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COST AND IMPACT OF RESTRICTIONS ON SOYBEAN TRADE IN MALAWI

FEED THE FUTURE
INTEGRATING NUTRITION IN VALUE CHAINS PROJECT,
MALAWI

FINAL

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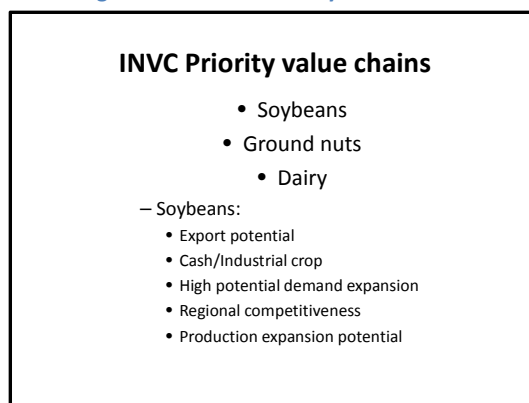
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INTRODUCTION – SOYBEANS IN MALAWI

The Feed the Future-Integrating Nutrition in Value Chains (INVC) project has identified three priority value chains to help improve income opportunities and promote better nutrition in Malawi, namely soybeans, groundnuts, and dairy.

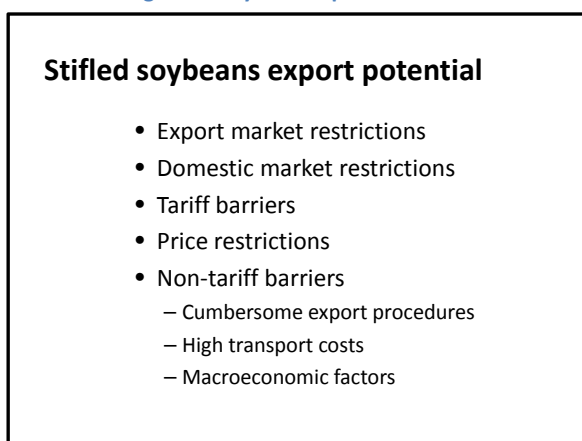
Major emphasis at the start of the project has been given to soybeans because it is primarily a cash crop for sale, not consumed directly by farm household members or fed directly to farm livestock. Raw soybeans have a very high concentration of protein and well balanced combination of essential amino acids but also contain a natural “trypsin inhibitor” that prevents the absorption of proteins in the digestive track of non-ruminant animals and it is slightly toxic to humans, chickens, and pork. Soybeans require processing before it can be consumed or used in animal feed. Heat treatment or chemical processing can be used to turn off the inhibitor. Soybean oil extrusion from raw beans generates high temperatures that make the remaining cake suitable for use in poultry feed.

Figure 1: FtF-INVC Priority Value Chains



Soybeans also offer a favorable potential of becoming a major export crop for Malawi. The national Government is trying to diversify exports from its high reliance on burley tobacco, and soybeans offer good export prospects to neighboring countries in Southern Africa. Climatic and agronomic conditions in Malawi are favorable for soybeans and other legumes. Also, soybeans are overwhelmingly grown by smallholders, and because it is a legume crop it can improve the quality of soils as it enriches the nitrogen content of the soil when properly inoculated with rhizobium bacteria. South Africa, Zimbabwe, Zambia, and Tanzania import large quantities of soybeans from the world market. There is therefore a ready market for potential exports from Malawi.

Figure 2: Soybean Export Potential



Malawi soybeans are non-GMO varieties which fetch a premium in these countries, especially when used as raw material for the manufacture of processed foods for human consumption, including for example food supplements for school children and baby food formulas.

SOYBEANS EXPORT POTENTIAL

Soybeans are primarily used in feed for poultry production. After extracting its vegetable oil, soybean cake meal is mixed with maize to make the bulk of poultry feed for either broilers or layers. In South Africa about 90 percent of soybeans are used for poultry feed. In Malawi however, where a significant portion is processed for human consumption under programs funded by international humanitarian organizations, the percentage used for animal feed is much less, estimated as low as only half of total consumption.

Despite these favorable export potential prospects actual official exports of soybeans from Malawi to neighboring countries are very small. Even allowing for some informal export across borders the volumes estimated remain well below potential. This study aims to identify what inhibiting factors might account for the poor performance of soybeans as an export crop and generator of cash income for smallholder producers.

There are many potential obstacles in the domestic market that hinder the purchase, movement, and storage of soybeans. However, most significant impediments occur when trying to export outside the country because that involves dealing with foreign exchange issues, import and export procedures in Malawi as well as in countries of transit and final destination, and dealing in complex transport and custom clearance procedures. We will only explore problems that can be addressed in Malawi, leaving aside problems posed by importing countries or transit countries such as Mozambique on the way to Zimbabwe.

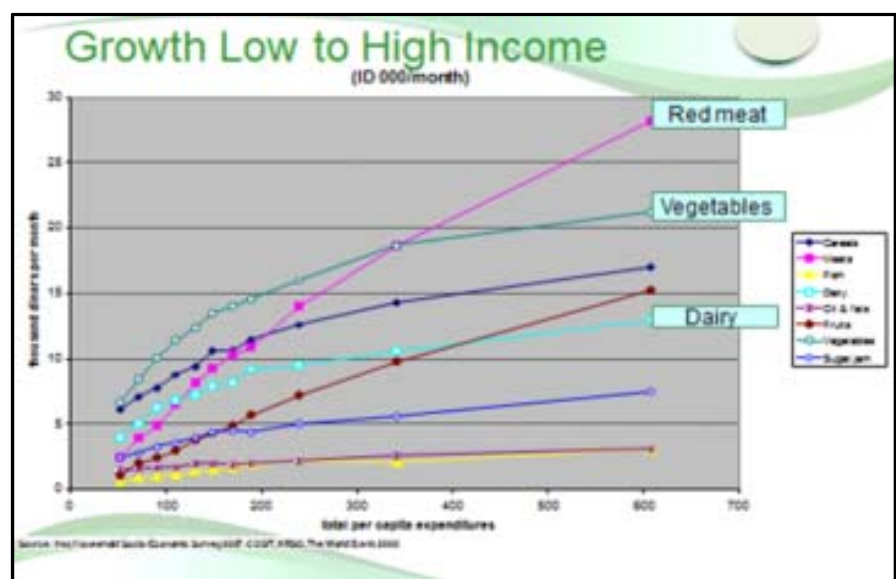
Import and Export tariffs are not likely to be major impediments for soybean exports because exports are usually exempt from duties and levies, and imports of raw materials such as soybeans are usually exempt from import tariffs in the receiving country.

Domestic prices are market determined but are subject to high volatility as they are affected by sudden interventions by government, like currency devaluations, unpredictable imposition and lifting of export bans at harvest time,

Figure 3: Food Expenditures by Income

issuing minimum farm gate price regulations, or banks charging extremely high interest rates on commercial loans.

Non-tariff barriers are more likely to pose real roadblocks for exports of soybeans from Malawi. Export licenses are ordinarily required for exporting foods and other agricultural commodities. Access to domestic supplies is also controlled by



authorities through the issue of local buying permits, and roadblocks controlling the movement of goods between districts.

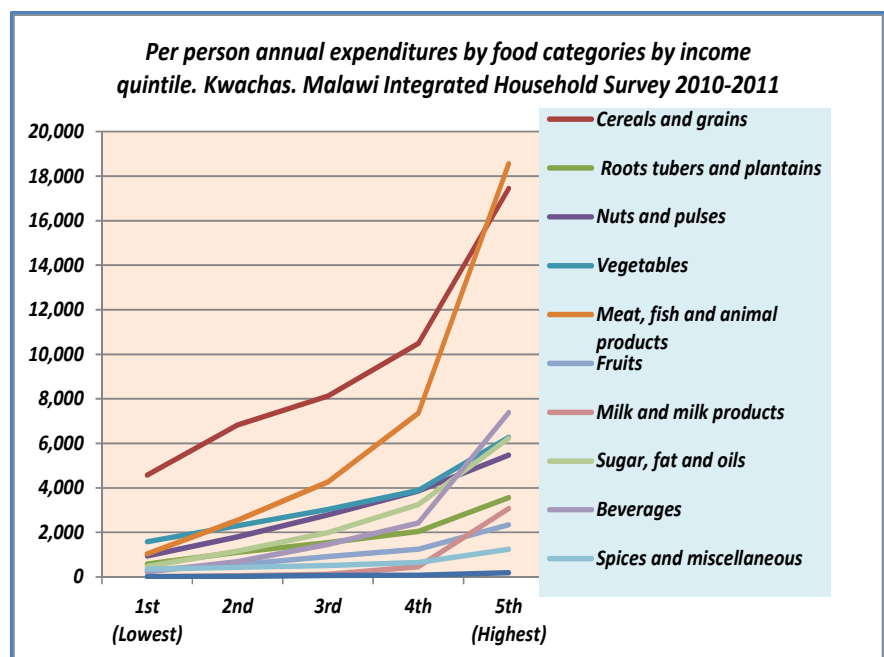
Macroeconomic developments also affect the performance of soybean exports. High inflation and currency devaluation or appreciation can drastically change the competitiveness of soybeans vis a vis potential trading partners from one week to the next. High interest rates make it difficult to hold commodities in storage or to make forward contracts for delivery several months in advance. This study will not examine in depth the impact of these macroeconomic factors on soybean exports. We shall assume for the purpose of analysis that the macroeconomic conditions remain stable and predictable.

It is reassuring that domestic and international demand for soybeans can be safely expected to grow over the next few years. Meat consumption in Malawi and Southern Africa, as it is in any market economy, is highly responsive to improvements in household income (high income elasticity). Consumers also adjust their expenditures in meats far more readily than they adjust consumption of cereals or other staples (high price elasticity), as meats are generally considered a luxury food mainly consumed by higher-income strata of the population. This can be appreciated in the above chart (figure 3) showing expenditures on different categories of food by low and high income households. Clearly meat consumption increases from hardly any among poor households to being the largest food expenditure category among the richest families. The chart is based on a household expenditure in a Middle East country (Iraq), but similar results are obtained in other countries around the world. A household expenditure survey was conducted in Malawi in recent years but the data was not readily accessible in the limited time available to the team. Based on data from that household survey, IFPRI has estimated demand income elasticity for white meat at 1.13 and with respect to price at -0.98. White meat includes mainly poultry and fish.

The Malawi Integrated Household Survey of 2010-2011 provides data on food consumption expenditures per person per year, disaggregated by income quintile. The accompanying chart (figure 4) shows that expenditures on meats, fish, and animal products increase rapidly with income levels: Among the wealthier strata it is the main food expense, while among the poor it is below cereals and vegetables.

To the extent that soybeans are used primarily as feed ingredient in poultry production, this chart suggest that there will be a rapid increase in soybean demand as household incomes increase in Malawi.

Figure 4: Per Person Annual Expenditures by Food Categories



Mapping Export Procedures

A separate component of this study is designed to develop a detailed mapping of the multiple steps needed to carry out an export shipment of soybeans, including the responsible agency and all prior documents and steps required for each step, the costs incurred for fees, number of visits to get the appropriate document, days waiting for processing, and the legal standing of each procedure. (see

Figure 5: Mapping Export Procedures

Mapping Export Procedures

- Export documents
 - Export license – Ministry of Trade
 - Business license – Malawi Revenue Authority (MRA)
 - Buying permit – Ministry of Agriculture and Food Security (MAFS)
 - Certificate of Origin – Chamber of Commerce
 - Certificate of SADC Origin – Chamber of Commerce
 - Phyto-sanitary certificate – MAFS – Plant Protection Serv.
 - Packing List
 - Commercial Invoice
 - Currency Declaration Form, CD1 Form – Bank
 - Customs Declaration Form, Form 12, MRA

Annex B for the separate companion report to this study.)

The main key document required to export soybeans is an export license granted by the Ministry of Industry and Trade (MoIT), granting the right to export a given tonnage of soybeans. The license is valid for three months, after which it requires renewal. In order to issue an export license the Ministry of Industry and Trade requires the exporter to be registered as a business enterprise with the Malawi Revenue authority. MoIT also requires exporters to be

duly authorized by the Ministry of Agriculture and Food Security as a registered trader in agricultural goods and having a valid Buying Permit from the Department of Crop Development to purchase a given quantity of for example, soybeans, at a given location. The cost of the Export License is only MK5000 and for the Buying Permit, it is MK10,000 for each commodity. Each export shipment, ordinarily consisting of one fully loaded 30 ton truck requires an Export License. The same Buying Permit can be used for several shipments.

Figure 6: An Open Border between Malawi and Mozambique



Export Licenses are required for formal licit exports across well recognized border customs posts. Malawi has many informal exports also taking across its porous borders with neighbors such as the open border in the accompanying photograph where the road itself is the border with Malawi on the left and Mozambique on the right.

MoIT recently (on June 21 2013) through the Customs Commissioner issued Circular No. 6 with a new shorter list of ten products that require an Export License. Soybeans and other

legumes are absent from that list. However, a month later, MRA and customs clearing officers at border posts still demanded export licenses, and were unaware of their removal from that requirement.

For exports to countries within the Southern Africa Development Community (SADC) an export shipment of soybeans needs to be accompanied by a Certificate of Origin from Malawi. This certificate of SADC referred to as the Certificate of Origin can be obtained from the Chamber of Commerce in Lilongwe or Blantyre. Before loading and shipping, an inspector from the Ministry of Agriculture and Food Security must be brought by the exporter to the warehouse where the

soybeans are stored to be inspected and fumigated to obtain a Phyto-Sanitary Certificate. The phyto-sanitary certificate is really a requirement from the importing country to allow the soybeans to enter their country. Neither fumigation nor phyto-sanitary certificate is needed for soybeans transported and consumed within Malawi.

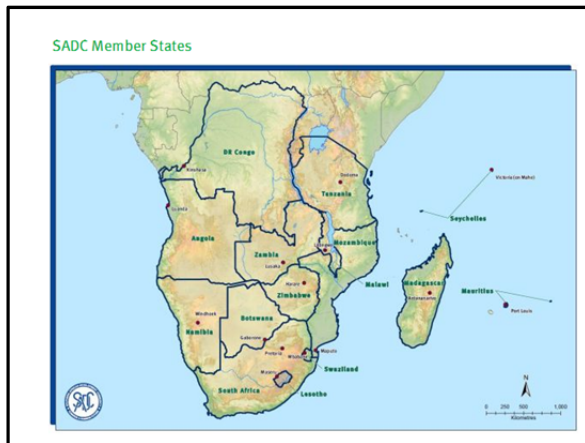
The Currency Declaration Form, commonly referred to as CD1 Form, is a Reserve Bank of Malawi document issued by the exporter's bank declaring the value of foreign exchange to be received for the export shipment, and stating the commitment by the exporter to deposit that amount of foreign exchange in the bank's account within 90 days from the date of shipment. Recent regulations no longer require that the full proceeds from exports be surrendered and exchanged for Kwacha at the official rate of exchange. Nowadays, exporters can retain up to 80 percent of the foreign exchange for their own subsequent use, but they are not allowed to transfer them to other persons or to sell in a secondary market at a more favorable rate. For large commercial establishments with bank accounts it is not much of a burden to get the CD1 form from their banks. However, for small traders in remote border regions and difficult access to banks with international trade facilities, the CD1 requirement is a major obstacle for making licit exports. As part of the renewed Government export promotion program the CD1 Form is no longer required for "minor exports" valued at under US\$1,000 (equivalent to about 350,000 Kwacha). This threshold is enough for a shipment of two tons of soybeans. Reports that there is a bill currently in Parliament to raise the threshold to US\$5,000 have been mentioned but not yet confirmed by the study team.

Finally, the Customs Declaration Form, Form 12, is issued by the Malawi Revenue Authority to register all imports into and exports out of the country and to collect the corresponding import duties and excise taxes. Since Government revenues are highly dependent on duties and taxes paid by importers, MRA needs to examine very carefully the actual content of each import shipment to verify that the merchandise declared is indeed the merchandise imported and that the values declared in invoices are in fact market equivalent prices. For exports, however, the Government does not impose any export duties and the values declared are already contained in the CD1 form and exporters are required to deposit the foreign exchange at their bank, not the MRA. The purpose of the Customs Declaration Form, Form 12, for exports is only for statistical recording purposes, not to collect any fiscal revenue. Despite this significant difference between imports and exports, MRA charges the same fee, MK5,000, for processing both forms.

Completing the Customs Declaration Form, Form 12, requires especially trained personnel because of the complexity required for import shipments, and because most of the information is entered in codes, not in plain English words. Exporters have no choice but to hire one of a small select number of customs clearing agents who have been trained to use the Asycuda program, and certified by MRA to have access to the MRA database in order to enter the contents of Form 12 on line. For export shipments it only takes about 10 minutes to complete and enter the Form 12 on line, but clearing agents charge a uniform fee of MK15,000 to provide the service to exporters, the same fee as for importers. The total cost of MK20,000 (about US\$60) seems excessive for a small shipment of two tons of soybeans across the border, but exporters have no choice if they want to successfully carry out a licit shipment. A simplified export form for minor exports is reportedly being contemplated as part of the Trade Across Borders (TAB) initiative at the Ministry of Industry and Trade.

The total process of getting the documents needed to do a by-the-book export shipment is estimated at about 8 weeks to complete, not including the time needed to register as a business and get a business license. Total fees paid for the fourteen individual documents needed add up to MK37,000 for a 30 ton single truck shipment, including the MK20,000 paid for Form 12 Customs Declaration form to MRA and the customs clearing agent.

Figure 7: SADC Member States



High transport costs are the other major deterrent working against soybean exports from Malawi. This landlocked country is totally dependent on its neighbors for access to sea ports. The main ports are Beira in Mozambique and Durban in South Africa. Truck transport by land is much more expensive than sea transport by ship. It costs under US\$1000 to bring a container from India to Beira, and but it costs another US\$4,500 to get it from Beira to Malawi.

High transport costs also protect domestic soybean production from competition with imported soybeans or soybean meal from Brazil or Argentina. These two countries supply South Africa with most of its soybeans consumption through the port of Durban. South American soybeans are almost exclusively GMO varieties, which are not acceptable in Zimbabwe or in Zambia. This provides Malawi special access to these two markets.

Figure 8: Transport Costs

Road distances to potential markets in South Africa (1300 km), Zimbabwe (700 kilometers) and Zambia (600 km) are considerable and the conditions of the roads are challenging. However, trucks carrying cargo spend most of the travel time waiting for paperwork to be processed at each of the borders. Six border customs posts stand between Malawi to South Africa, at the borders with Mozambique and Zimbabwe. It takes a 30-ton truck 7 to 12 days to make a trip that would only take 26 hours at 50 km/hour. Critical bridges and passages under construction create blockages, but the biggest delays are kilometer-long queues of trucks waiting for custom clearance at some borders. Similarly, a trip to Harare from Malawi is expected to take at least 3 days, to cover a distance of only 700 kilometers.

High Transport Costs

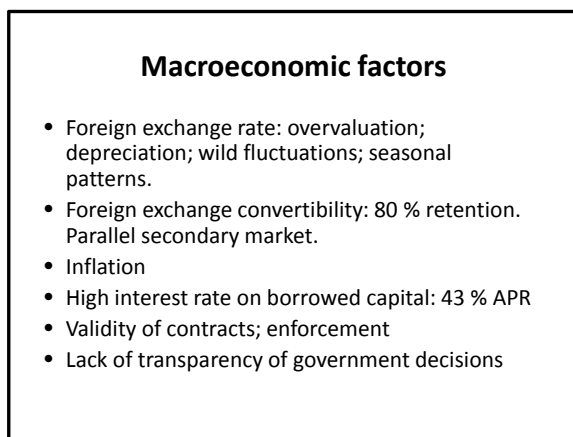
- Landlocked country. Nearest ports: Beira in Mozambique and Durban in South Africa
- Transit through Mozambique, Zimbabwe to reach South Africa. Two customs posts at every border crossing.
- Several days delays at every border, waiting for customs processing.
- Poor road conditions and long distances to reach other countries.
- Bicycles are main means to move produce to market. Internal rural market access road network barely accessible by motor vehicles.
- Restrictions on the movement of goods. Roadblocks.

The Southern Africa Development Community strives to streamline trade among its member states. Tariffs have been reduced or eliminated but export, import, and transit customs procedures remain real bottlenecks, far more costly than the poor conditions of road infrastructure. Numerous official and unofficial roadblocks and informal inspections along the way add time and costs to truck transport. The complexity of the current system makes it nearly impossible for small transporter to negotiate the challenges along the way. Only well-established large shipping companies have developed the network of agents at every border post to assist truckers in the passage.

Domestic transport of soybeans also poses a challenge to potential exporters. The movement of goods from one district to another is subject to roadblocks to verify that the goods have been properly acquired. Soybeans shipments require the presentation of the buying license authorizing the purchase of certain tonnage in the specified district. Sanctions for infractions can include fines and confiscation of goods.

The main road arteries in Malawi are paved and maintained in good condition. Off-road infrastructure however, is not suitable for motorized vehicles even in dry months of the year. Young men with bicycles provide the main means for transporting bags of produce from villages and farms to the main roads. Smaller bags are carried on head loads. Ox carts are also occasionally seen carrying produce to market. Donkey or horse carts are conspicuously absent.

Figure 9: Macroeconomic Factors



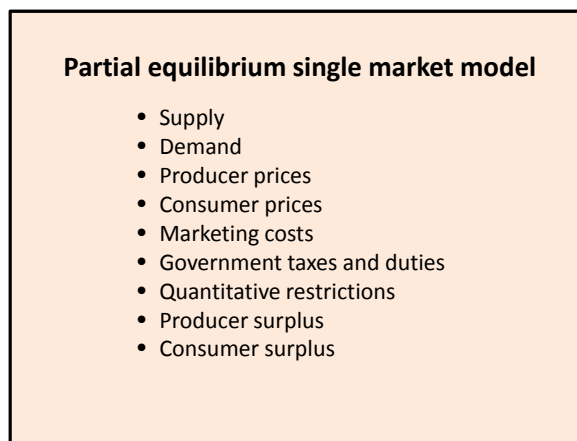
Some of the most intractable challenges faced by exporters are created by government decisions affecting international trade. Sudden fluctuations in the exchange rate can turn a profitable deal into a loss making blunder. Within one year the value of the Malawi Kwacha to the US dollar have gone from 160 to 450 and now has stabilized to 340 in July 2013. The exchange rate varies widely depending on the season since tobacco exports constitute the main source of foreign exchange. Inflation is gradually coming under control but remains over 20 percent in recent months.

Monetary measures to control inflation and the value of the currency has resulted in interest rates on borrowed capital at 43 percent (annual) or 4 percent monthly, thus making purchase and storage of agricultural products very costly. Business decisions under those conditions become risky and long-term planning nearly impossible. Transactions become hand-to-mouth affairs. Commitments for longer term steady deliveries over time are discouraged. Recent economic policies implemented by the Government have stabilized major economic indicators, but great uncertainty remains about the outlook for next year. Much of that uncertainty is generated by the lack of transparency of government decisions concerning trade matters. Soybeans farmers for example would like to have reasonable expectations about prices at harvest time but when an export ban on soybeans is announced farm gate prices plunge as a result. Farmers don't seem to have a voice in those decisions. Implicit in the following discussion is that the overall macroeconomic situation remains stable in coming years and that the exchange rates will not fluctuate wildly as in the recent past.

PARTIAL EQUILIBRIUM SINGLE MARKET MODEL

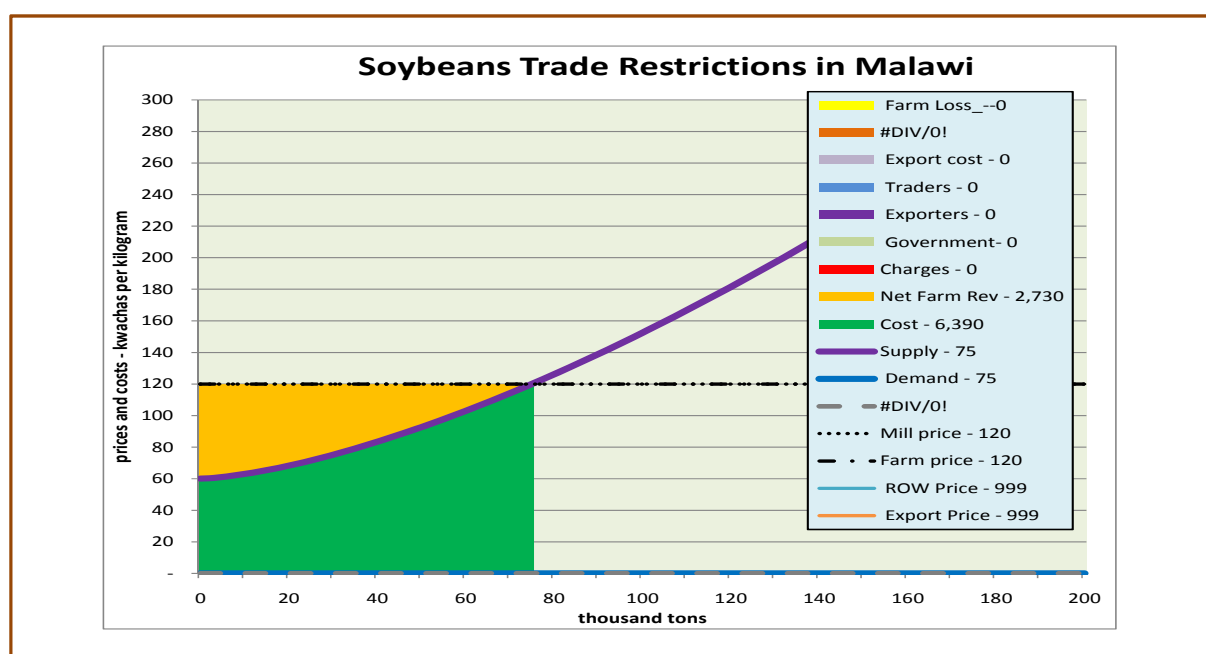
In order to measure the effects of these factors on the potential performance of soybean exports from Malawi, the study team built a simple market equilibrium model of the soybeans market. Such models incorporate standard economic principles into a structure based on supply and demand schedules and estimated marketing transactions costs and government taxes and fees to arrive at consumer and producer prices. The market model can also accommodate certain quantitative restrictions like export and buying licenses. Once the initial model structure has been built it is easy to modify initial conditions to better reflect the real situation, and to run simulations to determine the sensitivity of results to changes in policy variables within reasonable margins.

Figure 10: A Single Market Model



A first step is to define a supply schedule that captures the current conditions in the market. Estimates of current production of soybeans in Malawi hover around 75,000 tons. At the same time the most frequently reported farm gate price received by farmers shortly after harvest time around May and June 2013 was MK120 per kilogram, or MK120,000 per metric ton, equivalent to US\$343 per ton. A minimum price of MK60/kg is considered the lowest possible at which soybeans can be grown. An upward sloping supply curve can then be drawn through these two points: 75,000 tons at MK120/kg and zero tons at MK60/kg. The slope of the supply curve at the current situation point reflects expectations about how much additional production would result from a 10 percent increase in farm gate price. In this instance we assume a 12 percent production increase, but this production response estimate can be easily changed to simulate alternative values. The green area below the supply curve in figure 11 represent production costs incurred by farmers, and the orange

Figure 11: Soybean Producer Costs and Revenue



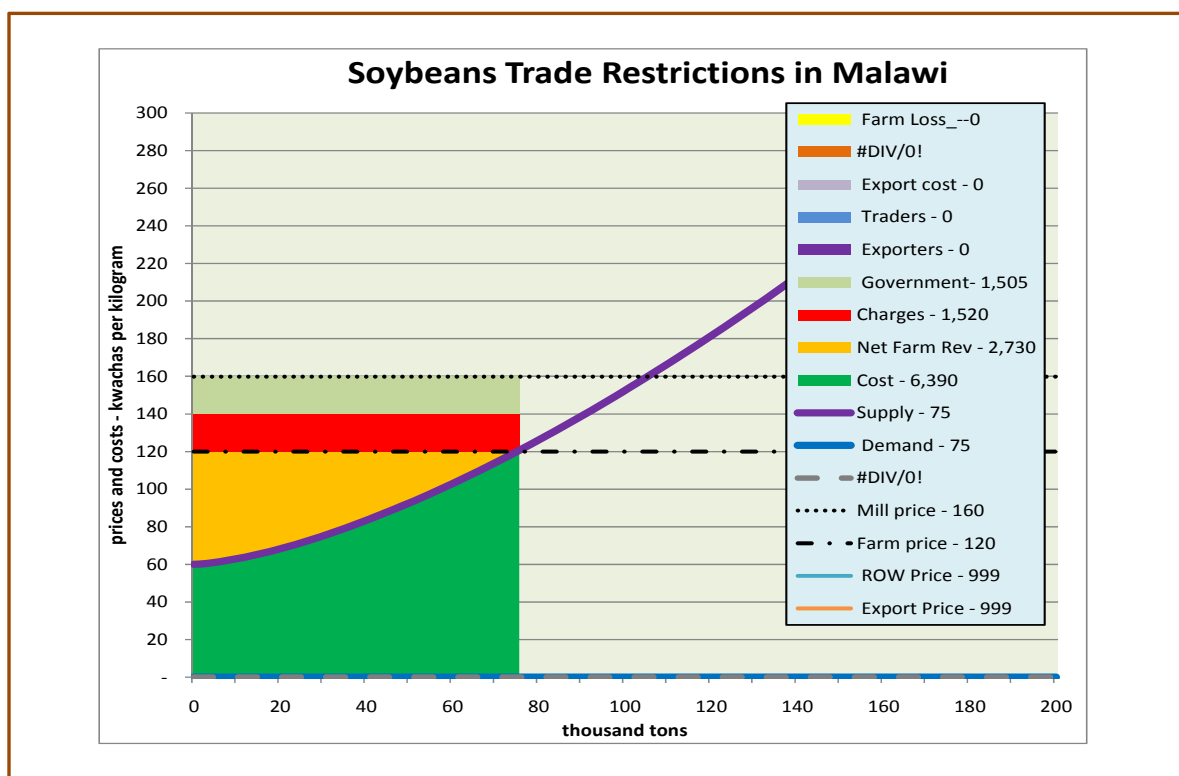
area above the supply curve and the farm price represent net farm revenue to soybean farmers.

Soybean production estimates can be derived from several sources. One of them is the needed supply of poultry feed for broiler and layer poultry farms. The poultry association estimates a population of 2 million layers that consume 120 grams of feed per day or about 240 tons for feed per day or 87,600 tons of feed per year. Broiler production is estimated at 180,000 birds per week at an average dress weight of 1.1 kg per bird (at 30-35 days of age), or 198,000 kilograms of chicken meat per week. Each broiler consumes an average of 3.5 kg of broiler feed in its lifetime, or 630 tons of feed per week, or a total of 32,760 tons per year. The combined annual feed consumption of broilers and layers adds up to 120,360 tons, of which about 40,000 tons are soybean cake meal. At an average oil extraction of 13 percent, that requires an estimated 46,000 tons of raw soybeans consumed by the poultry industry.

There are in Malawi several food processors that produce high protein supplements as part of programs aimed at improving nutrition among children and adults, such as the World Food Program, and several donor programs aimed at school food supplementation. Soya pieces (a meat substitute) and Likuni phala (a baby food formula) are examples of these products. In addition, about 10,000 tons of soybeans are exported either through official or unofficial channels. The estimate of 75,000 tons of annual production is thus deemed a close approximation that comes near comparable estimates from other agricultural sources.

Feed mills are the main buyers of raw soybeans, but they seldom purchase directly from farmers. Rural collectors, often referred to as “vendors” are the main purchasing agents dealing with farmers either in villages or at buying points along or near the main roads. The price paid by feed mills is therefore higher than the price paid to farmers. Marketing charges are estimated at MK20 per kilogram, covering mainly transport cost, cleaning, bagging and storage, the cost of working capital, and remuneration for the service and risk incurred by the vendors. In addition, when feed mills sell

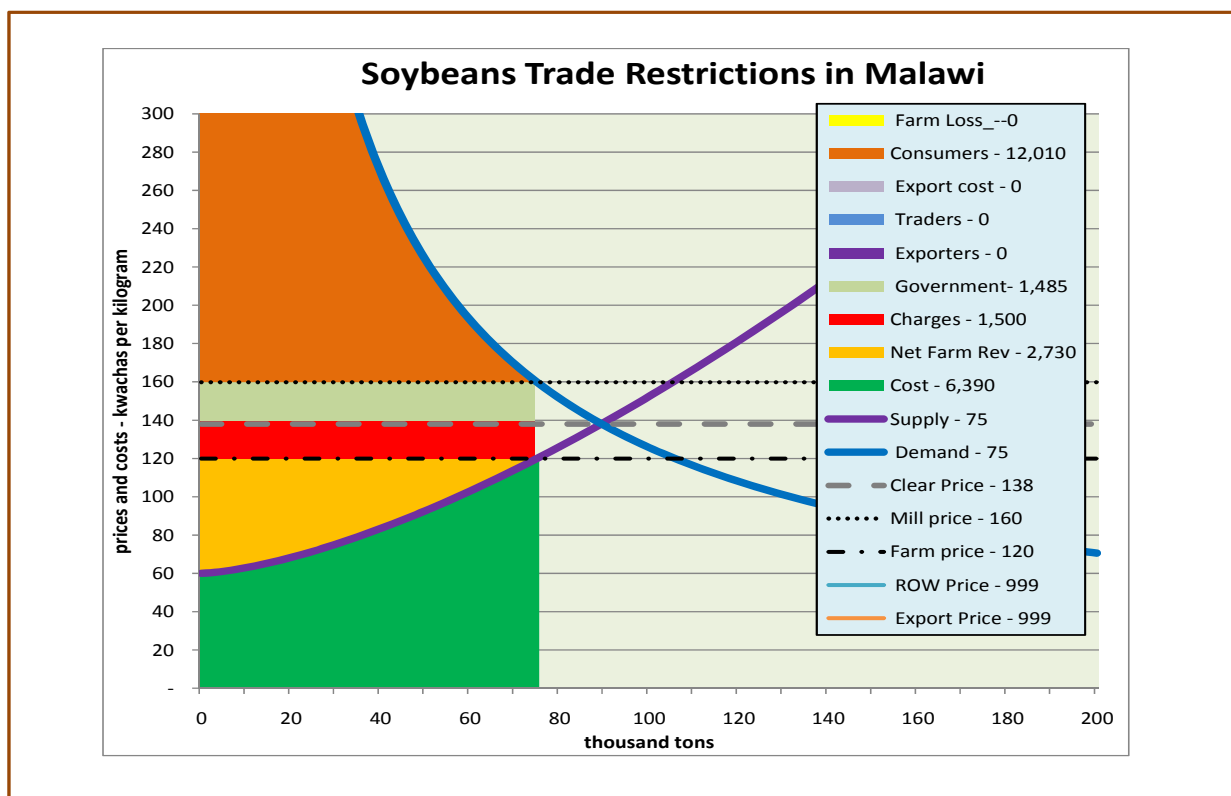
Figure 12: Marketing and VAT Costs



feed to poultry producers they must collect the value added tax of 16.5 percent and pay it to the Malawi Revenue Authority (MRA). There is therefore a hidden 16.5 percent VAT tax that needs to be added to the cost of the soybeans paid by the feed miller. The two rectangles above the farm gate price in the accompanying chart (Figure 12) correspond to fixed marketing charges (in red) and the VAT tax (in light greenish color).

The mill price per kilogram of raw soybeans now reaches MK160, including the farm gate price plus marketing charges and the implicit VAT tax due to the Government. A demand curve for soybeans must then pass through the point in the graph at the intersection of 75,000 tons and the price MK160/kg. This demand is drawn in figure 13 at that point. The slope of the demand reflects the expected response by millers and consumers when the price of soybeans decreases by, say 10 percent. In this illustrative chart we assume an increase in the quantity consumed of 12 percent, corresponding to a price demand elasticity of -1.2. The slope of the demand curve can be easily adjusted up or down in response to better information on consumer demand in Malawi for poultry products.

Figure 13: Supply and Demand for Soybean



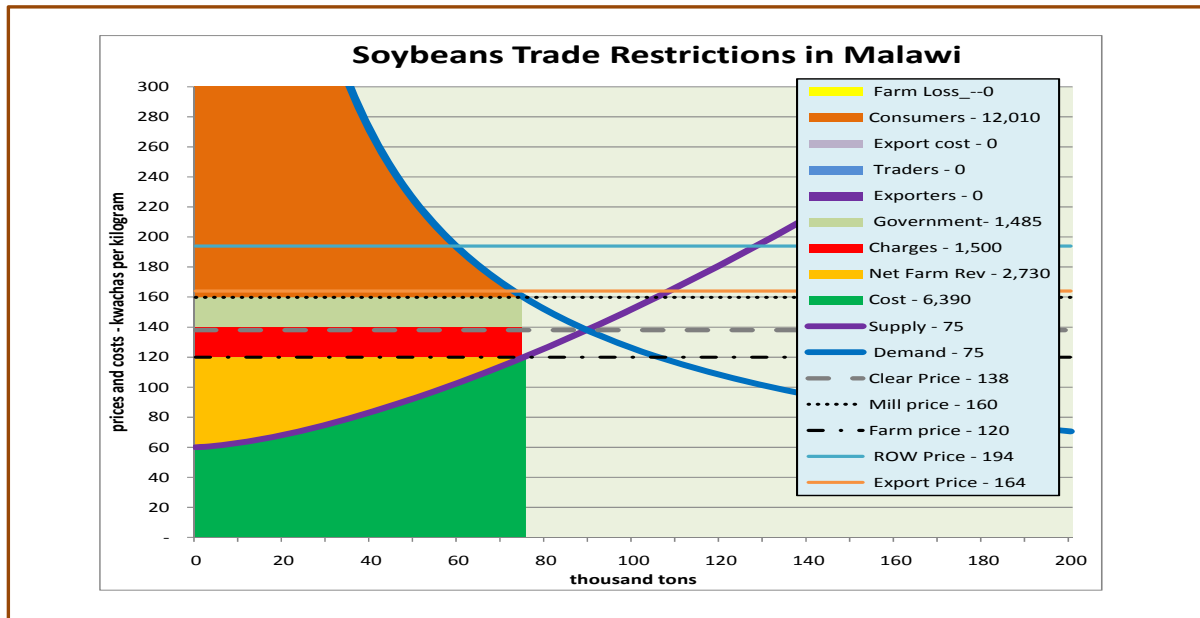
Note: in the preceding discussion, no mention is made of existing stocks of soybeans at the beginning and end of the season; it is implicitly assumed that ending stocks are roughly the same as at the start of the season.

Open export market

The intersection of the supply and demand curves determine the market clearing price if there were no marketing costs and no VAT tax paid to the Government and if the only market that matters is the domestic national market. But Malawi is surrounded by larger countries with rapidly growing economies and increasing demand for chicken meat and eggs. Demand for soybeans in Zambia, Zimbabwe, and South Africa is rapidly expanding, thus presenting opportunities for exports from

Malawi. As an example, the price paid in July 2013 by feed millers in Johannesburg, South Africa, was reported at US\$540 per ton, or about MK194 per kilogram. This price is shown in the accompanying chart (Figure 14) by the horizontal blue line as the ROW (rest of the world) price.

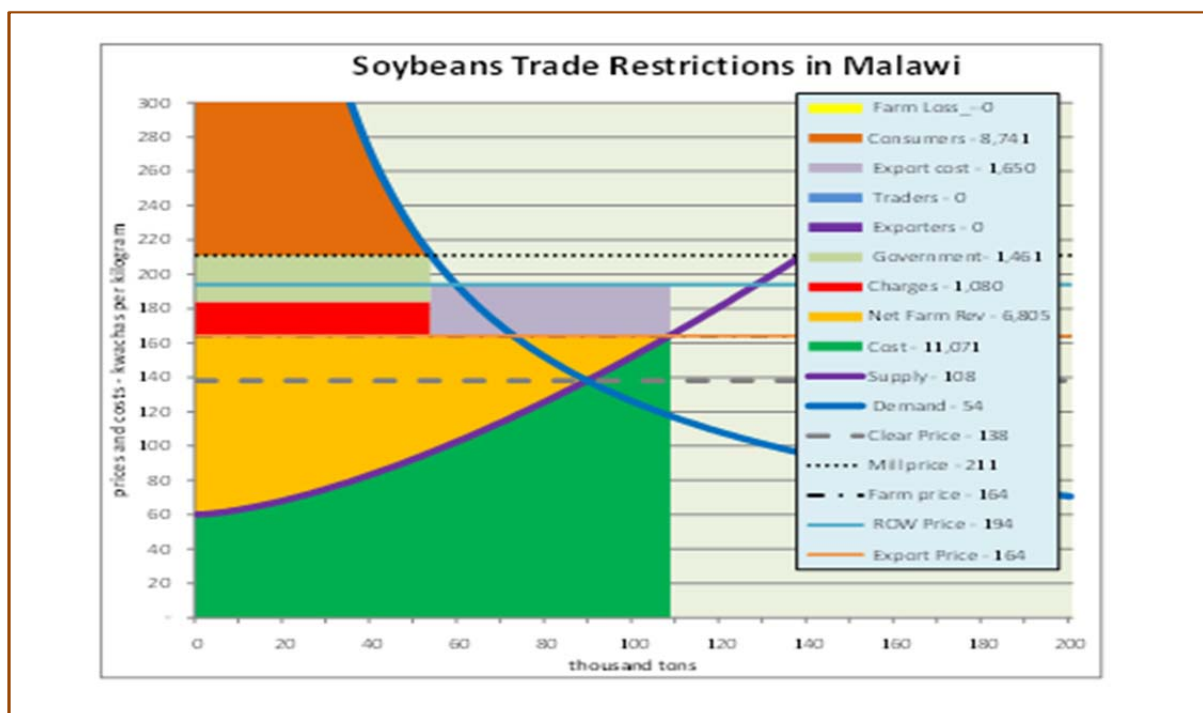
Figure 14: Soybean Prices in Open Export Market



There are however significant costs to be paid when exporting soybeans to South Africa. For purposes of illustration we postulate here a hypothetical cost of MK30 per kilogram or about US\$86 dollars per ton at MK3.50/dollar. Traders considering exporting to South Africa must deduct these exporting charges from the MK194 mill price in Johannesburg to arrive at the expected export price of MK164 /kg, indicated by the horizontal brown solid line in the above chart.

Were merchants freely able to export soybeans to South Africa the results would become immediately evident as shown in the following chart (figure 15). Competition among traders would

Figure 15: Soybean Costs and Revenue in Open Export Market



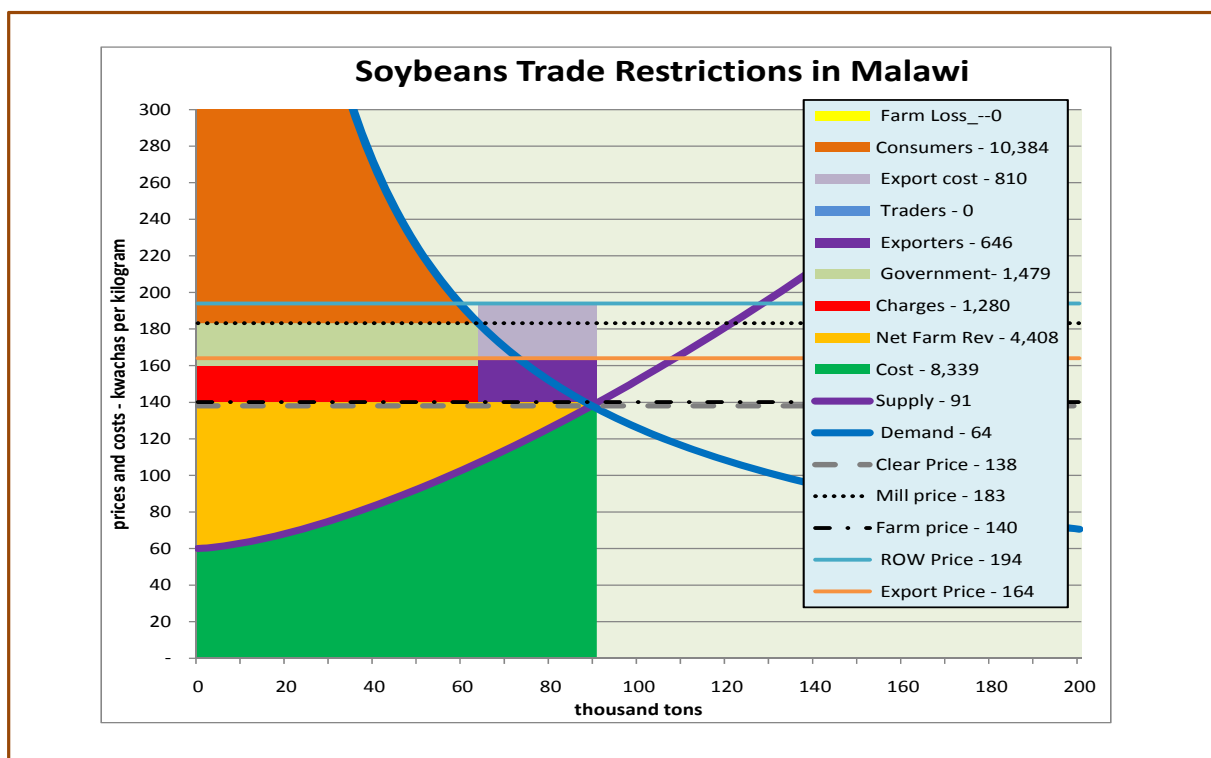
quickly drive producer prices up to MK164, the export equivalent price, and farmers would increase soybean production to 108 thousand tons, of which 54 thousand tons would be exported and the remaining consumed in Malawi. Domestic producer prices paid by feed mills will be the same as the export equivalent price of 164 Kwacha. Soybean producers' net revenue grows more than double to MK6,805 million from only MK2,730 million in the absence of exports. Part of the revenue gain by producers is borne by feed mills and consumers whose costs now have risen to MK184 after marketing costs and MK211 when including the 16.5 % value added tax. This mill cost is actually higher than the mill price in South Africa.

We adopt as the baseline situation the above conditions under which soybeans can be freely exported to neighboring markets, for they represent the highest level of production and revenue from soybeans. The effect and cost of trade and marketing restrictions can then be measured in comparison to this baseline situation. Note: We do not take into account the possibility of importing grain soybeans into the country, as this has not occurred in the past few years. However, imports of soybean oil are reported regularly to supplement local domestic sources.

Export Licensing

Let us suppose for example that the Ministry of Industry and Trade decides to limit exports to only half of the free-market potential. In such a case (figure 16) the expected producer price would drop to MK140 and production would drop to 91 thousand tons, out of which 64 thousand tons would be

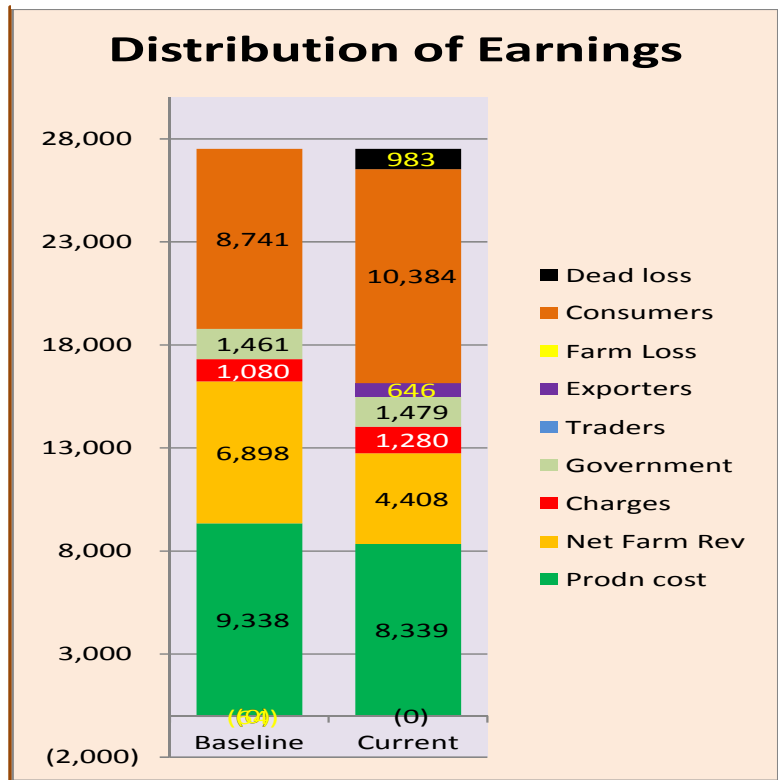
Figure 16: Effects of Export Licenses on Soybean Market



consumed domestically and the remaining 27 thousand tons are exported. Now, however, those traders with export licenses can purchase soybeans domestically at the producer price of MK140 and sell them for MK160 in the export market, thus realizing a MK20 profit (above and beyond the MK30 cost of exporting). These MK20 per kilogram are unearned profits, a rent derived from having one of the few export licenses granted by government.

The stacked bar chart (figure 17) displays the distribution of earnings among different stakeholders in the baseline situation with free exports and the situation when export licenses are introduced and only half of the potential exports are allowed by Government. Soybean production costs decline from MK9,338 million to MK8,339 million as a result of the drop in production. On the other hand, consumers are better off with their demand surplus growing from MK8,741 million to MK10,384 million. Soybean farmers on the other hand, suffer a severe drop in net farm earnings from MK6,898 million to only MK4,408 million. Exporters capture MK646 million in unearned rents, and Government revenue increases but only very slightly. Finally, the sum of all earnings is significantly lower with export licensing than when exports are free, by MK983 million. This overall loss, shaded black at the top of the bar chart, is called “*dead weight loss*” because it is a general loss to the whole society and nobody benefits from it; it represents the loss in efficiency to the entire economy from introduction of export restrictions and licensing to limit exports to half of their potential.

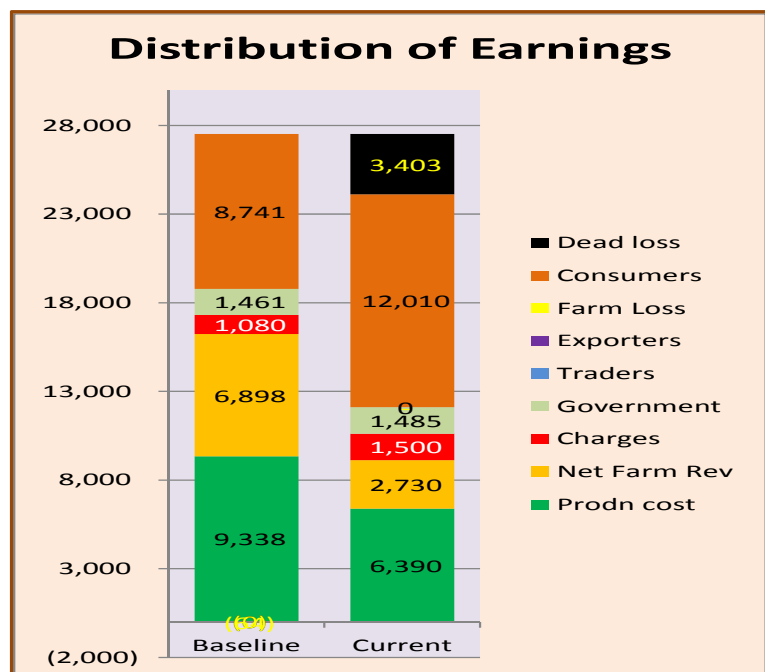
Figure 17: Distribution of Earnings resulting from Access to Export License



Cost of Export Ban

The impact of a complete export ban is more costly than the partial export restrictions and licensing. The accompanying stacked bar chart (Figure 18) compares the distribution of earnings in the baseline unrestricted-exports situation on the left and the export-ban situation on the right. The main contrast is that as a result of the export ban the share of consumers (feed mills and poultry consumers) increases by over 37 percent from MK 8,741 million to MK12,010 million, while the net farm revenue earned by soybean farmers collapses from MK6,898 million to

Figure 18: Distribution of Earnings Resulting from a Complete Export Ban

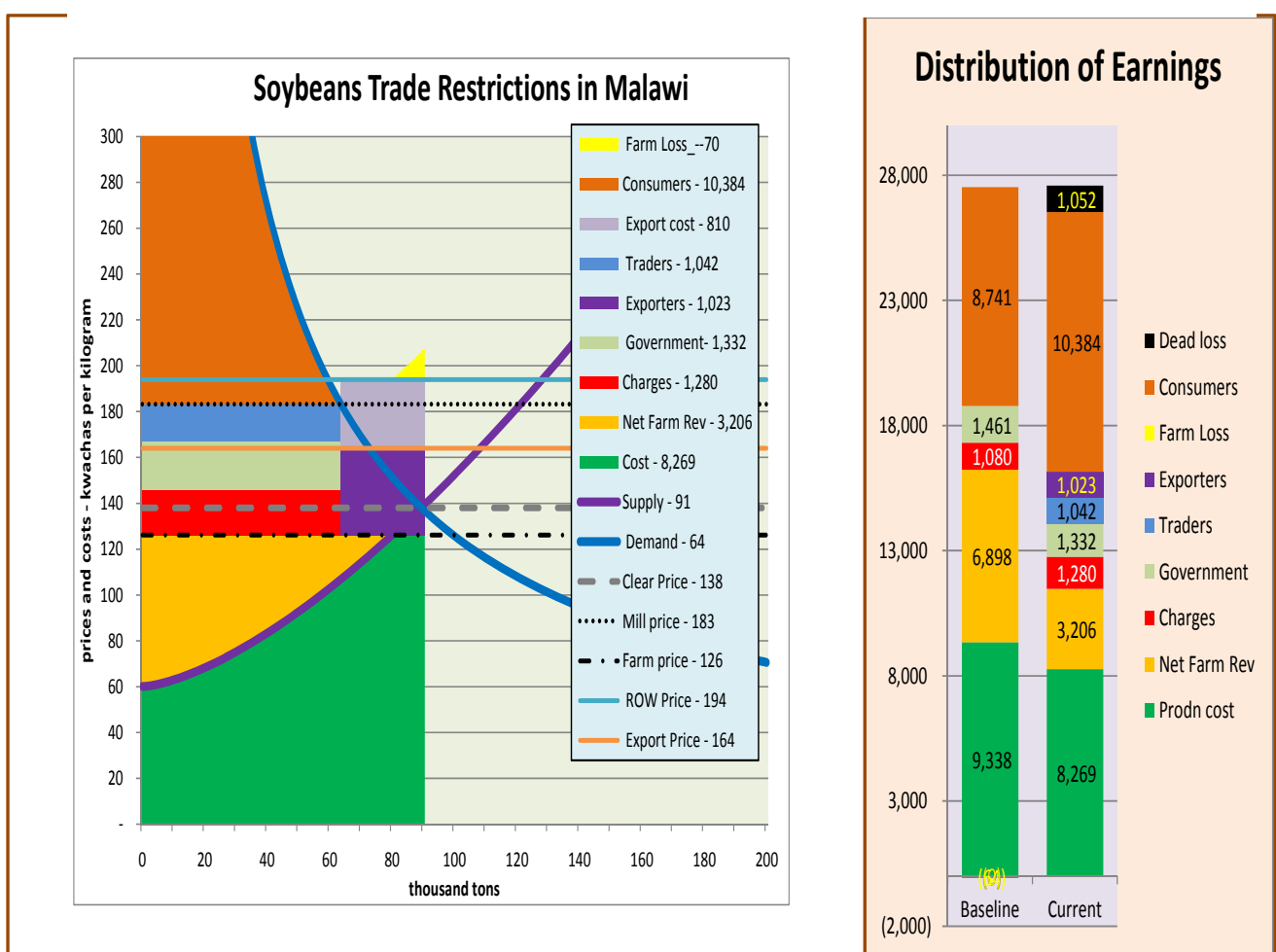


only MK2,730 million, a drop of 60 percent. The Dead-weight-loss from imposition of an export ban is MK3,403 million, equivalent to 12.4 percent of the total earnings from soybeans under the free-export option. The dead-weight-loss is a complete loss to the national economy, since neither consumers, nor producers, nor government, nor traders benefits from it.

Buying Permits

Another major distortion in the soybeans market in Malawi are restrictions imposed on traders willing to purchase raw grain soybeans from farmers. The Ministry of Agriculture would like to regulate and control the market for soybeans in rural areas. The Ministry grants buying permits to well-established enterprises willing to abide by strict rules regarding their location, jurisdictions where they can buy, days and hours of operation, quantities purchased and prices paid, type of equipment and infrastructure, and bookkeeping practices. Most farmers in rural areas do not have

Figure 19: Buying Permit Effects on Soybean Market and Distribution of Earnings



vehicles to move their produce to where official buyers are located. Instead, farmers often sell to unlicensed traders that come to their villages or offer them slightly better prices than official buyers, or both. Government authorities wage a public campaign through radio and print media to discourage farmers from selling to unlicensed traders, accusing them of taking advantage of farmers and cheating them with altered weighing scales. Nevertheless, farmers readily concede selling to unlicensed traders for convenience or price reasons. Unlicensed traders risk being prosecuted by

local authorities and are subject to fines, detention, confiscation of stocks, and harassment at roadblocks when moving soybeans from one district to another without buying permits.

The impact of **buying permits** on the market for soybeans can be illustrated in the above graphs (figure 19) showing the situation when the Ministry of Trade issues **export licenses** for only half of the potential exports, and the Ministry of Agriculture grants **buying permits** for only 80 thousand tons when expected production is 91 thousand tons. This creates a situation of excess market supply, as the buying permits are less than soybean production. Excess supply results in farmer prices being much lower than those prevailing in a market without restriction on entry. Farm prices are now estimated at MK126 per kilo, with mill prices are at MK183 per Kg. Traders with official buying permits can now make a pure profit of MK19 per kilo, after covering normal marketing costs and payment of VAT tax. This excess profit is made possible by virtue of having an official buying permit.

Exporters now also benefit from the buying-permit restrictions and gain higher unearned profits, since they can now buy soybeans locally at MK126 and sell in the export market at MK164, a profit MK38 per kilogram exported, after covering export costs of MK30 per kilo. The stacked-bar chart in Figure 19 shows the combined effect of export licenses and buying permits on the distribution of earnings from soybeans. Farmers, as expected, suffer the most with net farm revenue dropping from MK6,898 million to MK3,206 million (a 53 percent loss). Feed mills and consumers gain significantly to MK10,384 million (a 19 percent gain). Domestic traders are the main beneficiaries from buying-permit restrictions, as they gain unearned profits amounting to MK1,042 million. Exporters' unearned profits (rents from export licenses) increase from MK646 million to MK1,023 million as a result of the buying-permit restrictions. For the economy as a whole, the dead-weight-loss from both export-licensing and buying-permit restrictions adds up to MK1,052 million. There is an additional loss, however, suffered by a few higher-cost farmers, whose production costs are above the farm price of MK126. Their combined loss amounted to MK70 million, shown by the small yellow triangle above the export price.

The apparent rents (unearned profits) generated by export licenses and buying permits provide obvious incentives for unlicensed traders to enter the market and for unofficial exporters to smuggle

Figure 20: Quote from an Mchinji Farmer

"Just before harvest the Government decides there is a shortage of soybeans and decrees an export ban to force farmers to sell their crop at low prices to feed mills and traders. Once farmers have sold their entire crop the Government discovers there is plenty of soybeans and quietly issues export licenses to allow them to sell soybeans outside the country at much higher prices and make huge profits. They do that every year!"

Paraphrased translation of farmer's perception in Kamwendo township, Mchinji district.

soybeans out of the country, and thus capture some of the unearned profits gained by official exporters and licensed traders. The impact of increased competition by unlicensed traders and export smuggling is to put upward pressure on farm prices. Farmers benefit from increased competition brought about by unlicensed traders and unofficial exporters, because farm prices are raised as a result of their participation in the market.

Export bans before harvest season has the predictable result of putting downward pressure on farm prices.

Relaxing exports restrictions has the opposite effect, increasing farm prices.

The timing of export bans and export licenses can greatly affect farm revenues. A farmer in Kamwendo township, Mchinji district, described the timing of export trade restrictions in the past

few years as: *“Just before harvest the Government decides there is a shortage of soybeans and decrees an export ban to force farmers to sell their crop at low prices to feed mills and traders. Once the entire crop has been purchased the Government discovers there is plenty of soybeans and issues export licenses to allow their friends to sell soybeans outside the country at much higher prices and realize big profits. They do that every year!”* Some farmers are beginning to wise up to this pattern of government decisions and resort to selling only a portion of their harvest to get ready cash and store the remaining for sale a few weeks or months later when prices are better. (Note: Post-harvest losses for soybeans are reportedly small because raw soybeans have natural toxicity that protects them against rodent and insect damage).

This point of view from a soybean farmer contrasts sharply with the perception from the poultry producers association which every year fears that the coming harvest will mean a shortage of soybeans for their industry and in the absence of reliable official production estimates to assuage their fears, they see no option but to petition the Ministry of Agriculture for a ban on exports as a precautionary measure before the true market situation becomes apparent. At the request of the Ministry of Agriculture animal production department, the Ministry of Industry and Trade agrees to enforce a ban on soybean exports for an indefinite period. Once the true market supply becomes apparent, the Ministry of Trade authorizes a few enterprises to take advantage of export opportunities to neighboring countries. The Ministry of Trade and Industry keeps close watch and controls over the volume of authorized exports to prevent market disruptions. As exports take place market prices of soybeans rise but at least the basic needs of the poultry industry have been secured.

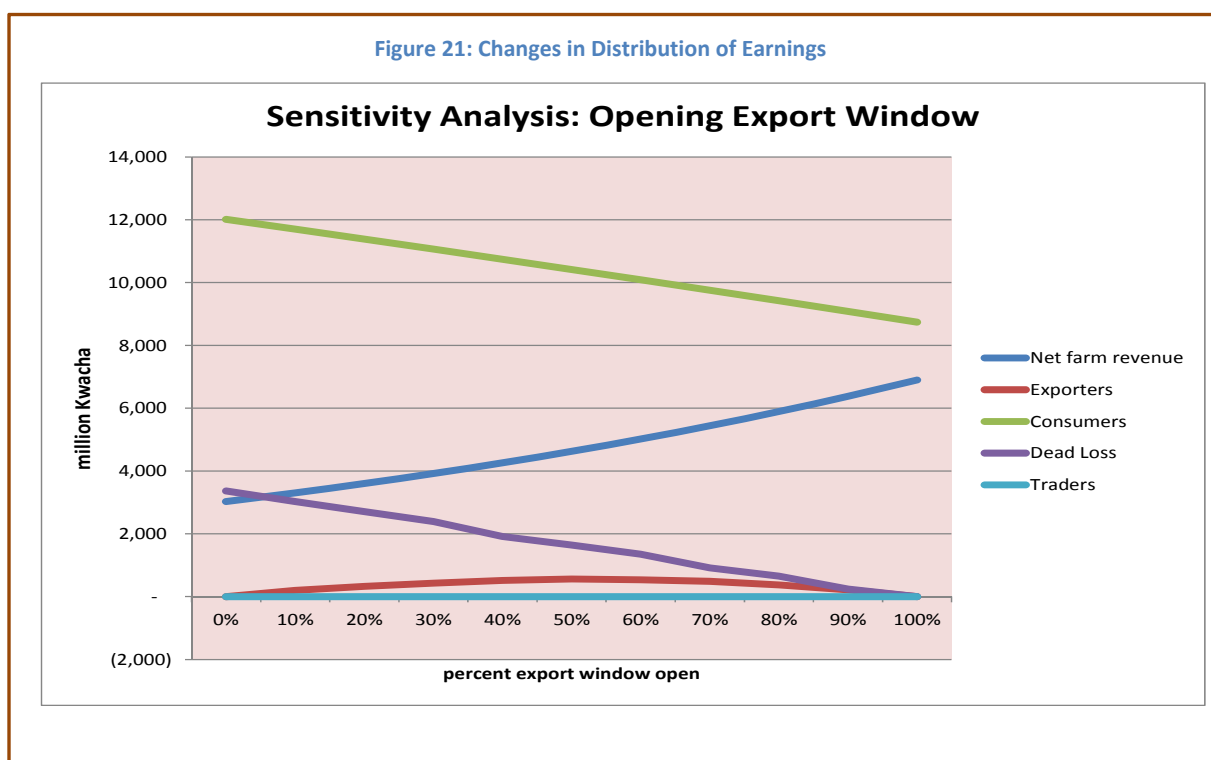
Farmers complain that the main obstacle to increasing the area planted to soybeans is the unpredictability of prices throughout the season and the lack of assurance of a minimal farm price at harvest time. From the industry’s perspective it is the lack of information on farmers’ production decisions that creates panic about potential supplies. From these contrasting perceptions it seems that the main cause of price volatility in the soybeans market in Malawi are the lack of reliable information on potential soybeans production (area planted to soybeans and yields per hectare), and Government policy decisions, first imposing a ban on exports and then granting export licenses as well as the limited buying permits and restrictions on market entry and competition by the Ministry of Agriculture. A system to estimate areas planted to soybeans and likely yields would make a major contribution to alleviating the vicious circle exacerbating market price volatility.

SENSITIVITY ANALYSIS OF MARKET CONDITIONS

A major advantage of designing a market equilibrium spreadsheet model is that it enables us to simulate various combinations of structural conditions and policy decisions and assess quantitatively their potential consequences. We can examine for example the outcomes from alternative export policies ranging from a complete ban on export up to completely unrestricted export, and points in between.

Sensitivity analysis of export licenses

The following chart (figure 21) tracks changes in the distribution of earnings in the soybeans market as the export window is closed or opened. On the horizontal axis we have the percent of exports allowed by trade authorities: zero represents a complete ban and 100 percent represents unrestricted exports. The blue line shows net farm income earned by soybean farmers. An export ban reduces net farm income to half of what could be under a free export regime, to MK3.0 billion



under this typical scenario. As exports are allowed to take place, net farm income increases until it reaches MK6.9 billion when exports are totally free. Domestic consumers, on the other hand, see their share of the market shrink from MK12.0 billion when soybean exports are ban to MK8.7 billion when exports are completely free. Under an export ban the dead-weight-loss to the economy reaches MK3.36 billion, but declines steadily towards zero when exports are free. Dead-weight-losses from export bans and licensing are detrimental to soybean producers and consumers and to the development of the country.

Traders who get export licenses collect unearned profits when exports are relaxed but after a certain point those rents start diminishing as competition increases from more exporters entering the market. Rents disappear when exports become completely free. Unearned profits by exporters reach a maximum when export licenses are granted for only about half of their potential. Export

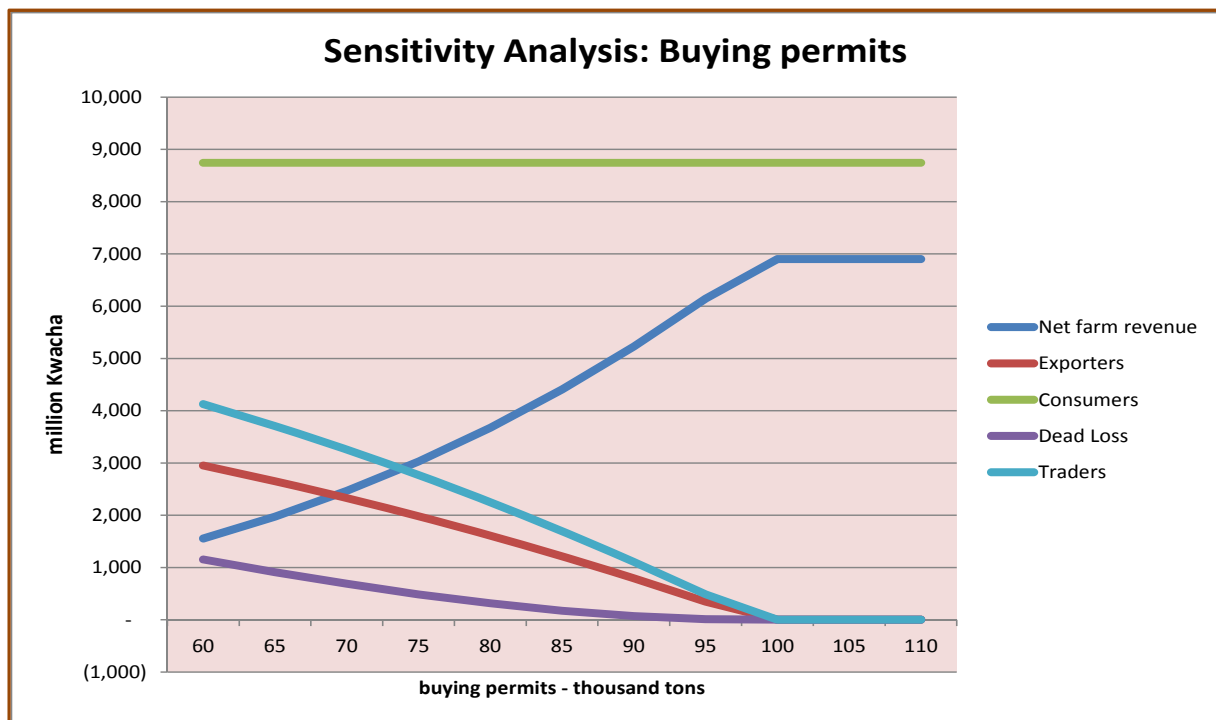
licenses benefit a few well-placed operators at the expense of Malawian soybean farmers. Export licensing thus opens opportunities for potential corruption of government officials.

Sensitivity Analysis of Buying Permits

Similar sensitivity simulations can be generated to test the impact of the number and volume of soybeans buying permits issued by the Ministry of Agriculture. When very few buying permits are issued, the lack of competition creates an excess supply situation and farmers are forced to sell at highly depressed prices.

If for example buying permits for only 70,000 tons are granted, the expected farm price will be MK114 per kilogram. However, if exports were freely allowed, exporters would be able to sell outside the country at MK164/kg, for a net profit of MK50 /kg, and domestic traders could sell to feed mills at MK211 /kg for a MK99/kg profit. These extraordinary profits are possible by the lack of competition among buyers due to restrictions in buying permits, while the export window is fully opened. Dead-weight-loss from the effect of buying-permits shortage is 689 million Kwachas, equivalent to the net loss suffered by higher cost-farmers who were unable to recover the production costs at the depressed 112 Kwachas price. As the Ministry of Agriculture grants more and more buying permits, those extraordinary profits will tend to disappear as competition among buyers will increase farm level prices and farmers’ income will increase steadily up to the point where the buying permits exceed the available supply of soybeans (Figure 22).

Figure 22: Changes in Buying Permits



We can then conclude that buying permits limit competition among buyers in rural areas and depress prices offered to farmers for soybeans. Buying permits generate extra-ordinary profits for licensed buyers and exporters at the expense of farmers’ income. Buying permits open up potential opportunities for corruption among government officials. Moreover, roadblocks require buying permits to allow the movement of agricultural products, thus negating the benefits of interregional

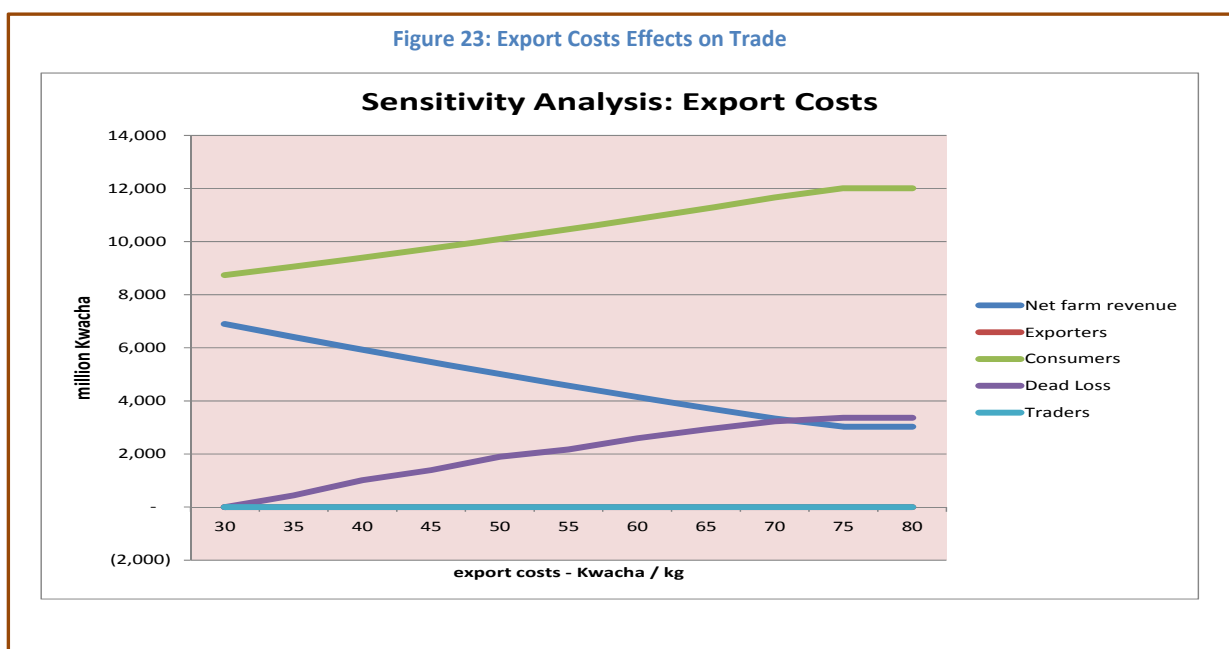
trade. Buying permits turn normal buying and selling activities into unlawful transactions and subject farmers and unlicensed traders to arbitrary confiscation of goods, fines and even detention.

Sensitivity Analysis of Export Costs

High transport and transaction costs remain the principal impediment for Malawi soybeans from reaching potential export markets in South Africa, Zimbabwe and Zambia. Much of those high export costs occur because Malawi being landlocked is limited to a few paved highways to evacuate its products. In order to transit through Mozambique and Zimbabwe truckers are subject to many custom documentation requirements, payments of fees and insurance, and sometimes informal payments to customs and highway officials. Foreign exports costs are beyond the influence of Malawian authorities. However, many exports costs are within the mandate of local government entities. The Ministry of Industry and Trade is currently reviewing the trade regulatory regime with a view to simplifying procedures and facilitating non-traditional agricultural exports in small volumes to neighboring countries.

A separate companion report details step-by-step procedures for exporting soybeans from Malawi, and the corresponding documentation that accompanies each step. Under ideal circumstances export procedures for one truckload of soybeans would require about eight weeks and cost MK37,000. The simplified export procedure for cross-border trade being developed by the Ministry of Industry and Trade already has removed one of the main obstacles, the need for a CD1 currency declaration form exports valued at under US\$1,000 dollars. There still remains however, the cost and hassle of finding a certified customs broker with online access to MRA to complete the export declaration form (Form 12). The cost is only MK20,000 (about US\$60) -- MK5,000 for MRA and MK15,000 for the certified customs agent. However, for a small shipment of say 2 tons of soybeans worth about US\$800, the cost of US\$60 to complete Form 12 is excessive. Form 12 is purely for statistical purposes since there are no taxes or tariff levied on exports, a purpose that could be accomplished with a simpler form in plain English to be completed by the exporters themselves.

Farmers bear the brunt of the impact of export costs, as illustrated in the accompanying chart (figure 23). As export costs increase, net farm income earned by soybean farmers decreases from MK6.9



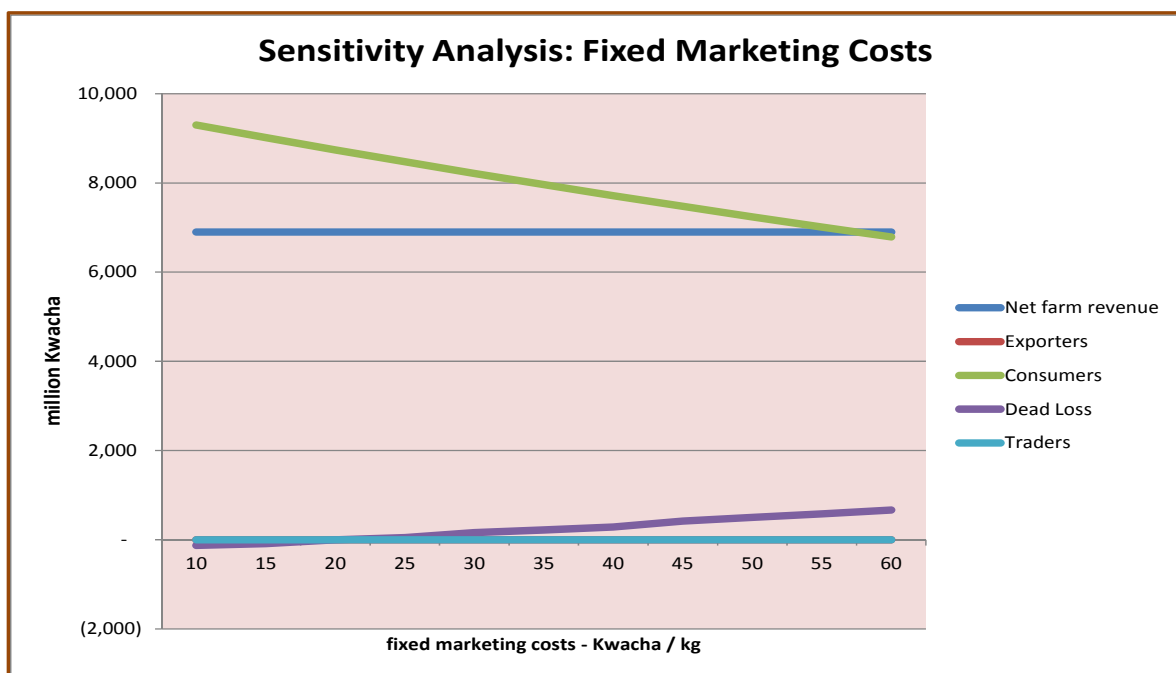
billion when export costs are MK30 /kg to only MK3.3 billion when export costs increase to MK70 /kg. Moreover, dead-weight-loss to the national economy increases steadily and reaches MK3.4 billion at Mk70 /kg, equivalent to the dead-weight-loss of an export ban decree. Domestic consumers, on the other hand, benefit from increased export costs as that leaves more soybeans for domestic consumption and lower prices.

The general lesson is that as export costs increase, soybean exports are reduced, and prices for farmers are lower. Export documentation procedures and expenses can be reduced by the appropriate Government agencies. High long distance transport and transaction costs are mainly the result of wasted time waiting to cross the different borders. Sixty-dollars fee for entering online the export declaration form (Form 12) is deemed to be excessive and serves no purpose beyond statistical recording.

Sensitivity Analysis of Marketing Costs

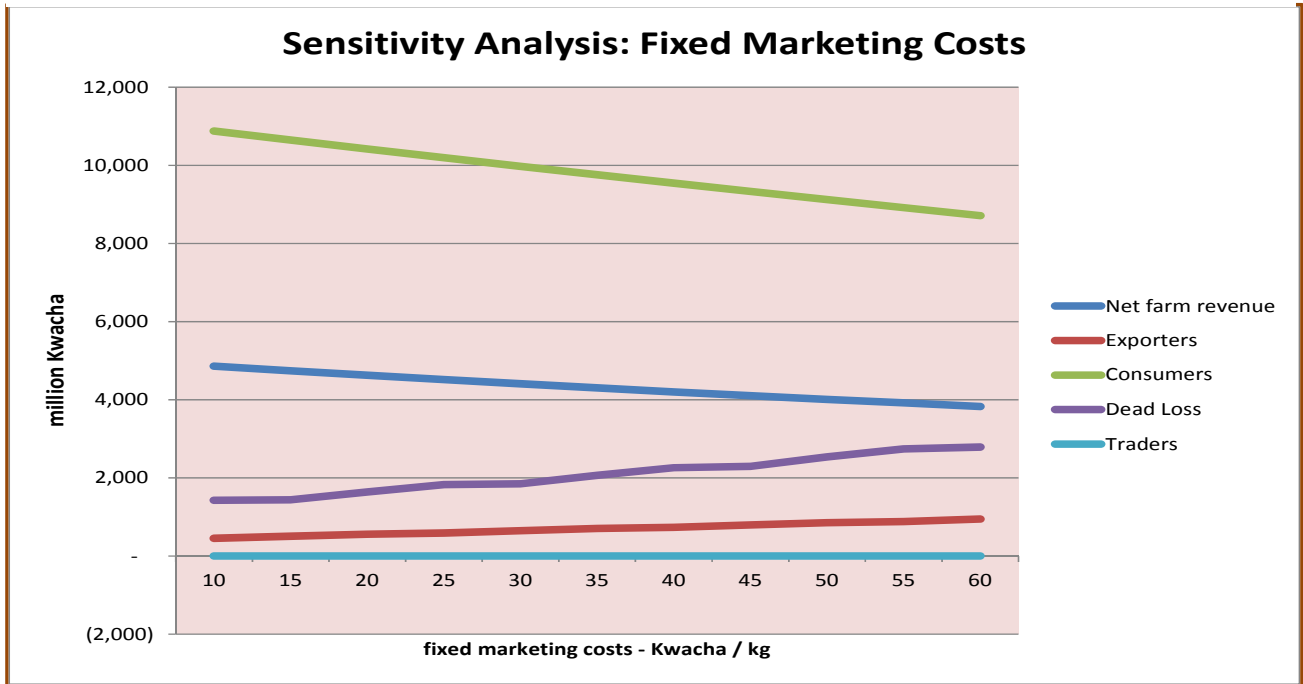
The impact on farmers and other market stakeholders from changes in fixed marketing charges is highly dependent on whether exports are freely allowed or are restricted. The chart on the right (Figure 24) depicts outcomes when exports are completely free and figure 25 (next page) illustrates outcomes when only half free (fifty percent of potential exports allowed). When exports are free the

Figure 24: Fixed Marketing Costs in an Open Export Situation



price received by farmers is given by the export market and the impact from changing domestic marketing costs is borne by local consumers. When exports are restricted, however, farmers' net revenue is much lower as a result of export restrictions, but also decline in response to increased marketing charges. Exporters' unearned profits increase as a result of increasing marketing charges, as farm prices are pushed down. Dead-weight-losses increase rapidly as marketing charges are raised.

Figure 25: Fixed Marketing Costs in a Partially Open Export Environment



MINIMUM PRICES FOR SOYBEANS

Just before the harvest season every year the Ministry of Agriculture and Food Security releases a circular specifying minimum farm gate prices for about twenty different products, including soybeans. The minimum farm gate price announced by the Ministry for the 2013 season was MK1.60 per kilogram. There is however no implementation or enforcement mechanism for these minimum prices. In effect the announced minimum prices are merely suggestive of what the Ministry would like to see. Government agencies do not purchase soybeans at that price except in occasional showcase situations such as a one-time Presidential Initiative buying 240 tons at MK170 /kg in a particular locality. The principal public entity with a mandate to stabilize agricultural prices, Admarc (Agricultural Development and Marketing Corporation) does not buy soybeans, focusing its efforts and resources almost exclusively in maize.

The minimum farm gate price for soybeans is derived by the Ministry of Agricultural based on costs of production. No farm survey of costs of production of soybeans is done for this purpose. Instead, for the 2012-13 season the Ministry uses a synthetic budget approach with standard inputs like 204 work days at MK400 per day and 20 kg of seed at MK160 /kg per hectare per season. Total input costs add up to MK103,600 per hectare. Expected yield is 974 kg per hectare. To obtain a 50 percent return on the investment of MK103,600 the price should be MK160 per kilogram.

A single farm price throughout the country and for the entire season does not take into account regional differences, seasonal differences, or quality differentials. Farmers near consumption center normally get higher prices than farmers in remote inaccessible regions. Storage costs increase prices over time. Finance costs at 4 percent per month imply much lower prices at harvest time than later in the season. The announced minimum farm gate price does not take into consideration any of these price determinant factors, and creates implementation difficulties. It would be easier to implement if the price were based for delivery in Lilongwe or Blantyre.

Because there are doubts regarding the enforcement of minimum farm prices, feed mills and traders report hesitation about buying directly from farmers at market prices, and instead they prefer to purchase from commercial traders who bring soybeans to their premises. One consequence of minimum prices is to create uncertainty among market operators who bought produce at market prices. Minimum prices distorts normal buying and selling activity, even though it is only a recommended price based on an estimate of average of cost of production.

The soybean marketing spreadsheet model developed in this report does not attempt to simulate the impact of minimum farm gate prices, given the lack of implementation and enforcement, and statement by the Ministry that these prices are only issued as recommended guidance for market operators. Moreover, in the unlikely event that the 2013 minimum farm price soybeans were in fact enforced, export options would likely disappear; domestic demand would be severely reduced while production supply would increase thus creating a potential excess supply in the market that the Government would be obligated to address.

REPRESSION OF INFORMAL TRADE

Rural traders in Malawi, as in other developing countries, have an image problem with the general public but especially with policy makers, who find it easy to turn them into convenient scapegoats for production and marketing problems. You can blame “unscrupulous traders” for low prices as well as high prices, for volatile prices as well as fixing prices, for food shortages and speculative stocks. Governments often want to exert control over the flow of food and farm products between regions and to regulate prices at which transactions take place. These goals are thwarted by the activities of traders buying, moving, and selling these products. Distrust of the operation of free markets is a recurrent theme and provides the rationale for Governments to impose registration and licensing requirements over merchants engaged in buying and selling farm products. Most developing country governments, including Malawi, must also contend with a large number of “informal trader” operators that fail to register and abide by the official regulations.

Based on discussions with farmers and market stakeholders it is clear that unlicensed traders provide valuable service to smallholder farmers buying soybeans in rural areas often at higher prices than licensed traders. Informal traders offer better services such a purchasing produce in villages or at convenient roadside buying points. One important benefit that unlicensed informal traders bring to farmers is that increased market competition raises prices paid to all soybean farmers. Moreover, as we have seen in previous model simulations, competition from informal traders reduce excessive unearned profits that registered traders and exporters can derive by virtue of their access to formal permits and licenses. Discouraging competition from traders contributes to lowering farm prices and increasing poverty among smallholders.

As harvest time approaches, the Government begins a campaign of repression of informal trade in rural areas. A Media Statement in a full page newspaper advertising on May 1st, 2013 issued by the national Government warns citizens about *“unlicensed traders buying farm produce directly from farmers ... with intention to hoard it or export it illegally ... these unscrupulous traders ...are ... cheating farmers to sell their produce to them at low prices ... these traders have not been licensed to buy such produce directly from Malawian farmers ... implore them to stop forth with this unlawful conduct, and ... anyone found braking these laws will be liable to prosecution by law ... Government appeals to all Malawians ... to report without hesitation to their local leaders or any nearby police any trader plying their scales in rural areas if they suspect that they have not been properly licensed to do such business.”* The Statement also notes that *“Malawi is a Free Market Economy, however doing business is encouraged to follow due lawful procedures ... traders wishing to continue with the business of buying and selling farm produce are therefore asked to apply for such necessary legal licenses.”*

Informal trade also takes place across international borders between Malawi and its neighbors. Small scale cross-border exports of soybeans to neighbor countries all along and porous borders are unrecorded in official trade statistics but are an economic reality despite effort to suppress them. By increasing competition among buyers these informal exporters push soybean prices up, thus increasing smallholders’ income and alleviating rural poverty. Informal exports also contribute foreign exchange earnings to the economy even though those earnings are not recorded in official banking channels. Informal cross-border imports are probably more prevalent than exports because imports are subject to tariffs and value-added tax while exports are normally exempt. Often the

same traders engaged in informal cross-border exports also operate cross-border import counter-flows, using the foreign exchange proceeds from exports to pay for cross-border imports.

Export trade regulations and documentation requirements are designed to favor large scale well-established operators and to discourage entry of new entrepreneurs into the export business. The cost and hassle of formal exporting procedures become prohibitively expensive for small scale exports. Widespread occurrence of informal cross-border trade is in great part the result of cumbersome export regulations that discourage small operators from using licit channels. The Ministry of Industry and Trade is gradually becoming sensitive to this issue and is cooperating with other country members of COMESA to facilitate cross border trade by small operators using a Simplified Trade Regime.

RECENT DEVELOPMENTS

The national government in Malawi has taken major strides towards encouraging non-traditional exports as part of its new economic development strategy. In June 2013 for example, it issued a new shorter list of products for which export licenses, reducing the number from 25 previously to only ten in the new list. Soybeans and other legumes are conspicuously left out from this new list of goods that require export license.

Another major breakthrough was the decision to exempt small value exports from having to submit the Currency Declaration form CD1. Minor exports under US\$1,000 (Parliament might raise threshold to US\$5,000) are not required now to present a CD1 bank form to ensure repatriation of foreign currency proceeds. Exporters are now allowed to retain 80 percent of their foreign exchange earnings for their own future use, but the remaining 20 percent must be surrendered at the current official rate.

Finally, under the Trade Across Border Initiative (TABS) the Ministry of Industry and Trade strives to develop simplified cross border trade (export) procedures. One of the potential issues is to reduce the fee and hassles required to complete the export declaration form (Form 12) since for exports it is used solely for statistical purposes.

CONCLUSIONS

The main conclusion that emerges from the above analysis of the soybeans market in Malawi is that trade restrictions such as export bans and export licenses are by far the most detrimental government trade restrictions for the potential development of soybeans production and marketing. An export ban costs the Malawian economy MK3,364 million in dead-weight-loss, and soybeans farmers' net revenue from soybeans drops from MK6,898 million to MK3,030 million, a 56 percent loss. Preventing the recurrence of export bans and export licensing in coming seasons would greatly improve prospects for raising production and exports and increasing net farm incomes of soybean farmers.

The removal of soybeans and other legumes from the list of goods that require export licensing is a major step forward. Cross-border traders need to be made aware of this new regulation.

Providing advance notice of new Ministry of Industry and Trade directives or circulars affecting exports would open opportunities for farmers and other stakeholders affected by the new regulations to voice their points of view.

Ministry of Agriculture buying permits and trader licensing requirements convey undue advantage and generate unearned profits to the permit holders at the expense to farmers.

A major contributor to seasonal price volatility can be attributed to the effect of arbitrary and unpredictable Government interventions in the market such as export bans and restrictions on export licenses and buying permits.

Lack of reliable soybeans production data generates fear among poultry industry about potential shortages and moves them to demand export bans as a precautionary measure. A system to generate production estimates before harvest is badly needed. The poultry industry and other market participants and decision makers also needs more reliable information on export and import flows on contemporaneous basis. It is nowadays feasible to generate statistically robust estimates of area planted and yields in the main soybean production areas several weeks prior to harvest, using inexpensive geo-reference crop area survey methods. Such estimates will help remove the uncertainty currently motivating critical decision making by trade and agricultural authorities.

PHOTO GALLERY



Unlicensed trader in Mchinji district, buying and selling on a busy Saturday morning in July 2013



Price list of products being bought by unlicensed trader



Bicycles provide the main means for transport from farms to buying points along major roads





Licensed buying agencies don't do business on Saturdays and Sundays



ANNEX A: MALAWI SOYBEAN MARKET MODELING

ANNEX B: MAPPING EXPORT PROCEDURES

Exporting Soya from Malawi: A Mapping and User's Guide

August 15, 2013



(Lizulu Market: on the left, Malawi; on the right, Mozambique)

Overview

This study aims to map the process of exporting soya and identify and quantify the non-tariff barriers (NTBs) that arise in the export process. While soya has been identified by Malawi's *National Export Strategy* as a priority crop for export, no formal mapping has been done of the export process for soya. As a result, this study formalizes the steps, documents, and office visits required to export soya as well as the associated time and cost requirements.

Based on desk review and interviews with producers, exporters, and government officials,¹ the administrative requirements of exporting soya alone take **8 weeks** and **47,500 Malawi Kwacha** (MWK); these figures do not take into account internal transport time and costs or the costs and time delays incurred after the export has crossed out of Malawi into a neighboring country.² In addition to these cost and time requirements, exporting legumes requires a total of 17 unique official documents, 15 separate office visits, and interactions with eight different government ministries.

With this mapping of the export process in place, policy makers can identify the most disruptive NTBs to exporting soya and move to lower or remove these barriers and thereby boost soya exports and earnings for Malawi's agricultural sector. At the same time, prospective exporters can use the information presented in this study as a roadmap for how to legally export soya out of Malawi.

Mapping

This study uses information gathered from official document review and in-person interviews with government officials, soya producers, and soya exporters to map the official costs and time requirements to legally export soya out of Malawi. All costs are reported in MWK and time is reported in calendar days. When differences in cost and time requirements reported by interviewees arise, the median value is used.

The process to export soya requires the following seven steps:

1. Acquire an Agricultural Permit
2. Acquire an Export Permit
3. Complete the Currency Declaration (CD1) Form
4. Get the Phyto-sanitary Certificate

¹ See annex for complete list of parties interviewed.

² This study assumes that the exporting entity has already established itself as a legal company; based on the World Bank's *Doing Business* (2013), this requires an additional 39 days and 96,400 MWK.

5. Get the SADC Certificate of Origin
6. Get the Weighbridge Certificate
7. Get the Customs and Excise Declaration Form (Form 12)

As indicated above, completing these steps fulfills the administrative requirements of the Government of Malawi to procure the soya and prepare it for export; these steps do not include domestic transport, international transport, or administrative requirements imposed by the importing country.

Step 1: Acquire an Agricultural Permit

Before a prospective exporter can purchase soya from the farmer, she is required by law (Agricultural General Purposes Act and Smallholder Marketing Regulation Act) to apply to the Ministry of Agriculture and Food Security (MoAFS) for an Agricultural Permit (also known as a Buying License). Authorities do enforce the Agricultural Permit requirement; if an exporter does not have a valid Permit, the entire consignment can be confiscated. Threats to enforce this requirement appeared in the press as recently as May 1, 2013.

Required Paperwork. In order to apply for the Agricultural Permit, the applicant needs the following four documents:

- Business license (must state that the exporter operates in agriculture)
- Cover letter on company letterhead
- Application for license to buy smallholder agricultural produce
- Payment receipt (link to images of each of these)

Time and Cost: The process takes 10 days and costs 10,000 MWK per commodity.

The Process. The application process requires the following three procedures/office visits:

1. Submit Business License, cover letter, and application to MoAFS in Lilongwe.
2. If application is approved, return one week later to MoAFS to pay for license.
3. Three days after that, return to MoAFS to pick up license.

Validity: The Agricultural Permit is valid from the date of approval until March 31 of the following year, but not for longer than one year as applications are accepted only after March 31 of the current year.

Step 2: Acquire an Export Permit

Up until June 2013, prospective exporters of soya were required by law (Control of Goods Act) to have a valid Export Permit issued by the Ministry of Industry and Trade (MoIT); exports without a valid Export Permit were subject to detainment at the border and possible confiscation. In June 2013, the Minister of Industry and Trade, Sosten Gwengwe, issued a press release removing soya from the list of goods requiring an export permit. Shortly thereafter, the MRA issued a Circular (TD Circular No 6/2013) to its border officers reinforcing the press release (link to circular). As of the writing of this report, however, it was not possible to confirm that the Control of Goods Act had been amended to reflect this press release. Furthermore, interviews with customs clearing agents and banking authorities indicate that the Export Permit is still required in order to receive other official documents legally necessary for export. As such, this study works on the premise that the Export Permit is still a requirement in practice.

Required Paperwork. In order to apply for the Export Permit, the applicant needs the following three documents:

- Agricultural Permit
- Cover letter on company letterhead
- Application for license to export

Time and Cost: The process takes 28 days and has no official cost.

The Process. The application process requires the following three procedures/office visits:

1. Submit Agricultural Permit, cover letter, and application to MoAFS in Lilongwe.
2. If MoAFS approves application, two weeks later MoAFS sends the application to MoIT.
3. If MoIT approves application, go to MoIT in Lilongwe to pick up license.

Validity: The Export Permit is valid for three months from the date of issue.

Step 3: Complete the Currency Declaration (CD1) Form

The Currency Declaration Form (Form CD1) is legally required foreign exchange/currency control document (Exchange Control Act) that must be submitted by the exporter's commercial bank on behalf of the exporter to the Reserve Bank of Malawi (RBM) for any export valued at more than 1000 USD. Parliament is currently debating raising this threshold to 5000 USD; at the time of writing the report, however, that change had not yet been put into effect.

Required Paperwork. In order to complete the Currency Declaration Form, the applicant needs the following three documents:

- Application
- Commercial Invoice
- Export Permit

Time and Cost: The process takes 7 days and costs 9500 MWK.

The Process. The process to complete the Currency Declaration Form requires the following three procedures/office visits:

1. Go to commercial bank to pick up Currency Declaration Form application (each application has a unique serial number; as a result, applications cannot be emailed or duplicated).
2. Return one day later with completed Currency Declaration Form, Commercial Invoice, and Export Permit.
3. Six days later, return to commercial bank to pick up Currency Declaration Form.

Validity: The Currency Declaration Form is valid for six months from the date of issue and three months from the date of export.

Step 4: Get the Phyto-sanitary Certificate

The Phyto-sanitary certificate is a document issued by Malawi's Plant Protection Services (PPS) stating that the consignment is free from the quarantine pests specified by the importing contracting party. As such, it is not a legal requirement to export but is required in order to apply for the Customs and Excise Declaration Form in Step 7.

Required Paperwork. No paperwork is required in order to apply for the Phyto-sanitary Certificate.

Time and Cost: The process takes 7 days and costs 2000 MWK plus any associated chemical costs.

The Process. The process to receive the Phyto-sanitary Certificate requires the following two procedures/office visits:

1. Contact PPS to come to storage facility to fumigate the consignment.
2. One week later, contact PPS to return to de-gas the consignment and issue the Phyto-sanitary Certificate.

Validity: It is unclear for how long the Phyto-sanitary Certificate is valid.

Step 5: Get the SADC Certificate of Origin

The SADC Certificate of Origin is a document issued by the Chamber of Commerce (CoC) stating that the product being exported was indeed produced in a SADC country. As with the Phyto-sanitary Certificate, the SADC Certificate of Origin is not legally required to export but necessary in order to apply for the Customs and Excise Declaration Form in Step 7.

Required Paperwork. In order to apply for the SADC Certificate of Origin, the applicant needs the following three documents, two of which were required for previous steps:

- Application
- Commercial Invoice (again)
- Export Permit (again)

Time and Cost: The process takes 1 day and costs 5000 MWK.

The Process. The process to apply for the SADC Certificate of Origin requires the following one procedure/office visit:

1. Take Commercial Invoice and Export Permit to the CoC, complete application form, pay application fee, and receive stamped SADC Certificate of Origin.

Validity: It is unclear for how long the SADC Certificate of Origin is valid.

Step 6: Get the Weighbridge Certificate

The Weighbridge Certificate is a document issued by the National Food Reserve Agency (NFRA) certifying the weight of the consignment.

Required Paperwork. In order to receive the Weighbridge Certificate, the applicant needs the following two documents:

- Packing List
- Load Manifest

Time and Cost: The process takes 1 day and costs 1000 MWK.

The Process. The process to receive the Weighbridge Certificate requires the following one procedure/office visit:

1. Take truck to NFRA Weighbridge to be weighed twice, once with a load and then again after unloading, and receive Weighbridge Certificate.

Validity: It is unclear for how long the Weighbridge Certificate is valid.

Step 7: Get the Customs and Excise Declaration Form (Form 12)

The Customs and Excise Declaration Form (also known as Form 12) is a legally required document issued by the MRA. While the law or act governing the Customs and Excise Declaration Form is yet to be determined, no export can leave Malawi without the Form.

Required Paperwork. In order to complete the Customs and Excise Declaration Form, the applicant needs the following five documents, two of which were required for previous steps in the export process:

- Agricultural Permit (again)
- Export Permit (again)
- Currency Declaration Form
- Phyto-sanitary Certificate
- SADC Certificate of Origin

Time and Cost: The process takes two days and costs 20,000 MWK; of this, 5000 MWK is the official fee paid directly to the MRA and 15,000 MWK is the service charge paid to the authorized customs clearing agent.³

The Process. The process to receive the Customs and Excise Declaration Form requires the following two procedures/office visits:

1. Take the five required documents listed above to an authorized customs clearing agent.
2. Two days later, receive the Customs and Excise Declaration Form.

Validity: It is unclear for how long the Customs and Excise Declaration Form is valid.

Summary of Export Process

In order to get a consignment of soya from the farm gate to the Malawi border for export, an exporter needs to pay 47,500 MWK. This process takes 56 days – close to 2 months – and requires 15 separate office visits, 17 unique documents, and interactions with eight different governmental and commercial institutions.

Step	Cost (MWK)	Time (Days)	Procedures / Office Visits	Documents	Institutions Involved
Agricultural Permit	10,000	10	3	4	MoAFS
Export Permit	0	28	3	3	MoAFS, MoIT
Currency Declaration Form	9,500	7	3	3	bank, RBM
Phyto-sanitary Certificate	2,000	7	2	0	PPS
SADC Certificate of Origin	5,000	1	1	1	CoC
Weighbridge Certificate	1,000	1	1	2	NFRA
Customs Declaration	20,000	2	2	4	MRA
Total	47,500	56	15	17	8

These estimates do not include (a) domestic transport time or related costs (b) transport time and costs from the Malawi border to the final export destination or (c) non-tariff time delays and costs incurred between the Malawi border and the final export destination.

At first glance, the findings of this study appear to diverge from the World Bank’s *Doing Business* findings for Malawi’s “Trading Across Borders” indicator, which estimates that administrative

³ Customs clearing agent service charges ranged from 15,000 to 50,000 MWK; the agent must be authorized by the MRA in order to have access to the computerized system required to process the Customs and Declaration Form.

requirements to export take 23 calendar days and cost approximately 73,000 MWK.⁴ Slight differences in methodology, however, partially explain these variations. First, *Doing Business* reports time and cost requirements for one of the country's leading export products; most likely, these figures would be for tobacco, not soya. Second, when calculating costs, *Doing Business* assumes that the exporter will pay a professional for document preparation. This study has included only the official costs payable to the Government of Malawi and a customs clearing agent authorized by the MRA and assumed that the exporter would complete all of the required paperwork independently. A more comparable benchmark would be UNCTAD's *eRegulations* "Trading Across Borders" indicator, which maps out all of the officially required documents, time delays, and costs; up to now, however, this mapping has not been done for Malawi.⁵

⁴ World Bank (2013) reports a cost of 435 USD; for this data, which was collected in early 2012 when the MWK to USD exchange rate was 168, this corresponds to 73,080 MWK.

⁵ See <http://tanzania.eregulations.org/show-step.asp?l=en&mid=312&rid=193> for a comparable example in Tanzania.

References

Government of Malawi (2013) “Malawi National Export Strategy,” URL:
http://www.malawihighcommission.co.uk/Malawi_National_Export_Strategy_Main_Document.pdf

The World Bank (2013) “Doing Business 2013 Economy Profile: Malawi,” URL:
<http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/MWI.pdf>

Meetings and Consultations

Combine Cargo – Eddie Kaluwa, Managing Director

June 21, 2103 10h (phone)

Imani Development – Jonathan Said, Economist and Technical Assistant to MoIT

July 2, 2013 14h

Rab Processors – Bashir Sama, Commercial Manager

July 11, 2013 9h

NAS COMEX – Alex Chikapula

July 11, 2013 5h30

Civil Society Agriculture Network (CISANET) – Tamani, Nkhono-Mvula, National Director

July 16, 2013 9h

Grain Traders and Processors Association (GTPA) – Grace Mijiga, Vice Chairperson

July 16, 2013 13h

International Food Policy Research Institute (IFPRI) – Karl Pauw, Research Fellow

July 17, 2013 9h

Combine Cargo – Patrick Chapulumuka, Imports and Exports Controller

July 18, 2013 9h

Senwes – Mike Bester

July 23, 2013 9h

MoIT – Sara Nyman, Private Sector Economist

July 23, 2013 10h30

MoIT – Cyprian Kambili, Legal Specialist

July 23, 2013 11h30

Ministry of Justice – Fiona Kalemba

July 23, 2013 15h (phone)

MoIT – Christina Chatima, Director of Trade

July 23, 2013 17h

Malawi Confederation of Chambers of Commerce and Industry (MCCCI) – Hope Chavula

July 24, 2013 8h30

Bridge Shipping – Simon Cousins, General Manager

July 24, 2013 10h

Agrifeeds – Elvis Nserebo, General Manager, and Maxton Chilabade, Financial Controller

July 25, 2013 9h

Charles Stewart – Alex Stewart

July 25, 2013 10h30

Oils and Proteins – Zameer Karim, Managing Director

July 25, 2013 13h

Rab Processors – Kiran Josyabhatta, Managing Director

July 25, 15h

Road Transport Operators Association – Chrissie Flao, Acting Executive Director

July 26, 2013 9h

Combine Cargo – Eddie Kaluwa, Managing Director

July 26, 2013 11h

USAID – Martin Banda (presentation)

July 29, 2013 10h30

MoAFS DAES -- Pearson Soko, Assistant Chief Agribusiness Officer

July 30, 2013 10h

NASFAM and Farmers' Union (presentation)

August 1, 2013 9h

The World Bank – Efrem Chilima

August 6, 2013 9h