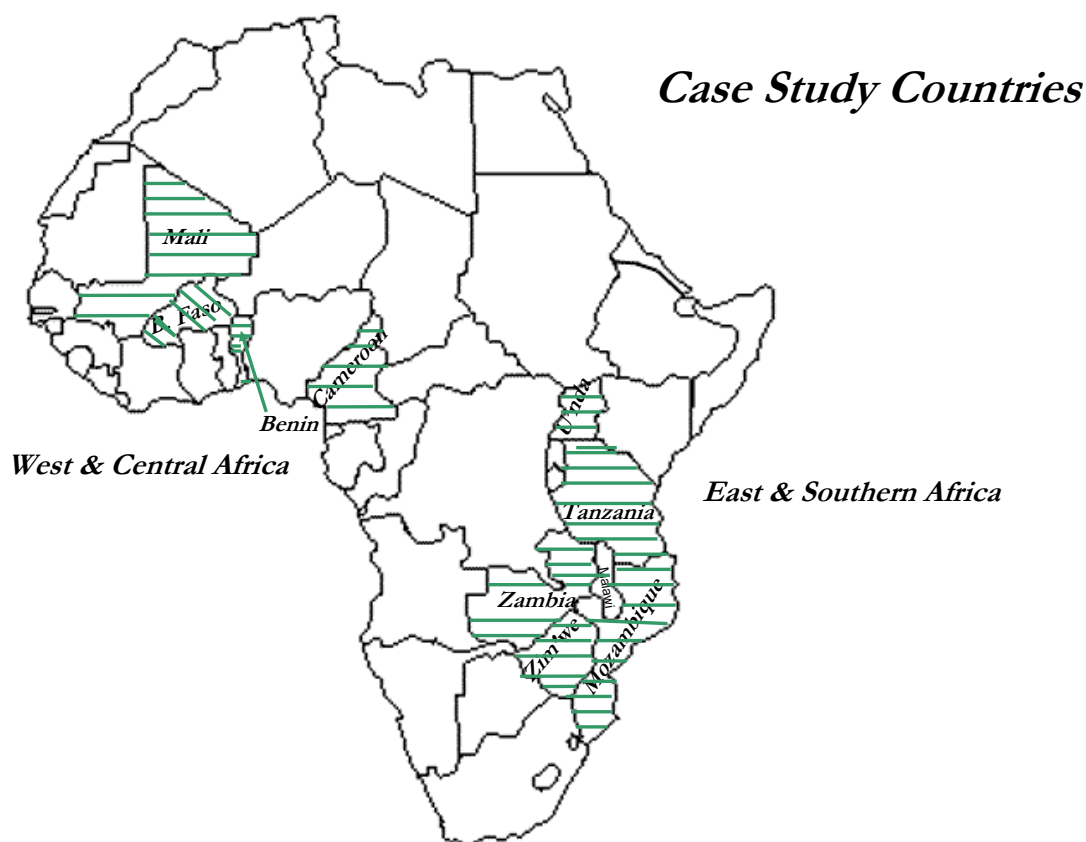


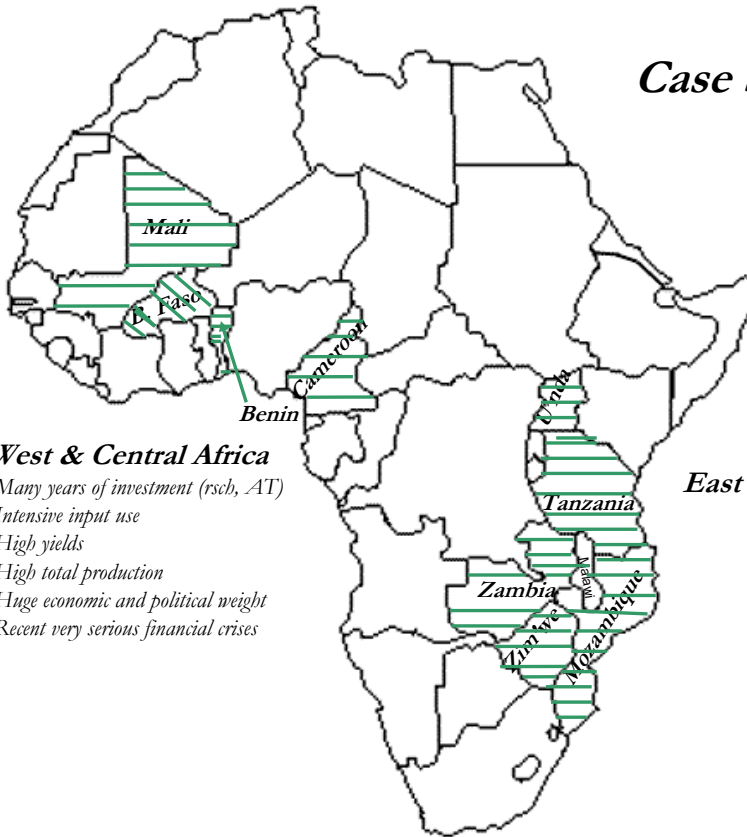
# Comparative Analysis of Cotton Sector Reforms in SSA

## *Overview of Approach and Broad Findings*

David Tschirley  
Cotton Sector Stakeholder Meeting  
27 November 2007, Lusaka



## *Case Study Countries*

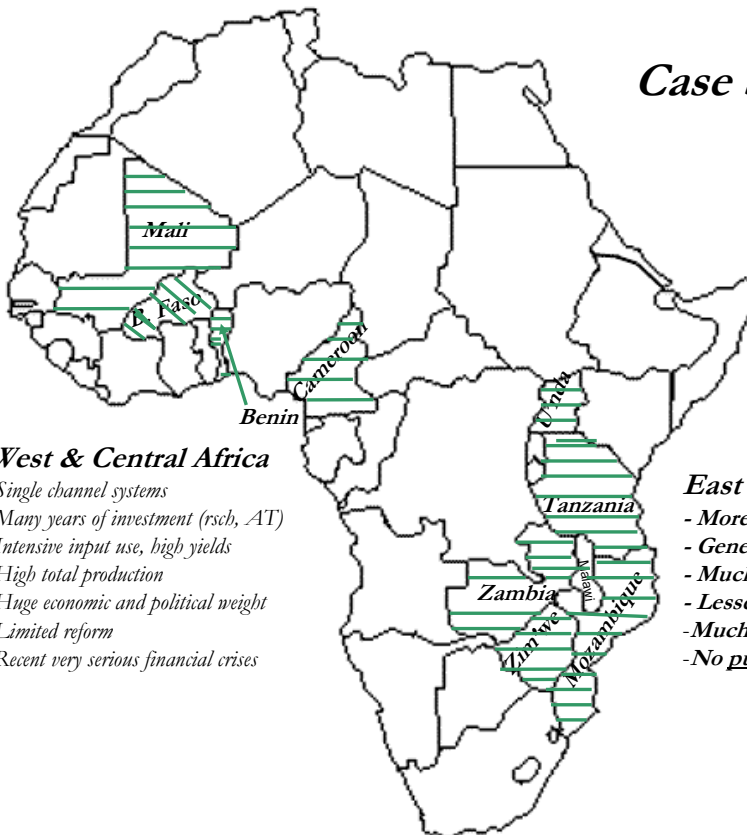


### **West & Central Africa**

- Many years of investment (rscb, AT)
- Intensive input use
- High yields
- High total production
- Huge economic and political weight
- Recent very serious financial crises

### **East & Southern Africa**

## *Case Study Countries*



### **West & Central Africa**

- Single channel systems
- Many years of investment (rscb, AT)
- Intensive input use, high yields
- High total production
- Huge economic and political weight
- Limited reform
- Recent very serious financial crises

### **East & Southern Africa**

- More diverse history
- Generally much less investment
- Much lower input use, yields
- Lesser economic and political weight
- Much more reform
- No public financial crises

## *Performance Indicators and Typology*

	National Monopoly	Local Monopoly	Concentrated	Competitive	Correlation w/ Typology
Prices to farmers					
Input supply					
Quality					
Research linkages					
Yields					
Returns to farmers					
Cost efficiency					
Value addition					
Macro Impact					

## Key Finding 1: Diversity

<b>National (public) Monopoly</b>	<b>Local (private) Monopolies (Concessions)</b>	<b>Concentrated</b>	<b>Competitive</b>	<b>Hybrid</b>
<i>Francophone Model</i> - Single public ginning co. - Fixed prices over time, space - Intensive input use - Research, extension	- Multiple geographical areas, each with monopoly - Fixed prices over time, space - Theoretical protection against side selling	- Few companies competing for seed cotton - Tendency towards price leadership	- Many companies competing for seed cotton - Price competition	- Statutory mixture of various models

# Key Finding 1: Diversity

National (public) Monopoly	Local (private) Monopolies (Concessions)	Concentrated	Competitive	Hybrid
Cameroon		Zambia Zimbabwe	Tanzania	Benin  Uganda
Mali Chad Senegal (priv)	Mozambique Burkina Faso			
	Cote d'Ivoire Ghana			

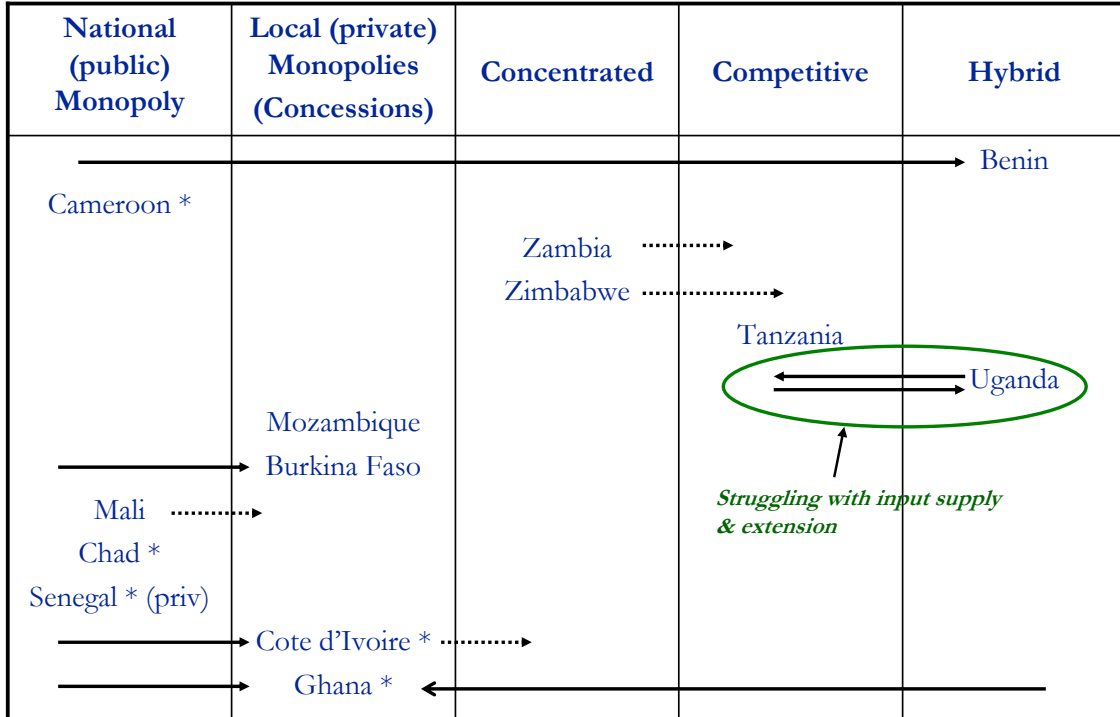
# Key Finding 2: Change

National (public) Monopoly	Local (private) Monopolies (Concessions)	Concentrated	Competitive	Hybrid
Cameroon *				Benin
		Zambia Zimbabwe	Tanzania	Uganda
	Mozambique Burkina Faso			
Mali Chad *				
Senegal * (priv)	Cote d'Ivoire *			
	Ghana *			

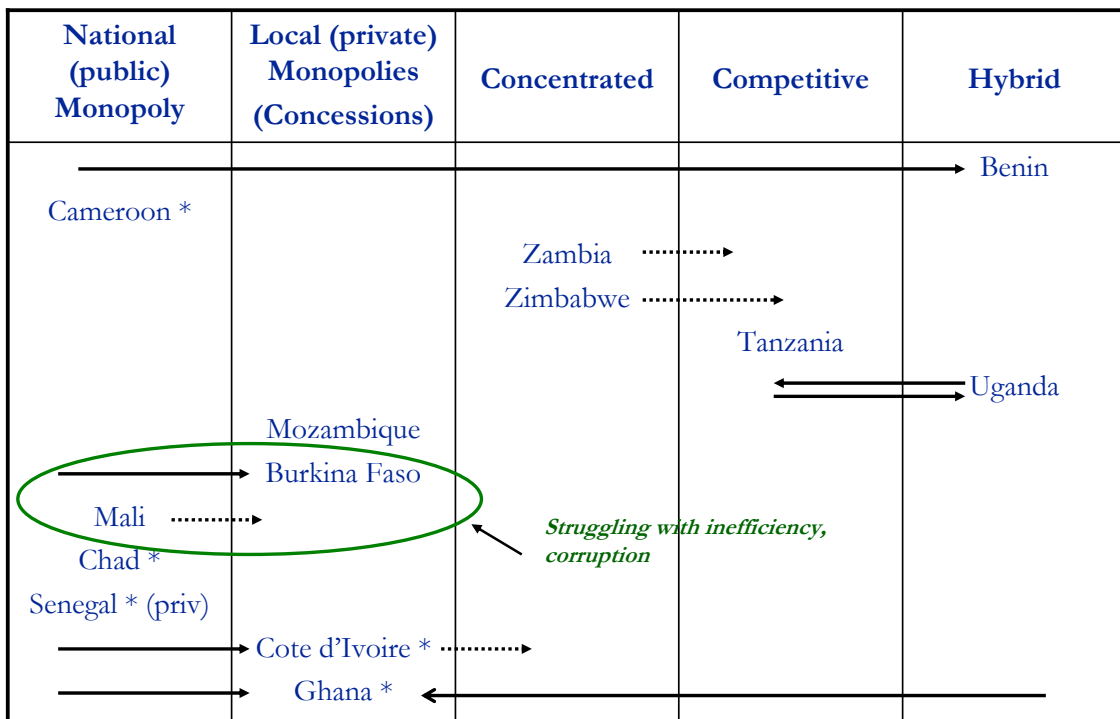
Arrows in the table indicate transitions between categories:
 

- Cameroon \* has a solid arrow pointing to Benin.
- Zambia and Zimbabwe have dotted arrows pointing to the Competitive category.
- Tanzania has a solid arrow pointing to the Hybrid category.
- Uganda has a solid arrow pointing to the Competitive category.
- Mozambique and Burkina Faso have solid arrows pointing to the Local (private) Monopolies (Concessions) category.
- Mali has a dotted arrow pointing to the Local (private) Monopolies (Concessions) category.
- Chad \* has a dotted arrow pointing to the Local (private) Monopolies (Concessions) category.
- Senegal \* (priv) has a solid arrow pointing to the Local (private) Monopolies (Concessions) category.
- Cote d'Ivoire \* has a dotted arrow pointing to the Concentrated category.
- Ghana \* has a solid arrow pointing to the Concentrated category.

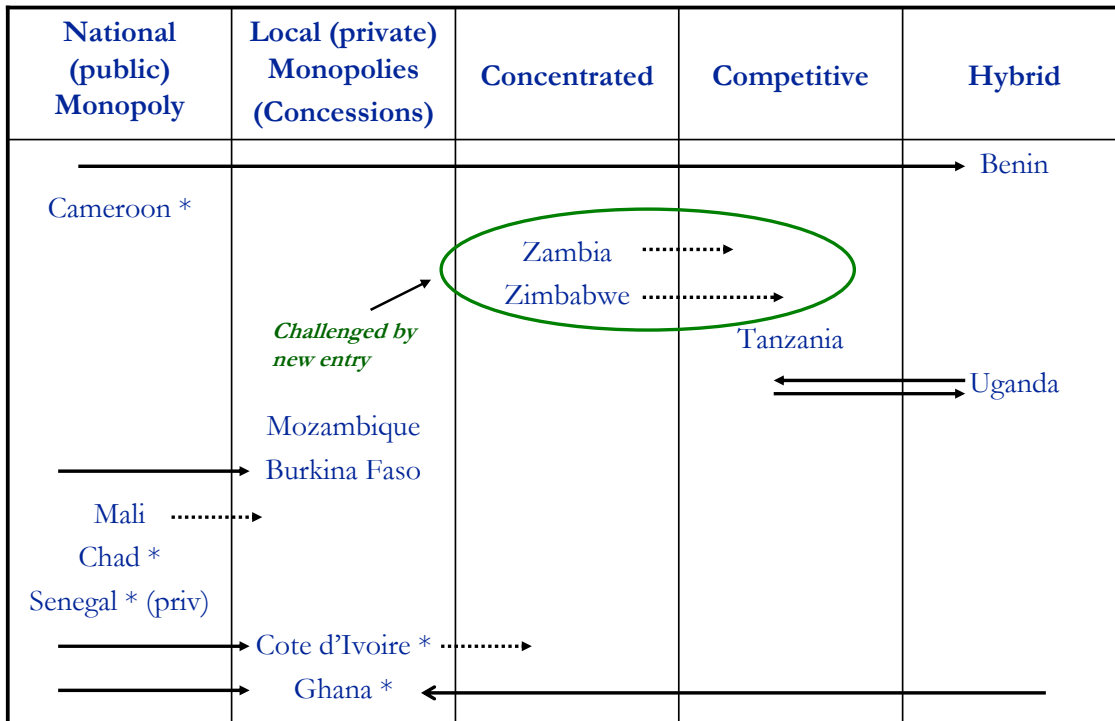
## Key Finding 2: Change



## Key Finding 2: Change



# Key Findings 1: Change



*Reform is not a change from one stable set of rules of the game to another stable set*

## Key Finding 3: Predictable Patterns

- Structure of market for seed cotton has a major influence on the types of challenges a sector will have most difficulty meeting
  - Strongly related
    - Input credit delivery, extension, productivity
    - Quality
    - Prices to farmers
  - Less strongly related: research
- But some outcomes more difficult to predict
  - E.g., returns to farmers

### *Performance Indicators and Typology*

	National Monopoly	Local Monopoly	Concentrated	Competitive	Correlation w/ Typology
Prices to farmers	<b>Variable</b>	<b>Variable</b>	<b>Variable</b>	✓	✓
Input supply	✓	✓	✓	✗	✓
Quality	<b>Variable</b>	<b>Variable</b>	✓	✗	✓
Research linkages	<b>Variable</b>	<b>Variable</b>	<b>Variable</b>	<b>Variable</b>	✗
Yields	✓ but ...	<b>Variable</b>	✓	✗	✓
Returns to farmers	✓ but ...	✗	✓	✓	✗
Cost efficiency	✗	<b>Variable</b>	✓	✓	✓
Value addition	<b>Variable</b>	<b>Variable</b>	✓		✗
Macro Impact	✓	✓	✓	✓	✓

## *Performance Indicators*

	National Monopoly	Local Monopoly	Concentrated	Competitive	Correlation w/ Typology
Prices to farmers	<b>Variable</b>	<b>Variable</b>	<b>Variable</b>	✓	✓
Input supply	✓	✓	✓	<b>X</b>	✓
Quality	<b>Variable</b>	<b>Variable</b>	✓	<b>X</b>	✓
Research linkages	<b>Variable</b>	<b>Variable</b>	<b>Variable</b>	<b>Variable</b>	<b>X</b>
Yields	✓ but ...	<b>Variable</b>	✓	<b>X</b>	✓
Returns to farmers	✓ but ...	<b>X</b>	✓	✓	<b>X</b>
Cost efficiency	<b>X</b>	<b>Variable</b>	✓	✓	✓
Value addition	<b>Variable</b>	<b>Variable</b>	✓		<b>X</b>
Macro Impact	✓	✓	✓	✓	✓

## Concentrated Sectors

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- Tend to perform reasonably well on a range of indicators, but ...
- Unstable
  - Tendency to become more competitively structured
  - Undermines input provision and quality before it has any effect on prices
- If a concentrated sector is maintained, where will pricing discipline come from?



## Key Finding 4: Role of Government

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- ❑ Because structure affects which challenges are most difficult to meet ...
- ❑ It also affects the appropriate role for government and private sector
- ❑ Competitive structures
  - Most active government involvement in overall coordination and input supply
- ❑ Concentrated structures
  - Government should be less directly involved
  - Require regulatory structure that limits entry but provides pricing discipline
    - ❑ Sector regulating itself with assistance from government

## Wrapping-up

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- ❑ Diversity
- ❑ Change
- ❑ Some predictable patterns
- ❑ Role of government
  
- ❑ Moving forward: for discussion at end

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*Thank You*

## Conclusions: Ways forward for particular sector types

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### □ National Monopolies

- Cost reduction from farm gate to FOT needs to be a top priority: greater role for private companies to achieve this
- Allow investment in the oil sector to create more competition
- Political economy problems may be insuperable, necessitating structural reform
- Beware of moving quickly to concentrated system
  - Can slide to competitive system, with well known problems, and very difficult to reverse
- Local monopolies probably the best interim solution ...

## Conclusions: Ways forward for particular sector types (II)

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### □ Local Monopolies

- Avoid Burkina's mistakes!
- Effective Regulation is key
  - Price setting rules must continue to be reformed
  - Inter-professional committees and farmer organizations need to continue to be developed, with special emphasis on the operational abilities of the latter
  - Clear rules for evaluating and re-tendering concession areas need to be developed
- Reforms in research organizations to make them more responsive to inter-professional committees

## Conclusions: Ways forward for particular sector types (III)

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### □ Concentrated sectors

- Key challenge is to develop appropriate regulatory regime that understands strengths and weaknesses of the concentrated model
  - Once a system slides into a competitive structure, difficult or impossible to change
- Concentrated sectors may need selection at entry: licensing rules that specify capabilities and conduct of firms wishing to participate in the sector
- Given problems of relying entirely on the threat of entry to discipline incumbent firms, develop more formalized price setting mechanisms to replace price leadership
  - Stronger farmer associations!

## Conclusions: Ways forward for particular sector types (IV)

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### □ Competitive sectors

- Key state role in sector coordination (especially for input supply), but need to strengthen the accountability of regulatory bodies towards ginners and farmers
- Regulatory bodies and/or ginners' associations work with other actors (e.g. local government or donors) to develop long-term programs to enhance soil fertility or promote mechanization (animal traction)
- Productivity problem is intractable, but no easy way to move from competitive to concentrated or local monopoly structure

## Final reflections on sector types and looking ahead

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- Some degree of convergence in the forms of cotton sector organization in Africa likely to happen over the next decade
  - Increase in the number of local monopoly systems in WCA in the short/medium term?
- Transition to concentrated systems desirable, if regulatory challenges can be overcome
- Support (investment) to rural finance, quality management, productivity improvement, institutions and capacity building necessary in all cases
- More competitive systems are probably part of the *long-term* future in most countries
  - But require more effective rural financial markets, inputs markets and farmers' organizations first