

Investing in the Malawi tea industry

Financing tea estates for purposes as irrigation equipment, factory refurbishment, replanting, extension planting and/or other capex investments

The Malawi 2020 Tea Revitalization Programme aims at improving the competitiveness of the Malawian Tea sector where workers earn a living wage and smallholders are thriving. The programme is supported by companies all along the tea value chain. All producers are part of the programme through the Tea Association of Malawi (TAML). The main buyers of Malawi tea are involved; tea traders, packers as well as retailers. Also involved are the main certification schemes, civil society actors and trade unions in the sector. The partnership is endorsed by the Malawi government.

During a scoping trip in February, IDH discussed the Malawi Tea 2020 proposition to the estates and in turn requested business plans that demonstrate the interventions and investments required for the estate to become a more profitable enterprise, working towards living wages.

Investments such as irrigation equipment, factory refurbishment, replanting, extension planting and/or other capex investments lead to a more profitable estate and thus an estate that is able to pay living wages/incomes to its workers.

With the received business plans from the scoping trip, IDH will develop a pitch book that includes a pipeline of development deals. With this book IDH will go on a roadshow to Malawi with potential investors.

IDH's credit enhancement

Investors keen to invest in the Malawi tea industry can apply for IDH's credit enhancement which has the intention to decrease the credit risk of the investors by offering unpriced guarantees.

The credit enhancements will be available to investors who wish to provide finance for estates that align

with the Malawi Tea 2020 roadmap (full roadmap on page 2) and fund the investments mentioned above.

The credit enhancement will only be available to investors on deals lending to tea estate companies in Malawi who are part of TAML, and provided that the conditions are acceptable to IDH (for example longer tenors, acceptable interest rates and E&S monitoring).

The investors will also have to include the programme KPIs (that will monitor the estates progress toward paying a living wage) in their loan documentation and agree to monitor these in order to access the enhancement.

The credit enhancement will only be available for new financing of activities that are aligned with the programme goal of achieving a living wage.

About Malawi Tea 2020

The impetus for the Malawi Tea programme came from discussions following multi-stakeholder research on wages in the tea industry, which had found low wages and a range of

barriers to change in key tea-growing countries.

The research was initiated following NGO campaigns highlighting poverty wages in agricultural supply chains, including tea, through the 2000s.



Malawi is one of the world's poorest countries. Some 62% of Malawians live below the World Bank's extreme poverty line, and there is a lack of access to adequate nutrition for about 50% of all children.

The tea industry is the largest formal sector employer in Malawi, employing 50,000 workers and providing livelihoods to more than 14,000 smallholders, with other major employers being sugar and tobacco where wages are also very low.

In the countries studied, tea pluckers' wages were found to be the same

Investors keen to invest in the Malawi tea industry can apply for IDH's credit enhancement



across whole regions, whether certified or not, and in-kind benefits were found to represent a significant proportion of total benefits.

After the initial report findings found wages to be below international poverty lines, a follow up study was done by Richard and Martha Anker (from the Anker Methodology of calculating Living Wages) involving all key stakeholders to determine what the living wage level in rural Malawi should be. The report concluded that current wages were 37% of their calculated benchmark of a living wage. The 2014 Anker living wage study caused great concern but was accepted by all stakeholders.

This provided the platform for a collective commitment to tackle low wages in Malawi; and the start of the

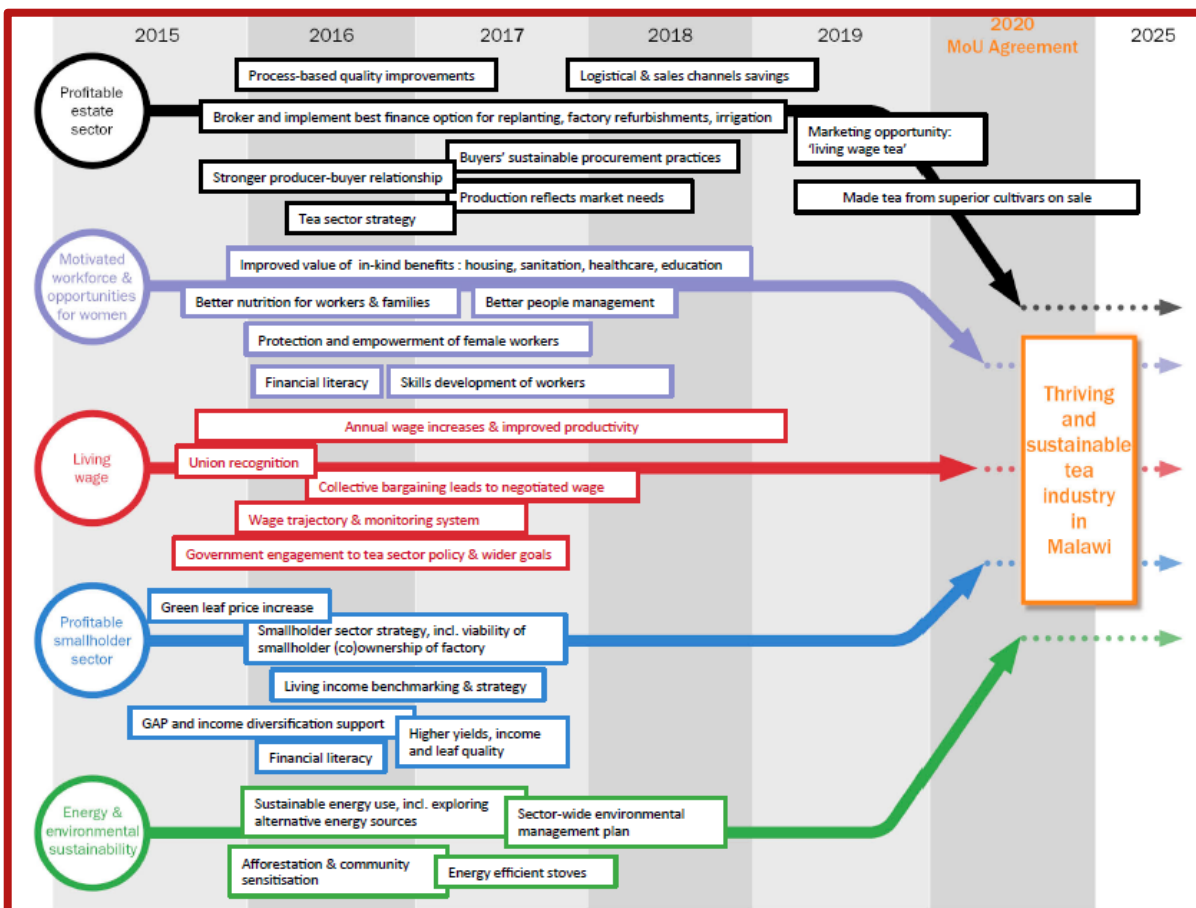
Malawi 2020 Tea Revitalization Programme.

Raising wages in Malawi is however challenging because it produces a low quality, low price tea and faces barriers to investment in productivity and profitability necessary to support higher wages.

Roadmap

IDH, the Tea Association of Malawi (TAML), Oxfam and the Ethical Tea Partnership (ETP) have been working with over 20 organisations to develop a roadmap for the Malawi Tea 2020 programme.

A key pillar of the roadmap to achieve the programme goals is driving profitability by improving quality and productivity.



The Malawi Tea 2020 programme Roadmap

Aim to deliver six key outcomes:

1. An industry that is investing in its future and its workforce
2. Significant improvement in wages and benefits for workers - supply chain commitment to a living wage by 2020
3. Improvements in smallholder farming practices, yields, quality, income, and income diversification
4. A healthier, motivated, and productive workforce, with greater opportunities for women
5. An improved wage-setting process with greater worker representation
6. Sustainable energy use and improved environment

Every year the coalition will report jointly on progress made towards the targets that are set towards 2020.

The Coalition

The Malawi tea 2020 programme has brought together a wide range of stakeholders along the tea supply chain.

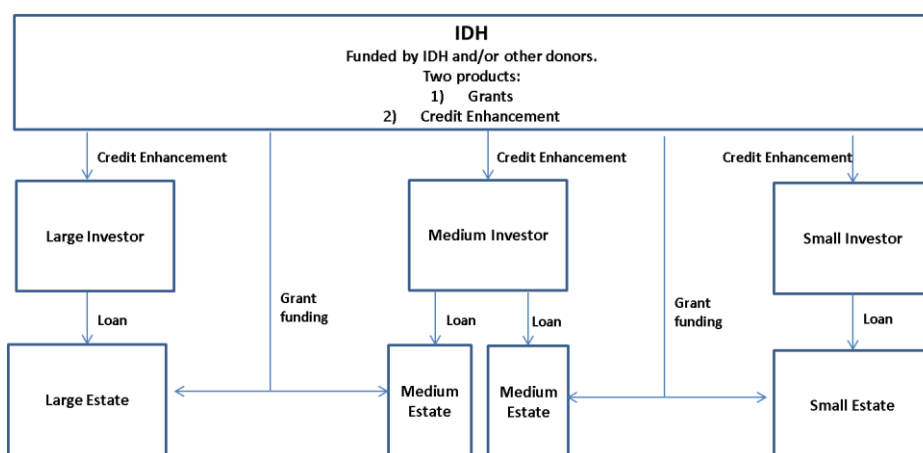
Over 20 organizations have agreed to work together to realize the ambitious goal of achieving a living wage on tea plantations and a living income for smallholder farms in Malawi by 2020. A strong commitment was given through the signing of a MOU.

Activities within the Malawi Tea 2020 program are coordinated by a Steering Committee comprising the Tea Association of Malawi, which represents producers, the Sustainable Trade Initiative (IDH), Oxfam, and the Ethical Tea Partnership, which brings together the buying companies.

Innovative Finance

IDH, through its Innovative Finance team, aims to play a brokering role between the Estates and potential investors. IDH will also use a portion of its risk capital as a credit enhancement for investors willing to finance the Estates.

Investment Structure



Number of estates / investors is illustrative only

IDH

IDH has an independent convening role - balancing the interests of producers, buyers and civil society in the Malawi Tea 2020 programme. In addition, IDH is the single largest provider of grant funds to the programme, co-funding programme activities and organizing Monitoring, Evaluation and Learning.

Specifically, IDH is involved in the following work streams:

1. Governance: convening of the Malawi Tea 2020 coalition; chairing the quarterly steering committee and evaluation committee meetings; and facilitating the independent wages committee
2. Co-lead high level policy engagement towards the Ministry of Agriculture, Ministry of Finance, Ministry of Labour in Malawi and the Reserve Bank of Malawi
3. Innovative Finance: including outreach to banks, financing institutions and donors
4. Provision of grant co-funding for roadmap pillar activities
5. Coordination of communication about the programme

How to apply for IDH's credit enhancement

Investors keen to invest in the Malawi tea industry are invited to apply for IDH's credit enhancement by sending an one page concept note to:

IDH, Postbox 19219, 3501 DE, Utrecht, The Netherlands, or via webb@idhsustainabletrade.com

This proposal should include general information on the investor, and the ability of the investor to monitor the E&S risks and programme KPI's.

Planned next steps

- Receive business plans from the estates and develop pitch book (Q2 2016)
- Visit potential investors with pitch book and business plans (Q2 2016)
- Go on a roadshow with the investors to Malawi (Q2/Q3 2016)
- Set up the facility
- Start closing deals between estates and investors starting (Q4 2016)