



Malawi Tea 2020 – Annual Progress Meeting (APM)
October 11, 2017, 08:30 – 15:30
Location: Ryalls Hotel, Blantyre, Malawi

1. Remarks by Mr. Sangwani Hara, Chairman Tea Association of Malawi

A word of welcome to the Minister of Civic Education, Culture and Community Development Honourable Cecelia Chazama MP.

Some highlights that will be discussed during this APM:

- *Macroeconomic environment*: there have been improvements in the macroeconomic environment. Inflation decreased from 24% to 9.3% in August this year. The interest structure of commercial banks changed, local banks are becoming more innovative and offering competitive loans.
- *Collaboration with the government*: we have received support from the government this year, amongst others through good cooperation with the Ministry of Labour, Youth, Sports and Manpower development and Ministry of Finance, Economic Planning and Development. Also, there is close cooperation with the police on preventing theft and with ESCOM addressing the acute power shortages. There will be continued meetings with ESCOM to discuss the energy supply for the tea sector.
- *Climate change*: The issues of climate change and drought have for a third consecutive year impacted production. Despite these factors, the industry and government have remained committed. Wages have been revised and work on labour housing and welfare has been carried out. Eastern Produce of Malawi (EPM) has received an American Sustainability Award for their work on gender – we congratulate them.
- Further work is taking place in smallholder strengthening, refurbishing of factories, improvement of housing and sustainability programs. Also, there is engagement with buyers and retailers on how to generate extra money through their procurement of tea and how this can contribute towards living wages.

2. Remarks Principal Secretary Ministry of Labour, Youth, Sports and Manpower Development, Joseph Mwandidya

Welcomes and thanks everyone present, on behalf of the Minister of Labour, Youth, Sports and Manpower Development, Francis Kasaila MP.

- The world talks about ‘decent wage’ and the global voice for a living wage is becoming louder than ever before. Low wages and low incomes condemn people to poverty, which goes against the government’s agenda, as only a decent wage will take people out of poverty.
- The tea industry has set the pace to lead in delivery of living wage and incomes for smallholder farmers and we would like to commit that we provide any support that the industry might require, so that workers are rewarded for their work.
- It is only a living income and a decent wage that will take people out of poverty. These are needed for workers and smallholder farmers. We are set to review the labour laws in support of the market and so that workers are rewarded for their ‘sweat’ (work).”

3. Remarks Minister of Civic Education, Culture and Community Development Honourable Cecelia Chazama MP.

The Honourable Minister thanks all people present and officially opens the Malawi Tea 2020 Annual Progress Meeting.

- The Honourable Minister thanks the Malawian Tea Industry and the donors for their investments and emphasizes that the government is working on reducing the external shocks, such as the revitalisation of landscapes under climate change initiatives and working on power supply issues.
- The government supports the work on skills development and poverty reduction through better wages, which should allow workers to meet the needs of their family and their housing, health and education. The work of the Malawi Tea 2020 programme and its impact on the quality of jobs and livelihoods is testament to the commitment of its participants.
- The government applauds the commitment of all buyers present here today which reinforces the buyers' commitment to our country. The Honourable Minister trusts that cooperation remains the spirit forward of all its players and the government is ready to work with all players on the Malawi Tea 2020 agenda.

Richard Fairburn, Chairman of the Malawi Tea 2020 program, hands over to the Honourable Minister a copy of the Annual Progress Report.

4. Ground Rules and anti-trust statement

- The anti-trust statement is given on screen and the audience is asked to inform the facilitator if discussions are not in line with the statement.
- Facilitator reminds everyone present to be thoughtful about other people's views.

5. Progress reporting on pillar activities by Mr. Richard Fairburn, Chairman of the Malawi Tea 2020 Program

It has been a year of steady progress towards the goals of the program against the Malawi Tea 2020 Roadmap targets:

- Continued investment by the donors of €2 million and huge investments from tea producers >USD 6m;
- Progress on the innovative finance work stream. There are two deals on the table of around €3 million, in terms of revitalization, irrigation, planting, factory refurbishing;
- We welcomed a new member to the coalition: Typhoo;
- There has been a recommitment from the buyers to work towards a living wage;
- Significant investments have been made in the procurement practices workstream;
- There have been lots of funds and time invested in increasing the capacity of Union officials and Union members and TAML has voluntarily negotiated a mid-term wage review;
- There is a better leadership for the Evaluation Committee and we are now measuring in much more detail;
- Excellent progress within the smallholder and energy pillars;
- All this progress has been made against several adverse conditions: environmental challenges, a stable MWK against USD and problems with the power supply

Chair outlines the remaining presentations of the day:

- Martha Anker: update from the Wages Committee;
- Eberhard Krain (GIZ): living incomes for smallholder farmers;
- Thwango Ndalama (ETP): smallholders and energy.
- Flemmings Mwenebabu (TAML): in-kind benefits and new policies on gender and HR.
- Rachel Wilshaw (Oxfam GB): procurement practices

- Will Battle: price discovery model
- Sangwani Hara: progress on revitalisation of the tea industry

The Chair thanks the Steering Committee for their input this year, as well as TAML and their managers for their time investment in the program.

6. Martha and Richard Anker – Wages Committee

Progress:

- We are seeing progress on wages in difficult macro-economic circumstances
- TAML wages remain higher and unlinked to the agricultural minimum wage. For a long time, there was a link between the minimum wage and TAML wage, but since the program began the TAML wage has split away from the Agricultural Minimum wage.
- Most workers make more than the TAML basic wage: a typical wage for a worker is one that plucks 60kg. Tax laws were taking a bite out of the pay of the workers. Now taxes have been adjusted and workers now pay less tax if they pluck 60kg.

Risks (see the slides for further explanation)

- Inflation is high, but is falling. The living wage target is increasing with inflation and inflation also eats away at the value of the prevailing wages.
- The exchange rate is fixed for now. Therefore, MWK expenses of the estates are rising with the inflation. But there is no backsliding on wages.
- Income tax will become a problem when the wages are raised again, especially for workers that are most productive. The pluckers who pluck 60 kilos or more were paying a steep income tax. This has been lowered due to increased tax thresholds, but once the wages go up we will be back at the old situation.

Challenges

- There have been low cost improvements in in-kind benefits for worker welfare, such as estate housing and nutrition. This value is hard to measure in living wages. This measuring needs to be improved, with support of TAML.
- TAML and the Ankers will have to cooperate for the measurement of payroll data, so that any differences in wages between female and male workers can be identified.

7. Eberhard Krain (GIZ) – living incomes for smallholder farmers

Dr. Levison Chiwaula of the University of Malawi is introduced, who has worked with GIZ on this agenda item.

Income benchmarks and actual income

- This is a counterpart to the work the Ankers have been doing on living wage, but aimed at smallholders. In the slideshow the actual income of a smallholder farmer can be seen, based on a family of five.
- There are two lines on the graph. Black line: survival line and the red line: living income benchmark by the Ankers. The green line is the living income benchmark of the University of Malawi.
- Problem: there are gaps between all the lines. How are we going to bridge the large gap between the lines and the actual wage?

Towards reaching a living income (more info on slides)

- An analysis was made of a part-time and a full-time farm model, where the farm absorbs either part or all of the labour available in the average family. Neither the living income nor the World

Bank poverty line is reached through full time employment on the farm. Off-farm activities, as well as green leaf price and productivity increases combined can lead to the living income. For smallholders, given the current land sizes, and other current condition, the living income is hard to meet.

- A tea price increase of around 20% and a productivity increase of 33% is needed to reach a living income, when a full-time employment model is assumed. Ideally, we would be above 640 MWK for a decent livelihood.
- How do we get from current income to a living income? The yellow zone in the graph is a transitional zone. The classic approach would be to use capacity development activities to increase farmers agronomic productivity (e.g. FFS) and Village Savings and Loans groups to encourage increases in capital bases. However, we also need rise in tea prices and off-farm income.

Recent developments and impact

- There has been a productivity increase in smallholder tea farmers: ETP has trained around 4,400 farmers in FFS programmes, who show a 6,5% higher productivity than non-FFS smallholders.
- Tea leaf quality in FFS has also improved 15-20% for green leaf quality improvements. Price development: 8% better prices.
- ETP has successfully set up Village Savings and Loan groups. Farmers are benefiting from their participation in the VSL, allowing income diversification and also addressing basic needs

In conclusion

- The fast-track method and in-depth methods towards a living income differ. We have followed the Anker methodology, but the University of Malawi have given a Malawian perspective. The conclusions and direction, however, are similar, while the living income is higher in the long-track method.
- Both studies conclude that a typical farm size is too small to employ all household labour and will not allow the living income to be reached. Therefore, diversification of both on-farm and off-farm activities is very important.
- Capacity development measures have seen improvements, but this needs more upscaling.

8. Thwango Ndalama (ETP) – improved smallholder livelihoods and energy efficiency

Our objectives focus on:

- Pillar 4: profitable smallholder sector
- Pillar 5: energy and environmental sustainability

Pillar 4: working towards higher incomes, activities include Farmer Field School (FFS) and Village Savings and Loans groups (VSLs).

Farmer Field Schools

- About 30 participants, enrolled for one year, that use practice plots to practice Good Agricultural Practices and to learn productivity skills.
- Training on income diversification and nutrition (key food groups), kitchen gardens and sanitation, and business management.
- Impact of FFS: increased yields and quality of tea.

Village Savings and Loan groups

- Peer-to-peer lending opportunity to give access to credit for participants, and a mechanism to accumulate savings. 173 groups have been set up since 2016, involving over 3000 participants (73% women).
- Case Study on VSL member who has benefitted from the VSL programme by setting up a small business (on slideshow).
- VSL allows income diversification and investments by families in education and nutrition/health, housing, quality of food - as shown by an independent study by Imani (results on slideshow).

Pillar 5: Climate change adaptation, alternative energy sources and sustainable energy use.

- Fuel efficient cookstoves: in partnership with United Purpose. Around 400 farmers are involved in this (production and sales). Network of sales agents have been established and United Purpose also providing a ready market. Benefits of the stoves: income opportunities, health benefits through smoke reduction, reduced fuelwood consumption.
- Environmental conservation and income diversification: tree nurseries established within FFS and at primary schools and farmers trained in nursery management.
- Sustainable energy use: facilitating the provision of solar lighting through a revolving fund.
- Climate change adaptation: CIAT has developed climate change maps which predict temperature increases and erratic rainfall patterns. ETP is working with Leeds University to further develop climate data and look towards appropriate climate change adaptations.

Questions were asked based on these presentations, summary below:

- Question by a smallholder farmer: Interested in energy cookstoves. How moveable and durable are they and what are they made from?
 - *Reply by Thwango Ndalama: the stoves are strong and sturdy and are moveable.*
- Question on the living wage: is there any scenario in which you can sustain a living wage?
 - *Reply by Richard Anker: Idea of living wage isn't about sustainability, it's about being able to live at an adequate level. The assumption in our report is that living wage is not reachable if only tea producers work on this alone. Progress can only go so far. You need the whole value chain engaged to improve things like productivity to help work towards a living wage.*
- Question on smallholder farmers: did you look at the profitability for farmers?
 - *Reply by Eberhard Krain: yes, the work is based on gross margins for farmers. It looked at net income of a farmer per work day. The worker in the field earns about MWK 1000; both are still far away from the living income we looked at.*

9. Flemmings Mwenebabu (TAML) – in-kind benefits and policies on gender and HR

- TAML's housing policy: the target is approved by the TAML board of directors. A housing status report will be given by each company by 31stDec 2017 with clear plans on how to implement housing policy. Housing inspections will commence in Q1 2018. New standard on housing has been discussed by TAML board.
- Gender policy: approved by the TAML board.
- Workplans for Oct –Dec are finalised to take advantage of low season to implement plans before the rains.
- Nutrition: All estates have been sensitised on nutrition policy roll-out. Estates are now sourcing fortified maize flour or producing themselves.

10. Rachel Wilshaw (Oxfam GB) and Will Battle (IDH) - Sustainable procurement practices

Introduction by Rachel Wilshaw:

Oxfam's vision for the food system: women and men who produce our food should get a fair share of the value in the value chain supported by transformed business models and stronger regulation. Now, less of the economic pie goes to workers and more to the people that own capital, as consumer prices increase, but wages do not increase.

Living wage and sustainable procurement practices

- The world of living wage is watching what happens at Malawi Tea 2020. The challenge of sustainable procurement practices is to achieve a world first in the black tea value chain.
- In 2013, Oxfam made a commitment to bring support of buyers into the program and in October 2015 there was engagement with buyers on sustainable procurement practices. In October 2016, the APM approved the investigation of the mechanisms for procurement.
- Different aspects of procurement mechanisms make this a challenging part of the program, but Oxfam is impressed by the amount of engagement of all stakeholders.

Progress

- *Glass half full*: wages have been raised since the program began, despite drought and high inflation. Buyers actively participate and all companies stayed in. The model enables buyers to calculate their contribution.
- *Glass half empty*: the wages are not nearer to the Anker benchmark than a year ago and are still below the extreme poverty line. Producers have borne the cost of raising wages, buyers have also contributed, but this is not yet visible or cannot be verified. Therefore, more is needed to achieve our goal by 2020.
- The square peg in a round hole puzzle (on slide): Buyers of the program represent 57% of all tea exported from Malawi. However, there are more workers in the industry under TAML. Also, there is a further number of workers on the same plantations, involved in working in macadamia. How do you achieve fairness for these groups or workers?

Oxfam needs to find a solution that is:

- Fair to workers, producers and buyers in the Malawi Tea supply chain;
- Incentivises investment by producers in quality tea and higher wages;
- Increases wage visibly flows through to workers.

Additional remark by one of the buyers (TGB):

- The model is complicated but it touches on all important elements it is important to really test it and we will be doing that

Will Battle – explaining the price discovery model

Concept and objective of the price discovery model

- Objective: enable buyers to discover a price of their contracts that enables producers to take steps towards a living wage.
- Who is involved: there is a massive variety of business models that can use this mechanism, from multinational producers to family businesses to people buying for auction. Their business model is different but the model should work for all.
- Scope: the packers in the coalition account for 57%. Buyers and retailers cannot be responsible for tea they do not buy and will not ask this of producers.

Use of model

The model is excel-based and designed for buyers to discover what to pay to reach a living wage.

- Multiple quality-standards can be selected at the top of the sheet, which should all have a different price in a free market;
- The buyers put in the levels they are buying and can insert if there is a broker involved so that their margin is accounted for;
- The model looks at the volume of tea that has been contracted and works out the tonnage of green leaf that is needed to produce that tea weight;
- Efficiency across board is about 23kg per person/per day, considering all workers in Malawian tea;
- We would like to bridge the gap across three years at different increments: 30% of the gap in the first year, 60% second year, 100% third year;
- How do we make sure that the contract is enabling the producer to pass on value to tea workers? We try to give buyers a framework they can purchase with.
 - Framework looks at the Mombasa auction price and takes into account the costs of what we define as a sustainable tea business in Malawi.
- A user guide is being developed for all users of the model. The model provides a framework for negotiation.

Market scenarios (see slides)

Two market scenarios are given by Will, the spreadsheet uses multiple tabs to calculate the price.

- 1) Where we are at the moment. The Mombasa price is giving a maximum price in another part of the model. Buyer needs to make sure that the price they pay enables the producer to bridge the living wage gap. Buyer needs to ensure that they find a price that is enabling of this gap to be bridged.
 - What we have got here is a framework for negotiation.
- 2) What happens when there are elections in Kenya and the Mombasa price drops? Because the producers have already made a commitment towards the living wage 2020, the Mombasa price within the model has to be adjusted. The guided minimum is a guide: what is important is to get a green number in the ultimate calculation, which will show if the buyer bridges the total Living Wage per annual target.

Outcomes and principles of the model

- 1) There is a need for producers to make better quality tea, the intrinsic value of tea should allow for the payment of living wages. In 2020, it is very important that more tea is produced in a higher quality bracket in the model.
- 2) There is an importance for producers to have long term contracts with buyers. This has to allow commitments that can endure different market scenarios.
- 3) Auction buying also needs to be supported. The model allows the buyer to see what price limits they should use at auction. The model aims to encourage longer term relationships, but there is an ongoing issue to be determined in that the industry is being encouraged to put more tea through the auction.

There has been discussion about the model:

- 1) Element of how the price is discovered
- 2) Question of the value that is generated by the model and how it will flow to tea workers. This will be discussed in the closed session tomorrow.

Sustainable procurement is not just about the contract price. All of the buyers are very willing to engage with TAML producers through sampling and quality feedback, to allow producers to better know their requirements. Buyers have also agreed that what is important in this is the long-term revitalization of Malawi's tea industry, such as optimal development of plant material.

Monitoring and evaluation

- How this work is overseen: Annual audits must be done to verify that the guidelines of the Letter of Intent (to be signed) are upheld. Data will be sent to a trusted central source which will verify and hold participants to account. All data is strictly confidential.
- Test the model: the model looks complicated, but buyers should sit down with it and test it. Liaise with Will Battle over any concerns so that improvements can be made.

Questions about sustainable procurement practices and price discovery model

- Questions about the time frame to set up the model.
 - *Will Battle: Expecting this to kick-off from 2018, ideally. Important to make it right and thoroughly stress-test it with buyers and producers first. A Letter of Intent will be sent to the buyers for confirmation. Audit trial: we aim for this to work within the existing framework of audits, such as existing certifications. If not, we have to find a solution: for IDH, this was covered by the program.*
 - *Rachel Wilshaw: if there is to be a distribution of additional money to workers then there has to be discussion with workers representatives on how this is done.*
- Question about calculation of the model: does the 23kg include the total workforce or just the 57% of the CBA? What happened if there is a buyer that is a coalition member and another is not? What if buyers blend from various sources and sell it to another buyer?
 - *Will Battle: If a coalition member sells to another coalition member, there should not be double counting. It is about the first trade. On multi-blending and bulking: as a buyer you need full traceability of your bulks. We need to make sure that multi-estate bulks are also covered within the model. The first buyer of those bulks will need to make sure that the living wage is paid. As a buyer, it is your responsibility to make sure that it is happening. On the 23kg: it is based on discussion with TAML members, on 30000 workers based upon a conversion rate of 4.65kg of green leaf to 1kg black tea and divided across Malawi's total tea crop. If producers dispute the number of tea workers, we need to see updated data on this, so that we can adjust the number.*
- Question from a producer: what happens if a non-coalition buyer buys tea and trades it to a coalition buyer? How does that happen in practice?
 - *Will Battle: this is not represented in the model at present. The coalition buyer should pay the appropriate buyer for the tea. This is what the audit is for, to hold the buyer accountable for fulfilling their obligations under the program. Whether or not the buyer is buying, with a coalition trader or not, the model is leading. A lot of tea is traded through non-coalition brokers. But as a producer you should get that price from the model.*
- Question on auction price and subsidy-competition
 - *One third of Malawi tea is of average quality, you cannot change that. These teas are generally sold rather cheaply and the auction does not respect the floor price. There are a good number of buyers that are not a part of this.*

Chair comments how the point that is raised on the auction price is very good point, which needs to be discussed further.

- Question on smallholders: is there a vision to incorporate smallholder living incomes within the model?
 - *Will Battle: that is not included in this version. This could be next steps; this is a question for the Steering Committee.*

11. Sangwani Hara (TAML) – Future of the estate sector

- When starting the program, one of the issues identified was that most of the tea business had weak balances in terms of their own resources for the revitalization program. IDH set up a grant fund and went out to look for possible finance providers which producers could work with, because it is hard for banks to provide finances for the program (high risk).
- Investments: in the fields work on replanting and irrigation is needed – if not possible, we will have to diversify crops. Also, factory improvements and electricity generation need to be looked at. The estate sector has invested 6.3 million USD for these activities.
- Producers have faced severe drought and energy issues which impacts the above activities. Two years ago, external shocks were not anticipated upon when considering the activities. Now, investing in electricity generation is a priority, besides the living wages.

12. Feedback from the breakout sessions

Smallholder groups (Eberhard Krainz, GIZ)

The session started off with good feedback from some of the smallholder farmers on the program.

Ways forward:

- Smallholders want to produce more than they produce now;
- Problems that farmers face: climate change, droughts, etc. This requires more work on irrigation for smallholder farmers. FFS, VSL and FBS is good work that needs to continue;
- A database on smallholder farmers should be created, in order to know and to plan better;
- Activities should be developed based on the size of the farm;
- Strategy of crop diversification;
- Strategy needed to replace old tea plants;
- Work on farmer trusts' organizational development needed;
- Better spread of tea seedling nurseries requested – Thyolo needs more attention;
- Demonstrations and peer-to-peer learning from good farmers should be enabled;
- Idea from one buyer to introduce organic tea farming and linking this to animal husbandry. The market wants more organic tea
- Climate change effect on smallholders is high. Those who are particularly vulnerable to drought need to be selected and guided;

Gender (Judith Fraats, IDH)

TAML presented their gender and HR policies, linking existing laws and acts to the new policy. WUSC discussed their further, ambitious, plans for the rollout of the gender program.

- TAML board has approved the gender proposition but there is still room to improve and make amendments, e.g. by adding the pesticide act;
- Linkages between existing gender policies on plantations and TAML policy need to be found, we should not reinvent the wheel;
- TESCO suggested creating an advisory committee in supporting TAML to develop gender issues better;
- There was a discussion about the key issues that lie at the basis such as issues such as sexual harassment, and culture. Training should be tailored on a needs assessment of what actual issues are;
- In conclusion the level of engagement and commitment to move forward was pleasing to participants;

Energy and environmental management (David van Meerhaeghe, Eastern Produce)

Energy

Factory level

- Consultant has done a study to compare energy practices and the findings and recommendations will be discussed with the management of tea estates. Findings will be specific to each estate and it is up to management to decide what to do with this.
- Producers need to unite on the issue of electricity provision and jointly look for ways to advocate for a better energy supply.

Smallholder level

- Firewood availability is a big issue for smallholders, on which energy efficient stoves can help. The main worries: are they being used and are they durable? These will be addressed in the coming year.
- Next steps: solar lights and firewood production.

Environment

- Regional data on climate change maps and 2050 predictions will be collected from the estates by Leeds University and a study will be done on how companies can do decision-making according to climate.
- Environmental management plan will be produced by Daud UTZ Consultant and will be ready in a year.

PAWU Membership (Elizabeth Kabaghe & Sloane Hamilton OxfamElizabeth, Oxfam Malawi)

- Conversation focussed on progress made by PAWU and meetings held between TAML and PAWU on issues affecting PAWU's progress. Two members of unions presented on their average day and on the benefits of their membership.
- Session focussed on definition of seasonality, the ability for workers to maintain their employment numbers and the implications of this with regards to the Employment Act and Pension Act.
Ways forward:
- PAWU and TAML should have a meeting with the Ministry of Labour to have agreed definition of seasonality vis-a-vis pension
- Need to include PAWU in discussions on in kind benefits that take place within TAML as it has a bearing on the wage debate.
- Union should try to ensure they have members across all estates to improve membership.

13. Richard Fairburn (Chairman Malawi Tea 2020) – Reflections of the day

Feedback for the steering committee from the audience:

- If achieving our goals would be easy we would not be here, there are a lot of challenges and discussions to be addressed. Maybe we should plan more opportunities to discuss through the year as needed, rather than wait for one session each year.
- Most that has been discussed seems to be about living wage, the reflection should be also about what has been achieved in so many different areas. It is important that we are not losing focus on the other progress that we have made. A lot has happened over the last year.
- TAML: a lot has been done. When we started 2-3 years ago we had a lot of differences and doubts but our relationship has grown and there is more trust between partners.

14. Principal Secretary of Labour, Youth, Sports and Manpower Development – Closing remarks

Officially closes the Annual Progress Meeting and emphasizes that the government will provide continuous support for the program.