Effective Public-Private Coordination in Zambia’s Cotton Sector

Deliberation on the Revised Cotton Act

Stephen Kabwe
Food Security Research Project

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Outline

1. Background information of the cotton sector
2. Cotton production trends from 1993 to 2008
3. Pillars of success
4. Reasons for the crashes
5. Proposals for ensuring increased cotton production
Background information

- Cotton is a smallholder farmer crop grown by over 280,000 households in Zambia
  - With a dependent ration of 1 to 8, there are about 2,200,000 people directly or indirectly dependent on cotton production

- Cotton sector – source of Forex (Over US$64 million & US$ 70 million was earned from cotton exports during 2005 & 2006)

- Cotton sector grown – structure wise - after privatization there were only 2 private companies in the sector, currently there are 12 cotton companies
  - the ginning capacity is over 450,000mt

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**Periods of Success and challenges in Smallholder Seed Cotton Production (1993-2008)**

- Post-Reform Boom
- First Crash
- Second Boom
- Second Crash
- Recovery?
What Have Been the Pillars of this Success?

- Improved service delivery by the two private companies that purchased Lintco ginning operations in 1994 through:
  - Providing large numbers of farmers with a reliable input package (financing cotton production)
  - Provision of effective extension message
  - Guaranteed market for the product
  - Prompt payment
  - Effective private sector self regulation

- Economic environment was relatively stable for Lonrho (now Dunavant) and Clark (now Cargill)

What Have Been the Reasons for these Crashes?

- Substantial change in the structure of the sector in recent years
  - Companies already in the sector have expanded their operations
  - New players are coming in the sector, with some prospect of remaining

- Increased # of ginning companies but lack of an effective regulatory framework
  - Pirate buying and side buying increased
  - Undermine provision of input credit and extension, and maintenance of high quality seed cotton

- Credit default in 2001 and 2007 returned to levels not seen since the late 1990s
Cotton Sector Special Concerns

- Absence of an effective regulatory framework (Cotton Board)
  - More players in the sector, and more are likely to come and some of these undermine:
    - Input credit provision
    - Provision of extension service
    - Maintenance of quality of seed cotton which

- Productivity is low
  - National average is 650 – 700kg/ha of seed cotton

- Unstable exchange rate is not good for business
- Sharp increase in profits tax on lint exports and also on cotton seed could destabilize the industry, especially in absence of functioning Cotton Board
  - Also reduce ability to offer farmers high seed cotton price

- Reduced demand of cotton lint due to worldwide financial crisis
- Increased productivity due to GM – further pressure on prices
  - The high reputation on the quality of Zambia cotton lint gives it an hedge

=> Sector needs assistance to stabilize itself and reinvest in productivity

Below are the proposals

- Focus in Zambia must be on establishing broadly accepted rules of the game that ensure honest competition which does not undermine:
  - Provision of reliable input credit to smallholders
  - Provision of effective extension services to farmers, &
  - Maintenance of good cotton quality
  - Guaranteed market with prompt payment

- Therefore, amending the 2005 Cotton Act will promote an effective public-private coordination and this will boost the development of the cotton sector in Zambia
Thank You!