Comparative Analysis of Cotton Sector Reforms in SSA

Performance on Pricing to Farmers

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Pricing Approaches

- WCA price setting:
  - Administered, panseasonal, panterritorial
  - Announced before planting,
  - Purchase guaranteed at official price
  - Stabilization funds, now exhausted
  - Move in recent years to pricing systems providing more linkage to world price and more flexibility
  - Greater farmer voice in pricing decisions
    - And other aspects of sector management
Pricing Approaches (2)

- **SEA**
  - Zambia and Zimbabwe: price leadership
  - Tanzania: pure competition
  - Mozambique: administered, but much less attractive for farmers than in WCA
  - Uganda: Pre-planting price announced, but actual price fluctuates

Performance Indicator

- Share of FOT price paid to farmers 1995-2005
  - Adjust for:
    - Transport costs from destination market to gin
    - Quality premia/discounts
    - GOR
  - Does not adjust for differential costs from farmgate to gin
Farmer Share of FOT Lint Price, 1995-2005

WCA: Sharp rise, but unsustainable

Mozambique: Poorly regulated local monopoly
Farmer Share of FOT Lint Price, 1995-2005

**TZ, UG: Competitive sectors, consistently good prices**

% of FOT Paid to Farmers

**Za, Zm: Concentrated sectors, sharp drop second period**

% of FOT Paid to Farmers
Pricing Issues

- Study suggests “more formalized approach” to price setting in concentrated systems
- Government as facilitator, not active participant
- ZACOPA/CAZ approach a good start
- Both sides need full set of information on
  - World market conditions
  - Marketing practices
  - Actual vs. “reasonable” costs from farmgate to gin