DEVELOPMENTS AND OUTLOOK FOR COTTON IN FRANCOPHONE WEST AFRICA

Andrew Levin
U.S. Department of Agriculture, FAS, Commodity and Marketing Programs
Washington, DC

Abstract

Cotton production in Francophone W. Africa since colonial independence has been managed by cotton parastatals. The system has been highly successful as the region is now the world's third largest cotton exporter. Under the terms of World Bank loan programs, cotton industries have begun to privatize. This paper considers the impact of privatization, Africa textile legislation and other factors on Francophone's cotton industry.

Introduction

Commercial cotton production in Francophone W. Africa began in the early 1900's as France sought cotton for its textile industry. In the beginning, Africans were forced to produce cotton in Mali and Niger (Brun, 1991). During the colonial period, cotton was produced and marketed through the French Compagnie Francaise pour le Developpement des Fibres Textiles (CFDT). After independence, it continued through cotton parastatals (Isaacman and Roberts, 1995) with CFDT maintaining an equity interest in these companies.

The French model is a vertically integrated structure in which seeds, inputs, credit, transportation, ginning and marketing of the crop is handled through a parastatal cotton company. The cotton company announces a producer price early in the season. Through affiliated organizations, it provides research and extension services to improve yields. In addition, health facilities, schools water projects and other services are provided to cotton villages. Village associations assist in the distribution of inputs, collection of cotton and coordination of technical extension services.

The French model has been recognized as extraordinarily successful (Lele et al., 1989). Among other accomplishments, production in the region has increased 6-fold over the past 25 years and the region’s share in world cotton exports has more than doubled in the past 10 years to an estimated 15.4% in 1998/99 (Fig. 1).

The success of cotton production in Africa contrasts with agricultural production in general, as noted by the General Manager of the cotton company of Cameroon.

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African agriculture in general suffers from frequently adverse natural conditions, inadequate equipment and a lack of technical skill on the part of farmers, poorly organized commercial outlets and an environment that is harsh in many respects. Insofar as it has long benefitted from organized production and marketing, cotton is actually a pleasant exception, from both a technical and financial perspective, witness the steadily improving results achieved in virtually all the countries of Francophone Africa (Iya, 1997).

Cotton is grown in Francophone W. Africa on mainly small plots (less than 1 hectare) by some 2 million small scale farmers. It is rainfed and hand-picked. Planting is done in May and harvesting is from October through January. Average yield is 1 t of seed cotton per hectare. The lint is saw-ginned, with outturn of 42% on average. Bales are of average quality (Strict Middling, staple 1-3/32" to 1-5/32"), suitable for medium count combed yarn (40 English count), with a very low count of neps and very low short fiber content (Estur, 1997). W. African cotton competes with San Joaquin Valley (SJV), Australian, Arizonan and Central Asian cotton in S.E. Asian and W. European markets (Nicodet, 1998).

According to a World Bank report on cotton policies in Francophone Africa (Pursell, 1998), the cotton industries were profitable up through the mid-80's when world market prices for cotton fell. Then began financial difficulties over the next 8 years as the CFA franc appreciated against the dollar. This reached a crisis in the early 90's with low world market prices for cotton, during which a number of reforms were introduced to the industries. Devaluation of the CFA franc in 1993 by 50% helped to turn around cotton exports for Francophone Africa.

Privatization of Francophone W. African Cotton Companies

Privatization in Francophone W. Africa cotton producing countries has been pushed by the World Bank through structural adjustment loan programs. The Bank met in March in Washington, D.C. and Dakar in June 1998 with officials from W. Africa and France to discuss its plans to liberalize the market (Buirette, 1998a).

Francophone W. African cotton companies and CFDT are wary of privatizing the cotton industry, and point to the impact of privatization on Anglophone countries in the region, such as Nigeria, where cotton production has been variable (Estur, 1998; Fichet, 1997). This contrasts to the steady growth in production in Francophone countries such as Mali, which has averaged about 10% annually over the last 25 years (Fig. 2).

At the 1998 Plenary meeting of the International Cotton Advisory Committee, delegates from Mali and Chad emphasized the dependence of their countries on CFDT and their concern against "forcing privatization" upon their countries (International Cotton Advisory Committee, 1998). These remarks were made in response to a presentation from the World Bank criticizing the monopolistic policies of state cotton companies which "put farmers last, while putting the cotton companies and the government treasury first."

A recent World Bank report concluded that seed cotton prices received by Francophone farmers were 30-50% less than the prices received by farmers in India and Zimbabwe since the start of reforms several years ago (Pursell, 1998). The report states that the lower seed cotton prices cannot be explained by operational, transportation, extension or other services, and were due to high state taxes; high cotton company profits; mistakes in marketing; subsidization of domestic textile mills; and low returns from domestic use of cottonseed. According to the report, Francophone seed cotton production would rise by 1 million t to 2.5 million if price was raised to a competitive level (assuming an elasticity of 1.0).

The General Manager of Cameroon's cotton company objected to the comparison of Francophone prices with India by noting “If, as in India, which processes its own output, the product were destined for a local spinning operation instead of being sent to the opposite side of the world, then the position of farmers in Cameroon could be reasonably compared to that of Indian farmers” (Iya, 1997).

The long-term impact of privatization will be particularly significant in countries like Chad, Mali and Burkina Faso, in which more than one-half of the foreign exchange is earned through cotton exports, where millions of subsistence farmers gain their livelihood from growing the crop, and millions more are involved in related sectors of the economy, including cotton seed processing.

Privatization must take into account a host of social, technical and economic factors. A review of the cotton industry of Chad by the American Embassy in Njamena offers caution in proceeding with privatization of a "fragile" sub-sector which has a widespread impact on the national economy, but concludes that "privatization is probably the best route to achieve the much-needed efficiencies, and it is perhaps the only way for the cotton sub-sector to improve upon the services currently provided by the government and Cottontchad" (Embassy of Ndjamena, 1998).

The status of privatization and extent of reforms in the cotton industries varies among countries of Francophone W. Africa, and includes subcontracting to private firms or privatization of transportation, input procurement, ginning and marketing, as well as profit-sharing and a greater role of village associations in company operations. Benin and Togo are considered furthest along, and their cotton companies do not have CFDT equity interest. Chad has allowed privatization of transportation and has modified pricing arrangements and the role of village associations in the parastatal. Mali has resisted any serious efforts. Senegal’s cotton company is set to be privatized in January 1999, in which the government will sell 45% of its shares to local producers and private investors, with CFDT retaining 20% interest (Buirette, 1998b). Privatization of Cameroon’s cotton company has been postponed because of legal challenges to the transfer of 48% of the company’s shares to a company which is controlled by senior officials in the country’s ruling party (Noubissie, 1998). A more detailed discussion of the status of privatization in Cote d'Ivoire follows.

Cote d'Ivoire

Cote d’Ivoire is the third largest W. African Francophone cotton producer, following Mali and Benin. Along with Burkina Faso, these four countries represent over 2/3 of cotton production in Francophone W. Africa, with Chad, Cameroon, Togo, Senegal, Central African Republic and Niger comprising the other Francophone countries (Fig. 3).

The privatization of Cote d’Ivoire’s la Compagnie Ivoirienne pour le Developpement des Textiles (CIDT), was announced in mid-August 1998, after two rounds of bids. The privatization was agreed to under the terms of a $180-million World Bank agricultural adjustment loan in 1994. The sale was a precondition for disbursement of the final $45 million tranche. CFDT sought to block privatization through the International Center for Settlement of Investment Disputes, a World Bank affiliate, but was turned down. CFDT, which owns 30% interest in CIDT, contended that its minority rights were not considered, and it should be given priority in the sale. It warned that splitting the company up would weaken the country's competitive ability in the world market; however, the World Bank believed that CFDT was motivated by its own economic interests.

CIDT was split into 3 companies, with the state retaining control of one company, known as CIDT Nouvelle. This company includes 4 gins centered around Bouake with a capacity of 103,000 t of seed cotton per year. It will remain for 2 years under joint CFDT and state control, and will retain its monopoly of farm inputs and cotton marketing, and then will be fully liberalized under a plan agreed to with the World Bank. The government of Cote d'Ivoire plans to sell 20% of its share to a local producers cooperative, which bid unsuccessfully on the companies.

The second company includes 3 gins in the NE around Korhogo with a capacity of 110,000 t per year of seed cotton and was bought by Aiglon Ltd. for $48.6 million. Aiglon is owned by a Malian entrepreneur and includes France's transport Group Bollore and Shorex Investments, a company controlled by a son of Cote d'Ivoire's president. Aiglon also made the highest bid for the third company, but was prevented from owning more than one. Aiglon made its bids because it felt the prospect of increased cotton output was strong, and because of the country's political stability. It's owner has extensive cotton interests in Benin, Togo and Niger, and was motivated to expand its interests further in W. Africa.

The third company contains 3 gins in the NW around Boundiala with a capacity of 119,000 t of seed cotton per year and was bought by Industrial Promotion Services (IPS) for $40.8 million. IPS is a holding company based in Abidjan owned by Aga Khan in partnership with Paul Reinhart. IPS plans to expand the capacity of its gins to 160,000 t of seed cotton per year through an investment of $4.7 million. In September, the West African Development Bank approved a loan of $10.6 million to help it fund its purchase (Reuters, 1998a). Other bidders included Louis Dreyfus and Dunavant companies; a local producers cooperative; and a consortium including a food oil producer that purchases domestic cotton seed (73% owned by Unilever).

The current capacity of the country's 10 gins is about 320,000 t. An official forecast for 1998/99 is a record 370,000 t of seed cotton (160,000 t of fiber) (Reuters, 1998b). Increased production is due to area expansion, favorable weather, a switch to a high yield variety, stable and remunerative producer prices, and improved cultural practices (American Embassy Abidjan, 1998a and 1997). Production in 1997/98 was 337,097 t of seed cotton (146,887 t of fiber), up from 265,000 t in 1996/97. While significant gains have been made in yield over the past 25 years of nearly 40% or 150 kg/ha, the increase in area of over 3-fold during this period is the primary reason for increased production.

The government plans to maintain the producer price of 200 F CFA/kg ($0.36) for top quality cotton due to falling world market prices. However, due to discontent expressed by producers, who are one of the members of a tripartite committee including gin owners and government representatives that recommends cotton pricing policy, the committee decided to peg the producer price to increases in the world price. If the world price increases by 5 ½ cents to 66 cents/lb., then producers will receive an increase of 1 ½ cents/lb. The producers had also requested approval and financing to construct two additional gins. The farmers contend delays in processing cotton have resulted in an increase in 2nd grade cotton, and additional ginning capacity is needed. The amount of 2nd grade cotton increased from 15 to 41% in the past year. According to USDA's Agricultural Attache in Abidjan (American Embassy Abidjan, 1998b), the farmers’ request cannot be approved due to conditions in CIDT’s privatization which prohibit the construction of new gins. In addition, they propose to use the guarantee fund to finance the construction. The guarantee fund was established and is used to support the producer price against falling world prices.

Domestic consumption increased by 20 percent in the last year, and is expected to increase at a similar rate for 1998/99 due to modernization in the textile sector, with investment estimated at 9 billion F CFA in 1998. Subsidization of fiber to local textile firms, which this past year was 705 F CFA/kg ($1 = 560 F CFA), is expected to end shortly. Cote d'Ivoire exports about one-quarter of its textile production; most of the cloth is for the African market. Fiber exports are estimated up from last year at 145,000 t and approximately 40% was shipped to SE Asia, 25% to China and Taiwan, and 10% to Europe last year.

Investments and Cotton Production

Cotton fiber production in Francophone W. Africa has increased from 154,000 t to an estimated 927,500 t in 25 years. Exports have increased proportionally, as 88% of production is estimated to be exported this year. The major destination is S.E. Asia. Exports in 1998/99 are expected to reach nearly 819,000 t (Table 1).

Many of the W. Africa cotton companies have announced ambitious plans to increase cotton acreage and production. Mali's la Compagnie Malienne pour le Developpement des Textiles (CMDT) aims to process 1 million t of seed cotton by 2001 (Reuters, 1998c). The French development agency Caisse Francaise de Developpement (CFD) signed an agreement in January 1998 with CMDT for $16 million to assist in the construction of 2 additional gins, which will increase Mali's capacity from 500,000 t of seed cotton to 600,000 t.

In November CFD signed a financing agreement to provide $3.9 million to assist village associations in managing input distribution, extension and cotton collection. CMDT is jointly owned by the state (60%) and by CFDT (40%). Local and foreign (Brazilian/Japanese) investors announced a plan in July 1998 to build a $49-million textile plant near Bamako to produce 6,000 t a year of cotton thread mostly for export (Reuters, 1998d). The cotton company of Burkina Faso unveiled a 5-year plan in 1996 to boost production to over 300,000 t per year by the year 2000 and to 345,000 by the year 2001 (Bonkongou, 1997). The government of Cote d'Ivoire intends to increase seed cotton production to 500,000 t by the year 2000.

Most of the increase in cotton production in Francophone Africa is due to increases in cultivated area (Fig. 4). This includes acreage increase due to a reduction in fallow periods, substitution of cotton for field crops or livestock grazing, and expanded acreage into areas previously uncultivated areas (Institut du Sahel, 1998). Acreage increased in the last 10 years by 1 million ha, while average yield decreased somewhat. Average yields are 150 kg/ha less than the world average of 560 (average yields are 100 kg/ha greater than India but less than ½ that of Egypt).

Textile Industries and Africa Growth and Opportunity Act

With 120 million people, comprising 20% of the population of Sub-Saharan Africa, Nigeria is the largest regional market. Devaluation of the CFA franc in 1993 turned the terms of trade against Nigeria in its exports of textiles to Francophone Africa. An estimated 40% of fabrics produced in Nigeria were sold to mostly Francophone countries prior to devaluation; the level has since declined to 10%. Contraction of the Nigerian textile industry over the past 3 years also resulted from weak purchasing power and competition from imports as a result of the lifting of a 10-year import ban in 1997. Despite an import duty of 65%, liberalization has not stopped illegal textile imports (American Embassy Lagos, 1998). Nigeria's domestic cotton consumption of 91,000 t exceeds the combined consumption of Francophone W. Africa by over 20 percent. Installed spinning capacity of Francophone W. Africa is less than half of Nigeria's capacity of 800,000 spindles (International Textile Manufacturers Federation, 1997).

Francophone cotton consumption has been stagnant (with the exception of Cote d'Ivoire) for the past 10 years. Per capita consumption is less than 1 kg per year and is one-third the world average (compared to 2.8 for India).

President Clinton's Africa Initiative included a legislative proposal to provide tariff and quota free access for textiles and apparel from Sub-Saharan Africa (Africa Growth and Opportunity Act). There was significant opposition from the U.S. textile and cotton industry due to a weak rule of origin which could lead to transshipment of Asian textiles through the region. However, the U.S. International Trade Commission concluded that the impact of the trade legislation on the U.S. textile industry would be minimal, with overall textile trade down by 0.1 percent (U.S. International Trade Commission, 1997).

The General Accounting Office (1998) conducted a survey of 65 if the 80 largest U.S. textile and apparel importers and found that 54 would increase imports from Sub-Sahara Africa if there were no restrictions, 15 if required to use U.S. formed (not cut) fabric, and 7 if required to use U.S. formed and cut fabric. The bill passed the House without restriction and passed the Senate Finance Committee with a requirement for the use of U.S. fabric, yarn and thread in garments cut and sewn in Africa. The bill did not pass the 105th Congress, and if reintroduced may have a significantly different character in addition to containing textile trade provisions.

Currently, U.S. cotton textile imports from Africa (by volume) represent 3% of total cotton textile trade. Egypt is the major source, and imports from Francophone W. Africa are negligible. U.S. cotton textile exports to Africa represent less than 1% of total U.S. cotton textile exports. Nigeria, Cote d'Ivoire and Ghana represent one-quarter of U.S. cotton textile exports to Africa (USDA, 1997/98).

Summary

Despite the reforms that have occurred, and those underway, the actual impact of privatization of cotton companies in Francophone W. Africa has been limited. As indicated in the World Bank's report (Pursell, 1998), "the basic monopsonistic/monopolistic structures have been maintained." The Bank points out that even in those countries that are furthest along in privatization of their cotton industries, the parastatals control the purchase of seed cotton, decide the types of inputs to be used and prices to be charged for them, and allocate quotas of seed cotton at fixed prices to the private ginning companies.

The significant interest expressed through bidding on cotton companies from both local and foreign entities is a clear sign that opportunities are good for growth. Additional capital investment should lead to expanded ginning capacity to handle increased production. Despite the uncertainty regarding privatization by French and African interests, privatization is unlikely in the near term to have a negative consequence on the industry because it is not fundamentally changing the historical industry structure.

With the defeat of U.S. trade legislation which would have provided duty and quota free access to U.S. textile markets, and with infrastructural and other economic impediments to development, it is unlikely that value-added cotton manufacturing will grow in W. Africa. Rather, it is more likely that Francophone Africa will continue to produce raw fiber for Asian textile industries and be a significant competitor to U.S., Australian, Central Asian and other major exporters.

In addition, Francophone W. Africa is characterized by low input use and stagnant yields, so increased production may continue to be fueled primarily by expansion of area. In the immediate future, Francophone cotton production will reach 1 million t of fiber, and the region may soon emerge as the world's second largest exporter of cotton fiber.

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Table 1. Cotton Supply and Use in Francophone Africa and World in 1998/99 1,000 metric tons

	Francophone Africa	Nigeria	India	United States	World
Production	927	81	2,830	3,004	18,531
Imports	0	15	27	76	5,390
Consumption	74	91	2678	2,286	18,647
Exports	819	0	87	936	5,326
Ending Stocks	232	22	1023	697	8,842

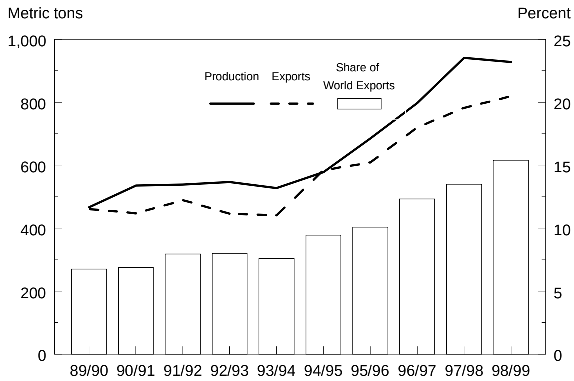

Figure 1. Francophone Production, Exports and Share of World Cotton Exports

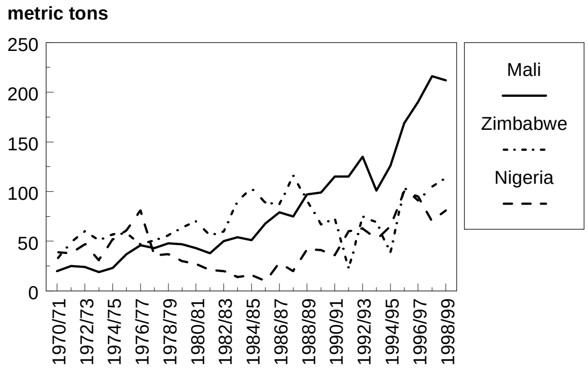

Figure 2. Cotton production in Mali, Nigeria and Zimbabwe

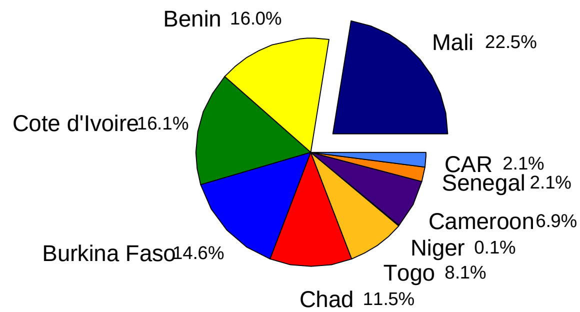

Figure 3. Country Share in Francophone Production, 1998/99

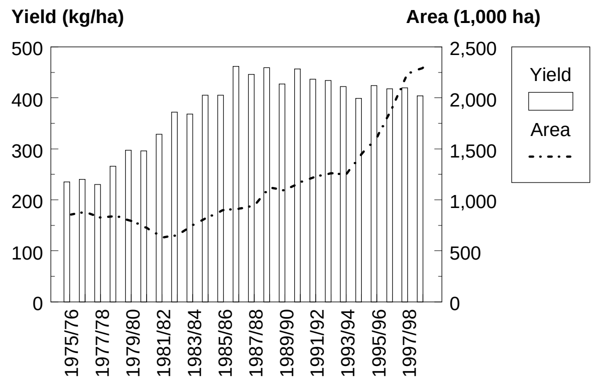

Figure 4. Francophone Cotton Yield and Area