

STAKEHOLDER CONSULTATIVE MEETINGS ON A SMOKE FREE WORLD A COMPENDIUM OF KEY ISSUES IDENTIFIED

February, 2018

FOREWORD

The Foundation for a Smoke-Free World is pleased to have launched its Agricultural Transformation Initiative (ATI) in Malawi. The global public health community has made tremendous progress to reduce the demand for combustible cigarettes, and as a result has improved the health and extended the lives of millions around the world. When the Framework Convention on Tobacco Control (FCTC) was created, it was imperative that consideration and support be given to those countries who rely heavily on the production of tobacco leaf as a source of GDP. It is unfortunate, given the progress on the public health front, nothing of significance has yet been achieved to identify alternate or complementary economies to replace smallholder farmer reliance on tobacco.

The singular focus of the ATI is to identify viable economic alternatives for countries over-reliant on a single agricultural crop and to convene government, academic, multi-lateral, non-profit, financial, and investment stakeholders to consider ways of bringing these alternatives to life. Diversifying an economy as important as tobacco is not as simple as switching to another crop—such as substituting maize or soya. What is at stake is the creation of an entirely new set of economic drivers and building a case for the structured investment required to make it a reality.

Although not the focus of this round of conversation, an additional dimension of the ATI is to stimulate and incubate 21st century agricultural science, technology and innovation. We seek to identify leading science solutions to a range of questions that will contribute to near-term nutrition and food insecurity needs as well as scalable solutions that will feed into a new economy. Investment and science must work together. As leading author and innovator Calestous Juma noted in his book, *The New Harvest: Agricultural Innovation in Africa*, “Without adequate infrastructure, African countries will not be able to harness the power of science and innovation to meet sustainable development objectives and be competitive in international markets.” He has given us a dual mandate.

The role of science and technology is driving unprecedented change. Klaus Schwab, Founder and Executive Chairman of the World Economic Forum in his book, *The Fourth Industrial Revolution*, notes that “...new technologies are fusing the physical, digital and biological worlds, impacting all disciplines, economies, and industries.” We must ensure that Africa is part of this Fourth Industrial Revolution, and the only way that will happen is by pushing aside old norms, fueling a culture of competitiveness, and creating an environment that will attract capital.

We are pleased to be part of this new harvest in Africa, and we express our sincere thanks to the African Institute of Corporate Citizenship for organizing and facilitating our consultations, to Dyborn Chibonga for his leadership and tireless commitment to improving the lives of farmers, and to our future partners and collaborators who wish to join a coalition of the willing. Most importantly, we place the future livelihoods of smallholder farmers at the center of our work. As the most important investor in the agricultural equation, they deserve an opportunity in this transformation to realize the true value of their contribution.

Jim Lutzweiler
Vice President, Agriculture & Livelihoods
Foundation for a Smoke-Free World

CONTENTS

1.0. Introduction	2
2.0. Objectives of the Stakeholder Consultative Meetings	3
3.0 Key Issues Arising from the Meetings	3
3.1 Consultative Meeting with Government Ministries, Departments and Agencies	4
3.2 Consultative Meeting with Tobacco Processors	5
3.3 Consultative Meeting with Civil Society Organizations	6
3.4 Consultative Meeting with Input Suppliers	7
3.5 Consultative Meeting with Financial Institutions and Others	8
Annex 1: List of Participants	9

1.0. INTRODUCTION

The important role that tobacco plays to the economy of Malawi cannot be overemphasized. Tobacco is the only cash crop in Malawi that has access to the best infrastructure and support institutions with research, extension service, well established market systems, transport and logistics systems, processing companies, and an easily accessible input loan scheme. Farmers have opted to grow this well-supported crop over other cash crops for several decades. National- and household-level impacts of tobacco farming continues to stir technocratic debates in various fora.

The current global trends in tobacco markets, health issues, and environmental concerns have exerted significant pressure on the domestic industry, prompting government to diversify the economy and reduce overreliance on tobacco as the largest foreign exchange earner. The government developed the National Export Strategy (NES) as an operational framework for the

national diversification drive with focus on export markets. Unfortunately, efforts to diversify the Malawian economy away from tobacco are still at their infancy. There is a lack of evidence on relevant agricultural diversification programs to inform government and other stakeholders of profitable alternative crops and livelihoods to mitigate the impact of reduced demand for tobacco. In the absence of such work, Malawi will continue to rely on tobacco as a major foreign exchange earner.

2.0. OBJECTIVES OF THE STAKEHOLDER CONSULTATIVE MEETINGS

In recognition of this structural dilemma of the economy, The Foundation for a Smoke-Free World (FSFW) convened a stakeholder consultative meeting on 28th February, 2018 at Sunbird Capital Hotel, Lilongwe, Malawi to solicit views on how the Malawian economy can best transform away from tobacco. Specifically, the Foundation intends to:

- i. Provide background regarding the FSFW and its operations
- ii. Understand the strategic role of tobacco in Malawi
- iii. Provide an opportunity for stakeholders to provide innovative ideas on how to diversify the agriculture sector in Malawi

The Foundation for a Smoke-Free World exists to accelerate global efforts to reduce health impacts and deaths from smoking, with the goal of ultimately eliminating smoking worldwide. Declines in the demand for combustible cigarettes will continue to reduce the demand for tobacco leaf, globally and in Malawi. There is a need to strategize on how countries like Malawi can support farmer livelihoods in this economic dilemma. Crop substitution alone is not enough- rather we must explore other country-specific avenues of livelihood subsistence that are investment driven and sustainable. To achieve this, the Foundation collaborates with non-profit, advocacy, and government organizations to help prepare farmers in an era of reduced demand for tobacco.

3.0 KEY ISSUES ARISING FROM THE MEETINGS

The Stakeholder consultative meetings focused on all aspects of the tobacco value chain. Stakeholders included government ministries, departments, agencies, processors, seed suppliers, chemical companies, civil society organizations, farmer-based associations, development partners, women business associations, and financial institutions (see Annex 1).

From the meetings, several key constraints to diversification were identified:

- Limited access to agriculture inputs
- Weak farmer organizations
- Poor agricultural infrastructure
- Poor market development
- Institutional and capacity gaps
- Weak policy environment
- Unfavorable macroeconomic environment

3.1 Consultative Meeting with Government Ministries, Departments and Agencies

Stakeholders that attended the meeting included the Government of Malawi, Lilongwe University of Agriculture and Natural Resources (LUANAR), Reserve Bank of Malawi, and the Malawi Parliament.

Issues Identified

- Like other countries that have pursued policy agendas conducive to economic diversification, Malawi has pursued the National Development Policies. However, these policies have not yet done enough to address the prominent role of tobacco as the country's largest foreign exchange earner.
- While potential alternative markets exist in commodities such as legumes, horticulture, fish, and cotton, the markets for such commodities are not yet developed. This excludes smallholder farmers from beneficial participation, let alone revenue collection.
- The structural shift has to be gradual, as alternatives are iteratively tested and modified based on lessons learned, so that livelihoods and the economy remain stable.
- There is a misconception that farmers cannot shift away from tobacco. This is because the tobacco market is well-structured and organized, with investment in research, extension, and markets. If that support can be replicated for other commodities, such as legumes, then a shift can bring returns to all value chain players.
- There are capacity and knowledge gaps in production and processing in high value agriculture sectors (i.e. horticulture).
- The focus on diversification has been too broad. There is a need to focus investment on a few key commodities for diversification.
- There are inadequate monitoring mechanisms, especially for the marketing of strategic crops. The establishment of a Crops Commission might help address some challenges inherent to the markets of most agriculture crops.
- A primary consideration is balancing food security objectives with financial objectives of different value chain actors and players.

Assets

- Key government policies that have a direct bearing on agriculture diversification- Control of Goods Act, Warehouse Receipt Act, National Agriculture Policy, National Agriculture Investment Plan, and National Export Strategy.
- Hardworking and dedicated workforce involved in agriculture.
- Favorable soils and weather pattern

3.2 Consultative Meeting with Tobacco Processors

Stakeholders that attended the meeting included Tobacco Association of Malawi, Alliance One Tobacco, JTI Tobacco, Tobacco Control Commission, NASFAM, Ministry of Agriculture, Limbe Leaf Company, Malawi Investment and Trade Centre and Auction Holdings Group.

Issues Identified

- There are no viable crops or agricultural commodities that are as profitable as tobacco.
- Various investments and pilots on alternative commodities were tried by different NGOs and development partners with no tangible results. There is a need to do comprehensive research on these programs to draw lessons and inform effective programming.
- Low volumes of quality commodities, commodity aggregation, and farmers organizations hinder rapid agriculture diversification.
- The dual health and agriculture pillars of the Foundation are suitable for Malawi, though FSFW must be clear in terms of its legal structure and complete independence from Philip Morris International, its financier.
- There is a need for economic analysis in terms of gross margins, competitiveness, and performance of alternative livelihoods.
- Suggested phased strategy of complementary crops preceding alternative crops.
- Land use planning and tenure issues are important in the Malawi context.
- More needs to be done in terms of government policy implementation and making agriculture conducive to commercialization
- A holistic systems approach is needed, as smallholder farmers are not the only stakeholders in the economy. Others include markets, supporters-finance, transport, and energy. The Foundation needs to have some physical presence in Malawi in order to achieve the magnitude of its aspirations.

Assets

- The stakeholders consulted on the recent trends in tobacco market are willing to embrace change as long as it is well implemented and economically beneficial.
- They acknowledge that there is need to find alternatives to tobacco, though there are still questions on how this will be done.

3.3 Consultative Meeting with Civil Society Organizations

Stakeholders from the Civil Society Organizations included National Smallholder Farmers Association of Malawi, Civil Society Agriculture Network, OSSEDI, AICC, Youth AIDS Initiative.

Issue Identified

- Need to understand farmers' motivations for growing tobacco and what would incentivize them to grow other commodities.
- Looking at the broad macroeconomic environment in terms of export substitution (investment options/alternatives). The issue is not to immediately replace tobacco but explore investment options in agriculture that can complement/supplement tobacco in the short run and replace tobacco in the long run.
- Any support that the Foundation will provide to government and other stakeholders should have clearly defined and timed deliverables. Need to develop a National Agriculture Diversification Strategy that builds on existing contextual issues while providing a clear way out of the current status quo.
- Markets for other commodities apart from tobacco and tea are still at infancy, hence do not affect the pace at which smallholder farmers switch to other commodities.
- Farmer organization is still a challenge which has affected the diversification drive to other agriculture commodities.
- The immediate need for cash prompts some farmers to offload their commodities and side sell thereby affecting group cohesiveness and contractual obligations.
- Focus has been on the export markets instead of first addressing the domestic market through value addition and agro-processing.
- Poor infrastructure development in Malawi perpetuates post-harvest losses and impedes the potential to increase production and marketing of agricultural produce.
- The macroeconomic environment, especially on access to finance, is still a challenge in Malawi, where interest rates are high (over 40% pa), which makes it difficult for smallholder farmers invest in agriculture. Further, other financing instruments such as the WR financing is a problem where smallholder farmers are impatient to hold their produce for some time in anticipation of "better" prices. Access to finance is still a challenge if farmers are to shift from growing tobacco to other crops, as tobacco has a well-established finance arrangement. Less than 1% of farmers engage in WRS.
- Currently, the provision of financial services is discrete in nature. Smallholder farmers need bundled financial services which cover all requirements- insurance, price mitigating instruments, cash, and cash in kind.
- Over deductions/ charge of fees by different value chain players significantly reduce net returns accruing to an individual farmer. The Foundation for a Smoke-Free World will need to get access to a typical cost-revenue sheet for tobacco for a single farmer. There is a need for inter-commodity economic analysis to compare the level of deductions and inform programming so that smallholder farmers can earn more per unit volume of produce.

3.4 Consultative Meeting with Input Suppliers

Input suppliers consulted included Agriculture Trading Company, Multi Seeds Company, Air Cargo, DDN Energy, Seed Traders Association of Malawi, Farmers Organisation Limited, Fertiliser Association of Malawi.

Issues Identified

- The availability of improved seed especially legumes is still a challenge in Malawi.
- There is low awareness in terms of using certified seeds and good agronomic practices.
- Low investment in grain markets to absorb the produce from increased seed production.
- The markets of potential alternative commodities such as legumes do not have structured markets which provide uncertainty to farmers in terms of stable and reliable markets. This is further aggravated by absence of monitoring and oversight instruments to govern the operations of such markets.
- Alternatives to tobacco can either mean different markets (uses) for the same products or totally different commodities.

Assets

- The tobacco value chain provides an example of investment spaces and opportunities for other agriculture commodities. The same can be applied and promoted in other promising agriculture commodities such as legumes. Like tobacco, investment spaces include market development, transposition, logistics, farmers organization, research (ARET) and extension (private sector led).
- There is increased demand from farmers for chemicals such as inoculants and other chemicals. There has been increase in inputs from 800Kg/Ha to 1000 Kg/Ha in legumes (ATC, 2017). DDN Energy has some models on use of tobacco seeds as biofuels for aircrafts and processing of tobacco leaves into livestock feed. SAA is currently piloting use of this biofuel and targets to biofuel to consist 50% of its total fuel consumption by 2030. The company is currently conducting trials on the same in Malawi and is in the process of opening a processing plant in Malawi. The Foundation has agreed to more engagement to get more insights for Malawi.

3.5 Consultative Meeting with Financial Institutions and Others

The last group of stakeholders consulted included financial institutions and other value chain players not included in the categories mentioned above. These stakeholders included Standard Bank, Opportunity Bank, Malawi Union of Savings and Credit Cooperatives, Women in Agribusiness, Mgomera Seeds and Commercial Agriculture Support Services.

Issues Identified

- There is no national diversification strategy that can promote alternative agriculture commodities. Tobacco received maximum attention from government, and this made the sector grow over the past 30 plus years unlike other agriculture commodities whose implementation is ad hoc at present.
- Agriculture is a risky sector, and the current macroeconomic environment makes it even worse. Interest rates are very high (over 35%), making it difficult for the smallholders to access finance from financial institutions.
- Access to finance vis a vis credit rating of individual smallholder farmers is very challenging. Companies like JTI normally cluster farmers in groups, rely on institutional memory, and award performing farmers based on their overall performance-agronomical, logistical, and financial. Hence the urge to adopt/ replicate the tobacco model in other commodities.
- Farmer organization was key in tobacco, and this to a large extent made the industry thrive.
- Holistic approach to financial services as farmers do not normally have recourse to pay back loans in the event of natural calamities.
- The presence of credit reference bureau and national identification system in the country is a welcome development, but needs to be in harmony and talk to each other so that it is easy to trace borrowers and assess their credit rating.
- How to balance agriculture and other loans that smallholder farmers usually get outside the banking system which affects their loan repayment schedule and eventually results in indebtedness.
- Value addition approach: additional capacity that farmers get gives them ability to cushion themselves even when the prices are fragile.
- Provision of reliable supply as security on the part of producers and market security by off takers becomes a challenge especially on agriculture production which is predominantly indexed to weather patterns.

Assets

- Several high value agriculture commodities exist that have the potential to complement or replace tobacco such as horticulture crops, sugarcane, legumes, and other crops whose demand has increased in recent years.
- National ID system and enactment of Credit Reference.
- Commodities such as legumes provide opportunities for women to integrate into the wider cash economy as they are not labor intensive and women can easily participate at each level of the value chain.

Annex 1: List of Participants

Organisation

African Institute of Corporate Citizenship
African Women in Agribusiness
Agricultural Research and Extension Trust
Agricultural Trading Company Limited
AHL Group
Air Cargo Malawi Limited
Alliance for a Green Revolution in Africa
Alliance One International
CECARGOP
Chimanga Association
Civil Society Agriculture Network
Commercial Agriculture Support Services Trust
DDNES
Department of Crops Development
Don Energy
FAFOGLI
FAM
Farmers Forum and Legumes Int
Farmers Organisation Limited
Farmers Union of Malawi
Ferguson Cardo
FH4FSKW
Flaunders
Goma Foundation
Good News Broadcasting System
Group De Clermont
Japan Tobacco International
Lilongwe University of Agriculture & Natural Resources
Limbe Leaf Tobacco Company Limited
Malawi Bureau of Standards
Malawi Leaf Company Limited
Malawi News Agency

Malawi Oilseed Sector Transformation
Malawi Revenue Authority
Malawi Union Of Savings and Credit Cooperatives
Mgom'mera Seed Company
Mij Fm
10
Ministry of Agriculture
Ministry of Finance, Economic Planning & Development
Ministry of Health
Ministry of Industry, Trade and Tourism
MNH
Multiseeds Co. ltd
National Planning Commission
National Smallholder Farmers' Association of Malawi
Ndolera Association
Nthondo Association
Opportunity International
ORG
Organisation for Sustainable Socio-Economic Development Initiative
Parliament
Premium T.
PTIL
Radio Maria
Reserve Bank
Seed Trade Association of Malawi
Southern African Nutrition Initiative
Standard Bank
The Daily Times
Tobacco Association of Malawi
Tobacco Control Commission
Youth Aids Initiate
Zodiak Broadcasting Station