

**COMMON FUND FOR COMMODITIES**

**Prevention of Seed Cotton Contamination in West Africa  
(Burkina Faso, Côte d'Ivoire, and Mali)  
(CFC/ICAC/38)**

**PROJECT DOCUMENT**



**Stadhouderskade 55  
1072 AB Amsterdam  
The Netherlands**

**Tel. +31 (0)20 575 4949  
Fax. +31 (0)20 676 0231  
www.common-fund.org  
e-mail: <managing.director@common-fund.org>**

**Date: 3 March 2010**

This document has restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without the prior authorization of the Common Fund for Commodities.

## Table of Contents

Acronyms and Abbreviations..... Error! Bookmark not defined.

### Logical Framework

#### Map

Project Summary..... 1

### A. Project Background

Introduction ..... Error! Bookmark not defined.

**B. Overview of the Commodity ..... 11**

1. Overview of Supply and Demand ..... 12
2. Problems, Issues, and Opportunities ..... 14
3. Relevance of Project to CFC and ICAC Commodity Strategy ..... 15

**C. Related Projects and Previous Work..... 16**

1. International development agencies ..... 16
2. Private Sector Experience of East and Southern Africa..... 16

**D. Project Objectives and Rationale..... 17**

1. Project goal..... 17
2. Rationale for the project ..... 17

**E. Institutions Involved and Responsibilities..... 18**

**F. Project Components and Work plan..... 19**

1. Project strategy ..... 19
2. Project components ..... 20
3. Project organisation ..... 24
4. Project Costs..... 26

**G. Beneficiaries and Benefits..... 30**

H. Organization and Management

**I Monitoring, Supervision, and Evaluation..... 30**

**J. Risk Assessment..... 31**

**Annex I. The problem of cotton contamination..... 32**

**Annex II. Indicative Terms of Reference for the key PEA staff ..... 38**

- Regional coordinator: ..... 38
- National coordinators: ..... 38
- The M&E Specialist: ..... 38

**Annex III. Detailed Budget/Cost tables**

## Acronyms and Abbreviations

ACA	African Cotton Association
ACQ	African Cotton Quality
AfDB	African Development Bank
CCC	Chipata China Cotton Ginnery
CFC	Common Fund for Commodities
CMDT	La Compagnie Malienne pour le Développement du Textile
ECOWAS	Economic Community of West African States
ICAC	International Cotton Advisory Committee
IER	Institut d'Economie Rural
IFDC	An International Center for Soil Fertility and Agricultural Development
INERA	National Institute of Agronomic Research -
ITMF	International Textile Manufacturers Federation
M&E	Monitoring & Evaluation
MSU	Michigan State University
NWAfD	North and West Africa Division
OCC	Office of Cotton Classification
ON	Office du Niger
PC	Project Coordinator
PEA	Project Executing Agency
QSIQ	Quality Supervision Inspection and Quarantine
TOR	Terms of Reference
UNPCB	Union Nationale des Producteurs de Coton du Burkina
USAID	United States Agency for International Development
WACIP	West African Cotton Improvement Program
WAEMU	West Africa Economic and Monetary Union

## Logical Framework

Project Title: Prevention of Seed Cotton Contamination in West Africa

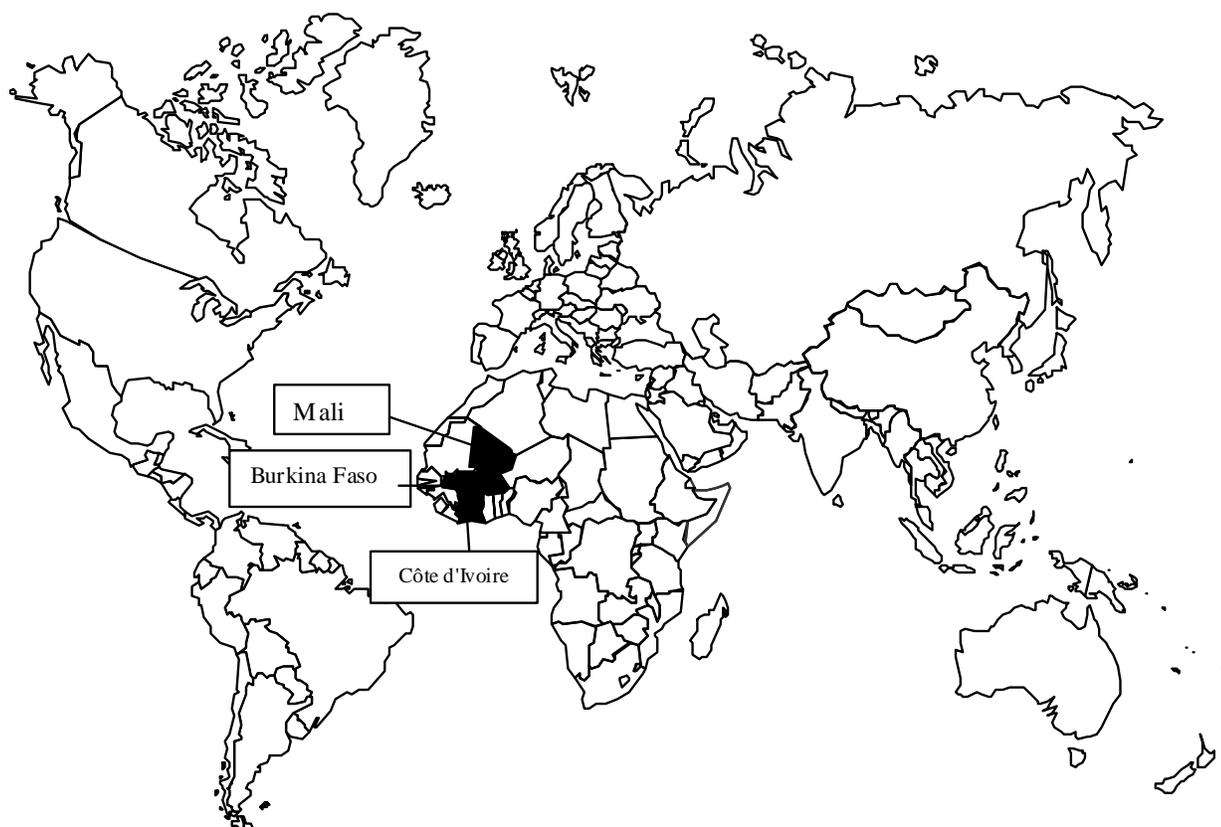
Estimated Project Starting Date: January 2010

Estimated Completion Date: December 2012

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p><b>Program Goal</b> To encourage and help West African cotton producers to prevent contamination of seed cotton and lint in order to improve the prices obtained from traders and the reputation generally of cotton from the region.</p>	<p>Cotton that is graded as free of contaminants at the collection centers and gins as a result of project activities. Premiums paid for the cotton in 3 years and shared with growers.</p>	<p>Cleanliness of cotton sold to the companies and premiums from the world markets.</p>	<p>Growers and companies will be adequately compensated by the markets for the additional investment.</p>
<p><b>Project Purpose</b> a. Establish pilot activities in 3 countries to demonstrate the ways, means and benefits of preventing contamination of seed cotton. b. Provide incentives that will encourage farmers to make the extra effort and give the tools to keep cotton clean. c. Assist companies in reducing contamination throughout the processing and handling of cotton. d. Set the stage for a system that will generate monetary premiums that will be shared with the growers.</p>	<p>a. Farmers and companies engaged. b. 9,000 new farmers each year receive incentive packages and participate. c. The cotton reaches the final destination and is recognized as free of contaminants. d. Premiums are realized and companies share them with growers.</p>	<p>a. Staff observation. b. Staff observation. c. Independent observers and traders. d. Company and unions reports and survey of growers.</p>	<p>a. Companies, unions and farmers see sufficient benefit and companies in financial position to implement. b. Farmers accept the incentive package offered via the project c. Companies have financial capacity and interest. d. The cotton is sufficiently free of contamination and in quantity to make a difference</p>
<p><b>Outputs</b> a. 27,000 farmers in West Africa producing over 54,000 tons of non-contaminated seed cotton annually. b. Premiums of 20 CFA/kg for lint or \$880,000 received and shared with farmers annually after 3 years. c. Interest and replication by at least 27,000 more farmers in the 3 countries and a model for companies and farmers in the entire region. d. Improved reputation and prices for WA cotton.</p>	<p><b>Magnitude of Outputs Necessary to Achieve Purpose</b> Successful piloting as planned, i.e., number of farmers, production of non-contaminated cotton, and premiums as described in outputs</p>	<p>Project reports, reports by implementing partners, visits to farmers in project zones, independent surveys by research institutions, interviews with traders and ITMF reports.</p>	<p>Farmers have sufficient incentive to prevent contamination and companies have the incentive and capability to do the same. Traders will recognize and reward the better quality cotton.</p>
<p><b>Inputs Activities and Types of Resources</b> a. Establish pilot projects for 9,000 more farmers in each of 3 years (3,000) per country in different areas. b. Provide \$1.7 million in harvest material incentive packages for the project farmers. c. Support companies to provide outreach and extension services to farmers and training for their staff</p>	<p><b>Level of Effort for Each Component</b></p> <ul style="list-style-type: none"> <li>• Comp 1 – Training and awareness – 20%</li> <li>• Comp 2 – Incentive packages – 67%</li> <li>• Comp 3 - Downstream efforts – 13%</li> </ul>	<p>Project progress and financial reports, evaluations</p>	<ul style="list-style-type: none"> <li>• CFC Financing is in time to make all arrangements prior to the agricultural season</li> <li>• Counterpart contributions materialize as planned</li> </ul>

## Prevention of Seed Cotton Contamination in West Africa (Burkina Faso, Côte d'Ivoire and Mali)

### MAP



The colors, boundaries, denominations and classifications in this map do not imply, on the part of the Common Fund for Commodities or its Members, any judgment on the legal status of any territory, or any endorsement or acceptance of any boundary. The projection used for maps may distort shape, distance and direction.

## PROJECT SUMMARY

<b>TITLE OF THE PROJECT:</b>	Prevention of Seed Cotton Contamination in West Africa (Burkina Faso, Cote d'Ivoire and Mali).
<b>SUBMITTING ICB:</b>	International Cotton Advisory Committee (ICAC).
<b>DURATION:</b>	Three years.
<b>LOCATION:</b>	Burkina Faso (LDC), Côte d'Ivoire and Mali (LDC).

**BRIEF DESCRIPTION OF THE PROJECT:** The project aims to increase direct income accrued by small holder cotton producers in the selected production areas through assistance to enable them to produce and sell uncontaminated seed cotton. It is estimated that ultimately (once the system has gained credibility) income increases exceeding 5 – 10% of the current incomes can be realized. The project will improve the cotton value chain efficiency through facilitation of producer training and provision of required harvest/collection inputs as well as building/strengthening the required institutional arrangements between the different commercial partners involved in the early stages of the supply chain (producers and their organizations, traders, ginneries, cotton companies, etc).

The project will target producer cooperatives with a total of some 27,000 farmers in Burkina Faso, Mali and Côte d'Ivoire, as well as cotton companies to reduce contamination in 100,000 tons of seed cotton over a 3 year period.

The project activities will: a) make farmers and in the cotton supply chain (transporters, worker) aware of and train them on ways to reduce contamination; b) formulate and implement a community based scheme to remove contaminating polypropylene sacks from use, making cotton sacks available for the time of cotton picking to credibly eliminate the main source of contamination; c) work with fertilizer supply companies to eliminate delivery of fertilizer in polypropylene bags; d) promote the adoption of technologies preserving cotton quality by cotton companies, and; institute an appropriate certification for cotton quality to enable cotton companies captures quality price premiums and pass a share to the farmers; and e) conduct advocacy to ensure that the necessary practices and regulations are changed at the national level.

Parallel to these efforts, the World Bank will initiate a programme that will focus on developing the required institutional and legislative arrangements at national level to ensure the regulatory/institutional sustainability next to the commercial sustainability resulting from the direct project activities.

<b>TOTAL COST:</b>	USD \$7,045,000.
<b>CFC FINANCING:</b>	USD 5,500,000 (Grant). Of this amount, USD 2,000,000 will be contributed by CFC and USD 3,500,000 is being provided as a co-financing contribution from the EU through its All ACP Agricultural Commodities Programme ( <b>Note, next page</b> ). USD 500,000 is being funded from the earmarked contribution of the OPEC Fund for International Development to the CFC's

Second Account. Of the total USD 5,500,000 contribution, USD 4,991,000 is allocated to IFDC for project activities. Remaining project funds equal to \$509,000 will be retained by CFC for supervision, monitoring, evaluation, contingencies, and handling of EC contribution.

- COUNTER PART CONTRIBUTION:** USD 1,545,800  
In kind contributions with USD 92,000 allocated to PEA and USD 1,453,800 allocated to Implementing Institutions
- PROJECT EXECUTING AGENCY:** IFDC (International Fertilizer Development Centre), operating from Lomé, Togo.  
BP 4483, Lomé, Togo  
Contact: Dr M. Eilitta <meilitta@ifdc.org>
- SUPERVISORY BODY:** International Cotton Advisory Committee (ICAC).
- COLLABORATING INSTITUTIONS:** Public and private sector parties in the cotton sector in the three countries, including the lead government agencies/ministries.
- PARALLEL FINANCING:** USD 600,000 from the World Bank (funded under the All ACP Agricultural Commodities Programme).
- STARTING DATE:** January 2010

#### **Note**

The European Commission's **All ACP Support Programme on Commodities** is a EUR 45 million programme developed in the framework of the "EU Action Plan on Agricultural Commodities, Dependence and Poverty" and the "EU-Africa Partnership for the Cotton Sector Development". The overall objective is to improve incomes for producers of traditional or other agricultural commodities and reduce income vulnerability at both producer and macro level. The purpose of the programme is to strengthen the capacity to develop and implement sustainable commodity strategies that improve farmers' productivity and livelihoods and reduce income vulnerability. The Common Fund for Commodities is one of the International Organisations involved in the implementation of the Programme. The Fund's activities will focus on providing support (and finance) for the implementation of commodity specific projects with a multi-country focus. The current project on "Prevention of Seed Cotton Contamination in West Africa (Burkina Faso, Cote d'Ivoire and Mali)" is the third cotton project jointly funded by the CFC and the EC within the framework of the Programme.

## A. Project Background

The project is designed as a pilot project to set up sustainable mechanisms through which small holder cotton farmers will be enabled to sell clean, uncontaminated seed cotton and be rewarded higher prices, thus realizing increased net incomes. Current practices are that farmers are generally paid undifferentiated prices for the seed cotton delivered at the buying stations, thus denying any incentives for farmers to produce/harvest and sell clean, uncontaminated cotton. Although the textile industry places increasingly higher demands on the quality<sup>1</sup> of the cotton that can be processed without interrupting the spinning process or which does enable the production of textiles without any irregularities, the current arrangements in the early stages of the supply chain do not provide the appropriate incentives to the cotton farmers to meet the quality demands of the textile industry. Hence they maintain their practices of focusing on quantity (i.e. weight) of the seed cotton rather than on quality.

Initial trials in Mali in a CFC-funded pilot project/study have resulted in detailed information on the different sources and types of contamination prevalent in seed cotton sold at buying stations and the levels of contamination caused by harvesting methods, storage and transportation of the seed cotton. The prevalence of packing material (mostly synthetic), vegetative material and inorganic material, and their origins, has been extensively studied and analyzed, both at farm/village levels as well as at the level of the ginneries. The current project aims to build on these and other experiences to develop and introduce a sustainable, market-based, commercial linkage between producers, traders and ginneries with the objective of establishing a mutual benefit for all players in this early stage of the supply chain.

The Fund contracted IFDC consultants from Lomé (Togo) to establish the initial feasibility of the project concept and to assess lead stake-holder interest in such project. Three countries had initially been targeted based on consultations/exchanges during a regional workshop organized in the framework of the EC/All ACP Agricultural Commodities Programme. The project formulation team visited the three countries and found strong confirmations of support for such a project from lead stake-holders (farmer organizations, ginneries, private and governmental agencies involved in cotton buying and trading, etc). Based on the IFDC feasibility study, a first outline of the project has been prepared, which had been submitted to the Fund's Consultative Committee for its technical review.

Based on its review of the proposal, the pertinent "Note by the Secretariat" and extensive exchanges with representatives from the ICAC as well as the PEA, the Committee concluded as follows:

**Quote:**

*The Committee agreed with the project proponents that contamination of seed cotton originating from West Africa presented a very serious problem both for the cotton farmers, and for the cotton industry which was willing to buy West African cotton due to its unique fibre homogeneity. Furthermore, it was recognized that the problem of contamination should be addressed primarily at the post-harvest handling stage, as there was no reliable technology to remove some contaminants, particularly plastic, from seed cotton once introduced. The Committee acknowledged that farmer awareness and application of proper handling methods would most probably be a crucial step to eliminate the problem of contamination of West African cotton, increasing the prices paid for West African cotton, which currently stood well below the prevailing current world prices.*

---

<sup>1</sup> Quality of cotton usually refers to the quality of the cotton fibre as such (determined by factors like variety, growth conditions, crop management, etc.). In a wider sense, also issues like cleanliness and contamination with foreign matter may be taken into account.

*At the same time, the Committee was not convinced that the approach proposed in the project was workable. In particular, the following reservations have been expressed:*

- *while distribution of materials and enforcement of proper postharvest handling in the course of the project might succeed in reducing the level of cotton contamination, it would not be a strong guarantee of premium price for the farmers because (a) the quality of cotton secured by the project might not be immediately credible for the market as it would take time to establish reputation as to the purity of cotton; and (b) ginneries might not pass the premium on to farmers;*
- *the project was not sufficiently participative in its approach as it showed little attention to the integration of contamination-reducing practices into the socioeconomic structures existing in the cotton producing farming communities. Without such strengthening, the incentive schemes introduced by the project may not be sustainable after the termination of direct financial support for them under the project;*
- *in the absence of regulatory measures in place, the farmers may continue to employ contaminating handling methods after the completion of project activities. Even if premium price were achieved in the course of the project, it would be difficult to sustain after the completion of the project. A view was expressed that the project was probably premature in the sense that it could be successful and sustainable after the establishment of cotton quality certification systems and regulatory measures at the national level;*
- *there was no particular innovative component in the project. The Committee noted that the introduction of known handling techniques and regulatory measures could be more effective if it followed the example of other countries. South-South technology transfer could be a more appropriate. The catalytic role of the CFC in this process, nevertheless, would still need to be determined carefully to make such transfer effective, recognizing socioeconomic environment and avoiding competition with market mechanisms.*

*The Committee concluded that, while the goal of the project was supportable, the proposed implementation approach needed modification. Noting the relevance of the goals to the needs of CFC stakeholders, the Committee agreed to reconsider the proposal addressing cotton contamination issue in West Africa after major reformulation at a future date.*

Unquote.

The observations made by the Committee were made available to the proponents for consideration. In addition, extensive advice was provided by the Secretariat to the ICAC on how best the issues raised by the Committee could be addressed in a revised project design/proposal. In this regard, it should be noted that the Secretariat recommended an early revision of the proposal and subsequent re-submission to the CFC in view of the set deadline for project approval and subsequent securing of the substantive EC co-financing. Hence, the Secretariat obtained the concurrence from the Consultative Committee to possibly submit a sufficiently revised project proposal to the Committee through the Intersessional Mechanism of the Committee. This could possibly facilitate submission of the project to the Executive Board in October 2009 after which, in principle, sufficient time would remain to finalize co-financing arrangements with the EC.

The subsequently revised proposal had been submitted to the Committee under cover of a Note by the Secretariat, highlighting the main modifications in the project design. The revised proposal has received the endorsement of the Committee and was considered sufficiently modified and improved to seek formal approval of the project from the Fund's Executive Board. The conclusions of the deliberation by correspondence are as follows:

Quote:

*The Consultative Committee noted that the coalition of donors and collaborators, including the EC, the ACP, the CFC, the World Bank, the ICAC and others had been put together around the current project proposal to address the*

*problem of cotton contamination. The Committee further noted that in view of the interlinking commitments, the matter of CFC involvement must be decided no later than November 2009 and agreed to the consideration of the project by the CFC CC intersessional mechanism.*

*Considering the information on consultations undertaken in the process of revising the proposal, the Committee agreed that there was evidence of considerable global interest to address the problem of West African cotton contamination. In particular, the Committee noted the initiative of the World Bank to promote appropriate regional policies and regulatory measures to improve the situation with cotton quality assurance in West Africa.*

*The Committee noted the following changes made to the original project proposal:*

- The project primary approach had been revised to apply the experience in prevention of cotton contamination from other countries and regions, adapting it as necessary to the conditions of the target countries in West Africa so that the underlying weaknesses of the cotton value chain could be resolved.*
- To address the issue of cotton quality consistency the project activities would focus on a few target areas where the local community, with the participation of local authority, would voluntarily agree to a code of conduct prohibiting contaminating handling practices. This would be followed by the development of regulatory framework for banning contaminating practices in the context of the parallel World Bank interventions under the EC-ACP agricultural commodities programme.*
- As part of the efforts to address the weaknesses of the value chain, the project would seek agreement between the ginners, the cotton companies, and farmer groups/cooperatives to share fairly any premiums/gains received for cleaner cotton.*
- Instead of free distribution of bags, the project would seek a sustainable approach and incentive schemes to withdraw plastic bags from circulation during cotton collection. The project is expected to test the feasibility of different schemes (based on the experience in other parts of Africa) to make cotton bags available and affordable. Furthermore, the administrative measures would focus on withdrawing/banning plastic fertilizer bags which are among the main sources of contamination, while the distribution and use of cotton bags would be demand driven.*
- The project would aim to achieve the recognition of local voluntary certification schemes by cotton traders and industry. The experience of the local voluntary schemes would be used in the development of national and regional regulations. The World Bank will use its allocation under the All-ACP Agricultural Commodities Programme to pursue activities on establishing a national and regional policy and regulatory framework to enforce clean handling practices; this will be recognized as parallel financing and co-ordinated with the core project activities.*

*The Committee felt that the revisions made to project indicated good intentions of the proponents to cooperate with other partners in achieving a sustainable improvement in West African cotton quality assurance. In particular, the project approach has been adapted to apply the experience of other producing countries, making this effectively a technology transfer project. However, it was also felt that a number of important points raised previously have been addressed in a formal and declarative way without providing appropriate information about the practical implementation mechanisms. In particular, this concerned:*

- the lack of a clearly stated approach to the identification of the pilot sites, which must demonstrate, inter alia, that participating communities are in a position to achieve sufficient improvement in cotton quality during the lifetime of the project, and that cotton growers would benefit as the result;*
- the need for a clear view of the local implementation arrangements and solutions delivering tangible and sustainable benefits to cotton growers. The Committee recognized that these may be different in different countries, particularly in Mali where the dominance of the Compagnie Malienne pour le Développement du Textile (CMDT) remained an important domestic political*

*issue. The project work plans should reflect the differences, and the project should give due attention to the exchange of experience and the analysis of the outcomes;*

- *while the commitment of the World Bank to pursue the matter of cotton contamination in West Africa had been made, the CFC had not received the practical details of the work plan which will be pursued by the World Bank Sustainable Development Network. The Committee finds that the project must reflect the actions of the World Bank in the work plan of the CFC-financed activities to make sure that collaboration achieved the desired shared objectives;*
- *the project must include a complete budget matching the implementation approach and the work plan;*
- *the risks involved in the project, including problems in the cotton sector in Côte d'Ivoire, the emerging transformation and financial difficulties of CMDT in Mali and the absence of an effective grading system. In this regard, the Committee felt strongly that measures need to be taken during project implementation to address these and other risks.*

*Noting the importance of the problem of cotton contamination, and the currently existing commitments of many parties to implement a collaborative effort to address the situation, the Committee agreed to recommend the proposal for approval by the Executive Board of the CFC. The Committee further requested the Secretariat of the CFC to ensure that the points raised above are satisfactorily addressed, keeping in mind the overarching goal of achieving a sustained improvement in the quality of West African cotton.*

Unquote.

The project was subsequently approved by the Executive board in its meeting on 19 – 21 October 2009. The current description of the project proposal is thus based on the IFDC's project submission which has received the endorsement of the Consultative Committee. The project will start with an extensive stakeholder consultation/work planning phase. This phase would consist of meetings with partners on the ground, firming up partnerships and responsibilities, and preparing detailed project implementation arrangements in the form of detailed Work Programmes and Budgets, which will be drawn up by IFDC and submitted to ICAC and CFC for formal endorsement. During this phase, partners in the field will be fully involved to internalize the project concepts and confirm their own roles in the project. They have a chance to understand fully and endorse and accept the specific roles and responsibilities they are expected to play within the context of the larger proposal, as well as the counterpart support required from them to enable the project to accomplish its objectives.

## **B. Overview of the commodity**

### **Introduction**

Cotton is a major agro-industrial crop produced in both developing as well as developed countries. The world cotton industry provides employment opportunities for hundreds of millions farmers and to allied industries such as those relating to agricultural inputs, machinery and equipment, transportation, storage, ginning, baling, seed crushing and textile manufacturing. Cotton is produced in approx. 80 countries and serves as the economic mainstay of many countries. Over 75% of world cotton production is located in developing countries.

Cotton production for 2009/10 is estimated at 23.6 mln ton (lint), which is about 2 mln ton less than the preceding year. Cotton consumption for 2009/10 is forecasted to remain stable at 23.7 mln, thanks to an

expected slight recovery in world economic growth. Prices for the year 2009/10 are foreseen to be in the range of 60 - 65 US cents per pound of lint, with a strong expectation towards the lower level. Competition in cotton production and trade remains strong. Quality and lot uniformity are becoming increasingly important in international trade, as a result of increasing demands from the user industry (spinning and textile mills).

About 2 mln ton of cotton is produced annually in Africa and the continent accounts for about 8 - 9 % of the world cotton production. Approximately 80% thereof is exported. In some countries, in particular in West Africa, cotton represents more than 50% of national export income and cotton is therefore the largest source of export income of several West African countries. Throughout the continent, the cotton sector plays an important role in the fight to reduce rural poverty, since cotton-related activities account for a large share of rural employment. It is estimated that about 15 mln people in Africa are engaged in cotton production/processing activities.

## 1. Overview of Supply and Demand

### a. *Burkina Faso*

The cotton sector in Burkina Faso is one of the most structured ones, both at national and regional levels. It is characterized by an organization, from the base to the top, both of producers and other cotton sector actors, particularly the cotton companies.

Since September 2004, there are three cotton companies in Burkina Faso (Sofitex, Socoma and Fasocoton) and they play an important role in the advancement of the cotton cultivation in their zones, as defined by an MOU. The UNPCB (Union nationale des producteurs de coton du Burkina; national cotton producer organization) has ownership of these companies, at varying levels (30 % in Sofitex, 20 % in Faso Coton and 10 % in Socoma).

Despite progress in many areas in the cotton sector of Burkina Faso, because of which the country has been cited as a reference in many regional and international platforms, the cotton culture is facing many challenges before it can improve its profitability and competitiveness in the world market.

### **Burkina Faso Production**

<b>Cotton company</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>
SOFITEX	557 587	310 695	384 000
SOCOMA	55 000	26 300	46 500
FASO COTON	31 700	18 700	16 540
Total	644 287	355 695	447 040

### b. *Mali*

The impact of cotton on the economic stability and rural development in southern Mali is such that the future of the sector (which has been in crisis since 1998) constitutes a major issue for the country, all the more so as there are no other alternatives in the short term. Having, in 2004, been the largest producer in Africa, today Mali is in the third place after Egypt and Burkina Faso. This decrease is caused by the emphasis of the CMDT (La Compagnie Malienne pour le Développement du Textile) on the quality, not

quantity, but also by the decrease in yields per hectare, by the difficulties associated with the reform of the sector (especially in the transfer of input procurement to unions) and, most importantly, by the financial difficulties of CMDT.

There is only one cotton company in Mali in 2009, but the committee following up on the privatization effort is developing a plan that foresees division into four zones and three companies presumably for the 2010/2011 season.

#### Statistics on Mali cotton

	2003/04	2004/05	2005/06	2006/07	2007/08 (expected)
No. of farms	165,204	172,353	174,749	163,420	N.A.
Cotton area (ha)	548,895	565,141	550,532	480,474	312,647
Sold production (t)	620,665	589,751	534,122	414,984	250,000
Average yield (kg/ha)	1131	1044	970	864	800
Ginned yield (%)	41.20	41.31	41.82	42.36	42.00
Lint production (t)	255,705	243,630	223,388	175,797	105,000
Average yield (kg lint/ha)	466	431	406	366	336

Does not include OHVN.

#### Evolution of number of cotton farms in the CMDT zone

2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
165 204	172 353	174 749	163 420	117 933

Source: CMDT

#### c. Côte d'Ivoire

The liberalization of the cotton sector in 1998, the socio-economic crisis of 2002, the bankruptcy of cotton company LCCI, and forthcoming plans to restructure have contributed to the current chaos in the cotton sector of Côte d'Ivoire (CI). Disharmony between cotton growers and ginning companies has caused the systems to become dysfunctional regard to technical assistance, seed cotton marketing, supply of inputs to farmers, and procurement by the ginneries. As a result, cotton production has decreased, from 267,843 tons in 2005/2006 to 143,533 tons in 2006/2007 to 120,000 tons in 2007/2008, and continued decline in 2008/2009.

Six cotton companies - 5 private and 1 public, are operating in CI. They have 13 gins with a total capacity of 530,000 tons.

- CIDT - Bouake Zatta Mankono and Seguela (public company)
- Ivoire coton / 2 gins in Boundiali Dianra and M Bengue ( trader Reinhart is a shareholder)
- Dopa - Bouake (owned by a textile mill)
- Sicoso - Korhogo (owned buy growers coopertives)
- COIC - 2 gins in Korhogo
- SECO - Ouangolo (trader Olam is majority shareholder)

Following the liberalization, a number of organizations emerged – some to regulate and others to coordinate the activities of production, ginning and marketing. They include:

- ARECA - Autorite de regulation du coton et de l'anarcade
- INTERCOTON - Association Interprofessionnelle de la filiere coton
- APROCOTCI - Association professionnelle des société cotonières
- AFFICOT CI - Association des Faitieres de la filière Coton
- ACE - Audit control and expertise

### Evolution of indicators for cotton production in Côte d'Ivoire

Season	Producer price FCFA/kg		Seed cotton production (t)	Yield (t/ha)	Ginning yield(%)	Lint production (t)
	1st	2nd				
1999/2000	183	153	402 367	1,381	44,06	177 284
2000/2001	210	180	287 000	1,155	42,69	122 518
2001/2002	190	160	396 239	1,402	40,67	161 160
2002/2003	180	150	396 417	1,47	43,37	171 929
2003/2004	200	170	180 144	0,872	43,76	78 839
2004/2005	185	155	323 141	1,226	43,35	140 080
2005/2006	140	110	260 000	0,987	43,5	113 100
2006/2007	145	115	143 533	0,754	43,55	63 284
2007/2008	150	120	120 000	0,702	43,66	52 229

Source : ARECA

## 2. Problems, Issues, and Opportunities

### a. Cotton contamination and region wide price discounts

There are numerous types of contaminants including organic (leaves, branches and stems of the cotton plant and/or other plants, and the sticky excreta of sucking pests such as aphids & white flies), inorganic contaminants (sand, dust, metal, wire, etc.) and packaging materials (plastic, polypropylene, nylon, feathers, paper, jute, cotton strings and fabrics). Some are visible while others are not. Polypropylene (PP) fibers are particularly damaging to the quality of cotton lint as they are undetectable by the naked eye, and even by standard cotton grading practices, until the fabric is dyed at a textile factory often half way around the world. Cotton lint that is perceived at risk of PP contamination normally faces steep market discounts.

Cotton produced in West Africa had been badly hit by the discounts resulting from perceived high likelihood of PP contamination. Due to the problems of detection, the discounts are applied indiscriminately, on a regional basis, creating difficulties for all West African cotton producers.

The two major sources of contamination are the materials lying in the fields and materials used to pick and handle cotton. To address the problem of cotton contamination at the primary stage of production, the following two approaches are being normally used.

**Supervised Picking** – While farmers will be properly educated to keep their fields free of contaminating materials, picking will be supervised so that pickers pick clean cotton. Farmers will be educated not to leave fertilizer bags in the fields and remove all plastic bags hanging around in cotton fields. Farmers will also be educated in agronomic practices so that minimum trash is picked along with seed cotton. Fertilizer use will be optimized to avoid any excessive vegetative growth, weed control will be done properly and other agronomic practices will be followed such that there is least trash in seed cotton.

**Supply of Cotton Bags and Sheets** – It is common among farmers to use fertilizer bags for picking of cotton. Fertilizer bags are used to make sheets for transportation of seed cotton from field to home and from home to Collection Centers. This is the process how seed cotton is contaminated with polypropylene and plastic materials. The industry dislikes the practice very much and it is learnt that efforts are underway in the region to pack fertilizers in cotton bags. The project will provide cotton bags and cotton sheets to project growers for picking and transporting cotton in exchange for their currently used polypropylene and plastic materials. Thus, all cotton produced in the project areas in the three countries will be picked in cotton bags and transported in cotton sheets. Undesirable materials will not be used at any stage of cotton harvesting and handing.

#### ***b. Sharing Price Premium with Farmers***

The first step in addressing the problems, and the primary objective of the project is to produce contamination free cotton. With appropriate certification and marketing it can be sold at higher price to international merchants.

However, passing the premium down to the farmers remains an issue critical to sustainability of any improved production methods, as farmers will be willing to cooperate and produce contamination free only if they have an incentive to do so. The premium received by selling contamination free cotton must be shared with farmers.

The current pricing system compensates growers and pays them over and above the fixed prices but only after the end of the season. Following the initial payment at the minimum predetermined price at the time of cotton delivery, a second payment may be made to the farmers if the cotton company was able to sell cotton at more than expected price. A typical additional payment from extra profit paid to the farmers stands at some 10-15 CFA per kilogram of seed cotton. So, in principle a system exists to share the premium price received by companies selling contamination free cotton with cotton growers. However, greater transparency and efficiency is required to ensure that farmers adopting non-contaminating practices are adequately rewarded to maintain cotton lint quality.

### **3. Relevance of Project to CFC and ICAC Commodity Strategy**

The proposed project directly supports the CFC Third Five-Year Action Plan and the ICB commodity strategy. The interventions are in line with the ECOWAS Agricultural Program and WAEMU as well as the national cotton development programs. For example, the project will:

- Improve access, reliability of supply, and quality of cotton to gins and traders.
- Increase incomes at the village level by helping farmers add value to seed cotton
- Scale up the impacts of improved quality through communication and dissemination.
- Improve the competitiveness of the commodity.

## **C. Related Projects and Previous Work**

### **1. International development agencies**

The EU, World Bank, African Development Bank (AfDB), French, Dutch and US aid programs have been working on the crisis in the cotton sector of Francophone Africa for some years and have provided hundreds of millions of dollars in support of the sector. The support has included increased capitalization of the companies in Burkina Faso, including financial injections so the producer union could maintain its share in the three companies there; payments to reduce the debts of local cooperatives so that the better farmer will not abandon cotton because of the concurrent obligation to share the debts of all farmers in the groups; support for roads and other infrastructure that supports the cotton sector; significant support for the plans to privatize CMDT in Mali and related aspects, such as plans to set up an independent office of cotton classification; and restructuring of the cotton industry in Côte d' Ivoire, and a new classification program there.

ECOWAS and WAEMU also have programs to improve the sector, such as instituting common African standards for cotton, and coordinating an AfDB project aimed at developing the textile industry. There are no recent or current projects that directly address the contamination problem as proposed in this project. As noted earlier, there are some previous and ongoing efforts by the cotton companies and unions, as well as specialized niche projects by international organizations and donors, that this project can draw upon and that will help set the stage for successful implementation. Examples in the region include the SOCOMA L8 program described above and in Annex 3 which can serve as a model of the respective responsibilities, and the USAID West African Cotton Improvement Program (WACIP) being implemented by IFDC and

### **2. Private Sector Experience of East and Southern Africa**

Experiences in East and Southern Africa also provide lessons for implementation of this project. Cotton companies operating there, such as Dunavant and Cargill use the official grading system of A, B, and C for seed cotton, though Dunavant added A+. The two companies have used very different approaches in achieving a major success in recent years in the control of polypropylene contamination. Until 1999, most cotton in **Zambia** was bagged at the farm level using woven PP bags. Dunavant addressed this problem primarily by installing cleaning stations in each gin - slow moving conveyor belts at which women are seated and manually remove polypropylene fibers. The company also informed farmers that they would not accept cotton arriving at buying stations in anything other than plastic bags, but have not been able fully to implement that practice despite providing the plastic bags.

As a result, Dunavant continues to employ between 36 and 64 women at each gin, during three shifts per day and six months per year, to clean all cotton entering the gin. At current minimum wages, this practice adds about US\$0.014 to each pound of lint that the company processes, compared to a typical premium of US\$0.06/pound over Index A that Zambia now receives, largely due to the control of polypropylene

Cargill does not use cleaning stations, relying instead on the strength of its highly organized field operations. The company provides all farmers with plastic bags for picking cotton. Contact farmers and Agricultural Marketing Officers write the farmer's contract number on every bag of cotton that the company buys. This allows Cargill to trace polypropylene contamination, or opportunistic behavior such as putting foreign matter in the middle of bags of seed cotton, back to individual farmers. Cargill personnel indicate that, in such cases, they have returned the bag and made an example of the offending farmer.

Olam in Tanzania provides jute storage bags to farmers that are sealed for storage at home and delivery to the gin, where a manual cleaning process similar to that of Dunavant is used. Olam is doing the same pre-cleaning at the gin it bought last year in Côte d'Ivoire.

Cargill and Dunavant indicated that CCC (Chipata-China Cotton Ginnery) previously supplied farmers with polypropylene bags for cotton picking, but ended the practice under pressure from both companies. The virtual elimination of polypropylene contamination from Zambian cotton has increased the premium its top grades receive from international buyers from US\$0.01/lb of lint in the mid-1990s to at least US\$0.06 in 2006/07. This is the largest improvement in quality in the region and places **Zambia** second only to **Zimbabwe** in the premium its cotton lint once received. (Zimbabwe's cotton lint, long considered top quality, received premiums of 10% and more, and was rated as the least contaminated on the international market. Because the small ginners no longer follow quality standards, Zimbabwe cotton has deteriorated in the past 5 years to being one of the most contaminated.)

## **D. Project Objectives and Rationale**

### **1. Project goal**

The goal of the pilot program is to provide a practical test of how West African cotton farmers could earn extra income by changing their cotton handling practices to reduce cotton lint contamination. This would be achieved by adapting known contamination reducing handling methods and technologies to the socioeconomic conditions of the target cotton producing regions in three countries, leading to a credible local quality certification. The system of handling will be improved so that farmers get premium for adopting these practices. Collaboration with the World Bank cotton contamination project is envisioned to dovetail the pilot to the development of national regulations promoting certification of non-contaminated cotton.

### **2. Rationale for the project**

Based on various studies, the ITMF report, and discussions with stakeholders in the region during the project formulation mission, there is general consensus that West Africa faces a clear and critical need to reduce contamination of seed cotton and the lint produced in West Africa in order to derive higher prices and a better reputation.

The basic problem is that the current distortions in the grading system fail to reward non-contaminating practices, which makes production of quality cotton lint unsustainable. Farmers are not buying non-contaminating harvest sacks and tarps, and companies are not providing them because there is insufficient economic return from doing so. Unless a development intervention addressed this systemic failure of West African cotton value chain, further deterioration of quality and competitiveness will follow, leading to the marginalization of West African cotton in global markets.

At present quality measures are not formalized in price setting mechanisms and they do allow for companies to pay quality differentials without legislations. This opportunity will be utilized in the pilot project by making price premiums more transparent to the farmers. The proposed project is designed for capacity building within existing systems, where communities participating in the project will be selected on the basis of their adoption of appropriate codes of conduct to assure the application of non-contaminating practices. Supportive legislative initiatives stemming at the level of local administration will help to provide a better environment and sustain gains made under the pilot project. In this context the project would work

closely with the World Bank to apply the practical experience to enact national legislation addressing the contamination problems of the cotton value chain. The current project will strengthen the case for national action on the matter by demonstrating the value of investment in quality improvement for all stakeholders in the value chain. National legislation that will evolve over time will encourage and support activities supported and advocated by the project and discourage and penalise contamination-inducing practices. Certification system would be credible and its tests verifiable and certificates issued would be based on internationally accepted standardized tests.

The completion of the current pilot project is expected to repair the failures of cotton value chain in selected production centres by integrating:

- Education of farmers and ginners about the price premiums for better cotton quality;
- Technology transfer and capacity building on prevention of contamination and preservation of quality both at farmer and ginner levels.
- Establishment of an workable community based exchange scheme to replace polypropylene bags with cotton bags , possibly involving the agro-dealer network;
- Practical regulations enforced under a community scheme at the local level to secure price premium under the pilot certification scheme providing input into the implementation of the necessary national legislation.

### **E. Institutions Involved and Responsibilities**

The International Cotton Advisory Council (ICAC) will act as the Supervisory Body.

The Project Executing Agency (PEA) is IFDC .

The project would carry out most of its activities at the level of primary producers and private companies directly involved in trading with primary producers to secure uninterrupted chain of contamination free handling. The partners among the producer cooperative will be identified as part of the Component 1 of the project on the basis of their willingness to commit to a preventing cotton contamination in their production area.

The primary implementing partners **in Burkina Faso** are the three cotton companies; one will be chosen in further consultations –

- SOFITEX – Director General Celestin Tiendrébéogo, 01 B.P. 147 Bobo-Dioulasso;

- SOCOMA – Director General Compoare Ali, Ouagadougou and

- Faso Cotton, Marc Leynaert, Director of Operations, Industrial Zone, Ouagadougou

and the producers union (UNSPC-B), Francois Traore ,President, 02 BP 1677 Bobo; unpcb@fasonet.bf.

The project also intends to involve the textile firm FILSAH (DG Abdoulaye Nabile; Industrial Zone in Bobo; e-mail – filsah@fasonet.bf) research organizations such as INERA and Program cotton in SOFITEX to assist in surveys and monitoring and evaluation and the AIC for advice.

The primary partners **in Mali** are:

• CMDT – President and DG Tiena Coulibaly, BP. 487 Bamako; tcoulibaly@cmdt.ml and

• the producer union UN- SCPC. - M. Natha Diarra, Executive Secretary, Bamako

The project also intends to work with IER and CERFITEX to assist in surveys and monitoring and evaluation.

The primary partners **in Côte d'Ivoire** are 3 cotton companies in the north -

- CIDT – Anoh N'Guessan Gilbert, DG, 01 BP 4125 Abidjan; cidt\_vte@aviso.ci
- Ivoire Coton – Diomande Vamissa, DG; 18 BP 3419 Abidjan; aba.achi@ivoirecoton.ci
- COIC-SA – Tchelibe Adama Silue, DG; BP 193 Korhogo; kassoumkone9@yahoo.fr
- and INTERCOTON – Lasina Tuo, PCA; 17 BP 457 Abidjan; intercot@aviso.ci.

The project may also work with some of the other organizations involved in the cotton industry such as the SECO company, APROCOT, ARECA, AFFOCOT, ACE for possible consultants, advice and help on assessing project performance.

The cotton companies listed above will be the lead implementing partners in the project. In the case of Burkina and Côte d'Ivoire, where there are 3 or more companies, the project, together with the industry associations, will decide on the allocation of the project zone in each country and number of farmers and estimated production. Each participating company will have to sign an agreement with the project committing the company to provide extension services to farmers, support to the project such as office and staff, a process for maintaining the clean seed cotton throughout the process, a promise to supply cotton lint at reduced or no cost for production of cotton sacks and tarps for the project farmers, and a commitment to share with the growers the eventual premiums for the less contaminated cotton. In the second and third years of the project, allocation of farmers will be competitive based on performance in the preceding year as assessed by the project staff. The producer unions (and INTERCOTON in the case of Côte d'Ivoire) will work with the companies to identify the target growers and to help conduct the awareness campaign.

## **F. Project Components and Work plan**

Effective and successful implementation of the project will require close co-operation between the various parties involved in the project and full agreement on the modalities of the key activities to be undertaken in the framework of the project. This includes detailed arrangements regarding activities, responsibilities of different parties and the funding/contribution arrangements. IFDC (as the overall responsible agency) will set-up regular and ad-hoc consultations with the stakeholders/partners to develop agreed-upon work plans and related budgets for each project year. The following section provides the general outline and strategy which will guide implementation of the project. It will be updated/detailed based upon consultations if and as necessary.

### **1. Project strategy**

#### ***a. Addressing the weaknesses of the value chain***

The project strategy focuses on strengthening the cotton value chain, involving:

- Establishing sustainable supply mechanisms for uncontaminated seed cotton in the pilot areas of three selected countries through strengthening of commercially effective community partnerships;
- Encouraging special handling, processing and branding of non-contaminated seed cotton by the cotton companies, possibly with support from local authorities, so the clean cotton could be unambiguously identified and receive adequate premiums to be shared with the growers; and
- Improvement of the reputation of West African cotton in international markets, as evidenced by higher price premiums and, eventually, improved perceptions by the textile industry.
- Conduct advocacy on, and work, together with the World Banks towards a national system allowing farmers to receive premium prices based on the quality of their own cotton.

### ***b. Focus on selected communities for the pilot activities***

The project strategy takes account of the deep crisis of confidence between farmers and their unions that extends beyond the scope of this project. To address this important problem the project will work with Groupements Villageois de Coton (GVC) which have a proven track record of financial health, as measured by a lack of internal and external debt. Working with GVCs, the project will assure that the cotton companies and producers unions agree upon and maintain pricing mechanisms to ensure that price premiums reach the farmers.

Furthermore, in each of the participating countries the project will focus the activities on one pilot area, selected with a view to:

- agreement with the local cotton growers to commit, for the duration of the project, to the use of non-contaminating practices;
- commitment to establish, together with cotton companies, an exchange scheme to take polypropylene bags out of circulation for the duration of cotton picking, replacing them with cotton bags;
- support and collaboration from the cotton companies;
- support from local authorities in enforcing the codes of practice to secure sufficient compliance with the non-contaminating handling practices.

### ***c. Collaboration with World Bank to promote national legislation***

To achieve lasting results, the project needs to make the use of cotton bags mandatory in picking and handling of seed cotton by farmers. The Project Executing Agency (IFDC) will collaborate with the World Bank project addressing the issue with the All-ACP Agricultural Commodities Programme. The World Bank will take the lead role and work with the Governments in three countries to pass appropriate laws based on the pilot experience of this project. Such an exercise will ensure that project mandate is carried out even after the project is over. So, two things will ensure continuity of the project theme after the project, 1) farmers will benefit from premium prices, and 2) farmers will be required to use only cotton material for picking and handling cotton.

## **2. Project components**

The components, activities and sequencing of the proposed project flow logically from the explanations and description of the situation above. The approach and work plan are grounded in the extensive consultations with the stakeholders in the three countries.

### **Broad Objective 1 – Make selected growers aware of the need, rewards and techniques for supplying non-contaminated cotton**

***Component 1. Identification, awareness raising and training for the targeted producer groups and cotton company extension staff on the ways to prevent contamination in seed cotton.***

**Objective:** Engage 27,000 farmers over 3 years to produce less contaminated seed cotton.

**Output:** 100,000 tons of seed cotton (starting with 18,000 tons in year one) that merits a premium price (shared with farmers) on international markets by the end of 3 years.

#### Activities

- a. Key implementing partners (cotton companies and unions) select the zones and specific groups of farmers to be included in the program.

Timing - 2<sup>nd</sup> Quarter (Q2) of each project year

Inputs – implementing partners and PEA manager

Costs – staff time and the effort of companies and unions, one month international PEA staff each year per country (see budget tables)

Milestone – 3,000 farmers in each country selected for the project by June each year

- b. Conduct awareness campaign of the program to produce clean cotton in the project zones in each country (3,000 farmers in each country each year)

Timing— Q3 each year

Inputs – implementing partners, media placements, brochures

Costs— \$3,000 per country in Y1, \$5,000 per country in Y2 and Y3 for media and materials

Milestone—3,000 cotton producers per country per year aware of the program and motivated by October each year

- c. Organize training of company extension staff (300 per country per year) and of growers in the project areas (3,000 new farmers each country per year)

Timing— Q3 each year

Inputs – implementing partners will provide the training for extension agents and farmers. Given the financial plight of the cotton companies, stakeholders advised that in order to ensure that extension agents have the motivation and means of providing the training to farmers, the project would need to provide them a modest per diem and travel allowance.

Costs— Training of 300 extension agents per country – in-kind cost share by companies @ \$10 per trainee for additional staff, time, materials and travel = \$3,000 per yr

In year one (Y1) \$15,000 per country for administrative costs of training 3,000 farmers (each will participate in a series of 4 programs during September and October in average village groups of 30 farmers. Thus, in Y1 there will be 400 programs (100 x 4) at an average cost of \$37.50 each per program, which includes \$10 to offset additional cost for cooperatives and \$7.50 per diem and transport for extension agents.

In year 2 (Y2) the same training program will be offered to the 3,000 new farmers in the project per country at a cost of \$15,000 and a refresher course conducted for the first cadre at a cost of \$5,000. Thus the Y2 training cost total is \$20,000 and the same in Y3.

Milestone—3,000 more cotton producers per country trained in preventing contamination per year by October each year.

- d. Guide and monitor grower and company performance during the harvest and collection period through monitoring and testing, resulting in better guidelines

Timing – 4<sup>th</sup> Quarter (Q4) harvest period (Oct-Dec) of each project year

Inputs – staff time of companies and unions to observe farmers practices during the harvest, home storage, transport to collection centers and to gins, etc., and testing of cotton at various points to better understand and prevent contamination. Stakeholders advised that additional travel funds will be needed for company and union staff. Engage research organizations to help monitor and evaluate the programs and economic benefits.

Costs – \$6,600 per country in Y1 based on 300 company extension and 30 union staff devoting a total of additional 10 days (3,300 days) for the clean cotton campaign and \$2 per day for travel allowance. In Y2 and Y3 the number of farmers serviced will double as will the cost of travel supplements - \$13,200 per country in Y2 and in Y3. In Y2 and Y3, \$10,000 for each country each year for engaging research institutes for M&E, etc

Milestone – 3,000 farmers in each country in Y1 produced 6,000 tons of seed cotton judged to be less contaminated by the gins by December of each year.

**Broad Objective 2 – Establish a system to open up incentives for cotton quality improvement, including a transparent monetary feedback from the market to farmers.**

***Component 2. Organize a program to enable voluntary adoption of non contaminating practices by up to 27,000 participating farmers, including any appropriate measures for the withdrawal of contaminating sacks from use in cotton producing areas (using the model of Olam in Tanzania, or Cargill in Zambia, or an adaptation thereof to local conditions)***

**Objective: Create a workable community based system whereby farmers** would surrender polypropylene items in exchange for non-contaminating materials. This will be done for 9,000 additional farmers each year (3,000 per country) for use in the harvest and collection process in order to provide incentive and means for clean cotton

**Output:** 9,000 more farmers each year in three countries responding to the incentive and using the materials to supply 18,000 tons of non-contaminated seed cotton

Activities

a. Identify with the cotton companies, unions, and textile mills the best types and mix of harvest materials for the incentive packages and conduct a competition for lowest cost production. Each company can adjust the package based on farmer preferences and lowest costs. Adjustments will be made in Y2 and Y3 to reflect improvements and lessons learned.

Timing - 2<sup>nd</sup> Quarter (Q2) of each project year

Inputs – implementing partners

Costs – None

Milestone – Identification and orders for harvest packages for all 9,000 new farmers each year so they will be ready for distribution in September each year.

b. Ensure the sacks are produced and distributed as planned and monitor use and durability, including a survey of farmers

Timing - 2<sup>nd</sup> Quarter (Q2) of each project year

Inputs – procurement of packages by the project and distribution by the cotton companies

Costs – Each package per farmer costs \$64, which is considered the minimum sufficient by stakeholders to serve both as an incentive and as means to avoid PP and other contamination. The packages are a one-time incentive intended to last for 3 harvests. Costs there are \$192,000 per year per country (\$576,000 per year). The companies will provide the cotton for the materials at reduced cost, or free to the mills. Estimated counterpart contribution is \$130,000 per country per year.

Milestone – Timely distribution by September each year and use of the harvest packages

c. Monitor harvest of cotton and conduct grading at collection points and gins for the less contaminated cotton and compare with conventional. Monitor transport of collected cotton from field to gin, and during storage. Collect data on quality, and based on data and observations, review what problems persist and how to solve them, and develop guidelines based on in-depth understanding of the issues.

Timing - 2<sup>nd</sup> Quarter (Q2) of each project year

Inputs – implementing partners and staff

Costs – None in addition to staff time and the effort of companies and unions

Milestone – The project farmers produce 2 tons each of less contaminated cotton each year

**Broad Objective 3 – Improve the reputation and price premiums for West African cotton.**

*Component 3. Ensure the non-contaminated seed cotton is handled and processed to protect and marketed to take advantage of its preferred status and garner a premium on the international market. Provide professional advice on ways to improve the handling of cotton to capture premiums. Further develop grading system of cotton. Provide results and lessons of the project to all cotton producing countries in West Africa.*

**Objective** – Encourage the cotton companies and related services to provide special handling of the non-contaminated cotton through the downstream process; and to brand and market the cotton so that traders pay a premium, which is then shared with the growers

**Output** – credible certification permitting up to 100,000 tons of cotton to receive premium in year 3 of at least 20CFA kg of lint

**Activities**

a. Conduct awareness and training of gin, storage, transport and other staff on non-contamination

Timing – 1<sup>st</sup> and 4<sup>th</sup> Quarter (Q1 and 4) of each project year

Inputs – training programs for gin, transport and other company staff and workshops

Costs – \$10,000 per year for training programs and workshops for actors in the chain, including training modules and expert consultants (2 months per year of national consultants at \$3,000 per month)

Milestone – Staff handling the special cotton (average of 100 people per country in Y1 and additional 100 in Y2 and in Y3) are aware of the need and trained to prevent contamination,

b. Review that the project cotton is handled properly to preserve its cleanliness throughout the chain and recommend improvements in the system. For example, Burkina and CI will need to convert to cotton wrapping for its bales, as CMDT in Mali does.

Timing – Q1, 2 and 4 each year

Inputs – implementing partners and expert consultants

Costs – \$20,000 each year per country in Y1 and Y2 for international experts on aspects of cotton processing depending on the individual company needs

Milestone – The less contaminated seed cotton reaches the port as clean and preferred fiber

c. Work with companies and traders to brand the cotton and capture a premium. Help them develop marketing plans and a public relations strategy for traders, the ITMF, etc. Initiate, if at all possible, a system of reward from second year onwards.

Timing – Q 2 and 3 of each project year, with strong emphasis on year 1

Inputs – implementing partners and international marketing experts

Costs – \$20 for international marketing experts in Y3 per country

Milestone – By the end of the project, a sustainable system is in place to generate a supply of less-contaminated cotton that is paid a premium of at least 20 CFC per kg of lint compare to conventional cotton.

d. Develop and disseminate success stories about the project throughout the three countries and the region.

Conduct advocacy at national level, based on project guidelines, to ensure that farmers are paid for the quality of the cotton they themselves produce, thereby resulting in new regulation. Work with the

regional economic communities and regional cotton sector associations to promote the need, techniques and benefits of non-contaminated seed cotton.

Timing – Y3 Q1-4

Inputs – staff and implementing partners, regional economic and cotton organizations

Costs – Counterpart by companies (\$5K) and unions (\$5K) per country = \$30,000

Milestone – By project end, at least an additional 27,000 cotton farmers near the project zones are exposed to the prevention of contamination program and prepared to adopt it. All cotton producing countries in West Africa are aware of the project and its results.

### 3. Project organisation

IFDC using its local knowledge and network together with a regional project coordinator and national coordinators, will be responsible for assisting and monitoring the project implementing partners and for preparing reports to CFC. The indicative Terms of Reference of the key project staff to be appointed by the PEA is attached as Annex II.

During the startup phase (first quarter) of the project, IFDC will send the project manager for one month to the region to help:

- Identify and employ the project staff (Regional Coordinator and two other staff at the regional office in Bobo-Dioulasso and one National Coordinator each of the three national offices in Ouagadougou, Korhogo and Sikasso)
- Arrange for office space, secretarial and driver support with cotton companies in the three countries
- Purchase equipment and vehicles for the project (see budget tables)
- Review the draft project work plan and performance indicators with CFC and ICAC
- Finalize the plans with the implementing partners for discussion
- Conclude agreements with the implementing partners regarding their roles and responsibilities
- Finalize the budget and counterpart contribution tables based on the agreements
- Prepare for project activities to begin in the second quarter (this would be the April-May 2010 and the period just prior to cotton planting season).
- 

**An Implementation Schedule Summary Chart follows.**

**Implementation Schedule Chart**

Component/ Activity	Year 1				Year 2				Year 3			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b><i>Project Startup</i></b>	x											
<b><i>Comp 1</i></b>												
1a		x				x				x		
1b			x				x				x	
1c			x				x				x	
1d				x				x				x
<b><i>Comp 2</i></b>												
2a		x				x				x		
2b		x				x				x		

2c		x				x				x		
<b>Comp 3</b>												
3a	x			x	x			x	x			x
3b	x	x		x	x	x		x	x	x		x
3c		x	x			x	x			x	x	
3d									x	x	x	x

### **Selection of Project Areas**

Originally it was planned that multiple locations within a country will be selected as project areas. However, IFDC in consultation with CFC and ICAC has come to the conclusion that it will be easier to handle production from one bigger block per country compared to multiple blocks within a country. Larger produce from one region will be easy to handle, gin it separately and sell it at premium price. Thus only one block per country will be selected as a project area but number of farmers involved and area to be covered will remain the same as presented in the proposal previously considered by the Consultative Committee of the CFC on July 7, 2009.

### **Role of Ginners**

Ginners will play an important role in keeping clean picked cotton clean during ginning. In some cases they may have to take extra efforts for which they have to be rewarded. Currently, CMDT and SOFITEX own ginneries and a simple decision at the company level will make sure that cotton is not contaminated during handling at the ginnery. Though it is expected that no significant efforts will be required to keep the clean pick cotton clean during ginning other than to keep it separate from conventional cotton, but if need be, ginners will be compensated from the premium price.

### **Promotion of Clean Cotton**

Most cotton from the project countries is exported. A limited number of international merchants buy cotton from West African countries. These merchants are themselves aware of the quality of cotton produced in these countries and they also know weak aspects of the West African cotton. International merchants are aware of the fact that machine picked cotton in countries like Australia and USA has maximum trash but it is cleaned during ginning and ultimately sold as clean cotton. The West African cotton has least trash but it has more contamination compared to machine picked cotton. Trash is not that much of a problem; the real problem is contamination. Buyers of the West African cotton will appreciate least contaminated cotton. But, still the cotton companies will have to promote project cotton as clean cotton. ICAC meetings and various other forums will be used to highlight the project for producing clean cotton.

### **Issue of traceability**

The proposed system is for groups of farmers to eventually get a premium if their cotton is graded higher and earns a premium in the international market. The contamination-free cotton produced by the project farmers would be collected first and ginned, packed, branded and marketed separately; and only those farmers participating in the clean cotton program would share the world market premium for the cotton. The farmers would be in the same area and served by one gin. There is precedent for the special handling throughout with Bt, organic and fair trade. Clean cotton would get special handling throughout, including at Abidjan port. The ginners have a way of tracing each bale back to the group (and they claim they can even trace back to the farmer for farmers large enough to produce 10 tons to fill a truck) At the gin the cotton is processed, bailed, and professionally classed. There are 7+ grades of cotton differentiated at this point. If

the bale falls in the highest 2 categories, the group that sent the bale would be credited with their share of any premium the market produces.

### **Monitoring for Quality**

The project would set up a system to monitor cotton from harvest to transport, and thereby ensure practices that create and maintain quality, and would continue to test cotton throughout the chain to better understand and prevent factors contributing to contamination. This would involve efforts across the chain from field to gin:

- At the field level, harvest would be supervised by extension agents, to ensure that fields are kept weed-free prior to harvest, that only sacks and tarps received through the exchange system are utilized, and that minimum amount of dirt and stones end up in the harvest materials.
- During transport to collection points, monitoring would ensure that no foreign elements are introduced, and that farmers and workers understand the concepts involved.
- At the collection points, attention will be given to continuing to keep the cotton free from foreign materials, as well as keeping contamination-free cotton separate from the ordinary cotton, thereby ensuring its purity.
- In transport to gins, IFDC project management authorities and country representatives will work with the companies (owners, managers, drivers, and other workers) to both monitor and provide coaching as regards practices that keep cotton contamination free.
- Monitoring will continue at loading and storage at the gins.

### **Contamination Level: a Guarantee**

This monitoring and testing will result, during the project period, in better understanding of the contamination issue, as well as a clear set of guidelines which will benefit advocacy efforts. While it is certain that contamination level of cotton produced will be much lower compared to conventional cotton, all cotton produced in the project will be tested at various levels including testing of lint after ginning. Samples will be tested as successive stages and results will be used to show to international merchants that the cotton from the project is not usual cotton. Based on these testing results, companies in three countries will be able to demand a premium price.

## **4. Project Costs**

Total project cost is estimated at USD 7,045,800. USD 5,500,000 will be made available by the Common Fund, while an estimated USD 1,545,800 will be provided by counterparts in the three countries.

The CFC contribution consists of CFC's own contribution of USD 2,000,000 and a co-financing contribution of USD 3,500,000 from the European Union through its *All ACP Agricultural Commodities Programme*. The EU funds will be channeled through and administered by CFC. The total CFC contribution available to PEA for project activities is USD 4,991,000. The remaining USD 509,000 will be retained by CFC for supervision, monitoring, and evaluation, contingencies and handling EC co-financing contribution.

Table 1 provides an indicative allocation of the project funding over the different project components, while Table 2 provides the allocation by budget category.

Detailed cost/financing tables are provided in Annex III.

The project components, activities, inputs, timelines, and costs will be essentially the same in all three countries. Each country will thus have approximately the same amount of funding - \$1.5 million from CFC

over the 3 years (about \$500,000 per year) matched by a total of \$500,000 in counterpart contributions for a total of \$2 million per country. The programs, inputs, timing, milestones, implementing partners (i.e., cotton companies and producer organizations), etc., are likely to be the same for each country. This will simplify management and improve the sharing of lessons and regional nature of the pilots. Staff and operating costs, and counterpart contributions for them, are provided in the budget tables and will be pro-rated among components according to level of effort. Detailed allocations will, however, depend on the finally agreed-upon annual work plans and budgets, to be prepared by the PEA after having held detailed consultations with the project partners at the start of the project.

**Table 1: Summary Cost Table by Component (in USD)**

<b>Component</b>		<b>Total Cost</b>	<b>CFC Contribution</b>	<b>Counterpart Contribution</b>
1.	Awareness campaigns/training programmes	1,366,124	994,524	371,600
2.	Facilitation of uncontaminated cotton harvesting campaigns	3,341,351	2,516,751	824,600
3.	Improvement of West African cotton reputation in international trade	1,829,325	1,479,725	349,600
	<b>PEA Sub-Total</b>	<b>6,536,800</b>	<b>4,991,000</b>	<b>1,545,800</b>
	Supervision, Monitoring and Evaluation	165,000	165,000	-
	Contingency	150,000	115,000	-
	<b>Grand Total</b>	<b>6,816,800</b>	<b>5,271,000</b>	<b>1,545,800</b>
	CFC Overheads on EC co-financing	229,000	229,000	-
	Overall project cost	<b>7,045,800</b>	<b>5,500,000</b>	<b>1,545,800</b>

**Table 2: Summary Project Cost by Category of Expenditure (in USD)**

<b>Category</b>	<b>Total Cost</b>	<b>CFC Contribution</b>	<b>Counterpart Contribution</b>
I Vehicles, Machinery and Equipment	214,946	209,846	5,100
II Civil Works	0	0	0
III Materials and Supplies	2,892,800	1,722,800	1,170,000
IV Personnel	972,900	857,700	115,200
V Technical Assistance and Consultancy	529,950	504,950	25,000
VI Duty Travel	453,550	453,550	0
VII Dissemination and Training	693,750	524,750	169,000
VIII Operating Costs	778,904	717,404	61,500
<b>PEA Sub-Total</b>	<b>6,536,800</b>	<b>4,991,000</b>	<b>1,545,800</b>
IX Supervision, Monitoring and Evaluation	165,000	165,000	-
X Contingencies	115,000	115,000	-
XI. Handling Fee for EC funds (retained by CFC)	229,000	229,000	
<b>Grand Total</b>	<b>7,045,000</b>	<b>5,500,000</b>	<b>1,545,800</b>

## **G. Beneficiaries and Benefits**

The 27,000 farmers in the project zones in the 3 countries will gain immediate direct benefit from the project in the form of incentive packages of harvest materials and training, and eventually will receive additional sustained net income as a result of reduced contamination in their cotton. All efforts will be made to ensure that additional benefits will be reaped by farmers during the project life. The project focuses the value-addition of clean cotton at the farmer level. The project will use the media, company and union channels for public outreach to another 27,000 farmers in nearby areas, so they will see for themselves the techniques and benefits of preventing contamination in their seed cotton. The local cooperatives will benefit from participating in the program because members will be generating more revenue, and learn better methods for cotton production which will ensure their competitiveness in the future. Domestic textile mills that produce the cotton sacks and tarps will increase their revenue and employment.

The cotton companies will benefit from greater knowledge of quality bottlenecks in their supply chains, as well as from greater expertise among their staff members to address such bottlenecks. As the program becomes established and expands, the companies will benefit in the form of higher returns, and a better reputation, for their cotton on the international market and reduced costs in processing because of the cleaner seed cotton. This in turn will benefit the economy and reputation of the cotton from the country of origin and of West Africa in general so that the cotton captures its true cotton value in the world markets and is not discounted for contamination.

**Environmental Aspects**— The project will have no negative impact on the environment. It will have some positive effects. Less contaminated seed cotton at the farm level achieves efficiencies throughout the transport and processing chain. For example, it requires less energy to clean the cotton in the ginning process and to convert it to yarn.

**Intellectual Property**—No intellectual property is involved.

## **H. Organization and Management**

The Project Executing Agency (PEA) will be the International Fertilizer Development Centre (IFDC), a US-based not-for-profit organization. It is envisaged that the project will be implemented from its office in Lomé, Togo. IFDC is seen in the region as a reliable and effective project implementation agency. It has effectively implemented a USAID-funded large scale project on improving cotton production in West Africa. The selection of IFDC is supported by the International Cotton Advisory Committee, the project's supervisory body. IFDC has also been responsible for the current design of the project and has the capability to swiftly set-up final stake-holder consultation meetings after approval of the project and to work with them (and CFC/ICAC) to finalize project design, work plans and the project budget. Regular (6-monthly/annual) project progress reports will be prepared/consolidated by the PEA under its overall responsibility for the project *vis à vis* CFC. In addition, the PEA will prepare Annual Work Programmes and Budgets in accordance with CFC's regular practices. These documents ultimately will require CFC final approval as these will form part of the formal, legal documentation which will be concluded between CFC, ICAC and IFDC.

It is foreseen that a highly experienced regional co-ordinator will be appointed by IFDC who will work jointly with national co-ordinators to ensure optimum presence and partner co-ordination in each project country. IFDC has good operational linkages through-out West Africa and, in particular, in the three targeted project countries. A "Project Co-ordination Committee" will be established and regular

consultations will be set-up to ensure co-ordination of work, consolidation of work plans and exchange of experiences. It will provide guidance to the PEA/regional co-ordinator who ultimately will remain responsible for project implementation and administration.

IFDC will monitor project performance against the indicators described in the Components Section. Once the project is approved by CFC and launched, IFDC together with the project coordinators will develop a more detailed work plan.

The National Coordinators will report to the Regional Coordinator, who will be guided and assisted by IFDC staff in the region. IFDC will submit progress and financial reports to CFC every 6 months, undertake a mid-term evaluation, and provide a project completion report.

### **I. Monitoring, Supervision, and Evaluation**

CFC will undertake regular monitoring visits as deemed required. CFC will also be responsible for financial reporting to the EC in as far as reporting on EC-funded activities is concerned. Project supervision will be undertaken by the International Cotton Advisory Committee (ICAC).. Financial provisions have been made for two external evaluations, one shortly after completion of the first full year of project implementation, while a final evaluation is foreseen towards the end of the project by the third year or shortly after its operational completion.

### **J. Risk Assessment**

As discussed in the Problems and Rationale sections above, there are many risks to project success. They range from chaos in the cotton sector in Côte d'Ivoire and emerging transformation and heavy indebtedness of CMDT in Mali; to the current lack of sufficient economic incentives to prevent contamination, in large part because of the absence of an effective seed cotton grading system; to low world prices for cotton and no assurance that the project pilot effort will be sufficient to enable the companies and countries to capture higher prices and better reputations on the basis of less contaminated cotton. There is a risk that unless cash premiums begin to reach the growers within 3 years, the effort will not be sustainable.

## Annex I. The problem of cotton contamination

In the last decade, the competitiveness of West African cotton has suffered a decline due to slow adoption of new technology and difficulty in competing in global markets because of declining quality and rising production costs (especially fertilizers). Of these factors, quality is the most controllable factor at local and country levels. At the same time, quality is the result of numerous factors originating from seed variety to ginning.

The traditional competitive advantage conferred to hand-picked West African cotton has been lost in recent years. This has been mainly due to contamination, i.e., presence of foreign matter. That can cause down time in processing operations; customer rejection of thread, yarn, cloth or finished apparel; costly claims, disputes, and penalties; a shift in consumption and use in favor of synthetics; and, eventually, loss of customers or end-markets. In fact, West African hand-picked cotton is now discounted to U.S. and Australian machine-picked cotton, and certain spinners even refuse to purchase contaminated cotton or buy at significant discounts.

Cotton lint contamination is a recognized as a persistent problem with franc zone cotton. Biannual survey results from the ITMF for 1999 through 2007 show worldwide levels of contamination to be generally stable, but a distinct deterioration in Mali and a few other countries. According to the ITMF report, 31% of Malian cotton was contaminated in 2007 as compared to only 17% in 1999 and 11% in 1991. Contamination in Burkina and Ivoirian cotton also increased, and all three countries are on the list of “most contaminated descriptions” sources of cottons. (There is debate about ITMF methodology and accuracy, such as the equal weighting for 16 contaminants, but the three countries in the project are listed, and perceived, as supplying among the most contaminated cotton, including in the categories of strings and fabric of woven plastic used to pack and tie bundles of cotton for transport to the collection centers.) A recent study by the CSIRO of Australia indicated that the level of contaminants in West African cotton is usually the highest in the world.

WAEMU, and some major international traders, estimate that West African countries lose 2-3% of the value of the cotton they sell because of the perception on the world markets that is contaminated, including with polypropylene and nylon fibers. That means that in the depressed cotton year of 2008/9, the cotton sectors in Burkina Faso, Côte d’Ivoire and Mali could have received a total of \$12-\$18 million in additional revenue if the cotton sold had been regarded as non-contaminated.

Partly in recognition of the problem, the ACA (African Cotton Association) held a technical workshop in Cotonou on 8-10 November 2006 on African Cotton Quality. Nine African countries, including the C-4, Côte d’Ivoire, Senegal, and Togo in the franc zone, as well as Sudan and Zambia, made presentations on cotton quality, which touched on the contamination issue but covered all aspects of cotton quality in a very broad-gauged systems approach. The *Rapport général des travaux des journées qualité de l’A.C.A.* summarized quality problems across the cotton supply chains in African countries, covering issues in agronomic research, input distribution, farming practices, harvest of seed cotton, assembly and storage of seed cotton, its ‘primary’ commercialization, transport, ginning, fiber classing and grading, and logistics, storage and shipping of lint. In short, reducing contamination is an issue very much on the radar screen of organizations in the region with the mandate for processing and marketing cotton – whether public or private.

The need to address the issue has become more important and timely, because effective March 2009 cotton exporters to People's Republic of China must submit registration forms to the General Administration of

Quality Supervision Inspection and Quarantine (AQSIQ). The purpose is to ensure the quality of imported cotton and prevent deceptive practices (e.g. trade in shoddy or adulterated cotton, etc.)

There are numerous types of contaminants including organic (leaves, branches and stems of the cotton plant and/or other plants, and the sticky excreta of sucking pests such as aphids & white flies), inorganic contaminants (sand, dust, metal, wire, etc.) and packaging materials (plastic, polypropylene, nylon, feathers, paper, jute, cotton strings and fabrics). Some are visible while others are not. Polypropylene (PP) fibers, for example, are undetectable by the naked eye, and even by standard cotton grading practices, until the fabric is dyed at a textile factory often half way around the world.

The causes of contamination are multiple. Some occurs before harvest, such as the stickiness caused by secretions from sucking pests. Most arise from impurities being incorporated into the seed cotton or bale during harvesting, ginning and baling. Contamination by PP fibers is typically caused through the use of old fertilizer bags for harvest and transport, and even bale wraps after ginning.

The contamination can happen at many stages of harvest and post-harvest handling. Depending on location, the worst problems can occur during the harvest itself (especially if old PP bags are used and when owners use incentives such as competitions, candy and fruit to motivate hired hands); or when the grower stores the cotton temporarily in the field and at home, and during tying the tarps and transporting the cotton to the collection centers. Many blame the companies for the majority of contamination in seed cotton. For example, because of financial problems, inefficiency, or a large harvest as in some past years, the companies let the cotton sit too long exposed to dirt and the elements at the village collection centers before it is transported to the gins (often in trucks that are not clean and properly covered), where again it may be stored under poor conditions before ginning. If not handled with special care at the gin and baled properly and wrapped in PP free material, even lint from clean seed cotton can become contaminated during and after ginning.

Eliminating contamination rests mainly on public awareness and incentives —but is a complex issue that requires attention at regional, national, sub-national, community, and farm levels. If farmers, producer organizations, transporters, ginners and purchasers are aware of the negative impacts of contamination, they will address the problem if provided the training and sufficient incentives. Ensuring that seed cotton is clean and of good quality will only happen if the growers receive higher returns for their efforts and have the training and means through which they can reduce contamination (e.g., information on better pest control and harvest, collection, handling, transport practices, including low tech collection bags and tarps of natural materials).

Notwithstanding the many positives with respect to ginning in West Africa, problems persist. Productivity is hampered by seed cotton procurement and assembly policies and procedures that provide little incentive to maintain quality and condition and reduce contamination. Seed cotton and bale storage systems are outdated, allowing for further contamination and deterioration over time. Infrastructure and transport conditions make transactions more expensive. Downtimes are common, partly due to power outages and fluctuations, and partly to impurities (notably stickiness and contaminants). Maintenance in some facilities is substandard. The poor state of infrastructure often also hampers timely collection of seed cotton from the village centers to ginning factories, resulting in inefficient processing operations and poor lint quality. Reference samples are not benchmarked by recognized means or authorities.

Aware of the trade-offs between spending more to remove foreign matter from the cotton or taking a price reduction on international markets, regional cotton companies have devoted considerable effort to quality

control programs. Nearly all have engaged in campaigns to train producers in the proper handling of cotton - in the fields at the time of harvest, in bagging and storing the seed cotton at home, in assembling seed cotton at buying points, in transport, at gins, and in baling ginned cotton for shipment. Most companies have at some point offered farmers cotton harvest stacks and bale wraps at concessionary prices. For example,

- During crop years 2003/4 and 2004/05 CMDT in Mali distributed cotton bags for harvesting and cotton tarpaulins for transportation to the collection point. The operation was successful in reducing contaminants, but stopped due to lack of funds and payment of incentives to growers.
- In order to reduce contamination, Faso Cotton in Burkina offered dirt-resistant tarpaulins to the producer groups to gather and store the seed cotton before it is transported to the gin. The producer cooperatives could purchase the tarps and then rent them to the farmers at harvest time; but so far they are not purchasing the tarps (sold for 5000 CFA, or about \$10 each).

The SOCOMA company in Burkina Faso is well known for launching a program to lessen contamination. SOCOMA introduced in 2005 the L8 charter (English L for less contamination and 8 for the list of responsibilities for growers and processors) with a plan to evolve into free of contamination (F8) cotton. Farmers in the L8 program (who also engaged in producing Fair Trade cotton) are committed to harvesting contamination-free cotton; and ginners are committed to upgrading cotton seed, clean fiber, rigorous classing, using container transport, increasing responsibility for contamination by those responsible at each stage of the process, clear and transparent procedures. The objective is fully traceable cotton, branded bale wraps reflecting the quality grade of the cotton, and higher payments to producers.. The L8 program is ongoing, but involves few farmers and has expanded only gradually (and not yet into F8). It has not yet generated premiums in the international market on the basis of the L8 status and the market for fair trade cotton that was expected to provide a premium to the same farmers has collapsed.

Efforts to keep seed and lint cotton free of contaminants have proved successful, albeit on a limited scale. The debilitating financial crisis faced by West African cotton companies over the past five seasons has greatly hindered their capacity to maintain such investments, as witnessed by the rapidly deteriorating case of Mali. The challenge is to identify and expand the best practices across the region, and to put in place the incentives needed to make these practices financially sustainable.

Sometimes cost-reduction measures also reduce the risk of contamination. For example, CMDT used to wrap cotton bales with polypropylene, but this crop year switched completely to cotton and polyethylene wrapping; although they consider polypropylene is more resistant, and the switch is partly the result of cost. (Polyethylene wrap costs less than half, and cotton less than 2/3 of polypropylene). However, cotton wrap is less expensive in this case only because CMDT provides low grade cotton at no cost to COMATEX in Segou to produce the wraps.

Most fundamentally, farmers, and to a certain extent ginners, are not properly compensated for the quality of their cotton. The CFC/ICAC 32 study of the sources of cotton contamination in Mali found that most cotton growers are aware of the importance of providing cotton companies with uncontaminated cotton, and are even aware of how to control contamination at the farm level. Yet they are not taking the measures needed to avoid the problem due to lack of a system to reward them for their extra efforts to pick clean cotton.

Marketing of seed cotton has passed to producer organizations, which are not keen to sanction their members. As a result, seed cotton grading at farmer level is not working. Data from the major cotton producing countries of West Africa indicate that the quasi-totality of all seed cotton is sold by farmers to the

cotton company as first choice, thus eroding financial incentives for farmers to make any additional effort to invest in controlling contamination.

Furthermore the price for each grade of seed cotton is not determined by the farmers' bargaining power or an open market, nor even by the monopoly cotton company to which he or she is assigned. It is a pan-territorial price set by a multi-stakeholder committee at the beginning of the season, and does not vary to reflect either quality or market conditions at the time of sale. When the eventual market prices are higher than were estimated before planting and/or quality is better and so rewarded, the companies share some of the additional revenue with farmers, but it is not differentiated according to quality.

The poverty of the farmers and weak financial situation of the companies – with low production and low world prices causing heavy losses in 2008/9, deep indebtedness of the public cotton companies, and pending privatization of CMDT in Mali make it both more important and more difficult to invest in reducing contamination and increasing the return on the cotton produced.

### Current Pricing Systems in Project Countries

In Mali (CMDT) and Burkina (Sofitex, Socoma, and Faso Coton), as well as elsewhere in the region, seed cotton prices are set once a year, typically in April in a complex negotiation that typically involves the government and representatives of the ginners, producers, and input providers. There are complex formulas which are supposed to be transparently applied to determine the annual price for two or three grades of seed cotton quality based on international market conditions. (A big contention by producers is that these prices should reflect their costs, not market conditions). In many cases, the annual price of inputs is determined conjointly. The negotiations are very painful when there are serious losses to be divided between the players (eg, the total production cost is above the anticipated sales cost). In other words, there has been no "profit" to be shared for many years now. The process is highly political and contested. The WACIP is working with the Mississippi State University (MSU) to study these mechanisms to understand the complex dynamics and to evaluate the impact of overlooking the full value of an important and valuable cotton byproduct, the cotton seeds. It also gives very different prices in each country.

The key impediment to progress on contamination is the lack of financial incentive caused by the current grading practices. Over 98% of the cotton in West Africa is given the top classification. The prices set for the upcoming 2009/10 season in Burkina are 160 CFA/kg for first grade seed cotton, and 135 CFA for second grade (dirty, yellow, etc). In Mali the price for first grade cotton is 170 CFA and 145 CFA for second. The prices set for the coming season in Côte d'Ivoire are 175 CFA and 145 CFA respectively. If in fact the grading could be enforced, and perhaps middle gradations included, so that only the best 60% were graded A, farmers would clearly have incentive to keep their cotton clean and they would invest time and resources in doing so. (Before things fell apart in Zimbabwe, only 15% of seed cotton was graded A, and was strictly traced by farmer. Its cotton was selling at a 10% premium over cotton from West Africa).

The issue of putting in place a credible system that covers the costs of the farmer's investment in enhancing the quality of his/her cotton is critical. At farmer level, it is not *how* the price is set which is important to the farmer. That's a given, against which he/she decides whether or not to invest. What is critical is that the farmer believes that the producers union will fairly handle his/her cotton — both in preserving the quality (not coming in contact with lower quality cotton from others from the group) and also fairly and transparently distributing the returns. At present there is a very deep crisis of confidence between farmers and their unions that extends beyond the scope of this project. To address this important problem the project proposes to work with Groupements Villageois de Coton (GVC) which have a proven track record of financial health, as measured by a lack of internal and external debt. Working with GVCs, the project will

work to assure that the cotton companies and producers unions maintain a series of exchanges where the pricing mechanisms are described for the year, and to follow up on any actions. The project will closely focus on the village level to ensure that farmers understand the quality requirements and ways in which grading of bales happens. This will make them understand the process, and also improve trust among all partners. .

Aside from the economics and sustainability issues, three other basic questions have been raised by stakeholders in the region –

- 1) Is it premature to attempt such a project in view of the financial plight of cotton farmers and companies in general, and especially in Mali with the pending privatization of monopoly parastatal CMDT, and in Côte d'Ivoire with the coming complete restructuring of the cotton sector and the continuing political problems, chaos and corruption in cotton?
- 2) Are the companies, especially the heavily indebted CMDT and SOFITEX in a position to make and honor the critical commitments on their part to ensure the project can succeed?
- 3) Is the focus at the grower/seed cotton level rather than at the gin/company level the best way to accomplish the objective of producing more and obtaining higher premiums for non-contaminated cotton?

In regard to the first question, there seems to be consensus that despite all the uncertainties and developments underway, it is important to get started on the contamination issue. Assuming private companies are established by early 2010 with new operational structure and vision they will be looking for opportunities to increase profitability, and may be even more disposed to a system of financial incentives to promote quality improvement, especially if a good pilot program is under way. Finally, IFDC's close contacts in the region will assist in developing good working relationships also with the emerging companies, as much of their staff is likely to be familiar to IFDC staff. And, the counter question is, if not now, when?

In regard to the second question, all the companies and the producer unions indicated they are serious about tackling the problem and will cooperate fully with the project. They understand in general the implementation approach of the proposed project and the responsibilities of the companies that participate. There are four key aspects of company cooperation –

- devoting staff resources to extension and other activities involved in organizing and training the farmers, along with the unions, and ensuring that contamination-free status is maintained throughout the chain
- providing other counterpart contributions to the project such as an office and staff support, and free low grade cotton to textile mills for producing harvest tools
- committing to treatment of the non-contaminated seed cotton with extra care from collection point through ginning all the way to the port to preserve its status, and
- paying a fair share of premiums for the non-contaminated seed cotton to the growers involved and continue to provide them incentives and training after the project ends.

Following approval of the project by CFC, IFDC will follow up to further concretize the activities with those partners on the ground that have the highest likelihood of success, and then follow up on these commitments with signed detailed agreements that cover the above responsibilities.

In regard to the third question on seed versus lint cotton, there was consensus that while in some ways it might be easier to reduce contamination in lint through extra cleaning of seed cotton in the ginning process,

or manually by hired labor at the gin, the emphasis of the CFC project should be on encouraging clean seed cotton and working with the growers. The project should also support training for gin and other staff to ensure the non-contaminated seed cotton status is preserved and branded.

There are four major reasons for attention to non-contamination in the seed cotton:

- 1) Cleaner cotton brings better returns. The company will only be paying for the weight of the cotton, not stones, dirt and other foreign material. They can therefore produce a higher percentage of lint from the seed cotton (e.g., from the current 40% average to 42-44%). This means better efficiency.
- 2) Non-contaminated seed cotton reduces gin costs. The stones and other foreign matter cause problems with the gin equipment and require downtime and more spare parts. Dirty cotton requires more steps in ginning (pre-cleaning and post cleaning machinery /lint cleaner, i.e., 3<sup>rd</sup> generation gin) to produce clean lint. This adds to equipment and operating costs, energy use and other expenses. Clean, non-contaminated seed cotton could reduce costs by avoiding the post cleaning machinery /lint cleaner. In other words a 1<sup>st</sup> generation gin (no pre and post cleaning machinery ) as well as a 2<sup>nd</sup> generation gin (with the pre cleaner only ) can produce just as clean cotton as a 3<sup>rd</sup> generation gin if it starts with clean seed cotton.
- 3) Extra cleaning at the gin has a trade-off. As cotton is mechanically cleaned, it loses some of the intrinsic fiber properties including staple length. Non-contaminated seed cotton can produce higher class and more consistent lint, thus improving the reputation and price.
- 4) Rewarding growers for cleaner seed cotton means that the value addition accrues to the growers rather than to the gins, thus increasing farmer incomes. (Determining the exact value-addition by farmers for non-contaminated seed cotton in the chain depends on many factors including the world market situation and gin process. Perhaps a technical and economic study could be done to determine the fair sharing of premiums).

During the project formulation mission, both the cotton companies and the producer unions stated that the incentives and other activities proposed in the project will be sufficient to encourage farmers to reduce contamination. They agreed to true grading of the cotton in the project areas, penalties for farmers who do not meet the standards, and the sharing of higher prices with the growers of less contaminated cotton.

## **Annex II. Indicative Terms of Reference for the key PEA staff**

### **Regional coordinator:**

- Supervise the project staff and work of the partners on the ground, including extension agents and ginners.
- Communicate with the donor on the ground regarding progress field-level activities, needed changes in the activities, and situation with cotton in the target countries.
- Draw when needed from the expertise of IFDC and other cotton experts to support the project.
- Complete project reports and monitor expenses according to the budget.
- Maintain contacts with the regional and national partners and other projects in the cotton sector, to advocate quality issues, including truly associating premiums to quality.
- Publicize project successes at regional and national for a.

### **National coordinators:**

- Assist in the development of national work plan, together with the regional coordinator and with input from the partners.
- Provide the regional coordinator with up-to-date information on project activities.
- Maintain contacts with national partners and other projects in the cotton sector, to advocate quality issues, including truly associating premiums to quality.
- Work with the M&E expert to collect data on project activities and results.
- Implement activities on the ground, either directly, or in partnership with national organizations. These include:
  - Work with cotton extension to ensure quality in educational activities, supervision of harvesting, and supervision of transport to the gins.
  - Implement educational campaigns on cotton quality.
  - Supervise the implementation of the cotton sack/tarp distribution program through most appropriate method, preferably in partnership with local agrodealers and through vouchers, and perhaps through revolving fund.
  - Work with ginners to ensure that purity achieved will not be sacrifices.

### **The M&E Specialist:**

- Design a system of Monitoring and Evaluation that will allow for ongoing assessment of project results.
- Monitor activities to gather data, together with the country coordinators.
- Report to the regional coordinator, national coordinators, and regional and national partners on project activities and results.
- Publicize project successes at national and regional for a.
- 

### **The accountant will:**

- Monitor project expenditures vis-à-vis the budget.
- Ensure, with IFDC headquarters guidance and support, appropriate financial reporting to CFC.