

# Shire Valley Transformation Programme - 1 (SVTP-1)

## Agriculture Development and Commercialization



## Background of the SVTP

The Government of Malawi (GoM) through the Ministry of Agriculture with support from the World Bank, the African Development Bank and the Global Environment Facility (GEF) is implementing the Shire Valley Transformation Programme (SVTP). The SVTP is a 14-year program (2018-2031) which will be implemented in three sequential but partially overlapping phases.

The SVTP will develop 43,370 hectares abstracting water from the Shire River at Kapichira and conveying it by gravity to the irrigable area in Chikwawa and Nsanje districts mainly through canals. This will ensure a more consistent supply of water to farm lands throughout the year. The SVTP has the following guiding principles:

- ✓ Benefit current land owners and users, and include them in agricultural modernization;
- ✓ Farmers who want to participate will have to organise themselves and consolidate their land;
- ✓ Allow for private investments in partnership with land owners and users;
- ✓ Give communities a free choice to join the scheme;
- ✓ Charge fees to pay for management, operation and maintenance of the irrigation infrastructure. This will create a sustainable scheme that remains in good condition.

The program development objective (PDO) for the Shire Valley Transformation Programme is to increase agricultural productivity and commercialization for targeted households in the Shire Valley; and to improve the sustainable management and utilization of natural resources.

The objective of the first phase of the Programme (2018 to 2023) is to:

- ✓ Provide access to reliable irrigation and drainage services;
- ✓ Secure land tenure for smallholder farmers and;
- ✓ Strengthen management of wetlands and protected areas in the Shire valley.

## Main Objective of the Brief

This brief aims at creating awareness and increasing understanding on how the SVTP will commercialize agriculture in the Shire Valley. This brief highlights key issues including; land consolidation and formation of Smallholder Owned Commercial Farm Enterprises (SOCFEs), choice of pathways, enterprise selection, funding mechanism for business plans and value chain development.

## Target Group

- ✓ The primary target of the SVTP for this brief are smallholder farmers in the categories including Cooperatives, Associations and Water User Associations (WUAs);
- ✓ The brief will also benefit stakeholders such as the District Agriculture Extension Service System (DAESS) structure, which includes District Agriculture Extension Coordination Committee (DAECC), District Stakeholder Panel (DSP), Area Stakeholder Panel (ASP) and Village Agriculture Committee (VAC) members in the targeted districts of Chikwawa and Nsanje;
- ✓ Additional stakeholders include commercial agro-processing enterprises, traders, extension workers, financiers, and private advisory services among others.

## Land Consolidation

- ✓ The project through the Ministry of Lands, Housing and Urban Development (MoLHUD) will facilitate the process of land consolidation and registration in the names of an incorporated groups of farmers;
- ✓ The consolidated farms will be operated by Smallholder Owned Commercial Farm Enterprises (SOCFEs) which will be legally registered;
- ✓ Each SOCFE will be required to manage the consolidated farms professionally;
- ✓ The land will be registered under appropriate laws.

## Farm Business Models (Pathways)

Farmers will be organized into cooperatives, associations or companies. The farmer organizations will opt for and follow either of the four proposed Farm Business Models as described below:

### (i) Pathway 1-Agribusiness Managers: what does it involve?

- ✓ Farmers contribute their capital in form of land and labor;
- ✓ The cooperative employs a commercial agribusiness management company (or individual agribusiness experts) who will farm the estate as a single enterprise (this includes water management) for example, Phata Cooperative in Chikwawa which employed AGRICANE;
- ✓ The owners would be able to farm an agreed portion of irrigated land for food crop individually. The crops may include vegetables, maize and vegetables among others;
- ✓ The farmers will be paid a dividend or profit share according to their respective land shareholding.

Advantages of Engaging Agribusiness Managers	Disadvantages of Engaging Agribusiness Managers
<ul style="list-style-type: none"> <li>✓ There is technical know-how of enterprise management, financial management, record keeping and human resource management as experts are used;</li> <li>✓ Farmers benefit from the business either with direct or indirect involvement;</li> <li>✓ There is shared vision and goals hence, mutual benefit;</li> <li>✓ Dividend is paid to land owners based on land holding size.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Requires regular follow up meetings with the company;</li> <li>✓ Limited control over individual land;</li> <li>✓ Requires clear understanding of the business model by the community.</li> </ul>

### (ii) Pathway 2-Smallholder Agribusiness: what does it involve?

- ✓ The SOCFE devolves individual land ownership/use rights to specific plots based on percentage shareholding;
- ✓ Here, individuals do not rent but farm their own plots with the specific expectation that a natural process of farm consolidation into larger business units will follow, as less-interested or less-successful farmers exit voluntarily (through rental or transfer). However, only new farmers from within the area are allowed for rentals and transfers;
- ✓ The SOCFE oversees the land-administration unit and water management functions in the block through a Land Administration Unit and a Water Users Association (WUA). Service fees are paid;
- ✓ The landholders renting out derive benefits from a food plot allocation and rental revenue;
- ✓ Production is done by farmers on their individual plots;
- ✓ Marketing of products is done by the farmer organization or by individual farmers as they choose.

**NB. Many smallholder irrigation schemes in Malawi fall under this category.**

Advantages of Smallholder Agribusiness Model	Disadvantages of Smallholder Agribusiness Model
<ul style="list-style-type: none"> <li>✓ An individual has control over own land;</li> <li>✓ Can reclaim land.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of technical know-how and resources to properly manage the enterprises;</li> <li>✓ Difficult to satisfy market demands in terms of quality and quantity;</li> <li>✓ Good agricultural practices are difficult to implement by individuals;</li> <li>✓ Dividends are shared depending on the quantity of the produce sold.</li> </ul>

### (iii) Pathway 3-Leased Farms (Mixed Model): what does it involve?

- ✓ The SOCFE acts as a facilitator/enabler sub-leasing portions of the customary estate to members, outside individuals and/or agri-business companies to generate revenue;
- ✓ The SOCFE administers land and irrigation water service provision in the block;
- ✓ SOCFE owners would receive payment of net revenue pro-rata to their shareholding. For individuals farming on their own, profit will be based on the quantity of produce sold.

ADVANTAGES OF LEASED FARMS (MIXED MODEL)	DISADVANTAGES OF A MIXED MODEL
<ul style="list-style-type: none"> <li>✓ There can be a possibility of technology transfer due to the presence of Agribusiness Managers on one part of the farm;</li> <li>✓ Farmer Organization (FO) manages, land, marketing and water administration;</li> <li>✓ Promotes competition and competitiveness among farmers;</li> <li>✓ Its flexible as one can lease out land and receive proceeds while involved directly or indirectly;</li> <li>✓ It gives a member a choice to do direct farming or to operate under the company.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Non uniformity in irrigation method and enterprise management;</li> <li>✓ Difficult to implement irrigation water management techniques for example, central pivot;</li> <li>✓ Difficult to satisfy market demand especially those farming individually;</li> <li>✓ May promote land conflicts because of new entrants;</li> <li>✓ Too much work as a cooperative has to look at management issues for example, land administration, management of WUAs and irrigation water service provision in the block;</li> <li>✓ Farmers renting out land derive benefits from food plot allocation and rental revenue;</li> <li>✓ Production is done by farmers on their individual plots;</li> <li>✓ Marketing of products is done by the farmer organization or by the individual farmers as they choose.</li> </ul>

### (iv) PATHWAY 4- JOINT-VENTURE (JV) ENTERPRISES

- ✓ The SOCFE establishes a contract-partnership arrangement/joint venture (JV) with an agribusiness entity that covers all farm production for the supply of commodity or industrial crops (e.g. KAMA-Presscane JV for ethanol). Farmers contributed land for sugar cane production whereas Presscane contributed equivalent capital for operations for example, labour payment and farm inputs. Press Cane is supposed to provide the market for sugarcane;
- ✓ When there is a financial gap, the venture decides to obtain loans or apply for grants from Development Partners;
- ✓ SOCFE owners would receive payment of net revenue from the JV, pro-rata to their land shareholding.

ADVANTAGES OF JOINT VENTURE	DISADVANTAGES OF JOINT VENTURE
<ul style="list-style-type: none"> <li>✓ Less burden to the farmers on the management of selected enterprises;</li> <li>✓ There is increased productivity due to heavy capital investment;</li> <li>✓ Assurance of readily available resources from the companies e.g. farm inputs;</li> <li>✓ Ready markets.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Less trust on amount of declared dividends;</li> <li>✓ Possibility of loss of contracts or partnership;</li> <li>✓ Prone to abuse by stronger partners;</li> <li>✓ Risk of political interference;</li> <li>✓ Low bargaining power by the cooperatives;</li> <li>✓ High chances of exploitation as the company determines the prices of produce.</li> </ul>

## ENTERPRISE SELECTION AND DISBURSEMENT OF MATCHING GRANTS

- ✓ Farmers will have an opportunity to venture into an enterprise of choice ranging from livestock, crops, aquaculture among others;

Farmers are encouraged to start with the following crops: cotton, soya beans and pigeon peas in summer, maize and dry beans in winter, until such a time that value chains and market opportunities for other crops especially perishables like mangoes, bananas and tomatoes are determined. Farmers will also be encouraged to integrate crop production with livestock, fish farming among others.

- ✓ Farmers will develop business plans according to enterprises selected and markets available, which will be assessed by Investment Assessment Panel on quarterly basis;
- ✓ Clear selection criteria will be developed and be used to award grants. This will include but not limited to verification of technical and financial viability, acceptable management skills, access to markets for inputs, services and produce, and likely access to matching non-project finance.

The disbursement of matching grants to successful business plans will be made as indicated in table1 below:

**TABLE 1: MATCHING GRANT DISBURSEMENT**

INVESTMENT CATEGORY	DEVELOPMENT PATHWAY				EXISTING PRODUCERS
	1	2	3	4	
	<b>Project Investment Support/Grant</b>				
<b>Main Water delivery</b>	100%	100%	100%	100%	Negotiable
<b>On Farm Irrigation &amp; Roads</b>	90%	90%	90%	90%	0%
<b>Farm Fixed Assets</b>	70%	70%	70%	0%	0%
<b>Farm Moveable Assets</b>	50%	50%	50%	0%	0%
<b>Farm Overhead Costs/Year 1</b>	50%	50%	0%	0%	0%
<b>Farm Production Costs/Year 1</b>	50%	50%	0%	0%	0%

## Value Chain Development/ Diversification

- ✓ The project will enhance value chain development for selected enterprises through formation of productive alliances where SOCFES, public and private sectors will agree on certain terms to formalize the production of some commodities;
- ✓ There will also be value chain platforms involving all relevant entities including farmers, input suppliers, produce buyers, processors, transporters, financiers, public and private extension service providers and commodity associations;
- ✓ Farmer Unions will also be formed at SOCFE and Shire Valley levels and will be affiliated to national farmer bodies such as Farmers Union of Malawi, among others. The Farmer Unions will discuss common issues related to agriculture in the Shire Valley and the SVTP in particular. This would be an effective advocacy body for all farmers;
- ✓ The Project will facilitate development and formation of agro-spatial zones. It will support the Ministry of Industry, Trade and Tourism (MITT) and the Malawi Investment and Trade Centre (MITC) to analyze and determine suitability of Agro-Spatial zones in the project area including the development of the

legal framework of the zones. The analysis of agro-spatial zones will assist in rallying private institutions behind investment commitment in the zones;

- ✓ The SVTP will facilitate access to financing through a range of options available including innovative instruments such as value chain finance, challenge funds, and warehouse receipt systems. The Warehouse Receipt (WR) System allows farmers to deposit their produce into a warehouse and use the WR to obtain a 70% advance payment from the bank before getting a better price on the market;
- ✓ The Project will facilitate linkages between producers, suppliers, processors, available markets and other stakeholders (all value chain actors) with SOCFEs and will explore new areas for diversification including the auction system among others.

## Capacity Development

The Project will provide technical advice, support, training and mentoring on agronomy, irrigation management, marketing, business management, land use planning and others based on needs assessment.

## Results, Impacts and Expectations

### At household level

- ✓ Improved food security;
- ✓ Increased incomes due to increased productivity and quality;
- ✓ Improved nutrition and dietary diversity.

### At community level

- ✓ Transformed livelihoods through agriculture commercialization;
- ✓ Increased food security and nutrition through increased income;
- ✓ Improved social amenities and infrastructure such as roads, shops.

### At national level

- ✓ Increased export earnings;
- ✓ Job creation;
- ✓ Development of agricultural industries;
- ✓ Agricultural Market development.

## Cover Page Photo Credits

1. Irrigation farming using a centre pivot at Illovo in Chikwawa
2. Smallholder farmers in a maize garden at Nabomba Irrigation Scheme in Chikwawa
3. Animal husbandry at Issa Farm in Ngabu, Chikwawa

Visit the SVTP website on [www.svtp.gov.mw](http://www.svtp.gov.mw)

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