COTTON SUB-SECTOR REFORMS IN TANZANIA

Introduction

1. Agriculture contributes about 50% to GDP and accounts for over 60% of foreign exchange, 85% of which is derived from coffee, cotton, cashew-nuts, tobacco and tea in that order. During the 1992/93 marketing season, cotton contributed 17.85% of GDP when a record production of 96,364 tons of lint was obtained. However, due to fluctuations in world market prices, cotton's contribution to GDP fell to 5.73% by 2000. Cotton production for the past three years averaged 53,910 tones of lint per year. Production in 2004 is expected to reach 85,000 tones of lint. The cotton industry sustains, directly or indirectly, the livelihoods of nearly 48% of the Tanzanian population, currently estimated at 35 million. Thus, increasing productivity and profitability of cotton cultivation, processing and marketing has become a major post trade liberalization development agenda.

2. In Tanzania, cotton is produced by smallholder farmers who cultivate between 0.2 and 2.0 hectares per year. Over 95% of the national output of cotton comes from areas lying to the West, East and South of Lake Victoria. In eastern Tanzania, prospects for increased output are considerable but in the aftermath of policy reforms, input supply and marketing related constraints significantly slowed the growth of cotton production in the area. Productivity in the cotton sector is low due to low use of inputs and inappropriate agronomic practices.

3. Cotton is harvested and graded by hand prior to ginning by either saw or roller gins. Until 2000, the bulk of the crop was exported as lint. However, export of lint is likely to decline gradually following increased local processing into yarn and textiles. There is a potential for organic cotton production as well as increased productivity of conventional cotton through adoption of yield enhancing technologies and irrigation. However, access to credit and inputs remains problematic and smallholders are becoming increasingly exposed to fluctuating prices for both cotton inputs and outputs.

4. In order to enhance productivity of smallholder producers so as to increase family incomes, there is need to shift from subsistence to commercial farming. Following liberalization of trade, smallholder producers are increasingly exposed to price uncertainties. Thus, apart from requiring assurance for access to inputs and new technologies, smallholders need exposure to competitive markets and to be organized collectively in cooperatives or farmers associations in order to empower them to access resources, information and markets. In addition, there is need to build institutional and human capacities for ensuring compliance with international quality and safety standards. This may entail harmonizing national and regional standards and building up a national capacity for quality assurance and compliance.

5. Most cotton buyers in Tanzania are inadequately equipped to deal with price shocks in the cotton industry. This is partially due to their limited access to capital, inability to access market information and intelligence leading to inability to reduce their transaction costs. Consequently, they may not be able to offer farmers good prices at times of price turbulences. The absence of a price stabilization mechanism also contributes to the price uncertainties. To alleviate these weaknesses, training on the use of market based instruments related to mitigation against price risks is necessary. For Tanzania, the focus has to be on how to achieve reduction in the cost of production, increase processing while reducing processing and marketing costs over time.

6. It is Government policy that the private sector shall take a leading role in the development of a truly competitive and transparent cotton industry. To this end, appropriate and timely dissemination of market information to all actors on both inputs and outputs are essential. There is also need for reformed policy and legal frameworks, within which agricultural transactions take place.

Ongoing Reforms in the Agricultural Sector

7. Reforms in the Agricultural Sector started in early 1990s, with the divesting of commercial activities from the Crop Marketing Boards (the 1993 Crop Boards (Miscellaneous Amendment) Act, No. 11, of 1993). This was followed with enactment of crop industry legislation of major crops such as coffee, cotton, sugar and tobacco in 2001. These reforms addressed the need to define roles and functions of Crop Boards, participation of stakeholders in the management of respective crop industries and the need to involve farmers and other players in contributing to the development of their respective crops through establishment of mechanisms for resource mobilization initiatives such as Crop Development Funds.

Recent Reform Initiatives

8. The Government of Tanzania is collaborating with the World Bank and the European Union on a review of the functions of Crop Boards aimed at improving the performance of agricultural exports, which is an important aspect of the country's poverty reduction strategy. The study focuses on four of Tanzania's five main export crops: cotton, coffee, cashew and tea. The review was prompted by the need to enhance efficiency and stakeholder participation.

9. The objective of the review was to identify appropriate functions for the Boards, on the basis of which suitable administrative and financing mechanisms would be based. The study includes a review of sources and uses of funds of the Boards to determine who is paying for what services. A review of existing institutional arrangements governing production, processing and marketing of coffee, cotton, cashew and tea and an evaluation of the impact of reform options in regulation, service and revenue collection functions is also being conducted. The review employed qualitative and quantitative approaches with extensive consultation of stakeholders, to gain insights into institutional responses to reforms. In the final stage of the review, options will be presented to stakeholders in workshops to be held in September, 2004 for consideration.

Governance Options

10. A number of options for governance and financing of Boards were considered to suit the scope of activities of the different Boards. They include the following:-

Option 1: Publicly Financed with Mandate Redefined to Focus on Public Services

11. The financing sources would change from the export levy to the Government budget. The shift to financing under the budget would add more stability to the revenues of the

Boards. The functions of the Boards would be restricted to provision of public goods (policy, regulatory, information and promotion).

Option 2: Privately Financed with Mandate Redefined to Focus on Associated and Individual Private Services, Leaving Public Roles of Government Agencies.

12. The respective industries would manage the Boards with a continuation of financing through the export levy. This would require the Ministry of Agriculture and Food Security to relinquish control of the Boards to the industry (farmers, traders, exporters). The board would in effect become an industry association. Public functions such as regulation and data collection, some of which could also be undertaken by the industry association depending on the level of development, would be transferred to Government Agencies such as the Ministry of Agriculture and Food Security and/or the Ministry of Cooperatives and Marketing and financed through the budget. The Boards would become more accountable to their constituents and financiers. The industry would determine the levy commensurate with the level of services desired. (*Note: The Crop Boards are Government institutions. Each crop has a Crop Association formed by the stakeholders and which is non-governmental*).

Options 3: Jointly financed: Provision of Associated Private Services Financed by the Levy and Contracting for Public Services

13. The Boards would undertake a combination of public and associated private activities not dissimilar to some of the current Board functions, but with a clearer delineation of the public and the private functions. Under this option the Boards would essentially become industry associations meeting the needs of their members and would also be contracted by Government, on a performance basis, to undertake certain public functions that are of vital importance to their constituents and members. The activities of the Boards would be financed by both public and levy. Boards would still experience variability in financing, but would have two flows, and hence greater flexibility to manage the variability. The composition and internal rules of governance of the Boards would be enhanced to increase oversight and accountability. (*Note: Not acceptable to the Government.)*

Reform Options for the Cotton Industry

14. Reform recommendations for the Cotton Board activities are on regulatory activities, quality enhancement, and input supply. An option suitable for the cotton board should be capable of strengthening coordination among stakeholders to overcome problems associated with quality and input/credit supply and markets. Specific initiatives are needed to develop quality assurance institutions. Seed supply continues to require public coordination. Furthermore, the recently introduced saving programs that seem to be critical to making inputs available to producers (e.g. the voucher program) need to be made more effective by enhancing stakeholder control over these programs.

Reduce license fees, cease setting indicative prices, and provide market information throughout the season

15. License fees should be reduced to cost recovery. The Cotton Board should cease setting indicative prices at the beginning of the season to reduce the risks of creating excessive expectation of farmers or collusive behaviour by traders with a mis-match of the announced and market prices. As an alternative the Board should provide market price

information throughout the season, as intra-seasonal price movements are quite large (in addition over 90 percent of farmers surveyed had radios so this market information could be disseminated effectively).

16. **Focus on cotton inspection at ginneries rather than buying centers.** Currently there are district based cotton inspections, employed by the Board, at buying centers monitoring cotton quality, as well as at ginneries. This approach has not yielded significant quality improvements. A more effective approach could be to focus on ginnery inspection rather than at the buying centers with about 20 ginneries versus 100s of buying centers. In addition it would be useful to develop more objective criteria for assessing cotton quality at ginneries, including moisture content and contamination, to reduce conflicts and rent seeking opportunities. (*Note: It is necessary to inspect cotton at buying centres because this is what determines the price the farmer should be paid, what is needed is a mechanism which can make such inspections effective and to put in place sanctions for farmers and buyers of adulterated cotton.)*

17. **Introduce innovative initiatives for quality enhancement.** Pilot interventions that generate market supported quality differentiation so that inspections can be phased out in the short to medium term. In principle, the pilot could require working with producer groups to introduce grading, absorbing some of the costs in the short run, to rest the level of differentiation that may be supported by the market. Working with producer groups will have spillover benefits in overcoming some of the marketing and input/credit problems of producers.

18. **Reduce the role of the Board in the management of the Cotton Development Fund and input voucher scheme:** The Cotton Development Fund (CDF) is currently used for the importation and distribution of chemicals, and the collection and distribution of cotton seed. The CDF needs greater accountability to producers and should be managed by growers and the industry (traders and exporter) which could ensure greater effectiveness of inputs supply and ensure relevance of imported chemicals. The Board may continue to play a role in co-ordination of seed collection and distribution until commercial seed supply systems become viable. However, continued intervention always has the risk of undermining the emergence of private seed providers. Only 32 percent of producers purchased CDF supplied inputs, accounting for about 36 percent of the value of all the chemical inputs purchased by growers in 2002-03. As the private sector meets nearly two thirds of the input needs, the scope of the program needs to be reviewed. The input voucher scheme, which provides inputs against prior season contributions from cotton sales, is still in its infancy but consideration should be given in decentralization of its management to a consortium of companies and cooperative societies.

19. As mentioned under paragraph 9, these options will need to be discussed with the Government and other stakeholders before they are adopted for implementation. It is however, Government policy to continue reforming the economy and to ensure stakeholder participation in every step of the reforms. What will determine what is and what is not acceptable will be the practicability of the recommended reform options.