

1737 ISSUES TO ENHANCING PROFITABILITY OF AFRICAN COTTON

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Discussions and studies on commodities are mostly focused on questions like price stabilisation and complaints regarding exports earnings of producing countries. No need to recall the numerous actions of the international community through the Integrated Program for Commodities, of the UNCTAD and its series of international commodities agreements; the IFM compensatory financing system, the European Stabex (stabilisation of export earnings). All these actions were meant to put into place "appropriate means", with the aim to helping developing countries, to secure remunerative prices to producers in exporting countries. Finally these instruments, proved to be unsuccessful, with regards to market forces and the price fluctuations.

Today, with the collapse of these international commodity agreements (on cocoa, coffee, sugar, tin, natural rubber) or abandonment of their economic and stabilisation provisions, producing countries are now advised, even assisted, to develop internal measures at country level or as regional group of countries.

For some years now cotton is in the centre of these new measures as international institutions are now almost captured by discussions on distortions caused by government measures and the appeal to save the African cotton. In these trends, it is now envisaged to introducing new policies such as the price "lissage" system to smoothing impact of price distortions. While awaiting the results of this new medicine which seems to again catch the hope of the African producing countries, there is a need to look in new directions. Because here too, it is the same approach of always focusing on the market side. The efficiency of the price "lissage" system is already hampered by effects of the global market, since the price fluctuations which are at stake derive from the market forces.

While considering the world cotton market, references to producers' incomes, farm-gate prices are then made to compare American, European, Brazilian, Chinese and African farmers who obviously are not using the same farming systems. Such comparisons do not take into consideration the farming systems used in these countries while.

As follow-up of the privatisation process, the restructuring of our commodity chains including cotton has led to discover the drastic absence of proper organisation. The present paper is meant to draw attention on issues within the farming scheme to improving the living of the farmer, not only from the sole point of view of his revenue, but also taking into account the overall macro economic environment governing the cultivation of the cotton, as to make it more profitable.

1. Overview of the farming system of African cotton

The African cotton production scheme, like for any other commodity in Africa, refers to major issues affecting the profitability of the crop. How to ensure the profitability of the farm as a whole exploitation or enterprise. These issues concern both different components or activities of the farming scheme and the overall macro-economic framework existing in

the rural area. Our proposal is that studies should then address these various components or types of activities which also imply different responsibilities.

- **The land tenure:** refers to the ownership of the land, conditions for acquisition, renting and management. In most of the African countries the land tenure, which is the starting point for any modern farming system seems to be ignored or enjoys poor regulation. It is then difficult to give a value to the land into exploitation. In short, the land cannot serve to garanty any farm credit like in modern farming system.
- **The status of the farm:** cotton production in most African countries is in the hands of smallholders, physical persons in stead of companies as compared with developed countries. Even when considering the existing cooperatives, they are rather "vanishing entities", since they cannot even claim the property of the cotton, which still belongs to members as individuals to use it as deposit for a loan.
- **The production factors:** production factors concern seeds, fertilizers, agricultural equipment. Knowing that as for agricultural equipment there is no comparison between the horses or castle used in Africa and the huge tractors existing in the American farms. It is only question of the acquisition of the seeds and fertilizers;
 - i. **acquisition of seeds** : involves the research institution, the financing, the pricing and modalities for distribution to the farmer; trials and follow up scheme are also concerned as to ensure better quality and high yield;
 - ii. **fertilizers:** provided to the farmers by ginning companies against supply of the seed cotton. But the lack of binding commitments between the two parties gives rise to a situation where the so pre-financed cotton is sold by the farmer to an other ginning company which did not provide the fertilizers;
- **The sustained management of the land:** the cotton farming requests a rotation in the use of the land which leaves a field lying fallow to avoid quick deterioration of the soil. This implies the need to secure conditions regarding the ownership and management of the farm;
- **Road maintenance:** it is a public service which befalls to government but carried out by ginning companies. A system of subcontracting is used to appoint enterprises ready to finance allowing then reimbursement by government (which may take time);
- **Marketing of the seed cotton:** marketing is considered through some major constraints, namely :
 - i. quality control of the seed cotton: carried out in presence of both Representatives of the farmer and the ginner at the ginning site, in case of dispute arbitration is provide by a third party;
 - ii. transport: refers to abnormal road transport practices and barriers that allow law-enforcement officers (police, customs, etc) to collect bribes from truck drivers by threatening them with delays;

- iii. pricing of the seed cotton: nationwide price determination mechanism offering a **residual price** to the farmer. This residual price being the remaining amount after deducting from the world market price all charges borne by the ginner. Such price doesn't really take into account the cost of production of the farmer;
 - iv. payment of the farmer: a time frame of 10 days is established in principle, but never observed. In actual facts payment of farmer by the ginner can take up to a full crop year, meaning serious arrears owed to the farmer who also is facing the reimbursement of credit for fertilisers and all inputs received in kind. Lack of commercial document or invoice to materialise the debt due by the ginner in view for the farmer to benefit from a discounting within the banking system;
 - v. lack of appropriate farm credit: given the specific needs and risks of the agricultural sector there is a need to establish a specific farm credit system with low loan rate and other advantages;
- **Selling of the cotton fibre:** the basic pattern in the marketing of the African cotton is that, after ginning the cotton remains with the ginner who is in charge of the selling (export or local industry). Whereas, in different places, the farmer takes his cotton back, as his property, and decides how to sell it. He can then use a warehouse receipt financing system and sell it at any time following market trends ;
 - **Quality control of the cotton fibre :** lack of national label; need for a central or national testing unit performed by a neutral body or third party; and allow then to shift to HVI testing system at least through common use , to ensure cost efficiency;
 - **Market access :** poor market information system; prevalence of a niche market system used by local ginning companies belonging to holdings or multinationals; as a result no real bargaining power, long period for the repatriation of the product payment;
 - **Local transformation :** poor facilities, absence of fair competition conditions with regards to high costs for inputs like electricity and water not excluding illegal import of apparel and clothes;
 - **Shipping conditions and logistics :** absence of national armament , low frequency of vessels for some given destinations;

2. Improving the macro-economic environment and the farming patterns

The cotton farming system in the African producing countries is also affected by the poor macro-economic framework prevailing in most of the developing countries. It is a common understanding that, exercising in a particular sector of activities private operators need a minimum of public infrastructures. Taking for example the construction sector in cities, it appears that before privates can build houses the area already enjoys infrastructures, such as water and electricity distribution, asphalted streets, telephone facilities etc, which are usually provided by the state or its contractors.

Commodities in general are not always profitable as such. In developed countries they are produced for different concerns: for food security reasons, to serve as raw material to

supply local industry, and also for soil protection. With such strategic concerns Governments are keen to enhance profitability of the crop by providing the necessary inputs and the overall macro-economic framework, as to encourage farmers and producing companies to maintain production.

For developing countries however the situation is quite different. Commodities are the main source of revenue, the only cash crop for some regions and their entire population. A single crop like cotton represents in some countries up to 60% of the export earnings. Under such circumstances, it is a question of survival for the developing countries; they have no choice to stop growing such crops.

The agriculture sector should also need an appropriate producing and trading framework like in developed countries. In other words some public services, like schools, hospitals should be provided in the first place in the rural areas.

In addition, the farmer himself is to be considered as a regular entrepreneur or employee like in any other sector of activities. Therefore he should also be eligible to tax payment and then entitled to enjoy social assistance like health care for him and his family.

When considering the profitability of his activity, which is cotton farming, the farmer's revenue is to cover his living expenses, like schooling his children, healthcare expenses for himself and his family and other social events along with some cultural features. In this respect, **if some of these charges are already covered (totally or partially), through public assistance or services provided by the Government, the farmer's expenses are consequently reduced. It is then a relief for his revenue which "becomes" remunerative. The cotton farming itself, at some extent, also becomes profitable, since the income generated by this activity allows now the producer to "gain his life" live from his revenue which is finally released by all undue charges.**

Conclusions and prospects

A review of the overall cotton farming system in Africa shows that some of the major activities request sound means or inputs from the public sector as coming within its competence as public service. These activities can be listed as follows:

- i. roads maintenance: refers to rural roads used in producing areas to access cotton farms, as to ensure evacuation of the production at any time in the year;
- ii. transport control and safety: actions to stop abnormal road transport practices increasing the cost of transportation;
- iii. assistance to farmer : promoting literacy tuition (a government policy and right for citizen);
- iv. follow-up measures to sustain privatisation process, to preserve fair competition among private ginning companies; secure timeframe for payment of the farmer;
- v. land tenure regulation: starting point for agricultural development; national census of cotton farmers; rules on land management and soil protection
- vi. seeds supply; special policy involving research support;
- vii. farm credit facilities: agriculture as a special sector depending on natural conditions unlikely to be controlled; need to provide specific farm credit facilities;

It is our view that any effort made by public sector, in its regular prerogatives of public service provider, or regulator in one of the listed domains is to reduce costs and charges actually borne by the farmer. This could then result in improving the profitability of the production. Therefore the ultimate objective of this paper is to help reviewing the terms of discussions and studies concerning the African cotton profitability as to explore new issues, namely :

- Identify and examine the relevance of the listed issues (not exhaustive) likely to impact the profitability of the African cotton
- Assess in econometric terms this impact ;
- Compare such impact with results of any action to correct the price fluctuation, or price stabilisation system (like the price lissage);
- Based on such assessment program to assist African cotton producing countries should then be directed to these new actions likely to be cost effective and enhance profitability of the cotton production

Such programs should be encouraged like the adjustment programs, and benefit from the same support to sustain the agricultural development of the producing countries. They seem to be fair actions to path way for modern agriculture the first step to compete in the world market. Such programs sound better than programs devoted to price distortions issues which cannot successfully tackle this phenomenon until there is significant change in the farming system of the producing countries.