

# TAKING ROOT: FAIRTRADE IN MALAWI



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# ACRONYMS

AFO:	Association Farm Officer
CIC:	Community Interest Company
COFTA:	Co-operation for Fair Trade in Africa
DFID:	Department for International Development
EOT:	Eastern Outgrowers Trust
EPM:	Eastern Produce Malawi
EU:	European Union
FOB:	For Onward Boarding
FT:	Fairtrade
FLO:	Fairtrade Labelling Organisation International (now Fairtrade International)
FTO:	Fair Trade Original (Netherlands)
GoM:	Government of Malawi
ICRISAT:	International Centre for Research in the Semi-Arid Tropics
MASFA:	Mchinji Area Smallholder Farmers Association
MT:	Metric Tonne
NASCOMEX:	NASFAM Commodity Marketing Exchange Ltd
NASFAM:	National Smallholder Farmer Association of Malawi
NGO:	Non-Governmental Organisation
NRI:	Natural Resources Institute
NSTDC:	National Smallholder Tea Development Committee
SAFN:	Southern Africa Fair Trade Network
SAT:	Sukambizi Association Trust
STECO:	Smallholder Tea Company
VSO:	Voluntary Service Overseas

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**Photography:** Barry Pound, Alexander Phiri and Anette Kay

# PREFACE



Fairtrade's vision is of a world where justice and sustainability are at the heart of trading structures and practices. Over the last decade, we have worked with producers, campaigners, businesses, governments and consumers to help tip the balance of trade in favour of poor and disadvantaged farmers and make it more just and sustainable. This report on the impact of Fairtrade in Malawi shows that Fairtrade has the potential to drive real, structural change for poor communities that depend on agriculture for their survival. It reveals that Fairtrade can offer them an additional route to development.

Our work in Malawi began in 1998. Today, Fairtrade works with eight organisations across the country and impacts over 20,000 farmers and workers who make their living growing tea, coffee, groundnuts, honey and cane sugar. Fairtrade has also worked hard to ensure that these products have a market and today over 1,000 companies in the UK alone source Fairtrade products from Malawi.

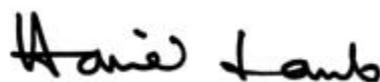
As a movement committed to continual improvement, it is important for us to understand the impact that Fairtrade is having for farmers and workers and learn. So after a decade of working in Malawi, we partnered with the Natural Resources Institute, University of Greenwich to evaluate the impact that Fairtrade is having for the country's farmers and workers over a period of time. For us, this was an opportunity to understand how Fairtrade can contribute more widely to the economic development of a least-developed country going beyond individual products and sectors alone. This synthesis report is the first in this series aimed at capturing the change that Fairtrade is bringing about in the country and understanding how it evolves over time in a dynamic and challenging environment.

The research confirms that there are tangible and significant benefits that Fairtrade is bringing to farmers and workers' households in Malawi. It also presents clear evidence of increased participation, democracy and empowerment through the application of Fairtrade Standards over time and the work of support organisations. This is now enabling farmers and their organisations jointly to make decisions about their development and plan for their future. Most significantly, the authors conclude that Fairtrade has the potential to have far-ranging, positive impact in Malawi, with real potential to reach out to more farmers and workers.

However, the research also presents clear challenges that need to be addressed if Fairtrade is to succeed in deepening its impact in Malawi. More support is needed locally to help organisations scale up production, deepen participation and move up the value chain. The efforts of the national Fairtrade network in advocating with the government and effectively representing Malawi's farmers and workers need to be supported and bolstered. There is also a clear message that positive impacts from Fairtrade will last over time only if benefits are equitably distributed among participating households and organisations.

The researchers recommend several steps to achieve this, recognising that we have already begun to move in the right direction. For instance, the study recommends more effective networking at the national and regional level on Fairtrade, a key activity by which Fairtrade Africa, the regional producer network, is supporting the Malawi Fairtrade Network. Some recommendations directly ask for a revision of Fairtrade Standards – especially those relating to the use of the Fairtrade Premium and Minimum Prices. These will be taken to Fairtrade International – our umbrella body – for consideration. The research also throws up some challenging findings that relate to the disparity in the distribution of benefits from Fairtrade among different sections of the local community. Working with producer organisations and local partners to address this disparity and monitoring this issue will be a key objective of our future work in Malawi. Other recommendations call for greater collaboration between Fairtrade and other local and national partners to pool resources and jointly address common challenges that face Malawian farmers. We agree and seeking these collaborations will be a key pillar of our future work.

Clearly, Fairtrade is beginning to make a difference in Malawi but so much more can be done to deepen its impact. This report takes us a step forward by helping us learn what has worked well and where more focused support and resources are needed. Above all, this report gives one clear message – that Fairtrade is really starting to take root in Malawi – we now need to help it flourish.



Harriet Lamb  
**Executive Director, Fairtrade Foundation**

# EXECUTIVE SUMMARY

This paper is drawn from three independent studies carried out by the Natural Resources Institute (NRI) in 2009/10 exploring the impacts of Fairtrade on five Fairtrade-certified producer and worker organisations in Malawi that produce tea, sugar and groundnuts, as well as research in 2010 with a range of Malawian Fairtrade stakeholders.

The research confirms that there are tangible, significant and sometimes considerable economic, social, technical and organisational development benefits to smallholder families and estate workers arising from Fairtrade certification.

Participation, democracy and empowerment have also been enhanced through the application of Fairtrade standards and the technical and organisational support given to the smallholder and worker organisations by the Fairtrade Foundation, Fairtrade International, TWIN, VSO, research organisations such as ICRISAT and the Tea Research Foundation, the tea and sugar estates and national bodies such as the National Smallholder Farmers Association of Malawi (NASFAM).

However, there is a large contrast between commodities in the benefits to smallholders and workers from Fairtrade certification. The most striking example is the Fairtrade Premium, which is small for groundnut producers and considerable for sugar producers. Tea and sugar producer and worker organisations have invested their Premium funds in an impressive range of social and production projects, while the groundnut smallholders have only completed one project to date.

On the other hand technical support to groundnut smallholders through the Mchinji Area Smallholder Farmers Association (MASFA) from a range of organisations including TWIN has been considerable, and has potential to assist a significant breakthrough into the export market.

There is a broadly conducive national policy environment for expansion of Fairtrade, although further awareness needs to be raised at government level of the benefits of Fairtrade.

A Malawi Fairtrade Network is emerging, but not yet fully functional. When operational it should bring together the expanding range of organisations involved in Fairtrade and provide a voice at national level, as well as stronger links than presently exist with Fairtrade Africa (formerly the African Fairtrade Network) and the Southern Africa Fair Trade Network.

There is a clear need for strong continued organisational and technical support to the producer and worker organisations of all three commodities by FLO, their partner estates, the Government of Malawi, Fairtrade NGOs and other organisations such as VSO.

While smallholder tea, groundnut and sugar farmers and the estate workers at Satemwa Tea Estates enjoy direct benefits from Fairtrade certification, the hired labourers working alongside sugar smallholders at Kasinthula Cane Growers Ltd do not get an adequate share of benefits.

Natural resource management considerations are important in the tea production areas where soil, water and forest conservation are vital to the flow of water on which the tea crop depends. Similarly in the groundnut areas, agro-forestry is promoted to counter deforestation caused by tobacco processing activities. These long-term, but vital, aspects are being partly addressed, but mostly outside direct Fairtrade-funded actions.



A series of challenges remain for the expansion of Fairtrade in Malawi, including the costs of certification and audit, the modest educational levels of producer organisation committee members, debts, declining soil fertility and the low proportion of produce sold as Fairtrade.

However, Fairtrade is solidly established in Malawi, and the potential is there to expand products and volumes through improved marketing and extension services, to move further down the value chain, to benefit from partnerships with Fairtrade NGOs, VSO and others, and to increase networking within and outside Malawi.

# I. INTRODUCTION

During 2009/10, the Fairtrade<sup>1</sup> Foundation commissioned three studies of different commodities (tea, groundnuts and sugar) produced in Malawi by FLO-certified Producer and Worker Organisations<sup>2</sup>. Only one of the organisations was principally benefitting workers, and the others smallholders.

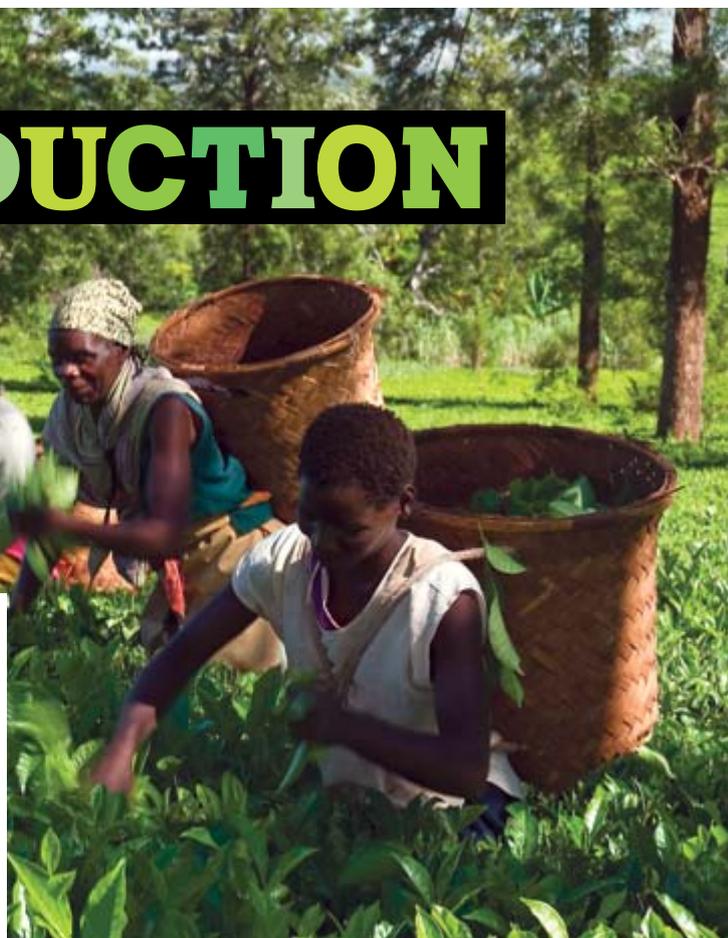
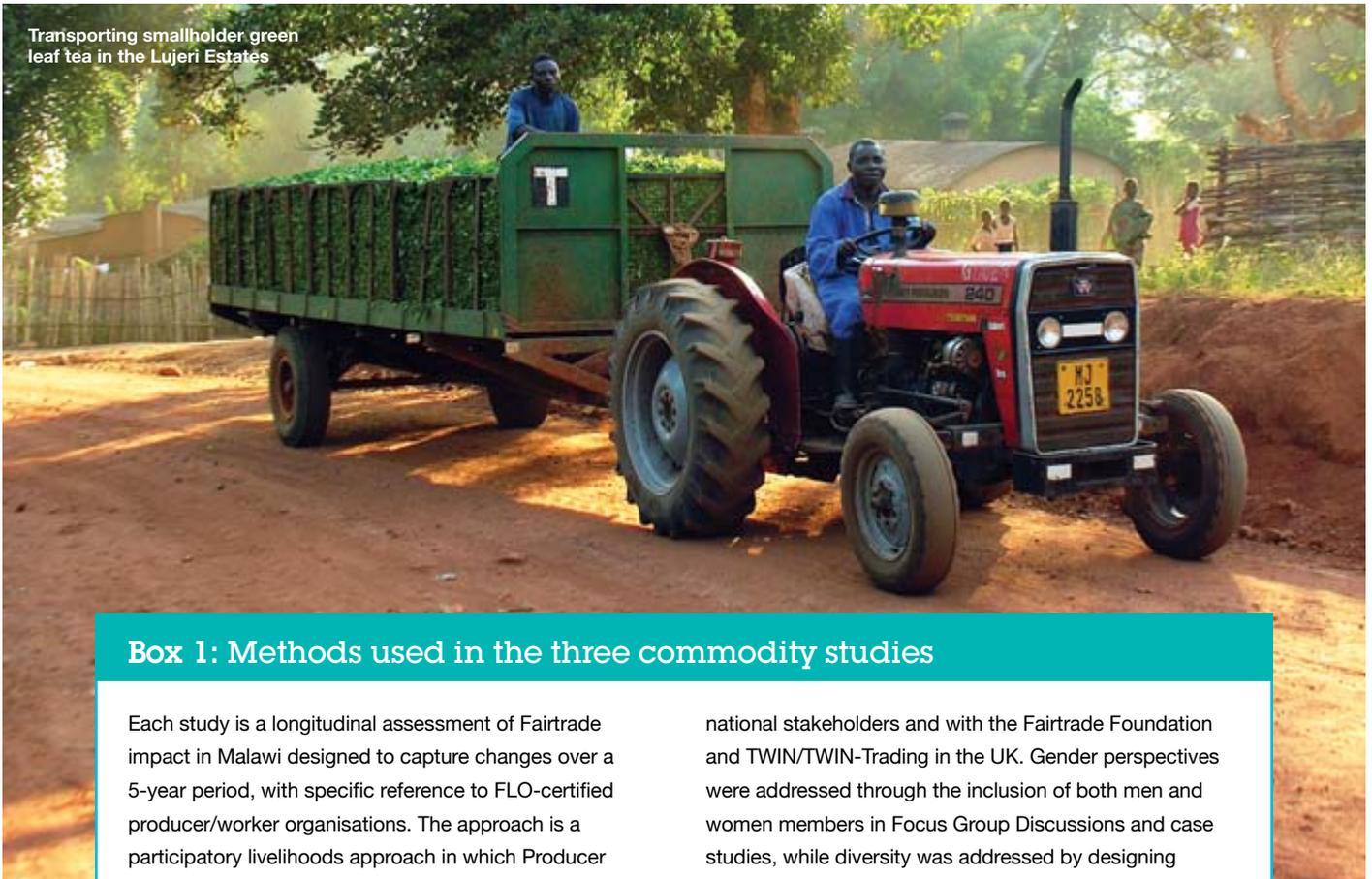


Table 1. Summary of the organisations studied<sup>3</sup>

Commodity	Tea			Groundnut	Sugar
<b>Organisation</b>	<b>Sukambizi Association Trust</b>	<b>Eastern Outgrowers Trust</b>	<b>Satemwa Estates</b>	<b>Mchinji Area Smallholder Farmers Association</b>	<b>Kasinthula Cane Growers Ltd</b>
<b>Type of beneficiary</b>	Smallholder	Smallholder	Hired Labour	Smallholder	Smallholder
<b>Year FLO certified</b>	2008	2007	2007	2004	2004
<b>Membership in 2009</b>	5700	3500	1700-2500	3000	282
<b>Hired labour</b>	Limited non-family workers	Limited non-family workers	n/a	22 workers	460 permanent workers

The studies were conducted by the Natural Resources Institute, which is based in the UK, in partnership with Bunda College, Malawi. The independent investigations used qualitative and quantitative methods (Box 1) designed to understand the changes (negative as well as positive) brought about by Fairtrade certification.

Transporting smallholder green leaf tea in the Lujeri Estates



### Box 1: Methods used in the three commodity studies

Each study is a longitudinal assessment of Fairtrade impact in Malawi designed to capture changes over a 5-year period, with specific reference to FLO-certified producer/worker organisations. The approach is a participatory livelihoods approach in which Producer and Worker Organisations, their members, their families, their communities and the stakeholders who influence or interact with them are studied across organisational, economic, social, political, institutional and technical dimensions. The first phase of the research process, conducted in 2009/10 had 4 components: review of relevant national and international information; review of the perspectives of local, District and national-level stakeholders; exploration of impact on the organisations through meetings, workshops, focus group discussions, case studies and data collection; feedback meetings with

national stakeholders and with the Fairtrade Foundation and TWIN/TWIN-Trading in the UK. Gender perspectives were addressed through the inclusion of both men and women members in Focus Group Discussions and case studies, while diversity was addressed by designing sampling frameworks that cut across ecological and socio-economic conditions. Triangulation was assured by the range of stakeholders consulted, and the different levels of the Producer Organisations surveyed. A range of simple and measurable indicators was identified that can be used over time to monitor the progress of economic, social, environmental and organisational impacts attributable to Fairtrade certification and the use of the Premium. The second phase of the research is expected to take place in 2011/12.

The three evaluations found that there were marked differences between the commodities, and this synthesis paper was commissioned by the Fairtrade Foundation to highlight these differences, the reasons for them and some of their consequences and implications. The initial assessments synthesised here will be repeated after two and four years to gain an appreciation of the changes over a long period of time.

#### The objectives of this paper are to:

- a) Provide an insight on the fair trade situation in Malawi, with particular reference to the Fairtrade International (FLO) certification system
- b) Contrast the changes brought about in tea, groundnuts and sugar producer and worker organisations (Table 1) and at a national level in Malawi by Fairtrade certification
- c) Identify challenges and opportunities for the three commodities and their producer/labour associations
- d) Recommended changes to the way Fairtrade operates in Malawi to enhance positive impacts for the three commodities



## 2. THE FAIR TRADE SITUATION IN MALAWI

### 2.1 Malawi's Development Situation and Agricultural Sector

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Landlocked Malawi ranks among the world's most densely populated and least developed countries. The economy is predominately agricultural with about 80% of the population living in rural areas. Agriculture, which has benefited from fertilizer subsidies since 2006, accounts for more than one-third of GDP and 90% of export revenues. The performance of the tobacco sector is key to short-term growth as tobacco accounts for more than half of exports. The economy depends on substantial inflows of economic assistance from the IMF, the World Bank, and individual donor nations. In 2006, Malawi was approved for relief under the Heavily Indebted Poor Countries (HIPC) program. In December 2007, the US granted Malawi eligibility status to receive financial support within the Millennium Challenge Corporation (MCC) initiative. The government faces many challenges including developing a market economy, improving educational facilities, facing up to environmental problems, dealing with the rapidly growing problem of HIV/AIDS, and satisfying foreign donors that fiscal discipline is being tightened. The government has announced infrastructure projects that could yield improvements, such as a new oil pipeline, for better fuel access, and the potential for a waterway link through Mozambican rivers to the ocean, for better transportation options. Since 2009, however, Malawi experienced some setbacks, including a general shortage of foreign exchange, which has damaged its ability to pay for imports, and fuel shortages that hinder transportation and productivity. Investment fell 23% in 2009. The government has failed to address barriers to investment such as unreliable power, water shortages, poor telecommunications infrastructure, and the high costs of services (<https://www.cia.gov/library/>

[publications/the-world-factbook/geos/mi.html](http://publications/the-world-factbook/geos/mi.html)). Infant mortality rates are high, and life expectancy at birth is 50.03 years, although life expectancy at birth rose by 10 years between 1980 and 2010 <http://hdrstats.undp.org/images/explanations/MWI.pdf>.

There is a high adult prevalence rate of HIV/AIDS, with an estimated 930,000 adults (or 11.9% of the population) living with the disease in 2007 and 68,000 deaths in 2007. The high rate of infection has resulted in an estimated 5.8% of the farm labor force dying of the disease, and HIV/AIDS is expected to lower the country's GDP by at least 10% by 2010. There is a very high degree of risk for major infectious diseases, including bacterial and protozoal diarrhoea, hepatitis A, typhoid, malaria, plague, schistosomiasis and rabies. In Malawi, primary education is not compulsory, but the Constitution requires that all people be entitled to at least five years of primary education. In 1994, free primary education for all children was established by the government, which increased attendance rates. Dropout rates are higher for girls than boys, attributed to security problems during the long travel to school, as girls face a higher prevalence of gender-based violence. However, attendance rates for all children are improving, with enrolment rates for primary schools increased from 58% in 1992 to 75% in 2007, while the number of students who begin in grade one and complete grade five has increased from 64% in 1992 to 86% in 2006. Youth literacy has also increased, moving from 68% in 2000 to 82% in 2007<sup>4</sup>.

Between 1980 and 2010, mean years of schooling increased by almost 3 years and expected years of schooling increased by about 4 years. Malawi's Gross National Income (GNI) per capita increased by 21 per cent during the same period. In Malawi, 13 per cent of parliamentary seats are held by women, and 10 per cent of adult women have a secondary or higher level of education compared to 20 per cent of

their male counterparts. For every 100,000 live births, 11,002 women die from pregnancy related causes; and the adolescent fertility rate is 135 births per 1000 live births. Female participation in the labour market is 75 per cent compared to 78 per cent for men <http://hdrstats.undp.org/images/explanations/MWI.pdf>.

The Malawian agricultural sector is characterised by a dualistic structure: a high input, high productivity estate sector, and a low-input, low-productivity smallholder sector which has received little investment or encouragement to engage with export markets over the last 35 years.

## 2.2 The Trade Policy Environment

Since the early 1980's, the Government of Malawi has pursued a programme of economic liberalization aimed at enhancing the competitiveness of Malawian products in the domestic and international markets and the competitiveness of domestic firms in export markets. Consistent with the focus of this paper, the Government of Malawi has pursued policies that among others aim at poverty reduction through enhanced economic growth and diversifying the export base of the country. Currently, the Malawi Growth and Development Strategy (MGDS) is the overarching strategy for Malawi for the five years

period from 2006/07 to 2010/2011 fiscal years. The MGDS's overall goal is to achieve sustainable economic growth and wealth creation in order to bring about the well-being for all Malawians and make Malawi a hunger-free nation. The strategy recognizes that without growth there will be little chance of reducing poverty and the gains made to date on the Millennium Development Goals (MDGs) could be reversed.

The strategy direction sees Malawi transforming from a predominately importing and consuming country to being a predominately producing and exporting country, and gradually emerging as an industrial nation capable of transforming agricultural primary commodities and other raw materials to processed products.

The Integrated Trade and Industry Policy (1998) is one the key policy documents that guide export promotion in the country. This policy highlights the fact that the Government of Malawi recognizes that harmonious labour relations at both national and workplace levels contribute positively to labour productivity and that fair labour practices are critical to ensuring a productive labour force. To this end, the Malawi Constitution reinforces the provisions of labour rights, the right to organize trade unions and collective bargaining. In addition, there is a Labour Relations Act to promote sound relations through the protection



Poster on the main road in Mulanje District

of freedom of association, the encouragement of effective collective bargaining and the promotion of orderly and expeditious dispute settlement.

The Competition and Fair Trading Act of 1998 was also enacted with the aim of promoting competition and fair trade on the market. However, its implementation only started in 2005 when commissioners were appointed. As a way to encourage competition in the economy by prohibiting anti-competitive trade practices, a Competition and Fair Trading Commission was to be established through the Act to regulate and monitor monopolies and the concentration of economic power; to protect consumer welfare; to strengthen the efficiency of production and distribution of goods and services; to secure the best possible conditions for the freedom of trade; and to facilitate the expansion of entrepreneurship.

The promotion of fair trade by government in the country is also manifested through the designation of a Fair Trade Desk Officer within the Ministry of Industry and Trade. However, although the Ministry of Industry and Trade is very supportive, the fair trade concept is not yet sufficiently understood to enable the ministry to effectively advocate fair trade among government departments. Additionally, fair trade does not have a budget line in the ministry (as in other countries such as Mauritius). Besides, both the Competition and Fair Trading Act and the Integrated Trade and Industry policy are not very explicit on fair trade in Malawi.

It has been pointed out by local fair trade consultants, as part of the research conducted, that what is required is for fair trade to move into the mainstream government policy arena. Implicitly, the government has sometimes advocated fair trade principles without a clear policy. For example, in recent years, the government has been actively involved in advocating for 'fair' producer prices for key commodities such as tobacco, groundnuts and cotton, among others. Hence minimum prices have been adopted and promoted in the marketing of these crops. On the other hand, in support of the household food security agenda, government has regularly intervened on the maize market when prices have been viewed as too high for the average consumer in the country. While these interventions have been viewed as moving against the market liberalization principles, and usually have resulted in criticism from the private sector, it is felt that government needs to define a clear fair trade policy

through which issues of fair pricing for the consumer and the producer alike could be explicitly addressed.

## 2.3 Fairtrade labelling and the Malawi Fairtrade Network

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FLO's Fairtrade system is the only popular fair trade certification and labelling system adopted in Malawi at present. However, other labels that are increasing in prevalence are Co-operation for Fair Trade in Africa (COFTA<sup>5</sup>) (mainly in the rice sub-sector) and Rainforest Alliance and UTZ in the tea industry. Non-label initiatives such as fair trade partnerships established between Malawi and Scotland promoted by Imani Development are also progressively creating some competition with Fairtrade certified products.

It has been observed that the international market for Fairtrade certified tea has tended to decline because of the relatively high price. As a result, buyers are going for alternative markets in other countries such as Kenya which produce cheaper tea. On the other hand, organic labelling, which could offer producers access to new high value export markets, has not yet started in Malawi.

Whilst all other producer organizations that are Fairtrade certified in Malawi have been registered as smallholder producer organizations, Satemwa Tea Estate in Thyolo and Kawalazi Tea Estate in Nkhata Bay are certified under hired labour conditions. It was reported through various discussions that the dynamism of the organizations under FLO is increasing, particularly in view of the fact that more and more smallholder farmer organizations are being certified. Fair trade activities in the country are gaining in popularity despite the fact that there is still limited awareness of the concept at the policy level.

The establishment of the Malawi Fairtrade Network is an attempt to share experiences and exchange information among key stakeholders and create a shared voice for producers and workers at policy level. Furthermore, it is a platform from which issues that are relevant to the growth and establishment of Fairtrade in Malawi can be debated and advocated. The Malawi Fairtrade Network is an all inclusive network where all the stakeholders of Fairtrade in Malawi are members (see Table 2).

**Table 2.** Members of the Malawi Fairtrade Network

No	Organisation	Commodity	Membership Category
1	Eastern Outgrowers Trust	Tea	Smallholder producer organization
2	Msuwadzi Association	Tea	Smallholder producer organization
3	Sukambizi Association Trust	Tea	Smallholder producer organization
4	Satemwa Tea Estate	Tea	Estate
5	Kawalazi Estate	Tea	Estate
6	Kasinthula Cane Growers Limited	Sugar	Smallholder producer organization
7	Mchinji Association of Smallholder Farmers	Groundnuts	Smallholder producer organization
8	Mzuzu Coffee Farmers Cooperative Union	Coffee and Honey	Smallholder producer organization
9	South Mzimba Association of Smallholder	Groundnuts	Smallholder producer organization
10	NASFAM Commercial	Exporting Organization	Smallholder producer organization
11	Cotton Development and Investment	Cotton	FLO Application submitted
12	Paprika Association of Malawi	Paprika	Seeking FLO Certification
13	Dwangwa Cane Growers	Sugar	Seeking FLO Certification
14	World Vision Malawi (NGO)	Pulses	Seeking FLO Certification
15	Neno Smallholder Macademia	Macademia	Seeking FLO Certification
16	CTL	Various	Seeking COFTA Certification
17	Karonga Smallholder Farmers Association	Rice	Seeking COFTA Certification
18	Foodsec Consulting Ltd		Service Provider
19	Imani Development		Service Provider
20	Business Consult Africa		Service Provider



According to the draft Malawi Fairtrade Network Constitution (not yet adopted), the objectives of Fairtrade in Malawi are presented in the Box below:

**Excerpts from the draft Malawi Fairtrade Network Constitution**

The general objective for which Fairtrade is established shall be to operate exclusively for charitable, scientific, literary and educational purposes. Without limitation to the foregoing, the specific objectives of Fairtrade are:

- i) To promote fairness, transforming the Malawi conventional trading system from a conventional one to a fair trade system;
- ii) To be recognized as a catalyst for fairness in trade for economically disadvantaged and marginalized groups;
- iii) To position fair trade as a tool for sustainable poverty reduction in Malawi through improved livelihoods;
- iv) To create and promote opportunities for producers and workers through fair trade;
- v) To advocate appropriate policies relating to Fairtrade practices and processes;
- vi) To influence and engage change in mindset of local and global buyers towards equitable Fairtrade practices through empowerment of producers with relevant or appropriate market information;
- vii) To be a hub through which information is shared;
- viii) To facilitate Fairtrade through Fairtrade certification;
- ix) To build capacity for Fairtrade;
- x) To collaborate with relevant local and international institutions in the harmonization of standards and procedures that enhance Fairtrade values;
- xi) To apply for, take on lease or exchange, hire or otherwise acquire any real or personal property and rights or privileges which the Trust deems right, necessary or convenient for the purposes of its objectives or any of them and in particular any land, buildings, easements, water rights, machinery, vessels, vehicles, plants, stocks and commodities, and any patents, inventions and any concessions and take or otherwise acquire and hold stocks, debentures or obligations provided the same are incidental or conducive to the fulfilment of the Trust's objectives or any of them; and
- xii) To do things incidental or conducive to the foregoing objectives or any of them.

The Malawi Fairtrade Network focuses on all products that are certified and those that are in the pipeline to be certified. Currently, the most active product by value (see Table 7) is sugar - mainly because of the growing demand for Fairtrade sugar on the world market. This is followed by tea.

The network still remains quite informal. It does not yet have a base with a coordinating unit. Some of the members are willing to offer some space so that a proper base could be established but for this to happen, the network will need to attract adequate financial support at various levels. Currently its activities still rely on dynamic individuals, which creates a major challenge with regard to long term sustainability. It does not yet have strong linkages

with other networks such as the Southern African Fair Trade Network or Fairtrade Africa (see [www.fairtradeafrica.net](http://www.fairtradeafrica.net), formerly the African Fair Trade Network), although Fairtrade Africa supported the establishment of the Malawi network financially and with items for their first exhibition. The present aim is to reinforce those linkages and enhance the visibility of the network.

It should be emphasized that Malawi is a poor country with most of its potential export products fitting very well with the Fairtrade principles and objectives. The Malawi Fairtrade Network should therefore be viewed as an opportunity for expanding Fairtrade activities in the country and a more explicit policy on Fairtrade for Malawi.

# 3. THE THREE COMMODITIES UNDER REVIEW



## 3.1 Tea

The tea industry in Malawi dates from 1891, and Malawi is now the second largest tea producer in Africa with production situated in the southern districts of Mulanje and Thyolo and the northern district of Nkhata Bay. Total production is currently estimated at 46,000 metric tonnes per year from 21 factories. Tea is the second biggest export earner for Malawi, accounting for 8% of export earnings. It is also important as an employer, with an estate labour force of 40-50,000 at peak season. Malawi tea is well placed to compete on the world market due to low pest incidence (pesticide free), good margins (better than Kenya) and a characteristic orange tea colour, which is in demand from buyers/blenders.

The sector is well organised through the Tea Association of Malawi which has evolved a set of practices and mechanisms for review relating to hired labour and smallholders that have significantly improved the terms and conditions on which the estate sector engages with both groups. The drive for higher standards in employment, contracting, environmental, social and other areas has been underway for several years and Fairtrade labelling

is now adding to that impetus, with four relatively newly FLO-certified producer organisations. Smallholder farmers are also represented by the National Smallholder Tea Development Committee, which formed in 2003. Smallholder tea is part of a farming system, and is grown as a mono-crop on mainly ferralitic soils under rain-fed conditions. The Government of Malawi formed the Smallholder Tea Authority in 1964/5, now replaced by the Smallholder Tea Growers Trust and the Smallholder Tea Company Limited. This is now competing with the private tea estates as a buyer for green leaf produced by smallholders.

Two FLO-certified smallholder tea producer organisations were included in this impact study: the **Sukambizi Association Trust** and the **Eastern Outgrowers Trust**. In addition benefits of Fairtrade certification to a tea estate workers association, the **Satemwa Joint Body**, and its associated estate and community, were assessed.

### 3.1.1 Sukambizi Association Trust

The Sukambizi Association was registered as a Public Company in 2000 and membership has increased steadily to 5,700 in 2009 (of which 40% are women). Production has risen from 2 million kg green leaf to 6.4 million kg in 2008. Average tea holding is around 0.3 ha per member, and the green leaf is sold to the Lujeri Tea Estates, which works closely with the smallholders. The Sukambizi Association changed its status from a private company to a Trust for FLO-certification, and is now known as Sukambizi Association Trust (SAT). Sukambizi applied for certification in November 2007, after noting the example of Eastern Outgrowers, and was given certification in September 2008 after capacity building by FLO and the Fairtrade Foundation and organisational, environmental and governance improvements supported by its parent estate (Lujeri Estates Ltd). The first tea to be sold as Fairtrade certified tea was in January 2009, and the first Fairtrade Premium was received in May 2009.

To prosper, SAT will need continuing support from FLO/Fairtrade and Lujeri Estates Ltd, and some good fortune in being able to sell an increased proportion of its production as Fairtrade tea (currently around 37.5%) in order to attract the Premium to realise its developmental ambitions. It has made a solid start, with the assistance of Lujeri, but now needs professional staff to provide the planning, administrative and technical project management skills that the present Main Committee is unable to provide in the short-term.

**Table 3:** Summary situation of Sukambizi Association Trust

Positive Impacts	Challenges For Greater Impact
Democratic structures. Strong membership	No Development Plan
Block offices	Minimal office facilities/equipment/systems
Good relations with Lujeri Tea Estates (tea buyer) with whom they have 5-year contract	Limited admin/ technical capacity at executive level to administer the Trust and plan/implement Premium projects
Good international demand for tea (although the market for FT tea is limited)	Perceived low price for tea. No quality incentive. Want to diversify income sources
Membership contributions and Premium (US\$375,000 in 2009) provide financial sustainability	Perceived weak extension services (improved recently through training of 72 village-based extension staff)
Potential for learning from other Fairtrade initiatives in Malawi (nuts/sugar etc)	Poor Fairtrade knowledge among members
Member of the National Smallholder Tea Development Committee and the Tea Association of Malawi	Dependency on Lujeri Tea Estates. Debt from Fairtrade certification and establishment of Trust

### 3.1.2 Eastern Outgrowers Trust

The history of the Eastern Outgrowers Trust (EOT) is very similar to that of Sukambizi Association Trust (SAT). In 2002, 600 smallholder tea farmers started selling their tea to the Eastern Produce Malawi Company (EPM). Membership has now risen to 3,500.

In 2003, EPM management decided to apply for FLO-certification based on its experience with the Eastern Outgrowers Empowerment Project in Kenya. The first Fairtrade certificate was given to EOT in June 2007.

**Table 4:** Summary situation of the Eastern Out-Growers Trust

Positive Impacts	Challenges For Greater Impact
Good governance structure and democratic processes	Limited capacity of office bearers due to low education level and lack of training; no business management training
Rented office, computer, telephone, m/cycles Administrator	Few facilities at Block level. Need more technical and organisational training
Premium funds (US\$188,400 in 2009)	Geographically dispersed membership making provision of services difficult
3-year contract with buyer	Fair understanding of Fairtrade
Good relations with Eastern Produce Malawi (buyer)	Low price paid for tea (as perceived by smallholders)



### 3.1.3 Satemwa

Satemwa Tea Estates Ltd decided to apply for Fairtrade certification to take advantage of opportunities to market their products through Fairtrade and to promote the good image of the company. Following a number of modifications to the way it runs its business activities over several years, Satemwa was eventually certified in 2007, with the members of the Joint Body and General Assembly that represent Satemwa workers being the main beneficiaries.

**Table 5:** Summary situation of Satemwa workers

Positive Impacts	Challenges For Greater Impact
Leadership structure and Operational Plan in place	No Trade Union (but members of the Plantation & Agricultural Workers Union and have a Joint Consultative Committee in place)
Premium of \$654k to Satemwa Joint Body (the worker association) and \$94k to Satemwa Tea Estates Ltd (the employer)	Workers expect allowances or handouts before accepting new practices or responsibilities
Training received in various areas; Plan to recruit Projects Officer to oversee Premium projects	



## 3.2 Groundnut

Whilst the majority of Malawi's export revenues (90%) come from non-food crops such as tobacco, tea, cotton, coffee and sugar - edible nuts, in particular groundnut, are also considered important export crops (4% of export revenues in 2009).

Groundnut has been grown in Malawi since the middle of the 19th century, mostly by smallholder farmers in rotation with other crops, including maize and tobacco. Haulms (green tops) are fed to animals. Groundnut is ideally grown in the altitude range of 200-1500m. The main production areas are at medium altitude (about 600m) in the Lilongwe, Mchinji, Kasungu, Mzimba, and Rumphu plains. Over the years from the mid-1970s, groundnut has become a subsistence crop, and male farmers have abandoned it for more profitable cash crops (such as tobacco); in these situations female farmers have become responsible for production. Yields are poor in Malawi compared to other groundnut producing countries, and exports have been hard hit by the stringent aflatoxin (a poison produced by a fungus called *Aspergillus flavus*) regulations imposed by importing countries (particularly the EU and Japan).

The promotion of Malawian Fairtrade groundnut sales from smallholder producers aims to act as a stimulus to close the gap between total production and exports, although to date only one Malawian producer group (Mchinji Area Smallholder Farmers' Association – MASFA) has been FLO-certified, although several other groups are now interested<sup>6</sup>.



The **Mchinji Area Smallholder Farmers Association (MASFA)** was formed in 2000 to act as an umbrella organisation for smallholder farmers in Mchinji District. MASFA is farmer-owned and farmer-governed, and is the only supplier of FLO-Fairtrade certified groundnuts. It sells its produce through the National Smallholder Farmers Association of Malawi - NASFAM (certified exporter) and TWIN/TWIN-Trading (certified buyer) to Liberation Foods CIC<sup>7</sup>, a UK-based Fairtrade nut company, co-owned by nut farmer and gatherer organisations in developing countries. MASFA is one of 42 District (Smallholder Farmers) Associations that go to make up NASFAM. Membership was buoyant in the early years at around 17,000 members in 2002, but has dropped to around 3000 due to disillusionment with the buying process which is coordinated by a component of NASFAM (NASCOMEX).

### Box 2: Mchinji Area Smallholder Farmers' Association

#### MASFA Mission

To improve the socio-economic status of its smallholder farmers through higher returns from crop production and marketing and the provision of other services that enhance their productivity, knowledge and skills.

#### MASFA Objectives

- To increase rural incomes through collective marketing
- To promote food security at household level
- To equip smallholder farmers with business and marketing skills
- To promote community Natural Resource Management (NRM)
- To advocate conservation farming practices
- To integrate HIV/AIDS and gender into all programmes

### 3.3 Sugar

Malawi's sugar sector is vital for the country's economy and holds enormous potential. It is the country's third most important export commodity after tobacco and tea, valued at US\$ 61 million (2007). The sugar cane is grown under irrigation, and agro-climatic conditions are favourable for both cane yields and sugar formation. Sugar is grown as a monocrop and is the main income earner, but the smallholder producers also grow rice, cotton, maize (the main food security crop), sorghum, millet and sesame and keep livestock.

The Fairtrade certification in 2004 of the first and only Fairtrade sugar producer group in Malawi, Kasinthula Cane Growers (KCGL), plus tariff-free access into Europe, means that Malawian Fairtrade sugar is now available in mainstream EU supermarkets. The smallholder sugar production from Kasinthula is sold to Illovo Sugar (Malawi) Ltd, which is Malawi's only sugar plantation producer and processor, with two estates with milling facilities at Nchalo Estate on the Shire River (which mills the cane from Kasinthula), and Dwangwa Estate near Lake Malawi.

The irrigation scheme that is now **Kasinthula Cane Growers Ltd** started in 1964 as a Government rice scheme. This lasted until 1997, at which time the Illovo sugar cane factory expanded and sought additional raw cane to process. On changing from rice to sugar cane, the government transferred ownership of the land to the farmers, creating Kasinthula Cane Growers Ltd (KCGL). KCGL interest in becoming Fairtrade (FLO) certified was registered in 2003. They became



certified as a Producer Organisation in 2004. Although production changed from a food crop to a non-food cash crop, food security was not negatively affected because farmers have access to irrigated land to grow their food crops and have an income with which to buy food. A Trust was also established - the Shire Valley Cane Growers Trust - in which 95% of the shares of the KCGL are owned by the Trust (i.e. by the farmers), and the remaining 5% are owned by Illovo Sugar (Malawi) Ltd. However the agendas of the Trust (development) and of the Company (profit) are different, which causes conflict. A major problem is that the Trust has accumulated very large debts, which render making a profit impossible. Additionally, the farmers have no incentive to farm well and to increase yields as they all receive the same remuneration. Hired labour (Table 6) has been used extensively to supplement farmer labour, but this has been declining over the past few years.

**Table 6:** Labour employment by KCGL from 2006 - 2010

Category	April 2006 – March 2007	April 2007 – March 2008	April 2008 – March 2009	April 2009 – March 10
Male permanent workers	695	540	545	430
Female permanent workers	5	10	25	30
Total permanent workers	700	550	570	460

Kasinthula Cane Growers Limited produced 69,831 tonnes of sugar cane in 2009 from 754 hectares of land. KCGL has 282 farmers (of which 91 are women) and 460 permanent workers. All of that production is purchased by Illovo Sugar (Malawi) Ltd and processed at its Nchalo factory.



# 4. COMPARISON BETWEEN THE THREE FAIRTRADE COMMODITIES

## 4.1 Organisation and governance

Both sugar (Kasinthula Cane Growers Ltd) and groundnut (Mchinji Area Smallholder Farmer's Association) Producer Organisations were FLO-certified in 2004, while the smallholder tea Producer Organisations (Sukambizi Association Trust and Eastern Outgrowers Trust) and the tea Worker Organisation (Satemwa Joint Body) were all certified in 2007/8. However, the extent of Fairtrade impact is not merely governed by the length of certification, but also by the conditions before certification, the amount and management of the Premium, the trading conditions and the dynamism of the certified organisations.

The cost of certification was substantial in each case (the costs in Table 7 do not include the costs of organisational re-structuring [e.g. the formation of Trusts for SAT and EOT]), and had to be assisted in most cases by the buyer organisation, and then repaid from Premium income. It is very difficult for small, unsupported smallholder or worker organisations to meet the expenses of certification, although producer organisations can apply to the FLO producer certification fund<sup>8</sup>.

As shown in Table 7, the size of each organisation is very different, ranging from only 282 smallholders for sugar to 5700 for the Sukambizi smallholders. The size of the tea producer organisations has risen several-fold over the past 5 years, but the groundnut producer organisation (MASFA) has seen its membership decline as members became disillusioned with the benefits provided. This is further explored in the section on support.

The two smallholder tea producer organisations are each very closely linked to a different tea estate, to which they sell their green leaf tea, and on which they depend for much of their technical, managerial and administrative support, even though they have their own organisational structures, processes and links to the National Smallholder Tea Development Committee.

**Table 7:** Comparison between the three commodities

Commodity	Tea			Groundnut	Sugar
Organisation	Sukambizi	Eastern Outgrowers	Satemwa (workers)	MASFA	Kasinthula
Year FLO certified	2008	2007	2007	2004	2004
Membership in 2009	5700 smallholders	3500 smallholders	1700-2500 workers	3000 smallholders	282 smallholders
Hired labour	Limited non-family workers	Limited non-family workers	n/a	22 workers	460 permanent workers
Cost of certification	US\$4430	Not given	US\$11,500	US\$7143	Not given. Audit US\$1550/yr
Premium	US\$500/MT made tea	US\$500/MT made tea	US\$500/MT made tea	US\$110/MT shelled nuts	US\$60/MT sugar
Total Premium in 2009 <sup>9</sup>	US\$375,000	US\$351,623	US\$654,418	US\$7,920	US\$807,401
Premium per farmer member	US\$66	US\$102	US\$385-261 <sup>10</sup>	US\$2.64	US\$2863
No of Premium-funded projects	18 (projected) <sup>11</sup>	11	10	2 <sup>12</sup>	12 <sup>13</sup>
Length of contract	5-years	3-years	n/a	Annual	25 years
Average % sold to Fairtrade	37.5%	31.7%	60%	27.6%	100%
Minimum price (US\$/tonne FOB)	1200/ MT green leaf FOB	1200/ MT green leaf FOB	n/a	670/MT shelled nuts	No FT minimum price
Price to farmer excluding transport and processing	680/MT green leaf	680/MT green leaf	n/a	607/MT shelled nuts	Advance 986 per year
Total cost: production, transport and processing	US\$1390/MT green leaf	US\$1390/MT green leaf	n/a	975/MT shelled nuts	Not calculated
Pre-payment or credit	Lujeri provides US\$122,500 credit per year	Not quantified	n/a	None	Illovo provides an advance to all KCGL farmers
Extension system	Lujeri provides village extension workers	EPM provides extension	n/a	MASFA AFOs and F2F volunteers	Advice and inputs (at cost) from Illovo
Support	FLO, Fairtrade Foundation,				
Lujeri Estates	FLO, Fairtrade Foundation,				
EPM	VSO,				
Satemwa Estates	NASFAM, TWIN and ICRISAT	TWIN, Illovo, EU			
Diversification	Cash and subsistence crops and livestock	Cash and subsistence crops and livestock	n/a	Cash crops, labouring, groundnut seed production; subsistence crops and livestock	Cash crops, subsistence crops, livestock and some small businesses

In time the two smallholder producer organisations might become more autonomous, but for the moment their close link to their adopted estates is advantageous and necessary until their managerial capacity, administrative facilities and financial sustainability are built up (this is happening, but could take 10 years to achieve). While smallholders could sell their tea to the rehabilitated Smallholder Tea Company, they also rely on their estates for extension advice which is vital to their economic viability.

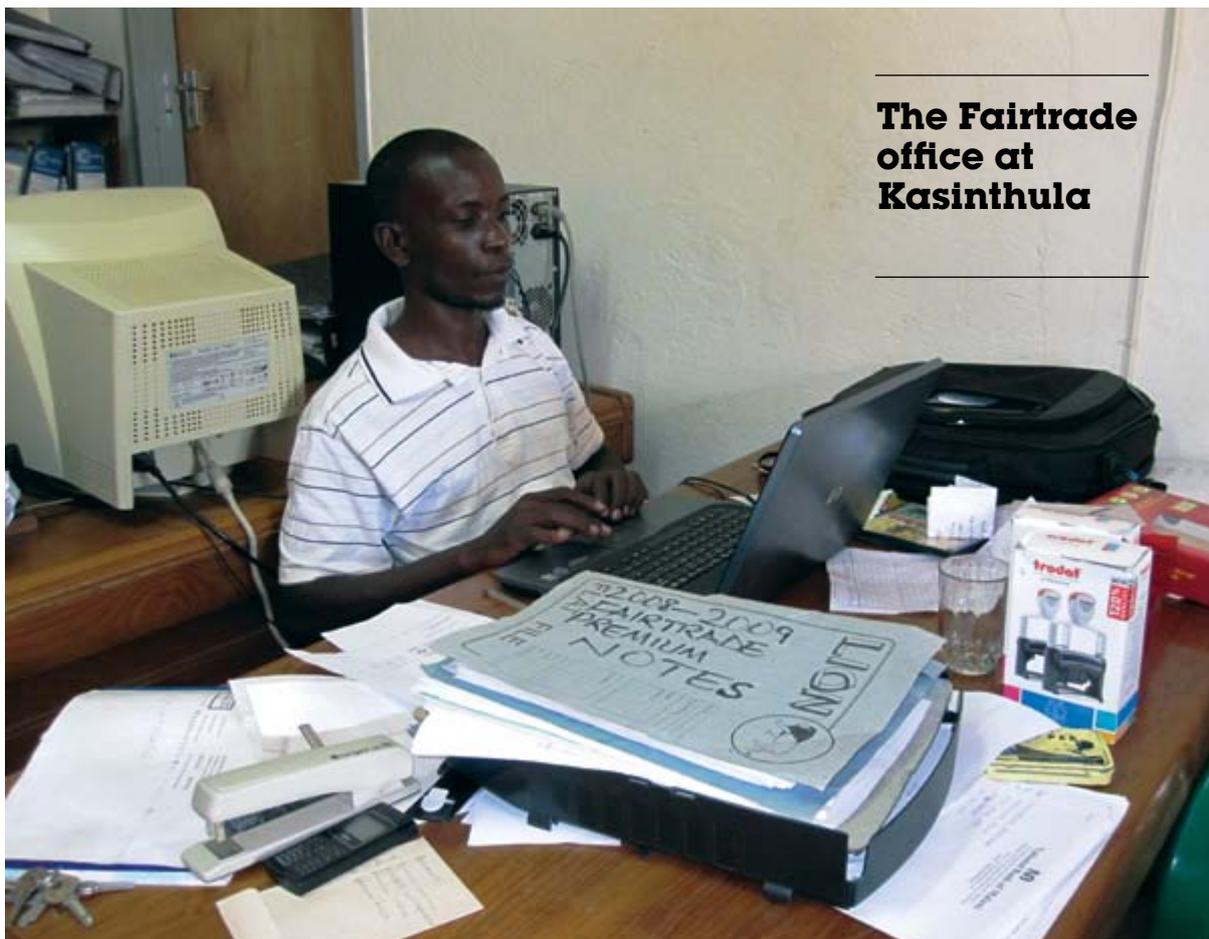
The tea worker organisation (Satemwa Joint Body) is an integral part of the tea estate which is FLO-

certified. The estate has worked hard with the workers before and after certification to establish organisational structures and working conditions that meet the necessary standards. At the moment, there is interdependency between the estates and the producer/worker organisations leading to good working relations.

MASFA groundnut producers are linked to the National Smallholder Farmers Association of Malawi, a component of which (NASCOMEX) purchases the groundnuts and assists with transport, processing and marketing.

**Table 8:** Organisational structures for the producer and worker organisations

Commodity	Tea			Groundnut	Sugar
<b>Organisation</b>	<b>Sukambizi Association Trust</b>	<b>Eastern Outgrowers Trust</b>	<b>Satemwa Estates Ltd (workers)</b>	<b>MASFA<sup>14</sup></b>	<b>Kasinthula Cane Growers Ltd<sup>15</sup></b>
<b>Organisational structures</b>	Main Committee, Control Committee, 19 Block Committees, 141 Club Committees	Executive Board, Advisory Board, Premium Committee, 34 Block Committees, 9 Child labour committees	Joint Body; General Assembly; Executive; 3 Sub-committees	Board of Directors, Premium Committee, 6 Chapter Committees, 52 Marketing Area Committees and Clubs	Board of Directors, 2 Main Committees, Premium Committee, 5 Sub-committees, Worker's Union (in process)




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## The Fairtrade office at Kasinthula

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Kasinthula smallholder sugar producers are also closely linked to their sugar cane buyer, which is the monopoly sugar processor in Malawi (Illovo Sugar (Malawi) Ltd). This provides extension advice, arranges access to inputs at cost price and pays an equal 'advance' each month to each of the farmers. Transport for the cane is through a contract with a private haulage company. Due to historical reasons Kasinthula has two Main Committees, but it is expected that these will merge in the near future. The organisation is also complicated by a second-tier organisation called the Shire Valley Cane Growers Trust. 95% of the shares of the KCGL are owned by the Trust (i.e. by the farmers), and the remaining 5% are owned by Illovo Sugar (Malawi) Ltd. The Trust and KCGL have different structures and different agendas and there is potential for conflict between them.

In the case of all the producer organisations the main committees are staffed by producers (or workers in the case of Satemwa Joint Body). There is also representation from the buyer organisation in each case. In all cases there is a separate body with responsibility for managing the Fairtrade Premium.

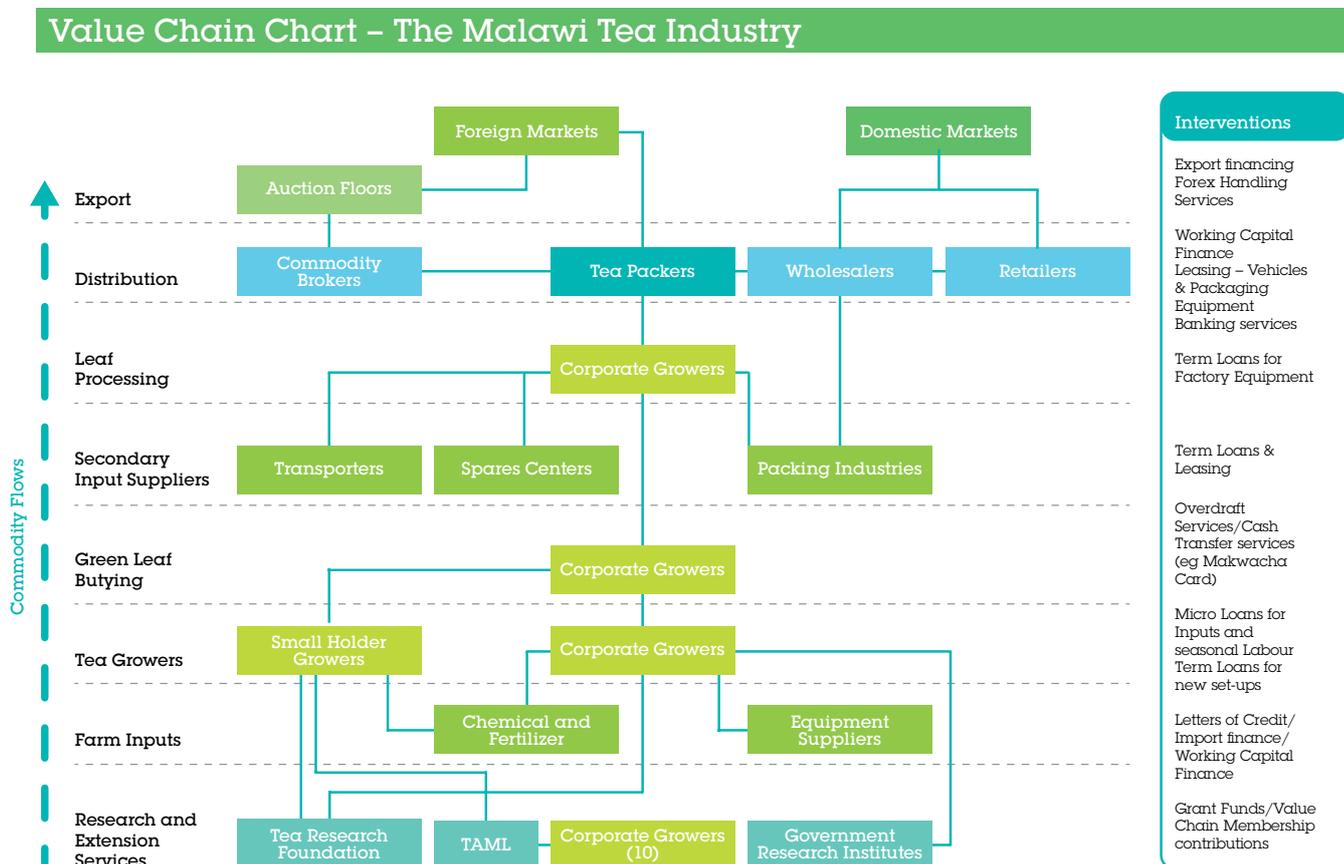
Other sub-committees have been formed for specific purposes (e.g. revolving fund sub-committee, audit sub-committee etc) or for the decentralisation of decision-making, such as the Block or Chapter sub-committees. The producer/worker members of these committees have limited schooling (typically they have several years at Primary school, but few have Secondary school education). They are also in post for only 3-5 years, so that those that build up experience are replaced with un-experienced members.

The democratic and participatory structures provide good bottom-up decision-making on subjects such as the use of the Fairtrade Premium. In the case of smallholder groundnut and tea producers, there is a voice at national level through NASFAM and the National Smallholder Tea Development Committee respectively, whereas the sugar producers at Kasinthula don't have any national representation. The main committees try to represent their members in negotiations with buyers, but, despite capacity development, still find themselves at a disadvantage in terms of technical and marketing know-how.

## 4.2 Involvement along the value chains

The value chains for tea, groundnut and sugar are diagrammatically represented in Figures 1, 2 and 3.

**Figure 1:** Value chain for tea



From: USAID, 2006. Credit demand and supply study of Malawi's tea sector. USAID, Washington.

Smallholder tea producers relinquish their stake in the product as soon as they sell it to the corporate growers, who are responsible for processing, marketing and export. This diagram shows that inputs (mostly tea bushes and fertiliser) are sourced through loans from the corporate buyers. Smallholders also have access to outputs from the Tea Research Foundation and through the NSTDC to the Tea Association of Malawi. The tea workers at the Satemwa estate are selling their skills and their labour, rather than a commodity, so their interest is not directly in the value chain, but rather in their working conditions.

In contrast, MASFA groundnut producers are much more involved along the supply chain. MASFA are a shareholder in NASFAM, which is the exporter, and in Liberation Foods CIC, which acts as a bridge between the buyer and the retailer.

**Figure 2:** Marketing Chain For MASFA Groundnuts



It is ironic that despite this MASFA farmers experience the most difficulty in the purchasing process. Timeliness and price are major areas of conflict, with many farmers defecting to middlemen. There is no long-term contract with the buyer, rendering the producer vulnerable to annual variations in price and demand.

The sugar supply chain is shown in Figure 3. The situation is analogous to that of tea. The smallholders are only involved with the production of the raw product (sugar cane). Even transport to the processing mill is out of their hands.

The smallholder tea producers have options to become more involved in the value chain. They could sell to STECO (the Smallholder Tea Company) in which smallholders have a small shareholding, or they could establish their own processing facility (very expensive). TWIN is supporting MASFA/NASFAM in value addition because the profit margin on raw nuts is not very attractive, and the Premium is low compared to other Fairtrade commodities. There are two components to this. Firstly the processing of nuts in shells to a marketable whole nut product (through shelling, sorting, grading, drying and blanching), and secondly the processing of nuts into other products, such as paste, oil and ready-to-use therapeutic foods (RUTF).

**Figure 3:** The Fairtrade Trading Chain

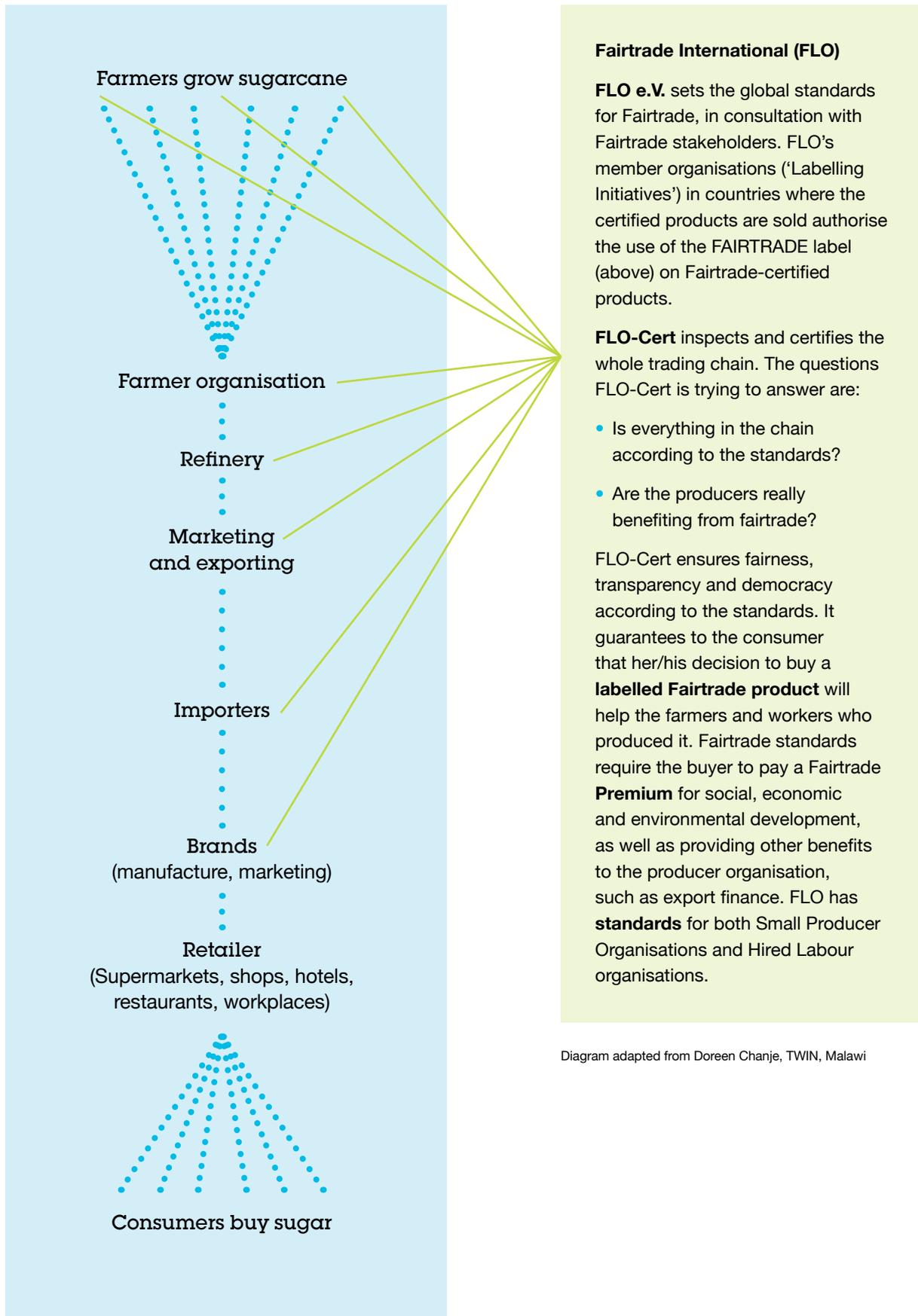


Diagram adapted from Doreen Charje, TWIN, Malawi

# 5. FAIRTRADE BENEFITS FOR SMALLHOLDERS AND WORKERS

## 5.1 Support to smallholders and workers

Table 7 summarises the sources of support to each of the study organisations. The two smallholder tea producer organisations received considerable support from their corporate tea estate ‘partners’ in meeting the requirements for certification. They also received support from FLO liaison officers and staff of the Fairtrade Foundation. Since certification, the support from the estates has continued, in terms of facilities for meetings and communication and technical support to improve yields and incomes.

Similarly, Satemwa Estates Ltd improved their worker relations up to the standard necessary for certification, and have continued to improve worker conditions

and assist the functioning of the Joint Body, General Assembly and committees. In the first instance there were problems in managing the Fairtrade Premium, and a VSO was recruited to assist the Joint Body and its Premium Committee in this, to good effect.

The situation of MASFA is arguably the most difficult and has needed the most support. Exports of groundnut have slipped since their heyday, there is no oilseed estate sector to piggy back smallholder sales on, and the farmers were faced with multiple technical problems (low yields, high quality requirements, large numbers of dispersed producers). Support has come from different quarters, as shown in Table 9.

**Table 9:** Support to MASFA

Supporting organisation	Type of support	Comment
NASFAM	Quality control, capacity development	
ICRISAT	Basic seed and seed multiplication	
Government of Malawi	Subsidised seed and fertiliser	
TWIN/TWIN Trading	<ul style="list-style-type: none"> <li>Establishing Fairtrade nut supply chains</li> <li>Developing Liberation Foods CIC</li> <li>Facilitating technical exchanges, market and promotional visits by producers;</li> <li>Helping to introduce farmer managed aflatoxin testing laboratories;</li> <li>Implementing traceability down to the individual farmer level</li> <li>Establishing pilot storage and processing</li> </ul>	With support from DFID Regional Trade Facilitation Programme and Regional Standards Programme, Comic Relief and Sainsbury’s Fair Development Fund
Bank of Malawi	Credit to Clubs	
CORDAID	Support to MASFA extension system (Association Field Officers and Farmer to Farmer volunteers)	
Egremont Trust	HIV/AIDS programme	
McKnight Foundation	Support to plant breeding at Chitedze	

Smallholder sugar producers in Kasinthula Cane Growers Ltd receive technical and material support from their buyer (Illovo Sugar Malawi Ltd). The EU is assisting through the expansion of the area available for growing cane (which will improve economies of scale) and also has a well-funded training programme about to start. TWIN/TWIN Trading has funding from Comic Relief and Fair Trade Original<sup>16</sup> for its Producer Partnership Programme, which has supported capacity development on 'Understanding Kasinthula's Business', supply chain challenges, Quality Management Systems, the introduction of a new financial management system and technical training in South Africa.

The above shows the considerable effort made by a range of actors (private, public, NGO) to support the producer/worker organisations. They will continue to need support in building human capacity (most of executive and committee members have only primary schooling), in establishing quality management systems and procedures, in providing administrative facilities, in developing technical support programmes (production, post-harvest and marketing), and in providing linkages to new markets and value addition opportunities, to research and to Fairtrade forums and networks.



## 5.2 Participation, democracy and empowerment

The certification process requires smallholder and worker organisations to conform to rigorous organisational standards, including the formation of democratic structures and functional administrative systems, participation in meetings and key decisions, accountability by the executive to the organisation members, and communication and transparency. The three studies have found that all of these principles are being adhered to as the producer and worker organisations grow stronger. For example all the individual members interviewed said they were satisfied that they had enjoyed a full say in choosing the way in which the Fairtrade Premium is used.

Apart from the Executive Committees, there are separate Committees for different functions. For example Kasinthula Cane Growers Ltd have a Premium Committee, an Audit Committee, a Revolving Fund Committee, a Community Development Committee and a Field Monitoring Committee.

While the producer and worker organisations are still relatively new and inexperienced, the technical and organisational support mentioned above are providing the executive bodies with increasing capacity to lead and represent their members in local, regional and international forums.

The two sections above have shown how smallholders and the Satemwa Joint Body workers have received organisational and technical support through Fairtrade and how this has affected their democracy and empowerment. In addition, Fairtrade is designed to bring benefits from the Fairtrade Premium, from a Fairtrade Minimum Price (except for sugar), from pre-financing and from stable contracts with buyers.

### Box 3: Summary of Fairtrade standards

- 1. Social development:** For small farmers Fairtrade Standards require an organizational structure that allows the farmers to actually bring a product to the market. All members of the organization need to have access to democratic decision-making processes and as far as possible participate in the activities of the organization. The organization needs to be set up in a transparent way for its members and must not discriminate any particular member or social group. For hired labour situations the Fairtrade Standards require from the company to bring social rights and security to its workers. Some of the core elements are: training opportunities, non discriminatory employment practises, no child labour, no forced labour, access to collective bargaining processes and freedom of association of the workforce, condition of employment exceeding legal minimum requirements, adequate occupational safety and health conditions and sufficient facilities for the workforce to manage the Fairtrade Premium.
- 2. Economic development:** For all products Fairtrade Standards require the buyers to pay a Fairtrade Minimum Price and/or a Fairtrade Premium to the producers. The Fairtrade Minimum Price allows the producer to cover the costs of sustainable production. The Fairtrade premium is money for the farmers or for the workers on a plantation to invest in improving their livelihood. Premium money in this sense is meant to improve their organisation's development and the situation of local communities in health, education, environment, economy etc. The farmers or workers decide themselves on what are the most important priorities for them and manage the use of the Fairtrade Premium. Also, Fairtrade Standards require buyers to give a financial advance on contracts, called pre-financing, if producers ask for it. This is to help producers to have access to capital and so overcome what can be one of the biggest obstacles to their development. This promotes entrepreneurship and can assist the economic development of entire rural communities.
- 3. Environmental development:** Fairtrade Standards include requirements for environmentally sound agricultural practises. The focus areas are: minimized and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources and no use of genetically modified organisms. However, Fairtrade Standards do not require organic certification as part of its standards. Higher costs for organic production are considered though, by higher Fairtrade Minimum Prices for organically grown products.

Source: FLO website. [http://www.fairtrade.net/producer\\_standards.html](http://www.fairtrade.net/producer_standards.html)

In reality, the benefits accrued from each of these mechanisms is very different between commodities, as shown in Table 7, and explained further below.

### 5.3 Fairtrade Premium

A Fairtrade Premium is paid at the following rates for the three commodities:

- a) US\$500/Metric Tonne of made tea**
- b) US\$110/Metric Tonne of shelled groundnuts**
- c) US\$60/Metric Tonne of made sugar**

The amount of Premium received by the producer organisation therefore depends on the quantity produced, the proportion sold to Fairtrade and the Premium for that particular commodity. The direct benefits to individual farming families then depends on how many farmers there are in each producer organisation, and the way in which the Premium is used. There is a huge discrepancy, with Kasinthula Cane Growers Ltd receiving US\$2,863 as Premium per member per year, and MASFA only US\$2.64 per member per year. Part of the reason for this is that all the sugar produced by KCG Ltd is sold as Fairtrade and therefore attracts the Premium, while only around 30% of MASFA groundnuts are sold as Fairtrade. However, part of the difference is also due to the relatively generous Premium on sugar as compared to groundnuts. Tea producers and workers are in between at US\$54-156 per year for each member.

**Table 10:** Premium-funded projects of Eastern Outgrowers Trust

Expenditure Category	Projects	Total Cost (US\$)
<b>Health</b>	Muloza Maternity wing	2400
	Muloza and Thyolo Ambulance garage	5460
<b>Education</b>	Nansongole school block	6664
	Konzaalendo school block	8190
	Nangwengwe Headmasters' house	5875
<b>Tea Fields</b>	34 Leaf Weighing sheds/offices in 6 blocks	76153
<b>Agriculture Inputs</b>	Fertilizer subsidy for members	98257
<b>Environment</b>	Phwera Tree planting	1459
	Mawoonga Tree planting	464
<b>Offices and Housing</b>	EOT Office and House maintenance	3021
<b>Tea Nursery Establishments</b>	Likanga Nursery	12540
	Makwasa Nursery	21884
<b>Admin/ meeting expenses</b>	Administration and meeting expenses	25070
<b>Capacity Building</b>	Training of Board and Premium members	2063
<b>TOTAL</b>		<b>257,378</b>



School children in southern Malawi

The sugar farmers have also arranged that 40% of the Premium<sup>17</sup> is allocated to them in kind (school fees, farm inputs, household items etc), while the groundnut producers have not seen any such direct personal benefits. Instead, they have elected to spend their small Premium incomes on a Guardian Shelter at the District hospital and in upgrading storage and processing facilities at local level. The tea producers and workers have a balanced set of Premium-funded activities between subsidised farm inputs and food, revolving fund for members, yield and processing improvements, organisational expenses and community development projects. Table 10 shows the range of projects implemented by the Eastern Outgrowers Trust smallholder tea producers, while the photographs below provide and impression of the types of tangible benefits arising from the use of the Premium.

## A small selection of Premium-funded projects for the three commodities



School block, EOT



Solar panel, Satemwa



Guardian shelter, MASFA



Clean water, Kasinthula

## 5.4 Minimum Price

There is a Fairtrade minimum price for tea and for groundnuts, but not for sugar. Due to the steadily rising global demand for tea, the minimum price mechanism has not been utilised in Malawi since certification. It is, however, there as a safety net in case the world price crashes for any reason.

The FLO minimum price for groundnuts is US\$670/MT<sup>18</sup> FOB. This is low compared to the production plus on-costs to port of US\$975 FOB as estimated by TWIN (i.e. US\$305 above the FLO minimum price). Because the minimum price has not been reviewed for a number of years, there has been little impact from it on price stability or smallholder livelihoods. A higher minimum price would provide a more realistic safety net, and start farmers believing that investment in groundnut production is a justifiable risk for their families.

There is no minimum price for sugar, but at the moment this is more than compensated for by the generous Fairtrade Premium paid.

## 5.5 Pre-financing

This is complex, as it is also related to credit provided by the buyers to their smallholder producers. For example, Lujeri Tea Estates, the buyers of tea from Sukambizi Association Trust, provide US\$122,500 per year in credit to the 5,700 SAT members, mainly in the form of fertiliser. In addition, an agreed price is paid to tea producers each month for each kg of green leaf collected, and a 'bonus' is paid after the final export price is known. No credit or pre-financing is provided to groundnut producers, while an equal monthly 'advance' is paid to all Kasinthula sugar producers.

## 5.6 Long-term contracts

The idea behind stable contracts is that they provide a platform for smallholders to confidently plan and invest in sustainable production. SAT tea producers have 5-year contract with Lujeri Tea Estates, EOT have a 3-year contract with Eastern Produce Malawi, and the Kasinthula sugar producers have a 25-year contract with Illovo sugar (Malawi) Ltd.

However the groundnut smallholders have no contract with their immediate buyers (NASCOMEX), and prices are fixed on a yearly basis. NASCOMEX argue that this is justifiable given that the world price is very volatile, that each year they have to negotiate the amount that will be sold to Fairtrade, and that the farmers part own NASCOMEX, so that they should be more confident that they will be fairly treated than if the buyer was a private company.

## 5.7 Benefits to workers

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The tea workers at Satemwa are the main focus of the certification benefits there, which has improved their working conditions and collective organisation, and provided bursaries, desks, bridges, boreholes, solar panels, mosquito nets, malaria drugs, sports equipment and adult education through the Fairtrade Premium. However, there are also workers associated with smallholder production. The tea smallholders of SAT and EOT employ some non-family workers on a casual basis, and there is no indication that these workers are getting any formalised Fairtrade benefits.

The MASFA organisation employs some 22 (mostly permanent, mostly male) workers in processing and storage facilities. These are provided with appropriate protective clothing and working conditions above the national minimum standards.

There are 460 permanent workers at Kasinthula compared to only 282 smallholder sugar farmers. The workers do much of the farm work, including weeding when this is neglected by farmers and irrigation. While their working conditions and health and safety provisions such as protective clothing have improved in recent years, the workers do not receive a share of the considerable Premium, and justifiably feel that they do much of the work for a small share of the Fairtrade benefit.



Kasinthula workers in their protective clothing

## 5.8 Natural resource management

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Tea: While tea in Malawi is an environmentally benign crop with minimal use of pesticides, the locations in which it is grown are subject to great pressure from local inhabitants. Thus both Thyolo and Mulanje mountains are subject to de-forestation and encroachment. This has been most damaging in Thyolo, with consequent siltation of rivers and dams.



Mulanje mountain (opposite; photo B. Pound) is the focus of the Mount Mulanje Conservation Trust, who work closely with tea estates and smallholders to reduce deforestation, reverse encroachment, encourage the planting of perennial tree crops and promote fuel efficient stoves.

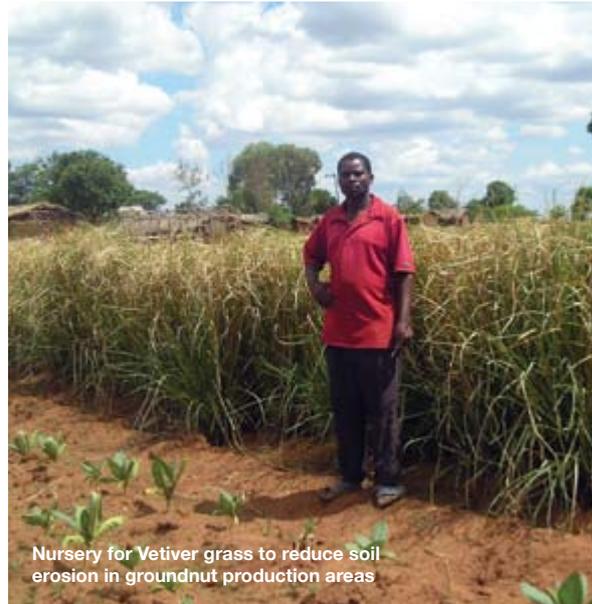
In addition, there is a drive to reduce gaps in smallholder tea and bring tea bush population up to the recommended level. This will reduce erosion in sloping areas. Tea requires a well distributed and sufficient rainfall. It is very vulnerable to climate shifts, and irrigation is being increasingly deployed by estates to supplement rainfall. Smallholders don't have this facility, and are vulnerable to climate change. Mitigation through reforestation of the mountains, and the maintenance of diverse farming systems are sensible precautions.

**Groundnut:** The extension services promoted through the MASFA Association Farm Officer (AFO) extension staff and Farmer to Farmer volunteer trainers put considerable emphasis on natural resource management. This is in view of the reported decline in soil fertility and serious deforestation in part due to tobacco production. In addition the requirements of Fairtrade are observed, particularly with regard to agrochemicals (groundnuts themselves do not receive inorganic fertilisers or pesticides, but the crops they rotate with do). The practices promoted by the AFOs are:

- The use of manures
- Planting of agro-forestry trees (e.g. Moringa, Msangu, Acacia and others)
- Soil conservation (e.g. planting of Vetiver grass)
- Planting of 250,000 trees in 2008/9
- Separation of nuts from harmful chemicals used in tobacco growing (due to greater awareness created by Fairtrade due to the needs of certification)
- Elimination of the use of prohibited agrochemicals (due to greater awareness created by Fairtrade due to the needs of certification)



Tree nursery with local and exotic tree species for planting by MASFA farmers



Nursery for Vetiver grass to reduce soil erosion in groundnut production areas

**Sugar:** The Kasinthula area has suffered from natural resource degradation – and is characterised by a lack of mature trees and declining soil fertility. Tree planting is underway. Each village has established tree nurseries with technical support from Concern Universal who have received funding from the EU to build capacity of the farmers. Funds for the establishment of the nurseries are from the 30% of Premium meant for development projects in the area.



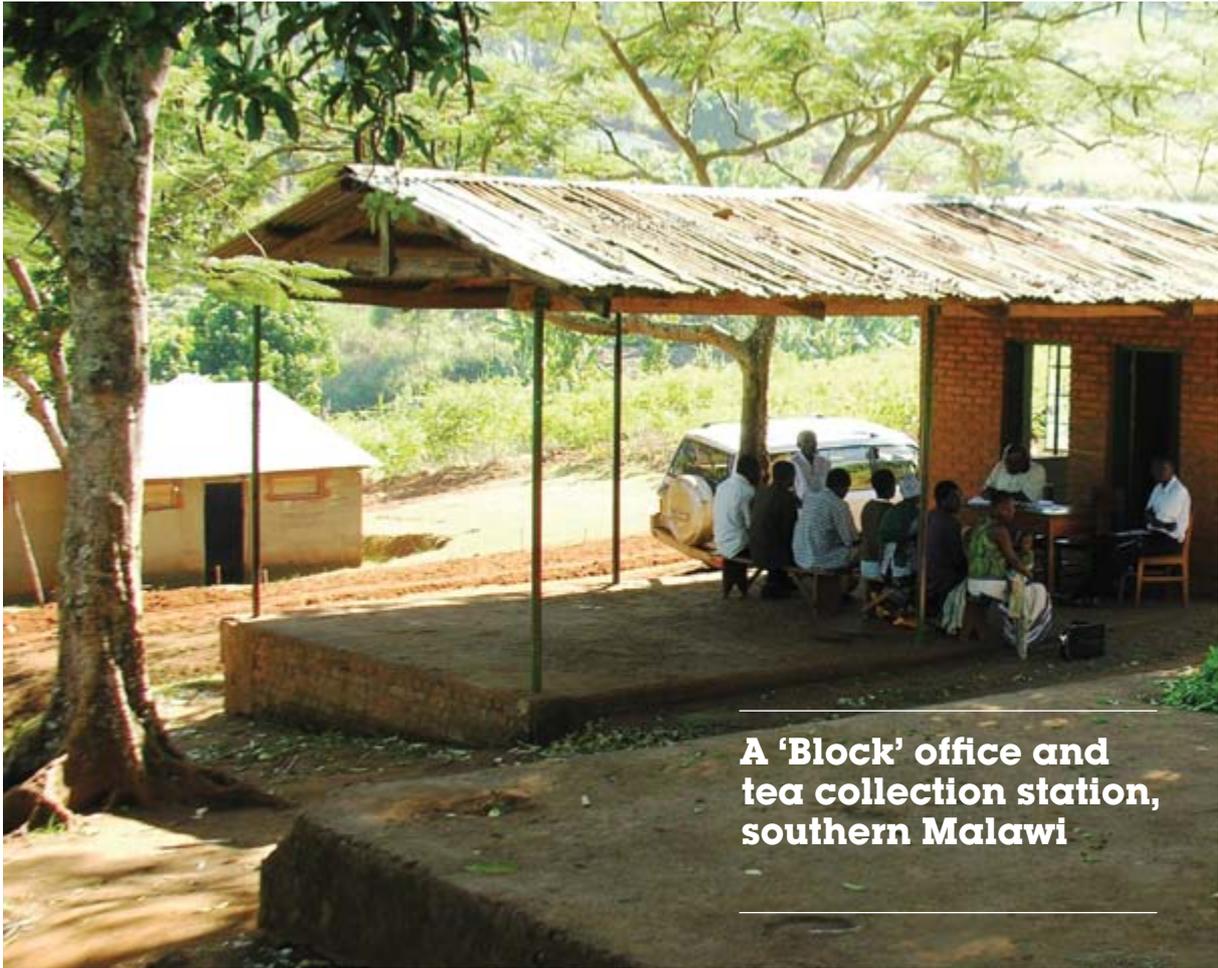
Smallholder sugar producer, Kasinthula

Concern Universal is also organizing trainings for making of San Plats (latrines) and fuel saving stoves. It is reported that the drilling of boreholes using Premium funds in the villages has resulted in reduction of water-borne disease outbreaks in the area. In addition, anecdotal evidence is that some people used to be caught by crocodiles when fetching water in the rivers mainly during the rainy season. This has reduced as a result of the boreholes that have been drilled in the area.

# 6. CHALLENGES AND OPPORTUNITIES

Challenges and opportunities for the three commodities

Challenges	Opportunities
<ul style="list-style-type: none"> <li>• High certification and audit costs (especially for small, independent organisations)</li> <li>• Dependency on estate ‘parent’ organisations (tea and sugar)</li> <li>• Low education level of farmer/worker committee members (all commodities)</li> <li>• Poor purchasing process (late, perceived low price, no quality incentive, no long-term contract), for groundnuts leading to low membership numbers</li> <li>• Low Fairtrade minimum price for groundnuts (below production + processing + transport costs)</li> <li>• Very low Premium income for groundnut producers (due to limited sales)</li> <li>• Large Kasinthula debt repayments eliminate profits to farmers</li> <li>• Tension between use of Premium for personal benefits, production/processing investments and community benefits</li> <li>• Declining soil fertility and vulnerability to climate change (particularly for tea)</li> <li>• Limited benefits to permanent hired labour (especially at Kasinthula)</li> <li>• Low proportion of total production sold as Fairtrade (tea and groundnut)</li> <li>• Farmers at Kasinthula have no incentive to produce more or work harder, as they all receive the same payment regardless of quantity or quality produced</li> </ul>	<ul style="list-style-type: none"> <li>• Take more control along the value chain (sugar and tea)</li> <li>• Use professionals in key positions in producer/worker organisations (e.g. administrator/Premium projects officer) and further build the organisational and administrative capacity of producer/worker organisations</li> <li>• Substantial Premium income for tea and sugar available to be invested in production/quality and in community development</li> <li>• Improved extension system (especially for sugar)</li> <li>• International market for groundnut if quantity/quality issues can be overcome</li> <li>• Development of niche products (specialist teas, specialist sugars, processed groundnut foods)</li> <li>• More networking within and outside Malawi, especially learning from other Fairtrade producer/worker organisations</li> <li>• Continued partnerships with Fair Trade NGOs such as TWIN who link the producer organisations with capacity-building and marketing opportunities</li> <li>• Organic certification</li> </ul>



**A 'Block' office and tea collection station, southern Malawi**

### Challenges and opportunities for Fairtrade in Malawi

#### Challenges

- Competition from other labels (Rainforest Alliance, UTZ-Certified, COFTA)
- Lack of recognition by Fairtrade of the contributions (especially in kind) of estates (tea and sugar) to gaining certification and to ongoing support of smallholder organisations
- Wide differences in Premium benefits to producer organisations between commodities

#### Opportunities

- Employ local auditors that are less expensive than international staff
- Flexible interpretation of FLO certification conditions (e.g. overtime regulations)
- Support to the Malawi Fairtrade Network during its establishment so that it can become a strong advocate for Fairtrade
- Continued partnerships with Fair Trade NGOs such as TWIN who link the producer organisations with capacity-building and marketing opportunities
- Greater interaction with the Government of Malawi to promote fair trade principles and Fairtrade in particular

# 7. RECOMMENDED CHANGES TO FAIRTRADE IN MALAWI

## General recommendations

- Identify ways to reduce the cost of certification and annual audit, including the training and use of local auditors
- Greater clarity from FLO on what the Fairtrade premium can be used for.
- Improve the proportion of Fairtrade benefits reaching permanent labour
- Flexibly interpret standards so that they are appropriate to local context (e.g. overtime regulations)
- FLO agents are not empowered to make decisions at a local level. This appears ironic given the rigour by which the steps toward empowerment are enforced by FLO on producers. As one stakeholder pointed out: 'The spirit of the relationship (between FLO and the Estates) is not healthy, because instead of having a dialogue with the owner of the Standard (FLO) we only get to listen to our weaknesses, over and over again, from FLO-CERT who are not allowed to facilitate change'. This is unhealthy and de-motivating for the smallholder farmers, workers and the Estate sector management<sup>19</sup>.
- The contribution of the buyer (tea estate, sugar estate) to the process of certification and on-going technical and administrative support can be considerable, but is not recognised in any tangible way. It would be more encouraging to the buyers if they received an agreed proportion of the Premium to offset some of these costs.
- The huge discrepancies in the Premium income from different commodities suggests that Premium amounts need adjusting so that incomes per farmer are more equal across commodities
- Producer and worker organisations are managed by member farmers/workers who have limited schooling. This is exacerbated by the requirement that they only serve a limited period in post<sup>20</sup>, after which they are replaced by others with little or no experience of management. Continuing support from the buyer, from Fairtrade Organisations (including NGOs such as TWIN) is needed. For larger organisations the contracting of professional staff is recommended to cover areas such as administration, extension, Premium project management (technical and organisational aspects).
- Natural resource management considerations are important in the tea production areas where soil, water and forest conservation are vital to the flow of water on which the tea crop depends. Similarly in the groundnut areas, agro-forestry is promoted to counter deforestation caused by tobacco processing activities. These long-term, but vital, aspects are being partly addressed, but mostly outside direct Fairtrade-funded actions. Fairtrade standards could be made stronger in this area.
- The proportion of production sold as Fairtrade needs to be increased through the development of new market/commercial opportunities and the expansion of existing commitments. Further analysis of niche markets might provide opportunities for local processing and value addition.
- The amount of networking between Fairtrade organisations within Malawi (and between Malawi and other countries) is very limited. Exchange of information and visits would be most cost effective within Malawi, and this should be encouraged. The emerging Malawi Fairtrade Network is expected to take on this function<sup>21</sup>.

### Groundnut-specific recommendations

- The ineffective purchasing system used by NASCOMEX needs urgent revision to make it credible with groundnut farmers who have been forced to default to middlemen traders.
- The minimum price for groundnut should be revised upwards

### Sugar-specific recommendations

- The equal payment of sugar cane farmers is a disincentive to yield and quality improvements, and has resulted in a large labour force being employed to do much of the farm work. Both this and the allocation of 40% of Premium for payments in kind to farmers go against the spirit of Fairtrade and should be stopped.

### Recommendations for expanding Fairtrade activities

There are good prospects for expansion of Fairtrade activities (organisations, products and volume) in Malawi. The following are ways in which this can be nurtured:

- **Fairtrade markets:** The vision of the Malawi Fairtrade Network is to grow Fairtrade activities in Malawi. This requires platforms and structures at government, network, commodity and producer organisation levels which can assist in finding new domestic, regional and international markets, and expanding present ones. Quality and tailored product specifications will be key to the expansion of trade. The Fairtrade Foundation has created a good brand and has managed to create a lot of awareness. What remains is to deepen and strengthen its position in a market where several other competitive brands are being created. As a way of consolidating and enhancing its impact on the ground, Fairtrade needs to establish strong alliances (including brand sharing) with mainstream traders in the countries where it operates. In the case of Malawi, such traders as Rab Processors, Mulli Brothers and Export Trading have nationwide crop produce buying networks and outlets for inputs. These would be key partners in increasing the number of FLO Certified farmers' organizations in the country.

- **VSO support:** The Malawi Fairtrade Network is still in the process of being established and requires a lot of external support. The placement of a VSO within the network (hosted by one of the members) is viewed as an opportunity for raising the profile and visibility of the network particularly at international level. The VSO would be the key link or liaison officer with potential support organizations and markets outside the country. The advantage of recruiting a VSO to support Fairtrade activities has already been demonstrated at Satemwa and Nsuwazi in Thyolo.
- **Representation:** The Malawi Fairtrade Network wants to be represented at continental (Fairtrade Africa) and international levels to increase its visibility beyond the national borders. This will require promotion through attendance of meetings and the distribution of appropriate media materials.
- **Costs of Fairtrade membership:** Smallholders are sceptical about Fairtrade because of the initial costs and stringency of certification, and the uncertain gains from it. Currently, the Fair Trade market still remains an 'elite' market. Most smallholder organizations would not be able to afford to certify themselves without support from patron partners such as Illovo (in case of Kasinthula Cane Growers Ltd), NASFAM (in case of MASFA) and Lujeri Tea Estate (in case of Sukambizi Association Trust) or access to the producer certification fund. This defeats a central objective of Fairtrade – that of working with the most disadvantaged groups. There is a need to re-consider certification costs if poor producer organizations are to benefit from Fairtrade.
- **Fairtrade government policies:** Malawi has several policies which already have some elements that conform to Fairtrade principles and standards, such as its policies on child labour and minimum commodity prices. What is needed therefore is to take a more radical approach by adopting a more inclusive Fairtrade policy – Malawi becoming a Fairtrade nation for all commodities! This would be a major success for the country. But for this to happen, there is a need to strengthen the lobbying or advocacy capacity of the Malawi Fairtrade Network to widen the understanding of the Fairtrade concept up to Parliamentary committee level<sup>22</sup> and ensure government buy in.

# ENDNOTES

- <sup>1</sup> Throughout this paper 'Fairtrade' refers to organisations or products that have been certified against internationally agreed standards by the Fairtrade Labelling Organisations International (FLO). 'Fair Trade' is used to denote the wider movement towards trade that is fairer for producers and workers
- <sup>2</sup> Pound B and Phiri A, 2010. Longitudinal Impact Assessment Study of Sugar Producers in Malawi. NRI, Chatham, UK; Pound B and Phiri A, 2009. Longitudinal Impact Assessment Study of Fairtrade Certified Tea Producers and Workers in Malawi. NRI, Chatham, UK; Pound B and Phiri A, 2010. Longitudinal Impact Assessment Study of Groundnut Producers in Malawi. NRI, Chatham, UK (all forthcoming)
- <sup>3</sup> For more detail, see Table 7
- <sup>4</sup> A summary of the tea report can be found on [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2010/f/ft\\_malawi\\_tea\\_report\\_aw2\\_small.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2010/f/ft_malawi_tea_report_aw2_small.pdf) and it is anticipated that the groundnut and sugar reports will also be posted shortly.
- <sup>5</sup> Government of Malawi (2009). 2008 Malawi Millennium Development Goals Report. Government of Malawi
- <sup>6</sup> The Cooperation for Fair Trade in Africa – COFTA is a network of Fair Trade producer organisations in Africa involved and working with disadvantaged grass root producers to eliminate poverty through Fair Trade. COFTA is the Africa Regional Chapter for the World Fair Trade Organization (WFTO) and as such the network of all registered WFTO members and registered Fair Trade Organizations in Africa, as well as those seeking or working towards WFTO registration. COFTA's mission is to improve the sustainable livelihoods of African producers through partnerships that advocate for Fair Trade. COFTA strives to strengthen its members' capacity to benefit from global markets by assisting them to develop quality products and providing them with market access support through shared efforts and resources within the principles and structures of Fair Trade
- <sup>7</sup> TWIN; personal communication
- <sup>8</sup> [http://www.fairtrade.net/producer\\_certification\\_fund.0.html](http://www.fairtrade.net/producer_certification_fund.0.html)
- <sup>9</sup> The figure for SAT only refers to the sale 750,000 kg of tea made on Fairtrade terms.
- While for EOT, Satwema and Sugar, the figures are the total premiums received by the time the study was done. The MASFA figure is for 2009 only
- <sup>10</sup> This is a range between low labour and peak labour periods
- <sup>11</sup> At the time of the 2009 report, none had started as the first Premium had only just been received
- <sup>12</sup> Guardian shelter and warehouses/threshing floors
- <sup>13</sup> 40% payment in kind to farmers; 30% cane ploughout and replanting; 30% for 10 development projects
- <sup>14</sup> MASFA is one of 42 area associations that form part of NASFAM (National Smallholder Farmer Association of Malawi)
- <sup>15</sup> KCGL is owned by the Shire Valley Cane Growers Trust. 95% of the shares of the KCGL are owned by the Trust (i.e. by the farmers), and the remaining 5% are owned by Illovo Sugar (Malawi) Ltd.
- <sup>16</sup> Fair Trade Original, formed in 1959, is based in the Netherlands. It works on the principle that economic development is the key to fighting poverty in developing countries. Fair Trade Original imports 1200 Gifts & Living products and 150 food products from 60 trading partners in 30 developing countries in Africa, Asia and Latin America for supply to the Dutch and European markets. It is a non-profit organisation, which generated a turnover of 18.6 million euros in 2010 – see <http://fairtrade.nl/>
- <sup>17</sup> The rest of the Premium income is split between improving productivity of cane and community development projects
- <sup>18</sup> [http://www.fairtrade.net/fileadmin/user\\_upload/content/010110\\_EN\\_Fairtrade\\_Minimum\\_Price\\_and\\_Premium\\_Table.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/010110_EN_Fairtrade_Minimum_Price_and_Premium_Table.pdf) (version 01/01/2010)
- <sup>19</sup> Fairtrade Africa has made provisions to deal with such issues
- <sup>20</sup> This is as little as 2-years in the case of the Satemwa Joint Body
- <sup>21</sup> The Malawi Fairtrade Network will also provide the platform for its members to assert themselves and influence the strategic direction of Fairtrade. It will also lower the current transaction costs in the delivery and interaction between Fairtrade Africa and country members
- <sup>22</sup> Parliamentary Committee on Agriculture for example

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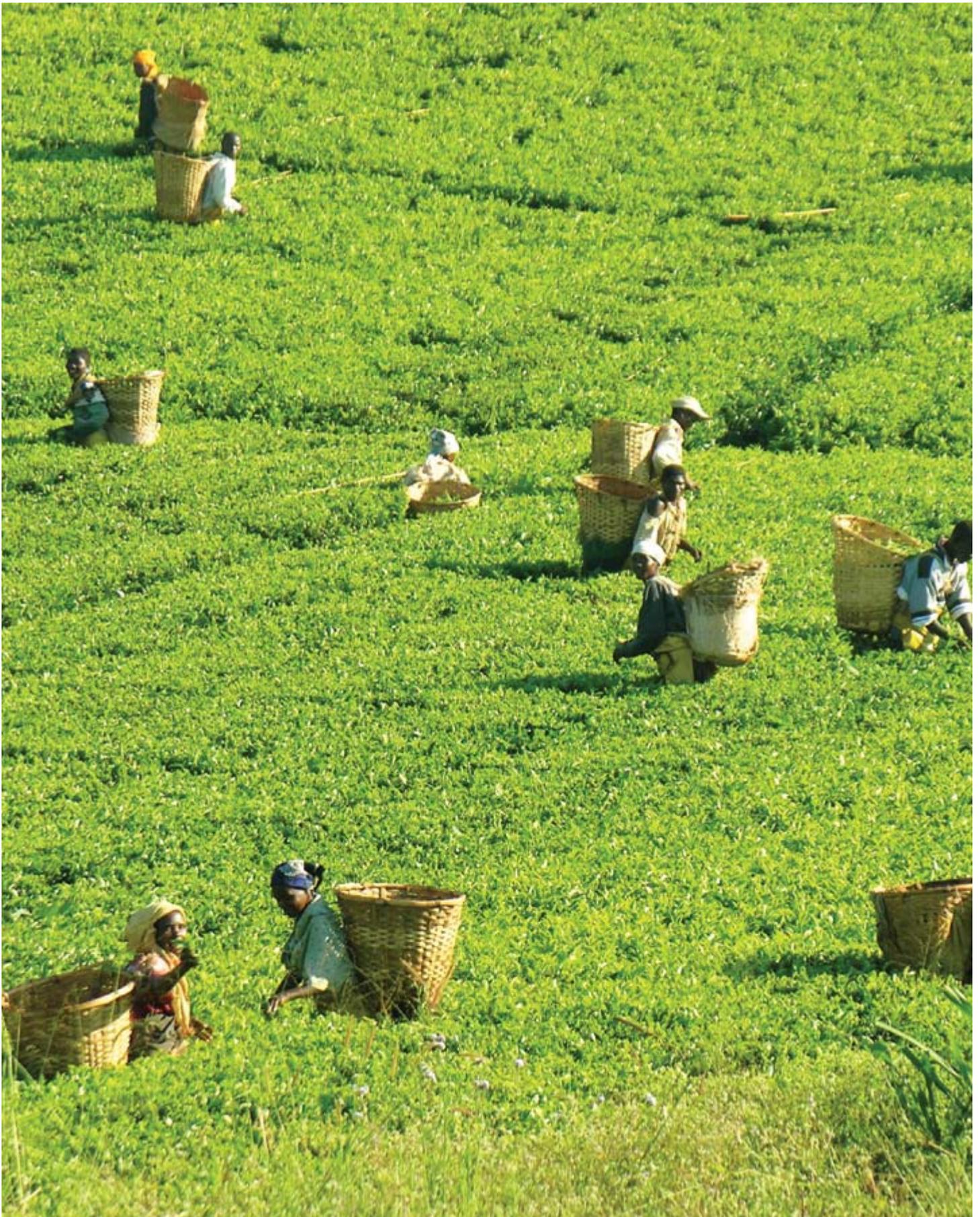
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