

Poultry Sector Strategy – Malawi

CASA MALAWI COUNTRY TEAM

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Abbreviations

AECF	African Enterprise Challenge Fund
AfDB	African Development Bank
AI	Avian Influenza
BDS	Business Development Services
BDSP	Business Development Services Provider
BLADD	Blantyre Agricultural Development Division
CAMA	Consumer Association of Malawi
CASA	Commercial Agriculture for Smallholders and Agribusiness
CCE	Climate Change and Environment
CDC	Commonwealth Development Corporation
CFTC	Competition and Fair-Trading Commission
CISANET	Civil Society Agriculture Network
CSOs	Civil Society Organisations
CVL	Central Veterinary Laboratory
COGA	Control of Goods Act
DAHLD	Department of Animal Health and Livestock Development
DFID	Department for International Development
DOC	Day-Old-Chick
DFI	Development Finance Institution
DARS	Department of Agricultural Research Services
EDF	Export Development Fund
FO	Farmers Organisation
FSP	Financial Services Provider
FUM	Farmers Union of Malawi
GDP	Gross Domestic Production
GESI	Gender Equality and Social Inclusion
GoM	Government of Malawi
ITC	International Trade Centre
ILINOVA	Innovation for the Livestock Industry
IPC	International Poultry Council
KADD	Kasungu Agricultural Development Division
KRADD	Karonga Agricultural Development Division
KULIMA	Kutukula Ulimi M'Malawi
LADD	Lilongwe Agricultural Development Division
LUANAR	Lilongwe University of Agriculture and Natural Resources
MADD	Machinga Agricultural Development Division

MAIIC	Malawi Agriculture and Industrial Investment Corporation
MBS	Malawi Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MEDF	Malawi Enterprise Development Fund
MDM	Mechanically Deboned Meat
MFI	Micro Finance Institutions
MICF	Malawi Innovation Challenge Fund
MITC	Malawi Investment and Trade Centre
MIS	Marketing Information System
MoAIWD	Ministry of Agriculture, Irrigation and Water Development
MoITT	Ministry of Industry, Trade and Tourism
MoFEPD	Ministry of Finance, Economic Planning and Development
MoLGRD	Ministry of Local Government and Rural Development
MoHP	Ministry of Health and Population
MSME	Micro, Small and Medium Enterprises
MT	Metric Tons/Tonnes
MZADD	Mzuzu Agricultural Development Division
NAP	National Agriculture Policy
NAIP	National Agriculture Investment Plan
NASFAM	National Association of Smallholder Farmers in Malawi
NFB	New Finance Bank
NFS	Nutrition and Food Security
PIAM	Poultry Industry Association of Malawi
RPC	Rural Poultry Centre
SADC	Southern Africa Development Community
SACCO	Savings and Credit Cooperative
SDG	Sustainable Development Goals
SHF	Smallholder Farmer
SLADD	Salima Agricultural Development Division
SMEDI	Small and Medium Enterprises Development Institute
SMPFA	Small and Medium Poultry Farmers Association
SSLLP	Small Scale Livestock and Livelihoods Programme
SVADD	Shire Valley Agricultural Development Division
UNDP	United Nations Development Programme
VAT	Value Added Tax
VCF	Value Chain Financing
WFP	World Food Programme

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Executive summary

Poultry is significant to Malawi given its contribution to poverty alleviation, nutrition and food security. Poultry is a source of high-quality protein and is often the only source of cash income and animal protein for resource-poor households. Eggs, in particular, provide high-quality protein for sick and malnourished children under five.

Sector Description

- Some 1.3 million households are rearing chickens and the total chicken population as at 2019 was 160 million (indigenous: 67 million; broilers: 83 million; layers: 8 million; and Black Australorp: 2 million)¹. Production estimates indicate that the chicken population grew from 84.5 million in 2015 to 160 million in 2019, while egg production increased from 4,700 tonnes in 2015 to 10,300 tonnes in 2019².
- Chicken has become the least-expensive, most consumed and widely available source of animal protein. Poultry prices have generally been declining since 2013 due to increased competition, improved productivity and a declining cost of production from greater economies of scale.
- Investments in the sector have largely been made by medium and large commercial producers (those producing 10 to 100,000 chickens in a batch). The two dominant players enjoy market share of between 70% and 80% and have current combined annual production of 24 million broilers³. Small- and medium enterprises (SMEs) have found it challenging to compete effectively against the vertically integrated commercial producers, as they do not have similar economies of scale and typically lack access to finance, markets and quality inputs.
- Despite contributing 42% of the total chicken population in Malawi and supplying nearly all the poultry meat and eggs consumed in rural areas, the potential of the indigenous poultry industry remains largely untapped. Production scales are extremely low, with most rural households producing only between five and 10 chickens over a period of 12-18 months. Scope exists for smallholder farmers (SHFs) to step up through the emerging commercialisation of indigenous and dual-purpose chickens.
- Demand for local chickens remains high, because people prefer the taste and generally trust the methods with which the birds are raising. A large share of the urban market remains untapped due to undersupply. Underproduction of indigenous chickens provides an opportunity to increase incomes, provide opportunities for women, reduce poverty and improve the livelihoods of impoverished rural households.

CASA's work will be prioritised countrywide, focusing on key production areas – mostly the cities of Blantyre, Lilongwe, Zomba and Mzuzu.

Analysis

At the **production end**, poultry SHFs and SMEs have low incentive to commercialise due to a combination of factors. Specifically, SHFs are failing to access affordable, quality poultry inputs due to limited in-country production (few input suppliers) and anti-competitive or unfair trading practices. Furthermore, SHFs fail to access markets for broilers and must compete with the integrated commercial producers that supply SHFs with various poultry inputs. The unfavourable policy environment and weak regulatory institutions remain key barriers to

¹ Source: Housing Census Data

² Government of Malawi – Department of Animal Health and Livestock Development, Livestock Production Estimates (APES), 2018/19

³ Anecdotal information gained from conversations with key poultry stakeholders

SHFs, effectively excluding them from participating in the core market system. In addition, the cost of feed is high, which makes SHF and SME production more expensive.

The lack of organisation of smallholder poultry producers excludes them from commercial supply chains, and commercial producers see no value in developing contract farming mechanisms for the industry. This confines SHFs to an informal marketing system that is often exploitative at the farm gate. Finally, business development services (BDS) are largely inadequate or lacking in the poultry sector, as a result of weak farmer organisations and unproductive or uncompetitive smallholders. These factors have not encouraged poultry SHFs and SMEs to commercialise their production, as there is no growth or profitability: there is no price differential for quality, as 80% of all poultry production is sold in informal, live chicken markets; and market prices are generally controlled by the large commercial producers. The anti-competitive and unfair trading practices in the poultry industry have come under scrutiny by the Competition and Fair-Trading Commission (CFTC), and judgements have often gone against the dominant commercial producers.

On the **post-production side**, the large commercial producers operate their own abattoirs for slaughtering and processing poultry. These are operating below capacity, as only 20% of commercially produced poultry goes through the formal market system. The quality of broilers has also been questioned by consumers, particularly the residual antibiotics and growth hormones given to broilers and their impact on human health and food safety. Brining has also been mentioned as a key problem, and the country does not have a clear, precise standard. Commercial producers have taken advantage of this loophole and are marketing underweight chickens that are heavily brined to deceive customers. The disposal of dead chickens has also come under scrutiny from regulators, as there have been reports that traders were buying dead chickens and selling them to unsuspecting customers, such as restaurants and roadside barbecues.

The lack of access to fair poultry markets has been the most frequent complaint reported by SHFs and SMEs, as the large commercial producers dominate both the formal and informal markets. Since SHFs and SMEs don't enjoy the same economies of scale, their cost of production is high, and their prices are largely uncompetitive. Yet the market price is presumably controlled by the large commercial producers. Under these unfavourable conditions, SHFs' and SMEs' risk appetite to upgrade and innovate has been low; divisions between the small and large producers appear to be increasing; and the large commercial producers have no incentive to develop supply chain linkages with SHFs or SMEs. Indigenous and dual-purpose chickens present a niche market opportunity for SHFs and SMEs to effectively compete and secure market share, though this will require concerted commercialisation interventions. Empirical evidence from Nigeria, Ethiopia, Uganda and Tanzania indicates positive results for dual-purpose hybrids (Kuroiler, Sasso and Boschverd), and there appears to be a strong business case for scaling up and commercialisation of both meat and eggs⁴.

Finally, **accelerating the commercialisation of the poultry sector** requires: (1) strengthening SHF aggregation and linkages with commercial market actors; (2) facilitating access to finance and investment for market actors; and (3) an improved regulatory and trading environment.

Responsive strategy

CASA's poultry strategy is founded on optimising engagement with SMEs seeking investment to drive growth, while addressing binding constraints to commercialisation. (In many cases these consist of business opportunities that are not taken up.) This is typically expected to involve a journey with partner SMEs, from preparations for receiving investment (including business model development and BDS support) through to matchmaking with

⁴ https://cgspace.cgiar.org/bitstream/handle/10568/100242/arusha_report.pdf?sequence=1&isAllowed=y

commercial finance providers and impact investors. This in turn is expected to generate success stories that will contribute to CASA's overall evidence base for convincing donors and investors to channel more finance to SMEs that engage large numbers of producers in their supply chains. The strategy also focuses on strengthening producer aggregation to access commercial markets, as well as supporting key improvements in the business environment.

To implement the strategy, three broad intervention areas have been identified as drivers of inclusive commercialisation. In projects defined under the current intervention areas, we estimate that we will reach 39,000 smallholder producers, with increased income for 23,400 beneficiaries. We anticipate it will be possible to scale out to approximately 35,100 beneficiaries by expanding existing projects and identifying new intervention areas in future years.

1 CASA programme overview

DFID's approach to economic development and agriculture relies on an increasingly commercial approach to agricultural programming by:

- Boosting agri-business investment, financing agricultural infrastructure and supporting smallholder-farmer access to markets;
- Helping farmers and their families to have opportunities and jobs outside their farms, and supporting SMEs in rural areas;
- Supporting subsistence farmers without other economic opportunities, so that they avoid hunger, malnutrition and extreme poverty;
- Encouraging commercial approaches that reduce the cost of nutritious diets.

In support of this approach, DFID has launched the five-year, flagship Commercial Agriculture for Smallholders and Agribusiness (CASA) programme which seeks to change how investors, donors and governments view and invest in agribusinesses that work with smallholder supply chains. In doing so, CASA will increase economic opportunities for smallholders by:

- a) Demonstrating the commercial viability of small and medium-sized (SME) agribusinesses with significant smallholder supply chains and attracting more investment into these businesses;
- b) Deepening the smallholder impact of existing investments made by development finance institutions (DFIs, notably CDC), and impact investors;
- c) Enabling poor smallholder farmers to engage with and trade in commercial markets;
- d) Researching and communicating the case for successful engagement with smallholder-linked agribusiness.

CASA has three components, two of which (Components A and C) are managed out of Nairobi, Kenya by NIRAS-LTS in partnership with Swisscontact and CABI. CASA's component B is separately implemented by Technoserve and focuses on technical assistance and investment promotion for larger agri-enterprises involved in global development. In addition to its three components, the programme has three strategic cross-cutting components:

- Gender and social inclusion (GESI);
- Nutrition and food security;
- Climate change and the environment.

Component A will demonstrate high-impact interventions in the three target countries (Malawi, Uganda and Nepal) leading to: (a) mobilisation of investments for partner agri-businesses (which can include commercially-minded farmer associations and cooperatives) and expanded outreach to smallholders; and (b) improved access to markets for smallholders. The ultimate target group for CASA is the 'missing middle' of 'stepping-up' smallholders⁵ – that is, those that wish to engage in commercial agriculture but have largely not done so to date. (Among the missing middle, 40% live on less than \$2 a day, while 50% of women in the missing middle live on less than \$2 a day.)

Component C is a learning and knowledge-sharing component. Among other things, it will leverage knowledge gains from Component A interventions and other research to inform

⁵ 'Stepping-up smallholder farmers are described as those that sell or wish to sell at least 50% of their cash crops/produce.

donors and investors about the merits of investing in agribusiness SMEs with significant outreach to smallholders.

2 Sector description

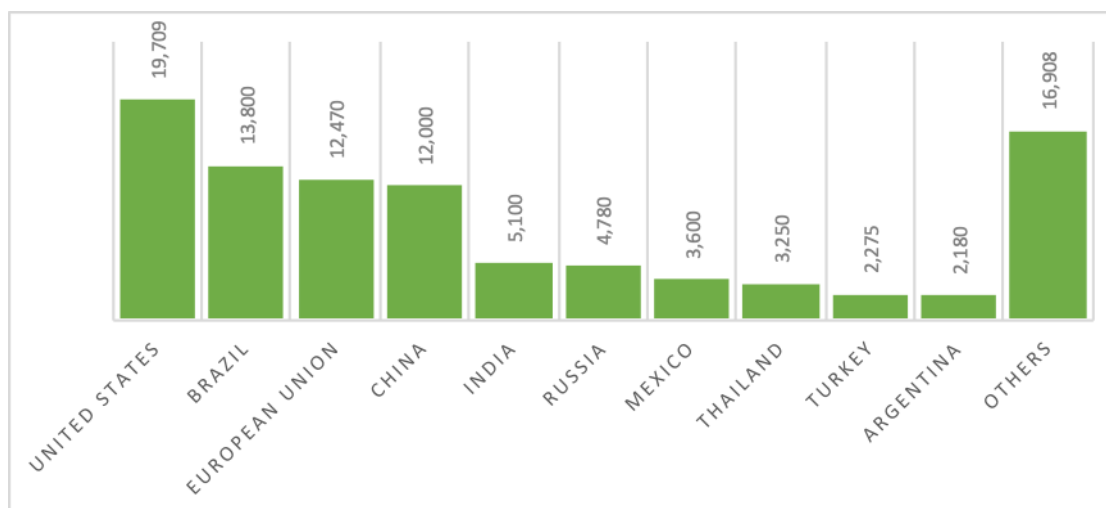
2.1 Sector profile

2.1.1 International context

The consumption of meat products has been growing over the years due to the global population increase. The market value of processed meat is expected to rise from \$714 billion in 2016 to over \$1.5 trillion by 2022. Poultry is the most popular kind of processed meat, with a 38% share of the global market. Red meat, which includes pork and beef, has a share of about 33% (as of Jan 2019)⁶. The consumption of protein products such as chicken and fish has been displacing red meat for health and affordability reasons.

The global poultry trade was worth \$22.5 billion in 2017, and annual growth is set to continue: a demand growth of more than 60% is projected over the next 20 years. The volume of trade has grown by only 9% to 12.9 million tonnes since 2011, which is significantly lower than the growth in global poultry demand. The slower growth in trade volumes has been attributed to a decline in poultry prices since 2011 as a result of lower feed costs, as well as exchange rate volatility⁷.

Figure 1: Global broiler meat production in 2019 ('000 tonnes)⁸



The International Poultry Council (IPC) reports that poultry is positioned to become the world's most consumed meat protein in 2019. The IPC thinks it is unlikely to be displaced again by pork, as African Swine Fever (ASF) has spread in pig herds across China in the current absence of a vaccine, resulting in 100% mortality of infected stock⁹. Despite the recent slowdown in growth, poultry meat currently commands 41% of the global meat market. Within poultry, chicken is by far the most important traded species, with a total value of \$21.2 billion, followed by turkey (\$1.2 billion) and duck (\$240 million) (See Figure 2).

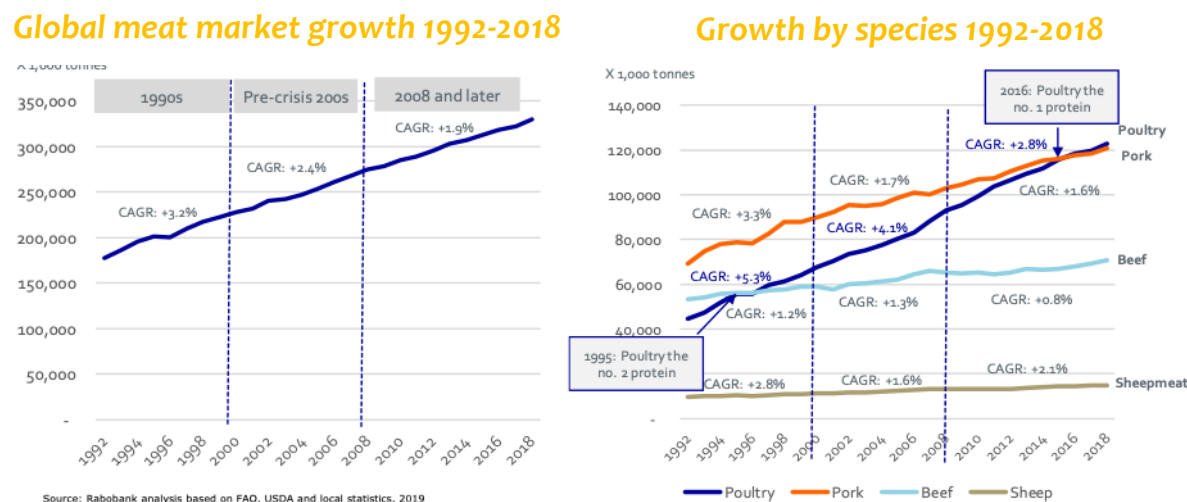
⁶ <https://www.statista.com/topics/4880/global-meat-industry/>

⁷ <https://services.rabobank.com/publication/service/download/publication/token/dsTJ3Dzd3NYZvJ3CWrNs>

⁸ <https://www.statista.com/statistics/237597/leading-10-countries-worldwide-in-poultry-meat-production-in-2007/>

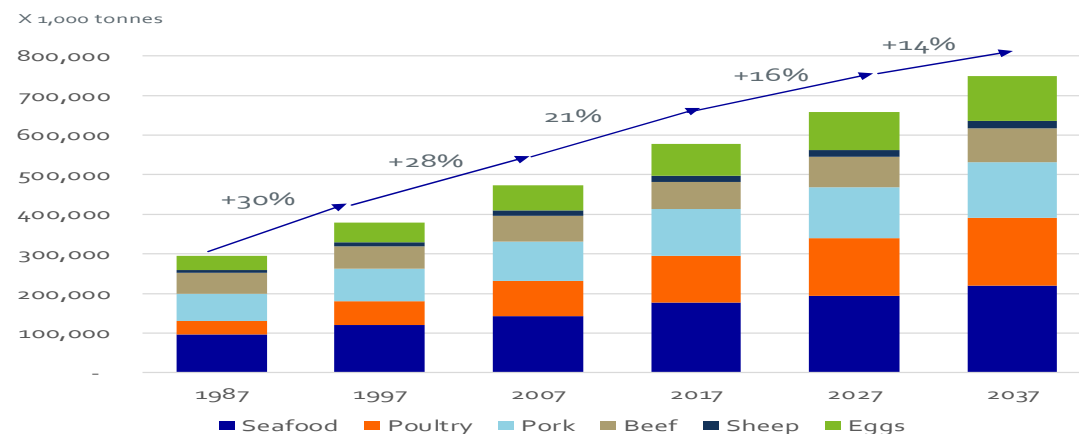
⁹ <https://thepoultrysite.com/news/2019/04/poultry-takes-the-lead-in-ipc-outlook> accessed on 02/05/2019

Figure 2: The global meat market (Rabobank)¹⁰



Slower, more-volatile growth in the global poultry trade is caused by several factors. The most important is the contraction of the Chinese poultry market – the only large poultry market worldwide which has declined in the last few years – mainly due to poor disease management, for example relating to the use of antibiotics. China has also gradually increased import restrictions in response to Avian Influenza (AI) outbreaks in exporting economies (such as the US and the EU) and more recently imposed anti-dumping measures on some imports (from Brazil). Global poultry production will have to grow by over 35% in the next 20 years in order to meet the growing demand for animal protein (See Figure 3).

Figure 3: Global animal protein demand projections (2017 - 2037)¹¹



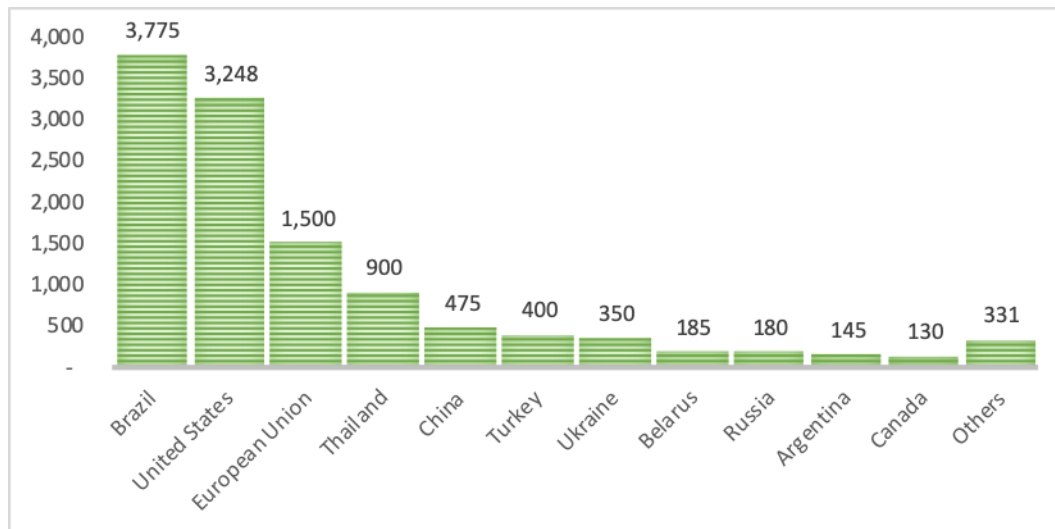
Global supply dynamics are also changing as AI has become a business risk in most regions, notably Europe, Asia, Africa, and North America. This has greatly impacted global trade streams and led to massive volatility in global markets. Exports from some countries have been banned after outbreaks in a particular country or region. Although officially a ban should be lifted three months after the last outbreak, in practice, the renewal of export status can take much longer. China's poultry trade, for example, has been challenged a few times by food safety issues, while the weak meat investigation in Brazil has affected Brazil's reputation in international markets and indirectly in trade. Some major trade streams, such

¹⁰ mbtt.hu/.../global_and_eu_poultry_outlook_nan_dirk_mulder_budapest_2019

⁷ <http://mpfsummit.ru/upload/programm/2.pdf>

as EU-South Africa, Brazil-China and US-China, have also been significantly reduced by diverse restrictive factors.

Figure 4: Global export volumes of broiler meat in 2019 (in 1,000 tonnes)¹²

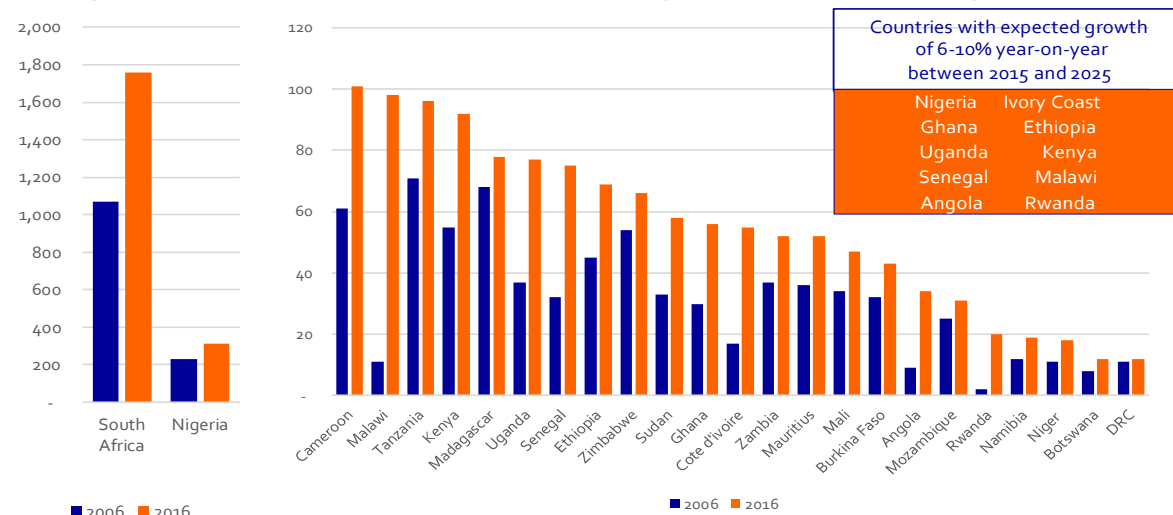


Driven by a rising middle class and rapid urbanisation, a more-modern poultry industry is taking shape in Africa. The growing middle class is changing its consumption patterns, moving from vegetable-based consumption to a more protein-rich diet. In this shifting diet, poultry and eggs are the protein of choice for African consumers due to a combination of availability and affordability (compared with red-meat products for example), and because consumers prefer the taste of chicken and eggs to that of other proteins. Poultry availability is supported by short payback times for poultry and egg production, making poultry production easier to start and expand. Furthermore, many Sub-Saharan African (SSA) countries such as Nigeria, Angola, Zambia and Zimbabwe have the potential to further increase their feed ingredient supply. This could support a more-competitive supply of poultry in these countries, as feed costs make up about 70% of total costs (See Figure 5).¹³

Figure 5: Poultry annual growth in Africa (2006 - 2016)

The big 2: 65%

The other Sub Saharan African countries: 35% of production



Global egg production has also been increasing (See Figure 6 and Figure 7).

¹² <https://www.statista.com/statistics/751000/export-of-poultry-meat-leading-exporter/>

¹³ <http://mpfsummit.ru/upload/programm/2.pdf>

Figure 6: Top 10 global eggs producers in the world (in billions) - 2017¹⁴

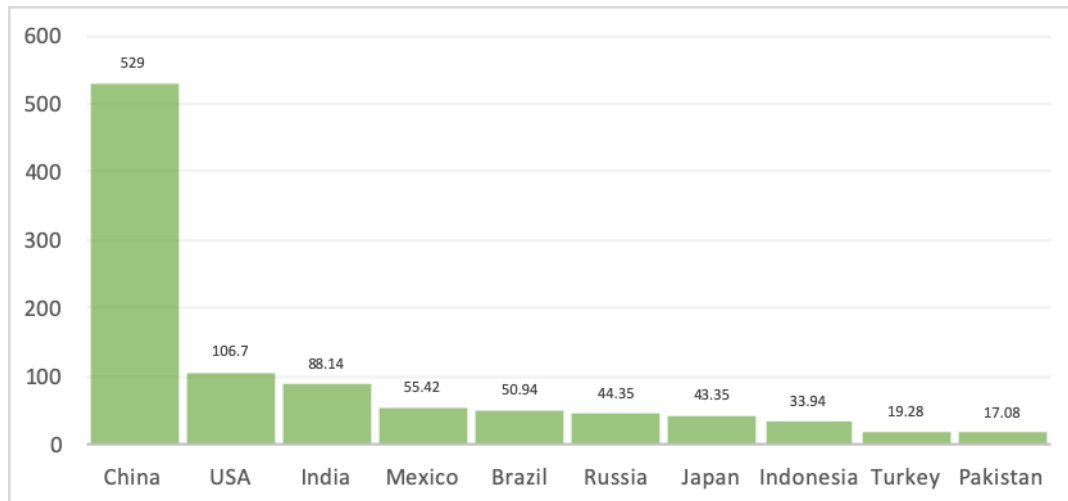
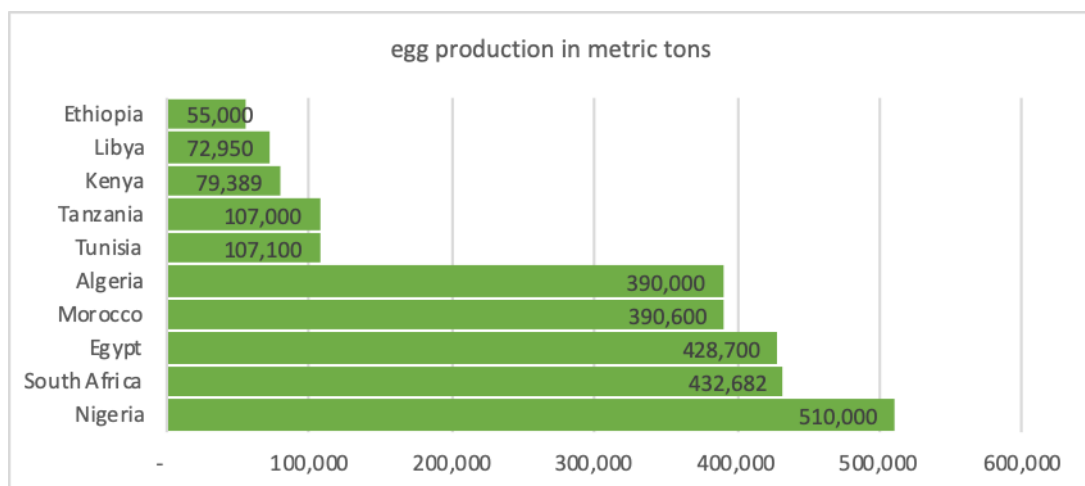


Figure 7: Top 10 producers in Africa (2017)¹⁵



¹⁴ <https://www.statista.com/statistics/263971/top-10-countries-worldwide-in-egg-production/>

¹⁵ FAOSTAT data accessed on 31/05/2019

2.1.2 Local context

Agricultural statistics indicate that 33% of all farming households (1,322,309 households) keep poultry in Malawi. Meanwhile, the 2017/18 season registered 24.5% growth in poultry numbers, which grew from 100,038,265 chickens in 2016/17 to 124,581,207 chickens in 2017/18. The number reached 160 million in 2019. The chicken population comprises 67 million indigenous chickens, 83 million broilers, 8 million layers and 2 million Black Australorp (See Table 1).

Table 1: 2018/19 Chicken production estimates¹⁶

	2017	2018	2019
All Chickens			
Chicken population	124,581,219	137,001,243	160,156,726
Chicken meat (tonnes)	190,617	149,087	196,324
Chicken eggs (tonnes)	9,089	9,889	10,293
Indigenous Chickens			
Chicken population	58,847,986	63,823,159	67,084,180
Chicken meat (tonnes)	108,573	81,103	84,989
Chicken eggs (tonnes)	7,846	8,494	8,939
Broilers			
Chicken population	56,460,919	62,733,834	82,916,141
Chicken meat (tonnes)	70,329	54,825	98,464
Chicken eggs (tonnes)			
Layers			
Chicken population	7,443,847	8,365,209	8,132,924
Chicken meat (tonnes)	9,338	10,594	10,303
Chicken eggs (tonnes)	995	1,116	1,086
Black Australorp			
Chicken population	1,828,467	2,079,041	2,023,481
Chicken meat (tonnes)	2,264	2,565	2,564
Chicken eggs (tonnes)	248	279	268

The increase in the chicken population is mainly attributed to high breeding rates and improved poultry management practices. In addition, there is an increase in entrants into commercial and semi-commercial poultry producers, especially in peri-urban areas. The country is self-sustainable in poultry and poultry products, and consumption of white meat has been increasing due to a combination of the implementation of livestock promotion programmes, increased poultry ownership, improved management practices and poultry importation restrictions, which have been in effect since 2004.

Poultry products have a 79% share of livestock consumption per capita in Malawi. There were sizeable increases in per capita consumption of poultry products between 2016/17 and 2017/2018. Chicken consumption per capita grew 62% from 16.9 kg to 27.4 kg. Over the same period, egg consumption per capita increased by 23% from 22 kg to 27 kg. These increases are attributable to the lower investment costs associated with poultry rearing and increasing demand for poultry products, as well as positive trends in the commercialisation of the sector¹⁷ (See Figure 8).

¹⁶ Government of Malawi – Department of Animal Health and Livestock Development, 2018/19 Livestock Production Estimates

¹⁷ MoAIWD, Agriculture Sector Performance Report (ASPR), Government of Malawi: Lilongwe, 2016-17

Figure 8: Poultry sector growth statistics¹⁸

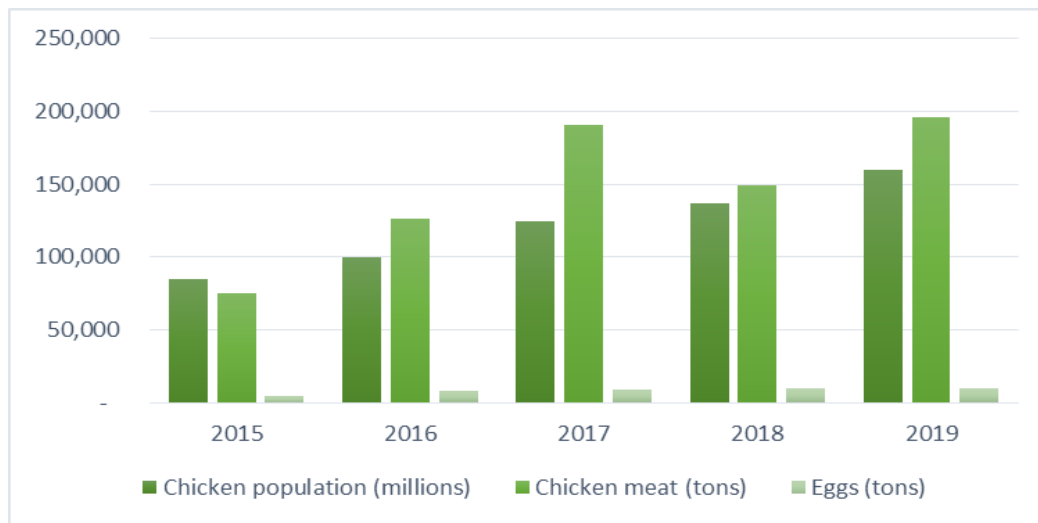
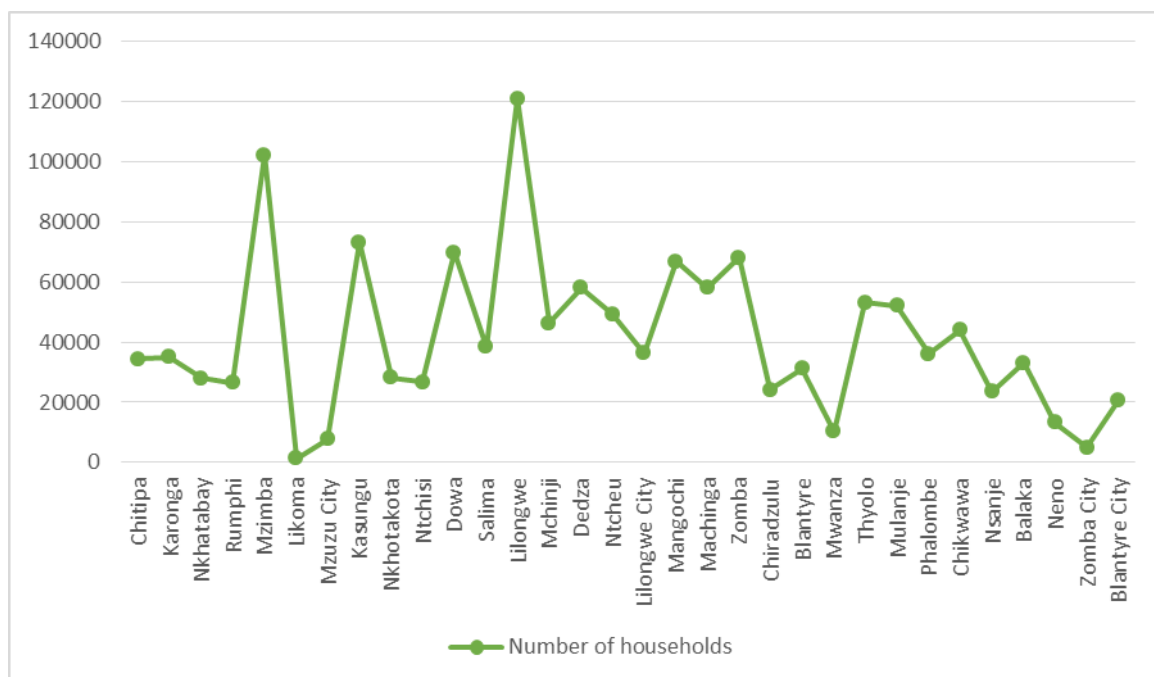


Figure 9 summarises the number of households rearing chicken by district. Figure 10 shows the chicken population per Agricultural Development Division (ADD). Unsurprisingly, the major urban ADDs of Lilongwe (LADD) and Blantyre (BLADD) have the highest populations.

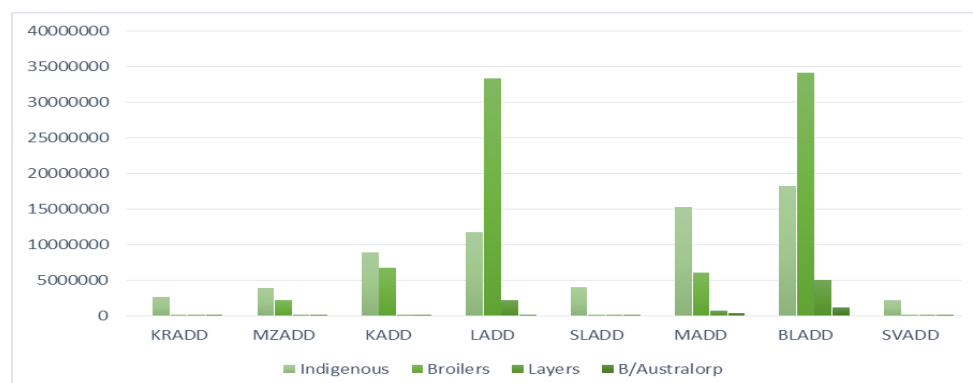
Figure 9: Number of households (by district) rearing chickens in 2018¹⁹



¹⁸ Government of Malawi – Department of Animal Health and Livestock Development, 2018/19 Livestock Production Estimates

¹⁹ Government of Malawi – National Statistical Office, 2018 Population and Housing Census (PHC) – Final Report, Zomba

Figure 10: Poultry population by Agricultural Development Division (ADD)



2.1.3 Domestic market

Production and marketing of broilers in Malawi is currently dominated by two large, integrated players, Central Poultry/CP Feeds and Kamponji Enterprises Limited (Kelfoods). Together, they control between 70% and 80% of the market. Through use of mobile vans, they penetrate into rural trading centres, institutions and produce markets where smallholder rural poultry and small-scale commercial producers sell their chickens. The lack of contractual marketing and production arrangements is reported by stakeholders to be a key hindrance to smallholder participation in the poultry sector. Poultry possess greater efficiency in converting feed into eggs and meat compared to other livestock. Commercial poultry farms play an important role in meeting national protein supply through the supply of eggs in addition to poultry meat. Commercial broiler production, on the other hand, provides mainly poultry meat, as birds are raised solely for meat. Likewise, in the informal subsector, communities and cooperatives are investing in increasing their production of local chicken breeds which are preferred over exotic breeds by local consumers (though challenges exist for commercialising indigenous chickens). These investments are projected to further increase the production of eggs and chicken-meat products in the country.

2.2 Sector dynamics

2.2.1 Market overview

Poultry production is an important source of food and income for rural subsistence producers in Malawi. It is also a key driver of livestock sector growth, particularly through private sector investments, which have created employment and supply chains and largely substituted poultry imports. Here is an overview of the poultry sector:

- In terms of livestock ownership in Malawi, chicken is dominant: The Population and Housing Census of 2018 recorded that 1.3 million smallholder households keep or own chickens in Malawi. (Sex-disaggregated data was not available.)²⁰ The chicken population was 160 million in 2019, compared to 85 million in 2015 (See Figure 9).
- The traditional indigenous system and the commercial broiler/egg production system constitute the largest proportion of the national flock. To further increase production, both systems need consideration. These poultry would create an opportunity to improve the living standards of poor households and communities.
- Commercial poultry production is concentrated around urban areas, especially Blantyre, Zomba, Lilongwe and Mzuzu (See Figure 10). Some commercial production systems are completely automated, environmentally controlled, or semi-automated with open houses. The sector uses mostly improved exotic strains for broilers and layers. The traditional

²⁰ Ibid.

sector is mainly in rural areas, with a few urban and peri-urban households keeping chickens in their backyards.

- The poultry industry also has strong backward linkages to the animal feed industry. Feed accounts for 60% to 70% of poultry production costs, and spin-offs are apparent in the production and prices of soybeans and maize, as well as in feed processing enterprises.
- Poultry production is popular among rural farmers, particularly women and young people, due to the short production life cycle and low capital investment. It provides rural women and youth with one of their few opportunities to earn an independent livelihood.
- Livestock prices usually decline from October to January, as more households begin to engage in desperate sales to buy food. (A spike in the sales of chickens during this period also decreases prices.) Particularly during the lean period following a poor cropping season, livestock prices fall as much as 40% or 50% below normal levels, while maize prices increase, worsening livestock terms of trade²¹.
- Meat production from ruminant species (cattle, goats and sheep) has declined in favour of chicken and pig meat. The offtake rate in chickens and pigs is now estimated at over 60%, compared to below 15% in ruminant livestock²².

2.2.2 The core value chain

The supply chain begins with either smallholder producers in rural areas (predominantly rearing indigenous and local chicken varieties for the surrounding village, district and urban markets) or the large commercial producers rearing exotic breeds for the urban and formal markets. As there are no current contract farming arrangements in Malawi, there is significant dependency on aggregators to link smallholders to markets, while commercial producers are vertically or horizontally integrated from inputs to processing. Some value addition is happening, such as producing dressed whole chickens, dressed chicken parts, fillets, sausages, patties and polonies. Poultry production has a direct linkage to soybean, sunflower and maize production, which are key ingredients of poultry feed. The country is self-sufficient in production of these crops, and poultry sector growth is having a positive impact on the producing SHFs. However, a few feed ingredients are import-dependant, such as vitamin and mineral premixes.

Poultry production is balanced between integrated industrial production and indigenous production, with the latter largely the domain of rural smallholders, which also supply a small share of the domestic market with layers and broilers. Integrated industrial production predominantly uses external inputs for housing, feeding and processing, and the production scale is large. Broiler chickens are raised in batches to ensure a continuous supply of marketable products throughout the year. These numbers vary because of the seasonal patterns of poultry consumption. Populations are high during the festive season.

Such farms are integrated with hatcheries that produce day-old-chicks for use on the farm and for sale, feed mills, abattoirs and cold chain facilities. Although these farms have their own hatcheries, they also import parent birds and fertilised eggs. In this system, birds are reared indoors under stringent biosecurity procedures. Poultry feed is of high quality and is sourced directly from the farms' own feed mills or from other manufacturers. Mature birds are sent for slaughter to the abattoir after four to six weeks, and slaughtered birds are then packaged and marketed as processed or branded products. Eighty per cent of production is sold through informal markets as live chickens, while the remaining 20% goes through formal markets.

Indigenous chickens are characterised by very poor productivity, fewer laying cycles and the limited biosecurity protocols followed on small farms. They are managed in a free-range

²¹ <http://fews.net/southern-africa/malawi/food-security-outlook/june-2018>

²² http://www.ijbssnet.com/journals/Vol_4_No_6_June_2013/12.pdf

system with supplementary feed of mainly maize bran. Initial breeding hens and cocks are obtained from friends or from local markets, with each farmer keeping between five and 10 chickens on average. (Semi-commercial²³ producers would keep between 50 and 300.) Thereafter, the breeding stock is selected by the farmers. Indigenous poultry farmers rarely purchase commercial feed or seek veterinary services for their birds, unless the situation warrants it – such as during outbreaks of poultry disease.

Indigenous birds are usually transported to market on foot, by bicycle or by motor vehicles. They are often sold at satellite retail chicken markets or aggregated by village traders who buy at the farm gate, while eggs are sold in kiosks. Indigenous poultry meat and eggs are increasingly gaining popularity in major urban centres. This is due to changing consumer preferences associated with desirable health characteristics, such as lower saturated animal fats and lower cholesterol levels. The proportion of indigenous chicken traded at each stage of the value chain is unknown, and traceability mechanisms have not been instituted in this system. Such a mechanism would face a challenge because this production system is highly informal and is not as organised as the commercial production system.

Input Suppliers

The growing market demand for poultry products in Malawi is being driven by rapid urbanisation and a growing middle class with increasing disposable income. This increase in demand has in turn given rise to commercial poultry production systems (and the supposed need for a dual-purpose bird production system). Poultry farming is still predominantly traditional, and inputs remain a challenge or non-existent for most smallholders. As noted earlier, the large commercial producers are vertically integrated and control between 70% and 80% of the market. Access to poultry inputs is not a key concern for these large integrated commercial producers. However, for medium- and small-scale producers, the main challenges are access, availability, quality and the cost of DOCs and feeds.

The transition from backyard production to more-commercial production is expected to increase rapidly over the coming years in response to demand and market forces. In addition to market forces, biosecurity and other public health issues are compelling regulators to enforce strict controls and standards for poultry keeping. External factors such as rules and regulations, the availability of (quality) inputs and knowledge and skills strongly influence the production potential of good quality poultry products. International breeding companies provide parent stock to producers of hatching eggs for layers and broilers. Key poultry input suppliers in Malawi include: Central Poultry/CP Feeds; Kamponji Enterprises; Amazon Poultry; Charles Stewart; Incubators Malawi; Ziweto Enterprises; and, DAHLD. Apart from Black Australorp chickens, there are no specialised hatching services for indigenous chickens in Malawi.

Producers

Large integrated poultry producers dominate commercial broiler farming in Malawi and are developing larger farms with higher quality hardware and capacity for 100,000 chickens. Their total estimated monthly production is 2 million chickens and growing. Key producers include Central Poultry, Kamponji Enterprises, Speedy's, Glenae/Conforzi, Nyama World and Kapani. SME producers include Amazon, Keggs, Dhala, Nyaluwanga, Savannah, Thanzi and Malili.

Village poultry farmers, which number over 1.3 million households, keep the most chickens and are key to supplying demand for chicken meat and eggs in rural towns and villages. While much of the output is consumed by the producers, there is a significant market for "local" chickens – usually priced at a significant premium. In recent years, Malawi has seen increasing investment in vertically integrated production systems, in which a company typically controls a large share of the value chain, including the production of feed, chicks,

²³ That is, stepping-up smallholders that CASA would like to support with upgrading interventions

broiler and layer production, processing and distribution. As noted earlier, the industry does not currently have contract producers (outgrowers) linked to large-scale commercial producers. Central Poultry piloted a model in the early 2000s but subsequently stopped, while Kapani is currently piloting a model targeting 1,000 SHFs.

Aggregators

Poultry aggregation is mainly done through agents, vendors and middlemen that act as both rural- (village) and urban-based aggregators. Aggregators mainly buy from producers by collecting at farms and selling in specified markets, either as live birds or after slaughter. Farmers rarely deliver directly to consumers. A significant amount (80%) of aggregated poultry products are traded through the informal markets as live birds, dressed whole birds and eggs. The balance (20%) is processed and traded in the formal markets through super/hypermarkets or distributed to institutional buyers, such as quick service restaurants, schools, hotels and hospitals. SHFs prefer to deliver their products through agents or aggregators because of high transaction costs related to transport and local market by-laws, and because the payment terms in formal markets are too long, which impacts cashflow and working capital.

Processors

Processing and value addition are hampered by a shortage of processing facilities and poultry value-addition technologies. There are small manual abattoirs (slaughter slabs), independent abattoirs, and integrated company abattoirs and processing units. Independent abattoirs and integrated companies operate both manually and with equipment while the independent abattoirs act as service providers by charging a slaughtering fee per bird. In most cases the processing through slaughter in the informal markets is done with very basic tools near a marketplace or farm base area. Integrated company abattoirs such as Central Poultry, Kapani, Glenae/Conforzi, Keggs and Dhala exclusively slaughter their own birds. The number of poultry slaughterhouses and processing plants is increasing, and integrators are developing national distribution networks. This trend is enabling production of higher-quality birds that are distributed through the cold chain and have a shelf life of up to 10 days. The rapid rise of further processing is being driven by the development of supermarkets and by demand for shelf-stable and frozen products.

Retail and wholesale traders

Trading of poultry products is largely done through informal markets countrywide, which account for 80% of the trade. Informally traded poultry products include live birds and eggs. The other products (dressed cut-up, prime cuts, pieces, eggs, sausage and chicken fillets) are mostly traded through the formal market, which comprises 20% of the total volume. Due to the prevailing credit policies of large companies and institutional buyers, SHFs prefer informal cash-based markets. For instance, catering service providers for large companies usually pay 90 days after delivery, while others – supermarkets, hotels, schools, colleges and restaurants – often pay after 30-to-60 days. Extended credit periods are not ideal for SHFs who require fast cash for restocking and settling operational costs.

Consumers

There are various categories of buyers both in the formal and informal markets. Formal markets include consumer patrons of high-profile hotels, local hotels and restaurants, including bars and pubs. They also include institutional buyers such as schools, hotels, hospitals and households. Urban consumers prefer exotic breeds due to their availability and relatively low cost. Exotic breeds are also normally well dressed and packaged. They are also sold in urban supermarkets. Rural consumers prefer local chicken, which is perceived as having better taste and quality. Local chicken meat is not common in the supermarkets. As noted earlier, Malawi's rapid chicken consumption growth is driven by poultry's lower

costs of production and business investment. There is also a growing demand for local chicken varieties from the urban middle class due to suspicion over pervasive growth hormone and antibiotics use in commercially reared exotic varieties.

2.2.3 Supporting functions and services

For the core market to operate efficiently and effectively, there is a need for relevant support functions and services. These can allow core market actors to produce, sell or buy their core products, and they can enable the value chain to grow in a competitive manner.

Extension, veterinary and agribusiness services

Central and local governments are not prioritising the poultry sector as a key driver of economic growth and have limited local capacity with which to provide business services. Budget constraints prevent the government from employing adequate extension and veterinary staff to help farmers adopt good agricultural practices. They also prevent the organisation of beneficiaries for government assistance, such as vaccines and the delivery of medicines. The Central Veterinary Laboratory (CVL) lacks the essential equipment and expertise to provide quality assurance oversight for the poultry sector. Locally, it cannot competitively manufacture enough vaccines for Newcastle disease to substitute for the increasing imports. Poultry research and development – to address pests and diseases, share industry best practices and disseminate knowledge and information to improve sectoral performance and competitiveness – are generally weak and uncoordinated. Agribusiness officers assigned to equip farmers with business management knowledge and skills are also insufficient in number and poorly prepared and equipped. They lack motivation to share technical expertise with poultry farmers.

Financial services

Financial services providers (FSPs) are generally less attracted to actors in the poultry sector because of the lack of aggregation and contract farming arrangements and because poultry is perceived to have numerous inherent risks. The lack of access to finance and credit was frequently mentioned by SHFs as one of the constraints hindering progress. The improvement in macroeconomic indicators (declining inflation and interest rates, stable currency and reduced government borrowing) should further enhance the future prospects for lending and borrowing. The various sections of the poultry value chain are developing rapidly, with the most growth at the beginning and end of the value chain: critical inputs such as feed, DOCs and processing. A recurring theme for most players on the value chain remains challenges with regards to access to finance. For larger integrated commercial farms with significant capital assets, financing is often obtained by attaching their assets. However, this is not the case for most SHFs and SMEs. Still, the poultry sector is rapidly urbanising. In view of the size of the market and volume of business, commercial banks, MFIs and others will hopefully soon embrace sector opportunities and develop specific products targeting various value chain actors.

Investment finance services – development, impact and blended

The economy's progress towards agricultural transformation is slow, as productivity remains stubbornly low. Nascent industrialisation that could create new export opportunities and value addition is constrained by low levels of investment, an inadequate skills mix and supply side constraints. The country's aim of becoming a middle-income country requires a new development model that is more focused on development financing and private investment than consumption. Malawi has a strong need for impact capital across a wide range of industries including agriculture, where most of the population is employed. However, there is little commercialisation or value addition.

While many basic services are lacking or underdeveloped in Malawi, this presents opportunity for entrepreneurs and their investors to respond. Impact capital is relatively

limited in Malawi, with few actors available to service smaller ticket enterprises and most of these operating from neighbouring countries. Larger-impact investors, such as AgDevCo and CDC Group, have made investments but only in larger enterprises. Impact capital represents a small portion of the total capital available in Malawi. Donor organisations are a key source of capital but, according to some development organisations, they often target larger companies with higher turnover, which are perceived as less risky.

The agribusiness investment landscape in Malawi is very heterogeneous with a limited number of impact investors and private equity funds. The three biggest and most consistent investors in Malawi are CDC Group, AgDevCo and Pearl Capital Partners. CDC Group has invested directly at the higher end, in firms with revenues of \$5 million and upwards.

Other notable local institutional investors forming public-private partnerships are the MAIIC²⁴ (Malawian Agricultural and Industrial Investment Corporation), a partnership between MITC and CDH Investment Bank, and the Malawian Innovation Challenge Fund (MICF)²⁵, a challenge fund that has invested more than \$24 million since 2013. In business incubation and acceleration, mHub and GrowthAfrica stand out, while social impact ventures such as Kweza Equity Partners and GrowthAfrica are helping professionalise the ecosystem.

In Malawi, a key lesson is that there is a need for start-up and early stage capital with a stronger linkage to business incubators and accelerators in order to both bridge the funding gap and lower the risk perception. In addition, a greater focus on climate mitigation and climate adaptation techniques for SHFs would go a long way to enhance agribusiness investments in Malawi, following cyclical climate impacts such as droughts and cyclones. Other findings are as follows:

- As in any nascent market, Malawian entrepreneurs do not understand equity instruments. Even when they do, they are reluctant to relinquish company control to an external investor. (Only two equity transactions have been identified, though those have been larger in size);
- Malawi is a very small market with a very limited number of investment-ready opportunities. When they do arise, they are snatched very quickly with terms tilted in favour of investors, which tend to have the upper hand and get a good financial deal;
- There are very few impact investors with a physical presence in Malawi. Most rely on deep local knowledge and government connections to navigate the ecosystem;
- Average investment tickets range from \$5,000 to \$1 million;
- Investor preference is for debt instruments at the SME level, with few large equity transactions, owing to the very nascent nature of the Malawian investment market;
- A few large-scale companies attract the largest investments from private equity firms, while venture capital is quasi-non-existent;
- Investors have acknowledged that their capital will be more “patient” than in other, more-mature emerging markets, so they are keen to support for a longer term. In this context, investors could benefit from cheap (ideally free) technical assistance and BDS services to enhance their investment appetite and portfolio pipelines over time.

Evidence gaps identified include a limited number of case studies and examples of profitable and impactful business models. Limited actors are involved in providing agriculture with access to finance. Crop- and country-specific data on productivity and markets are scarce. There has been a limited number of exits to stir the appeal of investors.

The major constraint for potential investors is the perceived level of risk due to: high transportation costs impacting the primary sector; climate change; access to markets;

²⁴ MAIIC: <http://www.maiic.mw/> or <https://staging.maiic.mw/>

²⁵ <http://www.micf.mw/>

business and personal security; unreliable and low access to energy and water; and limited bankable deal flow. Additional factors include the extremely low productivity of smallholder farmers, fragmented value chains, huge gaps in infrastructure and an import culture limiting the growth of local value chains. Being landlocked is often perceived as a big risk for Malawi, though its strategic position and potential integration into the SADC and EAC regions are viewed as an opportunity.

The main opportunities for increased investment in agribusiness include: horticulture for exports to the SADC and EAC; cassava; sweet potatoes; Irish potatoes; livestock and dairy (livestock are currently used as “moving bank accounts”); poultry (including security for stock theft); the development of insurance and security products; and non-traditional exports. Other development opportunities include: financial and technical support for establishing low-cost processing facilities in the intermediate regions to develop local supply chains; increased use of productive solar and productive renewable energy; development of contract farming frameworks and ecosystems; and development of integrated value chains (farm to plate) using examples from neighbours such as Zambia, Tanzania and Mozambique.

CASA’s finance landscape mapping exercise is being finalised, and interim findings on constraints highlighted by commercial banks in lending to SMEs include:

- Banks’ preference for government borrowing instruments;
- Limited bankable agri-business deals;
- Limited acceptable collateral;
- Fragmented agricultural value chains;
- Price instability and weather-related risks;
- Lack of market information on agri-sectors.

Business development services (BDS) for investment readiness

There is a general lack of BDS in Malawi to comprehensively support and enable the transformation of agriculture, especially through support to small-scale industry and processing. The cooperatives sector is struggling to develop and grow into a vibrant driver of agricultural transformation, largely due to capacity constraints – that is, a lack of technical and business expertise. The business environment is improving, yet competitiveness is stagnating. While the government has made significant efforts to improve the exchange rate regime by floating the currency and has started to rein-in domestic borrowing to increase space for private sector borrowing, much is still required in terms of infrastructure, improving the macro-economic environment, and improving access to finance. There are currently few BDS providers supporting SMEs and smallholder producers commercially. Most of the available services come from donor-funded programmes, and the services are not continued after the programmes close. The Small Medium Enterprises Development Institute (SMEDI) is the only government BDS provider, but it lacks sufficient institutional and budgetary capacity to effectively provide and deliver services.

Advocacy services

Smallholder poultry producers lack a strong voice to influence policy or regulatory reform due to weak poultry farmer associations. Key farmer organisations representing the interests of poultry farmers in Malawi include the Poultry Industry Association of Malawi (PIAM). This is largely supported through fees paid by commercial hatcheries and is perceived to represent the interests of the large commercial poultry companies. It has lost credibility with SHFs and is no longer a voice of influence over them. The Small and Medium Poultry Farmers Association (SMPFA) is another farmer organisation representing the interests of small and medium poultry farmers. This association claims not to have any connections or linkages with the large commercial companies deemed to be infringing upon the rights of

SHFs. Since the smallholder voice is weak and divided, both associations have failed to successfully advocate or lobby for inclusive policies or regulatory reforms during their engagements with government and parliament. The National Association of Smallholder Farmers in Malawi (NASFAM) and the Farmers Union of Malawi (FUM) are the key organisations representing SHFs nationally. The Civil Society Agriculture Network (CISANET) is the main organisation coordinating agriculture sector advocacy activities in Malawi.

Market information services

The availability of timely and accurate information to all interested parties is therefore essential to enable the creation of a competitive, inclusive market, whether it be provided by the government itself or by the private sector. The poultry value chain is failing to provide adequate, relevant and timely market/sectoral information services to various stakeholders. The assumption that the private sector would take over that role from the government has not materialised. The poultry industry lacks efficient market intelligence gathering and information dissemination; but such intelligence and information could have positive benefits for farmers, traders and policymakers. Current market information that would enable smallholder producers to negotiate with traders from a position of greater strength is severely lacking. The availability of information and intelligence would facilitate the spatial distribution of poultry from rural areas to urban areas and between urban markets: It would send clear price signals from urban consumers to rural producers regarding the quantities, varieties and qualities in demand.

Technical services, quality assurance services and biosecurity control

There is limited capacity at national level for analysing biological, chemical, heavy-metal and physical food hazards in food products. The lack of an overarching food safety system, coupled with a significant shortage of skilled manpower, testing equipment and facilities, is a major challenge. Few poultry enterprises have a quality certificate or are in the process of applying for one. Most small-scale poultry producers in the country have not yet systematically adopted quality procedures and standards. This is due to a combination of factors: the absence of relevant regulatory frameworks governing quality standards on the local market; inadequate training and extension services; weak market feedback systems; compliance costs; and a lack of enforcement capacity on the part of market players downstream in the value chain, which would benefit from better product standards. SMEs readily admit that technical regulations on food products are burdensome due to procedural inefficiency, the high cost of conformity assessments and a lack of information on technical requirements and how to pass these assessments. With all these gaps, it is unsurprising that sub-standard quality constrains the prices commanded by domestic products and exports.

Research, training and development

Research, training and development are an integral part of the poultry production system. In Malawi, the Department of Agricultural Research Services (DARS) coordinates research through its network of research centres in places including Bvumbwe and Chitedze. LUANAR also plays an important role in poultry research. Further training is mainly offered by public extension services that have limited capacity and only a few private sector veterinary consultants – mostly retired public officers and academics. There are reports of informal payments and other forms of inducements and incentives being given by rural smallholders in order to be visited by a public veterinary officer: the cost usually covers transport and medications. The coordination of public extension services seems to be a challenge due to livestock not being a priority value chain and budgetary constraints at both central and local government levels. NGOs and the private sector are largely filling in the gap in extension services by using the lead farmer approach and helping cooperatives to employ their own veterinary officers.

Waste management

The need to maintain the environment, human health and the quality of life for people living around poultry production operations makes waste management a critical consideration for sustainable long-term growth. This applies to larger bird facilities located near urban and peri-urban areas, smaller commercial systems associated with live bird markets, and village and backyard flocks located in rural areas²⁶. The production of poultry results in hatchery wastes, manure (bird excrement), litter (bedding materials such as sawdust, wood shavings, straw and peanut or rice hulls), and on-farm mortalities. Poultry processing results in additional waste materials, including offal (the feathers, entrails and organs of slaughtered birds), wastewater and biosolids. Most of these by-products can provide organic and inorganic nutrients that are of value if managed and recycled properly, regardless of flock size. However, they also give rise to potential environmental and human health concerns, as the sources of chemicals (including veterinary pharmaceuticals), vectors for insects and vermin, and pathogenic microorganisms. With the probable exception of veterinary pharmaceuticals, these factors are also relevant to small flocks, including small family flocks that may be partially housed in containment structures²⁷.

2.2.4 Supporting rules and regulations (enabling environment)

Lack of poultry development strategy and policy

The Government of Malawi appears not to consider poultry development a key priority area for agricultural development. The central and local governments allocate fewer resources to support development or transformation in the sector. Rather the focuses are maize for food security and tobacco as a cash crop. The National Animal Health and Livestock Development Policy was developed in 2004, and the National Livestock Development Strategy was developed in 1999: their policies and strategies are outdated and irrelevant to most emerging issues in the livestock sector. Despite the rapid growth of the poultry industry and the significant contribution it makes to the sector and the economy, poultry does not have a separate development strategy or policy. There are no specific rules governing poultry production, processing and trade, nor specific regulations and incentives related to the poultry sector. That is a contrast with priority crops such as tobacco, coffee, tea and sugar, which are key foreign exchange earners for the country.

Unfair trading practices and competition policy

Smallholder poultry producers are excluded from participating effectively and profitably due to several factors. These include unfair and anti-competitive trading practices by the dominant large commercial companies; dependence on large commercial companies for the supply of DOCs and poultry feed; the lack of a strong smallholder voice to represent their interests or advocate policy and regulatory reform; and the lack of contract farming arrangements and outgrower models linking smallholders to markets. The dominance of a few players has exacerbated consolidation in the poultry industry, resulting in one company (allegedly) controlling 85% of the broiler market and another controlling 75% of the layers (eggs) market. Smallholder poultry producers complain bitterly about the dominance of large commercial producers in informal markets through mobile delivery trucks that go to all known spot markets in the country. These trucks have been accused of dumping poultry at below-cost prices, thus rendering poultry produced by smallholders uncompetitive.

Lack of effective poultry regulatory frameworks – food safety, consumer protection and quality standards

The key role of the Central Veterinary Laboratory (CVL) under the Department of Animal Health and Livestock Development (DAHLD) based in Lilongwe is to ensure and provide

²⁶ <https://mwnation.com/firm-dumps-rotten-chicks/>

²⁷ <http://www.fao.org/3/al715e/al715e00.pdf>

evidence-based quality assurance for essential poultry inputs and poultry meat products. Together with the MBS, DAHLD has a mandate to ensure compliance with the various policies and regulations that ensure the integrity (safety, quality and hygiene) of poultry products. However, stakeholders voiced their concerns to CASA over the lack of credible quality assurance services, particularly for chickens. There is growing speculation and suspicion over the use of growth hormones, antibiotics and even formalin in exotic poultry varieties. Poultry stakeholders reported that the dysfunctionality of CVL due to resource constraints has resulted in inadequate vaccine production quantities and a lack of capacity to provide essential veterinary and regulatory oversight services to the poultry sector.

Poor enforcement of poultry-import regulatory controls

Since 2004, poultry products imported into Malawi require a license (under the Control of Goods Act) from the MoITT and an SPS clearance from DAHLD. Malawi's poultry industry has experienced phenomenal growth, partly because of these protectionist measures, and also thanks to favourable industrial and trade policy instruments, increasing urbanisation, a growing middle class earning higher incomes and diet diversification from carbohydrates and vegetables to animal protein sources. In the interim, the protectionist position taken by the government seems to have shielded poultry players from increased competition. Institutional and capacity constraints at MoITT affect the enforcement of poultry importation restrictions, with heavy reliance on the public or PIAM to report any infringements. The government lacks the necessary resources (financial, technical, and equipment) to proactively ensure compliance with the various import restrictions that apply to poultry products.

Investment policy and climate

Malawi's investment framework is primarily governed by the Investment and Export Promotion Act (2012), which also establishes the MITC as the primary institution mandated to attract FDI and to promote exports to international markets. MITC operates under the MoITT, the policy institution responsible for investment and trade. The MITC has endeavoured to streamline investment procedures by establishing the One Stop Service Centre where investors obtain all the necessary investment processing requirements under one roof in just under five days. MITC also promotes the following advantages of Malawi: political stability and security; a liberalised economy and political commitment; a competitive labour market; preferential access to markets; untapped investment opportunities; an investor friendly climate; a growing economy; and developing infrastructure²⁸.

Inequitable informal business rules

Because Malawi's judicial system is neither strong nor robust, written contracts are very difficult to enforce. Building trust and personalised relationships in value chains through repeated transactions can be more effective. Women hardly participate in preferred supplier-buyer relationships, which significantly reduce the risks of cheating and opportunistic behaviour in a business environment where formal rules (written contracts) are not reliable. So, their involvement in formal business relationships is very limited. In Malawi, informal rules are contributing to the ineffectiveness of formal rules: the norm is not to comply with formal rules, as in the non-adherence to grading standards even if the buyer always checks the quality. This vastly inflates enforcement and transaction costs. Since the penalties for non-compliance and the chances of detecting violations are both negligible, most laws and regulations are 'paper tigers' unless social compliance or civic cooperation is incentivised. When violations are somehow detected, the tendency is to corruptly influence the policy or regulatory agency concerned to not penalise the culprit and just look the other way. Since the norm is not to abide by formal rules, the enforcement of issues such as quality adherence becomes costly. This makes it difficult to strengthen vertical linkages, which thus become inefficient. As a result, standards set by government agencies become ineffectual,

²⁸ <https://mitc.mw/invest/index.php/investment-climate/why-malawi>

and buyers must send their own agents to verify quality at the point of purchase. This increases transaction costs for both buyers and sellers.

3 Strategy for change

CASA's poultry strategy is founded on optimising engagement with SMEs seeking investment to drive growth, while addressing constraints on smallholder producers' commercialisation and engagement. (In many cases, these consist of business opportunities that are not taken up.) Our engagement is typically expected to involve a journey with partner SMEs from preparations for receiving investment (such as business model development and BDS support) through to matchmaking with commercial finance providers and impact investors.

3.1 Process leading to strategy and project outlines

During the inception phase, CASA employed the Inclusive Markets approach to arrive at the inception deliverables of this Inclusive Growth Strategy document and the Project Outlines within. Supported by the project's technical advisors, the CASA country teams completed the following steps of the IM approach:

- i) Development of the sector dynamics and institutional landscape (combination of desk research and key informant interview);
- ii) Analysis of systemic constraints and underlying causes of rather slow investment uptake for commercialisation of the poultry sector including validation with market actors;
- iii) Development of the inclusive growth strategy for stimulating greater investment in poultry sector along with theory of change and vision of change;
- iv) Mainstreaming of CASA crosscutting areas in (i) and (ii) above;
- v) Identification of intervention areas and design of outline projects, including initial interactions with potential SME and other partners and service providers, and completing pre-due-diligence assessments of SMEs;
- vi) Developing an initial list of potential sources of finance and investment for SME matchmaking, including accelerators and incubators for potential BDS and support to SMEs for investment readiness preparation.

The next steps in the IM process are: (a) scoping of at least five project concept notes²⁹ (first three months of implementation), including mainstreaming of CASA crosscutting areas; (b) design of project plans, including mainstreaming of CASA crosscutting areas and monitoring and results measurement activities, as well as partner due-diligence exercises, negotiations and contracting; (c) implementation, monitoring, results measurement and evaluation (most projects expected to commence from 1 April 2020 but possibly some quick wins beforehand); and (d) collaborating with Component C on preparing poultry SME success stories and engaging with investment actors.

For DFID to agree that a project is relevant, it may be necessary to make some changes to the outline poultry projects portfolio during scoping of the project concept notes and, subsequently, for the second round of projects.

CASA employs the following criteria to select relevant projects for producers, SMEs and the enabling environment:

- Does the project directly or indirectly target smallholders, especially women, with the capacity to step up – that is, increase production, productivity and quality to meet market requirements?
- Are there suitable actors available to partner with?
- Does the project avoid distortion of the market and create a sustainable market?

²⁹ Initial samples of project concept notes were provided to DFID during the Inception Phase for feedback.

- Does the project create access to commercial markets for target smallholders?
- Does the project demonstrate a business case or new business model that will attract investment to commercialise smallholder supply chains?
- Is the project feasible, sustainable, scalable and relevant (in terms of factors such as resources and timelines)?
- Are the cross-cutting issues incorporated where relevant?

CASA employs the following criteria to select SME partners:

- Annual turnover under \$2.0 million, or less than 50 employees;
- Must want finance in the range of \$100,000 \$1,000,000 either immediately or in the foreseeable future. (Exceptions could be possible to the lower limit, where there is expected to be a second round of finance meetings or the limit is expected to be exceeded during the life of the CASA project);
- Ideally has not received finance in the past. (An exception may be an SME seeking finance within the above range for a new stage of expansion);
- Engages or will potentially engage large numbers of smallholders in the supply chain; and passes CASA's due-diligence assessment.

Work on identifying a roster of potential BDS providers for engagement, including assessment of service and delivery capacity building needs, will commence early in implementation. CASA expects to focus on a small number of the most relevant providers. Capacity building may centre on services development, testing and service evaluations and consumer and other research. Provider selection criteria are expected to include:

- Capacity to deliver services;
- Close to SHFs and SMEs in culture, operating environment and geography;
- Low cost structure;
- Commercial focus, business culture and accounting and management systems;
- Organisational independence, especially from donor funds;
- Focus on services for SHFs and agri-business SMEs.

CASA has completed an initial mapping of the investment landscape in Malawi. (See separate report for a list of active investors in Malawi.) A similar exercise for finance landscape mapping is being finalised. The lists of actors from these exercises will be updated periodically.

The sector-inclusive growth strategy is responsive to weaknesses in service markets, the enabling environment and aggregation in the market system; and to the lack of investment needed for growth. Strategy formulation involves: (1) identifying the market potential, through calculations to show the sector's potential; (2) developing a sector vision of change for an inclusive, competitive sector; and (3) designing a portfolio of interventions that can be targeted at specific market actors or groups of market actors to drive changes in the market system and attract investment into target agri-businesses.

3.2 Market potential, opportunities and growth potential

The potential drivers of growth in the poultry sector were found to be the following:

1. **Strengthen SHF aggregation and linkages with commercial market actors.** Greater commercialisation of the poultry sector in Malawi requires the strengthening of aggregation volumes (from fragmented SHFs countrywide) and robust linkages with

input suppliers, agrovets, feed millers, extension service, traders and credit supply. *There is a strong business case for the commercialisation of dual purpose chickens (Kuroiler, Sasso and Boschverd) in principle and strong potential demand for chicken meat, in particular from increased consumption due to urbanisation and economic growth³⁰.*

- 2. Facilitate access to finance and investment for market actors.** SHFs dominate the informal trading sector (live chicken sales in markets), but are characterised by low productivity, lack of capital accumulation (retained earnings and other capital for investment expansion), low capital intensity and labour-intensive production. *This presents a scaling-up and upgrading opportunity for hatcheries (incubators and brooders), feed milling, AgroVets (vaccines/ medicines) to adequately supply SHFs and SMEs with quality and affordable inputs.*
- 3. Promote an improved regulatory and trading environment.** Weak food-safety and quality-assurance services (testing, audit, certification and inspection) are not providing enough confidence to the general public, thus impacting demand for poultry products and negating any upstream process or product improvements. *A convincing, evidence-based business case can be made to government to open up the poultry market to encourage strong and fair participation of SHFs and SMEs. The government can also ensure that the “rules of the game” are fairly and thoroughly enforced by oversight regulatory authorities.*

3.3 Vision of change

Our **Vision of Change for Poultry** is as follows:

A structured, competitive and inclusive poultry sector expanding through enhanced public and private investments in SHFs and SMEs. These investments will ensure increased production and supply of quality poultry through structured supply chain linkages.

3.3.1 Vision of change for processors

Integrated poultry processors are incentivised to develop structured supply chain linkages with SMEs (owned by women and youth) and attract private investments for competitiveness, growth and decent jobs.

3.3.2 Vision of change for producer groups (PGs) and SMEs

Poultry SMEs (hatcheries, feed millers, agrovets and producers) expand production capacity and SHF outreach through improved competitiveness, increased investments and fair market access.

3.3.3 Vision of change for SHFs

SHF producers have structured markets and are incentivised to upgrade through commercialisation of poultry production to enhance production volumes, productivity and incomes.

3.4 Intervention areas and project outlines

It is crucial that interventions are designed that are ‘systemic’, so that outcomes are not dependent upon the project or development partner for sustainability. This means that CASA should not seek to provide services (or at least only temporarily) but rather enter the market system in a catalytic manner to tackle the service weaknesses in existing market actors.

To realise the vision described above, the CASA team employed an Intervention Logic Analysis Framework. After identifying potential projects and activities linked to each core

³⁰ https://cgspace.cgiar.org/bitstream/handle/10568/100242/arusha_report.pdf?sequence=1&isAllowed=y

problem, the team further streamlined the activities across all the ILAFs and grouped them into three broad project areas that cut across all the ILAFs. These and their linkages to growth drivers and investment are summarised in the table below.

Table 2: Intervention areas and their links to growth and investments

Intervention area	Link with drivers for growth	Project	Link to investment readiness	Possible investors in future
Strengthening SHF aggregation and linkages with commercial market actors	Growing consumer demand for ICs SHFs already rearing ICs on a subsistence level Growing interest from commercial producers to scale up production	Strengthening SHF poultry aggregation, stimulating SME interest for investing in outgrower schemes and contract farming	BDS support to develop and strengthen business models BDS to improve farmer group organisation and governance Acceleration and incubation support Matchmaking with investors	USADF KULIMA AgCOM FARMSE
Facilitating access to finance and investment for market actors	Potential demand for credit and investment from hatcheries, feed millers, agrovets and producers	Facilitating access to finance for SHFs, preparing SMEs to receive investment	BDS support to develop and strengthen business models Acceleration and incubation support Matchmaking with investors	MICF Growth Accelerator AgDevCo MAIIC NBS Bank NB Dev. Bank
Promoting an improved regulatory and trading environment	Demand from SHFs and SMEs	Improving poultry feed standards and SHF access to markets	N/A	N/A

Expected Overall Outcomes: In projects defined under the current intervention areas, we estimate that we will reach 39,000 smallholder producers, with increased income for 23,400 beneficiaries. We anticipate it will be possible to scale out to approximately 35,100 beneficiaries by expanding existing projects and identifying new intervention areas in future years.



Commercial Agriculture for Smallholders and Agribusiness

The CASA programme makes the commercial and development case for investing in agribusinesses that source produce from smallholders. It does this by demonstrating how this can be done effectively, by bridging evidence gaps and by ensuring investors and policymakers have access to the right information and people to make inclusive agribusiness models succeed.

By showcasing successful models for businesses that source produce from smallholders and pulling together the evidence base supporting the commercial and development impact of their business models, CASA will attract more investment into the sector, boosting economic growth and raising demand for smallholder produce.

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