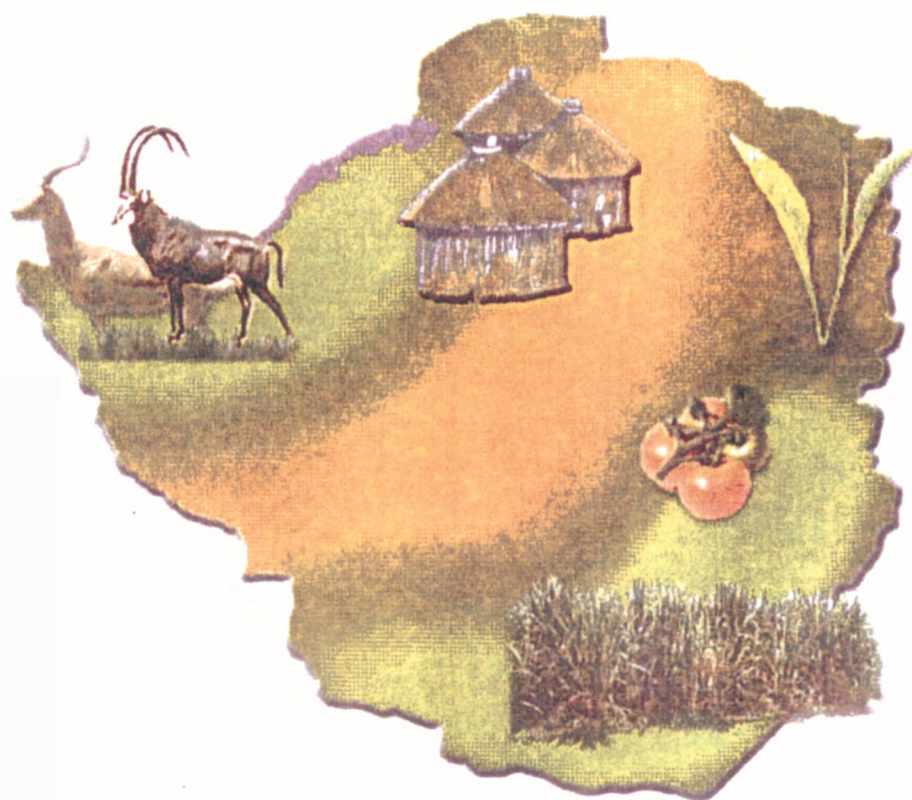


New Agrarian Contracts in Zimbabwe

Innovations in Production and Leisure

Proceedings of Workshop Hosted by the
Department of Economic History, University of Zimbabwe
Harare, 13 September 2002



The workshop and research have been sponsored by
USAID, in collaboration with the Land Tenure Center (University of Wisconsin, USA)
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Edited by David McDermott Hughes.

Department of Economic History
University of Zimbabwe
PO Box MP167
Mount Pleasant
Harare, Zimbabwe
tel: +263-4-303211 ext. 1239
fax: +263-4-333407
m_mangwende@hotmail.com

Preface

Zimbabwe's longstanding partition between commercial land, communal land, and natural areas is fast collapsing. As a consequence new forms of agrarian production and trade are emerging: chiefly, out-grower schemes, share-cropping, community-based tourism, and small-scale game conservancies. This volume explores the social dimensions of these arrangements and, in particular, the ways in which they represent contracts between stronger and weaker parties. To what extent do those contracts exploit weaker parties, such as, out-growers? To what extent do they confer economic security on those same parties? Finally, how do these contracts – in the midst of economic crisis – reshape development, conservation, and land-use writ-large in rural Zimbabwe? This volume includes all the papers presented at the workshop, as well as an one additional piece each by Joseph Mtisi and David McDermott Hughes.

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Unequal Exchange: Pricing of Communal-Land Tea Outgrowers' Green Leaf in the Honde Valley, Zimbabwe

by

J.P. Mtisi

Department of Economic History
University of Zimbabwe

Introduction

There are numerous communal tea out-growers in the Honde valley. These out-growers are situated in various parts of the area namely Zindi, Chikomba, Mandeya and Muparutsa.

The Honde Valley is a highly mountainous stretch of land situated some 90 kilometres away from the eastern border town of Mutare, the provincial headquarters of Manicaland Province. Compared to most other rural communities in Zimbabwe, this place is fairly developed in terms of infrastructure such as roads, electricity and telephone networks. This infrastructure was put in place mainly to link the commercial tea estates namely Eastern Highlands Plantation Limited, Katiyo Tea Estate and the former Aberfoyle Tea Estate, now part of Eastern Highlands, under new name of Honde Valley Plantation Ltd, to the city of Mutare. The road was constructed, among other things, in order to transport inputs and produce to and from these estates, while electricity was obviously a pre-requisite if a factory for processing tea was to be operated. The telephone network, as is always the case in areas where business is conducted, was to allow the tea estates to communicate easily with other stakeholders.

Because of the rich soils and high rainfall received in the Honde Valley, tea grows very well since it requires a lot of rainfall.¹ In fact, the climatic conditions in the area are generally suited for plantation crops. However, all tea estates are located to the north-east of the Honde Valley in Zindi, Chikomba and Mandeya as these areas have the best conditions for the growth of tea in terms of soils and rainfall. Areas around the centre of the Honde valley such as Hauna, Gatsi and Sahumani have poorer soils, and this explains why tea estates were not established there.

The fact that all tea outgrowers in the Honde valley are located close to the commercial tea estates is not a coincidence. Without these tea estates, outgrowers cannot survive because they need to make use of the former's tea processing factories since they do not have their own. There are other areas within the Honde Valley that are as suitable for tea growing as Chikomba

¹ Baxter Report

and Zindi, but there are no tea outgrowers there because they are too remote from the tea estates. These areas include Buwu, Samanga and Rupinda. Buwu, for example, has some of the best soils in Honde Valley, receives very high rainfall and coffee grows perfectly well in the area, but there is not much tea because the area is too far from the tea estates and their factories. Apart from relying on factories owned by tea the companies, outgrowers also buy seedlings from the tea estates since the majority of them do not have the necessary expertise to tend these for themselves, except for a few well established growers.

Tea outgrowers differ greatly in their scale of operation and the amount of time they spend on their tea. There are those who operate more or less on commercial lines. To these growers, tea is a major source of income and some of them have fields that are more or less like divisions of company estates. One outgrower, Ndlazi, for example, has about ten hectares under tea, and relies solely on this crop for income.² He does not grow any food crops. Such outgrowers cannot single handedly look after their fields, and they, therefore, employ labourers. On the other hand, there are other outgrowers who hardly have time for their fields at all. These have smaller fields of less than one hectare in size. Gati of Murara area in Muparutsa and S. Hanga are examples of such growers whose tea fields hardly have any impact on their financial position.³

Tea outgrowers in the Honde valley sell their leaf to two buyers namely, Eastern Highlands Plantations Limited and Katiyo Tea Estate under the Agricultural and Rural Development Authority (ARDA), a parastatal. Each grower is at liberty to choose which buyer he/she wants to sell his/her leaf to. Bigger outgrowers may, however, be forced by transport bottlenecks to sell to both buyers, although they may prefer one of them to the other. The choice of buyer is not only affected by the price per kg of leaf offered by each buyer, but also by other factors such as the time that each buyer takes to pay for the leaf delivered. Some growers who would have preferred to sell their leaf to ARDA Katiyo Tea Estate where a higher price is offered have found themselves not sending their leaf there as this buyer takes a long time to pay them whilst Eastern Highlands Tea Plantations usually takes a shorter period.⁴

This paper discusses the pricing and payment system of out-growers' tea in the Honde Valley. The price of any commodity should achieve two major objectives: First, it should recover the cost of producing such a commodity and, secondly, it has to produce a profit. According to many outgrowers, the price at which they are selling their leaf to buyers is hardly achieving the first objective, and it is unlikely, therefore, that it is meeting the second one. Tea outgrowers have no power to influence the price of what they produce and the reasons for that are part of the discussion that follows. Although outgrowers produce high quality tea as compared to that produced by the buyers' estates, they do not seem to be getting their product's worth.

Tea Price in the Honde Valley

The price of a product, be it a good or a service is composed of two parts. The first is the cost of producing the product. The cost of production is reached at by adding together all the expenses

² Interview, December 2000.

³ Interview, December, 2000.

⁴ Interview, January, 2001.

incurred in bringing about the product to its finished status. These expenses include the cost of raw materials, the cost of transporting raw materials, labour, energy and every other cost that is related to the production of the commodity. The other part of the price is the profit. In any business venture the profit is what remains after all expenses have been paid or provided for. For any business to be viable, there has to be a gross profit which should be sufficient to pay for all administration expenses, which are costs that are not directly related to the production of the commodity. Among them are selling and distribution costs.

Any price that a business organisation agrees to sell its products at should be sufficient to at least recover all the costs incurred in the running of the business. It is only when this happens that the business can survive without seeking additional funding from external sources. If a business is not earning enough income to pay for all its expenses, it means that it is making a loss, and for any business to grow without external capital, the price should be sufficient not only to cover all costs related to that business but also to produce a profit.

Tea growing in the Honde Valley is a business conducted both formally and informally. It is conducted formally by Eastern Highlands Plantations Limited and ARDA - Katiyo Tea estate whilst small scale farmers do it informally. It is informal in the sense that these outgrowers are not registered and, therefore, not known by government as business men and women, unlike registered tea companies. As a result, no taxes are collected from out-growers; but they grow tea strictly as business in the sense that, unlike maize, tea is a cash crop produced not for their own consumption but in order to earn income.

There are numerous small scale tea growers in the Honde valley. These growers, better known as tea out-growers, sell their tea to two buyers, Eastern Highlands Tea Plantations Limited and ARDA Katiyo Tea Estate. The tea is sold in green leaf form as the outgrowers do not have the machinery to manufacture it into made tea. These two buyers offer different prices to outgrowers. During the year 2000, for example, Eastern Highlands Tea Plantations Limited offered a price of \$3,65 while ARDA Katiyo Tea Estate was buying green leaf from outgrowers at \$3,90 per kg.⁵

According to the majority of the respondents, the prices quoted above were far below their expectations. These prices did not fetch them enough money to pay for the costs that they incurred in running their tea businesses. Among these are costs of buying fertilizers, transportation of inputs and labour. Fertilizer is required every year in order to have a good harvest. Outgrowers also need chemicals such as gramoxone to destroy weeds, lest all the fertilizer applied is absorbed by these weeds. Labour is a major component of costs since it is needed not only for plucking leaf but also for weeding, spraying and pruning.

In an interview, one of the tea outgrowers had this to say; "It is a good project, but the prices are too low. At times we bargain for higher prices but, in the end, they [the buyers] just dictate the price to us, which price we think is too low considering our cost of inputs".⁶ Other respondents expressed similar sentiments. Asked what he thought should be improved on the leaf purchase

⁵ Interview, December, 2000.

⁶ Interview, December 2000.

agreement that outgrowers enter into with tea buyers, Hanga, an outgrower, immediately complained about tea prices:

If the prices could be increased with ease – because, you see, prices of inputs are rising all the time. So the problem is that the prices cannot be easily raised. There is a big problem there. All they [the buyers] do is strive to pull the price down all the time.⁷

There is clearly a general discontent among tea out-growers in the Honde Valley regarding the prices they are paid for their tea as stated in the contract. As T. Maguka put it: “They [outgrowers] complain over their labour costs as well as their inputs. That is where most of the money goes; so that the farmer will remain with nothing.”⁸ What appears strange, and confirms the fact that their buyers are cheating them, is the fact that the price they are being paid is far lower than that is paid to tea out-growers in Chipinge. “Our aim is for the price to be increased to the same level as that being paid to out-growers in Chipinge”⁹, stated one grower. One is left wondering why tea prices in the Honde valley are as low. It is possible to argue that major reason for this is the system that is used to determine the price.

The price of tea is decided on at the beginning of every year when tea buyers and out-growers, through their representatives, sit together and do what they call “bargaining”. During this bargaining process, a price is supposed to be agreed upon taking into consideration the interests of both parties, the buyers and the producers. The growers propose a price that they think will enable them to pay for their production costs and realise a profit while buyers try to make the price as low as possible to enable them to maximise their profits.¹⁰

Hypothetically, whenever bargaining takes place, the outcome very much depends on who has greater bargaining power. For there to be a mutually beneficial relationship, each party needs to also take the other party’s interests into consideration. The purpose of bargaining is to agree on a number of things that will then be summarised in a contract agreement.

The Contract Agreement

In simple terms, a contract is a legally binding agreement between two or more parties obliging them to do or refrain from doing certain acts.¹¹ The contract that exists between outgrowers and tea buyers in the Honde Valley looks at a number of things. Among others, these included: transportation of leaf from collection points to the buyers’ factories, the quality of leaf required, the price and the payment structure. Mrs I. Data’s contract form for the year 1993, for example, included the following issues:

1. Leaf was to be delivered to collection points strictly on the days and times agreed.
2. The standard of leaf required was 80%, two leaves and a bud in good condition.
3. The initial payment was 50 cents per kg and final payment would be paid after the auditing of company accounts.

⁷ Interview, December, 2000.

⁸ Interview, December, 2000.

⁹ Interview, December, 2000.

¹⁰ Interview, December 2000.

¹¹ R.H. Christie, Business Law in Zimbabwe

4. Payment would be made through ARDA within seven days after the end of the month.
5. Transport [costs] to those utilising the ARDA - Katiyo lorries would be 3 to 5 cents per kg of green leaf.
6. 70% of net realisation would be payable to growers in two parts: 80% of that 70% would be paid as initial payment and the remaining 20% would be paid as final payment.¹²

During the year, 2000, contracts were still being agreed between growers and buyers but, unlike in the period before that, this was being done mostly through growers' co-operatives, and not individuals. Many individual growers, therefore, did not sign any contract forms as this was done by representatives of co-operatives on their behalf.¹³ It was, however, questionable whether the contracts were still binding as ARDA - Katiyo Tea Estate was in breach of some of the clauses. For example, this buyer was taking up to two months to honour its obligation of making payments to growers when it was clearly stated in the contract that payments had to be made within seven days after the end of the month.

Several tea outgrowers in the Honde valley are of the view that the buyers do not consider their [outgrowers'] plight when a price is being negotiated. According to them, buyers dictate terms. As A. Mudara stated: "We bargain. It is not bargaining in the true sense because they [the buyers] just impose the prices."¹⁴ And to counter the buyers' attitude, some growers feel that Government should come in and oversee the bargaining process. To S. Dima: "The first thing I would suggest, is that government should intervene in our price negotiations with the buyer. I am saying this because the buyers never listen to us when we negotiate for higher prices".¹⁵ As far as some outgrowers are concerned, if the buyers are not curbed by some external forces, the outgrowers will continue to be short-changed. And indications are that intervention is not forthcoming. Hence the outgrowers' frustration which was ably captured by B. Data: "The government is turning its back on us. So, they [the buyers] always beat us on that".¹⁶

The major reason why growers complain so loudly about prices is because of the pricing system which is defective. As pointed out already at the beginning of this discussion, a price should be set in such a manner that it covers all costs incurred in running the business. When the price fails to cover such costs, the owner of the business will be unable to purchase inputs or pay for labour. The system in the Honde Valley is defective in that tea out-growers sell their produce at a price that is determined not by what it costs them to produce their tea nor by what their desired profit margins are, but rather by what their influential buyers are prepared to offer. In effect, outgrowers have no control whatsoever over the prices at which they sell their tea. It is a buyers' market! As a result of which prices paid to out-growers are miserably low, in real terms. One

¹² See Papers in Private Anonymous Hands. "Tea Growers Green Leaf Purchase Agreement ...for the 1993 season ..." for I. Data.

¹³ Interview, January, 2001.

¹⁴ Interview, December, 2000.

¹⁵ Interview, December, 2000.

¹⁶ Interview, November, 2000.

outgrower could not hide his frustration about these prices when he stated: "The price of tea is very low such that it is like we are supplying them with tea for nothing".¹⁷

Towards the end of the year 2000, there was rumour that Eastern Highlands would increase the price for 2001 to \$4.95. However, the growers were not impressed. T. Madhumbe, an outgrower, had this to say:

The \$4.95 offered is not enough. We would suggest a price of about \$10. This allows us to plan more reasonably. I have one and a half hectares of tea from which I get two thousand kgs of tea per month. If we multiply that by \$4.95 we get \$8900 roughly from which I have to pay labourers at \$1.50 or \$2.00 per kg. If we include other expenses such as cost of fertilizers and weeding, I will be left with nothing. I need about ten to fifteen bags of fertilizer. There is very little profit.¹⁸

But in response to these complaints, the tea companies pleaded inability to pay higher prices. In the year, 2000, a very senior company manager told the outgrowers: "We determine our prices by the look of the international prices. My company is bleeding and I am bleeding as well. So, I can't pay you more than this".¹⁹

At the end of year 2000, outgrowers, through their associations, asked for an increase in price from their buyers. ARDA - Katiyo Tea Estate offered a price of \$6.40, an increase of 64.1% from the previous \$3.90 per kg. On the other hand, Eastern Highlands Tea Plantations offered a price of \$3.96, an increase of some 8.5% from the previous \$3.65 per kg.²⁰ There is thus a big difference between prices offered, and one is left wondering why Eastern Highlands cannot afford a price of only \$6.40 when both companies sell their produce on the same international market. The claim by Eastern Highlands that they could not afford to pay more than \$3.96 per kg without making a loss is rather difficult to accept, given that ARDA-Katiyo could in the same year, 2001, pay outgrowers \$6.40 per kg. Tanganda and Southdown Holdings in Chipinge District were also able to pay much more than ARDA-Katiyo Tea Estate and yet they were still viable. All these tea companies sell on the international market and it is not unreasonable to expect that they should therefore afford to pay approximately the same price.

Given the high rate of inflation in the country, the percentage increase of 8.5% offered by Eastern Highlands meant that, in real terms, the price decreased since the percentage increase was far below the rate of inflation. By the end of the year 2000, inflation was at 55.2%. The Monetary Policy Statement issued by the Reserve Bank of Zimbabwe towards the end of year 2000 showed that inflation was way ahead of the price increase. In part, the Statement read: "Inflation continues to be a major threat to macroeconomic stability. It rose from 48.9% in February, 2000, to 60.8% by October before temporarily falling back to 55.2% in December. Current estimates of inflation average 70% in 2001."²¹ In fact, by December, 2001, inflation had

¹⁷ Interview, Zindi, December, 2000.

¹⁸ Interview, December, 2000.

¹⁹ Interview, January, 2001.

²⁰ This was repeated by many leaders of Associations, Feb, 2001, who preferred anonymity.

²¹ See Reserve Bank of Zimbabwe Monetary Policy Statement.

jumped to 112%, "making Zimbabwe one of the countries with highest inflation levels in the region".²² Given such a situation where costs are increasing at a minimum rate of 48,9% and income for outgrowers at a rate of 8,5%, outgrowers are understandably at a loss and in danger of being unable to continue in business meaningfully.

Bargaining Power

The question that arises, therefore, is why these outgrowers in the Honde Valley have so little bargaining power. Why are they unable to take action to force their buyers to raise the price to levels that they desire? Through interviews with outgrowers, a number of factors have been identified as responsible for the outgrowers' limited bargaining power. Some of the reasons are:

- **Lack of education**
- Lack of unity among outgrowers
- Lack of information
- Lack of alternative buyers
- Buyers' ability to do without outgrowers
- Perishability of tea

Lack of Education

The majority of out-growers in the Honde Valley are largely illiterate, are small-scale and do not have basic skills required in running a business. Commenting on growers' lack of literacy, S Mabasikiri had this to say: "Contracts are written in English which most growers do not understand."²³ Given this handicap, it is very unlikely that growers will be able to convince the highly trained and experienced managers that are employed by their buyers, the tea companies, when it comes to price negotiations. Indeed, the chairman of one of the tea growers' co-operatives, A. Mudara, admitted: "We have weaknesses on bargaining. We lack knowledge on bargaining".²⁴ Bargaining skills enable somebody to relate well and have an understanding of other stakeholders, especially buyers. When one party is informed and skilled in bargaining whilst the other party is not, the tendency is that former will exploit the weaknesses of the latter. On the same issue of lack of skill, a grower had this to say: "We complain when we are doing collective bargaining so that we could be given higher prices for the following season's crop. It is difficult because some of the people are not educated, and so are ignorant of the price of the kg that's bought."²⁵

Lack of unity among outgrowers

There is a general lack of unity among outgrowers in the Honde valley. There are several co-operatives (Grower Associations) competing against each other. Some of these are Guri, Mapokona, Pungwe Tea Growers and Honde Valley Zindi Co-operatives. This general lack of

²² ABC (African Banking Corporation) Holdings Limited Annual Report 2001. P. 17

²³ Interview, 2 December, 2000.

²⁴ Interview, January, 2001.

²⁵ Interview, December, 2000.

unity is mainly a result of the way in which most of the co-operatives were formed. Research still needs to be done to establish the causes for the split of the outgrowers' association, the Honde Valley Tea Growers Association, in the late 1990s. Nevertheless, it would appear that this came about as a result of a combination of several factors, the main ones being the lack of transparency on financial matters, undemocratic tendencies and unpopular constitutional amendments. Understandably, the current leadership of Honde Valley Tea Growers' Association, the mother body, considers the new co-operatives to be rebels. The members of the co-operatives, Guri, Pungwe and Mapokana, wanted to oust the leaders of Honde Valley Tea Growers Association. It was only when they failed to do so, that they renounced their membership of the association, split and formed their own groups.²⁶

First, it was those in Sagambe area who broke away and formed Guri co-operative, followed by outgrowers in Zindi who formed Pungwe Tea growers co-operative in August 1998. The hostility which ensued between the new groups and the Honde Valley Tea Growers Association has never gone away as these co-operatives would like to prove that they can do without the original association. Mahubvu and Mandere who were part of the leadership of the Honde Valley Tea Growers Association said the leaders of the new co-operatives formed those co-operatives not because there was any problem within the mother body, but because these people "are greedy and power hungry".²⁷ On the other hand, the leaders of Pungwe and Mapokana co-operatives, A. Mudara, and G.C. Ndlazi regard leaders of the Honde Tea Growers Association as criminals who misappropriated donor funds that were supposed to benefit outgrowers.²⁸

Commenting on the issue of unity, L. Masitu, one of the respondents made the following recommendation:

There should be unity and there should be one association uniting people from all these places around here so that knowledgeable people from all these many areas can work together more effectively. The problem now is that there are too many of us who are going to talk with these companies since the associations are also many now. Had there been only one association, it would have been more powerful.²⁹

Given such disunity, it is easy for buyers to impose a price of their choice knowing very well that there wouldn't be any concerted effort against them.

Lack of information

In any business, information is of utmost importance. Many organisations invest a lot of money in research in a bid to search for information. It is important for a seller of goods to know about his/her buyers and suppliers as well as competitors. Without information, it is difficult for suppliers, for example, to raise an argument about a price increase since they may not know whether it is or not feasible for their buyers to increase the price and remain viable. It becomes

²⁶ Interview, January, 2001.

²⁷ Interviews, June, 1999,

²⁸ Interview, January, 2001; interview, December, 2000.

²⁹ Interview, November, 2001.

even more difficult for them if the buyer is fully aware that they lack that information. Further, in a business such as that of the outgrowers in the Honde Valley, it is important to get information about international tea markets and the prices offered in those markets. Also of great importance to the growers is knowledge about the costs incurred in the processing and marketing of their leaf. Prices on the international markets are important on the part of out-growers because their buyers tell them that the price they offer is dependant on the prices on the international markets.

The problem then is that tea out-growers do not have access to information. This is even worsened by the fact that tea buyers are aware out-growers do not have information about prices, and have no access to it. They, therefore, misrepresent price information in order to make it difficult for outgrowers to press for higher prices. What makes it clear that prices are misrepresented is the big difference between prices offered by the two buyers, Eastern Highlands and ARDA Katiyo Tea Estate. During a price bargaining meeting held between outgrowers and Eastern Highlands at the end of 2000, the company used an international market price equivalent to Z\$47,50. After working out the deductions for marketing and factory expenses, they came up with an initial payment of \$3,96,³⁰ claiming that this was the highest the company could afford to pay taking into consideration the selling price and the costs. If this was anything to go by, the question that arises is why was ARDA Katiyo Tea Estate able to offer a price of \$6,40, and why were tea buyers in Chipinge affording to pay much more than that?

It is as important for outgrowers to know the processing and selling costs incurred by their buyers as it is to know the prices at which they [buyers] sell made tea on the international markets. It is these two things, the price and the cost, that the buyers base their argument on. Lack of information about costs of processing and selling on the part of out-growers means that these can be inflated by buyers so that less is paid to out-growers. Asked whether the companies inform outgrowers about the prices on the international markets, a respondent replied:

They don't tell us. That is where the problem lies. For example this year [2001] they told us that they sell at ninety nine US cents ... We discovered from the Daily News that tea is sold at US\$2,12 at the Mombasa Auction floor ... We found that in the Daily News issue of December 23, 2000.³¹

According to G.C. Ndlazi, tea out-growers in the Honde Valley do not have someone among them who is knowledgeable about the international tea market.³² As a result, the companies were able to cheat them. Indeed, when some tea outgrowers from Chipinge District visited the Honde Valley, they were surprised by what they heard there.

According to Ndlazi: "He [a grower's representative from Chipinge] came here and wondered why our prices are lower than those enjoyed these [out-growers] in Chipinge - the outgrowers there being given much better treatment. They get more money."³³

³⁰ Interview, January, 2001.

³¹ Interview, January, 2001.

³² Interview, November, 2000.

³³ Interview, December 2, 2000.

One of the buyers, Eastern Highlands, pleads inability to pay a price as high as that which ARDA - Katiyo and buyers in Chipinge were offering because they (Eastern Highlands) were still trying to establish themselves in the market and were spending a lot of money in advertising. Indeed, one respondent complained: "The companies withhold the information from us, saying they are still at what they call the advertising phase".³⁴ This is rather difficult to accept, given the fact that Eastern Highlands was established about half a century ago and should now have a firm foothold in the market.

Lack of Alternative buyers

Eastern Highlands Tea Plantations Limited and ARDA Katiyo Tea Estate are the only two tea buyers in the Honde Valley. These buyers know very well that outgrowers depend solely on them, and that they cannot sell their tea anywhere else. Given such a situation, the buyers can afford to impose whatever conditions that they please without fearing that their suppliers will be taken by someone else, since there is no perfect competition to determine a fair price. From the point of view of the outgrowers, an ideal situation would be one which allows for the existence of a form of competition, which, hopefully, would bring about a fair market price. In the absence of competition, problems do arise. Monopsonistic tendencies characterise the market because of the presence of a few influential buyers. In the case of the outgrower tea business in the Honde Valley, the tea companies are the few influential players and, as a result, a fair price cannot be established by market forces.

Where market forces have failed to establish a fair price, one of the possible solutions would be to reverse the liberalisation process and bring in government intervention in the form of price controls. Indeed, some outgrowers in the Honde Valley feel that the government should intervene and set up a fair price. One of the growers, Marimbe, complained, "... the government is doing nothing for us. I am saying this because they are not doing anything to stop the company [Eastern Highlands] from exploiting us. They make very high profits but offer us a very low price..."³⁵ And, asked whether the government put in place any regulations regarding the contracts between outgrowers and buyers, a respondent answered, "The government is not intervening in the issues. The government does not know that. So it is strictly a relationship between us and the company."³⁶ In a meeting of the committee members of one of the growers' cooperatives on 8 December, 2000, one of the participants had this to say:

We want to appeal to anybody who can assist us especially economists. When we go for bargaining, we cannot succeed because we lack knowledge and information. Right now, it is known countrywide that the price of maize is this much, but we know nothing concerning the price of tea. If the government can inform us on the price of tea, then we could know where to start when we bargain".³⁷

³⁴ Interview, December 2000.

³⁵ Interview, December 2000.

³⁶ Interview, December, 2000.

³⁷ Interview with an official of one of the Grower Associations who preferred to be anonymous, January, 2001.

Given their limited choice of buyers, outgrowers in the Honde Valley find themselves in a difficult position where they have to do with low prices they are offered. Government assistance has been suggested by most of them as a solution since they themselves are not powerful enough to influence their buyers, but as yet the Government continues to be a spectator.

Buyers ability to do without outgrowers

Another reason why outgrowers have little bargaining power is that while they cannot do without the existing buyers because they have no factory of their own, these buyers can survive and make profits without outgrowers. The reason why buyers can survive even if outgrowers decide not to sell their leaf to them is that they own large tea estates where they produce their own green leaf. In fact, the leaf which they purchase from outgrowers is only a small fraction of their total. This enables buyers at times to dictate trading conditions with a “take it or leave it” attitude towards outgrowers. Indeed, a very senior official of one of the buying companies is quoted to have said, “Accept it or not, the price I can offer is \$3,90”.³⁸

Indeed, the buyers display a reckless attitude towards the outgrowers about which many growers have complained. In an interview in November, 2000, a respondent was bitter towards the buyers: “They tell us this or that is what we want. We [outgrowers] can’t contest that since we do not have a factory. If you say you are not interested, they will just tell you that they do not care.”³⁹ While hiding under the façade of willingness to negotiate, the tea companies, in fact, set immovable parameters within which they conduct price talks with the outgrowers. This was ably captured by one informant. In his own words:

These ... agreement forms are quite confusing. Yes, they include very necessary information about the prices of green leaf per kg, but ... we are not satisfied with their prices. Strictly speaking, we do not agree on these prices ... Of course we bargain, but they set their boundary on the prices before we negotiate with them. Under no circumstances should we cross this boundary. So, do we call that bargaining? We are forced to agree to what they want. They never leave us to decide. But we have no option at the end of the day
...⁴⁰

This was inadvertently confirmed by one of the senior managers at Eastern Highlands who stated clearly that the company could do without outgrowers, and that the latter have no real influence when a price is being decided on. According to this official:

What we do is that we operate to make profit. We therefore offer prices that we feel will enable us to realise that profit. The grower is neither forced to accept these prices nor to supply tea to Eastern Highlands. The same

³⁸ Interview with an official of one of the Grower Associations who preferred to be anonymous, January, 2001

³⁹ Interview, 25 November, 2000.

⁴⁰ Interview, January 2001.

applies to us when we sell our tea at the international markets. They state the price at which they are prepared to buy [our] tea, and it is up to us to sell [to] them or not

Eastern Highlands can even operate profitably without these outgrowers.⁴¹

Given such a situation where buyers do not perceive outgrowers as an important force, it is difficult for outgrowers to take any collective action against the buyers on matters of interest.

Perishability of tea

Green tea leaves are highly perishable hence they need to be plucked and sent to the factory with speed. Once tea leaf has reached maturity, it has to be plucked while it is still soft in order to produce good quality. If left to mature further, the leaf hardens and once it is hard, the buyers refuse to accept it. Outgrowers cannot therefore withhold their leaf as a sign of their displeasure about the prices that their buyers offer them as this will result in them losing out. In the end, they find themselves continuously sending their leaf to buyer in spite of low prices just to avoid it going bad.

QUALITY AND THE PRICING OF TEA.

In any business venture where commodities produced fall into several different quality categories, the pricing system should be designed in such a manner that it takes note of those categories. The quality of tea differs according to the manner in which it is plucked. According to tea outgrowers, when only the two youngest leaves and the bud are plucked, the best quality of tea is produced. When three, four or more leaves are plucked, the quality becomes less and, after processing, there is more fibre which is not required, as it is thrown away and written off as a loss.

In the Honde Valley up to October 2001, tea was not paid for according to grades. Yet the best grade (2½) was demanded by the buyers. Although the best quality was the only one that the buyers were prepared to accept the price did not correspond with that quality level. Asked whether tea was classified into grades, Mabasikiri one of the growers, had this to say: "Not here, they just mix it. But in such places as Chipinge, they pay you according to the quality of the tea. If you pick up good quality tea, then you will also get paid handsomely."⁴²

When tea is being processed in a factory, it produces some fibre which is thrown away. This fibre is found in greater proportions in old leaves than in young ones. At the end of every financial year, buyers make calculations as to how much is supposed to be paid to outgrowers as final payment. From their selling price per unit of made tea sold on the international market, they subtract selling and distribution expense, factory expenses as well as fibre loss.

Although tea buyers in Honde valley insisted on quality tea from outgrowers, there is evidence that on their own estates, they allow their workers to pluck four or even five leaves, in some

⁴¹ Interview with a senior (anonymous) manager of one of the buying companies.

⁴² Interview, December 2, 2000.

cases.⁴³ But, inspite of that, when the final payment is calculated, the percentage of fibre loss allocated to the outgrowers is higher than that of the tea companies. This is the complete opposite of what should be happening. According to Hanga, a grower; "They [the buyers] say outgrowers' tea is number one. But they pay us lowly. They inflate very much the percentages of fibre and charge any losses incurred onto us."⁴⁴ If this is true, then it is clear that the tea buyers are exploiting outgrowers by paying lowly for high quality tea. This goes further to show how defective the pricing system is. Some may want to argue that the prices that outgrowers sell at are appropriate, given what the tea will fetch at the world market. This is not likely to be the case since outgrowers in Chipinge get much higher prices from their buyers for the same unit of green leaf, yet these buyers sell on the same world market and still make profits.

When buyers insisted that they wanted very good quality tea from the outgrowers, this also meant that outgrowers' cost of production per kg of green leaf was higher than that of the tea buyers on their own estates. The effect of demanding top quality level only was that less weight of tea was produced per hectare than would otherwise be, yet the cost of producing those few kgs per hectare remained the same. If outgrowers brought leaf that was in excess of the required two leaves plus a bud, this leaf was either rejected or accepted only on condition that the grower resorted it. Peter Changu, for example, was very worried about the buyers' strictness on quality: "Some buyers are far too selective in their preferences. You will have so little to sell in the end. Just a small bag to sell".⁴⁵ That is after all the supposedly bad tea will have been removed.

Any leaf that has wilted is unacceptable to buyers. Mrs Dima's tea was, at one time, rejected; "Our tea was actually thrown away. We had plucked it in the morning. By the time the tractor came around 2 o'clock in the afternoon, it had wilted, and some of it had burnt out. We therefore threw it away."⁴⁶ Also commenting on the issue of tea quality, T. Madhumbe, another outgrower, felt that company clerks who were judging on quality were over zealous. "The major problem" he stated, "was that they [company clerks] were too strict on quality. At times we were surprised that what we considered to be good quality was rejected as poor quality".⁴⁷ But as most respondents have confirmed, growers who brought in such tea were asked to re-sort it until the clerks were satisfied that only good quality leaf remained.

After tea has been processed in the factory, it is classified into different grades according to its quality. The highest grade fetches the highest price when it is eventually sold on the world market. However, outgrowers are not paid according to the grades of made tea but are supposedly paid according to the selling price of tea on the world market. A lot of questions that can be raised if it is, indeed, true that outgrowers are paid according to a price calculated using the world market price. If the processed tea is classified into various grades according to quality, and these grades sell at different prices, then the price offered to outgrowers is calculated according to the international market price of which grade? If the domestic price is calculated

⁴³ Interview, December 2, 2000.

⁴⁴ Interview, December 2, 2000.

⁴⁵ Interview, November, 2000. See also interview, December, 2000.

⁴⁶ Interview, December, 2, 2000.

⁴⁷ Interview, December, 2000.

according to the average international market price, then, does it follow that outgrowers produce average quality tea? If it is calculated according to the international price of low grade tea, does it follow that outgrowers bring tea that is of inferior quality compared to that produced by the buyers on their own estates? These questions cannot be addressed effectively without first looking at the factors that determine the quality of made tea.

But, first, it be must re-emphasised that tea buyers in the Honde Valley do not accept any leaf from outgrowers that is not of high quality. And, second, they only provide one price to outgrowers and claim that it is determined by the price at which they sold leaf on the world market. They, however, did not say which grade they were selling for at that price. The high quality leaf that outgrowers were supplying was unlikely to be paid at its true value since the buyers made it clear that they wanted to maximise profits.

FACTORS AFFECTING QUALITY OF TEA

When one talks about the quality of tea, one is generally talking about how it tastes. Tea that is of highest quality produces the best taste and it sells at the highest price. To produce the best quality, plucking has to be done properly and carefully. It is also said that it is the two youngest leaves that contain a drug that improves the taste of tea. As K. Chidhembo put it: "They say tea tastes good because it contains a drug called caffeine, which is found in the two top leaves and the bud. So, if you pluck all these other leaves, there is nothing in them."⁴⁸

Processing the tea while it is still fresh also helps in maintaining the quality at high levels. It is, therefore, a requirement that tea be taken to the factory soon after it is plucked. When plucking is in process, the leaves should not be heaped together as that makes them lose freshness by burning themselves out and turning brown. If processing is not done properly, leaf that could otherwise have produced high quality tea could find itself falling into lower grades. There are various sub-processes, fermentation being one of them, that need to be conducted properly. If, for example, fermentation is not done in the correct way, the quality grade is affected negatively regardless of plucking having been done properly, and the leaf having been brought to the factory fresh.

Fertilizer is used in order to create the best conditions for the growth of tea, thereby boosting production. However, one disadvantage of using fertilizer is that it negatively affects the taste of tea. If too much fertilizer is applied, it becomes a health hazard. On this issue, S. M. had this to say:

There is organic tea, tea cultivated without fertilizer use. It is said to be in high demand on the international market. It brings little financial returns to us because of no fertilizer use, but they like it because they say it is clean. It is said to be the tea that is drunk by those with money; teas grown without fertilizers are considered to contain no toxins.⁴⁹

⁴⁸ Interview, December, 2000.

⁴⁹ Interview, December, 2000.

Most of the outgrowers apply little fertilizer and, in some cases, none at all to their tea largely because they have little financial resources and, inadvertently, that also makes their tea safe to health and therefore of good quality. Referring to the issue of fertilizer, P. C. stated:

Eastern Highlands put a little too much fertilizer in their fields. That fertilizer would then be very concentrated in the tea and, as a result, it would not have a good taste. So, look here, we don't use much fertilizer because of lack of it, and thus it tastes good, as they claim.⁵⁰

What seems to be happening here is that the tea companies are benefiting from the low fertilizer content in the outgrowers' tea. Since they mix their tea with that from the outgrowers and then manufacture made tea, they also use the tea from the outgrowers to reduce the fertilizer content in theirs and thus make it more acceptable in the world markets.

The majority of the outgrowers in the Honde Valley grow clonal tea varieties and are, in fact, encouraged to do so by the buyers. These varieties are very popular with the outgrowers because, unlike the traditional varieties, they produce well even in winter which suits outgrowers as they do not irrigate their tea, and are drought and disease tolerant. Another good thing with the clonal varieties is that they produce higher quality tea than the traditional varieties. This is one of the main reasons why the buyers are very interested in tea supplied by the outgrowers. As one outgrower put it:

Secondly, most out-growers have the clonal tea variety which the companies do not have. The tea varieties in the estates were planted a very long time ago [before the clonal varieties were introduced]. So our tea blends those teas from the company estates.⁵¹

Of course, the tea companies have some divisions on which clonal varieties were planted, but they do not have as much as the out-growers as the vast majority of the latter joined the tea business after 1980 by which time most tea companies had almost used up their available land. Hence they encourage out-growers to grow clonal types which they then buy and use to improve their traditional types. But the disturbing thing is that they pay low prices for this high quality.

Having looked at the factors that affect the quality of tea, we can now proceed to try and determine what grade the tea that is produced by outgrowers in the Honde Valley is likely to be falling in. It has already been stated that when tea buyers purchase tea from outgrowers, they take only the leaf that is 2½ in terms of quality. If it is not, outgrowers are ordered to regrade it to or risk their tea being rejected. There is, therefore, no question of outgrowers' leaf producing low grade tea on the basis of it being improperly plucked. On the other hand, it has also been claimed that workers on estates pluck even hard tea leaves. Although this results in more tea being plucked, common sense has it that it is of inferior quality to that brought in by outgrowers.

⁵⁰ Interview, November, 2000.

⁵¹ Interview, January, 2002.

Outgrowers supply fresh tea to the buyers, and it is normally taken to the factory on the same day as it is plucked. Indeed, the terms of the contract between outgrowers and tea buyers state that the best quality leaf is expected from the growers. Referring to acceptable quality, the relevant clause in the leaf purchase agreement signed between Mrs Data and one of the buyers, in 1993, reads, "The standard of leaf required is 80%, two leaves and a bud, in good condition and management reserve the right to reject leaf below the required standard or considered to be in poor condition".⁵² And commenting on the terms of the contract, one outgrower, T. M. stated;

They buyers want good quality tea, what they call 2½ and not pieces. Two leaves and a bud! And also that the leaf should be delivered to the factory on time so that it maintains the good quality. They also say if you bring poor quality tea, they won't buy it.⁵³

There are, however, some instances when buyers fail to supply transport on the days when tea is plucked, and only turn up to collect it the following morning. This means that by the time they collect it, the quality of tea would have deteriorated since it will no longer be very fresh. In such cases, some out-growers try to make their leaf appear fresh by picking a few fresh leaves in the morning and mixing them with those picked the previous day as outlined by D. C., an employee of one of the outgrowers, when he said;

We also spread it under a tree where there is a shade so that it remains fresh. When it is no longer fresh, we pick more fresh leaves and mix with those that are no longer fresh so that one cannot easily notice that it is not fresh...If the tractor does not turn up on Thursday it will come on Friday morning.⁵⁴

Although the quality of tea is affected when buyers fail to come promptly and collect it, the blame cannot be levelled against the outgrowers, and they should not, therefore, be paid a lower price for such tea. Moreover, it is quite rare for buyers to fail to turn up on the day when tea is plucked and we can safely conclude that outgrowers supply fresh tea that has all the chances of producing high quality grades. Outgrowers are not involved in the processing of leaf at the factory. It would, therefore, be unfair to pay them a low price if the processing happens not to be conducted properly, resulting in tea being of inferior grade.

When outgrowers negotiated with tea companies for a new tea price towards the end of year 2000, one of the buyers told them that the company sells tea on the international market at an American dollar price that was then equivalent to Z\$47,50. These outgrowers were, therefore offered a price of Z\$3,96 which was calculated basing on that world market price.⁵⁵ It was not, however, stated which tea grade was selling at an equivalent of Z\$47,50. Yet it is a known fact

⁵² Papers in Private Anonymous Hands. "Tea Growers Green Leaf Purchase Agreement for the 1993 season."

⁵³ Interview, December, 2000.

⁵⁴ Interview, December 2000.

⁵⁵ Interview, December, 2000.

that there are a number of grades of tea and each of them sells at its own price, the higher grades obviously fetching more than the lower ones. What then are the chances that the equivalence of the Z\$47,50 is the price of the higher grade given that outgrowers produce the top grade? This is unlikely to be the case. Moreover, it is very doubtful whether the buyers provide the correct information about world market prices.⁵⁶

Clearly, the manner in which the price paid to outgrowers is calculated leaves a lot to be desired. The pricing system is not only unclear but also open to manipulation by the buyers to their advantage and to the disadvantage of outgrowers.

THE FINAL PAYMENT (“BONUS”)

The price of unprocessed tea to the outgrowers is divided into two parts, the initial payment and the final payment, generally known among outgrowers as “bonus”. In reality, the final payment is not bonus; it is money that outgrowers are legally entitled to every year. The word bonus makes it appear as if it is merely a gift or a “thank you” that the tea buyers give to outgrowers for having supplied them with the crop during the year. This money is not a gift; it comes from the profit that the growers’ leaf would have produced when sale is finally made on the world market. The impression the companies make is that, in real terms, they do not buy tea from outgrowers. All that they do is to process outgrowers’ leaf as the latter have no machinery to do so, as well as to provide selling, distribution and administration services. For these services, they are paid 30% of the profit that outgrowers’ leaf produces. At the end of the year, they have to pay whatever remains of the outgrowers’ 70% profit share. This is, of course, misleading as the tea supplied by the outgrowers is not manufactured and sold separately from that from the estates owned by the buyers. It is mixed together. The companies want to create an idea among the outgrowers that they [the companies] are doing them [the outgrowers] a service for which they should be grateful.

The initial payment is known to outgrowers before selling takes place whereas the final payment is only known at the beginning or in the middle of the calendar year following the year of sale.⁵⁷ Tea buyers claim that they calculate final payment at the end of each financial year when the profits of that year are known. According to them, the profits are calculated after taking into consideration all expenses which include processing, selling and distribution expenses. Explaining how final payment is calculated, C. Mujeki, an outgrower, had this to say: “They subtract total expenses from total income. They take 30% of that profit, after, of course, deducting what they call fibre, which is thrown away. We are given the remaining 70%”.⁵⁸ But other outgrowers have a cynical view of this final payment. For example, according to S. G.:

These people [the buyers] are clever. They ... know that the initial payment that they give us is not enough. That is when they introduced the idea of bonus. In actual fact, they are shy to tell us clearly that they did not pay us adequately. It is our money and we should get it. After all, the initial payment plus the bonus is not enough for a kg of tea. They sell our tea in US

⁵⁶ Interview, November, 2000.

⁵⁷ Interview, December, 2000.

⁵⁸ Interview, December, 2000.

dollars and I believe these people get over Z\$500 [per kg] from our tea ... Can they ... explain this? It is better to have our own factory ... When will these people stop exploiting us?⁵⁹

Outgrowers are not involved in the calculation of final payment. They are only given unaudited papers that show the calculations. On the issue of final payments, S. H., an outgrower, had this to say:

Then they [outgrowers' representatives] go to seek clarification from the company that 'why is too much fibre indicated under our name'? And at times they [buyers] steal our bonuses. That paper which comes from auditors is not shown to us. They make up their own, which is the one which they show to us. There will be trickery now since the one from auditors will have been retained.⁶⁰

There is room to suspect foul play on the part of the buyers. If the calculations are done in a transparent manner, why then do they withhold critical information by not producing audited financial statements? The buyers demand high quality tea from out-growers which produces less fibre, but it is not clear why more fibre loss is reflected on out-growers' financial statements. The buyers take advantage of the fact that out-growers are not involved in the processing and marketing of tea and, therefore, do not know how much profit is made and how much they are entitled to. Although out-growers know that they are entitled to 70% of the profit, it does not help them much since they do not know the actual profit made.

Some out-growers have complained a lot about the issues of final payment. They say that if they are not careful, the buyers pay them less than they are entitled to. One of the growers had this to say: "Let us say they want to pay you \$2. If you look closely, you will see that the papers indicate \$2-50. The company will have retained change. If you do not look closely and you fail to detect, that is your fault. They do not pay you".⁶¹ Commenting on the same issue, S. H. stated:

There are instances when we have to shout at them before we can get anything. For instance, they can tell you that your bonus is only 20 cents per kg, and we say, 'No, how can it be 20 cents only? That is impossible! That is when you hear them say, 'Ah, no, an error had been committed, so we then added another 20 cents'. That is something that happens also.⁶²

As if this is not enough, the buyers, especially ARDA-Katiyo, delay the paying of final payment for unnecessarily long periods of time, resulting in serious inconveniences and losses to the outgrowers. M. raised his concerns when he said:

⁵⁹ Interview, February, 2002.

⁶⁰ Interview, December, 2000.

⁶¹ Interview, December, 2000.

⁶² Interview, December, 2000.

Take ARDA, for instance; their year ends in November. But December, January, February, March, April, May-end of May, towards June that is when the bonus finally comes...They keep our money for eight months in their bank account earning interest for themselves. The out-growers have been feeling that the bonuses should be given us in December or January after they are through with auditing.⁶³

When out-growers money is kept for so long, they lose a lot especially in a hyperinflationary economy such as Zimbabwe's. By the time they get it, it would have lost value and, as Mabasikiri rightly pointed out, the buyers would have earned a lot of interest from it. There is no reason why the money should be kept up to May, when the financial year comes to a close on 31 October. Zimbabwean law requires that every company should publish audited financial statements within three months after the end of its financial year. This means that by the end of January, financial statements will have been prepared and audited, and profits will therefore be known. Thus, by that time, they will be in a position to know how much out-growers are entitled to.

The effect of such delays is that between January and May, when the payments are finally made, out-growers, in fact, loan out funds to buyers at zero interest. Even if it is assumed that the final payment is paid in January, out-growers will still have lost because there will be no interest given to them for the period when the tea companies keep this final payment. Leaf that is supplied say, in January, 2000, will only have final payment on it paid around May 2001. This means that the interest on this final payment would have been earned by buyers for nearly one and a half years since this money will be in the buyers' bank accounts. But none of this interest is credited to out-growers.

Tea buyers claim that final payment is calculated at the end of the year after profits have been worked out. There are, however, several factors that make it questionable whether it is really true that final payment depends on the profits for that year. If it true that the price [final payment] is a fixed percentage of profits, why then is it that when out-growers complain that the "bonus" is too little, at times, the buyers increase it.⁶⁴ Towards the end of the year 2000, one of the buyers offered an initial payment of \$3,96 and final payment of 99 cents per kg for year 2001. Understandably, out-growers were surprised when a final payment of 99 cents was proposed before the tea was even sold. As A. M. put it:

They went on to say [at the meeting] that they would buy our tea at \$3,96 per kg. and promised to pay a bonus of 99 cents per kg. We were surprised how they came to determine a bonus of 99 cents before they sold the tea. The proposed bonus rate is lower than that of last year which was at \$1,85/86 [per kg]. We questioned how they calculated the increment from \$3,65 to \$3,96 [per kg]. They could not provide [a] satisfactory explanation.⁶⁵

⁶³ Interview, December, 2000.

⁶⁴ Interview, December, 2000.

⁶⁵ Interview, January, 2001.

This makes the pricing system even more difficult to understand for the out-growers. If the pricing is being done fairly and properly, why is it that the buyers do not come out clear on how the calculations are made. In an interview in January 2001, a senior Manager of one of the buyers, gave contradictory statements about how final payment is worked out. He said:

One of the options is that we have proposed a total price of \$4,98 per kg. Of that, 80% is to be paid as initial payment which is \$3,96 from that \$3,96, 24 cents will be deducted to pay for the services being provided. The balance of 99 cents will be paid by the company as a bonus after the financial statements have been audited and the profits determined. If the company realises a loss, no bonus will be paid.⁶⁶

If the “bonus” is at all dependant on how much profit would have been made, then how could it be that a “bonus” of 99 cents was proposed even before the tea was sold? How was the figure of 99 cents arrived at? What is the purpose of proposing a “bonus” of 99 cents when no “bonus” will be paid if no profit is made? It is tempting to conclude that, unlike what the buyers say, the final payment is, in fact, calculated at the same time as the initial payment. The likely reason why the buyers tell out-growers that it is not known until the end of the year is because they want to keep it in their bank accounts for as long as possible and earn some interest.

CONCLUSION

Tea is a very important cash crop to Zimbabwe as it is exported and, therefore, brings much needed foreign currency into the country. As such, every effort should be made, especially by government, to create an atmosphere where those who produce the crop are motivated to continue producing as well as increase their volume of production. Since tea out-growers in the Honde Valley produce a significant volume of tea that is exported to other countries, it is necessary to keep them in business by making sure that they get a fair share of the profits earned. This can only be achieved by setting a reasonable price that does not keep out-growers crying foul over what they get for their leaf. This price should not be ridiculously low compared to prices offered to out-growers in other parts of the country, particularly the small scale commercial farmers in Chipinge. Communal out-growers in the Honde Valley have always complained over their lack of ability to influence their buyers on issues of prices partly because of their lack of education, and partly because of their buyers’ over emphasis on profits. Since there has usually been wide differences between out-growers and tea companies on tea prices, there is need to have a third party, who can bridge the gap between the two parties, preferably a government official.

⁶⁶ Interview with an anonymous Manager, January, 2001.



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