

Cotton Sector Regulation in Zambia

A Preliminary Case Study

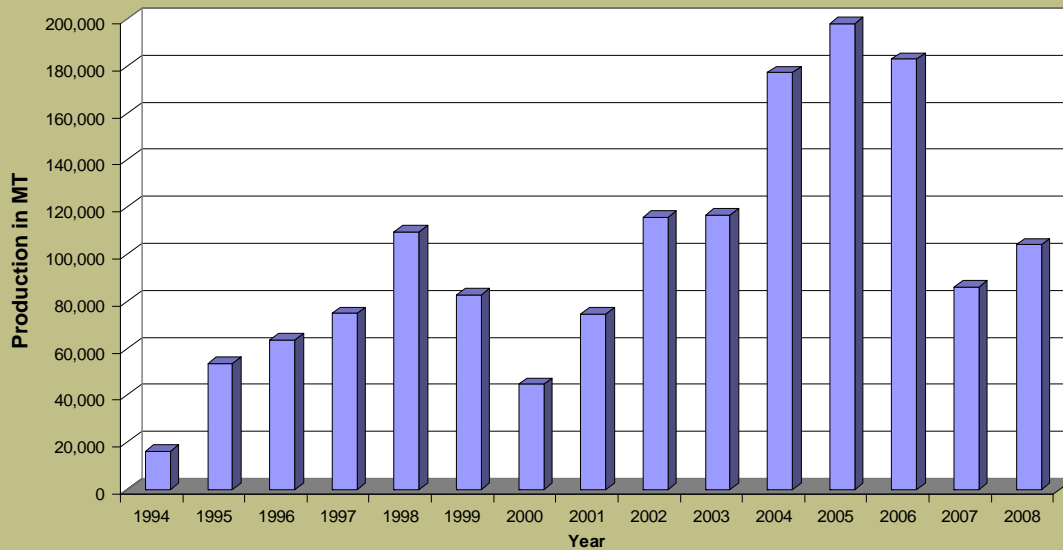
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*Presented at Virtual Workshop on Cotton Sector Regulation in Africa, sponsored by
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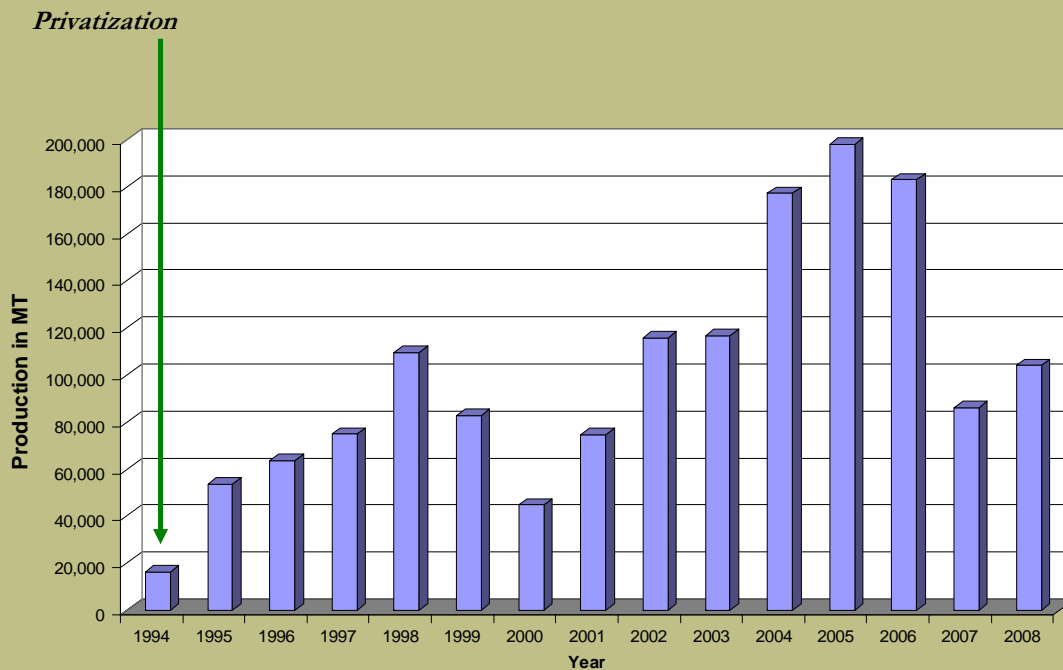
Roadmap

- Context: Evolution of Zambia's cotton sector
 - Booms followed by crises
 - Trends in quality adjusted (a) yield and (b) farmer share of FOT
- Cotton Act
 - Origins, iterations, current status
 - Key issues

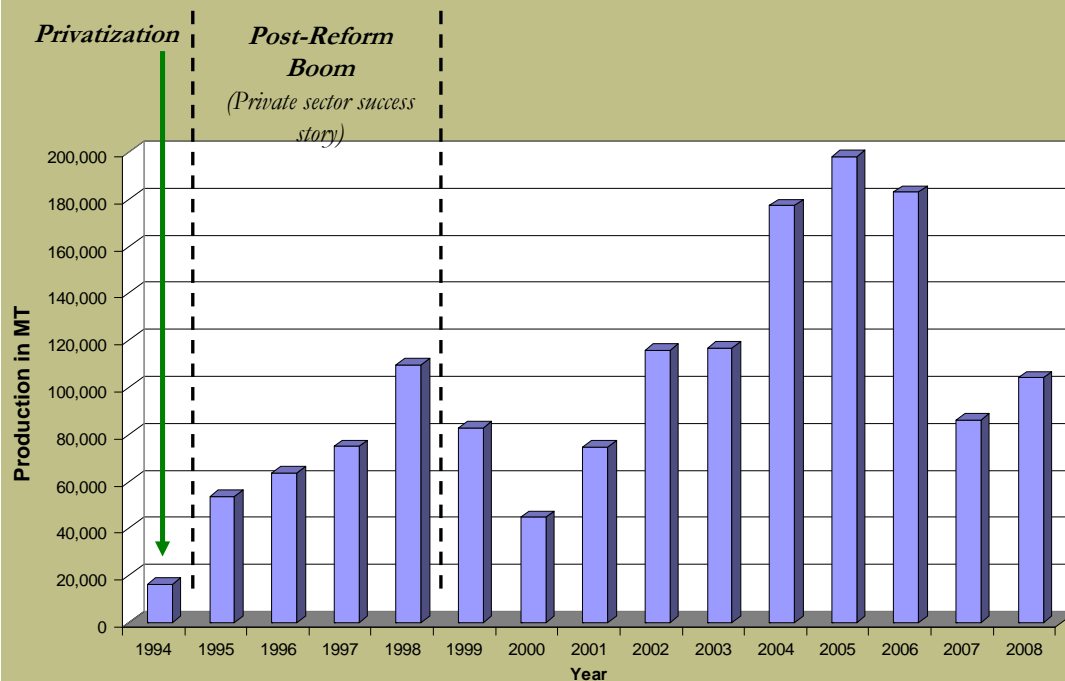
The Evolution of Zambia's Cotton Sector



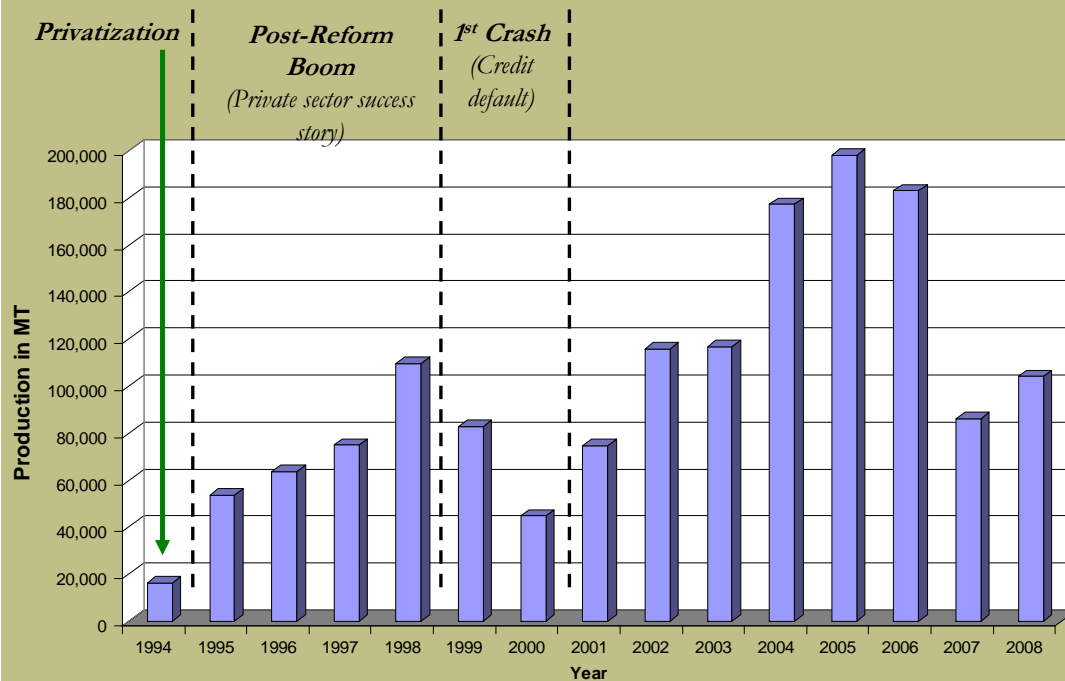
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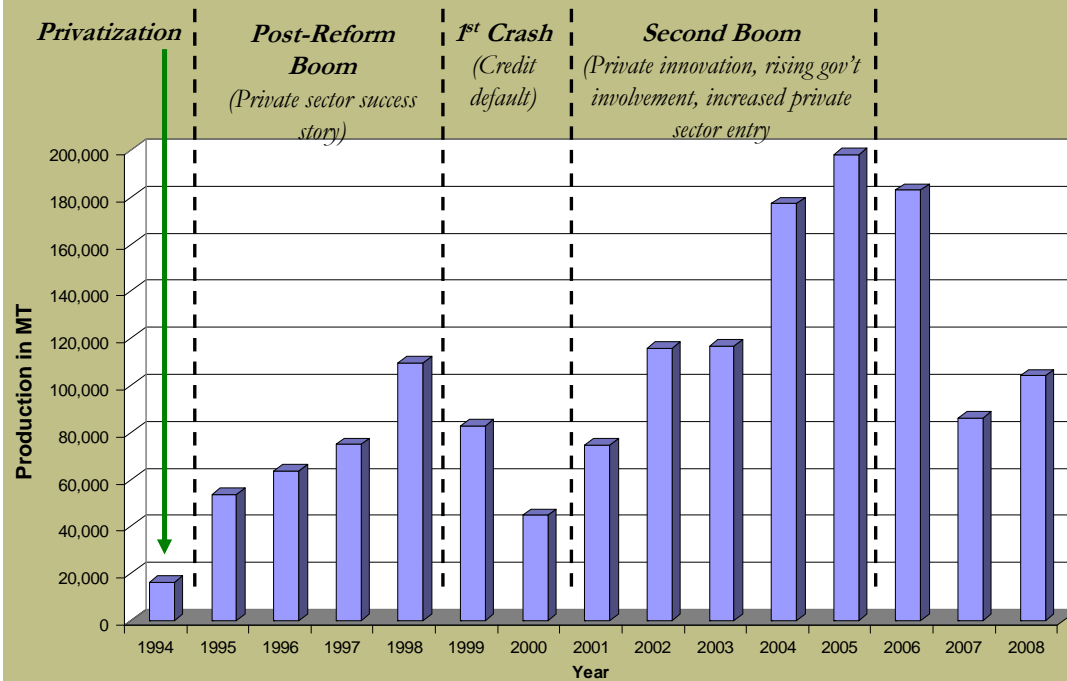
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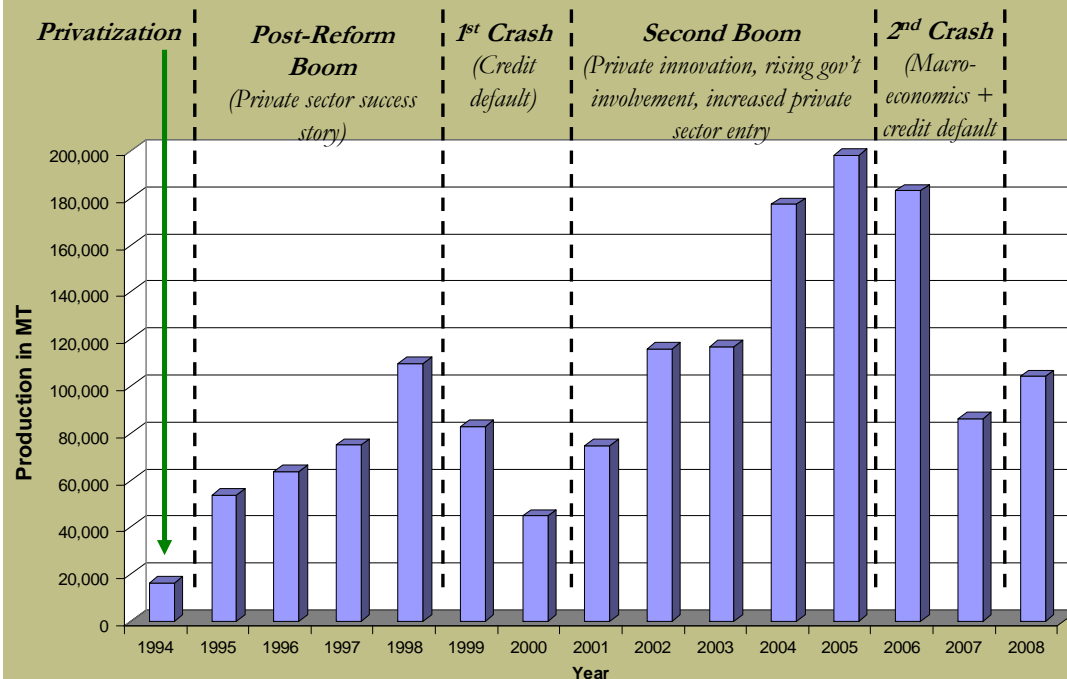
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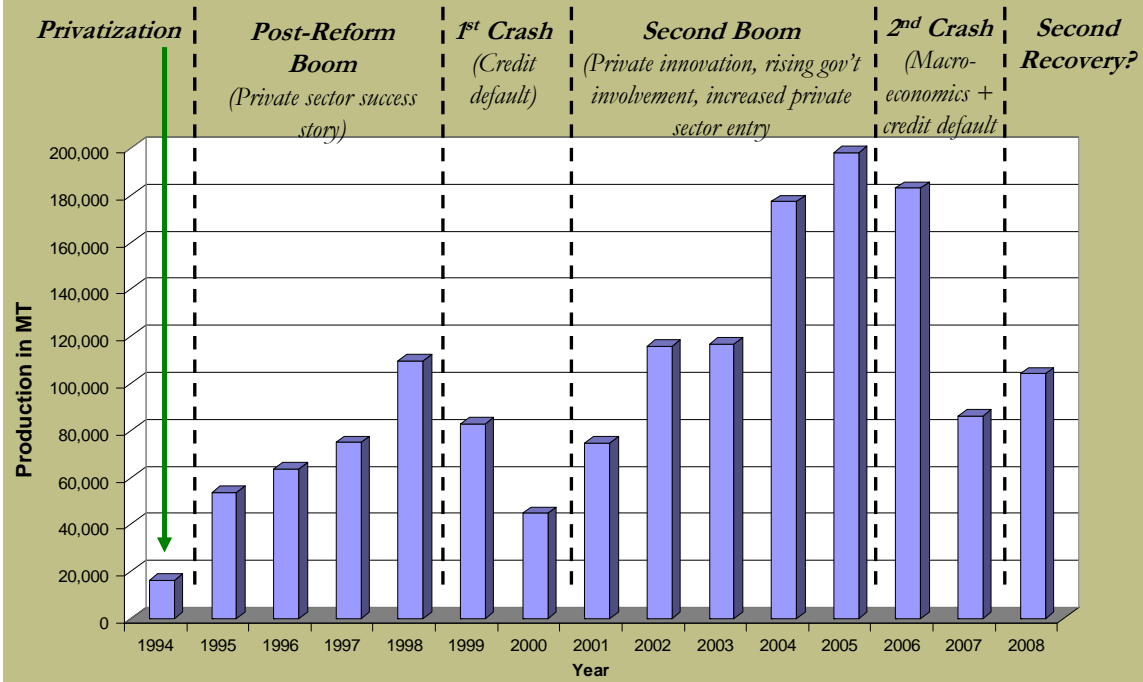
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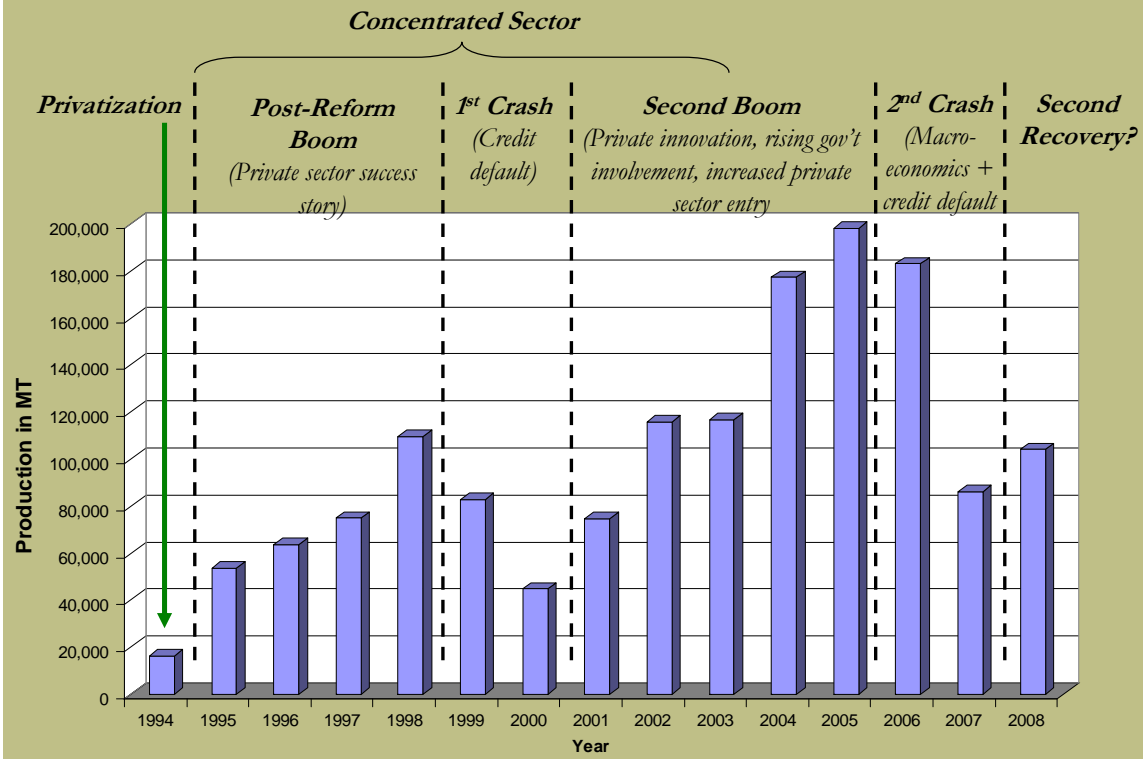
The Evolution of Zambia's Cotton Sector



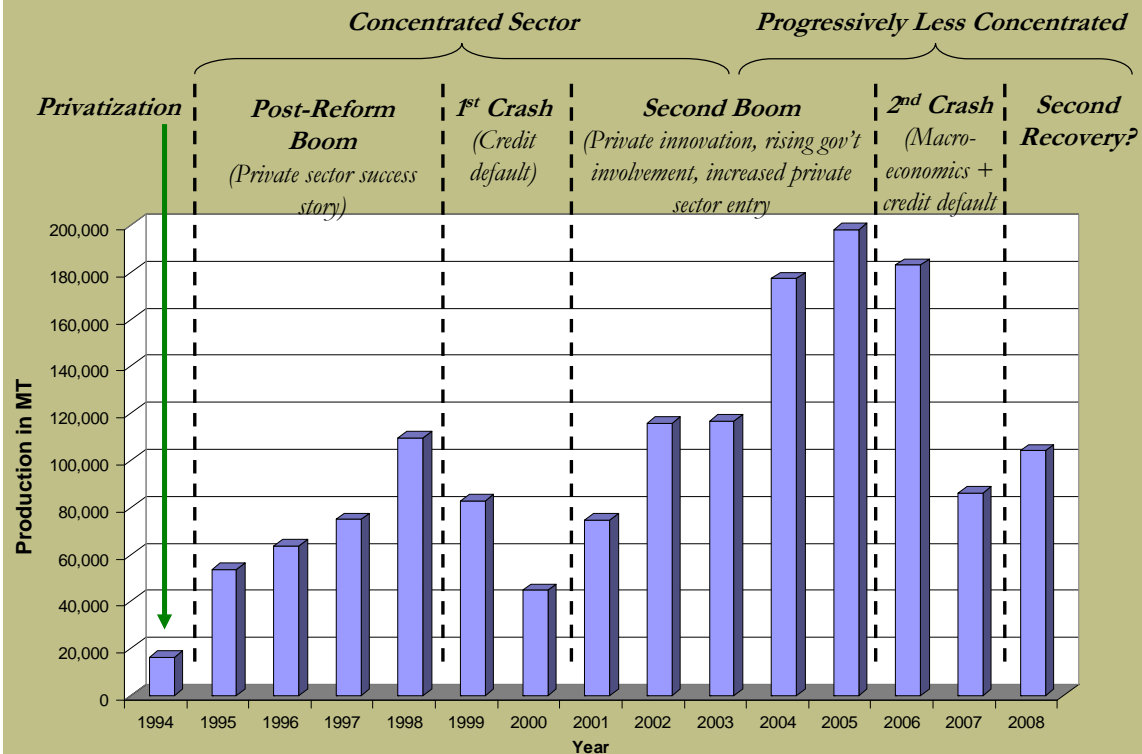
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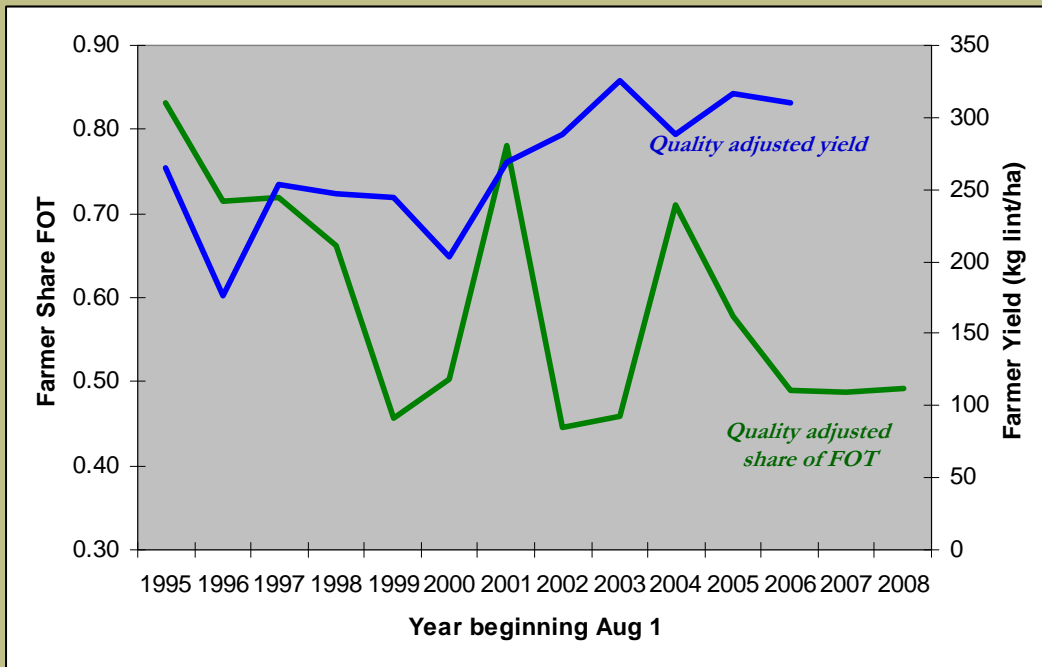


The Evolution of Zambia's Cotton Sector

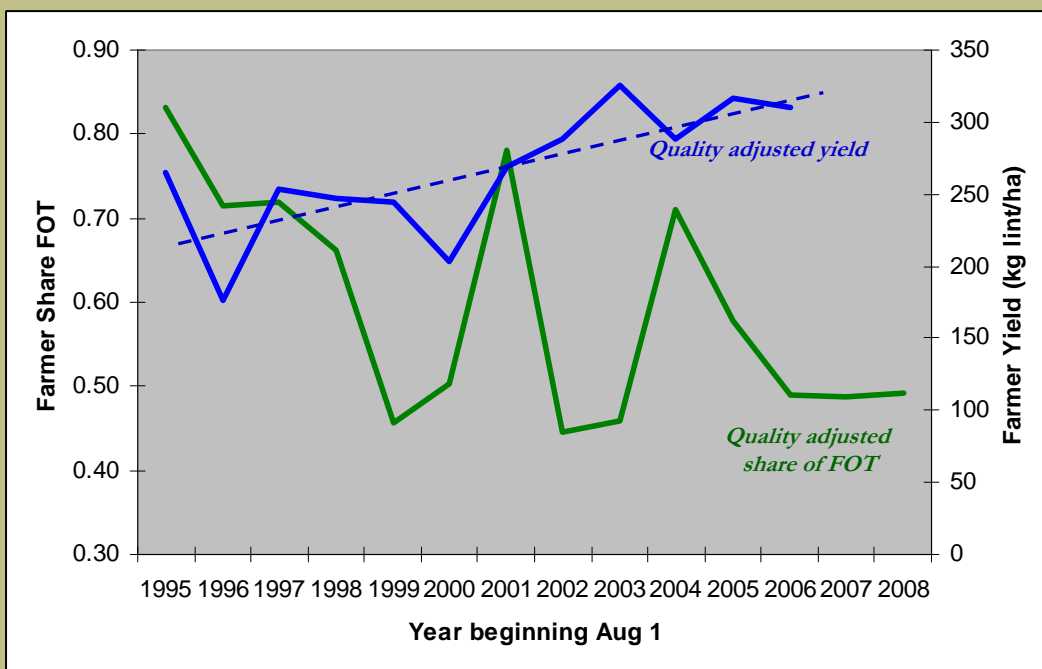


*Zambia in competition-
coordination space*

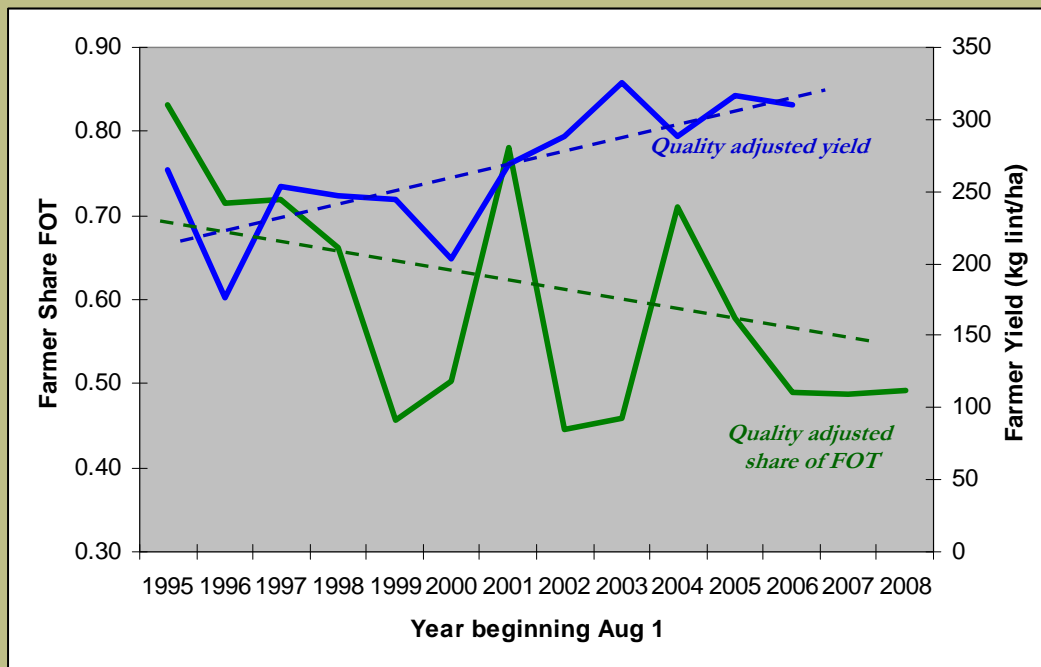
*Time series view of Zambia in competition-coordination space
1995-2008*



*Time series view of Zambia in competition-coordination space
1995-2008*



Time series view of Zambia in competition-coordination space 1995-2008



Summary Evolution of Sector

- Little if any formal regulatory presence
- Thus, predictable results
 - Slowly rising mean yields, despite large increases in number of farmers
 - Quality adj yield rose more rapidly than physical yield
 - Now under threat
 - Falling farmer price shares
 - 2006 - 2008 saw more competition than ever ... and lowest mean farmer FOT shares since privatization!
 - Support for our suggestion: with increased competition, input credit will suffer long before prices improve

The Cotton Act: Origins

- Original version several decades old
- New initiative starting ~ 2000
 - Lonrho/ Dunavant working with CDT and other stakeholders
 - Response to rampant credit default during first collapse
- Creation of a multi-stakeholder regulatory Cotton Board
 - A type of co-regulation

The Cotton Act: Early version

- First proposed version early 2000s
 - Public and private representation
 - Majority private
 - Heavy policing focus
 - Ignored:
 - Legal bases and operational approaches to improving information on credit histories
 - Promotion of collective action for quality and productivity
 - Monitoring of sector performance
 - Pricing

The Cotton Act: Revisions to 2005

- Allowed judicial review of Board decisions after internal appeals process exhausted
 - But powers of Board & policing focus not changed
- Membership changed from 6 private/3 public to 6 private/6 public
 - Representative of “Ministry responsible for finance and national planning” added
- Still silent on pricing
- Added explicit function: “Maintain a record of the credit status of cotton growers”

The Cotton Act: Political paralysis

- 2005 version signed by President
 - Despite some strong reactions/suggestions from farmers & ginners
- Lengthy process proposing revisions
 - Cotton Act Working Group → highly participatory
 - Recommendations finished summer 2006
 - Inexplicable delays ... new version still not submitted to Parliament
 - So stakeholders gain agreement to seat Board under existing Act

The Cotton Act: Forging ahead

- Cotton Board seated early 2009. Focus on:
 - Licensing committee
 - Pre-financier's license
 - Seed cotton buyer's license
 - Cotton ginner's license
 - "... conditions for issue ... as the Board may prescribe"
 - Data base on credit status of borrowers
 - Searchable online database
 - Providing information for this data base may be one requirement for a license

The Cotton Act: Key issues

- Barriers to entry
 - Not clear yet if these will be "modest"
 - But contestability appears assured for some time
- Information to reduce side-selling
 - Limit this to credit bureau function?
 - Or add information to allow sector M&E?
 - How to protect farmers?

The Cotton Act: Key issues (2)

- Silent on pricing

- How much *should* be specified in the Act?
- Statement of principle may be sufficient
- What role might Ministry of Planning and Finance play?
 - Generalized competition policy
 - Don't know much about this