

Standards and rents: a study of market distortions and anti-corruption in Malawi's steel industry

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Acronyms and abbreviations

ACE	Anti-Corruption Evidence research consortium
BAAC	Business Action Against Corruption
CAMA	Consumer Association of Malawi
CFTC	Competition and Fair Trade Commission
CSAAC	Civil Society Action Against Corruption
DPP	Democratic Progressive Party
IRS	Industrial Rebate Scheme
MBS	Malawi Bureau of Standards
MCP	Malawi Congress Party
MCSP	Malata and Cement Subsidy Programme
MRA	Malawi Revenue Authority
NES	National Export Strategy
SADC	Southern Africa Development Community

Executive summary

This paper is one of three country research studies analysing industry arrangements that are potentially corrupt and anti-competitive in the supply of steel products in Malawi, Zambia and Tanzania. The core issues are evaluated using a political settlements and anti-corruption framework, as adopted under the Anti-Corruption Evidence research consortium (SOAS-ACE).

Malawi's steel industry is analysed for various reasons. It has an extensive history of rent extraction through collusion, as well as abuse of market power by South African companies that have exported to and operated in the Southern Africa region. The steel industry also warrants analysis as a critical input for infrastructure development and the building industry.

Our analysis draws on primary and secondary evidence, and relies extensively on information gathered through 14 in-depth, semi-structured interviews conducted with key stakeholders in Malawi's steel sector in 2019. This includes representatives from the steel industry and government agencies.

One of our main findings is that there is a problem with the supply of substandard roofing sheets in the market in Malawi. While it is generally socially beneficial to maintain standards of quality for roofing sheets, the country faces a problem due to the lack of capacity of standards agencies to test and monitor quality, as well as potential corruption to circumvent customs rules at borders.

Given the context, it would be difficult to build a coalition that has self-interest in addressing such forms of corruption. However, our analysis suggests it may be feasible to design an anti-corruption strategy that involves both the standards authority and formalised private-sector steel suppliers (including South African firms), and that advocates consumer interests to improve the monitoring of standards.

1. Introduction

Historically, Malawi has been highly dependent on exports of agricultural commodities, which account for over 80% of export earnings and 35% of national gross domestic product (GDP) (KPMG, 2017). This structure has remained relatively unchanged for several decades, with agriculture (mainly tobacco, maize, cotton, sugar and tea) dominating in terms of high shares of GDP. The agricultural sector is therefore a critical driver of job creation and development more broadly (JICA, 2013).

The majority of export opportunities that are being developed as part of Malawi's manufacturing strategy are in agro-processing, followed by plastics, packaging and assembly, while service-related sectors such as transportation, construction, and information and communication technology (ICT) have also experienced some growth. Given this narrow focus of domestic policy and capabilities, Malawi's manufacturing sector is highly dependent on imported capital and raw materials (Chirwa, 2002).

The steel industry is of particular interest because, although not a core sector in terms of Malawi's productive capabilities and strategies, steel products are critical inputs into public infrastructure and household construction projects. The steel sector also has potential linkages with other manufacturing and productive sectors necessary for industrial and infrastructure development in low-income countries like Malawi.

Imports of steel products to Malawi are expected to continue to increase due to anticipated growth in construction (also linked to increased demand for housing) and infrastructure development plans. Indeed, in 2010, growth forecasts projected that steel imports would double by 2022 (JICA, 2013). However, as Malawi is a landlocked country, its steel industry relies on critical transportation networks and other support infrastructure.

This paper is one of three country research studies analysing the steel industries in Malawi, Zambia and Tanzania, with a focus on patterns of corruption and anti-competitive behaviour. We draw on both primary and secondary sources, using mixed methods, to explore potential explanations for the outcomes observed in the steel industry, including any potential and actual corruption outcomes and causes of market distortions. The analysis relies extensively on primary information gathered through 14 in-depth, semi-structured interviews conducted with steel industry companies, government agencies and other key players in May 2019 (see Annex 1 for interviewees). A second round of in-country interviews was planned for 2020; however, this was not possible due to the coronavirus pandemic. Consequently, further research is required in some key areas.

The core issues are evaluated using a political settlements and anti-corruption approach, as adopted by the SOAS Anti-Corruption Evidence (ACE) programme. The anti-corruption typology of Khan et al. (2019) emphasises the importance of bottom-up identification of corruption, and development of anti-corruption interventions that are sectoral and incremental. The steel industry is analysed because of an extensive history of collusion and

the abuse of market power by South African companies that have also exported to and operated in the region.

The remainder of the paper is structured as follows: Section 2 sets out selected aspects of the evolution of Malawi's political settlement, the location of the steel industry within it, and the institutions and policies in place that are relevant to anti-corruption efforts. Section 3 provides context, in terms of market structure, key companies, trade flows and local manufacturing capabilities. Section 4 outlines the problem of substandard roofing sheets in Malawi and evaluates the feasibility of an anti-corruption strategy within the steel industry. Our key conclusions are presented in Section 5.

2. Malawi's political settlement and state–business relations in steel

We begin our assessment by setting out the broader political-economy context in Malawi, the location of the steel industry within this, and the role of anti-corruption institutions and their effectiveness in the prevailing political settlement.

2.1. Malawi's political economy

Malawi has had a troubled economy for several decades. The country has faced various crises that have resulted in fiscal crunches and aid withdrawals, while deindustrialisation has continued, public services have deteriorated and social indicators have eroded (Cammack, 2017). The economy has been characterised by erratic growth and its structure has not changed significantly over time.

The main drivers of corruption in Malawi are understood to be poverty and inequality, an insufficiently funded public sector and patronage networks. In particular, patronage and large clientelist networks play an important role in fostering corruption within the bureaucracy and political circles (Tostensen, 2017). These networks work through appointments in public office, the award of lucrative contracts and enticements with favours, and according benefits to allies of the president and ruling elites (Narwaz, 2012). The political elite in Malawi have sometimes been referred to as 'chameleons' because they switch between clientelist factions or political parties and readily change their alliances. All parties that have come to power in Malawi have therefore perpetuated clientelistic behaviour, forging settlements within which the political elites and those well connected to the political establishment have benefited at the expense of national development (Tostensen, 2017).

Malawi gained its independence in 1964 and transitioned to democracy in 1994. Since the democratic transition, the centralisation of economic and political power has depended on commerce, construction and rents – but hardly on domestic industrial or financial capital, which remain relatively underdeveloped and separate from the political arena. Malawi's political class is rooted in the commercial bourgeoisie, which emerged from late Kamuzu Banda's three-decade-long project of estate-led growth. In turn, this kick-started a small but burgeoning economy delivering services and organising the import of goods from neighbouring countries, accompanied by the sale of a few key agricultural exports (predominantly tobacco and tea) and later minerals and cotton. Banda was especially adept at using multinational companies to benefit the country. And where leaders created links to international capital, they used this to support their own political aims (Cammack, 2017).

The period between 1964 and 1980 is described as one of significant growth for Malawi that allowed for political and economic independence. The positive outcomes included accelerated economic growth and employment rates, high levels of investment, rising agricultural output and a declining dependence on the British government. However, despite

this growth, there was little focus on social development and therefore no trickle-down of benefits to the majority of the population (Kayuni, 2011).

Towards the late 1980s and early 1990s, the economy began to shrink and had to contend with deteriorating terms of trade, transport bottlenecks, rising fuel prices and poor weather conditions. The government embraced the adoption of structural adjustment prescriptions by the World Bank, which reduced the leadership's space to implement development and economic policies (Chirwa, 2002).

From 1994, following autocratic rule under the leadership of Kamuzu Banda, Bakili Muluzi was elected president under a new system of multi-party democracy. Malawi rejected a parliamentary form of government, opting instead for a strong presidency. This resulted in a highly centralised presidential system.

Although the Malawi Congress Party (MCP) lost the 1994 election – and with this control of state resources – it retained the Press Corporation PLC which controlled upwards of 20% of the economy.¹ Western donors, which were instrumental in supporting the transition and new government, believed this concentration of capital undermined growth, and advocated opening up the economy to local entrants.

Malawi adopted a new Constitution and went on to enact the Corrupt Practices Act of 1995. The new ruling party (the United Democratic Front (UDF)) also launched a long-term development strategy – Vision 2020 – under Bakili Muluzi. This highlighted the strategic challenges for Malawi – in terms of developing the manufacturing sector, agriculture, finance and tourism, and creating an export-oriented economy – and put forward high-level mechanisms to address them. Malawi's National Export Strategy (NES)² was later introduced in 2011/2012, which has been heavily supplemented by a pool of resources from international donor organisations (the United States Agency for International Development (USAID), the United Kingdom's Department for International Development (DFID), the European Union (EU), the United Nations Development Programme (UNDP)) and development banks (the World Bank and African Development Bank (AfDB)) (Randall, 2013).

Since independence, Malawi's industrial policies have changed to reflect shifts in ideological approaches in different periods. Electoral power was closely contested through the 2000s and the balance of political power has been precarious. The most recent elections in 2019 and 2020 – that were ultimately won in a momentous re-run by President Chakwera over the Democratic Progressive Party's (DPP) Peter Mutharika – revealed the unstable power relations in the country, which in many ways have given rise to various populist policy programmes that drive benefits for rural constituencies and the poor masses. As such, the government's growth strategy has largely focused on growing the volume and improving the competitiveness of its

¹ One of Malawi's largest steel firms, Macsteel, is a joint venture between Press Corporation PLC and Macsteel service centres in South Africa.

² The NES prioritises eight clusters: agro-processing, assembly, seeds, oil products, sugar cane products, plastics, packaging and beverages.

agricultural commodities in regional and international markets (Tchale and Keyser, 2010). The steel industry, by comparison, has not featured strongly in the government's plans, and industry players hold no significant power in Malawi's broader political settlement.

2.2. Characterising state–business relations in steel

Steel is not a priority for Malawi's Ministry of Trade and Industry, and it does not emerge as a targeted sector in short-, medium- or even long-term growth and development strategies.³ Given the relatively small size of the economy, primary steel manufacturing activities are not viable at scale, although it would be possible to develop a downstream fabrication and manufacturing industry. As such, the industry is largely dependent on imported primary steel materials and products and is unlikely to grow substantially over time or become competitive internationally due to small domestic demand, the landlocked nature of the economy, and the small scale of operations.

Despite these constraints, it is important that there is an adequate and competitive supply of steel products in Malawi, however, as these are key inputs to various construction and industrial activities. Yet, due to the relatively high cost-base of local importers and traders of steel, policy choices can significantly affect the profitability and sustainability of existing businesses in the industry, as shown in the example that follows.

2.2.1. *The Industrial Rebate Scheme: how policy choices affect the steel industry*

The removal in 2018 of a government rebate for importers of semi-finished steel products for local value addition illustrates the precarious position of the steel industry and its lack of influence in the broader political settlement in Malawi.

The Industrial Rebate Scheme (IRS) has been in place in Malawi for over 20 years, with the intention of promoting local industries. Until changes were implemented in 2018, the IRS exempted steel product and other manufacturers from paying custom and excise duties on selected imported materials (Bisso, 2014). Instead, firms were required to register for an IRS licence and renew it annually, on the condition that they comply with certain rules.

Most sectors prioritised by the IRS were in line with Malawi's NES sectors, which emphasises agriculture and agro-processing activities, as well as related plastics and packaging. In 2014, however, the Malawi Revenue Authority (MRA) indicated that the largest beneficiaries of the IRS included food, beverages and plastics, but also roofing sheets – which is not a prioritised sector (ibid.). The local roofing sheet industry had been granted industrial rebate concessions by the MRA prior to 2018, but this changed when the IRS was withdrawn by the government.

The removal of the Scheme resulted in the subsequent imposition of a 10% duty in addition to a 16.5% Value Added Tax (VAT) on all steel coil used in the manufacture of roofing sheets. This

³ There are 17 industrial sectors promoted by the Ministry of Industry and Trade, although implementation has focused on agro-processing and light manufacturing (Interview with Department of Industry, 3 June 2019).

has had negative consequences on the industry for a number of reasons, including that local prices have been undercut, and that domestic companies cannot compete with the influx of coil, pre-cut sheets and finished roof sheet products imported by traders from neighbouring Mozambique and Tanzania. Furthermore, imported iron sheets are afforded duty-free status under the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), and enter Malawi at 0% duty (plus 16.5% VAT).

As a result of the withdrawal of the IRS support, the sales and profits of all manufacturers decreased drastically as locally produced sheets became more expensive. Apparently this has had an adverse effect on operational capacity and employment,⁴ while downstream fabricators have been similarly affected and have had to scale down their operations significantly.⁵

Following the exclusion of coil from the IRS, a group of 12 manufacturers came together in 2018 to lobby government and other stakeholders to have the Scheme re-instated. Most striking about this case is that the companies seem to have been largely ignored by the government, at least in their view, and the companies did not receive a response to their submission for some time. One of the key complaints was that there had not been engagement with the steel industry about the issues leading to the withdrawal of IRS support, which points to the relative insignificance of this industry in policy-making.

The government eventually responded through the Department of Industry stating that the IRS exists to promote a minimum of 20% value addition across industries. The 20% requirement is also lower than most countries in the region, which require 30% value addition. Roofing sheet manufacturers typically add 5–6% value locally, while it reaches in excess of 50% in agro-processing. From a policy perspective, there is therefore a clear rationale for the government to incentivise agro-processors.

Although aimed at driving manufacturing, the IRS is handled primarily by the MRA, with no formal involvement from the Ministry of Trade and Industry or other relevant stakeholders (Bisso, 2014). A number of governance issues surrounding the IRS have subsequently been raised, as well as indications of a political agenda around its cancellation for the roofing sheet sector in particular.

First, the government's (MRA's) increasing focus on inland revenue collection and taxes appears to be a key motive behind the repeal of the IRS. It is also seen as an important fiscal reform that aligns with Malawi's Growth and Development Strategy (MGDS) (III), given that any removal of duty or excise has an impact on the fiscal budget (Nyasa Times, 2019). Some informants argued that revenue authorities are able to generate more rents from the importation of roofing sheets than businesses can. At the same time, manufacturers continue to face increasing energy, labour and transport costs, and the government is not supporting local business. Broader socio-economic challenges remain too.

⁴ Interviews with steel industry companies, May 2019.

⁵ Interview with steel company, 23 May 2019.

Second, a number of beneficiaries do not meet the 20% value addition requirement, as intended by the Scheme. On this issue, most firms are of the view that the requirement is too high, given the lack of input materials available in Malawi. Indeed, this is particularly true for the steel industry where no primary local production takes place. Firms that are quite aggrieved by the policy shift claim to be contributing significantly to employment still, but suggest that job creation will dwindle in the absence of the IRS and expect prices to increase (BusinessMalawi, 2018). Engagements with the steel industry suggest that firms have had to cut back severely on their operating expenses, including labour costs. Meanwhile, the small number of firms that believe that the 20% value addition is too low argue that the threshold allows for unfair competition, as no real fabrication takes place by local firms. Furthermore, some firms allow duty-free inputs to leak into the Malawian market for sale, or even mis-label products to benefit from the Scheme.

Third, the MRA's decision to change the rules has given rise to issues around interpretation of the IRS, which are exacerbated by the MRA's unresponsiveness (Bisso, 2014). Any intended changes to the Scheme should ideally involve a dialogue with the affected industry participants and should further include a sector analysis to identify how the IRS would affect the cost structure, profitability and competitiveness of firms (even if they fall outside of priority sectors). In the case of steel, job potential and value addition (although minimal) are at stake, although it seems the industry needs to demonstrate its contribution and benefits to the local economy arising from the support. The industry's position in this regard is not clear.

In this context, it is unsurprising that past research shows that the size of a firm or its access to influential officers at the ministerial level are important for obtaining rapid approvals or to be a beneficiary of the IRS. Patronage and nepotism (which are common across sectors in Malawi) potentially introduce significant differences in the treatment of beneficiaries of the Scheme and separates those firms with and without powerful contacts (ibid.).

For the purpose of this research, the case study of the steel sector's recent experience with the IRS illustrates well the relative 'outsider' status of the industry, whether its stance on the IRS withdrawal is justified or not. The steel industry does seem to have something to contribute to the economy despite having to operate in a high-cost environment. However, the focus of the government and ruling elites appears to be on other areas, such as agriculture and agro-processing, where policies can rapidly impact large numbers of poor people who are critical for electoral outcomes. The most recent elections in 2019 (and re-run in 2020) were very closely contested – in this context, political strategies to secure and retain electoral support become especially important.

2.3. Anti-corruption in Malawi

Malawi is seen to have strong anti-corruption laws and institutions, which are complemented by initiatives from the private sector. Yet corruption remains endemic in the country despite broad commitment and efforts by successive governments, with unlawful activities leading to significant volumes of lost resources.

In 1995, parliament passed the Corrupt Practices Act No.18, after which the government enacted several laws that have a bearing on Malawi's fight against corruption. These include the Public Procurement Act, Public Audit Act, Public Finance Management Act, and the Money Laundering, Serious Crimes and Financing of Terrorism Act (ACB, 2009). The Anti-Corruption Bureau (ACB) was established as an autonomous government body with a legal mandate to prevent corruption in Malawi, while the launch of the National Anti-Corruption Strategy (NACS) in 2008 expanded the ACB's mandate. This strategy introduced a multi-stakeholder approach to tackle corruption, and is believed to have brought about significant improvements to Malawi's anti-corruption framework.

Furthermore, Malawi's Competition and Fair Trade Commission (CFTC) was established in 1997, followed by a related Act in 1998 to create a legal basis for promoting competition and fair trading, and essentially preventing forms of private corruption such as cartels. Indeed, Malawi is one of five countries in the SADC region that have criminalised cartel conduct (Ngobese and Kuhn, 2017). Besides noting that there are a number of steel distributors and instances of vandalism, however, the CFTC has yet to handle any cases that are specific to steel.⁶

The private sector and civil society have also joined various anti-corruption efforts. The private sector grouped itself through the Business Action Against Corruption (BAAC), which has developed a code of conduct guiding enterprises to conduct honest and corrupt-free business transactions. Civil society, meanwhile, has grouped itself through Civil Society Action Against Corruption (CSAAC) (ACB, 2009).

At face value, Malawi's legal anti-corruption framework and institutions appear strong and appropriate, but there is a wide gap between law and actual enforcement.⁷ While the ACB is legally independent, its operations are constrained within a system of governance characterised by executive dominance (Tostensen, 2017).

As an example, in 2014 Malawi was hit by one of its biggest corruption scandals – known as 'cashgate' – which involved civil servants and cabinet ministers manipulating the financial and procurement system to embezzle funds. This scandal typifies Malawi's political settlement, which has been characterised since 1994 by a tension between various formalised governance institutions adopted in the structural adjustment period (such as the anti-corruption legislation of 1995), and the interests of politicians and local elites seeking to leverage access to the state to advance various political and economic interests and ultimately retain power. At present, interparty conflicts and party alliances continue to cause political instability, and there has been persistent concern even in the most recent elections around the extent of corruption in society.

⁶ The Commission has ongoing work around dominance and market power in a number of sectors, including agro-processing, financial services, education, telecommunications and health (Interview with CFTC, 20 May 2019).

⁷ The Corruption Perception Index 2016 ranks Malawi as number 120 of 176 countries, with a score of 31 out of 100.

Institutions such as the ACB and Office of the Ombudsman are seen as being effective in investigating and prosecuting only lower-level corruption cases, thus raising concerns about favourable treatment of politically significant persons and the interests of high-level government officials (Narwaz, 2012; GI, 2016; IDFI, 2018). Likewise, initiatives such as BAAC and CSAAC have also not been very effective in combating corruption, largely due to a lack of political will to tackle institutional and political corruption involving those in power (Jere, 2018).

All sectors of the economy are marred by corrupt activities (although some more than others) and large networks of clientelism and patronage exist (GI, 2016). In addition, bureaucracy and red tape further create an environment conducive to bribery and the payment of 'speed money', as is the case with border customs procedures (Phiri, 2013). Corruption in Malawi therefore ranges from petty bribery and fraud to grand political and predatory corruption (such as the cashgate scandal), and patronage and nepotism.

The evidence for the steel value chain suggests that the most prevalent forms of corruption restrict markets, distort state policy and enable political interference (Khan, 2006). Political corruption, in particular, is a structural problem in most developing countries due to limited fiscal resources. Transfers through the fiscal mechanism provide rents to critical constituencies and are reliant on patron-client networks operated by the parties and groups in power (*ibid.*). However, these networks and rent-sharing mechanisms often form an important (and arguably necessary) part of the politics of developing economies and can be very difficult to address as a result (Khan et al., 2019).

From an institutional perspective, poor internal controls and enforcement of rules seem to have led to failures in containing incidences of corruption in Malawi. In most instances, those tasked with enforcing the rules are themselves involved in sharing the gains from corrupt transactions, as in the case of public procurement and the awarding of contracts. The context in which we analyse the steel industry is therefore one of significant political and societal tensions – and the various networks of patronage and elite interests can undermine pro-developmental policies if they are not appropriately designed to account for the characteristics and dynamics of the political settlement. Before analysing the potential anti-corruption problem in Malawi's steel industry, the following section builds on the above context to provide a brief background of the sector.

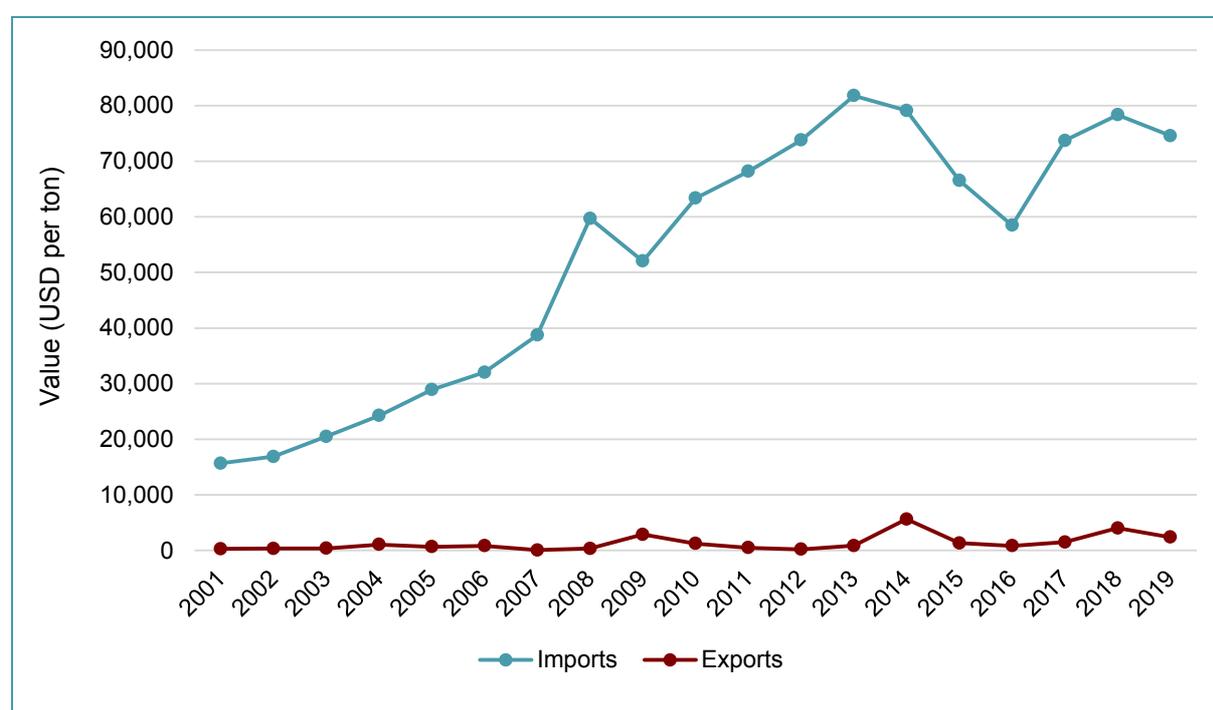
3. Characteristics of Malawi's steel market

3.1. Growth and major trade flows

The market for steel products in Malawi is relatively small. For example, the total sales volume for the industry was approximately 30,000 tons in 2019,⁸ which was dwarfed by that of neighbouring Zambia at 300,000 tons. However, industry participants expect growth in demand in the future and for steel products to remain important inputs for other construction and household building activities.

A sustained period of aggregate growth in Malawi's economy from the mid-2000s has contributed to a significant increase in demand for steel products, as measured by import values (see Figure 1). The industry in Malawi is underdeveloped in terms of local steel production, however, and demand is almost entirely met by imports. Between 2001 and 2017, we calculated that Malawian imports of steel products grew at a compounded annual growth rate (CAGR) of 10%.

Figure 1: Malawi trade in iron and steel (2001–2019)



Source: The authors, using data from Trademap (<https://www.trademap.org/Index.aspx>).

⁸ Interview with steel company, 2019.

The majority of imports of all steel products in 2019 were from China (35%), South Africa (33%), Zambia (14%) and Mozambique (7.8%).⁹ While the share of imports from China and South Africa remained relatively static from 2015, regional trade increased as imports from Zambia and Mozambique became more significant over the five-year period to 2019. Notably, the share of Indian imports fell off significantly and rapidly from around 21.8% in 2015 to less than 2% in 2019. It seems this created an export opportunity for regional partners.

Malawi's demand for flat steel products has been met by imports from China and South Africa where there are large-scale steel production facilities, while long steel supplies largely come from Zambia and South Africa. The value of exports of steel products from Malawi is negligible and not a focus of our analysis.

3.2. Domestic manufacturing capacity and consumer demand

There is limited domestic manufacturing of steel products in Malawi, apart from local fabrication and limited value addition to semi-finished imported inputs. For example, imported rolled coil (flat steel) is sometimes fabricated into galvanised corrugated iron roofing sheets, although some importers source finished products to sell on in the domestic market. The withdrawal of the IRS incentive for imports of coiled flat steel used to manufacture products such as roofing sheets locally is said to have reduced the extent to which these activities take place domestically and the relative competitiveness of Malawian manufacturers.

Customers largely comprise companies that are involved in building and construction projects, although a small proportion are residential users of steel products for home construction. Construction activity in Malawi is largely linked to public infrastructure development, as well as increasing demand for housing. This, in turn, induces demand for cement, steel and other basic manufactures.

In construction and housing, the main products required by the local market are reinforced steel bars (long steel) and corrugated iron sheets (derived from flat steel), respectively.¹⁰ Our analysis that follows focuses primarily on roofing sheets, although we note that there is some demand for various other structural and non-structural steel products.¹¹

⁹ Authors' calculations using Trademap data for HS72 category (iron and steel).

¹⁰ Interviews with steel industry companies, May 2019.

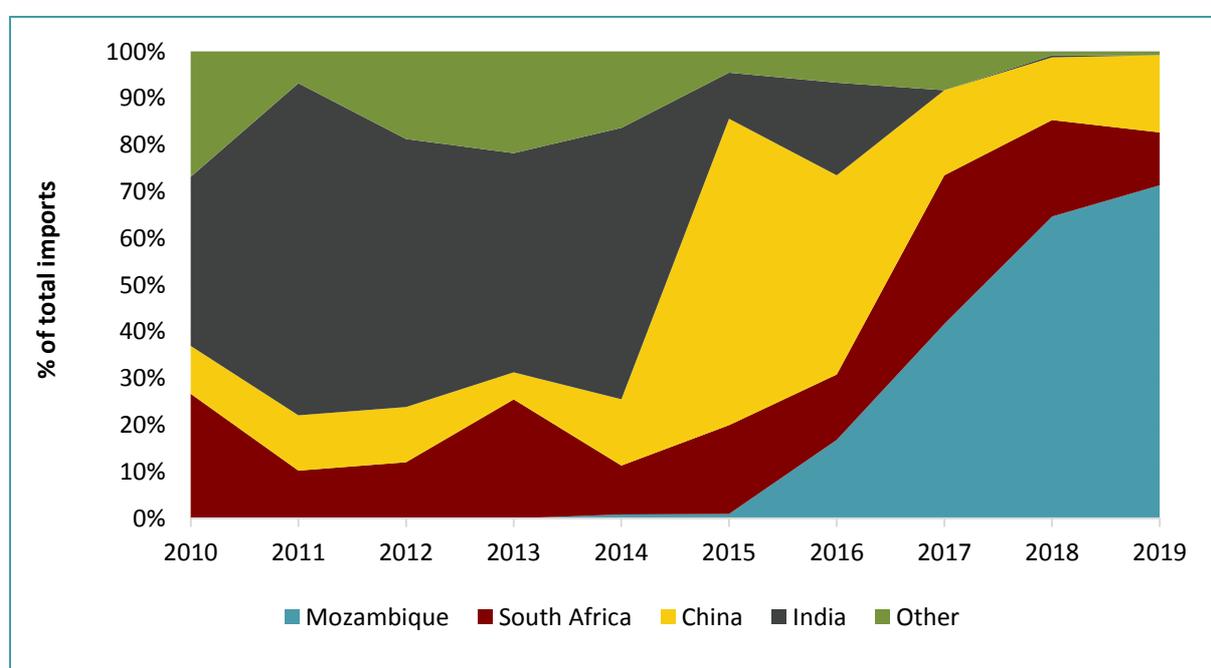
¹¹ Other (non-key) products include weldmesh (for the construction of road surfaces and building slabs), diamond mesh and barbed wire (for fencing), brick force (for wall reinforcement) and roofing and wire nails. In the structural steel segment of the market, which is almost entirely based on imports, products such as angles, channels, plates and universal beams are used for forming steel frames on buildings.

3.3. Trade in flat steel products

Flat steel products have historically accounted for the largest share of Malawian steel imports over time. Flat steel is imported in the form of coil and then profiled into corrugated and inverted box rib (IBR) roofing sheets. The most popular corrugated sheets are the very thin 0.2mm sheets which, until very recently, were not produced in South Africa.¹² These are the thinnest and cheapest sheets that are sold largely to the low-end rural housing market. The urban market typically demands the stronger IBR roof sheets for building larger structures such as schools. While there is some value addition on coil to make corrugated and IBR roofing sheets, reinforced bars are mostly imported as finished products and are simply cut and bent according to customer requirements. These products are used to strengthen concrete in the construction of bridges or building foundations for houses.

In recent years, the most significant impact on the Malawian market for roofing sheets has come from the rapid increase of imports from Mozambique. Since 2015, Mozambique's share of corrugated roofing sheets imported to Malawi has grown from around 1% of the total value of imports in 2015 to 71% in 2019 (see Figure 2). This influx of products from Mozambique effectively displaced imports from China, South Africa and India from around 2015 onwards. South African imports, although accounting for a significant share, have not been competitively priced relative to Chinese and Mozambican imports, which are most likely transported through the Beira port in Mozambique therefore carry lower transport costs to Malawi (Vilakazi, 2018).

Figure 2: Source of Malawian imports of corrugated roofing sheets (2010–2019)



Source: The authors using data from Trademap.

Note: Export price for corrugated sheets calculated using HS72104100 and/or HS721041: Corrugated.

¹² Interview with steel company, 23 May 2019.

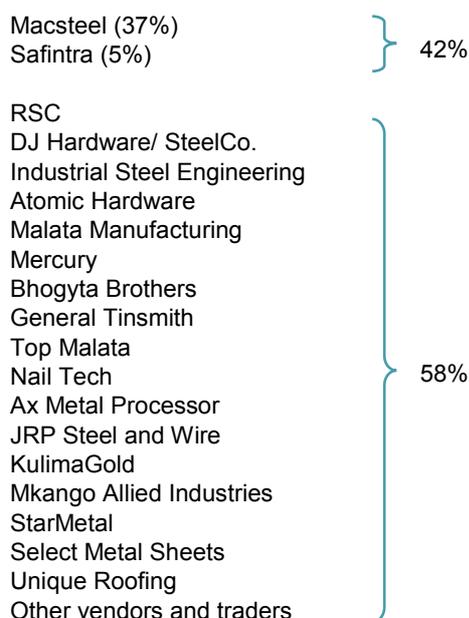
Industry participants have almost all stated that Malawi's market for roofing sheets is highly competitive, with regular entry and exit of various importers and traders, many of which source steel products from multiple sources in the Southern Africa region and overseas markets. The market shares of many firms have been declining, and the number of players has increased significantly since the 1990s.

3.4. Key players in Malawi's steel sector

Specifically, while there were two or three players in the market overall in the 1990s, the industry now has over 18 companies and numerous traders (listed in Figure 3).¹³ Although there are many participants, however, there is a significant degree of concentration amongst the leading firms. Most participants interviewed as part of this study stated that Macsteel and Safintra (both international firms) were the largest players in the domestic market and that their activities cut across different product segments for reinforced bars and flat steel and/or roofing products. Other firms are comparatively strong in only some key segments, such as Safintra and RSC Limited which have a significant presence in the market for reinforced bars in particular, alongside Macsteel that also supplies imported structural steel.

Macsteel Malawi is part of a large South African group, and Safintra is part of a Kenyan Group that is active in 16 African countries. As such, these two companies operate beyond Malawi and therefore also lead the domestic market given the strong dependence on imported steel products. For example, Macsteel imports around 80% of its steel products from South Africa – a trend that is also influenced by the strong perception that South African steel products are of particularly high quality.

Figure 3: Market share of steel industry companies (2019)



Source: Interviews with industry participants, 2019

¹³ Interviews with steel industry companies, May 2019.

4. Framing the anti-corruption problem: substandard steel products and smuggling

Malawi faces a key problem due to an influx of low-quality steel products in the domestic market. This section considers the nature of this problem, the challenge of weak enforcement of standards, and the feasibility of an intervention to address the issue.

4.1. Characterising the issue of substandard roofing sheets

The largest steel firms in Malawi have well established relationships with the major construction firms in the country, which tend to demand quality South African steel products. Macsteel, for example, deals with the five largest construction firms in the Malawian market, which are also all primarily South African-based companies such as Group 5 and Stefanutti. Mota Engil, a large multinational Portuguese firm, also has a strong presence domestically.

These relationships are significant because they imply that a great deal of steel for major construction projects in Malawi is sourced through formal channels and largely from South Africa. The challenge that faces the steel companies is that a large share of the market in Malawi is increasingly going to traders that are not 'above board'. Many industry players have said that some of these traders import extremely thin steel roofing sheets that are of insufficient quality for household use (typically 0.16mm thickness). This steel is typically imported as pre-cut sheets, and the roofing sheets are below the minimum thickness set by the Malawi Bureau of Standards (MBS) of 0.18mm.

The leading companies in the market claim that the problem stems from a lack of monitoring and enforcement on the part of MBS. Substandard steel is offloaded very cheaply (sometimes at a third of the market price), while more organised manufacturers are assessed for quality to obtain an MBS certification.

With an influx of traders and cheap, low-quality steel flooding the market, trade in steel roofing sheets has become a low-margin business. A number of firms say that they have been forced to reduce their prices on roofing sheets in particular, while local prices for corrugated iron sheets, for example, have remained relatively flat since 2017. This has affected the overall level of margins, which have dropped to 10–15%, from around 30% in 2014 and 60% in the 1990s.¹⁴

¹⁴ Interviews with steel industry companies, May 2019.

It is significant that concern about the intensity of competition from cheap imports is mostly with respect to the roofing sheets market, and not reinforced bars and other products such as structural steel. Our interpretation is that there is a market distortion with respect to low-quality roofing sheets because of the nature of the customers that these products primarily cater for. Specifically, corrugated sheets are mostly being supplied as building materials for relatively low-income households. We understand from steel traders that these consumers tend to look for low prices, and buy only a few sheets at a time when funds are available rather than in bulk. On the other hand, reinforced steel bars and related products primarily serve the building industry and fabricators that are more likely to require a certain specification and quality of steel. It should be noted that this is not always the case, however, and there was some indication from interviews, although this was not substantiated further, that some low-quality reinforced bars are also being supplied to larger construction projects.

Importantly, households are not likely to be substantially impacted by using low-quality sheets in the short term, nor is it expected that these consumers are able to identify the imperceptible differences in roofing sheet thickness (which differ by fractions of a millimetre). It is also unlikely that individual household consumers could organise in the short term to pressure the government to address such an issue – the concern about poor quality steel did not come across as a priority or consistent societal concern in our interviews.

Instead, the concern about low-quality roofing sheets was primarily raised by formal businesses and traders of steel that we interviewed, given the obvious impact on their businesses. We have not ourselves been able to verify the quality of this steel, and rely primarily on the consistent concern raised by steel companies. With respect to households, one steel company confirmed that it is very difficult to educate household consumers in the local market about the importance of buying quality steel products or *malata* (a local term for corrugated roofing sheets).¹⁵

The fact that some of these formal businesses have not been able to raise a significant complaint with the government about the influx of low-quality steel is linked to the relative lack of influence that steel firms and the steel industry in general seem to hold in the broader political settlement in Malawi. We return to this issue below, because this weak position of the companies – as well as the weak organising power of the consumers of roofing sheets – means that it is not likely that a developmental coalition could be formed to tackle this concern.

The only instances that we were able to identify in the local media in which the quality of *malata* was raised publicly by a significant organisation related to the government's Malata and Cement Subsidy Programme (MCSP). In 2018, the Malawian Minister of Lands, Housing and Urban Development (MLHUD), Anna Kachikho, publicly warned suppliers of building materials to the programme that the government would act against firms supplying

¹⁵ Interview with steel company, 23 May 2019.

substandard goods. This included not accepting deliveries, blacklisting firms and not paying invoices (Mkandawire, 2018). We infer from the Minister's remarks that some complaints had arisen regarding poor quality building materials relating to the programme. Although no further details are available, this corroborates the information gathered through various interviews regarding the prevalence of low-quality corrugated roofing sheets in the market. Members of the political opposition have also commented in parliament that the MCSP was characterised by 'corruption and mismanagement', including that substandard materials had been supplied:

'I am concerned that the programme is riddled with corruption. 32-gauge iron sheets are being supplied even though documents indicate that they are 28-gauge. The money being spent on the programme is money going down the drain.' (Elson Mwale, MCP, quoted in Sangala, 2017:1).¹⁶

The MCSP, formally referred to as the Decent and Affordable Housing Subsidy Programme (DAHSP), is a government programme which aims to provide subsidised building materials that are sourced from the private sector to support the construction of homes for low-income households across the country. It was launched in December 2014 by President Peter Mutharika of the DPP, apparently in fulfilment of an election campaign promise to enable Malawians, especially in rural areas, to develop their own homes through a combination of soft loans and grants and to provide decent and affordable housing (*The Maravi Post*, 2014). Building materials (mainly cement and roofing sheets) for the programme were initially purchased and delivered centrally to different districts by the national government in 2014/15; however, the procurement process was intended to be decentralised to district-level management and procurement thereafter (Chisiano, 2015).

The significance of the MCSP in our assessment derives from the fact that the government is potentially an important boundary partner in addressing the concerns around low-quality steel. To the extent that the government centrally and/or at the district level is involved in the bulk procurement of building materials, we might expect that it would have an interest in driving a campaign to challenge companies importing inferior goods. However, this may not necessarily be the case because there is also a significant interest on the part of the government in ensuring that sourcing of inputs is decentralised and that opportunities are provided for even local traders and hardware stores to supply inputs for the programme (*ibid.*). This approach potentially opens up opportunities for leakages and corruption in the programme, not least because the decentralised model implies that it is more difficult to monitor and detect issues in every district throughout the country. It is also likely that new and less experienced importers and traders emerge to supply the programme.

The Malawian government has in the past followed a similar strategy in its farming inputs subsidy programme (FISP), which began in the early 2000s following intense food shortages. The programme over time contributed to making Malawi a net exporter of maize by 2010, despite concerns about overspending and corruption linked to the granting of tenders to

¹⁶ Thicker sheets (associated with better quality) carry a lower gauge rating.

private companies (some inexperienced) all over the country for the supply of transport and inputs. The programme was part of a mechanism used to distribute policy rents and patronage to local businesses and constituencies, that in turn supported various political campaigns (Vilakazi and Roberts, 2019; Arndt et al., 2016; Chirwa and Dorward, 2013; Chinsinga, 2012). Supply of farming inputs was also found to be a tool for securing popular electoral support in strategic districts around the country.

The fact that the building materials programme involves a multitude of smaller suppliers (some of the major steel suppliers only service the main towns and cities) mirrors the farming inputs scheme. In the process, the MCSP may have contributed to the rapid growth in cheaper and/or lower quality steel in the market to the extent that this would enable new traders to access government supply contracts. In turn, the availability of cheaper, substandard roofing sheets may also be a necessary part of how poorer households can access these products.

There is no evidence that households have been harmed by these substandard products, at least in the short term, which is perhaps why there has been very limited concern raised about the issue in public discourse. A key issue to be understood is thus whether the standards for roofing sheets are appropriate and enforceable, or if they are inappropriate, not socially required, and thus potentially market-restricting. On the other hand, if such standards are found to be required and appropriate in terms of social welfare and safety, then it is important to determine how best to make the regulation enforceable, including through eliminating policy-distorting corruption.

It is not necessarily clear from the research and publically available information whether the minimum standard of 0.18mm is an appropriate one in the Malawian context in terms of consumer safety and structural integrity, compared to the widely supplied 0.16mm 'substandard' sheets. And it has not been possible to investigate this issue further. Traders or businesses have an incentive to bring these goods to Malawi to meet what seems to be a significant local demand for cheaper products. In this regard, given limited information, we simply note that if the standard is not socially necessary, then it potentially has the effect of being market-restricting – local consumers demand a different (thinner) specification at a lower price than what is largely available in Malawi and dictated by the current standard. If this is the case, and a minimum standard is either not required or could be lowered, then a feasible strategy to prevent efforts to circumvent the current standard is to change or remove the standard altogether. In this regard, the standard (if required) could be set according to a price-quality combination that is determined by the market and consumers. Such a standard would be aligned with the interests of poorer consumers as well as traders, although larger firms may challenge such an approach if it undermines their margins and allows for more competition.

On the other hand, it is likely that having some form of minimum standard is socially desirable. Industry participants have noted that thinner, low-quality sheets can potentially collapse or corrode over time, thus presenting a safety risk for consumers. The discussion above regarding the MCSP also demonstrates that there is a legitimate desire on the part of different stakeholders, including government, to ensure that poor households receive materials of

adequate quality. The primary solution for addressing this form of distortion is to improve the enforcement capabilities of standards authorities, particularly at the border posts because most steel products are imported into Malawi. However, the effectiveness of this solution will depend on identifying a coalition with an interest in addressing the problem.

4.2. Weak enforcement

A key issue that impacts on the enforcement of standards and regulations seems to be that border authorities and/or the MBS officials are unable to detect distortions at the border. These authorities lack the capacity to test and inspect steel products, while bribes can be paid to circumvent the rules. Indeed, in most developing countries, the agencies and institutions to certify and enforce rules are lacking (Khan, 2012). As a general observation, there is an absence of institutional capacity (coupled with a lack of testing facilities and other key infrastructure) in the MBS (Banda, 2015).

In the absence of enforceability of laws, some steel traders are able to bypass the rules governing quality standards. This issue of weak enforcement is significant, and in other sectors the Consumer Association of Malawi (CAMA) has led a campaign to have local and international products certified abroad, given alleged negligence on the part of the MBS (Phiri, 2019). Similarly, many firms have incurred the additional expense of having their products certified in other countries (Banda, 2015).

A potential solution to address the lack of capacity among standards authorities with respect to steel products is to collaborate with larger private-sector suppliers and manufacturers to certify product thickness. While the low-income market is not yet sensitised to the long-term benefits of quality steel products, our interviewees suggest that quality standards are more enforceable when firms supply to large government projects, major contractors or those funded by international donor agencies. Such stakeholders are likely to be more vigilant and stricter with suppliers regarding the quality of products.¹⁷ For example, the availability of substandard imports is against the interests of legitimate South African suppliers and manufacturers, and therefore these firms have been most vocal about this issue in our interviews. We can assume from this that such firms have an interest in addressing the problem of substandard products.

A key issue that needs to be evaluated as part of the ACE methodology is the magnitude and impact of the corruption occurring in the Malawian steel industry. In the case of trading of substandard steel products, it seems that the extent of corruption is not considerable here, based on the value of bribes or degree of rule violations (although this issue could not be explored further in the research). Our assessment is therefore that the corruption involved in the import of low-quality steel roofing sheets is likely to be small and not very damaging, but that there is a case and potential strategy for addressing the weak enforcement of standards.

¹⁷ Interviews with steel industry companies, National Construction Industry Council (NCIC) and Ministry of Trade and Industry, May 2019.

The impact of the corruption relates to affected groups in society as well as how the corruption distorts the 'management of specific rents that affect the achievement of important developmental goals' (Khan et al., 2019: 16). Even small bribes can have a large developmental impact, and vice versa. In the case of steel in Malawi, the impact is potentially substantial if the availability and supply of inferior goods to the government and households leads to significant harm to developmental goals – in this instance, the provision of 'decent and affordable' housing, as announced by former President Mutharika and the DPP, and ensuring consumer safety.

Our assessment regarding the impact of the corruption is that the specific goal of government and the DPP is not necessarily undermined if the steel roofing sheets available in the market or through the MCSP are 32 gauge rather than 28 gauge. There do not seem to be significant complaints or injuries that have resulted from the thinner sheets (as yet). At the same time, it is plausible that the availability of cheaper and inferior products ensures that local suppliers can participate at district level in supplying inputs to the government programme. And, in turn, this means that the government and the DPP in particular delivers on its ultimate objective of securing political support as the programme is perceived as being socially beneficial (see Whitfield and Buur (2014) on the approach used by ruling elites around political survival).

In the above process, there seems to be at least some distribution of subsidy benefits to low-income households that takes place as well, based on the extensive public reporting that occurs when building materials are delivered to different regions of the country. At the very least, the cheaper steel imports play an important role in meeting the demand of some low-income households that would otherwise not be able to afford the products they need for better housing.

Given these various interests that are likely to favour maintenance of the status quo, it is unlikely that a sufficiently influential coalition of interests could be formed to deal with the issue of substandard steel roofing sheets, including the related bribery and smuggling at Malawi's borders. The relative lack of influence and holding power of the steel sector in the country's wider economic and political economy also means that this corruption in the steel industry is unlikely to become a prominent issue in the policy discourse.

The formal steel industry would find it difficult to garner support from the government in the current political settlement. However, it seems possible that the main players could work with the standards authority to conduct testing of steel products – the MBS has at least expressed an intention to improve its enforcement of standards and capabilities (Banda, 2015). In addition, the fact that opposition parties and the minister in charge of the programme have raised the issue of substandard materials means there is an opportunity to develop an anti-corruption strategy with these actors as potential boundary partners.

4.3. Can a coalition be formed?

Effective anti-corruption strategies require that at least some powerful organisations or groups have a self-interest in supporting any measures implemented. Such an approach must be informed by a bottom-up analysis of the system of rules and rents that underpin a particular corruption problem, relying extensively on focused evidence. Strategies that fail to account for the interests of important groups – or that are not supported by strong evidence of the magnitude and impact of the problem – are less likely to succeed. Impact, as discussed, relates to a range of issues around affected groups and the extent to which the corruption or distortion undermines the attainment of a developmental policy goal.

Our case study of the steel sector in Malawi shows a problem of substandard roofing sheets in the market. Support for an intervention to address this problem would most likely come from the (South African and some local) formalised steel suppliers and manufacturers operating in Malawi, as these firms have a self-interest in protecting their share of the market and prices.

It is important to note that there is no steel industry association of manufacturers and/or traders that exists in Malawi currently. However, such a group would be important to drive an intervention around low-quality imports, for example. Instead, it seems suppliers only operate under the broad guise of the Chamber of Commerce, and suppliers' interests do not seem to be represented prominently.

The lack of organisation within the industry is further evidenced by the failed attempt to contest the withdrawal of the IRS that adversely affected some firms in the steel industry. We understand that 12 firms came together to submit a letter to the government voicing their concerns (which we have had sight of), but, as discussed above, this drew little attention and almost no impact. This informal grouping of formalised businesses is weakly organised and largely lacks influence, and consequently the government implemented the policy changes unilaterally without industry engagement.

A coalition may be possible with consumers and consumer groups affected by low-quality steel products; however, there is little knowledge about this problem. Moreover, it is ultimately low-income households that benefit from the subsidy support (free houses, loans and grants, etc.) as well as the availability of cheaper steel products, which reduces the likelihood that these constituencies would act to change the status quo. Indeed, interviewees in the industry suggested that most consumers are not aware of or sensitive to the differences in the quality of roofing sheets in particular, and so evidence and awareness would need to be built first amongst consumers about any potential risks of purchasing substandard products. In this regard, CAMA could play a role – it has been vocal about the lack of testing capacity within the MBS and the need for alternative methods (Phiri, 2019), and therefore could mobilise support for an initiative that involves testing by steel companies in Malawi.

An anti-corruption strategy involving these different partners would depend on establishing more conclusive evidence on the impact and extent of trade in substandard roofing sheets in

Malawi, and in particular the paths that enable minimum quality standards to be circumvented. It may well be that the extent of the latter is limited by the poor enforcement of regulations and weak testing – that is, there is less of a need to circumvent the rules if they are not well enforced in the first place.

At the same time, mobilising an effective coalition requires reliable information from tests of steel products in the market, which, at present, can likely only be provided by firms in the private sector. Ultimately, as we have found through this research, there is very little information available about these different market distortions and problems in Malawi besides anecdotal insights. As such, it is difficult to explore feasible anti-corruption strategies.

The ACE methodology is an evidence-based approach, requiring detailed knowledge on the mechanism, incentive structures and workings of corruption arrangements in order to derive effective and feasible strategies and build developmental coalitions. A pervasive issue in Malawi is that there is very limited data available publicly about even basic aspects of industries and markets, including product, price and volume information that can enable analysis of different phenomena at a disaggregated level.¹⁸ Designing and implementing an anti-corruption strategy on this basis is challenging.

¹⁸ The constraints on the research imposed by the global coronavirus pandemic only exacerbated these challenges.

5. Conclusion

Our assessment in this paper considers potential corruption and market distortions in the Malawian steel industry. The analysis has relied substantially on primary market information from various industry participants, government agencies and other stakeholders, and has generated some evidence of trade in substandard roofing sheets in the Malawian market.

While it would be difficult to build a coalition that has self-interest in addressing the forms of corruption that enable quality standards to be circumvented, it may be possible to design a strategy involving the standards authority, formalised private-sector steel suppliers (including South African firms), and advocates for consumer interests to improve monitoring of standards. The problem of substandard steel products being supplied is primarily a form of policy-distorting corruption, which requires an intervention that improves enforcement of the beneficial policy. In this case, we take the view that it is generally socially beneficial to maintain standards of quality for roofing sheets. The problem of enforcement arises both through lack of capacity of standards agencies to test and monitor quality, and potential corruption to circumvent the rules at borders. It is not clear what the impact of bribery to circumvent rules has been; however, we note the extent of this form of corruption may be limited by the weak testing and enforcement of rules. There is little need to circumvent rules if the rules are not enforced in the first place.

The available information points to a potential solution: the main private steel suppliers in Malawi should be involved in testing product standards, working with the MBS. These firms are negatively affected by the influx of substandard products because they are sold at cheaper prices and consequently reduce the market share of firms. Although this group of firms is not necessarily influential, it can play an important role in generating evidence about the extent and impact of the problem, and in working with the MBS to conduct domestic testing of products. The MBS has expressed an interest publically in improving its monitoring of standards in Malawi, and the government may also have a broad interest in order to protect its politically significant MCSP initiative.

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Annex 1: Interview schedule

Government ministries, departments and agencies	Ministry of Transport and Public Procurement
	Department of Industry
	Department of Trade
	Competition and Fair Trade Commission (CFTC)
Industry councils	National Construction Industry Council (NCIC)
Industry	Agriquip - Malata Manufacturing
	DJ Hardware
	Encor
	Industrial Steel Engineering
	Macsteel
	Malawi Iron and Steel Corporation (MISCOR)
	Prime Steel
RSC Limited	
Safintra	

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