

STRATEGIC FRAMEWORK FOR THE DEVELOPMENT OF THE COTTON SECTOR IN BURKINA FASO

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The growth of the cotton sector has contributed to the reduction of poverty in Burkina, and not at the expense of the food crops. Furthermore, it has had spillover effects on the other activities in the cotton growing zone. But the rapid increase in cotton revenue between 1994 and 1998 was followed by a downturn from 1998 to 2003, half due to the drop in world prices, aggravated by the subsidisation regime of the industrialised countries.

The strategy adopted in Burkina seeks to increase producer income by improving productivity and ensuring the sustainability of the sector. This can only happen if the following activities are strengthened: management advice to farm holdings, construction of rural tracks and warehouses, credit facilities to enable the cotton grower to purchase equipment, control of soil and environmental degradation, risk management, protection of producers' interests at WTO in order to eliminate subsidisation regimes that depress world prices.

Burkina needs assistance that is complementary to that provided by programmes currently underway. There are fifteen priority actions that were studied by the partners, after which a forum follow up committee was set up and a work programme was adopted for the next 12 months.

1. Competitiveness and vulnerability

The Burkina cotton sector is very competitive, but its medium-term future may be in jeopardy because of the subsidies paid to producers in the industrialised countries. In 2001/02, the Burkina cotton sector had to balance its accounts without any price support while “Due to subsidisation, prices paid to domestic cotton farmers were 90% and 154% above world prices in 2001-2002 in the US and EU respectively”.¹

Strong points in the Burkina cotton sector: (i) a producers' organisation (UNPCB) that is growing stronger, an efficient cotton company (SOFITEX), and good understanding between the two, (ii) involvement of the banking system thanks to healthy financial management in the cotton sector, (iii) steady growth in production of high quality cotton fibre.

The weak points: (i) poor condition of rural tracks, (ii) high cost of inputs, and lack of equipment, (iii) insufficient advisory services, (iv) stagnation of yields since 1985/86 (v) dependence on export prices since local spinning mills only absorb 3% of the cotton fibre produced

Threats: soil and environmental degradation, lower export prices, price volatility.

Opportunities: improvements in the production mechanism, institutional innovations, a stable macro-economic framework and fruitful partnerships.

¹ “Proposal for an EU-Africa partnership in support of cotton sector development” page 3, COM (2004) 87 final, Brussels 12.2.2004.

2. Cotton strategy and poverty reduction

Over 90% of the poor people live in rural areas where over half the population lives below the poverty line of about 127 euros per adult per year. According to three INSD studies, the poverty rate in the rural areas was 51% in 1994 and 1998, and rose to 52.3% in 2003. Between 1994 and 1998, poverty in non-cotton rural areas, which rose from 51.5%, to 53.4%, was offset by the strong decrease in poverty in the cotton zone (from 50.1% to 42.4%).² This improvement came from the fact that, in constant CFA francs, the global revenue of the cotton producers and the per hectare income rose by 162% in 1994/95 and 65% in 1997/98. But in the 1997/98 to 2002/03 period, global revenue only rose by 9%, and income per hectare (whose evolution is indicative of trends in producer revenue) declined by 21%, half of which was due to lower prices.³ Since subsidisation sends world prices down, it helps increase poverty in Burkina.

Even without surveys, it is clear that the cotton sector has contributed to alleviating poverty. The expansion of the cotton sector is not harming the production of food crops, quite the contrary. Fertilisers bought with loans guaranteed by future cotton grain deliveries have made it possible to produce far more maize and thus to improve food security. Furthermore, the increase in monetary revenue from the sale of cotton grain has had a spillover effect on all of the cotton basin and has led to improvements in the physical and social infrastructure (schools and healthcare centres). It has also contributed to opening up areas thanks to better rural tracks. Approximately two million people live directly or indirectly off cotton which generates 60% of Burkina's export earnings.

Cotton plays a decisive role in combating poverty and in the national development strategy. But despite its rapid rise, the cotton sector still needs support. Actions needed have been studied together with all the stakeholders. The main objectives of the strategy can be summarised as follows:

- (i) **Strengthen the producers organisation.** The *Union Nationale des Producteurs de Coton du Burkina* (UNPCB), created in 1998, took over 30% of the capital of SOFITEX in 1999 and obtained a majority of seats in the cotton management committee, that was established through a State-SOFITEX-UNPCB Interprofessional Agreement. UNPCB received technical assistance that enabled it to analyse the dossiers better and to play a more efficient role in managing the sector.
- (ii) **Liberalisation but keep the advantages of sector integration.** The SOFITEX monopoly ended after the installation of two new companies in the east and centre of the country. But the advantages of the integrated sector were maintained, e.g. deliveries (at the village level) of high quality inputs to the *Groupements de Producteurs de Coton* (GPC) paid for out of loans guaranteed by seed cotton, all of the output was bought from the villages at the floor price notified prior to sowing, funding for research, cotton fibre quality control.
- (iii) **Improve productivity through advice to producers and equipment credit facilities.**

² "Analyse de la pauvreté au Burkina Faso" INSD, 1999, "Cadre stratégique de lutte contre la pauvreté", Table 1, page 15, Ministère de l'économie et du développement, January 2004.

³ If the area cultivated by each worker remains stable, changes in per hectare income will reflect changes in the producer's income. See Tables 9, 17, 19A, 19B, 19C and 21 of the statistical annex in "Reforming the Cotton Sector in SSA" by Louis Goreux, World Bank, ARWPS 62, Second Edition, Nov. 2003.

- (iv) **Defend the producers' interests in international fora, especially at WTO.**

3. Actions underway

- 3.1 Sector liberalisation.** With the take off of two new cotton zones came the need for new institutions, particularly an interprofessional cotton association which could manage the critical functions of the sector. Like in the case of SOFITEX, UNPCB owned part of the capital and was represented on the board of directors of each of the two new companies in the new zones.
- 3.2 Advice to producers.** SOFITEX provides some support for producers through its *correspondants coton* (CC) and its *agents techniques coton* (ATC), but this is not enough (1 CC for over 1,500 farm holdings and 1 ATC for over 500 farm holdings). With the help of AFD and EU, SOFITEX has set up a technical team that has already trained 28 management advisers who have counselled close to 1,450 producers. A team of financial management advisers has also been created at UNPCB and needs to be strengthened.
- 3.3 Infrastructure and equipment.** In 2002, about 1,000 km of tracks that needed to be built (15,000 euros/km) were identified but since that time, the cotton growing area has been expanded by 35%, which means that there is some catching up to do. This will require substantial external assistance, but maintenance of the tracks will continue to be billed to the cotton societies. Further, the EU has contributed to the construction of 150 warehouses to store inputs and 50 premises for community use at a cost of about 10,000 euros each. Half was paid by the EU, a quarter by SOFITEX and the last quarter by UNPCB. As concerns equipment for the cotton growers, programmes have been launched, funded by AFD. The cotton grower pays 20%, AFD 30% and the bank or the *Caisse Populaire* covers the outstanding 50% through a loan at an interest rate of about 15%. The candidates are selected by a peer association. If the bank accepts to grant the loan, AFD and the cotton grower pay their share. For equipment composed of a plough, a cart and a pair of oxen, the contribution from AFD is around 230 euros.
- 3.4 Research.** SOFITEX helps fund INERA research in order to develop more productive varieties, but too little attention is given to soil fertility restoration and environmental protection.
- 3.5 Quality improvement.** Since the 2004/05 output may be 20% higher, SOFITEX has built two new ginneries. It has just installed a second seed delinting chain and provides harvest bags and special weighing cloths to avoid contamination that could make the product impossible to spin. The African Cotton Association is working to promote the Africa label.
- 3.6 Horizontal diversification.** The cotton/maize rotation system has been very effective but could be improved by the introduction of a legume such as cowpea (niébé) to fix the nitrogen that the cotton plant needs and to provide a plant cover that can protect the soils against erosion. The development of other promising sectors (cowpea, fruits, vegetables, oil-yielding plants, animal products) should be encouraged in this zone since the agro-ecological conditions are favourable.
- 3.7 Vertical diversification.** Oil mills that process cotton grain (formerly treated like waste!) are producing table oils, soap, and cotton cake for the local market. Despite major increases in production, the demand for cotton cake as animal feed still outstrips supply. Local processing has increased, generating three times as much revenue for SOFITEX from cotton grain sales as it did in 1995. Experiences in the textile industry have been less rewarding. Since Faso-Fani closed down, FILSAH is the only remaining spinning

mill. It received a million euro loan from the EIB in 1997, but with the loss of its main outlet in Côte d'Ivoire, is going through difficult times.

3.8 Risk management. By combining futures sales, two stage payment schemes (rebates) and the support fund, Burkina has managed to deal somewhat with the price risk. But this formula was pushed to the limit when prices plummeted. To counter the problem, the support fund needs to be replenished. Furthermore, the national system should be given regional support when export earnings from cotton fibre, expressed in euros, are too seriously affected by exchange rate fluctuations.

3.9 Multilateral negotiations. Burkina is actively intervening at WTO to emphasise the special position of cotton and obtain rapid cancellation of the subsidisation that depresses world prices. A coordination and monitoring unit on the implementation of the WTO agreements (CNCS/WTO) was set up with support from the JITAP programme, German technical assistance and other partners, especially via IDEAS. Furthermore, an embassy has just been opened in Geneva.

4. Priorities

The two main objectives are to increase producer revenue by improving productivity and ensuring the sustainability of the sector by harnessing soil degradation and increasing yields. With this in mind, emphasis should be placed on advice in farm management (3.2), improving infrastructure and equipment (3.3), controlling soil and environmental degradation (3.4), risk management (3.8) and obtaining fair prices by eliminating subsidies (3.9). The assistance required for this work should be complementary to the assistance provided through current programmes.⁴

⁴ AFD programme support amounts to 26 M ₣, of which part is for crops other than cotton. Half of this amount is for programmes that were started in 2004 and will end in 2009. **Germany** just approved financing for a 12-year agricultural development programme in the east and south-west. The first 3-year tranche for an amount of 8.3 M ₣ is to be started in June 2004. As concerns the **World Bank**, a 40 million dollar programme for cotton, oil-yielding crops, fruits and vegetables is to be started in 2005.

5. Requests

At the national level, requests have been submitted for additional support for an amount of 70 million euros (**70 M ₣**) for a three year period starting in January 2005, broken down as follows: 49 M ₣ for cotton, 11 M ₣ for basic social infrastructure (5.8 and 5.9) and 10 M ₣ for horizontal diversification. These requests focus on:

5.1 Rural tracks (1,330 km at 15,000 ₣ par km): **20 M ₣**.

5.2 Animal traction equipment for 30,000 farms (medium-term credit 11.7 M ₣ and contribution from cotton growers 4.7 M ₣) external contribution: **7 M ₣**.

5.3 Warehouses and multi-purpose centres (450 to 11,000 € per unit, of which 25% comes from local contributions): **3.7 M ₣**.

5.4 Professional and technical capacity building for producers, follow through on PA-OPC and implementation of microprojects for soil conservation: **7 M ₣**.

5.5 Research (varieties, crop protocols, soil fertility, environment): **1 M ₣**.

5.6 Contribution to replenishment of support fund: **10 M ₣**.

5.7 Institutional support (running the Permanent Secretariat to monitor the liberalised cotton sector, establishing an interprofessional association on cotton, managing the *Cellule Nationale de Coordination et de Suivi* which monitors the implementation of the WTO agreements, action plan to develop the cotton sector): **0.3 M ₣**.

5.8 Wells and boreholes (800 to 10,000 euros per unit: **8 M ₣**.

5.9 Schools and healthcare centres: **3 M ₣**.

5.10 Horizontal diversification (promotion of fruits and vegetables, oil-yielding crops and animal products) in the cotton zones: **10 M ₣**.

At the regional level, the following requests for support are based on consultations held within the framework of WAEMU:

5.11 Technical and financial support for the regional professional organisations.

5.12 Support for cooperation among national research centres.

5.13 Technical and financial support in training on negotiating at WTO, and legal consultations.

5.14 For countries whose currency is linked to the euro, neutralisation of the large fluctuations in export earnings from cotton.

5.15 Contribution to the creation of a regional fund for cotton processing in WAEMU Member States.

6. Reactions of technical and financial partners (TFP)

The EU technical and financial partners agree with the analysis made in points 1 and 2 of this document and the priorities identified in point 4. They want to draw the stakeholders' attention especially to the need to:

6.1 implement actions designed to ensure the sustainability of the production systems in the cotton growing zones (soil fertility management, ecological impact, agro-pastoral diversification agropastorale, etc.) (5.4)

6.2 give more support and advice to the producers (5.4)

6.3 coordinate future support actions in the cotton sector with existing sectoral policies, and promote synergy with development programmes that are already being carried out in the cotton zones (local development programmes, labour-intensive programmes to construct rural tracks, support programmes for the education, healthcare and hydraulics sectors, action plans in the agricultural sector, etc.) (5.1,5.2, 5.3,5.8, 5.9 and 5.10)

6.4 ensure consistency between the methods of intervention of the various TFP in the cotton zones (5.2, 5.3,5.4, 5.8, 5.9 and 5.10)

6.5 establish a cotton observatory, as an interprofessional effort to monitor farm holdings in the cotton zones and collect data on the performance and the impact of the sector (5.7)

6.6 promote economically profitable and sustainable horizontal and vertical diversification (5.10 and 5.15)

6.7 clearly define the roles and functions of the various categories of actors taking part in the new organisation of the sector (5.7, 5.12, 5.11)

6.8 establish simple financial mechanisms, cofinanced by the producers and specifically designed to guarantee the cotton grain floor purchasing price for producers (5.6, 5.14)

6.9 coordinate national and regional strategies to help defend the interests of the cotton growers at WTO.(5.13)

The TFP have promised to study possibilities for backing the Burkina cotton sector through current and future cooperation programmes, and, together with the government, work out the most appropriate financial framework (5.8,5.9 et 5.10).

7. Actions to implement in the next 12 months

A follow up committee to the forum will be created to respond to the requests from the Burkina side and to the concerns expressed by the partners. It will be composed of Burkina and TFP representatives and a secretariat that will be provided by the Burkina side. To ensure efficiency, the sessions will be devoted to specific subjects that are announced sufficiently in advance. The priority actions for the next 12 month are summarised below:

7.1 Rural tracks (5.1). The Burkina side will update the list of priority needs and information on project advancement in order to identify a 2005/07 implementation programme that optimises synergies (6.3).

7.2 Equipment (5.2). UNPCB will itemise its members' need, bearing in mind their loan repayment capacity and the availability of efficient micro-financing bodies (6.3). UNPCB will discuss conditions for extending loans and repayment conditions with its partners.

7.3 Warehouses (5.3). UNPCB will propose a programme to its partners and discuss the financial conditions.

- 7.4 Capacity building and soil protection (5.4). After analysing the experiences of the pilot projects (6.1 and 6.3), UNPCB (with the assistance of the technical services) will identify the needs and propose an activities programme.
- 7.5 Research (5.5). INERA will propose an activities programme that accommodates the need for sustainable soil fertility management and environmental protection (6.1).
- 7.6 Support fund (5.6). The Burkina side agrees with the concerns expressed by the partners (6.8). The UNPCB and the cotton societies will submit proposals on replenishing and managing the fund.
- 7.7 Institutional support. Activities proposed (5.7) should be started without delay.
- 7.8 As concerns requests for support for local development in the cotton zones (5.8 and 5.9), consultations will be held between the Burkina side and the partners to ensure the concurrence of actions and existing policies (6.3) (6.4) et (6.6).
- 7.9 Horizontal diversification (5.10). Consultations will be held between the administration and the FTPs to seek the funding required for the implementation of the actions plans on cowpea, oil-yielding plants, fruits, vegetables, and animals products in the cotton-growing zone.
- 7.10 Regional actions. (5.11 to 5.15), consultations will be organised to respond to the recommendations made by the forum.

ACRONYMS

AFD	Agence française de développement.
ATC	Agents techniques coton
CC	Correspondants coton
CNCS	Comité national de coordination et de suivi
EIB	European Investment Bank
EU	European Union
INERA	Institut national de la recherche agricole.
INSD	Institut national des statistiques et de la démographie
SOFITEX	Société burkinabé des fibres textiles.
TFP	Technical and Financial Partners
UNPCB	Union nationale des producteurs de coton du Burkina.
WAEMU	West Africa Economic and Monetary Union
WTO	World Trade Organization