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DEPARTMENT OF BUSINESS MANAGEMENT

**THE IMPACT OF GOVERNMENT SUBSIDY ON THE PERFORMANCE OF
COMPANIES IN THE COTTON INDUSTRY IN ZIMBABWE**

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DEDICATION

I dedicate this study to my family especially my wife Mrs Yeukai Taruba. My daughter Thelma Taruba, my son Theophilus Taruba, I would not have gone this far if it was not for their love and support.

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I want to extend my sincere appreciation to my supervisor, for his tireless effort and guidance throughout the study. I also want to thank my family for their support and encouragement which went a long way to see this document done. Special thank you to respondents for the time they devoted to this study.

ABSTRACT

The study seeks to establish the impact of government subsidy on the performance of companies in the cotton industry in Zimbabwe. The Zimbabwean cotton industry had collapsed to production levels of 9 500 tonnes in year 2014 and the government of Zimbabwe intervened by subsidising cotton farmers through free Presidential inputs support scheme. The costs associated with financing cotton farming, processing it into cotton seeds and lint has proven to be very high and unsustainable to cotton companies in Zimbabwe as the prices fetched by cotton in world markets has decreased over the years and companies post losses each year despite the presence of a subsidy in the industry. The government argued that cotton production is important in reducing poverty as well being as a foreign currency earner for the country. While the government reasons are valid, the companies used as an instrument should also see their performance improve as a result of a well crafted subsidy policy. 23 participants in three cotton companies were selected from a population of 25 managers using Yamane's formula (1967). The research data was gathered through questionnaires and interviews. A descriptive analysis approach including correlations was used by the researcher. The study revealed that the model boosted national cotton production to as high as 136 000tonnes in 2018, but the performance of companies did not respond in the same quantum. Further, the study shows that subsidising the costs associated with cotton farming was not enough, since cotton companies adopt a producer price set by government of Zimbabwe and they use their resources to pay farmers. The study recommends that the government should allow the market forces to determine producer price of cotton and should consider subsidising the producer price. The study recommends that cotton companies need to invest in reserving funds for free inputs scheme post government support, because the government subsidy in place may not be relied upon as it hinges on political will. The study shows that the free inputs support is one of the pillar that is sustaining the cotton industry at the moment.

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LIST OF ACRONYMS

Cottco.....	The Cotton Company of Zimbabwe
AMA.....	Agricultural Marketing Authority
FAO.....	Food and Agriculture Organization of the United Nations

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CHAPTER 1

INTRODUCTION

1.0 Introduction

This study was carried out with the intention of establishing the impact of Government subsidy on the performance of companies in the cotton industry in Zimbabwe. The performance of companies in the cotton sector has been, for the past years, adversely affected by the trends in the industry, that is, the high costs of cotton inputs, reduction in cotton production, low international lint prices, failure of farmers to repay their debts among other challenges. This chapter, therefore, provide an analysis of the background of the study, statement of the problem, the main study question, and objectives of the research, sub research questions developed from the study objectives as well as limitations and delimitations of the study.

1.1 Background of the Study

A study was carried out in Japan, after companies in the agricultural sector realised a reduction in production by farmers, concluded that an increase in output is possible if the government subsidises production costs as opposed to raising demand (Kwan, 2010). The study also recommended the Government to act as the buyer and purchase all the output from firms to cushion the companies. The study was carried out using the market structure method trying to establish whether an individual company or a Government entity can influence the market.

Agriculture input support programmes play an important role in overcoming smallholder farmers production constraints and hence increasing the probability of households to achieve food security. According to Dorward (2009), many countries including Kenya, Tanzania, Zimbabwe and Zambia pursued large scale “universal” subsidy programmes from the 1960’s up through the 1980’s. These programmes were characterized by a government controlled input marketing system, in which agricultural inputs were supplied to farmers at restricted and subsidized prices. The experiences beneath these programmes were mixed, whereby the programmes succeeded in raising input usage by farmers and increasing agriculture production. Nevertheless these inputs were very expensive, most subsidies benefited relatively well connected farmers, and the advance in agricultural production were dependent on continued government support.

By the end of the last century most input markets were liberalized and this led to the emerging of new input programmes in many African countries. According to Banful (2010), the Malawian government pioneered the return to large scale subsidies in 1998 when it began distributing free fertilizer to farmers. Countries like Nigeria, Zambia, Tanzania, Kenya, and Ghana also introduced the free fertilizer programme. According to Yawson (2010), in 2006, Nigeria hosted the African fertilizer Summit under the patronage of the African Union (AU), the New Partnership for African Development (NEPAD). One of the most crucial decisions made at the summit was the Abuja declaration on fertilizer for African green revolution, in which African Union member states set out to increase fertilizer intensity

Companies in the Zimbabwean cotton sector have been struggling for more than ten years. Cotton production has been shrinking and performance of companies in the sector going down, companies are making huge losses. Table 1.1 shows the trends in the cotton sector in Zimbabwe

Table 1.1 Level of Government subsidy, Cotton purchased and profits

	2014	2015	2016	2017	2018	2019
Year						
a)National Cotton Production	9500	15000	77526	130142	136 000	74126
b)Level of subsidy	Nil	30 Million	42 Million	60 Million	80Million	80 Million
Profit/(Loss) by Cotton company						
c)Cottco	7,366,691	(9,497,067)	(2,929,667)	(6,132,332)	(3,120.12)	420362
d)Alliance	2,100,236	(4,236,452)	(6,125,142)	(6,142,362)	125,142	(125,362)
e) Southern Cotton	Nil	Nil	(4125,000)	(362,125)	(14,521)	63,214

Source: a) AMA (2019: page 10), Ministry of Finance (2014-2019), Cottco(2014-2019), Alliance (2014-2019) Southern Cotton, 2016-2019)

All these myriad of challenges are affecting companies in the sector, despite the fact that government is heavily subsidising the supply side by giving free Cotton inputs to farmers. The inputs are distributed to farmers through the Cotton Company of Zimbabwe (Cottco), and then all companies will buy the cotton from farmers who grow the crop under this free presidential inputs scheme, AMA, 2014 -2019).

Following other studies done in Ghana, Malawi, Tanzania, Lesotho and Zambia on the benefit of subsidies on farmer profitability, the studies showed that farmers are profitable when a subsidy is introduced since the cost of production is reduced, Kwan, 2010.

A well crafted subsidy policy should result in a boost of cotton production and profitability on the part of cotton merchants, Eaton, 2013.

The Zimbabwean situation remains a mystery since it was not studied. Therefore, in order to fill this gap this research was conducted with the objective of establishing the impact of Government subsidy on the performance of companies in the cotton sector in Zimbabwe.

1.3 Statement of the Problem

The cotton sector is being provided with agricultural inputs under the Presidential free inputs scheme from year 2015 to 2019. These inputs are being distributed to farmers around the country through structures of the Cotton Company of Zimbabwe. In return all companies in the cotton sector buy the cotton at the prices set by government. During all these years the companies in the cotton sector are still struggling to finance their operations and companies are making losses. It is against this background that the researcher has carried out this study to establish the impact of government subsidy on the performance of companies in the cotton sector and why companies in the sector continue to incur losses in the presents of a government subsidy, and proffer ways of improving performance in the sector under the current business model.

1.4 Objectives of the study

The aim of this study is to establish the impact of Government subsidy on the performance of companies in the cotton sector in Zimbabwe. Other objectives include:

- To determine whether a Government subsidy will improve cotton sector performance in Zimbabwe.

- To establish whether changes in production levels affect cotton companies' performance
- To evaluate other factors that contribute to constrained sector performance apart from increase in cost of production

1.5 Research Questions

The study sought to answer the following questions,

- 1) To what extent does a government subsidy improve performance of companies in the cotton sector?
- 2) To what extent does a government supply side subsidy result in a reduction of a sector cost of production?
- 3) How can companies in the cotton sector in Zimbabwe improve their performance when a sector is given a subsidy?
- 4) Are there other factors that contribute to constrained cotton sector performance?

1.6 Significance of the study

The study sought to assist Government in its formulation of subsidy policies that will help boost production in the cotton sector and improve performance of companies in the sector.

Findings of this study will be presented to the Government, through the ministry of Agriculture and rural resettlement, so that modifications can be made to the subsidy policy so that it benefits both farmers and companies in the cotton sector. The results of the study will also assist Government so that they may know whether the subsidy met the intended outcome.

The results of this study were shared with representatives of companies in the cotton sector so that they may find ways of enhancing performance of the whole cotton sector by lobbying government to implement policies that benefit all stake holders in the cotton industry.

1.7 Assumptions

The following assumptions were made in this study

- Information that will be requested from the individual company is confidential, the researcher assume that some of the information relating to individual company

production that companies do not release will be collected from the regulatory body Agricultural Marketing authority.

- Personnel preparing financial statements to be used in this study are qualified, and use GAAP and International Financial Reporting Standards to prepare their financial statements.

1.8 Limitations of the study

There were some limitations that the researcher encountered during this study. The study was carried out during the busy peak period of seed cotton buying hence companies were responding late to questionnaires as they were busy with their operations, the researcher had to travel several times following up on questionnaires. The executives for the respective companies were always busy, the researcher had to book several appointments to conduct interviews with executives.

1.9 Delimitations of the study

The research study was carried out covering three companies in the cotton sector and the researcher covered main cotton growing areas in Zimbabwe and the areas are Gokwe, Muzarabanini, Sanyati and Chiredzi. This research was carried out by means of analysing financial statements, Interviews and administration of Questionnaires twenty three participants drawn from the three companies selected from the sector based on their participation in the buying of cotton in Zimbabwe.

1.10 Definition of key terms

Seed Cotton –Raw cotton not yet processed to produce lint and ginned seed

1.11 Chapter Summary

The chapter examined the challenges being faced in the cotton sector though the government is providing a subsidy, background of the study, statement of the problem, main research questions, significance of the study, limitations and delimitation of the study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

In this chapter the researcher review literature related to the government subsidies around the world and its effect of production and performance of companies in the sector. This will be done by reviewing theoretical and empirical literature that relate to the area under study so have an understanding of how those studying relate to each other and to the current study.

2.1 Theoretical literature review

2.1.1 Theory of performance

The research was guided by Don Elger's theory of performance which state that desired results can only be achieved through performance. This performer can be an individual or a group that are engaging in a collaborative effort. According to the current study the parties to the subsidy schemes are the government of Zimbabwe, cotton companies and farmers. In order to achieve results under this theory, government of Zimbabwe should engage all the three stakeholders mentioned so that they have collaborative effort towards building and improving industry performance. The moment government is dictating the pace and companies are just following government pronouncements there is no collaborative efforts, farmers and cotton companies may resist resulting in low performance. On the other hand farmers are just receiving the subsidy inputs from Cottco and the idea of developing the industry was not well communicated to farmers.

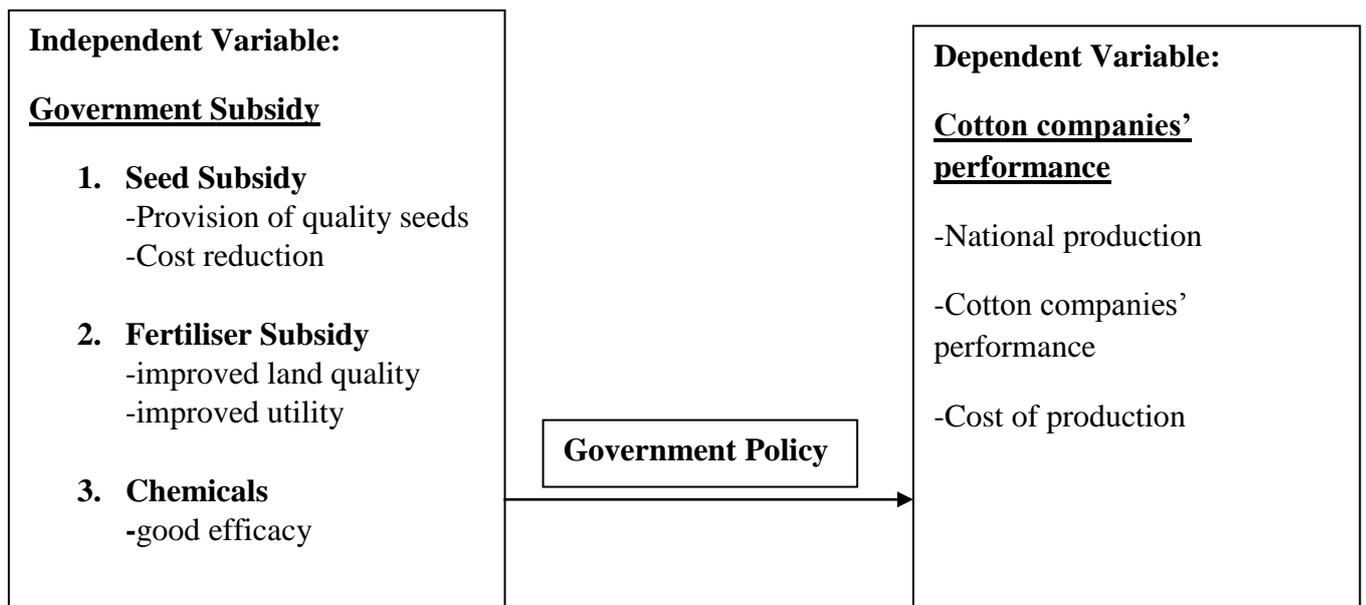
The theory also is also anchored on three axioms which are performer's mind set, immersion in an enriching environment, engaging in reflective practice. According to this theory, all players involved in the subsidy programme should have a right mindset in this case the mind set cannot be forced upon the stakeholders. Companies have their standard operating procedures which they follow and the policy set by government can only be incorporated into the existing policies, in some cases the needs are at a variance

Don Elger further states that performance at a higher level will produce results that exceed stakeholder expectations. This postulate assumes that results are improved only by higher level performance, but there are other factors that contribute to poor results like climatic conditions. Don Elger further state that when production goes up, the cost of producing that product will fall down and profitability increase.

2.2 Conceptual Framework

According to Kthari (2004), conceptual framework is a chart that explains interlink of what is to be studied at a concept state. The study was mapped around the relationship expected between the independent variable, government subsidy through the presidential input scheme and the dependent variable, cotton companies' performance in terms of profitability. This conceptual framework for this study is presented in figure 2.1

Figure 2.1: Conceptual relationship between Independent and Dependent variable



2.3 Empirical Literature Review

2.3.1 Motive behind subsidy policies

Thabelo, (2016) carried out a study in Lesotho on the impact of Inputs subsidy policy in the agricultural sector and the study revealed that before getting inputs subsidy, farmers were producing low yields and this affected farmer's standard of living and food security in Lesotho. As a response to this predicament the government of Lesotho endorsed the Universal Inputs subsidy policy. After the introduction of subsidy, farmers started to produce

more than enough crops and they sold excess production to government. A further analysis of the study revealed that whilst Government has a clear good subsidy policy, some farmers do not use inputs received from Government for productive purposes in order to tarnish the government. They end up selling inputs to farmers who grow other crops like vegetables instead of cotton for which inputs were given.

A study by FAO (2016) found out that input support schemes play an important role in promoting household and national food security. The input support programme is initiatives which support millennium development goals point number one of the millennium development goals of eradicating of poverty and hunger, this is done by controlling productive resources. Though the input support programme was aimed at increasing production, it is also aimed at promoting food security in household. FAO in their research had a bias towards studying those subsidies that ensure food security to the people and the nation to improve the live hoods of people.

Politicians give farming inputs to farmers and expect a vote in return, Jongare (2015). If farmers do not vote for politicians who facilitated inputs support this means that inputs will not be availed in the future. So inputs schemes are used by politicians to gain political mileage. This causes politicians not to give enough inputs to farmers but just a lip service so that farmers remain poor and politicians keep exploiting them.

2.3.2 Arguments for government subsidy

The study by Thapelo (2016) is criticised by Chiremba (2016) who established that government inputs support programs in Zimbabwe are set up in an improtu manner to address an unforeseen need that arise especially towards national election period and the motive of the government is to win votes, The input support program has no defined procedure but is more concerned about dishing inputs to farmers so that they like the Government of the day and vote for them. The subsidy scheme lack proper records and some farmers are given fuel and farming implements but end up selling these in order to get money.

A study by UNDP, (2015) suggests that farmers tend to consume inputs they are given to plant in their fields, some farmers are given untreated bean seed and they end up cooking the beans instead of planting. The NGOs come with other projects like the pig and goat programmes in the Gokwe areas but farmers end up killing the goats and eating them without even breeding them. This have an effect of reversing the gain of the subsidy programmes since there is no production that will be taking place. Some farmers end up selling inputs like

cotton and maize seed. This was notable in the area of Manoti and Nemangwe in Gokwe where farmers were provided with various seed types and they ended up selling the seeds.

Govere (2009) pointed out that some inputs are issued to farmers but most of it is not planted due to lack of farming implements. Farmers end up piling up the inputs and most of it is damaged while in the custody of farmers or they are tempted to sell it. In the end the subsidy policy and initiative will not yield any benefit to farmers and the Government. Some non-deserving farmers subscribed to the subsidy schemes and thus crowding out those deserving farmers who had the capacity and ability to plant and maintain the crops

2.2.3 Arguments for government subsidy

FAO (2009) outlines the importance of running the input support programmes in promoting food security in Africa. Most farmers in Africa do not produce enough crops due to unavailability of farming inputs and in some cases inputs are available but farmers cannot afford to buy them, farmer representatives have applauded the role of input support programme in promoting sustainable food security by providing inputs that are adaptive and conducive to the change in weather though most African countries have not yet fully started using the new breeds of seed that achieve high yields per hectare.

2.3.4 Implementation of subsidy policy

Govere, (2009) suggest that Government must not participate in subsidy distribution schemes due to their constrained budget but should rather leave it to private institutions. Government must only participate if their objective is to try and bridge the gap left by private players who cannot support the subsidy schemes. The study support the argument that Government must not run subsidy policy by showing how the government ran the schemes during the land reform programme where farmers were given various farm implements and fuel but did not put these to good use citing that these were Government support schemes that need not anyone to care about.

The study further argue that instead of government, NGO must run subsidy policies since they have enough budgets and are familiar with logistical issues in Zimbabwe. Farmers are compelled to put inputs to good use since they know that most of inputs offered through donor scheme will be repaid so farmers strive to put the inputs to good use.

Likulunga (2016) contends that companies in a sector must not fold their hand and leave it to Government to participate in Subsidy policies but they must lobby to be involved so that they participate in the distribution network so that they know who the beneficiaries of inputs

scheme subsidy are so that it becomes easy to monitor them and offer agronomic support. This means that companies who will benefit from farmers who are given a subsidy should set up some funding for monitoring the distribution and farming of crops given under the subsidy programmes.

Abdul (2016) suggests that if Government choose to participate in farming subsidy schemes, they should also put in place legislation that ring fence the produce from farmers such that the government become the sole buyer of the farming produce. This will protect farmers against exploitation by companies. This now depends whether the government have the capacity to buy the farming produce or the subsidy is meant to alleviate people against hunger and poverty.

Government subsidies are usually not targeted to different needs for different farmers, they are universal subsidies that are issued to farmers without classifying them according to level of prosperity. This is due to the government policy aimed at eliminating discrimination among farmers, if subsidies are aimed at increasing crop production, every farmer must be able to get the subsidy. In some isolated cases, subsidies are donor funded they can come in different forms. The administration of donor subsidies depends on donor's selection criteria requirements. During the year 2006/2007, inputs were funded by the Japanese government, input traders got inputs in retail shops at wholesale price and were being sold at a lower price determined by the MAFS. During year 2007/2008 season, input traders sourced inputs from their traditional suppliers and sold them at less 70% of the regular selling price and claim the difference of 30% difference from MAFS. This shows that subsidies come in different forms.

Some are total free inputs that are provided by donors, and given to farmers for free, In this case the Japanese donors were persuading farmers to buy inputs at a price which is 30% less and they end up paying only 70%, the difference of 30% is paid by the donor. Thos Approach is different from that of FAO and world vision as was pointed out in the study carried out by Thapelo,(2016)

2.3.5 Contribution of subsidy in improving the standard of living of rural population

The study of assessing contribution of input subsidy programme in improving rural incomes using various crop production was been done using various methods Berry, (2012). It is important to point out that the study of the impact of the free input support programmes that

were conducted in African continent had a number of data limitation problems and ended up limiting the value of the data. Apart from factors of sustainable rural livelihood framework, there are factors that affect the effective contribution of free input support programmes in increasing crop production in smallholder farmers Minde (2012). These factors include changes in climatic conditions, this is a major contributor to the decline in production. Land degradation has affected the fertility structure of soil and such that farmers will end up incurring soil testing costs so that they know the level of fertilizer they must use.

2.3.6 Influence of government subsidy on national production and cost of production and improvement in company performance

Commercial farmers who benefitted more inputs from government utilise the inputs in a productive manner and they normally achieve high yields which will improve national production, this in turn has the effect of reducing farmer cost of production and resultantly reducing companies cost of production Banful (2013). A reduction in farmer cost of production results in farmers getting a profit from their produce. The study also revealed that some leakages of inputs given under the subsidy policy. Some inputs are diverted into the neighbouring countries by those in the distribution channel. The good ideas of providing a subsidy in order to boost production is then defeated since inputs do not reach the intended recipients. Those engaged in the distribution channel do not feel the effects of diverting the inputs since they are government inputs.

In another study carried out by Adams, and Ayamga (2015), on the effects of fertiliser subsidy on production and yields revealed that the successes of the subsidy programme largely depend on farmer participation in the subsidy policy. The Government may decide to give a supply side subsidy on fertilisers and then farmers do not participate in the programme. There will be no benefit since there will be no farmer participation as a result there will be no production and companies will incur huge costs of buying a small crop there by raising their cost of doing business resulting in huge losses. There are costs that are not associated with level of production in the form of fixed costs these will always haunt companies even if farmers do not participate in subsidy policies set by government. The subsidy will be on paper only and there will be no benefit of availing the subsidy scheme.

This study also revealed that in order for subsidy to benefit farmers and the industry, there is need to issue out inputs through farmers based organisation since they are the ones that have a bonafide farmer register and know productive farmers and so protect farmers against exploitation by politicians.

The study further states that most subsidy policies benefits both farmers and companies in the sector because when farmer production rise, companies will have more output available to them for buying and this in turn reduce their cost of doing business resulting in improved company performance. Most farmers tend to put more efforts in the field due to the reduced cost of producing the final crops, farmers end up making huge profits and improve their standard of living.

Private players may cooperate with government in the distribution and monitoring of farming processes since policies in the subsidy schemes may not go as far as monitoring and educating farmers on the good farming practises Dietrich (2013). Government red tape may hinder innovation which promote the production of cotton at lower costs that will result in reduced cost of doing

Dietrich (2013). Further states that the more the fields visits to farmer homesteads by extension workers the more the farmers get inputs under the free subsidy program because inputs coupon were distributed by extension workers during their routine visits. Also the more the visits by agricultural extension workers the more the yields farmers which translate to increased national production get since extension workers provided farmers farming advice during these visits timely which then boosts production. The study also revealed that large the farm size the more the inputs a farmer get, so some farmers ended up inflating Hectarage so that they can access more inputs but then end up establishing small fields. Only a few big farmers declared correct Hactarage and were given inadequate inputs because the free inputs were channelled to farmers who were inflating their Hactarage. The study was carried out using the Probit and Tobit model.

In another study carried out in Malawi by Richard (2011) on the effects of inputs subsidy on production revealed that female headed family tend to receive fewer inputs under the subsidy scheme, while those households headed by mean ended up getting more inputs. This was because the distribution channels were over regulating the policy when with regards to female headed families. This discouraged participation of women in the subsidy scheme and left all the production to be done by men headed families this lead to reduction in national cotton production since some households are left out of the scheme.

Govere (2009) carried out a study on the benefits of inputs subsidy policy to the farmers and companies in Zimbabwe. The study revealed that all inputs distributed under the free inputs scheme in Zimbabwe do not directly benefit the industry since most inputs packages are

distributed late and are abused by politicians this reduced yields since inputs are not used by the intended recipients. The study recommended that inputs under the Government subsidy policy must be distributed through Farmer based organisation or through private sector so that there is accountability and transparency.

Whilst the Government make frantic efforts to avail inputs, crop production is dependent on other factors like the rainfall received in each year Obisesan (2013). The period reviewed by the researcher was a drought period and the subsidy did not yield the desired results of increasing yields and recovery of industry in Zimbabwe. Government has mandated GMB to distribute inputs on its behalf and this stretched GMB to the extent of neglecting its core business of buying and selling grains to the vulnerable communities.

There were instances of inputs dumping by GMB at inputs distribution points and farmers did not collect the inputs. In the end the inputs 'distributed' under the free inputs scheme were of no use since some were destroyed by rodents at inputs distribution centres. The study recommended that private firms be given the mandate to distribute inputs under model that will ensure inputs are recovered from farmer's situation with farmers and Government carry out its function of creating a conducive policy.

This is why in some instances cotton inputs were distributed through Cottco and maize inputs were distributed through GMB, this model is sustainable since in each case the company mandated to distribute the inputs have technical and ability to monitor since it will be their area of expertise. Government agencies do not know every facet of the business and private players have enough manpower and resources to monitor operations.

After realising low yields and general company closures in Lesotho, an attempt was made to revive the sector. Lesotho endorsed the inputs subsidy policy starting from 2001/2002 season (Thapelo 2016). Data collection was done randomly by picking one constituency from each agro ecological zone and stratified sampling method was used. Farm visits and open ended questionnaires were used to collect data. The study showed the fertiliser subsidy introduced by the government significantly improved yield and promoted farmers to use more fertiliser if after the stopping of the subsidy program high yield meant that farmer's unit cost of production came down and they ended up making a profit

In another study was carried out in Ghana to establish the effect of subsidising fertiliser under the Medium Term Agricultural Sector Investment programme on crop production, it

was concluded that giving fertilisers to farmers at subsidised prices or giving them for free altogether have a positive increase on farmer output which raise national production and reducing the cost of production and reduction in farmer cost of producing the crop Adams, Ayamga, (2015) .The study revealed that, politicians manipulated the inputs support programme and inputs were being distributed in partisan grounds, however tactual farmers did not benefit. As a result of this, the subsidy programme did not yield any positive results since fertilizer was distributed to activists and people who did not have land. The subsidy he study was carried out by administering open ended questionnaires using a multi stage sampling technique using the cluster sampling

Input support subsidies from government are either given directly to farmers or through some seed retailers. Rural households (RHH) could be divided or separated into two groups that is needy and less-needy based on their level of income, food security, welfare and whether they outsource labor in or out, crop buying or sales. Besides government input support program, there are some other input subsidy programs offered by some non-governmental organizations like World Food Programme, UNICEF and World Vision. RHH receiving social support grants are classified as the needy or vulnerable and in most cases perceived to be qualifying to receive subsidised inputs.

However, it may depend on the different scenarios and perception as Dorward et al., (2010) regard vulnerable household as those that are elderly headed, female-headed, and child-headed households. Input support beneficiaries may use inputs received under the subsidy subsidies accordingly and in a manner that increase their production while others choose to resale them

This model is criticised by Abdul,(2017) who argues that effective subsidies are run by either Government or donor by providing free inputs. When Government or a donor want to revive a sector at first they need to avail inputs for free so that beneficiaries of the scheme are motivated to participate and raise national production , when they start talking of paying for discounted inputs costs, to the generality of the population it ceases to be an effective subsidy scheme and it may not find takers. AN effective subsidy scheme is that which will directly benefit farmers by making them profitable, this will also translate to companies profitability The sector cost of production will go down once a subsidy is introduced to a sector , this will improve companies performance and profitability

The study also propose that for a subsidy to be effective the Government may provide funding to private players so that they may top the price at which they buy farming produce from farmers so as to increase farmer disposable income. This model assumes that there is a ready crop produced by farmers awaiting buyers to buy at a good price. The objective of this policy is to encourage farmers to keep producing and at the same time reducing the burden on private buyers who will pay less towards buying of agricultural produce there by reducing their costs and making them more profitable.

Chibwana, (2010) concurred with the concept of subsidizing the producer price side of the value chain citing that this will reduce the burden on farmer shoulder as opposed to only subsidizing the inputs supply side. This model assume that farmers are already in the production process and are producing enough to cater for private buyers in the market but buyers cannot afford to pay what farmers will be demanding. It ignores the concept that most subsidy schemes are set up to revive either a sector for to set up a grain reserve after a series of bad harvests.

Regarding geographic distribution, local authorities are entrusted with disseminating information about subsidies by holding public gatherings. Local authorities are to verify with Extension Officers the size of fields to be committed by farmers. They have to arrange and supervise the fill up of appropriate documents for farmers. Extension Officers together with local authorities are to supervise the delivery of mechanical operations and inputs. They also have to authenticate appropriate documentation that verifies delivery of supplies.

Jongare, (2015) brings out a fact that farm size determined the quantity of subsidised fertiliser a farmer was entitled made it possible for large scale farmers to dominate the beneficiaries to the detriment of smallholders. There is the need for criteria that targets resource poor smallholders. There is also the need for greater community involvement in the selection process. The reliance on extension agents for voucher distribution to some degree reinforced elite farmer biases as extension agents have the tendency to focus on the so-called progressive farmers. Options for direct targeting of beneficiaries would go a long way to improve smallholder participation. Borrowing significantly increased both participation and fertiliser use intensity at the household level. It is important to note that the 21% subsidy on fertiliser was still low as some households were unable to make the 79% down payment from their own resources. The need to combine subsidy programmes with credit programmes would go a long way to allow smallholders actually benefit from the scheme.

The idea of down payment when participating in subsidy programmes was criticized by several researchers notably Dorward, (2011) who argued that when there is a payment to be collected from farmers, there is always a perception that farmers cease to view this as a subsidy and they usually pull out resulting in a downward trend in production. Farmers fear debts and do not want to be associated with anything that seem a burden to them and their children. NGO or Government should put in place models that will not end up requiring farmers to pay anything towards settling the subsidy.

The level of education of the farmers concerned was also put to question as most educated and large scale farmers tend to understand the models involved in the subsidy programmes run by various stakeholders. It is easy to deal with large scale farmers than small holder farmers.

Abibanyu,(2000) bring out another concept on subsidy scheme where the researcher proposed that Government may scrap restrictive measures when importing selected agricultural inputs like seed, fertilizers and farming implements so that farmers are motivated to import inputs at lower costs, this will then translate to reduced cost of production leading to farmer profitability. When farmer cost of production is reduced, companies may also buy the crop at reduced prices that will guarantee company profitability,

In the short term, reducing import restriction in the form of high import tariffs on agricultural inputs should exert a beneficial effect on the economy by raising the agricultural output and employment, stimulating imports, and, subsequently, exports. Meanwhile, increasing government subsidies induces an appreciation in the real exchange rate, which restricts exports and promotes imports.

This concept work well with well established farmers who have resources to spare in importing inputs and farming implements. As was argued by Dorward,(2000) for as long as there is a payment to be made towards farming inputs, farmers will not view it as a subsidy and will not participate. If this happens there will not be any benefit and an industry may not benefit from such a subsidy that will not find any takers.

2.2 Chapter Summary

The chapter reviewed literature on studies carried out by many authors who studied on the area of benefits of subsidies on farmer profitability and national production of cotton in several countries including Zimbabwe.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter present the research methodology followed by the researcher on gathering data on the impact of Government subsidy on performance of companies in the cotton industry in Zimbabwe. The research methodology covers the research design used, sampling method, targeted population and the data collection instruments.

3.1 Research Design

The researcher used descriptive research design because data will be gathered from the Cotton companies in Zimbabwe, analysed and the behaviour of the analysed data observed without influencing the outcome of the study. The research also used explanatory research design because this area of Government subsidy was researched before but was not exhausted, this study will add a voice to the body of knowledge without giving a conclusive conclusion since this study is being carried out in Zimbabwe.

3.2 Research Population.

The population of the study is 25 employees from the three companies involved in the cotton industry and AMA, the regulator of the cotton industry. The target population for the study was determined to be those employees holding managerial posts at senior level. AMA was included in the population, so that integrity of data obtained from cotton companies will be tested for consistence. This purposeful selection was done as the information required by the researcher may be regarded as confidential. Furthermore, these managers have the clearance to most relevant information and experience in the cotton industry to suggest possible areas to improve. Descriptive research effectively analyse non-quantified issues that may be useful in providing reasons for the quantified data. The approach gives opportunity to integrate the qualitative and quantitative methods of data collection.

3.3 Research Sample

The researcher used Yamane's formula to determine sample size of twenty five participants. The following formula was used:

$$n = \frac{N}{1 + N(e^2)}$$

n is the sample size, N represents the target population (twenty seven senior managers) and e is the level of precision at 95% level of confidence. The method of purposive, quota sampling was then further used to develop the sample composition of the research under discussion. According to this method, which belongs to the category of non-probability sampling techniques, sample members are selected on the basis of their knowledge, relationships and expertise regarding a research subject (Freedman et al., 2007). As a result, twenty five questionnaires were sent to finance, operations and senior managers from cotton industry and AMA, the regulatory body. The researcher carried three interviews with three heads of finance and one AMA official. These were considered appropriate as population of the study area because, as stated in chapter one, they have clearance to disclose financial and operational information. Most of them have had several years of in the cotton industry, they are in the best position to furnish the researcher with the information needed to answer the research question of this study. The use of sample is recommended since it saves on time but the outcome from the selected sample will be representing the population.

3.4 Data Collection Methods and Instruments

After the pilot testing and all necessary modifications, the questionnaires were administered directly to the chosen sample for the study. Out of twenty five copies of the questionnaire given out, twenty three were successfully completed and returned. The possibility of retrieving back 85% questionnaire was as a result of the researcher's colleagues who offered a helping hand. The researcher administered questionnaires containing individual questions to all the twenty three participants chosen for this study. Interviews were done with three executives from cotton companies with each participants being drawn from each company and one official from AMA .

Questionnaires will allow the researcher to gather qualitative data about the company in an orderly manner and will guide the respondent to stick to the subject at hand. Interviews are interactive interviewers can press for complete, clear answers and can probe into any emerging topics. Hence, interviewing is expected to broaden the scope of understanding investigated phenomena, as it is a more naturalistic and less structured data collection tool. Secondary data in the form of financial statements will be requested from the respective companies so as to be able to obtain the financial performance of cotton companies. This data will be analysed and presented on spreadsheets.

3.4.1 Primary Data

Data was collected using questionnaires administered to AMA personnel and senior employees drawn from the three cotton companies. Interviews were also conducted with senior management of the three cotton companies so as to get qualitative information that contributed to sector performance during the subsidy period. Interviews allowed senior management to touch on various issues that contributed to sector level of performance without being much restricted to set questions, this allows the researcher to have in depth knowledge about the sector.

3.4.2 Secondary Data

Financial statements of the three companies will be analysed so as to get information on the financial performance of each companies in terms of net profits and establish whether there is a relationship between the subsidy and the financial performance of companies in the cotton sector in Zimbabwe. An analysis of intake reports for the three companies will also be carried out to evaluate national production for the period of this study these national production figures will be validated against AMA statistics so as to ascertain their accuracy. Ministry of finance reports will also be analysed so as to get the level of subsidy given to cotton industry so as to evaluate the relationship between the subsidy and industry performance.

3.5 Reliability and Validity Test

The questionnaire designed for the study was subjected to a validation process for face and content validity. Face validity is the idea that a test should appear superficially to test what it is supposed to test; and Content validity is the notion that a test should sample the range of behaviour represented by the theoretical concept being tested. The data obtained through questionnaires was subjected to cronbach's alpha reliability test as used. This method tests the internal consistence of the variables being questioned. Accordingly, the study data scored above 0.7, thus reliance can be placed on conclusions reached.

3.6 Data presentation and analysis plan

The research mainly involves quantitative data in the form of financial statements, level of subsidy given and industry production. The statistics used are financial performance in the form of net profits for all the three companies, national production figures in tonnes as supplied by the three companies and confirmed by AMA. Due to the nature of the data, the researcher used charts and graphs to show the results of the research and bar graphs were generated using spreadsheets. The data collected was analysed using descriptive statistics

using excel data analysis tool. These will include frequency, percentages and crosstabs that will make up the graphs. Regression analysis was also used to test whether there was a relationship between subsidy and company performance as well as the strength of that relationship

3.8 Ethical Considerations

Due to the sensitivity of information required for this study, the researcher sought for permission from the respective companies to carry out this study. Information availed to the researcher will be used for the purposes of this study only and will only be shared with the responsible authorities at the permission of the companies in the cotton industry.

3.9 Summary

This chapter covered research design to be used in the study, research population, research sample, data collection methods and tools, primary data, secondary data used in the study, reliability and validity test, data presentation and analysis plan and ethical consideration.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND DISCUSSIONS

4.0 Introduction

This chapter focuses on presentation of data gathered on the impact of government subsidy on performance of companies in the cotton sector in Zimbabwe. The findings from interviews and questionnaires were presented using tables, graphs, pie charts.

4.1 Analysis of Response Rate

Questionnaires were administered to gather primary data for this research. For many years, a survey's response rate was viewed as an important indicator of survey quality. Many observers presumed that higher response rates assure more accurate survey results (Aday 1996; Babbie 1990; Backstrom and Hursh 1963; Rea and Parker 1997). The research findings are presented in Table 4.1. Questionnaires were distributed to twenty five participants drawn from members in the cotton companies and from AMA. Twenty three questionnaires were returned.

Table 4.1: Questionnaires Response Rate

Target Population	Questionnaires Distributed	Completed and Returned	Percentage response
Head finance	3	3	100%
Operations managers	10	10	100%
Other senior managers	11	9	82%
AMA	1	1	100%
Total	25	23	92%

Source: Research data

Out of twenty five questionnaires twenty three were returned by respondents, thus 92% response rate. The higher the response rate of a survey, the lower the risk of non-response bias. A low non-response risk means that error from those that did not respond will not cause any statistical significance. This good response rate, this will give reliable information which

will be used inferred to the whole industry. This high rate of 92% was achieved because the researcher hand delivered the questionnaires, follow up mails were sent to respondents and when conducting interviews, the researcher would also do follow ups and collect completed questionnaires.

4.2 Reliability and validity test

Table 4.2: Reliability Statistics

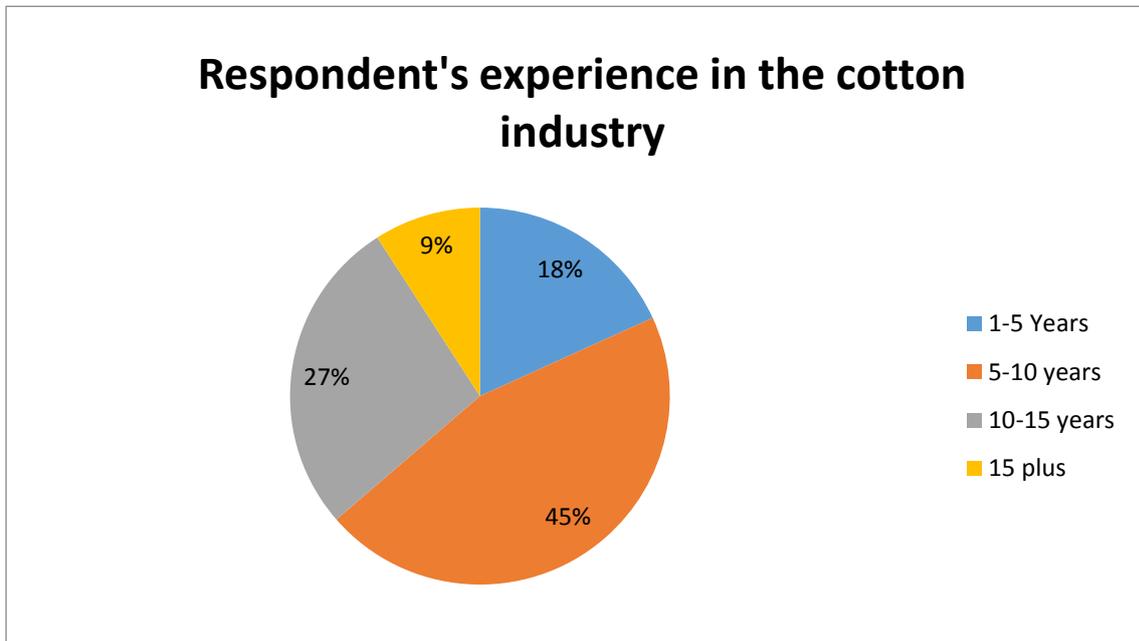
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.729	.703	11

Cronbach's Alpha Coefficient is greater than 0.7, which is good according to rule set by George and Mallery 2003. This is a measure of internal consistence needed to place reliance on the answers contained in questionnaires. This means the research is worthwhile as the conclusion can be used to generalise in a setup similar to that of Zimbabwe.

4.2.1 Background Information

This section will give basis to place reliance on the data obtained for respondents. The quality over quantity of responses will be considered by the researcher hence a thorough screening process.

Figure 4.1: work experience of respondents in the Cotton industry



In fig 4.1, 18% are respondents with one to five years, but these are also senior employees in their respective companies and are fresh in thinking hence can bring contemporary issues to the table for discussion. The 45% , have between five years to ten years in their companies which means they have vast experience and this give the researcher assurance that the data to be provided will be reliable. This will assist the researcher in getting quality research data so is the 27% for respondents with ten to fifteen years experience and 9% fifteen years and above. A close analysis shows that 81% fall within ten to above fifteen years, this shows that the researcher can rely on data collected from these employees since they have the experience.

Table 4.3: Respondents level of education

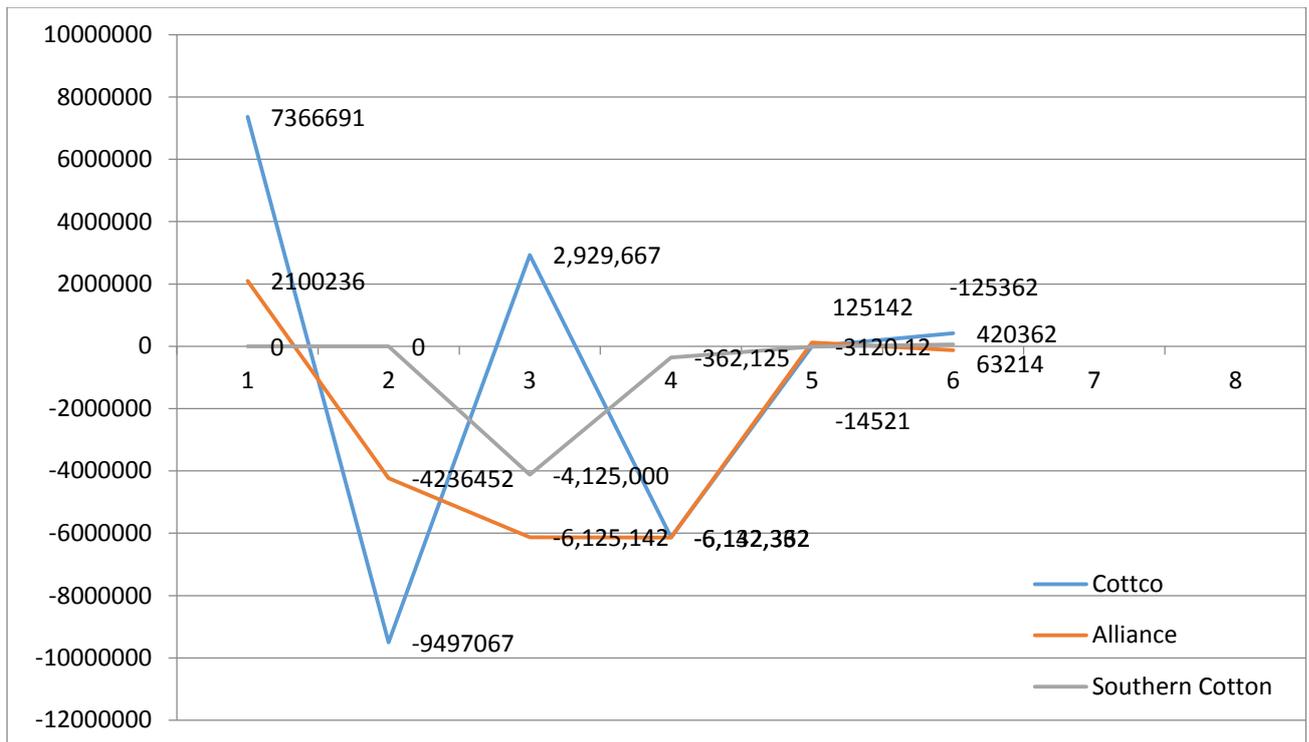
Level of education	Master degree	Undergraduate degree	Diploma	Certificate	Total
Respondents	12	7	4	0	23
Percentage	52%	30%	18%	0%	100%

The respondents who hold Master degree in business administration and Agronomy are 52%, this gives the researcher the assurance that information to be received from respondents will be coming from participants who are educated enough to provide quality information and who know the importance of providing accurate information. Respondents who have undergraduate degrees represents 30% of the sample these respondents are qualified enough to produce quality work which can be reliable inputs for this study. Respondents with diplomas were found to be 18%, and these are mainly from Agriculture extension services. The field, technical officers are also responsible to educating farmers on good farming practices, hence gives the researcher the information to set aside other variables such as drought pest infection which may also affect cotton company performance. The researcher will concentrate on examining the impact of independent government subsidy on dependant variables namely profitability and national cotton production.

4.3 Government subsidy and company performance

A production subsidy encourages suppliers to increase the output of a particular product by partially offsetting the production. The objective of production subsidies is to expand production of a particular product more so that the market would promote but without raising the final price to consumers. Using the laws of equivalent exchange, it is expected that when production levels increase so should the company profits, but the trend in figure 4.2 shows otherwise.

Figure 4.2: Company Performance in the period of Government subsidy



Source: Research Data

In year 2014 cotton production was on its lowest with 9 500 tonnes and the two companies that were operating that is Cottco posted a profit of \$7.3 million and Alliance \$2.1 million this was caused by the fact that companies were buying at lower producer prices this reduced their cost of processing the cotton. Level of production rose in 2015 to 15 000 tonnes this resulted in Cottco posting a loss of \$9.4 million, Alliance \$4.2 million this was caused by a higher producer price gazetted by Government, companies had little control in the producer price and this pushed their cost of production. The trend continued in 2016, 2017 in 2018 companies because of the increased volumes and the rising international lint prices, companies reduced their losses and Cottco had a loss of \$3 120 Alliance posted a profit of \$125 142 and Southern Cotton posted a loss of \$14 521. In 2019 Cottco posted a profit of \$420 362 Alliance a loss of \$125 362 and Southern cotton a profit of \$63 214.

The general trend in each company performance was not affected much by the introduction of subsidies; this was because, though the government introduced a subsidy, each company's performance is affected by other factors. Government in each year gazetted a minimum producer price which was unsustainable to operation of the companies. Since Government was only subsidising the supply of inputs, the move benefitted farmers by making them profitable but companies suffered by paying higher producer prices and increasing farmer's

disposable income. This payment in the form of producer prices affected companies by raising their costs and lowering their level of profitability.

The research results agree with study carried by FAO, (2016) since the subsidy resulted in an increase in production of cotton and companies ended up buying more cotton than they used to do during periods when the subsidy was not available.

As a result of the stiff competition in the market, some companies were running promotion so as to lure farmers to sell cotton to them, this was done by giving free cooking oil and maize meal to each farmer who deliver ranging from two to five depending with the company. This in itself was a cost to companies which eroded their incomes.

4.3.1 The impact of Government subsidy on performance

Using financial indicators in business performance measurement allows you to compare different business types. In this case profits were used as a reliable and objective measure of performance. As such regression analysis using excel data tool was used to test the hypothesis:

H₀: There is a significant impact of government subsidy on performance? The results, correlation coefficient (R) was interpreted according to following table:

Table 4.4: Regression Interpretation table

Correlation coefficient	Interpretation
0.1 > R	trivial correlation
0.1 – 0.29	small correlation
0.3 – 0.49	medium correlation
0.5 – 0.69	strong correlation
0.7 – 0.89	very strong correlation
0.9 < R	Almost perfect correlation (Huck, 2004).

Table 4.5: Impact on Cottco Profit

<i>Regression Statistics</i>	
Multiple R	0.239117
R Square	0.057177
Adjusted R Square	-0.17853
Standard Error	6357617
Intercept	391601.6
x coefficient	-44946.8
Observations (6 years)	6

In this study, following hypothesis was defined , which was; there is a statistically significant impact of the level of subsidies on performance (profitability) of cotton companies. Our analysis in table 4.5 identified the following facts. There is a small correlation (multiple R = 0.239117) between the volume of subsidies granted and profits made by Cottco. The analysis confirmed a direct linear relationship. The variability of the values of the dependent variable was explained to 5.7% (R square as a percent). The relationship can be generalised into the following formula:

$$y(\text{cottco profits}) = -44\,946.8(x - \text{subsidy}) + 391\,601.6$$

Table 4.6: impact on Alliance profits

<i>Regression Statistics</i>	
Multiple R	0.086356
R Square	0.007457
Adjusted R Square	-0.24068
Standard Error	3973831
Intercept	-1898535
X coefficient	-9888.67
Observations (6 years)	6

The analysis in table 4.6 indicate that there is a trivial correlation (multiple R = 0.086356) between the level of subsidies granted and profits made by alliance over these 6 years. The

variability of the values of the dependent variable was explained to 0.7% (R square as a percent). There is no statistical significance of the relationship.

Table 4.7: Impact on Southern cotton company

<i>Regression Statistics</i>	
Multiple R	0.096062611
R Square	0.009228025
	-
Adjusted R Square	0.238464968
Standard Error	1853356.095
Intercept	-989639.6335
X Coefficient	5134.951374
Observations (6 years)	6

The analysis in table 4.7 indicate that there is a trivial correlation (multiple R = 0.096062611) between the volume of subsidies granted and profits made by Southern cotton company over these 6 years. The variability of the values of the dependent variable was explained to 0.9% (R square as a percent). There is no statistical significance of the relationship whatsoever.

The researcher can safely be conclude that the government subsidy through presidential input scheme does not enhance performance of cotton companies in Zimbabwe. Therefore it is accepted that H_1 : the government subsidy does not impact company performance in any way. Interviewee number one augmented this finding that there was no positive impact on profitability simply because; the profitability of companies was affected by higher producer price gazetted by Government. Also each company have a different cost structure which affect the profitability of an individual company.

This research findings is not in agreement with Don Elger's theory which states that when production goes up, the cost of producing that product will fall down and profitability increase, this is not the case with the current subsidy policy, production increased and the costs also increased as a result of the higher producer prices set by the government, this shows that it is not obvious that when production rise, the cost of production will be reduced.

4.4 Effects of Government subsidy on cotton production

Table 4.8: the subsidy impact on production

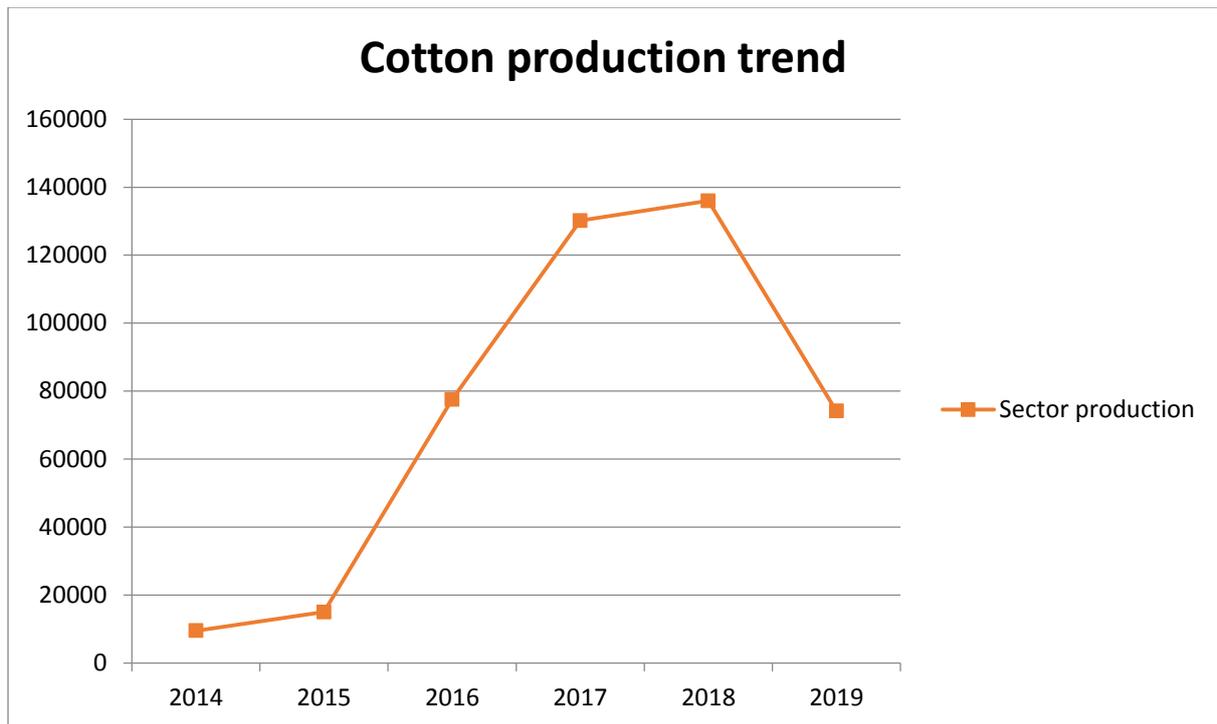
<i>Regression Statistics</i>	
Multiple R	0.80642646
R Square	0.650323636
Adjusted R Square	0.562904545
Standard Error	35785.67167
<i>Coefficients</i>	
Intercept	5531.687912
X Variable 1	1401.040659
Observation (6 years)	6

The analysis in table 4.7 indicate that there is a very strong correlation (multiple R = 0.80642646.) between the level of subsidies granted and cotton production over these 6 years. The variability of the values of the dependent variable was explained to 65% (R square as a percent). There is statistical significance of the relationship between these two variables. This analysis is consistent with the economic theory which predicts that agricultural subsidies help to increase the performance in terms of productivity. The above analysis in its simplest form says the more government intervenes the more cotton is produced. This is illustrated in figure 4.3. This can also be generalised as follows to give production increase on any volume of government subsidy:

$$y = -44\ 946.8(x) + 391\ 601.6$$

Where **Y** is the quantum of production in response to the independent variable **x**, **government subsidy**.

Figure 4.3: Trends in Cotton Production



Source: Research data

National cotton production was as low as 9 500 tonnes in 2014 before the introduction of the subsidy, it gradually rose from 15 000 tonnes in 2015 to 77 526 tonnes in 2016 again increased to 136 000 tonnes in 2018 and decreased in 2019. The sharp increase from the low of 15 000 tonnes to a higher of 136 000 tonnes was caused by the introduction of the Government subsidy. The upward trends in level of production clearly show that the subsidy played a big role in increasing cotton production in Zimbabwe. Farmers who had abandoned the crop due to the ever increasing cost of inputs and with a corresponding low producer price that were offered by cotton companies. All respondents confirmed subsidy influences the level of cotton production and attested that subsidy brought back retired farmers and if it was not for the drought experienced, farmers had established enough crop to produce around 150 000 tonnes. This adversely affected production trend above, since most crops wilted at this critical stage in cotton production.

As indicated by Don Elger that performance at a higher level will produce results that exceed stakeholder expectations. This postulate assumes that results are improved only by higher level performance, but there are other factors that contribute to poor results like climatic conditions. Accordingly to this research findings, there was a sharp drop in cotton production

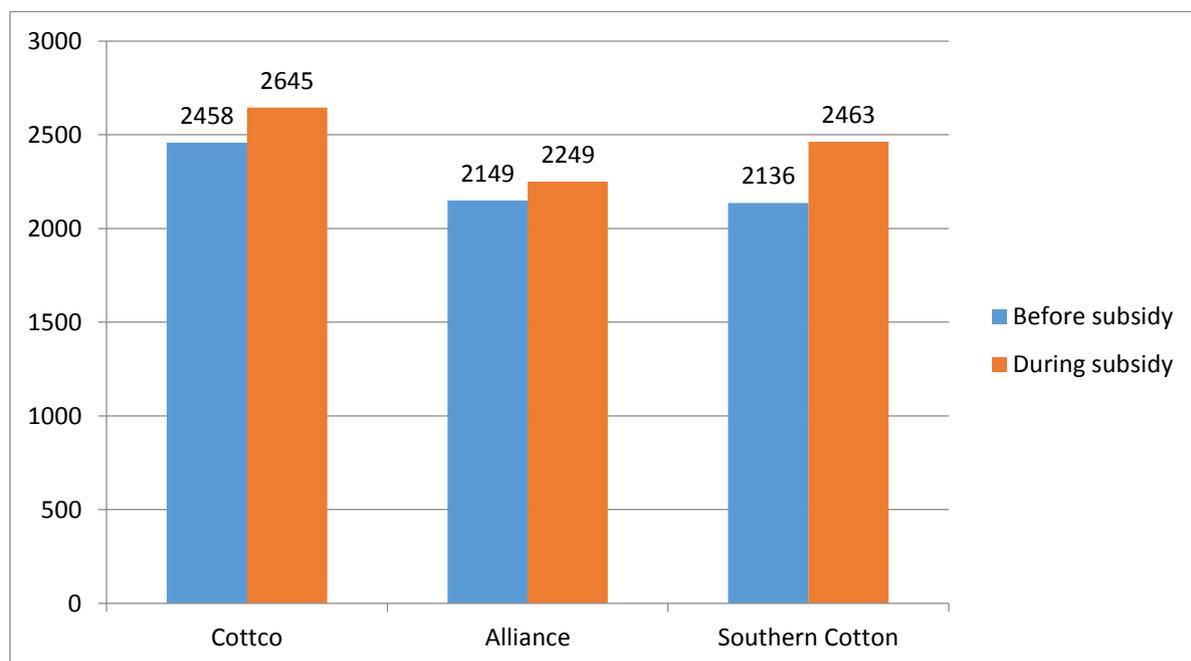
this year from last year's production of 136 000 tonnes to 74 126 tonnes not because of low performance of farmers but because it was a was a drought year.

These results also agreement with a study carried by Thapelo (2016) which revealed that subsidy policies result in increased production and enhances food security and reduction in poverty. In this case cotton production in Zimbabwe improved from a low of 9 500 tonnes to a highest of 136 000 tonnes as a result of the subsidy availed to the sector.

4.5 Cost of Production per tonne before and during period of Government subsidy

Logically, when government subsidize, companies will benefit in the form of reduction in the cost of doing business. Perhaps that was the researcher thought, and the question being discussed here, meant to solicit information to test this claim. Figure 4.4 below shows the magnitude of changes in associated cost per one tonne.

Figure 4.4: Effects of Government subsidy on cost of production for companies in the cotton sector



Source: Research data

The standard cost per unit of production for each company in the industry increased during the period of government subsidy, this was caused by the fact that during the period of subsidy, the government subsidised the supply side of inputs that were given to farmers and

ignored subsidising the producer price side. Government then went further and set higher producer prices at which all companies participating in a season of cotton buying should buy cotton at, this resulted in companies to paying higher producer prices per kg of cotton to farmers. Due to this development cotton became expensive and pushed up the cost per unit of cotton. The producer price was not set by market forces but the government arbitrary set it with a view of increasing the farmer disposable income and ignored the merchant who will pay lots of money which will not be recovered during the cotton value chain and will burden all players and companies downstream. Respondents from AMA confirmed that AMA opened more buying points so as to come closer to farmers, this resulted in higher labour costs, increased council levies to be met by cotton farmers and transportation costs since the government mandated companies to offer free transport for transporting cotton from farmer homesteads to common buying points. Respondents converged on producer price imposed by government with a view to please farmers, will cause market distortions and profitability of companies remains a challenge.

According to a study by Abdul (2017) cost of production is suppose to go down once a subsidy is introduced to a sector and improves companies performance. This is not the case with this Zimbabwean situation where the subsidy introduced to cotton sector did not respond to the level of subsidy.

4.6 Other Factors constraining the performance of the cotton sector

4.6.1 Government producer price control

A response by first respondent suggest that cotton companies are not making profits not because they are poorly managed by because government assumed that by subsidising the inputs supply side, everything is now into place to revive the whole industry, yet the government equipped farmers only and suppressed cotton companies.

4.6.2 Competition

Respondents from Cottco argued that the company embarked on promotion initiatives by giving free cooking oil and maize meal in a bid to compete for cotton, this had an effect of raising the cost per unit of the products produced by Cottco thereby reducing profitability. It is also evident from the response that cotton companies end up increasing their costs by running promotion in a bid to outdo each other and get a big chunk of cotton produced in Zimbabwe.

4.6.2 Industry patterns

Respondents also pointed out that the prices of raw materials used in the processing of cotton were rising year on year, borrowing costs of pre-season finance also was increasing this resulted in companies paying more finance costs compared to previous seasons when production was low. Profitability of companies in the cotton sector are also affected by international cotton prices which are set by the economic power houses like America and China who currently have stock piles of lint in their warehouses, they use the stocks to control the world market prices and companies in Zimbabwe are affected by these economic war between China and America.

4.6.3 Management style

Measuring performance in terms of profitability may be subjective; companies have different costs structures that chew into profit for each company. Smaller companies have a higher probability if posting profit since their cost structures are small compared to big companies. Other respondents outlined that a company may employ strategies that best suit them according to Management style. However, these craft strategies may not be ideal to a situation at hand, this affect company performance since a company may respond slowly to competition and new dynamics in an industry.

4.7 Chapter summary

At the moment companies are buying cotton from farmers only to process it and get foreign currency from the international market. There is no motivation to remain in business, since companies are making losses. The game of numbers is hinged on faith, companies remain in business in the hope that one day the price of lint on the international market will improve and companies will sell lint at a higher price and get profits. Companies are not benefiting from the increased level of production in terms of profitability. The analysis in this chapter, points that there is a direct relationship between increased production and profitability of companies because companies do not have control over their major expenditure which is the producer price. Also competition is coming in with added costs in the form of direct promotional costs as companies fight for cotton.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The subject of the analysis was to test the hypothesis of the existence of a statistically significant dependence the level of subsidies granted by the government on the performance of cotton companies in the cotton sector. The analysis confirmed the assumption, the result of which is that between amount of gross agricultural production and the level of subsidies granted is a strong correlation. This chapter focuses on conclusion and recommendations based on research findings.

5.1 Summary of Research Findings

The study was aimed at investigating the impact of government subsidy on performance of companies in the cotton sector in Zimbabwe. The research findings shows that as a result of a government subsidy, cotton production increases and companies perform better in terms of buying huge volumes and processing it thereby creating employment for the country. However, the government gazette minimum producer price which is generally high prohibiting companies to make profits. In a bid to be competitive in buying cotton farmers run promotion by giving out various items for free to farmer thus increasing their costs.

The government subsidy is benefiting farmers by making their farming businesses profitable yet companies are paying out huge amounts to farmers and making losses. The benefit of Government subsidy is not directly accruing to companies in the cotton sector since the subsidy on the inputs support directly to farmers this benefit farmers, that being the case if companies were allowed to buy cotton at prices that are affordable to them this was going to reduce companies cost of production. The cost of production end up rising due to gazetted minimum producer prices.

The introduction of government subsidy led to an increase in sector cotton production. This can be seen by the increase in output from as low as 9 500 tonnes in 2014 to the highest 136 000 tonnes in 2018. Farmers had abandoned growing cotton because of the depressed producer prices of as low as 0.30 cents in year 2012 to 2014. It was no longer profitable for farmers to buy and use their inputs then they sell their cotton to companies who were buying at low prices. This led to the total collapse of the industry. Government intervened by

providing free inputs to farmers who responded by growing cotton and the volumes are growing by each year as the Government increase the level of funding. A decline in the year 2019 was caused by the drought which was confirmed by Government who declared it a drought season.

Production of cotton increased from the low of 9500tonnes in 2014 and a highest of 2019, but there is no relative increase in profits for companies because the fundamentals in the industry are differing. Whilst production of cotton increased, profitability of companies is driven by factors other than the availability of the inputs supply side subsidy.

Cotton producer prices are high and this is increasing companies' unit cost of production, management of companies and strategies employed by each company in buying and processing cotton differ from company to company.

Prices of products like lint on the international market are determined by other international companies and we are price takers on the international market. The depressed lint prices will adversely affect companies' performance.

Companies are paying more money to buy cotton as evidenced by the set prices for the year 2019 where a kg of cotton started at \$1.95 per kg and later adjusted to \$3 per kg. This price is unsustainable to cotton companies and if they buy cotton at this price they will not be able to compete on the international markets and will not make profit as prices of very item is continually rising.

Companies in the cotton sector may fail to perform as a result of corruption where leader with weak corporate Governance practices divert funds meant to company use to personal use. Management have an obligation to craft strategies that take companies to profitability but sometimes companies are run by leaders who do not have enough skills to lead and control companies so that they make profits,

5.2 Conclusions

- Government subsidy assisted the cotton sector by boosting cotton production since farmers are now growing cotton as a result of the free inputs scheme. On the cotton production and buying front, the sector performance boosted.

- The cost of production was raised by the fact that government set minimum producer prices that were high, farmers bought cotton at these prices and this raised companies cost of production resulting in companies making losses
- Performance of companies in the cotton sector can be improved if government let market forces determine minimum producer price of cotton, this will ensure that companies set prices that they can afford and that create a win win situation between farmers and companies

5.3 Recommendations

In light of the above it is recommended that:

5.3.1 Setting of minimum Producer Prices

Government consider not setting a minimum producer price for cotton buyers so that the price of cotton is set by market forces of demand and supply, this allows companies to pay producer prices they can afford, those companies that want to perform by buying more cotton will have to pay more to farmers in order to get a bigger share of the crop whilst those companies that cannot pay more will have to buy less or find other strategies of buying cotton at lower prices that are sustainable to them.

5.3.2 Producer Price Subsidy

The government should introduce a producer price subsidy where it give money to cotton buyers to subsidise on cotton purchase so that companies do not end up paying the whole amount to farmers but a portion of the producer price must be met by the government. This will reduce companies cost of production thereby improving profitability of companies in the cotton sector. As suggested by Abdul(2017) government may become the sole buyer of the subsidised crop and buy the output at prices they set than dictate prices to private players.

5.3.3 Implementation of low cost strategies

The study also recommend that instead of companies competing by running promotions that raise their cost, they need to agree on a quota system where they agree prior to the onset of the season how much cotton each company should buy based on their ability to pay and availability of ginning infrastructure. This assist by making cotton companies more profitable

5.3.4 Setting up a cotton funding reserve

Cotton companies need to invest in reserving funds for free inputs scheme post Government support because if the Government stop subsidising inputs, the industry will collapse again, the study shows that the free inputs support is the only pillar that is sustaining the cotton industry at the moment. If Government stop giving free inputs the industry will collapse and companies must not be caught unaware. There is need for companies to set up a revolving fund which will support farmers with free inputs when the Government pulls out of the free inputs support.

5.4 Suggestion for further Study

The research recommends that a study be carried out on the motive of the Government in availing subsidies on crops such as cotton and maize, this will provide information on whether subsidies are run to the benefit of the population or to pursue political agendas.

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Appendix 1: Head of finance questionnaire

To be Completed by Head of Finance

Name of Organisation.....

Gender

M	F
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Highest level of education.....(CA, Master degree, Undergraduate Degree, Diploma, certificate, GCE O level,)

Geographical location.....

Number of Years in the Organization

1-5 years	5 – 10 years	10 – 15 years	15 and above
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1.0 To establish whether a Government subsidy on the supply side will improve the performance of companies in the cotton sector

		2014	2015	2016	2017	2018	2019
1	What was your net profit(loss) each year						

Comment on other factors that resulted in the performance level of your company

2.0 To establish whether the Government subsidy will result in a reduction in cost of production of companies in the cotton sector.

		2014	2015	2016	2017	2018	2019
1	What was the standard company’s cost of production before introduction of subsidy						
2	What is the company’s cost of production per tonne during the period of Government subsidy						

Comment in any changes in cost of production pre and during the Government subsidy

Thank you

Appendix 2: AMA Questionnaire

To be Completed by AMA Representatives

Name of Organisation.....

Gender

M	F
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Highest level of education.....(CA,Master degree, Undergraduate Degree, Diploma, certificate, GCE O level,)

Geographical location.....

Number of Years in the Organization

1-5 years	5 – 10 years	10 – 15 years	15 – 20 years
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3.0 To establish whether the subsidy on the supply side will directly result in an increase in sector production

0		2014	2015	2016	2017	2018	2019
1	What was the seed cotton production for each year						

		Yes	No
2	In your opinion did the introduction of the subsidy influence the level of cotton production?		

If no, please add notes below

.....

If yes, please support how the subsidy influence the level of cotton production

Thank You

Appendix 3: Generic Questionnaire

Name of Organisation.....

Gender

M	F
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Highest level of education..... (CA, Master degree, Undergraduate Degree, Diploma, certificate, GCE O level,)

Geographical location.....

Number of Years in the Organization

1-5 years	5 – 10 years	10 – 15 years	15 – 20 years
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4.0 To establish whether the increase in production will result in an improved performance of a companies

0		2014	2015	2016	2017	2018	2019
1	What was your seed cotton purchases (Tons)						
2	What was your net profit for each year						

		Yes	No
2	Did the level of production influence the profit position of your company		

no, please add notes below

.....

.....

.....

If yes, please support how the level of production influenced the performance of your company

.....
.....
.....

5.0 To establish whether there are other factors that contribute to constrained sector performance apart an increase in cost of production

What are other factors that influence negative performance of your company apart from an increase in the cost of production?

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.....

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Thank you