BO

RROWED TIME

With the right measures, Zimbabwe could recover from its woes. But the window of opportunity is closing quickly.

By Taco Tuinstra

Zimbabwe's tobacco industry has sunk so deep that things can only get better. One of these days, reason will prevail in Harare, and the country will quickly reclaim its rightful place as a leading supplier of full-flavor flue-cured tobacco. The problem with that thesis, of course, is that it was also put forward last year, and the year before that—yet Zimbabwe's slide has continued relentlessly.

For the time being, the country is spinning in a vicious circle: Tobacco sales are not generating enough money to finance the upcoming crop, which in turn promises a further reduction in tobacco earnings next season. The government has taken some steps to promote sales, which started April 25, but industry representatives fear it's too little, too late.

Even after subsidies for fuel, funding and early tobacco deliveries, the cost of production still exceeds income for many farmers. Most efforts to boost production have proved futile in the face of hyperinflation, exchange rate manipulations and the continuing uncertainty about land tenure.

Losing production is easier than gaining it. In 2000, Zimbabwe's farmers produced 237 million kg of flue-cured tobacco, earning the country some US$600 million from auction sales plus $150 million from value-added processing. This year, the trade is expecting barely 55 million kg, the lowest figure since the country gained independence from Britain. Ninety percent of commercial growers have been evicted from their lands, and leaf merchants are operating at a fraction of their capacity. The auctions—Zimbabwe still has three of them—are running out of steam too.

There are three tobacco processing factories in Harare, but the entire crop could easily be processed at just one. From an efficiency viewpoint, it would make sense to consolidate processing at one factory, but individual processors are understandably reluctant to close first.

Downsizing is difficult anyway because rules against disinvestment prevent multinationals from moving their equipment out of Zimbabwe to countries where it could be put to better use. So tobacco companies muddle through in their empty production halls, cannibalizing unused equipment for spare parts that they can no longer afford to buy on the international market.

LAND REFORMS. The industry's current predicament is a direct result of President Robert Mugabe's controversial land reforms. His campaign of confiscating commercial farms and resettling them with landless peasants has brought the tobacco sector to its knees—and along with it, the Zimbabwean economy.

Commercial farming has traditionally been Zimbabwe's economic backbone. Tobacco exports alone used to generate up to a third of the country's foreign currency earnings, allowing Zimbabwe to import the goods and services that it didn't produce domestically.

But commercial farming was also dominated by a small, privileged minority—whites. By the late 1990s—20 years after independence—descendants of Zimbabwe's former colonial masters still controlled the nation's prime farmlands, while many blacks eked out a living in crowded communal areas.

Unlike other African countries, Zimbabwe allowed landowners to retain their titles after independence, preferring a gradual approach to land reform. Rather than ordering blanket nationalization, the government started purchasing land on a willing-buyer-willing-seller basis with financial assistance from Britain.

But instead of benefiting landless peasants, many of the acquired properties ended up in the hands of generals, police commissioners and the like—people selected more for their political connections than their farming skills. Frustrated that its funds weren't being used as intended, Britain stopped the money flow and Zimbabwe's land reforms petered out.

They returned with a vengeance in the early 2000s. In an effort to shore up his sagging popularity, Mugabe announced the compulsory acquisition of commercial farms and encouraged veterans of Zimbabwe's liberation war to invade white-

Photos: Taco Tuinstra

Rather than working the land, many settlers found it more lucrative to strip the barns of their roofs and the pastures of their fences, selling everything that wasn't bolted down.

owned plantations. The veterans—and in their wake, many opportunists—duly obliged.

"They broke my windows, poured water into my home and held my family hostage for three days," says a former tobacco grower, who now holds a factory job in Harare. "It's not an experience I care to relive."

What happened next is by now well-known: Tobacco production plummeted, export earnings dwindled and the standard of living dropped considerably. While many whites have abandoned farming, few aspiring black growers have benefited from Zimbabwe's land reforms, because the agricultural sector has almost been wiped out in the process. The government has thrown out the proverbial baby with the bathwater.

"The people have the land, but nobody is farming."

DIFFERENT SCOPE. Mugabe believed that the new farmers would offset the loss of commercial volume, but after an initial surge in 2004/2005, smallholder production dropped off again because many new growers were unable to recoup their investments.

The economics of peasant farming are completely different from those of running a commercial plantation. Tobacco is a notoriously difficult crop to grow. It requires a considerable upfront investment and it can take more than a year before the farmer starts seeing returns. The new farmers needed support to start growing tobacco, but the government was unable to supply it in time and in sufficient quantities for the growing season.

What's more, the infrastructure for commercial farming—large irrigation systems, massive curing facilities, etc.—proved wholly unsuitable for smallholders. Rather than working the land, many settlers found it more lucrative to dismantle the farms. They stripped the barns of their roofs and the pastures of their fencing, and sold everything that wasn't bolted down.

As the commercial sector collapsed, the farm-servicing industry started to crumble as well. There used to be agencies in small towns supplying farmers with fertilizers, chemicals and parts for their equipment. But whereas the commercial farmers would purchase a lorry's worth of inputs, the new farmers needed only a handcart each. Without the critical mass to sustain their operations, many rural farm services agencies went out of business, leaving the remaining growers without essential services.

Today, the failure of Zimbabwean land reform is evident to even a casual observer. In the place of once-thriving plantations, there are now only grasslands, occupied by the occasional subsistence farmer. "The people have the land, but no one is farming," says John Robertson, managing director of Robertson Economic Services in Harare.

Farm disruptions have also wreaked havoc in the lives of thousands of farm workers. The most skilled among them have moved to more stable countries such as Zambia and South Africa. Those who remain are less productive than before because they are hungry.

"When you attack tobacco farming, you affect the food supply too," explains Robertson. Many commercial farmers used to rotate tobacco with maize. Most of the tobacco and some of the maize was exported, earning Zimbabwe U.S. dollars to import the goods and services it didn't produce domestically. Today, the country must import food but isn't earning the foreign currency required to pay for it. Once the breadbasket of southern Africa, Zimbabwe now relies on handouts.

Zimbabwe also used to export beef to major markets such as the European Union. "We have excellent abattoirs," says Robertson. "Foot and mouth disease or BSE never used to be a problem here because farmers maintained a strict *cordon sanitaire*. With the farm takeovers, however, fences have been stolen and

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cattle have moved into infected areas. Now the world says, 'Don't send your beef anywhere close to us.'"

RECOVERY. Whether Zimbabwe can recover is open to debate. Some believe that with the right measures, the tobacco industry could make a comeback of sorts, albeit not to its peak level of 2000. Others are less optimistic, saying that the infrastructure has been damaged beyond repair. What is clear, however, is that even a mild recovery will require a Herculean effort from all stakeholders.

For starters, the current balance between farmer incomes and earnings is completely out of whack. Inflation—which affects the cost of production—hit 1,043 percent in April, a rate usually seen only in war zones. "The pension I earned in all of last year would buy me one loaf of bread today," says Les Cousins, former director of the world-renowned Kutsaga Research Station, another institution that has suffered badly from the troubles.

"RISING COST, FIXED INCOME IS NOT A RECIPE FOR GROWTH."

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Zimbabwe's currency loses value so quickly that the Reserve Bank has introduced bearer checks in the place of bank notes. The checks are good for only a limited time and have expiry dates printed on them. During *Tobacco Reporter*'s April visit, however, shopkeepers happily accepted notes that had expired in December 2005.

For farmers, hyperinflation means the cost of growing next year's crop will vastly exceed the earnings they can expect from this year's tobacco. Prices at the start of the selling season were somewhat firmer than they were last year, but not nearly enough to offset the rapid depreciation of Zimbabwe's currency. By the time a grower purchases his inputs for next season, his money will buy only a fraction of what it would have at the time of tobacco sales.

The cost-earnings discrepancy is compounded by a fixed exchange rate, which greatly overvalues the local currency. Tobacco prices are quoted in U.S. dollars but growers get paid in Zimbabwean dollars. In April, the Zimbabwean dollar traded at z$230,000 per U.S. dollar in the free market rate. The Reserve Bank, however, was still converting U.S. dollars at about z$99,000 to one, a rate that hadn't changed since Jan. 24.

"Rising cost, fixed income is not a recipe for growth," says James de la Fargue, president of the Zimbabwe Tobacco Association. Industry representatives were pleading with the Reserve Bank to bring its exchange rate in line with the market rates, but at press time, there was no indication of any change.

TENURE. The biggest hurdle to recovery is property rights. While the massive farm invasions of the past years appear to have died down, land tenure remains uncertain for both the new settlers and the few commercial farmers who remain on their lands. Leaf merchants, in turn, face a moral issue: Should they buy tobacco that was grown on stolen land? International law still recognizes the evicted farmers' titles, exposing buyers to legal claims.

Last year, the Zimbabwean government officially nationalized all farmland, stipulating that the courts, which until then had been admirably independent, could no longer hear land owners' protests of confiscation. "Faced with court challenges, Mugabe simply legalized theft," observes Robertson.

The conditions under which farmers may work their land, however, remain unclear. At one point, there was discussion about replacing title deeds with 99-year leases, which are common in other African countries and, if done right, could bring some stability to the farming sector. The issue has since gone quiet, however, and farmers work from day to day. "Every time an unfamiliar truck comes up the road, I am scared," says Matthew Ray (not his real name), a tobacco farmer growing for one of the leaf merchants.

Robertson questions whether the proposed leases would boost tobacco production. "In the draft I saw a few months ago, government claimed the right to cancel any lease if the farmer failed to measure up to expectations, and no market price or transferability through the market was allowed for, so it wasn't a bankable document and the land was left with no collateral value."

In most countries with long-term leases, says Robertson, a farmer retains his land by getting it right in the marketplace. If a grower cannot service his loan because he makes bad business decisions and his crop earnings fall short, the bank can take his land. In the Zimbabwean lease proposal, by contrast, the right to farm would depend not on a commercial consideration but a political one—whether your contract is acceptable to the government.

CONTRACTS. As long as their land tenure remains unresolved, farmers will be unable to leverage the value of their farmland as collateral. For many, the only way to keep farming is by contracting with one of the leaf dealers. In a contract agreement, a tobacco merchant supplies capital, crop inputs and other requirements. At the end of the season, the dealer recoups his investment by subtracting these expenses from the price he pays the grower for his tobacco. ▶

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Savanna thrives against the odds

Hyperinflation, lack of fuel and a foreign currency crisis hardly make for a fertile business environment. When even affiliates of established multinationals such as Coca-Cola struggle for survival (imports of syrup dried up in March), one can only imagine the challenges of starting a new company in Zimbabwe these days.

Adam Molai, director of Savanna Tobacco

There is a breed of entrepreneurs that thrives in such circumstances, however, defying the odds with a mixture of cunning, courage and connections. In 2002, Adam Molai and his business partners acquired a tobacco threshing plant near the former Boka tobacco auction in Harare. The next year, they installed a secondary department, and in May 2004, the first cigarettes rolled off the production line.

Today, Savanna Tobacco Co. has established footholds in important regional markets such as South Africa, often taking on competitors with far deeper pockets and greater resources.

Molai credits two factors for Savanna's success—quality and efficiency. While the company's two brands, Pacific and Pegasus, sell in the value-for-money segment, they don't look, feel or smoke like inexpensive cigarettes. "From Day 1, our products have been comparable to those of the main players," says Molai.

Savanna's unassuming premises are somewhat misleading in this respect. From the outside, the factory looks like a warehouse that has seen better days. Inside, gleaming tobacco machines from Hauni and Schmermund pump out 8,000 cigarettes per minute, operating three shifts per day.

While keeping its overhead small, the company invests where it matters. Offering good salaries and learning opportunities, Savanna has managed to attract some of the most skilled tobacco factory workers in Zimbabwe. To cushion its employees against hyperinflation, the company adjusts its wages every month. Molai believes that focusing only on labor cost can backfire. "If you pay peanuts, you get monkeys," he says.

Savanna's insistence on using only the best filters, papers and other raw materials means the company has to import a significant share of its requirements. Imports, however, require foreign currency, which is in short supply in Zimbabwe.

To secure its supplies, Savanna has made a deal in which foreign retailers and distributors agreed to directly finance all the company's raw materials requirements, thus preventing that money from entering Zimbabwe's financial system and being converted at unfavorable exchange rates.

Savanna sources its own fuel, too. A 500KVA generators kicks in within 30 seconds of any power failure, ensuring uninterrupted production.

"In this environment, a week is long-term," says Molai. "The key is to be ahead of the game. You can't just react—you must *plan* for change."

Molai would like Savanna to expand beyond its current markets. As multinationals consolidate their African operations, he expects local opportunities to arise for small players. "Where the multinationals close, we will open," he predicts. *–T.T.*

Where leaf merchants once simply purchased their leaf requirements at auction, they are now heavily involved in tobacco production, providing farmers with funding, inputs and even fuel.

Contracting is common in many tobacco-producing countries, including Brazil, but typically it involves small-scale farmers who can't afford the investment by themselves. In Zimbabwe, leaf dealers are now contracting with large-scale producers who previously funded their own crops and sold at auction. This marketing system made its debut in Zimbabwe in 2003 and has expanded every year since. This year, some 60 percent of the crop was grown under contract.

"The only reason I am still here is because I have a contract," admits Ray, who expects to produce 190,000 kg this season. The decision to contract, he says, was difficult for someone used to operating independently, but the scheme has worked reasonably well. "I have coal, I have fertilizer," he says. "I am happy."

"FACED WITH COURT CHALLENGES, MUGABE LEGALIZED THEFT."

Leaf dealers also work with smallholders to help them improve yields and quality—and to be seen as promoting the government objective of small-scale production. But contracting small farmers presents an entirely different set of challenges: It's more difficult to monitor production and loan recovery is not as good as it is with commercial farmers. Company supplies aren't always used as intended, either. Fertilizer sometimes ends up on maize instead of tobacco or is simply sold. Tobacco companies minimize their exposure by selecting growers carefully and tailoring inputs to a farmer's requirements. Contract renewals are linked directly to performance.

Leaf dealers have mixed feelings about the new marketing system. While contracting has helped them salvage some of their leaf requirements, it has also altered their risk profile. "We never used to worry about the weather," jokes one merchant.

In April, the industry was also exploring the idea of corporate farming. In such a setup, tobacco companies would run or manage a number of large-scale plantations that would also include a number of small-scale farmers. Establishing corporate farms, however, would require heavy capital investment, creating viability issues.

MOVING FORWARD. While few are willing to say it out loud, there is wide agreement as to what *really* needs to happen for the Zimbabwean tobacco industry to recuperate. "Every single problem in Zimbabwe has a political origin," says Robertson. "The market is a power—but our government does not want to share power. So it tries to constrain the market in every way possible."

If politics changed—which seems unlikely in the short term—some believe Zimbabwe could actually recover quite quickly. The 250 or so farmers who remain on their lands are working below their potential because, in the current environment, they want to minimize their exposure. "If farmers felt confident, they could easily boost production by 20 percent," says one leaf merchant.

What's more, there remains 60 to 70 years worth of tobacco infrastructure in Zimbabwe, which, despite the destruction, is still in better shape than that in some emerging tobacco-producing countries, where such infrastructure is often nonexistent.

Optimists also argue that Zimbabwe's difficulties should be placed into perspective. While the country has taken a dive, it has only now sunk to the standards common elsewhere in Africa. "It's not all gloom and doom," insists a customer account representative of a leading tobacco exporter.

All things considered, Zimbabwean tobacco still attracts decent prices. Buyers are willing to pay a bit of a premium because they are purchasing a "whole package" of quality leaf, professional marketing and state-of-the-art processing—something that is not yet available in new sourcing areas such as Zambia.

Few believe that Zimbabwe will return to its heyday of 200 million kg-plus crops, but some hold out hope for a modest recovery to, say, between 70 million and 100 million kg in the midterm.

The customer account executive thinks that some of the growers now farming in Uganda, Nigeria and other countries might even be lured back. If these farmers could come to terms with the fact that Zimbabwean land has been nationalized, and if the government were to offer workable leases, they might consider returning. Other African countries have problems, too, he reasons, and sometimes it's better to deal with the devil you know. TR

The story behind the story

Tobacco Reporter is a great believer in firsthand coverage. Rather than relying exclusively on news wires or correspondents, we invest significant time, manpower and money in getting the story directly from the source. Only by gathering the news ourselves can we be sure that our reports are accurate and properly researched.

The upshot is that we're constantly traveling. At any given time, a *Tobacco Reporter* editor is on the road, meeting with farmers, touring factories and interviewing executives.

While this approach produces quality coverage, it can also be a tad frustrating: Invariably, we return from our trips with more information and impressions than we can reasonably report in three or four magazine pages. And that's a shame, because many of our experiences on the road are compelling stories in their own right.

To offer you a glimpse into our news gathering efforts, I kept an Internet diary, or blog, during the journey through Africa that resulted in this article. Please visit *www.tacoinafrica.com* to read the story behind the story. *–T.T.*