

BRIEF FOR THE ON COTTON MARKET REVOLUTION IN MALAWI

I. Background

Cotton remains an important crop for Malawi generating export revenues, value added and cash income for rural populations. Although cotton is grown primarily for its lint (the raw material in cotton textiles) other parts of the plant also have commercial value for example processing cottonseed into edible oil and livestock feed. Nevertheless, technologies to add value to other parts of the cotton plant (such as cotton stalks, linters or ginning waste) are largely absent in Malawi, amounting to unrealized economic opportunities.

Cotton has been identified as one of the sectors in Malawi with the economic potential to significantly contribute to rural poor in Malawi. The crop is also one of the priority crops by the Government of Malawi under the Malawi Growth and Development Strategy (MGDS 3), the National Industrial Policy, the Agricultural Sector Wide Approach (ASWAp), and the National Export Strategy. The crop is grown by about 300,000 small-holder farmers on average covering over 250,000 hectares. Cotton has remained one of the largest agricultural export ranking forth as a foreign exchange earner after tobacco, sugar and tea though its contribution to Gross Domestic Product (GDP) has been about one percent.

Unfortunately, cotton has been a troubled agricultural product for the country, and a number of issues continue to impede its value in the market place. Prior to market liberalization in the 1980s, Cotton enjoyed the same level of protection offered to cash crops such as tea and tobacco under the Special Crops Act of 1972. Seed cotton was mainly bought by the Agriculture Development and Marketing Corporation (ADMARC) and processed through a government-owned ginnery. The post liberalization period, especially after the multiparty dispensation, witnessed an influx of private sector players in Cotton trade, and at times private players formed cartels which had an effect on farm gate prices.

II. Stakeholders/Players in Malawi's Cotton Sector

Important Cotton stakeholders along the Cotton value chain include farmers, ginners, seed crushers, input suppliers, government, non-governmental organisations, fabric manufacturers and research institutions. The declining trends in production levels over the last two decades has prompted government and the private sector players to intervene in the sector, through supporting the provision of Cotton inputs among others to smallholder farmers.

Cotton marketing is dominated by few ginning companies that have adopted a vertical integration approach by assuming marketing functions that would ordinarily be performed by other value chain players such as producers. There has been an attempt to address some of the existing structural and technical weaknesses of the domestic Cotton value chain. The number of ginning companies has declined significantly from twelve in 2014 to four in 2018 mainly due to the low volume of Cotton produced. Increasing production of Cotton will open up opportunities for more ginners and Cotton processors and manufacturers to enter the market, which will in turn create jobs.

Currently, there are only two companies involved in the manufacturing of textiles (fabrics), namely; Mapeto-David Whitehead and Sons (Malawi) Limited (MDWS) and Knitwear Industries Limited, while the Malawi Council for the Handicapped (MACOHA) does weaving at its Bangwe factory. Though still operational, these companies have drastically scaled down their operations due to various challenges, such as outdated and inefficient machinery, unreliable energy supply, high water tariffs, inadequate raw materials and other inputs, as well as unfavourable competition from smuggled products. For instance, the spinning section under the MDWS is not fully utilized and currently prints imported fabrics. Knitwear Industries Limited on the other hand, imports base fabric for its garment manufacturing as it appears to be cheaper than knitting its own fabrics.

III. Cotton Production Value Chain in Malawi

The main growing areas are in four agro-ecological zones suitable for cotton production, namely low altitude (Shire Valley), lakeshore, medium altitude and high altitude. Shire valley has predominantly accounted for over 50 percent of total national seed cotton production but its share has dwindled to below 50 percent with Machinga appearing to rival its production in recent years.

Cotton is grown principally for lint production, with oil and cake as valuable by-products. The global cotton lint market is mainly driven by the dynamics in the major consuming and producing countries. Currently, the MDWS is the only spinning company in Malawi and utilizes less than 5% of the lint produced domestically. This is due to insufficient lint processing ability in Malawi, resulting from use of obsolete machinery. Additionally, domestic lint sales are pegged at export parity prices which is considered too expensive for Malawian local processors. Instead of local textile producers such as MDWS using locally produced lint, almost all the lint is exported thereby exporting jobs. At the same time, MDWS is forced to import yarn from China for production of its textile and fabrics. About 95% of total fabric and textile products that MDWS produces are consumed domestically, while some of the textiles are also exported.

Seed crushing is another important activity in the Cotton value chain. In 2016, seed crushers generated about US\$ 652, 915.98 worth of edible oil from an estimated 5,555 MT of Cotton seed that was sourced domestically. Considering that the country produced less than 15,000 MT of seed Cotton in that year, Cotton seed crushers operated below optimal capacity due to scarcity of Cotton seed. By increasing Cotton production to desirable levels of over 50,000 MT for instance, the country will be able to reasonably meet the demand for domestic Cotton seed crushers which will in turn reduce dependence on importation of crude oil and save foreign exchange.

IV. Investments and Support to the Cotton Sector

Investments by both government and private sector players towards input provision over the past decades has demonstrated the potentiality of capital injection towards Cotton production. The following input supply models were implemented previously towards input supply to smallholder cotton farmers:

- **The ADMARC Model (Mid 1990s- 2000s):** The model had some rudimentary elements of ‘contract farming’ in the sense that ADMARC was the *defacto* supplier of Cotton inputs and buyer of the crop from the same farmers. The arrangement ensured that farmers would get inputs on time.
- **The Cotton Development Assistance Model (2003-2005):** The model was driven by private sector players, especially ginners, who provided inputs to farmers at concessionary prices that ranged between 5-15 % of prevailing commercial prices. Production increased by about 12 % from 53, 000 MT to about 60,000 MT during the initial years.
- **The Cotton Production Up-scaling Model (2011-2014):** Under this model, government pumped in MK 1.6 billion (about US\$ 10 million at 2011 constant prices) to support Cotton farmers and 100, 000 MT of Cotton was realized during the initial year of implementation.
- **The Contract Farming Model (2013-2015):** The contract model was implemented by ginners in an attempt to resuscitate production and Cotton ginners invested MK 2 billion. Production increased on average by 7,000 MT during the implementation period. However, the initiative was discontinued due to high default rate by farmers which amounted to MK 1.3 billion.

V. Conclusion and Recommendations

It can never be more emphasized that cotton continues to be a strategic product for Malawi and continues to play a vital role in the economy including export revenue generation, employment and food security contribution among others. The crop ranks forth as a foreign exchange earner after tobacco, tea and sugar. Though the ranking has been maintained over the past 10 years, cotton production levels have been declining steadily. Despite the crop's potential for pro-poor growth, the future of the cotton sector faces numerous market failure questions.

The overall global demand of cotton is expected to increase in the upcoming years. But however, yields per hectare continue to be the limiting factor for Malawi which continue to hover around 300kg/ha compared to an average of 700kg/ha on the global average and as high as 2000kg/ha for other advanced economies. The Government has continued to support the sector and recently through the cotton irrigation project, under the Green Belt Authority (GBA), for the first-time irrigated cotton is being harvested in the country. In this regard, there is need to continue embarking on further efforts to improve the productivity of the cotton farmers in order to benefit from the increased global demand from cotton.

In addition, as the country continues promoting increased production of cotton, it will be vital for the relevant national stakeholders of cotton to work hand in hand with vital institutions like the International Cotton Advisory Committee (ICAC) and other development partners in order to be guided on marketing and production at the global scale. It is worth noting that development partners including China, India, Brazil, USA, Japan, Switzerland, Germany and the EU continue to have development packages to support the sector. It will also be important for the Government to pursue these development partners on how Malawi can benefit from such assistance in the sector.