

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

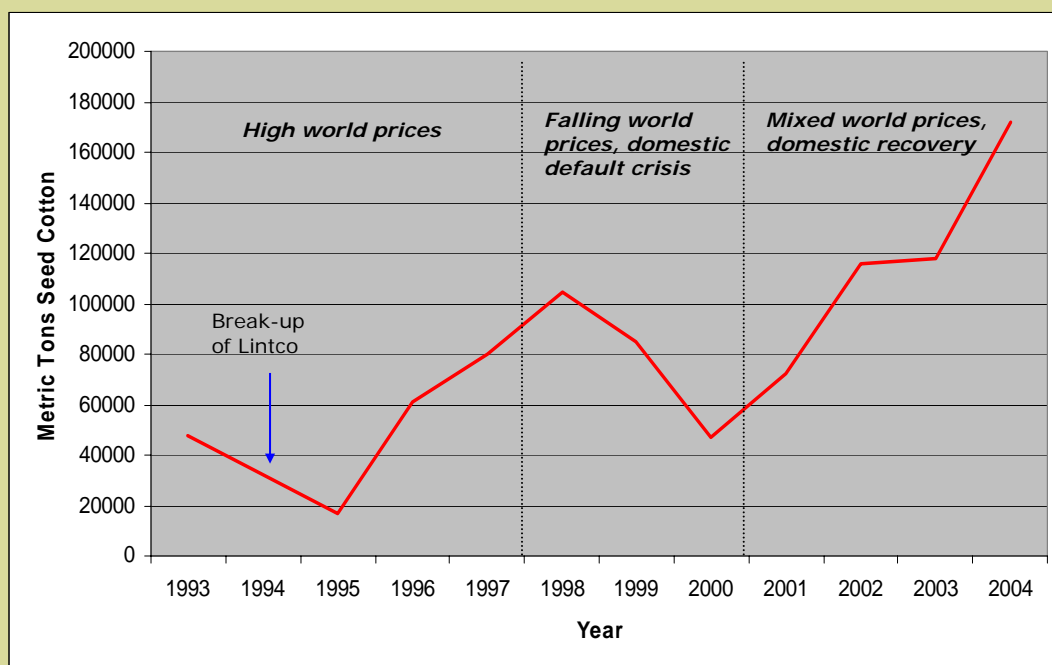
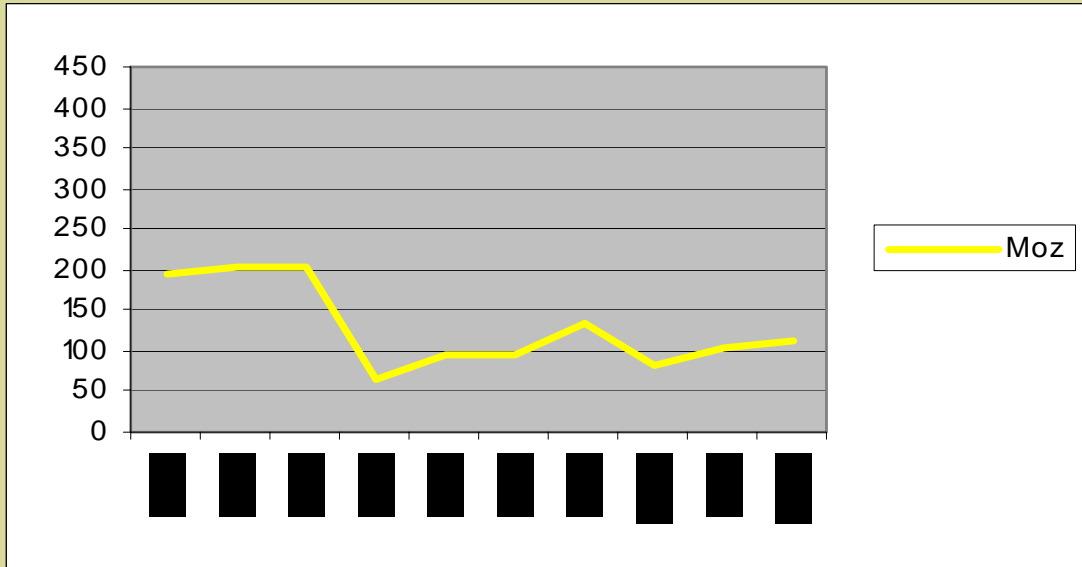


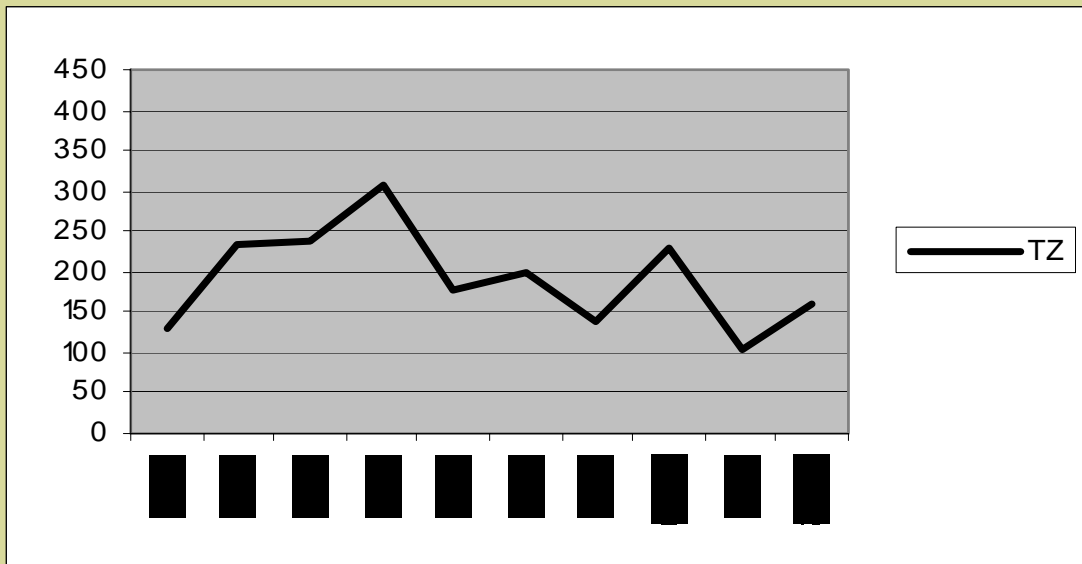
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002



Source: ICAC

Mozambique: Very low

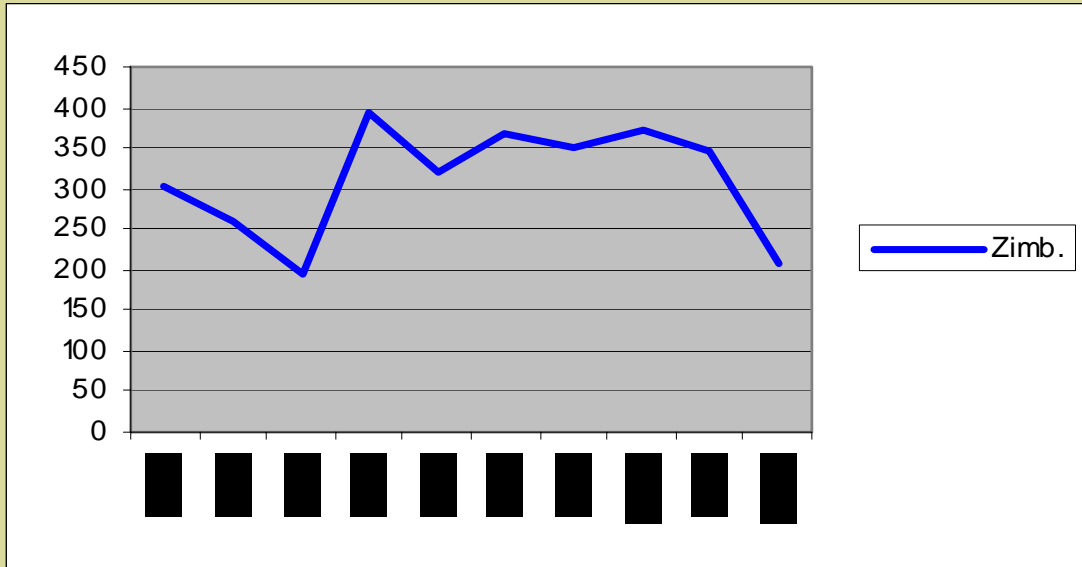
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002



Source: ICAC

Tanzania: Higher, but falling

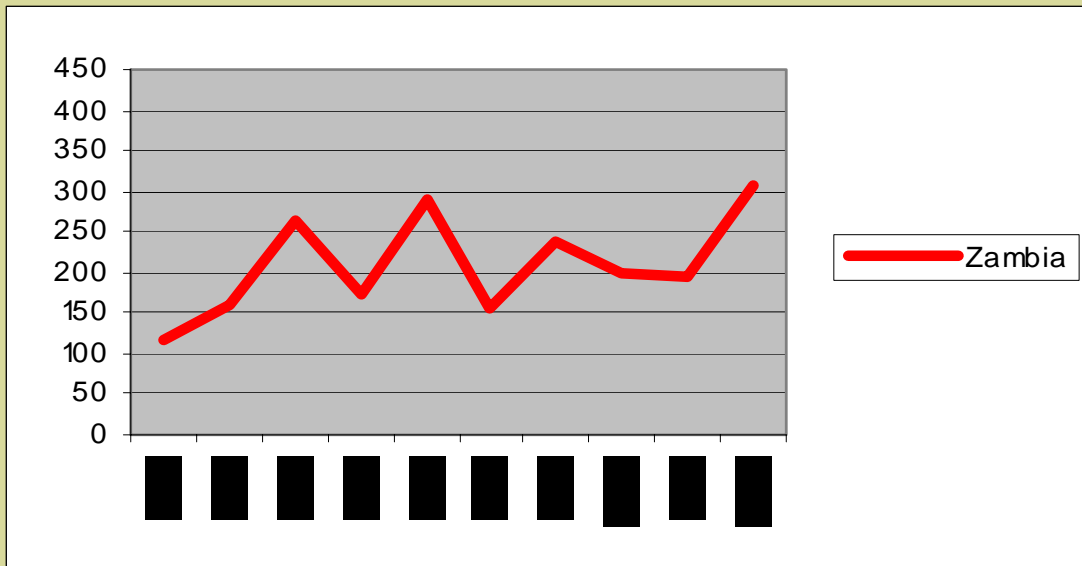
Figure 2. Lint cotton yields per ha in Southern Africa, 1993-2002



Source: ICAC

Zimbabwe: Higher still, but stagnant or falling

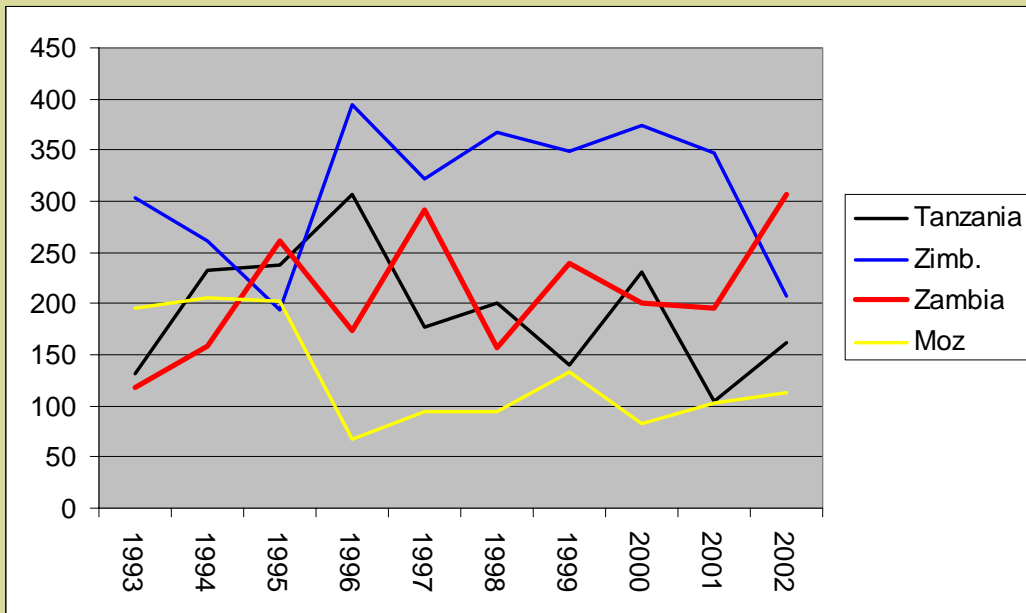
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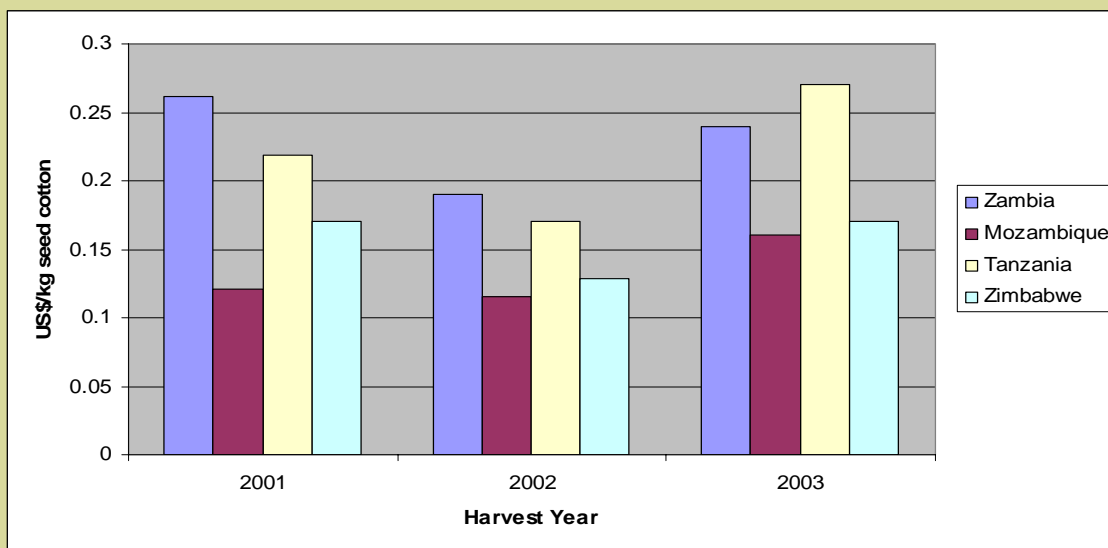
Zambia: In the middle, but rising

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



Zambia paid highest prices in 2001 & 2002, second in 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 → not a salary***
 - Dunavant focuses its training and monitoring on the Distributors, not the farmers

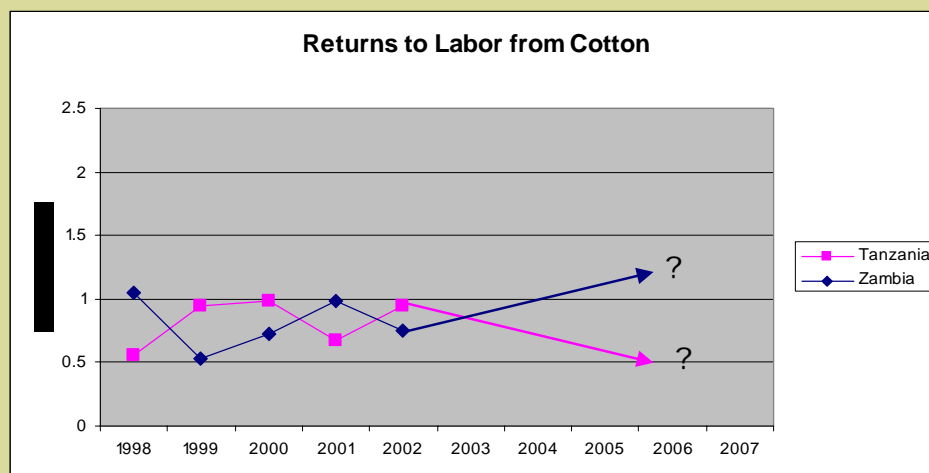
- Reduces amount of information Dunavant needs to deal with
- Distributors become entrepreneurs

But challenges remain

Continuing Challenges

- ▣ Returns to farmers are still low

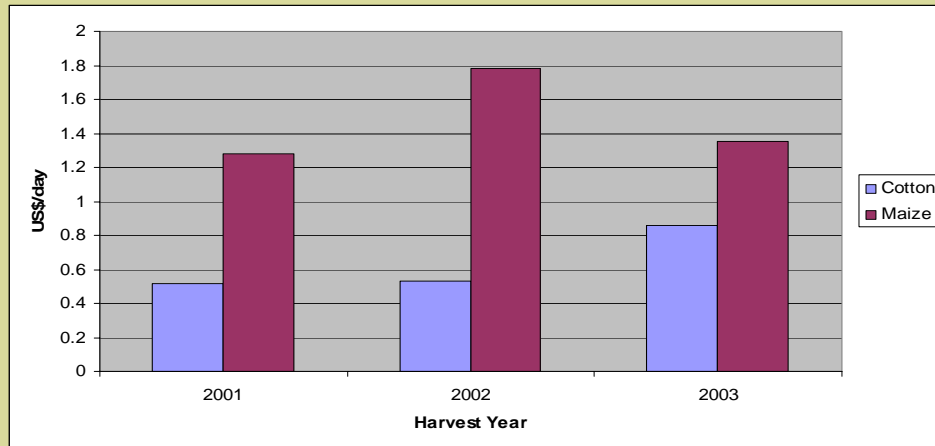
Figure 4. Returns to labor in smallholder cotton, Zambia and Tanzania, 1998—2002



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 the 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?***

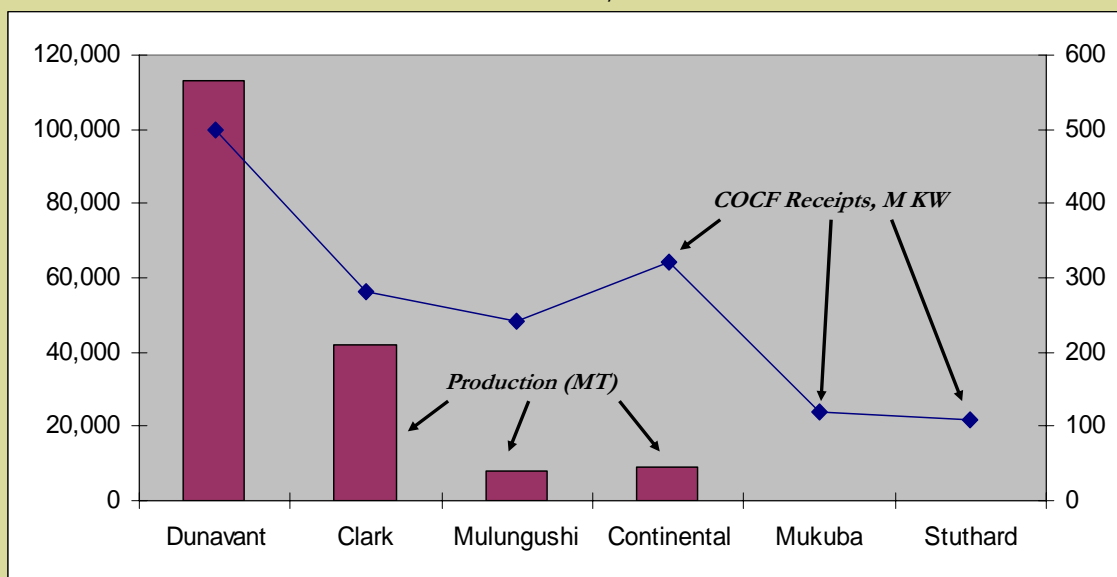
Cotton Outgrower Credit Fund

- 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)

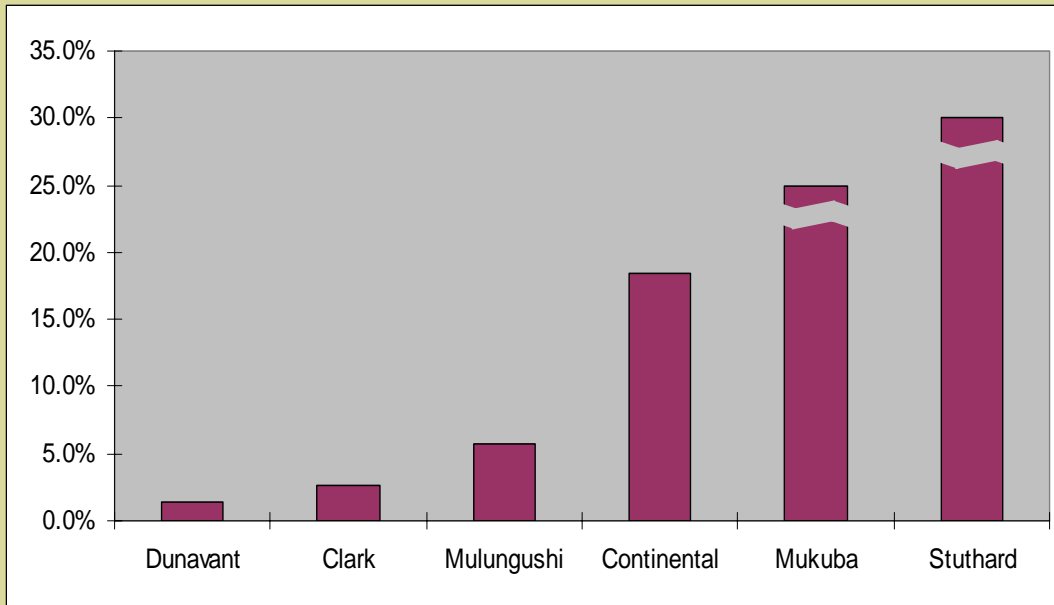
- Provides funds to outgrower firms at low interest rates to help finance input delivery on credit to smallholder farmers
- Initially financed by government with 1.1 B KW in 2002/03 cropping season
- Now a revolving fund which reached 1.85 B KW (US\$390,000) in 2004/05 season
 - 1.54 B KW from recoveries,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

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

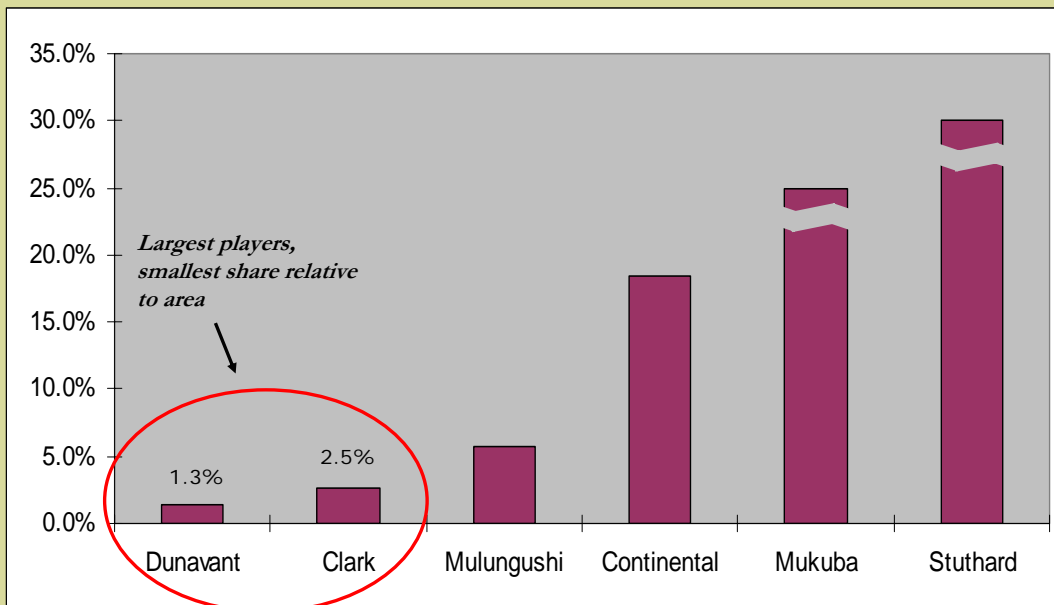


Share of COCF funds relative to share of previous year's production is highest for the smallest firms

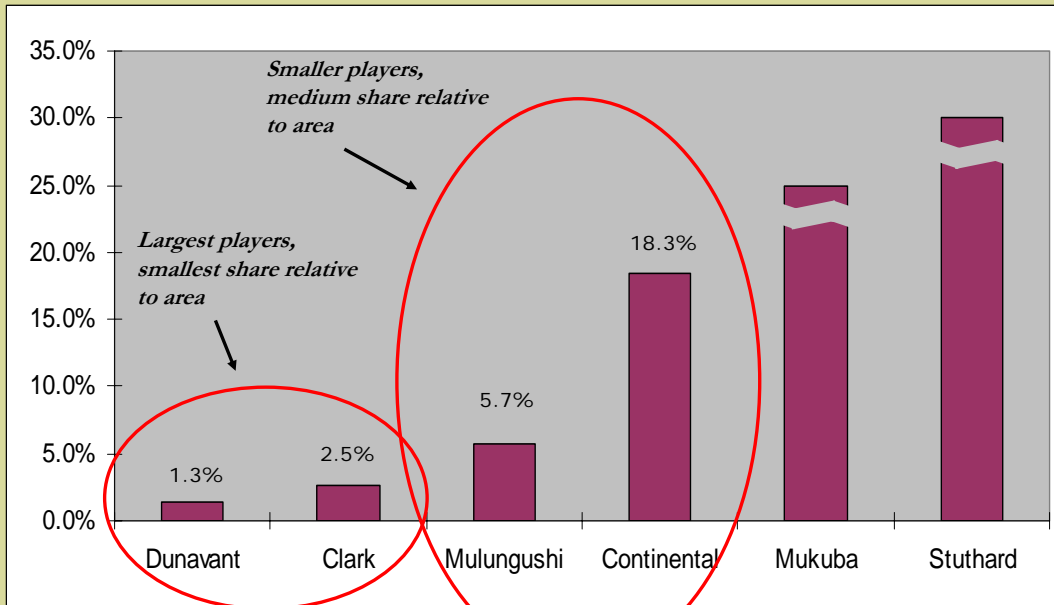
Percent of 2003/04 Cotton Area that could be Financed with
2004/05 COCF Allocations



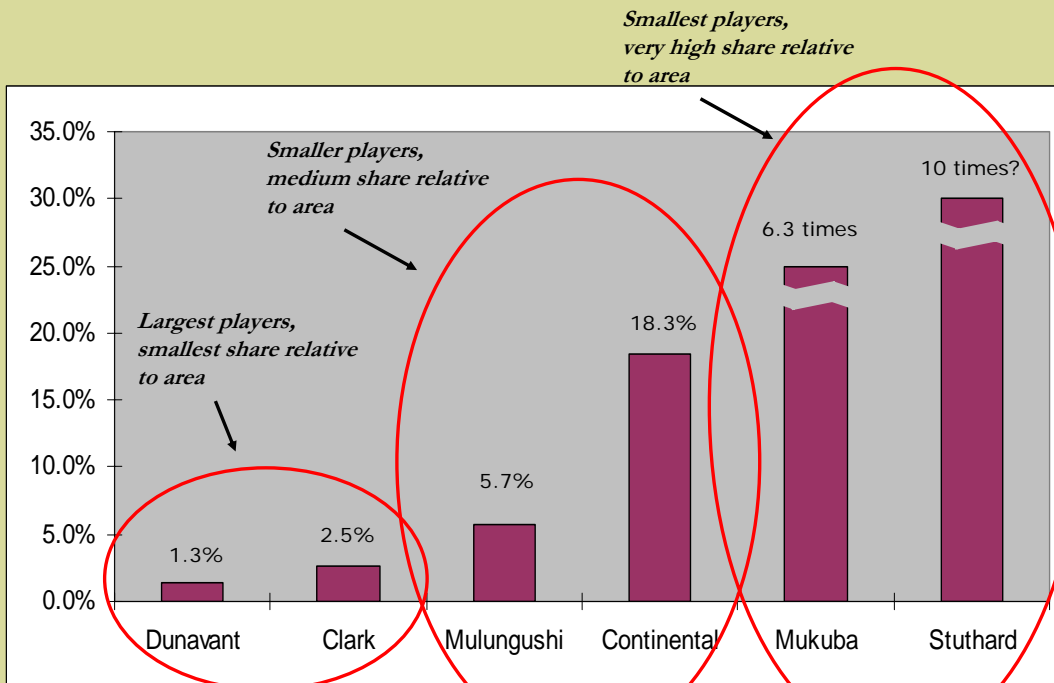
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Percent of 2003/04 Cotton Area that could be Financed with
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Percent of 2003/04 Cotton Area that could be Financed with
2004/05 COCF Allocations



Cotton Outgrower Credit Fund (5)

- 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?

Cotton Outgrower Credit Fund (6)

- 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?