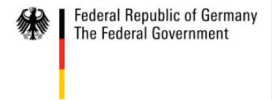




# SADC BUSINESS CASE STUDIES

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.



## A CASE STUDY ON RICE MILLING

FEBRUARY 2013

### FIRM OVERVIEW

<b>Name</b>	Rice Milling
<b>Nationality</b>	Malawi
<b>Sector</b>	Agriculture Processing
<b>SADC countries where doing business</b>	Malawi and most of SADC

### BACKGROUND

Rice Milling Company (Pvt.) Limited (RMC) mills, processes and packs local varieties of rice both for the local market in Malawi and for export, mainly within the Sub-Saharan African region. RMC also trades in different types of rice which it imports for distribution and sale throughout Southern Africa. 50% of RMC is owned by Malawian investors and 50% by foreign investors.

RMC has a growing product range mainly focused on basic food stuffs, collectively known under the brand name "Family Pride". Besides rice, RMC is mainly known for its milk powder and salt production.

RMC has an extensive distribution network within Malawi and delivers all its products directly to major supermarket chains and privately owned retailers and wholesalers - over 450 stores across the country.

---

## BARRIERS ENCOUNTERED

---

- **Government Regulations:** Minimum price regulations for agricultural produce are a significant barrier to RMC's exports. For agricultural commodities (both in the value added stages and raw form), the current minimum prices are unrealistic and are not aligned with the global market. This results in a distorted national market in Malawi. Prices are set on a cost-plus basis in an attempt to ensure that production costs are covered and that firms make an adequate return. However, the private sector is only consulted with regard to the margins on top of the cost price and the government often disregards private sector pricing concerns.

RCM faces significant competition from the informal sector and cross-border trade. The cost of formalisation of a business in Malawi is high and the taxes incurred upon formalisation are unappealing. Potential benefits of easier access to finance and business development services are not a strong enough incentive for the informal sector to take the necessary steps to formalise.

Export permits pose a significant time constraint for Malawian exporters. Previously, the export permit registration process took between 10 days and 2 weeks, and the permit was valid for 3 months. However, RMC has recently encountered further delays, and are currently experiencing their longest delay yet – one application is still in process after a two month wait.

- **Transport:** RMC mainly uses the road transport network for regional exports. The Nacala Rail network rehabilitation would significantly aid the efficiency of transferring goods to ports, and then into the international market. However, there are still port inefficiencies to consider.
- **Customs Procedures and Border Controls:** In the past, RMC has struggled with delays in processing its goods at the borders of Malawi. The government has however assigned a specific clearing agent to all export companies and started implementing an electronic system for the data collection and transmission at the borders. This is reducing the barrier.
- **Access to skills:** Malawi lacks sufficient numbers of workers with the required engineering and technical expertise. Also, there is a lack of artisanal type skills (fitters, turners, machinists, welders, electricians etc). There is however, generally a very good and high quality supply of well trained accountants in the country.
- **International Standards and Certifications:** RMC does not generally use the Malawi Bureau of Standards (MBS) for accreditation of its products unless it is forced to do so, as the MBS needs significant skills and technology investment in order to play a meaningful role. The MBS does not have international accreditation.

---

## IMPACT OF BARRIERS

---

- **Government Regulations:** Government motivation for the laborious and inhibitive export permit application process is unclear, but the bureaucratic process remains a strong barrier to exports. It results in expensive delays and can impact on sales when it is not possible for an exporter to meet the orders from customers in other countries in time.

RMC has been impacted by fluctuating rice duties in the regional market. RMC exported rice to Zimbabwe that had a 30-35% price competitiveness advantage over Asian rice imports which incurred a 15% duty. However, the duty on Asian rice imports has been eliminated and as a result RMC exports no longer have an advantage and it has lost market share in Zimbabwe.

Administratively, the Malawi Revenue Authority (MRA) is poorly financed and overstretched. MRA's severe capacity limitations have resulted in no response to RMC's VAT payment queries. RMC waited over a year to receive VAT compensation. Such delays have a negative impact on the cash flow of RMC.

- **Transport:** Even with the current improvements to the rail network, inefficient port operations are a barrier to trade for RMC, given the perishable nature of the company's exports. The export of its goods is currently restricted to the regional marketplace.
- **Customs Procedures and Border Control:** The new system that has been put in place to assist exporting firms means that RMC can no longer work through their own clearing agent, and thus dealing with the MRA is less direct and any problems which need to be addressed are more costly and time consuming to resolve. The new system is electronic, with the intention of making the process more efficient. However, technical issues frequently disrupt the clearing process.
- **Access to Skills:** Many new graduates are not trained to the industry's required standards, and this has costly implications for RMC's capital investment in plants and machinery. However, accessing skilled labourers from other areas in the region is generally easy to do through established company networks.
- **Quality Standards:** RMC cannot meet the required standards for export using the MBS and therefore must pay more to get accreditation from elsewhere as well as the guidance it requires.

---

## FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

---

A Grain Advisory Council was established to try to encourage fairer pricing and advise Government on price setting, but this platform collapsed due a poor functioning capacity.

RMC does complete some in-house training in areas such as fumigation and first aid. Resources are also used to conduct information sessions on topics such as HIV prevention and worker rights under the Labour and Employment Acts. It is not possible however for RMC to offer high-level training courses for the skilled workers required by the firm.

The barriers which require political change are hardest to influence but RMC is committed to continuing to engage with the government and lobby for certain amendments. To date, RMC has found it very difficult to get its concerns across to the Government of Malawi and therefore there has been little progress in addressing the barriers that are faced.

RMC has not raised the issues with a regional body but continues to focus on national level lobbying.

---

## ADDITIONAL COMMENTS AND SUGGESTIONS

---

1. The Government of Malawi needs to abolish minimum buying prices on agricultural commodities, and loosen the regulations in the market.
2. Malawi needs to encourage formalisation of the economy to increase the tax base and improve foreign exchange circulation in the banking system.
3. To improve the enabling environment for Malawian exporting companies it is vital that further tax exemptions for exporters are established. Relief, at least in part, of the corporate tax on exported products is essential.

4. Older capable professionals are easier to recruit than young graduates, and therefore there should be a concerted effort to raise the quality of training, and link the training with industry requirements.
5. MBS needs to become internationally accredited and have sufficient capacity to service the needs of exporting companies.