

## Aid for Trade in the agriculture sector: A comparative case study of three cotton sector projects<sup>1</sup>

**Project/programme:** Cotton Made in Africa, the Better Cotton Initiative and Lango Organic Cotton Project

**Aid for Trade categories:** Trade development; building productive capacity

**Donors:** CMiA: BMZ, Aid by Trade Foundation; BCI: Sida; LOCP: Hivos, Sida

**Dates:** Ongoing process since 2005

**Summary:**

This case study analyses three Aid for Trade projects in the cotton sector from an inclusive growth and poverty reduction perspective. It compares two initiatives aimed at the mainstream cotton market, Cotton Made in Africa (CMiA) and the Better Cotton Initiative (BCI), with an organic cotton project, the Lango Organic Cotton Project (LOCP).

Given the importance of cotton production to trade in Africa, as well as the poverty profile of African cotton growers, the cotton sector represents a sound entry point for Aid for Trade programming. This case study demonstrates how different market approaches can be taken to supporting sustainable cotton production in Africa: in the case of CMiA and BCI, the costs of the schemes are incurred by retailers, who are motivated by factors related to cotton supply and corporate social responsibility (CSR). In the case of organic cotton certification, the cost of certification is typically incurred by the farmer, although here the costs of certification are covered by LOCP. The impact of these projects on cotton yields and farmers is positive: for example, CMiA's programme in Zambia supported several activities, including capacity building among farmers, and saw an 85% increase in return on family labour in 2006/07. The projects featured in this case study also highlight different approaches to integrating sustainability into trade development initiatives in the cotton sector: CMiA and BCI are implementing a progress-oriented monitoring system while LOCP adopts the certification approach.

**Key lessons for Aid for Trade programming:**

- Targeted projects and programmes can deliver benefits to poor producers, enabling them to **access local and international markets** and generating increases in both yields and incomes.
- **The CSR agenda** is a critical motivation for firms' engagement with sustainable cotton production initiatives.
- **Progress-oriented monitoring systems**, which track progress by monitoring a range of social, economic and environmental indicators, enable companies to take a long-term perspective to achieving sustainability improvements. Donors can simultaneously support producers, and hold companies to account, by supporting the establishment of **strong monitoring and evaluation systems**.
- **Monitoring impact at a disaggregated level**, based on sex and a range of socioeconomic characteristics, will enable a more nuanced understanding of impact. Considering the important role women play in the cotton sector, and their relatively weaker position in the production system owing to limited access to land and agricultural inputs, this is highly relevant.
- Given growing consumer and shareholder demand for products with proven ethical characteristics (organic, CSR), **niche markets are likely to grow** and provide a sound entry point for Aid for Trade.

<sup>1</sup> Please cite this case study as ODI (2009).

# **1. Introduction**

## **1.1 Overview**

This case study analyses three Aid for Trade projects in the cotton sector – Cotton Made in Africa (CMiA), the Better Cotton Initiative (BCI) and Lango Organic Cotton Project (LOCP) – from an inclusive growth and poverty reduction perspective. It contributes to a programme of work titled ‘Aid for Trade: Promoting Inclusive Growth and Poverty Reduction’, co-funded by the UK Department for International Development (DFID) and the Swedish Ministry for Foreign Affairs and commissioned on behalf of European Union (EU) Member States to strengthen the quality and poverty focus of EU Aid for Trade Strategy implementation.

The case study is structured as follows. The introductory section sets the trade, growth and poverty context of the cotton sector in Africa. It then briefly outlines the Aid for Trade agenda. Section 2 provides an overview of the three projects and Section 3 discusses how the market principle is applied, albeit differently, across the three projects. Section 4 compares the certification and monitoring approaches applied across the three projects and Section 5 outlines the key components of the projects. Section 6 assesses impact in terms of production volumes, farmers and workers and Section 7 concludes, drawing out lessons for Aid for Trade programming.

This case study was conducted as a desk review. It is based solely on key informant interviews, available published literature and programme and project documentation.

## **1.2 Trade, growth and poverty: The cotton sector in Africa**

Africa represents approximately 6% of global cotton production and about 18% of world exports. Between 2 and 3 million producers in West and Central Africa derive at least part of their income directly from cotton, and more than 10 million people – according to some estimates up to 20 million people – depend on cotton indirectly for their livelihoods. Moreover, cotton plays a major macroeconomic role in a number of African economies. It is estimated to represent between 5% and 9% of gross domestic product (GDP) and between 35% and 40% of export revenues in West and Central Africa. In several countries, e.g. Burkina Faso and Benin, it represents more than 50% of the export earnings (UNCTAD, 2007).

Cotton is generally produced on small-scale, rain-fed farms using labour-intensive production methods. African cotton producers tend to be poorer than the population as a whole (Tsimpo and Wodon, 2007). Around two-thirds of cotton in Benin, Burkina Faso, Chad and Mali is produced by households considered poor or near-poor. However, cotton cultivation often provides producers with access to credit and inputs that remain out of reach for many other farmers, implying positive spillover effects for other farming activities. Despite the fact that women play a major role in cotton production, in many cases these benefits accrue disproportionately to male producers. While women provide a significant amount of (often unpaid) labour in the cotton farms of their husbands and other relatives, men often control access to land and other inputs, and the income it derives (Ton, 2002).

In the past decade, poor African cotton farmers have faced major challenges, arising from distortions in the global cotton market caused by subsidy regimes in developed countries (particularly the US), increasing low-cost cotton production in other developing countries (especially Brazil) and significant price fluctuations on the global cotton market. In West Africa, these challenges have been compounded by the appreciation of the CFA (which is linked to the euro) against the US dollar.

Nonetheless, in spite of relatively low cotton yields per hectare, African cotton remains competitive on an international level. It can be produced with low levels of agricultural inputs, energy and water and is considered to be of high quality. When discounting for producer subsidies, production costs are significantly lower than in Europe and the US. Given the importance of cotton production to trade in Africa, as well as the positive direct and indirect welfare impacts cotton production can bring, the cotton sector is a sound sectoral entry point for Aid for Trade support.

### **1.3 Aid for Trade: A brief introduction**

#### *1.3.1 The origin and evolution of Aid for Trade*

The origins of the Aid for Trade agenda lie in WTO negotiations and can be traced back to developing country concerns over the limited benefits reaped from increased market access to date and those likely to accrue to them from the Doha Development Round unless their supply-side capacity constraints were addressed, and they were compensated for adjustment costs associated with multilateral trade liberalisation, notably preference erosion and reduced trade-related fiscal revenue (IMF and World Bank, 2005).

In response to these concerns, the WTO Ministerial Meeting in Hong Kong in December 2005 called on donors to increase Aid for Trade resources in order to ‘help developing countries, (especially LDCs), build the supply side capacity and trade related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade’ (WTO, 2005). This led to a number of multilateral and bilateral development agencies committing substantial funds under the Aid for Trade rubric.<sup>2</sup> The Hong Kong Ministerial Meeting also established an Aid for Trade Task Force to develop recommendations on how to make Aid for Trade operational and contribute to the development dimensions of the Doha Development Agenda (OECD, 2007). This Task Force identified five priority Aid for Trade activities: trade policy and regulations; trade development; trade-related infrastructure; building productive capacity; and trade-related adjustment. In October 2007, EU Member States adopted a joint Aid for Trade strategy to implement the WTO Aid for Trade Task Force Recommendations, supporting ‘developing countries, particularly LDCs, to better integrate into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of eradicating poverty in the context of sustainable development’ (EU, 2007).

#### *1.3.2 Aid for Trade, inclusive growth and poverty reduction*

Increased trade and economic growth can help deliver poverty reduction. The structure of economies and societies influences whether an increase in the volume and value of trade delivers economic growth and whether that growth, in turn, generates sustained poverty reduction and enhanced wellbeing. However, under the right conditions, trade and economic growth can be inclusive. Poor people can see their incomes, consumption and wellbeing rise. Trade can also support growth by enhancing a country’s access to a wider range of goods and services, knowledge and technologies. It can stimulate entrepreneurship in the private sector. It can attract private capital, create jobs and increase foreign exchange earnings. Such positive trends in an economy can enable governments to increase tax take, enabling them to invest in the types of expenditure that reduce poverty, inequality and exclusion (WTO, 2008). Together, these factors can increase the likelihood that the Millennium Development Goals (MDGs) are met – not just at the aggregate level but for all socioeconomic groups.

Further, although there remain some differences of opinion on the direct causal relationship between trade, growth and poverty, we do know that countries that make trade a part of their

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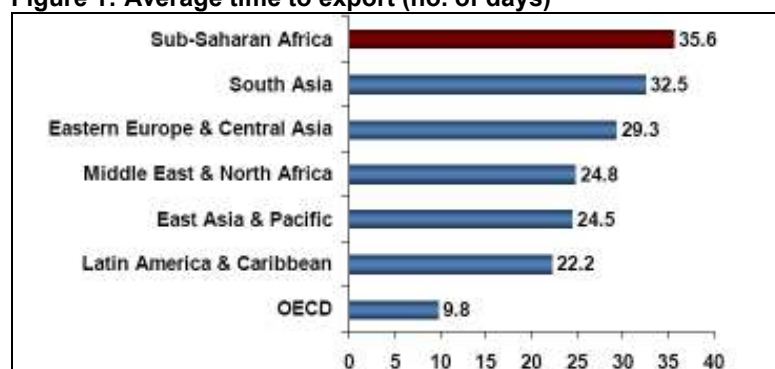
<sup>2</sup> For instance, the 2005 financial commitment by the EU entails €2 billion per year (€1 billion per year each for the European Commission (EC) and the Member States) of trade-related assistance (TRA) to partner countries by 2010.

development process have tended to grow, and reduce poverty, faster than those that have not (OECD, 2008; Prowse, 2009). Developing countries have almost doubled their share of non-oil world exports over the past 30 years and this has been accompanied by strong economic growth. More recently, developing countries have made important progress in accessing the markets of the industrialised world through the changed rules associated with WTO trade rounds (DFID, 2008).

But the gains from this have been unevenly spread, with the poorest countries being increasingly marginalised. For example, sub-Saharan Africa's share of world exports fell from 3.9% in 1980 to 1.9% in 2006 (OECD, 2008). In addition, there are signs that trade liberalisation in developing countries, while increasing aggregate growth, does not benefit everyone and can increase the poverty and ill being of some as well as contributing to higher levels of inequality. So, even where trade and growth are increasing, poor and marginalised groups may not be reaping the benefits of growth, or may be benefiting far less than other groups (DFID, 2008). This is widely recognised and it is these challenges, in part, that the Aid for Trade agenda seeks to address.

What we see is that developing countries have not been able to fully capture the benefits of trade, and that this is for a number of reasons. Although access to international markets is still an issue in some areas, for instance around agriculture, there are other 'behind the border' constraints. These include high transport costs, absent or unsupportive policies and regulations, cumbersome and slow export processing procedures, inadequate export and trade negotiating skills, poor product standards, low productivity and competitiveness, lack of export diversification and low added value production chains. Broader economic infrastructure issues also pose significant challenges: less developed countries are often poorly resourced in terms of energy, communications and transport infrastructure and markets in these often function poorly. These generate severe constraints for producers, workers, entrepreneurs and traders and stifle global competitiveness (see Figure 1).

**Figure 1: Average time to export (no. of days)**



Source: World Bank (2008).

What this illustrates is that developing country governments and their international development partners have a huge opportunity to make positive changes. Changes that will reduce 'behind the border' constraints, smooth links between national and international markets and increase the ability of the full range of people to engage beneficially in trade. This is where Aid for Trade comes in – by helping developing countries maximise the growth and poverty reduction potential of trade. For example, Aid for Trade can promote an inclusive investment climate, enhancing the opportunities for a range of trading groups – including big business, small and medium enterprises (SMEs), entrepreneurs, informal traders, poor producers and workers – to participate in trade-related activities and benefit from trade. It can help trading groups overcome infrastructural barriers to benefiting from trade, by reducing the time and cost associated with transportation and border crossings. It can build productive capacity, which enables households and traders across the income distribution to participate in and benefit from tradable sectors, and it can support the diversification of these sectors

into higher value-added products. Where necessary, it can support policies and programmes to mitigate the adverse impacts of trade-related adjustment, by supporting regional-level adjustment facilities as well as social protection initiatives (Bird and Vandemoortele, 2009). In essence, Aid for Trade can help build the export potential of developing countries so that they are able to reap the benefits of global trade and it can help poor and excluded people to engage in domestic and international markets in a way that benefits them. It can do this by supporting improved market access, enterprise development and employment creation.

Through this range of entry points, Aid for Trade has the potential to contribute simultaneously to trade expansion and poverty reduction efforts through job creation and income generation.

## **2. Cotton Made in Africa, the Better Cotton Initiative and Lango Organic Cotton Project: An overview**

As stated above, support for the cotton sector represents a sound entry point for pro-poor Aid for Trade. This case study compares the Better Cotton Initiative (BCI) and Cotton Made in Africa (CMiA) with the Lango Organic Cotton Project (LOCP). All three of these projects are clearly anchored in the trade development and building productive capacity Aid for Trade categories.

### **2.1 BCI and CMiA**

BCI and CMiA both aim to develop a supply of 'sustainable' cotton for the mainstream cotton market, which includes the explicit goal of improving living conditions of poor cotton farmers and their families. They represent novel public-private partnerships in the mainstream cotton market. Similar to other so-called 'commodity roundtables', BCI and CMiA aim to ensure that cotton sourced by participating retailers meets a number of commodity-specific sustainability criteria, while remaining commercially competitive within the mainstream cotton market. This helps retailers adopt corporate social responsibility (CSR), strengthening their brand image while securing a sustainable supply of cotton.

CMiA promotes African cotton and has active programmes in Benin, Burkina Faso, Mozambique and Zambia. It is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Aid by Trade Foundation. BCI is a new initiative with a global focus. It has initiated participatory dialogue to define regional priorities in Brazil, India, Pakistan and West and Central Africa, which will lead to pilot projects in each area planned for the 2010/11 growing season. It is funded by the Swedish International Development Cooperation Agency (Sida), although it aims to be 60% financed by BCI membership fees by 2012.

### **2.2 LOCP**

The Lango Organic Cotton Project (LOCP), based in Lira District, Northern Uganda, aims to generate income benefits for participating farmers by helping them access an existing niche market. It began in 1994 under the Export Promotion of Organic Products from Africa (EPOPA) project and was funded by Sida,<sup>3</sup> which had identified that local cotton farmers were 'organic by default', benefiting from natural pest control, provided by small black ants. In 1998, EPOPA support was discontinued, but the gap was filled by the Lira District Development Programme (funded by the Dutch government) from 1998 to 2000. This was followed by support from the East Africa Organic Agriculture Programme of the Humanist Institute for Development Cooperation (Hivos, a Dutch NGO), from 2001 until the present.

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<sup>3</sup> Actually established by Swede Corp, one of the precursor organisations of Sida. In this text, both Swede Corp and Sida will be referred to only as Sida.

LOCP provides project management, research, agricultural extension, training and certification support to the Lango Cooperatives Union (LCU). It also supports the LCU to access trade financing. Finally, it supported the brokering of a contract between the LCU and Bo Weevil, a socially conscious international organic cotton trader that seeks to increase the market share for organic cotton while generating benefits for producers.

Project structures established to support organic cotton production have been extended to support farmers with the certification and marketing of organic sesame and chilli (crops planted in rotation with cotton). Direct support to farmers has been complemented by activities to support the broader enabling environment for organic markets in Uganda. These activities have included support for a national organic movement, the National Organic Agricultural Movement of Uganda (NOAMU), and the development of a national organic certification body.

### 3. Different market approaches

#### 3.1 Labelling and marketing: CMiA and CBI

The costs of the BCI and CMiA schemes are incurred by retailers rather than consumers – neither scheme aims to target a premium-priced niche. In the case of CMiA, retailers purchase CMiA garment labels, which verify the origin of the cotton and can be incorporated into the companies' marketing activities. Companies may also pay to become full members. BCI does not plan to launch a 'Better Cotton' label. Instead, participating companies contribute a membership fee and commit to purchasing 'better cotton', enabling them to mention BCI in their marketing activities. Box 1 highlights the business case for BCI and CMiA.

##### **Box 1: The business case for BCI and CMiA**

Representatives from major retail companies cited a number of reasons for their participation in BCI and CMiA. On the supply side, the need to secure the long-term sustainability of their cotton supply is a major driver. On the demand side, risk management and marketing were key motivations – BCI and CMiA can be used to target the socially conscious consumer. In both cases, representatives stressed the importance of maintaining a simple, positive marketing message, excluding any references to negative practices in the supply chain. The involvement of non-governmental organisations (NGOs) in the initiatives was viewed as important for building credibility.

*Sources: Interviews with Henrik Lampa (H&M) and Tina Stridde (Aid by Trade Foundation, previously with Otto Group).*

##### 3.1.1 CMiA

Expanding retailer demand for CMiA cotton is necessary to secure a market for producers. The Aid by Trade Foundation links retailer demand for CMiA cotton into purchases from participating farmers. It has designed a 'track and trace system', enabling it to monitor the volumes of CMiA cotton passing through the supply chain and to verify the amount of CMiA cotton purchased by each company at each step. It also helps retailers joining the initiative to integrate CMiA cotton into their supply chain with minimal or no disruption to their existing logistical arrangements. It does this by working directly with commercial cotton ginneries,<sup>4</sup> using them as the entry point for delivering support to farmers and monitoring progress. CMiA offers retail companies the option of purchasing CMiA cotton either from a cotton company already verified by CMiA or by supporting a preferred company to acquire CMiA verification. This user-friendly approach represents an effective instrument for incorporating CMiA's demand- and supply-side activities into one integrated system.

Expanding the 'demand alliance' is essential for the longer-term survival and self-sufficiency of the initiative, however. This is quite a challenge: the 2.5 million CMiA-labelled garments

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<sup>4</sup> In most cases, the ginneries are also cotton traders.

sold in 2008 represent only a 2.5% of the 100 million CMiA-labelled garments that need to be sold to cover the cost of all programme activities.

### 3.1.2 BCI

While the BCI is new and implementation arrangements are not yet finalised, a number of major European retailers have become involved and committed to progressively increasing their purchases of 'better cotton'. According to representatives of BCI, the aim is to work with retailers representing 15% of the global cotton market by 2012. They also hope that purchases of 'better cotton' will represent 1.3% of global cotton production by 2012. They are confident the initiative has the potential to gain a significant segment of the mainstream cotton market.

## 3.2 A niche market approach: LOCP

LOCP seeks to capitalise on a growing international niche market for organic produce. It builds on an existing natural advantage – cotton production which is 'organic by default' – and therefore the main challenge facing the project was not to convert to organic production, but rather to facilitate the process of organic certification and marketing.

Throughout the first phase of the project, it was clear that demand for organic cotton was higher than the certified farmers were able to meet, which caused a rapid increase in the number of farmers seeking certification. Between 1997 and 2007, the number of farmers participating in the scheme increased more than fivefold (see Table 1). Additionally, a number of other organic exporters entered the market, including the major international cotton trader Dunavant, bringing the number of certified farmers in the area to over 100,000.<sup>5</sup>

**Table 1: LOCP organic cotton exports, 1997-2007**

	1997	2000	2002	2004	2006	2007
Number of farmers	5100	9725	12,267	12,000	15,000	27,000
Cotton (tonnes)	288	220	313	857	615	1166
Average kg per farmer	56	23	26	71	41	43
Conventional price (UGS/kg)	n.a.	350	300	600	450	450
Organic price (UGS/kg)	n.a.	400	470	675	530	600
Price differential (%)	n.a.	14%	18%	13%	18%	33%

Source: *Agro Eco and Grolink (2007)*.

Table 1 also demonstrates a decline in organic sales per farmer after a peak in 2004. According to Bo Weevil, this drop was not the result of lack of demand. Rather, it was a consequence of external factors, such as unfavourable climatic conditions, heightened insecurity in the area and side-selling by farmers. Strong projected growth in the international organic cotton market, along with the entry of new exporters into the market (over 20% for 2009 and 2010), suggests that the potential for sales growth remains. This indicates that organic cotton is a strategic entry point for Aid for Trade investments, particularly where the costs of organic conversion are low and where complementary crops can be marketed as organic. Supportive government policies and frameworks are important, however. In the LOCP case, several areas in Northern Uganda have recently experienced setbacks in organic cotton production through the spraying of DDT to eradicate malaria. This has resulted in the long-term loss of organic certification for all farmers in the affected areas.

## 4. Organic certification versus monitoring progress

<sup>5</sup> According to one report, by 2008 the number had risen to over 200,000.

All three projects are based on the concept of sustainability. But the conceptual approach to sustainability, and the arrangements put in place to monitor compliance, differs between the organic niche market approach of LOCP, on the one hand, and BCI and CMiA, on the other. The LOCP approach emphasises an environmental concept of sustainability. It is also based on a set of static benchmarks that must be achieved and maintained by farmers in order to maintain organic certification. BCI and CMiA have adopted a progress-oriented monitoring approach, which incorporates social, economic and environmental aspects of sustainability. Apart from a set of 'unacceptable practices', based on legal norms and international conventions, participation is based on the ability to demonstrate continuous improvement along a number of social, economic and environmental criteria, rather than achieving predefined benchmarks.

#### **4.1 Monitoring sustainability based on an integrated and progress-oriented system**

BCI and CMiA have begun to establish a set of sustainability criteria to monitor progress towards sustainable cotton production. Both systems are works in progress. BCI published a first set of criteria for discussion with stakeholders in July 2008 and will publish a revised version in July 2009. These will be used to assess the first BCI pilot programme, planned for the 2010/11 growing season. CMiA has established a set of sustainability criteria and is now implementing the verification system. This is being done in consultation with Wageningen University and data collection has begun based on these indicators for activities in Zambia, Mozambique, Burkina Faso and Benin. First audits of participating cotton companies are already done. Verification of participating farmers will start in November 2009.

CMiA's entry point for monitoring is primarily cotton companies. In other words, responsibility for achieving improvements and demonstrating progress lies with the ginning companies rather than the farmer. Cotton companies, either individually or organised in a 'management unit' with other companies, are invited to join the initiative based on an agreement to comply with CMiA criteria. These indicators are based on a traffic light system, where activities are rated in three categories: i) red: the activity needs to be discontinued; ii) yellow: the activity needs to be further improved; iii) green: desirable practice.

Once they have accepted these conditions for participation, companies are required to perform a self-assessment of their current performance and devise a plan for improving along all three dimensions of sustainability – specifically, social, economic and environmental sustainability. With local development partners, these plans are then translated into concrete capacity-building projects to help producers improve their farming practices. Additionally, within two years, a third-party verification system for monitoring progress against the indicators should be put in place. After the first verification, a plan should be devised to eliminate any activities that have been assessed as 'red'. For continued participation in the initiative, no 'reds' should be present by the time of the second verification.

The success of the CMiA system depends heavily on the quality of the sustainability indicators and effectiveness of the verification system. For now, it appears that these systems will not incorporate indicators disaggregated by sex or socioeconomic characteristics, and initial evaluations suggest that additional refining of the indicators will be necessary. Nevertheless, this clear focus on results monitoring rather than prescriptive project design is in line with moves towards results-based approaches in development assistance. It also demonstrates the need for significant investment in monitoring systems if this goal is to be achieved. In other words, a results-based approach comes with a significant price tag. In the medium term, an assessment of the costs versus the benefits of this investment will be critical for evaluating the success of the programme. The sustainability criteria adopted by BCI and CMiA are outlined in more detail in Box 2.

#### **Box 2: Sustainability criteria – BCI and CMiA**



Both BCI and CMiA apply environmental criteria which do not ban pesticide use or artificial fertilisers but instead encourage good environmental stewardship.

The projects take different approaches to tracking socioeconomic impact. The BCI monitoring framework groups socioeconomic criteria under 'decent work', including a number of criteria on 'employment conditions' and wages paid to workers. This focus on working conditions reflects the relative vulnerability of workers in the production system. Eventually, a monitoring, evaluation and learning programme is intended to track progress on these criteria in conjunction with additional indicators on the overall profitability of 'better cotton' and the volumes of 'better cotton' produced.

CMiA does address employment or working conditions in its progress-oriented indicators and measures smallholder profit as a core sustainability indicator. Additionally, school enrolment figures are recorded in order to monitor broader social benefits. However, an initial assessment in Zambia has shown that this indicator may be of limited value, with enrolment close to universal in the target communities. A revision of the indicator is planned.

## **4.2 Organic certification**

Undergoing organic certification usually requires producers to incur costs, and these costs are incurred before farmers are able to gain the market premium attached to organic produce. This presents a challenge for some cotton farmers, which is compounded by possible yield reduction. In the case of LOCP, however, the risks related to certification are low, as most farmers are 'organic by default'. This means that there is typically no conversion period, and the yields of participating farmers may increase owing to improved access to technical assistance from LOCP and Bo Weevil.<sup>6</sup> Moreover, farmers do not cover the costs of certification themselves. LOCP, with financing from Bo Weevil and various project funds, has been responsible for managing the certification process for farmers. Certification is carried out through a group certification process, based on an internal control system, with inspections by an external certifier. Bo Weevil is the owner of the certification and, in principle, farmers in the project are not allowed to sell their certified cotton to other traders.

This means that gaining an organic certificate is very attractive for farmers: they receive technical assistance and gain access to the premium organic market without any of the costs typically associated with it. It is also particularly attractive for women, as it provides them with increased autonomy and more secure access to inputs. According to a study by the Pesticide Action Network (Ton, 2002), inputs for conventional cotton farming activities are frequently controlled by village producer organisations dominated by men. When inputs are scarce, women are the first to lose out. Organic cotton production, on the other hand, depends on inputs that are typically available locally at a low cost and are, therefore, more accessible for women. While the subsidies supporting farmers provide positive trade and development benefits in the short to medium term, it should be noted that, in the interest of long-term sustainability, the cost of certification should eventually be borne by the farmer or the exporter. A weakness of the organic certification approach is that it says nothing about producer or worker benefit. Producers must assess themselves whether the benefits of certification outweigh the costs, and worker needs rarely enter the equation. From a poverty reduction perspective, this is problematic.

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<sup>6</sup> The evaluation of the Hivos organic agriculture programme indicates that the majority of farmers in the area are able to increase their yields once they have been integrated into capacity-building activities (Guijt and Woodhill, 2008). This was confirmed by a Hivos representative for the specific case of cotton.

## **5. Programme components: Capacity building, producer organisation, trade finance and the enabling environment**

### **5.1 Capacity building**

Despite the differing programme structures, the three projects are all built around the provision of capacity-building services to farmers. CMiA structures its capacity building and extension services to farmers around work plans for a more sustainable production system. This means that activities can be tailored to local challenges and goals. In one of its projects in Zambia, capacity building has been delivered via Dunavant's 'distributor model', whereby a number of lead farmers are trained as multipliers responsible for recruiting and training additional farmers. Capacity building was based on the 'five key basic cotton growing practices': i) timely and appropriate land preparation; ii) early planting at correct depth; iii) early thinning and gap filling; iv) ongoing weeding; and v) integrated pest management. In the case of LOCP, capacity building focuses on achieving organic certification and improving cotton yields. Later interventions have sought to improve the yields for organic sesame and chilli. While BCI has yet to begin, it is clear that it will have a capacity-building component. For example, in Pakistan this will build on the World Wide Fund for Nature's (WWF) existing Pakistan Sustainable Cotton Initiative, which has introduced better management practices for integrated water and pest management.

### **5.2 Support to producer organisations**

BCI aims to provide support to producer organisations in its pilot projects. CMiA does not support producer organisations, although they could be assisted if they are involved in the operation of ginneries. In the case of LOCP, support to producer organisations has been challenging, with instances of corruption. This has meant a direct relationship purchasing relationship between Bo Weevil (the exporter) and farmers has been more beneficial for farmers.

### **5.3 Trade finance**

Access to trade finance has been an important success factor in LOCP, with Hivos and EPOPA enabling Bo Weevil to access finance from the Hivos Triodos Fund. This has been crucial for guaranteeing the full participation of farmers, dependent on payments on delivery of the harvested cotton. In several instances, where finance arrived late, a number of farmers decided to sell to conventional traders.

BCI's has included access to trade finance in its design as an 'enabling mechanism', but delivery mechanisms have not yet been defined for specific interventions. CMiA has not specifically incorporated trade finance in its overall programme structure. However, at the local level, access to finance has been identified as a key constraint in the commercialisation of cotton. For example, in Zambia, Dunavant has implemented an 'outgrower scheme' – a form of contract farming – to address this challenge. Under this arrangement, lead farmers are not only responsible for capacity building, but also establish contracts with other farmers and distribute inputs to them on credit. To support credit recovery, lead farmers receive a commission where the agreed amount of cotton is delivered to the trader.

### **5.4 Enabling environment**

Neither CMiA nor BCI addresses the broader enabling environment in the cotton sector. The programme is focused on promoting change at the production level and integrating participating farmers into the retailers' supply chains. Although addressing broader constraints may be of relevance from a national perspective, this is not the programme focus.

LOCP highlights the importance of addressing the broader enabling environment around organic production, where activities to promote public health by spraying DDT are a serious threat to the viability of the project. By supporting the development of a NOGAMU, the national organic movement, EPOPA has provided farmers with a platform to voice their concerns at the national level. Whether this will be sufficient to address the challenge of DDT contamination in the area remains to be seen.

Finally, a major crosscutting issue for maximising both trade and poverty reduction gains across these projects relates to the role of women. As stated above, though important actors in the cotton sector, women often do not accrue significant benefits. For this reason, the government of Uganda has formulated a gendered National Export Strategy, which aims to increase the participation of women in the export economy, as well as the benefits they derive from it (GoU, nd). It identifies access to land and trade finance as key barriers to women's participation in export sectors. Identifying the most critical barriers women face in the cotton sector, and taking action to remove or reduce these barriers, could maximise the trade and poverty reduction impacts of all three programmes discussed here.

## 6. Trade and poverty impact

### 6.1 Production volumes: CMiA, BCI and LOCP in a global perspective

- **CMiA:** At present, CMiA's projects in Burkina Faso, Benin and Zambia involve approximately 100,000 farmers.<sup>7</sup> In the 2007/08 growing season, these farmers produced around 32,000 tonnes of CMiA cotton lint. Meanwhile, approximately 2.5 million garments were sold with the CMiA label, requiring over 3000 tons of CMiA cotton lint. This compares with a fair trade market of about 20 million garments sold in 2008.<sup>8</sup> In 2009, the Aid by Trade Foundation projects sales of approximately 6.5 million CMiA garments, which translates into sales of almost 10,000 tons of CMiA cotton lint. This compares with a global cotton production of approximately 24 million tonnes and 1.5 million tonnes in Africa. In other words, if the target of approximately 10,000 tonnes is reached, this will amount to approximately 0.04% of global cotton production and 0.6% of African cotton production.
- **LOCP:** LOCP reported sales of more than 1000 tonnes in 2007. Global organic cotton production in 2008 was over 145,000 tonnes. Therefore, LOCP cotton accounts for approximately 0.68% of global organic cotton production.
- **BCI:** As mentioned above, BCI's goal is that by 2012 'better cotton' production will represent about 1.3% of global cotton production. At present, participating retailers in BCI represent approximately 4% of the world's cotton use. In the long term, the ambitious goal is that BCI retailers will rely exclusively on 'better cotton'.

### 6.2 Impact on farmers

#### 6.2.1 CMiA

CMiA's programme in Zambia, which represents the bulk of CMiA cotton to date, has led to improved income for cotton growing households, while simultaneously contributing towards environmental sustainability. Gains have largely been made through productivity gains. As Table 2 shows, in the 2005/06 and 2006/07 growing seasons, lead farmers had higher yields than participating farmers, and participating farmers had significantly higher yields than non-participating farmers.

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<sup>7</sup> It also works in Mozambique but figures were not provided.

<sup>8</sup> [www.fairtrade.org.uk](http://www.fairtrade.org.uk).

**Table 2: Average hectare and cotton yields in 2005/06 and 2006/07**

Type of farmer	2005/06			2006/07		
	Sample	Average ha	Average yield (kg/ha)	Sample	Average ha	Average yield (kg/ha)
Lead farmer	48	1.41	1276	48	1.20	1281
Participating farmer	59	1.05	995	53	0.98	902
Other farmer	30	1.28	766	22	1.18	537

Source: AGRIDEV CONSULT (2007).

Given that Dunavant is committed to buying the output of all participating farmers, these yield increases translate directly into increased revenues and profits for farmers. In fact, a programme evaluation document cites that it translates into a doubling of profit for participating farmers and a tripling of profit for lead farmers (AGRIDEV CONSULT, 2007). Considering slightly higher labour needs, this translates into an estimated 85% and 158% higher return on family labour for participating farmers and lead farmers, respectively (assuming that no hired labour is used) (ibid). Participating farmers have also achieved slightly higher levels of crop rotation and have significantly reduced their pesticide use.

### 6.2.2 LOCP

An evaluation of the Hivos organic agriculture programme in East Africa for the period 2000-2006 also indicates that support to farmers has typically led to yield increases, although no specific data are available. Moreover, with a growing number of farmers certified, access to the premium organic market has significantly expanded, from 5100 farmers in 1997 to 27,000 farmers in 2007. This increase in the number of certified organic cotton farmers has been accompanied by a simultaneous expansion of organic cotton purchases. This has meant that organic sales per participating farmer have remained fairly stable, although at relatively low levels, with a peak at 71kg per participating farmer in 2004.<sup>9</sup> However, as the evaluation points out, the same group of farmers has additionally benefited from sales of organic sesame.<sup>10</sup> In 2007, this amounted to \$138 of combined organic cotton and sesame sales per delivering farmer and \$26 in premiums per delivering farmer. Had all participating farmers delivered, this would have translated into \$81 in sales and \$15 in premiums per farmer. While on the individual farmer level these results seem rather moderate, they should be viewed in the context of local income levels (poverty incidence above the national average) and the additional gains in yields that participating farmers have reported. The project does not provide any data disaggregated by sex or other socioeconomic characteristic, so a more nuanced analysis of impacts is not possible.

**Table 3: Organic cotton and sesame sales (2007)**

	Cotton	Sesame	Total
Number of participating farmers	27,000	27,000	27,000
Number of delivering farmers	16,000	16,000	16,000
Quantity purchased (tonnes)	1140	1173	2313
Total sales by farmers (\$)	1,243,636	959,727	2,203,363
Total value of premiums paid (\$)	310,909	106,636	417,545
Export value (\$)	2,487,273	2,428,110	4,915,383

<sup>9</sup> The averages are theoretical values based on amounts per certified farmer. In practice, individual farmers may have sold higher amounts, whereas other farmers may have failed to deliver any certified cotton. According to Bo Weevil, the variance in average amounts per farmer is strictly related to amounts delivered by farmers, rather than demand by Bo Weevil.

<sup>10</sup> According to programme documents, farmers in the area have also been involved in chilli production, but no documentation of results was included in Hivos and EPOPA programme documents.

Premium on export (\$)	497,455	485,622	983,077
Sales per delivering farmer (\$)	78	60	138
Premium per delivering farmer (\$)	19	7	26
Sales per participating farmer (\$)	46	36	82
Premium per participating farmer	12	4	16

Source: *Agro Eco and Grolink (2007)*.

### 6.3 Impact on workers

CMiA addresses employment and working conditions in the ginning companies. Generally CMiA works nearly exclusively with smallholder farms, which mostly employ family labour. The evaluation of LOCP project activities has not addressed working conditions in the cotton sector.

Criteria guarding employment conditions beyond captioned International Labour Organization (ILO) standards are especially important to BCI as the standard shall cover each and every aspect of cotton production, from large-scale to smallholder farming. BCI has articulated criteria on working conditions, which will be applied to the assessment of its project activities once they are initiated. It is not yet clear what practical implications this will have for project design. Given the fact that much labour in the cotton sector is provided by women, who face greater obstacles to acquiring land than their male counterparts, monitoring working conditions plays a particularly important role in addressing questions of poverty and vulnerability in the cotton sector.

### 6.4 Poverty impacts

Poverty is a multidimensional phenomenon that involves both income and non-income components. In addition to increased revenues and profits to farmers, there are several positive non-income spillover effects that can contribute towards the Millennium Development Goals (MDGs) in West Africa.

**Increased autonomy of household income**, among women farmers, will tend to have positive spillover effects on children's nutrition and education levels. A report of the UN Conference on Trade and Development (UNCTAD, 2004) report finds that women 'consume goods and services that benefit family nutrition, health and education, in contrast to men, who direct more of their income to personal consumption items, such indirect taxes can result in gender bias'.

**Improvements in sustainability** benefit not only the farmer but also the wider community, who benefit from sustained economic activities associated with cotton production. An unreliable and inconsistent flow of resources increases risk within a community, and may induce adverse coping during shocks (e.g. increased malnutrition with a reduction in the consumption of protein, or reduction in education as children's labour is demanded for income-earning activities). Also, standard of living of the community is likely to improve over the long run if environmental sustainability can be achieved. This ensures the livelihood of both cotton and other crop farmers.

**Improved capacity of farmers** ameliorates not only agricultural yields but also working conditions. For example, better management practices for integrated water and pest management in Pakistan will reduce time spent on these activities, enabling farmers to engage in alternative activities – such as leisure activities.

## **7. Conclusions and lessons for Aid for Trade programming**

### **7.1 Pro-poor Aid for Trade: Target workers and smallholders**

As the World Bank points out, two-thirds of cotton farmers are considered poor or near-poor and poverty levels among cotton farmers in Africa are higher than national averages (Tsimpo and Wodon, 2007). Moreover, incomes in the cotton sector are highly dependent on access to the international cotton market. This indicates that Aid for Trade support to African cotton farmers has the potential to have significant poverty reduction impacts. The cotton sector represents an important entry point for pro-poor Aid for Trade.

The high level of poverty incidence among cotton farmers means that these three projects can be considered pro-poor. There is room to make these, or similar projects, more focused on poverty issues, however. For example, monitoring impact at a disaggregated level, based on sex and a range of socioeconomic characteristics, would enable a more nuanced understanding of impact. Considering the important role women play in the cotton sector, and their relatively weaker position in the production system owing to limited access to land and agricultural inputs, this is highly relevant. The working conditions of cotton sector workers are also a critical issue, one which BCI has incorporated into its design. As BCI moves towards the implementation stage, project activities aimed at improving the conditions of rural labourers, while ensuring farmers' competitiveness in the mainstream cotton market, will generate important lessons for future targeted Aid for Trade.

### **7.2 Raise awareness and foster demand for sustainable cotton**

The fact that major retailers have signed up to BCI and CMiA demonstrates that global CSR advocacy has had an impact. Heightened consumer awareness has provided a crucial incentive for retailers to assume a degree of responsibility for production and working conditions in the cotton supply chain. Moreover, demonstrating CSR has become an important element for strengthening the brand name of the retailers participating in CMiA and BCI.

Promoting consumer awareness of the challenges faced by cotton farmers, as well as highlighting the initiatives that address these concerns, may pay dividends. First, it may induce additional retailers to join BCI and CMiA. Second, it may help boost demand for garments with the CMiA label. Fostering such demand for sustainable cotton is central to the long-term success of BCI and CMiA. Unless demand increases very significantly, the BCI and CMiA initiatives will not make a measurable contribution towards promoting sustainability in the global cotton supply chain and they will fail to survive after the withdrawal of donor funding. How the Aid for Trade agenda should engage with the issue of building consumer demand requires consideration.

### **7.3 Work with the market**

CMiA shows that farm-level capacity building can have beneficial results for participating farmers by raising yields and, therefore, profits. LOCP demonstrates that, with the right conditions, there is a case for investing in organic certification.

Both these projects indicate that viability and success relies on engagement with market players committed to socially responsible business models. In the case of LOCP, this has been the key to success. Without the exporter, Bo Weevil, the organic cotton market in Northern Uganda simply would not exist. Bo Weevil was committed not only to sourcing organic cotton but also to developing local supply capacity. Only through this long-term commitment and co-financing of the project was it possible to establish the region as a serious supplier of organic cotton fibre. After 10 years of capacity building, Dunavant, one of the largest international cotton traders, has now entered the organic cotton market in

Northern Uganda and is competing for contracts with local farmers. With supply capacity in place, the growing organic market now has the potential to sustain the local production system. In other words, engaging with a CSR-driven business like Bo Weevil has been a key to success.

CMiA represents another CSR-driven model. CMiA has signalled its commitment to actively supporting the integration of African farmers into international supply chains. Its user-friendly labelling initiative, with its track and trace system, provides an innovative framework for leveraging the market for development objectives. By working with cotton companies as the entry point for the programme's supply-side activities, it builds on existing market mechanisms to initiate change in the supply chain. This means that no significant adjustments are needed by retailers willing to purchase sustainable cotton, and two levers are provided for effecting change. First, retailers can request existing suppliers to join the system or they can shift purchases to CMiA companies. Second, the track and trace system provides a mechanism for holding retailers accountable for their commitments to source sustainable cotton.

These conclusions demonstrate the criticality of working with the market and engaging with the private sector in Aid for Trade initiatives. This is particularly crucial for the longer-term sustainability of initiatives. In all three cases, donor funds are intended to provide start-up financing, but the long-term goal is that participating companies provide all required financing. The feasibility of these objectives is yet to be seen. Adverse poverty implications of unsustainability in the long run can be devastating.

#### **7.4 Implement disaggregated progress-oriented monitoring**

CMiA and BCI have both developed a progress-oriented system for monitoring programme activities. This progress-oriented approach has allowed the more advanced CMiA initiative to establish a highly flexible, results-oriented programme structure which, rather than defining specific programme activities, allows participating companies to define activities based on local priorities and challenges. By emphasising progress across social, economic and environmental indicators, rather than fixed benchmarks, it also allows companies operating at different levels of capacity to participate, and provides them with the needed long-term perspective for achieving sustainable improvements.

These monitoring approaches could be enhanced by including indicators disaggregated by sex and socioeconomic characteristics. Incorporating indicators to track progress towards improving women's access to land, credit and agricultural inputs, for instance, would support projects to ensure that women benefit, which will lead to positive outcomes, in terms of both agricultural productivity and household wellbeing (IFC, 2009).

Using Aid for Trade to (co-)finance and monitor initiatives such as these could provide an effective framework for crowding in private sector resources. While local companies may be reluctant to provide financial input, such a system may help leverage their technical expertise to promote not only profit-oriented goals but longer-term sustainability concerns as well.

#### **7.5 Promote access to trade finance to farmers**

In all three projects, trade finance represents a basic condition for achieving export goals. In the case of LOCP, timely trade finance has been a critical factor for ensuring farmer participation and for allowing Bo Weevil to purchase certified organic cotton at the appropriate premium. In Zambia, Dunavant's 'out-grower model' is based on the trader's pre-financing of inputs. In the case of BCI, the regional dialogue process has identified trade finance as one of the key enabling mechanisms for moving towards more sustainable cotton production. In the context of the current global financial crisis, providing farmers and exporters with cost-effective access to trade finance is a precondition for any trade-related

assistance focused on small-scale producers. This is a particularly pertinent lesson for Aid for Trade stakeholders to capture and respond to.

### **7.6 Engage producer organisations to support sustainability**

BCI has identified support for producer organisations as one of the enabling mechanisms for building a more sustainable cotton production system. Producer organisations are considered important vehicles for transmitting information and improving farmers' bargaining power. While there is widespread agreement on this principle, it is important to note that the specific roles and responsibilities these organisations can fulfil is highly context specific, and the merits of supporting them need to be assessed on a case-by-case basis.

LOCP shows that working through a producer organisation is not always beneficial for the farmer. Moreover, as pointed out in study by the Pesticide Action Network (Ton, 2002), women are frequently underrepresented in producer organisations. In other words, while support for producer organisations can be beneficial, the specific role and support need to be adapted to local realities. This demonstrates the need for a nuanced and context-informed approach to producer organisations in Aid for Trade programmes.

### **7.7 Address the enabling environment**

LOCP has clearly demonstrated the importance of embedding value chain-related activities within support to the broader enabling environment. Although organic market development in Northern Uganda has been a success, it is now under threat owing to the spraying of DDT. This shows that local private sector development cannot be effectively pursued without addressing the broader enabling environment for business.

Value-chain related activities should be aligned with and feed into broader government policies and strategies. For this purpose, it is essential to build governance structures for channelling concerns of local private sector actors into broader decision-making processes. Support to Uganda's organic movement, NOGAMU, represents an important effort to build the demand-side structures for such a dialogue. To be effective, this needs to be matched with government capacity to integrate local private sector concerns into its policymaking process. The desired result should be a pro-poor private sector development strategy that builds on the needs and concerns of local-level actors. Supporting this link between local-level needs and concerns and national trade and export strategies is a key entry point for Aid for Trade support and attention.



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### 2. Interviews

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