Toward consensual mechanisms in seed-cotton purchase pricing

Lessons from Experience:
Case of Mali, Benin and Burkina Faso
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Lessons from Experience:
Case of Mali, Benin and Burkina Faso

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### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACA</td>
<td>African Cotton Association</td>
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<tr>
<td>AFD</td>
<td>French Agency for Development</td>
</tr>
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<td>AFdL</td>
<td>Adjustment Funds Association</td>
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<tr>
<td>AIC</td>
<td>Inter-Professional Cotton Association</td>
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<tr>
<td>AICB</td>
<td>Burkina Faso Inter-Professional Cotton Association</td>
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<tr>
<td>AOC</td>
<td>Central and West Africa</td>
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<tr>
<td>APEB</td>
<td>Professional Ginners’ Association of Benin</td>
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<tr>
<td>AProCA</td>
<td>Association of African Cotton Producers</td>
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<tr>
<td>APROCOB</td>
<td>Professional Association of Cotton Companies of Burkina</td>
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<tr>
<td>AZF</td>
<td>Africa Franc Zone</td>
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<tr>
<td>BCEAO</td>
<td>West African States Central Bank</td>
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<tr>
<td>BIM</td>
<td>International Bank for Mali</td>
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<tr>
<td>BNDA</td>
<td>National Bank for Agricultural Development</td>
</tr>
<tr>
<td>BOAD</td>
<td>West African Bank for Development</td>
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<tr>
<td>Bt</td>
<td>Bacillus thuringiensis</td>
</tr>
<tr>
<td>CAGIA</td>
<td>Cooperative for Supplying and Managing Agricultural Inputs</td>
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<tr>
<td>CMDT</td>
<td>Malian Company for Textile Development</td>
</tr>
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</table>
CNEC  National Council for Cotton Ginners
CNIDIC  Cotton Inputs Importers and Distributors National Council
CNPC  Cotton Producer National Council
COPACO  Cotton Company of Paris
CSPR-GIE  Central Agency for the Security of Payment and Debt Collection for the Cotton Sector
DAGRIS  Development of Southern Agro-industries
EU  European Union
FCFA  African Financial Community Franc
FE  Far East
FOB  Free On Board
FUPRO  Federation of Producer Associations in Benin
GDP  Gross Domestic Product
GMO  Genetically Modified Organism
GPDIA  Professional Grouping of Agricultural Inputs Distributors
GV  Village Grouping
ICAC  International Cotton Advisory Committee
IER  Institute for Rural Economy
IFDC  International Centre for Soil Fertility and Agricultural Development
IMF  International Monetary Fund
INERA  National Institute for the Environment and Agricultural Research
MRR  Mandatory Reserve Rate
MRSC  Mission for Restructuring the Cotton Sector
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>OBEPAB</td>
<td>Beninese Organization for the Promotion of Biological Agriculture</td>
</tr>
<tr>
<td>ONS</td>
<td>National Support Office</td>
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<tr>
<td>PGM</td>
<td>President and General Manager</td>
</tr>
<tr>
<td>PMA</td>
<td>Less-Advanced Countries</td>
</tr>
<tr>
<td>PTF</td>
<td>Financial and Technical Partners</td>
</tr>
<tr>
<td>SC</td>
<td>Cotton Company</td>
</tr>
<tr>
<td>SNV</td>
<td>Netherlands Development Organization</td>
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<tr>
<td>SOCOMA</td>
<td>Cotton Company of Gourma</td>
</tr>
<tr>
<td>SOFITEX</td>
<td>Burkina Faso Textile Fiber Company</td>
</tr>
<tr>
<td>SONAPRA</td>
<td>National Company for Agricultural Promotion</td>
</tr>
<tr>
<td>UNPCB</td>
<td>National Union of Cotton Producers of Burkina Faso</td>
</tr>
<tr>
<td>UN-SCPC</td>
<td>National Union of Cotton Producers Cooperative Societies</td>
</tr>
<tr>
<td>WAEMU</td>
<td>West African Monetary and Economic Union</td>
</tr>
<tr>
<td>WAF</td>
<td>West African (Quotation of the African franc Zone cotton in Cotton Outlook</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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Toward consensual mechanisms in seed-cotton purchase pricing
INTRODUCTION

1. Context

The cotton sectors of AProCA member countries are experiencing significant institutional changes. Indeed, since the large-scale introduction of cotton growing, these sectors have been vertically integrated and are, step by step, being liberalized under the pressure of endogenous and exogenous factors.

Yet, one of the bones of contention of these changes is how to price seed-cotton to be purchased from to producers. The issue of “fair price” is one of the bases of political economy. It is a real concern for it refers to the theory of the underlying value: exchange value, use value, work value, etc…

In the framework of the current changes, it appears that the work value conception (prices which are at least equivalent to the production costs, and by the way, remunerating producers’ effort) is little by little giving way to an exchange value based conception (producers have to refer to the global cotton market price).

This paradigmatic shift creates a lot of confusion in the mind of cotton sector actors: what will become of the integrated sectors, and therefore, of the system of double monopsony? What will be the future relations between producers and the other actors of the sector (ginners, sellers and inputs distributors, transporters, etc…)? What will be the role of the Government? How and who will be pricing the amount to be paid to producers and who will guarantee the durability of the pricing method?

The study will be based on the last question, that is to say, setting up and managing the mitigating mechanisms of the fluctuation of seed-cotton price to be paid to producers in AProCA member countries. In other words, it is about reaching a consensual procedure in terms of
Toward consensual mechanisms in seed-cotton purchase pricing

A system or pattern with acceptable, simple and understandable variables and which can easily be interpreted by producers who, formerly, did not have a clear picture of the various mechanisms developed by cotton companies. The mechanism should, above all, be regarded as the best way for pricing seed-cotton. It should then include consensual elements, that is to say, they should be accepted by all the actors of the cotton sector in AProCA member countries. The exercise should lead to bringing together the national tools, within the sector and the supranational ones, which are external to the sector. The pattern resulting from it should be simple, readable and analyzable by all the actors.

In this respect, three cotton sectors illustrating three different configurations in the understanding of the current institutional changes have been examined. The three cotton in question are those of Mali, Benin and Burkina Faso.

The malian cotton sector is undergoing considerable troubles noticeable mainly throughout the significant decrease in the production over the last four years. A part of these difficulties was predictable, (Nubukpo and Keita 2005). Then, the future of the sector will surely depend on the way CMDT is going to be privatized. As a mainspring of the malian economy, cotton represents 50% of the export revenue of the country. Moreover, it provides 3.6 million of people, especially in rural areas, with monetary revenues.

Additionally, it is important to note that malian Government has started a series of in-depth reforms in order to liberalize its cotton sector. The withdrawal of the Government from the sector will be in several stages and will result in dividing CMDT into four subsidiaries at the end of the process. Each subsidiary will be headed by a private operator in charge of all the vital aspects related to cotton growing.

As for Benin, it is one the earliest cotton sector in Central and West Africa to have liberalized its cotton sector in the late 90s. Today, the Beninese cotton sector is undergoing a gradual decrease in its production. That is partly due to the appearance of multitude of actors interfering in the management the sector, as a result, this leads to a confusion of tasks assigned to each actor of the sector.
Lastly, Burkina Faso cotton sector which appears as the most successful with regard to its liberalization plan as well as the involvement of its actors which seem to be at first sight a good example. However, it should be noticed that, just like in any other cotton sectors of the franc zone, the cotton sector of Burkina Faso is also subject to many difficulties partly due to the heavy trend of the global cotton market and to climate change.

As we can see, beyond the identical terminology illustrated in the notion of price paid to producers, there is a diversity of situation, institutional configuration and social contracts. Thus, the legitimate request producers for the highest price in a given country, may seem to be contradicting the weak demand for purchase price increase in another country. Such behavioral differences can only be analyzed in the framework of a common national-level cotton system. In this study, the matter will not be about ranking AProCA member countries cotton sectors in terms of « successful » or « less successful ». Doing so, in addition to the fact that it is arbitrary and subjective, will be of little help for decisions which are still and always made at a purely national level. On the contrary, pulling together various situations and responses from countries with often similar agro-ecologic conditions could help identify their common effects and effects specific to each sector.

2. Objectives

2.1. General objective
The target objective in this study consists into building up seed-cotton purchase cost pricing mechanisms in three AProCA member countries, that is to say, Mali, Benin and Burkina Faso, and then, suggesting an alternative and consensual mechanism taking into account the concerns of the different actors in AProCA member countries.

2.2. Specific objectives
While conducting the current research, three specific objectives were targeted:
- Capitalizing on the different purchase cost pricing mechanisms identified in the platforms of AProCA made of Mali, Benin and Burkina Faso in order to point out the advantages and disadvantages linked to each mechanism,

- Suggesting, if need be, an alternative and consensual mechanism for seed-cotton purchase cost pricing that takes into account the various of concerns of actors met in the three visited platforms, so as to remedy the strong volatility (instability) of the global cotton market price noted the last years,

- Helping the grass-roots actors namely the cotton growers in Franc zone to better understand the seed-cotton purchase pricing mechanisms in force in African cotton sectors as well as mechanisms underlying their working out.

3. Methodology

To carry out the current study, several research methods have been combined and can be roughly summed up into three stages:

a - Literature review

This stage consists into reviewing available literature related to the set of themes of the study (articles, researches). In addition, it made it possible to identify resource people who have already worked on similar topics, and by the same token, to prepare field missions in Mali, Benin and in Burkina Faso.

b - Interviews

After the above described step, the authors of the study carried a series of semi-directive interviews with a range of actors (producers, ginners, technical and financial partners, etc....) involved in the development of the cotton sectors of Mali, Benin and Burkina Faso. Not only did the interviews allow to have necessary raw materials for writing this research paper, but it also made it possible to compare the different
analysis items on issues related to the set of themes being dealt with in the current study.

**c - Feedback and validation of the study**

After completing three field missions, stakeholders wrote a first synthetical draft of the study which had been discussed with cotton growers regrouped within AProCA. After this feedback session, a certain number of recommendations were made by producers in order to improve the first draft. Moreover, the feedback session made it possible to have a clear picture of the level of understanding and involvement of platforms in the development of seed-cotton purchase cost pricing mechanisms within AProCA member countries.

**4. Study plan**

The study is structured into four (4) parts:

- In the first part, actors hold a review of the state of each of the three sectors targeted in the framework of the study (Mali, Benin and Burkina Faso) and as well as the challenges to they are confronted to.
- The second part focuses on the crisscrossed opinions by different actors (Producers, Ginners, Governments, financial and technical partners, etc.) involved in the development and the management the cotton sectors. The objective is to point out the common concerns and contingencies specific to each country.
- The third part describes the different mechanisms of seed-cotton purchase cost pricing so as to point out the strength and weaknesses of each them.
- The last part is based on the conclusions of missions in the three visited countries and on strong recommendations resulting from the different interviews with people encountered during the field missions. These conclusions and recommendations essentially consist of a series of proposals that should be integrated any new “optimal” seed-cotton purchase cost pricing mechanism in all the AProCA member platforms.
Toward consensual mechanisms in seed-cotton purchase pricing

Collection of cotton, Indjodé (region Guider, North Cameroon)

Self market of seed-cotton, Indjodé (region Guider, North Cameroon)
PART 1

Situation of cotton sectors

1. Mali cotton sector

The Malian cotton sector is undergoing an extremely difficult period as is shown by the following elements drawn from the regular synthetic notes by the French Agency for Development (AFD), office of Bamako. The final results of the 2007/2008 campaign show a sharp decrease in output as compared to the previous campaign. Indeed, the output of this campaign is 242,000 tones of seed-cotton, which means, a decrease of about 40% as compared to the 2006/2007 campaign. The delay of the rains, the downward trend in output, the low price paid to producers, the global economic situation, etc., are factors that might account for the global decrease in performance. Indeed, the 2007/2008 campaign has been characterized by a critical stock deferment as far as inputs are concerned. This stock is thought to meet but half of the needs of 2008/2009 campaign of which the achievement projections are estimated at about 450,000 ha. There, CMDT is unable to pay some suppliers who provide inputs during the campaign. As for the purchase costs from producers, they are 160 FCFA/Kg for top-quality seed-cotton. Nevertheless, with the slight improvement in the global market, half of the discount should be paid to producers and the second half will be put back into the contingency fund. The process of this sharing out is being worked out. However, it is important to draw people’s attention on the continual decrease in Malian cotton output over three cotton production campaigns declined from 610,000 tones during 2004/2005 campaign to 242,000 tones in 2007/2008, as displayed below in graph (1).
Without attributing all the causes this sudden decline of the output to the setting up of the January 2005 pricing mechanism, the surprising coincidence between the two events should nonetheless be pointed out.

Other aspects contributing to weaken the malian cotton sector are the very bad financial situation and recurrent cash problems faced with by CMDT and which has led to the creation of a cash management committee involving ministries in charge and CMDT. The direct consequence of this situation is that CMDT has not been able to purchase the totality of producers’ seed-cotton during this campaign. Then, followed repetitive outstanding payments owed by cooperatives to banks (estimated at about FCFA 4 billion) and difficulties to set up input loans for cooperative during 2008/2009 campaign. Moreover, CMDT is going to have some more difficulties to pay back predictable refunds about the campaign. Consequently, producers will not trust cotton companies any more. **Producers wonder if CMDT could**
buy their products at 200 FCFA/kg (price set in April 2008 as the minimum seed-cotton purchase cost) for 2008/2009 campaign.

With regard to the difficulties of the company to sign an agreement with the mixed banking pool which traditionally finances the marketing campaign, the Government has finally stood for surety so that the campaign loan (of which the needs are estimated at about 60% of the financing needs of 2006/2007 campaign) should be granted to CMDT in February 2007. The second installment was frozen in April 2008 since part of the fiber had been seized in the harbor of Abidjan. However, even though the totality of the loan is granted to CMDT, there still remains about 4.4 billion F CFA to be paid to producers for this campaign.

Consequently, despite a relatively high price paid to producers for 2008/2009 campaign (200 FCFA/kg for top-quality seed cotton) and a enough rain fall at the beginning, the agricultural campaign seems to be facing some difficulties in the preparation, especially in the provision of inputs to producers (these uncertainties have made the banking pool reluctant to finance the campaign and led to cancelling invitations to tender, delays in communicating inputs prices, etc.).

In such a difficult context for the malian cotton sector, the issue of the price paid to producers is particularly critical: it should be able to cover production costs in a context of inputs price rise, especially fertilizers, so as to stop or reverse the downward trend in cotton output. However, it must adapt to the precarious financial situation of the sector if ever the notion of guaranteed price is to be maintained. For that purpose, it should be in close relation with the global fiber market price, and while at the same time avoiding to erratically reflect the important fluctuations of the global cotton market.

Yet, as a whole, the purchase price paid to the malian cotton growers the last previous years did not allow them to draw any substantial benefit from cotton growing as illustrated by the graph (2).
Setting up an incentive system relating to remunerating producers, increasing productivity and sustainable financial equilibrium of the malian cotton sector requires the institution of a new seed cotton purchase price mechanism and appropriate adjacent device just as the adjustment funds\(^1\). However, such institutional arrangements require a great deal of dialogue among the different stakeholders of the sector.

As for the output stagnation, it is caused by the increase in inputs prices and by the non respect for the deriving technical procedures. The output increase observed in the previous years is mainly due to the increase of sowed surfaces than to a productivity gain. This is illustrated by graph (3) which shows a clear stagnation, that is to say, a decrease of output over the past two campaigns.

\(^1\) Funds used to cushion the instability of the global market prices. It is part of producers revenue stability instruments against price fall in the global market.
2. Benin cotton sector

Benin is one of the most important cotton producers in the franc zone. Agriculture is the lifeblood of its economy. It represents approximately 38% of the GDP. The cotton sector alone significantly contributes to the GDP (between 12 to 14%). Moreover, cotton represents between 70 to 80% of the export revenue of the country.

With the advent of change of regime in the early 90s, important institutional reforms have been undertaken.

Thus, the withdrawal of the Government from the cotton sector after consulting the other stakeholders, namely producer organizations and private operators, allowed to make decisive decisions:

- Transfer of the responsibility to organize consultations for inputs supply to the private sector;

**Graph 3: Evolution of the yields over the period 2003 - 2008**

Source: AFD, Summary of the situation of the cotton sector in Mali, September 2007
- The end of the monopoly in the marketing of seed cotton hitherto held by the National Company for Agricultural (SONAPRA).

At first sight, this institutional change should have helped the Beninese cotton sector to be as competitive as before. But, we can clearly notice that bottlenecks are still remaining; which makes more complex the management of the sector.

The decrease in global market prices, the rise of input costs, the decrease in outputs and fluctuations FCFA/Dollar may, among other reasons, account for the difficulties encountered.

The following elements illustrate the current situation of the cotton sector in Benin.

2007/2008 campaign results were 282,740 tones, that is to say an 11% increase in comparison with the previous campaign as shown by graph 4.

Graph 4: Evolution of seed-cotton production in Benin from 1960 to 2008

Sources: DPP MAEP: Agricultural campaign report
CSPR & AIC: Cotton campaign policies 2000-2007
It is important to note that, as a whole, cotton output in Benin has gone through a three-stage growth: a slow growth (1960 – 1990) followed by a strong growth (1991 – 2002) and since 2003 there has been an erratic evolution of cotton output; which expresses an unsolved crisis.

The new rise in outputs observed may be due to the extension of cultivated surfaces whereas productivity is likely to stagnate or go down.

In addition, the low seed-cotton purchase prices observed the past three campaigns did not encourage producers to grow cotton.

This can partly account for the fact that the purchase price proposed to producers for the ongoing campaign is set at FCFA 190/kg (top-quality); which constitutes a 12% increase in comparison with the previous campaign as illustrated by the following graphs.

**Graph 5: Evolution of seed-cotton purchase price**

*Source: ONS*
The Government, after transferring the management of the sector to the joint-trade organization, a new device has been set up since 2000. And it consists of:

- The Federation of Producer Unions in Benin (FUPRO) which regroups all producer unions;
- The Professional Ginners’ Association of Benin (APEB) made ginners’ groups;
- The Professional Grouping of Agricultural Inputs Distributors (GPDIA) responsible for ensuring the provision of producers with inputs;
- The Inter-Professional Cotton Association (AIC), which is the framework of inter-professional consultation in charge of coordinating and managing the cotton sector (supervising producers, distributing inputs, marketing seed-cotton, upkeep of rural roads etc.);
- Cooperative for Supplying and Managing Agricultural Inputs (CAGIA) which is a producer cooperative in charge of selecting input distributors through a call for bid;
- The Central Agency for the Security of Payment and Debt Collection (CSPR) in charge of managing the physical and financial flows especially the marketing of seed-cotton, managing evacuation for supplying ginning mills, invoicing supplies to ginning mills, paying bills of these mills, input credits recovery and paying cotton funds to producers.

Following to dissensions that occurred among stakeholders of the sector, within producers’ groups as well as ginners and input distributors, the government of Benin has set up a new institutional framework of representation of stakeholders in May 2006. The new institutions representative of stakeholders within the joint-trade organization are now:

- Cotton Producer National Council (CNPC) which is made of cotton producers’ networks;
- Cotton Inputs importers and Distributors National Council (CNIDIC) which consists of all the importers and distributors in Benin;
- National Council for Cotton Ginners (CNEC) which gathers all cotton ginning companies in Benin;
- The National Office for Stabilizing and Supporting Agricultural Products Prices (ONS). It is a State-owned structure in charge of following up agricultural production cost evolution and providing necessary data for seed-cotton purchase pricing in coordination with the joint-trade organization.

The objectives of the new device are to institute competition and clear up the different professional groups, and consequently give a new boost to the sector by carrying on the reforms undertaken by the government of Benin.

As far as input delivery and seed-cotton marketing are concerned, CSPR, acts as intermediary between inputs distributors and producer organizations, on the one hand, and between the latter and the ginning companies on the other. Once the input credit is available, CSPR directly recovers the amount of credit on payment advances of seed-cotton supplied by ginning companies to refund input distributors banks. The remaining of advances serves to pay producers. Then, CSPR bills ginning companies as seed-cotton is received. For this reason, CSPR is in the heart of the system and is confronted to many difficulties as pointed out by the officers.

It is important to mention that the beninese Government is about to set a new restructuring of the cotton sector especially with the opening up of SONAPRA’s capital to the general public (the conditions of application have not been specified yet).

3. Burkina Faso cotton sector

It represents the lifeblood of the economy of Burkina Faso. It significantly contributes to GDP and is the essential of the export revenues of the Government. Therefore, it is fundamental for the cotton sector in Burkina Faso to be optimally functioning to keep its development in a context characterized price fall on the global market, a decrease of producers’ revenue, input price increase, output decrease,
FCFA/Dollar fluctuations. All these factors are sources of uncertainties in the sector.

During the 2007/2008 campaign, the output has almost been cut by half, from 649,060 tonnes to 364,000 tonnes of seed-cotton (cf. graph 6). The decrease in outputs, low prices paid to producers, global market prices fall, climatic factors, especially pluviometric deficit, etc., could, to name but few, account for the downward trend as shown in the graph below.

![Graph 6: Evolution of seed-cotton output](image)

Source: Permanent Secretary’s office for following up the liberalised cotton sector

Furthermore, cotton sector in Burkina Faso has undergone crucial institutional changes during the last years with especially the arrival in 2004 of two new ginning companies, that is to say, the Cotton Company of Gourma (SOCOMA) and Faso cotton which have taken over the areas originally exploited by the Burkina Faso Company of Fiber and Textile (SOFITEX). In addition, the financial deficit experienced during the three last campaigns prompted actors to get better organized. Thus, in 2006, the cotton sector in Burkina Faso is endowed with an inter-professional body: Burkina Faso Inter
Professional Cotton Association (AICB) consisting of ginners (APROCOB) and producers (UNPCB).

Seed-cotton pricing was governed the inter-professional agreement reached in 1999 and which was based on an assistance mechanism which was restructured in 2004 with the arrival of two new cotton companies. The new device based on a bottom price of 175 FCFA/kg allowed to stabilize, in certain way producers revenue (cf. graph 7). This one which has functioned until 2006 with an important financial deficit of cotton companies which had debts on the assistance funds which could not compensate for losses made by the sector. Thus, the sector adopted a new mechanism that reviewed down the floor price observed from prices trends. As for 2006/2007 campaign, the floor price has been reduced to 165 FCFA/kg instead of 175 FCFA/kg before.

Now, the division of profits made by the sector is carried out based on the FOB\(^2\) price with a 60% payment to producers and 40% to cotton companies.

Graph 7: Seed-cotton price to producers per kg

Source: Permanent Secretary’s office following up the liberalised cotton sector

\(^2\)“Free On Board”: sales in which goods delivery is made on board the ship. It means that sales are effective once goods are on board the ship and the buyer is responsible for transport and assurance.
Today, the sector in Burkina Faso has endowed itself with a new mechanism seen as adjustment mechanism most commonly known as “AICB mechanism”. Its main backer is AFD which, first of all, will supplement the funds. In addition, not only did the European Union (EU) started to recapitalize some companies so as to prevent cotton companies from running short of financial means, but also seems to be ready to back up the Government of Burkina Faso in the management of the sector.

Furthermore, the Adjustment Fund Association (AFdL), created in April 2008 to handle the adjustment fund, encompasses ginners’ association (APROCOB) and that of producers (UNPCB).

The adjustment fund, different from the assistance fund which is in the inter-professional agreement of 1990, can not pay back the liabilities of the latter. Except for debts owed to cotton companies for the 2006/2007 campaign, the adjustment fund can be used only for settling drawing rights prior to its creation. This new mechanism seems to have been adopted by all the actors of the cotton sector in Burkina Faso.

Seed-cotton purchase price is determined according the FOB trend of the fiber. It is calculated basing on the five-year-centered moving average of prices of the past two campaigns and estimated prices of the coming three campaigns. This trendy price is calculated from indexes A Far East (FE) and the FCFA/Dollar parities of the targeted campaigns.

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3 Article 4 of the inter-professional agreement governing the functioning of the cotton sector in Burkina.
PART 2

Point of views of stakeholders involved in managing and developing cotton sectors

1. Cotton growers

Generally and systematically, producers would like the new price mechanism to include the production cost issue together with a valorization of the family labour force in the estimation of real costs.

Indeed, according to them, the labour force participates in growing cotton, from weeding to the marketing, and must be taken into account.

Moreover, producers think that inputs must be improved through scientific research. They have been using the same fertilizers for twenty years. Now with the unproductive soils, they should resort to other types of fertilizers. In addition, they also think the input credits reimbursement maturity date is too short.

According to them, difficulties faced by the sector are related to two factors:

- Exogenous factors such as prices, input price fluctuations which are difficult to control;
- Endogenous factors (organization of production in terms of supervision, seed distribution and marketing...) which could allow to alleviate the negative effects of fluctuation of the global market price of the fiber.

For the specific case of Mali in relation to the assistance fund, producers think it is their exclusive property and precised that its management has been assigned to the International Bank of Mali (BIM)
with the common agreement of EU which injected 5 million Euros in. This deposit executed on April 2008, came to complete a subscription carried out by producers in compliance with the conditions imposed to cash EU funds.

Malian producer’s representatives made some propositions for the development and the durability of cotton sector.

They are as follows:
- Reduce input prices and consequently production costs;
- Allow producers a revenue that will enable them to live a better life;
- Valorize seed cotton in diversifying the by-products (oil, soap, cattle cake, etc.) seen the loss in value of the fiber;
- Reduce payment to producers deadline to 15 days, after cotton companies have collected the cotton;
- Avoid exposing directly the malian producer to the global market given the fluctuations;
- Set a minimum and maximum price between FCFA 200 and 225 for 2008/2009 campaign while waiting for the privatization of CMDT and/or the signature of a new memorandum of agreement to set a price for seed cotton;
- Allow producers to have the exclusive right on the assistance funds;
- As for producers in Benin, the creation of an assistance fund will allow them to cushion the exogenous chocks, which as years go by, sharply reduce cotton producers’ revenues. Contrary to Malian producers, cotton growers from Benin are not against keeping the funds with the inter-profession provided in condition that its use must be controlled by producers themselves.

Finally, concerning producers in Burkina Faso gathered within UNPCB, the deficit of information on the functioning of the different cotton sectors, particularly, information relative to the different mechanisms of seed-cotton purchase price setting applied in Central and West Africa could be the cause of the fact that producers do not master the underlying mechanisms for seed-cotton purchase price setting.
2. Ginners

From the different interviews, it appears that ginners are facing important difficulties, particularly, payments to producers deadlines and inputs order for future campaigns. Questions relative to the decrease in output, to producers who are increasingly running into debt, to inputs high cost have been discussed on all visited sites. *It equally appeared from exchanges that the price of the kg of seed cotton during the three last campaigns was low and that part of the fall in cotton output these last campaigns was caused by this situation.* So it is indispensable to increase or at least propose another price setting mechanism that will better take into account the interests of all the actors in the malian sector. The difficulty resides in the determination of the “fair price”.

Furthermore, the analysis of the case of SONAPRA (Benin) which lost its monopoly on the commercialization of seed cotton because of the liberalization of the sector, proved very interesting. According to SONAPRA officers, these following points can be exploited for a sustainable development of the sector:

- Define an output threshold and set an objective production cost;
- Assure a minimum guaranteed price and communicate it earlier to allow producers to make decision accordingly;
- Fix a cost price for producers and cotton companies;
- Set up an assistance fund to resort to in case of sudden fall on the global market prices;
- Concerning cotton companies, it is important to determine the right period when prices are favorable for selling the cotton by means of the creation a real ginner association and then pay producers.

Burkina Faso offers an original face in so far as the structure of its liberalized sector is as an « oligopoly of Stackelberg », with a leading firm (SOFITEX) and two ginning firms «followers » (SOCOMA and Faso Coton).
3. Piloting organs of the sectors

Since the institutional advancements are different from one country to another, the piloting organs of the cotton sectors do not have the same missions:

In Mali, the Mission for Restructuring the Cotton Sector (MRSC), linked to the Prime Minister’s office, acts as technical advisor of the reform. Its managers have made some proposals for the sake of contributing to a sustainable development of the sector. They consist in:

- Identifying the real production costs and targets;
- Setting output thresholds to encourage producers to improve their productivity (for example, an output of 1.250 tones/ha);
- Using the assistance fund in case of global market fiber price fall;
- Showing a true political commitment for a sustainable development of the sector. In this respect, it is essential to set up an effectively functioning strategic framework for the development of the sector. Such a framework should state the cotton perspective of Mali for the coming 15 years;
- Seeing to the best quality of inputs and cotton (seed and fiber);
- Setting production quotas in terms of ginning capacities and budget possibilities of the Government and cotton companies’ constraints.

As for Benin, it shows an interesting duality case in piloting the cotton sector since there is AIC which has to take up big organization challenges internal to the sector considering the diversity and the great number of actors; and then, there is CSPR which also plays an important role in coordinating the different activities of the sector. Under the form of this scheme, CSPR, on the one hand, plays an intermediary role between producers and ginners, and on the other hand, guarantees inputs credit with banks. Once the bank grants the input credit, inputs distributors make an inventory of producer organizations’ needs. Through its role, CSPR helps secure the recovery of input credits as well as the payment of seed-cotton purchase and sale operations.
For the sustainability of the cotton sector in Benin, CSPR officers recommended to:
- Increase the productivity and the competitiveness by minimizing production costs on the one hand and on the other hand, define output thresholds and production costs objectives;
- Stabilize the management of input credits (maximum, 40% of the amount of the commercialized output);
- Transform locally, at least, 15% of the cotton output;
- Have a regional assistance fund deposited into the West African Bank for Development (BOAD);
- Reinforce the agricultural development fund of West African Economic and Monetary Union (WAEMU).

AIC⁴ officers suggest for the sake of revitalizing and developing cotton growing in Benin to:
- Define a minimum guaranteed price by setting an objective output threshold;
- Increase productivity through the improvement of outputs in farms;
- Develop agronomic research to create new varieties;
- Maintain and restore the fertility of soils;
- Create a « permanent » fund to take care of critical functions (supervision, research);
- Have a fund for developing the sector and capable to guarantee the settlement of all charges on time (inputs supply, equipment);
- Create credit committee to differentiate cereal credit from cotton credit;
- Improve the quality of cotton by complying with technical procedures.

As far as Burkina Faso is concerned, it is important to note that AICB is the perfect of cotton joint-trade organization since its concern is less

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⁴ Cotton Inter-professional Association: coordination and exchanges framework between the different actors of the sector (producers, ginners), framework for the negotiation of seed-cotton purchase price.
an internal coordination challenge to take up (associations are already well structured) than an optimal piloting imperative of the sector. However, it should be pointed out that the existence of a permanent secretariat of a liberalized sector playing almost the same role, as AICB indeed, (the same staff and legal entities).

It is only the presence of the Government at the Permanent secretariat that can help differentiate the latter from AICB. Moreover, the creation in April 2008 of an Adjustment Fund Association (AFdL) is a real replica of AICB. Buyers from Burkina Faso have been the first to be astonished about it, but because of their impossibility to compete with AFD, they had had to work with it. The legitimate concern of AFD is to secure the funds given for the new pricing mechanism with regard to the recurrent embezzlement fostered by the opacity in the management of the former stabilization funds. But in so doing, they are taking away AICB’s sense of responsibility. By duplicating the number of institutions, they inevitably increase transaction costs within the same sector. It would be also interesting to evaluate to what extent the fact of duplicating institutions, which are finally made of the same staff and legal entities, can contribute to the development of subtle games among stakeholders with regard to their ability to behave according to opportunities, thanks to their two hats.

According to the Permanent Secretariat, responsible for following up the liberalized sector, the new AICB mechanism seems to have been unanimously adopted by all the actors since it has been developed to balance the sector. Initially, the mechanism was based on a seven-year-centered moving average for 2006/2007 campaign. However, the International Monetary Fund (IMF) suggested the reduction of the seven-year period to five so as to have a five-year average.

In the same period, AFD initiated a reflection on how to manage « price risk » in West Africa; but AICB found the mechanism too complex, which led to the adoption of the essential elements of the mechanism, except, notably, seed-cotton purchase pricing methods. Furthermore, in the same period, the WB initiated a reflection to ameliorate the stock in hand by suggesting the enlargement of the non-
intervention means. From the point of view of the Permanent Secretariat, this experience resulted in proposing a non-incentive price paid to producers. This provoked a fall in output.

As for the management of the adjustment fund, AFdL was created to secure the different operations. According to the Permanent Secretariat, the global market is the only objective element that can send signals to decision maker during the determination of seed-cotton purchase price. The fall in output may be caused by climatic factors, especially, the lack of rain falls, lack of productivity of soils, the rise in input costs, etc.

It would necessary be good to reduce production cost to improve the performance of the sector.

In this logic, Bt cotton seems to have produced encouraging results during the first experiences in Burkina Faso. Consequently, actors in the country engaged themselves in this way. Negotiations between Monsanto\textsuperscript{5} and the authorities of Burkina Faso have sometimes been tough. As a result, SOFITEX obtained seeds ownership and Monsanto obtained the Bt gene.

Finally, we should note that cotton production has a strategic character for Burkina Faso because it generates to the country the essential of its export revenues. However, we can notice that the new product breakdown mechanism of the sector does not take into account the seed and by-products. Seed valorization is not yet significant.

4. State and Para-State institutions

An important remark in the conduct of the study is the absence of \textit{strico sensu} respondent from the State owned structures. The tradition of silence various consultants visiting African administrations has to do with it. There is a more worrying factor that can explain that: the lack of qualified human resources with a clear vision to give a minute account, make a sound and impartial diagnosis relating to African cotton sectors.

\textsuperscript{5} World leading American firm in genetically modified seeds including Baccililius thuringiengis cotton
This remark is all the more worrying that public authorities are the very ones responsible for undertaking essential reforms for the survival of African cotton sectors. Another factor of inefficiency of the dialogue with State-controlled structures is the dilution of responsibilities among ministries. The long span of time spent to identify the actual or so-called officials in charge of the various aspects of cotton issue contrasts with the short span time needed to go through this study.

The technical advisor of the Minister of Agriculture of Mali explained the difficulties of the sector (prices fall, inputs price rise, etc.). He also wanted the new pricing mechanism to be, on the one hand, simplified (adoptable and understandable by all the actors) and, on the other hand, the West African Index (quotation of the African Cotton franc zone in Cotton Outlook) WAF should be abandoned in the profit of the index FE, because the essential of the malian cotton is intended to the asian market (as proposed by Estur, 2007, cf infra). He finally suggested that an explicit link should be established between the assistance fund and the price paid to producers. He was also opened to the idea of determining an optimal output for Mali, coupled with a target yield.

Researchers from the Rural Economy of Mali (IER) evoked the opportunity that represents the use of organic manure to increase the yield and therefore to partly solve the issue of prices and producers revenue decrease. Moreover, they insisted that paying rapidly producers after purchasing their cotton was vital for the survival of cotton growing. So, they asked CMDT to shorten the deadline for paying producers in order to guarantee the sustainable development of the cotton sector in Mali.

With the National Bank for Agricultural Development (BNDA), a structure of which essential role is to make producers access to credit easier. This indebtedness is accounted for, from the point of view of officers, of the banking institution, by the fall in peasants revenues. This decrease of revenues might be due to:
- Decrease in outputs;
- Inputs prices rise;
- Decrease in seed-cotton purchase price;
According to them, problems facing the sector are caused by State
disengagement from the management of the sector. Indeed, he suggests
the State intervention, in terms of training policy, not only to alphabetize
producers but also and above all to allow them to have an idea of the
functioning of the credit system.

The heads of BNDA also pointed out the West African States Central
Bank (BCEAO), which may apply an imposed reserve rate (TRO) which
is particularly high, and which limits the offer of lendable funds therefore
causing credit cost to increase.

Finally, the heads of BNDA made the following propositions:

- Malian State involvement in the implementation of a training policy
to allow producers to be familiar with certain banking tools
(borrowing, interest rate, reimbursement, etc.).

- A decrease in the TRO of BCEAO, so as to reduce the cost
of banking credit and consequently increase the volume of
credit granted; which will incite producers to increase their
productivity thanks to the renewal of the agricultural
equipments.

In Benin, the issue of producers indebtedness has been considered
to be a central concern for the forecasting Direction and the ministry
of economy and finance, in so far as the prolongation of such situation
might lead to mobilize State’s resources. It is also important to make
sure that seed-cotton output is inferior or equals the ginning capacity
of Benin in order to reduce the volume of seed-cotton unsold. The issue
of the opportunity of output quotas setting has also been discussed.
The general remark on the state of the sector remains a concern. To
reverse the trend, it should be important to:

- Modernize the agricultural productive zone in order to get it out of,
especially, its exclusive dependence on an uncertain rain fall
- Encourage, especially, ginners for more transparency with regard to
  their production cost and their turnover.
Concerning ONS⁶,
Recommendations have been made:
- Define an objective output threshold: in Benin, the profitability threshold of cotton output corresponds to 1.2 tones/ha;
- Choose production zone according to their productivity;
- Improve the competitiveness and the profitability; for that purpose, fertilizers costs must not be more than 35% of the production cost;
- Good supervision of producers;
- Import inputs opportune ly, that is to say when their prices are relatively low;
- Improve governance at the grassroots level;
- Setting up an assistance fund that will equally be managed between the State and the inter-profession;
- Transform locally at least one-third of the output.

For the researchers of the Institute of Environment and Agricultural Research (INERA) in Burkina Faso, the use of organic matter could allow to increase soils fertility in a context of inputs price rise partly due to the increase of oil price. The adoption of this strategy could, in so doing, reduce production costs; the experimentation of Bt cotton has, it seems, resulted in encouraging outcomes; which explains the strong willingness of Burkina Faso which is going to start extensive BT cotton cultivation for 2008/2009 campaign.

5. Technical and financial partners (PTF)

Generally, a coordination effort between the different PTF intervening in cotton sectors of AProCA’s member countries is to be noted. This is in the logic of the will to harmonize their speeches toward

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⁶ Technical structure of the Ministry of agriculture of Benin which intervenes in the determination of production cost and homologation process of seed-cotton purchase price once it has been set by the inter-profession.
African Governments, despite differences in their analysis and future perception of African cotton sectors. In the PTF groups, it should be noted that AFD and the WB occupy an important position. AFD, the French cooperation financial tool, has been following up african cotton sectors for several decades and always backs the vertical integrated structuring of these sectors. It has acquired a legitimacy based on (post) colonial history and on its status of privileged financial backer of african cotton sectors. In the same way, with its experiences of chronic bad governance of certain African cotton sectors, AFD seems, to renounce to the will to at all cost defend vertically integrated sectors and willingly and unwillingly accept the liberalization of african cotton sectors.

The WB promoted in the early 1980s, Structural Adjustment Programs (SAP) in African countries. The liberalization of agricultural sectors, among which there is cotton, was an important aspect of SAP. In this respect, the WB pays a continuous attention to ongoing changes in the African cotton sectors, by systematically working for the privatization of cotton companies and the liberalization of sectors. However, cases of unsuccessful liberalization, especially in Ghana and Benin, led the WB to adopt a paradigmatic approach in its recommendations relative to the optimal piloting of african cotton sectors (the example of Burkina Faso). Today, there is an expressive endogenous convergence between the main PTF in setting up risk management programs “cotton price”. Among the promoters of AFD mechanism, there are consultants working (who have worked) for WB. Visions are mitigated; there is no other means than African producers reference on the international market. Differences are determined according to the degree, but, for sure, not according to the nature, and country-studies altogether make the same mistake. In this concert of one voice, only intervention tunnel volumes or the number of years of reference changes the functioning methods of mechanisms to mitigate fluctuations of seed-cotton purchase price paid to producers.

The other PTF occupy complementary positions, from the point of view of their positioning in the environment of help to cotton sectors. EU is still stuck to its logic of budgetary support which has been
significant these last years. In so doing, EU keeps its engagements taken following the Cotton Initiative at the World Trade Organization (WTO).

SNV and the Netherlands cooperation substantially assist cotton producer organizations and are very sensitive to difficulties facing these ones in a period of a fall in cotton output and a decrease in seed-cotton purchase price.
PART 3

Critical presentation and analysis of the different seed-cotton purchase pricing mechanisms

I. The cotton sector of Mali

A. Presentation of the mechanism

The mechanism adopted during the memorandum of agreement (CMDT/Producers) of January, 2005 defined the different seed-cotton purchase pricing mechanisms. This mechanism strongly initiated by World Bank was composed of a basic price and possible final revenue. The said mechanism is based on the following two elements:

* A basic price, announced before the sowing on 30 April of each year at the latest; the price must be between FCFA 160 and 175;

* A possible price complement, commonly known as discount, determined in May/June of the following year; this supplement corresponds to the difference between producer final remuneration and the basic prices. This final remuneration of producers (RFP) is determined by the bellow mentioned formula:

\[
RFP = A \times \left[ \frac{ICWAF-FOB - (1-Y) \times Z}{Y} \times RDFi \times PVGr \times RDGr \times PCOGr \right]
\]

Where:

A : Producers’ share of the revenue of the sector
ICWAF-FOB : Simple average of the African index of Liverpool, in F.O.B. basis, over the period April n/n+1, and expressed in FCFA/Kg
When RFPGr is higher than the basic price, the difference belongs to producers and it is used as follows:

- Part (A1) is added to the basic purchase price. It is paid the following year in June/July,
- The balance (A2) is deposited into the assistance fund at the end of the trading year.

Moreover, it is necessary to remind that the committee responsible for seed cotton purchase price fixing was composed of following structures representatives:

- The State: The Ministry of Economy and Finance, the Ministry of Agriculture, the Ministry of Industry and Commerce;
- Cotton producer unions representatives;
- CMDT and OHVN;
- Géocoton.

The committee was presided over by the representative of the Ministry of Economy and Finance. Finally, the implementation of such a mechanism immediately impoverished producers whose revenues decreased, resulting in production reduction. As the mechanism stopped during 2007/2008 campaign, the State of Mali under cotton producers pressure increased seed cotton purchase price to 200 FCFA/kg for 2008/2009 campaign.
**B. Critical analysis of the mechanism**

Limitations of the above described mechanism became evident over three years of application (2005, 2006 and 2007): decrease in output and yields, an increase of poverty in rural areas due to producers’ revenue decrease, etc.

Thus, a deep analysis of this mechanism allowed to note the following strengths and weaknesses:

**Strengths:**

- The basic purchase price is set before the sowing;
- Cotton producers are massively represented in bodies responsible for negotiating cotton purchase price;
- CMDT production costs are not the only reference in determining seed cotton price;
- The two-stage price fixing allows to take into account fluctuations of global market price.

**Weaknesses:**

- The basic purchase price is not a guaranteed price as it can be reduced before the marketing;
- The calculation formula does not promote the Malian fiber quality which benefits from a good quotation on the international market;
- State preeminence in the committee leads to taking into account non technical factors in seed cotton purchase price fixing.

2. **The cotton sector in Benin**

   **A. Presentation of the mechanism**

   A seed cotton purchase price mechanism currently utilized in Benin and was consensually adopted in 2002 and is based on three (3) key elements:
1- A minimum guaranteed price paid to producers, announced before the sowing

The commonly called basic price is fixed through negotiations between producers and ginners. It is the result of the confrontation of a supply price (price according to producers’ charges) and a demand price (price according to the market trend).

**a- Price According to Producers Charges**

The price is determined according to the following formula:

\[
PCP = \left[ M_0 + (N_1 \times Pe) + (N_2 \times Pi) \right] / R_c
\]

Where:
- \(M_0\): Manpower cost and other charges excluding inputs charges
- \(Pe\): Cost of the kg of fertilizer sold on credit;
- \(Pi\): Cost of the Kg of insecticides sold on credit with a standardised consumption
- \(R_c\): Standardised agricultural output
- \(N_1\): Fertilizer use standard
- \(N_2\): Insecticide use standard

**b- Price according to the market trend**

The price takes into account the erratic evolution observed on the international market of cotton fiber. It is determined according to the following formula:

\[
PTM = (P_{fob} - Crhg + M_{gc}) \times \text{Ref} \times (1 - Me)
\]

Where:
- \(P_{fob}\): Demand FOB price of the Kg of fiber in FCFA, calculated from the daily average of the Liverpool African index of March
- \(Crhg\): Fiber-cotton cost price without seed cotton cost and critical functions
Mgc : Margin on cotton seed
Ref : Preceding campaign average yield at the ginning validated by research
Me : Ginners’ profit margin

2- A Final purchase price fixed just before the beginning of the marketing campaign
This price calculation method is related to fixing formula according to market trend price. It takes into account the Liverpool African index and the exchange rate over the period of March-September: three scenarios can happen:

- If the market price is higher than the purchase price, part is deducted and deposited into the reserve fund, the balance corresponds to price producers will receive during the campaign;
- If the market price equals the guaranteed purchase price, producers will receive the purchase price; there will be no part deposited in the assistance fund and no one can resort to the fund;
- If the market price is lower than the guaranteed purchase price, producers will receive the guaranteed purchase price and the difference between these two prices must be compensated for with the assistance fund.

3- A reserve fund for seed cotton purchase price
Following the institutional changes occurred in the cotton sector, stabilization and assistance rules had been defined. That allowed to constitute a stabilisation fund amounting to FCFA 10 billion in the mid 90s. For 1997/1998 and 1999/2000 campaigns, FCFA 4.120 billion were granted to SONAPRA. Until then, these advances have not yet been reimbursed. The non-respect of assistance fund functioning rules caused it to totally run out of money.

B. Critical analysis of the mechanism
The strengths of the mechanism in Benin reside, on the one hand, in the fact that it is subject to a consensus between all the stakeholders,
and on the other hand, it integrates a framework for negotiations between operators, and also plans the announcement of a guaranteed price before the sowing; this enables producers to make decision accordingly.

However, there are many weaknesses among which, the main thing is the lack of an assistance fund.

3. The cotton sector of Burkina Faso

A. Presentation of the mechanism

The mechanism in force in Burkina Faso before April 2008, originates from the inter-professional agreement of 1999, amended in 2001. With the arrival of two new cotton companies (Faso Coton and SOCOMA), the mechanism has been readapted to take into account these new operators. Thus, it is based on two elements:

1- The floor price: fixed at FCFA 175, it is defined as the price that balances the sector. Stakeholders noticed that this price corresponds to the highest possible price that can be paid to producers with regard to the lowest price of the international market observed over an annual average of the twenty last years.

2- The complementary purchase price (PAC): it results from an equal sharing of gains between producers and cotton companies. Its calculation is based on the following formula:

\[
PAC = (MåP \times 50\%) \times \text{harvested tonnage}
\]

\[
MåP = (PVFOB - 685) \times \text{Fiber output}
\]

Where:

- PAC : Complementary purchase price
- MåP : Profit margin to share
- PVFOB : Average price for campaign realization

Toward consensual mechanisms in seed-cotton purchase pricing
In 2006, the different stakeholders gathered to create the Interprofessional Association of Cotton of Burkina (AICB). The creation of this exchange frame allowed the different stakeholders to think and propose a consensual seed cotton purchase pricing mechanism. This is how the «AICB» mechanism was created; it is the combination of AFD mechanism and Louis Goreux mechanism.

B. Critical analysis of the mechanism

Through its structuring, its management and its functioning method, the seed-cotton pricing in Burkina Faso shows some strength lied in the following remarks:

- Producers fully participate in decision-making;
- The purchase price is fixed for several campaigns and communicated before the sowing;
- The mechanism in force since 1999 does not refer to a production cost, and modifications made in 2004 suppressed references to the sector (apart from the sale price). Producers are incited to improve their production cost to be more performing;
- The two-stage pricing method allows to better take into account the evolution of global prices.

Despite these advantages, the mechanism in Burkina Faso is not free from weaknesses as:

- The discount of n/n+1 campaign, paid during the n+1/n+2 campaign lead to confusions and financial risks if the production increases from a campaign to another.
- The mechanism is strongly linked to the turnover of Sofitex and other cotton companies, thing which makes producers too much dependant on ginning companies’ policies (Sofitex, Faso Coton, Socoma).
The following table summarizes the strengths and weaknesses of mechanisms utilised in the three visited countries (Mali, Benin and Burkina Faso)

<table>
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<th>Strengths</th>
<th>Weaknesses</th>
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| Mali   | - Adjustment «in real time» with regard to modifications on fiber global market; this is enabled by the two-stage purchase pricing  
         - Communication of the basic price before the sowing | - Increase of risk handled by producers                                                        |
|        |                                                                           | - End of guaranteed price system communicated before the sowing, because the latter can be revised before the purchase campaign (article 8) |
|        |                                                                           | - Price mechanism disincentive for producers                                                  |
| Benin  | - Strong involvement of all stakeholders in seed cotton purchase price negotiations  
         - Communication of the guaranteed price before the sowing                               | - Multiplicity of stakeholders making transaction costs to be high for price determination |
|        |                                                                           | - Ineffective functioning of the reserve fund                                                 |
|        |                                                                           | - Weak producers negotiating power with regard to other stakeholders (ginners, inputs distributors, transporters) |
| Burkina Faso | - Producers full participation in decisions making  
                                      - Purchase price fixing for several campaigns and before the sowing  
                                      - Operators incitation to improve their production costs in order to be more performing than the average. | - Payment during N+1/N+2 campaign of the discount determined at the end of N/N+1 campaign; this is subject to high confusion and financial risk in case of high increase in output from one year to another |
|        |                                                                           | - Resort to cotton companies realization price leading producers to bear the consequences of the company commercial policy. |

Toward consensual mechanisms in seed-cotton purchase pricing
It is important in a first analysis, to say that the general orientation of risk « price risk» management mechanisms which is probably going to be adopted in Africa Franc Zone (AZF) is based on producer connection principle to global market. Thus, the mechanism called “AFD” of which different country-versions integrate minor specificities is still explicit in this respect: “The mechanism must, wherever practicable, adjust the cyclical variations of prices and at the same time, follow up the structural evolution of the market: a mechanism disconnected from the heavy trends of the market would, in case of a continuous decline linked to trend observed in the past, be both unbearable and generator of additional imbalances” (Gergely, 2004, P.i).

Such a concern is legitimate in so far as it is the global market which finally determines producers’ remuneration trend in a context where the sub-Saharan State is proved to be incapable to promote real public policies likely to protect farmers. In the same way, and the example of Mali is typical, if no production cost concern was accepted as long-term seed cotton purchase price sustainability appreciation element, African cotton sectors will run serious disappearance risk.

Therefore, it is also important to follow value added division of sectors among the different stakeholders (producers, cotton companies, inputs distributors, transporters, State) for more possible fairness. Particularly, the current cottonseed valorization methods are causing frustrations among producers and a major misunderstanding among ginners.

Finally, transparency in information seems to be the missing element of present mechanisms. This is partly due to the low producer organizations technical capacity in a context where there is an increasing cotton global market complexity. But ginners liability is also engaged, as it is very difficult to have access to companies management cost. Moreover, african public authorities have always used cotton as “cash cows”, for purposes other than the sustainability of cotton sectors. Cotton has been subjected to important embezzlements
because, it is used to pay civil servants salaries, and practically did not enable cotton producers to get out of poverty as the « paradox of Sikasso7 » illustrates it. The vertical integration also allowed Dagris, which is now Géocoton (ex CFDT) located at the end of the chain, to establish more or less transparent types of contract with traders (COPACO) and spinners (Reinhart, etc.).

These contracts are likely to have brought about the acquisition of a significant share of revenue originating from cotton by stakeholders others than african cotton producers. In addition, this type of contract strongly put the notion of cotton into perspective « global market», in so far as african cotton is nearly never in direct contact with this market but, accesses it according to methods closer to contract economy than competitive balance (Arrow-Debreu).

When we add on this table, the highly distortive character of the global cotton market, with an oversupply due to Euro-American subsidies, the argument of the necessity to directly connect african producers to the global market, illustrates more the relationship of domination between producers and other stakeholders of the cotton sector than it shows the best possible way likely to help those one to get out from poverty.

The reccurent speech on the necessity to increase the productivity of african cotton producers, however legitimate, would not be enough to hide the real causes of the current failure of african cotton sectors, namely the incapacity of stakeholders to transform what was the symbol of colonial slavery economy. The aim was to supply the metropolis at low prices, and to enrich a highly consuming african oligarchy, in a real development engine.

Today, with regard to the strong involvement of all the concerned stakeholders, the mechanism adopted in April 2008 in Burkina Faso, called « AICB » mechanism (cf Appendix for the whole mechanism), appears to be the basis from which to adapt all the “price risk” management mechanisms in the different AProCA’s member countries.

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7 The region is well known for its significant productivity as regard cotton production but the fact that it is not developed harshly affects it.
The AICB mechanism was developed the first time by Louis Goreux in 2006. At the same time, AFD initiated a reflection on articulated management of « price risk » for Africa cotton sectors. The mechanism in its functioning was based on four (4) levels:

- A floor price (announced in advance, before the sowing and paid on delivery of seed cotton) and an additional price once the result of the campaign known);
- The market instruments;
- Tools in catastrophic situation;
- The regional facility.

But this mechanism was considered to be “sophisticated” by producers. Thus, in April 2008, the mechanism called “AICB” was set up and the former (Goreux) improved with AFD as main partner in the subscription to the adjustment fund. Thus, the adjustment fund association (AFdL) was created. As its name indicates, it must assure a sound management of the adjustment fund.

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9 Interviews with M. Yaméogo, Permanent Secretary in charge of the follow-up of the liberalized cotton sector in Burkina Faso.
*AICB/Louis GOREUX, April 2006.
The new mechanism is based on 3 elements:

- A floor price: this price, contrary to the former mechanism is based on a five-year (5 years) average. In other words, its calculation is based on the average trend of prices observed over 5 years (2 preceding years, 2 coming years and the pending year). It is calculated from AFE indexes and the parity Euro/ US Dollar of targeted years\textsuperscript{10}.

- The deposit of a possible discount after the 1st April, during the same campaign only in case of profits linked to a favorable and consequent evolution of cotton prices during the said year, the preceding 12 months;

- Keep the fund principle for guaranteeing prices to producers through the constitution of a fund called « adjustment fund». The subscription to it is a priority in case profits are made 12 months proceeding 1st April of each year.

The new mechanism in force in Burkina Faso, endowed itself with an adjustment fund in addition to the creation of the AFdL gathering producers within UNPCB and cotton companies forming APROCOB. Thus, AFD is going to provide the fund with 15 million Euros in the form of concessional rate loan to the State. But this is still not completed.

\textsuperscript{10} Article 12, inter-professional agreement governing the functioning of the cotton sector in Burkina.
PART 4

Lessons and Recommendations

1. Lessons drawn from field missions

A. In Mali

What can generally be noticed is a great pessimism regarding the situation of the sector: these three last years, producers have become poorer. CMDT encountered real financial difficulties and its privatization repeatedly planned and postponed engenders a climate of uncertainty in the malian cotton sector. The State of Mali facing budgetary constraints, well known in PMAs, obviously does not have the means to sustainably back the cotton sector, for fear to create understandable social tensions as many productive malian sectors other than the cotton sector request for a budgetary support. In this morose context, the PTF, as they can, try to harmonize their point of views, in order to preserve the viability of the sector. Nevertheless, a tension seems to be perceptible between AFD, promoter of a mechanism for adjusting seed cotton purchase price paid to producers, and the WB which prefers free market, and producers should be able to adjust themselves accordingly. However, the mechanism for determining the price utilized during the three last campaigns, firmly initiated by the WB, partly seems to be the cause of current difficulties faced by the producers as it is attested by conducted studies (Nubukpo et Keita 2005, Estur 2007). This situation relatively does not include the WB in ongoing discussions on the implementation of a new mechanism.

Furthermore, some shadows, related to the owner of the assistance fund, seem to have been enlightened: producers think that it belongs to
them, whereas the other stakeholders of the sector (CMDT) are rather for the joint-ownership in the framework of the cotton inter-profession. With regard to missions that could be assigned to him, it seems sensible to consider a second option, because it is about preserving the whole sector and not producers alone.

In addition, the interviews carried out highlight two relatively opposed stands from the point of view of essential pre-requisites in fixing seed cotton purchase price: indeed, for malian producers, the price must at least be fix according to the actual production cost, whereas for PTF, in particular AFD, it is the global market which, in fine, determines the price paid to producers, following the adjustment undertaken thanks to the adjustment fund. It is necessary to find a mix mechanism, capable to win over the two justifiable concerns.

B. In Benin

What can be noticed is that, the sector in Benin has been liberalized since the mid 90s and involves several stakeholders: a ginner family regrouped within APEB, producer unions regrouped within FUPRO-Benin, and inputs distributors who form the CAGIA.

The institutional change (liberalization) did not allow to solve the difficulties faced by the sector: decrease in cotton prices on the international market, inputs price rise, the downward trend of outputs, etc.

The State of Benin, under some budgetary constraints, tries as far as possible to back the sector, as it is illustrated by the subsidy of FCFA 6.9 billion for the ongoing campaign to keep the price of fertilizer at the level of the preceding campaign.

But, in a difficult context where States massively subsidize certain imported raw materials, it is clear that, in the future, the State will not be able to support permanently the cotton sector in Benin. In this logic, setting up an assistance fund is more than necessary to guarantee a sustainable development of a beninese cotton sector presently characterized by the absence of this assistance fund.
The PTF, especially the Netherlands Embassy, the WB and AFD intervene in the sector but results seem to take time to come out. Moreover, delegation of power to private stakeholders in the management of a sector which was until then controlled by the State has engendered many difficulties. Thus, in a recurrent basis, the sector copes with:

- Certain stakeholders’ non-respect of functioning rules adopted by the inter-profession (especially certain ginners);
- The bad management of some farmers’ organizations, causing in certain village groupings, the questioning of the solidarity fund\textsuperscript{11} and the creation of dissident networks of cotton producers;
- The accumulation, by certain producers’ organizations, unpaid money concerning agricultural inputs, causes virtuous producers to be discouraged and abandon cotton production in some regions of the country, etc.

**C. In Burkina Faso**

The cotton sector in Burkina Faso, like the other african cotton sectors, is deeply facing some difficulties such as: downward trend coupled with increasingly fiber price volatility, productivity and yields stagnation, rain deficit, FCFA/Dollar fluctuations, etc.

These bottlenecks result in putting the sector in a difficult situation, source of uncertainty.

So, stakeholders are endeavoring to better get organized to assure a financial equilibrium and a sustainable development of the cotton sector. In this purpose, the sector has experienced important institutional changes: creation of an inter-profession (AICB) for the sector management, cotton sector liberalization with the new ginning companies, new mechanism signed by all stakeholders on April 2008.

\textsuperscript{11} Engagement by a group of producers to reimburse the input credit to the cotton company, only the group is recognized but not individual composing it. Thus, it is based on confidence.
Regarding this last point, the mechanism presently used was initiated by AFD in common agreement with AICB and endowed itself with an adjustment fund. In a first step, it will be financed by AFD up to 15 million Euros, in the form of a concessional rate loan and later by profits generated by the sector. To manage the adjustment fund, AFdL, regrouping APROCOb and UNPCB, was created in order to secure the different operations.

Moreover, the PTF, apart from AFD, promoter of seed cotton price adjustment mechanism, initiates actions to preserve the viability of the sector. Thus, EU granted a subsidy of 10 millions Euros to the State of Burkina Faso in the form of budgetary support, even it deplores the slowness of the State in the disbursement application process.

As far as WB is concerned, it has initiated a project on the reduction of production cost, by the use of organic matters and other fertilizers.

Another important element of the cotton sector in Burkina Faso is stakeholders acceptance and involvement in growing transgenic cotton. Thus, the Bt cotton, developed by Monsanto will be extensively cultivated during the next campaign with 200,000 ha then 400,000 sowed in two years.

The sector in Burkina Faso seems to be better structured and organized compared to the malian and beninese cotton sector, in so far as stakeholders obviously need the realization of a financial equilibrium and a sustainable development of the sector. For example, the purchase price paid to producers for the ongoing campaign estimated at 165 FCFA/kg is the lowest compared to that of Benin 190 FCFA/kg and that of Mali 200 FCFA/kg.

However, this deserved status of «good pupil» should not hide the fact that cotton sector stakeholders in Burkina Faso are fully likely to assist one another, as they are conscientious of the fact that the heavy trends of the global market of the fiber will, in the future, minimize their effort to rationalize the management of their sector, if important measures are not quickly taken at the regional and international level. In this logic, AProCA tries to build a general consensus on factors that should be included in cotton risk management mechanisms in member countries.
2. Recommendations for the implementation of a consensual mechanism

There is no seed cotton purchase price fluctuation mitigation mechanism which is optimal anytime and anywhere. The notion of “good” price risk management mechanism is an obvious contingent to circumstances specific to its definition (Fok, 2007). The state of cotton world market, the financial situation of sectors and therefore, cotton companies, the role of public authorities in the sector, the power of PTF, the level of information, organization, involvement and understanding of producer associations, are factors that account for the adoption of this or that price mechanism.

Thus, the power relationship among the different stakeholders at a given period strongly determines the stabilized compromises these stakeholders reach. So, it would be a utopia to think that the choice of a mechanism expresses its qualitative superiority and, on the other hand, that an adopted mechanism can be durable if the main stakeholders of the sector do not accept it.

The case of Mali is interesting in this respect: the price mechanism promulgated in January 2005 did not produce the expected results, less because of its technical weakness than its sole reason of existence, that is to say the financial equilibrium of the sector through great efforts asked to producers. On the contrary, for the same level of seed cotton purchase price paid to producers, the “Goreux” mechanism in Burkina Faso allowed the sector in this country to be successful comparing to the other african cotton sectors.

From these three field missions, seven (7) important elements have been identified and must be integrated in the quest of an appropriate price risk management mechanism in visited Platforms (Mali, Benin and Burkina Faso) and by extrapolation, in other AProCA’s platforms:

1- Standard production cost (inputs price, integrating the difficult issue on taking into account the family labor force);
2- The issue of output stagnation and cotton productivity increase imperative;
3- The assistance fund (or adjustment) and its functioning;
4- Seed cotton bought from producers payment deadline;
5- The evolution of the global market of the fiber and risk linked to monetary fluctuations (FCFA/dollar);
6- The implications of the finding according to which cotton growing is included in a production system based on cotton, but also including cereals and tubers (yams) which makes more complex the analysis of the rationality of cotton producers’ choices;
7- Cotton’s by-products valorization, especially seed, concerns relative to the logic of the general problematic about the fair breakdown of added value generated by the sector among the different stakeholders.

These factors should “accompany” the new mechanism to be more incentivizing and more consensual, and therefore take into account the concerns of all the stakeholders for a sustainable development of African cotton sectors. The AICB mechanism which, at first glance, seems to be acceptable seen its structuring and its management method, can be fundamental in the development of any mechanism. However, it is important to create some “safeguard” around this mechanism, especially real and targeted production cost, so as to permanently examine the variance between the price paid to producers and its production costs, and incite producers to increase the effectiveness of their production.

Furthermore, any mechanism which is said to be fair requires the publication, in extenso, of all the costs of any cotton company and the exact nature of contracts signed between ginners and spinners.

Such transparency effort will allow to reach a genuine and durable consensus between the cotton sector stakeholders as far as price risk management is concerned and then, as for the breakdown of efforts among all the stakeholders for a sustainable development of cotton sectors of AProCA’s member countries.
CONCLUSION

From the light of the study, it appears that the malian cotton sector weather an unprecedented crisis. Low price paid to producers has provoked producers disengagement in the profit of other products. In the same way, the accumulation of CMDT’s unpaid money has increased the financial deficit of the only cotton company of the country of which privatization scheme, over and over again postponed, has been realized since august 2008. Seen the programme and the principle of this privatization, no one can pertinently and righteously predict its implied future effects. But today in Mali, the general remark is that of pessimism as for the revival of cotton growing.

Liberalized since the late 90s, the beninese cotton sector has benefited from a series of reforms which materialized in the arrival of a multitude stakeholders (producers, ginners, inputs distributors, etc….). Collaboration between the different stakeholders did not allow to implement an efficient management of the cotton sector. Divergences of points of views and open disputes that followed considerably weaken the fulfillments of the sector. Despite a clear State willingness to restructure the cotton sector, the absence of a framework that clearly and precisely defines the roles and responsibilities assigned to each stakeholder in the management of the sector represents the main bottleneck facing the cotton sector in Benin.

Contrary to the malian and beninesesections, that of Burkina Faso shows viable structuring forms. Apart from the organization challenge successfully taken, the new mechanism signed by the cotton inter-profession of the country appears to be acceptable through its functioning principle but questionable given the adjustment fund management method.

The seven basic elements pointed out by the study, even if it is not limited to this list, are the consensual and essential aspects that any seed
cotton price fixing model must take into account for fear to cause prejudices and damages to a stakeholder. Each element, weighted with a significant coefficient, will enable the model to generate results acceptable by all the present stakeholders.

Through this study, Enda Diapol and AProCA, would like to reframe the reflection by offering a discussion base in the implementation of seed cotton purchase price fixing problematics and further more, in doing so, solve one of the crucial issues that african cotton sectors face today.
Toward consensual mechanisms in seed-cotton purchase pricing

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Toward consensual mechanisms in seed-cotton purchase pricing


### Appendix 1: List of Interviewers

<table>
<thead>
<tr>
<th>First Name (s) / Surname</th>
<th>Function</th>
<th>Structure / Organism</th>
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</thead>
<tbody>
<tr>
<td>Jean François CAVANA Manda Sadio KEÏTA</td>
<td>Assistant Director, Market researcher “Rural Pole”</td>
<td>AFD</td>
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<tr>
<td>Mamadou OUATTARA</td>
<td>Permanent Secretary</td>
<td>AProCA</td>
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<td>Olivier DURAND</td>
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<td>World Bank</td>
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<td>Moussa Alassane DIALLO Sidy Modibo DIOP</td>
<td>President and General Manager, PGM advisor</td>
<td>BNDA</td>
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<td>Bernard JACQUIN Mamadou TOURE Zan Dossaye DIARRA Amadou SAMAKE Youssouf Siaka KONE</td>
<td>Assistant General Manager, Assistant General Manager Advisor, Production Manager, Sector Economy Program Manager, Researcher</td>
<td>CMDT, IER</td>
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<tr>
<td>Adama COULIBALY</td>
<td>Technical Advisor</td>
<td>Ministry of Agriculture</td>
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<tr>
<td>N’Fagnanama KONE Tiéna COULIBALY Alpha Seydou MAIGA Yaya COULIBALY Aly KONTAO</td>
<td>Project Manager, Consultant</td>
<td>MRSC</td>
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<tr>
<td>Didier VERSE</td>
<td>Advisor</td>
<td>UE</td>
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<tr>
<td>Alpha COULIBALY Seydou COULIBALY Bakary DEMBELE Soloba Mady KEÏTA Brehima COULIBALY Tiassé COULIBALY Drissa TRAORE Natha DIARRA</td>
<td>Vice President, General Secretary, Communication Manager, Executive Secretary</td>
<td>UN-SCPC</td>
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<td>First Name (s) / Surname</td>
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<td>Structure / Organism</td>
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<td><strong>BENIN</strong></td>
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<td>Max VALSTAR</td>
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<td>The Netherlands</td>
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<td>Achamou A. FAHALA</td>
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<td>Barthélemy M. GAGNON</td>
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<td>Bernard T.ADIKPETO</td>
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<td>Ernestine S.ATTANASSO</td>
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<td>Fatima S. MADOUGOU</td>
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<td>Louise Epouse MENOU</td>
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<td>Bachir Olatounji SOUBEROU</td>
<td>Forecast and situation Manager</td>
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<td>Ir. Simplice Davo</td>
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<td>OBEPAB</td>
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<td>VODOUCHE</td>
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<td>Hans (J.W) MEENINK</td>
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<td>Mamadou SANFO</td>
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<td>General Manager</td>
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<td>Jocelyn Nahama NENEHIDINI</td>
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<td>René TOGBE</td>
<td>Audit and Management Accounting Manager</td>
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<td>Léopold LOKOSSOU</td>
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<td>FUPRO</td>
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<td>Tiburce KOUTON</td>
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<tr>
<td>Patrice TRANCHANT</td>
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<td>Faso Coton</td>
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<td>Hema OMER</td>
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<tr>
<td>Gaspard VOGNAN</td>
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<td>Dény SANFO</td>
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<td>Georges YAMEOGO</td>
<td>Development and Cotton Production Manager</td>
<td>SOFITEX</td>
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Appendix 2: Determination of price paid to producers and national adjustment mechanism: The principles of the mechanism called “AICB” (Ravry et al. 2006)

Basic principles and adjustment mechanism architecture

Former studies and critical analysis of former functioning of price mechanism implemented in different countries lead to consider certain basic principles:

- The parameters for determining the result of the sector and margins sharing between cotton companies (SC) and producers can not be based anymore on SCs income statements, for these ones can be disguised in a context of privatized sector, and because such system does not incite SCs to maximize their performances. All the cost and price parameters must be set up based upon standards or external references;

- Price paid to producers established at the beginning of the campaign must be determined from the world market price trend, according to a formula that can be objectively checked and which can not be manipulated, and which combines a good adjustment capacity and a good correlation with the global price trend; the formula must result in setting the level of the initial “prudent” price, in order to limit the destabilizing effect of a trend change during the campaign. On the other hand, it must enable to maximize the final price paid to producer (for poverty control), without making SCs and sectors run the financial destabilization risk. In this respect, the two-stage payment principle as adopted, especially, by the new mechanism in Burkina Faso (floor price, communicated and paid on delivery on the
seed cotton; an additional price paid, if possible, once the results of the campaign are known), appears judicious;

- The calculation of the price paid to producers based on the trend, that is to say sharing the FOB price between cotton companies and producers, must be carried out both on fairness and economically performing basis; a priori, the ideal formula is to determine the SC intervention standard costs in the objective to progressively improve the financial efficiency of the SC, defined by the stakeholders of the sector.

- The adjustment fund must intervene to support SC when the average prices noticed during the campaign are inferior to the trend determined at the beginning of the campaign (so as to hedge the theoretical lost resulting SCs), and, on the contrary, as a deduction, according to the automatic and transparent calculation methods base upon references which can not be manipulated. It is necessary to outsource the management of the adjustment fund and entrust it with a private body to guarantee the good functioning of the mechanism;

- In addition, the mechanism must be articulated with the other tools according to an analysis per level of risk.

The purpose of the following sections is to analyze and precise the above announced principles.

**Trend calculation method**

The trend calculation method must meet a double objective, even contradictory: it should not only lead to an effective adjustment capacity but also it must, the best way possible, be correlated to the actual evolution trend of price noted a posteriori.

In the initial proposition of the articulated mechanism (Cordier report), the trend is calculated by simple exponential adjustment of average prices (in FCFA/kg FOB) of the three preceding years and the forecast for the campaign n/n+ 1, without the precision of the source of that one. The current study leads to precise the preposition as follows:
- It appears recommended to keep the Index A forward of Cotton Outlook rather than ICAC projection and the World Bank. Indeed, the application of this last method would have created significant variances between the calculated pivot and the theoretical average price realized over the last 9 campaigns (1997/98 to 2005/06).

- The adjustment per calendar year (as planned in the initial proportion) puts inter-annual variations amplitude in a -15% to +9% band, whereas average theoretical price variation ranged from -28% to +35% during the period. However, the correlation between the pivot prices and the actual prices is slow (0.40) for the linchpin price would only evolved in the same way as the actual price only once over 8.

- The adjustment on the basis of averages of the preceding campaign rather than on that of averages by calendar year is better correlated to theoretical average prices realized, and better adjust trend prices. The variances between trend price and the theoretical price realized are put in a bracket of -11% to +27%, with an unchanged average of +9%. The correlation between the series of linchpin prices and that of actual prices is sharply better (0.62) because it would have evolved in the same way 4 times over 8. The adjustment puts the inter-annual fluctuation amplitude in a -10% to +3% band.

We undertook an ex-post estimation over the last 9 campaigns (1997/98 to 2005/06), of the adjustment capacity and of the historical error between the linchpin price calculated at early April and the historical price realized in March n+ 1, according to 5 other methods:

- Five-year average centered (campaigns n-2/n-1 à n+2/n+ 1) by using ICAC projections per campaign;
- Seven-year average centered (campaigns n-3/n-2 à n+3/n+ 2) by using ICAC projections per campaign;
- Three-year average centered (campaign n-2/n à n/n+1) by using the Index A forward of representative of anticipated sales for price forecast n/n+1;

1 For lack of IMF exchange rate forecast, we used the parity of early April. The differential from FOB to CFR or CAF supposed to be constant in dollars (4.5 cents per pound) has been adjusted according to average actual exchange rate of each period.
- Simple average (campaign n-1/n and n/n+1) by using the Index A forward;
- Forecast for the campaign n/n+1 by using the Index A forward.

Results are given in the below mentionned table.

<table>
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<th>Targeted Qualities</th>
<th>Adjustment capacity</th>
<th>Capacity to follow the trend noted a posteriori</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criteria Methods</td>
<td></td>
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</tr>
<tr>
<td>Adjustment exponential/forward</td>
<td>good: -10% to +3%, i.e. 13%</td>
<td>-11% to +27%</td>
</tr>
<tr>
<td>Five-year average centered/ICAC</td>
<td>good: -12% to +1%, i.e. 13%</td>
<td>-6% to +44%</td>
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<tr>
<td>Seven-year average centered/ICAC</td>
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<tr>
<td>Three-year/forward average</td>
<td>Below average: -10% to +7%, i.e. 17%</td>
<td>-16% to +29%</td>
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<tr>
<td>Two-year average</td>
<td>Bad: -21% to +9%, i.e. 30%</td>
<td>-14% to +34%</td>
</tr>
<tr>
<td>Forward</td>
<td>Bad: -21% to +9%, i.e. 30%</td>
<td>-14% to +34%</td>
</tr>
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</table>

2 Theoretical average prices ranged from -28% to +35% during the period.
All these methods tend to be mistaken by optimism. In average, over the 9 last campaigns (1997/98 to 2005/06), the calculated average price might have been higher than the theoretical price realized in all cases thing that confirms the necessity to keep a security margin between the calculated linchpin price and the set floor price.

After a careful reflection, this analysis causes us to recommend, for trend calculation, the use of the simple exponential adjustment\(^3\), by using the theoretical average FOB price of \(\frac{n-3}{n-2}, \frac{n-2}{n-1}\) et \(\frac{n-1}{n}\)\(^4\) campaign, calculated early April, and the predicted quotation of the crop \(\frac{n}{n+1}\) in Cotton Outlook at the same date, valorized in FCFA with the exchange rate of forward sales of dollars at 9 months. The adjustment coefficient that best meets the objective is about 0.7. That method is good compromise between the adjustment objective and of correlation to the actual evolution.

\[^{3}\text{Given by the formula: }\text{trend} = \frac{\left(P \frac{n-3}{n-2} \times A^3 + P\frac{n-2}{n-1} \times A^2 + P \frac{n-1}{n} \times A + P\frac{n}{n+1}\right)}{(1+A+A^2+A^3)}\]

\[^{4}\text{The period of reference for calculating the price per campaign is the average of April } n \text{ to March } n+1\]
Calculation of price paid to producer based upon the FOB trend price

Once determined, the FOB price corresponds to the trend, and it is important to deduct from it a price paid to producers, after deducting intermediary costs\(^5\) of cotton companies. These ones will be, first of all, estimated theoretically, base upon a normal company’s functioning standard cost, then the possibility to estimate them based upon cotton companies declared costs. Finally, the fixed breakdown method (in fixed percentage) of the FOB price between producers and SC will be analyzed.

Theoretical estimation of intermediary cost

Consultants estimated that, based upon the usual standards, the theoretical intermediary cost of a standard-sized treating 21 000 tones of fiber, generating its own energy, located at 1000 km away from the loading port (case of Burkina Faso), and having all the service to autonomously function (General Management, administrative service, commercial service). This cost, with regard to factors’ current cost (2006), is 249 FCFA/kg of fiber (including a margin of 5% for miscellaneous and contingencies). This cost takes into account the necessary support to producers, but not production inputs cost, which are supposed to be granted to producers at their total cost price, nor of keeping roads and of a possible participation of the company in the research/development function. It takes into account the “normal” depreciation of fixed assets for a typical factory, as well as the corresponding capital assets cost. It also takes into account, in deduction, of seed sale price as currently applied in Burkina Faso (FCFA 16 excluding tax ex factory). This cost is itemized on the beneath table\(^6\), which also indicates the impact of the main factors on the total cost.

\(^5\) In the report, the net intermediary costs are define as the sum of costs of the cotton company excluding the purchase cost of seed cotton, after deducting the sale price of seed, considered to be a by-product of the fiber.

\(^6\) See detailed table in appendix 5
In the case of a factory connected to the electrical network, the cost would be reduced to 235 FCFA/kg fiber.

This theoretical cost supposes that the factory operates at full capacity without expatriate staff. Despite its theoretical character, this estimation might be a good discussion base within inter-professions.

**Approach by cotton companies stated cost**

In Burkina Faso, cotton companies declared costs approach faces the refusal of cotton companies to communicate their costs and accept a mechanism referring explicitly to standard costs. This difficulty is a logical consequence of privatization. In these conditions, it was impossible for the mission to appreciate the intermediary cost of the different cotton companies, nor to see how these costs can be reduced.

<table>
<thead>
<tr>
<th>Description</th>
<th>Local costs</th>
<th>Diesel</th>
<th>Other imported cost</th>
<th>Total cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total variable charges off seed cotton purchase (CFA/t cf)</td>
<td>77</td>
<td>16</td>
<td>78</td>
<td>171</td>
<td>67%</td>
</tr>
<tr>
<td>Fixed charges per unit excluding depreciation (CFA/kg cf)</td>
<td>53</td>
<td>0</td>
<td>1</td>
<td>55</td>
<td>21%</td>
</tr>
<tr>
<td>Depreciation per unit (CFA/kg fiber)</td>
<td>6</td>
<td>0</td>
<td>24</td>
<td>30</td>
<td>12%</td>
</tr>
<tr>
<td>Production cost off-purchase cg (CFA/t fiber FOB)</td>
<td>136</td>
<td>16</td>
<td>103</td>
<td>255</td>
<td>100%</td>
</tr>
<tr>
<td>Minus: seed revenue (CFA/kg fiber)</td>
<td></td>
<td></td>
<td></td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Net intermediary cost</td>
<td></td>
<td></td>
<td></td>
<td>236</td>
<td></td>
</tr>
<tr>
<td>Cost including miscellaneous and contingencies (5%)</td>
<td></td>
<td></td>
<td></td>
<td>248</td>
<td></td>
</tr>
</tbody>
</table>
in the framework of an objective contract that, a priori, the concerned cotton companies do not accept. In addition, we can note that the intermediary cost implicitly taken as a reference by the new mechanism in Burkina Faso, 268 FCFA, is about FCFA 20 more than the theoretical cost, but appears coherent with the past results of SOFITEX as well as with those of other countries of the region in the same situations.

**Interest and feasibility of costs indexation formula (formula pricing)**

Beyond the practical impossibility noted, in the current situation in Burkina Faso, examining the theoretical feasibility of a formula to index-link costs to factors cost reveals major inconveniences:

* Such a formula, usually used in the framework of public services concessions, appears not to be adapted to a competing activity, in so far as it systematically triggers an upward review, whether because of internal inflation (salaries, building cost,...), or because imported factors evolution (fuel,...). However, the impact of factors cost can be limited in a well-managed company: salaries rise can be compensated for by productivity gains; fuel price rise can be mitigated, for example by a rationalization of transportation cars and massively resort to electrical energy (in average twice cheaper) in factories. There is, in principle, no reason to admit that all costs rise, integrally impacts on the global cost (world production cost, de facto, are far from following the world inflation).

* The application that can be made of these index-linked standard cost equally poses problem:
  - In such a country where road network is in a bad state, transport costs are higher; must we conclude that price paid to producers must be necessarily inferior (which will be in the logic of the mechanism) or the State must make a particular on that point.

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7Which estimates that the sector is balanced with a FOB price of FCFA 685 and a seed-cotton price paid to producer of 175 FCFA/kg, i.e. FCFA 417: kg fiber It can then be said the net intermediary costs are FCFA 268.
In a same country, Burkina Faso, at the very beginning, cotton companies adopted different cost structures just because new companies must recoup the acquisition cost of their zone (and pay the corresponding financial cost); must this over cost impact on the standard cost? That implies admitting different price paid to producer according to zones; which the profession rejects?

In total, in addition to its material difficulties, the standard cost system indexed-linked to factors costs show more inconvenient than advantages. It appears to better work on global standard costs (seed sales net intermediary cost). The intermediary standard cost of each national sector (defined at the beginning by a cross examination of cotton companies accounts) could progressively be aligned (in the framework of an objective five-year contract) on the theoretical cost determined in the preceding paragraph, which should regularly be updated according to the average inflation in the FCFA zone and oil cost. The only specific parameters to take into account for each sector are:

- The average distance between factories and the closest loading port (which is totally independent from the performances of the sector and which directly influences its competitive advantage). In a normal situation, this post plays with a difference of about 20 FCFA/kg fiber between the closest sectors (Benin, Senegal) and the remotest (Cameroon, Burkina Faso, Mali).
- The sale price of the seed which largely depend on the terms of the local market (FCFA 16 in Burkina Faso, where the market is oil business; approximately FCFA 60 in Senegal, where the market is food for the cattle).

Cross analysis of FOB fixed price sharing formula between cotton companies and producers and the formula of standard cost.

The classic approach by standard cost prices which are deducted from a FOB reference to calculate the price to be paid to producers

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8 It is important to note, in this respect, that privatization with a payment of premium by the purchaser can negatively increase the cost price of SC, therefore, in last analysis, make producer bear the price and the premium.

Toward consensual mechanisms in seed-cotton purchase pricing
results in the fact that producers receive a « residual » price, and that SCs are assured providing the adjustment system functions correctly and SC « average » costs and price performances can recoup the intermediary cost\(^9\). Reversely, SC profit would be limited if the system is not accompanied with margin sharing mechanism, which divides the possible surplus between the FOB reference, and the cost price based upon minimum price paid to producers and standard costs. This standard margin would partly serve to provide capital to the adjustment fund and the remaining is shared between producers and SC.

Finally, in this approach, the price paid to producer is calculated with a formula of the type:

\[
\text{Initial price paid to producers} = (\text{Trend} - \text{Standard cost}) \times \text{standard fiber/seed output},
\]

and the possible supplement paid at the end of the campaign by means of a formula of the type:

\[
\text{Supplement} = (\text{Noted FOB average} - \text{standard costs} - \text{contribution to fund}) \times \text{producers margin percentage} \times \text{fiber/seed standard output}.
\]

The approach through FOB fixed price sharing, used, especially in the new mechanism in Burkina Faso, has a logic which is visibly different: its fixes itself a “balance point”, corresponding to the FOB price to which it can be paid to producers a « fair » price and recoup intermediary costs of the SC, and stipulates that the relation between intermediary cost and price paid to producers at this balance point must remain identical whatever the FOB. As can be seen, the new system in Burkina Faso indicates that for a FOB price of FCFA 685, the fair price paid to producers is FCFA 175 (i.e. 417 FCFA/kg fiber), which implicitly leaves

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\(^9\) What the minimum intermediary cost guaranteed to SCs can be discussed: must it integrally include costs, or exclude depreciations and invested capital gain so as to only cover cash costs? These two options can theoretically be justified, and must be decided through negotiations between parties.
FCFA 268 (685-417) to cover intermediary costs, and gives a fixed ratio “price paid to producers/ FOB reference” rounded to 60%. In the system of Burkina Faso, the mechanism is completed by a relatively complex mechanism which is composed of:
- A non intervention tunnel: there is neither deduction nor support if the FOB price reference evolves in a tunnel in between 95% and 101% of the trend
- A bottom price paid to producers (price paid to producer during the campaign) equals the tunnel bottom, i.e. 95% of the trend
- A fund supply rate, when up the tunnel all the more higher as the fund is empty and that the surplus is important (this rate is calculated by means of a specific formula).

A modeling of the system in Burkina Faso was developed by consultants on the basis of the available description of the mechanism, and then compared with what will give a standard cost mechanism\(^9\). Results are provided in the below mentioned table for different prices hypothesis:

<table>
<thead>
<tr>
<th>CAF</th>
<th>550</th>
<th>600</th>
<th>650</th>
<th>700</th>
<th>750</th>
<th>800</th>
<th>850</th>
<th>900</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend</td>
<td>640</td>
<td>651</td>
<td>662</td>
<td>673</td>
<td>684</td>
<td>695</td>
<td>706</td>
<td>717</td>
</tr>
</tbody>
</table>
| Mechanism in Burkina
| Final price paid to producers | 153 | 156 | 158 | 164 | 176 | 183 | 191 | 199 |
| Net margin SC | -25 | -21 | -16 | -7  | 11  | 23  | 35  | 47  |
| Support (+)/deduction (-) | 106 | 66  | 27  | 0   | -6  | -25 | -44 | -64 |
| Standard costs mechanism
| Final price paid to producers | 156 | 161 | 165 | 170 | 177 | 186 | 196 | 205 |
| margin SC | 0   | 0   | 0   | 0   | 5   | 14  | 24  | 34  |
| Support (+)/deduction (-) | 138 | 99  | 60  | 21  | -9  | -29 | -48 | -68 |

\(^9\) In order to make the comparison possible, we imagined for the two systems, a same rate for providing the fund with money (50% of the surplus), a same principle for determining the initial price, a same intermediary cost hypothesis (FCFA 268); on the contrary, sharing the surplus between producers and SCs is made according to a grid 60/40 in the system of Burkina Faso and 50/50 in the system of the studied standard cost.
The comparison shows that:

The system in Burkina Faso can cause accounting deficit in CC. In other word, every time, the CAF price is less than FCFA 733; however, the deficit is bearable up to the CAF level of FCFA 550; for it does not result in a cash deficit (the amount of the depreciation is about FCFA 25). Beneath this level, the SC would be in a real risk if it does not have the necessary cash to cope with the deficit. But the risk will be hedged if there is an intervention tool in a catastrophic situation. In the same system of standard cost, the SC does not run such risk (in so far as, performances are not less good than standard).

Risks run by the SC in case of a difficult period is compensated for, in the system in Burkina Faso, by the fact that profits are rise more rapidly as costs increase: at a level of FCFA 900, the company would make a profit of 47 FCFA/kg, against only 34 in the system of standard cost.

The system of Burkina Faso requires a limited resort to the adjustment fund in case of difficult situation, since a part of the loss is absorbed by the SC.

Finally, the two systems have slightly different effects, but we cannot say that one is more virtuous or more durable than the other: the acceptability of one system or another essentially depends on the level of risk the SC accepts to take (compensated for by a superior remuneration when prices are high).
Assembly and functioning of the adjustment fund
Institutional registration

It is necessary to privilege the registration of the fund to the inter-profession. Indeed, there is a strong complementarity between the adjustment fund and seed cotton price fixing mechanism. Yet, the mechanism is one of the key element of seed cotton sale contract which at the center of the inter-professional negotiation.

But, a registration of the adjustment fund to producer organizations might not be a redhibitory obstacle, if the inter-profession was responsible for defining the rules governing the use of the fund. In this respect, Mali gives an example where the ownership of the fund is separated from its execution.

Method for managing the adjustment fund

So as to guarantee a use of the resources of the fund with regard to its aim and to protect it from State interferences as well as professional family pressure, it is important to precisely define the regulation governing the fund and, on the other hand, to entrust a well and well established known bank with the execution. To avoid a multiplicity of stakeholders, it has been proposed that a same bank must both be the proxy for the management of the fund and depositary of the resources of the fund. The fund deposited in the bank will generate interest which can now be estimated at 3 or 4% per year in the WAEMU zone. On the contrary, the authorized management of the fund is subject to a management commission, which should, at first glance be of comparable order.

The choice of the bank must be made on the basis of a competitive bidding. Of course, such a procedure is not legally compulsory since the rules relative to public markets are not applicable in the case of an inter-profession integrally reserved for the private law or at least which does not raise public fund. Nevertheless, the absolute necessity to assure a perfect transparence within the inter-profession, as the willingness to meet the criteria to be eligible to the regional adjustment fund, is in the
same logic as a call for tender. However, inter-professions are free as for the call for tender method even if they can get inspire from rules governing national public markets or market granted by bi or multilateral backers.

Concerning a complex operation composed of a deposit contract and order contract, less usual, inter-professions should proceed to an invitation for interest manifestation after the invitation for tender before drawing up the final list of banks that will be examined.

**Conclusion on the acceptability and durability of the mechanism**

So the new mechanism appears to be quite acceptable, providing the adjustments described above which do not question these principle.

Because of the questionable calculation method adopted for the determination of the trend (calculation method of which a review is proposed here), the price paid to producers was for 2006/07 campaign, fixed at a level which is likely not to be realistic seen the current evolution of prices and exchange rates, and finally result in a new deficit that will be difficult to bear by cotton companies. In these conditions, the sustainability of the mechanism (and may be the survival of the sector or certain companies which are part of it) depends on solutions that could be found to the double problem of deficit solving for past years, and the initial provision of fund with the new adjustment fund.

At a longer term, it clearly appears that this mechanism, as any mechanism exclusively based on national adjustment funds, has some limits in case of an upsurge of a bad situation. This remark shows all the interest of the complementary and articulated mechanism dealt with in this feasibility study.

**Conclusion on the feasibility of fund and calculation mechanism**

The approach initially planned in the terms of reference of uniform mechanism and applicable by all the cotton sectors for prices paid to
producers’ calculation and the functioning of the adjustment fund appears to be unrealistic and unjustified. It is would be an utopia that all the sector at the regional level adopt the same mechanism, each of them wanting, at the end of an internal participative process, to simplement its own system on which stakeholders agree; there is no need to be opposed to this natural trend, which is in the logic of the empowerment of sectors around their inter-profession.

We should then agree on the necessity of a much more progressive approach, likely to direct the national mechanisms toward common criteria of good governance. The minimal condition of acceptability of an adjustment fund could be as follows:

The national sector must be endowed with an adjustment and prices paid to producer setting mechanism which is subject to an inter-professional agreement and described in by rules compose of automatic functioning methods unlikely to be manipulated.

The national adjustment and price paid to producers setting mechanism must function according the following principles:
- The formula for fixing price paid to producer, during the collection of the seed cotton, must be index-linked to the evolution of world market price trend; the best indexation formula appears to be the average exponential adjustment (with an adjustment coefficient which is about 0.7) of Cotlook indexes (brought to the FOB value) over the preceding three campaigns and the estimated price of Cotlook for the harvest \( n/n+1 \) in April of the month \( n \).
- The methods for determining price paid to producers (as well as its possible complement), for subscribing to the adjustment fund and the possible support amount to be given to cotton companies must be determined by calculation rules (as defined in the regulation of the fund) in the form of mathematic formula, on the basis of parameters objectively verifiable by the different partners;
- The whole mechanism must be compatible with the use of market tools without which no national adjustment system can be durable.
- The empowered bank should be in charge of managing the national funds (both manager and depositary of funds) and responsible for the application of mechanisms described in the regulation.
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Toward consensual mechanisms in seed-cotton purchase pricing

The continuous decrease in cotton world prices caused by erratic fluctuations of the parity Euro/Dollar, the low understanding and analysis capacity of producers in relation to the mechanisms which back up cotton purchase price fixing models as well as institutional reforms engaged in cotton sectors of AProCA’s member countries, are, among others, factors causing the low price paid to producers these last years. This price downward trend is perceptible through the degradation of the living standard of cotton growers and an increase of poverty in cotton growing areas.

As important monetary revenues provider for 15 million people depending on cotton growing, the African cotton sectors are facing major crises. One of the main functions of cotton cultivation which is food security is today, seriously compromised. Producing and export States’ losses amount to several FCFA million. Given this reality, it has been necessary to implement a mechanism likely to contribute to the mitigation global prices fluctuations noted in seed cotton purchase price fixing in West and central African countries. This is where this study is justified and sensible.

The publication shows a synoptic vision of the different seed cotton purchase price fixing mechanisms in Mali, Benin and in Burkina Faso. It includes the points of views of different stakeholders involved in the sustainable management of cotton sectors in the above-mentioned countries. Finally, it points outs strong recommendations from different stakeholders of cotton sectors in visited countries. Seven (7) key elements have been determined. These elements if added to the specific aspects of each sector will undoubtedly allow an efficient management and a fair redistribution of revenues generated by all the stakeholders among whom producers come first.