

Input Credit Provision for Cotton Production Learning from African Neighbors and Meeting Zambia's Challenges

Stephen Kabwe and David Tschirley
Food Security Research Project

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Outline

1. Why do African countries need input credit supply for cotton production?
2. Performance of each sector type in input provision (and extension)
3. Key lessons for Zambia

Why Input Credit Supply in Africa's Cotton Production?

- Four facts
 - Cotton production requires substantial external inputs
 - Smallholder farmers are typically cash constrained
 - Rural credit markets for agriculture in Africa are nearly non-existent
 - Input markets are very weak in rural Africa
- The facts typically mean that inputs must be provided by the processor, as in-kind credit
 - Processor must then have certainty that will be able to recover the credit upon purchase of the output
 - Frequently a “weak link” in the chain

How have competitive sector types performed?

| Expected performance | Realized performance |
|---|--|
| Little or no ability to provide input credit or extension | Input <ul style="list-style-type: none">-Expectations largely confirmed-Early failed efforts in Uganda and Tanzania-Some success in later efforts Extension <ul style="list-style-type: none">-Expectations fully confirmed in Tanzania; more success in later efforts in Uganda |

How have local monopolies performed?

| Expected performance | Realized performance |
|--|---|
| <ul style="list-style-type: none"> • Greater ability than competitive systems to provide input credit and extension and ensure repayment; • But lack of competition means firm “culture” and regulatory framework especially important | <p>Input</p> <ul style="list-style-type: none"> • Expectations largely confirmed, including variable performance across firms. • Provide support to larger share of farmers than concentrated systems <p>Extension</p> <ul style="list-style-type: none"> -Depends even more than input supply on company; some in Mozambique provide none |

How have national monopolies performed?

| Expected performance | Realized performance |
|--|--|
| <ul style="list-style-type: none"> • Greatest ability to provide broad access and ensure repayment; • Adequacy/quality indeterminate, dependent on management and firm culture | <p>Input</p> <ul style="list-style-type: none"> • Expectations confirmed, though performance in WCA heavily dependent on good management and substantial outside assistance <p>Extension</p> <ul style="list-style-type: none"> • Tendency for messages to become obsolete and not adapted to sub-local conditions |

How have concentrated sector types performed?

| Expected performance | Realized Performance |
|--|---|
| <ul style="list-style-type: none">• Greater ability than competitive systems to provide basic input package on credit and some extension | <p>Input -Expectations largely confirmed, but systems subject to structural instability and periodic default crises</p> <p>Extension -Uneven performance across companies</p> |

What are the lessons for Zambia?

- ❑ Smallholder farmers in Africa require reliable input credit
 - Some purchases occur but very small
- ❑ Zambia has been relatively successful in dealing with input credit for farmers but with some credit defaults
- ❑ Concentrated system (Zambia & Zimbabwe) cannot effectively operate without rules and regulations



What are the lessons for Zambia?

- Highly collaborative regulation of the sector is needed
 - The enactment of the revised Cotton Act provides the framework under which this may happen
- Recent activities of ZACOP in collaboration with CAZ in setting up pre-planting price is in such spirit



Thank You!