



Gatsby
Africa

Where can sustainable investment in cotton farming come from?





In agricultural sectors transformation invariably requires greater levels of investment in production which requires **consistent access to markets with fair prices as well as access to finance.**

Processing operations are a crucial driver of consistent market access and often provide a viable source of finance for investment in production.

Enabling this finance to flow requires a range of conditions to be in place.

Sustainable Financing for Tanzanian Cotton Farmers

In 2019, Tanzanian cotton farmers typically invested USD 8 per acre in production, in the form of the Minimum Input Package, generally accompanied by household labour.

This compares to an average investment of USD 70 per acre in some of the most productive cotton producing countries in Africa.

Raising investment to international levels would require an additional USD 31mn of funding per year.

Potential sources of sustainable finance include:



Farmers' own savings

Low farmer incomes and competing expenditures limit available savings, even for basic inputs: Low investment-low return trap.



Financial institutions

Commercial banks lend to processors for raw material purchases, but rarely lend to farmers due to risks, Know Your Customer (KYC) challenges and high transactions costs.



Taxation

Tax on cotton production (e.g. levy for inputs procurement, district cotton cess) provides limited scope for increased investment.



Processors

Ginners have greater access to finance than farmers and the incentive to invest in securing supply. This is, however, influenced by the level of confidence in the return on investment.

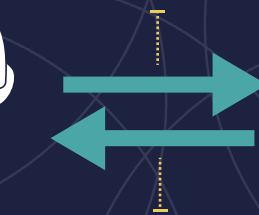
**Government
creating the
conditions for
processors to
invest**

**The Competitive
concession contract
farming model**
*(most successful in
Tanzanian cotton).*



Ginners

Ginners provide inputs on credit & services such as training to farmers

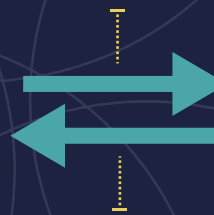


Farmers commit to supplying one ginner and to repaying input loans



**Farmers
/AMCOS**

Farmers / AMCOS engage in decision-making process for concessions



Districts represent farmers' interests in negotiations with ginners

Districts oversee concessions process for ginners, monitoring loan repayment and farmer registration in return for ginner investment in farming and cess payments.



**Tanzanian
Cotton Board**

Provides data to Districts and advises on concession process. Oversees cotton marketing including quality control and sets a minimum price for seed cotton.



Districts

Ginners compete to gain access to cotton by committing to finance investments in farmers and make cess payments to Districts in return for sole buying rights.

