FOREIGN DIRECT INVESTMENT IN BLANTYRE, MALAWI: OPPORTUNITIES AND CHALLENGES

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APRIL 2009
The Millennium Cities Initiative (MCI) is a project of The Earth Institute at Columbia University, directed by Professor Jeffrey D. Sachs. It was established in early 2006 to help sub-Saharan African cities achieve the Millennium Development Goals (MDGs).

As part of this effort, MCI helps the Cities to create employment, stimulate enterprise development and foster economic growth, especially by stimulating domestic and foreign investment, to eradicate extreme poverty – the first and most fundamental MDG. This effort rests on three pillars: (i) the preparation of various materials to inform foreign investors about the regulatory framework for investment and commercially viable investment opportunities; (ii) the dissemination of the various materials to potential investors, such as through investors’ missions and roundtables, and Millennium Cities Investors’ Guides; and (iii) capacity building in the Cities to attract and work with investors.

The Vale Columbia Center on Sustainable International Investment promotes learning, teaching, policy-oriented research, and practical work within the area of foreign direct investment, paying special attention to the sustainable development dimension of this investment. It is a joint center of Columbia Law School and The Earth Institute at Columbia University.

A separate MCI working papers series on the social sector is also available.

For more information, please refer to the MCI website at: http://www.earth.columbia.edu/mci/ and the Vale Columbia Center website at: http://www.vcc.columbia.edu/.
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Acknowledgements

The authors would like to express their gratitude to many individuals and organizations who shared their time, resources and enthusiasm with us over the past twelve months.

First, we would like to recognize the significant contributions of Sawa Nakagawa throughout the editing process and publication of the document. In addition, we would like to thank Dr. Susan Blaustein, Mr. James Geisel, Dr. Karl Sauvant, and Mr. Joerg Simon of the Millennium Cities Initiative at The Earth Institute for their strong commitment to this project and for providing their expertise throughout the process of writing the working paper. We are particularly grateful to our advisor Dr. Alex Awiti, Professor Eugenia McGill, and Professor Jackie Klopp from the School of International and Public Affairs at Columbia University for their encouragement and expert assistance and guidance. We also thank Zachary Arney, Paola Kim Blanco and Paulo Cunha for their editing assistance.

In Malawi, we are indebted to Mr. John Chome and numerous government officials at the Blantyre City Assembly. They supported us in arranging key interviews during our field visits and were extraordinary hosts.

Finally, we want to recognize and thank all the entrepreneurs and representatives of organizations who generously agreed to be interviewed for this project. We are extremely thankful for their kindness and commitment in providing us with critical information for our research.
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<tr>
<td>ADMC</td>
<td>Agricultural Development and Marketing Corporation</td>
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<tr>
<td>ACDI/VOCA</td>
<td>Agricultural Cooperative Development International Volunteers in Overseas Cooperative Assistance</td>
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<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<td>BASFA</td>
<td>Balaka Area Smallholder Farmers’ Association</td>
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<td>CAMAL</td>
<td>Coffee Association of Malawi</td>
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<tr>
<td>CBD</td>
<td>Central Business District</td>
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<td>CDA</td>
<td>Cotton Development Association</td>
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<td>CMV</td>
<td>Cassava Mosaic Virus</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>ELISA</td>
<td>Enzyme-linked Immunosorbent Assay</td>
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<td>EPD</td>
<td>Economic and Political Development</td>
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<td>Eastern Produce Malawi</td>
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<td>EPZ</td>
<td>Export Processing Zone Act</td>
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<td>EU</td>
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<td>Food and Agriculture Organization</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GPM</td>
<td>Groundnut Pigeon Pea Multiplication</td>
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<td>GSB</td>
<td>Growing Sustainable Business</td>
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<tr>
<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome</td>
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<tr>
<td>ICRISAT</td>
<td>International Crops Research Institute for the Semi-Arid Tropics</td>
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<tr>
<td>ISP</td>
<td>Internet Service Provider</td>
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<tr>
<td>HPLC</td>
<td>High Performance Liquid Chromatography</td>
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<td>MACRA</td>
<td>Malawi Communications Regulatory Authority</td>
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<td>MBGs</td>
<td>Milk Bulking Groups</td>
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<td>Malawi Government Development Strategies</td>
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<td>MIPA</td>
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<td>Malawi Milk Marketing</td>
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<td>MoAFS</td>
<td>Ministry of Agriculture and Food Security</td>
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<td>Malawi Telecommunications Limited</td>
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<td>Millennium Villages Project</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>NASFAM</td>
<td>National Smallholder’s Farmer’s Association Malawi</td>
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<td>NASDEC</td>
<td>NASFAM Development Corporation</td>
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<td>NASSCENT</td>
<td>NASFAM Centre for Development Support</td>
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<td>NASCOMEX</td>
<td>NASFAM Commodity Marketing Exchange</td>
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<td>NSO</td>
<td>National Statistics Office</td>
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<td>NORAD</td>
<td>Norwegian Agency for Development Cooperation</td>
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<td>NSSD</td>
<td>National Strategy for Sustainable Development</td>
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<td>OIBM</td>
<td>Opportunity and Investment Bank of Malawi</td>
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RBM  Reserve Bank of Malawi
SADP  Smallholder Agribusiness Development Project
SARRNET  South African Root Crops Research Network
SCFT  Smallholder Coffee Farmers Trust
SHMPA  Southern Highlands Milk Producers Association
SIPA  School of International and Public Affairs
SME  Small and Medium-sized Enterprise
TNM  Telecom Networks Malawi
UNDCF  United Nations Capital Development Fund
UNDP  United Nations Development Program
UK  United Kingdom
US  United States of America
USAID  United States Agency for International Development
WSSD  World Summit on Sustainable Development
ZISFA  Zikometso Smallholder Farmers Association

Currency and Units
MK  Malawi Kwacha (1 US Dollar = 137 MK, as of February 1, 2009)
US$  US Dollar
°F  Fahrenheit
°C  Celsius
Ha  Hectare (1 ha = 10,000 square meters)
Kg  Kilogram (1 kg = 2.2 pounds)
mm  Millimeter (1/25 inch)
m³  Cubic meters
ppb  Parts per billion

Executive Summary

The Earth Institute at Columbia University launched the Millennium Cities Initiative (MCI), an urban counterpart to the Millennium Villages Project (MVP), to assist nine mid-sized cities across sub-Saharan Africa in achieving the Millennium Development Goals (MDGs). MCI provides research and policy analysis to the cities in order to attract foreign direct investment (FDI). Increased FDI flows create employment opportunities by fostering local enterprise development and sustainable economic growth. In addition, MCI is helping the Millennium Cities to carry out needs assessments in a number of social sectors. The data from these assessments will enable MCI to generate integrated City Development Strategies to help each city meet the MDGs.

Currently, the principal destination for FDI in Malawi is agriculture, most notably in tobacco and sugar. According to the World Investment Report 2007, Malawi had US$30 million of FDI inflow in 2006, compared to US$7 million in 2003. Other major sectors of investment include telecommunications, manufacturing, tourism, and mining. The bulk of FDI inflows come from the UK, the US, and South Africa.

Malawi has been relatively politically stable since its independence in 1964. The transition from one-party rule to a multi-party democracy has been largely peaceful. The Government encourages both domestic and foreign investors to establish and own business enterprises in most sectors of the economy. Malawi is party to numerous multilateral and regional trade agreements including the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), the US African Growth and Opportunities Act (AGOA), and the Cotonou Agreement/Everything But Arms (EBA) Initiative. Additionally, bilateral trade agreements exist with South Africa, Zimbabwe and Mozambique, and a customs agreement with Botswana. A number of tax incentives in Malawi are enshrined in the main tax legislation that includes the Customs and Excise Act, the Income Tax Act and the Export Processing Zones (EPZ) Act.

While Malawi’s investment climate has improved during the last decade, the country is still facing a number of major challenges. In addition to its landlocked position, which can result in high transport costs of more than 30 percent of the country’s total import bill, Malawi’s poor power and water infrastructure also impedes the attraction of investment. In 2004, companies on average suffered power disruption of 50 days, compared to 48 days in Tanzania and 15 days in Zambia. Further, interest rates are among the highest in Africa. According to the IMF, the 2009-projected lending rate is 25.0% compared to 13.5% in South Africa. The cost of finance is a major obstacle for firms in Malawi. Malawi ranked 118th (out of 180 countries) in the 2007 Transparency International Corruption Perceptions Index. President Bingu Wa Mutharika has made the fight against corruption a top priority.

Using information gathered from literature reviews and field visits, the authors assessed investment opportunities across eleven industries: cassava, chili, coffee, pigeon pea, cotton, macadamia nuts, tea, diary, banking, telecom, and tourism.

Using the investment evaluation framework described in Section I, the authors identified the textile manufacturing sector as having considerable investment potential, distinguished by high impact and feasibility. Investment in this sector is expected to have high positive impacts on employment and productivity, as well as high feasibility measured by demand, supply, enabling market and profitability factors. Currently, garment producers in Malawi are uniquely positioned to benefit from preferential access granted by AGOA. A requirement for locally or regionally sourced raw materials comes into effect in 2012, forcing garment producers to source raw material regionally without a fully developed local

textile-manufacturing sector. This will force Malawi to compete with the world's largest garment suppliers on equal ground. Given the lack of textile manufacturing facilities in the country, a significant opportunity exists to invest in textile manufacturing facilities. Investment in this sector would entail a capital investment in an existing company or the establishment of an entirely new textile manufacturing company. In either case, Blantyre is optimally located, serving as the headquarters of two of the country's three cotton ginners and most garment producers. Mapeto, the country’s sole textile producer, is looking to expand its weaving capacities. This represents a unique opportunity to invest in the industry at a time when Malawi still enjoys preferential access to international markets. Alternatively, a new vertically-integrated textile manufacturing operation can be established.

Beyond textile manufacturing, the sole high impact-feasibility sector, the authors identified five medium impact-feasibility sectors. These investment opportunities include the following agricultural value-added products: cassava processing, pigeon pea processing, chili processing, groundnuts processing and macadamia nut processing.

Analyses of industries with limited investment potential are included in Appendix I. The authors also evaluated constraints hampering the growth of each industry.

Considering the aforementioned constraints associated with FDI in general, as well as with individual industries, the authors set forth recommendations for MCI with a view to encouraging FDI in the high impact-feasibility sectors and alleviating the constraints hampering growth in these sectors. These recommendations include the following:

- Identify investors for high impact-feasibility sector investment opportunities;
- Advocate for the alleviation of supply-side bottlenecks;
- Support the institutional capacity building of key agencies, such as the Malawi Investment Promotion Agency MIPA, the Malawi Bureau of Standards (MBS) and the Malawi Export Promotion Council (MEPC);
- Establish stronger linkages between MVP and MCI; and
- Encourage partnerships with development agencies and NGOs for value-added projects.
I. Mandate and Investment Evaluation Framework

1. Mandate

The authors were mandated by MCI to focus on three main objectives:
- To identify viable and feasible investment opportunities in Blantyre;
- To assess the various FDI opportunities that create sustainable economic development in Blantyre;
- To provide MCI with recommendations on programming priorities, by focusing on the types of FDI that offer deep, positive and sustainable impacts on Blantyre’s development goals.

2. Methodology

The key research question to be answered in this working paper is: What viable/feasible investment opportunities exist in the city of Blantyre and which of those can offer sustainable development that can contribute toward the achievement of the MDGs in Malawi? As such, the paper focuses on:
- The analysis of key industries with potential to attract FDI;
- An assessment of key industries from two aspects:
  - The feasibility of FDI in Blantyre, including constraints and opportunities; and
  - The potential impact of FDI, i.e. the various ways in which different types of FDI can positively contribute to Blantyre’s development plans.

The achievement of the above objectives entailed the successful completion of various sequenced, time-bound activities that were executed within the framework of an established methodology.

Investment Evaluation Framework

The authors used an investment evaluation framework to assess the suitability of potential investment opportunities, illustrated by the figure below. This assessment was not based on a particular index or quantitative measure of feasibility and impact; the graph merely serves as a conceptual framework and visual guide when evaluating an investment against others.

Figure 1: Investment Evaluation Framework

Investments were classified according to two criteria: **impact** and **feasibility**. An investment was classified as “High” if it had high scores in both impact and feasibility. “Medium” investments scored relatively lower on the composite measures. An investment was classified “Low” if it was considered highly feasible but had a low impact for development. The same principle was followed if the industry
scored “high” in impact and “low” in feasibility. The difficulty in comparing disparate industries and a
dearth of quantitative data necessitated a qualitative evaluation of the sectors.

The Impact component of the framework includes the following factors:
- Employment - How much employment will the investment generate?
- Technology transfer (skills) - Will this investment improve the skills of the labor force?
- Income – Which demographic segment will most benefit from the increase in wages derived from
  this investment?
- Local competitive environment - Does this investment spur competition locally and improve
  efficiency and productivity in the sector/industry?
- Linkages - Are there any backward or forward linkages that can be made with other industries?
  Are there any improvements in value chains?
- Spillover effects - What effects will this investment have on other industries or sectors? Will
  others benefit?
- Infrastructure - Will this investment lead to an improvement in the local infrastructure?
- Sustainability - What are the prospects of this investment's environmental sustainability?

The Feasibility component of the framework is comprised of the following factors:

Demand Factors
- Excess demand - Does demand for the good exceed the available supply?
- Demand trend - What does future demand look like?
- Price sensitivity - How will changes in the price of the good affect demand?

Supply Factors
- Technological requirement - Does the technology for the production of the good exist locally or
  must it be imported? At what cost?
- Supply of qualified labor - Is available labor qualified for the process? Is training required?
- Competitive production cost - Can the good be produced at a competitive cost for the local
  market? International market?
- Industry structure - How many firms operate in the sector? How will this affect operations?
- Price sensitivity - How will changes in the price of inputs affect production?
- Access to financing - How will access, or the lack thereof, to financing affect operations?

Enabling Environment
- Taxes - What are the taxes like for companies in this sector?
- Tariffs - How will high trade tariffs affect imports of raw materials and exports of finished
  goods?
- Subsidies - Are there currently any subsidies in this sector/industry that might distort the market?
- Trade agreements - Are there any trade agreements that might benefit this sector/industry? How?
- Domestic policy - Are there any government policies facilitating investment in the
  sector/industry?
- Infrastructure - How does the existing infrastructure affect the viability of the sector/industry?

Profitability
- Payback period - What is the length of time required to recover the cost of an investment,
  calculated as Cost of Project/Annual Cash Inflow?
- Break-even analysis - What is the number of units that must be sold to produce a profit of zero
  and recover all associated costs?
II. Blantyre City Overview

Blantyre City Snapshot

Located in the south of Malawi and lying on a central transport route, Blantyre is well-connected to other regions as well as neighboring countries. For the purpose of this working paper, the Blantyre region covers the entire southern region except Mangochi and Zomba (see Figure 2). The following southern districts are included: Mwanza, Neno, Blantyre, Chiradzulu, Thyolo, Mulanje and Phalombe.

Figure 2: Map of Malawi

Climate/Rainfall

The city has a tropical continental climate, with light rainfall common during the cold dry season due to moist maritime air. Temperatures are cool, ranging from an average of 13°C (55.4°F) in the cold season to 21°C (69.8°F) during the hottest months, namely September, October and November. The average annual rainfall is 1,122 mm.³

Health

The threat of HIV/AIDS in the city is high with an HIV/AIDS prevalence rate of 21 percent in 2005. There is also a significant threat of cholera during annual rainfalls.⁴ Due to the poor drainage system, malaria remains a major health concern.⁵

Water

Water supply is accessible to 80 percent of the population. The total capacity of piped water is 86,000m³/day against a total demand of 63,100m³/day. The Blantyre Water Board has difficulty meeting current demand, especially during the dry season. Since Blantyre is located on a hill, the city’s water supply must be pumped uphill through a pumping system that is old and susceptible to frequent breakdowns. These deficiencies, combined with the fact that old pipes lose up to 50 percent of water carried, make the city’s water supply often unreliable and problematic for industries located in Blantyre.

Energy

The electricity grid covers almost the entire city. The local source of electricity is hydro-based, largely generated from the Shire River. Where service is available, there are frequent disruptions, with load shedding occurring regularly due to problems related to

³ Blantyre City Assembly (2007). Blantyre Urban Structure Plan: Volume 1, Background and Studies Report, (Blantyre: Blantyre City Assembly).
⁴ Blantyre City Assembly (August 2007). City of Blantyre Situation Brief, (Blantyre: Blantyre City Assembly).
low water levels. Only 2-5 percent of the Malawian population has access to electricity, and firewood is the primary source of energy for cooking for the majority.6

Figure 3: Blantyre City Snapshot

| City Area | Covers a total area of 22,800 hectares of hilly ground. |
| City Population (2007) | Estimated at 778,000, with a total country population of 13.2 million. 7 Blantyre is undergoing rapid population growth due to urbanization. |
| Employment | 57.4% (Unemployed) | 38% (Economically active) | 10% (Informal)8 |
| Poverty9 | 52% of the population is poor with MK16,165 (US$118) per year. | 46% of households earn less than MK10,029 (US$73) per year. |
| Life Expectancy | 37 years (38 years for Malawi). |
| Literacy rate | 26.9% with no education. | 85.2% lack formal skills. |


Roads
The city’s road network covers a distance of 344 miles, of which 35.5 percent is paved. The road system within the formally developed areas of Blantyre has adequate capacity to accommodate current volumes. However, given the City Assembly’s lack of resources, the condition of paved roads is poor.

Blantyre City Economic Profile
Blantyre remains Malawi’s commercial capital and largest city. Primary sectors, including agriculture, fishing and mining, comprise a small portion of Blantyre’s economy. While the manufacturing industry remains the most important employer, wholesale and retail traders also constitute a significant portion of the city’s economy.10

Blantyre city does not have the autonomy to offer local incentives to foreign investors. Unlike large metropolitan areas in neighboring countries, investment incentives at the city level are almost non-existent. With no statutory authority for the city to act independently, it is unable to make contracts with foreign investors on its own, except to provide local incentives such as tax holidays or city land grants.11 Currently, applications for FDI in the city are centrally managed by government agencies such as MIPA. Poor coordination between key stakeholders, including municipal boards, governmental agencies and service providers, results in the underutilization of scarce resources and uncoordinated planning.12 Opportunities exist for the Blantyre City Assembly to establish formal communication channels with many of these stakeholders.

Blantyre City Political Profile
Blantyre had elected city councilors until 2004.13 The Blantyre City Assembly does not receive much funding from the Government; its only source of income is city taxes on property, the imposition of

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6 Ibid.
8 Blantyre City Assembly (2007). Blantyre Urban Structure Plan: Volume 1, Background and Studies Report, (Blantyre: Blantyre City Assembly).
10 Blantyre City Assembly (2007). Blantyre Urban Structure Plan: Volume 1, Background and Studies Report, (Blantyre: Blantyre City Assembly).
12 Ibid.
13 Blantyre City Assembly (August 2007). City of Blantyre Situation Brief, (Blantyre: Blantyre City Assembly).
which requires government approval. While decentralization has taken place in Blantyre in accordance with the Local Government Act of 1998, corruption and financial shortfalls continue to be major challenges for the city.15

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14 Costly Chanza, Blantyre City Assembly (January 9, 2008). Personal interview.
### III. Industry Assessments

#### 1. Cotton and Textiles Industry Analysis

**Industry Overview**

The 1950's were a successful decade for the cotton sub-sector in Malawi during which state-controlled prices—set by the country’s sole textile manufacturer, the parastatal David Whitehead & Sons (DW&S)—and strong international demand contributed to a peak production of 100,000 tons of cotton per year.\(^{16}\) Subsequent industrial decline over the next several decades resulted in a mere 14,700 tons of production by 2002-2003.\(^{17}\) While the privatization and the near collapse of DW&S were the primarily causes for this decline, many other factors such as increasing competition from Asian counterparts, growing trade liberalization, dumping of secondhand clothing, declining farmer productivity, and chronic underinvestment contributed as well. With the help of rising international demand and a successful lending initiative led by two ginners, the cotton sub-sector has witnessed a recent revival, resulting in approximately 58,569 tons of production in 2006.\(^{18}\)

![Figure 4: Exports to the United States (US$, thousands)\(^{19}\)](source: U.S. Department of Commerce)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Malawi</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Textiles and Apparel:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to US</td>
<td>22,781</td>
<td>18,187</td>
<td>19,830</td>
</tr>
<tr>
<td>Total through AGOA</td>
<td>22,648</td>
<td>18,187</td>
<td>19,830</td>
</tr>
<tr>
<td><strong>All Sectors:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to US</td>
<td>82,444</td>
<td>79,010</td>
<td>69,007</td>
</tr>
<tr>
<td>Total through AGOA</td>
<td>65,902</td>
<td>60,908</td>
<td>59,309</td>
</tr>
<tr>
<td><strong>Swaziland</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Textiles and Apparel:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to US</td>
<td>160,987</td>
<td>135,204</td>
<td>135,296</td>
</tr>
<tr>
<td>Total through AGOA</td>
<td>159,367</td>
<td>134,423</td>
<td>134,635</td>
</tr>
<tr>
<td><strong>All Sectors:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to US</td>
<td>198,876</td>
<td>155,807</td>
<td>147,963</td>
</tr>
<tr>
<td>Total through AGOA</td>
<td>176,117</td>
<td>149,815</td>
<td>141,410</td>
</tr>
<tr>
<td><strong>Lesotho</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Textiles and Apparel:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to US</td>
<td>390,690</td>
<td>387,242</td>
<td>383,566</td>
</tr>
<tr>
<td>Total through AGOA</td>
<td>388,452</td>
<td>384,452</td>
<td>379,616</td>
</tr>
<tr>
<td><strong>All Sectors:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports to US</td>
<td>403,471</td>
<td>79,010</td>
<td>443,018</td>
</tr>
<tr>
<td>Total through AGOA</td>
<td>388,584</td>
<td>60,908</td>
<td>379,617</td>
</tr>
</tbody>
</table>

*Source: U.S. Department of Commerce.*

The post-privatization struggles of DW&S (renamed Mapeto DWSM Ltd. upon acquisition by Mapeto Wholesalers in 2003) led to a disintegration of the entire cotton-textiles-garment value chain, which persists to this day. Consequently, Malawi has been unable to attract much investment into the textile and

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18 Estimates from the Malawi Investment Guide and sub-sector stakeholders suggest that production numbers were actually closer to 46,000 tons; See Ministry of Agriculture and Food Security Annual Agricultural Statistical Bulletin 2006/07.

19 “All Sectors” include textiles and apparel.
garment sub-sectors, lagging behind its regional competitors. While textile and garment production in Swaziland and Lesotho was less than in Malawi fifteen years ago, both countries now export more as a result of strong investment in the sector (see Figure 4).

A revitalized textile sector would stimulate cotton production, generate employment, and supply much-needed cloth for garment makers. The textile segment of the value chain is in dire need of an investment infusion. This point is of special significance given Malawi’s continuing preferential access to the US market enabled by AGOA. To continue benefiting from this agreement, Malawi will need to source its fabric locally or regionally rather than rely on East Asian imports because the provision for sourcing textile materials from non-AGOA countries will expire in 2012.

Value Chain Analysis

In Malawi, the disintegration of the textile production sub-sector has led to a gap in the value chain described below:

1. **Cotton production value chain**: comprised of cotton-growing farmers and ginneries, in which seed cotton is separated into lint (37 percent) and cottonseed (58 percent). While over 95 percent of the lint is exported for spinning—typically the ginning company’s home country—a majority of the cottonseed is processed locally into oil for domestic consumers with animal feed as a by-product. The four ginners that currently operate in Malawi are Great Lakes Cotton Company (Great Lakes), Cargill (formerly Clark Cotton Malawi), Iponta, and a new entrant, Toleza.

2. **Textile manufacturing value chain**: consists of the country's sole textile manufacturer, Mapeto, spinning less than 5% of the country's lint into yarn, which is either exported or woven into loom cloth. The loom cloth is then exported or sold to the local consumer market.

3. **Domestic garment manufacturing value chain**: comprised of several firms that sell to the domestic market. They buy a very small proportion of their cloth from Mapeto DW&S and import the rest.

4. **Export garment manufacturing value chain**: comprised of several large firms specially designated as Export Processing Zones. They import all of their material for production, since Malawi does not currently produce the right quality of cloth.

Sub-sector Analysis: Cotton/Textiles/Garments

Cotton ranks as the fourth most important export crop in Malawi after tobacco, tea and sugar. Grown on 60,688 hectares of land, it supports more than 120,000 rural households. While the Blantyre area is responsible for only a small proportion of the country's yield (see Figure 5), it lies in close proximity to the Shire Valley, which accounts for nearly half of the country's production.

The recent growth of the cotton sector, as seen in Figure 6 has been largely due to the lending and input subsidy initiatives implemented with the creation of the Cotton Development Association (CDA) in 2002-2003. The CDA, a consortium of the country's key stakeholders in the cotton industry, was spearheaded by the two major cotton ginners—Great Lakes and Cargill—to spur local production. Despite having received the backing of the Government, the association is unable to regulate the industry as a whole and

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20 Currently, Lesotho is Africa’s biggest exporter of garments to the United States.
21 This is the so-called "Double Transformation" requisite in AGOA. The agreement stipulates that by 2012, the cotton must undergo two transformations in the country of origin. For example, yarn could be woven into fabric (first transformation) and then made into a garment (second transformation) to satisfy the requirement.
23 Assuming losses of around 5%.
24 Agar, Jason (September 2007). Credit Demand and Supply, Cotton Sector, Malawi, (Blantyre: Kadale Consultants).
25 Ibid.
represent all of its key players. Given that the current Cotton Act in Malawi is outdated, there is a proposal to revise the act to include the establishment of a National Cotton Council, which would oversee proper planning, research, quality assurance, and marketing and be financed by the levy. However, the Government has yet to approve the proposal, which was originally led by the private sector.\textsuperscript{26}

Figure 5: Cotton Hectarage and Production (2006-2007 Estimates)

<table>
<thead>
<tr>
<th>Cotton</th>
<th>Hectares (ha)</th>
<th>Production (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mzuzu</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>Karonga</td>
<td>1,777</td>
<td>1,689</td>
</tr>
<tr>
<td>Kasungu</td>
<td>1,917</td>
<td>1,745</td>
</tr>
<tr>
<td><strong>Blantyre</strong></td>
<td><strong>2,042</strong></td>
<td><strong>2,211</strong></td>
</tr>
<tr>
<td>Lilongwe</td>
<td>3,707</td>
<td>3,705</td>
</tr>
<tr>
<td>Salima</td>
<td>6,872</td>
<td>6,692</td>
</tr>
<tr>
<td>Machinga</td>
<td>18,217</td>
<td>15,570</td>
</tr>
<tr>
<td>Shire Valley</td>
<td>26,090</td>
<td>30,181</td>
</tr>
<tr>
<td><strong>National</strong></td>
<td><strong>60,673</strong></td>
<td><strong>63,290</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of Agriculture and Food Security.*

Figure 6: Malawi's Main Exports by Value (2000-2006)

<table>
<thead>
<tr>
<th>MK (millions)</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>14,200.3</td>
<td>18,363.3</td>
<td>17,893.1</td>
<td>24,191.2</td>
<td>22,303.5</td>
<td>31,241.5</td>
<td>55,840.0</td>
</tr>
<tr>
<td>Tea</td>
<td>2,235.4</td>
<td>2,461.0</td>
<td>2,827.8</td>
<td>3,481.5</td>
<td>5,132.5</td>
<td>5,937.4</td>
<td>6,737.0</td>
</tr>
<tr>
<td>Sugar</td>
<td>2,339.2</td>
<td>3,975.7</td>
<td>2,684.2</td>
<td>10,571.4</td>
<td>7,881.4</td>
<td>5,408.5</td>
<td>6,391.0</td>
</tr>
<tr>
<td>Apparel/Garments</td>
<td>797.8</td>
<td>2,018.0</td>
<td>2,464.6</td>
<td>3,858.1</td>
<td>4,795.5</td>
<td>4,995.7</td>
<td>5,525.0</td>
</tr>
<tr>
<td>Cotton</td>
<td>438.5</td>
<td>316.6</td>
<td>260.8</td>
<td>483.9</td>
<td>2,224.3</td>
<td>1,847.1</td>
<td>2,054.0</td>
</tr>
<tr>
<td>Nuts</td>
<td>239.7</td>
<td>368.2</td>
<td>378.1</td>
<td>1,132.0</td>
<td>1,581.0</td>
<td>1,473.0</td>
<td>1,003.0</td>
</tr>
</tbody>
</table>


The two major cotton ginners—Great Lakes and Cargill—are headquartered in Blantyre and are subsidiaries of multinationals. Great Lakes’ parent company is the UK-based Plexus Cotton Limited, a vertically integrated raw cotton supplier, and Cargill is a subsidiary of Cargill, Inc., an American company specializing in providing food, agricultural, and risk management products and services. Both companies supply most of the lint to their parent companies. Iponga was the only other ginner operating in the country until Toleza from Balaka started its operation in 2008. Despite the recent upward trend in production, the cotton ginneries operate at approximately 30 percent of capacity.\textsuperscript{27} Given that each ginning machine has a capacity of approximately 20,000 tons/year, Malawi is capable of producing well over 100,000 tons/year of cotton.\textsuperscript{28} Hence, there is room for a significant increase in smallholder cotton production without the need for additional capital investment on behalf of the ginners.

**Textiles**

All textile production in the country is manufactured by Mapeto, a former parastatal organization located in Blantyre. Plagued by severe financial difficulties, the company was forced into receivership in 2002 and resumed operations in 2003.\textsuperscript{29} Yarn production fell from 30 million meters in the early 1980's to 100 thousand meters by 2002. A disruption of the domestic market as a result of severe dumping and smuggling of finished textile goods played a key role in the company's struggles.

\textsuperscript{26} Duncan Warren, NASFAM (March 12, 2008). Personal interview.
\textsuperscript{27} Pieter Verster, Great Lakes Cotton Company (January 16, 2008). Personal interview.
\textsuperscript{28} Ibid.
Currently, the spinning operations of Mapeto utilize less than 5 percent (1,000-1,500 tons per annum) of the country's domestically-produced lint. Furthermore, a small fraction of its yarn and cloth is purchased by the country's domestic garment makers. The rest is exported or sold directly to the consumer market. Since the company is unable to produce high-quality fabrics up to international standards, it does not supply the country's garment exporters.

Garments
The garment industry in Malawi is relatively small, consisting of approximately eight major companies, most of which are located in Blantyre. The garment industry is divided into EPZ-designated exporters and local-market suppliers. Domestic-oriented garment producers mostly import their fabric (a minimal amount is bought from Mapeto) and supply a market that is flooded with imported secondhand clothing—a consequence of increased trade liberalization. As incomes in Malawi are generally low, locals generally prefer cheaper secondhand clothing, making this a difficult market to enter. Some garment producers export regionally. However, they do not account for much of the overall production.

Garment exporters generally source most of their fabric from India, Taiwan, and China, as regional fabric is not of sufficient quality. At the moment, exports are destined mostly for South Africa, with an increasing amount being shipped to the US through the AGOA agreement. Exporting firms are not allowed to supply the domestic market given EPZ regulations.

The data in Figure 4 for Lesotho and Swaziland underscore the growth potential of the garment industry in Malawi. The textile exports of all three countries as a share of the overall totals further highlights the unique opportunities presented by AGOA for garment exporting.

Opportunities
The textile production value-chain is of paramount importance to the sustainability and future of Malawi's garment industry. At the moment, Malawi is taking advantage of its privileged position in international garment trading enabled by AGOA's duty-free access to the US market. However, as soon as the region's safeguards are removed and AGOA's sourcing requirements become stricter, the country will find itself on the same playing field as India and East Asia, which may signal the end of the industry’s competitive

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30 Agar, Jason (September 2007). Credit Demand and Supply, Cotton Sector, Malawi, (Blantyre: Kadale Consultants).
advantage. To prevent this from occurring, it is necessary that the country revitalize its textile industry and reconnect the separate sub-sectors into a vertically integrated value-chain spanning cotton production, spinning, weaving, knitting, and garment production.

Currently, the garment manufacturers—exporters and local producers—must rely on imported cloth for the majority of their raw material needs. This represents additional transaction costs and turnaround time that undermine the reliability, efficiency, and competitiveness of the sector. Garment producers, relying on relatively low labor costs and minimal capital investment, could easily absorb a higher domestic supply of yarn and fabric, which would allow them to increase their supply to international markets.

As previously mentioned, Mapeto is currently the country's sole textile producer, spinning less than five percent of the country's lint. The company has some capital investments planned for the upcoming years to increase its capacity. Given its interest in expanding operations, Mapeto has stated it would welcome investment. This represents a unique opportunity for investment in a company that has relevant industry expertise at a time when Malawi enjoys preferential access to international markets. On-site expansion of operations, encompassing a significant expansion of AGOA-quality weaving capabilities, is estimated to take a minimum of two to three years. Funding will be necessary for Mapeto to purchase about 100 looms valued at approximately US$500,000 each, suggesting a total investment size of US$50 million. If its production capabilities are enhanced through investment, Mapeto can enjoy privileged access to the Malawian market of garment producers, and access to the regional market, which is subject to the same sourcing requirements.

Another alternative is setting up a new installation encompassing a vertically-integrated textile-manufacturing operation. However, this is a costlier investment than the existing on-site expansion and has a longer time frame, which may preclude the company from achieving full operating and AGOA-compliant status before the 2012 deadline. Nonetheless, this type of investment is important for the long-term growth and sustainability of the industry.

The Government has historically been slow to support the industry. Recently, however, the Ministry of Agriculture and Food Security has requested a budget of MK 150 million (US$1.09 million) for the 2007-2008 growing season to provide input subsidies for cotton growers. Now the Government is acutely aware of the need to ramp up cotton production with a view to creating adequate supply for the value-adding components of the value chain, i.e. textiles and garments. In line with this initiative, cotton has been listed as a priority sector in the Malawi Growth and Development Strategy (MGDS).

**Constraints**

The Malawian textile industry currently suffers from chronic underinvestment that has resulted in the disaggregation of the cotton-textile-garment value-chain. Major constraints are as follows:

**Lack of a Cotton Council**

The failure of the Government to update the Cotton Act to include the creation of a Cotton Council with the ability to regulate and reintegrate the industry along the value chain, has led to incoherent policy that does not align incentives for all stakeholders. For example, in an effort to help poor farmers, the Government established a minimum price for cotton of MK 65/kg (US$0.47/kg) in 2008 compared with
MK 40/kg (US$0.29/kg) in 2007. This significant increase in the floor price has come at the expense of the ginners, who are currently re-evaluating their operations and assessing their cost structures to see if they can remain profitable. In Zambia, in comparison, cotton was priced at ZK 1,125/kg (US$0.28/kg) in 2007, after the Government increased the floor price by 32 percent.

Cost of Investment
The machinery and capital investments required in textile manufacturing are high-value investments requiring access to capital, which is constrained in Malawi. This is partly responsible for the dearth of investment in the industry today.

Access to Financing
The prohibitive rate of local borrowing for investment—currently at 24 percent—makes it difficult for industrial participants to make capital investments for the replacement or maintenance of machinery, affecting production quality, efficiency and capacity. Furthermore, at the smallholder level, limited access to financing has forced ginners to become lending institutions, which has resulted in increased costs.

Value Chain Gap
There is currently a breakdown in the supply chain with the ginners exporting lint, which forces Mapeto to import much of this input, instead of using local supply. A potential investment in Mapeto or in a new textile production facility would increase the capacity of the industry and fill the value chain gap by creating demand necessary to absorb a large enough supply of lint, making it profitable for cotton ginners to supply to local industry.

Supply-Side Constraints
About 60,000 tons of cotton was produced nationally in 2006. While this represents an increase from previous years, it still is not enough to meet the ginners’ combined available capacity of over 100,000 tons. Despite the efforts of the CDA and the ginners to increase production, all ginners continue to produce under capacity. Significant development of textile manufacturing will increase the demand for lint, which should optimally be supplied by the local ginners.

Competition from International Imports
The local market is flooded with cheaper secondhand fabrics that displace the demand for garments supplied by domestic-oriented garment producers. As a result, any investment in textile manufacturing should be geared towards making fabrics for the international market, with special attention to meeting AGOA standards.

Impact and Feasibility Assessment
Impact
Employment
A revitalized textile-manufacturing sector would generate employment at the plant level. Until 1993, DW&S relied on over 4,000 employees, and after privatization in 2003, Mapeto expected to invest over US$10 million in the rehabilitation of the plant, creating 3,500 jobs over a 5-year period. Increased demand for cotton from the textile-manufacturing sector has the potential to increase labor demand at the farm and garment production levels, where cheaper raw materials can facilitate expansion.

38 Pieter Verster, Great Lakes Cotton Company (January 16, 2008). Personal interview.
40 IMF projection for 2008.
41 Martin Mpata, Mapeto DW&S (January 17, 2008). Personal Interview.
Linkages (Backward and Forward)
A healthy textile-manufacturing sector is the missing link to a vertically integrated cotton-spinning-garment value chain. This will have an impact on the other sectors of the chain through their responses to demand and supply factors.

Feasibility
Demand Factors
Currently, Mapeto supplies a negligible amount of cloth to domestically-oriented garment producers and none to the exporting garment producers. Consequently, local garment companies are forced to source their fabrics from outside the region. Key stakeholders in the garment industry have pointed to the fact that a robust local textile-manufacturing sub-sector would be able to supply the entire garment industry. Furthermore, the large international demand for garments and preferential access to regional/international markets (especially in the US) signals an opportunity for the growth of local textile manufacturing.

Supply Factors
Cotton processors are currently ginning 46,000 tons of lint annually, of which only 1,000 – 1,500 tons is being spun by the domestic textile-manufacturing sub-sector. Even without considering any trends in cotton production, this shortfall is indicative of the amount of lint a revitalized textile-manufacturing sector would be able to absorb from local cotton ginners.

Enabling Environment
While a revision of the Cotton Act is necessary, especially as it relates to the establishment of a Cotton Council, Malawi has specifically designated cotton as a priority sector. Moreover, the MGDS addresses the importance of this industry, which indicates that the Government is serious about sectoral reform.

2. Cassava Industry Analysis

Industry Overview
Cassava is an essential part of the diet for more than half a billion people. It is the third largest source of carbohydrates for human food; its roots are high in calories, and the leaves are a good source of protein and vitamins A and B. Food use represents more than half of total cassava consumption, consisting largely of fresh cassava and processed flour. However, the commercial possibilities of industrial cassava products are increasingly receiving attention given its potential for export. Since the 19th century, cassava has extended rapidly across Africa. Consequently, it is now the largest center of cassava production.

Global Market Landscape
Approximately 70 percent of world cassava production is concentrated in five countries—Nigeria, Brazil, Thailand, Indonesia, and the Democratic Republic of Congo. While mainly grown in Brazil and Thailand as an industrial crop for export purposes, cassava in Africa is used primarily for local consumption. Cassava production has been growing steadily. In 1983, world cassava production was

44 Agar, Jason (September 2007). Credit Demand and Supply, Cotton Sector, Malawi, (Blantyre: Kadale Consultants).
about 131 million tons. In 1999, global cassava production reached over 160 million tons and by 2005, production had reached approximately 210 million tons.\(^{50}\)

**Figure 8: Global Cassava Production**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area '000 ha</td>
<td>Yield kg/ha</td>
<td>Production '000 ha</td>
</tr>
<tr>
<td>World</td>
<td>13,855</td>
<td>9,5</td>
<td>131,424</td>
</tr>
<tr>
<td>Africa</td>
<td>7,518</td>
<td>7,3</td>
<td>55,207</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>2,592</td>
<td>11,1</td>
<td>28,690</td>
</tr>
<tr>
<td>Asia</td>
<td>3,730</td>
<td>12,7</td>
<td>47,371</td>
</tr>
<tr>
<td>Oceania</td>
<td>14</td>
<td>11,0</td>
<td>156</td>
</tr>
</tbody>
</table>

*Source: The World Cassava Economy, FAO.*

**Production in Malawi and Blantyre**

Cassava production in Malawi has experienced a dramatic surge over the past decade, in all regions of the country. Cassava is the staple food crop for 30 percent of Malawi’s population, particularly for the households along the Lake Shore Districts of Nkhata Bay, Nkhota-Kota, Rumphi and Karonga in the Northern region. It is grown in other parts of Malawi as a complement to maize and for use during critical food shortage periods (between October and March).\(^{51}\) The emergence of an urban fast food market enabled by high population densities and increasing maize prices has also resulted in increased consumption in central Malawi. Food security concerns have played a larger role in the growth of cassava in southern Malawi. Cassava’s expansion in central and southern Malawi has occurred primarily at the expense of maize and tobacco; in the northern regions, which are less densely populated, cassava has expanded onto new agricultural land.\(^{52}\)

According to the 2006 – 2007 Annual Agricultural Statistical Bulletin, Malawi produced 3,238,943 tons of cassava in 2006-2007 compared to 713,876 tons 10 years earlier, representing a compounded annual growth rate of 16.3 percent. In the same period, maize production grew by 10.2 percent per annum. Assuming that world cassava production remained at the projected 2005 level, Malawi’s production represents a miniscule 1.56 percent of world production.

The Blantyre urban area grows about 0.5 percent of total cassava production in Malawi. In 2006 – 2007, Blantyre produced approximately 16,925 tons of cassava.\(^{53}\)

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\(^{52}\) Hageblade, Steven and Ballard Zulu (December 1-3). "The Recent Cassava Surge in Zambia and Malawi," *InWEnt, IFPRI, NEPAD, CTA Successes in African Agriculture Conference.*

A number of supply and demand factors can account for the recent surge in cassava production in Malawi since the mid 1990s:  

1. Increases in input costs and declining profitability as a result of the dismantling of large maize subsidy systems at the end of the 1980s caused farmers to cut back on maize production. Prices of raw roots in urban markets are lower than maize.
2. Improved varieties of cassava that have roughly doubled cassava yields. With the same labor and land without purchased inputs, improved varieties have resulted in increased output.
4. Arguably, a shrinking labor force due to the high HIV prevalence rates in Malawi has caused a shift favoring cultivation of cassava, a crop known for its ease of cultivation.
5. Demographic and migration trends resulting in a growth of urban areas combined with a collapse of urban incomes due to HIV-related decreases in life expectancy have fueled demand for cassava as an affordable snack food.

**Value Chain Analysis**

**Production**

Cassava does not require chemical fertilizers. It can grow under serious moisture stress and in marginal soils without a significant drop in yields. Further, cassava is known for its ease of cultivation: it does not require many inputs or extensive labor.

In Malawi, small farms dominate cassava production. There is virtually no commercial production of cassava in the country. Smallholder farmers grow cassava on small plots in mixed stands with other food crops such as cowpeas, maize and sweet potato, particularly among households in the southern conditions.

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54 Haggblade, Steven and Ballard Zulu (December 1-3 ). "The Recent Cassava Surge in Zambia and Malawi," InWEnt, IFPRI, NEPAD, CTA Successes in African Agriculture Conference. See also FAO, "Global cassava market study business opportunities for the use of cassava," (2004).
56 Haggblade, Steven and Ballard Zulu (December 1-3 ). "The Recent Cassava Surge in Zambia and Malawi," InWEnt, IFPRI, NEPAD, CTA Successes in African Agriculture Conference.
region where land is a major production constraint. A small number of farmers have begun to
commercialize cassava production. However, most production is still un-mechanized and by smallholder
farmers: farm plots under half a hectare account for 79 percent of the cultivated cassava crop area in
Malawi, while farm plots under one hectare account for 96 percent of all crop area in Malawi.

Processing
Cassava is a versatile crop that can be processed into a number of products. Cassava can be processed into
food products for household consumption, pellets for animal feed, and starch-based products that have
various industrial applications.

Food Products
The processing of the root adds value by removing toxins and reducing water content, which reduces its
weight, facilitating transportation and extending the product’s shelf life. Upon detoxification and
processing, the root can be processed into chips or flour for human consumption.57

Raw cassava roots and leaves are fit for human consumption. The root is a rich source of carbohydrates,
while the leaves provide proteins and minerals. Cassava roots have a very high water content—typically
around 70 percent. Cassava roots contain a naturally-occurring toxin—cyanohydrin, a derivative of
cyanide—that lends a bitter taste to the root. However, the toxin can be removed by peeling, grating, or
squeezing the root.58

Industrial Products
The cassava root can be processed into starch that has a wide variety of uses. Different types of starches
and starch-based products can be manufactured for industrial uses and can be enhanced through simple
value-addition techniques or complex chemical transformations. Starches subject to complex value-
addition techniques are called modified starches and unmodified starches are called native starches.59

The native and modified starches can be used for a wide variety of purposes.60

- **Thickening agent**: Cassava flour is mainly used in bakery products. Cassava is also used in a
  range of food products such as canned foods, frozen foods, salad dressings, sauces, and infant
  foods.
- **Glue**: Cassava starch is a raw material in making glue. Cassava starch–based adhesives are used
  in pre-gummed papers, tapes, labels, stamps, envelopes, etc.
- **Confectionary**: Modified cassava starch and derivatives are used in confectionery for different
  thickening and glazing.
- **Pharmaceuticals**: Native and modified cassava starches are used in tablet production as binders
  and fillers.
- **Sweeteners**: Glucose and fructose made from cassava starch are used in jams and canned fruits.
- **Plywood**: Glue made from cassava is used for plywood manufacturing.
- **Paper**: Modified cassava starch is used in the wet stage of paper as well as for coding and sizing.
- **Textiles**: Cassava starch is used during the weaving, printing, and finishing stages of textile
  processing.

Sub-Sector Analysis: Cassava Processing
In Malawi, cassava is produced primarily for food consumption; commercial production of starch-based
value-added products is virtually absent in the country.

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58 Ibid.
59 Ibid.
Opportunities

The robust market for value-added products that can be manufactured as a result of the commercial processing of cassava creates numerous opportunities for investment in this sub-sector. Given Malawi’s production trend of surging output and the infancy of its commercial cassava-production industry, numerous business opportunities exist involving domestic and export markets. Investment opportunities exist in the following segments of the cassava processing value-chain:

1. **Food Products**

Cassava can be used as an import substitution crop to replace wheat flour. There is potential for further growth in cassava production provided prices of wheat flour rise relative to cassava flour. The Food and Agriculture Organization (FAO) projected that a 10 percent substitute for imported wheat and wheat flour will translate into a growth potential of 11,926 tons of cassava in Malawi, a 6.28 percent production increase over 1995. A sizeable opportunity exists to set up a cassava flour processing facility.

2. **Industrial Products**

Starch is a multibillion-dollar business with multiple industrial applications. There are more importers than exporters in the world market for cassava starch. Consequently, opportunities exist for Malawi to develop a starch manufacturing industry with a view to regional and global exports. Demand for starch products is strong in European, North American, and Asian markets.

Interviews conducted estimated that an initial investment of US$1 - US$2 million is required for setting up a starch production plant. The plant would produce about 3 tons of starch per hour. Malawi currently produces very little starch. Experts estimate local demand to be 3,000 tons.

Constraints

**Perishability**

Cassava roots have a shelf life of 24–48 hours after harvest, and fresh roots must be processed within 2 to 3 days from the moment of harvest. Cassava is also highly susceptible to microbial contamination due to poor handling, humid climate, lack of proper drying, and the long transit time from the field to markets.

**Pest Control**

Pest and disease pressures from the cassava mosaic virus (CMV), cassava mealybug and cassava green spider mite, result in lower yields. Losses in tuber yield due to diseases can be as high as 90 percent, making the need to protect cassava against diseases a crucial component of production.

**Market Size and Access**

Cassava starch is versatile and competes well with other starch varieties. While it has a high potential for exports, many markets are not completely open and price competition is fierce.

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63 Vito Sandifolo, International Institute of Tropical Agriculture (March 19, 2008). Personal interview.
65 Ibid.
Supply-Side Constraints
The disjointed structure of supply, consisting of many smallholder farmers, can be an obstacle for commercial cassava starch and flour. Associations such as the Southern Africa Root Crops Research Network (SARRNET) and the National Smallholder Farmers’ Association of Malawi (NASFAM) play an important role in providing market linkages and information transfer.

Quality Control
There is significant demand for improved grades and standards of cassava, particularly for industrial use. Price premiums can be realized for high-quality processed cassava starch and flour. However, even with increased investment in breeding or improved post-harvest technologies, it can be difficult to meet minimum FAO food safety and quality standards, thus limiting export possibilities.67

Impact and Feasibility Assessment

Impact
There are many benefits to cassava production. Most directly, increased cassava production will result in improved food security and higher farmer incomes.

Income
In central and southern Malawi, where a majority of farmers’ share of crop is sold, incomes have grown considerably, making cassava one of the most profitable cash crops in the country. A recent study suggests that cassava returns are three times that of maize, groundnuts and tobacco.68

Spill-over Effects
We expect a marginal impact on the freight and packaging industries as a result of investment in cassava production.

Sustainability
Given that cassava production does not heavily depend on purchased farming inputs as compared to other crops, farmers can continue growing cassava with minimum need for extensive seed suppliers, fertilizer distributors or rural credit programs to sustain high yields. Moreover, the environmental effects of cassava production are minimal as the process does not generate the acidification or pesticide residue that may result from the production of other crops.69

Feasibility

Demand Factors
An FAO study of global cassava demand noted that growing urbanization offers opportunities to develop markets for cassava. Opportunities depend on the consumption of cassava by urban residents and a distribution system linking consumers to producers. Moreover, the realization of increased cassava consumption depends on the availability of improved infrastructure, better handling and storage technologies. As noted in the FAO case study, given the increased demand for cassava chips, pellets, and starch in non-producing countries, the potential growth for cassava in producing countries is substantial.70

68 Haggblade, Steven and Ballard Zulu (December 1-3 ). "The Recent Cassava Surge in Zambia and Malawi," InWEnt, IFPRI, NEPAD, CTA Successes in African Agriculture Conference.
69 Ibid.
Supply Factors
In Malawi, cassava is primarily grown by unorganized smallholder farmers. Another major factor affecting production and quality of cassava is the scarcity of planting materials. Local cassava varieties are small in size (often preferred for ease of transport) with high hydrogen cyanide (HCN) content.\(^71\)

Enabling Environment
The Malawian Government and NGOs have been pushing the production of cassava as a food security measure in times of drought. For example, SARRNET has implemented various initiatives aimed at promoting seed multiplication and distribution of new cassava varieties to address the issue of scarcity of planting materials. Since 1994, cassava production has increased by more than 500 percent as a result of efforts by the Government and SARRNET to replace low-yielding varieties.\(^72\)

Profitability
Production of cassava requires minimum capital investment and low direct costs. The gross margins are much more attractive for farmers compared to other products. According to the 2006/2007 Annual Agricultural Statistical Bulletin, Malawi’s current cassava yield is 12-30 tons per hectare and is sold at MK27.44/kg (US$0.20/kg i.e. US$2,350 - US$5,880 / ha). By comparison, maize yields 400-1,500 kg per hectare and is sold at MK27.65/kg (US$0.20/kg i.e. US$78-294 / ha).\(^73\)

3. Pigeon Pea Industry Analysis

Industry Overview
Pigeon pea is the most versatile grain legume used by farmers in Malawi and has been grown in Africa for about 4,000 years.\(^74\) In Malawi, the crop is grown mainly by smallholder farmers. It is grown for both local consumption and export, and is generally intercropped with Malawi’s staple food crop, maize. Pigeon pea has multiple uses as grain, firewood and livestock feed, field boundary markings, and soil fertilizer. Pigeon pea is also drought-tolerant. As it can produce good yields with limited inputs, pigeon pea can be a potential cash crop. According to the India-based International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), pigeon pea is an agriculture product that benefits the resource-poor smallholder farmer who “operates in a variable, semi-arid environment and generally lacks access to technology, cash, and other resources.”\(^75\)

Global Market Landscape
According to the FAO, pigeon pea’s world production was approximately 3.5 million tons in 2005. Malawi is the fifth largest producer in the world with an estimated 79,000 tons annually as shown in Figure 10. Eastern and Southern African countries are among the largest exporters of pigeon pea, particularly to India, the world’s greatest producer and consumer of the crop. Exports are in the form of green and split pea. The split form is called daal in India and is a local staple food.

\(^{72}\) Ibid.
\(^{75}\) Ibid.
Figure 10: Pigeon Pea World Production (in tons)

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>2,250,000</td>
<td>2,260,000</td>
<td>2,210,000</td>
<td>2,430,000</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Myanmar</td>
<td>325,000</td>
<td>466,000</td>
<td>4,85,000</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Kenya</td>
<td>73,463</td>
<td>93,203</td>
<td>98,280</td>
<td>105,571</td>
<td>105,000</td>
</tr>
<tr>
<td>Uganda</td>
<td>80,000</td>
<td>82,000</td>
<td>84,000</td>
<td>84,000</td>
<td>84,000</td>
</tr>
<tr>
<td>Malawi</td>
<td>79,000</td>
<td>79,000</td>
<td>79,000</td>
<td>79,000</td>
<td>79,000</td>
</tr>
</tbody>
</table>

Source: Food and Agriculture Organization, FAOSTAT database.

Production in Malawi and Blantyre

Since pigeon pea is a viable crop in dry, wet and subtropical regions, it is well adapted for Malawi. In the southern region, where Blantyre is situated, pigeon pea can be found in Mount Mulanje (40 miles from Blantyre), the Zomba Plateau (40 miles from Blantyre) and the Mangochi area (120 miles from Blantyre). Official statistics from the Ministry of Agriculture and Food Security of Malawi indicate that both the hectarage and production volume of pigeon pea have grown in the last ten years. However, this trend has not been steady, reflecting one of the major constraints for agricultural investment in Malawi: the unreliability of commodity supply (See Figure 11).

Figure 11: Production Supply of Pigeon Peas in Malawi

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ha</td>
<td>126,494</td>
<td>137,332</td>
<td>136,019</td>
<td>139,899</td>
<td>147,760</td>
<td>138,680</td>
<td>155,990</td>
<td>150,173</td>
</tr>
<tr>
<td>Tons</td>
<td>91,569</td>
<td>99,261</td>
<td>105,849</td>
<td>105,315</td>
<td>116,895</td>
<td>93,157</td>
<td>63,883</td>
<td>130,987</td>
</tr>
</tbody>
</table>

Source: Ministry of Agriculture and Food Security, Government of Malawi.

Value Chain Analysis

The size of the domestic pigeon pea market in Malawi is negligible. Almost all local production is exported.

Production

Malawian pigeon peas are grown by smallholder farmers as an intercrop with other products such as maize and cotton. These farmers own small plots of land with an average size between one and two hectares. The quality of the product is irregular and mostly poor, and needs standardization. There are no large-scale commercial estates growing pigeon pea. The farmers sell their yields (between 0.1 to 0.5 tons per hectare) to local traders, who then sell the product to regional middlemen and processing companies.

Processing

The processing companies can export pigeon pea in two forms: raw seed and split as daal. The value added to the pigeon pea in this processing activity is not significant: the pigeon pea legume is split after being dried and cleaned.

Sub-Sector Analysis: Pigeon Pea Processing

Growing demand in India has created a market for processing this commodity. There are four major pigeon pea processing companies in the Blantyre area: Export Trading Company, Transglobe Produce Exports, Rab Processors, and Commodity Processors Limited. Export Trading is the leading processor, with production levels between 30 to 40 thousand tons per year. Its headquarters are based in Dar-es-Salaam, Tanzania. Transglobe, Commodity Processors, and Rab Processors are locally-owned companies.

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76 Mahmood Dalvy, Commodity Processor Limited (March 26, 2008). Personal interview.
While India is a major buyer, Malawi also exports pigeon pea and *daal* to countries such as the United Arab Emirates, Mauritius, Malaysia, South Africa and the UK.\(^\text{77}\) Demand for *daal* is closely linked with the size of the Indian diaspora residing in the country.\(^\text{78}\)

**Opportunities**
Both the establishment of a *daal* processing factory and the extension of existing facilities are recommended investments in Blantyre. *Daal* is an established export product and business linkages between local producers and Indian/Southeast Asian buyers are very strong. Located in the center of Malawi’s southern region, Blantyre has easy access to growing areas.

Several factors enable the consideration of pigeon pea and *daal* processing as a viable investment opportunity for FDI in Blantyre. The technology requirement for this investment is not high. Since most production is export-oriented, the processing companies enjoy benefits from the Government of Malawi by receiving EPZ designation, which promotes exports through duty refunds on imported machinery.

**Constraints**

**Supply**
Smallholder farmers that primarily grow pigeon pea are very sensitive to the market behavior of other commodities. Consequently, the crop often suffers from erratic supply and quality. The volume and quality required for an expansion of this sector are not guaranteed given the current model of production.

**Transportation**
Transportation costs account for 30–35 percent of the final sale price, with freight from the processing company to the ports accounting for a large portion.\(^\text{79}\) Malawian companies need up to 12 days to fill a container for export to India while a South African exporter can fill a similar order in just 48 hours.\(^\text{80}\)

**Variety**
In order to take more advantage of the timing of the Indian harvest, the development of early maturing varieties is recommended. Malawi should export pigeon peas in April and May when the market prices in India are at their peak. The lack of standards and grades also make it difficult to secure a reliable flow of supply for any *daal* processing factory.

**Export Promotion**
The Government of Malawi does not have any export promotion program for the pigeon pea industry. Aside from the EPZ incentive available to any company that exports 100 percent of its product, there is no specific system of incentives targeted at the export of pigeon pea or *daal*, despite sectoral growth in recent years.\(^\text{81}\)

**Impact and Feasibility Assessment**

**Impact**

**Employment**
A stronger pigeon pea export sector would not only create new factory jobs in Blantyre, but also generate jobs for farmers, with the increase in demand.

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\(^\text{77}\) Ibid.


\(^\text{79}\) Rawindra A. Kamal, Export Trading Company (March 17, 2008). Personal interview.

\(^\text{80}\) Ibid.

\(^\text{81}\) Ibid.
Incomes
The characteristics of pigeon pea—drought tolerant, fertilizer free, inter-croppable—make it very attractive for farmers when compared to other more expensive options.

Skill Set
*Daal* processing does not require a new set of skills for workers or heavy investment in infrastructure and machinery. Furthermore, Malawians of Indian origin who own and manage these factories are often well connected with buyers in the sub-continental. A deep knowledge of the business and strong ethnic bonds are two major assets of Malawian enterprises competing in the pigeon pea industry.

Feasibility
**Demand Factors**
Demand in India has been steadily growing: according to the ICRISAT 2007 annual report, India imports 254 tons of pigeon pea per year and Africa supplies less than 50 percent of the world’s demand. African exports of pigeon pea to India (including Malawi’s) have considerable room for growth. Demand for *daal* unfulfilled by Malawi can be provided by Tanzania, Kenya and Uganda.

**Supply Factors**
According to interviews with some of the major processing companies in Blantyre, Malawi’s pigeon peas are favored for their flavor, taste and size by markets in India and the UK. Further, Malawi can produce pigeon peas when the crop is off-season in India. This late harvest allows Malawian exports to compete with massive Indian local production and commands a 20–40 percent price premium during September-November. This advantage also holds for the UK’s market.

A survey of three of the four major pigeon pea processors in the city of Blantyre shows that they are running at full capacity, which indicates a need for expansion.

4. Chili Industry Analysis

**Industry Overview**
Malawi produces some of the hottest chilies in the world, known as Bird’s Eye chilies or African Bird’s Eye (ABE). Malawian Birds Eye chilies are highly sought after internationally. In Malawi, chili has recently emerged as a strong export crop and demand is expected to grow. While chili production has significantly increased over the last few years, yearly volumes have not been consistent.

**Global Market Landscape**
As chili is a relatively simple crop to cultivate, it is produced all over the world. World production levels have increased, especially since the late 1990s. Current world production of chili crop totals around 7 million tons, cultivated on approximately 1.5 million hectares. Demand for chili is largely generated by the food processing industry given its importance as an ingredient and coloring agent. India, China,
Mexico, Thailand, the US, and the UK\textsuperscript{86} are among the major global consumers of chili. The major producers are India, China, Spain, Mexico, Pakistan and Morocco.\textsuperscript{87}

Figure 12: Chili Production Trend in Malawi

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chili_production_trend_malawi.png}
\caption{Chili Production Trend in Malawi}
\end{figure}

\textit{Source: Malawi Ministry of Agriculture and Food Security.}

**Production in Malawi and Blantyre**

The production volume of chili has been erratic, as illustrated by Figure 12. In 2006 – 2007, Malawi produced 1,109 tons of chilies.\textsuperscript{88} According to the FAO, the producer price in 2005 was US$1,291 per ton—eight times greater than that of maize (see Figure 13). In 2006, Malawian farmers exported 77 tons of chilies to Europe.\textsuperscript{89}

Figure 13: 2005 Malawian Commodity Price Comparison (US$/ton)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Price (US$)</th>
<th>Commodity</th>
<th>Price (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>1,597</td>
<td>Potatoes</td>
<td>418</td>
</tr>
<tr>
<td><strong>Chilies and Peppers (dry)</strong></td>
<td>1,291</td>
<td>Pigeon peas</td>
<td>213</td>
</tr>
<tr>
<td>Tea</td>
<td>1,065</td>
<td>Maize</td>
<td>153</td>
</tr>
<tr>
<td>Cotton lint</td>
<td>1,022</td>
<td>Cassava</td>
<td>70</td>
</tr>
<tr>
<td>Tobacco, unmanufactured</td>
<td>952</td>
<td>Sugar cane</td>
<td>54</td>
</tr>
<tr>
<td>Groundnuts, with shell</td>
<td>532</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textit{Source: FAOSTAT.}

In southern Malawi chili is produced by individual smallholder farmers near Mount Mulanje (40 miles from Blantyre), in Liwonde (100 miles from Blantyre), and in Balaka (55 miles from Blantyre). Based on 2005 – 2006 data, about 72 percent of Malawi’s chilies were produced in the Blantyre region.\textsuperscript{90}

Currently, the Zikometso Smallholder Farmers Association, the largest smallholder chili farmer association in southern Malawi, is capable of producing 200 tons per year. Their products include raw dry chili crop, chili powder, and chili seed. Proceeds from sales are directly transferred to member farmers.\textsuperscript{91}

\textsuperscript{87} Ibid.
Figure 14: Blantyre Chili Production Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>1998/99</th>
<th>1999/00</th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ton</td>
<td>1,831</td>
<td>1,218</td>
<td>1,258</td>
<td>1,212</td>
<td>1,373</td>
<td>1,192</td>
<td>924</td>
<td>1,045</td>
</tr>
<tr>
<td>Hectare</td>
<td>4,088</td>
<td>3,083</td>
<td>2,875</td>
<td>2,706</td>
<td>2,361</td>
<td>3,083</td>
<td>2,102</td>
<td>2,097</td>
</tr>
<tr>
<td>Ton/HA</td>
<td>0.45</td>
<td>0.4</td>
<td>0.44</td>
<td>0.45</td>
<td>0.58</td>
<td>0.39</td>
<td>0.44</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Malawi Ministry of Agriculture and Food Security, Crop Estimates.

Value Chain Analysis

Production
Chilies are mainly produced by smallholder farmers with very few commercial inputs. The production of chili is a labor-intensive process given the manual picking and grading process.92

Processing
To process raw chili into sauce, chilies are soaked in hot water, then ground. Next, spices are added and the mixture is steamed in wood-fired boilers. Finally, the cooled product is bottled and packed.

Sub-sector Analysis: Chili Processing

Processing
Chili season lasts from March through August. The initial processing of chilies consists of drying and grading the fruit on the farm. Washing, drying, and grading are the crucial steps in post-harvest handling, where quality can be most affected.93

The harvested fruit is washed in lightly chlorinated water to remove dirt and chemical residue, following which proper drying is necessary to maintain the quality of the crop. Grading is based on specified standards for size, color, rotten stock, and foreign matter. There are two basic grades for birds eye chilies—A and B—with a price premium of about MK10 (US$0.07) between grades.95

Major Player: Nali Ltd.
Nali is the dominant company in chili sauce production in Malawi. It is located in Limbe, a few miles south of Blantyre. Nali produces bottled chili products that are sold to local and regional markets, and is in the process of exporting to international markets such as the US, Canada, and Europe.97 The company foresees growth in export demand and is optimistic about future expansion.98

Nali currently has 150 employees. It maintains its headquarters in Blantyre and a factory in Thyolo (about 30 miles from Blantyre). The company’s annual revenue is about MK51 million (US$372,000). About 65-70 percent of total revenues are derived from the chili sauce business. With current production at 75 percent of capacity, there is room for increasing output.99 The company maintains relationships with about 5,000 growers through a farming network, supporting them with seeds and technical assistance.100

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94 Ibid.
95 Ibid.
96 70 percent and 30 percent, respectively.
97 Monica Khoromana-Unyolo, Nali Ltd (March 17, 2008). Personal interview.
98 Ibid.
99 Ibid.
100 Edward Labuwana Kholomana, Nali Ltd. (January 17, 2008). Personal interview.
Opportunities
Growing local and international demand provides an opportunity for investment in the chili-processing sector. Investment opportunities lie in building export-oriented chili processing facilities to create value-added products such as chili sauce. It is estimated that a chili sauce production facility requires an investment of about US$1 million, most of which are capital costs for equipment purchases.

There are various factors that justify investment in the chili sub-sector in Blantyre:
1. Given that storage and transport are critical stages where quality can be compromised, Blantyre is strategically located for chili processing as 72 percent of chili is grown in the region.
2. With a limited number of market players (including a few foreign brands), there is room for competition in the industry. Nali is the dominant local company with a very large share of the chili sauce market in Malawi.
3. Chili processing is a high-margin business that can enable the firm to absorb costs imposed by poor infrastructure and Malawi’s lack of port access.

Constraints
Meeting International Export Standards
Exporting to the US requires compliance with Food and Drug Administration (FDA) standards. Because Malawi’s Bureau of Standards (MBS) is not internationally recognized and does not have adequate capacity for rigorous food tests, exporting companies must incur extra costs to get their products tested by foreign labs. For instance, Nali faced various challenges when entering the US market related to product testing, labeling (for nutritional information), adulteration (occurring on small-scale farms with crude drying, storage, and transportation procedures), and quality-assurance auditing (maintaining documentation to confirm the time and temperature of processing at various production stages).
Another risk associated with export is contamination by aflatoxin, which can build up during transport.

Increasing Competition in the World Market
Malawi will need to compete with South Africa, the dominant regional exporter of chili sauce, for a share of the market. Examples of South African companies include Bandito’s Chile Co., based in Johannesburg, which exports high quality chili sauces to Australia, Europe, UK, New Zealand, Canada, Japan, and the US under the “Mama Africa” brand, as well as Nando’s, a South African restaurant chain operating globally with its own brand of chili sauce.

Lack of Adequate Supply and Quality
Given that many farmers are still not organized, ensuring adequate supply of chilies is a major challenge. Quality seeds are the most important input for good chili sauces. To secure a supply of high-quality chilies, processors will need to provide seeds to farmers, which will increase operating costs.

Impact and Feasibility Assessment
Impact
Employment Generation
The processing of chili is a labor-intensive process. Hence, investing in chili processing facilities to increase exports of value-added products will generate new opportunities for employment.

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101 US$ 14,000 per machine.
102 Edward Labuwana Kholomana, Nali Ltd. (January 17, 2008). Personal interview.
104 Ibid.
105 Ibid.
Income
Higher profitability and incomes will bring greater economic security to local communities. Organizing farmers are known to increase incomes: for instance, members of the Zikomestso Association received 35 percent more for their chili peppers compared to nonmembers.107

Local Competitive Environment
A viable business environment will encourage more farmers to produce chilies and operate chili-processing companies. A market marked by growing international demand will spur domestic chili production and help to stabilize prices.

Linkages
The use of local agricultural raw material can create markets for non-traditional agricultural products. New partnerships can be created with a greater number of farmer associations and donors.

Feasibility
Demand Factors
The global export of chili sauce in 2006 was US$4.2 billion and US$3.9 billion in imports.108 Between 2004 and 2006, the volume of sauce imported globally grew by 8 percent per year; the global export market grew by 11 percent.109

Supply Factors
The volume of chili production in Malawi has significantly increased over the past 20 years. Chili yields in Malawi are lower compared to the global average yield of about 1.8 tons per hectare. Malawian chili production needs to be larger than this to meet increasing global demand. To address supply constraints, ACDI/VOCA and NASFAM have developed initiatives to organize and train farmers, and improve the quality of chili by providing seeds and technical support.

Profitability
Chili is profitable compared to other agricultural products: the profit margin of chili sauce is about 40 percent.110

5. Groundnuts Industry Analysis

Industry Overview
Groundnuts (also known as peanuts) have long been an important part of smallholder production in Malawi. With annual exports of about 50,000 tons, groundnuts were a major export crop until the late 1980s before which the Agricultural Development and Marketing Corporation (ADMARC) of Malawi was the sole trader of groundnuts and was responsible for buying and selling seed.111 However, following the liberalization of Malawi’s agricultural markets, ADMARC stopped stocking groundnut seed. Consequently, farmers were forced to recycle their seeds, which led to the deterioration of nut quality.112

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109 Ibid.
110 Edward Labuwana Kholomana, Nali Ltd. (January 17, 2008). Personal interview.
112 Ibid.
Even though international prices remained relatively attractive, the export market collapsed between 1990 and 1999 due to quality concerns and changes in demand.\textsuperscript{113} Despite the decline of local exports, the crop remains popular and enjoys a strong internal market. Most recently, groundnuts have re-emerged as an export crop as a result of the formation of farmers’ associations such as the National Smallholder Farmers’ Association of Malawi (NASFAM), which promotes and markets groundnut cultivation.\textsuperscript{114}

**Global Market Landscape**

In 2005, Malawi ranked 20th in world groundnut output, producing 161,162 tons valued at US$77.9 million.\textsuperscript{115} Regional competitors include South Africa, Ghana, Nigeria, Sudan and Senegal who exceed Malawi in exports of grounds. The largest exporters in the world include China, the US and India.

**Production in Malawi**

The total area of groundnuts cultivated in Malawi has rapidly expanded over the past decade from 71,586 ha in 1996 to 200,000 ha in 2006.\textsuperscript{116} Central and southern areas, including Kasungu, Lilongwe, Machinga and Blantyre, account for over 75 percent of the total area planted.\textsuperscript{117} Total groundnut production has significantly increased in recent years.\textsuperscript{118} National groundnut production was estimated to have increased from 71,586 tons during the period of 1996 – 1997 to 263,492 tons in 2006 – 2007.\textsuperscript{119} In 2004, Malawi exported 8,329 tons of shelled groundnuts, valued at US$4,109,000, making it the 17\textsuperscript{th} largest exporter in the world by value.\textsuperscript{120}

![Figure 15: Blantyre Groundnuts Production Estimates 2002-2003 to 2006-2007](source: Malawi Annual Economic Report 2007.)

In Blantyre alone, 25,179 tons of groundnuts were produced over 26,745 ha in 2007, representing nine percent of total production in Malawi (see Figure 15).\textsuperscript{121} The cash value of groundnuts is generally better than most cereal crops. The average retail market price of shelled groundnuts in Blantyre was MK 124.54

\textsuperscript{113} USAID (November 28, 2006). *USAID’s Activities on Agriculture and Food Security in Malawi (Draft)*, (Washington D.C.: USAID).


\textsuperscript{118} Ibid.


(US$0.88) in 2006, which is slightly higher than the national average of MK112.54 (US$0.79).  

**Value Chain Analysis**

**Production**
The groundnut value chain consists of small producers and small private traders who sell to manufacturers dominating the domestic market. There are no adequate marketing vehicles for the groundnut value chain as a consequence of the closure of many ADMARC facilities.

**Processing**
Following harvest, groundnuts are first graded according to size, and then processed into roasted salted nuts, peanut butter, paste, oil, and animal feed.

**Sub-Sector Analysis: Groundnuts Processing**
The cultivation of groundnuts offers potential for commercial farming given its extensive value chain. There is no single dominating player in the groundnut-processing sector with many small and medium size companies competing for market share. Such players include Tambala Food Products Ltd. and Rab Processors, both located in Blantyre.

Tambala is optimistic about growth in sales of groundnut-based value-added products, given high local and international demand. Since groundnuts have high nutritional value—groundnuts provide amino acids, thiamin, riboflavin, protein, and niacin—they are highly sought after by food aid organizations to feed malnourished children, women and HIV-infected patients. Tambala provides smallholder farmers with seeds and technical support to ensure product quality. Currently, 100 percent of the company’s roasted-nut products are sold entirely in the domestic market. The company provides in-flight packaged peanuts for Malawi’s national airline, Air Malawi. Supply shortages present the biggest challenge to Tambala, as significant funding is required to secure crop supply from farmers. Tambala competes with foreign traders who also buy harvested groundnuts from the same farmers.

Rab Processors, one of the largest and most-diversified food manufacturing companies in Malawi, is also engaged in groundnut processing. According to the company, the agro-processing industry in Malawi has not yet reached a saturation point and there exists room for growth. Rab Processors obtains groundnuts, mainly from the central region around Lilongwe.

The market landscape is also marked by numerous small and medium enterprises that process groundnuts on a smaller scale. For example, Mbado Enterprises in Blantyre is one such small enterprise producing edible oil from groundnuts. Mbado buys groundnuts, extracts and bottles edible oil, and sells cake for stock-feed. Set up in 1980 with two employees, it has grown to employ about 30 people. The use of groundnut processing machineries does not require advanced skills; therefore, a majority of employees in groundnut processing companies are unskilled.

**Opportunities**
There has been support for international research-extension programs, such as the USAID-funded Groundnut and Pigeon Pea Multiplication (GPM) project conducted from 1999-2002. Significant efforts have been made to enhance high-quality seed multiplication and increase farmers’ awareness of quality

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124 Rex Nyahoda, Tambala Food Products Ltd. (January 15, 2008). Personal interview.
125 Afzel Thassim, Rab Processors Ltd., (January 14, 2008). Personal interview.
126 Stewart Khondowe, Small Enterprise Development Organization of Malawi (March 17, 2007). Personal interview.
considerations. Through integrated value chain development enabled by private investment, Malawi can establish itself as a supplier of high-quality groundnuts.

Opportunities for investment exist in:  
- Wholesaling, grading, and quality testing for export markets;
- Peanut butter production for local and regional markets;
- Oil extraction for domestic and international markets.

According to NASFAM, Malawian farmers enjoy a competitive advantage in producing groundnuts, given the inexpensive inputs required to produce the crop. For example, groundnut farmers do not need fertilizers, making it cheaper to produce at a low cost, while offering higher yields.

Substantial opportunities exist for export to the Common Market for Eastern and Southern Africa (COMESA) and the EU (particularly the UK). There is also unmet demand for Malawian groundnuts from countries in the region such as South Africa, Zimbabwe and Tanzania. Access to European markets is contingent upon improvement in production, processing and handling to meet EU standards for aflatoxin contamination which must not exceed 20 ppb.

**Investment recommendation**
Given some of the challenges that local companies face, specifically the lack of financial resources, an investment in a partnership with already existing companies such as Tambala, Mbado Enterprises and Rab Processors is recommended.

**Constraints**
**Supply shortage**
Because the supply of groundnuts largely depends on smallholder farmers, the lack of consistent supply of raw materials is one of the most challenging issues associated with the groundnut sector. There is much volatility in output due to fluctuations in smallholder production. The Government stopped guaranteeing prices, which has led to supply scarcity. To address supply constraints, Rab Processors has engaged in contract farming on a small scale. However, due to the lack of legal and contractual enforcement mechanisms, contract farming has not proven to be successful. Despite agreements between local processing companies and farmers to exchange farm inputs for supply guarantees, farmers often sell their products to other buyers that offer a better price during the harvest season.

**Quality Control**
Management of aflatoxin, a naturally occurring toxin, is a crucial factor for exporting groundnuts. Due to the aflatoxin levels exceeding 20 ppb, the EU ceased importing from Malawi during the 1990’s. High Performance Liquid Chromatography (HPLC), considered as the only internationally accepted method of aflatoxin inspection, costs around US$230 per sample assessed, which is prohibitively expensive. Malawi is currently testing its crops through other forms, including enzyme-linked immunosorbent assay (ELISA) kits, which can be purchased by individual farmers at about US$1.

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128 Gloria Kasongo, NASFAM (March 11, 2008). Personal interview.
130 Ibid.
Impact and Feasibility Assessment

Impact
Employment
Groundnut processing can create employment opportunities for unskilled workers, since the use of processing does not require advanced skills.

Feasibility
Demand Factors
Given high demand in regional and European markets, there is potential for significant price premiums for improved grades and standards of groundnuts. Demand is highly sustainable given unmet demand within regional and European markets.

Supply Factors
NASFAM has encouraged production practices that increased traditional variety yields to 700 kg. High quality and stable supply will depend on inputs provided by processors.

Figure 16: Linkages with the Millennium Village Project

Millennium Village Project
The Millennium Village Project (MVP) in Malawi is approximately 70 km from Blantyre and is located in the Zomba region. The MVP has embarked on the production of groundnuts as a cash crop for the purposes of selling to local companies. Commercial groundnut transactions in this region enjoy the advantages stemming from well-maintained roads. The groundnuts produced in the Millennium Village can be transported to Blantyre at low cost. Investment in groundnuts processing in Blantyre provides unique opportunities to effectively link the MVP with the Millennium Cities Initiative. With strengthened financial capacity enabled by external private investment, groundnut-processing companies can buy larger volumes from MVP farmers. Definitively linking farmers to processors will provide farmers with the incentive to consistently increase production yields, which in turn can mitigate groundnut processing companies’ supply shortage issues.

6. Macadamia Nuts Industry Analysis

Industry Overview
The macadamia nut is among the most important cash crops in Malawi. It is often cited as a good alternative export crop. Due to the high initial investments and imported inputs necessary for production as well as a competitive world market, macadamia nuts are only suitable for production by estates. Grades and standards are critical in the production and processing of macadamia nuts, particularly concerning food safety and hygiene standards in processing.

Global Market Landscape
International competition is intense among major macadamia nut producers such as Australia, Hawaii, Brazil, South Africa and Kenya. Malawi is the third largest producer in Africa, after South Africa and

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Kenya. The world market price for macadamia nuts has sharply fallen since the late 1990s due to excess supply. Demand for macadamia nut is generated primarily by the UK, the US, and Japan.

Figure 17: World Macadamia Nut Production and Exports

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Area (ha)</th>
<th>Trees ('000)</th>
<th>2003 Production (t)</th>
<th>Kernel recovery (%)</th>
<th>Kernel exports (t)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nut-in-shell</td>
<td>Kernel</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>15,000</td>
<td>5,000</td>
<td>30,000</td>
<td>9,100</td>
<td>32</td>
</tr>
<tr>
<td>Central America</td>
<td>8,700</td>
<td>-</td>
<td>17,000</td>
<td>3,100</td>
<td>18</td>
</tr>
<tr>
<td>USA (Hawaii)</td>
<td>7,284</td>
<td>1,350</td>
<td>27,240</td>
<td>4,500</td>
<td>25</td>
</tr>
<tr>
<td>South Africa</td>
<td>7,000</td>
<td>3,073</td>
<td>12,500</td>
<td>3,400</td>
<td>28</td>
</tr>
<tr>
<td>Kenya</td>
<td>6,500</td>
<td>1,000</td>
<td>8,800</td>
<td>1,000</td>
<td>16</td>
</tr>
<tr>
<td>Brazil</td>
<td>6,000</td>
<td>-</td>
<td>3,000</td>
<td>600</td>
<td>17</td>
</tr>
<tr>
<td>Malawi</td>
<td>5,112</td>
<td>1,022</td>
<td>4,000</td>
<td>1,000</td>
<td>25</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>-</td>
<td>-</td>
<td>900</td>
<td>120</td>
<td>-</td>
</tr>
</tbody>
</table>


Production in Malawi
The nuts are produced mainly in the Rumphi and Ntchisi regions, the central and northern parts of Malawi. Macadamia nuts are produced by large estates that are owned by international investment companies. Since production of macadamia nuts requires high initial capital investments and imported inputs, only estates with large acreage have the potential to make a profit in a highly competitive world market.

Under AGOA, Malawi is one of the most notable suppliers of macadamia nuts to the US; Malawi supplied US$2.7 million out of a total of US$54 million of macadamia imports into the US in 2003, representing 5 percent of all macadamia imports. The low cost of production and high quality of the product makes Malawi an attractive supplier of this crop.

Value Chain Analysis
Production
After harvest, macadamia nuts are stripped of their husks by a dehusker, and the kernels are separated from the shells by steel rollers that exert a pressure to crack the shells without damaging the inside kernels. Then the kernels are sorted and graded by color manually. Raw kernels are packed directly in cans or boxes, while kernels to be roasted are separated and coated in coconut oil.

There are five companies engaged in the production of macadamia nuts in Malawi, including Sable Farming, which is located in Limbe, near Blantyre, and Namingomba Tea Estates Ltd., in the south near Blantyre. Sable Farming owns 883 hectares of land for macadamia nut cultivation. Combining its two factories in Limbe and Mzuzu, the company produces about 400 tons of macadamia nuts per annum.

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139 Lalit Khatri, Sable Faming Co. Ltd., (January 17, 2008). Personal interview.
Processing
The nuts can be used for a multitude of purposes: they can be eaten raw, roasted as snacks, and used as ingredients for confectionery products.\textsuperscript{140} In addition, oil extracted from macadamia nuts as a byproduct can be used as a cooking oil and in cosmetics manufacturing.

Sub-Sector Analysis: Macadamia Nuts Processing
According to MIPA, three world class nut processing factories are currently operating as a result of recent investment.\textsuperscript{141} Sable Farming conducts only simple processing including cracking, washing and drying, and exports almost all of its products in a semi-processed form. A kilogram of nuts fetches between US$3 – US$8, depending on the quality of the crop on the retail market.\textsuperscript{142} Sable farming employs 2,500 mostly unskilled farmers from various villages. A visit to one of Sable’s factories revealed that a high standard of quality control is being ensured through manual labor.\textsuperscript{143} Low labor costs are keeping production costs low compared to local competitors.

Opportunities
Given the high value of the macadamia nut, more foreign investment is being sought to boost the production and processing of raw materials. Opportunities for investment exist in commercial macadamia estates.\textsuperscript{144} Partnership with foreign investors will increase productivity of local estates through transfer of better technology, expansion of acreage and access to capital for machineries and equipment, including macadamia-planting machines (about US$1.5 million).\textsuperscript{145} Furthermore, development of commercial estates could generate employment opportunities for small farmers by hiring them on an ongoing basis.

Constraints
Supply Shortage
Inadequate supply is the biggest constraint in the macadamia nut industry. While smallholders are incapable of meeting grades and standards that are required for exports, there are few estates that have large enough land to benefit from economies of scale.\textsuperscript{146} Sable Farming’s factories have spare production capacity. However, due to the lack of raw materials, the company is unable to produce more.

Long-term Investment
Since it takes eight years for a macadamia nut tree to grow and high levels of fixed investment and inputs are required, there is a large time lag between investment and production. Furthermore, young trees are more vulnerable to diseases and pests than older trees.

Costs Associated with Value-addition
The lack of domestically produced packaging materials and high transportation costs make value-addition within Malawi more costly. Such high costs associated with transport and handling makes it more profitable to export semi-processed raw nuts and leave further processing to the destination markets.

\textsuperscript{141} Ibid.
\textsuperscript{143} Lalit Khatri, Sable Faming Co. Ltd., (January 17, 2008). Personal interview.
\textsuperscript{145} Lalit Khatri, Sable Faming Co. Ltd., (January 17, 2008). Personal interview.
Impact and Feasibility Assessment

Impact

Employment
There are limited employment opportunities, as there are only five companies engaged in macadamia nut production. While it depends on the size of an expansion, the potential for employment generation is not very large, given limited land availability.

Skill Set
Most labor does not require a high-level skill set. For example, Sable Farming employs mostly unskilled farmers from villages, some semi-skilled labor and few skilled laborers who are engaged in research and mechanical operations. If the production or processing of macadamia nuts is expanded, it is most likely that companies will increase the number of unskilled workers. Therefore, the impact that an investment can bring to worker skills is limited.

Feasibility

Demand Factors
While there was growing demand from the 1980s until the mid-1990s that kept prices stable, world prices fell in the late 1990s as supply stocks overtook demand.147

Supply Factors
The crop is mainly produced by estate holdings, as production of macadamia nuts is difficult for smallholders in terms of grades and standards. Thus, supply shortage is a problem.

Enabling Environment
AGOA offers duty and quota-free access to the US macadamia nut market.

Profitability
Initial investment is high and there is a lag-time between investment and production (it takes eight years before payback). Based on the research by Mataya and Tsonga, the return per hectare is said to be MK 10,274 (US$74.9) while the farm gate price is MK 270.00/kg (US$1.97/kg) and the margin after labor cost is MK 21,236 (US$155), which is higher than other major crops such as maize, cassava, groundnuts and cotton.148

IV. Conclusion and Recommendations

"Current opportunities exist...however for further development to occur, government incentives and job training are necessary. The labor force is trainable and labor cost is low compared to South Africa and China."\(^{149}\)

Malawi, one of the world’s poorest countries, faces significant challenges to developing a vibrant private sector to sustain economic growth. However, a stable political environment, recent macroeconomic stability, and improved external trade terms have been positive developments. Moreover, Malawi's historic agricultural production record, marked by high yields in the cotton sector, demonstrates that the country has the potential for sustained economic growth, if given the right impetus through sound policies.

An infusion of foreign direct investment can improve the livelihoods of the country's inhabitants by creating employment opportunities, diversifying the economy and developing the private sector. With a view to encouraging FDI in the promising sectors identified and alleviating the constraints that hamper the growth of these sectors, the authors provide the following recommendations:

- **Identify investors for high impact-feasibility sector investment opportunities;**
  - Textile manufacturing factories

- **Advocate for the alleviation of supply-side bottlenecks;**
  - Strengthen the capacity of farmer associations, such as NASFAM
  - Establish industry cooperatives to stabilize markets for each sector
  - Strengthen contract enforcement

- **Support institutional capacity building of key agencies, such as MIPA, MBS and MEPC;**

- **Establish stronger linkages between MPV and MCI; and**

- **Encourage partnerships with development agencies and NGOs for value-added projects.**

**Identify Investors**

Based on the Investment Evaluation Framework, the authors identified textile manufacturing as a High Impact-Feasibility investment opportunity. Value added products such as textiles not only command higher prices in the world market, but also generate many positive spillovers in the country, such as technology and skills transfers. Since Blantyre is the commercial center of Malawi, it is well positioned to take advantage of many of the complementary industries located in the city.

Potential foreign investors may include partners and financial investors from the region and outside the continent. It is ideal to seek investors with significant experience in the sector to bring their expertise to existing operations or new projects. Someone with a long-term investment horizon will be ideal because of an expected lengthy payback period. Also, a technical assistance component provided by an NGO or donor should be considered, given the large presence of these organizations in the country and their contributions to date (see “Encourage Partnerships with Development Agencies and NGOs” below).

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\(^{149}\) K.K. Desai, Knitwear Industries (January 14, 2008). Personal interview.
Advocate for the Alleviation of Supply-side Bottlenecks

Among the processing companies interviewed, most agreed that the unreliability and scarcity of commodity inputs adversely affects the way business is conducted, precluding companies from fulfilling larger orders in a timely fashion. The authors propose the following:

Strengthening of the capacity of farmer associations: Farmer associations have the potential to empower farmers and support the growth of agricultural commercialization. MCI should liaise with donors and farmer associations to identify any possible investment opportunities or linkages in Blantyre. Because the recommended sectors encompass agricultural value-added products, it is in MCI’s best interest to connect the processing facilities with organized farmers to ensure consistent quality and quantity.

Establishment of industry cooperatives: Given the complexity and fragmentation of various industry value chains, each sector must deal with significant information asymmetry that destabilizes the market. In the case of Malawi’s cotton sector, which lacks vertical integration, the establishment of a National Cotton Council would help align incentives among various industry stakeholders. Although there are numerous sub-sector associations like the Garment and Textile Manufacturer's Association (GTMA), and the Cotton Developer's Association (CDA), a sector-wide association is lacking. MCI could potentially serve as a facilitator that brings representatives from these major groups together.

Strengthening of contract enforcement: For the private sector to function effectively, strong contract enforcement is essential. In Malawi contracts between smallholder farmers and their respective buyers are not honored in many cases, which deter the formation of strong farmer-market linkages. This ultimately increases production costs for the processing companies and results in reduced profitability. MCI should continue to collaborate with the Government and international organizations to assess how the capacity of judicial institutions and other bodies overseeing contract enforcement can be strengthened.

Support Institutional Capacity Building of the Key FDI Institutions

MIPA, MBS, and MEPC in Blantyre are vital resources for potential investors. However, limited resources affect their ability to market potential investment opportunities and access investors. The World Bank's Business Environment Strengthening Technical Assistance (BESTAP) project is attempting to reduce redundancies, improve information technology infrastructure, and build capacity of staff among these agencies. MCI can play a vital role in building the capacity of these key institutions.

Establish Stronger Linkages between MVP and MCI

There should be a conscious effort to establish economic synergies between MCI and MVP which, at the moment, seem relatively limited. This synergy can be an effective vehicle for promoting farmer-market linkages. MVP’s Science Coordinator, Rebbie Harawa, and her team have conducted feasibility studies on the commercial opportunities of the various crops grown in the Millennium Villages. MCI should work closely with the MVP team and use the existing feasibility studies as a guide for identifying potential linkage opportunities.

Encourage Partnerships with Development Agencies and NGOs

Many organizations, including the UK’s Department for International Development (DFID), USAID, the Clinton Hunter Development Initiative, and Console International, have active programs in Malawi aimed at processing agricultural products. It is likely that some of the identified investment opportunities may require technical assistance with the infusion of investment, which can be provided by the various development agencies and NGOs operating in Malawi. MCI should seek collaboration with agencies that have prior experience in Malawi in order to better understand the market and identify potential investors.
Appendix I. Sectors with Limited Investment Potential

1. Banking Industry Analysis

Industry Overview
The commercial banking sector in Malawi is comprised of leasing companies, finance companies, development institutions, savings banks and numerous insurance companies.

According to the United Nations Capital Development Fund (UNCDF), the Government of Malawi has taken steps to improve the climate for a viable financial industry. These steps include liberalizing the sector, reducing interest rate controls, lowering bank reserves, and removing exchange regulations on capital flows. The Government has also taken steps to improve the regulatory framework to attract private investors. The Companies Act and the Capital Market Development Act are examples of functioning regulatory structures set in place to promote investment in Malawi. Financial sector reforms have resulted in the entry of several international financial institutions into the banking sector. Moreover, the Government has shown substantial flexibility in relaxing equity-ownership rules for the banking industry: foreign banks are allowed to own a 100 percent stake in their Malawian counterparts.

Major financial institutions include the National Bank of Malawi, Standard Bank, First Merchant Bank, Opportunity International Bank of Malawi, INDEBank, Ecobank (formerly Loita Investment Bank), Malawi Savings Bank, Nedbank Ltd., NBS Bank (formerly New Building Society) and FDH Bank. Standic Bank is 60 percent owned by South Africa’s Standard Bank, while other foreign-operated banks own nearly 50 percent of the banks’ total assets.

Investments in financial services are also being made by the nonprofit sector. The United Nations Development Program (UNDP), UNCDF, and the Government of Malawi have partnered to increase financing services to Malawians particularly in the area of micro-finance. In June 2007, the Financial Inclusion in Malawi (FIMA) project, a micro-finance initiative, was implemented to provide services for poor and low-income communities. This initiative will also develop an overall strategy to strengthen the capacity of the financial services industry. According to the UNDP, only 3 percent of Malawi’s population has access to credit. To provide services for the rural population, the Malawi Rural Finance Company Limited (MRFC) was established in 1994. The MRFC is 100 percent owned by the Government of Malawi.

Opportunities

Small and Medium-sized Enterprise (SME) Lending
While the banking services market is saturated in Malawi, the biggest business opportunity in the banking sector lies in Small and Medium-size Enterprise (SME) lending. There is a need for rural micro-finance. However, many banks are hesitant to take risks associated with financing at the micro level. The only commercial bank in Malawi that provides micro-finance services is the Opportunity and Investment Bank of Malawi (OIBM).
Constraints

Market Saturation and Increased Competition
There are currently eight commercial banks (with two additional banks expected to enter the market in the near future), two discount houses, one leasing corporation, one investment bank, one savings bank and fourteen microfinance institutions in Malawi.\(^{157}\) Consolidation within the industry has not occurred. Consequently, there are too many banks in Malawi considering the size of the financial services market.

Figure 18: Number of Licensed Institutions in Malawi

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>No. of Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>8</td>
</tr>
<tr>
<td>Discount Houses</td>
<td>2</td>
</tr>
<tr>
<td>Building Societies</td>
<td>1</td>
</tr>
<tr>
<td>Leasing Companies</td>
<td>2</td>
</tr>
<tr>
<td>Savings Banks</td>
<td>1</td>
</tr>
<tr>
<td>Majority State-owned (number)</td>
<td>2</td>
</tr>
<tr>
<td>As a Percentage of Total Assets</td>
<td>35</td>
</tr>
<tr>
<td>Majority Foreign-Controlled (number)</td>
<td>6</td>
</tr>
<tr>
<td>As a Percentage of Total Assets</td>
<td>46</td>
</tr>
<tr>
<td>Asset Share of the Two Largest Banks</td>
<td>58</td>
</tr>
<tr>
<td>Deposit Share of the Two Largest Banks</td>
<td>59</td>
</tr>
<tr>
<td>Net Income of the Two Largest Banks</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: UNCDF.

Macro-economic environment
The overall macro-economic environment has not been favorable for foreign direct investment in the financial services sector. The economy suffers from high interest and inflation rates.\(^{158}\) While interest rates have declined, they still remain high at 25.5 percent (IMF estimate).\(^{159}\) Thus, the cost of borrowing for many is prohibitive when compared with South Africa where the 2009 projected interest rate is 13.5 percent.\(^{160}\)

Figure 19: Interest Rates

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending rate (%)</td>
<td>53.6</td>
<td>53.1</td>
<td>56.2</td>
<td>50.5</td>
<td>48.9</td>
<td>36.8</td>
<td>33.1</td>
<td>32.2</td>
<td>27.1</td>
<td>25.5</td>
<td>25.0</td>
</tr>
<tr>
<td>Deposit rate (%)</td>
<td>33.2</td>
<td>33.3</td>
<td>35.0</td>
<td>28.1</td>
<td>25.1</td>
<td>13.7</td>
<td>10.9</td>
<td>11.0</td>
<td>5.9</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>91-day T-bill (%)</td>
<td>42.9</td>
<td>39.5</td>
<td>42.4</td>
<td>41.7</td>
<td>39.3</td>
<td>28.6</td>
<td>24.4</td>
<td>19.3</td>
<td>13.9</td>
<td>13.5</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Notes: 2008 figures are estimates. 2009 figures are forecasts.

2. Coffee Industry Analysis

Industry Overview

Coffee is produced in more than fifty countries in the world. Three countries—Brazil, Colombia, and Vietnam—account for almost 60 percent of world production. Malawi is a minor producer in the world

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\(^{158}\) Ibid.


\(^{160}\) Ibid.
coffee market, producing less than 0.02 percent of total world production. However, coffee is still a significant foreign-exchange earner for the country. Arabica coffee, a premium variety of coffee, is the fourth most important export crop in Malawi. Exports are made to European, Asian and American markets. The country’s traditional buyers have been the Netherlands, the UK, Germany and South Africa. Production has been declining for a number of years due to a combination of global and local factors, including unpredictable market prices of coffee, escalating input costs and frequent droughts.

Production
Malawi coffee is 100 percent Arabica, which usually grows at an elevation above 950 meters. Coffee is grown mainly in the north and southeast of the country, with little production in the central region. In the south, coffee is grown only by commercial farms/estates (no smallholder production) and is mainly centered around Thyolo (30 miles from Blantyre) and Zomba (38 miles from Blantyre). In the north, coffee is predominately grown by smallholder farmers in associations affiliated with the Mzuzu Smallholder Coffee Farmers Trust (SCFT) and by two small farms around Mzuzu. Consequently, the profile of the coffee sector significantly differs between the north and south.

Value chain
Farmer Organizations
There are two main categories of coffee growers in Malawi: commercial farms/estates, and smallholder farmers. In Malawi there are currently fifteen active organizations that grow coffee: fourteen commercial farms/estates and the Mzuzu Trust, which is comprised of five associations of smallholders. Three growers/processors—Sable, Makandi, and Mzuzu SCFT—account for more than 75 percent of the estimated production in 2006.

Since 2007, the Coffee Association of Malawi (CAMAL) has managed to attract buyers from Switzerland, the US, Canada, and Japan. To push for increased market awareness of the superiority of Malawi’s coffee, CAMAL has joined forces with MIPA, the United Nations Development Program’s Growing Sustainable Business (GSB) program, and the United States Agency for International Development (USAID).

Opportunity
To boost production, the Government has privatized the Smallholder Coffee Trust in Mzuzu, which empowers smallholder farmers to control coffee production. Opportunities for investment exist in the form of joint ventures with organizations engaged in the production and processing of coffee.

Increasing consumption of higher-priced specialty coffee worldwide provides investment opportunities for growers. Although Malawi has some very good grades of coffee, not all of them qualify for specialty grade, which generally relegates the sale of crops to the bulk market. Thus, the choice of target market depends considerably on each producer’s willingness to seek specialty sales and make the required investment.

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164 Ibid.
166 Ibid.
Constraints

Low and Volatile World Market Price
Malawi has predominantly supplied beans into the high-volume market segment. Since 1989, it has suffered considerably from volatile world-market prices following the collapse of the International Coffee Agreement and continued world oversupply. The result has been a progressive decline of coffee growing in Malawi with growers leaving the industry or reducing their level of production. Furthermore, the financial sector generally has a negative perception of the opportunities in the coffee industry. Consequently, access to credit is restricted.169

Poor Road Infrastructure
The poor state of infrastructure, especially roads and bridges, is a major constraint on the development of the smallholder coffee industry. During the rainy season (up to six months of the year), some coffee growing areas are difficult to reach or even inaccessible by motor vehicle. The result is a significantly higher cost of production.170

3. Dairy Industry Analysis

Industry Overview
Intensive smallholder dairy production in Malawi commenced in 1969. The Government at the time organized farmers into Milk Bulking Groups (MBGs) and established several milk processing plants through the Malawi Milk Marketing (MMM) project. MBGs would purchase milk from members and sell it to a MMM farm located in Blantyre, Lilongwe, or Mzuzu. In 1985, the MMM project was reorganized and Malawi Dairy Industries (MDI), a statutory body, took over the three MMM dairy plants/farms and were given the mandate to operate commercially. In 1997, six MDI factories and farms were privatized. As a result, three private dairy processing companies were established in each region of Malawi: Dairibord in Blantyre, New Capital Dairy in Lilongwe, and Northern Dairy Industries in Mzuzu. Since then, two new private investors–Suncrest Creameries in Blantyre and Lilongwe Dairy in Lilongwe–have started dairy operations.171

The Malawi dairy industry represents a very small part of the livestock sub-sector and agricultural sector. Malawi has about 4,000 registered dairy farmers producing approximately 6,500 tons of milk annually.172 There also is an informal market that sells raw milk directly to consumers for home consumption with estimated production at 27,000 tons.173

As shown in Figure 20, the local supply of fresh milk from both informal and formal sectors only meets about 60 percent of demand.174 Therefore, the dairy industry relies on imported milk powder, which covers 90 percent of the unmet demand.175 South Africa is the major country of origin for milk powder in addition to Denmark, the Netherlands, Italy, New Zealand, Argentina and Australia.176

169 Ibid.
170 Ibid.
174 Ibid.
175 Edwin Chilundo, Dairibord Malawi (Private) Limited (March 19, 2008). Personal interview.
Malawi’s milk consumption in 2002 was 4.7 kg/capita/year as indicated in Figure 21, in comparison to an African average of 15 kg/capita/year. This shortfall underlines the opportunity for investment in the industry.

![Figure 21: Milk Consumption per Capita in Malawi (kg)](image)

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<tbody>
<tr>
<td>Whole Milk Consumption</td>
<td>5.2</td>
<td>3.7</td>
<td>4.0</td>
<td>4.2</td>
<td>4.0</td>
<td>3.9</td>
<td>3.6</td>
<td>3.6</td>
<td>4.7</td>
</tr>
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Source: FAO Database, 2005.

Value Chain

Generally, farmers that join MBGs (i.e. with a tank and cooling facility) are serviced by processing companies on a daily basis. The processed products are then distributed to the wholesalers and retailers to be sold primarily to urban consumers. Rural consumers purchase raw milk directly from the informal sector. Additionally, imported powdered milk is used by producers to supplement raw milk; imported dairy products such as long-life milk are sold directly to wholesalers and retailers.

Production

The dairy industry is better developed in the south of the country. Of the three Milk Shed Areas (MSAs) in Malawi, around 80 percent of formal milk is produced in the Blantyre milk shed. The Shire Highlands area, a plateau in the south with an area of about 2,800 square miles, is said to be suitable for smallholder dairying with good feed resources, a favorable climate, and a relatively low disease challenge to dairy cattle. The milk collection network is also well developed in this area and it provides farmers with a convenient selling point and thus is a valuable asset.

Twenty MBGs are registered and all are organized through the Southern Highlands Milk Producers Association (SHMPA). Altogether 2,700 smallholder farmers are registered into twenty-one MBG’s. The average MBG delivers around 528 liters of milk per day, resulting in 12,157 liters per day total. Average total milk collection per day in the Blantyre MSA has increased from 9,201 liters per day in 1998 to 12,157 liters per day in 2004. However, individual farmers produce on average about 7 liters per day, while commercial farmers have the potential to produce up to 40 liters per day.

Processing

Two of the five major dairy processing companies, Dairibord and Suncrest Creameries, are located in Blantyre. Apart from the five major companies, smaller scale processing units are active around the major cities.

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177 Ibid.
180 Ibid.
Because local producers can only produce 60 percent of the requirement of the processing industry, the processing companies are forced to import milk powder to meet demand, raising processing costs. Consequently, the utilization rate of the dairy industry is as low as 26 percent, causing severe financial problems for some companies.\textsuperscript{182} The retail milk price is about MK115 – 120 (US$0.84 – 0.87) per liter, while powdered milk is significantly more expensive at MK 848 (US$6.19) per kg. Raw milk sold directly by farmers is much cheaper.

Dairy products from Zimbabwe enter Malawi at very competitive prices because of bilateral free trade agreements. This also causes unfair competition against local producers as processors have to pay a surtax on packing materials whereas importers are exempt from the surtax and are not required to pay duties.\textsuperscript{183} Further, many of the value-added products are imported from South Africa.\textsuperscript{184}

A Dairy Processing Association has been created to increase collaboration among Malawian dairy processors. This association is currently headed by Dairibord.\textsuperscript{185}

**Major Market Player: Dairibord Malawi (Private) Limited**  
Dairibord, established in 1998, is 60 percent owned by Dairiboard Zimbabwe Ltd.; the remaining ownership stake is equally shared between the Malawian Government through the National Investment Fund (20 percent) and by the employees of Dairibord (20 percent). Dairibord manufactures a wide variety of dairy products including short- and long-life liquid milk, fresh cream, powdered milk, cheese, butter, yoghurt, and ice cream. Dairibord has annual revenues of about MK1.2 billion (US$8.8 million) and employs around 160 people. It has 60 – 65 percent of the market share in Malawi and 80 percent of the market share in Blantyre.\textsuperscript{186} Dairibord has the capacity to process 40,000 – 50,000 liters, though only 38 percent of its capacity is currently being used.\textsuperscript{187}

**Opportunity**  
Investment opportunity in the dairy sector is limited. Many of the opportunities suggested included cattle breeding, feed growing and feed production. Technical assistance on artificial insemination may require funding from donors rather than private investors.

**Constraints**  
There was a deficit of approximately 25.6 million liters of milk in 2006. Given the fact that many Malawians cannot afford to buy milk, there is a business opportunity to increase consumer access to high-protein dairy products at a lower price. However, due to numerous constraints, most investment opportunities are for donors (not private sector investors) to improve milk production yields through cattle breeding, feed production, technical assistance (artificial insemination), and increasing access to finance.\textsuperscript{188}

For example, USAID is encouraging smallholder farmers to diversify into dairy production, a very lucrative business in Malawi and well-suited to Malawi's limited land area. USAID grantee Land O' Lakes (LOL), partnering with World Wide Sires (WWS), continues to promote the growth of the dairy

\textsuperscript{182} Imani Development Consultants (June 2004). *Review of the Dairy Industry in Malawi*, (Nairobi: RATES Center).
\textsuperscript{183} Imani Development Consultants (June 2004). *Review of the Dairy Industry in Malawi*, (Nairobi: RATES Center).
\textsuperscript{184} Ibid.
\textsuperscript{185} Edwin Chilundo, Dairibord Malawi (Private) Limited (March 19, 2008). Personal interview.
\textsuperscript{186} Imani Development Consultants (June 2004). *Review of the Dairy Industry in Malawi*, (Nairobi: RATES Center).
\textsuperscript{187} Edwin Chilundo, Dairibord Malawi (Private) Limited (March 19, 2008). Personal interview.
\textsuperscript{188} Imani Development Consultants (June 2004). *Review of the Dairy Industry in Malawi*, (Nairobi: RATES Center).
industry in Malawi through 55 dairy associations with over 6,376 members (46 percent of which are women). 189

Low Productivity and Efficiency
The average milk production per day in Malawi is estimated at 5.7 liters per cow. Smallholder productivity is still very low mainly because of limited knowledge and the lack of critical inputs such as feeds and artificial insemination. Factors that cause low productivity and slow herd growth are: lack of good animal husbandry practices, long calving intervals, lack of good quality feed, and insufficient veterinary, artificial insemination and extension services. 190

Because of the low levels of production, many of the processing companies are operating at about 30 percent of full capacity.

Lack of Cattle
The dairy sector suffers from a limited number of cows. This is partly caused by farmers abandoning investments in cattle due to rampant theft and the high costs associated with livestock maintenance. 191 The Government of Malawi is importing about 5,000 cows annually; the Clinton Hunter Development Initiative is launching a new project to address this issue. 192

Access to Capital
Smallholder dairy farmers are considered risky borrowers. Increasing access to capital can help farmers obtain inputs that increase productivity.

Demand
Despite growing demand, the price of milk continues to be prohibitively expensive for the average Malawian household, making it a luxury consumption item. Moreover, a high percentage of households in Malawi do not have refrigeration facilities to store fresh milk.

4. Tea Industry Analysis

Industry Overview
Malawi was the first country in Africa to grow tea for commercial use. Tea production started in the Mulanje region in the 1880s. 193 Tea is the second most important export crop in Malawi accounting for 7.9 percent of total export earnings. Tea is exported to European, Asian and American markets. 194 In 2006, Malawi exported 43,990 tons of tea, equivalent to US$49.5 million, or around four percent of annual world exports. 195

In terms of crop size, Malawi is the second largest producer of tea in Africa after Kenya, producing medium grade teas.

FAO projects world black tea production to grow at 1.9 percent annually over the next 10 years reaching 3.1 million tons; world green tea production is expected to grow at a faster rate of 4.5 percent annually reaching 1.57 million tons. In terms of consumption, black tea demand is projected to reach 2.8 million tons, indicating an oversupply of about 300,000 tons as strong consumption growth in producing countries is unlikely to offset declines in traditional net import markets.\textsuperscript{196}

Figure 22: World and Malawi Tea Price Trends

\begin{center}
\includegraphics[width=\textwidth]{Figure22.png}
\end{center}

\textit{Source: FAO.}

Since 2006, the oversupply of tea started waning. According to an FAO report, world tea prices were expected to maintain their upward trend in 2008 as a result of tight supply on the world market caused by a projected 10 percent decrease in Kenyan production due to the political instability early in the year.\textsuperscript{197} Tea exports from India, the second largest producer in the world, was reported to have risen about 10 per cent in 2008, due to lower output from Kenya and higher prices. The volume produced in Kenya, on the other hand, rose by about four per cent.\textsuperscript{198}

\subsection*{Production}

Today, large commercial estates account for 93 percent of tea production. The remainder is produced by 6,500 smallholder growers. Most of the estates are based in the districts of Mulanje and Thyolo, with ownership concentrated among 11 companies. Of these the largest is Eastern Produce Malawi (EPM), which owns and operates twenty-one estates. The major shareholder in EPM is the Kenya-based company, Linton Park Plc. The Industrial Development Corporation of South Africa, a development bank, is a minority shareholder.\textsuperscript{199}

Many of the estates work closely with smallholder tea growers providing them with fertilizers and other inputs. The provision of credit by the estates is critical to ensuring consistently high quality yields from growers.

\begin{itemize}
\item \textsuperscript{196} FAO News (February 14, 2008). \textit{Tea prices to maintain upward trend in 2008},
\item \textsuperscript{197} FAO. \textit{Championing the cause of cassava} http://www.fao.org/NEWS/2000/000405-e.htm..
\item \textsuperscript{198} The Hindu (February 09, 2009). "Tea exports rise 10 pc in 2008; output up 4 pc," (New Delhi).
\end{itemize}
Roughly one-third of Malawi’s crop is sold in a local auction—the Limbe Auction—with two-thirds sold directly. A high proportion of the tea is bought by major international companies such as Unilever and Lyons Tetley. The biggest export destinations are the UK and South Africa.

The two major Malawian tea brokers are Tea Brokers Central Africa Ltd. and Tea & Commodity Brokers Ltd. Purchasing tea locally is often difficult given the presence of international companies (e.g. from the UK) that purchase tea in bulk at local auctions.

**Processing**

Malawi’s major tea processing companies are: Chombe Tea (recently purchased by Mulli Brothers), which produces high-quality tea; Rab Processors (which targets rural areas); Mateco; Mygold (a relative newcomer into the market); and Mulli Brothers. International competition includes South African brands such as Five Roses. Foreign companies often purchase tea from Malawi, export it to South Africa, blend and package it, and then import it into Malawi at a premium price.\(^{200}\)

The following are key steps in the production process: 1. Purchase processed tea in paper sacks from the auction or the tea estates; 2. Blend tea manually; and 3. Package tea using machines.\(^{201}\)

**Company Profile: Chombe Tea**

Chombe Tea was established fifty years ago, and is currently entirely owned by Press Corporation, the largest conglomerate in Malawi, with interests in finance and manufacturing, among others. The tea was blended and packed by Tambala Foods, a subsidiary of Press Corporation Limited. In 2004, the latter sold Tambala Foods with all its brands except Chombe Tea. Chombe Tea was maintained as a subsidiary of Press Corporation and currently has 42 employees. In 2007, the company produced about 360 tons of tea and generated about MK150 million (US$1.1 million) in sales.\(^{202}\)

Chombe Tea has three product lines: Export Quality,\(^{203}\) Economy,\(^{204}\) and Leopard.\(^{205}\) It currently has about 65 percent of the total market share in Malawi.\(^{206}\) The company does not own any tea farms and purchases processed tea in auctions (60 – 70 percent) or private sales (30 – 40 percent). Chombe Tea has the capacity to blend 3,000 kilograms daily. The company does not face a capacity constraint even if export quantities substantially increase.\(^{207}\)

Press Corporation had been unsuccessful at attracting a joint venture partner. Consequently, Chombe Tea was recapitalized and Press Corporation injected new funds to enable the purchase of new production machinery and the provisioning of working capital. The company invested in full automation, new corporate branding and packaging for all of its product lines, and the introduction of new product-tagged tea bags.\(^{208}\)

Currently, Chombe Tea sells its products mainly for local consumption. The company views exports as a major area of growth and plans on increasing its exports to contribute 40 percent of total production.

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\(^{200}\) Yvonne M. Chikwiri, Chombe Tea (March 20, 2008). Personal interview.

\(^{201}\) Ibid.

\(^{202}\) Yvonne M. Chikwiri, Chombe Tea (March 20, 2008). Personal interview.

\(^{203}\) Constitutes 70 percent of total company revenues.

\(^{204}\) Constitutes 40 percent of total sales volume.

\(^{205}\) Targets the low income segment.

\(^{206}\) Yvonne M. Chikwiri, Chombe Tea (March 20, 2008). Personal interview.

\(^{207}\) Ibid.

volume. The new market that the company is contemplating exporting to is Zambia (where currently an established tea brand does not exist), South Africa, Mozambique, and possibly Europe.\footnote{Ibid.}

**Opportunity**

Opportunities for investment in the tea sector are limited. MIPA recommends investment in ‘new’ high-yielding clonal varieties to improve quality and productivity as well as in irrigation infrastructure, which can significantly increase yields. However, these investments are more likely to be conducted by donors.

One potential area of investment is the refurbishment of existing tea processing facilities and the construction of new tea processing facilities for export purposes. Opportunities exist particularly in the production and processing of green tea for East Asian markets and other specialty herbal teas.

**Constraints**

**Lack of Value Addition**

Much of the tea produced in Malawi is sold in auctions for export only to be imported back into Malawi in processed form for consumers. Many of the players in the value chain, ranging from smallholder tea growers to estates, are currently not able to take advantage of extensive contribution margins given the lack of value addition.

**Transportation Cost**

Transportation costs related to exporting tea are a major issue for processing companies since Malawi is landlocked and infrastructure is limited. Targeting neighboring countries for export may mitigate this issue.

**Export Issues**

Neighboring countries such as Zambia require tea to be sold on credit, which can cause cash flow issues for commercial enterprises. This is a major sticking point in negotiations between parties and is the reason why Chombe Tea exports to Zambia are currently on hold.

**Access to Finance**

Many of the estates that provide credit to smallholder tea growers achieve high repayment rates (greater than 95 percent), since payment is deducted monthly from green leaf purchases. However, there is an unmet credit demand for the majority of existing smallholder tea growers.\footnote{USAID. (June 2006). *Credit Demand and Supply Study of Malawi’s Tea Sector*, (Washington D.C.: USAID).}

5. **Telecommunications Industry Analysis**

**Industry Overview**

Since 1996, the telecommunications sector in Malawi has experienced dynamic activity with new major players in the mobile, internet and fixed line markets. The monopoly of the government-owned cellular operator Telecom Networks Malawi (TNM) ended in 2001, when Celtel Malawi entered the market. Celtel Malawi is part of the Celtel Group, a pan-African mobile service provider operating in 15 African countries.\footnote{Celtel. www.celtel.com.} Since April 2005, Celtel Group has been a wholly fully owned subsidiary of MTC Group, a Kuwait-based mobile service provider operating in five countries in the Middle East. TNM’s market share is said to be approximately 40 percent, while Celtel controls 60 percent.\footnote{Daniel Makata, TNM (March 27, 2008). Personal interview.} Between these two companies, the number of active connections is less than one million, which is seven percent of the population in Malawi. The Government of Malawi is currently finishing the process of awarding a license to a third

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\footnote{Ibid.}

\footnote{USAID. (June 2006). *Credit Demand and Supply Study of Malawi’s Tea Sector*, (Washington D.C.: USAID).}

\footnote{Celtel. www.celtel.com.}

\footnote{Daniel Makata, TNM (March 27, 2008). Personal interview.}
mobile operator. In 2007, five companies applied for a license, including the South African-based company Econet Wireless and the US-based company Millennium Global Telecom.\textsuperscript{213}

Mobile sales are heavily concentrated in the top-up business (prepaid cards), with a volume of negligible post-paid contracts. This market structure exists because of consumers’ limited income levels: prepaid cards allow more usage control and post-paid contracts are more expensive.

In July 2008, Globally Advanced Integrated Networks (GAIN) was awarded the third mobile phone license. The company intends to roll out its network in May 2009.\textsuperscript{214} Shortly thereafter, MACRA opened bids from six companies for the fourth mobile phone service license.\textsuperscript{215}

Malawi has one service provider of fixed lines: Malawi Telecommunications Ltd. (MTL). In February 2006, the government-owned MTL was privatized and handed over to THL, a consortium comprised of Press Corporation Limited, NICO Holdings Limited, Old Mutual Society, and DetecGmbH.\textsuperscript{216} In 2007, the Malawi Communications Regulatory Authority (MACRA) awarded the second fixed-line license to Access Communications Limited, a consortium of African investors.\textsuperscript{217} In spite of the continuous growth of these two markets, there are growing concerns about their state of maturity.

After ten years of operation, the Internet Service Provider (ISP) market in Malawi is also crowded. There are several companies providing web-hosting, web-mail and wireless services such as Malawi Net, Globe Internet, Skyband Corporation and MTL-Liberty. The bulk of the business is concentrated in the more expensive wireless corporate services segment. Malawi Net and Skyband own 50-60 percent of this market. Individual consumers still mainly use dial-up connections. More than 75 percent of the approximate 40,000 Internet users are located in the urban areas of Blantyre and Lilongwe.\textsuperscript{218} The ISPs have also begun to offer new types of services such as Wi-Fi hotspots around Blantyre, Lilongwe and other major tourist areas. High growth of corporate wireless and broadband services have resulted in bottlenecks given the lack of capital and limited access to bandwidth.

The industry is regulated by MACRA, which was established under the Communications Act of 1998. This legislative and regulatory framework was designed for the liberalization of the telecommunications sector and for enhancing the participation of the private sector.

Like most African countries, Malawi’s telecommunication indicators (access to telephones, internet, mobiles and personal computers) have significantly improved in recent years according to the World Bank and the International Telecommunications Union. Between 2000 and 2005, Malawi increased the number of telephone main line access per 1,000 inhabitants from 4 to 8, internet users per 1,000 inhabitants from 1 to 4 and personal computer users per 1,000 inhabitants from 1 to 2. The number of mobile subscribers per 1,000 inhabitants increased from 4 in 2000 to 33 in 2005, representing an increase of over 600 percent. As a percentage of GDP, total telecommunications sector revenues climbed from 1.7 percent to 4.5 percent in the same period.\textsuperscript{219} However, Malawi’s “telecommunication revolution” is limited in comparison to the rest of Sub-Saharan Africa, with an average of 17 subscribers per 1,000

\textsuperscript{216} The Privatization Commission. http://www.privatisationmalawi.org/.
\textsuperscript{216} Marcel (August 15, 2008). "Malawi names preferred bidder for third mobile licence," \textit{Engineering News Online}, (Johannesburg).
\textsuperscript{216} The Privatization Commission. http://www.privatisationmalawi.org/.
\textsuperscript{218} Ken Thomas, Skyband Corporation (March 26, 2008). Personal interview.
inhabitants with telephone main line access, as well as 125 mobile subscribers and 29 internet subscribers per 1,000 inhabitants. \(^{220}\)

**Opportunity**

The major opportunity in the telecommunications sector stems from the overall growth being experienced in this sector across Africa. Mobile technology allows underserved and rural areas to connect to urban areas with little investment. The focus of the Government of Malawi on rural infrastructure can provide an opportunity for Blantyre-based companies. The rural infrastructure development plan consists partly of the development of “telecenters” — kiosks with an array of basic telecom services such as phone, mobile and internet — run by public-private partnerships.

The private sector has not been a major actor in the development of the telecommunications sector in Malawi. There is a lack of centers to train people in computer and telecommunications skills. Additionally, investments in infrastructure and human capital typically associated with this industry (e.g. local technicians, engineers and programmers) are limited. Blantyre’s urban area may constitute a market large enough for a kiosk-related investment with a range of telecommunications services, but since ISPs do not provide incentives for SMEs, and equipment is expensive, demand is limited.

The arrival of a second fixed line operator can provide an opportunity for better dial-up connections. Further, if access to greater bandwidth is obtained, ISPs can expand new wireless-based services. New market strategies for increasing airtime can also extract more profits from an almost-exhausted market.

Mobile companies and ISPs may also lobby for the reduction of duties and import taxes for handsets, routers and other telecom-related machinery.

**Constraints**

**Market Saturation**

The major constraint for both the mobile and internet markets is market saturation. Diminishing industry growth, increasing technical bottlenecks, and limitations imposed by low incomes are dramatically reducing the room for new investments and market entrants. The cost of entry is very high and newly admitted operators are expected to face entrenched and seasoned competitors.

The rural initiative has been designed and promoted by the Government of Malawi as a development project with the help of the World Bank. A for-profit company may find the rural telecenters an unattractive investment because of costly initial outlays in equipment and risks from unsteady demand. Moreover, technological challenges may emerge when connecting underserved areas with the main telecom infrastructure of the country.

**Difficulty in Increasing Bandwidth**

The difficulty of increasing bandwidth is a major limitation for the scope of services provided by the ISPs to Malawi users. Unreliability of power and the quality of fixed line connections are also technical constraints affecting growth in the sector.

**6. Tourism Industry Analysis**

**Industry Overview**

According to the National Strategy for Sustainable Development (NSSD), the tourism industry worldwide is experiencing high growth and is at its peak in Malawi. \(^{221}\) Tourist attraction areas in Malawi are mostly

\(^{220}\) Ibid.

\(^{221}\) Ibid.
centered around Lake Malawi which has two resort areas, Mangochi, located on the south side of the lake and the Salima area, on the Western Shore. In the Blantyre area, major attractions include Mount Mulanje, Majete National Park, Zomba Mountain, Liwonde National Park, and tea estates in Thyolo.

The Malawi Government Development Strategy (MGDS) has identified the tourism industry as a priority and is assisting in the development of this sector. The tourism industry has the potential to be an employment-generating sector. The tourism industry currently accounts for 7 percent of GNP, and 5 percent of employment. Malawi is an attractive tourist destination; however, it lacks the infrastructure and investment necessary to sustain a critical mass of visitors.

The Government of Malawi is currently strengthening the infrastructure necessary to sustain this industry. Improvements have been seen in road networks, airports, railways, lake transport, and water and energy supply. According to the Government’s Strategic Tourism Development Plan for 2003 – 2008, efforts are also being made to strengthen the facilities of the Ministry of Tourism Parks and Wildlife, with a view to targeting the ecotourism market. Furthermore, the Ministry of Finance in conjunction with the Malawi Tourism Association has identified incentives to attract foreign investments in this sector. These incentives include the construction of hotels and other tax-free opportunities such as duty-free imports of vehicles for tourism.

Another plan aiming to develop tourism in Malawi is the aforementioned NSSD in which tourism is identified as a priority. The objective of the NSSD is to enable Malawi to maximize its potential for tourism development. Projects mentioned in the NSSD include Lake Malawi, national parks, game reserves, mountain plateaus, and urban centers.

Additional strategies to strengthen this sector include the Hotel and Tourism Act, which aims to establish resort-like attractions such as casinos in Blantyre and Lilongwe. Since 50 percent of tourists in the region are on business, hotels that focus on business travelers have proven to be fairly successful in Blantyre. There are five hotels in the city that can provide services at par with international standards and with a capacity to accommodate about 1,000 guests. High-grade hotels such as Malawi Sun Hotel, Protea Hotel and Victoria Hotel, as well as surrounding attractions such as Mulanje Mountains, Shire River, and Zomba villages, among others, have the potential to attract visitors. Successful investments within the tourism industry include the South African-owned Protea Hotel, which has generated positive returns; the Victoria Hotel, Malawi Sun Hotel, and the Cresta Hotel in Lilongwe, which is locally owned.

224 Ibid.
225 Ibid.
226 Ibid.
227 Ibid.
230 Salad Nthenda, Malawi Tourism Association (March 18, 2008). Personal interview.
231 Ibid.
The number of visitors to Malawi has grown significantly over the past decade. In 2006, 683,000 people visited Malawi, compared to only 183,800 in 1996. According to 2006 data for Malawi, 49 percent of visitors were business travelers, 26 percent were tourists, and 25 percent were visiting friends and family members. Of the 683,000 visitors in 2006, 87,000 (or 14 percent) visited Blantyre; about 32 percent of these were business travelers. Despite efforts being made to develop this industry, the current occupancy rate for international quality hotels and lodges remains low, at about 46 percent.

**Opportunity**

Investment opportunity in the tourism sector in Blantyre is limited. Construction of business hotels and a conference facility have been contemplated, though demand seems to be limited.

**Constraints**

**Inconvenient Access**
Blantyre is poorly connected by air. There are no direct flights from Europe or the U.S to Malawi. There are a limited number of flights to Malawi from regional destinations, resulting in high costs and long transit times.

**Poor Infrastructure**
The lack of adequate roads, telecommunications and energy supply makes travel inconvenient for visitors whether on business or vacation.

**Lack of Funding**
The Ministry of Tourism has a very limited budget (about US$300,000 per year). As a result, Malawi is unable to market itself as an attractive tourist destination. Further, Malawi does not enjoy the same reputation as an ideal vacation spot compared with regional competitors like South Africa.

**Lack of Tourism Training and Expertise**
The Malawi Institute of Tourism is situated in the center of Blantyre and trains workers for the hospitality industry. Since the institute’s capacity is very limited, only 300 students can be accommodated per year. Consequently, many of the personnel in the hospitality industry remain untrained.

**Lack of Competitive Advantage over Regional Competition**
There is a scarcity of tourist attractions in Blantyre compared with cities in neighboring countries such as South Africa, Tanzania, and Kenya that are widely known for their wildlife and other attractions.

**Competition from Lilongwe**
Since the President’s official residence was moved from Blantyre to Lilongwe after President Mutharika was elected, many businesses have begun to relocate to Lilongwe in recent years. It is expected that business meetings and international conferences will be increasingly held in Lilongwe, limiting the demand for such facilities in Blantyre.

234 University of Durham (June 2002). *Malawi Private Sector Partnerships, Tourism Sector Value Chain*.
235 Salad Nthenda, Malawi Tourism Association (March 18, 2008). Personal interview.
237 Salad Nthenda, Malawi Tourism Association (March 18, 2008). Personal interview.
Appendix II. Foreign Direct Investment in Malawi

The principal destination for FDI in Malawi is agriculture, most notably tobacco and sugar. According to the World Investment Report 2007, published by the United Nations Conference on Trade and Development (UNCTAD), Malawi had US$30 million of FDI inflow in 2006, compared to US$7 million in 2003. Major sectors of investment other than agriculture include telecommunications, manufacturing, tourism, and mining. The bulk of FDI inflows come from the UK, the US, and South Africa, among others. 238

Figure 23: Largest Affiliates of Foreign Transnational Companies in Malawi, 2004

<table>
<thead>
<tr>
<th>Company</th>
<th>Home Economy</th>
<th>Industry</th>
<th>Sales (US$m)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Industrial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illovo Sugar Malawi</td>
<td>South Africa</td>
<td>Agriculture</td>
<td>98</td>
<td>10594</td>
</tr>
<tr>
<td>Transglobe Produce Exports</td>
<td>Mali</td>
<td>Food products, beverages and tobacco</td>
<td>3</td>
<td>1800</td>
</tr>
<tr>
<td>Vaimore Paints</td>
<td>United Kingdom</td>
<td>Chemicals and chemical products</td>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td>Limbe Leaf Tobacco Company Ltd.</td>
<td>United States</td>
<td>Food products, beverages and tobacco</td>
<td>-</td>
<td>5300</td>
</tr>
<tr>
<td>Mandala</td>
<td>United Kingdom</td>
<td>Chemicals and chemical products</td>
<td>-</td>
<td>2000</td>
</tr>
<tr>
<td>Bata Shoe Company</td>
<td>Canada</td>
<td>Leather and leather products</td>
<td>-</td>
<td>380</td>
</tr>
<tr>
<td>B. Tertiary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFAO Malawi Limited</td>
<td>France</td>
<td>Wholesale trade</td>
<td>2417</td>
<td>300</td>
</tr>
<tr>
<td>Metro Cash &amp; Carry Malawi</td>
<td>Germany</td>
<td>Distributive trade</td>
<td>47</td>
<td>1800</td>
</tr>
<tr>
<td>CELTEL Malawi Limited</td>
<td>Kuwait</td>
<td>Telecommunications</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Gestetner</td>
<td>Japan</td>
<td>Wholesale trade</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Alexander Forbes Malawi Ltd.</td>
<td>South Africa</td>
<td>Other business activities</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Continental Discount House Ltd.</td>
<td>Mauritius</td>
<td>Other business activities</td>
<td>-</td>
<td>22</td>
</tr>
<tr>
<td>The Cold Chain</td>
<td>Zimbabwe</td>
<td>Wholesale trade</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Lipton Tea</td>
<td>United Kingdom</td>
<td>Wholesale trade</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Hertz Corporation</td>
<td>United States</td>
<td>Automotive trade and repair</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Macmillan Malawi Ltd.</td>
<td>Germany</td>
<td>Education</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maersk Malawi Ltd</td>
<td>Denmark</td>
<td>Other services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fortland Malawi</td>
<td>France</td>
<td>Other services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pricewaterhousecoopers</td>
<td>United States</td>
<td>Other services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sara Lee Corporation</td>
<td>United States</td>
<td>Construction</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Xerographics</td>
<td>United States</td>
<td>Wholesale trade</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C. Finance and Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>South Africa</td>
<td>Finance</td>
<td>161</td>
<td>763</td>
</tr>
<tr>
<td>AON Malawi Ltd</td>
<td>United States</td>
<td>Insurance</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>


239 2002 data.
240 Estimate.
241 2003 data.
242 2000 data.
FDI incentives available in Malawi include the following:\textsuperscript{243}

**General Incentives**
- Allowances of up to 40 percent for used buildings and machinery;
- 100 percent investment allowance on qualifying expenditure for new building and machinery;
- 50 percent allowance for qualifying training costs;
- Allowance for manufacturing companies to deduct all operating expenses incurred up to 25 months prior to the start of operations;
- Zero duty on raw materials used in manufacturing;
- Tax losses carry forward of up to seven years, enabling companies to take advantage of allowances;
- Additional 15 percent allowance for investment in designated areas of the country;
- Duty-free importation of buses with a seating capacity of 45 persons (including the driver) and above;
- Duty-free direct importation of building materials for factories and warehouses;
- Duty-free direct importation of goods used in the tourism industry, which includes building materials, catering and related equipment, and water sport equipment;
- Free repatriation of dividends, profits, and royalties.

**Incentives for establishing operations in an Export Processing Zone (EPZ)**
- Zero corporate tax rate;
- No withholding tax on dividends;
- No duty on capital equipment and raw materials;
- No excise tax on the purchases of raw materials and packaging materials made in Malawi;
- No value added tax.

**Incentives for manufacturing in bond:**
- Export allowance of 12 percent revenue for non-traditional exports;
- Transport tax allowance equal to 25 percent of international transport costs, excluding traditional exports;
- No duties on imports of capital equipment used in the manufacture of exports;
- No surtaxes;
- No excise tax or duty on the purchase of raw materials and packaging materials;
- A timely refund of all duties (duty drawback) on imports of raw materials and packaging materials used in the production of exports.

Appendix III. Investment Climate/ Opportunities/ Constraints

Investment Climate
According to the World Bank’s “Doing Business” report for 2008, Malawi is ranked 127th out of 178 economies in ease of doing business, based on quantitative indicators analyzing business regulations (starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business) and the protection of property rights.244

Figure 24: Malawi’s “Doing Business” Report Ranking, 2008

<table>
<thead>
<tr>
<th>Doing Business 2008</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>108</td>
</tr>
<tr>
<td>Dealing with Licenses</td>
<td>117</td>
</tr>
<tr>
<td>Employing Workers</td>
<td>90</td>
</tr>
<tr>
<td>Registering Property</td>
<td>87</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>84</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>64</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>78</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>161</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>135</td>
</tr>
<tr>
<td>Closing Businesses</td>
<td>135</td>
</tr>
</tbody>
</table>


Opportunities
Political Stability
Malawi has been relatively politically stable since its independence in 1964. There has been minimal violence during election and campaign periods. The presidential and legislative elections scheduled for 2009 are expected to be very closely contested by the three main parties: the DPP, the United Democratic Front (UDF) and the Malawi Congress Party (MCP).245

Liberalized Economy
The Government encourages both domestic and foreign investors to establish and own business enterprises in most sectors of the economy. Public enterprises compete equally with private entities with respect to market access, credit and other business operations.246 To facilitate investment activities in Malawi, MIPA was established in 1994 to oversee and facilitate investment processes for investors.

Bilateral, regional and multilateral trade and investments agreements
Malawi has the following multilateral and regional trade agreements:247

- **Common Market for Eastern and Southern Africa (COMESA):** COMESA has a potential market of 340 million people and a combined GDP of US$170 billion. The nineteen member states within COMESA took steps to consolidate the Free Trade Area in preparation for the transition of the COMESA Free Trade Area into a Customs Union that came into force in December 2008.

- **Southern African Development Community (SADC):** The SADC region has a potential market of 199 million people and a combined GDP of US$176 billion. Under SADC, Malawi is committed to

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246 Ibid.
reducing tariffs on intra-SADC trade progressively. Following the 28th SADC Summit in Johannesburg in August 2008, eleven of the 14 member states of SADC launched a Free Trade Area.

- **African Growth and Opportunities Act (AGOA):** AGOA offers duty and quota-free access to the US market of 303 million people for 1,835 products, in addition to the standard GSP program.\textsuperscript{248}

- **Cotonou Agreement/Everything But Arms (EBA):** This initiative extends duty and quota-free access to the European Union market for all imports from Least Developed Countries, except arms. Minor variations apply to bananas, sugar and rice. Full liberalization will take place for these commodities in 2009.

In addition, bilateral trade agreements exist with South Africa, Zimbabwe, and Mozambique, and a customs agreement is in place with Botswana. Further trade agreements are currently under consideration with Zambia and Tanzania.\textsuperscript{249}

The UK, the Netherlands, Denmark, South Africa, Norway, Sweden and Switzerland still maintain double taxation treaties with Malawi.\textsuperscript{250}

**FDI Incentives**

Tax incentives in Malawi are enshrined in the main tax legislations that include the Customs and Excise Act, the Income Tax Act and the Export Processing Zones (EPZ) Act that came into force in 1995. All companies engaged exclusively in manufacturing for export may apply for EPZ status. As of December 2006, sixteen firms were operating under the EPZ scheme. Almost all of these companies are foreign owned. A manufacturing under bond (MUB) scheme offers slightly less attractive incentives to companies that export some, but not all, of their products.\textsuperscript{251}

**Dispute Settlement**

Malawi is a member of the International Center for Settlement of Investment Disputes (ICSID), and accepts binding international arbitration of investment disputes between foreign investors and the state if specified in a written contract.

**Constraints**

- **Landlocked: Limited Port Access & High Transportation Costs**
  Malawi's landlocked position results in high transport costs that constitute over 30 percent of the country's total import bill and result in a serious impediment to trade.\textsuperscript{252} The shortest, cheapest trade routes are to the Mozambican ports of Nacala and Beira. Malawi's domestic road network is also inadequate, described by the World Bank in 2007 as 50 percent good, 30 percent fair and 20 percent poor.\textsuperscript{253}

- **Poor Power & Water Infrastructure**
  The reliability of electricity supply in Malawi is poor. In 2004, the average company suffered power disruption for 50 days, compared to 48 days in Tanzania and 15 days in Zambia.\textsuperscript{254}

\textsuperscript{252} US & Foreign Commercial Service and Department of State (December 2005). *Country Commercial Guide: Malawi*.
High Interest Rates
Both nominal and real interest rates are among the highest in Africa. According to the IMF, the 2009 projected lending rate is 25.0%, compared to 13.5% in South Africa. The real cost of finance is a major obstacle for firms in Malawi.255

High Input and Production Costs
Because Malawi is heavily dependent on imports, the cost of inputs is expensive, as they frequently have to be brought in from other countries.

Low-skilled Workforce
According to the 2007-2008 Human Development Report published by the UN Development Program (UNDP), adult literacy was 64.1 percent in 2005.256 Malawi’s overall ranking in the Human Development Report was 164th out of 177 countries.257 Skilled and semi-skilled labor is scarce in Malawi.

Limited Access to Capital and Technology
With less than 70 bank branches and only 24 ATMs in a country of about 12 million people, access to banking services remains low. The use of bank cards and telephone and internet banking, though growing, remains below the level observed in other emerging economies. Also, the microfinance industry in Malawi is relatively underdeveloped, with only 20 registered actors and six providing financial services as their core activity.258

Limited Domestic Market Size
Malawi’s economy is relatively small with a GDP of US$2.172 billion in 2006. Weak purchasing power enabled by low incomes result in limited domestic demand.259

Meeting International Standards
MBS is the national government body charged with the responsibility of setting, reviewing, monitoring, and implementing grades and standards. However, many of these are out of date and need to be updated to reflect changes in international standards. Capacity strengthening of the MBS, in line with private sector requirements for specific testing capabilities, would substantially mitigate current export constraints.260

Corruption
Malawi, with a score of 2.7 out of 10 (where 10 is considered “free from corruption”) was ranked 118th out of 180 countries in the 2007 Transparency International Corruption Perceptions Index.261 The new president Bingu wa Mutharika, has made the fight against corruption his priority. Since then, several senior ruling party officials and three former cabinet ministers have been charged on corruption offenses.262

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256 Malawi’s overall Human Development Index ranked 164 out of 177.
262 The former Minister of Education is serving a five year prison sentence and the other cases are still pending in court.
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