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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa

- Based on a Comparative Study on India, Turkey and Egypt

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LIST OF FREQUENTLY USED ABBREVIATIONS

ACC: Agricultural Credit Cooperatives

AGOA: African Growth and Opportunity Act

AIEC: All India Exporters' Chamber

ALCOTEXA: Alexandria Cotton Exporters' Association

APMC: Agricultural Produce Marketing Committee

ASCU: Agricultural Sales Cooperatives Unions

AU: African Union

BCEAO: *Banque Centrale des États de l'Afrique de l'Ouest*

BIS: Bureau of Indian Standard

BOAD: *Banque Ouest Africaine de Développement*

BUTAL: Bursa Textile Analysis Laboratory

CAP: Common Agricultural Policy

CATGO: Cotton Arbitration and Testing General Organisation

CCI: Cotton Cooperation of India

CDE: Centre for the Development of Enterprise

CEMAC: Central African Economic and Monetary Community

CFC: Common Fund for Commodities

CFDT: *Compagnie Française de Développement des Fibres Textiles*

CIRCOT: Central Institute for Research on Cotton Technology

CITI: Confederation of Indian Textiles Industries

CMDT: *Compagnie Malienne pour le Développement des Textiles*

COMCEC: Committee for Economic & Commercial Cooperation

COMESA: Common Market for Eastern and Southern Africa

CORAF: *Conseil Ouest et Centre Africain pour la Recherche et le Développement*

CRI: Cotton Research Institute of Egypt

CSITC: Commercial Standarisation of Instrument Testing of Cotton

CTC: Cotton-Textiles-Clothing (=CTG: Cotton-Textiles-Garments)

ECCAS: Economic Community of Central African States

ECOWAS: Economic Community of West African States

ELS: Extra Long Staple

EPA: Economic Partnership Agreement

EPC: Export Promotion Council

ERSAP: Economic Reform and Structural Adjustment Program

FAO: Food and Agriculture Organization

FDI: Foreign Direct Investment

FIEO: Federation of Indian Export Organisation

FMC: Forward Markets Commission

FTA: Free Trade Area

FTZ: Free Trade Zone

GAFI: General Authority for Investment

GATT: General Agreement on Tariffs and Trade

GDP: Gross Domestic Product

GIDA: General Industrial Development Authority

GSP: Generalized System of Preferences

HVI: High Volume Instrument

ICAC: International Cotton Advisory Committee

ICAR: Indian Council of Agricultural Research

ICCI: Islamic Chamber of Commerce and Industry

ICDT: Islamic Centre for Development of Trade

ICMA: Indian Cotton Mills Association

ICRC: International Cotton Research Centre

IDA: International Development Association

IDB: Islamic Development Bank

IDBI: Industrial Development Bank of India

IPR: Inward Processing Regime

ITC: International Trade Centre

ITKIB: Istanbul Textiles and Clothing Exporters Associations

LDC: Least Developed Country

LS: Long Staple

MCC: Millennium Challenge Corporation

MHF: Mass Housing Fund

MSCCGMF: Maharastra State Co-operative Cotton Growers Marketing Federation

MSP: Minimum Support Price

MTI: Ministry of Trade and Industry

NAFED: National Agricultural Cooperative Marketing Federation of India

NCCT: National Cotton Council of Turkey

NYCE: New York Cotton Exchange

OECD: Organisation for Economic Co-operation and Development

OIC: Organisation of Islamic Conference

OPICT: *Organisation des Professionnels des Industries Cotonnières et Textiles*

OPR: Outward Processing Regime

PAFTA: Pan Arab Free Trade Agreement

PPP: Public Private Partnership

QIZ: Qualified Industrial Zone

ROPPA: Network of Peasant Organisations and Producers in West Africa

SACU: Southern African Customs Union

SADC: Southern African Development Community

SEE: State Economic Enterprise

SESRTIC: Statistical, Economic and Social Research and Training Centre for Islamic Countries

SFD: Social Fund for Development

SIDBI: Small Industries Development Bank of India

SITC: Standardised Instrument Testing of Cotton

SITP: Scheme for the Integrated Textile Parks

SME: Small and Medium Enterprise

SOFITEX*: Societe Burkinabe des Fibres Textiles*

TCB: Trade Capacity Building,

TCF: Textile Consolidation Fund

TMC: Technology Missions on Cotton

TRA: Textile Research Association

TUFS: Technology Upgradation Fund Scheme

UEMOA: *Union Economique et Monetaire Ouest-Africaine*

UNCTAD: United Nations Conference on Trade and Development

UNIDO: United Nations Industrial Development Organization

UNPCB: *Union Nationale des Producteurs de Coton du Burkina*

VAT: Value Added Tax

WAEMU: West African Economic and Monetary Union

WB: World Bank

WCA: West and Central Africa

WTO: World Trade Organisation

YTL: New Turkish Lira

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This report is the result of a comparative study and evaluation made on the experiences of India, Turkey and Egypt in the formulation of strategies employed to develop the cotton sectors, particularly to enhance value addition at every stage of the value chain. Successful experiences were to be identified and developed as strategic options to promote the cotton sectors in cotton-producing West and Central African States. The consultant is thankful to Mr. M. SAHU of India and to Professor Abdel-Latif ABLA of Egypt for their valuable work in the preparation of the individual country studies of India and Egypt, respectively. The consultant, who has also prepared the country study of Turkey, had the task of consolidating these valuable studies as well as formulating possible strategies for the improvement of the cotton sectors of the West and Central African countries. The work also involved considerable amount of desk research not only for gaining further knowledge on the cotton sectors of West and Central Africa, but also in the identification and formulation of the most practical and appropriate recommendations. The consultant is also thankful to various international organisations, particularly to UNIDO, UNDP, ICAC, OECD, UEMOA, WTO, ITC, WB, IDB as well as to the EU, and to various NGOs, which made available through the internet or through personal communications very useful documentary material, which had been accumulated from various studies, workshops, conferences as well as field visits, from which valuable knowledge on the current state of the cotton sectors of West and Central Africa had been attained. My special thanks are to Messrs. M. Lamine DHAOUI and Yuen-Hoi LEE of UNIDO for their kind support and advice, whenever needed.

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EXECUTIVE SUMMARY

Cotton, which is an important cash crop as well as the major export commodity in many parts of the world, has even a greater importance in a number of African countries, especially in those which are situated in West and Central Africa (WCA), where between 2 to 3 million households have a direct dependence on cotton, while this number amounts to some 15 million people when the indirect dependence is also taken into account. The income created from cotton generates not only significant export earnings but also domestic food security.

International market and price developments for the cotton fibre have major implications in the fight against rural poverty, especially for the cotton producing Least Developed Countries (LDCs). Cotton's macroeconomic importance in WCA varies significantly from one country to the other. For example, the share of cotton exports in the total merchandise exports was about 30% in Benin, Chad and Mali, while it was around 56% in Burkina Faso. Cotton also makes a significant contribution to the GDPs of most of the WCA countries.

Cotton has been grown in WCA for more than 100 years and a significant *traditional textiles* industry has existed in the region for more than 50 years. The cotton industry in the WCA francophone countries was pioneered by the French state-owned *Compagnie Française de Développement des Fibres Textiles (CFDT)* along with numerous national cotton companies, while in eastern and southern Africa, parastatal marketing boards and/or cooperative unions were actively engaged in the cotton production and marketing activities.

The cotton production and export sector of WCA, which had been regarded by many as a "success story", has recently entered into a series of crises, due mainly to depressed world cotton prices. This has badly affected the income levels of the farmers, who depend mostly on cotton cultivation. Most of the WCA countries, with the exception of just a few, have not been able to extend their way upwards on the cotton value chain ladder owing to various reasons. Finding the best possible ways in which the WCA countries can explore the advantages of value addition to the cotton fibre produced in the region is considered as a possible strategy to alleviate poverty and improve the living conditions of millions, who largely depend on incomes from cotton.

As part of this assignment, the experiences of India, Turkey and Egypt have been studied, including the strategies these countries have employed to develop their respective cotton sectors, particularly in the enhancement of value addition at every stage of the cotton-textiles-clothing (CTC) value chain. This study has revealed valuable information on the experiences of these countries and the lessons learned by each country have been utilised in the identifications of possible strategic options and in structuring a technical assistance document.

Various international organizations, including the WB, IMF, UNIDO, UNCTAD/WTO, FAO, ITC, OECD, UEMOA, IDB together with the OIC, as well as the EU and many developed countries, such as the USA, Japan, France, Germany, the Netherlands, etc., have all taken steps to assist the cotton sectors of the WCA countries. In particular, the initiatives developed by the IDB, UEMOA, UNIDO, the EU and the USA have been reviewed at some length, from which valuable information were also obtained, which have also been utilised in the identification of possible strategic options and in outlining the technical assistance document.

The Islamic Development Bank, **IDB**, together with **OIC**, the Organization of Islamic Conference, has been playing a significant role in the cotton sector of its member countries. It is due to this close interest that the **IDB** has been financing a number of projects, which contributed significantly to the improvement of the cotton sectors of many Islamic countries, among which most of the WCA countries occupy a leading position.

There are basically two ongoing action plans, to which IDB has been related; the *first action plan* had been developed with *the First Expert Group Meeting (EGM)* held in Jeddah, Saudi Arabia, in March 2005 and it has been under implementation since then, while the *second action plan,* was the product of *the Second and Third EGMs*, both of which had been held in Turkey in 2006, and subsequently accepted by the **OIC** and **COMSEC** meetings in Istanbul in November 2006, whose implementation phase started in 2007. Both action plans contain activities mainly related to *cotton quality improvement, capacity building and institutional development*, most of which are similar to the activities foreseen in other initiatives, namely those developed by the **UNIDO, UEMOA,** etc. Examples common to all of these projects include, *setting up of cotton research centres; campaign against contamination; improvement of cotton quality; cotton classing, grading and standardisatio; standardised instrument testing of cotton; etc*. There are also certain trade and/or investment promotion activities, such as *organising cotton investment forums*[1], where potential investors are brought together to explore possible ways in which joint ventures or foreign direct investments (FDIs) can be attracted to the LDCs, particularly in the WCA countries. It may, therefore, be appropriate to establish a more collaborative approach in the realisation of the activities, which are common in the above mentioned initiatives. A possible option might be to share the implementation work among these institutions. The **IDB** may assume the financing of some of the above mentioned common investment proposals. It may also facilitate activities focusing the cotton trade promotion, by which WCA countries can export their cotton, with the **IDB** as an intermediary, a mechanism which has been briefly described in this study[2].

The UEMOA Competitiveness Agenda, which was approved by the member countries of the UEMOA in December 2003, is a very ambitious programme, with an objective *to establish new production facilities until the year 2010 so that 25% of the annual cotton production of the*

[1] *Such a cotton forum was organized between 12-14 November, 2007 in Istanbul, in which the writer of this report has also participated* ***www.ois-cif.org***

[2] *(see Section 5.3.2.3)*

UEMOA could be processed into value added products, which would provide around 50 000 jobs to the cotton industry. The amount of investment necessary was estimated at 200 billion FCFA within the framework of the above noted basic study.

Almost four years have passed since the initiation of the UEMOA Agenda. However, through the extensive desk research conducted, it has not been possible to obtain any sizeable information, related to the feasibility study on which the above given objectives had been based, nor on the progress made so far in its implementation. It is, however, known that UNIDO has conducted some studies to improve the quality of WCA cotton under UEMOA Quality Support Programme. Findings of this study are of extreme interest because according to the prepared report *the average quality of the cotton of the UEMOA countries was found good and even better than cottons of other origins, which were used as reference to Cotlook A Index*[3]*, in terms of grade, staple length and micronaire.* It was also added that *the UEMOA cotton quality could further be improved through a better control of the ginning process and a reduction in cotton contamination*.

Within the **UNIDO Cotton Initiative,** which was launched in 2006**,** there is *the "3Cs Approach"*, which UNIDO had developed in order to enable the beneficiary countries to participate in international trade and, thereby, increase their exports. The meaning of the *"3Cs Approach"* within the context of the cotton sector projects was simply as follows:

- Enhance the **COMPETITIVENESS** of the supply capacity of CTG Value Chain,
- Ensure the **CONFORMITY** of CTG products with international standards;
- **CONNECT** efficiently CTG products to national, regional and international markets.

In order to promote regional cooperation and regional skills specialization, UNIDO proposed to establish technical centres at the regional and sub-regional levels. It has been observed that ***the selection of these regional and sub-regional centres, clearly reflects the area of specialisation and progress of the WCA countries within the CTG value chain.***

The specific objectives of the UNIDO Initiative were to enhance the contribution to the economy, employment and exports by the target countries, through their cotton and textile industries. The programme's activities were based on three *modules*, with which it was aimed to:

i) Develop and upgrade the Productive and Supply Capacities of CTG value chain;
ii) Improve Quality Conformity of African manufactured CTG products to International Technical Requirements;
iii) Further integrate local cotton producers into the Multilateral Trading System.

The three *modules* and their *components* cover most of the areas for the development of the cotton-textile-clothing value chain in WCA.

A thorough examination of the UNIDO Cotton Initiative will reveal that this programme is well

[3] *Within the Cotlook A Index, a number of US origin cotton growths with medium staple length are also included.*

prepared, well documented and presented, consistent with the overall strategy of the UNIDO, adequately covering all the actions which have been identified for the attainment of the clearly defined objectives, as well as comprehensive, including almost all aspects and areas which have been partly referred to in the other initiatives.

Although UNIDO's involvement in the cotton sector is recent dating back to 2004, it has already coordinated a number of cotton specific projects and activities, which include:

i) Conducting a study to identify an action plan for cotton quality improvement and the valorisation of cotton fibres,

ii) Organising training sessions on cotton seed breeding, ginning, classification and commercialisation,

iii) Developing a set of cotton standards for WCA cotton,

iv) Installation of four HVI equipment for Standardized Instrument Testing of Cotton[4]

v) Publication by UNIDO «UEMOA Cotton Quality Manual» in 2006, (in French).

vi) Conducting comparative studies on **India, Turkey** and **Egypt,** aimed at developing appropriate strategies for the CTC value chain in WCA[5].

vii) Coordination of the organization of *a "Regional Workshop on Cotton Quality and Standards"* for the IDB Cotton-Producing Countries in Africa.

viii) Developing a project in cooperation with the Common Fund for Commodities (CFC) and the International Cotton Advisory Committee (ICAC), to promote cotton processing in Mali and Burkina Faso[6].

The EU Initiative on Cotton also deserves mention, since the EU approach is largely based on two action plans, the first one being on *agricultural commodities*, while the second was related to the support of the *cotton sector* in Africa. Among the other action plans, there are two from the USA, one being the *West African Cotton Improvement Programme (WACIP)*, while the other, known as *the African Growth and Opportunity Act (AGOA),* is concerned with giving the possibility for a special customs treatment to the products from eligible African countries.

Developments related to almost all major elements of the CTC value chains of **India, Turkey and Egypt** have been described in some detail in this report. Only those "lessons learned" which were found to be successful or had significant impacts have been included below.

The "Lessons Learned" of a general nature were as follows:

- The upward development in the CTC value chain did not happen in a short period of time. In

[4] *The instruments were installed in* **Côte d'Ivoire, Mali, Togo** and **Senegal.** *This activity has already been included within the activities of the Technical Assistance Programme.*

[5] *The main lessons learned from each of these countries have been identified individually, and the consolidation report is one of the subject matters of this report.*

[6] *Yumkella, K. "Support for the Cotton Industry and Industrialization Issues" presentation made on behalf of UNDO to the WTO High-Level Session on Cotton, 15-16 March 2007.*

fact, it took many decades in all the three countries. In the case of **Egypt,** it has been very slow owing to the necessity to re-start shaping the sector in parallel with the reforms towards liberalisation soon after mid-1990s, whereas for **India**, it has accelerated during the last few decades, when the export potential in textile and clothing sectors was clearly anticipated. For **Turkey,** perhaps, it took even longer, but more healthily because the developments in infrastructural environment also took place concurrently with the other industries and services sectors, such as banking, finance, foreign exchange regimes, full convertibility perspectives, etc. *This is an important observation to note when possibilities to adopt these experiences to the WCA countries are being considered.*

- The upward movement (towards full integration of the value chain) has not yet been fully concluded in anyone of the three countries in the comparative study. However, there are differences in the development stages achieved so far. **Egypt,** for example, reported that the country still had a long way to go, due to the long time absence of a clear strategy, which had just recently been formulated. This unclear situation was currently being corrected starting from 2004 under the initiative of the private sector, which has prepared the long term development strategy of the T&C sector. **India** seems to be further ahead with the comprehensive measures taken during the recent years, with a strong foothold already established in major foreign markets, such as the EU and the USA, mainly for her textile products, now aiming to develop also the clothing sub-sector with a more emphasis on producing and marketing the clothing items under own brands, while **Turkey** is at an even more advanced stage, especially in clothing exports, with all the institutional and infrastructural bases behind.

- The positive role of the state involvement at the beginning of the development cycle is undeniable and deserves full merit for all the three countries. *This factor will also be important in the design of any development programme for the cotton sectors of WCA.*

- Public-Private Partnerships, (PPPs), appear to have been producing effective results in solving a number of problems in all the three countries. Further developments on these lines will depend on the degree of integration of the private sector into institution building efforts. In this regard, recent developments in **Egypt**, by way of establishing various NGOs appear to be promising. The initiation of such movements in **Turkey** has been reported to be a matter of mainly 1980s and 1990s, while **India** appears to be excessively rich in terms of the number and effectiveness of such institutional set-ups.

- The success in the design and implementation of a promotional or developmental programme largely depends on *institutional support and effective participation of important stake-holders in the entire chain of processes.* The successful examples seen in **India** (such as the TMC programme, the introduction of Bt cotton and TUFS) have effectively joined together the key stake-holders as well as the relevant institutions in the design, implementation and the evaluation of the programmes. Similarly, local inspection

committees set up in **Turkey** for close monitoring of the campaign to reduce contamination from field to the ginneries proved extremely effective.

- Common to all the three countries is also the understanding that the *skilled labour, adequate infrastructure, established quality systems* and *effective training* are of key importance for supporting the healthy development of the CTC value chain.

- **The provision of agricultural inputs** (such as fertilisers, chemicals, machinery, cash credits, etc.,) for cotton production appears to be well managed and balanced within the domestic markets of all the three countries. When buying these inputs, the growers have the benefit of making price comparisons between private traders, cotton cooperatives or cooperatives solely supplying inputs. Paying back the debts related to the inputs by the growers with seed cotton deliveries is the most practical alternative. **Turkey** and **India** appear to be successful in making the system work efficiently.

- **In the varietal development of cotton seed** over the years, **India** has been the most successful from three distinct aspects; *firstly,* in the improvement in varietal composition in favour of *medium* and *long staple varieties* from predominantly *short* and *medium staple* cotton. *Secondly,* in the recent introduction of *Bt cotton,* whose preparatory work involved many research institutions and universities together with the precautions taken to ensure its safe application, deserve special merit. *Thirdly*, the initial successful field application and subsequent expansion of *Bt cotton* resulted in *significant yield increase* as well as assuring the sustainability of cotton production in the country. *These developments made a tremendous impact in making India to become also a major cotton exporter, in addition to meeting comfortably the cotton demand of her fast growing textile industry.*

- **Turkey,** on the other hand, has recently been subjected to criticisms by many for keeping herself at a distant in following up the developments related to the Bt type (or more generally GM type) seed technology[7], whereby the sensitivity of the EU towards this technology, has so far been totally respected by Turkey. It should be pointed out that ever since its first commercial appearance *there has been no price differentials in world markets for biotech and non-biotech cotton. Similarly, for textiles containing biotech cotton, there is also no evidence of rejection by any segment of the market or region*[8].

- **In the use of mechanical harvesting** to reduce costs, **Turkey** has so far been the only country among the three to switch partly to machine picking, due to prohibitively high cost of hand picking, which amounted to almost one third of the total cost of cotton production and more than three times the cost of machine picking. Another advantage of mechanical harvesting was the significant reduction in the sources of contamination, which had been largely encountered in hand picking and subsequent handling of the seed cotton.

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[7] *Kesen, A.:"Izmir Cotton Exchange, Turkey, Developments in Production and Trade of Biotech Cotton in Turkey and Traceability", ICAC 66th Plenary Meeting, Izmir (2007).*

[8] *See "Biotech Cotton Trade Rising", p.5 in World Cotton Trade (2006/07), ICAC, September 2006.*

- In **ginning and baling, India** has carried out the most successful approach in upgrading her facilities with some governmental support, mainly through the Technology Missions II. With this modernization, not only productivity in ginning and pressing units has remarkably improved, but also an overall increase in cotton quality and a considerable reduction in contamination have also been achieved. The scheme offered by the government was found to be very attractive by the ginners.

- It is interesting to note that most of the ginning in **India** is *roller-ginning*, which has also been further developed to increase the ginning capacity and preserve the cotton quality. Recently, with double side roller-ginning, the investment and operational costs in **India** have been reduced considerably. Given that all the ginning installations in **Egypt,** and majority of the installations in **Turkey** and in **India** are also of *roller-gin* type, this technology can also be recommended for the WCA countries for a more detailed evaluation, since investment costs are significantly lower than saw-ginning[9].

- None of the three countries in the comparative study has an exceptional performance record when tested for their success *in the elimination of contamination.* The main reason behind this inadequacy can best be explained by the lack of establishing effective preventive measures and by the insufficiency in training the related operators for the elimination or minimising the sources of contamination. The limited success achieved on this problem **in Turkey** is largely attributed to the practice of using collection aprons, bags, large sacs, etc., made of 100% cotton or by encouraging the growers to deliver their seed cotton in bulk, in specially constructed wire-net containers mounted on the agricultural trucks, which transport the seed cotton to the ginning plants. A government decree was recently put into force, which required the formation of inspection teams, who had the power of taking legal action against those who gave rise to contamination[10].

- The use of the HVI test results has not yet gained much momentum **in cotton classing and grading** in anyone of the three countries. However, the work conducted by the ICAC through the Task Force on the Commercial Standardisation of Instrument Testing of Cotton has recently intensified. The collaborative work among the testing laboratories continues with the aim of achieving the repeatability and reproducibility of the test results among the participating laboratories. The ultimate aim for the WCA countries should be to *measure the quality parameters per bale basis*, as it is done in the USA, Australia, South Africa, Brazil, etc. It is worth to mention here that a CFC supported project, implemented by the ICAC together with some well known fibre research institutes, will assist the testing laboratories in Africa in the above mentioned preparatory work through two regional technical centres, one of which will be in WCA.

[9] *See Box No 5.1 for a comparison of saw ginning vs. roller-ginning*

- All the three countries have attributed great importance to cotton and to the complete CTC value chain, since these countries, like many others, saw cotton as the strategic commodity for developing their respective textile and clothing industries.
- It was a successful strategy by Turkey to give priority to the establishment, support and expansion of the textile industry until mid-1980s, which would be followed by the clothing sector, which subsequently developed much faster and independent of her textile industry, just by importing the fabrics needed in increased quantities and converting them to exportable clothing items, without being dependent on the domestic fabric suppliers.
- In **India**, promoting one segment of the cotton value-addition chain at the cost of the other important segments before 2002, had led to imbalanced development of the sector, especially in woven textiles. As a result, **India** had to import good quality fabric in large quantities for its cotton garment segment. **India** has also successfully integrated the value-addition chain of cotton as a result of recent modernization of the spinning, weaving and clothing segments.
- Despite relatively late start, **Egypt,** through the initiative of its private sector, has also increased country's exports of textile and clothing products through the utilisation of various government incentives and institutional supports developed on the basis of public private partnerships. *The decision of the Egyptian government in 2004 to "separate the garment industry from the local spinning and weaving industry so as to allow manufacturers of garment to get their needs of raw materials (yarn, grey cloth, finished fabric, etc.) from any source"*[11]*, in other words to allow its clothing sector to import freely its fabric needs for developing the garment exports is also a good lesson to be learned,* ***which can also be taken into account in the development strategy of the WCA countries.***
- In all the three countries, the exchange rate had a significant influence on the export performance of all the sectors in general, and in cotton value chain in particular because of the severe competition in trading in cotton, as well as in textiles and clothing. It is a well learned lesson that *the export competitiveness of* ***Turkey*** *increased considerably every time a devaluation of the TL took place. The case of an overvalued domestic currency has also been experienced by Turkey on many occasions in the past, when there was a slowdown or even stagnation in exports, while the imports displayed a sudden surge.*
- *On regional and bilateral trade agreements,* **Turkey** appears to be the most liberalized country in the way of opening her economy to global competition. As part of the Customs Union with the EU, which commenced in 1996, **Turkey** made significant changes in her tariff regime, abolishing customs duties for industrial products with the EU and drastically

[11] *"Future of Public Sector Spinning and Weaving Mills"*, Speech delivered by Dr. Moukhtar Khattab, the Egyptian Minister of Public Enterprise, in the Conference "The Egyptian Cotton Industry: Growth Through Private Investment", held in Cairo, Egypt on 15th May 2004.

lowering the tariffs with third countries to the same level as the EU tariffs. Furthermore, signing Free Trade Area Agreements (FTAs) with the EFTA countries, as well as with many other countries, including Morocco, Tunisia and **Egypt**, greatly simplified trade in textile and clothing, especially under the inward/outward processing regimes. These agreements also contributed to the improvement of regional trade and cooperation possibilities.

- **Foreign Direct Investments (FDIs)** to **Turkey** have shown a significant increase soon after the entry of the Customs Union with the EU in 1996 and, thereafter, especially as the FTAs had entered into force and as increased use had been made of the FTZs. A similar positive development was observed in **Egypt**, particularly after more liberalised and market oriented measures had been taken in 2004 to develop her T&C industry.
- **Pricing policy** for seed cotton was of extreme importance in all the three countries, because the majority of growers tended to sell their cotton as seed cotton during or immediately after harvesting. For many years in the past, the growers in **Egypt** had to sell their seed cotton to a sole buyer, which had been the state owned enterprise.
- A Price Support and Stabilisation Fund has been a vital and most effective tool for the sustainability of cotton production, especially at the periods of depressed world cotton prices. This fund had played an important role in Turkey, enabling the imposition of *export levies* or *export refunds* on cotton exports during 1970s and 1980s, depending on the world price developments, whereby *income to the fund* would flow in at the times of high export prices, and payment from the fund would be made when the world cotton prices fluctuated at low levels, thus enabling the creation of a self financed pool, which needed the use of governmental finance only when the pool became empty.
- *The pricing system employed by **Turkey** over the years seems to be the most market oriented,* since the pricing strategy was very much linked to world market conditions. The introduction of the direct support in the form of "*Premium Payments"*, paid for each kg of seed cotton delivered to the ginneries, was regarded as an important reform in 1993/94 in Turkey. This premium was incorporated with the aim of *compensating the difference between the target price, which was the price aimed to be given to the growers, and the world market price.* The system has so far worked successfully. However, low premium payments and huge imports at suppressed prices were the most detrimental factors causing stagnations and even falls in cotton production at certain years.

  In summary, making the exports and imports of cotton in Turkey without any restrictions in addition to zero customs duty starting from 1990s, was the most successful step in the creation of a completely liberalized trading environment, which enabled the textile and clothing sectors to develop in an accelerated pace. India also followed the same policy towards the end of 1990s.

- ***Related to institution building,*** all the three countries have been successful, given the fact

that they each had a deep history of cotton cultivation, textile and clothing industry. It must be pointed out that **India** has been the most successful among the three countries in institution building.

- It was a successful strategy, in **Turkey,** to assign the Agricultural Sales Cooperatives Unions (ASCUs) dealing in cotton for the implementation of price support policies between the years 1965-1992, which made these institutions capable of regulating the markets and protecting the interests of the farmers. It has, however, been a source of criticism mainly by the agricultural sector that decreasing the agricultural subsidies has made many commodities *uncompetitive* in world markets. Furthermore, recent restructuring of the ASCUs caused these organisations lose their former strengths in the domestic and international markets, rendering them also unable to protect their members' interests.
- ***Related to the product ranges;*** **Turkey, India** and, to a certain extend **Egypt,** have all successfully integrated the value-addition chain of cotton, as a result of modernization, at varying levels, of their spinning, weaving/knitting, dyeing, finishing and clothing segments.
- Since **Egypt'**s cotton is of **LS** and **ELS** types, her strategy has recently been changed to export these cotton types and import relatively cheaper medium staple "upland" types for her growing textile and clothing exports, which do not necessitate the use of more expensive **ELS** or **LS** types.
- Currently, almost 50% of the global textile and clothing market is manufacturing and trading of what is referred to as the ***"commodity textiles",*** which are generally *ordinary* items that can be produced by any country. The decisive factor in this type of production is generally the price. **In Turkey**, there is still a certain section in the production base, which can provide textile and clothing items at prices, which are dictated by the buyers. This capability is largely due to the use of inward/outward processing regimes to lower the production costs. Besides, the advantages such as geographic proximity, quick response and timely delivery are the critical factors used by the Turkish manufacturers/exporters to continue serving such a market segment competitively.
- With the lifting up of the T&C quotas, more and more pressure has been exerted on the suppliers in the form of demand for lower priced items, which prompted **Turkey** to move upwards in the quality ladder and target the ***"fashion market",*** which has around 20% market share with relatively higher valued products, and in which Turkey can still operate without severe competition. The ***"high valued fashion market"*** segment, on the other hand, concentrates largely on even higher value added fashion products with mainly well known foreign brands or with suppliers' newly developed own brands, the latter being on gradual increase. Although the market share is between 5-10%, there exists relatively less competition in this segment.[12]

[12] *Gazanfer, S.: Personal communication with textiles and clothing manufacturers (2007)*

- A growing market is in the ***"technical"*** or ***"intelligent"*** textiles area, which is highly technical and largely dependent on R&D capability as well as technical infrastructure, including educated and experienced workforce. This segment covers a wide spectrum, including textile and clothing products, which are used in health, construction, transport, agriculture, protective clothing, geo-textiles, etc. Presently, there are increased number of companies in **Turkey** which are engaged in the manufacturing, exporting as well as domestic marketing of technical textiles, intelligent textiles and non-woven textiles.

- **India** is also concentrating her efforts in the development of own brands because, until recently, more than 90% of Indian apparel exports had been entirely dominated by various global brands, and the Indian exporters were merely the suppliers to such brands. Therefore, a Public Private Partnership (PPP) approach was again the appropriate strategy to develop globally known Indian apparel brands[13].

- All the three countries have established textile ***testing and design facilities***, some of which belonged to public, while the others to private ownership. In **India** and **Turkey,** some of the facilities were also developed on (PPP) basis with the objective of expanding testing and design culture in the industry.

- ***The importance of training appears*** to be one of the best learned lessons by all the three countries under study. However, **India** appears to be the most successful in this field, where promotion of quality manpower through various institutions and training centres under the PPP mode have been intensified, especially in anticipation of the needs for the 11th Five Year Plan period.

- ***Adoption of the export-led development model*****:** Turkey's adoption of the export-led development model, with the *"Decisions of the 24th January 1980"*, which had measures of radical character, including the support of the exports through export refunds for a limited time and by means of a gradually depreciating domestic currency, coupled with a tremendous entrepreneurial spirit and hard work, made the manufacturing industry, especially the T&C flourish, positioning Turkey among world's leading textiles and apparel exporting countries.

- ***Creation of the textile specific infrastructure:*** It was a very successful initiative by **India** to gather individual textile units, mostly of SMEs within clusters and to provide the industry with world class infrastructure facilities on public private partnership (PPP). The Scheme for Integrated Textile Parks (SITP) had been launched by India in 2004. Government's contribution to this scheme was around 40% of the total investment cost, while the remaining 60% would be met by the private sector.

- ***Making the private sector the leader of the T&C industry:*** Given the fact that **Egypt** had

[13] *Sahu, M.: "Analysis of the Cotton Value Chain of India and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO Document, TE/RAF/06/012/11-53, (2007).*

been under a long period of nationalisation of all the sectors, including the T&C industry from 1952 until 1990s, the country has made a remarkable progress in converting its cotton and cotton based T&C sectors from publicly owned and mostly inefficient organisations to mostly privately run efficient and competitive entities. It is understood that this transformation has not yet been completed, especially in the upstream (textiles manufacturing) stages of the supply chain, which presently impede the production and export obligations of the clothing manufacturers and exporters, who, as an alternative, try to overcome this set-back by importing their needs of fibre, yarns and fabrics.

Based on the above summarized "lessons learned" from the experiences of India, Turkey and Egypt, the work continued with the *identification of alternative strategic options* for the development of the cotton sectors of the WCA countries.

Four development strategy alternatives have been identified, which can be subjected to further evaluation in order to select the most appropriate strategy for the WCA countries. *It should be mentioned here that the sequence of these strategy alternatives reflects the writer's personal evaluations, from the lowest degree of preference to the highest, as they are introduced below:*

i) Start developing the whole CTC Value Chain in selected countries at the same time: This strategy option was found to be the least favoured alternative, mainly due to its huge investment requirements against limited availability of resources, inadequate infrastructure, highly questionable chances of success, etc.

ii) Start developing the Cotton Chain first, subsequently the Textile Chain and finally the Clothing Chain in selected countries: Although this strategy represented the traditional development path, followed by many developed and developing countries, which have been successful in the development of their textile and clothing sectors, including Turkey, India and, up to a certain extent Egypt, there are a number of important aspects, especially with the textile value chain, which would make it unfavourable for the WCA countries to adopt, which include the extremely long time span needed to move from the Cotton Chain to the Textile Chain and later developing the Clothing Chain, (in the case of Turkey, the development of the textile sub-sector started mainly in 1970s, and has been going on until today with continuous renovations and sophistications in order to constantly remain competitive), necessity of heavy investments especially in the capital intensive and highly automated textile industry, high dependence on constant supply of reasonably priced energy, well trained labour, etc., most of which pose serious problems to be overcome, hindering any attempt to move into the Textile Chain.

iii) Start developing the Cotton Chain and the Clothing Chain in selected countries at the same time (omitting the Textile Chain until necessity comes from the downstream Clothing Chain at a later stage): This option was, in a way, a solution to the drawbacks and criticisms raised in the second option. Many cotton producing developing countries, which have not a well developed textile manufacturing industry, would opt for this option. *Besides, developing or the least developed countries, even if they have no cotton production, may directly choose to enter the*

clothing part, develop it especially for the purpose of exports. Bangladesh, Lesotho, Madagascar, and recently Vietnam are good examples, where the clothing sub-sector has emerged as a leading manufacturing activity, with which direct benefit is obtained in terms of contribution to GDP, exports and employment.

Furthermore, the characteristics of the apparel industry are largely different than that of the textile industry as far as investments and labour requirements are concerned. Unlike the textile industry, the apparel sector is labour intensive and does not require high level skill or sophisticated training. It is also a sector, where relatively modern technology can be adopted even at low investment costs. *It is due to the above mentioned positive characteristics that this option has been put under this ranking. Under the same argument, it can also be claimed that for those countries, where there is little or no domestic cotton production, which can include some of the WCA countries, such as Ghana, Gambia, Guinea, etc., it would be a better course of action to enter directly to the Clothing Chain.*

iv) Start developing the Cotton Chain and the Spinning investments only (within the Textile Chain), together with Clothing Chain in selected countries (omitting the remaining Textile Chain until necessity comes from the downstream Clothing Chain at a later stage): This last strategy alternative was *a further refinement* of the previous strategy. In countries, where there is ample cotton production, most of which is already exported as cotton fibre, it may well prove to be viable to invest in spinning operations to produce and sell the yarn, again to the export markets.

In simple terms, major *advantages* related to spinning in WCA included the factors such as; high value addition on cotton depending on the type of yarn and its counts; relatively simple technology in comparison to the other stages of the textile section, such as weaving, bleaching, dying, printing, etc., with little or no environmental pollution, no major difficulty in recruiting labour, existence of a healthy market[14] not affected by fashion trends. On the other hand, high initial investment costs for machinery, auxiliary services, buildings, etc., and the imperative need for continuous supply of electrical energy to avoid frequent stoppages, which are detrimental in cotton yarn production were sited as major *disadvantages* related to spinning.

Taking into consideration all the relevant aspects, it was clear that this option appeared to offer the best strategy for the WCA. Therefore, this option was selected.

Having selected the strategic option, the key areas of intervention for each component of the CTC value chain was to be defined in broad terms, taking into consideration the "lessons learned" from the comparative study of India, Turkey and Egypt.

Related to the improvement of the cotton cultivation and quality management system, the ultimate aim in cotton cultivation should be achieved by increasing yield, reducing input costs and

[14] *China is presently the major importer of cotton yarn, besides lint cotton*

improving farmer productivity. The role of training the farmers in acquainting them with Good Agricultural Practices in cotton cultivation is the key to success.

Since there are many areas needing attention and improvement on the cotton cultivation, ginning and pressing operations in almost all the cotton producing countries of WCA, *an approach similar to the Technology Missions on Cotton (TMC) successfully implemented by India, is recommended for the improvement on cotton quality. Linkages should also be established with the research institutes in developed countries, as well as with those in Turkey, India and Egypt.*

Training and extension services are of paramount importance for obtaining the best results in cotton cultivation, ginning, classing and marketing. In this context, the Manual prepared by UNIDO entitled (in French) *"Manuel qualité pour les filières cotonnières UEMOA"* is an excellent collection of six handbooks, each addressing one aspect of the cotton production chain. *This material can be used in the training activities, firstly to train the trainers, who will subsequently train the various operators, workers, etc.*

Soil analyses can prevent excessive or unnecessary use of fertilizers, and also help minimise soil degradation. *Therefore, through the extension services farmers in WCA should be better informed about the soil analyses and effective and rational use of fertilizers. The present system of soil analysis should be reviewed and, where necessary, the establishment of new soil testing centres should be considered.*

The selection, procurement and distribution of the **agricultural inputs** to cotton farmers are all important elements in cotton cultivation. *In order to achieve an efficient system, it would be necessary to strengthen the organisations in charge of input handling. Secondly, a direct link between the payment of seed cotton and the recovery of input credits should be preserved.*

Research on **seed quality improvement** should become an ongoing activity. However, owing to the limited resources that can be allocated to cotton research, collaborative work can also be conducted with the cotton research institutes of India, Turkey and Egypt. The present conventional cotton varieties necessitate heavy use of inputs, which, in turn, not only increase the production costs, but also the environmental pollution. *Therefore, cotton seed research should concentrate more on the low-input varieties.*

Since the issue of **Bt cotton** is of extremely controversial nature, particularly in developing countries, it is recommended that this issue should be carefully, objectively and scientifically handled. In this context, *studies related to the adoptability of Bt cotton to the WCA countries should be thoroughly reviewed, taking into account all the pros and cons, as well as the experiences of the other countries, which have already switched to the Bt cotton production.* **India** appears to offer an excellent example for conducting such a study, considering that she has successfully developed the use of Bt cotton technology in the very recent years.

The successful experiences gained in **growing organic cotton** in Benin, Senegal, Tanzania, Uganda, etc., can be a source for encouragement for some of the NGOs and/or commercial

companies in the Northern countries to increase such examples, thereby expand the organically grown cotton areas in the WCA countries. *Northern NGOs supporting the production of organic cotton should be able to convince those commercial companies, the international donors as well as the policy makers on the viability of African organic cotton, which would justify them to absorb initial costs and investments until the area devoted to organic cotton production significantly expand and, as a result, the economies of scale can be attained.*

The examples given in the report indicate that it might be more advantageous for the poor cotton farmers of the WCA countries to turn to organic cotton production, where the low cotton yields can be compensated with better prices. *Therefore, the possibility of allocating new areas to organic cotton cultivation should be evaluated by the WCA countries, and where necessary, such areas should be offered for collaborative cultivation trial projects with companies/organisations in Europe and in the USA, which encourage growers in many parts of the world to produce organically grown cotton.*

In the parastatal cotton organisations in the WCA, there is often a malpractice arising from insufficient distinction between the seed cotton of good quality and those of inferior quality when ***classing seed cotton***. This practice largely eliminates the necessity on the part of the grower to show due care and diligence in producing better quality cotton because he/she is not accordingly rewarded. Furthermore, with such a practice, good quality cotton is mixed with seed cotton of lower grades, which results in downgrading the overall quality unnecessarily. *The recommendation made by the UEMOA study group[15] to overcome the above mentioned problem, by way of establishing a base grade for a lower quality cotton, which might better represent the quality of majority of cotton, and give a "quality premium" to only those seed cotton deliveries, which truly and distinctively possess much better or superior quality parameters, appears to be a very logical approach.*

The recommendations made ***for improving the ginning and pressing operations,*** *as well as obtaining cotton with consistent quality parameters, included the preparation of the following feasibility studies:*

- for upgrading the ginning operations in the WCA, and deciding on the form of support after making an assessment of the present state of the gins and the requirements for their upgrading, including the ancillary equipment such as pre-cleaners, humidifiers, etc. The decision on cost sharing of such an upgrading operation can be made after the completion of such a feasibility study, but a moderate share, similar to the TMC Scheme of India, could well be considered,

- for setting-up of a regional structure to ensure regular availability of ginning spare parts, including their procurement, warehousing and distribution,

- for the viability of using roller-gin type ginning equipment in the new ginning factories, since

[15] *"Identification d'un plan d'action d'amélioration de la qualité et de la valorisation de la qualité du coton dans les pays de l'UEMOA", Rapport d'étude préparé pour le Programme Qualité de l'UEMOA, (l'ONUDI), (2004)*

the experience of India, Turkey and Egypt on roller-gins indicate successful ginning results, especially on hand-picked cotton. Besides, the investment and the operational costs in the roller-gin installations appear to be lower than the costs encountered in saw-gins, in addition to the advantages of roller-gin equipment being of robust structure with no major breakdown nor maintenance problems,

- for the establishment of a regional ginning school, which can systematically train the ginnery managers, technicians and other key personnel,

- for the establishment of cotton quality parameters per bale basis, identifying the adoption of measures necessary in all phases of cotton production chain within the WCA.

Since the WCA cotton is still a major export item in the world cotton markets, better recognition of its quality can be attained through the presentation of quality parameters determined with universally accepted methods. If the use of Standardised Instrument Testing of Cotton, (SITC) is well adapted to the measurement of the quality parameters of the WCA cotton, this will help its correct positioning in the international markets, enabling the exporters and the growers fetch better prices. Furthermore, when the SITC system is fully operational, it is expected that any disputes on cotton quality between buyers and sellers will be easily and quickly settled by making reference to the SITC measurements. Therefore, *preparatory work related to the Standardised Instrument Testing of Cotton must be speeded up together with the necessary training of the operators who will be using and maintaining such equipment. This work can be conducted in those technical centres, where the four HVI units have already been installed.*

It is also recommended that as the manual testing of cotton will continue, at least for the near future, cotton technical centres should periodically organise training courses or workshops for the classing and grading experts to ensure that manual classing and grading operations for both seed and lint cotton are performed in the best and most objective manner.

In conclusion, it appears to be the most logical approach to continue with the manual classing and grading for the present time, with improvements where necessary. However, owing to its distinct advantages, it should be the ultimate goal for the WCA cotton industry to prepare itself towards classing and grading, based on the HVI measurements per bale basis. A comprehensive plan will have to be developed to attain this goal successfully.

It would be extremely difficult to give a single recipe ***for the elimination of contamination***. *However, drawing up a strict code of practice for each step in the cotton production chain from harvesting to the spinning stage, and educating each human element involved in these stages, would be the ideal approach in minimising if not totally eliminating contamination. The experiences of India, through a sustained campaign of the Best Management Practices by farmers, auctioneers, ginners, etc., and successful implementation of the modernization of the market yards, ginning and pressing mills under the Cotton Technology Mission as well as the positive results achieved in Turkey with the use of collection aprons, bags, large sacs, etc., made of 100% cotton*

or by encouraging the growers to deliver their seed cotton in bulk, in specially constructed wire-net containers mounted on the agricultural trucks, which transport the seed cotton to the ginning plants can also be adopted. Finally, the formation of inspection teams at cotton production areas, where these teams had the power of taking to court those who gave rise to contamination can also be an alternative to be considered by the WCA countries.

Some conclusions were drawn and recommendations made on the pricing policies for WCA, one of which was the application of the "Premium Payment System", which had been introduced in Turkey in the 1993/94 season and has been in constant use since the 1998/99 season.

The pricing policy for lint cotton, whether owned by public or by private entities in the WCA, will not differ significantly. Export pricing for each producing country will naturally be different due to several factors, such as differences in cotton quality parameters, differences in geographic locations, which necessitate different inland transport costs to the port of shipment, differences in the cost of sea transport to the ports of the importing country, etc. Because ***the infrastructure of the transport network*** in WCA is not well developed, transporting cotton from land-locked countries to the ports is costly, difficult and time consuming. Similarly, delivery times of the cotton shipments from the WCA countries to a given destination may also be different.

Promotional efforts *to acquaint the cotton importers about the quality of the WCA cotton is imperative and a joint effort by the WCA countries, either together or grouped on regional basis, would be more effective. Such promotional activities might produce more successful results and might be more cost effective, compared to the costs incurred when acting individually either on company or on country basis.*

A number of measures to increase cotton exports from WCA have been recommended, which would also enable exporting cotton to major importing markets more profitably. The use of Free Trade Zones, coupled with the involvement of certain financing institutions acting as intermediaries have also been suggested in the report.

Cotton exporters of the Francophone African countries, whose currencies are tied to Euro in the WCA, have been finding themselves under severe price pressures, due to the strong Euro against US$ during the recent years. *In light of the lessons learned from Turkey's experience, and considering that the role of the* ***exchange rate*** *is of crucial importance in making the exportable products competitive in foreign markets, and that an overvalued domestic currency simply promotes the imports instead of exports, it is recommended that the foreign exchange rates in the CFA zone should be closely monitored and necessary measures taken in order to make the West and Central African export sectors in general and the cotton sectors (including the planned future exports of textile and clothing products) in particular highly competitive.*

A good number of initiatives can be regarded as positive steps in achieving ***regional integration***, especially those which aim the establishment of the Free Trade Area Agreements. It is expected that it will take only a few years to achieve successful conclusions with most of these initiatives,

which will not only open new opportunities for prosperity within African continent, but also good economic and trading relations with the other regional integrations. Although tariff levels are important for the textile and clothing sectors, most of the sub-Saharan African countries have tariff-free access to a number of major markets for a wide range of export products, particularly when exporting to the EU, USA, Turkey, etc.

It will be necessary for the WCA governments to develop the necessary ***infrastructural facilities*** for the transportation of goods in general, and cotton, textiles and clothing products in particular before they can attract domestic and/or foreign investments to their respective countries. *A regional approach will be necessary to tackle this problem and its solution concerns most of the countries also at regional level.* Lack of continuous and adequate supply of electrical energy is the biggest bottleneck in many countries in WCA. It will be meaningless, of course, to make significant leap forward in the industrial development in WCA by attempting to draw FDI for viable CTC projects, if there is a serious deficiency in meeting the required energy capacities. *It is relieving to know that a number of comprehensive energy projects have been prepared and intensive efforts are underway to speed up the implementations. However, delays in raising the required financing will naturally delay the industrial development efforts, including those related to CTC value chain developments.* Domestic or cross-border conflicts also negatively affect the international trade, causing costly diversions in the transport of goods, leaving the net returns to growers to reduced amounts.

It should be noted that for some of the large infrastructural investments in WCA, such as energy, transport network, telecommunication, etc., the BOO, BOT or BOOT[16] models could be possible alternatives. Similar arrangements could also be used for building FTZs, EPZs as well as industrial parks for textiles and clothing. Since 1985, Turkey has been making use of the BOT and BOOT models successfully in the construction of dams, thermal power plants, motorways, etc. *Therefore, it is recommended that studies should be conducted on the establishment of FTZs/EPZs for the identified cotton yarn and clothing production and export projects, preferably on BOOT basis. Specific attention should be given to include own power generation facility and an acceptable level of basic infrastructure in such zones.*

Given the fact that there are still some 20 textile establishments operating in various WCA countries**,** producing a number of textile items, including those which are traditional fabrics, mainly sold in the domestic markets, it is recommended *to initiate a rehabilitation programme for the existing or recently closed textile and clothing enterprises,* which might still have a potential for achieving competitiveness. It is very likely that with marginal supports, a good number of already operating factories can be converted into efficiently and profitably running establishments.

[16] *The Build-Operate-Transfer (BOT) model and variants like Build-Own-Operate (BOO), Build-Own-Operate-Transfer (BOOT) are private –public participation models. All of these models refer to either partial or full ownership for a defined period of time (either permanent like BOO or temporarily like BOT or BOOT) so that the investment by the private sector can be recovered with some degree of profitability.*

Similarly, with certain renovations/capital backing some of the previously shut factories can be rehabilitated and put into operation.

The strategy option, which comprised *the improvement on cotton production and marketing, extending the operations to spinning component, and starting export oriented clothing manufacturing,* was selected not on the basis of a comprehensive feasibility studies, but more on some empirical factors, such as the basic characteristics of each chain component, market studies, past and current examples from the real life, investment requirements, relative risks involved, basic comparisons of the various observations obtained, including the experiences of India, Turkey and Egypt gained through this comparative study, the opinion of leading experts and lastly, but not the least, the writer's personal opinion.

Naturally, for each investment project, involving production and marketing (domestic or international) of cotton yarn and clothing products, a feasibility study will be required to carefully establish various aspects of the proposition, especially for clothing projects; the type(s) of product(s) to be manufactured, required input material (in this case finished fabric, accessories, sources of supply, etc.) as well as possible exporting markets. At the start, these investment proposals could be based on standardized pilot investment projects, especially for the projects associated with clothing manufacturing, for which local/foreign entrepreneurs or joint venture arrangements can be expected.

In order to attract investment (especially in clothing), it may well be necessary to grant for a defined time period certain investment incentives. The option of the FDI on BOT or BOOT basis, as mentioned earlier, should also be available to the investors. It is recommended that parallel to these preparations, the investment promotion activities may be commenced with supportive promotional material. For this purpose, investment forums can be organised, where the available investment promotion tools can be introduced. By closely monitoring the interest shown by the potential investors on the proposed spinning and/or clothing investments, it may become necessary to take new decisions to further enhance the investment interests.

Possible product ranges, in addition to the already marketed conventional cotton and cotton by-products, have been identified as "organic" or "fair trade" cotton, open-end and ring type cotton yarns, as well as different types of cotton wastes obtained during spinning. Production of clothing items will be largely dependant on buyers' preferences. *The simplest way to start clothing manufacturing would be on the "CMT" basis, in which case the "cut, make and trim" operations will be performed in the WCA countries on the temporarily imported finished fabric. Establishing a manufacturing base of a wider spectrum of knitted and woven products will minimise competition among the clothing manufacturers. Current textile factories can continue, as they are or with certain rehabilitation, with the production of printed fabric for loincloths (fancy and waxed fabrics) used mainly to make traditional clothing for women also with "boubous", which are traditional West African dresses, various types of uniforms, all for domestic market. Basic t-*

shirts or other knitted items may also be produced for the domestic market or for exports on CMT basis.

A table showing the basic ***institution building*** related to cotton production, ginning, etc., has been prepared for each of the major cotton producing countries of the WCA. Besides, setting-up of additional institutions has also been proposed in line with the *selected strategic option which has been identified as the future development strategy of the CTC Value Chain.* These institutions include mainly on regional basis a *research and development institute on cotton seed breeding, a cotton testing, classing and grading centre, a textile (mainly for cotton yarn) and clothing testing, research and development institute, an export promotion centre for cotton, cotton yarn and clothing, as well as training centres, including the establishment of a regional ginning school, as well as periodic training courses to be conducted on export/import procedures, temporary importing, etc.*

A table indicating ***major areas of cooperation*** for India, Turkey and Egypt has also been prepared. India and Turkey have a number of fields in which they could cooperate with the WCA countries, particularly in the capacity building related to various components of CTC value chain, while Egypt proposes that the WCA countries link themselves with the North African textile industry as well as join the Africa Competitiveness Observatory, which is being established in Egypt. It is clear that if the contamination problem is solved, there will be a significant increase, both in quantity and in the unit price of WCA cotton exported to Turkey or elsewhere. *Therefore, elimination or minimising contamination in the WCA cotton should be one of the top priorities in the technical assistance programme.*

A Technical Assistance Programme has been prepared by making certain modifications in the UNIDO Cotton Initiative to reflect the basic elements in the selected strategic option and the recommendations of this study. No changes in the *overall objectives* were made, while the *specific objectives* of the programme were modified to "significantly improve, in *the short term,* the production and marketing potential *firstly of* cotton, *secondly,* the cotton yarn spinning component of the textile value chain, and *thirdly,* clothing sector's contribution to the economy, employment and exports in the targeted countries". While working towards the achievement of these specific objectives, due consideration was to be given to the viability of rehabilitating the current as well as recently ceased production activities in textile and clothing value chain.

The **"modules"** and **"components**" concept introduced in the UNIDO Initiative has been kept as before, with the necessary modifications to accommodate the proposed priorities in the above mentioned objectives. However, there are three notable differences from the UNIDO Initiative document, which have been explained in the report.

The logical framework of the programme has been kept basically the same as the framework given in the UNIDO document, with the exception that the scope is not the total CTC value chain, but *only the selected components of the textile value chain, presently the cotton yarn spinning only, and also selected clothing investments.*

The budget related to the *"selected preliminary activities"* has been prepared by allocating indicative costs to each of the selected activities, which have been suggested in this study. Total budgetary allocations related to *the selected preliminary activities* amount to **€ 2.2 Million**, while the budgetary allocations of the modules and components of the UNIDO Initiative document add up to **€20.41 Million.** In other words, the total budgeted expenditure of the selected preliminary activities is roughly 11% of the total budgetary allocations of the UNIDO Initiative.

The selected preliminary activities will be completed within 2-4 months after the start of the implementation, with the exception of the ongoing periodically performed activities, which do not affect the start of the other activities. *Therefore, it is recommended that those activities in the UNIDO Initiative, which have been identified as needing more detailed investigations, should be completed and evaluated by the project management team, and start to the* ***"main phase"*** *should be given only to those activities which indicate viability.* It is due to the need of the above mentioned exercise that a revised budgeting could not be made for the *"main phase"* of the programme at this stage. Therefore, the total budget figure has been kept as **€20.41 Million.** Similarly, time needed for the implementation of the *"main phase"* with possible revised activities will be better known when the evaluation of the *"selected preliminary activities"* is completed. Therefore, the total duration of the project, including "the preliminary phase", has been kept at 36 months.

The **IDB** has been playing a significant role in the cotton sector of its member countries. It is due to this close interest that the **IDB** has been financing a number of projects, which contributed significantly to the improvement of the cotton sectors of many Islamic countries, among which most of the WCA countries occupy a leading position. The action plans of the **IDB** and **OIC** both contain capacity building and institutional development activities, some of which are similar to the activities foreseen in other initiatives, namely those developed by the **UNIDO, UEMOA,** etc. Examples common to all of these projects include, the setting up of cotton research centres, fight against contamination, improvement of cotton quality, cotton classing, grading and standardisation, standardised instrument testing of cotton, etc. It may be appropriate that the **IDB** would have interest in sponsoring some of these projects solely or with the participation of other organisations. The **IDB** may also facilitate the cotton trade in which WCA countries can export their cotton, with the **IDB** as an intermediary, the mechanism of which was described in this study in some detail[17].

Finally, the study lists various factors which may affect the success of the Technical Assistance Programme and ends with a concluding remark that the programme's success and sustainability lie at the hands of all stakeholders involved, including the local beneficiaries.

[17] *(see Section 5.3.2.3)*

CHAPTER I

1. INTRODUCTION

1.1 BACKGROUND

Cotton plays a significant role in the economies of West and Central African countries[18]. With 2 to 3 million producers and around 15 million people depending on cotton, the sector's contribution to the GDP of these countries ranges from 5 to 9%. Although there is a potential to increase the contribution the sector makes to economic growth and poverty alleviation in the region, there is also a very real danger that it will in fact lose ground in a quota free market.

UNIDO and the Islamic Development Bank have embarked on a programme to enhance production efficiency as well as international competitiveness of the cotton value chain in West and Central Africa. The main objective of the programme is to enhance the contribution of the cotton sector to the gross domestic product, employment, export earnings and reduce poverty.

1.2 SCOPE OF WORK

The purpose of the project is to prepare a comprehensive programme and action plan for the development of the components of the cotton value chain with a focus on the supply-side, particularly to enhance competitiveness and export potential. The programme seeks to enhance the cotton sector's contribution to the GDP, employment and exports. It also presents itself as a viable contribution to the efforts aimed at reducing poverty in the WCA countries.

Purpose of Assignment: It is to study and evaluate the experiences of selected countries **(India, Turkey, and Egypt)** in the implementation of strategies employed to develop the cotton sector, particularly to enhance value addition at every stage of the value chain (farmers-cotton transformation-textiles–garment enterprises). Successful experiences to be identified and developed as strategic options to promote the cotton sector in cotton-producing WCA countries. A copy of the report will be shared with the Islamic Development Bank (IDB). The work has been conducted in the following sequence:

Identification of the needs and priorities: Through desk research and consultations with stakeholders[19], the problems have been assessed, together with the needs and priorities.

[18] ***West African Countries*** *include Benin, Burkina Faso, Guinea-Bissau, Côte D'Ivoire, Mali, Niger, Nigeria, Senegal and Togo, while Chad and Cameroon are from* ***the Central African States***

[19] ***The key stakeholders of the programme are****: The regional and national governments; cotton farmers and their representatives; private and public cotton textile and garment operators; regional and national support institutions; including: the investment promotion offices, quality, standardization and metrology infrastructures; technology centres; trade associations; information structures and networks; consumers (textiles and clothing).*

CHAPTER II

2. IDENTIFICATION OF PROBLEMS, NEEDS AND PRIORITIES

Through the desk research and consultations with stakeholders, the problems faced by the WCA countries have been identified, together with the needs and priorities of the cotton value chain in this region. It was considered to be more appropriate first to give an overview of the cotton sectors in the WCA, before the problems faced were identified.

2.1 OVERVIEW OF THE COTTON SECTOR IN WEST AND CENTRAL AFRICA

2.1.1 The Economic Importance of Cotton to West and Central Africa

Cotton, which is an important cash crop as well as the major export commodity in many parts of the world, has even a greater importance in a number of African countries, especially in those which are situated in West and Central Africa, where between 2 to 3 million households have a direct dependence on cotton, while this number amounts to some 15 million people when the indirect dependence is also taken into account. The income created from cotton generates not only significant export earnings but also domestic food security.

World cotton price developments have major implications in the fight against rural poverty. For example, it has been estimated that a 40% decline in price would lead to a 7% reduction of the rural income in Benin, a typical West African cotton producing country[20].

Cotton's macroeconomic importance in WCA varies significantly from one country to the other. For example, the share of cotton exports in the total merchandise exports was about 30% in Benin and 56% in Burkina Faso, while it was around 30% in Chad and Mali. Cotton also makes a significant contribution to the GDPs in the WCA countries **(Table 2.1).**

2.1.2 Cotton Cultivation in West and Central Africa

Cotton has been grown in the WCA for more than a hundred years and a significant *traditional textiles* industry has existed in the region for more than 50 years. The cotton industry in the WCA (in the francophone countries) was pioneered by the French state-owned *Compagnie Française de Développement des Fibres Textiles (CFDT)* along with numerous national cotton companies, while in east and south of Africa, *parastatal marketing boards* and/or *cooperative unions* were actively engaged in the cotton production and marketing activities.

After the independence of the WCA states in 1974, the CFDT remained a shareholder in each parastatal as a monopoly in ginning and marketing operations. Between the years 1980-2000, share of Francophone Africa in total world cotton exports increased from 4% to 15%, due to very

[20] *"Development of the Cotton, Textiles and Garment Value Chain and Networks in Africa: Supporting Trade and Building Productive Capacity", UNIDO Document (2006).*

efficient services by the CFDT in cotton cultivation, resulting in high production yields with good quality cotton.

In WCA, most of the cotton is grown in Sahelian areas, which generally benefit from annual rainfalls ranging from 600/700mm to 1200/1300mm, namely in the coastal countries, such **as Benin, Togo, Ghana, Nigeria, and Côte d'Ivoire.** Cotton is also produced in rain fed regions, where landlocked countries, such as **Mali, Burkina Faso, Niger** and **Chad** are situated.

In WCA, cotton is produced using relatively low levels of inputs and relatively cheap family labour compared to many other cotton producing regions in the world. Harvesting is invariably by hand-picking, which means securing better fibre length, compared to those obtained with machine-picked cotton elsewhere in many parts of the world[21]. It is largely due to the low cost production factors that cotton cultivation in WCA has shown a dramatic expansion, which enabled significant increases in exports, which, in turn, contributed to the improvement of incomes, livelihoods, as well as facilitating better access to social amenities such as schools, health centres, pharmacies, etc.

Cotton is generally produced as a cash crop on small family farms, *with an average size being less than one hectare.* Historically, there have been very few alternative cash crops in the Sahel. These alternatives are still limited to cereals, maize and vegetables. Cotton seed oil, which is used for human consumption, is produced from crushed cotton seeds, while, at the same time, animal feed is obtained from the cotton seed meal, which, in turn, contributes to livestock breeding and to milk production.

Cotton production in WCA has rapidly increased over the recent decades, rising from some 150,000 tonnes of cotton lint in the 1970s to over 1 million tonnes in 2006. Especially, over the last 20 years, cotton production has quadrupled and the area allocated to cotton growing has been increasing at an average rate of 16% per year. Production, consumption, export and import figures of the WCA countries for the 2005/06 season are given in **Table 2.2.**

Developments of cotton exports between the 1980/81-2006/07 seasons are shown in **Table 2.3.** It can be seen from this table that total cotton exports from WCA showed a remarkable increase from 185 000 tonnes to just above 1 million tonnes between this period, and that Burkina Faso has emerged as the leading cotton exporting country, followed by Mali, Benin, Cameroon, etc.

Cotton production is usually one**,** among several agricultural and non-agricultural activities undertaken by farmers living in WCA. In a way, cotton is normally part of a diverse production system involving not only cotton, but also, as mentioned above, cereals, vegetables and other crops, which would satisfy farmers' consumption and income needs.

Cotton has been regarded as a major example of a "success story" in the agricultural development in WCA, due to the integrated approach, which had been adopted mainly in the cotton cultivation. The so called "*cotton system",* provides:

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[21] *However, it is often the case that contamination increases with hand-picked cotton if special care is not taken.*

- the procurement of inputs (fertilizers, pesticides, etc.),
- the supply of agricultural services (extension, training and supervision, and support for producer organisations),
- the organisation of marketing, and
- the setting-up of basic economic and social infrastructure, such as roads, schools, health centres, etc.

This "cotton system" has produced not only positive effects on agriculture, but also many social and economic benefits on the rural life, on the economic development of the cotton growing regions and on the overall economy of major cotton producing countries of WCA.

It is important to note, however, that cotton production and trade have become vulnerable to external factors, owing to the serious price volatilities in the international markets, especially during the recent years. Despite of various attempts to lessen the negative impacts of price pressures, caused mainly by the price distorting government measures, especially those given by the developed countries, it can be stated that little progress has so far been made in that direction.

Some have also argued that farmers might benefit from the diversification of income-earning opportunities in the long term, either with new crops or with non-agricultural activities. However, it is evident that exercising this option will necessitate very long time and considerable investment to develop economically feasible diversification opportunities. It will not be, therefore, wrong to suggest that cotton is likely to remain important in the short- and medium-term in WCA.

2.2 IDENTIFICATION OF PROBLEMS FACED BY THE WCA COUNTRIES

Problems faced by the African countries in general, and the WCA countries in particular, related to their cotton sectors have been reported in many studies. The problems which had been identified in a recent UNIDO study[22] have been grouped below.

2.2.1 Problems at the Sub-Regional and National Level

A. <u>Lack of regional and national strategy for the development of the cotton sector</u>:

The absence of regional and national strategies arising mainly due to the following weaknesses:

- Weak or missing involvement of stakeholders, encountered mainly in the interaction, strategic thinking, enabling governance and sector tailored visions,
- Absence of methodology, tools and mechanisms, which would assist the identification of priorities and effective formulation of developmental strategies,
- Weak and limited competence in the formulation of policies and operational strategies.

B. <u>Weak cotton quality management systems</u>:

Cotton quality management systems are weak due to:

- Inadequate capacity for grading and testing the cotton fibre,

[22] *"Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa: Supporting Trade and Building Productive Capacity", UNIDO Document (January, 2006)*

- Lack of accurate instruments for measurements (there are only a few equipment for the instrument based measurement of cotton quality),
- Lack of quality assurance programmes,
- Absence of effective measures to reduce contamination in cotton fibre, and
- Lack of an African standard for cotton.

C. <u>Weak capacity of institutional infrastructure and lack of marketing system</u>:

Absence of a highly developed institutional infrastructure in WCA leads to the:

- Lack of an accurate public information system, which is pre-requisite for a well-functioning cotton market,
- Inability to set standards that allow market agents to assign resources more efficiently, and
- Inability to take corrective measures in the case of market failures.

D. <u>Lack of necessary productive capabilities</u>:

- In WCA , less than 2% of the cotton produced goes to processing internally,
- Despite the approval of various plans to increase the local processing capacity, no significant progress has so far been achieved in this direction, which is quite the opposite to most of the other cotton growing developing countries, including Turkey, China, India, Pakistan, etc., where a big proportion of their domestic cotton crop is processed into value added products for local consumption and exports[23].

E. <u>Weak capacity for mobilization of domestic investment and insufficient attraction of Foreign Direct Investment (FDI)</u>:

- Domestic investments cannot be adequately mobilised, similarly foreign direct investment cannot be easily attracted due mostly to government and market failures,
- Foreign Direct Investments (FDI) cannot be sufficiently attracted.

F. <u>Weak physical infrastructure (energy, water, communication):</u>

- Lack of management capacity (mapping, surveying, monitoring) of available resources and infrastructures,
- Weak technical competencies to adopt innovative tools and technologies to optimize sectoral inputs and resources,
- Missing integrated information and comprehensive vision of the needs of cross-sectoral infrastructures, which reduces the efficiency of decision-making and public spending cost effectiveness.

G. <u>Domestic textile industry having to compete with imported cheap new and/or second-hand textiles</u>:

The domestic textile industry is increasingly hit by:

[23] *China, Turkey and recently Pakistan also have to import cotton in sizeable quantities in order to cover the needs of their large textile industries.*

- Used (second-hand) clothing articles which are sold in the WCA at very cheap prices, and
- Cheap imports entering mainly illegally (i.e. without the payment of import duties).

It has become extremely difficult for the domestic textile and clothing industry to compete, which, in turn, prevents the healthy development of the domestic industry.

2.2.2 Problems at the International Level

A. <u>Decrease of the international market price:</u>

Cotton prices in international markets have remained suppressed due largely to the subsidies given by the developed countries to their cotton growers, exporters, etc., which, in turn, cause cotton prices to decline significantly worldwide.

A big hope and expectation was placed in the Doha Round of Trade Negotiations, in which a mechanism to deal with this problem was in the agenda. However, the deadlock reached in 2006, and the unsatisfactory progress made so far in 2007, have diminished these hopes and expectations, leaving the cotton producing developing countries in general, and the cotton producing LDCs of the WCA countries in particular, in a very difficult state.

2.3 IDENTIFICATION OF THE NEEDS AND PRIORITIES

Based on the problems encountered at the national, regional and international levels, the needs associated with the solution of these problems have also been identified. Furthermore, based on the available information related to the cotton sectors of WCA both on national and on regional basis, an attempt has been made to identify the priorities related to each area needing attention. Priority levels, marked as *"immediate"*, *"medium term"* or *"long term"* are also shown for each activity.

2.3.1 Needs and Priorities Related to the Regional and National Cotton Strategies and Government Policies

i) Review the developments related to regional and national cotton strategies and, where and if necessary, make modifications *(medium term),*

ii) Identify the problems encountered as a result of reforms for higher levels of efficiency and productivity *(immediate),*

iii) Monitoring and controlling the exchange rate *(medium term),*

iv) Review the national and regional strategies for the Cotton Value Chain Development (spinning, weaving, knitting, garment or handicraft) *(immediate).*

2.3.2 Needs and priorities related to cotton quality improvement and certification

i) Review of African Cotton Standards *(medium term),*

ii) Seed cotton classing *(immediate),*

iii) Classing lint cotton on instrument based quality parameters *(medium term),*

iv) Minimising or eliminating the occurrence of contamination in every stage of cotton production cycle *(immediate),*

v) Quality assurance in ginning *(immediate),*

vi) Regional cooperation on cotton research and quality improvement *(medium term).*

Given that financial and technical resources are limited in WCA, it would be the most efficient approach to identify problems and apply scientific knowledge to find solutions at the *regional* level.

2.3.3 Needs and Priorities Related to Lint Cotton Export Marketing

i) Providing also the HVI data when selling "on type" *(medium term),*
ii) Use of Universal Cotton Standards *(medium term),*
iii) Development and use of the African Quality Label for cotton *(medium term),*
iv) Cotton trade promotion and the preparation of a guide for exporters *(medium term),*
v) Setting–up of a system to obtain feedback from the export markets *(medium term),*
vi) Utilising risk management tools in export marketing of cotton *(immediate).*

2.3.4 Needs and Priorities Related to the Institution Building

Capacity building related to producer organisations, research and development centres, institutes, testing laboratories, training centres, etc., are all of utmost importance in the successful conduct of the activities related to the WCA cotton sector, especially the following:

i) Capacity building on producer associations, producer groups, etc.**,** *(medium term),*
ii) Establishment of a research and development institute on cotton (seed breeding, soil management, bio-safety programmes, etc.), *(medium term),*
iii) Establishment and rehabilitation of cotton testing and classing laboratories *(immediate),*
iv) Establishment of a cotton production training centre with extension services *(immediate),*
v) Establishment of a textiles and clothing research and development institute *(medium term),*
vi) Training centres for textiles and clothing production *(medium term).*

2.3.5 Needs and Priorities Related to the Improvement of the Financial Infrastructure

Particular emphasis should be put on institutional arrangements and capacity building, in order to generate public awareness about the anticipated financial risks and to reduce transaction costs through greater transparency. The following institution building and capacity building are of great importance:

i) Establishment of a well functioning banking system on national regional and international level for the smooth functioning of trade, payments, etc., (immediate),
ii) Gaining access to global financial markets *(medium term),*
iii) Strengthening the capacity for the mobilization of domestic investment and for the attraction of Foreign Direct Investment (FDI), *(medium term).*

FDIs must be attracted sufficiently in order to increase the productive capacities for processing cotton, which would increase its value addition and expand the employment capacity. With the development of enabling services and methodologies, these countries can place their economies

within the global networks and value chains of multinational enterprises, at the same time attract cross-border SME investments and gain access to global financial markets.

2.3.6 Needs and Priorities Related to the Weak Physical Infrastructure (energy, water, communication, etc.):

i) Improve the management capacity (mapping, surveying, monitoring) of available resources and infrastructures *(medium to long term),*

ii) Improve the communication network *(immediate),*

iii) Improve technical competencies to adopt innovative tools and technologies to optimize sectoral inputs and resources *(medium to long term).*

2.3.7 Needs and Priorities Related to Making the Domestic Textile Industry Compete with Imported Cheap (new and/or second-hand) Textiles

Although the consumers, especially the poor and those with medium and low income level, have benefited from cheap textiles (new or used), it is evident that these cheap products have severely damaged the local industries. Firms who used to manufacture for the domestic markets can no longer compete with these cheap imports. They cannot produce competitively for export markets either because of the severe competition encountered mainly from the low cost Southeast Asian countries. Therefore, there is an urgent need to;

i) Evaluate the imposition of more realistically determined import duties on second-hand clothing *(immediate)*,

ii) Establish a more effective customs control mechanisms to ensure that new items are taxed appropriately *(immediate)*,

iii) Assist the small and medium-scale T&C producers to improve their productive capacities to make them more competitive on regional and even global markets *(immediate).*

2.3.8 International Strategies

Future outcomes on the Doha Agenda in general and on the agricultural negotiations in particular do not appear to be easy to forecast, since no breakthrough has so far been made to overcome the present deadlock. However, there exists **an urgent need** for the WCA countries to utilise the existing opportunities in gaining the necessary know-how and expertise for strategies involving international negotiations in general, and the agricultural negotiations (including those related to cotton, in particular *(immediate).*

CHAPTER III

2. MAJOR INITIATIVES RELATED TO CTC VALUE CHAIN OF THE WCA COUNTRIES

It was during the recent years, especially soon after the ***"Cotton Initiative"***, voiced by Benin, Burkina Faso, Mali and Chad in the WTO Ministerial Meeting in September 2003 that awareness was raised on the vital importance of cotton for a considerable number of African countries and that cotton was successfully and predominantly placed on the Doha Development Agenda.

Various international organizations, such as the WB, IMF, UNIDO, UNCTAD/WTO, FAO, ITC, OECD, the West African Economic and Monetary Union, (WAEMU/UEMOA), the Islamic Development Bank (IDB), together with the Organisation of Islamic Conference (OIC), in addition to the economic and political unions, such as the EU, or individual countries such as the USA, Japan, France, Germany, the Netherlands, etc., have all taken steps in demonstrating their interest and readiness to assist the cotton sectors of sub-Saharan African Countries.

The following are the major initiatives, which have been taken up recently:

- **THE IDB / OIC INITIATIVES,**
- **THE UEMOA COMPETITIVE COTTON AGENDA,**
- **THE UNIDO COTTON INITIATIVE,**
- **THE EU INITIATIVES, and**
- **THE OTHER INITIATIVES**

In the following section, the major features of these initiatives will be reviewed.

3.1 THE IDB / OIC INITIATIVES

3.1.1 Technical cooperation activities by the IDB related to cotton

3.1.1.1 <u>1st Expert Group Meeting (EGM) on Cotton</u>:

The 1st Expert Group Meeting (EGM) on cotton entitled *"Enhancing Production Efficiency and International Competitiveness in IDB Cotton-Producing Countries"* was held in Jeddah, Saudi Arabia on 22-23 March 2005. Eighteen experts from public and private companies and productivity centres of cotton producing member countries attended this meeting. *A General Framework* and *an Action Plan* were developed for enhancing *cooperation, productivity and competitiveness,* among the cotton producing member countries**.**

A. <u>General Framework:</u>

The EGM identified major challenges and/or constraints faced by these countries in strengthening their production efficiency and international competitiveness, as well as the priority areas to enhance cooperation among cotton-producing member countries. The EGM also highlighted the possible role of multilateral financing institutions, like the IDB.

i) <u>Major Challenges/Constraints</u>: The following major challenges/constraints in cotton producing member countries were identified:

- Limited access of cotton growers to inputs needed for achieving high yields in many countries, particularly in the African cotton-producing countries.
- Poor supply of inputs due to insufficient production, high costs and poor infrastructure.
- High levels of the cost of production for farmers due to a high dependence on pesticide based production practices and lower yields.
- Limited access to many emerging technologies (like the use of biotechnological applications and rapid instrument testing).
- Unavailable means and resources for direct communications among cotton-producing countries.
- *Small size of growers and further fragmentation of land* into smaller units, making it difficult to adopt mechanization of cotton production and harvesting.
- Weak role of the private sector in cotton production, processing and allied industries.
- Limited resources for cotton research and for credit to meet the production needs.
- Weak institutions and bureaucratic procedures affecting production and research efficiency.
- Inadequate price levels for quality cotton produced due to various reasons such as contamination.
- Traditional ways of marketing cotton and slow privatization processes in the sector.
- Weak domestic consumption in cotton-producing countries, particularly in WCA.
- High subsidies given by developed countries, resulting in artificially low cotton prices.
- Insufficient public and private investment due to the production and price uncertainties.
- Scarcity in irrigation water and inefficiency in water use in cotton cultivation.

ii) <u>Priority Areas for Cooperation</u>: The EGM identified the following four major priority areas, namely; production, marketing, institutional development and financing.

<u>Production</u>: Cooperation could take place on:

- production practices models,
- up-to-date irrigation systems,
- cotton standardization and grading systems at the ginnery level,
- developing of the high yielding varieties,
- certified planting seeds,
- least use of pesticides,
- biological control,
- agronomic management, and

- transfer of technology.

Marketing: IDB cotton-producing member countries could:

- cooperate in the enhancement of domestic consumption and export promotion,
- help each other in the promotion of an orderly and efficient marketing of cotton by developing, disseminating, and encouraging the use of *universal cotton classification standards,* and by sharing market news that meets the needs and expectations of the cotton and textile industries.

Institutional Development: The cotton sector suffered from the absence of specialized institutions both at *regional* and *international* levels. These institutions were;

- an international research centre,
- an international germoplasm centre, and
- a regional cotton classing laboratory for African countries

At the same time, more efforts were required to establish and strengthen *national* specialized institutions, particularly those dealing with training, research and development. The regulatory environment also needed improvement in order to enhance the role of the private sector.

Financing: Cotton farmers mostly suffered from the lack or inadequacy of the financial sector in rural areas. The IDB cotton-producing member countries needed assistance:

- to establish commodity funds (contributed and managed by farmers themselves),
- to rebuilt the rural financial facilities for providing emergency seasonal credits,
- to combat price volatilities by using risk management techniques,
- to finance projects related to infrastructure development,
- to finance projects for the manufacturing of farm and ginning machinery, etc., and
- to provide facilities for export financing and credit guarantees,

B. The IDB Action Plan:

To promote cotton production efficiency and competitiveness, the EGM recommended the following actions at *national, regional and IDB/international levels:*

Actions at *National* Level

- Enhance farmers' awareness for improving productivity and production quality on cotton through technology transfer,
- Adopt precise measurements of quality characteristics through instrument-based systems.
- Improve ginning which constitutes the weakest link in the cotton chain,
- Enhance the private sector participation in the cotton chain, including variety development and seed production,
- Adopt adequate intellectual property rights legislation in order to enhance the role of the private sector,
- Develop bio-safety regulations and educate the public about the new technologies (biotechnology and others) in order to remain competitive in the international cotton market,

- Rebuild rural financial facilities with the view of providing emergency seasonal credit in the medium term and enhance the role of small producers in the rural financial system,
- Undertake suitable measures for greater market liberalisation in order to enhance cotton productivity and international competitiveness,
- Provide assistance to improve water use efficiency at the farm level, and
- Support the private sector to enhance domestic raw cotton consumption for value addition.

Actions at *Regional* Level

- Establish a network of researchers and start a cotton newsletter to keep IDB member countries connected to each other,
- Establish a regional cotton-classing laboratory for African countries, and
- Strengthen transport linkages of landlocked cotton-producing countries.

Actions at the *International/IDB* Group Level

- Support facilities for sharing experiences and for specialized training in areas like integrated crop/pest management among member countries,
- Disseminate information about best practices related to zero pesticide plant production in countries like Syria and productivity enhancement in the spinning sector in countries like Pakistan,
- Provide support for cotton development programs and projects, particularly related to marketing and vertical expansion,
- Provide assistance for improving training facilities in cotton ginning,
- Support quality farm and ginning machinery manufacturing in IDB member countries,
- Support commodity funds aimed at reducing cotton prices and production uncertainties through the national development financing institutions,
- Sponsor small and short-term research projects related to production and fibre quality,
- Facilitate cotton intra-exports by providing export credit guarantees/financing to promote cotton trade among IDB member countries,
- Contribute in upgrading one of the existing germoplasm facilities to an international germoplasm centre on cotton and prepare a germoplasm catalogue.

General Action

Many of the issues could be resolved by establishing a commercially viable *International Cotton Research Centre* capable of providing a variety of cotton related services to cotton producing countries.

C. The Implementation of the IDB Action Plan and progress achieved:

The IDB has been implementing the above mentioned recommendations within a special ***Three-Year Action Plan for Cotton,*** which included specific actions that the IDB would finance through its *technical assistance and cooperation programs,* as well as through its *projects and trade financing activities*. The initial total cost of the technical assistance under the IDB Action Plan would be around US$245,000 while the total cost of project and trade financing was about US$55

million and US$100 million, respectively.

The IDB conducted the following *technical cooperation and assistance* operations:

i) Forum for *"Energising Trade and Investment in the Cotton Sector in the OIC Member States":* The OIC, in cooperation with the Government of Burkina Faso, the IDB and the Islamic Centre for Development of Trade (ICDT) organized a Forum on *"Energising Trade and Investment in the Cotton Sector in the OIC Member States"* in Ouagadougou, Burkina Faso on 18-19 April 2005. The main objective of this forum was to discuss the ways and means of increasing the value addition in cotton sector in Africa.

The Forum agreed on the following recommendations:

- Adoption of political measures by the African governments to support their local cotton industries by limiting imports of low cost textile products,
- Expression of political will at the inter-state level among the African Member States in adopting a set of concrete measures aimed at removing the constraints to the development of cotton industries,
- Adoption of adequate measures to support local cotton industries, such as providing low-cost energy and reducing taxes to the textile industries, etc.

ii) Workshop on *"Cotton Industry in the WCA Member Countries"*: The IDB organized a Cotton Sector Workshop on 12-13 June 2006 in Rabat, Morocco. The workshop was attended by the cotton producers in the Sub-Saharan member countries together with the cotton users in other member countries, particularly in South-east Asia.

iii) Publication of the Proceedings of the First EGM on "*Enhancing Production Efficiency and International Competitiveness in IDB Cotton-Producing Member Countries*": The IDB published the proceedings of the First EGM in order to disseminate the ideas developed in the various papers and the views expressed during the EGM.

iv) Preparation of a feasibility study for *"Establishing/Strengthening Two Regional Cotton Research Centres in Africa and Asia"* (ongoing): This feasibility study was expected to investigate the potential for the research centres from different angles such as marketability, demand side, location as well as financial and economic aspects. It would also help the IDB in:

- the identification of the centres,
- the type of activities to be conducted; and
- the mechanism for the exchange of information, ideas and experiences among the IDB's cotton-producing member countries.

These regional research centres were expected to be fully commercialized without relying on the IDB's financial support in their day to day operations.

v) Dissemination of Information on *"Best Practices on Zero-Pesticide Plant Production and Productivity Enhancement in the Spinning Sector"* (ongoing): The IDB would undertake an activity to collect information related to the best practices on zero-pesticide plant production in

Syria and productivity enhancement in spinning in Pakistan. This information was expected to help in improving the technical efficiency and productivity as well as reducing the cost of production.

3.1.1.2 <u>2nd Expert Group Meeting on Cotton organized jointly by Turkey and the IDB:</u>

The 2nd EGM on *"Enhancing Production Efficiency and International Competitiveness in OIC Cotton Producing Countries"* was held in Izmir, Turkey, on 28-30 March 2006, The 2nd EGM[24] decided *to review the Action Plan* adopted at its first meeting (Jeddah, 22-23 March 2005) so that a better understanding about the challenges and opportunities of the cotton producing OIC countries could be achieved and practical ways developed to enhance cooperation in a multitude of areas of extreme importance. The meeting also agreed, based on the Revised Action Plan, to provide a five year programme to be implemented. A Steering Committee (SC) was formed, giving considerations to a balanced representation by the OIC member states[25], to collect the necessary information related to the cotton sectors of the OIC Cotton Producing Countries. It was also agreed that the *Revised Action Plan* was to be finalized by the 3rd EGM to be held in Turkey[26] and soon after submitted to the 22nd Session of the Standing Committee for Economic and Commercial Co-operation (COMCEC) [27] , which was held in Istanbul, on 21-24 November 2006 for its consideration.

3.1.1.3 <u>3rd Expert Group Meeting on Cotton organized jointly by Turkey and the IDB</u>:

As part of the preparatory work for the 3rd EGM, a questionnaire had been prepared and forwarded to all cotton producing countries of the OIC[28]. "The Draft Action Plan" later prepared by the Steering Committee, included the activities and projects which could be realized within the strategic goals and targets of the OIC. In the meantime, a Memorandum of Understanding was signed between Turkey and the IDB, regarding the cooperation related to Turkey's African Development Strategy. The 3rd EGM was held in Antalya, Turkey, on 9-12 October 2006, mainly to review the above mentioned Draft Revised Action Plan, which was referred to as *"the Action Plan for the OIC Cotton Producing Countries' Cooperation Development Strategy (2007-2011)"*. After discussing the Draft Revised Action Plan, the areas of cooperation and the related strategic goals were identified as follows:

- Enhanced productivity and production techniques in cotton;
- Strengthening structural capacities of member countries and their organisations related to cotton;

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[24] *It was chaired by the writer of this Comparative Study*

[25] *Under the chairmanship of Turkey, the Steering Committee was comprised of Burkina Faso (Vice Chair), Mali and Nigeria (African Group), Pakistan and Azerbaijan (Asian Group), Egypt and Sudan (Arab Group)*

[26] *In this regard, the meeting welcomed the offer made by the Republic of Turkey (Ministry of Industry and Trade) to hold its third meeting again in Turkey.*

[27] *COMCEC, established in 1981, consists of the representatives of OIC Member Countries at ministerial level, and is chaired by the President of the Republic of Turkey. COMCEC meetings are held in Istanbul, Turkey. COMSEC was entrusted with the task of following up the implementation of the resolutions passed by the Islamic Conference in statistical, economic, social and commercial fields; to study all possible means of strengthening co-operation among Islamic States in those fields, and to draw up programmes and submit proposals designed to increase the Islamic States' capacities in those fields.*

[28] *Those contacted were 17 OIC Cotton Producing Countries.*

- Developing the processing, marketing, trade and international competitiveness;
- Arranging the necessary finances for the activities.

The meeting approved the Plan of Action and forwarded it to the Government of Turkey for submission to the COMCEC through the General Secretariat of the OIC. The IDB was also called upon to contribute to the financing of the operating costs of the OIC Action Plan.

COMCEC held its meeting in Istanbul, Turkey on 21-24 November 2006 with the following decisions: COMCEC;

- Endorsed ***"****the Action Plan for OIC Cotton Producing Countries' Cooperation Development Strategy (2007-2011)"*, which was adopted at the 3rd EGM.
- Urged the participating OIC Member States to take part in the timely implementation of the Action Plan,
- Requested the Member States concerned to nominate their focal points for the implementation of the Action Plan,
- Invited the General Secretariat of the organisations of the OIC, IDB, SESRTIC and the ICCI to organise in collaboration with international and regional organizations concerned, *an investment forum* comprising of the OIC cotton producing countries, financial institutions, textile industries, and research centres with a view to working out concrete projects and proposals for the implementation of the OIC Five Year Cotton Programme, also requested from the above mentioned organisations to monitor and report the implementation of the Action Plan,
- Welcomed the offer of the Republic of Turkey to host the cotton investment forum[29],

According to the adopted Five-Year Action Plan, three Centres of Excellence were to be selected (one in Africa, one in Arabic countries, and one in Asian countries)**,** with a view of harmonizing and strengthening research for the development of the cotton sector. Furthermore, there would be a Mid-Term Review in 2009 for the Action Plan, which had a 5-year time frame from 2007 to 2011[30].

3.1.2. Projects and Trade Financing Activities of the IDB

Within the same Three-Year Program of the above mentioned IDB Action Plan, the IDB had also financed projects and trade operations since the first EGM, which mainly included the approval of the following trade financing operations:

i) **Trade financing credit for Mali:** Beneficiary of this trade financing activity was *Compagnie Malienne pour le Developpement des Textiles (CDTM)* and the total amount was €46 Million.

ii) **Trade financing credit for Burkina Faso:** A syndicated structured commodity

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[29] *The Investment Forum was to be held between 10-13 November 2007 in Istanbul*

[30] *A complete copy of the OIC Action Plan can be obtained from:* ***www.oic-oci.org/english/conf/comcec/Cotton%20Action%20Plan-En.pdf***

financing facility for €30 Million in favour of the *Societé Burkinabe des Fibres Textiles (SOFITEX)* was approved for the import of fertilizer to be used for cotton production.

iii) **Trade financing credit for Burkina Faso:** Another syndicated structured commodity financing facility for €6 Million was approved in favour of the *Societé Burkinabe des Fibres Textiles (SOFITEX).*

iv) The IDB was also intending to provide a financing of US$ 20 Million by way of leasing to Sudan Cotton Company jointly with the Dubai Islamic Bank.

As can be seen from the above mentioned developments, there has been an ongoing initiative among the cotton producing Islamic countries, which cover a large area, ranging from West Africa to the Central and South-east Asian countries, in which Turkey has been taking an active part together with the IDB and the OIC.

Another observation, which can be made from the above given information is that WCA is in the forefront of any development assistance program. This is an important observation because there should be a certain care taken in formulating various activities, avoiding duplications or overlapping. For this reason, it may also be advisable to maintain a close dialogue with all the organisations, institutions, etc., to avoid such unnecessary duplications.

It should also be noted that the main purpose of the above mentioned technical cooperation activities as well as the trade financing operations of the IDB is to enhance competitiveness of the cotton sectors of the OIC countries in general, and those situated in Sub-Saharan Africa, in particular. It is further understood that the IDB remains committed to taking necessary steps to contribute to the implementation of the new OIC Action Plan, which had been approved by the COMCEC in November 2006.

3.2 THE UEMOA COMPETITIVE COTTON AGENDA

The UEMOA had long been considering the development of a strategy and an action plan for the development of the textile industries in the UEMOA zone. The main objective was to identify the ways and means by which use of cotton could be increased in the local textile industries. Following the basic study on cotton realized by the BOAD (la Banque Ouest Africaine de Développement) in 2002, the UEMOA made a proposal related to *"the improvement of the competitiveness of the cotton-textile chain"*. This objective was also in line with the fight against poverty, which necessitated the acceleration of growth by diversifying the resources and by creating better value addition, including more employment on the local level, in particular by increasing the local processing of cotton fibre internally, instead of exporting as lint cotton.

3.2.1 Characteristics and problems related to the CTC chain in the UEMOA Zone[31]

A large part of the lint cotton is exported from the UEMOA zone to other countries, where they are processed into textiles and subsequently manufactured into clothing items, among which the

[31] *Findings of the 2nd Workshop held in Lomé in November 2002 have been largely utilized in this report.*

artisanal textiles and garment manufacturing occupy a significant share. The other major characteristics and problems associated with the CTC value chain are listed below:

- There were around 40 textile units, which had been established in 1960s. Currently, only 20 of them were in operation, however, well below their installed capacities, although 7 of these units had been subjected to restructuring in 1990s,
- Cote d'Ivoire occupied the leading position in the regional market, followed by Senegal, Benin, Mali, Burkina Faso, etc. Local textile establishments in the UEMOA zone controlled less than 20% of the regional market share. According to the estimates, the regional textile market was composed of: 7% domestic production; 17% used clothing; 17% registered imports, and 49% illegal imports into the UEMOA countries.
- Cotton yarn *spinning* appeared to be *competitive* in the UEMOA zone; the comparative cost of production in the UEMOA Zone was the lowest, when compared with other countries, such as the USA, EU, Thailand, India, etc.
- Cost of electricity**,** which is a major cost factor in yarn spinning, varied significantly within the UEMOA countries**,** but it was generally more expensive than in most of the developing countries, which were competitive in world cotton yarn markets[32]. *This will be a critical factor when future development strategies will be evaluated.*
- Due to high cost of energy and other factors, *weaving* and *finishing* operations are also uncompetitive when compared with the cost of the imported products.
- When compared with the international standards, relatively low productivity in the UEMOA zone was another important factor for the uncompetitiveness in the textile and clothing manufacturing,
- Lack of adequate training and education for the textile and clothing manufacturing was also a major negative factor limiting improvement in the CTC value chain.

The above mentioned features need to be taken into account when the development alternatives related to the textiles and clothing sectors are to be evaluated for WCA.

3.2.2 Financing and actions taken by the BOAD for the promotion of the CTC[33]

The BOAD had taken some major steps in order to promote the development of the cotton-textile value chain within the UEMOA zone.

3.2.2.1 Projects financed by the BOAD in the cotton-textiles value chain:

Until mid-2004, the BOAD financed 21 projects, with a total investment need of 823 Billion FCFA, of which:

- 37% (10 projects) were related to cotton products,
- 30% (5 projects) were related to the ginning investments,
- 18% (6 projects) were related to textiles industry investments,

[32] *The energy situation of the UEMOA presents structural handicaps, which do not make it possible to consider a significant improvement in the cost in the short run*

[33] ***"****La Filiere Coton–Textile dans l'Espace UMEOA****",*** *presentation by BOAD in the EU-Africa Cotton Forum, (2004)*

- 15% (6 projects) were concerned with the infrastructural investments.

3.2.2.2 Actions taken by the BOAD to promote the cotton-textile value chain in the UEMOA zone:

A. The 1st Regional Workshop on the Cotton Chain within the UEMOA Zone: This workshop took place in March 2002 in Lomé. The theme of the workshop was on cotton crises. The principal conclusions and recommendations of this workshop were as follows:

(i) **Emergency Plan:** Participate in the WTO negotiations on cotton, establishment of a balanced approach between the cotton producers and the cotton textile industries, fight against illegal imports and subsidised imports,

(ii) **Short term solutions:** Encouragement of cotton processing, making the investment environment more attractive for the potential investors, initiation of a study related to cotton processing.

B. The 2nd Regional Workshop on the Cotton Chain within the UEMOA Zone: This workshop took place in November 2002 also in Lomé. The topic of the workshop was related to the transformation of cotton fibre. A number of local and foreign investors, decision makers, financing organisations, donors and other related parties participated in this workshop, whose conclusions and recommendations were as follows:

- Definition of the conditions necessary for the transformation of the cotton fibre within the UEMOA Zone was established, which included:
  - the implementation of the Emergency Plan,
  - improvement of the competitiveness of the cost factors compared with the advantages offered in the other regions of the world,
  - Development of a regional strategy and an Action Plan for the Competitiveness of the cotton-textile value chain in the UEMOA Zone.
- *In April 2003*, a study was completed on the elimination or reduction of the price distorting effects on the international cotton markets, arising from the supports given by the developed countries to their cotton sectors. The purpose of the study was to prepare a file which would allow the engagement of consultations with the North for defending and promoting the cotton value chain in the UEMOA Zone, in line with the WTO rules.
- *In June 2003*, contribution was made to the organisation of a ministerial meeting on the regional evaluations on the cotton chain in the UEMOA/CEMAC zone with the collaboration of the UEMOA Commission and the BCEAO. In this meeting, a declaration was adopted to defend and promote the cotton chain within the UEMOA/CEMAC zone with a common strategy.
- *In December 2003, the UEMOA Competitiveness Agenda for the Cotton-Textile Value Chain within the UEMOA Zone was adopted.*

3.2.3 Major provisions of the UEMOA Competitive Cotton Agenda

The Decision of the UEOMA[34] to adopt the Agenda for the competitiveness of the cotton-textile value chain in the UEMOA zone was comprised of six articles;

Article 1 gave a list of the institutions, which were related to this Decision.

Article 2 gave a short description of each of the six strategic axes, which have been included in the UEMOA Agenda for the competitiveness of the cotton-textile value chain within the UEMOA zone, as follows:

Axis 1 was related to the creation of *regional funds,* which could be utilised in making domestic cotton more competitive, so that it could be used by the local textile industry. By developing such a textile industry, it was expected that:

- the incomes of the cotton producers would be ensured, and
- private investments for the processing of local cotton would be attracted.

To obtain the above mentioned objectives, it was proposed to take the following steps:

- *guarantee a minimum price* to cotton growers, in cases of depressed cotton prices,
- *tax cotton exports* (the amount of the tax being proportional to the level of the cotton prices),
- *tax the imports of used textile and clothing products* at national level,
- *tax the imports of all the textile products* (yarn, fabric, unbleached, finished),
- *grant long term investment incentives to potential investors in textiles,*
- *allow free access to cotton products* by the textile industrialist within the UEMOA countries.

The institutions responsible from the implementation and progress of the above activities were the UEMOA, BOAD, as well as the individual countries within the UEMOA.

It is evident from the above measures that there is a determined approach to support the cotton producers, make the domestic cotton competitive and remove any obstacles, which may hinder the successful developments in the cotton-textile chain.

Axis 2 was related to the creation and installation of *regional investment funds* for the development of the textile industry within the UEMOA, with the following objectives:

- Support present textile enterprises as well as the potentially competitive ones,
- Support financing of new investors,
- Finance the development of the economic infrastructure of the sector.

To obtain the above mentioned objectives, it was proposed to take the following steps:

- *Finance the working capital requirements*
- *Support the restructuring* of potentially competitive current companies,
- *Contribute to the recapitalisation* of these companies, via the entry of new partners,
- *Contribute to the modernization investments* as well as those with increases in capacity,

[34] *Decision was taken by the Council of Ministers of the UEMOA in Lomé, on 22 December 2003. For the full text of the Decision, visit:* ***http://www.uemoa.int/actes/2003/CM22_12_03/DEC_15_2003_CM.htm***

- *Facilitate the establishment of the investors* within the UEMOA zone,
- *Finance the development of private industrial parks.*

The institutions responsible from the implementation and progress of the above activities were the UEMOA, BOAD, finance organisations, as well as the individual countries within the UEMOA.

To ensure success on the above mentioned steps, necessary feasibility studies and other evaluations were to be conducted. Special efforts should also be directed towards making the investment environment as attractive as possible, including offering to the potential investors land and buildings at attractive prices and payment terms.

Axis 3 was related to the launching of *a permanent sectoral dialogue* between state and the private sector, comprising all the relevant actions for the accomplishment of the competitiveness on the cotton-textiles value chain. The objectives intended to be achieved and the institutions to be involved were identified as follows:

- Setting-up of a Follow-up Committee to monitor the Agenda, (UEMOA, BCEAO, BOAD, CDE),
- Work out a programme and a timetable for a dialogue at the national and regional levels, (Member States, OPICT, the Follow-up Committee),
- Carry out the dialogues at national as well as at UEMOA levels, (Member States, national textiles organisations, OPICT, UEMOA, BOAD, CDE),
- Follow-up the total process of the implementation of the Agenda, (the Follow-up Committee).

Axis 4 was related to the development and implementation of a *regional programme of formation, in particular through the Centre of Research and Formation* of Textile Industry. The following objectives were intended to be achieved:

- Setting-up of a structure of formation on the textiles profession on a regional level,
- Promote formation on an apprentice basis by a contractual arrangement between government and enterprises.

To obtain the above mentioned objectives, it was proposed to take the following steps:

- *Restart CERFITEX* after an analysis of the needs of the enterprises,
- *Work out a device of formation* directed towards the needs of the textile industry and incorporate all levels of the institutes, specialized schools by branches, etc.
- *Propose periods of training* for the textiles profession in the existing schools of formation: Develop, within the framework of Regional Textile Centres, sessions of perfection on the textile profession and on the needs identified by the companies.
- *Set-up a system of training in the workplace,* by creating a "team" of qualified operators, technicians and engineers, qualified in various activity branches, to carry out *in situ* trainings.
- *Create "turn-key" training programmes* on different vocational branches and diffuse these activities with the multi-media, as a support to the practical professional training performed

on the machines.

The institutions responsible from the implementation and progress of these activities were the UEMOA and the OPICT.

Axis 5 was related to the creation of *regional centres for technical textiles***,** managed by the private sector. To obtain the above mentioned objectives, it was proposed to take the following steps:

- Mobilise the governments on the necessity of such centres,
- Directly imply the industrialists and cotton producers the benefits of setting up such technical centres,
- Define the missions of such centres, their objectives, mechanism of operations (organization, financing of the activities, participating textile companies, means to implement, etc)
- Choose the possible locations of these centres,
- Choose the fields of activity to develop in short, medium and long term (certification, quality, promotion of labels, etc),
- Plan the activities and recruit the personnel for various centres.

The institutions responsible from the implementation and progress of these activities were the UEMOA, OPICT and the member states.

Axis 6 *w*as related to the launching of a campaign for an active communication of the Agenda and promotion of the UEMOA zone, whose implementation supposes the mobilization of all the players (the authorities, regional and international institutions, international investors and private economic operators). The following objectives were intended to be achieved:

- *Promotion of the adopted strategy* to the Authorities of the UEMOA Member States, (UEMOA)
- *Mobilizing the private sector* around the vision 2010, (OPICT, supported by CDE ProInvest),
- *Promotion of the strategy at the international institutions and donors,* (UEMOA, BOAD, OPICT)
- *Mobilizing the foreign investors,* in particular through an Investors Forum (UEMOA, BOAD, OPICT, CDE)

The institutions responsible from the implementation and progress of these activities were shown in parentheses for each defined objective. To obtain the above mentioned objectives, it was proposed to take the following steps:

- Communicate the strategy and challenges related to the competitiveness of the cotton-textile value chain in the 8 member countries of the UEMOA,
- Prepare a communication and a visit plan to each UEMOA state and identify possible investors to be met during these visits,
- Identify the organisations to be met,

- Meet the professional organisations of the European textile sector (in Germany, Italy, France),
- Produce "guides for the investors", "guides for the donors and financial supporters", "guides for the buyers", etc., on the basis of UEMOA data with all the technical, economical and environmental indicators on textile industry to be created,
- Organize a training workshop related to the procedures to be followed for the Investment Forum.

Article 3 explained the specific attributions of the Member States of the UEMOA, the Commission, the BOAD, for the implementation of the Agenda[35].

a) The BOAD was charged with:

- Leading the study for the creation and the installation of the regional funds *for the promotion of the production and incentives to the local transformation of cotton fibre*, in order to ensure the incomes of the cotton producers and to attract the private investment in the transformation of cotton fibre;
- Leading the study for the creation and installation of regional investment funds for the development of the textile industry in the UEMOA zone, in order to support the financing of the new investors and to finance the development of the economic infrastructure of the cotton cluster;
- Organizing, within the framework of the follow-up Committee and with the supporters of the fund, a round table forum of investors, as noted below in Article 4.

b) Commission of the UEMOA was charged with the:

- Control of the study relating to the revival of the Formation and Research Centre of Textile Industry (CERFITEX) of Mali initiated with the assistance of the Centre for the Enterprise Development (CDE) for the installation of a regional programme of formation to the textile trade;
- **C**oordination of the negotiations within WTO while continuing the actions which were within its Agenda for the local transformation of cotton in the UEMOA zone.

c) The Member States would take care of the:

- Installing *regional specialized centres for the technical textiles* intended to support the technological levelling of the cotton chain;
- Launching of *a sectoral dialogue* around all the players for the implementations of the competitiveness of the cotton-textile chain;
- Launching of a communication campaign of the Agenda thus defined and the promotion of UEMOA zone on the development of the cotton chain; and, in a general way, by taking into account the orientations and the objectives of the Agenda in their national policies.

[35] *The complete agenda (in French) can be accessed through:* ***http://www.uemoa.int/actes/2003/CM22_12_03/Annexe1DEC_15_2003_CM.pdf***

Article 4 described the organisational set-up foreseen for the execution of the Decision, which included setting up of a follow-up Committee, by the Commission of the UEMOA, and gathering the representatives of the Member States, the Commission, the BOAD, the BCEAO and the Regional Consular Chambers as well as external partners eager to contribute to the realization of the Agenda. The follow-up Committee would report, at least once every financial year, to the Council of Ministers of the UEMOA on the execution of this Decision. It would make proposals related to the realization and the deepening of the Agenda. They were to engage by this approach the dynamics and a process of consistency of the national policies around the objectives of the Agenda for an increased valorisation of the cotton-textile value chain in the UEMOA zone.

Article 5 emphasized that the cost of the various actions of the Agenda would be evaluated in a thorough way by the Follow-up Committee. *For the establishment of the textile facilities necessary for the transformation of 25% of the cotton production of the UEMOA from 2003 until 2010, the volume of investment necessary was estimated at 200 billion FCFA within the framework of the above noted basic study*[36]. For the mobilization of the necessary resources, the Follow-up Committee was charged with the preparation of an investors' forum.

Article 6 specified that the Member States of the UEMOA, the Commission of the UEMOA, the BOAD and the BCEAO, all in perfect synergy, were in charge with the implementation, the follow-up and the execution of this Decision.

3.2.4 Future vision for the cotton-textile chain of the UEMOA

The following objectives were set for the UEMOA Competitiveness Agenda:

- Processing of the 25% of domestically produced cotton,
- Creation of 50 000 industrial employment (15 000 direct employment in the cotton yarn spinning, and 35 000 employment in the artisanal textiles and other undertakings,
- Development of know-how (particularly in artisanal handcrafts)
- Development of the necessary regional economic infrastructures,
- Diversifying the activities to be undertaken

The development strategy of the cotton-textile value chain was to be followed in two phases:

(i) The development of cotton yarn spinning,

(ii) The development of the integrated complex processing and production facilities for the domestic and export markets (cotton yarn spinning, weaving, dying, printing and garment productions).

The realisation of such a vision will be based on certain actions, such as:

- Initiate permanent research efforts on competitiveness,

[36] *Despite various attempts, a copy of the feasibility study on which the UMEOA Competitive Agenda had been based, could not be obtained. Any opinions expressed and proposals made on the UMEOA Competitive Agenda have been done so at the absence of this feasibility study.*

- Mobilise the economic players of the sector in order to overcome the problems associated with the competitiveness and define all the key factors of the new vision for the future and the objectives of a long term growth of the total value chain,
- Organise the implementation of the initiatives according to their priorities by all the players of the sector.

3.2.5 Progress made in the UEMOA Cotton Competitive Agenda

Through the extensive desk research conducted, it has not been possible to obtain sizeable information, related to the progress made so far in the UEMOA Cotton Competitive Agenda. However, UNIDO has conducted studies to improve the quality of WCA cotton under UEMOA *(Union Economique et Monétaire Ouest Africaine)* Quality Support Programme.

3.3 THE UNIDO COTTON INITIATIVE

3.3.1 Background

The basis of the UNIDO Cotton Initiative[37] was its new Trade Capacity Building (TCB) Initiative, which had been launched in 2002. The aim of this initiative was to enable the developing countries to participate in international trade by strengthening their supply capacities. In the meantime, there has been a gradual progress towards reducing tariffs and quota barriers to trade in general. Furthermore, there have been special initiatives recognising preferential treatments to developing countries' exports, such as:

- the ACP country access to EU (recognised by the EU);
- "Everything but Arms" initiative (recognised by the EU);
- The African Growth and Opportunity Act, AGOA (recognised by the USA), etc[38].

Unfortunately, despite these preferential treatments, most of the developing countries have not been able to benefit from globalization and international trade because of their limited supply capacities, with no major surplus production. Besides, they are often unable to comply with the international standards and technical regulations, which are generally required for exports.

It is a fact that standards and technical regulations have become real obstacles to the exports of the developing countries. However, these countries have no other option but to comply with the international standards and regulations, if they want to participate in international trade.

UNIDO, has launched the UNIDO Trade Capacity Building, (TCB) Initiative in order to:

- Enable developing countries to establish infrastructures, which were essential for the assessment of quality and conformity (i.e. standards, metrology, certification, accreditation),
- Provide assistance to the sectors, having high export-potential, in upgrading product/production quality and complying with standards and regulations for exports,

[37] *"Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa: Supporting Trade and Building Productive Capacity", (UNIDO), January (2006)*

[38] *A more detailed explanation will be given on these initiatives in Sections 3.4 and 3.5, respectively.*

- Further integrate by promoting investment/partnership among the SMEs.

UNIDO TCB Initiative also developed partnership and cooperation possibilities with complementary international, regional and national organisations. UNIDO had also developed the *"3Cs" Approach*, which would allow the beneficiary countries to participate in international trade and, thereby, increase their exports. The meaning of the *"3Cs Approach"* within the context of the cotton sector projects was simply as follows:

- Enhance the **COMPETITIVENESS** of the supply capacity of CTG Value Chain,
- Ensure the **CONFORMITY** of CTG products with international standards;
- **CONNECT** efficiently CTG products to national, regional and international markets **(Figure 3.1).**

In order to promote regional cooperation and regional skills specialization, UNIDO proposed to establish the technical centres at the regional and sub-regional levels **(Figure 3.2).**

An examination of Figure 3.2 indicates the suitability and appropriateness of the selection of these regional and sub-regional centres, since this choice clearly reflects the area of specialisation and progress of the countries within the CTG value chain.

3.3.2 Interventions

3.3.2.1 Global objectives throughout 11 African States–Overall objectives, specific objectives, outputs and actions:

The overall objective of the UNIDO proposal was to assist African cotton producing countries to improve their capacities to participate in multilateral trade and, ultimately contribute to the alleviation of poverty in the region through their sustainable and stable economic growth, which they could progressively achieve.

The specific objectives of the initiative were to enhance the contribution the economy, employment and exports by the target countries, through their cotton and textile industries. The programme's activities were based on three modules, with which it was aimed to:

i) Develop and upgrade the Productive and Supply Capacities of Cotton-Textile-Garment (CTG) chain;
ii) Improve Quality Conformity of African manufactured CTG products to International Technical Requirements;
iii) Further integrate local cotton producers into the Multilateral Trading System.

While carrying out the above activities, particular attention would be paid to the building or reinforcement of local capacities in the following areas:

- Management of technological change;
- Marketing and commercialization of cotton products on the international market;
- Development of the national and regional strategy for the cotton sector;
- Strengthening investment and technology promotion;

- Building up worldwide partnerships with other institutions and enterprises.

3.3.2.2 <u>Modules and Components</u>:

Module 1, which focused on *harmonizing the sectoral strategies* and *upgrading the supply and productive capacities* of the CTG sector, was divided into two **components:** one dealing with the *harmonization of the strategies,* while the other focusing *on enhancing the supply capacities* of the CTG sector.

Specifically, **Module 1** would work on developing strategies in order to *enhance the competitiveness of the CTG sector*. Particular attention would be paid to the *national capacity building* in the field of good governance and *investment/technology transfer* in order to stimulate and *improve the CTG actors in public and private sectors.* The second component would be more based on technical assistance and infrastructure capacity building.

Module 2 provided technical assistance to the quality support institutions as well as to the production systems.

Module 3 was more related towards *promoting regional trade* and *advertising /marketing* African CTG products on the international markets. It would not only promote the establishment of regional and international partnerships but also investments in CTG enterprises. Other major actions of this module would include the development of export capacities of cotton or the creation of a database to include all the cotton enterprises of the region.

3.3.3 Programme Budget

The total estimated budget for the implementation of the project proposal was €20.41 million**.** The implementation of the programme would require a 36-month period. A total indicative amount of € 20.41 million (excluding overhead) would be initially allocated between the International Organizations for the provision of *technical assistance* and *capacity building.*

The total indicative budget with the breakdown costs of the three modules and their respective components as well as other important aspects will be given in Chapter VI, where this Technical Assistance Programme will be reviewed, based on the findings and recommendations of this study.

A thorough examination of the UNIDO Cotton Initiative will reveal that this programme is well prepared, documented and presented, consistent with the overall strategy of the UNIDO, adequately covering all the actions which have been identified for the attainment of the clearly defined objectives, as well as comprehensive including almost all aspects and areas which have been partly referred to in the other initiatives.

3.3.4 The Involvement of UNIDO in Cotton Sector and Progress made on the UNIDO Initiative

UNIDO has been supporting the cotton sector since 2004, and coordinated the following work:

i) <u>Conducting a study to identify an action plan for cotton quality improvement and the valorisation of cotton fibres</u>: This study was conducted in April 2004 which was financed by the

EU. One of the important findings of the study was that due to the favourable growing environment and the hand-picked cotton, the average quality of the cotton of the UEMOA countries was good and even better than those which were used as reference to *Cotlook A Index*[39], in terms of grade, staple length and micronaire. However, the UEMOA cotton quality could further be improved through *a better control of the ginning process and a reduction of cotton contamination.* The market value of UEMOA cotton was, on the contrary, often about 10% lower than the Cotlook A Index. The study report recommended many actions for the cotton producers to follow in order to achieve the right quality of cotton and to make this quality better recognized by the importers, spinners, etc[40]. Based on the action plan proposed in the study, UNIDO has subsequently implemented the following:

ii) Organising a training session on cotton seed breeding, ginning, classification and commercialisation: This training session was attended by more than 200 senior personnel from various cotton companies in the UEMOA region.

iii) Developing a set of cotton standards for the WCA cotton: These cotton standards had been prepared in cooperation with *"Association Cotonnière Africaine (ACA)"* and *"Association Française du Coton (AFCOT)"* in order to make WCA cotton increasingly better recognised in world market, which will in turn increase its market value.

iv) Installation of four HVI equipment for Standardized Instrument Testing of Cotton (SITC)[41]: These systems were installed in **Côte d'Ivoire, Mali, Togo** and **Senegal.** With the proper use of these equipment, various physical parameters of cotton fibres, such as fibre length, short fibres, fibre length uniformity, fibre strength and elongation, micronaire, maturity, colour, and trash, can be measured and recorded instantly. Collaborative work is intensively continuing with the participating laboratories to ultimately make these measurements recognised in international trade.

v) Publication by UNIDO the first version of the «UEMOA Cotton Quality Manual» in July 2006 (in French): This manual consists of six documents, including one *"Quality Plan"* and five *"Technical Guides"*, namely: *(1) Production of Quality Cotton; (2) Ginning of Quality Cotton; (3) African Cotton Quality Standards; (4) Classification of Cotton Fibre; and (5) Cotton Trade Practices.* The *Quality Plan* contains the procedures associated with the implementation of the activities described in the five "Technical Guides". The manual is widely used by many stakeholders, and can be used as a teaching material for quality improvement of cotton.

***vi) Comparative Studies*:** With the recently completed comparative studies from **India, Turkey** and **Egypt**, UNIDO is aiming to develop appropriate strategies for the cotton value chain mainly in WCA. The main "lessons learned" from each of these countries have been identified individually, and the consolidation report is partly the subject matter of this report.

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[39] *Within Cotlook A Index a number of US origin 1- 3/32" cotton are also included.*

[40] *"Identification d'un plan d'action d'amélioration de la qualité et de la valorisation de la qualité du coton dans les pays de l'UEMOA", Rapport d'étude Préparé pour le Programme Qualité de l'UEMOA, (l'ONUDI), (2004)*

[41] *This activity has already been included within the activities of the Technical Assistance Programme.*

vii) *UNIDO has* recently coordinated the organisation of *a "Regional Workshop on Cotton Quality and Standards"* for the IDB Cotton-Producing Countries in Africa. The two-week workshop took place in Bursa and Izmir, between 22 October-2 November 2007, and it was jointly financed by Turkey and the IDB.

viii) UNIDO has also developed a project in cooperation with the Common Funds for Commodities (CFC) and the ICAC, the International Cotton Advisory Committee, to promote cotton processing in Mali and Burkina Faso.

3.4 EU INITIATIVES ON COTTON

3.4.1 The EU Action Plan on Commodities and the EU Action Plan on Cotton

On 12 February 2004[42], the EU took two major initiatives concerning the agricultural commodities. The key objectives of these initiatives were to improve the income of commodity producers in developing countries and reduce the effect of adverse price developments.

The first initiative involved *an EU Action Plan* on agricultural commodities, while the *second* was related to the support of the *cotton sector* in Africa. The EU also proposed to simplify the criteria to benefit from FLEX, which had been an EU instrument to compensate the ACP countries for short term fluctuations in their export earnings.

More details on the EU's Action Plan on agricultural commodities as well as EU's support strategy to African cotton are given in **Annex 3.1,** while the main aspects of EU's Africa Cotton Action Plan are given in **Box No: 3.1.**

3.5 OTHER INITIATIVES/PROGRAMMES

3.5.1 The West African Cotton Improvement Programme (WACIP)

In the Consultative Framework Process, which was established by the WTO Director-General for the implementation of the mandates, co-sponsors and other cotton proponents were urged to submit cotton sector projects, and projects in any other areas of identified national priorities to the **Millennium Challenge Corporation Account (MCC).**

The United States also put in place a new programme, named ***"the West African Cotton Improvement Programme"*** **(WACIP)[43],** provided additional funding and is working with the cotton proponents to implement it. Brief information on WACIP is given in **Box No 3.2.**

3.5.2 Trade Initiatives Promoting Regional Economic Integration

Regional integration efforts have intensified during the recent years in sub-Saharan Africa, which is expected to result in a significant boost in regional trade and economic growth due to improved economies of scale, reduced transaction costs, and increased productivity.

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[42] ***http://ec.europa.eu/trade/issues/global/development/pr120204_en.htm***

[43] *"U.S. Announces Launch of West African Cotton Improvement Program"* ***http://usinfo.state.gov/af/Archive/2005/Nov/11-796543.html***

Box No 3.1: Main areas of the EU-Africa Cotton Action Plan

1. ***International trade:*** Continue with the WTO negotiations in the Doha Development Agenda in order to find an effective solution for cotton, which would be satisfactory to all parties. Continue towards having access to existing trade related assistance programs. Strengthen capacity building to defend and negotiate the cotton trade position in the WTO.

2. ***National & regional strategies:*** The cotton stakeholders in African countries will adopt a more strategic perspective to the cotton sector in their country. This strategic perspective will be built on the existing initiatives and incorporated in the national development plans. In order to achieve a common goal, the knowledge, skills and resources of different stakeholders will be combined.

3. ***Policies & institutions*****:** The governments will create an environment that favours investments, strengthens producer associations and encourages farmers' participation in the processing industry, within the context of a clear division of responsibilities among various institutions.

4. ***Technological innovations:*** Invest in the improvement of the productive capacity of soil in combination with effective input management, at the same time reduce the use of pesticides in cotton cultivation, in order to avoid negative impact on the environment and the health of the rural population. Increase informed decision making capacity related to the expansion of genetically engineered varieties in the African smallholder economies. Improve the cotton classification systems by a more extensive use of the HVI instruments.

5. ***Risk management & finance:*** Reduce the exposure to external price shocks by using modern risk management instruments in combination with realistic price formation policies that are based on the realities of the international cotton market. Utilise the international financial sector in order to have a better access to these instruments for the African countries. Improve capacity building on the price risk management utilising the services of the World Bank. Furthermore, enhance the efficiency and transparency of self-insurance systems at corporate and sector level.

6. ***Chain integration:*** Explore the realistic opportunities for chain integration in textiles and clothing sectors, in particular from a regional perspective. Develop restructuring programmes for the existing textile companies. At the same time facilitate for the development of new private sector enterprises in the textile and clothing chain. Incorporate a more concerted work on organic/fair cotton production chains at international and in-country levels.

7. ***Coordination*****:** Establish an effective cotton sector coordination system at international, regional and international levels. At the international level, establish coordination of the African countries with the cotton donors and with various international organisations, including the ICAC. At the regional level, cooperate on certain issues, such as the EPA regional integration, technological innovation, processing and producer's coordination. At the national level, strengthen business associations, public-private consultations and local donor coordination. At the national level, strengthen business associations, public-private consultations and local donor coordination.

- Most of the Sub-Saharan African countries, including the WCA countries, have tariff-free

Box No 3.2: The West African Cotton Improvement Program (WACIP)

The West African Cotton Improvement Program **(WACIP)** was designed to increase yields and incomes of cotton producers in West Africa. This program, which targeted the cotton-producing countries of **Benin, Burkina Faso, Chad, Mali and Senegal** had a total budget of 27 million US$ for a three year duration between 2006-09. The key activities of this program were as follows:

- supporting policy and institutional reform for private management of the cotton sector,
- improving the quality of cotton,
- establishing regional training programs for cotton ginners,
- strengthening a cotton biotechnology program,
- expanding the use of good agricultural practices in cotton-producing areas, including soil degradation and pest management; and,
- improving relationships between the U.S. and WCA agricultural research organizations.

This programme was mainly based on a US Mission, which had made a visit to the above mentioned countries in September/October 2004.

access to a number of major markets within a wide range of export products. It is, for this reason

that tariffs are no longer a major concern for the potential investors in Africa.

Box No 3.3: The African Growth and Opportunity Act (AGOA) of the USA

The African Growth and Opportunity Act **(AGOA)**, which came into force in 2000, offers various incentives for African countries to continue their efforts to open their economies and build free markets, a condition fort he eligibility to benefit from the act. Amendments to AGOA, also known as **AGOA II**, was signed into law in 2002 . AGOA II substantially expands preferential access for imports from beneficiary Sub-Saharan African countries.

The AGOA Acceleration Act of 2004 (**AGOA III)** extends preferential access for imports from beneficiary Sub Saharan African countries until September 2015; extends third country fabric provision for three years, from September 2004 until September 2007; and provides additional Congressional guidance to the Administration on how to administer the textile provisions of the bill.

The Africa Investment Incentive Act of 2006 further amends portions of the African Growth and Opportunity Act (AGOA) and is referred to as **"AGOA IV"**. The legislation extends the third country fabric provision for an additional five years, from September 2007 until September 2012; adds an abundant supply provision; designates certain denim articles as being in abundant supply; and allows lesser developed beneficiary sub-Saharan African countries export certain textile articles under AGOA.

AGOA provides reforming African countries with the most liberal access to the U.S. market available to any country or region with which the United States does not have a Free Trade Agreement. It supports U.S. business by encouraging reform of Africa's economic and commercial regimes, which will build stronger markets and more effective partners for U.S. firms.

AGOA expands the list of products which **eligible** Sub-Saharan African countries may export to the United States subject to zero import duty under the Generalized System of Preferences (GSP). While general GSP covers approximately 4,600 items, AGOA GSP applies to more than 6,400 items. AGOA GSP provisions are in effect until September 30, 2015. **Country eligibility criteria** include continual progress toward the establishment of a market-based economy and the rule of law, the elimination of barriers to U.S. trade and investment, implementation of economic policies to reduce poverty, the protection of internationally required worker rights and establishment of a system to combat corruption. All the products, except some, are eligible to be exported to the USA. Textile and apparel exports are also subjected to certain conditions[44].

Various trade advantages recognised by major countries are as follows:

- AGOA, the African Growth Opportunity Act (by the USA),
- Millennium Challenge Cooperation Account[45] (by the USA),
- The Cotonou Agreement (with the EU),
- The Everything But Arms (EBA) amendment to the EU's GSP (by the EU).

Among the above given trade agreements, the one most relevant to the WCA countries, from the point of exporting T&C items to the USA, is the AGOA, which promotes regional cooperation and trade in sub-Saharan Africa by encouraging intra-regional trade among AGOA beneficiary countries, which may also use regional yarn and fabric in apparel that qualifies to enter the United States duty-free (See Box No 3.3 for the AGOA provisions).

Information on major regional economic organisations in sub-Saharan Africa is briefly presented in **Annex 3.2.**

[44] *Further details can be found at the following web page:* ***http://www.ustr.gov/assets/Trade_Development/Preference_Programs/AGOA/AGOA_Implementation_Guide/asset_upload_file146_6512.pdf.***

[45] *The Millennium Challenge Account (MCA) is managed by the Millennium Challenge Corporation (MCC) and provides assistance, through a competitive selection process, to developing nations that are pursuing political and economic reforms in three areas: ruling justly, investing in people, and fostering economic freedom. For further information, pease visit the Web site:* ***www.fas.org/sgp/crs/row/RL32427.pdf***

3.6 OVERALL EVALUATION OF THE DEVELOPMENT ASSISTANCE IN GENERAL AND OF THE COTTON INITIATIVES IN PARTICULAR

There have been concrete results and considerable progress on the development assistance, but there is also scope for further improvement in relation to the magnitude of the challenges that confront the proponent countries.

It is understood that the EU, the United States and Japan have played critical and positive leading roles in the implementation of their donor programmes by providing a range of discrete development assistance activities in support of the cotton sector, in which priorities have been reflected in existing programmes. New programmes and projects have also been designed and developed and where possible put into implementation [46]. The following international or multilateral institutions have also participated actively and have made vital contributions [47], namely:

- The World Bank (WB),
- The International Monetary Fund (IMF),
- The Food and Agricultural Organization (FAO),
- The Industrial Development Organisation (UNIDO),
- The United Nations Conference on Trade and Development (UNCTAD),
- The International Trade Centre (ITC),
- The Islamic Development Bank (IDB),
- The African Development Bank (AfDB),
- The International Cotton Advisory Committee (ICAC), in partnership with the Common Fund for Commodities (CFC).

An important observation, which can be made from the above given information is that WCA is in the forefront of any development assistance programme. Those programmes, which are mainly related to the improvement of the CTC Value Chain, often comprise activities of similar nature. This is an important observation because there should be a certain care taken in formulating various activities by avoiding unnecessary duplications or overlapping. For this reason, it may also be advisable to maintain a close dialogue with all the organisations, institutions, etc., to avoid such unnecessary duplications.

[46] *There were around 184 discrete entries on cotton programmes, projects and activities, communicated by the development community.*

[47] Osakwe, C.: *"The Role of Donors and Lessons Learned from Implementing the Mandate on Cotton"* International Conference on Cotton "The Next Steps for Africa", Washington D.C. (2006)

CHAPTER IV

4. IDENTIFICATION OF STRATEGIC OPTIONS

The comparative cotton studies on **India, Turkey** and **Egypt** have been coordinated and analysed with an emphasis on *policy, contamination, classification, training, product ranges, etc.*

4.1 OUTLINE OF THE COMPARATIVE COTTON STUDIES

4.1.1 Aim and the scope of the reports

It was considered appropriate to study and evaluate the experiences of **India, Turkey** and **Egypt** in the implementation of strategies employed to develop their national cotton sectors, particularly to enhance value addition at every stage of the value chain (farmers-cotton transformation-textiles–garment enterprises) of each respective country. Successful experiences of these countries were to be identified and developed as strategic options to promote the cotton sector in cotton-producing WCA States. This aim was to be accomplished by:

- Studying the recent policies and strategies of **India, Turkey** and **Egypt** in terms of development of their cotton sectors and the measures taken to enhance its value addition.
- Reviewing the performance of the cotton sector during the last 5-6 years (in the case of Turkey mainly since 1980) and identifying the key strategic initiatives undertaken by the public and private sector to promote the cotton industry.
- Assessing the impact of the strategies on the overall performance of the sector and those that contributed to *increased local processing, competitiveness, export, investment and job creation as well as introduction of new products/services embracing the value chain.*
- Identifying actions/measures that could be effectively introduced in WCA countries and identify opportunities for partnerships (technology, equipment/machinery, joint venture, etc.) for products/services in the value chain.
- Preparing a final report detailing the findings, including a brief presentation of the strategy and action plan adopted in the country and its possible adaptation in WCA context.

Major features of below presented comparative study were largely based on the country reports of India, Turkey and Egypt which had been completed in January 2007. However, extensive desk research has also been conducted which facilitated the compilation of additional valuable information, wherever it was deemed to be essential for making meaningful comparative analyses or for the enrichment of this report[48].

[48] *The consultant is indebted to UNIDO, particularly to Messrs. M. Lamine DHAOUI and Y.Hoi LEE for their kind assistance in providing needed supplementary information or relevant documentary material.*

4.2 GENERAL INFORMATION RELATED TO COTTON IN THE WORLD AND IN THE THREE COUNTRIES UNDER COMPARATIVE STUDY (INDIA, TURKEY, EGYPT)

4.2.1 Some Background Information Related to Cotton

Cotton is the most dominant fibre in the world's textile industry. The domesticated species of Gossypium are *G. hirsutum* (upland cotton), *G. barbadense* (Sea Island cotton), *G. herbaceum* (Levant cotton) and *G. arboreum* (tree cotton of Indian Sub-continent). Most of the cotton grown in the world belongs to the *G. hirsutum* variety. Originally, cotton was a perennial crop, but through breeding, it was altered to an annual plant. **India** appears to be the place where the earliest known use of cotton has been traced. Domesticated cotton, which was made amenable for spinning by machines, was the prime driving force for industrialising Western Europe and USA during the 18^{th} and 19^{th} Centuries.

Cotton is still the world's leading and basic natural fibre used in the textile industry. Cotton fibre is broadly classified into three categories based on the staple length; the *short staple* cotton has a staple length from 1 cm to 2 cm. Some indigenous varieties of cotton produced in the Indian sub-continent falls under this category. This kind of coarse cotton was used for carpets, blankets and coarse fabrics. The *medium staple* cotton fibre has a staple length in the range of 1.5 to 3.5 cm. American *upland* cotton belongs to this category. *Long Staple (LS)* and *Extra Long Staple (ELS)* cotton has staple lengths varying between 2.5 cm to 6.5 cm. This fine and lustrous variety is the highest quality fibre and the popular varieties are Sea Island, Egyptian (Giza) and Pima.

Cotton contributes significantly to the national income of many countries. Numerous farmlands and millions of families are committed to cultivation and processing of cotton. This is more so in the countries of the tropical and sub-tropical regions of the world. Cotton dominates the entire group of natural fibres, with a share of around 40% of total fibre consumption in the world. There are millions of people worldwide who derive their livelihood from cotton's value chain, which involves several stages like research and development, cultivation, extraction of fibres, primary processing of the fibre for marketing, secondary processing of the fibre to yarn, dyeing and other processing to convert the yarn to fabrics, making clothes and garments. Furthermore, millions of people are employed in the associated activities of trading and transportation.

4.2.2 Some general statistical information:

4.2.2.1 <u>World Cotton Statistics</u> :

A. <u>World Cotton Production</u>:

Presently, world's leading producers of cotton are China, USA, India, Pakistan, Uzbekistan, Brazil, Turkey, Australia, Greece, Syria, etc., while Egypt is the leading producer of LS and ELS cotton. The total area under cotton cultivation in the world was around 34.4 million hectares and the total production of cotton was 24.7 million tonnes with an average yield of 718 kg/hectare during the 2006/07 crop season. **Table 4.1** shows the area under cotton cultivation and production of cotton since the 2003/04 season in major cotton producing countries in the world.

B. World Cotton Consumption:

Table 4.2 shows the list of major countries which have the highest mill consumption. It can be seen from this table that **India** ranks *second* in the world, while **Turkey** occupies the *fourth*, and **Egypt** the *fourteenth* place in cotton consumption. It is interesting to note from Table 4.2 that cotton consumption of the first five countries amount to three fourth of total world consumption.

C. World CottonYields:

Yields in cotton production have shown a significant increase in many countries, especially after the introduction of GM or Bt cotton. **Table 4.3** shows the list of countries with highest yields calculated from the average values of the seasons between 2000/01-2004/05. It can be seen from this table that **Turkey** is among the leading countries with high yields, occupying the third place, while **Egypt** comes 10th. Yields in **India** have been rather low until recently. Recent introductions of *new hybrid and Bt cotton varieties* helped yields to go up to 467kg/hectare in **India** in the 2005/06 season.

D. World Cotton Trade:

World trade in cotton has also shown remarkable increase especially after 2005, when textile and clothing quotas had been removed, which resulted in increased use of cotton in countries like China, India, Pakistan and in the South-eastern countries, such as Indonesia, Malaysia, Thailand and recently by Vietnam. Presently world trade is around 9 million tonnes per year. The leading cotton importing countries are China, Turkey, Pakistan, Indonesia, etc., while the major exporting countries are the USA, Uzbekistan, India, Francophone Africa, Australia and Greece.

An important observation is that substantial changes in cotton trade flows occurred during the past decade, in the sense that there has been a clear shift in the geographic location of the cotton consumption regions. This was because of a decline in cotton mill use in industrial countries, namely in the North America, Western Europe, Australia and Japan. Against this significant decline in mill consumption, there has been a rapid increase in Asia, which led to a major shift in the destination of world imports**.** Asia now accounts for around 75% of world cotton imports.

4.3 DEVELOPMENT PHASES AND MAIN FEATURES RELATED TO THE CTC VALUE CHAIN OF INDIA, TURKEY AND EGYPT

4.3.1 Development Phases

Studying the development phases of cotton sectors of the three countries, **India, Turkey** and **Egypt,** respectively, reveals that there were both certain similarities and, at times, certain distinct differences among the countries. A brief summary on the development phases of the cotton sectors of these countries is presented below:

4.3.1.1 Development Phases in India:

There were five distinct development phases related to cotton sector of India:

1950/51 to 1965/66: *Expansion in area*, from 5.88 million hectares to 8 million hectares, *with a yield increase* from 88 kg/hectare to 114 kg/hectare, raising the production from 3.04 million bales to 6.01 million bales. The irrigation coverage went up from 8.2% to 15.5%. Due to consumption

increases, cotton imports increased to 1.17 million bales in 1965/66, while the exports dropped to 0.31 million bales.

1966/67 to 1984/85: *Intensive cultivation with introduction of high yielding varieties.* The irrigated area went up to nearly 30%. With the high yielding seeds, the yield almost doubled to 196 kg/hectare. Production went up to 8.51 million bales and India almost achieved *self-sufficiency* in cotton production and consumption.

1985/86 to 1996/97: *Steady increase in both area and productivity.* The area went up to 9.12 million hectares in the 1996/97 season and the yield to 260 kg/hectare. The production rose to 14 million bales. The irrigation coverage went up to 34 %. Sluggish domestic demand helped the country to export significant quantities of cotton during this period. However, imports remained stagnant at 0.05 million bales, mostly of long-staple varieties.

1996/97 to 2002/03: *Stagnation in area under cultivation and decline in productivity* due to adverse weather and unfavourable market conditions. Significant increase in domestic demand forced the domestic textile industry to import huge quantities from international markets. India imported 2.53 million bales of cotton in 2001/02.

2003/04 to present: *Resurgence of the cotton sector.* The introduction of the renewed demand for Indian cotton textiles after the removal of the quota regime under WTO and the introduction of ***new hybrid*** *and* ***Bt cotton varieties*** helped productivity levels to go up to 467 kg/hectare in 2005/06 and production went up to 24.40 million bales. Production and productivity have almost doubled within the recent years. Imports and exports remained negligible.

4.3.1.2 Development Phases in Turkey:

Historically, developments of Turkish cotton sector can be broadly divided into five periods since the establishment of the Republic in 1923. These were:

1923-1950: The initial period (1923-1929) was known as *the "limited liberal economy period"*, when cotton cultivation was on a limited scale. The following period (1929-1950) was referred to as *"the protectionist and interventionist period"*, due to heavy state involvement.

1950-1960: This period was known as the *commencement of a liberalization era*, in which state intervention was minimised, while private sector investments in cotton textiles were encouraged, together with significant liberalizations in foreign trade.

1960-1980: This was the *planned development period with import substitution and intensive industrialisation*. A steady increase in cotton production was observed, as a result of *intensive cotton cultivation with the introduction of high yielding varieties.* Between 1966/67-1992/93 seasons, cotton production was supported by *price support policies, with export levies or export subsidies* also applied until the end of 1980s, depending on supply and demand conditions. During the same period, numerous public and private investments in cotton textiles, mainly in spinning and weaving had been realised.

1980-1999: It was known as the *export oriented growth and development period*, during which

liberal policies were extensively adopted, textiles and clothing investments soared. By mid-1980s, cotton imports became a necessity due to the insufficient domestic production. From 1993 onwards, Turkey has become "a net cotton importing country". A system of *"premium payments"* was introduced in 1993, which has been continuously applied since 1998 until today.

2000-present: Period of *Turkey's transition to a strong economy*, during which domestic cotton production almost stagnated at around 900,000 tonnes level due to domestic cotton growers' inability to compete with the depressed world cotton prices, while cotton imports increased at an accelerated pace. Low prices and especially severe drought experienced in 2007/08 season brought the production to as low as 700,000 tonnes.

4.3.1.3 Development Phases in Egypt:

1822-1900: Discovery and early years of cultivation of long staple cotton

1900-1952: Heavy reliance on cotton cultivation and exports.

1952-1973: *Strict governmental control over all stages of cotton cultivation, domestic and export marketing*, with farmers being obliged to comply with a specific cropping pattern within a crop rotation system and with restrictions on area allocated to cotton. Fertilizers and pesticides were offered at subsidized prices to farmers, while cotton trading was taken over by the government starting in 1950s, after which export prices were set by government and trade was handled by public trading companies. The Alexandria Cotton Bourse was closed and the government was the only buyer of cotton at fixed prices, which were usually lower than the world price levels.

1973-1985: Continuation of the same cotton policies with *fixed domestic cotton prices* at levels as low as 1/3 of international prices, which caused drops in area allocated to cotton plantations and switching to alternative crops, fruit and vegetables. All of the cotton production (long and extra long alike) was directed to the domestic textile industry (all public enterprises) at subsidized prices, while importing cotton was completely prohibited. Cotton stocks, which were in excess of the needs of the domestic textile industry was exported.

1985-2004: *Liberalization of agricultural system* (pricing, choice of crops, marketing) started in 1987 for all agricultural crops ***except for cotton***[49] which remained under government control until 1994, when freeing the cotton sector was finally initiated with three major decisions to:

- re-open the cotton bourse,
- establish the Alexandria Cotton Exporters' Association (ALCOTEXA), and
- liberalise the domestic trade in cotton.

A reference price (a minimum price level) was introduced by the government as a replacement for the fixed price. Farmers could sell their cotton either to the public organisations or to the private traders at a price equal or above the reference price.

The cotton exporting system remained under governmental control. Governments determined the

[49] *Because of its strategic nature, the Egyptian government was reluctant to leave cotton at the hands of the private sector right away.*

minimum export price, which was set at the beginning of the season and remained fixed until the end. Export prices were mostly higher than international prices[50], which caused the accumulation of stocks at the end of almost every season, entailing storage costs and quality losses.

2004-present: *Cotton production and marketing system was completely liberalised* in 2004, in order to be more responsive to international price fluctuations. Traders set prices, negotiating first deals with farmers at the start of the season and determining their export prices in parallel with international prices.

4.3.2 Main Features Related to the CTC Value Chains of India, Turkey and Egypt

4.3.2.1 Main features related to cotton

A. Comparison of cotton production, consumption, and trade figures:

i) Comparison of cotton production figures: Within nearly 6 decades in **India,** from 1947 until the present time, the area under cultivation has increased by about 50%, while the productivity has increased by more than **5** times, and the production increase was about **8** times. A similar comparison made for **Turkey** reveals that cotton production in Turkey has shown a remarkable increase from 36 thousand tonnes (in 1945/06 season) to 900 thousand tonnes (in 2005/06 season). This represents a production increase of **22** times over the last 60 years. Production change in Egypt showed a different trend, where, initially an increase in area and production was seen from 1940s until 1970s, followed by a gradual production drop since 1980s.

Table 4.4 gives a comparison table showing cotton *area, production* and *yields* since the 1980/81 season. **Figure 4.1** illustrates that cotton production in **India** displayed a higher rate of increase than the rate of increase seen in **Turkey**, whereas in **Egypt** there has been a certain drop especially during the recent years. When a comparison is made on *yields* **(Figure 4.2)**, it can be seen that **Turkey** performed best, due to improved seeds as well as increase in irrigated area, while the increase in yields in **India** has remained moderate**,** whereas in **Egypt,** it showed a large fluctuation.

ii) Comparison on cotton consumption figures: In **India,** cotton *consumption* has increased by **5 times**, giving mostly an annual surplus for exports. The increased production has made the country self-sufficient in cotton with almost no reliance on imports until recently. However, cotton *consumption* in **Turkey** has shown a remarkable increase from 40,000 tonnes in the 1945/06 season to 1.55 million tonnes in the 2005/06 season, representing a **39 fold** increase over the last 60 years, and making the country a net cotton importer since 1993, when annual imports have accelerated almost exponentially, indicating a fast growing T&C industry. Cotton consumption in **Egypt** did not exhibit a trend similar to the other two countries, due to relatively late orientation of the country towards developing its textile industry. Cotton *consumption* since the 1980/81 season, shows almost a perfect correlation, with a parallel increase in **India** and **Turkey**, while in **Egypt,** a gradual decrease in consumption is observed in the same period **(Figure 4.3)**.

[50] *The export prices were announced by government at the beginning of each season and remained unchanged, which made it easy for competitors to undercut, often making the Egyptian export prices higher than international prices.*

iii) <u>Comparison on cotton trade figures</u>: In 1950s, **India, Turkey** and **Egypt** were all among the major cotton *exporting* countries, because their textile sectors were at infancy, which forced the surplus cotton to exports. Fast developing textile and clothing sectors, initially in Turkey in 1970s and, at a later stage in India in 1980s/90s, made the cotton exports a secondary priority, the primary strategy being to cover the raw material needs of the domestic textile sector.

Cotton *imports* became a necessity in **India** and **Turkey**, when the domestic cotton production could not suffice in meeting the demand of their respective textile industries. During the recent years, India managed to free herself from dependency on cotton imports with her move towards Bt cotton, with which a significant increase in production occurred, while Turkey remained highly dependant on cotton imports, which made her the second largest importing country after China.

Importing cotton by **Egypt** was a recent phenomenon, purely due to the government policy to import medium staple cotton, instead of using the domestic LS and ELS cotton for the production of those textile items, which do not necessitate high quality fibres, which could alternatively be exported at much higher prices.

Table 4.5 gives a comparison table on *exports* and *imports* since the 1980/81 season. **Figure 4.4** shows the comparison graphs of exports, where it can be noticed that **India'**s cotton exports remained insignificant until 2004/05 season, and then shot upwards as a result of surplus production in the recent three seasons. Cotton exports from **Turkey** and **Egypt**, on the other hand, remained almost stable throughout the period. **Figure 4.5** illustrates the trends in imports, where **Turkey** displays an accelerated increase, **India** shows a parallel follow-up up to the 2002/03 season, after which a dramatic drop occurs due to the rise in domestic cotton production. The recent policy of **Egypt** to import medium staple cotton is noticeable in the graph starting from the 2003/04 season.

B. <u>Main cotton production regions:</u>

In India, cotton is produced in three zones, namely:

- *Northern zone,* comprising the states of Punjab, Haryana and Rajasthan,
- *Central zone,* comprising the states of Maharashtra, Madhya Pradesh and Gujarat, and,
- *Southern zone,* comprising the states of Andhra Pradesh, Karnataka and Tamil Nadu.

Maharashtra and Andhra Pradesh have the leading positions in terms of area under cotton cultivation as well as production. The states of *Gujarat and Punjab* have achieved tremendous success in raising the yields significantly with the introduction of Bt as well as hybrid cotton seeds. Cotton cultivation has also gained momentum recently in the state of Orissa.

In Turkey, there are mainly three cotton production regions, namely, the Aegean region (in the west), the Antalya region (in the south-west), Çukurova regions (in the south) and the GAP region (in the south-east). Among the cotton production areas in Turkey, the Aegean, Çukurova and Antalya regions had a relatively old history of cotton cultivation. The south-eastern Region, or better known as the "GAP" Region, had gained importance during the last 15 years, in parallel with the implementation of the GAP, the South-eastern Anatolian Project.

In Egypt, cotton cultivation is mainly practiced in three different regions; namely the Delta region, the Northern region, and the Upper Nile region.

B. <u>Comparisons on cotton production practices</u>:

i) <u>Comparison on provision of inputs for cotton cultivation</u>: The cotton industry is particularly input demanding and one important challenge in cotton cultivation is to create and maintain an efficient procurement and distribution system for inputs to the smallholder producers.

In India, most of the inputs needed for the cotton cultivation, such as fertilisers, chemicals, agricultural machinery, etc., can be readily obtained in the market from the private sales points, which are located in the towns within the cotton growing regions. A large number of input cooperatives also provide most of the inputs. The National Agricultural Cooperative Marketing Federation of India Ltd., (NAFED), is the apex organization of the agricultural marketing cooperatives, supplying also inputs, such as chemicals and fertilisers.

In Turkey, inputs are largely provided by the private sector. Besides, the Agricultural Credit Cooperatives (ACCs) have an extensive network of sales points in their cooperatives for almost all the inputs, which they can provide on attractive credit terms. Similarly, the ASCUs buy the inputs on attractive prices and sell them to their members, again at prices comparable to the input markets. Most of the input sales are also on credit terms, the interest charged being lower than those charged by the commercial banks. One of the advantages of the ASCUs in selling the inputs to its members on credit terms is that through this mechanism delivery of the crop is assured after harvest, while the advantage from the growers' side is that these inputs are obtained from the cooperatives at cheaper prices and on credit without much paperwork. Those inputs which are not readily available in the domestic market are imported, either by the private distributors or by the ASCUs. The ASCUs also distribute cash credits to its members several times during the production cycle, starting from soil preparation and sowing until harvesting.

The Principal Bank for Development and Agricultural Credit (PBDAC) and the public cooperatives were the only distributors of inputs in **Egypt** before 1994. The reforms also included the liberalization of the input market as part of the goal to achieve a better cotton sector. In 1994, the PBDAC was more or less out of the distribution of agricultural inputs. In 2001, the cooperatives and private traders were the largest suppliers of inputs, but the government still kept the authority to specify each season certain varieties of cotton for each region to cultivate.

The provision of agricultural inputs for cotton production appears to be well managed and balanced within the domestic markets of all the three countries. When buying these inputs, the growers have the benefit of making price comparisons between private traders and cooperatives. Paying back the debts by the growers with seed cotton deliveries is the most preferred alternative.

ii) <u>Comparison on post-harvest handling and marketing of seed cotton</u>: In northern and western zones of **India,** sowing starts in June and ends in October, when the harvesting and marketing season commences, extending up to February. In central and southern India, sowing is

carried out in August, while the harvesting and marketing season commences in January, extending up to May. From early times, cotton trade has been organized in a fairly systematic and efficient manner. Although the trade had been at private hands, the government had intervened from time to time to ensure satisfactory prices to the growers. A number of enactments had ben introduced by various provincial governments in the 1960s and early 1970s to establish regulated markets throughout the country. Currently, there are *560 cotton-specific regulated markets* established in India.

Establishment of regulated markets in India helped reduce several unfair practices like short weights, unwarranted deductions, higher rate of commission, and other unauthorized market charges and allowances. The APMCs of the state governments establish the market yards and provide appropriate marketing and handling infrastructure in these market yards.

Recent efforts through *the Cotton Technology Mission of the Ministry of Textiles* helped in the modernization of these *market yards* by furnishing modern marketing infrastructure, like farmer information centres (online information about spot and future prices of cotton) and clean marketing and auctioning platforms. Under the regulated market enactments, cotton trading was restricted to designated marketing yards with payment fees for different services rendered by licensed players.

The premises of the ginneries were also declared as *"market yards"* for the purpose of collecting various marketing fees. It was during the recent years that cotton was allowed to be directly procured by processors without going through the designated market yards. This has helped contract farming of cotton by processors. It has also reduced transaction costs and one level of handling which reduced the scope of contamination. These changes also came through the amendments to the Agricultural Produce Marketing Committee, APMC, enactments since 2002.

In Turkey, sowing season takes place in April-May and harvesting is carried out from September through November in the Aegean region, while in the other regions, these activities start up to a month earlier. Marketing of cotton (seed or lint) has always been under free competition. Trading takes place on seed cotton at every production region during harvesting and ginning. Growers sell their seed cotton either directly to the ginning facilities or through the intermediaries, who would buy seed cotton from growers, and subsequently sell it to nearby ginners at a small profit margin. The other main players in the cotton trading market are the Agricultural Sales Cooperatives (ASCs) and their unions (ASCUs).

Market information is obtained by the growers through the local traders, local commodity exchanges, etc. This information is compared with the prices offered by the local ASCs. The growers are at total liberty in marketing their cotton through whichever channel they want. The presence of ASCs in the market as buyers of seed cotton usually makes them act like market regulatory institutions. Prices established in the local markets in seed cotton producing regions are recorded by local commodity exchanges by way of registration and made publicly available.

In Egypt, sowing season is generally between mid-March and early May, with the harvest taking

place from mid-August until the end of October, depending mainly on the cotton growing regions, which extend from the North (Delta) to the South (Upper Nile). During the times of heavy state involvement, growers had no alternative but to deliver their cotton to the public organisations. After the liberalisation of the cotton sector, the growers became free to choose the buyers of their seed cotton, which were primarily the public or private ginneries.

iii) <u>Comparison on cotton qualities</u>: Today, **India** is one of the exceptionally few countries, where all the four known species of cotton, namely; ***G.arboreum*** and ***G.herbaceum*** (Desi/Asian cottons), ***G.hirsutum*** (American upland types) and ***G.barbadense*** (Egyptian type) also hybrid cottons are cultivated. Historically, cotton cultivation in India had undergone a qualitative transformation since her independence. Until mid-1960s, India did not have any long-staple cotton because the entire production was of **medium** and **short staple** category. Since the early 1970s, there has been a radical change with new hybrid and high yielding varieties. Hybrids like H-4, DCH-32, H6 and MECH-1 were **long staple** high yielding varieties. There has been a significant change in the short, medium and long staple cottons. For example, in 1950/51 season, the composition of **short, medium** and **long staple** was **27%**, **73%** and **nil**, respectively, while currently, this ratio is **4.2% (short), 25.9% (medium)** and **69.9% (long)** varieties.

India has been extremely successful in her recent introduction of Bt cotton to cotton sector. The preparatory work, involving many research institutions and universities with extensive measures taken to ensure its safe application deserves special merit. Lastly, its initial successful field application and subsequent expansion resulted in significant yield increases, as well as assuring the sustainability of Bt cotton production in India

In Turkey, almost all the cotton grown is of ***G. hirsutum*** type ***"upland"*** cotton, whose lint characteristics proved to be especially suitable to most applications, except those which necessitated the use of yarns with very fine counts. As it is widely known, the upland cottons have the properties of high yield, medium vegetation periods and high ginning efficiency. However, despite various attempts to grow long staple cotton, it has not been successful on economic scale.

The **Egyptian** cotton is made of 16 varieties called Giza, divided into two groups of long (LS) and extra long staples (ELS). The ELS group includes **7** varieties, while the LS group has **9** varieties.

iv) <u>Comparison on cotton pricing policies and seed cotton procurements</u>: Cotton is primarily marketed by the growers themselves in the form of seed cotton in **India, Turkey** and **Egypt**, like in many other cotton producing developing countries, including China. In **India,** the government sets a ***Minimum Support Price (MSP)*** to protect the cotton growers from adverse price falls and to guarantee them with a minimum income. The main players involved in seed cotton purchasing are the private sector, the public sector and the cooperatives, respectively.

The private sector consisting of traders, owners of ginneries operating as individual business proprietors, private spinning mills, private limited companies, etc., are significant players in the seed cotton trade in India. Private merchants purchase sizeable quantities of cotton directly from

the farmers, by-passing the regulated markets by ingenious methods[51].

In the public sector, the Cotton Cooperation of India (CCI) is the *only* organisation involved in procurement and trading of cotton. It was established in 1970 to conduct primarily the price stabilization functions through the MSP operations of the government and to ensure reasonable prices to cotton growers. During the recent two decades, CCI conducted only twice significant MSP operations, while its direct involvement in the crop procurement activities had been negligibly low. However, CCI has recently started procuring cotton on commercial terms by paying premium above the MSP levels.

Most of the cotton growing states have also their *Co-operative Marketing Federations.* The Maharastra State Co-operative Cotton Growers Marketing Federation, (MSCCMGF), and the Gujarat State Co-operative Cotton Federation are both engaged in cotton only, while the other co-operative federations deal with multiple commodities**.** All India Co-operative Cotton Federation is the apex organization of co-operative marketing federations of various states dealing with cotton.

During the recent seasons, the average market prices in India, both for seed cotton (kapas) and lint cotton remained significantly higher than the MSP, for *kapas* and *derived MSP[52] for lint cotton.* It is because of this significant difference between the average market prices and the minimum support prices for different varieties that the quantity of kapas procured by the CCI has remained very small. Procurements by CCI at MSP were mostly at the beginning of cotton harvesting campaigns, when intensive arrivals of *kapas* would often depress market prices, which, in turn, would touch the MSP level for a short period of time.

The private trade has recently been procuring most of the cotton produced in the country. Their share in total procurement varies from 71% in 2004/05 to as much as 96.5% in 1998/99. CCI procures 5-10 % of the total arrivals in normal years, whereas the co-operatives procured a maximum of 17.4% in 2004/05, which was an exceptional season, when the MSCCMGF was forced to procure a very high quantity of seed cotton by paying a premium over the MSP.

In **Turkey,** the Government in 1966/67 decided to introduce ***a price support mechanism***, which would be implemented through the Agricultural Sales Cooperatives Unions, the ASCUs. In this mechanism *a base price*[53] would be declared by the government, which would be the price at which the ASCUs were ready to receive seed cotton deliveries from their cooperative members and non–members. The ASCUs were also authorised to gin, bale, store and sell the lint cotton and the by-products (cotton seed, linter, hull, etc.), with all the activities being carried out on behalf of government (Treasury) account i.e. the profit or loss occurring at the end of the crop season would be on Treasury accounts. Any profits made could be distributed to members after approval from the Treasury[54]. With this system the cotton growers were largely protected from adverse price

[51] *The method is to transport and hold the cotton in the name of farmers, instead of taking ownership as traders*
[52] *The derived MSP for lint cotton is the lint cotton price obtained by calculation from the MSP for seed cotton.*
[53] *In the case of cotton, base prices were set for Std.1 (Aegean) and for Std.1 (Çukurova) seed cotton, respectively.*
[54] *It goes without saying that if cotton procurements were to be made on cooperative accounts, the profit or loss would*

developments since they were, in a way, guaranteed with a support price.

The support price system had continued until the 1992/93 season, except from 1988/89 until 1990/91 seasons. At the beginning of 1993/94 season, when the cost of production was much above the world market prices, the government introduced a new procurement system, which was totally different from the above mentioned MSP system. According to the new system, the growers were entitled to get a *premium payment*[55] from the government[56], on the basis of seed cotton deliveries to the ginning plants. This premium was incorporated with the aim of *compensating the difference between the target price and the world market price.* Thus, the aim of the direct support was to relieve the cooperatives from the additional burden created by the price support mechanism, as well as to make cotton competitive to the traders and to the spinners, especially when the world markets were significantly below the cost of production.

No premium payments were made between the 1994/95-1998/99 seasons, simply because world cotton prices did not necessitate such a support. Since the 1998/99 season, the government decided to *re-introduce the "Premium Payment System"*, which has remained in practice until today.

The application of the price support policies from mid-1960s through early 1990s had been very effective for the creation and sustainability of a healthy cotton economy in Turkey, at a time when most of the other major cotton producing countries were also implementing similar support measures. At the absence of the above mentioned price support measures, the sustainability of cotton production in Turkey would have been at jeopardy. Furthermore, so long as the cotton prices continue to remain highly depressed, it would be too optimistic to expect this unfavourable trend to change its course in Turkey's production prospects for cotton.

In Egypt, the government priced cotton until 1994, when *a minimum price level (or a guaranteed price)* to farmers was introduced. The cotton growers were allowed to sell their cotton at any price they could get. However, these guaranteed prices initially did not fully satisfy the growers. This is one of the major factors causing the production drop in Egypt after mid-1990s. On the other hand, when the guaranteed prices were higher than the exportable prices, a *deficiency payment* had to be introduced to make the exporters competitive. These deficiency payments would also apply to the domestic spinners, so that cost of locally produced yarn would not be raised unnecessarily owing to increased cotton prices, caused by the guaranteed prices. The presence of both small and large *private traders* gradually increased as they saw profit making opportunities in parallel with government encouragements to the private sector for their entry into the seed cotton markets.

Revisions of the pricing and marketing policies were made in Egypt in the recent years, in an attempt to fully liberalize the cotton marketing and trade. Since the 2004/05 season, the minimum support price system has been discontinued. The role of the Principal Bank for Development and

naturally fall on the cooperatives themselves. This form of support was also recognised to some other agricultural commodities to which various ASCUs had been engaged, including olive oil, dried grapes, e tc.

[55] *The premium for the 1993/94 season was set as 3000 TL/kg.*

[56] *Through the state owned Agricultural Bank*

Agricultural Credit had been significant in the liberalisation phase of the seed cotton trading by providing physical marketing environment (rings) where seed cotton could be traded between growers and the public or private buyers, traders, ginners, spinners, etc.

For lint cotton exports, a system of minimum export price had been introduced. The determination of export prices was left to the authority of the ALCOTEXA**.** Although there is a certain advantage in maintaining such a pricing system in exports, there would be certain periods of time, when these prices would not be workable due to falls in international cotton prices, which would make cotton exports uncompetitive, and there would be a built-up of cotton stocks, which could, in turn, create additional burden on the stock holding enterprises, as it was the case in the autumn of 2002[57].

It can be concluded from the above that the involvement of governments in India, Turkey and Egypt in supporting cotton growers with a minimum support price (guaranteed price or base price) were all decisions in the right direction. However, provision of subsidies to cotton exporters would also become a necessity if and when the guaranteed prices lead to uncompetitively high lint cotton prices, which would make exporting uncompetitive (the case of Egypt). Turkey's adoption of a direct support system in the form of "premium payments" in a way, eliminated the necessity of giving such a subsidy, since the main purpose of the premium payment was to give an income support to the cotton growers (on top of the prevalent market prices), while leaving the cotton prices unaffected from such a support (i.e. not affecting the lint cotton prices, which would be paid by the spinners or by cotton exporters).

v) <u>Ginning and pressing (baling)</u> : In India, the total number of ginning and pressing installations in the 2001/02 season was 3342, of which 2318 mills were exclusively ginning mills, 122 exclusively pressing mills and the remaining 902 mills were composite mills having both ginning and pressing facilities. Apart from these functioning mills, there were also 673 closed mills. The number of saw-gin installations was 177 in total, while the remaining facilities were with roller-gin units. Most of the roller gins (single or double roller) had small number of ginning machinery, making them inefficient and costly. According to the experience of India, the roller-gins were more suitable for ginning superior/medium long staple cotton, while the saw-gins were preferred for ginning short and medium staple cotton. The saw-gins had auto-feeder mechanisms, as well as built-in facility for pre-cleaning, all of which contributed to the reduction in contamination, as a result of reduced human contact and handling. Most of the saw-gins were in the Northern Region of Punjab, Rajasthan and Haryana.

Depending on the crop size, these ginneries operated between 4-9 months each season. Nearly 70% of the ginning mills did not have any method of maintaining moisture content of the cotton, which is critical in obtaining good fibre properties in the lint cotton. Furthermore, 48% of the ginning mills did not have any pre-cleaning facilities in their premises. Around half of the pre-cleaning installations date prior to 1985. 85% of the cotton was manually carried from the storage

[57] *In the fall of 2002, there was a massive carry over stock at the hands of public sector trading companies – estimated at 115,000 tonnes. (Source: Egyptian Cotton Sector Strategy, CSPP Report No.: 113 , May 2003)*

point to the ginning mills. *These unfavourable conditions of the ginning installations lead to the government's decision to modernise the ginning factories through Mini Mission IV of the Technology Mission on Cotton (TMC).*

In Turkey, there are currently around 600 roller-gin plants. Recent investments by Tariş in saw-ginning facilities in Aydin, Söke, Menemen and Denizli cooperatives enabled significant increases in saw-ginned cotton. Similarly, Çukobirlik also has a good saw-ginning capacity with 29 saw-gin units in 7 cooperative locations. Most of the roller-gin units are very old, but because of their simple technology and robust construction, they operate with no major problems. They are also preferred because of their ability to preserve the original fibre lengths. Saw ginning is preferred because of its ability to produce much cleaner lint and its superior performance in ginning seed cotton with rain moistened/damaged or with high thrash content. Recently, many roller-gin installations were equipped with pre-cleaning devices, which has given satisfactory results in reducing thrash content even in machine picked cotton. Ginning and pressing plants are being controlled in accordance with the Regulation on *"Cotton Controls"***,** which has been in force since 1953. Ginning and pressing plants, their warehouses and activities are controlled by the standardisation inspectors employed by the General Directorate for Standardization in the Undersecretariat of Foreign Trade (UFT).

In **Egypt,** only the roller-gins have so far been installed, the ages of most of the gins being as old as 100 years, since most of them were installed in 1905. Currently, there are 64 ginning factories, which had been nationalised in 1960s, when these 64 ginneries were consolidated into 5 public companies. At the privatisation campaign adopted in mid-1990s for the public companies, two factories from each ginning company (a total of 10 factories out of the total 64) were renewed to encourage the privatisation. However, only 2 of these 5 companies have so far been privatised. Those ginneries, which have remained public, are still working with the old technologies; while the privatized 2 companies have made few new investments to upgrade their ginning operations.

Ginning outturn in Egypt varies according to the cotton variety and to the season. The average ginning ratio is around 40%. Cotton Arbitration and Testing General Organisation, (CATGO), which is a public entity, determines the ginning outturn factor for each cotton variety.

vi) <u>Classing and grading of lint cotton</u> : For classing and grading operations, in **India,** the East India Cotton Association Limited is a leading cotton organization established in 1921. It is *private* and represents buyers, sellers, brokers, exporters, importers, cooperatives, textile mills, etc. Over the years the Association has developed facilities for arbitration and settlement of all types of commercial disputes, preparation and maintenance of grade and staple standards for all commercial varieties, fixation of daily rates for major varieties, fibre testing laboratories and collection and dissemination of statistical data.

In Turkey, the official regulation related to cotton classification, quality criteria and standards dates back to the year 1953. Since then, a number of regulatory changes have been made to accommodate the developments and changing conditions in domestic and international markets.

According to current official standards, cotton is classed, based on three different parameters, which are *fibre length, colour grades and thrash content*, and lastly *the production regions*.

In Egypt, cotton classing and grading is under the responsibility of the Cotton Arbitration and Testing General Organisation, (CATGO), which has all the facilities to class cotton and handle arbitration disputes. The Cotton Research Institute, also a governmental organization, has nine research stations; one of which is called the Cotton Grading Research Section, undertaking research mostly related to fibre quality characteristics.

vii) <u>Cotton contamination</u>: In **India,** contamination had been a very serious problem especially in 1990s. There was also a high percentage of thrash (4%-7%) in the seed cotton *(kapas)*, despite being handpicked. Although the Bureau of Indian Standards (BIS) had set certain specifications for maximum permissible thrash content for different staple categories, which ranged from 3% to 6%, these thrash limits were soon obsolete due to the more stringent requirements of today's quality yarn and fabric manufacturing. India had identified a wide range of contaminants (over 25 types) in Indian cotton.

Due the sustained campaign of the Best Management Practices by farmers, auctioneers, ginners, etc., and successful implementation of the modernization of the market yards, ginning and pressing mills under the Cotton Technology Mission, the quality of harvested cotton has improved significantly in terms of reduced trash and contamination in Indian cotton.

In **Turkey,** the problem of contamination has been significantly minimised by the use of collection aprons, bags, large sacs, etc., made of 100% cotton or by encouraging the growers to deliver their seed cotton in bulk, in specially constructed wire-net containers mounted on the agricultural trucks, which transport the seed cotton to the ginning plants. Recently, a government decree was also put into force, which required the formation of inspection teams at cotton production areas, where these teams had the power of taking legal action against those who gave rise to contamination. Parallel to these measures, a great deal of effort has also been made to educate those involved in the production, harvesting, transporting, ginning, pressing and storage stages. It is believed that with the increased use of harvesting machines, which had been inevitable due to the highly costly hand-picking, the contamination problem has also been reduced considerably.

Egypt also suffers from the problem of contamination. For a long time, a special manual operation named *"farfara"* had been practised, which enabled the removal of foreign material, at the same time provided an opportunity to blend and produce cotton bales with uniform quality, mainly for exports. This procedure, although costly, is still practiced by some exporters. The government is also taking various measures to minimise the sources of contamination.

viii) <u>Price risk management in cotton</u>: In **India,** forward trading in cotton and other commodities is regulated through the Forward Contract Regulation Act (1952), according to which all forward cotton contracts have to be entered between members of recognized associations or between such a member and a non-member. Contracts entered between two non-members are not

legal. The rules and regulations of the recognized associations have to be approved by the Forward Markets Commission (FMC) under this act. Presently, there are ten such recognized Associations, which cover almost the entire cotton production areas. The above mentioned act prohibited the trading in cotton options, but trading futures contracts for hedging purposes were permitted in 1953 and withdrawn in 1966, due to constant increase in prices as a result of persistent shortages in cotton. It was only after the regime of economic liberalization and reforms, which started in the early 1990's that prompted the FMC to allow forward trading in most commodities, including in cotton. On December 5, 1998, the FMC allowed the East India Cotton Association to trade in cotton futures in Mumbai.

The opening of a cotton futures market in Izmir, **Turkey** had been in the agenda since the beginning of 1990s[58]. The regulatory framework was completed in 2001, after which the formation of the exchange (TURKDEX) took place, not only in commodities such as gold, wheat and cotton, but also for the financial instruments, namely the futures contracts in currencies, interest rates and equity indices. Since the opening of the futures exchange in February 2005, the trading volume in commodities, especially in cotton and wheat, has been negligibly low. It is widely argued, however, that the main factor behind the inability of the cotton futures trading to take off the ground is the fact that the futures contracts in commodities were not based on "physical settlements". The futures tradings in the financial instruments, however, have so far performed extremely well.

Egypt has the reputation of having the world's oldest cotton futures market which was established in Alexandria in 1861[59]. It had also been the longest running cotton futures exchange after New York Cotton Exchange (NYCE), when the former was closed down in 1961, as a result of nationalisation of the cotton sector in Egypt. The Alexandria Cotton Exchange opened again in 1994, but with no futures trading activity.

4.3.2.2 Main features related to textiles and clothing sectors

A. <u>Main features related to textiles and clothing sectors of India[60]</u>:

Basic data on the textile sector in India is as follows:

- Contributes 14% to the total manufacturing production in the country,
- Provides employment to 88 million persons in various activities,
- Cotton cultivation, ginning and pressing components alone employ 37.6 m persons,
- Almost 50 million persons are employed in cotton related spinning, weaving, processing and clothing components of the value chain,
- Textile exports account for 20.70% of India's total exports in value terms,

[58] Gazanfer, S.: *"An Overview of the Turkish Cotton Industry, with Special Emphasis on the Available Tools and Techniques of Price Risk Management"*, ICAC Research Associate Programme (2004).

[59] Baffes, J.: *"History of Cotton Futures Exchanges" ICAC, Research Association Programme, 2004*

[60] *For a more detailed account, the reader is referred to: Sahu, M.: "Analysis of the Cotton Value Chain of India and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO Report: TE/RAF/06/012/11-52, Jan.2007.*

- Cotton textile exports alone make up about 60% of the total textile exports,
- The power loom sector has a share of about 65% in the textile production, while the number of spinning mills has almost doubled during the 1991-2005 period.

The demand for fabric comes from three different segments of the market, namely the household demand, non-household demand and demand for exports. In the Eleventh Plan Period, the growth in the fabric production was adopted at 12 %. But the growth rate for apparel and clothing was set at 16%. Based on the above growth rates, the market size of the textile industry was expected to reach US$ 115 Billion, with exports at US$ 55 Billion and the domestic market US$ 60 Billion by 2011.

India's clothing sector is largely export oriented, contributing about 45% to the total T&C exports. It is a low investment and highly labour intensive industry segment[61]. Cotton fabrics have so far dominated the clothing sector of India, covering about 80% of the domestic and the export markets, followed by 11% by man-made fabrics and 2% by woolen fabrics. *Knitted clothing products have emerged* as the faster growing market segment compared to the woven garments.

B. <u>Main features related to textiles and clothing sectors of Turkey</u>:

The textile and the clothing sectors have maintained its importance for many decades in Turkey. Although the share of the sector within the Turkish economy decreased as a result of the development of other sectors, such as the automotive industry, iron and steel and chemical industries, it is still on a growth path when analysed from the point of value addition. Below are some parameters which can be presented to give an idea about the importance of the T&C sector, which shares;

- 7.8 % of the GNP,
- 19.9% of the industrial production,
- 18.4% of the manufacturing industry,
- 13.6% of the total employment,
- 23.9% of the manufacturing industry employment,
- 23.0 % of the total exports

When judged by the production capacities, Turkey is currently the 4th largest yarn producer in the world, with 6.5 million short staple and 745,000 long staple spindles, as well as 552,000 open-end rotors (see also **Table 4.6** for a list of major spinning capacities in the world). This capacity is around 52% of EU's total spinning capacity. In weaving, Turkey has the 7th largest loom capacity in the world with 55,000 looms, most of which being less than 10 years old and which is around 43% of total EU weaving capacity. The above given shares clearly indicate that the textile and clothing sector is still a key industry. In broad terms, Turkish tekstile and garment sectors have different structural characteristics. The textile sector is:

- composed of large size enterprises,
- generally characterised as capital intensive,

[61] *It was reported that for an investment of about 2300 US$, 6-8 jobs can be created (SAHU, M. (2007))*

- furnished with good information/infrastructural base,
- run by strong corporate structure,
- is composed of 2000 companies, with a total of around 500,000 employees,

On the other hand, the clothing sector is:

- generally composed of SMEs,
- highly labour intensive, with mostly female workforce,
- composed of 30,000 enterprises,
- mostly with inadequate information/infrastructural base,
- run by small management teams with fast and flexible decision making capacities,
- a source of employment for about 2.5 million employees.

Under today's fierce competition and within the recently developing concept of *"fast fashion"* in the T&C sector, Turkey, with her strengths, such as well integrated production and marketing structure enabling the production of more value added products, close proximity to main markets, quick response, etc., appears to be among the few countries able to meet the future challenge. The development of exports of textile and clothing products has been analysed in detail elsewhere[62], but it would be appropriate to state here that in 1980 the total exports were just below US$ 800,000. This figure was US$ 4.3 Billion in 1990, US$ 10 Billion in 2000 and in 2006 it was US$ 19.6 Billion. The increase in textiles and clothing exports has displayed an exponential trend since 1980. Since mid-1980s, the clothing exports have exceeded the textile exports, and in 2006 clothing exports accounted for almost 70% of total T&C exports. Germany, the UK and the USA are the leading export destinations for clothing items, while for textile products the leading importing countries are Italy, the Russian Federation and Germany. When analysed on product group basis, it is interesting to note that the exports of knitted clothing items account for 51.2 %, woven items 34.7% and the ready-made articles 14.1%. In the exports of textile items, cotton fabrics, both woven and knitted account for around 60% of the total, while the remaining items are made of synthetic fabrics.

As new supply models are being developed on regional bases, especially the European ready made garment retailers, who, in order to become competitive and meet the expectations of the consumers, have been forced to identify their business partners and procurements, according to the priorities based on shortened duration between product supply and market entry. In the new supply model, not only prices but also *product quality* and *social standards* define the terms of competition. Production concepts, which respect the social, environmental and human health standards, together with fair trade practices, have gained importance in the recent years. These developments have placed Turkey at a more advantageous position among her competitors, thanks to the Customs Union with the EU in 1996 and to the intensive business relations which have been

[62] *Gazanfer, S.: "Analysis of the Cotton Value Chain of Turkey and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO Report: TE/RAF/06/012/11-53, Jan. 2007.*

developed since then, enabling the sector's strict adherence to and acceptance of the above mentioned concepts.

It is expected that the Turkish textile and clothing sector will continue its successful development in the future as well, taking into consideration the following factors:

- The presence of young population, which can easily receive the desired training,
- Ability to produce promptly even the small orders,
- Increasing importance given to productions under own brands,
- Expansion of marketing and distribution networks in foreign markets,
- Diversifying production to *"technical"* or *"intelligent"* textile products, supported by R&D facilities,
- Expansion of present markets, as well as developing new potential markets,

It is also expected that the recently established Textile Technology Platform will contribute significantly to making Turkey sustain even improve her competitive structure, with the support of research and development, as well as high technology by producing higher value added, environment sensitive products. Based on the forecast that in 2010 world total trade in T&C will be around US$ 500 Billion, the target of the Turkish textile and clothing exports for the same year is around US$ 30 Billion, which represent about 50% increase from the 2006 figure of US$19.6 Billion.

C. Main features related to textiles and clothing sectors of Egypt:

Main features of the T&C sectors of Egypt are briefly summarised below[63]. Egyptian T&C sector;

- is the oldest industry,
- accounts for 27% of the country's industrial production, thus ranking second largest industry, following the processed food sector,
- contributes 11% of manufacturing GDP and approximately 3% of the total GDP,
- provides employment to a million workers (approximately 43% of industrial labor force),
- is also export oriented (around US$1.4 billion) representing 24% of total non-oil Egyptian exports; with the main export markets being the US and the EU (40% and 38%, respectively).

A total of 4535 enterprises (27 public and 4508 private) operated in the Egyptian T&C industry. The share of public/private sector in the industry varied according to the different stages of textile and clothing operations. Public enterprises were actually huge investments focused in spinning and weaving (90% and 60% of total capacities, respectively) and vertically integrated involving all functions, with clothing facilities added relatively recently. The clothing industry, on the other hand, was genuinely dominated by the private sector (60% knitting and 70% woven). Beside

[63] For a more detailed account, the reader is referred to: Abla, A.L.: ***"****Study and Evaluation of the Egyptian Textile and Clothing Industry – Lessons drawn for the promotion of the Cotton Sector in Cotton Producing West and Central African States"*. UNIDO Report: TE/RAF/06/012/11-51, January, (2007).

clothing and made-up textiles, the private sector had recently been trying to enter the textile investments as well, such as the production of yarns, fabric, dyeing and finishing. However, most individual private investments usually tended to be generally disintegrated, involving one or two stages of production only[64].

Export performance clearly indicated predominance of the private sector, with a share of 62% in T&C exports (46% garments and 16% carpets and other made-ups), while textiles exports (fibres, yarns and fabrics) represented 38% of total T&C exports, most of which, being realised by the public enterprises. Garment exports, mainly destined to the US and the EU had increased sharply[65] in the last few years due to the active involvement of the private sector and also due to the Qualified Industrial Zones agreement (QIZ), signed between Egypt, the US and Israel. Main export markets for the Egyptian home textiles was the EU, followed by the US, in 78% and 22% shares, respectively. Most of the exports were in basic constructions, while the printed bed linen which was the bulk of home textile production in the world was non-existent in Egypt, due to poor dyeing and finishing, limiting the export figure for the year 2005 at around US$ 120 Million.

Fabric exports had decreased by 44% between the years 2000-2006 due to existing problems in production capacity and quality. However, recent regional trade agreements, such as the Aghadeer and the Free Trade Area (FTA) with Turkey were expected to create potential demand for Egyptian products, especially with the accumulation of origins which will give partner countries duty free access to the EU markets, for which quality improvements would be of urgent necessity. A number of contradictory or adverse features have also been reported, which can be summarised as follows:

- Having mostly access to the more expensively priced LS and ELS cotton, the Egyptian spinners could not produce reasonably priced *coarse* and *medium* count yarns, which were needed for manufacturing fabrics with medium to heavy weight construction. Similar drawbacks could be seen in clothing production. In fact, it was also considered irrational to use long staple cotton for low count yarns when it was most suitable for production of expensive finer count yarns. This drawback was considerably overcome by allowing imports of cotton with short to medium staple lengths.
- Egyptian spinners, on the other hand, could not use the available ELS/LS cotton for the exclusive production of fine count yarns of very high quality due to mostly inefficient and outdated textile equipment.
- Public enterprises dominating largely the textile and to a lesser degree clothing sectors suffered from significant overstaffing and cumulative losses. The companies lacked the necessary finance for the capital investment, mainly because their cash was being consumed by the excess labour, making cost of production costly and inefficient.

[64] *This is a parallel observation with the case in Turkey, where also the private sector does not choose to enter vertically integrated investments, especially in weaving component.*

[65] *Total garment exports in 2005 was US$ 918 Million and Jan-Jul 2006 figures indicated that in 2006, the US$ 1 Billion will be exceeded.*

- Keeping public enterprises in spinning, weaving, dyeing and finishing, under governmental ownership, had always been a controversial issue in Egypt, especially due to the huge levels of employment in these enterprises and the potential provocation of massive unemployment in case of privatisation or liquidation. Furthermore, because the privatisation process was generally very slow, no new capital investments had been introduced since early 1990s, making the production technology outdated and inefficient. Delays in privatisation had already rendered these public enterprises even more unattractive to most investors.
- The *private* dyeing and finishing facilities, on the other hand, represented around 60% share of the total and it had undertaken major investment schemes during the recent years, enabling them to modernize and upgrade their dyeing and finishing facilities.
- *The private clothing operations* were run by a wide spectrum of mostly small enterprises. Facilities ranged from enterprises with simple primitive sewing machines, to very sophisticated modern equipment. The majority of small sized companies worked for the protected local market. Only a limited number of medium and large sized companies exported directly to various foreign markets. While benefiting from Egypt's major advantage in cheap labor, these companies were able to adopt the latest technology in all phases of clothing production, including pattern making, spreading, cutting, sewing, packaging and the quality management at all levels. Other small and medium size enterprises, which could directly export by themselves, tended to export through Egypt's limited number of private trading companies.
- One of the major constraints on the progress of the clothing industry, especially for those aiming at exports, was the limited supply and poor quality of locally produced accessories.
- Egypt's export networks include, brand named apparel companies, garment contractors, overseas buying offices, trading companies, and a few international trade and distribution networks. Very few trading companies were specialized in exports, some of which were also experienced enough to address the needs of the EU and US markets. These companies were responsible for guiding producing enterprises to the requests of buyers in export markets.

For the future development of the Egyptian textile and clothing sectors, the suggestion was that Egypt should fully exploit her potential strengths in the low cost production areas, the existence of the full supply chain within the country, the duty free market access to European and the US markets, as well as Arab and African countries, through various international, bilateral and regional agreements[66].

While the recently implemented policies, particularly those starting from 2004, had a positive impact on increasing Egyptian clothing exports and encouraged new investments in the sector, the

[66] Abla, A.L.*: "Study and Evaluation of the Egyptian Textile and Clothing Industry – Lessons drawn for the promotion of the Cotton Sector in Cotton Producing WCA States".* UNIDO Report: TE/RAF/06/012/11-51, Jan.2007.

disintegration of the value chain, however, still remained as a serious problem, which necessitated new strategies for the future development of the industry.

4.3.3 Comparison of Institutional Support Systems Related to Cotton and Cotton Textile Sectors in India, Turkey and Egypt

4.3.3.1 Institutional Building in India:

A. Related to Cotton Production:

i) Indian Council for Agricultural Research (ICAR): ICAR has the mandates to co-ordinate agricultural research and development programmes. ICAR has established various research centres and has set up numerous agricultural universities. It has also conducted *the Technology Intervention Programmes.*

ii) National Research Centres (NRCs): Problems are attempted to be solved by a "mission approach"[67]. The Central Institute for Research on Cotton Technology (CIRCOT), Mumbai, established in 1924, is one such National Research Centre exclusively for cotton.

iii) National Biotechnology Board: With the establishment of this board in 1982, biotechnology was given a boost, which prompted the Government to establish a separate Department of Biotechnology in 1986 to oversee the development of biotechnology application projects, demonstration of proven technologies and training of human resource in India[68].

iv) Directorate of Cotton Development, Department of Agriculture: This organisation is responsible for the development of high yielding and other cotton varieties, better post harvest practices, etc, developed by the ICAR research institutes and others to the cotton growers in the country. For ensuring supply of better quality seeds to the cotton growers it coordinates with the National Seeds Corporation and other provincial public sector seed companies as well as private seed growers.

v) Cotton Cooperation of India (CCI): It is the nodal agency for carrying out the MSP operations in cotton, as well as for implementing Mini Mission-III and Mini Mission–IV.

vi) Mission Directorate, Cotton Technology Mission: The CCI, which is the nodal agency for implementing Mini Missions III and IV, has created a mission directorate within the

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[67] *Conducted by a team of scientists under a single leader related to resolving national problems encountered in agricultural sector*

[68] *The Government of India has laid out an extensive infrastructure for research, comprising 31 agriculture universities, 204 central and state universities, and more than 500 national laboratories and research institutions. The Department of Biotechnology published the rules and procedures for handling GM organisms first in 1990, with subsequent revisions made in 1994 and 1998, which ensured an effective evaluation of transgenic plants before they were given clearance for release in the field. Safety guidelines for recombinant DNA research and development were made by the Recombinant DNA Advisory Committee set up by the Department of Biotechnology. Regulatory mechanism for the development and evaluation of transgenic as per the recombinant DNA safety guidelines was based on a three-tier system with the Institutional Bio Safety Committee (IBSC), Review Committee on Genetic Manipulation (RCGM), and Genetic Engineering Approval Committee (GEAC). India, through its GEAC, approved its first GM crop (Bt cotton), to be grown on a commercial scale in March 2002. As of 2005, a total of 20 Bt cotton hybrids had been approved for planting in different zones of the country.*

organization exclusively for the implementation of these missions.

vii) The Cotton Advisory Board: It is the representative body of various interest groups like Government agencies, cotton growers, textile industry and trade. It generally advises the Government on matters pertaining to production, consumption and marketing of cotton and also provides a forum for liaison among the above mentioned interest groups

B. <u>Related to Cotton Textiles and Clothing</u>:

The Ministry of Textiles has a number of R&D and Technology Centres to provide institutional support to different stakeholders involved in the value chain of cotton:

i) Textile Research Associations (TRAs): There are 8 Textile Research Associations, which function under the technical and financial support from the Ministry of Textiles. They are private bodies, promoted by the textile industry for carrying out research and providing various services like consultancy, testing and training.

ii) The Office of Textile Commissioner, Mumbai: It is the nodal field agency of Ministry of Textiles, for coordinating all aspects of modernization of the Indian Textile Industry under the TUFS. It has institutionalized mechanisms for getting the appropriate feedback from all the stakeholders in the cotton value chain as well as collecting all the statistical data related to the cotton and cotton textile sector in the country.

iii) Textile Committee, Mumbai: This committee is a statutory body set up under the Textiles Committee Act of 1963. Its main objective is *to ensure quality of textiles and textile machinery both for exports and domestic consumption.* The Committee is headquartered in Mumbai, with 30 Regional Offices, 18 of which have laboratories, including 9 for eco testing. The Committee undertake, assist and encourage scientific, technological and economic research in the field of textiles, as well as in eco-friendly textiles. The Committee collects cess @ 0.50 % ad valorem, from the textile manufacturers and textile machinery manufacturers (excluding the handloom and power loom industry) and deposits it into the *Consolidated Fund of India.* The amount of cess collected in 2004/05 was Rs.497 million. The Government allocates a grant to the committee to conduct its above mentioned activities in lieu of the cess collected by the Central Revenue Authorities.

It should be noted that collection of cess from the manufacturers of textiles and textile machinery for the purpose of financing research activities in textiles appears to be an appropriate action practised by India. A similar financing arrangement had also been set up in Turkey, where the Exporters' Associations, apply a much smaller margin, (0.05-0.1%) ad valorem of exports. The amount collected is used mainly for the export promotion activities.

iv) All India Exporters' Chamber (AIEC): It is the oldest voluntary body of Indian exporters' established in 1959. The AIEC provides the Indian exporters with an opportunity to explore and expand the overseas markets, while at the same time assists the foreign buyers to identify the Indian exporters that are capable of meeting their requirements. The Chamber also

deals with the key aspects of trading, particularly contract sanctity, finance and arbitration[69].

v) Federation of Indian Export Organisation (FIEO): It is a non-profit organization, set up by the Ministry of Commerce in 1965 to co-ordinate and focus the efforts of all organizations in the country engaged in export promotion. It has also become a key player in the promotion of trade, investment and collaboration (see **Box No: 4.1).**

Box No 4.1: Federation of Indian Export Organisation (FIEO)[70]:

It is a-non profit organization set up by the Ministry of Commerce in 1965 to co-ordinate and focus the efforts of all organizations in the country engaged in export promotion. It has also become a key player in the promotion of trade, investment and collaboration. FIEO:

- *represents the interest of the exporting firms, consultancy firms, service exporters, banks, export management training institutes etc.,*
- *provides a unique platform to the businessmen dealing in multiple products, since membership is offered to exporters dealing in various goods and services and nearly all the products fall under its area of responsibility,*
- *has a well established network throughout India, with branch offices in major cities, in addition to its head office in New Delhi,*
- *works as a partner of the Government of India in providing inputs on various trade policy issues and also acts as a a strong linkage between the Government and the Industry,*
- *organizes capacity building courses as well as international activities to give its members a global understanding,*
- *assists importers in locating potential exporters,*
- *establishes strong links with counterpart organizations in several countries as well as international agencies to enable direct communication and interaction between India and world businessmen,*
- *has bilateral arrangements for exchange of information as well as for linkages with several overseas chambers of commerce, trade and industry associations,*
- *has access to information/data originating from UN bodies and world agencies like IMF, ADB, ESCAP, WB, FAO, UNIDO, UNCTAD, ITC, etc.*

vi) Export Promotion Councils (EPCs): EPCs are also non-profit organisations established on sub-sectoral basis and administered by an executive committee, composed of the representatives both by private exporters and government appointed officials[71]. There are around 20 such EPC's, ranging from T&C to certain food products, engineering products, services, etc. EPC's related to T&C products are established under the Ministry of Textiles.

4.3.3.2 Institutional Building in Turkey:

A. <u>Related to Cotton Production</u>:

i) <u>The Agricultural Sales Cooperatives Unions (ASCU's)</u>: The ASCU's were established after 1935. Those dealing in cotton are **Tariş, Çukobirlik** and **Antbirlik.** Basically, cotton growers would unite to form the Agricultural Sales Cooperative (ASC) in their vicinity, and then, a federation of ASC's, which is an ASCU. A total of 16 ASCUs have been established so far in various commodities. These cooperative organisations have been actively engaged in buying the agricultural commodities and after basic manipulations, selling the final products in domestic and

[69] *Further information can be obtained from: http://www.aiechamber.com/*
[70] *Compiled from FIEO web page: www.fieo.org*
[71] *The EPCs are partly similar to the Exporters Associations in Turkey which are established under the Undersecretariat of Foreign Trade and formed in major export product groups. However, the administration is composed of board of directors, all of whom elected from the exporting companies.*

export markets. The ASCU's have been successful in implementing government support policies. When working on their own account, they are still the largest single buyers of commodities in which they operate. In the case of cotton ASCUs, they individually procure between 20-50% of the crop in their respective regions, seasonal procurements varying between 15-30% of the total crop. The ASCU's also provide agricultural inputs to their members at attractive terms.

The ASCUs have undergone a restructuring process since the year 2000, in an effort to make them autonomous, efficient, competitive and self financing entities. However, it has been a source of criticism that *decreasing the agricultural subsidies has made many commodities uncompetitive in world markets.* Consequently, it has been argued that the restructuring of the ASCUs caused these organisations lose their former strengths in the domestic and international markets, rendering them also unable to properly protect their members' interests.

ii) Agricultural Credit Cooperatives Unions (ACCUs): The ACCs and their central Union were established according to Law No 2836 in 1935. The purpose of the ACCs and their unions was to meet the agricultural input needs of their member farmers at attractive terms. The ACCs and ACCUs compete in the market with the private sector firms, which also provide inputs as well as with ASCUs. This competition creates a competitive market for the agricultural inputs, which are mainly fertilisers, chemicals, machinery, etc.

iii) Izmir Mercantile Exchange (IME): Established in 1891, the IME today houses physical trading platforms mainly for cotton and dried fruits, such as dried grape, dried figs, etc. Cotton is traded every working day lasting 10 minutes in a round pit by an "outcry" session among the brokers, representing the buyers and traders. Daily cotton prices established in the exchange are put on IME's web page[72]. The exchange also acts as an arbitration body for the conflicts which may occur between the buyers and sellers.

iv) Nazilli Cotton Research Institute (NCRI) and Agricultural Research Institutes: Presently, the NCRI is the only cotton research institute active in the country although in many parts of the cotton production regions, field research and field testing on cotton are being conducted by the general purpose Agricultural Research Institutes (ARIs). Both the NCRI and the ARIs are all directly linked to the Ministry of Agriculture and Rural Affairs, (MARA). New seed varieties are developed and certificated by NCRI, as well as joint research projects are conducted on the Integrated Pest Management (IPM), yield improvement, fibre quality improvement, developing early varieties, etc.

iv) University Faculties on Agricultural Technology and Agricultural Economics: There are around 20 universities in which agricultural engineering, agricultural technology and agricultural economics are taught. Extensive research and development work is conducted on cotton in at least five of these faculties, mainly in those which are situated in cotton production provinces, such as Izmir, Aydin, Adana, K.Maraş and Ş.Urfa.

[72] ***www.itb.org.tr***

v) National Cotton Council of Turkey (NCCT): The establishment of a national cotton council in Turkey had been a longstanding issue of the cotton industry circles since the end of 1990s. The Founding Executive Board of the National Cotton Council, which had been formed in 2000 as an NGO, had been working towards gaining official recognition. It was only after the new Agriculture Law, passed by the National Assembly in April 2006, in which a provision for the establishment of commodity councils had been foreseen that the procedure for the establishment of the NCCT gained impetus. Following the completion of the necessary legal procedures, and holding the first general assembly in December 2007, the new Executive Board was ultimately elected. It is expected that the newly formed NCCT, will soon start conducting its activities, which are essentially related to production, consumption, marketing, research and development as well as promotion of cotton at national level.

B. Related to Cotton Textiles and Clothing:

i) University faculties/schools on textiles and clothing: In Turkey, there are 12 textile engineering faculties giving degree courses in various universities. These faculties also conduct various research projects identified jointly with the T&C industry. Besides vocational textile schools, garment schools, fashion schools and vocational high schools provide specialised training to the intermediary personnel for the industry. The exporters associations have also been giving assistance to vocational education by arranging short term courses and seminars and/or by providing on the job training to the young people in the T&C companies.

ii) Quality Control Laboratories for Textiles and Clothing: There are 12 well-equipped private and public laboratories, capable of performing all kinds of tests in textiles and clothing, some of which are certified for making the Eco-Tex tests. Sümerbank, which was a giant state economic enterprise mainly in textiles and clothing, also possessed quality control laboratories at various locations, some of which were transferred to the ownership of the Turkish Scientific and Technical Research Organization, (TÜBITAK), during the privatisation process of the former. One such example is Bursa Textile Analysis Laboratory[73], (BUTAL), where the laboratory has international accreditation for conducting all kinds of testing and analysis in cotton, wool and synthetic textile materials, such as fibre, yarn, fabrics, carpets, etc.

iii) SÜMERBANK: Sümerbank was founded in 1933 for the purpose of establishing industrial plants in basic industrial areas with the motto of *"State in the industry"* and orienting the young republic to industrialisation. This enterprise expanded its operations in a short time, especially after 1950s and became a giant, especially in T&C area with 58 large sized factories, more than 500 department stores and 49 banking branches. Total number of workers and staff was around 5000 at the start of operation in 1933. Towards the end of 1980's, when it was to be split up and privatised it had around 40,000 staff and workers in its establishments. When taken into the scope of privatisation, Sümerbank had been manufacturing to the public, T&C items mostly of

[73] *See* ***www.butal.tubitak.gov.tr*** *for additional details*

cotton, such as bed linen, towels, pyjamas, shirts, blouses, suits, coats, etc., as well as wool blankets, cotton and/or wool carpets, shoes, etc.

Sümerbank has always been regarded as the "best school" for masters, foremen, engineers, administrative staff and managers, since either before or after their retirements, many of its employees took up employment easily in the sector, as they were regarded as well trained, experienced supervisors or managers. Those who are in the textile sector argue that the Turkish textile and clothing industry owes its success in the global marketplace particularly to the availability of well trained and experienced people, a good part of which came from Sümerbank. This point is of extreme importance and the case of Sümerbank may have some relevance to this particular study, from which the T&C sectors of WCA may possibly benefit.

iv) <u>Free Trade Zones (FTZs)</u>: The Free Trade Zone Law came into effect in 1985. Presently, there are 20 FTZ's in Turkey and the total annual trade volume of the FTZ's was around 24 billion US$ in 2006. In general, all kinds of activities can be performed in Turkish Free Trade Zones, such as manufacturing, storing, packing, general trading, banking and insurance. Investors are free to construct their own premises, while zones have also available office spaces or warehouses on rental basis at attractive terms. All fields of activities open to Turkish private sector are also open to joint-ventures of foreign companies. The FTZ in Mersin is the busiest in Turkey and it is better known for its cotton trading activities, whereas the FTZ in Izmir is more active in production facilities, which includes garment manufacturing[74].

v) <u>Exporters' Associations</u>: The exporters' associations were only dealing with the agricultural products, when they were first established in late 1930s. As the export items of Turkey varied and many industrial products started to be exported, it also became necessary to establish the exporters' associations for textiles, clothing, leather products, etc. The fact that these exporters' associations were semi-governmental establishments, which were directly linked to the Undersecretariat of Foreign Trade (UFT), made them excellent entities for establishing close dialogue between the governments and the industry. In a way, these organisations had the opportunity of solving their sectoral problems, quickly and effectively.

Besides collecting and disseminating information, statistics, etc., to their members, the exporters' associations perform other tasks, such as organising incoming or outgoing trade missions, fair participations, representing the sectors in domestic and international meetings, organising workshops, seminars and training activities, conducting research projects with academic circles, monitoring the paperwork related to inward/outward processing regimes, etc.

Istanbul Textiles and Clothing Exporters' Associations, shortly known as ITKIB, was established in mid-1980s solely for performing the above mentioned functions in textiles, clothing, carpets and leather wear, alongside with the other exporters' associations situated in many regions of Turkey. Membership fees do not constitute a great income source, but the dues collected from their

[74] *Internationally known Hugo Boss has a very large production facility in Izmir FTZ since 1999.*

members' exports, at a rate of 0.05-0.1% from export revenues, generate an income, which enable the associations conduct their functions in an efficient manner. *The establishment of exporters' associations of the same or similar nature is recommended for the WCA, when the export oriented cotton yarn and clothing investments are underway in the ongoing cotton exports.*

vi) Sectoral Foreign Trading Companies: It was in the beginning of 1990s, that the first *"sectoral foreign trading company"* was established in the T&C sector. The shareholders of this company were all the SMEs active in the manufacturing of T&C items. This initiative gained wide popularity because these trading companies handled all the necessary procedures related to export formalities on behalf of their member SMEs. *The sectoral foreign trading companies have also played important roles in the overall success of Turkey's export performance.*

The above mentioned institution building alone would not be the only factor behind Turkey's success in the accelerated development of its CTC value chain. The Customs Union with the EU, beside the mechanisms introduced during the recent two decades, such as the inward processing regime (IPR)[75], outward processing regime (OPR)[76], free trade areas (FTAs)[77], use of free trade zones, (FTZs), etc., have all played significant roles[78], behind a setting of liberalised trading, well functioning banking environment, smoothly working logistical arrangements and, above all, excellent business spirit displayed by the entrepreneurs have all contributed to this success.

4.3.3.3 Institutional Building in Egypt:

A. Related to cotton production:

i) Cotton Research Institute of Egypt: The CRI is one of the oldest cotton research institutes in the world dating back to the initial years of the 20th century. All of the Egyptian cotton varieties have been improved and produced by CRI, which is also responsible for the maintenance of the genetic purity of Egyptian cotton varieties by producing breeder and foundation seeds annually. The objective of the CRI is to produce new cotton varieties with the characteristics of high yielding, early maturing, high lint content, good fiber quality, etc. CRI also specifies the best agronomic practices that increase production and decrease costs. CRI has two divisions:

- *Cotton Production Research Division*: Cotton breeding, maintenance of genetic purity, regional evaluation of cotton varieties, cotton agronomy and physiology
- *Cotton Technology and Quality Research Division: Cotton spinning*, cotton fibre, cotton chemistry, cotton grading, and cotton ginning.

[75] *The IPR is is a mechanism by which the exporters may obtain materials for the production of their exports without being subject to payment of customs duties, taxes, etc., enabling the Turkish manufacturers to obtain many production inputs at low priced countries, with which they can maintain their competitiveness, at the same time assuring the production of high quality textile or clothing items.*

[76] *The OPR is a mechanism by which goods can be sent to low cost countries to be further processed, after which they are returned to Turkey, thus utilizing from the relatively lower cost manufacturing possibilities existing abroad.*

[77] *FTAs are agreements signed mostly with the neighbouring countries, whereby customs duties are removed between the signatory countries.*

[78] *The above mentioned mechanisms have been explained in some detail in the following report: Gazanfer, S.: "Analysis of the Cotton-Textile-Clothing Value Chain of Turkey and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO report (2007).*

All of these research sections have very well equipped laboratories, experimental spinning mills and gin plants besides experimental fields in more than 10 research stations for conducting breeding programs and field trials.

ii) Alexandria Cotton Exporters' Association (ALCOTEXA): Alexandria Cotton Exporters' Association (ALCOTEXA) is a non-profit, non-trading organization exclusively concerned with exporting Egyptian lint cotton. Members include the individuals and companies working in cotton-exporting sector. Its head office is situated in Alexandria, Egypt.

iii) Cotton Arbitration and Testing General Organisation (CATGO): CATGO is a government organization that determines the ginning outturn factor for each variety, according to which the crop is priced. CATGO is also the goverment authorised arbitration body on cotton classing and grading. It conducts domestic and international training courses mainly on the Egyptian cotton.

B. RELATED TO COTTON TEXTILES AND CLOTHING

i) The New Textile Technology Centre: A technology development division was created under the Ministry of Trade and Industry (MTI) in 2004 to initiate a network of technology transfer and innovation centres. The textile technology centre was to be operational by mid 2007 in collaboration with the Cairo University/Faculty of Engineering.

ii) The Export Commodity Councils: These councils, which were created for all sectors in 2004, had the objective of letting the private sector to play a role in the policy making by officially representing the interests of their sectors through an official institutional set-up. Both the export fund and creation of the *Export Council for Textiles and Clothing* have had a positive impact on increasing clothing exports[79].

iii) General Authority for Investment, (GAFI): GAFI is Egypt's "One Stop Shop" for investment office, which was established in 2003 to simplify the investment procedures. Further simplification took place in 2005. Investment opportunities existed in various sectors, especially in the textiles and clothing industry, which was mainly an export oriented sector. GAFI is the primary governmental authority concerned with regulating and facilitating investment, and the services provided by GAFI range from company registration to site location, partner identification, contracts and licenses acquisition, all free of charge.

iv) General Industrial Development Authority (GIDA): GIDA was established in February 2006, in recognition of the need for new industrial parks with cheap land and suitable infrastructure to attract local and foreign investments. GIDA was also to be the sole authority responsible for the land acquisition for manufacturing purposes. The old industrial parks, where also textile and clothing manufacturing activities took place, were mostly trapped in residential areas, often with poor infrastrucural conditions. Therefore, the textile and clothing investments will

[79] *These councils are in analogy to the Exporters Associations in Turkey, where these establishments are united on sectoral basis in order to assist the exports of the sector and solve the common problems as they arise, advising the government, where necessary, in the formulation of strategies related to exports and export promotion.*

benefit from these industrial parks.

v) Chamber of Egyptian Textile Industries: This chamber, established in 1937, aims at assisting the textile manufacturers in Egypt and representing them in domestic and in international circles. It has more than 3500 members from both private and public sectors.

vi) Textile Consolidation Fund (TCF): TCF was established in October 1953 as an independent non-profit organization, with a view to seeking solutions to the problems facing the textile industry. TCF was sponsored by the textile industry and supported by the Ministry of Trade and Industry in achieving its objectives, which were to facilitate the the successful marketing of textiles both in domestic and export markets; to consolidate the textile industry by conducting technical studies, by the establishment of laboratories, research institutes and training centers, with a view to raising the technical and professional standards of the industry in cooperation with the scientific and specialized bodies; and to grant loans to the textile mills to assist them in coping with international standards and quality.

TCF is governed by a permanent committee, which is made up of the representatives of spinning and weaving industry, as well as the governmental representatives chosen from the relevant ministries. It fulfills two main functions, namely *the technical function*, in which solutions for problems facing the textile industry are sought, including deciding on technical research in spinning and weaving, and the other being *the commercial function,* where market research, promotional work, collection of statistical data, etc., are carried out. The technical activity is achieved by three centres, on textile quality control, textile development, and textile information, respectively. Providing testing facilities is considered the most important function today, but the laboratories need certain improvements to gain international accreditation. Based on the recent information received, there are currently efforts to upgrade the capabilities of the fund, and possibly to transform it into a technology centre[80]

4.4 COMPARISON OF RECENT GOVERNMENT POLICIES AND STRATEGIES TOGETHER WITH THEIR IMPACT IN THE DEVELOPMENT OF THE COTTON SECTOR AND MEASURES TAKEN TO ENHANCE VALUE ADDITION

4.4.1 Government Policies/Strategies for the CTC Sector in India

4.4.1.1 Major strategies/policies related to the improvement of cotton production and ginning and their impact in India:

A. The Introduction of the Technology Missions on Cotton (TMC):

The Technology Missions on Cotton was launched in 2000, in order to find solutions to the problems in *cotton cultivation and cotton quality,* due to poor quality seeds, pesticides and other inputs leading to high cost of cultivation, low yields, poor fibre properties, high thrash content (4%-7%) in cotton despite being handpicked in the field, wide range of contaminants in cotton,

[80] *Personal communications with A.L. ABLA (September 2007)*

lack of transfer of agricultural technologies to the farmers' fields, etc., as well as to the problems in *seed cotton marketing,* due to poor infrastructure at market yards, etc., and to the problems in *ginning and pressing,* due to mostly obsolete equipment.

Mini Mission I focused on development of high yielding pest resistant varieties, hybrids and integrated water, nutrition and pest management technologies, while **Mini Mission II** was related to the transfer of these technologies to farmers to ensure better returns.

Mini Mission III was related to the improvement of the marketing infrastructures, including the existing market yards and setting up of the new ones. *Government of India provided assistance up to 60% of the cost of such improvements.*

Mini Mission IV aimed at modernisation of ginning and pressing plants and, thereby, improving the quality of cotton by reducing contamination, thus ensuring better prices to growers. ***A capital incentive of 25% of the cost of modernisation (subject to a limit) was given to the ginning and pressing plants. Furthermore, for the installation of 'new bale press' and 'HVI laboratories', additional incentives were to be allocated.***

The impact of the **Mini Missions I and II** on *the yield increase,* as a result of improved seed varieties and gradual switch towards Bt cotton, was clearly seen (cotton yields have increased significantly, from 276 kg in 2002/03 to 467 kg/hectare in 2005/06 showing an increase of around 70% over a period of three years).

The impact of the **Mini Mission III** on improvement of seed cotton marketing yards was also apparent, with the growers becoming very knowledgeable on how to produce better quality cotton and how best to market it. Cotton quality improvement was achieved mainly by using seeds and inputs with improved quality, significant decrease in contamination, and by the protection of seed cotton *(kapas)* from sunlight and rain. Furthermore, the modernisation of most of the ginning and pressing facilities contributed significantly in producing good quality cotton with practically minimum amount of contamination.

Improvement of the marketing of seed cotton by the growers was largely achieved by making the marketing environment more transparent and functional by:

- arranging open auctioning/tendering system with the installation of weighbridges and other grading facilities, like trash analysers, moisture meters, etc., to minimise the existing mal practices in the market yards,
- providing Farmers' Information Centres in the farmers' yards, with the kiosks, big display boards, interactive voice response systems, etc., which all became excellent sources for reliable market information to the farmers.
- the establishment of testing facilities in the grading laboratories helped farmers in pricing their cotton correctly.

As a result of above measures, there had been a considerable increase in seed cotton arrivals at the market yards by the growers, which was another indication of satisfaction in the new set-up.

The institutional mechanisms of the government and the promotional measures, like the Technology Mission on Cotton have apparently played important roles in the significant improvement of yields. The upgrading of the infrastructural facilities in the market yards has proved to be beneficial. Not only it has helped in reducing the contamination levels, but also the arrivals of kapas in the market yards have increased. This was a direct result of the efforts for the creation of quality awareness and improvement of the infrastructure at market yards. These results have direct relevance and importance to WCA.

The impact of Mini Mission IV, which was largely concerned with the modernization of ginning and pressing factories, was as follows:

- Significant reduction in cost of ginning seed cotton
- Increase in productivity by 30-35 %,
- With *pre-cleaners and super-cleaners, the trash level decreased* from 6-7% to 1.5-2%,
- With the basic pre-cleaning operations, *a significant decrease in the level of contamination was also achieved,* because short fibres, yellow cotton, etc. were easily taken away and *super cleaners* removed the remaining foreign particles,
- *Inclined/horizontal extractors, lint cleaners* and *blowers* improved the quality significantly,
- Pressed bales had to be fully covered with cotton cloth and stitching was only allowed with white cotton thread, according to the norms of the Bureau of Indian Standard (BIS),

The modernisation of ginning and pressing mills had the following impacts:

- *By the end of the mission period, about 80% of Indian seed cotton would be ginned with resulting lint having trash, and contamination-free properties.*
- *Such bales could fetch a price premium of Rs.100-500/ candy (one candy= 355.6 kg).*
- *Ginneries obtained additional income due to bale classification with HVI instruments.*

4.4.1.2 <u>Major strategies/policies related to the improvement of the textile sector in India</u>:

Towards the end of 1990s, the government of India decided to overcome most of the weaknesses inherent in the textile industry, which were; *technological obsolescence, structural anomalies, poor productivity of labour and machines, inefficient fiscal policies, multiplicity of taxes and levies, high cost of capital, redundant and outdated controls/regulations, restrictive labour and industrial laws, inefficient marketing, 'poor' perception of Indian products abroad, procedural problems in exporting, poor infrastructure relating to transport, communication and banking, high power tariff, etc.* In order to eliminate the above adverse factors, the following schemes were introduced:

A. <u>The Technology Upgradation Fund Scheme (TUFS)</u>:

The Technology Upgradation Fund Scheme (TUFS) for the textile and jute industries were introduced for implementation between 1.4.1999-31.3.2007, i.e. until the end of the 10th Five Year Plan. With this scheme, ***reimbursement of interest plus capital subsidy with concessional loans were available for the modernisation of the textile and clothing sub-sectors,*** *(including cotton ginning, pressing, spinning weaving/knitting, non-woven and technical textiles, finished fabrics,*

garments, made-up manufacturing, etc.). In the overall distribution of these funds, spinning had obtained the largest share (34.13%), followed by the composite mills (26.12%) having *spinning, weaving and processing* facilities.

The Industrial Development Bank of India **(IDBI)**, the Small Industries Development Bank of India **(SIDBI)** and the Industrial Financial Corporation of India **(IFCI)** were the nodal agencies for the textile sector and jute sector respectively[81]. Between 1.04.1999-31.07.2006, 5471 projects with a total value of Rs.44, 686 crore[82] had been approved and put into implementation under TUFS.

B. <u>Schemes for promotion of exports of cotton textile Items</u>:

Since cotton and cotton textile items contributed nearly 60% of total export earnings from the textile products, a number of schemes, which are briefly explained below, had been introduced in order to develop the exports of this sector.

(i) <u>Creating infrastructure specifically for textiles</u>: *The Scheme for the Integrated Textile Parks (SITP) had been launched by the Government of India,* for gathering the individual units in a cluster with modern infrastructural facilities on a public private partnership (PPP) model. As of the end of 2006, 26 parks had been approved. ***The Government's contribution was Rs.825 crore and the private sector's contribution was Rs.1250 crore.***

The Working Group on Textiles for the 11th Five Year Plan ***had aimed at 12% growth in production and 22% in exports, for which significant increase in*** production capacities was inevitable. It was estimated that fund requirement for realizing the capacity increases would be Rs.1,50,600 crore during the 11th Five Year Plan period. It was expected that the promotional schemes like TUFS would definately contribute to the realization of this magnitude of investment in the textile sector.

(ii) <u>Human Resources Development</u>: It was estimated that for the 11th Five Year Plan period, the additional manpower requirement for India's fast expanding textile and apparel industry was around 17.17 million, 11.82 million of which was in direct and 5.35 million in anciliary industries. The apparel industry employed around 5 million workers, about 2.5 million being in the export sector. It was also estimated that the apparel industry needed 0.5 million trained workers, such as operators, jobbers, pattern makers, technicians, quality controllers and managers.

Currently, India had a good training infrastructure, which consisted of engineering colleges, polytechnics, and agencies like Apparel Training & Development Centers, Power Loom Service Center, Weaving Service Centers, Textile Research Associations, Private Vocational Training institutes etc. The National Institute of Fashion Technology under the Ministry of Textiles was contributing skilled manpower to the export houses and design centres for the clothing sector.

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[81] *Since 1st October 2005, 13 additional nodal banks have been appointed under TUFS for determining eligibility and releasing the subsidy for the cases financed by themselves.*

[82] *For the Indian numbering system, the reader is referred to: **http://en.wikipedia.org/wiki/Indian_numbering_system***

Setting up of training centres on public private partnership (PPP) mode became the latest initiative. The T&C industry and the institutions associated with the development of textile industry were encouraged to set up jointly such training centres. ***Government's role was limited to one time assistance to the cost of the plant and machinery, including the overall support and co-ordination to ensure effective implementation of the initiative. Ministry of Textiles proposed to establish 100 such training centers under the PPP mode near textile clusters.***

(iii) Foreign Direct Investment (FDI) in the textile sector: India has allowed 100% FDI in the textile sector. The total FDI, which was around US$ 4.36 billion in 2005, almost tripled to US$15.7 billion in 2006[83]. The share of textiles and clothing sector was negligible (only 1.8 %) in the overall FDI. Specific areas needing FDI were the textile machinery sector, the apparel manufacturing sector, synthetic fibres and the technical textiles.

(iv) Brand promotion: Currently, the markets in the USA and Europe, which accounted for more than 90% of Indian apparel exports, were entirely dominated by various global brands, and Indian exporters were merely suppliers to such brands. It was clearly understood by the industry that brand development will expand the market share and acceptability of Indian apparels, thereby, leading to increased export earnings. The capacity of Indian industry, by virtue of being SME, fragmented and decentralized, had not been in a position to design and launch brand promotion efforts on its own. ***Therefore, a Public Private Partnership (PPP) approach was again the appropriate strategy in order to develop globally acceptable Indian apparel brands.***

(v) The testing and design support: The testing and design facilities were also developed on (PPP) basis with the objective of expanding testing and design culture on a wider scale in the industry. The industry associations, cluster level industry bodies, and other user industry driven organizations such as *Textile Research Associations* and *Textiles Committees* were all encouraged by the government for establishing internationally accredited testing and design centers.

(vi) Support to technical textiles: In view of the fact that there is a growing interest in the world towards technical textiles, in which also the value addition could be more advantageous than that in the conventional textiles, the Government of India had already institutionalized a mechanism for development of technical textiles in the country.

C. Support for the development of decentralized power loom sector:

In March 200, there were 1.95 million power looms in the country distributed over approximately 430,000 units. *This represented about 47 % of the total power looms in the world.* The power loom sector contributed about 62% of the total cloth production of the country, and provided employment to about 4.86 million people. More than 60% of the cloth produced for exporting came from the power loom sector. The government support for power loom sector included the following areas:

- Modernization of power loom sector through (TUFS),

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[83] ***http://www.ibef.org/economy/fdi.aspx***

- Promotion of technical textiles, as well as the textiles with improved designs,
- Strengthening of existing infrastructure facilities and creation of new CAD centres
- Consolidation of power loom sector through modernized work-shed scheme in existing and new clusters.

4.4.2 Government Policies/Strategies for the CTC Sector in Turkey

It can be argued that to get a fair idea and appreciation of the development of the CTC value chain, one must not review the policies of just the last 5 or 10 years only, because such an attitude would not reflect the true picture behind the present success. Therefore, one must go as far back as 1930s, when Turkey had laid down the strong foundations of country's economic structure.

4.4.2.1 Brief review of the past policies which had major impact and contribution to the development of the CTC value chain of Turkey:

Historical developments of Turkey's cotton based textile industry begin with the foundation of the Republic in 1923. Until the end of 1940s, Turkey implemented the economic model, called "etatism", during which there had been a heavy state intervention in the economy. The significance of this period was that *foundations of the economy with its relevant institutions, such as State Economic Enterprises, Agricultural Sales Cooperatives Unions, Agricultural Credit Cooperatives, Exporters' Associations, State Commercial Banks, as well as basic laws, rules and regulations related to money, banking, and foreign exchange, etc.,* had been laid down. *Sümerbank was also established in this period to support the infant T&C sector.*

After a short liberalisation period, Turkey chose an import substitution model with successive five year development plans between 1960-80. *Many private sector textile investments had taken place in 1960s and 1970s, including the investments of the ASCUs with cotton yarn spinning. Cotton based domestic textile industry remained strong and competitive throughout the 1970s,* despite the adverse economic developments in the overall economy, mainly due to the two major oil crises experienced in 1973 and 1978, respectively. *Nevertheless, it had become very clear that the T&C sectors were to become the leading areas for export growth.*

From 1950s until mid-1980s, cotton exports were destined to Europe, mainly to Italy, Germany, England, Central and Eastern Europe etc., where a healthy textile industry was still keeping a good manufacturing base. In this period, an *"export levy"* or an *"export refund"* was alternately applied to cotton exports to maintain a balance between the domestic and world cotton prices.

However, unfavourable developments towards the end of 1970s, lead to the adoption of the famous ***"24 January 1980 Stability Measures",*** *which had been regarded as one of the most comprehensive reforms in Turkey's economic history.* The main objectives of these stability measures were to increase exports and export earnings, control the rising inflation, make the economy gain a dynamic structure by opening it to global competition. The measures introduced in 1980s to boost the exports can be grouped under five major categories:

Firstly, *a 49% devaluation* of Turkish Lira (TL) together with a floating currency rate was

announced on 24th January 1980, which made most of the export items highly competitive until the year 1988. Slowing down in the depreciation of the TL by the Central Bank after 1988 resulted in a parallel deceleration in exports.

Secondly, direct subsidy payments were initially made to the exporters through *tax rebates* and *cash premiums,* which were gradually reduced until the beginning of 1990s, after which they were totally abolished in order to comply with the upcoming GATT code.

Thirdly*, preferential and subsidized export credits* were provided to the exporters.

Fourthly, *tax exemptions were provided on imported goods, which were to be used as inputs in the production of exportable items.*

Fifthly, *e*xporting companies were allowed to make *deductions in corporate tax payments,* which were calculated proportional to their export earnings. Export subsidies as a percentage of the value of total manufactured exports were lowered gradually towards the end of 1980s. Significant steps had also been taken in gradual liberalisation of imports since 1980, with all the tariff-equivalent charges, except the customs duties and MHF, being eliminated by 1996.

Beside trade liberalization measures, a number of additional important steps had also been taken as a consequence of the *"24th January 1980 Decisions",* most of which can be grouped as the measures related to the financial liberalisations, comprising of a new exchange rate regime, an auction system for government securities, market opening reforms at the Central Bank, the banking reforms, etc.

Main impacts of *the "24th January 1980 Decisions"* were that the successfully implemented exchange rate policy together with export subsidies, lead the way towards a dramatic performance in exports, which jumped from 2.9 Billion US$ in 1980 to 11.8 Billion US$ in 1989. This represented roughly a four fold increase in exports within a ten-year period. Furthermore, the composition of exports had also changed considerably, the share of industrial products in total exports rising from 36% to 78% during the same period.

The domestic textile industry, having the cotton as the raw material at its disposal, coupled with relatively cheap labour and energy, started to make its presence felt in Europe as a good quality, suitably priced cotton yarn manufacturing and exporting country. The exports of cotton yarn and woven cloth, made such a good performance that *the European Community* started to restrict these exports, which lead to the conclusion of an agreement between Turkish textile sector and the EEC on *"voluntary restrictions"* in mid 1980s. These restrictions were progressively extended to the clothing products, which at that time was at the infancy stage. *All of these voluntary restrictions with the EU on textiles and clothing products ended as of 1st January 1996, when Customs Union Agreement with the EU came into force.*

The 1990s had been a decade with many crises, which had severe blows on Turkey's economy and foreign trade, starting with the Gulf Crisis with the long-lasting trade embargo of the UN on Iraq, followed by the domestic Financial Crisis with a 38% devaluation of the TL on 5th April 1994,

followed by the South-east Asia Crises with the Russian Crisis towards the end of 1990s.

Turkey established a Customs Union with the EU starting from January 1st, 1996. As a result, Turkey eliminated the customs duties on imports of industrial goods from the EU, at the same time adopting the EU's common customs tariffs for imports from third countries.

The dramatic increase in cotton consumption since 1990's was the expected consequence of an apparent productive capacity increase in the textile sector, namely in the form of cotton yarn, woven or knitted grey cloth, as well as finished fabric**.** Cotton exports continued but in gradually decreasing volumes until 1993, when Turkey became *a net cotton importing country*. C*otton imports* have then soared, reaching at a quantity amounting to almost 900,000 tonnes.

The financial crises experienced in 2001 have been well managed, which has reflected itself in the success obtained in bringing down the annual inflation from 60-70% levels down to 7-8% within four years, increasing the trade volume significantly, attracting sizeable foreign direct investment (FDI), and achieving an average growth rate of around 8 %.

The support price policies, initially in the form of a "minimum support price, later followed by direct supports as "premium payments" applied in selected seasons until today, have made *major impacts* on the cotton planting decisions of the growers.

Turkey has had a wealth of experience over the years some of which can be applied to any country passing through similar stages of development. The situation of the cotton sector in WCA and the problems associated with the newly developing cotton-textiles-clothing value chain may lend itself to the utilization of such experiences in the areas of government policy, cotton quality improvements, marketing and institutional building.

4.4.2.2. Other developments which played significant roles in the development of the CTC Value Chain in Turkey:

A number of mechanisms or institutions have also been utilised for the attainment of more cost effective and competitive solutions to the CTC value chain. Only the names of these mechanisms will be given here since they have been mentioned in various sections of this comparative study[84]. These mechanisms or institutions are:

- *Inward Processing Regime*
- *The Outward Processing Regime*
- *The Use of Free Trade Zones (FTZs)*
- *The increasingly important roles played by the exporters' associations, particularly the Textiles and Clothing Exporters Associations*

[84] For a more detailed account of some of these mechanisms the reader is also referred to:
Gazanfer, S. "*Analysis of the Cotton Value Chain of Turkey and Identification of strategies for developing the Cotton Value Chain in West and Central Africa*" UNIDO Report (TE/RAF/06/012/11-53), (2007).

- *Roles of the Sectoral Foreign Trading Companies in the increase of Turkey's Exports,*
- *Utilisation of the textile and the clothing sectors from the FreeTrade Agreements (FTAs).*

4.4.3 Major Strategies / Policies Initiated by Egypt

In Egypt, the public enterprises operating in the spinning and weaving industry were mostly loss-making due to historical burdens of excess labor, unbalanced financial structure with huge debts to banks, overinvestment and outdated technology, among other factors. The government was determined to enhance the role of private entrepreneurship in almost every industrial sector. The action plan addressing those problems had two main pillars:

- Policy Reform for the environment surrounding and regulating this sector,
- Restructuring of the industry and the business environment towards ultimate transfer of the mills to private sector.

Egypt's involvement in the T&C value chain has been taking place since the mid-1980s. Recent policies have mainly focused on correcting the structural imbalances within the chain, integrating its different components and supporting and encouraging the expansion of the highest value addition within the chain, *primarily in the clothing sub-sector.* This strategy gave priority to the promotion of clothing exports, strengthening the industrial infrastructure, and generally providing the suitable environment for deeper integration of local enterprises into the global value chain.

Policies to promote the Egyptian T&C industry were divided into three groups:

- Changes in the framework conditions that benefit all manufacturing and not just the T&C industry;
- Specific policies affecting the T&C industry, though not necessarily exclusively[85];
- Specific initiatives by the private sector within the T&C community.

4.4.3.1 Changes in the framework conditions that benefit all manufacturing industry:

A) Changes in economic framework conditions:

i) The macroeconomic policies: As part of the Economic Reform and Structural Adjustment Program (ERSAP) implemented in Egypt since 1991, there have been progressive improvements in budget deficits, inflation, foreign debt and debt service ratios,

ii) The fiscal policy: A new tax law, which came into force in 2005, had the following main features: substantial reduction and unification of tax rates, cancellation of surcharges[86], simplification of procedures, adequate and simple categorization for depreciable assets, cancellation of tax exemptions associated with investment law; and reestablishment of mutual trust between the tax payers and tax authorities.

iii) The monetary policy: Alongside the move towards making the Central Bank more independent, and the commercial banks free to decide on their lending rates, *Egypt adopted a free*

[85] *In general, most of the recent policy changes were not T&C specific, but rather affected T&C, as one of the industrial sectors among others.*

[86] *10% sales tax on capital goods and machinery, which increased investment costs, was cancelled in 2005.*

floating system of its currency in January 2003, which caused a significant depreciation in the value of the Egyptian pound, which, in turn, made the exports more competitive. Besides, micro and small enterprises were entitled to the special low interest rates (40% less), which were offered by the Social Fund for Development through the banking system.

B. Trade Policies:

Between the years 1960-1995, the Egyptian industry had been subjected to a protected trade regime. Since Egypt's accession in 1995 to the WTO, most quantitative restrictions on imports were removed and tariff rates significantly reduced. Egypt has also bound 98% of its tariffs, and agreed to a schedule of phased tariff reductions over the period 1995–2005. In 2004, the government further liberalized the trade regime by making drastic cuts in customs duties (from 14% to 9%), simplifying customs procedures, consolidating dutiable items (from 13,000 to 6,000), adjusting 'distortions' in duties on some 500 items, canceling all customs service fees and granting the information technology sector complete exemption from customs duties.

C. Investment policies:

Egypt has not been successful in attracting foreign direct investment, for which there was a need of around US$ 4 Billion per year to cover the saving-investment gap and to sustain a GDP real growth rate of 7%. The Government recently decided to upgrade the institutional structures for investment, which included the Ministry of Investment, General Authority for Investment (GAFI), as well as the establishment of *economic free zones* and *new industrial zones*. A new Presidential Decree (#30/2005) authorised the Prime Minister to give incentives in the form of *new tax holidays* or *energy price subsidies* or exceptions from general rules and procedures for investment, *if the new project involved transfer of high technology, significantly improving skills and efficiency of Egyptian workers or raising Egyptian products to world standards.*

D. Legal, regulatory and business environment:

Recent years had witnessed significant improvements in the legal, regulatory and business environment. The adoption of a *new labour law, competition law, intellectual property rights law,* and the facilitation of procedures for licensing new local and foreign direct investment were positive developments for industrial growth and increasing enterprise competitiveness. The overall process of market entry and exit had improved considerably ever since the *one stop* in the *General Authority for Investment (GAFI)* was created in 2003 and further simplified and improved, as of January 2005. Licensing procedures were now completed within 72 hours and the whole process was significantly streamlined. The problem of land acquisition was also resolved through the recent creation of the General Industrial Development Authority (GIDA), which became the sole authority related to land acquisition for manufacturing purposes.

E. Industrial infrastructure[87]:

i) Industrial parks: To attract local and foreign investments GIDA became responsible for

[87] *Only the items that witnessed change are mentioned here.*

the creation of industrial parks, as well.

***ii) Information and Communication Technology (ICT)*:** Enormous improvements to Egypt's ICT infrastructure have taken place in the last decade. More than 90% of communities have had access to telephone services.

iii) Technology Infrastructure (MSTQ): The government launched a National Quality Plan that sought to upgrade the metrology, standards, testing and quality systems.

4.4.3.2 Policies and strategies affecting the T&C industry:

A. Regional and global integration:

Egypt entered the following regional and bilateral trade agreements during the last decade:

i) Common Market for Eastern an Southern Africa (COMESA): Egypt signed the COMESA Treaty in mid-1998, with execution starting in 1999. According to the rules of origin applicable at the moment on Egypt's imports from and exports to COMESA member states, value addition should not be less than 45% ex-factory costs. Since November 2000, Egypt had committed to full customs exemption together with eight other COMESA members, namely Djibouti, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe.

ii) Pan Arab Free Trade Agreement (PAFTA): In January 1998, Egypt began implementing agreements reached with Arab League members in connection with the Arab Commo Market Treaty of the 1960s, which called for phasing-out of existing tariffs over a 10-year period. The agreement was signed by 14 Arab countries, representing 80% of total inter-Arab trade. Under the umbrella of PAFTA, custom duties and tariffs facing Egyptian exports were being reduced by 10% annually, reaching 80% reduction as of January 2004. Duty free access for Egyptian exports to Arab markets had been reached as of January 2005. Because the PAFTA rules of origin were different from those of Pan Euro-Med ones, the negotiations towards making these two rules of origin consistent with each other were on-going.

iii) Aghadeer Declaration: In 2004, Jordan, Egypt, Tunisia and Morocco signed the Aghadeer Declaration, which was an FTA, established on a gradual basis through a transitional period, not exceeding January 2006. The Agadir FTA and the Euro-Med agreements offered the following advantages for the Egyptian T&C industry:

- Ability to accumulate origins of products made in EU partner countries, thus creating a large market for Egyptian made intermediary products (yarns and fabrics),
- A boom in T&C sectors is also anticipated as close ties between Aghadeer countries and the EU already exist in the commercial, sub-contracting and investment domains.

***iv) Egypt- EU Association Agreement*:** The agreement with the EU was by far the most significant for Egypt. Currently, the EU was Egypt's largest source of imports and second-largest destination for exports. The cooperation agreement with Egypt since the mid-1970s allowed free access to Egypt's industrial products to the EU, while the Association Agreement signed in 2001, recognized stepped reduction of tariffs and reciprocal access for industrial products over a transitional period varying between 3–15 years. *These agreements offered a big potential for*

increasing the exports of Egypt's industrial products, particularly the T&C items.

v) <u>QIZ Protocol</u>: In 1999 Israel signed a Qualified Industrial Zone (QIZ) agreement with Jordan. Positive results of this agreement encouraged Egypt to sign a similar agreement with Israel and the United States in 2004. QIZs are geographically designated industrial areas in Egypt selected by the Egyptian government and approved by the US government. According to the protocol, factories located within those areas were granted duty free access to the USA provided that exported products comply with the rules of origin stipulated in the agreement, which specified a minimum of 11.7% Israeli content in exported products. The short term impact of the QIZ Protocol on the Egyptian T&C industry had been significant rise in T&C exports, as mentioned previously.

vi) <u>Egypt-Turkey Free Trade Area:</u> The Egypt-Turkey FTA Agreement, signed in December 2005, allowed for the removal of duties over a period of 12-15 years. By 2008, Turkish textiles would be admitted duty- free into Egypt. This would allow for the accumulation of origin for Egyptian products made with Turkish raw materials (yarn and fabrics) giving Egypt the ability to penetrate the EU market with higher value added products, with which, a big jump in Egyptian T&C exports to the EU was expected. The FTA would also attract Turkish FDI in the Egyptian T&C sector, which would strengthen the Egyptian value chain, particularly the weaknesses on the up-stream, where the Turkish textile industry was more advanced.

B. <u>Privatization</u>:

Privatization had been particularly slow in the public sector textile and clothing enterprises, especially those operating in spinning and weaving, which had accumulated huge losses and became a bottleneck for the whole value chain. The biggest obstacle to privatization had been the excessive number of workers in these establishments[88]. An important initiative by the EU was the restructuring of a number of public spinning and weaving enterprises with specific focus on the redundant workers. This 80 million Euro project, which was initiated in 2004, was related to compensating and retraining workers in the designated public companies[89].

C. <u>Manufacturing and export promotion policies</u>:

Exports were promoted through the *marketing assistance*, *official credits* and *marketing schemes*. The most important tools for export promotion in Egypt were; the export promotion law, the FTZs, and the duty drawback or the temporary admission schemes for imports, which were used for the manufacturing of products, which, in turn, were to be ultimately exported.

The Export Support Scheme consisted of *Promotional Services*, while *the Export Support Fund* and *Marketing Studies* were offered to exporters of diverse sectors, including the T&C sectors. The scheme had a positive impact on exports from all the industrial sectors receiving the support.

[88] *One company alone El-Mahalla El Kobra has over 20,000 workers*

[89] *The excess number of workers and staff had also been a problem in Turkey for the SEEs and ASCUs, for which the government implemented a retrenchment program between 2000-2004 successfully*

The Export Commodity Councils, which were created for many sectors in 2004, had the objective of letting the private sector to play a role in the policy making by officially representing the interests of their sectors through an official institutional set-up. Both the export fund and creation of the export councils have made a positive impact on increasing the exports of T&C products. Another major export promotion policy was the design and registering of an Egyptian *cotton logo* to preserve the property rights of Egyptian cotton.

D. Donor Programs[90]:

There were a number of major projects, which were currently implemented with international or bilateral cooperation aiming at improving the vocational and educational training, were mainly focused on highly specialized technical training, which was directly beneficial to T&C industry.

E. The new textile technology center:

A technology development division was created under the Ministry of Trade and Industry (MTI) in 2004 to initiate a network of technology transfer and innovation centres. The new textile technology centre would operate in collaboration with the Cairo University and was expected to make a positive impact on increasing the T&C exports and encourage investments in the sector.

4.4.3.3 Private sector initiatives:

Government initiatives to make the T&C more competitive had gained impetus especially since 2004 with the successful lobying of the private sector, which emphasized the urgent need for such policy changes. The pressures by private sector leaders of the T&C industry coincided with changes in Cabinet structure, which had a positive effect on speeding up the policy changes. The T&C private sector was also ready to contribute to the implementation of new projects, such as the new technology center, IMC programmes, export councils, etc. The T&C private sector began to focus on following three specific initiatives:

A. The future development strategy of the Egyptian T&C industry:

To shape the future development strategy of the T&C industry of Egypt, a forum was organised in 2004, with the initiative of the private sector and attended by public and private sector T&C institutions and representatives of producing enterprises[91]. Main elements of the strategy, the vision, macro objectives and three dimensions of the strategy were all outlined elsewhere[92].

B. Egyptian-Turkish Private Industrial Park:

Following the signing of the FTA Agreement between Turkey and Egypt[93], a consortium of Egyptian and Turkish investors has taken the initiative to establish an Egyptian-Turkish Private Industrial Park, as a large scale joint collaboration between the two countries in the specific field of manufacturing. It is expected that this industrial park will attract considerable FDI in the T&C

[90] *The focus here is on the EU program but other donor programs of smaller sizes also exist*
[91] *The broad lines were prepared by the Forum in 2004. Further efforts towards developing the strategy were made by the Chamber in 2005 (Kassem and Abdel-Latif, 2005).*
[92] *A study financed by IMC and prepared by Gherzi was proceeding to the next step for implementation of the strategy.*
[93] *The FTA came into force as of 28 February 2007*

industry, which is important to both countries. Turkish investors will enjoy much lower manufacturing costs, compared to Turkey, while the products manufactured in Egypt would have the opportunity of entering the US market under the Egyptian QIZ Protocol.

C. <u>The Competitiveness observatory (CO)</u>:

The idea for establishing a competitiveness observatory (CO) had already been accepted as an integral part of the strategy for future development of the Egyptian TC industry, because it is strongly believed that unless performance and competitiveness indicators are regularly monitored and the necessary adjustments to the implementation of the action plan are introduced, performance cannot be improved nor even achieved, or the achieved improvements cannot be sustained. Roles of the government and various institutions, data collection procedures, choice of comparators and performance indicators are all crucial for the proper running of the Competitiveness Observatory.

4.5 LESSONS LEARNED

Developments related to almost all major elements of the cotton-textile-clothing value chain in **India, Turkey** and **Egypt** have been described in some detail in the previous sections. Below, only those developments which were found to have certain impacts will be discussed.

4.5.1 Lessons Learned of a General Nature

Below are some of the observations made and lessons learned of a general nature related to the three countries under the comparative study:

- The upward development in the CTC value chain did not happen in a short period of time. In fact, it took many decades in all the three countries. In the case of **Egypt,** it has been very slow owing to the necessity to re-start shaping the sector in parallel with the reforms towards liberalisation soon after mid 1990s, whereas **for India**, it has accelerated within the last two decades, when the export potential in T&C was clearly anticipated. For **Turkey,** perhaps even longer but more healthily because the developments in infrastructural environment also took place concurrently with the other industries and services sectors, such as banking, finance, foreign exchange regimes, etc. *This is an important observation to note when possibilities to physically adopt these experiences to the WCA states are being considered.*

- The complete integration of the chain has not yet been fully concluded in anyone of the three countries. However, there are differences in the development stages achieved so far. **Egypt,** for example, reported that the country still had a long way to go, due to the long time absence of a clear strategy, which had just recently been formulated. This unclear situation was currently being clarified starting from 2004 under the initiative of the private sector, which has prepared the long term development strategy of the T&C sector. **India** seems to be further ahead with the comprehensive measures taken during the recent years, with a strong foothold already established in major foreign markets, such as the EU and the USA, mainly for her textile products, now aiming to develop also the clothing sub-sector with a more emphasis on producing and marketing the clothing items under own brands, while **Turkey** is

at an even more advanced stage, especially in clothing exports, with all the institutional and infrastructural bases behind.

- The positive role of the state involvement at the beginning of the development cycle is undeniable, and deserves full merit in the case of **Egypt**, while, in the case of **Turkey,** it can further be claimed that at the absence of such a state involvement, it would have been virtually impossible to come up with the present achievements. In the case of **India,** it is also evident from the report that the government's interventions indicate a clear and determined involvement, specifically in the upgrading and modernisation of the CTC value chain.
- Public-Private Partnerships (PPPs), appear to have been producing effective results in the T&C sectors. This is a promising development since the private sector has started to understand that they cannot expect to have their problems solved solely by governmental supports and without a partial share of the responsibilities, resources and implementation modes from their own side. Further developments on these lines will depend on the degree of integration of the private sector into institution building efforts. In this regard, recent developments in **Egypt**, by way of establishing various NGOs appear to be promising. The initiation of such movements in **Turkey** has been reported to be a matter of mainly 1980s and 1990s, while **India** appears to be rich in terms of the number and effectiveness of such institutional set-ups.
- The success of design and implementation of promotional or developmental programmes largely depends on *effective participation of important stake-holders in the entire chain of processes.* The successful examples seen in the programmes in the cotton and cotton textile sector of **India** (such as the TMC programme, the introduction of Bt cotton and TUFS) have effectively joined together the key stake-holders in the design, implementation and the evaluation of the programmes.
- The importance of an effective institutional support for the successful implementation of any development programme cannot be underestimated. This was especially evident in the case of **India**, where the introduction of Bt cotton through the bio-safety mechanism had been successfully completed. The other examples of effective implementation mechanism are the establishment of the empowered committees for the TMC and TUFS programmes in **India**, and the local inspection committees set up in **Turkey** for close monitoring of the campaign to reduce contamination from fields to the ginneries.
- Common to all the three countries is also the understanding that the *skilled labour, adequate infrastructure, established quality systems* and *effective training* are of key importance for supporting the healthy development of the value chain.

4.5.2 Lessons Learned Related to Cotton Cultivation and Production Practices

4.5.2.1 <u>Provision of agricultural inputs</u>:

The provision of agricultural inputs (such as fertilisers, chemicals, machinery, cash credits, etc.)

for cotton production appears to be well managed within the domestic markets of all the three countries. When buying these inputs, the growers have the benefit of making price comparisons between private traders, cotton cooperatives or cooperatives solely supplying inputs. Paying back by the growers the debts for the inputs with seed cotton deliveries is the most practical alternative. **Turkey** and **India** appear to be successful in making this system work efficiently.

4.5.2.2 Varietal development of cotton seeds:

India has been the most successful in cotton seed development from three distinct aspects: *Firstly*, in the improvement in varietal composition in favour of *medium* and *long staple varieties* from predominantly *short* and *medium staple* cotton. *Secondly*, in the recent introduction of *Bt cotton*, whose preparatory work involved many research institutions, universities together with the precautions taken to ensure its safe application, deserve special merit. *Thirdly*, the initial successful field application and subsequent expansion of *Bt cotton* resulted in *significant yield increases* as well as assuring the sustainability of cotton production in the country. *These developments made a tremendous impact in making India to become also a major cotton exporter, in addition to meeting comfortably the cotton demand of her fast growing textile industry.*

Turkey, on the other hand, has been successful in raising her position upwards to be the third country in the world with highest cotton yields, after Israel and Australia. This success was largely attributed to seed improvement and the existing suitable ecological conditions. It was an appropriate strategy to have the sole responsibility of seed breeding until 1980s, totally on the government through the cotton research institutes, which conducted valuable research to develop good and consistent quality cotton, with high yields. Subsequently, it was also an appropriate strategy to open up cotton seed breeding to private sector competition in 1980, as a result of which further progress has been recorded.

However, it has recently been a subject of criticism that Turkey has kept herself at a distant in following up the developments related to the genetically modified (GM type) seed technology. It may, therefore, be the right time today, when most of the major cotton producing countries are using the GM technology to boost their cotton yields, thus lowering significantly their cost of production that Turkey should once again consider her position towards this technology, which has made dramatic leap forward in raising yields and increasing cotton production in **India**[94]. Furthermore, until today *there have been no price differentials in cotton trading markets for biotech and non-biotech cotton fibre*. Similarly, for textiles containing biotech cotton, neither there is any evidence of rejection of biotech cotton by any segment of the market nor region.[95]

4.5.2.3 Increased use of mechanical harvesting to reduce costs:

Turkey is so far the only country among the three to switch partly to mechanical harvesting, which had become inevitable due to prohibitively high cost of hand picking, which amounted to almost one third of the total cost of cotton production and more than three times the cost of machine

[94] *See the "Cotton Value Chain Analysis Study for India", prepared by M. SAHU, for UNIDO (January 2007)*
[95] *See "Biotech Cotton Trade Rising" p.5 in World Cotton Trade (2006/07), ICAC, Sep 2006.*

picking. Another distinctive advantage of mechanical harvesting was the elimination of most of the sources of contamination, which had been largely caused with hand picking and the subsequent handling and transport of the seed cotton.

4.5.2.4 Ginning and Pressing:

India has carried out the most successful approach in ginning because through the Technology Missions II, India was able to modernise a good percentage of the ginning and pressing machinery since most of the ginners wanted to benefit from the given support, which appeared to be encouraging. With these modernizations, not only productivity of the ginning and pressing units significantly improved, but also a significant advance was made in reducing contamination. The scheme offered was found to be very attractive by the ginners.

It is interesting to note that most of the ginning in **India** and **Turkey** is roller-ginning, which has been further developed to increase the ginning capacity and preserve the cotton quality. Recently, with double side roller-ginning, the investment and operational costs in India have been reduced considerably. Given that *all* the ginning installations in **Egypt** are also roller-gin type, *this technology can also be recommended for the WCA countries, for a more detailed evaluation.*

4.5.2.5 Contamination:

None of the three countries in the comparative study has an exceptional performance record when tested for their success in eliminating contamination. The main reason behind this inadequacy can best be explained by the lack of effective preventive measures and by the insufficiency in training the related operators for the elimination or minimising the sources of contamination. The limited success achieved on this problem in **Turkey** is largely attributed to the practice of using collection aprons, bags, large sacs, etc., made of 100% cotton and by encouraging the growers to deliver their seed cotton in bulk, in wire-net containers mounted on the agricultural trucks, which transport the seed cotton to the ginning plants. Recently, a government decree was also put into force, which required the formation of inspection teams at cotton production areas, where these teams had the power of taking legal action against those who gave rise to contamination.

It has also been reported in **India** that *lowering contamination and thrash contend improved significantly in the market yards, ginning and pressing mills, where modernization had been carried out under the Technology Mission on Cotton*.

4.5.2.6 Cotton Classing and Grading and the Use of SITC Equipment:

Seed cotton is procured from the growers in all the three countries, with most of the classing and grading done with visual inspection by the cooperative experts or traders at the time of procurement[96]. The use of the SITC equipment in classing and grading of *lint cotton* is currently limited to testing samples representing a *lot*, and not *per bale* basis. On the other hand, the work conducted by the ICAC in enabling the trading of cotton based on the results of standardized

[96] *There are very few countries, which have developed standards for their seed cotton, which are used strictly, during seed cotton procurements. One good example is South Africa, where there are sample boxes prepared for both machine picked and hand picked seed cotton, in addition to the sample boxes for the lint cotton.*

instrument testing has intensified. The collaborative work continues with the aim of achieving the repeatability and reproducibility of the test results among the participating laboratories.

In Turkey, the number of such testing instruments (mostly HVIs) in present use is around 150, which is about 8 % of the total number of HVIs in the world[97]. The cotton exchanges, textile research centres, cotton ASCUs and major spinners all possess these instruments. Some spinners use the HVI to determine the suitability of cotton fibre characteristics for their spinning requirements, also to check the quality parameters to ascertain that these parameters are in conformity with seller's specifications. The test results are also utilised in blending different cottons to achieve the best mix for obtaining yarn with desired characteristics.

The use of the HVI in **India,** where the number of HVIs approached to around 300, is similar to that of Turkey, with the exception that as the cotton exports of India increased, so did the use of HVIs, with which the test results have become important tools of cotton marketing. The use of HVI has also become important in **Egypt** for testing the quality parameters of the Egyptian cotton, while classing and grading is still done manually.

The significance of standardised instrument testing of cotton quality parameters has been well understood by the testing laboratories, cotton classification and control institutions, spinners and warehouses in all the three countries. The ultimate aim should be to measure the quality parameters *per bale basis*, as it is done in the USA, Australia, South Africa, Brazil, etc.

4.5.3 Lessons Learned related to Government Policy

4.5.3.1 <u>Attribution of importance to cotton by governments:</u>

The governments of India, Turkey and Egypt have all attributed great importance to cotton and to its value chain. Cotton alone has been one of the best known cash crops, an important source for earning foreign currency, as well as providing employment directly and indirectly to millions of people. For example, cotton has been so important to **Egypt** that after a long spell of nationalisation between 1952-1985, governments preferred keeping control on cotton for another decade, *even after the liberalization in all other crops had taken place* in 1987. The importance attributed to cotton in **India** and **Turkey** was also significant, since both countries, like many others, saw cotton as the strategic commodity for developing their respective T&C industries.

4.5.3.2 <u>Government policies on the development strategy of CTC value chain</u>:

Turkey appears to be the most successful case in the formulation and implementation of a development strategy for its CTC value chain. It was just after Turkey entered into a "planned period in a liberal economy"[98] based on an import substitution policy between 1960-80 that heavy investments in cotton spinning and subsequently in weaving/knitting occurred, mostly by the private sector with the necessary investment incentives of 1970s and 1980s. The textiles products

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[97] *Personal communication with the USTER representative agent in Istanbul, Turkey.*

[98] *The State Planning Organisation was established in early 1960s and Turkey started to implement the "Five Year Development Plans".*

were increasingly channelled to exports, whereas the entry of the clothing sector into exports was after mid-1980s, surpassing the textiles exports exponentially since 1990s.

Before 2002 in **India,** promoting one segment of the cotton value-addition chain at the cost of the other important segments, had led to imbalanced development of the sector, especially in woven textiles. As a result, India had to import good quality fabric in large quantities for its cotton garment segment. **India** has also successfully integrated the value-addition chain of cotton as a result of recent modernization of the spinning, weaving and garmenting segments.

Despite relatively late start, **Egypt,** through the initiative of its private sector, has also increased country's exports of T&C products through the utilisation of various government incentives and institutions developed on the basis of public private partnerships. *The decision of the government in 2004 to separate the garment sector from the local spinning and weaving industry so as to allow garment producers to get their needs of raw materials from any source*[99]*, in other words to allow its clothing sector to import freely its fabric needs is also a good lesson to be learned, which can also be taken into account in the development strategy of the WCA countries.*

4.5.3.3 <u>Government policy on the exchange rate</u>:

It is a well learned lesson that *the export competitiveness of **Turkey** significantly increased every time a devaluation of the TL took place.* This finding was also confirmed soon after the "24th January 1980 Decisions", with which TL was devalued, that the exports showed a dramatic increase[100]. *The case of an **overvalued domestic currency** has also been experienced by Turkey on many occasions in the past, when a slowdown or even stagnation in exports were evident, while the imports displayed a sudden jump.* **Egypt** had similar experiences with the Egyptian Pound, which was devalued by 6.4% in August 2001, followed by a decision to let it to free floatation in January 2003, which prompted significant increases in exports[101]. **India** had two major devaluations during the past 50 years, these being in 1966 and in 1991, respectively. Before 1991, India had *a fixed exchange rate system*[102]. At the end of 1990, India faced high inflation, large government budget deficits, and a poor balance of payments position. Following the devaluation by about 19% in 1991, the Rupee underwent a change from a controlled regime to a *"managed"* float regime, where the market supposedly determined the exchange rate. At the same time many economic and financial reforms had been initiated which lead to significant improvement in country's main industrial sectors, in particular in the export performance of the T&C sectors. No major adverse development has been reported on the exchange rate system in **India** since 2000.

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[99] *"Future of Public Sector Spinning and Weaving Mills", Speech delivered by Dr. Moukhtar Khattab, the Egyptian Minister of Public Enterprise, in the Conference "The Egyptian Cotton Industry: Growth Through Private Investment", held in Cairo, Egypt on 15th May 2004.*

[100] *Gazanfer, S.: "Analysis of the Cotton Value Chain of Turkey and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO Document, TE/RAF/06/012/11-53, (2007)*

[101] *"Devaluation of Egyptian Pound Creates Sigh of Relief in Financial Circles", the International Reports prepared by the Washington Times, Egypt 2001 Report.*

[102] *Johri, D. and M. Miller.: "Devaluation of the Rupee: Tale of Two Years, 1966 and 1991" in Devaluation-Concept and Cases, ICFAI University Pres (2007).*

4.5.3.4 Government policy on regional and bilateral trade agreements:

Global and regional integration had been a key driver for pushing the Turkish and Egyptian T&C sectors forward especially during the recent years. **Turkey** appears to be the most liberalized country in the way of opening her economy to global competition. As part of the Customs Union with the EU in 1995, **Turkey** made significant changes in her tariff regime, abolishing customs duties for industrial products with the EU and drastically lowering the tariffs with third countries to the same level as the EU tariffs. Furthermore, signing Free Trade Area Agreements (FTAs) with the EFTA countries, as well as with many other countries, including Morocco, Tunisia and **Egypt**, greatly simplified trade in T&C, especially under the inward/outward processing regimes. These agreements also contributed to the improvement of regional trade and cooperation possibilities.

Egypt has also been extremely active during the last decade by entering three *regional trading agreements*—the largest and most ambitious being the Common Market of Eastern and Southern Africa (COMESA). The others are the Pan Arab Free Trade Agreement (PAFTA) and the Aghadeer Declaration, based on *bilateral* trade agreements between Egypt and other Arab countries. Egypt had also entered into eight *bilateral* trade agreements, six with Arab countries, one with the EU, and the most recent one with Turkey. Negotiations for preferential trading arrangements with the United States were also in progress with QIZ protocol already implemented starting from January 2005.

4.5.3.5 Government policy on promoting investment:

Improvements in the business environment and promotion of competition were necessary preconditions for attracting needed local investment and the FDI. Furthermore, *export orientation, integration with the global value chain* and *attraction of the FDI* were acknowledged to be the only means for moving up the value added ladder particularly in light of recent changes in the global textile production and trade patterns.

A. Domestic investment:

In order to encourage the modernization of its domestic textile industry, **India** introduced a number of incentives, namely; the rationalisation of indirect taxation system concerning the textile value chain; progressive reduction of import duties on textile machinery, and promotion of the power loom, clothing and apparel segments through various schemes, particularly encouraging the processing and finishing sector through concessional finance under TUFS. In **Turkey,** a tax reduction provision was recognised to investors, as part of the general investment encouragement scheme. T&C sectors were the beneficiaries so long as the projects were approved by the Treasury.

B. Foreign Direct Investment:

Until recently, the amount of foreign direct investment attracted to **India, Turkey** and **Egypt** in the T&C sectors have remained limited, and not exceeding a few percentages of the total FDI coming to each one of those countries. The recent decision of India to allow 100% FDI is expected to give some impetus to the areas of the textile machinery, textiles and apparel manufacturing, synthetic fibres and technical textiles in the very near future. The FDI to Turkey had shown a significant

increase soon after the entry of the Customs Union with the EU in 1996 and, thereafter, especially as the FTAs had entered into force and as increased use had been made of the FTZs. A similar positive development was observed in Egypt, particularly after more liberalised and market oriented measures had been taken in 2004 to develop the T&C industry.

4.5.3.6 Government Policies on Cotton Pricing or Support:

A. Seed cotton pricing policies:

Seed cotton pricing policy was very important in all the three countries, because the majority of growers tended to sell their *seed cotton* immediately after harvesting. For many years in the past, growers in **Egypt** had to sell their *seed cotton* to a sole buyer, which was a public enterprise. The introduction of a direct support in the form of a *"Premium Payment"* for each kg of seed cotton delivered was regarded as an important reform in 1993 in **Turkey.** This premium system has been in constant use since the 1998/99 season. The system has so far worked successfully. However, low premium payments and huge imports at suppressed prices were the most detrimental factors causing stagnations and even drop in domestic cotton production at certain years.

B. Lint cotton pricing policies:

It was appropriate for **Turkey** to create *a Price Support and Stabilisation Fund (PSSF),* which enabled the imposition of *"export levies"* or *"export refunds"* on cotton exports during 1970s and 1980s, depending on the world price developments. It was due to almost complete transparency in world cotton prices and the increasing needs of the Turkish textile industry for cotton that imports, which started in mid-1980's, continued to increase in an exponential trend until today. Currently, domestic market prices for lint cotton are largely dictated by the prices of imported cotton. *Thus, making the exports and imports of cotton in Turkey without any restrictions in addition to zero customs duty starting from 1990s, was the most successful step in the creation of a completely liberalized trading environment for cotton, which enabled the T&C sectors to develop in an accelerated pace. India also followed the same policy towards the end of 1990s and Egypt in 2004.*

4.5.4 Institutional building

All the three countries have been successful in institution building given the fact that they each have a deep history of cotton cultivation and T&C industries. **Table 4.7** gives a list of major institution building in India, Turkey and Egypt. It should be pointed out that the list given in this table is not exhaustive because it covers only the most relevant examples.

4.5.5 Product ranges

Turkey, India and, to a certain extend, **Egypt** have all successfully integrated the value-addition chain of cotton, as a result of modernisation at varying levels of their spinning, weaving/knitting, dyeing, finishing and garmenting segments. Currently, cotton imports of increasing quantities were vital for Turkey in order to meet the growing demand of its T&C sectors, while India aimed at increasing her cotton production, for using it in making value-added products and exporting the surplus. **Egypt's** strategy was to export its LS and ELS types and import medium staple length "upland" types for her growing T&C exports, which do not justify the use of the LS or ELS types.

Currently, almost 50% of the global T&C is manufacturing and trading what is referred to as the ***"commodity textiles",*** which are generally *ordinary* items that can be produced by any country. The decisive factor in this type of production is generally the price. **In Turkey**, there is still a certain section in the production base, which can provide T&C items at prices, which are dictated by the buyers. This capability is largely due to the use of inward/outward processing regimes to lower costs, geographic proximity, quick response and timely delivery. With the lifting up of the quotas, more and more pressure has been exerted on the suppliers in the form of demand for lower prices, hence **Turkey's** strategy is to move upwards in the quality ladder and target the ***"fashion market"***, which has around 20% market share. It is thought that the Turkish manufacturers/ exporters can still continue operating in this segment, without much difficulty. The ***"high valued fashion market segment",*** on the other hand, concentrates on high value added fashion products with mainly well known foreign brands or suppliers' own brands, the latter being on gradual increase. Although the market share is between 5-10%, there exists relatively less competition in this segment.[103]

Parallel to the above, a growing market is developing for the *"**technical"** or **"intelligent"** textiles,* which are highly technical and largely dependant on R&D capability as well as technical infrastructure, including educated and experienced workforce. This segment covers a wide spectrum, including textile and clothing products, which are used in, health, construction, transport, agriculture, protective clothing, geotextiles, etc. Presently, there is a growing number of companies in **Turkey** which are engaged in these textiles.

India is also concentrating her efforts in own brand development because around 90% of Indian apparel exports were entirely dominated by various global brands, and Indian exporters were merely suppliers to such brands. Therefore, a Public Private Partnership (PPP) approach was again the appropriate strategy to develop globally acceptable Indian apparel brands[104].

In **Egypt**, much neglected T&C industry is expected to catch up with the other major T&C manufacturing and exporting countries, thanks to the relatively cheap labour and energy, as well as incentives for FDIs, and a strong determination by the private sector to develop the industry, which is reflected in the long term development strategy of the T&C sectors[105].

4.5.6 Testing and Design Support

All the three countries have established textile testing and design facilities, some of which belonged to public while the others to private ownership. In **India,** these facilities were also developed on (PPP) basis with the objective of expanding testing and design culture in the industry. Organisations, such as *Textile Research Associations* and *Textiles Committees* were encouraged by

[103] *Gazanfer, S.: Personal communication with textiles and clothing manufacturers (2007)*

[104] *Sahu, M.: "Analysis of the Cotton Value Chain of India and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO Document, TE/RAF/06/012/11-53, (2007).*

[105] *Abla, AL.: "Study and Evaluation of the Egyptian Textile and Clothing Industry – Lessons drawn for the promotion of the Cotton Sector in Cotton Producing West and Central African States". UNIDO Document, TE/RAF/06/012/11-53, January (2007)*

government for establishing design and internationally accredited testing centres.

Turkey has also been successful in the establishment of new research and development centres, with international accreditation, which is vitally needed for her fast expanding T&C sectors. Some of SÜMERBANK's quality control laboratories were transferred to the ownership of TÜBITAK[106], during the privatisation process of the former. Similarly, the creation of *the New Textile Technology Centre in Egypt* under the Ministry of Trade and Industry (MTI) in 2004 to initiate a network of innovation and technology transfer in collaboration with Cairo University was an essential step forward for expanding Egypt's testing and design capacity in the T&C sector.

4.5.7 Training

The importance of training appears to be one of the best learned lessons by all the three countries under the study. However, **India** seems to be the most successful in this field, where promotion of quality manpower through various institutions and training centres under the PPP mode have been intensified, especially in anticipation of the needs for the 11th Five Year Plan period. The T&C industry associated development institutions were encouraged to set up jointly such training centres. *The role of government was limited to one time assistance towards the cost of establishing such centres, including the overall support and co-ordination to ensure effective implementation of the initiative.* Ministry of Textiles proposed to establish 100 such training centres under the PPP mode close to the textile clusters. In **Turkey,** the T&C industry showed an accelerated development following the Customs Union with the EU, with increasing importance on the training activities, which became an urgent necessity at all levels, from the universities down to vocational training.

4.5.8 Other Lessons Learned

4.5.8.1 Other lessons learned specific to India:

- ***Creating textile specific infrastructure:*** It was a very successful initiative by **India** to gather individual textile units, mostly the SMEs, within clusters and to provide the industry with excellent infrastructural facilities on public private partnership (PPP). The Scheme for Integrated Textile Parks (SITP) had been launched by India in 2004. ***Government's contribution to this scheme was 40% of the total investment cost, while the remaining 60% would be met by the private sector.***
- ***Introduction of Bt cotton:*** Establishing successfully a sound institutional mechanism for the introduction of new Bt and other hybrid and improved varieties of cotton in India.

4.5.8.2 Other lessons learned specific to Turkey:

- ***Adoption of the export-led development model*:** Turkey's adoption of the export-led development model, with the decisions of the "24th January 1980", which had measures of radical character, made the manufacturing industry, especially the T&C industry flourish, positioning Turkey among world's leading textiles and apparel exporting countries.

[106] *The Turkish Scientific and Technical Research Organization,* ***www.tubitak.gov.tr***

- ***Important role played by the ASCUs:*** Since their establishments in 1940s, the ASCUs dealing in cotton (and other commodities) have become strong organisations capable of regulating the domestic markets and protecting the interests of the growers. It has, however, been a source of criticism that decreasing the agricultural subsidies made many commodities uncompetitive in world markets. Furthermore, it has been argued that the restructuring of the ASCU's caused these organisations lose their former strengths in the domestic and international markets, rendering them also unable to protect their members' interests.

4.5.8.3 <u>Other lessons learned specific to Egypt</u>:

- ***Making best use of the domestically produced cotton:*** Egypt had been wrongly confined to LS and ELS cotton at a time when the industry needed shorter staple types. Towards meeting the needs of the T&C industry, Egypt started to import short/medium staple cotton, and redirected her LS and ELS cotton to either manufacturing higher valued T&C products or exporting the surplus cotton at much higher prices.
- ***Making the private sector the leader of the T&C industry:*** Egypt made a remarkable progress in converting its cotton and cotton based T&C industry, particularly the clothing sub-sector *from publicly owned and mostly inefficient organisations to mostly privately run efficient and competitive entities*. Since the ultimate aim is to make the private sector the leader of the T&C industry, transformation will continue, especially in the textiles manufacturing stages, which presently impede the export obligations of the clothing manufacturers and exporters, who, as an alternative, try to overcome this set-back by importing their needs of fibre, yarns and fabrics.

A comparison table has been prepared, showing the degree of success or impact of various activity areas, in which **India, Turkey** and **Egypt** had gained valuable experiences **(Table 4.8).** Under the "Σ Impact" heading, total degree of impact of each activity within a group was also shown in a decreasing order. It is interesting to note that the learning cycle has not finished for anyone of the three countries. *Marketing the T&C products under companies' own brands, price risk management in cotton* and *the exchange rate risks*, are the main areas needing further improvement for all of them.

CHAPTER V

5. EVALUATION OF STRATEGIC OPTIONS RELATED TO THE DEVELOPMENT OF CTC VALUE CHAIN IN THE WCA COUNTRIES

5.1 THE METHODOLOGY USED FOR THE IDENTIFICATION / FORMULATION OF STRATEGIC OPTIONS RELATED TO THE DEVELOPMENT STRATEGY OF THE CTC VALUE CHAIN

5.1.1 Comments Related to the Applicability of the Findings of the Comparative Study to WCA

The comparative cotton studies of **India, Turkey** and **Egypt** have been coordinated and analysed, based on the successful results obtained and taking into account the lessons learned on various areas of interest. The study was then oriented towards *identifying actions / measures that could be effectively introduced in WCA and also identifying opportunities for partnerships.* There are three important aspects to which attention must be drawn in order to better understand the applicability of the experiences obtained to the problems encountered in the WCA countries:

Firstly, the experiences gained and lessons learned from the CTC value chains of **India, Turkey** and **Egypt** cannot be limited only to the decisions taken and results achieved during the immediate past, because even most of the present day achievements are, in one way or the other, the outcome of the political, infrastructural, institutional, technical and commercial, etc., foundations, which had been laid down many decades ago in the past and also as a result of the revisions and improvements of these foundations as it became necessary during the course of time. Therefore, the above mentioned experiences *may not be readily and directly applicable to the cotton sectors of the WCA.*

Secondly, what were regarded as the most appropriate strategies, say 20 years ago, for any one or all of the three countries in the comparative study, may not appear to be appropriate in today's international business environment because of the new rules and regulations, which have encircled the individual countries as a consequence of the globalization process.

Thirdly, the resulting success or failure in the applicability of such strategies will largely depend on the degree of similarities/differences of the social, economic, administrative, commercial and even the physical environments between India, Turkey and Egypt and the WCA countries.

5.1.2 Development stages of the CTC value chain

Different development stages of the T&C industry is very clearly explained in a UNIDO document[107]. These development stages are shown in Figure 5.1 (which is Chart 4 in the above

[107] *"Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa: Supporting Trade and Building Productive Capacity", page 11, Chart 4, UNIDO, January (2006)*

referred UNIDO document), where the initial development stage starts with the natural resource, which is *natural fibres* and *yarn*, moving downstream to traditional weaving and dress making, using traditional methods with micro-enterprises, which possess low level linkages. This stage is followed by a labour intensive technology using unskilled labour force. The fourth stage is characterised by both labour and capital intensive technology producing high quality fashion textiles and fashionable garments, ultimately reaching at the final development stage, where the driving force is the know-how, with design, marketing and retail services being at the forefront of the T&C enterprises.

In a normal development model, the above described sequencing would be the most logical and preferred approach, which has also been the followed development sequence for many countries, which have been successful in the development of their textile and clothing industries, Turkey being an excellent example. In other words, most of these countries have passed through similar development stages, as shown in Figure 5.1. However, studying the recent past and present stage of development of the cotton industry of WCA, including the investments made so far in the region, it can be argued that even the first stage of development has not yet been fully achieved. In other words, besides ginning capacities, which are just enough to meet the present seed cotton production, there is not even sufficient spinning capacity, neither in operation, nor even at the investment phase, taking as an exception some minor investment initiatives on spinning in some countries in WCA.

It was previously shown that the consumption of cotton is negligibly low in most of the WCA countries, not even reaching at 5000 tonnes levels annually, with the exception of **Nigeria,** where cotton use is almost 80% of the cotton production, and where there is even a need for cotton imports of about 15 000 tonnes/year. **Ghana** and **Cote d'Ivoire** are the other two countries, where annual cotton consumptions compared to their production levels are higher than the levels prevalent in the other countries. *Therefore, it can easily be concluded that there is practically no significant spinning activity, nor capacity in most of the WCA countries.*

5.2 IDENTIFICATION OF STRATEGIC OPTIONS AND THEIR EVALUATIONS

5.2.1 Identification of the strategic options

It is important *firstly* to argue that theoretically speaking, there are numerous options in sequencing the three different components of the CTC value chain with different combinations within the WCA countries. However, evaluating all the combinations without eliminating the ones, which are simply *impractical*, will naturally turn it into an unnecessary and time consuming exercise. Therefore, *only the practically possible* combinations will be taken up for closer evaluation.

Secondly, in putting down even only the practically possible combinations of the different parts of the CTC value chain, this will be done *only for selected countries*, the selection being based on the outcome of the feasibility studies, which will have to follow. This is a more rational and realistic approach because of the limited resources, which can be used only in those countries where the

development of the CTC value chains indicate viability.

Thirdly, the decision making process in the evaluation of the practically possible combinations, as well as in the identification of the selected countries, will have to be based on the above mentioned feasibility studies and subject to the approval of the countries concerned, together with the availability of the necessary finance to implement the suggested development path. Therefore, some governments may opt to defer the initiation of some parts of the CTC value chain at a later time period or even never initiate them at all in their respective countries.

Lastly, at all stages of the evaluation and decision making process, the assessments should be based by giving priority to the concept of ***regionalisation,*** since, with this approach, better and more rational use can be made of the limited funds available, while, at the same time, the economic cooperation will be strengthened within the regions concerned.

5.2.2 <u>Assumptions made related to the evaluations of the strategic options</u>:

It would be appropriate to list major assumptions which had been made in relation to the evaluations of the strategic options. These assumptions are as follows:

- Reduction of poverty has the top priority for each country within the WCA.
- The welfare and a reasonable income of the people working in the agricultural sector in general, and in the cotton production sector in particular, is to be respected,
- The investment capacity in the CTC chain is limited due to limited resources, both in totality within the WCA or on individual country basis,
- Developing the cotton production chain within the overall CTC is indispensable for each cotton producing country (except in those countries where it is not viable due to various constraints, which cannot be altered/overcome or where there are alternative agricultural commodities to be cultivated more profitably),
- Regional cooperation will be intensified in :
  - research and development in cotton production, textiles and clothing activities,
  - trade and investment promotion,
  - infrastructure projects for road, railway, sea and air transport,
  - development of regional energy projects (gas, electricity, etc.,)
- Where appropriate governments will give the necessary support to the elements/components within the CTC value chain, subject to the availability of own or donor provided resources and provided these supports do not contravene the agreements signed with and/or commitments given to the WTO.
- Implementation of the selected development strategy will be based on the evaluations of each country individually, unless a regional strategy indicates a better proposition.
- In the long run, state involvement in the chain is to be progressively left to the private sector. Only those areas which cannot be easily and effectively handled by the private sector are to

be left to the public organisations, such as research and development, infrastructure, enforcement of standards, export/import customs controls, etc.

- Governments will make available to the private sector for extensive use of the Inward/Outward Processing Regimes, Free Trade Zones and/or Export Processing Zones.
- To simplify the trade of goods and services, every effort will be made to establish the Common External Tariff leading to a customs union within the WAEMU/UEMOA zone.
- Each government will take serious measures to combat against illegal imports, thus making domestically produced T&C products more competitive, while customs duties obtained through legal imports will contribute to the incomes of each country's treasury.
- *Presently there exists a severe shortage of electricity in the region and that despite intensive efforts, the total installed electrical power in West Africa is expected to double from the 6355 MW (in 2007) to 12 476 MW in 2010*[108]*. The inadequacy in the supply of electricity is one of the biggest constraints, which must be taken into account when considering investment projects requiring continuous supply of electrical energy.*

5.2.3 Identification of Strategic Options and their Evaluations:

Four development strategy alternatives have been identified, which can be subjected to further evaluation in order to select the most appropriate strategy for the CTC value chain of WCA. *It should be mentioned here that the sequence of these strategy alternatives reflect the writer's personal evaluations, from the lowest degree of preference to the highest, as they are introduced.* These alternatives are as follows:

1) Start developing the whole CTC value chain in *selected* countries at the same time.
2) Start developing the Cotton Chain first, subsequently the Textile Chain and finally the Clothing Chain in *selected* countries.
3) Start developing the Cotton Chain and the Clothing Chain in *selected* countries at the same time (omitting the Textile Part until necessity comes from the downstream Clothing Chain at a later stage).
4) Start developing the Cotton Chain and the *Spinning investments only* (within the Textile Chain), together with Clothing Chain in selected countries (omitting the *remaining* Textile Chain until necessity comes from the downstream Clothing Chain.

5.2.3.1 <u>Start developing the whole CTC Chain in *selected* countries at the same time</u>:

Although this strategy may appear at first very reasonable and even advantageous due to the fact that the selected countries will have complete CTC value chains in a given time period, a careful evaluation will soon indicate that there are many disadvantages, which would make it less likely to happen. These unfavourable factors are as follows:

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[108] *For further information, please visit:* ***http://allafrica.com/stories/200711180073.html***

- limited resources, most of which will be expected to be provided by donors, will not justify such a large investment risk, owing to its highly questionable chances of success,
- the donors will not look favourably at such a strategy, where the investments are made without a clear assurance of its viability,
- the already seriously inadequate infrastructure in the WCA countries, especially in electricity, transport, etc., as well as insufficient expertise in the supporting and auxiliary industries such as research and development, design, manufacturing and marketing capabilities and lack of well trained and experienced manpower resources cannot cope with such an upward jump.

It is due to the above given reasons that this strategy option is *the least favoured* alternative.

5.2.3.2 Start developing the Cotton Chain first, subsequently the Textile Chain and finally the Clothing Chain in *selected* countries:

In essence, this strategy represents the traditional development path, followed by many developed and developing countries, which have been successful in the development of their textile and clothing countries, including Turkey, India and, up to a certain extend, Egypt. There are a number of important aspects with the textile value chain, which would make it unfavourable for the WCA countries (and for many other cotton producing LDC countries in Africa or elsewhere) to adopt. These aspects are:

- The time span from moving the Cotton Chain to the Textile Chain and later developing the Clothing Chain can be extremely long (in the case of Turkey, the development of the textile sub-sector started mainly in 1970s, and has been going on until today with continuous renovations and sophistications in order to constantly remain competitive).
- The textile manufacturing companies are in a continuous phase of product development, requiring highly talented fabric development specialists as well as designers in order to increase or even maintain the market share. Textile industries of the developing countries generally lack this sort of skilled labour and R&D capacity, which force their clothing manufacturers/exporters to search for fashionable fabrics elsewhere.
- The textile industry is usually characterized as *capital intensive* and *highly automated*, which makes it compulsory to invest heavily and continuously, making the manufacturing companies also increasingly dependent on well trained labour.
- The textile industry is also characterised as a high consumer of energy and chemicals, the former being scarce and not in continuous supply, while the latter is mostly imported and gives rise to environmental pollution if sufficient measures, which are costly, are not taken.
- Following the abolishment of textile quotas, it has become increasingly easy to obtain finished fabrics from many countries with low cost manufacturing base, particularly from China and India, where such fabrics can be manufactured at much lower costs. The utilisation of inward/outward processing regimes has simplified the movement of goods with the least amount of cross border barriers such as formalities, duties, taxes, etc.

- The up-keeping of the textile factories in WCA, which were around 40 in number in the 1980s, producing various types of textile products, has been extremely difficult to due various problems. They became "uncompetitive" and had to close down, reducing currently the number to around 20 active factories[109].

In view of the above mentioned mostly unfavourable characteristics, drawbacks and limitations and considering that there exists a limited amount of resources available to the WCA and an apparent scarcity of entrepreneurs for such textile investments, ***it would not be an appropriate strategy to tie up most of these resources to the development of the textile sub-sector, instead it would be a more rational decision to develop the clothing sub-sector first which is not so much capital intensive and which offers much more flexibility in covering the finished fabric needs.***

5.2.3.3 Start developing the Cotton Chain and the Clothing Chain in *selected* countries at the same time (omitting the Textile Chain until necessity comes from the downstream Clothing Chain at a later stage):

This option is, in a way, a solution to the drawbacks and criticisms raised in the second option, which has just been dealt with above. Many cotton producing developing countries, which have not a well developed textile manufacturing industry, would opt for this option. *Besides, developing or the least developed countries, even if they have no cotton production, may directly choose to enter the clothing part, develop it especially for the purpose of exports.* Bangladesh, Lesotho, Madagascar, and recently Vietnam are good examples, where the clothing sub-sector has emerged as a leading manufacturing activity, with which direct benefit is obtained in terms of contribution to GDP, exports and employment. *Besides, the characteristics of the apparel industry are largely different than that of the textile industry as far as investments and labour requirements are concerned. Unlike the textile industry, the apparel sector is labour intensive and does not require high level skill or sophisticated training. It is also a sector, where relatively modern technology can be adopted even at low investment costs. It is due to the above mentioned positive characteristics that this option has been put under this ranking.*

It can also be suggested that those WCA countries, where there is little or no domestic cotton production, such as in Ghana, Gambia, Guinea, etc., may enter directly to the Clothing Chain.

5.2.3.4 Start developing the Cotton Chain and the Spinning investments only (within the Textile Chain), together with Clothing Chain in selected countries (omitting the *remaining* Textile Chain until necessity comes from downstream Clothing Chain).

This last strategy alternative is *a further refinement* of the previous strategy, where priority was given to the development of the clothing sector, by-passing the Textile Chain as a whole. In countries where there is ample cotton production, most of which is already exported as cotton, it may well prove to be more viable to invest in spinning operations, and export the yarn instead.

Many favourable arguments can be put forward and various advantages listed of the CTC value

[109] *Various reports related to textile industry situation in WCA.*

chain to support the recommendation made for the WCA countries to consider investing in the spinning component of the Textile Section. In simple terms, these *advantages* are as follows:

- Value addition can be doubled or even higher depending on the type of yarn and its count,
- Relatively simple technology in comparison to the other stages of the textile section, such as weaving, bleaching, dying, printing, etc.,
- No major difficulty in recruiting labour,
- Little or no environmental pollution (unlike the other stages of the textile section),
- No major marketing problem (China is presently the major importer of cotton yarn),
- Cotton yarn can always find buyers at reasonable prices.

Some of the *disadvantages* should also be mentioned, which are:

- High initial investment costs for machinery, auxiliary services, buildings, etc.,
- Continuous supply of electrical energy is essential to avoid frequent stoppages, which are detrimental in spinning, both affecting the quality and efficiency.

Taking into consideration all the relevant aspects, it will be clear that this option appears to offer the best strategy for the WCA. Therefore, this option has been selected.

5.3 AREAS OF INTERVENTION ON THE SELECTED STRATEGIC OPTION

Based on the above selected strategic option, attention will be devoted to the specific areas of intervention within the CTC value chain, where the experiences of India, Turkey and Egypt will be borne in mind and, where appropriate, *these experiences will be incorporated as part of the recommendations for each specific area.*

5.3.1 Improve the Cotton Cultivation and Quality Management System

The ultimate aim in cotton cultivation should be achieved by increasing yield, reducing input costs and improving farmer productivity. The role of training the farmers in acquainting them with Good Agricultural Practices in cotton cultivation is the key to success. In this respect, CIRAD (France) has been conducting development-oriented research to come up with family farming advisory systems, with which farmers' decision-making capacities and responsibilities are developed with the extension officers, who encourage discussion, initiatives and forecasts on both technical and economic aspects of overall farm operations[110]**.**

Since there are many areas needing attention and improvement on the cotton cultivation, ginning and pressing operations in almost all the cotton producing countries of WCA, an approach similar to the Technology Missions on Cotton (TMC) successfully implemented by India, (as briefly described in Chapter IV), is recommended for the overall improvement on cotton quality. *Professional linkages should be established with the research establishments of developed countries, such as with France (CIRAD), the UK, USDA, and also with Turkey, India and Egypt, in order to build knowledge-sharing networks of natural resource professionals*[111].

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[110] *CIRAD: "Family farming advice in West African cotton-growing areas", (2006).*

[111] *The OIC Action plan mentioned in Chapter III also foresees such a collaborative work among the cotton producing*

It should be pointed out that training and extension services are of paramount importance for obtaining the best results in cotton cultivation, ginning, classing and marketing. In this context, the Manual prepared by UNIDO entitled (in French) *"Manuel qualité pour les filières cotonnières UEMOA"* is an excellent collection of six handbooks, each addressing one aspect of the cotton production chain. *This material can be used in the training activities, firstly to train the trainers, who will subsequently train the various operators, workers, etc.* A holistic approach is required to improve the ecological and economic conditions of cotton production. Specific areas, which are related to cotton cultivation improvements, have been briefly discussed below:

5.3.1.1 Improve soil analysis:

It is widely believed that soil fertility is declining throughout the WCA region, mainly due to cotton cultivation, despite increased use of fertilizers in some of the cotton production regions. Soil degradation is mainly caused as a result of reduced fallow periods, less than optimal crop rotations, and non-replenishment of organic matter, especially in areas where no or inadequate use of fertilizer is prevalent. Tillage problems, lack of water control and retention practices all contribute to soil erosion and eventual desertification. Taking the necessary measures to educate farmers on the cause and prevention of soil degradation and loss of fertility should be an indispensable activity in the cotton growing areas of the WCA. Again, a collaborative work can be initiated between the research institutions among the countries mentioned above, including the OIC countries.

The laboratory analysis can be easily performed by any small laboratory belonging to the producer organisations, cooperatives or by the nearest district office of the Ministry of Agriculture. In Turkey, costs of such soil tests are also partly covered by the state to encourage the farmers to make testing of their soils. In doing so, not only productivity is increased due to more rational use of fertilisers, but significant reduction in environmental pollution is also achieved. *Through the extension services, farmers in WCA should be better informed about the soil analysis and effective and rational use of fertilizers. In order to meet the needs of the cotton growers, review the present system of soil analysis and, where necessary, suggest the establishment of new centres, where the soil tests can be conducted.*

5.3.1.2 Provision of inputs:

In WCA, depending on the individual cotton producing country, the provision of inputs are mostly either at the hands of producer associations or publicly owned cotton organisations, cooperatives, ginners, private traders, etc. Irrespective of the type of organisation, the importance lies on the establishment of an efficient and effective system of input selection, procurement, warehousing and distribution, as well as timely and correct use of these inputs.

To achieve such an efficient system, *it would be necessary to strengthen the organisation in charge of input handling.* Preferably, a direct link between the payment of seed cotton and the recovery of

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OIC countries, which cover most of the countries in the WCA.

input credits should be preserved. In this connection, the ASCUs in Turkey have performed such functions efficiently and to the benefit of farmers, because the inputs are usually obtained at lowest prices and sold to growers at more attractive prices as well as on credit terms[112].

5.3.1.3 Cotton Seed Quality Improvement:

Traditionally, research on cotton varieties in WCA was conducted in national research centres, which were often supported by some institutes abroad, particularly by CIRAD in France. Research on seed quality improvement should become an ongoing activity. However, owing to the limited resources that can be allocated to cotton research, collaborative work can also be conducted with the cotton research institutes of India, Turkey and Egypt. Such a collaborative work had already been recommended and foreseen in the IDB Action Plan[113], in the OIC Action Plan[114], as well as in the work plans of many other initiatives.

The present conventional cotton varieties necessitate heavy use of inputs, which, in turn, not only increase the production costs, but also the environmental pollution. *Therefore, cotton seed research should concentrate more on the low-input varieties.*

5.3.1.4 Adoptability of Bt cotton:

It is widely argued that one of the advantages of using Genetically Modified (GM) or Bt cotton is that the application of chemicals (especially pesticides and insecticides) which directly cause environmental pollution, is brought down to a minimum. It is also claimed that there are concerns regarding the difficulty of keeping Bt and non-Bt cotton cultures separated, and the risk of insect resistance. Since the Bt and GM issues are of extremely controversial nature, particularly in developing countries, it is believed that it should be carefully, objectively and scientifically handled. *Therefore, it is recommended that the studies related to the adoptability of Bt cotton to WCA countries should be thoroughly reviewed, taking into account all the pros and cons, as well as the experiences of the other countries, which have largely switched to Bt cotton production.*

India appears to offer an excellent example for conducting such a study, considering that she has successfully developed the use of Bt cotton technology in the very recent years. Besides, the World Bank has also been working with the Global Environmental Facility (GEF) to prepare a regional program in bio-safety which could help Benin, Burkina Faso, Chad, Mali and Senegal in the preparation of a framework for evaluating and, in some cases, testing GM type crops. There were also the US government and the Agence Française de Développement (AFD), which could be involved in this work[115]. Burkina Faso, which has conducted trials on Bt cotton during the years, appears to be very close to making a final decision on its commercialization[116].

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[112] *Similarly, the Agricultural Credit Cooperatives, ACCs (in Turkey) or the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), through its agricultural marketing cooperatives, supply also inputs, such as chemicals and fertilisers on credit terms.*

[113] *Approved at the 1st Expert Group Meeting of Cotton Producing Islamic Countries, held in Jeddah, (2005).*

[114] *OIC action Plan was approved by the COMCEC in its Istanbul meeting between 21-24 November 2006*

[115] *Statement by the representative of the World Bank at the Fifth Round of Informal Consultations on the Development Assistance Aspects of Cotton, WTO, 28 October 2005.*

[116] *ICAC Recorder, p.3, December, 2007.*

5.3.1.5 Potential for producing organic cotton:

The market for organic cotton is growing as a result of increased tendency to use organic cotton in T&C, manufactured either with 100% organic cotton or using a small percentage within the conventional cotton, as it has been largely publicised by some famous brands. The market growth is especially remarkable in countries, such as Switzerland, Germany, the USA, the United Kingdom, the Netherlands, Italy, etc. Until recently, **Turkey** had been among the leading producers of organic cotton, together India and the USA. However, due to the insufficiency of the premium paid in the market and as a result of increased costs, production of organic cotton is expected to drop in the near future in leading producing countries, such as Turkey and the USA.

An interesting example of organic cotton production is in WCA, where Helvetas[117] has been running, since 2004, an organic and Fair Trade[118] cotton programme at a regional level (in Burkina Faso, Mali, Senegal and Benin) in partnership with two Swiss governmental agencies[119]. Helvetas aims at bringing together all those stakeholders within the vertical value chain in order to set up a partnership between cotton producers, their organisations, seeding plant operators, cotton traders and their customers. In Burkina Faso, Helvetas cooperates with the National Union of Burkina Cotton Producers[120], who advises and assists the producers in converting to organic production. The organic cotton produced is processed and marketed by Paul Reinhart AG, an international cotton trading company based in Switzerland, and Hess Natur, a German clothing company.

Helvetas also attempts to establish a partnership between producers in the South and consumers in the North and to obtain fair prices for the producers. It is interesting to note that organic cotton growers in this project had been guaranteed a total price of 306 CFAF /kg [121], (compared to 175 CFAF/kg received for conventional cotton), which seems to offset the income loss occurred as a result of yield drop, which is usually encountered in organic cotton production.

The successful experiences gained in growing organic cotton in WCA, as well as in Tanzania and Uganda[122], can be a source for encouragement for some of the NGOs and/or commercial companies in the Northern countries to increase such examples, thereby expand the organically grown cotton areas in the WCA countries. Northern NGOs supporting the production of organic cotton should be able to convince those commercial companies, the international donors as well as the policy makers on the viability of African organic cotton, which would justify them to absorb

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[117] Helvetas *is Switzerland's first private organisation for development co-operation. It was founded in 1955 as an independent association, independent religiously and politically, and gathers now 43,000 members. It is committed to help the most disadvantaged people from more than 20 countries around the world.*

[118] *Fairtrade certified cotton carrying the FAIRTRADE Mark was launched in the UK in November,2005*

[119] *These two agencies were the Secretariat for National Economy (SECO) and the Development and Co-operation Directory (DDC), respectively.*

[120] *A cotton producers organisation, having 210 000 grower members in 7005 producers groups located in 4162 villages*

[121] *According to the annual report, Organic Cotton Project in Burkina Faso, 2005(in French): "the final price to the farmers will depend on the market but farmers have been guaranteed a minimum price of 245 FCFA/kg for organic cotton and 272 FCFA/kg plus a fair-trade premium of 34 FCFA/kg for social projects (totally 306FCFA/kg) for organic-fair-trade cotton."*

[122] *Ferrigino, S. et al: "Organic cotton: A new development path for African smallholders?", The International Institute for Environment and Development. The Gatekeeper Series 120, (2005)*

initial costs and investments until the area devoted to organic cotton production significantly expand and, as a result, the economies of scale can be reached.

The examples given above also indicate that it might be more advantageous for the poor cotton farmers of the WCA countries to turn to organic cotton production, where the low cotton yields can be compensated with better prices. *Therefore, the possibility of allocating new areas to organic cotton cultivation should be evaluated by the WCA countries, and where necessary, such areas should be offered for collaborative cultivation trial projects with companies/organisations in Europe and in the USA, which promote the production of organically grown cotton.*

5.3.1.6 Improve the classing and grading system of seed cotton:

In WCA, there is often a malpractice when seed cotton is classed because often the tendency is to class the seed cotton as the good quality, although, in actuality, it is of inferior quality. This malpractice largely eliminates the motivation of the growers to show due care to improve quality. Furthermore, with such a practice, really good quality cotton is mixed with seed cotton of lower grades, which results in downgrading the overall quality unnecessarily. The recommendation made by the UEMOA study group[123] to overcome the above mentioned problem, *by way of establishing a base grade for a lower quality cotton, which might better represent the quality of majority of cotton, and give a "quality premium" to only those seed cotton deliveries, which truly and distinctively possess much better or superior quality parameters*, appears to be a very logical approach.

5.3.1.7 Improve the ginning and pressing operations:

The role of **ginning** in cotton quality is extremely important, hence correct ginning operation is a prerequisite for obtaining good ginning outcome. In WCA, where invariably saw-gins are used, the problem exists mainly in the low capacity utilisations due to obsolete equipment, difficulty of obtaining spare parts, etc. The recommendations for the improvement of ginning and pressing operations would be as follows:

For the improvement of the ginning and pressing operations, as well as obtaining cotton with consistent quality parameters, the preparation of the following feasibility studies is recommended:

- *for upgrading the ginning operations in the WCA, and deciding on the form of support after making an assessment of the present state of the gins and the requirements for their upgrading, including the ancillary equipment such as pre-cleaners, humidifiers, etc. The decision on cost sharing of such an upgrading operation can be made after the completion of such a feasibility study, but a moderate share, similar to the TMC and TUFSs Scheme of India, could well be considered,*
- *for setting-up of a regional structure to ensure regular availability of ginning spare parts, including their procurement, warehousing and distribution,*

[123] *"Identification d'un plan d'action d'amélioration de la qualité et de la valorisation de la qualité du coton dans les pays de l'UEMOA", Rapport d'étude Préparé pour le Programme Qualité de l'UEMOA, (l'ONUDI), (2004)*

- *for the viability of using roller-gin type ginning equipment in the new ginning factories, since the experience of India, Turkey and Egypt on roller-gins indicate successful ginning results, especially on hand-picked cotton. Besides, the investment and the operational costs in the roller-gin installations appear to be lower than the costs encountered in saw-gins, in addition to the advantages of roller-gin equipment being of robust structure with no major breakdown nor maintenance problems (see Box5.1),*
- *for the establishment of a regional ginning school, which can systematically train the ginnery managers, technicians and other key personnel,*
- *for the establishment of cotton quality parameters per bale basis, identifying the adoption of measures necessary in all phases of cotton production chain within the WCA.*

5.3.1.8 <u>Improve the classing and grading of lint cotton:</u>

Almost all the WCA lint cotton is manually classed and graded, whereas currently in many cotton producing countries, such as the USA, Australia, South Africa and recently Brazil, instrument based classification is widely used. Besides, the work conducted by the ICAC in enabling the trading of cotton based on the results of standardized instrument testing has intensified.

The collaborative work with the testing laboratories continues with the aim of achieving the repeatability and reproducibility of the test results among the participating laboratories. Furthermore, in a CFC supported project being implemented with the ICAC[124], cotton testing laboratories of the African cotton producing countries are being assisted in their preparation towards meeting the requirements of the Commercial Standardisation of Instrument Testing of Cotton (CSTIC), through two separate *regional technical centres*, one being in West Africa (Mali) and the other in East Africa (Tanzania), respectively.

Since the WCA cotton is still a major export item in the world cotton markets, better recognition of its quality should be attained through the presentation of quality parameters determined with universally accepted methods. If the use of *Standardised Instrument Testing of Cotton, SITC,* is well adapted to the measurement of the quality parameters of the WCA cotton, this will help its correct positioning in the international markets, enabling the exporters and the growers fetch better prices. Furthermore, when the SITC is fully operational, it is expected that any disputes on cotton quality between buyers and sellers will be easily and quickly settled by making reference to the SITC measurements. Therefore, *preparatory work related to the SITC must be speeded up together with the necessary training of the operators who will be using and maintaining such equipment. This work should be conducted in those technical centres, where the four HVI units have already been installed in coordination with the ICAC and the implementation team.*

Box No 5.1: Developments in Roller-Ginning and Saw-Ginning Techniques*

Ginning, in its strictest sense, is the process of separating cotton fibers from the seeds. A short account of the developments related to the ginning techniques is given below:

[124] *Gourlot, J.P and Drieling, A.: "SITC Activities for Assuring the Reliability of Cotton Instrument Testing in Africa", Beltwide Cotton Conference, New Orleans, (2007).*

Development of the Roller-Gin

The roller gin was the first mechanical device used for ginning cotton. It used two rollers that pinched and pulled the fibers from the seeds. This roller gin was the primary ginning tool until Eli Whitney's saw gin was invented in 1794. The saw gin did not replace the old roller gin use entirely because McCarthy invented an improved roller gin in 1840. Although much slower, the roller-gin was more gentle to the cotton than the saw gin, whose serrated saws tended to break more the fibers. Although the roller gin continued to be used for ginning mainly extra-long-staple cottons, its low ginning rate (output) had made it too expensive to maintain and operate. It was in the 1960s, when the rotary-knife gin was developed in the USA that roller gins became more efficient and less expensive to operate. Since then, roller gins continued to be used in the USA for ginning Pima cotton to protect its extra-long staple, which is a desirable quality that increases the value of the cotton fiber. For the same reason, Egypt, a major producer of Long Staple (LS) and Extra Long Staple (ELS) cotton has also been using rollergin equipment. It is interesting to note that in some of the major cotton producing countries, such as India and Turkey, where mainly "upland type" cotton has been grown, roller-gin equipment have also been in preference.

Development of the Saw Gin

Eli Whitney from America invented the saw gin in 1794. Whitney's saw gin, which removed the seeds from the cotton fibers with a spiked cylinder that pulled the lint through wooden slots too narrow for the seeds to pass through, was 50-100 times faster than hand ginning, which was widely used until then. It was especially effective in separating the hard-to remove seeds in "upland cottons", making these short-staple cottons more economical to produce than before. With Whitney's saw gin, farmers were finally able to mass produce "upland cotton" to satisfy consumer demand. Modern research has improved this old concept, and today saw ginning remains the most widely used method to gin cotton. The spikes in Whitney's saw gin have been replaced with circular serrated saws that have made it even more effective for separating seed and fiber. Today's saw gin can produce up to 15 bales of lint an hour per unite (bales weighing 480 lb).

Research Programs in Ginning

There is research both in saw and roller ginning to cover all major stages of the ginning process, from seed-cotton conditioning and cleaning, to ginning and lint cleaning. The aim of these research studies is to develop, test, and adapt new ginning equipment and techniques that will:

(1) increase lint production and its value,
(2) preserve the quality of the cotton fiber, and
(3) reduce or eliminate the air pollution associated with cotton ginning, at minimum cost

Research programs in saw-ginning aim at developing more efficient seed cotton cleaning and conditioning methods, as well as safer ginning and lint cleaning devices. Other programs focus on finding ways for gins to combat air pollution and deal with the problems of ginning "sticky cotton".

Research programs in roller-ginning aim at increasing the output of the roller-gins. Scientists in the USA, in cooperation with Cotton Inc. (USA) and commercial cotton gins have increased roller ginning rates by a factor of four on both upland and Pima cottons. These greatly increased ginning rates have been attained while still maintaining the expected high fiber quality of traditional roller ginning. Successful commercialization of this technology will enable upland cotton producers to deliver a higher quality fiber to world markets.

Use of roller-gins: Presently, abot 20% of world cotton is rollerginned, mainly in India (75%), Turkey (85%), Egypt (100%), USA (5%, Pima only), Uganda (100%), etc. A comparison between roller-gins and saw-gins is given below:

Roller-gins versus Saw-gins

Advantages of Roller-gins	***Situation in Saw-gins***
- Much lower investment costs, *- Less damage to cotton fibre,* *- Simple and robust design, easy to operate,* *- No major repair and maintenance problems,* *- No major need for specialised manpower*	*- Considerably higher investment costs,* *- Damage to cotton fibre (fibre shortening),* *- More complex design, not so easy to operate,* *- Major repair and maintenance problems,* *- Need for highly specialised manpower*
Disadvantages of Roller-gins	***Situation in Saw-gins***
- Low ginning output *- Not very efficient in cleaning thrash* *- Higher cost of ginning per bale*	*- Comparatively higher output,* *- Efficient in cleaning thrash* *- Lower ginning cost per bale*

** Compiled from a desk research*

It is also recommended that as the manual testing of cotton will continue, at least for the near future, cotton technical centres should periodically organise training courses or workshops for the classing and grading experts to ensure that manual classing and grading operations for both seed and lint cotton are performed in the best and most objective manner.

In conclusion, it appears to be the most logical approach to continue with the manual classing and grading for the present time, with improvements where necessary. However, owing to its distinct advantages, it should be the ultimate goal for the WCA cotton industry to prepare itself towards classing and grading, based on the SITC measurements per bale basis. A comprehensive plan will have to be developed to attain this goal successfully.

5.3.1.9 <u>Minimise or totally eliminate contamination</u>:

It would be extremely difficult to give a single recipe for the elimination of contamination. However, drawing up a strict code of practice for each step in the cotton production chain from harvesting to the spinning stage, and educate each human element involved in these stages, would be the ideal approach in minimising, if not totally eliminating, contamination. *Such training and education activities may be supplemented by a price incentive for contamination free cotton.*

Attempts to minimise contamination in India through a sustained campaign of the Best Management Practices by farmers, auctioneers, ginners, etc., and successful implementation of the modernization of the market yards and ginning and pressing mills under the Cotton Technology Mission, the quality of harvested cotton had improved significantly in terms of reduced trash and contamination in cotton. *The measures taken in Turkey, as explained in Section 4.3.2.1, should be looked at as alternative or supplementary solutions.*

5.3.2 Policies

5.3.2.1 <u>Attribution of importance to cotton by WCA countries</u>:

The governments of all the cotton producing WCA countries attribute great importance to their cotton sectors. This importance was best explained in Chapter 2, where it was shown that most of the WCA countries depended heavily on cotton for the livelihood of their people, as well as for their GDP and export earnings, with which most of the basic and vital items can be imported.

It is also due the extreme importance of cotton that the four major cotton producing countries of the WCA, namely Benin, Burkina Faso, Chad and Mali took the cotton issue to the WTO in September 2003, which made a mmajor impact with their "Cotton Initiative". This importance further increased immediately after the end of the quota era on the international trade of the T&C in 2005, which brought about a fierce competition within the foreign trade of T&C products.

5.3.2.2 <u>Pricing Policies</u>:

i) <u>Seed cotton pricing policy:</u> In most of the CFA countries, *a floor price* for seed cotton was announced before the start of either sowing or harvesting seasons and if a profit was made at this price, producers received a bonus in the following season. The experience in the CFA countries[125] showed that declaration of a floor price almost one year before the exports was *a risky proposition* since prices could vary considerably in the period between sowing the cotton seeds and

[125] *Also in some others, including in Turkey, where the seed cotton price was announced one year before in 1986, it was only to be seen that the actual price was to double due to increases in world market prices as well as inflationary increases*

the shipments of lint cotton. To minimize this risk, it was suggested to make the payment of the floor price in two steps, plus a subsidy to be provided from the *"stabilization fund"*, if necessary.

Stabilization funds *(or support funds)* managed by governments did not function properly because the surplus accumulated in high price years often disappeared by the time money was needed in low priced years. Besides, it was found that funds owned and operated jointly by producers and private cotton companies could also become unmanageable. *A fund solely managed by producers* was thought to be the only solution and such a fund was put into test in Burkina Faso[126], where, in the new scheme, the *"support fund"* was changed to *"price smoothening fund" (fonds de lissage),* because the fluctuations in producer prices were to be measured as deviations from the trend line, which was defined as the seven year moving average centred on the current year. A very important feature of the new scheme was that the price smoothening fund was combined with **a line of credit.** In low price years, the *credit line* was to be used only when the fund was empty. In high price years, the credit line was to be cleared before replenishing the fund.

A condition that had to be satisfied in this scheme was that ***the credit line should not be financed by cotton companies because both companies and producers were to be simultaneously adversely affected by price falls. In order to diversify the price risk, the credit line had to be financed externally by parties not adversely affected by a fall in cotton prices. This condition is of extreme importance because the source of the credit line should be from a third party, which in the case of WCA, would be either the governmental source or an external source like donors.***

Criticism to the above summarised pricing policy can be expressed on three points:

- *The need for subsidies cannot be eliminated; however, subsidies should be used only as a last resort,* (i.e. alternatives should be found to the growers when world prices fall sharply).
- Attempts at reducing the impact of price fluctuations on growers' incomes through stabilisation funds cannot be regarded as being very appealing because the appropriateness of the pricing formula is questionable since half of the pricing data used is based on price assumptions of the three future years, with the actual values open to large deviations.
- There is a necessity for clearing the lack of understanding between growers, ginners, and the governments as to the ownership and control of the funds' resources. In Mali, for instance, growers felt that the stabilization fund resources had been largely used at the discretion of the cotton parastatal (CMDT) to cover its own deficits[127].

An alternative form of price policy such as the *"Premium Payment System",* which was introduced by Turkey in 1993/94 and which has been used continuously since the 1998/99 season can be considered, particularly when the world market prices fall below the cost of production. The "premium payment" has the objective of *compensating the difference between the target price, which is the price aimed to be ultimately received by the growers, and the world market price.*

[126] *Goreux, L.: "The new cotton price scheme in Burkina Faso",* Cotton: Review of World Situation, ICAC, Sep-Oct. (2006)
[127] *(Same as above)*

With this direct support growers are assured with a targeted income, while making cotton competitive to the traders (including the exporters) and to the spinners, especially when the world cotton prices were significantly below the cost of production. Here, the amount of the premium payment is of extreme importance, since it directly affects farmers' planting decisions in the following crop year. The system has so far worked well in Turkey.

ii) Lint cotton pricing policy: The pricing policy for lint cotton, whether owned by public or by private entities in the WCA will not differ significantly. Export pricing for each producing country will naturally be different owing to several factors, such as:

- differences in cotton quality parameters (i.e. grade; staple length, micronaire, strength, etc),
- differences in geographic locations, which means difference in terms of inland transport costs to the nearest port,
- sea transport to the port of the importing country,
- inland transport to a warehouse or to the spinner[128].

It is due to the different values for the above listed cost parameters that net price income of the WCA exporters will be significantly different, depending largely on the geographic location, namely the amount of inland transport**.** Because the infrastructure of the transport network in West Africa is not well developed, transporting cotton from land-locked countries to the ports is costly, difficult and time consuming. Similarly, delivery times of the cotton shipments from the WCA countries to a given destination, for example to an eastern port in China will also be different depending on the export origin. The price quotations from the Francophone African Countries have not been very competitive owing to extremely strong Euro against USD, which, in turn, has been losing value against most major currencies during the recent years. Therefore, cotton exporters of the Francophone African Countries, whose currencies are tied to Euro in the WCA, have been finding themselve under severe price pressures. This important issue is further dealt with hereafter.

5.3.2.3 Policies on Export Marketing of Cotton:

It has been argued by many that cotton of the WCA cannot easily fetch the price it deserves in world markets, despite its generally superior quality compared to many upland cotton of various other origins. Once the problem of contamination is eliminated or significantly minimised, and a more uniform fibre quality is obtained, it is highly likely that better prices can be obtained for cotton of certain regions in the WCA. *Promotional efforts* to acquaint the cotton importers about the quality of WCA cotton is imperative and a joint effort by the WCA countries, either together or grouped on regional basis woud be more effective. Such promotional activities might produce more successful results and might be more cost effective, compared to the costs incurred when acting individually either on company or on country basis.

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[128] *In a combined transport mode, the forwarding agents will usually give a single price quotation taking into account the inland transport cost (truck and/or railway) to the nearest port, plus shipping cost to the port of the importing country, and even further to an inland warehouse or to a spinning factory.*

Exporting cotton from the land-locked countries of the WCA, such as Mali, Burkina Faso, Chad, etc., is comparatively more difficult owing to the fact that inland transport is costly and time consuming due to bad road conditions and/or poor railway links, compared to the other cotton producing countries which enjoy coastal advantages, with significantly lower transport costs.

One possible alternative to overcome the disadvantages in cotton exports from the WCA countries is to ship cotton in relatively large quantities to the ports of importing countries (China, Turkey, Bangladesh, etc.), where it can be put into a warehouse (either licensed or ordinary), from where it can be sold to the mills at smaller quantities and subject to approval of quality.

A mechanism can also be worked out with some financing institutions, such as banks experienced in commodity trading, which can act as an intermediary and assume the ownership of cotton by buying the cotton from the exporting companies in the WCA at a temporary price, making an initial payment of around 80% of this temporary price, transporting it to one of the Free Trade Zones and warehousing it ready for marketing to the interested buyers, and finally paying the balance according to the final price to the exporters[129]. It can also be argued that various risks, such as the price risks, which could arise during the long transport time from WCA to the port of the importing country, the quality risk as well as the non-delivery risk of the contract, which would, otherwise, be present if cotton had been bought at its origin, will be all eliminated, hence much better prices can be obtained. A mechanism similar to that described above is already implemented successfully in Turkey for the cottons of the CIS countries. Another advantage in setting up such mechanism will be that more and more traders/spinners will get better acquainted with the WCA cotton, which, at present, is not widely known in Turkey.

In summary, it is important to note that the WCA cotton has already penetrated most of the cotton markets of the world. China, Hong Kong, Taiwan, Korea, Bangladesh, Indonesia, Turkey, Italy and Germany have been the major export markets during the recent years.

As cotton constitutes an important share in total export revenues for most of the WCA countries, a strategy to maximise these revenues from cotton exports would be the most logical approach for the immediate future. Recommendations related to increasing cotton exports:

- *Minimise contamination with a view to ultimately selling with a certain guarantee, and improve the consistency of quality within each bale,*
- *When selling "on type" basis, also provide SITC data which would be representative of the lot offerred/contracted. Initially these data can be on informative basis, but make the necessary preparations to guarantee these parameters in addition to the "type" offered.*
- *The use of a label symbolising the WCA cotton may be a useful tool for an effective marketing, but it may yet be premature before consistency in quality can be assured and significant progress in minimising contamination can be achieved.*

[129] *A similar mechanism utilising FTZs can be developed for the exports of cotton yarn from WCA, where the feasibility studies related to cotton yarn production prove to be viable and the necessary investments are realised*

- *Any feedback (complaints, praises, etc.) on WCA cotton should be recorded and, where necessary, remedial measures taken.*
- *The use of a label symbolising the WCA cotton may be a useful tool for an effective marketing, but it may yet be premature before consistency in quality can be assured and significant progress in minimising contamination can be achieved.*
- *Use of risk management techniques*[130]*, by the ginners, traders, cooperatives, etc., may provide opportunity in minimising the risk of loss or maximising the profit in cotton trade*[131]

5.3.2.4 <u>Policy on the exchange rate</u>:

The experiences of Turkey, India and Egypt have confirmed the argument that the overvalued domestic currency generally creates an adverse effect on country's export competitiveness. It has been a well learned lesson for Turkey that *the export competitiveness of Turkey significantly increased every time a devaluation of the TL took place, which was also confirmed after the "24th January 1980 Decisions",* when the exports showed a dramatic performance[132]. *The case of an overvalued domestic currency has also been experienced by Turkey on many occasions in the past, when there was a slowdown or even stagnation in exports, while the imports displayed a sudden surge.* This comparative study has also shown that similar experiences were obtained in India and Egypt.

During the recent years, the USD has lost value significantly against the EURO. This development has been hurting not only the EU exporters, but also the exporters of those countries which were tied to or heavily dependent on the EURO. The CFA zone countries were also among those which have been affected from the overvalued EURO, where similar experiences were witnessed in 1994, when a devaluation of CFA franc[133] boosted the cotton exports, as well as the other agricultural commodities. However, a recent study[134] has shown that from 1999 to 2004, the real effective exchange rate, **REER** has appreciated by 8% in the West African Economic and Monetary Union **(WAEMU/UEMOA)** zone and 8% in Central African Economic and Monetary Community, **(CEMAC).** This was mainly due to the volatility in the euro-dollar bilateral exchange rate and conservative monetary policies in the two zones, resulting in a partial loss of competitiveness in export markets. The conclusion of this study was

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130 *Gilbert, C.L., "Price Risk Management in the Cotton Sector: CRMG's View" CRMG, World Bank, Annual Meeting of the ITF, Pretoria, S.Africa, May 15-17, (2006)*

131 *Cordier, J "A Model for Lowering Inter-Annual Revenue Variability for the Cotton Chain in WCA Countries", Annual Meeting of the ITF, Pretoria, S.Africa, May 15-17, (2006)*

132 *Gazanfer, S.: "Analysis of the Cotton Value Chain of Turkey and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa", UNIDO Document, TE/RAF/06/012/11-53, (2007)*

133 *The CFA franc was first created in 1945 with a fixed exchange rate versus the French Franc and was first devalued in 1948. After the second devaluation of 12 January 1994, the exchange rate became 1CFA franc=0.01 FRF. On 1st January 1999, the value of CFA f was expressed in terms of EURO, while at the same time the parity of 1 EURO= 6.55957 FRF was used to calculate 1 Euro = 655.957 CFA f. Since then then this parity has far been kept unchanged.*

134 *Zafar, A., "The Impact of the Strong Euro on the Real Effective Exchange Rates of the two Francophone African CFA Zones", World Bank Policy Research Working Paper 3751, October 2005*

that the next ten years should be watched carefully by the policymakers and researchers in order to better understand the evolution of the euro-dollar relationship and to signal potential overvaluations and loss of export competitiveness in Francophone West and Central Africa.

5.3.2.5 <u>Policy on regional integration</u>:

Among most of the regional economic organizations in Africa, there are many good examples of regional cooperations, such as;

- focusing on regional infrastructure and security as well as tourism *(in the CEMAC),*
- moving towards the establishment of a Free Trade Area Agreement, FTA, and elimination of tariffs on items produced in member countries[135] *(within the COMESA),*
- establishment of a new customs union in *(in the EAC)*[136],
- focusing on regional security, exploring trade and investment possibilities *(in ECCAS),*
- creation of a customs union with a common external tariff by 2008 and a West African Monetary Zone with a common currency by 2009 *(in ECOWAS).*

The United States continued to support integration in ECOWAS through a number of means; USAID/West Africa has sponsored programs focused primarily on harmonizing customs and trade regulations within West Africa and removing barriers to intra-regional trade. USAID is also supporting the adoption of a common external tariff throughout West Africa. In 2006, ECOWAS continued negotiations with the EU on an Economic Partnership Agreement (EPA),

- signing of a Free Trade Agreement (FTA) in 2006, with the European Free Trade Association (EFTA), which entered into force in 2007 *(in the SACU).* SACU is also in discussions for a trilateral FTA with India and Mercosur, and possibly with China. Negotiations for an FTA with the United States are also ongoing,

- creation of an FTA by 2008 as a step towards achieving a customs union and a common market *(in the SADC).* EU discussions with SADC on an EPA focused on regional integration issues, technical barriers to trade, and sanitary and phytosanitary standards,

- working toward greater regional integration with unified external tariffs *(in the UEMOA).* UEMOA has established a common accounting system, periodic reviews of member countries' macroeconomic policies based on convergence criteria, a regional stock exchange, and the legal and regulatory framework for a regional banking system. In addition, UEMOA and ECOWAS have determined a number of measures that would help harmonize the two regional blocks, which included the harmonization of their common external tariffs, which is expected to be operational in January 2008. UEMOA continued negotiations with Morocco on an FTA[137].

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[135] *COMESA aims to create a customs union by 2008*

[136] *This new customs union generally lowered tariffs, except for used clothing, almonds and certain wheat and corn products, most of which being the export products of the USA*

[137] *« Accords commerciaux UEMOA-Maroc… imminents? », Webmanagercentre, 26/07/2006*

The above mentioned initiatives can be regarded as positive steps in achieving regional integration, especially those which aim at the establishment of the FTAs. It is expected that it will take only a few years to achieve successful conclusions in most of these initiatives, which will not only open new opportunities for prosperity within African continent, but also good economic and trading relations with the other regional integrations such as the EU or with individual countries such as India, China, the USA, Turkey, etc.

5.3.2.6 Policies on Domestic and Foreign Direct Investment (FDI):

Sub-Saharan Africa was previously considered as a high-risk, high cost region for doing business. According to a World Bank study, sub-Saharan Africa attracted about USD 12 billion of FDI in 2004, which was about 3% of the global total, with investment flows rising in 40 of the 53 countries in the region[138]. Textiles and clothing, food and beverage processing, agriculture and tobacco were among the top 10 mobile sectors attracting FDI in sub-Saharan Africa[139].

Although tariff levels are important for the T&C sectors, most sub-Saharan African countries, including the WCA countries, have tariff-free access to a number of major markets within a wide range of export products, particularly when exporting to the EU[140], Turkey[141], the USA[142], and to many other countries, including to those which are in the process of regional integration[143].

The textile industry is usually characterized as *capital intensive* and *highly automated*, which makes it increasingly dependent on well trained labour. Although labour costs in the WCA are generally competitive with those in China or India, the main factor for lowering the competitiveness of Africa in the global textile trade is lack of well trained work force for the T&C industry. Besides, high utility costs, particularly for electricity and water, coupled with the unreliability of their continuous supply, makes the conditions even more difficult. Most of the successful textile producing countries, such as China and India, rely on strong backward linkages for production inputs. However, the African textile industries have not yet created such linkages to their local economy.

The characteristics of the apparel industry, on the other hand, are largely different than that of the textile industry as far as investments and labour reqirements are concerned. The apparel sector is labour intensive and does not require high level skill or sophisticated training. It is also a sector, where relatively modern technology can be adopted even at low investment costs. These favourable characteristics have prompted many poor countries such as Bangladesh, Mauritius, Vietnam, Sri Lanka, etc., to enter this segment of the industry and to contribute to the accelerated growth of these countries.

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[138] *"Benchmarking FDI Competitiveness in Sub-Saharan African Countries", World Bank, Multilateral Investment Guarantee Agency (MIGA), November 2006.*

[139] *UNIDO: Africa Foreign Investment Survey, (2003)*

[140] *due to the Cotonou Agreement, the Everything But Arms (EBA) amendment to the EU's GSP*

[141] *due to the Customs Union with the EU*

[142] *due to the African Growth and Opportunity Act (AGOA),*

[143] *Hildegunn, K.N.: "The Global Textile and Clothing Industry post the Agreement on T&C". WTO, (2004)*

5.3.2.7 <u>Regional policy on infrastructure development</u>:

It will be necessary for WCA to develop the necessary infrastructural facilities for the transportation of goods in general, and CTC products in particular before they can attract domestic and/or foreign investments to their respective countries. *A regional approach will be necesary to tackle this problem and its solution concerns most of the countries at regional level.*

It is a well known fact that to participate or increase their share in the global market, countries need to be competitive and also have the necessary industry and trade-related infrastructure. In most of the WCA countries, lack of continuous and adequate supply of electrical energy is the biggest bottleneck. In many countries in the WCA, the present supply capacity of electrical energy is as low as one-fifth of the required capacity. *It will be meaningless, of course, to make significant leap forward in the industrial development by attempting to draw FDI for viable CTC projects, if there is a serious deficiency in meeting the required energy capacities.* It is relieving to know that a number of comprehensive energy projects have been prepared and intensive efforts are underway to speed up the implementations. However, delays in raising the required financing will naturally delay the industrial development efforts, including those related to CTC Value Chain developments. *(**See Box No 5.2** for current information related to the ongoing energy projects).*

On the other hand, taking the infrastructure in transportation of goods as a criterion, it has been shown that[144] landlocked LDCs are particularly at a disadvantage due to the absence or inadequate trade-related infrastructure such as good roads, railways, air access, ports, as well as adequate supply of energy, efficiently running telecommunication systems, effective banking and insurance services, etc. The ability of LDCs to transport their goods to various destinations in a timely and cost efficient manner is also extremely important. Many developing countries have to bear the high costs for transporting their goods across borders, due to inadequate transport and port/harbour infrastructure, particularly in many parts of Africa. As an example, **Table 5.1** illustrates clearly the significant cost and transit time differences in transporting goods to the USA from landlocked and coastal countries respectively.

Domestic or cross-border conflicts also negatively affect the international trade. **Figure 5.2** illustrates how the changes of transport corridors before and after the internal crises in the Ivory Coast affected cotton transport. It is clearly shown in Figure 5.2 that in 1999, before the internal

Box No: 5.2 THE ENERGY SECTOR PROJECTS IN WEST AFRICA*

The energy sector projects of the West Africa are as follows:

The West African Gas Pipeline (WAGP) Project: Almost 90% of the WAGP Project, which will transport natural gas from Nigeria to Benin, Togo, and to Ghana, had already been completed and it is expected that the first delivery of the natural gas will start in December 2007.

The West African Power Pool (WAPP) Project: The aim of the WAPP is to coordinate, promote and develop the region's generation and transmission infrastructure and electricity trade; develop and share hydro and thermal resources, as well as integrate national networks into a unified regional electricity market to provide adequate, reliable and affordable electricity. *The Project represents a unique opportunity to improve the economic competitiveness of the sub region, supports the economic and political cooperation,*

[144] *"Cost of Doing Business ", World Bank Survey, (2007)*

and also promotes cleaner fuels. The estimated cost of the Project is around 11 billion US$. So far 350 Million US$ had been approved by the World Bank. The Project will be implemented in phases over a 15 to 20 year period. The first phase will be implemented from 2004 to 2007, the second phase between 2007 and 2011, and the final phase from 2011 onwards.

In phase 1, the priority interconnections include, the 330 kV Sakété–Ikeja West line (Benin–Nigeria); the 225 kV Bobo Dioulasso – Ougadougou line (Burkina Faso), and the 330 kV Aboadze – Volta line (Ghana).

In phase 2, priority interconnections include the 330 kV Aboadze – Prestea line (Ghana); the 330 kV Volta – Momé Hagou – Sakété line (Ghana–Benin/Togo–Nigeria); the 225 kV Ferke – Sikasso and 150 kV Sikasso – Ségou line (Côte d'Ivoire–Mali); the OMVG loop (Senegal, Gambia, Guinea-Bissau, Guinea) and the national control centres (Burkina Faso, Ghana, Gambia, Guinea, Guinea-Bissau, Mali, Nigeria and Senegal). **The final phase**, will include the 225 kV Bumbuna – Linsan line (Sierra Leone – Guinea); the 225 kV Kayes – Tambacounda line (Mali – Senegal); the 225 kV Sikasso – Bamako line (Mali); the 225 kV Ghana – Burkina Faso interconnection; the 330 kV Nigeria – Niger – Burkina Faso interconnection; and the 225 kV Côte d'Ivoire – Guinea – Mali interconnection.

WAPP's projected 12 476 Megawatts for the region by 2010, would almost double the current 6 355MW. It was expected that with the completion of on-going projects sponsored by World Bank, African Development Bank and other development partners, would change the face of power supply tremendously in the short run.

The Regional Regulatory Body for the Electricity Sector: The establishment of such a regulatory authority is a pre-requisite for the promotion of infrastructural development and attraction of investment to West Africa. The aim of this project is to assure an institutional framework for energy trade though the ECOWAS energy protocol which was ratified in December 2006. For the establishment of open and transparent cross-borders electricity exchange, the French Development Agency (AFD) provided a grant of five million Euros. A strategic emergency power supply development plan was also adopted by the ECOWAS states by the ECOWAS commission, the WAPP secretariat and the utilities of member states as a response to the recent electricity shortage experienced by member states.

Regional Policy on Access to Energy Service for Rural and semi-urban population : This policy, which was adopted by regional leaders in January 2006, includes an action plan, an implementation strategy based on the principle to create **a Regional Agency for Energy Access** and an investment programme. The policy seeks to provide energy access to at least half of the population in rural-urban areas by 2015, representing a few-fold increase on the figures projected in 2005. Specific coverage areas include modern energy for cooking (100%) modern energy service for basic needs in urban and semi-urban areas (100%), electricity for households (36%), electricity for schools, clinics and community centres (60%) as well as mechanical power for production use in rural areas (60%). The Energy Access programme also is to promote, harmonise political and institutional frameworks to energy access as a key priority for ensuring human development. It is critical to achieving Millennium Development Goals, particularly those of poverty reduction, improved health, education, water supply and productive use.

Compiled from: ***http://allafrica.com/stories/200711180073.html***; ***http://www.igu.org/html/wgc2006/pdf/paper/add21194.pdf***

conflict started, a large part of the cotton produced in Burkina Faso and Mali was transported to Abidjan. After the start of the conflict, Burkina Faso progressively diverted its cotton transports to the ports of Lomé, Tema and Cotonou, and in 2003, completely abondoned Abidjan. Similarly, Mali had to make more use of the port of Dakar on the Atlantic Coast, as well as Lomé in the South, largely avoiding Abidjan. These diversions, especially in road transport, mean additional costs in the transportation of cotton, leaving the net returns to growers to reduced amounts. There is also a regional project to construct three parallel corridors between east and west of West Africa as shown in **Figure 5.3.** Completion of these corridors will contribute significantly to the regional trade, including to the development of the CTC value Chain.

For some of the large infrastructural investments, such as energy, transport network, telecommunication, etc., in WCA, BOO, BOT or BOOT[145] models could be possible alternatives. Similar arrangements could also be used for building FTZs, EPZs as well as industrial parks for T&C. Turkey has been making use of the BOT and BOOT models successfully in the construction of dams, thermal power plants, motorways, etc.

5.3.2.8 Enhance the establishment of FTZs or EPZs:

The benefits of establishment and operation of FTZs/EPZs in India, Turkey and Egypt had been reported in some detail in various parts of this report. Currently, Mauritius and Lesotho are cited as the successful examples of the EPZ investments in Africa.

One might question the appropriateness of such FTZs, in a regional integration with, for example, a customs union. The simplest answer to that question would be that *the FTZs will not only promote increased manufacturing and trading activities within the regional integration, but also with the third world countries having differing tariff structures and foreign trade regimes. Such FTZs established jointly by the neighbouring countries in various ports, located on the coastline of WCA could also act as springboards for boosting the manufacturing and exports of T&C products, as well as new technology products.* In this respect, the recent news[146] that four of the six member states of CEMAC, namely Cameroon, Chad, the Central African Republic and Congo Brazzaville, have decided to fast-track plans to establish a regional free trade zone, is a good sign of such integration efforts to produce beneficial projects of common interest.

It is, therefore, recommended that studies should be conducted on the establishment of FTZs/EPZs for the identified cotton yarn and clothing production and export projects, preferably on BOOT basis. Specific attention should be given to include own power generation facility and an acceptable level of basic infrastructure in such zones.

5.3.3 Other areas of intervention

5.3.3.1 Review of the textile sector in the WCA:

Although in the identification of the strategic option, development of the textile sector has not been included but only the spinning stage chosen, it would be an inappropriate to ignore the ongoing textile activity totally, given the fact that there are still some 20 textile establishments in various WCA countries producing some textile items, including those which are traditional fabrics, mainly sold in the domestic market. Besides, there may also be certain textile production facilities, which had been in operation until recently and which had ceased manufacturing owing to certain constraints, which may be overcome with certain financial and/or technical assistance. It will also be a mistake and waste of resources not to revive such production facilities. Therefore, it will be an

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[145] *The Build-Operate-Transfer (BOT) model and variants like Build-Own-Operate (BOO), Build-Own-Operate-Transfer (BOOT) are private –public participation models. All of these models refer to either partial or full ownership for a defined period of time (either permanent like BOO or temporarily like BOT or BOOT) so that the investment by the private sector can be recovered with some degree of profitability.*

[146] *For further info, please visit web page:* ***http://www.bilaterals.org/article.php3?id_article=7346***

appropriate course of action *to initiate a rehabilitation programme of the existing textile and clothing enterprises*, which might still have a potential for achieving competitiveness. For this purpose, it is recommended that a study be conducted by a specific mission with the support of some national/international consultants to identify, among other things:

i) For the already functioning factories: *a report describing the operations, capacities, current markets for the products, competition, profitability, constraints and suggested technical and financial solutions to strengthen competitiveness and ensure the continuity of operations, etc.,*

ii) For the recently shut factories*: a report (or if viable, a feasibility study) containing the information similar to above as well as the possibility of putting the factory back to operation to be able to run efficiently and competitively, together with the required resources, including the human resources, investment and working capital requirements.*

It is very likely that with marginal supports, a good number of already operating factories can be converted into efficiently and profitably running establishments. Similarly, with certain renovations/capital backing some of the previously shut factories can also be put into operation.

However, supplying cotton to the textile factories (spinning installations) at subsidized prices at the expense of cotton farmers should not be an option since with this strategy, the sustainability of cotton production could sooner or later be jeopardised. Therefore, any supports related to raising the competitiveness of the textile establishments should be given independently, and without negatively affecting the other component of the CTC value chain.

5.3.3.2 Suggested road map to towards initiating investment in spinning and clothing in the WCA countries:

It will be recalled in item 5.2.3, that the best strategy option, which included the development in spinning and clothing, was selected not on the basis of a comprehensive feasibility study, but more on some empirical factors, such as the basic characteristics of each chain component, market studies, past and current examples from the real life, investment requirements, relative risks involved, the basic comparisons of the various observations obtained, including the experiences of India, Turkey and Egypt gained through this comparative study, the opinion of leading experts and lastly, but not the least, the writer's personal opinion.

Naturally, for each investment project, involving production and marketing (domestic or international) of cotton yarn and clothing products, *a feasibility study will be required to carefully establish various aspects of the proposition*, especially for clothing projects; the type(s) of product(s) to be manufactured, input material (finished fabric, accessories, sources of supply, etc.) including the export markets. Again, this study can be conducted by an expert group to identify the possible clothing items, for which there is a market, which can be supplied competitively.

At the start, these investment proposals could be based on standardised pilot investment projects, especially for the projects associated with clothing manufacturing, for which local/foreign entrepreneurs or joint venture arrangements can be expected. The option of the FDI on BOT or

BOOT basis, as mentioned earlier should also be available to the investors. The role of the WCA governments should also be to define, together with donors, what sort of investment incentives, if any, will be needed and can be provided to have a successful start. In order to attract investment (especially in clothing), it may well be necessary to grant for a defined time period certain investment incentives, which will, in turn, necessitate investment approvals, registration and monitoring of the specific investment projects by the authorities.

It is recommended that parallel to these preparations, the investment promotion activities may be commenced with supportive promotional material. For this purpose, investment forums can be organised, where the available investment promotion tools can be introduced. By closely monitoring the interest shown on the proposed spinning and/or clothing investments, it may become necessary to take new decisions to further attract the investors' interests.

5.3.3.3 <u>Product ranges</u>:

Possible products, which will be produced and put on marketing, can be identified as follows:

i) Cotton Stage:
- Baled cotton (already marketed)
- Seed cotton by products (already marketed)
- Cotton seed (already marketed)

ii) Cotton yarn stage:
- Cotton yarn (to be marketed)
- Cotton waste (obtained during spinning), (to be marketed)

iii) Clothing items:
- woven items (to be marketed)
- knitted items (to be marketed)

Having broadly identified the products to be produced and marketed, we can now turn to comment on the possible product ranges for each product group.

i) <u>Baled Cotton</u>: For ***conventional cotton***, there exists no difficulty of marketing provided the asking prices are within the world market levels. It has already been pointed out that with some progress in the elimination or even minimisation of the contamination problem the WCA cotton can fetch even higher prices. For "organic" or "fair trade" cotton, it has been mentioned in this report that some Northern NGOs have already entered into certain arrangements with some WCA producers to grow "organic" cotton. A similar development has been observed for the "fair trade" cotton. Farmers have obtained more attractive prices in both types. However, it must be borne in mind that that the amount of this type of cotton does not exceed 0.1 % of the total cotton trade.

ii) <u>Cotton yarn</u>: Up to the present time, WCA has not been an exporter of cotton yarn[147] except a small amount of exports made by Chad to France. Nevertheless, as was explained before,

[147] *Except a very small amount of exports realized by Chad to France*

cotton yarn has a good chance of being marketed, especially to China. Depending on the demand in the market, both open-end or ring type cotton yarn have equal chances of being marketed, provided the yarn produced possesses good characteristics. Different types of cotton wastes obtained during spinning can be around 20% of the total cotton used, amount depending on the type of spinning and short fibre content of the cotton used. The market value of the waste differs depending on the type of waste. For example, comber waste can fetch up to 60-70% of the market value of cotton itself.

iii) <u>Clothing items</u>: The clothing manufacturing in the processing chain has become the most advanced and complex part of the entire cotton CTC chain, in terms of production, design, marketing and distribution, simply because it is mainly a *buyer-driven value chain*, which implies that production items will be largely dependant on the buyer's preferences. The simplest way to start clothing manufacturing would be on the "CMT" basis, in which case the "cut make and trim" operations will be performed in the WCA countries on the temporarily imported finished fabric[148]. As sufficient experience is gained in the production and exports on the CMT basis, move towards more value addition arrangements can start, whereby sourcing the suitable fabric, importing and putting it into clothing production and exporting the garments, all under manufacturer's own responsibility will naturally be more rewarding from the profitability point of view, provided the mechanism of handling all the necessary operations are well established.

The type of products to be manufactured will largely depend on the current market conditions, but it is suggested that not all the clothing enterprises do the same type of product, which is likely to create a severe competition among themselves. Establishing a manufacturing base of a wider spectrum of knitted and woven products will minimise such a damaging competition.

It can be seen that these manufacturing companies manufacturing clothing items on mainly imported fabric will necessitate the establishment of a special department, which will handle all the necessary work, such as sourcing the suitable fabric, importing it on temporary basis, channelling it to manufacturing to clothing items and finally exporting the products. This involves a great amount of customs formalities to be completed which can only be performed by well trained and experienced stuff in the individual enterprises as well as in the district customs offices. For this reason, *a training programme should be conducted to familiarise the personnel involved with formalities and procedures involved in WCA countries, where such systems are not in extensive use.*

iv) Other textiles and clothing products: The current textile factories can continue, as they are or with certain rehabilitation, with the production of:

- **printed fabric for loincloths** (fancy and waxed fabrics) used mainly to make traditional clothing for women. This is the traditional market for the local industry.

[148] *For productions which will be conducted in the FTZs/EPZs no import procedures will be necessary since these zones are considered to be outside the national customs boundaries.*

- **Boubous:** There is also a good market for **boubous**[149] **,** which are traditional West African dresses, with kaftan-like appearance, having minimal cuts and seams, with patterns based on Arabic calligraphy on an extremely large canvas.
- **Uniforms:** Various types of uniforms can also be manufactured in the existing factories or in those which will be newly built.
- **Knitwear:** Basic t-shirts or similar type of knitted garments can also be produced on CMT basis for exports.

If the capacities of the textile factories will not be sufficient to manufacture the type of fabric to be used, then those fabrics can be imported and clothing manufacturing can take place within WCA.

5.3.3.4 The Institution Building:

Historically, the cotton sectors in the CFA franc zone countries had been characterized by a single parastatal company, operating as the sole buyer of the entire cotton harvest. The industries were pioneered by the French state-owned company CFDT (*Compagnie Française de développement des Fibres Textiles*) renamed to DAGRIS (*Développement des Agro-Industries du Sud*) in 2001, in conjunction with national state-owned cotton companies, which had a legal monopsony in cotton buying, and most had a monopoly on primary processing, marketing, and supplying inputs.

In 1990s, there had been increasing pressures to the WCA countries to liberalise their cotton sectors as part of the World Bank's Structural Adjustment Programme. Since then, all of the West African countries (with the exception of Mali) have opened up their ginning facilities, as well as the export marketing of lint cotton to the private sector.

As a result of these reform processes, cotton sectors of the WCA countries[150] have been going through profound changes in the recent years and that these changes have not yet been finalised[151]. These changes occurred from one extreme to the other, like in Senegal and Ghana, where the parastatal cotton companies were completely privatised, while in others the large sized parastatals were split into smaller but still parastatal enterprises, based on geographical areas, such as Burkina Faso and Cote d'Ivoire, or on various functions, like in Benin, where provision of inputs or responsibilities for ginning operations were assigned to the newly formed institutions. Finally, in countries, like Chad, Niger and, to some extend, Mali, there has not been any significant change[152].

A short account of institution development related to cotton production, ginning, etc., is given in Table 5.2 for each of the major cotton producing countries of WCA. It should be emphasized that Table 5.2 does not reflect the complete institution building in the WCA. In Burkina Faso, for example, there are still producer organisations at village level (*Groupments Villageois)*, which are

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[149] *Boubous are kaftan-like dresses and robes, with minimal cuts and seams, allowing adornment with patterns based on Arabic calligraphy on an extremely large canvas*

[150] *"Development of the Cotton Textiles and Garment Value Chain and Networks in Africa: Supporting Trade and Building Productive Capacity", UNIDO Document (2006).*

[151] *Larsen, M.N: "Quality standard-setting in the global cotton chain and cotton sector reforms in Sub-Saharan Africa, Institute for International Studies, Copenhagen, (2003)*

[152] *Mali has already stated that no reform package will be considered until after the presidential election in 2008.*

vertically organised at departmental, provincial and national levels, and which specialise in input distribution, credit provision and marketing, with UNPCB *(Union Nationale des Producteurs de Coton du Burkina Faso*), as the umbrella organization of such an institutional structure.

Producers' or farmers' groups are increasingly involved in the overall management of the sectors. These organisations, when strengthened, can assume other tasks, which can be to the benefit of the farmers. A good example, noteworthy to mention is in Burkina Faso and Benin, where in selected areas farmers at village level have been organised to produce organic cotton, which would be later exported to the European countries at prices significantly higher than the conventional cotton prices.

Taking into account the strategic option which has already been identified as the future development strategy of the CTC Value Chain above, in which main activities have been concentrated in improving cotton production and exports, coupled with investments in spinning to produce cotton yarn, the majority of which would be exported, with a parallel development in the encouragement of investments in clothing, mainly for exports on CMT basis, it would be appropriate to recommend that *the priority should be given to the setting up of those institutions, which will be directly involved in the above mentioned areas.*

A comprehensive and realistic action plan has been prepared within the UNIDO Cotton Initiative[153], where a number of institutional set-ups have also been envisaged, for the total CTC value chain: Here only those entities, which are regarded as essential, are recommended to be established for the immediate future. Therefore, the following institutional set-ups are recommended:

***i) <u>Research and Development Institute on Cotton Seed Breeding</u>*:** This institute will largely be involved in the varietal improvement of the cotton seeds, with higher yields and better fibre properties. Every major cotton producing country may establish such an institute or alternatively, only one larger size institute can be incorporated in one of the major cotton producing countries, supported by regional branches in neighbouring countries. Soil testing for the determination of the optimal use of fertilizers will also be important in this institute, again supported by branch offices, which can be located in major cotton producing areas of each country.

***ii) <u>Cotton Testing, Classing and Grading Centre</u>*:** This centre, which will be equipped with SITC, as well as with the other necessary technical equipment, will be able to accurately test fibre properties of cotton produced at the gins. Ring tests should be periodically carried out in order to assure repeatability and reproducibility of the test results[154]. These centres should also take part for an overall switch towards single bale system, in which the fibre characteristics of each bale can be individually determined and recorded. Successful implementation and monitoring of such a

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[153] *"Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa:Supporting Trade and Building Productive Capacity", (UNIDO), January, (2006)*

[154] *The Expert Panel on Commercial Standardization of Instrument Testing of Cotton (CSITC) works under the ICAC, with the collaborative work of various testing laboratories under the coordination of the Bremen Fibrer Institute*

system will give a powerful advantage in export marketing and in better recognition of the WCA cotton. *Initially, this centre could be established in a major cotton producing country, with the purpose of serving on regional basis.*

***iii) Textiles (mainly for cotton yarn) and Clothing Testing, Research and Development Institute*:** Although the function of such an institute will become essential as the investments in spinning, as well as clothing start to be gradually realised, it is worth to note that such an institute will serve its purpose if it conducts research and development work related to the production of traditional products, as well as products for niche markets. For the above mentioned research, development and training activities, it may be essential and useful to establish collaborative work with country's universities and related academic institutions.

iv) Export promotion centre for cotton, yarn and clothing: The establishment of such a centre will soon be necessary, since it will give an opportunity of introducing to various foreign markets the products, which are grown, manufactured, etc., in WCA. Again, such a centre could either be on regional scale or on individual country basis. If the latter is chosen, such a promotion centre could be housed within the export promotion centre of the individual country concerned.

v) Training centres: The establishment of the training centres should be the indispensable part of the overall project. Depending on the available resources, these centres can be either established separately or in conjunction with the technical centres which are also subject to discussion and recommendation in this section. Final decision on this question should be made on case by case basis.

vi) Specific Missions and Schemes: *Where the establishment of a separate institution is of no necessity or where the task of solving a problem involves expertise of various institutions (governmental or private), then it might be more appropriate and effective to establish specific missions to solving such an issue, or remedying an ongoing activity. In this context, the examples mentioned in this comparative study practiced by India, by way of establishing technical missions on cotton production (TMC), or schemes such as (TUFS) for upgrading ginning and where necessary, the textile equipment is highly recommended.*

It should be noted that the setting up of most of the above mentioned institutions should be on government initiative or with a private sector participation, if there is a growing presence of private sector activity in that area.

5.3.3.5 Price risk management:

Price risk management will be mostly related to the cotton marketing (buying the seed cotton from the growers, ginning and exporting the lint cotton). It is interesting to note that so far various price risk management methods have been suggested and some of which have been tested in the past. The inability for the WCA countries to effectively deal with the risk associated with the exchange rate (i.e. between the US$, which is the almost common currency used in the international trading of cotton and the Euro which is linked to the CFA franc) undermines greatly all the other efforts on

the hedging strategies. *The recommendation would be to conduct a study on the available price risk management tools for various stakeholders in cotton industry, but particularly for cotton growers, degree or frequency of usage of these tools, the effectiveness of each tool and ways of improvement.*

5.3.3.6 Training:

Major areas requiring training have been identified as follows:

***i) Cotton Production Training Centre with Extension Services*:** This centre will be of extreme value for the cotton growers, who can be trained for improved production techniques and best management practices, in cotton cultivation, ginning, baling, classing and grading and marketing. It should be pointed out that training and extension services are of paramount importance for obtaining the best results in cotton cultivation. In this context, the Manual prepared by UNIDO entitled (in French) *"Manuel qualité pour les filières cotonnières UEMOA"* is an excellent collection of handbooks, each addressing one aspect of the cotton production chain, namely: *the quality plan, production of seed cotton of good quality, ginning of seed cotton, the "African" Standards of good quality lint cotton, classing of lint cotton and the trading practices of lint cotton.* In view of the large number of growers present in the WCA countries, these training centres can be established regionally and can initially train the trainers, who, in turn, will train the growers. Furthermore, this centre will conduct the related work for extension services.

ii) Establishment of a regional ginning school: Since ginning is the most critical and sensitive area in the whole cotton production chain and in view of the fact that the ginning factories are spread in a large are in the WCA, it is recommended that a feasibility study for the establishment of a regional ginning school should be initiated and put into implementation following the completion of the feasibility study. In this training school it should be foreseen that most of the ginning machinery operators and the auxiliary personnel, repair and maintenance teams, as well as the managerial staff will be trained.

iii) Training on export/import procedures, temporary importing, etc.: The export import formalities are numerous and requires careful paperwork related to transactions. Training on temporary imports relieves the companies from unnecessary financial burden. This will be especially important when clothing operations start, which will necessitate importation of finished fabric and the auxiliary material (like buttons, zips, etc.,). Failure in handling the temporary import procedures and failure to prove to the customs authorities that the temporarily imported material has been used in the exported clothing items is a formidable task, requiring good knowledge of the procedures and good record keeping. Otherwise, the customs penalties can be severe and sometimes extremely costly. All of these subjects and procedures can be the topics of such training activities.

5.4 AREAS OF COOPERATION BETWEEN INDIA, TURKEY AND EGYPT WITH WCA COUNTRIES ON CTC VALUE CHAIN

Areas of cooperation has been divided into two main line of activities, the first one is related to

cotton imports from the WCA countries, while the second is mostly concerned with capacity building and development of the CTC value chain.

5.4.1 Importing cotton from the WCA countries

Turkey's cotton imports from WCA come mainly from Benin, Burkina Faso, Togo and the Ivory Coast. It is clear that if the contamination problem was solved, there would be a significant increase in cotton exports. *Therefore, elimination or minimising of contamination in the WCA cotton should be a top priority in the technical assistance.* Egyptian plant health authorities, however, have not yet given the clearance for cotton imports, while India's imports have dropped to negligible levels due to the large increases in India's cotton production.

5.4.2 Areas of cooperation

India and Turkey have a number of important areas in which they are ready to cooperate with WCA countries, particularly in the capacity building related to various components of CTC value chain, while Egypt proposes that the WCA countries link themselves with the North African textile industry. Major areas of cooperation for India, Turkey and Egypt can be found in **Table 5.3.**

CHAPTER VI

6. TECHNICAL ASSISTANCE PROGRAMME

A Technical Assistance Programme has been prepared, based on the analysis given in the above chapters, also taking into account the UNIDO Initiative[155] and UEMOA Competitive Agenda as described in Chapter III and various other relevant initiatives.

It should be mentioned at the outset that the UNIDO Strategy with the new Trade Capacity Building (TCB) Initiative, which is basically oriented towards enabling developing countries to participate in international trade through strengthening their supply capacities, and through:

- Enhancing the ***competitiveness*** of the supply capacity of the CTC Chain;
- Ensuring the ***conformity*** of CTC products with international standards; and
- ***Connecting*** efficiently CTC products to national, regional and international markets, appear to be most appropriate in today's competitive and demanding business world.

The UMEOA Competitive Agenda is an ambitiously established development strategy for the CTC value chain of the WCA countries. The ambition of increasing the usage of WCA cotton from the present 5% to as much as 25% of the total WCA production between the years 2003-2010 can also be regarded as a logical target. However, given the fact that already almost 4 years have elapsed since the UEMOA Decision of December 2003, and after a thorough examination of the current textile and clothing environment, especially the impact of the abolishment of the MFA restrictions and lifting of the textile and clothing quotas, together with the constraints posed by most of the WCA countries in various infrastructural amenities and by other disadvantages, it will not be an appropriate strategy to put under implementation various investment projects in order to achieve in time the targets which had been decided upon in December 2003 by the UEMOA.

Attempting to implement such a strategy, without removing various disadvantages and constraints in various sections of this report, will not only constitute a serious risk on its success, but it might also give rise to inefficient use of limited resources, which will have to be allocated for the execution of such a program, assuming that these resources will be available in any case.

It is due to the above given reasons that the strategic option, proposed in this study has been based on *a more cautious approach.* This cautious approach has been reflected in the "modules" and "components" of the Technical Assistance Programme as well.

6.1 ELEMENTS OF THE TECHNICAL ASSISTANCE PROGRAMME

6.1.1 Objectives of the Technical Assistance Programme

[155] *Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa: Supporting Trade and Building Productive Capacity, UNIDO (2006)*

A certain modification on the objectives of the UNIDO Initiative has been made to reflect the changes, which had to be made in accordance with the proposed strategic option, whose selection had been made in Section 5.2.3.4.

The overall objective of the Technical Assistance Programme is to assist the WCA African cotton producing countries to improve their capacities to participate meaningfully in multilateral trade and, ultimately contribute to the ongoing global efforts to the alleviation of poverty in the region through the achievements of basic conditions for sustainable and stable economic growth.

The specific objective of the programme is to significantly improve, in *the short term*, the production and marketing potential:

- *firstly*, of the cotton value chain,
- *secondly*, of the cotton yarn spinning component of the textile value chain,
- *thirdly*, of clothing sub-sector's contribution to the economy, employment and exports in the targeted countries.

While working towards the achievement of these specific objectives, due consideration will be given to the viability of rehabilitating the current as well as recently ceased production activities in T&C value chain, especially in attempting to continue with the production of artisanal T&C items.

6.1.2 Modules and Components of the Technical Assistance Programme

"The modules" and "components" concept introduced in the UNIDO Initiative have been kept as they were, with the necessary modifications to accommodate the proposed priorities in the above mentioned objectives. The activities of the main programme will be articulated around three modules, namely:

- Develop and upgrade the Productive and Supply Capacities of CTC value chain;
- Improve Quality Conformity of African manufactured CTC products to International Technical Requirements;
- Further integrate the local cotton producers into the Multilateral Trading System.

While carrying out these activities, particular attention will be paid to the building or strengthening of local capacities in the following areas:

- Management of technological change;
- Marketing and commercialization of *cotton and cotton products, (initially cotton yarn, and clothing products)* on the international market;
- Development of the national and regional strategy for the cotton sector;
- Strengthening of investment and technology promotion;
- Building up worldwide partnerships with other institutions and enterprises.

Module 1 will be focused on harmonizing the sectoral strategies and upgrading the supply and productive capacities of the ***selected components*** of the CTC value chain. It will be divided into two components: one will deal with the harmonization of the strategies while the other will focus on enhancing the supply capacities of the CTC sector.

Module 2 will focus on enhancing the capacities of the CTC sector in the receiving countries to

comply with international technical norms and standards. To achieve this goal, the programme will develop and support the existing quality institutions in its first component. In its second component, the programme will assist the CTC producers in improving the quality of their products.

Module 3 will aim at facilitating the WCA cotton producers' integration into the multilateral trade system through the promotion of intra-regional trade and exports of *the selected CTC goods originating in WCA.*

However, there are three notable differences from the UNIDO Initiative document:
The first difference *is that related to the implementation of the activities within the modules and components, which have been planned to be executed in two successive stages. For this purpose, the modules and components have been divided into* ***two consecutive stages****. In the first stage, which can be called "preliminary investigation part" only those activities which require further investigation work, feasibility studies, etc., are included so that the continuation of the activity in the second stage will be decided upon until after the results of the first stage activities have been evaluated in order to avoid any inefficient or inappropriate use of the limited resources.* A good example to the above mentioned two stage approach is the inclusion of reviewing the state of the current textile facilities and assessing their rehabilitation needs *in the first stage*, and putting the suggested solutions into implementation *in the second stage* with the main programme.

The second difference *is that some additional activities, which had been regarded as essential for the complementarity and for the success of the main project, have also been proposed in the course of this study. Again for some of these activities preparation of a feasibility study has been suggested in order to establish the size of the investment which will be* ***subsequently*** *initiated.* An example to this approach is clearly seen in the proposal for establishing "a regional ginning school" (Section 5.3.3.6), where *in the first stage* a feasibility study is to be carried out in order to determine more clearly the major features related to this ginning school investment, which will be *subsequently* put under implementation *in the second stage.*

The third difference is where a definite need is obvious in which case commencement of these activities have been programmed *right from the beginning of the first stage and which will continue in the second stage.* The examples to this approach can be seen in the proposed activities related to the campaign against contamination or to conducting some export promotion training programmes.

6.1.3 Logical Framework of the Programme

The logical framework of the programme is basically the same as the framework given in the UNIDO document, with the exception that the scope is not the total CTC value chain, but in selective components of the textile value chain, presently starting with the cotton yarn spinning, and also selective clothing investments. The scope and depth in each component of the CTC value chain will largely depend on the degree of interest shown by the public and private sector companies, both domestic and foreign.

6.1.4 Programme Budget

A distinction will have to be made with respect to programme budgets. The budget related to the *"selected preliminary activities"* has been prepared by allocating indicative costs (in Euros) to each of the selected activities, which have been suggested in this study. The expected duration (in months) for each activity as well as its starting and finishing months has also been indicated in **Table 6.1.** These selected preliminary activities are grouped under the related module and component, which had been used in the UNIDO Initiative document. In order not to confuse these modules and components with those of the UNIDO Initiative, letter (a) is used in **Table 6.1**, while letter (b) is used for **Table 6.2,** which contains the budgetary allocations of the *modules* and *components* exactly as they appear in the UNIDO Initiative document.

It will be noticed from **Tables 6.1** that the total budgetary allocations related to *the selected preliminary activities* amount to **€ 2.2 Million**, while the budgetary allocations of the modules and components of the UNIDO Initiative document in **Table 6.2** add up to **€20.41 Million.** In other words, the total budgeted expenditure of the selected preliminary activities is roughly 11% of the total budgetary allocations of the UNIDO Initiative. A summary of the two budgetary allocations with the respective modules and components are given in **Table 6.3.**

It should also be noted that the selected preliminary activities shown in **Table 6.1** will be completed within 2-3 months after the start of the implementation, with the exception of a few activities which will have to be completed at the end of fourth month and also the ongoing periodically performed training activities, which do not affect the start of the activities foreseen in the UNIDO Initiative. *Therefore, it is recommended that the completion of the preliminary activities, the project management should analyse the results obtained, together with the recommendations made in order to decide on the best course of actions related to the start of the implementation stage of the second phase,* i.e. the activities foreseen and recommendations made at the end of the preliminary phase, when it will be possible to make more informed decisions on the future course of actions related to the way in which to implement the spinning component, the type of clothing manufacturing to concentrate on, the way in which the rehabilitation of the presently operating or recently closed textile enterprises should take place, the product ranges as well as the scope and nature of the regional cooperation, which had been identified in the study.

It is believed that those activities in the UNIDO Initiative, which have been identified as needing more detailed investigations, should be completed, analysed and evaluated by the project management team, and start to the *"main phase"* should be given only to those activities which indicate viability. It is due to need of the above mentioned exercise that a revised budgeting could not be made for the *"main phase"* of the programme at this stage and the budget figures have been taken exactly as they appear in the UNIDO Initiative document.

Therefore, with possible omissions of certain activities in certain components in the *"main phase"*, it may come out that despite the **€2.2 Million** expenditures made for the *"selected preliminary phase"* the amount left for the main phase activities will be sufficient to cover their costs, in which

case estimated total budget of **€20.41 Million** of the UNIDO Initiative will not be exceeded. Taking into account the reasons explained in various sections of this report, but particularly in Chapter IV (Sections 4.5) and Chapter V (Section 5.1 -5.3), it can be argued that the total amount foreseen in the UNIDO Initiative will not have to be exceeded, due to the omissions which will be necessary in the project, at least, in the near future. Time needed for the implementation of the "main phase" with possible revised activities will be better known when the evaluation of the "selected preliminary activities are completed. Therefore, the duration of the total project (including "the preliminary phase") has presently been kept at 36 months.

6.1.5 Programme implementation and coordination mechanisms

The programme implementation and coordination mechanism, which has been described in the UNIDO Initiative document is a well thought implementation and coordination mechanism in view of the large number of stake holders involved as well as the considerably large area of implementation, comprising all the cotton producing states of WCA.

6.2 RELEVANCE OF THE PROGRAMME TO THE ISLAMIC DEVELOPMENT BANK

It was pointed out in *Chapter III* that the **IDB** has been playing a significant role in the cotton sector of its member countries. It is due to this close interest that the **IDB** has been financing a number of projects, which contributed significantly to the improvement of the cotton sectors of many Islamic countries, among which most of the WCA countries occupy a leading position.

It has also been pointed out in this report that the action plan developed by the **IDB** in *the First Expert Group Meeting* held in Jeddah, Saudi Arabia, in March 2005, also the Action Plan, which was initiated and prepared by *the Second and Third Expert Group Meetings*, held in Izmir in March 2006 and in Antalya, Turkey in October 2006, respectively and which later was accepted by the OIC and COMSEC meetings in Istanbul in November 2006, all contain capacity building and institutional development activities, some of which are similar to the activities foreseen in other initiatives, namely those developed by the **UNIDO, UEMOA, EU,** etc. Examples common to all of these projects include, the setting up of cotton research centres, fight against contamination, improvement of cotton quality, cotton classing, grading and standardisation, standardised instrument testing of cotton, etc. It may be appropriate that the ***IDB*** *would have interest in sponsoring some of these projects either jointly or with the participation of other organisations.*

Given that the **IDB,** together with the **OIC** also sponsors cotton investment forums[156], where potential investors are brought together to explore possible ways in which joint ventures or FDIs can be attracted to the LDCs, particularly to WCA. The **IDB** may also facilitate the cotton trade in which WCA countries can export their cotton, with the **IDB** as an intermediary, the mechanism of which was described in this report in some detail[157].

[156] *Such a forum was organized on 13-14 November, 2007 to which the writer of this report has also participated.*

[157] *(see Section 5.3.2.3)*

6.3 SUGGESTIONS FOR SUCCESSFUL IMPLEMENTATION OF THE PROGRAMME

The success of the above outlined Technical Assistance Programme, which has been based on the lessons learned from the comparative studies of India, Turkey and Egypt as well as on various initiatives developed, particularly the UNIDO Initiative, depends on many factors, the most important of which are the following:

- The political will of the targeted Governments to show ownership to the Programme;
- Political, economic and social stability, as well as the acceptance of and respect to the rule of law and order, by all parties involved;
- awareness that an uncertainty with regard to the future political, economic and social environment will discourage stakeholders and foreign investors from investing;
- acceptance of this Programme as one of the top priority projects, by the donors, and by other relevant bodies,
- Providing such an environment and timely flow of the needed finances and other contributions, will enable the access of the programme to the domestic beneficiaries and to the deployment of needed technical expertise, both national and regional as well as international

It is important that, with successful implementation, the programme will ultimately provide benefit and sustainability to the Cotton-Textiles-Clothing Value Chain in the WCA. It is certain that the programme's success and sustainability lie at the hands of all stakeholders involved including the local beneficiaries. Given that there are also a number of ongoing programmes and initiatives prepared and being executed by various other international financial development institutions and foreign governments in the WCA, a close coordination with these institutions and governments is also of utmost importance in order to achieve the desired overall success and sustainability.

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TABLES

Table 2.1: COTTON'S MACRO-ECONOMIC IMPORTANCE IN WEST AND CENTRAL AFRICA

Average 2002-2004	Cotton Exports (million US$)	Share in Exports	Share in Country's Total Agricultural Production	Share in Country's Total Exports
Benin	**142.5**	**16%**	**70%**	**30%**
Burkina Faso	**154.0**	**17%**	**75%**	**56%**
Cameroon	**102.8**	**11%**	**20%**	**7%**
Cote d'lvoire	**147.7**	**17%**	**6%**	**4%**
Ghana	**5.3**	**1%**	**1%**	**1%**
Mali	**188.1**	**21%**	**63%**	**30%**
Nigeria	**31.8**	**4%**	**7%**	**n.a**
Senegal	**17.5**	**2%**	**11%**	**9%**
Chad	**59.7**	**7%**	**52%**	**30%**
Togo	**39.6**	**4%**	**38%**	**8%**

Source: *FAOSTAT (2006)*

Table 2.2: COTTON PRODUCTION, CONSUMPTION, EXPORTS/IMPORTS, STOCKS IN WEST AND CENTRAL AFRICAN COUNTRIES (2005/06 Season)

Countries	Area (000) ha	Yield kg/ha	Prodn. tonnes	Consum. tonnes	Exports tonnes	Imports tonnes	Stocks tonnes	*Consump/ Productn. (%)*
Benin	200	408	82,000	3,000	132,000		50,000	3.6
Burkina F.	646	458	296,000	2,000	304,000		133,000	0.6
Cameroon	214	458	86,000	3,000	110,000		48,000	3.6
Chad	315	235	74,000	1,000	77,000		37,000	1.3
C. d'lvoire	270	426	115,000	10,000	85,000		37,000	8.7
Ghana	26	301	8,000	3,000	5,000		5,000	37.5
Mali	551	408	223,000	4,000	250,000		90,000	1.8
Nigeria	330	253	84,000	67,000	35,000	15,000	37,000	79.7
Senegal	48	393	19,000	1,000	21,000		6,000	5.3
Togo	105	257	27,000	0	46,000		25,000	0
TOTAL	***2705***	***360(*)***	***1,014,000***	***94,000***	***1065,000***	***15,000***	***468,000***	**9.3(**)**

Source: Compiled from ICAC Statistics; (*) Average yield;(**) Average Consumption/production

Table 2.3: COTTON EXPORTS BY WEST AND CENTRAL AFRICAN COUNTRIES

(1980/81-2006/07)(*) **(000) Tonnes**

YEARS	BENIN	B.FASO	CAMEROON.	CHAD	COTE D'IVR	MALI	TOGO	SENEGAL	C.AF. REP.	OTHERS	TOTL
1980/81	8	22	26	32	42	35	7	4	8	0	**185**
1985/86	22	41	39	36	84	60	35	7	13	0	**336**
1990/91	58	73	44	58	81	114	36	17	13	2	**498**
1995/96	135	56	72	63	76	152	35	10	13	4	**620**
1999/00	136	95	65	64	160	182	51	0	12	5	**783**
2000/01	140	112	84	66	150	134	51	0	10	3	**767**
2001/02	148	123	90	60	109	139	62	15	12	2	**770**
2002/03	162	155	79	64	83	167	84	0	5	3	**830**
2003/04	132	197	126	63	169	262	78	0	8	1	**1063**
2004/05	114	200	75	57	148	268	55	0	4	3	**940**
2005/06	115	286	108	79	77	237	46	21	3	2	**979**
2006/07	120	342	108	76	103	234	46	18	2	4	**1058**

Source: Compiled from ICAC World Cotton Trade Statistics (Sep 2006); (*)Estimate

TABLE 4.1: AREA AND PRODUCTION OF COTTON - MAJOR COUNTRIES(*) Area (000) hectares, Production (000) tonnes								
COUNTRY/ SEASONS	2003/04		2004/05		2005/06		2006/07(**)	
	Area	Prod	Area	Prod	Area	Prod	Area	Prod
China (Mainland)	5364	5115	6052	6750	5382	6099	5739	7183
USA	4858	3975	5284	5062	5586	5201	5152	4700
India	**7830**	**3043**	**8786**	**4131**	**8677**	**4097**	**9158**	**4760**
Pakistan	2989	1708	3229	2482	3100	2089	3250	2372
Brazil	1100	1309	1179	1299	856	1038	1097	1448
Uzbekistan	1394	893	1419	1134	1432	1210	1429	1143
Turkey	**725**	**910**	**698**	**900**	**600**	**800**	**700**	**820**
Australia	197	348	314	658	336	598	140	253
Greece	363	333	375	390	363	430	300	320
Syria	203	263	211	333	218	329	216	225
Burkina Faso	459	204	566	264	646	300	716	282
Mali	549	260	565	240	551	223	480	176
Turkmenistan	550	200	550	203	600	215	600	260
Egypt	**223**	**198**	**300**	**292**	**274**	**202**	**231**	**212**
Other countries	5387	2500	5917	3028	3536	2440	5467	3405
World Total	**32394**	**20961**	**35589**	**26729**	**34059**	**25010**	**34400**	**25955**

Source: *the International Cotton Advisory Committee (October 2007); (**) Estimate*

TABLE 4.2: COTTON CONSUMPTION BY MAJOR COUNTRIES (000)Tonnes				
Countries /Seasons	2003/04	2004/05	2005/06	2006/07
CHINA	7224	8239	9439	10500
INDIA	**2987**	**3265**	**3627**	**3990**
PAKISTAN	2100	2231	2517	2593
TURKEY	**1415**	**1550**	**1500**	**1600**
USA	1364	1457	1278	1078
BRAZIL	875	915	895	900
INDONESIA	450	470	470	480
THAILAND	403	457	440	430
BANGLADESH	345	395	475	520
MEXICO	435	455	455	446
RUSSIA	290	284	290	287
CHINA (TAIWAN)	250	261	260	255
KOREA, REP	290	290	230	230
EGYPT	**175**	**210**	**210**	**210**
VIETNAM	125	152	160	190
OTHERS	3547	2989	2890	3337
TOTAL	**21739**	**23620**	**24916**	**26290**

Source: Compiled from the ICAC data (Oct. 2007)

TABLE 4.3: COUNTRIES WITH HIGH COTTON YIELDS (AVERAGE OF 2000/01-2004/05 SEASONS)	
COUNTRIES	**Kg/ha**
1. AUSTRALIA	1720
2. ISRAEL	1639
3. TURKEY	1324
4. SYRIA	1312
5. BRAZIL	1117
6. SPAIN	1111
7. MEXICO	1106
8. CHINA	1089
9. GREECE	989
10.EGYPT	966
WORLD AVERAGE	644

Source: Compiled from ICAC data

Table 4.4: COMPARISON OF COTTON CULTIVATION AREA, PRODUCTION AND YIELDS (1980/81-2006/07 SEASONS)**

	Area (000)ha			Production (000) tonnes			Yield (kg/ha)		
Seasons	India	Turkey	Egypt	India	Turkey	Egypt	India	Turkey	Egypt
1980/81	7824	672	523	1322	500	529	169	744	1011
1985/86	7533	660	454	1964	518	435	261	785	958
1990/91	7440	641	417	1989	655	296	267	1021	709
1995/96	9063	757	298	2885	851	242	318	1125	810
1996/97	9166	744	387	3024	784	346	330	1054	894
1997/98	8904	719	361	2686	838	342	302	1165	948
1998/99	9287	757	331	2805	882	230	302	1166	693
1999/00	8731	719	271	2652	791	233	304	1100	858
2000/01	8576	654	218	2380	880	210	278	1345	965
2001/02	8730	693	307	2686	922	317	308	1330	1031
2002/03	7667	721	297	2312	900	290	302	1248	976
2003/04	7830	725	223	3043	910	198	389	1255	885
2004/05	8786	698	300	4131	900	292	470	1289	971
2005/06	8873	600	274	4148	800	202	467	1333	736
2006/07(*)	9139	700	223	4364	860	203	477	1228	911

Source: Compiled from the ICAC World Statistics (2006); (*)estimate; (**until 1995/96 at 5 year intervals)

Table 4.5: COMPARISON OF COTTON EXPORTS AND IMPORTS OF INDIA, TURKEY AND EGYPT
SINCE 1980/81 SEASON (until 2000/01 at 5 year intervals)

	Exports (000)tonnes			Imports (000)tonnes		
Seasons	**India**	**Turkey**	**Egypt**	**India**	**Turkey**	**Egypt**
1980/81	**140**	**222**	**162**	**0**	**0**	**0**
1985/86	**63**	**68**	**148**	**0**	**16**	**31**
1990/91	**255**	**164**	**18**	**0**	**46**	**51**
1995/96	**121**	**55**	**19**	**9**	**113**	**20**
2000/01	**24**	**28**	**79**	**350**	**383**	**27**
2001/02	**9**	**28**	**84**	**520**	**624**	**6**
2002/03	**11**	**49**	**160**	**265**	**516**	**6**
2003/04	**119**	**77**	**89**	**171**	**516**	**50**
2004/05	**136**	**33**	**140**	**185**	**743**	**90**
2005/06	**600**	**40**	**100**	**99**	**730**	**101**
2006/07	**894**	**47**	**112**	**75**	**780**	**123**

Source: Compiled from the ICAC data (Sep. 2006)

Table 4.6 : DISTRIBUTION OF MAJOR SPINNING CAPACITIES IN THE WORLD

	Capacity		**Shipments**				**Share of 0-10 years old machinery in total capacity (%)**	
	2004		**1996-2005**		**2005**			
	Ring (Spindles)	Open-end (rotor)	Ring (Spindles)	Open-end (rotor)	Ring (Spindles)	Open-end (rotor)	Ring	Open-end
China, P.R.	67,000,000	1, 160,000	21,532,744	1,171,854	7,1 83,968*	246,067	29.0	83.3
India	**37,470,300**	**501,14**	**9, 723,847**	**130,814**	**1,429,788**	**20, 080**	**25.0**	**25.1**
Pakistan	9,743,500	150,700	4,322,976	6,412	1, 037,832	1,408	40.1	4.2
Turkey	**6,312,300**	**543,320**	**3,518,988**	**401,293**	**307, 560**	**18,38**	**53.2**	**71.4**
Bangladesh	2 469,000	55 900	2, 042,152	39,168	540,684	8, 080	67.9	61.2
Indonesia	7,800,000	90,000	1,031,284	10,736,	134,244	2,04	13.0	11.7
Thailand	3,593,000	52,000	826,728	38,929	82 848	4 ,512	22.5	68.9
Mexico	3,500,000	100 000	727,924	62,694	26,352	3,695	20,6	60,5
Vietnam	890,000	4,700	687,612	13,944	144,888	1,041	66.4	42.9
USA	1,602,000	569,000	580,728	213,408	144	13 ,561	36.2	36.6
Brazil	4,498,900	332 750	479,386	163, 934	21,6	22,144	10.6	46.2
Uzbekistan	1,440,000	323,600	433, 140	26,416	34,548	0	29,4	8.2
Iran	2,200,000	88,000	383,866	48,312	72,096	5,328	16.9	51.8
Syria	770,000	27,000	357, 328	22,334	24	1,056	45.0	79.6
Korea	1,574,500	15,010	297, 152	6,145	23,041	526	18.6	1
Taiwan	1 995,700	72,550	277,876	22,495	4,320	0	13.9	31.0
Japan	1,993,000	51,000	155,490	2,280	1,200	0	7.8	4.5
Egypt	**2,300,000**	**40,000**	**149,100**	**1,560**	**16,500**	**0**	**6.4**	**3.9**
World Total	**181,150,600**	**8.019.990**	**50, 696,407**	**2,790,343**	**11,198,644**	**374 ,211**	**26.4**	**33.2**

Source: ITMF (International Textile Manufacturers Federation)
** 2005 shipments have been included in the 2004 figures, when calculating the capacity share of 0-10 years old equipment*

TABLE 4.7: COMPARATIVE TABLE ON INSTITUTION BUILDING IN INDIA, TURKEY AND EGYPT		
INDIA	**TURKEY**	**EGYPT**
Related to cotton production		
i) The Indian Council for Agricultural Research (ICAR) **ii)** The National Research Centres (NRCs) **iii)** Directorate of Cotton Development, Department of Agriculture **iv)**The National Biotechnology Board **v)** The Cotton Cooperation of India (CCI) **vi)** Mission Directorate, Cotton Technology Mission **vii)** The Cotton Advisory Board **viii)** Cotton Cooperatives, Federations, etc.	**i)** The Agricultural Sales Cooperatives Unions (ASCUs) **ii)** Agricultural Credit Cooperatives Unions (ACCUs) **iii)** Nazilli Cotton Research Institute (NCRI) and Agricultural Research Institutes (ARIs) **iv)** University Faculties on Agricultural Technology and Agricultural Economics **v)** National Cotton Council of Turkey (NNCT)	**i)** Cotton Research Institute of Egypt: **ii)** Alexandria Cotton Exporters' Association (ALCOTEXA) **iii)** Cotton Arbitration and Testing General Organisation (CATGO)
Related to Textile and Clothing		
i) Textile Research Associations ii) The Office of Textile Commissioner, Mumbai iii) Textile Committee, Mumbai, iv) All India Exporters' Chamber v)Federation of Indian Export Organizations (FIEO) vi) Export Promotion Councils for Cotton Textiles, Apparel, etc., within FIEO	**i)** University faculties/schools on textiles and clothing **ii)** Quality Control Laboratories for Textiles and Clothing **iii)** State Economic Enterprises (SEEs) and SÜMERBANK **iv)F**ree Trade Zones (FTZs) **v)** Exporters' Associations in Textiles, Clothing, etc. **vi)** Sectoral Foreign Trading Co. Companies	**i)** The New Textile Technology Centre **ii)** The Export Commodity Councils (Export Council for T&C) **iii)** General Authority for Investment, (GAFI) **iv)** General Industrial Development Authority (GIDA) **v)** Chamber of Egyptian Textile Industries **vi)** Textile Consolidation Fund (TCF)

Source*: Compiled from: "Analysis of the Cotton Value Chain of **India, Turkey, Egypt** and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa"*, prepared for UNIDO by: **M. SAHU** (India); **GAZANFER, S** (Turkey); **ABLA, A.L**(Egypt) TE/RAF/06/012/11-51,52,53 ; **UNIDO (2007**).

(*) *Personal communication*

Table 4.8 Comparison of the Degree of Impact for Selected "Lesson Learned" Areas

	"Lessons Learned"	India	Turkey	Egypt	Σ Impact	See Section
1	**General Nature**					
	Public Private Partnership	xxx	xxx	xx	8	4.5.1
	Effective participation of stakeholders in projects	xxx	xx	xx	7	4.5.1
	Development in Cotton-Textile-Clothing (CTC) V. Chain	xx	xxx	x	6	4.5.1
	Government's role in developing CTC value chain	xx	xx	xx	6	4.5.1
	Marketing textiles/clothing with own brands	x	xx	x	4	4.5.1
2	**Cotton Cultivation and Production Practice**					
	Provision of agricultural inputs	xxx	xxx	xx	8	4.5.2.1
	Varietal Development of cotton seeds	xxx	xx	xx	7	4.5.2.2
	Ginning and Pressing	xxx	xx	x	6	4.5.2.4
	Minimising Contamination	xx	xx	xx	6	4.5.2.5
	Cotton Classing and Grading, use of HVI instruments	xx	xx	x	5	4.5.2.6
	Increased use of mechanical harvesting to reduce cost	-	xx	-	2	4.5.2.3
3	**Government Policy on:**					
	Attribution of importance to cotton	xxx	xxx	xxx	9	4.5.3.1
	Trade promotion	xxx	xxx	xx	8	various
	Exchange rate	xx	xx	xx	6	4.5.3.3
	Development Strategy on CTC value chain	xx	xxx	x	6	4.5.3.2
	Cotton Pricing or Support					
	Seed cotton pricing	xx	xxx	x	6	4.5.3.6
	Lint cotton pricing	xx	xxx	x	6	4.5.3.6
	Free Trade Zones, Export Promotion Zones	xx	xxx	x	6	various
	Regional and bilateral trade	x	xxx	xx	6	4.5.3.4
	Promotion of Investment					
	Domestic Investment	xxx	xx	x	6	4.5.3.5
	Foreign Direct Investment, FDI	xx	xx	x	5	4.5.3.5
4	**Other**					
	Institution building	xxx	xx	xx	7	4.5.4
	Product ranges	xx	xxx	x	6	4.5.5
	Testing and design	xxx	xx	x	6	4.5.6
	Training	xxx	xxx	xx	8	4.5.7
	Price risk management	xx	x	x	4	4.3.2.1
5	**Other "Lessons Learned" specific to:**					
	India					
	Creating textile specific infrastructure	xxx	xx	xx	7	4.5.8.1
	Introduction of Bt cotton	xxx	-	-	3	4.5.8.1
	Turkey					
	Adoption of the export-led development model	xxx	xxx	xx	8	4.5.8.2
	Important role played by the cooperatives	xx	xxx	x	6	4.5.8.2
	Egypt					
	Making best use of domestically produced cotton	xx	x	xxx	3	4.5.8.3
	Making the private sector leader of TC industry	xxx	xxx	xxx	3	4.5.8.3

XXX= strong impact; xx=medium impact; x=fair impact

(*) *The evaluation was made solely according to consultant's judgement, based on the available information*

Source*: "Analysis of the Cotton Value Chain of **India, Turkey, Egypt** and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa"*, prepared for UNIDO by: **M. SAHU** (India); **GAZANFER, S** (Turkey); **ABLA, A.L**(Egypt) TE/RAF/06/012/11-51,52,53 ; **UNIDO (2007**).

Table 5.1: Time needed and cost for shipping goods for export to the USA from selected LDCs in sub-Saharan Africa

Country	Time for export (days)	Cost to export (US$ per container)	Landlocked or Coastal Country
Burkina Faso	**69**	**1,215**	**Landlocked**
Mali	**66**	**1,752**	**Landlocked**
Central African Rep.	**63**	**1,502**	**Landlocked**
Chad	**87**	**1,860**	**Landlocked**
Burundi	**80**	**3,625**	**Landlocked**
Rwanda	**60**	**3,840**	**Landlocked**
Senegal	**22**	**978**	**Coastal**
Togo	**32**	**463**	**Coastal**
Benin	**35**	**980**	**Coastal**
Cape Verde	**18**	**533**	**Islands**

Source: ***Compiled from "Cost of Doing Business 2007", World Bank***

TABLE 5.2: INSTITUTION BUILDING IN THE SELECTED COUNTRIES OF WEST AND CENTRAL AFRICA*		
BENIN	**BURKINA FASO**	**CAMEROON**
SONAPRA (*Société Nationale pour la Promotion Agricole)* ***Parastatal (1984)***: was responsible for all aspects of cotton. Recently, transferred many functions to other entities: **GAGIA** (*Coopérative d.Approvisionnement et de Gestion des Intrants Agricoles*) ***Private (1998):*** a cooperative belonging to the Regional Producers unions. Represents the interests of the cotton companies. **APEB** (*l.Association Professionnelle des Egreineurs du Bénin*) ***Private (1999):*** key responsibility to coordinate activities among ginneries. **AIC** (*l.Association Interprofessionnelle du Coton*) ***Private (1999)*** manage supply chain-related functions. **CSPR** (*Centrale de Sécurisation des paiements et de Recouvrement*) ***Private (2000):*** mandate to recover debts from grower, deliver cotton to ginners, and make payments to growers.	**SOFITEX** (*La Société Burkinabè des Fibres et Textiles*) ***Parastatal*** with ownership, 36 % government, 30% UNPCB, 34% DAGRIS. ***In 2004,* SOFITEX** was divided into three new companies: {**(1) SOFITEX, (2) SOCOMA, (3) FASO COTON}** **APROCOB** *(Association professionnelle des société cotonnières du Burkina Faso)****Private association (2006*)**: presently includes three cotton companies mentioned above **AICB** *(Association Interprofessionnelle du Coton du Burkina Faso)* ***Private (2006):*** *Presently includes* ***APROCOB*** *and* ***UNCPB*** **UNPCB** (*Union Nationale des Producteurs de Coton du Burkina Faso*) ***Private*** Producer organization, which has a strong say on SOFITEX's decisions such as prices received by growers, selling prices of inputs, and management of the research program.	**SODECOTON** *(Société de Développement du Coton du Cameroun)* ***Parastatal (1974):*** government (59 %), DAGRIS (30 %), private local company (11%). **OPCC** (*Organisation des Producteurs de Coton du Cameroun)* **Private (2000):** Umbrella organization of cotton producer groups,
CHAD	**CÔTE D.IVOIRE**	**MALI**
Cotonchad ***Parastatal*** The cotton company of Chad, in charge all marketing and trade aspects of the industry, including managing direct sales through its Paris-based office.	**CIDT** (*La Compagnie Ivoirienne de Développement des Textiles)* ***Parastatal*** The cotton company of Côte d.Ivoire, which used to handle all marketing and trade aspects of the industry Since 1998 divided into three zones: **CIDT *Nouvelle*** *(in the South): governmental* ***Société Ivoire Coton*** *(in the NW)****:*** ***private*** *(joint venture Aga Khan Group with Reinhard)* **LCCI** *(Compagnie Cotonnière Ivoirienne): private (in the NE)*	**CMDT** (*Compagnie Malienne pour le Développement du Textile*) ***Parastatal*** The cotton company of Mali, handling almost all marketing and trade aspects of the cotton industry.
NIGER	**SENEGAL**	**TOGO**
OHVN (*Office de la Haute Vallee du Niger*) ***Parastatal*** Company involved in the promotion of many crops, including cotton. It is involved in cotton production (not ginning) in a specific part of the country	**SODEFITEX** (*Société de Dèveloppement des Fibres Textiles*) ***Parastatal*** The cotton company of Senegal, which used to handle all aspects of marketing and trade until 2002, when majority shareholding was transferred to DAGRIS.	**SOTOCO** (*Société Togolaise de Coton*) ***Parastatal*** The cotton company of Togo, handling all production and marketing activities of cotton, except ginning half of the cotton crop, which is done in three private ginneries.

***Table includes only the institutions directly related to cotton production.*

Table 5.3 : LIKELY AREAS OF COOPERATION WITH THE WCA COUNTRIES IN CTC VALUE CHAIN

INDIA	TURKEY	EGYPT
Importing cotton from the WCA countries		
In 2004/05 season, a total of 48 thousand bales (about 10 000 tons) was imported to India. In the following years the imports became negligible due to India becoming a major cotton exporter.	Between 996-2006 (in 11 years) Turkey imported 183 000 tons of lint cotton from Africa, 53 000 tons of which from WCA. This quantity can be significantly increased if the contamination problem is minimized.	No cotton imports so far. Clearance is needed from the Egyptian Ministry of Agriculture for importation after necessary inspection of plant health authorities.
Possible areas of collaboration		
With CCI: Implementing a quality improvement programme for cotton ginning and pressing mills, cotton marketing and establishing cotton marketing yards. **Textiles Committee, Mumbai:** Modernizing testing and quality control infrastructure and systems in the African countries. **Confederation Indian Textiles Industries (CITI), formerly the Indian Cotton Mills Association (ICMA) and the East India Cotton Association:** These associations may help develop PPP framework for any development and promotion programmes in African Cotton Producing Countries. **Department of Biotechnology, Ministry of Environment, Government of India:** This association may help in the introduction of Bt cotton in African countries. **The Forward Market Commission (FMC):** The FMC can share its experience and expertise in futures trade in agricultural commodities with developing countries of Africa.	**Agricultural Sales Cooperatives Unions (ASCUs)*:** -Can share their experience in cooperative formation, -Can trade in cotton commodities **Izmir Mercantile Exchange*:** - Can be an intermediary to the cotton exporters of WCA and the Turkish importers through its commission agents **Ginning Equipment Manufacturers*:** Can introduce roller-ginning to the cotton sector in WCA **Cotton Seed Companies*:** Cooperation possibilities in seed development **Free Trade Zones (FTZs) in Izmir and Mersin:** -Willing to share their experiences in the development of FTZs. -Ready to cooperate with the WCA cotton exporters in their cotton exports to Turkey, through utilizing the FTZs.	**Suggestions for increased collaboration:** - Integration of WCA with North African textile industry, - Activation of the COMESA Agreement to enhance collaboration, - Invitation to the WCA authorities to collaborate with the Egyptian Authorities to obtain clearance for cotton imports, - Establishment of an African Competitiveness Observatory (ACO), which will include WCA, to be linked to the Egyptian CO,

Source*: Compiled from: "Analysis of the Cotton Value Chain of **India, Turkey, Egypt** and Identification of Strategies for Developing the Cotton Value Chain in West and Central Africa"*, prepared for UNIDO by: **M. SAHU** (India); **GAZANFER, S** (Turkey); **ABLA, A.L**(Egypt) TE/RAF/06/012/11-51,52,53 ; **UNIDO (2007**).
(*) *Personal communication*

Table 6.1: SUGGESTED PRELIMINARY ACTIVITIES (Breakdown of indicative amount by specific objective and expected result (in € 000))

Module 1 (a).
Harmonization of sector strategy and policies in the cotton sector and Upgrading and Development of supply and productive capacities
Component 1.1(a): *Harmonizing sectoral industrial strategies and policies based on Public Private Partnership arrangements in the CTG value chain*

Expected results of *Preliminary Activities*	Budget in € 000	Duration (Months)	From	To
1.1 Review of the textile sector in the WCA, identifying technically the rehabilitation and renovation needs for continuation of textile production activities in potentially promising production facilities	**100**	**3**	**1**	**4**
1.2 Review of the clothing sector in the WCA, identifying technically the rehabilitation and renovation needs	**50**	**2**	**1**	**3**
1.3 Review of Pricing Policies, making recommendations for the sustainable cotton production	**50**	**2**	**1**	**3**
1.4 Price risk management, review the tools employed, and make recommendations to minimise risks	**50**	**2**	**1**	**3**
1.5 Policies on Export Marketing of Cotton, make recommendations how best to increase marketing of cotton	**50**	**2**	**1**	**3**
1.6 Policy on regional integration & regional infrastructure development (a preliminary assessment report)	**100**	**2**	**3**	**5**
1.7 Policy on the exchange rate	**30**	**1**	**1**	**2**
1.8 Policy on investment promotion, for spinning, and clothing, also identifying a promotional budget	**70**	**3**	**3**	**6**
Total Component 1.1(a)	**500**			

Component 1.2(a): *Upgrading and development of support capacities and supply and productive capabilities*

Expected results of *Preliminary Activities*	Budget in € 000	Duration (Months)	From	To
1.9 Feasibility study for the establishment of a regional cotton production training centre with extension services, etc.	**60**	**3**	**1**	**4**
1.10 Feasibility study for the establishment of a regional ginning school, to train foremen, technicians/ other operators	**40**	**2**	**1**	**3**
Total Component 1.2 (a)	**100**			
Total Module 1 (a)	**600**			

Table 6.1 (Cont.) SUGGESTED PRELIMINARY ACTIVITIES (Breakdown of indicative amount by specific objective and expected result (in € 000))
Module 2 (a). Developing and proving conformity to technical norms and standards
Component 2.1(a)*: Enhancing and development of the existing support institutions capacities*

Expected results of *Preliminary* Activities	Budget in € 000	Duration (Months)	From	To
2.1 A comprehensive feasibility study for the establishment of a Regional Research and Development Institute on Cotton Seed Breeding, varietal improvement, etc	**100**	**4**	**1**	**5**
2.2 A comprehensive feasibility study for the establishment of a Regional Cotton Testing, Classing and Grading Centre with HVI and other necessary equipment , to class and grade cotton per bale bases	**200**	**4**	**1**	**5**
Total Component 2.1 (a)	**300**			

Component 2.2 (a) Improving product quality (cotton fibre and finished goods) and production systems

Expected results of *Preliminary* Activities	Budget in € 000	Duration (Months)	From	To
2.3 A study to determine the needs to improve the ginning and pressing operations of existing ginneries	**100**	**4**	**1**	**5**
2.4 Measures related to minimising or totally eliminating contamination in the WCA, training as well as inspection, including the establishment of inspection teams, information campaigns, etc.(based on a project)	**500**	*A periodic activity strictly performed at each harvesting and ginning seasons*		
2.5 Measures related to quality improvement of cotton yarn, other existing textiles and clothing products, based on a Project	**500**	*After T&C investments are underway or concluded*		
Total Component 2.2 (a)	**1100**			
Total Module 2 (a)	**1400**			

Module 3(a). Integrating into the multilateral trading system
Component 3.1(a) Promotion of intra-regional and export trade in unprocessed and processed goods

Expected results of *Preliminary* Activities	Budget in € 000	Duration (Months)	From	To
2.6 Product ranges, for the rehabilitated textile and clothing factories, new spinning and clothing investments, etc.	**60**	*Total 3 months (1 month/year) to be used every year according to market developments*		
2.7 Enhance the establishment of Free Trading Zones (FTZs) or Export Processing Zones (EPZs), identifying possible locations, size, nature of processing, possibility of building under BOT or BOOT terms	**60**	*Total 3 months, first 2months to be used if the trial period shows promising future for CTG development, 3rd month after 2nd year*		
2.8 Training on export/import procedures, temporary importing (to make processing more competitive also increasing regional cooperation, preferably all with the involvement of an exporters association (periodically repeated activity	**80**	*Periodically ongoing activity for company staff responsible from temporary imports*		
Total Component 3.1 (a)	**200**			
Total Module 3 (a)	**200**			
Grand Total Modules (1a)+(2a)+(3a)	**2200**			

Explanatory Notes Related to Table 6.1

Module 1 (a).
Harmonization of sector strategy and policies in the cotton sector and Upgrading and Development of supply and productive capacities
Component 1.1(a): *Harmonizing sectoral industrial strategies and policies based on Public Private Partnership arrangements in the CTG value chain*

Preliminary Activities:

*1.2 Review of the **textile** sector in the WCA, identifying technically the rehabilitation and renovation needs for continuation of textile production activities in potentially promising production:* Within the scope of this activity two reports will be prepared after conducting the investigation on rehabilitation possibilities. One report will be for the already operating factories, while the other for the recently shut plants. The outputs of these reports will give information on the current state of these factories, as well as detailed analysis of what needs to be done to ensure continuity in their operation (for already functioning factories) and to restart operation (for already shut factories). *(See recommendation made in Section 5.3.3.1)*

1.3 *Review of the **clothing** sector in the WCA, identifying technically the rehabilitation and renovation needs:* Here a similar exercise is expected to be performed in both still operating and already closed factories. The output of the reports will include the same information as explained in Activity 1.1.

1.4 *Review of pricing policies, making recommendations for the sustainable cotton production:* The study will review the pricing policies for both seed and lint cotton in the light of comments made in the report. Particular emphasis will be given on the advantages and disadvantages of the current system practiced by each country together with new recommendations to improve the pricing policy. An analysis of the historical prices for both seed and lint cotton, compared with world prices would be also useful to understand how the world prices are reflected to the growers.

1.5 *Price risk management, review the tools employed, and make recommendations to minimise risks*: This study should focus on the presently available price risk management tools, which can be applicable in WCA, for various stakeholders in cotton industry, but particularly for cotton growers, degree or frequency of usage of these tools, the effectiveness of each tool and ways of improvement.

1.6 *Policies on export marketing of cotton, make recommendations on how best to increase cotton exports*: Study the way in which export marketing of cotton is presently conducted, effectiveness of the strategy and tools used and how to improve it, particularly setting up a joint export marketing entity, need and availability of experienced people on export marketing, etc.

1.7 *Policy on regional integration & regional infrastructure development (a preliminary assessment report):* This is a very comprehensive work involving various infrastructural aspects, but it should preferably include the electrical energy, transportation, road, water resources, telecommunications. Where the bottlenecks are, limitations, time frames for their completion, near term solutions, etc. A leaflet or brochure may be prepared to inform the potential investors about the availability/absence of critical infrastructural amenities.

1.8 *Policy on the exchange rate:* Although CFA franc being tied to Euro leaves little room for manoeuvre for individual WCA countries, a study specifically on how to minimise the negative effects of the exchange rate fluctuations will be of considerable value.

1.9 *Policy on investment promotion for spinning, and clothing, also identifying a promotional budget:* Investment promotion efforts will need to be attractive potential investors, particularly

in spinning and clothing components. As was explained in the text, it might be appropriate to offer certain incentives for attracting interest for FDI.

Explanatory Notes Related to Table 6.1(Cont.)

Component 1.2(a): *Upgrading and development of support capacities and supply and productive capabilities*

Preliminary Activities:

1.9 *Feasibility study for the establishment of a regional cotton production training centre with extension services, etc.:* As was explained in Section 5.3.3.6, such a centre will be established regionally to train the trainers, who will subsequently train the growers. The training subjects will be mostly on cotton cultivation techniques, for which the manual prepared by UNIDO *"Manuel qualité pour les filières cotonnières UEMOA" will be used.* The feasibility study will answer the questions such as the organisational set up, capacity, training subjects, frequency of trainings, selection of location, details on the trainer requirements, etc. The study will include review of the current extension services and how to improve them.

1.10 *Feasibility study for the establishment of a regional ginning school, to train foremen, technicians/other operators*: The need for the establishment of a regional ginning school was explained in Section 5.3.3.6. The study will establish various aspects of such a ginning school, its location (preferably in the vicinity of ginneries), size of the school, etc.

Module 2(a): Developing and proving conformity to technical norms and standards
Component 2.1(a*): Enhancing and development of the existing support institutions capacities*

Preliminary Activities:

2.1 *A comprehensive feasibility study for the establishment of a Regional Research and Development Institute on Cotton Seed Breeding, varietal improvement, etc.:* Necessity for such a research and development institute was taken up in Section 5.3.3.4. (Such an institute was also foreseen in the OIC/IDB action plan for Africa). The study should detail the type of research activities to be conducted, countries to be included, collaborative work details, costs involved, etc.

2.2 *A comprehensive feasibility study for the establishment of a Regional Cotton Testing, Classing and Grading Centre with HVI and other necessary equipment, to class and grade cotton per bale bases:* This centre was also proposed in Section 5.3.3.4 in order to open the way towards classing and grading of cotton per bale bases. It was also noted that in Mali such a centre was selected (CERFITEX will act as the regional technical centre in the CFC supported ICAC project). The feasibility study will also take into account this development. Furthermore, the four HVI units installed by UNIDO in Mali, Togo, Ivory Coast and Senegal can also be linked to each other to speed up in the work towards Commercial Standardisation of Instrument Testing on Cotton.

Component 2.2 (a) Improving product quality (cotton fibre and finished goods) and production systems

2.3 *A study to determine the needs to improve the ginning and pressing operations of existing ginneries:* This proposal was explained in detail in Section 5.3.1.7. The basic idea behind was to upgrade the ginning operations in the WCA, and decide on the form of support after making an assessment of the present state of the gins and the requirements for their upgrading, including the ancillary equipment such as pre-cleaners, humidifiers, etc. The decision on cost sharing of such an upgrading operation can be made after the completion of such a feasibility study.

2.4 *Measures related to minimising or totally eliminating contamination in the WCA, training as well as inspection, including the establishment of inspection teams, information campaigns, etc.(based on a project):* This recommendation was made in section 5.3.1.9: To eliminate or minimise contamination the following steps are suggested: i) train the people involved, ii) use 100% cotton material when picking, iii) collect and transport in bulk, iv) form inspection teams to make controls as practiced in Turkey. Similar measure can be taken in WCA, initially on pilot areas. This work is seasonal depending on the length of the harvesting and ginning operations.

2.5 *Measures related to quality improvement of cotton yarn, other existing textiles and clothing products, based on a project:* This activity will largely depend on the progress made in attracting investments in spinning and clothing. So there is no urgency for this activity.

Module 3(a). Integrating into the multilateral trading system
Component 3.1(a) Promotion of intra-regional and export trade in unprocessed and processed goods
Preliminary Activities:

2.6 Product ranges, for the rehabilitated textile and clothing factories, new spinning and clothing investments, etc. A study on product ranges will assist the textiles and clothing factories in their decisions, such as where to invest, what to produce, where to sell, etc. The first month study will give a rough idea on potential investors as well as to the presently functioning factories. This study should be preferably repeated each year depending on market developments.

2.7 Enhance the establishment of Free Trading Zones (FTZs) or Export Processing Zones (EPZs), identifying possible locations, size, nature of processing, possibility of building under BOT or BOOT terms. The main purpose in this activity is to sell the idea of free trade zones/ export processing zones after demonstrating with pilot set-ups. The introductory and promotional campaigns should be repeated even at more frequent intervals depending on the degree of interest raised.

2.8 Training on export/import procedures, temporary importing (to make processing more competitive, as well as increasing regional cooperation, preferably all with the involvement of an exporters association). It is a periodically repeated activity. This training activity was also proposed in Section 5.3.3.6 and as was explained in the text, this training will be essential when imports of fabric, accessories, and other inputs on temporary basis will be made and exports of clothing products, made of these imported products will be sent outside the customs boundary. It is a complex procedure requiring a lot of paper work. Training is important because any wrongdoing against the customs law constitutes a severe crime in many parts of the world. This is a periodic training activity depending on the number of companies working on CMT basis on imported fabric

Table 6.2: Indicative amounts in UNIDO Initiative document (in € 000,)

Module 1(b).

Harmonization of sector strategy and policies in the cotton sector and Upgrading and Development of supply and productive capacities

Component 1.1 (b): *Harmonizing sectoral industrial strategies and policies based on Public Private Partnership arrangements in the CTG value chain*

Expected results	Budget in € 000,
1.1 Sector competitiveness report including actions plans and Road map (Green and White Papers) prepared	540.0
1.2 National policies and strategies for development of cotton and related institutional and regulation reforms elaborated for 11 selected African countries producers of cotton and submitted to policy-making organs for approval	270.0
1.3 National Capacity building in Global forum activities (Diffusion of Good Governance and Best Practices in trade and industrial strategies, Trade-related measures on productive capacity and industrialisation)	450.0
1.4 National capacity building in the field of investment and technology transfer with focus on CTG	450.0
1.5 Upgrade national agencies responsible for promoting foreign and domestic investments into the cotton sector	
1.6 Reinforcement in controlling illegal textiles imports, both new and second-hand reinforced	450.0
1.7 Industrial development strategies for the traditional textile companies formulated	600.0
Total Component 1.1(b)	**2 760**

Component 1.2(b): *Upgrading and development of support capacities and supply and productive capabilities*

1.8 Capacities of the existing support institutions enhanced and strengthened	3 000.0
1.9 Supply capacity strengthened to improve productivity and competitiveness on the base of 45 pilot projects and 6 standard projects	5 000.0
1.10 Development of the Mosquito bed nets production from the African cotton fibre	600.0
1.11 Traditional textile industry activities developed and promoted through entrepreneurial, technical and market training; upgrading of equipment; new product development, organisation of artisan associations and regional cooperation	900.0
1.12 Regional facilities for the productive capacities of African CTG sector (Cotton Fund) founded	100.0
1.13 The Regional Fund for the safeguards and lunching of CTG chain reorganization activities established	100.0
1.14 One or several joint stock companies established	300.0
Total Component 1.2 (b)	**10 000**

Table 6.2 (cont.)

Module 2(b).

Developing and proving conformity to technical norms and standards

Component 2.1: *Enhancing and development of the existing support institutions capacities*

Expected results	Budget in € 000,
2.1 National capacities of the quality infrastructure strengthened through upgrading the 11 national laboratories specialized in cotton	1 350.0
2.2 National capacities of the quality infrastructure strengthened through installation of textiles metrology equipment at the selected cotton/textile processing industries	450.0
2.3 Instrument-based cotton quality evaluation system (HVI – High Volume Instrument) established in four Sub-regional Cotton Technical Centres	2 000.0
2.4 The Cotton quality database developed for West and Central African cotton producing countries	300.0
2.5 Quality Assurance Systems and Good Manufacturing Practice (GMP) introduced	450.0
2.6 Standardization of The African Cotton quality through development and promotion of Special African Cotton Label (SACL)	300.0
Total Component 2.1(b)	**4 850**

Component 2.2(b) *Improving product quality (cotton fibre and finished goods) and production systems*

2.7 The quality of cotton fibre improved at the ginning stage of processing	300.0
2.8 The quality of manufactured industrial goods (fibre, unbleached or finished woven fabrics and knitting yarn, ready-made articles) measured and improved	450.0
2.9 The quality of artisan textile and confection (fibre, unbleached or finished woven fabrics and knitting yarn, ready-made articles) measured and improved	450.0
Total Component 2.2(b)	**1 200**

Module 3(b): Integrating into the multilateral trading system

Component 3.1 *Promotion of intra-regional and export trade in unprocessed and processed goods*

Expected results	Budget in € 000,
1.15 Export capacities of cotton and textile enterprises and market information system for 11 African countries developed in order to enable them to re-conquer national markets (ACA and AATCM)	800.0
1.16 Market image of African cotton production enhanced in cooperation with the ACA and African cotton/textiles and garments products brand promoted in collaboration with AATCM	200.0
1.17 Establishment of enterprise level partnerships between national and international companies through regional investment forums	200.0
1.18 Establishment of a regional database on the cotton sector covering its companies, projects, factor costs, relative competitiveness, capital flow and related policies and institutions.	200.0
1.19 The Global Forums in each African region (within NEPAD/APCI) on Integration of African Cotton/Textiles and Garments products in the Global Production Networks organized (in cooperation with the African Business Round Table and NEPAD Business Group)	200.0
Total Component 3.1(b)	**1 600**
Total Budget Module (1b)+(2b)+(3b)	**24 100**

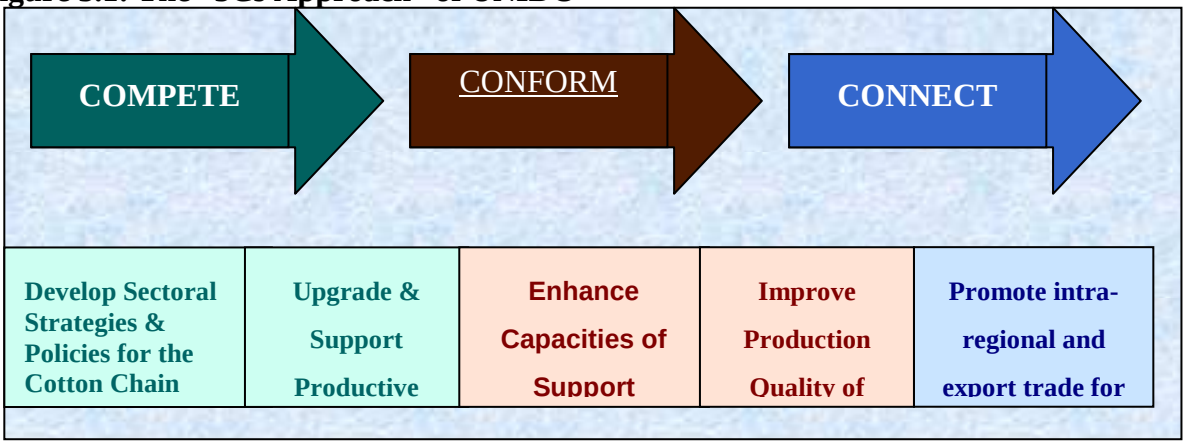
Table 6.3: Summary of Budgets

Estimated Cost of Suggested Preliminary Activities* in €(000)		Cost of Unido Initiative Total Activities** in €(000)	
Module 1(a)		***Module 1(b)***	
Component 1.1(a)	500	Component 1.1(b)	2 760
Component 1.2(a)	100	Component 1.2(b)	10 000
Total Module 1(a)	***600***	***Total Module 1(a)***	***12 760***
Module 2(a)		***Module 2(a)***	
Component 2.1(a)	300	Component 2.1(b)	4850
Component 2.2(a)	1 100	Component 2.2(b)	1 200
Total Module 2(a)	***1 400***	***Total Module 2(b)***	***6 050***
Module 3(a)		***Module 3(b)***	
Component 3.1(a)	**200**	Component 3.1(b)	1 600
Total Module 3(a)	**200**	***Total Module 3(b)***	**1 600**
Grand Total	***2200***	***Grand Total***	***20 410***

** Estimated with this study; ** Taken from Unido Initiative document*

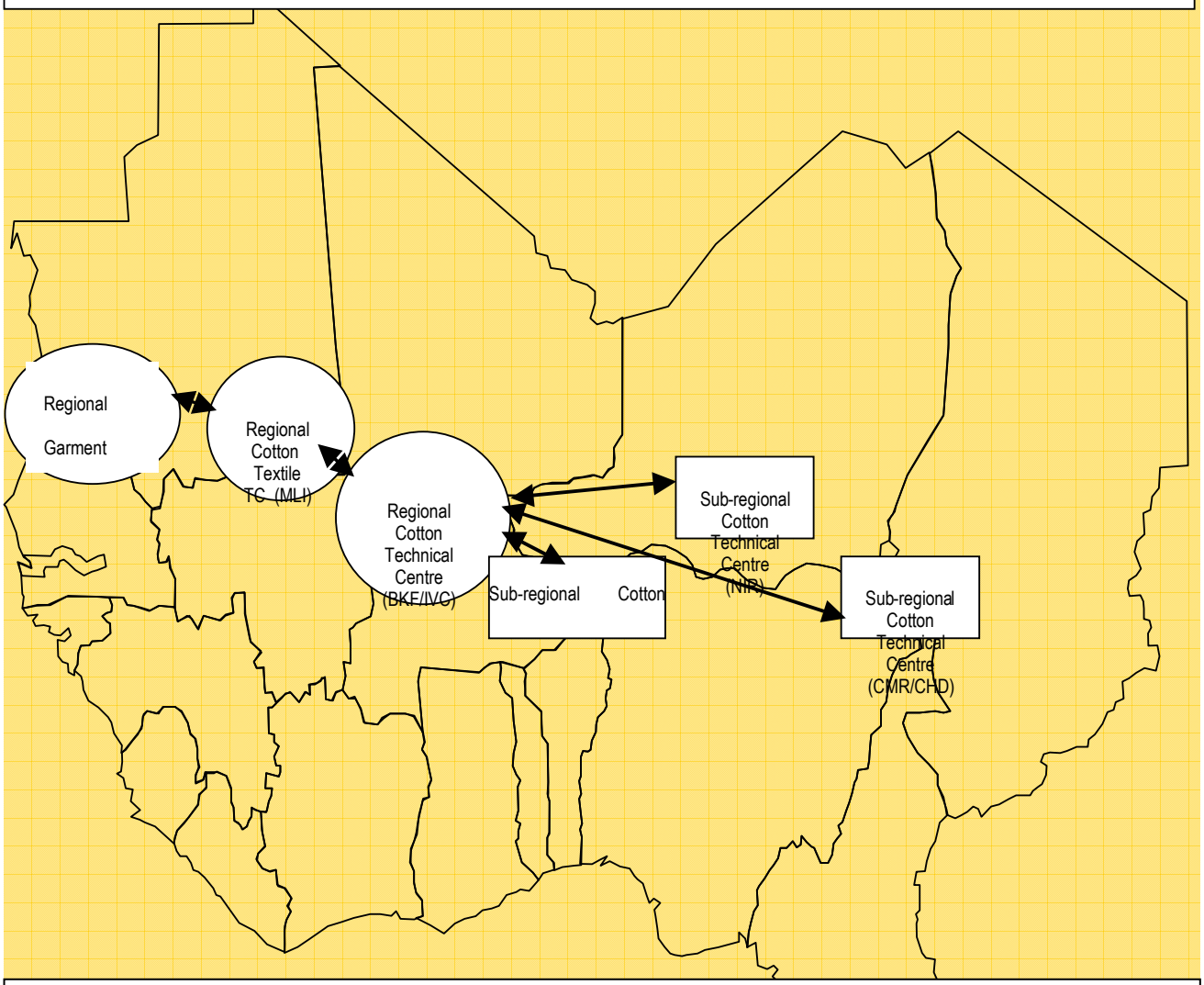
FIGURES

Figure 3.1: The "3Cs Approach" of UNIDO



Source: "Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa: Supporting Trade and Building Productive Capacity", (UNIDO), January (2006)

Figure 3.2: Regional/sub-regional cotton, textile and garment technical centres



Source: "Development of the Cotton, Textiles and Garment Value Chains and Networks in Africa: Supporting Trade and Building Productive Capacity", (UNIDO), January (2006)

Figure 4.1: Comparison of Cotton Productions

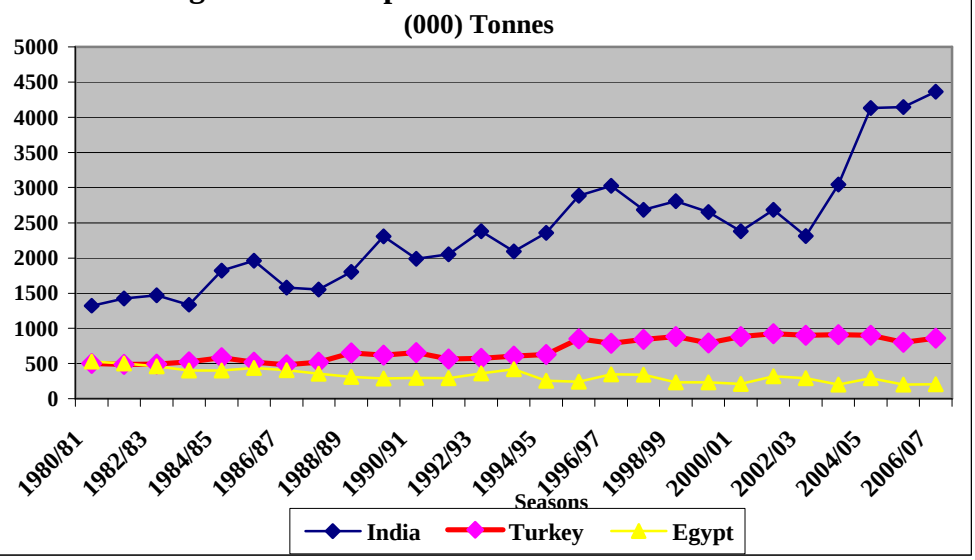


Figure 4.2: Comparison of Cotton Yields (Kg/Ha)

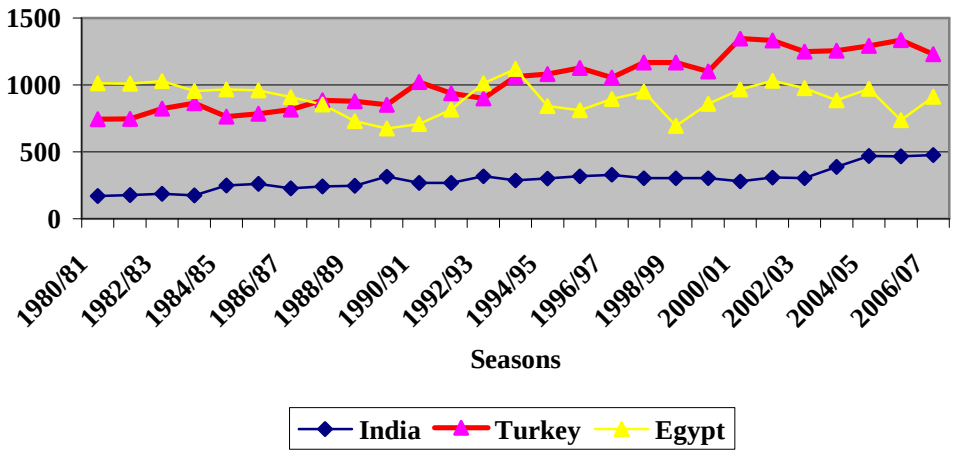
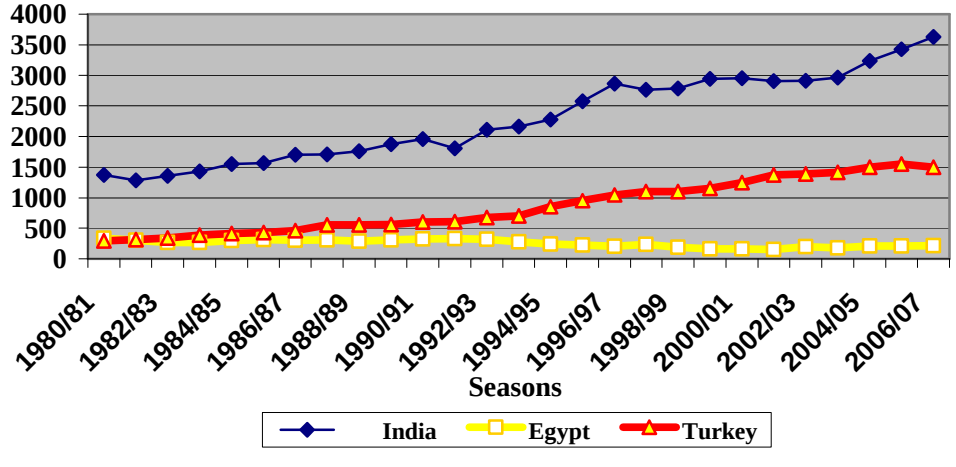
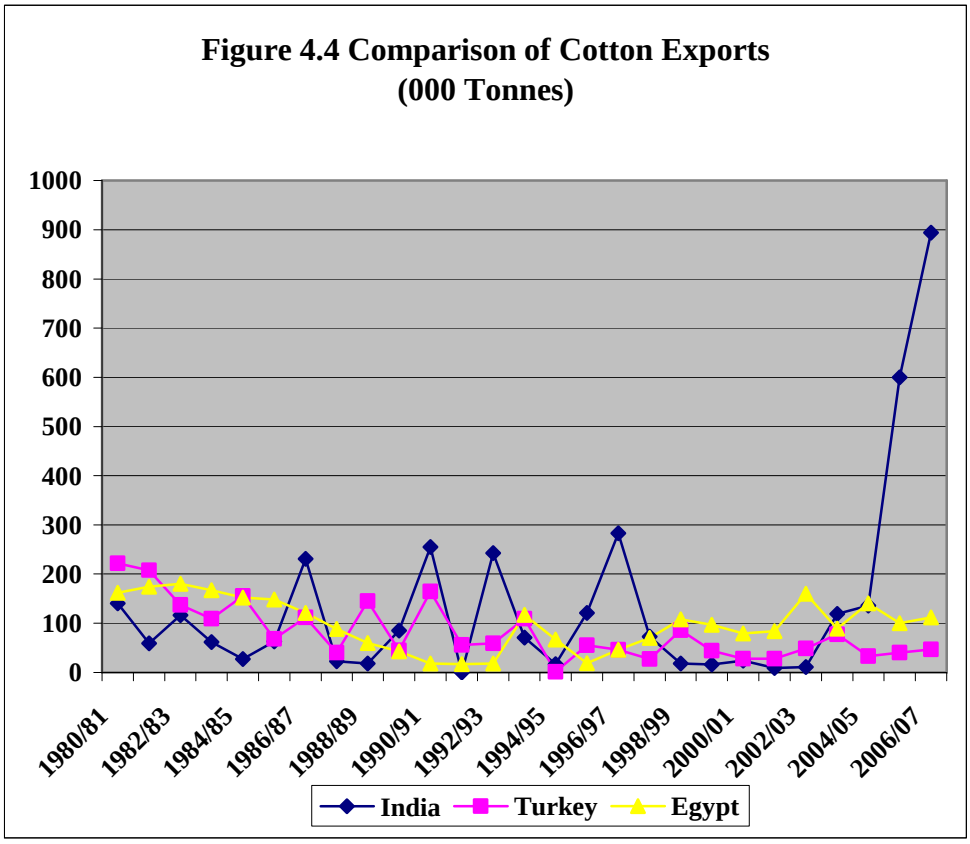
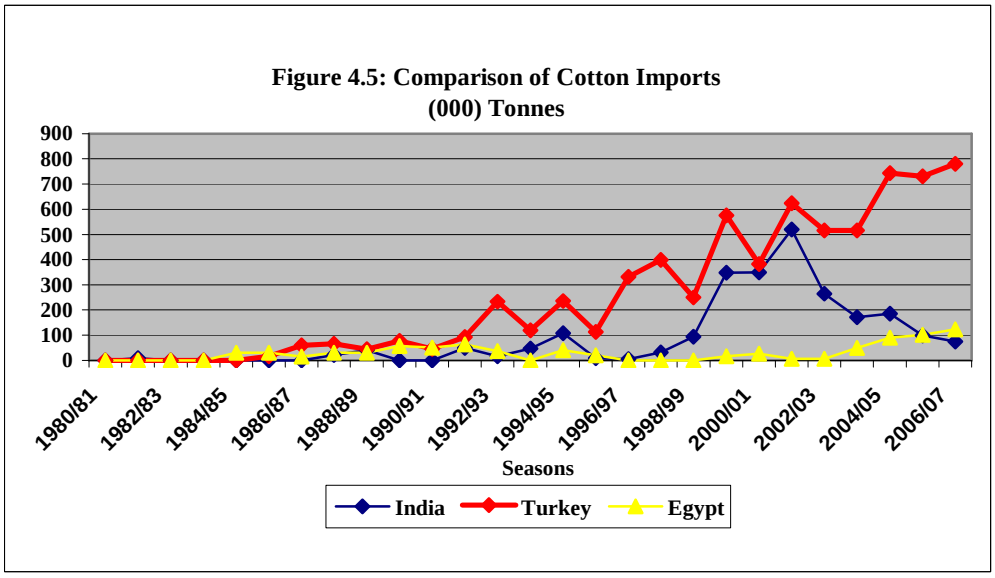


Figure 4.3: Comparison of Cotton Consumptions (000) Tonnes



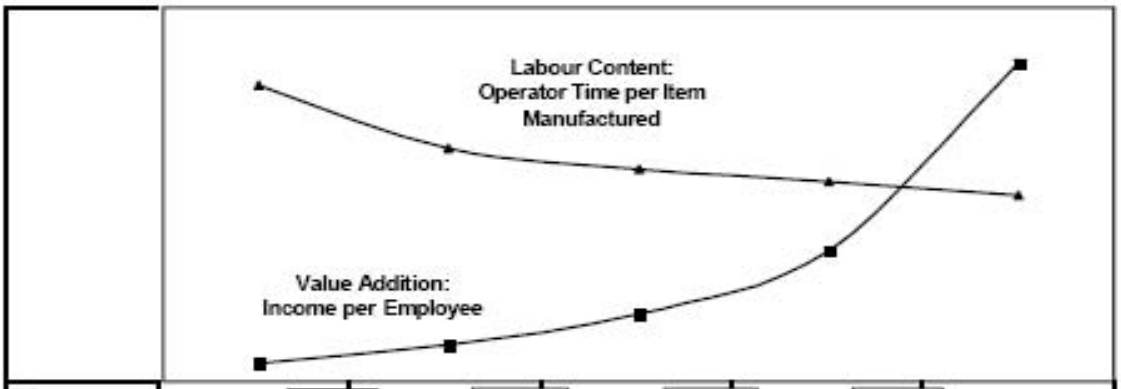


Source: Constructed from the ICAC data



Source: Constructed from the ICAC data

Figure 5.1 Development Stages in CTC Value Chain



Stages of Development	I Skills	II Policy + SME + Skills	III Investment + Skills	IV R & D + Skills	V
Driving Force	Natural resource	Entrepreneurship	Labour	Automation	Know-how
Characteristics of the development stages	Economies of scale; dominance of state-owned enterprises	Traditional methods; micro-enterprises; low level of linkages	Labour intensive technology using unskilled labour force	Mix of labour and capital intensive technology; vertical and horizontal integration	Management and marketing expertise
Products/ Services	Natural fibres, yarn	Traditional weaving, dyeing and dress making	Knitwear, basic garment	High quality textiles, fashionable garments	Design, marketing, retail

Source: UNIDO Initiative Document (January 2006)

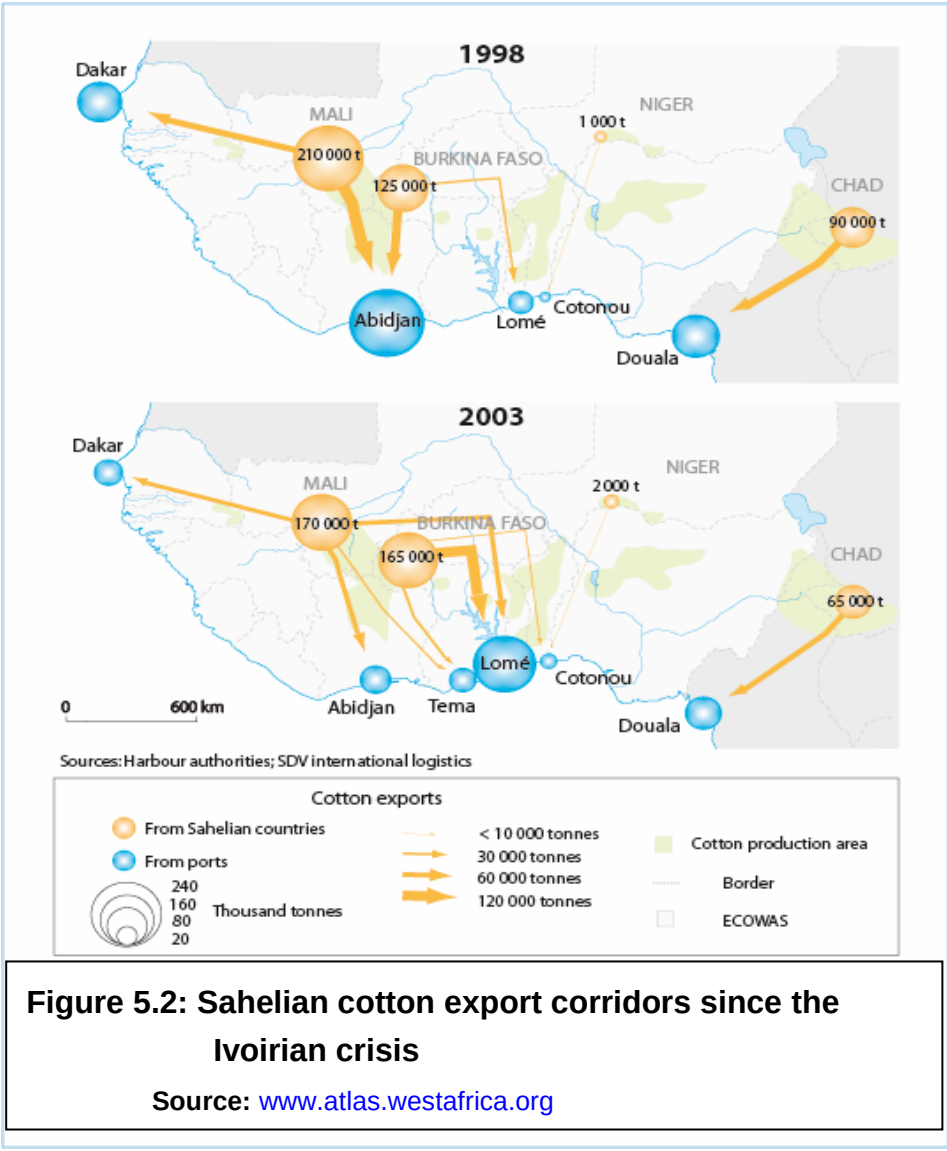


Figure 5.2: Sahelian cotton export corridors since the Ivoirian crisis

Source: www.atlas.westafrica.org

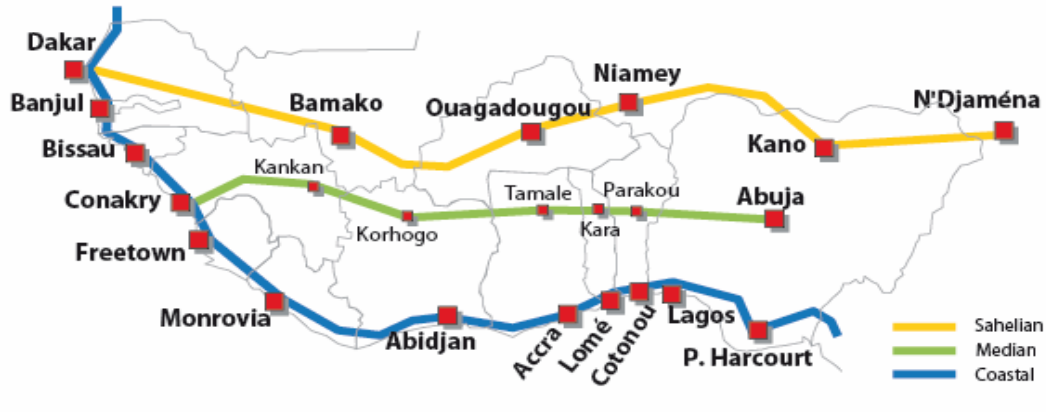


Figure 5.3: The Future East-West Axes

Source: www.atlas.westafrica.org

ANNEXES

ANNEX 3.1: EU INITIATIVE ON COTTON

A.1.1 EU ACTION PLAN ON COMMODITIES

The EU action plan on Agricultural Commodity Chains, adopted on 12 February 2004, identified six major areas of intervention, which were related to supporting the Commodity Dependent Developing Countries (CDDCs) in the development of comprehensive commodity strategies, which fully integrated with their overall poverty alleviation policies. These six major areas were as follows:

- **Responding to price decline:** The aim was to support the implementation of commodity strategies, in the context of **the Economic and Partnership Agreements (EPAs)** between the EU and ACP regions. A total of € 600 million had been allocated by the EU for trade-related assistance within the EPA negotiations. It was also proposed to back regional initiatives in support of commodity development, *such as regional networks of farmers' organisations, quality-enhancing services, investment promotion or commodity organisations.*
- **Managing risks and increasing access to finance:** The aim with this action was to support the development of insurance tools to manage the risks arising from the fluctuations in commodity prices. In this context, utilisation of (FLEX), the EU instrument to compensate for losses of export earnings, was to be simplified.
- **Support for diversification:** With this action, the EU would assist the CDDCs to make informed choices on promoting diversification and support the implementation of these choices.
- **Successful integration of CDDCs in the international trading system:** The EU was readily prepared to realise this objective in the trade preferences in favour of developing countries (GSP) and in the WTO negotiations.
- **Enhancing sustainable corporate practices and investments in CDDCs:** It was aimed that the international commodity companies would be engaged in the promotion of *corporate social responsibility, sustainable codes of conduct, promotion of public private partnerships and promotion of international competition*[158].

A.1.2 EU'S SUPPORT STRATEGY FOR THE AFRICAN COTTON SECTOR

EU's specific strategy, within the context of the EU-Africa partnership, focused on the support of the cotton sector, which basically comprised the following actions:

- ***Obtaining fairer trade conditions on international cotton markets*:** The EU supported

[158] ***http://ec.europa.eu/trade/issues/global/development/pr120204_en.htm***

the "Cotton Initiative" of the four WCA cotton producing countries (Benin, Burkina Faso, Mali and Chad) which had called for a reduction in trade-distorting subsidies within the WTO agricultural negotiations in September, 2003.

- ***Trade-related technical assistance:*** The EU had already allocated more than €80 million in supporting African countries in the identification, presentation and defending of their cotton related interests.

- ***Supporting African cotton producing countries in consolidating the competitiveness of their cotton sectors:*** The measures included the implementation of comprehensive development plans for the cotton producing regions**,** strengthening of cotton related institutions and policies, improvement of cotton markets and development of the cotton chain, improvement of quality and other technological developments.

- ***The Economic Partnership Agreement (EPA) for the cotton sector and the related action plan:*** The EPA Agreement and the action plan were regarded as major tools for the improvement of the cotton sector, especially to combat the impact of price fluctuations, including the mechanisms to manage price risks and compensation for sudden losses of export earnings, through the EU's FLEX instrument[159].

To co-ordinate the above mentioned activities, the EU Commission took the initiative to organize an international seminar on cotton in July 2004, which included the participation of all stakeholders concerned, such as the cotton producing African countries, EU Member States and the international institutions, including the World Bank and the IMF.

At the above mentioned "EU-Africa Cotton Forum", the formation of a joint ***ACP-EU Cotton Steering Committee*** had also been approved in order to monitor **the development part** of the Action Plan. The priority tasks of this Committee were to oversee the mobilisation of financial resources, to stimulate the implementation of agreed actions, to coordinate and to disseminate the information.

The Committee was co-chaired, one represented the ACP Group on cotton, while the other represented the EU[160]. Cotton farmers, ginners and the manufacturers represented the stakeholders, while the other members were the **ACP-Secretariat, UEMOA** (representing African regional organisations), Technical Centre for Agricultural and Rural Cooperation ACP-EU **(CTA)[161],** and Centre for the Development of Enterprise **(CDE)[162]**, respectively.

A.1.2.1 Progress made in the EU Africa Cotton Partnership

[159] *FLEX was introduced in 2000 within the framework of the EU-ACP cooperation to assist governments of the ACP countries which had faced sudden losses of revenues, arising from adverse price developments in their exportable commodities.*

[160] *EU was represented by the Commission (DG Development and Europe Aid) and one EU cotton donor country (France).*

[161] *CTA is an ACP-EU institution working in the field of information for development since 1984 and operating under the ACP-EU Cotonou Agreement. (www.cta.int)*

[162] *CDE is an institution of the ACP Group of States and the European Union, which contributes to the creation and development of enterprises in ACP countries, involving enterprises in EU countries. (www.cde.int)*

i) Progress made at the *international* level:

A. The negative effects related to world market developments: Market developments negatively affected the cotton producers in Africa since the 2004/05 season:

- Cotton stocks increased at the hands of the producing countries, including in the African countries, due largely to falls in the international cotton prices.
- These adverse developments in world cotton markets also affected the financial position of many cotton companies, farmers, governments and donors.
- Governments and donors have been approached for financial back-up, thereby affecting other development programs.
- The affected countries within the EU-Africa Partnership Agreement became entitled to benefit from the compensatory finance from the FLEX scheme.
- Low cotton prices had also pushed producer prices down for the 2005/06 and largely in the 2005/06 seasons, respectively.

It was due to the above mentioned developments that the African cotton sector again learned that **the reserve funds do not always suffice to manage the effects of the price risks and that the possibility of hedging price risks should be considered.**

B. Progress made on WTO cotton trade negotiations:

On 19 November 2004 a WTO-subcommittee on cotton was created, in which all WTO Members and observers could participate.

The US-Brazil cotton dispute also had an influence on the WTO discussions on cotton. The final panel decision underlined that the US had to make significant changes to its agricultural policies[163].

The EU position on cotton was largely linked to its decision to reform the cotton sector as part of a larger package of reforms of the Common Agricultural Policy (CAP). *As a result, the EU decided to significantly reduce the trade-distorting subsidies in the cotton sector and to cap the public expenditures[164]. However, the new regime was short lived because the ruling of the European Court of Justice annulated most of the provisions and opened the way to a return to the previous system.*

A.1.2.2 Progress related to EU support to cotton:

A. EU support to cotton at *international* level:

[163] *In its ruling, the Appellate Body maintained the key finding that the U.S. subsidies totaling $12.5 billion between 1999 and 2002, had caused serious harm to the trade interests of Brazil by depressing global prices for cotton. The Appellate Body also upheld the key panel findings that the United States misclassified direct payment programs for U.S. cotton producers as "green box" support exempt from WTO subsidy spending caps and that U.S. export credit guarantees for cotton and other commodities such as rice, soybeans, and sugar constitute illegal export subsidies.*

[164] *Starting in 2006, 65%t of EU cotton subsidies were decoupled from production and paid out as farm income support. Access to income support became conditional to compliance with good agricultural practices and environmental standards.*

The EU programmed the following supports to cotton at the international level:

i) €45m for all-ACP capacity building program on agricultural commodities, including €15m for cotton: In January 2005, the EU approved the allocation of **€45m** for an all-ACP capacity building program on commodities[165]. The new program would be of help those countries which were committed to develop their commodity/cotton sectors and *complement nationally funded initiatives.*

The EU Council concluded that one of the first implementation steps should include *"developing multi-donor cooperation on agricultural commodities with international organisations (WB, FAO, UNCTAD, Common Fund for Commodities, etc.), with a view to enhance expertise and development of innovative tools to support national commodity strategies"*. This EU proposal lead to a multi-donor cooperation through international organisations, as already was the case with the commodity risk management (CRM) with the World Bank[166].

ii) €25m for a Global Index Insurance Facility: In February 2005, a €25m was allocated by the EU for *a risk management facility* to assist the ACP in their accession to the market based instruments. The use of these instruments was to complement the compensatory finance (e.g. FLEX) and debt relief. WB had also taken part in this scheme, according to which a *Global Index Insurance Facility (GIIF)* would be established, to which the EC could contribute. GIIF would have a commercial (re-insurance) objective and a development objective that would allow donors to subsidize insurance premiums. Cotton would be one of the commodities covered by this facility. The IFC, EIB, regional banks and private investors would fund the commercial part of the budget. The EU would support the operational costs and subsidize insurance premiums in case of extreme crisis (price, weather or natural disasters), which would give negative impact on the ACP government budgets.

iii) Capacity building on commodity risk management in cotton in Burkina Faso: In December 2004, during the World Bank mission to Burkina Faso, three organisations, namely the major cotton ginner **(SOFITEX)**, its main bank **(BIB)** and the Union of Cotton Producers **(UNPCB)**, expressed their interest *in hedging* or *insuring price risks* at the international markets. It was expected that the use of risk markets could *complement* the use of the insufficient reserve funds for emergencies. The World Bank conducted a capacity building programme on price risk management in March 2005 in Ouagadougou, at the occasion of the annual meeting of the African Cotton (Ginners) Association.

iv) ROPPA capacity building program of African producers' organizations: The Network of Peasant Organizations and Producers in West Africa (ROPPA) proposed a capacity building program for African producer organizations related to the support of the cotton sector.

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[165] *of which €15m were reserved for cotton*

[166] *The extension of the EU support to the CRM-initiative in the ACP is foreseen under this new programme.*

Cotton is considered an example for other commodities. The ROPPA proposal was to be included within the intra-ACP capacity building program on agricultural commodities, particularly on cotton.

v) New initiative on Cotton Instrument Classing with regional and international dimension: An instrument classing Project formulated by the ICAC, was submitted to the Common Fund for Commodities, which the EC could co-finance together with the CFC. The project had an international component and some regional capacity building centres in Africa. The regional component could build on the current pilots in West Africa by UNIDO and CIRAD, funded by the Commission's regional funds (UEMOA).

B. <u>EU support to cotton at the *regional* level</u>:

The EU (or some of its member countries) programmed the following supports related to cotton:

i) France programs a new regional support: France studied the feasibility of a new regional program in support to cotton with an indicative amount of €3Million. This support aimed at strengthening the capacity of regional bodies concerning *trade negotiations, biotechnology control and awareness, quality of African ginned cotton, information systems, and a regional price insurance scheme* in complement to national self-insurance initiatives. The support would benefit the following regional bodies:

- **UEMOA and CEMAC** (for cotton policy),
- **CORAF** (for research),
- **African Cotton Association (ACA)** (for the private sector), and
- **ROPPA and APROCA,** (for producers associations).

The Netherlands decided to act jointly with France in the **"RESOCOT"** initiative on the technical information system on cotton in Africa.

ii) Multi-state programmes: France programmed €81Million for multi-state initiatives, including specifically the following areas:

- Improving field productivity (Benin, Burkina Faso, Senegal),
- Preserving natural resources (Benin, Burkina Faso, Senegal),
- Industrial productivity (Burkina Faso, Senegal, Cameroon),
- Regional or supranational funds for price risk management (€10Million),
- Equitable cotton (Senegal, Mali, Cameroon, and start-up in Burkina Faso).
- Germany supported a cooperation project Benin, Burkina Faso and Zambia (€3Million).

C. <u>EU support to cotton at the *national* level</u>:

The EU also mobilised new support to cotton, following the Cotton Initiative of **Benin, Burkina Faso, Chad and Mali.** France and Germany were also active with the programming of new support to various countries, especially to those in the WCA, namely in:

Burkina Faso: The EU Commission programmed €10Million in support to the

implementation of the cotton sector plan of Burkina Faso. France later started a feasibility study aiming at *strengthening the mechanisms of the self-insurance fund at the inter-professional level and at exploring the options for a regional (insurance) fund for an exceptional crisis in cotton prices.*

***Mali*:** France has given €6.8Million in support of Mali's cotton sector reform. The project aims at strengthening the capacity of the government and cotton producers' organisations.

***Benin*:** The Benin government has regulated its cotton sector. However, the privatisation of the **SONAPRA,** the parastatal cotton organization, experienced several delays. A number of countries have contributed for the reform efforts related to; restart of an extension project, studies on cotton growing systems, including on pesticide reduction, biotech cotton (Bt) and organic cotton.

Chad: Recent exchanges between donors and the government have concluded the need to continue with the cotton sector reforms. Germany supported a pilot project on the organisation of supply chains for maize and sesame, in rotation with cotton production.

Côte d'Ivoire: The EC initiated a study on cotton sector performance. The study concluded that not much could be done on the short term, but recommended the settlement of the outstanding financial commitments to the sector. The donors, however, could program resources according to the priorities, which had been agreed in the EU-Africa action plan.

Senegal: The EC in Senegal considered supporting the cotton sector with an indicative amount of €5 Million from the STABEX funds.

Cameroon*:* France supported a study into the construction and financing (loan) of a new ginning facility in the southern part of the cotton region, where the ginning capacity was not sufficient.

D. Coordination and communication efforts

While participating in the international meetings, members of the ACP-EU cotton steering committee informed the international audiences on the progress made in the implementation of the EU-Africa Cotton Action Plan. This was important in raising international awareness for the EU-Africa Cotton Partnership, through which the interests and priorities of the African cotton producers could be kept in the international agenda. The following are the international meetings where the EU has been playing an active part.

i) ICAC plenary meetings: (it is held once every year)

ii) OECD/DAC Briefing on the Development Dimensions of African Cotton (28 January 2005): The OECD/DAC organised on 28 January 2005 a briefing on the development dimension of African cotton

iii) CFC-UNCTAD workshop on Sustainability of Cotton Production in West Africa (28 Feb – 1 March 2005): (This workshop was held in Mali)

iv) Updated cotton website (www.cotton-forum.org): Special efforts are made to share information and expertise between the ACP, EU and other organisations and countries by means of strengthening the website already in place since July 2004.

v) ACP Council of Ministers (On 22 June 2005): In this meeting the ACP Council of Ministers appealed to the EU to take the necessary steps to speed up the independent implementation of the EU-Africa Plan of Action on Cotton.

vi) Regional conference on cotton, organized by IMF in Cotonou (Benin), May 18, 2005, *where all the areas related to cotton had been discussed, especially the development aspects.*

vii) The African Cotton Association (ACA) Annual Days: ACA was established in Cotonou, Benin, on September 19, 2002. Its role is to organize and defend the African cotton production and processing industries. It aims at serving as a platform for experience sharing between African cotton companies on the agronomical, industrial and commercial levels. ACA currently has 25 active members (cotton and ginning companies) distributed in 14 countries, 5 associate members (producers, textile industries and oleaginous industries) and 41 corresponding members (banks, insurance companies, forwarding agents, etc.). The 5th Annual Meeting of ACA was in Accra, Ghana (March 2007). Seminars held on the occasion of these annual meetings were entirely dedicated to the analysis of the cotton situation in Africa and worldwide, including the cotton prices, genetically modified cotton, hopes and fears for Africa, possibility of reducing inputs while improving agricultural yield, cotton subsidies and their effect on the African cotton sectors, and cotton quality determination with instrument testing[167].

[167] *For further information:* ***www.africancotton.org***

ANNEX 3.2

MAJOR REGIONAL ECONOMIC ORGANIZATIONS IN SUB-SAHARAN AFRICA

Major regional economic organizations in sub-Saharan Africa include:

- The African Union **(AU)**, with 53 member states;
- The Economic Community of West African States, **ECOWAS**, with 15 members;
- The West African Economic and Monetary Union, **WAEMU**[168] with eight members, all also members of ECOWAS;
- The Economic Community of Central African States, **ECCAS**[169], CEEAC), with 11 members;
- The Central African Economic and Monetary Community, **CEMAC**[170], with six members, all also members of ECCAS;
- The Common Market for Eastern and Southern Africa, **COMESA**, with 20 members;
- The East African Community **EAC**, with three members, all also members of SADC or COMESA;
- The Southern African Development Community, **SADC**, with 14 members;
- The Southern African Customs Union, **SACU**, with five members, all also members of SADC.

In most of these regional economic organizations, there are many good examples of regional co-operations, such as;

- focusing on regional infrastructure and security as well as tourism ***(in the CEMAC)***,
- moving towards the establishment of a Free Trade Area Agreement, FTA, and elimination of tariffs on items produced in member countries[171] ***(within the COMESA)***,
- establishment of a new customs union in ***(in the EAC)***[172],
- focusing on regional security, exploring trade and investment possibilities ***(in the ECCAS),***
- creation of a customs union with a common external tariff by 2008 and a West African Monetary Zone with a common currency by 2009 **(in ECOWAS).** There are ongoing plans for a proposed four-band tariff regime which would be in harmony with the UEMOA tariff regime. United States continued to support integration in ECOWAS through a number of means, including technical assistance to the West African Power

[168] *Better known by its French acronym, UEMOA*
[169] *Also known by its French acronym CEEAC*
[170] *Known by its French acronym*
[171] *COMESA aims to create a customs union by 2008*
[172] *This new customs union generally lowered tariffs, except for used clothing, almonds and certain wheat and corn products, most of which being the export products of the USA*

Pool and the West African Gas Pipeline Project. In support of ECOWAS' regional integration efforts, USAID/West Africa has sponsored programs focused primarily on harmonizing customs and trade regulations within West Africa and removing barriers to intra-regional trade. USAID is also supporting the adoption of a common external tariff throughout West Africa. In 2006, ECOWAS continued negotiations with the EU on an Economic Partnership Agreement (EPA),

- signing of a Free Trade Agreement (FTA) in 2006, with the European Free Trade Association (EFTA), which entered into force in 2007 ***(in the SACU).*** SACU is also in discussions for a trilateral FTA with India and Mercosur, and possibly with China. Negotiations for an FTA with the United States are also ongoing,
- creation of an FTA by 2008 as a step towards achieving a customs union and a common market ***(in the SADC)***. EU discussions with SADC on an EPA focused on regional integration issues, technical barriers to trade, and sanitary and phyto-sanitary standards,
- working toward greater regional integration with unified external tariffs ***(in the UEMOA).*** UEMOA has established a common accounting system, periodic reviews of member countries' macroeconomic policies based on convergence criteria, a regional stock exchange, and the legal and regulatory framework for a regional banking system. In addition, UEMOA and ECOWAS have determined a number of measures that will help harmonize the two regional blocs, which included the harmonization of their common external tariff, which is expected to be operational in January 2008. The UEMOA continued negotiations with Morocco on a free trade agreement[173].

[173] *« Accords commerciaux UEMOA-Maroc… imminents? », Webmanagercentre, 26/07/2006*