



COTTON MARKETING 2019/20 SEASON:

ILLUSIONS AND REALITIES

1.0 BACKGROUND

Cotton is one of the major agro-based foreign exchange earner in Malawi. However, for the past decade, cotton production in the country has been characterized by a steady decrease in production levels to as low as 10,000 Mt in 2018/19 season.

The African Institute of Corporate Citizenship had noted the urgency of having a multi-stakeholder dialogue platform to provide space for cotton stakeholders to design innovative solutions for the development of the sector through public private partnerships. Ultimately, National Cotton platform was born out of the various initiatives that AICC had been implementing to ensure that all players in the cotton value chain including smallholder farmers can get maximum benefits. AICC was hence elected to be the de facto interim secretariat of the cotton platform in 2007.

It should be noted that Malawi has a capacity to produce more than 100,000 metric tons of seed cotton through creation of a conducive production and marketing environment. Since the year 2012, (highest producing year), stakeholders have been striving to revive the sector to its former glory. While private sector especially, ginners¹ have strived to keep the industry alive, Governments' bail out of an industry that almost collapsed was necessary. The 2019/20 season has been a transformative year for the sector, because for the first time in 10 years, the sector got full governments support. K1 Billion was pumped into the sector by Government and another K1 Billion will be pumped in 2020/21. The 2019/20 season was declared a season of revival, through the special campaign for cotton production enhancement (SCOPE).

2.0 THE 2019/20 COTTON MARKETING SEASON: DYNAMICS

The 2019/20 season provided an opportunity for the sector to set a precedence towards future modalities for sector. Guidelines were provided to ginners as prerequisites for licensing in the market period. The cotton Act 2012 gives the cotton council of Malawi the mandate to issue licenses to players that wish to participate in the cotton market. Licensing of ginners in the market season is based on the ginner's investments in the sector, adherence to the minimum set farm gate prices, remittance of accrued levy's and restriction of the zone provided to the ginner.

2.1 Market Presence and Competition

At the onset of the marketing season, The cotton Council had only licensed ADMARC Ltd as the only company to buy seed cotton from farmers at K389/Kg.

Among the reasons of this unprecedented turn of events is attributed towards the uncertainty of the cotton market both at the local and international market attributed to the emergence of the Corona Virus.

Private companies didn't apply for a license, and demanded for CCM revision of certain terms stipulated in the contract which include the revision of price to a lower price set that would reflect the international trends which has depicted a downward spiral.

The absence of the three private ginners has created a vacuum in the market system. Farmers do not have a readily available market spot to sell their cotton as ADMARC is not yet financially prepared to buy in all areas.

Farmers have turned to free riders/ vendors who have taken advantage of this situation to buy at very low prices averaging MK150/KG- 250/KG. Vendors are most likely to sell to ADMARC as soon as they start buying. The worse-case will emanate where farmers or vendors especially those operating within the boundaries of Malawi selling their seed cotton outside.

2.2 Messianic Role of ADMARC: Reality versus Illusion

According to yield estimates Malawi is very likely to produce 45,000Mt which is a huge leap from the 10,000 of 2018/19. This translates into an injection of approximately MK17Billion towards procurement of seed cotton by buyers all together, in this case ADMARC.

¹ The country had 11 ginners in 2012, the current number is at 4.

2.2.1 The Illusion

2019/20 Marketing season will be the first time after the liberalization of trade that ADMARC will buy all the seed cotton produced in the country. ADMARC requires approx. MK17Billion to absorb all the produce of nearly 80,000 smallholder farmers who grew the crop in 2019/20 season. It also requires to fully operate all its market in all 15 cotton districts, and then increase their ginning capacity in the 4 Ginneries across the country which over the years was low. These have cost implication which will likely increase to more than MK20Billion injection capital towards cotton. In an ideal situation cotton markets upon being officially opened run for 90 days, in which, every single day farmers sell their seed cotton. The licensing of ADMARC has given the industry an impression that the company will bail out farmers in a time of crisis like this, however, the reality paints a different picture.

2.2.2. The reality

2.2.2.1. ADMARC is financially constrained

Unfortunately, ADMARC does not have the financial capacity to buy all seed cotton and consistently. They currently received 5.2Billion from the government to buy all agricultural commodities including cotton. However, the Company needs closer to 100Billion for that endeavor. The delays of market actors is likely to leave farmers, government and CCM on the losing end considering the investment made this far.

ADMARC has tried to solicit funds from Export Development Fund(EDF). It had a facility with EDF of \$14.5 million of which ADMARC had taken \$9million. Out of the \$9million about \$4million was used in buying other commodities like beans, soya and all other commodities - half of the money went into the special cotton project (irrigation) in Nchalo. ADMARC is currently working on a K90 Billion facility with EDF to buy cotton and other commodities. Three possibilities are obvious. Firstly, ADMARC may not get the facility and this means some panic on the part of farmers who will be forced to sell to vendors at as low as K150/kg. Secondly, ADMARC will get the facility but after some delays and this again will create pressure on the part of farmers who will still sell to vendors. Thirdly, ADMARC will get the money in time to be able to buy from farmers.

The current situation on the ground is that, ADMARC has only managed to operate in selected market points. Unfortunately these markets have only opened once with one market place averaging a working buying capital of 3.5Million, enough to buy 8.9tons. On the contrary, a market on average requires working capital of 50Million to operate for one month on a daily basis. According to ADMARC, the major reason of the sporadic supply of buying money owes to untrustworthiness of the sells agents who are deemed risky to handle huge sums of money, and, the other issues pertains to security of buying depots which offers a risk of theft. Contrary to observations each selling depot had a gun thus reducing the risk.

2.2.2.2 Inaccessibility of Markets

Approximately 80,000 Smallholder farmers are to be served by ADMARC during this marketing season, the reality presents a very grimy picture where a fraction of farmers have been served, with most being left in disarray of where to sell their produce. In most market depots farmers have already incurred transport costs to move their seed cotton from the farm to the market only to find markets closed. This has forced farmers who have traveled long distances to lodge and queue at the markets waiting for the next time the markets will be reopened. Unfortunately, ADMARC is not sure of the days the markets will reopen. Farmers therefore are left with no choice but to re-incur transport costs of transporting their produce back to their homes, and possibly sell to vendors at very low prices.

2.2.2.3. Non-recovery of the Input Loan

In areas where ADMARC has been able to buy some seed cotton, it was observed that zero loans have been recovered from the farmers that accessed the 1billion loan facility issued by the Cotton Council. Mikalango EPA proportionally attributes to about 60% of the total loans accessed by farmers, however, it was observed that no loan deduction where issued at selling point as per stipulation of the terms and condition of loan repayment. The inability of the Cotton Council to clearly outline the modalities to sells agents and inability to follow up and support with documentations at selling points will very likely pose a huge threat to the recovery process of the loan. The emergence of vendors further hinders the recovery process as farmers have already sold their produce to vendors who are untraceable.

2.2.2.4. Ginners buying from Middlemen/Vendor

Ginners have been using vendors to supply seed cotton to ginners. Afrisian Ltd has not bought any produce from farmers despite being licensed, on the contrary, vendors have been directly supplying seed cotton which is against the cotton act 2013. It is believed that these vendors are financed by ginners to buy from farmers. Cotton Council needs to use the act to prosecute these malpractices.

3.0 RECOMMENDATIONS

- a) ADMARC needs Revitalization: Currently ADMARC gives the biggest hope of survival for the cotton sector and some commodities. It is meant to be buyer of last resort. Notwithstanding liberalization as well as corruption and other inefficiencies at ADMARC, revitalization of ADMARC through resources, reforms and technical capacity is the surest hope for food, income and forex security of our country.
- b) ADMARC needs to priorities: ADMARC has been mandated to buy all agricultural produce In the 2019/20 season, however, there is need of prioritizing what commodities to buy in specific areas. Allocation of funds should go to crops that are abundantly grown in a particular region, for example in the lower shire priority needs to go to crops such as cotton and sorghum against maize and legumes.
- c) Government should use the law to flush out vendors to allow the farmers get fair and uniform prices: The reinforcement of the laws has been difficult due collusion of vendor and the police. Sometimes vendors connive with communities in preventing the police from reinforcing the laws. Worse still, some vendors are politically connected and act with impunity.
- d) There is need for collaborative efforts between Traditional Authorities and Cotton Farmers Association to recover the loan from farmers: Unless loans are recovered, the ultimate loser will be the farmer. The sustainability of cotton fund depends on ability of CCM to recover the loans.



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