

# Private Sector Development in Rural Areas

## German development cooperation in Malawi

### The challenge

Malawi's economy is highly dependent on the agricultural sector with the main exports being tobacco, tea and sugar. The vast majority of the rural population in Malawi operates as smallholder farmers or is engaged in micro-, small- or medium-size enterprises (MSME). Agricultural production is still strongly subsistence-oriented. Rural farmers operate on mostly small to very small land holdings. They face **constraints** doing their businesses **due to poor rural infrastructure and services** such as market information and storage, **limited business skills and market linkages**. **Limited access to financing and high cost of borrowing** is a significant burden for business development of MSME but also for medium-size companies in agribusiness.

**Market integration is very limited** in Malawi. Exchange and cooperation among different private sector actors along selected value chains would increase opportunities of improving productivity through better farm inputs, adding value to agricultural raw products through processing and reaching reliable markets.

### Our approach

Private Sector Development in Rural Areas has been a focal area of Malawi-German cooperation since 2014. It is guided by **Malawi's National Export Strategy (NES)** and the Joint Strategic Plan of the Trade, Industry and Private Sector Development Sector Wide Approach (TIPSWAP). The support provided through the Programme **"More Income and Employment in Rural Areas (MIERA)"** aims at **income and employment creation, especially for smallholder farmers, MSMEs, women and the youths**. MIERA focuses on the development of new business approaches, agricultural value chains (oil seeds, cassava, rice, macadamia, chilli/paprika), particularly the down-stream part of the value chain (processing, aggregation and marketing), on the tourism sector, the eco-friendly construction materials industry and on improving market infrastructure.

Funds for Private Sector Development in Malawi  
(excluding funds provided through One WORLD – No Hunger Initiative)

Volume of ongoing programmes:	EUR 28.8 mio. (plus EUR 6.5 mio. currently under preparation)
	(in addition EUR 20 mio. co-financing by EU)

In addition, Germany is a large contributor to Private Sector Development through its financial contributions to the European Union, World Bank, African Development Bank and the United Nations.

MIERA focusses on market opportunities and private sector interests and **operates in four major fields**. Respective programmes are implemented by GIZ for German Technical Cooperation and via KfW for German Financial Cooperation.

1. **Promotion of inclusive business models, service provision and stakeholder dialogue:** MIERA supports committed companies to set up inclusive business relationships that are beneficial for both the producers (smallholder farmers) and the companies. Contract farming, for instance, is based on a contractual commitment to offtake the commodity of agreed quality and quantity produced at a fair price and provides embedded services, such as input loans and extension services to involved smallholder farmers. Service providers like commodity exchange businesses are supported by MIERA to increase smallholders' adoption of their services such as use of market information, warehousing and trade platforms. In the tourism sector provision of vocational training is supported. The programme also supports dialogue and networking platforms among value chain stakeholders to improve cooperation and framework conditions.
2. **Supporting the business capacity of farmer organisations (FOs) and MSMEs:** MIERA develops and delivers training and coaching packages for smallholder farmers, farmer organisations and MSMEs. The trainings are geared towards building business, organisational and management capacity and value

left: Farmer Business School graduates taking home their training certificates and newly acquired business skills.

right: Farmer Delivering Milk at Thunga Milk Bulking Group. He is indirect beneficiary of the Malawi Innovation Challenge Fund.



addition of primary products as well as improving services for smallholder farmers delivered by private service providers. MIERA supports the elaboration of regulatory and institutional framework conditions to develop institutions like cooperatives and business associations to strengthen small and medium economic actors and safeguard their interests.

3. **MIERA supports the construction of markets in the districts** through the National Local Government Finance Committee. This support allows smallholder farmers and owners of MSMEs to trade and commercialise their produce, in order to strengthen domestic markets and their supply as well as to promote exports.
4. **MIERA co-finances the Malawi Innovation Challenge Fund (MICF)**, which is implemented by UNDP. The MICF is a competitive, transparent mechanism that provides matching grant finance for innovative business projects of the private sector in Malawi, which have a potential for delivering large positive social or environmental impact.

Closely linked to Private Sector Development in Rural Areas is the support provided through the **German Government's ONE WORLD - No Hunger Initiative** that aims at improving food and nutrition security. The **Green Innovation Centre for the Agriculture and Food Sector (GIAE)** promotes the dissemination of agricultural innovations along three of the MIERA supported value chains. The **Aquaculture Value Chain for Higher Income and Food Security** in Malawi (AVCP) fosters fish production from aquaculture. Under the Matching Grant Facility (MGF) Germany supports farmers, MSMEs, farmer cooperatives and other farmer organisations working in the agricultural sectors of oil seeds and cassava with matching grants for value addition and technical support for improving bankability and financial access. (See also separate factsheet on ONE WORLD - No Hunger Initiative.)

## The benefits

In the development and implementation of innovative inclusive business and marketing models, MIERA, together with its partners, has **reached more than 30,000 smallholder farmers** and MSMEs, engaging them more actively in value addition and improving reliability and volume of their income.

More than **435 marketing and contract farming agreements** have been signed between lead companies and farmer organisations under the strengthening of structured market linkages. These agreements link farmers to better output markets and increase their access to improved inputs and extension services. Since 2017, **more than 7,000 farmers have participated** in the

newly developed **Agricultural Commodity Exchange for Africa (ACE) Marketing School**, many of them starting to adopt structured trade services offered by the partner ACE and organising collective marketing.

MIERA has introduced the **Farmer Business School** approach in Malawi and **trained more than 22,000 smallholder farmers** on farm economics, agribusiness and marketing skills by the end of 2018. Many participants have started to use new farm business management practices such as record keeping and gross margin analysis and improved their marketing practices.

In the **tourism** sector, Malawi is implementing more targeted **marketing campaigns** to attract tourists and **more than 750 students** have benefited so far from the **improved training** at the Malawi Institute of Tourism.

The programme also **introduced the Vertical-Shaft-Brick-Kiln technology** in Malawi that produces high quality bricks, drastically reducing the energy required for firing and replacing firewood by waste materials from the agricultural sector. So far, more than **4.6 million bricks have been sold** to the market and roughly 6,200 MT of firewood, equalling **approx. 4,500 trees** or the equivalent of the annual wood growth in 720ha forest **have been preserved**.

With Germany's financial contribution to the UNDP implemented **Malawi Innovation Challenge Fund (MICF)** four investments with significant social and environmental impact have been facilitated through matching grants so far:

- 1) Improvement of **milk cooling infrastructure and milk packaging**, significantly reducing milk waste from 8.4% to 3.4%;
- 2) Scaling up the production of **Soil Stabilised Bricks**, saving about 8,200 trees per year;
- 3) Introduction of **free range chicken** to the formal market and
- 4) Scaling up **production and processing of bamboo wood** into charcoal with a potential to save 25,000 trees yearly.

All together those investments created a minimum of **900 new permanent jobs** for unskilled people and **at least 10,000 smallholder households increased their incomes** and improved their livelihood. With the financing of a new round of the MICF, seven additional inclusive and innovative business models will be supported creating further social and environmental impact.



published by:



Embassy  
of the Federal Republic of Germany  
Lilongwe

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

**KFW**

*Eneres presents aggregated, well stored soya bean harvest of her cooperative. Save storage and collective sales significantly increase the income of farmers.*

