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West Africa Cotton Production, Developments and Trends

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USDA Agricultural Outlook Conference

Foreign Agricultural Service/USDA
DAKAR, SENEGAL

Cotton in West Africa

- Critical Issues
- Historical origins of West Africa cotton
- History of West Africa production and trade
- West Africa and C-4 structural overview
- Privatization and reform
- Individual country overview
- The future of cotton in West Africa

Critical Issues for West Africa Cotton in 2009

- Falling production
- Falling world demand and prices
- Rising cotton sector debts
- Stalled privatizations
- Declining oil and meal production affecting sub-sectors
- Ongoing WTO Doha negotiations
- Uncertainty planning for 2009/2010
  - Huge investments needed to finance campaigns

History of the Cotton ‘Filière’

- The ‘Compagnie Français du Développement Textiles’, (CFDT) was established as a parastatal in 1949 to serve as a development tool and a means to access natural resources in West Africa for industries in France.

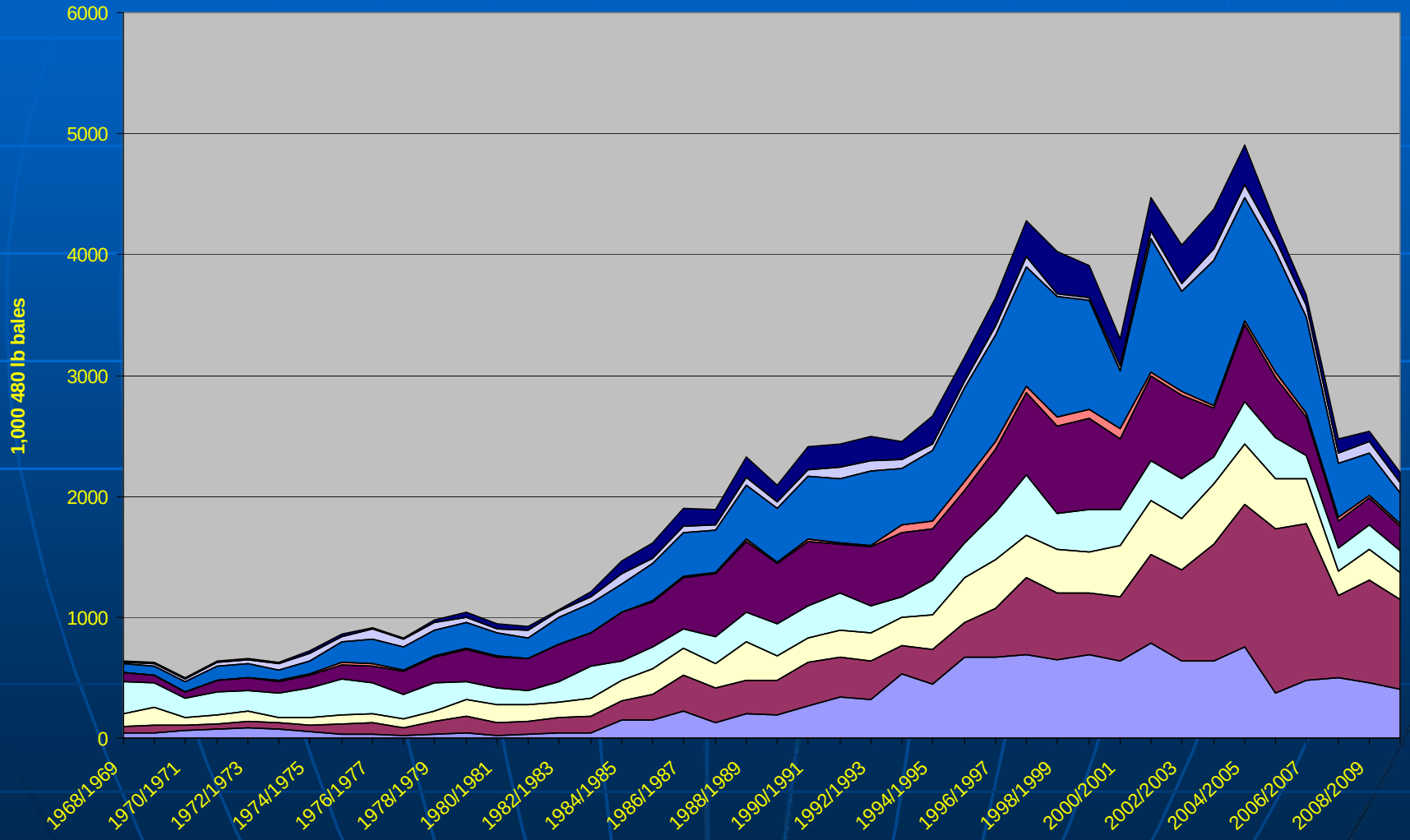
- Independence across West Africa during the 1960s led to the nationalization of the cotton development companies.

- After cotton companies became nationalized and subsequently partially privatized, DAGRIS (a French parastatal) retained significant ownership share of all cotton and oilseed plants across the region until its privatization in 2008.

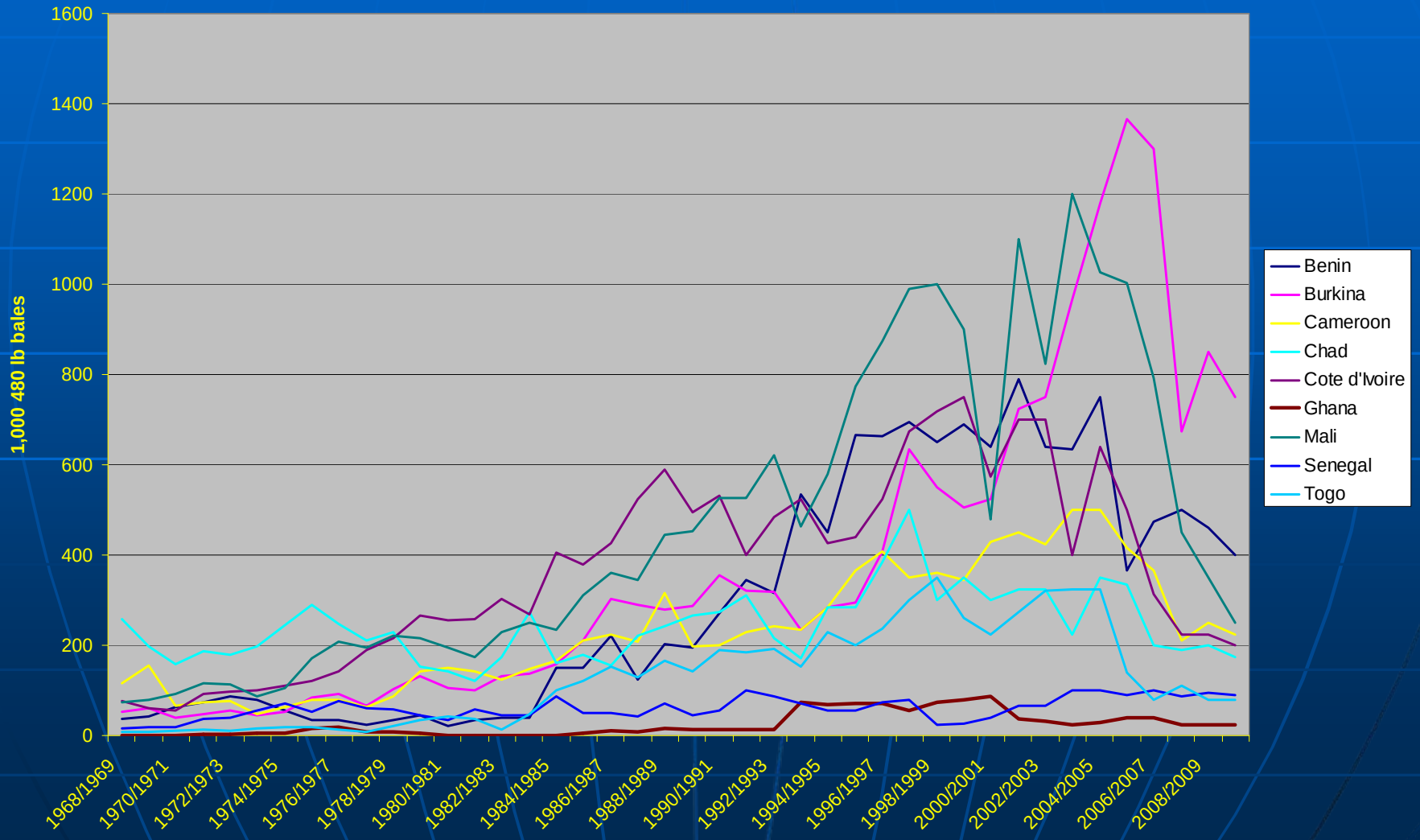
History of the Cotton ‘Filière’

- The World Bank and IMF promoted structural adjustment programs and pushed for reform and privatization.
- Privatization of cotton companies in Benin and Burkina Faso began in the 1990s.
- The cotton sector, regardless of its degree of privatization has retained its ‘filière’ structure, with distinctly organized producer organizations, research organizations, input procurement and distribution associations and the cotton companies themselves.

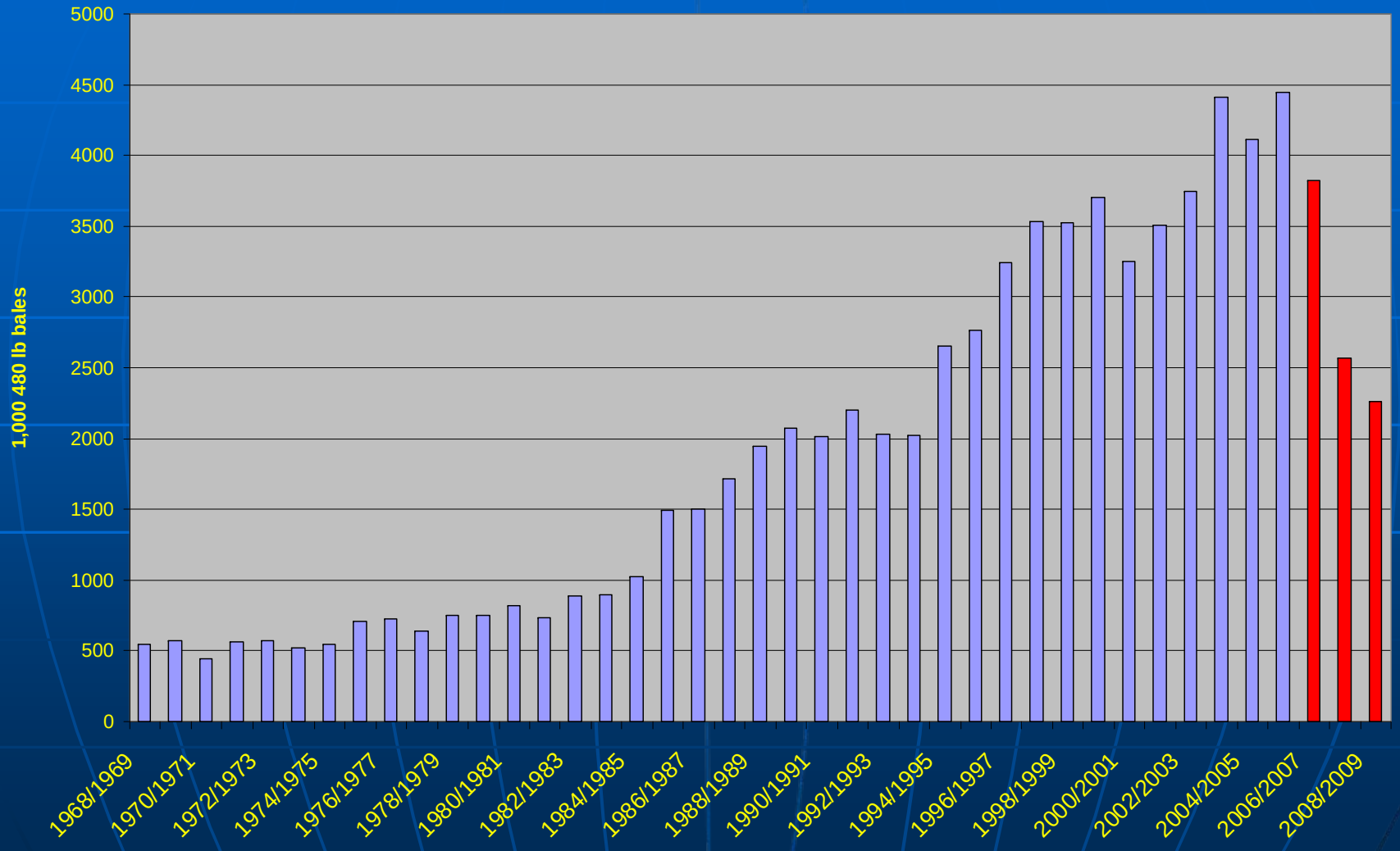
West African Cotton Production 1968/69-2008/09



West African Cotton Production by Country



West Africa Cotton Exports



Designation of C-4

- The C-4, or ‘Cotton Four’ includes Mali, Burkina Faso, Benin and Chad.
- These are West Africa’s major cotton producing countries that rely on cotton as a major contributor to GDP and export revenue.
- At the Cancun WTO negotiations in 2003, the C-4 emerged as a unified political voice demanding reform in world cotton policies – specifically a reduction in domestic support in developed countries.
- The WTO members agreed to a two-track response; a development track and a trade negotiation track in the multi-lateral framework of the WTO.

West Africa Cotton Improvement Program (WACIP)

- WACIP is a three year $20 million USAID-funded activity as part of a broader $28 million U.S. cotton development response.
- The overall goal is to reduce poverty and hunger by increasing the incomes of C-4 cotton farmers, processors and artisans.
- Key components include:
  - Integrated Soil Fertility Management (ISFM)
  - Integrated Pest Management (IPM)
  - Ginner training
  - Artisanal training and promotion
  - Supporting research and technology adoption

C-4 Production Characteristics

- Average farm size 1 hectare
- 100% hand picked
- Cotton farmers are also cereal producers
- Very low technology adoption
- Low and stagnant, or declining yields
- Pan-territorial pricing in each country
- Monopoly control of input distribution
- High input costs
- Poor soils, no irrigation
- Cotton is traditionally the only crop with input credits
- Organic cotton production is small, but gaining interest

The ‘Scissor Effect’

Figure 2.4. Farm Gate Price and Average Fertilizer Price in Burkina Faso.

Source: Sofitex.

Declining returns for farmers

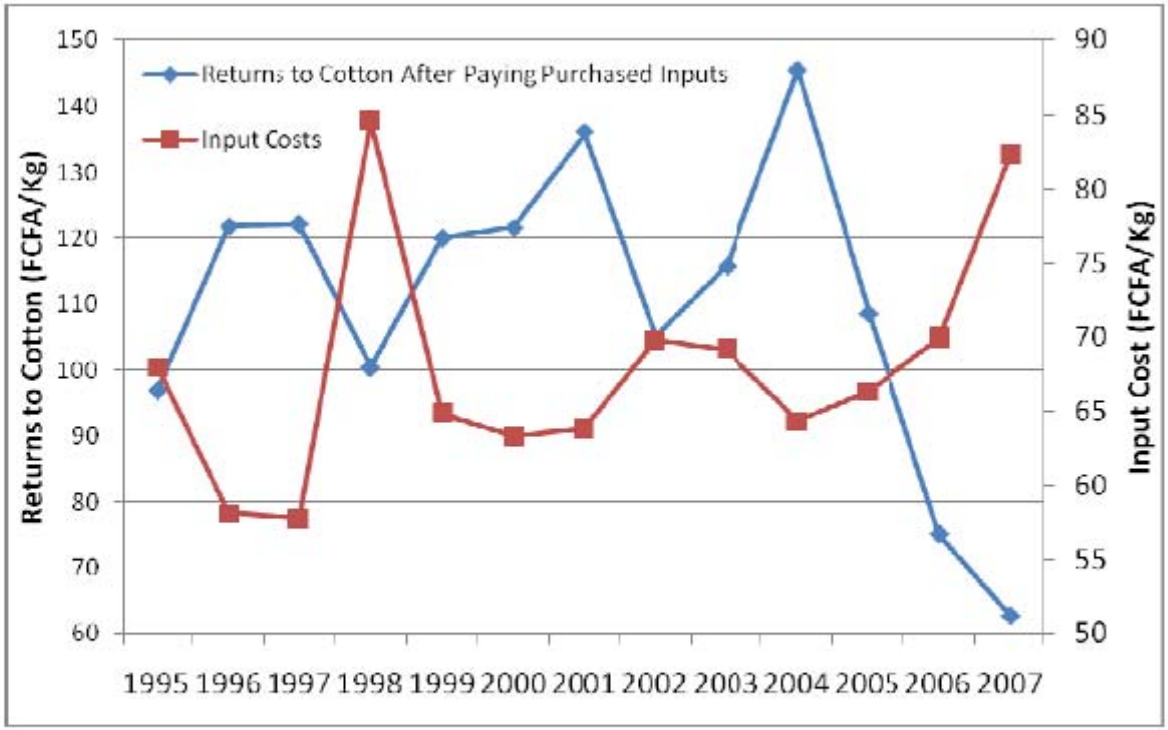
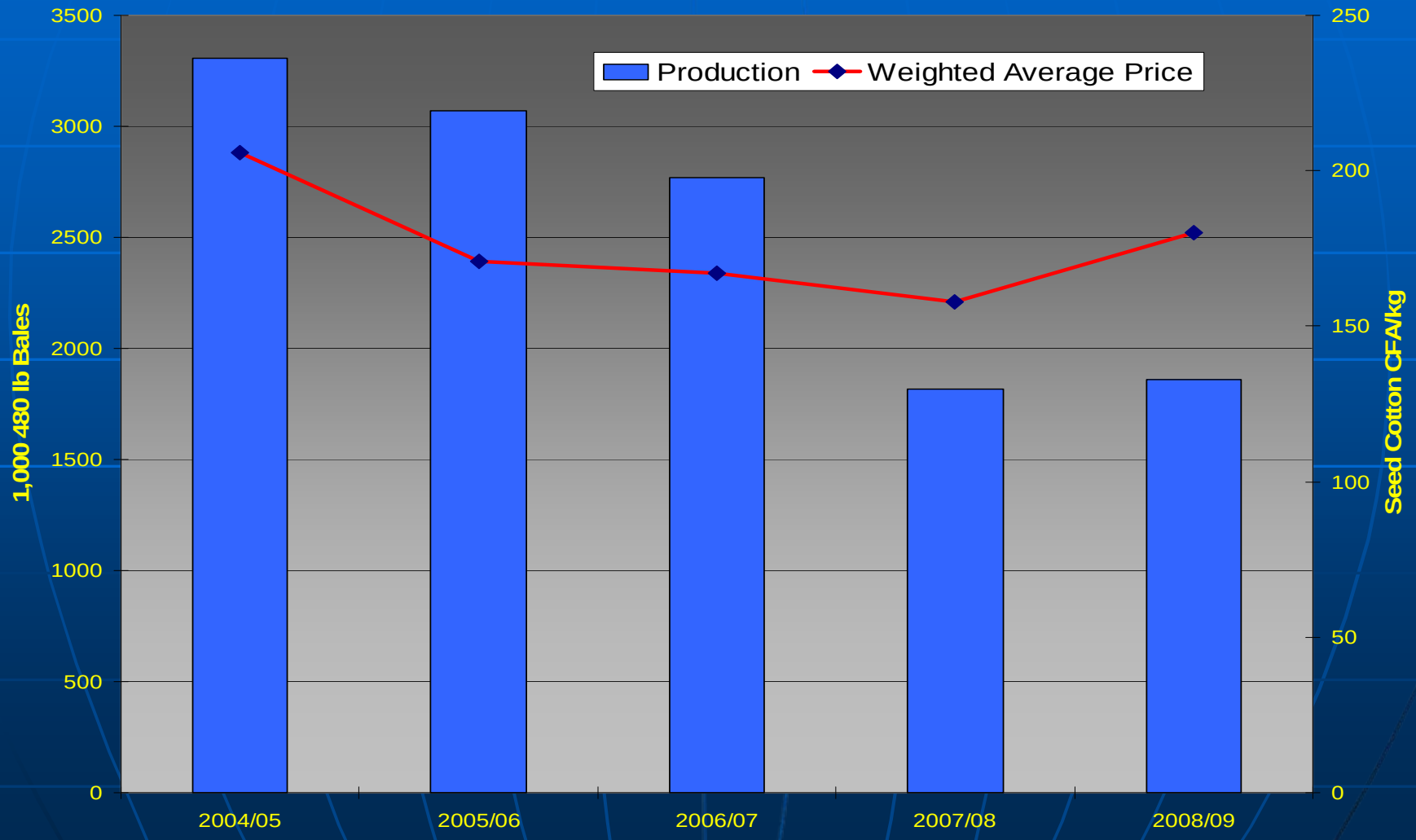
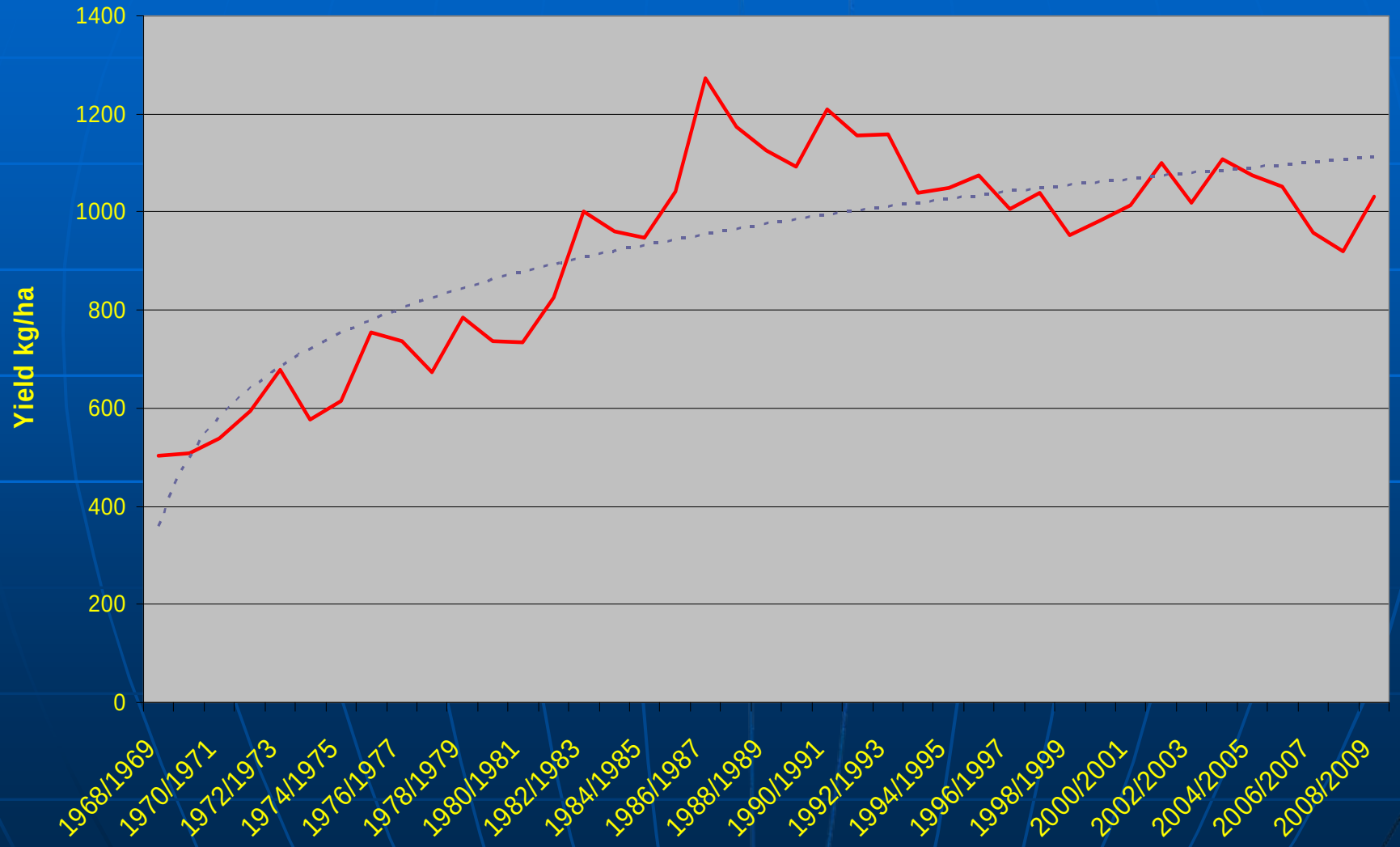


Figure 2.5. Farmers Returns to Cotton after Payment of Main Purchased Inputs and Input Costs for Burkina Faso. Source: Authors calculations from Sofitex Data.

C-4 Prices and Production

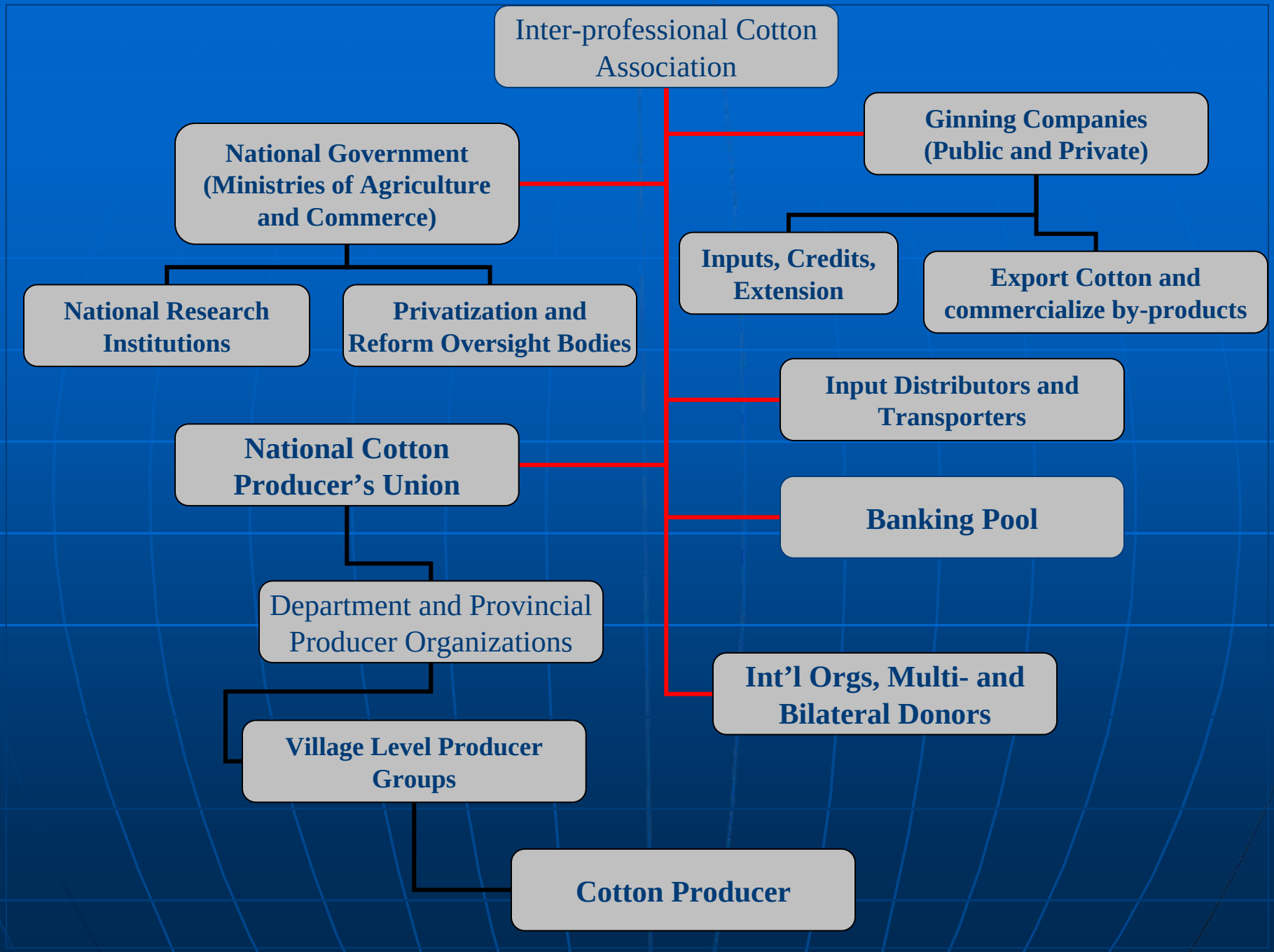


Mali, Burkina Faso and Benin Average Cotton Yields



Ginning Sector Characteristics

- Majority state-ownership of gins
- Gins provide input credits, collect cotton and deduct input costs prior to payment
- Gins operate in designated regions
- Gins export cotton fiber via sales units
- Large debts – annual financing problems
- Low capacity utilization
- Degradation of capital
- Limited domestic cotton consumption
- Gins take ownership of cotton seed
- By-product industries (oilseed crushing) were first to be privatized - also in difficulties


Inter-professional Cotton Association
Ginning Companies (Public and Private)
National Government (Ministries of Agriculture and Commerce)
Inputs, Credits, Extension
Export Cotton and commercialize by-products
National Research Institutions
Privatization and Reform Oversight Bodies
Input Distributors and Transporters
National Cotton Producer's Union
Banking Pool
Department and Provincial Producer Organizations
Int'l Orgs, Multi- and Bilateral Donors
Village Level Producer Groups
Cotton Producer

A Typical Cotton Campaign

- Early in the new year, stakeholders (Inter-professional Assns) meet to determine target area, input requirements and preliminary financing needs.
- Negotiations begin with a pool of banks to provide needed credits to finance inputs and cotton purchases. State backing is common.
- World cotton and input prices are analyzed and preliminary national prices are determined – prices for inputs and seed cotton.
- The creation of smoothing funds has helped somewhat rationalize pre-season price determination in Burkina Faso – it remains quite political in Mali, Chad and Benin.

A Typical Cotton Campaign Cont.

- At producer group level, input credits are requested – often before prices are announced.
- Farmers take credit as a group – not as individuals – resulting in the creation of internal debts between farmers and external debts with the cotton companies.
- A delay in credits, due to past campaign debts at all levels, usually delays input procurement and distribution.
- Input procurement and distribution is centralized and is only available through the cotton companies or private companies who have won the rights to perform the service.

A Typical Cotton Campaign Cont.

- Cotton is planted in late June and early July, the beginning of the rainy season. Harvest is in Oct/November, and cotton collection and ginning begins in December.
- Cotton markets are formed, where producer groups weigh cotton before it is picked up by cotton companies.
- Ideally, cotton farmers are paid in advance of the next crop, including a premium if world prices have risen.
- Cotton companies gin cotton and contract for the sale and export fiber. They maintain ownership of by-products such as cotton seeds.

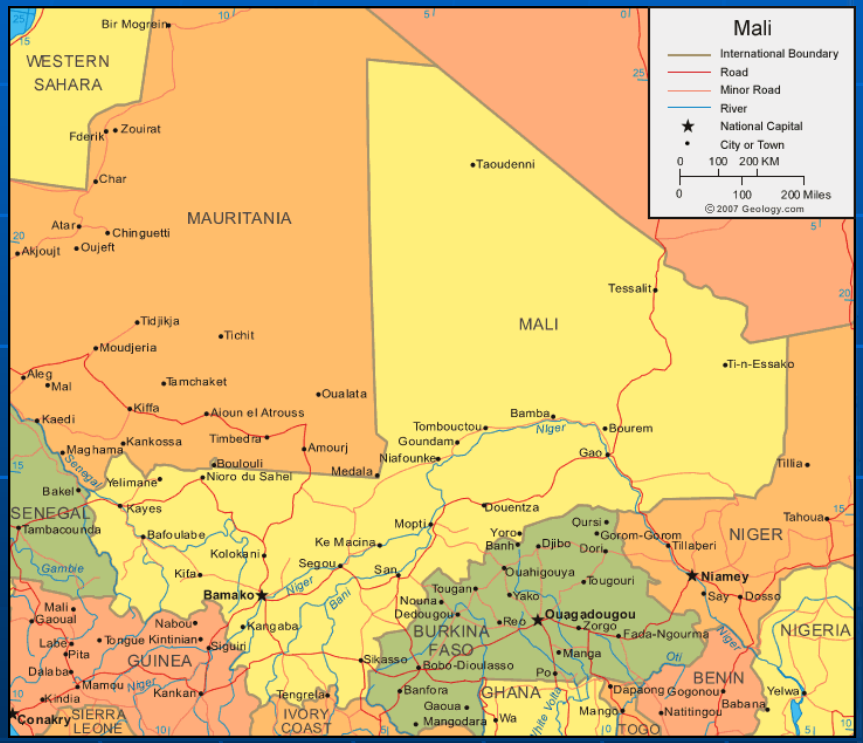
Privatization and Reform

- Privatization has occurred to various degrees, and there is state ownership of ginning companies in all C-4 countries
- Privatization alone – the transferring of state assets to private ownership – hasn't been sufficient to resolve many of the structural problems facing the sector
- Regardless of the private ownership in the sector, input procurement, distribution and pricing remain centralized – as does the establishment of national cotton prices
- Cotton sector debts range from $50-$100 million in each country, for each of the last four years
- Cotton company debts have led to recapitalizations and delayed privatizations

Cotton Production in Burkina Faso

- Burkina Faso has emerged as Africa's top cotton producer, and is the only West African cotton producer to have commercialized BT cotton.
- Burkina Faso has two private cotton companies, in addition to SOFITEX, the state-owned company that gins over 75 percent of cotton.
- Burkina Faso recently received an investment of $18 million Euros ($24 million) from the French Development Agency to help finance a smoothing fund and pay debts dating back to 2006/07.

Cotton Production in Mali



- Mali has fallen from Africa's top cotton producer just over five years ago to the verge of collapse.
- A long, difficult privatization of the State-owned cotton company (CMDT) has created much uncertainty in the sector.
- The privatization is itself at risk due to poor state of cotton sector. Head of privatization agency was recently appointed head of CMDT.
- Annual debts of CMDT are around $50 million and banks are no longer willing to finance cotton production.
- International and donor interventions will be needed to salvage the sector, and keep the privatization on track.

Cotton Production in Benin

- Benin recently privatized the remaining share of its formerly state-owned ginning company SONAPRA, however the GOB retains some ownership.
- The privatization process began in early 1990s, and has been marred by commercial and territorial pursuits.
- Cotton is allocated by quota to gins able to advance 40 percent of seed cotton cost.
- Input procurement and distribution have been privatized in Benin, but the process remains political and centralized.

Cotton Production in Chad

- Chad has endured long-standing political turmoil with the most recent coup attempt just over one year ago.
- Despite internal conflict, country is home to approximately a quarter million refugees from Sudan and Central African Republic.
- Cotton is grown in south Chad, a region that is relatively calm.

West Africa Cotton at a Crossroads

- Why is cotton production still important in West Africa?
- What does the future hold for West African cotton production?

Any Questions?