

**Report**

*Advocacy Workshop*

***The Linkages between Trade, Development and  
Poverty Reduction***

**30<sup>th</sup> April, 2007  
Eastern Province**

**Organised by Consumer Unity and Trust Society- Africa Resource Centre (CUTS-  
ARC) and Organisation Development and Community Management Trust  
(ODCMT)**

<b>Table of Contents</b>	<b>Page</b>
(i) Acknowledgements.....	3
(ii) Abbreviations and Acronyms.....	4
<b>1.0. Introduction and Background.....</b>	<b>5</b>
1.1. Overview.....	5
1.2. Workshop Organisation and Objectives.....	6
1.3. Opening Remarks.....	7
1.4. Project Background.....	7
<b>2.0. Trade Liberalisation in Zambia.....</b>	<b>7</b>
2.1. Presentation on the Background on Trade Liberalisation.....	7
2.2. Introduction of TDP Toolkit.....	8
2.3. Participants' Expectations.....	8
2.4. Presenters' Response.....	9
2.5. Floor Discussion.....	10
<b>3.0. Cotton Marketing Scenario for Zambia.....</b>	<b>8</b>
3.1. Presentation .....	11
3.2. Floor Discussion.....	14
3.3. Presenters' Response.....	16
<b>4.0. Impact of Liberalisation in Zambia: Case Study findings.....</b>	<b>16</b>
4.1. Presentation on Agro-processing Sector.....	16
4.2. Floor Discussion.....	17
4.3. Presenters Response.....	18
4.4. Presentation on the Textile Sector.....	18
4.5. Floor Discussion.....	21
4.6. Presenters' Response.....	22
<b>5.0. Recommendations and Closing Remarks.....</b>	<b>22</b>
5.1. Recommendations.....	22
5.2. Closing Remarks.....	23
<b>6.0. Annex.....</b>	<b>24</b>
6.1. Annexure I: List of Participants.....	24
6.2. Annexure II: Workshop Agenda.....	25

## **Acknowledgements**

We would like to thank the Department for International Development and the Ministry of Foreign Affairs, The Netherlands, for the support rendered for the TDP project and for this workshop in particular. Gratitude is also extended to the workshop participants for their contributions and to the presenters, Ms. Irene Banda and Mr. Zindikilani Daka from ODCMT, as well as Mr. Vladimir Chilinya from CUTS-ARC. This report has been prepared by Musamai Masheta.

## **List of Abbreviations and Acronyms**

COMESA .....	Common Market for Eastern and Southern Africa
CSOs .....	Civil Society Organisations
CUTS.....	Consumer Unity and Trust Society
CUTS-ARC.....	Consumer Unity and Trust Society Africa Resource Centre
DFAs .....	District Farmers Association
GDP.....	Gross Domestic Product
IMF.....	International Monetary Fund
JITAP.....	Joint Integrated Technical Assistance Programme
LDCs.....	Less Developed Countries
NYCA.....	National Youth Constitutional Assembly
NGO(s).....	Non-Governmental Organisation(s)
SADC.....	Southern African Development Community
SSFs .....	Small Scale Farmers
ODCMT.....	Organisation Development and Community Management Trust
WTO.....	World Trade Organisation

## **1.0: INTRODUCTION AND BACKGROUND**

### **1.1. Overview**

Over the last two decades, Zambia has witnessed an escalation in its poverty situation with about 80 percent of the country's estimated 12 million people living in absolute poverty. Despite the country being one of Africa's most urbanized nations, poverty is more pronounced in rural areas where economic activities are agriculturally based. In response to the economic woes that were faced by the country at the turn of the 1990s, Zambia, like many other African countries, has been pursuing economic reforms aimed at transforming the once heavily state-controlled, mining sector-dependent economy into a market based, diversified one. However, the real benefits of the economic liberalisation programme vis-à-vis poverty reduction are highly debatable. Apparently, the rise in poverty levels has 'coincided' with the period in which the private sector has assumed a greater role in the economy and the state has reduced its role in the market.

Increasingly from 1991, Zambia embarked on an IMF and World Bank supported economic reform programme, which culminated in the privatisation of state owned companies in various sectors including mining, agriculture and manufacturing, freeing of the exchange rate, market based determination of interest rates and liberalisation of the trade regime.

Since trade liberalisation efforts were not aimed at promoting internal trade but at foreign exchange earning external trade, Zambia has entered into various trade agreements with bodies such as SADC, COMESA, WTO, and has preferential trade arrangements with the European Union (EU) and the United States (US) under the Everything But Arms (EBA) agreement and Africa Growth and Opportunity Act (AGOA) respectively, and other bilateral trade agreements. The EU and the US offer important export markets for Zambia, particularly for non-traditional exports such as floricultural products and textiles, while China gets a bigger share of Zambia's copper exports. On the import side, South Africa accounts for about one-third of the country's imports, with the EU and Japan also having significant market shares.

The rate of the liberalisation process of the Zambian economy, including that of trade, has not been matched with a commensurate economic growth rate. Economic growth has generally been low, though the past few years have recorded some promising economic growth figures, and the real Gross Domestic Product (GDP) growth rate has been hovering around 5 percent. The 2006 figure was 5.8 percent, which is too insignificant to make a serious dent on the accruing poverty levels across the country, or to attain the MDGs. Economic diversification, as set up in the economic reforms as an objective, has been slow. The mining sector still remains the country's major export earner, contributing 61.7 percent to export earnings and 8.3 percent to GDP in 2003. However, the impact of trade and general economic liberalisation on sectoral performance varies from sector to sector, with some failing to perform under the new economic dispensation. Perhaps even more significant in relation to poverty reduction, is that contrary to classical economic theory which states that trade, whether internal or external, grants benefits to all parties involved; trade tends to not have the same positive effect on all parties in the regime.

Ironically, the statistics show that trade tends to immensely benefit some participants at the expense of the others.

Zambia, along with other LDCs and developing countries, and supported by many activist organisations, has been arguing that trade can be an even more effective tool than aid in the fight against poverty. As such, liberalising trade was seen as crucial to expanding the market for Zambia's exports from the domestic market that is characterised by a small population with less effective demand, as well as for the creation of employment opportunities, developing competitiveness in the economy, and providing a variety of quality goods and services at competitive prices for the benefit of ordinary consumers and corporate organisations. However, Zambia's experience underlines the reality that the system (including regulations and agreements) surrounding trade and the positions and interactions of the various participants in trade regimes determine the winners and losers, or at the very least influence the flow of benefits and losses in the trading process.

It should be noted that the link between trade, development and poverty reduction is not as clear as it is usually taken. The association is a complex one as trade; especially in the context of liberalisation may produce losers and winners. It is also useful to bear in mind that trade is just one of the various factors that influence 'development' and that various actors will have different views on what constitutes development. Additionally, 'development' may not be equated to poverty reduction nor does it follow that 'development' automatically translates into poverty reduction.

## **1.2. Workshop Organisation and Objectives**

The advocacy workshop was organised by Consumer Unity and Trust Society - Africa Resource Centre (CUTS-ARC) and Organisation Development and Community Management Trust (ODCMT) under a project entitled Trade, Development and Poverty Reduction (TDP) which is being supported by the Department for International Development (DFID) and the Ministry of Foreign Affairs, The Netherlands.

The objectives of the advocacy workshop were;

- To sensitise people on the ground on the impact of liberalisation on the Zambian economy.
- To create awareness and share lessons on the linkages between Trade, Development and Poverty Reduction from national, regional and international perspectives.
- To create a wider platform for the debate over the linkages between liberalisation and the poverty situation in Zambia and to use the TDP as a platform for demystifying trade policies that are people driven – having input from the people at the grassroots level.
- To build advocacy skills, which are useful in lobbying and advocacy, as well as to enhance a media campaign strategy.

## **Participation**

The workshop was attended by participants from various organisations including representatives from the Chipata District Farmers Association, youth organisations, and Civil Society for Poverty Reduction (CSPR) affiliated organisations (see Annexure I).

### **1.3. Opening Remarks**

The chairperson of the workshop, Ms. Irene Banda from ODCMT opened the workshop and asked participants, including the facilitating team, to introduce themselves. She drew the attention of the participants to the agenda and urged them to participate actively and take the workshop as a learning experience where ideas would be shared among openly.

Mr. Zindikilani Daka from ODCMT also made some introductory remarks. He thanked the participants for attending the meeting and urged them to participate in the discussions. He drew the attention of the participants to the complexity of the linkage of the three concepts i.e. trade, development and poverty reduction, and wondered which one affects the other, and thus pointed out that the workshop provides a perfect platform to explore the links between the three concepts. He also pointed out that there has been a lot of work on the TDP at national level but now the focus has changed to consider the TDP aspects at grassroots level. He highlighted that Eastern Province is very poor (rated second highest in terms of poverty incidence), something that places a huge challenge on reducing poverty levels. He challenged the participants to focus more on the solutions rather than the problems.

### **1.4. Project Background - Vladimir Chilinya**

In giving a background on the TDP project, Mr. Chilinya indicated that the objective of the project is to look at the impact of liberalisation in general and trade liberalisation in particular on Zambia. The rationale is to help guide policy making and implementation in light of the fact that Zambia has embarked upon liberalisation and seems to continue on the same path without taking stock of how liberalisation has impacted the economy and domestic poverty levels. Thus by carrying out studies and consulting stakeholders, it is hoped that development-focused and poverty reduction-supporting trade policies will be devised and implemented. He revealed that in order to carry out advocacy, the project has chosen two sectors, the agro-processing sector and the textile sector, which have recorded quite contrasting effects as a result of the liberalisation process.

## **2.0. BACKGROUND ON TRADE LIBERALISATION IN ZAMBIA**

### **2.1. Presentation on the Background on Trade Liberalisation –Vladimir Chilinya**

Mr. Chilinya advanced the view that mining and not trade per se, was the driving force behind Zambia's economy before the advent of liberalisation in the 1990s. However, following sustained poor economic performance by the state run economy, characterised by protectionist trade policies, Zambia introduced sweeping economic reforms

increasingly from 1991, with market liberalisation and the removal or substantial reduction of tariffs.

Trade liberalisation was in part meant to diversify and increase the country's exports and to achieve this, measures were undertaken to promote the growth of the export sector. These measures included setting up the Export Processing Zones (EPZs) such as in Kabwe. However, the measures that were introduced failed to have a significant impact on the export diversification objective, and some measures even proved to be counter-productive. For instance, setting up of EPZs in order to build the capacity of local firms to be competitive on the international market, had another effect--that of creating unfair competition between firms in EPZs and those in non-EPZs operating in the same sector.

He attributed the problems faced as the result of liberalisation to the country's weak regulatory framework. The government withdrew from the market and softened its involvement vis-à-vis its regulatory responsibility.

He further pointed out that in 2000; Zambia conducted a study which looked into the hiccups emanating from the liberalisation process. It showed that some of the crucial impediments to the realisation of anticipated benefits from liberalisation measures were poor production capacity, poor technology and poor infrastructure.

Another study was commissioned by JITAP, whereby 20 products were identified as being export potential for the country. As a result of these studies, Zambia now has a comprehensive industrial policy. However, the impact of trade liberalisation will continue to be felt, especially since WTO regulations favour free trade.

## **2.2. Introduction of the TDP Toolkit - Vladimir Chilinya**

Having given the backgrounds on the TDP project and trade liberalisation, Chilinya introduced the TDP Campaign Toolkit for Zambia 2007. In his presentation, Mr. Chilinya explained that the toolkit was produced by ODCMT and CUTS-ARC with support from the United Kingdom (UK)'s Department for International Development (DFID) and Netherlands' Ministry of Foreign Affairs (MINBUZA). He indicated that the toolkit is a product of a study that focused on the impact of trade liberalisation on Zambia's agro-processing and textile sectors. He also emphasised that the toolkit can be used to help the participants to articulate issues of trade, development and poverty reduction as it gives information on the country's National Development Plan (NDF), Poverty Reduction Strategy (PRS) and Millennium Development Goals (MDGs), concentrating on poverty and attempting to address the *trade liberalisation versus poverty reduction* aspect. He further highlighted the debate that trade liberalisation impacts poverty reduction.

## **2.3. Participants' Expectations**

The chairperson asked participants to give their expectations from the workshop. The participants were deliberately allowed to understand the project background and the overview of the trade liberalisation process before giving their expectations. Additionally,

the objectives of the workshop were given after participants outlined their expectations in order to allow for consideration of a wide spectrum of trade and poverty related issues as much as possible.

The following came up as expectations:

- To learn more about trade
- To learn more about the relationship between trade and poverty reduction
- To evaluate the cotton sector to see where Zambia went wrong
- To find out if Zambia has an existing agricultural policy and if so, to understand why it has taken so long to reach the people on the ground.
- To learn more about the marketing system
- To share ideas on how improvements on trade can be made.
- To identify issues for lobby
- To know more about the negative effect of globalisation and the trade imbalance on developing countries and LDCs
- To find out the impact of the old and new agricultural system on farmers, especially small scale farmers.
- To know how the workshop will influence national economic policy
- To know the role of ODCMT and CUTS on market linkages
- To know what ODCMT and CUTS are doing for the farmers other than conducting advocacy and sensitisation workshops
- To find out why Zambian tobacco and cotton companies are not performing well on the international market.
- To know what CSOs are doing wrong in the fight against poverty

#### **2.4. Presenters' Response**

Responding to participants' questions and concerns on the roles of CUTS and ODCMT, Mr. Chilinya gave a brief background of CUTS and its activities, as summarised below:

- CUTS-ARC, located in Lusaka, is part of Consumer Unity and Trust Society (CUTS) International
- CUTS-ARC opened its offices in Lusaka in 2000.
- The primary and original focus of CUTS is consumer protection, but it has now expanded its range of activities to include trade policy, environmental protection, and investment policy. The idea to widen the scope of activities is out of the realisation that effective protection of consumers is better achieved by influencing policy, as consumers are not only affected at the end of the supply chain.
- CUTS-ARC receives inputs from the grassroots level, usually in partnership with organisations and through research such as ODCMT, and subsequently presents them to government as part of its lobby and advocacy work. The organisation has been instrumental in a number of areas including investment policy, competition policy and trade policy. The underlining idea is to ensure that policies adopted have a positive effect on the economy or at the least, limit the harm done to the economy and to the consumers.
- Ms. Banda explained that ODCMT was registered in 2000 with the aim of building capacity for NGOs through offering such programmes as project

- management and bookkeeping. However, the organisation saw that it was not enough to concentrate on capacity building, and therefore formed a loose movement for emerging NGOs in order to increase its effectiveness and impact.
- She further explained that ODCMT has completed some case studies in Lusaka focusing on poverty and the Constituency Development Fund (CDF). The idea was to help communities understand and track the movement of funds pledged and/or released through the CDF and see to it that communities realised the benefits from the Fund. This was intended in part to galvanise community participation to ensure accountability and transparency in the way their resources are managed.
  - ODCMT became involved in the ***Make Trade Fair campaign*** in 2003. In responding to a participant who wanted to know whether the campaign had achieved its objectives, she explained that the campaign is a long and continuing process whose fruits may not be realised overnight. She noted that there are many forces that want to maintain the status quo. It was further explained that ODCMT has made a number of efforts to bridge the gap between farmers and government policy makers. One such example is the organisation's association with farmers in Eastern Province, especially those located in Katete District.
  - Participants called for organisations representing farmers or the interests of farmers to help those who are particularly vulnerable. It was clear that farmers did not want to be under the prominent outgrower schemes evident in the cotton industry, but did so because they lacked adequate support to farm on their own.

## 2.5. Floor Discussion on the TDP and Trade Liberalisation Background.

The discussion was spurred by questions from the participants. They wanted to know the role of the government under a liberalised trade regime, the impact liberalisation has had so far on Zambia, the impact of liberalised trade particularly on gender aspects, and how liberalised trade has impacted the agriculture sector 's access to the international market.

In the discussion that ensued, the following emerged as the key points

- The impact of liberalisation of trade and the economy has generally been negative. It was observed that the liberalisation of the Zambian economy has allowed ample room for exploitation, and that the average Zambian has not shared in the positive effects
- Government's new role as a regulator in the market is ineffective: by withdrawing from direct involvement in trade and other business ventures, government has assumed the role of a regulator of various competing business interests in the economy. It acts more or less like a secretariat and puts in place a regulatory framework in order to allow an atmosphere for trade and other business undertakings. The government, however, reserves the right to and does indeed intervene in national interest. It was noted that Zambia made a mistake by liberalising the economy before putting in place an effective regulatory framework. The weak regulatory mechanism, burdened by the liberalisation of more or less all sectors of the economy, has opened doors to all sorts of investments which has resulted in the inhibition of domestic trade and investment

growth, as all sectors are facing competition from foreign trade, be they in the domestic or the international market.

- Government's fixing of the floor price for maize disadvantages farmers: Participants argued that under the current liberalised trade regime, government should not be setting the floor price for maize in order to allow farmers recoup from their investments. At the heart of the argument lay the contention that government deliberately sets a low floor price for maize in order to allow it to buy maize cheaply from the farmers, which it later exports at a profit, at the expense of farmers who labour extensively. Furthermore, announcement of the floor price is not usually followed by government's buying exercise. The gap exposes the desperate small-scale farmers to exploitation by unscrupulous traders who buy the products at prices even lower than the government recommended ones. Thus, government should engage farmers seriously before announcing the price for the country's staple food in order to protect the vulnerable small-scale farmer.
- Restrictions have squeezed the agriculture sector's access to the international market: although in theory, the liberalised trade regime has broadened the market for agriculture produce, in practice the access has not been broadened as a result of various restrictions on the international market. It was observed that many farmers are not even aware of the standards demanded on the international market and therefore consistently fail to meet them, which highlights how very marginalised they are in the process.
- The government has transferred the burden to farmers: Participants noted that with its liberalisation programme, the government has pushed the burden to farmers and not the traders (buyers) as they (farmers) now have to take care of inputs acquisition and transportation of farm produces to markets.
- Poor infrastructure has limited the benefits of liberalisation: it was observed that the issue of infrastructure development is cardinal. There exists a need for good infrastructure to facilitate trade and development. Participants argued that Eastern Province has poor infrastructure which makes production in the area very costly
- Liberalisation has had an impact on gender: it was acknowledged that the debate on the impact of liberalisation on trade is a difficult one. However, it was noted that liberalisation could have more negative effects on women involved in the agricultural sector, as they provide the bulk of the labour in the sector as well as constituting the majority in small scale farming. Thus, there is a need to harmonise the trade and labour policies.

### **3.0. COTTON MARKETING SCENARIO IN ZAMBIA**

#### **3.1. Presentation on the Cotton Marketing Scenario – Ms. Irene Banda**

Ms. Banda's presentation was dubbed "*Why a 'Rich' Zambian Cotton Farmer is poor!!!*" She explained that the heading was meant to be in line with what was on the ground. She argued that Zambian cotton farmers are potentially rich, but in reality are poor as a result of the mechanisms surrounding the production and marketing processes. She pointed out that Zambia as a country has a favourable climate, plenty of land and labour, good water resources, and has prioritised agriculture as a key sector with high

potential to drive the country to economic and social development, factors which should make farmers involved in agriculture, and more so in cotton farming ‘rich’ especially considering the demand for cotton on the international market. She indicated to the farmers that the pricing of local raw cotton is quoted based on the Liverpool price index.

Giving a general overview of the agricultural sector, she explained that government’s ultimate goal in the agricultural sector is not only to attain food sufficiency but to go further by venturing and expanding into cash crop production for sale in the domestic and international markets. To this end the country’s agricultural policy encourages out grower schemes and the provision of affordable farming inputs.

Ms. Banda explained that the Zambian government has withdrawn its direct engagement from the cotton sub-sector, as it did in the rest of the agricultural sector in the 1990s as part of its privatisation and liberalisation programme. As a result, the government is no longer directly involved in the marketing of agricultural products, including cotton or controlling prices, as it is no longer the principal buyer of cotton.

Ms. Banda pointed out that the privatisation process saw the sale of LINTCO, which was a parastatal company, to Lonrho and Clark. Today, Clark is known as Cargill, while Lonrho was in 2001 sold to Dunavant. Dunavant now enjoys the majority share of the cotton market and contracts more than 50% of cotton growers in the country under the outgrower scheme.

In her presentation, Ms. Banda further contended that the price for cotton lint on the international market was high before 1995, which meant that ginners were able to and did pay farmers attractively. The fair prices meant that cotton farming was attractive for both the ginners and small-scale cotton farmers. However, she pointed out that the cotton sector has witnessed a price crisis as the price of cotton on the international market around 1995 affected the profitability of cotton farming in Zambia. She stated that the price of cottonseed in Zambia dropped from about \$0.56/kg in 1995 to \$0.18/kg in 1999, and \$0.23/kg from 2001 to 2003. She went on to explain that the decline in their payments led farmers to believe that they were being exploited by the ginning companies, especially because they had little or no access to information regarding international price mechanisms and price changes. The decline in farmers pay, coupled with a lack of information increased default on loan repayment, with repayment ratios dropping from 86% in 1996 to 65% in 1999 and 2000.

Regarding the deficiencies in the cotton trade, Ms. Banda outlined the following aspects or factors

- The whole marketing system: she explained that under out grower schemes, there is absolutely no involvement of the farmer in the marketing of the crop, since it is carried out by the ginning company.
- Prices and pricing mechanism: she contended that pricing of cotton, as it was done until 2006, was dictated by the ginners leaving the farmer who does the actual production out of the exercise. This gave room for exploitative pricing.

- Weak representation of SSFs: she explained that since the onset of privatisation, there has been no legal body to represent the interests of small-scale cotton farmers which meant that cotton farmers' voices were not heard. However, a body entitled the Cotton Association of Zambia (CAZ) has since been formed.
- Lack of credit facilities: farmers have no access to loans to enhance their production, and hence end up relying on ginning companies.
- Poor infrastructure: poor existing road networks in the province negatively affect agricultural production.
- Weak policy framework: allows for exploitation of the cotton farmers by the ginning companies engaging them under outgrower schemes.
- Biased and unclear contract terms and conditions between farmers and ginning companies: practices such as the non-inclusion of the price in the contract and tendencies by the ginners to grade and weigh the cotton even in the absence of the farmer.
- International trade influences such as subsidies given by the United States to its cotton farmers translate into low prices fetched by the expensively produced cotton from non-subsidy receiving farmers in Zambia.
- Lack of adequate legislation on issues of corporate social responsibility: some companies damage the environment and roads making farming difficult and costly
- Farmers not taking farming as a business: most small-scale farmers view farming not as business but as a way of life. This limits their production and makes them unable to expand and take advantage of any opportunities that may arise in the sector.
- Government's hands-off approach: results in massive exploitation of farmers in the industry.
- Monopoly exercised by some ginners: the argument was that there were very few ginning companies in the country, which enabled the existing companies to exploit their dominant position in the market at the expense of farmers.

She contended that the combined effects of the current scenario in the cotton sector, outlined above, could be seen as reduced or zero profits from cotton production, whereby farmers do not generate sufficient income, leading to a continued rise in poverty levels and the shunning of cotton production by farmers as they do not see the benefits of their efforts.

Ms. Banda also observed that in the current cotton trading scheme, the farmer's labour input is not taken as a cost of production. Despite the consequences of the cotton production and marketing set up, farmers continue to grow cotton. She attributed this to the readily available and guaranteed market for cotton (since gineries who provide ready supply of inputs for cotton farmers also provide the market, which is not the case for other crops such as maize), less marketing costs for farmers since the marketing is done by the gineries, and the farmers' need for cash.

Ms. Banda also gave insight into what the NGO has been calling for, which included:

- A level playing field where both the farmer and the ginner have a "win win" deal.

- A clear and transparent pricing model for cotton, which should be agreed upon by all stakeholders.
- The pricing for cotton for each marketing season must be determined before the planting season, to enable farmers to make informed decisions.
- The price of cottonseed to be reflected on the contract form to ensure that farmers are not only paid for the yarn but the seed as well.
- The review of outgrower contracts.
- Government's commitment to the cotton sector and to ensure that there is equity and fairness in the cotton trade.
- The urgent review and enactment of the draft Cotton Act.
- Transparency in the administration of funds meant for extension services to ensure adequate provision and accessibility of such services by farmers.

In concluding her presentation, Ms. Banda stated that there is hope in the cotton sector, citing the following developments:

- The formation of the Cotton Association of Zambia (CAZ).
- The flexibility shown by ginners to dialogue with other stakeholders in the sector.
- The negotiations between farmers and ginners on the cotton prices.
- Ministry of Agriculture and Cooperatives' commitment to the sector.
- The sensitisation and education of the farmers by interest groups such as NGOs as evidenced by the workshop in question.
- Continued pressure and advocacy for equity and fairness.
- The rise of the cotton price on the international market.

### **3.2. Floor Discussion**

- Participants overwhelmingly echoed the views presented by Ms. Banda. They felt that despite the potential for farmers to become rich, they were indeed wallowing in poverty as they cannot realise 'the sweet from their sweat.' However, before the discussions could go into detail, some participants wondered why the research and presentation focused solely on the cotton industry as the province produces other agricultural products such as maize and groundnuts. In response, Ms. Banda explained that the cotton sector was chosen as it is not as researched or focused on as compared to other sectors such as maize.
- The discussion also provided insight into what has been happening in the sector as well as how a lack of information has affected local farmers. Participants argued that credit facilities are available, but the problem lies in accessing and repaying loans as well as the conditions attached to them. They contended that Africare had offered credit facilities to farmers in the past, but that the practice ended up impoverishing farmers even more. Apparently, farmers were not given the freedom to buy inputs where they were cheap. On the contrary, they were given quotations for inputs at places where they were expensive and benefited suppliers rather than farmers.
- Participants also expressed concern over lack of information regarding agricultural policies and the Cotton Act. They lamented that too many decisions are made at the national level without consulting stakeholders in rural areas. On

the Cotton Act, many claimed that they had not even seen it, and that no one had consulted them despite the fact that they are key stakeholders in the cotton sector. However, they called for a Cotton Act that protected the interests of small-scale cotton farmers. They suggested that CSOs become actively involved and attempt to push it as a Private Members Bill.

- Another concern that was expressed was over the two major cotton companies operating in the area, Dunavant and Cargill, having formed some sort of cartel to ensure that they offer low prices for cotton. The participants were duly advised that the action is illegal and prosecutable by the Zambia Competition Commission under the Anti-Competition laws of the country. What is required is that the affected farmers bring the development to the attention of the Competition Commission.
- Participants also argued that political will is vital in the struggle for equity in the cotton sector, and the mitigation of economic liberalisation in general.

Other key issues that arose from the discussion included;

- The call for enactment of the Cotton Act to be delayed, allowing for more extensive consultations with stakeholders.
- The call for CSOs to do more by way of representing farmers and their interests, and to provide information especially on the international market prices and relay it to farmers for them to make proper and informed decisions.
- The suggestion that other stakeholders, particularly ginning companies such as Dunavant, ought to be invited to events such as the TDP workshop, so that they can be better informed as well.
- The contracts signed by farmers through outgrower schemes are usually not understood by the farmers and thus need simplifying and reviewing.
- The suggestion that 50% of the grain levy paid by farmers should be ploughed back by channelling it to infrastructure development including in outlying areas.
- The call for ginning companies to be compelled to work on roads and bridges since they play a major part in the depreciation of infrastructure.
- The need for NGOs in the area to work together, to facilitate a network of organisations.
- The call for representatives of farmers to be more active in championing their causes.

Participants also acknowledged that political will on the part of government is vital if development is to be realised in the province.

It also emerged that participants were very sceptical of the relationship between the District Farmers Associations (DFAs) and the mother body Zambia National Farmers' Union, which they accused of championing the causes of large-scale farmers. In response, the chairperson of the DFA in Chipata explained that while the DFA is affiliated with the ZNFU, it is an independent organisation with its own constitution. He contended that the DFA and ZNFU work together in areas of common concern such as taxes imposed by government, acknowledging, however that DFAs do experience problems as a result of their association with ZNFU.

### **3.3. Presenters' Responses**

In responding to the issues raised by the participants in the discussion, Ms. Banda underlined that the cotton sector needs to be more organised if the lobby activities are to bear fruit. She reminded them that ODCMT and CUTS, through their complementary partnership, would continue lobbying for farmers, but emphasised that it is largely up to the farmers, in what they want to do about the concerns and issues they raise. She challenged them to come up with strategies that would help them address these concerns.

Some of the strategies that they suggested included;

- Arguing for a fair price and a cotton grading mechanism at the time of receiving inputs.
- To invite cotton companies to workshops that deal with farmers through DFAs, which are not treated with a lot of suspicion by the companies.
- To insist on the addition of a price and grading mechanism in the contract.
- To publicise farmers' concerns through community radio stations, and to mention the names of companies involved in exploitative actions. The argument was that these companies fear their names being tarnished and thus would refrain from poor practices that would make them vulnerable to public scrutiny.

## **4.0. IMPACT OF TRADE LIBERALISATION ON ZAMBIA: CASE STUDY FINDINGS**

### **4.1. Presentation on Agro-processing Sector- Mr. Zindikilani Daka**

Giving an overview on the sector, Mr. Daka explained that agro-processing involves turning primary agricultural products into other commodities for the market. He noted that the Zambian agro-processing sector comprises industries involved in a range of core activities including snack food production, fruit and vegetable drying, plant oil and honey processing, cereal milling, peanut butter production, sugar processing, processing of dairy products such as milk, mushroom processing, beef production, fish farming and distribution, tobacco, tea and coffee processing and poultry farming.

He indicated that the agro-processing sector has generally enjoyed a reasonably good market. Of even more significance was the point that the sector mostly uses local raw materials, which means it supports the growth of an indigenous production structure. The presenter also indicated that the sector has potential to not only further its contribution to the national income, but to increase household income and access to food for the poor, and ultimately reduce poverty by establishing small-scale processing businesses that are not capital intensive and can be conducted within the home.

Regarding the impact of trade liberalisation on the agro-processing sector, Mr. Daka noted that respondents in the study observed recorded growth and expansion in recent years, a development which they attributed to deliberate efforts by government to support the agricultural sector. This support emanates from the government's objective to

diversify the economy, making it less dependent on mining. He further contended that the increased number of competitors in the sector has stimulated producers and processors to increase their product range. The diversification of products has also benefited from and promoted the incorporation of new technology into the production process.

On the impact of trade liberalisation on specific variables, he noted that the study found that;

- There has been an increase in the ***product range*** resulting from companies' deliberate policy of diversification, adopted as a measure to counter possible adverse effects of diversification. For example, companies such as Amanita have ventured into plant oil processing and margarine production.
- An improvement in ***productivity*** has been recorded, made possible by low costs incurred due to significant use of local raw materials. For example, the making of peanut butter utilises groundnuts produced and supplied locally, which is cheaper than imported groundnuts.
- ***Turnover levels*** have generally been satisfactory since most firms have been able to withstand competition from foreign competitors.
- Agro-processing firms have generally managed to remain viable and ***profitable*** in the face of competition.
- ***Employment opportunities and employment*** have increased, stemming from diversification related activities.
- The sector has recorded substantial ***recapitalisation***, mainly through privatisation-induced changes of ownership rather than capital injected into new industries.
- ***Human resource development*** has occurred in technical areas of the production and processing line.

#### **4.2. Floor Discussion**

During the discussion on the agro-processing sector vis-à-vis trade liberalisation, participants brought out key points and concerns, which included;

- Concerns that Chipata and Eastern Province in general do not have agro-processing industries. The participants argued that most producers sell to industries in Lusaka, which limits the benefits that could accrue to the province. They reasoned that the establishment of processing industries could create employment for locals and therefore improve rural household incomes.
- The investment policy should promote agro-processing industries in Eastern Province, since the province produces agricultural commodities such as cotton and groundnuts that can be used as inputs.
- The government should be instrumental in directing investments and making sure that such investments benefit locals. The participants called for government to insist that agro-processing industries set up their plants in areas where they source the raw materials.
- The government tends to be efficient when closing industries, rather than establishing new ones.

- The government needs to monitor the operations of private companies. Participants argued that the former Clark Cotton, which was sold to Cargill on account that it failed, has not changed their practices at all, and is currently using the warehouse put in place by the government to stock their cotton.
- Shoprite's policy of importing potatoes, vegetables and other crops from South Africa is disadvantaging local producers and having a negative effect on household incomes.
- Political consideration should not, at the expense of other regions, dictate where industries should be established or the flow of investments.
- The Environmental Impact Assessment (EIA) procedures employed by the Environmental Council of Zambia are defective, and are often used to divert investments to other areas.
- Zambian agro-products have failed to compete at the international market.

Participants were also critical that the study generally gave a positive impression of the impact of liberalisation on the agro-processing sector in Zambia. They wondered why that was the case as Eastern Province did not have such industries and thus did not see the benefits mentioned in the presentation. They also expressed concern that the study concentrated on the processors and not the producers of the raw materials used, arguing that the positive assessment on productivity and turnover does not apply to the small-scale producers.

On the need for industries to be set up in Eastern Province to process groundnuts and other agricultural products, participants suggested that the government establish these industries and then privatise them, since under its privatisation programme, it is withdrawing from the market.

#### **4.3. Presenters' Response**

Responding to participants' concern that the study gave a positive assessment although Eastern Province was not seeing the benefits, Mr. Chilinya explained that the study did not look at benefits accruing to individual regions, but instead took on a national scope. He noted that since Eastern Province did not have agro-processing industries, benefits were few as compared to the Copperbelt and Lusaka Provinces, which exhibit many such industries. He emphasised that the study findings gave national aggregates, and Eastern Province was thus incorporated as were other provinces.

#### **4.4. Presentation on the Textile Sector – Vladimir Chilinya**

Giving an overview of the textile sector, Mr. Chilinya stressed the importance of the textile industry to Zambia, not only in terms of its potential to contribute to export earnings but also to the much desired job creation, which are important elements needed for poverty reduction. He indicated that the sector has been among the top two non-traditional export earners since 1994. He noted, however, that the World Bank's advice that Zambia should concentrate on other sectors where it had a competitive advantage led

to the opening up of the market to imports including second hand clothes (locally referred to as salaula), and other fabrics coming from outside the country.

He contended that prior to the liberalisation process, the textile and clothing sector in Zambia was well established, with over 140 companies in the 1980s and more than 25,000 people employed, while the sector was dominated by highly mechanised parastatal and private industries. However the flourishing sector shrunk as a result of liberalisation, with employment levels dropping as a result of some companies closing down or scaling down their operations.

He also pointed out that the pre-liberalisation era had a very good market for the whole range of products produced in the sector. However, the sector is now experiencing a gloomy state, as a result of trade liberalisation. Local industries have not been able to adjust to new economic realities in which competition is stiff, and neither is the country able to compete with efficient textile producers such as Bangladesh and other Asian countries.

He explained that key findings from the study included;

- General economic liberalisation as implemented in the 1990s weakened the local population's purchasing power, leading to weak effective domestic demand for products from the sector.
- Loss of purchasing power to buy new clothes from the local textile industries led to the market being flooded with imported second hand clothes (salaula) and Chinese fabrics.
- The flooding of the market by imported fabrics undermined the growth of the local textile industries, as they could not compete with the imports.
- Local industries that were able to avoid liberalisation-triggered closures were forced to reduce their production, thus leading to underutilisation of the existing textile infrastructure and subsequently to job losses.
- The increase in cotton production in Zambia played a key part in the survival of local textile industries, as only those involved in cotton processing did survive.
- The pricing of local raw cotton based on the Liverpool price index limits the benefits that local industries are supposed to enjoy as the result of operating in areas where cotton is grown and ginned.
- Government lacks political will to assist the local textile sector in terms of subsidies or direct cash incentive payments for exporters or those who utilise local raw materials, unlike in other countries such as South Africa where the sector enjoys lower production costs, greater economies of scale and capacity utilisation as a result of deliberate sector promoting policies.
- There is need to put in place safeguard measures at the national level to counter unfair trade practices obtaining on the international market.

On the impact of trade liberalisation on specific variables, it was found that;

- Competition offered by foreign products and the decline in the local population's purchasing power has led to a decrease in the *range of products* being offered by the local textile sector

- **Productivity** has fallen as a result of the liberalisation of trade by the WTO, which has allowed the more competitive Asian Tigers to dominate the domestic and international markets. Productivity has also decreased because of the inability of local industries to recapitalise, and due to high levels of indebtedness. However, in the area of cotton growing alone, productivity did not decline
- **Turnover has declined** due to the decline in productivity and markets, except in the case of cotton growing
- Profits have fallen for most textile firms due to low productivity and dwindling markets, with domestic debts rising as a result of borrowing to finance restructuring.
- Employment levels in the textile industry have fallen, as many firms chose to downsize the labour force as a way of remaining competitive. However, at the time of study, one firm showed an increase in the size of its labour force due to successful reorganisation and new capital injection by shareholders
- Investment and capital formation increased as all firms under the study showed that they underwent substantial rehabilitation and mechanisation, though the investment is generally underutilised currently.
- Human resource development has increased in terms of training staff on the job or sending them abroad to access textile training, but liberalisation has failed to stimulate development of local educational curriculum focusing on textile training.

Mr. Chilinya also went on to explain how one local company managed to remain operational and competitive in the face of trade liberalisation, evidenced in the same research. The company had responded to liberalisation by becoming more innovative and diversified, by venturing into cotton production and ginning, which were areas not fully exploited or dominated by private companies. This company depended on cotton lint, the main raw material and on which two-thirds of the company's budget was spent. In response to this dependency, the company set up its own ginnery, mobilised local farmers and established an out-grower scheme. It also sourced machinery from China to ensure that there was a reliable and consistent supply of cotton lint to the company at reasonable costs that would allow the company to remain competitive.

However, with time, the company did realise its envisaged benefits as the ginnery started diverting its cotton lint to some competitor textile industries. As a response, the company established a ginnery within its premises- a move that has improved self-sustainability of cotton lint supply.

This company also sought other markets for supply of its products, and managed to penetrate Tanzania, Malawi, Mozambique and South Africa- a feat that has stimulated the company to continuously improve the quality of its products, and upgrade its machinery.

Other than diversifying into cotton growing through an out grower scheme and into cotton ginning, the company has also ventured into production of cooking oil from cotton seed through a subsidiary firm.

Mr. Chilinya concluded that trade liberalisation has had a largely negative impact on the textile industry although there have been some benefits, evidenced by the company that has managed to successfully mitigate the effects of liberalisation by diversifying its products, entering into a partnership to enhance the capital base, and seeking new markets. At the end, he reviewed that the company that survived the impact of liberalisation is Zambia - China Mulungushi Textiles (ZCMT)

Mr. Chilinya also took the opportunity to link the study to new trade agreements, the Economic Partnership Agreements (EPAs) in particular being negotiated by the European Union and African, Caribbean and Pacific (ACP) countries. He explained that stakeholders need to understand the impact of liberalisation as they negotiate the new trade agreement. The EPAs are going to enhance liberalisation and the opening of ACP countries to exports from the EU. The new agreement will certainly have an effect on the farmers and sectors in general, as these will be exposed to competition with efficient producers from the European Union.

#### **4.5. Floor Discussion**

- Participants expressed concern that the Zambia textile industry lacks capacity to produce quality products that would not only satisfy the domestic market but also make a grade on the international market.
- Participants also wanted to know the shareholding structure in ZCMT. The concern was that, as much as it could have survived, the benefits could have largely gone to the Chinese if they had held the majority shares.
- It was noted that despite ZMCT surviving the impact of liberalisation at the time of the study, farmers were still receiving less from the company, and there were less effective benefits to the cotton farmers engaged by the company.
- It was also argued that the practice of sending material to China for processing was limiting the benefits that should accrue to Zambia, as it meant that employment creation was occurring instead in China. To ensure that the country realised more benefits, they suggested that the machinery be moved to Zambia, as it would also cut transportation costs incurred by the company.
- Participants were critical of the government for its lack of protection for local textile industries from the influx of Chinese clothes, which they contended were largely of inferior quality. However, it was also noted that the local textile industries should do more to improve not only on the

quality of their products but also on the affordability of those products. The argument was that the domestic market would continue being dominated by foreign goods from China and second hand clothes which suited the pockets of the majority of the population

- Local firms have failed to take advantage of foreign market opportunities presented by trade agreements, especially under AGOA. This has also limited trade interaction between cotton farmers and the textile industry as more exports would mean more demand for cotton.

#### **4.6. Presenters' Response**

On the shareholding structure of ZCMT, Mr. Chilinya explained that the Zambian government had more shares than the Chinese, allowing Zambia to play a significant role in shaping the direction that the company takes.

He also agreed that having the machinery moved to Zambia would greatly benefit the country, as it would create jobs. On the question of the failure of Zambia to exploit international markets, particularly the US, he explained that many textile companies fail to take advantage of the huge market because of supply side constraints as well as standards and other requirements imposed by developed countries.

### **5.0. RECOMMENDATIONS AND CLOSING REMARKS**

#### **5.1. Recommendations**

While she recognised the recommendations that participants came up in the course of the discussions, Ms. Banda reminded the participants to come up with action oriented recommendations that would focus on what the participants could do to ensure that they would benefit from trade. Participants came up with the following recommendations; in three categories (i) those aimed at participants (local NGOs, farmers groups and interested individuals) (ii) those aimed at the organisers of the workshop (CUTS-ARC and ODCMT) and (iii) those aimed at government.

##### **(i) Participants**

- There should be proper networking between NGOs and other stakeholders within the province to ensure that they speak with one voice in their lobby activities
- The network to be formed must be action based, rather than a replica of many other committees formed in the past, which have remained inactive.
- Government should be lobbied to establish agro-processing industries in Eastern Province so that the local population could not only benefit from increased supply of raw materials but also from employment creation, and goods to be produced.
- Small-scale farmers should lobby for involvement in the formulation and implementation of agricultural policies.

## **(ii) Government**

- Small-scale farmers should be incorporated in formulating and implementing agricultural policies.
- Government should adopt a bottom up approach to the various problems faced by the country by engaging in wide consultations including in the rural areas.
- A rice and peanut butter plant should be established as the province produces a lot of groundnuts and rice.
- Government should monitor contracts signed between ginneries and farmers in order to reduce exploitation of farmers.
- Government should speed up the enactment of the Cotton Act.
- Government should ensure equality in the way it delivers or facilitates development in all the provinces of the country.

## **(iii) Workshop organisers (CUTS and ODCMT)**

- The recommendations made at the workshop should be tabled to government for consideration and action.
- To build the capacity of local NGOs and especially DFAs in order for them to be able to actively lobby stakeholders including government and ginneries.
- To carry enough copies of documents on trade, investment and competition policies and Acts) for distribution to participants.
- The contribution to transport should be raised as some participants spend much more on transport than provided for.

The notable low point however was that the participants showed less enthusiasm to take an active part in lobby activities. Most seemed unsure of what to do and argued that they needed to have a better understanding of the technical issues involved before they could seriously carry out lobby activities through the community radio stations.

## **5.2. Closing Remarks**

In closing the workshop, Ms. Banda thanked the participants for sparing their time to take part in the educative and interactive workshop. She stressed that it was important for participants to share whatever they had learnt with others that did not have the opportunity to attend. She also explained that the workshop provided CUTS and ODCMT with an opportunity to learn more about the challenges faced by the people in Eastern Province, lessons which will be helpful in their continuing work of promoting development, especially among the poor and vulnerable groups.

## Annexure I: List of Participants

Name	Organisation	Phone Number	Email Address
Phineas Simukoko	CSPR	0977450329 06223637	Simukoko2002@yahoo.com
Weston C. Banda	CCJDP	0977473845	-
Mary Mumba	CSPR (NGOCC)	0977453928 06-223637	Mumbamary6@yahoo.com
Joyce Mkandawire	CSPR	0977713248	Joycemkandawire2007@yahoo.com
Margaret Malanshya	CSPR	0977658843 06 222372	
Ignatius Nyasulu	CDFA	0978541235	cdfa@yahoo.com
Davis Sichalwe	Operation Young Vote	0977468467	Sichalwe07@yahoo.com
Aaron Nkhoma	CDFA		cdfa@yahoo.com
Beauty Nyirenda	CDFA	0979178493	cdfa@yahoo.com
Chinoya Muyeye	Youth D	0977753419	chinoyamuyeye@yahoo.com
Virgil Malambo	CDFA	0977767644	chipatadfa@yahoo.com
Ben Tembo	CDFA	0977577268	chipatadfa@yahoo.com
Fackson Zulu	Action for Positive Change	0977401291	Action4poschange@yahoo.com
Samuel Banda	Chalaka Devt Project	09777155382	
Maria Mutua	CDFA	0979073974	chipatadfa@yahoo.com
Aliness Nyau	CSPR	0977803877	cdwda@zamtel.zm
Rhoda Tembo	CDFA		
Gilbert K. Chisenga	NYCA	0977450243	gilbertchisenga76@yahoo.com
Mtine Mwima	NYCA	06 222572	Mwima_mtine@yahoo.com
Moses Phiri	Anti Voter Apathy	09773736140	phiricon@yahoo.com
Henry Namwenda	Y.D.F	0955534132	henrydavidnamwenda@yahoo.co.uk

## **Annexure II: Workshop Agenda**

08:30- 10:00 Hrs	Opening Session
------------------	-----------------

08:30 - 09:00	Registration
09:00 - 09:15	Introductory Remarks
09:15 - 09:45	Project Background
09:45 - 10:00	Workshop and Participants' Expectations
10:00 - 10:45	Background: Trade Liberalisation in Zambia
10:45 – 11:00      Tea Break	

11:00 – 13:00 Hours Mid-morning Session
---

11:00 - 11:30	Presentation of TDP Toolkit
11:30 - 12:00	Floor Discussion
12:00 - 12:20	Cotton Marketing Scenario for Zambia
12:20 - 13:00	Floor Discussion
13:00 - 14:00	Lunch Break

14:00 – 16:30 Hours Afternoon Session
---------------------------------------

14:00 - 14:20	Presentation of Case Study findings on Agro-processing Sector
14:20 - 15:00	Floor Discussions
15:00 - 15:20	Presentation of Case Study findings on Textile Sector
15:20 - 16:00	Floor Discussions
16:00 - 16:30	Recommendations and Way Forward

16:30 Hrs      Tea Break and End of Programme