

# AID-FOR-TRADE CASE STORY

SWITZERLAND

## The Empowerment of Western and Central African Cotton Producers: A Sectoral Approach on Cotton

**Date of submission:** January 31 2011

**Region:** West Africa

**Country:** C-4 (Benin, Burkina Faso, Chad and Mali); Organic & Fairtrade Cotton

**Type:** Policy advice, capacity-building, training and awareness raising

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## Executive Summary

For many West and Central African Countries (WCA) cotton represents between 50 to 80% of export earnings and thus the major source of government revenues, economic growth and income for poor rural households. Although the region is among the lowest-cost producers of cotton and actually provides good quality cotton, their competitiveness is undermined by trade-distorting subsidies. The boom for organic and fairtrade cotton that actually featured excess demand, offered a unique opportunity for WCA producers to absorb unfair competition caused by cotton subsidies and benefit from their comparative advantage, particularly in regard to lower costs and labour intensive production methods associated with organic cotton.

With the aim of improving market access for West African cotton producers, the Swiss State Secretariat for Economic Affairs (SECO) has developed a comprehensive sectorial approach in support of WCA countries: a trade policy initiative that aspires to bring about a non-discriminatory, favourable trade policy environment in the longer term is complemented with a program that assists cotton producers to cope with the current environment by strengthening their productive capacities and enabling them to access the niche markets of organic and fair trade. This case story describes the two specific and complementary intervention lines, their impact and lessons learned:

**a)** With the “**Cotton Initiative**”, financed by SECO and subsequently six other donor countries, the so-called “Cotton Four” (C-4) countries – Benin, Burkina Faso, Mali and Chad – were seeking to tackle unfair competition in the cotton sector. With the support of the Geneva-based agency IDEAS Centre they were enabled to participate actively in the Doha Round negotiations and to request the end of trade distorting subsidies that are depressing world cotton prices.

**b)** The **Organic Cotton Program** of the Swiss NGO Helvetas, supported by SECO, aimed to absorb and compensate the negative impacts of trade distortion by the implementation of sustainable cotton value chains, based on long-term business relationships, organic processes and production methods (PPM) as well as fairtrade and organic certification. The cotton producers of the two programs in Burkina Faso and Mali benefited from a privileged access to a niche market.

The case story illustrates how the two complementary interventions substantially improved the living conditions of involved WCA cotton producers.

### 1. Issues Addressed

Cotton production and trade plays a central role in the economy and in the livelihoods of small farmers in many WCA countries. It is estimated that over 10 million people in the region depend directly on cotton production and trade, with millions more indirectly affected. WCA countries also have very limited capacity to diversify into other trading sectors. Although the region is among the lowest-cost producers of cotton and actually provides good quality cotton, their competitiveness is undermined by trade-distorting subsidies.

Therefore, the main issue at stake is the elimination or at least the reduction of both domestic support and export subsidies to the cotton sectors of rich countries, particularly the U.S., the E.U. and China, which are wreaking havoc in the cotton trade of WCA cotton-producing countries. Hence, the Cotton Initiative identified a common and unique interest of the C-4 the Doha Development Agenda (DDA).

In a difficult and uncertain economic climate, it is all the more important to protect and make best use of the available resources. The Organic Cotton Program sought to support cotton producers by improving their productive capacities as well as enabling them to access niche markets. Actually, organic and fairtrade cotton is increasingly requested due to the high demand for organic and fair trade products in industrialized countries.

The two projects are interdependent, in the sense that they mutually strengthen their success and that the two different approaches also share a common goal: In order to improve market access and thus to use cotton as a major instrument of development in WCA countries, both projects seek to promote empowerment and ownership, the first on the macro-level to cotton producer countries, the second on the micro-level to organic and fairtrade cotton producers and producer communities.

## 2. Objectives Pursued

a) The overall goal of the Cotton Initiative is to enable poor African countries to fully participate in the Multilateral Trading System and to defend their ongoing interest in bilateral, regional, multilateral negotiations by strengthening the capacities of the C-4 and using all tools, including the WTO dispute settlement mechanism. Therefore, the project's main objectives were:

- To assist African countries to negotiate a solution to the cotton subsidies issue
- To provide technical assistance, capacity building and policy advice on different levels
- To give an operational content to the development objective of the Doha Round

b) The overall aim of the Organic Cotton Program is to promote organic and fairtrade cotton on international growth markets so as to improve producers' living conditions, especially those of women and small farmers, through viable and sustainable modes of production. Therefore, the Program was seeking to:

- To build up long-term business and trade relationships along the value-chain
- To provide capacity building to the value chain stakeholders in order to achieve compliance with the organic and fair trade standards

## 3. Design and Implementation

a) To end up in the formulation of a petition to the World Trade Organisation (WTO) that finally called for the lifting of cotton subsidies and enforced a debate on their devastating effects at the WTO Ministerial level, the Cotton Initiative built on 3 pillars:

- **Support for negotiations and coordination to the C-4:** A regular exchange involving C-4 Geneva representations as well as Ministers in order to assure full cooperation of the four delegations and to give the political impulsion to the Cotton Initiative;
- **Geneva Cotton Technical Antenna (GCTA):** An analytical and reporting tool of the four countries for the WTO cotton negotiations and coordinated individual discussions with the WTO secretariat and other delegations or coalition groups in Geneva;
- **Support with communication and information dissemination:** Exchanges with all relevant stakeholders (NGO, press, donors, IO) in order to coordinate activities, to maintain pressure on the public opinion and to share the same level of information.

b) To achieve sustainable cotton value chains to the benefit of all participants, from the producers to the consumers, the implementation of the Organic Cotton Program involved the following steps:

- **Development of vertical cooperation chains** and partnerships with all different stakeholders that require both confidence and awareness building;
- **Implementation of organic production methods** and quality improvements, which ensure compliance with organic and fairtrade standards and hence access to the international market.

#### 4. Problems Encountered

a) The challenge for the Cotton Initiative was to navigate between the various interests both in Geneva and the capitals. Furthermore, the difficulty for administrations to take decisions on time and the turnover of ministers slowed down the process and coordination efforts.

An additional challenge was to maintain the momentum gained with the cotton issue. When the cotton negotiations started to drag on, the project failed to mobilize the C-4 on another issue to take full advantage of the new capacities created by the project. In the absence of a common issue to defend, the sense of being part of a community or network of advisors inevitably weakens over time.

b) When the Organic Cotton Program started, the liberalisation process and the transition from former state monopoly to private sector involvement were still ongoing. The project encouraged reforms towards the aspired Public-Private-Partnership (PPP) approach.

The competitiveness of the organic cotton production in West Africa remains a challenge owing mainly to the lack of a processing industry and relatively low yields.

More recently, the arrival of genetically modified (GM) cotton became critical. As standards for organic agriculture ban GM cotton, the program must ensure that organic cotton production is not mixed or contaminated.

#### 5. Results Achieved

a) The Cotton Initiative played a major role in the C-4 success in putting cotton on the WTO agenda and continuing to ensure that the Doha round of trade negotiations cannot conclude without a good result on cotton. It is very unlikely that the C-4 could have made such extensive and effective interventions, which are widely recognised as unprecedented for a group of Least Developed Countries (LDCs), without this project. More precisely and practically, the project resulted in:

- **Strengthened decision-making mechanisms** and information flows between the capitals and Geneva and within the C-4;
- **Capacity-building of the C-4 officials** and trainees by providing hands-on training on issues relating to cotton trade and more general trade negotiating techniques as well as on-the-job training through “WTO immersion” and the negotiation itself;
- **A better understanding** of how and when to prepare and present proposals to the WTO negotiating groups and to use informal or bilateral meetings, including ‘Green Room’ meetings at the WTO and elsewhere (WEF Davos, Washington DC. etc.);
- **The articulation of a series of technical proposals** for addressing other countries’ cotton subsidies, to promote these at the WTO and outside through the media and various public activities;
- **Political support for the C-4 request to end cotton subsidies** amongst the African group and other developing countries, as well as in a number of developed country governments including those funding the project;
- **Consciousness** by other African countries and LDCs in other parts of the world that even the poorest of developing countries can have their say in international regulations and use these to their advantage;
- **The awareness of the WTO secretariat** and members on the necessity to take into account the interests the poorest countries. The cotton issue and the C-4 action also contributed to reinforce the credibility of the multilateral system itself.

**b)** Since the Organic Cotton Program has started, the area under organic cultivation and the number of organic producers have increased exponentially. Growth of production has been significantly higher than the program's initial target. For Switzerland, in only a few years organic cotton reached 5% market share. Above this remarkable success, the program resulted most notably in a number of important monetary and non-monetary benefits:

- **A higher general income:** Organic cotton products realise a significantly higher price (fair trade minimum price, premium for organic) that, accounting for lower yields and lower production costs, results finally in about a 30% higher gross margin for farmers;
- **Low input and low cost production:** Organic farmers spend 90% less on inputs that contributes to the increase of net incomes. Above that, lower cost means also a decrease of financial constraints and dependency on crushing credits;
- **Improved diversification:** Along with cotton, the producers can also sell products such as sesame, shea nuts and hibiscus on favourable terms, enabling them to earn some extra income. Diversified crop rotations also bring a higher commercial value;
- **Gender promotion:** More than 1/3 of the organic cotton producers involved are women, who enjoy the opportunity to earn their income and help to reduce the families' debts. It empowers the role of women and the family structures in general;
- **Better Soil Fertility:** Most of organic farmers perceive an increase in fertility and water holding capacity of soils. The use of manure is the major reason for improvement, besides crop rotation, alfalfa cultivation and abstinence of using chemicals;
- **Less work and workload:** Contrary to a widespread belief, organic production requires 1/4 less hours of work in the fields than conventional production. If organic farmers spend more time preparing compost, they also see the rewards of the effort;
- **Better Health:** Obviously, no spraying means no negative effect or contamination from chemical use. Rising incomes and availability of food also have a positive effect on the amount, quality and variety of meals people eat: more meat, rice and vegetables.

## 6. Lessons Learned & Best Practices

**a)** The Cotton Initiative's main factors of success was the strategic approach built on: **a concrete issue** that was directly relevant for the development of the countries concerned taken up by **a small group of countries**, which shared a very strong interest in the cotton issue and thus allowed to elaborate clear and coherent positions, pushing finally these interests into larger groups such as the African or the LDC group. Furthermore, the following lessons learned on activities and project management can be drawn:

- **Integration of beneficiaries from the start is key:** A common process of strategy elaboration and the appropriation of ideas, strategies and positions by the C-4 was necessary in order to better defend their cause and to maximise ownership;
- **Close ties with capitals are important:** They ensured that the project was relevant to national needs. Access to high levels, such as Presidents and Ministers, avoided getting bogged down in bureaucracy and accelerated the consent on Geneva-based actions;
- **Demand-driven assistance is difficult to ensure:** With the pressure of the negotiating agenda, the challenge was to maintain a good balance between actively pushing the cotton issue and respecting the demands and constraints of recipient countries;
- **Self-sustainable team capacity is illusory:** It was essential to identify follow-up issues to maintain cohesion and capitalize on the knowledge, experience and network created throughout the project. Also "hand-holding" took more time than foreseen;

- **Built-in flexibility is needed:** It was essential to respond to the needs as they arose in the negotiations rather than following an established theoretical plan;
- **Real-time technical advice is critical:** Negotiators increased their impact in negotiations with support from technical experts, who helped to draw up negotiating proposals, to evaluate counter-proposals and to develop strategies promoting their demands;
- **Intermediary work is important:** Working in partnership and pursuing a consensus building approach allowed the agency to act as an intermediary with the WTO Secretariat and other delegations rather than as an obstacle to the process.

Finally, the success of the C-4 has created high expectations in their population concerning the outcome of the Doha Round on the livelihood of cotton farmers. However, it seems evident that not all problems are solved once subsidies are entirely removed. Hence, it is essential that the cotton sector and production has been and continues to be improved or reformed in a sustainable, demand-oriented and integrated manner so as to avoid backlashes in the future.

**b)** The success of the Organic Cotton Program was due to the initial strategy to **integrate the entire value-chain** in order to enable sustainable business partnerships, and to opt for internationally recognized certification systems. By responding to the specific needs (e.g. purchase guarantees, market transparency) of each member in the chain, the program was able to gain broad acceptance from the producer side and to bind well-known retailers, which committed a guarantee to purchase the entire organic cotton production for several years according to fairtrade principles. Moreover, it has to be highlighted that:

- **Monetary and non-monetary incentives are key:** higher price or net income and privileged market access, but also the fairtrade premium of € 0.05/kg of seed cotton for community projects (schools, boreholes for drinking water etc.) and real positive impacts (soil fertility, human health, food security etc.) were and are still convincing more producers to implement organic production methods;
- **Less dependency on a single 'cash crop' helps:** The program's efforts to diversify into other crops (food and market) gives greater food and income security to producers;
- **Lower output is fact:** On average, yields are about 1/3 lower for organic production. It is due to the choice of marginal plots of land, lower productivity of new producers and quality criteria. However, this is compensated by lower input costs and higher prices;
- **Scaling-up supply remains limited:** A strategic review will help to expand the cultivated area without necessarily leading to a proportional increase in the number of farmers. The Program must also help the producers to become more professional so that they can improve their yields and maintain good quality;
- **Scaling-up demand is critical:** To increase the quantity of organic cotton and thus its positive impact, it is necessary to search continuously for partnerships with additional buyers. The strong interest and commitment from important actors of the textile industry give reason to be confident for the future.

It has to be recognized that organic and fairtrade cotton remains a niche market. In Burkina Faso, for example, organic cotton represents only about 1% of total production. Therefore, SECO also supports the **Better Cotton Initiative (BCI)** that seeks to facilitate a private voluntary solution for the mainstream market, cotton sector and cotton cultivation worldwide with long-term advantages for all producers as well as for the environment. The inclusive and participatory approach seeks to adopt better farm management practices for Better Cotton that can be grown by as many farmers as possible with the greatest possible impact on a global scale. The main aim is to increase profitability through improved productivity and fibre quality rather than a fixed premium. This Multi-Stakeholder-Dialogue largely benefits from best prac-

tices and the precursor role of the Organic Cotton Program. Again, this tool is a complementary avenue rather than an alternative.

An additional intervention addresses risk management in cotton production. Due to Burkina Faso's high dependence on the cotton sector, any volatility in cotton production has a significant impact on the country's economy. In an effort to mitigate production risks, SECO supports the Agricultural Risk Management Unit of the World Bank in developing a **weather insurance** program for cotton farmers and an **early warning system** that enables the Government to take pre-emptive measures against production shortfalls.

## 7. Conclusion

Regarding the Cotton Initiative, WTO Director-General Pascal Lamy said that "cotton has become a litmus test of the commitment to make the WTO Doha Round of global trade negotiations a truly development round." Indeed, the cotton issue operationalized the development objective of the Doha Development Agenda and thus represents a concrete example of how Aid for Trade could be used practically. The Cotton Initiative is an example of successful coalition strategy and, as such, a useful model for others to follow in building countries' capacities to defend their national trading interests.

With the success of the niche market approach of the Organic Cotton Program the focus of the Organic & Fairtrade Competence Center (OFTCC), funded by Helvetas with the support of SECO in 2002, has widened in recent years from cotton to cocoa, and other commodities. High demand from consumers and the private sector for organic and fairtrade products enables the mobilisation of private sector investments and thus to achieve a leveraged effect on donors' contributions.

The SECO integrated sectorial approach and the complementarity of the two intervention lines, trade policy support for a positive and trade-enabling environment, on the one hand, and organic and fairtrade processes for better access to niche markets, on the other hand, have shown how a specific sector can be substantially improved. For replication of the Cotton Initiative approach, it is important to have a strategic approach based on a concrete issue and on small coalition groups as well as a certain degree of built-in flexibility. For organic and fairtrade, an integrated and vertical approach that involves all stakeholders in the value chain will be the most promising to replicate. On the conceptual and practical level, SECO's approach in the cotton sector has demonstrated that aid for trade can make a real contribution to poverty reduction and to the achievement the Millennium Development Goals (MDG).