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Formation and implementation of contracts in Tanzania's cotton sector

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Extended Abstract

After the cotton sector was liberalized in the mid-1990s, the combination of state withdrawal and low barrier to entry into cotton trade and ginning has resulted in a market which comes closes to the liberal ideal of numerous small and medium-sized companies willing to compete on price at harvest. With the introduction of competition, provision of inputs on credit stopped. Competition between a large number of cotton buyers and ginners undermined the link between input supply and output marketing by greatly increasing the scope for side-marketing by farmers. Various approaches were taken by the Tanzania Cotton Board to provide some minimal level of inputs to farmers. These include the establishment of the Cotton Development Fund and importation of chemicals, based on levies paid by the private sector (1998-2001), the introduction of a 'passbook system' (2002-2008), later replaced by a voucher input system (2009-2011). The interventions did not yield the desired results in terms of efficient supply of inputs to farmers and against this background, contract farming was piloted in Mara region between the 2008/09 and 2009/10 seasons and subsequently implemented in the Western Cotton Growing Area in the 2011/12 season, covering more than 60 competing ginneries and 350,000 farmers.

This paper examines the role of key stakeholders in the formation and implementation of contract farming and discusses the future of contract farming in Tanzania's cotton sector. The contract scheme was promoted by the Government and the Cotton Board and financially supported by an international NGO. During the pilot period, ginneries in Mara Region were granted geographical monopolies in primary purchase of seed cotton and provision of inputs on credit to the newly established farmer business groups were repaid by deducting their cost from the value of the seed cotton delivered to the ginnery. In this way the problem of side-selling was formally avoided. However, a combination of political interference allowing the entrance of competing ginneries, hastily constituted farmers business groups, delayed distribution of chemicals to farmers and declining international lint prices resulted in widespread side-selling problems and associated decreasing repayment rates. As a result, most ginneries had abandoned the contract scheme in the 2013/14 season. Few ginneries in Mara region still support contract farming and they increasingly screen and select successful farmer business groups as contract holders. For the ginneries, it is undoubtedly a more sustainable and profitable strategy to rely on relatively 'well-endowed' and reliable groups (and individual farmers), especially in the context of widespread side-selling problems. While the initial phase of contract farming could be viewed as 'inclusive' in implementing government policies to increase production and yields for the majority of smallholders, recent developments might result in greater socio-economic inequality among farmers. Further, efficient provision of inputs to cotton farmers remains unsolved. We argue that the successful development and operation of contract farming in the Tanzanian cotton sector require a more comprehensive approach than the current calls for improving the content of the contract and securing effective enforcement mechanisms. The paper also raises a number of intricate questions concerning contract farming as the appropriate 'solution' to efficient supply of inputs to farmers in a highly competitive sector.