

# MARKETING OF UN-MANUFACTURED TOBACCO IN ZIMBABWE AND THE EXPORT MARKET

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## ABSTRACT

*This paper analyses the tobacco marketing growth opportunities in Zimbabwe. The marketing of flue cured tobacco in Zimbabwe has been investigated to establish the impact on the growth in export revenue generated from tobacco exports. The research has established that Zimbabwe should seriously consider adding value to the tobacco that is exported. The country exports unmanufactured flue cured tobacco to very lucrative markets. With even more of the crop to be produced under contract farming in the future, and bearing in mind the tobacco merchants' preferences, and international debates regarding traceability, there is scope for one or few companies to corner the market. Much as the country is grateful to tobacco merchants for reviving the country's tobacco sector through contract farming, the Tobacco Marketing and Industry Board, as the regulatory authority, has to explore alternative price setting arrangements as an incentive for the tobacco growers. This study contributes to the on-going discussion on enhancing tobacco marketing systems in Zimbabwe so as to increase export earnings from the tobacco sector.*

**Keywords:** Tobacco Marketing Systems, Exports, Agricultural Finance, Zimbabwe.

## INTRODUCTION

Zimbabwe is the largest producer and exporter of flue-cured tobacco in Africa and the world's fourth-largest after China, Brazil and United States. (Lown, et al. 2016). Tobacco is Zimbabwe's second-biggest foreign currency earner after gold, which accounted for US\$741 million of the US\$4.395 billion from exports in 2020 (Reserve Bank of Zimbabwe, 2021). The major export markets for Zimbabwe tobacco have been China, South Africa, Indonesia, Belgium and the United Arab Emirates in 2020 (Tobacco Industry and Marketing Board, 2021).

The need to enhance Zimbabwe's tobacco export performance is critical, given that the country desperately requires foreign currency to meet its huge import bill averaging US\$5.5 billion per year (Reserve Bank of Zimbabwe, 2020). While tobacco use is levelling off in high-income countries such as the USA and Britain, the tobacco industry is aggressively marketing to low and middle-income nations (World Health Organisation-WHO, 2020)

Although tobacco use in high-income countries such as the United States and the United Kingdom is declining, the tobacco industry is actively selling to low- and middle-income countries. Nonetheless, several African countries still have low tobacco use rates, implying that the tobacco epidemic that killed 100 million people in the twentieth century, mainly in higher-income countries, may still be a threat (WHO, 2020).

## REVIEW OF THE LITERATURE

### Economic Significance of Tobacco Production in Zimbabwe

Tobacco output contributes significantly to the Gross Domestic Product (GDP) of Zimbabwe, and export income, as well as playing a significant role in the national economy. The tobacco crop accounts for 61% of the agricultural exports, 30% of the total exports, and approximately 10% of GDP (Ruzivo Trust 2016). Tobacco is also a significant source of income for the farming community, which has few other options for generating income. It is one of the most lucrative businesses in commercial agriculture, and it is the primary reason for the existence of many commercial farms (Keyser 2007). Other cash crops, such as cotton and even maize, are more important for most communal and resettlement farmers, but tobacco is still important. Thus tobacco production has provided an economic base for farmers to develop other production opportunities.

Since 1990, total annual revenues generated from the sale of greenleaf tobacco have ranged between US\$270 million and US\$770 million (TIMB, 2020). Given the limited access to farm inputs, average sales per farmer are around 10 bales (Keyser, 2002), implying that gross income per farmer is around US\$3,000 assuming an average price of US\$3/kg. Tobacco production employs a significant number of people in the rural areas. In 2016, it was estimated that about 230,000 people worked directly in tobacco production, with large commercial tobacco farms employing about 20,000 long-term staff and 55 000 smallholder tobacco farmers relying heavily on family labour. About 30 000 people worked in tobacco science, marketing, service, and manufacturing.

Tobacco production and marketing provide economic and social benefits to the nation that produces it. Tobacco is also a significant source of government revenue, thanks to a levy scheme in which farmers and sellers pay a percentage of crop sales value. The government earns about US\$132 per hectare. Taxes are imposed on companies that export semi processed and processed tobacco (TIMB, 2020).

## **Demand Patterns**

The worldwide demand for tobacco has continued to grow and in Zimbabwe, the crop is grown mainly for the export market. This is especially true in developing countries, which now account for 70% of global consumption, with China accounting for 44% of all consumption (Keyser, 2003). Despite a sharp drop in per capita and even absolute consumption in developing countries, global demand is projected to rise by 2.3 percent per year. Growth in demand is expected to be fuelled significantly by population and income growth (World Health Organisation, 2005). Food and Agriculture Organisation (2005) concurs to this prediction and also reported that world tobacco demand is expected to increase due to population and income growth, but at lower rates than in the past.

In the long run, the number of smokers has been projected to rise from 1.1 billion at the turn of the century to 1.7 billion by 2025. The demand-depressing effects of increased taxes and other non-financial programs, such as advertising bans and the creation of smoke-free zones, as recommended by the WHO and the Framework Convention on Tobacco Control (FCTC), are likely to be outweighed by the consumption forecasts. The tobacco market involves the retail of tobacco products which are cigarettes, cigars, cigarillos and chewing tobacco. There are approximately 1.3 billion smokers in the world today, with this number predicted to grow at a rate of nearly 4% each year. Every minute, approximately 12 million cigarettes are smoked around the world. Smokers are expected to consume 9 trillion cigarettes by 2025, according to estimates (Ash on Smoking and Health, 2020). There are approximately 1.3 billion smokers in the world today, with this number predicted to grow at a rate of nearly 4% each year. Every minute, approximately 12 million cigarettes are smoked

around the world. Smokers are expected to consume 9 trillion cigarettes by 2025, according to estimates.

Keyser (2007) noted that tobacco control strategies have been gaining traction around the world, with numerous stakeholders voicing concern that tobacco control policies would have significant negative implications for tobacco-producing countries' economies. The World Health Organization's Framework Convention on Tobacco Control's ultimate goal (WHO FCTC) is clear and that is to curtail tobacco consumption to the greatest extent. This is seen as a significant challenge by individuals and nations involved in tobacco production and marketing, and has prompted numerous demands for crop substitution and long-term diversification efforts. Tobacco control advocates have gone even further, calling for a reduction in tobacco production on the grounds that tobacco is bad for smallholder growers, rural economies, and the environment. Tobacco usage has unquestionably substantial societal costs, including a significant drain on national health budgets, job efficiency, and household income, to name a few (Keyser 2007). The reasons against tobacco use, on the other hand, are not the same as claiming that the crop is unprofitable or that production should be limited from a primary producer's point of view.

## **METHODOLOGY**

The researcher conducted a qualitative research study based on documents accessed from 1) the Reserve Bank of Zimbabwe; 2) the Tobacco Industry and Marketing Board (TIMB); 3) the websites for tobacco growers' associations, tobacco control groups and international agencies; 4) WHO-FCTC reports and Framework Convention Alliance newsletters; and 5) the peer reviewed scientific literature related to tobacco production, marketing and export.

## **FINDINGS**

### **Financing of Tobacco Production and Marketing in Zimbabwe**

As a result of lack of funding for agriculture (including tobacco production), alternative financing arrangements had to be put in place and this gave birth to contract production and marketing in 2004. The financing of tobacco production and marketing is regulated by the Reserve Bank of Zimbabwe through the Exchange Control Tobacco Finance Order, published in Statutory Instrument (SI) 61 of 2004. The objective of the SI 61 of 2004, is to ensure that the country benefits from part of the tobacco export proceeds upfront before the tobacco has been exported. Tobacco merchants are required to drawdown from their approved offshore lines of credit and sell the foreign currency proceeds to the Central Bank at the market exchange rate.

This pre-financing effectively means that tobacco merchants bring into the country part of the export proceeds before the tobacco has been processed or exported. After export of the tobacco, only the value-added component accrues to the country while the rest of the export proceeds are used to service the offshore loans that would have been accessed during the buying season.

Due to hyperinflation (2000-2008) and a liquidity shortage that has persisted since Zimbabwe's dollarization in 2009, funding Zimbabwe's agriculture has been a nightmare since 2000. Due to its high indebtedness and repayment arrears, the country is still unable to obtain cheaper financing from bilateral and multilateral financial sources. Irwin, Haley, Chishakwe, Vitoria, and Mudonhi (2012) discuss the funding needs of individual businesses,

highlighting the major funding gaps that exist around the board. Most farmers have been unable to fund themselves as profit margins have been reduced over time as input costs have risen, making the local agricultural sector uncompetitive.

The financial institutions have not been keen to lend money to individual tobacco farmers because of risks associated with farming (Smalley, 2013). This is made worse by the fact that some institutions do not accept Government-backed 99-year leases as collateral. Most farmers do not meet the requirements to access loans as individuals so they end up approaching tobacco contractors in order to access agricultural inputs, working capital and extension services. Tobacco production has been on the increase for the past years and this has also been attributed to an organised contract system (TIMB, 2020).

The increase in contract farming activities represents a funding opportunity. The Government of Zimbabwe has since initiated the process to re-structure, re-model and transform the Agricultural Development Bank of Zimbabwe (Agribank) into a diversified financial institution called Agricultural Finance Corporation Holdings (AFC Holdings Ltd). The AFC Holdings would be comprised of AFC Commercial Bank, AFC Insurance, AFC Land and Development Bank and AFC Leasing Company (*The Chronicle*, 30 April 2021).

### **Tobacco Marketing System in Zimbabwe**

The tobacco market is a dual structure, with an auction system and a contract system coexisting. Until 2004, tobacco was only sold via an auction system, through which farmers mobilised own resources and delivered their crop to an auction, where the highest bidder would purchase it. The buyer took no risks during the tobacco crop production process. Tobacco prices on the auction floors were denoted in US dollars until 2001, but the farmer was paid in Zimbabwe dollars at the prevailing exchange rate. Tobacco merchants were allowed to liquidate their foreign currency in order to secure Zimbabwe Dollars for payments to pay tobacco farmers. Tobacco merchants were not required to borrow money from outside the country to finance their purchases of tobacco from the auction floors.

Tobacco contract growing and marketing was introduced in 2004 through the Exchange Control Tobacco Order, published through SI 61 of 2004. The law requires contracting firms to purchase tobacco only at receiving points designated by the Tobacco Industry and Marketing Board (TIMB) and in the presence of TIMB officials. This departs from the auction arrangement, in that the buyer provides farmers with the inputs required for tobacco production, and guarantees to buy back all the tobacco contracted at prices equal to or higher than those prevailing on the auction floors for the same grade. The introduction of contract farming increased tobacco production as investment flows into the value chain increased. However, the size of the contracted crop continues to reduce, currently estimated to be less than 10% of the total marketed crop. SI 61 of 2004 also states that, “*Where the price for auction tobacco prevailing on the day that the contract tobacco was received by the contractor was higher than the predetermined price of contract tobacco, the contractor shall make the additional payment for the contract tobacco.*”

### **Tobacco Export Markets**

Traditionally tobacco has had ready export markets for the unmanufactured products. The country exports up to 98% of its tobacco, with only 2% of the produce sold to local cigarette manufactures. In order to enhance export earnings, there is need for the authorities to seriously consider putting in place a tobacco value chain transformation strategy that

focuses on increasing local production and incorporating new global value chain partners for the export of the value-added tobacco.

Table 1 shows major exporters of unmanufactured tobacco for the period 2015 to 2020.

<b>Exporter</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
World	11,102,806	11,308,989	11,153,722	11,083,882	10,408,568	10,556,978
Brazil	2,109,284	2,054,089	2,000,441	1,894,445	2,043,520	1,638,665
<b>Zimbabwe</b>	<b>864,954</b>	<b>887,123</b>	<b>800,525</b>	<b>864,700</b>	<b>782,997</b>	<b>741,384</b>
USA	1,153,890	1,141,935	1,111,330	1,066,873	756,170	694,725
India	638,576	671,055	612,771	589,895	549,788	512,746
Malawi	527,129	544,484	530,410	492,332	498,465	498,383
China	578,044	571,799	620,439	541,756	564,038	455,402
Germany	367,069	396,610	450,969	391,911	351,215	270,736
Belgium	870,685	859,182	973,577	1,164,934	1,161,658	31,987

Source: Trendeconomy.com (2021).

The value of unmanufactured tobacco exported from Zimbabwe to 61 countries totalled US\$ 741 million in 2020. Table 2 shows the export destinations of the unmanufactured tobacco from Zimbabwe for the year 2020.

<b>Country of Destination</b>	<b>Value (US\$)</b>	<b>Proportion (%)</b>
1. China	411,856,581	55.55
2. Belgium	92,324,514	12.45
3. United Arab Emirates	31,521,289	4.25
4. South Africa	24,517,048	3.31
5. Viet Nam	24,163,913	3.26
6. Indonesia	21,115,803	2.85
7. Sudan	11,518,931	1.55
8. Russian Federation	11,168,528	1.51
9. Armenia	9,890,694	1.33
10. Jordan	8,202,444	1.11
11. Egypt	6,679,453	0.9
12. Netherlands	6,212,374	0.84
13. Hong Kong	5,965,286	0.8
14. Turkey	5,484,641	0.74
15. United States of America	5,369,882	0.72
16. Germany	5,278,089	0.71
17. India	5,122,262	0.69
18. Romania	4,674,007	0.63
19. Korea, Democratic People's Republic	3,590,181	0.48

20.	Korea, Republic	3,342,615	0.45
21.	Tunisia	3,325,762	0.45
22.	Georgia	3,198,092	0.43
23.	Belarus	2,785,650	0.38
24.	Lithuania	2,388,276	0.32
25.	Cambodia	2,337,657	0.32
26.	Kenya	2,261,595	0.31
27.	Taiwan, Province Of China	2,189,300	0.30
28.	Hungary	2,179,030	0.29
29.	Singapore	1,881,237	0.25
30.	Philippines	1,683,560	0.23
31.	Croatia	1,574,477	0.21
32.	Bulgaria	1,567,434	0.21
33.	France	1,382,515	0.19
34.	Pakistan	1,211,166	0.16
35.	Canada	1,208,592	0.16
36.	Mauritius	1,041,240	0.14
37.	Yemen	826,650	0.11
38.	Israel	813,574	0.11
39.	Tanzania, United Republic	754,380	0.10
40.	Ukraine	710,904	0.10
41.	Luxembourg	681,120	0.09
42.	Algeria	639,540	0.09
43.	Zambia	633,226	0.09
44.	Bosnia and Herzegovina	564,480	0.08
45.	Azerbaijan	544,500	0.07
46.	Greece	504,900	0.07
47.	Nigeria	490,728	0.07
48.	Botswana	484,224	0.07
49.	Italy	463,688	0.06
50.	Mozambique	452,366	0.06
51.	Poland	439,716	0.06
52.	Uzbekistan	335,690	0.05
53.	Lao People's Democratic Republic	317,286	0.04
54.	Seychelles	269,986	0.04
55.	Iran (Islamic Republic Of)	242,550	0.03
56.	Serbia And Montenegro	238,340	0.03
57.	Denmark	206,316	0.03
58.	Malawi	199,054	0.03
59.	Angola	191,730	0.03
60.	Portugal	145,134	0.02
61.	Lesotho	19,800	0
<b>Total</b>		<b>74,13,84,000</b>	<b>100.00</b>

Source: Reserve Bank of Zimbabwe, Exports Database (2021).

## Value Addition of the Tobacco

A greater proportion of the tobacco produced in Zimbabwe is exported as semi-processed, with less than 2% being manufactured into cigarettes and/or cigars. Zimbabwe tobacco industry has a potential value of US\$15 billion from cigarettes export (Ministry of Industry and Commerce, 2020). In 2019, a total of 3.1 billion cigarettes were manufactured in Zimbabwe, and over 1.8 billion sticks were exported (TIMB, 2019).

There is scope to develop the tobacco industry in Zimbabwe into at least a US\$ 3 billion-industry, through increased value addition. The shortage of foreign currency that is needed for recapitalisation is a major drawback to value addition. The domestic market is too small to attract many cigarette players. Export markets are generally supported by a solid domestic demand. At a global level, there is stiff competition from big blue-chip manufacturers such as Phillip Morris, Japan Tobacco International and China National Tobacco.

Once of the drawbacks for value addition of tobacco in Zimbabwe is that there are lengthy processes of registration of products under trade protocols, for preferential treatment in regional markets such as Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

## CONCLUSION

The marketing of flue cured tobacco in Zimbabwe has been investigated to establish the impact on the growth in export revenue generated from tobacco exports. The forgoing discussions establish that Zimbabwe should seriously consider adding value to the tobacco that is exported. The country exports unmanufactured flue cured tobacco to very lucrative markets.

China currently accounts for just over 55 percent of Zimbabwe's flue-cured tobacco crop by value and could continue to consolidate its position in the future. With even more of the crop to be produced under contract farming in the future, and bearing in mind the tobacco merchants' preferences, and international debates regarding traceability, there is scope for one or few companies to corner the market. Much as the country is grateful to tobacco merchants for reviving the country's tobacco sector through contract farming, the Tobacco Marketing and Industry Board, as the regulatory authority, has to explore alternative price setting arrangements as an incentive for the tobacco growers.

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