CREDIT DEMAND AND SUPPLY STUDY OF MALAWI'S COFFEE SECTOR

DEEPENING MALAWI'S MICROFINANCE SECTOR PROJECT

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Executive Summary

This study was co-funded by USAID's Deepening Malawi's Microfinance Sector Project (DMS) and the Malawi Ministry of Agriculture Food Security Joint Task Force (FSJTF) Technical Secretariat funded by the European Union. The report was produced by Kadale Consultants, under contracts with the DMS Project and the FSJTF Technical Secretariat.

The main aim of this study is to gather and make available useful credit demand and supply data that can be used by various stakeholders in the coffee sector to increase the flow of sustainable financial services to value chain actors in the coffee sector. The study uses the coffee value chain to gain a better understanding of how the commercial growers/processors and smallholder coffee growers are currently financing their activities.

Key stakeholders in the sector were surveyed including the commercial and smallholder coffee growers, input suppliers, banks, leasing companies and microfinance institutions to:

1. Quantify the level of credit currently being accessed;
2. Identify financing needs that are not being met; and
3. Make recommendations on next steps for addressing the financing gaps.

Following the distribution of the draft report, commercial and smallholder growers, banks, MFIs, input suppliers and development partners were brought together on 27 October 2006 for the *Financing Needs of the Coffee Sector Workshop* at the Coffee Association of Malawi (CAMAL) offices to discuss the report and more importantly, identify ways to improve financing flows. This final report therefore contains amendments to the draft plus the outcome of the workshop.

Commercial Growers/Processors (Section 2)
The commercial growers were surveyed to understand how they finance their businesses, including sources of funding and what the funding was used for (working capital, fixed asset financing etc). Commercial growers are **generally able to access working capital credit from the local banking sector**. **Overdrafts** are the primary borrowing facility in value of borrowing currently utilised by the coffee industry.

In terms of fixed asset and development financing, most commercial growers self-finance to the greatest extent possible, set aside earnings from previous years and take a long-term outlook to major projects by planning up to five years in advance. Respondents reported that their **primary financing gap is longer term USD dollar financing for capital and development expenditure projects**, specifically with terms between five to twelve years and annual payments that coincide with the annual coffee sales. Due to the export nature of the coffee business, coffee growers effectively operate as dollar businesses and therefore they are looking for US $ loans to hedge the exchange rate risks of long-term financing.

Banks reported that the ongoing forex shortage in Malawi does limit, but not completely preclude their ability to lend in dollars for medium term financing from their own funds. In addition, all of them have access to lines of credit for international loans in US dollars that can be offered for medium and longer term lending. This suggests that the main problem is an information gap between what is wanted and what can be offered.

One further option is to link growers and banks with **development finance** (Section 4.1.1):

- The **EIB** has confirmed its renewed interest to pursue establishment of a long-term US $ facility up to 12 years that is designed to meet the specific needs of the agriculture sector, including tea and coffee. As the first step in the process, EIB is looking to identify one or more local financial intermediaries with potential interest to move the process forward.

- **NORSAD** offers similar loan terms and is able to work either via a local financial intermediary or directly with a company.
- In addition, USAID though the DMS Project is currently looking into establishing a **Development Credit Authority (DCA)** Loan Guarantee Programme in Malawi. This programme is designed to increase the flow of local commercial bank capital into sectors such as agriculture and SMEs by sharing loan risk between USAID and the local lending institution.
- **Etimos** is an Italian financial consortium that finances organisations in developing countries such as microfinance institutions, savings and credit unions and producer co-operatives. Based on its mission and lending criteria, it is a potential funding source which could support the smallholder coffee sector.

Smallholder Coffee Growers (Section 3)
3,100 smallholder coffee growers are organised through five farmer associations affiliated with the Mzuzu Smallholder Coffee Farmers Trust (SCFT). Mzuzu SCFT utilises an integrated production, processing and marketing/sales system that links the farmers to markets both domestically and internationally. This system ensures that credit extended to farmers can be recovered through direct loan deductions from coffee proceeds.

The most widely utilised product is the **in-kind input loan** that is extended to farmers for fertiliser and chemicals. The average input loan is reported to be about MK 13,000 (principal only). On an aggregate level, a total of MK 23 million (as at May 2006) was extended as credit to 1,689 smallholder coffee farmers via the five Savings and Credit Unions (SACUs) which are housed at an association level.

The **greatest financing need for the smallholder coffee sector** is currently for the Trust's SACUs. In order to provide the credit level needed by the farmers, **the SACUs need an injection of capital to raise the capital base for their revolving input funds**.

There is also a **need for the SACUs to access bridging finance, due to the cash flow requirements of the coffee agricultural cycle** in which coffee proceeds are not realised for at least six months after the next season's inputs order must be paid for.

As it was owned and managed by government for many years prior to it becoming a Trust, sufficient capital development, equipment rehabilitation and replacement had not taken place when it should have. As a result, **the Trust has substantial capital expenditure needs** for replacement and rehabilitation of pulpery machinery, transport vehicles, new warehousing, additional new huller equipment, new automated packaging equipment etc.

The Way Forward (See Section 4.2)
At the *Financing Needs of the Coffee Sector Workshop*, commercial growers supported the findings of the coffee and tea sector reports and the outcome of the tea workshop in June 2006, but did not have additional issues to address at the coffee workshop. Based on the direction provided by the participants themselves, the workshop focused on the needs of the **smallholder coffee sector** and resulted in the following **key recommendations:**

1. That interested financial institutions enter into discussions with the Mzuzu SCFT to determine the viability of and options for financing the Trust and/or its associations to enhance the credit extended to their farmer members through the SACUs.
2. That at both industry (CAMAL) and firm levels, growers help bankers to better understand the opportunities that exist within the Malawi coffee sector.
3. That Mzuzu SCFT, in conjunction with FSJTF, explores the option of seeking funding from Etimos to address its financing needs.
4. That the Mzuzu SCFT Savings and Credit Unions discuss with MUSCCO the option to become members.

5. That Mzuzu SCFT seeks capacity building support from MUSCCO and development partners such as USAID DMS Project.

Introduction

1.1 Background of the Study

The main aim of this study is to gather and make available useful credit demand and supply data that can be used by various stakeholders in the coffee sector to increase the flow of sustainable financial services to value chain actors. It is a result of a collaborative initiative between the Ministry of Agriculture Food Security Joint Task Force (FSJTF) Technical Secretariat and the USAID Deepening Malawi's Microfinance Sector (DMS) Project. The author of the report is Kadale Consultants who were contracted by the DMS Project and FSJTF to carry out this study. The study also builds on the results of a three day workshop in May 2006 financed by USAID through the DMS Project that brought together key stakeholders operating in the cotton, tea and coffee rural agricultural value chains. The DMS Project is implemented by Chemonics International Inc. under a contract to USAID.

This study uses the coffee value chain1 to gain a better understanding of how the commercial growers/processors and smallholder coffee growers are currently financing their activities. Where credit is being utilised, it outlines the volume, nature and form of credit provided and by whom. Secondly, it identifies areas where financing needs are not being met, including circumstances where the current financing may lack sufficient scope/size, where the lending mechanism (i.e. tenure) may not match the financing needs or where there is no access to financing for a given purpose. For additional details about the process followed please refer to Section 1.3

This document was presented at a debriefing workshop on 27 October 2006 at the Coffee Association of Malawi's offices in Blantyre at which the *Financing Needs in the Coffee Sector* were discussed. The document serves as an overview of the topic to stimulate dialogue between the key players in the coffee sector including commercial growers/processors, smallholders and input suppliers as well as existing and potential financial partners such as commercial banks, leasing companies, microfinance institutions and other financial institutions. The objective of the process is to bring the relevant players together to:

1. Identify practical solutions that address the financing gaps presented;
2. Identify where and what type of additional assistance may be needed; and
3. Establish clear next steps to develop new or improved mechanisms that better meet the sector's financing needs.

1.2 Coffee Sector[2]

Coffee is produced in more than 50 countries. According to the International Coffee Organisation (ICO), 2004 annual production was 115 million 60-kg bags (6-7 million tonnes) with an export value of US$ 5-6 billion. Three countries, Brazil, Colombia and Vietnam account for almost 60% of world production. Malawi is a very minor producer in the world coffee market, producing less than 0.02% of total world production. While a small sector in world terms, coffee is still a significant foreign exchange earner for Malawi. However, production has been declining for a number of years due to a combination of world and local factors, including unpredictable market prices of coffee, escalating input costs, frequent droughts and progressive reductions in hectarage.

[1] *Coffee Sector Report*, Kadale/SALES November 2005.
[2] *Coffee Road Map, CAMAL*, Kadale Consultants Ltd, March 2006.

Malawi coffee is 100% Arabica and grows at an elevation above 950 metres, with most in the range of 1,050 metres or higher. Coffee is grown mainly in the north and in the south-east of the country, with little production in central region. In the south, coffee is grown only by commercial farms/estates (no smallholders) mostly centred around Thyolo and Zomba. In the north, coffee is predominantly grown by smallholders in associations affiliated with the Mzuzu Smallholder Coffee Farmers Trust (SCFT) and by two small farms around Mzuzu[3]. The profile of the coffee sector is therefore completely different between north and south.

There are two main categories of coffee growers in Malawi: the commercial farms/estates, and the smallholders. In Malawi there are currently fifteen organisations active in coffee growing. Fourteen are commercial farms/estates and the other is the Mzuzu Trust comprising five associations of smallholders. Three growers/processors ('growers') – Sable, Makandi[4] and Mzuzu SCFT – account for more than 75% of this year's estimated production.

Table 1 2005/06 Coffee Production Data

Producer	Hectares	Metric Tonnes	Other Crops Grown	Coffee as % of Turnover
Sable (Global)	622	850	dairy, macadamia, tobacco	40%
Mzuzu SCFT	400	350	honey	90%
Makandi (Global)	68	200	tea, macadamia	6%
Press	230	90	cashew nuts, macadamia, soya, tobacco, maize	NA
Mbabzi	75	70	NA	NA
Njuli (Universal)	110	50	maize, potatoes	30%
Zoa	50	50	macadamia, tea, other (fruits, honey, fish, etc.)	15%
Conforzi	42	48	tea	NA
Kapno	20	40	NA	NA
RWJ Wallace	35	30	tobacco (growing/processing/trading)	5%
Satemwa	32	20	tea, other	2%
Katoto	18	12	NA	NA
Namingomba	36	10	livestock, macadamia, maize, tea, tobacco	<1%
Chipunga	10	2	NA	NA
Matambo	NA	NA	NA	NA
TOTALS	**1748**	**1822**		

Source: Data as reported by survey respondents (Makandi, Mzuzu SCFT, Namingomba, Njuli, Press, RWJ Wallace, Sable, Satemwa, Zoa) in May/June 2006 and industry estimates for others as reported to the Coffee Association of Malawi at the start of 2005/6 growing season.

The world mainstream coffee market has developed into a relatively low value high volume market. Many coffees are used only for blending. For such coffees it is not possible to add much value as prices are determined solely by market conditions, characterised by worldwide over-production. These coffees are bought from many countries as green beans to be blended and roasted closer to the point of sale in consuming countries.

Malawi has predominantly supplied beans into this high-volume market segment and has suffered considerably from the low world market prices since 1989, following the collapse of the International Coffee Agreement and continued world oversupply. The result has been a progressive decline in coffee growing in Malawi with growers leaving the industry or reducing

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[3] Chipunga and Katoto.
[4] Both Sable and Makandi are owned by Global, but operate independently in financial terms.

hectarage. As a result, production fell from 7,720 mT in 1991/92 to a low of 1,590 mT in 2004/05. As indicated in the table, the expectation is for a modest increase in volumes for 2005/6.

Although the mainstream coffee market continues to experience weak prices, the increasing consumption of higher priced specialty coffee worldwide does provide opportunities to growers willing to invest in their coffees. Although Malawi has some very good coffees, not all can qualify as specialty grades, so there is a need to continue selling into the bulk mainstream market. This strategic choice depends to a considerable extent on each producer and their willingness to seek specialty sales and to make the necessary investment.

1.3 Methodology

The methodology focused on collection of specific financial data through primary research as this information is not available from secondary sources. Key stakeholders in the sector were identified including the commercial growers, smallholder growers, input suppliers, banks, leasing companies and microfinance institutions. A questionnaire was developed for each stakeholder category, but based around the same issues/topics. The questionnaire was shared with DMS and FSJTF for input and then tested. Following initial interviews, it was amended. The final questionnaires for the commercial growers and banks are attached in Annex 4: Questionnaire Templates. The questionnaire for smallholders and input suppliers were variants on these and can be provided on request.

Interviews and data collection took place during May/June 2006. Thirteen coffee growers were contacted for the survey, representing 98% of estimated 2006 production and 99% of coffee hectarage in Malawi. Nine of the thirteen growers provided responses to the survey, representing more than 90% of Malawi's total coffee production and hectarage. These were: Makandi, Mzuzu Smallholder Coffee Farmers Trust (SCFT), Namingomba, Njuli, Press, RWJ Wallace, Sable, Satemwa and Zoa.

The main input suppliers for the sector were also contacted for the survey. The majority of informants were visited in-person with the balance of interviews conducted via telephone or email.

All the commercial banks (seven) and thirteen of the microfinance institutions were contacted by telephone or email to determine whether they were currently providing finance to the sector. In-person interviews were conducted with the four financial institutions (IndeBank, National Bank, NedBank and Stanbic) that reported providing coffee sector financing.[5]

Throughout the document when exchange calculations were required, a rate of US$1 to MK 140 was used.

Following the distribution of the draft report, commercial coffee growers, SCFT, smallholder coffee grower representatives, banks, MFIs, input suppliers and development financiers were brought together on October 27, 2006 at the Coffee Association of Malawi's offices in Blantyre at which the *Financing Needs in the Coffee Sector* were discussed and more

[5] Other interviews with select banks, leasing companies and MFIs were also conducted although not currently providing financing to the sector.

importantly, to identify ways to improve financing flows to the sector. The final report therefore contains amendments to the draft plus the outcome of the workshop.

1.3.1 Limitations to the Methodology

The primary limitation to the methodology relates to the commercially sensitive nature of the financial information being provided by the coffee growers and financial institutions. Where the firm agreed to provide specific financials regarding its business activities and current loan portfolio, this was done on agreement that company level financial information would not be publicly disclosed. Rather, this data is presented in this report in aggregate so that findings and recommendations may be made on a sectoral level.

Nevertheless, it should be noted that all respondents provided a sufficient level of response to complete the study. In addition to the quantitative data, qualitative information was also provided and has been included in the narrative of this report, where relevant.

The terms of reference for this activity, which include both tea and coffee, specified that data provided should be disaggregated by sector. All of the commercial farms/estates surveyed grow two to three export crops, typically a combination of tea, macadamia nuts, tobacco and coffee, as well as domestic market crops such as honey, fruits, livestock/dairy, fish and maize. In fact, for all the coffee producers except Mzuzu SCFT, coffee is not their primary source of revenue and represents only a portion of their turnover, between 1% and 40%. Many have continued growing coffee in small amounts, reportedly because of the need for diversification and because the peak season falls when their primary crops, i.e. tea and macadamia, are at their low season, so that resources can be reassigned to coffee harvesting and processing at what would otherwise be downtime.

Except in the case of occasional specific asset acquisition, e.g. replacing coffee processing equipment, all the growers surveyed that grow multiple crops indicated that they do not normally borrow for a specific commodity. Rather they borrow based on their overall business needs. For example, working capital and cash flow requirements relate not only to coffee, but to the overlapping agricultural cycles of all their crops. Similarly, for ease of operations as well as to increase the size of bulk purchases, inputs are often purchased and financed jointly for more than one crop.

The above practice of not being able to disaggregate the financing was confirmed by the banks surveyed who were also not able to provide a breakdown of their lending to growers by commodity, because the lending extended is to a business, not necessarily for a specific crop.

Therefore, for the purposes of this exercise, figures have been presented pro-rata based on the reported percentage of turnover that coffee represents for each business in order to provide an estimate of the level of financing extended to the sector based on the percentages in Table 1 2005/06 Coffee Production Data.

2 Commercial Growers/Processors

2.1 Credit Supply

The commercial-scale growers were surveyed to understand how they finance their businesses, including sources of funding and what the funding was used for (working capital, fixed asset financing etc). For external financing, information on the financier (whether local commercial bank, foreign commercial bank or development financial institution) and the means of financing (overdraft, term loan etc) was also gathered.

The financing of the Mzuzu SCFT has been included in this section because the Trust operates as a processor and has broadly similar financing needs to the commercial growers/processors. However, the financing for smallholder inputs has been further separated as a particular category of interest and covered in Section 3 below.

Each of the broad categories of Working Capital and Fixed Asset financing has been further subdivided into the different types of financing mechanisms. These are discussed below.

2.1.1 Working Capital and Short Term External Financing

Overdrafts are the primary borrowing facility in value of borrowing currently utilised by the coffee industry. Seven of the nine respondents stated that they utilise overdraft facilities through local commercial banks and provided specific data on their overdraft facilities. The stated reason for using overdraft financing was to help manage cash flow needs.

Kwacha interest rates were reported in the range of 26 - 35%. Dollar interest rates from local commercial banks were reported at LIBOR[6] plus 4%, fully convertible to Kwacha as required.

Seasonal loans are short-term loans with fixed repayment periods within a single agricultural cycle. Two of the nine respondents currently have seasonal term loans. The reasons given for taking a seasonal term loan were to purchase inputs and to manage cash flow requirements at the start of the season.

Repayment for these loans is made in monthly instalments, typically between three to six months, usually following a grace period of between three to six months. The overall term of the loan is between six to nine months. Both the loans reported in this category were dollar denominated, at interest rates of 9% fixed and LIBOR plus 4%.

All respondents secure their working capital credit requirements through the local commercial banking sector.

[6] London InterBank Offered Rate

Table 2 Working Capital Borrowing by Coffee Sector: 2005/6 Season

Type of Short Term Borrowing	Reported Aggregate Value	
	Total Borrowing	**% Attributed to Coffee**
Overdrafts (Maximum Limit)	$2,770,000	$448,000
Seasonal Loans (Principal)	$650,000	$6,000
TOTAL	**$3,420,000**	**$454,000**

Source: Summary data as reported by all 9 respondents:
a) Total value of loans to the respondents for their overall business activities; and
b) Prorata based on reported percentage of turnover attributed to coffee per Table 1.

Working capital is also financed through **trade credit**, which is used by all respondents except one that prefers to operate on a cash basis to help control expenditure. The respondents reported that this is typically taken for a period of 30-60 days from date of delivery and/or invoice with no interest charged. However, respondents were unable to quantify the level of trade credit received due to fluctuations on a monthly, even daily basis.

Enhanced trade credit is generally accessible for the purchase of inputs[7], which is a major part of working capital.[8] Orders are placed in the May to July period for delivery between September and November prior to application, which commences between November and December.

There are essentially two models for financing inputs. The first is **when inputs are ordered directly from international sources**. The grower must pay when ordering via Letters of Credit (LC) or similar issued through the grower's bank. The LC is funded out of the growers' own resources, borrowing via overdraft facility or through a seasonal loan.

The second main method is **when the order is placed through an input supplier**, which then orders and pays for the inputs by LC or similar at the time of order, financed from its own or borrowed resources. The normal pattern is for the input supplier to cover the cost of financing until the inputs are delivered to the customer, typically in the September to November period. Payment is then due at the time of delivery and subject to the terms of trade credit on offer by the input supplier. In effect, the input supplier carries the cost of financing the inputs from the time of ordering to the time of delivery, which would be paid for by the grower if the grower orders directly.

The input suppliers normally offer a period of trade credit to the grower, typically 30 days from date of delivery/invoicing. However, above this, the input suppliers indicated that they often enhance the trade credit terms offered on a client-by-client basis. One input company reported extending terms by 30, 60 or 90 days from delivery date into the country, requiring financial security of between 50-100% of the order value, depending on the customer's track record. This input supplier charges for the additional time taken, at a rate of 2% above LIBOR, in effect lending to the grower.

Another input supplier reported offering terms ranging from cash payment up to 120 days from date of invoice. While this supplier reserves the right to charge 3% interest per month on outstanding balances, it is not generally applied because the supplier wants to maintain the relationships with its clients. However, as it invoices in US dollars with payment in

[7] As reported above, details were obtained from the input suppliers regarding the nature of trade credit extended. Specific figures on the level of trade credit extended were not provided.
[8] Labour costs are the biggest working capital need.

Kwacha, this provides some level of protection from Kwacha devaluation, if receipt of payment is delayed.

Two of the respondent growers that produce tea as their main crop, are purchasing all or a portion of their coffee input requirements through a **tea buyer**. The buyer sources the inputs in bulk based on the growers' requirements around June of each year with delivery between September and December. Repayment is typically made between December and February once tea sales are realised[9]. The buyer extends an early payment discount to encourage sales to them during the off-peak season and start of the peak season. The estates that take this credit have the option to sell their tea directly to the buyer if they are satisfied with the price offered or can sell their tea at auction and pay back for the inputs in cash via their sales proceeds.

The above illustrates how an agri-business' overall financing needs are often met through revenue from their other crops. In this case, the cash flow from their tea proceeds is utilised to pay for coffee inputs since sales from coffee, as an annual crop, may take twelve months or more to be realised.

2.1.2 Longer Term Asset and Development Financing

Asset and longer term development expenditure is reported by the coffee growers to be self-financed to the greatest extent possible. The majority of respondents practice "if we don't earn it, we don't spend it". They finance their capital expenditure budgets by setting aside earnings from previous years and take a long-term outlook to major projects. This often results in deferring rehabilitation and replacement of assets until they can be self-financed.

It is important to remember that major asset replacement or purchases do not take place on an annual basis. Some of the coffee growers may have major asset requirements in future years that are not reflected here. However, there is still capital expenditure each year such as rehabilitation and replacement of individual items of factory equipment, vehicles, tractors and irrigation equipment.

For example, while none of the commercial growers reported any major development projects in coffee, several are actively developing other crops, such as macadamia, and have been able to receive medium term financing through local commercial banks for this purpose. Overall, the commercial growers/processors have found it difficult to finance longer-term development projects using local commercial financing, both because it has not been possible to get financing for a term longer than three or four years and due to the interest cost of kwacha financing making it not viable to borrow for longer term investments.

Medium Term Asset Financing

Only one respondent reported a medium-term loan through the local commercial banking sector. Two respondents reported medium-term financing through foreign banks. In all three cases, the facilities were denominated in dollars, ranging between three to five year terms with annual payments and interest rates at LIBOR plus 4% or fixed between 5% and 8%.

Of the respondents surveyed, medium to long term financing through commercial banks represents less than 4% of their borrowing. This is a reflection of the current supply available, not necessarily of the needs of the industry as outlined in Section 2.2 below.

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[9] As the loan is for several crops, the tea proceeds that begin to flow earlier than coffee are used to pay the loan off.

Table 3 Medium Term Borrowing by Coffee Sector Respondents

Type of Bank	Original Principal Amount	Est Outstanding Balance
Local Commercial Banks	$3,400	$1,300
Foreign Commercial Banks	$16,500	$14,700
TOTAL	**$19,900**	**$16,000**

Source: Summary data as reported by 9 respondents (7 nil responses; 2 with loans):
Values presented prorata based on reported percentage of turnover attributed to coffee in Table 1.
Note 1: The 2 growers reporting medium term loans have an average coffee turnover of less than 10% (total combined original principal amount: $540,000).
Note 2: Loan tenures vary from 3-5 years with repayment starting between 2003-2005 and ending between 2007-2009.

Leasing

None of the commercial growers reported utilising any leasing facilities, which typically include vehicles and machinery/equipment. This information was confirmed by the banks and leasing companies surveyed. To date, respondents have not seen the benefit of utilising Kwacha based leasing as a financing mechanism. One respondent commented that it has not been perceived as a viable option in light of Kwacha interest rates in recent years.

As a relatively new and small segment of the financial sector, leasing companies are keen to expand their financing base and enter new markets. As a result, at the tea workshop in June 2006, they expressed willingness to develop new products and adapt existing products, such as sale and lease back, to better respond to client needs. Although virtually all leasing is currently done in Kwacha, the leasing representatives indicated that leasing in US dollars is possible. The tea workshop participants agreed that a lack of information has been a factor in the limited usage of leasing in the tea sector to date. Direct outreach and information sharing by the leasing companies is recommended to better inform the growers about the leasing options available.

2.1.3 Total Commercial Bank Financing

The following data was reported by the local commercial banks as the current level of financing to the coffee sector. Although a breakdown by financing type (i.e. short-term or medium-term lending) was not provided by all the banks, all but one bank confirmed they are currently only extending short-term financing (12 months or less) to the coffee sector. It should be noted that a portion of this financing may have been extended to other actors in the value chain, such as transporters, buyers etc. However, based on a comparison of the data collected from the coffee growers and data collected in aggregate from the banks, it can be assumed that probably between 85-90%.of the financing reported through the banks has been directed to the growers/processors.

Table 4 Summary of Current Lending/Borrowing

Type of Loan	Reported Aggregate Values As Reported By Local Commercial Banks	 As Reported By Growers Surveyed
Short-Term Loans (Overdrafts/Seasonal Loans)	$575,000	$454,000
Medium-Term Loans		$1,300
Local Commercial Banks SUBTOTAL	**$575,000**	**$455,300**
Medium-Term Loans	NA	$14,700
Foreign Commercial Banks SUBTOTAL	**NA**	**$14,700**
TOTAL LENDING/BORROWING	**$575,000**	**$470,000**

Source 1: Local commercial bank summary data as reported by all 4 respondents: IndeBank, National Bank, NedBank and Stanbic Bank.
Source 2: Summary data as reported by 9 coffee grower respondents.
Note: Values presented prorata based on reported percentage of turnover attributed to coffee in Table 1.

2.2 Credit Demand-Supply Gaps

2.2.1 Working Capital and Short Term External Financing

In general, commercial growers are able to access the working capital credit they require from the local banking sector. (See Section 2.1.1 for details on the nature of these facilities, terms received, etc.). Although additional levels of working capital credit may be beneficial, commercial growers were reluctant to increase their credit facilities in light of Kwacha exchange rates and the low profit margins that have been experienced in recent years in the coffee industry.

The larger growers and multinationals tend to manage their working capital needs through a combination of self-financing topped up by short-term facilities. The constraint is the cost of short-term financing more than the availability of such financing.

The small to medium-sized growers have more difficulties securing financing as they are constrained by provision of the necessary guarantees. It appears that they could benefit from more working capital finance but once again the cost of capital versus the return does not make it viable.

In general, the industry is quite conservative in its borrowing because of its past experience of high interest rates, volatile pricing and profit margins. Most of the growers surveyed would prefer to cut their working capital budgets even cutting the level of inputs purchased to below optimal levels required for growing, as borrowing at current rates to increase production is not viable.

Many of the growers will likely remain conservative in their borrowing as their returns over recent years have been poor due to low world prices. This trend may reverse slowly as world prices and other variables improve. However, there is potential for certain growers to increase their profit margins by placing more emphasis on specialty coffee which will require a committed strategy and additional investment. In short, while the coffee sector has viability and potential, several factors including the cost and the availability of appropriate types of financing contribute to the current low level of coffee development in Malawi.

2.2.2 Longer Term Asset and Development Financing

Accessing longer term financing for assets that matches with requirements of the agricultural cycle is a major constraint that limits development of the sector. All the respondents reported that the lack of longer-term asset financing was their primary financing gap.

This includes financing for replanting, irrigation, major upgrades/replacement of factory, development of new factories, replacement of transport fleets etc.

The Mzuzu SCFT, in particular, has substantial capital expenditure needs that are currently unmet. As it was owned and managed by government for many years prior to it becoming a Trust, sufficient capital development, equipment rehabilitation and replacement had not taken place when it should have. For example, much of its pulpery machinery is more than 50 years old. The Trust therefore requires a significant injection of capital for replacement and rehabilitation of pulpery machinery, transport vehicles, new warehousing, additional new huller equipment, new automated packaging equipment etc.

Overall, respondents say they are looking for US $ loan terms of between five to twelve years with annual payments that coincide with the annual coffee sales. Due to the export nature of the coffee business, coffee growers effectively operate as dollar businesses and therefore they are looking for US $ loans to hedge the exchange rate risks of long-term financing. As well, with the additional risks and high interest costs associated with Kwacha loans they are not willing to borrow long term in Malawi Kwacha.

To date, this is not an area that the local commercial banking sector has been able to support except perhaps on a limited scale. One bank reported they "don't go beyond twelve months" for lending in US dollars. Several other banks echoed this reluctance to extend longer term US $ loans due to the severe shortages of forex and excess Kwacha liquidity in the Malawi market, stating this would result in a funds mismatch and risk significant penalties with the Reserve Bank of Malawi (RBM).

However, at the tea workshop, several banks stated that they could lend US $ on a long-term (i.e. up to seven years) using external forex credit lines. This highlighted a distinction compared to lending based on local forex deposits at the bank. Lending using local forex is constrained by the RBM rules on what proportion of forex can be lent while external lines of forex have no restrictions, other than that the loan should be repayable out of forex earnings. The lending policies of the banks have been constrained in the former case for medium term loans because of the risk of falls (fluctuations throughout the year) in forex accounts held at the banks. Although the banks probably have a preference to lend in Kwacha, they are able to lend using external forex credit lines. This is an area that needs to be followed up and explored by both banks and growers.

It was reported at the tea workshop that lease finance offered in Kwacha is unattractive to borrowers. However, it was also reported that it is available in dollar-denominated interest rates. Again this option has not been heavily promoted, but could serve to meet the needs of asset financing for growers as it overcomes the main constraint to this type of financing.

Although the banks would probably prefer Kwacha based lending, it is clear from the survey that growers do not wish to borrow in Kwacha because of the history of high interest rates. This suggests that the way forward is for more discussion on the modalities of forex based lending, whether based on local forex deposits or external forex credit lines.

Additional options for longer-term financing, including development finance and a loan guarantee scheme are explored in Section 4.1.1.

3 Smallholder Growers[10]

Around 15% of national coffee production in 2004/05 came from smallholders based in the north and organised through the Mzuzu Smallholder Coffee Farmers Trust (SCFT).

This organisation operates as a farmer-member owned business, with 3,100 coffee farmers grouped in five associations that are organised by geographic area, namely:

1. Misuku Hills in Chitipa District
2. Phoka Hills in Rumphi District
3. Viphya North Area in Rumphi District
4. South East Mzimba Area in Mzimba District
5. Nkhata Bay Highlands in Nkhata Bay District

Each association is further divided into business zones with each business zone subdivided into business centres. Each business centre has between 10-30 farmers. Two or more business centres (farmer groups) form one business zone. A pulpery is located at each business zone. Farmers bring their coffee cherry to their business zone's pulpery for initial sorting, weighing and first stage processing. The pulpery equipment is owned by the Trust but housed, maintained and managed at the business zone level. In total SCFT has about 40 pulperies.

Pulped coffee is then picked up by the Trust and transferred to its facilities at the head office where secondary processing is completed (i.e. to green beans for export) and where, for a portion of the green beans, tertiary processing (roasting, grinding and packaging) is completed for domestic retail sale.

Coffee is an input intensive crop, requiring multiple applications of fertiliser and several pesticides. There is sometimes the need to employ hired labour to do weeding, spraying and plucking. Therefore, to produce a viable crop there is the need to pay for chemical and human inputs. Unfortunately low world coffee prices for many years have reduced the returns for coffee farmers and, as a result, the cash available for inputs.

Responsibility and costs from planting through to primary processing (pulperies) rests with the associations and its members. The Trust is responsible, and incurs the costs, for secondary and tertiary processing as well as for marketing and sale of coffee. These costs are recovered once coffee sales are realised. In this way, it operates like the other commercial processors. It meets its financing needs through self financing supplemented by local commercial bank loans. (See Section 2 above.)

3.1 Credit Supply

3.1.1 Financing for Smallholder Growers

To address the issue of access to finance at the association and farmer levels, the Trust has evolved a structure in which each of the five associations houses its own savings and credit

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[10] This section expands upon information first presented in *Private Sector Sources of Finance in Rural Areas*, Kadale Consultants Ltd, February 2006.

union (SACU). Other than SACUs, there are currently no other formal credit resources available to the smallholder coffee growers.[11]

For the last seven years since the transition from government ownership to its current Trust status, SCFT has received donor funding from the European Union to support the development of the smallholder coffee sector, including extension services, coffee expansion and operations of the Trust. This funding ended in December 2005. In addition, the grant provided seed capital to each of the five associations' SACUs to establish revolving input credit funds and made possible the extension of credit and equity capital from issuance of shares to smallholder coffee farmer members.

A member farmer can elect to self-finance his/her input costs or apply for a loan from his/her association's SACU. In addition, each business zone is responsible for covering the operating costs of its pulpery, such as fuel/oil, seasonal labour to run the pulpery etc. The members of a specific business zone can elect to self finance these costs in whole or in part and if needed, collectively apply to their SACU for a loan to help cover the pulpery's operational costs.

Loan Methodology

Applications for farmer loans from the SACUs are initiated at the business centre level and then must be reviewed/approved at the zone and association levels. To apply for a loan, the smallholder must:

1. Be a current paid-up member of the association: The farmer must first apply for membership of the relevant association, which is approved at the business centre, zone and association levels. The initial membership fee is between MK 200 –400 depending on the association. Each year, members must pay an annual subscription fee of MK 100 (also may vary depending on the association and year-to-year requirements).
2. Complete an application to join the SACU, which is approved at the business centre, zone and association levels.
3. Purchase shares in their SACU @ MK 2 each, minimum of 500 shares, i.e. MK 1,000.
4. Deposit 20% of the amount to be borrowed as compulsory savings.

The savings and credit unions currently offer three coffee loan products.

The most widely utilised product is the **in-kind input loan** that is extended to farmers for fertiliser and chemicals. Individual input loans are generally disbursed between November and January. The average input loan is reported to be about MK 13,000 (principal only) with 1,689 borrowers as at May 2006. All the associations extend in-kind input loans to members who request and qualify.

The price for 2005/06 season to the farmer for a 50-kg bag of fertiliser is MK 3,500 plus interest. This includes per bag charges of MK 15 for handling and MK 250 for transport. The Trust staff report that this level of added costs recovers the Trust's actual costs for these services. The Trust applies a MK 1,050 mark up per bag of fertiliser, to reach the bag price of MK 3,500. This mark-up helps to cover the SACUs general administrative/overhead costs and growth.

Also at an individual level, farmers can apply for **cash loans** to cover the costs of labour and other expenses related to land preparation, weeding, maintenance and harvesting. For cash loans, farmers are encouraged to apply at the start of the season for all projected cash needs for the season, although funds may be disbursed in tranches as needed throughout

[11] Farmers can probably access katapila if needed.

the season. The average cash loan is reported to be MK 2,710 (principal only) with 147 borrowers as at May 2006[12].

Pulpery loans can be applied for collectively at the business zone level to support the operation of the pulperies. Pulpery loans are disbursed to the business zones in preparation for the harvest season that starts around May/June of each year. The average loan size reported as at May 2006 was MK 50,381 per business zone. It should be noted that this only includes loans to twelve business zones, eleven from Misuku Hills and one from Viphya North. This number of business zone pulpery loans is expected to increase once the season's harvest is fully underway later in the year.

The intended collection process for repayment of individual loans is that 25% of the amount owed should be paid off in monthly instalments starting in January with the balance (75%) deducted from the farmer's coffee income when sales are realised, typically between November and January. Therefore the loan term is usually 10 months with 2-4 months grace period.

Based on previous years, the default percentage is reported at between 5-8%, usually in cases where the farmer has not had a sufficient crop due to a range of reasons and cannot pay all or part of the loan at season end.

It was initially planned to charge interest[13] at 2.5% per month, calculated on the outstanding balance. However, in practice this system has yet to be implemented. This is reportedly due to a lack of capacity at the association SACU level, both in terms of infrastructure (lack of computers to automate accounting systems) and sufficient staff resources to manage and maintain detailed accounting records. All calculations are currently done manually. Therefore, for this year, the SACUs have decided to apply a flat annual interest rate of 30% calculated on the full principal, e.g. for every MK 100, MK 130 must be repaid (MK 30 interest) irrespective of early or late repayment.

This approach risks eliminating the farmers' incentive to make monthly loan payments, as the amount of interest paid is the same whether they pay within 3 months or within 14 months. The Trust identified that this has a knock on effect because each June when the next year's fertiliser order must be paid, virtually all of the SACUs capital is still tied up in its previous season's loan portfolio so that the SACUs do not have sufficient resources to purchase the required inputs for the next season.

Infrastructure at the association level is currently quite basic. While three of the five associations have electricity[14], there are currently no computers or telephone (land) lines at the associations' offices. As a first step the Trust is trying to secure funding to purchase computers for each association. More importantly as inexperienced microfinance providers, the SACUs will need extensive training and capacity building to effectively manage their loan portfolios, including information and financial management as well as record keeping.

Pulpery loans are repaid by the business zones through a levy to members. The levy is set to recover business zone costs in particular pulpery operation. The levy amount typically

[12] At the time data was reported only two associations (Misuku Hills and Phoka Hills) had disbursed cash loans although all associations offer cash loans to their members.
[13] It should be noted that this is the first season (2005/6 growing season) that the associations have charged interest. In the past, when still receiving EU funding, they were only charging a flat fee around MK 500 per 50-kg bag of fertiliser to cover transport, handling and administrative costs.
[14] Misuku Hills and Phoka Hills Associations are connected to the national grid; Nkhata Bay Highlands is presently being housed in the SCFT headquarters.

ranges from MK 0.6 – 2.0 per kilogram of coffee cherry, depending on the zone's size, level of production and the particular pulpery's efficiencies/economies of scale. The levy rate also depends on how much the zone's farmers agree to contribute upfront in cash and volunteer labour. At the time of coffee sales, the levy is deducted from the farmer proceeds to repay the zone's pulpery loan.

The SACUs want to make the business centres responsible for each of their members' loans and are currently training the groups on group-based peer pressure.

3.1.2 Total Smallholder Grower Financing

On an aggregate level, a total of MK 23 million was extended as credit to 1,689 smallholder coffee growers during the current 2005/6 season.

Table 5 Lending to Smallholder Coffee Growers by SCFT SACUs: 2005/6 Growing Season

Type of Individual Loan	# of Borrowers	Average Loan Size	Approx Aggregate Value
In-Kind Input Loans	1,689	MK 12,940	MK 21,855,751
Cash Loans (same members)	147	MK 2,710	MK 398,308
SUBTOTAL	**1,689**	**MK 13,176**	**MK 22,254,059**

Type of Group Loan	# of Business Zones	Average Loan Size	Approx Aggregate Value
Pulpery Loans	12	**MK 50,381**	**MK 604,571**
SUBTOTAL	**12**	**MK 50,381**	**MK 604,571**

TOTAL INDIVIDUAL AND GROUP LOANS	**MK 22,858,629**

Source: SCFT SACU reported data as at May 2006.
Note: MK 19.4 million of MK 21.8 million for input loans was extended for fertiliser credit with the balance of MK 2.4 million extended as credit for other inputs, namely chemicals and pesticides.

3.2 Credit Demand-Supply Gaps

3.2.1 Financing for Smallholder Growers

It is important to realise that smallholder coffee in Malawi is still in a developmental stage. Over the last several years the Trust has made a major effort to replant smallholder coffee removing the low yielding local variety (Geisha) and replacing it with a higher yielding variety (Catimor). Of the 3.6 million bushes currently planted, only 1.3 million are mature and producing (two years and older). As a result the 2004/05 production level of 234 mT is expected to double by 2007/8 and triple by 2009/10.

On face value, the ratio of inputs (credit) to income looks relatively high. Average farmer income is projected at between MK 16,000 - 20,000 for this season so an average loan size of MK 13,000 would represent between 65 - 80% of income. As production yields increase over the next two to five years, this ratio will come down and may present opportunities to increase smallholder borrowing.

Farmers from the Mphachi Business Zone (22 members) in Phoka Hills Association were interviewed regarding their needs and the role that coffee income plays in their household. For all those surveyed, coffee is their primary and only substantial source of income. They all grow other crops such as cassava and beans for subsistence as well as vegetables and bananas for sale.

Financing needs still exist for the smallholder growers although credit alone may not provide the solution. The most critical farmer-level gap raised was the amount of fertiliser and chemicals/sprayers they are able to access due to cost, which is insufficient for the levels of application needed for optimum production. However, farmers were apprehensive of taking on additional credit as this will be deducted from their coffee proceeds. One farmer expressed concern that if too much is borrowed then most of his coffee proceeds will be taken to repay loans, stating that this is especially true for new growers whose production levels are still low as their coffee is not fully matured.

3.2.2 Financing for Savings and Credit Unions

In order to understand the financing needs of the savings and credit unions, it is helpful to understand the Trust's coffee production/processing cycle within which the Trust, Associations and SACUs must work. (See Figure 1 Mzuzu SCFT Growing Cycle below.)

Size of SACUs Revolving Fund for Inputs
As described in Section 3.1.1, the start-up capital for the SACUs was provided through a grant from European Union. Although SCFT previously recouped its costs for transport and handling and charged a mark-up on fertiliser sold to its members, it extended credit through its SACUs for several years without charging interest. This, in combination with Kwacha devaluation, has resulted in a loss of purchasing power for the SACUs revolving input funds. As well, the smallholders' fertiliser/chemical requirements increase as the farmers plant bushes and more bushes reach mature, producing age.

Cash Flow Constraints due to Agricultural Cycle
Cash flow constraints also present challenges for the SACUs. The SACUs must use their own funds to purchase inputs (fertiliser/chemicals). These orders must be placed and paid for by June for the following season that starts in December, seven months later. However, at this time in the cycle, 75% or more of the input loans extended the previous December are still outstanding. In June, farmers are just starting to harvest their crop. However, farmers must wait another six months or more until the coffee has been processed and sold, and the Trust has received payment, before the farmers receive the proceeds from their coffee (between November and January) from which loan payments will be deducted and the SACUs capital base replenished.

During this first season operating without external grant support, these circumstances have had a real impact. Based on the recommended fertiliser application of 210 grams per bush for 3.8 million bushes, the 2005/6 season's optimal fertiliser requirement should have been 798 mT. However, due SACU resources being tied up in their loan portfolio at the time of fertiliser order in May/June, the associations only had cash available to purchase 150 mT of fertiliser this year.

Figure 1 Mzuzu SCFT Growing Cycle

Mon	Yr	Production	Inputs	Loans		Processing/Sale
Jun	2005	Harvest: Trust picks up crop from b/zones	Assocs must ORDER & PAY for inputs for next season	Farmers to make monthly loan payments from Jan (to pay back 25% of loan) Most of SACUs capital still tied in loan portfolio until year end when farmer proceeds are realised and loans can be repaid		Trust processes, packs & starts to sell coffee (end of processing depends on production volumes)
Jul			Trust delivers inputs to b/zones			
Aug						
Sep		Land preparation for next season	B/centres collect inputs from b/zones			
Oct						Trust sells coffee Trust pays farmers once it receives payment
Nov						
Dec		Upon first rains farmers plant/apply fertiliser		Farmers receive proceeds from last year's crop & pay off loan (75% bal) SACUs capital is replenished	Farmers get new input loans for new season, once last season's loan is repaid	
Jan	2006					
Feb		Weeding, maintenance, spraying, etc. through to harvest	Assocs compile input orders from b/centres	Farmers to make monthly loan payments from Jan (to pay back 25% of loan) Most of SACUs capital still tied in loan portfolio until year end when farmer proceeds are realised and loans can be repaid		Remaining sales & payment from previous season Preparation for upcoming season
Mar						
Apr						
May			Assocs must ORDER & PAY for inputs for next season			
Jun		Harvest: Trust picks up crop from b/zones				Trust processes, packs & starts to sell coffee (end of processing depends on production volumes)
Jul			Trust delivers inputs to b/zones			
Aug						
Sep		Land preparation for next season	B/centres collect inputs from b/zones			Trust sells coffee Trust pays farmers once it receives payment
Oct						
Nov						
Dec		Upon first rains farmers plant/apply fertiliser		Farmers receive proceeds from last year's crop & pay off loan (75% bal) SACUs capital is replenished	Farmers get new input loan for new season, once last year's loan is repaid	
Jan	2007					

Source: Interviews and data collected from Mzuzu SCFT.

The Trust is facing the challenges of shifting from a subsidised grant supported entity, to a wholly commercially viable and sustainable business. In this regard, this experience of the need to replenish SACU capital has provided a real-life lesson to the farmers of the reasons why commercial rates of interest must be charged, namely to ensure the SACUs have sufficient resources in upcoming years to meet the increasing credit requirements of their members.

The nature of the coffee agricultural cycle requires a 12-14 month term (from fertiliser application to farmer receipt of coffee proceeds) for farmer loans. At the same time, the SACUs must have the capital available to make their bulk input order six to seven months before this. As such, there is also a financing gap to bridge the period between payment of the SACUs bulk inputs and disbursement/start of the farmers loan the following December.

Possible solutions are presented in Section 4.

3.2.3 Other Smallholder Grower Needs

Poor Roads Network

As with other smallholder agricultural sectors, the poor state of infrastructure and particularly roads and bridges was listed as a major constraint to the development of the smallholder coffee industry. Infrastructure in the Mzuzu SCFT's remote growing areas is especially lacking. During the rainy season for up to six months a year, some of the coffee growing areas are difficult to reach or even inaccessible by vehicle.

Due to the poor state of the roads network, the Trust faces numerous challenges. The Trust does not have sufficient vehicles to handle all its transport requirements and currently must contract vehicles to supplement its own fleet. But in addition to the high cost of contracted transport, it is difficult to find transport operators who are willing to travel to these remote areas because of the wear and tear and potential damage these roads cause to their vehicles.

As a result, this significantly raises the cost of production (higher transport costs, vehicle maintenance, etc.). In addition, the poor road infrastructure creates significant logistical problems for the Trust. For example, fertiliser and inputs must be ordered and paid for months before they are applied so they can be delivered to the associations in July and August to coincide with collection of cherries and before the rains make the roads impassable. This earlier than necessary delivery of fertiliser creates additional cash flow problems for the associations as their resources are tied up in loan capital that cannot begin to be recovered for another six months.

While not a direct credit need for the smallholder, this issue should be considered as an important area that if addressed, would enhance smallholder returns and sustainability.

4 Key Findings

4.1 Addressing Credit Gaps and Financing Needs

4.1.1 Commercial Growers/Processors

Based on the information reported by the commercial growers/processors surveyed, their primary financing gap is longer term financing for capital and development expenditure projects. The value of this gap is difficult to quantify as most of the producers did not provide specifics regarding the level of financing required. This is particularly the case for seven of the nine growers surveyed for which coffee represents only a small percentage of their agricultural activities. Due to poor world prices, many have deliberately reduced/limited the amount of resources devoted to coffee development. The two largest coffee producers (Sable and Mzuzu SCFT) for which coffee represents a significant portion of their business activities, do have plans to develop their coffee operations, but it appears they are planning to do so without expanding their commercial bank borrowing, i.e. via self financing, existing loan facilities and/or by soliciting grant support in the case of SCFT.

The Mzuzu SCFT, in particular, has substantial capital expenditure needs that are currently unmet. As it was owned and managed by government for many years prior to its current Trust structure sufficient capital development, equipment rehabilitation and replacement has not taken place over the years. For example, much of its pulpery machinery is more than 50 years old. Therefore, the Trust requires a significant injection of capital for replacement and rehabilitation of pulpery machinery, transport vehicles, new warehousing, additional new huller equipment, new automated packaging equipment, etc. However, as it is still in a developmental stage, the Trust is reluctant to take on more commercial bank financing to support its capital improvement and development goals until its smallholder growers' level of production has increased and become operationally self-sufficient.

Commercial growers/processors stressed the need at a firm level to have access to longer term financing for assets and development projects, especially those denominated in US dollars, as this seems to be their key financing gap.

As stated at the tea workshop, several banks indicated that they could in fact lend US $ on a longer term (i.e. up to seven years) using external forex credit lines. This is an area that needs to be followed up and explored by both banks and their clients.

4.1.2 Development Financing

One further option is to link growers (commercial growers as well as Mzuzu SCFT) with development finance institutions. In collaboration with development finance banks, local commercial banks may be able to act as local financial intermediaries for disbursement of a loan fund or line of credit.

NORSAD

NORSAD[15] is a joint Nordic/Southern African Development Community (SADC) initiative, started in 1991, whose purpose is to contribute to the development of the private sector in SADC countries including Malawi. This is done through direct or indirect financing of companies for start-up or expansion of activities.

NORSAD has no specific industry focus, but rather seeks to support the specific development needs of each of its SADC member countries. NORSAD is already active in Malawi. To date it has funded several projects in tourism and one fish-farming project, all directly as it has not yet partnered with a local financial intermediary. However, it is NORSAD's preference to work through local financial intermediaries and one Malawi bank is currently being considered.

Although NORSAD's focus tends to be on supporting traditional small and medium enterprises, they have expressed interest in supporting export agriculture in Malawi, including the coffee sector, and have expressed willingness to expand their normal company size criteria to a level that would likely accommodate most small and medium-sized commercial growers/processors.

Normally, NORSAD financing for projects is between Euro 250,000 and Euro 2.5 million. NORSAD financing would normally not exceed 50 - 60% of the total project cost.

Interest rates on loans depend on a number of factors such as currency of the loan, country risk and project risk. Normally the interest rates vary between 7-11% per annum. A front-end fee of 1% is payable, half at commencement of a detailed project appraisal, and the balance on acceptance of a loan offer. The maximum loan repayment period is seven years with a grace period of not more than two years. A NORSAD loan requires suitable securities, which may include fixed and floating charges on assets of the project, company, mortgages, bank or promoter guarantees, etc.

There needs to be further work on linking NORSAD with local financial intermediary(ies).

European Investment Bank

The European Investment Bank (EIB) is a potential source of development finance that could be availed to the commercial growers/processors for long term financing of capital and development projects such as rehabilitation/replacement of factory equipment, new factories, irrigation and replanting activities.

Five years ago EIB first explored the opportunity to work in Malawi and specifically to support capital development to upgrade facilities, improve processing capabilities, etc. in the tea and coffee sectors. However, the process stalled when it was unable to secure a local financial intermediary. This left a significant level of disappointment with the commercial growers/processors as several proposals were prepared but could not be progressed.

[15] NORSAD website: www.norsad.org

In 2006, EIB expressed renewed interest in Malawi and in particular for the tea and coffee sectors if the necessary groundwork can be laid. EIB loan terms vary depending on the country's specific risk factors, nature of the banking sector and needs of the industry for which the scheme is being designed. Typically EIB financing is channelled through a local financial intermediary. Project size ranges from Euro 0.25 - 2.5 million with EIB financing up to 50% of the total project cost. For the tea and coffee sectors, EIB has considered loan terms of up to twelve years. EIB has expressed willingness to structure loan repayments linked to world prices, for example offering lower interest rates, smaller payments or even deferment in seasons when world prices are low.

EIB is looking to identify one or more local financial intermediaries with potential interest to move the process forward. It is possible, even preferred, to have more than one bank involved in the deal. Pricing would be determined by a thorough assessment of the risk factors (country, political, project, etc.) as well as the profile of the bank/s and the potential structure of the facility. In general terms, risk sharing would be expected, although EIB can normally take on more of the risk as the tenure of the loan progresses. And in order to provide the necessary commercial incentives, local banks are given a reasonable degree of flexibility in setting their own interest rates, fees and loan structure for on lending to clients[16]. The USAID DMS Project has established contacts with EIB representatives and is available to facilitate the process between EIB, interested local financial partners and the tea sector going forward. The next step envisioned is an EIB mission to Malawi to be scheduled later this year to meet with potential local financial intermediaries to secure interest and move forward with the application process.

The key difficulty with development finance credit is that it has not been perceived as attractive to commercial banks, especially if it reduces their opportunities for commercial lending. Commercial banks in Malawi are not short of (Kwacha) capital to lend, but rather are looking for good margin opportunities relative to other best alternatives such as Treasury Bills. Instead of one single bank taking on the role, smaller commercial banks, perhaps as a syndicate might be interested, but based on some management fee package or being able to make a similar margin as on higher interest loans.

USAID Development Credit Authority (DCA) Loan Guarantee Programme

The DCA Loan Guarantee Programme is a scheme that is currently being investigated by the USAID DMS Project for potential application in Malawi, and for the tea and coffee sectors as well.

The goals of DCA are two-fold:

- Mobilise private capital to finance development initiatives; and
- Demonstrate the economic viability of such investments to the local banking sector and to other sources of private capital.

The DCA programme's aim is to stimulate local commercial banks to increase their lending both to new clients and new sectors, as well as to existing borrowers who have been previously underserved (e.g. those who may lack sufficient levels of collateral, but are otherwise viable businesses). Among these are clients in the SME and agricultural sectors, as well as micro finance institutions who have traditionally found it difficult to raise finance from commercial banks. DCA gives the USAID Mission the authority to issue loan guarantees to local private lenders covering up to 50% of the risk of qualifying loans.

[16] Client interest rates via an EIB facility are expected to be at or around commercial interest rates.

Banks are somewhat risk averse especially with regard to lending to new ventures and companies in the SME and agricultural sectors. Nevertheless, banks realise they are in a competitive environment and are looking for prudent ways to diversify their portfolio, find new clients, and roll out new products.

One common tool utilised under the DCA is called the Loan Portfolio Guarantee that provides financial institutions with partial coverage on a portfolio of loans that they extend to their customers. USAID agrees to share in the risk of a broadly defined category of bank loans with a view of inducing local banks to extend credit toward underserved sector/s. The credit decision and risk evaluation rests with the local commercial bank. As noted, the bank normally takes at least 50% of the risk on each loan. This is a net guarantee meaning that any payments (due to default) made by USAID under the guarantee are net of any recoveries. Unlike a development finance credit line, the local bank lends out its own capital (Kwacha or US dollar) and sets the loan terms in accordance with its own lending policies and practices, typically at market rates.

In short, DCA can potentially be used to encourage greater financing flows by both commercial banks and MFIs to all of the coffee value chain actors. The DMS Project is currently assessing the viability of implementing a DCA Programme in Malawi and will provide additional information to the tea and coffee sector as the process continues.

Etimos

Etimos is a financial consortium that collects savings in Italy to support micro businesses and microfinance programmes in developing countries. It is a second-tier organisation that finances organisations who then on lend micro loans to their members, such as microfinance institutions, savings and credit unions and producer co-operatives connected to fair trade circuits.

In addition to standard economic assessment criteria, loan applications are also evaluated based on ethical criteria, such as whether the borrowing organisation provides services to a traditionally marginalised, poor or underserved community.

The main finance forms provided by Etimos, in dollars or euros, are mortgages, loans and credit lines for short (up to 18 months), medium (from 18 to 36 months) and long term (from 36 to 60 months) tenures.

In order to obtain a loan from Etimos the applicant organisation is requested to become member of their consortium. Share capital must be paid up representing a deposit that will be paid back in case of the member's withdrawal.

Based on Etimos' mission and lending criteria, it is a potential funding source which could support the smallholder coffee sector.

4.1.3 Smallholder Growers

The greatest financing need for the smallholder coffee sector is currently for the Trust's SACUs. In order to provide the credit level needed by the farmers, the SACUs need an injection of capital to raise the capital base for their revolving input funds. The SACUs combined capital base is currently around MK 60 million, but much of this is tied up in their loan portfolio. This base needs to increase to MK 120-200 million to supply immediate needs. Mzuzu SCFT would prefer to secure a donor grant to achieve this. Alternately, funds could be secured from a development finance institution, perhaps on concessionary terms.

Secondly, there is a need for the SACUs to access bridging finance, due to the cash flow requirements of the coffee agricultural cycle in which coffee proceeds are not realised for at least six months after the next season's inputs order must be paid for. The loan is needed to cover the period from May/June (when fertiliser must be ordered) until December/January when they recover the farmers' loans and can pay for the fertiliser.

This bridging credit could be extended to the SACUs, perhaps using the Trust as the umbrella/borrowing entity or guarantor. It could be extended in the form of a seasonal loan from a local bank/MFI or via a development financier such as Etimos. In any case, commercial rates of interest would likely apply. As such it would be critical for all the costs to be built into the cost of on lending to the farmers.

As the Trust's overall production level increases and becomes profitable, an important goal would be to set aside profits from previous years to increase the SACUs capital base in order to gradually reduce the size of the bridging loan needed to make their bulk input purchases and only use such a facility to top up their seasonal lending requirements.

At the same time, it may be beneficial to consider whether other credit delivery models would better address the needs of the Trust's smallholder growers. The Trust's SACUs are currently being run by staff that are not trained as specialised financial services providers. As new micro credit providers, the savings and credit unions will need extensive training and capacity building in order to effectively manage their loan portfolios.

It is important to note that Mzuzu SCFT associations' savings and credit unions are not currently members of the Malawi Union of Savings and Credit Cooperatives (MUSCCO). Membership in MUSCCO could open up doors to lines of credit as well as provide assistance in capacity building, training and best practices.

Alternately, a specialised microfinance institution would be well suited to provide back office support (design input, recovery procedures, operational sustainability, information management, audit/internal controls, etc.) to the SACUs perhaps on a management fee basis. There might also be a benefit in separating the management of the SACUs from the management of the associations as the members' needs as borrowers can sometimes pose a conflict of interest with the SACUs decisions on lending and recovery.

4.2 The Way Forward

On Friday 27 October 2006, the *Financing Needs of the Coffee Sector Workshop* took place at the Coffee Association of Malawi (CAMAL) offices in Blantyre. 32 participants attended the workshop representing 24 institutions, including commercial growers/processors, the Mzuzu Smallholder Coffee Farmers Trust and smallholder grower representatives, leadership from CAMAL, input suppliers, the financial sector and development partners.

Table 6 Coffee Workshop Participants

Coffee Workshop Participants		
	Number	
Category	**Individuals**	**Organisations**
Banks	9	6
Coffee Growers	10	6
Development Partners	7	6
Input Suppliers	1	1
MFIs	5	5
Total	**32**	**24**

The workshop was structured as follows. First, the report findings were presented in summary, then a plenary discussion took place during which participant feedback on the report findings was provided. This led to the main focus of the workshop which was the identification and discussion of the priority financing needs. Emphasis was placed on identifying potential solutions, key players and next steps required in order to address these priority financing gaps, as summarised below.

As presented in Section 1.3.1, coffee is a secondary crop for all the commercial growers. While the commercial growers supported the findings of the coffee and tea sector reports and the outcome of the tea workshop in June 2006, they did not have additional issues to address at the coffee workshop. Please refer to the *Credit Demand and Supply in the Tea Sector in Malawi* report (Kadale Consultants, August 2006) for the Way Forward for the commercial sector.

Based on the direction provided by the participants themselves, the workshop focused on the needs of the smallholder coffee sector:

1. **Information Sharing:** The financial sector which was well represented at the workshop acknowledged it does not have a sufficient understanding of the coffee sector. As such, considerable emphasis was placed on providing an overview of how the sector operates, in particular the Mzuzu Smallholder Coffee Farmers Trust (SCFT), its farmer associations and their respective savings and credit unions. Please refer to Sections 3 and 4.1.3 for details.

2. **Promoting Opportunities and Changing Negative Perceptions about the Sector:** Based on the downward trend over the last 10-15 years in national production levels and reduced output, low world prices and price volatility, the financial sector has a generally negative perception about the opportunities in coffee which has translated into a reluctance to lend to the sector.

But as presented by the growers in the workshop, the Malawi coffee market is changing and new opportunities exist in particular with speciality coffee which enjoys much higher returns and less price volatility than the bulk coffee commodity market. The banks and MFIs at the workshop confirmed that they were not aware of these changes but were interested in learning more. Both as an industry (on an association level) and at a firm level, growers need to make it a priority to share information and help bankers and the general public understand the opportunities and potential that exist for Malawi especially with speciality and origin coffees.

3. **Mzuzu SCFT – Access to Finance:** This was an important opportunity for Mzuzu SCFT to present its needs to the financial sector. Among the financiers, there was limited knowledge about Mzuzu SCFT and how it currently extends micro credit to its farmer members.

   As presented in Section 3, Mzuzu SCFT utilises an integrated production, processing and marketing/sales system that links the farmers to markets both domestically and internationally. This system ensures that credit extended to farmers can be recovered through direct loan deductions from coffee proceeds.

   While the information shared at the workshop and in this report began the flow of information, financiers further detailed the risk management areas that would need to be satisfied in order for them to extend financing to the Trust or one of its associations. Identifying the appropriate borrowing entity is key. Banks/MFIs are looking for a reputable legal entity with an established organisational structure, a proven track record, and demonstrated corporate governance and capacity to repay the loan. The banks stressed the need to better understand the interrelationships between the Trust, associations, savings and credit unions and the farmers.

   As well banks stressed the need for lender protection. To extend financing, they need to be assured of the farmers' commitment to the loans. This could be in the form of group guarantee and a mechanism to ensure that if one farmer's crop fails the other farmers can cover the loan and the association or savings and credit union can ultimately make its repayment to the bank. Alternatively, the Trust could guarantee the loan/s extended to its associations.

4. **Mzuzu SCFT SACUs – Financing Needs**: Mzuzu SCFT representatives confirmed that their primary financing need is to increase the size of the Savings and Credit Unions (SACUs) revolving funds for inputs. The SACUs combined capital base is currently around MK 60 million, but much of this is tied up in their loan portfolio. This base needs to increase to MK 120-200 million to supply immediate needs.

   Production is continuing to increase both because the number of coffee bushes is increasing (more planting) and the coffee bushes (planted in the last three years) are now reaching mature, producing age in the growing cycle. However, there has not been a corresponding increase in the level of inputs purchased due to lack of resources in the revolving funds. See Section 3.2.2 for details.

   Mzuzu Trust is willing to explore several options, perhaps in combination, to address this need including borrowing from a commercial source, seeking additional seed capital to provide a one-off boost through a donor grant or obtaining a subsidised/concessionary loan from a development finance bank or development partner. They stressed that a solution must be in place in time for purchase of 2007/8 season's inputs which must happen in May/June 2007.

5. **Mzuzu SCFT SACUs - Capacity Building**: As presented in Section 3.1.1, as relatively new microfinance providers, the SACUs need extensive training and capacity building to effectively manage their loan portfolios, including information and financial management as well as record keeping. SACUs could benefit from and are exploring potential relationship with MUSCCO[17], the national umbrella agency for savings and credit unions, which could provide additional technical capacity in savings and credit management in conjunction with development partners such as the USAID DMS Project.

6. **Etimos**: Etimos is an Italian financial consortium that extends loans to organisations in developing countries who then on lend micro loans to their members, such as microfinance institutions, savings and credit unions and producer co-operatives connected to fair trade circuits. (Please see Section 4.1.2 for details.)

   Based on Etimos' mission and lending criteria, it is a potential funding source which could support the smallholder coffee sector. Information was presented at the workshop and contacts established for further dialogue between Etimos and the Mzuzu Trust to explore this further.

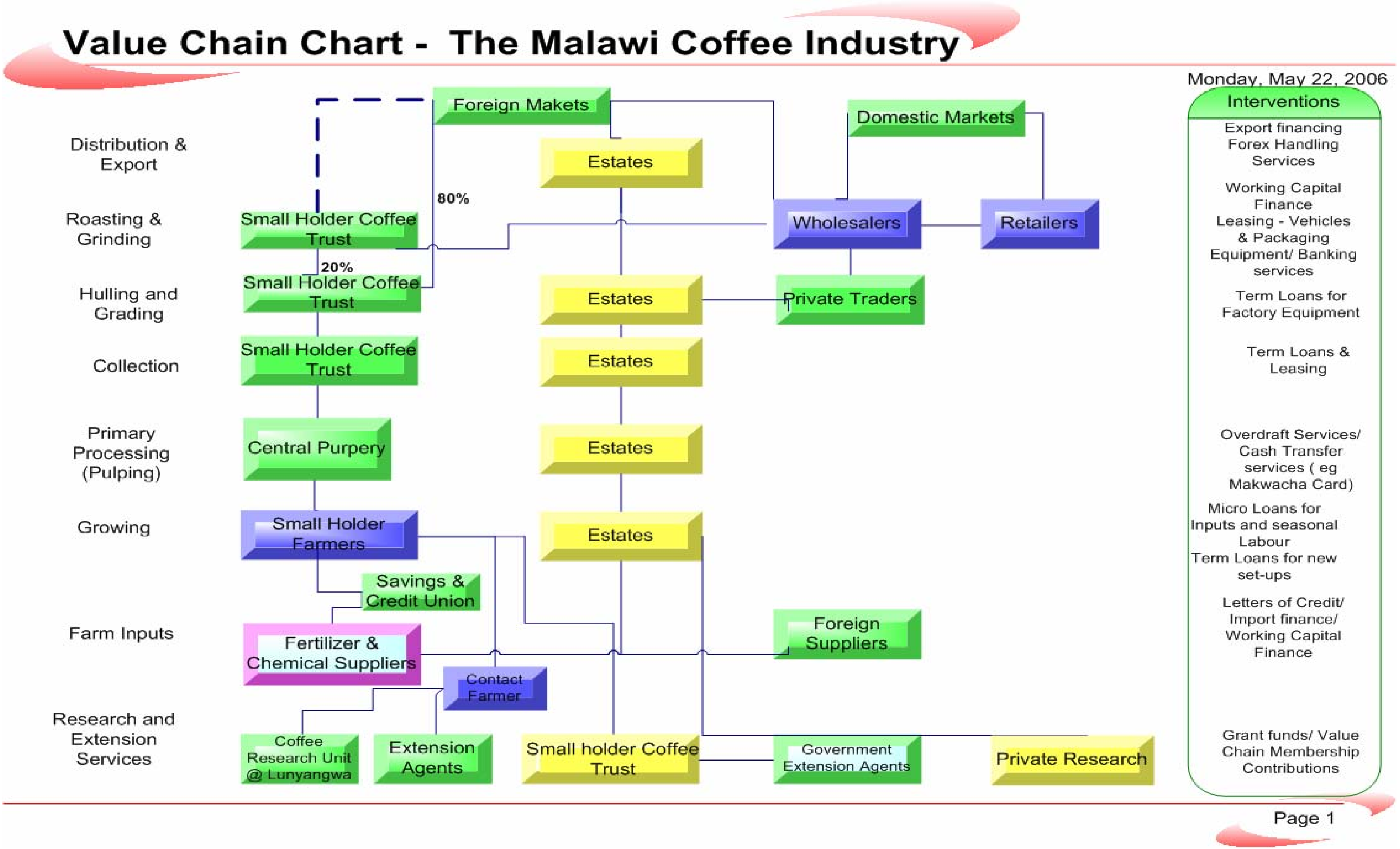
7. **Need for Development Partner Support:** While commercial financing may be able to address certain targeted needs of the Trust, the need for ongoing development partner support still exists. Development of the smallholder coffee sector both at the farmer level and at the primary (housed at the associations) and secondary (housed at the Trust) processing levels will require a significant injection of capital both in terms of increasing the size of the SACUs' revolving funds for inputs and for capital expenditure to upgrade processing equipment and other fixed assets. Development of new coffee growers requires a minimum of three years before the new coffee bushes start producing and providing economically viable returns. This is a gap that commercial financiers cannot fill and which a development partner may be better suited to address whether by providing funding in the form of a grant or soft loan with concessionary terms.

The key recommendations for smallholder financing are therefore:

6. That interested financial institutions enter into discussions with the Mzuzu SCFT to determine the viability of and options for financing the Trust and/or its associations to enhance the credit extended to their farmer members through the SACUs.
7. That at both industry (CAMAL) and firm levels, growers help bankers to better understand the opportunities that exist within the Malawi coffee sector.
8. That Mzuzu SCFT, in conjunction with FSJTF, explores the option of seeking funding from Etimos to address its financing needs.
9. That the Mzuzu SCFT Savings and Credit Unions discuss with MUSCCO the option to become members.
10. That Mzuzu SCFT seeks capacity building support from MUSCCO and development partners such as USAID DMS Project.

[17] Malawi Union of Savings and Credit Cooperatives

Annex 1:


Value Chain Chart - The Malawi Coffee Industry
Monday, May 22, 2006
Distribution & Export
Roasting & Grinding
Hulling and Grading
Collection
Primary Processing (Pulping)
Growing
Farm Inputs
Research and Extension Services
Foreign Makets
Domestic Markets
Estates
80%
20%
Small Holder Coffee Trust
Wholesalers
Retailers
Private Traders
Central Purpery
Small Holder Farmers
Savings & Credit Union
Fertilizer & Chemical Suppliers
Foreign Suppliers
Contact Farmer
Coffee Research Unit @ Lunyangwa
Extension Agents
Small holder Coffee Trust
Government Extension Agents
Private Research
Interventions
Export financing
Forex Handling Services
Working Capital Finance
Leasing - Vehicles & Packaging Equipment/ Banking services
Term Loans for Factory Equipment
Term Loans & Leasing
Overdraft Services/ Cash Transfer services (eg Makwacha Card)
Micro Loans for Inputs and seasonal Labour
Term Loans for new set-ups
Letters of Credit/ Import finance/ Working Capital Finance
Grant funds/ Value Chain Membership Contributions
Page 1

Annex 2 Terms of Reference

Demand for and Supply of Credit in Tea and Coffee Sectors in Malawi

Food Security Joint Task Force (FSJTF) Technical Secretariat
USAID Deepening Malawi's Microfinance Sector (DMS) Project

1.0 BACKGROUND

More than 80% of Malawians depend for their livelihoods on rural-based farm, off-farm and non-farm activities. Most microfinance operations and financial services in general are urban or peri-urban focused. When there is microfinance supplied in rural areas, the beneficiaries are usually traders and to some extent farmers involved in the traditional cash crops like tobacco. This situation has limited the ability of farmers in the country to diversify into a variety of other cash crops such as coffee, paprika, and tea.

Micro lending activity through specialised financial institutions is often based on group lending, typically around 10-15 members per group. Drop out rates are reported to reach as high as 50% in some cases and on-time repayment is reported to be very variable and sometimes too low to be sustainable. Concerning loans issued by non-financial institutions such as crop and produce processors, input suppliers and others, few studies have been done that describe the precise credit product, its terms and conditions, and the repayment rates.

The demand and need for financial services, primarily credit but also savings and money transfers, is generally considered very high in comparison to the actual supply from specialised and informal providers that serve Malawi's rural agricultural sectors. The opportunities available in this regard are not known as most lending from microfinance institutions (MFI) is assumed to be for working capital. However it is conjectured that a sizeable portion of MFI loans are used to finance crop production and the weekly repayment terms are being covered from other revenue streams. As mentioned earlier, lending by non-financial institution value chain actors is also not quantified.

In rural areas, the cost of delivering credit and the associated risks of agricultural lending are often perceived to be too high to attract formal financial service providers, particularly since many MFIs are unable to intermediate savings and are thus constrained by inadequate capital for lending. Hence, most MFIs concentrate on urban and semi-urban clients. In this gap between rural financial service demand and formal financing from banks and MFIs, non-specialised financial providers such as input suppliers, growers/processors (including commercial farms/estates), traders and others have extended credit, mostly in-kind, to value chain actors.

A study that quantifies the nature of existing credit demand and supply in specific agricultural sectors would go a long way towards enabling formal credit providers (both specialised and non-specialised financial service providers) to fully understand the opportunities and risks that exist in the sectors. Also, such a study would help to enable credit providers to develop demand-driven products for high potential sectors to increase the financing flows to value chain actors thereby creating growth in agricultural productivity and employment. The services of a consulting firm are therefore required to provide the relevant credit demand and supply data for coffee and tea in Malawi.

2.0 MISSION

2.1 Specific Objectives

The main aim of the study is to gather and make available useful credit demand and supply data that can be used by stakeholders in the tea and coffee sectors to increase the flow of sustainable financial services to value chain actors.

Specifically Kadale Consultants will:

- Quantify the current supply of credit: to smallholder farmers in the tea and coffee sectors in Malawi by growers/processors (including commercial farms/estates) and farmer associations; and to smallholder farmers, farmers associations and growers/processors, (including commercial farms/estates) in the tea and coffee sectors in Malawi by financial institutions and input suppliers;
- Outline the gaps in supply and demand that exist; and
- Provide recommendations as to how best these gaps can be lessened from the financial sector;

2.2 Results

The study report should include:

- Detailed data on credit currently supplied to smallholder farmers, farmer associations, and growers/processors (including commercial farms/estates) in the coffee and tea sectors. Separately by sector, and (where possible, subject to commercial confidentiality) for each firm and/or organisation providing credit, the consultant should provide the following data:
    - A list of the firms and organisations that are currently providing credit, credit guarantees and other financial services to the list above;
    - Volume of credit extended by each supplier;
    - Nature and form of credit by supplier to the sectors (whether in kind, cash etc);
    - Credit terms (term of the loan, payment mechanisms, allowable grace periods, interest rates, processing fees and collateral requirements if any);
    - Profile of credit recipients/borrowers in the sectors (characteristics of supported clientele);
    - Geographical distribution of clients supported; and
    - Experiences and trends seen in the market: repayment rates, defaults and losses. Particular note should be taken of suppliers that have significantly increased or reduced credit activity to the sector over the years with explanations as to why and capturing lessons learned.
- Listing of factors that constrain the supply of credit to each sector;
- An estimate of the credit demand-supply gaps in the each of the sectors; and
- An outline/recommendation of the steps that need to be followed to expand credit to the sectors, including the players that would be responsible for the implementation of the strategies and their respective roles.

2.3 Activities

The following activities will be implemented to achieve the above-mentioned results:

- Prepare questionnaire(s) to be used for collecting the data from suppliers of credit in the given sectors;
- Identify MFIs and commercial banks, non-bank financial institutions and input suppliers that provide credit to the given sectors;
- Prepare a detailed work plan to be approved by FSJTF/DMS;
- Administer the questionnaires to the identified institutions;
- Conduct initial analysis of the data for the determination of the demand-supply gap and the factors that have been limiting supply;
- Undertake a mid-point briefing with the client to get feedback;
- Outline/recommend steps that need to be followed to expand credit to the sectors, including the players that would be most interested and able to implement;
- Draft a report that will give detailed information on credit supply and demand in the given sectors as described in Section 2.1 and 2.2 above;
- Facilitate a workshop to discuss the findings with interested stakeholders leading to the identification of what next steps are required to improve the flow of finance into the sector; and
- Prepare a Final report.

Annex 3: Persons Consulted

KEY:	Contacted for Survey	Contacted/Workshop Attendee	Workshop Attendee

Cat	Organisation	Loc	Contact Person/s	Position	Office	Cell	E-mail
Banks	First Merchant Bank Ltd (FMB) Leasing & Finance Co. (LFC)	Blantyre	 Mr George Kamvulumvulu Mr Sean O'Neill	Marketing Mgr Director	01 835713	08 824976	g.kamvulumvulu@fmbmalawi.com;
Banks	Indebank Indefund Limited	Blantyre	Mr Alex Chigwale Mrs Caroline Bodole Ms Julia Mvula Mr James Undi	Head of Credit Credit Officer Company Secretary	01 820055	09 640696 08 349830 08 821222	achigwale@indebank.com; cbodole@indebank.com indefundbt@malawi.net
Banks	Loita Investment Bank Ltd	Blantyre	Mr Brian Kampanje	Assistant Credit Mgr	01 820437	09 967421	bkampanje@mw.loita.com
Banks	Malawi Savings Bank (MSB)	Blantyre	Mr George Sibale	Microfinance Mgr	01 825111	08 512 551	sibaleg@msb.mw
Banks	National Bank of Malawi: Corporate Banking Asset Financing	Blantyre	 Mr Harold Jiya Mr Henry Chalowa Mr Chimwemwe Nkunika Mr Oswin Kasunda	 Sr Corporate Banking Mgr Corporate Bank Division Corporate Bank Division Head, of Asset Finance	01 823117 01 824407 01 824407 01 823670	 09 968188 08 205200 08 205076	hjiya@natbankmw.com; hchalowa@natbankmw.com; cnkunika@natbankmw.com; okasunda@natbankmw.com
Banks	National Bank of Malawi: Mzuzu Branch	Mzuzu	Mr Jarvis Nkango	Branch Manager			jnkango@natbankmw.com
Banks	NBS Bank Ltd	Blantyre	Mr Weston Kusani Mr Siyathaba J. Nkosi	Head of Credit Business Mgr	01 875910 01 875583	08 364625 08 347656	wkusani@nbsmw.com; sjnkosi@nbsmw.com
Banks	NedBank	Blantyre	Mr Joseph Saiti	Deputy Head of Credit	01 821218	08 897757	jsaiti@nedbank.co.mw
Banks	Stanbic Bank: Corporate Banking Vehicle & Asset Finance	Blantyre	 Mr Welkam Phiri Ms Victoria Chanza Mr Hannock Ng'oma	 Account Executive Mgr, Sales Support Account Executive	 01 820144 01 821326	08 308140 08 202444	wphiri@stanbic.com; vchanza@stanbic.com hng'oma@stanbic.com
Buyers	VanRees	Blantyre	Mr Maganga Maganga	Tea Manager			trading@vanreesmw.com
Coffee	Coffee Association of Malawi (CAMAL)	Blantyre	Mr Gilbert Chirwa Mr Laurence Lawrence	CAMAL Chief Executive CAMAL Chair	01 871182	09 916640	taml@malawi.net
Coffee	Conforzi Tea & Coffee Estates Ltd	Thyolo	Mr Atu J Kalinga	General Mgr	01 473400		conforzitea@malawi.net
Coffee	Katoto Coffee Estates	Mzuzu	Dr John C Banda	Managing Director		09 950057	jchiwowola2000@yahoo.com; chiwoj@yahoo.com

Coffee	Makandi Tea & Coffee Estate Ltd (Global)	Thyolo	Mr Laurence Lawrence Mr Farrukh Parvez	General Mgr/CAMAL Chair Deputy General Mgr	01 471001 01 916870	09 960131 09 960870	llawrence@makanditea.com; fparvez@makanditea.com
Coffee	Mzuzu Smallholder Coffee Farmers Trust (incl 5 smallholder assns & savings & credit unions)	Mzuzu	Mr Harrison B Kalua Mr Wisckes Nyemba Mr Lovemore Pemba Mr. L Kayuni Mr JS Chirwa Mr DK Ngambi	General Mgr Finance Director Microfinance Officer Chair, Misuku Hills Assoc Vice Chair, Nkhata Bay Assoc Accountant	01 332899 01 332 663	09 957403 09 293391 09 950603 08 868210	mzuzucoffee@malawi.net; mzuzu-coffee@sdnp.org.mw
Coffee	Namingomba Tea & Coffee Estate	Thyolo	Mr Stephen Mullan	Managing Director	01 473300		namingomba@malawi.net
Coffee	Njuli Coffee Estate / Universal Farming Co Ltd	Zomba Rd	Mr V Navin Kumar	General Mgr	01 697224	08 523098	njuli@africa-online.net
Coffee	Press Agriculture	Lilongwe	Mr Alfred Nkhono Mrs Bernadette Nkwazi	Chief Accountant Chief Executive	 01 774242	09 957595	nkhono@sdnp.org.mw berna@sdnp.org.mw
Coffee	RWJ Wallace / Makoka Estate	Zomba Rd	Mr Robin Saunders	General Mgr	01 534200	09 285572	robin@rwjw.net
Coffee	Sable Farming (Global)	Zomba Rd	Mr Shojen Kuruvilla	General Mgr	01 660153	08 821931	shojenk@sablefarming.com
Coffee	Satemwa Tea & Coffee Estates Ltd	Thyolo	Mr Alexander Kay Mr Cathcart Kay	Financial Mgr Director	01 473500	08 202751	ack@satemwa.com; chip@satemwa.com
Coffee	Zoa Tea Estate	Thyolo	Mrs Janet Doran	Managing Director	01 479102		zoateaestate@malawi.net
Dev't	Agrobusiness Development Malawi	Blantyre	Ms Kate Prottey	Consultant		09 288341	kprottey@yahoo.co.uk
Dev't	EIB	Belgium SA	Ms Isabel Costa Mr David White	Luxembourg office Head of regional office			costai@eib.org; white@eib.org
Dev't	EU: Rural Dev't & Food Security (STABEX, APIP)	Lilongwe	Mr. Raniero Leto Ms. Tomaida Msiska	Programme Officer	01 773199		Raniero.LETO@cec.eu.int; Tomaida.MSISKA@cec.eu.int
Dev't	Food Security Joint Task Force Technical Secretariat	Lilongwe	Mr Andrea Pozza Ms Estere Tsoka Mrs Gertrude Kambauwa		01 789131 01 789121	09 964051 08 321562	andrea@techsec.malawi.net; estere@techsec.malawi.net; techsec@malawi.net
Dev't	IDAF (Planning Department, Ministry of Agriculture)	Lilongwe	Mr Jim Goodman	Agribusiness Advisor	01 788407	09 966528	jim@horizonmalawi.org
Dev't	Kadale Consultants Ltd	Blantyre	Ms Michelle Oliva Mr Jason Agar	Associate Consultant Managing Consultant	01 872933	09 967710	michelle.oliva@yahoo.com; kadale@africa-online.net
Dev't	Lorna Young Foundation/Twin Trading	Blantyre	Mr Nicholas Evans	Consultant	0044 798069 0888	08 667959	nicholasjevans@gmail.com
Dev't	NORSAD	Blantyre	Mrs Agnes Valera		01 824301	09 966570	ajv@presscorp.com

Dev't	USAID Deepening Malawi's Microfinance Sector (DMS) Project	Lilongwe	Mr Victor Luboyeski Mr Ezikiel Phiri	Director	01 773863	09 964642	vluboyeski@dmsproject.net ephiri@dmsproject.net
Inputs	Chemicals and Marketing	Blantyre	Mr Patrick Khembo	Managing Director	01 670600	09 951400	pkhembo@chemicals.co.mw
Inputs	Farmers Organisation	Blantyre	Mr Robert Renshaw		01 673088		farmorg@africa-online.net
Inputs	Yara Malawi Ltd	Lilongwe	Mrs Victoria Keelan	Managing Director	01 710181	09 960314	victoriakeelan@eomw.net
MFIs	Concern Universal Microfinance Operation (CUMO)	Blantyre	Mr Bola Garbadeen Mr Ken Nyirenda		01 223604	08 879258 08 376236	cumo@malawi.net
MFIs	Development of Malawi Enterprise Trust (DEMAT)	Blantyre	Mrs Chirwa Mr Charles Sambani		01 642982	09 952220	demat@malawi.net
MFIs	Ecumenical Church Loan Fund (ECLOF)	Blantyre	Mr Andersen Kamwendo Mr Barnabas Tauzi	Executive Director Operations Mgr	01 833053	08 834387	eclofmw@globemw.net; eclofmw@africa-online.net
MFIs	Finance Trust for The Self Employed (FITSE)	Lilongwe Blantyre	Mr Albert Thindwa Mr Alfred Lungu	CEO Operations Officer	01 759471	08 841811 08 950202	albert_thindwa@wvi.org
MFIs	Foundation for International Community Assistance (FINCA)	Blantyre	Mr John Lwande Mr Drostan Mhlanga	Managing Director Operations Mgr	 01 822256 01 821473	08 875012	jlwande@villagebanking.org; drostan@fincamalawi.org
MFIs	Malawi Rural Finance Company (MRFC)	Lilongwe	Mr S. Murotho Mr E Kanongola	General Mgr Assistant Operations Mgr	01 753133 01 821625	09 834295 09 953207	mrfc@mrfc.co.mw; eliaskanongola@yahoo.com
MFIs	Malawi Union of Savings and Credit Cooperatives (MUSCCO)	Lilongwe Blantyre	Mr S. Kadzola Mr F. Nyangulu	CEO Operations Mgr	01 756000 01 820917	08 828231 08 875928	skadzola@muscco.malawi.net; fumbanin@yahoo.com;
MFIs	National Association of Business Women (NABW)	Blantyre	Ms M. Malunga Mrs C. Chikaonda		01 677812	09 958111 08 892893	nabw-bt@sdnp.org.mw
MFIs	Opportunity International Bank of Malawi (OIBM)	Lilongwe	Mr Rodger Voorhies Ms Mervis Kadya	Chief Operations Officer Microfinance Officer, Limbe	01 758403 01 846277	08 841224	rvoorhies@oibm.mw mkadya@oibm.mw
MFIs	Pride Malawi	Blantyre	Mr Cornelius Majawa Mr V Mphepo	Managing Director Internal Audit Mgr	01 833453	09 957021 08 844139	cmajawa@pridemalawi.com; vmphepo@pridemalawi.com
MFIs	Project Hope	Blantyre	Mr Timothy Kachule	Country Representative	01 644991	08 892403	projecthopemw@sdnp.org.mw
MFIs	Small Enterprises Development Organisation of Malawi (SEDOM)	Blantyre	Mr S. Kondowe Mrs Mang'anda	General Mgr Operations Mgr	01 824535	 08 821264	skondowe@sdnp.org.mw; tmanganda@sdnp.org.mw
MFIs	The Hunger Project	Blantyre	Mr Rowlands Kawotcha	Managing Director	01 644699	08 844261	hungerproject@hungerproject.malawi.net

Annex 4: Questionnaire Templates

Demand for and Supply of Credit in Tea and Coffee Sectors in Malawi
QUESTIONNAIRE: Commercial Producer/Processor

NOTE: Any financial information provided shall be kept confidential. If disclosed, it is on agreement that information provided at an individual institutional level will not be shared publicly. However, information from individual institutions will be aggregated to draw conclusions on a sectoral level that will be made available to you and other interested stakeholders.

The main aim of this study is to increase the flow of sustainable financial services to farmers, processors and other industry players.
****

Part A: General Information

Name of firm:

Contact person (name & position):

Tel (office): Cell: Email:

What sectors does your firm work in? (√ all that apply) What % of your gross sales (or turnover) does each account for?

□ Tea ___% □ Coffee ___% □ Other (please list) ___%:

If both TEA and COFFEE, please disaggregate responses by sector to the extent possible.

Tea	2005/6 growing season
Estate: # of hectares under tea Estimated production (mt) Made Tea	
Smallholders/out-growers: # of farmers # of hectares under tea Estimated production (mt) Made Tea	
Estimated average price/kg Made Tea Approx 5 kgs Green Leaf = 1 kg Made Tea	

Coffee	2005/6 growing season
# of hectares under coffee # of bushes, if avail.	
Estimated production green beans (mt)	
Estimated average price bulk green beans sold/kg	

Company's Structure/Ownership: Describe if privately owned, local business or owned by parent company (if so who), # of years in business, etc.

Part B: Financing Sources, Needs and Gaps

1. How do you finance your business?
   a. Own capital and/or equity/loan from parent company? □ YES □ NO
      If YES, what percent of your financing comes from self financing? ___%
   b. Credit:
      i. Loans – overdraft, term loans, medium term, mortgages etc. □ YES □ NO

      If YES, please list each facility separately.
      Please specify the loan's purpose, amount (Kwacha, USD or USD fully convertible), term (# of months or years), from when to when, from which bank, interest rate, repayment schedule, etc.

ii. Leasing □ YES □ NO

If YES, please list each facility separately.

Please specify the loan's purpose, amount (Kwacha, USD or USD fully convertible), term (# of months or years), from when to when, from which bank, interest rate, repayment schedule, etc.

iii. Trade credit from suppliers □ YES □ NO

If YES, please describe terms normally received (e.g. Net 30 days, Net 90 days, interest rate charged), value of credit extended and primary purposes.

c. Other sources?

2. With which banks do you currently work?

3.

For the current financial year, what is your company's total:	Specify whether in Kwacha or USD
Turnover projected?	
Capital Expenditure budget?	
Development Expenditure budget (if separate from CapEx)?	
Working Capital budget?	

CAPITAL EXPENDITURE: Breakdown by major category, e.g. buildings-factory (new), buildings-other commercial, factory equipment, irrigation equipment, other equipment, social works (staff housing, schools, clinics, ambulances, etc.), tools/sprayers, vehicles, other infrastructure (such as boreholes, fencing, etc.), other-specify. **If an expenditure is solely for tea or for coffee, please indicate.**

Expenditure category	Amount	What is the source (self-financed, loan, other-specify)? If loan, specify which?	Is there a financing gap?* How much? For what?
TOTAL CAPEX			

*Details of financing gaps can be provided under question #4 below.

DEVELOPMENT EXPENDITURE (if any): **If an expenditure is solely for tea or for coffee, please indicate.**

Expenditure category	Amount	What is the source (self-financed, loan, other-specify)? If loan, specify which?	Is there a financing gap?* How much? For what?
TOTAL DEVEX			

*Details of financing gaps can be provided under question #4 below.

WORKING CAPITAL: Breakdown by major category, e.g. inputs, labour, transport, fuel, social works, smallholder development, other-specify. **If an expenditure is solely for tea or for coffee, please indicate.**

Expenditure category	Amount	What is the source (self-financed, loan, other-specify)? If loan, specify which type?	Is there a financing gap?* How much? For what?
TOTAL WORKING CAPITAL			

*Details of financing gaps can be provided under question #4 below.

4. Does your firm have financing needs/gaps, which are not currently being met?
   If YES, please describe □ YES □ NO
   .
   a) Financing for what purpose:
   b) Type of financing (lending, e.g. overdraft, short/mid/long-term loan, lease, trade credit, etc.):
   c) Amount needed:
   d) Loan term needed (# of months/yrs):
   e) Other key terms needed (interest rate, repayment schedule, grace period, etc.):
   f) If for onlending/microloans to smallholders, # of borrowers:

Part C: Current Lending, i.e. to Smallholders
Is your firm a credit provider (lender: cash or by providing inputs), i.e. to smallholders? If NO, please skip this section. □ YES □ NO

Please provide the following information for each credit type/scheme:
Use additional paper, as needed, for each credit scheme.

Purpose of Finance (Type of Credit):
E.g. inputs (fertiliser/chemicals, plant material, etc.), working capital, CapEx (tools/equipment), other

1. Provide description of scheme:
2. Borrower/s (individuals or if association, please specify which):
3. Total # of borrowers:
4. Total (aggregate) amount of credit extended per season:
5. Credit methodology
   a. Smallholder identification process and qualification criteria (who can qualify?):
   b. Application and screening (who gets/who does not) process:
   c. Disbursement process (cash or in-kind):
   d. Collection process (how are repayments made):
   e. Default process:

6. Credit terms
    a. Term of loan (# of months, years):
    b. Typically from when to when (month x to month y):
    c. Loan size range (minimum to maximum):
    d. Average loan value:
    e. Allowable grace period

        Capital:

        Interest:
    f. What loan value includes in addition to inputs – (transport, admin charges etc.) Specify type and amounts:
    g. Interest rate (simple, fixed, compound) and period (per month, per year?):
    h. Is collateral required? □ YES □ NO

        If YES, what type?
    i. Is guarantee required? □ YES □ NO

        If YES by whom?
7. Geographical distribution of clients supported:
8. Repayment rates (on-time payments of interest and capital, portfolio quality if measured):
9. Defaults and write-offs/losses:
10. Is there additional unmet demand for this type of credit? □ YES □ NO

    If YES, what is wanted: larger size loans, more loans to additional borrowers not currently being serviced, different terms, etc.?
11. Or is this type of credit under-utilised? □ YES □ NO

    If YES, what are reasons, e.g. interest rate too high, amount of loan too small/too large, loan doesn't meet needed purpose?

Part D: Miscellaneous/Other Info

Who supplies your inputs for tea? For coffee?

On standard Trade Credit (Net 30 days) or enhanced terms, if so describe?

Demand for and Supply of Credit in Tea and Coffee Sectors in Malawi
QUESTIONNAIRE: Banks/MFIs

NOTE: Any financial information provided shall be kept confidential. If disclosed, it is on agreement that information provided at an individual institutional level will not be shared publicly. However, information from individual institutions will be aggregated to draw conclusions on a sectoral level which will be made available to you and other interested stakeholders.

The main aim of this study is to increase the flow of sustainable financial services to farmers, processors and other industry players.
****

Name of financial institution:
Contact person (name & position):
Tel (office): Cell: Email:

Does your institution provide financing to the tea sector? □ YES □ NO
Does your institution provide financing to the coffee sector? □ YES □ NO

If both TEA and COFFEE, please disaggregate responses by sector to the extent possible.

1) Type of clients (commercial grower/processor, smallholder assn, buyer/broker, etc)?

<u>Type of clients</u> <u># of clients in each category</u>

2) Below please list the TOTAL AGGREGATE VALUE of financing this agricultural season (2005/6) provided by facility type (e.g. overdrafts, seasonal loans, medium-long term loans, leasing, letters of credit, etc):

Type of Financing	**Tea**	**Coffee**
	(Please specify whether Kwacha or USD)	
Working Capital		
Overdrafts		
Seasonal loans		
Other (pls specify)		
Total Working Capital Lending		
Fixed Assets Term range (# of mos/yrs)? For what purpose (equipment, new factories, vehicles, etc.)?		
Medium-term		
Long-term		
Leasing		
Other (pls specify)		
Total Fixed Asset Lending		

3) Please describe the key terms (interest rate range, loan period, repayment terms, etc.) generally offered for loan facilities offered?

4) Does your institution see opportunities for increased financing in tea? In coffee? What, how, how much, to whom?

5) What is needed to realise these opportunities? Any plans?