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Zimbabwe, tobacco industry

Zimbabwe: Tobacco Industry Transformation Feasibility Study Report

1. Introduction

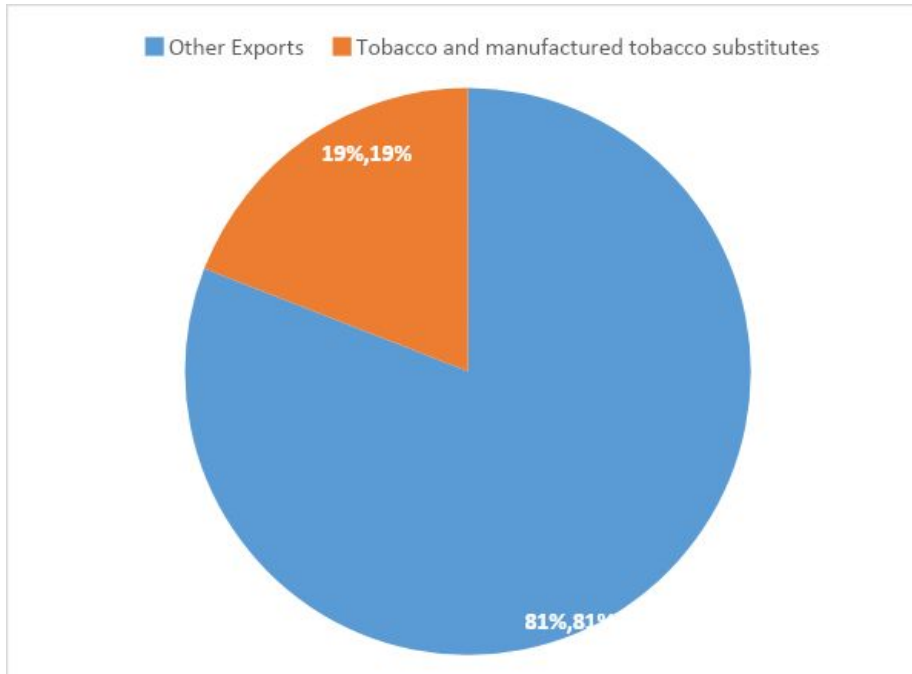
Due to some historical problems such as the colonization and the influence of globalization, Zimbabwe is now one of the biggest tobacco production country, ranking the seventh in the world in 2019. However, as developing country, Zimbabwe's domestic finance and agriculture structure is very unbalanced, causing poverty and hunger among the nation.

The worst problem of all is the current situation of the local tobacco farmers. Unstable income and unpaid loans have made the living condition of many Zimbabwean farmers even worse off. Due to the problems of Zimbabwe, a transformation for the local tobacco industry is necessary.

2. Current Situation

2.1 Domestic Finance

Zimbabwe is a fast-developing country whose GDP has reached 31 billion dollars in 2018 according to the official data from World Bank.[1]



Despite the influence of COVID-19, Zimbabwe’s domestic economy still remained a rather high position, especially compared with its GDP in previous years. This is mainly due to their tobacco planting. Due to some historical problems such as the colonization and the influence of globalization, Zimbabwe is now one of the biggest tobacco production country, ranking seventh in the world in 2019.[2] However as developing country, Zimbabwe’s domestic finance and agriculture structure is very unbalanced, causing poverty and hunger for some citizens. Despite the large amount of tobacco production, the country’s processing for tobacco is still quite primitive. This stage requires large amount of labors and can cause severe pollution to the environment, for it cut down many trees to burn and produce a lot of smoke which pollutes the local air. The expansion of tobacco farming is going way too rapidly, as the expansion plan is not well designed which has made many farmers in debt for fertilizers and seeds that is required to plant tobacco.

In 2015 the RBZ reached an agreement with banks to cap interest rates at 18 percent, as part of measures to deal with the prohibitive cost of finance. This partly brought relief to

the borrowing public who have had to endure high interest rates, which asphyxiated business and inflated already unsustainable debt levels, causing viability problems.

Prior to the intervention by RBZ, local banks were charging interest rates as high as 35 percent per annum, excluding default rates of equal or higher threshold.

When RBZ first capped the rates at 18 percent per annum, prime borrowers with low credit risk were to be charged 6 percent to 10 percent per annum, borrowers with moderate risk 10 percent to 12 percent; borrowers with high credit risk 12 percent to 18 percent per annum.[3]

2.2 Global Trade

The previous collapse of Zimbabwe currency made the nation lose faith in their own currency, as the international trade they prefer to receive foreign currency as USD or CNY, are stabler currencies. The country's main revenue depends on tobacco. More than 19% of its export is tobacco and tobacco substitutes (World Bank). However, as the essential part of a cigarette, tobacco leaves themselves are not highly valued with the price around 5 USD per kilo in 2017. Due to different taxes composed on tobacco for each country, the tobacco leaves exported from Zimbabwe to South Africa is around 3 USD per kilo due to the low wages for local farmers. As for Asian countries, it is around 7~8 USD per kilo[4]

3. Family

Most of the family in Zimbabwe are farming family, so their traditional economic activities include gardening, raising poultry and baking to supply additional household goods and income. Due to the poverty and policy problems, children in Zimbabwe often drop out of school to work in the tobacco field to support the family. Families see no option but to use their children in the fields as unpaid labor. Many are in debt to landowners and landlords and have to stay on from one season to the next, unable to break the cycle of deprivation[5]. In a farming family in Zimbabwe, normally the father will work in the urban areas or in the field, while the mother and their children who is over 14 chose to work in the field or make some handcrafts. Some children may even work in the factories, especially tobacco processing factories or other factories that are labor intensive. Those women who are educated and engaging in wage-labor are starting to seek more decision-making power. However, the poor education in Zimbabwe, especially among female has made this a rather hard problem for women to get the equal rights as men. And the main factor which caused the education problem is the child labor problem, especially in tobacco industry, which we will discuss about later. Currently, laws based on cultural customs discriminates against their rights to part-time work and

inheritance. Traditionally, Zimbabwean women engage in much of the labor and farming required in day-to-day operation. [6]

4. Conflicts

Ranking seventh, Zimbabwe as a developing country with little tobacco consumption became one of largest tobacco production country. This has caused a chain reaction in the nation's life. To boost the economy, local government recommend local farmers to farm tobacco, however, they need loans to buy the fertilizers and seeds required to farm the tobacco and then they will pay it off when the harvest season arrives. However, if this season's weather resulted in a poor harvest or a disease spread across the crops, the "loan and pay" chain would break, leaving the whole family in desperation. And the loan interest rate was

As for the international trade, tobacco leaves' average market price could be around 5 USD per kilo, however cut tobacco is more expensive than simply cured and packed tobaccos. Being in a inferior position, Zimbabwe should try to move towards higher quality products. Most the exports are primary products which do not have much profit and requires lots of labor and threatening labors' health while not being environmentally friendly.

5. Transformation possibility

5.1 Deep processing

Currently, most of the local factories only do the basic processions of the tobacco, which are to grow, cure, pack the tobacco after separating stems and unwanted materials and finally to distribute the tobacco[7] . Such process is a rather low tech and simple, with low profit. So, it is important to develop deep-processed tobacco products. The easiest processed tobacco product is the cut tobacco. Such tobacco product used to require many hours of cutting and separating. Now due to the rapid development of technology, this could be easily done by a small machine that can be put at home and only requires a sustainable electricity supply of 380V whose power is 1.5kw and price is around 635 USD.[8]

5.2 Cigarette production

Major raw materials required for the manufacturing of cigarette are tobacco leaves, cut tobacco, cigarette filter, tipping paper, cigarette paper, whiteboard, aluminum laminated paper and glue. There are large number of suppliers of these materials present in the market which is driving the production of cigarette, making it easier to produce the cigarette.[9] Communal farmers farm under a communal land tenure system on 3-5ha of land, using oxdrawn implements and are semi-commercialized [10]. While small commercial farmers use tractor drawn implements on 10-40ha of arable land and produce the bulk of their products for the market[6]. According to TIMB (2011) the split of the registered tobacco growers is as follows, with small scale non-commercial sector making

up 79% of the total growers. This study classifies growers into two groups, small scale and large scale farmers, those with 1-15 ha of land and those with over 15 ha of land respectively.[7]

TIMB Classification	A1 (ha)	Communal (ha)	A2 (ha)	Large-scale Commercial (ha)	Small Commercial (ha)
	3-5	3-5	15 and above	varied	10-40
	41.00%	38.00%	7.00%	3.00%	11.00%
Classification Used in Study	Small scale 1-15		Large Scale Above 15		

This shows that the cigarette production in Zimbabwe is mainly dominated by the small-scale commercial farmers, who has limited funds and cannot afford to build a complete cigarette company.

Owing to this fact, the local government could organize the farmers to work as a whole and build a community for tobacco farmers, in which they could raise fund to build a factory and sell cigarettes. As an agricultural cooperative, its risk tolerance and available funds are much higher than the individuals. With more funds, they could afford machine that is more efficient, leading to higher production and better income.

Also, they could invite other big tobacco companies to invest on setting up factories in Zimbabwe. So that local residents could have more jobs and more choices than just be a farmer.

5.3 Local infrastructure

We have discussed much about building factories and using advanced equipment, however, the most important and the most crucial problem is that -- can their infrastructure handle these machines and equipment? The deterioration of Zimbabwe's infrastructure in Zimbabwe is evident after decades of far-reaching domestic reforms, a period of hyperinflation, and the effects of sanctions and difficulties to obtain long-term financing due to arrears with the international financing institutions. A contributing factor has been populist pricing policies that have held back necessary tariff increases and prevented utilities from generating cash for preventive maintenance. The result has been an erosion of the productive value of existing assets.

The electrical power sector is barely able to provide a reliable output of 1,300 MW compared to peak demand of 2, 000 MW. The shortfall is managed through load shedding that causes inconvenience and loss of production. An equally important, albeit hidden, cost is how unreliable power supplies discourage prospective investors in the cigarette factories, mining and other industries. [11]

However as we mentioned in previous part, the small tobacco cutting machine requires only electricity supply of 380V, which is 1.5kw. As the policy that we will talk about in later implements, this will no longer be a problem.

The urban water supply and sanitation sector could at one time boast of the highest access rates to reliable and safe services in Africa. This is no longer the case. The combination of deferred maintenance and lack of funding for rehabilitation and expansion has made service intermittent and created a constant threat to public health. Estimates are that between 40% and 70% of all rural systems do not supply water as intended and are inoperative. Only the irrigation sub-sector has a favorable balance between supply and demand for raw water, due in part to the fact that irrigated areas have declined from 120,000 hectares in the year 2000 to about 50,000 hectares at the present time. [11]

The transport sector comprises three sub-sectors: roads, railways, and aviation. All are important to allow landlocked Zimbabwe to take advantage of regional synergies. However, the speed of travel is constrained by a road network where 40% of state roads are in need of rehabilitation. Railways could possibly offer the cheapest and safest mode of transportation but with only one third of locomotives operational formerly daily service between major cities has been curtailed. The track infrastructure is deteriorating albeit at a slower pace. [11]

Transport sector offers the local farmers a chance to communicate to the urban areas. As the transport systems develops, it will save much money and time, offering a better condition in crops trade.

The Information Communication Technology (ICT) sector offers an exception to the picture of deteriorating infrastructure and slipping service in the other three sectors. The ICT sector is favored by strong demand that has made it possible to keep tariffs high and help produce healthy operational surpluses that have been used for investment and for servicing debt.

With the development of the ICT sector, it will be way more easier for farmers to directly communicate with buyers, avoiding trade through middleman and the price could be higher, making more profits for the local farmers.

Cognizant of the need to rehabilitate and expand the country's infrastructure the Government that took office following the July 31, 2013 elections has launched its Agenda for Sustainable Socio-Economic Transformation (Zim ASSET). This economic blueprint for Zim ASSET lays out strategies that the Government will pursue to implement its ambitious program. The strategy in the infrastructure sectors in particular is to encourage Public Private Partnerships (PPPs) for the financing and execution of the different sub-projects. This strategy has been emerging in the electric power, road transport, and ICT sectors and is now being extended to water supply and sanitation, at least as an objective.

The National Energy Policy also adds the complementary strategic goal of improving the institutional framework and governance in the energy sector in order to ensure that the private sector becomes the engine for provision of energy services. Presumably, the same aspiration holds for the other infrastructure sectors. Result & Future [11]

All these policies are giving us a sign that Zimbabwe could soon afford to build large-scaled cigarette factory in the rural areas. And soon is able to provide stable electricity for individual families in rural areas to use small machine and equipment.

6. Conclusion

As we mentioned in the third and fourth section, the biggest problem with Zimbabwe is its finance structure. Its unbalanced finance structure has caused the severe poverty and hunger problem. The only way to solve this problem is to alter the structure. However, this could not be done easily, and it will be long-term task for Zimbabwe. To start with, we have to make sure the local government are working in the right way. Blind expansion and loans with inappropriate interest rates will never be of help but to make a better scene now. If we think in the long term, decades, these current policies will only slow down Zimbabwe's pace in development. The crucial part should be giving the money to the poor, not the rich. Then why are we setting up factories and inviting foreign investors? This is because if we want to think in a long term, we will have to fix now. There is a standard operation procedure when it comes to developing the economy in a legal way. It is always government first, only when the government is rich, can it support its people. So foreign companies' investment and exporting products are necessary, for the taxes and investments could make the finance work in a better situation. Then with money, the government should focus on solving the poverty and hunger problem. Compared with focusing on taking money from Zimbabwe's own poor farmers, investors seemed to be a better choice.

In the future, the government should do things such as:

- 1) Alter the loans terms into if weather problem no harvest this year, the debt could be left until next year, meanwhile suspend calculating interest until the harvest season next year,
- 2) Give interest-free or low interest loans to the local farmer,
- 3) Encourage rotation with other crops,
- 4) Encourage using Zimbabwe Dollar to maintain its position,
- 5) Encourage farmers to work as a group rather than individuals.

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