Malawi Tea 2020

Annual Progress Report Year 2

2017 Steering Committee

Richard Fairburn, Chair of the Malawi Tea 2020 Steering Committee
Progress Reporting 2016-7

• A year of steady progress against roadmap targets
• Continued investment by donors (Euro 2m to date) and by tea producers
• Innovative finance workstream close to finalising 2 deals.
• New member of the coalition – Typhoo and reconfirmed commitment to Malawi by most MOU partners
• Significant investment in pursuit of sustainable procurement practices.
• Voluntary mid term CBA review
• Increased capacity building for Union officials, CBA training for workers and management
• Improved leadership of the Evaluation Committee
• Good progress on smallholder and energy pillars

• Despite serious external shocks – adverse weather, unreliable power supplies, stable Kwacha/USD
Progress Reporting 2016-7 Session 1

• Living wages – annual update from the Malawi 2020 independent wages committee
  - Martha Anker

• Living incomes – calculating a living income for smallholder tea farmers and initial results
  - Eberhard Krain

• Smallholder Tea Growers - Farmer Field Schools, small farmer finance, tea nurseries.
  - Thwango Ndalama

• Energy & Environment – update on activities
  - Thwango Ndalama

• Improved in kind benefits for tea workers & TAML policies
  - Flemmings Mwenebabu
Progress Reporting 2016-7 Sessions 2 & 3

- Sustainable Procurement practices and mechanisms
  - Rachel Wilshaw and Will Battle

- Revitalisation investments by TAML members
  - Sangwani Hara
OUTLINE

• Progress on wages of Malawi Tea 2020 continues
• But no further progress in past year – but no backsliding either
• Future risks for continuing progress towards payment of living wage - difficult macro economic environment for workers and tea estates continues
• Future challenges for Wage Committee
TAML base wage remains higher and unlinked to rural minimum wage

- Malawi 2020 project began July 2015
- Living wage study
- First CBA August 2016
- Mid-CBA adjustment Aug 2017
- TAML basic wage slightly higher than minimum wage
- TAML wage is no longer linked to minimum wage

TAML Basic Wage

Minimum Wage

Malawi TEA 2020

REVITALISATION PROGRAMME TOWARDS LIVING WAGE
www.malawitea2020.com
Improvement in wages since LW study and start of Malawi Tea 2020

Ratio of tea wage to living wage

- Ratio TAML base wage/LW
- Ratio gross wage with 60 kg + in kind /lw
- Ratio Net 60 kg + in kind

GROSS WAGE for hypothetical worker who plucks 60 kg including in kind benefits

NET WAGE

Tax law change

TAML BASE WAGE

Living wage study Jan 2014
Malawi 2020 project began July 2015
CBA signed July 2016
Mid CBA adjustment Aug 2017

Improvement in wages since LW study and start of Malawi Tea 2020
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TAML BASE WAGE

Living wage study Jan 2014
Malawi 2020 project began July 2015
CBA signed July 2016
Mid CBA adjustment Aug 2017

www.malawitea2020.com
No improvement in wages during past year.
Wage to LW ratio (with and without over kilo pay, value of in kind benefits, and income taxes), Oct 2016 – Oct 2017

- Ratio Gross base wage + overkilo payments for 60 kilos plucked + in kind benefits to living wage
- Ratio Net base wage + overkilo payments for 60 kilos plucked + in kind benefits to living wage
- Ratio TAML base wage to living wage
TAML base wage continues to increase in US$, 2007-2017

- Continued devaluation of Kwacha May 7, 2012
- Malawi 2020 project began July 2015
- Stable Kwacha dollar exchange rate
- Mid CBA wage adjustment
- Continued devaluation of Kwacha with volatility

Revitalisation Programme Towards Living Wage
www.malawitea2020.com
Future risks to continuing progress towards living wage:

Difficult macro economic environment for workers and tea estates

- Inflation problem – High but falling – Means LW keeps increasing
- Exchange rate “fixed” for now - With high inflation means Kwacha costs increasing while revenues in Kwacha not increasing
- Income tax for tea workers at 30% marginal rate – Again becoming a big problem
- Tea prices determined in a good part by conditions in other countries
Inflation problem – High but falling

Rural Malawi year on year inflation rate by month, January 2014 to July 2017
Living wage rises with inflation

Rural Malawi daily living wage (based on 23 workdays per month) updated for inflation to keep same purchasing power, Jan 2014-July 2017

Inflation adjusted net LW pd (assumes 23 workdays pm).
Exchange rate “fixed” for now - “fixed” revenues for tea estates while Kwacha costs increase with inflation

Average exchange rate for month
30% income tax rate on tea wages: A major problem even after recent change in tax rules, Jan 2014-Oct 2017

Monthly income tax on tea pluckers who pluck 60 kg per month

Monthly income tax on TAML base wage

[Graph showing tax changes from January 2014 to October 2017]
Low cost improvements of in kind benefits important for worker welfare – even if they do not increase prevailing wages by much

**Lunch improved at low cost for the tea estate**

- Vitamin supplements added to maize meal
- Vegetables added at least one time per week
- Would be worthwhile adding vegetables more often

**Estate housing improvement in future**

- New TAML housing policy and commitment
- Housing census of A, B, C, D quality houses
- TAML commitment to improving estate housing over time

**Breakfast still needs to be improved**
Future challenges for Wage Committee

Measure wages
- Including over kilo payments and number days worked - using payroll data with TAML cooperation

Measure value of in kind benefits
- Cost of in kind benefits to tea estates - using financial records with TAML cooperation

Analyze
- Differences in wages between:
  - Female and male workers
Malawi Tea 2020

Living Wage and Actual Income of Smallholder Tea Farmers in Malawi

Key Results

Eberhard Krain, GIZ
OUTLINE

1. Income Benchmarks and Actual Income
2. Towards Reaching a Living Income
3. Recent Developments & Impact
1. Income benchmark & actual income

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Annual Living and Actual Income of Typical Tea Smallholder Households Results of the Fast-track and In-depth Research

- Living Income Benchmark (University of Malawi)
- Living Income Benchmark derived from Ankers (Fast-Track Method)
- World Bank extreme Poverty Line

Income benchmark & actual income (per year)
2. Towards reaching a living income
Towards Reaching a Living Income

Part-Time and Full Time Model

Living Income
MKW 620.41 or 3.23$ PPP (derived from Ankers)

World Bank Extreme Poverty Line; MKW 364.91 or 1.90$ PPP

Farm Size:
Part-Time: 0.6 ha
Full Time: 1.39 ha

Off-farm Income

Part-Time Productivity Increase
- Pigeon Peas: 146
- Maize: 222
- Tea: 263

Full Time Productivity Increase
- Pigeon Peas: 515
- Maize: 337
- Tea: 337

Part-Time Tea Price Increase
- 1.39 ha

Full Time Tea Price Increase
- 1.39 ha

MKW 620.41 or 3.23$ PPP (derived from Ankers)
Levers Towards Reaching a Living Income

• “Classic” capacity development activities to increase farmers agronomic productivity
  ➢ Conducting farmer field & business schools to improve technical (e.g. increasing productivity and quality of tea) and entrepreneurial knowledge of smallholder farmers
  ➢ Encouraging diversification and off-farm activities with high potential
  ➢ Empowering farmers’ associations to negotiate better tea prices
  ➢ Supporting village savings and loan groups (VSLs) to increase capital base
  ➢ Others: e.g. land consolidation

• “Alternative” promotion activities to increase tea prices
  ➢ Introducing sustainable procurement practices (at the moment being tried out through IDH/Oxfam activities)
  ➢ Introducing sustainable consumption practices (making consumers aware/faire pricing)
3. Recent developments & impact
Recent Developments & Impact

- **Productivity development:**
  In the 2016/2017 plucking season farmer field school (FFS) participants had a 6.5% higher productivity than non-FFS farmers.

- **Tea leaf quality development:**
  In the last two years, FFS participants consistently achieved 15-20% higher green leaf quality than non-FFS farmers.

- **Village Savings and Loan (VSL) Groups:**
  73% of VSL participants have created new income sources in the past year.

- **Tea leaf price development:**
  - **Tea green leaf prices** have increased from 97.3 MKW to 116 MKW between July 2016 and July 2017. Considering the inflation rate of 11.3% during this period, this equals a real tea price increase of 7.9%.
  - Farmers get a relatively good share of **made tea market prices** at 44% (for comparison: Tanzania 35%; Rwanda 45%)
Summary

• To calculate living income benchmark, GIZ used a standardized methodology from the Ankers, whereas UM focused on local references to estimate basic needs.

• In the in-depth study of UM, the gap between living and actual income is bigger than in the GIZ fast-track model.

• The two studies used slightly different values for key parameters (median land size, available labour force, single crop gross margins, current tea price (and bonus)). Thus, there are differences in results but the studies conclude on the same crucial levers to close the gap

• Both studies conclude that land size of the typical farm is too small to absorb all available family labor. Thus diversification and off-farm income activities are important, too.

• Through capacity development measures productivity has increased, also green leaf prices improved. Thus the income situation of smallholder farmers has improved to some degree.
Thank you!

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