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CULTIVATING A MACADAMIA NUT REGIONAL VALUE CHAIN IN SOUTHERN AFRICA

Opportunities and challenges

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Presentation outline

1. Malawi's policy and regulatory framework for the agricultural sector
2. Challenges facing private-sector involvement and attempts at agro-processing
3. Comparing Malawi vs South Africa's regulatory framework
4. Macadamia nut production in South Africa and Malawi
5. Establishing a regional value chain – opportunities and challenges

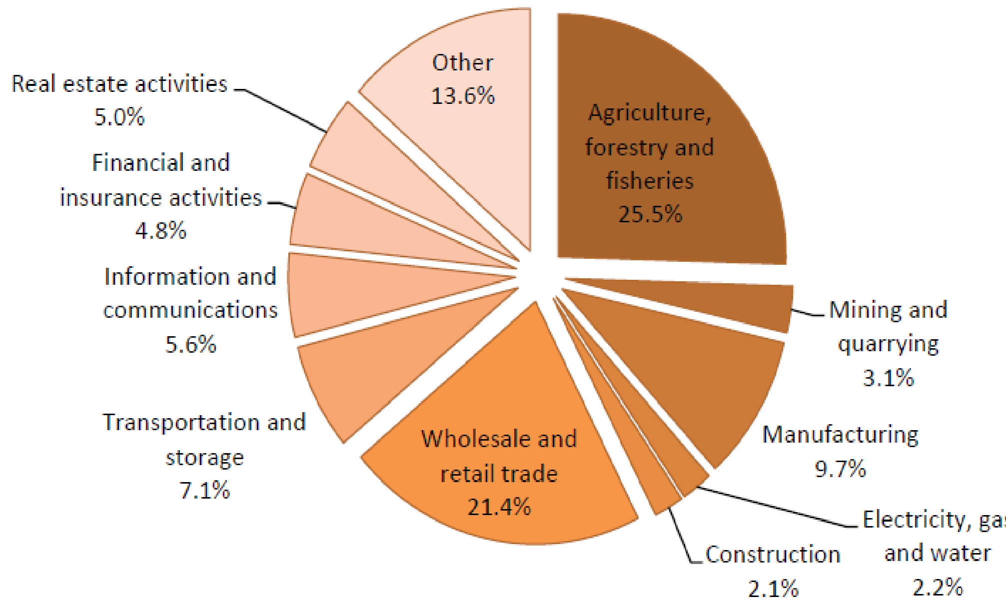
Growing agricultural growth in Malawi

Pursued agricultural-led development strategy since 1964 – maize and tobacco

Almost 85% of all households dependent on agricultural activities – 64% of total labour population employed in agriculture

Farming = subsistence / family-owned

Agriculture = 30% of country's GDP (current stats)



Source: Irish Aid Malawi CSP, 2010-2014: Evaluation Report

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Malawi's agriculture regulatory framework

Wide range of government-led initiatives

- National Agricultural Policy 2016
- Malawi Growth and Development Strategy (MGDS III)
- National Irrigation Policy of 2015 (irrigation projects supported by World Bank, AfDB)
- National Export Strategy 2015
- Agriculture Sector Wide Approach Programme (ASWAp) = umbrella programme for prioritised investments in agriculture

Private sector engagement: is investment growing in Malawi's agricultural sector?

Some positive initiatives:

- Malawian Investment and Trade Centre (MITC) 2012
- National Investment Policy 2011
- PPP Framework 2011
- Investment & Export Promotion Act 2012

Incentives: liberal import regime for agricultural inputs (fertilisers and agri-chemicals)

MITC = promoting agro-processed products through creation of SEZs

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Private sector engagement: is investment growing in Malawi's agricultural sector?

World Bank's Ease of Doing Business 2016: 133 / 190 countries

World Economic Forum's Global Competitiveness Index: 132 out of 137 economies

Business Confidence Index 2016: domestic survey assessment amongst businesses by the Malawi Confederation of Chambers of Commerce and Industry (MCCCI)

	2014	2015	2016
Current Business performance	25.00	32.86	17.16 ↓
Expected business performance	34.00	5.00	15.69
Investment outlook	31.50	22.46	17.16 ↓
Employment outlook	22.50	12.86	17.16

Source: MCCCI Malawi Business Climate Survey Report 2016, Lilongwe

Private sector engagement: is investment growing in Malawi's agricultural sector?

CHALLENGES

- Implementation is weak
- Few PPPs and private sector base is thin, with strong government links
- Government desire to be implementers rather than facilitators
- Uncertain policies: **Control of Goods Act 1968 and Special Crops Act 1972**
- Concern of over-support for some sectors by donors
- Cash Gate scandal = minimal budgetary support to government by donors

Private sector engagement: is investment growing in Malawi's agricultural sector?

Source: MCCCI Malawi Business Climate Survey Report 2016, Lilongwe

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How is South Africa's policy environment for agro-processing different?

NB disclaimer – not a case of comparing like countries

DAFF = Agricultural Action Policy Plan

- Include producers into informal VCs
- Upstream and downstream development: Comprehensive Consultative Support Programme

IDC = Agro-processing and Agricultural Strategic Business Unit

- Invests in projects that either create new or expand local manufacturing capacities, replace imports, and enhance competitiveness
- Community involvement through JVs
- All supported projects must have agro-processing element

DTI = Industrial Policy Action Plan

- Strong focus on VC development – currently working on oilseeds strategy

Cross-cutting synergies between government departments

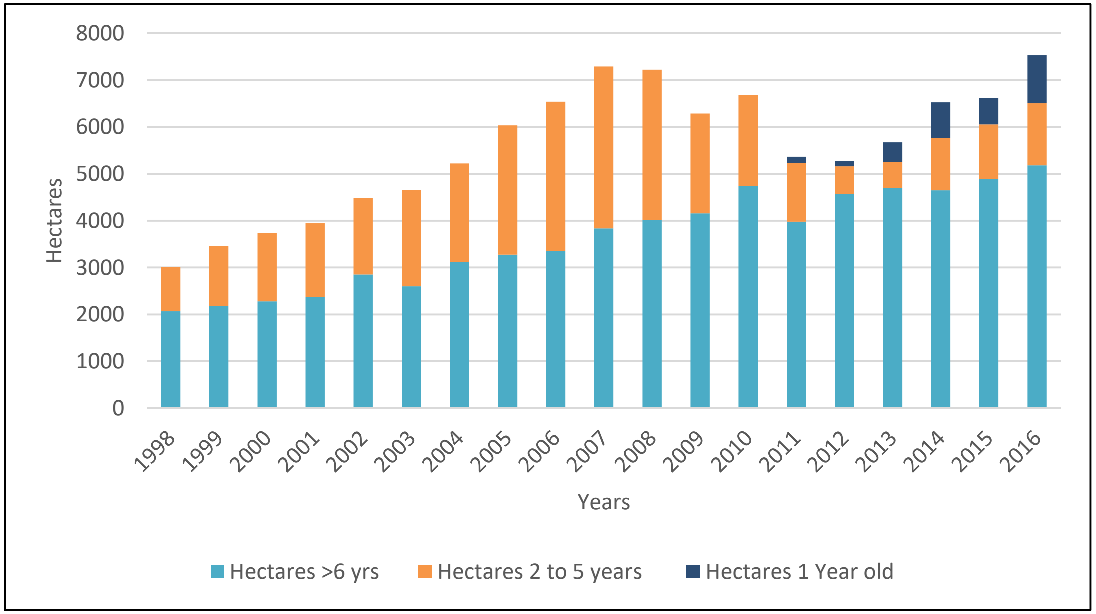
Malawi's macadamia nut production

Malawi is currently ranked in the top five producers in the world – developed without much government support (like SA sector)

Large presence of foreign conglomerates (UK/SA) owning commercial farms

Malawi has five commercial processing facilities, although Thyolo remains the centre of the industry

Source: Mabiso A, et al. NAPAS: Malawi Value Chain Studies: Informing the National Agricultural Investment Plan



Bringing in smallholders into Malawi's macadamia nut sector

AfDB project to develop smallholder involvement (completed in 2009)

- Government didn't take over successfully when AfDB was phased out
- No processing facilities in vicinity = nuts going to waste
- But renewal to incorporate these farmers – existing trees and nurseries are still present can be utilised for future projects

- **Irish Aid and the Business Innovation Facility** have specifically worked on developing a Strategic Plan 2012-2020 for the macadamia nut sector:
  - $ 5 750 000 over 5 year period
    (i) developing industry-wide capacity and technical support;
    (ii) smallholder industry development and growing nut volumes;
    (iii) applying research in order to maintain industry competitiveness.

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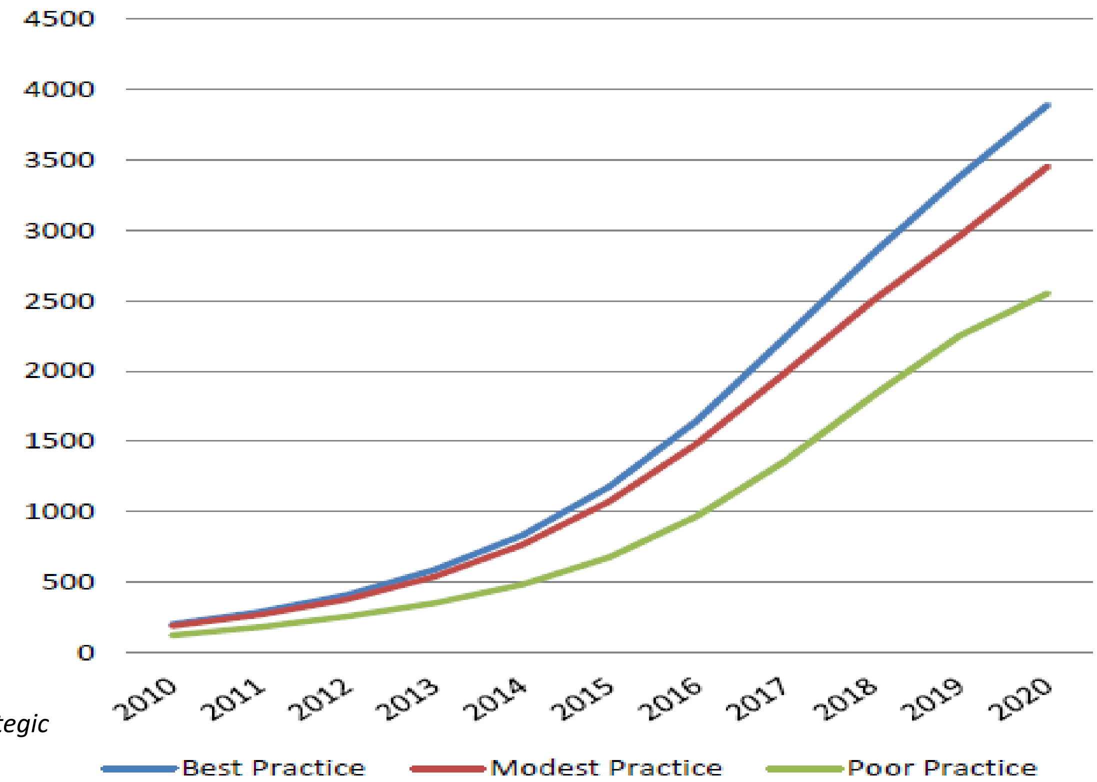
Smallholders in the macadamia nut sector: a Malawi case study

- A working collaboration between **AgDevCo Malawi** and the **Jacoma Group / Tropha Farms**
- Project, operations, goals, time-frame and cash value of investment
- Focus on smallholder farmers – what will this mean for macadamia nuts in the North of Malawi's
- Challenges thus far and success stories
- Long-term vision and hopeful end-goals

Projected Total NIS (MT) from smallholder sector 2010 – 2020



Source Irish Aid Malawian Macadamias 2012-2020: Strategic Plan for the Malawian Macadamia Industry

Key differences between SA and Malawi macadamia nut sector

Southern African Macadamia Growers Association (SAMAC) = industry representative (undergoing structural changes)

- Investing in R&D
- Community projects / transformation initiatives

- Greater access to processing facilities
- Existing goodwill between smallholders and commercial farmers
- Private companies take an interest in incorporating smallholder producers (technical support, extension assistance) e.g. Ncera community project

- Community projects made reality through statutory levy from DAFF – R 2 million:
  (i) Transformation projects
  (ii) Bursaries
  (iii) Study groups with technical experts (disseminate information on growing techniques, irrigation, spraying) – 900 farmers supported to date

Challenges to creating regional VCs – domestic and international

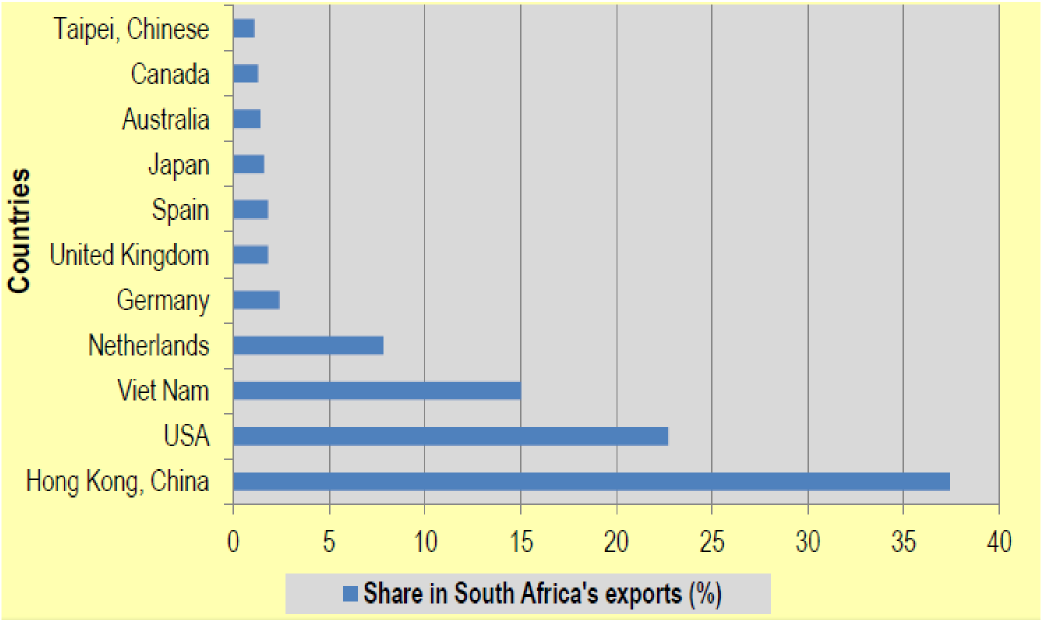
REGIONAL

- Distrust by SA producers of African growers – seeing them as competitors
- Quality problems from other growers from SA perspective
- Fear of losing out on agro-processing - Malawi
- Overarching political dynamics – Zimbabwe
- SA producers moving into Mozambique

INTERNATIONAL

- China tariff of 19% and driving nut in shell imports (cause for concern)
- Theft and black market (fuelled by Chinese demand)
- Only market for smallholders without access to processing?
- What support from government?
- US and EU markets prefer semi-processed

South Africa's macadamia nut export destinations, 2014



Source: A Profile of the South African Macadamia Nut Market Value Chain 2015

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Where to from here? (preliminary ideas)

- SADC Regional Industrialisation Roadmap 2015-2020?
- Regional organisation for macadamia producers?
- Comparative and competitive advantage for African producers?
- Shift in paradigm amongst producers to diminish regional tensions?
- Political will to create regional VC?
- Avoiding export strategy where SA is the main beneficiary