



**INTERNATIONAL COTTON ADVISORY COMMITTEE**

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## **Privatization/Liberalization of the African Cotton Sector and Competitive Production**

### **Report on a Round Table Discussion at the 6<sup>th</sup> Annual Congress of the African Cotton Association (ACA)**

The 6<sup>th</sup> Annual Congress of the African Cotton Association (ACA) was held during March 13-15, 2008 in Lusaka, Zambia. The conference program included a round table discussion devoted to experiences in African cotton sector with privatization/liberalization and ways to improve the competitiveness of African cotton production. Speakers from Benin, Burkina Faso, Cameroon, Chad, Mali, Mozambique, Senegal, Tanzania, Zambia, and Zimbabwe participated in the discussion comparing various forms of regulation and organization of cotton production in African countries, and pointing to advantages and weaknesses of some production systems that affect the competitiveness of African cotton.

It was noted that various forms of out-grower schemes such as the concessions' system exercised in Mozambique, defined zones of operation for ginning/trading companies such as in Burkina Faso, or input provision schemes exercised by the industry association in Zimbabwe, served to attract investments to the ginning industry, made the provision of input credit and extension services possible by assuring the repayment of credits, and led to higher production and improved quality. Since 1995, the cotton industry in Zimbabwe has operated with minimal government interference. The survivability and success of the cotton industry in Zimbabwe is attributed to the inputs scheme agreed and implemented by all the ginners and supervised by the Cotton Ginners Association (CGA). All ginners are members of the CGA. All ginners agree to provide a basic package of inputs to farmers. Every contract for provision of inputs and sale of cotton between farmers and ginners is registered in the electronic database of the CGA. This prevents farmers from defaulting on input credit contracts and selling cotton to a third party. It is expected that the input credit package will become more comprehensive in the future, which could lead to higher yields.

In Mozambique, the central government is actively involved in regulating the cotton industry. Mozambique has a system of concessions, where every ginner has exclusive rights and obligations in a district to provide inputs and to purchase cotton from farmers. Purchase prices are set by the government after negotiations between cotton farmers (representatives of farmer associations), ginners (Cotton Ginners Association) and the government, and are based on a formula that takes into account the Cotlook A Index and transportation and quality differentials. An indicative price is set in October, before planting, and a final price is set in April, before harvesting. The system led to increased investments, provision of input credits and extension services to farmers and to a rise in production. The government is contemplating liberalization of the cotton market,

hoping that it will allow farmers to receive higher prices as a result of increased competition between ginners. However, ginners would like to reach a compromise with the government, where the current system will continue for the next 10-15 years, while gradual transitional changes could be introduced to improve the system. During this period, the ginners are hoping to recoup their investments.

In Burkina Faso, as a result of the privatization process, three cotton companies were created in well-defined geographic zones, while an improved mechanism for setting a producer price each season was maintained. The geographic zones of operation helped to eradicate side-selling by farmers and led to concentrated efforts by the cotton companies and the government to develop infrastructure, provide extension services and research, and to build capacity among smallholder farmers and their organizations that positively affected the cotton industry in Burkina Faso.

However, some participants expressed the opinion that these schemes (local monopolies), though seemingly successful in achieving growth in quality production, could limit prices received by farmers. At the same time, while unrestricted competition between cotton ginners and traders could result in higher prices received by farmers, such competition could lead to higher defaults by farmers on input credits. Higher defaults impede the reliable provision of input credits and extension services to smallholder farmers, negatively affecting the quality and quantity of cotton production, as experienced in some countries.

For example, in Uganda, cotton production declined sharply as a result of recent deregulation of the zoning system. Under the previously exercised zoning system, ginners were obliged by the government to invest in cotton production based on historical records, but were guaranteed to receive cotton from farmers for repayment of credits provided. The liberalization of the cotton industry in Uganda contributed to an increase in the number of free-riders, or ginners that would not invest seriously in cotton production.

It was stressed by members of the panel that for successful, competitive cotton production, strong adherence by producers and ginners to a well-defined set of rules is needed, and that governments must provide legislation in a liberalized environment to protect investor's and farmer's interests. The need for strong measures to prevent side-selling by cotton farmers without repaying input credits in a liberalized market was expressed.

The role of government in creating an encouraging environment for private investment in ginning, transportation and extension services, research and development, information, and export infrastructure was highlighted. The need for strong industry organizations for both cotton ginners and cotton farmers was stressed. It was also suggested that liberalization should be implemented gradually, taking into account the interests of all market participants and assuring a stable flow of investments, input credit and extension

services, and repayment of credits. Participants said that governments should provide legislative and regulatory support and support to self-regulation of industry organizations.

The achievement of these conditions, adjusted for specific situations in each country, could lead to higher competitiveness of African cotton in international markets. Participants expressed an interest in continuing a constructive discussion in international forums about privatization/liberalization strategies in Africa, and to continue to discuss other aspects of improving competitiveness and the sustainability of profitable cotton production in Africa.

The Sixth Open Session during the 67<sup>th</sup> Plenary meeting of the ICAC on November 17-21, 2008 in Ouagadougou will be on the topic of, “Competitiveness of African Cotton Production”.

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