Regional Cotton Stakeholders’ Workshop: Mozambique Country Report

Presented at Regional Stakeholders’ Workshop on Competition and Coordination in Cotton Production and Marketing Systems

Financed by British Department for International Development

1 & 2 February, 2005

Lusaka

Roadmap

- Supply chain performance since reform
- Overcoming current dualism
  - Nampula vs. rest of country
- Future of the Concession System
  - Geographic monopolies
Figure 1. Seed cotton production in Mozambique, 1970 - 2003

Decline since 1999 primarily reflects problems in Nampula Province

Performance Since Reform

- Sector relaunched in late 1980s based on Concession Model of geographical monopolies
  - Joint Venture Companies between government and private companies
- Rapid growth 1989-1999, primarily but not only in Nampula
- Growing dualism since that time
  - Systemic problems in Nampula “cotton belt”
    - Stagnating or declining productivity
    - Illegal entrants → Periodic credit default crises
  - New entrants and positive trends outside this area
Zimbabwe: High, but stagnant or falling

Zambia: A bit lower, but rising
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002

*Source: ICAC*

**Tanzania:** Comparable, but falling

**Mozambique:** Very low
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002

Source: ICAC

This relatively poor mean performance masks **great diversity** across companies and areas of the country.
Nampula, historical “Cotton Belt”

Cabo Delgado (Plexus)

Zambézia (Dunavant/Agrimo)

Tete, Sofala, Manica – recent growth (CNA, Dunavant, Cotteo)
Nampula, historical “Cotton Belt”

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Areas of dynamic growth

Figure 3. Lint cotton yields in Mozambique and Zambia
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![Graph showing lint cotton yields in Mozambique and Zambia](image-url)
Performance since Reform (10)

- CNA has achieved its results through steady progress over 9 years
  - Improved seed? (GOR 41.5%)
- Agrimo has comparable performance
- Plexus claims GOR of 40%, yields rising to 700 kg/ha by 2007
- Dunavant has raised yields beyond those in Nampula in three years (460 vs estimates as low as 230)
- Cottco has done this in two years (520 vs. 230)
- Both expect to continue raising yields
- Nampula has stagnated

Figure 4. Seed cotton prices to farmers in Southern Africa, 2001--2003

Mozambique paid lowest prices every year, though Zimbabwe in 2003 was only marginally higher
This poor pricing performance also conceals some variability across companies (But prices still relatively low)

Figure 5. Seed cotton prices to farmers in Mozambique, 2003
Performance since Reform (12)

- Quality
  - Farmers often NOT paid according to quality
  - But lint quality also shows some variability across companies
    - Typically 3-4% discount to Index A
    - But Lonrho (Lomaco) in Cabo Delgado had higher quality
    - Plexus now also seems to have higher quality
    - CNA? Dunavant? Cottco?

Performance since Reform (12)

- A dualistic system has emerged
  - Nampula
    - Low and stagnant (or even falling) productivity
    - Consistently pay fixed minimum price
    - Periodic default crises $\rightarrow$ heavy conflict between farmers and firms
  - Other areas
    - Higher and rising productivity
    - Some pay above minimum price
    - No default crises to speak of $\rightarrow$ much less conflict

*Can Nampula catch up?*
Policy & Institutional Framework

- The Concession System
  - Geographical monopolies
  - The right to purchase all cotton, and the responsibility to provide support to any small farmer wishing to produce
  - Official minimum prices \(\rightarrow\) historically became fixed prices
  - Successful in relaunching cotton in Nampula in the absence of credit and input markets
  - Has evolved over time
    - Some new entrants granted concessions in new areas
    - Some new entrants granted concessions within existing areas
    - New companies taking over existing concessions
    - Periodically made more flexible, then less

Policy & Institutional Framework (2)

- The National Cotton Institute (Instituto do Algodão de Moçambique – IAM)
  - Set minimum prices in consultation with Ginner’s Association and farmers
  - Enforce concessionaire rights/mediate conflicts
  - Maintain statistics on the sector
  - Other activities
    - Has promoted cotton at times
    - Commissioned studies

A very wide mandate, insufficient funding
Policy & Institutional Framework (3)

- The Cotton Ginner’s Association
  - Riven by conflict in recent years
  - Not clear what role new entrants play
    - Dominated by established companies in Nampula
  - Has been largely unsuccessful to date in promoting collaboration to:
    - Improve quality
    - Raise productivity
  - Preoccupied with price negotiations and defending concessions against new entrants

Policy & Institutional Framework (4)

- Key Issue: Lack of transparency in sector management
  - Price setting
    - Focus of intense conflict
    - Recent proposal to link directly and transparently to world market prices
  - No regular, open, and formal evaluation of concessionaire performance
  - Lack of formal criteria for reducing size of existing concessions
  - Lack of formal criteria for granting new concessions
Despite these failings, openness to new investment has created a new dynamic outside of Nampula

Can this dynamic be introduced into Nampula?

Recent Policy Proposals

- HORUS
  - Strengthen existing concessions (fully closed model)
  - Formalize monitoring/evaluation criteria
  - Provide companies with 10 years to meet criteria
  - More transparent pricing approach, including pre-planting price

- Alternatives
  - “Concession Unit”: break underperforming concessions into four units which could be awarded to another company
Recent Policy Proposals (2)

- **World Bank**
  - Basically concurs with HORUS, while acknowledging difficulty of ensuring rigorous monitoring
  - “If not possible to reach agreement” on monitoring framework, then …
    - Immediately eliminate concessions outside of Nampula
    - Maintain concessions “for at least five years” in Nampula
      - “thorough review” to ensure that “only the most competent operators remain”

Recent Policy Proposals (3)

- **Additional proposal for discussion**
  - Maintain concession system, but apply the “Concession Unit” concept immediately
  - Award some share of the four units of underperforming companies to *existing companies* with established record and best plan for replicating success in new units
  - In practice, this is likely to affect only Nampula
  - Provide winning company with five years to meet specific performance criteria
Recent Policy Proposals (4)

- Remember that, even if coordination is improved (the focus of these proposals) …
- Competition is still needed
- Leaves two options
  - Eventual abolition of concession model, or
  - Strict monitoring and re-awarding, perhaps on a five year cycle
- But for now, the key issue is probably improved coordination in Nampula

Muito Obrigado!
(Thank you)