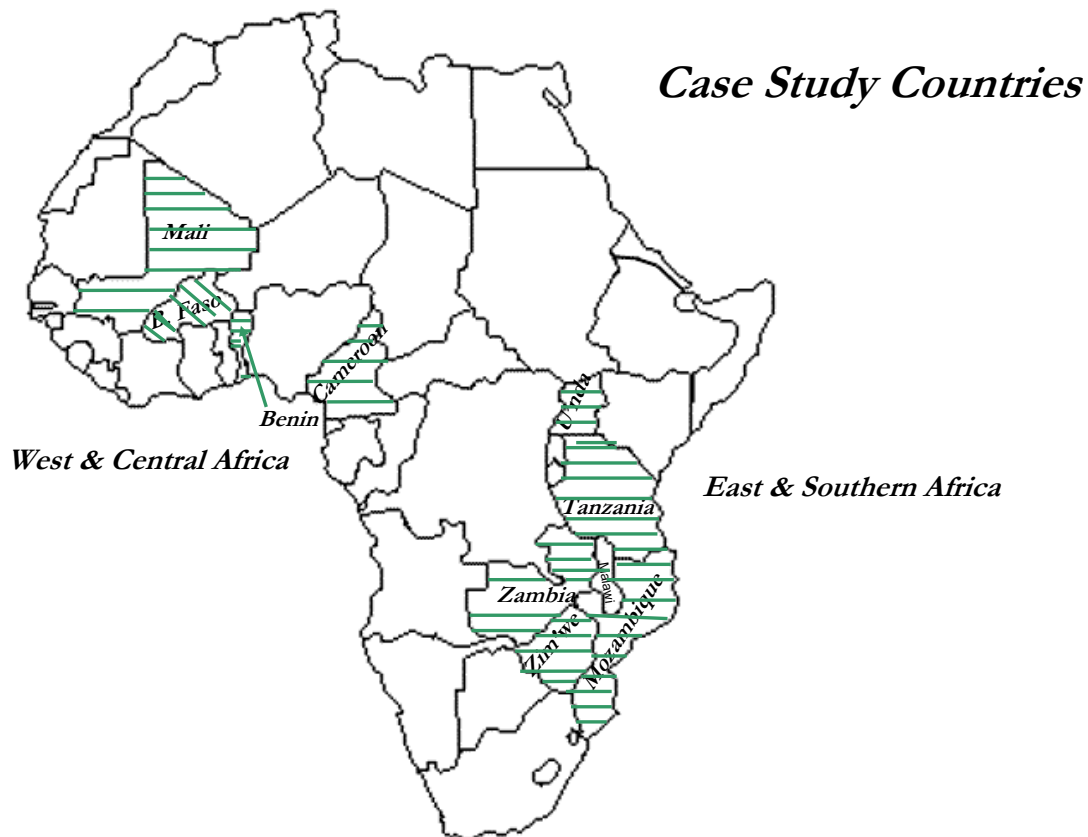


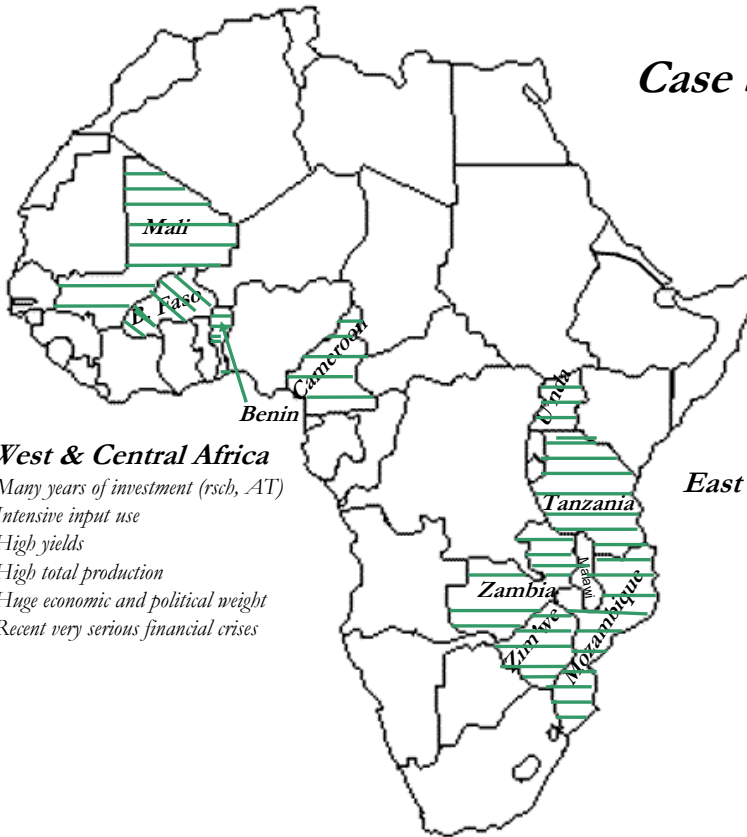
Comparative Analysis of Cotton Sector Reforms in SSA

Overview of Approach and Broad Findings

David Tschirley
Cotton Sector Stakeholder Meeting
27 November 2007, Lusaka



Case Study Countries

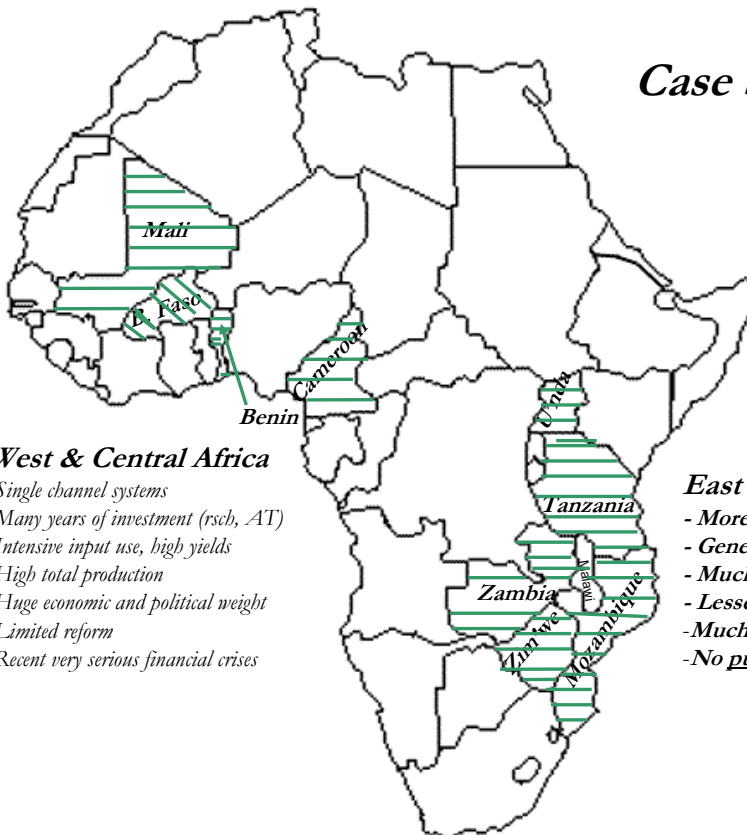


West & Central Africa

- 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

National (public) Monopoly	Local (private) Monopolies (Concessions)	Concentrated	Competitive	Hybrid
<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			

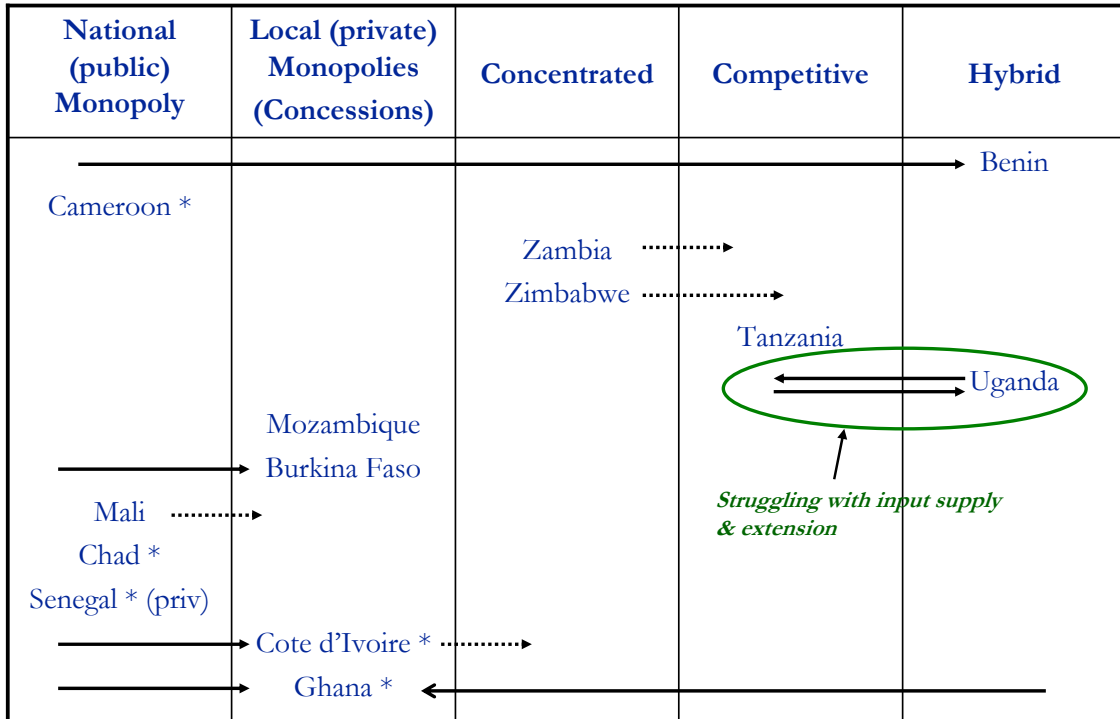
Key Finding 2: Change

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 *			

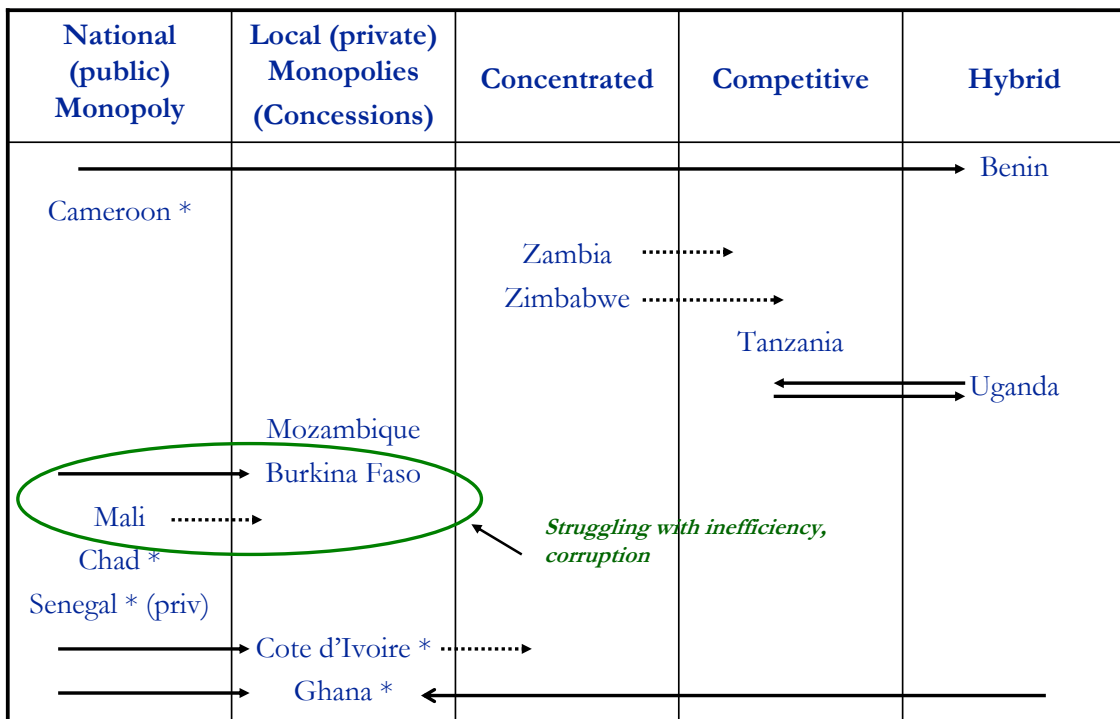
Arrows in the diagram indicate transitions between categories:

- Cameroon * (National Monopoly) transitions to Benin (Hybrid).
- Zambia and Zimbabwe (Concentrated) transition to Competitive.
- Tanzania (Competitive) transitions to Hybrid (Uganda).
- Uganda (Hybrid) transitions to Competitive (Tanzania).
- Mali (National Monopoly) transitions to Local Monopolies (Mozambique/Burkina Faso).
- Senegal * (priv) (National Monopoly) transitions to Local Monopolies (Cote d'Ivoire *).
- Ghana * (Local Monopolies) transitions to National Monopoly.

Key Finding 2: Change



Key Finding 2: Change



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	Variable	Variable	Variable	✓	✓
Input supply	✓	✓	✓	✗	✓
Quality	Variable	Variable	✓	✗	✓
Research linkages	Variable	Variable	Variable	Variable	✗
Yields	✓ but ...	Variable	✓	✗	✓
Returns to farmers	✓ but ...	✗	✓	✓	✗
Cost efficiency	✗	Variable	✓	✓	✓
Value addition	Variable	Variable	✓		✗
Macro Impact	✓	✓	✓	✓	✓

Performance Indicators

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

Concentrated Sectors

- 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

- ❑ 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

- ❑ Diversity
- ❑ Change
- ❑ Some predictable patterns
- ❑ Role of government

- ❑ Moving forward: for discussion at end

Thank You

Conclusions: Ways forward for particular sector types

□ 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)

□ 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)

□ 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)

□ 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

- 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