

Farmer Organisations for Market Access¹



Study on Farmer Organisations in Smallholder Tea in Malawi

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Executive Summary

The Smallholder Tea Authority (STA) was formed shortly after independence. By 1990 2,400 ha had been planted by 4900 smallholders, all of whom were required to register and work with the STA, a parastatal with two growers and two other grower representatives on the board. The STA effectively supported smallholders with free seedlings for plantation establishment, free extension, tea and maize inputs on credit, and regular on farm collection of harvested tea with first payment within 10 days. However the STA was never financially strong. During the 1990s increased political interference in the board, diversion of transport to politicians' use, increasingly late payments, farmer demands for higher prices, declining STA staff and collapse of the input credit system led to severe financial difficulties for the STA, a collapse in field and factory operations, and alienation of farmers who responded by selling to local estates. These welcomed high quality smallholder tea and better utilization of factory capacity and began to offer interlocked input credit and extension advice, some also offering health, education and social services.

After 2002 the STA was dissolved and the Smallholder Tea Growers Trust (STGT) created, with 3 growers, 2 chiefs, a lawyer and an accountant (appointed by their professional bodies). The Trust was responsible for managing the smallholder tea company (STECO) through a board of directors comprising 4 farmers and 5 individuals appointed for their competence. Management and debt were restructured with new appointments and slimmed down with a strong mandate to minimize operational costs, produce quality tea, pay farmers on time, and operate within the cash flow of the company. Since the reform a large number of farmers have returned to STECO and are receiving much better services, though some blocks continue to sell to estates and indeed have started to operate their own tea factory.

There are outstanding issues concerning the structure of the industry, efficient smallholder holding sizes, extension services, the auction system, and farmer ownership of the factory. However the case illustrates the difficulties in establishing FOs, the resilience and determination of smallholders in the face of a long decline in services to tea production, difficulties from political interference, the importance of lean but effective management and services, and the adaptability of both farmers and private sector estates in finding ways to work together for mutual benefit in the face of changing external conditions.

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Abbreviations

ADMARC	Agricultural Development and Marketing Corporation
CDC	Commonwealth Development Corporation
CSTGA	Chizunga Smallholder Tea Growers Association
MATECO	Malawi Tea Company
NSCSTG	National Steering Committee of Smallholder Tea Growers
SSTGA	Sukambizi Smallholder Tea Growers Association
STA	Smallholder Tea Authority
STECO	Smallholder Tea Company
STGT	Smallholder Tea Growers Trust
TAML	Tea Association of Malawi
TNSTGA	Thyolo North Smallholder Tea Growers Association
TRF	Tea Research Foundation

1. Introduction

Tea is the second or third major export of Malawi: tobacco is the leading export industry while tea and sugar tend to switch between second and third place, according to production and prices. Tea has been grown commercially since the 1880s and Malawi is the second largest producer in Africa after Kenya (GoM, 2003). In 2002, about 39 million kilograms of processed tea was produced with exports accounting for 83 percent by volume of the total production. Tea generated approximately US\$33.3 million of export earnings in 2003 and was the third important foreign exchange earner after tobacco and sugar. The tea sector employs about 42,000 people in commercial estates and about 8,000 smallholder farmers produce tea as their main economic activity. Using the average household size, it is estimated that that about 300,000 people in Malawi directly rely on the tea industry as a major source of income (GoM, 2003).

Tea is grown in three districts of Mulanje, Thyolo and Nkhata Bay. Estates mainly grow seedling grades of tea whose quality is lower than the clonal varieties mainly grown by smallholder farmers. Ownership of estates is mainly by foreign corporate entities plus some European Malawians operated family business. About 18,800 hectares of land is under tea, with the smallholder sub-sector accounting only 15.4 percent of the area. The area has been static since the 1990s. Production is largely determined by climate and appropriate application of fertilizers and good farm management. Over the years there has been modest technical progress and such progress that has occurred has been in the form of replanting the higher quality clonal tea replacing the seedling type in estates. Investments in tea processing have also been limited with most estates operating at near full capacity.

Tea farming has special characteristic features which include high fixed investments at production and processing levels, large economies of scale in factory operations, a five year period to full maturity of tea trees, and the short-time span required between harvesting and processing. Thus, the production structures of tea therefore require heavy investments in plantations and factories for processing. On the production side, a steady flow of green leaf is needed to support expensive specific investments in processing plants, and high factory capacity utilisation is very important. Thus the tea industry makes major financial demands at the establishment stage. In production, cultivation requires continues financing, to pay for inputs and labour.

In tea, the traditional solution has been large scale estate production, often with development funds coming from foreign-owned companies. There has been vertical integration, with estates investing in both plantations and tea processing factories. However, with some government support and public and aid money, smallholder tea schemes have proved viable, notably in Kenya, where they have operated in an industry still dominated by estates.

Malawi's experience with smallholder tea started in 1967 with the establishment of the Smallholder Tea Authority (STA) as a quasi-commercial state-owned enterprise responsible for the development of the smallholder tea sector.² The STA was established as a partnership between the Government of Malawi and the Commonwealth Development Corporation (CDC), with the government providing technical services to the farmers and CDC financing the planting programme. Initially, government

² Nonetheless, discussions about the possibility of developing a smallholder tea sub-sector in Malawi started in the last years of colonial rule.

purchased land from estates and distributed it to smallholder farmers. As awareness grew about the income effects of tea, smallholder tea production extended to customary land. The big expansion phase was between 1970 and 1979 during which about 130 hectares per annum of smallholder land were planted with tea. About 2,400 hectares were under smallholder tea by 1990, with a modest expansion in the 1990s to the present situation of 2,900 hectares by 2004. Tea is the most suitable cash crop that can be grown in Mulanje and Thyolo due to high rainfall. The conditions for production of maize, the main staple food, are poor – yields tend to be very low even if application of fertilizers is optimal. Other suitable crops are tree crops such as bananas, fruits such as pineapples and sugarcane.

The main business model under the STA involved provision of inputs and technical services to smallholder farmers (in which seedlings were provided free under the planting programme) and STA in turn provided transport for collection of green leaf from the smallholder farms to factories in estates. STA made payments to farmers at the end of the month. In 1975, STA in a joint venture with the Agricultural Development and Marketing Corporation (ADMARC) invested in a tea processing factory, the Malawi Tea Company (MATECO), a commercial enterprise.³ ADMARC's shareholding in MATECO was 40 percent. All smallholder farmers, except a few farmers in Thyolo, were selling their green leaf to MATECO through STA.

However, since the late 1990s the smallholder tea sub-sector began to experience problems, especially with respect to the marketing of green leaf through the Smallholder Tea Authority (STA) and the Malawi Tea Company (MATECO), resulting in delays in payments to farmers. The performance weaknesses experienced by most of Malawi's state-owned enterprises in the 1980s and 1990s did not spare STA and MATECO. STA and MATECO accumulated substantial deficits that resulted in the failure to meet their obligations to smallholder farmers. For instance, STA had substantial debt with government amounting to MK2.3 million by mid-2002 including interest payments in arrears (NEC, 2002). Inadequate working capital resulted in payment delays and most smallholder tea growers sought alternative ways of marketing their green leaf to estate factories. In 2002, STA and MATECO merged into the Smallholder Tea Company (STECO), registered as a trust with Board of Directors that includes smallholder growers' representatives. However, despite these reforms a significant proportion of smallholder tea growers continue to sell their green leaf to estates and other factories.

Apart from problems of dealing with state-owned enterprises, according to GoM (2003), the tea sub-sector experiences several constraints including low world prices, low investments, rain-fed agricultural systems, macroeconomic instability and institutional weaknesses in smallholder marketing and processing.

2. Objectives of the Study

The overall objective of the study is to assess the role of smallholder farmer organisations in enabling smallholders to participate in this high fixed investment sector in Malawi. Specifically, the study will:

³ With the expansion of the smallholder sub-sector the capacity of the existing factories in the estates could not absorb all the tea that was produced by smallholder farmers in Mulanje and Thyolo.

- Provide a historical overview of the smallholder tea industry from its foundation, development, institutional structures, formal and informal networks, and the structural and business policy changes.
- Investigate the inter-relationships between smallholder tea growers, the Smallholder Tea Company and factories (estates) and identify factors that promote or hinder linkages.
- Determine the role of government and government policies in promoting the development of the tea industry in Malawi.
- Review the governance and accountability structures of smallholder growers' organisations and factories.
- Review the production and marketing processes of smallholder tea and assess the factors that influence smallholder tea growers' choice of marketing channels and systems.
- Assess the importance of the smallholder tea sub-sector in promoting livelihoods of the growers and the local economy.

3. Methodology

The study uses both quantitative and qualitative research methods. The quantitative approach involved interviews with smallholder tea growers. The qualitative approach involved key informants' interviews with stakeholders and focus group discussions with smallholder farmers.

3.1 Quantitative Approach

The study covers the smallholder tea industry in Mulanje and Thyolo districts in Southern Malawi. The sampling unit for the administration of the questionnaire was the smallholder tea farmer. It is estimated that a total population of 8,000 smallholder tea growers exists in Thyolo and Mulanje districts. These formed the sampling frame of the survey. The smallholder tea growers was stratified into those that sell most of their tea to the Smallholder Tea Company (STECO) and those that mostly sell their tea to local estates. Given the time and resource constraints, 189 smallholder tea growers were interviewed, representing 2.4 percent of the total number of growers. About 35 percent of the farmers in the sample are members of the Smallholder Tea Growers Trust (STGT) that sells its tea to the Smallholder Tea Company while the rest are members of other associations and sell their tea to estates and other factories (Table 1).

Table 1 Distribution of Sample Growers (*N*)

Association and Market Channel	Mulanje	Thyolo	Total
STGT/STECO	77	12	89
Sukambizi Association /Mbodzi	24	-	24
Other Associations/ Commercial estates	46	30	76

Source: Smallholder Tea Farmers Survey 2005

The questionnaire (see Annex A) obtained data on the socio-economic profile of smallholder tea growers, land use patterns, relative importance of tea farming in the livelihoods, technology and investments in tea farming, processing, marketing and marketing channels, labour market issues, linkages with buyers and associations, services, problems and constraints in smallholder tea farming, and social networks.

3.2 *Qualitative Approach*

In addition to questionnaire based interviews with growers, interviews were conducted with key stakeholders that offer supporting services to the smallholder tea growers particularly with respect to formal and informal networks, tea processing and marketing. The focus group discussion and key informants' interview guides are in Annexes B and C, respectively. These stakeholders include smallholder tea growers associations (formal and informal), the Smallholder Tea Company, Local estates or factories, and the Tea Association of Malawi (see Annex D).

The focus group discussion sought information on well-being (categorization of farmers and, sources of income and changes in livelihood systems), farming methods, processing and marketing of tea, farmer organisations, roles and efficiency of various institutions interacting with smallholder farmers, and the problems and their causes in tea value chain. A total of eight focus group discussions were held – five in Mulanje and three in Thyolo. In Mulanje, two groups were those exclusively selling their green leaf to STECO and members of STGT and three were selling to other factories. In Thyolo, two groups were those selling exclusively to other factories or estates and one group had members that were selling green leaf to STECO and those selling to estates.⁴

Key informant interviews were conducted with the following stakeholders: STECO (management and selected trustees), leaders of other associations, selected tea estates in Thyolo and Mulanje, and the Tea Association of Malawi. Key informant interview focused on structural and policy changes, the management and governance of associations, strategies for survival for associations and the linkages that exists, the balance of power in STECO, the extent of price transmission from export markets to smallholder growers, quality problems and service delivery mechanisms.

4. **Characteristics of Growers**

4.1 *Socio-economic Analysis*

4.1.1 *Classification of Smallholder Tea Growers*

The smallholder tea sector comprises farmers with different characteristics. In most focus group discussions smallholder farmers were categorised in three groups based on land holding sizes and the types of crops that farmers cultivate. Table 2 shows the typical categorisation of smallholder farmers.⁵ Smallholder farmers estimate that more than 60 percent are small farmers and the rest are big farmers. Small farmers are those who hold less that 0.5 hectares of land and usually engage in diversification of crops cultivated while big farmers own more than 0.5 hectare and usually specialise in tea production (particularly those with more than 1 hectare of land). Most small farmers also participate in *ganyu* labour on estates or farms of big smallholder farmers while big farmers do not engage in *ganyu* labour on estates.

⁴ Some of the focus group discussions were held only with women while others had mixed gender.

⁵ However, the associations do not categorize farmers into these distinct groups and these categories are based on the perceptions of smallholder members in the focus group discussions.

Table 2 Classification of Smallholder Tea Growers

Category	Characteristic Features
Small Farmers	<ul style="list-style-type: none">• Hold less than 0.5 hectare of land• Grow tea but also diversify into other crops such as maize, cassava and fruits• Most have less experience in tea farming• Most do not use fertilizers and chemicals – either cannot afford or usually sell fertilizers they obtain on credit• Participate in <i>ganyu</i> labour on estates and on big smallholder farms• Usually apply manure in their tea farms
Big Farmers	<ul style="list-style-type: none">• Hold more than 0.5 hectares of land• Mostly specialize in tea farming• Most have more experience in tea farming• Use fertilizers and chemicals in their farming activities and can afford to purchase• Engage in <i>ganyu</i> labour on estates

Source: Smallholder Tea Farmers Survey 2005

4.1.2 Demographic Characteristics and Household Composition

Table 3 presents the characteristics of households. The households from which the sample of 189 smallholder farmers was drawn for interviews in the study had a total population of 1,044 persons. The average household size is 5.4 persons, 5.2 persons in Mulanje and 6.1 persons in Thyolo. It is noteworthy that the average household size is higher in the sample than the 4.1 persons and 4.3 persons in Mulanje and Thyolo found in the 1998 population census, respectively (NSO, 2000). Most of the households are male-headed; with only 37 percent of the sample households are female-headed. There are more female-headed households in the Thyolo sample compared with the Mulanje sample. Focus group discussions and key informants interviews revealed that women are increasingly becoming involved in tea farming.

Most of the household heads are married (73.5 percent), implying that at least a quarter of the households are widowed, divorced, separated or single. The age distribution of household members shows that most are economically active aged between 15 and 64 years, 58.1 percent in Mulanje and 60.8 percent in Thyolo. This provides pool of family labour for the smallholder farmers.

Table 3 Characteristics of Households

Variable		Mulanje	Thyolo	Total
<i>Number of Households</i>	<i>N</i>	146	43	189
<i>Mean Household Size</i>	<i>N</i>	5.2	6.1	5.4
<i>Sample Population</i>	<i>N</i>	779	265	1044
<i>Sex of Household Head</i>				
Female	(%)	36.1	39.5	36.8
Male	(%)	63.9	60.5	63.2
<i>Marital Status of Head</i>				
Married	(%)	72.6	76.7	73.5
Widowed	(%)	15.8	16.3	15.9
Divorced	(%)	7.5	4.7	6.9
Separated	(%)	0.7	2.3	1.1
Single	(%)	3.4	-	2.6
<i>Age Groups (Years)</i>				
Up to 5	(%)	10.4	6.0	9.2
6 – 14	(%)	24.5	26.8	25.1
15 – 64	(%)	58.1	60.8	58.8
65 – above	(%)	7.0	6.4	6.8
<i>Sex of Household Member</i>				
Female	(%)	46.9	46.0	46.6
Male	(%)	53.1	54.0	53.4

Source: Smallholder Tea Farmers Survey 2005

4.1.3 Educational Qualifications of Farming Household Heads

Most household heads have low levels of education (Table 4). About 25 percent of the household heads have never been through formal education (28 percent in Mulanje and 14 percent in Thyolo). This implies that about 75 percent of the household heads are able to read and write. Only a third of sample household heads completed primary education (Standard 8) and secondary education.

Table 4 Highest Level of Education of the Household Head (%)

Highest Level	Mulanje	Thyolo	Total
None	28.1	14.0	24.9
Standard 1-4	16.4	27.9	19.0
Standard 5-7	21.2	27.9	22.8
Standard 8	22.6	16.3	21.2
Form 2	9.6	9.3	9.5
Form 4	2.1	4.7	2.6

Source: Smallholder Tea Farmers Survey 2005

The main occupation for most of the household heads is farming accounting for 97 percent of the sample growers (99 percent in Mulanje and 95 percent in Thyolo). Only 3 percent (2 percent in Mulanje and 5 percent in Thyolo) take small business as their main occupation.

4.1.4 Major Sources of Income and Expenditure Patterns

Not surprisingly the major source of income for households is crop sales. About 95 percent of households generate their incomes from crop sales, followed by small business operations (23.7 percent) and *ganyu* labour on farms (10.0 percent). The mean incomes for sample growers is MK46,228 per year, and Thyolo growers have higher mean

incomes than Mulanje farmers (Table 5). However, the mean figures are highly influenced by outlier observations particularly incomes from salaried employment in Thyolo district. With respect to the market channel, the mean income of households whose members sell their tea to STECO is MK34,663 per annum which is lower than the mean income of MK49,819 per annum of those households whose members sell to other marketing channels.

Table 5 Mean Annual Household Incomes (Malawi Kwacha)

Income Source	Mulanje		Thyolo		Total	
	Mean	N	Mean	N	Mean	N
Crop sales	28,342	146	5,199	43	28,940	189
Livestock sales	12,628	9	15,050	2	10,437	11
Fishing	2,000	1	-	-	2,000	1
Small Business	20,618	43	17,199	20	19,603	63
Income Transfers	28,342	13	14,740	5	17,517	18
Wages from Public Works	-	-	7,250	1	7,250	1
Salaried Farm Employment	12,628	4	69,120	1	30,960	5
Salaried Non-farm Employment	2,000	3	43,200	3	41,200	6
<i>Ganyu</i> on Farm	20,618	27	12,350	4	6,121	31
Other <i>Ganyu</i>	18,585	5	2,250	2	11,393	7
Other Sources	21,420	14	16,900	3	17,146	17
<i>All Sources</i>	41,380	146	62,689	43	46,228	189

Notes: These figures need to be interpreted with caution due to measurement errors. The standard errors were generally higher than the means. The income from crop sales for Thyolo growers is suspect and potentially understated given that the gross profits from tea sales below are on average MK16,052 per annum.

Source: Smallholder Tea Farmers Survey 2005

The mean expenditure among growers is similar to the levels of mean income. On average, growers spend about MK41,049 per annum (Table 6). The main expenditure category is food expenses followed by expenditure on farm inputs and labour services. In Mulanje, two farmers remitted some of the income. In terms of marketing channel, we also find that the mean expenditure of households whose members sell their tea to STECO is MK31,145 per annum which is lower than the mean expenditure of MK43,878 per annum of those households whose members sell to other marketing channels.

Table 6 Mean Annual Household Expenditure (Malawi Kwacha)

Expenditure Category	Mulanje		Thyolo		Total	
	Mean	N	Mean	N	Mean	N
Food Items	18,460	146	20,716	43	18,962	189
Assets/Household items	3,788	62	5,487	15	4,119	77
Education Expenses	5,708	77	8,906	28	6,561	105
Health Expenses	2,957	69	6,815	20	3,824	89
Clothing Expenses	4,464	103	4,502	31	4,473	134
Transport Expenses	2,314	51	9,436	16	4,015	67
Housing	7,130	36	6,509	12	6,975	48
Farm Inputs and Labour	10,209	115	12,853	32	10,785	147
Remittances	1,725	2	-	-	1,725	2
All other expenses	5,333	3	5,052	4	5,172	7
Total Expenditure	38,494	146	46,482	46	41,049	189

Note: These figures need to be interpreted with caution due to measurement errors. The standard errors were generally higher than the means.

Source: Smallholder Tea Farmers Survey 2005

4.1.5 Access to Credit Facilities

There is high access to credit among smallholder grower households. Growers were asked whether any of the household members had obtained credit in the past 12 months. About 82 percent replied that household members obtained credit – 85.7 percent in Mulanje and 74.4 percent in Thyolo (Table 7). Most of the credit is intended for agricultural activities. The high accessibility to credit among smallholder tea growers is facilitated by the contractual arrangements that exist between growers associations and tea factories.

Table 7 Access to Credit among Smallholder Farmer Households

Variable	Mulanje	Thyolo	Total
Access to credit (% Yes)	85.7	74.4	82.3
Types of Credit (%)			
Agricultural credit	95.2	87.5	93.6
Small business credit	6.4	9.4	7.0
Consumption credit	7.2	15.6	8.9
Other credit	2.4	3.1	2.5
Amount of Credit (<i>Malawi Kwacha</i>)			
Agricultural credit	7,238	12,149	8,146
Small business credit	8,819	34,000	15,686
Consumption credit	3,146	2,424	2,889
Other credit	1,850	3,000	2,138

Source: Smallholder Tea Farmers Survey 2005

4.2 Farming Systems and Land Use

Land access is usually a key constraint in smallholder farming. Smallholder agricultural land in Malawi remains under a customary tenure system in which the rights to sell land are restricted while land acquisition is through subdivision from family members or traditional leaders. With the high growth in the population, land holdings are

becoming smaller and increasingly fragmented. Mulanje and Thyolo are districts with especially high land pressure. Most of the areas in which tea is grown are mountainous with high rainfall such that tea or other tree crops are the most suitable crops. However, smallholder tea growers cultivate a range of crops, including those with low yields under even the best farm management. In addition to tea, the crops grown in the surveyed areas include bananas, pineapples, pears, sugarcane, maize, cassava, pulses, vegetables and sweet potatoes. Due to the high rainfall, maize yields in the areas are very low even when the best farm management practices are used.

Most smallholder tea growers have fragmented land holdings reflected in the number of plots per household. On average, each household own 3 pieces of land in different locations (3 pieces in Mulanje and 2.6 pieces in Thyolo) with a maximum of 12 plots per household. These plots are usually small, averaging 0.6 hectares per plot. The total area of plots held by sample households in Mulanje is 267 hectares, but only 167 hectares are under tea while maize account for 30 percent of the total area. In Thyolo, the total area of plots held by sample households is 79 hectares and only 38 hectares are under tea. Plots that are used for maize cultivation in Thyolo have a total area of 37 hectares. Overall, 57 percent of the land is under tea while 33 percent is used for maize cultivation. Although some significant proportion of land is devoted to maize, only 13.2 percent of smallholder growers produce own food under a normal year to last them from one season to another. These smallholder farmers just produce food that lasts them 3 months on average. Otherwise, the bulk of these smallholder farmers (96 percent) rely on food purchases from markets and rely less on food transfers and *ganyu* labour to obtain food. This contrasts sharply with the data from the same districts in non-tea growing areas in which *ganyu* labour played an important role (at least for 32 percent of households) for food deficit households (Chirwa et al., 2003). Engaging in *ganyu* labour to obtain food is a strategy for only 15 percent of food deficit smallholder tea growers.

The high proportion of land used for maize cultivation reflects potential misuse of land for crops that are not suitable and provides opportunities for expanding tea production in the smallholder tea sector. This argument is underscored by the widely held view among stakeholders in the tea sector that the source of land for expansion in total area under tea is the smallholder sector. Most smallholder tea growers and all estates believe that there is poor land use in the smallholder sector, with many opting for low value and low yielding crops and not willing to invest in tea farming.⁶ Others have noted that there is potential to expand smallholder production within the existing land holding due to the existence of vacancies (open spaces) requiring replanting in many smallholder farms. In interviews, most smallholder growers held the opinion that land for tea expansion is available, while also complaining of an inability to afford seedlings to embark on infilling or planting programmes.

Overall the mean area under tea cultivation is 1.04 hectares, and farmers in Mulanje have relatively larger areas under tea cultivation (1.08 hectares) than those in Thyolo (0.9 hectares). The minimum land size under tea cultivation in the sample is 0.08 hectare while the maximum is 11 hectares. Table 8 shows the distribution of land under tea cultivation the sample districts. Nearly, half of the sample farmers cultivate less than 0.5 hectare and about 68 percent cultivate less than 1 hectare. Key informants

⁶ Smallholder farmers have to balance between the short-term cash needs to meet basic necessities, hence the choice between investing in annual crops and investing in a perennial crop like tea that takes three year to mature.

interviews revealed that the most economic size for tea farming is at least 1 hectare under cultivation.⁷

Table 8 Area under Tea Cultivation among Smallholder Farmers (%)

Land Category (Ha)	Mulanje	Thyolo	Total
0.8 – 0.49	43.5	46.5	44.2
0.5 – 0.99	23.8	23.3	23.7
1.0 – 1.49	9.5	11.6	10.0
1.5 – 2.00	10.9	14.0	11.6
More than 2.0	12.2	4.7	10.5

Source: Smallholder Tea Farmers Survey 2005

4.3 Input Use and Access to Credit Facilities

Most smallholder tea growers use fertilizers in their farms for tea and other crops. About 90 percent of smallholder farmers interviewed use fertilizers and the typical fertilizer is urea, which is relatively cheaper than compound fertilizers that are required to obtain the highest yields. Many stakeholders believe that use of compound fertilizers is one way of improving the productivity of smallholder tea, leading to around 25 percent in average yields. Some of the farmers that are selling to estates, such as growers selling to Eastern Produce Limited, have asked for the provision of compound fertilizers and plucking knives under the credit arrangement. However, very few farmers use pesticides or chemicals in the fields. Those that use the pesticides or chemicals purchase on their own and pesticides are not part of the credit package. Nonetheless, the estates and factories provide the bulk of inputs on credit (Table 9).

Table 9 Utilisation of Inputs in Tea Farms among Smallholder Farmers (%)

Variable	Mulanje	Thyolo	Total
Mean Fertilizer Used (Kg)	247.98	260.32	250.36
<i>Sources of Fertilizer (%)</i>			
Cash purchase	9.8	24.3	13.0
Credit from tea association	25.8	-	20.1
Credit from estates, factory or buyer	62.9	73.0	65.1
Other	1.5	2.7	1.8
Use of Pesticides or Chemicals (%)	19.0	4.7	15.8

Source: Smallholder Tea Farmers Survey 2005

4.4 Labour Use

The most economically active age group dominates the household composition among the sample smallholder tea growers. Thus, there is high potential supply of family labour on smallholder tea estates. About 95 percent of the smallholder farmers use family labour – 94 percent in Mulanje and 98 percent in Thyolo. Table 10 presents labour use among smallholder tea growers. It is apparent that family labour demand is high during weeding and application of fertilizers and tea plucking. Labour demand for land preparation is low because very little expansion is taking place. There is a marginal difference in family labour demand during weeding and tea plucking, with the former being more demanding than the latter. The data also reveals that on average

⁷ The farmer associations and estates believe that reasonable returns given good farm management practices and existing technologies are earned on smallholder farms that are 1 hectare or more.

more family members are involved in farming activities in Thyolo compared with Mulanje. Smallholder farmers in Thyolo use at least 23 percent more household members than in Mulanje. In terms of average man-days used in tea farming, the picture is the same with more family labour being used during weeding and tea plucking periods.

Table 10 Utilisation of Labour in Tea Farms among Smallholder Farmers

Farming Activity	Average Number of Members			Mean Man-days *		
	Mulanje	Thyolo	Total	Mulanje	Thyolo	Total
<i>a) Family Labour</i>						
Land preparation & planting	0.67	1.14	0.78	15.44	11.50	14.56
Weeding and fertilizers	2.65	3.26	2.79	106.09	81.19	100.66
Tea plucking or harvesting	2.60	3.21	2.74	149.25	121.88	143.05
<i>b) Hired Labour</i>						
Land preparation & planting	2.75	5.67	3.55	38.30	22.38	33.95
Weeding and fertilizers	2.85	2.83	2.84	131.61	48.12	114.61
Tea plucking or harvesting	3.07	3.05	3.07	181.40	106.66	167.92

Note: * Man-days are computed based on a normal working day of 8 hours.

Source: Smallholder Tea Farmers Survey 2005

The data also reveal that about 70 percent of households use hired labour in tea farming and most of this labour is engaged on *ganyu* basis. A higher proportion of growers in Mulanje use hired labour (74 percent) than in Thyolo (58 percent). More hired labour on average was used during land preparation and planting, particularly in Thyolo (Table 10) while in Mulanje more hired labour was used in tea plucking. What is also interesting is that although on average more persons are used in Thyolo than in Mulanje, more employment in terms of man-days is generated in Mulanje implying that they employ labour for longer periods. The high use of hired labour in smallholder tea farms underscores the importance of an efficient payment system for their proceeds.

In terms of the age distribution of hired labourers engaged by smallholder tea growers, 96 percent belong to the economically active age group. Child labour (9 – 15 years age group) was only evident in Mulanje in which 3.7 percent of the labourers are children. Eldring (2003) also found anecdotal evidence of child labour in the commercial tea sector despite insistence by the commercial tea growers that only adults are recruited for work in tea estates.

5. Organisation of Smallholder Growers

5.1 History of Smallholder Tea Sub-Sector

The smallholder tea sub-sector started in the late 1960s in Mulanje and Thyolo districts in southern Malawi. Smallholder tea was a government initiative with the objective of increasing the participation of local farmers in tea farming. Tea is one of the most important cash crops and major export earner for the country. However, estates mainly owned by European farmers and multinational corporations dominate tea farming. According to TAML (1974) the response from Malawians to participate in tea farming was rather disappointing, such that by 1966 only 30.8 hectares of land, mainly in Mulanje, were under smallholder tea cultivation. The Government of Malawi purchased

land for the introduction of tea to smallholder farmers, but in 1966 there was a lot of demand from farmers to cultivate tea on customary land.

This increase in the demand led to the establishment of the Smallholder Tea Authority (STA), as a quasi-commercial statutory corporation, to oversee the development of the smallholder tea sub-sector. The STA was established by the Special Crops Act of Parliament to foster and promote growing and marketing of tea by smallholder indigenous Malawians (STA, 1998). The Board of STA was appointed by the Government and included two growers and three growers representatives. The STA was initially funded by the Government of Malawi, which provided extension services and field staff on secondment while the Commonwealth Development Corporation financed through a loan agreement the planting 760 hectares of smallholder tea between 1967 in Phase I and 1971 and a further 1,660 hectares in Phase II (TAML, 1974). The STA was a member of the Tea Association of Malawi Limited (TAML), an association of tea growers established during the colonial period in 1943.⁸ Focus group discussions held with smallholder tea farmers revealed that smallholder farmers perceive the STA as a company established by the government that was formed to serve as a market for their tea and to promote smallholder farming.

The big expansion phase of the smallholder tea sector occurred between 1970 and 1979 in which about 130 hectares were planted per year (Table 11). The total area under smallholder tea cultivation expanded from 287 hectares in 1970 to 1,995 hectares in 1980. There has been modest increase in hectare under smallholder tea between 1980 and 1990 in which an additional 383 hectares were cultivated in the 10 year period. By 1990, the average size of holding per smallholder tea farmer was 0.46 hectares and 0.54 hectares in Mulanje and Thyolo districts, respectively. The number of smallholder tea farmers rose to 4,904 growers in 1990, of which 3,746 growers were in Mulanje and 1,158 growers were in Thyolo (TAML, 1991). Between 1990 and 2002, only 500 hectares have been added leading to a total of 2,902 hectares under smallholder tea cultivation. Productivity in the smallholder sector has been low compared to that of estates, although there has been steady increase in productivity until the late 1990s. According to STA (1997 and 1998), commercial estates registered about 12,000 kilograms per hectare while smallholder farmers only averaged 6,406 kilograms per hectare in 1998. With deteriorating access to inputs and extension services, smallholder productivity slumped to 810 kilograms per hectare in 2002 compared to 2,129 kilograms per hectare in estates (GOM, 2003).

Table 11 Area under Cultivation and Production in Smallholder Sector, 1970 - 2002

Period	Area under Cultivation (end of period) (Ha)	Average Increase per Annum (%)	Average Production (Kg)	Productivity (Kg/Ha)
1970 – 1979	1,995	59.5	1,739,600	1,210
1980 – 1989	2,376	1.91	8,959,491	3,840
1990 – 1998	2,550	0.73	14,099,047	5,785
2002	2,902	-	2,350,620	810

Source: TAML (1991), STA (various) and GOM (2003)

⁸ The Tea Association had representation on the Board of the STA among other Boards including the Water Resources Board, Agricultural Produce Promotion Board, Export Promotion Council and the Tea Research Foundation.

Originally, smallholder green leaves were sold to tea estates that had factories and farmers were paid by STA. However, with the expansion in the smallholder tea sector, it became apparent that the capacity of processing factories was not adequate to handle the volume of tea (TAML, 1991). In 1975, the government established the Malawi Tea Factory Company Limited as a joint venture activity of the STA and ADMARC, in which ADMARC owned 40 percent of the share capital. MATECO was conceived a commercially viable enterprise responsible for purchasing green leaf from smallholder farmers and marketing of processed smallholder tea. All smallholder farmers in Mulanje sold their green leaf to MATECO while a limited number of farmers in Thyolo sold to MATECO and others were allowed to sell to commercial tea estates.⁹ Due to the high variety of smallholder tea and the modern technology enabled MATECO to achieve prices well above the average prices for the industry (TAML, 1991).

The fall in smallholder output was also reflected in a decline in the production of processed tea by MATECO since the late 1990s. Information from key informants revealed a sharp decline in the production of tea from 3.4 million kilograms in 1997 to 1.6 million kilograms in 2001, 1.2 million kilograms in 2002 and 0.9 million kilograms in 2003.

5.2 Organisation of Smallholder Growers

The smallholder tea growers were organised into area (blocks) and district committees consisting of five members in each committee elected by growers. There were 23 blocks and 22 blocks in Mulanje and Thyolo districts, respectively. The blocks in Thyolo were more dispersed than those in Mulanje although the latter have many farmers. The committees were responsible for selecting potential growers, informing smallholder farmers of policy decisions of the STA and advising and assisting the STA in management through their representation on the STA Board (TAML, 1974). The smallholder tea growers were tied to the STA, such that all smallholder tea farmers were required to register with STA and by association all smallholder tea farmers belonged to the STA. Thus, *during the lifespan of the STA there was no legally established association of smallholder tea farmers*. The STA was accountable to the Government of Malawi as one of the statutory corporation and smallholder growers did not have any influencing voice.

The smallholder tea growers were tied to the STA through various services that it provided to farmers. First, the STA provided the smallholder farmers free tea seedlings as part of the government sponsored development programme under the European Union STABEX facility. STA also provided loans to new growers for expansion of cultivation. These loans had a maturity period of 30 years and a grace period of 5 years. In 1998, growers' outstanding loans amounted to MK1.05 million from MK1.5 million in 1997 and MK1.8 million in 1996. Secondly, the STA provided inputs, such as fertilizers and chemicals, on credit to smallholder farmers. STA had access to lines of credit from financial institutions to procure fertilizers for smallholder farmers. In 1981 seasonal credit for fertilizers was withdrawn except to growers with newly planted tea of less than 5 years in the field (STA, 1982). Farmers were encouraged to save money through clubs to buy fertilizers. However, in the 1990s MATECO provided loans to creditworthy smallholder growers (about 98 percent). The seasonal loans to smallholder farmers were obtained from the Finance Company of Malawi (FINCOM) through MATECO.

⁹ Due to the distance between smallholder blocks in Thyolo and MATECO in Mulanje, it made economic sense to allow smallholder farmers that were very far but close to estates to use alternative market channels but their proceeds were paid to STA.

Thirdly, the STA provided the market for the green leaf from smallholder farmers as an intermediary between smallholder farmers and estates that owned processing factories. The estates were dealing with STA, rather than deal with smallholder farmers directly. In the post-1975 period the main buyer of smallholder tea leaf was a subsidiary of STA, MATECO, although some farmers in Thyolo were allowed to continue selling to commercial estates due to transport logistic problems. The STA purchased the green leaf from smallholder farmers and the first payment was usually made within 10 days from end of the month, and depending on the final market outcome of processed tea farmers received a second payment. Fourthly, STA collected and weighed the green leaf from smallholder blocks and transported the green leaf to the factories. Fifthly, the STA provided extension workers who provided guidance to smallholder farmers on tea farm management. These extension workers were housed close to the smallholder tea blocks. Finally, according to focus group discussions with smallholder farmers, the STA also provided maize on credit to smallholder tea farmers. This was an important intervention given that the gestation period of tea is about 3 years. The maize loan scheme was therefore effective in influencing farmers to substitute maize production.

5.3 The Management and Performance the STA

The general manager of STA was an expatriate between 1967 and 1985. The performance of the STA was initially satisfactory and most smallholder farmers interviewed indicated that the STA was most effective in delivering the services. This also coincided with the highest expansion phase of the smallholder tea sector. Malawian management took over in 1986. Nonetheless, the STA had never shown convincing evidence that it had achieved the status of a sustainable organisation in terms of its financial performance. The performance in terms of profits has been erratic and had mainly incurred losses especially in the 1980s with some intermittent recovery in the early 1990s. The financial position worsened in the late 1990s with a loss of K8 million. The worsening financial position led to massive debt accumulation by the STA. In 2002 the STA owed the Malawi Government K1.2 million and K1.1 million in arrears on loan interest payments and principal, respectively.

There were several factors that contributed to the poor performance of the STA. First, like with many other state-owned enterprises, the STA had conflicting objectives that resulted in operational inefficiency (Lawson and Kaluwa, 1996). Kaluwa (1989) notes the twin objectives of STA – commercial efficiency (cost recovery) and expansion of the smallholder sector – often conflicted. The latter implied embarking on expansion activities that were economically inefficient but socially desirable in terms of number of farmers participating in the smallholder tea sector. For example, between 1978 and 1988, leaf collection costs accounted for 7.5 – 15.5 percent and finance charges accounted for 8.8 – 22.2 percent of total expenditure (Kaluwa, 1989). Second, key informants argued that the STA became over-staffed and was grossly mismanaged. Third, there was growing political intervention in operational issues of STA with the appointment of politicians on the Boards. This political pressure was more damaging in a less repressive multiparty political culture of the late 1990s. As the only state-owned enterprise based in Mulanje and Thyolo, vehicles of the company were increasingly being used for political activities without compensation while smallholder plucked green leaf was left wilting at the collection points. Fourth, during the labour crisis and disputes in 1992 that led to the introduction of a multiparty political system, smallholder farmers started demanding higher prices for tea. Although, small price increases were conceded, they further weakened the financial position of both STA and MATECO. Fifth, the increase

in fuel costs increased the costs of collecting the green leaf particularly from Thyolo farmers that were selling their tea to STA, notably those in Thekerani and Bvumbwe areas. In 1988, leaf collection costs were in the order of 15.5 percent of total expenditure (Kaluwa, 1989).

The developments at STA also affected its subsidiary company, MATECO, a factory that was buying and processing smallholder leaf. In the late 1990s, the political interference that was hitherto confined to STA extended to MATECO. ADMARC, as a joint owner also gained more power as a shareholder and tended to withdraw funds from MATECO (through inter-company unsecured loans or advances) to cover deficits elsewhere. Most smallholder farmers believe that there was total neglect of their cause by STA and MATECO since the introduction of multiparty system of government in 1994. Furthermore, most smallholder farmers believe that the STA and MATECO became more corrupt, over-employed with existence of ghost workers and high levels of political interference. In addition, there was neglect of equipment at the factory, while MATECO and smallholder farmers had no legal mandate to influence the management of STA and MATECO.

These factors led the STA to neglect the smallholder farmers. The STA failed to honour its obligation of paying smallholder farmers in time for their green leaf. Some farmers could go as much as six months without receiving their proceeds from STA although the factories had paid STA in time. The input credit program that operated in the 1980s and 1990s collapsed due to the financial problems that led to the failure of STA to pay its debts. According to STA (1997) although loans were recovered from growers, the loan was not repaid to FINCOM because funds were diverted to bonus payments in spite of losses MATECO made in the 1995/96 financial year. In 1998, FINCOM only financed 350.5 tonnes of fertilizers out of the requirement of 616 tonnes.

The financial problems in STA also led to the erosion of the services that the organisation was providing such as input and maize credit and extension services. According to STA (1997), frontline extension workers were removed in the 1993/94 season and the extension service was virtually non-existent in the 1996/97 season. The transport facilities become wanting – most frequently breaking down and not being maintained or replaced. The erosion of extension services and lack of inputs in turn led to declining quality of tea leaves and low productivity in the smallholder tea sector.

These developments had tremendous impact on the livelihoods of smallholder farmers – for most tea farming was the main source of livelihood. Most farmers from focus group discussions, cited situations when their plucked green leaf wilted due to delays in transport and how they waited for long periods to receive proceeds from tea sales.

Most growers lost faith in the STA and MATECO and consequently sought alternative marketing and marketing relationships with other factors especially commercial estates. Most farmers deserted the STA and MATECO and started negotiating with commercial estates close to their gardens as customers for their green leaf. The estates, though willing, only accepted to deal with smallholders with the authorization of STA. Initially, estates were allowed to purchase green leaf from smallholder farmers around their estates but proceeds were paid to STA. Although commercial estates were paying STA regularly, smallholder farmers continued to experience delays in receiving proceeds from green leaf sales. In response, smallholder growers demanded direct contracts and payment with estates rather than dealing with STA. This pressure from smallholder farmers in a more democratic political environment enabled farmers to secure contract

agreements with estates. The commercial estates are willing to deal with smallholders partly due to their interest in seeing the smallholder sector grow in Malawi, a desire to improve their factory capacity utilisation and also because smallholder tea is of a higher quality variety which in turn improved the quality of the seedling tea in estates.¹⁰ In addition, the STABEX facility enabled estates to embark on a replanting program replacing seedling tea with clonal variety and this generated demand for smallholder tea. Apart from the improvements in the quality of tea from a mix of clonal smallholder tea and estate seedling tea, smallholder tea boosted capacity utilization of the factories by estates that were replacing their seedling tea with clonal variety under the STABEX facility.

Consequently, MATECO lost most of the farmers to commercial estates. One key informant reported an exodus of smallholder growers from STA and MATECO, such that by 2002, of about 8,000 smallholder growers only 800 were still selling green leaf to MATECO. Results from focus group discussions with smallholder farmers indicate that those that continued to sell tea to STECO owe their loyalty to the belief that the company was created for them. However, those that have moved out cite inefficiency in the delivery of services especially untimely payments of tea proceeds and transport problems and late collection of tea leaves from farms. With a reduction in the supply of green leaf, MATECO was only using 30 percent of its installed capacity. Its financial performance deteriorated further and it had accumulated a debt of MK45 million (\$0.6 million), the factory equipment was rarely maintained, vehicles and tractors that were donated by the European Union had worn out and were poorly maintained. STA/MATECO in the 2002 financial year had a combined operating loss of MK100 million after farmers were paid their arrears.

5.4 Reforms in the Smallholder Tea Sub-Sector

The crisis in the management and the operational inefficiency of the STA and MATECO initiated the reform process by the Government through the Privatisation Commission, in preparation of the eventual privatisation of STA and MATECO (Privatisation Commission, 2002 and 2003). Following studies by the Privatisation Commission, the STA was merged with MATECO. A trust, the Smallholder Tea Growers Trust (STGT), was registered in April 2002. The STGT took over the shares of ADMARC Investment holding Company. The STGT has seven trustees including 3 growers (2 from Mulanje and 1 from Thyolo), 2 traditional chiefs (1 from Mulanje and 1 from Thyolo), 1 from the Society of Certified Accountants of Malawi (SOCAM) and 1 from the Law Society of Malawi. Under the restructuring, all smallholder tea growers were designated members of STGT. Smallholder growers in a meeting that was facilitated by the Privatisation Commission directly elected the three trustees on the STGT. In June 2002, the tea factory, MATECO, underwent and completed a rationalisation programme in which excess employees of STA and MATECO were laid off. MATECO became known as the Smallholder Tea Company (STECO) as a government enterprise within a transitional arrangement and was entrusted to the STGT.¹¹ This meant that the STGT was

¹⁰ The engagement of commercial estates with smallholder farmers has also delivered other external benefits such as security around tea estates and improved community relationships and partnerships between the communities and estates on social services. Some of the estates are providing clean water to the communities, health services and facilities and education facilities.

¹¹ The creation of the STGT and its mandate to manage STECO is a three-year transitional arrangement pending the eventual privatisation in which smallholder farmers will have ownership stake in the factory. According to the Privatisation Commission (2003) the shares of STECO are held by the Trust for ultimate disposal to growers, management and staff.

responsible for managing STECO through the appointment of the Board, and effectively STECO became a quasi-farmer-operated processing factory. The Board of STECO has 9 members with 4 growers (with 2 STGT trustees) and 5 individuals appointed for their competence. An important point to note here is that the STGT is dominated by farmers and while the Board of STECO is dominated by individuals appointed by their professional competence. However, the disproportionate representation of smallholder growers on STGT and the Board of STECO has been a source of discontent about the proposed privatisation or rationalisation of STA and MATECO among some powerful growers who felt left out in the management of the smallholder tea sector. The government also promised to absorb the MK45 million debts accumulated by MATECO as part of restructuring.

The restructuring of STA and MATECO led to recruitment of new management to run STECO. The Board filled three key positions, General Manager, Finance Manager and Factory Manager. The new management was given the mandate to transform STECO from a loss making business venture into a more profitable investment. The Board set performance guidelines for management including production of high quality tea, minimisation of operational costs and prompt payment to smallholder farmers based on cash flow with minimal recourse to bank finance. These reforms have brought substantial improvements in the performance of STECO, within an environment without access to finance from the banking system. The government handed over a collapsing company to STGT without any capital or operational cash injection. First, the number of farmers selling green leaf to STECO has increased from 800 growers in 2002 to 2,500 growers by 2004 mainly due to improvements in payments of proceeds to farmers and timely provision of inputs. Second, as a result of improvements in service delivery to farmers, factory capacity increased from 30 percent in 2002 to 62 percent in 2004. Third, STECO also managed to secure forward contracts with buyers in Malawi, providing the necessary working capital. Fourth, STECO managed to pay part of the debt inherited from MATECO to the tune of K12 million from tea proceeds. Fifth, STECO has invested in a vibra-sorter to improve the grading of tea. This investment in capital is worth MK1.5 million and was funded from cash flow. Sixth, management of STECO has also managed to maintain factory equipment regularly while maintaining a positive bottom line. Finally, STECO has resumed paying the second payment to smallholder farmers to the tune of MK1.50 per kilogram of green leaf sold to STECO between 2003 and 2004.

5.5 Re-organisation of Smallholder Tea Growers

The strategy of the Privatisation Commission and Government was to unify all smallholder tea growers under one association – the STGT – as was the case under the defunct STA. The smallholder growers were organised into clubs as the smallest unit. The clubs form the business centres (formerly blocks) and the business centres form zones. There are 3 zones, 2 in Mulanje and 1 in Thyolo. The zones constitute the STGT. Under the restructuring, smallholder tea growers, those that abandoned STA/MATECO, were expected to resume selling green leaf to STECO. STECO in turn was expected to purchase tea from smallholder growers and honour its obligation of paying smallholder farmers in time and in providing inputs on credit. However, the issue of providing extension services did not form the post-restructuring business model.

Nonetheless, some of the smallholder farmers, especially the larger scale, educated and powerful ones, were unhappy about the restructuring and privatisation process and believed that the process was irrational and left very little role of the farmers in

managing the smallholder tea sector.¹² For some smallholder farmers, the creation of STGT was seen as the maintenance of a status quo in which smallholder farmers were forced into an association from above. Exacerbated by the inefficiency of STA and MATECO and the political dispensation and the fact that they were doing well in their engagement with commercial farmers, the elite farmers started influencing other farmers to form their own association, thereby breaking away from the STGT.¹³

In 2003, splinter associations started to emerge – the Sukambizi Smallholder Tea Growers Association (SSTGA) in Mulanje, the Thyolo North Tea Growers Association (TNTGA) in Thyolo and the Chizunga Smallholder Tea Growers Association (CSTGA) in Thyolo. Nonetheless, the associations maintained the club and block structures of the STGT. Some of the smallholder farmers have maintained their loyalty to STECO despite the difficulties the company has experienced. Others that used to sell to commercial estates have resumed selling the green leaf to STECO and the STGT has a membership of about 2,500 smallholder growers from 7 blocks in Mulanje and 8 blocks in Thyolo.

The Sukambizi Smallholder Tea Growers Association (SSTGA), with the main objective of fostering unity among smallholder growers and coordinating their activities was formed in mid-2003.¹⁴ Some of the principal objectives include unifying growers to negotiate and express their needs with commercial estates that are customers for green leaf and other services to growers; acting as mouthpiece of growers to government and other institutions; securing better prices and services to increase quantity and quality of tea; and to promote the development of smallholder tea in Mulanje. SSTGA draws its members from 16 of the 23 blocks which formed their own association in mid-2003. Presently the SSTGA has 4,807 smallholder growers cultivating a total of 1,860 hectares (0.4 hectares per grower). The 16 blocks of SSTGA sell their green leaf to commercial estates such as Eastern Produce Limited (4 blocks), Lujeri Tea Estates Limited (9 blocks) and to a factory leased by SSTGA from the Tea Research Foundation (TRF), the Mbozi Tea Factory (3 blocks). The Mbodzi Tea Factory is owned by TRF and was being used to process their trial tea. TRF stopped processing tea and smallholder farmers organized themselves to lease the factory, which has one production line with a processing maximum capacity of 40 tonnes per day of green leaf.

The Thyolo North Tea Growers Association (TNTGA) was formed in 2003 and it initially sold green leaf to Makandi Tea Estates Limited. TNTGA initially comprised of 13 blocks. However, according to focus group interviews, smallholder farmers started experiencing payment problems with Makandi Tea Estates Limited and decided to look for alternative market places. Some blocks refused to switch and those that switched to selling their tea to Satemwa Tea Estates Limited (3 blocks) and Conforzi Tea Estates Limited (4 blocks) form the current TNTGA. The objective of TNTGA is to give farmers representation so that they have a voice in the development of the sector and to improve access to alternative market channels. The association is funded through a MK0.10 levy on each kilogram of green leaf sold by each member.

¹² Some of the growers are highly educated and retired government or private sector officers, more knowledgeable than the average farmers. Some key informants believe that the problem was more a power struggle among the blocks that were lead by these 'elite' smallholder farmers and felt left out when only three trustees were selected among the farmers.

¹³ Ironically, STGT still consider all smallholder tea growers as its members and is actively campaigning to have as many smallholder farmers sell their green leaf to STECO.

¹⁴ According to the Chairperson of SSTGA, the association is registered as a limited company – possibly limited by guarantee. The association appointed a law firm as legal advisor and to facilitate the process of registration.

The Chizunga Smallholder Tea Growers Association (CSTGA) is a remnant of TNTGA that sells its green leaf to Makandi Tea Estates Limited. CSTGA draws its membership from 6 blocks. According to focus group discussions, Makandi Tea Estates Limited could not buy all the tea that the smallholders were producing and association leaders started looking for alternative markets, but other blocks chose to continue selling tea to Makandi.¹⁵ CSTGA was set up in mid-2004 to act as an intermediary between smallholder farmers that refused to opt for other market places and Makandi Tea Estates Limited. The association has trustees and is headed by a President while at block level a committee headed by a chairperson represents the farmers. CSTGA has introduced a membership fee of MK200.00 per grower per year.

It is apparent that there have been dramatic changes in the organisation of smallholder tea growers since 2002. The financial and management crises both at STA and MATECO, freedoms of association and a democratic political dispensation have contributed to the changing structure of smallholder organisations in the tea sector. The top-down approach of creating farmer organisations has not been sustainable – and smallholder farmers sought alternative ways of organising themselves into smaller associations. However, the elite smallholder farmers have been instrumental in the formation of splinter associations. The opening up of the marketing of smallholder green leaf has widened the choice of market channels for smallholder farmers. Farmers are able to switch between different market places based on the quality of services offered by factories.

While the self-selecting farmer associations are positive developments with respect to farmers' voice in the tea sector, the associations are dogged with many problems that affect their effectiveness in the delivery of services to their members. First, most focus group discussion interviews revealed that the general membership of these associations is not fully aware of the objectives and the progress that has so far been made by their associations. Most take the role of the associations being that of linking them to the market place. The low level of education among the smallholder tea growers exacerbates their limited understanding of the role of the associations. In some, the elite farmers that have been instrumental in mobilising others to form different associations from STGT are still playing a dominant role. Focus group discussions revealed that in some cases 'elite' farmers are running the associations undemocratically in which leaders make decisions without consulting the general membership and do not allow dissenting voices from members.

Second, although the association are new, focus group discussions revealed that most members feel that the associations do not still have any influence on major aspects of tea farming particularly on the pricing of green leaf. Smallholder growers observed that the prices are discussed between association leaders and factories without wider consultation with the general membership of the associations. Table 12 shows that 82.8 percent of STGT members believe that the association has not been effective in getting better prices for their members, while for growers in the new associations seem to appreciate the role of their associations in getting better prices.

¹⁵ Other farmers argued that the MK0.10 levy on every kilogram sold charged on members of the TNTGA was one of the reasons some of the blocks decided to form their own association.

Table 12 Perceived Problems with Smallholder Tea Associations (%)

Association		Mulanje	Thyolo	Total
STGT	Not effective in getting better prices	81.8	88.9	82.8
	Poor extension services	74.5	66.7	73.4
	Poor governance and accountability	72.7	77.8	73.4
	Lack of capacity	49.1	88.9	54.7
	Lack of financial resources	72.7	66.7	71.9
Other Associations	Not effective in getting better prices	0.0	100.0	66.7
	Poor extension services	0.0	100.0	66.7
	Poor governance and accountability	100.0	100.0	100.0
	Lack of capacity	0.0	100.0	66.7
	Lack of financial resources	100.0	100.0	100.0

Source: Smallholder Tea Farmers Survey 2005

Third, the lack of knowledge of the objectives and activities of the associations by their members suggests limited scope for transparency and accountability. About 73 percent of STGT members and 100 percent of growers belonging to splinter associations believe that there is poor governance and accountability in the associations. In all the associations, including STGT, there are no clear structures of accountability and monitoring of the activities of the association.

Fourth, it is apparent from Table 12 that the associations lack capacity to run the associations effectively. The weak financial base of the associations exacerbates the problem of capacity. The STGT is operated with funding from STECO and there is no membership contribution towards the running of the Trust. The new associations rely on member subscriptions, which is hardly adequate to run their affairs.

5.6 Responses from Tea Industry

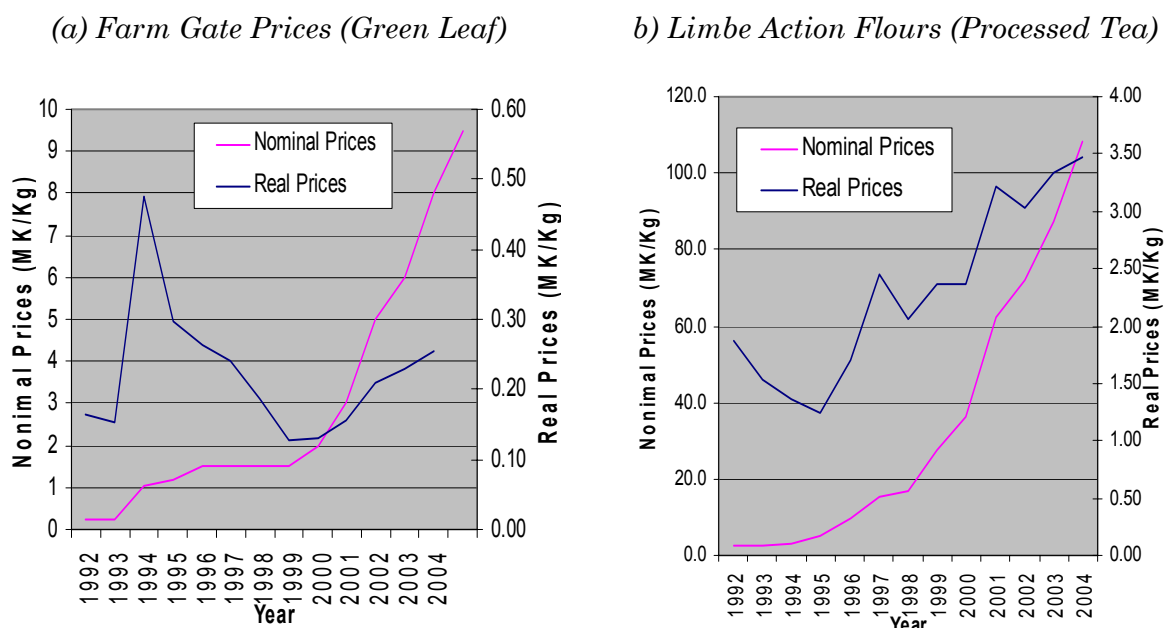
The tea industry has responded positively to the changes that have taken place in the smallholder sector. The formation of smaller associations also meant that smallholder farmers became more fragmented and were not speaking with one voice, and it was becoming difficult to channel external support to smallholder farmers as they used to get from STA. The associations are new and will take sometime to demonstrate good governance and accountability to potential donors. The commercial estates have always wanted the smallholder sector and STECO to develop. However, they saw the fragmentation of smallholder groups as a disadvantage to the development of the smallholder sector, and want the sector to be more organised. The Tea Association of Malawi (TAML) became more involved in smallholder issues.

First, TAML initiated involvement of smallholder farmers in the setting of prices for green leaf and agreed as industry guideline to make second payments based on the marketing outcome of processed tea.¹⁶ All the commercial estates awarded second payments to the smallholder farmers, with some using the second payment as a credit on fertilizer loan and paying the cash balance to the smallholder farmers. The second payments ranged from MK0.20 per kilogram (Mbodzi Tea Factory) to MK20.00 per kilogram depending. STECO paid MK1.50 per kilogram as second payment to farmers. Previously, prices that farmers received for their green leaf were dictated by STA. The

¹⁶ Due to the different scale of operation for the tea estates and factories, there are bound to be variations in the second payment to farmers – with larger farmers paying relatively more than the smaller estates or farmer operated factories such as STECO and Mbodzi Factory.

smallholder associations and the estates/factories have also agreed to periodically review the price of green leaf – in June every year. This consultative process has resulted in the price of green leaf rising from MK5.00 per kilogram in 2000 to MK9.50 per kilogram in 2004. Figure 1 shows the price trends of green leaf (farm gate prices) and processed tea at the Limbe Auction Floors between 1992 and 2004.¹⁷ In nominal terms, there has been substantial increase in the price of green leaf rising by 22.5 percent per annum between 2000 and 2004 (Figure 1 (a)). In real terms there has been a modest increase in the price of green leaf rising only by 19 percent per annum between 2000 and 2004. However, the auction prices for tea have been stable particularly in dollar terms, but have increased substantially in Malawi Kwacha in nominal terms due to the depreciation of the Malawi Kwacha (Figure 1(b)). The real prices of processed tea at the Limbe Auction Floors increased by only 9.3 percent per annum between 2000 and 2004.

Figure 1 Prices of Green Leaf and Processed Tea in Malawi, 1992 – 2004



Second, the TAML has facilitated the formation of the National Steering Committee of Smallholder Tea Growers (NSCSTG) as an umbrella organisation. TAML sponsored meetings with smallholder associations including the STGT at which a 10-member committee was elected with 6 members from associations in Mulanje and 4 members from associations in Thyolo.¹⁸ The NSCSTG has had one meeting with the Government to brief them on the developments that are taking place in the smallholder tea sector.

Third, the TAML is creating a Smallholder Desk to be based at TAML head offices in Blantyre and will recruit a Smallholder Manager responsible for the affairs of smallholder tea growers. TAML will initially fund the smallholder desk. Meanwhile, TAML is talking to donors about how they can assist the smallholder sector, and donors are showing a lot of interest provided there is a transparent and fully elected body of

¹⁷ The conversion factor from green leaf to processed tea is 4.5 kilograms of green leaf make 1 kilogram of finished tea.

¹⁸ Women form a significant part of growers but the Steering Committee did not have representation from women. The TAML has asked the elected committee to co-opt women farmers from Mulanje and Thyolo in sub-committees to engender the national committee.

smallholder farmers. The purpose of the smallholder desk is to promote the organisation of smallholder farmers and as a vehicle of channelling donor assistance to smallholder farmers through a more transparent and accountable body.

Fourth, commercial estates have also taken over the responsibility of providing input credit to the smallholder growers under contracts between smallholder associations and factories. Under the contract, the association commits blocks to sell their green leaf to the respective estates as a way of facilitating credit repayments and estates guarantee to purchase smallholder green leaf and to pay farmers in good time. Fertilizer is the critical input to achieving higher productivity of tea farms.¹⁹ The farm inputs are provided to smallholder farmers at cost – and farmers do benefit from cheaper fertilizers through the bulk purchase by estates. Commercial estates are also providing seedlings to smallholder farmers for infilling activities at cost. For example, Lujeri Tea Estates Limited and Satemwa Tea Estates Limited provide seedlings at MK2.50 and MK3.50 per plant to its smallholder farmers, respectively. The commercial price of seedlings at TRF is MK6.50 per plant. The input loans are deducted directly from the smallholder proceeds over a four-month period – January to April – the period of high tea production.

Fifth commercial estates have established dedicated departments responsible for smallholder growers including provision of extension services. All the commercial estates in the survey have employed smallholder managers and field assistants that advise smallholder growers on farm management. The estates are encouraging farmers to take a more business approach to tea farming. Such extension services are not available for smallholder growers selling to smallholder-operated factories of STECO and Mbodzi Tea Factory.²⁰ Nonetheless, the quality of extension services offered by commercial estates varies considerably. Lujeri Tea Estates Limited has three field assistants each responsible for three smallholder farmer blocks

Finally, the estates are increasingly involved in social development work within the communities. Some of the commercial estates are providing access to health care, education and other social services to smallholder growers and the community. Most of the estates are active in construction and rehabilitation of education facilities, provision of clean water and provision of health services. For example, Satemwa Tea Estates Limited has an HIV clinic for the community and Lujeri Tea Estates Limited has extended its water supply to the communities and also provides transport facilities to the hospital.

6. Marketing and Processing of Tea

Tea farming is a high investment economic activity with vertical relationships involving farming, processing and marketing of tea. A fully integrated firm invests in tea plantations and tea a tea processing plant. This implies that smallholder growers, who on average cultivate 0.4 hectares of tea, cannot afford vertical ownership of production and processing activities individually with the existing processing technologies. The sunk costs of a processing plant are high and the efficiency also depends on the optimal

¹⁹ Traditionally, smallholder farmers have been using urea fertilizer in their farms, but some farmers are asking estates to procure the more expensive fertilizer - the NPK, which estates use and is better than urea.

²⁰ For STECO, extension services are seen as cost saving aspects of their operations and the Trustees have resisted pressure to provide these services to the farmers. However, in the long run may not be good for the development of the smallholder sector.

volume of green leaf available to the processor. As such the development of smallholder farmers in Malawi partially depends on the existence of vertical contracts with the commercial estates and factories. Tea is harvested throughout the year, but in Malawi tea is rain-fed and the peak production period is the rainy season. The best tea is the three budding leaves and is harvested in cycles of 7-11 days and 14 days. Tea is also a crop that requires very short duration between plucking and processing – hence proximity to processing facilities or efficient transportation is critical for maintaining quality.

6.1 Marketing of Smallholder Green Tea Leaf

The smallholder green tea leaves are sold to commercial estates and factories. Initially all smallholder farmers sold their tea to commercial estates. However, with the expansion of the sector in the 1970s, the Government invested in a tea processing plant to be responsible for purchase and processing of smallholder tea. As described above, recently due to financial problems and inefficiency of state enterprises, some smallholder farmers have entered into contractual agreements with estates close to their farms to supply the green leaf. These marketing agreements entail that the smallholder sell tea at specified points around the field where the tea is weighed and collected by the estates or factories. The grading of green leaf is done while plucking – by plucking the three budding leaves. Each smallholder farmers has records maintained by the factory on the amount of tea supplied to the factory.²¹ The smallholder farmers have alternative market channels to sell their green leaf through their associations. Table 13 shows the average production and sales of green leaf during the past 12 months. On average production and sales are higher among growers that sell to estates than those that sell to grower-operated factories, but the average production between Mulanje and Thyolo farmers are similar.

Table 13 Marketing of Smallholder Farmers’ Green Leaf

	Mean Production (Kg)			Mean Sales (MK)		
	Mulanje	Thyolo	Total	Mulanje	Thyolo	Total
STECO	2,985	2,985	2,616	24,328	22,373	24,065
Mbodzi	4,391	-	4,391	42,415	-	42,415
Estates	6,088	6,894	6,406	52,326	59,223	55,013

Note: Total of 89, 24 and 76 smallholder growers are selling to STECO, Mbodzi and Estates, respectively.

Source: Smallholder Tea Farmers Survey 2005

Since the price is set at industry level through a consultative process between growers and estates and factories, the choice of the initial price paid for the green leaf does not play a major role in the choice of the market place.²² Similarly, all commercial estates and other factories provide input credit to the smallholder farmers, and input credit does not constitute a significant advantage for the market channel. Focus discussion groups with growers revealed that prompt payment, level of second payment, availability of input credit, proximity and certainty of transport services and social services are some of the most important factors that influence the choice of the marketing channel for green leaf.

²¹ The commercial estates deduct 10 percent while STECO deducts 5 percent from the total volume as weight loss.

²² The industry price of green leaf is MK9.50 per kilogram. All factories pay this price to growers with the exception of Mbodzi that pays growers MK10.00 per kilogram.

Table 14 shows the various reasons why smallholder farmers sell to various market places. It is apparent that efficiency in payment of farmers is the main advantage with commercial estates and Mbodzi Tea Factory. The main advantage with STECO is that it has a long history of association as a market place for smallholder tea growers. Most smallholder farmers that sell to STECO perceive the company as their own as it was created to serve them and hence their loyalty to STECO. Another advantage of dealing with STECO compared to other market places is that payments to farmers are made in the communities while for estates farmers have to collect their funds from the factories. In terms of disadvantages STECO scored highly on lack of cash to pay smallholder farmers (about 21.4 percent of growers) and lack of transport facilities (12.7 percent) while estates scored highly on cheating on measurements by clerks (32.1 percent of growers). Untimely payment of proceeds is one of the reasons why 52.1 percent of all farmers in the sample were selling less to STECO over the past 5 years.

Table 14 Advantages of Market Channels used by Smallholder Growers (%)

Advantage	STECO	Mbodzi TF	Estates
Best price offered	4.1	20.0	2.4
Close location	5.8	16.0	6.1
Pre-established relations with buyer	34.7	8.0	6.1
Buyer provides advance	2.5	-	1.2
Buyer provides input credit	11.5	-	3.7
Buyer has readily cash	3.3	36.0	59.8
No cheating on measurements	14.9	8.0	2.4
Buyer purchases and pays on time	8.3	4.0	8.6
Other advantages	20.2	8.0	9.8
<i>Number of growers</i>	<i>121</i>	<i>25</i>	<i>82</i>

Source: Smallholder Tea Farmers Survey 2005

6.2 Processing and Marketing of Processed Tea

The processing of smallholder green leaf is done by STECO, Mbodzi and commercial estates who own factories. Although a variety of teas are grown, currently there are no separate processes for different types of tea leaves in factories owned by estates. The estates mainly grow seedling tea, which is of lower quality than the clonal varieties grown by smallholder farmers. Smallholder growers, however, exclusively supply STECO and Mbodzi factories. The mix between seedling tea and clonal tea in some tea factories tends to improve the quality of processed tea in estates, although it can be argued that the tea processed by STECO and Mbodzi is of better quality because it is purely clonal. Eastern Produce Limited is the largest estates of the 11 commercial estates, owning 24 of the 44 estates and operates 10 processing factories (Eldring, 2003). Most of the factories already operate at near or full capacity especially factories in estates during the peak season of January - April. Mbodzi operates at full capacity while STECO due to desertions by smallholder growers operates at 62 percent of its capacity.

Interviews with stakeholders in the industry revealed that the capacity of factories is highly constraint and will potentially limit the growth potential of the smallholder farmers. Most estimate that production from smallholder farmers is increase and is likely to increase with the participation of commercial estates who are providing services that are likely to increase the productivity of smallholder growers. The capacity problems is reflected by the fact that STECO that used to process all smallholder tea is

obtaining tea leaves from only 30 percent of smallholder farmers enabling the factory to operate at 60 percent. If one is to imagine the return of all smallholder growers to STECO, the factory may not be able to process all the green leaf from smallholder farmers and a factory with the same capacity, as STECO, would be required to support the smallholder tea sector. The available capacity in the industry is able to absorb the tea leaves partly due to the replanting programs of the estates. This means that in the long-term, after estates replace their seedling varieties with clonal varieties, the progress of smallholder farmers could be hindered by the capacity of processing facilities

Processed tea is marketed at the Limbe Auction Floors, Mombasa Auction and through direct forward contracts with Malawian and international buyers. Most of the commercial estates do sell a large proportion of tea through direct forward contracts with buyers. The Limbe Auction Floors is partially used by many commercial estates to enhance their cash flow.²³ Most estimated that they sell only 30 – 50 percent of processed tea through the Limbe Auction. GoM (2003) estimates that two-thirds of tea is sold through direct and forward contracts with buyers. Smallholder operated factories, however, sell a high proportion of tea on the Limbe Auction Floors and have limited linkage to captive international buyers. All the tea processors raised serious doubts about the capacity and efficiency of the Limbe Auction Floors. First, most argued that the Limbe Auction Floors is too small to handle the tea that is produced in Malawi. Secondly, there is limited competition and the market is highly oligopolistic. Although the auction has 28 registered buyers but only 4 - 8 buyers are active (GoM, 2003). The pricing of tea is potentially uncompetitive, and most sellers suspect a cartel among buyers.

7. Role of Smallholder Tea on Livelihoods

7.1 Importance of Tea Farming in Growers' Livelihoods

For most smallholder growers, tea farming is their primary source of income and livelihood. The advantage with tea farming is that it provides some income security throughout the year although due to rain-fed agriculture the peak period is the rainy season. Table 15 presents calculated profits from smallholder tea farming by type of market channel. On average, smallholder farmers earn about MK23,161 per annum from tea farming, with Thyolo growers earning relatively more than Mulanje growers. It also appears that growers that sell to estates both in Mulanje and Thyolo earn twice as much profits than those selling to STECO. Key informants' interviews revealed that some smallholder growers have gross earnings (before loan deductions) of as much as MK29,000 per month.

Table 15 Profits from Smallholder Tea Farming (%)

Market Channel	Mulanje	Thyolo	Total
STECO	15,700	16,052	15,747
Mbodzi	22,935	-	22,935
Estates	31,357	32,495	31,801
Total	21,845	27,797	23,161

Source: Smallholder Tea Farmers Survey 2005

²³ Proceeds from forward contracts take longer than those from the Limbe Auction Floors. Liquidity in estates and factories is very important due to the demands of wages and for payments to smallholder growers, particularly during the peak tea-plucking season.

Smallholder tea growers were also asked whether tea farming has become more profitable compared to 5 years ago (Table 16). The data reveal that a higher proportion of growers that sell to estates believe that tea farming has become profitable compared with the response from farmers that sell to STECO. Only 27 percent of growers selling to STECO compared to 44 percent of growers selling to estates revealed that tea has become more profitable. Most farmers who revealed more profitability attributed such changes to better tea prices.

Table 16 Changes in Profitability of Smallholder Tea Farming (%)

Market Channel		Mulanje	Thyolo	Total
STECO	More Profitable	28.6	16.7	27.0
	No Change	20.8	8.3	19.1
	Less Profitable	42.9	75.0	47.2
	Don't Know	7.8	-	6.7
Mbodzi	More Profitable	45.8	-	45.8
	No Change	12.5	-	12.5
	Less Profitable	41.7	-	41.7
	Don't Know	-	-	-
Estates	More Profitable	38.3	53.3	44.2
	No Change	31.9	26.7	29.9
	Less Profitable	27.7	20.0	24.7
	Don't Know	2.1	-	1.3

Source: Smallholder Tea Farmers Survey 2005

In terms of effects on household socio-economic status, growers were asked whether the household is better off or worse off now compared to five years ago. Most of the responses were negative (Table 17). Most growers that sell to Mbodzi claimed to be worse off now (66.7 percent), compared to 34.8 percent and 33.8 percent who claimed to be better off among those that sell to STECO and estates, respectively. Growers that sell to Mbodzi were still experiencing delays in receipts of proceeds while the efficiency of payments at STECO have dramatically improved since restructuring.

Table 17 Changes in Socio-economic Status of Households (%)

Market Channel		Mulanje	Thyolo	Total
STECO	Better off now	31.2	58.3	34.8
	No Change	26.0	-	22.5
	Worse off now	39.0	41.7	39.3
	Don't Know	3.9	-	3.4
Mbodzi	Better off now	16.7	-	16.7
	No Change	12.5	-	12.5
	Worse off now	66.7	-	66.7
	Don't Know	4.2	-	4.2
Estates	Better off now	31.9	36.7	33.8
	No Change	38.3	33.3	36.4
	Worse off now	29.8	30.0	29.9
	Don't Know	-	-	-

Source: Smallholder Tea Farmers Survey 2005

Although, the increase in the prices of tea account for most of the positive changes, other factors are also important. These factors include increased earnings from non-farm activities and cultivation of more cash crops. While those that believe are worse off

attribute their experience to low tea prices, high input prices and low earnings from non-farm activities.

7.2 Importance of Smallholder Farming on Local Livelihoods

The significance of the smallholder tea sector cannot be understated. Apart from providing incomes and stable livelihoods to growers, the community benefits from the promotion of the cash economy (derived demand for other business activities) and more importantly through the labour market. We have noted above that most smallholder farmers engage labourers on *ganyu* basis on tea farms. Most of these labourers are recruited within the villages, with 87.3 percent of growers indicated that they recruit labourers within the village, while others recruit within the district (22.4 percent). In the last 12 months preceding the survey on average the 135 growers using hired labour spend MK8,063 per annum as wages on hired labour; hence total of MK1.09 million. The average wage bill among growers in Mulanje is MK7,702 (based on 109 growers) while in Thyolo is MK9,578 (based on 26 growers) per annum.

7.3 Problems and Constraints in the Smallholder Tea Sub-Sector

The inefficiency of STA and collapse of services that it was offering to the smallholder tea sector has meant that growers are experiencing a lot of problems in farming. The most important services to smallholder growers that have eroded are extension and input credit. Smallholder growers were asked the problems that they experience in farming activities and what has to be done to improve tea farming in the sector. Table 18 shows that increase in the cost of inputs and low crop prices are the main problems experienced by smallholder tea growers, among 97.4 percent and 91 percent of growers, respectively. Other important problems include limited access to land, lack of agricultural inputs, lack of access to credit facilities and lack of extension services. Lack of extension services is less of a problem due to the fact that commercial estates are increasingly providing extension services to smallholder farmers. It is only farmers that sell to STECO that do not have agricultural advisors. Similarly, access to markets is not a major problem, as most farmers have access to tea markets through the contracts with factories.

Table 18 Problems Experienced by Smallholder Farmers and Suggested Solutions (%)

Genera Problems	%	Suggestions for Improvements	%
Limited access to land	72.6	Good prices for farm inputs	13.9
Lack of or access to credit	65.6	Improve availability of credit	10.7
Lack of extension services	57.1	Provision of seedlings	15.5
Lack of agricultural implements	57.7	Better prices for tea	27.0
Labour shortages	46.0	Improve extension services	5.6
Lack of agricultural inputs	71.4	Provide training to farmers	2.7
Lack of produce markets	22.2	Efficiency in payments of proceeds	2.7
Increase in cost of inputs	97.4	Improve transport facilities	7.0
Poor crop prices	91.0	Other suggestions	14.9
<i>Number of cases</i>	<i>189</i>	<i>Number of Responses</i>	<i>374</i>

Source: Smallholder Tea Farmers Survey 2005

Another worthwhile point to note is that the land question cannot be ignored in the development of the smallholder tea sector. This is to remain a problem without land reform. There is, however, some scope to expand smallholder tea production. Notwithstanding the problem of land, the existing holding are inefficiently used by

smallholder farmers - most smallholder tea fields have a lot of space for infilling new plants and a good proportion of their land is being used for maize production - a crop not suitable for most areas due to high rainfall. Thus, improving land use is one avenue of improving the production and productivity. There is also a case for Chitakale Estate that has been abandoned by ADMARC, which smallholder groups believe should be subdivided to smallholder farmers.²⁴

In terms growers' suggestions on how to improve tea farming as a viable economic activity, most of the suggestions point to addressing the main problems that farmers are experiencing. About 27 percent of the responses relate to improvements in tea prices, 15.5 percent to provision of seedlings, 13.9 percent to affordable input prices and 10.7 percent to access to credit facilities. Training of smallholder farmers is an important issue given the problems of land use. Most stakeholders in the sector argue that most smallholder tea growers do not take tea farming as a business and good farm management practices among growers are seldom.

8. Conclusions

Malawi is the first country in Africa to grow tea on commercial basis, and it is the second largest producer of tea in Africa after Kenya. Tea is the third largest earner of foreign exchange earnings in Malawi following tobacco and sugar. The sector has two sub-sectors: commercial estates and smallholder growers. The commercial estates sub-sector still dominates the tea sector in Malawi, accounting for 83.8 percent of the land under tea cultivation and 92.8 percent of total production (GoM, 2003). The smallholder tea sector, which has about 8,000 growers cultivating on average 0.4 hectares is just emerging from a crisis in the marketing arrangement that existed between smallholder farmers and the state owned enterprises that were mandated to promote the development of the sector. STA, a quasi-commercial state enterprise established in 1967, was mandated to develop the smallholder sector through provision of seedlings, input credit, extension services and marketing of green leaf to estates that had factories. In 1975, MATECO, a commercial enterprise owned by state enterprises was established as a factory dedicated to purchasing and processing of smallholder green leaf. Although, STA had failed to achieve long-term commercial viability, it offered better services to smallholder growers. However, in the 1990s, STA and MATECO became so inefficient and cumulated substantial debts.

The main objective of this study was to assess the role of smallholder farmer organisations in promoting agricultural development in the tea sector. The study used both qualitative and quantitative research methods. Focus group discussions were held with groups of farmers and questionnaires were administered to a sample of 189 farmers belonging to different associations. The following are the main findings of the study:

- Prior to 2002 smallholder farmers were organised under a state-owned enterprise known as the Smallholder Tea Authority mandated to promote tea farming among indigenous Malawians. Smallholder growers were represented in the Board of STA. All smallholder growers had no choice but to belong to STA. However, there was no formal association of smallholder farmers. STA for

²⁴ The management of the tea on Chitakale Estate is under the STGT. The trust is taking care of the farming activities on the estate.

management and extension service purposes, organized farmers into blocks and district committee in which executive members are directly elected by farmers.

- The STA provided free seedlings to smallholder growers, extension services through field assistants, transport for collection of plucked tea, input credit system and marketed smallholder green leaf to estates before a dedicated processing factory was opened. In 1975, STA in a joint venture investment exercise with ADMARC, established a tea processing factory in Mulanje and all smallholder tea in Mulanje and most smallholder tea in Thyolo was handled by MATECO. The relationship between MATECO and smallholder growers was indirect and through the contractual obligations between farmers and STA. STA provided services to smallholder growers and in turn growers sold their tea through STA and expected payment within 10 days after the month.
- The business model of providing free seedlings, input credit, transport services and extension services to farmers in return for their loyalty to STA worked well in the 1970s and 1980s. For example, the biggest expansion of the smallholder sector took place in the 1970s with 130 hectares of land under tea cultivation added every year. The payment system to smallholder farmers was efficient, including the award of second payment to growers, despite the financial problems that STA was experiencing. The system was sustained by subsidies or bailouts from the government. However, financial problems of STA and its subsidiary MATECO deepened, leading to erosion of services to farmers thereby renegeing on its 'contractual' or developmental obligation to smallholder growers.
- The crisis in STA and MATECO was partly due to political interference, over-employment and general poor management practices. This adversely affected the livelihoods of smallholder growers with some experiencing delays of 6 months in receiving tea proceeds, tea not being picked by STA and erosion of input credit scheme and extension services. The operational problems of STA and MATECO prompted reforms and led to the eventual merging of STA and MATECO into one unit in 2002. The new unit, STECO, is operated by the Trust, whose membership includes smallholder growers' representatives. Smallholder growers were allowed to seek alternative markets and most started selling green leaf to commercial estates.
- The dissatisfaction with the reform process and the past record of STA and MATECO, motivated the elite smallholder growers to break away from the trust arrangement and formed their own smaller associations. This has resulted in the formation of three new associations: Sukambizi in Mulanje, Thyolo North in Thyolo and Chizunga in Thyolo. About 70 percent of smallholder growers belong to these three associations while the rest have remained or been attracted back to STGT. Arguably, the existence of associations formed by growers themselves is a new phenomenon in the tea sector. Since all factories are offering input credit and transport services for collection of tea, the choice of marketing channels by growers associations is determined by proximity to the factories and the quality of services such as paying farmers proceeds within the agreed timeframe.
- The fragmentation of the STGT into smaller associations has improved the competitiveness in the industry and has led to better partnerships between smallholder growers and commercial estates and factories. Smallholder associations are actively negotiating prices with the TAML, and this has led to

substantial nominal increases in prices. Commercial estates are increasingly taking over the services that were provided by STA including input credit, extension services, tea leaf collection and social services. Commercial estates through the Tea Association of Malawi have facilitated the formation of the National Steering Committee of Smallholder growers bringing together the different associations that exist in the sector. TAML is also establishing and initially funding a smallholder desk at its headquarters to be responsible for the development of the smallholder sector.

- Government has largely neglected the smallholder tea sector, particularly since the change to a multiparty system. Most smallholder growers believe that there was increased political interference in the appointment of management and running of STA and MATECO; resulting in abuse of transport facilities for political activities at the expense of smallholder growers' tea wilting at collection points. Most consider reforms that culminated into the creation of STECO as irrational by entrusting the control of the company in a trust dominated by outsiders rather than smallholder tea growers themselves.
- Despite the positive developments in smallholder organisations that have occurred as a result of a crisis in state-sponsored organisations, there are several outstanding issues that need to be addressed in the smallholder sector. Some of the issues include the following:
 - The productivity in smallholder tea farms remains low. While estates are able to yield 2,129 kilograms per hectare, the average yield in smallholder farms is 810 kilograms per hectare. It is estimated that about 40 percent of the smallholder farms have vacancies, which can be used to plant new seedlings. Most of the farmers attribute this problem to lack of seedlings – most cannot afford seedlings at commercial prices. In addition, there are poor farm management practices among smallholder farmers characterised by lack of weeding and inappropriate application of fertilizers exacerbated by the erosion of extension services.
 - There is differential access to extension services among the smallholder tea growers. On one hand, smallholder farmers belonging to STGT do not have access to extension services and the trust and STECO are not willing to provide such services in the transitional period as it is likely to be a cost increasing activity. On the other hand, smallholder farmers belonging to other associations and with contracts with estates, have access to extension services provided by commercial estates. The extent to which commercial estates have taken this responsibility varies considerably.
 - There are problems of land use by smallholder tea growers. Smallholder farmers are small and are being fragmented over time due to subdivision of customary land as the family grows. Although, both Mulanje and Thyolo are districts with high land pressure, there is scope for expansion of area under tea cultivation in the smallholder sector. While on average, smallholder growers cultivate tea on 0.4 hectares on average some land is inefficiently used to grow maize whose productivity is very low even under the best farm management due to high rainfall. The sample of farmers in this study use 30 percent of their land holding for maize production, but only 13.2 percent are able to produce own food under a normal year that

can last from one season to another. Similar to the problem of vacancies in existing tea fields, smallholder growers attribute this land use problem to lack of seedlings. The challenge therefore remains how to initiate the expansion programme among smallholder farmers – through free/subsidized seedlings and development finance.

- Smallholder farmers remain uncertain about the privatisation process and structure of ownership of STECO. Most farmers believe that they should own the factory collectively and the need for additional factory particularly in Thyolo. Similarly, smallholder associations think that the abandoned Chitakale estate should be distributed to smallholder farmers.
- The issues of poor governance and accountability in smallholder growers' associations participation of smallholder growers. Most smallholder farmers at grass root level believe that they do not still have a voice in the affairs affecting the tea sector. Association leaders, who are usually elite farmers, make most of the decisions without consultation with other members of the association. Due to governance and accountability issues, there is reluctance among members to make higher financial contributions towards the cost of running the associations. All smallholder associations do not have structures of accountability and transparency. The general membership lacks information about the objectives and strategies of their associations and do not know the value chain in the tea industry. The latter has led to the misunderstanding about the pricing of green leaf.
- All the associations have problems of capacity and are financially constrained. Others have taken major responsibilities associated with a leasing a factory – such as provision of input credit, collection of green leaf. Due to the weak financial base, farmers selling to the leased factory are experiencing delays in payments of as long as 3 months. This brings the question of the extent to which smallholder farmers can own and manage a major processing factory in a transparent manner without strategic partners with access to capital and financial resources.
- There are concerns about the low price of tea largely attributed to the oligopolistic nature of the Limbe Tea Auction Floors and its limited buying capacity. Most commercial estates use the Limbe Auction for cash flow purposes, since payments under direct sales and forward contracts take longer to process. While commercial estates have direct and forward contracts with international buyers, smallholder controlled factories rely on forward contracts with Malawian buyers and the Limbe Auction Floors. The challenge is how to link smallholder operated factories to strategic international buyers.

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