

Competition and Coordination in the Tanzanian Cotton Sector 2001-2004

Colin Poulton
Wilbald Maro
Marianne Nylandsted Larsen

Issues

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

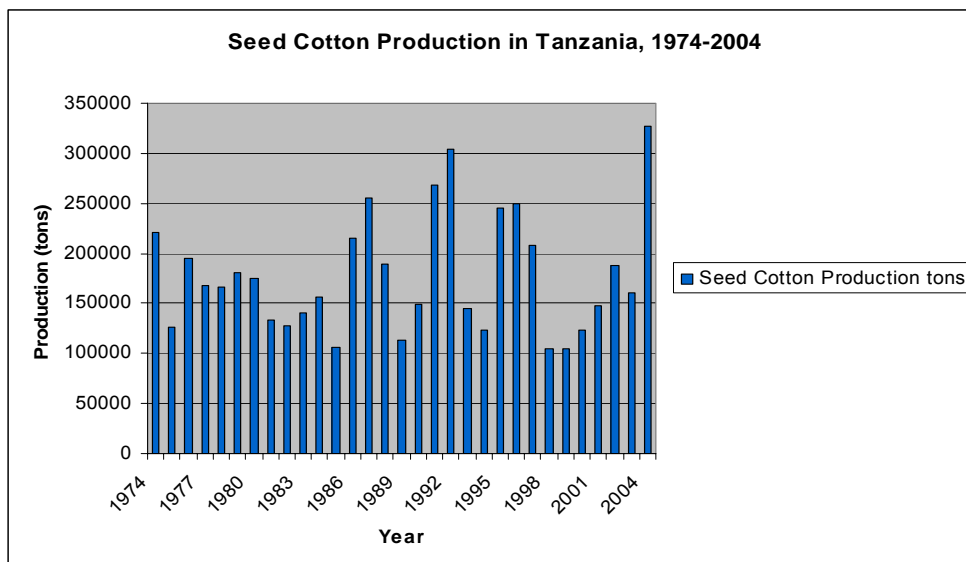
A Struggling Sector?

- 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

- Strong production 1994/5 – 1996/7, but steep decline 1997/8 and 1998/9
 - 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

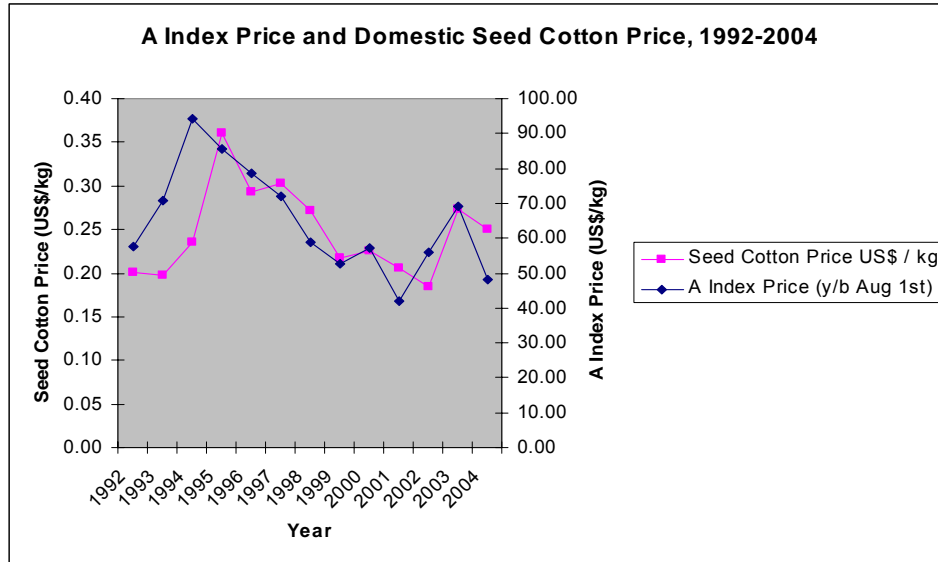
Seed Cotton Production: Historical Perspective



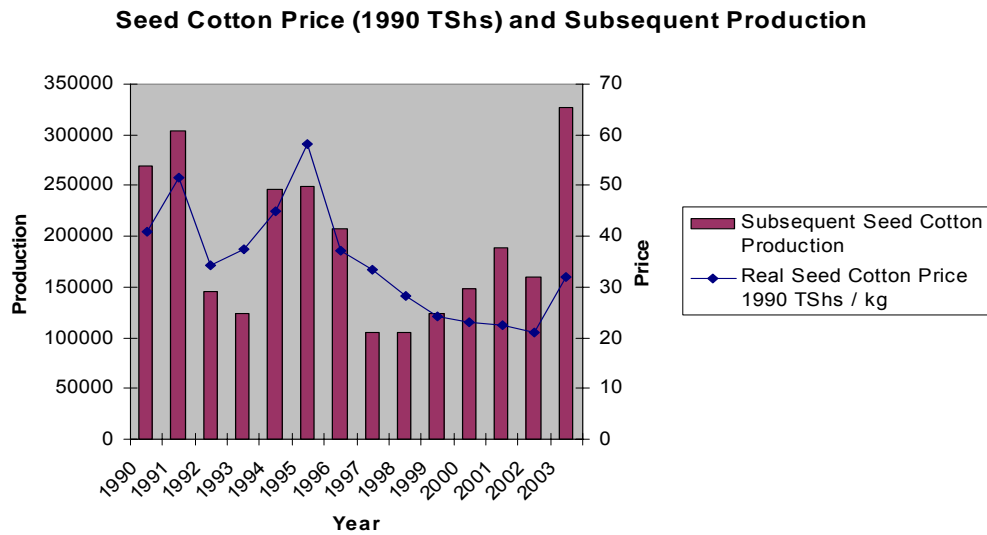
Explaining 2004 Production

- 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



Supply Response



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