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.
31 October – 2 November, 2006

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

- SAN
- Plexus
- Sodan
- SANAM
- CANAM
- Dunavant
- Cottco
- C.N.A.
- Total

Company

MT/Ha

2003/04
2004/05
2005/06

Recent performance - prices

- % of Index A
- Producer price

Marketing Year
## Incomes and poverty

### Farm-level profitability example

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unit</th>
<th>Yield quartiles</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mean yield</td>
<td>Kg/ha</td>
<td>183.1</td>
<td>419.6</td>
</tr>
<tr>
<td>Area cultivated with cotton</td>
<td>Ha</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Quantity of cotton produced</td>
<td>Kg</td>
<td>235</td>
<td>574</td>
</tr>
<tr>
<td>Gross revenue</td>
<td>$US</td>
<td>54.30</td>
<td>131.50</td>
</tr>
<tr>
<td>Average price received</td>
<td>$US/kg</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Cost of nonlabor inputs</td>
<td>$US</td>
<td>8.50</td>
<td>17.70</td>
</tr>
<tr>
<td>Cash received</td>
<td>$US</td>
<td>45.80</td>
<td>113.80</td>
</tr>
<tr>
<td>Cost of hired labor</td>
<td>$US</td>
<td>73.30</td>
<td>67.30</td>
</tr>
<tr>
<td>Net revenue</td>
<td>$US</td>
<td>-27.50</td>
<td>46.50</td>
</tr>
<tr>
<td>Mean family labor days</td>
<td></td>
<td>130.9</td>
<td>95.4</td>
</tr>
<tr>
<td>Net revenue/hectare</td>
<td>$US/ha</td>
<td>-23.40</td>
<td>7.90</td>
</tr>
<tr>
<td>Net revenue/adult</td>
<td>$US/person</td>
<td>-8.90</td>
<td>19.30</td>
</tr>
<tr>
<td>Net revenue/family labor day</td>
<td>$US/day</td>
<td>-0.10</td>
<td>0.70</td>
</tr>
</tbody>
</table>
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