes were generally weak and inappropriate – for example, expecting business people to sit through a five day consultation event usually away from the main business centres, when everyone knew the chance of making substantive changes was minimal. Businesses became frustrated in this period, often ignoring governmental processes or being unhelpfully critical of government.

However, other processes emerged that created opportunities for a more mature and effective dialogue. These arose organically, often initiated by more forward-looking business people, civil servants and ministers who saw the need and benefits of engaging with each other. An early example included the formation of a working group on trade policy, co-convened by the Ministry of Trade and by the private sector in 1997.

Following a national event on development of the private sector in mid-2001 that was co-convened by the Minister of Finance and the CEO of Press Corporation – which is still Malawi's biggest company – a small group of senior public and private sector leaders met initially to prioritise growth sub-sectors for national focus. This 'National Action Group' recognised the need for a senior level dialogue on a range of issues and continued to meet with the help of local 'facilitators'. From late 2001, the 'NAG' progressively expanded the discussions by inviting in other key persons and organisations who could help resolve particular barriers to the development of business.

At first the NAG was supported pro bono by two local consulting firms interested in private sector development. From December 2002, DFID funded a Secretariat (c. \$100,000/p.a.) to support the facilitation of the NAG process, including convene the Forum, establish supplementary dialogues to resolve particular enabling environment issues, undertake supporting analysis, establish and develop industry working groups and follow up on agreed actions.

In 2003, the NAG Forum determined that it should not just address issues as they arose, but should develop a "Business Plan for Malawi". This resulted in a joint public-private strategy for private sector development, the Malawi Economic Growth Strategy. This had the personal involvement of the Minister of Economic Planning, who subsequently has become the President of the Republic of Malawi. The MEGS is regarded as central to governmental activities relating to business and the focus for the Forum agendas.

The NAG Forum meets approximately every two months and receives inputs from the various sectoral working groups and supplementary dialogues facilitated by the Secretariat and in close conjunction with the Malawi Confederation of Chambers of Commerce and Industry (MCCC) in such areas as tax reform, performance of utilities, export development/trade, investment and foreign exchange, covering minor and major policy issues and implementation.

Objectives of the NAG Process

The objectives of the NAG process can be summarised as:

1. Improve the business enabling environment through dialogue and action
2. Establish mechanisms for dialogue and/or strengthen existing ones that will lead to changes.
3. Change attitudes to dialogue and deepen the culture of engagement between private and public sectors

Although objectives two and three are crucial to sustaining the outcomes of objective one, real progress on objective one is needed all the time to ensure that businesses stay engaged. This is both in terms of quick wins and more substantive changes. One example has been by identifying ten areas that the incoming government could do to improve the environment at limited cost, most of which were implemented in full within the first year, or committed to implement.

Sustainability should be seen in terms of more and better mechanisms for engagement and a changed culture towards dialogue. When policy makers really understand that the private sector not only should be involved in policy formulation, but can substantively contribute, then they seek out and listen to responsible inputs. The NAG Forum will probably change considerably over the coming years and there may not be a need for a funded secretariat, as that function could be taken on by government and private sector champions.

Structure and Participation

In outline, the NAG process:

1. Is one of progressively increasing/deepening engagement between private and public sectors;
2. Has at its centre a regular Forum attended by:
 - a. key economic Ministers and officials,
 - b. key public sector institutions (Reserve Bank, Privatisation Commission, Investment Promotion Agency etc.);
 - c. CEOs of leading investors and representative private sector bodies (sectoral and cross-cutting);
 - d. Heads of Missions for development partners; and
 - e. Some economic-related civil society partners.
3. Has related sub-sectoral working groups with public-private representation addressing sub-sectoral specific issues (sugar, tea, tourism, cotton, textiles/garments, mining, etc);
4. Works with an established cross cutting group on trade (Trade Policy National Working Group - TPNWG) and with various groups on investment related issues (tax reform etc);
5. Initiates ad hoc groups and/dialogue processes on 'current' cross-cutting issues such as exchange controls, business licensing, severance pay etc.
6. Works with other governmental and donor processes to better integrate private sector related agenda/processes of World Bank, IMF, USAID, DFID, EU, UN and others;
7. Has a joint governmental, private sector and donor secretariat providing an access and communication point for each of the three main categories of stakeholders;
8. Undertakes capacity building of the private sector associations² to enable more effective engagement in dialogue processes which helps to enhance the private sector's understanding of the 'rules of the game' for policy making and implementation.
9. Provides e-information on business related issues direct to an e-mail database of businesses and those interested in business (public sector, donors, NGOs etc.).
10. Takes a deliberately low media profile, seeking to be a neutral facilitator between parties rather than act as a lobby group, which is the role of representative associations.

² The NAG Secretariat is currently organising a private sector network of associations for information sharing.

Within the above process and activities, the main NAG Forum serves several purposes:

1. Resolves cross-cutting issues that impact on businesses of all sizes.
2. Encourages sub-sectoral working groups to work by giving them a place to bring cross-sectoral issues that they cannot resolve alone.
3. Builds trust through opportunities for personal interaction and hearing other views.
4. Raises awareness of investment climate issues by educating businesses and government.
5. Allows for monitoring of progress on promised action linked to the strategy.
6. Provides the Secretariat with a mandate to work and the basis on which to engage stakeholders.

Key Characteristics of the NAG Process

1. Was initiated by private and public sectors as a joint 'home grown' initiative without donor input in its initial phases;
2. Builds on earlier more collaborative dialogue initiatives such as the TPNWG, and avoids the legalised model of the putative Business Council that collapsed before it even started;
3. Is embedded in Malawi's private and public networks through the involvement of a Secretariat with contacts and credibility amongst the many stakeholders;
4. Has developed organically and often opportunistically in its responses and in the particular dialogues it has pursued, according to where progress is possible;
5. Has credible private sector individuals from companies and representative bodies who have (mostly) stuck with the process;
6. Has been low cost, with minimal funding by donors supplemented by private sector and Government of Malawi contributions. All parties cover their own costs - this aids sustainability but is also part of the participant commitment;
7. Has DFID funds for Secretariat support but no funding for projects or activities beyond the dialogue processes, policies, practices and implementation – it was a deliberate choice to limit funding to avoid becoming embroiled in money allocation issues, and to keep the focus on the main environmental constraints for private sector, many of which are within the power of the stakeholders to change without substantial additional funding allocations;
8. Has engaged a Secretariat through a (part-time) consulting contract with embedded local firms which have business operating experience in Malawi, working with two officials from two key ministries and with support from a (part-time) DFID secondee who interfaces with donor stakeholders;
9. As a deliberate choice, has no legal status but instead works by collaboration and commitment from the different stakeholders. Although there is sometimes pressure for formalising³ the NAG as a way of compelling involvement, this confuses the form of a process with its function. There are many examples of ignored pieces of legislation, policies and strategies in Malawi, suggesting that formalisation is not necessary or even helpful to a better enabling environment. What is more critical is the willingness of parties to engage in meaningful dialogue and the commitment to act even when this is difficult.⁴

Results

The NAG process has achieved change in several business environment areas, notably:

1. Substantial changes to tax administration and tax regime proposed and adopted;

³ Meaning given legal force – the NAG is formalised in certain respects.

⁴ As in many countries, legislation may take years to develop and pass, and momentum may be lost or needs change faster than the legislative frameworks. The demise of the putative Business Council the day before it was launched show that political will can evaporate before implementation.

2. Prioritisation and implementation of short-term actions to improve electricity supply and formation of an inter-ministerial committee to improve medium term supply;
3. Sub-sectoral policy changes and problem solving in priority sectors has occurred;
4. A public-private 'business plan' for Malawi, which has become central to the government's business environment activities and led to a reappraisal of policy on neglected core sub-sectors;
5. Helped the main cross-cutting business association, the MCCCCI to revamp its governance, refocus its efforts on lobbying and improve its lobbying effectiveness;
6. Establishment of a nascent private sector network, initially focusing on tax reform;
7. Changes in specific issues, such as withholding tax for smallholder farmers, which has increased incomes for the poorest farmers as well as reduced revenue collection costs for government and for business, without affecting government revenues.

Challenges

1. Need to continue to generate short-term results to keep the private sector engaged, without alienating government by being perceived as overly negative and critical;
2. Increasing the accountability of the public sector for commitments made, particularly in implementing changes in policy and procedures, but without threatening them;
3. Integrating an understanding of the political economy of change and policy-making into the lobbying, so that the private sector understands how to bring about change;
4. Improving co-ordination within the private sector so that lobbying is more effective and efficient, as well as making it easier and more efficient for the public sector to engage with the diverse private sector;
5. Shifting the focus of private sector representative bodies more onto enabling environment activities than on more survivalist revenue-raising activities – for example, there have been cases of associations running events for members to engage with Ministers more so that they could charge a fee than for the opportunity to have a meaningful dialogue;
6. Coping with regular changes of government personnel, from Ministers downwards;
7. Integrating other dialogue processes that compete for attention but are driven by particular funding agency agendas without necessarily advancing the enabling environment.⁵ By participating in these, and trying to integrate with those activities with most promise, the NAG Secretariat seeks to reduce overlap, confusion and misplaced effort;
8. Overcoming legislative and parliamentary blockages, and weaknesses in the capacity to change and implement policies on the part of ministries and government agencies;
9. Addressing misunderstandings of the process, either overly optimistic or pessimistic, and deliberate misrepresentations of it. Critics can always find reasons to criticise the NAG for being too white, too British, too donor-driven, too big business oriented, not delivering quick enough and so on. Sometimes they criticise out of ignorance, but often they criticise because the NAG process impedes or threatens them. Government officials can resent a coherent private sector voice that they have to respond to and be held to account by, having become used to limited scrutiny. Some donors prefer to start something new that fits with their own country agenda or reflects a standard model being implemented internationally than adapt to what is already there.
10. Balancing the need for the Forum to be broad enough to be representative and small enough to function well. The private sector covers so many areas and issues that there needs to be wide involvement of many public sector agencies and private sector groups, but this can lead to a lack of focus and issues not being relevant to participants, thereby inhibiting progress.

⁵ In addition to the MEGS developed by the NAG stakeholders, Malawi has or is developing the: Malawi Growth and Development Strategy, National Export Strategy, Integrated Framework action matrix, Private Sector Development Strategy and an Economic Empowerment Strategy. Various bodies undertake overlapping studies including an Investment Climate Assessment Survey in addition to three similar studies in the recent years.

The NAG process has faced many obstacles and challenges in its short life however, it has become and stayed the main focal point for dialogue on the private sector. To do this it has responded to challenges and opportunities by changing its approach and shifting its focus. Its flexibility and persistence, as well as attention to the political economy of policy making, has enabled it to survive and show results, though it continues to face challenges and the need to rejuvenate itself on a regular basis.

Authors:

Jason Agar, Facilitator, NAG Secretariat

Jason Agar is Managing Director of a leading Malawi-based socio-economic consulting firm (Kadale Consultants Ltd) that specialises in private sector development. He has pioneered problem-solving processes based around a full understanding of industry value-chains and engagement of public and private stakeholders. He was directly involved in the formation of the NAG Forum in 2001 and has been the lead facilitator of the process for the last four years. He currently manages the NAG Secretariat along with Imani Development, and is actively involved in both the further evolution of the NAG process and in facilitating the ongoing dialogue processes around it.

Jason Agar has a BA (hons) in Law (Oxon), an MBA (Henley Management College) and an MA in Development Studies with Distinction (Leeds). He had a successful career in UK blue chip companies (Marketing) before working in Kenya as an advisor to an informal sector micro-finance project. He then worked at the Small Business Centre of Durham University Business School as Director of the Network Unit, focusing on business support organisations, before starting his own UK-based consulting firm. After consulting on enterprise and private sector in several developing countries in Africa and Asia, he joined Kadale Consultants, Malawi in 2001. He has invested in, and operates, two companies in Malawi, thereby gaining first hand experience of running businesses in a difficult environment.

Chancellor L. Kaferapanjira, Chief Executive, Malawi Confederation of Chambers of Commerce and Industry (MCCCI)

Chancellor L. Kaferapanjira is Chief Executive of the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), the apex private sector representative organization, seen as the main voice of the private sector. Before joining MCCCI, Mr Kaferapanjira was Deputy General Manager of the Malawi Investment Promotion Agency, a quasi-government agency charged with the mandate of promoting both foreign and domestic direct investment in Malawi.

MCCCI is a membership-based private sector organisation with an average annual membership of 300 members of all sizes of businesses. Its main role is to serve and promote the interests of its members through lobbying government on issues of concern to private sector, and business facilitation such as holding trade fairs and trade missions. MCCCI is the main private sector representative organisation at the NAG Forum.

Mr Kaferapanjira has a Bachelor of Commerce (Business Administration), an MSc in Strategic Management and a Post-graduate Diploma in Marketing from the Chartered Institute of Marketing in the United Kingdom, and is a Member of the same institute (MCIM).