

Regulatory Framework, Organization and Performance of Cotton Sub-Sector for Zambia

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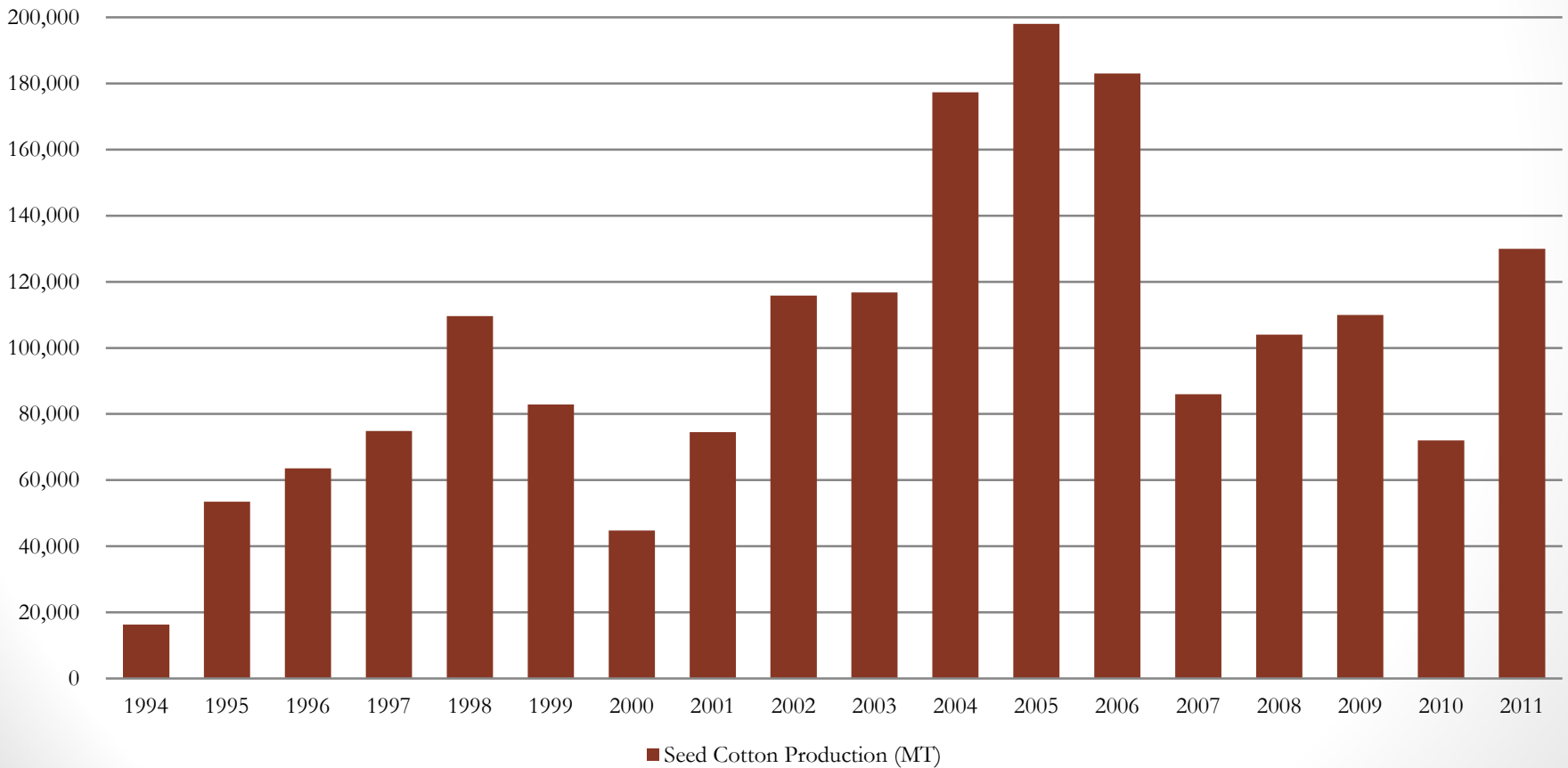
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Outline

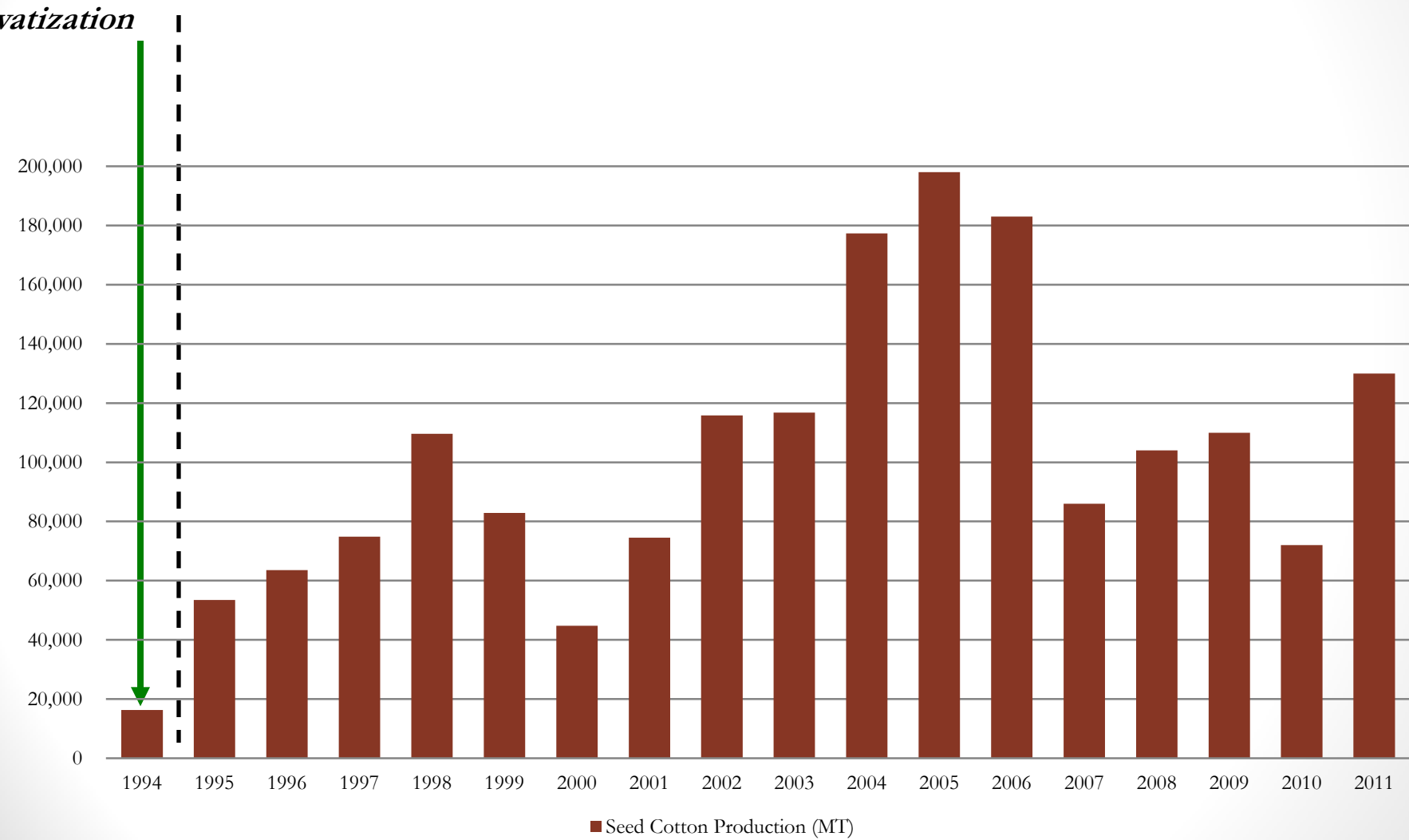
1. Evolution of the Zambia's cotton sector
3. Regulatory framework for Zambia
4. Other Issues
5. Conclusion

Evolution of Zambia's Cotton Sector Since Liberalization

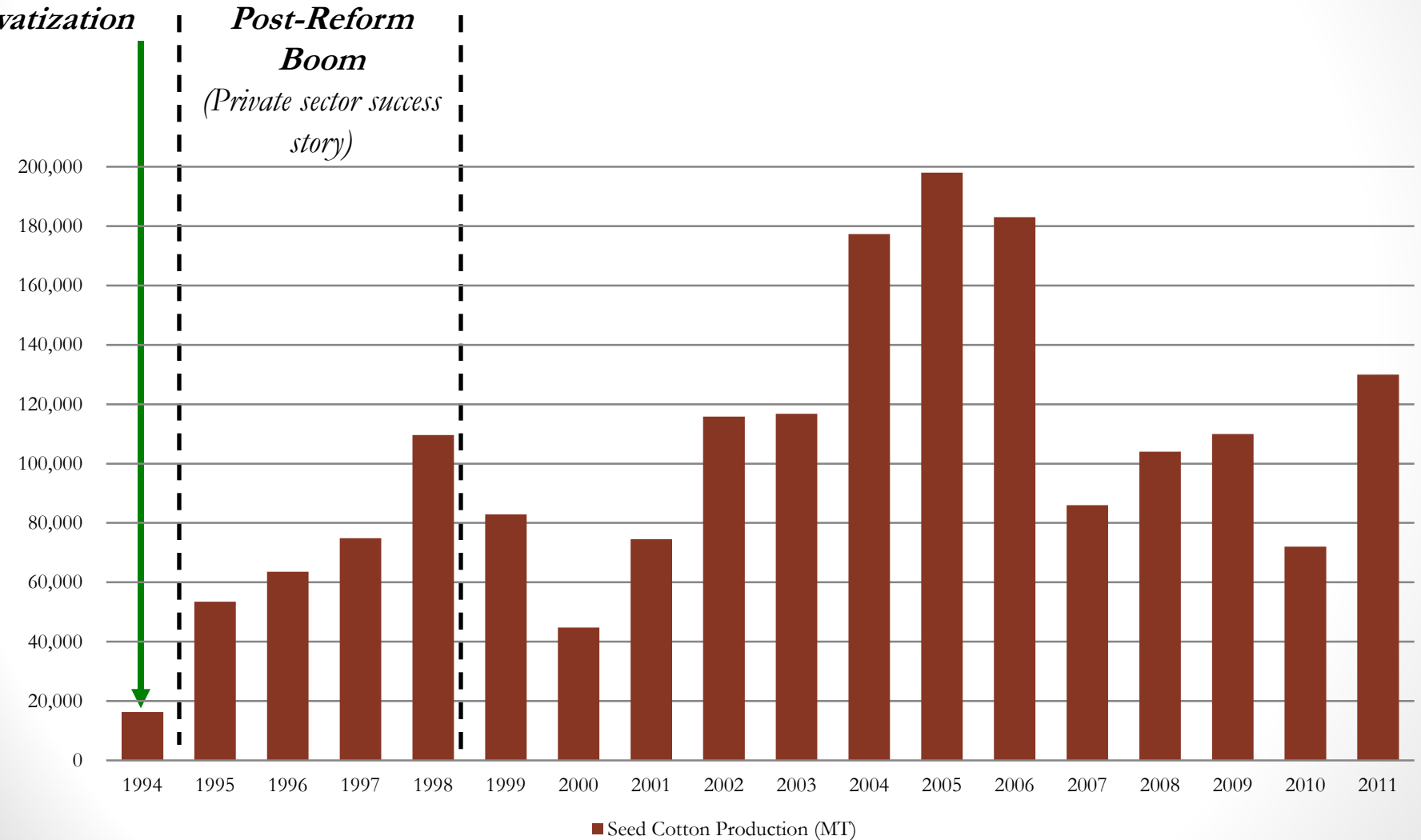
The Evolution of Zambia's Cotton Sector



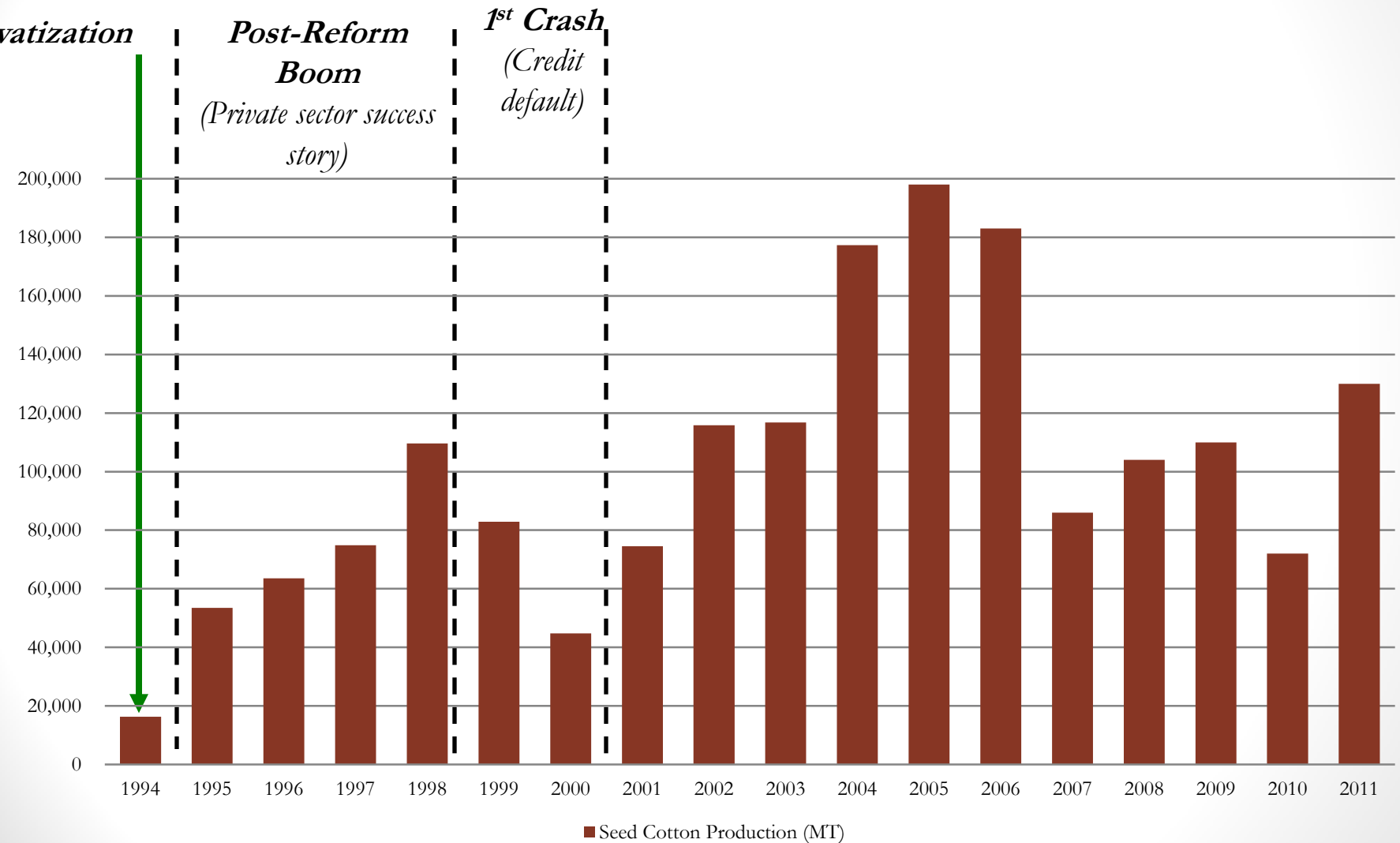
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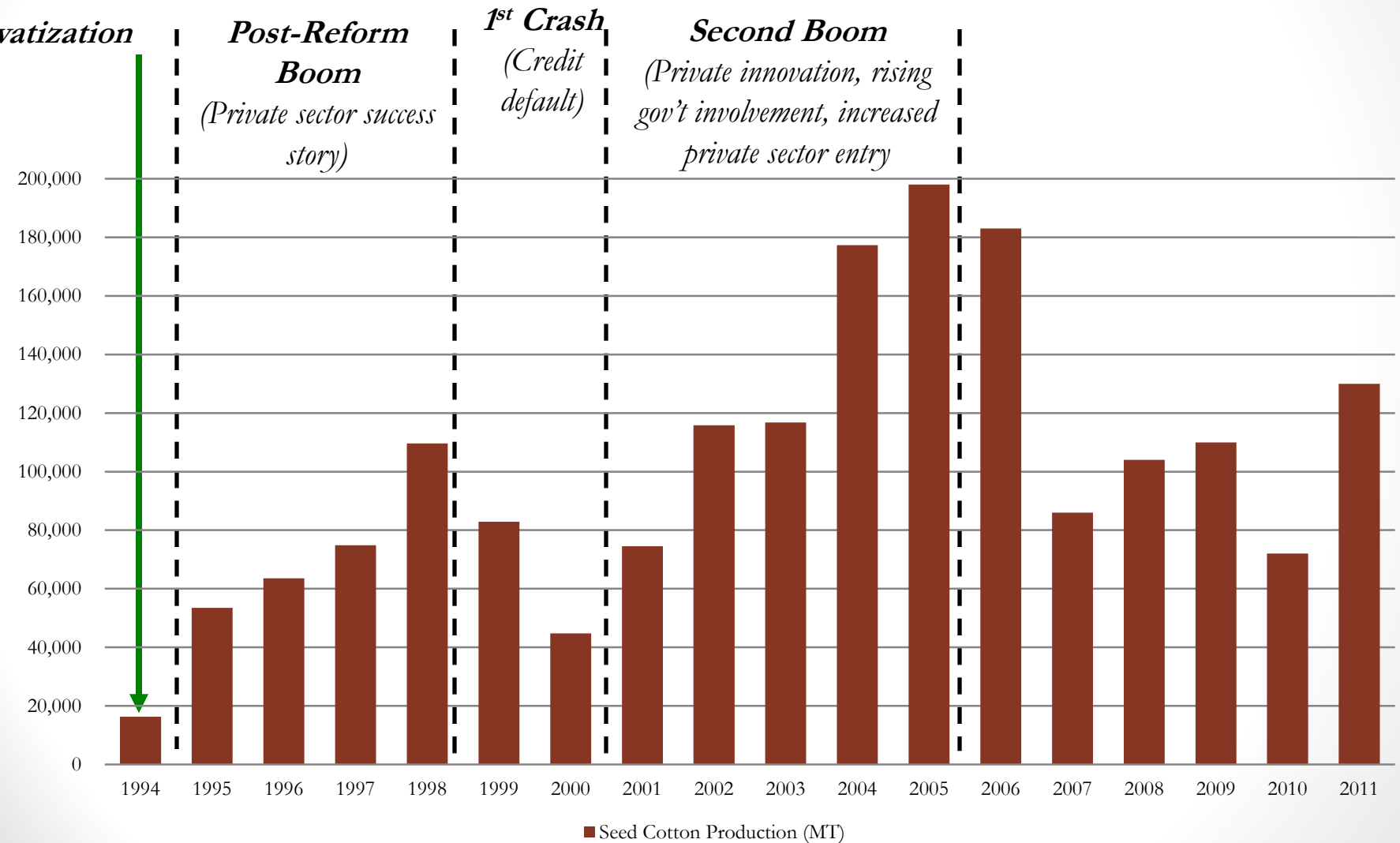
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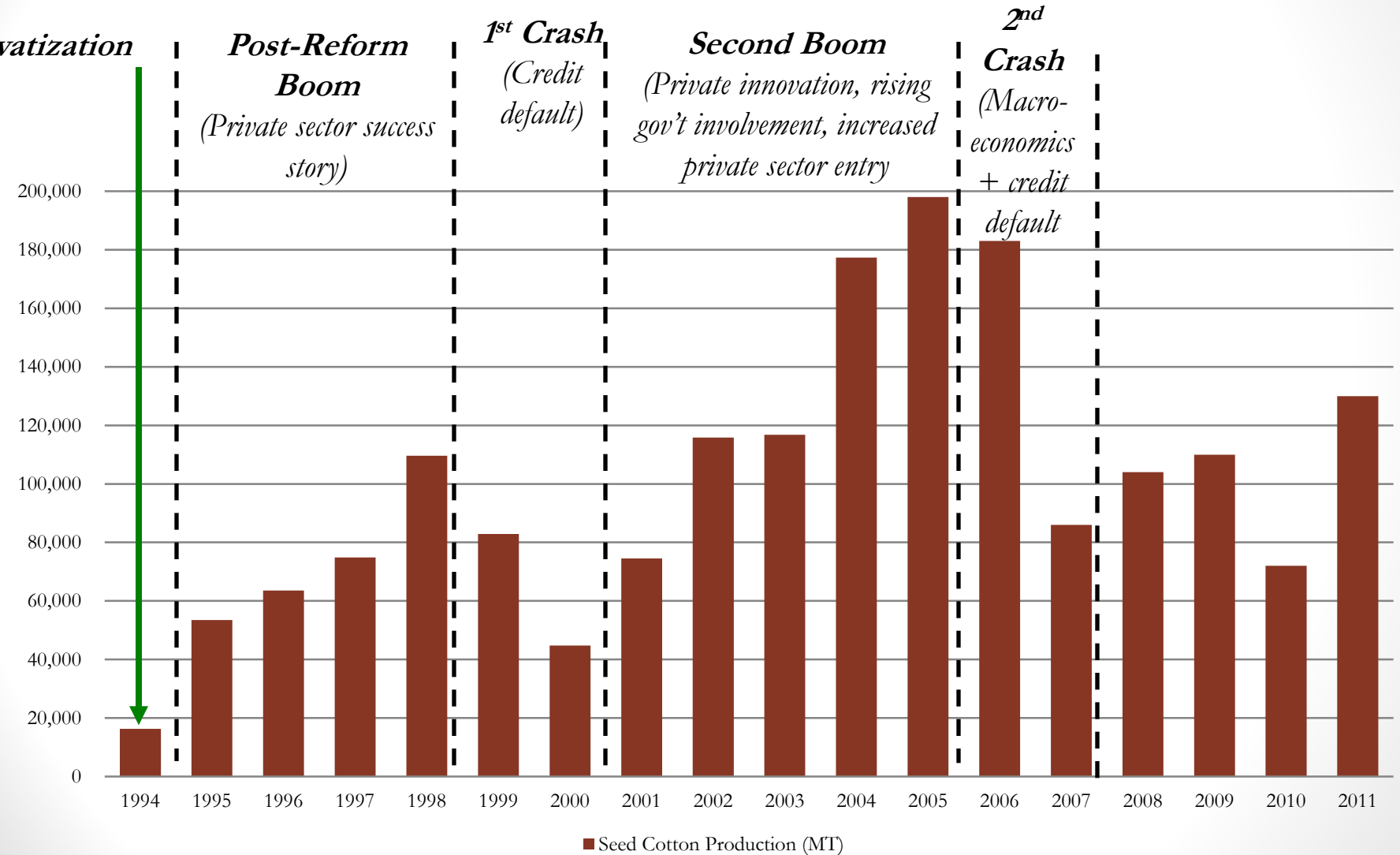
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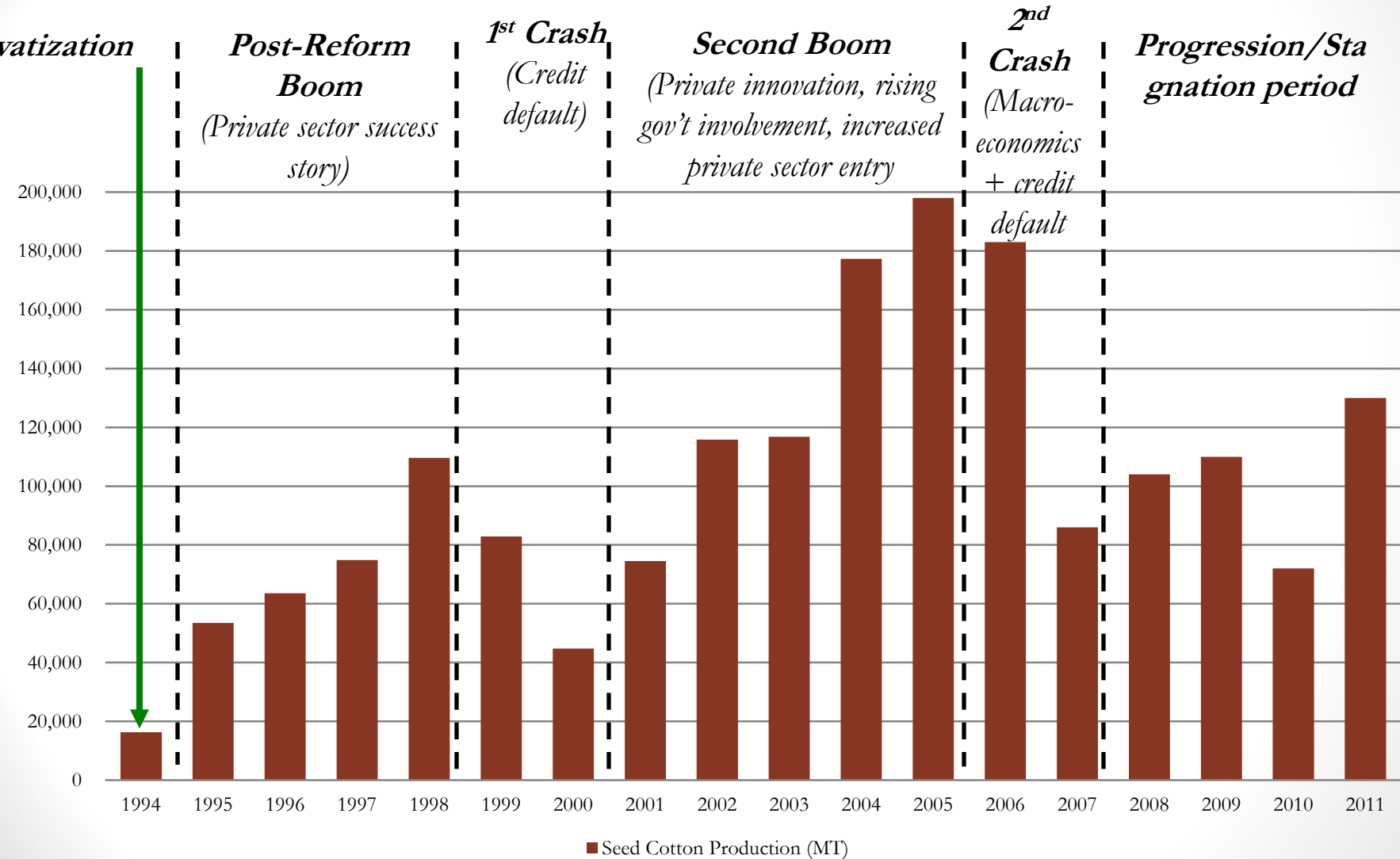
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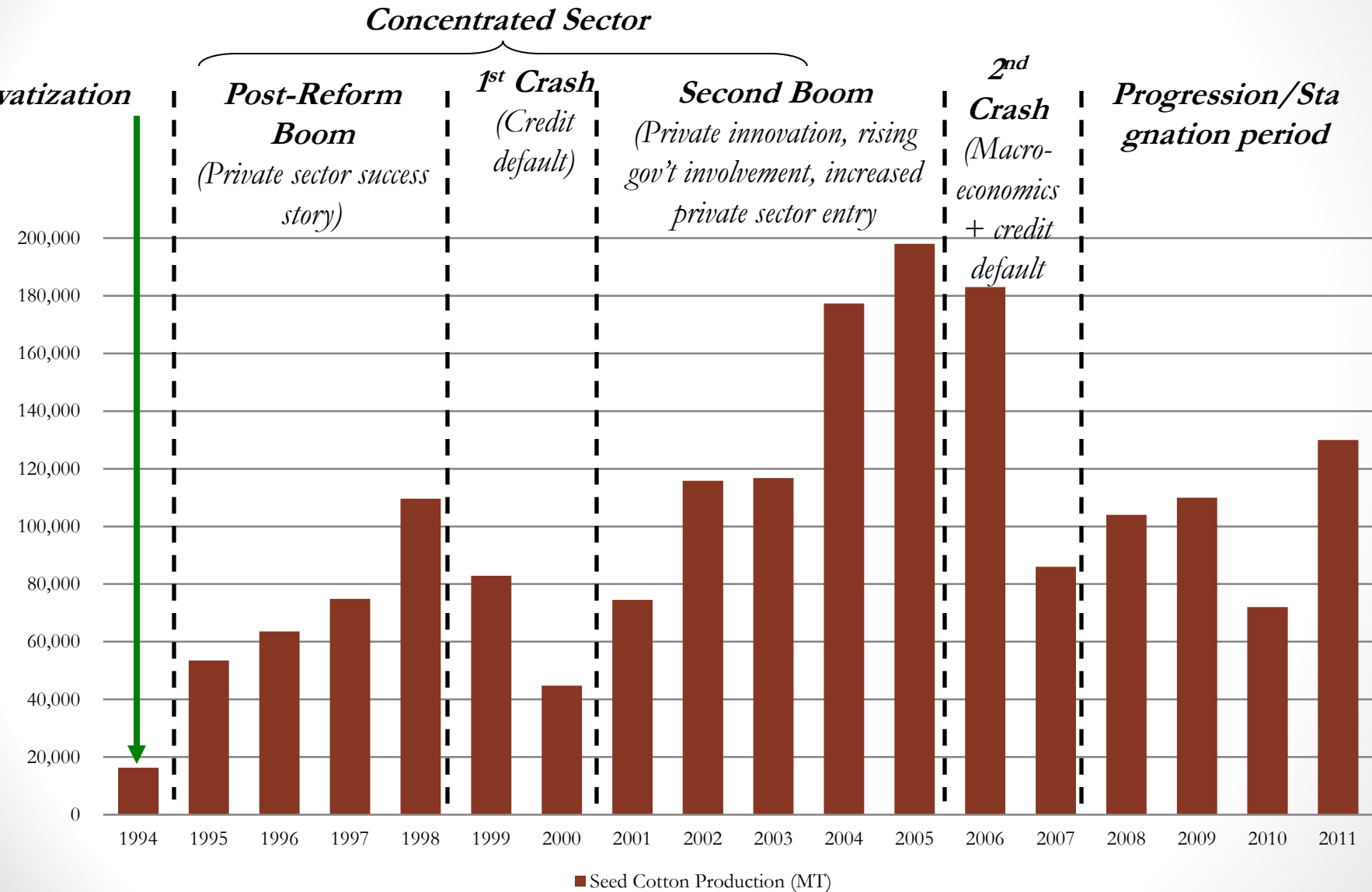
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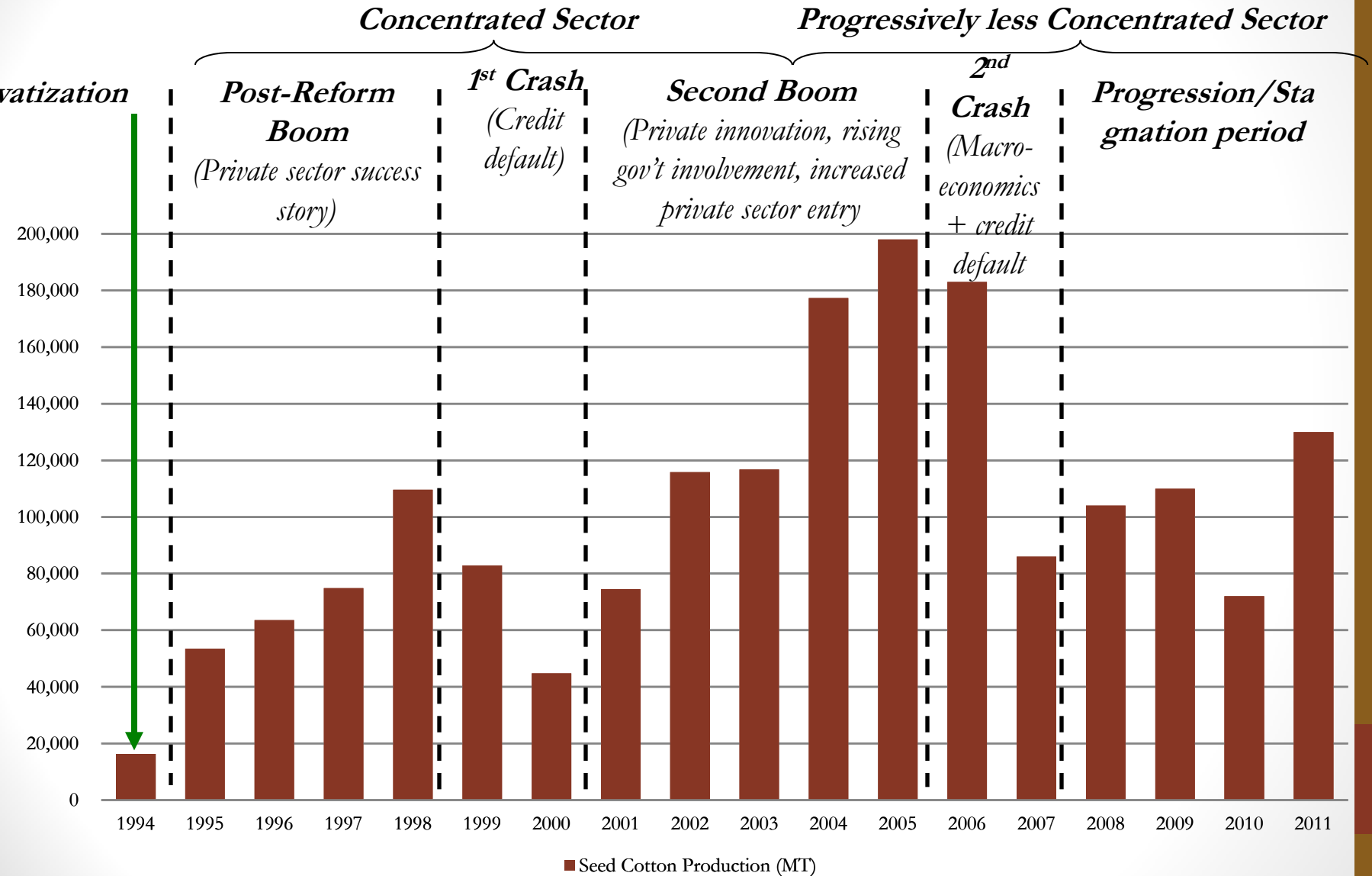
The Evolution of Zambia's Cotton Sector



The Evolution of Zambia's Cotton Sector



The Evolution of Zambia's Cotton Sector



Number of Ginning Companies & total capacities

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Lonrho/Dunavant	√	√	√	√	√	√	√	√	√	√							
Clark/Cargill	√	√	√	√	√	√	√	√	√	√							
Olam/Continental			√	√	√	√	√	√	√	√							
Z-C Mulungushi			√	√	√	√	√	√	√	√							
Mukuba			√	√	√	√	√	√	√	√							
Amaka Holdings			√	√	√	√	√										
Agents and private traders			√	√	√	√	√										
# of Ginners	2	2	6	6	6	6	6	5	5	5							
Total Ginning Capacity ('000 mt)	90	90	150	150	150	150	150	128	145	187							

Number of Ginning Companies & total capacities

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Lonrho/Dunavant	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Clark/Cargill	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Olam/Continental			√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Z-C Mulungushi			√	√	√	√	√	√	√	√	√	√	√	√			
Mukuba			√	√	√	√	√	√	√	√	√	√	√	√			
Amaka Holdings			√	√	√	√	√										
Agents and private traders			√	√	√	√	√										
Chipata China Cotton											√	√	√	√	√	√	√
Grate Lakes												√	√	√			
Alliance Cotton													√	√	√	√	√
Birchand Oil Mills															√	√	
Yustina														√	√	√	
Luangwa															X	X	
Africotton																	√
# of Ginners	2	2	6	6	6	6	6	5	5	5	6	7	8	9	8	9	6
Total Ginning Capacity ('000 mt)	90	90	150	150	150	150	150	128	145	187	202	222	242	252	257	257	237

- **Green** means the company was doing toll ginning

Summary Evolution of Zambia's Cotton Sector

- Zambia's cotton sub-sector a success story
 - Production rose from 20,000 to 180,000mt a decade later (2 yr averages centered on 1994 and 2005)
 - Number of farmers, ginning capacity grew
 - By mid 2000s Zambia received among the highest quality premia in Africa
 - Exports of lint from 2002 to 2005 were first among all agricultural exports in value (30% higher than cane sugar)

Summary Evolution of Zambia's Cotton Sector (2)

- In the midst of rapid growth, sector experienced two major crashes because:
 - Structure of the sector changed
 - Rampant credit default by farmers
- Formulation of the regulatory framework started after the first crash
 - To protect the remarkable success

Regulatory Framework

The Cotton Act: Origins

- Original version several decades old (1914 Act)
- New Initiative starting ~ 2000
 - CDT working with Lonrho/Dunavant and other stakeholders
 - Response to rampant credit default during first collapse
- Creation of a multi-stakeholder regulatory Cotton Board

Cotton Act: Origins (2)

- 2005 version signed by President
 - Despite some strong reactions/suggestions from farmers and ginners

Strength of the 2005 Act

- A multi-stakeholder regulatory Cotton Board
 - Public -private sector regulation
 - Sets “rules of the game” that allow the sector to govern itself in a way that protects and builds on its successes in service provision and cotton quality

Main weaknesses of the 2005 Act

- Board membership considered big with institutions that are not directly affected by provisions of the Act
- Funding to the Board is limited and this hampers the functions of the Board

Initiatives to address weaknesses

- Cotton Act Working group was created in 2006 to look at the weakness and made recommendation the summer of 2006
- The progress on incorporating the revisions has been very slow
 - The revised Act has been with Ministry of Justice for over 3 years
- The 2005 Act was operationalized in 2007

The Cotton Act: Forging ahead

- Cotton Board seated early 2009 with a composition of 6 public/ 6 private: Focus on:
 - Licensing committee
 - Pre-financier's license
 - Seed cotton buyer's license
 - Cotton ginner's license
 - "... conditions for issue ... as the board may prescribe"
 - Data base on credit status of borrowers
 - The process of creation of database has started and is co-financed by COMPACI and FSRP

Other Issues

Organization of Seed Multiplication and Distribution

- By law, varietal development is done by Cotton Development Trust
 - Seed Varieties in Zambia: Chureza (1988), F135 (1992), CDT II (2006) and recent released CDT V
- Seed multiplication is done by ginning companies with contracting farmers
- Seed is then certified by officials from SCCI
- In most cases seed is treated prior to distribution to farmers (but some give untreated seed)

Quality of lint

- Ginning companies follow official grading system of A, B, and C for seed cotton, though Dunavant added A+.
- To achieve good quality of lint
 - Dunavant has led the way
 - Installing cleaning stations in each gin, finding and manually removing polypropylene fibers
 - Cargill has relied on the strength of its highly organized field operation

Marketing of seed cotton

- There has been no government mandated price, nor any pricing guidance of any kind from government, since liberalization in 1994
- Indicative price is set in consultation between ginners and Cotton Association of Zambia
- Last year (2009/10), price competition became a key tool in attracting buyers

Key Issues

- Zambia has a regulatory framework in place, but for it to function well, needs:
 - Adequate funding for Cotton Board
 - Incorporate the revisions that were proposed by the Cotton Act Working Group
 - Take advantage of regional, continental, and international experience in deciding how to pursue its mandate in practice
 - Protect against the public sector becoming too dominant in the Board

Thank you