

Reforming the Cotton Sector in Sub-Saharan Africa (Second Edition)

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Abstract

Cotton production was initially promoted in Sub-Saharan-Africa (SSA) through public monopolies. But most of them have now been abolished through privatization and liberalization. Among the reforms which have been implemented, some were successful while others were not, as appears from this review of six countries at different stages of their reform agenda.

In three Francophone countries (Benin, Burkina Faso, and Côte d'Ivoire), reforms were limited. There was no competition on price paid to growers, but the ginning and input sectors have been privatized to various degrees over the last ten years. Institutional reforms went much further in Benin than in Burkina Faso, but performances were no better in Benin. Since the first private ginnery was established in Benin in 1995, production increased faster in Burkina Faso than in Benin.

In three Anglophone countries, the cotton sector has been liberalized since 1995 in Zimbabwe, 1994 in Tanzania, and 1985 in Ghana. Zimbabwe was the best performer; but one cotton company held 75 percent of the market since 1999 and price competition has been very limited. In Ghana and Tanzania, price competition for the purchase of seed cotton was much stronger than in Zimbabwe; liberalization gave an initial boost, but the improvement did not last. The use of fertilizers and pesticides fell; yields and production declined, and the seed multiplication system nearly collapsed.

In the last seven years, production increased more rapidly in the three Francophone than in the three Anglophone countries (70 percent versus 10

percent). The share of export prices received by growers was higher in Zimbabwe than in Francophone countries in the four years following the liberalization of the cotton sector in Zimbabwe; but it was lower in the four following years.

A scheme for reducing the impact of price fluctuations on growers' income is outlined. Among the various reforms implemented, the report makes an assessment of what worked and did not work. It concludes with four points: (i) an efficient credit system allowing small farmers to acquire quality inputs in a timely manner is a prerequisite for any reform; (ii) performances can be improved by giving more power to cotton growers; (iii) research and extension services cannot be left under the sole responsibility of the public sector; and (iv) the marketing of seed cotton has to be performed within a regulated framework.

The rapid growth of cotton in the Francophone countries reduced poverty and improved the social and physical environment in the cotton belt. As countries became more dependent on cotton, they were severely affected by the fall in world prices, and this fall was aggravated by the subsidies granted to cotton producers in industrialized countries. Concerned with the future of a critical sector, four African LDCs submitted a request to the WTO asking for phasing out these subsidies. With the failure of the Cancun conference, Africans returned empty-handed. But their request should not be ignored since lowering these subsidies would be an efficient way of reducing the poverty of millions of Africans living on less than one dollar a day.

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Table of Contents

Acronyms	iv
Foreword.....	v
Summary.....	vi
1. Sub-Saharan Africa in the world Cotton Market.....	1
1.1 The rapid expansion of cotton cultivation in the Sahel.....	1
1.2 World prices reach record low in 2001/02.....	3
1.3 African producers and cotton subsidies in industrialized countries.....	6
2. The Reform Agenda	9
2.1 The public monopoly	9
2.2 Producers' organizations in Burkina Faso	11
2.3 Zoning in Côte d'Ivoire and URECOS-CI's rise to power	12
2.4 Industry stakeholders' organizations in Benin.....	13
2.5 Free entry led to widespread poaching in Ghana	14
2.6 Liberalization did not lead to price competition in Zimbabwe.....	15
2.7 Producers in Tanzania got higher prices initially, but it did not last	16
3. Institutional Changes.....	18
3.1 Producers gained power in CFA countries	18
3.2 Government allocations for research were not sufficient	19
3.3 Cotton needs specialized extension services and quality controls	20
3.4 Soil fertility and protection of the environment.....	21
3.5 Conclusions	22
4. Input Credit.....	23
4.1 The CSPR works in Benin, but marketing remains heavily regulated	23
4.2 Do Côte d'Ivoire and Burkina Faso need a CSPR?	24
4.3 The input problem in non-CFA countries	25
4.4 Credit repayment may be hampered by drought and disease	25
5. The Distribution of Profits	27
5.1 The evolution of costs and returns in Burkina Faso	27
5.2 Why did Benin, Côte d'Ivoire and Mali need subsidies and not Burkina?.....	29
5.3 Impact of reforms on the share of world prices received by producers	30
6. Price Determination.....	35
6.1 The case for a floor price with two-step payments	35
6.2 Who should bear the price risk?.....	38
6.3 Should the price of seed cotton be the same in the whole country?	40
6.4 What should be the prices for local sales?	40
Conclusions	42
Bibliography	67

List of Tables

Table 1: Shares of export and production. Growth of area, yield and production.....	2
Table 2: World production and exports 1998/99 - 2002/03.....	5
Table 3: Averages for Benin, Burkina Faso and Côte d'Ivoire.....	7
Table 4: Burkina Faso, costs and returns in 1995 CFAF per kg of fiber.....	28
Table 5: Projected 2001/02 Deficits in Burkina, Côte d'Ivoire, Benin and Mali.....	30
Table 6: Producers prices as percentage of export prices, 1994/95 - 2001/02	32
Table 7: Implementation of a floor price with forward sales and two-step payments.....	37

List of Figures

Figure 1: Current cotton prices in US dollar and CFA francs. CFA francs per US dollar	4
Figure 2: Current and constant cotton prices in CFA francs	4
Figure 3: Production and yields, 80/81 - 02/03.....	10
Figure 4: Fiber Production in 4 CFA and 3 non-CFA countries.....	34

Statistical Annex

Explanatory Notes	47
1. Area cultivated in thousands of hectares.....	48
2. Yields in kg of seed cotton per hectare	48
3. Production of seed cotton in thousands of m. tons	48
4. Ginning ratio: kg of fiber as percentage of kg of seed cotton.....	49
5. Cotton seed ratio: kg of cotton seed sold as percentage of kg of seed cotton.....	49
6. Production of fiber in thousands of m. tons	49
7. Cottonseeds sold in thousands of m. tons.....	49
8. Fiber sold to local industries in thousands of m. tons	50
9. Producer price including bonus from year t-1per kg of seed cotton.....	50
10. Bonus from year t-1 in CFAF per kg of seed cotton	50
11. Producer price including bonus per kg of fiber	51
12. Price of cottonseeds in CFAF per kg at ginnery gate	51
13. Producers' gross receipts including bonus, in billions of current CFAF.....	51
14. Producers' gross receipts including bonus, in billions of constant CFAF	51
15. Consumer Price Index 1995=100.....	52
16. Producer price per kg of seed cotton in constant CFAF	52
17. Producers' receipts net of purchased inputs, in billions of constant CFAF.....	52
18. Producer price as percentage of export price.....	53
18. A : CFA countries	53
18. B : Ghana	53
18. C : Zimbabwe	54
18. D : Zimbabwe: official, parallel and blend exchange rates (Jan.00-May 02)	55
19. Areas, yields and production (1980/81-2002/03)	56
19. A : Areas in thousands of hectares.....	56
19. B : Yield in kg of fiber per hectare	57
19. C : Production in thousands of m. tons of fiber	58
19. D : Increase in consumption; export as percentage of production.....	59
20. Index A yearly average: ICAC forecast and actual values, 1990/1991 - 2002/2003	60
21. Prices in current \$ and CFAF (01/83-05/03) and constant CFAF (01/94-04/03)	61

Bibliography

GENERAL	67
BENIN	67
BURKINA FASO	67
CÔTE D'IVOIRE	68
GHANA	68
MALI	68
TANZANIA	68
ZIMBABWE	68

Acronyms

ADB	African Development Bank
AFD	<i>Agence Française de Développement</i> , French Development Agency
AIC	<i>Association Interprofessionnelle du Coton</i> , Cotton Inter-professional Association
AP	<i>Association de Producteurs</i> , Producers Association
BCI	Tax on profits from commercial and industrial activities
CAGIA	<i>Coopérative d'Approvisionnement et de Gestion des Intrants Agricoles</i> , Cooperative for Provision and Management of agricultural Inputs
CFA	<i>Communauté Financière Africaine</i> , African financial Community
CFAF	CFA franc
CFDT	<i>Compagnie Française pour le Développement des Fibres Textiles</i> , French Company for the development of textile fibers
CIDT	<i>Compagnie Ivoirienne pour le Développement des Textiles</i> , Ivorian Company for the development of Textiles
CIRAD	<i>Centre Internationale de Recherche Agronomique pour le Développement</i> , International Center of agricultural research for Development
CMDT	<i>Compagnie Malienne pour le Développement des Textiles</i> , Malian Company for the development of Textiles
COTTCO	Cotton Company of Zimbabwe
CPI	Consumer Price Index
CRI	Cotton Research Institute (Zimbabwe)
CSPR	<i>Centrale de Sécurisation des Paiements et des Recouvrements</i> , Payments and Recovery Securitization Center
CTC	Cotton Training Center (Zimbabwe)
EURONEXT	Established on 09/22/00 as a merger of the Amsterdam Stock Exchange, the Brussels Exchange and the Paris Bourse
GCCL	Ghana Cotton Company, Ltd.
GDP	Gross Domestic Product
ha	Hectare
ICAC	International Cotton Advisory Committee
IFS	International Finance Statistics (IMF)
kg	Kilogramme
LCCI	<i>La Compagnie Cotonnière Ivoirienne</i> , The Ivorian Cotton Company
LDC	Least developed countries
MAE	<i>Ministère des Affaires Etrangères</i> , Ministry of Foreign Affairs
SOFICOI	<i>Société de Financement des Intrants Coton en Côte d'Ivoire</i> , Society for the financing of Cotton Inputs in Côte d'Ivoire
SOFITEX	<i>Société Burkinabé des Fibres Textiles</i> , Burkinabe Society of Textile Fibers
SONAPRA	<i>Société Nationale pour la Promotion Agricole</i> , National Society for Agricultural Promotion
SSA	Sub Saharan Africa
STABEX	Stabilization of Export earnings (EU facility)
URECOS-CI	<i>Union Régionale des Coopératives de la Zone de Savane</i> , Regional Union of Cooperatives in the Savanna zone
WTO	World Trade Organization

Foreword

Cotton production was initially promoted in Sub-Saharan Africa (SSA) through public monopolies. But it is now broadly agreed that the state should withdraw from productive activities which can be performed more efficiently by the private sector and that public monopolies may lead to rent seeking activities. As a result, public monopolies have been progressively abolished through privatization and liberalization.

The cotton sector has been liberalized over the last fifteen years in a number of Anglophone countries and privatized over the last seven years in several Francophone countries. Some of the reforms have been successful while some others have not. It was therefore decided to review the progress achieved in six SSA countries at different stages of their reform agenda. The objective was to assess what worked and did not work in an attempt to draw lessons which could be used by countries such as Mali which has not yet liberalized its cotton sector but intends to do so as well as countries which are in the process of liberalizing.

Three sample countries (Benin, Burkina Faso, and Côte d'Ivoire) belong to the CFA zone; they are the three largest cotton producers in SSA after Mali. The three other countries (Ghana, Tanzania, and Zimbabwe) are Anglophone. Zimbabwe was selected because it is the largest cotton SSA producer outside of the CFA zone. It liberalized its cotton sector in 1995 and the operation was considered at the time as very successful. Ghana was selected because it liberalized its cotton sector in 1985 and cultivation is located in a cotton belt shared with Burkina Faso and Côte d'Ivoire; but Ghana is a small producer and its experience with liberalization was not considered as successful. Due to time shortage, the consultants did not visit Tanzania, which liberalized its cotton sector in 1994; however, reference is made to that country's experience because it was considered relevant to the present study.

The study was jointly financed and monitored by the World Bank and French institutions. The visit took place in a six-week period beginning mid-February 2002; it was conducted by two international consultants (Louis Goreux and John Macrae) assisted by a local consultant in each country. The present report prepared by Louis Goreux supersedes both the draft circulated at the cotton meeting held in Abidjan on June 25-26, 2002 and the report issued as AFRPS No. 47. Price and production statistics are updated through end-September 2003 in this report which takes into account the comments made, but is submitted under the sole responsibility of the consultant.

The French version of this report together with a country review prepared by John Macrae were published in July 2003 by the *Direction générale de la Coopération et du Développement, Ministère des Affaires étrangères*, Paris. An English version of the Ghana and Zimbabwe country reviews can be obtained from John Macrae.

The author wishes to express his gratitude to John Macrae with whom most of the issues presented here were discussed, and to the five local consultants: Massita Coulibaly, Henri Some, Saa Dittho, Borgu and Daniel Ndlela. The author also wishes his gratitude to all those who assisted him received during the course of the study in Washington, D.C., Paris, and the five African countries visited.

Summary

A number of countries in Sub-Saharan Africa (SSA) have a comparative advantage in cotton production. In the last twenty years, the share of SSA in world cotton exports increased from 6.9 percent to 17.3 percent. The increase was modest (from 2.0 to 2.1 percent) in Ghana, Tanzania and Zimbabwe, but it was very large (from 2.4 to 9.4 percent) in Benin, Burkina Faso, Côte d'Ivoire and Mali.

Following the crises encountered by several public monopolies, reforms were undertaken to improve the competitive position of the cotton sectors. However, as shown in this report, not all reforms were successful. In the Francophone countries, there was no competition on price paid to growers, but the ginning and input sectors have been privatized to various degrees in the last ten years. Reforms are much more advanced in Benin than in Burkina Faso, but results were no better in Benin; as a matter of fact, following the devaluation of the CFA franc in January 1994, production increased faster in Burkina Faso than in Benin. In the three Anglophone countries, the cotton sector has been liberalized since 1985 in Ghana, 1994 in Tanzania, and 1995 in Zimbabwe. The liberalization was initially a success, but it did not last. In Ghana and Tanzania, production and yields are now lower than they were ten years ago.

In Burkina Faso, SOFITEX still has a monopoly for the purchase of seed cotton, but producers acquired 30 percent of the company's shares in 1999 and obtained a majority in the committee responsible for the selection of input bids. Producers participate in the management of the sector and relations between various stakeholders are good; however, producers' associations remain fragile.

In Côte d'Ivoire, the CIDT was split into three companies of comparable size in 1998 and, after a two-year transition period, the two new private companies and the remaining part of the CIDT have been operating independently. One of the two new companies was managed better than the old CIDT, but the other was not. Conflicts among stakeholders were frequent; they were fuelled by the north-south political conflict which became open conflicts toward the end of 2002 and led to a confused situation in 2003.

In Benin, privatization started with the provision of inputs in 1992 and included ginning in 1995. The sequence of measures was not always well designed and a number of problems soon emerged. Most of those have now been solved, notably by establishing a clearing house for all financial transactions of the sector (CSPR); but the sector remains heavily regulated. Producer prices are fixed for the entire country and announced at the beginning of the marketing season, as in the past. With eight cotton companies, surplus ginning capacities, and no competition to clear the market, a new distribution system had to be designed. As a result, a professional association¹ allocates quotas to each company on the basis of its installed capacity, and each company is told where to buy its cotton.

In Ghana, the cotton sector was liberalized in 1985 and this had a stimulating effect. However, production reached a peak in 1998/99 and declined steadily afterward. Free entry led to widespread poaching and the virtual collapse of input credits.² In March 2002, Ghana had 12 cotton companies with three more applying for registration while the production of seed cotton had fallen to 15,000

¹ L' Association Interprofessionnelle du Coton (ACI) includes all major stakeholders of the cotton sector: input suppliers, producers' associations, ginneries, manufacturers and transporters.

² Poaching is a way of selling seed cotton without clearing the input credit obtained for producing the seed cotton.

tons and the debt of cotton companies exceeded five times the value of yearly output. The government recently attempted to correct the situation, but did not succeed.

In Zimbabwe, the 1995 liberalization gave a boost to the cotton sector, and the arrival of newcomers led to market improvements. When Cargill started paying producers on delivery day, other cotton companies followed suit. But after Cottco absorbed one of its two rivals in 1999 and captured 75 percent of the market, Cargill did not try to compete on the price front with the dominant player. Producers now receive a small part of the benefits accruing from the *de facto* dual exchange rate. At the blend exchange rate available to cotton companies, the share of export prices received by producers fell from 51 percent in 1996/97-1999/00 to 31 percent in 2000/01-2001/02 when the macroeconomic situation progressively deteriorated. By contrast, in the same two years with falling world prices, producers received 55 percent of the export price in the three CFA countries. A number of small traders attracted by the profitable parallel exchange rate became more aggressive, and poaching could become a problem in Zimbabwe. To limit poaching Cottco became more discriminating in allocating credit. As a result, it is more difficult for poor farmers to obtain input credits in Zimbabwe than in Burkina Faso.

In Tanzania, the 1994 liberalization of the cotton sector was initially successful. But it soon led to massive surplus ginning capacities which stimulated poaching. When the reform was launched, it had been expected that the private sector would jump in to replace the input credit and distribution system previously managed by the Cotton Marketing Board. This did not occur and the use of purchased inputs dropped sharply, yields fell, and quality suffered. By 1998/99, production had fallen to a 20-year low and government stepped in with mixed success, notably by creating the Cotton Development Fund in 1999 to improve the quality of seeds and promote the use of chemical inputs, but their use remained below needs.

Liberalizing the cotton sector is a difficult undertaking which is not without risks, since cotton is an annual crop needing large investments which have to be amortized over many years. Cotton cultivation requires large applications of fertilizers and pesticides which most poor farmers cannot acquire without an appropriate credit system, and the most efficient way to recover input credits is to deduct the cost of inputs from the value of seed cotton at delivery to the ginnery. Maintaining soil fertility and raising yields requires animal traction for which medium-term credits are needed. Moreover, improving cultivating practices and empowering growers require a steady and lengthy institutional build-up. For all these reasons, marketing of seed cotton has to be regulated. Experience shows that it is important to prevent entry to traders only aiming at making a quick profit. Such traders were often those who introduced the practice of poaching in Anglophone countries.

CFA countries can draw three lessons from Zimbabwe. First, with an efficient computer-based system of payments, producers can be paid on delivery to the ginnery. *Cotton Ivoire*, one of the best performing companies in the CFA zone, has reduced payment delays from 33 to 23 days, which is commendable, but there is still room for improvement. Second, although Cargill does not provide input credit, it introduced a successful "Farmer Input Voucher" system allowing producers bringing seed cotton to return with inputs for their next crop by automatically deducting the cost of inputs from the value paid for the seed cotton. This system is particularly attractive to producers in countries with high inflation, such as Zimbabwe. Third, a more rigorous grading policy can be profitable, since cotton from Zimbabwe benefits from a 10 percent premium over that exported by CFA countries. Grading practices induce producers to collect cotton with more care in Zimbabwe where a small part of the crop (15 percent) is graded A which is the highest paid quality than in CFA countries where virtually the entire crop (98 percent) is graded A.

The experiences of the three Anglophone countries show that the quality of seed cotton may be adversely affected by price wars. The high premium on Zimbabwe cotton was preserved after liberalization because the two or three cotton companies were able to cooperate successfully, which was facilitated by the low level of price competition between them. By contrast, in Ghana and Tanzania where price competition was strong, grading became very loose, the seeds multiplication system became disorganized and, according to most observers, the quality of cotton suffered. In CFA countries, there is no price competition and neither grading nor quality has yet been affected by the reforms.

The management of the cotton sector improved in Burkina Faso with limited reforms in the late 1990s. SOFITEX retained its monopoly for the purchase of seed cotton, but producers became better organized. The first step was to restrict access to village associations to cotton growers, which made them more manageable and provided them with a clearer focus. The second step was to build up a five-level pyramid through which messages could be transmitted effectively from top to bottom and vice-versa. The third step was to use the surplus accumulated when prices were favorable to acquire 30 percent of the capital of SOFITEX. As a result, the growers' association became a stronger partner able to negotiate with cotton companies and other stakeholders.

The structure of the cotton sector is more complex in Benin than in Burkina Faso and the reforms implemented are more basic. The new decision center is the inter-profession where the various stakeholders are represented. Cotton companies became mere partners in a game that the monopolist was previously running. To insure that all input-credits would be recovered and all payments due would be made, the inter-profession needed an executive arm - the CSPR- which was created in 2000. Grading, research and new institutions are components of the "critical functions" financed through contributions by cotton companies adding up to 10 percent of the price of seed cotton. The new system required the creation of new institutions and the strengthening of existing ones. The new system is complex, it is heavily regulated, but it does work. It is too early to know whether the new system will lead to savings. It should be noted, however, that Benin needed large subsidies in 2001/02.

Zimbabwe is the only one of the five visited countries where the government does not intervene in the determination of producer prices. Cottco announces its price at the beginning of the season and Cargill follows suit. The price increases during the season, which is to be expected in a country where the yearly inflation rate exceeds 100 percent. As mentioned above, the two companies compete on the nature of services rendered rather than on prices.

In Ghana, a price is announced at the beginning of the marketing season after a long debate organized by the government but this price is not always applied. The share of the world price received by producers fluctuated over the years but was lower than in CFA countries in seven of the last eight years. In all CFA countries, the price is announced before the start of either sowing or marketing seasons.

In Burkina Faso, a floor price is announced before sowing and, if a profit is made at this price, producers receive a bonus in the following season; they did receive a bonus in each of the last seven years and this bonus was on average equivalent to 15 percent of the floor price. Bonuses were also given in Benin and Côte d'Ivoire, but they were smaller and less frequent.

In CFA countries, producers appear to be attached to the guaranteed floor price and would like to know this price before sowing. Setting a floor price one year before shipping the lint is a risky

proposition since prices may vary considerably during that year. The best way to deal with the problem is to combine forward sales with two-step payments by observing three principles: (i) setting a floor price on the basis of realistic market expectations, notably by relying on prices already locked in through forward sales; (ii) incorporating a safety margin which should be wider if the floor price is announced before sowing than before marketing; and (iii) calculating the level of the second payment in a transparent manner according to changes in the CFAF value of Index A and sharing losses or gains proportionally between producers and cotton companies. The calculation could be done easily from daily quotations of the euro/dollar exchange rate and Index A.

The third principle departs from the past practices which linked the bonus to the company's profit. This practice had three drawbacks: (i) calculated profits can be and have been tampered with; (ii) profits are known only after closing the books, which explains why, in Burkina Faso and Benin, the bonus distributed in year $t+1$ is based on profits made in year t ; and (iii) private companies are reluctant to show their books.

The proposed system could be implemented quickly and would be easier to administer than the previous one. Producers could easily check whether they received their due and cotton companies would be induced to reduce their costs since they would not have to share the fruits of their savings with others.

The two-step payment provides a protection against future price falling only up to a point. Beyond it, a subsidy is needed if there is no stabilization fund. Requests for subsidies normally come when world prices reach a bottom, and a producer price has to be announced urgently to avoid delaying the opening of the marketing season. The subsidy calculated on the basis of prevailing prices would be too high if prices were to recover. The way for dealing with the price risk in setting the subsidy is similar to the one outlined in setting the floor price. It consists of linking the value of the subsidy to a specified value of Index A and, at the end of the season, adjusting the subsidy according to the difference between the specified value and the actual value.

The need for subsidies cannot be eliminated. But subsidies should be used only in last resort, which means that alternatives should be found to compensate growers when world prices fall sharply. On the one hand, stabilization funds managed by governments did not function properly because the surplus accumulated in high price years had often disappeared by the time money was needed. On the other hand, funds owned jointly by producers and private cotton companies could be unmanageable. A fund managed by producers may be the only solution left and such a fund has been working reasonably well in Burkina. Producer prices (net of subsidies) would increase at a rate no lower than world prices; but producer associations would become responsible for supporting the revenues of their members when world prices fall. Producers would not be left out in good years, but they would have to protect themselves against bad years.

An assessment of the impact of the reforms of the cotton sector on poverty has to be crafted with great caution for three reasons. First, reforms in the three CFA countries remain at an intermediate stage and the process followed by any of the three Anglophone countries in liberalizing their cotton sector does not provide a model that CFA countries should copy. Second, the choice of institutional structures has to be fitted to the socio-political context of the country concerned. The model best fitted to Burkina Faso may not fit Benin and vice-versa. Third, the natures of the reforms and their sequence have to be fitted to the initial conditions and the results may be affected by the quality of management as much as by the nature of the reforms. For these reasons, the study does not lead to the choice of a particular model. It does, nevertheless, suggest that, whichever model is selected, a

country could generally improve its performances by taking into account the experience of its neighbors and learn from the problems they have encountered.

Some broad results may be summarized as follows. In the three CFA countries, where there is no competition on producer prices, performances in Benin (where reforms are most advanced) were better than in Burkina Faso (where reforms are least advanced). In the three Anglophone countries, where the market has been liberalized for eight years or more, the best performer was Zimbabwe, where price competition for the purchase of seed cotton was much weaker than in Ghana and Tanzania. Liberalization gave an initial boost to production and prices received by growers, the improvement did not last. Production of the three Anglophone countries reached a peak in 1995/96, which has not been attained since, while production of the CFA countries increased by one half from 1995/96 to 2002/03.

Reforms in the three CFA countries had two common features. One was the strengthening of producers' associations, which permitted them to play a greater role in the management of the sector, whether it dealt with the choice of inputs or the quality of services. The second was the replacement of public by private agents in a number of functions.

For main conclusions emerge from the review. (i) An efficient credit system allowing small farmers to acquire quality inputs in a timely manner is a prerequisite for developing the cotton sector and reducing poverty. For this purpose, a direct link between the payment of seed cotton and the recovery of input credits has to be preserved. (ii) Performances can be improved by giving more power to growers in the management of the sector and a greater participation of the private sector. (iii) Research and extension services cannot be left under the sole responsibility of the public administration. (iv) Seed cotton has to be marketed within a regulated framework agreed upon by the main stakeholders.

The most efficient way of reforming the cotton sector became a critical issue with the sharp fall of cotton world prices in 2001/02. Since then, cotton prices have partly recovered. From October 2001 to September 2003, they increased by 58% in current US dollars, 22% in current CFAF and 17% in constant CFAF. The long term price decline was largely due to the inroads of synthetic fibers, since their share in total fiber consumption rose from 22 percent to 59 percent in the last forty years. The bottom price of October 2001 resulted from the combination of a slow down in world economic activity and high yields due to favorable weather conditions. The price fall should have led to lower production. But this compensatory effect did not occur, because producers accounting for over half of the world output were insulated from the world price fall by massive subsidies.

Subsidies are inefficient from an economic viewpoint, since they promote production in countries with high production costs at the expense of countries with lower production costs. But the social impact of these subsidies is far more damaging. On the one hand, price support has not been a cost-effective way for improving the conditions of the poor in industrialized countries, since the major part of the subsidies went to large farmers and input providers living far above the poverty line. On the other hand, by promoting production in industrialized countries, these subsidies depressed world prices and reduced the earnings of African LDCs depending on cotton for a large part of their export earnings. Concerned with the future of a critical sector, four African LDCs submitted a request to the WTO asking for the rapid removal of subsidies. With the failure of the Cancun Conference, Africans returned empty handed. But their request should not be ignored since lowering cotton subsidies in industrialized countries would be an efficient way of reducing the poverty of millions of Africans living with less than one dollar a day.

1. Sub-Saharan Africa in the world Cotton Market

With the rapid increase in their cotton exports, least developed countries (LDCs) were severely affected by the fall in the world price of cotton which was aggravated by the subsidies provided by industrialized countries to their cotton producers.

1.1 The rapid expansion of cotton cultivation in the Sahel

Cotton is the agricultural product for which the African share of world exports increased most. Over the last twenty years, the share of world exports rose from 6.9 percent to 17.3 percent for Sub-Saharan Africa (SSA) and from 2.4 percent to 9.4 percent for Benin, Burkina Faso, Côte d'Ivoire and Mali, which are the four largest producers in West Africa (Table 1).³ From 1980/81 to 2002/03, the cotton production of the four CFA countries increased by 7.7 percent a year, which was entirely due to the expansion of the areas cultivated.⁴

Since the CFA franc was devalued in January 1994, a distinction has to be made between the pre-devaluation period (1980/81-1994/95) and the post-devaluation period (1994/95-2002/03). This distinction is important since most of the reforms of the cotton sector started in 1994. In the CFA zone, reforms started in Benin with the establishment of three private ginneries in 1995. In the Anglophone zone, Zimbabwe liberalized its cotton sector in 1995, one year after Tanzania, but ten years after Ghana.

In the first period, production remained virtually stagnant in the three Anglophone countries selected (Ghana, Tanzania and Zimbabwe), while it increased very rapidly in the four CFA countries. In the second period, production declined in Ghana and Tanzania, because area expansion was more than offset by declines in yields.⁵ In the four CFA countries, production increased by over 6% in spite of stagnating yields.⁶

The rate of production growth was much higher in Benin than in Burkina Faso in the first period (19.9 percent versus 9 percent), but the reverse occurred in the second period (4% versus 12.5 percent). The yield growth was 3 percentage points higher in Benin than in Burkina in the first

³ Shares at the beginning and end of the period relate to three year-averages (1980/81 through 1982/83 and 2000/01 through 2002/03); the comparison therefore covers a twenty-year period. However, in the case of exports, the four-year average (2000/01 through 2003/04) was used, because CFA countries accumulated large stocks in 2001/02 and excess stocks are expected to be eliminated only in 2003/04. The abnormally low export to production ratio in 2001/02 was offset by an abnormally high ratio in 2003/04. See Annex Table 19D.

⁴ The four countries are members of an economic and monetary union (UEMOA) and share the same currency (CFA franc). See annex Tables 19A to 19C.

⁵ In Zimbabwe, average yields fell by half from 1980/81 -1981/82 to 2001/02-2002/03; but the fall was essentially due the replacement of commercial farming with irrigation by small scale farming without irrigation. In 1994/95, yield and production were abnormally low and the corresponding coefficients did not differ significantly from zero, apart from the 7.7 percent yield decline in the first period.

⁶ Cotton production data may be the most reliable agricultural statistics of the CFA zone for three reasons. First, 95 percent is exported. Second, undocumented border transactions were very limited. Third, data collection was supervised until recently by a single agency. The breakdown between yield and areas is however less reliable

period, but 3 percentage points lower in the second period. According to these measurements, performances were better in Benin than in Burkina Faso in the first period, but the reverse was true in the second period. This observation is important because reforms began in the second period and were much greater in Benin than in Burkina Faso.

Table 1: Shares of export and production. Growth of area, yield and production
(in percent of world total and average percentages per year, 1980/-2002/)

	Exports		Production		Area	Yield	Producti	Area	Yield	Product
	80/-82/	00/-03	80/-82/	00/-02/	1980/81 through 93/94			1993/94 through 2002/03		
	Shares of World in percent				Growth in percent per year					
World	100.0	100.0	100.0	100.0	*-0.3	2.4	2.1	*-0.4	1.5	1.1
USA	29.5	35.0	19.5	19.8	*1.6	2.4	3.9	*-0.7	*0.6	0.0
SSA	6.9	17.3	3.5	6.5	*0.6	3.9	4.5	5.6	-0.8	4.8
CFA zone	4.1	13.3	1.6	4.4	5.8	1.9	7.7	5.9	*-0.3	5.7
SSA non CFA	2.8	4.0	1.9	1.9	-2.3	2.8	*0.4	5.2	-2.4	2.8
Benin	0.06	2.3	0.1	0.8	16.6	3.3	19.9	5.0	*-0.9	4.0
Burkina Faso	0.5	2.3	0.2	0.7	8.6	*0.4	9.0	10.1	2.4	12.5
Cote d'Ivoire	0.8	2.0	0.4	0.8	5.0	*0.8	5.8	3.9	2.5	6.4
Ghana	0.0	0.1	0.01	0.04	9.1	6.3	15.4	3.2	-5.0	*-1.8
Mali	0.9	2.7	0.3	0.9	7.9	1.3	9.3	6.6	-2.1	*4.4
Tanzania	0.7	0.7	0.3	0.3	*-2.5	5.0	*2.5	*3.5	-5.4	*-1.9
Zimbabwe	1.2	1.2	0.4	0.5	5.5	-7.7	*-2.2	6.1	*0.4	6.5
B+BF+CI+M	2.4	9.4	0.9	3.1	8.3	1.0	9.3	6.3	*0.1	6.4
G+T+Z	2.0	2.1	0.7	0.8	*0.6	*0.4	*1.1	4.7	*-2.2	*2.4

* coefficient not significantly different from zero.

Source : Yearly data were taken from ICAC on 09 /26/03. Yearly changes in production and yields are shown by countries and groups of countries on Figure 3. Slopes and R squares are given in Annex Tables 19A, 19B and 19C.

The share of Africa in world exports rose more rapidly than its share in world production, because the quantity of cotton fiber transformed locally hardly increased in the last twenty years. Textile factories have been established in Africa for many years, but results have generally been disappointing. The Sahel has a comparative advantage in growing cotton, because labor is the major input and the opportunity cost of family labor is very low. But the Sahel may not have a comparative advantage in transforming its cotton locally for several reasons. First, the textile industry requires high capital investment per worker. Second, textile factories consume a lot of electrical power which is very expensive in the Sahel and the additional power cost exceeds the labor savings. Third, the local market for textile goods is limited since consumers with very low income can purchase *fripes* below the marginal production cost of local factories.

Due to the rapid increase in cotton production and the stagnation of the local textile industry, the percentage of fiber production which was exported rose from 60% in 1980/-82/ to 85% twenty years later in SSA and from 78% to 96% in the CFA zone (Annex Table 19D). Consequently, African cotton producing countries became increasingly dependent on the evolution of the world price of cotton and this evolution has not been favorable since prices expressed in current US dollars fell in 2001/02 at its lowest level since 1971/72.

1.2 World prices reach record low in 2001/02

Prices received by CFA countries for their cotton exports have been affected by variations in the CFAF value of the US dollar and fluctuations in world prices as measured in US dollars by Index A. In order to show the relative effects of these two variables, a logarithmic scale was used on Figure 1 where slopes reflect the rates of increase (or decrease) of each variable. The effect of the exchange rate is measured by the distance between the medium curve (CFAF value of the US\$) and the horizontal line with ordinate 2.0. Adding this distance to the lower curve (price in US\$) leads to the upper curve (price in CFAF).⁷

On January 12, 1994, the CFAF price of cotton doubled on account of the devaluation of the CFA franc.⁸ From May 1995 to October 2001, the price decline was not as steep in CFA francs as in US dollars due to the appreciation of the dollar. Since then, the recovery was more modest in CFA francs than in US dollars due to the depreciation of the dollar.

The evolution of prices since the devaluation is shown in current and deflated CFAF per kg on Figure 2.⁹ Cotton grown in CFA countries became very competitive immediately after the devaluation, but the initial gain was eroded by inflation since the price consumer index increased by 42 percent in the sixteen months which followed the devaluation. This is reflected on Figure 2, the vertical distance between the two curves which increases rapidly from January 1994 to May 1995 but slowly afterwards. From 1994/95 to 2002/03, cotton prices fell by 40 percent in current US\$, 27% in current CFAF and 44% in constant CFAF.

The fall in world cotton prices expressed in US dollars resulted from the combination of four factors: (i) long-term inroads of synthetics fibers, (ii) recent slow-down in economic activity and high yields due to favorable weather conditions in 2001/02, (iii) fluctuations in exchange rates and (iv) large subsidies granted by key industrialized countries.

(i) From 1960 to 2000, world consumption per head remained virtually unchanged for cotton, while it increased fivefold for synthetics fibers. As a result, in the last forty years, the share of synthetic fibers in total fiber consumption rose from 22 percent to 59 percent. In the last twelve years, production of polyester increased six-fold in Asia, compared with three-fold for the world as a whole.

(ii) Due to the slow-down in world economic activity, world consumption of cotton remained virtually unchanged from 1999/00 to 2001/02, while world production rose by 13 percent (Table 2). As a result, stocks reached at end 2001/02 their highest level in 15 years. In the following year, however, the level of stocks fell sharply (17 percent) due to lower production and higher consumption.

⁷ The price P in CFAF (in CFAF per kg), the price P\$ (in US cents per kg) and the exchange rates E (in CFAF per dollar) are taken from Annex Table 21. They are linked by equation $P=0.1*P\$*E$ which can be rewritten as $\ln P = (\ln P\$) + (\ln E) -2$.

⁸ The CFA franc is now at fixed parity with the euro. Before creation of the euro, it was at fixed parity with the French franc.

⁹ On Figure 2, the upper curve represents the export price (Index A) expressed in current CFA francs. The lower curve was obtained by deflating current CFAF prices by the average of the cost of living indexes (CPI) for Benin, Burkina Faso, Côte d'Ivoire and Mali.

Figure 1: Current cotton prices in US dollar and CFA francs. CFA francs per US dollar

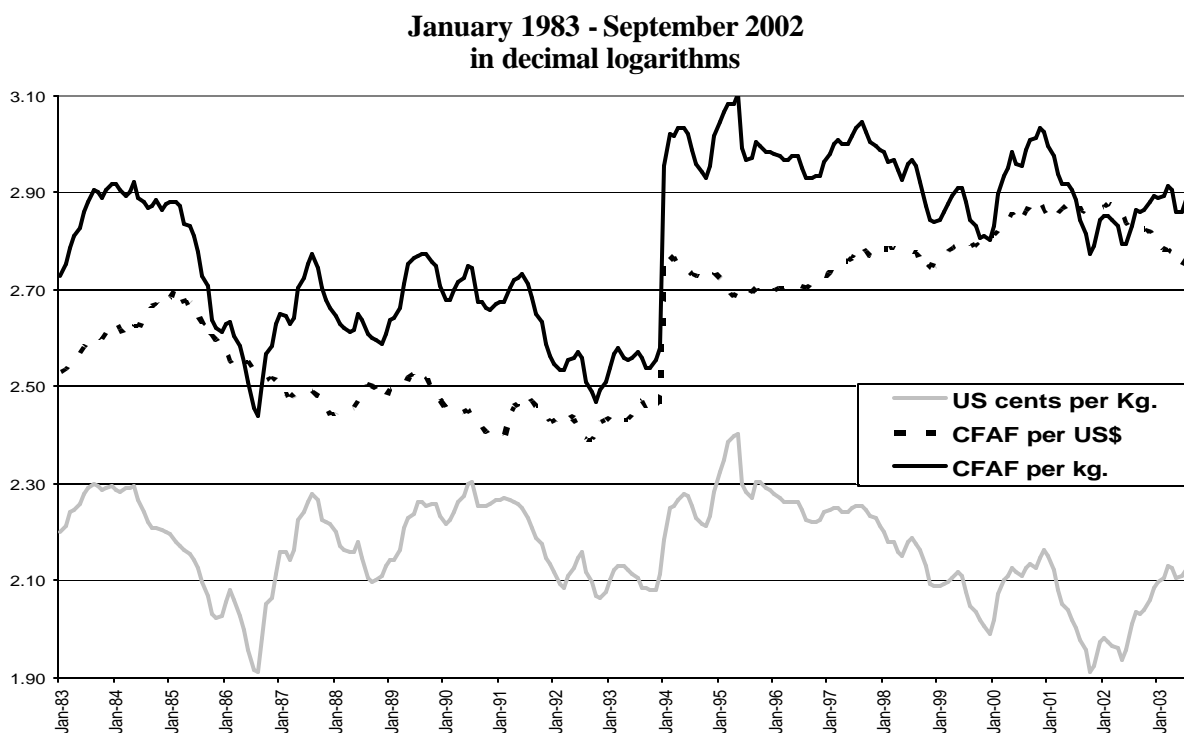
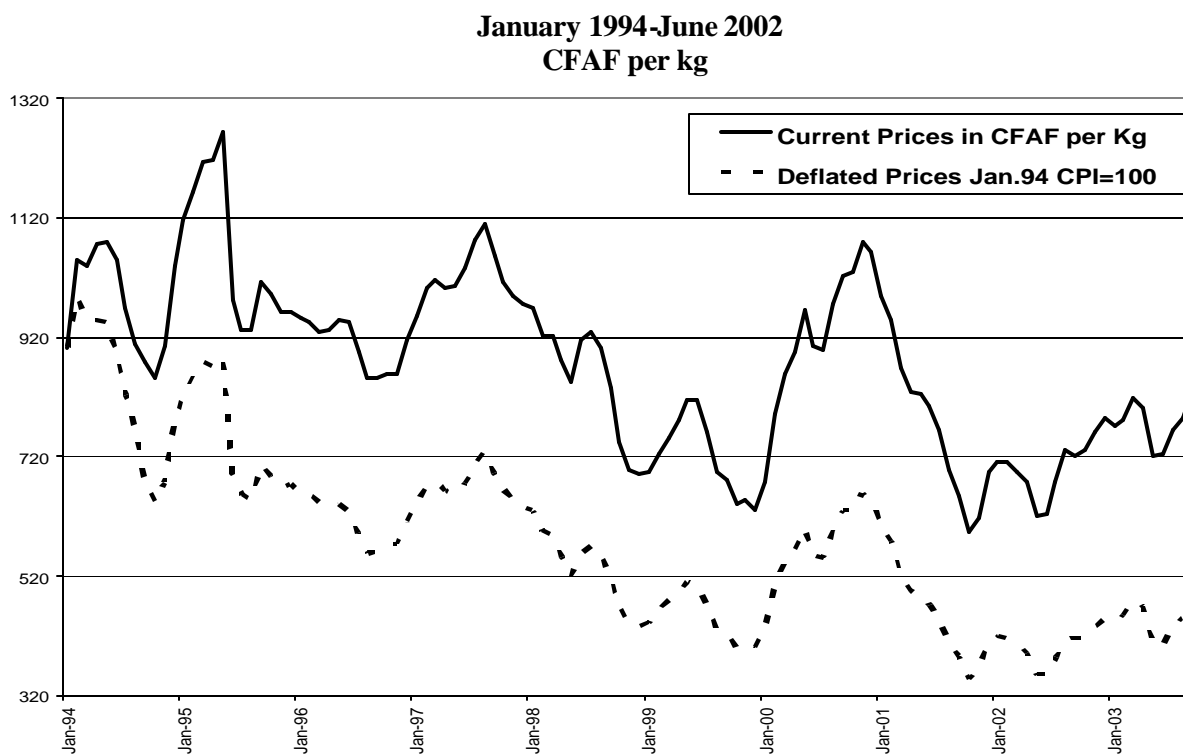


Figure 2: Current and constant cotton prices in CFA francs



Source: Annex Table 21.

China and the United States, the two largest producing countries which subsidize their producers, accounted for 92 percent of the increase in world production from 1999/00 to 2001/02. The remaining 8 percent came from the next largest producers (India, Pakistan, Uzbekistan, and Turkey). Production in the rest of the world remained stable, with the large increase in the CFA zone more than offset by the decline in the Southern Hemisphere where low prices at the sowing season resulted in reduced planting.

(iii) The appreciation (or depreciation) of the dollar in relation to the euro (or the French franc) had the effect of reducing the fluctuations of world prices expressed in CFAF (or euros) in relation to those expressed in US dollars. Thus, the price increase was reduced from 66 percent in dollars to 40 percent in CFAF between January 1994 and May 1995, and from 58 percent to 22 percent from October 2001 to June 2003. Moreover, the fall was reduced from 68 percent in dollars to 53 percent in CFAF from May 1995 to October 2001. It would therefore appear desirable to reconsider the possibility of establishing a future market for cotton in euros. Such a market would provide CFA countries with a price and exchange rate protection at the same time.

Table 2: World production and exports 1998/99 - 2002/03

	1998/99	1999/00	2000/01	2001/02	2002/03 est.
Production	In million metric tons				
World	18.7	19.09	19.46	21.51	19.26
China mainland	4.5	3.83	4.42	5.32	4.92
USA	3.03	3.69	3.74	4.42	3.75
Net Export					
USA	0.85	1.47	1.47	2.39	2.60
Uzbekistan	0.83	0.80	0.80	0.81	0.81
CFA zone	0.80	0.76	0.76	0.74	0.82
Australia	0.66	0.70	0.85	0.66	.59
China mainland	0.07	0.34	0.04	-0.02	-0.52
Indonesia	-0.51	-0.45	-0.57	-0.55	-0.5
World Ending Stocks	10.35	10.09	9.66	10.62	8.79
World End Stock / Use	0.39	0.40	0.45	0.54	0.51
Index A in cents per pound	58.9	52.8	57.2	41.85	55.7

Source: Supply and Distribution of Cotton, ICAC September 12, 2003

(iv) The share of world production benefiting from government subsidies increased from 50 percent in 1997/98 to 73 percent in 2001/02.¹⁰ In that year, subsidies to cotton producers in the United States, Greece and Spain reached \$4.3 billion, which was equivalent to 72 percent of total world exports valued at Index A prices. Cotton was also subsidized in China, but these subsidies were mainly used to cover the losses made in reducing China's abnormally high levels of stocks, because the cotton purchased in 1998 had to be sold at lower prices. By 2003, the stocks held by

¹⁰ "Government measures and the world cotton economy" Paper given by Terry Townsend, ICAC Executive Director, at the Australian Cotton Conference August 13-15, 2002. See also "Government measures", ICAC, April 18, 2003. "Prejudice Caused by Industrialized Countries to Cotton Sectors in West and Central Africa", by Louis Goreux, June 2003.

China have been brought down to appropriate levels and subsidies were considerably reduced. But US subsidies could rise with the adoption of the 2002 Farm Bill.¹¹

1.3 African producers and cotton subsidies in industrialized countries

While world prices fell by 56 percent in dollar terms from 1994/95 to 2001/02, cotton production rose by 90 percent in Benin, Burkina and Côte d'Ivoire (Table 3). In 2001/02, when world prices were at their bottom, the aggregate revenue of producers in the three countries was at its peak. This apparent paradox can be explained in four ways: (i) the area cultivated increased by 50 percent and the labor involved rose in the same proportion. (ii) good weather led to record yield and production in 2001/02; (iii) the fall in dollar prices was partly offset by the appreciation of the dollar in relation to the CFA franc (Figure 1); (iv) the share of export prices received by producers rose dramatically from 30 percent in 1994/95 to 69 percent in 2001/02 (Table 6). In brief, when production was at its peak in 2001/02, prices received by farmers had hardly declined.¹² But this cannot last.

Prices paid to growers in 2001/02 were not market-clearing prices. They included a bonus of CFAF 25 per kg of seed cotton paid from the profits made the previous year in Burkina Faso; they also included government subsidies of CFAF 45 in Benin and CFAF 15 in Côte d'Ivoire. Excluding those, the average price would have been reduced from CFAF 196 to CFAF 168, which can be considered as the break-even price. Without bonus and subsidy, this break-even point could have been reached if the export price of lint had risen by 17 percent in CFAF (excess of 196 over 168). It could have been reached with Index A at 54 cents and the euro at parity with the dollar. Few other countries were able to produce cotton at a lower cost.

The countries exploited their comparative advantage in planting more cotton. The rapid expansion of cotton cultivation was not at the expense of food crops. On the contrary, corn production increased because farmers were able to apply fertilizers acquired on a credit guaranteed by the delivery of cotton. A study by the World Health Organization concluded that the rotation cotton/corn led to higher income and a more balanced diet than the sole cultivation of cereals. According to this study, the expansion of cotton cultivation was responsible for the health improvement observed in cotton areas. When cotton production increased rapidly from 1993/94 to 1997/98, the incidence of poverty fell from 50 percent to 42 percent in cotton areas, while it increased by two percentage points in areas without cotton.¹³

¹¹ The Farm Bill is a thick document which needs to be interpreted with care. For a representative US farm, the share of government subsidy in the farmer total revenue would rise from 32 percent with the 1996 Bill to 45 percent with the 2002 Bill. "Trade distortions and cotton markets", Table 2.11, CIE, Canberra, May 2002.

¹² The 2001/02 producer price was 2 percent below its peak at current prices and 11 percent below at constant prices (Annex Tables 9 and 16).

¹³ "Analyse de la Pauvreté au Burkina Faso", INSD, 1999, Ministry of Economy and Finances.

Table 3: Averages for Benin, Burkina Faso and Côte d'Ivoire

Yearly averages: 1994/95, 95/96 - 96/97, 97/98 -00/01 , 01/02; % increase 01/02 over 94/95 and 97/98-00/01 average

			1 year	2 year av.	4 year av.	1 year	Increase	01/02 over
			94/95	95/96-96/97	97/98-00/01	01/02	94/95	97/98-00/01
(1)	Area	000' ha	217	247	307	333	53%	8%
(2)=1000*(3)/(1)	Yield	kg seed cotton /ha	954	1041	1055	1286	24%	12%
(3)	Production of seed cotton	000' m. tons	207	257	324	395	91%	22%
(4)=.01*(3)*(5)	Production of fiber	000' m. tons	85	108	138	168	91%	22%
(5)	Ginning ratio in %	Fiber/seed cotton	41.0	42.1	42.5	42.4	3.4%	0%
		CFAF/kg of seed						
(6)	Producer Price.	cotton	129	178	192	194	51%	1%
(7)=(6)/.01*(5)	Producer Price.	CFAF / kg of fiber	314	423	451	462	47%	3%
(8)=100*(7)/(11)	Prod. Price / Export price.	%	29	44	53	69	136%	30%
(9)	Index A	US cent /pound	94.3	82.1	60.2	41.8	-56%	-31%
(10)	Exchange rate	CFAF / US dollar	517	532	642	727	41%	13%
(11)=.022*(9)*(10)	Index A	CFAF / kg	1075	962	852	670	-38%	-21%
	Producer Revenues							
(12)=(3)*(6)/(1)	Per ha gross	1000'CFAF /ha	123	185	202	232	89%	15%
(13)=0.001*(3)*(6)	Per country gross	Current CFAF billion	26.6	46.0	62.6	76.8	190%	25%
(14)	Per country net of inputs ¹	Current CFAF billion		18	30	47		55%
(15)	Government Revenues ¹	Current CFAF billion		8.2	10.0	6.5		-35%
(16)	Cost of living index	1995=100	98	104	113	123	26%	8%
(17)=100*(11)/(16)	Index A	Deflated CFAF / kg	1102	922	751	546	-51%	-27%
(18)=100*(6)/(16)	Producer Price deflated.	Deflated CFAF / kg	132	171	169	160	21%	-5%
	Producer Revenue Deflated							
(19)=100*(12)/(16)	Per ha gross	1000'CFAF / ha	126	178	178	189	50%	6%
(20)=100*(13)/(16)	Per country gross	Deflated CFAF billion	27.2	43.9	54.6	62.5	130%	15%
(21)=100*(14)/(16)	Per country net of inputs ¹	Deflated CFAF billion	9.1	17.6	22.1	42.7	369%	93%
(22)=100*(15)/(16)	Government Revenues ¹	Deflated CFAF billion		7.9	8.8	-1.2		-114%

¹ Burkina only;

Source: Statistical Annex

By the year 2000, cotton accounted for 7 percent of GDP in Burkina Faso and 9 percent in Benin, against less than 0.1 percent in the United States. In the African cotton belt, the sale of seed cotton provided the population with most of its cash income and the overall activity of the area became increasingly dependant of cotton export earnings. When the world price of cotton collapsed in 2001/02, subsidies granted to cotton producers in the United States and European Union reached 4.3 billion US dollars, which was equivalent to 72 percent of the value of world cotton exports. It was clear that such large subsidies depressed world prices and reduced the export earnings of the Western African countries exporting 95 percent of their cotton production.

Concerned with the future of a critical sector, four African LDCs submitted a Cotton Poverty Reduction Initiative to the WTO. The Initiative asked for the elimination of the subsidies which have a distorting effect on world market; it did not ask for special treatment in favor of LDCs. The request was initially favorably received. But, with the failure of the Cancun Conference, Africans returned home empty handed. It does not mean that the case should be dismissed, because lowering cotton subsidies in industrialized countries would reduce the poverty on millions of Africans living with less than one dollar a day.

2. The Reform Agenda

Before assessing reforms, it is useful to start from the monopoly model which lasted for twenty years in CFA countries and is still used in some of them. Since the model induced rapid growth (Figure 3), it had advantages which should be preserved; but it had drawbacks which have to be eliminated.

2.1 The public monopoly

Each public enterprise (CMDT in Mali, CIDT in Côte d'Ivoire, SOFITEX in Burkina Faso and SONAPRA in Benin) was vertically integrated and benefited from a monopsony for purchasing seed cotton and from a virtual monopoly on the sale of cotton inputs. It was responsible for organizing virtually all services needed for cotton production and marketing, going from research and extension work to the sale of the fiber. In some cases, it even provided public services not directly linked to cotton, such as health and education.

A major advantage of the monopoly model was the provision of quality inputs (fertilizers and pesticides, in particular) under favorable credit terms. Input credits were repaid by deducting their cost from the value of the seed cotton delivered to the ginnery. Thus, if the price of seed cotton was CFAF 200 per kg and if the input package was worth 60, growers received only CFAF 140 per kg at delivery. Since all ginneries in the country were owned by the same company, producers' associations had to sell their cotton to that company, except if they were reasonably close to a ginnery across the border. Credit repayment was therefore generally very good.¹⁴ The cotton company was able to obtain favorable input prices because it was placing large orders and good credit terms since it was credit worthy. The comprehensive and efficient input-credit system has been largely responsible for the rapid expansion of cotton cultivation by poor farmers in the CFA zone and has to be preserved.

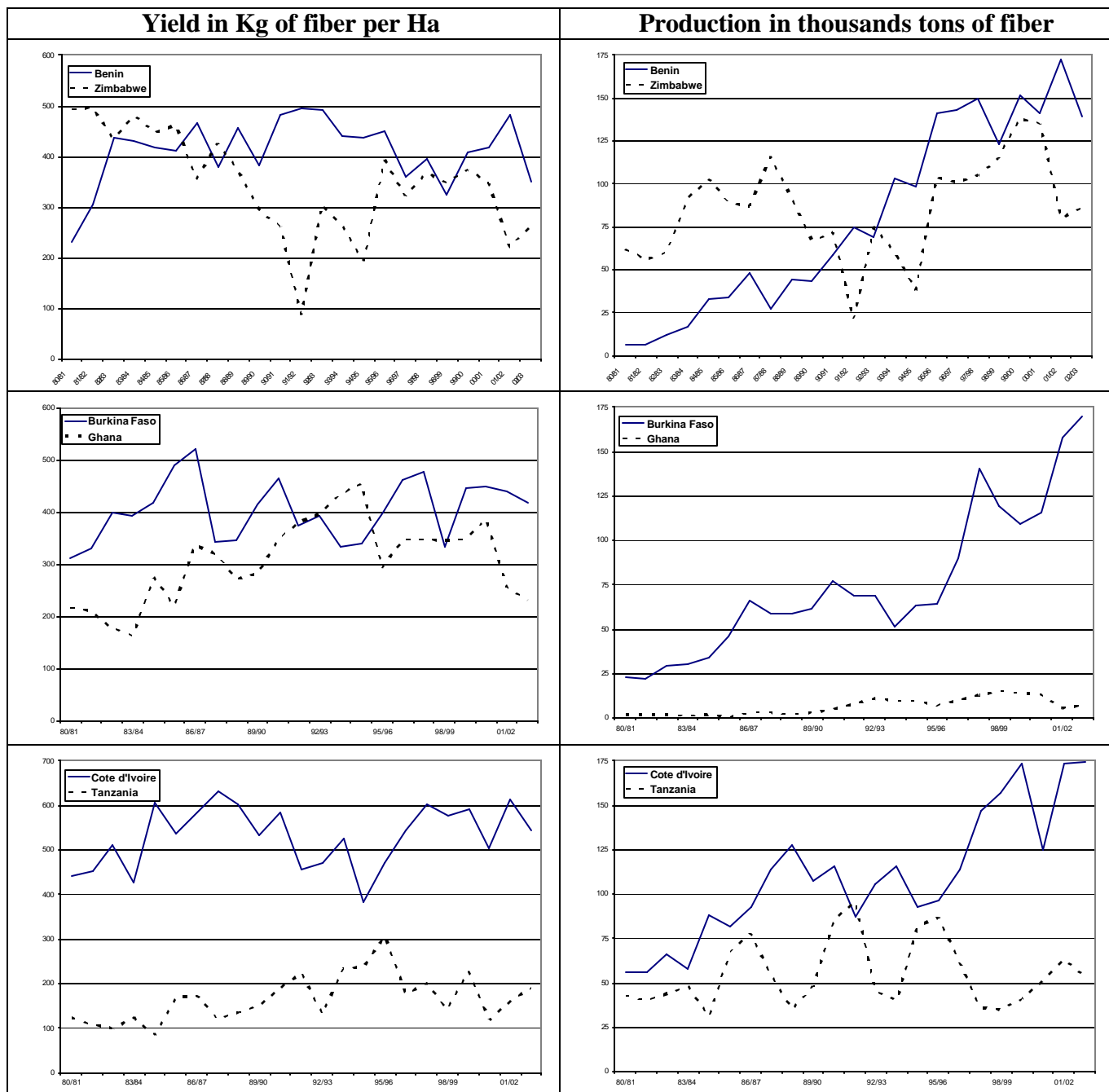
The main drawbacks were those common to most public monopolies in Africa and these drawbacks became particularly obvious when world prices were high. In the three CFA countries, producer prices accounted for only 30 percent of world prices when cotton prices reached their peak in 1994/95, and for only 44 percent in the two following years when prices remained high. Immediately after the devaluation, raising government revenues and containing inflationary pressures was critical; but producer prices remained too low for too long and part of the excess profit was not efficiently used.¹⁵ Mali provides a typical example. In the four years following the devaluation, the

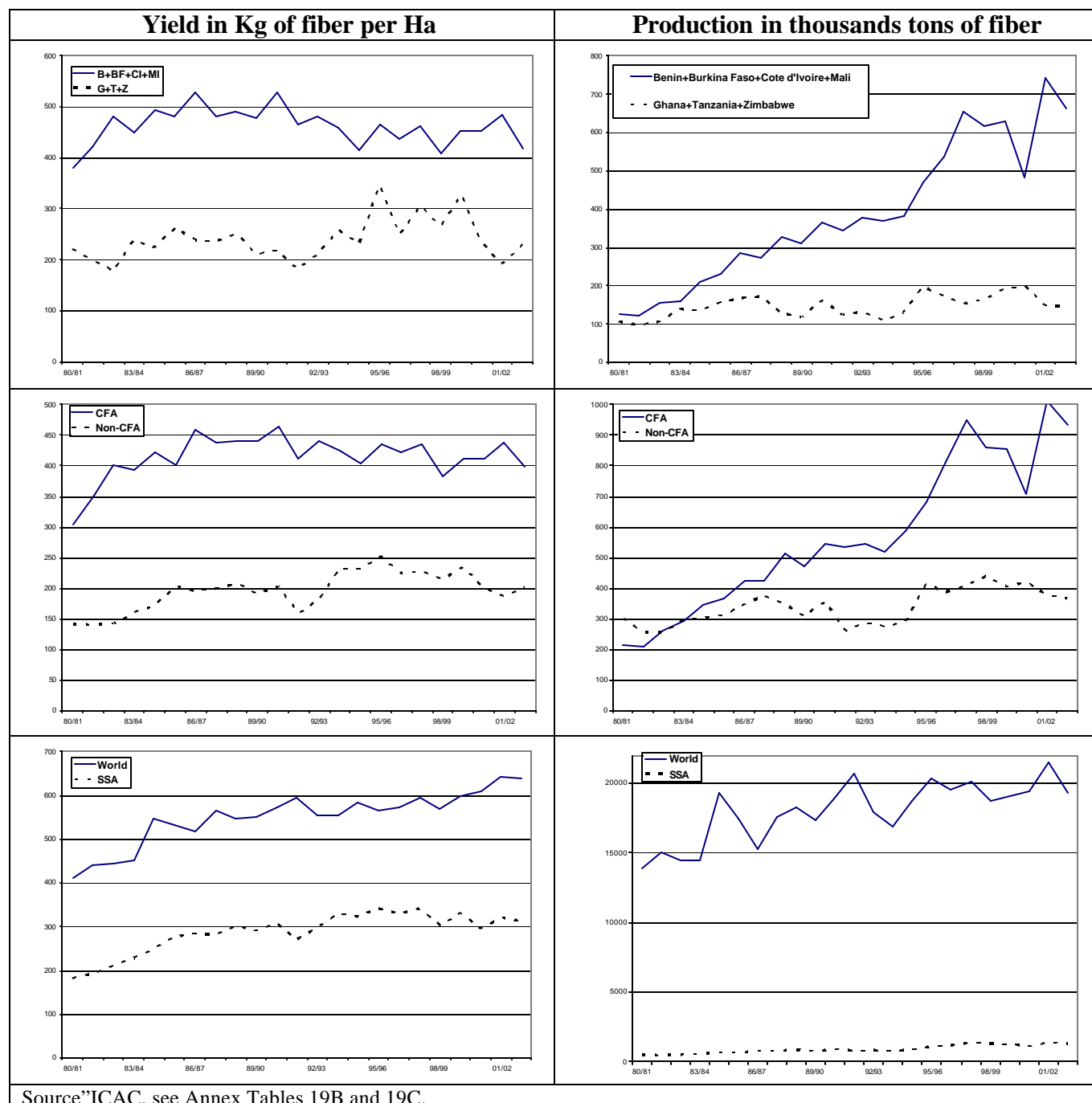
¹⁴ Arrears on input credits could nevertheless occur if a village association had much less cotton to sell than foreseen when buying its inputs, either because fertilizers were applied to other crops or sold outside of the association, or because production fell much below expectation due to draught or diseases.

¹⁵ On January 12, 1994, the value of the French franc increased from 50 to 100 CFA francs. The cost of servicing the external debt doubled overnight in terms of CFA francs, while government revenues did not. Raising government revenues was required for the success of the devaluation. It was probably the most difficult IMF target to reach and the growth in government revenues was closely monitored. Ultimately, the CFA devaluation was a success, as explained in the OED report "L'aide de la Banque Mondiale aux pays CFA" issued in 2001. Guaranteed producer prices for the 1993/94 crop year had been announced before the devaluation and producer prices were raised only moderately in the three following years in spite of high world prices, which left a high margin for governments. Thus, in 1996/97, taxes received by the Burkina Faso treasury exceeded half of growers returns net of input costs (Table 4).

CMDT was so profitable that it became a prime target for rent seekers and costs became heavily padded. When world prices started falling in 1998/99, the CMDT became virtually bankrupt.

Figure 3: Production and yields, 80/81 - 02/03





2.2 Producers' organizations in Burkina Faso

SOFITEX did not encounter the problems of CMDT, because SOFITEX was better managed and because its structure evolved. In September 1999, producers acquired 30 percent of the company's shares from the State; they obtained two seats on the Board, and now participate in Board discussions. Producers obtained a majority (seven seats out of 12) in the *Conseil de Gestion* which was established in June 2000 and is responsible for the review of input bids and the choice of distributors. Relations between SOFITEX and producers were good; but producer associations

remained fragile, especially at the middle level (*département*) where they complained of insufficient financial support.

SOFITEX's relations with local oil and textile mills were also good. Oil mills did not complain of erratic supplies. They claimed that, with the high cost of moving cottonseeds to Abidjan and the risk of penalties for quality loss during transportation, ginneries were better off by supplying local mills than by exporting.

Because the cotton sector had been cautiously managed, Burkina Faso did not have to subsidize the sector in 2001/02, while Benin and Côte d'Ivoire had to do it. Being land-locked, Burkina Faso compares favorably with its neighbors on the efficiency front. During the last eight years, producers received on average CFAF 12 less per kg of seed cotton in Burkina Faso than in the two other countries, but this was offset the additional transportation cost from ginnery to the port estimated at about CFAF 13. Moreover, bringing inputs and equipment to the ginneries was more expensive and power was more costly in Burkina.

With increased participation of producers in its management, SOFITEX performed reasonably well in recent years. It was nevertheless decided to break its monopsonistic position and two ginneries were put up for sale. These ginneries are located in the center and east of the country at some distance from the main cotton area and account for only 17 percent of the national ginning capacity.

2.3 Zoning in Côte d'Ivoire and URECOS-CI's rise to power

The CIDT was split into three companies of comparable sizes in 1998 and, after a two-year transition period, the three companies have been managed independently. However, this did not lead to price competition since the price of seed cotton remained the same for the three zones. It did not lead to competition on market shares either since each company had exclusive purchasing rights within its zone. In the west, *Coton-Ivoire* (a company linked to the Aga-Khan group) is probably better managed than the old CIDT was. But the opposite is true in the east, where the LCCI has accumulated payment arrears with producers and suppliers. Operating three companies instead of one resulted in higher overhead expenditures which may not have been offset in 2001/02 by savings on other positions.

The frequency of conflicts between the various actors in Côte d'Ivoire contrasted sharply with the consensual relationships found in Burkina Faso.¹⁶ Producers were in conflict with ginneries; they were also in conflicts among themselves, which led to the emergence of three small new producer associations. Oil and textile mills claimed that they did not receive regular supplies from ginneries and the problem was considered pretty serious by textile companies which decided to acquire their own ginnery in order to secure their fiber supply. The group expressed its intent to purchase a ginnery owned by the *CIDT Nouvelle* and, in case that particular ginnery could not be acquired, a location had already been selected to construct a new ginnery.

The conflict-bound situation in the cotton sector has been fuelled by the north-south conflict which recently dominated the political landscape of Côte d'Ivoire. Two successive Heads of State and their political opponents tried to outbid each other in order to gain northern votes. In this process, the government expressed its readiness to sell 80 percent of the shares of the *CIDT nouvelle*

¹⁶ It should be noted that this text was written in June 2002 before the events of September 2002.

to producers for *un franc symbolique*. Needless to say, the government proposal was strongly criticized by the two companies which had spent over US\$ 30 million each to acquire assets of comparable values; the two companies stressed that the proposed deal did not create the level playing field needed for fair competition. URECOS-CI, which is by far the most dynamic producers' association and claims to represent 80 percent of producers, argued that it should receive 80 percent of the 80 percent shares for sale, which would provide it with a comfortable 64 percent majority. The other associations argued that each association should receive the same number of shares, which was unacceptable to URECOS-CI.

While negotiations on the purchase of *CIDT nouvelle* were temporarily stalled, URECOS-CI went ahead. Just in front of the LCCI's ginnery in Korhogo, it built a new ginnery which was fully operational in 2002/03. URECOS-CI also managed to import 40,000 tons of fertilizer for the 2002/03 crops through an ingenious scheme. Half of the forthcoming crop was sold forward to ginneries and the forward contracts were used to secure the credits needed to import fertilizer. That scheme provided a safety margin, since fertilizers accounted for only 30 percent of the value of the crop to be grown with these fertilizers. To facilitate implementation of the scheme, a new financing institution (SOFICOCI) was created in March 2002.

URECOS-CI has also been fighting on other fronts. It argued that cotton companies should strictly limit their activities to ginning and asked for new methods of payments. Traditionally, ginneries were paying village associations which were distributing the proceeds according to the quantities of seed cotton brought by each producer. In doing so, the village association had to set aside the amounts needed to finance the activities performed by the upper echelons of the association. But the *faitière* located at the top of the URECOS-CI pyramid wanted to be paid first, so that money would flow from the top of the pyramid to the base, instead of bottom-up. According to URECOS-CI, cotton companies should not be allowed to make direct payments to village associations.

Through some type of holding, URECOS-CI could control the new Korhogo factory and the *CIDT nouvelle*; it could also absorb LCCI or deliver its seed cotton to LCCI mills for ginning on commission. It could soon become the major input supplier. In short, URECOS-CI could recreate a *filière intégrée*. Since producers would own the ginneries, the thorny problem of distribution between producers and ginneries would disappear; but, without appropriate checks and balances, the *faitière* could become too powerful.

2.4 Industry stakeholders' organizations in Benin

The liberalization of the sector proceeded by steps, starting with private input providers in 1992 and private ginneries in 1995. The input market was progressively liberalized with market shares opened to private investors increasing from 20 percent in 1992, to 40 percent in 1993, and 60 percent in 1994. The first private company providing cotton inputs was established in 1992; it was followed by a second one in 1993 and a third one in 1994.

High world prices and a three-fold increase in cotton production from 1989/90 to 1995/96 generated an euphoria which led to an investment boom. The three private ginneries built in 1995 were followed by two ginneries of the second generation in 1997 and three more of the third generation in 1998/99. However, since production stabilized around 350,000 tons of seed cotton from 1995/96 to 2000/01, Benin ended up with a 40 percent over-ginning capacity during that period. Because guarantees of supply had been granted to the first generation ginneries, the second and third

generation ginneries operated much below capacity. The low utilization rate combined with a high ratio of borrowings over owned capital led to high financial charges for second and third generation ginneries.

With one public enterprise (SONAPRA), eight private cotton companies and an even larger number of private enterprises providing inputs for the cotton sector, three options could have been considered. The first was to allow free competition to prevail, but it was not considered desirable at the time. The second was government regulation, but this would have been in flagrant contradiction with the thrust towards liberalization. With the third, which was the one selected, regulation was left in the hands of the profession. This led to the creation of a number of new institutions and to the strengthening of some existing ones. Among the most important innovations, was the creation of the CSPR which is a clearing house for all financial transactions of the cotton sector and of the AIC which regroups the key stakeholders. New responsibilities were also given to the CAGIA for the management of input.¹⁷ With these changes, it has been possible to exclude from the 2001/02 harvest two cotton companies that had accumulated large payment arrears. But the market remained heavily regulated. Each ginnery was allocated a quota proportional to its installed capacity, except the three first generation ginneries which benefited from guaranteed delivery.¹⁸

In 2001/02, there was no competitive pricing since nation-wide prices were announced for the entire year regarding: (i) buying seed cotton at village gate; (ii) transporting seed cotton to ginneries; (iii) selling cotton-inputs at village gate; and (iv) selling cottonseed at ginnery gate to the two local oil mills to satisfy their needs. Prices were discussed by the various stakeholders organizations, but the final price was announced by the government which had the last word. This was clearly the case in 2001/02 for seed cotton.

2.5 Free entry led to widespread poaching in Ghana

The sector was liberalized in 1985, which led to increased production. GCCL, the major cotton company started providing inputs to farmers as “in-kind loans” in 1995 and, within a couple of years, most other cotton companies did the same. With greater use of fertilizers and pesticides, production increased and reached a peak in 1998/99. But, production declined steadily afterward because, with virtually free entry, poaching by small cotton companies without significant investment in the sector became widespread. Most producers were unable to obtain credit for inputs and the use of fertilizers and pesticides was sharply curtailed.¹⁹ By 2001/02, fiber production had fallen to six thousand tons in 2001/02 worth about US\$ 6 million, while the cumulated debt of cotton companies to ADB (a state bank) reached US\$ 33 million. Establishing a cotton company was nevertheless attractive, since Ghana had 12 cotton companies in March 2002 with three more applying for registration.²⁰

¹⁷ See section 4.1.

¹⁸ Some competition on market shares occurred in 2001/02, because seed cotton production exceeded expectation and, late in the season, companies were able to share the surplus supply.

¹⁹ Poaching is a way of selling seed cotton without paying the input credit due. It is generally done through collusion between the buyer and the seller. For example, a grower having received inputs from well established company A does not sell his cotton to A, as he should, because A would deduct the cost of inputs. Instead, he sells his seed cotton to B who sends it for ginning to C. The fiber is then exported by B or C without repaying the input credit due to A. When the practice becomes widespread, A closes its credit facility.

²⁰ The Agricultural Development Bank (ADB) is owned by the government (52 percent) and by the Central Bank (48 percent). When someone obtains a license for creating a cotton company, he can apply for a loan from ADB. Since these loans are rarely repaid, creating a cotton company can be profitable even if the company does not do much business.

The government which had almost entirely withdrawn from the management of the sector attempted a come back recently by promoting zoning with exclusive purchasing rights and groups of producers who would be mutually responsible for the repayment of input credits. But the situation did not improve.

2.6 Liberalization did not lead to price competition in Zimbabwe

In the early 1980s, cotton production was twice as large in Zimbabwe as in Benin and Burkina Faso combined. Commercial farmers accounted for about 80 percent of cotton production and, since they had direct access to credit, there was no need for a special input-credit scheme. The need was felt in the early 1990s, after the new regime took over and the share of small-scale farmers rose to 60 percent of total production. The input-credit scheme was established after the drastic 1991/92 drought. The average yield of small-scale farmers had fallen dramatically (to 158 kg per ha from 701 kg per ha in the previous year) and it was clear that most small-scale farmers would not have the cash needed to purchase inputs for their next crop. Credits extended by the Bank and the Fund were used to launch a new credit scheme which proved very successful. Within a year, the production of small-scale farmers was back to pre-drought levels.

The cotton sector was liberalized in 1995 under the pressure of commercial farmers who resented having to subsidize the domestic textile industry. That industry had been expanding rapidly under high tariff protection in the 1980s; but, after trade sanctions against Zimbabwe were lifted in 1989, the economy was progressively liberalized. Many domestic textile mills became non-competitive and the cost of subsidizing the textile industry became very heavy. When the Cotton Marketing Board was abolished in 1995, subsidies to the textile industry were reduced; the least efficient mills closed down and the share of fiber production which had to be sold at a discount to domestic textile mills fell from 40 percent to 20 percent.

Liberalization gave a boost to the cotton sector and production recovered quickly from the 1994/95 drought. Producer prices increased initially due to competition between cotton companies and lower subsidies to the textile industry.²¹ The arrival of newcomers also led to marketing improvements. When Cargill started paying producers on delivery day, other cotton companies had to do the same. But the improvement in producer prices did not last and poaching recently appeared.

Initially, the market was shared among three large companies (Cottco, Cotpro, and Cargill) and several smaller ones. But, after absorbing Cotpro in 1999, Cottco captured 75 percent of the market and Cargill did not try to compete on the price front with the dominant player. Cottco announced its buying price at the beginning of the marketing season and Cargill generally announced slightly higher prices one week later. Cottco was the price leader and Cargill the follower. With high inflation rates, prices increased throughout the marketing season and Cottco generally distributed a bonus at the end of the season. For the year as a whole, the prices paid by the two companies were very similar.

The exchange rate between the US and the Zimbabwe dollars on the parallel market was virtually the same as the official rate in 1994/95; but the Zimbabwe dollar depreciated sharply in 2001 and 2002. The premium on the parallel market rose from 11 percent in January 2000 to 100

²¹ When 40 percent of fiber production was sold to local mills at a 40 percent discount, the cotton sector provided a subsidy equivalent to 16 percent of the value of fiber production. By reducing these two percentages from 40 percent to 20 percent, the cost of the subsidy was cut from 16 percent to 4 percent, which had the effect of raising domestic fiber prices by 14 percent [$1.14=(100-4)/(100-16)$].

percent in May 2001 and 500 percent in April 2002.²² Until June 2000, cotton companies could exchange all their export earnings at the parallel rate. But, since October 2000, they had to sell 40 percent at the official rate before exchanging the remaining 60 percent at the parallel rate. Cotton companies exported, therefore, at a blend rate calculated as the weighted average of the official and the parallel rates. Due to the low level of price competition, cotton companies did not have to pass to producers the full benefit of the blend rate. At that rate, the share of the export price received by producers fell from 51 percent in 1996/97 to 31 percent in 2000/01-2001/02.

Cargill did not want to be involved in input credit recovery, which was not an easy task. Instead, it established an ingenious barter scheme which was appreciated. When the producer brought his seed cotton for grading, he had the opportunity to return with whatever inputs he needed for his next crop and the cost of these inputs was automatically deducted from the value of the seed cotton he brought in.

Cottco was the only one providing an input credit facility and it had to fight against poaching. Before going to villages, small traders announced attractive prices, which they could afford by avoiding to clear input credits. They bought seed cotton cash without grading, it ginned on commission (mostly at Triangle) and sold the fiber for export. With the high rate of the US dollar on the parallel market, this operation became increasingly attractive. With more traders purchasing without grading, quality could suffer which would erode the high premium enjoyed by Zimbabwe cotton. To limit poaching, Cottco screened customers more carefully and rewarded the most credit-worthy by granting them the status of “Gold Club Members”. As a result, poor farmers have a more restricted access to input credit in Zimbabwe than in Burkina Faso.

2.7 Producers in Tanzania got higher prices initially, but it did not last

Marketing and trading became open to competition in 1994 after the government abolished the monopoly previously held by the Tanzanian Cotton Marketing Board and the cooperative unions. In the three following years (1994/95-1996/97), world prices were favorable, farmers received a greater share of the export price, payment was more timely, production of seed cotton increased and many private ginneries were built. But improvements did not last. During the six following years (1997/98-2001/02), Tanzania produced only one third of what Burkina Faso did, in sharp contrast with the 1980s when Tanzania had been producing more cotton than Burkina Faso.

The fall in cotton production largely resulted from lower use of purchased inputs. With the 1994 liberalization, fertilizer subsidies were abolished; the Marketing Board was no longer involved in the distribution of inputs nor in the provision of input credits.²³ It was expected that the private sector would fill the vacuum, but this did not occur as emphasized in a recent OED study.²⁴ The government became concerned and made two attempts at solving the problem. The first was to establish an Agricultural Input Trust Fund providing credit at subsidized rates, but the initiative was dropped in 1997 due to low credit recovery. The second was to create the Cotton Development Fund

²² See Table 18D in annex.

²³ Savings from the abolition of fertilizer subsidies were not used to improve the services provided to farmers by government. Moreover, an appreciation of the Tanzanian shilling from 1993 to 1998 penalized agricultural exporters. “Agriculture in Tanzania since 1986, Follower or Leader of Growth” IFRI and WB, 2000.

²⁴ “the Bank’s strategy appeared to be based on the assumption that once prices were liberalized and parastatals dismantled, the private sector would step in automatically to fill the vacuum (see e.g. Agricultural Sector Memorandum of FY95). This has not occurred. This problem is not unique to Tanzania: parallel reviews in other countries by OED are arriving at similar conclusions and the Bank as an institution needs to grasp with this problem.” Quote from paragraph 3.20 of “Tanzania Country Assistance Evaluation”, OED No 20902-TA, September 13, 2000.

which was financed with a 3 percent levy on cotton exports: 2.5 percent was used to subsidize the purchase of inputs (chemicals and seeds) and 0.5 percent to promote research. The sales of liquid insecticides increased, but their use remained far below needs²⁵.

Two factors are responsible for the reduced use of purchased inputs. First, the price farmers had to pay for fertilizers and pesticides increased more than the price they received for their seed cotton.²⁶ Second, the traditional distribution channel disappeared and the private sector was not ready to step in. When the production of seed cotton ceased to increase, the ginning capacity became far in excess of the needs, which stimulated poaching thus making the recovery of input credits more risky.

The traditional seed multiplication system collapsed after 1996 with adverse effects on the quality of the planting material. Fiber production fell sharply over the 1997/98-2000/01 period. The local textile industry nearly collapsed and cotton statistics became less reliable. Growers were paid in a more timely manner and they received a higher share of the export price.²⁷ But they had to pay more for their inputs and lacked appropriate credit facilities to purchase them. Moreover, since private traders were concentrated in high producing areas, some farmers in remote eastern areas had difficulties in selling their cotton.²⁸

²⁵ “The Cotton Development Fund has already ordered one million liters of insecticides for the 2001/02 farming season compared to 320,000 liters last season. However, this amount is only 25 percent of the required amount of 4.4 million liters. In order to bridge the gap of 3.4 million liters, the private sector has been urged to take up the courage of ordering enough insecticides and make them easily accessible to farmers at district or regional levels.” Cotton Situation in Tanzania, Statement made at the 60th Plenary Meeting of the ICAC, 17-22 September, 2001.

²⁶ Average shares of Index A received by producers increased from 41 percent in the six years ending 1993/94 to 50 percent in the six following years. From 1993/94 to 1998/99, the average cost of pesticides more than tripled in nominal terms and increased by 43 percent in real terms. “Sustainable Cotton Production Systems: Prospects for Small Holders in Developing Countries” Paper presented by Kabissa and Myaka at the 49th ICAC Conference held in Australia in 2000.

²⁷ As noted for Zimbabwe, the increase was partly due to lower subsidies to the local textile industry.

²⁸ “farmers in remote areas had to face lower than average prices and, at worst, no buyers for their cotton” quote from Kabissa and Myaka paper referred to in foot note 26 above.

3. Institutional Changes

3.1 Producers gained power in CFA countries

In Burkina Faso, farmers growing cotton and not growing cotton were initially part of the same village association (*groupement villageois* GV). This led to the “free rider” problem, since a farmer growing maize and no cotton could obtain fertilizer for his maize field on a credit which would be ultimately repaid by cotton growers. For this reason, GVs were replaced in the late 1990s by smaller associations limited to cotton producers who could exert strong peer pressures on those tempted by a free ride.

Farmers growing cotton in the same village formed a GPC (*Groupement des Producteurs de Coton*) which bought inputs on credit and sold seed cotton on account of its members. The CPG was the link between individual farmers and SOFITEX. When a truck came to the village for collecting cotton, the GPG weighted the bundles of cotton brought by each farmer and kept records of deliveries. After having deducted the cost of inputs from the value of seed cotton, SOFITEX paid the GPC which repaid each of its members in accordance with the seed cotton he brought in and the inputs he received. The CPG, which was remunerated by SOFITEX for its services, had a president and a treasurer. Some CPG were well managed and kept very good records, others did not.

The cotton producer’ association (UNPCB) was organized as a five-level pyramid with some 250 thousand growers at the bottom, eight thousand CPGs at the village level, 170 departmental unions (UD) at the third level, 17 provincial unions (PU) at the fourth level and a *faitière* at the top. At the departmental level, some ten UD members (unremunerated except for travel) and three agents remunerated by SOFITEX shared three main missions. The first was to provide technical advice to growers. The second was to forecast the size of the coming crop. The third was to participate in the allocation of input credits and to check whether credits were timely repaid. At the top of the pyramid, the *faitière* (assisted by UPs) participated in the management of SOFITEX in its quality of co-owner with 30 percent of the shares. It was also responsible for selecting input bids since growers held seven of the 12 seats in the *Comité de Gestion*. The *faitière* was able to send messages top-down reaching the lowest level of the pyramid and to receive reactions from its basis quickly. The *faitière* gained credibility from this efficient communication process and its negotiating position with other stakeholders was strengthened.

The structure of cotton producers associations in Benin and Côte d’Ivoire was similar to that of Burkina Faso. But Côte d’Ivoire had four producers’ associations, each with its own political connections and its own agenda; one of them (URESCO-CI) was, however, much more powerful than the others.

Producers’ associations were weaker in Anglophone than in Francophone countries. Ghana and Tanzania did not have a link between growers and ginneries comparable to the GPC of Burkina Faso. Cottco, in Zimbabwe, had groups of growers jointly responsible for the repayment of input credits, as GPC members were in Burkina Faso. However, each grower was delivering his own cotton to ginneries belonging to either Cottco or Cargill and had his own account with the cotton company, while SOFITEX had an account with each GPC but no accounts with individual growers.

As private transporters acquired a greater share of the cotton market, they formed associations to defend their interests.²⁹ In Benin, input providers formed also their own associations (GPDIA and CAGIA); ginneries and growers did the same (APEB and FUPRO). These various associations in Benin were regrouped into an inter-trade cotton association (AIC). The creation of new institutions was not however without costs.³⁰

3.2 Government allocations for research were not sufficient

Research on cotton varieties was traditionally conducted in national research institutes which were often supported by institutes abroad, such as CIRAD in France. These institutes were financed by allocations from the government budget that covered only part of the costs. Since these allocations have been generally declining in real terms, research institutes had to increasingly rely on external assistance (such as STABEX funds) and contributions by cotton companies. In Benin, these contributions are now financed as part of the “critical functions” which have been set at 10 percent of the value of seed cotton and are shared among cotton companies according to their purchases of seed cotton.

The impact of the reforms on research can be illustrated in Benin by the introduction of the new variety (H289.1) expected to become widely used in 2002/03. Before the reforms, researchers had to satisfy SONAPRA only; but, after the reforms, they had to satisfy both growers and cotton companies who had different desiderata. Cotton companies were mainly interested in ginning rates and fiber lengths, while producers were concerned with yields per acre, resistance to insects and ease of harvesting. The new variety had a length shorter than cotton companies would have liked, but it had a number of advantages which growers liked. Attempting to find the variety which would satisfy both parties and reaching a compromise took time; as a result, the introduction of the new seed was delayed. But, ultimately, the new variety will probably be more suitable to the country’s needs than if growers had not been involved in the selection process.

In Zimbabwe, research is conducted by the Cotton Research Institute (CRI). Quton (a private company owned by Cottco) obtained exclusive rights for marketing the new varieties produced by CRI. In exchange, Quton paid royalties to CRI which provided 35 percent of CRI’s revenues. In spite of these royalties, the CRI’s budget remained tight and a number of well qualified staff moved from CRI to Quton, where remuneration and working conditions were better. Quton was recently considering the possibility of absorbing CRI.

In Ghana, research is conducted by the Savanna Agricultural Research Institute (SARI) which does not receive any contribution from cotton companies. Being only financed through the government budget, SARI has limited resources and employs only three researchers on cotton. As a result, seeds are often imported from neighboring countries without appropriate quality control.

²⁹In Benin, the commercialization of seed cotton was delayed in 2001/02 by a dispute on the remuneration of private transporters. In Burkina Faso, rail was used to move only part of the fiber output to the port; the major part was transported by private trucks. Those were also mostly used for the transport of cottonseeds. But private transporters collected only one third of the seed cotton crop in 2002. SOFITEX transported the remaining two-thirds with its pickup trucks which were more versatile than the old trucks operated by private transporters. Early in the morning, the pickup truck started from the ginnery with two empty bins; one bin was left in a village and the other in a village nearby. In the afternoon, the pickup truck collected the two full bins which were stored in the ginnery yard until they were picked up by a tractor to be discharged on a rolling carpet when seed cotton was needed. Because they could not afford the expensive SOFITEX equipment, private transporters had to wait most of the day in the village while their truck was being filled up and afterward to queue at the door of the ginnery, sometimes for several days.

³⁰The three institutions (CAGIA, AIC and CSPR) created in 1999 and 2000 had an administrative cost estimated at CFAF 2 billion a year, which represented 3 percent of the value of seed cotton in 2000/01.

3.3 Cotton needs specialized extension services and quality controls

Each of the cotton producing countries had a public agricultural extension service. But in several countries, the long-standing freeze on new recruitment adversely affected the morale and effectiveness of the staff of the ministry. Cotton, which is a very demanding crop, cannot rely only on public services. It requires specialized extension services and the rapid expansion of cotton production in the CFA zone was partly due to the quality of the extension services provided by public cotton companies. The extension agents (called *encadreurs*) specified the various steps which growers had to follow (*itinéraire technique*). But, as growers became more sophisticated and gained power, they started to challenge the quality of the instructions. They also questioned whether the benefit to growers was worth the cost, knowing that growers had ultimately to pay for the services in the form of lower producer prices. It is now agreed that the producers' association should have a voice in defining the nature of the extension services needed and should report on the quality of the services received. But it is not sure that producer associations should be responsible for managing these services. Drawing on an analogy, student associations should be involved in reviewing the university reforms needed, but they should not be running the university.

In Zimbabwe, specialized extension services were provided by two private companies: Cottco and Quton (a subsidiary of Cottco responsible for seed distribution). But Cottco had only 60 extension agents, while SOFITEX had 400; moreover, Cottco's agents were largely concerned with the allocation of credits and their recovery. Cargill, which did not provide input credits, had very limited extension activities. Fortunately, Zimbabwe had the best cotton training center (CTC) in Eastern and Southern Africa. Training was very much down to earth because the CTC exploited a large farm which was commercially profitable; yields reached 1,400 kg per ha. without irrigation and 3,000 kg with irrigation. The CTC, which was created when cotton was mainly grown in commercial farms, has evolved over time. Presently, the CTC trains over one thousand small-scale farmers annually, with many trainees from abroad. The two-week training program is supplemented by follow-up extension work to assist trainees in applying what they learned in the center. CTC training activities are essentially financed with foreign aid.

Extension activities in Zimbabwe are focused on small-scale farmers who now account for the bulk of cotton production and, on the whole, these activities have been successful. By contrast, extension services in Ghana have been deteriorating and, according to some reports, cotton production agents have not been helpful; a number of them have even been involved in poaching activities.

Seed cotton is graded when delivered to ginneries and paid accordingly. But, in CFA countries and in Ghana, virtually the entire crop (98 percent of it) was graded A, the quality paid at the highest price. By contrast, only 15 per cent of the crop was graded A in Zimbabwe. Growers were therefore induced to deliver clean cotton in Zimbabwe, which was not the case in CFA countries and Ghana. In Zimbabwe, each grower brings his own bundle for grading to the ginnery and the grade is recorded in the grower's account. But, in CFA countries, the bundles of cotton brought by different growers are often mixed together in the same truck. As a result, the grower who brought clean cotton gets the same grade as the one who brought dirty cotton if the two lots are carried in the same truck. A more rigorous grading system would require changes in delivery patterns, but it could bring higher returns to growers.

When cotton companies had a monopolistic position in CFA countries, fiber was graded in one single ginnery. This particular ginnery has remained responsible for grading the entire fiber

output in Benin and Côte d'Ivoire, although the fiber has been ginned by different companies. This arrangement has become a bit awkward and it would seem desirable to establish a national grading entity under the control of the profession.

Quality was adversely affected by liberalization in Ghana and Tanzania, but not in Zimbabwe. Cottco and Cargill kept their own grading facilities, but agreed to apply common grading criteria.

Cotton sector reforms did not affect the ways of exporting fibers because the world export market has been and remains highly competitive. The share of fiber production exported CIF declined sharply in CFA countries. Thus, in Burkina Faso, more than half of production was exported CIF in the three years following the devaluation; but the share had fallen to under one-third in 1999/00 and the entire production was exported FOB in the last two years. By contrast, Zimbabwe exports mostly CIF by delivering directly to spinners who appreciate the high quality of Zimbabwe cotton.

3.4 Soil fertility and protection of the environment

In CFA countries, yields increased in the 1980s, but stabilized or slightly declined in the 1990s. In non CFA countries, yields increased strongly through 1995/96, but declined afterward and are now about half of the CFA zone average (see Figure 3 and Annex Table 19B). Production increases in the last ten years were, therefore, due to area expansion (Annex Table 19A), but it is generally believed that the scope for further area expansion remains large.

Because cotton is a very demanding crop, high fertilizer applications are needed to maintain soil fertility. Animal traction was the remedy frequently advocated in CFA countries not only for more timely cultural practices but, mainly, for manure applications. Purchasing animals and equipment requires medium-term lending which several companies (*Coton-Ivoire*, notably) intended to expand. Application of organic fertilizers was, however, seldom mentioned in Zimbabwe where cotton stalks cannot be used as organic matter, since the law prescribes to burn the stalks to avoid propagating plant diseases. Another remedy is eco-culture which protects the soil cover and, thus, reduces the need for fertilizers. This technology has been applied successfully in Brazil but has not yet been tested in Western Africa. Experiments with genetically engineered cotton varieties are at a preliminary stage in the region. But, during the September 2003 Plenary Meeting of the ICAC, the Private Sector Advisory Panel (PSAP) "noted that genetic engineering was transforming the cotton industry by reducing input applications and lowering costs of production, and the PSAP urged governments to work towards the approval of genetically engineered cotton varieties."³¹

Pollution of surface water by nitrogen fertilizers has been reported in several locations. But poisoning by pesticides (in particular, by endosulfan) is a more serious concern and tighter controls on the nature and quality of imported pesticides has been recommended. Among possible ways of reducing contamination by pesticides, mention was made of seed dressing for early season sucking pests and biotechnology for bollworm control.

³¹ Paragraph 12 of the Statement of the 62nd Plenary Meeting, ICAC, September 12, 2003.

3.5 Conclusions

Three conclusions may be drawn from this review of institutional changes: (i) recent developments in Burkina Faso suggest that a cotton company with a monopolistic position and strong representation of producers can provide good services; doing so is a way to expand the company's business and to raise growers' income; (ii) in Zimbabwe, growers received adequate services and high lint quality was preserved through good cooperation between the two cotton companies which hardly competed on the price front; and (iii) in Tanzania and Ghana where price competition was much stronger, poaching became wide spread, the input delivery system nearly collapsed, yields declined and lint quality suffered.

4. Input Credit

Cotton production requires expensive inputs, and small farmers need to purchase quality inputs on favorable credit terms, which, in turn, requires high credit recovery. Preserving the benefits of an efficient input credit system is, therefore, a must in reforming the cotton sector. Benin adopted an original formula in 2000 by creating the CSPR which is a clearing house insuring that input credits are recovered and all payments due are made. The objective was to preserve a major benefit resulting from the public monopoly, while replacing it by several private companies which became partners in a game which had been previously run by a monopoly.

4.1 The CSPR works in Benin, but marketing remains heavily regulated

Although privatization of input supply started in 1992, SONAPRA remained responsible until 1999 for storing the inputs, distributing them to villages and recovering input credits. During that period, input providers made easy money; obtaining a license was receiving a favor and the selection process became politicized. In 1999, bid selection was transferred from SONAPRA to CAGIA (a cooperative of input providers) which attempted limiting the attribution of licenses to professionals. But dissociating the provision of inputs from the ginning activity created a problem of credit recovery. The problem was solved in 2000 by establishing the CSPR (*Centrale de Sécurisation des Paiements et des Recouvrements*, Payments and Recovery Securitization Center).

The CSPR is a clearing house for all financial transactions dealing with the sale of cotton inputs and seed cotton. On the input side, the CSPR has to register every input sale by input providers to producer's groups, and every credit extended for purchasing these inputs. On the output side, the CSPR has to register the sales of each producer's group to each cotton company. Although they are several thousand village groups, the problem remains manageable because the data required can be collected from a small number of financial institutions, input providers, and cotton companies. Financial institutions and input providers have interest in registering their credits and sales with the CSPR, since it facilitates credit recovery and reduces the risk of non-payment. Recording sales of seed cotton is a straightforward operation, since an agent of the CSPR is present when the cotton is delivered and graded. The CSPR may also be represented in the village when inputs are delivered, which may avoid disputes later on the quantities which were effectively delivered.

At the beginning of the marketing season, the CSPR informs cotton companies of the maximum amount of seed cotton they are allowed to buy. After specifying the amounts they agree to buy, cotton companies have to deposit with the CSPR 40 percent of the value of the seed cotton requested before being allowed to receive seed cotton. As soon as a lot has been graded, the ginnery has to pay the CSPR which, in turn, pays the producers' group having delivered that lot; in both cases, the input credit is deducted from the value of the seed cotton delivered. Since input credits are normally lower than the 40 percent deposited by the ginnery, the CSRP can clear input credits by repaying the banks at the beginning of the marketing season. With the remaining cash, the CSPR keeps some leverage over the cotton company and it can pay producers' groups without delay.

If every party followed the rules of the game, everyone would receive his due in time and there would be no room for cheating. But, since the CSPR is only a clearing house, it can redistribute only what it has received. If a ginnery does not pay in time, arrears start accumulating. But, since a ginnery should not receive seed cotton when it is in arrears, damages could be contained.

On a few occasions, this safety valve was blocked by political pressures. But, on the whole, the system worked.

Quotas allotted to each company have to be revised during the course of the marketing season for several reasons. First, quotas are calculated from production forecasts, but actual production may be different; this was the case in 2001/02, when the estimate was raised by 18 percent in March. Second, a company excluded from the initial offering may become eligible later, if it fulfills the requirements and if some cotton remains unallocated; for example, because the crop had been initially underestimated, as in February 2002.

The professional association allocates quotas to each cotton company and specifies the places where seed cotton has to be collected. Thus LCB (a ginnery of the group Aiglon located in the south) was given a 50,000 tons quota, of which 13 percent had to be picked up in the south (Zou), 34 percent in the north-west (Atacora) and the remaining 53 percent in the far north (Borgou). On the one hand, the *plan d'évacuation* specified the quantities which the LCB ginnery had to collect in each of 22 different locations and it provided similar instructions for each of the 15 other ginneries. On the other hand, it specified how each district should share its available supply among ginneries; thus, the Borgou district had to share its supply among 10 different ginneries spread all over the country.

The main objectives of the *plan d'évacuation* are to insure that (i) the seed cotton available in every village will be collected; (ii) every ginnery will be supplied in accordance with its quota; and (iii) the entire crop will be delivered to ginneries as quickly as possible in order to avoid losses at the beginning of the rainy season.³² A major constraint in achieving these objectives is the availability of trucks, but those have frequently to wait for several days, sometimes for over a week at ginnery gate. It would be desirable to reduce the waiting time since storing seed cotton on trucks is not an efficient use of trucks, precisely when vehicles are in short supply. Optimizing models have been used to solve similar problems in other fields, but they are not used for minimizing costs in the *plan d'évacuation* which has to be frequently revised.³³

In summary, the CSPR has achieved its main objectives in a highly regulated context. Its task has been facilitated by the existence of a single price for seed cotton, for inputs and for transportation, and by the application of these prices to the entire country and the entire crop year. The CSPR represents a new type of institution which would need to be tested in a less regulated context. If every producer group was able to choose where to buy his inputs and to sell his seed cotton, the task would become more demanding.

4.2 Do Côte d'Ivoire and Burkina Faso need a CSPR?

Côte d'Ivoire did not need a CSPR in 2001/02, since each cotton company operated much in the same way as CIDT did before the breakup. However, Côte d'Ivoire may need a CSPR in 2002/03 because the exclusive purchasing agreement within zones might collapse for two reasons. First, URECOS-CI will have to supply its new Kōrhogo ginnery without having been allotted a zone. Second, ginning will be dissociated from input supply, since URECOS-CI imported 40,000 tons of fertilizers, accounting for half of the country's needs. Specific provisions for the creation of a CSPR are not yet on the drawing board and they may not be there by October 2002, because some key

³² Ginneries do not accept delivery of seed cotton exceeding a given degree of humidity.

³³ Optimizing models were used half a century ago to optimize the use of cargo ships in World War II and of cargo planes during the Berlin air-lift; those were among the first applications of linear programming models.

players may not be interested in establishing one. URECOS-CI might feel that it could fulfill the functions of a CSPR.

Burkina Faso will not need a CSPR before the two new zones are managed independently. It would not need one either in the transition period, if SOFITEX and the two new zones were given exclusive purchasing rights during that period.

Input supply had already been partly liberalized for some time. This has been the case for herbicides in Côte d'Ivoire since 1988. Herbicides were bought on credit by unions which were selling them to cooperatives which, in turn, were selling them to growers, but the scheme was not very successful. On one hand, growers complained of being overcharged because of commissions collected at each step of the distribution chain. On the other hand, suppliers complained of payment arrears (close to CFAF 6 billion). Arrears represent a cost for suppliers who have to recover it in some way; ultimately, cotton producers have to pay for them. In Burkina Faso, cereal inputs and herbicides were recently purchased through cooperatives, but it was a small-scale experiment which ended with credit recovery problems.

4.3 The input problem in non-CFA countries

In Zimbabwe, the input credit scheme was launched shortly before privatization, and it was expanded by Cotpro and Cottco after privatization. This scheme became increasingly relevant with the replacement of commercial by small-scale farmers. Poaching recently became a problem in Zimbabwe, and it has been a major problem in Ghana and Tanzania. Poaching was largely due to the presence of small traders with no significant investment in the sector and no interest in the future of the sector. CFA countries may, therefore, take appropriate measures to prevent such traders from entry when they liberalize their cotton sector.

The Farmer Input Voucher system recently launched by Cargill in Zimbabwe does not provide any credit, since the cost of inputs for crop $t+1$ is deducted from the payment for crop t . But the simplicity of the scheme is attractive. It is attractive for the company which sells its goods when the buyer feels rich because he is being paid; moreover, the buyer of fertilizer today may become the seller of seed cotton in the next crop year, which will help the company in expanding its turnover. The deal may also be attractive to the grower, since he can load his inputs on the truck he used to bring his seed cotton and can return home feeling secure about his next crop.

4.4 Credit repayment may be hampered by drought and disease

Because small-scale farmers in Zimbabwe do not have the resources to irrigate their fields, their yields are lower than those of commercial farmers and their yields are more dependent on rainfall levels.³⁴ From an average of 800 kg per ha in the last 30 years, the average yield of small-scale farmers fell to 158 kg in 1991/92, 335 kg in 1994/95 and a projected 524 kg in 2001/02. With an input cost equivalent to some 250 kg of seed cotton, it is clear that many farmers will not be able to repay input credits in 2001/02. Cottco will have to reschedule a number of its loans, which will increase its risk exposure.

³⁴ Over the last 32 years, yields of small-scale farmers were correlated with the level of rainfalls in December, January and February (Rsq 0.43); a 10 percent increase in rainfalls during these three months led to a 7 percent increase in yields. The correlation was much weaker for commercial farmers (Rsq = 0.04), because the latter irrigated their fields whenever needed. Yields for small and large scale farms are shown for the last 8 years in Annex Table 2.

Yields are less affected by the variability of rainfalls in Burkina Faso than in Zimbabwe, but average yields in Burkina Faso fell in 1998/99 by 30 percent from the previous year due to the attack of the *mouche blanche*. As a result, the input bill reached 70 percent of the gross value of seed cotton in 1998/99. Many village associations did not have enough cotton to clear their input bill; credit arrears accumulated and most of them have been carried on for several years. Arrears are expected to decline to CFAF 3 billion by the end of 2001/02 which was a very good year.

Short of providing insurance against natural disasters, most of the credit arrears occurring as a result of such disasters have to be rescheduled and this needs to be taken into account in setting up credit schemes.

5. The Distribution of Profits

Seed cotton is grown by a multitude of small-scale farmers and lint is exported on a competitive market. But, between farm gate and FOB, most operations were controlled by a monopolist. Did producers receive a better price at farm gate when the monopolist disappeared? How was the ratio of producer over export price affected by the reforms of the cotton sector?

This issue has been approached in three ways: (i) analyzing how the costs of the various operations from farm gate to FOB evolved over the years; this approach was limited by data availability since data on costs and profits could not be obtained from private cotton companies; Burkina Faso--where SOFITEX retained a monopoly--is the only country for which a comprehensive and consistent set of data could be collected over a seven-year period; (ii) comparing the deficits of four CFA countries in 2001/02; and (iii) calculating the ratio of producer over export prices in eight consecutive years for three CFA countries and two Anglophone countries.

5.1 The evolution of costs and returns in Burkina Faso

Consistent series of costs, earnings, profits, and returns to stakeholders were constructed from data provided by SOFITEX for the last seven years.³⁵ For comparability, the data are presented in constant CFAF per kg of fiber, using the Burkina Faso consumer price index as deflator (Table 4). Over the seven-year period, costs per kg of fiber have been very stable at FOB level: the highest cost in 2000/01 (CFAF 604 per kg of fiber) exceeded the lowest in 1995/96 (CFAF 573 per kg of fiber) by only 5 percent. As could have been expected, fixed costs per kg were highest (95) when production was lowest in 1995/96 and lowest (64 and 70) when production was at its peak in 1997/98 and 2001/02; in the later year, the decline in fixed costs provided some room for increasing returns to producers. As regards composition of earnings, the most notable change was the increase in the share of cottonseeds from 2.3 percent in 1995/96 to 5.3 percent in 2001/02.

Earnings exceeded costs in every year other than 2001/02 when they fell 3 percent short of costs. Over the eight years, SOFITEX' gross and net profits averaged, respectively, 13 percent and 3 percent of earnings. The difference between gross and net profits consists of three items. The first covers special expenditures such as losses in input distribution, and those were substantial in 1996/97 and 1997/98. The second includes a provision in year *t* for the bonus distributed in year *t*+1 and a contribution for replenishing the *fonds de soutien* which provided producers with the resources needed to acquire 30 percent of the shares of SOFITEX.³⁶ The third item is a provision for BCI taxes to be paid in the following year.

The most striking feature is that producers' aggregate returns net of purchased inputs will reach a record level (CFAF 40 billion) in 2001/02 exceeding the previous 1997/98 record (32.4 billion) by 23 percent in real terms. Government has also been an important beneficiary; in three years out of seven (96/97, 98/99 and 99/00), tax revenues were equivalent to half of the net returns to producers.³⁷

³⁵ Data are final for the first six years. For 2001/02, they are SOFITEX estimates as of June 13, 2002.

³⁶ Unfortunately, the two items had to be merged in Table 4, because a breakdown was not available.

³⁷ Including TVA which is recorded as cost above the line in Table 4.

Table 4: Burkina Faso, costs and returns in 1995 CFAF per kg of fiber

	95/96	96/97	97/98	98/99	99/00	00/01	01/02	Average	
	in constant CFAF per kg of fiber								%
Cost Fob	573	574	575	601	582	604	599	587	100
<i>Producers</i>	318	349	341	337	329	324	358	336	57
<i>Producers to fiber at ginnery gate</i>	196	171	173	199	203	211	185	191	33
Purchasing	17	16	17	18	18	18	17	17	3
Transportation	24	26	28	22	21	21	21	23	4
Ginning	48	41	42	47	47	51	46	46	8
Interest	13	13	22	28	30	35	31	25	4
Fixed costs	95	76	64	84	86	87	70	80	14
<i>Ginnery to FOB</i>	56	48	50	51	51	60	52	53	9
<i>Other costs</i>	4	5	11	13	0	9	4	7	1
<i>Fob to CIF</i>	37	36	25	24	22	0	0	21	4
Costs	610	610	600	625	604	604	599	607	104
Earnings	749	780	796	656	623	726	580	702	100
Fiber	733	765	773	636	600	701	549	679	97
Cottonseeds	17	16	24	20	23	25	31	22	3
Gross profits	139	170	196	31	19	122	-19	94	13
Special Expenditures	8	19	55	12	13	5	0	16	2
Provision for Bonus	57	80	86	7	0	69	-10	41	6
Provision for BCI taxes	21	29	25	5	3	19	3	15	2
Net Profit	53	43	29	8	3	29	-13	22	3
Dividend	13	9	0	0	0	0	0	3	0
Producers Gross returns	375	393	382	388	381	344	386	378	54
Inputs	150	163	152	275	220	129	134	175	25
Producers Net Returns	225	229	231	113	161	215	253	204	29
Government taxes	69	121	88	72	77	52	35	73	10
	in billion CFAF at 1995 prices								
Producers Gross returns	24.0	35.4	53.7	46.2	41.6	40.0	61.2	43.2	
Inputs	9.6	14.7	21.3	32.7	24.0	15.0	21.2	19.8	
Producers Net Returns	14.4	20.7	32.4	13.5	17.6	25.0	40.0	23.4	
Government taxes	4.4	10.9	12.4	8.6	8.3	6.0	5.5	8.0	
	in deflated CFAF per Kg.								
Index A	908.0	898.0	837.0	663.0	709.0	781.0	566.0	766.0	
Average export price	733	765	773	636	600	701	549	679	
	in 000's tons								
Fiber Production	64	90	140	119	109	116	158	114	

Source: SOFITEX, 2001/02 estimates as of 6/13/02 and Statistical Annex.

The comparison between Index A and the average export price illustrates the magnitude of the losses and gains which can be associated with forward sales. In 1995/96, the average price received by Burkina Faso for its exports appears abnormally low in relation to Index A, but there is an explanation for it.³⁸ Burkina Faso had sold forward most of its 1993/94 and 1994/95 crops; but the 1993/94 crop was bad (30 percent below the previous three-year average) and the 1994/95 crop was not much better. Burkina was unable to ship all the cotton sold forward before 1995/96 and, when it was finally able to do it, it was charged a late-delivery penalty equivalent to CFAF 70 per kg of fiber for its 1995/96 exports. But, by selling forward part of its 2001/02 crop before the price fall, Burkina Faso made a substantial gain.

5.2 Why did Benin, Côte d'Ivoire and Mali need subsidies and not Burkina?

In 2001/02, producers received CFAF 200 per kg of seed cotton in Burkina Faso, Benin and Mali, and CFAF 190 in Côte d'Ivoire. Why was Burkina the only country able to manage without government subsidies? Due to the cautious price policy followed by Burkina Faso, the cotton sector had accumulated a financial surplus at end 2000/01. This surplus enabled SOFITEX to cover a small deficit in 2001/02 and to distribute a CFAF 25 bonus per kg to producers in that year. Producers in Benin and Côte d'Ivoire did not receive a bonus in 2001/02, but they had received a higher price for their cotton in the two previous years³⁹. Mali was obviously unable to distribute a bonus, since the CMDT had a large deficit in 2000/01. The bonus does not, however, explain everything.

In 2001/02, the deficit of Benin exceeded that of Burkina Faso by CFAF 78 per kg of fiber; the difference is reduced to CFAF 49 after deducting CFAF 59 for the bonus and adding CFAF 30 for the lower cost of transportation from ginneries to the port (Table 5). This would imply that the cost from farm gate to ginnery gate is 22 percent higher in Benin, which appears too high. Part of the difference may be due to the fact that Burkina Faso sold forward (at a better price) a larger share of its production than Benin did. As regards Côte d'Ivoire, it may be noted that the CFAF 15 subsidy per kg promised by the government may not have been paid. In Mali, the cost from farm to ginnery gates has declined during the last two years, but the CMDT has to cover financial charges higher than SOFITEX.⁴⁰

³⁸ SEMA Audit Report, pp 136-166.

³⁹ Taking the average of 1999/00 and 2000/01, the price per kg of cotton seed received by producers in Burkina was cfaf 13 lower than in Côte d'Ivoire and CFAF 16 lower than in Benin.

⁴⁰ See report from Waddel dated 05/13/02.

Table 5: Projected 2001/02 Deficits in Burkina, Côte d'Ivoire, Benin and Mali

(in current CFAF)

		Burkina	Côte d'Ivoire	Benin	Mali
Production of Seed Cotton	000' tons	378	380	415	570
Production of Fiber	000' tons	158	165	175	239
Ginning ratio	%	41.7	43.4	42.2	42.0
Producer price of seed cotton	CFAF /kg	175	190	200	200
Bonus from previous year profit	CFAF /kg	25	0	0	0
Producer price of fiber	CFAF /kg	419	438	474	476
Projected Deficit	CFAF billion	1.2	5.7	15.8	23.5
Projected Deficit	CFAF/kg of Fiber	7.6	34.6	89.9	98.2
Excess over Burkina's Deficit	CFAF/kg of Fiber	0.0	27.0	82.3	90.6
Origin of excess deficit over Burkina					
Producer Price	CFAF/kg of Fiber	0.0	18.6	54.8	57.0
Village to fiber at ginnery gate	CFAF/kg of Fiber	0	30	30	20
Ginnery gate to FOB	CFAF/kg of Fiber	0	-30	-30	0
Others	CFAF/kg of Fiber	0	8.3	27.5	13.6

Source: Statistical Annex. The first six rows are taken from the statistical annex. The projected deficits are taken from net profits in Table 3 for Burkina Faso, from Alain Waddel' s estimate dated 5/13/2002 for Mali, from the budget allocation already made in Benin and from the CFAF 15 subsidy per kg of seed cotton in Côte d'Ivoire. Costs from seed cotton at village-gate to fiber at ginnery-gate are taken from Table 4 for Burkina, from various estimates for Côte d'Ivoire and Benin, and from Waddel (5/13/02) for Mali; the latter were reduced in 2001/02, but remained CFAF 20 (10%) higher than in Burkina largely on account of higher financial costs. Savings on ginnery-gate to FOB in Côte d'Ivoire and Benin are due to proximity of ginneries to the sea.

5.3 Impact of reforms on the share of world prices received by producers

Comparing the shares of world prices received by producers in the three CFA countries is a straightforward operation, because producers' prices are measured in the same way with the same currency. It was nevertheless considered useful to draw a distinction between two statistical series. The first relates to prices actually received by growers in each crop year. The second is adjusted to reflect actual production costs by eliminating subsidies received in 2001/02 and, in the case of Burkina Faso and Benin, by allocating the bonuses distributed in year t+1 to year t when the profits were made (Table 6).

Starting with the average for Benin, Burkina Faso and Côte d'Ivoire, it is clear that the share of the export price (Index A) received by growers was greater in the last four years than in the previous four: the difference was 17.5 (=58.8-41.3) percentage points with unadjusted series and 13.7 (=55.8-42.1) percentage points with adjusted ones. During the last four years, growers received a greater share in Benin than in Burkina Faso (5.3 percentage points with non-adjusted series and 2.6 with adjusted ones); the difference could, however, reflect the lower cost of moving fiber from ginnery to the port in Benin than in Burkina Faso (4.4 percentage points). Côte d'Ivoire also benefited from lower transportation costs than Burkina Faso, but those savings were not reflected in higher shares for Ivorian growers. There is no evidence that earlier reforms in Benin and Côte d'Ivoire than in Burkina Faso led to an increase in the share of the export price received by producers.

In Ghana, yearly variations in producer prices have been erratic and, in seven out of eight years, the share of the export price received by producers was lower than in CFA countries. This is not surprising in view of the depressed state of the sector.

The more interesting but controversial findings are those relating to Zimbabwe. The shares shown in Table 6 are substantially lower than those reported in earlier World Bank documents because several adjustments are needed to make a valid comparison between Zimbabwe and CFA countries:

- (i) Producers in Zimbabwe have to pay more for seeds; they have to pay for transporting seed cotton to the ginnery or the depot. Those additional expenses were estimated by John Macrae to account for almost 10 percent of the producer price.
- (ii) Because grading is more strict in Zimbabwe than in CFA countries, 15 percent of the crop is graded A in Zimbabwe against 98 percent in CFA countries. As a result, the average price received by producers is 93 percent of grade A price in Zimbabwe instead of more than 99 percent in CFA countries.
- (iii) Because of better quality control, cotton from Zimbabwe is sold at a 10 percent premium over cotton from CFA countries.

Over the last two decades, the parallel rate of exchange exceeded the official one, except in 1994/95 and 1995/96. As mentioned earlier, the currency depreciated rapidly in the last two years. The premium of the parallel over the official rate increased from 11 percent in January 2000 to 100 percent in May 2001 and 500 percent in April 2002. Since October 2000, cotton companies were required to remit 40 percent of their foreign exchange at the official rate, before selling the remaining 60 percent at the parallel rate which resulted in a de facto blend rate. At that rate, producers received only about 31 percent of the export price in 2000/01 and 2001/02.⁴¹

At the blend rate, the share of export prices captured by growers was substantially higher in Zimbabwe than in the CFA countries during the four years which followed the CFA devaluation (Table 6). But the opposite occurred when world prices fell in the next four years and this finding is supported by three observations:

- (i) Cottco's guideline was to keep the cost of the input package under half of the 2000/01 expected value of the crop, instead of one third in Burkina Faso.

⁴¹ The calculation is shown in Annex tables 18 C and 18 D.

Table 6: Producers prices as percentage of export prices, 1994/95 - 2001/02

Period	Received by producers in year t							Adjusted for bonus and 01/02 subsidies			
	Benin	Burkina Faso	Côte d'Ivoire	Benin+Burkina Faso +Côte d'Ivoire	Ghana	Zimbabwe with exchange rates		Benin	Burkina Faso	Côte d'Ivoire	Benin+Burkina Faso +Côte d'Ivoire
						Official	BBlend				
1994/95	34.9	24.3	29.1	29.4	10.5	44.6	44.4	34.9	29.8	29.1	31.2
1995/96	42.8	41.3	41.3	41.8	17.6	63.7	60.5	42.8	40.0	41.3	41.3
1996/97	49.8	43.8	43.4	45.6	36.7	57.5	51.1	54.8	43.8	43.4	47.3
1997/98	50.7	45.7	48.4	48.3	45.3	67.9	57.7	50.0	47.0	48.4	48.4
1998/99	71.5	58.6	59.9	63.3	72.0	64	49	70.8	58.6	59.9	63.0
1999/00	55.2	53.8	50.3	53.1	36.2	61	46	53.8	49.4	50.3	51.1
2000/01	52.1	44.0	51.9	49.3	30.4	86	33	49.5	47.9	51.9	49.7
2001/02	71.0	71.9	65.6	69.4	58.8	125	28	55.0	62.9	60.4	59.4
Averages											
94/95 – 97/98	44.6	38.8	40.5	41.3	27.5	58.4	53.4	45.6	40.2	40.5	42.1
98/99 – '01/02	62.4	57.1	56.9	58.8	49.3	86.6	38.8	57.3	54.7	55.6	55.8

Source: Statistical Annex Tables 18A thru 18D

- (ii) Cottco made substantial profits in 2001 according to its annual report and this is confirmed by the results of a special sale made in that year.⁴² In order to attract commercial farmers with crops of 100 tons or more, Cargill offered them the following alternative. Instead of selling his seed cotton as before, the large-scale farmer had his seed cotton ginned on commission. Cargill was providing the same services as before, but the fiber was exported under the farmer's company name. That company was allowed to retain 60 percent of the foreign earnings and to exchange these 60 percent on the parallel market in the same way as Cargill and Cottco did. The farmers who adopted the scheme were able to earn at least 50 percent more than they would have by selling their crop as seed cotton to either Cargill or Cottco.⁴³ This suggests that small farmers did not receive the full benefit of the dual exchange rate; if they had, they would have probably captured some 50 percent of the export price measured at the blend rate instead of 30 percent.
- (iii) After a sharp increase from 1993/94 to 1995/96 (partly due to rainfall), production stagnated in the three Anglophone countries, while it doubled in the four CFA countries in the post-devaluation period (Figure 3). The liberalization measures implemented in 1994 and 1995 in Tanzania and Zimbabwe do not seem to have had a lasting effect in promoting cotton production.⁴⁴

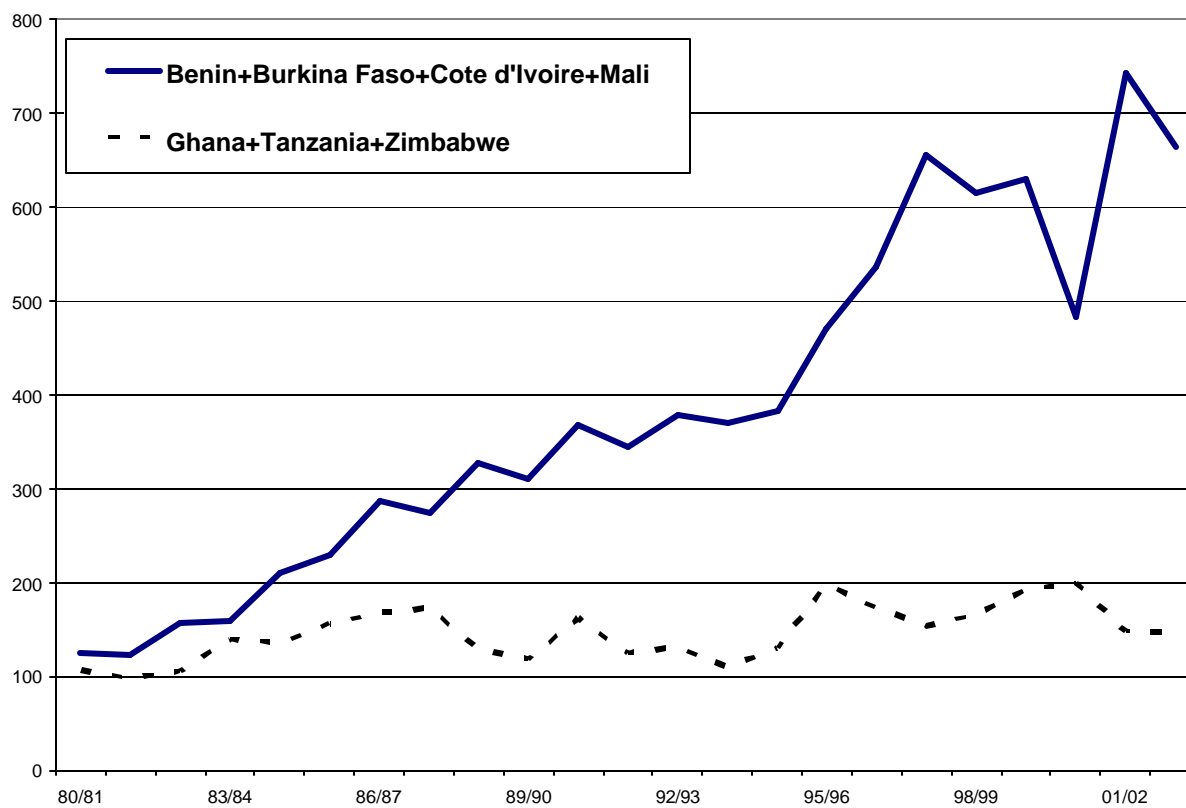
The liberalization of the cotton sector in 1995 did not lead to price competition because Cottco has held 75 percent of the market since 1999. The 2001 and 2002 outcomes have to be interpreted with caution in view of the deterioration of the macroeconomic situation and the rapid depreciation of the currency. But this reservation does not apply to Tanzania where the macroeconomic situation improved since the cotton sector was liberalized in 1994, and the performance of the cotton sector in Tanzania has been disappointing.

⁴² Cottco became a publicly traded company listed on the Stock Exchange in 1997 and, accordingly, had to issue audited annual reports.

⁴³ The Cotton Training Center, which is running a commercial farm, sold 165 tons of seed cotton under the scheme in 2001 and earned at least 60 percent more than it would have by selling its seed cotton to the ginner.

⁴⁴ The performance of the cotton sector has been adversely affected in Zimbabwe by the deterioration of the macroeconomic situation, but, the macroeconomic situation has been improving in Tanzania.

Figure 4: Fiber Production in 4 CFA and 3 non-CFA countries



Source: Annex, Table 19 C.

6. Price Determination

In Zimbabwe, the dominant buyer announces his price at the beginning of the marketing season, adjusts it during the season and provides a bonus at the end of the season if profits are satisfactory. In Tanzania, an indicative price is announced by the Cotton Marketing Board at the beginning of the marketing season. In Ghana, a price is set after a long debate chaired by government and this price applies, in principle, to the entire season. In Burkina Faso, a floor price is announced before sowing and, if a profit is made at this price, producers receive a bonus in the following season. In each of the last seven crop years, producers in Burkina received a bonus which represented on average 15 percent of the floor price; but they will not receive a bonus in 2002/03. Bonuses were also provided in Benin and Côte d'Ivoire, but they were smaller and less frequent; they accounted for, respectively, 5 percent and 3 percent of the floor price over the same period.⁴⁵

6.1 The case for a floor price with two-step payments

CFA countries remain attached to the concept of a floor price and they would like to know it before sowing. Setting a floor price for seed cotton one year before shipping the lint is a risky proposition since world market prices can change considerably during that year. The best way to deal with this problem is to combine forward sales with two-step payments by observing three principles:

- (i) Basing the floor price on realistic market expectations, notably by relying on prices already locked in through forward sales.⁴⁶
- (ii) Incorporating a safety margin which should be wider if the floor price is announced before sowing than if it is announced before marketing.⁴⁷
- (iii) Calculating the second payment in a transparent manner according to changes in the CFAF value of Index A over an agreed period reflecting the country's trade practices. Such a calculation could be done easily from daily quotations widely available.

The third principle departs from past practices which linked the bonus to the profit of the cotton company. This practice had three drawbacks:

- (iv) Calculated profits could be and have been tampered with.
- (v) Profits were known only after closing the books, which is why the bonus from profits made in year t was distributed in year t+1 in Benin and Burkina. Since the bonus was

⁴⁵ See Annex Tables 9 and 10.

⁴⁶ Cotton options are traded on the New York Cotton Exchange, but they do not provide adequate protection for African exporters, because short-term fluctuations of US prices may differ substantially from those of Index A. Euronext has been considering the possibility of establishing an option market, which would be very convenient for CFA countries if it were set in euro. The World Bank could therefore consider assisting Euronext to assess commercial prospects for such options. But, for the time being, forward sale is the only convenient hedging instrument available and it has been widely used in Africa. Ginneries are, however, advised to sell forward less than half of their expected output to avoid costly fines in case they could not fulfill their contractual obligations; as noted earlier, SOFITEX was charged heavy fines in 1995/96 for failing to fulfill its contractual obligations.

⁴⁷ Over the last 12 years, the ICAC forecast made at sowing time (March/April) exceeded the actual price by 11.8 percent on average, compared with only 6.1 percent and 4.5 percent for the forecasts made at the beginning of the marketing season (September/October, November/December). . Annex Table 20.

applied to the quantities delivered in year t+1, the practice penalized growers having produced more in year t than in year t+1 to the benefit of those having done the opposite.

- (vi) Linking bonuses to the profits of cotton companies may not be feasible anymore⁴⁸. Before privatization, profits data could be obtained because accounts of public enterprises had to be regularly audited; but private companies not publicly traded are not required to present annual audited reports and they are very reluctant to show their books.

The proposed system could be implemented without delay and it would be easier to administer than the previous one. Producers could easily verify if they received their due and cotton companies would be induced to reduce their costs since they would not fear having to share the fruit of their savings with others.

The average costs of SOFITEX in the last three years are used to show how the proposed system could be implemented and what would be its implications. At the start of the simulations, costs and receipts are balanced with Index A at 50 US cents a pound. Taking the euro at 90 US cents, Index A come to CFAF 804 per kg which is rounded to CFAF 800. This value is used in Table 7 as the FOB price, which simplifies the argument without affecting significantly the results of the simulations.⁴⁹ The costs of the cotton company cover all operations financed by the company from seed cotton collection in villages to fiber delivery FOB in African ports; they add up to CFAF 325 per kg of fiber, of which 9 percent go to taxes (BCI) and profits.⁵⁰ This leaves CFAF 475 for growers, which corresponds to a producer price of CFAF 200 per kg of seed cotton.

Having set the frame, we come now to the determination of the floor price. It is assumed that, when this price is announced, one third of the crop has been sold forward at CFAF 820 FOB and that the remaining two-thirds are expected to be sold at CFAF 790, which results in a CFAF 800 weighted average. The best guess at the time is, therefore, that costs and receipts will remain balanced in the coming year. But, since we do not know where volatile prices will go during the rest of the year, we want to incorporate a 15 percent safety margin in the floor price and we want returns to cotton companies and growers to be reduced by the same percentage if world prices fall. This is achieved by setting the floor price at CFAF 180, that is 10 percent below the 200 price expected for the entire crop year. If Index A did fall by 15 percent (the remaining two thirds of the crop being sold at CFAF 670 instead of CFAF 790), growers would not receive a second payment but subsidies would not be required; gross and net returns to growers would fall by, respectively, 10 percent and 15 percent (second column). If Index A fell by 7.5 percent, growers would receive a second payment of CFAF 10 (third column). If Index A did not fall, growers would receive CFAF 20, which would bring total payments to CFAF 200 in accordance with original expectations (fourth column). If Index A rose by 7.6 percent, growers would receive a second payment of CFAF 30 (last column).

⁴⁸ The last bonus was distributed in 1999/00 in Côte d'Ivoire and 2000/01 in Benin from profits made in 1999/00.

⁴⁹ The shipping cost from FOB to Northern European ports has to be subtracted from Index A to obtain the FOB price, but earnings from cottonseeds have to be added to earnings from fiber in order to balance the accounts. In 2001/02, the former (CFAF 45 per kg of fiber) exceeded the latter in Burkina (CFAF 31 per kg of fiber) by CFAF 14 per kg of fiber. Consequently, a CFAF 790 FOB value should have been associated with a CFAF 804 value of Index A. The two numbers were rounded to CFAF 800 in the simulations.

⁵⁰ Costs for the last years averaged CFAF 298 in nominal terms; The CFAF 27 difference accounts for the 3 percent going to tax payments (BCI) plus the 6 percent going to profit.

Table 7: Implementation of a floor price with forward sales and two-step payments

		Equilibrium	First Payment	Second Payment		
Change in Index A after setting the floor		0%	-15%	-7.50%	0%	7.60%
Average earnings from sales fob	CFAF per Kg of fiber	800	720	760	800	840
Average Price on 1/3 of the crop sold forward	CFAF per Kg of fiber	820	820	820	820	820
Average Price on 2/3 of the crop to be sold	CFAF per Kg of fiber	790	670	730	790	850
Returns to Cotton Companies	CFAF per Kg of fiber	325	292.5	309	325	341
Gross Return to producers	CFAF per Kg of fiber	475	427.5	451	475	499
Producer price	CFAF per Kg of seed cotton	200	180	190	200	210
Second payment to producers	CFAF per Kg of seed cotton	0	0	10	20	30
Inputs cost	CFAF per Kg of seed cotton	67	67	67	67	68
Net return to producers	CFAF per Kg of seed cotton	133	113	123	133	142
Index of gross return to producers	Equilibrium =100	100	90	95	100	105
Index of net return to producers	Equilibrium =100	100	85	92	100	107
Producer price in terms of Fiber over Index A	Percentage	59	59	59	59	59

In each of the five columns, average earnings from sales (first row) equal returns to cotton companies plus returns to producers (fourth + fifth rows).

First Column: At equilibrium, the FOB price (800) covers the normal cost of cotton companies (325) and producers (475 per Kg. of fiber or 200 per Kg. Assuming a 42% ginning rate of seed cotton). *Second column:* The first payment (180) without a second one preserves a balance if Index A falls by 15% by reducing returns to companies and producers by 10%. *Third column:* Index A falls by 7.5%, producers receive a second payment of 10. *Fourth column:* Index A does not fall and producers received a second payment of 20. *Fifth column:* Index A increases by 7.6% and producers receive a second payment of 30.

In order to implement the proposed system, we do not need to know all the numbers shown in Table 7. To determine the floor price, we need to select a safety margin (15 percent) and make our best guess at what the average sale price for the year will be (CFAF 800). The latter would normally be calculated by combining receipts already locked in through forward sales (1/3 at CFAF 820) with the expected price of future sales (CFAF 790). The former is known by the monopolist, but would have to be estimated by a committee if they were several private cotton companies. If the committee overestimated the share sold forward, the safety margin would be reduced.⁵¹

To determine the second payment, we only need to know the difference between the forecast (CFAF 790) and the actual value of Index A. Cotton companies would be free to sell when they want and how they want, spot or forward; the company selling better or producing more efficiently would make more profit in a level playing field, which is what we want.

If growers believed that the system would be applied fairly, they might find it acceptable. A second payment in early June would come at an opportune time because, a few months before the new crops mature, farmers are short of cash and a number apply for *crédits de soudure*. But the case illustrated on Table 7 was an easy one because, when the floor price was selected, the best bet was that receipts and costs would remain in balance; the floor price was only an insurance against random price falls.

When prices are expected to fall, the problem becomes more difficult. Thus if, at the eve of sowing, the best bet had been a 15 percent (or 30 percent) drop in Index A, adding up a 15 percent insurance premium would have reduced the floor price to CFAF 162 (or 146). Net return to growers, which is what really matters since it is what growers actually get, would have fallen by 29 percent (or 42 percent). Reducing the floor price too sharply creates political and economic risks (such as Mali's cotton boycott in 2000/01) which the society may not willing to bear.⁵² Mali is a case in point. By mid-May 2002, when the floor price of CFAF 180 was announced, the loss was estimated at CFAF 41 per kg of seed cotton for the 2001/02 crop and foreseen as CFAF 38 per kg of seed cotton for the 2002/03 crop. It is clear that the CFAF 180 price did not incorporate any safety margin; it anticipated a subsidy.⁵³

6.2 Who should bear the price risk?

The price risk is large for two reasons. First, a 3 cents decline in Index A (from 41 to 38) combined with a 3 cent increase in the value of the euro (from US cents 92 to 95) would result in a 10 percent fall in CFAF export prices and, everything else remaining the same, it would raise Mali's deficit by CFAF 15 billion and Benin's deficit by CFAF 11 billion. Second, our forecasting ability is limited, as shown by the experience of ICAC which issues widely used bimonthly forecasts starting two years before the end of the forecast year. The analysis of these forecasts over the last 13

⁵¹ If it were believed that one third was sold forward while nothing had been sold, the safety margin would be reduced from 15 percent to 10 percent.

⁵² Numerous proposals have been made for setting producer prices. According to one proposal, three different prices should be set. The first would be a social price providing a minimum remuneration to growers for their labor; this price, which would define the absolute minimum, could remain unchanged for a few years. The second would be an indicative price announced at sowing time and the third would be the actual price announced at the beginning of the marketing season. Since none of these prices could be set on strictly objective grounds, their determination would lead to a series of lengthy negotiations. We would therefore favor the single floor price with two-step payments outlined above.

⁵³ One cannot be surprised that governments had an impact on the determination of the floor price in several of the countries reviewed. Australia may be the only important country where government abstains from any intervention in the pricing of seed cotton. But, cotton is grown in 1,300 very large farms producing an average of some 1,200 tons of seed cotton each.

years showed that forecasts were too low when the actual price was very high (1994/95), but too high when actual prices were low and the year 2001/02 fitted with this pattern (See Annex Table 20). In March/April 2001, at sowing time, Index A for crop-year 2001/02 was forecast at 55 cents, which exceeded actual price by 28 percent. In March/April 2002, the forecast was 51 cents, which was 8% below the actual 2002/03 price. In March/April 2003, the 2003/04 forecast was 63 cents and the price reached 73 cents on October 20, 2003.

In the two-step payment simulation model (Table 7), the percentage of world prices received by growers remained unchanged (59 percent), because price risks were shared equally between the two parties. This had the advantage of simplicity and it appeared fair. Cotton companies might nevertheless resist this sharing arrangement by arguing that their scope for quickly reducing costs is very limited⁵⁴. But growers do not have much scope either; inputs account for one third of their gross returns and the cost of these inputs cannot be adjusted to the current value of Index A because fertilizers and insecticides are imported one year before the lint is exported.⁵⁵ Moreover, small-scale growers are less able than cotton companies to deal with price uncertainty.

As shown in the simulations, the two-step payment can provide a protection against price falls, but only up to a point. Beyond it, a subsidy is needed if there is no stabilization fund. In Benin and Côte d'Ivoire, the request for subsidies came in November 2001 when Index A was at its bottom and a minimum producer price had to be announced urgently to avoid further delays in starting the marketing season. The subsidy calculated on the basis of prevailing prices would have been too high if prices had recovered, but nobody knew, at the time, if a recovery would occur and whether it would last. The way to deal with the price risk in setting the subsidy could be similar to the one which has been outlined in setting the floor price with a two-step payment. The level of the subsidy announced at time t would be linked to a specified average CFAF value V of Index A during a specified period $(t - t')$; if the actual value V' turned out to be higher than V , the subsidy would be reduced accordingly. This procedure would be simpler and more effective than requesting audits of cotton companies at the end of the season to determine whether they made undeserved profits from the subsidy.

Cotton sectors in SSA should not rely on governments' subsidies and become addicted to them. Subsidies should be used only as last resort, which means that some other way should be found to compensate growers when world prices fall sharply. Stabilization funds were created for this purpose, but funds managed by governments did not work well, because surpluses accumulated in high price years were often used for purposes not originally intended and had disappeared by the time money was needed. A fund owned jointly by producers and several private cotton companies would be unwieldy to manage. A fund owned and managed by producers may therefore be the best solution.

The *fonds de soutien* owned by producers in Burkina Faso has been reasonably well managed; it may have been the only cotton fund in SSA not depleted by the end of 2001/02. Guided by that experience, the following suggestion is made. Producers' prices (net of subsidies) would increase at a rate no lower than that of world prices; but producers' associations would become responsible for supporting the revenues of their members when world prices fall. Producers

⁵⁴ Since provisions for depreciation are not actual expenditures, they could be postponed in accordance with approved accounting practices, which would provide some scope for adjustment.

⁵⁵ For this reason and because prices of fertilizer and cotton are not correlated, the cost of inputs remain unchanged in Table 7 simulations.

would not be left out in good years, but they would have to insure themselves against bad years. This could not, however, be implemented before a recovery of world prices.

6.3 Should the price of seed cotton be the same in the whole country?

In Zimbabwe, producers receive the same price when they deliver their seed cotton to any ginnery or depot owned by Cottco, and Cargill follows the same policy; producers have to bear the cost of transportation from their village to the depot or the ginnery. But, in CFA countries, cotton companies collect seed cotton in villages and pay the same price wherever the village is located.

In Burkina Faso, the cost of purchasing and transporting seed cotton to the ginnery averaged 8 percent of the producer price. Suppose that this cost would have been 6 percent for villages close to ginneries and 11 percent for remote villages with bad access roads. Should seed cotton be paid 5 percent more in the first type of villages than in the second? According to the theory of comparative advantages, it should. But a 5 percent price differential between the two types of villages might have a limited effect on resource allocation which could be offset by a negative social effect because growers in more remote villages are usually poorer and the economic loss could be considered as the cost of affirmative action to reduce poverty⁵⁶. In a fully liberalized market, better-located growers would be better remunerated and another type of affirmative action might have to be designed for farmers in less desirable locations.

6.4 What should be the prices for local sales?

A reasonable principle would consist in pricing local sales at ginnery gate on the basis of export prices minus costs from ginnery gate to FOB. If textile or oil industries needed subsidies, those should be provided directly by the government which would not lose as long as the subsidies did not exceed the taxes paid by the industry.

This principle was not applied to the textile industry in Zimbabwe which was heavily subsidized by the cotton sector in the early 1990s. As will be recalled, a major benefit of the 1995 cotton liberalization was to reduce that subsidy: prices received by cotton producers increased, the least competitive textile mills were eliminated and domestic use of cotton fiber was cut by half. The domestic textile industry became slimmer, but remained subsidized. Cargill avoided supplying local mills in 2000/01, but it may not succeed in doing so in 2001/02 because the government may withhold export licenses until Cargill supplies domestic textile mills in accordance with its allotted quota.

The principle was not applied for cottonseeds in Benin either, since ginneries have not been allowed to export cottonseeds in 2001/02. Assuming that ginneries lost CFAF 10 per kg of cottonseeds by having to supply local mill instead of exporting, the government could have provided the same subsidy directly to the local mills, leaving ginneries free to export or not to export. A government subsidy of CFAF 10 per kg of cottonseeds would have been equivalent to a CFAF 6.6 subsidy per kg of seed cotton. The CFAF 45 subsidy needed per kg of seed cotton would have then been reduced by CFAF 6.6. The total government outlay would have remained unchanged and resource allocation could have been improved.

⁵⁶ « Impact des modes d'organisation des filières agro-alimentaires dans la lutte contre la pauvreté, les filières cacao et coton » CERDI, MAE, 06/2001.

The principle was applied in both Burkina Faso and Côte d'Ivoire. However, the parties were satisfied with the arrangement in one country, but not in the other. In Côte d'Ivoire, oil and textile mills complained bitterly of unreliable supplies and each party accused the other of not respecting the specifications of the arrangement. By contrast, no problems were reported in Burkina Faso where SOFITEX sold fiber to the local textile mill at export prices minus cost from ginnery gate to FOB. But sales to local textile mills accounted for less than 2 percent of fiber exports in Burkina Faso, compared with 5.5 percent in Côte d'Ivoire and 25 percent in Zimbabwe. As regards cottonseeds; export was a more attractive proposition in Côte d'Ivoire than in Burkina Faso, because the cost of moving cottonseeds from Bouake to Abidjan was less than half of moving them from Bobo to Abidjan.

Conclusions

Reforms have been undertaken in the three CFA countries to improve efficiency in the cotton sectors. In Côte d'Ivoire and Benin, where reforms are more advanced, performances were not better so far than in Burkina Faso. In the three Anglophone countries, the cotton sector has been liberalized for some time (15 years in Ghana, 8 years in Tanzania and 7 years in Zimbabwe). Liberalization was most successful in Zimbabwe: the arrival of a new cotton company led to marketing improvements; quality standards remained very good and cotton from Zimbabwe maintained a high premium on world markets; but price competition for seed cotton remained very weak because one company (Cottco) captured 75 percent of the market. Price competition was much stronger in Ghana and Tanzania than in Zimbabwe; but production has been stagnating for the last six years.

Liberalization led to higher incomes for growers in the short-term, but not in the medium term. The share of export prices received by farmers was substantially higher in Zimbabwe than in CFA countries in the four years which followed the liberalization in Zimbabwe; but the reverse occurred in the four following years when world prices fell. Recent results in Zimbabwe have to be interpreted with great caution, because the macroeconomic situation has deteriorated rapidly since May 2000. But, in Tanzania where the macroeconomic situation improved markedly, the performance of the cotton sector has been disappointing. Since the cotton sectors were liberalized some eight years ago in Tanzania and Zimbabwe, production increased much faster in the three CFA countries than in the three Anglophone countries.

According to the review, no single model proved to be always superior to the others. But, whatever model is selected, a country can improve its performance by drawing lessons from the experience of its neighbors. The report will, therefore, conclude by summarizing what did work and what did not in the countries reviewed.

1. *Public Monopolies.* Without appropriate checks and balances, public monopolies may lead to poor management, inefficiencies and rent seeking activities, as occurred in Mali in the late 1990s. Moreover, most governments wish to withdraw from productive activities which can be performed as efficiently (or more) by the private sector. For these reasons, it is generally agreed that public monopolies should be abolished.
2. *Regional Companies.* The public monopoly can be broken down regionally into several private companies with exclusive purchasing rights within their respective zone, as was done in Côte d'Ivoire. It does not bring true competition, but it is a way of reducing risks, because one regional company can be well managed when the other is not. Privatization of a public monopoly with the participation of public institutions, national banks and/or solid private firms may constitute a first step in the reforms and may provide satisfactory results as was the case in Burkina Faso.
3. *Giving more Power to Growers.* The management of the cotton sector in Burkina Faso became better balanced in the late 1990s after growers gained more power. This was achieved in three steps: (i) restricting producers associations to cotton growers which provided a better focus for the activities of the association, (ii) acquiring 30 percent of the capital of SOFITEX, and (iii) obtaining the majority in the "Conseil de Gestion" responsible for the purchase of inputs.

4. *Strengthening Growers' Associations.* The effectiveness of producers' associations at the village level remains hampered by low literacy rates (lower in Mali and Burkina Faso than in Benin and lower in Benin than in Zimbabwe) and the paucity of financial resources (especially at the department level). This constraint could be partly relaxed by external assistance which is limited in a number of countries.
5. *Research.* Because the resources actually received by national research institutes from governments were meager, they had to be complemented by contributions from cotton companies, which is one of the reasons why research was affected by the reforms. Instead of dealing only with SONAPRA before the reforms, researchers in Benin had to deal with ginneries and growers who had different desiderata. As a result, the selection of the new variety was delayed, but the seed finally distributed in 2002 was more suitable to the overall needs of the country. The French institute (CIRAD) has promoted exchanges between the institutes of CFA countries, but greater cooperation between African research institutes remains desirable.
6. *Seeds.* The system of seed distribution has not yet changed in CFA countries. Before the reforms, seeds were distributed by the monopolist; after the reforms, seeds are still distributed in Benin by SONAPRA which now accounts for hardly one-third of ginning. In Zimbabwe, seeds are distributed by Quton, a seed company owned by Cottco. In Ghana and Tanzania, seed multiplication systems nearly collapsed after liberalization of the sector.
7. *Extension Services.* Because cotton is a very demanding crop, growers need specialized extension services which, in the CFA zone, have been provided by cotton companies. As producers gained more power, they started to question the quality and the cost of the services provided. Since producers are ultimately paying for extension services, they should have the opportunity to state the services they need and to evaluate the quality of the services rendered. Producers' associations have to participate to the management of extension services, but they may not be the best fitted to provide extension services.
8. *Grading Seed Cotton.* Cotton from Zimbabwe is sold at a 10 percent premium over cotton from CFA countries and Ghana, which can be partly explained by differences in grading practices. Growers in Zimbabwe are induced to harvest seed cotton with greater care, because only 15 percent of seed cotton is graded A for which growers are better paid, instead of 98 percent in the other countries. Producers' income could be raised if growers in CFA countries harvested cotton with greater care. It would require changes in grading practices which would have to be agreed upon by cotton companies and producers' associations.
9. *National Pricing.* It has been reported in Tanzania, that growers in remote areas faced difficulties in selling their cotton and had often to accept lower prices. In Zimbabwe, growers received the same price at delivery to any ginnery or depot owned by Cottco and the same was true for Cargill. But, since growers had normally to cover transportation costs to the depot or the ginnery, prices at farm gate (net of transportation costs) were slightly lower for growers located in more remote villages. In the CFA zone, prices at village gate are the same throughout the country, since cotton companies collected seed cotton at village gate and paid the same price regardless of the village location. This practice is less efficient in terms of resource allocation, but it helps the poorest producers who are generally located in remote

villages or areas with no easy access. The economic loss may be offset by the social gain, but there is no clear answer.

10. *Yearly Pricing.* In Tanzania, the Cotton Marketing Board announces an indicative price at the beginning of the marketing season. In Zimbabwe, Cottco announces its buying price at the beginning of the season before Cargill does and the price is adjusted during the season to take account of the evolution of world prices and inflation in the country; Cottco generally distributes a bonus at the end of the season. In Ghana, a price is announced at the beginning of the season, but this price is not always applied. In CFA countries, a guaranteed price is announced at either sowing or marketing time. After closing their books, cotton companies often distributed a bonus.
11. *Curtailing Delays in Payments.* Growers are often paid with delays in CFA countries, while they are paid on delivery day in Zimbabwe. After the CIDT had been divided into three, delays were reduced in one zone but increased in another. Regarding delays in paying producers, there is room for improvement in the CFA zone.
12. *Setting Floor Price.* CFA countries remain attached to the principle of a floor price which they would like to know before sowing. But this raises a problem when world prices fall sharply as they did in 2001/02. Most CFA countries had to subsidize their cotton sector in that year; but the level of the subsidy was not related to progress made in the reform agenda. Subsidies were highest in Mali (where the CMDT remained a public monopoly) and in Benin (where the reform agenda was most advanced), while SOFITEX (still a private monopoly in Burkina Faso) did not need government subsidies because the floor price had been selected conservatively and a financial reserve had been set aside in the previous year.
13. *Reducing the Price Risk by Combining Forward Sales with a Two-Step Payment.* Selecting a floor price 10 percent below the price forecast would provide a 15 percent safety margin if one third of the crop had been sold when the floor price was set. In the proposed scheme, the first payment is based on the floor price, while the second payment is linked to changes in the CFAF value of Index A. If Index A fell 15 percent below the forecast value when the floor price was set, growers would not receive a second payment. But, if actual and forecast values of Index A were the same, the second payment would be equal to the safety margin deducted in setting the floor price. In both cases, the percentage of Index A received by growers would remain the same since returns to growers and cotton companies would vary by the same percentage. Since the second payment would be determined in a simple and transparent manner, growers could easily check if they received their due.
14. *Reserves or Subsidies.* If Index A fell by more than 15 percent, a deficit would remain even if growers did not receive a second payment. This deficit could be covered by drawing on reserves or by government subsidies. Growers in CFA countries, could have expected to be subsidized when world prices fell since they had been heavily taxed when prices were high. This was the purpose of stabilization funds managed jointly by governments, cotton companies and producers; but the resources accumulated in good years had generally disappeared by the time they were needed. This drawback could be avoided if producers were responsible of the management of the fund (as was done in Burkina Faso) and if the share of the export price received by growers did not fall when world prices improved (as occurred frequently in the past). If Index A rose by 50 percent, growers and cotton companies would each receive 50

percent more before tax and part of these increases would be kept in reserves; one reserve would be managed by growers and the other by cotton companies (collectively or individually). Producer associations would thus accumulate reserves in good years, which would enable them to assist their members in bad years. Such a scheme would not eliminate the need for subsidies, but this need would occur much less frequently.

15. *Market Regulations are Needed.* Because cotton is an annual crop requiring large investments which have to be amortized over many years, the sector has to be liberalized cautiously. It is important to prevent entry of traders aiming at making a quick profit without concern for the future of the sector, because they have no sizable investments in it. In several countries, the entry of such traders led to poaching, credit arrears, decline in the utilization of purchased input, and ultimately the stagnation of cotton production. A decade ago, it had too often been assumed that once parastatals would have been dismantled and prices liberalized, the private sector would step in automatically to fill up the vacuum. But it did not occur either in Ghana or in Tanzania and, after the previous credit and distribution system had been dismantled, it proved difficult to establish a new one.
16. *The CSPR is an Original and Interesting Experiment.* The objective of the reforms in Benin was to preserve the advantages of the public monopoly after having replaced it by several private companies which became mere partners. The new decision center became a group of stakeholders with the CSPR as its executive arm. The CSPR was a clearing house for all the financial transactions of the sector. It was created to insure full recovery of input credits and timely payments. The new system is highly regulated and required the creation of new institutions. The system has been working satisfactorily in 2001/02, but its net benefits have still to be assessed.
17. *Local Sales.* The share of cottonseeds in the earnings SOFITEX and CMDT has more than doubled in the last six years, which shows that the fiber byproducts remained undervalued for many years. Further gains can be achieved, since the demand for cattle feeding is not yet satisfied. But performances by local textile industries have generally been disappointing. Although they acquired the fiber below world market prices, they seldom succeeded in becoming internationally competitive. In Tanzania and Zimbabwe, the reduction of subsidies after liberalization of the cotton sector led to a sharp retrenchment of the local textile industry.
18. *Sequencing of Reforms.* As shown by the experience of Ghana and Tanzania, liberalizing the purchase of seed cotton can induce poaching if appropriate measures have not been taken to insure full recovery of input credits; experience has shown that, once poaching has become widespread, eliminating it is difficult. The sector can be liberalized more easily when world prices are high than when they are low. This does not mean that nothing should be done when world prices are low; it suggests that emphasis should then be placed on measures which can reduce production costs with minimal risks of destabilizing the sector.
19. *Main conclusions:*
 - a. An efficient credit system allowing small farmers to acquire quality inputs in a timely manner is a prerequisite for developing the cotton sector and reducing poverty. For this purpose, a direct link must be preserved between the payment of seed cotton and the recovery of input credits.

- b. The marketing of seed cotton has to be conducted within a regulated framework established by the stakeholders.
- c. Research and extension services cannot be left to the sole responsibility of the public administration.
- d. The participation of producers to the elaboration of the reforms and the strengthening of producers' associations are needed for successful reforms.
- e. Cotton subsidies constitute an obstacle in the fight against poverty in Africa and public opinion in industrialized countries should be made aware of the detrimental effects of the cotton subsidies granted by their governments.

Statistical Annex

Explanatory Notes

In accordance with ICAC practices, split-year 1994/95 begins August 1994 and ends July 1995. It covers the full marketing season in Northern Hemisphere countries, but both the planting season and part of the marketing season in Southern Hemisphere countries where the crop is harvested in 1995. Data relate to each of the five visited countries plus Mali; for convenience combined data for Benin, Burkina Faso and Côte d'Ivoire are also shown.

Tables 1 through 18C are based on data which were available by October 2002. They provide comparable sets of detailed production and price data for the six above mentioned countries over an eight-year period beginning in 1994/95, just after the January 1994 devaluation of the CFA franc. More detailed series for Burkina Faso are available on request.

Tables 19 through 21 are based on data which were available by October 3, 2003. Tables 19A, 19B and 19C show cotton areas, yields and production by countries and groups of countries over a 23-year period beginning in 1980/81. Table 19D shows increases in local fiber utilization by countries over the entire period and for two sub-periods; it also shows the evolution of exports as percentage of production. Table 20 compares the bimonthly price forecasts issued by ICAC from May/June 1989 through September/October 2003 with the actual yearly averages of Index A over the period 1990/91 through 2002/03. Table 21 gives the current monthly values of Index A in US cents per kg and CFA francs per kg beginning January 1983 and ending October 2003; it also gives the monthly values of Index A in constant CFA francs per kg at 2001 prices beginning January 1994 and ending August 2003.

Year	Mali	Benin	Burkina	Côte d'Ivoire	B, BF, CI	Ghana	Zimbabwe		
							Small	Large	Total

1. Area cultivated in thousands of hectares

1994/95	270	230	184	242	656	22	180	34	214
1995/96	336	282	170	204	656	25	218	40	258
1996/97	420	383	196	211	790	28	268	46	314
1997/98	498	380	291	244	915	35	239	47	286
1998/99	504	380	353	271	1004	45	275	55	330
1999/00	482	370	240	291	901	38	326	43	369
2000/01	228	336	260	248	844	34	377	21	398
2001/02	505	330	356	285	971	21	357	7	364

2. Yields in kg of seed cotton per hectare

1994/95	1085	1157	777	1136	944	1136	335	1178	467.3
1995/96	1208	1230	890	1064	1091	710	969	1827	1101
1996/97	1076	909	1092	1256	1047	870	740	1756	885.4
1997/98	1050	945	1162	1381	1130	912	764	1921	954.5
1998/99	1030	882	805	1332	976	856	827	1382	918.2
1999/00	954.4	978	1058	1357	1122	914	914	1279	956.6
2000/01	1075	1003	1062	1157	1066	992	788	1892	846.7
2001/02	1129	1258	1063	1333	1208	652	524	1857	549.5

3. Production of seed cotton in thousands of m. tons

1994/95	293	266	143	210	619	25	60	40	100
1995/96	406	347	151	217	715	17.8	211	73	284
1996/97	452	348	214	265	827	24.5	198	80	278
1997/98	523	359	338	337	1034	32.3	183	90	273
1998/99	519	335	284	361	980	38.3	227	76	303
1999/00	460	362	254	395	1011	34.8	298	55	353
2000/01	245	337	276	287	900	33.8	297	40	337
2001/02	570	415	378.3	380	1173	14	187	13	200

Year	Mali	Benin	Burkina	Côte d'Ivoire	B, BF, CI	Ghana	Zimbabwe
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4. Ginning ratio: kg of fiber as percentage of kg of seed cotton

1994/95	42	36.9	43.9	44.3	41.0	40	40
1995/96	42	40.8	42.3	44.4	42.2	40	40
1996/97	42	41.2	42.1	43	42.0	40	40
1997/98	42	41.8	41.5	43.6	42.3	40	40
1998/99	42	41.2	41.8	43.4	42.2	40	40
1999/00	42	42	42.9	43.4	42.8	40	40
2000/01	42	42.2	42.2	43.4	42.6	40	40
2001/02	42	42.2	41.7	43.4	42.4	40	40

5. Cotton seed ratio: kg of cotton seed sold as percentage of kg of seed cotton

1994/95	52	57.1	50.1	49.7	53.0	54	54
1995/96	52	53.2	52.4	49.6	51.9	54	54
1996/97	52	52.8	51.9	51	52.0	54	54
1997/98	52	52.2	52.5	50.4	51.7	54	54
1998/99	52	52.8	52.2	50.6	51.8	54	54
1999/00	52	52	51.1	50.6	51.2	54	54
2000/01	52	51.8	51.8	50.6	51.4	54	54
2001/02	52	51.8	52.3	50.6	51.6	54	54

6. Production of fiber in thousands of m. tons

1994/95	123	98	63	93	254	10	40
1995/96	171	142	64	96	302	7.1	114
1996/97	190	143	90	114	347	9.8	111
1997/98	220	150	140	147	437	12.9	109
1998/99	218	138	119	157	413	15.3	121
1999/00	193	152	109	171	432	13.9	141
2000/01	103	142	116	125	383	13.5	135
2001/02	239	175	158	165	498	5.6	80

7. Cottonseeds sold in thousands of m. tons

1994/95	152	152	72	104	38	13.5	54
1995/96	211	185	79	108	372	9.6	153.4
1996/97	235	184	111	135	430	13.2	150.1
1997/98	272	187	177	170	535	17.4	147.4
1998/99	270	177	148	183	508	20.7	163.6
1999/00	239	188	130	200	518	18.8	190.6
2000/01	127	175	143	145	463	18.2	182
2001/02	268	215	198	192	605	7.6	108

Year	Mali	Benin	Burkina	Côte d'Ivoire	B,BF,CI	Ghana	Zimbabwe
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8. Fiber sold to local industries in thousands of m. tons

1994/95	2	2	2	18	22	10	28
1995/96	2	2	2	20	24	8	14
1996/97	2	4	1.2	21	26.2	8	22
1997/98	2	4	1.7	24	29.7	6	31
1998/99	2	4	0.5	7	11.5	8	25
1999/00	2	5	2.3	4.2	11.5	9	19
2000/01	2	5	2.6	3.8	11.4	9	20
2001/02	1.8	5	2.7	8.6	16.3	9	20

9. Producer price including bonus from year t-1 per kg of seed cotton

						Ghana		Zimbabwe		
	CFAF	CFAF	CFAF	CFAF	CFAF	Cedi	CFAF	Zim \$	Official cfa	Parallel CFAF
1994/95	130	134	111	134	129	103	47	4.5	275	274
1995/96	155	165	165	173	167	190	63	5.9	307	291
1996/97	155	200	180	182	189	460	144	6.1	302	269
1997/98	170	200	179	199	193	600	160	9.3	312	265
1998/99	185	221	184	195	201	800	197	14.6	225	180
1999/00	160	185	184	174	180	700	125	18	297	209
2000/01	170	200	169	205	192	900	91	26	414	134
2001/02	200	200	199	190	196	1650	164	36	488	116

Weighted
average

10. Bonus from year t-1 in CFAF per kg of seed cotton

1994/95	5				
1995/96	30		25	6.2	7.2
1996/97	30		20	6.3	7.2
1997/98	30	20	20	6.7	15.7
1998/99	40	17	25	6.3	15.4
1999/00	20	15	25	6	14.0
2000/01	10	10	10	0	6.8
2001/02	0	0	25	0	8.1
2002/03	0	0	0	0	0.0

Year	Mali	Benin	Burkina	Côte d'Ivoire	B,BF,CI	Ghana	Zimbabwe
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11. Producer price including bonus per kg of fiber

						Ghana		Zimbabwe			CFA F/\$
	CFAF	CFAF	CFAF	CFAF	CFAF	cedi	CFAF	Zim \$	Official CFAF	Parallel CFAF	
1994/95	310	363	253	302	314	258	118	11	687	685	516
1995/96	369	404	390	390	397	475	158	15	767	728	504
1996/97	369	485	427	423	450	1150	359	15	756	671	560
1997/98	405	478	431	456	456	1500	400	23	779	662	610
1998/99	440	536	440	449	476	2000	493	37	563	449	584
1999/00	381	440	429	401	422	1750	313	45	743	522	665
2000/01	405	474	400	472	451	2250	228	65	1035	335	710
2001/02	476	474	477	438	464	4125	410	90	1219	289	727

12. Price of cottonseeds in CFAF per kg at ginnery gate

1994/95	11	31	22	
1995/96	11	30	14	
1996/97	11	38	14	
1997/98	11	40	21	
1998/99	11	39	18	
1999/00	11	38	22	
2000/01	20	29	24	
2001/02	27.5	28	31	30

13. Producers' gross receipts including bonus, in billions of current CFAF

						Ghana		Zimbabwe	
	CFAF	CFAF	CFAF	CFAF	CFAF	cedi	CFAF	Z\$	CFAF
1994/95	38.1	35.6	15.9	28.1	79.7	2.6	1.2	0.5	27.4
1995/96	62.9	57.3	25.0	37.5	119.8	3.4	1.1	1.7	82.7
1996/97	70.1	69.6	38.5	48.2	156.3	11.3	3.5	1.7	74.7
1997/98	88.9	71.8	60.5	67.1	199.4	19.4	5.2	2.5	72.3
1998/99	96.0	74.0	52.3	70.4	196.7	30.6	7.5	4.4	54.4
1999/00	73.6	67.0	46.7	68.7	182.4	24.3	4.4	6.4	74.9
2000/01	41.7	67.4	46.6	58.8	172.9	30.4	3.1	8.8	45.2
2001/02	114.0	83.0	75.3	72.2	230.5	23.1	2.3	7.2	22.6

14. Producers' gross receipts including bonus, in billions of constant CFAF

						Ghana		Zimbabwe	
	CFAF	CFAF	CFAF	CFAF	CFAF	cedi	CFAF	Z\$	CFAF
1994/95	39.9	36.6	16.1	28.9	81.6	2.6	1.2	0.5	28
1995/96	60.2	55.7	24.0	37.0	116.7	2.3	1.1	1.4	80
1996/97	65.4	64.7	35.6	46.1	146.4	6.0	3.3	1.2	70
1997/98	82.4	63.8	53.7	60.7	178.2	9.0	4.6	1.3	65
1998/99	86.8	64.3	46.2	63.2	173.7	12.7	6.7	1.5	48
1999/00	67.8	57.4	41.6	60.3	159.3	8.0	3.8	1.4	66
2000/01	37.3	54.6	40.0	49.7	144.3	7.6	2.6	1.1	38
2001/02	95.9	65.2	63.8	58.6	187.6	5.2	1.9	0.5	19

Year	Mali	Benin	Burkina	Côte d'Ivoire	B,BF,CI	Ghana	Zimbabwe
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15. Consumer Price Index 1995=100

WAEMU

94/95	95.4	97.4	98.7	97.2	97.5	100	100
95/96	104.6	102.8	104.0	101.4	102.3	146.6	121.4
96/97	107.1	107.5	108.1	104.7	106.4	187.4	144.2
97/98	107.9	112.5	112.7	110.4	110.9	214.8	190.1
98/99	110.6	115.1	113.2	111.4	112.1	241.5	301.3
99/00	108.5	116.7	112.4	114.0	113.5	302.3	469.6
00/01	111.6	123.4	116.6	118.3	117.3	401.8	830
01/02	118.8	127.2	118.0	123.2	122.8	440	1550

For CFA countries, Aug-July average. For other countries, calendar year 95 for 94/95. 2002 projected.

16. Producer price per kg of seed cotton in constant CFAF

						Ghana		Zimbabwe	
	CFAF	CFAF	CFAF	CFAF	CFAF	cedi	CFAF	Zim \$	Blend rate CFAF
1994/95	136	138	112	138	132	103	48	4.50	280
1995/96	148	160	159	171	163	130	61	4.84	283
1996/97	145	186	166	174	178	245	134	4.20	251
1997/98	157	178	159	180	174	279	143	4.87	236
1998/99	167	192	163	175	179	331	174	4.85	159
1999/00	147	159	163	153	159	232	109	3.83	185
2000/01	152	162	145	173	164	224	76	3.13	113
2001/02	168	157	168	154	160	375	134	2.32	95

17. Producers' receipts net of purchased inputs, in billions of constant CFAF

1994/95	20.5	9.0	16.2
1995/96	33.2	14.4	22.1
1996/97	37.5	20.7	26.5
1997/98	38.3	32.4	36.5
1998/99	18.7	13.5	18.4
1999/00	24.1	17.6	25.4
2000/01	34.0	25.0	31.0
2001/02	43.7	42.7	39.0

Actual data for Burkina, estimated for the two other countries assuming purchased inputs account for the same share of receipts as Burkina.

18. Producer price as percentage of export price

18. A : CFA countries

	Producers prices as percent of export prices										Export price
	Price received by producers in year t					Producers prices after allocating bonus to surplus year and subtracting 2001/02 subsidies					Index A
	Mali	Benin	Burkina	C-I	B,BF,CI	Mali	Benin	Burkina	C-I	B,BF,CI	CFAF/kg
1994/95	29.73	34.9	24.3	29.1	29.4		34.9	29.8	29.1	31.2	1041
1995/96	39.09	42.8	41.3	41.3	41.8		42.8	40.0	41.3	41.3	944
1996/97	37.87	49.8	43.8	43.4	45.6		54.8	43.8	43.4	47.3	974
1997/98	42.93	50.7	45.7	48.4	48.3		50.0	47.0	48.4	48.4	943
1998/99	58.69	71.5	58.6	59.9	63.3		70.8	58.6	59.9	63.0	751
1999/00	47.78	55.2	53.8	50.3	53.1		53.8	49.4	50.3	51.1	797
2000/01	44.47	52.1	44.0	51.9	49.3		49.5	47.9	51.9	49.7	910
2001/02	71.35	71.0	71.9	65.6	69.4	56.7	55.0	62.9	60.4	59.4	667
Average	46.49	53.5	47.9	48.7	50.0		51.4	47.4	48.1	48.9	

18. B : Ghana

	Producer Price	Exchange rate	Producer Price in terms of fiber	Index A	Producer Price in percent of Export Price
	Cedi / kg	Cedi/\$ f.quar t+1	US cents / kg		
1994/95	103	1130	22.8	216.8	10.5
1995/96	190	1516	31.3	177.6	17.6
1996/97	460	1794	64.1	174.7	36.7
1997/98	600	2289	65.5	144.5	45.3
1998/99	800	2370	84.4	117.2	72.0
1999/00	700	3716	47.1	130.2	36.2
2000/01	900	7000	32.1	105.8	30.4
2001/02	1650	7500	55.0	93.6	58.8

In view of the rapid depreciation of the cedi, the exchange rate used was the one prevailing in the first quarter of year t+1 when the bulk of the crop is delivered to ginneries. Thus, 1130 is the average exchange rate in the first quarter of 1995. In 1994/95, the price per kg of seed cotton was $103/11.3=9.115$ US cents per kg; it was then divided by the ginning ratio $9.115/0.4=22.8$ US cent per kg to be comparable to Index A.

18. C : Zimbabwe

	(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)
	Grade A. Price	Extra charge	Net Produ cer price	Exchange Rate			Index A Year t+1	Prod price%	Exp.pric
				Official	Blend			Official	Blend
1994/95	4.5	0.50	4	8.46	8.49		216.8	44.6	44.4
1995/96	5.87	0.54	5.33	9.63	10.15		177.6	63.7	60.5
1996/97	6.05	0.55	5.5	11.2	12.61		174.7	57.5	51.1
1997/98	9.26	0.57	8.69	18.11	21.32		144.5	67.9	57.7
1998/99	14.6	1.32	13.28	37.91	47.49		117.2	64	48.8
1999/00	18	1.42	16.58	44.4	57.28		130.2	61	45.5
2000/01	26	2.61	23.39	54.85	137.84		105.8	86	32.8
2001/02	36	5.97	30.03	54.85	232		93.55	125	28.3

(1) For the first five years, weighted averages of final prices ($= .75 * \text{Cottco} + .15 * \text{Cotpro} + .15 * \text{Cargill}$) taken from Table 1 page 11, CDR working paper 01.1, by Marianne Larsen. Data provided to the mission for the last three years. For 2001/02, the producer price is the opening one.

(2) Excess of costs paid by producers in Zimbabwe over those paid by producers in CFA countries. The excess relating to seeds, transport and woolpacks was estimated by John Macrae.

(3) = (1) - (2)

(4) Official exchange rate from IFS.

(5) Parallel exchange rate given in the Global Currency Report for the first five years, by IMF desk economist for 1999/00, and obtained during the mission for the last two years. Until June 2000 exporters were allowed to retain the full amount of their export earnings. The retention rate was reduced to 50% for a few weeks (when few transactions were made) and raised to 75% from July until October 2000 when it was reduced to 60% (see Table 18. D). For the last three years, the blend rate is an average of the official and parallel rates weighted by retention rates.

(6) For split years, Index A is taken as the average of the second year when most trade transactions occur. Thus, for 1994/95, the calendar year average 1995 is used.

(7) and (8) : Index A is divided by the ginning ratio (.4) to go from the price of fiber to that of seed cotton. Moreover, for comparability with CFA countries, Index A is divided by 1.1 to take into account the 10% premium of Zimbabwe cotton over cotton from the CFA zone and multiplied by .94 because the average price paid to growers is 93% of Grade A price in Zimbabwe against 99% in CFA countries. This leads to the adjustment factor: $2.136 = 0.94 / (.4 * 1.1)$. Consequently, the percentages shown in columns (7) and (8) were calculated as: (7) = $100 * (2.136) * (3) / (4) * (6)$ and (8) = $100 * (2.136) * (3) / (5) * (6)$.

Cottco : Average price paid as percentage of grade A price

	Shares	Shares	Prices	Prices
	2000	2001	2000	2001
Grade A	12.86	14.8	100	100
Grade B	42.05	40.3	97	98
Grade C	33.15	34.5	96	97.3
Grade D	11.94	10.4	66	54
Total	100	100	93.35	92.77

18. D : Zimbabwe: official, parallel and blend exchange rates
(Jan.00-May 02)

Month	Official Rate	Parallel Rate	Retention Rate	Blend Rate	Blend/official	Annual official	Annual Blend	Blend/Official
	Zim/ US\$	Zim/ US\$		Zim/US\$		Zim/ US\$	Zim/ US\$	
Jan-00	38.2	42.5	1.0	42.5	1.11	44.40	56.4	1.3
Feb-00	38.2	45.5	1.0	45.5	1.19			
Mar-00	38.2	48	1.0	48.0	1.26			
Apr-00	38.2	50	1.0	50.0	1.31			
May-00	38.2	55	1.0	55.0	1.44			
Jun-00	38.2	60	1.0	60.0	1.57			
Jul-00	38.2	62	0.8	56.1	1.47			
Aug-00	49.5	65	0.8	61.1	1.23			
Sep-00	52.1	67	0.8	63.3	1.21			
Oct-00	54.1	69	0.6	63.0	1.17			
Nov-00	54.9	72	0.6	65.1	1.19			
Dec-00	54.85	75	0.6	66.9	1.22			
Jan-01	54.9	77	0.6	68.1	1.24	54.85	137.3	2.5
Feb-01	54.9	80	0.6	69.9	1.28			
Mar-01	54.9	85	0.6	72.9	1.33			
Apr-01	54.9	90	0.6	75.9	1.38			
May-01	54.9	110	0.6	87.9	1.60			
Jun-01	54.85	145	0.6	109	1.99			
Jul-01	54.9	150	0.6	112	2.04			
Aug-01	54.9	350	0.6	232	4.23			
Sep-01	54.9	250	0.6	172	3.13			
Oct-01	54.9	300	0.6	202	3.68			
Nov-01	54.9	350	0.6	232	4.23			
Dec-01	54.85	320	0.6	214	3.90			
Jan-02	54.9	330	0.6	220	4.01	54.85	231.9	4.2
Feb-02	54.9	320	0.6	214	3.90			
Mar-02	54.9	320	0.6	214	3.90			
Apr-02	54.9	330	0.6	220	4.01			
May-02	54.9	450	0.6	292	5.32			
Jun-02	54.9	709	0.6	472	8.60			
Jul-02	54.9	685	0.6	462	8.42			
Aug-02	54.9	685	0.6	462	8.42			

Source : Official rates from IFS. Parallel market rates from IMF Resident Mission; from Techfin Research Services

19. Areas, yields and production (1980/81-2002/03)

19. A : Areas in thousands of hectares

	World	CFA	N-CFA	Benin	Bu Fa	Cot Ivo	Ghan	Mali	Tanza	Zim	G,T,Z	B,BF,CI ,Mali
80/81	33652	708	2137	26	74	127	9	103	350	126	485	330
81/82	33919	598	1835	20	66	123.6	9	79	370	113	493	289
82/83	32537	657	1801	27	73	128.9	11	98	444	138	594	327
83/84	32146	746	1844	40	77	135.5	6	105	390	189	586	356
84/85	35366	820	1780	79	81	145.2	7	119	369	230	607	424
85/86	32821	913	1542	82	94	152.4	2	146	399	193	593	474
86/87	29477	924	1778	103	127	159.2	9	153	451	244	704	542
87/88	31222	966	1886	71	172	180.7	9	149	450	272	731	572
88/89	33518	1163	1685	96	170	213.0	7	190	259	248	515	669
89/90	31630	1077	1617	112	149	200.4	11	190	320	229	559	652
90/91	33063	1178	1750	122	166	199.0	14	206	450	275	739	693
91/92	34693	1297	1648	152	185	190.8	21	215	429	239	688	742
92/93	32268	1243	1569	140	176	225.1	28	247	344	247	618	788
93/94	30435	1218	1184	235	153	220.1	23	202	172	230	425	809
94/95	32127	1450	1265	225	185	242.8	22	269	345	196	562	922
95/96	36046	1569	1645	313	160	203.4	24	335	283	264	572	1011
96/97	34178	1926	1724	398	195	210.3	29	421	350	314	693	1225
97/98	33852	2186	1811	379	294	244.6	37	499	180	285	502	1416
98/99	32886	2254	2046	381	355	272.1	44	505	246	330	620	1513
99/00	31977	2085	1726	373	245	292.2	40	483	181	369	589	1393
00/01	31956	1712	2107	337	259	248.0	35	228	432	389	856	1072
01/02	33503	2310	2030	357	359	282.7	22	532	391	362	775	1531
02/03	30183	2333	1819	398	406	319.9	30	468	283	327	640	1592
1980/81 through 1993/94												
%Gro	-0.3	5.8	-2.3	16.6	8.6	5.0	9.1	7.9	-2.5	5.5	0.6	8.3
RSQ	0.08	0.91	0.53	0.88	0.82	0.92	0.32	0.90	0.16	0.62	0.03	0.95
1993/94 through 2002/03												
%Gro	-0.4	5.9	5.2	5.0	10.1	3.9	3.2	6.6	3.5	6.1	4.7	6.3
RSQ	0.04	0.64	0.65	0.51	0.76	0.65	0.14	0.30	0.10	0.70	0.48	0.64
1980/81 through 2002/03												
%Gro	-0.1	6.2	5.2	13.5	7.5	4.0	9.1	8.2	1.7	4.2	0.8	7.8
RSQ	0.01	0.95	0.65	0.91	0.89	0.91	0.64	0.88	0.07	0.73	0.12	0.96

19. B : Yield in kg of fiber per hectare

	World	CFA	Other	Benin	Burkina	Côte	Ghana	Mali	Tanzania	Zimbab-
1980/81	411	305	142	231	311	441	217	397	123	493
1981/82	442	351	141	304	332	453	211	481	108	497
1982/83	445	402	143	438	400	512	178	510	99	435
1983/84	451	393	161	430	392	428	163	525	123	481
1984/85	547	422	172	418	418	606	275	464	84	447
1985/86	532	402	204	413	489	438	221	460	168	462
1986/87	518	459	196	465	520	584	337	517	173	356
1987/88	564	438	200	380	344	631	320	504	120	427
1988/89	546	441	208	456	347	601	272	511	135	371
1989/90	549	440	191	383	416	534	282	521	150	293
1990/91	574	465	204	482	465	583	348	558	189	262
1991/92	596	411	159	495	373	456	381	531	224	88
1992/93	556	440	184	492	392	471	397	547	131	304
1993/94	554	426	233	439	334	527	435	500	233	261
1994/95	584	404	232	436	341	383	455	475	238	194
1995/96	564	436	252	451	400	472	293	504	307	394
1996/97	573	421	225	359	461	542	348	451	177	322
1997/98	593	435	228	396	476	601	348	437	200	368
1998/99	569	382	215	323	335	577	346	430	142	349
1999/00	597	411	235	408	445	592	349	408	227	374
2000/01	609	413	200	418	448	504	387	447	118	347
2001/02	642	439	187	462	440	612	256	451	161	221
2002/03	638	399	202	349	419	544	233	389	191	263
1980/81 through 1993/94										
% Growt	2.4	1.9	2.8	3.3	0.4	0.8	6.3	1.3	5.0	-7.7
RSQ	0.74	0.50	0.51	0.45	0.01	0.07	0.76	0.42	0.48	0.50
1993/94 through 2002/03										
% Growt	1.5	-0.3	-2.4	-0.9	2.4	2.5	-5.0	-2.1	-5.4	0.4
RSQ	0.77	0.04	0.62	0.05	0.27	0.29	0.50	0.63	0.34	0.00
1980/81 through 2002/03										
% Growt	1.5	0.5	1.7	0.6	0.6	0.5	2.2	-0.6	2.6	-2.5
RSQ	0.75	0.12	0.47	0.05	0.07	0.06	0.29	0.15	0.30	0.19
	World	CFA	SSA n CFA	Benin	Burk Faso	Co d' Ivoire	Ghana	Mali	Tanzania	Zimbabwe

19. C : Production in thousands of m. tons of fiber

	World	CFA Zone	Other SSA	Benin	Burkina Faso	Côte d'Ivoire	Ghana	Mali	Tanzania	Zimb	Ghana, Tanzan Zimba	Ben, Burk, Côte Iv Mali
1980/81	13831	216	303	6	23	56	2	41	43	62	107	126
1981/82	14992	210	258	6	22	56	2	38	40	56	98	122
1982/83	14479	264	258	12	29	66	2	50	44	60	106	157
1983/84	14498	293	298	17	30	58	1	55	48	91	139	160
1984/85	19345	346	306	33	34	88	2	55	31	103	134	210
1985/86	17461	367	314	34	46	82	0.4	67	67	89	156	229
1986/87	15269	424	348	48	66	93	3	79	78	87	168	286
1987/88	17609	423	378	27	59	114	3	75	54	116	173	275
1988/89	18301	513	350	44	59	128	2	97	35	92	129	328
1989/90	17365	474	309	43	62	107	3	99	48	67	118	311
1990/91	18978	548	358	59	77	116	5	115	85	72	162	367
1991/92	20677	533	263	75	69	87	8	114	96	21	125	345
1992/93	17941	547	289	69	69	106	11	135	45	75	131	379
1993/94	16861	519	276	103	51	116	10	101	40	60	110	371
1994/95	18762	586	293	98	63	93	10	128	82	38	130	382
1995/96	20330	684	414	141	64	96	7.1	169	87	104	198	470
1996/97	19584	811	388	143	90	114	9.8	190	62	101	173	537
1997/98	20074	951	412	150	140	147	12.9	218	36	105	154	655
1998/99	18712	861	441	123	119	157	15.3	217	35	115	165	616
1999/00	19090	857	406	152	109	173	13.9	197	41	138	193	631
2000/01	19461	707	422	141	116	125	13.5	102	51	135	200	484
2001/02	21509	1014	379	172	158	173	5.6	240	63	80	149	743
2002/03	19257	931	36	139	170	174	7	182	54	86	147	665
1980/81 through 1993/94												
%Grow	2.1	7.7	0.4	19.9	9.0	5.8	15.4	9.3	2.5	-2.2	1.1	9.3
RSQ	0.49	0.90	0.02	0.87	0.75	0.69	0.52	0.92	0.09	0.05	0.06	0.92
1993/94 through 2002/03												
%Grow	1.1	5.7	2.8	4.0	12.5	6.4	-1.8	4.4	-1.9	6.5	2.4	6.4
RSQ	0.27	0.61	0.30	0.48	0.84	0.65	0.02	0.18	0.03	0.25	0.14	0.64
1980/81 through 2003/04												
%Grow	1.4	6.6	1.7	14.1	8.1	4.5	11.4	7.6	0.6	1.7	1.7	7.7
RSQ	0.61	0.93	0.45	0.87	0.87	0.76	0.64	0.85	0.02	0.07	0.33	0.93
	World	CFA	NCFA	Benin	Burk-Fa	Cot Ivoi	Ghana	Mali	Tanz	Zimb	G,T,Z	B,Bf,Ci,M

Source: ICAC, As of Sept 29, 2003

19. D : Increase in consumption; export as percentage of production

	Consumption ratios over time			Export as percent of Production		
	92/93-94/95 over 80/81-82/83	00/01-02/03 over 92/93-94/95	00/01-02/03 over 80/81-82/83	Average 80/81- 82/83	Average 92/93- 94/95	Average 00/01 - 03/04
World	1.30	1.10	1.42	30.1	33.1	31.7
USA	1.91	0.75	1.43	45.7	41.3	56.2
SSA	1.26	0.88	1.11	59.8	81.0	84.8
CFA zone	0.73	1.12	0.82	78.1	97.8	95.7
SSA non CFA	1.36	0.86	1.17	44.3	48.5	65.4
Benin	2.33	2.14	5.00	75.0	102.6	97.8
Burkina Faso	2.33	1.57	3.67	94.6	97.8	97.8
Cote d' Ivoire	0.85	0.89	0.76	61.8	87.6	82.5
Ghana	1.63	0.42	0.68	0.0	19.4	61.1
Mali	0.32	1.17	0.37	90.7	101.6	99.4
Tanzania	0.81	1.03	0.83	74.8	82.6	81.7
Zimbabwe	2.91	0.59	1.71	90.4	41.6	79.5
B+BF+CI+M	0.84	1.12	0.94	77.8	97.3	94.5
G+T+Z	1.69	0.65	1.11	82.3	58.2	79.2

Source: ICAC Sept. 03

20. Index A yearly average: ICAC forecast and actual values, 1990/1991 - 2002/2003

Forecast	May/ Jun	Jul/ Aug	Sep/ Oct	Nov/ Dec	Jan/ Feb	Mar/ Apr	May/ Jun	Jul/ Aug	Sep/ Oct	Nov/ Dec	Jan/ Feb	Mar/ Apr	May/ Jun	Jul/ Aug	Actual
Months before	27	25	23	21	19	17	15	13	11	9	7	5	3	1	0
US cents per Pound															
90/91	82	83	84	85	85	85	85	87	86	84	86	87	84	83	82.9
91/92	83	87	85	80	79	80	80	76	80	77	77	74	74	63	63.1
92/93	75	71	76	73	72	69	65	67	70	73	75	75	77	58	67.7
93/94	64	65	68	73	74	75	76	64	67	68	72	74	77	71	70.6
94/95	80	68	70	73	76	78	81	83	77	77	88	94	92	93	94.3
95/96	84	80	79	77	90	91	92	86	86	83	86	87	86	86	85.6
96/97	88	84	79	72	75	76	74	75	75	77	80	81	79	79	78.5
97/98	75	72	77	79	80	82	82	82	83	79	79	79	72	72	72.2
98/99	81	80	80	75	77	76	72	73	73	71	64	64	64	60	58.9
99/00	76	76	73	74	74	73	73	59	59	50	50	53	53	53	52.8
00/01	74	58	58	54	55	62	62	58	62	66	65	60	57	57	57.0
01/02	64	66	71	73	71	55	59	54	46	47	45	44	43	43	41.8
02/03	57	54	48	51	54	51	53	51	53	52	55	57	56	56	55.7
03/04	54	56	57	54	57	63	61	61	68						
04/05	60	61	58												
Forecast Errors as Percent of Actual Price															Average
90/91	-1.1	0.1	1.3	2.5	2.5	2.5	2.5	4.9	3.7	1.3	3.7	4.9	1.3	0.1	2.2
91/92	31.6	38.0	34.8	26.9	25.3	26.9	26.9	20.5	26.9	22.1	22.1	17.4	17.4	-0.1	24.1
92/93	10.8	4.9	12.3	7.8	6.4	1.9	-4.0	-1.0	3.4	7.8	10.8	10.8	13.7	-14.3	5.7
93/94	-9.3	-7.9	-3.7	3.4	4.8	6.2	7.6	-9.3	-5.1	-3.7	2.0	4.8	9.1	0.6	0.0
94/95	-15.2	-27.9	-25.8	-22.6	-19.4	-17.3	-14.1	-12.0	-18.3	-18.3	-6.7	-0.3	-2.4	-1.4	-14.4
95/96	-1.9	-6.5	-7.7	-10.0	5.1	6.3	7.5	0.5	0.5	-3.0	0.5	1.6	0.5	0.5	-0.5
96/97	12.0	6.9	0.6	-8.3	-4.5	-3.2	-5.8	-4.5	-4.5	-2.0	1.8	3.1	0.6	0.6	-0.5
97/98	3.9	-0.3	6.6	9.4	10.8	13.6	13.6	13.6	15.0	9.4	9.4	9.4	-0.3	-0.3	8.1
98/99	37.5	35.8	35.8	27.3	30.7	29.0	22.2	23.9	23.9	20.5	8.7	8.7	8.7	1.9	22.3
99/00	43.9	43.9	38.3	40.2	40.2	38.3	38.3	11.7	11.7	-5.3	-5.3	0.4	0.4	0.4	21.2
00/01	29.8	1.8	1.8	-5.3	-3.5	8.8	8.8	1.8	8.8	15.8	14.0	5.3	0.0	0.0	6.3
01/02	49.4	54.0	65.7	70.4	65.7	28.4	37.7	26.0	7.4	9.7	5.0	2.7	0.4	0.4	30.2
02/03	2.3	-3.0	-13.0	-8.4	-3.0	-8.4	-4.8	-8.4	-8.4	-4.8	-1.3	2.3.5	0.5	0.5	-3.1
Algebr. Average	15.2	11.0	12.2	10.3	12.4	10.2	10.5	5.2	4.9	3.8	5.0	5.5	3.8	-0.9	7.8

The first ICAC forecast of Index A for crop year t (August-July) is made in May/June of year t-2, that is 27 months before the end of the forecast year. This forecast is revised every two months until the end of the forecast year. The forecasting error expressed as percentage of actual price normally declines as one gets closer to the end of the forecast year. Thus, the average error (last row) declines from 15.2% for the earliest forecast (27 months before the end of the forecast year) to 10.2% at sowing time (17 months before), 3.8% at the beginning of the marketing season (9 months before the end) and less than 1% for the latest forecast.

21. Prices in current \$ and CFAF (01/83-05/03) and constant CFAF (01/94-04/03)

Month	Index A US cents/kg	Exchange Rate CFAF/\$	Prices CFAF/kg	CPI 2001 = 100	Price deflated CPI 2001=100
Jan-83	158.5	338.5	536.3		
Feb-83	163.9	344.1	563.9		
Mar-83	173.9	350.6	609.7		
Apr-83	176.9	365.8	647.0		
May-83	180.7	371.5	671.3		
Jun-83	189.8	383.2	727.3		
Jul-83	195.0	389.0	758.4		
Aug-83	200.2	402.0	804.8		
Sep-83	198.1	403.0	798.3		
Oct-83	194.3	397.5	772.2		
Nov-83	196.5	408.6	802.9		
Dec-83	197.0	419.1	825.6		
Jan-84	193.1	429.6	829.5		
Feb-84	192.8	416.2	802.2		
Mar-84	195.0	400.1	780.0		
Apr-84	196.2	405.7	795.9		
May-84	197.2	422.5	833.2		
Jun-84	184.6	421.0	776.9		
Jul-84	174.1	437.0	761.0		
Aug-84	166.5	443.1	737.7		
Sep-84	161.3	464.0	748.3		
Oct-84	162.3	470.9	764.4		
Nov-84	160.1	458.7	734.6		
Dec-84	158.7	474.8	753.5		
Jan-85	156.8	484.9	760.3		
Feb-85	151.4	503.5	762.4		
Mar-85	148.2	505.6	749.3		
Apr-85	145.8	470.6	686.1		
May-85	143.5	473.5	679.3		
Jun-85	138.6	467.0	647.0		
Jul-85	134.5	443.9	596.8		
Aug-85	125.6	426.2	535.3		
Sep-85	117.8	432.9	509.9		
Oct-85	107.7	403.4	434.3		
Nov-85	105.9	394.7	417.8		
Dec-85	106.4	384.9	409.4		
Jan-86	114.2	374.9	428.3		
Feb-86	120.2	358.1	430.4		
Mar-86	115.4	348.1	401.8		
Apr-86	106.9	359.8	384.7		
May-86	100.1	355.7	356.2		
Jun-86	90.5	356.5	322.5		
Jul-86	82.5	346.3	285.9		
Aug-86	81.9	336.3	275.5		
Sep-86	95.9	334.0	320.3		
Oct-86	112.9	327.5	369.8		

Month	Index A US cents/kg	Exchange Rate CFAF/\$	Prices CFAF/kg	CPI 2001 = 100	Price deflated CPI 2001=100
Nov-86	116.4	331.2	385.7		
Dec-86	130.4	327.1	426.7		
Jan-87	144.8	309.7	448.4		
Feb-87	145.2	304.2	441.6		
Mar-87	139.1	305.2	424.5		
Apr-87	146.0	301.6	440.2		
May-87	168.9	298.5	504.0		
Jun-87	174.8	303.8	531.0		
Jul-87	183.5	307.6	564.4		
Aug-87	190.9	310.1	592.0		
Sep-87	184.3	302.6	557.8		
Oct-87	168.0	301.0	505.6		
Nov-87	167.2	285.3	477.0		
Dec-87	165.5	276.8	458.2		
Jan-88	159.2	278.8	443.7		
Feb-88	148.8	286.8	426.8		
Mar-88	146.3	284.7	416.4		
Apr-88	145.0	284.0	411.7		
May-88	144.6	286.7	414.5		
Jun-88	151.6	296.1	449.0		
Jul-88	139.8	310.8	434.5		
Aug-88	127.3	319.6	406.8		
Sep-88	125.1	317.5	397.2		
Oct-88	127.1	310.9	395.0		
Nov-88	129.2	298.5	385.7		
Dec-88	135.4	299.8	406.1		
Jan-89	139.2	312.5	434.9		
Feb-89	138.8	315.4	437.8		
Mar-89	145.6	316.2	460.3		
Apr-89	162.6	316.2	514.2		
May-89	170.5	330.8	564.1		
Jun-89	173.8	336.0	584.0		
Jul-89	183.0	321.2	587.8		
Aug-89	182.9	325.1	594.7		
Sep-89	179.6	329.6	592.0		
Oct-89	181.0	316.7	573.1		
Nov-89	181.1	311.0	563.1		
Dec-89	171.1	297.3	508.7		
Jan-90	165.5	288.0	476.7		
Feb-90	168.0	284.6	478.3		
Mar-90	173.9	287.7	500.5		
Apr-90	182.6	283.5	517.7		
May-90	188.7	279.9	528.1		
Jun-90	198.6	283.2	562.5		
Jul-90	201.3	275.0	553.5		
Aug-90	179.2	263.7	472.5		
Sep-90	179.2	262.9	471.0		
Oct-90	179.4	255.3	457.8		

Month	Index A US cents/kg	Exchange Rate CFAF/\$	Prices CFAF/kg	CPI 2001 = 100	Price deflated CPI 2001=100
Nov-90	182.0	250.0	455.0		
Dec-90	184.6	253.3	467.7		
Jan-91	184.7	256.5	473.7		
Feb-91	187.1	252.0	471.5		
Mar-91	185.7	273.0	506.9		
Apr-91	182.6	288.0	525.9		
May-91	181.5	291.0	528.2		
Jun-91	178.5	302.9	540.7		
Jul-91	169.9	303.6	515.9		
Aug-91	162.0	296.5	480.3		
Sep-91	154.9	289.0	447.6		
Oct-91	149.8	288.2	431.6		
Nov-91	139.9	276.8	387.3		
Dec-91	136.3	267.8	365.1		
Jan-92	131.4	269.0	353.6		
Feb-92	124.1	275.6	342.0		
Mar-92	122.0	282.0	343.9		
Apr-92	128.4	278.7	357.8		
May-92	133.6	272.5	363.9		
Jun-92	140.9	264.9	373.2		
Jul-92	143.9	251.6	362.1		
Aug-92	131.7	246.2	324.4		
Sep-92	124.9	246.2	307.5		
Oct-92	117.4	251.5	295.3		
Nov-92	116.2	268.5	311.9		
Dec-92	119.5	269.7	322.3		
Jan-93	126.1	274.1	345.6		
Feb-93	133.2	278.2	370.7		
Mar-93	135.8	279.7	379.8		
Apr-93	134.6	269.9	363.2		
May-93	132.7	270.6	359.2		
Jun-93	129.9	278.3	361.5		
Jul-93	127.5	291.7	371.9		
Aug-93	122.4	296.4	362.7		
Sep-93	121.7	283.8	345.3		
Oct-93	120.8	287.5	347.3		
Nov-93	121.1	295.5	357.7		
Dec-93	130.6	292.4	381.9		
Jan-94	152.6	592.0	903.3	59.3	1522.9
Feb-94	177.8	590.1	1049.3	63.1	1662.6
Mar-94	180.4	576.5	1039.9	64.9	1603.5
Apr-94	185.1	581.4	1075.9	67.3	1600.0
May-94	189.8	568.1	1078.3	67.8	1591.2
Jun-94	188.5	556.8	1049.7	69.4	1513.7
Jul-94	180.1	538.7	970.3	69.9	1389.0
Aug-94	169.0	536.7	907.3	70.2	1292.1
Sep-94	165.6	530.6	878.6	76.9	1143.2
Oct-94	163.3	520.6	850.1	78.4	1084.5

Month	Index A US cents/kg	Exchange Rate CFAF/\$	Prices CFAF/kg	CPI 2001 = 100	Price deflated CPI 2001=100
Nov-94	171.0	529.5	905.3	79.4	1140.8
Dec-94	192.2	541.4	1040.6	79.6	1307.5
Jan-95	210.8	529.4	1116.0	80.1	1393.2
Feb-95	222.5	522.9	1163.6	80.5	1445.8
Mar-95	243.6	498.3	1214.0	81.9	1483.4
Apr-95	250.8	484.6	1215.3	82.7	1469.9
May-95	253.4	499.1	1264.4	84.5	1497.0
Jun-95	200.0	491.6	983.1	84.3	1165.7
Jul-95	192.6	483.2	930.6	84.1	1106.5
Aug-95	187.5	497.1	932.3	85.2	1094.0
Sep-95	201.0	504.3	1013.8	85.2	1189.6
Oct-95	200.9	494.1	992.8	85.6	1159.3
Nov-95	196.6	488.7	960.8	85.2	1128.3
Dec-95	193.7	496.4	961.6	84.6	1136.5
Jan-96	190.0	500.6	951.2	85.7	1110.5
Feb-96	187.5	504.1	945.1	85.2	1108.7
Mar-96	183.5	505.9	928.1	85.5	1085.6
Apr-96	182.5	510.6	931.8	86.8	1073.4
May-96	182.9	519.1	949.4	87.9	1079.8
Jun-96	182.9	517.7	946.9	89.6	1056.9
Jul-96	175.8	509.3	895.4	89.6	999.4
Aug-96	168.3	506.0	851.6	90.4	942.3
Sep-96	166.1	512.8	851.9	89.9	947.3
Oct-96	166.2	516.7	858.5	88.9	966.1
Nov-96	167.7	511.6	858.0	88.6	968.0
Dec-96	174.7	524.2	915.8	88.8	1030.8
Jan-97	176.1	541.7	953.9	88.5	1078.3
Feb-97	177.3	565.5	1002.7	88.7	1130.2
Mar-97	177.7	572.0	1016.5	89.1	1140.9
Apr-97	173.9	576.3	1002.2	89.6	1118.1
May-97	174.9	574.3	1004.6	90.6	1108.8
Jun-97	177.7	582.9	1035.5	91.0	1137.9
Jul-97	179.4	604.4	1084.0	91.2	1189.3
Aug-97	179.0	620.5	1110.4	90.4	1228.4
Sep-97	175.6	601.5	1056.1	90.5	1167.5
Oct-97	171.6	589.3	1011.3	90.2	1120.8
Nov-97	170.3	580.8	988.9	90.8	1089.5
Dec-97	163.9	595.0	975.3	91.1	1070.5
Jan-98	159.0	608.4	967.5	91.1	1061.8
Feb-98	151.8	608.4	923.4	91.8	1005.9
Mar-98	150.9	612.2	923.6	93.0	992.8
Apr-98	144.8	608.3	881.1	94.4	933.0
May-98	141.9	595.2	844.5	96.2	877.7
Jun-98	152.0	601.1	913.6	97.3	939.3
Jul-98	154.0	602.3	927.6	96.4	962.3
Aug-98	150.3	599.5	901.1	96.3	936.1
Sep-98	146.4	570.7	835.2	95.2	877.4
Oct-98	135.5	549.5	744.6	94.5	787.7

Month	Index A US cents/kg	Exchange Rate CFAF/\$	Prices CFAF/kg	CPI 2001 = 100	Price deflated CPI 2001=100
Nov-98	123.6	563.8	697.1	94.5	737.4
Dec-98	123.5	560.0	691.4	93.8	737.0
Jan-99	123.0	565.1	694.9	93.2	745.4
Feb-99	123.9	585.4	725.1	93.0	780.2
Mar-99	124.8	602.8	752.4	92.8	810.8
Apr-99	127.3	612.8	780.1	93.9	831.0
May-99	132.1	617.3	815.2	94.7	860.7
Jun-99	129.0	632.1	815.2	95.3	855.5
Jul-99	120.0	633.8	760.3	95.6	795.0
Aug-99	112.4	618.7	695.2	95.7	726.2
Sep-99	109.1	624.7	681.5	95.2	716.2
Oct-99	104.6	612.7	640.7	94.9	675.3
Nov-99	101.9	634.2	646.1	93.8	688.7
Dec-99	97.4	648.8	632.2	93.2	678.2
Jan-00	104.6	647.3	676.8	92.6	730.8
Feb-00	118.5	667.1	790.2	92.8	851.8
Mar-00	126.3	680.2	859.3	93.8	916.0
Apr-00	129.4	692.9	896.6	94.3	950.5
May-00	133.4	724.2	965.8	95.5	1011.2
Jun-00	131.1	691.1	906.2	97.1	933.5
Jul-00	128.7	698.2	898.8	96.9	927.8
Aug-00	134.2	725.6	974.1	96.8	1006.0
Sep-00	135.9	752.3	1022.5	96.3	1061.8
Oct-00	134.3	767.4	1030.2	96.9	1063.0
Nov-00	141.1	766.0	1080.5	97.1	1113.3
Dec-00	145.2	731.3	1061.9	97.5	1089.0
Jan-01	141.5	699.2	989.2	97.3	1017.1
Feb-01	133.2	711.8	948.5	97.1	976.4
Mar-01	120.3	721.5	867.9	98.6	880.0
Apr-01	112.8	735.6	829.3	99.1	836.9
May-01	110.2	750.6	826.4	100.4	823.0
Jun-01	104.7	768.9	804.3	101.2	794.5
Jul-01	100.5	762.3	765.9	101.8	752.7
Aug-01	95.6	728.6	696.7	101.5	686.4
Sep-01	91.0	720.1	655.2	100.5	652.1
Oct-01	82.0	724.2	594.2	101.2	587.4
Nov-01	83.8	738.5	619.0	100.6	615.2
Dec-01	94.5	735.1	694.8	100.8	689.6
Jan-02	95.7	742.8	711.0	100.5	707.6
Feb-02	94.4	754.0	711.7	101.4	702.2
Mar-02	92.7	749.0	694.7	101.7	682.9
Apr-02	91.3	740.5	676.2	102.5	660.0
May-02	86.7	715.4	620.1	103.5	599.3
Jun-02	90.9	686.8	624.1	104.2	599.2
Jul-02	102.5	661.2	677.7	104.7	647.7
Aug-02	109.0	670.9	731.2	104.8	698.2
Sept-02	108.1	668.8	723	102.8	703.1
Oct-02	109.2	668.8	730.3	103.5	705.7

Month	Index A US cents/kg	Exchange Rate CFAF/\$	Prices CFAF/kg	CPI 2001 = 100	Price deflated CPI 2001=100
Nov-02	115.2	661.3	761.8	104.1	731.9
Dec-02	121.6	644.4	783.5	104.0	753.6
Jan-03	125.0	617.5	771.9	103.6	745.5
Feb-03	129.2	608.9	786.4	104.5	747.1
Mar-03	134.6	607.6	817.8	104.3	784.2
Apr-03	134.1	598.3	802.1	104.4	768.1
May-03	127.4	567.1	723.4	105.4	685.2
June-03	129.0	562.5	725.6	106.2	683.1
July-03	132.7	567.9	753.6	105.3	726.9
Aug-03	133.4	589.1	785.8	105.0	748.1
Sept-03	141.5	582.4	824.4		
Oct-03	160.3	559.1	896.2		

The CPI shown above is the simple average of the CPIs for Benin, Burkina, Côte d'Ivoire and Mali, using IFS sources. From October 2001 to March 2003, current prices increased by 64% in US\$ and 37% in CFAF; from March 2003 to May 2003, current prices declined by 5% in US\$ and 12% in CFAF. Current prices were deflated by the CPI index taking the 2001 average as unity; deflated prices are therefore expressed in 2001 CFAF. The lowest value of deflated prices occurred in October 2001 (CFAF 587 per kg) and the highest in February 1994 (CFAF 1663 per kg), which represents a 65% fall from peak to bottom, compared with a 44% fall in current CFAF over the same period. .

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