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CONCEPT NOTE

**MALAWI AGRIBUSINESS SUPPLIER DEVELOPMENT PROGRAMME**

*Linking Smallholder Farmers to Agro-Processing Companies*

**Ministry of Industry and Trade**

**P.O. Box 30366**

**LILONGWE 3**

**November, 2015**

Lead Agency**:**

Ministry of Industry and Trade (MoIT)

Counterpart Institutions:

Ministry of Agriculture, Irrigation and Water Development (MoAIWD)

Business and Farmers’ Organizations (Implementers)

Technical Support

United Nations Development Programme (UNDP)

TIP SWAp Secretariat

Target Groups:

Smallholder Farmers, SMEs and Companies in the Agro-Processing Sector in Malawi

Duration:

2016 – 2021

# Introduction

This proposal for an Agribusiness Supplier Development Programme (ASDP) is developed by the Malawi Government through the Ministry of Industry and Trade (MoIT) with the support of the United Nations Development Programme (UNDP) and with participation of the Ministry of Agriculture, Irrigation and Water Development, the private sector, farmer organizations and universities/research institutions. The purpose of the programme is to support the development of agribusiness supply chains by linking smallholder farmers to agro-processing companies, the off-takers for primary agricultural products. The programme is initially planned to be implemented over a period of 5 years, from 2016 to 2021.

There are a number of reasons why this Programme represents a strategic investment for Malawi. First, Malawi is a small agro-based economy in which agriculture contributes to 40 per cent of the Gross Domestic Product, about 80 per cent of foreign exchange earnings and about 80 per cent of employment. Value addition through agro-processing and other value chain activities is still in its infancy owing to a number of reasons and challenges. For example, smallholder farmers in Malawi face challenges in accessing and using modern and sustainable farming methods and technologies, finance and markets. The processing industry is characterized by inadequate and poor quality raw materials supplied by the smallholder farmers. Functioning agribusiness supply linkages are few and far between, too weak to transform Malawi’s agriculture into a vibrant agribusiness sector. The proposed agribusiness supplier development programme has strategic potential to turn things around for the betterment of the agribusiness sector of Malawi.

Second, Malawi is among the poorest countries in Africa with a per capita gross domestic product (GDP) of US$253 per annum in 2014 according to the World Bank and ranks as one of the least developed countries in the world according to the human development index (HDI). Malawi’s position in the HDI is ranked 174th out of 187 countries according to UNDP Human Development Report 2014, and this relative position has barely changed over the past fifty years. Malawi is also one of a set of poor countries in Africa that have been especially prone to episodes of food insecurity over the past two decades, according to national vulnerability assessment by the Malawi Vulnerability Assessment Committee. The extreme poverty in Malawi is overwhelmingly rural in character, feminized in nature and subsistence agriculture in association. A most recent national Integrated Household Survey conducted in 2010-11 (IHS3) by the National Statistical Office estimates urban poverty to be 25.4 per cent against rural poverty at 55.9 per cent. About 63 percent of rural people in female-headed households are poor compared to 55 per cent of rural people in male-headed households. Considering that over 80 per cent of the population in Malawi lives in rural areas and composes livelihoods from farm related incomes, improving rural incomes through the proposed Agribusiness Supplier Development Programme has great potential for reducing poverty in Malawi.

Thirdly, a Malawi ASDP will be well aligned with the National Export Strategy (NES, 2013 - 2018) of the Government of Malawi. The NES has been developed with the aim of supporting the development of national productive capacity for exports in order to reverse that situation where imports far surpass exports. The NES has four priority areas for strategic action. Priority area number one relates to support to three clusters that have been identified as holding great potential to contribute to export diversification. Tobacco, as traditional export for Malawi, is faced with many local and international challenges leading to its diminishing role of key foreign exchange earner for Malawi. One of the clusters involves Oil Seed Products (cooking oil, soaps, lubricants, paints, varnishes, meals and flours, bio-fuel, animal feed, fertilizer, snacks and confectionery) derived from sunflower, groundnuts, soya and cotton. The other two clusters are Sugar Cane Products and Manufactures. The other three priority areas are developing an environment conducive to economic competitiveness and economic empowerment of youth, women, farmers and MSMEs; investment in supportive economic institutions and organizations by improving communication through ongoing dialogue and devoting high-level attention to develop agencies that are central to the development of Malawi’s productive base and export competitiveness; and Competencies, Skills and Knowledge to be achieved through significant investment in competencies, skills and knowledge because these are the foundation of Malawi’s productive base and its export capacity. The NES is crucial in achieving the development goals of Malawi, and well aligned to the UN SDGs. This Agribusiness Supplier Development Programme is coming at the opportune time to support the implementation and realization of the NES objectives.

# Programme context

This programme falls within the context of the UNDP Private Sector Development (PSD) Project on an Agri-Business Supplier Development Programme (ASDP). An ASDP is defined as “a programme that intends to improve the productivity of smallholder farmers and SME agribusiness suppliers by facilitating support (training, advice, access to inputs, organization, standardization etc.) and linking up with lead firms.” An Agribusiness Supplier Development Programme (ASDP) is aimed at linking smallholders to markets; it is a market led initiative. It should also trigger a sustainable partnership between smallholder farmers, off-takers, government and development partners. Stakeholders need to understand the challenges of smallholders and off takers alike, and find ways to overcome the challenges. Off takers for primary agricultural products can be commodity exchanges, manufacturers / agro-processors, fresh produce markets, retailers, hospitality businesses and even government and development organisations. In the case of Malawi the main focus is on manufacturers / agro-processors. An ASDP intends to identify key commodities and work through the supply chain to create business opportunities and jobs in the country, fostering income generation and increase of revenue. It can play a facilitating role in the provision of tailored information systems, knowledge dissemination, capacity building and organization of services. It is important that the process is gender sensitive and environmentally and socially sustainable, and that the right government policies and incentives are in place. Ideally a working group dedicated to Supply Chain Development shall be created, with members from stakeholder sectors and led by the relevant Ministry.

UNDP, with its Africa Facility for Inclusive Markets (AFIM), aims at supporting inclusive growth through Inclusive Market Development (IMD). IMD focuses on developing private sector markets to make them more inclusive of and beneficial to low income groups as producers, consumers and employees. Specifically, IMD seeks to empower small enterprises, producers and distributors to participate in and benefit from the existing potential markets in which they do business.

The Malawi ASDP is being developed under the leadership of the Ministry of Industry and Trade, cooperating with the Ministry of Agriculture and relevant representatives from the private and agriculture sectors as well as UNDP Malawi. An institutional framework of key ASDP actors will be identified and developed to implement and manage this programme under the coordination of Ministry of Industry and Trade with the Department of Industry as its secretariat.

# The ASDP proposal development process

The development of this proposal follows a two day stakeholders training that took place on May 26 and 27, 2015 under the leadership of the Ministry of Industry and Trade and UNDP. The training was held at Crossroads Hotel in Lilongwe, with active participation of over 50 attendees from a cross-section of stakeholders ranging from the private sector, business organisations, farmers associations, mainstream ministries and civil society. The training was facilitated by experts in UNDP’s Africa Facility for Inclusive Markets (AFIM), part of the UNDP Regional Service Centre for Africa. The overall objective of the training workshop was to support Government Partners to develop and establish a “National Agribusiness Supplier Development Programme” for Malawi.

The participants got introduced to the African Agribusiness Supplier Development Programme (AASDP) Toolkit, and worked through the phases which are instrumental in developing an ASDP:

It is to be noted that the feasibility of the envisaged ASDP was asserted through the training workshop.

Many issues were covered during the training but three require special attention here because of direct input into this proposal.

Firstly, the training workshop identified and discussed oilseeds as priority focus for the Malawi ASDP with particular focus on Cotton, Groundnuts, Sunflower and Soya. The development of the oilseed sector is a priority for the Government of Malawi (GoM), which is manifested in the National Export Strategy, implemented by the Ministry of Industry and Trade and Ministry of Agriculture, Irrigation and Water Development, and supported through the Oilseeds Technical Working Group under the Trade, Industry and Private Sector Development Sector Wide Approach (TIP SWAp). Due to the large number of smallholder farmers involved in the production of oilseeds, the impact of an oilseed focussed ASDP will be far reaching. And although oilseeds are grown in many countries, the market for products derived from oilseeds (oils, margarines, cosmetics, groundnut flour, soy meat and more) is growing in and outside of Malawi, with a growing population in the region and higher disposable incomes in most countries. Malawi has a number of established companies that are engaged in the processing of oilseeds, the challenge is the low supply of raw materials by local smallholder farmers and the weak link between the primary producers and the processors, a challenge that can be addressed through the ASDP.

Although in the future other product groups might be added, in the first phase the ASDP will therefore concentrate on oilseeds.

Secondly, the participants identified a number of constraints and opportunities (referring to participation in an ASDP) facing role players in the oil seeds industry, and proposed areas of strategic action.

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| --- | --- | --- | --- | --- |
|  | **Smallholder Farmers** | **Off Takers** | **SMEs (upcoming Off Takers)** | **Government** |
| **Challenges** | Lack of quality certified seeds.Poor extension services.Inadequate agricultural and post-harvest management practices.High production and transport costs.Low profitability.Poor organization.Small quantities, no aggregation.Lack of market access, dependence on middlemen.Lack of information.Child labour issues. | Low quality and insufficient, inconsistent quantities of supplies.Lack of market information.Prohibitively difficult access to finance. | Lack of market access.Prohibitively difficult access to finance.Poor infrastructure and services in the country.Lack of cooperation.Lack of business skills. | Low income through rates, taxes and foreign capital inflow.High unemployment.Slow pace of economic development. |
| **Opportunities** | Market Access.Access to information.Knowledge sharing. | Improved supplies of inputs.Government Support.Promotion of Value Chains. | Access to training.Access to financial institutions.Access to (export) markets.Linkages to other stakeholders.Quality improvement.Enhanced competitiveness. | Accelerated economic growth.Job creation.The country being more competitive and attractive to investors. |
| **Areas for Action** | Research and development of seed varieties, supply of adequate amounts to farmers. Organizing producers and facilitating linkages to off-takers.Promotion of better agricultural and post-harvest practices through better extension services.Identifying existing and/or setting up new storage systems, depots and market centres.Intensifying use of commodity exchanges.Provision of tax incentives. |

The Malawi ASDP will focus on the organization of farmers and their linkage to off-takers, and on the development of a warehouse system, which includes the identification and use of existing storage facilities owned by the Government of Malawi and the private sector. With that it will effectively tackle key challenges in the agriculture and agri-business sectors in Malawi and complement efforts by the Ministry of Agriculture, Irrigation and Water Development to develop the farming sector in the country, and by the Ministry of Industry and Trade to further develop the agro-processing sector (incl. SMEs).

Thirdly, the workshop set up a Task Force under the secretariat-ship of the Department of Industry in the Ministry of Industry and Trade and with technical assistance from UNDP to facilitate the development of a Concept Note for a Malawi ASDP. The Concept Note will then be used to approach development partners for resource mobilization, with the view of having a programme in place by first quarter of 2016. Members of the Task Force are: Ministry of Industry and Trade (Mr Chisale, Mrs Sauzande); Cotton Council of Malawi (Mr Patrick Khembo), Farmers Union of Malawi (Mrs Maggie Mzungu), MCCCI (Mr Maurice Banda), Rab Processors (Mr Innocent Manda), and LUANAR – Bunda College (Dr Dyton Maliro).

# Background on oil seeds in Malawi

The ASDP for Malawi will initially focus on Soya, Cotton, Sunflower and Groundnuts as discussed above.

**Soya** has been identified by the Government of Malawi as one of the priority crops in the National Export Strategy. It can be used as a highly nutritional food supplement, as animal feed and as an export product. The objectives in engaging in soya production and value addition are to increase yields, enhance quality of the crop, improve the nutrition status of the population, as well as job creation and improved livelihoods through higher incomes. Soya products could also contribute to the development of the economy of Malawi through export. Some of the activities that are important to the soya sector include the facilitation of market linkages and market financing, the development of supply chains, policy development as well as capacity building (training), extension services and information accessibility.

**Cotton** is a significant smallholder farmer cash crop in Malawi, grown by some 200 000 – 300 000 farmers. It is ranked fourth in terms of export crops after tobacco, sugar and tea. Cotton has a long value chain that can be explored. Malawi has an installed ginning capacity of 250,000 tons which can easily be doubled by increasing the number of working shifts against production levels of 15-70000 tons over the years. The country is also importing huge amounts of cooking oil from Southern America. This can quickly be substituted with cotton seed oil if only production of the crop can be increased through yield improvement and land expansion. The government has set up a Cotton Council of Malawi to lead in the development of the cotton sector. The Cotton Council has developed a strategic plan aimed at developing a vibrant industry but is faced with financial constraints in implementing. To develop the cotton sector further, farmers need access to production finance and inputs (seeds, chemicals). Farmers need to organize themselves in associations. This in turn demands capacity building through training and extension services.

**Sunflower** is one of the crops identified by the Government of Malawi as strategic in the National Export Strategy. Its benefits are in food security and livestock feed, import substitution, and poverty reduction and employment creation. The purpose of its inclusion in the recommended strategic framework is to improve competitiveness of value chain players in the Sunflower industry. Objectives are the improvement of sunflower production and beneficiation in Malawi, as well as to enhance linkages between smallholder farmers, off takers and service providers in the sunflower sector. Activities include the provision of sufficient good quality seeds, the promotion of good agricultural practices as well as sensitization of farmers regarding sunflower. The sunflower sector requires an entrepreneurship development programme that should foster more commercialized sunflower production and value addition in the country, accompanied by technical trainings and assistance with machinery and other inputs.

Similarly, **groundnut** is another strategic crop in Malawi regarding food security /nutrition, job creation and export potential. Female farmers particularly prefer groundnuts because it is low input crop and it serves multiple uses (cash, seasoning – nsinjiro or relish). Government vision for the groundnut sector is to commercialize it, enhance value addition, increase productivity and farmer incomes, promote export competitiveness and increase nutritional value. Some of the activities for promoting the groundnut sector include good agricultural practices to increase yields; support towards aflatoxin management and better post-harvest techniques; creation of market linkages between smallholder farmers and processors (off-takers); and enhancement of processing capacity of off -takers and smaller processors (SMEs).

Clearly, the four oil seeds are strategic for Malawi. Their demand by far outweighs production thereby providing opportunity for further support through the ASDP.

# Programme summary

* 1. **Objectives of the Programme**

The Agribusiness Supplier Development Programme (ASDP) is aimed at linking smallholders to markets; it is a market led initiative. It is expected that the programme will trigger a sustainable partnership between smallholder farmers and off-takers, with the initial assistance of government and development partners. This partnership should become sustainable in future, without requiring outside support. Specific objectives are:

1. To improve the country’s reliable supply of agricultural primary and processed products by farmers, SMEs and larger companies meeting quantity requirements, market quality standards, with quicker delivery times, reduced transportation and reduced inventory costs.
2. To secure and offer off-takers an efficient and high quality local agricultural products supply, enabling the companies to increase production for local consumption and export.
3. To contribute to development of the national economy through attracting local investors as well as Foreign Direct Investments (FDI), increased government income through taxation, and an improved trade balance, by developing products along the agriculture value chains that can substitute imports and can access export markets; and
4. To contribute to sustainable development goals, especially food security, poverty reduction and gender equality, through job creation and income generation.
	1. **Expected Outcomes & Outputs**

Outcomes

Economic Growth and development are inclusive and sustainable, incorporating productive capacities that create business opportunities and employment for the poor and excluded.

**Output 1**

* Improved, reliable supply of good quality agricultural products by Malawian Farmers to off-takers in the country.

**Indicator**

* Quantities of locally sourced agricultural products vis à vis imported agricultural products
* Number of off-takers sourcing inputs locally

**Output 2**

* Smallholder Farmers in Malawi increase their production of market relevant crops, oilseeds in particular, and sell to off-takers in the country.

**Indicators**

* Quantities produced and sold to off-takers
* Hectares under production
* Number of aggregation points (warehouses, silos)

**Output 3**

* Increased incomes and jobs for smallholder farmers, women and youths in particular

**Indicators**

* Number of smallholder farmers, women and youths in particular, with increased incomes through sales of agricultural products
* Quantification of increases in %
* Number of new ‘agro-entrepreneurs’ in the country
* Number of new jobs (permanent/seasonal), in particular for women, youths, people with disabilities and other disadvantaged groups

These would tally well with other expected direct or indirect benefits from the ASDP, e.g. improved farming and post-harvesting practices, improved food security and resilience, improved value addition and competitiveness of processed products in the country, reduced import bills and increased export values, and increased foreign direct investments.

* 1. **Beneficiaries and Key Players of the Programme**

The primary target beneficiaries of the programme are small-scale farmers, farmer organizations and SMEs. The second level beneficiaries are off-takers (especially agro-processors, but to a lesser extent also institutional buyers) while indirect third level beneficiaries are other actors in the agricultural supply chains and these include input suppliers and financial institutions.

Key players in the ASDP are: (1) Smallholder Farmers, who provide the primary products; (2) Off Takers, who buy these products, add value and sell to domestic or international markets, and assist the smallholder farmers to build their capacity; (3) Government, especially the Ministry of Industry and Trade and the Ministry of Agriculture, who need to create enabling conditions and provide guidance on priority areas; (4) Service providers, for example banks and research institutions, providing quality services, access to finance and research innovations; (5) Implementing partners, who implement the ASDP, monitor interventions, innovate linkages, build networks and share lessons; and (6) The United Nations Development Programme (UNDP) as a facilitator of the process. It needs to be emphasized that the most important goal is to link smallholder farmers with off-takers (lead firms) for mutual benefit. Off Takers are the key to a successful ASDP.

* 1. **Proposed Interventions**

The proposed interventions are grouped in 3 phases:

1. Project Preparation Phase
2. Project Implementation Phase
3. Project Exit Phase
4. Project Preparation Phase

In this phase the key role players – Ministry of Industry and Trade, Ministry of Agriculture, Irrigation and Water Development, Farmers and Business Organisations, with technical support from UNDP – will work on the following:

1. Sensitization and Mobilization of Smallholder Farmers
2. Sensitization and Mobilization of Off-Takers
3. Identify available warehouses/silos/storage facilities in the districts
4. Ensure the readiness of the host institution in terms of capacity
5. Train pool of local consultants in supply chain development
6. Develop implementation plan including exit strategy
7. Project Implementation Phase

In Phase 2 the implementation of the programme starts in earnest, starting with 2 pilot districts before being rolled out to the rest of the country. The districts will be chosen according to the number of oilseed farmers willing to participate in the ASDP.

1. Define and sign partnership agreements with the identified off-takers
2. Supply chain diagnostic with each of the identified off-takers
3. Supply chain planning with each of the identified off-takers
4. Supply chain plan implementation with each of the identified off-takers
* Organization of and capacity building for smallholder farmers
* Increase of storage capacity
* Production and aggregation of primary agricultural products, supply to off-takers
1. Monitoring & Evaluation of progress
2. Planning for next cycle & expansion to other districts

This is a continuous effort, which will last until the end of the programme (2021).

1. Project Exit Phase

Starts 2020, one year before the end of the programme.

1. Evaluation of progress of the programme
2. Reviewing exit strategy
3. Phasing out financial support

**Timelines and Budget**

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| --- | --- | --- | --- | --- |
| Activity  | Estimated Budget (USD) | Source of Funds | Timelines | Responsible |
| Train pool of local consultants in supply chain development | 10000 | tbd | February to April 2016 | **MoI**T**MoAIWD; Business and Farmers Organizations**  |
| Sensitization and Mobilization of Smallholder Farmers | 10000 | tbd | February to April 2016 | MoIT; **MoAIWD**; Business and **Farmers Organizations** |
| Sensitization and Mobilization of Off-Takers; development of partnership agreements | 10000 | tbd | February to April 2016 | **MoIT**; MoAIWD; **Business** and Farmers **Organizations** |
| Identify available warehouses/silos/storage facilities in the districts | 10000 | tbd | February to April 2016 | **MoIT**; MoAIWD; **Business and Farmers Organizations** |
| Supply Chain Diagnostics | 15000 | tbd | May to July 2016 | **MoIT**; MoAIWD; Business and Farmers Organizations |
| Supply Development Planning  | 5000 | tbd | July to August 2016 | **MoIT**; **MoAIWD;** **Business and Farmers Organizations** |
| Implementation in Pilot Districts | 400000 | tbd | September 2016 – July 2017 | MoIT; MoAIWD; **Business and Farmers Organizations** |
| Evaluation, documentation and dissemination of lessons learned. | 5,000 | tbd | July - August 2017  | **MoIT**; MoAIWD; Business and Farmers Organizations |
| Planning for next cycle and expansion to other districts | 5000 | tbd | August – September 2017 | **MoIT**; **MoAIWD; Business and Farmers Organizations** |
| Expansion of Implementation in other districts | 2000000 | tbd | September 2017 – December 2021 | MoIT; MoAIWD; **Business and Farmers Organizations** |
| Develop and Implement Exit Strategy | 5000 | tbd | January – December 2021 | **MoIT**; MoAIWD; Business and Farmers Organizations |
| TOTAL | **2,475,000** | tbd |  |  |

It is worth to note that in most phases cooperation with the District Authorities is important due to the nature of the programme – producers and off-takers are operating in the districts.

**UNDP** will accompany the programme with technical assistance through all phases.

* 1. **Management**

The Lead Institution will be the Ministry of Industry and Trade, through the Dept. of Industry.

Partner Institutions will be the Ministry of Agriculture, Irrigation and Water Development, Farmers Associations and Business Organisations.

Implementation of the programme will be spearheaded by the Farmers Associations and Business Organisations of Malawi.

Potential funds will be administered through the UNDP system, to ensure transparency and accountability and to build donor confidence.

As a private sector driven initiative, but needing strong policy and implementation support from government, the ASDP must be implemented in a way that allows freedom to operate in what is a fairly fast paced environment while operating with the necessary checks and balances acceptable to its stakeholders. The best compromise would be to host it under the Trade, Industry and Private Sector Development Sector Wide Approach (TIP SWAp).

A Steering Committee, comprising of the Ministry of Industry and Trade, the Ministry of Agriculture, Irrigation and Water Development, UNDP, LUANAR, and representatives of potential funders and the farming and business sectors, will oversee the implementation of the Malawi ASDP.

The Project Management Team manages the implementation of the Malawi ASDP, reporting to the Steering Committee. It includes representatives of the MoIT, MoAIWD, UNDP and the TIP SWAp Secretariat.

The Implementing Team is responsible for the implementation of the Malawi ASDP in the districts, working directly with off-takers and smallholder farmers. It consists of representatives of the main farmers – and business organizations in the country: FUM (Farmers Union of Malawi), NASFAM (National Smallholder Farmers' Association of Malawi); MCCCI (Malawi Confederation of Chambers of Commerce and Industry), NASME (National Association of Small and Medium Enterprises), Manufacturers Association of Malawi. Reports to the Project Management Team and Steering Committee.

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