

Malawi's Poultry Value Chain Can Unlock Widespread Economic Benefits with Appropriate Policies and Investments

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Key Messages

- In Malawi, chicken meat consumption is rapidly increasing despite widespread poverty, because chicken meat is a preferred protein source.
- There is potential for even more growth in chicken meat consumption if affordability can be improved.
- Affordability can be improved by reducing the cost of feed, which is the single biggest contributor to production costs and linked to the high prices of maize and soybean cake, the main ingredients in poultry feed.
- Malawi is using the best genetics for broiler production, but high feed costs constrain profitability, productivity and overall output.
- Possible solutions include:
 - Removing value-added tax (VAT) on soybean cake to lower feed costs.
 - Create a stable maize market with reduced price fluctuations by promoting maize production under irrigation through a targeted AIP program and enable maize exports to motivate surplus maize production.
 - Facilitate formalization of chicken exports to unlock additional market in Mozambique.

Introduction

The long-term development blueprint for Malawi, Malawi 2063, emphasizes the need for increased productivity and commercialization in the agriculture sector, to transform Malawi into a wealthy and self-reliant industrialized upper-middle-income country. An analysis of the Malawian poultry value chain under the Policy and Investment Prioritization through Value Chain Analysis (PPVC)¹ project, found that the poultry industry has the potential to make a significant contribution to these goals. High feed costs, particularly due to elevated maize and soybean prices, are identified as the primary challenges.

PPVC is an approach that relies on market-driven techniques that integrate quantitative and qualitative indicators in the analysis of value chains to guide development and investment decisions. Some of the indicators used in the PPVC approach include market potential, agricultural transformation, competitiveness, social inclusiveness and resilience to climate change. This policy brief highlights the potential of the poultry value chain to expand and unlock widespread economic benefits due to its highly integrated nature. It also outlines the challenges to be surmounted and the reforms to be implemented to unlock this value chain's full potential.

Malawi's potential to expand demand and increase poultry production

One of the key findings of the study is that official projections severely overestimate Malawi's chicken production. Based on industry role-player information, day-old-chick production numbers, import estimates and industry ratios, it is estimated that Malawi produces around 83,000 tonnes of chicken meat annually. This means that the estimated consumption per person per year is 3.16kg and not between 9 and 11, as the official estimates suggest. This is also more consistent with consumption numbers reported in household survey data and more relatable to low-income levels. Over 70% of this production comes from broiler chickens, with indigenous and dual-purpose chickens making up the rest.

Poultry consumption is projected to increase by 27 thousand tonnes by 2030, above the current levels, if no reforms are implemented to improve the value chain, bringing the tally to 109.84 thousand tonnes of chicken meat. However, if the reforms proposed in this policy brief can be fully implemented, poultry consumption is projected to grow by 48 thousand tonnes to 129.91 thousand tonnes by 2030. This will increase per capita consumption beyond the current 3.16 kgs per annum to closer to 4 kgs and poultry trade in general.

Several factors are expected to drive this production growth. These factors include the following:

Malawi already uses the best-performing broiler breeds in the world. These breeds are already performing well in Malawi and can provide good returns from feed improvements.

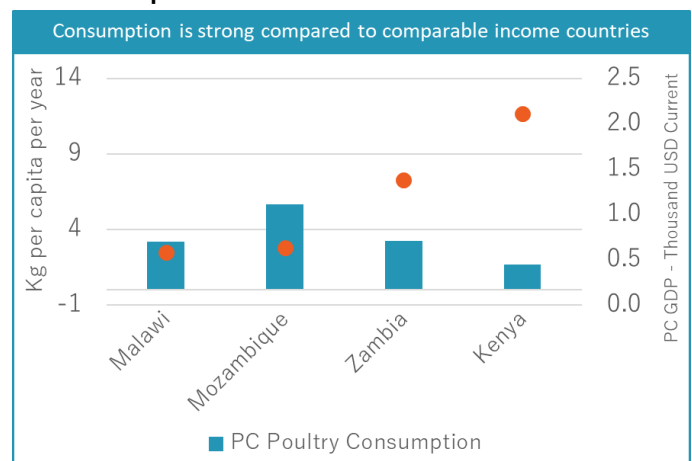
Chicken meat is a preferred protein source in

Malawi, and as a result, the demand for chicken is increasing rapidly.

Relative to other countries, *per capita chicken consumption in Malawi* is higher than in Kenya and on par with Zambia, despite Malawi's per capita GDP levels being half that of Zambia and a quarter of Kenya's (Figure 1). While chicken meat is preferred, weak purchasing power amongst Malawian consumers remains a constraint to faster growth.

Consumption growth can be further stimulated if the cost of chicken meat can be reduced through reduced feed costs.

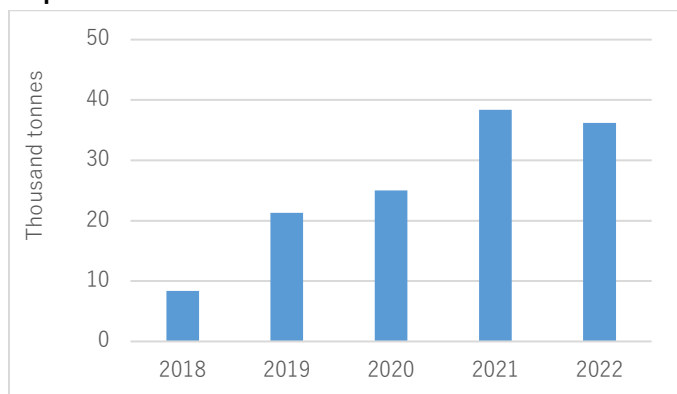
Figure 1: Poultry consumption in Malawi relative to other comparable countries



Source: PPVC Poultry Deep Dive Report

Export facilitation into Mozambique will expand the market for Malawi's poultry, dampen the effects of low purchasing power, and prevent a major price decline in the domestic market when production increases. Mozambique imports over 30 thousand tonnes of poultry every year, mostly from South Africa and South America through Maputo (Figure 2).

Figure 2: Trend of Mozambique poultry products imports between 2018 and 2022



Source: PPVC Poultry Deep Dive Report

Malawi has a transportation advantage relative to transporting imports from Maputo and Beira and can directly supply chicken into central and northern Mozambique.

Given the high level of integration between the Malawian poultry value chain and the soybeans, maize, and feed industry value chains, expanding the poultry value chain could have significant positive effects on these interconnected value chains.

Challenges preventing the poultry value chain from reaching its full potential

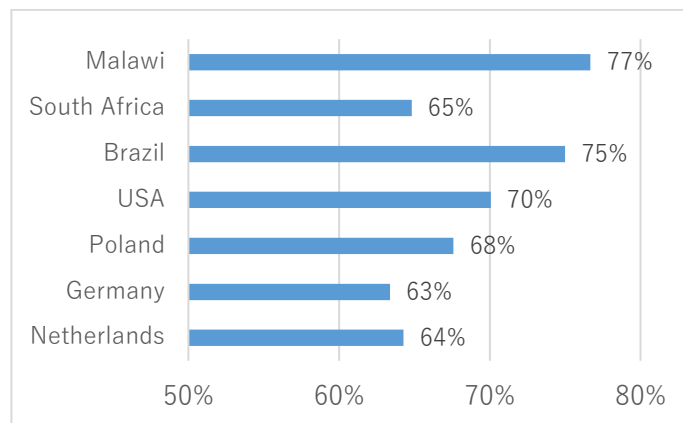
In Malawi, a consumer has to spend 3.51% of her per capita GDP to buy 10kg of chicken. In South Africa, this number is 0.24%, and in Kenya, it is 1.09%. *Weak domestic spending power* severely limits households' ability to buy more chicken.

Poultry feed prices in Malawi are extremely high and volatile due to the inherent volatility of maize and soybean prices, the two critical ingredients in poultry feed.

Recently, these high prices have been exacerbated by the high minimum farmgate prices imposed by the government on all the major crops during

harvest. Consequently, Malawi's share of feed in total production costs remains one of the highest in the world (Figure 3).

Figure 3: Share of feed costs in total production costs



Source: PPVC Poultry Deep Dive Report

High transaction costs on imported inputs and foreign exchange constraints also contribute to the high feed cost. These inputs include imported parent stock, veterinary products, and vitamin and mineral premixes for feed rations.

Procurement and distribution legislation rules enable greater inclusion but add costs to the value chain. These include regulations related to direct procurement and forced inclusion of vendors and aggregators in poultry markets.

Financing and cash flow challenges among smallholder producers limit their ability to expand production.

Inherent inefficiencies in administrative processes constrained formal exports. The large number of permits and official processes delay exports and increase exporters' costs.

Prioritised reforms to initiate growth

Our analysis indicates that focusing on feed reforms holds the greatest potential for stimulating

growth in the poultry value chain. This is due primarily to the significant portion of feed costs in total production costs and the overall impact of reducing prices and enhancing the affordability of poultry and poultry products. The following are the proposed reforms to reduce the cost of feed.

Consider removing the value-added tax (VAT) on soybean cake and imported veterinary products to improve the affordability of raw materials. This is likely to have a minimal effect on overall feed costs but is a positive step towards reducing them.

Expand maize production to consistently produce a surplus and supply markets at export parity prices. Smallholder maize yields need to increase from the current average of 1.9 metric tonnes (MT) per hectare to around 2.9 MT per hectare, which is achievable with better investments in extension services, improved seeds, and soil health.

Consistent surplus maize production will require open, predictable and transparent markets, which will facilitate efficient exports in surplus years and reduce price distortions.

Consider removing minimum farmgate prices to reduce the distortion caused by the imposition of minimum farmgate prices and enable feed producers to buy at market-based prices.

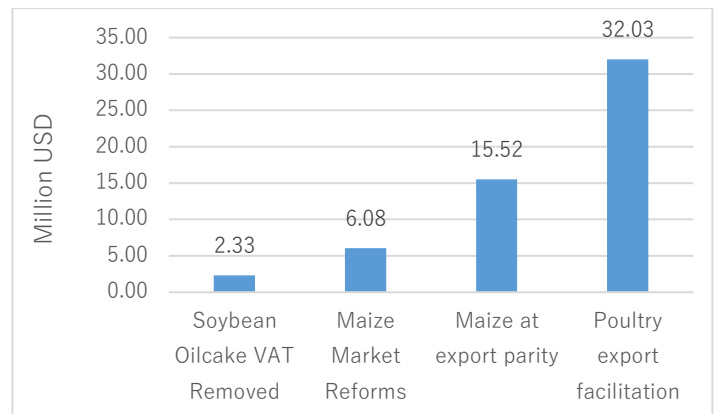
Consider expanding irrigated agriculture. Malawi still has considerable potential to expand irrigation and mitigate counter-seasonal volatility in maize prices. Irrigated maize production will reduce seasonal volatility in maize prices and smoothen maize supply throughout the year, benefiting feed producers and, importantly, Malawian maize consumers.

Improve export processes associated with poultry

and poultry products into Mozambique. This can be achieved through ‘one-stop shops’ for all permits and public-private partnerships (PPPs), which would widen the market for Malawian poultry and poultry products.

Implementation of the suggested reforms holds vast potential to improve margins across the value chain. However, the biggest impact is at the producer level due to the substantial contribution of feed in total costs.

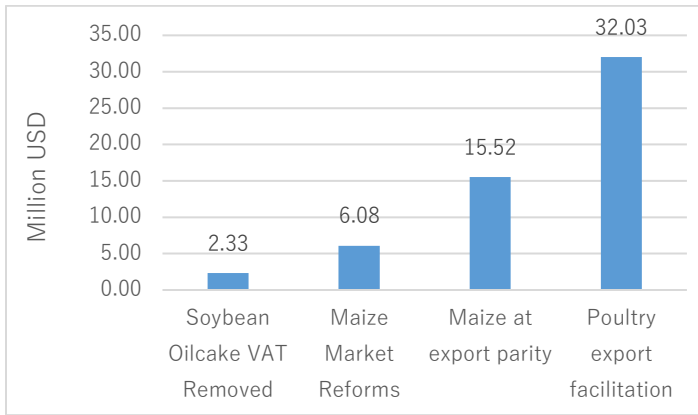
Figure 4: Potential additional value addition above the baseline by 2030 as a result of the suggested reforms



Source: PPVC Poultry Deep Dive Report

presents the potential impact of the reforms, introduced sequentially into the PPVC modelling framework. It shows the combined additional value above a baseline (business as usual) outcome per year by 2030 as a result of the reforms.

Figure 4: Potential additional value addition above the baseline by 2030 as a result of the suggested reforms

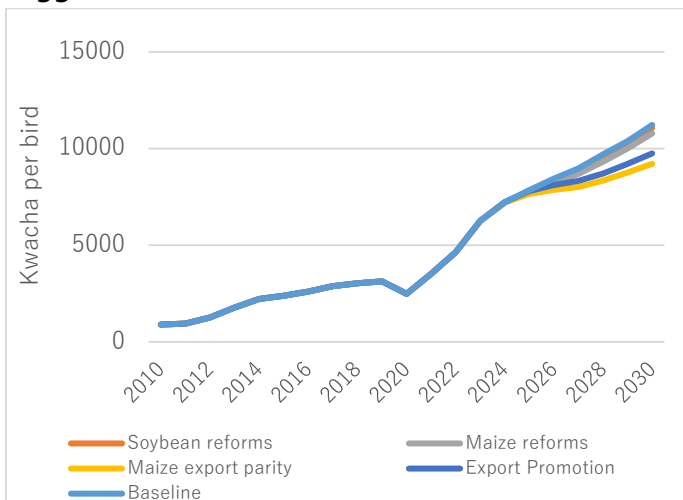


Source: PPVC Poultry Deep Dive Report

In the event that all four reforms are introduced, an additional 31.5 million USD of value can be added to GDP in the poultry value chain alone before accounting for further benefits in the broader value chain that emanate from increased production and processing of maize and soybeans. Further, the improved margins lead to higher volumes of production and processing in the poultry value chain, which also pushes prices down for consumers, resulting in a more affordable product that promotes dietary diversification and improved food security outcomes (Source: PPVC Poultry Deep Dive Report

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Figure 5: Simulated prices for poultry products under the baseline and with the introduction of the suggested reforms



Source: PPVC Poultry Deep Dive Report

According to Figure 5, while the promotion of exports results in a slightly higher price compared to just introducing the feed-related reforms, the price remains well below baseline outcomes. It provides improved margins to producers relative to merely relying on feed-related reforms. This enables increased scale, promoting additional GDP impact while still leaving consumers with a more

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affordable product than under the baseline. The additional GDP growth has the potential to promote employment, thereby increasing household income and further improving the affordability of products. Simulations suggest that if all four of these reforms are implemented successfully, and the induced benefit across the wider agricultural sector and broader economy are considered, almost 580 000 people could be lifted out of poverty.

Footnote

¹ Policy and investment prioritization through value chain analysis aim to assist governments with evidence-based analysis to adequately prioritise their policies and investments, determine which policies and public investments are most (cost) effective at driving market-led inclusive agricultural transformation, and involve public- and private-sector stakeholders. This policy brief is based on the PPVC deep dive analysis of the poultry (broiler) value chain in

Malawi. For more information on PPVC please visit

<https://ppvc.bfap.co.za/>

This Policy Brief is derived from an in-depth analysis of the poultry industry conducted by the Bureau for Food and Agricultural Policy (BFAP) and the MwAPATA Institute as part of the Policy and Investment Prioritization through Value Chain Analysis (PPVC) project. *For more details, please go to <https://ppvc.bfap.co.za/>*

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