

Draft Report on the Advocacy Workshop

On

**The Linkages between Trade, Development and Poverty Reduction
(TDP)**

Held in Eastern Province (Chipata)

on 30th April, 2007 at Joy Motel

Organized by

**Consumer Unity and Trust Society-Africa Resource Centre (CUTS-
ARC)**

and

**Organisation Development and Community Management Trust
(ODCMT)**

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1.0: INTRODUCTION AND BACKGROUND

1.1. Overview

Zambia has over the last two decades witnessed escalation in its poverty situation with about 80 per cent of the country's estimated 12 million people living in absolute poverty. Despite, the country being one of Africa's most urbanized countries, poverty is more pronounced in rural areas where economic activities are agriculture based. In response to the economic woes that were faced by the country by the turn of the 1990s, Zambia, just like many other African countries, has been pursuing economic reforms aimed at transforming the once heavily state controlled mining sector-dependent economy to a market based diversified one. However, the real benefits of the economic liberalization 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 privatization of state owned companies in various sectors including mining, agriculture and manufacturing, freeing of the exchange rate, market based determination of interest rates and liberalization of the trade regime.

Since trade liberalization efforts were not aimed at promoting internal trade but also 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 offers an 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 liberalization process of the Zambian economy, including that of trade has not been marched with a commensurate economic growth rate: economic growth has generally been low though the past few years have recorded some promising economic growth figures. Real Gross Domestic Product (GDP) growth rate has been hovering around 5 per cent in recent years. The 2006 figure was 5.8 per cent, which is too small to

make a serious dent on the obtaining poverty levels across the country and 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 per cent to export earnings and 8.3 per cent to GDP in 2003. However, the impact of trade and general economic liberalization 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, contrary to classical economic theory that trade, be it internal or external, breeds benefits to parties involved, trade tends not to have the same positive effect on all parties in the trade equation: ironically, it tends to immensely benefit some participants at the expense of other participants.

Zambia and other LDCs and developing countries, supported by many activist organization, have been arguing that trade can be a more effective tool to fight poverty than aid. As such liberalizing trade was seen as crucial to expanding the export market for Zambia's exports from the domestic market that is characterized by a small population with less effective demand, as well as for 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 organizations. However, Zambia's experience underlines the point that the system (including regulations and agreements) surrounding trade and the positions and interactions of the various participants in trade determine the winners and losers or at 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 link is a complex one as trade, especially in the context of liberalization 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 people 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 organized 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 Department for International Development (DFID) and the Ministry of Foreign Affairs, The Netherlands. The project aims to sensitize and share lessons with civil society organizations, farmer organizations, traders and the general population on the ground on the links between trade, development and poverty reduction. The project also aims to build advocacy skills which will enable people to advocate and lobby for development centred trade arrangements.

The objectives of the advocacy workshop were;

- To sensitise people on the ground on the impact of liberalization 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 liberalization 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 and enhance a media campaign strategy.

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

1.3. Opening Remarks

The chairperson of the workshop, Mrs. Irene Banda from ODCMT opened the workshop and asked participants, including the facilitating team to introduce themselves, which was done. 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 participants.

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 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 in terms of poverty incidence), something that places a huge challenge to reduce poverty. He challenged the participants to focus more at 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 liberalization in general and trade liberalization in particular on Zambia. The rationale is to help guide policy making and implementation in view of the fact that Zambia has embarked on liberalization and seems to continue on the same path without taking stock of how liberalization has impacted on the country's economy and on 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 picked on two sectors, the agro-processing sector and the textile sector, which have recorded quite contrasting effects as the result of the liberalization process.

2.0. BACKGROUND ON TRADE LIBERALISATION IN ZAMBIA

2.1. Presentation on the Background on Trade Liberalisation – Mr. Chilinya

He advanced the view that mining and not trade per se, was the driving force behind Zambia's economy before the advent of liberalization in the 1990s. However, following sustained poor economic performance by the state run economy, characterized by protectionist trade policies, Zambia introduced sweeping economic reforms increasingly from 1991, market liberalization. Tariffs were removed or substantially reduced.

Trade liberalization was in part meant to diversify and increase the country's exports. 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 introduced measures failed to have a significant impact on the export diversification objective. Some measures also 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 liberalization 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 in 2000, Zambia did a study to look at the hiccups emanating from the liberalization process. It showed that some of the crucial impediments to the realization of the anticipated benefits from liberalization measures were poor production capacity, poor technology and poor infrastructure.

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

2.2. Introduction of the TDP Toolkit - Vladimir Chilinya

Having given the TDP project background and the trade liberalization background, 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 liberalization on Zambia's agro-processing and textile sectors. He also emphasized that the toolkit can 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), concentration of poverty and attempts to address the *trade liberalization versus poverty reduction* aspect. He further highlighted the debate that trade liberalization impacts on 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 liberalization 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 there is Zambia has an agricultural policy and if it has, to know why it has taken too 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 globalization 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 sensitization 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 summarized below:

- CUTS-ARC, located in Lusaka, is part of CUTS International.
- CUTS-ARC opened its offices in Lusaka in 2000.
- The primarily and original focus of CUTS is consumer protection, but it has now expanded its range of activities to include trade policy, environmental protection, investment policy, and consumer protection. The idea to widen the scope of activities is out of the realisation that better and 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 gets views from the grassroots, usually in partnership with organizations and through research such as ODCMT and presents them to government as part of its lobby and advocacy work. The organization 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 positive affect the economy or at 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 such as project management and bookkeeping. However, the organization saw that it was not enough to concentrate on capacity building and therefore formed a loose movement- movement for emerging NGOs in order to increase its effectiveness and impact.

She further explained that ODCMT has done 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 or/and released through the CDF and see to it that communities realize benefits from the Fund. It is in a way meant to galvanise community participation to ensure accountability and transparency in the way their resources are managed.

ODCMT got involved in the *maketrade fair campaign* in 2003. In responding to a participant who wanted to know whether the campaign has achieved its objectives, she explained that the campaign is a long and continuing one whose fruits may not be realised overnight. She noted that there are so 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 organizations representing farmers or the interests of farmers to help vulnerable farmers. It was clear that farmers did not want to be under the prominent outgrower schemes obtaining in the cotton industry but did so because they lacked adequate support to do farming 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 liberalized trade regime , the impact liberalization has had so far on Zambia, the impact of liberalized trade particularly on gender aspects, and how liberalized trade has impacted on the agriculture sector 's access to the international market.

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

- ❖ The impact of liberalization of trade and the economy in general has generally been negative. It was observed that the liberalization of the Zambian economy has given room to exploitation and that the positive effect has largely not been felt by the average Zambian.
- ❖ Government's new role as a regulator in the market is not effective: 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 put in place an enabling atmosphere for trade and other business undertakings. Government, however, reserves the right to and does indeed intervene in national interest. It was noted that Zambia made a mistake to liberalise the economy before putting in place an effective regulatory framework. The weak regulatory mechanism, burdened by the liberalization of more or less all sectors of the economy has opened doors to all sorts of investments which has resulted also into the inhibition of growth of domestic trade and investments as all sectors are facing competition from foreign trade, be in the domestic or the international market.
- ❖ Government's fixing of the floor price for maize disadvantages farmers: Participants argued that under the liberalized trade regime as currently obtaining, 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 a farmer who labours so much. Further, announcement of the floor prices 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 produces at prices even lower than the low 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 liberalized 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 farmers fail to meet the standards demanded on the international market; many farmers are not even aware of the very standards which points to how marginalized they are in the process.
- ❖ Government has transferred the burden to farmers: Participants noted that with its liberalization programme, 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 liberalization: it was observed the issue of infrastructure development is cardinal. There is need for good infrastructure to facilitate trade and development. Participants argued that Eastern Province has poor infrastructure which makes production in the area costly
- ❖ Liberalisation has had an impact on gender: it was acknowledged that the debate on the impact of liberalization on trade is a difficult one. However, it was noted that liberalization could have more negative effect on women involved in the agricultural sector as they provide the bulk of the labour in the sector as well as constitute the majority in small scale farming. There is need thus 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

Her 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 are poor because of the mechanisms surrounding the production and marketing processes. She pointed out that Zambia as a country has favorable climate, plenty of land and labour, good water resources, and has put agriculture as a key priority 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 that 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 through the agricultural sector is not only to attain food sufficiency but to go further by venturing and expanding into cash crops production for sale in the domestic market as well as the international market. To this end the country’s agricultural policy encourages out grower schemes and provision of affordable farming inputs.

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

She pointed out that the privatization process saw the sale of LINTCO which was a parastatal company, to Lonrho and Clark. Clark is what is today Cargill while Lonrho was in 2001 sold to Dunavant. Dunavant today 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 good prices meant that cotton farming was attractive for both the ginners and small scale cotton farmers. However, Ms Banda pointed out 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 cotton seed in Zambia dropped from about \$0.56/kg in 1995 to about \$0.18/kg in 1999, and \$0.23/kg from 2001-2003. She went on to add that the decline in their payments led farmers to believe that they were being exploited by the ginning companies, especially that they had little or no access to information to international price mechanisms and price changes. The decline in farmers pay, coupled with lack of information increased default on loan repayment, with repayment ratios dropping from 86% in 1996 to 65% in 1999/2000.

On what is wrong in the cotton trade, Ms Banda pointed at 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 that is done 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 privatization, there was no legal body to represent the interests of small scale cotton farmers which meant that cotton farmers' voice was not heard. However, a body called the Cotton Association of Zambia (CAZ) has since been formed
- Lack of credit facilities: which means that farmers have no access to loans to enhance their production and hence end up relying on ginning companies
- Poor infrastructure: Poor road networks obtaining in the province negatively affect agricultural production
- Weak policy framework, which 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: she pointed at 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 which 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: she explained that some companies damage the environment and roads making farming difficult and costly.
- Farmers not taking farming as a business: she explained that most small scale farmers take farming not as business but just as a way of life. This limits their production and makes them unable to expand and take advantages of any opportunities that may arise in the sector.

- Government's hands-off approach: which she said resulted 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 these companies to exploit their dominant position in the market at the expense of farmers.

She contended that the combined effect of the above obtaining scenario in the cotton sector could be seen in reduced or no profits from cotton production hence farmers do not generate sufficient income leading to continued rise of poverty levels and the shunning of cotton production by farmers as they do not see the benefits of their efforts.

She also observed that in the cotton trade as currently obtaining, the farmer's labour input is not taken as a cost of production. Another observation she made was that 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 an insight of what the NGO has been calling for, which she 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 make informed decisions
- The price of seed cotton 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 sensitization 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 indeed despite the potential for farmers to be rich, they were wallowing in poverty because they do not realize 'the sweet from their sweat.' However, before the discussions could go into detail, some participants wondered why the research and the presentation focused on the cotton industry only 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 and as focused on as many other sectors such as maize.

The discussion also provided an insight into what has been happening in the sector as well as how lack of information is affecting farmers in the area. On lack of credit facilities, participants argued that credit facilities are there but the problem lies in accessing and repaying the loans as well as the conditions attached to the loans. They contended that Africare used to offer credit facilities to farmers 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 the inputs were expensive which benefited suppliers rather than farmers.

Participants also expressed concern over lack of information regarding agricultural policies and the Cotton Act. They bemoaned that so many things are done at national level without consulting stakeholders in rural areas. On the Cotton Act, many claimed that they had not 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 should get involved and push it as a Private Members Bill.

Another concern expressed was that the two major cotton companies operating in the area, Dunavant and Cargill have formed some kind of a 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, and that what is required is for the affected farmers to bring the development to then attention of the Competition Commission.

Participants also argued that political will is vital

Other key issues that arose from the discussion included

- The call for the Cotton Act not to be enacted just now to allow for more consultations with the people.
- The call for CSOs to do more to voice out on behalf of farmers and to provide information especially on the prices on the international market and relay it to farmers for them to make proper decisions.
- The suggestion that other stakeholders particularly ginning companies such Dunavant to be invited to such workshops such as the TDP workshop so that they can learn as well.

- The contracts signed by farmers through outgrower schemes are usually not understood by the farmers and thus need simplifying as well as reviewing
- The suggestion that 50% of the grain levy paid by farmers should be ploughed back by channeling 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 (network).
- The call for representatives of farmers to be more active in championing the causes of farmers.

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

It also emerged that participants were very skeptical 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 the DFA is an independent organization from ZNFU, with its own constitution, although it is affiliated to ZNFU. He contended that the DFA and ZNFU work together in areas of common concern such as taxes imposed by government. He, however, acknowledged 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 implored the cotton sector to be more organized 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 emphasized that it is largely about what the farmers really want to do about the concerns and issues they raised. She challenged them to come up with strategies which would help them address their concerns.

Some of the strategies that they suggested included

- Agitating for a fair price and a cotton grading mechanism at the time of getting 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 price and grading mechanism to be put 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 they would refrain from image tarnishing poor practices.

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 daily 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. Even of more significance was the point that the sector mostly uses local raw materials, which means the sector supports the growth of an indigenous production structure. The presenter also indicated that the sector has potential to not only 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 at homes.

On the impact of trade liberalization on the agro-processing sector, Mr. Daka noted that respondents in the study observed that the sector has 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 government's objective to diversify the economy and make 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 liberalization 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, with the improvement made possible low costs incurred because of significant use of local raw materials. For example, the making of peanut butter utilizes 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 the diversification related activities.
- The sector has recorded substantial *recapitalization*, mainly through privatization-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 liberalization, participants brought out key points and concerns which included:

- Participants were concerned that Chipata and Eastern Province in general did not have agro-processing industries. They argued that most producers sell to industries in Lusaka which limits the benefits that could accrue to the province. They reasoned that setting up of processing industries could create employment for the locals and therefore improve rural household incomes.
- The investment policy should promote agro-processing industries in Eastern Province since the province produces agricultural commodities that can be used in industries, such as cotton and groundnuts.
- Government should be instrumental in directing investments and making sure that such investments benefit locals- they called for government to insist that agro-processing industries set up their plants in areas where they source the raw materials
- Government tends to be good and quick at closing industries rather than at opening new ones.
- Government needs to monitor operations of private companies. Participants argued that Clark Cotton which used to operate in the area was sold to Cargill on account that it failed, but Cargill is basically doing the same as Clark- just using the warehouse put in place by 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 can be 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 on the impact of liberalization 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 government should set up these

industries and then privatize them since under its privatization programme, it is withdrawing from the market.

4.3. Presenters' Response

Responding to participants' concern that the study gave a positive assessment when Eastern Province was not seeing the benefits, Mr. Chilinya explained that the study did not look at benefits accruing to individual regions but gave a national picture. He noted that since Eastern Province did not have agro-processing industries, benefits were few as compared to the Copperbelt and Lusaka Provinces which had a lot of such industries. He emphasized that the study findings gave national aggregates and Eastern Province was thus incorporated just like other provinces.

4.4. Presentation on the Textile Sector – Mr. 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, however, noted the World Bank advice to Zambia that the country should concentrate on other sectors where the country 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 liberalization process, the textile and clothing sector in Zambia was well established, with over 140 companies in the 1980s with more than 25,000 people employed in the sector which was dominated by highly mechanized parastatal and private industries. However the flourishing sector shrunk as a result of liberalization, with employment levels dropping to as low as 25, 000 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 in a gloomy state, as a result of trade liberalization. Local industries have not been able to adjust to new economic realities in which competition is stiff. The country is not 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 liberalization 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 liberalization triggered closures were forced to reduce on their production, thus leading to underutilization of the existing textile infrastructure and subsequently to job losses in the sector.
- 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 utilize local raw materials, unlike in other countries such as South Africa where the sector enjoys lower production costs, greater economies of scale and capacity utilization as a result of deliberate sector promoting policies.
- There is need to put in place safeguard measures at national level to counter unfair trade practices obtaining on the international market.

On the impact of trade liberalization 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 liberalization of trade by the WTO which has allowed the Asian Tigers who are more competitive to dominate the domestic and international markets, and the inability of local industries to recapitalize and high levels of indebtedness. However, in the area of cotton growing, productivity did not decline
- *Turnover has declined* due to the decline in productivity and markets, except for 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 adopted downsizing of the labour force as a way to remain competitive. However, at the time of study, one firm showed an increase in the size of its labour force due to successful reorganization and new capital injection by shareholders
- Investment and capital formation increased as all firms under the study showed that they underwent substantial rehabilitation and mechanization, though the investment is generally underutilized currently.
- Human resource development has increased only as far as training staff on the job or sending staff abroad to access textile training, and liberalization has failed to stimulate development of local educational curriculum focusing on textile training.

Mr. Chilinya also went on to explain show how one local company managed to remain operational and competitive in the face of trade liberalization, as shown from the same research. Basically, the company responded to liberalization by being more innovative. The company diversified by going into cotton production and cotton ginning, which were areas that were not fully exploited and dominated by private companies who sold cotton both to the local market and the international market. The said company, which depended on cotton lint, which was the main raw material and on which two-thirds of the company's budget was spent, set up its own ginnery, mobilized local farmers and set up an out-grower scheme. It 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 realize 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.

The company also sought other markets for supply of its products, and managed to penetrate Tanzania, Malawi, Mozambique and South Africa- something that has stimulated the company to continually improve the quality of its products which has also meant the company has had to continue upgrading 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.

He concluded that trade liberalization has had largely a negative impact on the textile industry although there have also been some benefits as shown from the company that has managed to withstand the effect of liberalization 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 liberalization is Zambia - China Mulungushi Textiles (ZCMT)

Mr. Chilinya also took the opportunity to link the study to new trade agreements in particular the Economic Partnership Agreements (EPAs) being negotiated by the European Union and African, Caribbean and Pacific (ACP) countries. He explained that stakeholders need to understand the impact of liberalization as they negotiate the new trade agreement. The EPAs are going to enhance liberalization 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 did hold the majority shares.
- It was noted that despite ZMCT surviving the impact of liberalization at the time of the study, farmers were still receiving less from the company and there were less 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 jobs are being created in China. To ensure that the country realized more benefits, they suggested that the machinery be moved to Zambia as it was also going to cut on 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 more 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 hence Zambia plays 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 fully 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 that would focus on what the participants would do to ensure that they benefit from trade. Participants came up with the following recommendations, which be put 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 will not only benefit from increased supply of raw materials but also from employment to be created 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 enaging 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 organizers (CUTS and ODCMT)

- The recommendations made at the workshop should be tabled to government for consideration and action.
- To built 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 other than did not have the opportunity to attend the workshop. She also explained that the workshop also 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.