Reducing poverty through cotton-growing

The WTO negotiations in Cancún made it clear that the USA and the EU can no longer preside over the elimination of trade restrictions on their own and if more compromises are to be reached in future, G20 involvement is essential. Yet another new development at Cancún was the fact that, in spite of their sideline role in the global economy, the four, very small African countries of Benin, Burkina Faso, Chad and Mali succeeded in putting the issue of cotton subsidies on the agenda.

Roger Peltzer
German Investment and Development Company (DEG)
KfW banking group
Cologne, Germany
PR@deginvest.de

At the WTO negotiations in September 2003 in Cancún, the four African cotton-growing countries succeeded in tabling the issue of cotton subsidies, even though this theme was not originally scheduled for discussion. The remarkable thing about this initiative is not just the countries' political courage, but above all their political success. Explicit reference to the WTO claim to promote fair global trade, coupled with professional PR work, allowed the four African states to engage in some heavyweight agenda-setting.

The eventual break-down of the Cancún talks was ultimately due to the USA's categorical refusal to discuss the issue of cotton. As part of the compromise arrived at in Geneva in order to continue the Doha round, the theme of cotton subsidies has now been firmly ensconced in the WTO agricultural negotiations.

In the wake of the discussion launched in Cancún, the EU has also decided to substantially reform its own market regulations for cotton. Thus, subsidies for cotton-growers in Spain and Greece are to be modified; in future it is the surface area and not the volume produced that is to be subsidized. At the same time, high ecological standards have been set for EU cotton production. The EU is hoping that this measure will lead to a considerable drop in its own level of cotton production, thus creating more scope for African exporters. The EU has concomitantly declared it is willing to promote the cotton-growing sector in Africa. Having said this, the measures being explored to date are neither particularly creative nor very concrete.

The importance of cotton for the Sahel

Whilst China, India, Pakistan and the EU essentially grow cotton for their own needs, three large-scale net export regions exist, namely the USA (around 50 percent of world exports), the Sahel countries and Central Asia (in particular Uzbekistan). Over the past 30 years, Francophone Africa has advanced to the position of second largest cotton exporter worldwide with a market share of 15 percent. The Sahel's export earnings from cotton presently amount to around 1.5 billion US dollars (USD) annually. In comparison: official development aid for the region comes to approx. USD 2 billion per annum. Cotton growing in West and Central Africa is one of the few success stories of French development cooperation. Cotton is grown as a rain-fed crop by small farmers working as contract farmers for state or private cotton companies which, for their part, provide the farmers with seed, fertilizer, plant-protection agents, negotiable rural roads and technical assistance etc. All in all, a system that has proven its worth. With productivity of around 1,000 kilograms per hectare and the harvesting of around 42 percent cotton fibre from the raw cotton in the cotton gins, the Sahel demonstrates by far the most efficient rain-fed farming and processing worldwide. Owing to its high quality (hand picked and relatively long fibres), the cotton is sold at a premium rate on the world market, thus making the Sahel region one of the most competitive cotton-growing areas in the world.

Cotton growing by small farmers in the Sahel impacts directly on poverty reduction

Cotton in the Sahel is grown exclusively by small farmers on areas ranging between one to five hectares. Price formulas mean that farmers profit directly from an increase in world market prices. In concrete terms, higher world-market prices make it possible, inter alia, for farmers to afford a corrugated iron roof for their house, for them to pay the school fees for all of their children or to have a chicken to eat once a week. As such, higher world market prices are of direct relevance to poverty. In contrast to official development assistance, these positive effects are not offset by the costs incurred by an expensive development bureaucracy.

One of the main problems facing cotton growers is the strongly fluctuating world market price for their produce. For example in 2002 it was more than 50 percent below the long-time average of 75 English cents. At this price, cotton cultivation is even a loss-making venture for the farmers in the Sahel who are no longer able to pay for the pickers they need. Although China's growing import market meant that the price of cotton did rise quite substantially in the interim, it has since fallen back to a low level of 55 cents again today.

In the Sahel region, 1.5 million farmers depend on cotton farming. Directly and indirectly, this translates into more than 20 million dependent family members.

High US and EU subsidies for cotton

The subsidized oversupply being generated by the big cotton-growing nations, and here the USA in particular, is the reason the price of cotton is under so much pressure. With nearly USD 4 billion, the USA is paying out considerably more in export and farming subsidies to its 25,000 cotton growers than the entire Sahel earns from its cotton exports. The US subsidy per kilogram is almost as high as the present-day world market price which the farmers in the Sahel have to live off.

The subsidies for cotton paid in the EU (Greece and Spain) are twice as high again as those in the USA. On top of this, EU subsidies for cotton are four times higher per hectare than those for maize or oil-seed and eight times higher than those for grain. However, the EU produces only one quarter of the cotton the USA does. Furthermore, the EU Council of Ministers has since agreed to reform market regulations for cotton. This will presumably result in a drop in EU cotton production figures.

The World Bank assumes that a reduction in production incentives for US farmers would lead to a drop in supply and thus to a 10–20 percent increase in the world market price for cotton. This alone would translate into an additional income of USD 250 to 500 million each year in the Sahel countries.

Cotton, food security and poverty reduction

In the development-policy debate, the meaningfulness of cash crops is widely regarded with scepticism. Pertinent questions here include the extent to which export earnings benefit poorer farmers at all, whether and to what extent the orientation to export crops will make the farmers dependent on fluctuations in world market prices, whether monocultures are being grown at the expense of food crops and how the ecological impacts of cash crops are to be assessed. A few remarks on this theme relating to West Africa are given in the box .

With regard to the cash crop debate, it must be stated that cotton and food cropping do not essentially compete against each other. On the contrary, cotton is mostly cultivated in rotation, i.e. in combination with staple food crops such as maize, sorghum or peanuts. The provision of fertilizers or the introduction of oxteams, as promoted by the cotton companies, benefits not only cotton production, but helps raise productivity in the cultivation of staple food crops. In the meantime, and also in their own interest, cotton companies are increasingly employing an integrated approach that promotes cotton and staple crops alike. And indeed, their efforts in this field would appear to be far more efficient than state agricultural extension structures, some of which are backed by development assistance.

With its 15 percent share, Francophone Africa ranks second on the global cotton market.

Photo: Archiv

Photo: Archiv

Further processing of cotton is still in its infancy.

Cotton and ecology

The ecological problems associated with cotton growing are not to be overlooked. However, here again, the Sahel is in a relatively better position than other regions in the world. There is no artificial irrigation (such as in Central Asia with its negative impacts on the Aral Sea) and no monocultures. Instead, the Sahel has patchwork fields where cotton fields rotate with fallow land, maize or sorghum fields in a cropping sequence. Nevertheless, cotton growing involves heavy use of fertilizers and plant-protection agents. What is more, expanding cotton-growing activities have taken up a great deal of land, meaning that the pressure on remaining agricultural areas and forest reserves could increase should world market prices rise. For this reason, the Sahel-wide introduction of integrated plant-protection methods would be a great step forward. Involving the cotton companies in village afforestation programmes and the designation of protected areas is also conceivable.

Cotton growing and child labour

The manual harvesting of cotton is extremely labour intensive and is largely done by migratory workers. Given the fact that children from farming families are naturally expected to help out, a great many children are also involved in the harvesting process. Young people work for one to two months as migrant labourers. This would not appear to be overly dramatic, provided certain age limits are not undercut and the school holidays are organized to coincide exactly with harvest time – which is often not the case at present.

Whether or not child slaves are employed and whether this occurs on a larger scale is a highly controversial issue and one that is being discussed intensively in the Sahel at present. This discussion process and the international pressure being generated are however helping stem such practices on a massive scale. Empirical field research on the cacao harvest in the Côte d'Ivoire would seem to suggest that child slaves are not used widely, but it would be expedient if similar research projects could be launched for the cotton sector.

Privatizing state cotton companies

For almost ten years now the French and many African governments on the one hand have been at acrimonious loggerheads with the World Bank as to whether it is meaningful and necessary to privatize the cotton-growing sector in French-speaking Africa. The French government points out that the French-backed cotton companies with their system of caring for tens of thousands of small farmers achieve very high productivity levels compared to their global competitors. The World Bank, however, counters this argument with the farmers' dependency and the inefficiency of at least some parastatal cotton companies. At the World Bank's insistence, the cotton sectors in Benin, Côte d'Ivoire and Togo have been privatized, at least in part. And further privatization is scheduled for Burkina Faso and Mali. The results obtained with privatization to date, along with a comparison of the cotton sectors in French-speaking and English-speaking Africa, have led to the conclusion that there is no simple or universally applicable formula for privatization.

The close cooperation between cotton companies, equipped with cotton gins, and farmers is one of the reasons why productivity levels are so successful in Francophone Africa. The structures of «encadrement» (training) that have been established should not be abandoned light-handedly as part of the privatization process, especially since they can be used, for example, to propagate integrated plant protection methods or for meaningful village development measures. The hasty part-privatization the World Bank pushed for in Benin quickly led to a massive overcapacity which has since given rise to struggles over the allocation of quotas for raw cotton, to patronage and corruption.

And yet, gradual privatization remains meaningful. Initially, however, territorial monopolies, i.e. farmers' affiliation with individual cotton companies, should be left as they are. Since the cotton sector is of such strategic economic importance, it makes sense for many states to maintain efficient, parastatal companies in subareas (such as SOFIDITEX in Burkina Faso

where the farmers are shareholders). In a second step, farmers or entire cotton villages can and should be granted the option of entering into a five-year contract with a cotton company of their own choice. It is important to maintain a modicum of regulation in this sector in order to oversee the allocation of licences for ginning plants as well as the price formulas agreed on by the cotton companies and farmers. An industrial association (Interprofession) representing all actors in this sector and/or a state body could be put in charge of such regulatory tasks.

Stable prices thanks to EU support?

Whilst there is hardly any need for action in terms of further privatization of this sector, some effective potential areas for EU support are evident in the field of research especially in order to promote the cotton sector's competitiveness. In the meantime, national cotton research institutes have essentially become dependent on funding from the cotton companies. The EU could offer considerably stronger and more targeted support with little effort – albeit with ongoing inputs by the cotton sector itself. A key theme here would be the promotion of integrated plant protection, with a view to lowering the costs involved in the use of agricultural chemicals. Another important move would be to focus more research effort into the integrated cultivation of cotton and food crops.

Small-scale monitoring departments with the task of enhancing sector transparency for all those involved, but especially for the farmers, could be attached to the independent cotton research institutes. Their activities could include the publication of the certified end-of-year figures announced by the cotton companies or the results of tenders for the procurement of fertilizers and pesticides. Farmers and their organizations would thus have a better insight into key factors governing their contracts with the cotton companies.

The issue of price stabilization is also being hotly debated. The World Bank is presently investigating whether and how the use of adequate, market-oriented instruments might mitigate the impacts of price fluctuations for cotton producers (buying of futures). Given the experience with other raw materials, it is still far from clear how such trains of thought can lead to success. The construction of complex risk-covering strategies may well ultimately line the wallets of lawyers and investment bankers in the USA, but not those of the small farmers in the Sahel.

The private cotton companies, which operate as traders on the world market, are already making use of the instruments available, and are managing at best to secure the price of the next harvest prior to planting – at least in part.

It would therefore appear more promising to work with efficient private and parastatal cotton companies to set up a price-support fund to which farmers could also contribute in times of relatively high world market prices. A price-stabilization fund could and should be co-funded by EU money as long as the world market price for cotton is so heavily distorted by industrialized countries' subsidies. This would also be a fitting response to the demand for compensation tabled by the four African cotton-producing nations. With the help of the cotton companies, which manage the farmers' accounts anyway, a solution of this nature would be quite simple to achieve from an administrative point of view, and would not generate any additional bureaucracy. The EU money could be parked on trust accounts and only disbursed once there is verifiable proof that the farmers have been paid by the cotton companies – which would have to front the money in advance and indeed are in a position to do so. Abuse could thus be ruled out and direct payment to the farmers ensured. EU price support could be limited to a specific amount, say around 30 francs CFA/kilogramme, thus ruling out any further incentives for production should objective factors cause the price of cotton to fall drastically. In a scenario of this kind, the EU would be looking at a maximum support input of 100 million euros per annum, a sum that it should be able to generate without any great difficulty within the framework of the European Development Fund and the European Cotton Initiative.

Prospects for cotton production in Africa

Now that the discussion about Sahel cotton has been stepped up, the issue of further processing at the local level, i.e. the establishment of a viable African textile industry, is raising its head once again. Indeed, this is seen by some as the only way in which cotton can help make an economically sustainable contribution to the development of these countries in the long term. Within the WTO, however, the USA, in a bid to distract attention away from its own disastrous subsidization practices, is most vocal in recommending that, if it please, Africa should establish its own textile industry and cease producing primarily for the world market. However, this line of argumentation overlooks two things. On the one hand, the targeted promotion of cotton growing and thus of agriculture in general in the cotton-growing regions can, by itself, generate significant development impulses and spin-off effects in both upstream and downstream sectors: promotion of agricultural research, training of farmers, local industry for fertilizer and plant-protection agents, village handicrafts. On the other, initial attempts to establish an extensive textile industry throughout Africa have, albeit with a few exceptions (Nigeria) and due to a great many different reasons, essentially failed. For this reason, Africa will, for the time being at least, have to continue to export the major part of the cotton it grows. Seen from a global economic perspective, it is certainly purposeful for the African continent to play its part in helping to satisfy the increasing demand for raw materials in Asia, and in China in particular.

EU price support

Depending on the location, farmers require around 180 to 200 francs CFA/kg of raw cotton to make cotton growing an economically viable option for them, whereby the purchasing price is fixed in line with the world market price. A price-stabilizing system could look as follows: Dependent on the world market price in a corridor of 160 to 190 FCFA/kg the EU could subsidize purchasing prices with 10 to 30 FCFA/kg. Subsidies would be paid out by private and state cotton companies that would have to prove they had paid the farmers 190 FCFA/kg.

In the event that the market-dependent purchasing price should again rise above 190 FCFA/kg in the years to come, the EU would pay some 50 million euros each year into an EU-managed price-stabilization fund. Once the purchasing price exceeds 220 FCFA/kg, the farmers would pay 10 FCFA/kg into a national trust account (via the cotton companies that retain these contributions). Should the purchase price rise to more than 240 FCFA/kg, this contribution would increase to 20 FCFA. If world market prices dropped again, the money thus saved by the EU and farmers would then be used to subsidize the cotton prices to 50 percent each by the EU and farmers. Overall, this system ought to be much simpler and much more effective than all of the price-stabilizing models that the World Bank is currently looking into.