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REGULATION AND ISSUES TO ENHANCING PROFITABILITY OF AFRICAN COTTON

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ARECA Introduction

Overview of economic interest for commodities

Discussions and studies on commodities, for some time, were focused on questions concerning:

- depreciation of export earnings of producing countries.
- farm gate prices stabilisation mechanism and;

International Commodity Agreements (ICAs) were then meant both to:

- prevent market distortions in the interest of producing countries and;
- meet internal requirements of importing countries for fair and reasonable prices.

ARECA

▫ Collapse of ICAs due to their controversial goals ;

▫ Government measures to secure remunerative price for farmers:

- subsidies in developed countries;
- price "lissage" mechanism in developing countries.

Consequently, can we address prices fluctuations as effects of market forces without tackling the origin of the problem?

ARECA Overview of the farming system of African cotton

▫ **Statement**

The African cotton like any other commodity in any country is produced in conditions affecting the profitability of the crop. These conditions concern the farming scheme or producing patterns as well as the overall macro-economic environment prevailing in the growing region.

▫ **Proposal**

Our proposal is that studies should then address issues in these production patterns which also could have some impact and display different responsibilities at government level and towards the private players.

ARECA Production

▫ **The land tenure:**

- Ownership of the land; poor regulation
- Conditions for acquisition, renting and management;
- Difficulties or impossibility to give a value to the land into exploitation;
- Difficulties to use the land as a guarantee for a farm credit.

▫ **Sustained management of the land:**

- Need for a rotation in the use of the land to avoid quick deterioration of the soil;
- Need to secure conditions regarding the ownership and management of the farm.

ARECA Production (suite)

▫ **The status of the farm:**

- Cotton production is dominated by smallholders, (from 2 to 4 ha per farmer);
- Physical persons instead of companies as compared with developed countries;
- Cooperatives are rather "vanishing entities" with no right on the property of the cotton, which still belongs to members as individuals

Production factors: (seeds, fertilizers, agricultural equipments)

- Acquisition of seeds involves :
 - } the research institution;
 - } the financing;
 - } the pricing and modalities for distribution to farmers;
- Fertilizers:
 - } provided to farmers by ginning companies against supply of the seed cotton;
 - } lack of binding commitments between the two parties to secure the credit.

Road maintenance:

- Public service (befalls to Government) but carried by Ginning companies;
- System of subcontracting to appoint enterprises ready to prefinance against reimbursement by Government (which may take time).

Marketing

Quality control of the seed cotton:

- visual control carried out in presence of both Representatives of the farmer and the ginner in the factory;
- Arbitration provided by a third party in case of dispute.

Transportation delays due to:

- impracticable roads during raining seasons;
- abnormal road transport practices and barriers;

Marketing (suite)

Farm credit:

- Specific need and risk of agricultural sector;
- Need for appropriate farm credit with low loan rate and other advantages.

Pricing and payment of the seed cotton:

- "Residual farm gate price" obtained from a nationwide price determination mechanism not really taking into account the cost of production of the farmer;
- Payment of the farmer ; conditions and delays
- Lack of commercial documents;

Quality control of cotton fibre:

- Lack of national label;
- Need for a central or national testing Unit performed by a neutral body;
- Use of HVI testing system at least through common use to ensure cost efficiency.

Market access:

- Poor market information system;
- Prevalence of a niche market
- No real bargaining power;
- Long period for the repatriation of the product payment.

Shipping conditions and logistics:

- Absence of national armament;
- Low frequency of vessels for some given destinations.

Improving the macro-economic environment

Regulation and need for Government measures

A review of the overall cotton farming system in Africa, as listed above, shows that some of the major activities request sound means or inputs from the Government as public service provider and regulator. These activities can be recalled as follows:

- 🏗️ **Road construction and maintenance;**
- 🏠 **Social and economic infrastructures**
 - ☐ Electricity and water;
 - ☐ School and literacy tuition
 - ☐ Healthcare and social security

Improving the macro-economic environment (suite)

- 🏠 **Farming scheme**
 - ☐ **Land tenure regulation:**
 - ♣ starting point for modern agricultural development;
 - ♣ national census of cotton farmers;
 - ♣ rules on land management and soil protection.
 - ☐ **Conditions for seed production;**

- ☐ **Research-development to support cotton production (government input as public interest);**
 - ☐ Policy for fertilizers acquisition: no fertilizer, no cotton (government and professional input).
- 🏗️ **Transport control and safety:** actions to stop abnormal road transport practices increasing the cost of transportation ;
- 🏠 **Assistance to farmer:** promoting literacy tuition (a government policy and right for citizen);
- 🏠 **Follow-up measures to:**
 - ☐ sustain privatisation process;
 - ☐ to preserve fair competition among private ginning companies;
 - ☐ to secure timeframe for payment of the farmer.

- 🏠 **Specific farm credit facilities:**

agriculture is risky and highly dependant on weather conditions requests a specific financing system (commitment for local bank to provide a certain ratio of their credit portfolio to the agricultural sector).

- 🏠 **Local transformation policy:**

to be considered as a real challenge for any producing country; need for a political will and government vision, through a sound support;

Conclusion

Government actions, in its regular prerogatives of public service provider, or regulator in one of the listed domains is to reduce costs and charges actually borne by the farmer. Results could then help in improving the profitability of the production.

The ultimate objective of this paper is to help reviewing the terms of discussions and studies concerning the African cotton profitability as to explore new issues, namely:

?Identify and examine the relevance of the listed issues (not exhaustive) and corresponding government measures likely to impact the profitability of the African cotton;

Conclusion

?Assess in econometric terms this impact ;

? Compare such impact with results of any action to correct price fluctuations;

?Importance of such impact could be indication that price distortions should no longer be the core issues to address when considering the profitability of commodities in developing countries facing poor farming conditions;

? Consequently, assistance to African cotton producing countries should then support new adjustment program to force or encourage producing countries to develop a modern farming system by cleaning up the production environment before private players can start their activities;



? Government measures are then to be identified and implemented in view to improving the local macro-economic patterns and for the benefit of the domestic industry, without negative effect on world market and fair competition with other producing countries;

? Such programs are needed in developing countries where cotton is still a "social" crop, or a development vector "entrusted" or coupled with social activities for poverty alleviation, to provide cash money to meet populations primary needs for subsistence.



**THANK YOU
FOR YOUR ATTENTION**

