

A Fast Track Project Document

Improvement of the Sustainability of Cotton Production in West Africa (CFC/ICAC/25)

Project Executing Agency (PEA):

The United Nations Conference on Trade and Development (UNCTAD) will execute the project.

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Project Duration:

Seven months
(1 May to 30 November 2003)

Supervisory Body:

The International Cotton Advisory Committee (ICAC) will supervise the project and also help UNCTAD with implementation.

Project Cost:

Grant from CFC	= US\$ 75,000
Counterpart contribution	= US\$105,000
Total cost	= US\$180,000

Main Themes of the Project:

The main themes of the project are to improve the sustainability of cotton production, and to enhance small-scale farmers' income from cotton production in West and Central Africa.

Countries Involved:

Benin, Burkina Faso, Cameroon, Chad, Ivory Coast, Mali and Togo

Background/justification and Current Status of Work on the Issue:

Cotton is the driving force for economic development in West and Central Africa. Cotton is grown in West and Central Africa on approximately 60% of arable land, and millions of farmers are involved in the cultivation of cotton. A majority of these growers are small-scale producers planting only 1-2 hectares, and most field operations are performed manually or by bullock traction. The governments in the region are under pressure to reform their cotton industries. About 95% of production from the region is exported.

During 2002/03, world production is expected to fall by 2.2 million tons from a record of 21.5 million tons in 2001/02. In 2002/03, the total supply of cotton (ending stocks + production) will reach 29.5 million tons, compared with a world supply of 30.7 million tons the previous season. In 2002/03, consumption is estimated to be increasing to a record of 20.7 million tons, up from 20.2 million tons in 2001/02. According to the Secretariat of the ICAC, world ending stocks are expected to decrease during the next several seasons and ultimately stabilize around 8.0 million tons.

The outlook for shrinking world cotton stocks, combined with the anticipation of larger net imports by China, is leading to an increase in international prices this season. Nevertheless, prices remain below the long term average of 72 cents per pound. The Cotlook A Index climbed to a season high of 50 cents per pound at the end of October 2002 but still it is 16 cents lower than in December 2000. In spite of lower production and higher consumption, international prices are forecast by the ICAC to remain lower than the long-term average for many more years. The current ICAC forecast is that the season average for 2002/03 will be 54 cents per pound. The Cotlook A Index is expected to increase by only three cents to 57 cents per pound in 2003/04.

Lower international prices are affecting all cotton producers, and production in West and Central Africa is expected to fall in 2002/03. Lower prices are positively effecting cotton consumption but there is a need to take additional steps to enhance cotton use. At present only a limited number of countries have programs to promote cotton against chemical fibers.

Political, economic and ecological conditions vary among the seven countries. Nevertheless, the cotton industries of these countries share common approaches. Cotton is grown exclusively on small farms as a rainfed crop, and production practices are similar. The cotton industries in all seven countries were organized for decades on the basis of national cotton companies that provided all inputs, purchased all seed cotton at a fixed price announced at the start of each season and performed all ginning, warehousing, transportation and marketing services. However, privatization of the national cotton companies is bringing changes to the sector. Reforms are being implemented to modify the organizational structures of the cotton industries in Benin, Togo and Ivory Coast,

focusing particularly on the partial privatization of ginning and marketing operations. Mali is beginning the privatization process, and additional changes to industry structure in all seven countries are inevitable. Accordingly, the input supply system has been decentralized, but the historical system based on national cotton companies has not been replaced with an organized alternative, and many small holders are experiencing loss of access to quality inputs.

Farmers are not accustomed to a private input supply system. Likewise, participants in the private sector do not have experience working directly with small-scale producers. In addition, extension systems for the provision of information to farmers, which were formerly supported by the national cotton companies, have broken down, and farmers have nowhere to go for advice on production practices. The nature of problems varies among countries, depending upon the status of reforms already implemented. In many cases, farmers are experiencing increases in the cost of production and reduced access to inputs.

Driven primarily by increases in area, the average growth rate of lint production in West and Central Africa was 9% per year during 1980/81 to 1990/91, and total output rose from 213,000 tons to 508,000 tons. Production continued higher in the 1990s. There were some years of slow growth due to poor yields during late 1990s, but it is expected that total production in the West and Central African region will be close to 900,000 tons during 2002/03. The increase in cotton production must continue if the livelihoods of small-scale cotton producers in the region are to continue to improve. Cotton is the main cash crop in most countries in West and Central Africa. Food crops are grown mostly for domestic consumption, and cotton remains the only crop that brings cash to cotton growers.

Insufficient work has been undertaken to identify the impacts of recent reforms on farmers' ability to produce and sell cotton, the effects on input supply systems, and the effects of privatization on the sustainability of cotton production and exports in the region.

Beneficiaries and Benefits:

The beneficiaries of this project will be small-scale farmers in the participating countries. Cotton growers will not directly benefit from the Fast Track Project itself, but the project will develop recommendations that, if implemented, will have long term impacts on the cotton industry in the region. The current project will identify weaknesses in the changing industry organization and structure, specify farmers' needs and accordingly suggest what should be done to improve cotton production in the project countries.

The ultimate result will be lower-cost cotton production, efficient supply and use of inputs (particularly fertilizers and insecticides), increased productivity and thus better income to

cotton growers. More efficient production of cotton in the region will enable cotton growers to produce food crops more successfully.

Project Objectives and Activities:

Sustainable poverty reduction requires *inter alia* that agricultural producers be in a position to obtain high yields to enable them to provide their families with a reasonable income and that the activities providing this income are carried out in a sustainable manner with adequate attention to environmental and social implications. Resource-poor farmers lack the means to procure and apply inputs in their production activities due to a range of factors, including a lack of availability of inputs, low quality of inputs or high cost. The reduction of government involvement in the supply of production inputs is leaving small farmers dependent on a market that is not yet functioning effectively. In particular, the increased but judicious use of fertilizer could have a major impact on yields obtained by small holders.

The current initiative aims at addressing input supply structures in the cotton producing West and Central African countries (many of which are among the least developed in the world). The project will outline key areas of intervention by the different players in the market (government, user organizations, and private sector) to enable resource poor farmers access to inputs that are supplied in a timely manner, competitively priced and of a consistent quality. Appropriate attention will be given to determine the environmental impact of increased fertilizer use by farmers, and alternatives will also be carefully assessed. In identified areas where cotton production appears to lead to a deterioration of the natural environment, preliminary analysis for possible alternative crops may be initiated. It is expected that the experiences that will be obtained with the current study and possible follow-up project will also be of use for other agricultural crops. The project will enhance sustainable development by linking increased cotton production with environmental protection. This project aims to assist all parties involved to base decisions on sound knowledge about the interactions between increased production and environmental protection.

The main objective will be to complete a region-wide analysis of problems faced by small holder cotton producers in West and Central Africa. This will be done on the basis of an inventory of existing knowledge, extended or deepened by specific topical or thematic studies. The outcome of the project could be the development of action plans at the national and/or regional level based on perceived priorities for action. The project and its results will also be linked and contribute to the design and implementation of a separate project envisaged by UNCTAD's Commodities Branch and Special Programme for Least Developed, Landlocked and Island Developing Countries to assist cotton producing and exporting LDCs in the reorganization of the sector pursuant to the liberalization of

marketing and financing activities, and in promoting value addition. Additional resources required for the execution of the latter project need to be mobilized as soon as possible.

The project will specifically address the following issues:

1. Functioning of input supply systems in the reformed cotton structure: The project will study the current input supply systems in each country after the reforms (already undertaken or in the process), and how the system is affecting farmers. The project will also suggest measures about how the systems could be improved to enhance the sustainability of cotton production.

2. Effectiveness and efficiency of transfer of knowledge to farmers:

Farmers received information about cotton production from the cotton companies in the past. Now, the system has changed. The project will study the current system of knowledge dissemination and determine how the system could be improved to meet the needs of the cotton growers.

3. Environmental impact of cotton production:

Fertilizer use in West and Central Africa is reportedly less than optimal. Assuming that there is a need to increase fertilizer use, there is also a concern that inputs not be used indiscriminately. Consequently, there is a need to produce best practice guidelines based on sound management principles before fertilizer and insecticide use exceed appropriate thresholds.

4. Credit supply system:

Farmers usually exhaust their income before the cotton-planting season begins. They need money to buy inputs. The project will study current credit facilities and recommend how credit systems can be improved.

5. Changes in the production practices:

Recent structural changes are affecting cotton growing practices. The project will investigate new production practices and how they can be oriented to achieve maximum benefits to growers while assuring the sustainability of cotton production.

Implementation modalities:

The project will be implemented by UNCTAD and supervised by the ICAC. UNCTAD will contract a consultant to undertake the project, in consultation with the ICAC and CFC. The consultant will confer with principal institutions working on relevant issues and devote sufficient time in the region to work on the planned objectives.

Among the seven countries intended to participate in the project, six (all but Benin) are members of the ICAC. The ICAC has a Coordinating Agency in each member country that has been designated by each respective government to coordinate with ICAC in all matters. Member governments are committed to providing information on cotton to the ICAC Secretariat. A national coordinator will be identified in each ICAC member country to liaise with the consultants, help collect the required information and provide advice in developing recommendations. A similar network of coordination will be established in Benin through the UNCTAD Secretariat.

The use of national coordinators will help the consultant prepare before his travel to the region and collect the required information. The national coordinators will also help to arrange meetings with government officials and industry representatives to gather information. The consultant will prepare surveys/questionnaires to be sent to the national coordinators for the collection of up-to-date information on specific topics prior to his arrival in the countries.

The draft report prepared by the consultant will be discussed in a Round Table Meeting of the national coordinators/country representatives and other relevant parties from the cotton sector in the region. A financial contribution from the Fund to the meeting is foreseen in the project budget to facilitate the participation from the countries involved. The consultant will organize this meeting in consultation with UNCTAD and ICAC wherein representatives of UNCTAD, the CFC and ICAC will be invited to participate and contribute to the finalization of the report. The draft outline of the programme and organizational arrangements as well as the proposed budget will be presented to the Common Fund and the ICAC for observations prior to their finalization.

The final report, which will include a critical analysis of the current situation and a sound package of recommendations for improving the cotton situation in West Africa, will be published by UNCTAD in French and English, as a CFC Technical Paper.

Coordination of Activities

The core coordination functions will be performed by UNCTAD. However, wherever necessary, help will be sought from the ICAC Secretariat for effective implementation of the project. Wherever necessary, other institutions/organizations with relevant knowledge and experience in the region will be invited to contribute to the project and to make recommendations.

Cost of the Project:

The approximate cost of the project is US\$180,000. Details are as follows:

Total Project Cost	= US\$ 180,000
Grant requested from the CFC	= US\$ 75,000
Consultant services (including travel)	= US\$23,000
Data collection	= US\$7,000 (US\$1,000 x 7)
Round Table Meeting	= US\$29,100
ICAC participation in the meeting	= US\$4,000
Overhead UNCTAD	= US\$6,900
CFC participation in the meeting	= US\$5,000

Notes on the CFC contribution:

1) The CFC contribution to the project shall be exclusively used to finance activities in CFC member countries.

2) The increased allocation of funds for the Round Table Meeting is to ensure adequate participation from appropriate sectors from the participating countries. Travel arrangements to be made in that respect (as well as for other CFC financed travel) will be economy class and along the most direct and economical route.

2) Prior to committing funds or incurring any expenditures related to "Data collection" and "Round Table Meeting", UNCTAD will provide a breakdown of the estimated costs, allowing a reasonable advance insight in the proposed use of funds.

Cash contribution of UNCTAD (through Special Programme on LDCs)

Logistical support for the meeting, UNCTAD staff travel, and publication of the report =US\$15,000

Co-Financing/Counter Part Contribution in the form of time and resources spent on the project

Source 1: UNCTAD	= US\$10,000
Source 2: Individual countries	= US\$70,000 (10,000 x 7 countries)
Source 3: ICAC	= US\$10,000

NOTE: In the final version of the project description, the counterpart contributions from these three sources should be elaborated, outlining what kind of costs will be covered.

Limitations:

Although providing major financial support to the project, the Common Fund is not committed in any manner to finance any of the activities/programmes as may be recommended in the report of the consultant or resulting from the deliberations in the regional meeting.

There is no significant limitation to the implementation of the project as proposed. The cotton industries in the region are not at an even stage of implementing reform policies. Some countries are advanced while some are just starting. The cotton production systems

in each country prior to the start of the reforms/privatization process was the same, and the eventual cotton production and marketing systems will also be largely similar after the reforms have been implemented.