The Economics of Tobacco Farming in Kenya

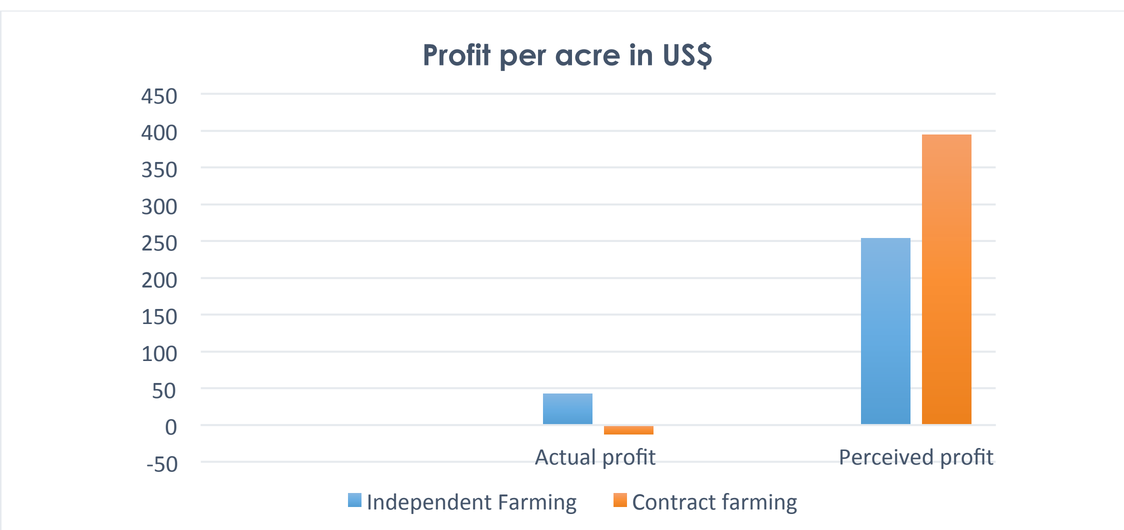
Kenya is widely seen as a regional leader in implementing effective policies to protect the public from the growing threat of a tobacco epidemic. Kenya is also a party to the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC), a global health treaty to address the epidemic, now ratified by 180 countries. Under the treaty, Kenya is obligated to implement comprehensive tobacco control laws, including helping smallholder tobacco farmers to find alternative livelihoods. The tobacco industry and its allies continue to argue that tobacco control will destroy these livelihoods, but we know very little about the actual quality of their livelihoods.

Based on a survey of 585 smallholder tobacco farmers in the three main tobacco-growing regions, this report provides evidence countering tobacco industry claims that tobacco farming is a prosperous economic livelihood for most farmers.

Small or No Profits

The survey found that when you subtract the total cost of physical inputs from the farmers' tobacco sales, most experience only a small profit (an average of 22,084.61 KsH (about 253.78 US dollars) per acre for contract farmers and 34,305.20 KsH (about 394.21US dollars) per acre for independent farmers).

Importantly and unfortunately, these perceptions of profit are actually an illusion because they do not account at all for the costs of the farmers' labour, which are substantial, requiring 476.21 to 637.89 hours of labour to produce just one acre of tobacco. With labour included, contract farmers experience an average net loss of 1,113.02 KsH (about 12.79 US dollars) per acre, while independent farmers experience a paltry profit of about 3712.39 KsH per acre (about 42.66 US dollars).



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Challenges of Contract Farming

+40%

Most farmers enter into contracts with leaf buying companies because they are attracted by the fact that they have a "guaranteed" buyer for their tobacco leaf and because they receive the necessary agricultural inputs (fertilizer, seeds, herbicides, etc.) without paying cash up-front. But the contracts frequently plunge these farmers into an increasing and deepening cycle of debt because the cash payments plus their revenue at harvest are not sufficient. **More than 40% of surveyed farmers remained in debt after selling their tobacco**. Contractually, they had to grow tobacco again to repay the leaf-buying companies despite having just experienced serious financial loss growing tobacco.

Dissatisfaction with Prices

<30%

Most farmers indicated significant dissatisfaction with the price that they received for the leaf that they sold. In fact, **less than a third of farmers felt that they were receiving a fair price**. Farmers *must* sell to their contractor – in other words, there is no price competition – so it is perhaps little surprise that the economic rewards are so poor.

Tobacco farming is not lucrative for most smallholder farmers and should not be a part of a successful Kenyan economic development strategy.

What can be done?

- **Develop markets – especially improved supply chains – for other viable products.**
- **Help farmers to access credit.**
- **Increase efforts of agricultural extension services to maximize the cultivation of other crops.**

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