

## **THE PATHWAYS TO CROP DIVERSIFICATION IN MALAWI; a case study of tobacco production in Malawi**

### **INTRODUCTION**

Crop diversification has been one of the strategies which Malawi has been trying to achieve for more than 30 years. It is defined as a shift of crop or cropping system to another crop or cropping system. It arises on account of the need of attaining the national goals like self-reliance in critical crop products, earning foreign exchange and employment generation and also reducing risks associated with the degradation of natural resources. Several attempts have been made to foster diversification of both food and cash crops. Unfortunately, despite various initiatives by the state to diversify Malawi's income base, tobacco continues to be the country's major source of export earnings, albeit with declining revenues. Researches done recently have shown that although there is an aspect of diversifying from tobacco, tobacco will still remain the main cash crop in the country for some years ahead.

### **BACKGROUND OF TOBACCO PRODUCTION IN MALAWI**

Tobacco production in Malawi, started as early as 1893 when the first parcel weighing 40 pounds of tobacco was sent for auction in London. Since then tobacco has been the most important export crop and major winner of foreign exchange, making Malawi a tobacco-reliant country. From 1902 to 1960, a lot of developments concerning enhancing tobacco production and marketing in the country occurred, thus the formation of Native Tobacco Board which looked at the production and marketing of tobacco and even restriction on production of tobacco by smallholder farmers in 1926, the formation of Tobacco Export Promotion Council of Rhodesia in 1958 in order to foster the existing markets for Rhodesian tobacco.

When independence came in, the government's role in the production of the crop increased leading to the increase in production by 90% to 29 000 tones in the early 1970's and reached more than 10,000 tones in the 1990's. such that in 1962, Farmers Market Board was established which was later changed to Agricultural Market and Development Corporation (ADMARC) which was formed in order to fix domestic prices in relation to fluctuating global prices supported by adequate stabilization funds. In 1972, an act called Special Crop Act was enacted in order to limit the production of tobacco, tea, to estate owners with no exceptions for smallholders which discouraged the smallholders in the production of the cash crops. However, things changed when the act was removed which led to increase in production of agricultural commodities as smallholder farmers were now free to produce their crops. In 1990 to 1997, 7600 smallholder farmers registered to grow by pilot basis, 1993 to 1994, more than 30,000 farmers were organized in 1,318 clubs, in 2003, 315,000 – 330,000 were recorded to be producing tobacco. The introduction of intermediate buyers boosted the production of the tobacco by the farmers, as they functioned as middlemen between the small scale grower and the auction market by buying tobacco leaf at a relative low price and then selling them on a higher price at the auction floor.

## **IMPORTANCE OF TOBACCO IN MALAWI**

The rapid expansion in tobacco resulted from the liberisation of marketing of agriculture outputs and production of cash crops and much more by 1995 after the structural adjustment program had been introduced, which led to a lot of structural changes in the agricultural sector, it made smallholder farmers to be allowed to produce any cash crop.

Since then tobacco has been the major cash crop providing income to the nation and also employment opportunities not only to Malawi but even to the countries where tobacco is being exported. Malawi derives its foreign exchange earnings from tobacco which contributes about 70% of export earnings hence the economy of the country depends on the agricultural sector and mainly tobacco sector.

Malawi grows four different types of tobacco; Barley, Virginia (flue-cured), Oriental, or Turkish tobacco and Malawi Western. Three strains of Malawi western tobacco are Northern Division Dark Flue-cured (NDDF), Southern Division Flue-cured (SDF) and Sun flue-cured. Over 98% of Malawi's leaf is exported to 68 countries with European Union and USA being the top destinations. Despite the threats made that burley tobacco being banned, many smallholder farmers still grow burley as their main tobacco.

## **PRODUCTION TRENDS OF MALAWI TOBACCO**

From 1980 to 2001 world of tobacco leaf increased from 5.26 million tons to 6.97 million tons or at 1.20% per annum. World production grew at 1.95% per annum during the 1980's yet declined by 0.69% per annum over the 1990 to 2001 period. Smallholder tobacco production is said to have declined by 9% from 98,675kg in 1999 to 18,307kg in 2000 growing season. This drop in production was attributed to declining yield levels and hecterage by 8% and 2% respectively. Hence it experienced a 46% drop in growth rate from 10.1% in 1999 to 5.4% in 2000.

In 1991, a projection was made that tobacco leaf production in developing countries will increase from 76% in 1991 to 87% in 2010. Other projections were also made that tobacco production was expected to reach the level of 7.1 million in the period of 1998 to 2010.

The market report of Tobacco Control Commission, 2006, burley tobacco which was laid for sale amounted to 401,199 bales of which 249,752 was sold and 151,447 bales were rejected. The combined volume of auctioned and contact burley tobacco amounted to 51,537, showing a drop of 28% comparing to the volume sold over the same period in 2005. For Flue cured, the volume in 2006 was 11,913 while in 2005 it was 16,637. As reported in the same paper, the drop came in because of the slow progress in the sales of the tobacco. In the growing season of 2010/2011, the amount of tobacco sold at the beginning of the season is reported to be 4.6 million kilograms compared to the previous year which was 14 million kilograms.

The production trend of tobacco is in a three year cycle. The trend of the cycle is determined by the growers and other indicators such as the minimum price and the total amount of tobacco needed by the buyers. If prices are higher in a particular year, the production output will be higher but if the buyers did not buy much in that year, then in the following year the growers will reduce their production. The

production is growing almost every year, such that in this year of 2011, total production is approximately 200 million kilograms.

#### **INCOME TRENDS OF MALAWI TOBACCO**

In 2003, it was recorded that 20% of farming households grow tobacco and 89% of their cash income was derived from the crop. While to the export revenue side, in 1998, it was US\$338 million and in 2003, it was estimated to be US\$ 249 million. In 2006, the amount that the country realised from the exports, was reported to be US\$41,252 which was relative low compared to US\$74,457 in 2005 thus for burley, for flue cured, it was US\$28,045 in 2005 and US\$ 18,185 in 2006, and for Malawi western tobacco, it was US\$215,687 in 2005 and US\$166,658 in 2006.

#### **CONTRIBUTIONS OF TOBACCO TO MALAWI'S GDP**

Tobacco contributes a lot to the development of the nation such that it accounts for 43% of the agriculture gross domestic product, 13% of overall gross domestic product and 23% of Malawi's total tax base. Out of workforce of 5 million people, between 600,000 and 2 million are employed in the tobacco sector and 122,000 hectares out of 4.6 million hectares are under tobacco cultivation. This gives a picture of the significance of tobacco production to the country's economic side

In 1999, the gross domestic product was Malawi Kwacha (MK) 80 billion while total agriculture production reached (MK) 30 billion thus 38% of GDP and tobacco generated (MK) 12 billion of export revenue, more than one third of total revenue from agriculture . Recent reports show that tobacco production accounts for 15% of gross domestic product in the country.

#### **CHALLENGES IN PRODUCTION OF TOBACCO**

Since 1893, there have been many challenges that tobacco production has faced and mostly the challenges have been encountered in marketing areas, pricing strategies and the policies which are commonly imposed on the tobacco leaf and not forgetting on the production systems. On the policy implementation, it is observed that some policy are imposed by the government but are presented in a political manner, does this affect the production of tobacco? Other challenges are mainly from the production systems such as problems dealing with the crop size management among the growers and transportation costs.

- a. The impact of political intervention on the pricing of tobacco leaf.

In Malawi, the setting of prices on the tobacco sector is mainly done by the players in the tobacco production system. The prices are reached after considering the costs in production of the farmers and the intermediaries and profit margin of the crops. The government come on the scene when the considerations are already made. The government comes in when it comes to the setting of minimum prices. This has a positive effect on the industry because it helps farmers to sell their leaf at high price at

the same time it is negatively affecting the industry because the buyers are sometimes not able to buy at the set price as they are a little bit higher. Therefore there is both positive and negative impact of political intervention on the minimum pricing system of tobacco leaf in Malawi.

b. The anti smoking campaign.

The anti smoking campaign which is spread world wide has so far not direct impact on the tobacco production system here in Malawi. This is so because the demand for cigarettes is still as high in other countries such as in Europe, North America and far East. However, the direct targeting of Burley tobacco by World Health Organisation, if implemented will affect the Malawi industry, which generally depends on the burley tobacco.

c. Other challenges

On the other perspective of production, crop size management is among the challenges being faced in tobacco handling. The problem is failure to reach the buyer's demand thus in terms of volume in production and most of the times, farmers overproduce leading to losses as some of the produce is not bought by the buyers. Overproduction has also lead to low quality leaf as farmers produce crops without following the right procedures of tobacco production. While it is like that, transport costs contribute partly to the failures of marketing in the production process. This is so because for the past years transporters were charging a lot on the transport, however, the government has imposed new regulations on the transport sector of tobacco production such that all the transportation costs are deducted from the auction floors and this has helped many smallholder farmers to put their outputs on international markets.

## **THE FUTURE OF TOBACCO PRODUCTION AND MARKETING**

According to Tobacco Control Commission, it strongly says that there's a bright future of tobacco although the smallholder farmers are being encouraged by the government to diversify away from tobacco. For example, from this year's growing season, almost 200 million kilograms were obtained from the farmers which showed an achievement compared to the previous growing season. However this has been met with the lowest prices on record mainly due to oversupply on international markets.

## **CROP DIVERSIFICATION IN MALAWI**

As a strategy which started almost 30 years ago, a lot of studies have been conducted which indicate a number of field and horticultural crop alternatives that have a comparative advantage and better prospects than the traditional crops such as maize and tobacco. Unfortunately there are some problems which contribute to the failures of adaptation to diversification among the smallholder farmers, among factors;

- The farmers lack knowledge of how they can change the comparative advantage between competing crops
- There is poor dissemination technical and economic information on potential commodities

- Lack of a clearly policy framework and implementation strategy

This shows that there is need of clarity especially to the smallholder farmers who have been depending on tobacco for their source of income and employment. As it is indicated that almost the majority in the agricultural sector in Malawi are in the tobacco industry which is responsible for 70% of all exports earnings in the country.

A lot is being done in the agricultural sector when it comes to the promotion of crop diversification in terms of value addition and even on the market side. For example the department of Agricultural Extension Services (DAES) is promoting various crops in terms of marketing and value addition. For example the establishment of cotton association which is helping the growers easily access markets internationally.

### **CROPS IDENTIFIED TO BE POTENTIAL ALTERNATIVE CROPS**

Some of the crops which have been indicated to be potential alternative crops, among them;

- a. cotton

This is one of the crops which is being promoted now in terms of market. The market of cotton is well established now especially with the new marketing opportunities being offered by Chinese firms. These firms have helped in increasing the competition on the market thereby helping in offering better prices for the farmers. This year the price for cotton has gone as far as MK120/kg.

- b. pigeon peas

The nation is the 3<sup>rd</sup> country in the whole world which produces pigeon peas but unfortunately Mozambique is taking over the position as it has set up a processing plant of the crop. It is easy for Malawian smallholder farmers to invest in the crop because as a legume crop there is no need of applying fertilizer, which may reduce the farmer's production costs.

- c. groundnuts

There are a lot of varieties of groundnuts available in the country such as Chalimbana, SG7 and others.

- d. Finger millet

This another potential crop for the nation. There is a ready market in South Africa and also in India.

- e. Beans, cow peas, cassava, sweet potatoes, Irish potatoes

Beans and cowpeas are also potential crops such that they can also be grown under irrigation. Cassava and sweet potatoes are also on the promotion side especially as far as value addition is concerned.

Despite of the availability of better alternative crops, there is still a lot that need to be done. Some of the action that should be done on the crops for diversification to become effective to the nation;

- There is need for the government to put in place proper incentives that will facilitate proper transition from tobacco to other crops that are being promoted
- There is need to invest a lot in research especially for the potential crops to see economic viability. This should also look at issues of pest and disease control especially when it comes to cotton.
- When it comes to groundnuts, there is need that each variety should be grown in particular zone. For example, chalimbana which do not mature early, should be grown around the Lilongwe plain and part of kasungu where they are in the dry zone.
- There is need of dwarf varieties for crops like pigeon peas and fillet millet. The dwarf varieties are hybrid varieties hence they mature early and mostly they do posses the good varieties of a good seed hence can be marketable.

According to Jaffe, 2003, the success strategies in diversification depends on the maintenance of a competitive and profitable tobacco sector from which savings can be derived and invented in other economic activities such as trading agro processing activities. As the government is taking the route of crop diversification, recent researches are however showing that as of now there is no crop which can replace tobacco in terms of being the main export in the country. The only solution as of now is having alternatives which will help economically for the coming five years.

It is appreciated that the government is doing a lot on crop diversification especially on the promotion side but still more it needs to consider on its plans of diversification on what incentives are there for farmers to diversify away from tobacco and for the alternative crops identified, what measures should be taken for the crops to be economically beneficial to the nation.

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