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The Cotton Sector in Mali: Realising its Growth Potential

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- Abolishing export subsidies for cotton in developed countries will benefit Mali.
- Strengthening managerial, organisational and negotiating abilities of Malian cotton farmers is essential to gain from trade.
- Developing Malian infrastructure and investing in research and development (R&D) will enhance the sector's competitiveness.

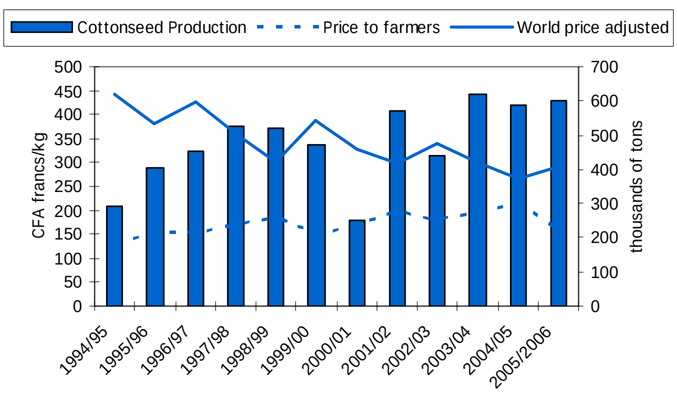
Mali is the second largest cotton producer in Sub-Saharan Africa after Burkina Faso. One quarter of the Malian population depends on cotton for its livelihood and it represents around 8 per cent of the country's national income. A typical cotton grower in southern Mali cultivates about two to three hectares (compared to 500 hectares on an average US cotton farm). Malian growers usually sell their cotton to only one purchaser. They depend heavily on growing cotton as a main source of income to buy food, meet medical and housing costs, and cover the school fees for their children. Hence, the price of cotton is directly linked to access to education and health care.

Abolishing Cotton Export Subsidies and National Adjustment

Eliminating cotton export subsidies in developed countries will increase world prices and therefore also increase Mali's export earnings. Mali is one of the "Cotton Four" West African countries, together with Benin, Burkina Faso and Chad. These countries promoted the elimination of cotton export subsidies in Northern nations in the current round of World Trade Organisation (WTO) negotiations, the Doha Development Agenda. Export subsidies encourage the overproduction of cotton, which in turn induces a downward pressure on world cotton prices. This pressure lowers the export earnings of cotton-dependent countries such as Mali. According to a report by the United Nations Food and Agriculture Organisation (FAO) in 2004, eliminating export subsidies by the end of 2006 – as envisaged in the WTO Hong Kong Ministerial Declaration – will increase cotton prices between 2 and 35 per cent. However, the rising and complex impact of China influences these estimates considerably. The temporary suspension of the Doha Round in July 2006 is complicating the situation additionally.

While cotton export subsidies led to declining world cotton prices over the last ten years (Figure 1), cottonseed production has almost tripled in Mali. Simultaneously, the price paid to Malian cotton farmers increased because of subsidies paid to farmers by the national cotton company "Compagnie Malienne de Développement Textile" (CMDT). Following the cotton sector crisis in 1999/2000, until 2004 the national cotton company "Compagnie Malienne de Développement Textile" (CMDT) had paid price-maintenance subsidies to Malian cotton farmers.

Figure 1. **Cotton Production and Prices in Mali**



Source: OECD/AfDB (2006) *African Economic Outlook*.

Since these subsidy costs have worsened the CMDT's deficits, a new price-fixing mechanism was implemented in May 2005 as part of the current cotton sector reform. It now links the price to world prices rather than to production costs. As a result, the basic price paid to farmers fell by 24 per cent in 2005/06.

Following the introduction of the new price-fixing mechanism, the CMDT will be privatised in 2008. The company today has exclusive rights to purchase cotton in Mali and is responsible for almost all aspects of production, marketing, counselling and training of producers, as well as for health and education. In 2008 the CMDT will be divided into four subsidiaries. For each, 61 per cent of the shares will be sold to private companies, 20 per cent to the National Union of Malian Cotton Producer Co-operatives (UNCPC), 2 per cent to the CMDT's staff and 17 per cent will be kept by the state. Each subsidiary will have exclusive rights to purchase cotton from a specific region, while supplying inputs and providing technical support to farmers. However, to be able to buy the 20 per cent share of each CMDT subsidiary, ensuring the UNCPC's investment capacity is essential.

Strengthening Malian Farmers' Abilities

Strengthening negotiating and managerial abilities of Malian cotton farmers will enhance the sector's competitiveness. Farmers are generally badly informed about global cotton prices. This lack of market information coupled with limited co-ordination capabilities makes them dependent on the CMDT and its pricing policy. To ensure that local farmers are better informed and get a stronger voice in policy making they can be helped by *i)* improved communications via rural radios, *ii)* better access to mobile phones through micro-credits ("telephone ladies" in Bangladesh provide a good example), and *iii)* stronger local forums. Farmers' organisational capacities and knowledge of risk-assessment also needs to be reinforced.

Training UNCPC's staff to improve its bargaining and negotiating skills vis-à-vis financial institutions and suppliers is also vital. The privatisation of the CMDT will transfer new responsibilities to the UNCPC, so its proper management of inputs and services needs to be guaranteed. To meet this need, the government launched, for example, the Improvement Programme for Exploitation Systems in the Cotton Zone (PASE) in 1999 with French assistance.

Investing in Infrastructure and Research and Development

Developing transport and energy infrastructure is indispensable in reducing costs, ensuring more efficient distribution of agricultural products in markets, and helping Mali to build up its trade capacity. Not only do the existing railway and road networks need to be maintained, but further investment in new infrastructure and the development of new fuel resources is important.

Moreover, Mali's cotton sector needs more R&D, particularly in planting, picking, and ginning techniques, as well as pest management practices. The high quality of its cotton, relatively low levels of inputs and relatively cheap labour compared to Northern farmers give Mali a comparative advantage. Its competitive advantage over emerging Asian and Latin American farmers is receding, however. Lack of investment in R&D is putting the industry in peril.

The undiversified economy of Mali is now at the mercy of an unbalanced international cotton market, unprofitable global prices and a single cotton purchaser. The urgent priority is to provide Malian farmers with the tools and training to gain – and not to lose – from trade.

Further reading:

OECD/Development Centre (2006), "Aid for Trade and Agro-based Private Sector Development in Africa: Lessons from Mali and Senegal", Mali Country Note, Paris.

OECD/African Development Bank (2006), Country Studies: Mali, *African Economic Outlook 2005/06*, Paris.

OECD/Sahel and West Africa Club (2006), *The Development Dimension - Cotton in West Africa: The Economic and Social Stakes,* Paris.

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