



Norfund

DEVELOPMENT IMPACT  
**CASE STUDY**



**NYAMA WORLD**  
**MALAWI**

# CASE STUDY

## NYAMA WORLD

Investment year: 2017

Sector: Agribusiness

Instrument: Loan

Deal type: Expansion

Committed amount at 31.12.17:

USD 2.75 million



## SOURCING FROM SMALLHOLDER LIVESTOCK FARMERS

Commercialising smallholder farms, increasing agricultural diversification, and promoting exports are key agricultural priorities for the government of Malawi.

One of Norfund's investee companies, Nyama World, is contributing to the realisation of these ambitions.

**M**alawi is classified as a Least Developed Country by the OECD, and in 2016 its income per capita was USD 300.<sup>1</sup> According to Malawi's latest Growth and Development Strategy, sustainable and inclusive growth is essential to reducing poverty in the country.<sup>2</sup> To achieve this, the government wants to promote growth in sectors that create employment and income opportunities.

### INVESTMENT CONTEXT

Agriculture is a key sector in the government's inclusive growth strategy because it involves a large share of the workforce. Approximately 83 percent of Malawi's population is engaged in agricultural activities and 37 percent keeps livestock.<sup>3</sup> In 2017, the agricultural sector accounted for about 28 percent of gross domestic product and 80 percent of export earnings. However, the productive capacity of the agriculture sector is low, and transformation is needed if its potential is to be realised.

### Linking smallholders with enterprises

Involving smallholders in agricultural value chains is a central component of the government's drive to transform agriculture. The country's National Agricultural Policy identifies the private sector as a key player in realising this ambition and is committed to supporting the "market-based expansion of private sector investments that promote smallholder commercialisation."<sup>4</sup>

### Increasing agricultural diversification

Currently, the agriculture sector in Malawi is dominated by two crops: maize, which ensures food security, and tobacco which generates export earnings. This reliance has exposed the sector to commodity-specific risks, making it vulnerable to climate change-related events such as floods and droughts. Diversifying crop, livestock and fisheries production is necessary to reduce vulnerability and raise income.

Malawi is home to 1.5 million cattle, and smallholders supply 90 percent of the beef in the country. However, productivity in the sector is low because of cattle in-breeding, poor service delivery, and poor marketing. There are good opportunities to grow the livestock sector: the government's National Livestock Development Policy seeks to "transform small-scale farmers to semi-commercial and commercial livestock production chain actors".<sup>5</sup> This process is expected to lead to increased agricultural production, productivity and farm income.

### Promoting exports

The expansion of agricultural exports is another key priority of Malawi's government. Malawi is seeking to increase the value of agricultural exports by 50 percent from 2016 to 2020. However, the lack of modern slaughtering and processing capacities is an obstacle for meat product exports.

### NYAMA WORLD

Afrisphere Worldwide Ltd. was registered in 2009 and began its operations under the brand name Nyama World (NW) in 2010. NW is a recognised domestic brand of high quality meat that is sourced, produced, processed and sold in Malawi. NW has grown steadily since it was established and has developed an integrated value chain. The company owns an abattoir, feedlot, processing plant and retail outlets.

In 2016, the company sought funds to expand its domestic business, build exports to neighbouring countries, and to target markets in the Middle East. The expansion involved the sourcing of crossbred cattle from smallholder farmers, the expansion of own cattle production, the construction of a new abattoir, and the up-scaling of vehicle capacity to transport the meat products to market.

### Initial screening

NW was introduced to Norfund via the Norwegian Embassy in Lilongwe. The initial screening of the project revealed a match with Norfund's sectoral and geographic priorities. NW is an integrated agribusiness and fitted well with the priorities of Norfund's agribusiness strategy. Its location in Malawi, one of the least developed countries in Sub-Saharan Africa, also matched our geographic priorities.

Norfund's investment in NW fulfilled our mandate, namely to provide capital in high-risk environments. Macro-indicators show that Malawi is a country characterised by high country risk. The country is not rated by any of the leading credit rating agencies, and scores low



on key governance dimensions such as regulatory quality and control of corruption.<sup>6</sup> Its ranking in the World Bank's Doing Business Index indicates that it is a country in which it is difficult to do business.<sup>7</sup>

Nyama World operated seven retail outlets by the end of 2017.

Investing in agribusinesses is particularly risky, as the sector is vulnerable to weather conditions, diseases and changes in global demand.

This high level of risk discourages commercial investors: the volume of foreign direct investment in Malawi is among the lowest in the region.<sup>8</sup> NW had not been able to access USD funds from local banks or private investors in the local market.

### Due diligence

Norfund's project team conducted due diligence over a four-month period, during which they reviewed documentation, undertook discussions with the NW management and consulted with key stakeholders.

External consultants assisted in technical, legal and market assessments, and a corporate law firm was engaged to ensure that NW's corporate documents, permits, licences and procedures were in order. Norfund's team conducted a thorough partner risk assessment.



Norfund's financing has allowed NW to import 50 Bonsmara bulls for crossbreeding.

Several meetings were held with the company to ensure partner alignment, to discuss the investment structure, and to refine strategies and business plans. The iterations with the company identified several strengths:

- NW is a respected local partner with a positive track record
- It has a strong brand and integrated value chain
- Entrepreneurial development has been fully funded by the entrepreneur
- The company has an established network in the Middle East

The project team expects the investment to contribute to growth and poverty reduction via improved cattle breeding practices, increased income for smallholder livestock farmers, job creation, foreign exchange earnings and tax revenues.

The project team also consulted with key stakeholders, including employees, smallholder farmers, representatives from Malawi's Ministry of Agriculture, Irrigation and Water Development; the Norwegian embassy; NGOs; the Paramount Chief Chikulamayembe; and the region's Member of Parliament.

The findings from the due diligence convinced the team that the deal met Norfund's investment criteria. In January 2017, Norfund's Investment Committee approved a secured loan of USD 2.75 million to Nyama World.

### NORFUND'S ROLE IN NYAMA WORLD

Norfund is an active investor and supports Nyama World's expansion strategy by providing finance, expertise and support through our grant facility.

#### Providing finance for expansion

Norfund provided long-term capital to NW through a sharia-compliant secured vendor debt instrument. Financing from Norfund has contributed to the realisation of key elements in the company's expansion and export plan:

- A modern European Union standard export quality non-stun halal abattoir in the city of Mzuzu has been constructed. The abattoir will adhere to international hygiene standards and the traceability of NW's products will be ensured. The new abattoir will enable the company to realise its export ambitions.
- 50 Bonsmara bulls have been purchased for the smallholder programme. The bulls will each serve around 100 cows every year and help to secure a steady supply of high quality meat.
- 10 ha of the company's farm in Bolero have been developed, giving NW the capacity to receive and fatten 3,000 animals.
- Refrigerated vehicles and heavy-duty generators have been acquired.

#### Enhancing environmental and social performance

Ensuring that companies adhere to best environmental practice and social standards is an integral part of Norfund's work. The identification of environmental and social risks and impacts is therefore a key part of Norfund's due diligence work.

Norfund's sustainability expert reviewed documentation related to NW's social and environmental performance. These included local licences and an Environmental Impact Assessment of the new abattoir site. He also visited the company's processing plant, outlets, the new abattoir site and several farmers' clubs. The company was found to be largely adhering to the applicable laws and regulations, including core labour standards.

Some gaps with the IFC performance standards were identified. These were addressed in an Environmental and Social Action Plan which was included in the legal agreement between NW and Norfund.

The legal agreement commits the company to complying with specified environmental and social standards, such as the ILO Declaration on Fundamental Principles

and Rights at Work, the IFC Performance Standards, and the World Bank Group’s Environmental, Health and Safety Guidelines. NW is also required to report regularly on its environmental and social management and performance.

**Supporting the establishment of new farmers clubs**  
Norfund has provided a grant to NW to co-finance the establishment of 40 new farmers’ clubs with 2,000 members. The new clubs will target young men (50%) and women (50%) in the Mzimba district. The identification and training of club members is expected to start in Q2 2018.

**DEVELOPMENT EFFECTS**

Nyama World’s expansion will contribute to increasing the income of smallholder livestock farmers, to job creation and to raising foreign exchange earnings.

**Improving breeding practices**

Poor cattle breeding practices have led to a reduction in the size and fertility of the local Zebu cattle and increased their vulnerability to diseases. Over time, their carcass yield has declined from 55 percent to 48 percent. To improve the genetic stock and quality of the local cattle, NW has initiated a programme in which the local Zebu breed is crossbred with South African Bonsmara bulls. Bonsmara cattle are characterised by the high quality of their meat and can produce carcass yields of 60 percent.

Nyama World’s smallholder crossbreeding programme is a core component of the company’s business model. The programme was developed in cooperation with Lilongwe University of Agriculture and Natural Resources (LUANAR) and Malawi’s Department of Animal Health and Livestock Development (DAHLD) which is part of the Ministry of Agriculture, Water and Irrigation. The crossbreeding programme aims to improve breeding practices, and strengthen farmers’ access to markets. This will help to increase the incomes of farmers and reduce their vulnerability.

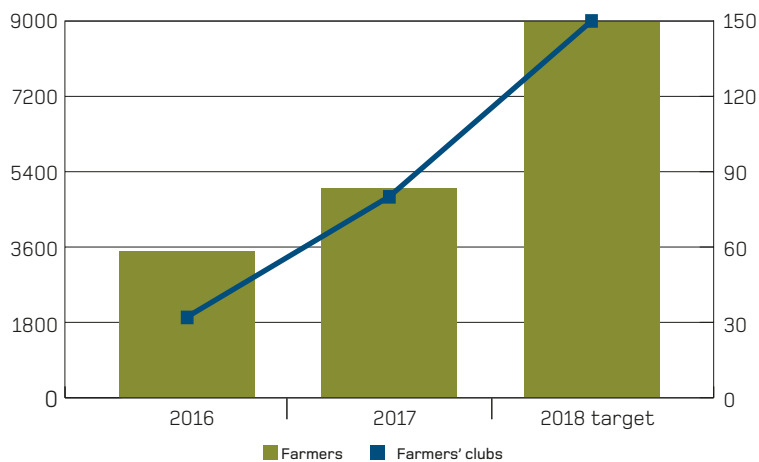
The crossbreeding programme started in 2015 and was developed with financial support from the IFAD-funded Rural Livelihoods and Economic Enhancement Programme (RLEEP) and the Malawi Innovation Challenge Fund (MICF). By the end of 2017, the company had established 80 smallholder farmers’ clubs in the districts of Rumphu, Karonga and Chitipa, with approximately 5,000 members.

**Environmental and Social Action Plan (ESAP)**

The legal agreement between Nyama World and Norfund specifies which actions NW must undertake to comply with the IFC Performance Standards, and the required timeframe for implementation. NW must:

- Hire an Environmental and Social officer;
- Develop and implement an Environmental and Social Management System which is compliant with host country regulations, IFC PS, World Bank Group EHS Guidelines and relevant food safety management codes;
- Ensure 3rd party food safety management system certification to, for example, ISO22000;
- Finalise and deliver training on the company’s Human Resources Policy and procedures which must include the grounds for hiring and firing people, workers organisations, grievance mechanisms and OHS;
- Develop and implement a solid and liquid waste management plan;
- Develop a water management plan;
- Develop a stakeholder engagement plan; and
- Develop a business integrity policy and ensure adequate training of staff

**Smallholders farmers are key players in Nyama World’s value chain**



Each club builds a pen in which Zebu cows are served by Bonsmara bulls. Initially, the cows were artificially inseminated with Bonsmara semen, but with Norfund’s financing, the company has been able to import Bonsmara bulls from South Africa for natural mating. The bulls have the capacity to serve a total of 5,000 cows a year.

The first round of crossbreeding was successful, and the first calves were born in the spring of 2016. Farmers reported that the crossbred calves were much larger than



Farmers were introduced to NW's programme in 2016 when they were members of another farmers' club, 8 km away. The club members explained that the calves born in the first club were of an improved breed, and that they received a good price when selling them to NW.

After seeing the results of the first round of insemination, some of the club members wanted to set up a new club closer to their area of residence. The Chimati club was formed in late 2017. The club members have constructed a 20 x 20 metre pen and are now waiting for a bull. The club hopes that 30 calves will be born in the coming year as part of the programme. Club members say that they plan to use the income from the sale of calves for food and schooling, and to upgrade their dwellings.

the local Zebu cattle and weighed, on average, 180 kg at 7 months. This compares favourably to the local Zebu cattle which usually weigh an average of 100 kg at 2 years. By end of Feb 2018, over 500 crossbred calves had been born.

Farmer training is provided in cooperation with the Department of Animal Health and Livestock Development. Topics include gross margin analysis, heat detection, feeding and nutrition, health, animal husbandry and artificial insemination.

#### Increasing income and resilience

Each participating farmer signs a contract with NW, specifying the responsibilities of each party. NW commits to providing free crossbreeding service, building the technical and managerial skills of the farmer, and to purchasing the calves. The farmer commits to participate in training, adhere to good husbandry practices, and to sell the crossbred calves to Nyama World.

The farmers who participate in the programme benefit from guaranteed offtake and a guaranteed price. NW buys the calves directly from the farmer, thereby avoiding the use of middlemen. The contract between the company and the farmer specifies that NW will buy the calves at 10 percent above the market rate. This is NW's commitment to smallholder farmers to pay a higher price for better-quality cattle.

When a farmer is ready to sell, he or she contacts NW's Procurement Manager who brings a portable scale to the farmer's location. The farmer receives immediate payment, and the Procurement Manager transports the calf to a temporary pen, where it stays until it is ready to go to the feedlot. Since the crossbred calf's weight is higher than that of a regular Zebu calf, this increases the income of the smallholder.

By end of Feb 2018, NW had purchased over 120 calves from smallholder farmers, at an average price of USD 150 for a calf of 130 kg. If the size of the calf is bigger, it can fetch between USD 150 to USD 200. The farmers reported that this was more than twice the price they would have received from selling the local Zebu calves. This is providing valuable additional annual income: money received from the sale of crops is normally in the range of USD 100-170 per household.

Households that keep livestock tend to be more resilient to droughts, floods and income shortages than non-livestock keepers.

#### Creating decent jobs

Nyama World's expansion has enabled it to create more jobs. At the end of 2016, NW employed 172 people (114 men and 58 women) but by end of Feb 2018, the company employed 206 people (130 men and 76 women). This represented a job growth rate of 20 percent.

The growth of women workforce of NW increased by 31 percent during this period.

Employment is expected to increase further as the number of animals at the company's farm increases, the abattoir is operational and more retail outlets are opened.

All NW's staff are provided with contracts specifying their terms and conditions of employment, including their salary level, working hours and annual leave. The company's HR policy provides further information about issues such as the use of protective clothing, remuneration, retirement, grievance procedures and sick leave. The company makes pension contributions for its employees and provides equal pay for equal work. Female employees are entitled to maternity leave. The employees are provided two meals each working day.

### Generating export earnings

NW will start exporting to countries in the region and in the Middle East once the modern abattoir facility is operational. The company expects to make its first exports in 2018 and to increase these substantially in the coming years, providing valuable foreign currency earnings for Malawi.

### WAY FORWARD FOR NW

Building volume of the higher yielding Bonsmara cross-bred is important to create revenues in regional markets and start exports to the Middle East. NW plans to expand its smallholder programme, and to add more Bonsmara bulls to the programme. NW's target is to import 500 bulls by 2026, and to integrate 30,000 smallholder farmers into their value chain. ■

### REFERENCES

- <sup>1</sup> World Bank, World Development Indicators
- <sup>2</sup> Malawi Government (2017). Malawi Growth and Development Strategy (MGDS III). Lilongwe
- <sup>3</sup> Republic of Malawi (2017). Integrated Household Survey 2016-2017. Zomba: National Statistical Office
- <sup>4</sup> Malawi Government (2015). National Agriculture Policy (2016-2020). Lilongwe: Ministry of Agriculture, Irrigation and Water Development, page 19
- <sup>5</sup> Malawi Government (2017). National Livestock Development Policy, 2017-2022. Lilongwe: Department of Animal Health and Livestock, Ministry of Agriculture, Irrigation and Water Development
- <sup>6</sup> World Bank, Worldwide Governance Indicators
- <sup>7</sup> World Bank, Doing Business indicators
- <sup>8</sup> Mwanakatwe, P. and A. Bhatia (2017). Malawi 2017. African Economic Outlook



### LEAD FARMER, PHAPA CLUB

Wallace Sichali is the leader of the Phapa Club in the Wowwe area of Malawi. He explains that the farmers in his club have sold 7-month-old AI Bonsmara crossbreeds for USD 180. This is three times higher than the price farmers normally get for a 2-year-old Zebu calf, according to Wallace. "This is business," Wallace explains. During the programme, his cows have had three calves, and he is expecting to sell them soon.

Wallace has also received training in artificial insemination (AI) from Nyama World. He is responsible for insemination and for monitoring four clubs. Thus far, he has conducted 12 AIs, 5 of which have resulted in pregnancies.



### PRODUCTION MANAGER, KANENGO PLANT

Chisomo Banda had no working experience prior to joining NW. She started as a Production Assistant in NW's processing factory in 2010 and has worked her way up the company ladder. She is currently employed as Production Manager – Kanengo Processing Plant in Lilongwe with responsibility for organising the workday.



### MANAGER OF OPERATIONS, BOLERO FARM

Sam Mpumulo started working for NW in 2010 as a mechanic in the maintenance division in Lilongwe. In 2015, he began working at the company's farm in Bolero. He has participated in on-the-job training, as well as training in artificial insemination, and is now Manager of Operations. He is responsible for receiving animals, which includes counting, weighing, dipping, deworming and tagging, and for organising feed processing and feeding.

# NORFUND'S INVESTMENT IN NYAMA WORLD

