Government of Malawi

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MALAWI NATIONAL EXPORT STRATEGY

NES

2013 - 2018

VOLUME 1
MAIN DOCUMENT

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This document was developed by the Ministry of Industry and Trade between August 2011 and September 2012.It is a working document that will be guided by the implementation mechanism set out in Chapter 4 of this document

It was developed in close collaboration and through extensive consultation with the private sector, other Government Ministries and agencies, civil society and development partners. It was supported by the United Nations Development Programme (UNDP) and received technical support from Imani Development.

December 2012

Foreword

Malawi made important strides in its development process between 2006 and 2010 where the nation registered an average growth of 7 per cent. Major gains were made in food security, healthcare (50% reduction in the prevalence of HIV) and infrastructure development. This progress was made under the overarching policy framework of Malawi Growth and Development Strategy I (MGDS I).

During that time the country's trade balance worsened from MK69.3 billion in 2007 to MK90.5 billion in 2008. The trade deficits were attributed to high import costs of petroleum fuels and fertilizers. The total export value increased by 23 percent from MK117.7 billion in 2007 to MK144.7 billion in 2008, most of which is attributed to non-traditional exports. Import value, on the other hand increased by 25.7 percent from MK187 billion in 2007 to MK235.2 billion in 2008. The trade balance was on a free fall from 2000 to 2005 but improved slightly in 2006 and 2007 but declined further from 2008 to 2012.

In 2010 the country imported US$2.3 billion worth of goods and services, about 43% of GDP against its exports of US$1.2 billion, about 22 per cent of GDP. This implies that overall the country continues to import more than what it exports.

However, the economic crisis of 2011 which has spilled over into 2012 is very instructive about the structure andcharacteristic of our economy. This means that as a nation without a concerted, strategic and sustained effort to build the productive base of the economy, we cannot develop.

We need to reorganise our industries to allow large businesses, farmers, the government, the small medium enterprises and the academics to work in harmony and feed into the supply chain of our industries.We need to align our educational priorities in technical, entrepreneurial and vocational education and training in our secondary, higher and tertiary education with the needs of industry if we have to realise the needed productive base.

We need to create an enabling business environment for the country's productive base. To achieve this for our country's productive base, for exports and for economic empowerment,we need a paradigm shift.

As we are aware, Malawi's recent priority areas focused on welfare (subsidy for food security) rather than productivity and increased incomes. The paradigm shift is a precondition for achieving sustainable growth because the structures of delivering welfare and of delivering a productive base and economic empowerment are not the same.

The welfare can be addressed through direct interventions, whereas productivity is determined by policy coherence and comprehensiveness, the degree and quality of policy implementation, communication mechanisms and the day-to-day work of stakeholders including farmers, youth, women, micro and small businesses, large business and most importantly government.

Therefore securing this balance is essential if the growth in exports is to deliver true economic empowerment of the poor, youth, women and vulnerable groups and help close the trade balance for our economy.

It is for this reason, that my Government has developed the Malawi National Export Strategy (NES) to serve as a critical component of the MGDS IIand hence of the Economic Recovery Plan by providing a framework and focus on how Malawi may build its productive capacity. It provides a clearly prioritised and realistic roadmap that Malawi needs in order to develop the productive base of the economy. The NES is fully aligned to the priorities set out in the MGDS II and the Economic Recovery Plan.

The NES provides clearly prioritised and phased plans of action in four key areas. The first area is developing priority export clusters that can complement the exports of traditional products such as tobacco and tea. Second are plans to improve the enabling environment for private sector growth through enhancing the productive base of the economy. Third are plans to develop key institutions that are key for sustainable growth. Fourth are plans on how Malawi can address its current skills gap in the productive economy-this is critical for job creation and economic empowerment.

Implementation of the NES will be driven by the Government, in close collaboration with the private sector, civil society, farmer organisations and women and youth groups. Its implementation will be closely tied into the implementation of MGDS II and the Economic Recovery Plan.

It is my sincere hope that the cooperation that prevailed during the preparation of the NES will continue during the implementation period for the wellbeing of mother Malawi. Pro-active stakeholder participation in the implementation mechanism is critical for Malawi to develop a productive economy and my Government looks forward to broad stakeholder participation to realise the objectives of NES.

May God bless our country.

Mrs. Joyce Banda

PRESIDENT OF THE REPUBLIC OF MALAWI

Remarks by the Minister of Industry and Trade

Hon. Sosten Gwengwe, M.P.

Minister of Industry and Trade

The Malawi National Export Strategy (NES) is the first strategy that Malawian stakeholders have developed that takes the country's ability to export as its overarching objective. The aim is to permanently develop Malawi's capacity to export, such that the goals and ambitions set out in the Malawi Growth and Development Strategy II may be achieved. Malawi's development gains ultimately need to be financed through domestic value addition. In other words Malawi's imports need to be matched by exports if Malawi is to graduate from being a Less Developed Country (LDC).

Crucially, the NES has been developed in way that views poverty reduction, development and private-sector led export growth as inextricably linked. Malawi's development requires a significant increase in export capacity, while export-led growth needs to create jobs, reduce poverty and economically empower the poor, smallholder farmers, women and youths. It is for this reason that the NES provides a clearly prioritised road map on how Malawi may build the productive base of the economy in a manner that will allow not only export and private-sector led growth, but also improved incomes for smallholder farmers, women's groups and youth entrepreneurs, together with job opportunities for the urban poor and youths.

Through extensive stakeholder consultation and robust economic analysis, the NES has identified oil seed products, sugar cane products and manufacturing as clusters that have the potential to equate to over 50 per cent of exports by 2027, thereby complementing tobacco as a major export. However a key difference is that these clusters will allow this through value added and job creation, rather than through the export of raw or semi-raw commodities such as tobacco. The NES is therefore critical to allow Malawi to transform its economy away from low value exports.

The NES also prioritises the enabling environment for other clusters by providing stakeholders with a clear roadmap for what needs to be done to kick start the productive economy. Priorities are securing an improvement in policy coordination and implementation capacity, addressing the existing skills gap in the economy, and developing institutions that need to support the productive economy such as the Malawi Investment and Trade Centre and the Small and Medium Enterprise Development Institute. In addition it identifies the financial sector, energy, standards, land reform, farmer information, farmer organisations and transport as major areas for attention, and provides clear action plans within each of these areas.Through extensive national stakeholder consultations, the NES has been endorsed by the private sector, civil society, farmer organisations and government as a critical strategy for the development of the Malawian economy. The government has established a participatory implementation mechanism because this is critical to ensure that the NES is implemented and therefore, that Malawi's export capacity and productive base may be built. We look forward to your pro-active support in the NES' implementation through this mechanism. Special gratitude goes to the UNDP for their financial support and technical assistance in the development of this important strategy.

Executive Summary

Malawi's development agenda for 2012-2016 is set out in the Malawi Growth and Development Strategy II (MGDS II). Under its predecessor, the MGDS I, Malawi achieved economic growth, poverty reduction, national food security and a 50 per cent reduction in the prevalence of HIV. The objective of MGDS II is to reduce poverty and achieve the Millennium Development Goals (MDGs).

Yet in 2010 Malawi imported US$2.3 billion worth of goods and services (43 per cent of GDP), but only exported US$1.2 billion[1] (22 per cent of GDP). This reflects a major unsustainable structural trade deficit and if maintained, will undermine the goals of MGDS II. **The strategic imperative and goal for Malawi should now be to build productive capacity such that exports may match imports in the long-term. This is essential to allow the MGDS II to build on the gains made under MGDS I**. This document supports the MGDS II by presenting Malawi's strategy to develop its ability to export.

Benchmarking Malawi's capacity to export against its import bill is essential because, as experienced with the foreign exchange and aid crisis in 2011, Malawi's structural trade deficit may lead to a reduction in Malawi's ability to export and undermine the emergence of the productive base of the economy. Often the instinctive reaction in times of crisis is to protect welfare without supporting the productive economy. Imports and exports cannot be detached from each other, just as the realities of poverty reduction, development and export competitiveness are inextricably linked. Therefore a strategy to develop Malawi's capacity to export needs to account for the wide range of factors that determine the willingness and ability of exporters, potential exporters and suppliers to exporters to collectively export **on the scale required by Malawi's import and consumption bill**.

The current extent of the structural trade deficit means that Malawi's National Export Strategy (NES) is not just about exports in the most direct form. **Crucially, it is also about how Malawi can build the productive base of its economy and therefore is a critical complement to the Economic Recovery Plan of 2012.** For exports to grow to a level that balances imports and consumption, it is critical that this base be developed. Therefore the development of Malawi's productive base is central to Malawi's development agenda as set out in the MGDS II. The component of the MGDS II that the National Export Strategy provides is a road map for how Malawi can build its productive base in a manner that will drive export growth on a sufficient scale to maintain the level of imports.

The NES is also central to accomplishing Malawi's desired move into the export of high value goods and services and to reducing Malawi's reliance on the export of raw or semi-raw commodities. These have left Malawi's poor and vulnerable exposed to commodity price fluctuations, crop failures, aid shocks and climate change. The development of the productive base is also fundamental

1 Comtrade, www.trademap.org. These figures exclude informal cross-border trade.

for the economic empowerment of youths, women, smallholder farmers, job seekers and the poor. Malawi's demographics, characterised by a youth bulge, also require the development of a healthy and expanded productive base, capable of absorbing youths to drive rather than hinder Malawi's development agenda.

Malawi, therefore, urgently needs to develop its productive base to:

a) Drive Malawi's export capacity on a scale that exports can maintain the pace of imports.

b) Economically empower youths, women, small-holder farmers, job seekers, micro and small businesses and the poor through ensuring that they are included in the productive base.

By setting out a way forward that addresses this dual concern, the NES serves as a critical component of the MGDS II.

The Aim of the NES

This strategy provides a prioritised road map for developing Malawi's productive base to allow for both export competitiveness and economic empowerment.

The Components of the Strategy

The strategy to build Malawi's productive base and export capacity in a manner that empowers the poor, farmers, youth, women and other vulnerable groups, is based on four areas of focus:

1. **Priority Area 1 – Export Clusters:** this Priority Area is divided into two parts:

    a. **Three prioritised export-oriented clusters for diversification:** Through coordination and a concerted effort, develop priority clusters that have the potential to complement tobacco and drive exports through value addition, mostly to neighbouring and regional markets, in a manner that exports can maintain the upward pressure of imports. These clusters are:

        i. **Oil Seed Products** – cooking oil, soaps, lubricants, paints, varnishes, meals and flours, bio-fuel, animal feed, fertilizer, snacks and confectionery derived from sunflower, groundnuts, soya and cotton

        ii. **Sugar Cane Products** – sugar, high value sugar through branding,

sugar confectionery (such as syrups, sweets, caramel etc), sweetener, ethanol, spirits, cane juice, fertilizer, animal feed, electricity, cosmetics

iii. **Manufactures** – beverages, agro-processing (including dairy and maize, wheat, horticulture and pulse value addition), plastics and packaging, assembly.

a. **Supporting exports of existing clusters:** The NES includes support plans to stakeholder efforts in other major existing clusters: tobacco, mining, tourism, tea and services.

2. **Priority Area 2: Conducive Environment –** Develop an environment conducive to economic competitiveness and economic empowerment of youth, women, farmers and MSMEs.

3. **Priority Area 3: Supportive Economic Institutions to Build the Productive Base of the Economy –** Invest in supportive economic institutions and organisations. Improve communication through ongoing dialogue and devote high-level attention to develop agencies that are central to the development of Malawi's productive base and export competitiveness.

4. **Priority Area 4: Competencies, Skills and Knowledge –** Invest significantly in competencies, skills and knowledge because these are the foundation of Malawi's productive base and its export capacity, while also being critical if the development goals of the MGDS II are to be achieved.

The four Priority Areas will be composed of a number of components. These components have been prioritised based on the need of the economy. These components will be implemented through the NES' implementation mechanism, which is the Trade, Industry and Private Sector Development Sector Wide Approach. This SWAp will contain seven Technical Working Groups whose mandate will be to ensure the implementation of the various components.

Policy Coherence and Alignment Required by NES

For the strategy to meet its objectives, it requires policy coherence and alignment, including:

- Monetary and foreign exchange policies shall establish and maintain a competitive exchange rate.
- Fiscal policy shall provide adequate funds for public sector investment necessary to support the productive economy.
- Financial sector development policy shall focus on ensuring the provision of affordable access to finance for micro, small and medium enterprises (MSMEs), large businesses, smallholder farmers, cooperatives, youth entrepreneurs and women's groups. This policy shall be prioritised by central government.
- Agricultural policies shall build up the viability and competitiveness of the agriculture sector and facilitate its linkage to agri-industrial base.
- Land reform shall be expedited so that land policy can allow for suitable access to land and secure tenure of property by private operators, who plan to ensure an economic return from the land, including farmers and businesses.
- Transport policy shall be tied to the development of NES priority clusters, both in terms of accessing key regional growth centres (Tete, Lusaka, Mbeya, Harare) and ports and also in terms of affordable domestic transport for smallholder farmers to urban centres. Transport policy shall not only focus on infrastructure – particularly rail and the improvement of rural feeder roads tied to the NES priority clusters and crops – but also on competition policy.
- Trade, tariff and customs policies shall engender the competitiveness of the priority NES clusters and facilitate their participation in regional and international trade.
- Technical support policies shall be adopted to improve the quality of export products, particularly those relating to technology transfer, R&D and technical training.
- Urgent attention is to be given to policies affecting infrastructure to ensure affordable and reliable access to energy and water/irrigation.
- Favourable policies to MSMEs, cooperatives, farmer organisations, women's groups, youths, rural businesses and export

processing zones to boost rural and farm-based entrepreneurship in geographic areas matched to the NES priority cluster.

- Labour and industrial relations policies must recognise the inevitable industrial shifts that will occur in the effort to achieve international competitiveness. Focus shall be given to the formulation of accords between labour and management, which shall provide for sustainable increase in productivity and competitiveness.
- Education and training policy shall ensure the provision of the competencies, skills and knowledge, including through primary and secondary education, that are required by the productive sectors and the key enabling sectors such as energy and finance.
- All government agencies whose actions affect exporters, such as the MITC, MRA, MBS, SMEDI, various business regulators and others shall simplify procedures to minimize red tape.
- Provisions of existing laws deemed detrimental to exporters and potential exporters shall be reviewed and repealed.

Comparison of Expected Revenues and Indicative Costs of NES

In Table E1 below we present a comparison of the total indicative costs required to implement the NES with the expected additional revenues to be generated by the NES, should the NES be successfully and fully implemented. These revenues are consistent with the guideline targets presented in Chapter 2 of the main NES document.

It is essential to note that financial allocations are **necessary but not sufficient** to generate the expected export revenues presented below. What is more important is the allocation of sufficient and appropriate management time to ensure:

- appropriate prioritisation of export clusters and key cross-cutting issues
- alignment and coherence
- the pooling of resources
- policy coherence
- development of institutional capacity
- proper human resourcing
- development of the competencies, skills and knowledge necessary to develop the productive base of the economy.

TABLE E1: COMPARISON OF NES INDICATIVE COSTS TO EXPECTED ADDITIONAL REVENUES GENERATED BY NES

Total Cost over 5 years	US$, million
By Government	$350
By Development Partners	$226
Total Government & Dev. Partner Cost excluding Energy and Transport	$566
Total Cost Including Energy but not Transport Infrastructure	$1,088
Revenues Generated by NES per year, additional exports every year compared to Year 0:	
Year 1	$153
Year 2	$325
Year 3	$519
Year 4	$738
Year 5	$985
Total new exports/revenues in 5 years, compared with 2010 and 2011 levels	$2719

Source: NES Technical Team. Note: Costs are only indicative. Indicative costs are based on estimations presented in Annex 1 of the NES. Also please note that costs are not exhaustive, but capture the majority of priority actions. Revenues are calculated from the guideline targets presented in Chapter 2. This table is meant to be purely illustrative. Also note that government costs include both recurrent expenditure (through investment in staff positions and institutional development) and capital expenditures. The majority of the government cost is recurrent. Please refer to Chapter 4 in Annex 1 for details.

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Abbreviations

ACE	Agriculture Commodities Exchange
AfDB	African Development Bank
ASWAp	Agriculture Sector Wide Approach
ASWAp-SP	Agriculture Sector Wide Approach-Support Project
BESTAP	Business Environment Strengthening and Technical Assistance Project
CABS	Common Approach to Budget Support
CFTC	Competition and Fair Trading Commission
COMESA	Community of Eastern and Southern Africa
DEMAT	Development of Malawian Enterprises Trust
DFID	United Kingdom Department for International Development
DPSM	Department of Public Sector Management
DTIS	Diagnostic Trade Integrated Study
EAC	East African Community
EDF	Export Development Fund
EIF	Enhanced Integrated Framework
ERP	Economic Recovery Plan
ESWAP	Education Sector Wide Approach
EU	European Union
FIMA	Financial Inclusion in Malawi Project
FSTAP	Financial Sector Technical Assistance Project
FSPU	Financial Sector Policy Unit
GDP	Gross Domestic Product
GPE	Global Partnership for Education

HIPC	Highly Indebted Poor Countries
IAEA	International Atomic Energy Agency
ICT	Information Communication Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
JICA	Japanese International Cooperation Agency
JSS	Joint Sector Strategy
MAMN	Malawi Micro-Finance Network
MARDEF	Malawi Rural Development Fund
MBS	Malawi Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MEPD	Ministry of Economic Planning and Development
MEDI	Malawi Entrepreneur Development Institute
MFIs	Micro-Finance Institutions
MGDS	Malawi Growth and Development Strategy
MITA	Malawi Industrial Training Association
MITC	Malawi Investment and Trade Centre
MIWD	Ministry of Irrigation and Water Development
MoAFS	Ministry of Agriculture and Food Security
MoEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice and Constitutional Affairs
MoL	Ministry of Labour
MoLH	Ministry of Land and Housing
MoTPW	Ministry of Transport and Public Works
MoYS	Ministry of Youth and Sport
MRA	Malawi Revenue Authority
MSE	Malawi Stock Exchange
MSME	Malawi Small and Medium Enterprises
NCSP	National Competencies and Skills Plan
NES	Malawi National Export Strategy
NSO	National Statistics Office
OPC	Office of the President and Cabinet
PSD	Private Sector Development
PSD DG	Private Sector Development Donor Group
PSIP	Public Sector Investment Programme
R&D	Research and Development
RBM	Reserve Bank of Malawi
RGD	Registrar General Directorate
SADC	Southern Africa Development Community
SEDOM	Small Enterprise Development Organisation of Malawi
SMEDI	Small and Medium Enterprise Development Institute
SQAM	Standards, Quality, Accreditation, Measurement
STED	Skills for Trade and Economic Diversification
SWAp	Sector Wide Approach
SWG	Sector Working Group
TEVET	Technical, Entrepreneurial and Vocational Education and Training
TEVETA	Technical, Entrepreneurial and Vocational Education and Training Authority
TIPSD SWAp	Trade, Industry and Private Sector Development Sector Wide Approach
TOR	Terms of Reference
TWG	Technical Working Group
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation
YEDF	Youth Enterprise Development Fund

Chapter 1 – Introduction

1.1 Purpose of the NES

The purpose of the Malawi National Export Strategy (NES) is to provide a clearly prioritised road map for building Malawi's productive base to generate sufficient exports to match the upward pressure on Malawi's imports.

The NES aims to maximise the direct contribution of exports to economic and social development as outlined under the thematic area on sustainable economic growth in the Malawi Growth and Development Strategy II (MGDS II). It aims to do this through the development of the private sector in a manner that is balanced with the economic empowerment[2] of the rural and urban poor, smallholder farmers, youths and women.

1.2 Status of Development, Exports and Imports

Malawi's development agenda is centred on nationwide poverty reduction, economic empowerment and ensuring food and healthcare security for the population. In 2006 it launched the MGDS to serve as Malawi's over-arching development agenda, and in 2012 it launched its successor, the MGDS II. The objective of the new strategy is to 'continue to reduce poverty through sustainable economic growth and infrastructure development'[3].

The Government of Malawi has also set as one of its main goals the doubling of GDP per capita by 2017. This is an ambitious target, particularly given that Malawi's GDP per capita rose only marginally between 1980 and 2010, as presented in Figure 1 below.

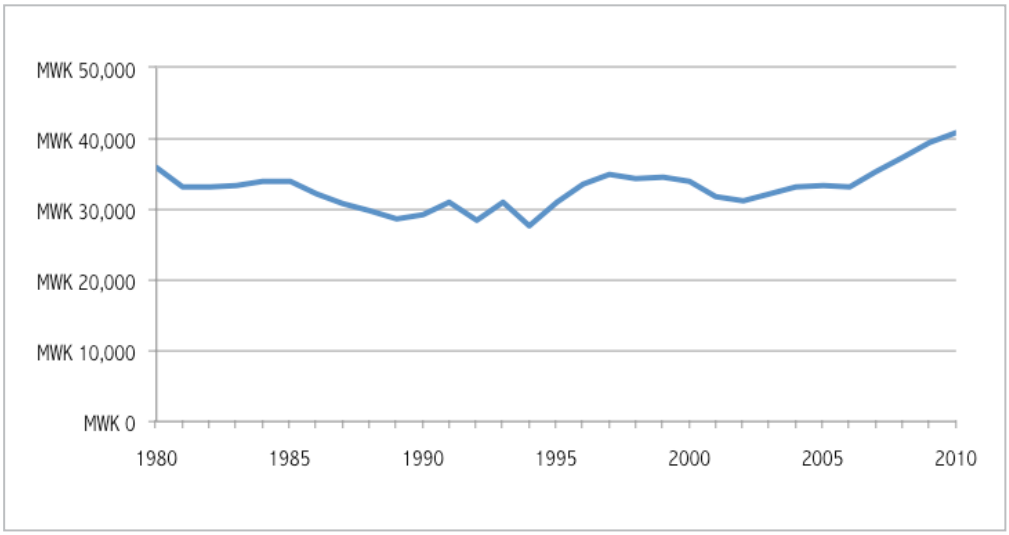
Malawi's Gross Domestic Product (GDP) per capita stood at MK40,876 in 2010[4] compared to MK36,035 in 1980. GDP per capita in constant prices only rose above the 1980 level for the first time in 2008. Malawi has the tenth lowest GDP per capita in Africa, and within Southern and Eastern Africa only Zimbabwe and Burundi had a lower GDP per capita in 2010.

2 Economic empowerment relates to the application of Malawi's human capital to the generation of value addition. This includes self-employment (Including MSMEs, smallholder farmers, farmer organisations etc) and also employment.

3 Draft Malawi Growth and Development Strategy II.

4 Human Development Index, UN (2010). Data is in purchasing power parity at 2008 USD prices.

Figure 1: Malawi's GDP per capita, constant prices, Malawian Kwacha

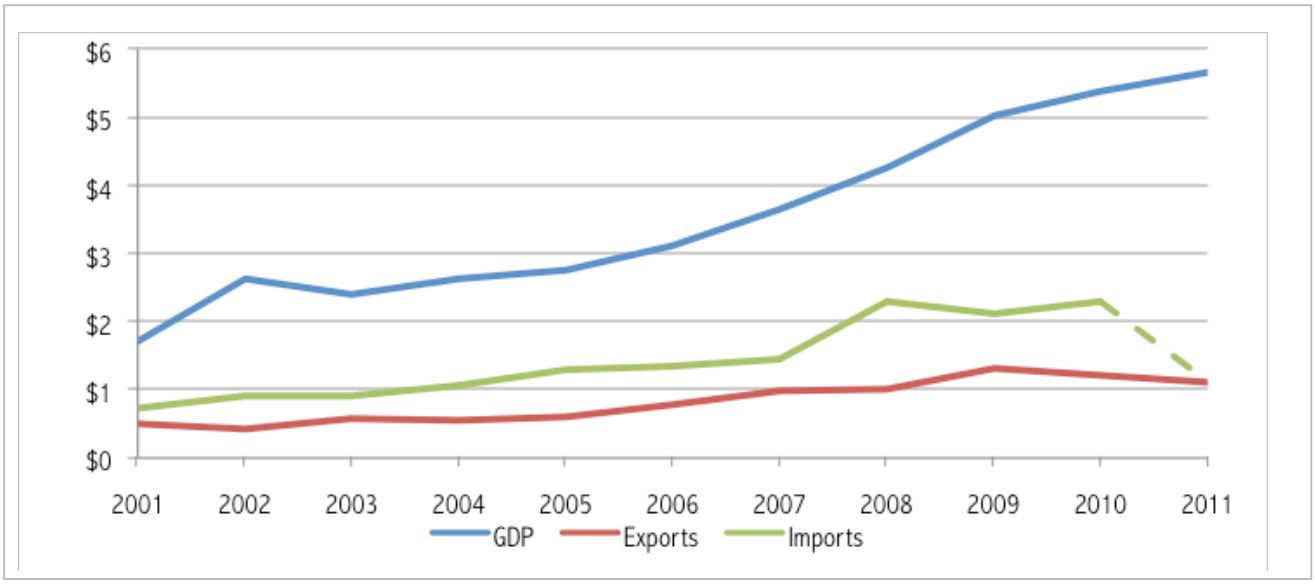


Source: IMF World Economic Outlook. Note: In 2010, MWK 40,876 equated to USD 269.

In order to achieve the goals of doubling GDP per capita by 2020, it requires raising annual economic growth from the six per cent trend recorded between 2001 and 2010, to nine per cent per year from 2012 to 2020[5]. Yet this is difficult to attain based on the current structure of the Malawian economy. Malawi is presently running a large and unsustainable trade deficit (the balance of imports over exports), which in 2010 stood at 21 per cent of GDP, a rise from seven per cent in 2001. Figure 2 shows the growth in Malawi's structural trade deficit between 2001 and 2010.

5 The GDP growth trend is calculated based on a trend analysis of the components of GDP, including consumption, investment, government expenditure, imports and exports. It makes assumptions on consumption, government expenditure and imports, based on the current trend and factoring a market-based exchange rate, and then based on this identifies realistic growth targets for investment and exports necessary to allow GDP per capita to grow in line with the Government's objectives.

Figure 2: Imports and exports of goods and services relative to GDP, USD billion, current prices



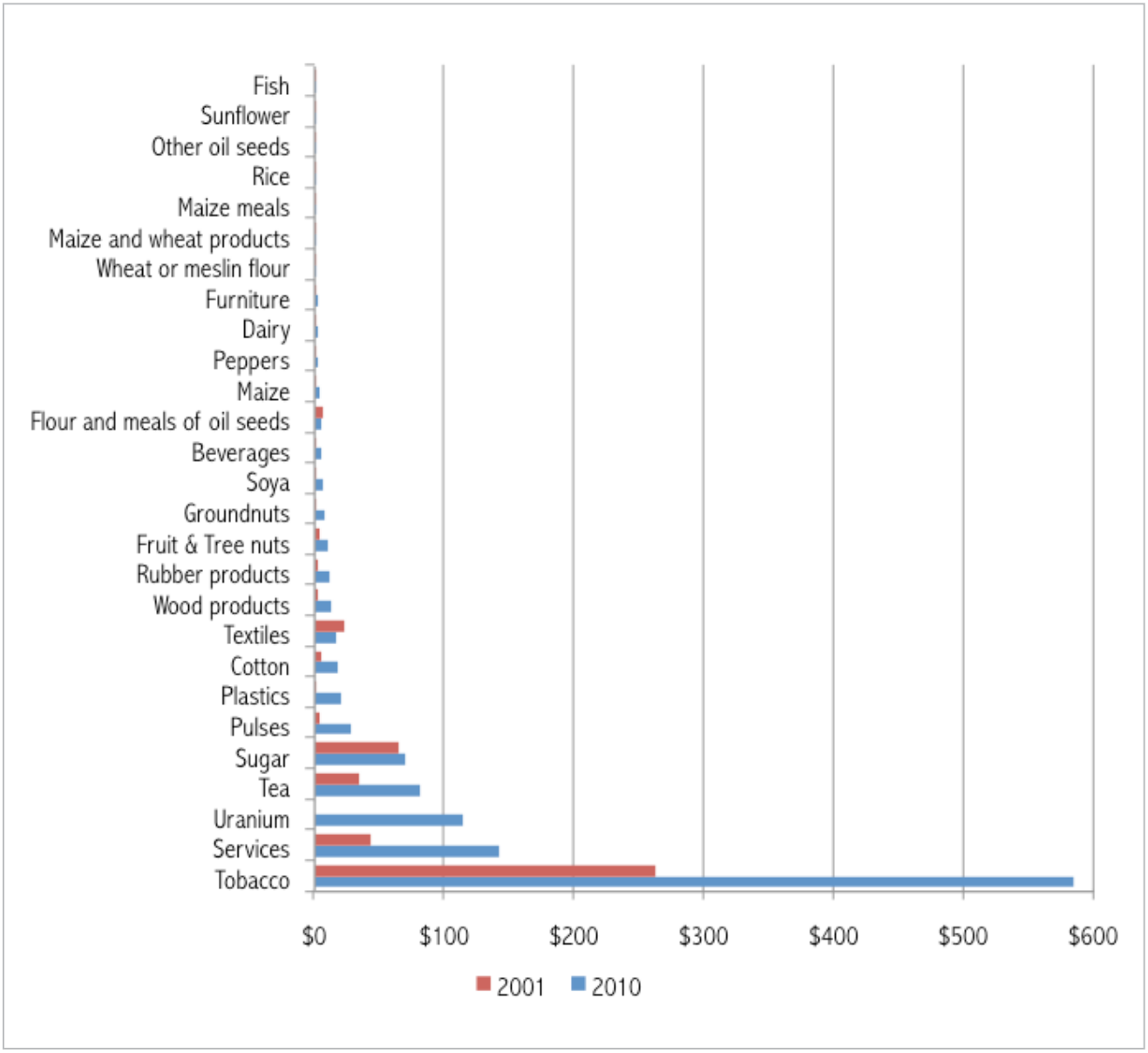
Source: IMF World Economic Outlook and www.trademap.com. Note: 2011 trade data available at the time of writing is mirror data and therefore is subject to revision. The decline in imports in 2011 reflects the impact of a temporary aid shock and a foreign exchange crisis on the back of a fixed and overvalued exchange rate. The exchange rate was floated in May 2012.

The growth in Malawi's trade deficit between 2001 and 2010 came about because of more rapid growth in imports than in exports and because of the limited application of imports to build the productive base of the economy. While total exports in 2010 equalled $1.2 billion, total imports stood at $2.3 billion. The gap was largely financed by aid flows, such that the cutting of aid in 2011 resulted in the dwindling of foreign reserves and a major foreign exchange crisis that renders 2011 data unreliable for long-term planning purposes. Official Development Assistance totalled $1.0 billion in 2010[6], which equated to 19 per cent of GDP in 2010, and corresponds to the structural trade deficit.

One of the reasons for the dependency on aid to plug the gap between exports and imports was a distorted exchange rate between 2008 and 2011. However a more important reason is a major structural weakness of the economy: the limited productive base and dependence on only one major export product: tobacco. Tobacco exports increased from $262 million in 2001 to $585 million in 2010, accounting for a largely consistent share of total Malawian exports: tobacco accounted for 53 per cent of exports in 2001 and 49 per cent in 2010. The next largest export, services, accounted for twelve per cent of exports, while uranium accounted for ten per cent. The next largest exports in 2010 were tea (seven per cent of exports) and sugar (six per cent of exports). Figure 3 below presents Malawi's major exports by value. What the figure shows is how many of the clusters that Malawi and development partners have been supporting in recent years remain in their infancy. This reflects a lack of proper prioritisation and a piecemeal approach to cluster development. The last time Malawi properly prioritised a cluster was tobacco in the 1970s and this is why it remains the only major export sector up to now.

6 OECD Query Wizard for International Development Statistics and IMF World Economic Outlook. Data for 2011 was not available at the time of writting.

Figure 3: Malawi's main exports by value, $ million

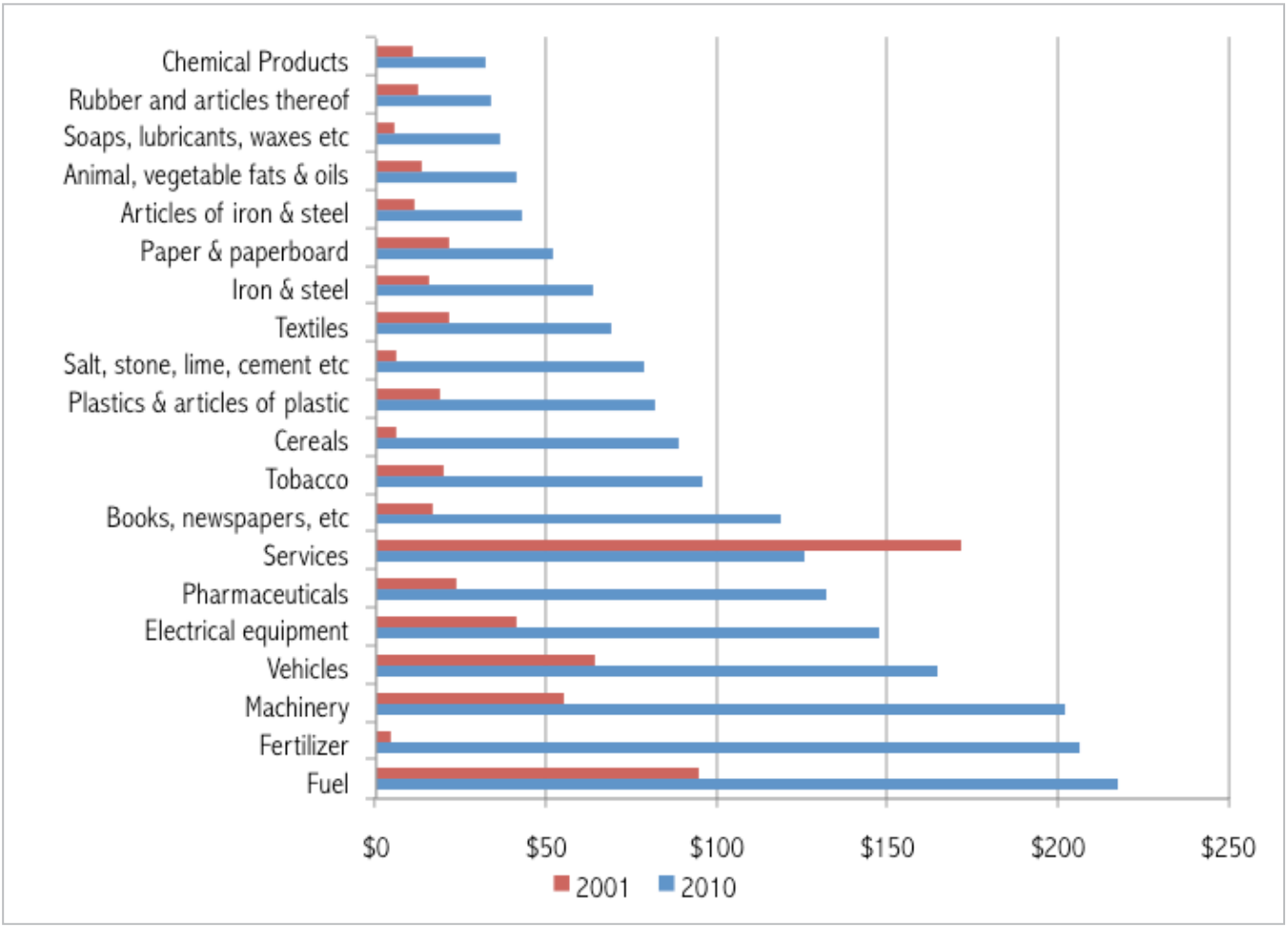


Source: www.trademap.org. Total exports stood at $493 million in 2001 and $1,208 million in 2010.

This narrow productive and export base has left Malawi significantly vulnerable to shocks such as commodity prices fluctuations, aid shocks and importer lobbies – who have an interest in overvaluing the exchange rate, inadvertently disincentivising exports.

Major flows of aid and distortions in the exchange rate have driven imports of goods and services up from $733 million in 2001 to $2,299 million in 2010. In 2010 Malawi imported $217 million worth of fuel, $206 million worth of fertilizer and $201 million worth of machinery. These imports alone equate to more than exports of Malawi's only major export, which is tobacco. Crucially, this import bill reflects Malawi's poverty reduction and development goals: it is only through the importation of fertiliser that its food security goals can be sustained, and it is only through the import of pharmaceuticals that its health goals can be sustained. The value of Malawi's major imports is presented in Figure 4 below.

Figure 4: Malawi's main imports by value, $ million



Source: www.trademap.org. Total imports rose from $733 million in 2001 to $2,299 million in 2010.

Yet Malawi's development agenda and its ability to meet the goals set in the MGDS II are dependent on Malawi's ability to afford the imports necessary to allow for the MGDS II's goals to be achieved. Otherwise Malawi risks continuing to be aid dependent for its welfare: economic growth between 2005 and 2010 was driven by continued aid flows[7], expansionary fiscal and monetary policy made possible through the HIPC-debt relief of 2005 and bumper tobacco harvests that cannot be relied upon anymore due to international anti-smoking legislation. Malawi's aid and foreign exchange crisis of 2010 and 2011 caused GDP growth to slow from 6.5 per cent in 2010 to 3.8 per cent in 2011, well below the government's aspirations of GDP growth above ten per cent.

Although the government has recently adopted a number of measures to address the external imbalance – including initial steps at market liberalisation, the floating of the exchange rate and strengthened budgetary spending controls – indications are of strengthening structural imbalances and a continued macroeconomic dependence on imports and aid. For example, in the Malawi Country Economic Memorandum of 2010, the World Bank warned that 'the undersupply and poor quality of electricity in Malawi is a binding constraint on economic growth, and energy generation is near totally dependent on the Shire River. The government needs to invest urgently in additional generating capacity'[8].

Therefore, there is a need for **drastic changes** in order to allow for the necessary amount of exports required to maintain Malawi's development aspirations. According to the World Bank's Malawi Country Economic Memorandum of 2010, 'exports expressed in real kwacha show a persistent long-standing relationship with GDP implying a strong multiplier effect from export revenue'[9]. Malawi's aid and foreign exchange crisis of 2011 made it clear that a nation cannot develop without a **concerted, sufficient and successful effort to build the productive base of the economy.**

The development of the productive base of the economy is also critical at this juncture in Malawi's development process because of its demographics. Malawi is experiencing a youth bulge following years of investment in healthcare. From 1990 to 2007, child malnutrition rates fell from over 24 per cent – at that time among the highest in sub-Saharan Africa – to about 18 per cent, and child mortality

7 Official Development Assistance accounted for nineteen per cent of GDP in 2010. Sourced from the OECD's Query Wizard for International Development Statistics and the IMF's World Economic Outlook.
8 'Malawi Country Economic Memorandum 2010', World Bank, Page v.
9 'Malawi Country Economic Memorandum 2010', World Bank, Page 6 and Figure 1.3.

rates were almost halved, from 221 per 1,000 children under five to 120 per 1,000. The consequential rapid growth in the youth population that Malawi is currently experiencing could either become a burden on development if youths are not empowered through the productive economy or a boon to development if they are. For the youth bulge to be a boost to development, it requires the right type of economic growth. Although between 2008 and 2010, average annual economic growth exceeded the government's benchmark GDP growth rate of six per cent per year, this growth was driven by aid, consumption and imports rather than by production and exports, offering little scope for the participation of youth.

Box: Malawi's Economic Challenge in a Nutshell

- 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.
- This has been driven by an unrepresentative exchange rate and insufficient expenditure of aid and debt relief monetary flows on the development of the productive economy, of which exports are a subset.
- A 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.
- The key opportunities are economic reforms that address such structural weaknesses. This is tantamount to putting in place the building blocks necessary to build the productive base of the economy - meaning that these are critical complements to the Economic Recovery Plan of 2012:
    - Promoting the diversification of export clusters in order to increase macroeconomic stability, generate sufficient foreign exchange and thus increase investment.
    - Supporting the development of institutions essential in facilitating investment, the development of the productive base of the economy, and hence trade, within Malawi.
    - Increasing incentives to invest and improving Malawi's underlying economic enabling environment – improving access to energy, finance, transport services, etc.
    - Investing in human capital, while linking this development to the knowledge and skills being demanded by private industry.

There is therefore a critical need for an appropriate and concerted effort to provide an enabling environment that will allow for the country's productive base to emerge on a scale that can match the growth in imports and at the same time allow for the true economic empowerment of Malawians, through employment or through better returns for the self-employed such as smallholder farmers and youth entrepreneurs. This is also essential if Malawi is to move away from the export of low-value commodities toward higher value products.

Yet this is not a straightforward undertaking. Providing the right enabling environment for private investment, production and value addition is not the task of one Ministry, agency or stakeholder group. Rather, the enabling environment for the emergence of the productive base is shaped collectively by the majority of stakeholders in Malawi, including those who may, at first glance, think that their line of work has no impact on this enabling environment.

The productive base of the economy is not only determined by the behaviour of large businesses, farmers, the Ministry of Industry and Trade, the Malawi Bureau of Standards, the Malawi Revenue Authority and the Malawi Investment and Trade Centre. It is also shaped by the Ministry of Economic Planning and Development, the Ministry of Finance, the education sector, the police and the justice system, the energy and water sectors, the land sector, civil society, cooperatives, women's groups, micro, small and medium businesses, informal vendors and the interventions of external players such as development partners and international non-government organisations. It is also shaped by the spectrum of interventions in government and development partner priority areas such as food security, poverty reduction, sustainable livelihood and the environment. For example while the farm input subsidy programme is a valuable mechanism that Malawi has developed to help deliver food security, it also creates an incentive for the seed sector to solely invest in maize and not in other cash crops that could serve as the basis for economic empowerment, value addition and job creation if produced on a large-enough scale.

Similarly the education sector's priorities need to incorporate technical, entrepreneurial and vocational education and training, coupled with increased support for secondary and higher education. Malawi's low skills base has a large bearing on Malawi's export capacity. In 2009, only 24 per cent of the entire population had completed secondary education. This has limited the ability of the public sector

to set a conducive environment and on the private sector to boost Malawi's ability to trade and to reduce poverty, in turn constraining the government and civil society's attempts to establish a favourable environment for private sector development. If a strong linkage between the productive economy and education is not secured, it will be more difficult for Malawi to incorporate youth into its efforts to build its productive base, thereby limiting the scale and competitiveness of that productive base. Organisations, both private and public, require a strong skills base in order to more effectively meet their objectives or their mandate.

Providing the right enabling environment for Malawi's productive base and for exports is therefore an issue that spans the breadth of the economy and the country. Since Malawi's recent priority areas have focused on welfare (e.g. food security), rather than productivity, there is need for a paradigm shift in Malawi so that stakeholders can collectively deliver **a balanced focus** on both welfare and on the productive base. This shift is necessary because the structures of delivering welfare and of delivering a productive base are very different. The former can be addressed through direct interventions, while the latter cannot. Policy coherence and comprehensiveness, the degree and quality of policy implementation, communication mechanisms and the day-to-day work by farmers, youth, women, micro and small businesses, large businesses and most government agencies and Ministries determine the latter. Therefore securing this balance is essential if Malawi's recent growth is to be sustained through exports and if the growth in exports is to deliver development benefits.

The NES provides a complete roadmap for how to build the productive base, how to achieve competitive export growth and thus how to achieve sustainable long run growth and development. It sets a realistic plan for how the productive base of the economy can be developed in a way that ensures export competitiveness and economic empowerment of the poor, smallholder farmers, youths and women. The NES is a critical initiative that requires commitment and buy-in from the highest level of all stakeholder groups. Its success requires appropriate balancing and alignment between welfare and the expansion of the productive base of the economy. It is a critical component of the MGDS II. Since it has been developed as a holistic roadmap to build the productive base of the economy, it contributes to all six thematic areas of the MGDS II: sustainable economic growth, social development, social support and disaster risk management, infrastructure development, improved governance and gender and capacity development.

Since the provision of the right enabling environment for the productive base to emerge spans the breadth of the economy, the NES is built on a number of key policies and initiatives, incorporating their key and relevant activities as integral components of the NES. It supports the prioritised implementation of actions within these policies and initiatives. Such policies and initiatives include, among others:

i. The Private Sector Development Policy and Strategy

ii. The Agriculture Sector Wide Approach

iii. The Greenbelt Initiative

iv. The Financial Sector Development Strategy

v. The National Education Sector Plan and the Education Sector Wide Approach

vi. The Integrated Trade and Industry Policy

vii. The Diagnostic Trade Integrated Study, which is the action plan for the Enhanced Integrated Framework

viii. The MSME Policy and Strategy

ix. The Cooperatives Development Strategy

x. The Transport Investment Programme

xi. The new National Energy Policy

1.3 Underlying Principles of the Strategy

The National Export Strategy is based on the following underlying principles:

1. **Exports viewed as a subset of the productive economy:** Although Malawi has numerous export opportunities it often struggles to respond. This is because of the limited productive base. Therefore exports are dependent on this base, which includes the capacity of manufacturing, MSMEs, cooperatives, farmer organisations, women's groups and others. Developing the productive base of the economy is the key to developing export capacity.

2. **Balancing competitiveness with economic empowerment:** If Malawi's export capacity is to be built in a manner that allows exports to maintain the pace of imports, Malawi has to build its productive base in such a way that it can compete in regional and international markets, while at the same time empowering youths, women, MSMEs, farmers and the poor through incorporating them in Malawi's productive base. This includes job creation and improving returns to the self-employed, such as smallholder farmers and micro entrepreneurs. This is central for the successful implementation of the MGDS II.

3. **Providing comprehensiveness, strategic focus and a concerted effort:** Numerous factors determine the size of Malawi's productive base and export capacity. They all need to be taken into account and addressed in a prioritised, targeted and realistic manner across stakeholders.

4. **Local stakeholder ownership:** True local stakeholder ownership of the direction and strategic focus is central to the success of this strategy, because building the productive base of the economy requires home-grown solutions in which economic institutions support economic behaviour by youths, women, farmers, entrepreneurs and businesses that create and distribute economic value. The

implementation mechanism for the NES, presented in Chapter 4, is centred around ensuring ongoing stakeholder buy-in, which in turn is a necessary factor to ensure ongoing technical focus and drive despite any potential changes in the political scenario.

5. **Permanent solutions through markets and institutions:** Providing permanent solutions to economic enablers of the productive base is key because otherwise this base will struggle to grow and Malawi would continue to rely on the export of raw or semi-raw commodities. Sustainability in building the productive base and export capacity is achieved through market-led growth because Malawian goods and services need to pass the consumer test. Also through support to economic institutions that balance the creation of value addition with the fair distribution of value addition, hence allowing developmental benefits to the wider population.

1.4 Key Elements of the NES

The strategy is based on five key elements:

1. Providing **strategic focus and direction** to promote the diversification of export clusters in order to increase macroeconomic stability, widen the tax base and increase investment. The most cutting-edge development economics[10] indicates that the types of goods and services that a country exports matter for its development. Some products have strong 'economic spillovers'[11] into other higher value products. Clusters of such products are the ones that national economic strategies should prioritise. Economic spillovers are key for innovation and for widening the tax base. Supporting these spillovers stands at the core of the NES. **Priority clusters are oil seed products, sugar cane products and manufacturing**. Sub-strategies that align short-term imperatives to long-term goals have been developed for these clusters. Collectively these clusters have the potential to complement tobacco as major export sectors. Support plans for other key clusters such as tourism, mining, services, tea and tobacco have also been developed.

2. Viewing Malawi as a **regional hub** in the centre of the fast-growing COMESA, SADC and Tripartite region. This is crucial in securing much-needed value addition and economic empowerment.

3. Increasing investment incentives for private operators (which include large businesses, MSMEs, farmer organisations, smallholder farmers, youths and women's groups) and improving Malawi's **underlying economic enabling environment** – improving access to energy, finance, standards facilitation, transport services, etc.Investing in **human capital** by linking the suppliers of knowledge and skills to demanders of knowledge and skills in private industry and the public sector. The economic empowerment of youths, women, farmers and the poor requires a robust education, skills and knowledge structure. If this is to be provided on the scale required, it needs much more attention by stakeholders and development partners.

4. Putting forward an innovative way to support the development of prioritised **economic institutions** that are essential in facilitating investment, the development of the productive base of the economy, and hence trade, within Malawi. Part of this effort is about addressing the overwhelming need for Malawi to focus on its **capacity to implement** strategies, policies and programmes through stakeholder ownership, coordination and collaboration.

1.5 The NES and Development Partner Support

For the NES to be successful it requires that development partners:

- Recognise where Malawi stands on its development path and design appropriate support mechanisms to empower local solutions to market and government failures. This requires an appropriate level of expectation and patience.
- Fully buy-in to the NES, as a Malawian vision and strategy to build the productive base of the economy so that the country can afford its consumption levels and imports.
- Focus their support on developing long-term local solutions and therefore on the sustainable development of the human and institutional capacity that is required to increase the competitiveness of the economy.
- Support areas where there is a shortage of locally-available resources – but in a manner that does not undermine the long-term development of home-grown or market-based solutions to the enablers of the productive base and export capacity.
- Do not crowd-out private sector or local public sector solutions to obstacles that could build the productive base of the economy.
- Support the NES implementation mechanism, which is a local stakeholder dialogue and representation mechanism for building the productive base. This mechanism is the optimal way for development partners to support the development of the Malawian economy.

Details on how NES actions can be translated into bankable support projects by development partners are provided in Annex 1.

10 Hausmann and Klinger,'Structural Transformation and Patterns of Comparative Advantage in the Product Space', Harvard CID Working Paper No. 128, 2006 and Hausmann, Hwang and Rodrik, 'What You Export Matters', Harvard University, 2006.

11 Economic spillovers relate to the ease at which a sector is able to expand into new products. This ease is dictated by the cost of investment or at the inverse, the degree of risk, of expanding into a new product relative to the existing cost base. For example, it is much easier for the sugar sector to start producing ethanol than for the tobacco sector, because a large portion of the costs of producing ethanol is already accounted for in sugar production.

Chapter 2 – Broad Strategy Direction

2.1 Goal

The strategic imperative of the NES is for the long-term export trend to match the long-term import trend to allow the MGDS II to build on the gains made under MGDS I. The target is to raise exports as a share of imports from 51.5 per cent in 2010 to 75.7 per cent in 2017 and 93.4 per cent in 2022.

2.2 Outcomes

If fully implemented the NES will provide Malawi with the capacity to develop a productive base of sufficient scale that exports, as a subset of the productive base, can match the level of imports, as determined by Malawi's consumption and welfare expectations. Once implemented, the NES will have:

- Increased the rate of growth of exports in value terms from nine per cent per year between 2001 and 2011 to thirteen per cent per year from 2013 to 2017; thereby allowing the NES goal to be achieved. It will have done this by:
    - Ensuring the diversification of exports into higher value addition products and clusters.
    - Supporting existing clusters.
- Empowered Malawians by stimulating the growth and development of MSMEs, farmer organisations, cooperatives, youths and women groups while increasing the contribution of exports to foreign exchange generation and job creation.
- Facilitated access to both domestic and international markets, including Malawi's capacity to meet the standards requirements of importing countries, trade negotiation capacity and addressed non-tariff barriers.

2.3 Objectives of the NES

The objectives of the NES are to:

- Develop three priority clusters in which Malawi can compete and that have strong economic spillovers, thus allowing for the diversification of exports. These clusters are oil seed products, sugar cane products and manufacturing. The aim is for these clusters to account for 13 per cent, 15 per cent and 18 per cent of imports by 2027, as presented in Table 1 below.
- Support existing export clusters – tobacco, mining, tea, tourism, services – such that their contribution to exports and to matching Malawi's import bill can be maximised, as presented in Table 1 below.
- Improve the enabling environment for the productive base such that investment growth may increase from 14 per cent between 2001 and 2011 to 23 per cent per year between 2012 and 2022[12]. This investment will span both:
    - Productive sectors, including domestic and foreign direct investment into the production of competitive goods and services for export.
    - Enabling sectors, or those necessary to address supply-side constraints, such as energy, finance and transport.
- Develop supportive economic institutions necessary to allow the enabling environment to improve, and hence drive investment.
- Improve skills, competencies and knowledge to empower Malawians and support the productive base of the economy.

12 This is based on an average GDP growth rate of twelve per cent per year, an assumed rate of growth of consumption and government expenditure of eight per cent per year, and of a decline in import growth from fourteen per cent between 2001 and 2010 to seven per cent between 2011 and 2017. This decline in the rate of import growth is based on a market exchange rate of the Malawi Kwacha and is based on the decline in import growth between 2010 and 2011 due to the foreign exchange crisis of 2011.

TABLE 1 - INDICATIVE TARGETS FOR THE EXPORTS AND EXPECTATIONS FOR IMPORTS																
	Value, US$ million						As a share of imports						Compound Annual Growth Rate			
	2001	2010	2011*	2017	2022	2027	2001	2010	2011*	2017	2022	2027	2001-2011**	2011-2017**	2017-2022	2022-2027
Total Imports	$733	$2,299	$1,126*	$3,248	$4,352	$7,679	100%	100%	100%	100%	100%	100%	13.5%	9.0%	6.0%	12.0%
Total Exports	$475	$1,184	$1,192	$2,460	$4,067	$6,824	64.8%	51.5%	106%*	75.7%	93.4%	88.9%	9.3%	12.8%	10.6%	10.9%
Exports of major clusters:																
Tobacco	262	585	556	699	699	771	35.7%	25.5%	49.3%	21.5%	16.1%	10.0%	7.8%	3.0%	0.0%	2.0%
Mining	0	114	123	246	369	493	0.0%	5.0%	10.9%	7.6%	8.5%	6.4%	n/a	12.2%	8.4%	5.9%
Tea	35	81	81	135	206	314	4.7%	3.5%	7.2%	4.1%	4.7%	4.1%	8.8%	8.8%	8.8%	8.8%
Services (exc. Travel)	9	61	71	169	348	716	1.2%	2.6%	6.3%	5.2%	8.0%	9.3%	23.3%	15.5%	15.5%	15.5%
Oil Seed Products	10	41	71	227	599	995	1.4%	1.8%	6.3%	7.0%	13.8%	13.0%	21.4%	21.4%	21.4%	10.7%
Sugar Cane Products	64	69	71	453	768	1136	8.7%	3.0%	6.3%	13.9%	17.6%	14.8%	1.1%	36.1%	11.1%	8.1%
Tourism (Travel)	25	70	70	147	272	503	3.5%	3.1%	6.2%	4.5%	6.2%	6.5%	10.7%	13.1%	13.1%	13.1%
Manufactures, of which	17	77	26	197	502	1376	2.3%	3.4%	2.3%	6.1%	11.5%	17.9%	4.8%	39.8%***	20.5%	22.3%
Beverages	0.2	2	0.1	11	28	64	0.0%	0.1%	0.0%	0.3%	0.6%	0.8%	-3.9%	22.8%	20.8%	17.8%
Agro-Processing	6	39	12	100	295	874	0.8%	1.7%	1.1%	3.1%	6.8%	11.4%	8.2%	13.2%	24.2%	24.2%
Plastics & Packaging	2	22	4	39	74	169	0.3%	1.0%	0.3%	1.2%	1.7%	2.2%	6.9%	9.9%	13.9%	17.9%
Assembly	9	14	10	48	104	269	1.2%	0.6%	0.9%	1.5%	2.4%	3.5%	1.4%	12.9%	16.9%	20.9%
Other	53	85	122	186	304	520	7.3%	3.7%	10.8%	5.7%	7.0%	6.8%	8.6%	7.3%	10.3%	11.3%

Sources: Data from www.trademap.org and guideline targets from NES Technical Team.

Note*: Malawian imports halved in 2011 from 2010 because of the foreign exchange crisis and a large decline in Official Development Assistance. This distorts the benchmark figures for 2011. In addition, trade data for 2011 is mirror data and therefore may not be complete. For example trade with Mozambique and Zimbabwe is not available. Exports for the manufacturing cluster in particular will appear lower than they actually were.

Note**: Compound annual growth rates for imports are from 2001 to 2010.

Note***: Total Manufacturing compound annual growth rate is using 2011 as a benchmark, but sub-clusters use the peak year for the sub-cluster, which ranges from 2008 to 2011.

The expectation for the increase in exports as a share of imports will be aided by a slowdown in the growth rate of imports from 13.5 per cent between 2001 and 2011 to 9.0 per cent between 2011 and 2017 and 6.0 per cent between 2017 and 2022 on the back of a market exchange rate. With a corresponding reaction to import growth thereafter, and with continued aid flows, the share of exports relative to imports is expected to decline to 88.9 per cent in 2027, though at that stage the long-term trend of export growth would match the long-term trend of imports.

Chapter 3 – The Strategy and its Priority Areas

The NES has identified priority actions to allow Malawi to develop its productive base and export capacity as set out in the objectives set out in Chapter 2. The government and private sector shall jointly transform Malawi into an exporting economy by focusing on the following four priority areas, which are linked to the objectives in Section 2.3.

1. **Priority Area 1 – Export Clusters:** this priority area is divided into two parts:

    a. **Three prioritised export-oriented clusters for diversification:** Through coordination and a concerted effort, develop priority clusters that have the potential to complement tobacco and drive exports through value addition in a manner that exports can maintain the upward pressure of imports. These clusters are:

        i. **Oil Seed Products** – cooking oil, soaps, lubricants, paints, varnishes, meals and flours, bio-fuel, animal feed, fertilizer, snacks and confectionery derived from sunflower, groundnuts, soya and cotton.

        ii. **Sugar Cane Products** – sugar, high value branded sugar, sugar confectionery (such as syrups, sweets, caramel etc), sweetener, ethanol, spirits, cane juice, fertilizer, animal feed, electricity, carbon dioxide, cosmetics.

        iii. **Manufactures** – beverages, agro-processing (including dairy and maize, wheat, horticulture and pulse value addition), plastics and packaging, assembly.

    b. **Supporting exports of existing clusters:** The NES includes support plans to stakeholder efforts in other major existing clusters: tobacco, mining, tea, tourism and services.

2. **Priority Area 2 – Conducive Environment:** Develop an environment that is conducive to economic competitiveness and economic empowerment of youth, women, farmers and MSMEs, by prioritising key actions in seven priority issues.

3. **Priority Area 3 – Support Economic Institutions:** Invest in supportive economic institutions and organisations through ongoing dialogue and improved communication and through high-level attention to develop agencies that are central to the development of Malawi's productive base and export competitiveness.

4. **Priority Area 4 – Competencies, Skills and Knowledge:** Invest significantly in competencies, skills and knowledge because these are the foundation of Malawi's productive base and its export capacity, while also being critical if economic empowerment, as envisioned in the MGDS II, is to be achieved.

3.1 Priority Area 1a – Three Prioritised Export-Oriented Clusters for Diversification

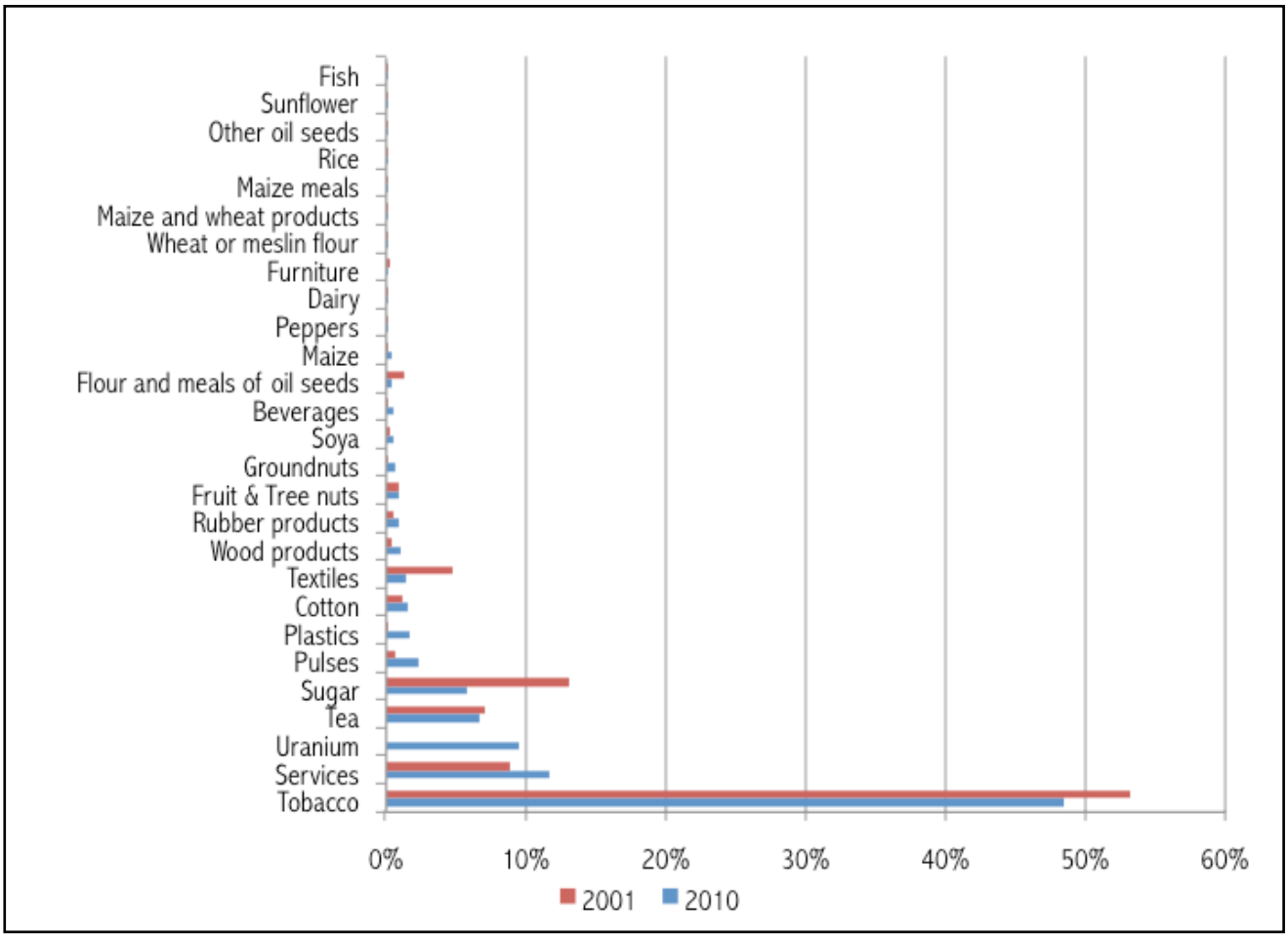
The importance of prioritisation to allow exports to trend to imports

The underlying reason why Malawi faced a foreign exchange crisis in 2011 was its ongoing structural trade deficit. In turn, a key cause of this was the lack of proper prioritisation of any export cluster since the prioritisation and development of the tobacco cluster in the 1970s. Proper prioritisation is therefore essential, so that the government and stakeholders can effectively address market failures.

The Cluster Prioritisation Method has been developed and applied to Malawi to identify priority sectors (see Annex 9). It demonstrates that for Malawi's exports to keep up with the pace of imports and to economically empower the poor, it cannot continue to export raw or semi-raw commodities, such as tobacco leaf or tea. Malawi has to move into value addition.

Contrary to common perception, securing value addition on the scale that Malawi needs, is not an easy task. It requires a range of factors across the economy – and hence across many government Ministries, departments and agencies – to work in a concerted, focused manner to allow for market-led productive capacity to emerge by private operators including smallholder farmers, youth entrepreneurs, women's groups, MSMEs and large businesses. In turn this requires a genuine prioritisation of clusters and a comprehensive, concerted effort by all stakeholders to develop those prioritised clusters. The last time that such a concerted effort took place was in the 1970s when the tobacco sector was developed. In 2010 tobacco accounted for 49 per cent of exports, while many other clusters remain in their infancy, as demonstrated in Figure 4 below. **It is therefore fundamental for stakeholders to properly grasp what is required to allow the priority clusters to develop on the scale that Malawi's development agenda requires.**

Figure 5: Malawi's main exports as a percentage of total exports



Source: www.trademap.org.

While not all of these clusters have the potential to drive export growth on the scale that Malawi's import bill requires, there are a number that do, though they remain in their infancy and make a close to negligible contribution to financing Malawi's import bill. This is because none of these clusters received the same concerted effort to develop them as tobacco did in the 1970s. The lack of stakeholder wide prioritisation in supporting key clusters has spread resources too thinly across a wide range of clusters (some of which do not have the necessary competitive advantage to merit prioritisation in this strategy), without sufficiently addressing the underlying structural factors that are necessary to unlock their potential.

Clusters that can drive export growth and allow economic empowerment

Cutting edge economic research[13] on the relationship between economic growth and exports in developing countries shows that the type of exports that a country invests in, plays a central role in determining the extent to which the economy can grow, and hence the extent to which an economy can develop through the economic empowerment of MSMEs, youth, women and the poor.

This approach to economic development, which Justin Lin, the former Chief Economist of the World Bank, calls New Structural Economics, balances competitive private sector led growth with adequate sequencing, the development of economic institutions and smart industrial policy. Securing the right balance is essential to kick start the economy and set the foundation for the capital accumulation crucial for value addition, job creation, widening the tax base and the growth of MSMEs, particularly in economies such as Malawi's that have traditionally been dependent on the export of raw or semi-raw commodities.

13 Hausmann and Klinger,'Structural Transformation and Patterns of Comparative Advantage in the Product Space', Harvard CID Working Paper No. 128, 2006 and Hausmann, Hwang and Rodrik, 'What You Export Matters', Harvard University, 2006

The underlying message with respect to priority clusters is:

1. It is important for adequate prioritisation and comprehensive coordination across stakeholders on a few clusters.
2. Clusters should consist of products that are not only competitive but that inherently result in spillovers to higher value products.

Therefore this strategy prioritises clusters which:

a. Malawi can be competitive in.

b. Can allow for enough value addition to allow the cluster to account for roughly twenty per cent of imports in the medium to long-term.

c. Allow for economic spillovers through reducing the cost to businesses and private operators of investing in new, higher value products.

d. Have strong and growing demand.

These clusters, as identified through the Cluster Prioritization Method (explained in detail in Annex 9) are:

a. Oil Seed Products, prioritising products based on sunflower, groundnuts, soya and cotton.

b. Sugar Cane Products.

c. Manufactures through four sub-clusters: beverages, agro-processing, plastics and packaging and assembly.

In Table 2 below the number of economic linkages and their associated income levels are displayed for oil seed products, sugar cane products and manufactures, as well as for a sample of key current Malawian exports such as tea and tobacco.

TABLE 2 - IMPLICIT LEVEL OF INCOME AND ECONOMIC PROXIMITY OF CLUSTERS		
Clusters and Products	**Levels of Income (measured as GDP per capita) associated to cluster**	**Level of economic proximity with other products**
Manufacturers		
Articles of plastic	$18529	104
Beverages	$12028	62
Dairy products	$18061	73
Glass & glassware	$13075	137
Maize products	$11680	80
Packaging, paper, prints	$16736	92
Wheat products	$15230	116
Coffee	$2571	19
Oil seed products		
Groundnuts & products	$2919	76
Sunflower and others	$12193	74
Soyabean & products	$10493	45
Cotton & products	$7860	65
Pulses products	$3546	36
Rice	$6909	32
Sugarcane products	$11039	61
Tea	$2347	16
Tobacco	$2581	59
Uranium, limestone, minerals	$11756	78
Wood products	$8692	65

Source: NES Technical Team and Imani Development: Application of Hausmann and Rodrik model to Malawi. Note: The methodology to calculate the associated level of income and economic proximity is presented in Annex 9 to the National Export Strategy.

The approach to developing the clusters so that they may meet the guideline target set in Chapter 2 is a comprehensive one. It is a cumulative and sequential process: fostering the enablers necessary to develop the clusters in a way that is market-led and sustainable. Comprehensiveness is ensured through securing affordable access to the ten key enablers for private operators in the cluster, and that sustainable, long-term solutions are delivered, centred around the right balance of private sector and public sector roles. These ten enablers are:

1. Access to markets (this includes standards, accreditation, product quality, transport, trade facilitation, trade policy, investment and export promotion and others)
2. Access to inputs
3. Access to finance (this includes access to technology and R&D) and secure tenure of property
4. Access to business development services
5. An efficient way of contributing to Government revenues and of meeting regulatory obligations
6. A stable and prudent macroeconomic environment
7. Access to information
8. Fair competition
9. Access to supportive economic institutions
10. Access to skills and competencies (including access to technology and R&D)

The legal and regulatory framework is captured throughout each of the ten enablers, slotting in to the relevant area. For example the legal and regulatory framework for the financial sector is part of the access to finance enabler.

The strategy balances export competitiveness with economic empowerment of youths, women, the poor, farmers and micro, small and medium enterprises. It recognises that all stakeholders have a role to play in ensuring the success of the cluster and assisting those stakeholders to secure the capacity needed to play that role. It ensures the **alignment and support of all key stakeholders** such that they prioritise these clusters

in their work plans and programmes. Such stakeholders include the private sector, Ministries, Government support agencies, farmer organisations, smallholder farmers, enabler sectors (such as energy, finance and transport), civil society and development partners. The strategy also allows for the identification of the **optimal balance of public sector and private sector roles** in providing the ten enablers: this will need to emerge through a permanent stakeholder representation and dialogue structure which will be a Technical Working Group (TWG) for each of the three priority clusters under the TIPSD SWAp. This structure is the basis to govern the clusters and will be the basis for a future cluster-specific institutional structure – as in the tobacco cluster – if required by stakeholders through the TWG. The strategy also seeks to **manage expectations** of stakeholders so that sustainable market-led cluster development is not undermined by excessive expectations of short-term gains.

Product Strategy

The product strategy seeks to balance short-term exports with a medium to long-term strategy to allow value addition exports. Export growth to be led by:

i. Short-term

- Oil Seed Products: Groundnuts, Cotton, Soya, Sunflower
- Sugar Cane Products: speciality, white, brown sugar and value addition through improved branding and packaging
- Manufactures: Beverages, Agro-Processing (Snacks, Biscuits, Rice, Toor Dhal), Plastics & Packaging

ii. Medium-term

- Oil Seed Products: Soaps, Cooking Oils, Lubricants, Paints, Cosmetics, meals of oil seeds (such as peanut butters, soya meals)
- Sugar Cane Products: increased sugars plus sugar confectionery (syrups, sweets etc), ethanol, fertilizer, animal feed, bagasse products (brickets, building boards, fuel) rums and ales
- Manufactures: increased beverages (including beer, spirits and juices), agro-processing (dairy, increased wheat and maize products), increased plastics and packaging

iii. Long-term

- Oil Seed Products: increased Soaps, Cooking Oils, Lubricants, Paints, Cosmetics etc
- Sugar Cane Products: significant increase in sugar confectionery, ethanol, fertilizer, animal feed, bagasse products, rums and ales and electricity
- Manufactures: Increased Beverages, Agro-Processing (dairy, maize products, wheat products), Plastics & Packaging, Assembly

Market Strategy

The market strategy is generally to target regional exports, particularly in SADC, COMESA, EAC and the upcoming Tripartite as opposed to focusing excessively on extra-African markets, and benefiting from Malawi's geographical access to fast-growing neighbouring economies. These are key markets for value addition products in the oil seed product and manufactures clusters. For certain products such as Toor Dhal or oil seed commodities, markets further afield are also important. In the sugar cane products cluster, the principal export is sugar and the key markets for this product are both the EU and regional markets. However higher value products in this cluster will target regional and neighbouring economies. For all of these priority clusters, the domestic market is as important as the regional market.

In Tables 3 to 5, we present the target markets for the target products. Table 3 refers to the oil seed products cluster, Table 4 to the sugar cane products cluster and Table 5 to the manufacturing cluster. The tables provide a listing of the products included in each cluster indicating the potential for export of each product. They provide the scale of exports in 2011, target markets and options for new markets for each product in the priority clusters.

TABLE 3 - TARGET MARKETS AND PRODUCT POTENTIAL FOR OIL SEED PRODUCTS CLUSTER

Products	Long Run Potential (10 years) (high, medium, some, little)	Short Run Potential (0-5 years) (high, medium, some, little)	Current Markets > $1 million	$10 thousand < Current Markets < $1 million	Market Expansion due to growth in Market	Market Expansion Opportunities due to Market share gains	Short Run Potential for New Target Markets	Medium - Long Run Potential for New Target Markets
High Value Products								
Groundnut Oil	High	Medium	none	none	-	-	African market too small, domestic consumption only	China, EU, Lebanon
Soya Oil	High	Some	none	Zimbabwe	Zimbabwe	Zimbabwe	South Africa, Zambia, Tanzania, Mozambique including Tete	
Cotton Oil	High	Medium	none	Zambia	-	-	South Africa, Zimbabwe	-
Sunflower Oil	High	Some	none	none	-	-	South Africa, Zimbabwe, Kenya, Tanzania	Sudan, Egypt
Margerine & Peanut Butter	Medium	Little	none	none	-	-	S. Africa, Zimbabwe, Mozambique inc Tete, Uganda, DRC, Zambia, Tanzania	Sudan, Egypt, Ethiopia
Lubricants and waxes	Medium	Some	none	Zimbabwe	-	Zimbabwe	-	South Africa, Zambia, Kenya, Mozambique, Tanzania
Soaps	High	Medium	Zambia	Zimbabwe	Zimbabwe	Zimbabwe, Zambia	South Africa, Mozambique inc Tete, Tanzania, Rwanda	EU, US
Paints and dyes	High	Little	none	Mozambique, South Africa	-	South, Africa, Mozambique	S. Africa, Kenya, Tanzania, Zimbabwe, Mozambique, Zambia, Uganda	
Soya Flour and meals	Medium	Little	none	none	-	-	African market too small, domestic consumption only	Global market not worth investment due to dominance of Argentina etc
Bio-fuel	High	Medium	none	none	-	-	Domestic	Bordering countries, Tete
Essential Oils	Medium	Little	none	South Africa	-	South Africa	Tanzania, Zimbabwe	More information required
Fairtrade Groundnuts	High	Medium	none	none	-	-	EU, US?	EU, US
Cosmetics	High	Little	none	Tanzania, S.Africa, Mozambique, Zambia	Mozambique	S. Africa, Mozambique, Tanzania, Zambia	Zimbabwe	More information required
Low Value Products								
Groundnuts	Medium	High	Tanzania, Kenya, S. Africa, Zambia	Zimbabwe	Tanzania, Zambia	Kenya, Zimbabwe	Ethiopia, Rwanda, Mozambique inc Tete	United States, China, Japan, Thailand
Sunflower seed	Medium	High	none	South Africa, Zimbabwe		South Africa, Zimbabwe	-	Egypt, Turkey, China
Soya Bean	Medium	Medium	Zimbabwe, Zambia	Kenya, Tanzania, Botswana, Zimbabwe	Zimbabwe, Botswana	Kenya, Zimbabwe	Burundi, South Africa, Mozambique inc Tete	Possibly Egypt
Cotton seed	Medium	High	none	South Africa, Zambia				
Soya Bean oil cake	Medium	Some	none	Zimbabwe, South Africa				
Groundnut oil cake	High	Medium	none	none	-	-		
Cotton seed oil cake	High	Medium	none	South Africa, Kenya				
Sunflower oil cake	High	Medium	none	none	-	-		

TABLE 4 - TARGET PRODUCTS AND MARKETS					
Products	**Short Run Potential (0-5 years) (high, medium, some, little)**	**Long Run Potential (10 years) (high, medium, some, little)**	**Current main markets > $1 million**	**$100,000 < Other current markets < $1 million**	**Options for new markets**
Sugar: Speciality, brown, white	High	High	Spain, Belgium, United Kingdom, Kenya, Romania, USA, Sweden, Italy, Finland	Rwanda, Uganda, Tanzania, Portugal, Netherlands, Greece, Canada	All European markets are accessible under EBA, most African markets are also realistic (mostly Great Lakes countries; DRC, Sudan, Kenya etc) - the only true constraint is production.
High value sugar through branding (fair trade, LDC) & packaging	Medium	High	-	-	All European markets are accessible under EBA
Lactose, glucose, syrup, caramel	Low	Medium	-	-	South Africa, Kenya
Bagasse/fibre (fuel, electricity)	Low	Domestic	-	-	South Africa
Vinasse/filtercake (fertilizer)	Domestic	Domestic	-	-	
Animal feed	Low	Medium	-	-	South Africa, Uganda, Zimbabwe, Mozambique
Ethanol	Medium	High	Uganda	Tanzania, Zambia	
Rum, stout, ale and spirits	Medium	Medium	Mozambique	Tanzania	South Africa, Uganda, Sudan, Kenya, Mozambique
Sugar Confectionary (Syrup, Caramel, Sweets, Chewing Gum, Marshmallows, Sweeteners, Jams etc)	Medium	High		Zambia, South Africa, Kenya	Zimbabwe, Tanzania, Sudan, Mozambique, Uganda, DRC, Rwanda
Cane Juice	Medium	Medium	-	Zambia	Zimbabwe, Tanzania, South Africa
Carbon dioxide	Domestic (in demand by Carlsberg)	Domestic			Tazania, Uganda, Zambia, South Africa
Cosmetics (skin treatment)	Low	Medium	-	Tanzania, South Africa, Mozambique, Zambia	Zimbabwe

TABLE 5 - TARGET MARKETS AND PRODUCT POTENTIAL FOR MANUFACTURING CLUSTER					
Products	**Potential in Long-Term**	**Potential in Short-Term**	**$10,000 < Current markets < $1,000,000**	**Current markets > $1,000,000**	**Target/Potential Markets (including current markets with growth potential)**
1. Beverages					
Beer	Very High	Very High	none	none	Zambia, Mozambique, Zimbabwe, Tanzania, DRC, Sudan, Uganda
Gin, Rum, Vodka	Some	High	Tanzania, South Africa, Zimbabwe	Mozambique	Zambia, Mozambique, Zimbabwe, Tanzania, DRC, Sudan, Uganda
Squashes/Juice	High	High	Zambia	-	Zambia, Mozambique, Zimbabwe, Tanzania, DRC, Sudan, Uganda
Water	Some	Some	none	none	Tete
Soft drinks	None	None	none	none	Restricted by Coca-cola etc
Fruit Pulp	Medium	High	none	none	UK, Kenya, UAE, South Africa, Scandinavia
2. Agro-Processing					
Dairy (short-life milk)	High	High	Zambia, Mozambique	Zimbabwe	Zambia, Mozambique inc Tete, Zimbabwe
Dairy (Long-life UHT milk, powdered, skimmed), yoghurt, cream, cheese, curd, butter etc)	High	High			Zambia, Mozambique, Zimbabwe, Kenya, Rwanda, Botswana, DRC, Tanzania
Maize Products (Snacks, Corn Syrup, Groats, Corn flour, corn meal, canned corn, cornflakes, cereals, starch, bread etc)	Medium	High	Zimbabwe, Mozambique, South Africa, Zambia		SADC, Comesa (Rwanda, Sudan, Zimbabwe, Mozambique, Tanzania etc)
Wheat Products (biscuits, cereals, pasta, bread, gluten, starch, malt extract, bran)	Medium	Medium	Zimbabwe, Zambia		Zimbabwe, Zambia, Mozambique, Sudan, DRC, Tanzania, Uganda

TABLE 5 - TARGET MARKETS AND PRODUCT POTENTIAL FOR MANUFACTURING CLUSTER					
Products	**Potential in Long-Term**	**Potential in Short-Term**	**$10,000 < Current markets < $1,000,000**	**Current markets > $1,000,000**	**Target/Potential Markets (including current markets with growth potential)**
Rice	Some	Medium	Zimbabwe, Zambia, Mozambique, UK, Kenya, South Africa		Zambia, Tanzania, Mozambique, Zimbabwe, South Africa
Legumes Products (eg Toor Dhal)	Medium	Some	Malaysia, Singapore	UK	India, South East Asia, UK, little to S. Africa
Cassava Products	Uncertain	Uncertain			
3. Plastics and Packaging					
Standard plastics products: buckets, cups, crates, bottles, tubs, PET etc	High (Arkay potential for 50-60% of production exported)	High	Zambia, South Africa		Zambia, Zimbabwe Botswana, Mozambique, Tanzania, DRC
PVC Pipes	High	High	Mozambique, Zambia		Zambia, Mozambique (inc Tete)
Packaging Labels	Medium	Medium	none	none	Zambia
Flexible Packaging	Difficult to compete with Far East	None			
Liquid Packaging (conical cartons)	Medium	Medium			Zimbabwe, Mozambique (do not have converting plants, Zambia does)
PET Pre-forms and closures	High	High	Zimbabwe, Zambia, Mozambique		Mainly domestic, but possible Zambia, Zimbabwe, Mozambique
Bottle Tops	Some	Some	Zambia, Zimbabwe, Mozambique	none	Mainly domestic, but possible Zimbabwe, Mozambique
HDP Bottles for juices	Domestic	Domestic			Domestic
Plastic Bags	None	None	Zimbabwe, Zambia, Mozambique		
Cartons, Paper Sacks	Some	Some	Zambia, Mozambique, Swaziland		Domestic eg tobacco cartons, but may be uncompetitive once in customs union as favoured by rebates. Moz, Zim, Tanzania and Zambia
Glass Packaging	Some	Some	Zambia	none	Zambia
4. Assembly					
Pre-fabrication	Medium	High			Zambia, DRC
Tractors	Some	Medium	Mozambique, Tanzania, South Africa, Zambia		Zambia, DRC, Mozambique, Tanzania, Zimbabwe

Technology and R&D

The Government of Malawi recognises that for these clusters to be developed as per the guideline targets set in Chapter 2, Malawi has to increase its access to technology and to findings of the latest international research and development (R&D). This is important for products within the clusters to be able to compete in the target markets.

The strategy to secure the required level of technology and R&D is through allowing capital accumulation in private operators. It is ultimately only through private operators' (including MSMEs) willingness to invest in a machine or an improved process that Malawi's **access to technology and R&D** will improve. Therefore the best way to achieve this is through providing private operators with affordable access to finance, to information, to inputs, to business development services, to skills and to markets. These factors need to be provided in a permanent manner and therefore the financial sustainability of these factors is essential, as is the need to balance the provision of such enablers by the private and public sectors. The importance of these factors means that they are assigned high priority levels in Priority Area 2 of the strategy which deals with the conducive environment for the productive base of the economy (*refer to Section 3.3 below, particularly access to finance for MSMEs*).

In addition, these factors are also given specific focus in the priority cluster strategies: Annex 2 (for oil seed products), Annex 3 (for sugar cane products) and Annex 4 (for manufacturing) provide a detailed road map for how the levels of technology and R&D are to be sufficiently increased through targeting these six enablers specifically to these clusters. Crucially, for the country's technology and capital base to be built, private operators need to be confident that these enablers will not be tampered with or changed by government in the future. Investment in capital and technology is driven by expectations of the future enabling environment.

The Malawi Industrial Research and Technology Development Centre will play a support role by providing industrial extension services to MSMEs **in the 3 priority clusters** that struggle to access finance by supporting them to access the latest practices and technology through providing expert advice, improving their access to international research outcomes, improving their knowl-

edge on what technologies are available and then helping them access financing for such technologies from the financial sector, the Export Development Fund, the Malawian Innovation Challenge Fund and other available matching grant schemes. This service should be provided in collaboration with the Small and Medium Enterprise Development Institute and with the Malawi Bureau of Standards and will focus on the priority clusters.

Quality assurance, product quality, accreditation and standards

The Government of Malawi also recognises that for these clusters to be developed as per the guideline targets set in Chapter 2, Malawi has to ensure that the standards of its products are competitive in the importing countries and meet the demands of customers. This is therefore one of the top cross-cutting priorities covered in Priority Area 2 of the NES (*refer to section 3.3 below*). Since private operators are most aware of the demands of importing countries, the private sector takes the lead role in meeting standards, while the public sector's role is to facilitate the private sector to play their lead role. This is essential because there is a high risk that the public sector views itself as an enforcer of quality rather than a facilitator, with the risk of them placing an excessive cost on MSMEs to export than is actually required by target markets.

The strategy to ensure the appropriate product quality for the three prioritised clusters is three-fold:

1. Increase market exposure by private operators. The more closely linked Malawian processors are to consumers, the more they will be able to assess consumer preferences and respond accordingly. Annexes 2, 3 and 4 include a road map for how to improve market access, while providing the financing and skills required to match consumer preferences.

2. Ensure that the search for product quality is market-led and consumer determined. If public sector led, it risks becoming an excessive cost that deters exports of value added products. Since importing companies or governments set product standards, domestic export regulation and conformity assessment procedures become an unnecessary burden and cost for Malawian exporters and potential exporters.

Improve the capacity of the Malawi Bureau of Standards and the Ministry of Agriculture and Food Security (for Sanitary and Phytosanitary Standards (SPS)) to facilitate and train private operators to meet target market standard requirements. The MBS and MoAFS will set as an explicit priority in its statute the facilitation of private operators (farmer organisations, cooperatives, women's groups, MSMEs and businesses) to meet the standards for the NES products and target markets. **The international accreditation of the MBS is essential**. The infrastructure and human capacity of the MBS, led by the SQAM project, is to be developed with this explicit goal in mind. *Details are provided in Annexes 2, 3 and 4, and in Annex 5 Section 3.6*

Import substitution

The Government of Malawi is keen to develop clusters that integrate domestic supply of inputs that can be competitively grown or produced locally. This is important to help manage Malawi's import bill. By developing the three prioritised clusters in a holistic manner that is centred around a stakeholder-wide representative and dialogue platform (the cluster specific Technical Working Groups under the Trade Industry and PSD SWAp), this will allow for domestic suppliers, such as smallholder farmers of oil seeds and of inputs into the beverages and agro-processing sub-clusters, to be aware of processor demands, while also allowing policy makers and resource holders to ensure mechanisms through which domestic suppliers can supply processors in these clusters. Such mechanisms are presented in detail in Annexes 2, 3 and 4. They mirror the cross-cutting actions presented in section 3.3 below that aim to address the current disconnect between smallholder farmers and processors.

Essential factors necessary to allow the clusters to meet their potential and guideline targets

The most essential factor necessary to allow the clusters to meet their potential is the cluster-wide stakeholder representation and dialogue mechanism. This is vital to ensure that stakeholders allocate sufficient management, human and financial resources to develop the prioritised clusters to full potential. Another essential factor for the prioritised cluster strategies is that they are prioritised under the MGDS II and in Malawi's:

- Trade policy
- Industrial policy
- Economic land use policy
- Access to finance support mechanisms
- Competency and skills development plan
- Commercial agriculture policy (Anchor Farm Model) including warehouse receipts and irrigation policy
- Taxation policy
- Competition policy
- Investment policy
- MSME and cooperatives policy
- Employment policy
- Transport policy
- Energy policy.

The prioritised actions for each of the three cluster strategies are presented in Annexes 2, 3 and 4. The prioritised actions are divided into phases. Phases relate to which factors should be pri-

oritised first, and hence commence first. **They do not imply that a phase has to be completed before another phase starts**. Actions in later phases do not necessarily need to wait until a previous phase is complete, particularly if key actions in earlier phases are facing slow implementation and are not essential for the commencement of actions in a later phase. The top-level priorities are summarised in Table 6 below:

TABLE 6 - TOP LEVEL PRIORITIES FOR THE 3 PRIORITIES CLUSTER STRATEGIES

Phases	Oil Seed Products	Sugar Cane Products	Manufacturing
Phase 1: Immediate Actions	Cluster stakeholder representation and coordination mechanism: Oil Seed Products Technical Working Group.	Establish an appropriate stakeholder representation and coordination mechanism: Sugar Cane Products Technical Working Group; and develop a regulatory framework for sugar cane production.	Establish an appropriate stakeholder and policy maker representation and driving body: Manufacturing Technical Working Group; basis for Industrial Policy including Special Economic Zones and Industrial Park Development.
Phase 2: Main critical actions	Access to Land Programme including operationalisation of the land reform package; Banning of Export Bans; and explicit Oil Seed Prioritisation in key government agencies.	Develop and Implement an access to Land Programme; Establish Sugar Cane Commission to facilitate development of the cluster; and secure Explicit Sugar Cane Prioritisation by Government agencies.	Access to Reliable Energy and Access to Local Inputs and Land for Commercial Farming linked to Manufacturing; Set cluster as explicit priority for key agencies.
Phase 3: Kick-start enablers	National Oil Seed Extension Programme including support by NGOs through an extension coordination mechanism.	Investor Facilitation Programme prioritising milling capacity, linked to Access to Land Programme and Sugar Cane Extension Programme. Include pro-active targeting of international sugar processors, including Associated British Food (owners of Illovo) for $300m Malawi expansion, which ensures proper smallholder inclusion.	Investor Facilitation Programme including Export Processing Zones/ Industrial Parks and Access to Land for Commercial Farming; and operationalisation of MITC.
	Investor Facilitation Programme including operationalisation of MITC.	Access to Irrigation and Cultivation Infrastructure Programme.	Plan for meeting standards and accreditation in targeted markets.
	Plan for meeting standards and accreditation in targeted markets, including aflatoxin mitigation measures in groundnuts.	National Sugar Cane Extension Programme.	Transport Support Plan: Transport Sector Implementation Plan focus on link to growth centres: Tete, Lusaka, Harare and Mbeya; and prioritisation of dairy and wheat cultivation area rural feeder roads.
	Expedite operationalisation of Memorandum of Understanding on Harmonisation of Seed Regulations in SADC and Comesa.	Access to Energy Plan (including pricing strategy for processors to supply electricity grid).	Warehouse receipts and commodity exchanges.
	Warehouse receipts and commodity exchanges.	Plan for meeting standards and accreditation in targeted markets, eg Vitamin A.	Banks to offer favourable lending windows with long-term credit for Manufactures TWG registered members.
	Government farmer confidence mechanism for short-term kick-start to agricultural production (eg as with cotton 2011, but smaller scale).	Banks to offer favourable lending windows for Sugar Cane Products TWG registered members.	Micro-finance and banks to target smallholders supply the cluster, to offer long-term savings and lending plans, and to be intricately involved in Extension Services & Sub-Committee, prioritisation for smallholders.
	Banks to offer favourable lending windows for Oil Seed Products TWG registered members.	Micro-finance agencies to prioritise smallholder sugar cane and offer saving schemes to sugar cane small holder farmers on large scale.	Export Development Fund guarantees for investors in manufactures cluster complemented by Challenge Funds/ Matching Grant Funds.
	Micro-finance agencies to prioritise oil seeds and offer saving schemes to oil seed farmers on large scale.	Export Development Fund guarantees for investors in sugar cane processors supported by Innovation Challenge Funds/Matching Grant Programmes.	Tax efficiency and support.
	Export Development Fund guarantees for investors in oil seed processors, supported by Malawi Innovation Challenge Fund.	Transport Plan, including fair compeitition in domestic market, Transport Sector Implementation Plan prioritisation of sugar cane cultivation area rural feeder roads and linking to target African markets (Lake Tangyanika, Lusaka, Tete, Harare) and ports (Nacala).	
	Inclusion of packaging companies in Oil Seed Products TWG.	Inclusion of packaging companies in Oil Seed Products TWG.	
Phase 4	See Annex 2	See Annex 3	See Annex 4
Phase 5	See Annex 2	See Annex 3	See Annex 4

Source: NES Steering Committee

Therefore the three prioritised cluster strategies will be explicitly prioritised for facilitation by critical public sector support agencies in their strategic plans, budgets and work programmes. Such agencies include:

- Ministry of Economic Planning and Development
- Ministry of Finance
- Ministry of Industry and Trade
- Ministry of Justice and Constitutional Affairs
- Ministry of Agriculture and Food Security including:
    - Agriculture Sector Wide Approach
    - Department of Agricultural Extension
    - Department of Agricultural Research
    - Department of Crops
- Ministry of Irrigation and Water Development
    - Department of Irrigation
- Greenbelt Initiative
- Ministry of Education, Science and Technology including the Education Sector Wide Approach
- Ministry of Lands and Housing
- Ministry of Labour
- Ministry of Transport and Public Works
- Ministry of Environment, Natural Resources and Energy
- Malawi Investment and Trade Centre
- Small and Medium Enterprise Development Institute
- Malawi Bureau of Standards
- Reserve Bank of Malawi
- Malawi Revenue Authority
- Technical, Entrepreneurial and Vocational Education and Training Authority
- Malawi Industrial Research and Technical Development Centre
- Universities
- Department of Immigration

The prioritised actions necessary to develop the three prioritised clusters are presented in detail in the following annexes to this document:

- Annex 2 – A Strategy to Develop the Oil Seed Products Cluster
- Annex 3 – A Strategy to Develop the Sugar Cane Products Cluster
- Annex 4 – A Strategy to Develop the Manufactures Cluster

3.2 Priority Area 1b – Existing Clusters

In this Priority Area we detail the support plans for five existing export clusters. These clusters are important for Malawi, but for varying reasons require less attention by policy makers and resource holders than the three priority clusters. These are tobacco, mining, tea, tourism and services. In this section the key strategy for these clusters is presented. These are expanded in Annex 8 of this document.

Tobacco

The tobacco cluster is undergoing restructuring to help Malawi diversify into new types of tobacco and to increase domestic value addition. The Tobacco Control Commission, together with other stakeholders in the cluster, are developing a Five Year Strategic Plan for the cluster to allow it to restructure. The key features of this strategic plan are presented in Annex 8.

Mining and natural resources

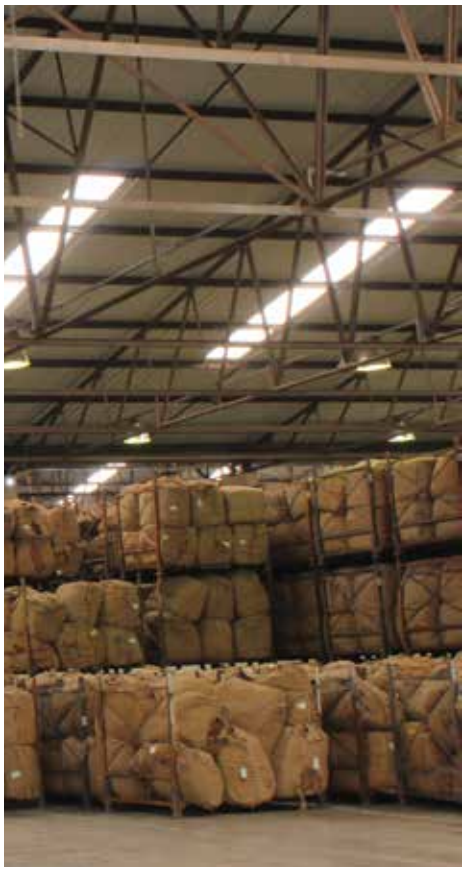
Mining accounted for ten per cent of exports in 2010 and is likely to be an important contributor to Malawi's export basket.

It is important to recognise that relying on natural resources has not historically had beneficial results as a development strategy. Economies that have benefited from extractive industries, such as Australia and Canada have done so because they have invested in a strong institutional structure that ensures that revenues earned from such industries are invested in other productive sectors that allow for human development. At this stage in its development path, Malawi does not have such strong institutional structures. This is a key reason why mining is not among the three priority clusters. From a development perspective such exports offer little human development and few economic spillovers and such spillovers can only be generated if a strong manufacturing base can be developed. The NES is therefore prioritising the development of manufacturing so that in the long-term it can have the capacity to add value to extractive resources within the Malawi. This, however, has a 15-20 year horizon and requires significant investment in the manufacturing base (Annex 4), the conducive environment (Annex 5), the institutional structure (Annex 6) and skills, competencies and knowledge (Annex 7).

From a revenue generation perspective, mining and the extractive industries require relatively little government investment as these industries tend to be private sector led. Malawi generated $123 million worth of mining exports in 2011 with relatively little government effort relative to the degree of effort needed to develop the three priority cluster strategies.

Nonetheless it is important for the NES to lend support to the Department of Mining to help develop the sector. The key need is to develop a robust regulatory and legal framework, as called for in the new National Minerals Policy that allows revenue maximisation from extractive industries, but only in a way that:

1. Does not have a negative social and community impact.
2. Allows for the redistribution of revenues to the central government budget and to local communities in an eco-



nomically efficient manner.

3. Accounts for the environmental cost appropriately.
4. Minimises opportunities for rent-seeking activity.
5. Creates the opportunity for mining service industries to grow and emerge in Malawi.

The NES lends support to the operationalisation of the new National Minerals Policy, led by the development of a legal and regulatory framework for the sector. In addition, the government is keen to set a target of one new mine every five years in order to build on the income generated from the Kayelekera uranium mine that opened in 2009. According to the Mineral Sector Review of 2009, such a new mine could include Kanyika for niobium/uranium, Chimimbe Hill for nickel, Kangankunde Hill for monazite and Salima/Chipoka for heavy minerals.

Key actions in the policy are presented in Annex 8 of the NES.

Tourism

Tourism is an important cluster in Malawi and one that does have significant potential. While this is recognised by the NES, it also recognises that in the short to medium term it will struggle to deliver the export growth that Malawi needs in order for exports to match the level of growth of imports. However the cluster has major long-term potential, although this sits squarely with whether the government will make an appropriate investment in the institutional structure of the cluster. Before the Malawi Tourism Authority is operational and before there is an effective stakeholder dialogue platform that allows private operators to interact with relevant government agencies, Malawi's aspirations for the cluster will struggle to materialise. For the cluster to meet its potential it needs dedicated staff and institutional capacity to drive a long-term plan to develop the cluster. The absence of this over the past ten years is a key reason why the cluster is not a top priority in this National Export Strategy.

The Tourism Strategic Plan 2008-2013 has not been effectively implemented. The key objective of the cluster should be the development of a marketable, branded product that can target key markets, which will require institutional capacity development. Otherwise Malawi will continue to fail to meet its tourism potential. The first step of the tourism support strategy under the NES is to establish a stakeholder wide dialogue and implementation mechanism whose focus is solely to implement the Tourism Strategic Plan 2008-2013 and the recommendations of the World Bank review of the travel and tourism sector of 2010.

This stakeholder dialogue and implementation mechanism requires adequate representation of stakeholders and an effective secretariat. It needs a **dedicated lead development partner** to support it. Then it needs to adopt the Tourism Strategic Plan and World Bank recommendations as its sole focus. This will enable the establishment of an effective institutional structure focused on the development of the cluster (for example through improving tourist facilities, among others), **led by the establishment and operationalisation of the Malawi Tourism Authority** that the strategic plan calls for. Until this

Authority is established with management and staff dedicated to the development of the cluster, the tourism cluster will continue to develop in a piecemeal manner, failing to meet its potential and the tourism goals set in the National Dialogue on the Economy in Mangochi on 29 June 2012 will not be achieved. These goals are to:

- Restock game reserves and national parks.
- Attract more direct, cost effective international flights into Malawi thereby promoting competition.
- Decisively resolve issues surrounding Air Malawi.
- Improve infrastructure including roads, utilities (water and power) and airports.
- Simplify the system of visa issuance for tourists.
- Improve tourism investment climate, including the establishment of tourism industry board.
- Broaden the tax incentives for investment in the industry.

The support plan for the tourism cluster is presented in Annex 8.

Tea

The tea cluster has limited scope for expansion through increased land allocation to tea agriculture. The cluster has too few economic spillovers into the wider economy to drive the degree of development that Malawi requires. However tea will remain an important contributor to Malawi's export basket, as per the targets set in Chapter 2. The greatest need is for an effective and comprehensive stakeholder dialogue platform that has the drive to develop a competitiveness strategy for the cluster, and then implement it. Without true stakeholder buy-in this will not be achieved.

The strategy needs to focus on productivity improvements through investing in nurseries, in composting and improved plucking, and through improved smallholder agriculture. It is important for the stakeholders in the cluster to collaborate to take advantage of branding through Fair Trade among others[14].

Stakeholders in the cluster also need to work together to attain the goal of having a viable, efficient smallholder factory in Thyolo. This requires an effective smallholder representation body. Another key need in the cluster is for increased dialogue between tea exporting companies and the government on capital flight and export remittances to ensure a balanced, fair outcome. Together with this, it is important to establish a transparent system for accounting for export revenues, as is the case in the tobacco cluster. Finally, an important area, as highlighted by the USAID Multi Criteria Decision Analysis, is the need to invest in pesticide controls for tea.

14 See for example International Trade Centre (ITC), 'Malawi: Company Perspectives – An ITC Series on Non-Tariff Measures', Geneva, ITC, 2012. Forthcoming at: http://www.intracen.org/publications.

Services

Most non-tourism services are primarily dealt with as enabler sectors and are therefore mostly dealt with in Section 3.3: Priority Area 2: Conducive Environment for the Productive Environment. This is because the majority of priority services under the SADC services negotiations – which are transport, energy, finance, communication, construction and tourism – are major enablers for the productive economy. In addition to the prioritisation plans for these services presented in Section 3.3 below and in Annex 5, there is a need to **conduct a proper diagnosis of the structure of key service sectors** to identify whether there is need to increase the degree of liberalisation and/or strengthen the regulatory framework. In each sector the objective is the provision of affordable services to Malawian MSMEs, youth groups, women's groups and farmer organisations, based on the premise that strong, competitive domestic service sectors will lead to exports in regional countries, as is the case in the Malawian insurance sector.

In addition to being enablers, it is the Government's objective to develop these services for direct export. Central to achieving this objective, apart from conducting the above diagnosis, is ensuring healthy competition in the local market so that dynamic service providers can flourish and develop the capacity to compete in regional markets. Another key need is to develop a core negotiating team for trade in services to drive Malawi's trade in services agenda in SADC, COMESA, the Tripartite and with the WTO. The key capacity need is to better understand the implications of offers in the schedule for trade in services. There is a need for a dedicated core team who know regulations, gaps and strengths of the sector through robust analysis and then to negotiate effectively. Importantly the team needs to have the capacity to understand the contribution that competition and trade can make to the development of these priority services, and hence cross-cutting enablers, to the productive base of the economy. The team also needs to be able to fully internalise the MGDS II and the NES into their negotiations.

In professional services, it is important to view these services as key to strengthening Malawi's productive base and hence its capacity to export. By supporting the development of such services, such as legal and accountancy services for the domestic market, this will naturally spillover to increased exports of such services to the region.

For legal services it is essential to improve the competitiveness of legal fees to allow an increased number of private operators, such as farmer organisations, youth entrepreneurs, MSMEs and women's groups to access affordable legal services. It is essential to reduce unfair competition in the legal sector by not restricting entrants to practise as commercial lawyers for the sake of protecting the market share of practising lawyers. This has to be balanced with ensuring a sufficient degree of quality of service.

In accountancy it is essential to improve the quality of accountancy and auditing. At present the quality of accountancy in Malawi is low, serving as a burden on the productive economy as well

as lowering the possibility for Malawi to export accountancy and auditing services. The first step is to undertake an analysis to determine whether Malawi has the capacity to supply the quantities and quality of accountants needed to develop productive sectors. There also needs to be a review of the Public Accountants and Auditors Bill, which was drafted in 2006 but is now outdated. Recommendations of the review need to be fast-tracked. There is also a need to establish the Chartered Accountants Institute of Malawi, who will serve as the custodian for the development of the sector, particularly focused on ensuring the correct balance between fair competition and quality of service.

3.3 Priority Area 2 – Conducive Environment for Productive Economy

The strategy to develop a conducive environment for the productive economy is divided into two parts:

1. The top six cross-cutting priorities that are necessary to build Malawi's productive base
2. Other cross-cutting actions.

This document presents the top eight cross-cutting priorities. Others are presented in detail in Annex 5. However a brief rationale for this priority area is provided.

Why this Priority Area?

For sustained economic development, the productive economy has to be embedded in market forces. It is therefore important that the Government of Malawi, in collaboration with stakeholders, provides an environment that supports private operators[15] who would like to invest in a new product or service or target a new market, irrespective of which sector in falls within. Encouraging private operators to play this role is central to building the productive base. Increased market-led investment is the base on which Malawi's aspirations of value addition will be achieved.

Many factors determine the ability and willingness of private operators to generate value addition and develop the economy's productive base. When private operators evaluate whether or not to invest in a new product, service or market they take into account the ten factors below, which we call enablers.

The ten enablers of the productive economy are:

1. **Affordable Access to Markets –** this includes trade facilitation, easing of foreign and domestic non-tariff measures such as export licensing and inspections, single window, favourable trade policy, investment facilitation, export promotion, affordable transportation to markets, affordable cost of meeting standard and quality requirements of importing countries and an affordable cost of required packaging.
2. **Affordable Access to Inputs –** the focal inputs are water, energy and farm inputs.
3. **Affordable Access to Finance and Secure Tenure of Property –** this includes the ability to affordably finance capital and property for collateral and the ability to secure the returns from assets, such as land.
4. **Affordable Access to Business Development Services –** this includes legal, accountancy, technically specialised, marketing and extension services, together with support and advisory for MSMEs, entrepreneurs and start-ups.
5. **Ease of Meeting Tax and Regulatory Obligations –** private operators have to contribute to Government revenues and have to meet their regulatory obligations. This includes identifying the most efficient way of contributing to tax revenue and facilitating the ease of meeting regulatory obligations. This is also closely related to efforts to increase the formality of business and widening the tax base, which is essential for tax simplification and predictability.
6. **Macroeconomic Prudence and Stability –** price stability, affordable access to foreign exchange, affordable access to government debt and to aid.
7. **Access to Information –** specifically on consumer preferences, financial information, market information for farmers, accountability and stakeholder dialogue platforms. It includes the communications sector, warehouse receipts and commodity extension, as well as the use of mobile phones for information dissemination and collection.
8. **Fair competition –** private operators require fair competition between players to maximise output.
9. **Access to Supportive Economic Institutions –** private operators require effective institutions that can address market failures in each of the other enablers in an appropriate manner and provide the necessary institutional service of trade facilitation. Police coherence for the productive base of the economy is covered here. Enablers 1 to 8 depend on economic institutions, and therefore this enabler is given additional focus under Priority Area 3 of the National Export Strategy.
10. **Access to Competencies and Skills –** private operators, as well as public institutions, require access to a pool of skills to reach the capacity required to be competitive in external markets. Enablers 1 to 9 depend on competencies and skills, and therefore this enabler is given additional focus under Priority Area 4 of the National Export Strategy.

15 Private Operators include smallholder farmers, farmer organisations, youth entrepreneurs, women's groups, cooperatives, MSMEs and large businesses.

The conducive environment is not only about the extent to which private operators are able to deliver on their plans to provide new products or services or to tap new markets. Crucially, it is also about the extent to which such efforts by private operators allow for wider development benefits. These two aspects need to be adequately accounted for.

If this balance is not secured, then the productive base of the economy will struggle to emerge, leading to constraints to the extent of private sector led development. If the conducive environment is viewed as solely about competitiveness, then political pressure for increased regulation will mount, in turn leading to policies that may disincentivise private investment, including investment by youths, farmers, women and the poor. On the other hand, if the enabling environment is viewed solely in terms of wealth redistribution and economic empowerment of vulnerable groups, without a focus on competitiveness, then the productive base will become detached from consumers preferences, in turn undermining the permanent development of the productive base of the economy and efforts to generate value added in Malawi.

When this mismatch arises, dissonance between regulators and private operators often also arises. As such it is essential to have a comprehensive and balanced approach to the providing a conduce environment for the productive base to emerge, and hence for exports to grow.

The Core Issues this Priority Area Seeks to Address

To develop a conducive environment for the productive base of the Malawian economy, key next steps are to:

1. Prioritise financial and management resources toward key enablers.
2. Sensitise stakeholders whose day-to-day operations help to determine the enabling environment to their role in building Malawi's productive base. Many regulatory agencies view themselves as regulators and not as facilitators of the productive economy and of trade. Yet they have a significant impact on the enabling environment.
3. Ensure that the environment for private operators balances competitiveness with economic empowerment.

The Strategy for this Priority Area

Stakeholders are aware of numerous issues that need to be addressed in order to build Malawi's productive base, its export competitiveness and allow for the economic empowerment of key groups such as the poor, youth and women. Many of these issues have been raised in numerous stakeholder dialogue forums and research reports in recent years. Yet an adequate prioritisation exercise to decipher what needs to come first and what may follow has been missing. The purpose of this chapter is to provide this prioritisation[16].

The top six crosscutting issues that need to be prioritised through strategic focus are:

1. Deliver **policy coherence, comprehensiveness and coordination** in setting the right environment for Malawi's productive base to be built. This includes delivering a fiscal and monetary policy that is conducive to the

16 The basis for carrying out the prioritisation is through reviewing all ten of the enablers that 'private operators' require to be productive as presented in Page 42 above. Private operators do not only include large businesses, but crucially they include smallholder farmers, employees, youths looking for work, micro and small businesses, entrepreneurs, community based organisations and women engaged in economic activities. Therefore private operators represent the entire spectrum of Malawi's productive base. The ten enablers apply to all private operators, irrespective of their size, markets or products. The Review of Cross-Cutting Export Enablers identified key factors in each of the ten enablers that businesses require to be able to develop and export. For a detailed understanding of these issues, please refer directly to the Review which is presented in Annex 10.

productive base.

2. Significantly improve coordination efforts to **connect smallholder farmers** to processors and to markets.

3. Enable smallholder farmers and micro, small and medium enterprises to **access affordable finance**. This is key to improve **access to technology.**

4. Prioritise the delivery and implementation of **a long-term energy plan** that will allow access to reliable and cost-effective energy.

5. Invest in institutional capacity to facilitate MSMEs to meet the **standards, accreditation and product quality requirements** of target export markets. It is critical for the government not to view its role as an enforcer of product quality but as a facilitator to MSMEs, using target export markets as the benchmark, and not non-target markets.

6. Improve access to **cost-effective transport** both for exporters accessing regional markets and for domestic suppliers into the priority clusters. This is particularly key for smallholder farmers supplying processors.

In addition to these six, the **development of economic institutions** and prioritising permanent solutions to connect the demand for and the supply of **skills and knowledge** are also fundamental. They stand at the basis of all crosscutting issues and all efforts to develop the productive base of the economy in a manner that creates jobs and economically empowers the wider population. For these reasons these factors are covered in separate priority areas: Priority Areas 3 and 4 below.

The top six cross-cutting priorities are expanded on below. Actions that fall within these priorities are marked in the action plan matrices in Annex 5 of the NES at priority level 6.

1. Policy coherence, comprehensiveness and coordination in setting the right environment for Malawi's productive base to be built.

At present, there is not enough coordination of policies and strategies that determine Malawi's productive base across different Ministries and agencies in Government. This is a key reason for difficulties in the implementation of these policies and strategies.

One example of this is the duplication of efforts and the lack of mutual support between the Department of Cooperatives, the One Village One Product Programme, both in the Ministry of Industry and Trade and the Department of Extension Services in the Ministry of Agriculture and Food Security. Such an outcome arises because of the dearth of a holistic and comprehensive strategy to develop Malawi's productive base and empower farmers in this process. Similar contrasts exist in the use of export bans and export licenses which counter efforts to improve agricultural yields and conflicting regulation.

If Malawi continues to shape policy based on short term, reactionary, objectives, there is a high risk of the continuation of recent characteristics of the Malawi economy:

- A large fiscal deficit that requires around 40 per cent budget support
- An inability to widen the tax base
- An unpredictable and complicated tax regime
- An inability to move away from commodity exports to value added exports
- Tax inconsistency and lack of predictability
- An increase in problems such as transfer pricing.

The present incoherence is a result of institutional constraints, particularly at the level of planning, coordination and implementation drive. Each Ministry or agency has to rely on a certain pool of skilled labour, and often the numerous demands on these organisations means that such skilled labour is spent on day-to-day administration or fire-fighting rather than on policy coherence, comprehensiveness and implementation. For example, the approval of the Minister of Industry and Trade is required for every export license, creating an administrative burden that constrains the Minister's core management time. The same constraint holds true for management time. This requires the Government to invest in its institutional capacity. This is a difficult task and will require a lot of time. While this point is expanded on in the next priority area, a short to medium-term solution is to prioritise the establishment of policy and strategy coherence, comprehensiveness and implementation structure that can ensure that priority actions are adequately resourced, both financially and through management time.

Another key aspect of policy coherence is about securing a better understanding of how enablers of Malawi's productive base should be provided to private operators. In some cases it is the public sector that is best placed to take the lead role in providing the enablers, with the private sector supporting. Such cases could include fair competition, energy and education. In other cases, the private sector is better placed to lead, with the public sector supporting. Examples include the financial sector and professional services.

Coherent and comprehensive policy can only be attained through ongoing, structured dialogue and collaboration between implementers, policy makers and the productive base of the economy. Fundamentally, the government and all stakeholders need a mechanism for structured dialogue that is focused on addressing obstacles to implementing the country's strategic vision for building the productive base of the economy. The solution is to:

a) Ensure that the Real Sector Policy Analysis Division of the Ministry of Economic Planning and Development is a dedicated secretariat whose mandate is solely to drive the implementation of the productivity aspects of the MGDS II.

Its role is to ensure the coherence of policies across the board with respect to their impact on the productive base of the economy.

b) Establish a dedicated secretariat within the Ministry of Industry and Trade to drive the implementation of the Trade, Industry and PSD Sector Wide Approach (TIPSD SWAp), the Joint Sector Strategy and the NES. The TIPSD SWAp is the implementation mechanism for the NES and the NES is a key building block of the Joint Sector Strategy. The TIPSD SWAp should included adequate representation of the private sector, smallholder organisations, MSMEs, women's groups, civil society and labour groups.

These two solutions have been expanded on in detail in Chapter 4 below, because they are core to the implementation mechanism of the NES.

2. Significantly improve coordination efforts to connect smallholder farmers to processors and to markets.

There is a large information divide between farmers and processors of value added agriculture-based products, leading many processors to use imported inputs instead of local agricultural output. This is due to the lack of a coordinated approach between the public and private sectors.

Solution through the National Export Strategy:

See Annex 1 for a resource plan for these priority actions and Annex 5 for full details, together with Annexes 2, 3 and 4 for the prioritized cluster strategies.

The following interventions are all required, and will all be equally prioritised and expedited:

a) **Fast-tracked, scaled investment in the information and storage sector**, centred around warehouse receipts and including warehouse investors, agricultural commodity exchanges, mobile phone agricultural information services. Ensure the financial sector is on board for it to develop lending packages for private investors in such systems. There is need for RBM to serve as regulator of a national warehouse receipts system and to develop and implement a conducive regulatory framework for the system.

b) **A scaled agriculture credit guarantee scheme for processors' investment risk** to be supported. Often this risk is deemed too high for investors because of uncertainty on the volumes and quality of farm output, while on the other hand farmers are reluctant to invest in production of a non-tobacco cash crop unless they are certain they can sell it for a good price. Support credit guarantee scheme with an innovation challenge fund. This scheme should be tied to exports and accounted for through the Export Development Fund. This fund should explore the option of using export contracts as collateral to lead to lower interest rates.

c) The credit guarantee scheme will be matched by **the implementation of the Micro-Finance Policy of 2002, and a review of the government's role in the sector to move toward being an effective regulator rather than a service provider.** Despite the recent growth in private micro-finance, few smallholder farmers have access to affordable micro-finance because the sector is still inefficient and dominated by politically motivated public sector institutions. Implementation of the existing Micro-Finance Policy would go some way towards addressing this, particularly through the creation of an enabling legal and regulatory environment and the implementation of economic policies conducive to the development of microfinance. The Micro-Finance Act and the Financial Cooperatives Act need to be fast-tracked in their implementation; this is critical to give farmers access to the necessary finance for access to good variety seed, fertilizer, water and other inputs. It is also important to establish a competitive, transparent supply window by government for MFIs through an Apex fund in order to support the capacity of MFIs to reach out to rural populations efficiently.

d) **Fast-track the enactment and operationalisation of the amendments to land legislation, including the enactment of the Land Bill** to allow for the establishment of customary estates. The political sensitivities that surround ownership of customary land are fully understood, but it is essential to allow for land titling of smallholder land to lower the cost of access to finance for farmers. Operationalisation of the land reform package requires a **Land Development Support Programme** to conduct land surveying and mapping related to priority crops, land registering and a significant investment in capacity building in land administration especially in Departments of Lands, Physical Planning and Surveys and the Land Registry. The Automated Lands Registry system being developed under Business Environment Strengthening Technical Assistance Project (BESTAP) to assist banks to speedily verify ownership of land titles at a low cost needs to be expedited, as does the Land Information Management System Project which will assist in improved provision of information for sustainable land management.

e) Run an **NES Extension and Cooperatives Support Services Programme** to drive a concerted and significant investment by the public sector, supported by development partners, in the Department of Cooperatives of the Ministry of Industry and Trade and the Department of Agricultural Extension Services of Ministry of Agriculture and Food Security, to increase Malawi's capacity to organise farmers. This requires a significant increase in the government's budgetary allocation to these departments. Currently only 17 per cent of smallholder farmers

have access to government extension services. The first step is to conduct an expert assessment of the way extension services and cooperative support services are delivered, the capacity of extension and cooperative support services and identify what capacity is required to deliver effective extension and cooperative support services in prioritised crops under the NES (groundnuts, sunflower, soya, cotton, sugar cane and dairy). This will serve as the basis of a human resource investment programme in extension and cooperative support services, tied to priority crops and clusters. Specific attention will be given to the benefits of good quality seed, agricultural technology, post-harvest management, warehouse receipts, effective farmer organisation, land titling reforms, micro-finance and farmers' capacity to understand loan obligations, apart from agronomic issues. Specific attention will also be given to women and youth, aiming at increasing their individual and collective capabilities.

f) The Department of Agricultural Extension Services will **develop and implement an NGO extension service coordination programme** to attract the wide range of NGOs that are active in sustainable livelihoods, to contribute to farmer organisation and extension service efforts in line with NES priorities. This programme has to be linked to the establishment of a national warehouse receipts system. It is also important to explore modalities for increased public private partnerships in this programme.

g) Build the capacity of the Fair Trading & Competition Commission, and **set as a priority mandate the pursuit of fair competition in the domestic transport sector**. Unfair competition in this sector is a cause of the high cost of transport from rural areas to cities, making domestic farmers relatively less competitive against imported agricultural produce.

h) **Ensure coordination between the National Irrigation Policy, the Greenbelt Initiative and the National Export Strategy**. Irrigation capacity is limited, therefore it is essential to invest in irrigation where it will receive the highest returns. It is therefore important to balance irrigation investment between private operator interests, and a concerted effort to develop clusters that can complement tobacco in exports, as identified by the NES (sugar cane, oil seeds and agricultural inputs into the manufacturing cluster).

i) Expedite the **complete operationalisation of Memorandum of Understanding (MoU) on Harmonisation of Seed Regulations** in SADC and of Memorandum of Understanding on Harmonisation of Seed Regulations in COMESA. The lack of operationalisation of these MoUs is a core reason behind the lack of affordable good quality seed for non-maize and non-tobacco crops, including those prioritised under the NES. This helps keep yields low, in turn limiting the ability of smallholder farmers to supply processors.

j) **Identify a mechanism through which farmers are incentivised to produce key crops in a manner that also promotes investment in processing capacity by manufacturers**. This could include the amending of the Farm Input Subsidy Programme to incentivise the private sector to distribute seeds and fertilizer of non-maize crops in addition to maize, particularly of those prioritised in the NES.

k) The promotion of **commercial farming using the Anchor Farm model for priority NES crops**, with adequate incentives for investors to also run outgrower schemes, on land that is suitable for those crops and that is not under smallholder tenure. One million hectares of non-smallholder or unused arable land is to be allocated to commercial farming, linked in to the priority NES clusters and investment facilitation programmes that are to be developed for these clusters. Responsible Agricultural Investment Principles are to be applied and the application of Corporate Social Responsibility is recommended. (*See Annexes 2, 3 and 4*).

3. Significantly improve the ability of farmers, youths, women and micro, small and medium enterprises to access affordable finance, and hence technology.

According to the MSME Survey of 2012[17], 34 per cent of MSMEs reported that access to finance is the greatest obstacle for the growth of their business. This was the most commonly reported factor, ahead of market access at nine per cent. Although the constraints around access to finance are well known amongst stakeholders, there is insufficient understanding of the burden that limited access to finance by farmers, youths, women and MSMEs has on Malawi's ability to meet its development agenda, as set out in the MGDS II. Access to finance is important not just because it allows working capital, but because it allows access to critical inputs, such as seed, fertilizer, water, machinery, equipment, labour, expert assistance, legal, bookkeeping and accountancy services and technology. Unfortunately these are often viewed in isolation of each other, but they cannot be detached at policy level, because access to these inputs is ultimately dependent on accessing financing.

Having access to finance is also important from a learning perspective. In the case of micro-finance and village savings and loan associations, these also help develop a culture of savings, which is critical for poverty reduction in Malawi. In the case of MSMEs, their relationship with lenders exposes entrepreneurs, youths and women to a culture of proper financial organisation and accountability. A further key reason why the development of the financial sector is essential is because access to finance is the primary mechanism through which Malawian farmers, MSMEs, youths and women's groups can improve **their access to technology and international R&D**. Their ability to install a new machine

17 Finscope Malawi MSME Survey 2012

or have access to high technology seed treatment or herbicides depends on their ability to access finance.

Underdeveloped regulation is a core reason for the limited access to finance: the legal, regulatory and institutional framework for the financial sector and micro-finance sector remains weak when compared to the exigencies of developing Malawi's productive base through economic empowerment of key groups. As a result there is **limited competition and innovation**. The average return on equity of the Malawian banking sector was estimated at 43.6 percent at the end of 2008.[18]This level of bank profitability indicates that there is little competitive pressure on commercial banks to diversify their client base and develop new markets for their financial services. Lack of competition and diversity, in turn, has reduced pressure to innovate and keeps costs high, making access to finance unaffordable for a large segment of Malawi's productive base.

Solution under National Export Strategy:

See Annex 1 for a resource plan for these priority actions and Annex 5, Sections 6 and 7 for a full list of actions on MSME Access to Finance.

The NES calls on the prioritisation of the development of the financial sector through:

a) Setting the development of the financial sector as a priority under the MGDS II, with a corresponding holistic stakeholder working group to oversee the development of the sector.

b) Developing the capacity of the Reserve Bank of Malawi to balance its regulatory function through adequate risk-based supervision and its role in supporting the development of the financial sector.

c) Making a coherent effort to build the capacity of the Financial Sector Policy Unit in the Ministry of Finance, since this Ministry currently lacks capacity to fulfil its mandate of coordinating formulation of financial policies and regulations effectively.

d) Encouraging greater competition between financial institutions in lending and non-lending businesses in order to encourage innovation in lending markets and greater targeting of the SME market.

e) Incentivising the growth of the non-bank financial sector and the longer-term sources of finance, particularly the development of the bond market and the development of the stock exchange. This would include investing in regulatory capacity to ensure the Malawi Stock Exchange has an inherent incentive to attract businesses to raise finance through the stock exchange.

f) Fast-tracking and prioritising programmes to increase the attractiveness of MSMEs as clients for financial institutions by increasing the formality of the MSME sector. Informality of client enterprises, and also of the markets within MSMEs operate, is a challenge as it reduces the extent to which information is available on enterprises and the reliability of systematic documentation. It often means enterprises lack a fixed place of business. This reduces banks' willingness to lend, raising interest rates and collateral requirements. Measures to achieve greater formality in the sector and increase client attractiveness to banks should include:

   i. Developing the Department of Registrar General to ease the time and cost involved in registering businesses.

   ii. Ensuring secure tenure of land and other property through operationalisation of the Lands Bill, capacity building at the Department of Lands and the creation of a Moveable Collateral Registry following the passage of a new Secured Transactions law.

   iii. Enhancing creditor rights by improving access to commercial justice for creditors through capacity building at the commercial courts, and through reform of the insolvency regulatory framework.

   iv. Improving the amount and quality of information available on entrepreneurs through the enhancement of bookkeeping skills and financial literacy, as well as the development of a Credit Reference Bureau and a national identification system. The latter two systems have been initiated but are not yet fully operational, and need management attention to become functional as soon as possible.

   v. Improving the ease of access to financial information by entrepreneurs, start-ups and MSMEs through the SME Development Institute.

g) Developing and implementing a policy for state involvement in the financial sector to strengthen the oversight of State-Owned Financial Intermediaries (SOFIs) and government programmes, to reduce market distortions created by government involvement, and address fragmentation of ownership responsibilities among various bodies. The independence and technical capacity of boards of directors of SOFIs should also be increased, and clear policy mandates defined for them. These measures would include the following reforms being fast-tracked:

   i. The completion of the merger of SEDOM, DEMAT and MEDI into the Small and Medium Enterprise Development Institute and the operationalisation of the institution.

   ii. The merger of Malawi Rural Development Fund with the Youth Enterprise Development Fund to form the Malawi Rural and Youth Enterprise Devel-

18 FSTAP Project Appraisal Document, February 2011

opment Fund. It is essential to ensure proper governance and to maximise the effectiveness of the fund. There is a need to consider the privatisation of the fund, with effective regulation to ensure its objectives are met in an efficient manner.

h) Supporting financial sector reforms with a Financial Sector Deepening Trust Fund.

4. Ensure that private operators may access reliable and cost-effective energy through long-term energy planning.

Not having a reliable source of electricity in Malawi has a huge negative externality effect, as many value added products require constant and reliable access to electricity.

Solution under National Export Strategy

See Annex 1 for a resource plan for these priority actions and Annex 5, Section 5.5 for a full list of actions on energy.

The development and implementation of a new National Energy Policy, supported by development partners, is to be expedited. The new National Energy Policy should:

- Be based on the IAEA Demand and Supply studies and needs to serve as a holistic plan to allow for enough energy access relative to the demand of the economy. The link to the priority clusters of the NES is fundamental.
- Include the purchase of power through the SADC Power Pool, via an interconnector with the Mozambican energy grid to allow the priority clusters in Malawi to access reliable energy. This requires reviewing existing restrictions for the importation of electricity into Malawi.
- Account for competition issues through an analysis of the impact on long-term energy access from the current market structure.
- Account for current investment projects and feasibility studies such as those at Kapichira and Lower Fufu. These projects will still leave Malawi with a large shortfall in energy supply.
- Include a framework for private sector investment and generation, generation by the sugar cane cluster, the use of alternative sources of energy and appropriate pricing so that the economic cost of energy supply is worked into consumption decisions.
- Be synchronised with water demand for energy, domestic use and Malawi's irrigation plans.

Long-term planning is fundamental and this has to be the core of the new National Energy Policy, complemented by addressing the shortfall in domestic supply with electricity from Mozambique or other neighbouring countries.

The new National Energy Policy must be complemented with an Implementation and Resourcing Plan to ensure that the Office of the President and Cabinet, the Ministry of Economic Planning and Development and the Ministry of Finance, together with development partners, are able to plan in advance for capital expenditure required in the sector. Advance planning based on holistic forecasts of demand and supply does not currently take place. The Implementation and Resourcing Plan needs to prioritise investment in institutional capacity to implement the new National Energy policy. There is a lack of specialised skills in power management and maintenance. More capacity must be built in Escom (if the current market structure is to be maintained) and in the Department of Energy Affairs on power issues, advance and holistic planning, feasibility studies and other areas.

5. Invest in institutional capacity to facilitate MSMEs to meet the standards, accreditation and product quality requirements of target export markets.

There is a risky perception in Malawi that Malawian businesses should provide the highest level of product quality, that this should be enforced by a regulator (the Malawi Bureau of Standards), and only then can the business endeavour to export the product. Yet this risks undermining Malawi's export capacity by placing an excessive and unnecessary cost on businesses to export because such an approach is not market-led. Malawi's objective is not product quality but exports. While China and Japan today export high quality products, they did not do so when penetrating new markets. They competed on price not on quality, gradually capturing market share, which in turn made it feasible to improve their product quality. It is often forgotten in Malawi that the higher the product quality, the higher the cost and cost is the greatest deterrent of export capacity.

The NES is keen to promote a market-led approach in which businesses first identify target markets and then the Malawi Bureau of Standards facilitates businesses (including MSMEs) to meet the standards required by those target markets, through certification and its international accreditation. At the same time, MBS should reduce imposing its own mandatory export standards and inspection procedures on exporters.

The latter approach is essential so that the government and stakeholders do not view the Malawi Bureau of Standards as a regulator, but rather as a facilitator of exporters, using target export markets as the benchmark, and not non-target markets. Otherwise Malawi runs the risk of only certifying products that meet European Union standards when the standards required by target markets in SADC and COMESA might be significantly lower. This mistake can have a detrimental impact on Malawi's capacity to export.

Solution under the National Export Strategy

See Annex 1 for a resource plan for these priority actions. Also refer to Section 3.4 of this document, which identifies MBS as a critical organization to be developed (as a facilitator not as a regulator) and Annex 5, Section 3.6 for a list of actions concerning standards,

product quality and accreditation.

- The MBS and the Ministry of Agriculture and Food Security are to base efforts to develop their capacity to facilitate standards and sanitary and phytosanitary standards (SPS) on products in the **three prioritised cluster strategies** (oil seed products, sugar cane products, manufacturing). Since the flow of information between businesses and the MBS is limited, and because the reliance on such information would make it difficult for the MBS to conduct advance planning on its certification and accreditation capacity, the NES lends support to this process by indicating to the MBS which are the export clusters and products and which are the target markets. The three prioritized cluster strategies contain standard and accreditation plans specific for their cluster. These are to be prioritised by the MBS and the relevant departments of the Ministry of Agriculture and Food Security.

- The **human and infrastructure capacity of** the MBS and the relevant departments of the Ministry of Agriculture and Food Security needs to be developed so that they can provide an effective facilitatory and training service, particularly to MSMEs who would otherwise find the cost of meeting international standards and respective conformity assessment procedures prohibitive. The expedited implementation of the MBS' Infrastructure Project (which is supported by the EU SQAM project) is essential. The implementation of projects around the USAID funded Multi-Decision Criteria Analysis is also important. However providing facilitation services to exporters is not just about having the requisite testing equipment or laboratory. It is also about human capital and the location where certification may take place. If there is only one tester for a certain product and that person goes on leave, products may remain uncertified for weeks. This also requires a change in mindset from being a regulator to being a facilitator. Of course, the standards of target markets have to be met and therefore it is essential for the SQAM to ensure the right balance between ensuring standards of appropriate markets and facilitating exporters.

- There is a need for **constant dialogue on standard facilitation between private operators** (including cooperatives, farmer organisations, youth entrepreneurs, women's groups and MSMEs) **and the MBS and other certification agencies**. This will be carried out through the Access to Markets Technical Working Group discussed in Chapter 4.

6. Ensure that private operators, including smallholder farmers, have access to affordable transport services for access markets and accessing inputs.

The Industry, Trade and Private Sector Development Sector Wide Approach (SWAp) Issues Paper of 2011[19] identified transport costs to be high due to the poor quality of rail connections to markets in Malawi, in the region and to seaports, while road connections to ports in Mozambique are also weak. As a landlocked country, distances for exporting outside the region are costly. Transport costs to markets such as the United Kingdom can be as high as 50 per cent of the value of the product[20], while the cost of transport of input materials is typically between 25 and 40 per cent of the total amount, which many additional sectors spend on supplies.

The top priority for the Ministry of Transport & Public Infrastructure is to supply a multi-modal transport system to reduce the dependence on road transport, particularly for bulk transportation. A key part of this is rail transport, while marine transport is also important, as outlined in the Transport Sector Investment Programme and the National Transport Policy of 2004.

Unfair competition practices also significantly raise the cost of transportation, particularly for smallholder farmers and rural entrepreneurs. This acts as a major obstacle to Malawi's efforts to build its productive base through the export of high value products and the empowerment of youths, women, MSMEs, farmers and the poor.

Solution under the National Export Strategy

See Annex 1 for a resource plan for priority actions and Annex 5 Section 3.7 for a full list of actions on transport.

There are four actions that need to be prioritised under the strategy:

i. Support the emergence of a market structure for road transport that ensures relatively **fair competition**, through the application of Competition Policy. Investing in infrastructure by itself will not necessarily lead to lower transport costs, particularly for agricultural input into processing facilities.

ii. Tie the implementation of the Transport Sector Investment Programme to the **priority clusters under the NES** (sugar cane products, oil seed products and manufacturing). This needs to be at two levels:

    - Accessing target markets: rail and road access to key markets, particularly the growth centres in the region (Tete, Lusaka, Harare, Mbeya, Lake Tanganyika to access the Great Lakes region) and ports in the region (Nacala, Beira, Dar es-Salaam).

19 Ministry of Industry and Trade, (2011), Issues Paper for the Sector Working Group on Trade, Industry and Private Sector Development
20 Imani Development, (2010), Draft annex on Enabling Environment in Malawi

- Integrating the domestic supply chain: rural feeder road improvements should be prioritised based on agricultural production centres for sugar cane and for oil seeds (sunflower, groundnuts, soya, cotton) through a close link with land and extension plans at the Ministry of Agriculture and Food Security under the NES cluster strategies.

iii. Strengthen the implementation capacity for multi-modal linkages with regional markets and ports, particularly rail, through the use of **public-private partnerships and through developing the skills bases for railway development and maintenance**. Prioritise the development of capacity for policy implementers and contractors linked to railway development through support for the policy team of the Ministry of Transport and Public Works and the National Contractors Industry Council, as set out in the Transport Sector Investment Programme. The ongoing EU study on rail infrastructure needs to be linked to the NES priority clusters and target markets and its outcomes financed, particularly through facilitating venture capital under the Public-Private Partnership Act.

iv. **Establish and operationalise a proper regulator for Central and East African Railways (CEAR), and any other future railway operators**, to ensure proper funding and staff. The capacity to enforce the contract is fundamental. The regulator needs to be answerable to Parliament. There is also need to ensure that contracts with concessions are enforceable and enforced by the regulator. There are currently no penalties for lack of compliance by CEAR to manage the Malawi railway.

*Part 2: Other actions*In addition to these top crosscutting priorities, there are a number of other actions that are important for Malawi to undertake in order for its productive base to emerge. These actions are presented in Annex 5 to this document. This annex, together with Annexes 6 and 7 provide a complete matrix of prioritised crosscutting actions under the NES. This includes communication (refer to Annex 5, section 4.2) trade facilitation (refer to Annex 5, sections 3.2 to 3.4) and the repatriation of export earnings (refer to Annex 5, section 9.2) among other areas.

3.4 Priority Area 3 – Supportive Economic Institutions for a Productive Economy

Why this Priority Area?

The collective objective of stakeholders is to provide a conducive environment for private operators that have the capacity to create value and jobs, thus allowing for the productive base to emerge and Malawi to be able to export sufficiently relative to its imports. As argued in Priority Area 2 of the Strategy (Chapter 4), Malawi's ability to export is not only dependant on the ability of private operators to access markets, or on the extent to which there is an efficient and consistent tax system. Rather, Malawi's productive base is dependent on a range of different factors, which are grouped into the ten enablers presented in Chapter 4.

For such enablers to be provided in a manner that allows for the productive base to emerge, favourable economic institutions are key. Institutions refer to both domestically-based organisations and also to economy-wide arrangements and structures that shape economic behaviour. For the productive base to emerge, what is essential is for such arrangements and structures to incentivise favourable economic behaviour by private operators. In turn this requires sufficient capacity in organisations.

The provision of such institutions is dependent on all stakeholders in Malawi, including the private sector and development partners. However fundamentally it is the public sector that is critical in providing favourable institutions. In certain cases, such as in the provision of fair competition, reliable and affordable energy or agricultural extension services, the public sector has a lead role to play in providing such institutions. In others, such as in affordable access to finance, transport services and professional services, the public sector is fundamental in allowing for the private sector to operate in a manner that is conducive to the productive base of the economy.

For Malawi's productive base to emerge, and for its export capacity to grow, it is essential to invest in the capacity of public sector organisations. Since Malawi's ability to export is dependent on all ten enablers of the productive base, delivering a conducive environment is not dependent on just one Ministry or a handful of agencies. The environment for the productive base is dependent on the collective behaviour of Ministries, agencies and enabler sectors. Their behaviour will determine the cost to farmers, youth, women, MSMEs and large businesses of investing in a productive activity, and hence the degree of economic empowerment.

Further, if Malawi is going to achieve the guideline targets of the NES, and hence its development agenda, policy makers and development partners need to better understand how sustainable value addition is generated by an economy. Malawi has been unable to export because of structural weakness in the economy that has created an unfavourable environment for private operators, whether farmers, manufacturers, MSMEs or large businesses. It is essential for Malawi to move into value addition and away from commodity exports in order to achieve the pro poor development required by the MGDS II. Given the inability to regulate for value addition – for example, export bans will not achieve higher value addition and the transformation of the economy as it disincentivises investment by processors and farmers – it is important to ensure **appropriate investment** in public sector agencies whose behaviour can either facilitate or disincentivise trade and

value addition. The degree of government ownership, not the size of a development partner programme, defines appropriate investment in public sector capacity: ownership is the degree to which the government makes a genuine, concerted effort to build the ability of agencies to shape a conducive environment for trade and private sector development to take place, in a manner that creates higher value addition and therefore creates jobs and improves salaries. This requires commitment at the management level as well as through the public finances, with development partners assisting where there are gaps.

As part of the process to develop the National Export Strategy, a review of institutional capacity was carried out from the perspective of requirements in key organisations to allow for Malawi's productive base to be built. This review is presented in Annex 11 to this document.

The Core Issue this Priority Area Seeks to Address

The range of Ministries, agencies and enabler sectors that determine the enablers of the productive base often struggle to play their role to a sufficient degree. This arises for one of two reasons. Either:

- Ministries, agencies and enabler sectors have priorities and statutes that are not aligned to providing an enabling environment that ensures both economic competitiveness and economic empowerment. This lack of alignment arises because such Ministries, agencies or enabler sectors are not viewed as relevant to Malawi's productive base and export capacity, even though they are. As a result there often emerges a contrast between the regulatory or law enforcement function of Ministries and agencies, and their role in allowing for the productive base to develop and for economic empowerment to occur.

- Or where there is alignment of objectives to Malawi's productive base, Ministries, agencies and sectors are not given enough management and financial support to allow them to effectively play their role.

These are often the fundamental reasons why a number of organisations may not prove conducive to Malawi's productive base, or if conducive, may lack the capacity necessary to be effective when measured against the degree to which Malawi's productive base and export capacity has to keep pace with import growth and consumption.

Critical institutional weaknesses are:

- The Department of Cooperatives only has nine technical staff: their mandate is to facilitate the organisation of smallholder groups, such as farmers, into cooperatives across the country.

- MEDI, whose mandate is to support the development of entrepreneurs across all of Malawi, has only eight technical staff. It is a similar case for SEDOM and DEMAT.

- Only seventeen per cent of smallholder farmers have access to extension services from the Department of Agricultural Extension Services. There are on average 1,500 farmers per public sector extension worker in Malawi.

- The Ministry of Industry & Trade has to be more effective in making the case for trade, industry and private sector development with central government, as it currently receives a limited budget and therefore has minimal capacity to play its role of coordination. There are examples of duplication of effort with the Ministry itself. Trade, Industry and Private Sector Development are crosscutting in nature, yet the Ministry has limited capacity to secure the buy-in of the range of public agencies that shape the business environment. As a result it takes a piecemeal approach to building Malawi's productive base. Ministry efforts are dependent on development partner programmes, rather than on a concerted drive to develop clusters and the business environment. Likewise trade, industry and private sector policy are not concerted into one crosscutting strategy.

- The total budget for the Malawi Investment and Trade Centre is only approximately MK 160 million (US$ 0.6 million).

- Malawi Bureau of Standards is not internationally accredited and still views itself as more of a regulator of product quality, rather than a facilitator to MSMEs and farmer organisations to meet standards in target markets.

- Limited capacity in the Ministry of Lands and Housing and Ministry of Justice and Constitutional Affairs to make the case for and drive the speedy enactment of the land reform package, including the amendments to the new Land Bill. Further there is limited capacity in terms of technical staff and specialised equipment for delivering land administration services and for supporting property development in housing in the departments of Lands, Physical Planning, Surveys and Housing in the Ministry of Lands and Housing. There is also a need for improved coordination between the Ministry of Lands and Housing and Ministry of Industry and Trade on land related matters during the initial stages of investment decisions.

- The lack of an operational and conducive regulatory framework for the development of private sector micro-finance. This demonstrates the Reserve Bank of Malawi's current limited capacity to regulate and legislate for the sector. Regulation of micro-finance is very different to that of the banking sector.

- The Department of Irrigation only has 40 per cent of its technical staff establishment filled, meaning that is has very little presence in many districts. Its annual budget is only $9 million.

- The Competition and Fair Trade Commission has a negligible budget and only employs three technical staff, yet lack of fair competition in the local transport sector (as identified in the Review of Competition in the Transport Sector) and the financial sector (as identified in the Financial Sector Development Strategy), handicap Malawi's ability to build its productive base.

- TEVET, which is critical in addressing Malawi's skills gap, only receives 1 per cent of the education budget, while the private sector claims it sees little returns on the 1 per cent TEVET levy it pays on its payroll every year.

- The Ministry of Finance currently has limited ability to fulfil its mandate of coordinating formulation of financial policies and regulations effectively. It also has limited capacity to ensure the predictable, consistent and supportive tax policy that is so essential for attracting investment and building Malawi's productive base. This has resulted in a zero-deficit budget that is leading to over-taxation of Malawi's businesses.

- Export licenses for agricultural exports are administered by MoAFS and MoIT and delays are unpredictable. First, MoAFS scrutinizes every application on a case by case basis. Given that the process is not transparent, exporters are therefore incapable of anticipating delays. Second, MoIT then needs to issue the export license. The Minister needs to give his approval for every license, entailing major delays.

- On the private sector side, the Sub-Committee meetings suggested that the MCCCI lacks sufficient capacity to effectively communicate outcomes achieved in trade negotiations, or likewise to ensure adequate participation and buy-in of the private sector in trade policy formulation and negotiation.

The purpose of this Priority Area is to:

- Prioritise investment in key public sector organisations to sustainably develop the capacity of such organisations to more effectively play their role in developing Malawi's productive base and export capacity.

- Support a paradigm shift as to how stakeholders and central government perceive the role of organisations in determining the enablers for Malawi's productive base and its export capacity.

The Strategy for this Priority Area

Institutional development can only happen if stakeholders desire it. The strategy to foster favourable economic institutions and to build the capacity of key public and private sector organisations is two-fold through:

- **Dialogue and coordination:** the NES implementation mechanism – which is the Trade, Industry and Private Sector Development Sector Wide Approach. This is fundamental for Ministries in particular, such as the Ministry of Finance, Ministry of Economic Planning and Development, Ministry of Industry and Trade, the Ministry of Agriculture and Food Security and the Ministry of Education, Science and Technology.

- **Prioritising the development of key agencies** that are central to the development of Malawi's productive base and its export capacity, and tying the development of capacity to the NES priority clusters.

Dialogue and coordination As discussed in Chapter 4 of the NES, the implementation mechanism of the NES is built around a well-structured, focused Sector Working Group with a number of Technical Working Groups that ensures effective and comprehensive membership, effective leadership and an effective dedicated secretariat to ensure follow-up and progress.

Ensuring the adequate participation of four types of stakeholders is the best tool Malawi has to build its favourable economic institutions, and hence its productive base through the economic empowerment of the poor:

- Stakeholders in touch with consumers and markets (private operators and not private operator associations)

- Stakeholders responsible for policy

- Stakeholders with access to resources

- Stakeholders representing youth, women, farmers and the poor

Only a structured, focused dialogue among these stakeholders can achieve a better understanding of the role of various private and public sector organisations. This will allow for the allocation of sufficient management and financial resources to key organisations that are central to enabling Malawi's productive base and export capacity to be built.

Method of Support for Prioritised Organisations and Prioritisation of OrganisationsThere are a number of priority public sector agencies needing effective support from central government if Malawi's productive base and export capacity are to be built.

What is essential for this strategy is that the government and the private sector give adequate priority to developing agencies whose behaviour shapes the environment under which Malawi's productive base has to operate and grow. Crucially, investment in agencies does not mean reliance on a donor-funded programme for capacity building. Rather it means ensuring that such agencies permanently acquire the ability to ensure that their actions effectively support the development of Malawi's productive base, and hence trade, rather than disincentivise the emergence of that productive base. This requires a concerted effort to develop

agencies, with adequate support by central government to include staff development plans, clear career paths, performance-based remuneration and rewards and effective management whose primary interest is the long-term development of the capacity of the agency, such that it may fulfil both its regulatory mandate and also its mandate to facilitate trade. In those agencies where there is scope for conflict between the regulatory and facilitory role, the agency's statute or Act should explicitly balance the two.

There are four tiers of prioritisation: critical organisations, first tier, second tier and third tier. These are presented below. These tiers are aimed at providing strategic focus on which institutions need to be prioritised for their capacity development. Critically, such efforts need to contain all of the following five ingredients otherwise institutional development efforts will struggle to attain the desired impact. These are:

1. **Genuine** prioritisation by central Government. If genuine prioritisation is assigned by development partners and not central Government, capacity development efforts are unlikely to reap the desired aims.

2. **Appropriate** support by development partners based on the reality of existing institutional capacity and not based on the expectations of development partners. Support mechanisms such as shadowing and mentoring are strongly recommended, together with the terms of references of technical assistants being focused on capacity development of local staff rather than solely on technical outcomes. Refer to Annex 1, Section 3.2 for a more detail discussion of ideal development partner support in this Priority Area.

3. **Investing for long-term, permanent gains** and not through short-sighted, ineffective capacity-building mechanisms.

4. **Real understanding** of where an institution is coming from, where it lies on its development path and where it needs to move towards to mandate it in supporting the emergence of the productive base of the economy, and hence Malawi's export capacity.

5. **Tie institutional development to the NES priority clusters** so that the limited human and financial resources available are focused on supporting clusters that have the potential to drive export growth. Such a direction, focus and targeted approach is also essential to increase the odds of permanent capacity development.

The **measurable and visible** outcome of this focus area is the existence of effective management, a clear vision and programme to deliver that programme, backed by effective central government support. This will need to be judged by stakeholders, particularly the private sector, through the Trade, Industry and PSD Sector Working Group and its Technical Working Groups.

The top tier includes critical organisations that need to be fully operational in an expedited manner. These are:

- **Malawi Investment and Trade Centre**: to be an effective investment and export promoter and facilitator by addressing the information gap and ensuring investment projects actually happen.

- **Small and Medium Enterprise Development Institute**: to be an effective facilitator of micro, small, medium enterprises (inc youth, women and farmer organisations) on the scale that Malawi requires.

- **Malawi Bureau of Standards**: to be an effective facilitator of MSMEs' ability to meet the standards required by target export markets (this includes the ability to provide international accreditation for target markets in the three prioritised clusters); and not to place excessive costs on MSMEs by enforcing excessive standards not required by target markets.

First Tier Priority Organisations and Departments are:

- Ministry of Industry and Trade
- Department of Agricultural Extension Services
- Technical, Entrepreneurial and Vocational Education and Training Authority
- Ministry of Labour
- Ministry of Economic Planning and Development, Real Sector Policy Analysis
- Departments of Planning in various Ministries, such as the Ministry of Industry and Trade, Ministry of Education, Science and Technology and Ministry of Agriculture and Food Security
- Ministry of Lands and Housing, Departments of Land, Physical Planning, Surveys, Housing and Policy and Planning
- Ministry of Finance, Financial Sector Policy Unit
- Micro-finance Department, Reserve Bank of Malawi
- Warehouse Receipts Department, Reserve Bank of Malawi
- Department of Cooperatives
- Department of Irrigation

Second Tier Priority Organisations and Departments are:

- Export Development Fund
- Department of Energy
- Ministry of Justice and Constitutional Affairs
- Secondary, TEVET and Higher Education Departments, Ministry of Education, Science and Technology

- Competition and Fair Trade Commission
- Malawi Industrial Research and Technical Development Centre
- National Statistics Office

Third Tier Priority Organisations and Departments are:

- Reserve Bank of Malawi
- Greenbelt Initiative
- Directorate of Registrar General
- Malawi Revenue Authority
- Department of Immigration
- Public Private Partnership Commission
- Commercial Court

Priority Actions for Critical OrganisationsIn this section we highlight priority actions for critical and priority organisations. Please refer to Annex 11 for a review of where these organisations stand relative to the role they need to play for the productive base of the economy to emerge.

- **Ministry of Industry and Trade**: increase budget allocation to increase capacity of key departments, including Department of Planning to improve coordination capacity, capacity to man SWAp secretariat and capacity of various departments to allow active participation in SWAp. Improve capacity to holistically and comprehensively understand what is required to develop the productive base of the economy and how to sustainably generate value addition. *Actions are listed in Annex 6, section 2.2.*

  The Ministry has to improve its facilitation of trade licenses and its capacity for trade facilitation dialogue. It should orient its trade negotiation capacity to ensure it is in line with efforts to improve market penetration, given the recent successes in market access. It should drive the export-oriented facilitation of export licensing procedures in coordination with Ministry of Agriculture and Food Security. *Actions are listed in Annex 7, sections 3.2, 3.4 and 3.5.*

- **Malawi Investment and Trade Centre:** Expedite process to give MITC required legal and powers and organisational capacity to effectively promote investments and exports. Tie capacity development to NES priority clusters, products and target markets. Develop and implement an effective strategic plan centered on building service delivery capacity. MITC needs strong crosscutting powers, preferably through OPC participation, across many Ministries and agencies in order to provide effective services. It requires strong management that is able to set an organisational vision and strategy for the organisation and ensure its implementation. Its operationalisation has to be expedited by central government. Central government has to genuinely recognise that MITC is core to Malawi's development agenda, and treat it as such. *MITC actions are presented in Annex 5, Actions 3.1.1 to 3.1.4 and sections 3 of Annexes 2, 3 and 4 (the priority cluster strategies).*

- **Small and Medium Enterprise Development Institute:** SMEDI's operationalisation should be expedited. Government needs to give it priority so that it can secure effective management and set for itself a vision that is embedded in the NES and in Malawi's efforts to develop its productive base. Central government has to acknowledge that SMEDI is central to the implementation of the MGDS II and to the economic empowerment of farmer organisations, youths, women and MSMEs. SMEDI should focus on providing business advisory and support services such as bookkeeping, business planning, bank loan access, market and standard information access, etc. It should be supported by other schemes such as the Ministry of Youth and Sport's Start and Improve Your Business programme, which also needs investment and support by central government. These should be the basis for it to support policy making for MSMEs through the Ministry of Industry and Trade. The establishment of an MSME technical committee as part of the Trade, Industry and PSD SWAp (the implementation mechanism of the NES) to drive the implementation of the MSME Policy and Strategy is fundamental. *SMEDI actions are presented in Annex 5: Section 7.2 and sections 7 of Annexes 2, 3 and 4.*

- **Malawi Bureau of Standards:** MBS needs to re-orient itself from being a domestically focused enforcer of consumer standards to being an export-oriented facilitator of MSME, farmer organisation, cooperative and large business efforts to meet importing country standard requirements[21] and improve their ability to penetrate markets. This requires increased resourcing by central government to allow it to implement its strategic plan and its plans for development. In addition it needs to become **internationally accredited** through the fast-tracked implementation of its Infrastructure Project, supported by the EU's SQAM project. NES priority clusters – oil seed products, sugar cane products and manufacturing - need to be prioritised for facilitation with infrastructure and human capacity built around them. The key is for MBS to be more of a service provider and facilitator, rather than a regulator. *MBS actions are presented in Annex 5: Section 3.6 and sections 3 of Annexes 2, 3 and 4.*

- **Department of Agricultural Extension Services:** Requests for additional funding by this department should be provided so that it can increase its outreach to smallholder farmers. Currently the farmer to

21 At the same time, MBS should reduce imposing own mandatory export standards and inspection procedures on exporters.

extension worker stands at over 1,500:1. The target is 500:1. In the Agri-Business Section, only 60 per cent of positions are filled. The development of this department is essential, particularly the training of Agriculture Extension Development Officers and Coordinators as these are the ones in touch with farmers. It is essential for the department to start planning to build its capacity gradually over the next five years to an ideal level with an explicit prioritisation of NES priority crops (sunflower, groundnuts, soya, cotton, sugar cane and dairy). The Human Resources Department needs to develop human capacity around this goal. Raising smallholder yields in these crops is key to addressing the smallholder-processor disconnect. The department also needs to develop an NGO coordination mechanism to allow NGOs to support priority crops on a voluntary basis and improve non-government extension coordination. *See Annex 5, section 7.1 and sections 7 of Annexes 2, 3 and 4.*

- **Department of Cooperatives:** The Department of Cooperatives requires serious attention: the target establishment number of 21 employees is already inadequate, but it currently only has nine staff. The institutional review of 2011 demonstrated that it needs more staff and a greater presence in the districts. Central government has to recognise that it plays a key role in addressing the disconnect between smallholder farmers and processors. It does not have the budget to visit cooperatives around the country to support them. The departments main responsibilities under the Cooperatives Act are:

    - Legal: registration, policy formulation, inspection and enquiries, auditing for cooperatives that cannot afford it.

    - Development: research (although not much of this is done due to resource constraints). Education on co-operatives' rights and obligations, linkages to markets, training leaders and staff (for example on a simplified accounting system the department has developed).

  Adequate capacity is fundamental for the department to meet this mandate and to support the NES priority clusters and crops: sunflower, groundnuts, soya, cotton and sugar cane. To achieve this it is important to avoid donor-led structures that serve as parallel bodies to the Department of Cooperatives. This mitigates efforts to build the capacity of this department. It is important that programmes such as One Village One Product operate in a manner that builds the capacity of the Department of Cooperatives to meet its mandate. *Actions for the Department of Cooperatives are presented in Annex 5 section 7.1, and sections 7 of Annexes 2, 3 and 4.*

Department of Irrigation: Gradually fill the vacant technical positions in the Department of Irrigation. Currently filled positions stand at 40 per cent of the establishment. There is need for a gradual plan over five years to increase this ratio to close to 100 per cent. However it is also fundamental for this investment in the capacity of the department to be matched with an explicit prioritisation of the department on the NES priority clusters and crops: sugar cane, sunflower, groundnuts, cotton and soya. *Actions are presented in Annex 5, section 5.2 and in sections 5 of Annexes 2, 3 and 4.*

TEVETA, the Ministry of Labour and the Ministry of Education, Science and Technology: Prioritise resourcing of TEVETA and Ministry of Labour so that they can manage an effective labour market information system and assist in implementing the National Competencies and Skills Plan that is to be developed under the NES. This plan is key to providing policy direction for these organisations. TEVETA and the Ministry of Labour need to focus their mandate on the priority clusters under the NES. *Actions are listed in Annex 7.*

- **Ministry of Finance and Ministry of Economic Planning and Development:** These Ministries need to give much more priority to efforts to develop Malawi's productive base. The NES prioritised actions (both cross-cutting actions and priority cluster actions) have to be genuinely emphasised and supported in the MGDS II, the Public Sector Investment Programme and the Budget. The development of institutions listed in this chapter has to be prioritised and their importance to the MGDS II has to be genuinely recognised. In addition, it is important to prioritise the capacity of the Real Sector Policy Analysis section and the Financial Sector Policy Unit so that they can fully meet their mandate. This would ensure coordination of the real sectors together with the Trade, Industry and PSD SWAp and the ASWAp, in the case of the former, and in ensuring the development of the financial sector in a manner that MSMEs can access affordable financing, in the case of the latter.

- **Reserve Bank of Malawi:** Expedite capacity development in 3 areas: risk-based bank supervision, supervision of a national warehouse receipts system and the micro-finance directorate. *Actions are listed in Annex 5 section 5 and in sections 5 of Annexes 2,3 and 4.* Ensure that exchange control mechanisms fully facilitate the NES priority clusters.

- **Ministry of Lands and Housing:** The operationalisation of the packaging of land reform legal amendments, starting with the Lands Bill, requires the expedited development of capacity in the following four departments:

    - Departments of Land

    - Physical Planning

    - Surveys

- Policy and Planning
- Land Registry.

There is also need for capacity development in the Housing Department to support processes for developing and operating property to meet the housing, employment and social needs of affected communities. The capacity development in land administration and management will assist to effectively manage the nationwide implementation of the land reform package in a manner that prevents land disputes. Prioritisation of the NES priority crops and encouraging commercial farming is fundamental.

Institutional development needs for other agencies that are not in the top priority level are provided in the relevant sections of Annex 5.

Private sector associations need support and sufficient capacity to operate effectively. Primarily this has to come from members of these associations, but the degree of member pro-activeness will also depend on the extent of government commitment to effective dialogue and support, which in turns requires Government investment in its own institutional capacity. The implementation mechanism of the NES, presented in Chapter 4, is therefore fundamental to support the development of effective private sector associations.

The Malawi Confederation of Chambers of Commerce, Grain Traders and Processors Association, National Association of Business Women, National Indigenous Business Association, the Cotton Development Trust, Malawi Economic Justice Network, the Economics Association of Malawi, MAKNET, Seed Processors Association, Legumes Development and Trade Association, Soyama, NASFAM, Farmers Union of Malawi and others are critical in ensuring that government policy responds to the needs of private operators, as they are the ones who export or could potentially export.

3.5 Priority Area 4 – Competencies, Skills & Knowledge for the Productive Economy

Why this Priority Area?

A National Export Strategy has to be grounded in the realities of economic development. It is not just about trade. Without this understanding, a country such as Malawi could end up only exporting raw commodities, such as tobacco and tea. Raw or semi-raw commodities offer too little room for innovation, for attaining higher value products and for value addition that could empower youths, women and the poor. These factors are fundamental given Malawi's burgeoning youth population, which, depending on whether sufficient jobs can be created, could either drive or burden development. Job creation means that the development agenda has to also be grounded in the realities of economic competitiveness, because higher value products can only be achieved through economic and, for a small economy like Malawi's, export competitiveness.

In turn, attaining higher value products can only be achieved through skills and knowledge. As pointed out by the World Bank's Malawi Country Economic Memorandum in 2010, there is 'evidence of high returns to…tertiary [education] from formal sector employment'[22]. Increasing formal sector employment is vital to build the tax base necessary to fund a welfare programme. Limited investment in tertiary education (which includes TEVET and higher education), will mean that the private sector – including micro, small and medium enterprises and farmer and women's groups and associations – will struggle to offer products and services capable of competing on regional and international markets. This is because they will struggle to secure the skills and knowledge set necessary to deliver high value, high transaction products. In addition the public sector will spend its time on day-to-day administration and on the fire-fighting that comes with higher welfare expectations by Malawi's population, rather than in the strategic work necessary to provide a conducive environment for the productive base to be built and to economically empower farmers, the poor, youths and women.

Skills shortages exist in both the private and public sector and in both rural and urban contexts limiting productive capacity, especially in higher value production chains and more complex government procedures (such as risk profiling and mid-level management skills). In the case of Micro, Small and Medium Enterprises (MSMEs), the skills gap is enormous. According to the Finscope survey of MSMEs in 2012[23], only four per cent of surveyed MSMEs received skills training from training programmes, schools or universities. Most skills are self-taught or learnt through family. This skills gap is central to MSMEs ability to access markets, information, finance, inputs, technology and capital – and hence is central to the growth of such businesses.

TEVET currently struggles to provide skills training in the many required areas. This is due to a failure to correctly identify the skills requirements of the private sector. In addition too few development partners support TEVET, and competencies and technical skills in secondary education. There is need for increased support by the Education Sector Wide Approach (ESWAp) for secondary and TEVET education.

To solve this issue the Labour Market Information System requires increased and adequate support to better identify demand for skills. The requirements for this system, as well as for Primary, Secondary, TEVETA and Higher Education need to be identified through a National Competencies and Skills Plan that links the NES and the Joint Sector Strategy to the education sector and to the labour market information system. This initiative should include a TEVET voucher scheme for private sector companies, MSMEs, formal graduates and the informal sector, including rural youths and women's groups, in order to better reflect demand. Funding mechanisms for such a scheme need to be reviewed as part of

22 World Bank Malawi Country Economic Memorandum 2010, Page 20.
23 Finscope Malawi MSME Survey 2012

the National Competencies and Skills Plan (NCSP). Development partners and the government in both the education sector and the trade, industry and private sector development sectors can then support the NCSP.

In the public sector, the biggest skill failure exists in creating effective middle and junior level management skills. This is reflected in the difficulties seen in aligning policies and implementing strategies.

The Core Issue this Priority Area Seeks to Address

The core issue is the existing disconnect between those who demand competencies, skills and knowledge, such as government agencies and businesses, and those who supply competencies, skills and knowledge, such as research centres and the education sector. If the two sides can be sustainably connected, both sides will have the necessary information to ensure that youths, women, farmers and rural and urban poor are able to participate in Malawi's efforts to build its productive base and its exports.

This is key to allowing the education sector to view itself as not just a social sector but as a core sector for the productive economy. The education sector urgently needs to learn to balance these two perspectives so that there may be an increased focus in the provision of competencies, knowledge and skills required to develop Malawi's productive base. The epitome of the supply and demand disconnect is the lack of a national human resource plan that ties in the education sector to the MGDS II and to the education sector's abilities to build Malawi's productive base.

The Strategy for this Priority Area

The strategy to develop Malawi's competencies, skills and knowledge base in a manner that allows for economic empowerment is presented in detail in Annex 7. A resource plan for priority actions is presented in Annex 1. In summary it is to:

- Apply the ILO's Skills for Trade and Economic Diversification (STED) Toolkit to identify the skill set and the volumes of skills required to allow the productive base to emerge and keep up with development's demands on consumption and imports:
    - the prioritised clusters under the NES for the private sector
    - key enabling sectors such as energy and finance
    - specific attention is to be given to women, youths and MSMEs.
- Conduct an analysis of public sector skills required for supportive economic institutions. An analysis of the skills required to allow key agencies to shape a conducive environment for the productive base to grow, as discussed in the Institutional Capacity Assessment below. This requires a review by the Department of Public Sector Management to evaluate the effectiveness of the current skills development and training which exists in the public sector, relative to its implications for the enabling environment for the productive base. This exercise will be tied to various capacity needs assessments being carried out under Priority Area 2 of the NES (e.g. for MITC, SMEDI and others).
- Use the outcome of these two priority actions to develop **a National Competencies & Skills Plan (NCSP)** that sets out a plan for the Ministry of Labour, the TEVET institutions, MIRTDC and the Higher Education sector to respond to the outcome of the STED by:
    - Identifying an implementable supply side response led by the Ministry of Education, Science and Technology, the Ministry of Labour and TEVETA.
    - Focusing the plan on addressing the information gap in the labour market through an effective Labour Market Information System that is tied in to the NES and SWAp implementation mechanism.
    - Developing a scarce-skills list for critical job-creating skills to cover areas that Malawi cannot afford to supply locally in the short to medium term.
    - Providing long-term direction for the basic education sector on key competencies for the productive base of the economy.
    - Reviewing market based approaches that may complement the Ministry of Labour's efforts to channel information from those demanding to those supplying skills and knowledge. Such approaches may include the use of coupons – as used on the Farm Input Subsidy Programme – to give informal youth, formal TEVETA students, MSMEs and large businesses the ability to cash their coupon at the course and training institution of their choice. Such a scheme would be financed through the TEVET levy.
    - Accounting for competencies and resources required for agencies and Ministries not captured by the ILO's STED to produce a **National Human Resource Plan** that can support the implementation of the productive aspects of the MGDS II.
    - Using this as a basis for the future development of an Education Policy, including competency development in secondary education, and Youth Policy (for youth economic empowerment and support programmes such as Start and Improve Your Business and the National Volunteer Scheme).
- Give the Ministry of Labour the capacity it requires to roll out and maintain an effective **Labour Market Information System** that channels effectively. This system

will be based on the National Competencies and Skills Plan. The system requires appropriate investment in Malawi's Labour Market Information System, particularly in the Ministry of Labour, so that an effective flow of information is available between those who demand skills and those who supply skills. The system has to be comprehensive and able to identify the gap between demand and supply so as to provide feedback to the education system and to demanders of skills. It has to be tied to the NES priority clusters and key enabling sectors.

- The NES also includes a number of actions extracted primarily from the National Education Sector Plan to **help the Ministry of Education, Science and Technology prioritise actions for the education sector that are essential to help Malawi build its productive base and allow for youth employment and economic empowerment**. The focus is on TEVET actions (that include formal and informal TEVET) as well as secondary education. These actions are listed in Annex 7 to this document. It is critical for the Education Sector Implementation Plan II (2013-2017), which is to be developed in the second half of 2012 to help implement the National Education Sector Plan, to prioritise these actions set out in Annex 7 of this document. Key actions include:

    - Link competency delivery focus in basic and secondary education to the NCSP and National Human Resource Plan.
    - Amend the Education Joint Financing Agreement to increase budgetary allocations to Secondary Education and TEVET to their targets set in the National Education Sector Plan.
    - Expedite the rolling out of the Maths and Science Programme in Secondary Schools.
    - Provide TEVETA institutions with the capacity required to meet its mandate through clear definition of roles.
    - In 2012 review of the curriculum for secondary education, include entrepreneurial, technical and skills courses tied in to key sectors in the National Export Strategy.
    - Expedite the review of TEVET policy and then of the TEVETA Act in order to shift the focus to ensuring an effective structure for the TEVET system with clearly defined roles and on how the TEVET levy is spent.
    - Continue the ongoing harmonisation process of the TEVET system between formal and informal TEVET, with a clear identification of roles.
    - Continually invest in university research capacities, through ongoing support for the Universities Working Committee.

Chapter 4 – Implementation Mechanism

4.1 The Mechanism

The implementation mechanism for the NES will be the Trade, Industry and Private Sector Development SWAp (TIPSD SWAp). The NES Steering Committee and Sub-Committees established to develop the NES will transition respectively into the Sector Working Group and into the Technical Working Groups for this SWAp. This will be a permanent, institutionalised structure with an appropriately supported dedicated secretariat.

The main elements of the implementation mechanism are:

1. **Adoption of the NES as a key building block of the Joint Sector Strategy**

   A key objective of the SWAp will be to develop a Joint Sector Strategy (JSS). The NES is to be adopted as a key building block for the Joint Sector Strategy, with additions to account for i) areas from the updated Diagnostic Trade Integrated Study (DTIS) which have not already been captured in the NES; and ii) other issues of the economy that were not captured in the NES or the updated DTIS. In this way the Joint Sector Strategy will take full account of the NES, as well as other key sector policy and strategy documents. The Joint Sector Strategy will be used by the SWAp mechanism to formulate a sector Programme of Works, which will lay out a costed and prioritised investment programme for the sector with agreed timelines for the implementation of all actions, allowing harmonised support by donors

2. **Stakeholder Representation and Dialogue Structure**

This structure will consist of:

- Trade, Industry and PSD Sector Working Group (SWG) – apex body of the SWAp with high-level representation of each stakeholder group. It will review and approve the Joint Sector Strategy and Programme of Works to be developed by the Technical Working Groups (TWGs), as well as recommendations regarding implementation made by the TWGs. It will also ensure the TWGs are functioning correctly and that there is coordination and synchronisation between the TWGs.

- Seven Technical Working Groups (TWGs) – technical stakeholder representation

bodies to drive crosscutting action plans and priority cluster strategies through developing and implementing the Programme of Works to implement the Joint Sector Strategy, and hence the NES. The TWGs report to the SWG. The TWGs are:

- Access to Markets
- Access to Finance and Secure Tenure of Property
- Access to Business Development Services, Information and Inputs
- Access to Skills and Labour
- Oil Seed Products
- Sugar Cane Products
- Manufacturing

- Technical Committees – focused committees of the TWGs to deal with particular aspects of the TWGs that require additional technical attention. These will be established on a needs basis. Figure 6 later in this chapter presents the reporting arrangement for existing technical committees, such as the National Working Group on Trade Policy and the Trade Logistics Working Group, as well as planned committees such as the MSME Policy and Strategy Committee.

3. **Secretariat, Coordination and Resourcing for the Strategy**

- **SWAp Secretariat** – a dedicated SWAp Secretariat, including staff who work full-time on the SWAp, is to be established in the Department of Planning in the Ministry of Industry and Trade. This role is crucial to the success of the SWAp in implementing the NES because departments are very stretched with day-to-day operations. The secretariat's role is two-fold:

  1. Proactively drive the implementation and monitoring of the Joint Sector Strategy, and hence the NES, by:

     - Ensuring that there is appropriate follow up on prioritised actions and oth-

er actions that emerge through the SWG, TWG and Technical Committee meetings. Where implementing agencies or another dialogue forum have the capacity to drive these actions, the secretariat will play a supportive role, but where this capacity is constrained, the secretariat will play a pro-active role to ensure that the priority actions are progressing.

- Assisting with and coordinating analytical work or research done by members of the TWGs.
- Assessing whether the membership of a TWG is sufficiently well-placed to progress a particular action and if not, ensuring that the relevant organisations and representatives of sufficient seniority are adequately informed and involved in the work.
- Attending other TWGs in relevant SWAps, such as in ASWAp, ESWAp and the Financial Sector Working Group as well as other relevant fora, and ensuring that where issues pertinent to the development of the productive base are not covered elsewhere, that these are adequately addressed by the TIPSD SWAp. Where issues are adequately addressed in another forum or SWAp (from the perspective of private operators), then the secretariat's role would be to update the relevant TWG that this is the case and update it of progress.

2. Serve as an effective secretary to the Sector Working Group and the TWGs, and where needed the technical committees, this will involve the following tasks:

- Consolidating work plans
- Convening meetings of the various bodies under the framework and setting their agendas
- Liaising with key stakeholders to ensure participation
- Ensuring timely reporting, including from the TWGs to the SWG
- Preparing quarterly TIPSD SWAp reports for dissemination to sector stakeholders
- Preparing proposals for the SWG's endorsement based on recommendations from the TWGs
- Coordinating the annual sector progress review.

This role is further expanded in Annex 1 to this document, where the Terms of Reference for the SWAp Secretariat is also presented.

- **Link to the Public Sector Investment Programme and the central government budget** – The Department of Development in the Ministry of Economic Development Planning and Planning Development is the custodian of the Public Sector Investment Programme and close ties will be established and maintained with this department by the SWAp Secretariat.
- **Link to Malawi Growth and Development Strategy II** – it is the role of the Real Sector Policy Analysis (RSPA) Section in the Department of Planning in the Ministry of Economic Planning and Development to analyse sectoral policies in all sectors for consistency with the development aspirations of Malawi as set out in the MGDS II. The section is tasked with co-ordinating real sector policy issues with relevant line Ministries and with other public, private and civil society institutions. The SWAp Secretariat and this section must build strong links to ensure complementary synchronisation and coordination. This link will be through a day-to-day working relationship whereby the Division will not only attend TWG meetings, but also work with the SWAp secretariat in following-up with implementing agencies after the TWG meetings, and assisting with the analytical and research work required in the SWAp.
- **Link with other SWAps –** the secretariat will ensure coordination, adequate information flow and coordination of resources with other SWAps, in particular the Agriculture SWAp, the Education SWAp and the Financial Sector Working Group being established by the Ministry of Finance.
- **Link with Enhanced Integrated Framework (EIF) –** The key principles and objectives of the EIF share much common ground with those of the SWAp. The Joint Sector Strategy will encompass the updated DTIS, while also providing a more holistic approach, and the required linkages to the productive sectors. The EIF funding mechanism

will act as one possible funding channel to implement the Joint Sector Strategy.

- **Maintaining momentum of the NES to ensure implementation** – an Action Committee will operate in the first year following the launch of the NES to maintain the momentum of the development phase of the NES, while the NES stakeholder consultation mechanism is transitioning into the SWAp. The Action Committee will include the chairs of each of the TWGs and a few, high-level stakeholder representatives who can champion priority actions. It will meet on an *ad hoc* basis: whenever necessary (on average once a quarter) to take immediate action on matters of importance, to ensure progress on priority NES actions, and to meet with senior officials where lobbying is required. The need for a continued role for the Action Committee will be assessed after the first year of its activities.

4. **Link to the Highest Level of Stakeholder Groups**

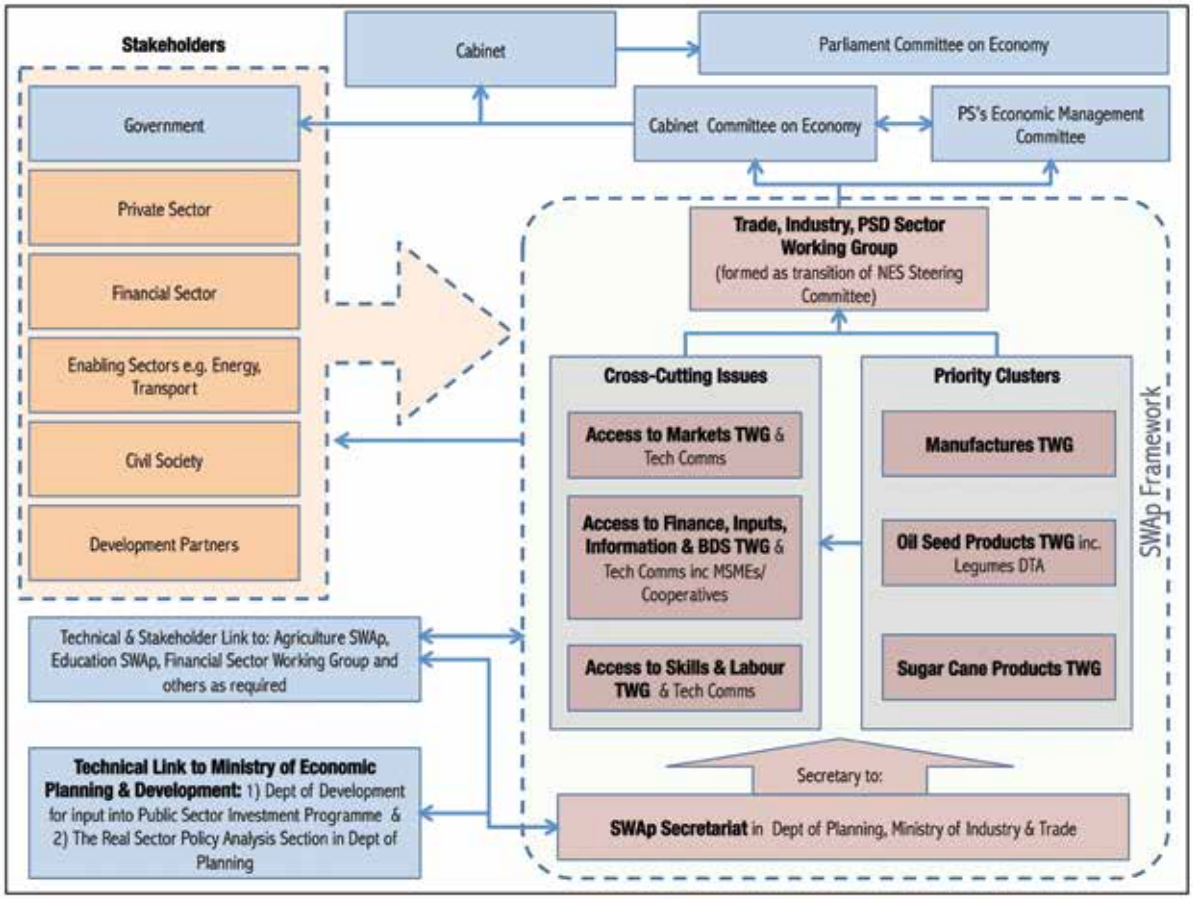
- Cabinet – the outcomes of the SWG will feed into Cabinet through the Minister of Industry and Trade.
- Economic Management Committee – the outcomes of the SWG will feed into the Economic Management Committee of Principal Secretaries, through the Principal Secretary of the Ministry of Industry and Trade.
- PPD Forum – the SWG will feed actions that require political attention in order to be expedited through the PPD Forum to ensure high-level political attention.
- The President's initiatives: the government cluster system, the public-private sector forum, the Presidential Advisory Committee on the Economy and the Presidential Initiative on Food Security and Poverty Reduction.

5. **Financing of SWAp**

- The financing of the SWAp will be through existing channels. The channel to be used will be decided by the Ministry of Industry and Trade and development partners. Potential existing channels are the Trade Statistics and Information Systems component of the Financing Agreement between the EC and Malawi and the Enhanced Integrated Framework. Additional funding may also exist through the Agriculture SWAp Support Programme.

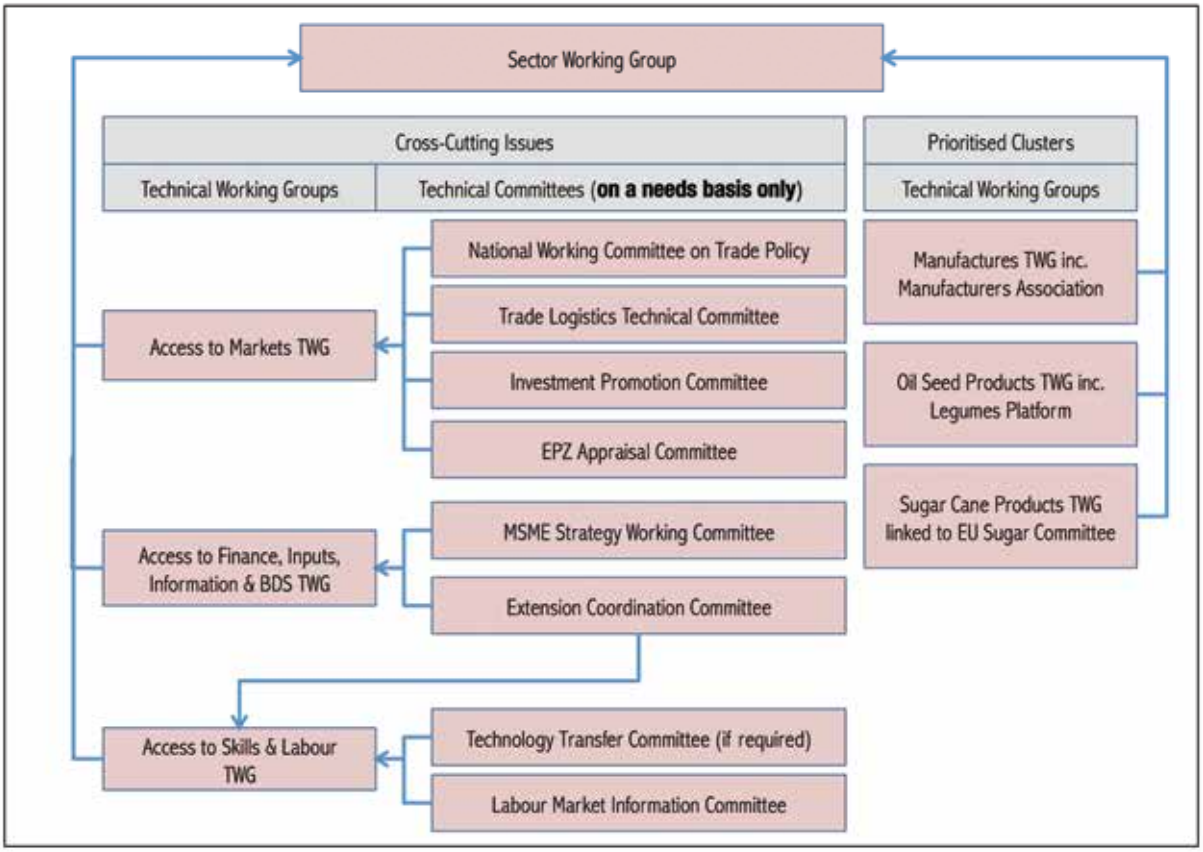
The implementation mechanism is presented diagrammatically in Figures 6 and 7 -in following pages.

Figure 6: The SWAp and NES Implementation Mechanism



Key: In Blue are Government Structures, in Orange are other stakeholders, in Red are Stakeholder-Wide Implementation Platforms. TWG stands for Technical Working Group. Tech Comms stands for Technical Committees.

Figure 7: The Sector Working Group, its Technical Working Groups and Technical Committees in detail



Note: TWG stands for Technical Working Group.

Existing public-private dialogue mechanisms on specific thematic areas that fall within the productivity spectrum are included in this implementation mechanism as detailed in Figure 7 above.

The areas covered by the crosscutting TWGs will include (but will not be limited to) the following:

- Access to Markets
    - Trade Policy
    - Trade Facilitation including Customs and Trade Licensing
    - Investment Promotion and Facilitation including Export Processing Zones and Special Economic Zones
    - Export Promotion and Facilitation
    - Standards
    - Transport
    - Taxation, including Incentives
    - Regulation, including Business Registration
    - Foreign Exchange Policy, including transfer pricing and the repatriation of export earnings
    - Macroeconomic Policy.
- Access to Finance and Secure Tenure of Property (with a link to the planned Financial Sector Working Group)
    - Financial Sector Development
    - MSME Access to Finance
    - Micro-finance
    - Secure Tenure of Property, including Access to and Secure Tenure of Land; Contract Law; Movable Property.
- Access to Business Development Services, Information and Inputs (link in to ASWAp for relevant sections)
    - Business Development Services including:
        - MSME Support Services
        - Cooperatives and Farmer Organisations
        - Extension Services
        - NGO support
        - Professional Services
    - Commodity Exchanges, Warehouse Receipts and Storage
    - Information and Communications Technology (ICT)
    - Stakeholder dialogue platforms
    - Farm Inputs
    - Energy
    - Water and Irrigation.
- Access to Skills and Labour
    - National Competence and Skills Plan linked to the productive economy
    - Labour Market Information System
    - Technology and Research.

4.2 Critical Success Factors

The success of this implementation mechanism depends on:

1. **Correct membership and chairs** – Inclusion of the highest-level of each stakeholder group within the mechanism, including government, private sector, financial sector, other enabling sectors (e.g. transport, education, agriculture and energy), civil society and development partners. The correct chairmanship of the TWGs by passionate and effective leaders who can maintain the focus on the implementation of the strategy is also essential. The TWGs will be co-chaired by the public and private sector. During the transition period from NES sub-committees to SWAp sub-groups, a decision will be taken by each group on whether to maintain the current NES sub-committee chairs. Where objections are raised to maintaining the chairs, members will vote to elect new chairs in the first meetings of the new TWGs.

2. **Clear reporting lines** – Clear reporting lines, particularly in Government with Cabinet at the helm, are essential as is a permanent link in to the MGDS II through a day-to-day working relationship between the Ministry of Economic Planning and Development and the SWAp secretariat.

3. **Adequate resourcing, coordination and a dedicated secretariat** – Such an implementation mechanism crucially needs adequate resources. The key feature is having a central office within the Ministry of Industry and Trade where staff work exclusively on the implementation of the Joint Sector Strategy, and hence on the National Export Strategy. A dedicated SWAp secretariat with adequate staff, skills and capacity within the Department of Planning in the Ministry of Industry and Trade is critical to the NES's success. This lies at the heart of an effective

stakeholder dialogue forum and driving mechanism that **can mobilise adequate resources to ensure the implementation of the Joint Sector Strategy and the NES.** The dedicated secretariat will liaise and meet regularly with other key SWAps, particularly the Agriculture SWAp, Financial Sector Working Group and the Education SWAp. It will ensure adequate representation of other key SWAps in the Trade, Industry and PSD SWAp and evaluate whether there is a need for *ad hoc* meetings between representatives of the SWAps. The dedicated secretariat will also have a close link with the National Implementation Unit for the Enhanced Integrated Framework, while avoiding misalignment by ensuring that the Diagnostic Trade Integrated Study (DTIS) is a sub-component of the Joint Sector Strategy.

4. **Proper structure and focus** of the SWAp – Moving toward a single, unified strategy to build the productive base of the economy is fundamental to achieving the desired outcome. The Joint Sector Strategy can provide this single, unified strategy. In turn, the NES can form a major building block of the Joint Sector Strategy since Malawi's development objectives set out Malawi's need to develop its productive base in a way that allows sufficient exports. Therefore the NES Steering Committee is well placed to transform into the Trade, Industry and PSD Sector Working Group, with the addition of other critical members where necessary, particularly those who were part of the original proposed SWG/TWG membership list. The sub-committees established under the NES stakeholder consultation mechanism will form a strong basis for the TWGs to the Trade, Industry and PSD SWG. These would take the place of the originally proposed TWGs. This would be achieved through certain modifications to the sub-committees' membership and mandate to ensure consistency with the aims of the originally proposed TWGs. The crosscutting nature of the new TWGs means that the same pertinent issues can be discussed as had originally been intended within the TIPSD SWAp, but within a framework which avoids overlap and duplication of efforts between TWGs. Meanwhile, the three cluster TWGs are required because Malawi critically must prioritise clusters that can complement tobacco and drive export growth, relative to the growth of imports. Prioritisation requires coordination and commitment, and therefore it is essential for these TWGs to report directly to the Sector Working Group, while also feeding in to the cross-cutting TWGs. Existing committees and other proposed committees (herein referred to as Technical Committees) will be incorporated within the mechanism, including the National Working Group on Trade Policy and the Trade Logistics Working Group. This is presented in Figure 7 above.

5. **Maintaining momentum –** The momentum gained in the development of the NES needs to be maintained. Otherwise stakeholder may lose interest and buy-in, thereby reducing meeting attendance and quality. The momentum of the NES development phase will be maintained through a transition period that allows for the new SWAp Secretariat to work alongside members of the original NES Technical Team to run necessary meetings, while working with the Department of Planning to get the SWAp fully institutionalised. Details of these transition and funding arrangements are provided in Annex 1 to the NES.

4.3 Rationale for this Implementation Mechanism

In 2005 the Ministry of Industry and Trade engaged with stakeholders to develop a National Export Strategy for Malawi. The strategy was not completed at that time. The main reason for this was outlined in the Response Paper that was drafted in September 2005 for presentation to a National Symposium on the Strategy[24]:

> *"There still remains a considerable gap between [the] acknowledgement of the constraints, and the commitment of adequate resources to address those constraints… As with so many policies, actual implementation is the major cause of policy failure."*

This is the key reason why numerous policies and actions designed to develop Malawi's productive base, emerge as recurrent solutions in stakeholder discussions on how Malawi can boost its competitiveness and its exports.

Therefore a central feature of the National Export Strategy requiring high-level commitment and prioritisation is its implementation mechanism. This is the structure through which stakeholders can ensure that the prioritised actions of the strategy are adequately committed to by the implementing agencies and are therefore adequately resourced, both financially and in terms of management time and focus. The success of the National Export Strategy is dependent on the establishment of an effective implementation mechanism and on maintaining a certain degree of momentum – otherwise stakeholders will lose interest and buy-in.

As part of the MGDS II, the Government's approach to improve coordination and alignment of resources is through Sector Wide Approaches (SWAp). It is essential for the NES implementation mechanism to be part of this framework and hence be part of the proposed Trade, Industry and Private Sector Development SWAp.

The implementation of the NES via the SWAp framework is essential to:

- Improve policy and programme alignment
- Improve government resource mobilisation

24 The Case for a National Export Strategy: Key Issues and Possible Response, http://www.trade.gov.mw/pdf/National%20Export%20Strategy%20response%20paper%20(02_09_05).pdf

- Reduce duplication of efforts
- Ensure a proper division of labour
- Reduce stakeholder confusion and overload
- Ensure sustainability
- Support ongoing political governance and consistency in the event of changes in the political scenario.

Furthermore, since growth in exports through value addition is dependent on the productive base of the economy, it is appropriate that a single, comprehensive implementation mechanism be established to address the NES and other sector strategies. For this reason, and given that the NES provides a comprehensive roadmap for the development of Malawi's productive base, the Joint Sector Strategy developed under the SWAp will use the NES as a major building block. It will present a complete road map of the actions that are required to build Malawi's productive base in a manner that is tied in to Malawi's export capacity. This will allow the NES to be implemented through the SWAp implementation mechanism. This implementation mechanism incorporates the NES stakeholder consultation mechanism, which was established to develop the NES and ensures adequate stakeholder representation across the sector.

The export orientation of the SWAp is vital given the degree to which Malawi's development depends on exports, as analysed in the World Bank's Malawi Country Economic Memorandum of 2010[25]and given the 2011 foreign exchange crisis. In addition, as a forum for sector-wide participation, the SWAp also ensures that smallholder farmers, MSMEs, large businesses, youth and women are able to participate and contribute, thus ensuring economic empowerment across the economy.

Why the need to invest in the Trade, Industry and PSD SWAp as the Implementation Mechanism for the NES?

The Ministry of Industry and Trade recognises that the development of the trade, industry and PSD sector cannot happen in isolation from other sectors. The development of the productive base of the economy hinges on support from a wide range of other sectors. These enabling sectors include the financial sector, energy, water, agriculture, natural resources, transport, and education, to name only a few. It is therefore essential that these sectors - and their underlying Ministries, agencies and stakeholders - work together in a coordinated manner towards the common goal of driving sustainable economic growth via the development of trade, industry and the private sector.

It is this collaborative approach across the enabling sectors which the NES, the TIPSD SWAp and the Joint Sector Strategy are aiming to achieve. For this collaboration to be successful it is important that no single Ministry or institution is regarded as the sole "owner" of the SWAp, so that each stakeholder takes responsibility for the actions they are best positioned to implement. At the same time, there is a need for:

1. A strong champion for the sector and custodian of the SWAp process, to promote the sector's agenda with inter and intra-sectoral stakeholders.
2. A strong tie to central government and OPC to help ensure inter-sectoral outreach and appropriate political support for the SWAp.

These two aspects should be complementary to each other. While central government and OPC's focus on trade, industry and PSD may vary depending on political leadership and objectives, the Ministry of Industry and Trade has a permanent, long-term focus on trade, industry and private sector development objectives as well as valuable technical knowledge of the sector. Thus the role of champion and custodian falls naturally to Ministry of Industry and Trade. Creating the SWAp Secretariat as a driving mechanism within Ministry of Industry and Trade, while maintaining close links with OPC, the Ministry of Economic Planning and Development and central government, will provide the appropriate mix of consistency, technical capacity and intra-governmental coordination and advocacy capacity.

In turn, the SWAp can act as a vital organ to help the Ministry of Industry and Trade become much more of a facilitator of private operators and a driver of the productive base of the economy. In the long-term Malawi requires capacity within all spheres of Government to ensure a constant focus and drive toward building the productive base of the economy in a manner than is export-led. It is critical that the SWAp be used as a mechanism to develop this capacity.

4.4 Technical Working Groups for the Three Prioritised Export Clusters

As the core of the three prioritised export cluster strategies, the Manufacturing, Oil Seed Products and Sugar Cane Products Sub-Committees of the NES development process will continue to operate as the stakeholder representation and implementation mechanism for the cluster strategies. This is critical to the success of the NES's three cluster strategies, because it is the mechanism that can ensure broad stakeholder drive, commitment, coordination and alignment, while ensuring that the clusters are developed in a manner that ensures both economic competitiveness and also resource mobilisation, resource allocation and adequate management attention to implementation bottlenecks, which inevitably arise in any implementation process.

The Manufacturing, Oil Seed Products and Sugar Cane Products Sub-Committees that were established in the development phase will continue to operate as Technical Working Groups of the SWAp,

25 'Malawi Country Economic Memorandum 2010', World Bank, Page 6 and Figure 1.3.

reporting directly to the Sector Working Group. This will provide it with a direct reporting line to the highest level of each stakeholder group, including Cabinet for Government.

As Technical Working Groups (TWG), these three stakeholder representation bodies will include adequate representation of all stakeholder groups. Crucially, apart from including businesses, youth, MSMEs, women groups and farmer organisations, the bodies will also include organisations in key enabler sectors, such as the financial and energy sectors and also policy makers, implementers and resource holders such as the Ministry of Finance, the Ministry of Economic Planning and Development and development partners.

The Manufacturing, Oil Seed Products and Sugar Cane Products TWGs will be co-chaired by passionate, effective leaders from the public sector and the private sector, who will be elected by the members of the TWGs. The TWGs will be supported by the SWAp Dedicated Secretariat that is being established by the Ministry of Industry and Trade. The TWGs will report through the co-chairs and the SWAp Dedicated Secretariat to the Sector Working Group.

4.5 Monitoring and Evaluation

The Monitoring and Evaluation Framework for the NES is composed of two parts:

- Completing required prioritised actions under the NES.
- Meeting guideline targets for exports.

Progress for these actions and guideline targets is to be monitored and evaluated by the SWAp Secretariat, by monitoring the completion of actions as per the relevant Annexes.

For the first part, the matrices presented in Chapter 7 of Annexes 2, 3 and 4 for the prioritised cluster strategies and in Annexes 5, 6 and 7 for the crosscutting issues represent the Monitoring and Evaluation framework for the NES.

For the second part, the actual exports are to be monitored relative to the guideline targets presented in Chapter 2 of this document. The degree to which these targets are met will depend on the degree of implementation of the NES action plans.

Presentation of the Annexes to the Strategy

There are eleven annexes to the National Export Strategy. Together these flesh out the details of the strategy, including providing top-level indicative costings for the Implementation Plan for the NES and the Sector Wide Approach (Annex 1) and for priority actions within the six sub-strategies (Annexes 2 to 7).

Support plans for other key sectors are presented in Annex 8 and Annex 9 provides a description of the Cluster Prioritisation Method and its outcomes. Annexes 10 and 11 present the review of crosscutting export enablers and the review of institutional capacity that were carried out during the development phase of the NES to inform the strategy. The review of institutional capacity was carried out from the perspective of what is necessary for Malawi to build its productive base and hence its export capacity.

Therefore, for the details of Malawi's National Export Strategy, please refer to the relevant Annex as follows:

Volume 2

- Annex 1 An Implementation Plan for the NES and the Sector Wide Approach
- Annex 2 A Strategy to Develop the Oil Seed Products Cluster
- Annex 3 A Strategy to Develop the Sugar Cane Products Cluster
- Annex 4 A Strategy to Develop the Manufactures Cluster
- Annex 5 Matrix of Prioritised Actions to Secure Conducive Environment for Productive Base and Export

Volume 3

- Annex 6 Matrix of Prioritised Actions to Develop Malawi's Productive Base Support Institutions
- Annex 7 Matrix of Prioritised Actions to Develop the Competencies, Skills & Knowledge Base Required to allow Malawi's Export Capacity to Emerge
- Annex 8 Support Plans for Tobacco, Tourism, Tea, Services and Mining
- Annex 9 An Explanation of the Cluster Prioritisation Method and its Outcomes
- Annex 10 The Review of Cross-Cutting Export Enablers
- Annex 11 The Review of Institutional Capacity from the perspective of building Malawi's Productive Base and its Export Capacity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