CREATION OF SUSTAINABLE VALUE CHAINS IN MALAWI

Leveraging on Analytical Skills: Mark Mikwamba, CFA

Contents

ICAM

WHAT DOES THE MW2063 SAY?

Two of the three pillars speak directly to value chains

MALAWI 2063

Key Initiatives under these pillars

		Key Initiatives
Pillar 1	*Agriculture Productivity and Commercialization*	1 Increasing agricultural productivity; 2 Promoting agribusiness
Pillar 2	*Industrialization*	1 Diversification and Value addition of exports, leading to increased competitiveness; 2 Tourism; 3 Mining; 4 Power generation

Some enablers:

- Effective Governance Systems and Institutions
- Economic Infrastructure
- Environmental Sustainability

Key Sectors: Agriculture | Tourism | Mining | Energy

CURRENT STATE OF KEY VALUE CHAINS IN MALAWI

Underdeveloped value chains, limit competitiveness

Agriculture:
23% of GDP
80% of Exports
62% of Employment

Cultivation 90% rain-fed despite 40% irrigable land → **Harvesting** Labor Intensive → **Processing** 70% of exports are raw; lack of mechanized factories and electricity deficits hinder expansion → **Distribution** limited by infrastructure

Agri-value chain underdeveloped; Cultivation is manual, reliant on imported inputs.

Tourism
1.2% of GDP
5% of Exports
Access an issue

Sites → Logistics & Transport → Operators and Service

Mining:
1% of GDP

Exploring → **Mining** → **Processing** → **Distribution**

Reliable energy, quality transport infrastructure and a proper regulatory environment would unlock the sector

Energy:
40% power deficit
14% Electricity access

Generation → Transmission → Distribution

Installed Capacity : 442 MW; Available Capacity 385MW; Demand: 741MW

Technology

Infrastructure

Governance

Policy

WHAT SHOULD BE DONE TO IMPROVE VALUE CHAINS?

Levers for enhancing value chain linkages are dependent on rich data analysis

Technology and skill

Conducive regulation

Industry coordination, engagements and partnerships

Infrastructure as an enabler

Sustainable and competitive Value Chains

Environmental Social and Governance considerations

Analytics are essential to:

1. Understanding why value chains are underdeveloped and vulnerable to shocks
2. Improve competitiveness
3. Manage risks
4. Ensure sustainability

Research and rich data analysis will inform how to use any of these levers to enhance value chain linkages

LEVERAGING ON ANALYTICAL SKILLS

Using technology for real time data analysis brings market resilience

Data technologies can be used to inform and improve value chains.

Tourist behaviors

Climate change management

Yield improvement

Tourism patterns

Targeted marketing

Processing technologies

Distribution and pricing

Logistics

Real time market demand

Improved customer experience

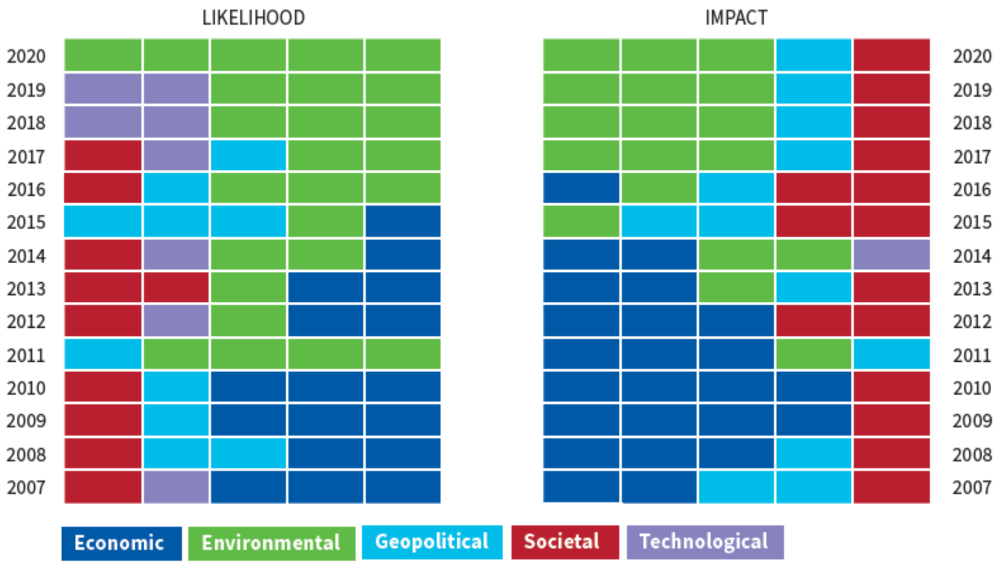
Use of apps, Big Data, Bots, to produce real time information

EMERGING RISKS

Sustainability metrics can not be ignored amid increased likelihood of ESG shocks

- In recent years, the likelihood and impact of environmental and social risks has increased.
- The increase in Anti Money Laundering fines further highlights the increase in governance risks.
- Magnitude of fines issued for detrimental behaviors underscore the impact e.g., BP settled the fine for **US$20.8bn (£15bn)** in 2016; Bank of America **US$16.65bn (£12bn)** fine paid by Bank of America in 2014.
- Therefore, traditional financial analysis presents an incomplete picture of a company and fails to consider all aspects which can affect a company's financial performance.
- Particularly amid increasing environmental shocks which can significantly upset the trajectory of a company or firm, despite good prior year financial performance and forecasts.
- This calls for a shift in traditional financial analysis to include sustainability metrics.

Top Global Risks - 2020



Source: World Economic Forum.[10]

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES

ESG reporting ensures sustainability and shifts businesses to Responsible Investing

Embedding **environmental, social and governance (ESG)** is critical for sustainability of organizations

Environmental

- Climate Change
- Energy usage
- Water and recycling
- Pollution.
- Deforestation
- Waste Management
- Resource depletion.

Social

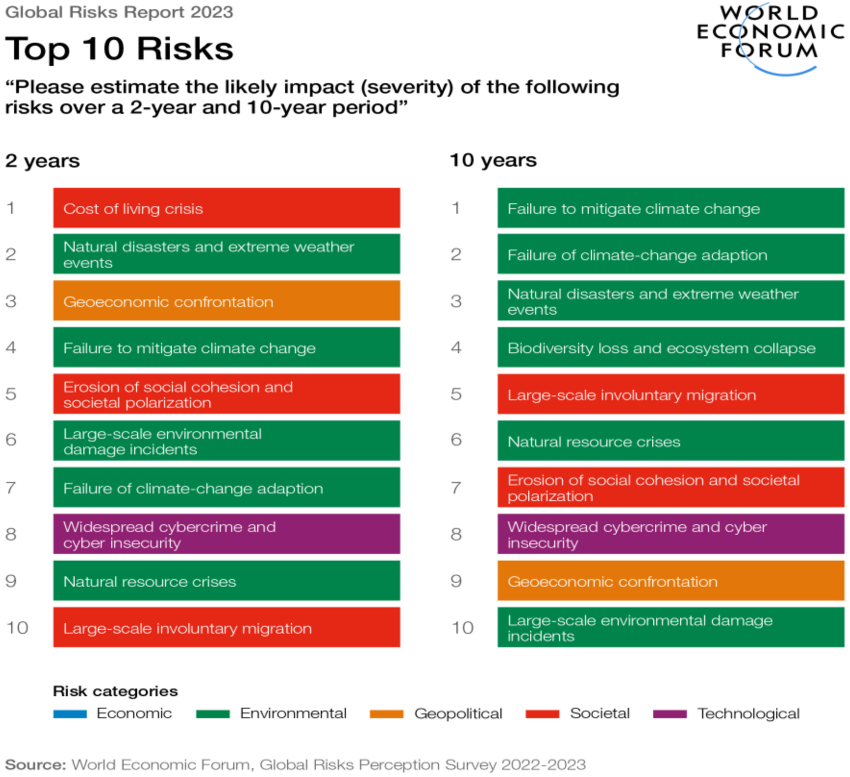
- Human rights
- Employee Relations
- Diversity Issues
- Human rights
- Modern slavery
- Child labour
- Customer Relations

Governance

- Bribery and corruption
- Executive pay
- Board diversity and structure
- Tax strategy
- Transparency

ESG REPORTING NOT ONLY REDUCES RISK BUT ENHANCES RETURNS

Responsible Investment reduces risks and enhances returns


Global Risks Report 2023

WORLD ECONOMIC FORUM

Top 10 Risks

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period”

	2 years		10 years
1	Cost of living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaption
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crises
7	Failure of climate-change adaption	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk categories: Economic, Environmental, Geopolitical, Societal, Technological

Source: World Economic Forum, Global Risks Perception Survey 2022-2023

Climate change risks occupy all the top 4 global risks over a 10-year horizon and therefore cannot be ignored

Financial materiality of integrating ESG

ESG integration in reports recognises that investing responsibly can reduce risk and enhance returns, as it considers additional risks and provides forward-looking insights into the investment process, which enhances value chains and sustainably improves competitiveness.

ESG integration may therefore lead to:

- **reduced cost and increased efficiency;**
- **reduced risk of fines and state intervention;**
- **reduced negative externalities; and**
- **improved ability to benefit from sustainability megatrends.**

ESG FACTORS CAN IMPACT A COMPANY’S BOTTOM LINE

SUSTAINABILITY AND CLIMATE CHANGE REPORTING MANDATORY

Integration of sustainability reporting into the broader financial reporting process

IFRS S1

Disclose information about sustainability-related risks and opportunities that would:

- Be useful to primary users of general-purpose financial reports,
- Including those that "could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term."

IFRS S2

IFRS S2, designed to be used with S1, sets out specific climate-related disclosures such as.

- Reporting of Scopes **greenhouse gas (GHG) emissions.**
- The amount and percentage of assets and business activities **vulnerable to both climate-related physical and transition risks and those aligned with climate-related opportunities.**
- The amount of capital expenditure, financing and investment deployed towards **climate-related risks and opportunities.**
- How climate-related considerations are factored into executive remuneration, and the percentage of executive pay linked to climate considerations.

KEY INVESTMENTS & POLICIES FOR COMPETITIVE VALUE CHAINS

Transport infrastructure

- Poor Road network: e.g. Salima and Mangochi roads key to tourism
- 90% of trade cargo is transported via road but only 26% of the roads are paved.
- Narrow M1
- Airport infrastructure
- Limited flight routes and airports locally
- Minimal direct connectivity (International flights)

Reliable energy

- Increase installed capacity
- Increase access
- Increase generation; IPP structure

Agriculture

- Mechanization of farming methods
- Climate change resilience
- Processing: Factories Hubs
- Local and international markets

Collaboration, coordination and Implementation

- **Trade policies**
- **Investment policies**
- **Information policies**
- **Fiscal and monetary policies**

Use trust and influence policy direction and implementation

- Lobbying: Policy Changes
- Help channel capital towards key investment needs
- Champion Sustainability Reporting
- Influence Policy Direction And Implementation

THANK YOU