

FARM-LEVEL ECONOMICS OF TOBACCO FARMING IN MALAWI

Report Highlights

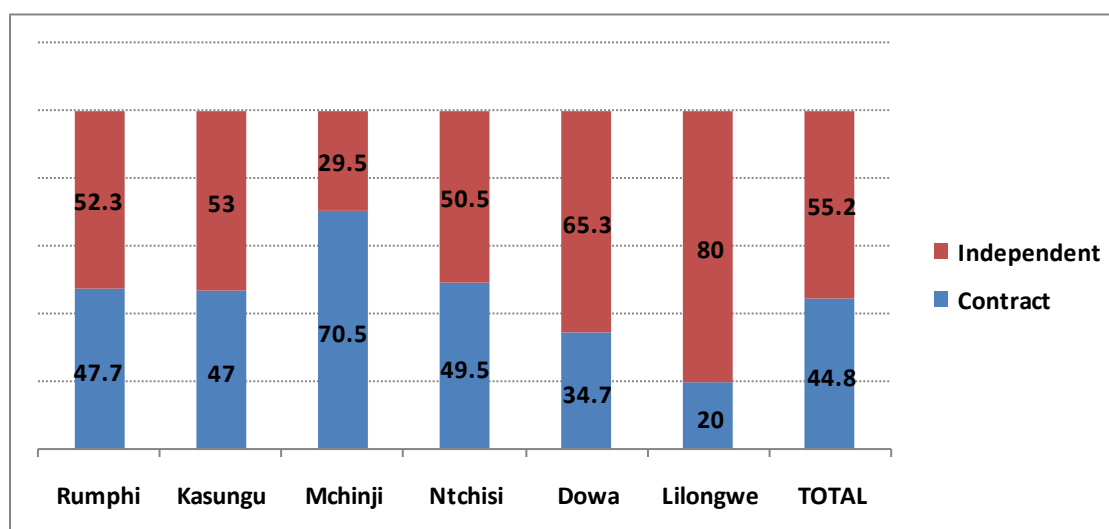
INTRODUCTION AND STUDY OBJECTIVES

The Centre for Agricultural Research and Development (CARD) of the Lilongwe University of Agriculture and Natural Resources (LUANAR) in Malawi is implementing a National Institutes of Health (NIH)-funded project entitled, *Building Research and Capacity on the Economic Policy – Tobacco Control Nexus in Africa*. The multi-country project is being implemented in Kenya, Malawi and Zambia and involves partnerships among CARD, the University of Zambia, the International Institute for Legislative Affairs (ILA-Kenya), the University of Ottawa (Canada), McGill University (Canada), and the American Cancer Society (USA). The primary objective of this project is to understand the political and economic factors that contribute to tobacco production and control. Under this project, a study was conducted to analyze farm-level economics of tobacco production as it relates to profitability, incomes and household welfare in Malawi.

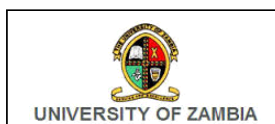
DATA

Quantitative data from 685 small-scale tobacco farmers were generated from 6 leading tobacco-producing districts of Malawi (Rumphi, Kasungu, Mchinji, Lilongwe, Ntchisi and Dowa). Qualitative data were generated from key informant interviews with stakeholders (e.g. extension workers) and focus group discussions with farmers. Around 45% of the sampled farmers grew their tobacco in 2013/14 season under a contract with the leaf companies (i.e. were Integrated production System [IPS] farmers) (Figure 1).

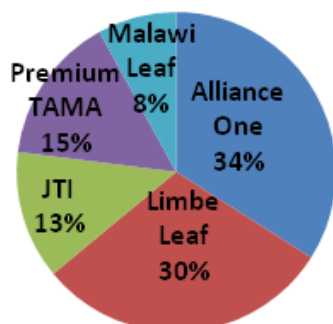
Type of Tobacco Farmer Interviewed by District



Malawi is the world's most tobacco-dependent economy (Otanez *et al*, 2009)



MARKET SHARE OF TOBACCO LEAF COMPANIES IN MALAWI



The leading leaf merchants in Malawi are Alliance One Tobacco (Malawi) Ltd and Limbe Leaf Tobacco Company, who together buy between 60 percent and 70 percent of all tobacco in Malawi every year (Moyer-Lee and Prowse, 2012).

The other leaf companies operational in Malawi include Japan Tobacco Incorporation (JTI) Malawi, Premium TAMA Tobacco Limited and Malawi Leaf Company.

LABOUR

Tobacco production is a highly labour intensive activity. We assessed the total cost of tobacco cultivation by incorporating comprehensive labour costs. As far as we are aware, there has not been research that has attempted to accurately calculate the contribution of family labour to leaf production among smallholder farmers in Malawi.

- For independent farmers, 89.7% of all the total value of labour used in production per acre is supplied by family members.
- For contract farmers, household labour contributes 88.6% of the total labour costs in leaf production.
- To accurately estimate the profitability of leaf production, the cost of family labour therefore needs to be included in the calculation of the cost of production.

Tobacco Production

Is 21 times more
Labour Intensive

Soya Production

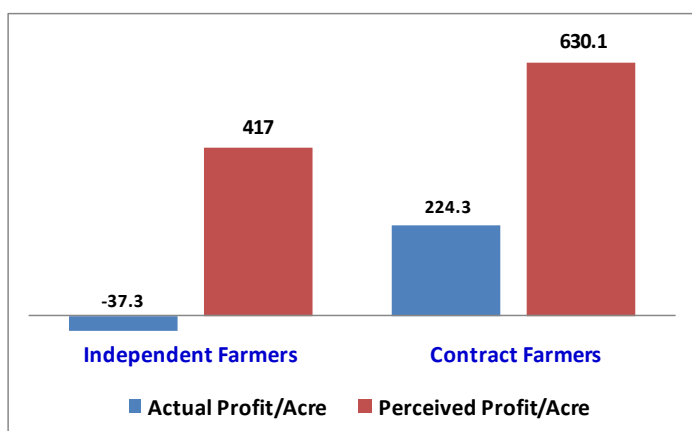


IPS FARMERS PAY MORE FOR INPUTS

Input in 2013/14 season	Independent Farmers	Contract Farmers
Tobacco fertilizer (50 Kg bag)	\$42.86	\$47.62
Maize fertilizer (50 kg bag)	\$35.70	\$39.47
Maize seed (10 Kg bag)	\$11.90	\$14.29

PROFITS WITH, AND WITHOUT INCORPORATION OF LABOUR

Perceived and Actual Profitability (US\$/Acre) for Independent and Contract Farmers in 2013/14 (US\$)



When labour is taken into consideration, the independent farmers made a loss equivalent to US\$37.3/Acre (i.e. MK 14,692/Acre). However, their perceived profits were US\$ 417/Acre (MK 164,298/Acre). Similarly, for the contract farmers, their perceived profits were US\$630.10/Acre (MK 248,259/Acre). However, if we account for the labour, the actual profits are much lower at US\$ 224.3/Acre (MK 88,374/Acre).

FARMERS' PERCEPTIONS ON GRADES AND PRICES

"When it comes to tobacco marketing, the major problem is grades. Since minimum prices were introduced in tobacco marketing, we are able to know when minimum prices have been released that this grade is being sold at such a price. But the major problem is that when tobacco buyers want to buy the tobacco at a low price, they don't follow the minimum prices for the grades that are given by TCC. Instead of buying the tobacco at the recommended price, you just hear that there is an increase in the number of bails at auction floors written 'No Sale' [rejection]. They simply do this because they don't want to buy the tobacco at the recommended price. So that's what happens at the markets" [Male FGD Participant, Mhujwa EPA, Rumphi].







Prices are a big issue! ONLY 25.1% of INDEPENDENT farmers and 26.1% of CONTRACT farmers expressed satisfaction with market prices in 2014 marketing season!

Average Prices are higher for CONTRACT Farmers. In 2013/14, the sampled contract farmers received an average price of **US\$2.43/Kg**, while the independent farmers sold their tobacco at an average price of **US\$1.78/Kg**.

THE FUTURE OF TOBACCO PRODUCTION IN MALAWI

- 82.3% of independent farmers and 83.1% of the contract farmers still grow tobacco because they believe that it is either the only viable cash crop or because of the existence of a ready market.
- 43.1% of all the sampled farmers have considered switching from tobacco production to other crops or means of livelihood.
- Poor market prices, huge demand for labour and other inputs, as well as highly fluctuating market prices are factors that have led farmers to contemplate switching from tobacco production.
- These findings suggest, not surprisingly, that economic viability and market access are critical factors that lead farmers to grow a crop.
- Any intervention to move farmers to other economic livelihoods or crops must address these two factors, an important starting point for policymakers.

PROFITABILITY OF VARIOUS CROPS IN MALAWI

COMMODITY	PROFITABILITY	NATURE OF SUPPLY CHAIN
	\$ 30.57/Acre	
	\$ 209.19/Acre	
	\$ 123.00/Acre	
	\$ 79.95/Acre	
		

WAY FORWARD AND RECOMMENDATIONS

- i. There is enormous need to develop the supply chains of crops that have high potential to provide alternative livelihoods for tobacco farmers, such as soybean and birds' eye chillies. These crops have the genuine potential to support the livelihoods of thousands of farmers who presently depend on tobacco as their livelihood. Strong supply chains are likely to enhance profitability for these crops making switching even more attractive to and lucrative for farmers.
- ii. Contract tobacco farmers under the integrated production system (IPS) need to be trained on how to understand the contracts that they sign with the leaf companies, including the actual costs of inputs, the interest on the loans and other requirements under the contract.
- iii. The Government of Malawi needs to ensure that independent tobacco farmers are treated fairly in the auction system and are not facing any discrimination on grading.

For more information:

Centre for Agricultural Research and Development (CARD), Lilongwe University of Agriculture and Natural Resources (LUANAR), Lilongwe, Malawi.

Donald Makoka, Ph.D. (dmakoka@bunda.luanar.mw)