ZIMBABWE

MINISTRY OF AGRICULTURE, MECHANISATION AND IRRIGATION DEVELOPMENT

INVESTMENT OPPORTUNITIES IN THE COTTON SECTOR IN ZIMBABWE

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1.0 Introduction and Background

1.1 Agriculture plays a pivotal role in Zimbabwe's economy. The Government of Zimbabwe is inviting partners from private investor in its bid to increase agriculture production and productivity as part of its agro-based economic recovery strategy.

1.2 There are potential business opportunities for investment impeded in the cotton sector in Zimbabwe. In its endeavor to achieve a sustainable economic and agriculture recovery, the Government of Zimbabwe has created a very conducive environment for investment in the agricultural sector and in the economy at large. To express its commitment to lure more investment in the agricultural sector, the Government is currently preparing the Zimbabwe Agricultural Investment Plan (ZAIP) that provides a detailed guide to lucrative investment opportunities available in Zimbabwe.

1.3 Cotton is the second largest agricultural foreign currency earner after tobacco and contributes about 19% of agricultural export earnings in the country. The sector also supports many smallholder farmers' livelihoods and many others through its backwards and forward linkages. The prospects of poverty alleviation in the country are also embedded in this lucrative sector that has provided sustainable incomes to the majority.

1.4 Zimbabwe's Cotton production is mainly dominated by small-scale farmers who are producing the best quality grade for local processing and international markets. While on average, the country produces about **250 000 MT** of cotton, the local ginning capacity is at **670 000 MT**, there is potential increase in cotton production.

2.0 Why Invest in the Cotton Sector

2.1 Cotton sector in Zimbabwe is produced at approximately USD **531.71** per hactare. There is an opportunity of expanding the cotton production, value addition, and lucrative international markets. The crop is grown by approximately 300 000 households in Zimbabwe. Cotton is the only crop that can be successfully grown in dry seasons and in marginal areas of the country. Cotton's products include yarn, clothing, industrial textiles, cotton seed cake, and cotton wool. Cotton can also be used in blanket and paper manufacture. Today, ginned seed is the primary source of ingredients used in the manufacture of cooking oil, fats, margarine and livestock feed as well as soap. Cotton currently contributes about **70%** of the raw material for locally expressed oil and **100%** of locally spun cotton and cotton blend.

2.2 The country has vast agricultural land, a favourable climate and a skilled human resource base and is well backed by good climatic conditions, a vast of farmers' experience and a vibrant extension services, Zimbabwe has produced the best cotton quality that has significantly impacted on the international market.

3. 0 Cotton Legislation in Zimbabwe

3.1 In August 2009, the Government of Zimbabwe introduced new legislation (SI142 of 2009) to address the problems affecting the cotton industry, as well as providing a framework to guide cotton production and marketing.

3.2 The legislation ensures long term viability of the cotton industry by regulating the entire chain from production to marketing. The legislation has brought order, fairness and consistency in volumes and quality in the cotton sector. Cotton contractors and buyers are required to register annually.

3.3 The legislation also compels each registered contractor to provide all necessary inputs to farmers at the start of the planting season. In addition, it gives prosecuting powers to the Cotton Marketing Technical Committee (CMTC), created by government in 2009, to manage the legislation. The legislation combats "side-marketing" or the non-honoring of contracts by growers through section 14 that makes it obligatory for growers to only sell their cotton to the contractor that supported them with inputs. Through the legislation, common input distribution and buying points have been established throughout the country. The regulation has established a clearer and stable legal framework for improved relations between growers and contractors.

3.4 In 2010 the Government introduced a new legislation (SI 21 of 2010) whereby at the project inception in the first year indigenous shareholders can have a minimum 26%.They then have to increase this to 51% after the third year. A foreign investor can however seek a special dispensation from the Minister of Youth Development, Indigenization and Empowerment should they be any other shareholding outside the prescribed one.

3.5 Other cotton regulations

3.6 SI 148 of 2012 promotes the growing, ginning, processing, manufacture, preparation or marketing of seed cotton, cotton seed, cotton planting seed, cotton lint and seed products.

3.7 SI 142 of 2009 seeks to bring to the farmers –ginner partnerships, orderliness, fairness, timeliness, reliability, and consistency in volumes, quality and most importantly the presentation of the final product that competes to the global market.

3.8 SI 63 Of 2011 provides for the registration of cotton contractors associations, buyers associations and ginners associations.

4.0 Areas of Investment Opportunities in the Cotton Sector

4.1 Seed Cotton Production

4.1.1 The seed cotton production in 2011/2012 season rose by **40.3%** to **350 703 MT** from **249 909 MT** realized in the previous season. The area under cotton production increased by 14% from **379 690 Ha** in 2010/11 season to **432 901 ha** in 2011/12. The average seed cotton yields have predominantly remained at about **700kg/Ha** between 2000 and 2012 but there is a possibility of increasing the yield 2MT per hectare.

4.1.2 National cotton production is on average **250 000MT** per annum while the ginning capacity is at **670 000 MT**, more than double current production. There is also need to increase farmer viability by allowing more players into cotton farming because most farmers are incapacitated. There is need to train farmers and provide funds to capitalize farmers to produce at maximum level.

4.1.3 The country has perennial rivers where irrigation water can be drawn. There is also an opportunity to improve yields by setting up irrigation facilities to supplement rainfall.

4.1.4 The crop can be successfully grown in dry seasons and in marginal areas of the country. Production of the crop has taken about **435 000 Ha** of land in the 2012/13 agricultural season, a **14%** increase from 2011/12 agricultural season. Table below shows the cotton production trends for 2004 up to 2012;

Table 1: Cotton Production Trends in Zimbabwe (2004 -2012)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Cotton area planted (ha)	300 000	331 249	398000	390 000	370 000	315 000	379 689	432 901
Seed Cotton Production (mt)	198 000	263 000	253 000	223 746	207 000	270 000	249 904	350 703
Ave yield of seed cotton (kg/ha)	660	794	636	574	559	857	658	810

Source; MAMID, 2012

In 2012 production increased to **350 000MT**. However, the national yield is still minimum there is a need to double in order to ensure viability of cotton production but the national

Investment priority areas for increasing cotton production and productivity therefore include:

- Production of cotton seed and lint
- Contract production of cotton seed
- Providing credit facilities

4.2 Contract farming

4.2.1 There is a possibility for potential investors partnering with local ginners to contract a bigger crop through provision of more inputs to farmers. In Zimbabwe, Cotton production is financed by private players through contract farming. The number of ginners decreased from twenty-five (25) to fifteen resulting from the requirement to buy cotton only from farmers that a merchant has contracted at the onset of the production season.

4.2.2 The contractors provide inputs for cotton production in the form of seed, fertilizers and crop chemicals and these are issued to growers as required during the growing season. The grower repays the debt by delivering seed cotton. The increased investment in agronomy support and input packages is required in order to achieve average yields at levels above 1500 kg per hectare. If this can be achieved it will cushion farmers in an environment of depressed international prices.

Investment priority areas for increasing cotton production and productivity include:

- Contract farming
- Farmer training
- Research and development of appropriate cotton varieties

4.3 Textile industry

4.3.1 The consumption of lint by local spinning mills remains depressed with ginners ending up holding excess stocks of lint due to the low uptake of the domestic lint supply quota. The Government of Zimbabwe stipulated a statutory **30%** cotton lint quota that each ginning company must reserve for the domestic textile market so as to ensure that the local textile industry's lint requirements are satisfied. In the 2009/2010 marketing year**, 84 800MT** of lint was produced but only **9 544MT or 11.3%** was consumed by the local textile industry. In the 2010/2011 marketing year, the textile industry consumed **12 646MT or 11.4%.** The quota is reviewed as the season progresses depending on the capacity of mills to take up the lint.

4.3.2 The textile industry is currently composed of eight spinners of which four are the major spinning companies namely, Zimbabwe Spinners and Weavers, Scottco, Sino Zim and Modzone Enterprises. The eight spinners have an annual requirement of **15300MT,** and most of the spinners are operating below capacity. This is another area where investors can invest.

Below is a table showing Lint Requirements for the Spinning Industry.

Company	Annual Requirements (MT)
[illegible] Enterprises	2 000
Scottco	3 000
Twine and Cordage	1 000
Sino Zim	2 500
[illegible] Trading	300
Zimbabwe Spinners and Weavers	6 000
[illegible]	200
Porsche Investments	300
Total	15 300

4.3.3 Most spinners have closed down including David Whitehead Textiles one of the largest textile company in the country. The installed capacity of the operational mills is now old and outdated. There is an opportunity of resuscitating the textile industry because ginners continue to suffer the opportunity cost of holding onto excess lint stocks as the local spinning mills are performing way below capacity.

Investment priority areas include:

- Development of infrastructure (spinning mills)
- Resuscitation of the textile industry
- Purchase of new machinery
- New ginneries

4.4 Oil Extraction

The average ginning outturn of cotton seed is about **57%** in Zimbabwe. Ginned cotton seed is an important source of raw material for oil expressers for the extraction of cooking oil while the cake residue i.e. cotton cake and meal is used to manufacture Stockfeed. There are seven major oil processing companies currently operating in the country. Current capacity utilization in the oil expressing industry is about **20%.** Factors limiting capacity utilization include:

- Lack of funds by expressers to acquire resources required to pay for the seed/ raw material.
- High cost of ginned cotton seed which create a competitive disadvantage.
- Outdated equipment.

4.4.1 Investors can bring new equipment, capital and expand boost the oil extraction industry.

4.5 Garment manufacture

4.5.1 Garment manufacturing companies are facing viability challenges which have led to many companies closing down. There are approximately one hundred and sixty –eight garment manufacturers in the country but they are performing below the average. Investors can provide working capital, bring in modern machinery to revive and enhance the industry.

Investment priority areas include:

- Development of infrastructure
- Resuscitation of the textile industry
- Purchases of new machinery
- Capital injection

5.0 Conclusion

The economic environment is open and conducive for foreign investment and there are multiple opportunities in the cotton sector to take advantage of along the whole cotton value chain.

VALUE CHAIN OF COTTON

Processors	Farming → Ginning →		Spinning → weaving → Oil expression		manufacturers
Product Flow	Cotton seed →	lint →	Yarn →	fabric →	Garment
		Seed cotton	• Cooking oil • Margarine • Stockfeed • Washing soap		
Cotton players	3000 000 farmers	15 Ginners • Cottco (9) • Cargill (1) • Southern Cotton(1) • Parrogate(2) • Olam (1) • Grafax (2) • Alliance (1) • Romsdal (1) • Sinozim (1) • Insing (1) • Fahad (1) • Cottzim (1)	8 Spinners • Modzone Enterprises • Scottco • Twine and Cordage • Sino Zim • Logry Trading • Zimbabwe Spinners and Weavers • Zimhosiery • Porsche Investments	7 oil processing companies	168 garment manufacturers

Challenges	•Lack of resources •Lack of credit facilities	• Outdated machines • Lack of equipments	•Lack of funds by expressers to acquire resources required to pay for the seed/ raw material •Outdated equipment.	• Lack of funds by weavers • Outdated equipment	• viability challenges • lack of funds
Opportunities	• Cotton seed production • Contract production of cotton seed • Providing credit facilities	• Seed cotton production and lint • Ginning • Research and development of appropriate cotton varieties	• spinning • oil expressing • Development of infrastructure (spinning mills) • Resuscitation of the textile industry • Purchase of new machinery • New ginneries	• Weaving • Resuscitation of the weaving industry	• Garment manufacture • Development of infrastructure • Resuscitation of the manufacturing industry

NB* Numbers in brackets represent the number of ginneries.

ANNEX

Table 1: SEED COTTON PRODUCTION TRENDS FROM 1980-2012

Growing Season	NATIONAL		
	Area (Ha)	Production (mt)	Yield (kg/Ha)
1979/80	89 921	157 533	1 752
1980/81	125 054	170 594	1 364
1981/82	109 014	134 886	1 237
1982/83	132 976	146 521	1 102
1983/84	180 155	221 746	1 231
1984/85	209,658	274 186	1 308
1985/86	191,617	251 162	1 311
1986/87	240 086	280 016	1 166
1987/88	271 787	338 953	1 247
1988/89	240 571	270 225	1 123
1989/90	217 486	205 241	944
1990/91	274 222	261 051	952

1991/92	235 777	76 232	323
1992/93	246 300	214 300	870
1993/94	221 300	181 480	820
1994/95	213 560	92 540	433
1995/96	257 620	230 654	895
1996/97	313 255	278 184	888
1997/98	286 000	272 850	954
1998/99	462 850	264 980	572
1999/00	357 031	310 511	870
2000/01	351 574	253 854	722
2001/02	348 897	162 389	465
2002/03	141 804	132 496	934
2003/04	246 040	252 611	1 027
2004/05	246 047	157 837	641
2005/06	206 162	153 608	745
2006/07	348 696	223 996	642
2007/08	431 131	226 435	400

2008/09	337 671	246 757	730
2009/10	338 270	260 000	770
2010/11	379 689	220 219	580
2011/12	432 901	254 888	590

Table 2: GROSS MARGIN ANALYSIS OF SEED COTTON PRODUCTION FOR 1 HACTARE

	Quantity	Unit	Unit cost	Total Cost
Variable costs			US$	US$
Land preparation	1.00	ha	38.18	38.18
Seed	25	kg	1.11	27.75
Fertilizer				
-Compound L	200	kg	0.68	136.00
-Ammonium nitrate	150	kg	0.70	105.00
Transport of inputs to farm	0.375	ton	18.18	6.82
Chemicals				
-Carbaryl	2.5	kg	9.50	23.75
-Endosulfan 35MO	2.5	litre	10.00	25.00
-Synthetic pyrethtroid	1	litre	5.50	5.50
-Dimethoate 40EC	0.5	kg	7.00	3.50
Seasonal loan interest (6%)		US$		33.39
Hired labour	30	days	3.09	92.70
Bale hire		150 kg bale	5.45	32.70
Twine (0.13kg/ton)		kg	10.91	1.42
Transport of output to market		1500 kg	30.00	30.00
Total variable costs		US$		531.71
Output	1500kg			
Break even				0.35