Cotton Sector Regulation and Facilitation Process in Zambia

A Case Study

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Outline

1. Background information of the cotton sector
2. Conceptual framework
3. Cotton evolution structure and performance
4. Review efforts to create the cotton act
5. Lessons learnt
6. Way forward
Background information

- Cotton is a success story of Zambia towards a market economy.
  - Production rose from 20,000 to over 180,000 mt a decade later (3 year average centered on 1994 to 2005)
  - Number of farmers, ginning capacity grew and quality of lint improved
  - Export of lint were first among all agricultural export in value (30% higher than cane sugar)

- The sector experienced two major crashes since reforms
  - Rampant credit default by farmers
  - Structure of the sector changed, after privatization 2 companies and now at least 10 companies

- The country’s challenge => develop a regulatory framework that would protect this remarkable success
  - Competition is good for farmers but it has to be regulated for the sustainable Development of the cotton sector

Conceptual Analysis

- Regulatory system for a given sector involves
  - The laws, regulations and agreements governing behaviour of actors
  - Mechanism and processes associated with their development and enforcement
  - The organization in-charge of their development
The Evolution of Zambia’s Cotton Sector

Year

Production in mt

The Evolution of Zambia’s Cotton Sector

Privatization

Year

Production in mt
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Privatization

Post-Reform Boom
(Private sector success story)

Year

Production in mt


1st Crash
(Credit default)
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1st Crash
(Credit default)

Second Boom
(Private innovation, rising gov’t involvement, increased private sector entry)

2nd Crash
(Macroeconomics + credit default)

Year

Production in mt


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Production in mt

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Privatization
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)
Second Recovery?

Year

Production in mt
0 20,000 40,000 60,000 80,000 100,000 120,000 140,000 160,000 180,000 200,000

Concentrated Sector
The Evolution of Zambia’s Cotton Sector

The Cotton Act: Origins

- Original version several decades old
- New initiative starting ~ 2000
  - CDT working with Lonrho/ Dunavant 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 my prescribe”
  - Data base on credit status of borrowers
    - Searchable online database
    - Providing information for this data base may be one requirement for a license
Lessons learnt from this process

- A cotton sector which is less concentrated and does not have a regulatory framework is prone to:
  - rampant credit default
  - reduction in the provision of input and effective extension services by major companies
  - reduction in farmers participating in cotton
  - compromise in quality of lint

Way forward

- Requirements for effective regulation of concentrated sector
  - “…Clear and transparent barriers to entry” based on “clear idea of the type of company that they wish to allow into the sector”, and with the purpose of “defending the ability of the firms…to coordinate on input supply, extension and quality control”
  - “…contestability to provide incumbents with an incentive to maintain attractive seed cotton prices”
  - “…price-setting mechanism that are more formalized than the price leadership that prevail in concentrated system thus far”. 
Way forward

- In order to achieve sustainable expansion of cotton production in Zambia and throughout SSA
  - continued improvement in services
    - guaranteed access to input and output markets
    - provision of effective extension
    - lead to improved productivity in cotton
  - also, continued improvement in cotton quality
  - All points are paramount for a sustainable cotton sector

- This can be achieved if there is well functioning regulatory framework

Questions to guide the discussion

- What type of sector do you have? Monopoly, Concentrated, Competitive?

- How is the regulatory framework in your respective countries?

- Is it really helping to have a sustainable DEVELOPED cotton sector?
Thank You!