



"Green gold": tobacco as Malawi's lifeline

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Malawi has for a long time been the world leader in burley tobacco production, but recently the drop in production has knocked Malawi off its position.

Viewed by the local population as the "green gold", tobacco represents more than 70 per cent of Malawi's foreign exchange earnings, making it the country's economic lifeline. In the past three years, though, tobacco revenues have dropped due to slumping prices, declining yields, rising production costs, and deteriorating quality.

Tobacco production started in the early 1970s and within a few years became the country's major foreign earner, growing from 39 per cent in 1974 to 69 per cent in 1993 of total tradable exports. The sector was extremely regulated: the market was organised in a way that an elite could appropriate the surplus of the smallholders, while the only way to market tobacco was through a parastatal, the Agricultural Development and Marketing Corporation (ADMARC). This situation led some observers to argue that the growth of the tobacco industry could be seen as a history of exploitation. "During the previous regime, Malawians were forbidden to grow tobacco. Only big conglomerates run by Europeans, who held large hectares of land, were allowed to grow it. In sum, there was great exploitation in this sector", states Mr Chakufwa Chihana, currently Second Vice President and Minister of Agriculture and Irrigation, who has a past in the trade union movement.

The collapse of this system came with the end of the one-party regime. The new democratic government led by the UDF abolished the estate monopoly and pursued a full liberalisation of the sector, thus making a profound shift in Malawi's agricultural strategy: from estate-led growth towards a smallholder cash crop regime. In fact, the number of smallholder farmers cultivating tobacco (defined as those who own less than two hectares of land, and generally cultivate between 0.1 and 0.3 hectares of tobacco) has grown tremendously: recent estimates from the World Bank indicate that their number is about 300,000 (representing about 70 per cent of the total tobacco crop).

After a severe drought in 1994, production expanded and reached a peak in 1997. Several reasons can be given

for this expansion. First, growing tobacco was very remunerative compared to other crops. Second, due to their previous experience as labourers in the larger estates, smallholders were able to grow tobacco easily. Third, a series of facilitating measures were introduced, including the formation of "burley clubs", meant to help smallholders in procuring inputs, access to credit, providing technical assistance, and organising the transport of the tobacco to the auction floors; the introduction of "intermediate buyers" of tobacco, meant to provide cash for harvested or cured tobacco at highly discounted prices; the availability of credit to smallholders, mainly from the Malawi Rural Finance Company.

Lower profitability

After the initial boom which followed liberalisation, production has levelled off over the past five years. Actually, in 2002 there was demand for at least 135 million kg of burley tobacco, but the country managed to produce only 103 million kg, which represents a 25 per cent gap. Liberalisation has also caused a shift in the type of leaf cultivated. Production of burley, due to its low production costs, has increased and contributes to over 80 per cent of total production, with a record of 92 per cent in 2001. On the contrary, the production of flue-cured tobacco, which requires substantial investment, has dramatically declined.

More dangerously, the profitability of the entire sector has worsened. Data provided from NASFAM (National Association of Smallholder Farmers of Malawi) show that returns per kg fell by 50 per cent in 2000 and almost by half again in 2001. Several reasons have been given.



Some farmers prefer to employ children because they pay them less. But now the whole tobacco sector is mobilised against child labour. Public campaigns have been conducted to tell farmers that a child has the right to go to school and to have some free time.

First, the rising cost of production versus stagnant world price. According to Mr Sigman Chirambo, executive secretary of the Tobacco Association of Malawi (TAMA), the organisation in charge of defending the interests of the growers, “fertilisers are too expensive. The devaluation of the currency penalises us. Also, farmers can no longer afford to borrow from commercial banks because interest rates are prohibitive. We need a cheaper social fund credit system. The state of the food sector also constitutes a problem: if someone has to grow tobacco with a labour force, he has to feed his workers, but now maize comes at a much higher price than before”.

Second, the antagonistic relationship between growers and buyers. Almost every year the negotiations on the auction floors are suspended because prices offered by buyers are considered too low by growers. The longer the tobacco remains unsold, the more farmers have to pay for storage costs and security. Nevertheless, farmers often accept low prices in order to defray those costs, and therefore are sometimes unable to repay the loans they obtained during the production stage. “I think the prices we offer are fair. Not only the growers, but we also face major problems. The entire sector has suffered from the currency devaluation: technology is imported, transport costs are too high. Moreover, it is a mistake to look at average prices. The quality has gone down in the past years, but we still pay a good price for good tobacco. Still, we need to make sure that more tobacco is produced in Malawi,” asserts Mr Charles Graham, Managing Director of Limbe Leaf, the major buyer company in Malawi.

Third, illegal selling. Some growers sell their crop illegally in neighbouring countries (Mozambique and Zambia) because they claim to get a better price that they would obtain on the auction floors. But, according to Mr Godfrey Chapola, general manager of the Tobacco Control Commission (TCC), a government parastatal in charge of regulating the whole sector, “it all depends on how one defines the price. Actually, the price is often even higher in Malawi than it is in Zambia and Mozambique.

When farmers sell tobacco illegally no money is deducted from their earnings, while in Malawi they have to pay taxes and levies for classification, membership of tobacco organisations, research”. Furthermore, adds Mr Chirambo, “it takes too much time for growers to receive their money. They first bring their crop to the auction floors, but tobacco is not sold immediately. Then the money they collect for their crop is deposited in banks. It is only at that moment that farmers can collect their money. On the other hand, if they take tobacco to the border and sell it illegally, they get their cash immediately. We, as an organisation of the growers, are trying our best to encourage farmers to be loyal not only to the tobacco sector, but also to the people of Malawi. I also think that the government should take more strict measures to stop this illegal selling”.

Another major concern in the sector is child labour. “We cannot deny it: the issue is there but we are very active in eliminating it, because we believe children cannot be denied school,” says Mr Chapola. Also, there is another element that should be taken into account: “if the international community starts boycotting Malawian tobacco because of child labour, the whole country will be in big trouble. That is why we tell our farmers to stop child labour: we simply cannot risk that our tobacco is boycotted in international markets”, advocates Mr Chirambo.

The effects of liberalisation

Deregulation of the tobacco sector was conceived in the interests of smallholders, with the ultimate aim of poverty alleviation. While there is no doubt that the previous economic regime benefited only big estates, it should be noted that the gains from liberalisation for smallholder farmers have been less widespread than previously thought. In addition, the extension of burley tobacco to smallholders had a negative impact on food security by reducing fields for maize and other food crops. Among the buyers, there may be some competition, but in reality there is more a kind of cartelisation than free market. All tobacco is sold on auction floors, where buyers must have a license to participate in the negotiations. The number of licensees has decreased in the past years and currently there are only three major buyers, which are linked through shareholding to multinationals.

Despite these problems, tobacco still remains an economic lifeline for Malawi. While demand for tobacco is contracting in some areas of the world, it is expanding in others, with world consumption not declining substantially. “Despite the world campaign against smoking, tobacco will remain our main commodity export for the near future and we will continue to rely on it. We will still continue producing tobacco, and actually we will try to produce even more until something is found not to replace, but to supplement it,” concludes Mr Chihana. ■

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