Zimbabwean Cotton Sector Liberalisation: A Case of Successful Private Coordination?

Marianne Nylandsted Larsen

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Abstract

Zimbabwe embarked on market liberalisation in the early 1990s, leading towards increasing participation of private capital in the agricultural sector. This paper examines the emergent shape of a private marketing chain for cotton in Zimbabwe, based on fieldwork conducted between February and July 2000. It outlines the national regulatory system prior to market liberalisation, followed by a description of developments in production, processing and sales of lint against the background of the dismantling of the single-channel marketing system. The privatisation of the cotton marketing board replaced state monopoly with private, although collective private action and coordination prevented downgrading. The paper concludes with a discussion about (absence of) competition and commodity system sustainability in a liberalised market.

Introduction

Agricultural marketing policies have changed radically in most Sub-Saharan African countries since the introduction of Economic Structural Adjustment Programmes (ESAP) in the 1980s. Throughout Eastern and Southern Africa structural adjustment reforms concentrated first on agricultural pricing and later on redefining the role of agricultural marketing boards as part of broad liberalisation polices designed to make economies more responsive to market forces (Kähkönen and Leathers, 1999) and ensure long-term (export-led) growth has been important components of the economic reforms.

By the mid-1990s large parts of the agricultural adjustment "project" had been implemented in most (Anglophone) African countries. In general, although experience has shown that policy changes have led to considerably greater competition at the farmgate and initially higher producer prices, liberalisation has been associated with declining supply and use of inputs and a deterioration in export crop quality (Shepherd & Farolfi, 1999). According to the critical literature[1] problems associated with liberalisation of the export sector seem to arise partly from the dismantling of institutions, which previously supplied input on credit and monitored quality and grading standards. Despite the considerable criticism of the parastatals and state involvement in cash-crop marketing in Africa, the single-channel marketing system had the advantage that credit could be recovered, while quality could be efficiently controlled and monitored at every level of the system. In countries where such institutions and systems have been dismantled and left in the hands of the private sector, quality standards as well as uniform grading systems have been hard to maintain. This, in conjunction with increasing

[1] e.g. Shepherd & Farolfi, 1999; Gibbon, 1999; Kähkönen and Leathers, 1999; Friis-Hansen, 2000; Raikes and Gibbon, 2000.

input prices, has resulted in not only a substantial decline in agricultural exports but also to deteriorating quality, leading to lower unit prices on the world market.

Consequently, Anglophone Central and East Africa countries, which had been important cotton producers in earlier times, now account for only 1.5 percent of world export by value (ICAC, 1999). Zimbabwe's cotton sector, however, is an important exception to this pattern. In 1998/1999 the country accounted for a 1.5 percent of world market share and the 1999/2000 season was the fifth consecutive season under liberalisation in which cotton lint production exceeded 100,000 tons (ICAC, 2000 vol. 54, 1).

This paper examines the emergent shape of the private marketing chain for cotton in Zimbabwe and its forms of unofficial market regulation. It focuses on developments in production, marketing of seed cotton, ginning and sales of lint (domestic and export) against the background of dismantling of the Cotton Marketing Board and liberalisation of cotton trade in the mid-1990s. In addition, the underlying institutional and regulatory arrangements - the formal and informal rules - that govern or influence economic behaviour and market coordination prior to and after liberalisation of cotton trade will be explored.

The study of the Zimbabwean cotton sector is based on fieldwork carried out during the 1999/2000 buying season in Midlands and Mashonaland (Central and West provinces), the country's three main cotton growing areas[2]. Interviews were conducted with the three private cotton buying and ginning companies (whose combined market share was 95 percent in the last few seasons), and a few smaller private buyers of seed cotton, as well as staff at nine of the twelve ginneries (all owned by one or another of the three marketing companies). In addition interviews were carried out with cotton growers in four districts[3], covering both large scale commercial farmers and smallholders in communal areas. This was complemented by interviews of government staff at national, province and district levels, research institutions as well as farmers' associations. All interviews were conducted by the researcher in an open-ended and semi-structured form. They following the train of individual or corporate life/business histories, but were also structured around a predefined range of topics, focussing on specified issues according to the respondents' (different) roles in the cotton chain.

The study/research reveals that the effectiveness and "success" of agricultural policy reforms such as the abolition of single-channel marketing systems, depend critically on the institutional environment and regulatory system in place and its ability to absorb, support and advance reforms. In the Zimbabwean case the transfer of cotton marketing responsibility from the state to the private sector can be considered successful in general, but to a large extent only because of private companies' willingness to enter into informal collaboration and

[2] In 1998 approximately 90 percent of total produced seed cotton by peasants in communal areas emanated from three provinces: Mashonaland Central (29,143 tons seed cotton) Mashonaland West (22,730 tons) and the Midlands (37,085 tons) (CSO, 1999).
[3] Muzarabani, Guruwe, Bindura and Masowe in the provinces of Mashonaland Central and West.

coordination. Contrary to the neo-liberal assumptions that deregulation and liberalisation will pave the way for private competition, the study also reveals that competition in primary purchase, processing and export does not emerge spontaneously. Privatisation of the cotton marketing board simply replaced state monopoly and regulations by private oligopoly in primary purchase, ginning and marketing. Furthermore, the former parastatal has not only become the largest single buyer, ginner and exporter of cotton in Sub-Saharan Africa but also increased its value-added activities substantially. On the other hand and also contrary to neo-liberal assumptions, it has been precisely this "distortion" which has ensured commodity system survival.

The paper is divided into three main sections. The first section outlines the historical role of state intervention in the Zimbabwean agricultural sector, focussing on important continuities in the regulatory framework, which link post-independence agricultural policies with the pre-independence, ending with a presentation of the economic reforms which Zimbabwe embarked upon in the early 1990s. It then moves forward in time to examine the processes of liberalisation and deregulation of the cotton marketing system. Forms of local-level competition between the new entrants and developments in the input supply and lint marketing systems are examined, as well as developments in Zimbabwe's relationship to the world market. The last section entails a discussion about how the system was sustained after liberalisation, focussing on state-private sector collaboration and forms of coordination.

Changes in Zimbabwe's regulatory system

Until the early 1990s large parts of Zimbabwe's industrial and agricultural activities were under the influence of state interventions and comprehensive price controls. The framework for the regulatory system dates back to the consolidation of the white settler economy in the aftermath of the world depression in 1930, but was further strengthened during the so-called Unilateral Declaration of Independence (1965-1980). In 1965 when the Rhodesian Front, led by Ian Smith, declared the country independent from Great Britain, the United Nation imposed comprehensive international sanctions on all trade and investments flows, in an effort to force the white minority to resign and transfer power to the black majority. With the loss of notably the UK tobacco export market Rhodesia's tobacco industry suffered heavily and the colonial economy was under severe constraints (Herbst, 1990). Following the sanctions, the government immediately implemented a variety of economic instruments and schemes to facilitate import substitutions. The agricultural diversification scheme, established in 1967, helped farmers switching production from tobacco to other crops. Agricultural production and marketing were regulated through the Agricultural Marketing Authority (formed in 1967) and four statutory marketing boards[4], granted monopsony purchasing power

[4] The Grain Marketing Board, the Cold Storage Commission, the Dairy Marketing Board and the Cotton Marketing board.

over marketing output of all controlled crops. In order to support crop diversification (and to safeguard the large scale commercial farmers (LSCF) from bankruptcy) pricing policy and controls were imposed. Quotas were established on tobacco production and incentive prices were paid for a range of other products, such as wheat, maize, soybeans and cotton (the so-called controlled crops). Fixed prices on crops were set on an annual basis through negotiated between the government and the Rhodesia National Farmers Union (later re-named the Commercial Farmers Union, hereafter CFU), and from 1976 onwards the government started announcing pre-planting prices to influence cropping patterns (Herbst, 1990; Rukuni, 1994; Muir, 1994). The state-led agricultural diversification was very successful in the face of sanctions, and crops such as cotton, coffee, sugar, soybeans and wheat (hardly grown before UDI) expand rapidly. Apart from the single-channel marketing systems and fixed price settings for controlled crops, breakthroughs in new agronomic practices as well as financial and other producer services spearheaded the expansion of agricultural production and diversification in the commercial sector (Jackson & Cheater, 1994; Mariga, 1994).

After 15 years of isolation from the world economy and a brutal civil war, a new constitution (the Lancaster House Agreement) was final agreed upon and state power was transferred to the new black government (ZANU (PF)) in 1980. At independence, ZANU (PF) inherited not one of the strongest and most diversified economy in Africa but also an economy where the state directly controlled purchase, storage and sale of nearly all commercial agricultural crops through the marketing broads. Nevertheless, the agricultural sector was marked by an extremely uneven distribution of land between the (white) LSCF sector and the (black) peasant sector in the communal areas (former tribal reserves, situated in the ecologically marginal areas in the country). A key aspect of the newly elected government's agricultural policies was to reduce the basically dualistic structure of the agricultural sector inherited from the former settler economy and improve productive conditions and living standards for the black majorities in the communal areas. However, the decade after independence was characterised by continuity in forms of state regulation in the economy and agricultural politics were in general developed and implemented within the existing framework, albeit a reorientation of the state regulatory framework and institutions to benefit black Zimbabwean were introduced.

Accordingly, the agricultural extension services underwent a massive shift in focus. A new unified national extension service, the Department of Agriculture and Technical Extension Services (Agritex) was established in 1982 to serve both communal and commercial farmers, while the extension services were transformed towards improving agronomic practices especially in communal and resettlement areas (Rukuni & Eicker, 1994). The single-channel marketing systems were extended to the communal areas through the opening of marketing depots and delivery platforms[5] (Jackson & Cheater, 1994). Another influential aspect of the

[5] In the early 1980s the pre-plating price system was abandoned and replaced by post-planting prices, the formal procedure of price determination, however, continued unchanged after independence.

subsequent development in marketed output from the communal areas was the expansion of credit programmes to smallholders. After independence, lending of the Agricultural Finance Corporation's (AFC) was extended through the Small-scale Farmer Credit Scheme, enabling farmers in communal areas to acquire short term and medium term loans[6] (Auret, 1990). The aggregated impact of the transformation of the extension services and marketing outlets towards the communal areas, along with the availability AFC credit, resulted in a tremendous boom in the production and marketing of crops in the communal areas. In the end of the 1980s smallholder farmers were producing over half of Zimbabwe's marketed maize and the bulk of seed cotton (see below) as well as an important share of various other cash crops (Mojo, 1991). Thus, while a new era began when Zimbabwe became independent in 1980, the highly regulated marketing network was retained by the post-independence government for ideological reasons, but also because it had proven be an expedient system for expanding marketing services to rural areas.

After several decades of heavy state regulation in large part of the economy, the economic policy environment altered dramatically during the 1990s, when the government implemented its Economic Structural Adjustment Program (ESAP). Towards the end of the 1980s it became clear that the economy was experiencing serious structural weakness, reflected in low economic growth rates, growing unemployment, shortage of foreign exchange, low levels of investment, high levels of inflation as well as escalating debt (Mlambo, 1997; Sachikonye, 1999). It has been argued that the crisis in Zimbabwe was not so serious as compared to many other African countries during the 1980s. However, there were signs of stagnation and the fiscal and monetary policies pursued by the government in the 1980s had a negative long-term impact on the productive sector. Notwithstanding, ESAP was formally launched in 1990 and in a more tight version in January 1991. The key components of the programme - designed within the framework of the IMF/WB programmes - included trade liberalisation (liberalisation of imports, replacement of quantitative controls with tariffs, export incentives and exchange rate management), macro-economic reform (reduction of the fiscal deficit, public enterprise reform, monetary reform and financial liberalisation), as well as deregulation: removal of price controls, investment controls and labour legislation, relaxation of local government control and regulation (Mlambo, 1997).

The prevailing critique notably by the WB of agricultural marketing boards elsewhere in Africa was focused on corruption, price distortions leading to parallel markets and output stagnation due to lack of or low producer price incentives. On the contrary, although the Zimbabwean farmers did not receive prices offered on the world market, agricultural prices were not bias against primary producers and management was not found to be corrupt or inefficient. According to several analyses of the parastatals including the Cotton Sub-sector

[6] During the 1980s there was an extremely rapid increase in the number of borrowers, for example from 4,400 in 1980 to 70,000 smallholders in 1984. However it is worth noting that this still covered only a minority of the estimated 850,000 farming households (Harvey, 1998:175).

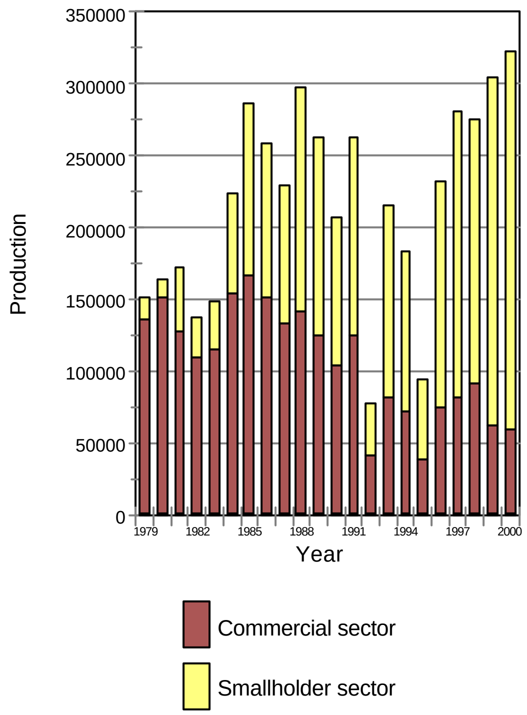
Study (World Bank, 1991), the main problem with the state-controlled marketing systems in Zimbabwe was the huge budget deficit. As mentioned earlier, after 1980 black farmers became heavily involved in marketing of maize and cotton in particular, and this tended to increase the pressures on the whole system. Operating and storage costs of the marketing boards rose markedly because of the larger number of depots required for the handling of communal farmer produce and subsidies on inputs. Thus, parastatals deficits accounted for about 40 percent of total operating deficits of public enterprises in the end of the 1980s[7] (World Bank, 1991:8). Initially, the reform of crop parastatals was limited to "semi-commercialisation" rather than fully privatisation. In 1994 the government was requested by the WB to draw up a more detailed program including deregulation of agricultural marketing and liberalisation of trade, thereby allowing the latter to take place directly between producers and processors including private ones as well as full commercialisation (or privatisation) of the parastatals. This implied *inter alia* a removal of subsidies and an opening for foreign companies (Gibbon, 1995). The main agricultural products - grain, coffee, dairy products, cotton, beef and pork - which prior to liberalisation all were controlled crops, are now sold both through marketing boards and directly to private buyers.

Whereas the institutional arrangements were largely intact when Zimbabwe set about economic reforms in 1991, changes emerge after with the dismantling of the single-channel marketing systems, liberalisation of trade and the end of state-administered pricing. The next section will move beyond the broader regulatory framework of the agricultural sector to further specify the dynamics of the restructuring of the cotton marketing system in the 1990s. This is done by examining some of the key findings from the study conducted during the 1999-2000 buying season[8].

Restructuring of the cotton marketing system - from monopoly to oligopoly

As indicated above, the Zimbabwe's cotton sector is a success story of inclusion of former marginalized black people into the state-organised marketing system after 1980. Partly as a consequence of the expansion of single-channel marketing system to the communal areas the number of registered cotton growers reached more than 150,000 in 1986, representing a fourfold increase since 1980. In the 1985/86 marketing season the Cotton Marketing Board (CMB) achieved approximately 250,000 tons seed cotton, of which the bulk came from

[7] Yet, the average deficit of the Cotton Marketing Board has been the lowest of the four statutory boards mentioned above.
[8] The crop year runs from April to March. Thus, seed cotton sold during the 1990-2000 season would have been planted between October-December 1999.



Source: CSO, various years.

Figure 1: Seed cotton production by sector (tons).

the communal areas. By the end of the 1980s cotton production reached a post-independence high primary due to the re-markable expansion in the production and sale of seed cotton from the communal areas under the impact of favourable weather and price conditions[9] (ibid; EIU, 1998, 1999). As figure 1 illustrates, production of seed cotton has generally increased during the last decades, though with huge fluctuations following frequent droughts. At the same time, production has shifted from the commercial sector to peasants in communal areas and around 80 percent of Zimbabwean cotton crop is now produced by the small-scale communal sector (ibid). Before the early 1992, the Cotton Marketing Board (CMB) controlled and coordinated the system from primary purchase and delivery of inputs at the farmgate to sales of lint. The parastatal operated eight (saw) ginneries and nine transit depots, situated in the main cotton growing areas. A ninth ginnery was owned by Processing Enterprises Ltd, a private company at Triangle, which ginned as an agent for the CMB, while lint and seed remain the property of the CMB. Apart from the reorientation of the extension agency and expansion of buying outlets to the communal areas, it is worth noting that a central aspect of the cotton boom in the 1980s was fuelled by relatively high producer prices. According to Herbst (1990) cotton producers have succeeded in price negotiations and cotton lobbyists compared with other agricultural producers (e.g. wheat and maize growers). Generally this procedure ensured, until recent years, producer prices which were sufficiently remunerative so as to stimulate increased production, notably in the communal areas and cotton producers have unlike maize taking full advance of the alliance between the two main farmer groups in boost prices[10] (interviews, CCGA & ZFU, May 2000; see also Herbst, 1990).

[9] The marked increase in seed cotton production in the communal areas in the 1980s was a function of increases in area under cultivation, not higher yields (Mariga, 1994).
[10] During the 1980s the Carbinet increased the final price of cotton markedly and often well beyond Agricultural Marketing Authority recommendations. However, the producer prices were lower compared with prices at the world market because of high CMB costs and a subsidy on the price of lint to local spinners (Robinson, 1995).

Liberalisation of the cotton sector

Liberalisation of the cotton marketing in the early 1990s was apparently blocked by the Zimbabwean Government in order to support the crisis-ridden spinner industry. Under the single-channel marketing system the CMB was required to fulfil local spinners' lint requirements before exporting the balance. During the early 1980s the intake by local spinners was declining and at the same time the world price of lint rose significantly. In an attempt to encouraged the spinners to expand their operation, the CMB was instructed by the government to subsidize domestic sales of lint. As a result, from a low point in 1983 (less than 20 percent), the proportion of subsidized lint sold to the local market vis-à-vis export markets increased steadily and in the end of the 1980s less than half of the national cotton production was exported, while the prices of lint paid by local spinners were less than 60 percent of prices received for exports (World Bank, 1991:16; Ndela & Robinson, 1995:154). When the CMB was granted formal managerial autonomy in 1991 it immediately abolished the subsidy on lint sales to domestic manufacturers and increased its share of exported lint, hence the board made a profit for the first time in history. However, during 1992-94 spinners successfully lobbied the government for renewed preferential treatment, and until the end of 1995 the CMB was obliged to subsidise the lint to the spinners, thus the CMB's deficits piled up again. Although part of the subsidy cost was born by the government, the producer price the CMB was able to offer to growers was considerably less than it would have been under an export parity pricing system[11]. Partly as a result of this, the number of large commercial farmers growing cotton declined by 20 percent between the mid-1980s and 1990 (Ndela & Robinson, 1995) and, as will be discussed further below, the CCGA exerted strong pressure on the CMB in order to fuel the process towards completely liberalisation of the sector.

During the 1993/1994 season the Cotton Marketing Board's statutory monopoly in purchasing, ginning, marketing and export of cotton was removed. The only private gin in Zimbabwe, located at Triangle was loosened from its previous tight relationship with the CMB. In September 1994 a new company, the Cotton Company of Zimbabwe (subsequently referred to as Cottco) was launched to replace the CMB. As mentioned above the first step of the ESAP in relation to the agricultural sector, was one of "semi-commercialisation" rather than completely privatisation of the marketing boards. For the CMB this implied a change in the status - from a board being under the Cotton Marketing and Control Act (1969) reporting to the Ministry of Lands and Agriculture - to a company registered under the Companies Act. Initially, Cottco was 100 per cent owned by the government and afflicted by large outstanding debts and as such the company could not become fully operational as an independent financial entity. In spring 1995, however, the government agreed to take over approximately Z$240 million of Cottco's outstanding debt (Robinson, 1995:4) and Cottco "*started operating as a*

[11] Between 1975 and 1983 lint was sold to local spinners by the CMB at an export parity price. The calculation was based on northern Europe prices, less bridging costs. As long as the exchange rate was overvalued, this price was acceptable to the spinners, but the industry plead for a lower price to be applied in the domestic market, especially when the Zimbabwean dollar was sharply devalued, as in late 1992. As a result, from June 1983 to June 1993 a regulated price system was applied (Robinson, 1995:2).

fully commercial agency in 1995 with a clear sheet of paper - but without any money" (Cottco, interview, February 2000). Subsequently, the company became privatised in October 1997 and listed on the Zimbabwean Stock Exchange in December 1997, while the government retained 25 percent shares in the company.

Following liberalisation private capital is now allowed to enter the market in every stage from primary purchase to export of lint. With regard to the latter, exporters no longer require licences, and since July 1994, exporters have retained 100 percent of earnings (interview MoLA, June, 2000; see also EIU, 2000). Licenses are required for private trades and ginners in order to be allowed to purchase and gin seed cotton. The procedure involves seeking e.g. a buying license at the Ministry of Lands and Agriculture (MoLA) and - if land is involved - at the district level as well. In theory it should be relatively easy to obtain a license (ibid), in practice however, the procedure seems to be much more complex and "twisted" by bureaucratic and policy obstacles both at the MoLA as well as at the district level.

Entry of new competitors

In the seasons after liberalisation, two new companies entered the market in primary purchase, ginning and sales of lint, namely Cargill, an US-based multinational trading company and Cotpro, a cooperative representing LSCF cotton producers. The latter were formed by approximately 155 LSCFs and the Staple Trust Fond, the investment arm of the Commercial Cotton Growers' Association (CCGA) in the 1993/1994 season. As indicated earlier, even though LSCFs cotton production had declined substantially during the last two decades, their association continued to be powerful and influential agents in this sector[12]. Dissatisfaction with the imposed lint subsidy and the government's resistance to dismantle the single-channel marketing system led the CCGA to recommend its members to stop delivering seed cotton to the CMB, at the peak of the marketing season 1994. Meanwhile, a ginning contract between the association and the ginnery at Triangle was formed, while forward contracts with a few local spinners were negotiated. Once the company was up and operating it was formed into a private company, separated from CCGA. Cotpro continued to use the ginnery in Triangle until the company's own ginnery was commissioned in 1998/99 with an annual ginning capacity of 40,000 tons seed cotton. The set up of a ginnery was financed through a joint-venture between the Zimbabwean stakeholders and two French-based cotton trading companies, Copaco (14 percent) and CFDT (26 percent)[13]. The agreement between Cotpro and Copaco obliged the former to sell 26 percent of the lint annually through Copaco (Cotpro, interview February 2000).

[12] Apart from the establishment of a ginning (Cotpro), the CCGA has set-up a cotton trading company (Cottrade) and a chemical trading company (Cotchem). However, for several reasons, all initiatives ran into problems during the last few years.

[13] CFDT "Compagnie Francaise pour le Dévelopment des Fibres Textales" is a semi-public company created in 1994 with the aim of promoting cotton in French overseas territories and Copaco is a French-based cotton trading company as well.

The other new cotton company, Cargill (one of the world's largest agro-industrial company) entered the Zimbabwean cotton market in the 1995/1996 buying season. Rather than investing in new ginneries, Cargill initially leased two ginning plants from Cottco, until the sale of the ginneries was formalized in February 1996. These ginneries were installed by the former Cotton Marketing Board in 1960 and 1974 (Tafuna and Cheguta) and has a combined ginning capacity of 75,000 tonnes seed cotton (estimated on a six-month ginning period). In the first season of operation Cargill organised a network of buying posts on rented land in areas with numerous small-scale producers and for the first time farmers were offered instant payment immediately after weighing and grading of delivered seed cotton. The introduction of a cash payment system was a major competitive advantages for Cargill, and the company succeeded in obtaining a fairly huge market share the first season of operation in Zimbabwe[14].

The market has since the mid-1990s been dominated by Cottco, Cottpro and Cargill, with a combined market share of 95 percent in 1998/1999 buying season. After the field was open for competition Cottoc's market share declined steadily, to around 67 percent in the 1998/1999 marketing season, while Cotpro and Cargill increased their market shares to 11 and 21 percent respectively. Until this marketing season, a few other small (Zimbabwean) buying companies or traders were operating in the main cotton growing areas as well. These buyers, however, only covered a minor faction of the market (less than five percent) and have a major disadvantage vis-à-vis the other companies. Only one of them owns a ginnery - currently under rebuilding and has not been in operation in the last few years - the rest of the companies operate as mobile buyers, and typically, the seed cotton is ginned at the Triangle ginnery on a contract basis.

Forms of local-level competition

After cotton trade was liberalised, competition between the three major companies entailed two different aspects: direct competition in relation to prices offered to farmers and market coverage and secondly some less directly forms of competition related to availability and costs of inputs as well as input credit schemes.

Cottco and Cotpro adopted basically similar price setting polices based on the so-called seasonal pool price system. This is an option whereby farmers are paid an interim price on delivery of their cotton and an end of season adjustment when the company's financial year once has ended. The prices offered to the farmers during the season, however, will changes according to the market situation at that point in the season:

> "local prices are dictated by what the crop could reasonably be expected to fetch on the international market. Farmers are additionally paid an end of season adjustment when the company's financial year once has ended - if marketing conditions permit".

[14] Cargill purchased 31,000 tons seed cotton in the 1995/1996 season, roughly 11 percent of total marketed seed cotton in that season.

Receiving payment twice a year was recognised as the single most important reason why farmers (both LSCFs and smallholders) choose to sell their seed cotton to Cottco or Cotpro. This was notably stated by smallholder growers in areas where both Cargill and Cottco had buying depots, despite (on average) lower prices offered by Cottco. For instance, producers who delivered their seed cotton through Cottco's seasonal pool in the 1998/99 buying season received an additional Z$1,80 per kg seed cotton (for grade A) in December 1999[15].

Table 1: Price indices, Z$, kg seed cotton/grade A

Company	1994	1995	1996	1997	1998	1999
Cottco	3.89	4.30	5.81	6.0	9.37 op.7.22 fp. 9.37 sp. 1.70	14.5 op.11.30 fp. 14.50 sp. 1.80
Cotpro	nk*	4.83	6.25	6.32	9.35 op.7.20 fp. 9.35 sp. 1.70	14.75 op.11.30 fp. 14.75 sp. 1.80
Cargill	Not yet in operation	5.00	5.7	6.0	8.02 op. 7.50 fp. 8.02	15.00 op.12.50 fp. 15.00

Key: op=opening price; fp=final price and includes supplementary payment if paid; sp=supplementary payment; nk=not known.;* Prices offered to LSCFs by Cotpro in the 1993/1994 season were above those which CMB was able to offer, because the board was forced to sell lint to the local spinners, at prices stipulated by the government. However, the actual prices paid by Cotpro were not available.
Sources: own survey and data from the Cotton Growers Association (2000).

As shown in table 1, Cotpro and Cottco offered more or less identical prices during the last few years. This does not, however, reflects price collusion between the two companies, but seems to arise from price leadership by Cottco. Although Cottco is not longer obliged to announce its buying prices in the beginning of the season, the company is still using this practice because of the pool price system, while the practice for the other two companies is to wait for the settlement and then more or less following suite. Average prices to peasants during this buying season varied only slightly, between Z$14,50-15,50/kg according to number of competitors in the districts and ginning capacity. However, Cargill's opening prices were slightly above opening prices offered by Cotpro and Cottco in the last two buying seasons. In the beginning of the 1999/2000 buying season (March) Cottco announced an interim price at Z$14,50/grade A, resulting in price levels almost similar to last year's of Z$14,50, reflecting lack of competition in price setting. Financing of seed cotton was carried out through a number of different sources, but own funds purchases were the general pattern. Cotpro mainly financed its seed cotton purchase through internal company funds and loans form the development division of AFC, while Cottco used a combination of own funds and importer pre-financed.

[15] The supplement payment was traditionally made in April but brought forward to December in 1999 to provide additional income to growers as assistance for the next season.

All cotton companies had similar ways of organising their buying networks as well as similar grading system based on four different grades, but varied in their geographical coverage. In relation to the latter Cottco remained the largest buyer and had a head start over the other cotton companies, arising from a well-established marketing network developed prior to liberalisation. Cottco has more than 32 depots throughout the main cotton growing areas, and has at least established four new transit depots in "up-coming" cotton areas recently in order to increase market coverage, while Cargill only operates 14 buying posts and a few collection points. Typically Cargill's depots were situated next to Cottco's, all based in the smallholder areas. Against a background in the LSCF sector, Cotpro purchased the bulk of the seed cotton from commercial farmers in the first couple of years of operation, but has during the last few buying seasons expanded the buying network to cover the main cotton growing areas in the smallholder sector. Furthermore, the company expects to purchase around 80 percent from the smallholder sector in the 1999/2000 buying season. Cotpro's only grading facilities are at the ginnery in Chinhoyi, therefore all seed cotton purchased through 10 of the company's temporary collection points is transported to Chinhoyi for grading. In an effort to increase market coverage Cotpro established six permanent depots (with grading rooms) in the 1999/2000 buying season, yet financial problems forced the company to close the outlets (see below).

In relation to organisation of buying networks all companies preferred to purchase seed cotton through their own-organised buying posts and collection points staffed with own employees, while prices were set centrally at the headquarters. In other words, neither of them made use of commissioned agents nor purchased seed cotton from independent buyers. With regard to grading procedures, at all ginneries, transit depots and buying posts visited during the fieldwork (regardless of ownership), seed cotton was graded in standard grading rooms, on a visual assessment of soil and insect strain, trash content, weak and immature fibre, as well as colour and classified into one of four grades by trained staff. This initial grading provided the basis for payment to growers[16]. On the contrary, collection point (or mobile buyers) had no grading facility. Typically, after initial "pre-grade and weighting" of delivered seed cotton the farmer would receive "part-payment", while the remainder followed after the cotton had been properly graded at one of the company's buying depots or ginnery. After initial grading, the seed cotton was further classified into one of several (thirty-six) sub-descriptions based on the original grade, length of staple, amount of strain and trash, strength of fibre and colour of the seed cotton, according to a ginning programme worked out by the marketing departments. This second and much more detailed classification is carried out in order to meet local and export sales requirements (own survey, see also the Cotton Sub-sector Study, 1991).

Thus, similar and extreme thorough grading was carried out at the primary marketing stage by

[16] On the other hand, a grower is entitled to appeal against the grade allocated to one of s/he's packs. A sample withdrawn from ever pack are retained for grade B, C, D and kept for 30 days. On a request from a farmer, the National Arbitrator will review the sample and then either confirm, upgrade or downgrade and payment will be adjusted accordingly.

all three buying companies. This indicates that the market is still a buyer's one - which is further reflected in the manner by which grades are defined. For instance, from the grower's point of view it is questionable whether it is "fair" to offer the same price for grade B which has been penalized/downgraded for trash, as for grade B which has been downgraded for staining. Growers suspect that the trash is removed during ginning, whereas straining cannot. If this is the case then lint from the B (trash) will sell for more than the B (straining). And the grower should be paid more. Secondly, price differentiation between grades provides an important incentive for the growers to improve seed cotton quality, which partly seems to be the reason why the majority of purchased cotton still is in the superior A and B grades (see table 2).

Developments in input supply system

Competition between the three companies in order to obtain market shares also took less price related forms - in relation to availability and costs of inputs as well as providing inputs on credit. Rising input prices and unavailability of credit facilities are major constraints facing smallholders in communal areas. Whilst cotton is the only communal sector crop where there is a relatively high level input use (Zhou, 1999), consumption of non-labour inputs is low, resulting in low productivity particularly in comparison with the LSCFs sector. The cotton companies on the other hand have sought means of securing sufficient supply of seed cotton by linking the marketing of seed cotton to the provision of production services (credit and inputs). Seed and chemicals are the most common used non-labour inputs in cotton production in Zimbabwe[17]. With regard to the former, cotton farmers have to purchase seed each year due to the nature of cotton production i.e. the need for delinting as well as the annual controlled release of new varieties.

Cargill operates a "Farmer Input Voucher" system (FIV) where farmers can purchase inputs for the following season, when they sell their seed cotton to one of the ginneries or depots. According to the company as well as several of the peasants interviewed at Cargill's depots and collection points, this system has a number of advantages. Firstly not indebting the peasant, as opposed to Cottco's and Cotpo's input credit schemes (interest rates between 27-30%, while commercial bank lending rates typically exceed 50 percent in 2000). Secondly, high inflation also makes advance purchase of inputs attractive (year-to-year inflation has continued to raise and now exceeds 50 percent, EIU, 2000). Thirdly, and perhaps most important, the costs of inputs are below prices offered by the Cottco and Cotpro, and other agro-chemical outlets in the region. Cargill purchases bulk chemicals from the agro-chemical companies in the country (notably Agricura, one of the three major chemical companies), thereby obtaining discount prices which are passed on to the farmers. Thus, from the farmer's point of view, chemicals purchased at Cargills depots are in general 15 percent cheaper than those purchased from the other companies. Cargill has experienced problems in obtaining

[17] Consumption of fertiliser is low albeit relatively higher than for instance its counterpart in Tanzania.

enough chemicals from suppliers[18]. Thus, in an effort to ensure timely acquisition of chemicals, Cargill provided its main supplier with forex during the 1999/2000 season, and at the same time, the company intends to build up stocks in the forthcoming seasons to prevent similar situations in the future (Cargill interview, June 2000; peasant interviews, May 2000, see also Gordon and Goodland, 1999).

Cottco and Cotpro provide input services both on cash terms and through input credit schemes to smallholder producers and large scale commercial cotton farmers. Both companies operate three different kinds of schemes based on farmers' productivity and risk associated with the schemes: LSCFs, smallholder producers and smallholders who are producing enough seed cotton to be classified as a "Gold Club Members" (Cottco) or "Diamont Class Farmers" (Cotpro). LSCFs obtain credit on cash terms, allowing them to choose their own suppliers of inputs, whilst the input credit schemes offered to the smallholder sector (including farmers belonging to the "master groups") involve the provision of inputs on credit to farmers by the cotton companies. The companies recover the loans by having exclusive (or partial) purchase rights on seed cotton produced by those farmers (i.e. linking the provision of credit, input supply and extension advice to the marketing of seed cotton).

Cottco's input credit scheme commenced in the 1992/93 season with funds (soft loans) provided by the World Bank. The scheme was initially a post-drought input package to growers, after the severe drought in 1992, and during a period when the parastatal still operated a crop purchase monopoly. The number of farmers under the scheme has increased substantially since 1992/93, where 20,000 farmers received loans. Cotpro's input scheme is similar to Cottco's, though on a smaller scale. Both schemes are very successful, with 98 percent recovery rate during the last two seasons. Part of the explanation of notably Cottco's successful recovery of loans is that the company selects farmers based on expectations of viable yields (a minimum requirement was 600 kg/ha until the 1998/1999 season, rising to 1000 kg/ha. for the 1999/2000 season). In addition, Cottco and Cotpro have recently introduced individual cash loans to farmers who achieve high production and have a good repayment rate. Good performing farmers (the so-called "Gold Club Members" or "Diamond Class Farmers") are withdrawn from their groups and provided inputs worth Z$50,000 (as opposed to credit not excided Z$8000 for other smallholder producers). Last season Cottco's scheme covered 6000 "gold" farmers. Because these farmers represent relatively minimal risk and costs for Cottco (compared with the other smallholders), the company intends to expand and develop this scheme considerably in the future, while downscaling loans to other smallholders (own survey, see also Chivere, 1999).

Currently, there are approximately 80,000 smallholders under the two companies' input

[18] and in general the agro-companies have often been criticised for not being ably to supply sufficient chemicals and fertiliser. The main reasons for this is attributed to the high import dependency for both fertiliser and chemicals and general shortage of forex in the country.

schemes, out of an estimated 250,000+ cotton growers and roughly 200 LSCF cotton producers. The input credit scheme has been one important way to tie producers to the companies and thereby securing sufficient and reliable supply of high quality seed cotton. Cottco has recently increased the level of participants involved in the company's input credit scheme (from 50,000 in the 1998/99 season to 70,000 in the 2000 buying season) particularly in new/up-coming cotton growing areas i.e. Matabeleland and Mashonaland West/Central. Secondly, input credit scheme in conjunction with the promotion of the so-called Gold Club Members, have improved yields and grades significantly in the smallholder sector, as illustrated in table 2.

The average yields obtained by smallholder farmers utilizing the scheme have gone up to 900 kg/ha, compared to the national average of just more than 700 kg/ha. In general, around 60 percent of Zimbabwe's seed cotton is graded above grade C . In the 1998/1999 season the quality was improved slightly, with more than 80 percent being in the superior A and B grades (Cottco, interview, February 2000). Whether this trend is maintained in the 1999/2000 season still remains to be seen. However, every outlet visited during the fieldwork recorded that the intake so far was roughly divided between 35 percent grade A and 40 percent grade B, while less than 4 percent in average was rejected.

Table 2: Smallholder cotton yields and quality.

Year	Yield (kg/ha)		Grades
1990/91	500	A	5%
		Ass	10%*
		B	50%
		C	30%
		D	5%
1991/1992	200	A	7%
		Ass	8%
		B	33%
		C	50%
		D	2%
1996/97	900	A	8%
		B	62%
		C	26%
		D	4%

Source: Cottco.
Notes: * Grade Ass has been removed (in 1993).
1991/92 was a drought year. The input credit scheme was initiated in the 1992/93 season

Consequently, through the input credit schemes, the two companies capture a fairly huge fraction of the smallholder production, which in conjunction with the seasonal pool price system is a major competitive advantage compared to Cargill and other smaller cotton traders. The main reason why Cargill does not provide input on credit is that the company wish to avoid the significant administrative burden coming from operating such a service (Gordon & Goodland, 1999). In addition, Cargill's supply requirements (in relation to ginning capacity) are meet by producers who are outside the other companies input credit scheme or, as the staff at one of Cargill's transit depot (next to Cottco's) said:

> "A lot of the farmers are under Cottco's input credit scheme here. But it is quite common that the better-off farmers split between us and them (Cottco). The farmer delivers what he has to deliver to Cottco and sells the rest to us...we offer a better price and faster payment" (Cargill, interview, May 2000).

To sum up price competition is extremely low and market coverage seems to be a very important aspect. With regard to direct competition on prices two immediately positive impact occurred when the two new cotton companies entered the market, namely instant cash payment at the ginnery gate or depot and initially higher prices offered by both Cargill and Cotpro, compared with Cottco. From the farmers' point of view instant cash immediately after weighting and grading of delivered seed cotton was a major improvement compared with the system prior to liberalisation, where the farmer had to wait two-four weeks and sometimes up to several months before s/he received a cheque from the CMB headquarter in Harare. With regard to the nominal producer price/world price relation, market liberalisation has only led to a modest raise in the proportion of the f.o.b. price paid to producers. From 1990 to 1994 the average ratio was 29 percent, while an average ration of only 31 percent was witnessed in the five years after liberalisation (Muir-Leresche, 1998, CSO, various years). At the local level, Cottco had geographical monopolies in several of the villages visited during the fieldwork. Local monopolies became even more pronounced in April 2000, where Cottco acquired a 60 percent controlling stake in Cotpro Limited[19]. Apparently, Cotpro has been facing financial difficulties during the last year. This partly seems to arise from huge investments in the new ginnery and lack of sufficient supply of seed cotton. And partly because the main sources of working capital were own funds and domestically borrowed capital, with high interest rates. Against this background, the CCGA and the 155 LSCFs agreed to sell their shares to Cottco. According to the managers at Cotpro and Cottco, CFDT sold its share to Copaco (the two French stakeholders which before had 14 and 26 percent shares respectively), while the "end-agreement" was settled in a way which ensured that during the next five years Copaco will gradually sell its share to Cottco and by 2005 Cotpro Limited will be wholly owned by Cottco[20]. As a result, Cottco accounts for around 80-85 percent of the market in 2000.

Marketing of lint and international price trends

As indicated previously, when the Cotton Marketing Board was relieved from its government introduced restrictions on lint sales the CMB increased its share of export substantially and the proportion of lint export rose rapidly after 1994/95. Hence, by the end of the 1990s more than 75 percent of total national cotton lint production was exported as apposed to around half during earlier period (CSO, 1999; EIU, 2000). The 1999/2000 season was the fifth con-

[19] However, I was unable to examine the agreement in more detail. The companies referred to "business secrets" and on the whole it was a very touchy subject in May/June when I first heard about it.
[20] Cottco secured medium term off-shore loans of US$5.5 million for on-lending to Cotpro to liquidate its short-term debt (Cottco, interview June 2000).

secutive season in which cotton lint production in Zimbabwe was more than 100,000 tons, and a new record of 128,000 tons lint was achieved in 2000, hence, the volume of exported lint has increased additionally (ICAC, 2000 vol 54,1). This trend rested on a combination of increases in area devoted to cotton and higher cotton yields, improved varieties[21] as well as favourable weather conditions in the second half of the 1990s.

Whereas the three ginning and marketing companies export between 80-100 percent of cotton lint annually, the destination of most Zimbabwean lint remained virtually unchanged after liberalisation. For many years Europe has been the principal end-market (50 percent) followed by Asia and South Africa (30 and 20 percent respectively). Cargill, as a part of a multinational concern, transferred its lint internally, through one of the concern's subsidies (the Liverpool-based Ralli Brothers)[22], a significant part of the other two's export was sold on forward sales contracts (in average 80 percent of Cottco's lint and around 60 percent of sales from Cotpro). Apart from a larger proportion of lint sales on the export markets Cottco's marketing operations and strategies have followed past trends and Cotpro adopted more or less identical marketing strategies[23]. Cottco inherited the traditional customers of the former Cotton Marketing Board and the relationship with some of the spinners (notably in Europe) has been ongoing for several decades. The bulk of the lint is only marketed directly to end users (i.e. spinners), through the help of agents based in the three regions, on a f.o.b. or c.i.f terms[24], which means that the company has to arrange transport to Beira/Mosambique or Durban/-South Africa. According to the company, by operating as a direct marketeer, Cottco obtains maximum feedback on the world market situation, as well as requirements from individual costumers, which is vital for the company's competitive advantage. On the other hand, according to Hijbroek and Husken (1996) international trading companies are becoming more important on the world marked as bridge between producers and the spinning industry. Most stocks are held by international traders allowing just-in-time delivery and reliable supply of standardised qualities to individual producers. Apparently, Cottco (and to a lesser extent Cotpro) strategically "bypass" this intermedia level in order to increase their own margins at the expense of international traders. Another central explanation is that, by selling directly to spinners, the company avoid competing against its own cotton, as summarised by Cottco:

> "we never sell to international trading companies...this is basically in order to avoid competition from our own cotton. For instance, if a trader buys lint from here and stores it in a warehouse - we can end up in a situation where we compete against our own cotton on the export market (...) where Cottco and an international trader try to sell Zimbabwean cotton to the same spinner but at different prices" (interview February 2000).

[21] The recently released medium staple variety has a ginning outturn at about 43 percent as apposed to previous varieties with a ginning outturn at 35 percent.

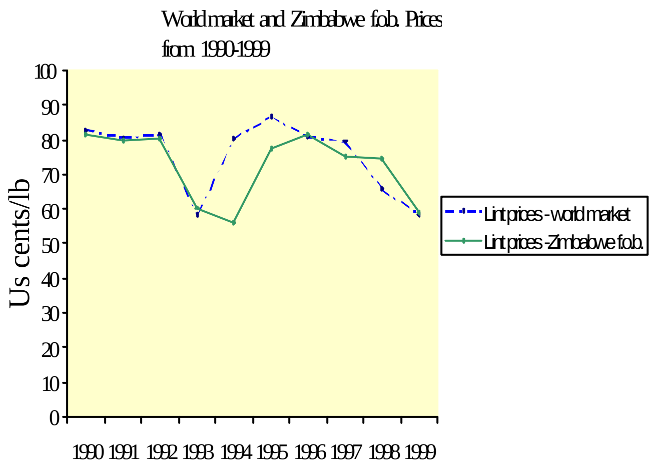
[22] Apparently, the main end-destination for Cargill's lint emanating from Zimbabwe is spinners in Pakistan (interview, May 2000).

[23] One important difference between the two companies is the end-destination. Cotpro exports currently 80 percent to spinners in the Asian region.

[24] i.e.cleared, insured and forwarded, or free on board. Lint sold to Zimbabwean-based spinners is sold on a ex-ginning basis, i.e. spinners are responsible for local transport.

Besides the premium or higher returns attached to forward sales (compared with spot sales), Zimbabwean lint generally enjoys a premium above the Cotlook A index, because the cotton seed is handpicked (therefore contains less contamination) and as a result of high quality (in relation to grade, staple, colour and strength). The Cotlook A index is an indicator of international cotton lint prices. There are a variety of pricing systems for world cotton, but in general Cotlook A index of international cotton prices is considered to be the most authoritative (Hijbroek and Husken, 1996). Cotton lint is classified on the basis of the properties of the lint (according to length, grade, strength and micronaire), which generates a stratified pricing system. Extra fine cotton from Egypt and the USA generates a price premium of 25-40 percent above the A index (ICAC, 2000). Cotton prices have declined fairly consistently during the last decade, and in September 1999, the Cotlook A index dropped below 50 US cents per pound, and prices are near the lowest level since 1986. However, during recent months there has been marked improveent in the world prices from a low of 44 cents per pound in December to the 61 cents in September 2000 and there are indications that prices will continue to firm.

Figure 2 compares the average real-isations for Zimbabwean lint exports (1990-1999) with the Cot-look A index for the same period. The ten-year period under review shows volatility in prices, but ave-rage export prices on Zimbabwean lint follow to a large extent the average index. However, it is not possible to draw firm conclusions from this comparison, because, as mentioned above, the bulk of exported lint is sold on a forward basis. Therefore the valid comparison should be the actual contract price (agreed upon between the cotton company and spinner) with the A index price at the date of shipment, i.e. the date on which payment is activated. For instance, although international cotton prices continued their fall throughout 1999, Cottco achieved levels above the market average by committing a significant part of the crop early in the year. As a result, forward sales contracts for much of the 1998/99 season prevented a further erosion of the margins last season.



Sources: Reserve Bank of Zimbabwe; Central Statistical Office (1999).

Figure 2: World market and Zimbabwe lint prices.

Thus, the persistent pattern in the prices received on the world market reflects the ability of the companies to generate large bulk supplies (and reliability in delivery) of relatively high and uniform grades and undertake forward-sales. In addition part of it derives from the companies' ability to establish close linkages to spinners on the export markets and limited the number of customers to only in average five customers in each region. However, this trend/development also highlights the substantial decline in the country's textile industry during the last decade. Since the start of economic reforms in 1991 Zimbabwean-based spinners, textile and clothing companies have experienced serious problems in association with trade liberalisation and stiff international competition at the same time as South Africa imposed high tariffs on imports from Zimbabwe. As a result of import liberalisation, the country witnessed massive inflows of textile goods and second hand clothing, while general price increases for lint have threatened the viability of the local textile-processing industry further. The downward trend in the processing industry has continued throughout the decade, and sales of lint to the domestic industry are near the lowest level since the government imposed lint subsidy in 1983 (for further details on the restructuring of the textile and clothing industry see e.g. Sachikonye, 1999; Ndlela & Robinson, 1995; Robinson, 1995).

Sustaining the cotton system

The key findings described above illustrate that very few changes have occurred since the Cotton Marketing Board was privatised together with an opening for private participation in cotton trade and processing in the mid-1990s. This section will elaborate further on how the system was sustained after liberalisation, focussing firstly on state-private sector coordination, followed by a discussion about (absence of) competition and successful forms of private coordination.

State-private sector cooperation and coordination

In the first season of trade liberalisation, the Ministry of Lands and Agriculture (MoLA) took the initiative to establish the National Cotton Council (NCC). The main objective of the NCC is to provide a forum for discussion among stakeholders in the cotton sector and perform as an advisory body to the MoLA. All major stakeholders, i.e. producers (represented mainly by CCGA and Zimbabwe Farmers' Union), buying and ginning companies, spinners, oil expressors, research institutions as well as Agritex, are invited to participate in regularly held meetings, presided over by the MoLA. An Arbitration Committee (within the NCC) is entitled to enforce agreement established among the stakeholders in the NCC and penalize companies who do not follow suit (specified by the new Agricultural Products Marketing act). With the official repeal of the Cotton Marketing and Control Act in 1997, which stipulated national quality standards, classification and grading procedures as well as packing of seed cotton and lint, virtually all instruments in relation to e.g. quality control and grading were removed. Moreover, already shortly after Cotpro and Cargill entered the market it became clear that the new competitors imposed different quality and grading standards as the basis for payment to farmers. Against this background several NCC meetings were held and subsequently, the three cotton companies committed themselves to apply similar buying procedures based on four different grades. This informal settlement was formalised in spring 2000, where the stakeholders signed an agreement entailing common grade classification and grading procedures, based on the former parastatal's well-developed classification system. Firstly, all buyers of seed cotton only are allowed to grade in a standard grading room (specifying colour of the walls, floor and ceiling and properly lighting of the room) and secondly, grading has to be done according to national buying standards, based on four different grades (A-D), as described in four "master" standard boxes[25]. Although this re-introduction of the former parastatal's buying procedures did not alter or change those of three cotton companies significantly, any new company wishing to purchase seed cotton has to classify seed cotton into one of the four payment grades.

In the line with implementation of uniform grades at the level of primary purchase, other more informal coordinating activities have been employed in a joint effort to maintain or increase seed cotton quality. In conjunction with distribution of polypropylene-free bags at every depot and buying post regardless of ownership[26], initiatives have been taken to increase pest management at the local level. This has been done in order to restrict development of pests, especially to prevent the spreads of bollworms. Whilst the law prohibiting stand-over cotton production[27] is still in effect, it was widely stated that stand-over cotton has been an increasingly serious problem in the last couple of years. Apparently this seems to arise partly due to lack of systematically official enforcement of the regulation by the National Resource Board (lack of adequate financial resources), and partly due to rising prices for cotton seed. Against this background the three companies' "in-field staff" started to share information about "blacklisted" growers. However, the present system, where the farmer is fined only Z$100 per hectare of undestroyed area (if punished at all), offers little incentives - especially for the very poor farmers - to destroy plants. Along these lines, the Council is currently trying to press the Ministry of Lands and Agriculture to increase the fine level substantially.

Thus, the introduction of NCC's state-private institutional framework for coordination and regulation of the sector has been pivotal for the sustainability of the system after liberalisation of cotton trade. The implementation of an uniform cotton grading system illustrates the

[25] The latter are visual interpretations of the grade definitions and depict the lowest acceptable quality or in other words the maximum allowable fault level for each grade. The four different grading boxes are kept in every grading room and are reviewed in juxtaposition to the master boxes every year to ensure that they continue to be congruent with the master boxes (interview, Cargill, Cotpro, Cottco, 2000).

[26] If polypropylene bags are used for cotton picking, the plastic fibres may contaminate the cotton and eventually ruin lint produced from it. Therefore, the presence of polypropylene fibres in the lint can threaten the export market tremendously, and has been recognised as a persistent problem for the marketing companies (Cargill, February, 2000). Contaminated cotton lint caused by use of polypropylene bags is recongnized as a common problem in many African countries, due to easy accessibility of the bags. In Nigeria, for instance, the problem was recently addressed and farmers have started using jute bags (ICAC, 2000).

[27] The law was passed in 1936 and stipulates slashing, destruction and planting dates for the South-eastern Lowveld and the remainder of the country (Mudhara et al., 1995).

benefits of NCC's role as a coordinator but the real key to the sustainability of the system appears to lie in the willingness of the private companies to enter agreements with competitors on an informal basis. To a large extent this requires that all players recognize an advantage of mutual interest in entering agreements, as described by one of the respondents:

> "When the customers buy cotton from here...they aren't buying Cargill's, Cotpro's or Cottco's cotton, but Zimbabwean cotton. So we all have incentives to maintain high quality and uniform grading procedures in order keep the good reputation on the world market. It would damage all the cotton companies seriously if one of them didn't stick to the rules..." (NCC, interview, May 2000).

Although the Arbitration Committee is entitled to enforce the regulations, is it important to highlight that enforcement is cumbersome and inefficient. For instance, on several occasions during the fieldwork period, two smaller private companies were frequently named as operating without buying licences, and it was indicated that they refused to pay a levy to the Arbitration Committee (not to mention rumours about "rich businessmen from Harare", buying seed cotton at prices below Z$10.00). In addition, at least one of them was accused of "buying on credit in the last couple of seasons, but without paying the peasants after the lint was sold" (ZFU & CCGA, interviews April-May, 2000). However, according to the NCC, in reality it proved fairly difficult to follow up on such cases, not least because of the inefficient and slow court system in Zimbabwe. Thus, the aspect of mutual interests is likely to be more successful with fewer buyers in the sector and correspondently, competition between new entrants (ginneries or buyers) could possibly change the marketing of cotton in fundamental ways. In Tanzania, for instance, where high level of effective competition had emerged after liberalisation, grading at the farmgate was rarely carried out because a large number of buyers were purchasing seed cotton regardless of quality, forcing all others to use the same strategy. In the same period the share of the average world unit price commanded by Tanzania cotton exports fell by 10 percent, partly as a result of absence of grading (Townsend, 1999, cited in Friis-Hansen, 2000).

Lack of competition but successful forms of coordination

In most other Central and East African countries policy changes have led fairly rapidly to considerable competition at the farmgate, although some consolidation has been witnessed later (Shepherd and Farolfi, 1999). The Zimbabwean case confirms the tendency towards consolidation. However, even from the outset of economic reforms, liberalisation did not pave the way to substantially higher private participation, nor did it create a multi-channel marketing system as was the World Bank's stated goal in Zimbabwe (World Bank, 1991:25). Rather, the post-liberalisation marketing system in Zimbabwe reveals a market where competition is still seriously underdeveloped, especially in price setting, while the former parastatal still enjoys a near-monopsony position in primary purchase and ginning.

The assumptions of the economic reforms were that if e.g. investment and/or licensing regulations were relaxed, this would remove barriers to entry and encourage competition. Consequently, why did removal of legislation constraints and dismantling of the former parastatal not lead towards a presence of higher (domestic as well as foreign) private capital in primary purchase, ginning and/or sales of lint? This study suggests that two points may be of importance. Firstly, entry into primary purchase and ginning is affected by a number of fundamental constraints or "market failures" such as underdeveloped financial and credit institutions/markets. Secondly, a well-developed and effectively coordinated buying system, dominated by the former parastatal, discourages or leaves only little room for other entrants. The first point applies primarily to smaller-scale potential entrants. The latter one to larger-scale ones.

Before turning to aspects related to the limited entrants of smaller local traders since liberalisation, is it worth notice that as opposed to most other cotton-producing countries in Central and East African, international brokers or trading companies have played only a minor role in the Zimbabwean cotton sector after liberalisation (the exception is Cargill). Apparently, as the bulk of the cotton historically has been sold directly to spinners, international traders might not have been familiar with the Zimbabwean market[28]. However, this needs further examination.

Recent studies[29] of agricultural reforms in sub-Saharan Africa have concluded that their success greatly depends on the capacity of the private sector to respond rapidly and take up the functions previously performed by state companies. Secondly, the response of private traders/buyers to market opportunities is often affected by a number of fundamental constraints, which limit the effectiveness and development of a multi-channelled private marketing system.

This study suggests similar tendencies in the Zimbabwean cotton sector. As mentioned above, since liberalisation only around four more well-established smaller cotton buyers began operating in the main cotton growing areas in addition to an unknown but presumably quite small number of "middlemen". The latter typically purchased seed cotton from smallholder producers in desperate need for immediately cash; and/or has lacked means of transport and/or who were trying to "free ride" i.e. avoid repayment of loans to Cotpro or Cottco by selling their crop to another trader. Notwithstanding this, all smaller private buyers were severely restricted by their general financial weakness, and as mentioned above it was frequently stated that some of the traders had difficulty paying cash directly to producers. In addition, means and costs of transport proved to be a major constraint for them. Yet, the study

[28] In other countries (e.g. Tanzania) multinational companies and international brokers became engaged in ginning and sales of lint when cotton trade was liberalised. Historically, Tanzania sold the crop on the basis of competitive tender system to large international brokers. Thus, when the cotton trade was liberalised, international traders were already well aware of the market.

[29] e.g. Chiwele et al, 1996 (Zambia); Poulton, 1999 (Ghana); Gibbon 1999 (Tanzania), Shepherd and Farolfi, 1999.

also suggests that the common strategies employed by the major companies with regard to e.g. organisation of buying networks furthermore tended to limit entry of smaller traders. During the fieldwork period it proved difficult to locate traders at the local level, and half way during the buying season, it was discovered that none of the more well-established small cotton buyers were still in operation. In part this may have been because of the severe political and economic crisis prevailing in the country. However, when interviewing smaller cotton buying companies, it became clear that one of the underlying problems they faced was lack of own ginning facilities and difficulties in getting seed cotton ginned at existing ginneries in the two main cotton growing areas. Neither Cottco, nor Cargill or Cotpro engaged in contract ginning for other independent private buyers of seed cotton[30]. Another point to note is that the three major marketing and ginning companies preferred to purchase seed cotton through their own buying networks and depots, staffed with own employees, which indicates no use of commissioned agents or purchase of seed cotton from independent buyers. This is apparently due to bad previous experience with for instance independent agents working on commission, as summarised by one of the marketing companies:

> "we once bought seed cotton from independent traders (...) but we burnt our fingers (...) the traders said they bought cotton on behalf of us but they paid too low prices to the farmers in order to increase their own margins - so the farmers complained and simply changed to the other marketing companies - now we are buying on our own...we have to maintain our good reputation among the farmers" (interview, March 2000).

Under these circumstances (and because cotton is only tradable after ginning as lint) traders without guaranteed access to ginneries may well find it difficult to stay in business in the future. One possible way out of this would be to establish their own ginneries. In Tanzania for instance, private traders started to build their own ginneries, partly in response to the refusal of the cooperatives to permit private traders to gin their cotton on a contract basis. The reason why this has not emerge in Zimbabwe seems to be related to lack of access to formal credit and/or cheap donor funds (commercial bank lending rates typically exceed 50 percent in 2000). Another reason to be considered is related to "bureaucratic and policy obstacles" in terms of approval of new investments in ginneries and licences to traders etc. Information on this subject was difficult to come by. However there are some indications that bureaucrats purposely delay the process, not only because the existing ginning capacity is underutilised but also because the Government of Zimbabwe still holds 25 percent shares in Cottco.

In addition, as providers of inputs on credit both Cottco and Cotpro have incentives to restrict or eliminate competition in the output market as the cost of running the scheme would probably increase dramatically in a competitive market, due to the possibility of side marketing. Side-marketing refers to farmers taking credit from one buyer but avoiding repayment by selling to another, which tends to be a common problem in markets with high

[30] A minor exception is Cargill. The company agreed to gin around 9 tons organic seed cotton for a donor-financed cotton project this season (interview, Cargill; see also Page, 1997 The Zambezi Valley Organic Cotton).

competition. Hence, input credit schemes as well as outgrower schemes are less likely to occur in a multi-channel marketing system. As mentioned previously, Cottco's input credit scheme commenced in the 1992/93 season. Due to the monopsony position enjoyed by Cottco (or the Cotton Marketing Board) in the first two years of operation, it was relatively easy for the company to obtain input loan repayments from smallholders and the company achieved a 98 percent recovery rate (in 1993). Repayment rates were seriously affected because of side-marketing (they declined to 79 percent in 1995/96 season) when Cotpro and Cargill entered the market and Cottco had to tighten up its operations. During the last few seasons, Cottco and Cotpro have used a number of similar mechanisms to minimise default:

- Credit is extended only in the form of physical inputs (seed, fertilizer and chemicals) to farmer groups (5-30 farmers), based on self-selection. All members have to be able to demonstrate their creditworthiness (done through sales records of previous cotton). In order to minimize defaults and strengthen loan repayment rates, the whole group is penalised if one member defaults, i.e. group liability is enforced.
- Monetary rewards are given to groups with high repayment rates. Defaulters are followed up quickly and assets such as cattle, furniture and cycles are seized.
- Considerable effort is made to forge close relationships between the company and the participating smallholders. Both Cotpro and Cottco employ local agents who are in year-round contact with smallholders.
- Close monitoring of farmers occurs throughout the seasons both through own extension officers and through links with the government organised extension services (Agritex) which ensure that the smallholders are putting the inputs to good use, thereby increasing the chances of loan repayment. Tying in extension services with the input credit scheme serves both to increase the productivity of those inputs, and also helps to create a closer relationship between the company and the smallholder.

In recent years the repayment rates have again been around 98 percent due to a more efficient implementation of the punishment system (through debt collectors) and a reorganisation of the schemes. By linking farmers to specific ginneries, Cottco and Cotpro prevent farmers to sell to other buyers, thereby reducing their own level of uncertainty regarding the size and/or quality of their supply bases[31]. Hence, the key players have overcome supply and marketing problems by coordinating and controlling a huge fraction of the market, consisting mainly of smallholder producers each of whom contributes with only a small quantity of marketed cotton.

[31] In addition, Cottco made a ginning contract with the Triangle ginnery in the 1999/2000 marketing season (on 20,000 tons seed cotton out of the ginnery's estimated capacity of 25,000 tons). This bacially leaves only little space for other smaller buyers, and more or less eliminated their access to existing ginneries in the country.

Concluding remarks

Clearly, despite market liberalisation very few changes have occurred in the systems of primary purchase, ginning or marketing of cotton in Zimbabwe. In sharp contrast to the conventional neo-liberal wisdom that economic reforms and subsequently dismantling of single-channel marketing systems would pave the way for widespread private participation and create high competition (thereby allowing producers to be paid a higher share of world market prices) - this study illustrates the opposite picture. Apart from Cottco, who have been operating since before liberalisation, only a few other companies entered the market. The need to control capacity to process and store cotton lint meant that companies who controlled these facilities had a competitive advantage over those who did not. In addition, lack of access to capital and formal credit facilities were fundamental constraint to entry by smaller traders. Seen in this light, liberalisation of the marketing system can not considered a success.

However, the Zimbabwean case can also be perceived as one of successful *coordination* for a number of reasons. Firstly, rather than a breakdown of responsibility for regulation and quality control (as in Tanzania), a National Cotton Council was successfully established as an institutional framework for collective coordination and regulation of the sector by the major stakeholders. Secondly, the case study reveals that coordination took several other forms both between the three major players (Cottco, Cotpro and Cargill) and within individual companies, particularly Cottco, in order to secure reliable and sufficient supply of seed cotton. In particular, a functioning input credit scheme emerged on this basis as an important way of tying farmers to companies, while resolving the constraints faced by smallholder producers who lack resources to finance inputs.

Against this background, the former parastatal Cottco has even successfully launched into industrial upgrading. Using its head start compared to other buying and ginning companies entering the market after liberalisation, Cottco has managed to steadily increase and consolidate its market domination as a private company after an initial loss of market share to new entrants. The company has invested heavily in core activities (establishing two new ginneries the last two years as well as acquiring a 60 percent controlling stake in Cotpro), as well as in value-added activities in order to capture additional - and more remunerative - margins downstream. Alongside a strategy of extending and upgrading ginning facilities, Cottco has diversified into spinning from 1998, in the form of a joint venture with the locally-owned SK Textile. In January 2000 it increased its shareholding in the resulting company, Scottco from 49 percent to 75 percent. Scottco produces knitting yarn products for the export market, mainly South Africa and Europe. All in all, the former parastatal has successfully explored the new trading environment which ESAP has brought about.

However, while the former marketing board could be viewed as “inclusivist” - implementing government policies to increase production and yields for the majority of smallholders in communal areas - Cottco, as a private company, appears to be more concerned about securing a solid and high quality supply base. Under its input credit scheme Cottco plans to "ensure the long term viability" by gradually increasing the minimum seed yield a farmer can guarantee before qualifying for credit (from 500 kg/ha to 1000 kg/ha currently). Secondly, Cottco's future strategy is to promote and increase loans to better-off farmers, the so-called Gold Club Members, at the expense of other peasants. This strategy has clear consequences for social differentiation, and perhaps also for regional differentiation. It also points to the fact that even the most successful systems of privately-based market coordination embody tensions arising from their "private" character. In this case, these tensions do not threaten the viability of the commodity system, but they mean that it is increasingly likely to have exclusionary effects. A final issue which should be mentioned in conclusion is that of the fragility of the broader global framework within which private coordination has evolved in Zimbabwe. Should the world price for cotton continue its downward path, it is unclear whether the existing actors will see it in their interest to invest in the sector at all, let alone its coordination.

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