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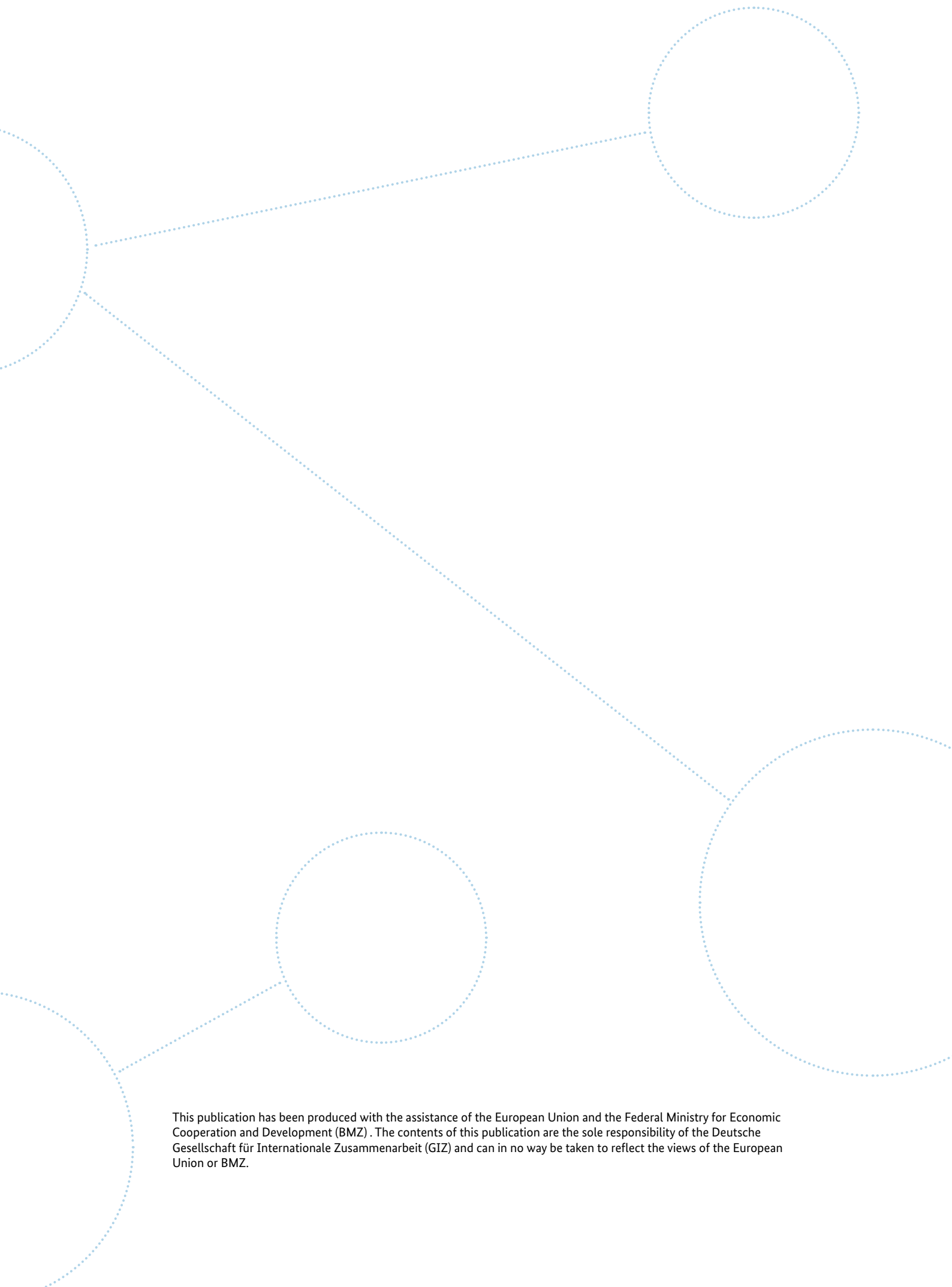


Co-creating Inclusive Business Opportunities

Experiences and Initiatives from Malawi

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Foreword



Florian Bernhardt, MIERA Team Leader

Dear reader,

German development cooperation has long recognized the potential of inclusive business models (IBM) and related approaches to connect business strategies with sustainable development priorities. Establishing mutually beneficial partnerships that can integrate the poor either on the demand or on the supply side of the value chain is a means to create growth opportunities for companies and smallholders alike. In Malawi, these approaches are high on the agenda of numerous public and private organisations contributing to increased income and employment, poverty reduction and inclusive growth.

In early 2017, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) organized a two-day symposium of rich presentations and vibrant discussions aiming to create a better understanding amongst our partners and stakeholders of local experiences and good practices in inclusive business, a key to tapping into the potential of profitable growth with positive social and environmental impact.

This publication puts together some of the learning from this event. It seeks to shed light on approaches and experiences in inclusive business in Malawi and the region, hoping to give some insight into challenges, opportunities and useful ways of promoting, developing and managing inclusive enterprises within our context.

Section 1, building on several resources published by GIZ on business options at the base of the economic pyramid, presents a definition and the relevance of inclusive business models. Section 2 gathers the main messages of the invited symposium speakers; their acumen and stories capture some of the IBM theory and applications relevant for Malawi and the region. Section 3 features case studies on inclusive enterprises currently supported by GIZ in Malawi. Finally, Section 4 invites the reader, our partners and stakeholders at large to continue the conversation on the role of the private and public sectors in moving the inclusive business agenda forward.

We wish to extend our gratitude to all those who participated in the symposium, especially to our partners and to those who contributed to the content of this publication – it is their knowledge and experiences that continue to enrich this ongoing debate.

Lastly, it is our sincere wish that this collection of case studies and examples will inspire continued dialogue, learning and collaboration amongst stakeholders in Malawi and beyond. We look forward to exchanging further with you and working together towards a more inclusive Malawi.

A handwritten signature in blue ink, appearing to read 'F. Bernhardt'.

Florian Bernhardt

More Income and Employment in Rural Areas (MIERA)
Team Leader



1

Defining Inclusive Business Models

Why do Inclusive Business Models Matter?



A smallholder farmer priding herself in the good quality of her grain

Inclusive business models (IBMs) provide goods, services and livelihoods on a commercially viable basis to people living at the base of the pyramid (BoP). According to the World Resources Institute (WRI), the BoP includes people earning up to eight US-Dollar per day in purchasing power parity terms (PPP). In the process, inclusive businesses can help address development challenges in developing countries and ultimately contribute to sustainable, economic development.

Inclusive businesses can integrate the poor either on the demand or on the supply side of the value chain. Integrating the BoP on the demand side means to provide them with consumer goods that are adjusted to their needs and win them as consumers of the business' products. For example, poor people often need small-scale sanitary and food articles due to their low and sporadic cash flow. Integrating them on the supply side means to include them as employees or suppliers of raw material, intermediate products or services. This can, for example, be done, by sourcing locally produced crops from smallholder farmers for processing via production contracts. IBMs are also possible in other sectors such as textiles or tourism. Thus,

inclusive business can include the BoP, which is estimated at 4.5 billion people in developing and emerging markets, in the value chain of their core business as suppliers, distributors, retailers and customers. On the costumer side, rapid growth and improved standards of living in developing countries are creating demand for goods and services which is estimated at 5 trillion USD per year in PPP. However, the way in which the BoP is integrated is highly dependent on the sector and type of inclusive business.

In the case of agribusiness, inclusive business practices create growth opportunities for smallholders and companies alike. The growing awareness from downstream and upstream value chain actors that IBMs can open attractive business prospects in ever more competitive and demanding markets is driving an increasing interest in such models as a means to create shared value. Meeting a growing demand for agricultural products will become increasingly difficult without sourcing from smallholder farmers. At the same time, improved business environments and new technologies are making it easier to work with smallholders as business partners.

In a nutshell, inclusive business models:

- Are motivated by a mission that goes beyond just making profit;
- Make money by providing goods and services in a commercially viable basis;
- Have the potential to reach scale by expanding their operations beyond their initial target or area, and
- Aim to integrate the poor in their core value chain, either on the demand side (e.g. as customers) or on the supply side (e.g. as distributors).

The inclusive business approach has emerged as a development tool that starts with individual businesses but has the potential to reach scale, transform entire value chains and influence the lives of a large number of people. While there is no standard business model, there are various approaches and examples, that aim at creating more



A sunflower farmer in Mchinji, Malawi

sustainable value chains. Still today, for many companies the BoP represents a large and underexplored market with a high potential for innovation. Development partnerships can play a strategic role in helping to lower the costs of pioneering inclusive business models for sustainable development, reducing risk and facilitating the transfer of know-how needed to upscale successful pilots.

It is crucial that investors, companies, and individuals realize the great and diverse potential of the BoP: According to UNEP, 97% of Africa's population earn less than eight USD per day (PPP). Thus, it is essential to not only include but to focus on the BoP when developing new business models.

Why do we need inclusive business models?

Inclusive business models are important because:

- They provide people living in poverty with access to appropriate products and markets either on the demand or on the supply side.
- The market for products and services targeted at the BoP is still underdeveloped despite having great potential to increase sales and prospects for companies;
- They can establish sustainable business relations with the BoP which can lead to a reduction of poverty in the long-term;
- They can create job and income opportunities in rural areas of developing countries and thereby can contribute to economic development.



2

Putting Inclusive Business Theory to Practice

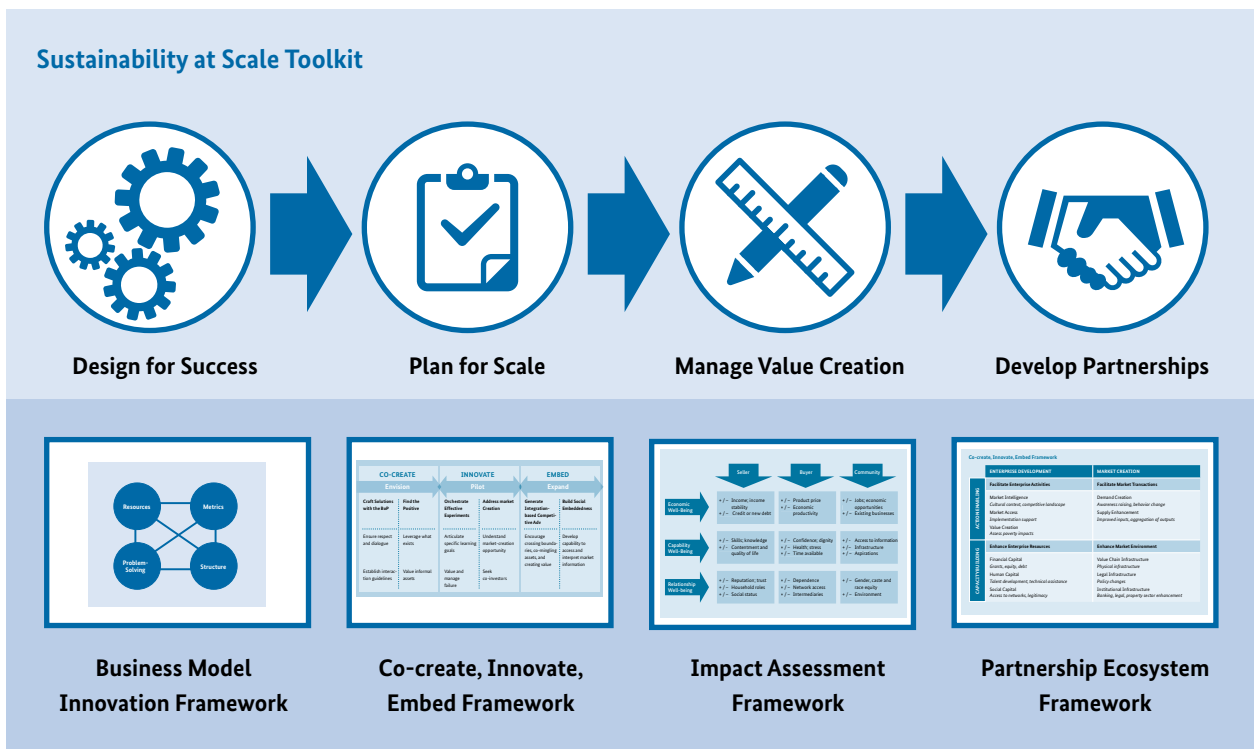
Getting Inclusive Business Models to Work: Building Businesses with Impact and Scale¹

During the Symposium on Inclusive Business Models, Ted London, William Davidson Institute and Ross School of Business, University of Michigan, introduced the theme of inclusive business models in his key-note presentation, focusing on BoP point of view. He emphasized that the question is not if, but how inclusive business models should be promoted to serve low income communities.

He stated that business has the potential to solve vexing social problems, including impoverishment faced by the world's poorest citizens. However, many inclusive businesses remain in a pilot state and do not reach a higher scale. This lack of scale means that their potential for impact is limited.

The Base of the Pyramid are those who earn less than 3,000 USD per year and who usually work and transact in informal markets.

In order to facilitate achieving scale, he proposed to utilize a “Sustainability at Scale Toolkit”.



1: [This section draws on Ted London's presentation, the Symposium's World Café Group 8 on the Sustainability Toolkit and the website "The Practitioner Hub for Inclusive Business: http://www.inclusivebusinesshub.org/know-how-scaling-in-bop-markets/?utm_source=All+contacts&utm_campaign=26ff087e6c-Nov_newsletter_2016&utm_medium=email&utm_term=0_ff1ac1c0b4-26ff087e6c-55319993]



“We have seen the promise of sustainable, scalable, BoP impact enterprises, but we have more to do to truly deliver on that promise. We must continue to draw lessons from the experiences – the successes and the frustrations – of enterprises operating in the field (...) and identify what works and what doesn’t.”

Ted London, William Davidson Institute and Ross School of Business, University of Michigan

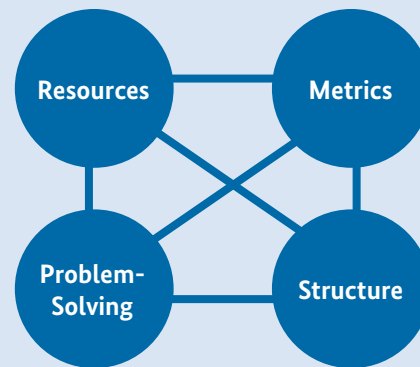
The toolkit consists of four pillars:

Pillar 1: Design for success

Initially, inclusive businesses should **engage in learning and experimenting** in order to build business models that are appropriate for the BoP context. This requires emphasizing innovation in business model development. The opportunity for business model innovation is influenced by four key factors: available resources, structure, problem-solving approaches, and metrics.

- **Resources** concern the skills & experiences of a business team to engage in BoP markets and ensuring they have the appropriate portfolio of knowledge and background to succeed in this market environment.
- **Metrics** relate to taking data and statistics to assess the value of succeeding or failing in an innovation with respect to financial and social goals. Short-term metrics should value both success and learning associated with failure. Long-term metrics should consider both financial and social performance.
- **Problem-solving** is about the team engaging appropriate internal and external partners in developing their business model. In addition to identifying the right partners, the team must also be sure it is focusing on solving the right problems.
- **Structure** refers to the desired capital structure and scope of activities as well as to organisational and geographic locations that enable the team to effectively innovate in a BoP context.

Business Model Innovation Framework



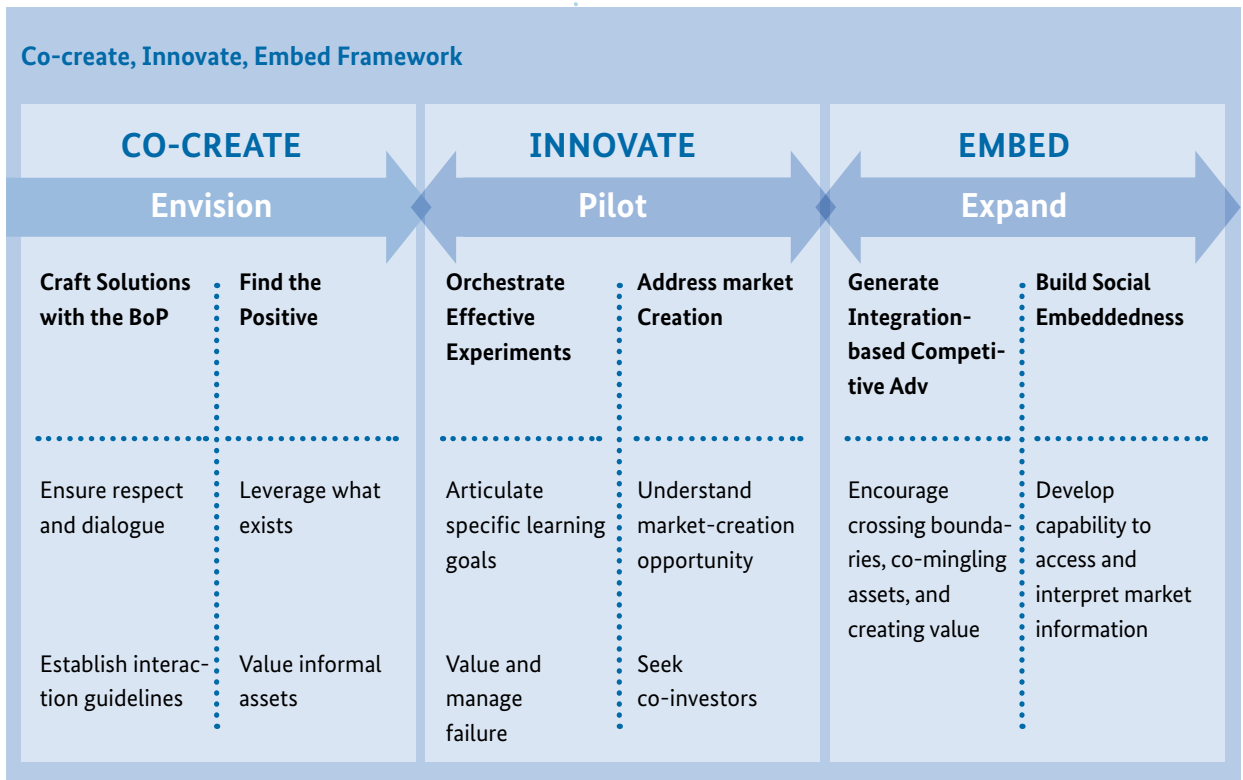
Small-scale cassava processor adding value to her product

Pillar 2: Planning for scale from the start

An inclusive business should plan for scale from the start. It transits from co-creation in an envisioning stage to innovation in a pilot phase, and finally it should embed in an expansion stage.

- In the **envision stage**, entrepreneurs must understand how to co-create solutions with the BoP. **Co-creation means to create innovations together with the BoP stakeholders.** In addition, they must ensure that they have the ability to identify and leverage assets and platforms that work well in these contexts, as well as recognize how much they do not know.

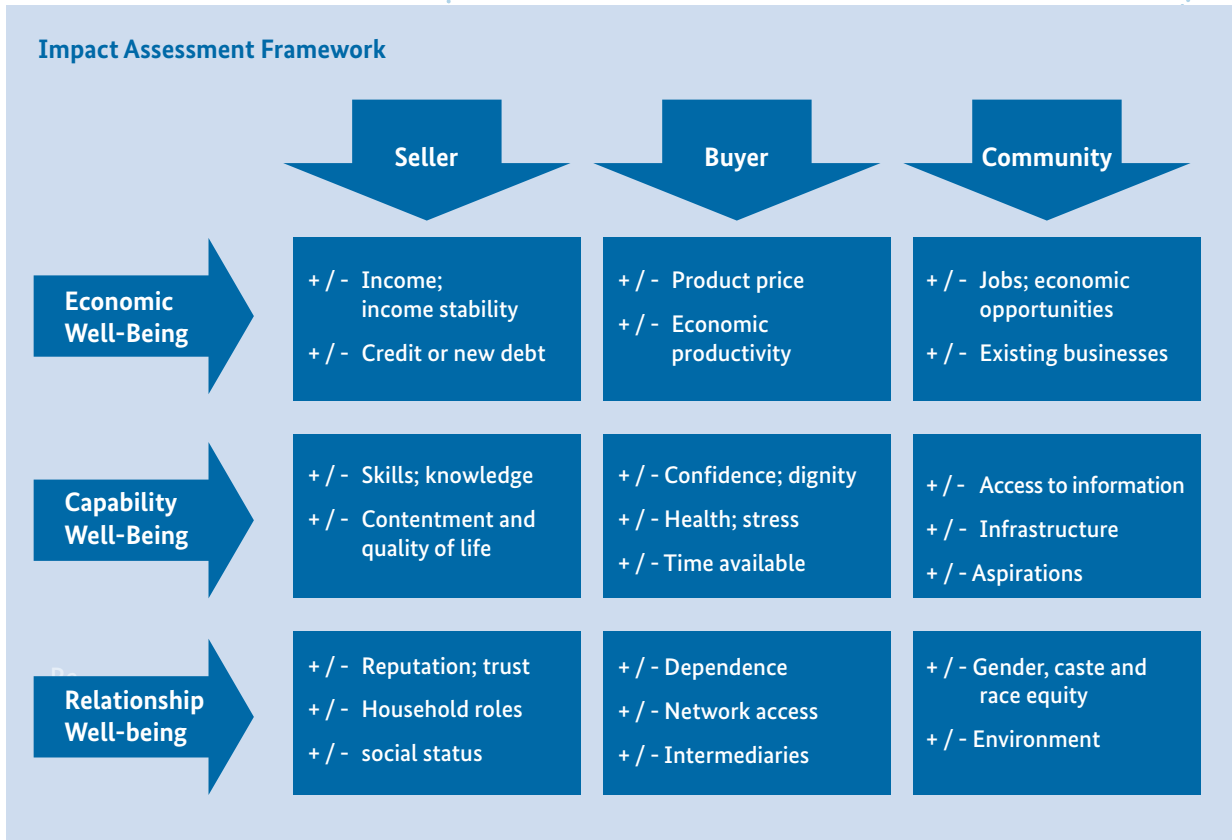
- In the **pilot stage**, businesses must orchestrate **effective experiments** that focus on testing specific hypotheses and that provide clear learning outcomes. These pilots must also consider who and what competitors are facing, how the necessary level of market creation can be achieved, and how that approach can be brought to scale. Inclusive businesses must also pay attention to what happens after the pilot phase ends and assess its potential positive and negative impacts on the communities that are participating.
- At the **expansion stage**, businesses build the skills and capabilities that allow them to effectively and efficiently collect, learn from and act on information from new BoP markets and their customers and producers.



Pillar 3: Understanding and Managing Value Creation

Any business that wishes to achieve sustainability at scale must truly understand the value it creates for its customers, suppliers, and other key stakeholders. In the BoP markets, often incorrect assumptions are made about what local community members value the most. In

these markets, alleviating poverty is a key source of value creation. **Business leaders must therefore understand how their business models alleviate poverty.** They must also be able to continually improve their value proposition by enhancing the positive impacts from their enterprise activities as well as mitigating any negative ones.



A smallholder farmer winnowing her soya to ensure best quality

Pillar 4: Developing Partnerships

In order to build sustainable and scalable enterprises in impoverished market environments like the BoP, inclusive business leaders have to work together with a variety of partners, including those from the development community. The necessary partnership ecosystem has to be built. The journey to scale requires that entrepreneurs understand and execute on the opportunities for building a robust portfolio of good partners that is aligned with the

enterprises' prioritized needs. There are different types of potential partnerships. Businesses may need to develop partnerships that help enable business activities, such as implementation support or market access, or those that build the capabilities of the enterprise itself, such as training or financing. They may also need to engage partners that can build the market environment in which their enterprise operates, for example, by raising customer awareness or by increasing the ability to engage.

Partnership Ecosystem Framework		
	ENTERPRISE DEVELOPMENT	MARKET CREATION
ACTION ENABLING	Facilitate Enterprise Activities Market Intelligence <i>Cultural context, competitive landscape</i> Market Access <i>Implementation support</i> Value Creation <i>Assess poverty impacts</i>	Facilitate Market Transactions Demand Creation <i>Awareness raising, behavior change</i> Supply Enhancement <i>Improved inputs, aggregation of outputs</i>
	CAPACITY BUILDING	Enhance Enterprise Resources Financial Capital <i>Grants, equity, debt</i> Human Capital <i>Talent development, technical assistance</i> Social Capital <i>Access to networks, legitimacy</i>

While creating a sustainable, scalable inclusive business can be a daunting endeavor, it also holds the promise for addressing some of society's grandest challenges. By using the frameworks in this sustainable at scale toolkit, the journey is more manageable. Ted London encouraged IBM practitioners at the symposium not to underestimate the power they can have and urged them to take action, to create value and to seek scale!



Understanding the opportunities offered by the warehouse receipt system

From Theory to Practice: Four Examples from Malawi and the Region

ExAgris Africa – Agricultural Estates Anchoring Opportunities for Smallholders



An ExAgris Farm in Rumphi, Malawi

Established in 2008, ExAgris is one of the largest cropping and livestock businesses in Malawi. Committed to the development of multi-generational business that makes a meaningful difference to people and the environment, the company farms on around 7,000 ha on 14 estates specializing in seed production, export crops and agro-processing.

Furthermore, ExAgris has invested in a peanut processing and export business called AfriNut, has a shareholding in Valid Nutrition, which further strengthens their presence in the groundnut value chain, and has a joint venture with Funwe Farming Company, which enables them to be at the forefront of the seed industry. These companies provide processing and value addition options as well as routes to market for both its commercial farms and the smallholder farmers working in partnership with the

estates. ExAgris has a dynamic out-grower and in-grower scheme that reaches approximately 15,000 farmers around the country. The company aims at growing this number to 25,000 farmers in the next 5 years, focusing on paprika, chilies and groundnuts.

Their mission statement is explicit on its intentions towards working with smallholder communities: “To be leaders in sustainable and innovative agriculture in Malawi and provide opportunities for farming communities”. This in turn is reflected further in their ‘triple bottom line’ based company strategy: they seek to find ways of engaging successfully with farming communities, and a wide range of stakeholders, to promote economic and social growth.



“Partnership and direct involvement at the community level are important elements of our business strategy.”

Tim de Borde, ExAgris

This objective is driven by a dedicated Development Services Unit (DSU), staffed by a committed team of managers and field based community development facilitators and focused on supporting the communities around the farming estates to improve their livelihoods and business prospects in line with the company’s vision of “creating value for its stakeholders and social and economic growth for the country.” A central element of this service provision is the improvement of the marketability of smallholder produce. This is achieved by improving quality through training, which is delivered through

demonstrations on the farm and in the communities, access to inputs and extension advice, and mentoring. The DSU works hand in hand with the Out-Grower Unit to facilitate production and marketing of smallholder produce from around their farms and beyond. Both of these units in turn have a direct working relationship with the Commercial Farming Division, which provides among other things, land for seed multiplication and demonstrations, storage and practical advice.



Rural shops and markets in Malawi



“We are able to offer premium prices to our farmers. We can do so because we do not trade only but process and sell premium products.”

Smith Kapeya, Community Markets For Conservation (COMACO)

COMACO – Restoring Natural Resources by Linking Smallholder Farmers to Premium Commodity Markets

Community Markets for Conservation (COMACO) is a public trust, non-profit company registered in Zambia that aims to improve the lives of poor small-scale farmers and to help restore the natural resources in their communities. Their work focuses on alleviating poverty and enhancing food security in combination with halting destructive land use practices. The organization partners with small-scale farmers through their cooperatives and links them to premium-priced commodity markets through the “It’s Wild!”-brand, which stands for high-quality, nutritious food products, that are manufactured in Eastern Province and sold throughout Zambia.

It now consists of more than 146,578 registered small scale farmers (52% women), who are organized in over 6,800 producer groups and 80 cooperatives. Products include peanut butter, Yummy Soy (a maize soy blend porridge drink), rice, beans, honey, dried fruits, vegetables and spices and herbs as well as poultry feed.

COMACO operates in 67 chiefdoms across the Luangwa valley landscape of Eastern, Muchinga and Central provinces of Zambia. The producer groups are supported to engage in COMACO activities through an extension system comprised of 37 principal lead farmers, 252 senior lead farmers and 1,481 lead farmers. Extension activities managed by the cooperatives include registering and training of new farmers; management of farming inputs; monitoring farmer compliance to conservation and crop aggregation at community depots for COMACO business crop purchase. To date, COMACO has over 7,000 beekeepers who own approximately 25,000 beehives. In addition, 50,090 fuel efficient cook stoves have been constructed and are currently in use. The number of cook stoves constructed is expected to reach 70,000 by the end of the year.

It is precisely because COMACO has ventured into processing and value addition that it can generate greater value and therefore pay farmers a (guaranteed) price premium of 10% above the market price. This makes the cooperation attractive for farmers while guaranteeing COMACO’s required supplies.



A smallholder farmer waiting for his harvest in Dowa, Malawi

SYMPOSIUM ON INCLUSIVE BUSINESS MODELS

GIZ Malawi is currently implementing two programs on behalf of the and the European Union under the umbrella of 'private sector development in rural areas'. While More Income and Employment in Rural Areas (MIERA) promotes inclusive business and innovative marketing models aiming to better integrate small-scale producers and enterprises into value chains in order to enhance their income and employment opportunities, the main objective of the global program Green Innovation Centers for the Agriculture and Food Sector (GIAE) is to promote innovations in the agricultural and agro-industry sector that will improve the incomes of smallholder farmers, lead to more employment and increase food security.

Our programs believe that inclusive growth led by private sector can drive Malawi forward.

Held in Lilongwe, Malawi on February 8th and 9th and bringing together over 125 participants, the Symposium on Inclusive Business Models—the topic that brings our diverse partners together—aimed at creating a common understanding, sharing success stories, discussing challenges, inspiring our partners and stakeholders and getting recommendations on the role of the private and public sectors in moving the inclusive business agenda forward.

Michigan Ross Professor Ted London, base of the pyramid markets expert, opened the symposium with a strong message on the power of co-creation to achieve both impact and scale. The key note speech was followed by presentations of various case studies from our context (Malawi and Zambia). Tim de Borde, CEO to one of Malawi's largest cropping businesses, Exagris Africa Ltd. spoke about deepening impact by moving small-scale producers up the value chain through the company's Development Services Unit. Community Markets for Conservation, or COMACO, regional manager from Zambia focused on how providing farmer groups with marketing services, trade benefits and extension support can incentivize them to adopt improved land use and farming practices. From the belief that funds and technical assistance facilities, such as TechnoServe-implemented Technical Assistance Facility of the African Agriculture Fund (AAF), can encourage companies to take risks or test out new ways of doing business to AgDevCo's social impact investing to support large and small macadamia growers in the north of Malawi, the guest speakers and the participants in the World Café rounds conveyed an array of possibilities in the quest to strengthen inclusive business models in Malawi.





“Inclusive Business Models are not a charity programme; they must generate profit.”

Abigail Thomson, TechnoServe

AAF, Meridian and TAF – De-risking the Introduction of Agricultural Innovations

Meridian is a leading manufacturer and distributor of fertilizers, seeds and other farm inputs and trader of agricultural commodities in Malawi, Mozambique, Zambia and Zimbabwe. The Meridian group employs over 3,000 people today and is responsible for distributing over 350,000 tons of its own goods annually throughout the region.

In its development, the group has extended its commercial operations from solely shipping goods in bulk to now being actively engaged in distributing its products to end-users. In Malawi, Meridian’s operations also include a network of agro-dealerships throughout the country operated by the subsidiary companies of “Farmers World” and “Agora”. The establishment of this interface with the farmers themselves has enabled a two-way business relationship to evolve in which they are not only supplied with competitive inputs but are able to achieve the maximum return for their crops by selling them to a group company either for onward processing or for export. To ensure the access to markets, the farmers are provided with basic infrastructure like bicycles, e.g. through assemblies with transport companies.

With a recent investment from the Africa Agriculture Fund (AAF), a pan-African facility focusing on food business with the objective to enhance the impact of business and a strong focus on Environmental, Social and Governance (ESG) issues, Meridian has a renewed drive for value addition within its various business units. One area that the group is investing in is the provision of tailored agronomy products and packages to smallholder farmers. Working together with the Technical Assistance Facility (TAF) within

the AAF a pilot project was launched in October 2015 to explore the potential of improving agricultural productivity through the provision of high quality, efficient and sustainable solutions to smallholder farmers.

An important factor in maximising productivity is the use of correct fertilizer at the correct application rates. In Malawi, however, there has been little progress on initiatives that offer suitable fertilizer blends and appropriate agronomic advice to smallholder farmers in a sustainable manner. Through this cooperation the risk of investing in soil testing and tailoring fertilizer for smallholders is shared. The project hired 30 agronomists to collect and test over 2,000 soil samples, provide basic advice on good agricultural practices and promote the effectiveness of the blends through strategically located demonstration plots. Thus, a win-win-solution that leads to better products for smallholders and increasing sales for the business is attained. The value addition that TAF could offer was both de-risking such a project and bringing the energy, focus and expertise to make it happen.

Learnings so far point to the need for upfront negotiation and ongoing balancing of public and private objectives. Coupling the seasonality of agriculture with the awareness that underlying conditions make change difficult to achieve, a longer term approach is key for innovative pilots like this one to prove their concept. Successful inclusive business models require multiple interventions that address diverse value chain constraints, as single service providers often do not have the skill set to address all constraints.



“Our key early-stage lessons learned are:

- Understand the product and the market;*
- Avoid trying to be all things to all people;*
- Focus on your own core competency and find the right partners;*
- Focus on a smaller network of farmers where there is a relationship and trust.”*

Riz Khan, AgDevCo

AgDevCo and Tropha Estates – Sharing Route to Market and Production Expertise to Build an Agribusiness

AgDevCo is a social impact and development investor. It invests long-term, patient capital in African small and medium-sized agribusiness enterprises that work with smallholder farmers. AgDevCo was established in 2009. Today it is active in eight countries in Sub-Saharan Africa: Ghana, Malawi, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda and Zambia. It has an investment portfolio of over \$75m in committed capital to more than 50 farming and agribusiness enterprises, which directly benefit 52,000 smallholder farmers and are expected to reach 200,000 by 2018.

Tropha is a commercial agriculture estate based in Ekweneni, Malawi, which shifted its production base to macadamia in 2013. AgDevCo invested \$2.1m in 2014 to support the development of a 518 ha irrigated hub farm and a 1,000 MT processing facility, and is looking at a second phase of investment of \$3.5m to further increase Tropha’s production base and outreach program.

In addition to the nuts produced from the hub estate, Tropha aims at sourcing from over 1,000 smallholder farmers by 2026, improving these farmers’ access to a profitable value chain. The business also aims at developing local emergent farmers into small and medium-sized agribusinesses. Several emergent farmers who own between 5 and 200 ha of established macadamia plantations near the Tropha estate will supply nuts to Tropha alongside smallholder farmers.

Tropha’s goal is not necessarily to grow its farmer base, but to rather help the current growers increase their yields and incomes. To date, Tropha has developed a network of just over 4,000 farmers for paprika and chilies in the North and Central regions of Malawi and just under 800 farmers for macadamia. Tropha provides guaranteed market access for these crops with minimum price levels. Tropha, with its partners, is assisting to provide irrigation infrastructure to smallholders to mitigate climate change risks and improve yields. Tropha is also developing its own expert skills and competencies to share with farmers, including looking at options to supply macadamia farmers with high quality seedlings, inputs and technical support to improve their production practices.

Transparency is a critical part of pricing, discussions and the building of trustworthy relationships. Tropha is putting in place systems that allow the farmer to understand all the deductions made from the export price in order to arrive at the price which the farmer receives for his or her product. By doing so, the farmer is able to get important information on the quality of his or her nuts and to implement farming techniques that improve the quality and increase their income.



3

Growing Inclusive Businesses in Malawi

Sunseed Oil Ltd.'s Contract Farming Partnerships with Small Oilseed Growers

ABOUT

Oilseed production, mainly from soya and sunflower, has increased tremendously in Malawi throughout the last years. In 2002, the country only produced 7,000 tons of soya. In 2015, the production went up to 110,000 tons due largely to investments into processing and value addition facilities. For smallholder farmers supplying their oilseeds to a ready, committed market is a good business opportunity, and at Sunseed Oil Ltd. the absorption capacity is huge. The company now has a processing capacity of 500 tons of oilseeds per day, which equals 180,000 tons per year.

In 2016, however, the company was only able to source about 14,000 tons of sunflower and 40,000 tons of soya. Falling short of raw produce means production fails to cover costs. The utilization of processing capacities needs to be increased significantly for the operations to be profitable. Against this backdrop, and recognizing the crucial role the farming community plays in supplying the company with raw materials, Sunseed Oil Ltd. embarked, with GIZ support, in direct engagement with smallholder farmers through a contract farming scheme.

OPPORTUNITIES

Currently, 10,000 smallholder farmers are involved in the contract farming scheme which operates in 5 districts in a radius of about 150 km north from the capital Lilongwe. Sunseed Oil Ltd. only works with farmers who are registered in organized groups. A minimum price is agreed with farmers and formalized through contracts. As well as a guaranteed market, the company provides inputs (especially quality seed and Rhizobium inoculant for soya production) on the base of a soft loan (without interest, but a small fee) and extension support through its own extension system. This year, with GIZ support, the company has also introduced a sub-scheme for the smallholder production of certified, high quality soya seed by two farmer groups, including the required inputs, certification and technical support. The seed produced under contract shall be redistributed to smallholder farmers for further soya grain production.



Sunseed Oil Ltd. employee bagging at the warehouse

CHALLENGES

One of the main challenges the scheme is facing are the macroeconomic conditions, especially a high inflation rate, which make price forecasts difficult. Droughts and other natural calamities make it challenging for both farmers and the company's extension team to predict yields and settle on volumes and prices that are fair and attractive to both sides. Numerous farmers are also failing to respect the contract terms and are therefore being dropped out of the scheme (40% last year), which is the main challenge that Sunseed Oil Ltd. is currently facing. However, the General Manager of Sunseed Oil Ltd. remains optimistic: "The farmers will eventually recognize the benefits from the scheme. We will not take legal means as this is not practical and we want to remain in good relation with farmers. In the long run, the benefits of trustworthy long-standing relationships will become evident. Contracts provide farmers with access to a reliable market and we can obtain higher volumes and better quality of produce!"



“We want farmers to be more efficient and more productive. From the usual practice of about 900 kg oilseed harvest per ha, with good agricultural practices, smallholder farmers can get up to 2-3 tons per ha. This will increase the income of farmers and improve capacity utilization of our company, a true win-win situation. Direct linkages between farmers and the company will also reduce transaction costs in trade and increase margins of farmers and company alike.”

Manoj Kumar Vats, General Manager, Sunseed Oil Ltd.



Mrs. Phiri, who is also involved in the scheme, laughingly tells us that she is dreaming that one day she and her husband will be able to buy a motorbike or even a car.



David Modekayi, Chairman of the Mayankho A Alimi Cooperative, lead farmer involved in the soya seed contract farming scheme, summarizes smallholder farmers' expectations as follows: “We appreciate the access to high quality soya seed through our contracts with Sunseed Oil Ltd. It will help us to increase yields and thus realize higher income. In addition, it will enable us to pay school fees for our children and improve the availability of food at home throughout the year, and it will eventually lead to a better life.”

Contract farming (CF) is defined as forward agreements specifying the obligations of farmers and buyers as partners in business. Legally, farming contracts entail the sellers' (farmers') obligation to supply the volumes and qualities as specified and the buyers' (processors' or traders') obligation to off-take the goods and realize payments as agreed. Furthermore, the buyers normally provide embedded services such as upfront delivery of inputs (e.g. seeds, fertilizers, plant protection products); pre-financing of input delivery on credit; and other services (e.g. extension). CF-Handbook (2013a)



“The feeling of excitement in the village is almost tangible. Before the villagers were despondent, now they walk with purpose and their heads held high.”

Chipo Musandi, owner Nhotakota Pottery Lodge

Tourism as a Driver of Inclusive Business – Fostering Partnerships between Lodges and Local Communities

ABOUT

Tourism has long been identified as a key sector for driving economic growth, especially in developing countries. Malawi is no different. Inclusive business is not a new concept to the tourism industry. It forms a key part of the ethos of sustainable and responsible tourism which is globally accepted as best practice.

Currently, GIZ Malawi is supporting an inclusive business pilot in the tourism value chain that assists lodge owners to practice responsible tourism through business linkages with the local communities, while also working directly with the host communities to ensure that both supply and demand for specific high-quality goods and services can be met.

OPPORTUNITIES

In partnership with Nkhotakota Pottery Lodge and Nkhandwe Village, the opportunity to source and market niche products through the networks of the lodges was identified. The lodges’ wish is to engage the local communities in the steady production and supply of high-quality products that can be marketed to tourists. This provides income and employment opportunities in the lodges’ vicinities. The lodges, in turn, provide a sure and stable market for local communities and therefore the incentive for more smallholder farmers to supply local products to these lodges.

Responsible tourism is tourism which:

- minimizes negative social, economic and environmental impacts;
- generates greater economic benefits for local people and;
- enhances the well-being of host communities.



Members of Nkhandwe Village receive training to improve their business practices



“We felt really bad that we had no money to help our families – now we can buy food, pay school fees and even school uniforms for our children.”

Regina Chingate – Secretary of the Nkhotakota Jam Co-operative



Bruno Chakudza, the newly appointed horticulture manager, makes sure that the various farming groups are up early to irrigate the gardens.

The multi-tiered support is what makes this project groundbreaking in its approach. The project team is taking this journey along with everyone in the value chain, understanding the different needs and challenges; offering technical assistance and expert support at key stages, and in certain cases even basic infrastructure, to ensure that the know-how required is available, that quality is a priority and that every market linkage is a win-win situation. The concept has been adopted with great enthusiasm by the villagers, with much effort and energy invested in the development of the various products and activities. Currently the focus, based on market opportunities identified and skills available, has been on horticulture, jam-making and bee-keeping.

The case of the production of jam, most notably baobab jam, has showcased the benefits of partnership to the lodge owners and to the community. Various batches of jam have already been produced and marketed, and the jam-making group has already made a profit. The opportunity of having an economically productive life in the village is also bringing the men home and revitalizing the communities. Yup Chiyamwaka moved to Lilongwe to find work. Now, he has moved back home to Nkandwe. Yup Chiyamaka explains his reason, “now we have hope of a better future and we can be at home with our families.”

The ACE Marketing School – Building Skills for Inclusive Marketing

ABOUT

The focus of the Agricultural Commodity Exchange for Africa (ACE) is the provision of services to agricultural markets. ACE supports producers, sellers and buyers of commodities with market information, storage, collateral finance and trading services. Thus, the three pillars of ACE are trade facilitation, market information and the warehouse receipt system (WRS). Together, these services tackle the specific needs of farmers, farmer groups and rural entrepreneurs in accessing higher-value markets in order to make informed decisions, realize better prices and ultimately improve their livelihoods.

In compliment to these main services, ACE offers training to potential clients (mainly producers and small sellers), transport services and support in ICT to facilitate access to the ACE online trading platform. Moreover, since November 2015 ACE is also offering farmers in select locations the opportunity to receive agricultural inputs on a loan basis, with repayment being done in kind via an ACE certified warehouse.

ACE is transforming agricultural markets by introducing transparency, decreasing transactional costs, mitigating information asymmetries and governing contractual relations between market participants with the overall objective of inducing efficiency gains.

CHALLENGES

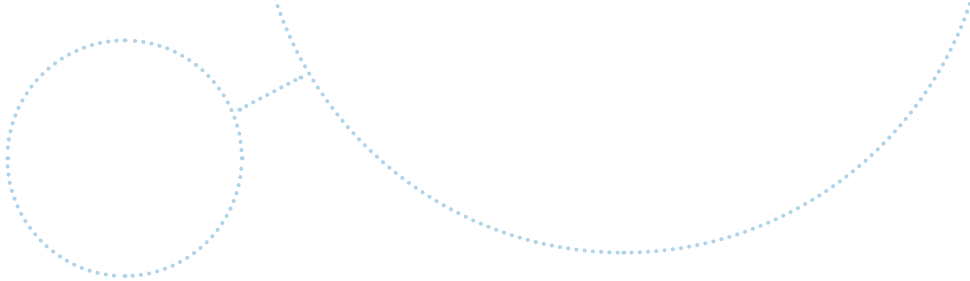
While ACE's core services are largely in place and functioning, adoption by farmers and smaller rural enterprises remains low despite the great potential benefits they offer. One of the main bottlenecks towards adoption is lack of understanding, skills and confidence to use ACE.

Acknowledging this fact, the recently adopted ACE Rural Strategy 2020 has identified outreach and training as one of its key intervention areas to increase rural adoption.

The envisaged activities of this new outreach strategy aim at sustainably building ACE's rural clients' awareness and knowledge as well as the skills and business mind-set needed to understand and confidently utilise the services offered, thus becoming stronger market players.



ACE staff delivering comprehensive training on ACE services



THE ACE MARKETING SCHOOL – OVERVIEW

Module 1: Introduction to ACE



Module 2: Market Information



Module 3: Trade Facilitation



Module 4: Collective Marketing



Module 5: The Warehouse Receipt System



Module 5.1: Post-Harvest Handling



Module 5.2: Depositing and Storing



Module 5.3: Accessing Finance



Module 5.4: Trading a Warehouse Receipt



Module 6: Summary and Follow-Up



Training activities are accompanied by other outreach activities such as field days and radio shows as well as direct field support and coaching by ACE’s own extension network of Rural Marketing Advisors (RMA).

OPPORTUNITIES

The starting point of the new outreach strategy is an entirely new and comprehensive training methodology delivered to targeted rural clients by the RMA ahead of the marketing season – the **ACE Marketing School (AMS)**. Developed with the technical support of GIZ and similar in its setup and approach to other successful trainings such as the Farmer Business School, the AMS draws from the standards of adult education, making the content and methods as participatory and interactive as possible and incorporating the participants’ own experiences in order to maximise relevance. Nine distinct but interlinked modules cover all content required to get an in-depth and practical understanding of ACE services. From market information and collective marketing to accessing collateral finance and trading a warehouse receipt, the content of the training package was developed to tackle the diverse needs of ACE’s prospective clients.

The first trainings have shown great enthusiasm and appreciation by participants, a welcome change to the common mass sensitisations that fail to convey a meaningful message to the masses.



Field days are opportunities to present and discuss innovations

Quality Tea from Lujeri and Sukambizi – Business Partnerships for Better Livelihoods

ABOUT

The tea industry is Malawi's second major foreign exchange earner after tobacco. Not only does it provide opportunities for employment, it also generates wealth in various directions through the services required for its daily operations. The tea sector comprises seven estates and more than 17,000 smallholder farmers who produce tea as their main source of income. They are organized in four smallholder trusts. These trusts are linked to the different estates.

Lujeri, one of the tea estates, is engaged in tea and macadamia farming, owning a total of 8,220 ha of land and four factories. Previously, Lujeri was not working directly with smallholder farmers. Instead, they depended on the production from their estates. Lujeri changed its model of operation after their Managing Director, Jim Melrose, experienced the situation described below:



“I have seen heaps of tea be thrown away by farmers because buying companies fail to collect and pay for it. Feeling sorry for these farmers, I organised some meetings with them to understand their challenges. I started collecting their tea and sending their payment through one of these companies, which was actually not paying them despite me transferring the money to them. The farmers asked that I pay them directly and not via this company anymore. That’s when I told them to get organised in groups. By then there were over 1,000 farmers. They formed Sukambizi Association Trust.”

Jim Melrose, Lujeri Tea Estate

OPPORTUNITIES

As Lujeri started engaging directly with smallholder farmers in 2000, they developed a package of support provided to groups in order to improve their production:

- Extension services through the employment of five outgrower managers who train the farmers;
- Input loans (e.g. fertilizers, protective clothing) which they recover from green leaf proceeds;
- Tea nurseries which provide tea seedlings to farmer;
- Linkages to other partners who could help Sukambizi to run some projects like construction of bridges and rural electrification program;
- Health facilities including the provision of an ambulance and availability of a clinic.

Lujeri Estate always strives to give Sukambizi smallholder farmers a fair deal by providing them with bonuses and all their needs for adequate production. They know that through the smallholder farmers they improve their tea quality and production, as the smallholder farmers have the capacity to expand their land and replant their tea. Lujeri believes in creating a sound business relationship with Sukambizi, which is driven by economics. They help Sukambizi farmers to generate income that enables them to take care of their families. In turn, farmers are helping Lujeri Estate by producing more good quality tea.

Sukambizi Association trust has grown since October 2000 from having 1,000 farmers to 9,000 farmers today. As an association, they now farm on a total of 2,357 ha. Their tea is certified by the following sustainability standards: Fair-trade since 2008, Rainforest Alliance since 2011 and UTZ² (149 farmers). What motivates them to stick together is the assurance that there is a ready market for their tea and that Lujeri Estate management regards them as business partners.

In order to intensify their collaboration, Lujeri and Sukambizi have plans to purchase a tea factory that is going to be owned by smallholder farmers. They recently have started training Sukambizi board members on how a factory is managed.

The relationship with the commercial tea estate has given Sukambizi Association momentum to deepen the support and services provided to its members, which include the building of school blocks and toilets and the provision of mosquito nets and bursaries. In addition to that, the Strategic Alliance in the tea sector set up by GIZ Malawi

has significantly contributed to facilitate access to Village Savings and Loans (VSL) groups and the Farmer Field School program. The Strategic Alliance includes private sector institutions and aims at the achievement of a living wage and living income in the tea sector. Sukambizi Association's development bears testament to power of inclusive business partnerships and of their impact on the livelihoods of smallholders.

CHALLENGES

The collaboration is not without challenges. Smallholder farmers are affected by climate change, low illiteracy levels and rising food prices, while the estates face major challenges due to electricity shortages and the stiff competition from other estates. Nevertheless, the partners believe that they have set the foundation for a transparent, trusting relationship that will endure.

2: Program and label for sustainable farming that shows consumers that products have been sourced, from farm to shop shelf, in a sustainable manner.



Leadership of Sukambizi Association Trust



4

Moving Forward

Moving Forward

This brochure aimed at consolidating some experiences and lessons learnt from Malawi on how businesses and development partners collaborate to co-create value for those at the BoP.

In order to exploit the potential benefits of inclusive business models in collaboration between private sector and development partners, it is key to identify entry points for cooperation, design fruitful partnerships based on shared responsibilities and jointly address challenges as they arise.

There is need for further research, discussion and reflection, as many questions on critical success factors, the required conducive business environment, barriers to scaling up inclusive business models and the replication of successful approaches remain unanswered.

Collaborating with GIZ

The MIERA program focuses on promoting inclusive business and new marketing models in the soya, groundnut, sunflower and cassava value chains, as well as the tourism and eco-friendly construction materials sectors, linking smallholder farmers, farmer organizations and MSME to improved services, value addition opportunities and higher value markets.

1. Promoting inclusive business models and stakeholder dialogue: MIERA supports committed companies to set up and strengthen mutually beneficial and inclusive business relationships with smallholder farmers and micro, small and medium enterprises. MIERA provides technical assistance to build institutional capacities and improve the management and operations of set-ups such as contract farming schemes or anchor farms, for example. The program also supports dialogue and networking platforms along various value chains and on specific technical topics.
2. Improving the provision of value chain services: MIERA supports the design and delivery of services embedded in inclusive business models and works hand in hand with strategic service providers to improve their service delivery and increase smallholder adoption of marketing services such as market information, storage and collateral finance as well as structured trading platforms. In the tourism sector MIERA supports the provision of improved training services.
3. Supporting the business capacity of farmer organizations and micro, small and medium enterprises: Together with local training institutions and pools of trainers and coaches, MIERA and its partners develop and deliver training and coaching packages for smallholder farmers, farmer organizations and micro, small and medium enterprises. The trainings are geared towards building business, organizational and management capacity.

With support from the European Union, MIERA is developing strategies to scale up its interventions. These include opportunities to set up new partnerships along the currently supported value chains, as well as the upcoming support to two to three additional agricultural value chains.

If you think the MIERA program can support you to achieve your inclusive business objectives and you wish to explore opportunities for collaboration with GIZ, get in touch with us.

Additional Information

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