



# Agricultural Investment Opportunities in Malawi

## *Sugarcane Business Case*

*December 2012*





# Abbreviations and Acronyms

*Abbreviations and acronyms used in this Business Case are defined below*

<b>ASWAp</b>	Agricultural Sector Wide Approach
<b>bn</b>	Billion
<b>CAGR</b>	Compound Annual Growth Rate
<b>CEO</b>	Chief Executive Officer
<b>EU</b>	European Union
<b>GBI</b>	Green Belt Initiative
<b>GDP</b>	Gross Domestic Product
<b>GoM</b>	Government of Malawi
<b>ha</b>	Hectare
<b>MCC</b>	The Millennium Challenge Corporation
<b>MITC</b>	Malawi Investment and Trade Center
<b>mn</b>	Million
<b>MT</b>	Metric Tons
<b>NES</b>	National Export Strategy
<b>PPP</b>	Public-Private Partnership
<b>SHF</b>	Smallholder Farmer
<b>USD</b>	US Dollar



## Objectives of This Document

- Provide an **introduction to Malawi** and highlight the potential that exists in Malawi's **agriculture sector**
- Showcase a **high-level investment opportunity in sugarcane production and processing** for local, regional, and international investors that are interested in **strategic investments** in the agriculture sector
  - Outline the relevant **market opportunity, investment overview, and enabling environment**, for the investment
- Provide **contact information for prospective investors** interested in this or other opportunities in Malawi's agribusiness sector



## Content

- **Why Invest in Malawi**
- Sugarcane Investment Opportunity
- Contact Information



## Why Invest in Malawi

# Overview of Malawi

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*Malawi is a Southern African country of 15 million people, which has a diversity of topographies and 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**, comparable in size to the U.S. state of Pennsylvania
- The **capital city is Lilongwe**, and the second largest city, Blantyre, is the center for commercial activity
- **Lake Malawi**, the third largest lake in Africa, and Lake Chilwa cover **~21% of Malawi’s land area**
- Though it is small, Malawi boasts a **widely diverse topography and scenery**, ranging from sweeping lake views, breathtaking woodlands and unique cityscapes
- The official language of Malawi is **English**, but Chichewa is also widely spoken





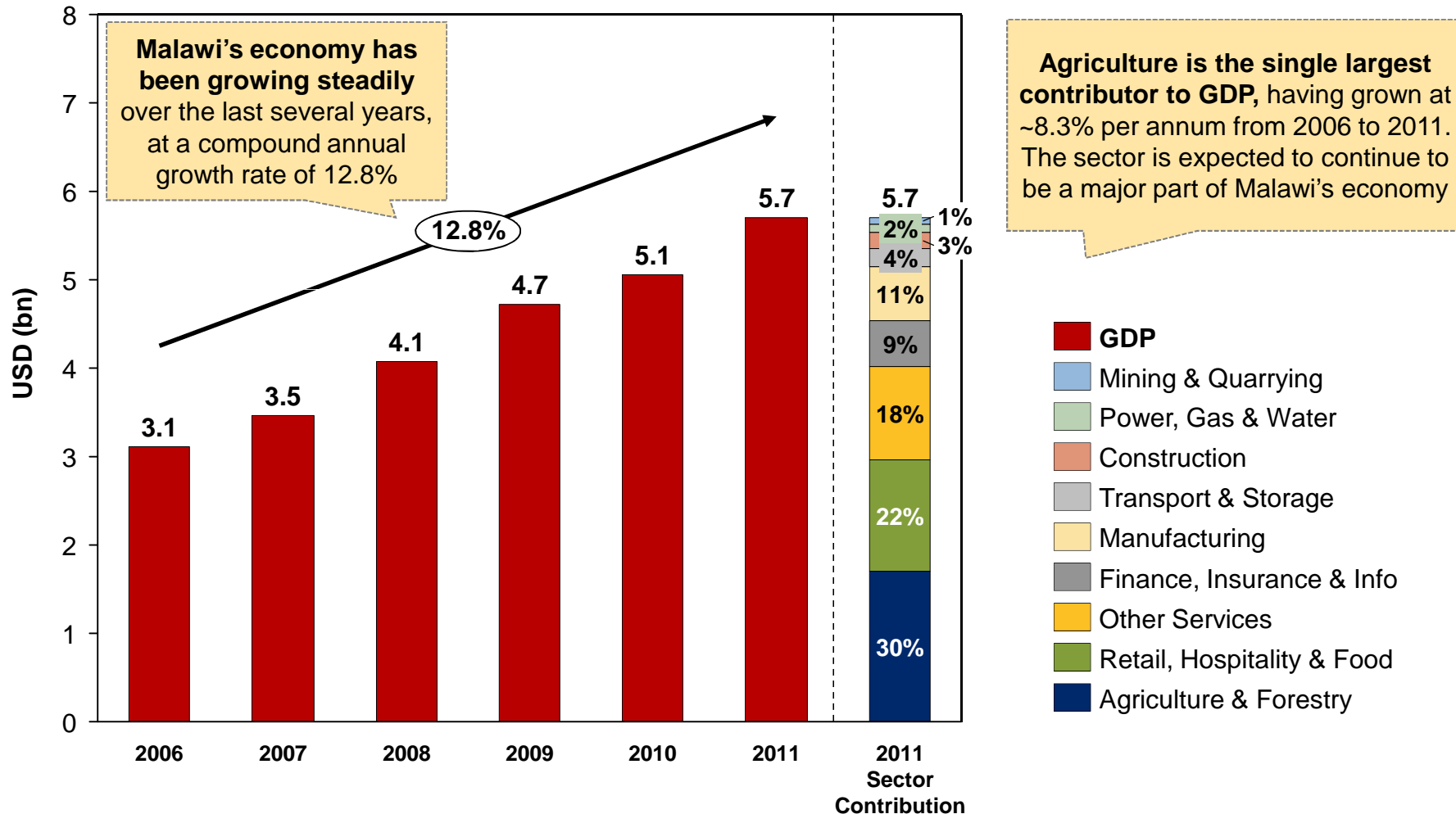
## Why Invest in Malawi

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# Growing Economy and Agriculture Sector

*Its economy has experienced consistent growth over the last several years, with agriculture being an important contributor, representing 30% of GDP in 2011*

Annual GDP of Malawi, and Sector Contribution for 2011



Note: GDP is given in current prices

Source: World DataBank; World Economic Outlook



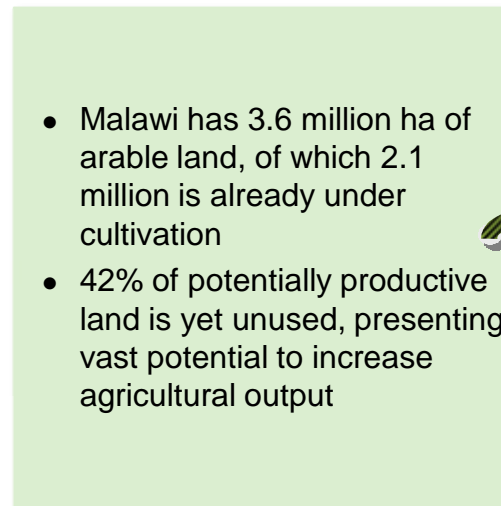
# Favorable Conditions for Agriculture

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



## Abundant Water Supply

- Lake Malawi and lake Chilwa cover over 20% of Malawi's land area
- There is significant potential for irrigation in the Shire River Valley for winter cropping
- If irrigation is fully implemented, Malawi has enough water to become completely food independent



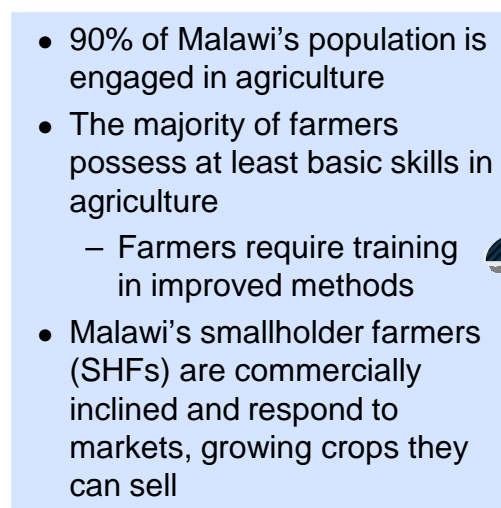
## Available Arable Land

- Malawi has 3.6 million ha of arable land, of which 2.1 million is already under cultivation
- 42% of potentially productive land is yet unused, presenting vast potential to increase agricultural output



## Good Agro-Ecological Conditions

- 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



## Ingrained Agrarian Culture

- 90% of Malawi's population is engaged in agriculture
- The majority of farmers possess at least basic skills in agriculture
  - Farmers require training in improved methods
- Malawi's smallholder farmers (SHFs) are commercially inclined and respond to markets, growing crops they can sell





## Content

- Why Invest in Malawi
- **Sugarcane Investment Opportunity**
- Contact Information





## *Sugarcane Investment Opportunity*

# Introduction

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### Investment Overview

The investment opportunity is a **green field sugarcane production and processing venture**. It is founded upon the Government of Malawi's **Green Belt Initiative (GBI)** and the development of **6,000 ha of irrigated land** set aside for the production of sugarcane. In addition to developing the land for sugarcane production, a **processing facility** will be established. Malawi's potential to achieve **high sugarcane yields of excellent quality** provide the investment with **strong profit generating potential**. As a **public-private partnership (PPP)** the investor can be assured of **government support** in all aspects of the investment. There is high potential for **social impact** due to the planned engagement of smallholder farmers (SHFs) as out-growers, as well as the expected job creation from the processing plant



# Sugarcane Investment Opportunity

## Executive Summary

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### Market Opportunity



- **Local demand growth** is limited at ~0.2%, however, significant **supply gaps exist in regional and global markets**, indicated by **increasing imports** of 33% and 8%, respectively between 2006 and 2010
- Sugarcane producers in Malawi can take advantage of this development, given **favorable agro-climatic conditions** and **yields 62% above the weighted regional average**, resulting in significant expected **increases in production** over the next years

2

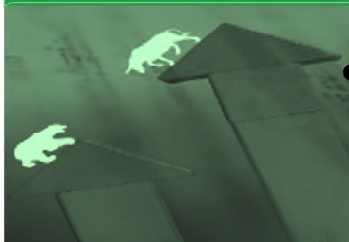
### Investment Overview



- As **part of the GBI**, the Government of Malawi (GoM) is looking for a **strategic partner to form a public-private partnership** in the development of a **6,000 ha sugarcane estate** with an attached **processing facility**
- The **immediate opportunity is a ~USD 70 mn investment** for the development of 4,000 ha of irrigated land, and the purchase of equipment and inputs. In the long term, the **investor will operate the processing facility** constructed as part of the initiative **under the PPP arrangement**

3

### Enabling Environment



- **Enablers provided by the GoM** to support the sugarcane investment include access to a **4,000 ha tract of continuous land**, sugarcane **supply from out growers** cultivating an additional 2,000 ha, and the construction of a **processing plant** to be operated by the investor under the PPP arrangement
- In addition, the GoM is encouraging **private sector led growth** through **policy reforms, incentives to attract investment**, and overarching sector wide **strategies** that focus government intervention



# Sugarcane Investment Opportunity

## Market Opportunity

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1

### Market Opportunity



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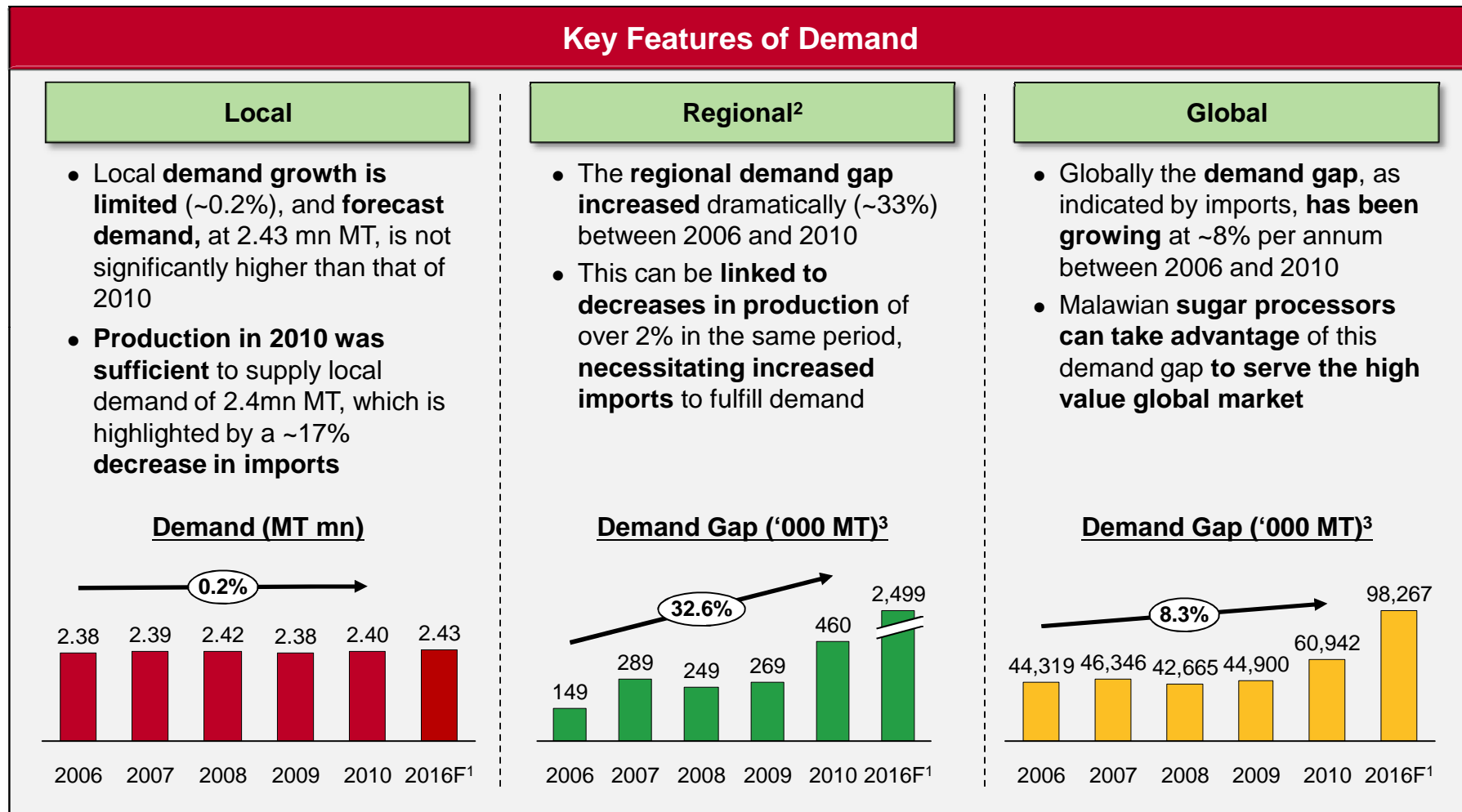
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# Market Opportunity Sugarcane Demand

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While local demand is high but stagnant, significant supply gaps exist in regional and global markets which are becoming increasingly dependent on imports to meet demand



Note: <sup>1</sup> Forecast values calculated using the 2006-2010 CAGR; <sup>2</sup> Regional includes: Mozambique, South Africa, Tanzania, Zambia and Zimbabwe;

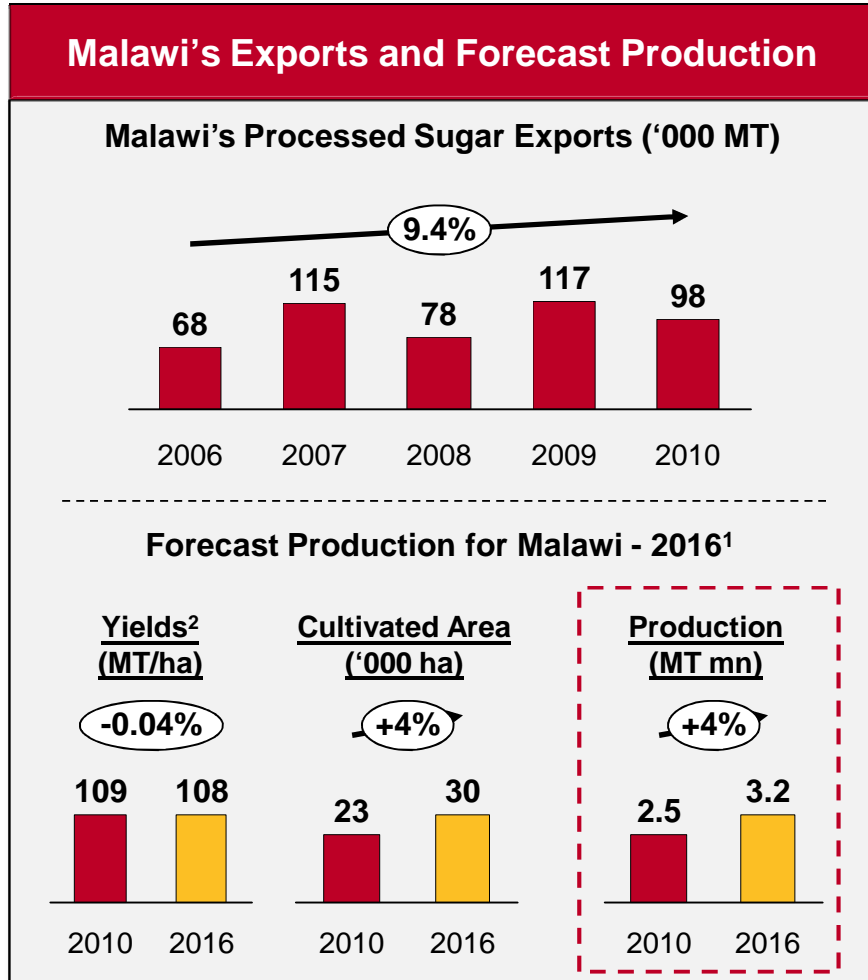
<sup>3</sup> Regional and global demand growth is not expected to continue at the current rate and a slowdown in growth beyond 2010 is likely

Source: FAOSTAT; International Trade Center; Illovo Annual Report, 2012; Monitor Analysis



# Malawi's Potential to Satisfy Demand

*In addition to supplying the local market, Malawi's exceptional yields and favorable agro-climatic conditions provide the basis for high production growth to serve regional and global markets*



- ### Cultivation of Sugarcane in Malawi
- Sugarcane cultivation is on a **commercial scale** with **out grower schemes** supplying **~13%** of production
    - **Production** is expected to **grow significantly** between now and 2016, with conservative estimates showing a **4% CAGR**
    - **The GBI** will lead to **more land prepared** for sugarcane production and **higher yields** due to irrigation
  - **Surplus production** will allow for **increased exports** of processed sugar, regionally and abroad, to take advantage of **markets experiencing supply deficits**
  - Malawi's **agro-climatic conditions** are well suited to the production of sugarcane and support **yields that are ~62% above the weighted regional average**
    - **Commercial** plantations achieve yields of between **104 and 114 MT/ha**, whilst SHFs yield **80-90 MT/ha**
  - Malawian sugar is mostly **sold domestically** (~60%), followed by **European exports** (~28%), and **regional exports** (~12%), primarily to Zimbabwe

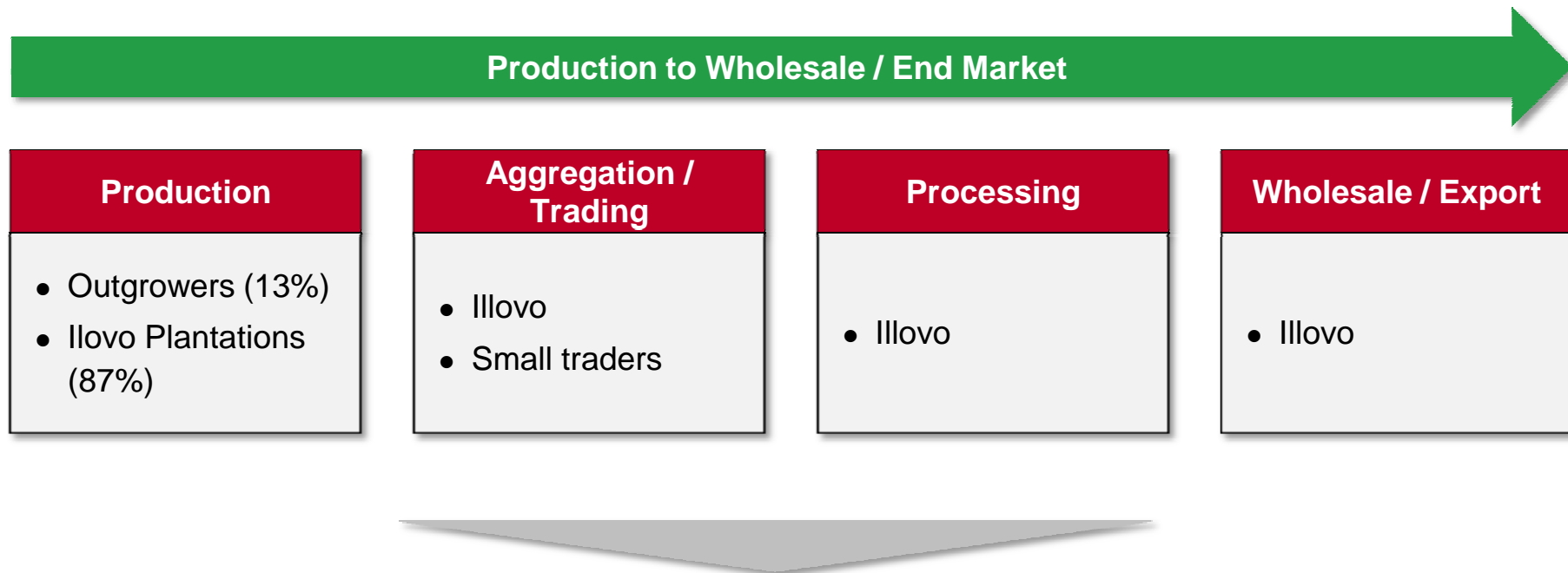
Note: <sup>1</sup> Forecast production is based on the addition of 6,000 ha of irrigated land plus constant growth in area under cultivation, and assumes constant growth rates for yield; <sup>2</sup> Yield growth does not account for yield improvements due to the GBI, which are likely to be highly positive

Source: FAOSTAT; International Trade Center; GBI Interviews; Illovo Annual Report, 2012; Monitor Analysis



# Malawian Competitive Landscape

*The sugarcane industry in Malawi is currently dominated by Illovo, however, the implementation of the GBI will support the development of additional producers and processors*



***The government of Malawi is seeking new producers and processors to secure sufficient volumes of sugarcane for the local market while also expanding the competitive landscape in the sugarcane sub-sector***



# Sugarcane Investment Opportunity

## Investment Overview

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1

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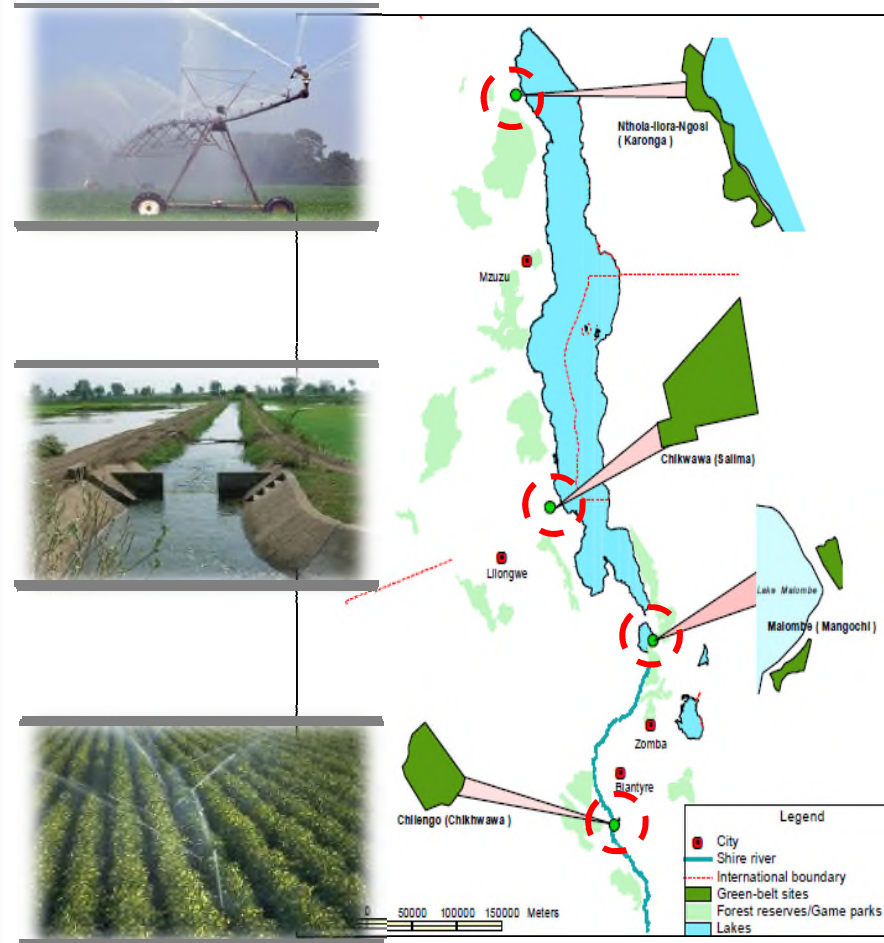
# Overview of the Green Belt Initiative (GBI)

The GBI is a key government initiative with significant potential to unlock the agriculture sector, stimulate private sector development, and improve the livelihoods of Malawians

## Overview of the GBI

- The GBI is a **government program** aimed at using the **abundant water resources** in Malawi to increase:
  - Agricultural production and productivity
  - Incomes
  - Food security
- The **GBI is aligned to Malawi’s medium term poverty reduction and economic development strategy** (MGDS II<sup>1</sup>) and it is, in effect, the **implementation arm** of pillar 3 of the Agricultural Sector Wide Approach (i.e., Sustainable Agricultural Land and Water Management )
- The creation of the GBI was to a large extent driven by Malawi’s **overdependence on rain-fed agriculture**, which has left the country open to **weather shocks**, such as droughts and floods, which threaten food security
- The **four pilot sites** and the respective **focus crops** are:
  1. Nthola-Illora-Ngosi (Karonga) – 1000 ha focused on **rice**
  2. Chikwawa (Salima) – 600 ha focused on **sugarcane**
  3. Malombe (Mangochi) – 500 ha focused on **rice**
  4. Chilengo (Chikhwawa) – 500 ha focused on **maize**

## GBI Pilot Sites



Note: <sup>1</sup> Malawi Growth and Development Strategy II


Source: Interviews with the GBI Working Group; Strategic Plan for the Green Belt Initiative, 2011; Monitor Analysis



## Specific Objectives of the GBI

*The overarching goal is the creation of wealth through increased agricultural production, productivity, and enterprise development for domestic and export markets*

Specific Objectives	Expected Outputs	Expected Outcomes
<ul style="list-style-type: none"><li>• To increase area under <b>irrigation</b></li><li>• To increase <b>production and productivity</b> of crops, livestock and fisheries technologies</li><li>• To improve <b>market access</b></li><li>• To increase <b>volumes and quality of value added products</b></li><li>• To improve <b>access to other socio-economic infrastructure</b> within the context of the rural growth centers</li></ul>	<ul style="list-style-type: none"><li>• <b>Area under sustainable irrigation farming increased</b> from 90,000 ha to at least 200,000 ha in the first 5 years from 2011 onwards<ul style="list-style-type: none"><li>– The ultimate goal is to <b>bring all</b> potentially irrigable land (~1mn ha) <b>under irrigation</b></li></ul></li><li>• Increased <b>agricultural output, exports and trade</b></li><li>• Improved <b>participation of the community and private sector</b> in the agricultural value chain</li></ul>	<ul style="list-style-type: none"><li>• Increased <b>household wealth and enterprise incomes</b></li><li>• <b>Equitable access and efficient use and control</b> of household and community resources and benefits</li><li>• Increased <b>contribution of the agriculture sector to GDP</b></li><li>• Increased <b>employment</b> in the agriculture sector</li><li>• Increased <b>food and nutritional security</b></li></ul>

 The **GoM's willingness to engage the private sector** to support the achievement of these goals shows a drive towards **fostering an investor-friendly environment** in Malawi for the **development of the agriculture sector**



# Overview of Investment Opportunity

*As part of the GBI, an investment opportunity in sugarcane production and processing is being developed with the full support of the government*

## The Opportunity

- The **first site** to be developed is **Chikwawa in Salima**
- An **irrigation scheme** will be established covering **6,000 ha** of land that has been prioritized for **sugarcane production and processing**
  - **4,000 ha** of the land is to be made available to an investor to develop a sugar plantation, whilst the remaining **2,000 ha will be developed for SHFs** who will operate as **out growers**
  - The **produce** from both the anchor farm and out growers **will supply a processing plant** to be built by the GoM within the production area
- An **Indian company will be contracted to build the processing plant** and to run it for the first year or two of operation, after which **the investor will take over** to run the plant under the public-private partnership agreement
  - The **choice of contractor** stems from Malawi having been granted a **USD 40 mn line of credit by the Indian government**
- **Development of the first 500 ha** of land for SHFs has **already been initiated** by the government

## Current Status

***The GoM has taken the lead in initiating this development and has already broken ground in the first phase of the development***

*“President Joyce Banda officially launched the Chikwawa Estate Green Belt Initiative (GBI) Scheme in Salima on Monday...”*

Malawi News Agency,  
09 October 2012

**The GoM is actively seeking a strategic partner, with whom to form a PPP to develop a sugar plantation and ultimately run the sugar processing plant which will be located within the scheme**



# Investment Overview

## Investment Timeline

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The investment opportunity will be implemented in four phases

- Development of first 500 ha of irrigated land by GoM
- Identification of SHFs as out growers by GoM
  - The SHFs will start off growing legumes this season (2012/2013) while development of irrigation infrastructure is still underway
- Strategic partner identified to invest through GoM's standard tendering process



- Investor takes over operation of both plants under PPP agreement
- Investor in full control of both production and processing



- Development of 4,000 ha commences with investor's capital and oversight
- Building of the processing and a power generation plant by Indian company contracted by GoM
- GoM continues development of 2,000 ha for out growers



- Production on the 4,000 ha of land commences under the investor
- Plant begins operation under management of the contracted company
- Investor and out growers supply plant with raw materials (sugarcane)





# The Public-Private Partnership (PPP) Structure

*As a PPP, the structure of the investment will be clearly outlined to ensure that investors are able to maximize profit generation, as well as meet the needs of the government*

Roles and Responsibilities		
	Government	Investor
<b>Land</b>	<ul style="list-style-type: none"> <li>2,000 ha provided and developed by GoM for smallholder farmers (SHFs)</li> </ul>	<ul style="list-style-type: none"> <li>Provide capital for development of 4,000ha of irrigated land</li> <li>Various ownership structures possible including a long-term lease or government co-investment</li> </ul>
<b>Production</b>	<ul style="list-style-type: none"> <li>Irrigation will be laid for SHFs on the 2,000 ha and the land will be prepared to the point at which production can begin</li> </ul>	<ul style="list-style-type: none"> <li>Investment into the required inputs, labor and materials necessary for production on 4,000 ha, including equipment and machinery</li> </ul>
<b>Processing</b>	<ul style="list-style-type: none"> <li>Processing plant, together with a power plant, to be constructed by an Indian contractor under a build-operate-transfer agreement</li> <li>Still to define who will cover costs of operation and maintenance in the first 1-2 years</li> </ul>	<ul style="list-style-type: none"> <li>Investor run the fully functional plant with trained staff after 1-2 years under the PPP agreement</li> </ul>
<b>Power</b>	<ul style="list-style-type: none"> <li>As part of constructing the processing plant the GoM will also provide the investor with a power generation plant to ensure sufficient power supply is available for sugar processing</li> </ul>	<ul style="list-style-type: none"> <li>Use the power generated by biomass from processing waste material to supply the processing plant, irrigation water pumping, and sell extra capacity to the national power grid</li> </ul>
<b>Market</b>	<ul style="list-style-type: none"> <li>GoM is responsible for alleviating barriers to market access through its broader government initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Market development is the primary role of the investor, as is the setting up of a reliable sales network to identified markets</li> </ul>



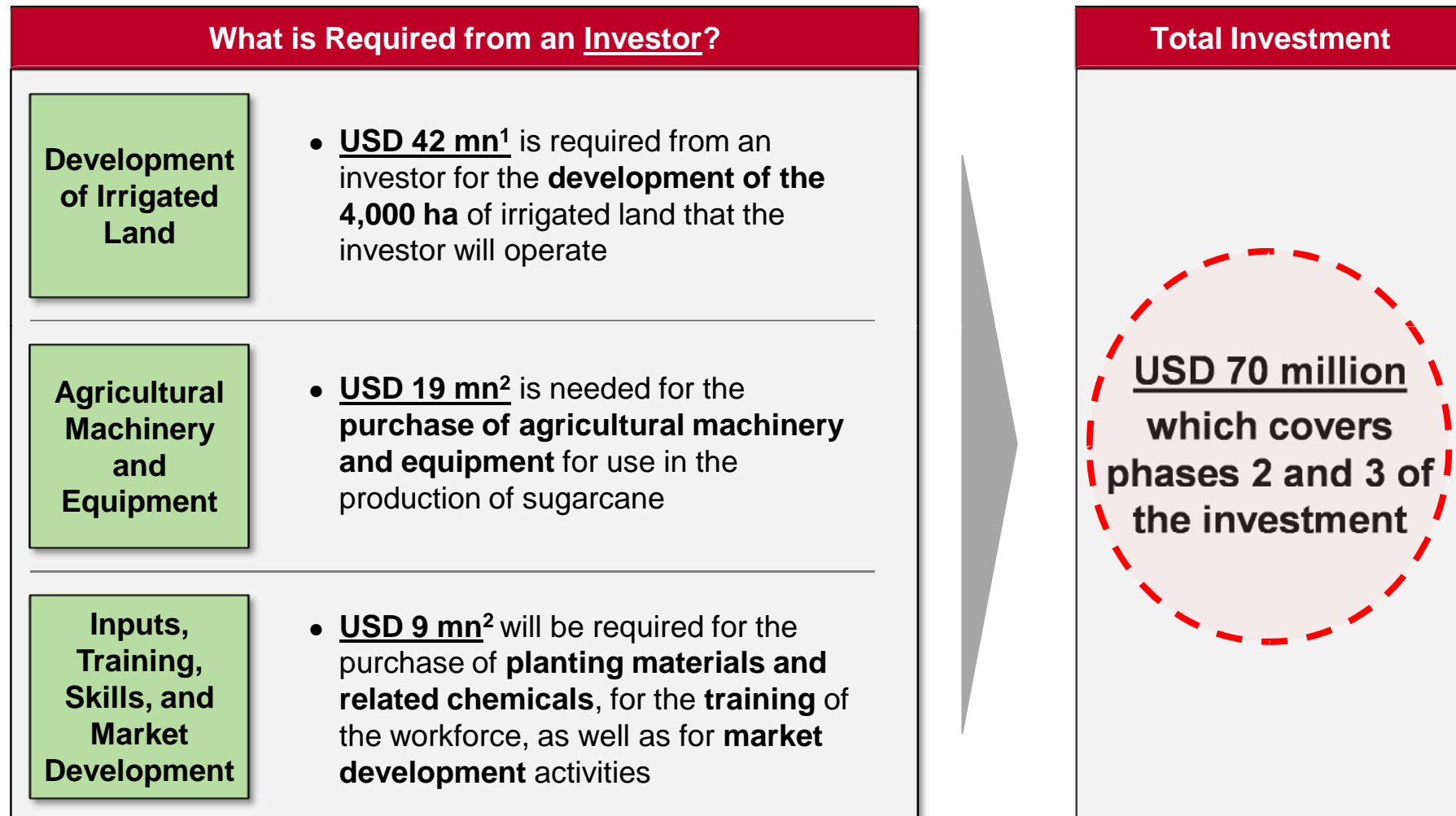


## Investment Overview

# Investment Required

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The immediate opportunity is a USD 70 mn investment for the development of 4,000 ha of irrigated land, purchase of machinery, equipment and inputs, as well as training of the workforce



Note: <sup>1</sup> Exchange rate of MWK1:USD0.00324; <sup>2</sup> This is an estimated figure and will be revised  
Source: Interviews with the GBI Working Group; Strategic Plan for the Green Belt Initiative, 2011; Monitor Analysis

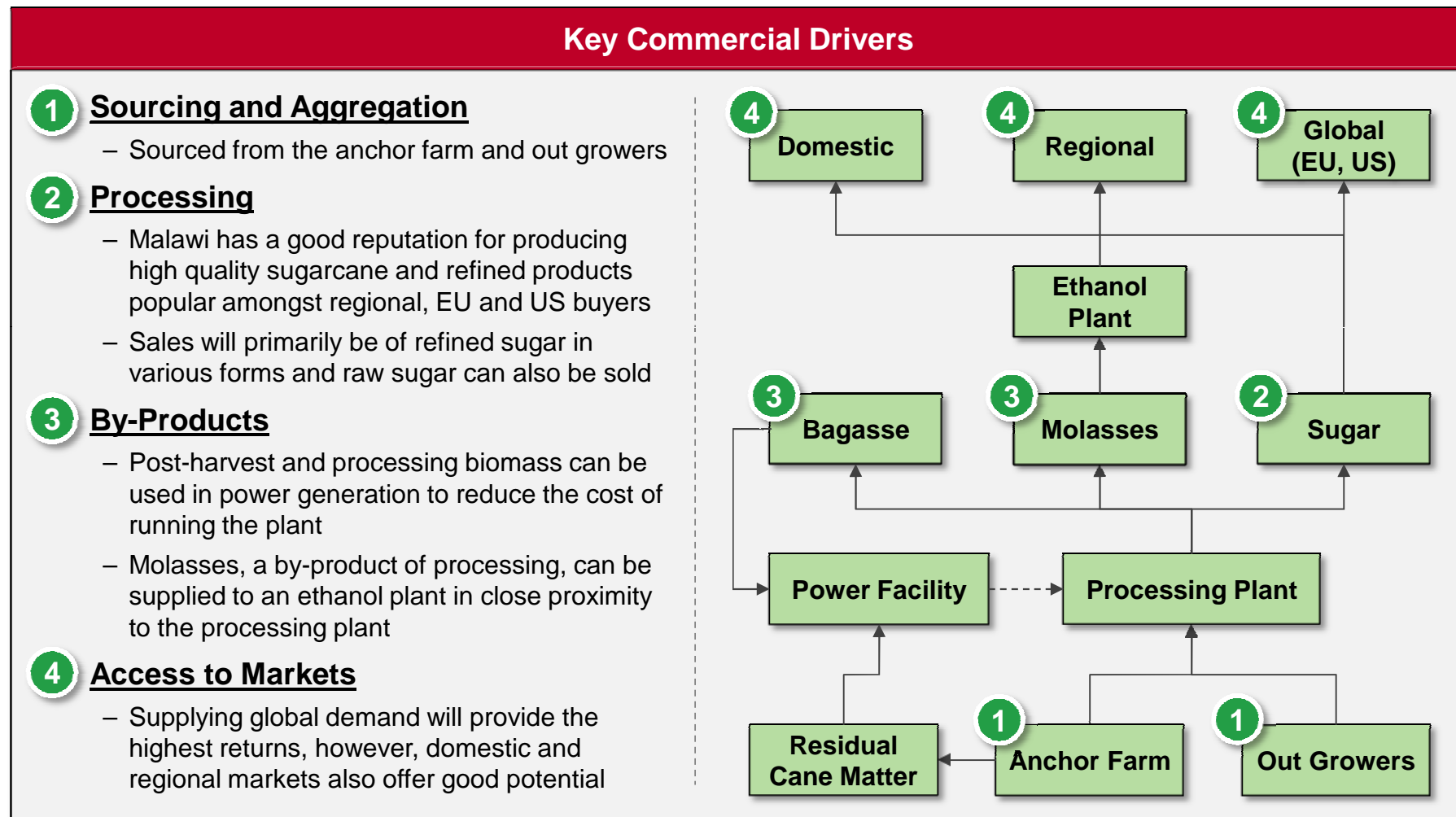


# Investment Overview

## Business Model

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*The investor will be provided with a high degree of control over the business as a result of overseeing both production and processing*







# Investment Overview

## Investment Highlights

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*The high demand for sugar and its excellent sale price make it an ideal export product, both regionally and globally, with a number of potential sales channels that can be leveraged*

### Sourcing Model



- The majority of raw materials will be supplied by the **anchor farm**, whilst the remainder will be aggregated from the **out growers** commissioned to produce for the plant

### Products



- **Raw and refined sugar** will be produced in bulk and packaged forms
- **By-products**, such as molasses, used in **ethanol production**, and bagasse, used for **power generation**, will also be produced

### Target Markets



- **Processed sugar** can be targeted **locally, regionally and globally**, with Malawi's regional position being advantageous to serve neighboring markets and fill supply gaps
- **Molasses** will be supplied to **local ethanol plant**

### Channels



- **Local sales** directly to stores, hotels, restaurants, and Illovo
- **Regional sales** to stores, hotels, restaurants, as well as to national wholesalers to distribute the product
- **Global sales** to large international buyers

### Price



- Local sugar **retail shop price** of about **USD 1 / kg**



## Investment Overview

# Social Benefits

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*Due to the scale of this investment and its combination of both production and processing, a high level of social impact is expected for the communities involved*

### Employment Creation and Skills Development



**Employment** will be created on the 4,000 ha **anchor farm**. The **processing plant** will also create jobs for people in the area, and provide **valuable skills development** for working in the processing sector

Roughly **1,000 SHFs and their families** will benefit by being incorporated into the out grower scheme, **~40%** of whom are expected to be **women**. They will **be provided with land** and a **guaranteed buyer** for their produce. **Training and support** will be provided to improve production and thus profitability



### Support to Smallholder Farmers

### Provision of Infrastructure



**Irrigation development** for sugarcane will also provide benefits to other crops. Improved access to **electricity** will benefit the community and enable the **establishment of small enterprises**

A **clinic** will be established by the GoM to **provide healthcare** for workers involved in sugarcane production, as well as for **surrounding communities**. This will support **improvements in the quality of life** of people in the area

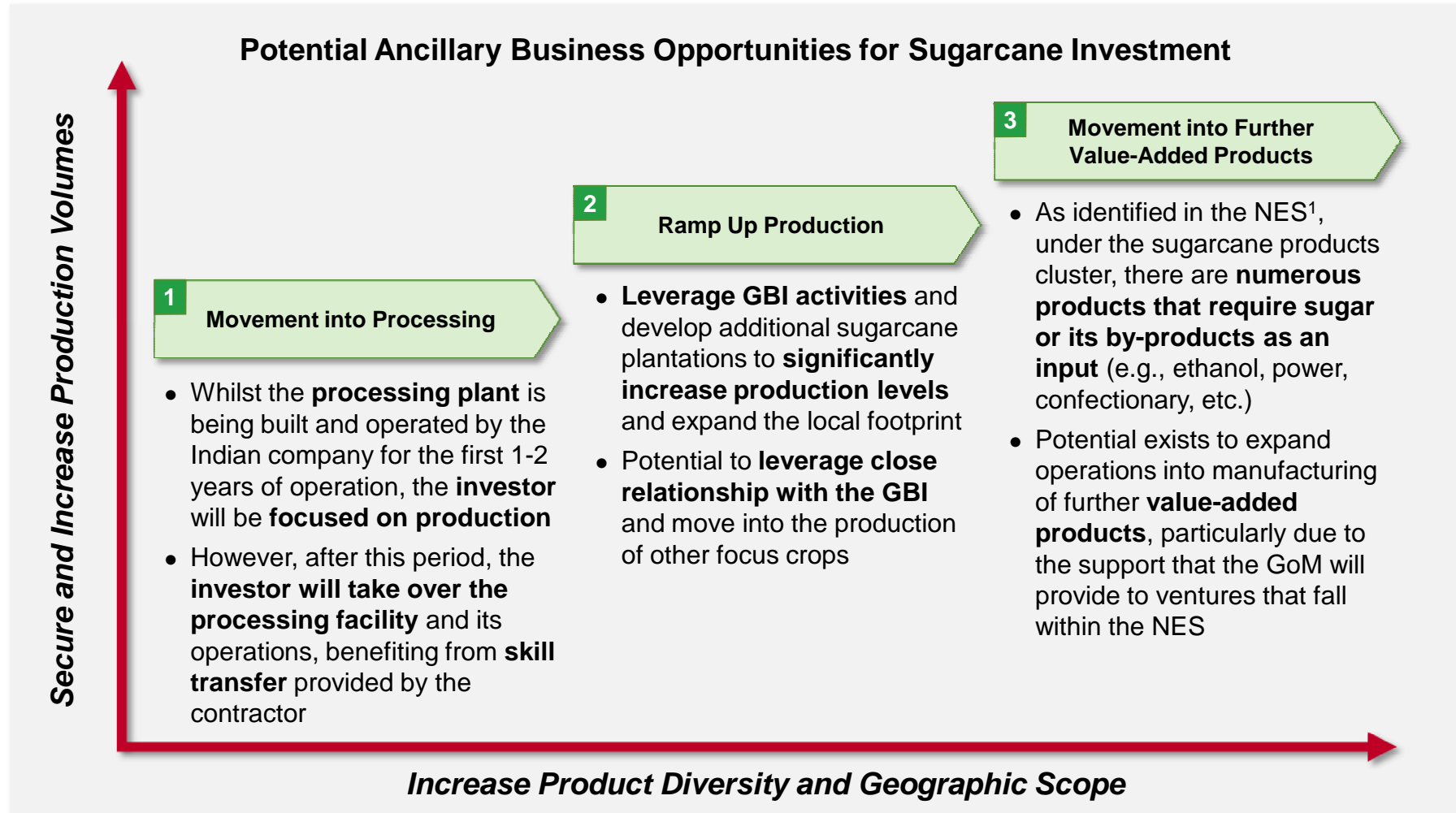


### Improved Health Services



# Long-Term Growth Potential

*In the near term, potential exists for an investor to move into processing and expand the scale of production, while in the long term, production of additional value-added products is possible*



Note: <sup>1</sup> National Export Strategy  
Source: Interviews with the GBI Working Group; Monitor Analysis



# Key Challenges and Mitigating Strategies

*Due to direct involvement of the Government of Malawi many of the typical barriers associated with production and processing are mitigated, leaving fewer challenges facing the investor*

Key Challenges	Description	High	Med	Low	Mitigation Strategies (Ongoing vs. Planned)
<b>Water Management</b>	Risk of putting strain on the water supply used for irrigation, as well as contamination with chemicals used in the farming process		★		<ul style="list-style-type: none"> <li>≈ Leverage the Ministry of Irrigation and Water Development to support the <b>implementation of water management strategies</b>, including ongoing testing of water quality</li> </ul>
<b>Health Issues</b>	Dealing with injuries to employees, particularly those working in the processing plant, as well as diseases that come with irrigation water			★	<ul style="list-style-type: none"> <li>≈ Ensure a <b>safe working environment</b> with safety training for all employees</li> <li>≈ Obtain support from the Ministry of Health for the <b>construction of a clinic</b> to provide basic healthcare to employees and community members</li> </ul>
<b>Resettlement</b>	Resettlement of communities who reside on the land identified for development		★		<ul style="list-style-type: none"> <li>✓ Government <b>engagement</b> with community to <b>facilitate resettlement</b></li> </ul>
<b>Market Linkages and Marketing</b>	Physical access to market, as well as establishing relationships with buyers		★		<ul style="list-style-type: none"> <li>✓ Ensure government support for <b>transport infrastructure</b></li> <li>≈ Leverage Malawi's growing <b>reputation for producing high quality sugar</b>, and use increasing <b>global supply deficit</b> as an advantage</li> </ul>
<p><b>Legend:</b> ✓ Ongoing    ≈ Planned</p>					



# Sugarcane Investment Opportunity

## Enabling Environment

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# Government of Malawi (GoM) Initiatives

*The Government of Malawi is encouraging private sector-led growth through policy reforms, incentives to attract investment, and a number of turnkey projects that facilitate operations*

## Private Sector Development

- The GoM has enacted new bills targeted at **supporting the development of the private sector**, for example:
  - Public Private Partnership Bill: Easing of private sector action in the economy, with GoM support in removing barriers
  - Business Registration Bill: Automation of business registration and digitization of business records
- **Specific incentives**, such as provision of large **irrigated pieces of land** as part of the GBI, will support this particular investment, whilst **general incentives**, such as an **allowance on expenditure** for new machinery will benefit the investor

## Sector Strategies

- The **ASWAp<sup>1</sup>** is a comprehensive agriculture **sector strategy** focused on agriculture-led economic growth
  - The **sugarcane opportunity supports the ASWAp's goals** as it falls under the GBI, a key implementing pillar
  - The **investment is aligned** to the focus on sustainable water management, agro-processing and increasing exports
- The **NES<sup>2</sup>** is a roadmap for developing a productive base for **export competitiveness** and **economic empowerment**
  - The **sugarcane products cluster** is a prioritized cluster
  - Its development aims to **increase exports** and to **diversify sugarcane-based product development**

## Turnkey Projects

- **The Nacala Corridor Project**
  - **Improved access to global markets** through the development of better road and rail linkages to the Nacala port
  - This will also **lower transportation costs**
- **The Millennium Challenge Corporation (MCC) Energy Project**
  - By improving electricity efficiency and providing **more reliable access to power** the number of **hours lost** to power outages by processors will be **significantly reduced**
  - This will substantially **improve the operating environment** for processors

Note: <sup>1</sup> Agricultural Sector Wide Approach; <sup>2</sup> National Export Strategy

Source: Ministry of Industry and Trade; Primary Interviews, September 2012; Malawi Investment Promotion Agency; Monitor Analysis





# Government Enablers and Benefits to the Investor

The GoM is putting a number of enablers in place to facilitate this investment, thus supporting the investor in overcoming many of the hurdles typically associated with investing in Malawi

	Government Enablers	Benefit to the Investor
Land Provision	<ul style="list-style-type: none"> <li>Provision of <b>large continuous tracts of land</b> for cultivation</li> </ul>	<ul style="list-style-type: none"> <li><b>Mitigates barrier of accessing land</b>, particularly large tracts, which is a common issue in Malawi</li> </ul>
Land Development	<ul style="list-style-type: none"> <li><b>Physical development</b> and laying of <b>irrigation</b> for 2,000 ha to provide out growers with high quality land for cultivation</li> </ul>	<ul style="list-style-type: none"> <li>Allows investor to <b>focus on remaining 4,000 ha</b> and provides the investor with a <b>ready out grower scheme</b> to supply additional cane to the processing plant</li> </ul>
Processing Plant	<ul style="list-style-type: none"> <li><b>Development of the processing plant</b> through the use of an Indian contractor and with the support of the loan from the Indian government</li> </ul>	<ul style="list-style-type: none"> <li><b>Lessens the financial burden</b> on the investor for the initial phase of the investment and allows investor to focus on <b>scaling up production volumes</b></li> </ul>
Out Grower Identification	<ul style="list-style-type: none"> <li><b>Pre-selection of SHFs</b> to be included in the out grower scheme</li> </ul>	<ul style="list-style-type: none"> <li><b>Mitigates the difficulty of community engagement and SHF selection</b>, particularly as the investor will likely have limited insight into which farmers are suited to the task</li> </ul>
Community Resettlement	<ul style="list-style-type: none"> <li>Engagement with and <b>resettlement of communities</b> living on the land designated for development</li> </ul>	<ul style="list-style-type: none"> <li>Evades a <b>highly sensitive issue</b> that would be <b>difficult for the investor</b> to successfully achieve without government intervention</li> </ul>





## Content

- Why Invest in Malawi
- Sugarcane Investment Opportunity
- **Contact Information**



## Government and GBI Contact Details

For more information about this investment opportunity or other investment opportunities available in Malawi, please contact the representatives below

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