

Competition and Coordination in Liberalised
African Cotton Market Systems

Lessons from Cross-Country
Analysis 2001-2003

The Project Team

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NOTE

- **PLEASE NOTE THAT THIS IS THE VERSION AS PRESENTED AT THE WORKSHOP. SOME OF THE DATA WAS AMENDED BY WORKSHOP PARTICIPANTS, BUT THESE AMENDMENTS HAVE NOT BEEN INCLUDED IN THIS FILE.**

Summary of Service Delivery Performance by Sector, 2002/03

Range: ***** = excellent to * = poor

	Zambia	Zimbabwe	Tanz.	Moz. (Nam.)
Seed Supply	***	*****	*	** (*)
Chemicals	*****	*****	**	***
Input Credit	*****	*****	*	*****
Quality Control	*****	***	**	*
Research	**	**	**	*
Extension	*****	***	*	*** (**)

Seed Supply and Distribution

		Commercialised	Subsidised
Role of Cotton Companies	Distribution	Zimbabwe	Tanzania
	Seed Producer	Zambia, Mozambique (new)	Mozambique (Nampula)

- Stronger incentives to produce high quality seed in commercialised systems; weakest in subsidised/ distribution systems
- also stronger incentives for efficient use of seed by farmers in commercialised systems
- difficult to overcome farmer attachment to subsidised (“free”) seed?

Input Credit I

	Zimbabwe	Tanzania	Zambia	Mozambique
% farmers receiving input credit	37%	<2%, but passbooks	94%	>90%
% total output produced by these farmers	60%	-	94%	>90%
Interest rate paid on input credit	30-40% 2002/03; 15% p.m. 2003/04	-	No explicit rate	No explicit rate
Credit repayment	95%+	-	93%	90%+

Quality Control

	Zimbabwe	Tanzania	Zambia	Mozambique
No. Points at which grading occurs	3-4	1-3	2-3	0-2
No. Seed Cotton Grades	5	2	3-4	2
Premium / Discount A Index (2000-04)	4.7	-1.1	2.0	-0.8

Quality Control II

- Zimbabwe
- Zambia
- Tanzania
- Mozambique

Research 2002/03

	Zimbabwe	Tanzania	Zambia	Mozambique
No. Researchers	c. 8	10	3	2
Budget (US\$)	55,000	179,000	450,000	-
No. New Varieties (past 5 years)	4	None	None	0

Contextual Observations

- System evolution is the result of the interaction of:
 - Dispersed nature of smallholder production
 - rural credit and input market failure
 - Complex quality challenge
- Hence, complex institutional arrangements required
 - History is an important determinant of arrangements that have emerged

Implications

Contrary to recent international policy consensus:

- One size does not fit all!
- Significant role for the state may be required (beyond property rights, infrastructure and information)
- Restrictions on competition may improve performance

Concentrated vs Dispersed

- Concentrated sector may be more favourable to “developmental phase” of cotton sector growth
- ... but have to work from where we are!

Returns to Labour, 2003

	Zambia	Zimbabwe	Tanzania	Mozambique
Yield (kg/ha)	600	710	450	350
Seed Cotton Price (LC/kg)	1,220	400	290	4,000
Gross Revenue	805,200	284,000	130,500	1,400,000
Purchased Input Costs (LC/ha)	248,608	45,500	25,000	343,000
Labour Days	130	130	100	106
Returns to Labour (US\$/day)	0.86	0.76	0.99	0.42

Who benefits from Intensive Cotton Production?

- Returns to labour no higher in Zambia than Tanzania
- ZW Household modelling: farmers accessing credit still select cotton even when prices are low
 - Easing capital constraints
- Industry unambiguously benefit from more stable production

Regulation

- Different priorities in concentrated vs dispersed sector, e.g.
 - Promoting more – and more responsible - competition in Zambia (Cotton Outgrower Scheme)
 - Ensuring provision of public / club goods in Tanzania (CDF)
- Stakeholder participation, including in decision making and accountability, is preferable to “command and control”
 - Extension of concession in Mozambique
 - Importation of chemicals by CDF in Tanzania

Regulation II

- Trust is vital for efficient regulation
 - More reliance on rigid rules where trust is low (costly and will produce less nuanced outcomes)
 - Some judgements are inherently subjective and/or complex: trust is needed for these to preserve stakeholder confidence
- Principles for building trust:
 - Transparency
 - Regular opportunities for (focused) stakeholder interaction (“deliberative fora”)
- If state agencies are perceived to be too strong in relation to other stakeholders, this diminishes the changes of effective multi-stakeholder coordination.

Regulation III

- Incentives for medium-large scale investment into a sector should be a concern for all regulators
- Participation in a sector carries responsibilities
 - It is right to reflect this in licensing practice