

# REFORMING COMMERCIAL AGRICULTURE

## Insights from Benin's cotton sector

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### SYNOPSIS

The cotton sector is one of the engines of Benin economy, providing the bulk of inputs for domestic production; and a source of export revenue. The sector has grown rapidly over the last 30 years, compared to other cotton growing countries in the region. Despite this growth, there remains several significant challenges relating to poverty levels, particularly in the cotton growing areas.

Considering the above-mentioned challenges, the government of Benin established the Cotton Sector Reform project with the objective of effecting a successful transition from the monopolistic and centrally administered system to a more competitive cotton sector and, hence, greater efficiency and productivity in the sector. For that purpose, the project provided a framework for consultations between the public and private sectors on sector policies and for collaboration between the two sides in areas such as agricultural services delivery and infrastructure development. The project also privatized the ginning activities of the national company for agricultural promotion that oversaw the overall cotton sector. Ultimately, the increase in productivity and competitiveness resulting from the project led to higher incomes in the sector (for example, the average revenue per cotton producer increased by about 23%).

### Introduction

Since the economic crisis of the 1980s, the issue of poverty has received constant attention in Benin and has become a major concern for the authorities. To combat poverty more effectively, the government of Benin in 1994 adopted a strategy known as the Social Dimension of Development – SDD (WB, 2000). This strategy not only sought to ensure that macroeconomic and sectoral policies explicitly reflected the SDD objectives, but has also led to the formulation of an action program targeting the most vulnerable groups who are the poor and the marginalised people. The strategy also called for an M&E system to monitor the living conditions of these groups.

In support of this strategy, a National Economic Conference was held in 1996 (WB, 2000) which defined the strategic choices of government in five essential areas: education, access to primary health services and care, food security, development of the income-generating capacities of vulnerable groups, and private sector development. It is in this context that the government's overall agricultural sector strategy emphasized the need to promote the diversification of agricultural production by investing more in developing crops with a high-income potential such as pineapple, cassava, cashew, palm oil, and groundnuts. The government also believed that increasing farmer incomes would substantially reduce the pockets of poverty that existed in both rural and urban areas. Expanding and diversifying

agricultural output and supporting producer prices were again seen as important components of the government's poverty reduction strategy.

Given the dominance of the cotton sector both in terms of income generation and employment, as well as the important growth potential of the sector, a main entry point of the strategy to foster broad-based poverty reduction through private sector development was the need to restore the competitiveness of the cotton sector. Consequently, the proposed project would pursue an effective liberalization of the cotton sector, building upon recent decisions by government to lift the monopoly of SONAPRA<sup>1</sup> over seed-cotton marketing. These decisions were taken through SDD strategy and national economic conference. So, they started with the will to achieve food security, to develop income-generating capacities of vulnerable groups, to develop private sector, etc. Then, the government's Declaration of Rural Development Policy prepared in 1999 (WB, 2000), as well as its Sector Framework Paper and Priority Action Plan of 2000 (MAEP, 2000) provided the basis for its intervention in the rural sector, while confirming its withdrawal from productive and commercial activities. Indeed, the substantial level of intervention in the cotton sector and the lack of competitiveness and transparency that had resulted therefore had led to significant inefficiencies in production and processing (WB, 2001). It had also resulted in low revenue shares for seed cotton producers. There was therefore a need to increase the productivity and efficiency of its cotton sector, by moving from a monopolistic, centrally administered production system to a competitive system. For this reason, reforms were necessary and the government was determined to complete it. The reforms aimed at (i) liberalizing the sector and promoting competition, (ii) enhancing the regulatory role of the government, (iii) expanding national cotton production and increasing farmers' incomes, and (iv) empowering and building the capacity of producer organizations.

Based on the learned lessons of this initiative on Managing for Development Results (MfDR), it represents a success story that needs to be shared. Indeed, as in Benin, the cotton sector in other cotton producing countries in West and Central Africa for example had long been under the control of a state-owned company, which operated a monopolistic system, excluding private companies from activities like marketing and ginning of seed cotton, etc. And, this system was plagued by inefficiencies, a lack of transparency, and other critical weaknesses, that must have to be addressed in order to increase the sector's contribution to poverty alleviation and national economic growth. This case study aims then to help authorities in successfully dealing with reforming commercial agriculture in African countries to boost agricultural development and reduce the major concern of poverty.

### Presentation of the case study

The cotton sector remains the main engine of Benin's economy (yields increased by 50% and the output six-fold), providing the bulk of primary production and domestic exports. The sector experienced a very rapid growth over the past 30 years (WB, 2001), both in absolute figures, as well as compared to other cotton growing countries. Despite this growth, significant pockets of poverty remain, particularly in the cotton growing areas. The geographical distribution of absolute poverty indicates that cotton areas are the most affected, accounting for up to 40% of the total poverty incidence (WB, 2001).

While the government heavily focused its development efforts on the cotton sector, at the expense of other sectors, it appears that growth in the former did not make significant impacts on people's livelihood. The extent of poverty in the cotton sector (40%) was also a confirmation that merely producing more agricultural outputs is not enough to reduce poverty, which requires both higher productivity and employment of resources that poor people depend on for their livelihood.

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<sup>1</sup> SONAPRA: It is the national company for agricultural promotion previously in charge of the cotton sector.

Accordingly, the main purpose of Benin's Cotton Sector Reform Project was to help the government achieve its strategic goal of fostering broad-based growth in Benin's rural sector and thereby increase per capita rural incomes and reduce poverty. To achieve this objective, the project sought to provide answers to the key questions facing Benin's cotton sector, as far as the goal of poverty reduction was concern, notably: (i) how to further expand cotton cultivation, while (ii) spreading the productivity gains and income increases to a larger segment of cotton producers, and (iii) generating income multiplier effects within and outside the cotton sector and the rest of the rural economy.

As in other cotton producing countries in West and Central Africa, the cotton sector in Benin had long been under the control of a state-owned company, which operated a monopolistic system, excluding private companies from activities ranging from marketing and ginning of seed cotton, the export of lint and cotton seeds, the import and distribution of inputs, to the provision of services to cotton growers such as extension, credit, and transport. The tightly controlled system succeeded in rapidly expanding cotton production, but was plagued by inefficiencies, a lack of transparency, and other critical weaknesses, that must have to be addressed to increase the sector's contribution to poverty alleviation and national economic growth.

The project development objective was to effect a successful transition from the monopolistic and centrally administered system to a more competitive cotton sector and, hence, greater efficiency and productivity in the sector. It aimed to facilitate the transition to a competitive system by providing the necessary support to private sector operators and their institutions to fill the void left by the privatization of SONAPRA's ginning activities. The project was implemented over a period of four (04) years (2002-2006). It was funded by the World Bank with the amount of US dollars 18 million equivalent. It targeted the cotton producers that are in the centre and the north of Benin. Its focus was on (a) the provision of technical and financial assistance to

the two institutions that were to carry the transition process, primarily the "Association Interprofessionnelle du Coton" (AIC) and the "Centrale de Sécurisation des Paiements et du Recouvrement" (CSPR), and (b) building the institutional and technical capacities of Producer Organizations (PO).

Accordingly, the set of issues addressed by the proposed project were related to: (i) the need by the private sector to effectively take over the responsibility of ginning and primary marketing activities; (ii) strengthening the capacities of producer organizations and help them become credible technical and commercial partners for ginners, input distributors, banks, and technical services providers; (iii) developing a viable mechanism to ensure adequate access to and recovery of credit for modern inputs; (iv) the need to put in place and ensure the start off of the activities of the transitional institutions; and (v) the need to minimize the risk of failure and maximize the chance of a successful transition.

To achieve these goals, the following sets of activities were implemented:

- **Support to the « Association Interprofessionnelle du Coton » (AIC)**

The main challenge facing the stakeholders in the cotton sector after the lifting of SONAPRA's monopoly was to find alternative institutional arrangements and mechanisms to the unilateral, government-centered, mode of decision-making that characterized the system. Given the nature of cotton marketing and the institutional environment of cotton production, these new arrangements and mechanisms (a) required the organization of the multitude of actors in the private sector and (b) involved collective action and contracts between (i) individual private sector families, on the one hand, and (ii) the latter and the government, including its specialized services, on the other.

Under this component, capacity building support was provided to the AIC in the form of: (i) technical advisory services, including for carrying out studies,

collecting data, and preparing technical reports, (ii) the provision of training, and (iii) the acquisition of vehicles, equipment furniture, and materials.

- **Support to the « Centrale de Sécurisation des Paiements et du Recouvrement » (CSPR)**

Although the system worked extremely well in securing credit for inputs, due the absolute monopoly of SONAPRA and the deduction of credit cost from the seed-cotton price, it had also significant weaknesses. First, the fact that SONAPRA fully guaranteed the credit to input dealers not only discouraged sound financial management among dealers but also opened the door to anyone with sufficient political ties to enter the sector. The result was high costs of inputs and a lack of professionalism within the input distribution sector, which affected the quality of inputs. Furthermore, fully protected by SONAPRA's guarantee, the lending banks had little incentives to apply proper lending practices, contributing thereby to the proliferation of amateur traders in the system, with the same consequences for input cost and quality.

The new input credit recovery system (the CSPR) that was put in place by the private sector and which was supported by the proposed operation kept the two essential functions of the SONAPRA system that were to ensure payment of seed-cotton to producers and of input credit to dealers and commercial banks. For that purpose, it had to carry out three main clusters of activities: (i) registration of all loans and credits associated with the importation and distribution of inputs; (ii) monitoring of seed-cotton procurement and delivery during the marketing season; and (iii) channelling of all financial flows related to the payment by ginnerers of seed-cotton to producers and of input credit by dealers to lending banks.

The current component provided technical and institutional support to build up the capacity of the CSPR through: (i) the provision of technical advisory services, including for carrying out studies, collecting data, and preparing technical report; (ii) the

provision of training; and (iii) the acquisition of vehicles, equipment, furniture, and materials.

- **Support to the Fédération des Unions de Producteurs (FUPRO)**

This component strengthened the institutional and technical capacities of producers' organizations. The targeted outcome was to reinforce the leadership and representational capacities of national producer organizations and equip organizations at the local level to become technically and economically credible partners *vis-à-vis* other operators in the sector, in particular the cotton ginnerers, input importers, and commercial banks.

The support provided under the component included: (i) provision of technical advisory services, including for the management of cotton cropping, input distribution, and output marketing activities and the carrying out of studies, collecting data, and preparing technical report; (ii) training and institutional support services; and (iii) acquisition of equipment, furniture, and materials.

- **Support to Sector-wide Technical Services Programs (STSP)**

This component supported the efforts of the private sector to take over responsibility over the agricultural services and other technical support functions carried out by SONAPRA under the monopolistic system. It facilitated access to agricultural services and the generation and diffusion of improved technologies of production, processing, marketing, and exporting, while helping the private sector develop a more permanent institutional response.

The component provided funding to AIC for financing the implementation of annual sector-wide technical services programs in the areas of: (i) environmentally sound cotton ginning and pest management practices; (ii) cotton research and production of improved seeds; (iii) cotton quality control; (iv) training and extension services for cotton farmers; (v) cotton price and income stabilization; and (vi) any sector-wide technical support programs that were agreed on by AIC and satisfactory to the Association.

- **Support to the privatization of SONAPRA's ginning operations**

Under this component, support was provided to the government of Benin to carry out transparent strategies to privatize the company's ginning operations. A financial advisor was recruited to advise the government on the implementation of the privatization of the ginning plants. The advisor prepared offer transactions and worked with the Government to ensure that such transactions conformed to all applicable laws and standards of transparency and openness.

### **Institutional and implementation arrangements**

Technically, the cotton sector is under the responsibility of the Ministry of Agriculture, Livestock, and Fisheries (MAEP). However, given the purely private sector nature of most of the project's activities as well as the need for sustainability, it was proposed that AIC, through its Technical Secretariat, should oversee the project implementation.

A Project Steering Committee (PSC), chaired by the representative of MAEP, was set up before project effectiveness to coordinate and supervise the implementation of the project activities. The PSC did not have direct management responsibilities. Its main role was to oversee the project implementation, guide the management team, and approve the project's annual work program and budget. For that purpose, AIC submitted each year during project implementation a draft annual program and budget for the following project year to the Steering Committee, for review before adoption. The PSC met at least twice a year to approve the annual work program, review implementation progress, and formulate recommendations, when necessary, with respect to project implementation. Besides, the chair and representative of MAEP, the PSC included the Permanent Secretary of AIC and 6 other members representing the ministries of planning and finance, producer organizations, the associations of ginners, input distributors, and the association of commercial banks.

### **Monitoring and Evaluation**

A Monitoring & Evaluation (M&E) system and team was set up to collect baseline data. The project also set up an information system to monitor the performance of the cotton sector (land cultivated, inputs purchased, credit granted, yields, production of seed cotton, export of lint cotton, etc.). To supply the database with the requisite production data, annual field surveys were conducted under the project supervision and funding by regional extension centres, based on a sample of 1% of cotton producers. At midterm review, the monitoring framework was examined and improved with regard to its suitability for results-based project management. The progress toward project outcomes was evaluated during its implementation and at project completion. A project midterm review was carried out by the Government to determine, based on the results of the M&E system, the extent to which the project was performing *vis-à-vis* its development objectives. At the end of the project, an impact study was carried out to assess whether the project's objectives had been met.

Moreover, the M&E system provided quarterly updated data on the progress made by the project, which was used during the supervision missions. The collection of sector-wide information gave AIC the tools to monitor the performance of the cotton sector. Also, information was widely disseminated among stakeholders. The dissemination of sectoral information was regarded as a very successful aspect of the project implementation.

### **Outcomes and overall assessment**

The following outputs were achieved due to the support of the project: (i) satisfactory implementation of all sector-wide technical services programs, (ii) establishment of an effective input credit recovery system, (iii) strengthened capacity of farmer organizations, (iv) privatization of SONAPRA. This led to some outcomes, notably:

- **Increased professionalization of the seed cotton production and improved incomes:** Indeed, after the dysfunctions observed in



terms of stabilization of institutions from the reform of the sector, a new framework for stakeholders representation within the cotton sector helped establish:

- ✓ The National Council of Cotton Producers (CNPC), which included all cotton producers networks;
- ✓ The National Council of Importers and Distributors of Cotton Inputs (CNIDIC), which included all inputs importers and distributors installed in Benin;
- ✓ The National Council of cotton ginners (CNEC) which included all Cotton Ginning Companies (SEC) engaged in Benin.

This pyramidal representation enhanced the leadership of cotton farmers face to government and different partners. They really master the process and technics of seed-cotton marketing to potential buyers. The impact study also revealed in 2008 that 63% of CNPC members are satisfied with the leadership developed by their representation.

- **The average revenue per cotton producer increased by about 23% during the project implementation which meant a poverty reducing impact:** The impact study revealed that the farmers income passed from around US\$210 in 2003-2004 to around US\$286 in 2007-2008.
- **The rebates from cotton production were used to finance local development through levies by some municipalities.**
- **In terms of environmental impacts, the project promoted the integration of the environment in the production activities of**

**seed cotton or cotton fiber through the two following actions:**

- ✓ An early implementation of an environmental management plan to mitigate the adverse effects of ginning on the environment;
- ✓ The development and dissemination of improved production technologies for environment-friendly sustainable cotton.

The impact study revealed that the seed-cotton productivity was increased by 77%.

- **Increased adoption of crop rotation (cotton with food crops) among farmers:** This practice had a positive impact on food crop production due to residues of fertilizer applied to cotton. Support for production of cotton thus spilled over to food crops and enhanced food security. The satisfaction among producers with the technical services was 88% in 2008.

The following figures give an image of what changed from the monopolistic system to a more competitive cotton sector. The figure 2 showed that the input suppliers were regulated by the new input recovery system (CSPR) instead of the public system. Indeed, the CSPR determined in terms of input quality and quantity those who met the supply rules before ordering inputs. Then, the ginning activities were given to private sector that separated the fiber and the seed before trading. It can also be noted that after liberalization, the local textile industry was able to trade in the international market instead of the only buyers and traders.

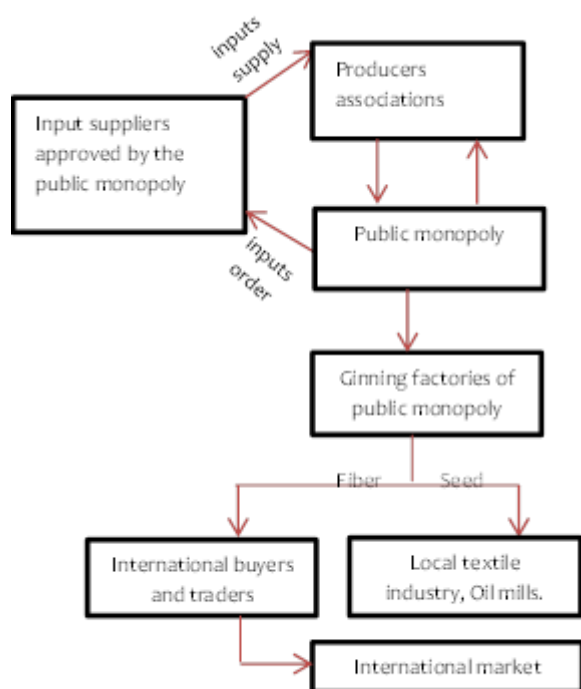


Figure1: Cotton sector during public monopoly

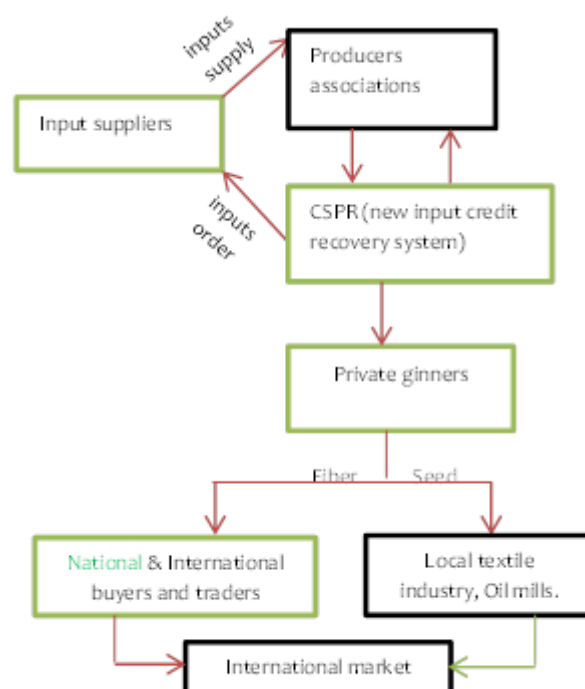


Figure2: Cotton sector after liberalization

## Conclusions and lessons learned

The implementation of the project over its lifetime engendered important lessons. Their consideration by policymakers for similar initiatives in other African countries is a gauge of a successful MfDR initiative. These are:

- **The long and extensive interaction between Government and private sector actors triggered the transition from an administered sector to a more market-based system:** This interaction had led to the realization that the private sector, primarily ginners and producers, must take the lead in initiating the solutions to the sector's problems. The several initiatives of the past years had indeed demonstrated that private operators were well capable of establishing a collective discovery process for solutions to the problems faced by the sector, if given the opportunity and challenged to do so.
- **One of the main reasons why the cotton sector had not contributed to its fullest**

**potential to poverty reduction, not only in Benin but in all other West and Central African countries, was that the decision-making system had been strongly biased against the interest of farmers:** The observed implicit taxation, management inefficiencies, and the related rents and transfers had been so pervasive because the primary losers, the farmers, had very little influence on decision-making in the sector. Consequently, the project placed strong emphasis on building the technical, commercial, and organizational capacities of farmers associations to allow them to better represent their interest and to become credible business partners to other private sector operators.

- **Using investment lending in tandem with budget support to implement difficult reforms may be more effective than each instrument alone:** The project showed that reforms were extremely difficult to

implement within a sector as strategic and as politically sensitive as cotton. Even if it was clearly stated initially, Government commitment can hardly be taken for granted on a long period of time, unless irreversible steps were taken at the beginning of the reform process.

- **Institutional development and structural reforms should be outward looking and keep an eye on evolving global developments:** The project and the underlying cotton sector reform were affected by decisions of key stakeholders driven by internal struggles and the political economy of the national cotton sector.

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