

CASE STUDY

Market power and value addition deliver income gains for Zambian cotton farmers



The challenge

African cotton farmers, such as those in Zambia, often struggle to eke out a reasonable living. There are three main reasons for this.

The first is low yields. Cotton yields in Africa are among the world's lowest. Average yields in eastern and southern Africa stood at 238 kilograms per hectare in 2015-16 compared to 370 kg in western Africa and a global average of 693 kg per hectare.

The second is high price and weather risks. Every year, farmers decide whether or not to cultivate cotton based on price levels during the previous season. By the time the cotton is ready to harvest, however, prices may have changed quite dramatically. Moreover, cotton is vulnerable to drought and shifts in rainfall patterns.

Finally, market dynamics in many African countries are unfavourable for cotton farmers. The prices Zambian farmers receive for their seed-cotton – cotton fibres grow tightly intertwined with seeds – are among the lowest in Africa: in 2015-16, Zambian farmers were paid \$0.30 per kg at the then-prevalent exchange rate as compared to the \$0.43 per kg average received by farmers in Eastern and Southern Africa. In addition, the ginneries to which farmers sell their seed-cotton to separate the fibres, called lint, from the seeds – a necessary step before the cotton can be spun into yarn and made into fabric – have typically been owned by a small number of multinationals. The ginneries retain the seeds, which means farmers cannot press the seeds for oil or use them for animal feed and need to buy seeds back if they want to plant cotton the following season.

If Zambian farmers could get more money for their cotton – through better rates at the ginnery and by adding value to it themselves – it would boost their incomes and decrease their vulnerability to price volatility. Higher incomes from cotton would make it possible for them to grow cotton every year instead of only from time to time, in turn enhancing farmers' incentive to invest time and money in yield improvements.

The response

In partnership with the Cotton Association of Zambia (CAZ), ITC has intervened on two fronts: to increase farmers' market power by supporting the establishment and operations of a new ginnery co-owned by farmers; and to foster greater value addition by training farmers to hand-spin yarn and produce handwoven fabrics for sale in domestic, regional and international markets.

In late 2015, ITC helped set up Zambia's first farmer-owned ginnery, the Mumbwa Farmers' Ginning and Pressing Company (MFGPCo), in the country's Central Province. ITC and CAZ are now working with the ginnery to train its personnel on export management and to facilitate linkages to export markets for the cotton it processes. In addition, they are working with farmers to improve quality by introducing a quality grading structure for seed-cotton, which would incentivize higher-quality production as farmers would receive higher rates for top-grade seed cotton.

In parallel to this work, ITC and CAZ are working to equip over 300 local farmers to add value to some of the cleaned lint they get back from the ginnery. Experts from India and Ethiopia – among the world's leading handloom producers – trained the farmers to hand-spin yarn and then weave it into cloth. Many of these farmers, 90% of whom are women, were also trained in business skills, quality management and design.

The results

In 2016, the MFGPCo sold 257 tons of lint worth \$363,321 to mills in Southern Africa that will spin it into industrial-quality yarn.

The MFGPCo has already dramatically changed the pricing structure for farmers in the cotton sector. By paying a premium over the 2.50 Zambian kwacha (\$0.26) per kg price that the region's multinational-owned ginneries were paying farmers for seed cotton, MFGPCo forced the others



1. Classing cotton, Mumbwa 2. Mumbwa Farmers' Ginning and Pressing Company (MFGPCo) 3.&4. Training in hand-spinning cotton



to follow suit, raising farmers' receipts by more than 20% to 3.00 kwacha per kg for non-members and 3.10 kwacha per kg for members.

In addition, the MFGPCo offers farmers multiple business models instead of simply selling their seed-cotton to the ginnery and buying seeds back from it later.

'Farmers now have options for how to sell their produce,' explained Joseph Nkole, CAZ's national coordinator. He gave an example of how this had translated into substantial income gains for one farmer. The farmer had produced 3.5 tons of seed cotton. Had he sold this seed-cotton to established multinational ginners, he would have earned 2.5 kwacha per kg, making a total of 8,750 kwacha. The following season, had he wanted to plant cotton, he would have needed to buy seeds back from the ginnery at 5 kwacha per kg.

'Farmers now have options for how to sell their produce.'

Joseph Nkole, National Coordinator, Cotton Association of Zambia

With the new farmer-owned ginnery he could simply have sold his seed-cotton at the higher rate, but the MFGPCo also offered him the possibility of ginning his seed cotton for a 1,000-kwacha fee. The farmer exercised the latter option and received 1,575 kg of lint and 1,925 kg of seed back from the ginnery. He was able to sell the lint at 17 kwacha per kg and the seed for 5 kwacha per kg, bringing in a total of 36,400 kwacha – or more than four times what he would have previously earned.

Spinning yarn earns farmers an additional \$0.65 or so for every kilogram of lint. Weaving the yarn into fabric and selling it locally and around the region multiplies the value further. During the first Zambian Textile and Leather Expo 2016, farmers associated with the Mumbwa ginnery won first prize for best textile exhibitor.

The future

Though a pilot activity, the Mumbwa ginnery has demonstrated the considerable potential for cotton farmers to boost their incomes through increased market power and value addition. The operations in Mumbwa will be scaled up in 2017 as more farmers sell seed-cotton to the farmer-owned ginnery, which is also planning to set up an oil press to allow farmers to transform cotton seeds into oil. The Zambian government has announced plans for three additional farmer-owned gineries in other parts of the country.

Countries in the region such as Mozambique have expressed interest in replicating the approach.

2 ZERO HUNGER

8 DECENT WORK AND ECONOMIC GROWTH

5 GENDER EQUALITY

Funders

European Union, United Kingdom