

DRUM COMMODITIES LIMITED (DCL) – COUNTRY REPORT

MALAWI

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MALAWI

1. INTRODUCTION

- 1.1 Officially called the Republic of Malawi, Malawi is a landlocked country in southeast Africa. The country was formerly known as Nyasaland. Malawi is bordered by Tanzania to the northeast, Zambia to the northwest and Mozambique to the east, south and west. Malawi is divided up into 28 administrative districts. It covers an area of 118,000km², which is roughly half the area of the UK.



- 1.2 The population of Malawi is almost 16.5 million. Approximately 780,155 people live in the capital Lilongwe. Lilongwe is Malawi's largest city, followed by Blantyre and then Mzuzu.
- 1.3 The currency is the Malawian Kwacha (MWK). 1 US\$ = 426.3179 MWK.
- 1.4 The official languages are English and Chichewa. Other major languages include Tumbuka, Lomwe, Yao and Sena. Laws and official government records are written in English. Parliament conducts business in English.
- 1.5 Malawi's climate is hot in the low-lying areas in the south and temperate in the northern highlands. The rainy season is between November and April with warm equatorial rains and thunderstorms. The dry season is from May to September with almost no rainfall, though wet mist floats in from the highlands.

2. HISTORY

- 2.1 Malawi was settled by migrating Bantu groups from the West around the 10th Century. In 1819 the Ngoni fled from King Shaka Zulu in South Africa. The Ngoni settled in 2 groups. The first group settled at Mabiri in Mzimba District and the second group settled near Dedza. In 1891, the area was colonized by the British and it became part of the Central African Federation in 1953, but the federation was dissolved 10 years later. In 1964, Nyasaland gained independence and took on the name Malawi. The meaning of the name is disputed. It has been known to mean "flames" as well as "the glitter of the sun as it rises across the lake."

- 2.2 On gaining independence, Malawi became a single party state under President Hastings Banda. He remained President until 1994 when he was removed from power.
- 2.3 Under the Hastings Banda Presidency, Malawi was often cited as an example of how a poor, landlocked, heavily populated, mineral-poor country could achieve progress in agriculture and industrial development.
- 2.4 In 1993, Hastings Banda received increased pressure for political freedom and the populace voted for a multi-party democracy. In 1994 the first multi-party election was held and Bakili Muluzi defeated Hastings Banda. Muluzi was re-elected in 1998 and remained President until 2004.
- 2.5 Dr Bingu wa Mutharika was elected and remained President from 2004 until 2012. His tenure was seen as autocratic and dismissive of human rights and in 2012 high costs of living, poor governance and lack of foreign exchange reserves led to protests.
- 2.6 In 2012 President Mutharika died of a heart attack. Joyce Banda became President of Malawi. She is no relation to Hastings Banda.

3. CULTURE AND DEMOGRAPHICS

- 3.1 Malawi's population is made up of 9 native ethnic groups, these include the Chewa, Nyanja, Tumbuka, Yao, Lomwe, Sena, Tonga, Ngoni and Ngonde.
- 3.2 The Chewa is the largest group comprising approximately 5.2 million of the population. The second largest demographic group is the Lomwe of 2.8 million people. The Yao is the third largest group of approximately 2.2 million. The Yao are considered Muslim in Malawi after the traders of the East who were responsible for their education and introduced rice to the country. The Yao can be found near Liwonde and the Southern Lakeshore. The Tumbuka are found in the northern region. The Sena come from Mozambique and settled in the Lower Shire Area.
- 3.3 The major language is Chichewa and spoken by over 57% of population, but English still remains the most widely used and accepted language.
- 3.4 Approximately 68% of the population is Christian, 25% Muslim and 7% follow other religions. The largest Christian groups are the Roman Catholic Church and the Presbyterian Church. The majority of the Muslim population is Sunni.

4. POLITICS

- 4.1 Malawi is a multi-party democracy. The government consists of executive, legislative and judicial branches. The executive comprises the President, first and second vice Presidents and a cabinet. Local government is administered by central government, which appoints regional administrators and commissioners.
- 4.2 The President is elected every 5 years. The constitution allows for a senate but none is currently in place. The senate would represent all the traditional leaders from the 28 geographic and administrative districts. Currently, Malawi has nine political parties. The ruling party is the Democratic Progressive Party with the main opposition being the Malawi Congress Party and the United Democratic Front. Democratic elections will take place on 20th May 2014.
- 4.3 The judicial branch is independent and is founded on the English model. It consists of a Supreme Court of Appeal, a High Court, which has three divisions, general, constitutional and commercial, Industrial Relations Court and Magistrates' Courts.
- 4.4 Hastings Banda established pro-Western foreign policy that continued until 2011. Evolving from a one-party state to a multi-party democratic state strengthened ties with the West.
- 4.5 The US has active branches of the Peace Corps, Agency for International Development and Centre for Disease Control and Prevention in Malawi. In 2010, diplomatic relations became strained with Mozambique over disputes of the use of the Zambezi River and the inter-country electrical grid. In 2007, Malawi established diplomatic ties with China. Chinese investment in the

country has continued to increase despite concerns of mistreatment of workers by Chinese companies.

- 4.6 In 2011, relations were damaged with the United Kingdom due to economic mismanagement and poor governance. As a result the United Kingdom suspended all budgetary aid to Malawi. Relations between the UK and Malawi had been tense after it was leaked that the British Ambassador to Malawi accused the then President Mutharika of being autocratic. The President reacted by expelling the ambassador from the country. The United States soon followed suit citing concerns of government suppression and intimidation of civic groups.
- 4.7 Malawi is a member of seven international organisations including the Commonwealth, United Nations, the IMF, the World Bank, African Union and World Health Organisation.

5. MAIN INDUSTRY AND ECONOMY

- 5.1 Malawi is among the world's least developed and most-densely populated countries. Approximately 85% of the population live in rural areas.
- 5.2 The economy is based on agriculture. It accounts for more than one third of the GDP and for around 90% of export revenues.
- 5.3 Industry accounts for 20% and services 45% of Malawi's GDP.
- 5.4 The economy has been dependent on substantial economic aid from the World Bank and International Monetary Fund (IMF). In 2000, the IMF stopped aid amid concerns of corruption. This saw a decrease of almost 80% of the development budget. However, in 2005, Malawi was granted USD 575 million in aid due to an increased confidence that corruption was being addressed.
- 5.5 Malawi is the 119th safest investment destination in the world.
- 5.6 Some of the economic challenges facing Malawi are: improving environmental protection, dealing with a rapidly growing HIV AIDS problem and improving the education system.
- 5.7 The main agricultural products include: tobacco, sugarcane, cotton, tea, corn, potatoes, sorghum, cattle and goats.
- 5.8 Malawi does not import or export any electricity but does import all petroleum products as there is no petroleum production in the country.
- 5.9 Malawi exports approximately USD 945 million in goods per year. It is extremely dependent on tobacco sales and this places a heavy burden on the economy especially as world prices decline. Farmers have been encouraged to move away from tobacco towards more profitable crops such as paprika.
- 5.10 Malawi imports approximately USD 1.625 billion in goods per year. The main commodities are food, petroleum products, consumer goods and transport equipment. The main import countries are South Africa, Zambia, India, Tanzania, the US and China.

	Export statistics 5 top commodities	Percentage
1.	<i>Tobacco</i>	<i>67.1</i>
2.	<i>Sugars</i>	<i>6</i>
3.	<i>Coffee, tea, mate and spices</i>	<i>4.8</i>
4.	<i>Cotton</i>	<i>2.7</i>
5.	<i>Oil seed and fruit</i>	<i>2.4</i>
	Main Export Partners	
1.	<i>South Africa</i>	<i>14.2</i>
2.	<i>Egypt</i>	<i>9.8</i>
3.	<i>Zimbabwe</i>	<i>8.6</i>
	Import statistics 5 top commodities	

1.	<i>Fertilizers</i>	<i>16.7</i>
2.	<i>Vehicles</i>	<i>16.1</i>
3.	<i>Mineral Fuels</i>	<i>9.8</i>
4.	<i>Boilers, machinery nuclear reactors</i>	<i>6.3</i>
5.	<i>Printed books, newspapers</i>	<i>4.8</i>
	Main Import partners	
1.	<i>South Africa</i>	<i>41.5</i>
2.	<i>China</i>	<i>7.3</i>
3.	<i>India</i>	<i>6.1</i>

6. INFRASTRUCTURE

6.1 Malawi has:

- 6.1.1 31 airports. 7 have paved runways and 24 have unpaved runways.
- 6.1.2 Approximately 797 km of railway.
- 6.1.3 6,956 km paved roads and 8,495 km of unpaved roads.
- 6.1.4 700 km of waterways.

7. MILITARY, SAFETY AND SECURITY

- 7.1 Malawi has a small standing military approximately 25,000 men. It consists of army, navy and air force. The army originated from the British colonial units that existed at the time of independence.
- 7.2 Vigilance is required when walking in markets, it is advised not to accept lifts from strangers and stay in well-lit areas at night.
- 7.3 Spontaneous civil disturbances can occur on occasion.

8. HEALTH

- 8.1 Malawi has central, regional and private hospital facilities. The public sector offers free health services and medicines.
- 8.2 Infant mortality rates are high and life expectancy is 51 years.
- 8.3 There is a high rate of HIV AIDS among adults with an estimated 930,000 people living with the disease. As a result, approximately 5.8% of the farm labour force is dying of the disease.
- 8.4 There is a very high risk of infectious diseases such as diarrhoea, hepatitis A, malaria and typhoid fever.
- 8.5 Malawi has been making strides in decreasing child mortality and reducing HIV AIDS, malaria and other diseases.

9. EDUCATION

- 9.1 Primary education is not compulsory in Malawi, but the constitution does provide for at least 5 years of free primary education.
- 9.2 Dropout rates are higher for girls than boys as girls face more gender based violence than boys at school or travelling to and from it.
- 9.3 Attendance rates are increasing with enrolment for primary schools from 58% to 75% and students who begin in grade 1 and complete grade 5 rising from 64% to 86%.

10. CONCLUSION

- 10.1 Malawi's reliance on tobacco has stunted the growth of the economy as tobacco prices have fallen in recent years. The government faces challenges of promoting exports, improving both the educational and health sectors as well as dealing with deforestation and erosion. The country is still recovering from a severe drought in 2002.
- 10.2 A plan was launched in 2012 to aid economic recovery and mitigate the impact of reforms on vulnerable citizens. The recovery plan identifies immediate, short and medium areas for intervention and ensures that the country returns to prosperity. Some interventions include devaluing the Malawi Kwacha and setting a market determined exchange rate.
- 10.3 Malawi aims to boost economic growth in the agriculture, mining, energy, transport and tourism sectors. The country needs to ensure that the natural resources are properly managed and that all processes are transparent with regards to awarding tenders and distributing wealth.
- 10.4 Malawi has a range of diverse natural resources that include land, water, forestry and mining, which are all unexploited. Mineral deposits in the country include coal, copper, iron ore, rare earth elements such as tantalum and uranium.
- 10.5 Ernst and Young has predicted GDP growth for Malawi from 2012 to 2017 to be 7%: the highest in Africa. This is being achieved by renewing credible macroeconomic policies and good governance, which in turn results in increased financial donor backing.

ANNEX A – TOBACCO INDUSTRY

1. Agriculture is one of 5 priority sectors of the Economic Recovery Plan (ERP) and tobacco is one of the agriculture pillars. It has been grown in Malawi for approximately 120 years. Tobacco now accounts for 10% of GDP and is Malawi's largest industry contributing approximately 60% to export earnings.
2. Tobacco is grown predominately on large estates on the central plateaus of Malawi and throughout the country by smallholders. The tobacco cultivation sector is the most competitive in terms of number of smallholder farmers producing burley leaf tobacco.
3. There are more than 20,000 smallholder farmers belonging to 2 main farmer organizations: Tobacco Association of Malawi (TAMA) and the National Smallholder Farmers in Malawi (NASFAM). These organizations provide technical advice, inputs, transport of tobacco to the auction markets and market access.
4. In 2010, Malawi was the world's leading producer of Burley leaf tobacco, which is air dried, accounting for 6.6% of world's production and is grown almost exclusively by smallholders. 75% of flue cured tobacco is grown by the estate producers with the remaining 25% by smallholders.
5. The selling season is during March and early April it and continues until all crops have been sold, which is usually in September.
6. The Tobacco Association of Malawi (TAMA) was established in 1929 and in 1983 it became a registered trust and a founding member of the International Flue-Cured Grower's Association. TAMA is a not for profit organisation. Membership was mandatory until 2004 when it became voluntary due to industry changes.
7. Former President Hastings Banda established the Agriculture Development and Marketing Corporation (ADMARC) in 1971. ADMARC assisted any public or private organization with economic development by increasing volume and quality of agriculture exports.
8. Auction Holdings Limited (AHL) provides a platform for tobacco trading in Malawi, which is its most important function. It runs 4 main floors: Limbe floors, Lilongwe floors, Chinkhoma floors and Mzuzu floors. AHL also runs rural markets.
9. Farmers are charged 3.25% of the value of tobacco they sell. Through this levy, AHL meets all operating costs and retains a nominal amount for off-season expenses and pays the balance back to farmers. It is a not for profit organization.
10. The first AHL warehouse was in Limbe in 1936. Tobacco Auctions Limited and Producers Warehouse Limited were both operating in Limbe in 1939, but in 1962 they were amalgamated. The name was changed to Auction Holdings Limited in 1965. The Lilongwe floor opened in 1978.
11. In 1981 to 1982, AHL acquired majority shareholdings in Central Tobacco Properties Limited. Currently Auction Holdings Group comprises AHL, Agricultural Trading Company, Tobacco Investments Limited and Malawi Leaf.
12. Prior to 2001, prices were determined by market forces but since then prices are determined through cost of production. The pricing processes and inefficiency of the auction markets have led to uncompetitive prices being offered to TAMA and NASFAM.
13. Transport of tobacco is provided through the Road Transport Operators Association (RTOA). It recommends prices for transport services that have risen due to long queues at auction houses and, more recently, the frequent suspension of markets due to low prices.
14. There are 2 primary buyers of Malawian tobacco: British American Tobacco (BAT) and Philip Morris International. In the 2012 to 2013 fiscal year, the price of tobacco increased from USD 1.04 per kg to USD 2.20 per kg. The projected quantity of tobacco produced in 2013 was 156 million kg compared to that of 2012 which was 79 million kg. This was valued at USD 300 million in 2013 compared to USD 177 million of 2012.

ANNEX B – ILLOVO SUGAR

1. Founded in 1891, Reynolds Brother Limited was listed as a public company and Charles George Smith was appointed as its agent in Durban. In 1893, C G Smith became a shareholder in Reynolds Brothers. In 1915 Reynolds Brothers opened the Sezela Mill and Natal Cane By-Products Limited was listed as a public company. In 1952, Reynolds Brothers moved to Pongola. In 1977, C G Smith acquired the Illovo sugar mill from Tate and Lyle. The name Reynolds Brothers was changed to Illovo Sugar Limited in 1994.
2. Illovo acquired Lonrho Sugar Corporation Limited in 1997, which had sugar assets in Malawi. Then in 1998, Illovo acquired 60% control in the previously state-owned Sugar Corporation of Malawi (SUCOMA) from Lonrho PLC therefore increasing Illovo's stake to 75%. In 2006, Associated British Foods PLC acquired a 51% and controlling stake in Illovo.
3. Illovo Sugar Group holds 76% of issued share capital in Illovo Sugar (Malawi) and is now Africa's largest sugar producer with extensive agricultural and manufacturing operations in 6 African countries. It was ranked in the top 250 African companies positioned at 222 and valued at USD 313 million.
4. Illovo Sugar (Malawi) is the country's only sugar producer, with milling and agriculture assets at 2 estates: Nchala estate approximately 80 km south of Blantyre and Dwangwa sugar estate located approximately 300 km north of Lilongwe on the northern lakeshore in the mid-central region.
5. Illovo has a network of distributor depots that sell sugar from estates to all depots. This ensures that a depot delivered price is applied across the country. Illovo's core business function is growing cane, manufacturing, marketing and distributing sugar. Illovo provides the following: refined sugar, sugar syrup, cane sugar and speciality sugar.
6. Illovo employs approximately 10,000 people of which 5500 are permanent and 4600 are seasonal staff. Sugar production declined in 2013 to 215,000 tonnes from the 2012 production level of 237,000 tonnes. Illovo profit in 2013 was MWK 20 billion which is approximately USD 46 million.
7. In 2012, 2.3 million tonnes of sugar cane was grown, with Nchala estate producing approximately 117,000 tonnes of refined sugar and Dwangwa estate producing 120,000 tonnes of refined sugar. Approximately 66% of sugar produced is sold to local industrial and consumer markets. 19% is sold to the EU and USA. The balance is sold to regional and other world markets.

ANNEX C – SFFRFM

1. SFFRFM stands for Small Farmers Fertilizer Revolving Fund of Malawi. It has been responsible for managing the fertilizer buffer stock and the distribution of the fertilizer provided under commodity aid agreements. As a parastatal, the sole purpose SFFRFM was to procure fertilizer for smallholders, while the procurement of fertilizer for estates was conducted by Optichem and Norsk Hydro.
2. In 1993, the government finalized and publicly announced its policy to open up smallholder fertilizer markets to the private sector. As a result, members of the public were allowed to purchase fertilizers from SFFRFM on the wholesale market and then to resell them to farmers on the retail market.
3. In the public sector, SFFRFM and Agriculture Development and Marketing Corporation (ADMARC) are dominant. The private sector is made up of large established firms such as cooperatives and commercial firms as well as new small entrants. The private sector and SFFRFM import fertilizers for the Government's subsidy programme as well as for commercial sales. Private sector companies compete with SFFRFM in the procurement of fertilizers through a competitive tendering process.
4. Transport through the private sector plays an important role in the distribution and implementation of the fertilizer subsidy programme from national depots to retail outlets in various parts of the country. There is no participation by state-owned companies. The process is achieved through a competitive bidding and tendering process by the private sector. The successful bids are selected by the Minister of Agriculture.