THE CHALLENGES

- More than 400,000 farmers grow cotton in Tanzania, but their average yields of 550kg per hectare are barely a quarter of the world average and even smallholders in West Africa achieve yields twice as high. Furthermore, quality has deteriorated for many years, meaning Tanzania’s cotton trades at a discount on world markets.

- To ensure the ongoing competitiveness of the sector and address the low returns to cotton farming arising from these low yields requires sustainable mechanisms for farmers to access inputs, training, credit and information, as well as deeper relationships between farmers and processors to raise trust and secure quality.

- Previous mechanisms in the sector have included farmer savings passbooks and public sector input procurement systems. These have failed on quality control, transparency, debt collection and trust, with governance a huge problem. Private investment has not filled the gap, as high levels of competition in buying and the risk of side-selling by farmers undermine incentives for the primary processors - ginners - to invest in pre-harvest services.

OUR APPROACH

- In 2007, Gatsby and the Tanzania Cotton Board began assessing different options for sector reform, eventually embarking on pilots with contract farming, where ginners become the critical investors in farmers with their investments protected through contracts and licensing.

- Pilots were established in the isolated region of Mara where side-selling could be controlled due to the limited number of ginners. They solidified support for contract farming at high levels of government and in 2011/12 the whole industry was switched over to a limited form of contract farming. Over 290,000 farmers received inputs on credit, contributing to a record harvest.

- However, that success was in part due to the cost of the inputs supplied being split between ginners and a subsidised industry trust fund, with initial credit therefore coming from the fund, not ginners (who subsequently part-paid off the fund). Moreover, under this limited form of contract farming, ginners were not investing in farmer training.

- As the need for greater ginner investment in a developing contract farming system became clear, resistance began to rise. Many smaller ginners have a trader’s approach to cotton, taking each buying season as a new opportunity depending on price and

GATSBY CHARITABLE FOUNDATION

In 1967 David Sainsbury set up the Gatsby Charitable Foundation. He has since given Gatsby over £1billion to invest in charitable causes.

Gatsby has funded, designed and run programmes in Africa since 1985, with the overall aim of driving sustainable economic growth to create jobs and raise incomes for poor people.

Gatsby is currently focusing on achieving this by financing and implementing programmes in East Africa that seek to transform entire markets or sectors.

Gatsby works in the Tanzanian cotton, textiles and forestry sectors plus tea sectors in Rwanda and Tanzania, while supporting the Kenya Markets Trust to run programmes in a number of sectors in Kenya.
availability of cash, rather than investing for the long term. Many were thus happy with the status quo and unable or unwilling to take on further risk. Some may also have been unconvinced about the public sector’s ability to regulate such a system and protect investments.

- Lobbying against contract farming increased. The hard decision of refusing licenses to those ginners unable or unwilling to invest was not taken – instead political support for contract farming faltered and it was abandoned the next season. A 40% drop in output followed.

ADAPTING THE APPROACH

- A thorough review of the programme and the sector concluded contract farming was still the most likely mechanism for transforming the whole sector. The programme (now co-funded by DFID) scaled back in terms of area, but increased the depth of its work with local governments (which benefit from a 5% cess on cotton production in their area and thus have direct financial incentives to increase output), concentrating on building the capacity of districts to manage local contract farming relationships.

- Momentum has gradually been rebuilt while the wider industry has lurched toward crisis as the industry trust fund has not been repaid and is close to bankruptcy, with the government unable to bail it out. Increasingly ginners recognise they do not have enough cotton and will have to put in their own investment to secure supply. A group of nine ginners in Geita Region have approached the programme, and in 2014/15 about 95,000 farmers will receive inputs and training through these ginners, with the programme working with the local districts to strengthen the systems needed for effective regulation.

- At the same time, the programme has sought to reduce its dependence on government-driven regulatory reform by investigating possible market-based solutions. The programme had trained a network of 1,700 lead farmers across 1,700 villages to disseminate conservation agriculture techniques to increase yields in cotton as well as a range of other crops including maize, cowpea and jatropha. After reversal of the contract farming policy, the programme trialled efforts to develop these lead farmers into input distributors, initially bulking village demand but eventually developing into stockists of inputs for a range of crops. This input markets development work complements efforts on contract farming as it increases access to training and inputs for a range of crops, and should become self-sustaining through commission on input sales and other services. The programme is now assessing whether this network could go further and provide credit to farmers for inputs as well, which would then allow it to substitute for most of the functions of contract farming.

LESSONS

- The necessary condition for contract farming is stringent regulation that prevents free-riding by ginners who do not invest – this requires a regulatory body with the autonomy to refuse licences and capacity to enforce contracts. It thus requires government ability and willingness to take extremely difficult decisions. The programme recognised this from the outset, and spent significant effort getting buy-in for contract farming at the very highest levels of government, resulting in the decision to switch the whole industry over in 2011/12. However,
on reflection, by this point the programme had not yet piloted the full contract farming arrangements it was ultimately aiming for. The rapid pace of reform, under pressure from government for a sector-wide solution, meant there was still mistrust between different stakeholders without the necessary evidence that sector institutions could effectively police full contract farming. A slower, more gradual scaling of activities that built an even wider coalition of support for reform might have proved more effective from the start.

- Widespread sectoral change is inherently a political process, requiring buy-in to a reallocation of resources. Understanding the incentives and influence of any potential losers in the reform process is likely as important as understanding those of potential beneficiaries when designing interventions.

- The long timescale of the programme has been critical to adapting to the challenges that have arisen. By refining its approach but continuing to work on contract farming even after the policy reversal in 2012/13, the programme has managed to maintain support for the reforms and put itself in a position to take advantage of the wider industry crisis that has arisen due to the lack of reform.

- Having multiple mechanisms to reach farmers enhances the programme’s impact and resilience. Furthermore, the input markets development work will remain important even if contact farming is implemented across the whole cotton sector, because farmers need access to inputs for maize and other crops. Recognising that almost all smallholders take a portfolio approach to farming is important in guiding the development of mechanisms that raise investment, yields, incomes and resilience.