



International Labour Organization

SKILLS FOR TRADE AND ECONOMIC DIVERSIFICATION MALAWI

SECTOR SELECTION PROCESS

1. Introduction

In this era of a global economy, increased international trade, and accelerating technological change in the world of work, national governments need to strengthen skill development systems in order to ensure that the skills and qualifications provided can bridge the gap that can sometimes exist between the world of education and training, on the one hand, and the world of work, on the other.

There is a paradox that even in the current circumstances of mass unemployment; employers continue to indicate that they are very often unable to fill available vacancies with personnel of the right skills. In this regard, research has shown that exporting firms tend to require higher-skilled workers than firms that only serve domestic markets. It is an established fact that broader availability of good quality training enables more people to participate in the modern economy and to benefit more from globalization. Skills development is thus a necessary condition for socially inclusive economic growth.

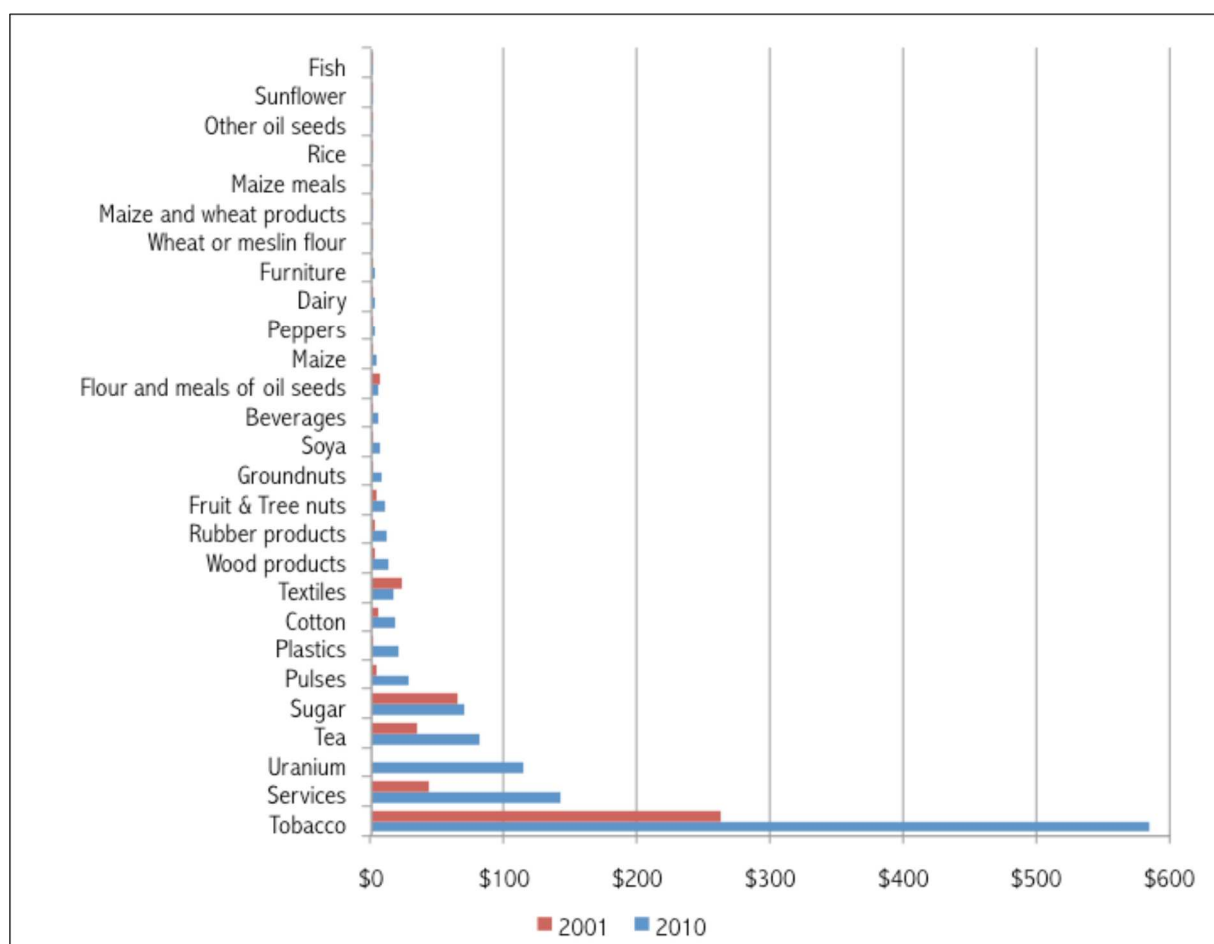
A causal chain - **from economic analysis, to partnerships, to skills training** – is therefore needed to turn the potential of trade into the reality of a more diversified and export oriented economy and the creation of more productive and decent jobs.

Mobilising the key players to the economic equation, namely; government, employers and workers social partners is key to this endeavour. Private Sector Organizations (Employers organizations) and workers Organizations are increasingly taking keen interest processes that help to align skills development with trade policies, sustainable development and equity.

2. The Malawi Export Outlook

The National Export Strategy indicates that although Malawi has numerous export opportunities, the country struggles to respond effectively because of the limited productive base and limited export competitiveness. However, effective exporting is dependent on a strong and stable production base, which includes sufficient manufacturing capacity in the sectors that are being oriented towards the export market. Malawi's economy is largely dependent on Tobacco trade and exports. According to www.trademap.org, In 2010 for example, Malawi's total exports stood at USD1,208,000 of which more than 50% was from Tobacco trade.

Total exports stood at \$493 million in 2001 and \$1,208 million in 2010



Source: www.trademap.org.

The Government of Malawi has developed a National Export Strategy (NES) whose objective is, to among other things guide the country's process of developing the country's productive base which is need it towards export value added goods and services in order to reduce its vulnerability to climate shocks or crop failure.

The NES is in essence an export diversification strategy to assist Malawi move away from its economic dependency of tobacco which currently drives the country's economic activity. According to the NES, Malawi needs to develop its productive base in such a way that it raises its export capacity to levels which they can keep pace with the imports and that it can simultaneously integrate youth , women and MSMEs in the expanded productive base.

In this regard, three export clusters have been identified which once fully developed, can complement tobacco and drive exports in regional markets through value addition. These include:-

- i) The Oil seeds and Oil seed Products sector, covering Sunflower, Soybeans, Groundnuts and Cotton sub sectors
- ii) The Sugarcane and sugarcane products sector
- iii) The Manufactures sector covering, Agro processing subsector (incl. dairy, horticulture, wheat, maize pulses), Beverages subsector, plastics and packaging subsector, and the assembly subsector.

The NES highlights key areas that need to be addressed in order to raise Malawi's productive base and export competitiveness in the targeted export sectors which include:-

- Developing an environment conducive for economic competitiveness and economic empowerment of youth, women, farmers and MSMEs

- Building the capacity of economic institutions central to the development of Malawi's productive base and export competitiveness, and improving communication through dialogue.
- Making significant investments in building knowledge, skills, and competencies, which are fundamental to improving Malawi's productive base and export capacity

Malawi's exports have grown at a much slower pace than imports over the past ten years, creating an unsustainable structural trade deficit that leaves Malawi vulnerable to aid and foreign exchange shocks. One key reason is the lack of investment in skills and economic institutions, which are necessary to allow Government to address market failures and structural weaknesses in the real economy. Such weaknesses have prevented investment of funds in the productive economy.

3. THE Skills for Trade and Economic Diversification (STED- Malawi) Project

The **G20 Development Working Group** (DWG) asked the ILO, UNESCO, OECD and the World Bank to combine efforts in helping LDCs devise and implement skills for improving the employability of citizens. Malawi was identified as one of the pilot countries for this inter-agency support. In 2012, the ILO and UNESCO worked with tripartite constituents in the development of their National Action Plan on Skills for Employment. This plan adapts the key building blocks of effective skills systems agreed in the ILO/G20, namely; Training Strategy for Strong, Sustained and Balanced Growth (ILO, 2010) to the circumstances and priorities of the country

The aim of the Action Plan on Skills for Employment is, among other things, to address skills gaps identified in the National Export Strategy (NES) and the National Employment and Labour Policy. Government representatives presented the Action Plan in Moscow, and discussed technical and financial constraints in implementing it. **Key constraints included capacity to collect and analyze data on skills provision, demand and gaps, weak coordination mechanisms across ministries, limited collaboration with the private sector and development partners;** limited public financing, and limited experience in governance and management of public-private partnerships - all of which are necessary for the improvement of the quality and accessibility of training opportunities for young people and adults in Malawi

The STED Project is therefore a response to this request and it is ILO's contribution to the realization of the objectives of the Malawi National Export Strategy.

3.1 The STED Methodology

The STED methodology is situated at the **nexus of trade and employment**, and focuses on establishing the role that skills development plays in translating trade openness into sustainable economic growth and growth of productive and decent work. The STED approach operates on the following principles:-

- That a right-trained workforce is part of the enabling environment for trade growth because skills development removes constraints on business' capability to upgrade technology, innovate, and compete in new markets. This is especially true for smaller businesses down the value chain.
- That for the sake of social justice and economic efficiency, more trade must result in more and better jobs for citizens.

The STED methodology encompasses a process chain **from assessment and analysis of statistical data, to collecting qualitative information through broad social dialogue, to building capacity on sector social dialogue, and to vetting a draft report by stakeholders.** It concludes with key recommendations for:-

- Enhancement or reforming of skills development systems for enhanced export competitiveness
- Instituting specific training/capacity building programmes and governance mechanisms,
- Establishment of industry skills councils in areas of the economy with export-growth potential

Acting on these recommendations can take several forms and includes a) Government skills development reforms, b) public-private partnerships, and/or c) additional investments with development partners.

In Malawi, the STED Project will seek to improve the ability of policy-makers, industry players and the skills development system to identify export-oriented sectors with growth potential, and subsequently to establish emerging skill needs in selected subsectors prioritized in the National Export Strategy and to build the capacity of training providers to meet these skills development needs.

It is expected that the key economic players in selected (sub) sectors will gain practical experience in integrating skills anticipation and skills development for the sectors' growth, and in using skills action research and labour market information to establish the nexus of trade, employment and skills in Malawi.

3.2 Applying the STED Methodology in Malawi

The first technical step in the project will be to select two subsectors from the priority clusters identified in the NES. This note addresses the criteria to be used, and makes an initial assessment of the shortlisted subsectors. Part of the intention of the project is to have a demonstration effect, in order to inspire similar work in other sectors, the chosen sectors should therefore ideally be dissimilar. The over-riding **technical criteria** for the selection of the sectors are that:-

- The sectors should have **potential for export trade** and also potential to improve their position in international trade or does the sector have apparent export potential, or exposure to existing export markets
- The sector should have a **comparative advantage** in that the sector's exportable goods can be produced lower opportunity cost than other products and that Malawi can therefore produce these goods relatively cheaper than other countries.
- **TVET level skills** should account for a significant share of employment, and the quality and relevance of skills at this level should be important to the sector's competitiveness in international trade.

The other remaining criteria for the selection of the sectors are as follows:-

- **Contribution to Economic Diversification:** Will the sectors further development contribute to diversifying the economy away from dependency on Tobacco and tea, the economic main stay.
- **Potential for Employment Creation:** Does the sector have the potential to generate substantial levels of both direct and indirect employment creation through integration of youth, women and MSMEs along its value chain.
- **Geographic criteria:** Does the sector geographical coverage allow for a regional approach, either because a substantial part of the sector is concentrated in a specific region, or because the sector is sufficiently large that there is a sufficient critical mass in a number of regions to be able to justify focusing on a regional subset
- **Stakeholder engagement criteria:** Does the sector have low barriers for effective engagement with stakeholders, and can the project build on a history of effective stakeholder engagement.
- **Synergy with other development efforts:** Other there other efforts on going to further develop the sector's competitiveness for export trade towards which the STED recommendations can be channelled.

The Project has shortlisted four subsectors to be considered for application of the STED analysis. The selection has been based on initial assessment already outlined in the NES Report. Below is the summary of the shortlisting criteria.

4. Justification for shortlist

In this regard, the STED Project has shortlisted four sub sectors to be considered for application of the STED analysis. Below is the justification for shortlisting of the identified sectors:-

4.1 The Oil Seed Sector

The Oil Seed sector has been shortlisted because it has potential to improve its competitive positioning on international trade. According to the NES, the oil seeds sector if successfully developed can raise exports from the current 1.8% (2010) of the total export trade to 14.6% by the 2015. In addition, oil seeds can be feasibly grown by small holder farmer thereby providing the opportunity for integration of youth, women and MSMEs into its value chains. Furthermore, oilseeds have high potential for intercropping with maize, the staple food crop in Malawi grown by almost all smallholder farmers.

The NES recommends that a long term sector development strategy is needed to bring the sector to a level where it can be sufficiently competitive on the international market and that the sector's export should be targeted at the neighbouring markets of COMESA, SADC and EAC. Adding value to the oil seed raw products is what will strengthen Malawi ability to compete on these markets.

Of the three oil seed subsectors of groundnuts, soybeans, sunflower and cotton, It is recommended that the STED analysis focuses on either groundnuts or Soybeans because the two subsectors have longer diversified value chains with products in which according to the NES, Malawi can easily attain international competitiveness in Regional markets in the short to medium term and overseas markets in the long term.

4.2 The Manufactures Sector

Within the manufactures subsector, it is recommended that the STED analysis be applied on either the dairy or wheat subsectors as these are the sectors in which Malawi could successfully gain competitiveness on the international market. The NES notes that the wheat subsector has significant scope for import substitution, although it requires a concerted effort to overcome the existing disconnect between smallholder farmers and processors, and to ensure sufficient commercial farming. The NES estimates the average annual growth in the agro processing sub sector to which Dairy and Wheat will be of 17% during the period 2011 to 2027.

4.3 Dairy subsector

According to the NES, the dairy subsector has one of the highest associated incomes per capita within the Manufactures clusters estimated at \$18,081 and is ranked only 2nd to plastics (Malawi's ability to compete in this subsector is slim). The NES also indicates that the dairy subsector also has a reasonable proximity to other products and production systems. The NES further projects that Wheat has a high short term and long term export potential.

4.4 The Wheat subsector

The Wheat subsector is recommended for STED analysis because like the dairy sub sector, it has a high associated income per capita estimated at \$15, 230 and a high level of economic proximity that can result in spill overs in skill sets easily applicable to other grain related subsectors such as maize. Wheat has a medium short term and long term export potential in the target African markets.

The tables below summarises the assessments of technical suitability of the sub sectors shortlisted from the National Export Strategy and provides an initial assessment of the implications of selection for the STED analysis.

Preliminary Short List		Potential to improve position in export trade			High Potential for Value addition			Potential for Employment Creation/TVET Level Skills			Other Technical/Geographical considerations			Stakeholder engagement			Malawi's capacity to effectively compete in International market		
		High	Med	Low	High	Med	Low	High	Mid	Low	High	Med	Low	High	Med	Low	High	Med	Low
Oil Seeds/Oil Seeds Products Sector																			
1	Groundnuts and its by-products	Medium to High			High			High			Easy integration of MSMEs Long history of crop cultivation Growing groundnuts is coherent with gvts food security policies.			Existence of functioning Oil Seeds TWG			High		
2	Soy Beans and By Products	Low to medium			High			High			Suited to smallholder farming, easy integration of MSMEs Current low productivity			Existence of functioning Oils Seeds TWG			Low		
Manufactures Agro Processing Sub sector																			
3	Wheat and by Products	Medium			Medium to high			High			Costly to grow, Not easy to integrate MSMEs/youth			Existence of Agriculture TWG TWG too diversified			Low		
4	Dairy and by Products	High			High			High			Suited to MSME/youth/women integration			Existence of Agriculture TWG TWG too diversified			Medium to high		

Source: Information extracted from Malawi National Export Strategy (2010)

	PRODUCT	Export Potential (Short term)			Export Potential (Long term)			Projected Sector Av. Growth/p.a	Associated Income per capita* (\$)	Economic Proximity with other products*
		High	Med	Low	High	Med	Low			
1	Groundnuts		X		X			17.7%	2,919	76
2	Soy beans		X		X				10,493	45
3	Dairy	X			X			20.5%	18,061	73
4	Wheat		X			X			15,230	116

5. Why apply STED analysis in these sectors

All the above listed sectors have a good potential for improving their position in export trade, particularly within the neighbouring regional markets of COMESA, SADC and EAC where some products are already being exported (largely primary commodities). The shortlisted subsectors, particularly groundnuts, soybeans and dairy also have great potential for facilitating broad based economic growth because they can easily integrate youth, women and MSMEs along their value chains, thereby creating opportunity for employment creation.

For these sectors to be competitive on the export market, the skill levels in the sector will need to be raised to match what the industries will need to produce the export quality products. The two (sub) sectors to be chosen should rate well on all criteria.

Part of the intention of the STED project is to have a demonstration effect in order to inspire similar analysis in other sectors prioritized in the Malawi National Export Strategy. The two (sub) sectors to be chosen for STED analysis should therefore ideally be from different clusters of the NES.

The STED analytical work will be implemented in such a way that it contributes to the achievement of the NES objectives. In so doing, the project will make good use of already existing analytical work on the selected sub sectors and will avoid duplication of work already done rather the Project shall endeavour to build on and compliment any such research work.

STED will take a forward looking view to skills needs, and will analyse not just current industry skill needs, but also skills required for the sector's future development and export competitiveness.

At this point, the sector selection note was shared with key stakeholders including the Ministry of Industry and Trade, Ministry of Labour and Manpower Development, Employers Consultative Association of Malawi, the Malawi Congress of Trade Unions and some Development Partners involved in skills development. While these stakeholders provided their recommendations on which sectors to be selected for the STED analysis, it was eventually agreed that the final selection should be done through a stakeholder consultative workshop.

5. Consultative meeting with key stakeholders

A stakeholder meeting to collectively agree on the final selection of the two sectors was held in Lilongwe on 1st April 2015. The justification for holding the stakeholder workshop was that the decision on which sectors to intervene in required the involvement and agreement of stakeholders with whom the Project will be working, particularly those who will likely drive sector trade and skills development beyond the project period.

After presentation of the STED Project, the sector selection criteria and the preliminary sector selection note, the stakeholders agreed that the selection process needed to be opened up beyond the initial shortlist by the Project to all the prioritized sectors in the Malawi National Export Strategy.

5.1 The sector selection process

Participants who were divided into two groups and where given the NES document, the Sector Selection Note and where asked to analyse the priority sectors in the NES and recommend two sectors in which the Project should undertake the analysis. Participants were provided with a structured analysis guide with selection criteria (See attached sample worksheets from one of the groups).

In plenary, the two groups presented their recommendations. Both groups recommended Oilseeds as the first sector for analysis. For the second sector, one group recommended dairy while the other recommended horticulture. After a lot of debate it was finally agreed that the second sector should be horticulture.

6. Consensus and Final Selection

Thus the final stakeholder recommendation was that the STED analysis in Malawi should be undertaken in the **Oilseeds sector and Horticulture Sector**.

It was further agreed that the Project should continue liaising with the stakeholders throughout the research process. In particular, it was recommended that the Project should work closely with the Skills Technical Working Group, the Oilseeds Technical Working Group and the Manufactures Technical Working Groups operating under the framework of the National the National Export Strategy.

Annex i: Sample of Group work worksheet: Step1



STEP 1: Rating the Sectors

Group 1 Worksheet 1

	Level 1 Selection Criteria												Level 2 Selection Criteria											
Sector	Export potential Does sector have exportable products? What is the potential for export competitiveness			Import Substitution Has sector got potential to reverse trend in Country's imports			Comparative advantage Can Malawi produce goods more efficiently? What is the comparative advantage			Importance of skills How important are skills (TVET) for Sector's Competitiveness			Employment Creation Does sector have high employment creation capacity			Knowledge of needed skills Does industry and training system need support to better articulate skill needs			Critical mass of businesses Does sector have critical mass of businesses to generate national export competitiveness			Use of research findings Can STED sector analysis have relevancy to other similar or related sectors		
	High	Med.	Low	High	Med	Low	High	Med	Low	High	Med	Low	High	Med	Low	High	Med	Low	High	Med	Low	High	Med	Low
Oil seed e.g Ground, cotton	✓			✓			✓			✓			✓					✓				✓		
Sugar cane products	✓			✓			✓			✓								✓			✓			
Manufactures (agro-processing,)	✓			✓				✓		✓			✓					✓		✓		✓		
Mining	✓			✓			✓			✓			✓					✓			✓	✓		
Shortlist of 4 possible sectors (for Step 2)																								

Annex ii: Sample of Group worksheet: STEP 2



Group 1: Sector Selection Worksheet

Sector for STED Analysis (Oil seeds)

	Level 1 Selection Criteria	Assessment			Support Stats & information	Other comments
		High	Med.	Low		
1	Export potential	x			High export prospect 995m US Dollar by 2027.	Smallholder farmers can expand production.
	Does sector have exportable products? What is the potential for achieving export competitiveness	x				
2	Import Substitution potential					Plenty of imports
	Has sector got potential to reverse trend of Country's imports?		x		13% as share imports	
3	Comparative advantage Can Malawi produce/export goods in this sector more efficiently than in other sectors? What is Malawi's comparative advantage (capital, land, labour, entrepreneurial skill, natural resources, technology, etc)	x			Will grow by 21% by 2022	Can be grown everywhere by smallholder farmers (NES), NEMW needs to improve on production quality
4	Importance of Skills TVET for Sectors Competitiveness	x				
	Can improvement in skills levels significantly enhance sector's export competitiveness	x				Skills gap and mismatch is high.



Skills for
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Economic
Diversification

STED Project



CONSULTATIVE SECTOR SELECTION WORKSHOP

1st April 2014

Capital Hotel

TIME	ACTIVITY
08:00hrs	Registration and Coffee
08:30hrs	Welcome Remarks
08:15hrs	Overview on the NES <i>by MoIT</i>
09:00hrs	Overview on Skills for Trade <i>by MoLMD</i>
09:15hrs	Overview of STED Approach
09:30hrs	Sector selection criteria and preliminary considerations
10:00hrs	Coffee Break and Photo Session
10:30hrs	Group Discussions on sector selection
11:30hrs	Plenary Presentation
12:30hrs	Consensus on sectors for STED analysis
12:45hrs	Next Steps
12:55hrs	Closing Remarks
13:00hrs	Lunch

Annex iv: Sector Selection Group work in process

