Cotton Sector Regulation in Zambia

A Preliminary Case Study

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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

Privatization
The Evolution of Zambia’s Cotton Sector

Privatization

Post-Reform Boom
(Private sector success story)

1st Crash
(Credit default)

Production in MT

Year

The Evolution of Zambia’s Cotton Sector

- **Post-Reform Boom** (Private sector success story)
- **1st Crash** (Credit default)
- **Second Boom** (Private innovation, rising gov’t involvement, increased private sector entry)
- **2nd Crash** (Macroeconomics + credit default)
The Evolution of Zambia’s Cotton Sector

Privatization

Post-Reform Boom (Private sector success story)

1st Crash (Credit default)

Second Boom (Private innovation, rising govt involvement, increased private sector entry)

2nd Crash (Macroeconomics + credit default)

Second Recovery?

Year

Production in MT

Concentrated Sector

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Second Recovery?

Year

Production in MT
The Evolution of Zambia’s Cotton Sector

- **Privatization**: Post-Reform Boom (Private sector success story)
- **1st Crash**: 1st Crash (Credit default)
- **Second Boom**: Second Boom (Private innovation, rising gov’t involvement, increased private sector entry)
- **2nd Crash**: 2nd Crash (Macroeconomics + credit default)
- **Second Recovery?**: Concentrated Sector

**Zambia in competition-coordination space**
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”
  - Database on credit status of borrowers
    - Searchable online database
    - Providing information for this database 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