

The Evolution of the Cotton and Textile Industry in Zambia

A presentation at ICAC Research Associate Program
Washington DC
10 April, 2009

By
Stephen Kabwe
Research Associate
Food Security Research Project/MSU
Zambia

Outline

- Introduction
 - FSRP and the cotton sector
- Developments in the cotton sector
 - Background information
 - Production and Marketing trends from 1994 to 2008
 - Successes and Challenges
- Developments in the textile industry
 - Background information
 - Current situation
- Conclusion

FSRP involvement in the cotton sector

- The Project is funded by USAID and SIDA
- Since inception in 1999, the project has been working in the cotton sector
 - Empirical research
 - Capacity building
 - Outreach activities

FSRP Collaborators in cotton issues

- The Government of the Republic of Zambia through MACO
- Agricultural Consultative Forum (ACF)
 - ☞ Promotes policy dialogue with all agricultural stakeholders
- Cotton Development Trust
 - ☞ Varietal development
 - ☞ Extension & Training of farmers

FSRP Collaborators in cotton issues

- Cotton Association of Zambia (CAZ)
 - ☞ Strengthening farmers groups for effective participations in the industry
- The Cotton Ginner's Association
 - ☞ Observance of the rules and regulations of the industry as per cotton Act
- Golden Valley Agricultural Research Trust
 - ☞ Cropping systems research
- Conservation Farming Unit
 - ☞ Promote the use of conservation agriculture technologies

Zambia

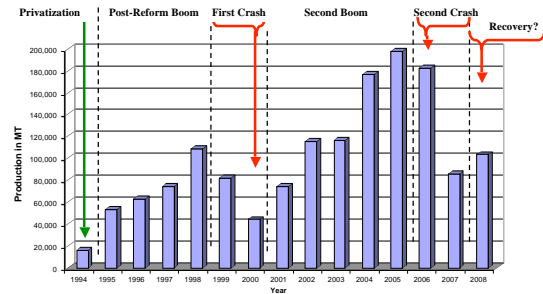


- Landlocked country
- Over 11 million people
- 1 million smallholder farmers
- Currently around 150,000 smallholder cotton farmers
- The economy is dependent on minerals
- Now, there is a shift to support agriculture

Background information

- Cotton is a smallholder farmer crop grown by over 150,000 households in Zambia currently
 - With a dependence ratio of 1 to 6, there are about 900,000 people directly or indirectly dependent on cotton production for their livelihoods
- Cotton production is under contract farming through out-grower schemes
 - And the pre-financiers buy the crop from the farmers so there is a guaranteed market
- Initially the cotton sector was run by a parastatal company called Lintco from 1979 to 1994
 - Production fluctuating but low (30,000MT)
 - Farmer participation (30,000 smallholder cotton farmers)
- The current installed ginning capacity is around 352,000mt
 - However, pirate buying and side selling have increased
- Cotton sector – source of Forex (Over US\$64 million & US\$ 70 million was earned from cotton exports during 2005 & 2006)

Periods of Success and challenges in Smallholder Seed Cotton Production (1994-2008)



Contract Farming of Seed Cotton

- Farmers have:
 - guaranteed access to inputs
 - guaranteed market for their crop
 - But limited price competition among firms
- Ginners have:
 - Greater assurance of throughput in their plant
 - Larger management burden
 - Risk of credit default by farmers
 - Poaching by other ginners

Success story

- There was political will in liberalization and privatization of the sector
- The sector is driven by the private sector
- Job creation for many Zambians as the sector expanded
- Revenue contribution to Zambia's economy is around US\$ 60-70 million annually
- The private companies have improved the quality of Zambia cotton lint
 - It now earns PREMIUM on the international market
- Production has been improved after privatization
 - At privatization production was about 30,000mt now on average is around 100,000mt
- Number of households growing seed cotton has also improved after privatization
 - Currently it is around 150,000th (900,000 depending on cotton income) found in the rural parts of the country

Cotton Sector Major Concerns

- Productivity is still low
 - National average is 550 – 700kg/ha of seed cotton
- Current installed ginning capacity is 352,000mt but national production is around 100,000mt
 - Resulted in increased incidences of pirate buying and side selling of seed cotton
- Inconsistent Government policy on provision of inputs.
 - The government provision of subsidized inputs for crops like maize creates a big swing out of other crops like cotton to maize hence disturbing the production plan

Cotton Sector Major Concerns cont'd

- 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
- Reduced demand of cotton lint due to worldwide financial crisis
 - If this problem continues it will reduce further the number of farmers growing in seed cotton
- Need to increase productivity by use of BT cotton
- The need to use improved cultural practices and animal traction

The Textile Industry in Zambia

- In the 1980s Zambia's textile & clothing sector had 140 companies
 - ⊞ Employed over 15,000 people
 - ⊞ Source of foreign exchange
- After liberalization in 1991, saw massive closures of these industries and now there are less than 8 companies left

Major reasons for the collapse of the textile Industry

- The textile industry in Zambia lacked competitiveness compared to all other major textile exporting countries
 - ⊞ Influx, particularly from Asia and South Africa of low priced textile and garments
- The country permits unlimited imports of used clothing and are sold at cheap prices compared to local produced clothing
- Import parity pricing of cotton lint (Liverpool index including CIF costs, plus a premium to cover credit cost and stocking holding cost)
 - ⊞ Before Lintco was privatized lint was available at Liverpool index less the freight element
- Non-availability of low cost financing for securing cotton supplies

Conclusion

- Both Industries need help to improve the value chain of cotton and its other products
- Cotton Industry
 - ⊞ There is need to consolidating the regulatory framework for production and ginning of seed cotton
 - ⊞ Raising productivity in that sector
 - ⊞ The government should help the industries to reduce the cost of doing business.
- Textile Industry
 - ⊞ The government should introduce more punitive tariffs and quantitative limitation against imports of worn clothing
 - ⊞ Zambia should take advantage of trade agreements such as COMESA, SADC, AGOA
 - ⊞ Introduction of the export processing zone should be implemented

Food Security Research Project-Zambia Website

<http://www.aec.msu.edu/agecon/fs2/zambia/index.htm>

THANK YOU