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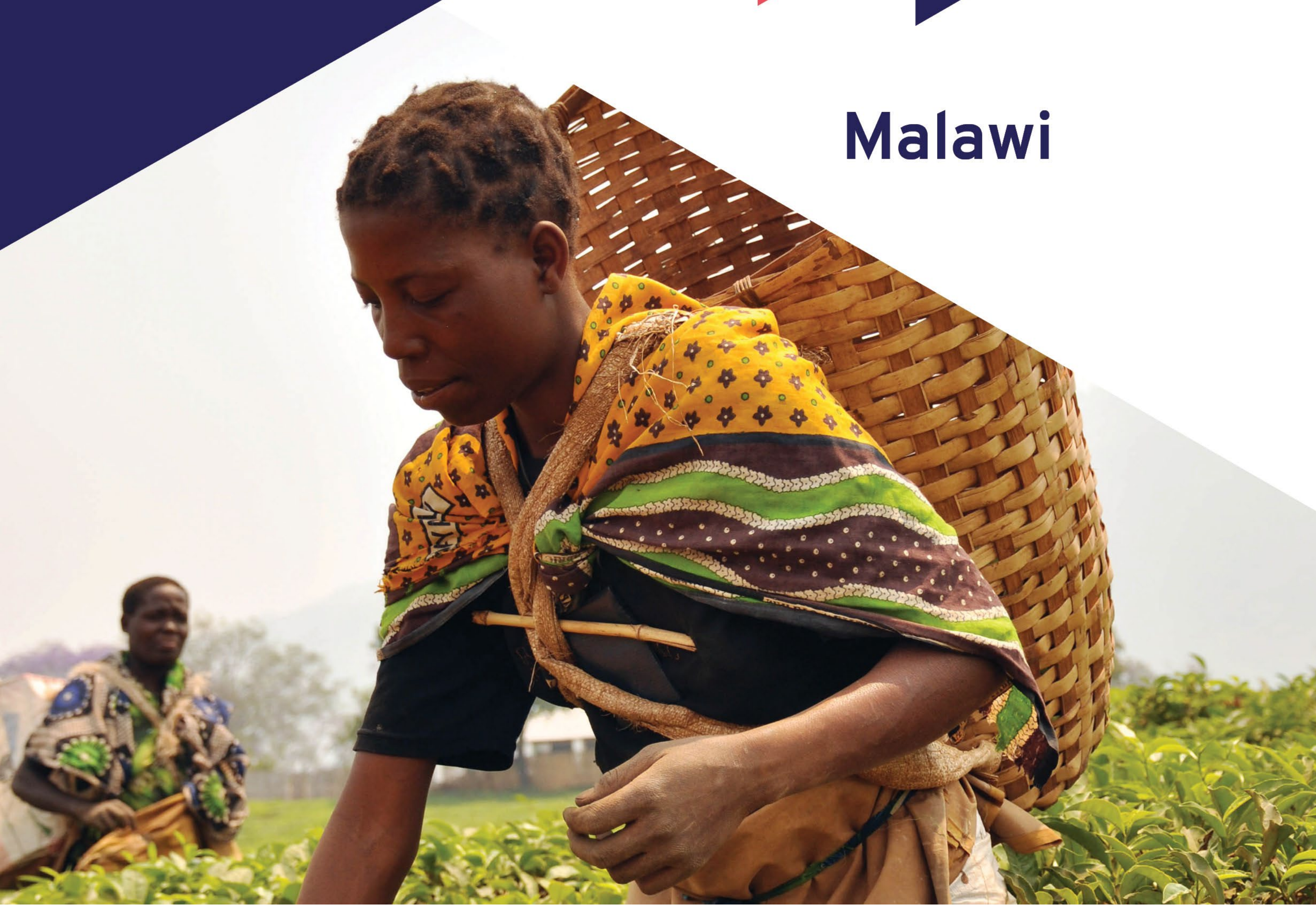
Child labour and the impact of financial services on smallholder tea households in Malawi

Malawi



▶ Child labour and the impact of financial services on smallholder tea households in Malawi

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Acronyms and abbreviations

BAM	Bankers' Association of Malawi
CIC	Community Insurance Company
COMSIP	Community Savings and Investment Promotion Cooperative Union Limited
EHP	essential health care package
EOT	Eastern Outgrowers Trust
FISP	Farm Input Subsidy Programme
FSDS	Financial Sector Development Strategy
FUM	Farmers Union of Malawi
GoM	Government of Malawi
Ha	hectare
HH	household
HIS	Integrated Household Survey
ILO	International labour office
MAMN	Malawi Micro-Finance Network
MASAF	Malawi Social Action Fund
MATECO	Malawi Tea Company
MoFEPD	Ministry of Finance, Economic Planning and Development
MFI	microfinance institution
MNSSP	Malawi National Social Support Policy
MoLYSMD	Ministry of Labour, youth, sport and manpower-development
MNO	mobile network operator
MP	microfinance programme
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MWK	Malawi Kwacha
MZCPCU	Mzuzu Coffee Planters Union

NAP II	National Action Plan on Child Labour
NASFAM	National Smallholder Farmer's Association of Malawi
NCLS	National Child Labour Survey
NGO	non-governmental organization
NSO	National Statistical Office of Malawi
NSSSC	National Social Support Steering Committee
NSSTC	National Social Support Technical Committee
NSTDC	National Smallholder Tea Development Committee
PHL	post-harvest loss
PWP	public works programme
RBM	Reserve Bank of Malawi
ROSCA	rotating savings and credit association
SACCO	savings and credit cooperative
SAT	Sukambizi Association Trust
SCTP	Social Cash Transfer Programme
SMP	school meals programme
STA	Smallholder Tea Authority
STECO	Smallholder Tea Company
TAML	Tea Association of Malawi
TMCU	Timber Millers Co-operative Union
UCSCU	Uganda Cooperative Savings and Credit Union
VSL	village savings and loan programmes/associations
WRS	Warehouse Receipt System

Executive summary

Child labour in farming households in Africa has been very difficult to address. Often national labour legislation does not extend to work on family farms, as the difference between child work and child labour is hard to distinguish. The ILO's ACCEL Africa project has the aim of accelerating the elimination of child labour in Africa through targeted actions in selected supply chains. This research is part of the social finance aspect of the ACCEL Africa project and focuses on Malawi, specifically child labour in tea-growing households in Malawi.

Poverty and socio-economic insecurity are recognized as the major causes of child labour within farming households. This is the case in Malawi where families need to employ their children to make ends meet. There is thus a need for economic empowerment of farming households. This is why the social finance component of the ACCEL Africa project aims to design financial services to address the root causes of child labour in farming households. This research assesses the possible impact of financial services, through expert interviews and desk research, on the livelihood of smallholder tea households and their use of child labour.

To understand the possible impact of financial services, the current financial landscape of Malawi was first analysed to identify which financial providers are offering services to farming households. In addition, the opportunities and challenges of the financial inclusion of farming households and their usage of different products was determined. A needs assessment was then conducted to understand how the livelihoods of farming households are organized, and what risks and constraints they face in both the household dynamics and their production system.

During the needs assessment, the livelihood constraints of the average households were analysed and the relevance of these constraints for tea-growing households in Mulanje and Thyolo was considered. The last chapter of the study assesses whether financial services could be used to address these needs, as well as the use of child labour. The study concludes with specific recommendations on what to consider when designing financial services for tea-growing households.

Financial landscape of Malawi

The financial landscape of Malawi can be categorized into formal, semi-formal and informal institutions. Formal institutions include commercial banks and insurance companies; semi-formal institutions include microfinance institutions (MFIs) and cooperatives; while informal institutions include saving groups such as village savings and loan associations (VSLAs) and rotating savings and credit associations (ROSCAs), as well as individual moneylenders such as *katapila*. In addition, there are several other institutions in the financial landscape that are not official "financial service providers" but do provide financial products to a range of clients, the most important being mobile money providers as well as value-chain actors such as input providers and farmers' associations, among others.

Most providers and products in Malawi are aimed at (semi-)urban clientele with higher-than-average incomes, such as salaried employees or (successful) small and medium-size enterprises (SMEs). With the majority of adults (around 80 per cent) in Malawi living in the rural areas and 51.5 per cent living below the poverty line, many are excluded from these financial services. As a result, rural households in Malawi mostly make use of informal financial services. VSLAs are the most effective in extending financial services to smallholder households. Their success is related to their low threshold to participate, low (transaction) costs and the fact that they are strongly rooted in the community.

Financial inclusion of smallholder households

Only 30 per cent of farmers in Malawi are financially included, meaning they use formal or semi-formal products.

The FinScope comsumer survey of 2014 found that around 39 per cent of farmers save. Savings help them to manage their fluctuating cash flows; motivations to save include paying for living, medical and farming expenses. The main providers of saving products are banks and VSLAs, and farmers mostly use VSLAs, since they are more affordable and accessible.

Twenty-eight per cent of farmers have access to credit. Like savings, credit products are mainly used to smooth consumption. Formal and semi-formal institutions are often inaccessible due to distance and also have hard-to-reach eligibility requirements and high interest rates. Farmers therefore mainly borrow from family and friends or *katapila* (moneylenders).

Insurance products are almost non-existent in the rural areas of Malawi, where there are no affordable and accessible products offered to smallholder households. In addition, there is limited awareness on the part of farmers as to what insurances are and how to use them.

The use of mobile money has been rising in the rural areas, mainly for airtime purchases, money transfers, bill payments and remittances. It is popular because of its low cost and wide outreach. However, not everyone has access to mobile money. Only 52 per cent of the population in Malawi and 28 per cent of rural women own a mobile device.

A barrier to the financial inclusion of rural households is the low levels of financial literacy. Households do not know how to effectively use financial resources. There is thus a strong need for financial literacy training.

The main barriers to the usage of (formal) financial products thus include lack of proximity, affordability, appropriateness and financial literacy.

Livelihoods of farming households in Malawi

Around 93 per cent of the population in Malawi is involved in farming activities. Farming households struggle with high food insecurity, poverty and limited access to healthcare. On average they spend around 50 per cent of their income on food and 5–17 per cent on social services. Members, on average five per household, divide their time between productive and domestic tasks, as well as childcare and education (68 per cent of the rural population is literate). Around 27 per cent of households are female-headed.

Smallholder farmers in Malawi own on average 1.4 hectares (ha) of land. The smallholder production system can be divided into food-generating and income-generating activities. Most crops are grown for households' own food consumption. The main food crop is maize, which occupies 60 per cent of the land. Besides food sales, households generate income through agricultural wage labour *(ganyu)*, off-farm wage labour, micro to small businesses, and remittance and/or safety net transfers.

Production constraints include limited access to land, inputs, extension services and labour, as well as high vulnerability to weather-related shocks. In addition, the farmer production system is highly seasonal, which results in a returning lean season during the rains when there is no harvest. During the lean season the price of maize doubles, resulting in even more food insecurity. In addition, most production and household expenses are due during the lean season, and many households do not have access to financial products to help them smooth expenses and mitigate risks.

Tea-growing households in Mulanje and Thyolo

Tea is Malawi's second most valuable export product and the largest formal employer. Most tea is grown on large estates; only 7 per cent is produced by the 16,500 smallholders. Most tea is grown in the southern districts Mulanje and Thyolo, the focus areas of this report.

The tea smallholder production system is organized in out-grower schemes (contract farming). This guarantees farmers with a reliable market and timely income. However, it also makes them vulnerable to exploitation, as they depend on private estates for off-take, inputs and extension services. They have limited bargaining power when it comes to the conditions of their contracts.

Tea-growing households live in the most densely populated area of Malawi with the highest poverty rate (69 per cent). There are more female-headed households (35 per cent) than the national average, which is partly a result of the higher migration levels. In addition, the disease burden is higher with a HIV rate of 20.6 per cent, which leaves more children orphaned (16 per cent).

Tea farmers have smaller land plots (0.5 ha) and focus more on cash crops. As a result, they are able to grow only four months' worth of their own food consumption (mainly maize) and are thus more reliant on food purchases. Tea production accounts for 70 per cent of their income. Most tea is produced during the wet season. Tea-growing farmers also have limited access to land, input and labour. In addition, they have higher labour costs since tea production is more labour-intensive.

While child labour seems to be abolished from tea estates, child labour amongst smallholders is more accepted. The tea-growing areas have the highest child labour prevalence (43 per cent), which correlates with the higher poverty levels and higher labour constraints.

The limited access to productive resources has led to low productivity in tea-growing households. In addition, high flood risks, rising temperatures and land degradation have led to an even lower maize yield with higher crop losses. This makes southern households more food-insecure and more reliant on food purchases.

Since most tea income is earned in the lean season when food prices are high, households are left with little money to pay for other expenses. Besides, the base price for green leaf is far too low. At US$0.15/kg, tea-growing households are not able to make a living income. Moreover, tea-growing households are even more financially excluded than the average smallholder household. Credit services are mainly provided by estates and smallholder associations. These products are limited to agricultural loans for tea inputs, which is mostly input on credit. The increased productivity from the input provided by estates does not generate enough income for farmers to cover their costs and as a result they are trapped in loan spirals. The value-chain actors do not provide any other financial services besides agricultural loans. Only one MFI (CUMO) which offered credit products to tea-growing households was found in the course of research for this study, but several saving groups were active in the area.

Finances and smallholder tea households

The livelihood constraints influence how households spend their money. High production risks, limited opportunities for capital accumulation and societal constraints make households risk-averse. They focus on food security and only use financial products to pay for short-term cost.

Possible impact on household and societal constraints

The main household and societal constraints that tea-growing households face are related to poverty, food security, health, education and women's empowerment.

Credit products can increase the earning capacity of households and thus improve their general well-being. In addition, credit and savings products can help cope with (un)expected (health) shocks and allow households to stay focused on their high-return activities instead of selling assets or labour. Furthermore, savings can help to smooth consumption and build assets for future investments.

Mobile money, informal saving groups and some MFI programmes have proved to have a positive effect on education, women's empowerment and health.

Possible impact on production and market constraints

Production constraints for smallholder tea households in Malawi include lack of productive resources, strong seasonality, a focus on food security, production risks, price fluctuations, lack of access to extension and information services and lack of access to (stable) markets.

Credit and savings products can enable farmers to invest in productive resources. Furthermore, health insurance could improve the family labour supply.

Households are in need of a financial buffer to smooth consumption during the lean season. This could be provided by credit and savings products or the Warehouse Receipt System (WRS), where farmers are provided the opportunity to store their produce so they can sell when prices are better. In addition, products sold through mobile or digital channels can help reduce transaction costs and increase access to market (information). Targeted financial products could also help tea farmers to improve their bargaining power as well as enable them to invest in their own processing factory.

Possible impact on financial constraints

Smallholder tea households are in need of money management tools and financial services that help smooth consumption and pay for expenses. However, many rural households are excluded from the financial system.

Informal services are a good entry point into the financial landscape. They introduce a culture of saving and give opportunities to build assets, which can be used as collateral. They also improve the financial literacy of members.

Providing financial services through value-chain actors is another way to increase financial inclusion of smallholders. Value-chain actors understand the smallholder production system and are willing to take more risks since they are better able to assess the farmers' financial situations. Finally, mobile money also provides an opportunity to increase the financial inclusion of smallholders, once uptake of mobile phones increases.

Possible impact on child labour

Financial services can have a positive impact on poverty and inequality, which are some of the most important root causes of child labour. However, to make an impact, financial providers need to include those households that use child labour, but this does not currently take place. Furthermore, the opportunity cost of the service needs to be considered: does it add benefit to work or to education?

Sometimes financial services increase the relative return of working which could lead to an increase in child labour.

Child labour is often used as a coping mechanism to deal with shocks. Risk-reducing finances such as savings, credit and insurance can thus limit the use of child labour as a buffer. However, to address the cultural determinants of child labour it is important to couple financial services with training and guidance. A good way to do this is through VSLAs.

Labour constraints are another important cause of child labour. Credit or health insurance or health insurance products which improve the labour supply can therefore also positively impact child labour.

Negative impact of financial services

Apart from all the barriers and problems in accessing financial products, there is also a critique on whether financial services are the best way to improve the livelihoods of smallholders in Malawi. Financial services can trap households in loan spirals and put them in debt. Furthermore, increased financial inclusion could expose households to more risks due to Malawi's unstable financial landscape. Also, financial inclusion policies often lead to more inequality, as the services tend to be accessible only to better-off households. To mitigate such unintended consequences, financial services should also integrate mitigation measures to reduce the risk of increasing child labour or exacerbating gender-based violence issues within the household, or overindebtedness[1].

Lastly, many livelihood constraints cannot be solved by financial services alone.

Conclusion and recommendations

The main challenges to the provision of finance to smallholder farmers in Malawi are a lack of affordable and accessible products and the gaps and constraints between the products offered and the demands and needs of smallholder tea households. The limited products offered to smallholder tea farmers focus on productivity increase, while the extensive needs assessment shows that the financial needs of tea-growing households are related to consumption smoothing, risk protection and money management. Besides, an increase in productivity can actually lead to more child labour. The main conclusion of this research is that financial services have the potential to positively impact the livelihoods of tea-growing households and diminish their use of child labour so long as such services are demand-driven and coupled with social services and capacity-building training. However, both the supply and the demand actors are risk-averse and tea farmers are very constrained in their income. The question therefore remains whether the actors are willing to engage with financial services. Therefore, this study recommends a first focus on risk reduction and an improvement in the earning capacity of tea farmers before designing financial services.

1 ILO and UNICEF Office of Research – Innocenti, The role of social protection in the elimination of child labour: Evidence review and policy implications. Geneva and Florence: International Labour Organization and UNICEF Office of Research – Innocenti, 2022.

Introduction

Worldwide, 160 million children are victims of child labour. Half of these children live in Africa, where 20 per cent of all children are involved in child labour. This is in stark contrast to other regions where the prevalence is between 3 and 7 per cent. Where globally child labour has decreased, sub-Saharan Africa has witnessed a rise in child labour (ILO and UNICEF 2021), and now the numbers are rising even more, partly as a result of the COVID-19 pandemic (Elder 2021).

When we think of child labour, most people imagine young children working long hours in dirty factories. In reality, over 70 per cent of child labour is found in the agricultural sector (ILO and UNICEF 2021). In addition, most of these children are not employed but work on family farms, in homes or in the family business. These "hidden" forms of child labour are often not included in employment statistics, which means there is little information on this form of child labour (Webbink, Smits, and de Jong 2010). Besides, with hidden child labour it can be difficult to distinguish the difference between child work and child labour, since there is often a cultural discrepancy between the international and local definitions of child labour. It is often not clear at what point a child helping his or her parents becomes a child involved in child labour. In addition, the African agricultural sector tends to be unregulated and national labour legislation does not extend to work on the family farm. This makes it very difficult to enforce hidden child labour in this sector.

If the world wants to reach SDG Goal 8.7, which calls for the elimination of child labour by 2025, there needs to be a focus on farming households in Africa (ILO 2019a).

As the UN agency which sets the international labour standards, the International Labour Organization (ILO) has led the global effort to address child labour. The ILO encourages its Member States to put in place appropriate legal and policy frameworks and work with governments, social partners and civil society to implement projects aimed at tackling child labour through various interventions. To address the high percentage of child labour in African agriculture, the ILO has introduced the project "Accelerating Action for the Elimination of Child Labour in Supply Chains in Africa" (ACCEL Africa), which is funded by the Ministry of Foreign Affairs in the Netherlands. The overall goal of this project is to accelerate the elimination of child labour in Africa, through targeted actions in selected supply chains in Côte d'Ivoire, Egypt, Malawi, Mali, Nigeria and Uganda. Eventually, the project aims to support the design of financial services coupled with other productive and welfare services in selected agricultural supply chains that address the root causes of the use of child labour.

This research is part of the social finance aspect of the ACCEL Africa project and focuses on Malawi, specifically child labour in tea-growing households in Malawi.

Problem statement

Child labour is a prominent problem in Malawi. The latest national child labour survey (NCLS) in 2015 found 2.1 million children between the ages of five and 17 in child labour; 65 per cent of these children work in agriculture while 84 per cent is unpaid family work and can thus be considered "hidden" child labour (ILO and NSO 2017).

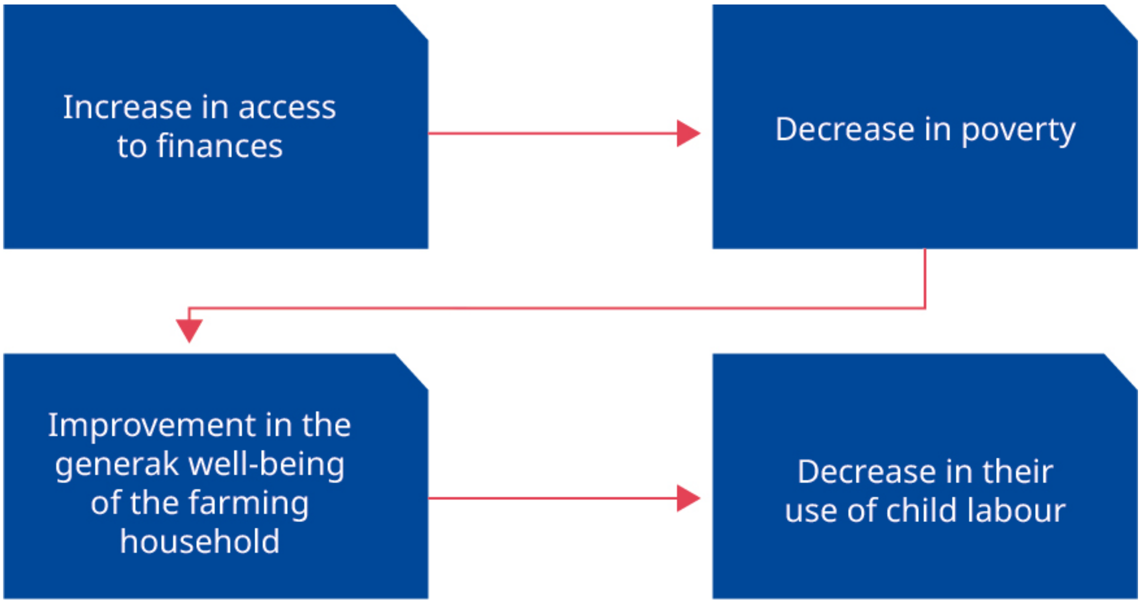
The negative consequences of child labour can be far-reaching. Children are often exposed to safety hazards and have physical and mental health issues: they are subjected to (economic) exploitation and the work negatively affects their education and can even deprive them of it. Furthermore, child labour can perpetuate poverty since children who are deprived of education or a healthy physical development are likely to become adults with low earning prospects (Hilowitz et al. 2004). Child labour thus prevents the country from growing a future skilled labour force. This has a direct impact on the development of the country as a whole, since an abundance of a low-skilled labour force discourages the adoption of skill-intensive technologies. This further discourages the accumulation of human capital, which negatively impacts economic growth in the long run (Edmonds 2015). It is estimated that the income of an average person increases by 11 per cent for every additional year that person (child) stays in school (Muthali 2012). By depriving children of human development the country as well is deprived of economic development in the long run. Furthermore, employers often hire children because of the lower wages, replacing adult workers with child workers. The widespread use of child labour could then lead to lower wages for all workers, creating a cycle of poverty (Edmonds 2015).

In the past, the ILO focused mainly on legislation and sanctions in its approach to the elimination of child labour. As a result, international and national legislation has been adopted in Malawi and a total ban on child labour is in place. However, since Malawi's ratification of the Worst Forms of Child Labour Convention, 1999 (No. 182), child labour has only risen. Back in 2002, the NCLS found 1.4 million children in child labour, which means that by 2015 the incidence of child labour had increased by approximately 50 per cent. Furthermore, the relative percentage of child labour in Malawi stayed practically the same (37 to 38 per cent). Therefore, it would seem that ILO efforts to diminish child labour in Malawi have not been very effective.

The failure of legislation and programmes is partly due to a lack of strong enforcement and monitoring mechanisms. These remain a major challenge, especially since most child labour takes place in the informal economy outside formal inspection regimes (ILO 2018a). Besides, formal legislation often has little meaning for local communities, who are often unaware of its existence; and many households do not know the difference between child labour and child work (Malawi, Ministry of Labour 2019). To really combat hidden child labour within farming households, a more bottom-up approach is needed with a focus on addressing the root causes of child labour in households.

Household poverty and socio-economic insecurity are globally recognized as the major causes of child labour. Families need to employ their children to make ends meet. There is thus a need for the economic empowerment of households in order to diminish their use of child labour (ILO 2018a). One of the main constraints for the economic empowerment of rural households is access to finance. Rural households in Malawi tend to be excluded from the financial sector. Therefore, the social finance component of the ACCEL Africa project aims to design financial services coupled with other productive and welfare services that address the root causes of the use of child labour in supply chains. Here the ILO assumes that an increase in access to financial services would lead to a decrease in poverty and an improvement in the general well-being of the farming household, which would positively contribute to the disappearance of child labour.

▶ Figure 1. Theory of change



Research aim

The aim of this research is to test this assumption and assess the possible impact of financial services on the livelihoods of farming households in order to understand how they would affect the household's use of child labour.

To understand the possible impact of financial services, the first need is to analyse the current financial landscape of Malawi and identify which financial providers are offering services to farming households. This analysis will help to understand the opportunities and challenges in the inclusion of farming households in this financial landscape. The next step is a needs assessment to understand how the livelihoods of farming households are organized, and what risks and constraints they face in both household dynamics and their production system.

The original research plan was to focus solely on tea-growing households in Malawi. However, because of obstacles described in Chapter 2, access to the tea industry was restricted. Therefore, research focused on the livelihood constraints of the average farming household in Malawi and made an analysis, based on existing studies and high-level interviews, of the relevance of these constraints for tea-growing households in Mulanje and Thyolo. Once a clear picture emerged of the needs and constraints in the livelihoods of smallholder tea households it was possible to assess whether financial services could be used to address these needs, and to better understand how financial services would impact the livelihoods of farming households and specifically their use of child labour.

The following research questions were formulated.

Main research question

What is the potential impact of financial services on the livelihoods of smallholder tea households and their use of child labour?

Sub-questions

- *How is the financial landscape of Malawi organized?*
- *What are challenges and opportunities for the inclusion of farming households in this landscape?*
- *What are the needs and constraints in the livelihoods of smallholder tea households?*
- *How could financial services meet the needs of smallholder tea farmers?*
- *How would financial services impact the use of child labour within smallholder tea households?*

Structure of the report

This report has nine chapters. The first chapter describes the existing literature and theory around financial empowerment and child labour, as well as highlighting some of the root causes of child labour. This theoretical framework underlies the results and final conclusion of this report. The second chapter contains the methodology. Here the research design and the research methods are outlined, as well as the research ethics. The third chapter describes the country context of Malawi before diving into the answers to the main research question. Chapters 4–8 are the empirical core of this study. Chapter 4 describes the financial landscape of Malawi, as well as some of the challenges and opportunities in the inclusion of farming households from the supply side. Chapter 5 considers these challenges and opportunities from the demand side. Chapter 6 provides a detailed description of the livelihood constraints of farming households in Malawi, while Chapter 7 relates these constraints to tea-growing households. Chapter 8 then considers the possible impact of financial services on these livelihood constraints and their use of child labour. Finally, Chapter 9 concludes the report with final considerations and recommendations which provide an answer to the main research question.

1. Financial empowerment and child labour

At the basis of most theories on child labour is the assumption that it is caused predominately by poverty. Income-deprived households are reliant on their children to work. Several economic studies have indeed shown the strong correlation between poverty and child labour (Admassie 2002; Grootaert and Kanbur 1995; Edmonds and Schady 2012). This could imply that the simple solution to child labour is financial development. In theory, the financial empowerment of households would lead to an additional income which means children no longer need to work.

However, several studies have shown that income growth does not necessarily lead to a decrease in child labour and in some cases even increases it (Dumas 2007; Bhalotra and Heady 2003; Ravetti 2020). It has become clear that other factors also influence the potential effect of financial empowerment on child labour.

In this chapter some of these factors are discussed and the theory on financial empowerment and child labour is analysed.

▶ 1.1 Income change and child labour

The theory of change, where more income would lead to less child labour, is an example of an "income effect". From a theoretical perspective there are two channels that link income and child labour. These are "income effect" and "substitution effect" (Ravetti 2020).

With income effect, the act of forgoing child labour is seen as a luxury good, meaning that you can only afford to forgo child labour when all other needs are met. Higher income should therefore increase the chance of households renouncing child labour. However, this mechanism presumes that parents prefer sending their children to school over letting them work. Here it is believed that the only reason that children are working is because parents cannot afford to abandon child labour if their income is below a certain threshold. This implies that households will abandon child labour as soon as their income rises sufficiently (Ravetti 2020). This "poverty hypothesis" is debatable. The determinants of child labour are complex and often include cultural factors. For example, parents tend to see work as an important way of teaching their children valuable skills and norms. Besides, the positive returns of schooling are often overlooked or not seen as important, especially for girls. The income effect theory is thus short-sighted.

How tasks and activities are allocated between the members of a household is not determined by income alone. There is also an "intra-household substitution effect"; this considers the relative productivity and potential earning of each family member. The relative cost of the alternative activity − in the case of children, education − is measured up to the perceived benefits of working (Ravetti 2020).

When designing interventions, it is important to understand whether they raise the relative costs or benefits of child labour. Income-generating opportunities could, for example, increase the benefits of working and thus increase the demand for child labour. Whether this is the case depends on the characteristics of the households and at the same time on the socio-economic and cultural environment of the country.

1.2 Household mediating factors

There are several household mediating factors that influence whether a change in income can lead to an increase or decrease of child labour within the household.

First, the economic conditions of the household matter. Bhalotra and Heady (2003) found that land-rich families tend to employ more child labour than land-poor households. This is the "wealth paradox" that challenges the common perception that child labour is found predominantly with the poorest households. These findings are in line with a general trend where households that own a family business, farm or other assets tend to invest in their productive activities when they have access to more income. These investments increase the relative benefits of working and have the possible effect of increasing child labour. This is especially the case in countries with an imperfect labour market, where it is difficult to hire labour (Coulibaly 2016).

Cultural perceptions on the benefits of work play a role here. When parents perceive work as the primary way to transmit norms, values, farming skills and knowledge to their children, an increase in income would not directly lead to a decrease in child labour. In these situations, parents perceive the returns of education as low (Ravetti 2020). The value given to education is also influenced by its quality. In rural areas the quality of education is often low, with overcrowded classrooms and badly qualified teachers. Besides, education can be costly and inaccessible in terms of distance and infrastructure. As a result, parents may believe that their child is better off working than in school.

Power dynamics within the households also influence the effect on children of an income increase. There are studies that suggest that women have a higher concern for the well-being of children than men. If this is the case, the benefit of the children from a larger income would be greater if the women in the household had a say in the allocation of expenditure (Ravetti 2020). Whether it is related to gender or not, who is in charge and what their beliefs are matter in the allocation of income. For example, the value given to education is related to the education level of the household head(s). Children in households of which the head is educated are more likely to be in school and less likely to be involved in child labour. In addition, Webbink, Smits, and de Jong (2010) found that children of educated mothers spend a lot less time on housework, and the value given to a girl's education is a lot higher.

Next, there are restricting conditions in household livelihoods that lead to a higher opportunity cost for education. Labour-constrained households, where for example household members are too ill, old or young to work, rely heavier on their children for income. Female-headed households tend to be more labour-constrained than male-headed households, resulting in more child labour in female-headed households (Buvinić and Gupta 1997). An income increase in these labour-constrained households will not by definition lead to less child labour, especially when there is an imperfect labour market with a low supply of adult labour. Furthermore, in some sectors that lack supervision, families run the risk of moral hazard from hired labourers. In these cases, parents have more confidence in their children. This again increases the opportunity cost of education (Coulibaly 2016).

Furthermore, vulnerable households, with high risks of income loss due to unpredictable "exogenous" events, will also have higher benefits from child labour, since in most cases child labour is used as a buffer against the shock. This could for instance be in case of a sudden crop loss, or price and weather shocks (Ravetti 2020).

▶ 1.3 Socio-economic mediating factors

Besides household characteristics, the socio-economic environment of the country also has a large impact on how financial development policies may impact child labour.

Market conditions

Market imperfections in labour, price and credit influence the impact of income change on child labour. The previous section has already mentioned how labour market imperfection can have the effect of parents relying on their children for labour, due to shortage in hiring labour or to moral hazard. On top of that, many countries with a high percentage of child labour have economies that run on low-skilled labour. In these economies there is a high demand for unskilled workers, and children are unskilled and cheap. The chance of unskilled workers moving up to more decent work is small, which means they remain poor and will likely also be forced to make their children work in the future. The demand for unskilled labour reduces the returns and appreciation of education (Ravetti 2020). Conversely, reduction in the importance of low-skill production contributes to a reduction in the demand for child labour (ILO 2018a).

Imperfect credit markets also influence the use of child labour in that households cannot borrow the equivalent of lost income from schooling (Ravetti 2020). Besides, credit restrictions are especially problematic for those households that use child labour as an insurance mechanism to smooth income shocks (Dumas 2013). In countries where there are high production risks, inflation and price instability, child labour is used by poor and middle-class households to compensate for lost purchasing power. Children are pulled out of school to help smooth consumption; the future returns from the child's schooling are traded against the current household income from child labour (Dehejia and Gatti 2005). Rich households have better access to financial instruments, which makes them less vulnerable to these (price) shocks (Coulibaly 2016). In line with this, Beegle, Dehejia, and Gatti (2006) find that the extent to which child labour is used as a buffer is lower with households who have access to credit. An improved credit market could thus decrease the use of child labour.

To conclude, poor and middle-class households are especially inclined to use child labour in countries with imperfect credit and labour markets and where there are high risks of (price) shocks. Policies on financial development should keep these market conditions in mind.

1.4 Inequality and institutional capacity

Child labour in households cannot be explained only by unequal distribution of income; it is also a result of inequality in opportunities. These households have limited access to quality education, high-paying jobs and information about the returns on education. A positive link between inequality and child labour has been confirmed by several studies (Tanaka 2003; D'Alessandro and Fioroni 2016). Financial development policies can reduce poverty and inequality if they take a pro-poor approach and focus on increasing access to finance for the poor rather than the rich. These services should enable poor households to finance their projects and smooth their income and, in this way, reduce poverty and inequality (Coulibaly 2016). However, Coulibaly finds that the poor tend to be excluded from the benefits of financial development. As a result, these services end up benefiting only the rich and thus increasing inequality.

The strength of institutions and the quality of governance of a country have a huge impact on who can benefit from financial development (Coulibaly 2016). In some countries with a lack of checks and balances, elites have prevented the poor from benefiting from the financial system. Even if there is a political will to implement policies, countries with low institutional capacity often lack the resources to do so.

To conclude, financial development will be most successful in a country with low inequality and strong institutions that are capable of providing public services. Financial development has the potential to decrease inequality if it takes a pro-poor approach and when it controls for corruption.

Furthermore, when designing financial development policies with the aim of diminishing child labour, it is important to consider all household and socio-economic mediating factors as well as the opportunity cost of education. Does the service add benefit to working or to education? The root causes of child labour that are relevant in the context of Malawi are shown in box 1.

Box 1. Root causes of child labour in farming households in Malawi

Household poverty and socio-economic security

- Families need to employ their children to make ends meet.

Difficulties in accessing (quality) education

- Education is not accessible in cost and infrastructure.
- Bad quality of education leads to parents underappreciating the value of education.

Socio-cultural beliefs and norms

- Household head does not see the economic value of education (especially not for girls).
- Households see work as an important method to teach children norms, values, farming skills and knowledge.

Vulnerability and limited access to risk-mitigating services

- Child labour is a coping mechanism to deal with shocks and risks-
- Limited options for households to mitigate risks -
- Limited access to financial and social services-
- Limited access to basic services (electricity, tap water, etc).

Labour-deprived households

- Child labour as a solution to labour constraints in households.

High demand for unskilled labour

- Child labour among 14–17-year-olds because there are no “non-hazardous” jobs available.
- Demand for unskilled labour perpetuates child labour.

2. Methodology

This research was originally intended to be an ethnographic case study of the root causes of child labour in smallholder tea households, with the aim of deducing the possible impact of financial services. The plan was to collect data in three different villages in Mulanje and Thyolo, through (participant) observation, interviews and focus groups.

However, it quickly became clear that access to the tea industry in 2019 was not going to be easy. The United States had suspended tobacco imports from Malawi after child labour allegations, and there was enhanced sensitivity around the issue of child labour across all other industries, including the tea industry. The Tea Association of Malawi (TAML), the organization that regulates and coordinates the tea industry in Malawi, was hesitant to work with the researchers, and without its collaboration it would be difficult to access actors in the tea sector. It was therefore decided to reshape the research in such a way that child labour was no longer at its centre, and instead to focus on understanding the financial needs and livelihood constraints of tea-growing households.

The sudden rise of the COVID-19 pandemic then led to another change in scope, since after a short period in Malawi it was no longer possible for the study to carry out ethnographic research, retrieving first-hand information from farmers about their household needs. It was therefore decided to focus more on the financial aspects to assess the supply of financial services in Malawi and understand the financial inclusion of farming (tea) households. The livelihood constraints of “average” farming households in Malawi would be examined first, based on existing literature and data, and expert interviews by telephone, on the assumption that most of these constraints would also be applicable to tea-growing households. This research focused on the south of Malawi, since Mulanje and Thyolo are based in the south.

▶ 2.1 Methods

This research is therefore based on extensive desk research as well as semi-structured interviews with experts and stakeholders.

Interviews

In total, 28 interviews took place with 26 informants. Six of these interviews were held in Malawi in person, the others by telephone. Ten interviews were with financial service providers or experts on the financial landscape of Malawi, 12 with NGOs and representatives of international organizations, one with a government official, one with a director of an employee association and four with stakeholders from the Uganda tea industry (to test similarities). The list of informants can be found in Annex 1. The experts and stakeholders interviewed were found not only through ILO contacts but also through snowball sampling, asking every informant to provide contact information of another possible informant.

The interviews were semi-structured, that is, based on an interview guide, which enables the different interviews to be compared and more generalizable data to be obtained, while at the same time leaving space to follow new leads.

The group of informants was divided into two elements: financial service provision and household need assessment. The goal of the interviews with financial service providers was to understand the financial landscape of Malawi and the challenges in the financial inclusion of farming households. The goal of interviews with the other stakeholders was to collect information on the livelihood constraints of farming households in Malawi. From both groups of informants, the aim was to understand their perspectives on what kind of services are needed to address the livelihood constraints of farming households (including child labour) and how these services should be developed. The interviews were also used to cross-verify data found during the desk research.

All the interviews were recorded and transcribed. Since their number was small, it was decided not to use data analysis tools but instead to analyse the data in broad categories, for example: “Needs addressed by provider”, “Challenges for the provider”, “Challenges for farming households”, “Financial products required”, and so on. Within these categories patterns in thoughts and perceptions were observed and recorded, as well as quotations on specific themes or issues.

Desk study

Due to the impossibility of carrying out field research, desk research became the primary research method, drawing on articles, books and reports and using quantitative data from surveys and databanks. Eventually, this led to an extensive overview of the financial landscape of Malawi as well as the livelihood constraints of the average farming households in the country. There was limited existing literature on the livelihood constraints of tea-growing households, but a comprehensive picture of the livelihoods of tea-growing households in Malawi has emerged which could be used as a starting point for future in-depth research.

Research tools

To facilitate future research based on this report, two research tools have been designed. The first is a *capacity appraisal tool* which can be used to assess potential services and their providers in their capacity to improve the livelihoods of farming households. It can help to select providers with whom to partner and develop innovative (financial) services. Providers and products are assessed on their potential for partnership based on two criteria: product appropriateness and institutional capacity. The tool contains a list of criteria that providers and products need to meet, as well as a blueprint with systematic questions that can help derive relevant information for the assessment. The capacity appraisal tool can be found in Annex 4.

The second tool contains *interview guides* to facilitate research on the demand-side capacity assessment of financial services for smallholder tea households in Malawi. The tool contains both an “expert” interview guide as well as a “community” interview guide. The goal of the interviews is to understand the main (financial) needs and constraints of smallholder households throughout the year, the impact of these constraints on their livelihood and household members, their financial situation and access to finances, and finally what services are needed (according to experts/the farmers themselves) to improve their livelihoods and reduce their use of child labour. While the expert interview was tested on tea stakeholders in Uganda, the community interview still needs to be tested. The interview tool can be found in Annex 3.

2.2 Ethics and limitations

The names of the informants of the financial providers and NGOs have been provided, with their consent. However, the names of the tea stakeholders (four from Uganda and one from an NGO) have been anonymized due to the sensitivity of the tea industry.

There are several limitations to this research. The most obvious is the limited pool of informants. Due to the constrictions described above, it was possible to interview only experts, financial providers and NGO staff. First-hand information from farming households is lacking, as well as first-hand information from stakeholders in the Malawi tea industry.

Moreover, digital interviews have limitations. For example, it is not possible to observe a person's behaviour and body language, which can often provide additional information. Besides, often the conversation does not run as smoothly as it would have in person due to connectivity problems and limited ability to make a personal connection over the phone.

Lastly, a major limitation is that many of the surveys and quantitative data used in this report are outdated. There is a strong need for new surveys, especially on the topic of financial inclusion and child labour.

3. Country context

Malawi is a landlocked country in south-eastern Africa. Its nickname “the warm heart of Africa” reflects the friendliness of its population of around 19 million people (Worldometer 2021).

Malawi was colonized by the British in 1891 and became independent in 1964. The remains of colonialism are still very noticeable; English is the official language, and the agricultural industry is ruled by large estates that operate similarly to those in colonial times (Smith and Lee 2018).

Malawi is one of the poorest countries in the world, with 51.5 per cent of the population living below the poverty line (Malawi, Ministry of Labour 2019). The economy is agriculture-driven, with one-third of GDP and 90 per cent of the export revenue coming from agriculture. About 80 per cent of the population lives in the rural areas. Most people live in the south; the north is the most sparsely populated. Malawi is heavily donor-dependent and suffers from many development challenges, including high HIV/AIDs prevalence, vulnerability to exogenous shocks, low life expectancy, hunger and high levels of illiteracy (World Bank 2021).

In general Malawi is a very peaceful country; it has had a stable government since independence. However, corruption is a major problem. In 2020, the Court of Malawi took a stand against corruption when it annulled the results of the 2019 election due to widespread irregularities. Malawi then became the first African country where an incumbent president lost in a court-ordered re-run election (BBC 2020).

▶ 3.1 The tea industry

The tea industry in Malawi dates back to 1891, when it was introduced by the British. Now Malawi is the third largest tea producer in Africa, after Kenya and Uganda. Tea is Malawi’s second most valuable export product, behind tobacco, and accounts for 10.4 per cent of total exports, US$90.8 million in value in 2017 (OEC 2017). The tea industry is also important because it is the largest formal sector employer in Malawi, with around 50,000 people working in the tea gardens and 16,500 smallholder growers (ETP 2019). The sector is thus a significant player in the rural labour market, where salaried jobs are scarce.

In 2017, 93 per cent of the tea was produced on the 21 commercial estates that are owned by only eight large companies; the rest is produced by the smallholders (Workforce Disclosure Initiative 2018). Tea production is done on a total area of 18,000 ha of which approximately 11 per cent is occupied by smallholders (Du Toit, Nankhuni, and Kanyamuka 2018). Most tea is grown in the districts Mulanje and Thyolo, which is also the area that this report focuses on when examining tea households.

▶ 3.2 Child labour in Malawi

High poverty levels often strongly correlate with child labour prevalence (ILO 2018a, 2017b). This is also the case in Malawi, where 2.1 million children aged 5–17 in Malawi are engaged in some form of child labour; this is 38 per cent of the total age group (ILO and NSO 2017).

Defining child labour

Not all work done by children is classified as child labour. Whether work is so defined depends on the child's age, the type of work, the number of hours at work and under which conditions the work is performed. The specifics also depend on the national legislation (ILO 2019b).

In Malawi, the Employment Act of 2000 states that "no children under 14 can be employed or work in any public or private agricultural, industrial or non-industrial undertaking". This rule does not apply for work done in homes, vocational technical schools or other training institutions. The Act also states that children between the ages of 14 and 18 are not allowed to work in "any occupation that could be harmful to the health, safely, education, morals or development of the child" or that could be "prejudicial to his attendance at school or any other vocational or training programme" (Malawi, Ministry of Labour 2000).

This means that between the ages of 14 and 18 children are not allowed to do hazardous work. Hazardous work includes working in designated hazardous industries, working in designated hazardous occupations, working more than 40 hours a week, or working under other hazardous conditions. In the agricultural context, hazardous conditions include carrying heavy loads, handling pesticides, working with sharp tools and/or dangerous machinery, risk of injuries from animals and exposure to extreme environmental conditions (ILO 2019b).

An amendment to the Employment Act in 2012 on the prohibition of hazardous work for children added that "a person between 14 and 18 who is enrolled in school may not work for more than 20 hours in a week during the school term, 40 hours in weeks that fall within the holidays, three hours on any school day which is followed by another school day or four hours on a school day that is follow by a non-school day, such as Friday" (Malawi, Department of Labour 2012).

Working children are thus classified as child labourers if they:

- are employed when they are under the age of 14, with the exception for work at home and light work that does not interfere with schooling or health; or
- are between 14 and 18 and work in hazardous forms of employment (ILO 2018c).

The second definition accounts for about one-fifth of the total child labour in Malawi, thus four-fifths are children employed under the age of 14 (ILO and NSO 2017).

When it comes to specific guidelines on the classification of child labour for children under the age of 14, the legislation states only that they are not allowed to work in "commercial" industries and that work should be "light" and not interfere with schooling. However, it does not state *when* work is light or when it interferes with schooling. There are no specific time limits to the work that children can do under the age of 14, and working in homes is specifically allowed. This means that the legislation does not extend to domestic labour and non-commercial agriculture in a (third-party) home (Bureau of International Labor Affairs 2018). The legislation thus has a dangerous vagueness where children working in homes can only be classified as being in child labour based on someone's perception on whether the work is "light".

At present, the Child Care, Protection and Justice Act 2010 is under review by Parliament. This Act was developed with the support of UNICEF (UNICEF 2006) and the present review calls for a further amendment to the Employment Act which would prohibit the employment of children younger than 10, even in homes. This could diminish the amount of "hidden" child labour.

The worst forms of child labour

It is important to note that none of the above-mentioned indicators include most forms of the worst forms of child labour. These include child trafficking, commercial sexual exploitation, and involvement of children in illicit activities (ILO 2018b).

Child labour distribution

Child labour is more prevalent in the rural areas of Malawi (39 per cent) than the urban areas (30 per cent). It is higher in the southern region (43 per cent) than the northern or central regions (both 33 per cent). Boys are more likely to be involved in child labour than girls (a 2 per cent difference), but most estimates do not include household chores that are traditionally carried out by girls.

When it comes to the employment sector, child labour in Malawi is most prevalent in the agriculture sector (65 per cent) followed by the domestic sector (30 per cent). Of the total workload, 86 per cent is unpaid family work and 60 per cent is considered hazardous work. Children in child labour work an average of 11 hours a week, but this does not include the additional hours of household chores (ILO and NSO 2017).

Child labour and school attendance

For 5- to 13-year-olds, child labour does not seem to interfere with school attendance. According to the national child labour survey of 2015 (ILO and NSO 2017), 89.9 per cent of this age group children are enrolled in primary school. Of these children, 51.9 per cent are only in school and 38 per cent combine school with working.

Since education in Malawi is compulsory until the age of 14 (Malawi, Ministry of Labour 2019), attendance drops for the 14 - to 17-year-olds. Of these, 80.9 per cent are in school and 54.2 per cent combine school and employment (ILO 2018b). Again, rural children in this age group are less likely to be in school than urban children, and when they are in school they are more likely to have to work at the same time.

The survey does not show how often children attend school. However, the ILO has found that children often do not attend school during harvest season or on market days due to the workload (ILO 2018b). It is very likely that many of the children enrolled in school do not attend on a full-time basis.

When it comes to education level, Malawi has a high level of distortion. This means that most children lag behind and are in the wrong grade for their age. Of the total number of children in primary school, only 16 per cent make the transition to secondary school.

Analyses of the survey showed that non-working children are more likely to attend higher education levels than working children (ILO and NSO 2017). So even though child labour does not seem to have a huge impact on primary school enrolment, it is possible that the time and energy required for child labour does have negative effects on the school attendance and achievements of these children, making them perform worse in school than non-working children and making it less likely for them to get to secondary school (ILO 2018b).

Actions by the Government of Malawi

The Government of Malawi has been actively involved in efforts toward the elimination of child labour. It has ratified the three most important international standards on child labour: the ILO Convention on the Worst Forms of Child Labour, 1999 (No. 182), the ILO Minimum Age Convention, 1973 (No. 138), and the UN Convention on the Rights of the Child (UN CRC).

The Government also has several national strategies and plans for the elimination of child labour (ILO 2018b). The first National Action Plan (NAP) on child labour was developed in 2010 and covered the period 2010–16. It provided an operational framework for addressing child labour in Malawi.

However, despite this framework, no significant changes in the prevalence of child labour could be found at the national level in 2016. The second NAP (NAP II) for the period 2010–25 (Malawi, Ministry of Labour 2019) focuses on:

- Legislative and policy framework
- Capacity building
- Awareness creation and advocacy
- Prevention, withdrawal and reintegration
- Chronic illness and HIV and AIDs in context of child labour
- Child labour information database and availability of information

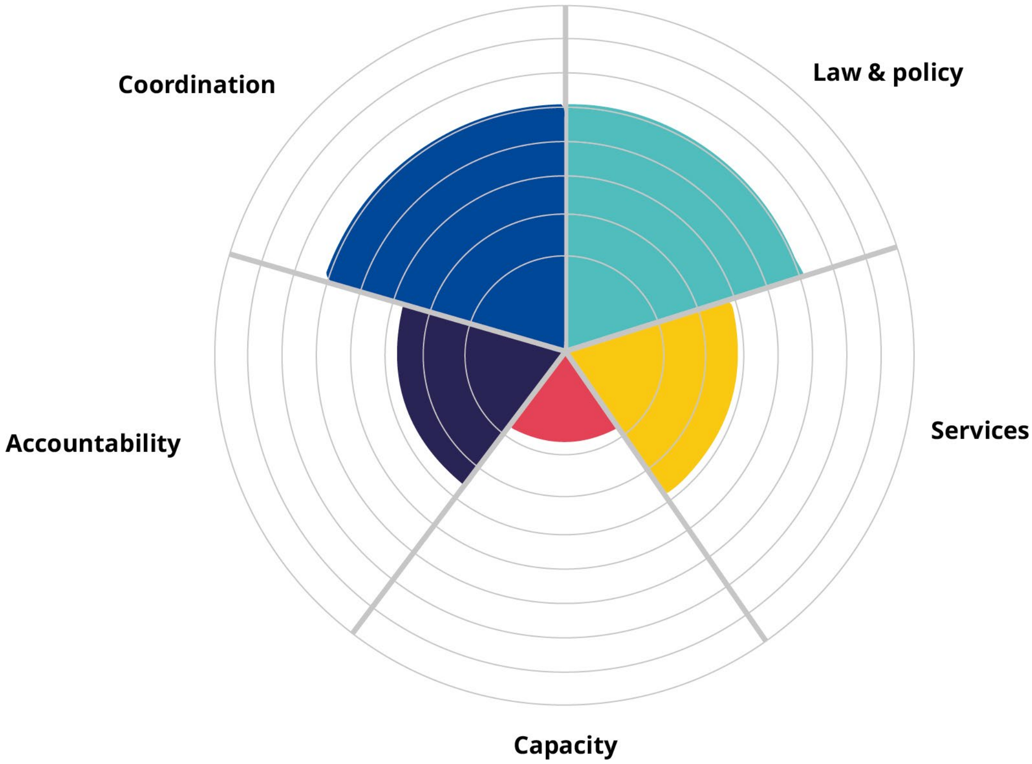
The total cost for the implementation of the NAP II over the period 2019–25 is set at MWK 32,572,500,000 (US$44.7 million), with 70 per cent of this cost earmarked for the prevention, withdrawal and reintegration programme. Activities in this programme include (but are not limited to) the construction of safe spaces such as rehabilitation centres, the preparation of schools to receive and integrate children, and the targeting of families with sustainable livelihood opportunities.

The NAP II will be financed through the Government's Ministry of Finance, Economic Planning and Development with support from development partners and other stakeholders. However, at present the funding mechanisms of the Ministry are inadequate, and it remains to be seen if the commission responsible will be able to mobilize all the funding needed.

While Malawi scores relatively high on progress in the legal and regulatory framework due to its ratification of the most important Conventions, this framework still suffers from several shortcomings. There are discrepancies between the national and international legislation, especially when it comes to the legal minimum age of employment. International legislation states that the minimum age of employment should not be less than 15, while in Malawi this is 14. Besides, as mentioned earlier, the legislation lacks a clear definition of the work that is allowed for children under 14.

Furthermore, there is a lack of capacity for adequate enforcement and monitoring mechanisms (figure 2). This is due to a lack of resources as well as difficulties in monitoring the informal sector where most child labour takes place. As a result, a major information gap exists between the specifics of child labour and the impact of child labour policies. Besides, there is a lack of coordination between the different programmes, and the coverage is limited, often not covering specific sectors such as agriculture and fishing (ILO 2018b).

▶ Figure 2. Barometer on the protection of children from economic exploitation in Malawi



Source: Worldvision 2018.

4. The financial sector in Malawi

The financial sector in Malawi is underdeveloped. Difficult economic conditions have created substantial financial and non-financial market uncertainty and risk. Chronically high inflation rates (14 per cent in 2020), a rapidly depreciating currency, and a high reliance on agricultural production which is vulnerable to exogenous shocks have resulted in an unfavourable environment for the development of a strong financial sector (IFAD 2017). As a result, over half of the adult population in Malawi is financially excluded (Thom et al. 2015).

Because of changes in political leadership and the unstable financial market, the policies and laws concerning the Malawian financial sector have undergone many changes over the years; this has undermined the long-term credibility of the policies and created an uncertain environment for financial providers with increasing operating risks and costs. A returning challenge for all Malawian policies, and thus also for financial policies, is donor dependency. Almost all financial sector development is at least co-funded by development partners. This means that the direction of financial sector development is largely shaped by donor policy support instruments and strategies (Thom et al. 2015).

The regulatory framework of the financial landscape has been strengthened over the years, with the establishment of different regulatory bodies and implementation of several financial sector bills and laws. Still, there remains uncertainty about the jurisdictional authority in different areas and most of the regulatory bodies lack enforcement capacity.

The general challenges for the development of efficient financial markets in Malawi are similar to those of many other African countries. The Ministry of Finance has identified several that it aims to address in its financial sector development strategy: "a shallow financial market; limited competition; limited financial safety nets; underdeveloped capital market; slow enactment of some laws; continued low levels of access to financial services; low financial literacy; lack of consumer protection; absence of effective consumer activism; and limited financial management skills; among others" (MoFEPD 2017, 6).

The Financial Sector Development Strategy (FSDS)

Over the years the Government of Malawi has formulated several strategies for the development of the financial sector. From 2010 to 2016, the Financial Sector Development Strategy was implemented with support from the World Bank. At the same time the first National Strategy for Financial Inclusion was implemented, which ran from 2010–14. This strategy focused on expanding the outreach of quality financial services to the excluded. The Financial Sector Development Strategy (FSDS) was extended for the period of 2017–21.This strategy aims to ensure the effectiveness, competitiveness and resilience of the financial system.

The strategy consists of six pillars:

- Developing and deepening the financial system
- Financial inclusion
- Financial literacy and customer protection
- Creating an enabling policy, legal and regulatory environment
- Increased competition in the financial sector
- Increasing participation of the financial sector in critical growth sectors

The strategy is mainly implemented by the Ministry of Finance, Economic Planning and Development and the Reserve Bank of Malawi, in collaboration with a range of other stakeholders who play a role in the regulatory framework for the financial sector in Malawi (MoFEPD 2017).

Malawi National Social Support Policy (MNSSP)

The MNSSP is another relevant policy for the financial landscape of Malawi. The MNSSP aims to coordinate, expand and strengthen the provision of social support and social protection to vulnerable people in Malawi.

The policy is built on three pillars: (i) Consumption support; (ii) Resilient livelihoods; and (iii) Shock-sensitive social protection.

Malawi's main social protection programmes include the Social Cash Transfer Programme (SCTP) (see box 2), public works programmes (PWPs), school meals programmes (SMPs), village savings and loans programmes (VSLAs), and microfinance programmes (MF) (Holmes et al. 2018). These last two programmes are especially relevant for the financial landscape of Malawi. They aim to increase the financial inclusion of the poor and promote savings with the aim of increasing resilience to shocks, by facilitating the expansion and productivity of VSLAs and MF programmes (Malawi, Government of Malawi 2018).

Box 2. Access to social services

In a country where sustainable economic growth is almost impossible because of the large proportion of the population living in ultra-poverty, social protection is a necessary first step to break the circle of poverty and help protect the livelihoods of vulnerable households. Access to social services can also increase the financial inclusion and resilience of smallholder households.

Main social protection programmes in Malawi

The Social Cash Transfer Programme
The SCTP is a monthly unconditional cash transfer from the Government of Malawi, with guidance from UNICEF. The programme currently reaches about 283,000 households in all 28 districts of the country (The Transfer Project 2020).

Target: Ultra-poor and labour-constrained households, cut-off at 10 per cent of households per district.

Impact: Decreases poverty, with positive effects on productivity, school enrolment, food security and household health. Sometimes however the SCTP has increased child labour (UNICEF 2018).

Public works programmes
Since the 1990s there have been several public works programmes supported by the World Bank. They generally operate in the non-farming season and include activities to help economic growth and regional development (Van de Meerendonk, Cunha, and Juergens 2016).

Target: Households who experience seasonal poverty.

Impact: No significant impact on food security. As a result, the World Bank scaled down the programme in 2020 (World Bank 2019a).

The Farm Input Subsidy Programme
The FISP subsidizes fertilizer, maize and legume seeds. Under the programme farmers receive vouchers that cover part of their input costs (Giertz et al. 2015).

Target: Households who grow maize and/or legumes. Currently reaches over 900,000 households.

Impact: Effects are disputed, no clear positive effect. Access to the programme is problematic (Gierts et al. 2015; White 2019).

Social healthcare
There is no social health insurance scheme in Malawi. Instead, the Government finances healthcare through the Essential Health Care Package (EHP). The EHP is a minimum package of healthcare services that are supposed to be provided for free at all government clinics.

Impact: Investment in the EHP (which is mostly donor-funded) is too low; many government facilities lack resources, forcing people to still spend money on EHP services in private clinics (Chansa and Pattnaik 2018).

▶ 4.1 The financial landscape of Malawi

The financial landscape in Malawi can be roughly categorized into formal, semi-formal and informal institutions. Within these categories there is a wide range of players that differ in products, structure, governance and ownership (see figure 3).

Formal institutions are those institutions that are regulated and licensed by the Reserve Bank of Malawi (RBM) and subjected to the 1989 Banking Act. The RBM disaggregates formal institutions into commercial banks and non-bank financial institutions (such as insurance companies and pension funds) (McGuinness 2008).

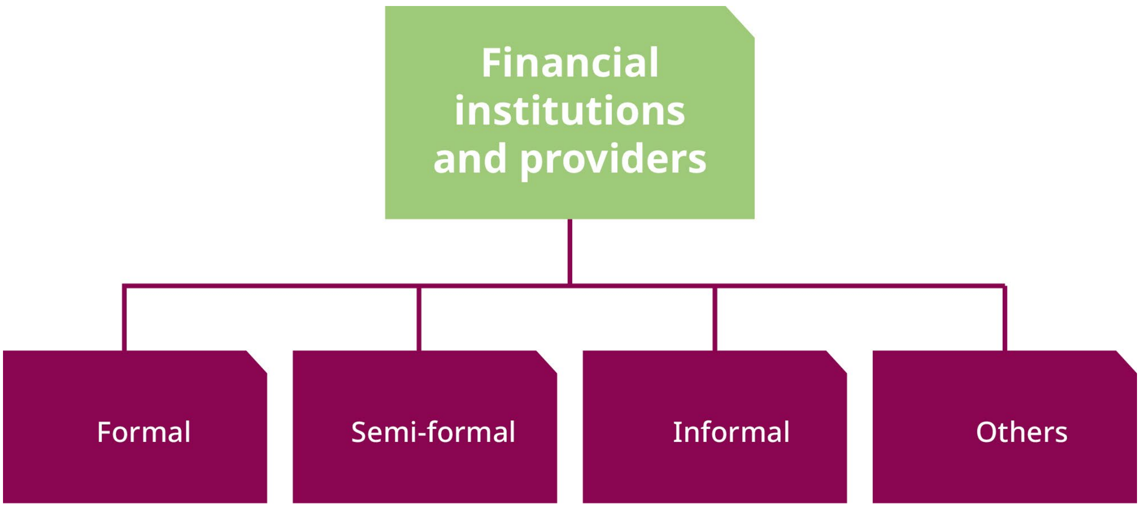
Semi-formal financial institutions are under several legal forms and ownership structures. Most of them focus on microcredit. Semi-financial institutions include microfinance institutions (MFIs), (financial) cooperatives, government projects, private companies and development projects.

Informal institutions are the providers of finance that are not or barely regulated. These include local moneylenders (*katapila*), village savings groups (VSLAs and ROSCAs) and family and friends (McGuinness 2008).

Besides the formal, semi-formal and informal institutions there are several other institutions in the financial landscape that are not official financial providers but do provide financial products to a range of clients.

This chapter provides an overview of the financial landscape of Malawi, including the regulatory framework (see box 3) and the different financial institutions.

▶ Figure 3. Financial institutions and providers in Malawi



Macro-level regulatory framework

The Reserve Bank of Malawi (RBM). The RBM leads the financial sector development of Malawi. It is responsible for monetary policy, oversight and supervision of commercial banks, microfinance institutions, financial cooperatives, capital markets, pension funds, insurance companies and mobile money (IFAD 2017).

The Ministry of Finance, Economic Planning and Development (MoFEPD). The Ministry is responsible for the Government's fiscal policy and is the lead institution for monitoring the implementation of the National Financial Sector Development Strategy (IFAD 2017). It provides strategic guidance on socio-economic development planning. The Ministry is also responsible for the Malawi Social Action Fund and coordinates the National Social Support Policy (MoFEPD 2021).

The National Social Support Steering Committee (NSSSC) and the National Social Support Technical Committee (NSSTC). The NSSSC and NSSTC provide the institutional coordinating framework for the Malawi National Social Support Policy (MNSSP). THE NSSSC and NSSTC are chaired by the MoFEPD. The NSSSC is comprised of principal secretaries from the key line ministries, and the NSSTC of members from both government agencies and civil society.

The Malawi Federation of Cooperatives. This is the national apex body for cooperatives in Malawi. Its aim is to represent and advocate for the cooperative sector at a national level. It is affiliated with the secondary cooperative union but also provides technical support to cooperatives that are not part of any union (interview John Mulangeni, 2020). This federation has only recently come into existence, so its effectiveness remains to be seen.

Meso-level regulatory framework

Meso-level regulatory bodies are institutions that represent a specific category of financial institutions. They coordinate their industry and provide technical and sometimes financial support to their members.

Bankers Association of Malawi (BAM). The BAM is the trade association of the commercial banks in Malawi. Its objective is to coordinate the efforts of the banking industry (BAM 2020); it provides a forum for financial sector providers and stakeholders on matters of policy and mutual interests (IFAD 2017).

Malawi Micro-Finance Network (MAMN). The MAMN represents about 26 financial service organizations. Its mission is to "to facilitate the creation of an enabling environment for the development of a sustainable Microfinance Industry in Malawi through the participation of all stakeholders" (MAMN 2020) They do this through promoting good practices and by coordinating the exchange of ideas, innovations, information and technologies among the members and the sector as a whole (IFAD 2017).

▶ Box 3. Regulatory acts for (micro)finance institutions

Banking Act 1989: Provides a framework for the operations of banks and financial institutions in the country. The RBM regulates and supervises licensed banks and non-bank financial institutions.

The Financial Services Act 2010: The overarching legislation to regulate the entire financial sector, it provides a framework relating to the conduct of financial institutions and the supervision of compliance.

Companies Act 1986: Provides a framework for the operations of companies limited by guarantees or shares. Companies that do not have a bank license fall under the supervision of the Ministry of Trade and Private Sector Development (McGuinness 2008).

Trustees Incorporation Act 1962: Provides a framework for the operations of local NGOs, some government-sponsored projects and international NGO projects. These institutions fall under the supervision of the Ministry of Women, Gender and Youth (McGuinness 2008).

The Microfinance Act 2010: Provides a framework for commercial microfinance operations. The RBM regulates and supervises the sector as well as providing defined legal conduct for microfinance business (IFAD 2017).

The Financial Cooperative Act 2011: Brings all financial cooperatives under the regulatory supervision of the RBM and requires them to obtain a license of operation (Agra et al, 2012).

Other relevant Acts: Credit Reference Bureau Act, the Insurance Act, the Securities Act, the Pensions Act, the payment Systems Bill, E-transactions act and the Consumer protection Act.

Microfinance Hub. Launched in 2017 as an affordable management information system for the microfinance sector, the objective of the Hub is to help all MFIs and financial cooperatives to improve their operational efficiency by enabling them to reduce operating costs and streamline lending processes through technological solutions. The MFI Hub is still very much in its early period, with a minimum number of members.

Malawi Union of Savings and Credit

Cooperatives (MUSCCO). MUSCCO is a member-based organization that advocates on behalf of savings and credit cooperatives (SACCOs). It aims to promote "the sustainable growth and development of financial cooperatives and its members through cost-effective inclusive programming" (MUSCCO 2020)." It provides both technical support in the form of capacity building, as well as financial support in the form of a liquidity fund. It also represents and advocates for SACCOs at a national and international level (interview with Fumbani Nyangulu, 12 May 2020). In 2020 MUSCCO had 39 member SACCOs.

The Community Saving and Investment

Promotion (COMSIP) Cooperative Union Limited. COMSIP is a member-owned union of savings and investment cooperatives. They grew out of a World Bank project, the Malawi Social Action Fund (MASAF) and used to be government-owned (Thom et al. 2015). Although COMSIP is now an independent union, it still works with government officials and programmes. For example, it organizes COMSIP clubs specifically for the social cash transfer programme (Susan Kondowe, personal communication).

The aim of COMSIP is to instil a culture of savings among rural Malawians (COMSIP 2020). This is done through the mobilization of COMSIP clubs which are local savings groups. Through COMSIP-led trainings these then build their capacity and promote an entrepreneurial culture. Eventually the groups can graduate to official COMSIP cooperatives (Vicari and Borda-Rodriguez 2014). These cooperatives buy a share and pay annual fees to affiliate with the union (interview with Susan Kondowe, 2 September 2020).

According to the COMSIP website there are 193 savings and investment cooperatives in Malawi (COMSIP 2020). They are multipurpose and mostly agricultural. The COMSIP union supports its savings groups and cooperatives through capacity building and technical support, and by providing access and linkages to markets and financial services.

In 2018, COMSIP started a subsidiary microfinance company called COMSIV. This company provides microloans to COMSIP cooperatives and increases their access to finances (Susan Kondowe, personal communication).

Farmers Union of Malawi (FUM). FUM is an umbrella body of farmers and farmers' organizations. Its overall objective is to ensure that farmers effectively and meaningfully participate in the design and implementation of plans and policies to improve their livelihoods (FUM 2020). They do this through functional farmer associations, cooperatives and clubs (IFAD 2017).

National Smallholder Farmer's Association of Malawi (NASFAM). NASFAM is the largest smallholder-owned membership organization in Malawi. Its mission is to improve the lives of smallholder farmers by developing their commercial capacity and providing programmes to enhance their productivity.

NASFAM is divided into two organizations, NASFAM development and NASFAM commercial.

NASFAM development operates as an NGO and delivers community development and capacity-building services, for example through programmes on leadership, food security, HIV, gender integration and resilience building.

NASFAM commercial operates as a for-profit company and aims to provide NASFAM farmers with value-addition services to help generate profit for their farmers. NASFAM does not itself provide financial services, but often partners with financial service providers to give its members access to credit (McGuinness 2008). It also helps to organize VSLAs among its farmers. Furthermore, NASFAM commercial is involved in input supply programmes and also purchases produce from its farmers for agro-processing and sale (interview with Elles Kwanjana, 5 June 2020).

▶ 4.2 Formal institutions

Formal institutions are those institutions that are regulated by national legislation and the Reserve Bank of Malawi. These include commercial banks and insurance companies.

The banking system

There are eight commercial banks operating in Malawi. The number has declined over the years, but this is mostly due to acquisitions and mergers of existing banks. Four are domestically owned and four foreign-owned. As of December 2019, two banks, the National Bank of Malawi and the Standard Bank of Malawi, dominated the sector with a combined market share of 46.1 per cent. They also accounted for 56.2 per cent of the total loans and 58.3 per cent of total equity capital (RBM 2019).

The banking sector of Malawi holds 92 per cent of credit and 89 per cent of deposits. It serves most corporate and government clients in the country, as well as 27 per cent of Malawian adults, mainly salaried employees (IFAD 2017). In 2019 the banking system had 110 branches, 120 agencies, kiosks and vans and 496 ATMs. Their total net asset was MWK 1,890.2 billion in December 2019 (RBM 2019).

However, only one-third the Malawian population makes use of formal financial services. With only 12 per cent of the rural population using such services, banks in Malawi focus mainly on urban clients (IFAD 2017). Farmers are amongst the least banked even though they are the largest group of potential customers: 88 per cent of the adult population in Malawi is involved in farming activities (Thom et al. 2015).

Due to the profitability of urban, corporate and government clients, commercial banks feel less pressure to diversify their client base (Oxford Policy Management and Kadale Consultants 2009). However, some banks are starting to become more interested in increasing financial inclusion and offering products better suited to other target markets. The NBS Bank, for example, has introduced the Pafupi Savings Account, a product aimed at low-income individuals. This account has a low minimum account balance of MWK 500 and no monthly fees. Besides, to open this account customers do not have to have a national ID. They can use any identification they possess such as a voter registration card or a stamped letter from a chief.

There are also banks that offer financial products specifically for farmers. The National Bank of Malawi, for example, provides the Mlimi Account which offers services for clubs and individual farmers and estate owners. Even though the costs of these products appear to be low they are still a considerable proportion of the Malawian average income, around 3 per cent. Besides, they commit customers to a monthly payment even though many Malawians do not have regular income streams (Thom et al. 2015).

Access to the banking system is limited for most Malawians. The main barriers for entering the formal financial sector include the following challenges:

- Accessibility in both cost and location. All banks in Malawi are located in the urban areas, making them inaccessible to most of the population who live in the rural areas. In addition, bank products are often not affordable for low-income households, due to monthly fees, high collateral, minimum balance of savings or other transaction costs.

- The requirements for the products are not obtainable by potential customers. For example, most bank products require official identification, when a large proportion of Malawian do not have a national ID.
- Since the bank products are not designed for low-income households, many Malawians believe that banks are not meant for them. Besides, high (financial) illiteracy leads to people not knowing how or why to use formal financial products (Thom et al. 2015; Agar et al. 2012; Chipeta and Kanyumbu 2018).

The insurance sectors

The formal insurance sector in Malawi is comprised of eight general insurance and five life insurance companies and one reinsurance company. There are also a number of insurance agents and brokers (RBM 2019). The sector is underdeveloped, with a limited range of products and clientele. Only 2 per cent of the population uses insurance products and there is almost no presence of insurance products in the rural areas. In general, products target the needs of clients with large assets and substantial income. The most common product offered is motor vehicle insurance (Oxford Policy Management and Kadale Consultants 2009).

▶ 4.3 Semi-formal institutions

Semi-formal institutions are the financial providers that focus on providing traditional financial services (savings, lending and insurance products) to people who are generally not served by the banking system (Agar et al. 2012). Semi-formal institutions are regulated by national legislation but not necessarily by the Reserve Bank of Malawi. They include different forms of MFIs and cooperatives.

Microfinance institutions

There are around 28 MFIs in Malawi, either registered with the RBM or members of MAMN (or both). MFIs can be categorized into deposit taking (the largest being FINCA) and non-deposit taking MFIs (RBM 2019). Also, they differ in ownership and whether they are for-profit or non-profit.

MFIs serve about 17 per cent of adults in Malawi (IFAD 2017). In 2019 they had 148,914 clients, of whom 62.1 per cent were female (RBM 2019). This large percentage of female clients is due to some MFIs only providing services to women (Thom et al. 2015).

According to the RBM (2019), the aggregated assets of MFIs are worth MWK 45.8 billion. MFIs focus mostly on loan products that are micro in size and short-term. Their loans can be both individual and group-based schemes (Oxford Policy Management and Kadale Consultants 2009).

There is also one company that provides microinsurance: **Community Insurance Company (CIC)**, which works with SACCOS and MFIs to provide group insurances to its members. These include life insurance, general insurance and crop insurance. In the future CIC wants to venture into providing health insurance and also change its crop insurance from weather-based to yield-based, meaning that farmers will receive a pay-out for a lost crop even if the crop loss is not due to bad weather (Cosmas Luwanika, personal communication).

MFIs can also be classified as to whether they have a rural or urban client base. For instance, the payroll MFIs are moneylenders that primarily provide loans to employed individuals; these MFIs are focused on urban clients. Non-profit MFIs such as CUMO are MFIs that have a mostly rural client base (Oxford Policy Management and Kadale Consultants 2009).

In general, MFIs have a larger rural outreach than banks. This is because they have a larger network of branches. FINCA ,for example, the largest of the MFIs which accounted for 45 per cent of all MFI clients in 2014, had 23 service outlets covering every district in the country.

MFIs also make use of loan roaming officers who monitor loans that have been extended, find new clients and collect repayments. More innovative options are also being explored, such as using motorcycles to overcome lack of infrastructure, partnerships with mobile network operators to enable repayment with mobile money, and the use of new technologies to improve the process (Thom et al. 2015).

However, although the outreach capacity of MFIs is larger than that of commercial banks, it is still limited. This is reflected in the fact that the majority of clients of MFIs are small- to medium-sized enterprises (SMEs) and not individual smallholder farmers or low-income households (Thom et al. 2015). Even though they have more branches, most of them are still located in the peri-urban areas and are not accessible to the rural client. Besides, MFIs are limited by internal management and human resource capacity. They lack technology and are limited in growth, since most MFIs cannot legally collect deposits. This results in most MFI products being relatively expensive; also, not all products are attuned to the agricultural economic cycle of rural households (IFAD 2017).

> These kinds of operatives, microfinance foundations, they kind of prefer people that are already somewhere in the middle, you know, not those that are completely on the ground.
>
> **Andrew Namakhoma** (ECLT Malawi)

> From my analysis of microfinance Institutions, they just don't work with the rural women and I have never seen a group that has graduated from poverty using the MFI.
>
> **Dalisto Baloyi** (Winrock International)

Cooperatives

Within the sector of semi-formal financial institutions in Malawi, cooperatives are starting to play a more important role. Cooperatives are enterprises that are owned, controlled and run by and for their members (ICA 2020). They are popular, as they are strongly rooted in the community and based on a self-help principle. They can create opportunities for employment and income generation, and increase the availability of goods and services in areas that are not reached by other service providers (ILO 2011).

> Now you know cooperatives are organized on a principle of self-help or people helping people. People come together to be able to save money together and then lend to each other, so that they are able to lift each other and be able to lift their livelihood.
>
> **Fumbani Nyangulu** (MUSCCO)

In 2015 there were 681 registered cooperatives under the Cooperative Act. Of these, 56 per cent were agricultural producer cooperatives and 44 per cent financial cooperatives (ILO 2017a). According to a study from 2012, there were 382 farmer cooperatives, 192 SACCOs and 107 savings and investment promotion cooperatives. However, only 234 of the cooperatives were found to be active (Vicari and Borda-Rodriguez, 2014). There are no recent data on the numbers of cooperatives presently active in Malawi.

There are four secondary cooperative unions; MUSCCO, which represents the SACCOs, COMSIP, representing the saving and investment cooperatives, the Mzuzu Coffee Planters Union (MZCPCU), and the Timber Millers Co-operative Union (TMCU) (Vicari and Borda-Rodriguez 2014).

When it comes to the challenges, cooperatives mainly suffer from poor governance. Due to high financial illiteracy, members often lack appropriate skills and knowledge to efficiently govern their cooperatives (Thom et al. 2015; Fumbani Nyangulu and John Mulangeni, personal communications). In addition, they lack the funds and resources to hire skilled staff and install the right systems. As a result, secondary cooperative unions such as MUSCCO and COMSIP spend a lot of time training board members; however, due to the fast turnaround of board members this knowledge can get lost. Bad governance leads to problems in record keeping and liquidity. In addition, low loan repayments and low capital adequacy have been identified as major challenges for some cooperatives. Finally, cooperatives can only work if their members are loyal and committed. Freeriders in the form of members who are just there for fast cash, or who are not repaying their loans, can cause huge problems for the cooperative (Vicari and Borda-Rodriguez 2014; John Mulangeni, personal communication).

Savings and credit cooperatives (SACCOs). There are 39 SACCOs registered with MUSCCO, of which 38 are also registered with the RBM. In December 2019 there were 151,221 members, of which 31 per cent was female. The total assets of the sector were worth MWK 26.1 billion (RBM 2019).

A SACCO is an institutional structure that is owned by the members through purchasing shares (Thom et al. 2015). In a SACCO, members agree to save their money together to be able to offer loans to each other at a reasonable rate of interest (UCSCU 2020). There are two categories of SACCOs: employee-based and community-based. In employee-based SACCOs the members are employed in the same place or profession and savings are directly subtracted from their payrolls. In community-based SACCOs the members belong to the same community. In general, members of community-based SACCOs are farmers, but they do not have to be. With these SACCOs the members themselves deposit savings in the cooperative (Vicari and Borda-Rodriguez 2014).

The size of SACCOs varies: some are relatively small with around 70 members, while others have more than 20,000 members (Thom et al. 2015). Most SACCOs in Malawi are employee-based and thus situated close by or in urban areas. However, there are some rural SACCOs and also some farmer SACCOs. Most customers of SACCOs have an income profile that is similar to the customers of banks, around double the income of the population average. However, they do, in general, have a lower educational background (Thom et al. 2015).

Saving and investments cooperatives (COMSIP). Where SACCOS are registered under the RBM and thus considered to be financial institutions, COMSIP cooperatives are not (Vicari and Borda-Rodriguez 2014). However, their operations are largely similar, in that members of a COMSIP cooperative save and lend together. As explained earlier, the COMSIP savings and investments cooperatives grow out of informal COMSIP savings clubs. Once these clubs graduate to become cooperatives, they are registered business entities, which means they can start to grow their funds, link up with other institutions and start to invest their funds in various businesses (Susan Kondowe, personal communication).

COMSIP cooperatives differ from SACCOs in that they operate more in the rural areas. All their cooperatives are community-based and their members tend to be farmers with low incomes. Around 70 per cent of COMSIP members are female (Vicari and Borda-Rodriguez 2014). Where SACCOS focus mainly on the finances, COMSIP cooperatives are multi-purpose, focusing also on business development and livelihood improvement.

Since their members are mostly based in the rural areas, COMSIP found that they lacked access to finances. Therefore in 2018, COMSIP introduced its own microfinance company called COMSIP Investments (COMSIV). This subsidiary company provides financial services to COMSIP cooperatives and members. At present they offer three products: general group insurance, agricultural loans and business loans. In the future COMSIV wants to extend its products to non-COMSIP members (Kelvin Msiska, personal communication).

4.4 Informal finance

For people in the rural areas, informal sources are the most important form of finance. Only 4 per cent of famers have access to formal credit and over 50 per cent of the total number of borrowers get their credit from informal providers (IFAD 2017). Informal sources can be divided into group-based sources and individual sources.

Group-based providers

Group-based or community-based providers operate at different levels and take different organizational forms. In general, they are explicitly-formed groups of people from the same area. Often these groups are facilitated by an NGO or based on membership of another body, such as a church. The most well-known group-based providers are VSLAs and ROSCAs (Agar et al. 2012). Group-based informal providers play an indispensable role in Malawi society. For many, informal savings and credit through a community-based provider is the only financial product they use (Thom et al. 2015).

The village savings and loan association (VSLA) model was first pioneered and organized in Malawi by CARE International in 2009 (see box 4 for a description of training carried out by CARE). Since then many VSLA variants have emerged, organized by other facilitators or by communities themselves (Agar et al. 2012).

VSLAs are very suitable for rural areas. They typically comprise 15–25 individuals who come together to form an association (Agar et al. 2012). Within the association they facilitate savings and lending to satisfy household cash management needs. Members of these groups pool their money into a fund from which they can borrow. These saving contributions are deposited with a specified end date for distribution of all or part of the total funds to the individual members (Oxford Policy Management and Kadale Consultants 2009). The share-out is done proportionately based on the value of the member's savings contributions and the interest paid by each member (Thom et al. 2015). The money lend-out is paid back with interest, which allows the fund to grow (Agar et al. 2012). On average weekly contribution amounts range from MWK 200 to 1,000, with an MWK 50 contribution to an emergency fund. The entry fee is generally MWK 1,000 (Thom et al. 2015). The return on the savings is typically higher (around 20 per cent) than that offered by banks, and members can save whatever amount they wish and whenever they need (Oxford Policy Management and Kadale Consultants 2009).

Since the introduction of VSLAs by CARE, the number of VSLAs has dramatically increased in Malawi. While in 2008 they accounted for only 6 per cent of total informal borrowers, in 2014 this had risen to 60 per cent. Furthermore, the number of adults saving in VSLAs grew, with over one million between 2008 and 2014 (Thom et al. 2015). Even now when the project is phasing out, research shows that for every VSLA created by CARE, the community has created two of their own (CARE Malawi 2018). The success of VSLAs is related to their low threshold to participate. They are strongly rooted in the community, have low (transaction) costs and create opportunities for the poor to accumulate capital.

Some VSLAs are linked to banks, MFIs or mobile network operators. In these cases, the funds are kept in the accounts of these providers. This can provide the VSLAs with better security for their funds, and can also give them greater access to capital by making them eligible for group loans. In this case the loans belong to the VSLA group and not to individual members; this allows the group to grow (Makoka 2016).

▶ Box 4. Official CARE VSLA training

An official CARE VSLA group undergoes 9–12 months of training sessions. These sessions are intended to facilitate the formation of the group, elect officials and design their system of savings. At the start of operations, the VSLA is supervised by CARE field staff who make sure that the procedures and the system work properly in order for them to function independently afterwards (Oxford Policy Management and Kadale Consultants 2009). Because CARE staff are not able to train all groups, they have developed a model where once a group has been well trained, they identify a village agent. This village agent goes out to other villages to train VSLA groups there. CARE staff then have only to supervise the different village agents, rather than all the groups (CARE, personal communication, 2020).

Most VSLAs (82 per cent) are situated in the rural areas. Their members often have low levels of education and incomes that are below the poverty line. What is remarkable is that women make up most of their members (64 per cent) and that most VSLA members are farmers (Thom et al. 2015).

The main challenge for CARE in their VSLA programme is the fact that these groups need a lot of training for them to function well. As said before, the demand for VSLA groups is higher than CARE can manage. As a result, other entities have ventured into organizing VSLA groups; sometimes community members themselves start VSLAs based on those they see in their areas. Due to lack of resources, it is possible that these groups are not trained in the proper VSL methodology designed by CARE. This can result in mismanagement and reduces the effectiveness and quality of VSL groups (CARE, personal communication, 2020).

> Just because of demand, some other organizations venture into VSL implementation without proper training…They are coming in with the new approaches and that is affecting the quality of the groups that we already formed.
>
> **Auster Gondwe** (CARE)

CARE expresses the need for smallholders to diversify in their income activities, since agricultural production is vulnerable to climate change and disasters. When the harvest fails it can be difficult for VSL groups to obtain enough money for their saving and lending activities (CARE, personal communication 2020).

The only main constraint of the VSLA model is that loans are small and often not enough for members to invest in new business or increased productivity. However, VSLAs do present a good entry point to the financial landscape as they help clients build capital; the trainings also create opportunities beyond savings and loans.

ROSCAs and member saving groups. Other forms of informal savings and credit groups include the rotating savings and credit associations (ROSCAs), savings-only groups and informal membership organizations. The number of these groups is much smaller than that of the VSLAs. ROSCA groups had about 31,000 members in 2014 (Thom et al. 2015).

Members of ROSCA groups make regular contributions to a common fund. This fund is then allocated to different members each month (Agar et al. 2012). There are also groups who will, for instance, save until a certain goal is reached or until a specific point in time.

Informal financial groups are especially effective in inducing savings since they have lower transaction costs in comparison with formal institutions (Thom et al. 2015).

Individual financial services

Katapila. The *katapila* are the informal moneylenders who provide short-term loans at short notice. Their interest rates are often high, at times ranging from 50 to 100 per cent. Perceptions of these informal moneylenders are mixed; some consider them to be abusive and exploiters, while others say they provide a valuable service in an imperfect financial market (Thom et al. 2015).

The katapila tend to provide loans only to those they know personally. This gives them an informational advantage in assessing the risks of the loan. They are locally based, in close proximity to their borrowers, and this allows them to observe the circumstances of the borrower (Oxford Policy Management and Kadale Consultants 2009). Their loans are based on the ability of the lender to pay, with the katapila taking little interest in the use of the fund. The loans can be in cash or in kind. In general, katapila loans are not used for investments due to the high interest rate. They are mostly used in the lean season (November–February) when farmers need funds for input and are short on food (Agar et al. 2012).

Even though the interest rate is high and informal money lending illegal, katapila are popular due to their easy access and low transaction costs. The loans from katapila can be made available fairly quickly, where loans from banks or MFI will take longer to process and require all kinds of conditions (Oxford Policy Management and Kadale Consultants 2009) .

Family and friends. Since most people in Malawi are excluded from the financial market, the most common source of credit is from family and friends**.** Around 50 per cent of the population relies on family and friends for loans (IFAD 2017). Besides, many supplement their income with remittances and during times of emergency such as funerals or illness, family and friends will make financial contributions to help out (McGuinness 2008).

▶ 4.5 Other financial providers

Within the financial landscape of Malawi there are some important actors who cannot be categorized under the formal, semi-formal or informal institutions. This section discusses the role of money providers and value-chain actors in the financial landscape of Malawi.

Mobile money providers

Mobile money was first introduced into Malawi by Airtel in 2012. Their Airtel Money product gave people the opportunity to manage their money through their mobile phone. Short after Airtel, TNM introduced their mobile money product Mpamba. Mobile money products allow users to convert their cash to mobile money through an e-money agent; they can then pay for goods or pay off their bills. A person who gets paid with mobile money can then withdraw the money in cash from an agent (Thom et al. 2015).

Mobile money is popular since it offers a low-cost, low-value, secure payment method. The outreach of mobile money is also a lot larger than that of formal providers (Thom et al. 2015). According to the RBM, there were 7.2 million mobile money subscribers in the first quarter of 2020. However, subscriber activity was relatively low; the percentage of people who used the service at least once during a 90-day period was 52.4 per cent (RBM 2020). More financial institutions including banks, MFIs and cooperatives are now partnering with the mobile money providers to offer services that, for example, let customers transfer funds between their bank and mobile money accounts (Thom et al. 2015).

Mobile money is accessed through mobile money agents. In the first quarter of 2020, there were 56,353 registered agents, with 67 per cent being active. While mobile money services have a broader range then most formal institutions, 79.5 per cent of the agents are still based in urban and semi-urban areas, so that only 20.5 per cent of the agents serve around 80 per cent of the population, making it harder for the rural population to access these services (RBM 2020). Besides, the agent system has a major liquidity problem. Especially in the rural areas, agents often have limited cash reserves, making them unable to help every customer. These agents will have to go to a “super-agent” to fill up their cash reserve. However, these super-agents are often based far away from the rural agents (Thom et al. 2015). This, together with the patchy network and the fact that not everyone in Malawi has a mobile phone, makes mobile money less accessible for rural clients that it would seem.

Value-chain actors

As mentioned earlier, many of the financial institutions face difficulties in reaching rural clients. This leaves a large proportion of the population with limited access to finances. Up to 80 per cent of the Malawian population live in the rural areas, and of these around 75 per cent have small family farms (Schenck 2018). These farmers need finances to invest in their production, but they are often not eligible for loans from financial institutions. This is where agricultural buyers, processors and other value-chain actors have stepped in to fill the gap (Oxford Policy Management and Kadale Consultants 2009).

For value-chain actors, providing credit to smallholders is a complementary activity. It can increase the productivity of the overall value chain and thereby enhance their business as well. Value-chain actors have an advantage over other financial providers in the sense that they understand the business and the livelihoods of the farmers, and they are also better able to reach them (Thom et al. 2015). Table 4.1 shows the main value-chain actor per major Malawian crop. The key actors are indicated in bold.

Input providers. These often have more frequent interaction with the producers (in this case smallholder farmers). Input providers can be stand-alone actors or the same actors as the processers and/or buyers. They provide loans both in kind and in cash which are specifically meant for agricultural input and cannot be used for other financial needs (Thom et al. 2015).

Out-grower schemes. Many value chains are organized in out-grower schemes or “contracting farming”, where the agricultural production is carried out according to an agreement between buyer and farmers, with established conditions for the production and marketing of the product. Typically, the farmer agrees to provide a specific quantity of the crop at a specific time that satisfies the quality standards of the buyer. In return, the buyer commits to the purchase of the crop and, in most cases, will also support production through, for example, the supply of farm input, land preparation and the provision of technical advice (Thom et al. 2015).

In many of these cases, credit to farmers is only provided through the out-grower schemes. Loans tend to be in kind and meant for input. The repayment is deducted from the farmers’ earnings. In general, no interest is charged over these kind of loans, although some buyers charge a handling fee for the administration and transport cost (Oliva and Agar 2006). The benefits of such a scheme is the support from buyers provided to farmers which can enhance their productivity and thereby the business of the whole value chain (Thom et al. 2015). Besides, itgenerates a stable supply of products for export and creates a secure market with fixed prices, which are necessary for sustainable crop intensification (Paglietti and Sabrie 2012). Contract farming can also make farmers more attractive to financial institutions as potential clients since the contracts guarantee an income from which loan repayments can be deducted (Oxford Policy Management and Kadale Consultants 2009).

These kinds of schemes, however, only work in value chains where there is limited ability to side-sell, like the tight-value chains market (blue in table 1) (Thom et al. 2015). It is problematic that these schemes are often based on unequal power relations, where big agri-buyers exploit the low labour cost of the smallholder farmers and transfer the production risks onto them. Smallholder famers often have limited bargaining power or are excluded from the contract negotiations. This results in greater income inequality in rural areas (Paglietti and Sabrie 2012).

▶ Table 1. Main value-chain actor per major Malawian crop

		Tobacco	Tea	Sugarcane	Cotton	Main oil seeds* and pulses	Maize
No. of farmers		1,109,715	15,956	46,290	355,878	1,961,584**	2,115,341
Financial services currently available in the value chain		Bank accounts Bank credit Outgrower scheme Insurance	Outgrower scheme	Outgrower scheme	Outgrower scheme	Warehouse receipt financing	Warehouse receipt financing
Input provider		Input suppliers; **tobacco companies** (OS)	Input suppliers; tea estates (OS)	Input suppliers; **processor/ buyer & producer association** (OS)	Input suppliers; **ginners** (OS); government	Input suppliers	Input suppliers; government
Producers	**Farmer**	Commercial; SHF	Commercial; SHF	Commercial; SHF	Commercial; SHF	Commercial; SHF	Commercial; SHF
	Producer association	Commercial; SHF	Commercial; SHF	SHF	Commercial; SHF	Commercial, **SHF**	**SHF**
Processing, storage and sale		Processors; **auction house**	**Tea estates** (OS); **auction house**	**Processor/ buyer & sugar estates** (mill on-site),	Traders, SHF associations; **ginners** (OS)	Producers; traders & local markets; **commodity exchanges**	Producers; traders & markets; **commodity exchanges**
Buyers		Domestic wholesalers & retailers; exporters	**Tea estates** (OS); domestic wholesalers & retailers; exporters	**Processor/ buyer & sugar estates** (OS)	**Ginners** (OS), exporters	Local traders; domestic processors, wholesalers & retailers; exporters	Local traders; domestic processors, wholesalers & retailers
Post purchase agro-processor		Agro-processors (domestic & international)	**Tea estates**, agro-processors (domestic & international)	**Processor/ buyer & sugar estates**, agro- processors (domestic & international)	Agro-processors (domestic & international)	Agro-processors (domestic & international)	Agro-processors (domestic)

Tight value chains

Loose value chains

SHF : Smallholder famers.
OS: Outgrower scheme.

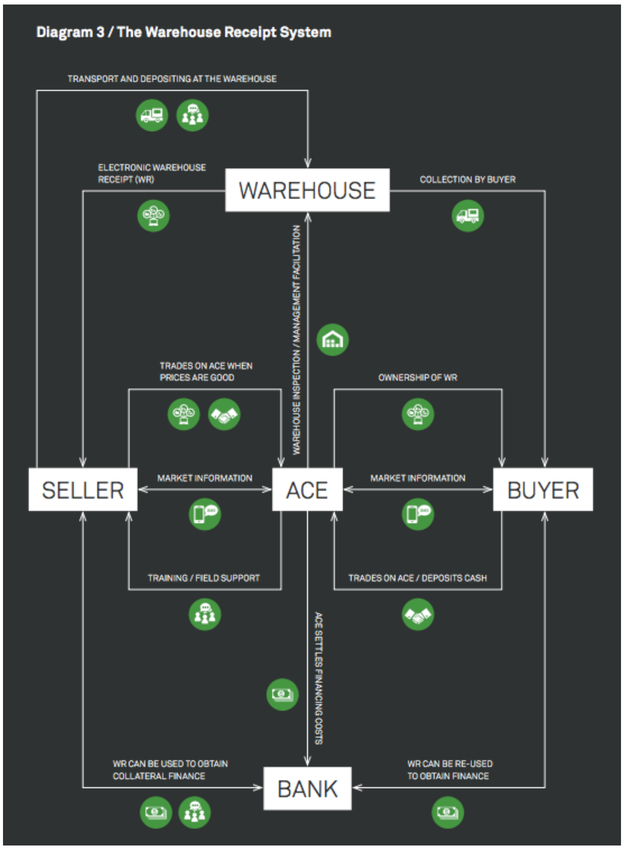
Source: Thom et al. (2015).

Farmers' associations. Because of the unequal power balance, it is important to have producers' associations who can negotiate on behalf of the farmers. FUM and NASFAM are the most well-known producers' associations in Malawi, since they operate on a national scale. There is a limited number of associations in Malawi; associations have not been self-forming and mainly exist because of a third-party intervention (Thom et al. 2015). Some of these associations provide financial services on a limited scale through SACCOs or VSLAs, but their main financial role is to leverage access to financial services. They act as a voice for farmers' needs and assist initiates that can link financial service providers to their members. Some, like NASFAM, are also involved in the purchasing of produce to facilitate access to competitive pricing. These associations have a potential to increase the financial inclusion of smallholder farmers (Thom et al. 2015).

Commodity exchange. The loose value chains in Malawi, such as maize, lack a central point of aggregation for sale. They often go through a commodity exchange facility or through their local market (Thom et al. 2015). Malawi has two commodity exchange boards, Agricultural Commodity Exchange (ACE) and AHL Commodity Exchange(AHCX) in addition to the separate auction systems for tobacco and tea (Bauch et al. 2018). These facilities provide opportunities for trade and investment of commodities under set rules and regulations (Kawuma 2015).

Commodity exchange boards offer warehouse services in which farmers can store their produce while it is active on the market. This allows farmers to postpone selling at harvest time, when the supply is high and prices are low (Thom et al. 2015). For the storage, farmers get a warehouse receipt (WR) representing the amount of produce with the agreed quality and quantity at a specific location (Kawuma 2015) (figure 4). The Warehouse Receipt System (WRS) helps the financial situation of farmers in that the receipt can act as collateral and be used as a financial instrument to gain capital later. The collateral enables farmers to obtain important inputs even when they do not have the cash flow to fund it (Thom et al. 2015).

▶ **Figure 4. The Warehouse Receipt System**



Source: Cronjaeger 2016.

Some banks offer WRS-backed loans. Generally, the loans that can be obtained are up to 70 per cent of the value of the commodity. ACE facilitates these loans for depositors directly and maintains overdraft facilities with several banks. ACHX does not offer credit directly, but their WR is recognized by several banks (Edelman et al. 2015). WRS-backed loans are considered to be high risk, so banks are still wary about giving them out especially to smallholder farmers (Bauch et al. 2018).

The WRS in the Malawian commodity exchanges does not offer any other financial services yet. Its position between buyers and farmers gives it potential to extend the service. However, at present most of the clients are traders or farmer associations, so access to smallholder farmers will first have to be increased (Thom et al. 2015).

4.6 Conclusion

This chapter has shown that there are many different players and stakeholders already active in the financial landscape of Malawi and that they offer a range of different products to different categories of clients. In table 2 an overview is presented of the different categories of providers, their products and clients, and the benefits and constraints. Annex 2 provides an overview of all financial institutions and providers that were active in Malawi during this study.

Most providers and products are aimed at a (semi-) urban clientele with higher-than-average income, such as salaried employees or (successful) SMEs. With the majority of adults in Malawi living in the rural areas and 51.5 per cent below the poverty line, many are excluded from these financial services. As a result, most rural households use only informal financial services. VSLAs are most successful in including rural households, due to their low (transaction) cost and close proximity to their clients. In addition, value-chain actors are in a unique position to offer financial services to smallholder farmers, since they understand the position of the farmers and can personally benefit from providing finance to them.

The next chapter elaborates more on the challenges in the financial inclusion of smallholders in Malawi.

▶ Table 2. Overview of the financial landscape in Malawi

<table>
<tr><th>Providers</th><th>Products</th><th>Clients</th><th>Benefits</th><th>Constraints</th></tr>
<tr><td>Banks</td><td>Savings and loans</td><td rowspan="2">Corporate and government

Urban

Salaried employees

Highly educated</td><td rowspan="2">• Well-regulated and governed
• Access to large amounts of capital</td><td rowspan="2">• High (transaction) costs
• Not accessible from the rural areas
• Strict eligibility requirements
• Products not designed for low-income clients</td></tr>
<tr><td>Insurance companies</td><td>Insurance</td></tr>
<tr><td>Microfinance institutions (MFIs)</td><td>Group and individual micro-loans and insurance</td><td>Mostly (rural) SMEs</td><td>• Better rural outreach
• Linked to other (financial) institutions and/or digital solutions
• Create access to credit and business opportunities for rural SMEs</td><td>• High cost and limited accessibility
• Limited resources
• (Most) cannot collect deposits
• Products not designed for low-income rural households</td></tr>
<tr><td>Cooperatives</td><td>Group savings and loans

Capacity building and business development</td><td>Salaried employees

or

community-based farmers</td><td>• Member-owned, based on a self-help principle
• Installs a culture of savings
• Creates opportunities beyond access to finance
• Linked to other (financial) institutions and/or digital solutions</td><td>• Governance and management problems due to financial illiteracy
• Liquidity problems
• Limited funds and resources
• Member disloyalty
• Not all cooperatives are accessible for low-income rural households</td></tr>
</table>

Providers	Products	Clients	Benefits	Constraints
Village savings and loan associations (VSLAs)	Savings and loans Capacity building	Rural Low-income Low levels of education Mostly women	• Low (transaction) costs • Accessible for low-income rural clients • Installs a culture of savings • High return on savings • Strongly rooted in the community • Creates opportunities beyond savings and loans	• Not all VSLAs can be properly trained due to high demand and limited resources • Lack of training can lead to management problems • Loans are very small
Katapila	Short-term loans	Rural and low-income Farmers Mostly personal contacts	• Easy and quick access for rural clients • Low transaction costs	• High interest rates • Creates debts • Illegal
Mobile money providers	Mobile money Mostly used for transfers and payments	Everyone with a phone	• Low cost • Secured payment method • Wide outreach, easily accessible • Can be linked to other (financial) institutions	• Mostly used for transfers and payments, lack of savings and loan products • Agent system has a liquidity problem • Limited agents in the rural areas • Patchy network coverage in Malawi • Not everyone has access to a phone • Preference for cash and financial illiteracy limits use of mobile money

Providers	Products	Clients	Benefits	Constraints
Value chain actors	In-kind or in-cash credit for input and other production costs	Farmers	• Accessible for farmers • Value-chain actors understand needs of farmers • Loans in out-grower schemes do not charge interest • Credit (through out-grower schemes) can enhance business of the whole value chain	• Loans are only for production activities • Unequal power relations and limited bargaining power of farmers can result in exploitation
	Warehouse receipt system (WRS)	Farmer associations or traders in low-value chains	• Allows the farmer to postpone selling when prices are low • WR can act as collateral and be used as a financial instrument	• WRS-backed loans not yet accessible for individual farmers • Does not offer any other financial services yet

5. Financial inclusion of smallholder farmers

Chapter 4 has shown that there are limited financial providers offering services to low-income rural households. This chapter dives deeper into the financial inclusion of farming households in Malawi, and specifically their access to and usage of different (financial) products.

The FinScope consumer survey of 2014 found that only 30 per cent of farmers are financially included in the formal finance sector, meaning that they use formal or semi-formal products. Furthermore, the survey found that of these farmers, 66 per cent only use their bank accounts for transaction purposes (FinScope 2014). Improved financial inclusion is important because it gives households the opportunity to increase their well-being by enabling them to better manage their risks, allocate capital for investments and productive use, and smooth their consumption (Thom et al. 2015).

The desk research for the present study found limited information on the financial inclusion of tea-growing households in Malawi. However, as explained in Chapter 2, it can be assumed that the general characteristics of smallholder tea growers are similar to those of average smallholder households in Malawi, and that they therefore face the same challenges in accessing financial products. The interviews with stakeholders in the financial landscape of Malawi suggest that tea-growing households are especially financially excluded. Of all the financial stakeholders interviewed, only one had experience of working in the tea sector, and none of the other stakeholders were aware of any providers in the tea sector.

▶ 5.1 Access to financial services and products

Savings

Compared to other African countries Malawi has a relative high savings rate. This is partly because people view the short-term storing of money at home as a form of saving (Agar et al. 2013). The FinScope survey of 2014 found that around 39 per cent of farmers save (FinScope 2014). Saving is very important for low-income household who generally have fluctuating cash flows and need to manage this money to last for a longer time (Agar et al. 2013).

The main motivations for farmers to save, according to the FinScope survey (2014), are:

- to pay for living expenses (41 per cent);
- to pay for farming expenses (14 per cent);
- to pay for medical expenses (13 per cent); and
- to keep money safe (19 per cent).

Providers of financial products are important, as they provide a secure place to store funds. Furthermore, depending on the interest rate, farmers can increase wealth and guard against inflation. Also, these products provide a built-in self-control mechanism, keeping customers from spending their funds too quickly. The two main savings providers in Malawi are commercial banks and informal saving groups such as VSLAs (Thom et al. 2015).

In comparison with other savings institutions, banks provide the highest relative returns. However, they also have higher transaction fees (Thom et al. 2015). For all accounts a minimum balance of savings is required and most also charge a minimum monthly transaction fee. To open an account a customer has to meet certain requirements such as proof of identification proof of residence, proof of employment or a reference letter. This, together with a lack of physical contact points, creates barriers to lower-income clients in the rural areas. Accessibility is especially important for rural people, who want to be able to deposit low values frequently. If they have to travel every time they want to cash in and out of their savings, they are probably not going to use that product (Thom et al. 2015). As a result, the demand for bank accounts remains low in Malawi; a survey in 2014 by the Reserve Bank of Malawi showed that only 22 per cent of rural adults had expressed demand for a bank account (Chirwa and Mvula 2014).

Low-income households save to smooth consumption, so they are in need of a product that helps them reach their savings goals. However, the formal institutions offer mostly short-term savings products with no commitment devices, so clients are not stimulated to save until a certain goal is reached (Thom et al. 2015).

VSLAs and long-term saving products through SACCOs offer these services by committing their clients to saving for a specific amount of time or until a specific goal is reached. Furthermore, these groups often combine their products with financial literacy awareness training. A project evaluation report of 2016 found that 93 per cent of VSLA members had savings (Makoka 2016). Because there are no transaction costs, the net return on savings is higher for VSLAs than for banks. VSLAs are believed to be successful because of their close proximity to their members, their understanding of the local context and the low threshold to participate.

> Village savings and loans have very minimal requirements, meaning they give opportunity to the poor of the poorest to participate, compared to cooperatives which really need somebody who is actually somewhere in the ladder of development.
>
> ▶ **Andrew Namakhoma** (ECLT Malawi)

Besides these barriers to using financial products, the main reason for farmers not to save is simply that they lack the funds. In the Integrated Household Survey (IHS4), only 13 per cent of households indicated that they had an income adequate to allow them to save (Malawi, NSO 2017a).

Credit

The uptake of credit and loans is considerably less common in rural Malawi than in urban areas. In the IHS4, only 12 per cent of rural households had taken up a loan in the previous 12 months (Malawi, NSO 2017a). The FinScope survey of 2014 found that 28 per cent of farmers had some form of access to credit, but mostly acquired through informal channels such as the katapila and VSLAs or through family and friends (FinScope 2014).

The lack of access to credit limits possibilities for farmers to improve their productivity or to expand to non-farm activities and start a business. In particular, providing farmers with credit around harvest time could encourage them to store their harvest until the lean season when they would be able to get a better price for their produce, which would also better enable them to pay back the loan (Dabalen et al. 2017).

The main constraints for credit uptake by farmers are similar to those for savings products. Formal and semi-formal institutions are physically inaccessible, and the products are often unaffordable for low-income households. Formal institutions see farmers as unattractive credit candidates due to the unpredictability of agricultural production (Dabalen et al. 2017). Therefore, interest rates are high.

Consequently. the RBM survey of 2014 found that only 7 per cent of rural adults had expressed a demand for formal credit (Chirwa and Mvula 2014).

While SACCOs and MFIs profile themselves as institutions that serve the rural population, their interest rates also tend to be high, around 30 per cent. As a result, most of their clients are not individual farmers but SMEs or salaried employees.

> There's a lot of uncertainty when it comes to agriculture finance, especially on markets and harvest. So most of the institutions that we have in Malawi, especially the , are running away from financing agriculture, they would like to finance small and medium enterprises.

▶ **Kelvin Msiska** (COMSIV)

One informant also pointed out that many MFIs face difficulties in reaching their rural clients.

> One of the key problems that we're also facing as a microfinance institution is the miscommunication with the clients in the rural area. You find that they spent some few days without a phone and when we check we find it is because of lack of electricity, they were not able to charge their phone.

▶ **Lerato Lekhoaba**

VSLAs are popular providers of credit for the rural community. However, their loans are small, so they only allow for limited investment in enhancing productivity. Furthermore, loans are only made available once a month to one or two members. The main benefit of VSLAs is not credit, but the profit distribution at the end of a group's lending cycle (IFAD 2017).

As a result, if smallholder farmers need fast credit they are obliged to borrow from family and friends or katapila, who tend to be more unreliable, and expensive (Dabalen et al. 2017). Those who borrow mainly do so to pay for:

- living expenses (53 per cent);
- farming expenses (16 per cent); or
- medical expenses (14 per cent).

The reasons not to borrow were fear of debt and concerns of not being able to pay back the loan (FinScope 2014).

Insurance

Where improved access to credit can enhance investments in productivity, and savings can help to smooth consumption, insurance can play an important role in mitigating risks for farmers. Formal insurance uptake is extremely low in Malawi; only 1 per cent of farmers had access to formal insurance at the time of the FinScope survey (FinScope 2014). However, this survey did not consider semi-formal and informal insurances. Many VSLAs, SACCOs and MFIs have a built-in insurance component, where they provide financial benefits upon the death of a member or client.

Medical, life and crop insurance could be of great benefit to farmers, since illness, death of a household member and production shocks (such as droughts and pests) are very serious and expensive threats to the livelihoods of smallholder households (Thom et al. 2015). At present the use of these products is almost non-existent, partly because of the lack of affordable and accessible products offered to smallholder households, but also because of a lack of awareness: a large proportion of the population simply does not know what insurances are and how to use them (Thom et al. 2015). Furthermore, Malawi has no social health insurance scheme. The 1.2 per cent of the population that does have health insurance obtains it through voluntary private health insurance, corporate health insurance or other risk-pooling schemes (Chansa and Pattnaik 2018).

Mobile money

The low cost and wide outreach of mobile money has made it a very popular solution for overcoming the financial exclusion of rural households. Mobile money is mostly used for airtime purchases, value transfers and bill payments. It is an especially effective and affordable way for migrated household members to send remittances to their family members. Moreover, it is possible to store or save money in a mobile money account, although mobile network operators (MNOs) are not allowed to offer interest. Some banks or deposit-taking MFIs (for example FINCA and FDH) have partnered with MNOs to provide savings and loans products that can be serviced online, but their availability is very limited (IFAD 2017).

There are several challenges in accessing and using mobile money. As already mentioned, most agents are based in the urban areas and the agent system in the rural areas has major liquidity problems. Also, network coverage in Malawi is not evenly distributed, leaving some areas with patchy connectivity (Thom et al. 2015). In addition, not everyone in Malawi has access to a phone. According to a 2018 survey, around 51.7 per cent of the population owns a mobile phone. There is also strong gender disparity in phone ownership: 47 per cent of men in rural areas own a phone, while only 25.8 per cent of women do (Handforth and Wilson 2019). Low mobile phone ownership coupled with the strong preference of Malawians for cash and the low levels of financial literacy constrain the use of mobile money (IFAD 2017; Kilyenai Kanjo, personal communication).

5.2 Financial literacy

The last section has shown that the main issues with the financial inclusion of smallholder farmers in Malawi are related to transaction costs and a lack of appropriate and accessible products for low-income clients. Another issue mentioned by almost all the informants interviewed is the lack of financial literacy in rural households.

Financial literacy is the ability of people to understand and effectively use financial skills and resources for a lifetime of financial well-being. In the Baseline Financial Literacy household survey of the RBM (Chirwa and Mvula 2014), only 1 per cent of respondents was able to pass the seven indicators of financial literacy. These indicators include simple division, inflation, simple interest rate, compound interest rates, absolute and percentage discounts, risk and risk diversification. The survey found that the mean financial literacy was four indicators successfully passed (57 per cent of respondents); in the rural areas this was 3.5 and in the urban areas 4.2.

Most people are able to understand simple division (82 per cent) and there is also relatively good knowledge about percentage discount (64 per cent), inflation (57 per cent) and compound interest (54 per cent). However, these numbers can change dramatically when considering urban−rural disaggregation. For example, 83 per cent of rural respondents had never heard of the concept “inflation”, compared to 54 per cent of urban respondents (Chirwa and Mvula 2014). A similar study performed by FinScope (2014) created a financial literacy index, based on respondents’ knowledge of 10 financial terms. It found that 80 per cent of adults were aware of only two terms or fewer, with most having an understanding of personal budget and saving accounts (Thom et al. 2015).

Financial illiteracy is mainly a result of lack of education, but the FinScope survey (2014) also found that the degree of use of formal financial services influences financial literacy, supporting the idea that people learn by doing (Thom et al. 2015).

However, the fact that people who use formal financial services are more aware of certain financial terms does not mean that they also understand them better. One issue with financial literacy in rural areas is that many of the financial concepts do not exist in the local language, so that some respondents might understand the operating of the concept but simply do not know the term (Chirwa and Mvula 2014). Ms Kanjo also pointed to this problem, stressing the importance of explaining financial concepts in terms the local people can understand. Financial illiteracy does not necessarily indicate low levels of financial capability.

> They understand loans and servicing. It's just that we need to be able to explain loans and savings in the terminologies that they understand. Because we go there and use bank terminology, but they already practise these things in the community. One can borrow a goat, but they know that when they're giving back that goat, it has to be a goat and a small goat. In your world and my world, we understand that that is interest on top of the money that they have got. But we need to understand how they think and how they view these things.

Kilyenai Kanjo

Money management. Another indicator of financial literacy is how people manage their money. The RBM survey found that 91 per cent of Malawians plan their use of money and 79 per cent of them keep to their plans. These findings are encouraging. However, 90 per cent of households still run short of money to pay for food and other household expenses and many are forced to borrow. The main reason given for this shortage of money is an insufficient or unreliable income. Because of this lack of income, households tend to plan their money to last only for the short term, with most respondents indicating that they plan for less than a week (26 per cent), less than a month (27 per cent) or less than six months (27 per cent) (Chirwa and Mvula 2014).

Most households (59 per cent) that expected a major expense in the coming months indicated that if the expense came tomorrow they would not be able to pay for it without borrowing. When it comes to an unexpected cost, 87 per cent of households believed they were not in a position to cover the expense; only 20 per cent of these households had done something to prepare for unexpected costs. With regard to old age, one-third of the respondents had no plans at all. The most common plan was to sell or rent out non-financial assets including land, house or livestock. About one-third also planned to keep working forever, and others planned to draw income from their business. Just 11.4 per cent planned on using their savings or financial assets. Almost no-one received a pension or contributed to a pension scheme (Chirwa and Mvula 2014).

This lack of financial planning for the future is mainly a result of low household income. However, as some informants pointed out, financial illiteracy and people’s beliefs on money also play a role. Possibly due to the high inflation levels, the cultural view in Malawi is that money comes and money goes, which reinforces the focus on short-term financial planning. Without education and a certain mindset regarding change, people do not know how to plan and manage their finances to make money last for a longer time, which is very important for smallholder farmers who tend to receive income on a seasonal basis. Financial illiteracy thus leads to inefficient financial planning and use of money at the household level.

Consequences of financial illiteracy. Another consequence of low financial literacy is that financial providers spend a lot of time on training and financial education. This drives up the cost of the services and in some cases will deter financial providers from offering the product to rural clients (Susan Kondowe, personal communication). At the same time, financial illiteracy can also prevent rural clients from using the products that are offered to them, simply because they do not understand how the product works. This was reflected in the FinScope survey (2014) where some of the most common answers to the question why respondents did not use a bank account included the following:

- does not know how a bank works;
- does not know how to apply; and
- bank accounts are not for people like me.

> You invest again and again, it does not guarantee that when you have trained them once they will understand, and you will have to do it again, and again and again. That also has an effect on the cost of borrowing because it means you need to have a separate budget for, you know, financial literacy.
>
> ▶ **Lerato Lekhoaba**

Many formal financial products also require farmers to show records of their cash flows, which many farmers do not know how to keep. This is another example of how financial illiteracy excludes farmers from using formal financial services (George Phuza, personal communication).

Moreover, some people might use a financial product without properly understanding its terms and conditions. They might not be able to calculate whether they can repay the loan in the future. In this case farmers can unintendedly encounter financial problems and debts (Gilbert Jangasiya, personal communication). It is thus very important to improve the financial literacy of rural clients in order to sustainably increase their financial inclusion. And, as some of the stakeholders interviewed have pointed out, now that we are moving into digitalizing financial services it is also important to include a component on digital literacy, since not everyone understands and knows how to use digital services.

> For me, you know, the issue of financial literacy is still key. Because once you start realizing that you need saving there is a lot of work that has to be put in place in the area of financial literacy. As we are moving into the digital space a lot of awareness also is required. Even just awareness using mobile technology for example. We need to do a lot of awareness in this space to make sure that SACCOs and members understand that everything is changing, we need to go digital now. So these are the areas that we really look for continued support form partners.

Fumbani Nyangulu (MUSCCO)

> When we're talking about financial inclusion and digital finance, we're talking about moving people from thinking money should always be in cash form. To be able to say that it's OK for it to be in digital form. And it is safe, and it is fine.

Kilyenai Kanjo (Financial expert)

5.3 Conclusion: Main barriers to the use of financial products

Table 3 shows the main barriers to the financial inclusion of farming households. With an understanding of the inclusion of farming households in the financial landscape, a better understanding of the livelihood constraints of smallholder (tea) households in Malawi is needed. This will be explored in Chapter 6.

Table 3. Main barriers to financial inclusion of farming households

Proximity	Financial providers are often located far away from rural clients.
Affordability	• Most of the financial products are unaffordable for low-income households.
Appropriateness	• Eligibility requirements are not appropriate for rural clients. • Products lack aspects that are important for rural clients (commitment device, rural income flows).
Financial literacy	• Rural clients have limited capability to engage with products. • Rural clients are not aware of the product . • Perception that formal institutions are not for them.

6. Livelihoods of farming households in Malawi

In the previous two chapters the opportunities and challenges for the inclusion of farmers in the financial landscape of Malawi have been analysed. To further understand how financial services could impact the lives of farming households, the needs and constraints in the livelihoods of smallholder farmers should be explored. This chapter explains how the livelihoods of smallholder households in Malawi are organized, including their household dynamics and production system. As explained in Chapter 2, the constraints on average farming households in Malawi are analysed first, while Chapter 7 explores the extent to which these constraints are relevant for tea-growing households, and assesses their additional needs.

6.1 Demographic characteristics of farming households in Malawi

Malawi's economy is largely dependent on agriculture. As a result, the agricultural sector is responsible for 80 per cent of employment in Malawi; in the rural areas 93 per cent of households are involved in some kind of farming activity (Malawi, Ministry of Labour 2019; Malawi, NSO 2017a). The major share of agricultural production (around 70 per cent) is done by smallholder farmers, the other 30 per cent is produced by private plantations (Dabalen et al. 2017). The average land size of a smallholder farm is 1.4 hectares, but 30 per cent of smallholders hold less than half a hectare (IFAD 2017). Despite their small plots of lands, smallholders hold a combined share of 70 per cent of all cultivated land in Malawi (Dabalen et al. 2017).

Apart from the size of their farms, smallholders are characterized by their use of traditional farming methods and their focus on growing food crops (mainly maize) primarily for their own consumption. It is estimated that around 60 per cent of smallholders live below the poverty line (World Bank 2017).

Household size

An average rural household in Malawi has 4.4 members. According to the fourth Integrated Household Survey (IHS4) carried out by the National Statistics Office in 2016–17, the dependency ratio in rural areas is around 1.3. This implies that for every economically active household member there are 1.3 inactive persons present in the household (Malawi, NSO 2017a). These could be young children, elderly people or people with a disability; the inactive members are dependent on the economically active member of the household. Around 27 per cent of households in rural areas are headed by females and these also tend to be single-parent households. Almost half the Malawian population is below the age of 15. Many children (10 per cent) have lost at least one of their parents; most of these (63 per cent) have lost their father and 15 per cent have lost both parents. One in five children do not live with their biological parents (Malawi, NSO 2017a).

Asset ownership

About 80 per cent of rural households own their own housing unit. Most of these houses are made of traditional materials (such as unfired mud brick, grass thatching and rough poles) or a mix of traditional and permanent materials (such as concrete, iron sheets or stones).

The main source of drinking water in the rural areas is from boreholes; almost no one has running water. It is estimated that around 86 per cent of the population has access to improved drinking water. Improved drinking water is protected from outside contamination and thus more likely to be safe. Water sources include piped water, protected springs, protected wells, boreholes or public taps. In Malawi boreholes are on average a 30-minute walk away from the household (Malawi, NSO 2017a).

Firewood is the most common source of fuel for cooking in rural Malawi (92.9 per cent). For lighting, 85 per cent of rural households use torches. Only 3 per cent of rural households have electricity in their houses and about 40 per cent own a mobile phone (Malawi, NSO 2017a). The most common form of transportation is by bicycle.

Household tasks

Members of smallholder households divide their time between income-generating or productive activities, domestic activities, (child) care, leisure and, for the children, education. Domestic activities include cooking, laundry, cleaning and collecting water and firewood. There is a strong gender disparity in the time allocation of household members to domestic activities. The majority of rural men do not perform any of these tasks, while women spend between 11 to 30 hours per week on them. In addition, the care of children and other inactive household members is mainly left to women (FAO 2011).

The children in rural households tend to divide their time between school, work and domestic tasks. Rural children work on average around 10 hours a week, mostly as unpaid family workers on (family) farms or in domestic work. Children are also expected to help out with household chores. The kind of chores depends on their age and sex. Generally, girls spend more time doing household chores then boys, and their workload at home increases as they get older. This is one of the reasons why girls tend to drop out of school earlier than boys (ILO 2017; Malawi, NSO 2017a).

Consumption

Rural households spend around 50 per cent of their income on food. Most of this is spend on staple food items such as maize, beans, oil and dried fish. Input for farm production is another big expenditure for rural households. The amount they spend on this depends on the kind of crop they grow; it can range from 1 to 61 per cent of their income. Finally, households spend 5–17 per cent of their income on social services, including healthcare and education. The rest is spent on household items, clothes or other costs.

Decision-making

In the centre and south of Malawi, a matrilineal land tenure system is common. This means that land is passed on from mother to daughter and men have the right to use the land through marriage. This system might imply a powerful position for women in society, but over the years the patrilineal and matrilineal systems have collided in many places, creating tenure systems that have diminished the power of women. For instance, a common belief about the matrilineal system in Malawi is that the brother controls the land that is owned by his sister and her daughters (Djurfeldt et al. 2018). In general, Malawi is a patriarchal society; customary law in rural areas provides men with superior status over women. Household decisions are therefore generally made by the men of the house (FAO 2020).

Educational levels and lack of quality education

The literacy rate in the rural areas is 68 per cent, with 17 per cent of the rural population never having attended school. This percentage is even higher for women (19 per cent). Most people have attended a couple of years of primary education, for women this is 2.7 years and for men this is 3.4 years. However, 78 per cent of the rural population do not have any qualification, meaning they did not finish school (Malawi 2017b).

Since primary education was made freely available by the Government in 1990, school enrolment for children has risen, with around 88 per cent enrolled in school in 2017. However, many children do not attend school full time and often they are too old for the grade they are attending (ILO 2018b). Besides, most of the children will obtain only primary education; just 11 per cent of rural children aged 14 to 17 are attending secondary school (Malawi, NSO 2017a).

The quality of schools, especially in rural areas, tends to lag behind. The average pupil−teacher ratio in Malawi is 1:64 and classrooms are often filled with over a hundred pupils. Teachers are badly qualified and frequently absent, which results in students enrolled in the early grades only receiving two to three hours of teaching per day (Ravishankar et al. 2016).

▶ 6.2 Societal constraints

Poverty

The main challenge for rural households is poverty. The IHS4 showed that 80 per cent of the rural population considered themselves poor (Malawi, NSO 2017a). In 2016, 60 per cent of the rural population lived below the national poverty line set at MWK 164,191 per person annually (around US$230). One-third of these people lived in extreme poverty, meaning they were unable to meet their daily food requirements. The extreme poverty line was set at MWK 101,864 (US$140).

The poverty gap for the rural population is 20 per cent, meaning that poor households need about 20 per cent more income to get them out of poverty (IFPRI 2019). With regard to the World Bank international poverty line of US$1.90, 71 per cent of the Malawian population lives below this line (World Poverty Clock 2020).

There are several factors that increase the chance of a household being poor. First, households with more members are more likely to be poor. Around 60 per cent of households with more than five members live in poverty. Poverty incidence also seem to be influenced by the education level of the household head. The higher the education level of the household head the less likely the household is to live in poverty (see table 4).

▶ Table 4. Poverty incidence, by education of household head, 2004, 2010 and 2016

	Poverty incidence (%)		
	2004	2010	2016
Household Head's Education			
Attended School	47.1	44.7	48.0
Never Attended School	67.2	71.8	70.8
No Completed qualification	55.2	54.5	59.2
Primary School Leaving Certificate	41.9	37.0	42.8
Junior Certificate of Education	28.3	38.7	31.1
Malawi School Certificate of Education	12.6	12.7	16.3
Diploma or degree	2.2	1.5	1.2

Source: IFPRI 2019.

Female-headed households are also more likely to be poor than male-headed households; 59 per cent of female headed households live below the poverty line. Female-headed households tend to head households with a higher dependency ratio, and thus with few economically active members. Other factors that influence poverty are less diversified sources of income, and a lack of access to assets and services (World Bank 2017).

Food security

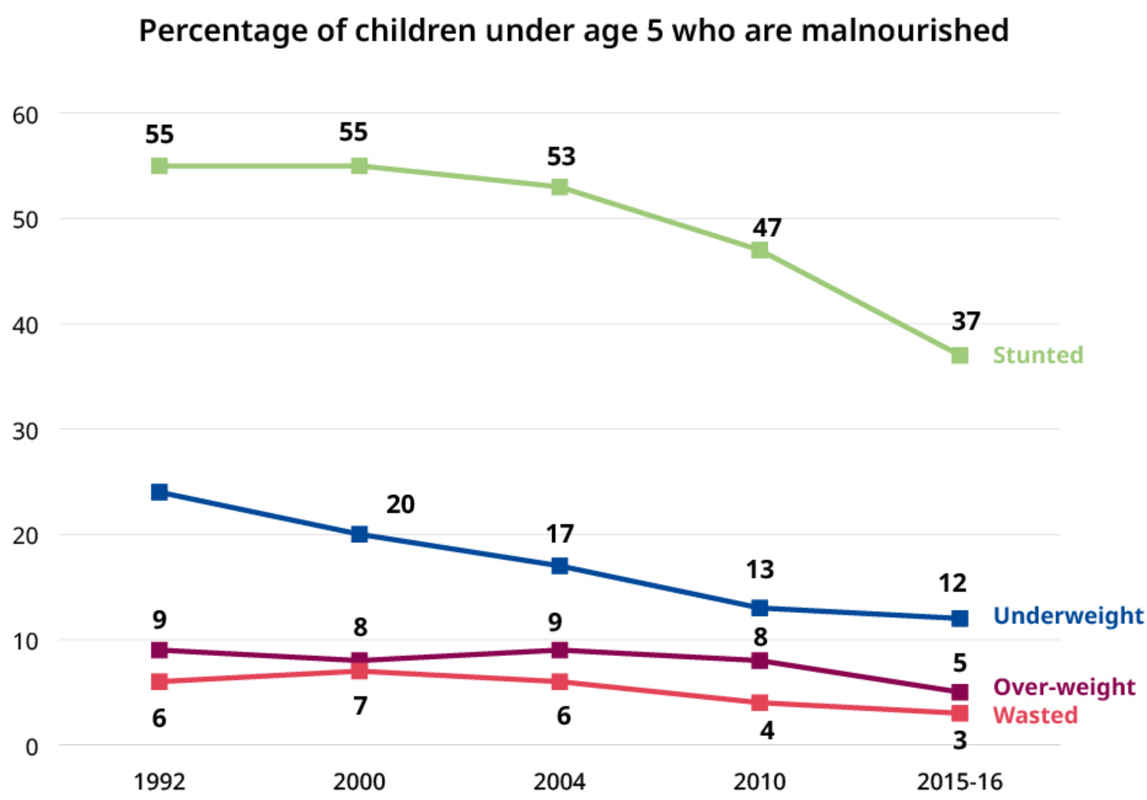
In the IHS4, 69 per cent of the rural population indicated that they did not have adequate food provision for their household needs. About 80 per cent reported they had experienced food shortages in the twelve months before the survey. The main reasons for these were climate shocks such as droughts and floods, high food prices in local markets or a lack of farm inputs. On average, households experienced food shortages between two and four months per year. However, 13 per cent of households indicated that they experience food shortages for more than seven months per year.

When faced with food shortages households turn to five common mitigating strategies. These include: (1) eating less expensive food; (2) eating smaller portions; (3) eating fewer meals per day; (4) restricting consumption of adults in order for the children to eat; or (5) relying on family or friends for help (Malawi, NSO 2017a).

Lack of healthcare

Historically, Malawi has always been plagued by a high disease burden and infant mortality rate (Thom et al. 2015). In recent years significant improvements in healthcare have been made. Where in 1990 about 25 per cent of all children under the age of five died, the under-five mortality rate is now 7 per cent. There has also been a reduction in stunted and underweight children (figure 5) (Malawi, NSO 2017b). Life expectancy in Malawian has increased from 46 in 1990 to 64 in 2019. The disease burden is also shrinking, with the health burden for almost all diseases decreasing every year (Thom et al. 2015). Most disabilities or premature deaths in Malawi are maternal or perinatal, or from nutritional or communicable diseases caused by malnutrition, unsafe sex, poor water, sanitation and hygiene practices.

▶ **Figure 5. Trends in the nutritional status of children**



Source: Malawi, NSO 2017b.

The most important diseases in Malawi are HIV/AIDS, malaria and lower respiratory infections. HIV prevalence in Malawi is high at 9.6 per cent. Although HIV/AIDS care has improved significantly, it is still the number one cause of death for adults (Mphasa 2018).

The considerable improvements over the years in healthcare have coexisted with an increase in healthcare expenditure from both the Government and donors (Thom et al. 2015). However, much still needs to improve. One-third of children under the age of five are still stunted, 10 per cent of the population has a disability and many children are orphaned due to a parent dying of AIDS. Furthermore, seasonal diseases such as malaria cause absences from labour every year during the rainy season, which affects the productivity of households.

Of the people interviewed in the IHS4, 60 per cent indicated that they had inadequate access to healthcare (Malawi, NSO 2017a). With only one doctor per 30,000 people (Trading Economics, 2018), there is a significant shortage of healthcare personnel; around 50 per cent of all communities in Malawi live more than five kilometres away from the nearest health facility (Varela et al. 2019).

6.3 Livelihood of smallholder households in Malawi

The smallholder farmer production system

The smallholder production system can be divided in food- and income-earning activities. Household members allocate their time between activities which secure food for their own consumption and activities that generate cash income. These activities can then be divided again into on-farm and off-farm activities.

Households generally acquire food through a combination of four sources; own crop and livestock production, payment in kind, purchases and food aid. Own crop production and livestock contributes the largest shares, with 40 to 97 per cent of food being produced for own consumption.

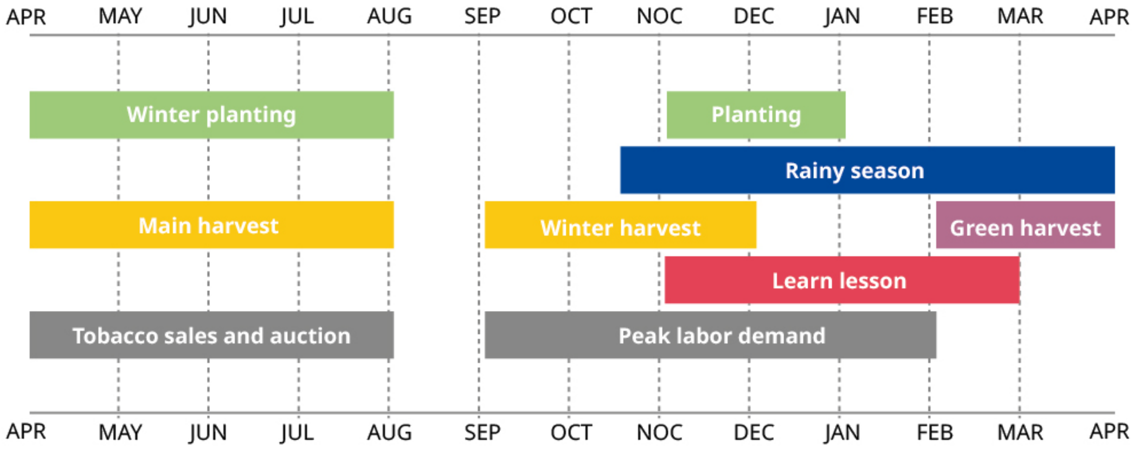
Smallholder farmers tend to sell only about 20 per cent of their overall agricultural output, yet these crops and livestock sales contribute to about 50 per cent of their total income. To supplement their income, farm households are involved in a variety of economic activities (FAO 2018), the most important one being agricultural wage or *ganyu* labour − a form of labour that is casual, short-term and often task-contracted. It is widely practised in Malawi as a way of obtaining fast income. However, some smallholders are also involved in off-farm wage labour and self-employment with micro to small businesses, for example selling fish or brewing beer. Some households also receive remittances or safety net transfers, for instance from the Social Cash Transfer Program (SCTP).This results in approximately a 50:50 split between on-farm and off-farm or non-farm income (Ellis, Kutengule, and Nyasulu 2003).

Crop production and the agricultural calendar

There is still a large emphasis on monocropping in agriculture. The small plots of land and the focus on subsistence farming leave little opportunity for crop diversification. Only half the households grow more than one crop, and most of them are growing only two crops (67 per cent) (Malawi, NSO 2017a). This lack of crop diversification makes them vulnerable to diseases and climate shocks (Ellis, Kutengule, and Nyasulu 2003). Smallholders predominantly focus on growing food crops, with maize being the most important one; as shown in figure 6, maize occupies at least 50 per cent of the total cultivated land (Katundu and Ndolo 2018). According to the IHS4, 75 per cent of smallholder farmers grow maize and on average 0.8 hectare of their land is reserved for maize production (Malawi, NSO 2017a). Other food crops include cassava, potatoes, beans, and peas.

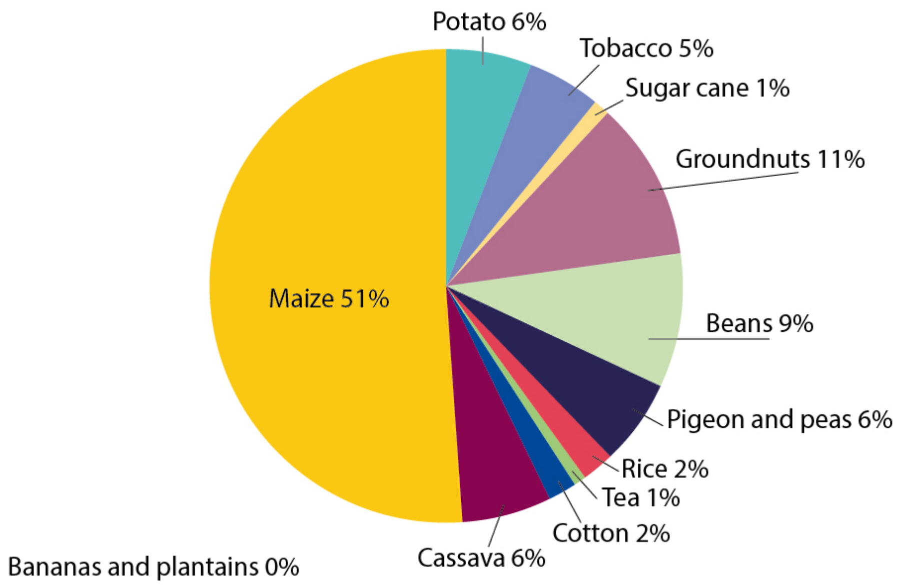
Some smallholders supplement their income by growing cash or export crops, the most common one being tobacco. Cotton and groundnut are also cash crops that are generally produced by smallholders. Tea and sugarcane are export crops that are produced by estates; however, some smallholders grow these crops in collaboration with estates through out-grower schemes (Giertz et al. 2015).

▶ Figure 6. Share of area harvested for commodities



Smallholder production is largely dependent on the agricultural calendar and its agroclimatic conditions. Only 0.3 per cent of rural households use irrigation, so most smallholders rely on rain-fed agriculture (Malawi, NSO 2017a). The rainy season starts in mid-October and runs until the end of April. As shown in figure 6.3, the main planting season for maize and most other crops is between November and February. This period is also known as the lean season (IFAD 2017). Since most smallholders grow rainy season crops (89 per cent) there is almost no food being harvested during this time (Malawi, NSO 2017a). As a result, many households have limited income and they are unable to meet their food requirements or pay for basic needs, so that hunger is a recurrent problem in Malawi during these months. The first harvests of the year are vegetables in February and March, followed shortly after by the main harvest of maize in April until June (IFAD 2017)

▶ **Figure 7. Agricultural crop calendar of Malawi**



Source: FAOSTAT; cotton area data are from MAFS.

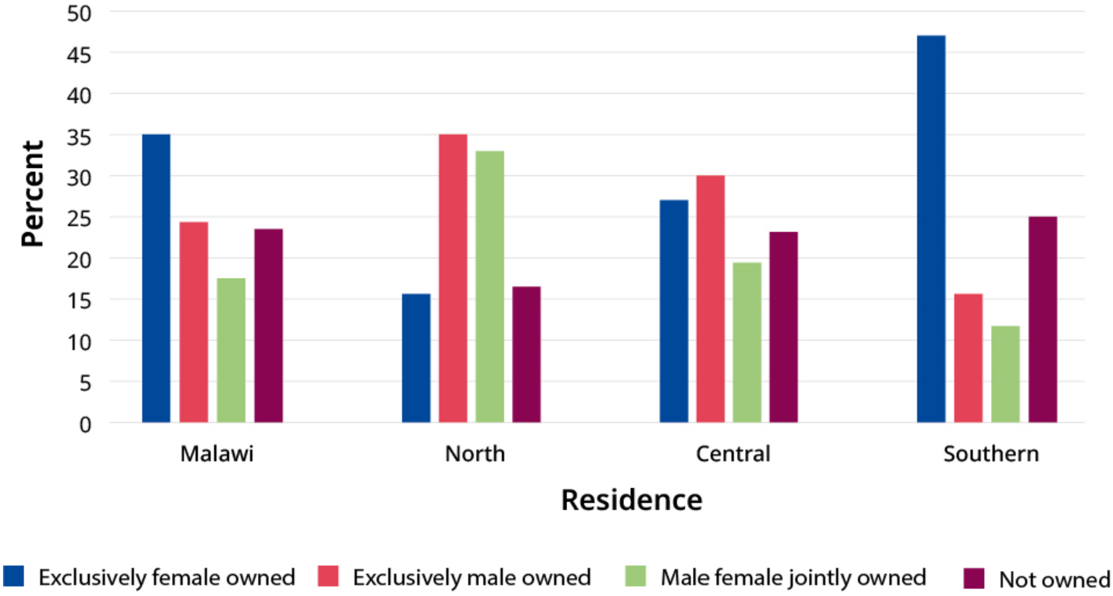
Constraints in productive resources

Access to land. Smallholder farmers are characterized by their traditional and low-input farming methods. They have limited access to productive resources such as land, input and labour. Land is the primary source for the livelihood of a smallholder farmer.

Most smallholders (86 per cent) own their land. Depending on where the smallholder household is located, the land is owned by women, men or jointly (see figure 8). In genera,l farmers have acquired their land through family members. However, the rapid population growth in Malawi is putting pressure on its natural resource. With Malawi already being the 12th most densely populated country in Africa, land is slowly becoming scarce (Dabalen et al. 2017). Small land plots are already being reported as among the main reasons for food insecurity (Malawi, NSO 2017a).

In addition, the scarcity of cultivated land in combination with climate change has led to land degradation, making it harder to produce enough quality output. Increasing agricultural output by acquiring more land has thus become more difficult for smallholders. Instead, they need to increase productivity through other forms of productive resources (Dabalen et al. 2017).

▶ **Figure 8. Plot ownership status, by region, 2016**



Source: Malawi, NSO 2017a.

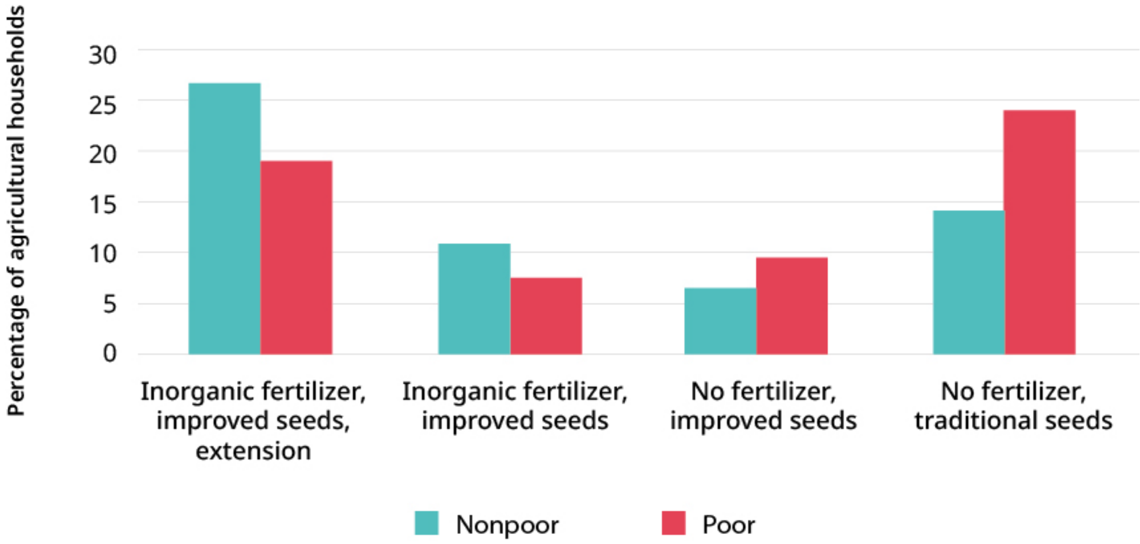
Access to inputs. Smallholders have limited access to modern agricultural technology. Only 1.5 per cent of farmers own mechanized equipment such as a plough, a ridge or motorized pump (Malawi, NSO 2018). For input, most rural farmers (about 60 per cent) use inorganic fertilizer and improved seeds, while about 20 per cent of farmers do not use any form of fertilizer or seeds (Malawi, NSO 2017a). Input prices are very high. On average, a farming household spends about half its income from crop production on inputs (FAO 2018). In particular, the price for fertilizer in Malawi is among the highest in eastern Africa (White 2019). Farmers acquire their fertilizer and seeds through agro-dealers, other farmers, cooperatives, VSLAs, NGO programmes or through the Government's Farm Input Subsidy Programme (FISP) (Katundu and Ndolo 2018). Farmers in out-grower schemes usually receive input from their buyers (Thom et al. 2015).

Access to inputs in Malawi has improved over the years, in part because the FISP subsidizes fertilizer, maize and legume seeds. Under the programme farmers receive vouchers that cover part of their input costs (Giertz et al. 2015). In 2020, the FISP targeted 900,000 farming households (FEWS NET 2019). The impact of the FISP on productivity and food security has been disputed, however. The lack of clear impact may be attributed to the limited response of maize to fertilizer, suboptimal use of fertilizer by farmers or simply the volatility and vulnerability of maize production (Giertz et al. 2015).

Moreover, some studies have found access to the programme to be problematic. Farmers interviewed for a study for the African and Latin American Resilience to Climate Change project (USAID 2013), indicated that access to the FISP is mainly reserved for better-off households. These households are able to buy coupons or bribe officials to provide them with inputs, so even when poorer household have received coupons, they are unable to access any fertilizer since the richer households have bought up the total supply. As a consequence, poor households use hardly any fertilizer, which results in lower yields and thus increases the inequality between rich and poor (USAID 2013). Furthermore, critics say that the FISP discourages diversification since it subsidizes only maize and legumes (White 2019).

Another important input for farm productivity is extension or information services. Around 39 per cent of households have received some form of these services, but lack of education and training in farming methods sometimes results in inadequate use and management of the resources. The suboptimal use of land has resulted in low-input, low-output production (World Bank 2017). As shown in figure 6.5, only 25 per cent of households have access to all forms of input.

▶ Figure 9. Share of agricultural households with access to a combination of inputs for farming, by poverty status, 2013



Source: World Bank 2016b, bades on HIPS data.
Note: HIPS= Integrated Household Panel Survey.

Access to labour. Lack of land, input and assets leaves only labour as a capital that can be converted into income. Smallholder production is thus very labour-intensive. Labour on smallholder farms is predominantly carried out by the household members themselves. Only 8 per cent of the rural labour force in 2016 was hired labour and 11 per cent of households used exchange labour, whereby one works for free on another's farm and vice versa.

The demand for labour in food crop production is highest from September to February; this is when households need labour to help with land preparation, ridge making, planting, weeding and fertilizer application. A common misconception in agricultural countries with land scarcity is that there is a surplus of labour for on-farm activities. However, as shown in figure 8, labour demand peaks during the lean season when access to food is limited. As a result, poorer households will sell their labour to better-off households to obtain fast income in order to meet their food requirements. This presents a paradox, whereby many smallholders neglect their own farms during the time of land preparation which leads to lower yield and less income in the future (Alwang and Siegel 1999). Most smallholders also lack income during the lean season to hire extra labour on their own farm, which leads to severe labour constraints and shortages during this period of the year.

Poor smallholder farmers are thus very dependent on their household members for labour. When something happens to one of their household members, it directly influences their productivity. The lean season and peak labour demand both take place during the rainy season, when household members often fall ill to malaria or other seasonal diseases, making the household even more labour-constrained. About 10 per cent of the rural population indicated that at least one member of the household had fallen ill in the previous 12 months (Malawi, NSO 2017a).

Households with higher dependency ratios are also more labour-constrained. Dependency ratios are higher among poor and female- or single-headed households, meaning they have fewer economically active members (World Bank 2017). This is why child labour is more common in these households: they are forced to depend on their children for labour.

Seasonality and (weather-related) shocks

Because the smallholder production system is so dependent on traditional farming methods and the agroclimatic conditions, they are very vulnerable to (weather-related) exogenous shocks. Droughts, floods, pests and diseases are common problems for smallholder production, especially for food crop production (Giertz et al. 2015). Droughts and dry spells caused by irregular rainfall and desertification affect around 1.5 million people in Malawi every year (World Bank 2019b).

In the IHS4, 40 per cent of the rural respondents said they had experienced droughts in the last year, and 66 per cent were affected by irregular rains (Malawi, NSO 2017a). Floods cause the most disasters, especially in the southern area where land is prone to flooding due to the rivers in that area (UNECA 2015). In March 2019, the cyclone Idai caused flooding that affected about 900,000 people, with 125,000 displaced, 60 deaths and 670 injuries (UNICEF 2019).

Pest and crop diseases are often a result of these kinds of weather events, but they also occur regularly without such a clear cause. A farmer affected by pests and diseases loses on average around 20 to 30 per cent of yield. Sometimes they can even lose their entire harvest (Giertz et al. 2015). Other weather-related production risks include livestock diseases, hailstorms, strong winds and storms, landslides and earthquakes. Due to climate change, weather-related risks are expected to increase in the future, and already the number and intensity of disasters have increased over the years. The 2011 Climate Change Vulnerability Index included Malawi in the top 16 countries that are most vulnerable to climate change impacts (World Bank 2019b).

The impact of these risks on the livelihoods of smallholder is far-reaching. The climate hazards impact crop production by causing soil erosion and crop damage. Maize is very prone to weather-related risks, so that with the overdependency of smallholder farmers on maize, a disaster can quickly lead to food insecurity, hunger and malnutrition. It is estimated that in an average year Malawi loses around 1.7 per cent of its GDP to the combined effects of droughts and floods (Dabalen et al. 2017).

In the south, floods cause annual losses of about 12 per cent of the maize production, while droughts destroy 4.6 per cent of the country's total maize production each year (USAID 2019). Furthermore, such natural disasters can result in loss and damage to farmers' assets, especially their housing property (World Bank 2019b). They also cause damage to infrastructure such as roads and bridges. During the rainy season roads become flooded, restricting the access of farmers to markets. This limits their choices on where to sell and forces them to sell their produce in local informal markets at much lower prices (USAID 2019). Disasters can also badly affect water and sanitation facilities which influence the health of rural households, causing diseases such as cholera and diarrhoea (World Bank 2019b).

Market constraints and price fluctuations

Even though crop sales are the main source of income for farmers, they tend to sell only a small percentage of their agricultural output. The buyer depends on the crop grown and whether this crop is in a *tight* or *loose* value chain.

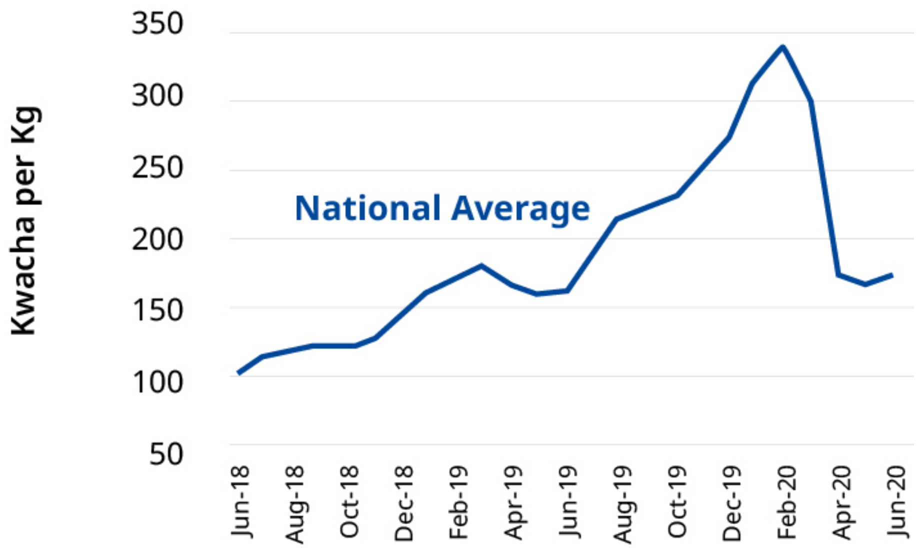
Most food crops are in loose value chains: this means that the farmer does not have a pre-existing contract to sell to a specific buyer. The smallholders who grow cash crops such as tobacco, sugarcane, cotton or tea

are in tight value chains. They tend to have contracts with their buyers which binds them to provide a specific quantity of the crop at a specific time for a certain price (Thom et al. 2015). With maize being the most important food crop, much is therefore dependent on the maize yield and the maize market.

Rural households usually live far away from the main market. Due to the limited infrastructure and high transportation cost these markets are inaccessible to smallholder farmers (Dabalen et al. 2017), which is why most sales of food crops are done in the informal local markets or through a middleman (FAO 2018). Prices in local markets are generally much lower and are characterized by volatility and uncertainty. The unstable market conditions mean that smallholder farmers cannot be certain that they will be able to get a profitable price for their produce and later secure maize from the market in the lean season. As a result, farmers focus on subsistence farming and only sell surplus crops.

This food-security driven strategy leads smallholders to devote much of their land and labour to the production of low-value staple food, leaving them with little income and asset (Ellis et al. 2003). However, almost no farmers in Malawi are self-sufficient, so they are still forced to buy food from the markets. Food price variations are particularly high in Malawi in comparison to other sub-Saharan African countries (Dabalen et al. 2017). The main reason for this is the strong reliance on seasonal products such as maize. The price of maize more than doubles during the lean season (figure 10), so that in the lean season when most households have exhausted their own food stocks, they are forced to buy maize at a much higher price than they have sold it (White 2019).

▶ Figure 10. Retail maize prices, 2019–20



Source: FAO/GIEWS Food Price Monitoring and Analysis Tool.

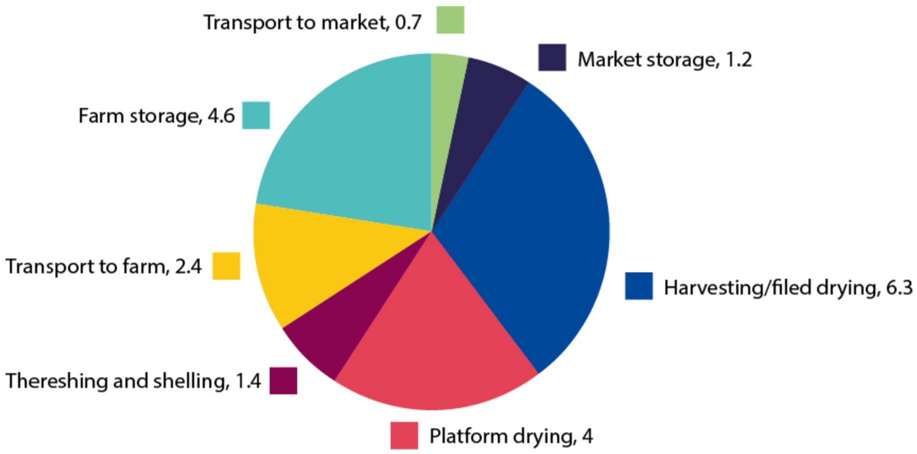
Price volatility is also caused by the lack of on-farm infrastructure that would allow smallholder farmers to store their produce for a longer time. Farmers who lack storage facilities or do not have a financial buffer are forced to sell their produce immediately after harvest when prices are low. If they were able to hold their produce for longer, supply would go down and prices would go up (White 2019). In 2017, about 16 per cent of farmers owned storage facilities (World Bank 2017).

Lastly, the extreme price uncertainty in Malawi can be associated with several failed government interventions over the years. Fixed buying or selling prices, and export bans, have distorted prices which have led to abnormal patterns in maize price development (White 2019).

The rapid changes in food prices mean that farmers never know what to expect and what to prepare for; this has a reinforcing effect on subsistence agriculture (White 2019). Food prices not only change during the seasons, but also differ greatly every year. For example, the maize prices in September 2019 were 80 per cent higher than the year before. This was a result of the floods earlier that year that led to a lower supply and a higher demand than normal (FEWS NET 2019).

Another problem is the post-harvest loss (PHL) of maize. On average 21 per cent of the total maize harvest is lost every year. PHL takes place during storage and processing, as well as in other areas of the value chain; figure 6.7 shows where those losses occur. According to Abass et al. (2013) many of these losses can be mitigated by improving the management knowledge and skills of the farmer. Addressing the PHL could make a major difference to food security.

▶ Figure 11. Post-harvest maize loss in Malawi



Source: White 2019.

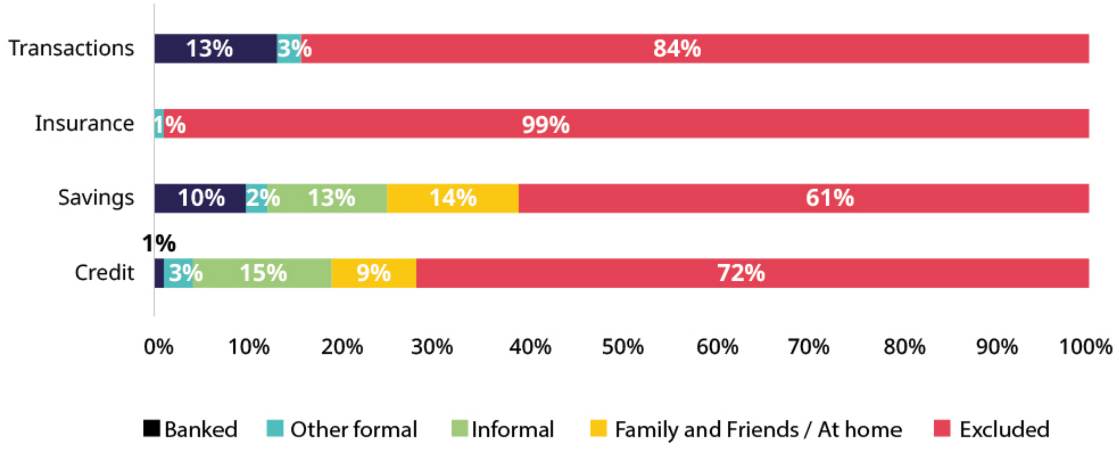
▶ 6.4 Financial constraints

Many of the challenges in the livelihoods of rural households are related to farmers being financially constrained. Smallholder households have recurring expenditures including farm input, labour costs, food, household items, education and healthcare fees. Due to the strong seasonality of their production system, most households receive their income for the sale of their produce at a certain moment in the year. On top of that, because of their lack of storage facilities they have to sell when prices are low. As a result, they are unable to maximize their income.

Households have to manage these seasonal lumps of money to last long enough for them to be able to buy new input when needed (Thom et al. 2015). In general, harvesting time is in April and May, and land preparation starts one or two months before the start of the rainy season in November. The expenses for agricultural inputs and the need to buy food overlap at a time when households do not have any income. In addition, smallholder farmers and their households are very vulnerable to exogenous shocks, with most of them not having a safety net to mitigate these risks.

Financial products such as savings, credit and insurance could all be possible solutions to these constraints. These products can help households to smooth consumption, mitigate risks, encourage investments in productivity or income diversification while at the same time offering tools for money management (Dabalen et al. 2017). However, as explained in Chapter 5, access to finance is limited in Malawi, especially for rural farmers. Figure 12 shows the usage of different financial products among smallholder farmers in Malawi.

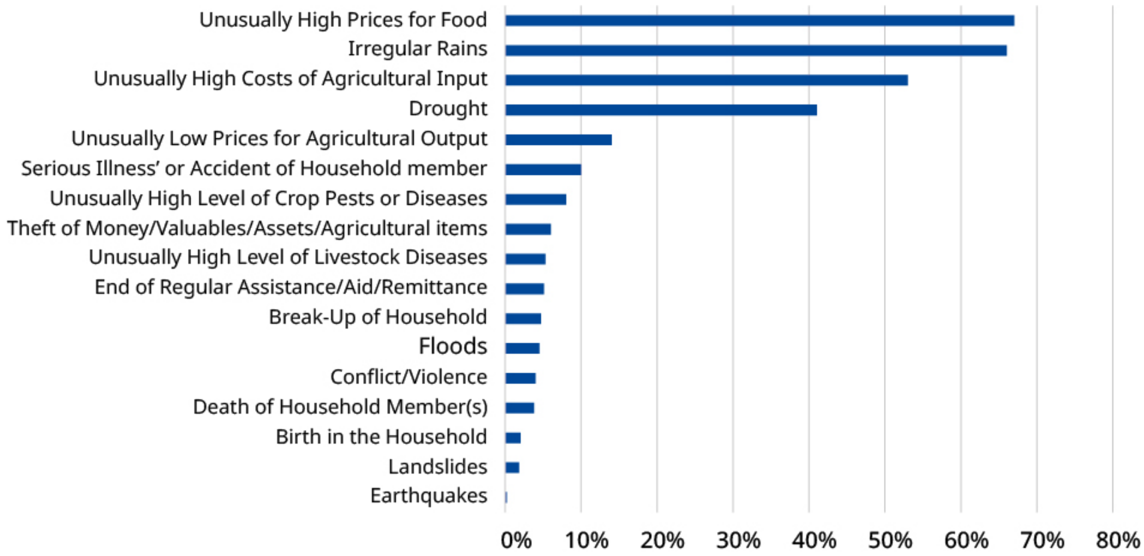
▶ Figure 12. Farmers' use of financial products



▶ 6.5 Mitigating strategies and coping mechanisms of smallholder households

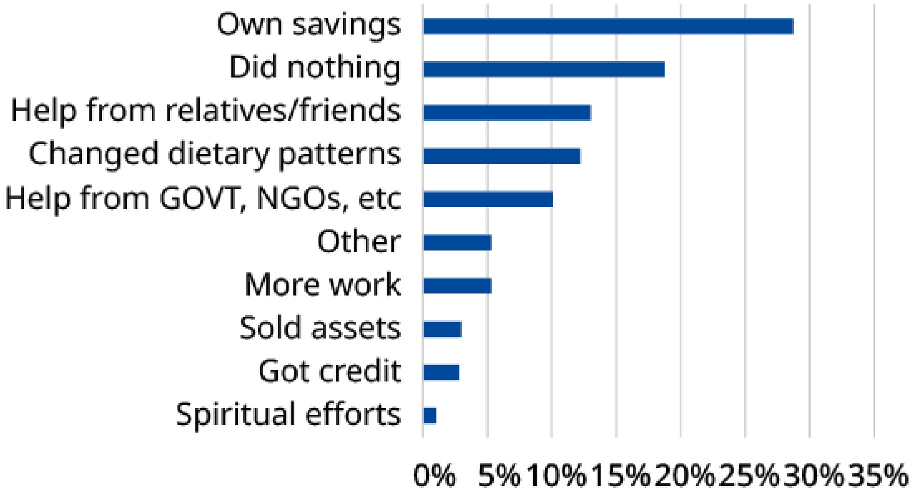
Figure 13 gives an overview of shocks that had a negative impact on the welfare of rural households in Malawi in 2016 and 2017, according to the IHS4. The survey also found that almost all households (99.9 per cent) experienced at least one shock and 40 per cent of rural households experienced at least four different shocks (Malawi, NSO 2017a).

▶ Figure 13. Proportion of rural households severely affected by shocks during the last 12 months before the IHS4 of 2016/17



Source: Malawi, NSO 2017a.

▶ Figure 14. Mitigation measures for overcoming shocks by rural households in the IHS4 in 2016/17



Source: Malawi, NSO 2017a.

The first thing households do when they face risks to their livelihoods is reduce expenditure on non-essential items. Instead, they focus on buying cheaper staple foods such as maize. In bad years they will also forgo sales of food crops in favour of own consumption. If possible, they will try to increase cash income by finding more work, both local ganyu or seasonal work in other parts of the country or across the border. Other options are to engage in petty trade or livestock sales.

In case of sudden exogenous shocks, mitigating measures are common (figure 14). Households will dig into their savings to overcome the sudden losses. However, many households simply do not have the resources to cope with shocks (Malawi, NSO 2017a). They rely on help from family, friends, government and NGO programmes. In cases of distress, households are forced to reduce the amount of food they eat and sell their assets at cheap prices.

6.5 Conclusion

Smallholder households in Malawi face many constraints at both the household and societal level, as well in their production system. Figures 15 and 16 illustrate these constraints.

Figure 15. Main household constraints

Figure 16. Main constraints in the household production system

7. Tea-growing households in Mulanje and Thyolo

Tea is one of Malawi's most important industries. It is the second most valuable export product, behind tobacco, and the largest formal employer. This cash crop is mainly grown in the south of Malawi in the districts of Mulanje and Thyolo. Tea production is done by both tea estates and smallholder growers.

With a clear picture of the lives and the challenges to the livelihoods of average smallholder households in Malawi, this chapter focuses on the tea-growing households to examine the livelihoods of smallholder tea farmers and try to understand the specific (financial) constraints they face beyond the challenges already mentioned in the previous sections.

7.1 The tea value chain

About 93 per cent of the tea is produced on the 21 commercial estates which occupy about 89 per cent of the tea-growing area. The rest is produced by some 16,500 smallholders (Workforce Disclosure Initiative 2018), most of whom have supply or offtake contracts with private estates through out-grower schemes. These contracts are generally made through smallholder tea associations, if the farmer is a member. The estates pay the farmers on a monthly basis per kilogram of tea leaf. Some of these estates also provide support to the farmers with input loans, extension services and tea seedlings.

Smallholder farmers are divided in farmer blocks; every block has a collection point where farmers deliver their green leaf and where the tea companies weigh, record and transport the tea leaf to the processing facilities (Benjamin 2020).

The tea industry in Malawi is free from government intervention. Instead, the Tea Association of Malawi (TAML) regulates the sector. TAML mostly represents the tea estates but also has a desk for smallholder farmers. It controls and dictates policies for the tea sector and thus has a lot of influence on the content of the smallholder contracts (FAO 2014). In some cases, certification bodies such as Fairtrade, Rainforest Alliance, and Ethical Tea Partnership operate to ensure compliance of estates and smallholder growers with ethical certification standards.

All production and grading activities are carried out by factories which are linked to the commercial estates. From the factory the tea can enter the market in three ways: through the tea auction floor of the Limbe Auction; through direct sales to an international or local buyer; or through further value addition and direct sale to a retail chain store. Two-thirds of the tea is sold directly to the buyer; the buyers and packers then arrange for export and sale. These buyers include the large multinational companies that dominate the market, such as Unilever, Tata Tea and Van Rees. Most tea is exported to South Africa and the United Kingdom, but the Netherlands too is a large importer of Malawian tea. Figure 17 illustrates the tea value chain in Malawi.

Role of smallholders in the tea value chain

The approximately 16,500 smallholder tea growers in Malawi do not play a huge role in tea production, with only around 7 per cent of the tea being produced by smallholders. This is partly because the Malawi Government started to promote smallholder tea production only in the 1960s, after smallholder tea schemes proved viable in Kenya (Chirwa and Kydd 2005). Tea production can be appealing to smallholders since it provides a source of income during the lean season. Besides, once the bush is established it will last a long time, so that it is not necessary to plant new crops every year, unlike maize or coffee (FAO 2014).

Tea production, however, requires very high fixed investments which are beyond the reach of the individual farmer. The participation of smallholders in tea production thus needed to be facilitated by outside institutions (Chirwa and Kydd 2006); this is why the Smallholder Tea Authority (STA) was established in 1967 under the Ministry of Agriculture. The STA aimed to help develop the smallholder tea sector through subsidizing and providing farm inputs and agricultural technical services, and by establishing a smallholder factory (Chirwa and Kydd 2005). This factory was called Malawi Tea Company (MATECO). The STA and the MATECO had the monopoly to purchase, process and market all green leaves from smallholder growers (Malawi Carer 2008). The STA initially purchased land from estates and distributed it to smallholder farmers. As smallholder tea production grew popular it extended to customary land, and by 1990 about 2,000 hectares were under smallholder production (Chirwa and Kydd 2005).

From the 1990s onwards, changes in politics led to a liberalization of the economy. This led to mismanagement and problems within the STA and MATECO which eventually led to the privatization of the tea sector; the STA and MATECO were merged into the Smallholder Tea Company (STECO). Because of the problems in the STA which did not disappear with the creation of STECO, smallholder farmers started to leave and instead formed independent marketing and development partnerships with private estates (Malawi Carer 2008).

In response, new smallholder tea associations started to form. They apply a less top-down approach and thus provide smallholders with more autonomy than the STA (Chirwa and Kydd 2005). The most important ones are the Sukambizi Association Trust (SAT) and the Eastern Outgrowers Trust (EOT). The SAT covers the Mulanje area and represents about 8,000 smallholders. Its members have contracts with the Lujeri Estate and Easter Produce estates. The EOT covers both Mulanje and Thyolo and has around 5,000 members. It delivers mostly to the eastern produce estates (Fairtrade Foundation 2013). Both the SAT and the EOT are Fairtrade certified, which means that for every kilo of tea sold under Fairtrade terms, a donation is made towards community development. Farmers also receive free or subsidized fertilizer, seedlings and in some cases small-scale irrigation work (FAO 2014). They do not, however, receive more income for their tea production. The share of tea produced under Fairtrade terms was 66 per cent in 2011 for the SAT and 34 per cent for the EOT (Fairtrade Foundation 2013).

In 2003 the National Smallholder Tea Development Committee was formed, composed of 12 members who represent small-scale tea production (FAO 2014). As previously mentioned, during the STA time smallholder tea growers were organized in blocks (certain areas and districts). Every block had a committee which was responsible for selecting potential growers, informing smallholder farms of the STA policies and advising the STA on management. After the privatization of the STA, STECO and the new associations kept the block structure (Chirwa and Kydd 2005).

Challenges in the value chain

The change in partnership has led to many developments. The out-grower schemes guarantee famers a reliable market and a timely income, as the estates are obliged to buy their output. In addition, some farmers have become more productive due to the efforts of certain estates in developing the smallholder farmers through offering farm management and training opportunities as well as loans (Malawi Carer 2008).

However, contracts with estates have also made farmers more dependent on the private sector for offtake. Prices of green leaf tea are annually determined by a National Tea Pricing Committee made up of members from the estates and the National Smallholder Tea Development Committee (NSTDC). Policies and conditions of the tea industry and contracts are negotiated by TAML, the estates, the NSTDC, and the smallholder associations (FAO 2014). Many farmers feel that the smallholder associations are not capable of influencing important policies, particularly not the pricing of green leaf. While the fragmentation of smallholder associations after the privatization of the tea sector has given farmers more options in representation, it also means that smallholders are no longer being represented with one voice. In addition, many associations have limited effectiveness in delivery of services to their members; they lack resources and have governance and accountability problems (Chirwa and Kydd 2005).

Since privatization, the smallholder has to bear all costs of tea production, from farm inputs to the transportation of tea to the processing companies. This is in contrast to the tobacco or cotton farmers who receive support from the Government. Some smallholder out-growing associations such as the SAT and EOT provide subsidized fertilizer, training and other benefits to their members (FAO 2014), but the amounts are often insufficient. Besides, not all tea farmers are members of an association.

Many farmers, therefore, cannot afford their production costs and are compelled to rely on loans from the private estates. This has led to an unhealthy relationship between the estates and the farmers (Malawi Carer 2008). The fact that smallholders are in contract to the estates and thus are not allowed to sell their produce to anyone else leaves them vulnerable to exploitation. The Malawi Carer study (2008) found that most farmers lack knowledge about the structure and functioning of the tea market; often, they are not aware of their profit margins and the quality and quantity of their tea supply. The majority (92 per cent) of farmers asked in the study did not know how much money was deducted from their payments as tax. As a result, farmers can easily be cheated (Malawi Carer 2008).

7.2 Tea-growing households

Household and societal constraints

Tea is grown in the Mulanje and Thyolo districts located in the south of Malawi. The south is the most densely populated region of Malawi and has the highest poverty rate of the country with 69 and 67 respectively of the population of Mulanje and Thyolo living below the national poverty line (IFRI 2019). The characteristics of the tea-growing households in Mulanje and Thyolo are similar to the average rural household in Malawi: they are poor, lack assets, and struggle to provide for their families; malnutrition is an important issue (ETP 2019).

Some estates provide infrastructure, schooling and healthcare benefits to their workers and the surrounding communities. However, these benefits are generally accessible only to contracted or permanent workers; they are not always extended to the communities (Malawi Carer 2008). Their quality also differs per estate. In addition, smallholder households that do not live close to the estates are excluded from these services (Chirwa and Kydd 2005).

The district of Mulanje has one of the highest levels of primary school attendance in the country (96 per cent). However, as in the rest of the country the quality of schooling in Mulanje is inadequate: the pupil to teacher ratio is far above the recommended rate (1:60) at 1:81, and the pupil to classroom rate is 1:143. The high population growth in the south puts pressure on the available classrooms, so that there are limited physical schooling facilities, with many children still learning under trees. Besides, school buildings often lack basic facilities including access to clean water, toilets or chairs, and this discourages children from going to school. Absence increases especially during the rainy season as schools become a health hazard. The survey by the ILO and the Government of Malawi in 2011 found that about one-third of the children in Mulanje had been absent from school for the seven days before the interview.

The percentage of female-headed households is higher in tea- growing areas, especially in Mulanje, where 35 per cent of households are female-headed (Malawi, NSO 2017a). In conventional demographic data, female-headed households are those run by unmarried or widowed women. However, in Malawi, and especially in the southern rural areas where labour migration levels are high, it is very common for husbands to come and go, leaving the women as head of the household for most of the year. This suggests that the actual number of de facto female-headed households is probably higher than the data show.

In Thyolo and Mulanje there is still a strong matrilineal culture. It is the women who own the land and who remain resident near their families of origin. Inheritance and descent are passed on through the female blood line (Verheijen 2013). Around 60 per cent of the land in Mulanje and Thyolo is exclusively female-owned (Malawi, NSO 2017a). This puts women in control of food production and preparation for the household. The role of the men is to supplement the staple foods, help cultivate the land, earn income to buy household items and build and maintain the housing. Besides food preparation, women are responsible for all household tasks including fetching water and firewood (Verheijen 2013).

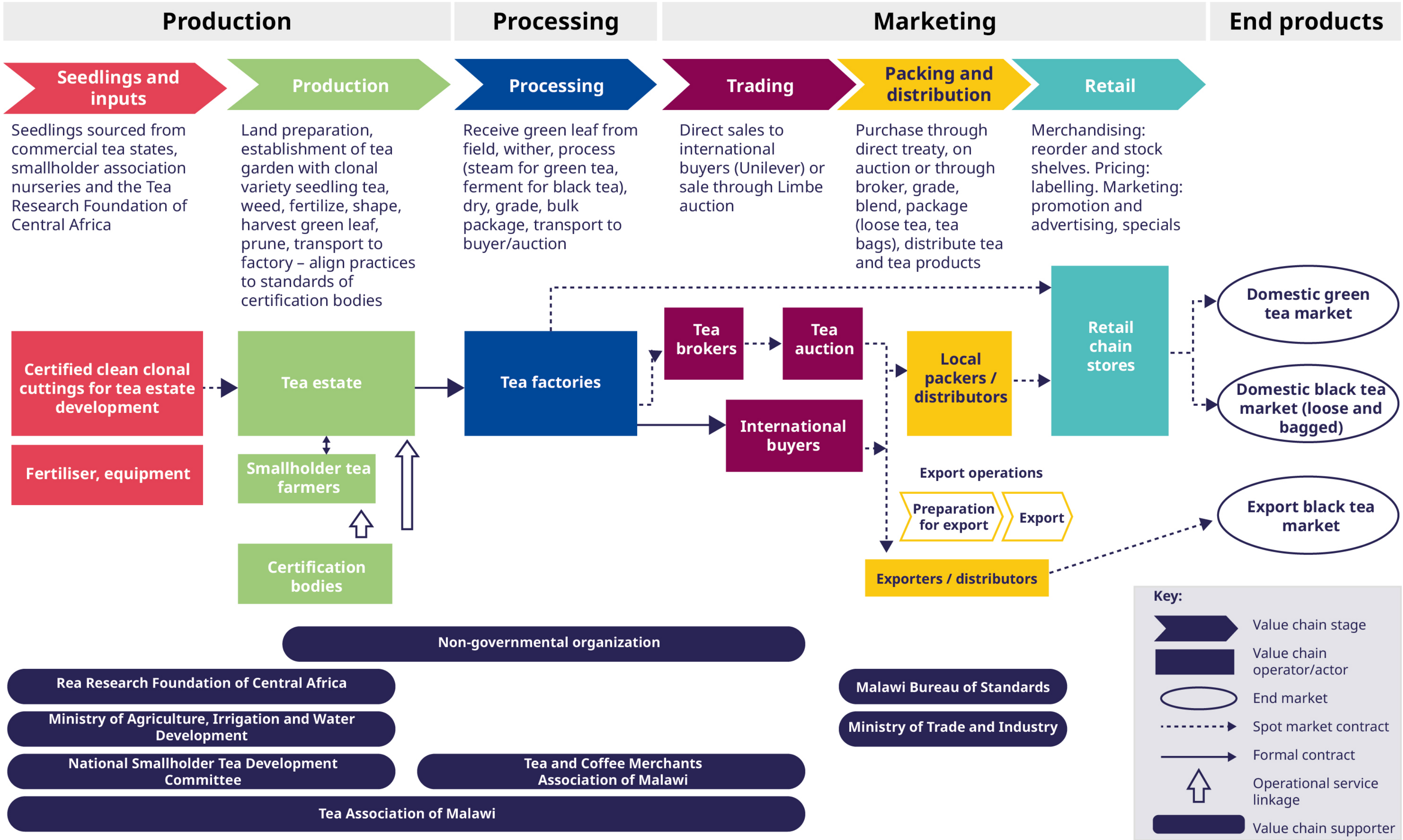
Verheijen describes what she calls the “matrilineal puzzle”: the contradiction between the relatively strong livelihood base of women in matrilineal communities, and the persistent belief in patriarchal traditions and their claim to need male support at the same time. This is characteristic of the situation in southern Malawi.

> …when everybody else is writing reports about farmers, about things that are happening in the community, the face of a farmer is usually a man. But you need to understand the farmers, the farmer is usually the woman.
>
> **Kilyenai Kanjo** (financial expert)

More children are orphaned in Mulanje (16 per cent) and Thyolo (11 per cent) than elsewhere in Malawi. This is most likely a result of the high prevalence of HIV and AIDS in these districts (20.6 per cent in Mulanje and 13.4 per cent in Thyolo) (Nutor et al. 2020; Mulanje District Council 2017). These relatively higher levels of HIV can be partly explained by the labour migration which is more substantial in the south. Many migrant workers will leave their family for extended periods of time, engage in casual sexual encounters and return infected by the HIV virus.

The migratory patterns are both outgoing and incoming. Every year estates attract labour migrants from the Northern and Central regions for seasonal labour. Also, during the Mozambican civil war, refugees inundated the south of Malawi, which added to the population pressure. The high population density and expropriation of the best land for commercial plantations in return pushes people from the south to look for work elsewhere (Verheijen 2013).

▶ Figure 17. The tea value chain in Malawi



Source : Du Toit, Nankhuni, and Kanyamuka 2018.

▶ 7.3 The production system

Just like other smallholders, tea-growing households are involved in several food- and income-generating activities. Apart from tea, farmers usually grow maize, cassava and pigeon peas, among others, to meet household consumption and to sell on local markets (USAID 2013). On average, smallholder tea households devote about 30 per cent of their land to maize production and 60 per cent to tea (Chirwa and Kydd 2005). Most households also own some livestock. Because of the smaller land plots, the average tea-growing household is able to grow only about four months' worth of its own food consumption, so these households are more reliant on cash income to buy food from the markets.

Tea farming accounts for about 70 per cent of the smallholder income (Fairtrade Foundation 2010). Depending on their wealth, farmers supplement their income by selling food crops, engaging in wage or ganyu labour (on the tea estates or other people's farms), operating small businesses such as beer brewing; many also receive remittances from family members (Chirwa and Kydd 2005).

The agricultural calendar for rural households in Mulanje and Thyolo is similar to the one described in figure 7. As with maize and most food crops, tea production is highly reliant on rainfall. As a result, most of the tea is produced over the five months in the rainy season between November and March. The leaves are then plucked in a regular 11-day cycle from December to June (FAO 2014).

Figure 18 displays all other possible activities in which rural households in Mulanje and Thyolo are involved. Most of the casual labour opportunities, as well as the peak labour demand on the household farms, occur just before or during the rainy season. In the middle of the rainy season the lean season takes place, when staple prices are low, and households have exhausted their own food supply. At the same time there is a high disease burden and a need to pay for school fees and farm labour for weeding. As a result, stress, poverty and hunger peak during these times.

Access to productive resources

Smallholder tea production in kilogram per hectare is about half the production made on estates. There is low bush density (15,000 bushes/ha in estates against 6,000–8,000 bushes/ha with smallholders), sub-optimal use of input, lack of irrigation, less frequent plucking (two times rather than three times per month) and lack of proper weeding. These problems represent opportunities to increase smallholder productivity (FAO 2014). However, there are severe constraints for farmers to access productive resources.

Access to land. The southern districts of Malawi are among the most densely populated areas of the country. This, combined with the fact that one-third of the land is under estate farming and another 25 per cent is covered by mountains and forest reserves, leaves little arable land for farming households.

The average land size per households is 0.5 ha, which is more than 50 per cent less than the national average (Mulanje District Council 2017). Due to the high population growth, land holding is becoming increasingly smaller as it is being fragmented among family members. Even middle-income to better-off households only own about 0.2–0.5 hectare more than poor households, illustrating that there is just no more land left to cultivate.

On average, one-third of the household's land is used for maize production. Tea stakeholders see this as a misuse of land, but just like every other smallholder farmer in Malawi, tea-growing households focus on food security; they prefer to invest in low-yielding, low-value food crops over cash crops (Chirwa and Kydd 2005). About 60 per cent of the tea bushes in Mulanje and Thyolo are old and need be replaced (Du Toit, Nankhuni, and Kanyamuka 2018). However, tea bushes take three years to mature, and smallholders simply cannot afford to forgo short-term income for long-term benefits (Chirwa and Kydd 2005).

▶ Figure 18. Seasonal calendar for households in Mulanje and Thyolo

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Rainy Season												
Crops												
Tea								Peak tea production				
Maize												
Cassava												
Sweet pot												
Pigeon Peas												
Green veg												
Tomatoes												
Livestock												
Goat sales peak												
Chicken sales												
Pig Sales												
Other income activities												
Tea estate labour peak												
Local agri labour												
Labour migration												
Brick making												
Firewood sales												
Petty trade peak												
Cross border trade peak												
Relief food distribution												
Stress/High expenditure periods												
Lean Season												
Livestock diseases												
High staple prices												
Human diseases												
School fees*												
Legend		Land preparation			sowing		weeding		Green harvest		harvest	

▶ **Table 5. Input use on smallholder tea farms in Mulanje and Thyolo**

Variable	Mulanje	Thyolo	Total
Mean Fertilizer Used *(Kg)*	247.98	260.32	250.36
Sources of Fertilizer (%)			
Cash purchase	9.8	24.3	13.0
Credit from tea association	25.8	-	20.1
Credit from estates, factory or buyer	62.9	73.0	65.1
Other	1.5	2.7	1.8
Use of Pesticides or Chemicals *(%)*	19.0	4.7	15.8

Source: Chirwa and Kydd 2005.

Access to input. In several studies farmers have indicated that high input prices are among their main concerns (Waarts, Ge, and Ton 2013; Chirwa and Kydd 2005; Malawi Carer 2008). Most of the input for tea production is provided to smallholders through out-grower schemes. Estates provide the smallholders with fertilizer, seedlings and chemicals on credit. The repayments for these loans are deducted from the income of the farmers. Most smallholders make use of these input schemes for the provision of fertilizer. Chemicals and pesticides are hardly used at all by smallholders since they are very expensive (see table 5). The same applies to seedlings, leaving many farmers with gaps in their fields where new plants should be planted. This reduces their productivity per hectare.

The provision of fertilizer through estates is beneficial to farmers because estates can sell inputs at lower prices, as they are able to sell in bulk (Chirwa and Kydd 2005). However, it also reinforces the dependent relationship between smallholders and estates. Many farmers are financially illiterate and unaware of the formula used to calculate their repayments. This makes them vulnerable to exploitation (Malawi Carer 2008).

The amount of fertilizer provided to smallholders is often suboptimal and their application inappropriate (FAO 2014). The suboptimal use of inputs indicates a lack of extension and advisory services as well as a lack of labour. Furthermore, not every estate provides all required forms of input. Most estates provide fertilizer and seedlings, but pesticides, chemicals, tools, extension and advisory services are provided by only a few companies (Malawi Carer 2008).

Smallholders who are members of the Fairtrade certified associations SAT or EOT generally have better access to input. The Fairtrade bonus is invested into providing farmers with subsidized (sometimes free) fertilizers and high-quality seedlings. They also provide extension services and training to their members; however, the quality and outreach of these trainings vary (Fairtrade Foundation 2013).

In addition to input for tea production, tea-growing households also need inputs for their food crops. Like other rural households they acquire this mainly from private traders, which is expensive. Furthermore, about 20 per cent of households in Mulanje access inputs through the FISP (Mulanje District Council 2017). The constraints related to accessing inputs for food crops are already explained in section 6.3.

Access to labour. Tea production is labour-intensive, mostly because of the long period in which the tea needs to be picked by hand. To reduce costs most smallholder tea farmers rely heavily on family labour. However, 70 per cent of the households also hire labour to help out with farming activities, mostly for short-term ganyu work. In Mulanje more growers use hired labour (74 per cent) than in Thyolo (58 per cent) (see table 6).

▶ Table 6. Labour use on smallholder tea farmers in Mulanje and Thyolo, 2005

Farming Activity	Average Number of Members			Mean Man-days*		
	Mulanje	Thyolo	Total	Mulanje	Thyolo	Total
a) Family Labour						
Land preparation & planting	0.67	1.14	0.78	15.44	11.50	14.56
Weeding and fertilizers	2.65	3.26	2.79	106.09	81.19	100.66
Tea plucking or harvesting	2.60	3.21	2.74	149.25	121.88	143.05
b) Hired Labourd						
Land preparation & planting	2.75	5.67	3.55	38.30	22.38	33.95
Weeding and fertilizers	2.85	2.83	2.83	131.61	48.12	114.61
Tea plucking or harvesting	3.07	3.05	3.05	181.40	106.66	167.92

Note: * man-days are computed based on a normal working day of 8 hours.
Source: Chirwa and Kydd 2005.

The workers on smallholder tea farms are generally other poor smallholder farmers from the area (USAID 2013). Chirwa and Kydd (2005) found that 87 per cent of growers recruit labourers from within the village.

Since most tea and maize production takes place during the rainy season when households are food-deprived, members of average-to-poor smallholder households will engage in ganyu work on tea estates or other people's farms during these times (USAID 2013). This gives rise to the same paradox mentioned earlier, where poor households neglect their own farms in order to obtain fast income, which results in lower yields later. Since most of this work is seasonal and ganyu, the workers do not sign contracts, which makes them vulnerable to exploitation (Malawi Carer 2008). Besides, even though the wages on the tea estates are higher than the legal minimum wage, they are still 43 per cent lower than the calculated living wage according to the wage committee (Plaisier et al. 2018). There are no data on the wages paid by smallholder farmers to their hired labour. Payment for ganyu labour in Malawi is typically on a piece-work basis, and can be in kind, in cash or a combination (Whiteside 2000).

The south of Malawi already has a higher disease burden than the rest of the country, so that many households in the tea areas are labour-constrained due to a member being ill or physically impaired. Furthermore, because of the high population density and thus the over-supply of labourers, members of poor households are not always able to find work during the lean season. This means that, in some cases, the male household member will migrate for work (USAID 2013), leaving the now female-headed household labour-constrained for longer periods of time.

Child labour in tea-growing households

The tea sector is considered a hazardous sector under the Employment Act of 2012, so no children under 18 are allowed to formally work in tea (CEACR 2019). The work is hazardous because of the demanding physical labour, the long hours and the exposure to pesticides and insecticides as well as to mosquitoes and poisonous snakes (Malawi Carer 2008).

Not much research has been done on child labour in the tea sector of Malawi. However, in general it is assumed that child labour is also rampant in this sector, especially during the high season (Eldring 2003). According to TAML and estate owners, the enterprise does not formally hire anyone younger than 18 years, and past research has found little evidence of child labour on private tea estates. From the interviews in the present study, most people believe that there is no child labour on tea estates. In line with this, 80 per cent of respondents to the 2011 survey by the ILO and the Government of Malawi agreed that child labour was banned from the private plantations.

However, child labour has proved to a very sensitive topic and few people are comfortable talking about it openly. It is hard to find out whether there is no child labour on tea estates since access to the estates is limited and estate owners tend to alert each other when inspections are on their way (Eldring 2003). Besides, age registration in Malawi was operationalized only in 2015 and birth certification remains low (Handforth and Wilson 2019). It is easy to claim, therefore, that labourers are over 18 years old.

Moreover, while there might be no children employed on tea estates themselves, the estates can cause indirect child labour. For example, the children of tea plantation workers are left at home to care for their siblings at the expense of their education. The survey by the ILO and the Government of Malawi (2011) also found that children were being employed in plantation workers' homes, so that there was child labour in the domestic sector. On the other hand, private tea estates have also been acknowledged as important players in eradicating child labour in the community through their support for child labour initiatives, building schools and providing social services to the community (ILO and Government of Malawi 2011).

Child labour with smallholders in the tea sector is more commonly accepted as a problem. These farmers are often dependent on family labour for their work, which makes it difficult to exclude child labour. In the Malawi Carer study (2008), 80 per cent of the smallholder farmers interviewed admitted that they used their children for weeding, pruning and picking the tea. This study found that most farmers believed that if a child is working after school, it is not child labour. This again shows the impact of cultural norms and traditions on child labour.

The 2015 child labour survey (ILO and NSO 2017) found that child labour was most prevalent in the southern region, with 43 per cent of children being involved in child labour. This corresponds with the higher poverty levels of the south as well as labour constraints in households due to the higher disease burden and the higher dependency ratio in female-headed households. The 2011 study (ILO and Government of Malawi 2011) found that 27 per cent of the children interviewed in Mulanje were involved in child labour and about 60 per cent in economic activities.[2] An interesting finding was that 53 per cent of households reported that the children working there were not their biological children. This could be related to the higher orphan rate in southern Malawi. Children who do not live with their parents are more likely to be involved in child labour, because they are expected to help out in exchange for the care provided by their foster parents (Webbink, Smits, and de Jong 2010).

In addition, tea-growing households hire more labour than other rural households in Malawi. There is little information on who these labourers are: they are likely to be poor farmers from the area. The children of these families are most likely even more vulnerable to child labour.

In the 2011 survey (ILO and Government of Malawi 2011), learning new skills was the most important reason reported by children on why they worked (55 per cent). This was followed by supplementing family food requirements (23.9 per cent) and family income (14.5 per cent). As a consequence of working, 12 per cent of the children had endured an injury in the 12 months before the survey, and 7 per cent had fallen ill. Many were subject to abuse, with 41 per cent reporting that they were constantly shouted at and 18 per cent repeatedly insulted; 18 per cent reported being physically beaten and 4.5 per cent had experienced sexual abuse. Another 4.5 per cent were subject to non-payment of wages (ILO and Government of Malawi 2011).

2 The two surveys used different definitions for child labour, which might explain the large variation. The ILO and NSO survey (2017) considered all children between 5 and 13 who were engaged in economic activity, and 14-17-year-olds in hazardous occupations, as involved in child labour. The earlier survey by the ILO and the Government of Malawi (2011) included children from 5 to 9 who were engaged in economic activity, 10-14-year-olds who worked more than 28 hours per week and 14-17-year-olds in hazardous occupations.

Production risks

Mulanje and Thyolo are frequently affected by weather-related risks. The main hazards are flash floods, prolonged dry spells, pests and disease attacks. Floods have an especially large effect on the livelihoods of southern rural households. They destroy housing, infrastructure and crops; degrade the land; cause water-borne diseases and can lead to loss of life. In Mulanje it is estimated that over 20,000 households are in danger of being affected by floods (Mulanje Council District 2017).

Temperatures are higher in the south, and this in combination with longer dry spells and floods makes for unfavourable agricultural conditions (USAID 2019). As a result, southern households have generally lower maize yields and higher crop losses then households in other parts of the country (USAID 2013).

Smallholder tea production is also vulnerable to the same weather-related risks. Droughts, floods and heat waves can reduce the quality and quantity of tea (Morchain et al. 2016). Furthermore, smallholders are more vulnerable to pests and droughts then estates, since only 10 per cent of smallholders use pesticides and almost no-one has irrigation (Chirwa and Kydd 2005). These constraints are expected to become even more problematic in future as climate change worsens. In addition, the rapid population growth has caused extensive deforestation and puts pressure on the soil, making the land susceptible to erosion and degradation during floods and droughts (USAID 2019). Households in the south are thus forced to cultivate smaller plots of land from which they are able to harvest limited yields of variable quality, making them even more food insecure.

▶ 7.4 Financial constraints

Tea-growing households have many expenditures. Since they are unable to grow enough food for their own consumption, their biggest expense is food items, accounting for 50-60 per cent of their income. Other major expenses include inputs, labour, transport, school fees and housing, and many of these expenditures come at the same time. In addition, because of the small land holdings, low yields and high crop losses, southern Malawi experiences a maize deficit, resulting in high prices during the lean season (USAID 2013). That most tea income is earned during the rainy season, when food is most expensive, is problematic. Since tea farmers are so reliant on food purchases and have to spend a large proportion of their income on food, they are left with little or no income to meet other expenses during this time (FAO 2014).

> Expenses are high especially during the rainy season when they have to pick all the green leaf from the gardens. The requirement to pay their daily rented labourers is a much higher one. (…) And most people want to be paid instantly for their activity and then go away. The requirement for inputs also comes during the wet season, which makes it very tough situation for them. Now in the middle of all this, they are struggling with very poor prices in the world market for made tea. They do not get the ability to own a dividend or an extra payment that they would get with good performing product on the world market due to the drop the prices.

Uganda tea stakeholder

Tea pricing

Tea production accounts for 70 per cent of the total income of tea-growing households (Fairtrade Foundation 2010). One benefit that tea producers have, in comparison to smallholders who rely mostly on food crops, is that tea farmers receive a monthly income − how much depends on the amount of tea they deliver to estates. Since most tea is grown in the rainy season this is when they make the most income. The base price for green leaf, which is the minimum amount paid per kilogram, is annually decided by the Tea Pricing Committee. The base price is the same for the entire industry, including fair trade tea, and is calculated as the average production cost of both the smallholder and the estate sector. On top of the base price, a bonus is paid: this is the difference between the production cost of estate processes (including factory costs) and the Limbe Auction weighted average price, which is then shared equally (50:50) between smallholders and estate processors.

To arrive at the price for green leaf, the average cost of production and the bonus need to be divided by 4.57, because 4.57 kg of green leaf is needed to produce one kilogram of made tea (FAO 2014). At the time of this study the green leaf price was US$0.15/kg.

In 2014, the FAO found a –39 per cent price disincentive for smallholder tea producers, meaning that a more favourable domestic market and policy environment could increase the earnings of smallholders. The main driver of this high disincentive was the fixed low price for green leaf, which did not reflect the overall market. The price was based on the production cost and not the actual value of the commodity as determined by supply and demand. Also, the bonus reflected the price paid at the tea auction, while in reality two-thirds of tea is sold directly to buyers, for which a different price system is used. Moreover, the FAO also found that the fixed exchange rate policy had caused exchange rate misalignment which resulted in additional price disincentives for tea growers (FAO 2014).

Smallholders are generally not aware of how their payments relate to their production cost. They do not keep records of their inputs and lack understanding of the actual returns they get on their produce. This reduces their ability to negotiate a better price for their green leaf (ETP 2013).

Table 7 shows the margins for tea production in 2016/17. After the production cost, the profit left for the smallholder is US$0.05/kg. With smallholders producing about 4,000 kg on 0.5 ha, the annual average income from tea production is US$200 per household (0.05 x 4,000). For a household of 4/5 people this is far below the poverty line of US$23 per year per person.

▶ **Table 7. Marketing margins for smallholders and estates, 2016/17**

	Malawi Kwacha/kg	US $/kg
Production costs (smallholder growers) (green leaf)		
Green leaf: made tea = 4.57:1; yield of 8,000kg/ha		
Pre-harvest activities		
Weeding labour	26.25	0.04
Fertilizer application: labour	0.64	0.001
Fertiliser application: materials	20.00	0.03
Pruning: labour	7.98	0.01
Harvest activities		
Harvest: labour	25.00	0.03
Harvest: materials	0.75	0.001
Total costs to produce green leaf	80.61	0.11
Green leaf price (including bonus payment)	118.175	0.16
Margin per kg green leaf	37.56	0.05
Production costs (Estates) (made tea)		
Field costs: labour	297.25	0.41
Field costs: materials	159.5	0.22
Total field costs	**456.75**	**0.63**
Processing costs (made tea)		
Factory labour cost	36.25	0.05
Factory processing cost (including green leaf purchase)	181.25	0.25
Ex-factory cost (made tea)	**674.25**	**0.93**
Broker fee	20.23	0.03
Levies (CESS)	9.79	0.0135
Transport and logistics costs	116.00	0.16
Ex-auction price	820.27	1.13
Auction Price	1,152.75	1.59
Estates' Margin (per kg made tea)	332.49	0.46

Source: Du Toit, Nankhuni, and Kanymuka 2018.

Access to finance

Because tea-growing households do not obtain enough income to meet their expenses, many estates and associations provide smallholders with agricultural inputs on credit. The repayments for these loans are deducted from their green leaf payments. Estates and smallholder tea associations are the only value-chain actors extending credit to smallholder tea growers (Oliva and Agar 2006; Chirwa and Kydd 2005). The provision of loans through value-chain actors can be a complementary activity. The input loans are without interest, although some estates charge a handling fee for the administration and transport costs (Oliva and Agar 2006).

Even though these loans have the potential to increase the productivity of the whole value chain, they also tend to trap farmers in loan spirals. The increase in productivity by the supply of inputs does not generate enough income for farmers to cover the cost of fertilizer, so they are forced to keep borrowing (Waarts, Ge, and Ton 2013). Oliva and Agar (2006) found that half of the farmers' monthly payment was deducted for loan repayments.

In addition, the level of credit and input extended to farmers varies considerably from estate to estate. Every estate follows its own practices, depending on the credit risk they are willing to accept as well as the calculated fertilizer requirements and estimated production of their smallholders. The estimates of fertilizer requirements are generally based on the previous production level of the smallholder and not on its potential (Oliva and Agar 2006). As a result, many farmers apply suboptimal amounts of fertilizer and there is an unmet credit demand for additional input (Waarts, Ge, and Ton 2013; Oliva and Agar 2006). Most smallholder tea growers do not have the funds to buy extra fertilizer, let alone other forms of input such as chemicals, seedlings and pesticides. This stifles the productivity of smallholder tea farmers (Chirwa and Kydd 2005).

Credit services from estates and smallholder associations are limited to agricultural loans for tea input. Tea estates are not financial institutions and thus have no interest in providing services that help farmers to finance other needs (such as small-business loans or input for food crops) (Chirwa and Kydd 2005). According to the World Bank (2018), access to finance is especially low in the southern regions of Malawi. Specific data on the financial inclusion of farmers in Mulanje and Thyolo are not available. However, since the characteristics of an average smallholder tea household is similar to average rural households, we can assume that most people are financially excluded. The tea industry seems to be especially untouched by (semi-)formal financial institutions. Most informants for the present study were not aware of any financial providers that worked in the tea industry. This is mostly likely a result of the overall closed character of the Malawi tea industry, where TAML, estates and private companies are hesitant to involve other stakeholders. Only CUMO, a rural MFI, has experience working in the tea sector. CUMO found that smallholder tea farmers lacked funds to pay for labour, especially during the time of plucking, so they developed a product, called a Mthenthadevu loan, to help tea farmers cover their labour cost. These loans are offered as group loans, to groups of 5-7 people. CUMO works in collaboration with the estates, which deduct the repayments for these loans from the farmers' earnings. Besides the Mthenthadeyu loan, CUMO also offers small business loans and agricultural loans to farmer groups. The CEO of MUSSCO, the secondary SACCO, remembered that there used to be a tea SACCO in Mulanje, but this had unfortunately collapsed due to management problems. He explained that ever since, smallholder tea farmers have been sceptical towards SACCOs and cooperatives (Fumbani Nyangulu, personal communication).

Members of tea associations seem to be more financially included, with 90 per cent of SAT members having a bank account. This is mainly because Lujeri, the partner estate of SAT, prefers to pay farmers through bank accounts. This can have a positive side effect on savings. Unfortunately, it seems that these associations do not offer their members any other financial products beside fertilizer loans.

Like other rural households, tea-growing households access finances mainly through informal channels. VSLAs and other informal saving groups seem to have an active presence in the tea areas. For example, the VSL programme of Malawi Tea 2020 has been a great success. In 2017, 4,840 farmers and 1,140 estate workers were involved in their VSLAs (MT2020 2018, 2020). Members indicated that the savings and loans helped them pay for school fees and boost their income by enabling them to start small-scale businesses (Plaisier et al. 2018). There are also several savings and investments groups from COMSIP active in the Mulanje and Thyolo area (Mulanje District Council 2017). The COMSIP groups and most VSLAs are location-based, so they are not specifically aimed at tea farmers.

7.5 Conclusion

Tea-growing households face largely the same challenges as the average farming household in Malawi (see Chapter 6). However, in this chapter several characteristics and challenges that are specific to the tea-growing households have been discussed. The specific constraints related to their household dynamics and the tea supply chain are described in figures 19 and 20.

Figure 19. Main household constraints of tea growers

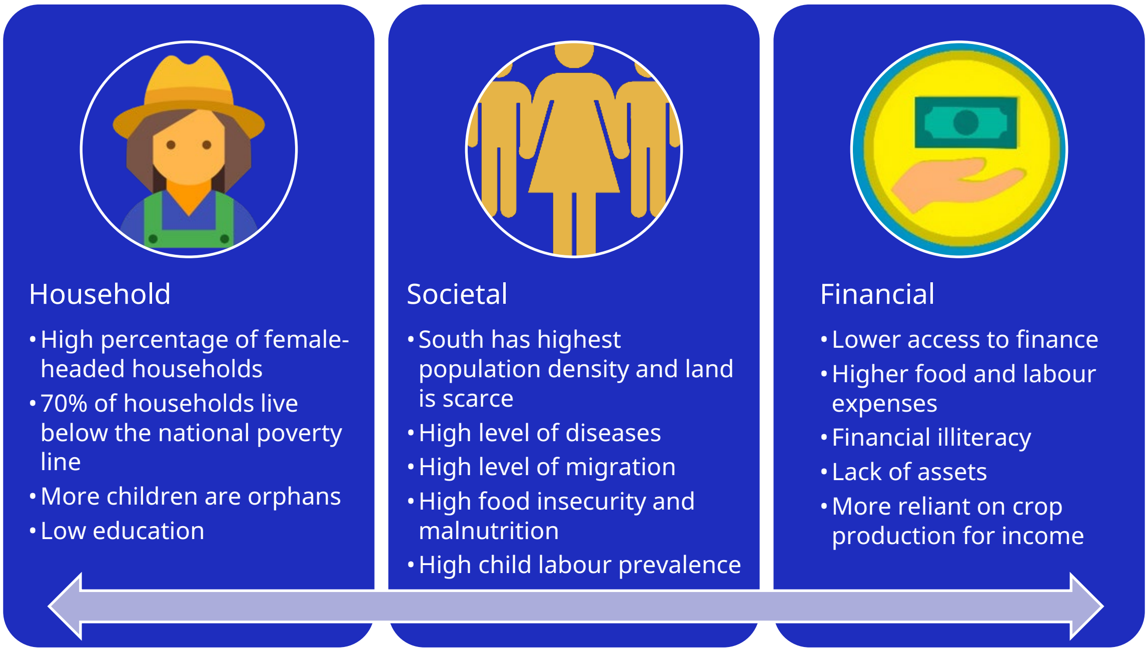


Figure 20. Main constraints related to the tea supply chain

8. Finance and smallholder (tea) households

The last chapters have found that smallholder (tea) households, are financially very constrained. Their income is below the national poverty line, which means they frequently struggle to pay their household expenses and are often not in a position to save. In addition, they have limited access to financial services because of a lack of affordable and appropriate products offered to them. Chapter 5 has explained how rural households in Malawi generally plan their finances only for the short term, mainly because of their limited income but also due to their financial illiteracy and a general mindset towards money. In addition, the livelihood constraints explained in Chapters 6 and 7 strongly influence how they spend their money. High production risks, limited opportunities for capital accumulation and societal constraints make households risk-averse. They focus on food security and short-term expenses instead of long-term future investments.

This is also reflected in rural households' financial behaviour, where households who do use credit mainly borrow to pay for short-term costs such as living expenses, farming input or medical costs (FinScope 2014). In addition, the limited products offered to smallholder farmers tend to be for specific goals such as farm inputs and labour, even though the main financial needs of smallholders are related to consumption smoothing, risk protection and money management.

The question thus remains whether poor rural households, considering their livelihood constraints, are willing to use financial services if they are offered to them, and for what. What kind of effect would financial services have on the different aspects of their livelihood, especially their use of child labour? And would financial services enable them to take more risks and help them sustainably invest in their livelihoods?

This chapter offers some answers and thoughts on these questions by discussing the possible impact of different financial services on the livelihoods of smallholder (tea) farmers. However, since the research in this study is based only on literature and expert stakeholder interviews, further qualitative research is especially important to really understand how financial services will influence the livelihoods of smallholder (tea) households.

▶ 8.1 Influence of financial services on the livelihoods of smallholders

Previous studies have shown that financial services can have a significant positive impact on the productivity and income of smallholder farmers. However, the effect is very context-specific and depends on the quality of the product and implementation process. The evidence on the impact of financial services on other livelihood indicators − education, health, women's empowerment, food security and child labour – is mixed (Clark et al. 2015). This section discusses the possible *positive* impact of financial services on some the livelihood constraints of tea-growing households mentioned in Chapters 6 and 7.

Possible impact on household and societal constraints

The main household and societal constraints that tea-growing households face are related to poverty, food security, health, education and women's empowerment.

Smoothing consumption and coping with risks. Credit products have the potential to enable farming households to invest in productivity or small businesses. If done in a sustainable way, this can enhance the earning capacity of households and lead to an increase in well-being, consumption and resilience. Credit products can also help cope with shocks or (un)expected costs such as for healthcare or education. Instead of their usual low-return mitigating strategies − selling assets, limiting household consumption, selling off-farm labour or maybe even pulling their children out of school to work − households can borrow money which allows them to not forgo any future investments and stay focused on their usual activities (Clark et al. 2015).

Savings are arguably an even better way to help rural households' smooth consumption and cope with risks, since they are less risky. Savings products with commitment devices enable smallholder farmers to make their money last longer so they can smooth consumption during the yearly hungry season. Saving also helps to build assets and provide opportunities for future investments, which in the long run can decrease poverty and increase household welfare. Moreover, through savings households can self-insure against shocks and save to pay for education and healthcare (Clark et al. 2015). In particular, group-based saving products such as VSLAs and ROSCAs are effective in inducing savings with rural households and thus have a positive effect on their welfare. The informal savings groups are strongly rooted in the community and based on a self-help principle with high accountability to each other. Besides, VSLA products are often coupled with capacity building and mindset training, which empowers members through learning new skills. There are several studies that show a positive effect of VSLAs and other informal savings groups on income, consumption and nutrition. A study by Dupas and Robinson (2013) found that members of savings clubs are 12 per cent more likely to afford medical care (quoted in Clark et al. 2015). At the same time, there are a couple of studies that show no effect of VSLAs on general household welfare indicators; this is mainly explained as a result of saving rates and credits being too low (Karlan et al. 2017).

Mobile money products also have proved effective for the well-being of households. The reduced transaction costs for remittances and transfers help households cope with risks through enabling a more efficient way to save and transfer money. In the south where many household members migrate, an affordable way to send remittances can help limit household constraints, since remittances are mainly used by households to pay for education or other household consumption needs (Adaba, Ayoung and Abbott 2019).

Education. Many VSLAs also include a component on the importance of education, and some even require their members to send their children to school and make a child-support plan. This could be very helpful for smallholder (tea) households in Malawi, where many children lack quality education (Dalisto Baloyi, personal communication). The impact of microcredit on education varies. Some studies find an increase in household expenditure on education, while others find that clients for microcredit products spend less on education and pull their children out of school to help with (farm) work (Van Rooyen, Stewart, and de Wet 2012). The impact again depends on the household context and the conditions of the product (Clark et al. 2015; Karlan et al., 2017).

Women's empowerment. In southern Malawi, where many households are headed by women, gender-responsive programmes are key. Group savings and credit products such as VSLAS are generally the most accessible financial services for rural women. They allow them to build savings and access small amounts of credit. This can help them build assets and improve their decision-making and bargaining power, which can increase the well-being of the whole household (Clark et al. 2015). There are also several microcredit programmes that have promoted women's empowerment by providing them with small loans for business purposes (Van Rooyen, Stewart, and de Wet 2012).

Health. Diseases and limited access to healthcare are serious problems for smallholder (tea) households, especially in tea-growing areas where the disease burden is higher than average. Health and life insurances could help diminish these constraints by protecting households from expensive healthcare costs and increasing their use of healthcare facilities. Since uptake of health insurances are very limited in rural areas worldwide, there is limited research on their effect on smallholders.

Possible impact on production and market constraints

Production constraints for smallholder (tea) households in Malawi include lack of productive resources, strong seasonality, a focus on food security, production risks, price fluctuation, lack of access to extension and information services and lack of access to (stable) markets.

Access to productive resources. The limited access to productive resources restricts the productivity of smallholder farmers. Affordable credit products could allow farmers to invest in agricultural resources such as land, labour, equipment or fertilizer. If used appropriately this could lead to a productivity increase, and the additional income from sales and greater food production should lead to improved well-being of the smallholder (tea) farmer household.

However, whether credit products really have a sustainable effect on productivity depends on the quality of the product, the delivery method, the conditions, implementation of the product and household characteristics. For example, an increase in the amount of fertilizer applied would not necessarily lead to an increase in smallholder farmers' productivity. Many other factors play a role, including farm management practices, labour constraints, correct application of the fertilizer, weather conditions, number of tea bushes, or illiteracy, among others (Oliva and Agar 2006).

A major productive constraint for smallholder households is their limited access to labour. They are very reliant on family labour, so when one household member falls sick this directly influences the productivity level of the household. Health insurance can help improve labour supply of households by giving them better access to healthcare services. In addition, it can also reduce household spending on healthcare services and thus increase investments in productive resources (Clark et al. 2015).

Seasonality and price fluctuations. Chapters 6 and 7 have shown that the main problem for smallholder (tea) farmers in Malawi is the returning lean season. During this time households need a buffer to allow them to postpone their produce sales until prices are better. To do this they need funds to cover their food, household and production costs. Credit products could provide this buffer, if the cost of borrowing is low enough to still allow the farmer to make a profit from the higher prices later.

During the lean season, one of the most common coping mechanisms for smallholder farmers is to sell their labour and work on other people's farms, which results in suboptimal use of labour on their own farms and thus lower yields. By offering in-kind or in-cash credit products to farmers in times of (price)shocks, these farmers can stay focused on their high-return activities instead of selling their labour for low-return activities, thereby breaking the vicous cycle (Clark et al. 2015).

Offering savings products and initiatives to smallholders is another way of helping them through the lean season. Savings can help smooth consumption and protect against risks and price fluctuations. The WRS mentioned in Chapter 4 also offers a possible solution to help smallholders store their produce and enable them to sell for better prices later. By providing a buffer for smallholders during the lean season, whether through savings, credit or WRS products, farmers may be more willing to take risks and focus less on food security and instead invest in productivity-enhancing activities.

Food security and production risks. Credit products can also help farmers venture into new income-generating activities Many farmers are too focused on maize production, which has a very low return due to its vulnerability to production risks. In particular, in the south of Malawi the conditions for maize production are very bad. Credit products could help farmers diversify into food crops which are better suited to the climate.

Another way to protect farmers from production risks is through insurance. Self-insurance through savings or diversification can prevent farmers from reaching higher productivity. High levels of production risk tend to make farmers risk-averse and thus influence their decisions on how much they are willing to invest in productive resources (Clark et al. 2015). Crop insurance can ensure that farmers have an income even in case of crop loss, which might increase their willingness to invest in the crop. However, insurance products often have high transaction costs which have resulted in limited uptake, so it is difficult to assess the impact crop insurance could have on smallholder households (Clark et al. 2015).

Access to information services. A returning issue with regard to smallholder farmers is inadequate management of their farms. They lack information on how to correctly apply inputs and take care of their land. Financial providers can be effective channels to provide extension and information services to these smallholders. Many VSLAs, SACCOs and MFIs already provide some form of capacity training to their members, but the quality and quantity of these trainings vary due to limited capacity, staff and resources of some providers.

Access to markets and value-chain constraints. Due to limited access to markets and the unstable conditions of local markets, farmers are unable to obtain the best price for their product. Financial products through mobile and digital channels can help reduce the cost of transactions and increase access to market information; this can improve the market position of farmers. Several studies have found a positive effect of mobile money on input use, farm profits, household income and receipt of remittances (Clark et al. 2015; Adaba, Ayoung, and Abbott 2019; Kikulwe, Fischer, and Qaim 2014).

For tea farmers, a specific value-chain constraint is their dependency on tea estates and their lack of representation. Targeted financial products might help to improve the bargaining power and the position of smallholder tea farmers. Group financial products such as VSLAs can, for example, mobilize farmers to work together. Combined with capacity training and credit products that help invest in productivity and quality of smallholder tea (newer bushes, irrigation, input, other forms of tea), these could improve the position of smallholders in the value-chain.

Financial products might also enable tea farmers to invest in their own processing factories so as to be less reliant on estates for processing.

Possible impact on financial constraints

As we have seen, smallholders in Malawi face many financial constraints. Most smallholder households live below the national poverty line and do not have enough money to pay for all their expenses. In addition, the strong seasonality of the smallholder production system results in their receiving their income only a couple times a year in "big" lumps of money. In addition, expenses for inputs, labour and education are due at the same time, so that there is competition between the different expenditures. Smallholder (tea) households are in need of money management tools and financial services that help smooth consumption. However, many rural households are excluded from the financial system and do not have access to any financial services. Financial providers are reluctant to offer products to rural clients because of the high transaction cost, the risky nature of the smallholder production system, and rural clients' lack of financial resources. In addition, many smallholders are financially illiterate; they do not know how to use financial services or manage their money.

Financial inclusion. Informal financial services such as VSLAs are a good entry point for smallholder households into the financial system. They help introduce a culture of saving and provide opportunities to build assets. Many VSLAs also train their members in financial management skills. Building savings is generally a good way to address the financial constraints of smallholders. Savings initiatives help farmers pay for future expenses and help build collateral. Rural MFIs and SACCOs that consider the rural client's needs, for example by offering low interest rates and alternatives for collateral, can also provide opportunities to address the financial constraints of smallholder (tea) households. However, they are not very active in the rural areas.

Providing financial services through value-chain actors is another way to increase the financial inclusion of smallholders. Value-chain actors understand the smallholder production system and are willing to take more risks, since they are better able to assess the farmers' financial situations. Repayments for loans from value-chain actors are often automatically deducted from farmers' income, which means the default rate tends to be lower (Meyer 2015). In providing services to smallholders, value-chain actors also benefit themselves, since an increase in productivity and well-being of one value-chain actor can have positive spill-over effects on the whole value chain. In addition, they have the opportunity to increase this positive spill-over by providing skills and financial literacy training to the smallholders. For tea-growing households, receiving financial services through value-chain actors is a good option. At present these services are limited to in-kind fertilizer loans from estates to smallholder tea growers. However, if this facility were to be expanded to other financial services, it would be important that the power relation between the estates and the tea growers improves and that both parties benefit equally from the services. This is not the case at present.

Finally, mobile money also increases the financial inclusion of smallholders. Due to the low transaction cost of transferring money, mobile money is especially useful for solving liquidity constraints through remittances. Mobile money accounts can also serve as easily accessible savings. Through mobile and digital channels other financial providers are better able to reach rural clients, communicate information to them and collect information about them, which reduces the transaction cost of delivering financial products to rural clients (Clark et al. 2015; Adaba, Ayoung, and Abbott 2019; Kikulwe, Fischer, and Qaim 2014).

Possible impact on child labour

Financial services have the potential to reduce poverty and inequality in a country, and as described in Chapter 1. poverty and inequality are some of the most prominent root causes of child labour. However, as mentioned before, if financial services want to diminish child labour, they need to include those households that use child labour and consider their specific needs. In Malawi these are the labour- and income-deprived rural households who own a productive business (mostly a farm). Unfortunately, most financial services in Malawi such as banks, MFIs and SACCOs do not include these households. To make an impact on child labour, financial services should take a more pro-poor approach. Furthermore, it is always important to consider the impact financial services have on the opportunity cost of education.

Child labour as a coping strategy. Chapter 1 discussed how child labour can be a coping strategy for households. In case of shocks children are pulled out of school to help smooth consumption. Rural households in Malawi, including the tea-growing households, are very vulnerable to shocks, as described in detail in Chapters 6 and 7. Financial services are commonly used as a way to insure for or deal with shocks. Better access to finances could thus also decrease the use of child labour as a buffer (Beegle, Dehejia, and Gatti 2003a).

Inducing savings can be an effective way to diminish child labour, again because it allows households to smooth consumption and insure against shocks. Besides, a positive effect is found on school attendance from savings (Jensen and Nielsen 1997). Savings decreases the opportunity cost of education.

Credit products can have a positive impact on child labour when they provide an opportunity to smooth an income loss (Dehejia and Gatti 2005). For example, credit products could help households pay for the education of their child.

Beegle, Dehejia, and Gatti (2003b) found that crop losses due to shocks can lead to increase in child labour. Crop insurance could provide an opportunity here to diminish child labour.

Cultural determinants of child labour. Child labour is a complex problem. Besides poverty, vulnerability and inequality there are several other determinants of child labour in Malawi. For example, social and cultural norms play an important role. Many households do not understand the difference between child labour and child work and see work as way to teach their children valuable skills. Furthermore, some households underestimate the value of education, especially for girls. It is thus important to couple financial services with training and guidance to address determinants of child labour apart from poverty.

VSLAs are a good method to decrease the use of child labour from rural households in Malawi. There are already several VSLA projects in Malawi that specifically focus on diminishing child labour (Andrew Namakhoma and Dalisto Baloyi, personal communications). The members of these VSLAs are given awareness training on child labour. Members are expected to send their children to school, and through group monitoring they should keep each other accountable. Winrock's VSLA members need to make a child support plan, in which they estimate how much money they need to support their child and plan accordingly.

As already mentioned, remittances are often used to pay for education. Making remittances easier through digital channels could thus decrease the opportunity cost of education and have a positive effect on child labour, especially in the south where many household members migrate.

Child labour due to labour constraints. Labour constraints are another main cause of child labour in smallholder (tea) households. Most households cannot afford to hire enough labour and rely on their children to help with the farm work. Credit products such as the one from CUMO can help farmers to hire labour and thus reduce child labour. In addition, female-headed households tend to use more child labour because of their high dependency ratio and limited access to capital and income. In the tea-growing areas there are many female-headed households. Financial products that help empower these women can have a positive effect on their children and their use of child labour.

However, when designing credit products with the aim of reducing child labour it is important to consider the wealth paradox mentioned in Chapter 1. By promoting investments in productive resources, the relative returns of working and the opportunity cost of education are increased. As a result, child labour might be increased instead of reduced.

Tea-growing households tend to be more labour-deprived because of the high disease burden in the south. When a household member falls sick, children are often required to work (more) to prevent an income loss. Health insurance could provide an opportunity to diminish child labour by reducing the effect of a health shock on households (Landmann and Frölich 2015).

Critique on possible impact

The previous sections have discussed some of the positive effects financial services can have on the livelihood constraints of smallholder (tea) households in Malawi. However, it is also important to take a more critical look at these financial services and even consider the negative impact they might have on the smallholder (tea) households.

Productivity enhancing vs consumption smoothing. Most financial services and programmes for rural clients and smallholder farmers focus on (agricultural) productivity enhancement, with the underlying belief that an increase in productivity leads to an increase in income and thus a better life for the rural household. However, as Meyer (2015) found, poor rural clients seek consumption-smoothing mechanisms and ways to pay for relatively small expenses such as school fees. Due to their exposure to shocks, they are not willing to save up for large business investments. This is reflected in how most Malawians have indicated that they only use credit and savings products for consumption-smoothing purposes or to pay for specific short-term goals (FinScope 2014). Furthermore, as mentioned in the last section, the promotion of investment in productive activities can lead to an increase in child labour.

There is thus a need to go beyond agricultural finance and focus more on addressing household needs and risks. This will allow households to start thinking about long-term investments. More research is needed to really understand the financial needs of tea-growing households. However, from the present research it can be concluded that they are mainly in need of financial products that can help them: (1) pay for short-term expenses (inputs, labour, healthcare, education, food); (2) diminish and help them cope with risks and price fluctuations; and (3) provide them with a buffer during the lean season. The question however remains whether financial providers are willing to provide financial products that do not necessarily have a direct impact on the productivity and income of rural households. Already, financial providers are reluctant to provide services to rural clients, because of the risks involved.

> It can depend, but for me, I would not be very comfortable to give loans for household consumption. I would only be comfortable if the loans we give them are used for investment. The investment is able to yield the returns that can support their daily needs.

Kelvin Msiska (COMSIV)

Negative effects of financial products. Apart from all the barriers to and problems in accessing financial products, there is also critique on whether financial services really are the best way to improve the livelihoods of smallholders in Malawi. How households can be trapped in a loan spiral, where a dependency is created on financial products, has already been described. The increase in earnings due to the in-kind loans of tea estates are just enough for tea farmers to repay the loans, so instead of improving their livelihoods this financial arrangement only creates a new status quo with increased dependency. The high interest rates in Malawi together with high financial illiteracy, which can lead to mismanagement and/or a misunderstanding of the product, can also lead farmers into financial problems and debt, which only increases their vulnerability. Besides, financial providers in Malawi struggle with governance and liquidity issues and the financial landscape of Malawi is not stable. Including smallholder households into this landscape may well expose them to additional risks.

Financial inclusion policies are supposed to decrease inequality by offering financial services to the unbanked. However, as shown throughout this report, financial services in Malawi experience great difficulties in including the poor and vulnerable; they tend to reach only the better-off households. This leads to an increase in inequality. Mobile money and digital solutions are often presented as a solution to the access problems of rural households. However, these need to be approached with caution, since a large percentage of the rural community still does not own a mobile phone, and many do not have access to a stable internet connection. Women especially tend to be excluded from digital channels. In addition, it is assumed that rural clients will embrace digital solutions and currencies; however, with the strong preference for cash in Malawi it might be difficult to persuade people to change their ways (Ozili 2020).

Lastly, there are also many livelihood constraints that are hard to solve with just financial services, for example the scarcity of land, high crop losses, the high dependency ratio in female-headed households, the high disease burden, lack of representation of smallholders, lack of quality education, unstable markets, and cultural determinants of child labour. It is thus always important to combine financial services with social services and capacity training to address needs that go beyond the financial constraints.

8.2 Stakeholder perceptions and recommendations

Every informant contributing to this study was asked to give their views on the main topics of the report: financial services for smallholder (tea) households, the needs of (tea) smallholders in Malawi, and child labour with smallholder households. This section attempts to categorize and summarize their recommendations.

On developing (financial) services

With that sentence Ms Shawa summarizes the main advice on how to develop financial services for smallholders. Likewise, Kelvin Msiska from COMSIV highlighted the need to offer demand-driven products for which a functioning market already exists, and Roger Siula from Plan International recommended understanding the perspectives of the community through one-to-one engagement. According to him, the framework should be developed through a bottom-up and human-centric approach together with the local people. In line with this, Andre Bongestabs, ILO Malawi's social protection officer, recommended that one should always first try to understand what the priority of the farmers is: *"Is it to get access to finance or is something else missing that need to be addressed first?"*

> When developing a programme, it is important to always keep in mind the needs of your target audience.
>
> ▶ **Sophie Shawa** (UNICEF Malawi)

Tea sector informants stressed the need for financial products to have a level of flexibility which complements the nature of the farmer. In addition, when developing financial products, it is especially important, according to Dalisto Baloyi from Winrock, to consider the household dynamics; to make sure that the household has common vision and that all the members understand the goal of the product and project. This is especially essential if you are providing finances to women, since they often encounter problems with male members of the household: "*The husbands might snatch the money and use it for a different goal than intended."* Most stakeholders also recognized the importance of making financial products affordable to smallholders. Mr Bongestabs pointed out that financial services tend to work only for farmers who already have a level of skills and security; in general, they do not work for farmers who are struggling to survive.

For the delivery of the product, some mentioned the importance of working with local influential people for an introduction to the community (K,ilyenai Kanjo, Andrew Namakhoma, Roger Siula). They also recommended making use of the local laws and language. Lastly, it is crucial to make sure that the project is sustainable and will work in the long term. Too many projects fail to make a lasting impact (Andrew Namakhoma, personal communication).

Financial providers and products

Cooperatives and SACCOs. With respect to the financial landscape of Malawi, most financial providers interviewed were positive about cooperatives and SACCOs. They pointed out that these are a good way for farmers to unite, accumulate savings and wealth and learn new skills. According to

George Phuza from Ecobank, grouping farmers in cooperatives could also make them more favourable clients for banks. However, most providers also recognized the flaws of cooperatives and SACCOS, emphasizing the need to strengthen their governance and liquidity. John Mulangeni from the Malawi Federation of Cooperatives specifically called for the introduction of a standardized and proper internal control system in cooperatives to deal with financial issues.

VSLAs. The informants from NGOS and non-financial organizations were more sceptical about (semi)-formal finances, pointing out that they generally do not serve the rural poor. They leant more towards VSLAs and other informal savings and credit groups, due to the strong presence of VSLAs in the community and their low participation threshold. However, they did emphasize that for VSLAs to work they need to be trained properly, preferably according to the CARE VSLA model. Andrew Namakhoma from ECLT underlined the need for VSLAs to have a good monitoring system, with members keeping each other accountable. Besides, according to Dalisto Baloyi from Winrock, it is very important that all members of VSLAs understand the common goal from the very beginning. For this reason he suggested that VSLAs are stronger when they are business-oriented. However, Kelvin Msiska from COMSIV held the opposite view, saying that informal groups that are location-based have a stronger basis and are better able to keep each other accountable. CARE aimed to improve the VSLA model by linking them to more formal institutions such as banks and mobile money agencies, to provide the groups with more opportunities and improve their financial inclusion.

Mobile money. The majority was also positive about the possibilities presented through mobile money. However, two informants (Kilyenai Kanjo and Olisa Gravney) also pointed out that mobile money should not be seen as the silver bullet since a large percentage of the rural population still does not have access to a mobile phone or a stable internet connection, and many have a strong preference for cash. A suggestion was also made to invest in solar energy for households so that household members can charge their phones more often. This would make it easier for financial providers to reach their clients (Lerato Lekhoaba).

Insurance. Some informants also saw possibilities in providing health, life and crop insurances (Cosmas Luwanika, Fumbani Nyangulu, and some Uganda stakeholders). However, another informant from Uganda acknowledged that a lot of sensitization is needed before insurances can be provided, since most of the rural population are not familiar with insurance and have a negative attitude to paying premiums without a certain pay-out.

De-risking products. Most financial providers recognized the need to de-risk the provision of finance to rural households. Suggestions included: a platform that tracks client performance (Lerato Lekhoaba), a guarantee scheme for banks to cover their risks (George Phuza), securing loans through insurances (Cosmas Luwanika) and using data from mobile money accounts to estimate farmers' financial performance, as a replacement of collateral (Kilyenai Kanjo).

Financial literacy and capacity training

Almost all the informants interviewed underlined the importance of combining financial services with some form of capacity and skills training. Most called for financial literacy training, since this seemed to be one of the main obstacles to offering financial services to rural clients. Specifically mentioned was the need for farmers to learn proper financial management tools such as record keeping (John Mulangeni, Lerato Lekhoaba). Kilyenai Kanjo advised that such training should use terminology that is understandable by the community, since financial terms are often unknown to rural people. In addition to financial literacy training, the need for extension services to help train farmers in farm management (tea informant) and grow their capacity for running an enterprise (George Phuza) was brought up. *"Farmers should learn how to do agriculture as business,"* according to Gilbert Jangasiya from CUMO. In addition, mindset training to promote self-help and help rural households understand how to graduate from poverty, were also advised by some informants (Susan Kondowe, Dalisto Baloyi). Moreover, to help households understand the new financial channels, Fumbani Nyangulu from MUSCCO called for digital literacy training.

> We need to look beyond economic empowerment and see the social aspect.
>
> ▶ **Susan Kondowe** (COMSIP).

On (tea) farmers livelihood constraints

Besides financial constraints, the main livelihood constraint mentioned by informants was the need for **women's empowerment**. Kilyenai Kanjo highlighted the fact that policy makers generally do not realize that most farmers are women and instead make products for men. As a result, women farmers are excluded from many projects and their needs are not considered.

The need for better **education and healthcare** was also emphasized by many. In addition, Dalisto Baloyi, Frances Kwenda and Gracious Nadalam stressed the need for smallholders to associate and work together so as to obtain better labour rights, access to credit and a better bargaining position.

Tea farmers. Informants who were asked specifically about tea farmers mostly stressed the need for tea farmers to diversify (Care, tea informants). The main problem for tea farmers, according one informant, is their limited access to land. Therefore, farmers need help to efficiently use their land and resources and venture into other activities to supplement their income. The informants from CARE agreed, emphasizing that tea farmers rely too much on one source of income. They mentioned that VSLAs can help farmers to diversify; in that way farmers can be less dependent on tea and at the same time improve their diet and income.

Four informants also advocated for investments in smallholder processing and marketing facilities. This could enable farmers to go beyond just selling green leaf by working in value addition and improving the quality of their tea. This would also improve the bargaining position of smallholders, since according to some the tea estates have too much control.

Informants did not think that smallholders and estates should work independently of each other. However, some emphasized that the partnership should become more equal, and that farmers should be more involved in the decision-making processes. In general, most informants recommended involving estates in any programme to be developed for smallholder tea farmers.

Other livelihood constraints that need to be addressed for tea farmers, according to informants, include: low tea prices, bad infrastructure, better regulation, access to clean water and proper weighing scales. Gracious Nadalam also mentioned the problem of competing food and cash crops, which often leads to farmers not being able to gain enough yield for either crop.

On child labour

Root causes of child labour. The root causes of child labour mentioned by informants varied from poverty, illiteracy and labour constraints to lack of awareness, attitude and cultural norms. The main advice given was to provide awareness training on child labour to help farmers understand the difference between child work and child labour.

> How we look at child labour in Africa and how the world looks at child labour differ. There are certain things that we can agree on, I can agree with you that it is child labour, but they are also things that we could call child teaching ... When does child labour start and when does child teaching begin?

Kilyenai Kanjo.

Emphasis was put on the need to consider local laws and practices when developing programmes and training on child labour (Frances Kwanda). "*The problem should be solved together with the community. The community should have a sense of ownership and responsibility,*" said Roger Siula.

Impact of financial services on child labour. Most informants agreed that financial services hold the potential to promote the decrease of child labour within households. Financial services can permit labour-constrained households to hire more labour, which will make them less reliant on their children's labour. Furthermore, more access to finance can enable households to better support their children and send them to school (Andrew Namakhoma, Dalisto Baloyi, and CARE informants). However, some also warned that an increase in access to finance could also increase child labour (Andrew Namakhoma, Sophie Shawa). It is thus important to always couple financial services with awareness training on child labour (Andrew Namakhoma, Dalisto Baloyi, and CARE informants). Mr Baloyi also believed that it is important to understand how households spend their money before providing farmers with finance. Do they invest it in their children? He advised introducing a child support plan in programmes, where members first calculate how much money they need to support their children and plan accordingly.

Mr Namakhoma and Mr Baloyi, as well as CARE informants, agreed that VSLAs are a good channel for addressing child labour. Through VSLAs members can acquire resources to hire labour and send their children to school. In addition, by providing child labour training to the VSLAs, members can hold each other accountable. Mr Baloyi emphasized that child labour is a multi-sectoral problem and should also be integrated into other sectors and policies besides the financial sector.

Education and child labour. Another aspect often mentioned regarding child labour was education. Andrew Namakhoma from ECLT found that there was a need to increase appreciation of the value of education among rural households. He said that households sometimes value work over education, since they believe their children will learn more through work. In order to increase the appreciation of the value of education, it is important to increase the quality of education and make it more easily accessible (CARE informant, Andrew Namakhoma, Gracious Nadalam, Roger Siula, Dalisto Baloyi). Mr Siula from Plan International suggested that primary school should not only be made free but also mandatory, and the informant from CARE emphasized that the infrastructure needs to be improved in order to make schools better accessible.

In summary, most informants agreed that to reduce child labour rural mindsets on child labour need to be changed, and that there should be more support for education and to improve the livelihoods and food security of households.

9. Conclusions and recommendations

This report has shown that the potential impact of financial services on smallholder (tea) households and their use of child labour is dependent on several factors. First, it is important that farming households that use child labour are included in the financial landscape. Second, the services should address the needs of the smallholder (tea) household. And third, they should address the root causes of child labour.

Financial inclusion

The main challenges with regard to the provision of finance and the inclusion of smallholder farmers in the financial landscape of Malawi have to do with: (1) a lack of affordable and accessible products; and (2)gaps and constraints between the products offered and the demands and needs of smallholder (tea) households. To improve the livelihoods of smallholders and reduce child labour through financial services, it is first and foremost important that these services are affordable and accessible to them. This means that the interest rates should be low, there should be no monthly payments, no collateral and the transaction costs should be at a minimum. When it comes to accessibility, the products should be reachable in distance, with enough physical access points, and the eligibility requirements should be obtainable by smallholders (no national ID). The product should also be accessible with regard to communication and information; smallholders should be aware of the product, understand it and feel included.

To do this, the development and delivery of the product should be through a bottom-up approach in collaboration with the smallholders and influential people in the community, making use of the local laws and language. This will also enable a better understanding of the needs and priorities of the smallholder households.

The limited products currently offered to smallholder farmers tend to focus on an increase in productivity, while this report has shown that the main financial needs of smallholders are related to consumption smoothing, risk protection and money management. There is thus a market gap in the supply and demand of financial services to smallholder households. Services should be more demand-driven, and should: (1) be flexible and coherent with the farmers' seasonal production system; (2) help farmers manage their money to last a longer period and reach a certain goal; (3) provide farmers with a buffer during the lean season and help households smooth consumption and pay for (un)expected expenses; and, most importantly, (4) protect farmers against risks and price fluctuations and provide them with more security. This would allow farmers to become less risk-averse and focus more on long-term investments to improve their livelihoods.

Needs of smallholder tea households. Smallholder tea farmers mostly suffer the same livelihood constraints as most smallholders in Malawi. Figures 19 and 20 show the differences between the average smallholder household and tea households; the most important are the greater exposure of tea households to production and health shocks, a higher percentage of female-headed households, higher food expenses due to the focus on cash crops, and higher labour costs. In addition, tea households are even more financially excluded, and they occupy a difficult position in their value chain due to dependency on private tea estates through outgrower schemes.

However, the most important constraint in the livelihood of tea-growing households is the low price for green leaf. With an income below the poverty line, the smallholder tea farmer is focused on surviving. In such a state it is not likely that financial services will make a big difference. The prices of green leaf need to improve and better reflect the market. A higher income will allow the farmer to be less riskaverse and benefit more from financial services.

According to the stakeholders interviewed, the way for smallholder tea households to improve their livelihoods is through diversification and value addition. They believe that this would lead to more income, improved food security and less dependency on the tea estates. The ILO and financial services could play a role in both facilitating diversification and value addition. However, it is important to make sure that this does not lead to an increase in child labour.

The ILO could also focus on helping tea households smooth expenses. Expenses for labour, inputs and education are all due during the wet season when food prices are highest. In addition, during the wet season the disease burden reaches its peak, so that households may be dealing with unexpected medical costs and labour shortages. Tea households need tools and services to manage and smooth these costs.

Furthermore, the position of smallholders in the tea value chain needs to be addressed. While independency for smallholders is probably neither feasible nor desirable, the current out-grower schemes provide hardly any benefits to the farmers. The ILO could help to improve the bargaining position of smallholder tea associations, possibly through financial services. Another intervention might be to organize a VSLA for smallholder tea farmers, in collaboration with the tea associations; this could improve both their bargaining position as their access to finance. Furthermore, the ILO could work with the Government to try to open up the tea sector to more government intervention. At present the sector is totally privatized and free from any government intervention. More government control could have a positive effect on the tea prices and labour rights for tea-growing smallholders.

Lastly, the high percentage of female-headed households among tea-growing households provides an opportunity for the ILO to improve the livelihoods of these households through women's empowerment services.

To summarize, the ILO could facilitate improvements in the livelihoods of smallholder tea farmers by offering services to mitigate risks, enhance women's empowerment, smooth production and household expenses, increase financial inclusion or improve smallholders' bargaining power.

Impact of financial services on child labour. As explained earlier, most financial services offered to farmers in Malawi focus on productivity enhancement. However, increased productivity can raise the relative benefits of child labour. Demand-driven financial services that focus more on mitigating risks and smoothing household consumption (especially labour, health and education costs) have a higher potential to reduce child labour. This is because child labour is often used as a coping mechanism to deal with shocks, or a result of labour constraints in households. Furthermore, when households experience strong competition between expenses, little remains to invest in children's education. When risks and large expenses are covered, the relative benefit of education for the child may increase.

Before developing financial services with the aim of reducing child labour it is very important to understand the priorities of the households and how they spend their money. The service should encourage tea-growing households to invest their additional finances in their children's education and diminish their working time. This could be done by making a child support plan, conditioning the service or combining the service with awareness training. The power dynamics within the household should be considered during the implementation of these services; every member of the household should be aware of the common goal.

Child labour is largely a result of labour constraints, and many households in tea-growing areas are labour-constrained due to health issues. Therefore, the ILO might consider facilitating health insurance or other health services to diminish child labour. In addition, female-headed households also tend to be more labour-constrained. Women's empowerment products thus have the potential to diminish child labour by improving the capacity of female-headed household to hire labour. Additionally, (financial) services that improve access to quality education will have a positive effect on child labour.

Chapter 7 discussed how tea estates indirectly cause domestic child labour, since children are working in the homes of tea plantation workers. Childcare services for plantation workers might decrease this use of child labour. In addition, smallholder tea farmers also hire more labour than the average smallholder in Malawi. There is little information on who these labourers are; most likely they are poor people from the area, and it is very likely that child labour is also prevalent in their households. Therefore, the ILO might also look into improving the livelihoods of these labourers.

The cultural determinants of child labour are more difficult to address through financial services. A first recommendation is to help the Government of Malawi to better define child labour. At present, children in Malawi who are under the age of 14 are allowed to do "light" work in a non-commercial setting so long as it does not interfere with their schooling or health. Specifying how many hours a child under 14 is allowed to work would help here. For example, in Uganda children under 14 are not allowed to work more than 14 hours per week.

In addition, what constitutes "light" work should be better defined; at present it depends on the inspector's perception of whether the work interferes with the child's schooling or health. A better definition of child labour would help households to understand the difference between child work and child labour and act accordingly.

It is also important to improve appreciation of the value of education among rural households, especially for girls. In order for this to happen, the quality of education in Malawi should be improved, with lower pupil-to-teacher and pupil-to-classroom ratios and better qualified teachers. Mindset training on child labour and the value of education could be coupled with financial services, for instance through VSLAs or SACCOs.

The ILO should relate its actions to the National Action Plan for Child Labour (NAP II). VSLAs are mentioned in this plan as a way of offering families where there is child labour sustainable livelihood opportunities. The NAP wants to make sure that VSLAs and other social services (SCTP and FISP) specifically target families with children engaged in child labour or at risk of being engaged in child labour, which at present is not the case. The ILO could help facilitate this goal.

Implementing partners

Private and non-governmental partners. Table 2 listed the financial providers and the private and non-governmental organizations that are most involved with rural (tea) households or have the potential to make a difference for rural (tea-growing) households. Financial providers and organizations can be assessed on their appropriateness through the capacity appraisal tool in Annex 4, and some recommendations for possible partners are listed in table 8.

In general, this report does not recommend working with **formal institutions**, since they are too detached from rural clients. However, among all the formal banks, NBS stands out as having the best low-income and rural strategy.

Among the **semi-formal institutions**, this report recommends working with COMSIP and COMSIV since they are organized somewhere in between the informal and semi-formal sector, with both savings groups as cooperatives. Besides, in contrast to other semi-formal organizations, they focus on rural clients and are aware of their needs and challenges. Furthermore, since COMSIP used to be a government organization, they still work closely with government agents.

It is also recommended to work with CUMO. It seems that they are the MFI with the strongest rural focus, and they already have experience working with tea farmers. CIC is also recommended, since they are the only institution providing microinsurances in Malawi. As discussed, crop insurance or health insurance can provide new opportunities to improve the livelihoods of smallholder farmers.

Informal institutions are probably the most effective way to improve the financial inclusion of smallholder tea farmers, due to their accessibility and their appropriateness for low-income households. This report has been most positive about VSLAs. Not only do they increase access to finance, but they also provide opportunities beyond finance with capacity and mindset training that help address other livelihood constraints. Furthermore, VSLAs are often strongly rooted in the community, so that they tend to be more demand-driven and aware of household needs.

There are many actors in Malawi with whom the ILO could collaborate to set up a VSLA programme for tea smallholder farmers. These include NGOs such as CARE or Winrock; VSLAs linked to farmer associations, estates or local government officials could also be set up.

When attempting to address the needs of smallholder farmers, it can be useful to work with **value-chain actors** such as buyers, input providers, producer organizations or commodity exchanges. Value-chain actors understand the business and livelihoods of smallholder farmers and are able to reach them. In particular, producer organizations such as NASFAM have the best interests of the farmers in mind and can provide them with valuable services including financial services. In addition, the Warehouse Recipient System (WRS) of commodity exchanges provides an opportunity for farmers to improve their financial situation

Specifically, for tea farmers it is important to work with value-chain actors, since the tea value chain is organized through grower schemes. *Tea* **value-chain actors** to be included in a programme are: TAML (since without TAML's help nothing can be done in the Malawi's tea industry), the smallholder tea associations SAT and EOT, and the tea estates.

▶ Table 8. Possible partnerships: Private and non-governmental organizations

Formal	NBS
Semi-formal	CUMO, COMSIP, COMSIV, CIC
Informal	VSLA (preferably from CARE or WINROCK)
Value-chain actors	NASFAM (producers organizations), WRS
Tea stakeholders	TAML, SAT and EOT, tea estates

Public partners. As an agency of the United Nations, the ILO has a mandate to bring together governments, employers and workers of its Member States. It is important therefore for the ILO to work with the Government. For this project:, which focuses on improving the livelihoods of smallholder (tea) farmers through financial services with the aim of diminishing child labour, there are several governmental agencies and actors with whom the ILO could collaborate; these are listed in table 9.

At the beginning of this report, three governmental policies and strategies that are relevant for this project were mentioned: (1) The National Financial Sector Development Strategy (FSDS); (2) the Malawi National Social Support Policy (MNSSP); and (3) the National Action Plan for Child Labour (NAP II). The ILO should work with the responsible government agencies for these specific plans and strategies.

The Ministry of Finance, Economic Planning and Development (MFED) and the Reserve Bank of Malawi are responsible for the implementation of the National Financial Sector Development Strategy (FSDS). Furthermore, the MFED coordinates the Malawi National Social Support Policy (MNSSP) which includes Malawi's microfinance and village savings and loans programmes.

To coordinate the ILO programme with the MNSSP, the ILO should contact their steering commission (NSSSC) which includes all Principal Secretaries from other key line ministries. To couple the financial aspect of the programme with the child labour aspect, the ILO should also work with the Ministry of Labour (MoLYSMD), which is the ministry responsible for child labour. Within the Ministry of Labour, the Child Labour Unit (CLU) is responsible for the coordination of the implementation of the National Action Plan for child labour (NAP II).

For implementation, the ILO should work with local government agencies, including the Mulanje and Thyolo District Councils, their district child labour committees and district social support committees.

▶ **Table 9. Public partners**

FSDS	MFED and RB
MNSSP	MFED and NSSSC
NAP II	MoLYSMD and CLU
Mulanje District Council	CL committees and social support committees
Thyolo District Council	CL committees and social support committees

Discussion and future research

This report has called for demand-driven financial products that are based on the needs of the smallholder (tea) households. Because of the quite extensive literature, it has been possible to present a general picture of the lives of smallholder farmers in Malawi and their livelihood constraints. However, information on smallholder tea farmers was limited and most of the studies found may well be outdated. There is especially a need for a new survey on financial inclusion as well as on child labour in Malawi.

As discussed in Chapter 2 on methodology, obstacles during the field research made talking to stakeholders in the Malawian tea industry difficult if not impossible. Therefore, to produce a more comprehensive and realistic understanding of the livelihood constraints of smallholder tea households and their demand for financial services, an extensive needs assessment is necessary. The interview guide in Annex 3 can help with this.

During this assessment the ILO should map and identify which households in tea-growing areas are most vulnerable to using child labour. From the present report we may assume that these households are income- and labour-deprived, vulnerable to shocks and own a productive business (such as a tea farm). A description of these target households should be made with their characteristics and their household needs. The preferences of these households then needs to be considered. How do they view different financial services? Are they willing to use financial services and for what purpose? How would the different financial services impact their children?

On the supply side, more research needs to be done on the availability of financial providers and products for tea-growing households. While this study has found little to no presence of financial services in the tea-growing areas, it is possible that some providers or services may have been missed. Moreover, financial providers and products need to be assessed on their capacity to improve the livelihoods of farming households. The capacity appraisal tool can be used for this assessment.

Lastly, the ILO may wish to reconsider its focus on financial services. While this report concludes that financial services can have an impact on the livelihoods of smallholder (tea) households and their use of child labour, empirical evidence is lacking. Furthermore, this report also shows that on the supply as well as the demand side actors are risk-averse. Financial providers are reluctant to offer services to rural clients due to the risks involved, and rural farmers focus on consumption smoothing and risk mitigation and are not willing or able to use financial services in a productive way. The ILO might wish, therefore, to first focus on risk reduction on both sides, before developing financial services.

Furthermore, many of the livelihood constraints described in this report, including child labour, are not solvable through financial services alone. It is recommended to also consider the impact of inputs and rural advisory services, as well as social services, for example labour market interventions, education-promoting services, health services or social cash transfers.

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Annexes

Annex 1. Interviews with informants

Informant	Organization	Date of interview
Mr. Siula Roger	Plan international Malawi	05/02/2020
Mr. Dalisto Baloyi	Winrock International Malawi	11/02/2020 & 22/09/2020
Mr.Andrew Namakhoma	ECLT Malawi	19/02/2020 & 21/09/2020
Mr. Frances Kwanda	Ministry of Labour	19/02/2020
Mr. Andre Bongestabs	ILO Malawi	20/02/2020
Two informants	OXFAM Malawi	20/02/2020
Mr. George Khaki	ECAM	25/02/2020
Mr. Gracious Nadalam	ILO Malawi	26/02/2020
Mr. George Phuza	Ecobank	17/04/2020
Mr. Cosmas Luwanika	CIC	21/04/2020
Mr. John Mulangeni	Malawi Federation of Cooperatives	29/04/2020
Ms. Olisa Gravney	Expert on financial landscape	04/05/2020
Mr. Fumbani Nyangulu	MUSCCO	12/05/2020
Ms. Elles Kwanjana	NASFAM	05/06/2020
Tea informant	NGO	16/06/2020
Ms. Jessica Swart, Mr Auster Gondwe & Mr. Anderson Kumpolota	CARE Malawi	24/06/2020
Ms. Sophie Shawa	Unicef Malawi	21/07/2020
Ms. Susan Kondowe	COMSIP	02/09/2020
Mr. Kelvin Msiska	COMSIV	08/09/2020
Uganda informant 1		15/09/2020
Uganda informant 2		18/09/2020
Mr. Gilbert Jangasiya	CUMO	21/09/2020
Uganda informant 3		29/09/2020
Ms. Lerato Lekhoaba	Community finance	29/09/2020
Ms. Kilyenai Kanjo	Expert on financial landscape	30/09/2020
Uganda informant 4		30/09/2020

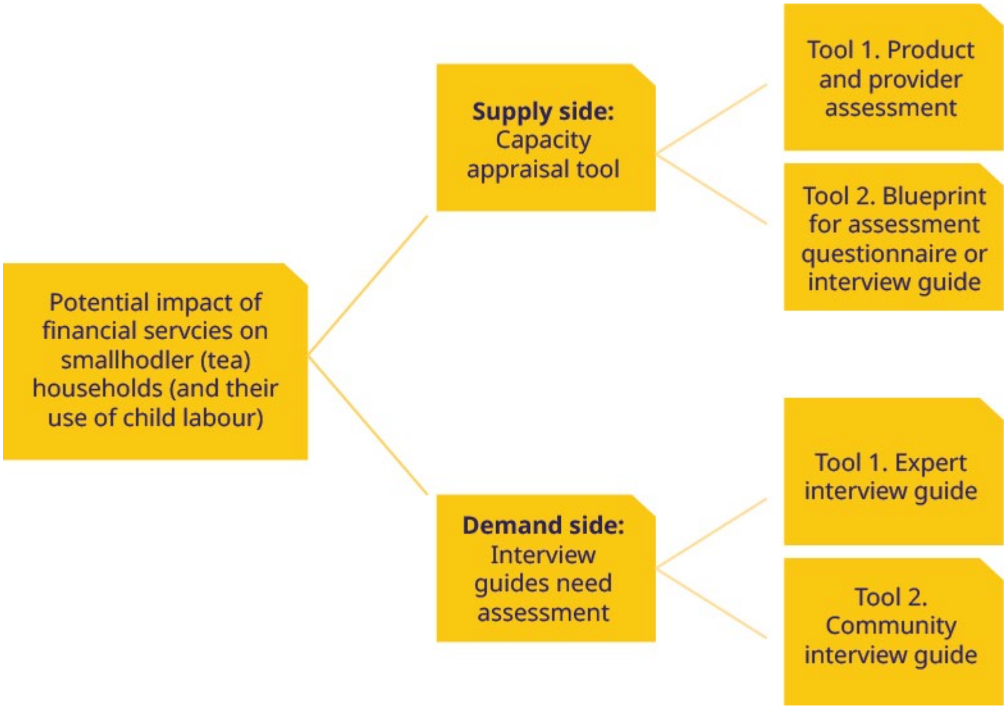
Annex 2. Financial providers in Malawi

Formal		Semi-formal		Informal		Other	
Banks	**Insurance companies**	**MFIs**	**Cooperatives**	**Group based**	**Individual**	**Mobile network operators**	**Value chain actors**
National Bank of Malawi	Britam Insurance Company Malawi	FINCA	SACCOs (MUSCCO)	VSLA	Katapila	AIRTEL	Agri-buyers
Standard Bank Malawi	Co-operatives General Insurance	Vision Fund	COMSIP cooperatives	ROSCA	Family & Friends	TNM	Input providers
NBS Bank	General Alliance Insurance	Target Financial Services Limited	Agicultural cooperatives				Producer assocations
First Capital Bank	Liberty General Insurance Company	Pride Malawi					NASFAM
Ecobank	NICO General Insurance Company	Greenwing capital financial services					FUM
FDH Bank	Prime Insurance Company	Microloan foundation					ACE
CDH investment Bank	Reunion Insurance Company	CUMO microfinance					AHCX
Mybucks banking corporation limited	United General Insurance Company	Blue financial services					
	Co-operatives Life Assurance	Easy loans					
	NICO Life Insurance Company	Select Financial Services					
	Old Mutual Life Assurance	Expresscredit Limited					
	Smile Life Insurance Company	COMSIV Limited					
	Vanguard Life Assurance Company	Umunthu Microfinance					
		TEECs MICRO finance					
		Saile Financial Services Limited Company					
		GreenRoot Finance Limited					
		Moyowathu Financial Services					
		DF Agency					
		FEDOMA Microfinance Project					
		Fountain Microfinance					
		Citizen Microfinance					
		Green Gold Finance Ltd					
		Circle Microfinance Ltd					
		Wealthnet Finance Ltd					
		Community Finance Ltd					
		CIC insurance					
		AIC Financial					
		First microfinance centre					

Annex 3. Research tools for the needs assessment

These research tools are meant to be used to find data for the demand side of the need and capacity assessment of financial services for smallholder (tea) households in Malawi. The supply side research can be found in the capacity appraisal tool (Annex 4).

The overall research aims to understand whether and how financial services can be used to support the livelihoods of smallholder tea households and address the root causes of child labour.



Interviews informants

Two types of informants are needed for this research: (1) Tea experts and stakeholders; and (2) household members of smallholder tea farmers (who use child labour). Therefore, two interview guides have been designed: an "expert interview guide" and a "community interview guide".

Due to the COVID-19 pandemic, field interviews in Malawi were not possible at the time of designing this research tool. The only option to gather information from farmers was through long-distance interviews over the telephone. For several reasons this approach is not recommendable: (1) it will be more difficult to reach smallholder farmers themselves, as not all farmers have access to phones, and even when they do have access it remains to be seen whether many will be willing to answer questions over the phone; (2)there is a language barrier (farmers often do not speak adequate English); and (3) in general interviewing farmers require a more sensitive approach than can be achieved remotely. Therefore, only the expert interview guide has been tested.

Expert and stakeholder informants could include: tea association board members, smallholder tea association leaders, NGO staff who work in tea, estate managers and local government representatives.

Interview formats

The interview guides below are designed for semi-structured interviews. Semi-structured interviews based on an interview guide make it possible to compare different interviews and get more generalizable data. At the same time, semi-structured interviews leave space to follow new leads or improvise and modify questions. For example, questions on child labour could be left out when the topic is too sensitive, and the specific sequence of the questions does not have to be followed. The interviewer could, for example, just ask questions about the financial situation when the informant does not have a lot of time. To answer the main research questions, parts 2, 4 and 5 are the most important. Furthermore, the bullet points under the main questions are there to give direction or to expand on the question. They are not necessarily always relevant and do not 'have' to be asked.

These interview guides could also be blueprints for more structured interviews with optional answers and/or closed question, if the situation calls for this.

The interview guide is divided into five categories of questions, which correspond with the five main goals of the interview. However, as already said, it is possible to skip and mix questions from different parts if the situation calls for it.

Goal of the interview

At the end of the interview,it should be possible to understand:

- **The livelihoods of smallholder tea households (who use child labour)**
  - The characteristics of the households
  - The tea production system
  - The different (income-generating) activities that the household is involved with
  - The root causes of their use of child labour

- **The main (financial) needs and constraints for the smallholder households throughout the year**
  - The main constraints in the production system
  - The main constraints in their daily lives
  - The main constraints in their financial situation

- **The impact of these constraints on their livelihood**
  - How it impacts their children
  - How it impacts their general wealth and well-being

- The financial situation of smallholders and their access to finance
  - Their main expenses throughout the year
  - Their use of finance and financial services
  - The barriers that constrain them in greater use of financial services
  - Their perception of financial providers and services

- **What services/programmes are needed to improve livelihoods of smallholder farmers and reduce their use of child labour (according to the organization/farmers)**
  - Through what channels should they be provided?
  - The role the ILO can play
  - The role other organizations can play

"Expert" interview guide: Tea stakeholders

Opening question

Can you briefly introduce yourself and explain what you and your organization do?

Part 1. The livelihoods of tea-growing households(a household is understood as the people who share a living space for most part of the year)

Aimed at: Those informants who have extensive knowledge on the lives of tea-growing households. This section can be skipped when time is short or when the informant is not aware of these details.

Main question 1. Can you in simple words explain how tea production is organized in Malawi?

- *What does the value chain look like? Who are the different stakeholders involved?*
- *How much tea is grown? When? And where? By whom?*
- *Who is involved in the selling, marketing and processing?*
- *What are the main challenges in the tea industry?*

Main question 2. What is the role of smallholders in this production?

- *What is your definition of a smallholder?*
- *How many smallholders are there?*
- *What is their share of the total production?*
- *How many hectares of land do they have?*
- *How many kilos of tea do they produce?*
- *To whom do they sell?*
- *Where do they get their inputs from?*
- *What does a smallholder earn on average?*

Main question 3. What are the characteristics of the average household of a smallholder tea farmer?

- *Who are the members of the household?*
- *How many children?*
- *Who is the household head?*
- *Are their many female-headed households?*
- *What is their level of education?*
- *What is their financial situation?*
- *Which assets do they have? (land, livestock, housing, electricity)*
- *What is the quality of these assets? (age of plantation, soil quality)*
- *Who owns these assets?*

Main question 4. What are the different activities that households are involved with?

- What are the income-accumulating activities?
  - o *Tea or other cash crops*
  - o *Off-farm activities*
  - o *Remittances*

- How much time and labour do they cost?
- *What are the food-accumulating activities?*
  - *Food crop production*
  - *Food buying*

à How much time and labour do they cost?

- *What are the domestic activities?*
- *How much time and labour do they cost?*
- *Others?*

Part 2. The challenges and needs in the livelihoods of tea-growing households

Aimed at: Those informants who have extensive knowledge on the lives of tea-growing households. Those informants who work with smallholder farmers.

Main question 5: What are according to your organization the main challenges/risks that tea households face?

- *What are the challenges they face during the production process?*
  - *Related to*
    - *Climate change*
    - *Relations with the estates*
    - *The tea market*
    - *Labour dynamics*
    - *Access to resources*
- *What are the challenges they face in other activities/in their daily lives?*
  - *Related to*
    - *Social services*
    - *Education*
    - *Decent work*
    - *Health*
    - *Social norms*
- *What are the main financial challenges?*
  - *Related to*
    - *Big expenses*
      - *School cost*
      - *Farm input*
      - *Household consumption*
      - *Labour cost*
    - *Access to financial services*
    - *Financial literacy*
- *When are tea households the most vulnerable?*
  - *At what time in the year?*
  - *Which kind of households?*
    - *Female-headed, health-deprived, asset deprived*

Main question 6: How do these challenges affect the household (members)?

- *What effects do they have on the children?*
    - *Related to*
        - *Health*
        - *Schooling*
        - *Work*
- *What effect so they have on wealth and well-being?*
- *How do they affect the management of their finances?*

Main question 7. How does your organization help smallholder farmers face these challenges?

- *Do you offer them any services?*
- *Which need do you focus on?*

Main question 8. What is according to you the most important challenge/aspect that smallholder farmers need help with/ need to develop?

- *Why is this the most important?*
- *How could this problem be solved?*
- *What services would need to be developed and offered, by whom?*
- *Could financial services be a solution to these challenges?*

(Optional) Part 3. Child labour in tea-growing households

Aimed at: Those informants who are willing to talk about child labour, for example informants who work with children or are addressing child labour. This section should be skipped when talking to informants who require a more sensitive approach.

Main question 9. What experience do you have with child labour in the tea sector?

- *Do you believe it to exist/be a problem?*
- *What are the characteristics of a household where child labour is a problem?*
    - *What are their main income and food-generating activities?*
    - *What are the characteristics of the household head?*
        - *Female/male/child?*
        - *Educated?*
- *At what time in the agricultural calendar is child labour the most prominent?*
- *In what kind of activities can most child labour be found?*
- *What are the characteristics of the children involved in child labour?*
    - *How old are they?*
    - *What sex are they?*

Main question 10. What does your organization believe to be the root causes of the use of child labour (in tea production/with smallholder tea farmers)?

- *What is the role of:*
    - *Tradition*
    - *Gender*
    - *Poverty*

- *(Production) risks*
- *The labour market*
- *The government*
- *How do the challenges/needs/risks mentioned above influence the use of child labour with smallholders?*

Main question 11. How does your organization address (these causes of) child labour?

- *Which aspects do you focus on?*
- *Which strategies do you use?*

Main question 12. How do financial services in your opinion influence child labour?

- *Positive or negative?*
- *Do you have examples?*
- *How should these financial services be organized, in order to diminish child labour?*

Part 4. The financial situation of tea-growing households

Aimed at: Those informants who have an extensive knowledge of the lives of tea-growing households. Those informants who work with smallholder farmers.

Main question 13. What are the main expenses for smallholder households?

- *Who and what takes the most income in their household?*
  - *Children's education*
  - *Household consumption*
  - *Production expenses*
  - *Labour cost*
- *In what month/at what time do they spend the most? When are they most income-deprived?*
- *When is there competition between expenses?*
- *Do they have any debts?*

Main question 14. How would smallholders and their households use additional finance?

- *What would they spend it on? What is their priority?*
- *How would it impact their children?*
- *Would they have to work less or more?*

Main question 15.What access to financial services do smallholder households have?

- *Do they have savings?*
  - *Where do they save?*
  - *What channels do they use?*
  - *Informal/formal/mobile money/ agencies*
- *Do they have loans?*
  - *What access to credit do they have?*
  - *Informal/formal*
  - *What forms of credit? In kind or in cash? Long-term or short-term?*
  - *What are the conditions of these loans?*

- *Do they have access to (other) financial services?*
  - *What kind?*
  - *Through which channels?*
- *Which providers provide to smallholder farmers in what areas?*
  - *VSLAs, NGOs, Value-chain actors, MFIs, SACCOs?*

Main question 16. Why do smallholder farmers make use of financial services?

- *What is their main reason for saving?*
- *What is their main use for of credit?*
- *Why would smallholders use insurance?*

Main question 17. What are the main barriers for smallholders in accessing financial services?

- *What are the main reasons not to use any of the above-mentioned financial services?*
- *What barriers are there to access providers?*
- *What constrains farmers from greater use of any financial services offered?*

Main question 18. What is the perception and preferences from smallholders and their households around different (financial) services and providers?

- *Which providers are most in demand? What is most attractive about their offer?*
- *Which providers are least in demand? What constrains farmers from using their product?*
- *Which products or services are most in demand and why?*

Part 5. Future development of financial services for tea-growing households

Aimed at: Those informants who work with smallholder farmers. Those informants who already offer (financial) services to tea-growing households.

Main question 19. What (financial) services do farmers require that are not being offered?

- *What needs would they address?*
- *How should they be offered? Through which channels/providers?*

Main question 20. What is important to pay attention to when developing financial services for smallholders (to diminish child labour)?

- *What makes a financial service a success or a failure?*
- *What aspects should be included in the social finance tool?*

Main question 21. What could your role and the role of the ILO be in this project?

- *What aspects would you focus on?*
- *(How) would you partner with the ILO?*

Community interview guide

Opening question

Can you please introduce yourself? What do you do?

Part 1. The livelihoods of tea-growing households

Main question 1:.What are the characteristics of your household?

- *Who are the members of your household?*
  - *Children (number, age, sex and educational level)*
  - *Family*
  - *Others*
- *Who is the household head? (official and in practice)*
- *Do the members of your household live in the same place?*
- *To what level did you attend/finish school? (And the household head?)*

Main question 2. What assets do you have and own?

- *Do you have:*
  - *Land (number of plots and total size)*
  - *Crops (all varieties)*
  - *Livestock*
  - *Equipment*
  - *Electricity*
  - *Housing*
  - *Savings/loans/any type of financial service*
  - *Mobile phone*
  - *Other*
- *What are the conditions of your assets/crops?*
  - *Soil quality*
  - *Age of plantation*
  - *Quality of the crops (yield, age)*
  - *Land size*
- *Who owns these assets?*
  - *How can you become an owner?*
- *What capital/assets/resources would you like to have?*
  - *Why do you not have them?*

Main question 3. What is the role of each member of your household, what activities are they involved with?

- *Role of the man*
  - *What do they do (household tasks, food/income accumulating tasks), for how many hours, why do they do this?*
  - *What is their mobility within the year, seasonal migration?*
- *Role of the woman*

  - *What do they do (household tasks, food/income-accumulating tasks), for how many hours, why do they do this?*
- *Role of the child (distinguish between sexes)*
  - *What do they do (household tasks, food/income-accumulating tasks), for how many hours, why do they do this?*
  - *Do they go to school? What level? How often? How do they see the school in terms of quality?*
- *Who makes most of the decisions?*
  - *In domestic, production, financial activities (be aware of socially desirable answers and cultural values)*

Main question 4. What is most important for your household/ what are your priorities?

- *Family/ Income / Health /Education/ Farm production/ Business*
- *How do these priorities reflect in your daily life?*

Main question 5. Can you explain to me the tea production system of your household?

- *How much tea do you grow?*
- *When do you grow most tea?*
- *What do you need in order to grow the tea?*
- *How much do you earn from the tea production?*
- *How are your relations with the estates/buyers?*
- *Why do you grow tea?*
- *What other crops do you grow? Why?*

Main question 6. How do you generate income for your household?

- *What on-farm/non-farm activities are done?*
- *Other activities: remittance, cash flows*

Per month, which activity, how much income, challenges?

January: -

February:-

March:-

April:-

May:-

June:-

July:-

August:-

September:-

October:-

November:-

December:-

- *Which activities are done in which month? When are you most busy?*
- *How much is your income per month? Harvest x price*

Per activity

Amount of labour: -

Who are the labourers? (How are household members involved/ why?): -

Number of hours per labourer: -

Cost of activity (labour/input): -

What assets are needed for this activity?: -

What conditions are needed for this activity (climate, contracts)?: -

What challenges/financial/labour constraints are related to this activity?: -

How do you deal with these challenges?-

Part 2. (Financial) constraints and needs

Main question 7. What are the main constraints/challenges per month and activity?

- *How do you deal with these challenges?*
- *Which challenges are financial?*
- *Which production activity would require financial assistance?*

Main question 8. What do you worry most about?

- *Are these domestic-related worries?*
  - *Health*
  - *Children's education*
  - *Household consumption (food)*
- *Are these production-related worries?*
  - *External shocks*
  - *Prices*
  - *Harvest failure*
- *Other*

Main question 9. In your opinion, what is the biggest constraint in your livelihood that leads to you (and your household/children) not having the life you want/the income you want?

- *Is this related to*
  - *Finance*
  - *Labour*
  - *Access to capital*
  - *Tea market*
  - *Education*
  - *Health*
  - *Other*

Part 3. Financial situation

Main question 10. How do you use your income?

- *What are your expenses?*
  - *Household consumption*
  - *School cost*
  - *Farm input (should be calculated already in question 6)*
  - *Labour cost (should be calculated already in question 6)*
- *Who and what takes the most income in your household?*
  - *Children's education*
  - *Household consumption*
  - *Production expenses*
- *In what month/at what time do you spend the most?*
- *When are you most income-deprived?*
- *When is there competition between expenses? What do you do when this competition exists? Where do your priorities lie?*
- *Do you have any debts? How much of a risk does it pose?*

Main question 11. What kind of access do you have to financial services/products?

- *Do you:*
  - *Save?*
  - *Have a bank account?*
  - *Use mobile money?*
  - *Have insurance*
  - *Get credit/loans?*
- *If not, à why not?*
- *If yes, à Why? What has been your experience with these channels?*

Main question 12. When you need cash/credit where do you go?

- *Estates/family and friends/VSLA/katapila/formal channels*
- *What has been your experience with these channels?*

Main question 13. What constraints do you have in your access to finance/use of financial providers?

- *Is it related to*
  - *Distance*
  - *Eligible conditions*
  - *Cost*
  - *Financial literacy*
  - *Beliefs*

Main question 14. What experiences have you had with financial (VSLA/SACCO/capacity-building) programmes?

- *What programmes are you aware of that exist or have existed in your area?*
  - *Why are you not involved with them?*
- *Are you a member of any of these programmes?*

  - *If not, à why not? What is the need for you to become a member?*
  - *If yes à How does being a member help you in your livelihood?*
- *What are the pros and cons of this programme?*
  - *What are its shortcomings?*
  - *What are its strengths?*

Main question 15. When is a financial services provider attractive for you/smallholders?

- *What (financial) services/products do you/farmers require?*
  - *Are they being offered? Which ones are popular?*
- *What conditions do they need to have?*
  - *Low fees*
  - *Close by*
- *How should they be organized?*
  - *In governance*
  - *In delivery*

Part 4. Future development of (financial) services for smallholders

Main question 16. Do you see a way in which financial services could be a solution for the above-mentioned challenges and needs?

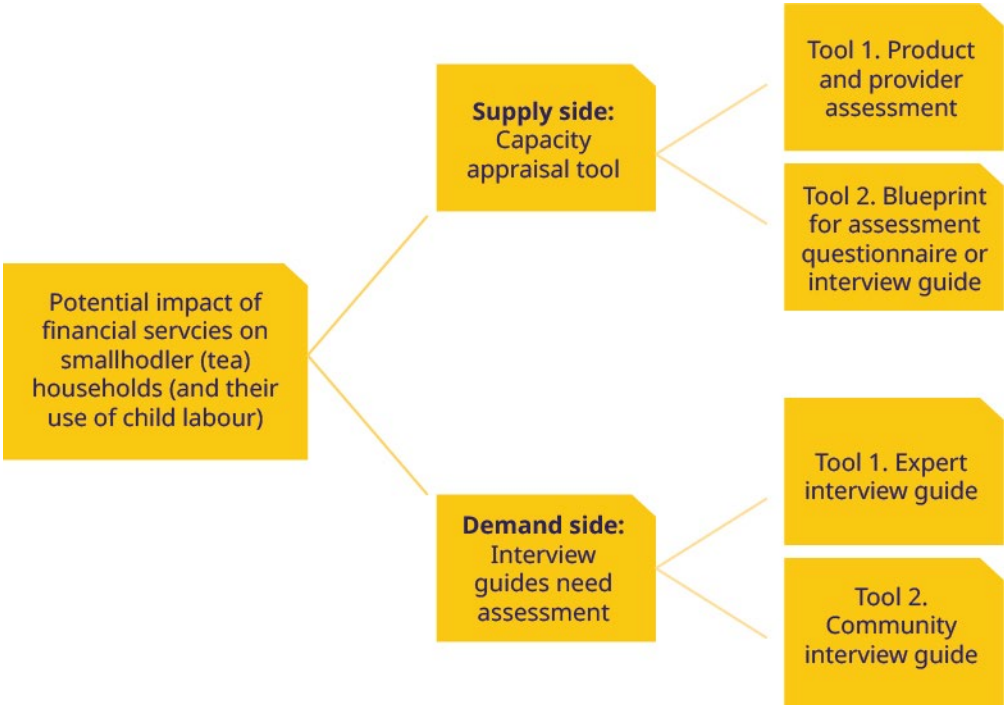
- *If not, why not?*
- *If yes, do these financial services already exist?*
- *How would you organize these financial services? (through whom, how much, which terms)*

Main question 17. How could the ILO or other organization help diminish the main challenges in your livelihood?

- *What is important to pay attention to?*
- *Which aspects should they focus on?*

Annex 4. Capacity appraisal tools

For assessing the impact of financial providers and services on the lives of smallholder farmers in Malawi.

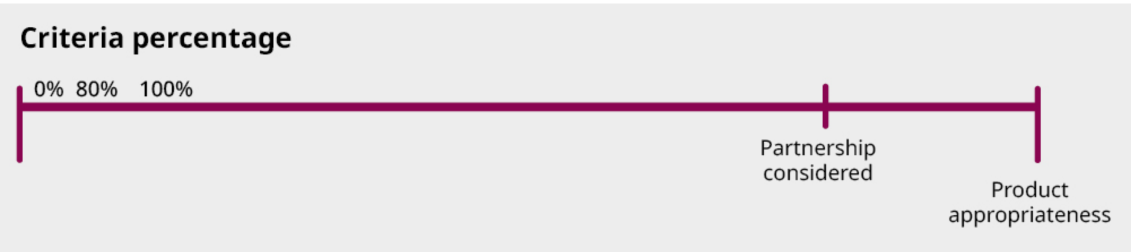


How to use the tools

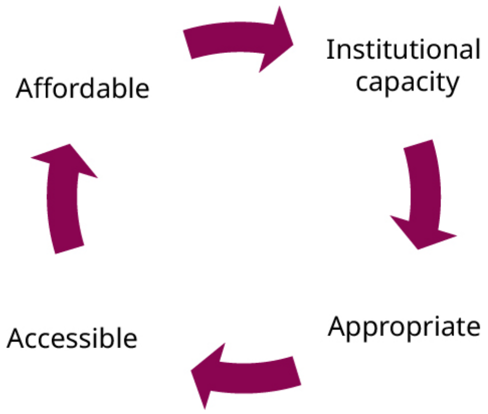
The ACCEL Africa project aims to address the root causes of child labour through targeted actions in selected supply chains, in Cōte d'Ivoire, Egypt, Malawi, Mali, Nigeria and Uganda. The social finance component within the ACCEL project seeks to identify (financial) providers that offer services with a potential to improve the livelihoods of smallholder farmers and address the root causes of child labour. The main objective is to select providers with whom to partner and develop innovative financial services that address the root causes of child labour.

This tool is intended for use by the ILO to assess potential services and their providers with regard to their capacity to improve the livelihoods of smallholder farmers and their households. The tool looks at two categories of criteria that need to be met for the ILO to consider partnership: these are product appropriateness and institutional capacity of the provider. In Tool 1 a list of criteria for every category is given. Tool 2 provides a blueprint with systematic questions that can help derive relevant information for Tool 1. Partnership should be considered when a large proportion of the criteria are met and when there is enough potential to meet lacking criteria in the future.

The overall tool is based on the research of Sanne Beukes, which assesses the potential impact of financial services on the livelihoods of smallholder households in Malawi as part of the social finance aspect of the ILO's ACCEL project. The format of the tool is based on the UN partner assessment tool.



▶ Tool 1. Product and provider assessment



Product appropriateness

For a service to be successful in the improvement of the livelihood of smallholders it needs to meet certain criteria that makes the service appropriate, accessible and affordable for smallholder households.

Does the product have...	Current status • What we know so far • Accomplishments and shortcomings • Reliability of sources • Is there enough information?	Future potential • Further information required • Possible steps to (better) meet criteria in the future • Remaining concerns
1. Easy accessibility		
2. Low (transaction) costs		
3. Feasible requirements for eligibility		
4. Smallholder-centric product processes		
5. An aim to address household needs		
6. An aim to reach a specific social goal		

Does the prospective provider and product offer…
7. Guidance on understanding and using the product
8. Guidance for reaching financial goals

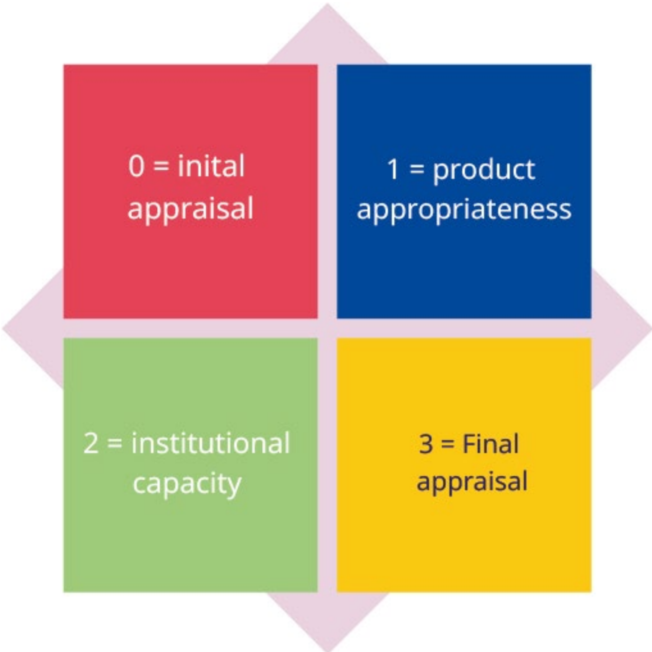
Institutional capacity

This tool assesses the institutional capacity of (financial) service providers to improve smallholder farmers' livelihoods and their potential for partnership. The following criteria indicate the level of capacity.

Does the (financial) service provider have…	Current status • What we know so far • Accomplishments and shortcomings • Reliability of sources • is there enough information?	Future potential • Further information required • Possible steps to (better) meet criteria in the future • Remaining concerns
1. Experience with smallholder farmers/low-income households		
2. A smallholder/low-income strategy		
3. An adequate distribution strategy in rural areas		
4. Access to relevant information/recourses/experience		
5. A potential for partnership		
6. A record of reliability		

▶ Tool 2. Blueprint for assessment questionnaire or interview guide

This blueprint of systematic questions can give direction to an interview guide or questionnaire that can be used in combination with literature, databanks and policy reviews to provide the relevant information for Tool 1.



Initial appraisal

- Assessment of the products and services offered by the provider
  - *What different products/services does the organization offer?*
  - *How do the different products operate?*
  - *Are these products financial?*

- Assessment of the clients of these products and services
  - *What is the target population for the products/services?*
  - *Why did the provider choose this target group?*
  - *What are the characteristics of the clientele of the product?*
    - *Where do they live?*
    - *What is their sex?*
    - *What is their main source of income?*
    - *What is their educational level?*

Product appropriateness

1. Assessment of the accessibility of the product

- How many distribution points does the product have?
- Where are the distribution points and offices located?
- How far does a rural farmer have to travel to make use of the product?
- Does the product make an effort to include those who are harder to reach?
- Does the product make use of digital solutions/channels?
- Is the product accessible through groups or individuals?
- Is information about the product easily accessible?
- Does the product make use of local language and people in the delivery?

2. Assessment of the affordability of the product

- What is the transaction cost involved in accessing the product?
- What is the entrance fee?
- Does the product have monthly fees?
- Does the client need to have collateral?
- How affordable is the product for low-income households?
- How high is the interest rate?

3. Assessment of the eligibility requirements

- What requirements does a client need to meet before being eligible for the product?
    - *Do they need a form of ID, proof of residence, collateral, a phone number?*
- Are these requirements feasible for low-income households?

4. Assessment of smallholder-centric processes of the product

- Does the product take into account the agricultural calendar?
- Does the product consider the irregular income streams of farmers?
- Does the product take into account agricultural risks and needs?
- Does the product make use of local language, norms and/or people in its design and distribution?

5. Assessment of how the product addresses household needs of smallholder farmers

- What is according to the provider the main challenge that smallholder households face?
- What (financial) needs and risks does the product/service address?
- How does the product contribute to the livelihoods of smallholder farmers and their households?
    - *What are their indicators on this?*
    - *How many smallholders have they reached?*
- Does the product help households smooth consumption and/or deal with risks?

6. **Assessment of the social goals of the product**

- Does the product aim to contribute to a specific social goal?
  - *Women's empowerment, business development, entrepreneurship, child labour*
- Does the product offer training or guidance to reach this goal?
- Is there a possiblity to include a component on addressing child labour?

7/8.Assessment of how the product improves financial inclusion and literacy

- Does the provider make an effort to explain the product to its clients?
- Does the provider make use of local language and people in the distribution and explanation of the product?
- Is information about the product easily accessible fo clients?
- Does the product offer guidance to its clients on how to reach their financial goals?
- Does the product offer guidance and/or training to its clients on how to make efficient use of their finances?

Institutional capacity

1. **Assessment of the provider's experience with smallholder farmers**

- Has the provider had experience of providing for smallholder farmers in the past?
- Does the provider offer products designed for smallholder farmers at present? Are these products successful?
- Does the provider have staff with an agricultural background?
- Do the staff speak the language of the clients?
- Does the provider have links with other value-chain actors?

2. **Assessment of the provider's smallholder/low-income strategy**

- Does the provider have an agricultural and/or low-income strategy?
- How does the provider aim to include smallholder/low-income clients?
- How does the provider take into account smallholder/low-income needs?
- Does the provider have a policy on (sustainable) livelihood improvement?
- How does the provider aim to improve the livelihoods of smallholders/low-income households?
  - *What aspects do they focus on?*

3. **Assessment of the delivery strategy of the provider**

- Through what channels does the provider deliver product and services?
- Does the provider make use of digital solutions/channels?
- Does the provider make use of local people in the delivery of the product?
- Which stakeholders are involved in the distribution model of the provider?
- Do they deliver to groups or individuals?

4. Assessment of the provider's access to relevant information, resources and experiences

- Does the provider have available skilled staff?
- Does the provider have a reliable member base?
- Does the provider have connections with relevant stakeholders?
- Does the provider have access to useful infrastructure?
- Does the provider have relevant experiences?
- Does the provider have access to relevant information?

5. Assessment of a potential partnership with the provider

- Does the partner have skills and competencies that complement those of the ILO?
- Is there a willingness to partner?
- Is the provider committed to the common goal?

6. Assessment of the provider's reliability

- What activities has the partner been involved in in the past?
  - *What have they achieved?*
  - *What failures did they have in the past?*
- Has the provider partnered with other organizations in the past?
  - *Has this been successful?*
- Do other providers or key players respect this partner?
  - *In what way is this noticeable?*
- Does the provider have a sound governance system?
- Is the provider financially stable?

Final appraisal

1. Assessment of the main challenges and concerns for the provider and product

- What are the main concerns per criteria?
- What are the main concerns for product appropriateness?
- What are the main concerns for institutional capacity of the provider?
- What is the main concern for partnership?

2. Assessment of the future potential of the provider and product

- What steps need to be taken to meet the criteria in the future?
- What steps need to be taken to make the product more appropriate?
- What steps need to be taken to improve the institutional capacity of the provider?
- What steps need to be taken to improve the potential for partnership?

3. Assessment of the possiblity for the ILO to reach its goal through the partnership

- Is there potential to improve the livelihoods of smallholder farmers and their households through partnership?
- Is there potential to address the root causes of child labour through partnership?
- Is there potential in the partnership to build a business model that ensures sustainability and scalability?

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