



Opportunities for Private Sector Investment in the Malawian Agricultural Sector

Ministry of Agriculture and Food Security

November 2012

Purpose and Intended Audience

This document is intended for those interested in investing in Malawian agriculture and highlights the investment climate, along with opportunities and enablers

Purpose of the Private Sector Investment Plan

This document offers an overview of Malawi's **agricultural investment landscape**, highlighting key opportunities for private sector engagement. Specifically, it:

- Highlights **why Malawi is an important investment destination for agricultural development**
- Offers insight into Malawi's **macroeconomic environment**, agro-climatic conditions, and the country's agricultural production patterns
- Explains several **key government initiatives** being undertaken to develop the country's agricultural sector, including its Agriculture Sector Wide Approach strategy and infrastructure investments
- Highlights several **value chains for private sector investment**, including the rationale for potential short-term investment in five prioritized value chains
- Reviews the **barriers to private sector investment** in Malawi and the **mitigating strategies** and activities the Government of Malawi, donors, and private enterprises are considering or already implementing

Intended Audience

This report is **intended for local, regional and global investors** interested in the agricultural sector in Malawi



Opportunities for Private Sector Investment

Methodology and Disclaimer

Developing this Plan involved detailed research and consultation with over 75 contacts; this Plan is not an offer to participate in any of the investments highlighted herein

Methodology

- Information included was **captured and qualified over a four-month period by Monitor Group**
- The data used to inform the conclusions reached was derived from both **primary and secondary research**
- As part of the research more than **75 contacts, including agribusinesses, investors, donors, NGOs, and public sector ministries across Malawi, were interviewed** in order to gather a wide range of perspectives on agricultural investment opportunities and key enablers required

Disclaimer

- This report was **written by Monitor Group**, an independent, global management consultancy firm with funding provided by USAID as **technical assistance to the Malawian Ministry of Agriculture and Food Security**
- The information shared should **not be regarded as an offer to buy, sell, or otherwise deal with any investment opportunity referred to herein**

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Opportunities for Private Sector Investment

Abbreviations and Acronyms (1/2)

Acronyms and abbreviations used in this Plan are defined below; unless otherwise noted, all monetary amounts are in USD

ACE	African Commodity Exchange
AfDB	African Development Bank
AH	Auction Holdings
ASWAp	Agriculture Sector Wide Approach
BESTAP	Business Environment Strengthening Technical Assistance Project
CAADP	Comprehensive African Agricultural Development Programme
CAGR	Compound Annual Growth Rate
CFM	Caminhos de Ferro de Mocambique
CLIN	Northern Integrated Logistical Corridor
COMESA	Common Market for Eastern and Southern Africa
CDI	Clinton Development Initiative
CSB	Corn Soya Blend
DCAFS	Donor Community on Agriculture and Food Security
EDF	Export Development Fund
ESCOM	Electricity Supply Corporation of Malawi
EU	European Union
FANPRAN	Food, Agriculture and National Resources Policy Analysis network
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FISP	Farm Input Subsidy Programme

FUM	Farmers Union of Malawi
GBI	Green Belt Initiative
GDP	Gross Domestic Product
GoM	Government of Malawi
HQCF	High Quality Cassava Flour
IFPRI	International Food and Policy Research Institute
IMF	International Monetary Fund
IPS	Integrated Production System
MBS	Malawi Bureau of Standards
MCC	Millennium Challenge Corporation
MCCCI	Malawi Confederation of Chambers of Commerce
MDG	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
MITC	Malawi Investment & Trade Commission
MoAFS	Ministry of Agriculture and Food Security
MoEDP	Ministry of Economic Development and Planning
MoF	Ministry of Finance
MoIT	Ministry of Industry and Trade
MoL	Ministry of Lands, Housing and Urban Development
MoNREE	Ministry of Natural Resources, Energy, and Environment
MoT	Ministry of Transport



Opportunities for Private Sector Investment

Abbreviations and Acronyms (2/2)

Acronyms and abbreviations used in this Plan are defined below; unless otherwise noted, all monetary amounts are in USD

MRA	Malawi Revenue Authority
MWK	Malawian Kwacha
NASFAM	National Smallholder Farmers Association of Malawi
NES	National Export Strategy
NGO	Non Governmental Organization
OPC	Office of the President and Cabinet
PACE	Presidential Advisory Committee on the Economy
PIPaH	Presidential Initiative of Poverty and Hunger Reduction
PPP	Public Private Partnership
RBM	Reserve Bank of Malawi
RUTF	Ready to Use Therapeutic Food
SACCO	Savings and Credit Cooperatives
SADC	Southern African Development Community
SGR	Strategic Grain Reserve
SHF	Smallholder Farmer
SWAp	Sector Wide Approach
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USD	United States Dollar
WFP	World Food Program

bn	Billion
Ha	Hectare
km	Kilometre
mm	Millimeter
mn	Million
MT	Metric Ton
sq km	Square Kilometre

Agenda

This Private Sector Investment Plan for Malawi is divided into the following five themes:

ECONOMIC OVERVIEW



- About Malawi
- Gross Domestic Product
- Currency, inflation and Foreign Direct Investment
- “Ease of Doing Business”

AGRICULTURAL SECTOR



- Water, climatic, land and people resources for agriculture
- Crop statistics
- Market potential
- Recent investment

GOVERNMENT INITIATIVES



- Sector strategies
- Policy reform
- Investment incentives
- Turnkey projects in infrastructure

INVESTMENT OPPORTUNITIES



- Short term investment opportunities
- Medium- to long-term investment opportunities

RISKS & MITIGATIONS



- Political and regulatory risk
- Financial risk
- Supply chain risk
- Market risk

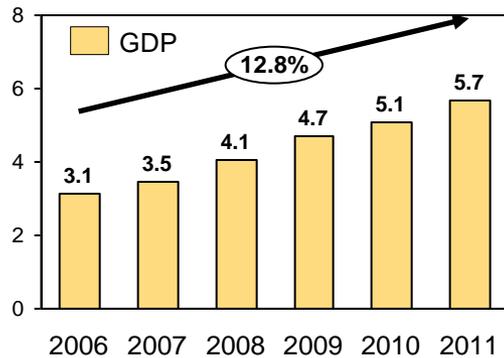
Executive Summary

Economic Overview

Malawi's economy is growing, driven primarily by the agriculture sector with the government seeking to foster a market driven economy and attract FDI into agriculture

Growing economy, with high dependence on agriculture

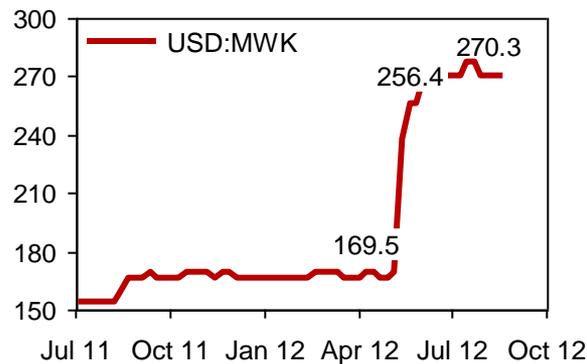
Annual GDP of Malawi (USD bn)



- Malawi's economy has experienced consistent growth between 2006 and 2011, at 12.8% per annum
- Agriculture is the single largest contributor to GDP, representing 30% of GDP in 2011

Floating of currency driven by need for market-driven economy

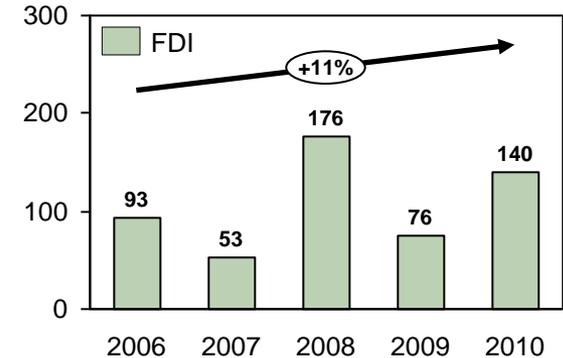
Currency Exchange Rate (MWK per USD)



- Malawi's currency was floated on the open market in 2012 in order to:
 - Foster a market-driven economy
 - Meet IMF requirements
 - Increase exports
- In the short term, this contributed to rising inflation
- In the long term, it will increase competitiveness of exports

Upward trending FDI, with room to increase agriculture investment

Net FDI Inflows to Malawi (USD mn)



- FDI inflows into Malawi have fluctuated but trended upwards between 2006 and 2010
- Even though FDI levels were lower than neighbors, they are expected to increase as reforms take effect
- There is room to grow investment in agriculture, which only received 5% of committed investment in 2011

Why Invest in Malawi?

Malawi is an attractive investment destination due to its relatively abundant means of production, access to markets and improving enabling environment for investment

UNPARALLELED MEANS OF AGRICULTURAL PRODUCTION

- **Abundant water supply**
 - Lake Malawi covers ~20% of Malawi's land area; potential for food independence
- **Good agro-ecological conditions**
 - Five distinct agro-ecological zones
- **Available arable land**
 - 42% of arable land is yet unused
- **Ingrained agrarian culture**
 - 85% of population is engaged in agriculture

STRONG MARKET POTENTIAL FOR MALAWIAN PRODUCE

- **Growing local market**
 - Population of 15.4 mn, growing at 2.9% per annum, with increasing buying power
- **Accessible regional markets**
 - Regional economic growth and increasing market potential
- **Growing global interest in Africa**
 - Malawi already has some established trade relationships with EU and Asian countries

ENABLING ENVIRONMENT BEING FOSTERED BY POLICY AND...

- **Unified strategy for the agriculture sector**
 - ASWAp and NES make government goals transparent
- **Improving enabling environment due to policy reforms**
 - Bills recently passed: Business Registration, MITC, Bureau of Standards, PPP
 - Current review of the Secure Transactions, Business Licensing, Insolvency Bills and the Company Law

...SUPPORT AND CO-INVESTMENT IN TURNKEY PROJECTS

- **Unlocking irrigation potential**
 - Green Belt Initiative to expand irrigation area to 200,000 ha by 2015
- **Increasing market access**
 - Support of the Vale revitalization of the Nacala Railway line through Malawi
- **Revitalizing the power sector**
 - USD 350.7 mn investment by Millennium Challenge Corporation to improve transmission efficiency

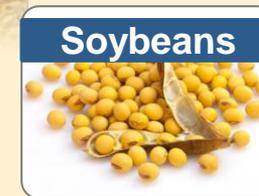
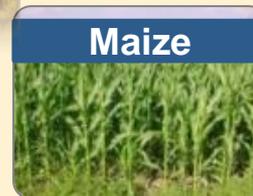
Concerted efforts by the GoM to use a structured approach to increasing investment and foster an enabling operating environment signals that Malawi is open for business

Priority Value Chains for Investment

Through consultation with Malawian stakeholders, ten value chains were prioritized as investment opportunities with five of these being prioritized for short-term investment

Short-Term Investment Opportunities

Value chains with potential for immediate investment due to market potential, strong competitiveness, and high investor interest



Long-Term Investment Opportunities

Value chains with longer term value creation potential but with challenges that must first be overcome through partnership or additional upfront investment



Key Risks and Mitigation Strategies

Investors and stakeholders working in Malawi's agricultural sector face some key risks, for which mitigating actions are being undertaken by government, donor, and private sector actors

Risks Reported by Private Sector Actors in Malawi

Examples of Mitigating Actions

Political / Regulatory Risks

- 1) Uncertain Policy / Regulatory Environment
- 2) Slow Investment Procedures due to Bureaucracy
- 3) Insufficient Coordination between Government, Donor and Private Sector Organizations

Consultative approach to policy and strategy development, digitization of procedures, and implementation of "single window" for investment startup

Financial Risks

- 4) Limited Foreign Exchange Generation
- 5) Difficulty Accessing Capital/Credit

Diversification of agricultural production and development of an Export Development Fund to support export-oriented businesses

Supply Chain Risks

- 6) Difficulty Financing Farm Inputs
- 7) Low Capacity / Productivity of SHFs
- 8) Insufficient Power, Transport and Irrigation Infrastructure
- 9) Variable Commodity Prices

Implementation of Savings and Credit Cooperatives to increase SHF access to credit, development of a commodity exchange to stabilize markets and co-investment in key infrastructure projects to ease operations for agriculture actors

Market Risks

- 10) Low Access to / Competitiveness in Export Markets
- 11) High Dependence on Imported Inputs and Equipment

Certification of the Malawi Bureau of Standards, and availability of investment incentives to ease input and equipment access

What Does This Mean for Malawi?

Malawi's natural resources, along with policy reforms and government openness to co-investment, make Malawi an economy that is ripe for investment

- 1** *Means of agricultural production are in place...*
- 2** *The enabling business and political environment is being strengthened...*
- 3** *Turnkey projects are further unlocking production and marketing potential...*
- 4** *Success has been demonstrated by existing firms and many growing companies are ready for co-investment...*

Malawi is Open for Business!!!



Agenda

Characteristics of Malawi's economy make it ripe for interested investors

ECONOMIC OVERVIEW



- About Malawi
- Gross Domestic Product
- Currency, inflation and Foreign Direct Investment
- “Ease of Doing Business”

AGRICULTURAL SECTOR



- Water, climatic, land and people resources for agriculture
- Crop statistics
- Market potential
- Recent investment

GOVERNMENT INITIATIVES



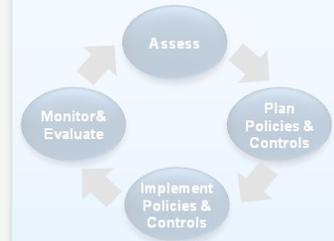
- Sector strategies
- Policy reform
- Investment incentives
- Turnkey projects in infrastructure

INVESTMENT OPPORTUNITIES



- Short term investment opportunities
- Medium- to long-term investment opportunities

RISKS & MITIGATIONS

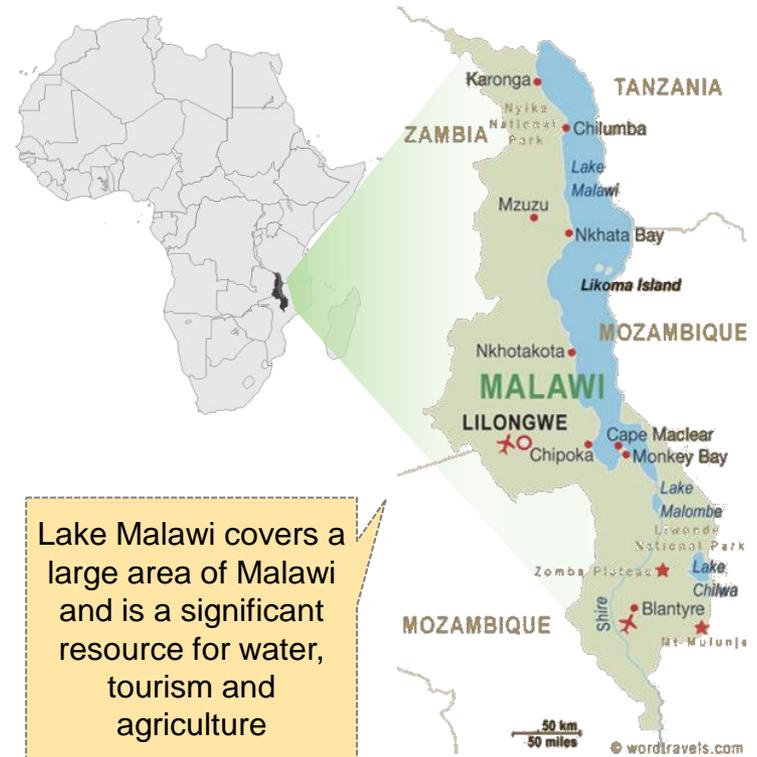


- Political and regulatory risk
- Financial risk
- Supply chain risk
- Market risk

Overview of Malawi

Malawi is a politically stable Southern African country of 15.4 million people, that is home to the third largest lake in Africa

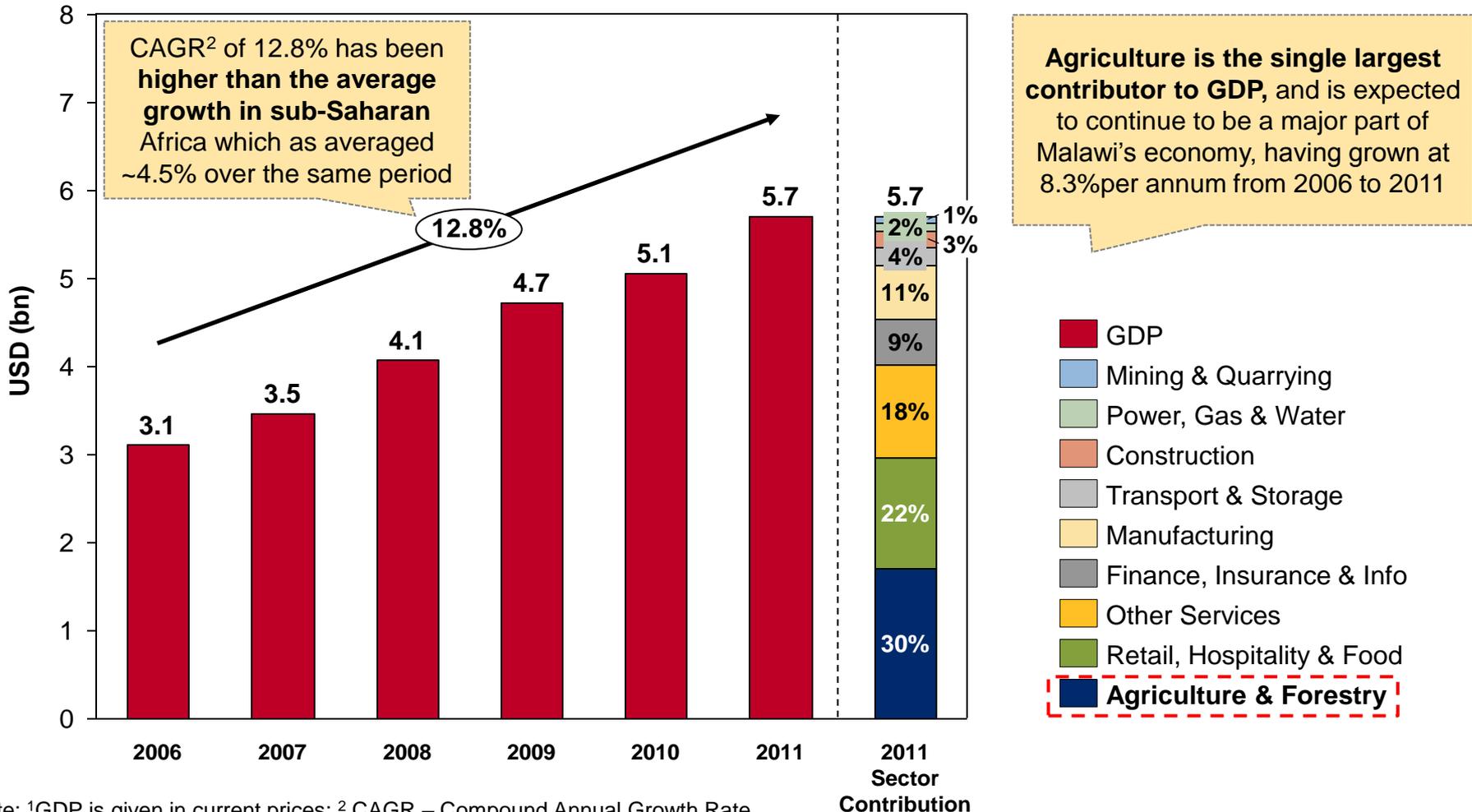
- Malawi, the “Warm heart of Africa”, is a Southern African country with a population of **15.4 mn people**
- It has a land area of **118,500 square kilometers**, it is 896 km in length, and 80 – 160 km in width
- The **capital city is Lilongwe**, and the second largest city, Blantyre, is the center for commercial activity
- The country is demarcated into three major regions - Northern, Central and Southern Regions
- **Lake Malawi**, the third largest lake in Africa, and Lake Chilwa cover **~21% of Malawi’s land Area**
- Malawi has had a **multi-party democracy system since 1994**, and is politically stable
- The current president, **Her Excellency Joyce Banda**, has **been in office since April of 2012**
- The official language of Malawi is **English**, and Chichewa is also widely spoken



Economic Overview

Agricultural Contribution to the Economy

The economy has experienced consistent growth between 2006 and 2011, with agriculture being an important contributor, representing 30% of GDP in 2011

Annual GDP¹ of Malawi, and Sector Contribution for 2011

Note: ¹GDP is given in current prices; ² CAGR – Compound Annual Growth Rate
 Source: World DataBank; World Economic Outlook; Monitor Analysis

Currency and Inflation

In 2012, the Malawian Kwacha was devalued to foster a market driven economy, increase exports, and meet IMF requirements, resulting in a short term rise in inflation

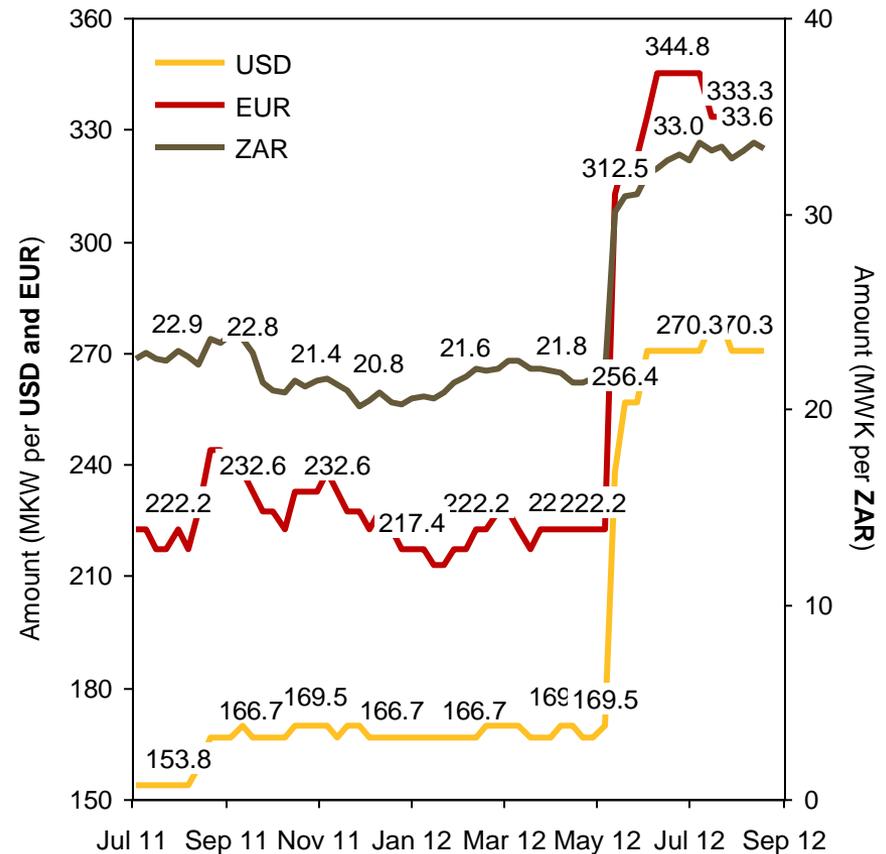
Currency Devaluation

- In 2012, the Government of Malawi (GoM) devalued the Malawian Kwacha, by over 40% relative to the United States Dollar in order to:
 - Meet commitments to the IMF
 - Engender a market-driven economy
 - Increase attractiveness of exports
- The devaluation was a challenge for businesses due to devaluation of assets, but is anticipated to benefit them in the long run through increasing exports

Inflation

- Inflation as measured by Consumer Price Index was fairly stable and in the single digits between 2005 and 2011, driven by increased local food production
- However, a jump in inflation was experienced in 2011, with inflation increasing to 9.8% in September, and further increases up to an all-year high of 28.3% a year later in 2012, driven by an increase in food and fuel prices and the devaluation of the Malawian Kwacha

Currency Exchange Rate — ZAR, USD and EUR vs. MKW¹ (Jul12–Sept12)

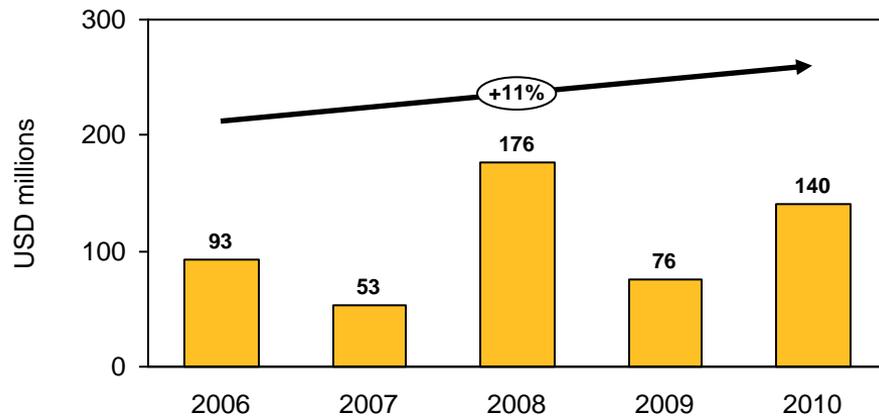


Source: Oanda Historical Exchange Rates, Accessed September 13, 2012; International Monetary Fund, World Economic Outlook Database, April 2012; Think Africa Press, "Facing the Costs of Food Insecurity and Rising Prices", 28 September 2012; Africa Economic Outlook, Country Report for Malawi, 2012; National Statistical Office of Malawi, Consumer Price Indices Dashboard, October 2012

Foreign Direct Investment

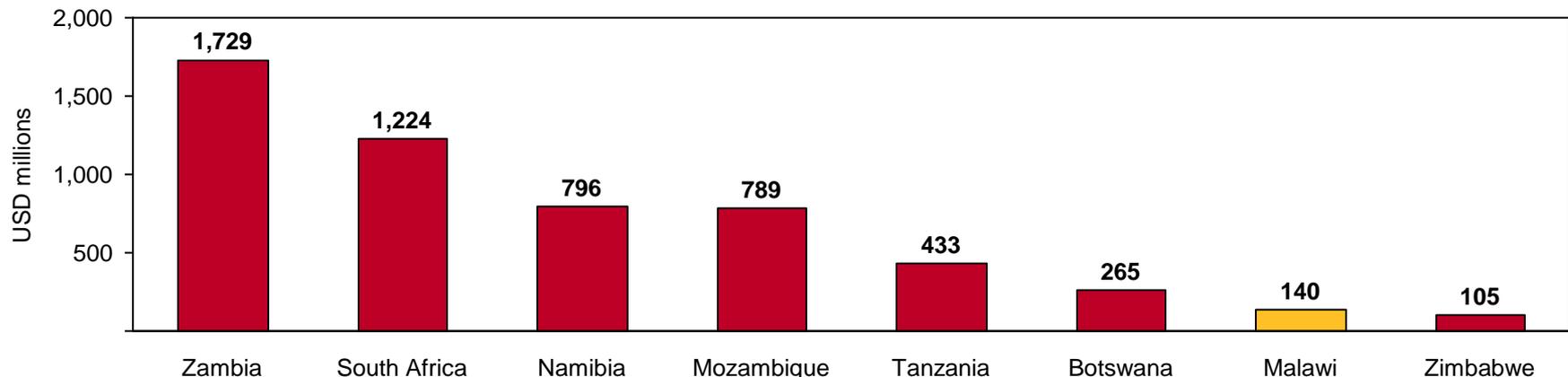
Though lower when compared to its neighbours, Malawi's FDI inflows have shown a five year upward trend, and are expected to continue to increase going forward

Net FDI Inflows to Malawi (USD mn, 2006 – 2010)



- In 2010, FDI to Malawi was **USD 140 million**, up almost 100% from the previous year, and representing 3% of GDP
- Malawi receives **comparably lower levels of FDI than other Southern African Countries**
- The FDI committed in 2011 was directed **mainly at the energy, mining and tourism sectors**

Net FDI Inflows to SADC Countries (USD mn, 2010)



Performance on the “Doing Business” Survey

Malawi ranks lower than the sub-Saharan African average on the World Bank “Ease of Doing Business” measures, but is conducting programs to directly improve the business environment

Ease of Doing Business Rankings, 2013

Country	Rank (of 185)
South Africa	39
Zambia	94
Tanzania	134
Sub-Saharan African Average	140
Mozambique	146
Malawi	157
Zimbabwe	172

- Malawi’s overall **ranking is low** in relation to neighboring countries, regional trading partners, and the sub-Saharan African average
- Its overall **ranking has dropped** by 6 positions to 157 from 151 in 2012

- **Contributors** to Malawi’s poor performance are:
 - Access to electricity, dealing with construction permits, and trading across borders
- More **positive indicators** include the ease of paying taxes, protecting investors, and registering a property

Malawi’s Ranking per Metric, 2013

Metric	Rank (of 185)
Paying Taxes	58
Protecting Investors	82
Registering Property	97
Getting Credit	129
Starting a Business	141
Enforcing Contracts	144
Trading Across Borders	168
Dealing with Construction Permits	175
Getting Electricity	179

- The Business Environment Strengthening Technical Assistance Project (BESTAP) was developed to directly impact performance along these measures
 - BESTAP has facilitated the digitization of business registration, land records and immigration documents to speed up procedures
 - BESTAP also led the creation of a commercial court for business disputes to accelerate resolution

Note: n = 185 countries for the Doing Business Survey; Rankings are ordered from 1 to 185, with 1 being the best

Source: IFC and World Bank, “Doing Business, Economy Profile: Malawi”, 2013; IFC and World Bank, “Doing Business”, 2013

Agenda

As a significant contributor to Malawi's GDP, the agricultural sector has the right characteristics for increased production and improved processing

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- Political and regulatory risk
- Financial risk
- Supply chain risk
- Market risk

Drivers of the Agricultural Sector

The country possesses significant resources that support diverse crops, such as good water supplies, vast land resources, favorable agro-ecological conditions and capable farmers

Conditions for Agricultural Production

1 Abundant Water Supplies

Large bodies of water that can support year round cultivation of crops

2 Good Agro-Ecological Conditions

Conditions that support the growing of a variety of food and cash crops

3 Available Arable Land

Unused or underutilized arable land

4 Ingrained Agrarian Culture

Growing Population with strong agricultural skills

Resulting Crop Production, Consumption & Trade

- These conditions support the growing of crops such as, cassava, groundnuts, maize, tobacco and sugarcane, to name a few
 - However, cereals are the highest proportion of caloric intake for Malawians
- Exports are heavily reliant on tobacco and Malawi is a net importer of some crops that the country has potential to produce (e.g., wheat)

Market Potential for Malawian Produce

- Malawi has the potential to grow its agricultural sector by accessing markets at multiple levels
 - Local: Growing population with increasing buying power
 - Regional: Rising consumption and established trade relationships
 - Global: Gradually increasing trade with overseas actors

1 Abundant Water Supplies

Malawi's water resources could allow for increased agricultural productivity if more investment is directed towards irrigation development

Water Resources

- Malawi possesses vast **bodies of water that cover at least 21% of the country's total land area**
- The major lakes contributing to this are **Lakes Malawi** (28,750 km²), **Chilwa** (683 km²), and **Malombe** (303 km²)
- The **Shire River** flows from the south end of Lake Malawi and joins the Zambezi River 400 km farther south in Mozambique
- In addition to the Shire River, an important and dense **network of perennial rivers are linked to the lake**

Map of Malawi –
Main Lakes and Rivers



The Shire Valley in the southern part of the country, and the areas along the Lake Malawi shore are most suited to irrigation agriculture, and account for up to ~1 mn ha of irrigable land

Benefits of Increased Irrigation Agriculture

- Improved yields due to:
 - **Reduced crop loss** due to erratic or insufficient rain water supply
 - **Increased effectiveness of complimentary inputs** such as high yielding varieties and fertilizers
- Increased annual output due to the possibility of **multiple-cropping** through two or more growing seasons a year
- **Increased area under cultivation** as irrigation allows a greater area of land to be used for crops in areas where rain-fed production is impossible or marginal

2 Good Agro-Ecological Conditions

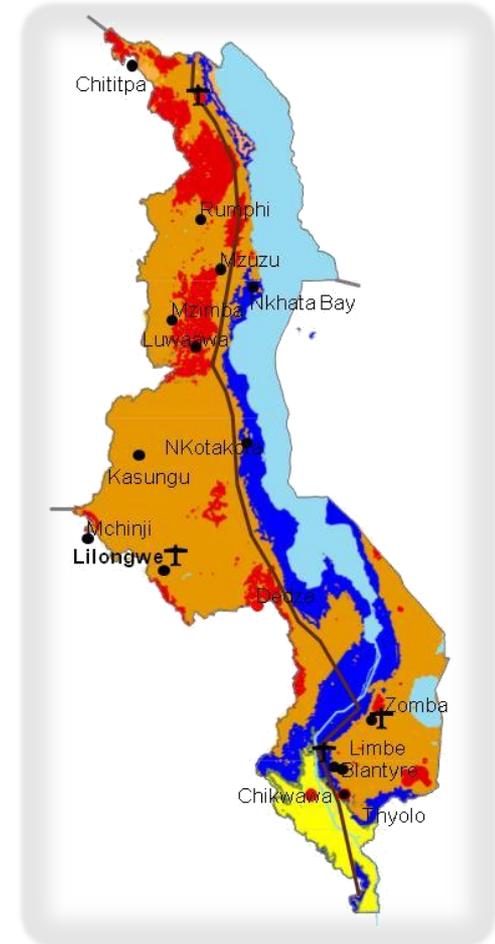
Diverse agro-ecological conditions support an array of crops, that when matched to conditions, could lead to productivity increases

Overview of Agro-Ecological Zones

Agro-Ecological Zone	Description	Elevation (meter)	Average Annual Rainfall (mm)	Examples of Suitable Crops
Highlands	High rainfall, high altitude and low average temperature	1,320 – 3,000	>1,200	Wheat, coffee, tea
Escarpment	Lies along the Rift Valley fault lines, high rainfall and thin fertile soils	450 – 3,000	1,000 – 1,200	Maize, millet, cashew nuts
Plateau	High rainfall, good soils, temperate, houses Malawi's bread basket	750 – 1,300	800 – 1,200	Maize, soybeans, groundnuts, tobacco,
Lakeshore & Upper Shire Valley	Low rainfall, highly fertile, high temperatures, suitable for irrigation	465 – 600	600-800	Rice, sugarcane, pigeon peas
Lower Shire Valley	Very low rainfall, highly fertile, high temperatures, suitable for irrigation	<180	600	Millet, sorghum, maize, cotton, vegetables

- Malawi has **five distinct agro-climatic zones**: Highlands, Escarpment, Plateau, Upper Shire Valley and Lower Shire Valley
- These regions have **different soil textures and rainfall patterns, and support a mix of crops** including cereals, legumes and an assortment of cash crops
- There is significant opportunity to **harness Malawi's agricultural potential through matching the crops grown to the conditions that support them**

Agro-Ecological Map



3 Underutilized Arable Land

The current review of the regulatory framework for land ownership and transfer will increase land use and commercialization for otherwise unused or underutilized land

Opportunity to increase utilization of arable land

- Malawi has 5.4 million ha of arable land (accounting for ~45% of total land area), of which ~1 million ha is not under cultivation
- ~18% of potentially productive land is yet unused, presenting potential to increase agricultural output

Room to increase productivity of land cultivated by SHFs

- Of the area under cultivation, 90% is cultivated by SHFs
- SHF land holdings are small
 - E.g. 1.178 ha per farmer in the Northern Region, 1.145 ha in Central and 0.732 ha in Southern
- Along with other challenges faced by SHFs such as limited access to improved inputs and credit, this limits productivity

Current review of Lands Bill to support the land tenure system

- The Lands Bill, currently in review by Cabinet, will support:
 - Registration of customary land to allow for titled ownership and transferability
 - Decentralized land registration, from regional levels to district levels, so as to allow for ease of transacting

In order to increase private sector participation in commercial farming and commercialization of SHFs, the Cabinet of Malawi is reviewing the legal framework for land acquisition and ownership in order to increase access to land and provide clarity on land ownership

4 Ingrained Agrarian Culture (1/2)

Malawian farmers possess an agrarian culture, including basic skills and market-orientation which could be built upon to help them overcome key challenges in the sector

4 mn
smallholder farmers in
Malawi

- Malawi is historically a nation of farmers, and the majority of households engage in subsistence agriculture, commercial agriculture, or both
- One distinguishing characteristic of Malawi's **SHFs is their desire to commercialize**
 - While SHFs typically grow maize as their primary food crop, they are **increasingly beginning to grow both food and cash crops for sale**

- Given the large proportion (85%) of the workforce that engages in agriculture, the **agrarian culture cuts across all ages** in Malawi
- This suggests that agriculture in Malawi is not a dying trade and is central to both subsistence and income generation

85%
of the Malawian workforce
employed by the
agricultural sector

80%
agriculture production
from SHFs

- The **majority of agricultural production in Malawi is from SHFs**
- These SHFs **possess at least basic skills in agriculture and are market oriented**
- Malawian **SHFs respond to market cues** and grow crops that they believe can earn them an income based on previous season's performance and government incentives.

- The contribution of agriculture to GDP is 30%, which is substantial but far lower than the 85% of the population employed in agriculture,
 - This suggests **there is room to improve productivity**
- Some of the challenges SHFs face are: poor market information, limited access to credit, insufficient use of improved inputs and technologies and often unfair farm gate prices

30%
annual agriculture GDP
contribution from 2006-
2011

4 Ingrained Agrarian Culture (2/2)

These challenges are also being overcome with the support of agricultural cooperatives that offer inputs, training, aggregation services and marketing

Examples of Services offered by Cooperatives

Access to credit

Access to inputs

Training on good agricultural practices

Aggregating output

Identifying and accessing markets

Negotiating with buyers



Farmers Union of Malawi (FUM)

- An umbrella body of cooperatives which aims to support cooperatives in facilitating farmer participation in the creation and implementation of policies, strategies and programs to improve SHF livelihoods



National Smallholder Farmers Association of Malawi (NASFAM)

- NASFAM is a cooperative of 100,000 members which aggregates SHFs and participates in the processing and marketing of farmer produce
- NASFAM's structure allows it to serve farmers in a participative, commercially-oriented way
 - Action Groups (comprising a number of farmer clubs of 10 – 15 farmers each) are the vehicles used for extension work and information sharing with farmers
 - The General and National Assemblies are member-owned legal entities responsible for management and operational support of farmer groups
 - The Board of Directors provides oversight and strategic direction

NASFAM Organizational Structure

National Board of Directors

National Assembly

General Assembly

Action Group

Club

Club

Club

Club

Club

Club

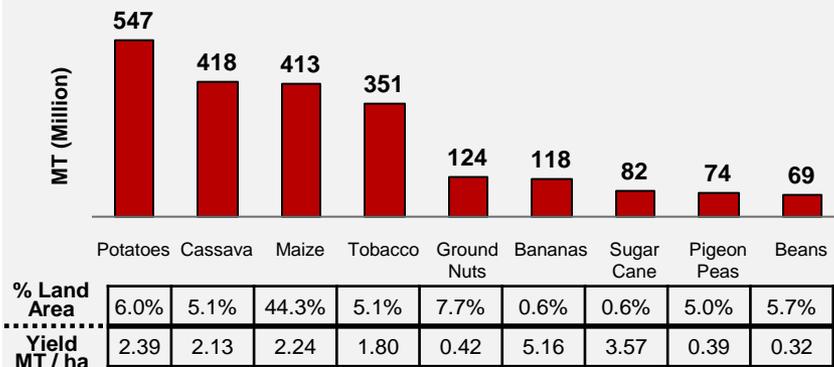
Crop Production and Consumption

Well planned land allocation and diversification programs could lead to productivity gains, which will help meet the increased food demand generated from income increases

Major Crop Production

- **Potatoes, cassava, maize and tobacco** account for the largest **production value** in Malawi
- In terms of production **volumes, cassava, potatoes, maize and sugarcane** are the highest, respectively
- **Maize is a food security crop** in Malawi and is grown by the majority of SHFs on an estimated **44% of the cultivated land area**
- The **high productivity of crops such as sugarcane and cassava** suggests there is **potential for investors** if investment and land are directed towards other crops

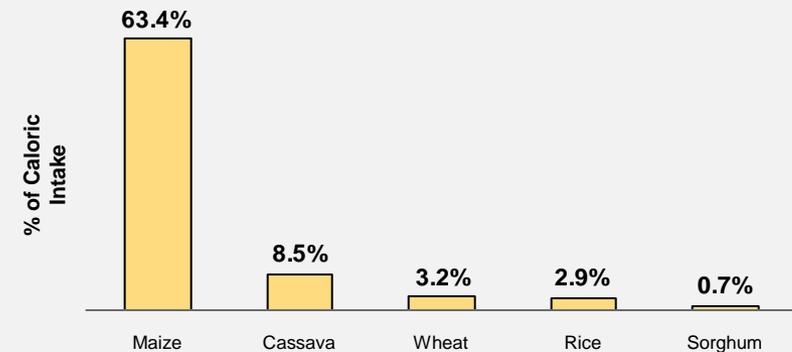
Crop Production, 2010



Consumption Patterns

- **Cereals** are the basis of the diet and caloric intake of Malawians, providing **~80% of caloric intake** per capita
- A large proportion of Malawians (**34%**) **do not consume the FAO recommended daily calories** and nutrients
- Malawians currently spend **56% of income on food**
 - They have **very elastic demand for food** and spend disproportionate income increases on food
 - The elasticity of demand for food is 87%, which means that of a **1MWK increase in income 0.87MWK is allocated to food** instead of 0.56MWK

Principal Staple Crops of the Malawian Diet



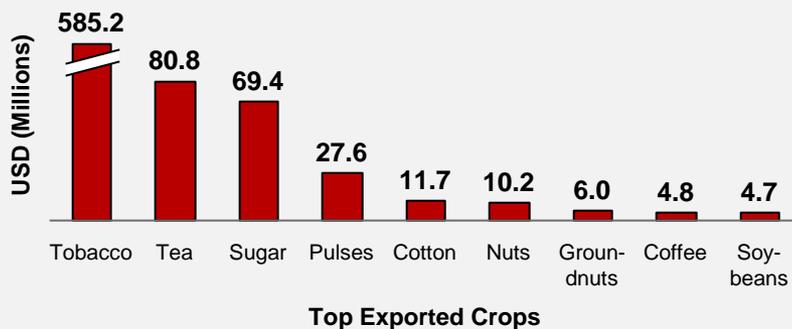
Agriculture Import and Export Trade

In order to minimize exposure to external shocks, the GoM is encouraging diversification away from tobacco which presents opportunities for private sector participation in other crops

Agricultural Exports

- **Tobacco** is Malawi's **main export crop** (55% of export earnings) and **main foreign exchange (FOREX) earner**
- **Sugar and tea** account for **14% of foreign currency earnings**, with other crops comprising a very small proportion of revenues
- There is **potential to realize yet more value from agricultural exports by increasing value-addition**
- Government strategies encouraging **diversification from tobacco can benefit private actors through subsidies, incentives and co-investment**

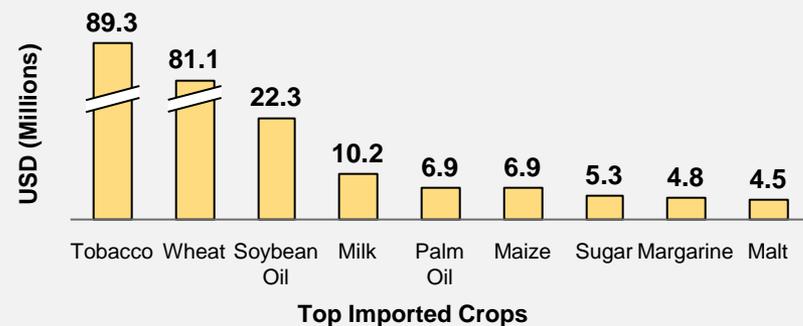
Agricultural Exports , 2010



Agricultural Imports

- Malawi's total import value in 2010 was USD 2.17 billion, compared to USD 1.07 billion in exports, resulting in an overall **trade deficit** and a shortage of foreign exchange
- Malawi is a **net importer** of even some staple crops and crops that the country has potential to produce
- Crops and products such as **wheat** and **soybean oil** have potential for **import substitution**
- There is an opportunity for **private sector actors to identify this unmet demand** in the local economy and create business models that profitably supply to the local market for import substitution

Agricultural Imports, 2010



Market Potential - Local

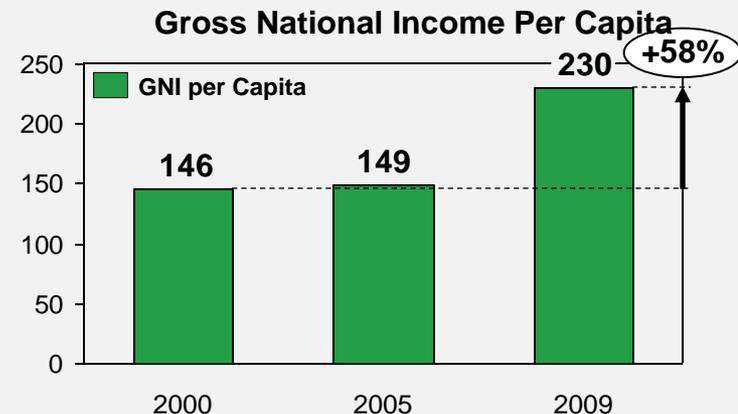
The local market potential is increasing as population and income grow, presenting profitable opportunities for providers of goods and services

Growing Population

- The **population of Malawi, currently at 15.4 million, is growing at 2.9% per annum** and is expected to increase to 40 million by 2040
- The **median age of 17.3** is indicative of the wide base of the country's age pyramid and future expansion of the working age population
 - This growth is partly due to consistently high birth rates and decreasing infant mortality rates due to improvements in the healthcare system
- **Urbanization has also contributed to participation in the formal economy and growing demand** for goods and services (the percentage of the population living in urban areas increased from 10% to 20% between 1985 and 2010)

Rising Income

- The buying power of Malawians has increased as illustrated by **Gross National Income per Capita which increased by 58%** between 2000 and 2009
- **GDP per capita increased at a compound annual growth rate of 9.9%** between 2006-2011



Market Potential - Regional

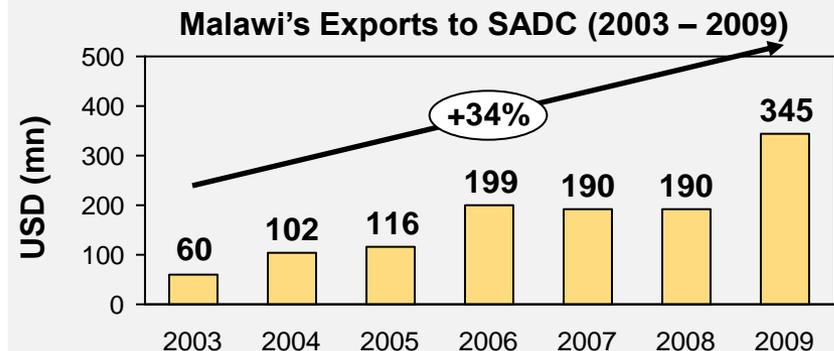
In addition, Malawi has access to established and growing trade partners within the SADC region which are experiencing increasing consumption

Economic Indicators for SADC¹ Countries

	GDP ² (USD bn)	GDP per Capita (USD)	GDP CAGR (‘06– ‘11)	GDP CAGR (‘11– ‘17E)
Malawi	5.7	351	12.7%	4.3%
Zimbabwe	9.3	741	11.1%	8.2%
Namibia	12.5	5,828	9.3%	5.6%
Mozambique	12.8	583	12.2%	11.3%
Botswana	17.6	9,481	9.2%	3.6%
Zambia	19.2	1,414	12.4%	9.8%
Tanzania	23.3	553	10.2%	8.9%
South Africa	408.1	8,066	9.3%	5.1%

Regional Market Potential

- **Exports from Malawi to SADC countries grew** at a compound annual growth rate of 34% from 2003 to 2009
- SADC countries are showing **strong economic performance**, implying increasing market potential
- As a **member of SADC and a participant in bilateral agreements with South Africa and Mozambique**, Malawi is in a good position to trade with these countries and benefit from their economic growth
 - E.g., **food consumption rates** in South Africa and Mozambique are projected to grow at annual rates of **10.3% and 13.6%** respectively from 2011 to 2016



Note: ¹ SADC – Southern African Development Community; ² GDP quoted in current prices

Source: International Monetary Fund, World Economic Outlook Database, April 2012; Primary Interviews, September 2012; FAOSTAT; Business Monitor International, Food And Drink Reports, 2012; Monitor Analysis

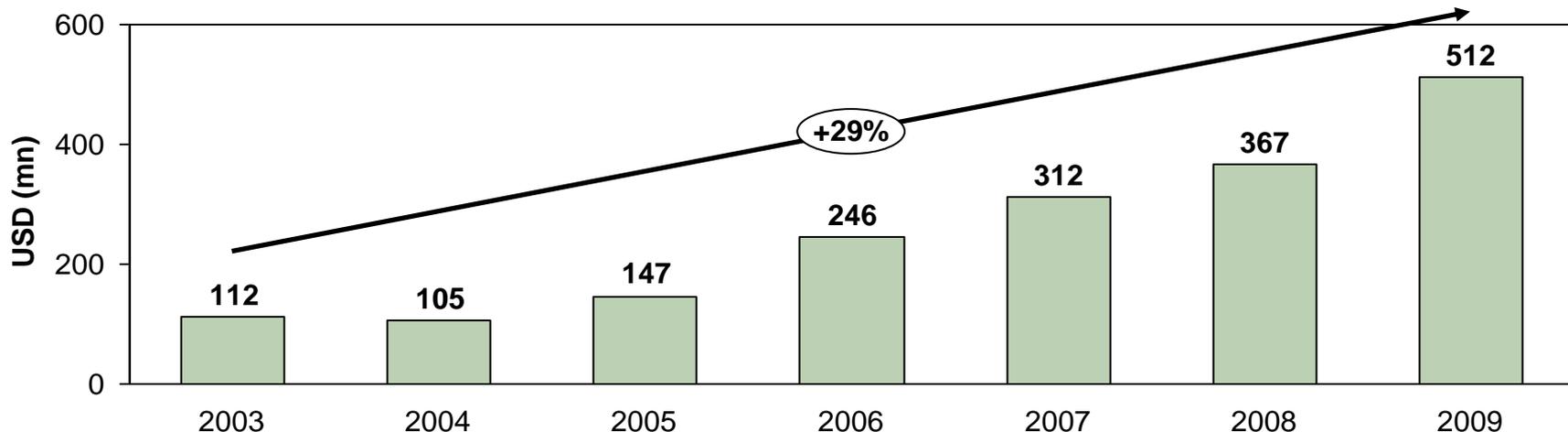
Market Potential - Global

There is also the potential to continue serving markets in other parts of the world such as Europe and Asia

Global Market Potential

- Malawi already has **established trade relationships** with some European Union and Asian countries.
 - **Malawian exports to the European Union** (e.g., Belgium, Germany, Netherlands, the UK) grew at a compound annual **growth rate of 29%** between 2003 and 2009
 - **India** purchased **~90% of Malawi's pigeon pea exports** in 2010¹
- Malawi and other African countries can continue to seek trade partners globally as global demand is increasing as economies grow and food consumption increases

Malawi's Exports to the European Union (2003 – 2009)



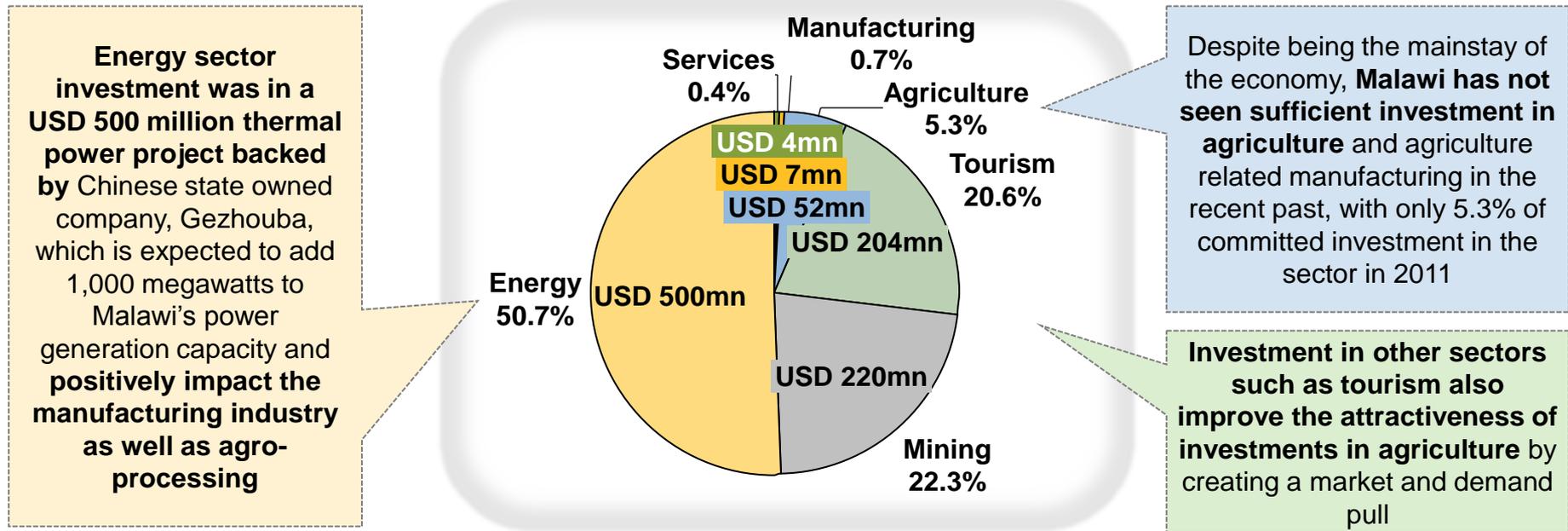
Note: ¹ Accounts for both formal and informal trade (data from primary expert interview)

Source: International Monetary Fund, World Economic Outlook Database, April 2012; Primary Interviews, September 2012; FAOSTAT; Monitor Analysis

Investment in Malawi's Agricultural Sector

Despite agriculture being the basis of the Malawian economy, there is yet room for more investment in the sector to leverage existing untapped potential

Committed Investment for 2011 (USD mn)



Given the potential highlighted for agriculture production in Malawi, investors are leaving potential realizable value untapped as there are still low levels of investment in the sector



Agricultural Sector

Sample of Active Firms in Malawi

A number of local, regional and global firms have already invested and are demonstrating success in agricultural inputs, financing, production and processing

Local



- A leading manufacturer with five processing plants, producing biscuits, confectionery, and savory snacks with 1,000 employees



- Sources from a network of 100,000 SHFs for processing and has its own branded products in rice, soya pieces, peanut snacks, beans, etc.



- Diversified company in agriculture production, trade and logistics, sourcing through 100 markets nationwide and exporting 30% of produce

Regional



- Grain buyer and marketer in Southern Africa with a turnover of ~USD1.5 billion on 6-7million tons of grain /year



- Seed company with operations in nine countries across Africa that has been in Malawi for 15 years focusing on maize and vegetable seeds



- Africa's biggest sugar producer with extensive agricultural and manufacturing operations in six African countries, including Malawi



- Commercial bank that has been in Malawi since 2001 and offers lending services to individuals & businesses

Global



- Procurer of commodities from SHFs and vendors in ~30 countries, sourcing through 32 aggregation and service centers in Malawi

MONSANTO



- Hybrid seed maize producer that uses out-growers to grow maize seed in Malawi, and has been active in Malawi since 2001



- Global tobacco trading company that trains and supports contract smallholder farmers with inputs and extension to grow tobacco for export

Agenda

Numerous government initiatives are currently underway to attract more investment in agriculture

ECONOMIC OVERVIEW



- About Malawi
- Gross Domestic Product
- Currency, inflation and Foreign Direct Investment
- “Ease of Doing Business”

AGRICULTURAL SECTOR



- Water, climatic, land and people resources for agriculture
- Crop statistics
- Market potential
- Recent investment

GOVERNMENT INITIATIVES



- Sector strategies
- Policy reform
- Investment incentives
- Turnkey projects in infrastructure

INVESTMENT OPPORTUNITIES



- Short term investment opportunities
- Medium- to long-term investment opportunities

RISKS & MITIGATIONS



- Political and regulatory risk
- Financial risk
- Supply chain risk
- Market risk

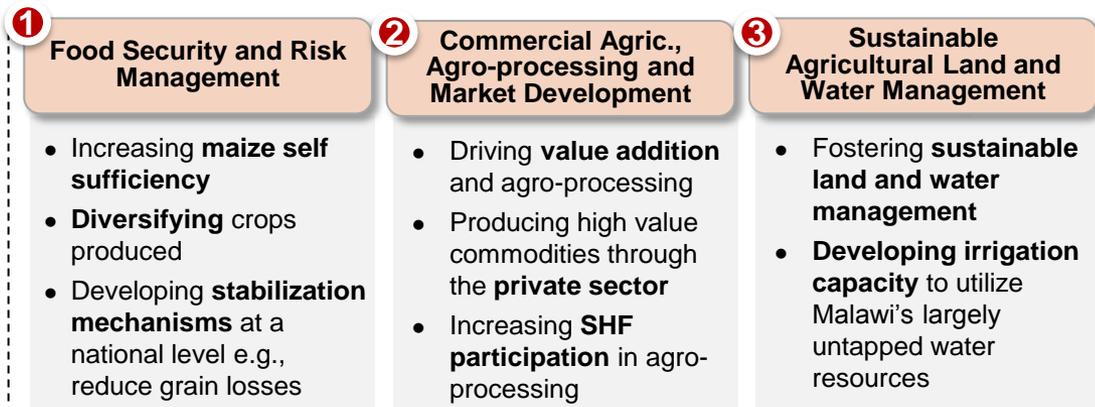
Sector Strategies to Harmonize Interventions

The government recognizes the importance of agriculture to the economy and has created unified strategies to usher investment into priority clusters

Agricultural Sector Wide Approach (ASWAp)

- Focused on **agriculture-led growth**, supporting CAADP pillars and implementing **Malawi's Growth & Development Strategy**
- Comprehensive program incorporating a budget framework formalizing the process for **improved donor coordination**
- Implemented by a Secretariat that **liaises with** Technical Working Groups comprised of **both public and private sector members**
- **USD 7 million has already been disbursed in the implementation of the ASWAp**

Three Pillars of the ASWAp



National Export Strategy (NES)

- **Prioritized roadmap** (2013 - 2018) for developing a productive base for export competitiveness and economic empowerment
- Based on three key considerations: **Prioritizing product clusters** with high impact on other value chains, **balancing export competitiveness with economic empowerment**, and supporting economic institutions to **foster stakeholder ownership**
- The prioritized clusters include **oilseed products, sugarcane products and manufactured products**
 - Raw and semi-raw products, value added products such as cooking oil, lubricants, paints, animal feed, and confectionary
- Development of the NES was spearheaded by the Ministry of Industry and Trade, with support from other Ministries such as the Ministry of Agriculture & Food Security, the Ministry of Finance and the Ministry of Economic Development & Planning

Political Reforms for Improved Business Environment

In addition, the GoM is driving private sector-led growth through tangible policy reforms and continuous policy revision

Drive for private sector-led growth from the country's leadership

"My Government is committed to improving the business environment and ensuring that Malawi is one of the best investment destinations in the world."

- President Joyce Banda, at the National Dialogue on the Economy, 2012

Recent agility in enacting policy reforms that directly benefit investors

• Recent bills passed by Parliament

Business Registration Bill

- Automation of business registration and digitization of business records

Investment and Export Promotion Bill

- Implementation of "one-stop shop" for investment start-up and facilitation

Malawi Bureau of Standards Bill

- Certification of the Bureau and harmonization of standards to target market requirements

Public Private Partnership Bill

- Easing of private sector action in the economy, with GoM support in removing barriers

Commitment to continued policy review to ensure a business friendly environment

• Bills in review by Parliament

Personal Property Security Bill

- Collateralization of movable property for credit access

Secured Transactions Bill

- Alignment of payment systems with international standards

Business Licensing Bill

- Simplification and automation of the licensing process

Insolvency Bill

- Allowing restructuring in the case of insolvency

Company Law

- Modernization of the law to meet current market needs

The goal is to increase the ease of doing business in Malawi, facilitate investment flow and create investor confidence in the security of capital invested in Malawi

Incentives to Drive Private Sector Participation

There is a willingness to co-invest with the private sector by offering incentives that will drive increased participation in manufacturing and export within key sectors

General Incentives

- Encourage overall participation in the economy by **easing the costs of startup**, e.g.:
 - **Investment allowance** on qualifying building and equipment expenditure
 - **Loss carry forward** of up to 7 years
 - 50% allowance for qualifying training costs

Tax Incentives

- **Ease the cost of business** for companies using inputs that are not available locally, e.g.:
 - **Exemption from value-added tax (VAT)** for goods such as petroleum products, certain insecticides and fungicides, agricultural and horticultural tools, water pumps, tractors, etc.

Incentives for Raw Materials

- **Increase value addition**
- Allowances given to qualifying firms permitting them to only pay value-added tax and **not pay import duties on raw materials**
- **Firms must demonstrate value addition** by providing the Malawi Revenue Authority with data on pre- and post-processing value of products

Sector-Specific Incentives

- Drive activity in **sectors considered key to the economy**, e.g.:
 - **Exemptions on import duties, value-added tax and excise tax on materials and equipment**
 - Offered in the hospitality, dairy farming, water, electricity, tele-communications, mining & fisheries industries

Export Incentives

- **Drive manufacturing** for the purposes of export in **Export Processing Zones**,
- Incentives include:
 - 0% corporate tax
 - No withholding tax on dividends;
 - No duty on equipment, and raw materials;
 - No excise tax on raw materials and local packaging
 - No VAT

By offering an array of incentives, the Government of Malawi has demonstrated a willingness to co-invest with participants within its economy

Support of and Co-Investment in Turnkey Projects

The GoM is also co-investing in turnkey projects to increase irrigation capacity, market access and access to power, thus contributing to an improved business environment

Goals

Exemplary Projects

Intended Outcome

1

**Increasing
Irrigation
Capacity**

The Greenbelt Initiative (GBI) and Irrigation Development through the ASWAp¹

2

**Revitalizing
Power
Infrastructure**

The Millennium Challenge Corporation (MCC) Malawi Compact

3

**Improving
Market Access**

The Nacala Railway Project

**Facilitation of
Private Sector
Led Growth in
the Agricultural
Sector**

The Greenbelt Initiative

The Greenbelt Initiative contributes to economic growth by improving farmer productivity through harnessing water resources for irrigation development

1

**Increasing
Irrigation
Capacity**

➔ The Greenbelt Initiative (GBI)

- Overview: the GBI implements the **sustainable agricultural land and water management** pillar of the Agricultural Sector Wide Approach (ASWAp)
- Goal: contribute towards the attainment of sustainable economic growth and development by using abundant water resources to improve utilization efficiency and **increase the area under irrigation**
- **Program Activities**
 - Use abundant fresh water resources (i.e., country lakes, perennial rivers, lagoons) to **expand the area under irrigation to 200,000 ha by 2015**
 - Rehabilitate existing irrigation schemes and construct new ones
- **Intended Outcomes**
 - **Increase the production** and productivity of crops, livestock and fisheries through irrigation intensification
 - **Reduce the dependence on rain-fed agriculture** and hedge against the effects of climate change on food and nutrition security

Millennium Challenge Corporation Malawi Compact

The Millennium Challenge Corporation Malawi Compact aims to revitalize Malawi's power sector, thereby reducing energy costs to enterprises and improving productivity across sectors

2

Revitalizing Power Infrastructure

➔ Power Sector Revitalization Project

- Overview: The project is an **investment of USD350.7 mn** through the Millennium Challenge Corporation
- Goal: revitalize Malawi's power sector and **improve the availability, reliability and quality of the power supply**
- **Program Activities**
 - Infrastructure development to preserve and stabilize existing generation capacity, **improve capacity of the transmission and distribution network**, and increase efficiency of hydropower generation
 - Power sector reform to provide support for **the GoM's policy reform agenda and build capacity** in critical sector institutions (e.g., ESCOM¹, Ministry of Natural Resources, Energy and the Environment)
- **Intended Outcomes**
 - **Reduce energy costs** to enterprises and households and improve productivity in the agriculture, manufacturing and service sectors
 - Increase **transmission efficiency**

The Nacala Railway Project

The Nacala Railway project will improve Malawi's access to overseas markets and decrease the cost of transportation to the coast of Mozambique

3

**Improving
Market
Access**

→ The Nacala Railway Project

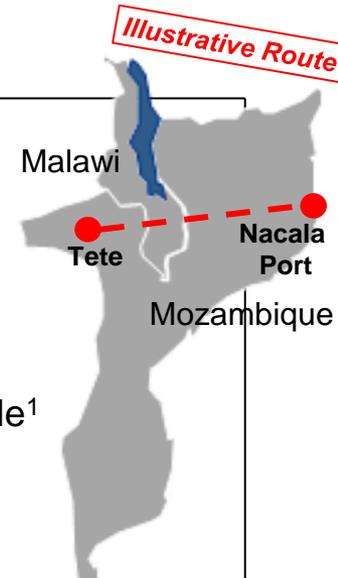
- Overview: Driven by the need to **rehabilitate the Nacala railway line**, linking Tete to the coast of Mozambique, to fully capitalize on the coal mining potential of the region
- Goal: **increase Malawi's access to overseas markets** by supporting the Nacala Railway Project sponsored by Vale¹

● Program Activities

- Co-operate with Vale to **facilitate project implementation**
- Grant **Vale a concession** for the railway in exchange for Vale to build, own, and operate the extension in a way that brings **benefits to Malawi**

● Intended Outcomes

- Generate **benefits to Malawian citizens** by having access to the **transport of general cargo and passengers** within the Nacala corridor
- **Increase overseas market access** through a direct link to the natural deep water **Nacala Port** (one of only two in East Africa)



Agenda

Given that Malawi is ready for investment, specific value chains have been identified as being ready for private sector action and offering attractive short- and long-term investment options

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- Medium- to long-term investment opportunities

RISKS & MITIGATIONS



- Political and regulatory risk
- Financial risk
- Supply chain risk
- Market risk

Priority Value Chains for Investment

Through consultation with Malawian stakeholders, ten value chains were prioritized as investment opportunities with five of these being prioritized for short-term investment

Short-Term Investment Opportunities

Value chains with potential for immediate investment due to market potential, strong competitiveness, and high investor interest



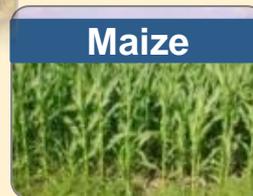
Groundnuts



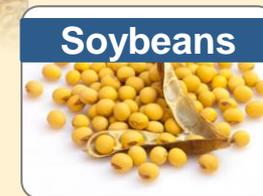
Pigeon Peas



Sugarcane



Maize



Soybeans

Long-Term Investment Opportunities

Value chains with longer term value creation potential but with challenges that must first be overcome through partnership or additional upfront investment



Cassava



Macadamia



Tea



Cotton



Rice

Value Chains for Short Term Focus: Groundnuts (1/5)

Malawi is a significant producer of groundnuts within the SADC region, presenting an array of opportunities for value addition and access to regional and global markets



Groundnuts

Production Quantity (2010)	297,487 MT
Cultivated Area (2010)	295,236 ha
Geographies Grown	Karonga, Mzuzu, Kasunga, Salima, Lilongwe, Machinga, Blantyre, Shire Valley
Imports (2010)	USD 172,000
Exports (2010)	USD 6,011,000

Drivers / Opportunities

- Potential to serve growing domestic, regional and global markets
 - E.g., annual domestic consumption growth between 2006 and 2010 was 10%
- Malawi is a sizeable producer in the region, with production currently at 104% above regional average
- High social benefits due to nutritional value, high levels of SHF and female participation
- Variety of value addition options including oil, peanut paste and animal feed
- High yields (40% above regional average)
- Unique Chalimbana variety

Investment Opportunities

- Identified Investment Opportunity:
 - USD 2.2 mn investment in a processing facility producing products, such as blanched peanuts and peanut paste for use in peanut butter, ready to use therapeutic foods (RUTFs), flavoring, etc.
- Potential Opportunities:
 - Peanut oil processing for domestic and export markets
 - Simple value addition to raw groundnuts, such as salting or roasting and packaging for sale

Barriers / Challenges

- Poor storage techniques lead to post-harvest losses, particularly amongst SHFs
- Aflatoxin concerns are an impediment to accessing non-African markets (e.g., EU)
 - However, innovative companies have successfully circumvented the aflatoxin issues and are experiencing growth
- Dominance of the global market by Argentina which faces lower transport costs than Malawi
- Little value addition currently carried out by SHFs

Value Chains for Short Term Focus: Maize (2/5)

Maize is grown by ~95% of SHFs, and has experienced increasing production and yields in recent years, however, there is room for increased commercialization within this value chain



Maize

Production Quantity (2010)	3,419,410 MT
Cultivated Area (2010)	1,696,270 ha
Geographies Grown	Karonga, Mzuzu, Kasunga, Salima, Lilongwe, Machinga, Blantyre, Shire Valley
Imports (2010)	USD 6,885,000
Exports (2010)	USD 3,399,000

Drivers / Opportunities

- Maize is the main staple food consumed in Malawi, and there is high demand for the crop and its products
- Significant growth in production from 2006 to 2010, with a compound annual growth rate (CAGR) of ~7%
- Extensive country-wide expertise in the crop with ~95% of SHFs growing maize
- GoM subsidies focused on maize, as well as the ASWAp, are drivers of higher SHF productivity
- Opportunity to be more competitive if yields are increased and SHFs continue to use improved inputs, partially accessed through the Farm Input Subsidy Program (FISP)

Investment Opportunities

- Identified Investment Opportunity:
 - USD 300k investment to increase the capacity of a local corn soya blend processor
- Potential Opportunities:
 - Agro-processing (e.g., maize meal, snacks, syrup, grits, beer)
 - Commercial maize farming in order to capture high yields, and multiple growing seasons through irrigation
 - Provision and management of storage facilities through warehouse receipt systems

Barriers / Challenges

- Majority of production is for subsistence, with limited value addition
- Volatility of production due to high dependence on rainfall
- Government intervention through subsidies and occasional export bans, can distort the market
- Unpredictable local prices
- Low net profitability of production under fertilizer
- Insufficient storage, leading to post harvest losses

Value Chains for Short Term Focus: Pigeon Peas (3/5)

Malawi is one of very few pigeon pea producers in the region and potential exists to increase production and processing for the Indian market, amongst others



Pigeon Peas

Production Quantity (2010)	193,005 MT
Cultivated Area (2010)	190,437 ha
Geographies Grown	Karonga, Mzuzu, Kasunga, Salima, Lilongwe, Machinga, Blantyre, Shire Valley
Imports (2010)	USD 24,000 ¹
Exports (2010)	USD 13,251,000 ¹

Drivers / Opportunities

- High export potential for raw and processed pigeon peas due to high demand from India and other countries
 - Demand for uniquely flavored Malawian pigeon pea varieties
- Potentially low competition, as Malawi is one of the few African producers
- High relative productivity compared with the region, with yields of ~41% above the regional average
- High production growth of ~10% (2006 - 2010), ~46% growth in exports and high domestic consumption growth of ~ 7%

Investment Opportunities

- Identified Investment Opportunity:
 - USD 33 mn Greenfield investment in pigeon pea production
- Potential Opportunities:
 - Investing in an established dhal processing plant, for export to Asian markets, particularly India, as well as markets in Europe and North America

Barriers / Challenges

- Low yields at ~0.9 MT/ha, which is around 50 percent of the potential yield
- Export costs to India significantly higher than for e.g., Tanzania or Kenya due to land locked position
- Low education amongst SHFs and low adoption of improved seed varieties that are in demand in international markets

Note: ¹ Import/Export data for Peas dried, shelled, whether or not skinned or split

Source: FAOSTAT; International Trade Center; National Crop Estimates, 2009/10; ASWAp; NES; Study on Agricultural Diversification; Stakeholder Interviews 44

Value Chains for Short Term Focus: Soybeans (4/5)

Growing regional and global demand, as well as multiple value addition options are the key drivers of opportunities to invest in soybeans



Soybeans

Production Quantity (2010)	73,356 MT
Cultivated Area (2010)	75,186 ha
Geographies Grown	Karonga, Mzuzu, Kasunga, Salima, Lilongwe, Machinga, Blantyre
Imports (2010)	USD 1,256,000
Exports (2010)	USD 4,681,000

Drivers / Opportunities

- High and growing demand for soybeans and soybean products in regional and global markets
- Well established markets in SADC
- Large number of possible products including oils, meal, sauce, chunks, fortified foods, and animal feed, etc.
- Nutritional benefits as a low cost source of protein
- Social impact due to high level of participation from women
- Additional benefits include nitrogen fixing in soil when intercropped

Investment Opportunities

- Identified Investment Opportunity:
 - USD 6 mn investment in an established company in Malawi's agro industry that is looking to diversify into the processing of Textured Soy Protein (TSP) to serve local and regional markets
- Potential Opportunities:
 - A Greenfield public-private partnership (PPP) to grow and multiply soybean seed
 - Processing for value addition into a variety of products, such as oil, cake, and soya flour

Barriers / Challenges

- High, and growing, production in South America (e.g., Brazil, Argentina) limits international competitiveness
- Some competition from South Africa and Zimbabwe, who are also major regional producers
- Low productivity is a limiting factor for competitiveness
- Limited processing facilities to support value addition

Value Chains for Short Term Focus: Sugarcane (5/5)

Opportunities exist for private sector actors to produce and process sugar in Malawi due to the good agro-climatic conditions that support high yields, growing demand and GoM support



Sugarcane			
Production Quantity (2010)	2,500,000 MT ¹		
Cultivated Area (2010)	23,000 ha		
Geographies Grown	Lakeshore areas		
Imports (2010)	USD 39,000	Exports (2010)	USD 69,356,000

Drivers / Opportunities

- Favorable agro-climatic conditions for scaled production
- High relative productivity when compared to other SADC producers of sugarcane, with yields of more than 62% above the regional average
- GoM willingness to co-invest in PPPs
- High potential for commercial farming
- Growing SHF engagement in sugar
- Global and African demand for sugar cane products is large and growing
- Single, structured market for sugarcane

Investment Opportunities

- Identified Investment Opportunity:
 - USD 70 mn investment in a Greenfield sugarcane production and processing PPP, under the GBI
- Potential Opportunities:
 - Investment in a sugarcane processing plant for value addition (e.g., food processing, animal feed, ethanol)

Barriers / Challenges

- Significant initial investments needed for irrigation and land preparation
- Competition from much larger scale producers, e.g. in Brazil, but there is still market potential in the SADC region
- Long distances to milling facilities that increase transportation cost
- Current market dominance by single producer, Illovo Sugar Ltd. is a deterrent to entry by other companies

Value Chains for Long Term Focus: Cassava (1/5)

Malawi produces high volumes of cassava which can be leveraged by investors, if supply chain challenges are overcome



Cassava			
Production Quantity (2010)		4,000,000 MT ¹	
Cultivated Area (2010)		195,828 ha	
Geographies Grown		Mzuzu, Salima, Blantyre, Karonga, Machinga	
Imports (2010)	n/a	Exports (2010)	n/a

Drivers / Opportunities

- High local production, estimated at 4 million MT in 2010
- High local consumption growth at ~9% per annum between 2006 and 2010
- High average yields at ~15 MT/ha are close to triple those of most regional producers; real production volumes are amongst the highest in the region, despite Malawi's small land area
- Drought resistant nature of the crop makes it an excellent alternative food security crop and substitute for maize during dry spells

Investment Opportunities

- Investing in the processing of high quality cassava flour (HQCF) which can be used as a substitute for wheat flour in bread and biscuit making
- Investing in the processing of cassava for industrial starch as an input into a diverse range of products, including for glucose production, and for industrial purposes, such as in batteries, cotton spinning, matches, and the manufacture of packaging chipboard and plywood

Barriers / Challenges

- Despite high production growth, exports are limited and the majority of produce is consumed domestically at household level
- The short post-harvest lifespan of unprocessed cassava (48 hours) presents supply chain challenges for potential investors in Malawi due to the prevalence of SHFs in the value chain

Note: ¹ FAO estimate

Source: FAOSTAT; International Trade Center; ASWAp; National Crop Estimates 2011; NES; Stakeholder Interviews; Monitor Analysis

Value Chains for Long Term Focus: Cotton (2/5)

Increased participation of SHFs in cotton, and GoM support are positioning cotton as an important crop for the country, which will lead to strong returns for investors



Cotton			
Production Quantity (2010)	29,165 MT		
Cultivated Area (2010)	47,209 ha		
Geographies Grown	Karonga, Mzuzu, Kasunga, Salima, Lilongwe, Machinga, Blantyre, Shire Valley		
Imports (2010)	USD 242,000	Exports (2010)	USD 11,713,000

Drivers / Opportunities

- Cotton is the fourth largest export earner in Malawi
- Increased GoM focus, as part of agriculture diversification from tobacco
- Country-wide production with growing involvement of SHFs
- Engagement of large numbers of SHFs
- Good soil for growth of cotton near lake shore area
- Opportunities for value addition (e.g., oil, ginned cotton, lint)
- Local demand for oil as an input for confectionery products

Investment Opportunities

- Investment in production to generate high quality and high output volumes
 - Involving SHFs as contract growers can, with time, increase output and lower operating costs by leveraging government subsidies in the sector
- Investment in value addition to produce oil, ginned cotton or lint

Barriers / Challenges

- Limited value addition by SHFs
- Recent fluctuations in world prices
- Low yields and quality variations in SHF output
- Private sector participation required to develop downstream industries such as textiles in order to establish a steady market for growers and ensure value addition in-country
- Coordination required to align government intervention with private sector investments

Value Chains for Long Term Focus: Macadamia (3/5)

Despite requiring a long investment period, there is potential for value addition and export within the macadamia nut value chain



Macadamia			
Production Quantity (2010)		3,100 MT ¹	
Cultivated Area (2010)		69,136 ha	
Geographies Grown		Kasungu, Machinga, Blantyre	
Imports (2010)	n/a	Exports (2010)	USD 4,646,000

Drivers / Opportunities

- Opportunity to export to the European Union and the United States
- Some established actors in Malawi with existing relationships with large multi-national companies
- Opportunity for value addition (e.g., sugar coating, roasting) which can increase value of product four-fold
- Malawi has been able to realize favorable export prices for macadamias in comparison to the region (38% higher than average price)

Investment Opportunities

- Long-term investment in macadamia production
- Investing in the processing of macadamia nuts, e.g. sugar coating and roasting
 - Processing the nuts increases their value fourfold and has potential to increase access to export markets

Barriers / Challenges

- Requires long term investment before realization of profits, as trees take 8-10 years to mature
- Young trees are susceptible to disease and pests
- High weight of nuts leads to underutilization of transportation vehicles, resulting in opportunity cost
- High startup costs are a deterrent for SHFs

Note: ¹ Macadamia production assumed to be equal to the production of tree nuts

Source: FAOSTAT; International Trade Center; National Crop Estimates, 2009/10; ASWAp; Study on Agricultural Diversification; Stakeholder Interviews

Value Chains for Long Term Focus: Rice (4/5)

There is also value that can be captured by investing in achieving higher yields and improved processing capacity for Malawi's popular Kilombero variety of rice



Rice			
Production Quantity (2010)	110,106 MT		
Cultivated Area (2010)	59,098 ha		
Geographies Grown	Karonga, Mzuzu, Kasunga, Salima, Lilongwe, Machinga, Blantyre, Shire Valley		
Imports (2010)	USD 436,000	Exports (2010)	USD 964,000

Drivers / Opportunities

- High quality, aromatic Kilombero variety has potential demand in SADC, particularly in Mozambique, South Africa, Zambia and Zimbabwe
- Export potential due to treatment as cash crop not staple crop (unlike maize)
- Not yet capturing full potential for local value addition through agro-processing (e.g., branded rice)
- Opportunities for PPP participation through the GoM's Green Belt Initiative
- Excellent yields compared to the region, compared to the region, without the use of irrigation

Investment Opportunities

- Investment in production of long grain aromatic rice for export
 - Investment in large scale production schemes can increase yields and lower production cost
- Investment in processing capacity in order to increase the value captured

Barriers / Challenges

- Susceptibility to weather changes
- Costly irrigation infrastructure is required to increase yields
 - Production is rain-fed resulting in low yields (1.5 tons/ha) compared to major producers such as Asia, where yields of 3-4 tons/ha are achieved using irrigation
- High domestic prices are a barrier to export and regional competitiveness, especially within the SADC region

Value Chains for Long Term Focus: Tea (5/5)

Tea is a large and established estate crop in Malawi, and can benefit private sector actors if investment is made in land acquisition and irrigation infrastructure



Tea			
Production Quantity (2010)		51,589 MT	
Cultivated Area (2010)		22,500	
Geographies Grown		Mulanje, Thyolo	
Imports (2010)	USD 310,000	Exports (2010)	USD 80,776,000

Drivers / Opportunities

- Second largest export crop in Malawi
- High yields that outperform other SADC countries, at 18% above the regional average
- Established marketing channels, such as auction floors
- Even though it is predominantly an estate crop, there are some out-grower schemes in place which impact SHFs positively and diversify income
- There are opportunities to take advantage of branding e.g., Fair Trade certification

Investment Opportunities

- Investment in the establishment of a tea estate
 - There is export potential for unprocessed tea
 - There is also potential to create a branded Malawian tea

Barriers / Challenges

- One growing season due to reliance on rain-fed agriculture
- Limited value addition and weak links to other sectors result in low impact on other value chains and sectors and limited benefit for the broader economy
- Expansion of estate production would require additional continuous tracts of land, which can be difficult to acquire in Malawi

Summary of Value Chain Prioritization

Overall, the ten prioritized value chains present significant potential for investors

Short-Term Opportunity Value Chains

Rationale for Selection for Short-term Investment

Groundnuts



- Growing local, regional and global demand
- High production growth
- High potential for social impact
- Numerous options for value addition

Maize



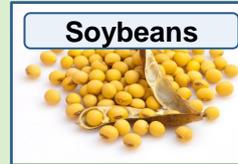
- High production and consumption growth and increasing exports
- Potential for social impact due to high SHF participation
- Opportunity to increase commercialization

Pigeon Peas



- High production, consumption and export growth
- High yields and limited regional competition
- High Indian interest in Malawi's varieties

Soybeans



- High local production growth with potential to supply domestic and world markets
- High investor interest
- Numerous options for value addition

Sugarcane



- Strong competitiveness due to high production and yields
- High potential for social impact due to economic spillover effects

Medium- to Long-Term Opportunity Value Chains

Rationale for Selection for Medium- to Long-term Investment

Cassava



- High production and yields
- Growing consumption
- Need to develop supply chain capability in Malawi

Cotton



- Increased GoM focus and support
- Array of value addition options
- Need to increase SHF quality and yields in order to be competitive

Macadamia



- Opportunity to access EU and US markets
- Favorable export prices captured by Malawi in recent years
- Tree crop requires long term investment

Rice



- High SADC demand for Malawi's Kilombero variety
- Export potential due to treatment as cash crop
- Room to increase yields

Tea



- Second largest export crop with established marketing channels
- Higher yields than other SADC countries
- Limited land access for estate expansion

Agenda

Recognizing the significant potential within the agricultural sector in Malawi, various stakeholders are undertaking actions to mitigate the risks that investors may face

ECONOMIC OVERVIEW



- About Malawi
- Gross Domestic Product
- Currency, inflation and Foreign Direct Investment
- “Ease of Doing Business”

AGRICULTURAL SECTOR



- Water, climatic, land and people resources for agriculture
- Crop statistics
- Market potential
- Recent investment

GOVERNMENT INITIATIVES



- Sector strategies
- Policy reform
- Investment incentives
- Turnkey projects in infrastructure

INVESTMENT OPPORTUNITIES



- Short term investment opportunities
- Medium- to long-term investment opportunities

RISKS & MITIGATIONS



- Political and regulatory risk
- Financial risk
- Supply chain risk
- Market risk

Key Risks and Mitigation Strategies

The risks cited by investors working in the agricultural sector fall into four categories

Risks Reported by Private Sector Actors in Malawi

Examples of Mitigating Actions

Political / Regulatory Risks

- 1) Uncertain Policy / Regulatory Environment
- 2) Slow Investment Procedures due to Bureaucracy
- 3) Insufficient Coordination between Government, Donor and Private Sector Organizations

Consultative approach to policy and strategy development, digitization of procedures, and implementation of "single window" for investment startup

Financial Risks

- 4) Limited Foreign Exchange Generation
- 5) Difficulty Accessing Capital/Credit

Diversification of agriculture value chains and development of an Export Development Fund to support export-oriented businesses

Supply Chain Risks

- 6) Difficulty Financing Farm Inputs
- 7) Low Capacity / Productivity of SHFs
- 8) Insufficient Power, Transport and Irrigation Infrastructure
- 9) Variable Commodity Prices

Implementation of Savings and Credit Cooperatives to increase SHF access to credit, development of a commodity exchange to stabilize markets and co-investment in key infrastructure projects to ease operations for agriculture actors

Market Risks

- 10) Low Access to / Competitiveness in Export Markets
- 11) High Dependence on Imported Inputs and Equipment

Certification of the Malawi Bureau of Standards, and availability of investment incentives to ease input and equipment access

Political / Regulatory Risks (1/3)

Increased expert and private sector input is being solicited in the policy review process in order to drive informed and consultative policy decisions, and reduce uncertainty

1 Uncertain Policy / Regulatory Environment

Frequent government interventions in markets are among the most cited risks to agricultural investment. For crops that are perceived to be important for food security within the country, the government often intervenes in the markets through price controls, subsidies and trade controls

Mitigation Strategy	Lead
The Malawi Confederation of Chambers of Commerce and Industry (MCCCI), is mandated to intermediate between the GoM and the private sector. It plays an important role in advising the GoM on policy development and advocating for policies that benefit the Malawian private sector and the growth of the economy through private sector development	MCCCI
The Presidential Advisory Committee on the Economy (PACE) , recently established by the GoM, in collaboration with the Brenthurst Foundation, will assist with economic initiatives and reforms using a consultative and information based process taking into consideration possible economic implications of policy. This will support policy decisions that drive development and attract the private sector	PACE, OPC
The Department of Private Sector Development within the MoIT aims to create a conducive environment for effective development and growth of the private sector in Malawi, as well as to facilitate reforms with the view to improving private sector participation in the economy	Dept. of Private Sector Dev., MoIT
Government is conducting dialogue showing its willingness to reverse policies that stifle commerce . E.g., discussion to repeal the <i>Strategic Crops Act</i> , which brings distortions into the agricultural market	OPC, MoAFS, MoIT
The Agricultural Policy Project proposed by USAID is intended to better engage non-state actors in policy development . This will ensure that agricultural policies are developed with the private sector in mind and are not entirely politically driven	USAID, ASWAp

Political / Regulatory Risks (2/3)

Government is also making an effort to speed up procedures such as investor start-up through the implementation of MITC as a “one-stop shop” for this process

2 Slow Investment Procedures due to Bureaucracy

Investors express discontent with the time that formal procedures such as attaining an export certificate or business license can take. Confusion surrounding the potential for foreigners to acquire land is also a key concern, due to unclear policy surrounding land acquisition

Mitigation Strategy	Lead
Malawi investment and Trade Center (MITC) has been mandated to be the “one-stop shop” for investment start-up and to create a centralized investor support system to speed up the process of facilitating investment. Details as to how the MITC will operate will be outlined in its 2012 strategic planning process	MITC, MoIT
The Office of the President and Cabinet is currently reviewing the laws governing land tenure system and procedures for land transfer. Meanwhile, it is within the mandate of the MITC to ensure that negotiation for land is facilitated for specific investments	OPC, MoL, MITC
One of the aims of the Business Environment Strengthening Technical Assistance Project (BESTAP) , funded by the World Bank, is to modernize the land registry in order to speed up the process of land transactions	BESTAP, MoIT, MoL
The planned implementation of “ one-stop border posts ”, currently being reviewed by the Ministry of Industry and Trade (MoIT), connecting Malawi to Zambia and Mozambique will speed up the process of transporting goods into and out of the country and also reduce the overall cost	MoIT
The digitization of company registration records, land records and immigration and trade information , which is due for completion before the end of 2012 will speed up procedures for accessing records related to business setup and cross-border trade	BESTAP

Political / Regulatory Risks (3/3)

Coordination across donors, government and the private sector is being fostered by improved linkages through the Sector Working Groups that guide Sector Wide Approaches

3 Insufficient Coordination between Gov't, Donor and Private Sector Organizations

Interventions are often not well coordinated across stakeholders. The role of the private sector is not well defined and, the implementation of government strategies often stalls due to lack of coordination and communication between and within government ministries and departments

Mitigation Strategy	Lead
The primary objective of the Donor Community on Agriculture and Food Security (DCAFS) is to harmonize donor investment in Malawi . DCAFS is also engaging the private sector in order to support the implementation of the ASWAp	DCAFS
The improvement of communication linkages between Sector Wide Approaches (SWAp)s through the facilitation of dialogue between Technical Working Groups that operate within each SWAp, is helping to ensure alignment and coordination across SWAp	SWAp,s, Technical Working Groups
Private sector and government communication and coordination is currently being facilitated by the Public Private Dialogue Division within the MCCCCI , chaired by the Minister of Industry and trade	MCCCCI
Definition and implementation of a Trade Sector Wide Approach will maintain the improved linkages between government and the private sector and the working relationships developed by preserving the cross-cutting Steering Committees formed during the National Export Strategy development process in 2011 - 2012	MoIT
The GoM and USAID recognize the need for improved public-private coordination . The government is working with USAID in order to develop a system that serves this function . There is potential for this system to be incorporated into PIPaH's mandate, although this has not yet been confirmed	GoM, USAID, PIPaH

Financial Risks (1/2)

Increased access to foreign currency is being driven by diversification of the agriculture sector in order to provide more sources of foreign exchange for the country

4 Limited Foreign Exchange Generation

Malawi's trade deficit (~22% of GDP in 2010) and high dependence on tobacco for foreign exchange often lead to foreign currency shortages. Investors have voiced this as a challenge for their businesses, as it raises costs of imported equipment and raw materials

Mitigation Strategy	Lead
<p>Agricultural diversification, as implemented through the Diversification Study Phases I and II, will support a shift in the country's economic dependence on tobacco for export earnings by providing for the development of other high value crops to generate export earnings. Government attempts to stimulate diversification can be seen through initiatives such as the investment into the development of the cotton sector as a high value crop for export. Further interventions are planned</p>	MoAFS
<p>Implementation of the NES will encourage the cultivation of high value crops for export, which will support the generation of foreign currency. The NES also focuses on increasing value addition to produce grown in Malawi. The export of processed goods will increase the value of exports. Yet another focus of the NES is to support increased exports and revenue generation from existing clusters, including tobacco, mining, tea, tourism and services</p>	MoIT, MoAFS
<p>Devaluation of the Malawian Kwacha lowered the price of Malawi's exports on the global market and is expected to lead to increased exports in the medium to long term and increased access to foreign currency</p>	MoF
<p>The Government of Malawi is working to foster an environment that has increased donor confidence in the country through strengthening the rule of law and the observation of basic social rights, leading to increased donor action and funding in Malawi</p>	GoM

Financial Risks (2/2)

In addition to impending new legislation, the Export Development Fund as well as private bank initiatives aim to increase access to finance for individuals and small to medium enterprises

5 Difficulty Accessing Capital/Credit

Many investors who are dependent on local financiers for capital have cited the high cost of capital as a deterrent to growth. With the devaluation of the Malawian Kwacha, the ensuing liquidity challenges led to increased lending rates, as high as 35% for the majority of investors

Mitigation Strategy	Lead
A key focus area of the Export Development Fund , developed with seed capital from the Reserve Bank of Malawi, is to assist cooperatives and private sector actors to implement agricultural projects by providing professional management capability in order to access private risk capital	EDF
Implementation of the Personal Property Security Bill , which is currently under review by Cabinet and is expected to be passed in 2012, will allow citizens to use movable property (all property except for land) as collateral for financing will increase access to credit	MoIT, OPC
A large private bank has plans to roll out more branches in rural areas in order to capture market demand and develop products suited to SHFs. Employer guaranteed loans have been developed as a means for low income staff to gain access to loan facilities. Partnering with value chain actors who guarantee part of agricultural loans also increase access to financing	Private banks
Changes to land tenure legislation are underway to clearly define and legalize land ownership and enable people to use land as collateral when seeking loans. These changes can be expected to be implemented in late 2012 or early 2013	MoL



Risks and Mitigation Strategies

Supply Chain Risks (1/4)

The Personal Property Security Bill, use of Savings and Credit Cooperatives and increased value chain participation by private sector actors aim to ease SHF access to credit

6 Difficulty Financing Farm Inputs

Investors note that a stable supply of high-quality crops is essential for success in agri-business. Experts agree that crop yields and quality can be improved by equipping growers with proper seed inputs and training in modern agronomic practices, which are hard to access for SHFs

Mitigation Strategy

Lead

Implementation of the Personal Property Security Bill, which is currently under review by Cabinet and which will **allow citizens to use movable property (all property except for land) as collateral for financing** will increase access to credit

MoIT, OPC

The implementation of **Savings and Credit Cooperatives (SACCOS)** is underway to support SHFs by providing loans to access inputs

FUM, Farmer Cooperatives

Provision of loans to small farmer groups identified as being trustworthy and successful, using a revolving loan system, to increase access to loans for SHFs from banks and SACCOS. The main drawback to this intervention is the time required for all farmers in the group to benefit

FUM, SACCOS, Private Banks

Value chain participation by private sector actors has in many cases helped to ease the cost of financing for SHFs. In **contract farming arrangements where the private sector actor guarantees a portion of SHF loans**, the cost of financing has typically been lower for SHFs. The **Integrated Production System (IPS)** that the tobacco sector is in the process of implementing is a **valuable model for scaling up out-grower and contract-farming schemes**

Private sector actors



Risks and Mitigation Strategies

Supply Chain Risks (2/4)

As proven models, cooperatives and a commodity exchange are being leveraged to increase the capacity and productivity of SHFs in Malawi

7 Low Capacity / Productivity of Smallholder Farmers

Given that the majority of growers are SHFs, investors often incur costs or require assistance with aggregation of produce and training of SHFs in good agricultural practices in order to decrease the variability in output

Mitigation Strategy	Lead
The establishment of a new commodity exchange will provide better market linkages for farmers and a secure and cost-effective buying platform for purchasers of agricultural produce. It should be fully implemented by late 2012. The existing Agricultural Commodities Exchange has traded over USD 25 mn of commodities this year and has over 7,000 MT of grains under its warehouse receipt system	Auction Holdings
Efforts are underway by the Export Development Fund and farmer organizations to increase the creation of cooperatives to support training and development of SHFs, as well as to support the development of a business mindset	FUM , EDF
There is potential for the increased use of nucleus-centered out grower schemes to increase production volumes and production quality through the provision of support to SHFs (e.g., inputs and technical skills) from the nucleus farm	Private sector, PIPaH
The provision of large tracts of land to enable investment into large-scale commercial farming with potential for inclusive farming will be facilitated under the Green Belt Initiative , which will support increased production	GBI, MoAFS



Risks and Mitigation Strategies

Supply Chain Risks (3/4)

A number of projects to improve supporting infrastructure such as irrigation, transport and power are also underway

8 Insufficient Power, Transport and Irrigation Infrastructure

Investors in Malawi note insufficient supporting infrastructure as one of the main challenges in conducting business. Specific challenges include transportation, water and electricity

Mitigation Strategy	Lead
Efforts to establish new power sources , such as the development of new hydro stations, including the Kapichira II project by the Ministry of Natural Resources, Energy and Environment (MoNREE)	MoNREE
A USD 500 million thermal energy project backed by Chinese state-owned company, Gezhouba, is underway and is expected to increase the electricity generation capacity of Malawi fourfold, adding 1,000 megawatts to the current 280 megawatts , and should come online by 2015	Gezhouba
Investment to upgrade Malawi's electricity transmission system by the Millennium Challenge Corporation (MCC) will improve efficiency of transmission and increase access to power by enabling purchase of electricity from Mozambique	MCC
Development of the Nacala Corridor , including rail development and upgrading , which will improve Malawi's connection to the Nacala port . The Zomba-Blantyre Road Development Project recently launched by the Ministry of Transport (MoT) and financed by the African Development Bank (AfDB) will provide an alternative to rail transport along the Nacala corridor	Vale, MoT, AfDB



Risks and Mitigation Strategies

Supply Chain Risks (4/4)

Auction Holdings, a private sector driven commodity exchange being developed in Malawi, will increase access to market information and help growers to better plan their production

9 Variable Commodity Prices

Investors seeking steady financial returns are wary of fluctuations in commodity prices. Changing prices can be attributed to insufficient market information systems, government intervention, post-harvest flooding of markets, and off-season scarcity

Mitigation Strategy	Lead
Auction Holdings ¹ , the new commodity exchange being developed in Malawi in 2012 will support price stability and enable buyers to purchase goods from one point at which quality can be assessed. This will remove dependence on the aggregation of qualities and volumes of product from numerous SHFs spread over large distances	Auction Holdings
Auction Holdings will provide price information boards in rural areas to update SHFs as to the current market prices. Information will also be distributed to cooperatives for dissemination to their members	Auction Holdings, Cooperatives
The use of warehouse receipt systems , particularly by the commodities exchange, will help to ensure year-round supply of produce, due to improved storage techniques	Auction Holdings
The GoM's acknowledgement that market interference is distorting the agricultural economy and the establishment of PACE will support the removal of current policies that are negatively affecting markets, as well as the establishment of new policies, which stimulate a stable economy and reduce the risk of variable commodity prices	PACE, GoM, MoAFS, MoIT

Notes: Auction Holdings is a Subsidiary of state-owned Agricultural Development and Marketing Corporation of Malawi (ADMARC) and is organized as a limited liability company

Source: Primary Interview, Malawi, August – October 2012; Monitor Analysis

Market Risks (1/2)

Malawi's access to export markets is being facilitated by funding export oriented firms, easing access to markets and standardizing quality guidelines

10 Low Access to / Competitiveness in Export Markets

Investors seeking to access export markets often cite market access as a challenge. The “land-linked” nature of Malawi, the many procedural steps for export certificates and the high cost of transportation are challenges that are often cited as inhibiting access to export markets

Mitigation Strategy	Lead
The GoM has established an export development support facility , the Export Development Fund , of approximately MWK 25 bn, based in the Reserve Bank, which is targeted at increasing access to finance for businesses looking to export non-traditional commodities to fuel agricultural diversification and broaden the variety of crops grown for export	GoM, Reserve Bank, EDF
The Office of the President and Cabinet (OPC) is looking to develop transport options to facilitate access to port using the Beira corridor . For example, the Nsanje Inland Port is set to be further developed and operationalized in order to ease access to Beira port	OPC
The planned implementation of a National Single Window for trade will increase the efficiency of cross border movement of goods	MoIT
Developing “ one-stop border posts ” along the Nacala corridor will increase the speed and efficiency, as well as reduce the cost, of border crossings connecting Malawi to Zambia and Mozambique	MoT, MoIT
The United Nations Development Program (UNDP) and the European Union (EU) are implementing a project to develop the Malawi Bureau of Standards (MBS) to be internationally accredited by 2015. This will render the certification of product quality more cost effective as it can be done locally and thus increase the pace at which products can be certified as being suitable for export to international markets	UNDP, EU, MBS

Market Risks (2/2)

Incentives to ease operational costs for companies importing raw materials and equipment are also offered by the Government of Malawi

11 High Dependence on Imported Inputs and Equipment

Access to raw materials and inputs is a key consideration for many investors and contributes to operating costs. Due to the developing nature of Malawi's economy, many industries that are adjacent to agriculture are yet underdeveloped, e.g. packaging

Mitigation Strategy

Ongoing **collaboration between the MITC and the Malawi Revenue Authority (MRA) to develop a set of incentives for investors entering Malawi.** This is to resolve confusion and inconsistencies experienced by investors when speaking to different ministries about incentives, such as incentives for raw material purchase

Duty free importation of equipment is offered as an incentive to investors, and offers savings depending on the type of equipment and the amount of the investment being made by the investor

Lead

**MITC, MRA,
MoF**

**MITC, MRA,
MoF**

What Does This Mean for Malawi?

Malawi's natural resources, along with policy reforms and government openness to co-investment, make Malawi an economy that is ripe for investment

- 1 *Means of agricultural production are in place...*
- 2 *The enabling business and political environment is being strengthened...*
- 3 *Turnkey projects are further unlocking production and marketing potential...*
- 4 *Success has been demonstrated by existing firms and many growing companies are ready for co-investment...*

Malawi is Open for Business!!!

- In parallel with this document, detailed investment cases were developed for five immediate investment opportunities within the five identified value chains for short term investment
- The broad information package that Malawi will present at the Grow Africa Forum includes:
 - Country Narrative - a short description of why Malawian agriculture is attractive for investors and the actions being taken to create a robust enabling environment for investment
 - Business Cases – overview of the five short term investment opportunities

- To obtain more information on making agricultural investments in Malawi, prospective investors can contact the following organizations:

**Malawi Investment and Trade Centre**

Aquarius House

Private Bag 302

Lilongwe 3, Malawi

Tel: +265 1 770 800

Fax: +265 1 771 781

Key contacts:

Clement Kumbemba, Chief Executive Officer, ckumbemba@mitc.mwLovemore Ndege, Investment Promotion Executive, lovemorendege@gmail.com / Indege@mitc.mw**Trade and Investment Divisions at Malawian Embassies**

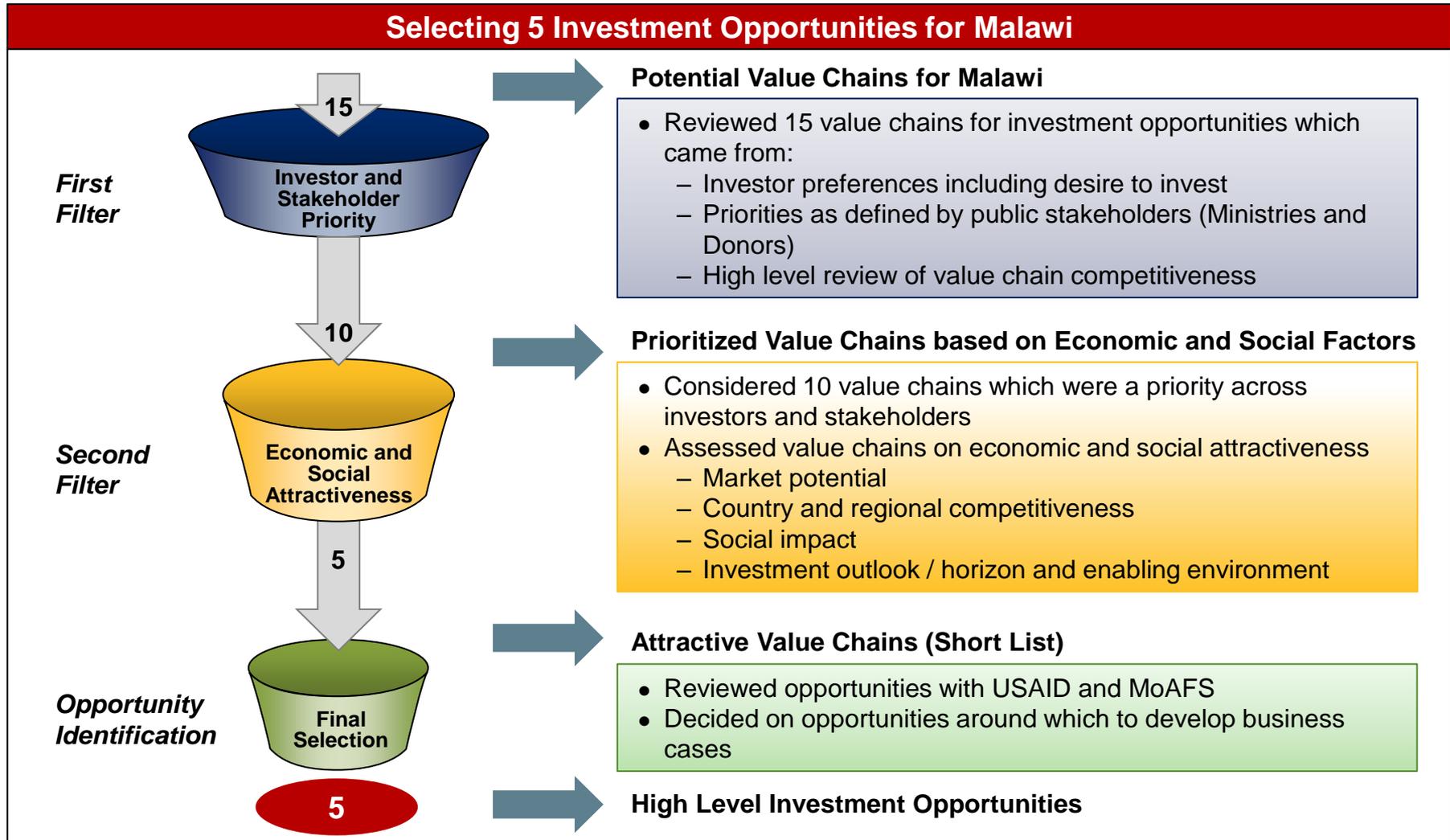
Interested investors can also contact the Trade & Investment Division of the Embassy of Malawi in their home country



Appendix

Three Stage Framework for Value Chain Prioritization

To arrive at an optimal investment selection for Malawi, the following framework for value chain selection and business case identification was employed



Filter 1: Investor and Stakeholder Priority

The first stage of analysis involved garnering private and public sector stakeholder perspectives on value chains and potential investment opportunities

Criteria	Definition
1 Shared Stakeholder Perspectives	<ul style="list-style-type: none"> Identified stakeholder perspectives around various crops, what potential investment opportunities they were aware of, or interested in, and what they perceived to be some of the key drivers and barriers to investing in Malawi
2 Current Public Sector Strategy Assessment	<ul style="list-style-type: none"> Identified the current agricultural focus areas for the government, what donor strategies are in place to support government initiatives, and perspectives on potential investment opportunities
3 Value Chain Initial Review	<ul style="list-style-type: none"> Conducted desktop research and analysis to identify the potential market for the value chains identified in interviews with the private and public sector, as well as the drivers and barriers to success in each value chain



Framework for Investment Opportunity Selection

Filter 1: Prioritized Value Chains

Application of Filter 1 led to the selection of 9¹ value chains for further analysis

#	Value Chains	1 Stakeholder Priority	2 Strategy Assessment	3 Value Chain Analysis	Selected for Next Stage
1	Chilies	Low	Low	Low	-
2	Coffee	Low	Low	Medium	-
3	Cotton	Medium	Medium	Medium	✓ <i>Prioritized</i>
4	Dairy	Low	Medium	Low	-
5	Fish	Low	Medium	Low	-
6	Groundnuts	High	High	High	✓ <i>Prioritized</i>
7	Macadamia	Medium	Low	Medium	✓ <i>Prioritized</i>
8	Maize	High	Medium	Medium	✓ <i>Prioritized</i>
9	Mangoes	Low	Low	Low	-
10	Pigeon peas	Medium	Medium	Medium	✓ <i>Prioritized</i>
11	Rice	High	Medium	Medium	✓ <i>Prioritized</i>
12	Soybeans	High	High	High	✓ <i>Prioritized</i>
13	Sugarcane	High	High	High	✓ <i>Prioritized</i>
14	Tea	Medium	Low	Medium	✓ <i>Prioritized</i>
15	Tobacco	Low	Low	Medium	-

Note: ¹ A tenth value chain, cassava was added to the list of 9 prioritized value chains due to increased national interest

Source: Monitor Analysis

Filter 2: Criteria for Value Chain Selection

An in-depth assessment of market potential, competitiveness, social impact, and investor outlook was undertaken based on a variety of quantitative metrics...

Criteria	Metrics	Description
1 Market Potential	<ol style="list-style-type: none"> Local, regional and global market growth Local production growth across value chains (VCs) 	<ol style="list-style-type: none"> The growth in consumption of each VC is compared, using a weighting to take into account how much of production is consumed locally, regionally, and globally ($Consumption = Production - Exports + Imports$) VCs are compared based on domestic production growth (CAGR, 2006-2010)
2 Country Competitiveness	<ol style="list-style-type: none"> Relative productivity (yield, MT/ha) Relative price comparison (producer price/MT, export price/MT) Relative production volume (MT) to regional average 	<ol style="list-style-type: none"> Malawi's relative productivity is calculated by comparing its yield to the weighted regional average Malawi's producer or export prices are compared to the weighted regional average The difference in volume of Malawi's domestic production or exports¹ is compared to the regional average². Export crops are defined by having greater than 50% of their production exported
3 Social Impact	<ol style="list-style-type: none"> Level of economic proximity³ Estimated impact on small-holder farmers (SHFs) 	<ol style="list-style-type: none"> The level of economic proximity has been adopted from the NES and serves as an indicator of the economic spillover effects a product has within the broader economy Impact on SHFs is assumed to be directly proportional to the number of farmers involved in the production of each crop and is used as a simple measure to estimate the scale of impact that an investment would have on farmer livelihoods
4 Investment Outlook	<ol style="list-style-type: none"> Preferences shared by current private sector actors 	<ol style="list-style-type: none"> Investor interest per value chain is determined by assessing the percentage of private sector actors that, during private sector interviews, highlighted a crop as having the highest investment potential relative to the other assessed crops

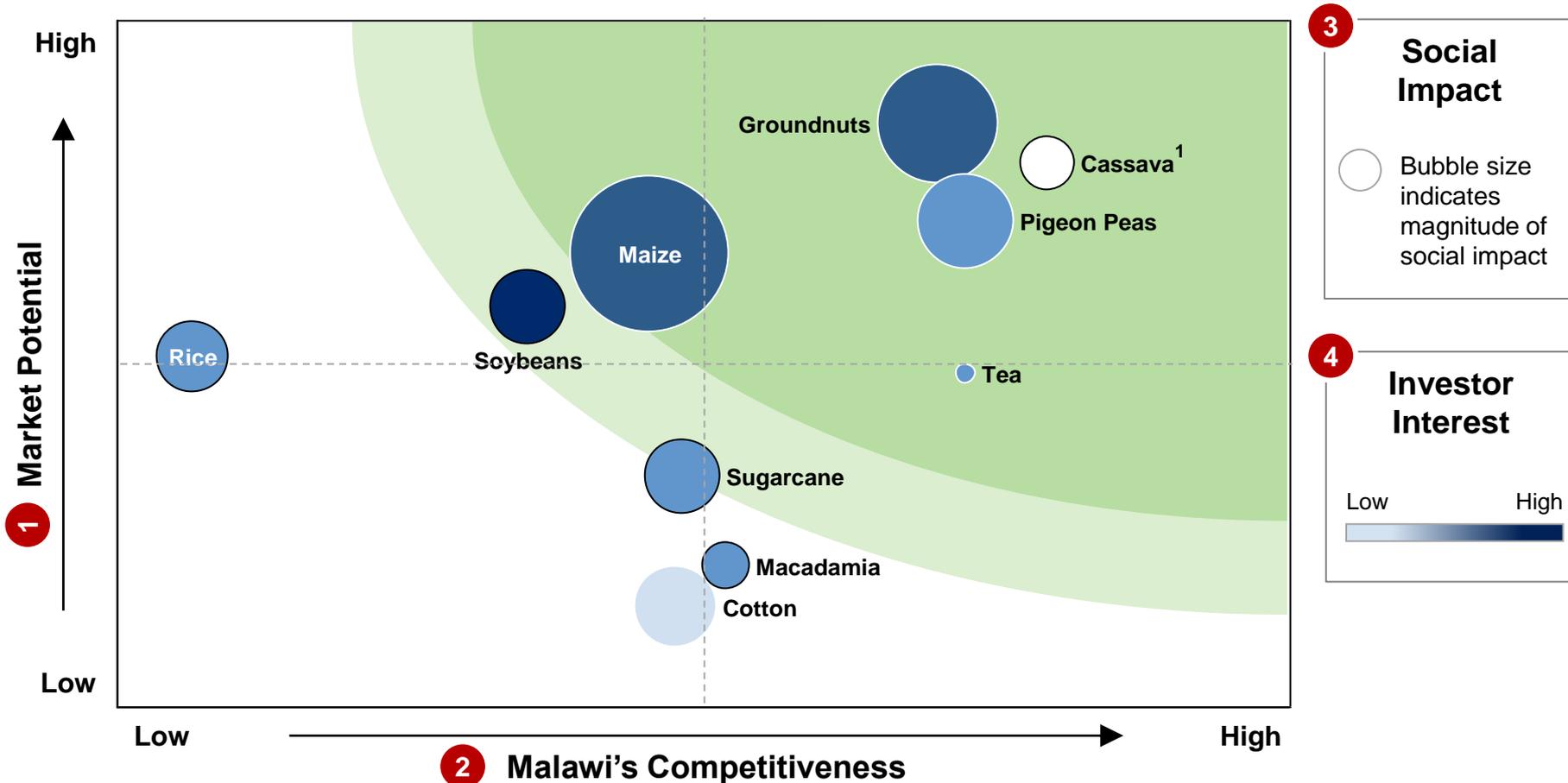
Note: ¹ Production volume used for domestically focused crops, export volumes used for export crops; ² Regional comparators: MZ, SA, TZ, ZM, ZW;

³ Adopted from the NES (NES Technical Team and Imani Development: Application of Hausmann and Rodrik model to Malawi)

Filter 2: Performance of Value Chains Across Metrics

... which resulted in the following relative performance of crops

Summary of Filter 2 Results



Note: ¹ A tenth value chain, cassava was added to the list of 9 prioritized value chains due to increased national interest
 Source: FAOSTAT; ITC; MoAFS; NSO; NES; TLII; In-country Expert Interviews; Monitor Analysis

Filter 2: Selected Value Chains for Further Analysis

Based on the applied criteria, groundnuts, maize, pigeon peas, soybeans and sugarcane emerged as the priority value chains for business case development

1. Cassava

6. Pigeon peas

2. Cotton

7. Rice

3. Groundnuts**8. Soybeans**

4. Macadamia

9. Sugarcane**5. Maize**

10. Tea



Framework for Investment Opportunity Selection

Filter 3: Investment Opportunities

For each of the prioritized value chains, a business case was developed for a specific opportunities selected from a long list of potential investment

Value Chain	Investment Opportunity	Description Excerpt	Investment Required (est.)	Selected for Business Case
Groundnuts 	Peanut Paste Processing	Investment in existing plant for processing peanuts into paste, sourcing groundnuts in-shell from SHFs	USD 2.2 mn	✓ Yes
	Peanut Oil Processing	Investment in existing peanut oil plant for export, sourcing groundnuts from SHFs	USD 5 mn	
Maize 	CSB	Investment in increasing capacity of existing CSB plant to increase volumes for regional export	USD 300K	✓ Yes
	Storage	Warehouse receipt system to reduce wastage and increase price realization	USD 20 mn	
Pigeon Peas 	Dhal Processing Plant	Processing of pigeon peas to dhal for export	USD 10 mn	
	Increase Pigeon Pea Production	Investment in contract farming to produce pigeon peas for raw export or to supply local processors	USD 33 mn	✓ Yes
Soybeans 	Textured Soy Protein (TSP)	Investment in new equipment for developing TSP as an input into RUTF¹	USD 6 mn	✓ Yes
	Seed	Greenfield PPP to grow and multiply soybean seed	USD 3 mn	
Sugarcane 	Contract Farming Estate with Attached Processing Plant	PPP in irrigation development to grow sugarcane in a contract farming arrangement for a joint processing plant that provides a ready market for SHFs	USD 70mn	✓ Yes

Note: ¹ Ready-to-use therapeutic food

Source: Stakeholder Interviews; Monitor Analysis