Republic of Mozambique
Ministry of Agriculture and Food Security
Mozambique Institute For Cotton

Risk Management Training on the Cotton Industry

"Research Associate Program"

Organized by ICAC
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Overview of Cotton Industry in Mozambique

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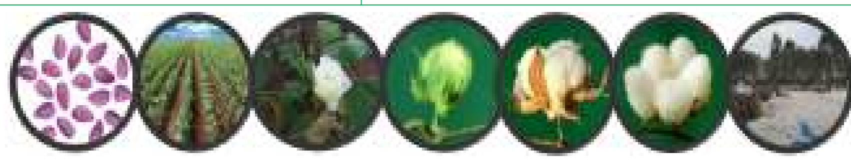


SUMMARY

I. An overview of the cotton subsector in Mozambique;

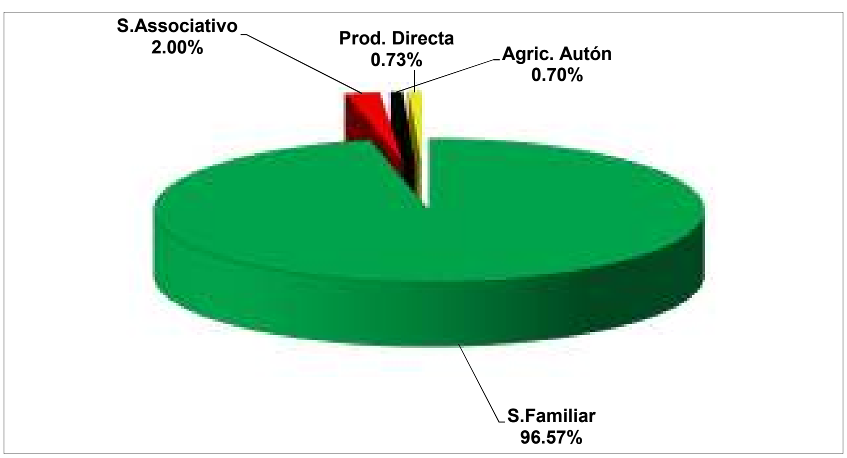
II. Experience of risk management pilot tool in the country

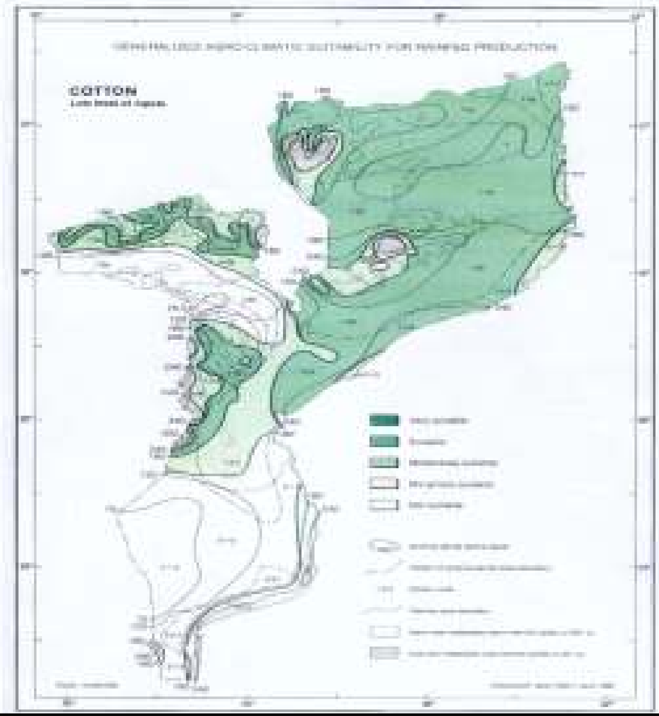
III. Challenges and Perspectives of the Cotton Subsector;

I. An overview of the cotton subsector in Mozambique

I. An overview of the cotton subsector in Mozambique (Cont.)

Family sector dominant (season 2013/14)





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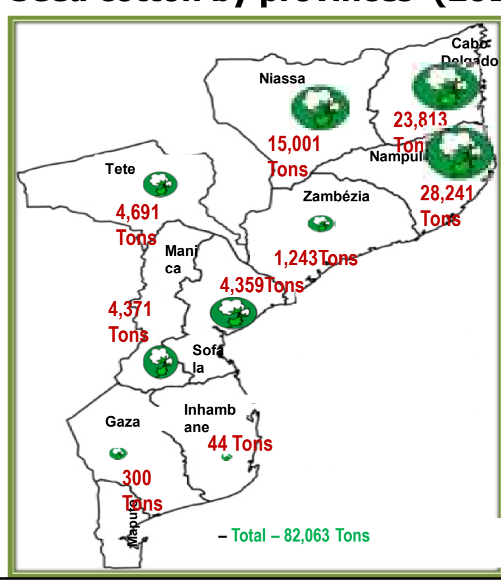
I. An overview of the cotton subsector in Mozambique (Cont.)

Seed cotton by provinces (2013/14)



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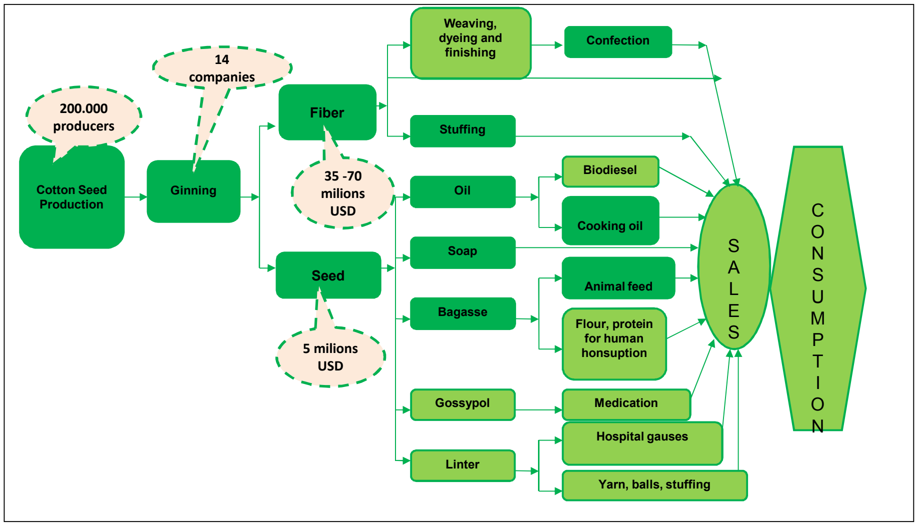
I. An overview of the cotton subsector in Mozambique (Cont.)

Mozambican Cotton Value Chain



I. An overview of the cotton subsector in Mozambique (Cont.)

Current performance - 2013/14

1. Production under the concession system (ginners sign contract with the government to promote cotton in a certain area - rights & obligations)

2. Nr. of companies: 14; Employment: 15,000 – 20,000 (including seasonal)

3. Nr. of producers: 200,000; Nr. of people: 1,2 millions

4. Area: 157,000 ha; yield: 600 kg/ha (14/15- 120,000 ha)

5. Production: seed cotton – 82,000 tons; fiber – 31,200 tons; cotton seed – 58,200 tons (14/15- 70,000 tons = 26,600 tons of lint)

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6. Only cotton varieties are produced, no BT and hybrid as yet
7. Annual total revenue: – 35 millions $US
8. Export destinations: Asia (87.45%) – Africa (12.30%) and Europe (0.25%)
9. 15 operational ginning companies
10. 12 cotton pressing plants
11. 1 dyeing company
12. 5 confection companies
13. Only 1 spinning and weaving company (started in 2014)

II. Experience of piloting risk management tools in the country

II. Experience of piloting risk management tools in the country - (cont.)

Background

1. The risk management initiative is articulated under the Strategic Plan for Development of Agricultural Sector and in the Cotton Value Chain Revival Program;
2. Mozambique adopted the weather based index insurance model for cotton, because of it's advantage of lower transaction and administrative costs and easy to monitor;
3. The model was piloted in seasons 2012/13 and 2013/14, specifically in Nampula Province, in Monapo and Lalaua Districts.

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II. Experience of piloting risk management tools in the country - (cont.)

Background

4. The model was designed in order to be piloted and lead the country to embody an adjusted system which fits the national reality
5. Two national insurance companies where involved and re-ensured by Swiss-re
6. TA received from an US broker, Guy Carpenter and trainings where conducted by the World Bank, covering approximately 30 different and relevant stakeholders

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II. Experience of piloting risk management tools in the country- (cont.)

Insurance Cover and Parameters

1. In case of a sinister, the producers where covered for critical crop operations (tillage, weeding, pulverizations)

2. Four climatic parameters where covered by the tool:
   a) rainfall deficit
   b) number of consecutive dry days
   c) excess rainfall (in the initial phase)
   d) low temperature at the end of the season.

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II. Experience of piloting risk management tools in the country- (cont.)

Lessons learned

1. On the first season farmers benefited with an indemnification as a result of achieving triggers on parameters such as, rain fall deficit and number of consecutive dry days

2. On the second season farmers did not benefit

3. We could not proceed on this season (2014/15), due to lack of funds to cover the premium
4. Crop insurance regulations need to be adjusted
5. More simple model and train for its operation is needed

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II. Experience of piloting risk management tools in the country (cont.)

Perspectives

1. Continue with training of the national stakeholders (insurance companies, brokers, public institutions of the agricultural sector, cotton companies) on crop insurance design and monitoring the tool
2. Look for TA to enable the crop insurance regulation in the country
3. Fund raising for premium for the next five campaigns, as adoption encouragement;
4. Involve more national actors in the process.

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II. Experience of piloting risk management tools in the country- (cont.)

Challenges of Crop Insurance

1. Payment of premium by the producers
2. Enlargement of the coverage area and number of producers
3. Need to adjust the value of the premium and potential compensation to affordable levels to the producer
4. Crop insurance bond with credit to producers
5. Train and educate producers on crop insurance

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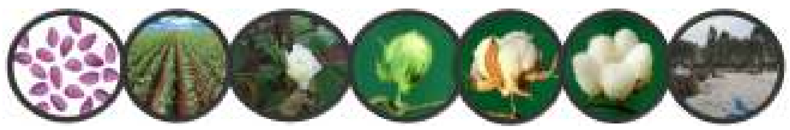
III. Challenges and Perspectives of the Cotton Subsector

1. Implementing the Cotton Chain Revitalization Program as a response to the decrease of cotton production (cotton seed prod., commercial farmers, input suppliers…)
2. Test and introduce Bt Cotton technology
3. Capacity building in research and development of cotton-based cropping system
4. Increase the actual average of 0.5 ha per family to 1.0 ha through mechanization system
5. Increase seed cotton production from actual 70,000 tons to 200.000 by 2020
6. Find a suitable risk management tools for the cotton production and price volatility
7. Train human resources and implement risk management mechanisms both for production and market/price volatility

Thank you!



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