FRANCOPHONE WEST AFRICA COTTON UPDATE

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Abstract

Cotton production has been an engine of economic development in Francophone W. Africa for over 4 decades, where it is grown on 2.4 million hectares involving 10 million people. However, low world prices, stagnant yields and inefficient state cotton company operations have put the sector at a crossroads. Under pressure by the World Bank, increased competition in the cotton sector is being introduced, including the privatization of the state cotton companies in a number of countries. As a result, producer associations are becoming significant players. These developments may lead to many changes, including the way in which cotton is marketed.

Overview

Francophone Africa ranks 6th in cotton production in the world. Cotton production in the region in 1999/2000 is forecast at 901,000 tons, about 2 percent higher than the previous year, and up 317,000 tons or 54 percent from 1994/95. Francophone W. Africa's exports for 1999/2000 are forecast at 807,000 tons. About 90 percent of the region's cotton crop is exported. Exports at this level, also seen from Australia, are the highest of any cotton producing region in the world.

As a region, Francophone W. Africa is the world's third-largest exporter. The gap between Francophone W. Africa and Uzbekistan, the world's second largest exporter, has narrowed from 506,000 tons five years ago, to 86,000 tons in 1999/2000.

While Francophone W. Africa's cotton crop is 4.7 percent of world production, its exports account for 14 percent of world trade. Since the 1970s, cotton production increases have been driven by both area expansion and yield increases. Over the past 30 years, area has tripled to 2.4 million hectares. Yields also increased dramatically, but reached a plateau in the mid 1980s, and have fallen in recent years.

Francophone cotton fiber yields are forecast at 375 kg/ha in 1999/2000, which is 209 kg/ha below the world average. There is a variation in yields in the region. Chad's yields one-half those of Cote d'Ivoire's. Domestic cotton consumption in Francophone W. Africa is estimated at 60,000 tons, representing 1.5 percent of world consumption. Despite dramatically increased supply, consumption has not risen in a decade.

Privatization

The World Bank has been pressuring governments in the region to reform their cotton sectors and introduce competition (World Bank, 1999). A June 1998 meeting in Dakar, Senegal, followed a March meeting in Washington, D.C., in which cotton reforms were proposed to introduce greater competition in the industry and give farmers greater influence over pricing and other key decisions.

A World Bank study indicated that Francophone farmers received 37 percent of the world price for cotton in 1994-97, compared to 79 percent in Zimbabwe and 93 percent in India (Palmer, 1999). This study concluded that in Cote d'Ivoire there was an implicit taxation of about 50 percent since the 1994 devaluation of the regional currency (CFA franc or F CFA), and that a competitive seed cotton price would exceed actual prices by 94 percent (Pursell, 1998).

One of the arguments for privatizing state cotton companies is to remedy inefficiency, mismanagement and corruption. Mali's parastatal cotton company Compagnie Malienne pour le Developpement des Textiles (CMDT) dismissed three of its executives in June 1999 for "allowing excessive stocks of cotton to build up." Marketing of cotton was reportedly 3 months behind schedule, resulting in the loss of millions of CFA francs. Recent computerization of CMDT, which tracks company assets, revealed that the company had acquired far too large stocks of spare parts and farm inputs. The heads of three of CMDT's regional offices were also removed (Diallo, 1999). The head of the Koutiala office, Mali's largest cotton growing region, was removed recently for allegedly profiting from the sale of cottonseed meal on the black market.

Despite these problems, it is uncertain if and when CMDT will privatize. The delegate of Mali to the International Cotton Advisory Committee (ICAC, 1998) stated that his "government does not intend to privatize such a valuable tool of development as CMDT." The World Bank itself seems to have backed off in forcing a change in Mali, although Bank officials have pointed out that CMDT's recent problems are proof that the industry must be reformed.

A number of studies have highlighted the inefficiencies of Mali's marketing system, in which COPACO (Compagnie Cotonniere), an affiliate trading arm of the French parastatal Compagnie Francaise de Developpement du Textile (CFDT), handles the majority of Mali's cotton. Over the past three years, private traders who handled 2-8 percent of the crop received 15-23 percent higher prices than COPACO (Tefft,

Reprinted from the *Proceedings of the Beltwide Cotton Conference*
Volume 1:269-271 (2000)
National Cotton Council, Memphis TN

1999). One of the new private cotton companies in Cote d'Ivoire forward sells 80-90 percent of the current crop by February, when ginning is still underway, in order to hedge its price risk, a marketing practice that may become more prevalent in the region.

A number of changes in the industry have already occured as a result of privatization of Cote d'Ivoire's cotton industry, which began 2 years ago. Additional investment in ginning in Cote d'Ivoire is planned by several groups. Louis Dreyfus announced in August 1999 that it would build a 30,000 ton cotton gin in Korhogo in partnership with the union of local cooperatives, URECOS-CI, with Continental Eagle supplying and installing the ginning equipment. Investment in the gin was reportedly 12.8 billion F CFA ($21 million) (t'Sas, 1999).

URECOS-CI represents 90 percent of Cote d'Ivoire's 140,000 cotton growers, and plans to take on input supply and technical assistance functions provided in the past by the parastatal Compagnie Ivoirienne de Developpement des Textiles (CIDT). URECOS-CI officials plan to build a gin in order to understand cotton transformation costs and to thereby be in a better position to argue for a favorable producer price. This group recently agreed to a formula for determining the producer price based in part on a calculation of production and ginning costs. The producer price is agreed upon annually by a tripartite group including producer, gin and government representatives.

Under the terms of the privatization of Cote d’Ivoire’s cotton industry, which began in October 1997, CIDT will stop providing inputs for next year's (2000/2001) crop. URECOS-CI officials also believe that production increases are possible by increasing seed cotton yield from the current level of 1300 kg/ha to 1,800-2,000 kg/ha (an increase from 545 to 798 kg/ha cotton fiber). Industrial Promotion Services (IPS), a holding company owned by Aga Khan and including the Swiss trading company Paul Reinhart, which bid 24.5 billion CFA francs ($41.2 million) for three gins in the northwest, also plans to build a gin in Odienne, a region in which production has increased by an estimated 10 percent from the previous year due to increased area.

Producer Prices

The price received by Francophone farmers varies among countries, and is usually based on how clean the cotton is when it arrives at the gin. In Cote d’Ivoire, the price for first-quality cotton for the current season has been set at 175 F CFA/kg ($0.27/kg), as a result of a meeting on December 30 by producers and ginners (Raybould, 2000). Ivorian cotton farmers had proposed a price of 180 F CFA/kg and are reportedly holding back delivery to gins while they decide whether to finalize their acceptance of the price (Reuters, 2000). Producers also expect some redistribution of profits from the previous year's crop. Producers were paid 200 F CFA/kg for first-quality and 170 F CFA/kg for second-quality cotton in 1998/99 and 1997/98, although an additional 5 F CFA/kg for both grades will be paid as an incentive for higher production.

In Burkina Faso, the first-quality price is 160 F CFA/kg, with an additional payment of 25 F CFA/kg from redistributed profits from the previous year's crop. Second-quality is paid 125 and third-quality, 105 F CFA/kg. While the determination of quality is based on how clean the fiber is when it arrives at the gin, it is subsequently graded into 12 types for sale. The producer price in Mali is 150 F CFA/kg, which includes a 5 F CFA/kg payment from profits from the previous year. This is a drop from 185 F CFA/kg the previous year.

According to Malian cotton farmers in Koutiala, the cost of inputs is 145 F CFA/kg, and to cover land and depreciation (no labor) is 215 F CFA/kg; farmers whose fields yield 1 ton/ha are losing money and considering alternative crops. Over the range of cotton yields that are possible in this region, farmers value their labor at $600-$1,500 per family. A typical extended farm household may include 30 persons, one-quarter to one-half of whom are involved in farming. This household may farm 3.5 ha of cotton, 5 ha of sorghum/millet and 1.5 ha of corn.

Production Constraints

One of the benefits of the integrated management and technical assistance provided by the state cotton companies is that grain yields have risen in cotton growing regions (Bosc and Hanak Freud, 1995). In Mali, area planted to both cotton and cereal grains has increased since the 1994 devaluation. The yield benefit to cereals crops may be due to some residual fertilizer from preceding cotton crops, access to improved seeds, and the diversion of cotton inputs to the cereal crop. An argument has also been made that there is a technology spillover, including the use of animal traction purchased or made available through cotton credit.

Increased cotton production in Mali has resulted from area expansion as many farmers have reduced fallow periods and new lands have been cleared for production (Tefft, 1999). One study indicates that farmers reduced the traditional 5-7 year fallow period by continuous cropping on 50 percent of their holdings.

The Kita region in Mali began production in January 1995 with 3,000 tons of seed cotton and reached 46,000 tons last year. As a result of more intensive cultivation, some farmers in Koutiala, Mali's largest cotton region, complain that yields have been declining due to depleted soil fertility.

According to the Centre de Cooperation Internationale en Recherche Agronomique pour le Developpement (CIRAD), soil fertility is probably one factor, but the increasing labor constraint must also be taken into account. Some studies have estimated that cotton requires 170 person days per year per hectare compared to 60 for millet/sorghum and 90 for corn (Tefft, 1999).

Outlook

In the short term, there are a number of daunting challenges to the sustainability of cotton production in Francophone Africa. With several years of declining world prices, there is tangible pressure on farmers to re-evaluate their planting options, although in most cases the options for alternative cash crops are limited. Low world cotton prices are eroding cotton company profits and gains made since the 50-percent devaluation of the F CFA in 1994.

The low prices have particularly hit the governments of Mali, Burkina Faso and Chad, which receive more than half of their foreign exchange earnings from cotton fiber exports. In these three countries, cotton farmers will receive 12-19 percent less for their cotton than the previous year, the first nominal price decline since the devaluation.

Reduced revenues are putting pressure on governments to find ways to minimize inefficiency and introduce competition in the marketplace. Reduced cotton revenues for the poorest farmers in Mali and Burkina Faso and for the majority of cotton farmers in Chad will squeeze household earnings and potentially result in food insecurity (USAID, 1999).

With economic integration through the West Africa Economic and Monetary Union (UEMOA) and the Central African Economic and Monetary Community (CEMAC), free flow of goods across borders will be allowed in 2000. In the triangular region where the cotton producing regions of Mali, Burkina Faso and Cote d'Ivoire are located, cotton fiber could theoretically be sold across borders to the gins offering the most attractive price, however, with high transportation costs, this may not be realistic. The integration of the region could enlarge the internal market, including domestic textile manufacturing and trade, although currently the high cost of energy seems to be a disincentive to domestic textile manufacturing.

Cotton production in the region is expected to continue to grow, despite the lack of efficiency of some state cotton companies. Cotton production peaked in 1997/98 at 941,000 tons but over the past four years, cotton production has increased at an average annual rate of 13.5 percent. In the short term, production is more likely to increase at an average annual rate of several percent. However, a major resurgence in production may occur as producer groups become knowledgeable about business costs, operations and marketing, and play a greater role in these decisions.

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