Future Agricultures

Policy Brief

Smallholder Coffee Commercialisation in Malawi

Coffee cultivation in Malawi is dominated by a small number of large-scale commercial estates, located mainly in the Southern region. In the Northern and Central regions, however, coffee is grown predominantly by large numbers of smallholder farmers on customary land, concentrated in the districts of Chitipa, Rumphi, Mzimba and Nkhata-Bay.

Smallholder participation in coffee production dates back to the early 1920s and flourished in the 1950s, after the colonial government supplied coffee seedlings to farmers in the Misuku Hills, Chitipa, Northern region. Today, there are around 3,200 smallholder coffee farmers, still concentrated in the Misuku Hills.

The smallholder coffee sector has undergone major reforms in recent years. There is anecdotal evidence that these reforms have empowered smallholder farmers to run their own affairs and created a commercial orientation among small farmers. This briefing considers the evidence.

Background

Malawi's Smallholder Coffee Authority (SCA) was established under the Ministry of Agriculture in 1971. The SCA was responsible for providing extension and marketing services and input loans to smallholder coffee farmers in northern Malawi. The Authority set up initial processing factories in different areas and owned a processing plant in Mzuzu.

The performance of the SCA was poor throughout the 1970s and 1980s, only registering a profit in 1985 and 1986 despite increasing revenues from coffee sales. The Authority was plagued by problems of overstaffing, mismanagement and conflict between its commercial and social objectives.

In the era of structural adjustment programmes, state support for commercial parastatal organisations was cut back. As a result, many of them accumulated large debts, which they could not service but which were guaranteed by the government.

By 1999, the SCA was in debt to the tune of MK40 million. At that time, coffee growers were being paid just 20–30 per cent of the sale price, while the SCA retained 70–80 per cent to cover overheads. Many farmers found coffee cultivation unprofitable and uprooted their coffee trees.

From Authority via Trust to Cooperative

Plans for the privatisation of the SCA were set in motion in 1998. Following a consultation exercise with farmers, a decision was made to replace the Authority with a new Smallholder Coffee Farmers Trust (SCFT), which was envisaged as a transitional step towards the establishment of a farmers' cooperative.

A key feature of the transitional arrangement was the involvement of farmers in the ownership and management of the Trust. All of the trustees were member-farmers, while farmers held shares in the Trust and participated in decision-making.

The SCFT operated between 1999 and 2006. Its key objectives were to build the capacity of smallholder farmers, revitalise coffee development and initiate a crop-diversification programme, as a prelude to the move to a cooperative framework (see **Box 1**). During the transitional phase, a number of key reforms were carried out.

In order to regenerate the coffee sector, using funds from the European Union, smallholder farmers embarked on a programme of coffee replanting. The SCFT boosted this process by introducing a new, faster maturing coffee variety called Catimor, which encouraged farmers to get involved (see **Box 2**).

The farmers organised themselves into local groups of between ten and 30 people, known as business centres. The SCFT supported these groups with technical and business management advice and training, bulk procurement of inputs, microfinance loans, transport, processing and marketing of coffee to international and local buyers, at a cost

Box 1: Cooperative Organisation of Smallholder Coffee Farmers

Under the new structure, smallholder coffee growers are organised into a hierarchical organisation with four levels: the business centre, business zone, primary cooperative and Union. The business centre comprisies 10 to 30 farmers in a village. Farmers become members of the business centre by paying an annual subscription fee of MK250 (MK50 for the business centre, MK50 for the zone and MK150 for the cooperative) which is deducted from coffee sales. Members are also required to have a minimum number of coffee trees, although this requirement is waived for small farmers. The business centres encourage farmers to help one another in the management of their coffee plots.

The second level is the business zone, which is essentially a marketing structure organised around a coffee pulpery (initial processing factory). The zones purchase and process coffee cherries into parchment coffee, transport the coffee to the Union, make arrangements with the cooperative for the procurement of inputs and pay farmers. The business zones levy a fee of MK2 on every kilogram of coffee sold.

The third level is the primary cooperative, made up of a number of business zones. The cooperative is owned by smallholder farmers through the issue of unlimited shares. Each cooperative has an elected management committee as well as full-time staff. The cooperative is responsible for training the contact farmers at business centre level and also manages a microfinance credit union for farmers.

The final level is the Union, which comprises five primary cooperatives. The Union is managed by an elected Board of Directors who oversee the management team. The Union aims to promote sustainable production, processing and marketing of high quality Arabica coffee and other food products on behalf of the farmers. The Union is responsible for processing and quality-control of coffee at its hulling plant in Mzuzu, as well as marketing the processed coffee to national and international buyers. Its activities are financed from the fees charged to growers.

of 30 per cent of sales proceeds. Agricultural extension services were provided to the farmers via a network of specially trained volunteers known as contact farmers.

Staff numbers were dramatically reduced and factory operations were streamlined. Management was improved and made more transparent to the general membership, which increased confidence in the reforms among the farmers themselves.

In April 2007, following another consultation with farmers, the SCFT was transformed into the Mzuzu Coffee Planters Cooperative Union (MZCPCU). The MZCPCU is an apex organisation that links the five primary Coffee Cooperatives of Misuku, Phoka, Viphya North, South East Mzimba and Nkhata-Bay Highlands. Smallholder farmers had the opportunity to own shares in the cooperatives.

Impact of the Smallholder Coffee Sector Reforms

The reform program has had a positive impact on smallholder growers and the smallholder coffee sector. From a financial perspective, the SCFT was able to repay the MK40 million debt that it inherited from the SCA in 1999. Meanwhile, smallholder farmers have become more organised, more commercially oriented and more diversified, branching out into other commercial activities such as bee-keeping.

Production of coffee by smallholder farmers increased from 95 metric tonnes of green beans in 1999 to 235 tonnes in 2006, with projections of 846 tonnes by 2011 and a target of 3,713 tonnes by 2020. Smallholders' share in national coffee production increased from 2 per cent to 15 per cent in 2006. This growth in smallholder coffee production has resulted from significant improvements in coffee farm management (see **Figure 1**) and an increase in the number of coffee trees being planted, from 255,000 per year in 1999 to 1.4 million in 2006.

Smallholder-produced coffee, traded as Mzuzu Coffee, has even gained international and local

Box 2: Key Characteristics of Coffee Production

Smallholder coffee production is capital- and labour-intensive. The chief capital requirement is investment in coffee trees, which take several years to mature. In former times, few smallholder farmers were willing to commit their resources to a crop that might take five to seven years to begin generating returns. In 2001, SCFT introduced a fast-maturing variety, Catimor, which produces fruit within three years. This encouraged many smallholder farmers to resume coffee cultivation.

Coffee farming is labour-intensive due to the long production processes and the complex management of the coffee tree. The intensive labour requirements involved in coffee cultivation begin with nursery preparation and care of coffee seedlings, site selection and field preparation, soil and water conservation measures and the digging and filling of planting holes or trenches.

Once the trees have reached maturity, labour requirements are highest during harvesting, followed by weeding and fertilizer or chemical applications. Harvesting is done by hand once every 10–15 days from June to October. Harvesting has to be done in the morning so that the cherries can be delivered to the pulpery early in the afternoon, in order to prevent the cherries from fermenting. Most farmers lack transport facilities and carry the cherries on their heads.

Coffee farming requires intensive use of organic or inorganic fertilisers. In recent seasons, farmers have had some access to the subsidised fertilisers made available to maize and tobacco farmers, but the particular fertilisers that are important for coffee production are not subsidised. The high cost of fertilisers and chemicals is cited as a major constraint to smallholder coffee expansion.

recognition as a brand (see **Box 3**). Some coffee lots have achieved a price premium of up to 47 per cent. Farmers receive a rebate if their coffee fetches a higher price. Sale prices in general have risen. At the same time, farmers' returns from coffee production increased substantially, from 20–30 per cent to 70 per cent of the sale price.

Box 3: Mzuzu smallholder coffee: an international brand

Mzuzu coffee is roasted and ground, packed in gold foil and sold in retail markets in Malawi, Zimbabwe, Namibia, Mozambique, South Africa, the USA, Japan, Australia and various European countries.

Marketing Arrangements

The grading and weighing of coffee is done at the pulpery under farmers' supervision, with records being kept in both the individual farmer's record-book and the factory log. This transparent and accountable process has built confidence among the farmers. Farmers are paid as soon as the MZCPCU sells the coffee and receive their payment in the presence of everybody.

The main problem in the marketing of coffee, cited by smallholder farmers, is the low price of coffee and their lack of influence over final coffee prices. While prices have risen over the past five years, the costs of inputs have also increased (see **Box 4**). Nonetheless, a large majority of smallholder coffee farmers are satisfied that coffee farming has become more profitable in the past five years

Comparing Reform Processes in Coffee, Sugar and Tea

The coffee, tea and sugar sectors in Malawi have many features in common. Smallholder participation in all three sectors has increased significantly, although the commercial estate sector still dominates in all three crops. All three sectors require high capital investments, which help to exclude smallholders.

Whereas all three sectors experienced similar problems in the 1980s, the reform process and outcomes in the coffee sector were strikingly different from those in tea and sugar. In particular, farmers were involved in designing and implementing the reforms, which led to the creation of a new structure for the smallholder coffee industry that was managed by the farmers themselves.

In all three sectors, the creation of a Trust was seen as the first step towards the privatisation of the respective smallholder crop authorities. However, the implementation processes differed. In the case of smallholder coffee, the Trust was managed by farmers and all of the trustees were themselves smallholder coffee farmers. In the sugar and tea sectors, only two of the ten trustees were smallholder farmers. Consequently, smallholder sugar and tea farmers had very little influence over the running of their respective Trusts.

The management of the coffee Trust also has advantages over the corresponding bodies in tea and sugar. For instance, pricing decisions are highly consultative. Discussions about prices start from the lowest level of the business centre to the apex Union. Annual general meetings also reinforce the transparency and accountability of the management system. Service charges are transparent and are widely known.

Another notable difference is the degree to which the overstaffing problem was tackled in each case. In the sugar and tea sectors, little labour restructuring occurred, so that smallholder farmers were still supporting a top-heavy organisation. In addition, a completely new management team was installed in the SCFT whereas most of the existing managers and employees of the old tea and sugar authorities were transferred to the new Trust organisations.

Box 4. Problems and Constraints

The main problems and constraints cited by smallholder coffee farmers include:

- cost of inputs (99% of farmers)
- poor crop prices (74%)
- lack of agricultural inputs (73%)
- lack of produce markets (59%)
- labour shortages (57%)
- lack of extension services (41%)
- lack of land (40%)
- lack of access to credit (38%)

Another advantage of the coffee sector reforms over those in tea and sugar relates to the overhaul of agronomy and extension services. In the coffee sector, the new extension services system is simple and cost effective and focuses on building the capacity of farmers to help one another. Each cooperative employs just one technical advisor, who is responsible for extension services and training of contact farmers. This has created a pool of expertise in specialized extension services, whose services are available at business centre levels.

The experience in the smallholder sugar sector was quite different. Many farmers lack confidence in the management of the company. There is a lack of transparency and accountability. The pricing structure of services is less well-known and understood by smallholders. Although the sugar growers' company levies a lower management fee than in coffee, most of the services it offers to growers are

Figure 1: Improvements in Coffee Farm Management

Coffee field under SCA management

Coffee field under SCFT management

charged above the cost of delivering them, with an additional profit margin added on top.

Although the smallholder sugar growers' company continues to be financially sound, this has come at the expense of the benefits that were supposed to accrue to smallholder farmers. As a result, some farmers in rain-fed areas have broken away from the Trust to form their own association, which is producing much higher returns for the farmers than the Trust provides even to smallholders who have the advantage of irrigation.

Reforms in the smallholder tea sector also lacked transparency in both the reform process and in the management of the tea processing plant. Farmers delivering their tea to the cooperative continued to experience delays in the collection of green leaf, were paid lower prices than those received by farmers who sold their tea to commercial estates, and continued to experience delays in payments.

The reformed structure virtually collapsed in the face of opposition from farmers. Many smallholder tea farmers have broken away from the Trust, formed their own associations and entered into agreements to sell their tea to neighbouring commercial estates. Farmers choosing this option have benefited from improved access to reliable markets, higher-quality inputs and extension services.

Conclusions

The comparison of the reform process and outcomes in these three crop sectors suggests that lessons can be learned from the coffee sector experience. The reforms in the coffee sector have resulted in the resurgence of smallholder coffee production, with farmers receiving premium prices and expanding their area under coffee cultivation. A sector that was bankrupt and highly indebted has been brought to solvency within five years through a well-designed and implemented farmer-led management structure.

Reforms in the smallholder coffee sector were more successful than those in the smallholder sugar and tea sectors, mainly because they were farmer-centred and focused on building the capacity of smallholders to manage their own affairs. The design of the institutional arrangements, the level of ownership of the reform process and the relative strengths of farmers' voices in the coffee sector hold implications for the successful integration of small-holder farmers into commercial agriculture in other sectors.

Acknowledgements

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FAC appreciates the support of the UK Department for International Development (DfID)