

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

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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)

Sector Type	Service Delivery	M&E (Firm Performance)	Strategic Direction	Decision Making (Allocation)	Pricing / Competition Policy
Competitive	√√√ Inputs, extension	√ Quality control	√√	--	--
Concentrated	--	√ Firm capacity?	√	√√ Licensing of ginnerers	√√
Local Monopoly	√√	√√√ Concessionaire performance	√	√√√ Concession allocation	√√√

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