



AID-FOR-TRADE: CASE STORY

THE INTERNATIONAL TRADE CENTRE

African Cotton Development Initiative



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EXPORT IMPACT
FOR GOOD

AFRICAN COTTON DEVELOPMENT INITIATIVE

2011 AID FOR TRADE GLOBAL REVIEW: CASE STORY



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EXECUTIVE SUMMARY



The cotton sector is central to Africa's efforts in fighting poverty. It provides income for millions of people, especially those living in rural areas, and is an important source of foreign exchange earnings.

Africa, both francophone as well as anglophone, has traditionally been an important cotton production base. But almost 80% of cotton fibre is processed into yarn in Asia. In contrast, fibre transformation rates in Africa are at an historic low, with only 5% of francophone and 43% of anglophone African cotton being processed on the continent. On average, 83% of sub-Saharan African cotton is exported as lint, almost exclusively through international merchants to Asia.

In order for Africa's cotton sector to realize its potential, it is necessary to attend to all of the complementary facets along the entire value chain. ITC's programme is designed to address those multiple facets and to bring a regional approach, along with capacity building, into the mix.

The results have been positive. Regional strategies have been developed. The African Cotton Association is developing a new business plan to help overcome the tainted reputation of African cotton. Cotton experts from China, India and Turkey have shared their expertise with individuals and businesses in the African cotton sector. Direct sales of African cotton to Asia have increased, with orders of up to US\$10 million.

A next step in the programme could be to include the retail sector. Close linkages can be forged between the retail sector in the West, the textile industry in Asia and African cotton stakeholders. Such an approach of directly linking the growers to the retailers would secure higher prices for ginners and seed-cotton farmers, while also benefitting the textile and retail enterprises.

ISSUES ADDRESSED

Closer interaction with clients and cotton consumers is vital to maintain international competitiveness.

The high rate of cotton exports, the shift in demand from industrialized countries to Asian emerging economies and an increasingly integrated value chain require better market links. This is true now more than ever with the emergence of strong new competitors such as Brazil and India. In the past, direct market linkages with clients were not developed and therefore there was no direct feedback loop from spinning mills back to ginning companies and producers.

To move Africa's cotton sector forward, production needs to be stabilized, yields increased, the cotton-related value chain optimized, contamination reduced and premiums for clean cotton captured. In order to achieve this and to improve African competitiveness, a more strategic orientation needs to be given to African cotton, and farmers as well as ginning companies need to be empowered. Marketing, including promotion, is just one aspect that needs to be addressed in such a strategic approach. However, it is the aspect that links the entire process by understanding the client, addressing their requirements in the entire value chain operation and finally promoting the cotton to spinning mills.

A sustainable feedback loop from spinning mills to ginning companies and cotton producers is therefore vital to improve Africa's competitiveness in a sustainable manner. In addition, the ginning companies' negotiating positions with regard to trading companies will be improved, leading to mutual benefits.

OBJECTIVE PURSUED

The importance of a holistic approach to the value chain is stressed by many experts and associations. During the 67th Plenary Meeting of the International Cotton Advisory Committee (ICAC) in Ouagadougou, for example, cotton experts discussed the 'Competitiveness of African Cotton Production' and stressed the importance of 'traditional' aspects such as activities in research, finance and reduction of contamination, but emphasized as well that 'it is also necessary to promote African cotton, and ... improve marketing'.

ITC's Cotton Development Initiative therefore aims to make Africa a stronger competitor in the international cotton trade by boosting competitiveness and establishing stronger links with cotton importers, especially in Asia. Closer linkages with cotton consuming spinning mills will lead to closer partnerships between spinner, ginner and farmer groups. These partnerships in turn will lead to major improvements along the value chain, including the quality of cotton, especially cotton contamination, and ensuring long-term stable markets for cotton produced by small farmers in Africa.

ITC's final objective is therefore a higher profitability of ginners as well as farmers through the realisation of higher lint and seed-cotton prices and/or through efficiency gains along the value chain.

PROJECT DESIGN AND IMPLEMENTATION

The market defines effective competition. A clear understanding of the entire value chain, the market, the clients and the end users are necessary to become competitive. Following this guiding principle in designing the programme, ITC has developed a multi-pronged approach among areas that complement each other and strengthen the performance of stakeholders along the value chain.

SECTOR STRATEGY DEVELOPMENT

Global trends mean African countries now need to think regionally when it comes to strategies for the cotton to clothing sector. While some countries have difficulty establishing an entire value chain from cotton to textiles and clothing, this can often be achieved at the regional level. Regional economies of scale and expertise can improve the sector's performance and in turn allow African countries to tap into international markets for clothing and fashion, and add value to the cotton.

CAPACITY BUILDING OF COTTON-RELATED ASSOCIATIONS AT NATIONAL AND REGIONAL LEVEL

At the regional level ITC is supporting the African Cotton Association (ACA) to develop a new business plan to cover the years 2011 – 2016. ITC is collaborating with ACA to develop a systematic approach for the promotion of African cotton. In Eastern and Southern Africa, ITC collaborates closely with the African Cotton Textile Industries Federation and is working with the African Cotton Producers Association to increase the ability of cotton farmers to understand markets and clients.

At the national level ITC is working in Tanzania, Uganda and Zambia to build local capacities.

CAPACITY BUILDING IN COTTON TRADE AND MARKETING

The *ITC Cotton Exporters' Guide* provides critical information on cotton markets and consumers. It gives a detailed overview of the cotton value chain. By using the guide's marketing and trading analysis, African farmers and ginners improve operational efficiency and their negotiating position. The guide is available as a book as well as on-line in English, French and Spanish.

FACILITATION OF SOUTH-SOUTH COOPERATION

ITC is facilitating cooperation among developing countries, with a special focus on links within Africa and between Africa and Asia. Africa can best learn from the cotton success of other developing countries all along the cotton to clothing value chain, including cotton production and fibre transformation. The approach involves four main themes:

Learning from success. Training programmes organized by ITC allow successful cotton producers in China, Turkey and India, for example, to share their knowledge with cotton professionals from Africa.

Developing capacity to transform cotton. Successful textile and clothing producers in China, Bangladesh India, Thailand, Turkey and Vietnam are relaying their experiences to African countries through ITC training.

Sourcing from other developing countries. African producers are encouraged to search out suppliers in the developing world for savings on items ranging from seeds and fertilizer to technology.

Encouraging intra-African cooperation. Better knowledge of the cotton and textile sectors in other African countries is essential to regional strategies, yet is often lacking.

PROMOTION OF AFRICAN COTTON

American farmers and cooperatives along with their counterparts in Brazil and India have organized market familiarization missions to cotton-consuming countries in Asia to learn what their clients expect from them and to promote their cotton. ITC assists African cotton companies, independent ginners and producers to benefit from similar opportunities. As a result, they gain a clear understanding of the entire value chain and the immediate market where their cotton is being sold.

Direct contacts with the immediate consumers of their cotton, i.e. spinning mills, allow direct and unfiltered feedback on quality and buyer requirements.

REDUCING COTTON CONTAMINATION AT THE PRODUCTION LEVEL

Cotton contamination in Africa remains an important issue even though in many cases the reputation of African cotton is "more contaminated" than the actual cotton itself. To overcome this ITC identifies interested spinning mills willing to assist selected ginning factories in producing clean lint. This develops sustainable business relationships based on product quality and trust, leading to price premiums paid for clean cotton. We also cooperate with the World Bank and CFC/EU-funded projects that work with farmers to produce non-contaminated cotton.



PROBLEMS ENCOUNTERED

- **Ensuring direct links with cotton consuming spinning mills and a feedback loop that links producers and ginning companies closer to the market:** African cotton companies, independent ginners and producers (i.e. cotton stakeholders) have hardly ever had direct contacts with the market. As a result, they have no clear understanding neither of the entire value chain nor the immediate market where their cotton is being sold. Direct contacts with the immediate consumers of their cotton, i.e. spinning mills, have been rare, and direct feedback on quality and buyer requirements was sporadic and often filtered by intermediaries, thus depriving sector stakeholders of vital information for improving quality and customer services.
- **Revising an unfavourable African image in the market.** Although production methods and cotton quality are not homogenous, African cotton suffers from a negative image of being highly contaminated cotton. This reputation is widespread. Only a few spinners that deal with specific origins know about the quality and price differentials for certain African cotton.
- **Closer involvement of local banks.** As a result of the financial crisis as well as the sudden price hikes in the cotton sector in March 2008, banks' lending practices have become more cautious. Moreover, some traders receive less trade finance from their banks and are not willing to buy forward anymore, which poses big problems for African cotton farmers and ginners. In many African countries cotton shipments are released only once a reputable international buyer has signed a contract and opened a letter of credit. Many local banks regard only strong international merchants as fully creditworthy. This, however, does not assist African cotton stakeholders to become equal partners in the international cotton business.
- **Provision of a more regular and continuous offer.** National production levels in Africa are relatively low compared to major world market competitors. As a result, cotton is on offer during the four or five months of the cotton season only, whereas spinning mills need delivery throughout the year. That makes national stakeholders vulnerable in price negotiations.
- **Ex-gin or FOB offer vs. C&F demand:** In order to increase turnover and ensure quick repayment of bank loans, ginneries use to sell lint at the gin gate or FOB at the nearest port. In contrast spinning factories buy cotton C&F for delivery at an Asian port. Moreover, central and West African cotton companies sell per kg in Euros, while international trade is done in lbs/US\$

FACTORS FOR SUCCESS

Before cotton stakeholders can actually engage in a more proactive approach to marketing, the necessary condition – a full understanding of external issues i.e. the value-chain and world markets – needs to be met. In addition, cotton stakeholders need to find ways to translate gained information and knowledge into know-how that is applied at national and regional level (the sufficient condition). This is a step-by-step approach:

UNDERSTANDING THE VALUE CHAIN AND THE VARIOUS STEPS OF VALUE ADDITION until the cotton reaches the final consumer in the form of a cotton garment, including an in-depth understanding of common trading practices and their advantages and disadvantages.

UNDERSTANDING THE SPECIFIC MARKET AND BUYER (CLIENT) REQUIREMENTS at each stage of the value chain. This refers on the one hand to product quality requirements related to the fiber and its cleanliness. On the other hand it refers to tailor-made solutions and business practices according to the specific needs and wishes of cotton-consuming spinning mills.

APPLY VALUE CHAIN AND MARKET KNOWLEDGE at the national and regional level to build capacity to respond to market and buyer requirements. This includes the following activities:

- Translating market knowledge and quality requirement insights into practical application at the production (i.e. ginning and farming) stage.
- Maintaining these applications on a large scale with thousands of small-scale farmers.
- Building the capacity of multiplier organizations in the form of national and regional producers and ginning associations.

In addition, the following factors had an important positive impact on the project's success:

- ▶ **Full transparency in all operations, including that of international merchants**
- ▶ **Involving local banks more closely in all operations**
- ▶ **Inclusive approach of all cotton stakeholders driven by private sector stakeholders at farm or gin level.**

RESULTS ACHIEVED

▶ **REGIONAL COTTON STRATEGIES DEVELOPED AND ITS IMPLEMENTATION FACILITATED:** ITC assisted the Common Market for Eastern and Southern Africa (COMESA) and the African Cotton Textile Industry Federation to develop a regional cotton-to-clothing strategy. Similar discussions are on-going with the Secretariat of the Economic Community of Central African States (ECCAS) for a cotton strategy for Central Africa.

▶ **INCREASED NATIONAL AND REGIONAL CAPACITY IN COTTON TRADE AND MARKETING:** The African Cotton Association (ACA) is developing a new business plan focussing on delivering crucial services to its members, including on commercialisation. ACA's plan will help overcome Africa's reputation of delivering contaminated cotton, as it has developed a common approach and fiber quality standard at the regional level. New promotional approaches are being developed for Tanzanian and Ugandan indigenous ginners.

▶ **IMPROVED NEGOTIATING POSITION OF AFRICAN COTTON COMPANIES VIS-À-VIS INTERNATIONAL TRADERS.** *"Our relationship has become more healthy as our knowledge and information base is more equal"*, states the sales director of SODECOTON, Cameroon.

► **LEARNING FROM OTHER DEVELOPING COUNTRIES AND DEVELOPING CAPACITY TO TRANSFORM COTTON:** Other cotton-producing developing countries such as China, India and Turkey shared their knowledge with African stakeholders from research and seed development to ginning and trading. Numerous improvements have been made in Africa and African-suitable technologies have been introduced.

► **SUCCESSFUL COTTON MARKETING AND DIRECT SALES:**

Tanzanian cotton was sold in direct marketing activities from independent ginners to spinning factories in both Bangladesh and Thailand in an amount of approximately US\$ 10 million. This was the first-ever direct sales from African ginneries to Asia spinning mills. Sales from Senegal to China amounted to approximately US\$3 million. Three Chinese spinning mills agreed to cooperate with two ginners from East Africa for the import 3,000 cotton bales, valued at approximately US\$ 800,000.

The feedback from Thailand on the quality of the cotton received was very good. Individual score card assessments by the buying spinner resulted in above average scoring for the Tanzanian cotton in almost all categories, except for contamination. In addition, a spinning factory plans to invest US\$ 6 million in spinning facilities in Tanzania

► **IMPROVING THE IMAGE OF AFRICAN COTTON:** Exposing cotton-consuming spinners from Asia to the realities of the cotton sector in Africa leads to relationship building. As “seeing is believing,” visits to Africa open their eyes on how professionally the industry is organised, overcoming false images.

► **LINKING SPINNERS TO GINNERS AND FARMERS TO PAY A PREMIUM FOR CLEANER COTTON:** Spinners from Bangladesh and Vietnam visited farm and gin operations in Burkina Faso and Mali where they experienced the professionalism of the African cotton sector and the efforts undertaken to reduce contamination levels under a EU/CFC funded project with which ITC cooperates. As a result spinners asked to become part of the project and expressed their willingness to pay a price premium for cleaner cotton.

► **INCREASING TRANSPARENCY IN FARM INPUTS AND SEED COTTON PRICES DETERMINANTS CREATING TRUST AMONG COTTON STAKEHOLDERS:** In Zambia, ITC built this knowledge among cotton farmers, who, as a consequence, were able to negotiate better seed cotton prices from international ginning companies operating in the country.

LESSONS LEARNED

Competitiveness starts from the market by understanding market and buyer requirements and addressing identified bottlenecks along the entire value chain from cotton research to premiums available in the market. In addition, cotton stakeholders need to find solutions on how to translate the information and knowledge gained into know-how at the national and regional level.

African cotton producers benefit from directly engaging in cotton marketing. All four areas of the traditional 4 P marketing mix (namely product, price, place (distribution policy) and promotion) can be addressed more dynamically in Africa. The successful promotional activities of other cotton-producing countries, most notably the United States, show how a brand image can be created in the market. In the African context this needs to be tackled jointly by all stakeholders, including international merchants.

Learning from success. Facilitation of south-south cooperation can make a difference on cotton trade and all aspects along the entire cotton to clothing value chain.

Sourcing from other developing countries. Encouraging African producers to search out suppliers in the developing world promotes savings on items ranging from seeds and fertilizer to technology.

Intra-Africa cooperation is ongoing: Senegal, one of the leading countries in Africa to produce clean cotton, opened its doors and trained colleagues from Tanzania, Uganda and Zambia. Cotton stakeholders from Mozambique, Zambia, Zimbabwe and Malawi are forming the MoZaZIMa group to jointly tackle common problems and capitalize on synergies.



CONCLUSION

ITC's activities in the 5 areas of i) capacity building in trade and marketing, ii) capacity building of farmers' and ginners' associations, iii) south-south cooperation, iv) African cotton promotion, and v) reduction of contamination levels are complementing and reinforcing each other.

South-south cooperation activities are also used for promoting African cotton in markets such as China, India and Turkey. While promoting African cotton in consuming markets, south-south cooperation initiatives address fibre transformation, the reduction of contamination, and the procurement of more economic inputs into the cotton sector in Africa, such as seeds, fertilizers, chemicals, agricultural and textile machinery. When capacities of national and regional associations are enhanced, it leads to improved marketing of African cotton and to the development of more specific south-south cooperation activities with Asian cotton producing countries as well as among African countries. This, in turn, leads to improvements in cotton quality.

ITC's activities so far have been benefitting cotton stakeholders in Africa on a broad scale so as to spread knowledge and capacities widely. This modern approach was necessary because many ways of doing business were outdated. The sector has seen positive results by the way of higher prices, direct sales and sustainable linkages with the textile industry were achieved.

To bring the approach to the next step, the retail sector could be included. Close linkages can be forged between the retail sector in the West, the textile industry in Asia and African cotton stakeholders. Some initiatives are already being observed. Close partnerships along the value chain, including retailers, spinners and cotton suppliers (ginners and farmers) could lead to benefits for all. At the same time it will benefit the retailer as well as the textile industry (often found in Asia) that produces the final garment. The direct trade linkages will secure higher prices for ginners and through increased transparency and empowerment of producers, as well as higher prices of seed-cotton for farmers, while serving the needs of the textile and retail partners.