Formation and implementation of contracts in Tanzania's cotton sector

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Publication date:
2014

Document version
Early version, also known as pre-print

Citation for published version (APA):
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 ginners 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, ginners 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 ginners,  
hastily constituted farmers business groups, delayed distribution of chemicals to farmers and  
decreasing international lint prices resulted in widespread side-selling problems and associated  
decreasing repayment rates. As a result, most ginners had abandoned the contract scheme in the  
2013/14 season. Few ginners in Mara region still support contract farming and they increasingly  
screen and select successful farmer business groups as contract holders. For the ginners, 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.