Regional Cotton Stakeholders’ Workshop:
Zambia Country Report

Presented at Regional Stakeholders’ Workshop
on Evolving Cotton Production and Marketing Systems
Financed by British Department for International Development

1 & 2 February, 2005
Lusaka

Roadmap

- Structure and evolution of the sector
- Supply chain performance since reform
- Continuing challenges in the supply chain
- Policy Initiatives
  - The Cotton Outgrower Credit Scheme
  - The Proposed Cotton Board
Structure and Evolution

- Prior to 1994: Government owned Lintco, monopoly
- Privatization of Lintco in 1994
  - Two firms: Lonrho and Clark Cotton
- High world prices, good profits lead to entry starting 1997
  - At least three firms and many intermediate buyers
- Lead to major default crisis by 1999 and production decline
  - Lonrho leaves, sold to Dunavant
- Private institutional innovation largely resolves default crisis
  - Dunavant adopts and perfects “Distributor System”
  - Clark reduces number of farmers and intensifies
  - Some minor players left, others did not pose major threat to Dunavant and Clark

Structure and Evolution (2)

- Market Shares, 2003/04
  - Dunavant 66%
  - Clark 24%
  - Mulungushi 4.6%
  - Continental 5.2%
  - Others <1%
  - Total production 2004 = 172,000 MT
Performance Since Reform

- Zambia’s cotton sector a great success in many ways
  - Production trends
  - Yield trends
  - Prices to farmers
  - Quality improvement
  - Innovation to ensure credit repayment

Figure 1. Seed cotton production in Zambia, 1993 - 2004
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002

**Mozambique:** Very low

**Tanzania:** Higher, but falling

Source: ICAC
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002

**Zimbabwe:** Higher still, but stagnant or falling

Source: ICAC

**Zambia:** In the middle, but rising

Source: ICAC
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002

Source: ICAC

Figure 3. Seed cotton prices to farmers in Southern Africa, 2001--2003

Performance since Reform

- Improved quality
  - Export price relative to Index A rose from par in late 1990s to 4%-5% premium in early 2000s
    - Dunavant and Clark controlled polypropylene contamination through strict inspection and regulations
    - Due to greater uniformity of quality, reflecting strong efforts by Dunavant and Clark

Performance since Reform

- Reduced credit default
  - Dunavant Distributor System
    - 1,400 individuals, NOT company employees
    - Receive inputs from Dunavant, provide them to farmers
    - Make own decisions about which and how many farmers to work with
    - Must live in area and grow cotton themselves
    - Remuneration tied to level of credit recovery \(\rightarrow\) not a salary
    - Dunavant focuses its training and monitoring on the Distributors, not the farmers
    - Reduces amount of information Dunavant needs to deal with
    - Distributors become entrepreneurs
But challenges remain

Continuing Challenges

- Returns to farmers are still low

Figure 4. Returns to labor in smallholder cotton, Zambia and Tanzania, 1998—2002
Continuing Challenges (2)

- Returns compared to maize are low, though improving

Figure 5. Returns to family labor on maize and cotton in Zambia, 2001-2003 (US$/day)

*But input credit and guaranteed output market still make cotton attractive*

Continuing Challenges (3)

- Little progress on new varieties
  - But have purified existing varieties and experimented with imported varieties
  - CDT has active varietal trials taking place and three varieties “in the pipeline”
    - Are these ready to release?
    - Will they have an important impact on farm yields, GORs, lint quality?
Policy Initiatives

- Through 2002, success came with almost no direct government involvement
  - Unlike every other country in the region
- Can growth continue without more public/private engagement in the sector?
- General view that public/private partnering needed to ensure long-term growth
  - Productivity and quality challenges

Policy Initiatives (2)

- Three policy issues now in Zambia
  - Cotton Outgrower Credit Scheme
  - Proposed Cotton Board
  - District Council Levies

- We’ll talk just about the Credit Scheme and Cotton Board
Policy Initiatives (3)

- Backdrop to these two policy issues
  - The need to balance
    - *Competition*, to discipline companies, spur innovation, and ensure equitable prices to farmers, and
    - *Coordination*, to avoid credit default crises and promote collective action for long-term investment in productivity and quality
  - Since 2000, Zambia has achieved an effective balance
  - *How to continue this?*

Cotton Outgrower Credit Fund

- One of several schemes launched by new government in 2002
  - Each focuses on one cash crop

- Purposes
  - Increase the number of farmers growing cash crops
  - Reduce “pirate buying” in the cotton sector

- Related objective
  - Helping smaller firms remain in the market while “playing by the rules”
Cotton Outgrower Credit Fund (2)

- Provides funds to outgrower firms at low interest rates to help finance input delivery on credit to smallholder farmers
- Initially financed by government with 1.1 B KW in 2002/03 cropping season
- Now a revolving fund which reached 1.85 B KW (US$390,000) in 2004/05 season
  - 1.54 B KW from recoveries, about 300 M KW additional from government
  - Also funds CDT activities

Cotton Company Production in 2003/04, and COCF Allocations in 2004/05

Share of COCF funds relative to share of previous year’s production is highest for the smallest firms
Percent of 2003/04 Cotton Area that could be Financed with 2004/05 COCF Allocations

Largest players, smallest share relative to area

- Dunavant: 1.3%
- Clark: 2.5%
- Mullungushi: 4.7%
- Continental: 19.2%
- Mukuba: 24.7%
- Stuthard: 32.9%
Percent of 2003/04 Cotton Area that could be Financed with 2004/05 COCF Allocations

Smallest players, very high share relative to area

Smaller players, medium share relative to area

Largest players, smallest share relative to area

Smaller players, medium share relative to area

Largest players, smallest share relative to area

Percent of 2003/04 Cotton Area that could be Financed with 2004/05 COCF Allocations

Smallest players, very high share relative to area

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Three questions

- How far should the fund go in promoting small (and new) players?
- What should be the eligibility criteria?
- Should the fund be substantially larger than it now is?

How far should the fund go in promoting small (and new) outgrower companies?

- Some level of competition is healthy
- But too much can diminish sector performance
- So far, Zambia appears to have maintained an effective balance
- Should the fund continue to promote these smaller firms?
  - Answer depends on how the fund is managed, especially on eligibility criteria …
Cotton Outgrower Credit Fund (7)

- Eligibility criteria
  - Fund must not become a credit “give away”
    - CDT could certify that a participating company has the infrastructure, organization, and track-record to assure effective input delivery and credit recovery
      - A redesigned Cotton Board should be part of the process
  - To be a tool to prevent pirate buying: require that a participating firm maintain open records of credit disbursements to and recoveries from farmers
    - Would begin to address some of the issues that the Cotton Bill grapples with

Cotton Outgrower Credit Fund (9)

- How big should the fund be?
  - Big enough to be of interest to smaller players
    - To provide incentive to play by the rules
  - Small enough to not be a major consideration for the large players
    - So that they do not become more dominant
  - Currently 2.3% of the sector’s input credit needs
    - Should it be 5% … or 10% … ?
Proposed Cotton Board

- **Mandate**
  - Regulate private activities
  - Advise government
  - Monitor and report
  - *No commercial activities*

- Currently in Ministry of Legal Affairs, then to Parliament for readings

Cotton Board: Basic Provisions

- **Registration**
  - “any person dealing in cotton” must be registered and pay a registration fee
  - Registrations can be cancelled for “any other activity not registered with the Board”

- **Powers of Inspectors**
  - Originally proposed very strong and vaguely regulated powers
  - These have now been scaled back somewhat
Cotton Board: Basic Provisions (2)

- Proposes a Cotton Development Trust Fund for productivity activities
- Proposes creation of a cotton credit bureau
  - There would need to be changes to the Financial Regulations Act for a credit bureau function to be operational
  - Public credit rating is not possible under the current law

*Bill moved away from heavy-handed regulation, maintains some regulation while also focusing on long-term issues of productivity and improved information*

Thank You!
Strategic Questions for Moderated Discussion

Cotton Outgrower Credit Fund

- What should be its main purpose?
  - Reduce cost of operation to ginners?, or
  - Maintain workable competition and playing by the rules in the sector?

- What should be the criteria for:
  - Eligibility
  - Allocation of funds

- Is it large enough at ZK1.8b to make a difference?
- What to do if GOZ allocation falls next year?
Cotton Board

- Should the proposed Cotton Bill
  - Move forward as is?
  - Be revised and move forward
  - Be scrapped and rewritten
- If revised or rewritten, what should be its principal focus?
- Will it be worthwhile to amend the Credit Act
- Can Outgrower Credit Courts be established, and will they help address default problems in a less heavy-handed way?
  - How might they be financed?