Overview of Regulatory Challenges in Cotton Sectors of East and Southern Africa

David Tschirley, Michigan State University/FSRP
Drawing on work with Colin Poulton, Christina Plerhoples, and Stephen Kabwe

Presented at COMESA/COMPACI Regional Cotton Sector Policy Seminar on Regulatory Frameworks: Leveling the Playing Field, 4-5 May 2011, Lusaka, Zambia
Outline

• What is regulation?; why is it needed?
• Linking regulatory approaches to sector type
  • The competition-coordination trade-off
• Key issues for good regulatory design
What do we mean by regulation?

• Any formalized set of incentives and sanctions meant to influence behavior of participants in a particular direction
• “Rules of the game”
• Could be public, private, or a mix of the two
  • More on this later
• Registration requirements, information sharing requirements export permits, quality standards, …
Regulatory Systems

• Laws, regulations, and agreements governing behavior of actors
  • E.g., Cotton Act in Zambia

• Mechanisms and processes associated with developing and enforcing these laws, regulations, and agreements
  • E.g., Cotton Working Group, Parliament in Zambia

• Organizations in charge of development and enforcement
  • E.g., Cotton Board in Zambia
Why is regulation needed?

• Due to market failure
  • Input and, especially credit markets in SSA
• For contract enforcement
  • Side selling – central question in most of SSA
• To provide public goods through private sector
  • E.g., Quality control, extension assistance
• To control market power
  • In monopolies or even concentrated systems
  • E.g., Pricing rules

To improve performance in an imperfect world!
But regulation has costs as well as benefits
Regulatory Approaches

- **Command and control (public sector)**
  - Clear rules, but inflexible
  - Requires an efficient bureaucracy
  - Minimal compliance with high regulatory costs of monitoring and enforcement?

- **Self-regulation (private sector)**
  - Collective interest, e.g. industry reputation for quality or social responsibility
  - Draws on expertise of private stakeholders
  - Flexibility
  - Weaknesses: free-riding, “window-dressing”
Regulatory Approaches (2)

• Co-regulation (public + private sector)
  • In principle, combines strengths of other two approaches
  • Application and interest in SSA cotton sectors: WCA interprofessional bodies, Zambia Cotton Board, Zimbabwe?
• Problem: ginners more influential than farmers?
The importance of sector type

• Concentrated (Zambia, Zimbabwe)
  • One or two dominant firms, limited number of smaller firms
  • Fairly good performance on input provision, extension, very good on lint quality
  • Not as good on prices
  • Unstable
• Can African sectors develop workable regulatory structures?
The importance of sector type (2)

• Competitive (Tanzania, Uganda)
  • Large number of firms, none of them regularly dominant
  • Extremely limited ability to provide input credit or extension
  • Likely to perform poorly outside agro-ecologically well endowed areas
  • Little prospect for sustained poverty reduction
    • Because they cannot drive productivity growth
The importance of sector type (3)

- National monopolies (West Africa)
- Major successes in past, but:
  - Company inefficiency a major and growing problem
  - Politics a major complicating factor
  - Good performance likely to be exception in future
The importance of sector type (4)

• Local monopolies (Mozambique, Burkina)
  • More than one firm, each with a defined area of exclusive action
• Performance depends on:
  • Company culture
  • Strength of farmers as active stakeholders
  • Regulatory capacity of government
Sector type & regulatory priorities

• Purpose of regulation
  • Encourage sector strengths
    • input distribution and extension in monopolies or concentrated systems
  • Make-up for sector weaknesses
    • pricing in monopolies or concentrated systems
    • input distribution and extension in competitive systems
    • inefficiency in national monopolies

No one approach works best everywhere!
## Sector type & regulatory priorities (2)

<table>
<thead>
<tr>
<th>Sector Type</th>
<th>Service Delivery</th>
<th>M&amp;E (Firm Performance)</th>
<th>Strategic Direction</th>
<th>Decision Making (Allocation)</th>
<th>Pricing / Competition Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive</td>
<td><img src="%E2%88%9A%E2%88%9A%E2%88%9A" alt="√√√" /> Inputs, extension</td>
<td><img src="%E2%88%9A" alt="√" /> Quality control</td>
<td><img src="%E2%88%9A%E2%88%9A" alt="√√" /></td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Concentrated</td>
<td>--</td>
<td><img src="%E2%88%9A" alt="√" /> Firm capacity?</td>
<td><img src="%E2%88%9A" alt="√" /></td>
<td><img src="%E2%88%9A%E2%88%9A" alt="√√" /> Licensing of ginnners</td>
<td><img src="%E2%88%9A%E2%88%9A" alt="√√" /></td>
</tr>
<tr>
<td>Local Monopoly</td>
<td><img src="%E2%88%9A%E2%88%9A" alt="√√" /></td>
<td><img src="%E2%88%9A%E2%88%9A%E2%88%9A" alt="√√√" /> Concessionaire performance</td>
<td><img src="%E2%88%9A" alt="√" /></td>
<td><img src="%E2%88%9A%E2%88%9A%E2%88%9A" alt="√√√" /> Concession allocation</td>
<td><img src="%E2%88%9A%E2%88%9A%E2%88%9A" alt="√√√" /></td>
</tr>
</tbody>
</table>

Note: ![√√√](√√√) = **high priority for regulation;** ![√√](√√) = **medium priority;** ![√](√) = likely to be high cost or ineffective, thus lower priority; -- = sector likely to perform well without regulation
Key issues for regulatory design

- Public/private sector balance
  - Avoid public sector dominance
  - Multi-stakeholder approach
- Balancing costs with benefits
  - Tendency for organizations to become too large and expensive
  - Especially if public sector too dominant?
Key issues for regulatory design (2)

• Specific roles of public and private sectors
  • Depends on sector type
  • Don’t fix it if it isn’t broken!
  • And don’t fix it if you can’t!
    • Cost vs. likely benefit

• Varietal zoning

• GMO regulatory structure
Thank you