



SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.



On behalf of
Federal Republic of Germany
The Federal Government

A CASE STUDY ON RAB PROCESSORS LTD

FEBRUARY 2013

FIRM OVERVIEW

Name	Rab Processors Ltd
Nationality	Malawi
Sector	Agro Industry
SADC countries where doing business	Malawi, Botswana, Mozambique, South Africa, Zambia, Zimbabwe and the Democratic Republic of the Congo

BACKGROUND

Rab Processors is a leading player in the agriculture industry in Malawi and specialises in value addition and trading of locally grown produce. "We provide farm inputs and household goods nationwide to smallholder farmers through our network of Kulima Gold Depots and we provide a vital market to farmers selling their produce. Rab Processors Ltd is a pioneer of nutritional, fortified food products in Malawi."

Rab Processors Ltd. is the umbrella company for 8 brands of products including unprocessed and processed agricultural commodities and non-food household items. Its agro-processed commodities include milk powder, tea bags, peanut butter, nutritional supplement goods and salt. Its locally-grown non-processed food products focus on goods such as maize, groundnuts, rice and various types of beans of which 15% are for the export market. Furthermore, as a key regional supplier of basic non-food household and agricultural items, Rab Processors provide goods such as fertiliser and bicycles.

BARRIERS ENCOUNTERED

- **Exchange rate policy:** Malawi had a managed fixed exchange rate policy that maintained a fixed peg against the US dollar, which unrealistically increased demand for forex leading to severe shortages and affecting the ability of companies to import. This shortage of forex was the most prominent barrier for commercial businesses in Malawi in early 2012.
- **Standards and quality assurance:** The quality standards necessary for sales in the domestic market are currently quite low because the Malawi Bureau of Standards (MBS) is underfunded and does not have the technical capacity to do all of the testing required to meet regional and international standards.
- **Government rules and regulations:** To export goods from Malawi, an export permit is required that lasts three months, which administratively should take around two weeks to process. However, there can be significant delays of up to two and a half months for processing of a permit application as a result of increasing levels of bureaucracy. The length of time that the export permit is valid for has in some instances been reduced to two months.
- **Border control:** Rab Processors noted that one of the barriers it faces at the border is the lack of consistency in the implementation of customs procedures.
- **Access to skills:** A key problem faced by Rab Processors is that skilled labourers leave the country once they have the right skills mix or move to work for NGOs or development organisations. The private sector finds it difficult to compete with the salaries offered by the development sector in Malawi and this has distorted the local labour market.

IMPACT OF BARRIERS

- **Exchange rate policy:** Companies, who abide by lawful methods to access forex, face severe shortages of inputs and supplies and are losing market share. Early in 2012 Rab Processors faced a 50% decrease in imported inputs which lead to decreased production in Malawi. The forex shortages resulted in the emergence of parallel foreign exchange markets, leading to increases in the price of inputs adding to an inflation spiral, decreased purchasing power and further depressed demand.
- **Standards and quality assurance:** The Malawi Bureau of Standards (MBS) lacks capacity for comprehensive quality testing and this creates an environment for standards to be abused by manufacturers. As a result, the local market is often cheated out of good quality produce, for example the weight of the contents does not match the weight stated on the packaging for some biscuits sold on the domestic market. On occasion there has been confusion within the MBS about certain products. For example, at one stage Rab Processors was being penalised for not following the set quality standards for sea salt imports in relation to its imported rock salt, which the MBS did not recognise as being a different product.
- **Government rules and regulations:** The difficulties associated with obtaining export licenses put a strain on company resources and impact on Rab Processor's ability to export the goods that have been ordered within the required window.
- **Border control:** Random application of customs duties at borders causes confusion for importers. For example Rab Processors were told at the border that they needed to pay a 20% tax on cooking oil, which had not happened before. Six month's worth of written correspondence with the customs authorities concluded that Rab Processors had been correct but by that point the detained consignment was worthless because the sell by date had passed.

Another example is when the Government of Malawi banned maize exports from late 2011. The ban was introduced following a poor harvest, which was feared would cause food security issues for the domestic population. Rab Processors were forced to commit to panic purchases of maize at an inflated price. However, recently a competitor of Rab who traded in the parallel market and had large reserves was able to flood the domestic market with maize at MK50 per kg making price competitiveness for other traders very difficult. Therefore, not only have Rab Processors lost their market share in the maize export market but they have also been significantly disadvantaged in the domestic market.

- **Access to Skills:** Rab Processors must spend more time and resources on sourcing loyal employees and in training staff. Rab finds it is easier to find cost effective expatriate staff with the right skill level and experience needed for some of their high-level positions.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

Rab Processors has not been able to directly address the issues related to the managed exchange rate, the capacity of the MBS and poor government regulation and legislation, because these are areas that must be addressed by the Government of Malawi. The company can at most have an impact in these areas through lobbying government and increasing awareness. To date there has been little impact or change as a result of these lobbying efforts.

To build the company's access to skills, Rab Processors runs an effective capacity building programme and trains staff (in conjunction with TEVETA - the Technical, Entrepreneurial and Vocational Education and Training Authority).

The firm has not raised the issues it is facing with a SADC regional body.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. A more market-based exchange rate is critical if the private sector in Malawi is going to achieve long-term profitability and international competitiveness.
2. MBS needs to invest in capacity building so that it can make sure all products on the domestic market are of a high quality and can accredit products for international export.
3. The Government of Malawi needs to be more aware of how the regulations, customs procedures and taxes which the private sector faces, impinge upon their ability to export.
4. More time and cost efficient courts and dispute settlement mechanisms would assist the private sector in Malawi and encourage greater level of activity. Greater confidence in the judicial system is required.
5. Education needs to be more effectively linked to the requirements of industry.
6. Energy supply needs to be regular and reliable for efficient business operations.
7. Fair competition in the market place should be encouraged by Government.
8. The Malawi Export Promotion Agency is underfunded and should be getting more support in this time of crisis.