

One Variety, One Zone, One Gin Concept Cotton Concessions

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Background

- ▶ 10 % of the world's cotton is grown in Sub-Saharan Africa (world's fourth largest cotton exporter following the USA, India and Uzbekistan).
- ▶ The Sahel states along the southern belt of the Sahara alone generate \$1.5 billion each year by exporting cotton, which accounts for up to 35-75% of the agricultural export earnings in this region
- ▶ In western and southern Africa, cotton is cultivated exclusively by smallholder farmers (3 million in number).
- ▶ 18 million people in Sub-Saharan Africa (SSA) live either directly or indirectly from cotton farming.

Cotton Production System

- ▶ Cotton (Africa) small holder crop
- ▶ Production support from Buyers (Ginners), contract production
- ▶ Based on given market and production contracts
 - ▶ Support through:
 - ▶ Inputs (seed & crop chemicals)
 - ▶ Technical support (extension)
- ▶ Input costs are recovered through sale
- ▶ Depending on farmers delivering to contracted (and supporting company)

Contract Farming, Advantages

- ▶ **To Farmers:** Receive inputs and advisory support that need to increase their productivity – increased income from cotton.
- ▶ **To Ginners:** Production is ensured and ginneries are able to source the cotton that they require. Quality can be improved, as ginneries can concentrate on their (contracted) farmers
- ▶ **To Country:** Increased cotton production increases export earnings; more high quality cotton to boost local textile industry; better quality cotton lint means price rises.

Cotton Production System, Challenges

- ▶ Ensuring the recovery of costs is crucial for the systems to continue
- ▶ If produce is not delivered to the contracting company, they can't recover costs and support ceases
- ▶ Buyer who don't invest in inputs and farmers support can pay higher prices
- ▶ Side selling will undermine and system collapse
- ▶ Large number of farmers and buyers makes control and contract monitoring and enforcement difficult and costly

Potential Market and Support Set Up

- ▶ As production and productivity depends on support, the investments need to be safeguarded and encourage increasing in investments
- ▶ Companies investing in production need to be certain they receive cotton, through, e.g.:
 - ▶ Growing contract are adhered and can be enforced
 - ▶ Companies that do not support farmers can't get buying licence
 - ▶ Central buying system (where all commodities are traded) and companies get their investment back
 - ▶ Concession set up, where (One Zone, One Gin Concept) only 1 ginner would be allowed (accredited) to operate in defined areas

Mozambique/Tanzania

- ▶ Mozambique cotton production is unique in the region, entirely being based on a concession system.
- ▶ The cotton sector operates in a monopsony system (demand side), where ginning companies are granted concession (provinces) rights as exclusive buyers of cottonseed in their respective areas of concession
- ▶ Overall set up is controlled and monitored by government
- ▶ Tanzania is investigating district concession
- ▶ As districts are easier from an administrative point of view
- ▶ Single districts are easier to monitor/control side selling – less leakage at marketing time
- ▶ Makes the concession more attractive to bidders – thereby potentially getting better offers



Concessions (e.g. Mozambique)

- ▶ **Exclusive** right to purchase all cotton grown within the concession area
- ▶ Support in organizing district and village task forces and farmer business groups
- ▶ Support to buyers in recovering loans
- ▶ Minimum input/extension package provided to all registered cotton farmers
- ▶ Extension training support offered (compulsory to get concession)
- ▶ Minimum price set to ensure that farmers receive “fair” market price
- ▶ Prepared to buy all cotton offered for at least the minimum buying price
- ▶ Seed and crop chemical supplied to farmers
- ▶ Other inputs such as fertiliser, herbicide, improve tools etc
- ▶ Additional offers could be phased in over time if contracts are holding

Multi-Year Concession

- ▶ Allows ginnerers to commit to longer term investments (e.g. extension services, tillage services, fertiliser etc.)
- ▶ Area and production specific support and research, e.g. seed, fertilizer, tillage, longer term support (rotation, groups, credits, etc.)
- ▶ Link with service providers, banks, tillage, other commodities
- ▶ Better and stronger relationships of trust built between ginnerers and farmers – e.g. less likelihood of loan default
- ▶ Ginnerers can buffer bad seasons and be forgiving on loan recovery (e.g. in drought) if they can roll these forward to the next season.
- ▶ Ginnerers can commit to increased service offering on a year by year basis
- ▶ Ginnerers can plan their businesses better and make investments and forward contracts with buyers accordingly knowing that they are guaranteed throughput

Summary

- ▶ Technical and input provision for cotton production is essential to ensure productivity and viability to producers and buyers
- ▶ Safeguarding and return of the investment is central to support
- ▶ Individual control set ups (contract supervision and enforcement) are costly and complex
- ▶ Control and registration of all buyers is challenging and costly
- ▶ Controlled systems from field to gin can ensure investment and viability for producers and buyers
- ▶ Price and service monitoring systems would need to ensure fair trading
- ▶ Tendered and monitored concession set ups with exclusive production and purchasing based on investment (Gin, infrastructure and support) would ensure need investment in production and productivity
- ▶ Transparent and effective monitoring and enforcing (public, association etc.) are pivotal



Thank You