



# Striving to transform Tanzania's cotton sector

## Lessons from Gatsby's successes and failures

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### Key messages

- Since 2007, the failures and successes of Gatsby's programme in Tanzania's cotton sector have shown the importance of (1) combining technical diagnosis with political insight and capability; (2) supporting indigenous problem-solving coalitions; and (3) adaptive programme management.
- Donors looking to maximise their impact should consider emulating the Gatsby funding philosophy – aiming for the big prizes and providing patient and flexible support.
- Gatsby should use the lessons from cotton to strengthen the political economy dimensions of the framework it has developed to identify and track the key conditions contributing to progress within a sector.

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## Why this topic

Written as a contribution to the learning partnership established between Gatsby Africa and ODI, this note reports the results of a larger study of the lessons of Gatsby's engagement with the cotton sector in Tanzania (Booth, 2019). The topic is important for two reasons.

### **An underperforming sector with huge potential for poverty reduction**

Cotton growing and ginning is one of Tanzania's top three agricultural export industries. It is a major source of livelihood for up to half a million smallholder farmers, mostly in the large region of enduring rural poverty lying to the south and east of Lake Victoria, known in Tanzania as the Lake Zone. The sector has been underperforming for 50 years, with productivity stagnating and international prices and therefore earnings falling in line with productivity gains in competitor countries.

The Cotton Sector Development Programme (CSDP) is an important effort to turn this situation around by addressing the principal causes of low productivity in cotton growing and ginning (production of cotton lint) in the Lake Zone. It was initiated by Gatsby Africa, with the Government of Tanzania, in 2007 and has received support from the UK Department for International Development (DFID) from 2011 to 2018.

### **Sector transformation against the odds**

As well as intrinsic importance, the CSDP experience has value as a case study in the difficult business of supporting economic transformation in low-income developing countries. It is a case of striving for a large prize, in terms of immediate poverty reduction and wider economic benefits, 'against the odds' – that is, in spite of a typically challenging combination of institutional and political constraints. It speaks to the small but growing literature on the factors that enable and hinder the effectiveness of externally funded programmes with comparable ambitions (e.g. Booth, 2016).

## What has been learned

The case study is based principally on programme documents and interviews with cotton sector stakeholders and staff of the Tanzania Gatsby Trust (TGT) and the CSDP, past and present. It draws heavily on unpublished work by Colin Poulton, co-author of the best comparative work on African cotton sectors (e.g. Tschirley et al., 2010). Its main findings concern what Gatsby Africa has learned, and can usefully share with various wider communities of practice, about the importance and value of three things:

- Combining technical diagnosis with political insight and capability.
- Supporting indigenous problem-solving coalitions.
- Adaptive programme management.

The CSDP experience in these three areas has significant implications for funders and practitioners in the economic development, market systems, applied political economy and adaptive management fields; and for Gatsby's own approach to sector transformation.

Before elaborating, we must understand some essential features of the cotton challenge in Tanzania and identify the key events that have shaped the CSDP's engagement with the sector up to mid-2018.

### **A challenging economic sector**

Compared with other liberalised cotton marketing arrangements in Africa, Tanzania's system is highly competitive. This is good for typical farm-gate prices but bad for productivity, because it removes incentives for investment in farmers. Farmers themselves do not have the cash flow, credit sources or risk appetite to secure the inputs, training and knowledge they need to raise yields and quality. The competitive system also creates difficulties for sector coordination and the provision of key collective goods, including knowledge of improved seeds, pesticides and cultivation practices; reliable input supply; and control of input and output quality. In addition, the heterogeneity of the ginning business has

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political dimensions that make these difficulties hard to tackle.

To summarise what is now understood about the roots of the problems in the sector (not all of which was apparent in 2007):

- Stagnating productivity stems from low-quality and unreliable physical and knowledge inputs and poor control of output quality.
- The ability to do better in these respects depends on the level of coordination and public or collective action that is feasible for sector actors.
- Comparative studies suggest these institutional problems can be solved where either the state is a dominant and well-motivated actor or the ginning industry is concentrated, so that private collective action involving some form of contract farming (CF) meets the main needs.
- Following the withdrawal of the state, the Tanzanian industry is not at all concentrated: a large number of ginning operations of different kinds compete for access to the crop.
- Furthermore:
  - The smaller ginning operations have a season-by-season ‘trader’ business model based on the global cotton price. This gives them little interest in investing for the long term in farmer productivity and no interest in arrangements, such as CF, that require long-term investment in the sector and restrict their freedom to buy.
  - Some of these are politically connected, while many of the larger firms lack such connections (for example, because they are foreign-owned or owned by members of the Tanzanian Asian/Arab community).

## Key events

The events that have done most to define and shape the CSDP’s engagement with the cotton sector are:

- An initial phase of programme design and roll-out (2007–2010). This included support to the regulatory authority, the Tanzania Cotton Board (TCB), as well as to seed research at the two government cotton research institutes; piloting of conservation agriculture by

subcontractors Golder Associates; limited piloting of CF by ginners in Mara region; and training of cotton farmer business groups (implemented by TechnoServe).

- A 2010 TCB decision, endorsed by a stakeholder meeting, to build on the success of the pilots by rolling out CF across the Lake Zone over a two-year period.
- A political intervention in 2012 by opponents of CF – linked to small-scale, relatively informal ginning operations – that stalled the process for at least two seasons,
- ... leading the CSDP to consolidate changes in its way of working and to explore alternative avenues to livelihood improvement in cotton-growing areas.
- Increasingly effective and politically smart coalition building by the CSDP and its partners, beginning in 2013 and resulting in the restoration of government support to CF.
- Introduction of a strengthened CF model based on ‘tripartite’ support from growers, ginners and district governments from the 2016/17 growing season.
- In late 2017, a fresh challenge to CF, which was being applied to 60% of the expected 2017/18 season’s crop, arising from a government policy to revive cooperative marketing across all cash crop sectors.

## Combining technical diagnosis with political insight and capability

The CSDP and Gatsby Africa have learned a great deal, especially during and after the 2012 setback, about the skill-sets and capabilities needed to effectively tackle the kind of sector transformation challenge they have taken on. As a whole, the experience has underlined the importance of matching an excellent understanding of the technicalities and institutional economics of cotton production with the ability to anticipate and combat disruptive political challenges.

### Early weaknesses

The diagnostic study that informed the initial design was weak on political stakeholder analysis. More important perhaps, the initial delivery modality, which relied heavily on

subcontracting, meant that the programme was less intimately involved with national and local political conditions than it was later. Moreover, the programme itself was not making the final decisions (it was the TCB that pushed for the national roll-out of CF that led to the surge in opposition in 2012).

One of the political factors underestimated in these circumstances was President Kikwete's limited ability to override the interests of political constituencies that helped him win the presidency. Another was the involvement of MPs, district councillors and other politicians in forms of cotton trading and small-scale ginning that were likely to lose out from CF. While not all of the consequences could have been predicted, some of them should have been, given what is generally known about the politics of policy in Tanzania.

### Later gains

In contrast, what the programme did from 2013, including upgrading its in-house capabilities and partnering with more effective political operators of different kinds, was exemplary. The CSDP's technical staff continues to take a back seat. But for direct engagement work, they have the

support of strong partners, including experienced retiree Tanzanians who have both the background and the cultural skills to influence effectively. The approach is now a model of what interventions of this sort should seek to do from the outset.

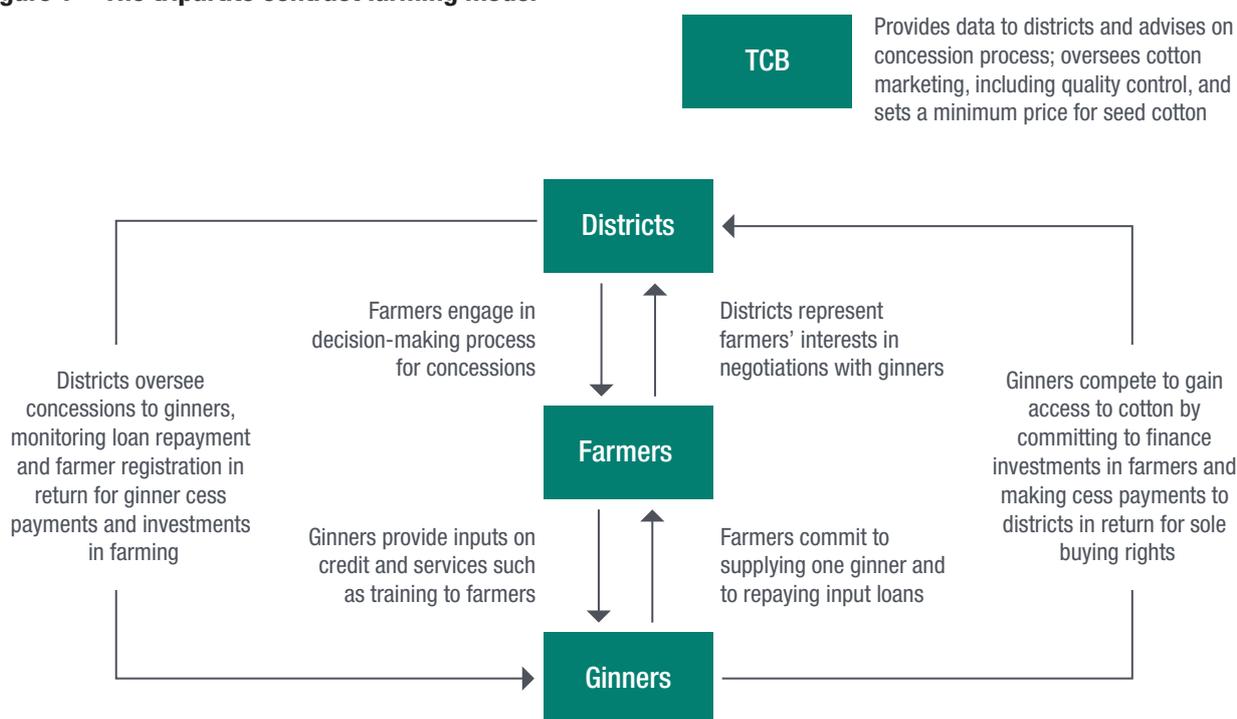
## Supporting indigenous problem-solving coalitions

A second strand of learning by the CSDP is related but distinct. This concerns the value of channelling support to indigenous stakeholders who are self-motivated to address key problems within the scope of the programme.

### The Geita pioneers

On a limited scale, this happened in Geita region in the 2014/15 growing season, when a coalition of ginners, local growers and regional and district authorities put into effect a relatively coherent and well-enforced CF approach across a significant area. This initiative stemmed from programme efforts to convince key ginners in this area of the value of local procurement and surety of supply in reducing costs. It was facilitated

**Figure 1 The tripartite contract farming model**



Source: author's own

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by the programme and its recently acquired influencing partners.

Although subject to political attacks the following season, the Geita initiative pioneered the tripartite support coalition approach that was able to be more widely adopted from 2016/17. This model aligns relatively well the incentives of three parties (growers, ginners and district governments) and harnesses effectively their different capabilities. Figure 1 expresses the basic idea.

### **A tripartite support coalition**

The concession model of cotton procurement and input supply used in the last production season (2017/18) is still some way from an ideal application of the approach. Input procurement and distribution is still handled inconsistently year on year, with greater or lesser recourse to an historically dysfunctional collective industry fund. The competitive allocation of guaranteed buying concessions to ginners on the basis of their service offers to farmers (including extension advice and input loans) is an incomplete system. The policy environment is not sufficiently stable to give the larger ginners the confidence to make higher-cost/higher-productivity investments. In many areas, the TCB and districts have not been able to use their licensing powers to ease out ginners that do not want to invest in farming. Competitive buying of cotton continues, discouraging investments in inputs or services. Seeds and pesticides are still mainly provided centrally.

Politically, however, the approach is more robust and resilient than it was. Thanks in part to President Magufuli's instruction to regional and district commissioners that they should support economic development, CF has a dynamic that is now largely independent of the CSDP and TCB. This is a result that donor programmes seldom achieve in countries like Tanzania. The strength of the tripartite coalition on the ground in some districts and regions compensates to some extent for the fact that formal interest representation in the sector is poorly provided by the existing growers' and processors' associations, and by the governing Board of the TCB.

## **Adaptive programme management**

Despite the progress that has been made, the 2017 announcement on cooperative marketing underlines the ability of political interventions to set back the process of reform. The fact that the policy was introduced despite widespread expressions of concern shows how vulnerable a sector programme can be to political machinations. Like some, if not all, of the previous political shocks, this was both unpredicted and unpredictable, at least in the particular form it assumed. However, the CSDP is now better placed to manage the consequences of such events because – representing an important third strand of learning – it has acquired a capacity for adaptive management.

### **The meaning of adaptive working**

Adaptive management does not mean varying the long-term goal. The goal remains the achievement of a large and sustainable – economically and politically resilient – improvement in productivity and incomes across the Lake Zone. But, rather than investing everything in a single line of work, the programme has given itself space to discover how best to work towards the goal. Unlike its position in the early years, the programme is not locked into providing organisational support to the TCB but can find willing partners and drop unwilling ones in the light of operational experience. It has a range of organisational and financial instruments at its disposal, including where necessary directly investing in key activities. Most importantly, it has been patiently building up two potentially complementary and non-mutually exclusive lines of work that were suggested as the basis of a possible 'Plan B' in a 2013 strategic review.

### **Multiple strategic options**

One option is a more hands-on approach to the multiplication and distribution of improved seeds – estimated to have a very large impact on yields and ginning out-turns even in the absence of a deeper investment in farmers. The other is

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the formation of a network of agricultural input dealers, linked to commercial input suppliers, to address some of the shortcomings of the current arrangements for cotton and other crops in the Lake Zone.

Both of these workstreams are now open to being scaled up, providing at least some of the desired benefits in terms of productivity and livelihoods, should CF-based systems for the supply of inputs and advice be fatally damaged by the cooperative marketing policy.

The CSDP has invested most heavily in its 'Plan A', and continues to do so. It is working with the TCB to consider how cooperative marketing structures might be incorporated into the concession model without upsetting ginners' incentives to make deeper investments in farming in exchange for surety of supply. It is also tackling the enduring challenge that TCB's responsibility for the whole sector leads to constant firefighting on a range of issues, rather than concentrated efforts to facilitate the move to higher-investment systems. How to monitor progress towards impact under political uncertainty also continues to require attention.

Overall, however, an important lesson is that, when seeking change in complex systems, it is wise to pursue a number of major options, leaving room for learning and adaptation at the strategic level as well as about partnerships and tactics.

## Implications

These findings have important implications for the policies of funders of economic and private sector development programmes. There are also implications, of conceptual and other kinds, for the way Gatsby Africa approaches sector transformation.

### For funders

The CSDP may not yet have achieved its most ambitious objectives for Tanzania's cotton sector, but it has come closer to politically robust institutional change than many expected. If not by Plan A then by Plan B, a large impact on incomes and poverty remains likely.

This has happened only because the programme has both learned and made adjustments, not just correcting simple mistakes, but also acquiring the kind of knowledge of feasible change that comes only with operational experience – from direct and continuous engagement with stakeholders in an implementation process. It has been able to do that only because it has been assured of continuous and flexible funding over a period that considerably exceeds normal donor funding timescales.

Taking into account that changes of the needed kind are unlikely to occur spontaneously in countries like Tanzania, agencies like DFID that take their economic transformation mandate seriously should consider:

- Emulating as closely as possible the Gatsby funding philosophy.
- Aiming, as Gatsby does, for the big prizes but recognising these are likely to be won only on the basis of patient and flexible support – permitting a strong element of purposeful learning by doing.

### For Gatsby

Gatsby Africa should obviously draw strongly on the CSDP experience in its other sector work in East Africa. What CSDP learned the hard way should be applied from the outset in any comparable intervention.

The CSDP experience also has implications for the way Gatsby conceptualises its approach to sector work and, in particular, the Sector Conditions framework it has developed to track the underlying health of a sector and its progress towards transformation. This framework could usefully give greater prominence to some specific dimensions of the political economy of sector transformation that the CSDP has revealed. It could also focus on more informal sources of political influence, such as those that have proven relevant to the cotton concessions model in Tanzania, including factors such as local coalitions and other non-standard forms of interest representation.

Strengthened in these ways, the framework will have much to contribute – within Gatsby and beyond – to thinking on politically smart support to economic transformation.

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