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

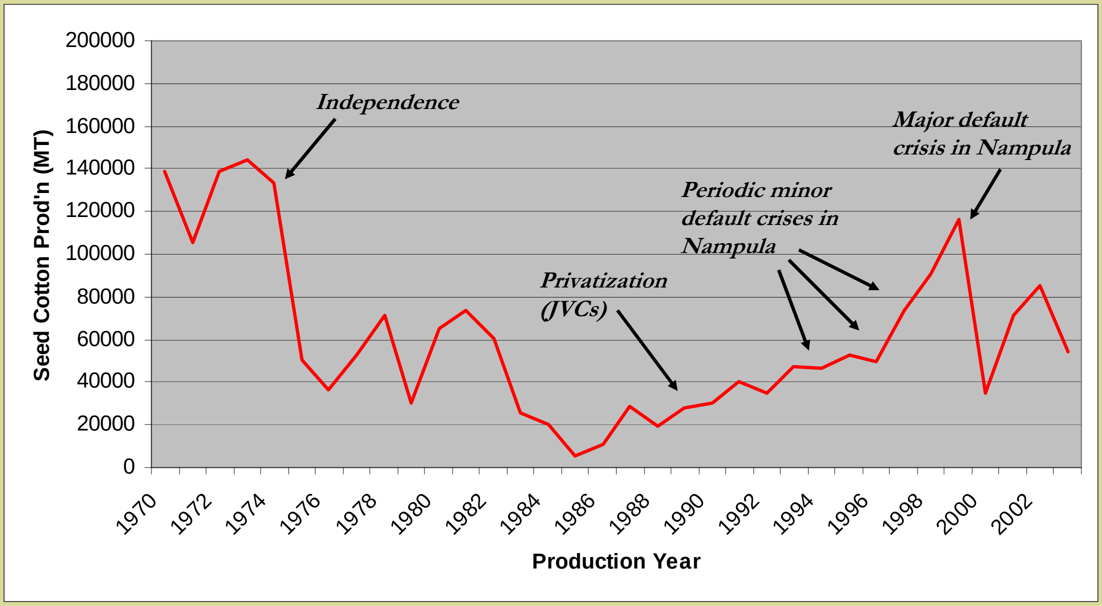
1 & 2 February, 2005

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

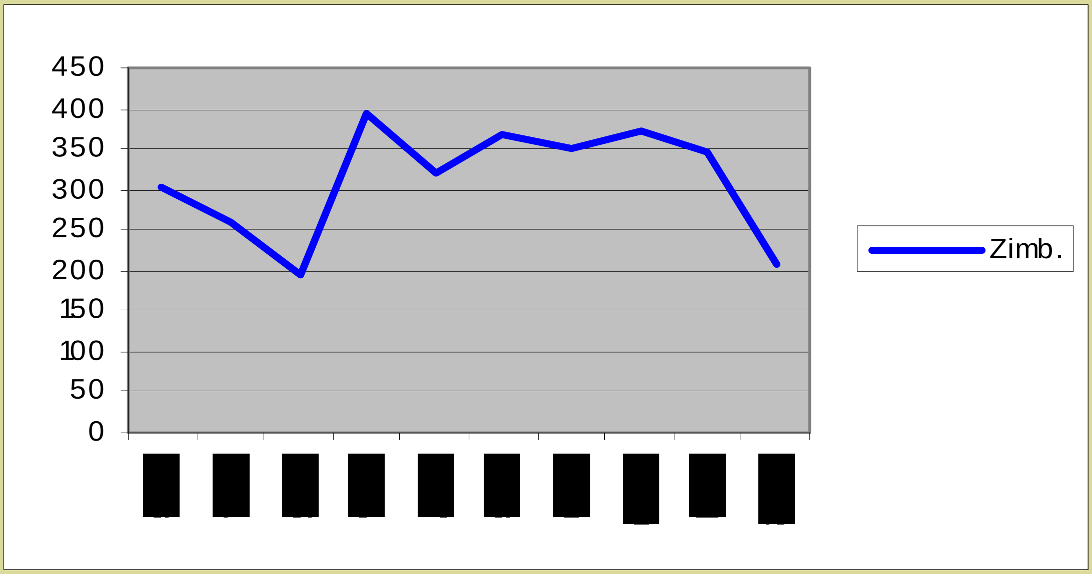


Decline since 1999 primarily reflects problems in Nampula Province

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

Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002



Source: ICAC

__Zimbabwe__: High, but stagnant or falling

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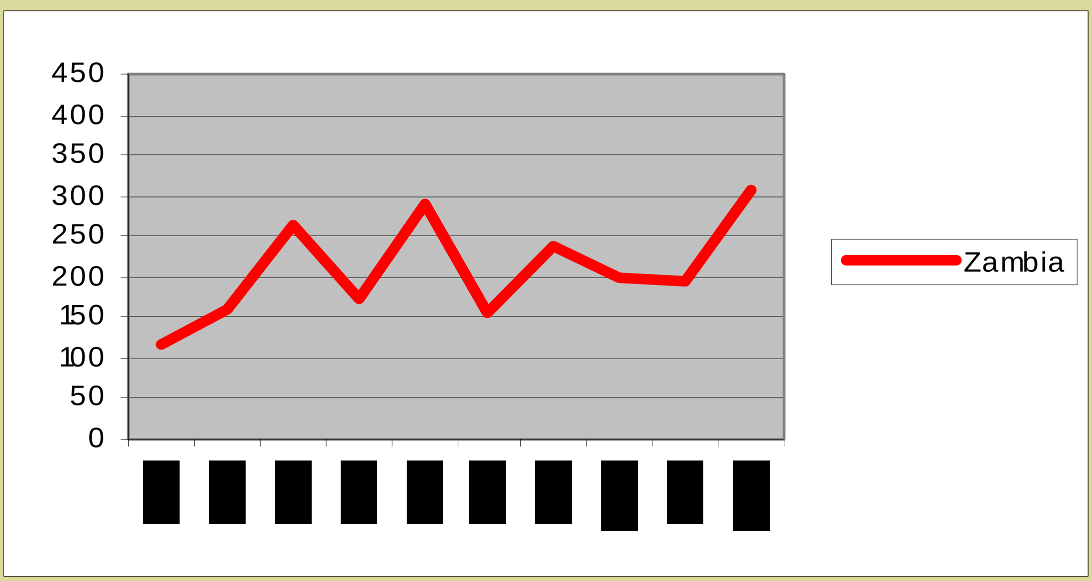

Source: ICAC

__Zambia__: A bit lower, but rising

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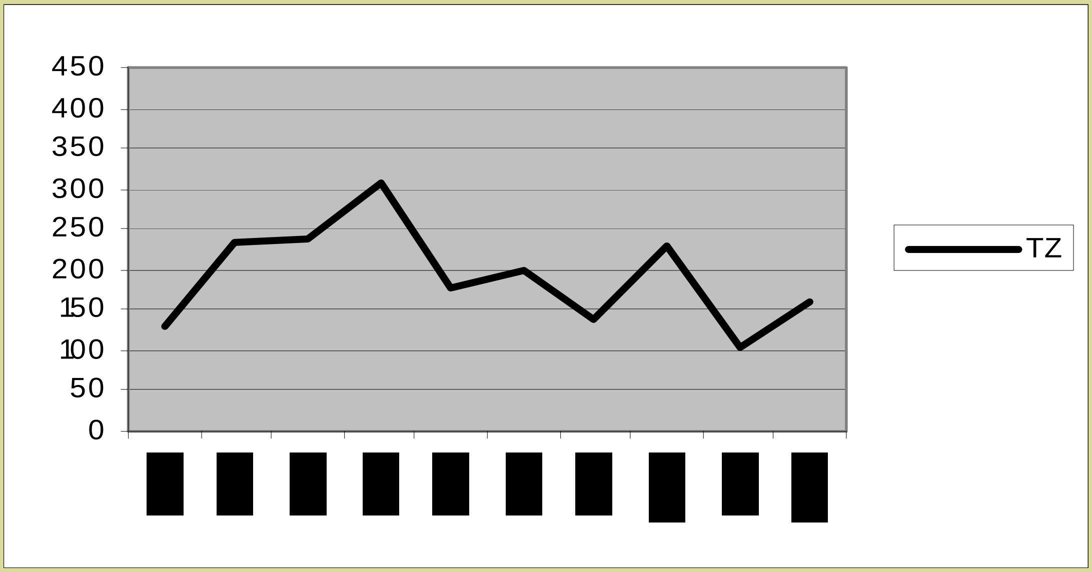

Source: ICAC

***Tanzania**: Comparable, but falling*

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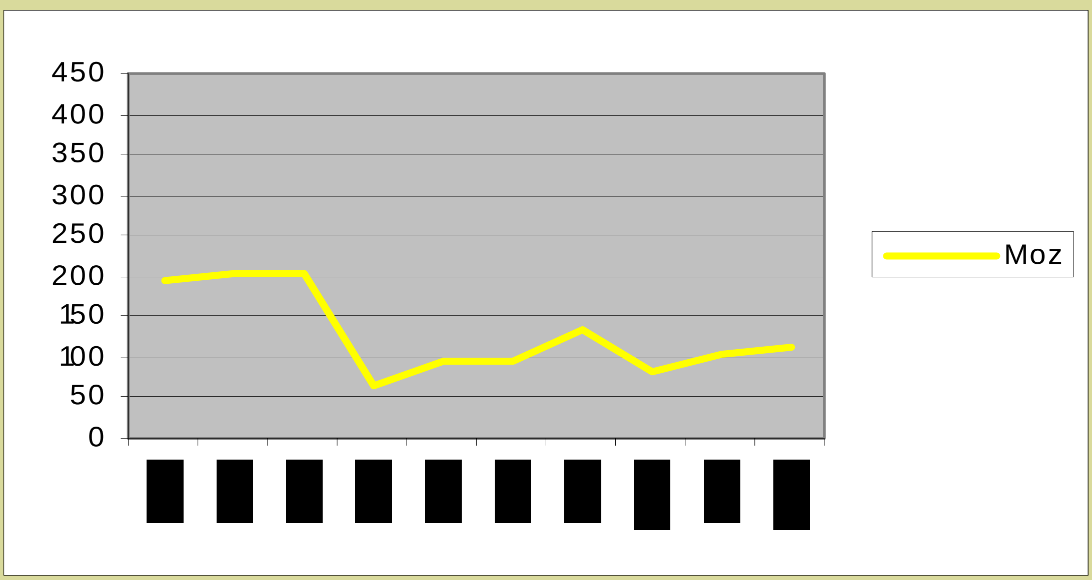

Source: ICAC

***Mozambique**: Very low*

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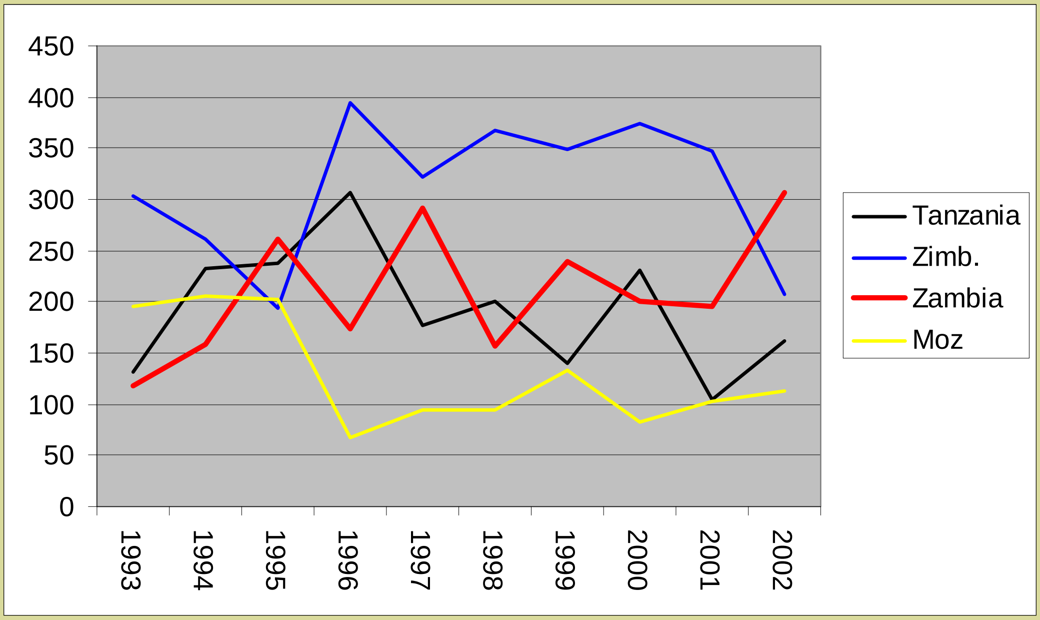
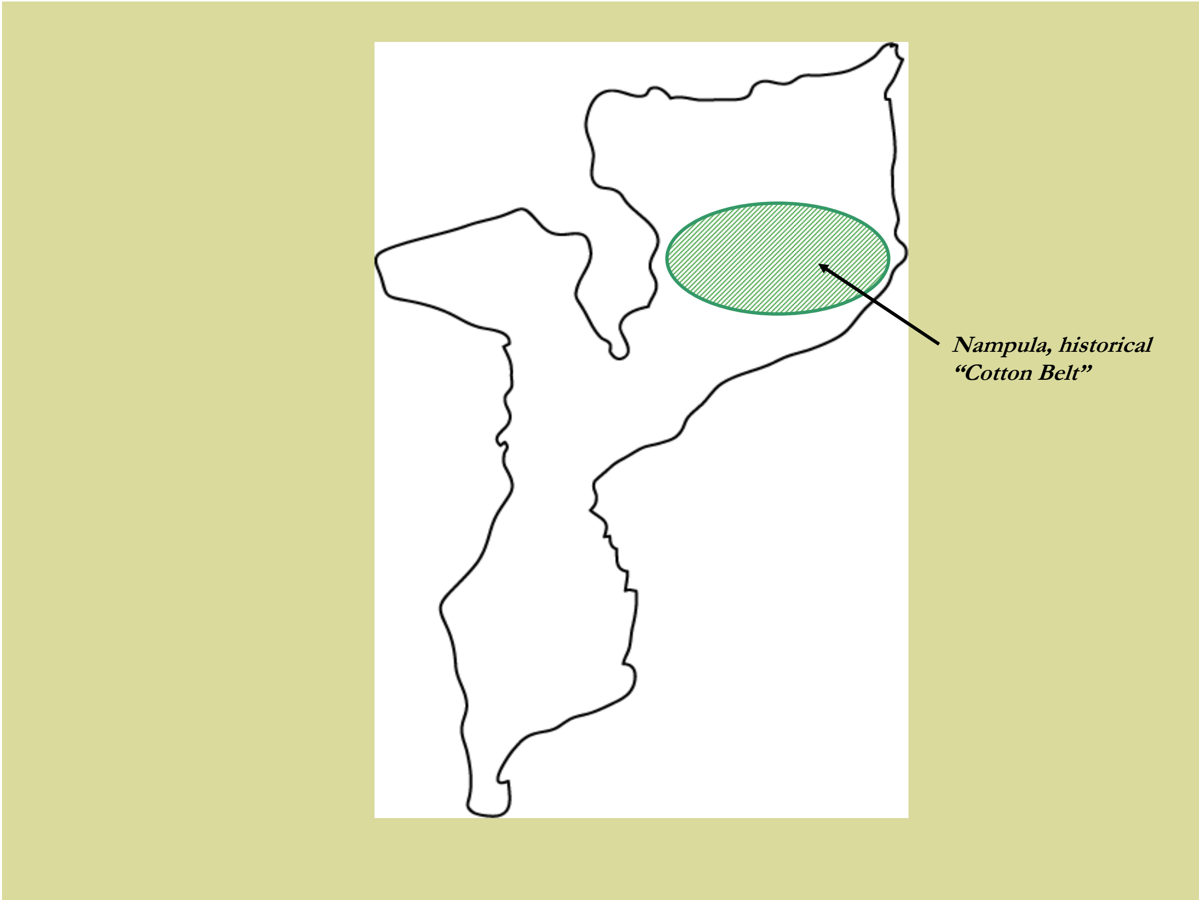
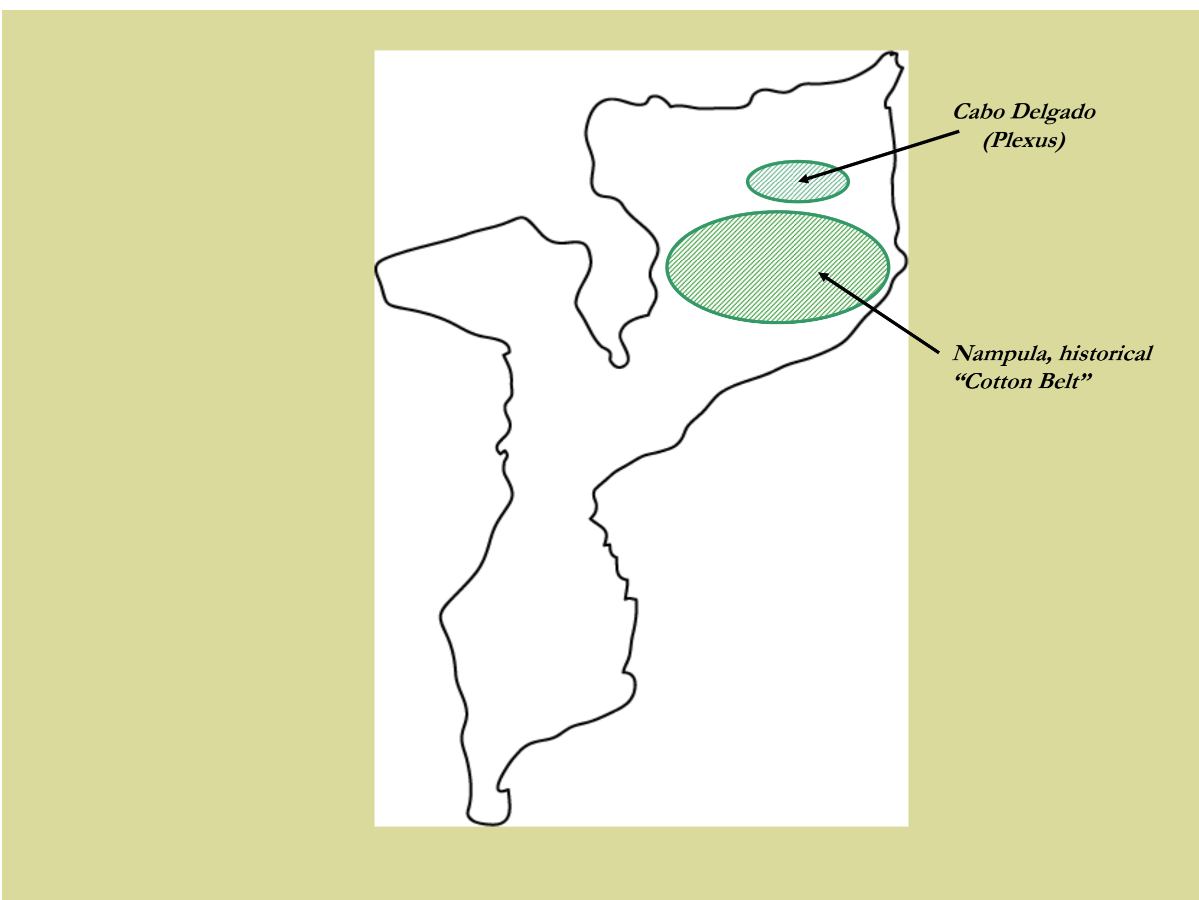


Source: ICAC

This relatively poor mean performance masks ***great diversity*** across companies and areas of the country


Nampula, historical
“Cotton Belt”


Cabo Delgado
(Plexus)
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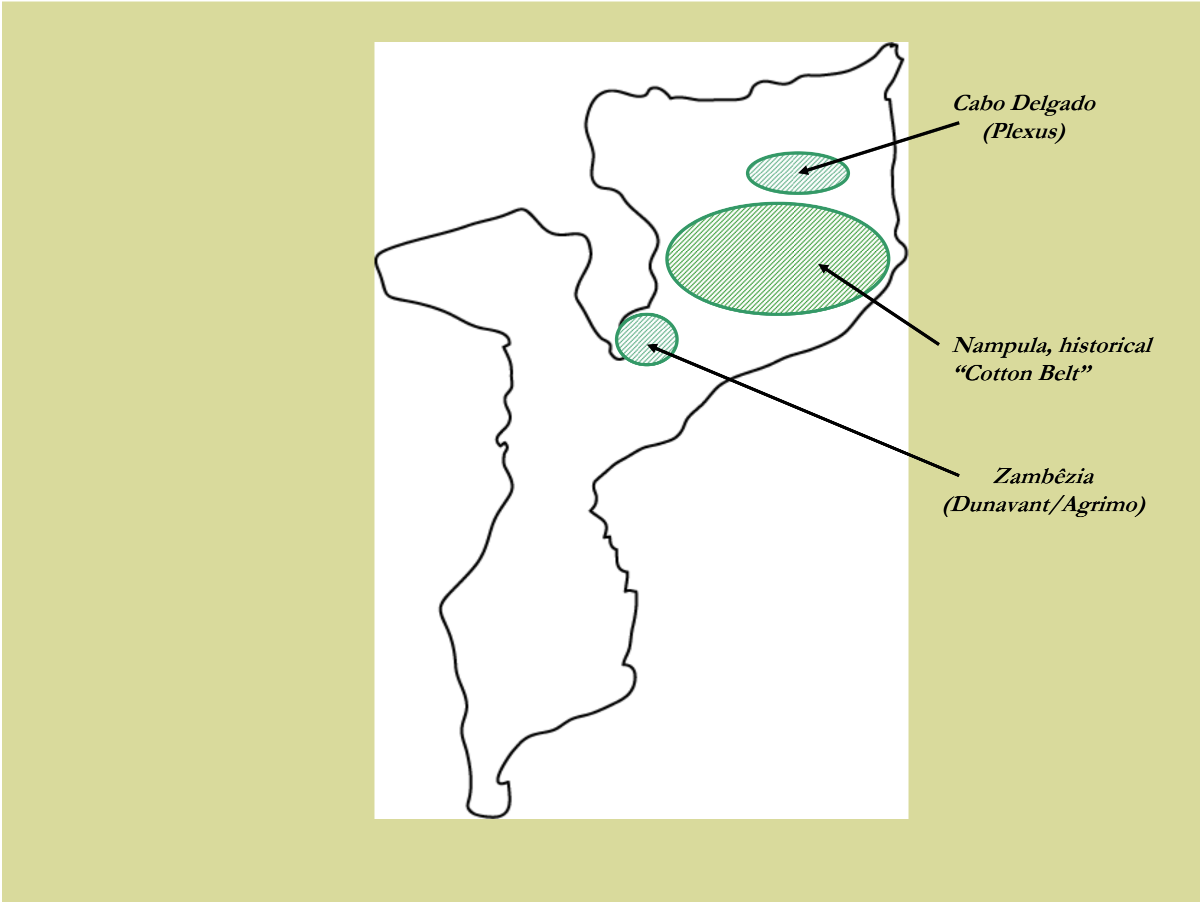
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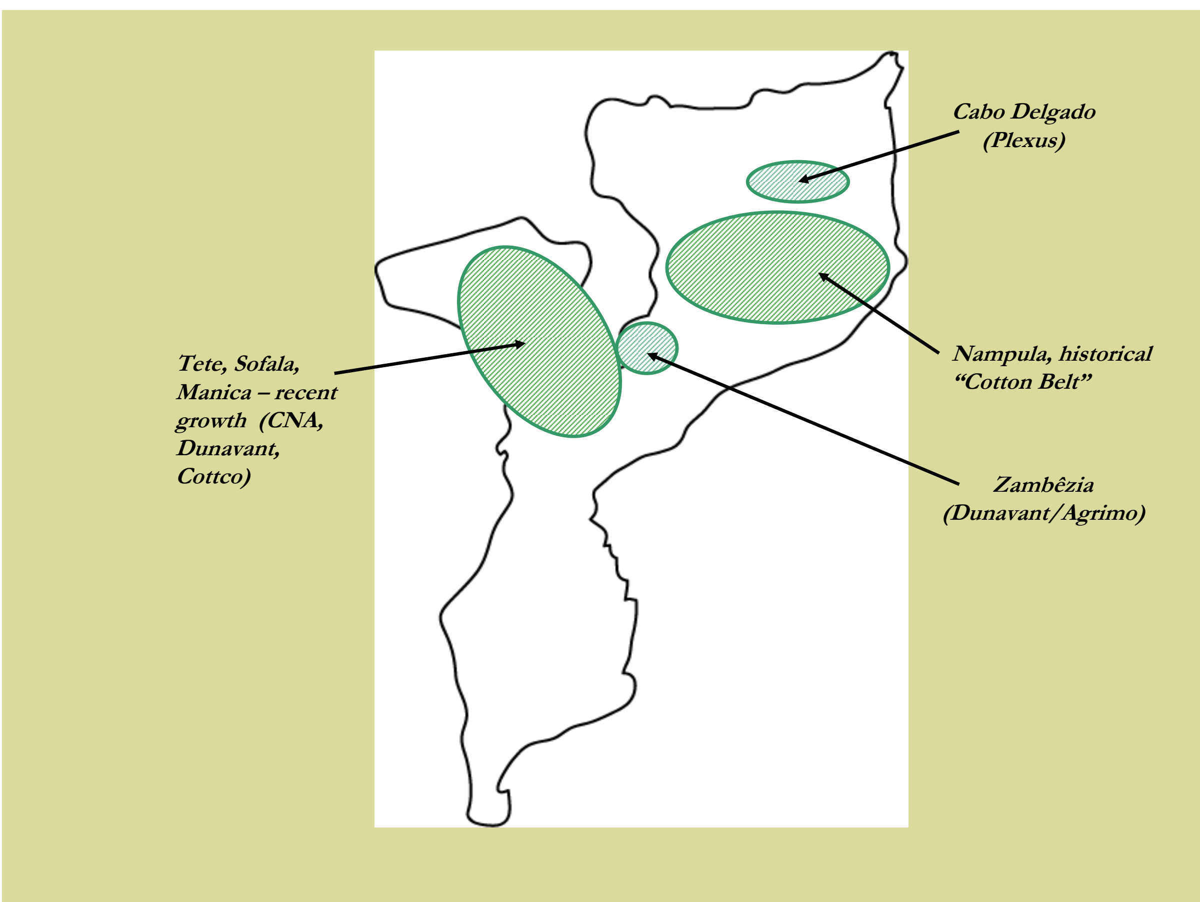

Cabo Delgado
(Plexus)
Nampula, historical
"Cotton Belt"
Tete, Sofala,
Manica – recent
growth (CNA,
Dunavant,
Cottco)
Zambêzia
(Dunavant/Agrimo)

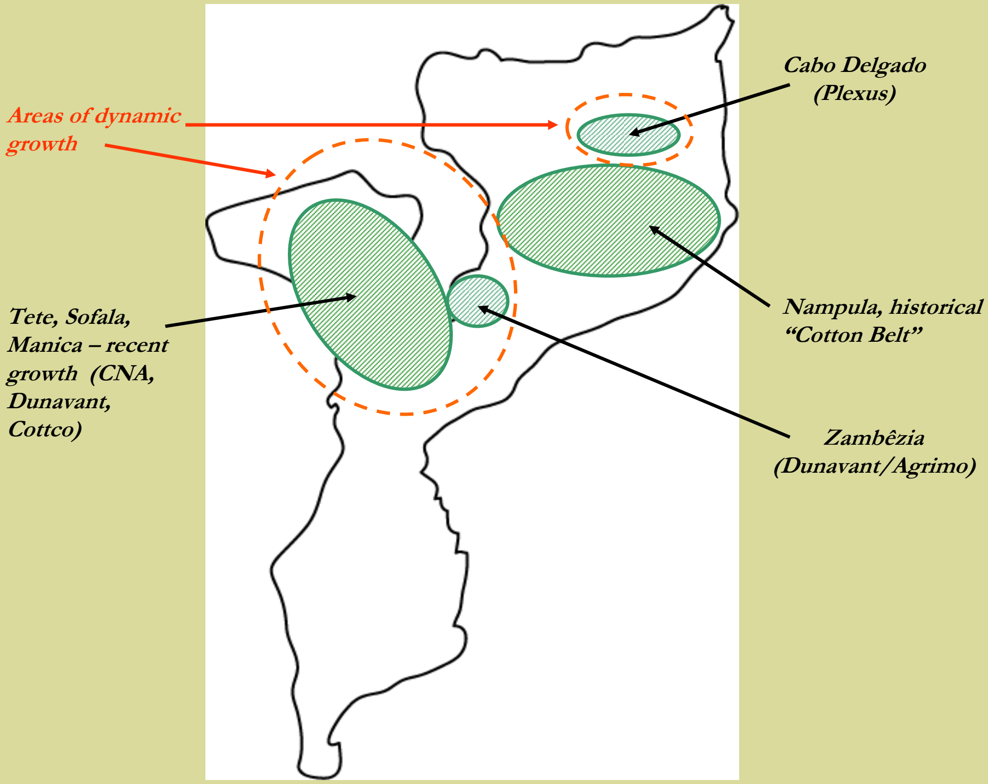
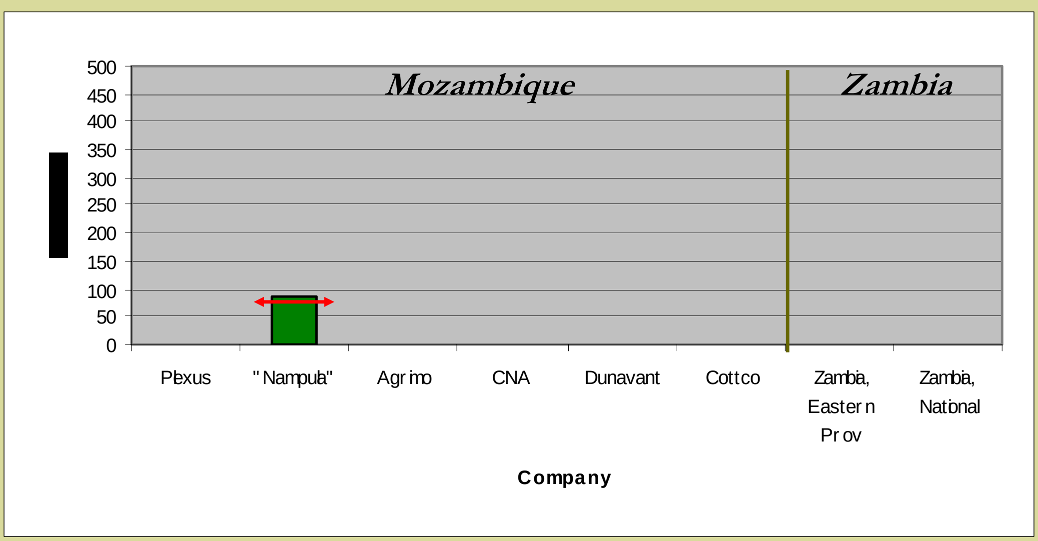


Figure 3. Lint cotton yields in Mozambique and Zambia



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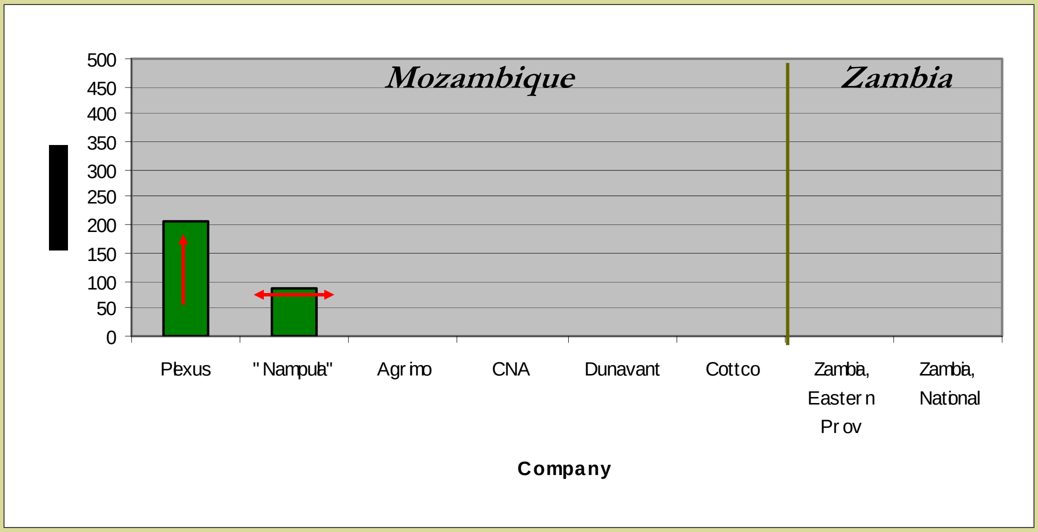

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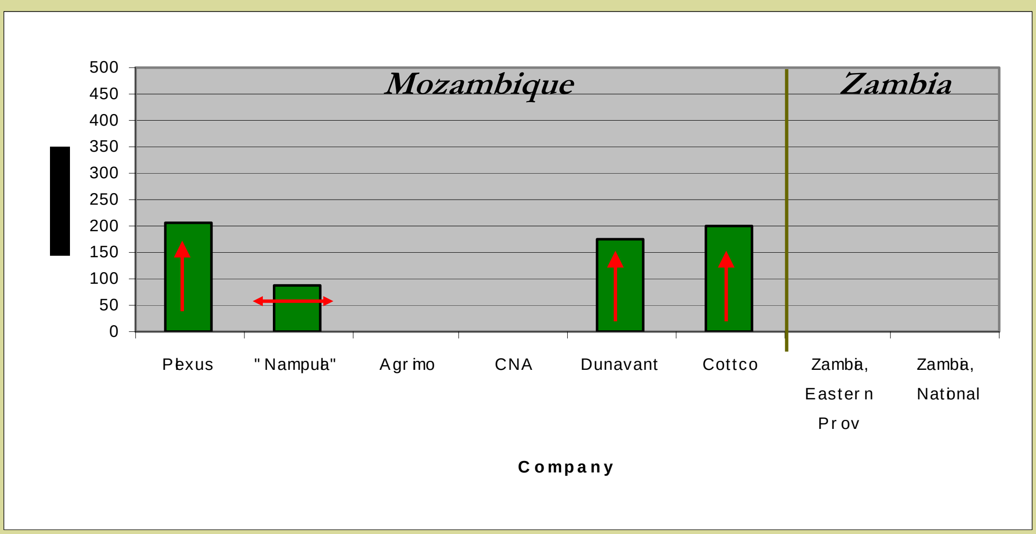

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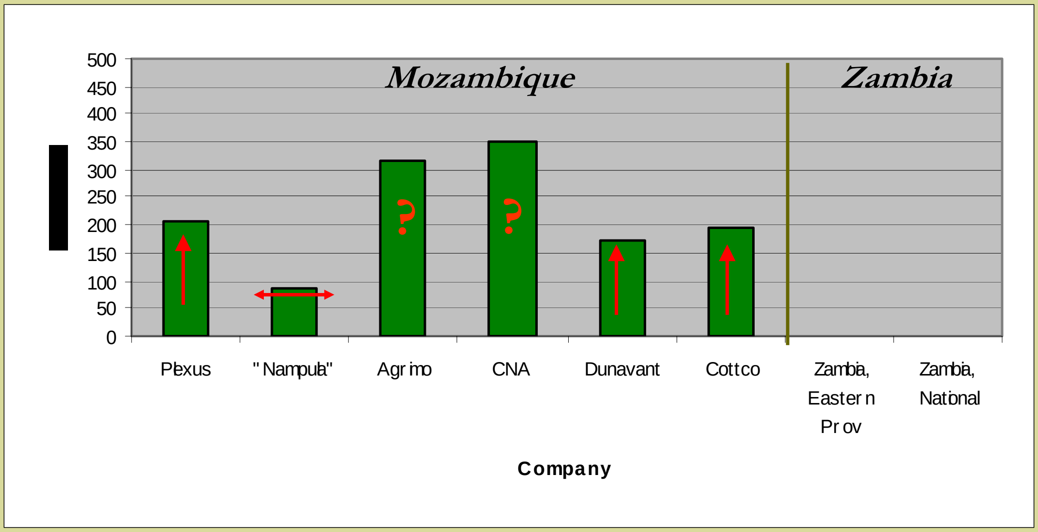

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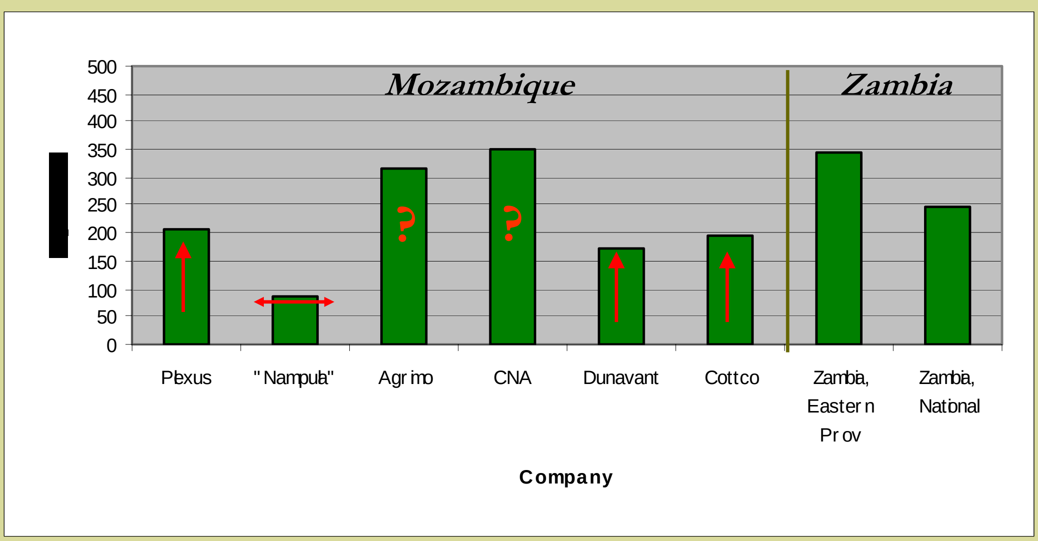
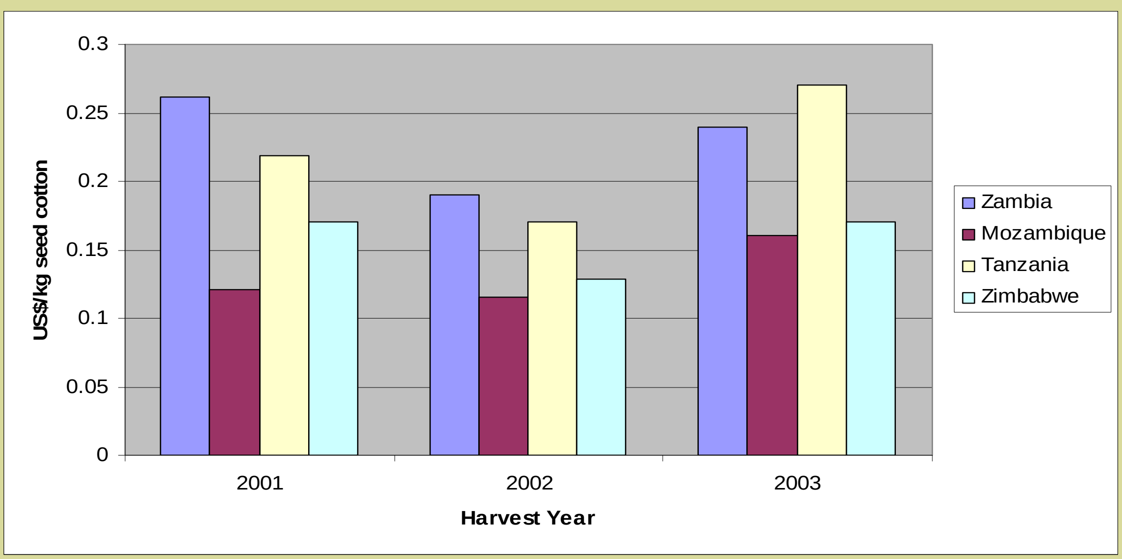


Performance since Reform (10)

- 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

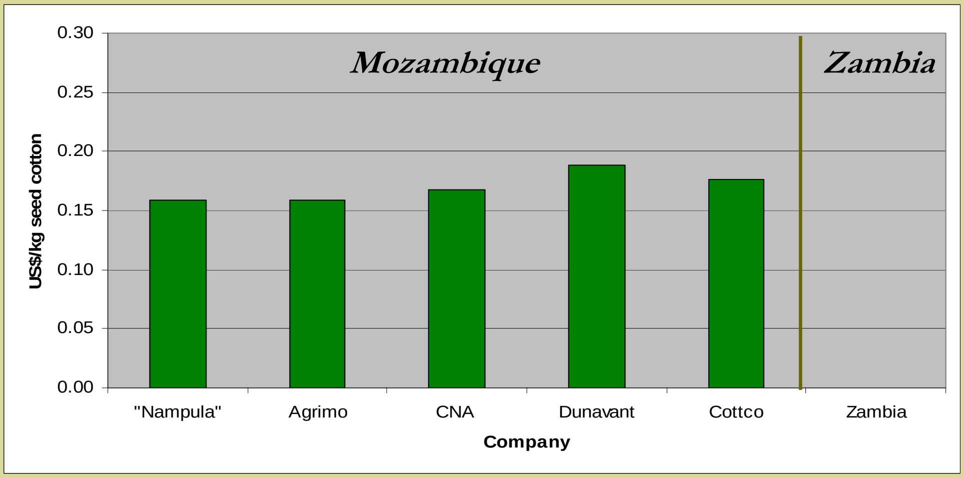


Mozambique paid lowest prices every year, though Zimbabwe in 2003 was only marginally higher

Performance since Reform (11)

- This poor pricing performance also conceals some variability across companies

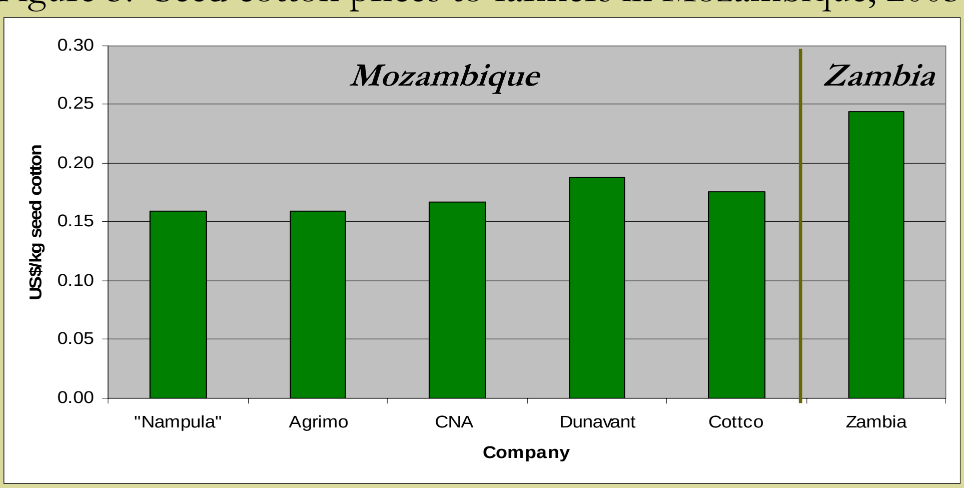
Figure 5. Seed cotton prices to farmers in Mozambique, 2003



Performance since Reform (11)

- 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 → heavy conflict between farmers and firms
  - Other areas
    - Higher and rising productivity
    - Some pay above minimum price
    - No default crises to speak of → 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 → 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)