Cotton Sector Reform in Sub-Saharan Africa:

Mozambique Initial Country Report

Workshop on Multi-Country Review of Cotton Sector Reform Experience in Sub-Saharan Africa

World Bank, Washington, D.C.
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Roadmap

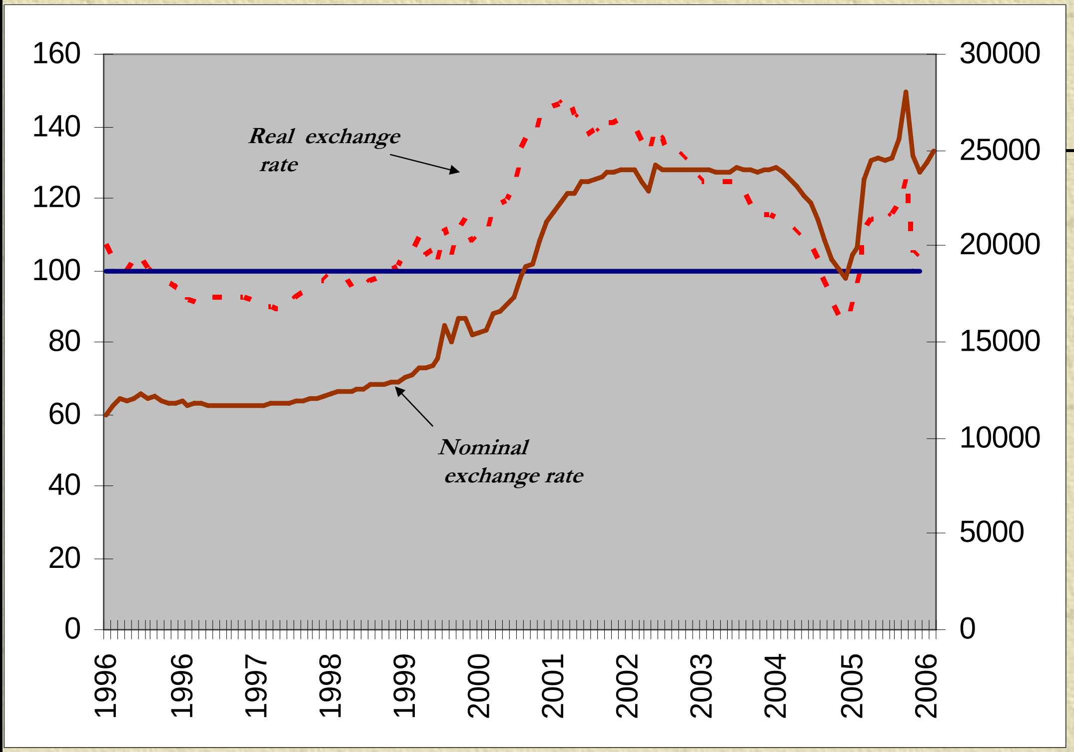
- Structure and reform process of the cotton sector post-civil war
- Recent sector behavior and performance
- Continuing challenges and potential policy initiatives

Why interested in Mozambique?

- Cotton sector an example of positive "early action" in post-war reconstruction
- Long history of regional private sector monopsonies
- Mix of multi-national and local companies
- Proposals for sector modernization
- Regulatory reform process scheduled to begin early 2007
- Urgent need to expand access to cash crops for smallholders

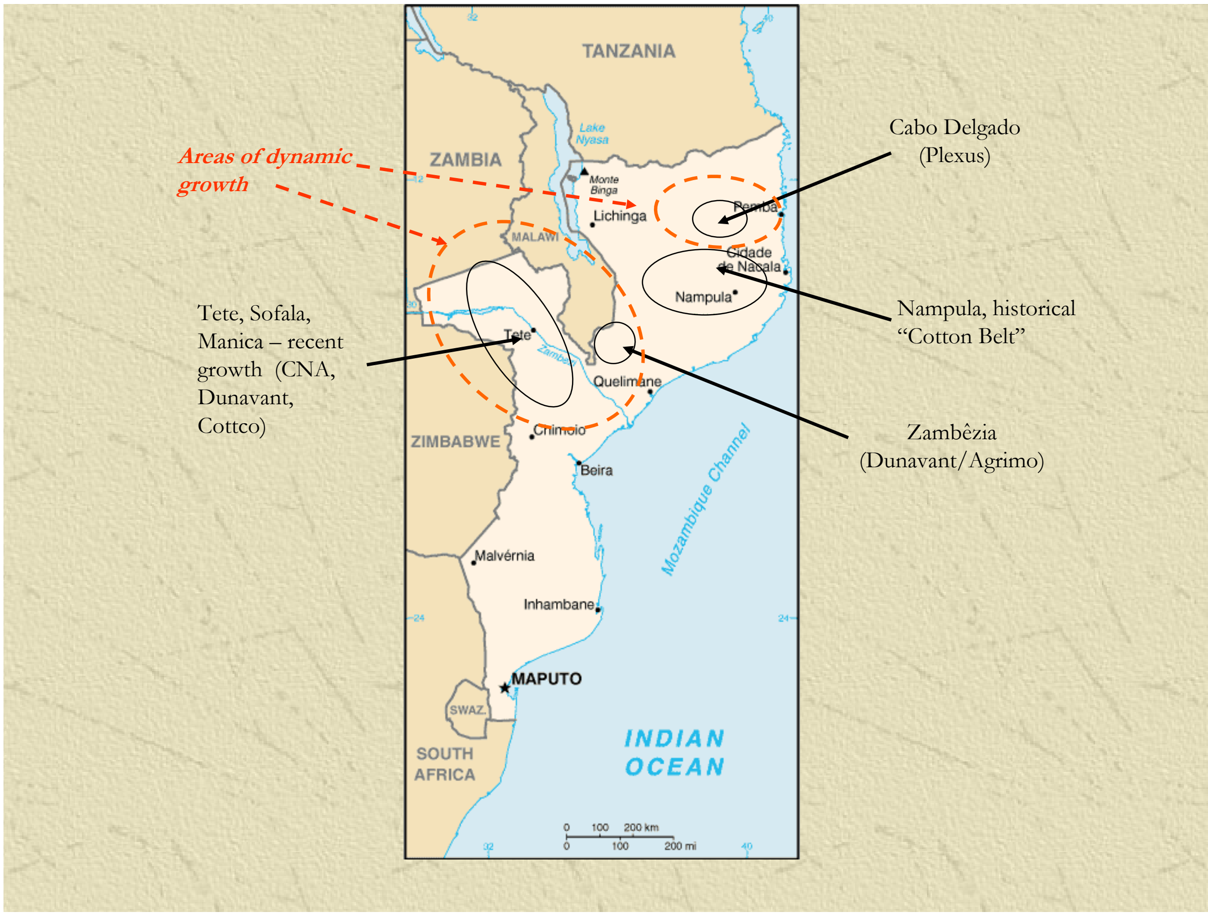
Macro-economic setting

- Ag sector accounts approx 20% GDP but 80% of rural population
- Cotton 20% of value of crop output at farm-gate prices
- $20 million exports (second or third after tobacco and cashew)
- 200,000 households (7%)



Structure and reform process

- Cotton production collapsed during civil war and parastatal liquidated in 1986
- Post civil-war 4 Joint Venture Companies (JVCs) set up late 80s in northern Mozambique – regional monopsony or “concession” model
- New entrants forced themselves in during 90s through pirate-buying - granted concessions
- Experiment in partial liberalization in Nampula in 2000/01 terminated due to company resistance
- Government encouraged new multi-national entrants since to change “corporate culture”



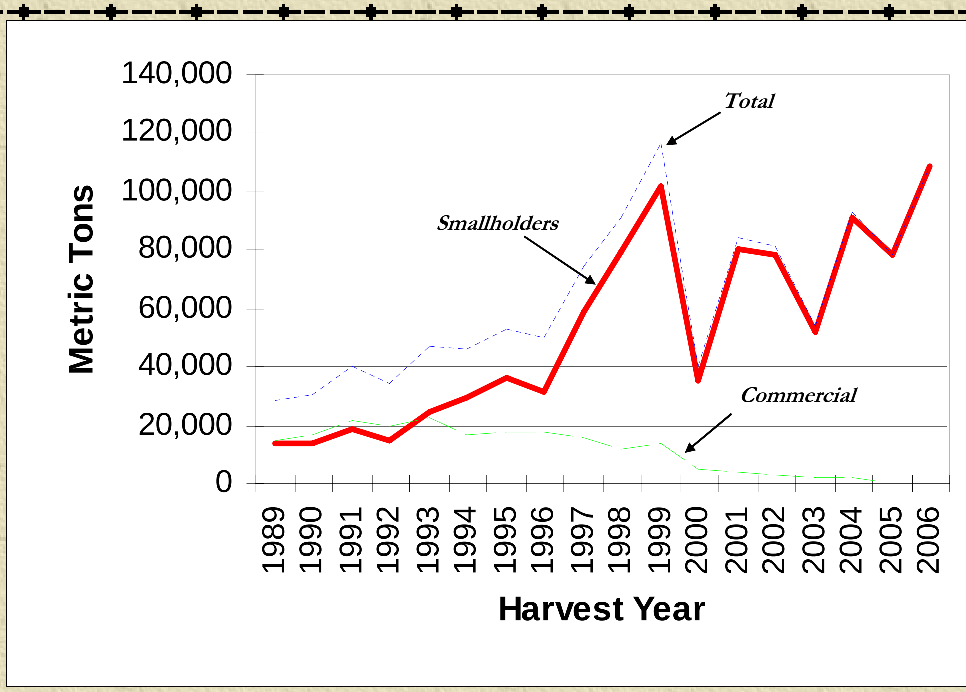
Sector structure and behavior

- 9 companies active 05/06 production season
  - 2 of the original 4 JVCs
  - 4 international companies
  - 3 local businessmen
- Considerable entry and exit from sector
  - excess ginning capacity and conflict in Nampula (2 exits out of 4 companies)
  - external factors among international companies (2 exits)
- Farmer association development weak
- Cotton Ginners Association lacks cohesion

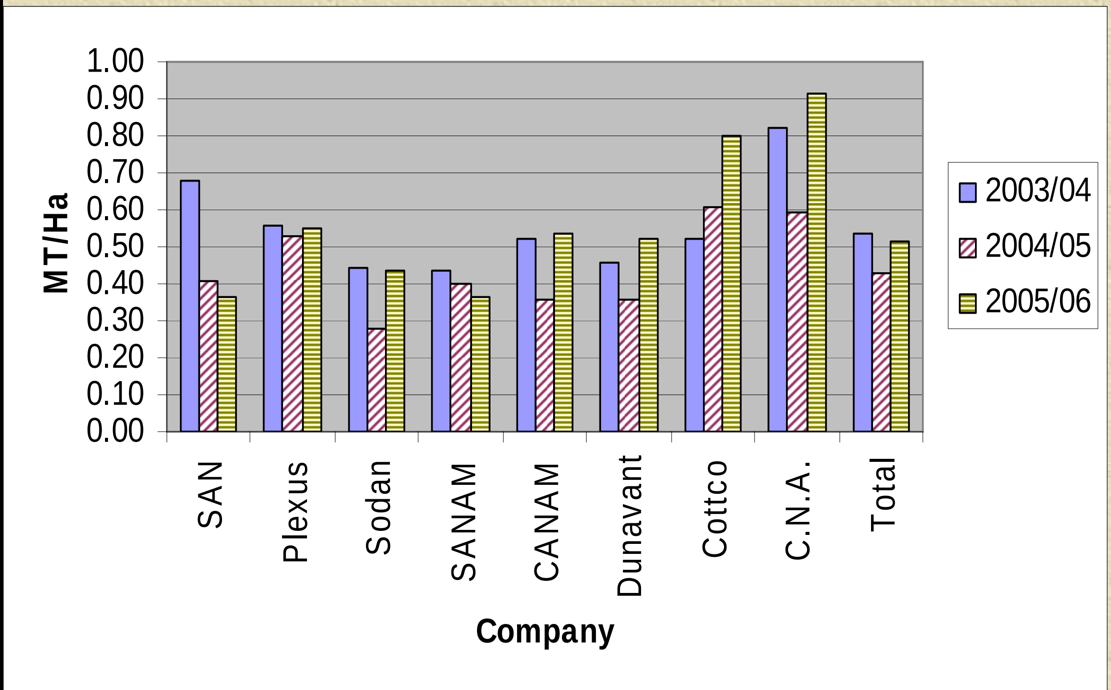
Sector structure and behavior (cont)

- Government regulatory body
  - minimum price formulation
  - technical proposals for sector improvement
    - Varietal zoning, quality control
    - Company performance monitoring and "term limits"
    - Changes to minimum price formula
  - national conference but limited follow through
  - organizes annual technical meeting
- Ag research capacity limited
  - small public research
  - collaboration Dunavant/University

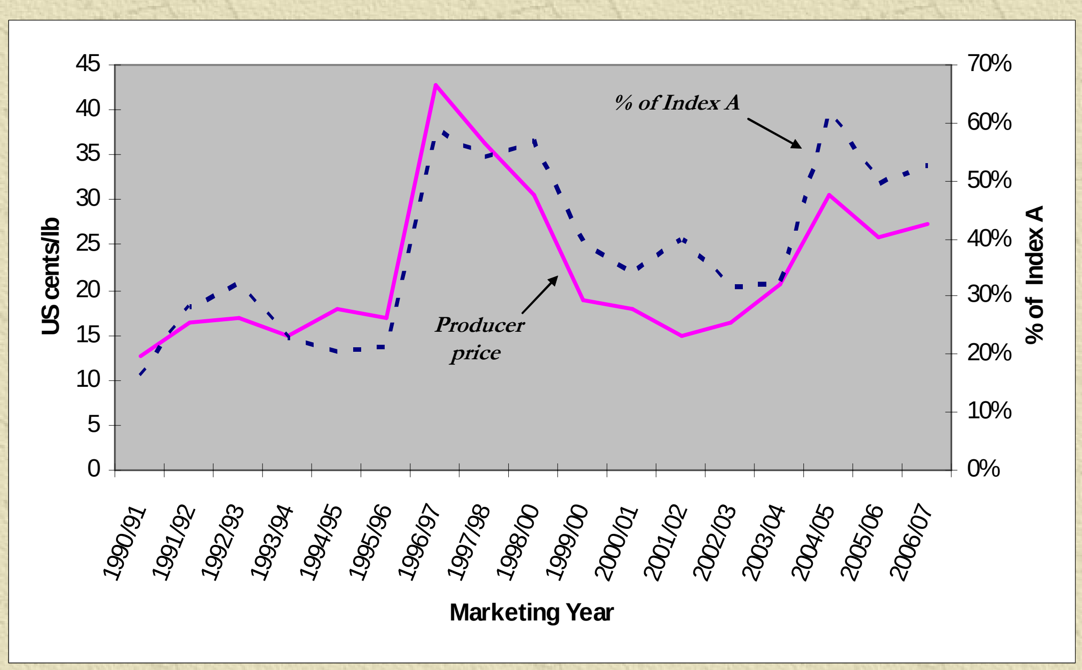
Recent performance - production



Recent performance - yields



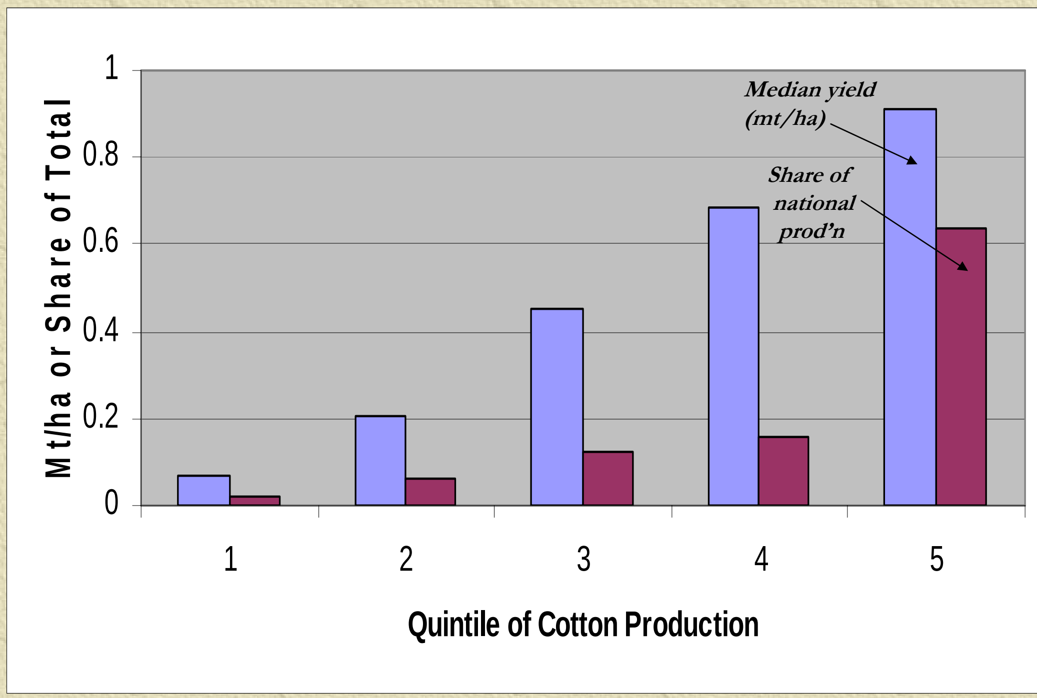
Recent performance - prices



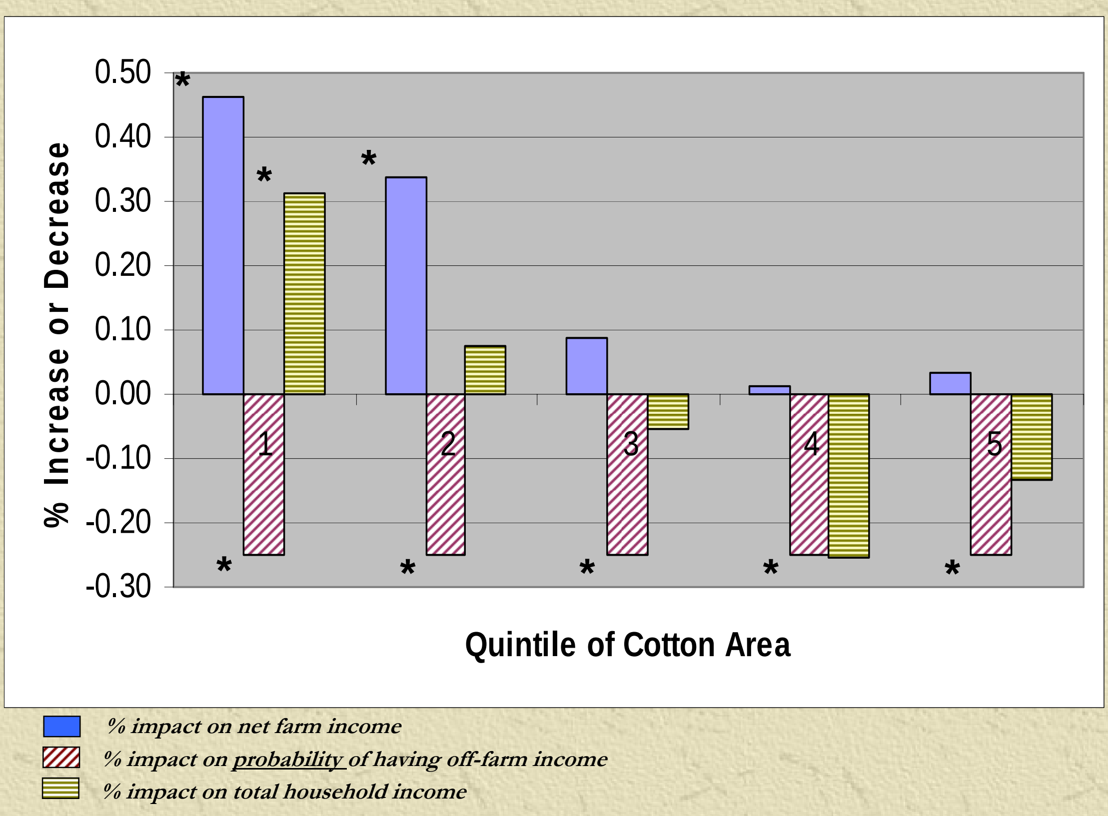
Incomes and poverty

Farm-level profitability example

Variable	Unit	Yield quartiles				Total
		1	2	3	4	
Mean yield	Kg/ha	183.1	419.6	662.2	1175.3	608.5
Area cultivated with cotton	Ha	1.2	1.4	1.7	1.6	1.5
Quantity of cotton produced	Kg	235	574	1071	1882	938
Gross revenue	$US	54.30	131.50	243.0	409.10	209.00
Average price received	$US/kg	0.20	0.20	0.20	0.20	0.20
Cost of nonlabor inputs	$US	8.50	17.70	24.40	47.40	24.40
Cash received	$US	45.80	113.80	218.60	361.60	184.50
Cost of hired labor	$US	73.30	67.30	109.70	149.00	99.60
Net revenue	$US	-27.50	46.50	108.90	212.70	85.00
Mean family labor days		130.9	95.4	115.4	181.4	130.6
Net revenue/hectare	$US/ha	-23.40	7.90	65.30	129.90	44.80
Net revenue/adult	$US/person	-8.90	19.30	47.40	79.40	34.40
Net revenue/family labor day	$US/day	-0.10	0.70	1.20	1.50	0.80



M t/ha or Share of Total
1
0.8
0.6
0.4
0.2
0
Median yield (mt/ha)
Share of national prod'n
1
2
3
4
5
Quintile of Cotton Production



% Increase or Decrease
0.50
0.40
0.30
0.20
0.10
0.00
-0.10
-0.20
-0.30
1
2
3
4
5
Quintile of Cotton Area
% impact on net farm income
% impact on probability of having off-farm income
% impact on total household income

Sector Sustainability

- Sector is not on a sustainable growth path
- Variability in company performance with few options to bring about change
- Increases in productivity from increased use of varieties with higher GOTR
- Most production and most income at farm-level concentrated in a minority of population (lack of alternatives)

Key topics Phase 2

- Understanding the reasons for differences in company performance over time to develop an agreed set of industry standards
  - technical packages
  - extension (public/private partnership?)
- Farmer selection criteria and feasibility of focusing on smallholders with capacity to achieve higher yields
- Continued emphasis on diversification for households that don't have a comparative advantage in cotton