ZAMBIA COTTON SECTOR: HOW CAN IT BE SUSTAINED AMIDST BOOMS AND SLUMPS?

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Presentation at the Cotton Stakeholders’ Meeting
Golden Peacock Hotel Lusaka
12th May, 2014
Outline

- Overview of Zambia’s Cotton Sector
  - Boom followed by crisis
- Linking cotton sector performance to sector type
  - Competition – coordination trade off
- Linking regulatory approaches to sector type
  - Cotton Act
  - CCP
- Way forward
Overview
Booms and busts after Privatization

![Graph showing seed cotton production and prices from 1994 to 2014. The graph includes bars for production and a line for prices, with a linear trend line for production.](image-url)
### Booms and busts after Privatization

<table>
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<tr>
<th>Year</th>
<th>Seed Cotton Production (MT)</th>
<th>Seed Cotton Price (Zmk/kg)</th>
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**Privatization**

- **Post-Reform Boom** (Private sector success story)
- **1st Crash** (Credit default)
- **Second Boom** (Private innovation, rising govt involvement, increased private sector entry)
- **2nd Crash** (Macroeconomics + credit default)
- **Ambiguity period**
- **Boom period**

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**Description:**

- **Seed Cotton Production (MT):** Shows the gradual increase in production post-privatization.
- **Seed Cotton Price (Zmk/kg):** Demonstrates the fluctuation in prices from 1994 to 2014.
- **Linear (Seed Cotton Production (MT)):** Represents the trend line for seed cotton production.

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**Note:** The graph illustrates the phases of the Cotton Seed industry post-privatization, highlighting the boom periods and crashes due to various economic factors.
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- Blue means the company was/is doing toll ginning
- Olive green: company had/has a gin
- Nu of companies has been increasing after privatization (currently is 11)
Evolution of Zambia’s Cotton Sector

- The sector experienced **rapid growth** after privatization:
  - Production of seed cotton **increased** from an average of 30,000mt to over 100,000mt
    - First in 2005 recorded highest production then due to private sector reorganization
    - In 2012 the sector recorded highest production after farmers responded to favorable prices of seed cotton
  - After privatization companies **improved the quality** of Zambia cotton lint
    - The country earned **PREMIUM** on the international market
  - **Increased in farmers participation** in cotton production
Evolution of Zambia’s Cotton Sector

- Structure of the sector changed from two companies (highly concentrated) to over 11 companies (less concentrated)
- With only few ginning companies providing full input package while other providing less but buying more
- Resulted in rampant side buying which led to credit default by farmers
- Also coupled with fluctuation of lint price at world mkt
- Three crashes experienced after privatization
- Low productivity
Evolution of Zambia’s Cotton Sector

- To protect the remarkable success after privatization:
  - Stakeholder started formulating a regulatory framework in 2000 and cotton Act was enacted in 2005
    - The Cotton Board of Zambia was seated in 2009
  - To strengthen farmers lobbying Cotton Association of Zambia was created in 2005
  - We have seen an increase in collaboration between CAZ and ZCGA but fluctuation in prices has resulted in disputes
    - Because there is no price setting mechanism in place
Linking cotton sector performance to sector types
Sector types

- National monopoly
- Regional monopoly
- Concentrated, market-based
- Competitively structured
Competition-coordination trade-off

- Sectors with few buyers (“less concentrated”, e.g. Zambia, Zimbabwe) offer:
  - More input credit and ext service → better yields
  - High quality → high price premium on world markets
  - Lower prices than competitive sectors

- Sectors with many buyers (“competitive”, e.g. Tanzania)
  - No input credit and no ext service → low yields
  - Low quality of lint
  - Higher prices to farmers
Competitively structured cotton sectors are not inherently superior to concentrated sectors
Linking regulatory approach to sector type
What do we mean by regulation?

• Any formalized set of incentives and sanctions meant to influence behavior of participants in a particular direction “Rules of the game”
• Could be public, private, or a mix of the two
• Regulations could be effected at different stages:
  • registration requirements,
  • information sharing
  • requirements export permits,
  • quality standards,
Regulatory Objectives

- Achieving **coordination** between sector stakeholders, so as to ensure:
  - the provision of inputs to smallholder producers
  - the maintenance of lint quality
- Ensuring that a win-win results, for example: Price negotiation between ginners and farmers for their seed cotton
Cotton Act in Zambia

- Enacted because of the challenges faced by the Sector
- Allowed the creation of CBZ
  - Regulate production, processing and marketing of cotton
  - Advise government on regulations and policies related to the sector
  - Monitor and report on implementation of policies and matters related to the sector
  - Carry out such activities as are necessary....
- Lack of price setting mechanism in the Act
Competition and Consumer Protection Commission

- Created by the Act of Parliament of 2010
- Provisions of the Act are likely to affect the operations of the cotton sector
  - For example last’s CCPC ruling: Zambia Cotton Ginners Association and Cotton Association of Zambia were not allowed to discuss the prices as that was seen as colluding
Cotton Sector is a remarkable success sector after liberalization;

However, there have been booms and crisis

How can this success be guided?

• Formation of CBZ, CAZ, ZCGA and then should be dialogue

Pricing

• Need a price-setting mechanism that is more formalized and transparent that can generate a win-win indicative price to reduce the price disputes between farmers and ginners
Way forward [2]

- Need to consider ways of **improving Quality** of cotton

- Since, some of the provisions of CCPC 2010 Act are likely to affect the operations of the Cotton Sector, there is need to engage CCPC and come up with concrete solutions

- All should point to
  - Enhancing productivity at farm and ginnery levels
    - Key for a sustainable cotton sector
Thank You