



Country Update

Integrating the EAC Cotton, Textile and Apparel sector in Global Value Chains: Stakeholders perspectives

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Introduction

The German Settlers did the introduction of the Cotton and textile production in Tanzania around 1904 but the industry was developed in the 1970s as the country made efforts to achieve industrialization. The cotton production and manufacturing industry plays an important role in Tanzania's economy. It offers great potential for increased GDP; exports; farmer incomes and employment via textile manufacturing. Nearly 500,000 Tanzanian smallholder farmers are involved in the production of cotton and an estimated figure of 40% of the population, or 16 million people, depend on cotton for their livelihood.

Cotton is Tanzania's largest export crop after coffee. Most of the product is exported; as of 2014, it contributed TZS 558.4 billion to export earnings. The cultivated area is 300,000 - 500,000 ha and its cultivation is practised in the west and east as Western Cotton Growing Area (WCGA) and Eastern Cotton Growing Area (ECGA) respectively. The WCGA

encompass regions including Mwanza, Shinyanga, Singida, Mara, Kagera and Tabora producing 95% while ECGA include Morogoro, Manyara, Tanga and Kilimanjaro with a low production of 5% of the total cotton produced. The producers in general practice low input - low output approaches to production; its output fluctuates due to heavy dependence on rainfall and market price.

Over the years the cotton sector has been experiencing a decline in the growth and productivity of cotton output levels. In order to safeguard their interests in the cotton industry, the stakeholders have taken initiatives. The Cotton Sector Development Strategy, also known as CSDS I: 2000/01- 2005/6, was the first strategy that was put in place, which was complemented by the Mwanza Resolution. This was followed by CSDS II: 2010/11- 2014/15; the main objectives of these measures were to improve operational systems in the cotton industry so as to provide a competitive position in the international markets. After the adoption of CSDS there

was the implementation of the Cotton Industry Implementation Plan, (CIIP) to successfully operationalise the goals, objectives and targets of CSDS II; with specific plans to be implemented by the stakeholders themselves, using their own resources.

For several years, Tanzania Cotton Board has been advocating for “Contract farming.” It was introduced by the UK-based charity the Gatsby Charitable Foundation, and establishes direct contracts between farmers and ginneries, removing the agent from the process. Farmers' business groups will replace the agents.

However recent developments are that contract farming is facing strong resistance from people who are wrongly exercising their financial and political power. The farmers and firms who once had high regards for the system and reintroduced it in Mwanza, Shinyanga and Geita Regions for their own survival seem to have accepted they are powerless before the resistance. Reports from the WCGA have it that production will drop considerably in 2016 due to a number of reasons but mostly due to the collapse of the contract farming arrangement.

Entry points in CTA GVC in Tanzania

The following section describes potential entry points in the CTA GVC in Tanzania. By changing one or more of the entry points, the whole system can be improved.

J Sourcing: The potential stakeholders will have to carefully assess their cotton profiles while partnering with like-minded suppliers to deliver sustainable materials so as to improve product quality, decrease needed inventory, and reduce overall time to market. Partnerships will foster the right models and data and share knowledge; Transparency within supply chains is the key. The

establishment of long term contracts with local farmers could yield positive social consequences, secure supply chains and galvanize long-term relationships.

J Manufacturing assessment: Improving the sustainability of internal operations with a focus on energy efficiency, water conservation, waste reduction, and emissions control, with more sustainable cotton options. Extension services such as education, coupled with microfinance mechanisms as well as farmer cooperatives to empower farmers could bring about both socially and environmentally sustainable systems. Furthermore encouraging responsible farming and agricultural practices could promote efficient use of and application of pesticides to mitigate potential damages whilst improving productivity.

J Marketing, Sales and Distribution: There should be a firm focus on out bound processes. Firms must address packaging, outbound logistics, end product inventories, and distance/time to customer. The stakeholders must find innovative ways to communicate and market CTAs; this will place them in the leading edge with consumers.

J Stakeholder Engagement: Stakeholder engagement within the supply chain provides an opportunity to immediately define and determine risk, to determine what issues in the CTA sector matter most to them about their performance in order to improve decision-making and accountability. In fact, the stakeholders who are true ‘business sustainability’ differentiators are those who secure supply chains and spur long-term relationships amongst players in the CTA subsector.

Policies to leverage GVCs through the CTA sector

A well-known initiative in the cotton industry is

the introduction of contract farming; The Ministry of Agriculture, Food and Cooperatives in collaboration with the Ministry of Livestock Development has initiated contract farming in Tanzania with financial support from Participatory Agricultural Development and Empowerment Project (PADEP) Project.

Contract farming is defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement involves the purchaser in providing a degree of production support through the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity.

Farmers who took part in the contract farming pilot have experienced better harvests and returns. One of the farmers, Dotto Fadhili, 60, the head of Nyangukolwa village in Shinyanga, said that he previously only made Tshs 300,000 annually, but succeeded in making TShs 800,000 (\$470) this year. *"Thanks to fertilizer, better seed and advice provided by the contract farming model"* he added.

Other policies in place in 2016 is improved mechanization; instead of using hand hoes and other similar simple tools during the production of cotton, the board is looking at the use of ox-weeding and ox-planting for improved mechanization, efficiency and productivity.

Moreover the TCB are looking at provision of newer seed varieties to their farmers in order to improve the level of technology in the seeds used by Tanzanian cotton growers. Colin Poulton, a research fellow at the Centre for

Development, Environment and Policy at the School of Oriental and African Studies (SOAS) in London mentioned the older version of seeds is one of the reasons for poor productivity. *"To give you an idea, UK82 [a seed created in 1982] was still being used in the 2000s,"* he said.

TCB under the Ministry of Agriculture, Livestock and Fisheries in cooperation with the Ministry of Industry, Trade and Investment will work together on addressing how to improve the value chain so that there is an increase in local consumption levels of cotton. This will help in facilitating local apparel industries to be well equipped with inputs for the manufacturing process. Currently Tanzania exports 75 percent of its raw cotton while less than 30 percent is used within the country.

Perceived challenges

In interviews, industry representatives alleged that corruption was pervasive in the distribution chain and that substantial quantities of chemicals were diverted to the free market. *"We have a serious problem in the cotton industry the problem of having politicians to make sensitive decisions on which they themselves stand to benefit from,"* charged one of the industry players, who disapproved of politicians acting as businessmen in the CTA industry.

The insufficiencies of the cotton industry are also tied to poverty of the farmers. These farmers practice hand-to-mouth living, with no savings, and uncertain returns. It is difficult for such individuals to be able to afford pesticides and fertilizers to improve the quality of their cotton. The result is that Tanzanian cotton trades at a lower price on the international market due to its lower quality and productivity. In addition to poverty, there has been no system to provide credit to farmers for fertilizer. *"Without credit, farmers can't afford fertilizer,"* added Poulton, a research fellow at the Centre for Development, Environment and

Policy at SOAS.

There have also been noted challenges in the implementation of contract farming. Despite first being rolled out in 2011 there were interferences by few political players that led to its temporary halt. *“There is no hope of our members participating in contract farming although we have already distributed seeds on credit to farmers,”* uttered one senior officer with Cotton Buyers and Ginners Association, UMWAPA from Mwanza. *“Yes, President Magufuli has ordered government employees to handle investors kindly and truly that is good but he is not definitely in favour of wicked individuals bent on frustrating the development of the poor peasants,”* held the officer.

There are numerous challenges that face the CTA subsector; the major challenges of the CTA subsector are external and beyond the control of Tanzania stakeholders. The TCB outlines the challenges as follows;

Low electricity capacity and transmission during the manufacturing process, finances such as bank interest rates not globally competitive, availability of skilled labor is poor and training is unfocused; there are numerous small - scale farmers with limited access to and knowledge in application of new and improved technologies on the farm, poor infrastructure for inputs distribution and crop procurement, rampant seed cotton and lint contamination reduce the quality of lint, and lower prices and competitiveness of the crop, low output volumes and yields of the crop, reduce prices and markets for Tanzania cotton.

Production and export subsidies in developed cotton producing countries lead to overproduction, unfair competition and lower cotton prices, competition from man-made fibers reduces the market share for cotton, a historical tendency for cotton prices to decline leads to further reduced prices, conflict of interest and political interference in regulatory

and monitoring role of TCB, high commodity taxes and utility tariffs impinge on the operations of the cotton sector and the emergence of alternative cash crops, especially green gram, which are cheaper to grow but fetch higher returns than cotton in the major cotton growing districts (e.g. Bariadi, Magu, Maswa and Meatu).

Interventions to redress challenges

In addressing the challenges in contract farming, this year (2016) the Tanzania Cotton Board in conjunction with other stakeholders in the cotton industry are fine tuning contract farming to ensure it is beneficial to all the players involved from the beginning of the value chain to the end.

There should be a creation of government policies that recognise the potential multiplier impacts of cotton in employment creation and income generation throughout the value chain - primary production; procurement and marketing; ginning; spinning, weaving and textile milling; exporting; and retailing.

There should also be an increase of subsidies and credit to poor farmers who are unable to afford inputs as well as an increase in funding from stakeholders from the private and public sector for cotton development activities. Introduction of innovative initiatives for quality enhancement; working with producer groups will have spill over benefits in overcoming some of the marketing and input/credit problems of producers.

Way forward

There should be a new focus on Genetically Modified (GM) cotton seed known as BT cotton in the developing countries. Recently, certified organic cotton production sits at just under 1% of global cotton cultivation. The five

biggest producers of organic cotton are: India (>70%), China, Turkey, USA, and Tanzania. Organic cotton seed is difficult to access and the efficiency and profitability in organic cotton value chain needs is low. Mr. Emmanuel Mangulumba, Chief Regulatory Officer at TCB said, "Previously Tanzania was facing some difficulties especially in the legal aspects for GM cotton seeds. There were clauses that prohibited the use of BT cotton." The stakeholders including the policy makers, environmentalists and the government including TCB have sat in rounds of meetings to decide the fate of BT cotton. He added that, "As of late, there have been some changes in the legal clauses that are in favour of Tanzanian researchers to conduct studies about it. This will provide leeway for commercial use of BT cotton in the near future."

Furthermore, negotiators in the WTO should insist on level playing ground for producers in both the developing and developed countries. Tanzania produces less than 1 percent of cotton in the world; therefore it does not have a huge voice amongst bigger players. There are huge gaps and unfair competition, since developed countries heavily subsidize their producers. This in turn leads to unfair competition with developing countries especially when the world prices are low due to low levels of demand.

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