Competition and Coordination in the Tanzanian Cotton Sector 2001-2004

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Issues

• A struggling sector?
• Advantages of a highly competitive sector
• Disadvantages of a highly competitive sector
  – Coordination failure
• Sector governance
• Proposal for local auctions
A Struggling Sector?

- Rapid entry of new firms in response to liberalisation 1994/95
- Expansion of ginning capacity
  - Cheap (?) loan capital available
  - Reluctance of cooperatives to lease capacity
  - Attractive world prices
- 30+ buyers with ginneries

A Struggling Sector? II

  - Falling world prices
  - Seed mixing
  - Problems maintaining quality control
  - Difficulties of input access
- Yields c.500 kg/ha
- Multi-stakeholder meeting 1999
  - First of a series of National Stakeholder Workshops
  - TCB-led initiatives on input supply, quality control
- Production recovery, especially 2004
Seed Cotton Production: Historical Perspective

Explaining 2004 Production

- Tanzanian cotton production is highly price responsive
  - Producers switch in/out of rice, maize etc
  - Non-price incentives for growing cotton are minimal
- Record 2004 harvest attributable to:
  - Attractive 2003 seed cotton price
  - Good rains
  - Input availability and access (passbooks)
- Past experience suggests that production level will not be sustained
  - For more stable production, need enhanced pre-harvest service provision
Price Transmission

A Index Price and Domestic Seed Cotton Price, 1992-2004

Supply Response

Seed Cotton Price (1990 TShs) and Subsequent Production
Advantages of a Highly Competitive Sector

- 37 buyers in 2004/05
- 2003: CR3 = 0.25; CR5 = 0.4
- Increases in international prices passed onto producers
  - 2003: Tanzanian seed cotton price highest across four countries
  - Producer share of f.o.b. lint price consistently around 60%
  - This despite high local taxes and levies

Disadvantages of a Highly Competitive Sector

- Mixing of seed
  - UK77 and UK82 mixed
  - Difficulties keeping UK91 pure during multiplication
- Difficulties maintaining quality control
  - Scramble for cotton → little grading at buying posts
  - Insistence on grading may come at expense of capacity utilisation
  - Quality premium offset by tax avoidance?
  - Smaller ginners may not be able to achieve full premium for higher grade lint
Disadvantages of a Highly Competitive Sector II

- Difficulties of input access
  - General level of input market development weak
  - Pre-liberalisation input supply handled largely by cooperatives
  - Post-liberalisation attempts at input credit provision quickly collapsed due to loan default
- 2002 household survey:
  - only 108/221 cotton producers applied any chemicals (mean 1.5 – 2.7 sprays)
  - None used inorganic fertiliser; only 32 applied kraal manure
- Same challenges for extension as for input credit

TCB / CDF Interventions

- Difficulties of private coordination necessitate active “third party” coordination role
- Beginning 1999/2000, TCB / CDF role in:
  - Input supply
  - Quality control
  - Renewed UK91 seed multiplication efforts
  - (Extension and promotional role)
- Effectiveness and/or efficiency of interventions can be questioned
  - Yet high levies, especially for CDF
TCB / CDF Interventions II

Input Supply
• 1M litres of (mainly) water-based chemicals imported by CDF 2001
  – Farmers unfamiliar and ill-equipped with pumps
  – Only 15% taken up by producers, despite subsidised price
• Passbooks introduced as pilot 2001/02, across sector 2002/03
  – Initial irregularities during scaling up, but popular with producers (“store” of chemicals for when cash is short)
  – Should create space for private input market development

TCB / CDF Interventions III

Quality Control
• Private firms contracted to enforce quality control at ginnery level
  – Ginners reluctant to turn supplies away
  – Monitors also responsible for statistics on cotton / lint throughput at ginneries
  – “accommodation” between ginnery managers and monitors
  – Monitoring firms paid according to inputs, not outputs
• Quality problems start well before ginnery …
Sector Governance

• Question marks over decision making on:
  – speed of switch to water-based chemicals
  – Seed delinting 2002
• Creative solutions from stakeholders not readily adopted
• TCB susceptible to political pressures, but insufficiently responsive to either ginners or producers
  – Revisit composition of TCB and CDF Boards?
  – Relationship with Ministry of Cooperatives and Marketing

Proposals for Local Auctions

• Quality control at ginnery is of questionable effectiveness and is also unpopular
• Root of quality problem is after harvesting
  ➢ deliberate spoilage (water, sand), rather than casual approach to quality
  ➢ Have to tackle at buying post
• … but TCB inspectors insufficient to monitor activities at 4000+ buying posts
Proposed Solution I

• Reduce number of buying posts
• Central post (primary society) per village or few villages
  ➢ careful of distances!
• Weekly auction at which all interested buyers participate
  ➢ Dates clearly announced in advance to producers
  ➢ Consignments of 1 ton+ auctioned separately
• Contracted inspectors will be at every auction
  ➢ assess quality before buying
• Investment needed: upgrade quality of primary society stores

Proposed Solution II

Inspection:
• If 500 posts, need c100 inspectors
• Currently, 6 inspectors at every ginnery - reduce this number and send rest to villages
• Still ACE / Baltonic / SGS employees

At ginnery level:
• checks and balances – why did this come?
• statistics on quantities (inputs and outputs)
Proposed Solution III

Advantages:
• Peer pressure against rogue sellers and buyers
• Can monitor weighing scales more easily
• Ensure payment of all levies
• Grading disputes between inspectors and farmers, not buyers and farmers
• Unauthorised agents (machingas) stopped
• Reduce company costs of buying posts
  ➢ benefits ultimately passed onto farmers
• Same centres can be used for: farmer registration, passbook endorsement and input distribution