

**IMPLEMENTATION OF THE DEVELOPMENT ASSISTANCE ASPECTS OF THE
COTTON-RELATED DECISIONS IN THE JULY PACKAGE**

First Periodic Report by the Director-General



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I. EXECUTIVE SUMMARY

1. A structured consultative framework has been established in which the cotton proponents, bilateral donor Members, and the relevant multilateral and regional agencies are constructively engaged in a complementary trilateral partnership. The agreed purpose is to implement the July Decision on the Development Assistance Aspects of Cotton. This consultative framework is coordinated by the WTO Secretariat.

2. Bilateral donor Members have moved rapidly to reflect cotton-sector priorities in their bilateral donor programmes. They have underlined the sector as priority in the support they provide to agencies and institutions. From information they have provided to the WTO Secretariat, although resources are finite, substantial and additional financial resources are available for the sector. It has been indicated that resources earmarked for the cotton sector will increase, as part of the total package. Resources, however, need to be rationally accessed, based on the understanding reached at the WTO Secretariat organized African Regional Cotton Workshop and elsewhere, that cotton-specific financial and technical assistance would be provided within existing mechanisms, such as PRSPs, national strategy papers, through the process of domestic reform, and well prepared project proposals. The European Union and the United States have stepped up their efforts to lead and coordinate the donor response.

3. Relevant multilateral and regional agencies have also responded expeditiously. The African Development Bank (AfDB) is in the process of designing a project with broad scope, based on the private sector which, when implementation begins, will assist African cotton producers and exporters to respond better to the challenges and risks of market competition. The World Bank and the IMF are tailoring existing mechanisms in ways that are sensitive to the concerns and priorities of cotton proponents and others faced with commodity price shocks. They and other institutions are considering new facilities and instruments. The Development Assistance Committee of the OECD is actively engaged.

4. The proponents have welcomed the implementation process and the results so far. They have also accepted the need for appropriate action on their part to enhance competition of this sector in their own countries. However, they have underlined the urgency of their economic circumstances because of the continuing long-term downward trend in cotton prices. They have stressed the necessity for complementary action on the trade and development aspects. The Agricultural Framework reached in July, and the subsequent establishment of the Cotton Sub-Committee on 19 November, have provided impetus to treatment of the trade aspects.

5. Overall, good progress has been made so far but much more remains to be done. I intend to pursue the various strands vigorously, and am also hopeful that next year will provide new opportunities to advance the development assistance aspects (and the trade aspects) of this highly important Initiative.

II. MANDATE

6. In its July Decision, the General Council reaffirms the importance it attaches to the Sectoral Initiative on Cotton and the importance of the development aspects. The complementarity of the trade and development aspects is stressed. The Council, inter alia:

- "instructs" the Secretariat to continue to work with the development community and to provide the Council with periodic reports on relevant developments; and,
- "instructs" the Director-General to consult with relevant organizations, including the Bretton Woods Institutions, FAO and ITC.

7. Under the terms of the Decision, Members should work on development issues multilaterally with international financial institutions and continue their bilateral donor programmes. All developed countries are urged to participate.

8. The July Decision also took note of the WTO Secretariat-organized African Regional Workshop on Cotton in Cotonou, from 23 to 24 March 2004. The full report from the Workshop has been circulated in document WT/L/587. The results from the Cotonou Workshop, in particular the "*Areas of Focus*"¹ discussed and noted in the Workshop, are integral to the Secretariat mandate. They also provide guidance in the consultative framework established by the Director-General for implementation action on the development assistance aspects of cotton.

9. This is my first periodic report to the General Council under the above Decision.

III. BACKGROUND

10. The cotton sector remains of vital economic importance for several developing countries, more so for several low-income countries, in particular those in Africa. The sector is of critical systemic importance in these countries because of its share in economic activities and its linkage to macroeconomic performance.

11. Thirty African countries produce and export cotton.² Four of these countries (Benin, Burkina Faso, Chad and Mali) raised the challenges they faced in the cotton sector in the WTO.³

12. The cotton sector presents a challenge for trade and development. All data show that real cotton prices (as for most commodities)⁴ have been in a long-term downward trend. Recent studies and forecasts confirm this long-term downward price trend and suggest that it will continue:

"The price of cotton, adjusted for inflation, is tending downward over the long run. This is a phenomenon common to many primary commodity industries and results naturally and inevitably from market forces in a competitive world economy. If inflation is considered, cotton prices have been falling since the 1950s. Estimate of average prices were more than US\$3 per pound of lint in today's prices in the early 1950s. In nominal prices the Cotlook A Index averaged 70 cents per pound during the thirty-year period from 1973/74 through 2002/2003. However, while there is always substantial year-to-year end variation, average cotton prices are forecast to be 10 to 20 cents per pound lower than the average of the last thirty years during the current decade".⁵

13. Broadly, the 25 to 30-year downward trend in commodity, including cotton prices, is linked in different degrees to a complex of factors, including, but not limited to, changes in technology resulting in lower costs and increased productive efficiency in different countries. These factors include the emergence of high and quick yield transgenic (cotton) seed varieties, the competition from synthetic fibre (particularly polyester) substitutes for natural fibres; exchange rate and currency fluctuations; market risks such as through stock arbitrage in different markets; conditions of

¹ WT/L/587, paragraph 84 (pages 20-21).

² Angola, Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo (Dem. Rep. of), Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Kenya, Madagascar, Malawi, Mali, Morocco, Mozambique, Niger, Nigeria, Senegal, Somalia, South Africa, Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

³ WT/MIN(03)/W/2; WT/MIN(03)/W/2/Add.1; and TN/AG/GEN/4 (16 May 2003) and TN/AG/GEN/6 (4 August 2003).

⁴ Although there is a long-term downward price trend, there are annual variations.

⁵ International Cotton Advisory Committee (ICAC), COTTON: Review of the World Situation, "ICAC Cotton Price Forecasts", Volume 58 – Number 1, September – October 2004, page 5.

competition and efficiency in domestic markets; and, consumer preferences. Trade distortions also account for depressed prices.

14. WTO Members have found it useful to distinguish between the trade aspects and the development assistance aspects of the Sectoral Initiative on Cotton. The Secretariat is proceeding on this basis of a dual, but coordinated and complementary track in accordance with the July decision. The trade aspects are being addressed within the agriculture negotiations. As agreed by Members, they are to be addressed "ambitiously, expeditiously and specifically on the basis of the three pillars of domestic support, market access and export competition". On 19 November, the Special Session of the Committee on Agriculture established the Sub-Committee on Cotton (SCC), pursuant to paragraph 4 of Annex A of the July Decision.

IV. IMPLEMENTATION ACTION

A. ACTION BY THE DIRECTOR-GENERAL/THE CONSULTATIVE PROCESS

15. I have taken specific steps to implement the Development Aspects of the cotton-related decisions in the July package and the results of the Cotonou Cotton Workshop, in the following areas:

- **DAC/OECD:** In accordance with a specific "Outcome" at the Cotonou Cotton Workshop on "Enhanced Coordination and Follow-up Arrangements", the WTO Secretariat addressed a letter⁶ to the Chairman of the DAC/OECD, requesting support in the follow-up process to the Workshop. The Secretariat asked the DAC/OECD to involve development agencies in the implementation of the Workshop Outcomes, as agreed at Cotonou. The DAC responded that there were two avenues through which it could support the broader international effort to treat the development aspects of African cotton. First, it would expand and deepen the information on cotton-related assistance in the Joint WTO/OECD Trade Capacity Building Database (TCBDB). This would require close co-operation with the bilateral and multilateral donors involved with follow through and tracking progress on the Cotonou Workshop Outcomes. Second, the DAC/OECD would organize a comprehensive Briefing for DAC Members with the participation of the relevant development agencies and African representatives to address the development aspects.⁷ This Briefing has now been set for 28 January 2005. The Secretariat welcomes the strong and positive support from the DAC.
- **General Council Coherence Item:** I raised the issue of the implementation of the development assistance aspects of the cotton issue on 22 October, in the General Council, under the item: "Coherence in Global Economic Policy-Making and Co-operation between the WTO, IMF and World Bank".⁸ The three Heads of Agency participated at that meeting. I asked my colleagues "... to redouble their efforts to see how existing programmes – as well as additional resources – can be directed towards development in those economies where cotton is vitally important, as was agreed at Cotonou".⁹ The responses were concrete and favourable. The Heads of the IMF and the World Bank expressed support. IMF Managing Director, Mr. Rodrigo de Rato, affirmed willingness to join the consultative framework established by the Director-General. The Managing Director noted that the Fund had traditionally played a major role in assisting developing countries in dealing with macroeconomic implications of commodities price or other shocks, including in the cotton sector. Should such shocks have an adverse impact on the balance of payments, Fund assistance could be delivered through regular instruments and policies –

⁶ Letter of 2 April 2004 from WTO DDG Dr. Rana, addressed to Mr. Richard Manning, Chairman, DAC/OECD.

⁷ Letter of 7 July 2004 from Mr. Richard Manning, DAC/OECD Chairman to DDG Dr. Rana.

⁸ WT/GC/M/89, Minutes of Meeting, "Coherence in Global Economic Policy-Making and Co-operation between the WTO, IMF and World Bank".

⁹ WT/GC/M/89, page 32, paragraph 6.

notable the Poverty Reduction and Growth Facility.¹⁰ The World Bank would work to provide assistance within its Doha Development Agenda Initiative. It also joined the consultative framework established by the Director-General and would seek to provide all possible assistance on a case by case basis. The Bank has indicated and elaborated areas of support.¹¹

- **Heads of Agency Bilateral Contacts:** I have followed up with private bilateral contacts with several Agency Heads to press for further action as appropriate.
- **Commission for Africa:** The Commission for Africa is an initiative of the Prime Minister of the United Kingdom to provide policies to accelerate development in Africa. Its report could provide an excellent platform for reflecting Africa's priorities and for moving ahead with implementation of those priorities. The staff of the Commission for Africa Secretariat and the staff of the WTO Secretariat are in contact. WTO Secretariat staff have underlined, *inter alia*, the vital importance and of implementation of the development aspects of the cotton decisions in the July Decision.

The Consultative Process

16. Two informal consultations have been held so far under the consultative framework I have established.¹² The primary purpose is **information exchange** on action already taken and envisaged by the cotton proponent countries, the bilateral donor Members and the relevant multilateral and regional agencies to give effect to the "Outcomes" from the Cotonou Workshop and to implement the relevant decisions in the July package. The information furnished provides the Secretariat with the basis for encouraging implementation and follow-up. It could also form a basis for any report to the Sub-Committee on Cotton, if requested, on the implementation of the development assistance aspects. Comprehensive provision of information by the cotton proponents, bilateral donor Members, and the multilateral and regional agencies and institutions is indispensable if implementation is to be effective and if my periodic reports are to be substantive and meaningful.¹³

17. Beyond **information exchange**, the objective of the consultative process include encouraging the continued **mobilization of financial and technical assistance** in support of the efforts of the cotton proponent countries to respond to the challenges they face on cotton, including support for their on-going necessary domestic reforms.

B. COTTON PROPONENTS

18. Cotton proponents were requested to provide information on action taken and envisaged to:
- reflect cotton-sector priorities in their PRSPs;
 - prepare Diagnostic Trade Integration Studies (DTISs) to reflect their priorities, including cotton;
 - prepare cotton-sector specific studies – national strategies – in individual countries;
 - prepare cotton-sector specific projects to be funded;

¹⁰ WT/GC/M/89, page 30, paragraph 21.

¹¹ WT/GC/83/Add.1, page 40.

¹² 22 October and 18 November.

¹³ Full information provided is contained in the Addendum to this Report (WT/GC/83/Add.1).

- continue cotton-sector reforms, as agreed, at Cotonou, in such areas as improvement of domestic competition in production, distribution, buying and selling, including legislative framework for investors, in order to achieve increased market efficiency.

Response from the Cotton Proponents

Benin

19. As Coordinator for the Cotton Proponents, Benin informed the consultative framework group, at its first meeting, that "Paragraph 13 of the Cotonou Workshop is very precise ... and should be used as a basis for consultations on the follow-up action".¹⁴

20. Pursuant to the acceptance of the framework for the consultations, and in response to the specific questions put to Benin, the representative of Benin confirmed that its national authorities were hard at work to implement the relevant aspects of the Cotonou Outcomes. Cotton was already a part of Benin's agricultural sectoral study, where the sector was reflected as priority. Benin's PRSP also reflected cotton-sector priorities. A concept paper on cotton had been finalized and forwarded to the United States as a basis for accessing possible funding from the United States Millennium Challenge Account (MCA). US and Benin officials were consulting on the "Programme Paper" prepared by Benin on the MCA.

21. A first version of the Strategic Framework document had been prepared as follow-up to the "EU-Africa Cotton Partnership Forum", which took place in Paris, from 5 to 6 July 2004. Following EC comments, this document would be finalized and forwarded to the EC.

22. Benin acknowledged the financial and technical assistance provided by the Government of Japan as a specific follow-up to the Cotonou Cotton Workshop, in the areas of "irrigation infrastructure" and "human resource development".

23. On domestic reform, Benin informed the consultative forum that domestic efforts were on-going to make the cotton sector more competitive. For instance, SONAPRA was under privatization. Benin was committed to providing further information on issues raised in the consultations, as it becomes available. Benin would submit requests/project proposals to bilateral donor partners for financial and technical assistance to reinforce and strengthen the cotton industry.

Burkina Faso

24. Burkina Faso has revised its PRSP to reflect cotton-sector priorities. Project proposals would be developed and forwarded to bilateral donor partners. On domestic reform, Burkina Faso informed the consultative forum that domestic cotton monopolies had been eliminated and that the sector had been opened up to private sector competition.

Chad

25. Chad, a Non-Resident Member, has not participated so far, in the consultations.

Mali

26. Mali had reflected cotton-sector priorities in its PRSP. The country attached importance to the resuscitation of its textiles school and the resuscitation of a laboratory. Mali was interested in projects that would achieve regional synergies towards the creation of a regional cotton market; and, appropriate regional infrastructure. Specific project proposals had not been prepared. These would

¹⁴ WT/GC/83/Add.1, page 2, paragraph 6.

be prepared and forwarded in due course. Mali was also still awaiting appropriate information from its domestic authorities, including on domestic reform.

Other African Countries

27. Guinea, Senegal and Uganda have participated in the consultations and stressed their commercial and systemic interests. They have undertaken to work to reflect cotton-sector priorities in their PRSPs, and prepare appropriate project proposals. This information would be provided as soon as it is received from national authorities.

C. RESPONSE FROM BILATERAL DEVELOPMENT PARTNERS

Bilateral Donor Members

28. Bilateral donors were requested to provide information on action taken and envisaged to:

- reflect cotton-sector priorities in their country programmes and other relevant facilities and mechanisms;
- provide financial and technical assistance to cotton-sector specific projects; and,
- coordinate across bilateral donor and other assistance programmes.

European Communities (EC)

29. The European Commission responded to the questions posed by the Secretariat. It presented the overall substantive responses by the European Communities. In addition, several individual European delegations elaborated on specific national contributions, initiatives and areas of emphasis. These delegations were Denmark, France, the Netherlands and Germany. Others are considering possible contributions.

European Commission

30. On EU action taken and planned to reflect cotton sector-specific priorities in bilateral donor programmes, the EC informed the consultative forum that the EU Council had **endorsed** the proposal for an "**EU-Africa Partnership on Cotton**", in April 2004. The Partnership was an important specific application of the EU Action Plan on agricultural commodities, aimed at finding responses to the challenges faced by commodity-dependent developing countries.

31. In June, the EU requested 15 major cotton producing countries in Africa to what extent they were committed to formulating and implementing a national cotton strategy. Such a national cotton strategy was important prior to extending support. Ten countries had already responded favourably.¹⁵

32. The EC has prioritised "support to cotton" as one of the areas for the 2004 Mid-Term Review of the national indicative programs (and here, the initiative had to come from the individual countries within the framework of nationally owned development strategies).

33. The EU and Africa organized a Cotton Forum in Paris, from 5 to 6 July. At the Forum, the EU and African countries endorsed the "**EU-Africa Cotton Partnership**" and agreed on a "**Joint Cotton Action Plan**".¹⁶ The agreed "Joint Cotton Action Plan" identified 7 areas of action:

¹⁵ Benin, Burkina Faso, Chad, Madagascar, Mali, Mozambique, Senegal, Tanzania, Togo and Zambia.

¹⁶ The website provides up to date and relevant information: www.cotton-forum.org.

i) international trade; ii) national and regional cotton strategies; iii) policies and institutions; iv) technological innovation; v) risk management; vi) chain integration; and, vii) coordination.

34. In the "International Task Force on Commodity Risk Management", the EU had successfully advocated broadening pilot programmes on market-based risk instruments to the cotton sector in West Africa. A World Bank/EU team will travel to West Africa in December to identify interest.

35. On EU action, taken and planned, to provide cotton-specific financial and technical assistance, the EC provided detailed information.

- Individual EU Member states have supported the development of negotiating capacity for the cotton proponent countries and included new cotton-related projects in their bilateral development assistance programmes.
- €40 million had been proposed for allocation to cotton in the national indicative programmes of the 4 proponent countries, as part of the Mid-Term Review of EC programmes. The review would be finalized soon.
- The EU had tabled a proposal to the ACP for establishing a programme for International Capacity Building with international organizations on agricultural commodities. This programme included €15 million for cotton. The targeted international organizations are the World Bank, FAO, UNCTAD, and the Common Fund for Commodities (CFCs). The programme allows for multi-donor co-operation.
- The EU considered that cotton-dependent African countries (Benin, Burkina Faso and Mali) could benefit from the FLEX in 2005. The EC was considering mobilization of additional short-term support from non-EC sources to mitigate the effects of export earnings shortfalls.

36. On coordination efforts across bilateral donor and other assistance programmes, the EC identified coordination within African countries; and, different types of international coordination that it supported. On the latter, attention was drawn to the "**EU-Africa Cotton Steering Committee**", established for implementation of the **EU-Africa Action Plan**. This Steering Committee was composed of public and private representatives. There was the informal EU "Cotton Donor Club", consisting of the EC and some Member States. An "Interagency coordination of International Organizations" is foreseen to implement capacity building programme on commodities and cotton.

Denmark

37. Denmark has projects in Benin and Burkina Faso in the agricultural sector aiming at product diversification. It was in the process of finalizing a strategy for Africa to be launched in the near future, which *inter alia* would reflect cotton. The IF (Denmark Chairs the Steering Committee) was useful. It would enable a coordinated and structured process for implementation. Denmark informed the consultative framework that 3 out of the 4 proponent countries were already in the IF process.

France

38. France was committed to support for the cotton sector, including through its contributions to the "**EU-Africa Cotton Partnership Forum**". Bilaterally, France had a co-operation strategy in support of the African cotton sector. The objective of this strategy was to support the beneficiary countries to face the challenges with which they are confronted in cotton production and export. France's assistance objectives were targeted in particular at Benin, Burkina Faso, Chad and Mali. These objectives were to assist these proponent countries to: i) re-structure the cotton sector; and, ii) improve productive efficiency and competitiveness. Co-operation and assistance also aimed at sustainable development in the cotton zone. French co-operation and support in this sector is led by

the French Agency for Development (AFD) and in the area of science and research by the Centre for International Co-operation and Agronomy Research for Development (CIRAD).

39. €48 million had been set-aside for French action currently being implemented and envisaged to strengthen the cotton sector. This sum of €48 million was an important part of French agricultural assistance in Africa, which was approximately €128 million for activities underway and envisaged.

40. France provided detailed information on its programme of co-operation with and financial and technical assistance to the 4 proponent countries. French co-operation with the African countries and cotton sector support were being implemented in different ways, depending on the level of organization in the sector, particularly in Mali, Burkina Faso, Benin and Chad. In Mali, France was supporting the privatization of the Malian Company for the Development of Textiles. The French Agency for Development (AFD) was supporting the process of re-structuring the sector and adopting a programme to support producers to benefit from the privatization process, improve competitiveness, and soil management. In Burkina Faso, French support was at two levels, namely, the progressive privatization of SOFITEX, the traditional operator; and, on-going support by AFD to re-organize producers. In Benin, French support was centred on assistance to agriculturists to enhance diversification of their produce, etc. Beginning in 2002, the AFD had put in place an action programme to support reform of the cotton sector in several areas. In Chad, since 1997, a €60 million programme has been in place over 60 months to support the rural structure in the *Zone Soudanienne*.

41. French contribution to the **Action Plan** adopted following the **European-African Cotton Partnership** would focus on projects that the French Agency for Development (AFD) was in the process of preparation. There are 3 projects in Benin, Mali and Burkina Faso between €15 to €20 million in value terms. CIRAD research teams would have projects on cotton of about €1 million annually.

42. France was considering allocating €3 million over 3 years to support African cotton producers to strengthen their negotiating capacity, to improve cotton fibre quality, and to develop new research.

43. France supported the three broad levels of European Community action, namely: i) active participation in the Doha negotiations to address the trade aspects; ii) strengthening African cotton production; iii) establishing a permanent framework to respond to cotton price volatility.

Netherlands

44. The Netherlands was involved with cotton sector privatization in Mali. Although the technical level of privatization had been completed, the financial aspect remained work in progress. The Netherlands was focusing on cotton production sustainability, pest controls, pesticides use, etc. It was focused on similar issues in Benin. Broadly, the Netherlands was interested in improving the market for inputs in West Africa and in providing support for producer institutions such as ROPPA. On commodity, including cotton price, fluctuations the Netherlands confirmed that it would work closely with the World Bank on commodity price risk management instruments to support the efforts of the cotton proponent countries to face the challenge of price declines and instability.

Germany

45. Germany's information was preliminary. At a policy level, the German Development Agency (GTZ) was funding the Swiss group *IDEAS* on its cotton activities. GTZ had relevant programmes in Africa: in Benin, Burkina Faso and Chad. In Chad, a GTZ supported project on crop rotation was about to become operational. Germany indicated that it would provide further information on its relevant bilateral programmes in the proponent countries, some of which were in partnership with FAO. Germany mentioned in particular public/private partnerships in Benin and Chad.

Japan

46. Japan provided information on concrete follow-up action it had taken since the Cotonou Cotton Workshop. After Cotonou, Japan responded to the request from the Benin and offered US\$ 7.14 million grant for assistance to support basic infrastructure (irrigation facilities) under Tokyo International Conference on Africa Development (TICAD) initiative. Japan signed a contract for road development and irrigation to assist seed delivery and transportation from cotton farms. Japan elaborated on the extensive opportunities that existed under the TICAD process.¹⁷

47. During the July process, Japan was in dialogue with the cotton proponent countries to better identify their technical assistance needs. Japan's procedure was to respond to specific requests. Japan reported that the Asia-Africa Investment Conference, hosted by Japan in November, showed existing opportunities for additional support for cotton. It confirmed that significant opportunities for cotton-specific financial and technical assistance existed within the TICAD process. TICAD was relevant because one of its main objectives was poverty eradication. In this regard, development assistance for the agricultural sector, including cotton production, was fully consistent with the objectives of poverty eradication in Africa. Also, TICAD focused on investment for Africa. Investment flow to Africa was a significant component of the solution for supporting African countries in their efforts to respond to the challenges they faced on cotton.

United States

48. The United States confirmed its commitment to proceeding with work on the twin tracks of the trade and development aspects of cotton in accordance with the July Decision. On the implementation of the development assistance aspects, the US would pursue implementation at several inter-related levels. At the bilateral level, the United States had fully mobilized its development agencies to respond to the issue. These agencies included the Millennium Challenge Account (MCA) and the United States Agency for International Development (USAID).

49. The US provided detailed information on operational steps it had taken to begin responding to the development assistance priorities of the cotton proponent countries in the cotton sector. First, an inter-agency 3-week mission led by USAID took place in September/October to assess the constraints facing the West African cotton sector. A high-level US and private cotton-sector follow-up visit would take place in December. The Ministers from the four cotton proponent countries visited the United States in July 2004. The purpose of the Ministerial visit was to exchange experiences with the US cotton industry and comprehensively view all aspects of the industry and value chain, from seed to planting, grading and to apparel. The Ministers also met with Ambassador Zoellick, USTR. From the assessment mission, the US would draw up recommendations in January 2005 to decide on the technical assistance that could be provided to the cotton proponents countries.

50. The US also informed participants that Benin, Mali and Senegal had been selected as countries eligible to benefit from Fiscal Year 2004 in the Millennium Challenge Account (MCA). Benin, Senegal and Mali had been re-selected for eligibility for Fiscal Year 2005. Burkina Faso had been selected as a "threshold country" for Fiscal Year 2005 for MCA funding.

51. The US stressed significant opportunities existing for funding projects, including cotton projects in the MCA. However, the funding process required "give and take". Ownership of the projects was key; this depended on meeting several indicators and presenting well prepared projects. Although Benin, Mali and Senegal had provided a general concept paper they were yet to provide specific and whole project proposals. The initial concept papers submitted by the proponent countries only related, at this time, to industrial, commercial and tourist zones. These general ideas were yet to

¹⁷ Japan notified the WTO Secretariat of its action in the letter to the Secretariat dated 9 June 2004.

be refined into specific proposals. Funding could be provided in response to clearly stated priorities and to professionally prepared project proposals, based on ownership.

52. The US would work closely with the African Development Bank (AfDB) and World Bank.

D. MULTILATERAL/REGIONAL DEVELOPMENT PARTNER AGENCIES AND INSTITUTIONS

53. Participating multilateral and regional agencies and institutions were requested to provide information on action taken and envisaged to:

- reflect cotton-sector priorities in country programmes, relevant facilities and mechanisms; and,
- provide financial and technical assistance to cotton sector-specific projects.

Response from Multilateral/Regional Development Partners

African Development Bank (AfDB)

54. The AfDB has designed a "Multinational Project" to improve the "Competitiveness of the African Cotton Sub-Sector". This project has been designed following the WTO Secretariat-organized African Regional Workshop in Cotonou and to take account of the decisions in the July package on the development assistance aspects of cotton. The project will be based on stimulating and strengthening the private sector and promoting private investment in the cotton-producing countries. The objective will focus on contribution to poverty reduction in the AfDB's regional cotton-producing Member Countries. The programme will focus on improving income sustainability of the cotton sub-sector in the Bank's cotton-producing countries. This project is in accordance with the economic development strategy of the governments of the cotton-producing countries of West and Central Africa and with their PRSPs. The project was encouraged by the WTO Secretariat. The AfDB will be seeking co-financing arrangements for this project, endorsed by the cotton proponent countries as well. The potential dividends are significant.

DAC/OECD

55. The DAC/OECD is working at two levels of follow-up and implementation. First, it will expand and deepen the information on cotton-related assistance in the Joint WTO/OECD Trade Capacity Building Database (TCBDB). This would require close co-operation with the bilateral and multilateral donors involved with following through and tracking progress on the Cotonou Workshop Outcomes. Second, the DAC/OECD will organize a comprehensive **Briefing** for DAC Members with the participation of the relevant development agencies and African representatives to follow-through on the Development Aspects.¹⁸ This Briefing has been set for 28 January 2005. Benin on behalf of the proponents has endorsed and welcomed the Briefing.

Food and Agricultural Organization (FAO)

56. The FAO has formulated project ideas in areas of processing and marketing where the FAO could contribute (in partnership with other UN Agencies) in WCA. The projects' objectives would be to increase profitability, competitiveness and sustainability of the cotton industry in WCA. The project would focus on assisting WCA in developing more cost-effective sustainable production and improving efficiency in product processing, handling and marketing. This project would be based within a framework of appropriate sectoral strategies and policies to cope with international market

¹⁸ Letter from Mr. Richard Manning, DAC/OECD Chairman to WTO DDG Dr. Rana, 7 July 2004.

dynamics and requirements. FAO contributions would be directed at three project areas, namely: (i) sectoral and trade policies; (ii) supply-chain performance; and, (iii) sustainable integrated production practices. FAO noted that implementation of projects in these three areas would require a multi-disciplinary approach with organizations like UNIDO and wider partnerships.

57. In addition, FAO has pointed to its extensive Development Assistance Activities on Cotton in African cotton-producing countries, including the cotton proponent countries. The list includes studies, workshops and seminars to assist African countries to implement the Agreement on Agriculture. Agricultural and rural development projects have been implemented in African countries benefiting cotton farmers directly and indirectly. Furthermore, there was technological assistance specifically for cotton, such as the FAO implementation of an Integrated Production and Pest Management (IPPM) project in Burkina Faso, Mali and Senegal. There was an FAO project on "Reducing Reliance on Agricultural Pesticide Use in the Senegal and Niger River Basins through Integrated Production and Pest Management, and Community-based Pollution Prevention System". This project was currently on course to be implemented in Guinea, Senegal, Mauritania, Mali, Niger and Benin. (This project is co-financed by the Global Environment Facility – GEP-UNEP). In Burkina Faso, FAO (in partnership with IITA and CIRAD) is working on opportunities to improve incomes through improved production systems, focusing on crop/pasture and livestock integration. In Burkina Faso and other countries in WCA, cotton is one of the anchor crops being developed under the FAO Production Priority Area for Interdisciplinary Action (PRODS PAIA).

58. New technological projects are under development and preparation. Pilot field sites would be started in several African countries like Uganda, Tanzania, Mali, Burkina Faso and Benin. The World Bank and several German institutions/Ministries have expressed interest.

59. FAO stressed that African cotton-producing countries urgently need an implementable strategy to ensure cotton sector long-term prosperity. This needed to be done by increasing market and technological efficiency. FAO confirmed, given its expertise, that it would actively pursue further projects in African cotton-producing countries to improve cotton sector efficiency and sustainability, and to design appropriate market and development strategies. FAO would work with other institutions to promote actions to reduce price instability and efficiently manage market risks.

International Monetary Fund (IMF)

60. The IMF would play two specific roles, namely: (i) to judge how developments in the cotton sector link into the overall economic picture; and, (ii) to contribute to mitigating balance of payments shocks. The IMF informed participants about the flexibility for financing existing under the Poverty Reduction Growth Facility (PRGF). This flexibility existed in the legal provisions for PRGF funding. With regard to Fund financing arrangements in the African cotton-exporting countries, the Fund's Board was explicitly recognizing the need for possible increases in financing as a result of shocks. A precedent in this regard was set in the new Mali 3-year PRGF arrangement, which was approved subsequent to the Cotonou Workshop. Although the IMF was concerned with the broader macro-economic picture and did not provide sectoral support, the IMF was currently working on the financing and modalities of the Fund's engagement with low-income Members, including instruments to help Members face shocks. This work aims to address the particular challenge faced by cotton producers in Africa or similar challenges by other commodities' producers with systemic implications for macro-economic performance.¹⁹

¹⁹ The Fund clarified that the Trade Integration Mechanism (TIM) was designed to apply to the class of situations where multilateral (or third country) trade liberalization created adjustment costs in home countries.

International Trade Centre (ITC)

61. ITC technical co-operation activities are demand-driven. Detailed needs assessment in close co-operation with national counterparts was the starting point for the development of specific technical assistance programmes and projects to support the export development of cotton, cotton by-products and value-added products derived from cotton. Financial resources would be required to enable ITC develop such programmes and projects to respond to priority needs.

62. ITC technical assistance is proposed for delivery through three modes: i) generic tools and multi-country programmes; ii) customized initiatives; and, iii) multi-agency, multi-country programmes, specifically JITAP and the IF. There are three levels to ITC assistance. These are: i) capacity-building at the national level; ii) the regional and sub-regional levels; and, iii) the global level. At these 3 levels, ITC has identified areas where it has activities and proposes products and activities on cotton that would contribute to the implementation of the Development Aspects of cotton. For instance, at the global level of assistance, it proposes the development of a "Cotton Guide – a Trader's Manual on Cotton", which would contain basic and operational information on the international cotton market and its requirements with practical assistance to the trader and the producer. It also proposes "Market Studies on Cotton By-Products and Value-added Cotton Products". These studies would assist producing countries to identify and analyse potential export markets in order to diversify exports beyond commodity markets. These proposals deserve follow-up.

United Nations Industrial Development Organization (UNIDO)

63. UNIDO confirmed that cotton was now a priority in its quality assurance programmes and projects. It re-confirmed its position to participate in the **Action Plan** of the **EU-Africa Cotton Partnership**. UNIDO explained that it considered its role within the context of its technical assistance activities, which focus on the improvement of competitiveness of African cotton.

64. UNIDO listed areas of current implementation relating to cotton. These are: i) development and promotion of a special cotton label for cotton from the West African Economic and Monetary Union (WAEMU); ii) purchase of two instrumental cotton classification systems and accessories High Volume Instrument (HVI) for Mali and Togo; iii) WAEMU agreed assistance for reparation of the HVI for Burkina Faso; and, iv) training programme on capacity building on the measurement in relation to classification, ginning and commercialization, for several cotton-producing countries (Benin, Burkina Faso, Mali, Senegal, Togo and Côte d'Ivoire). UNIDO also pointed to possible areas where it could namely contribute: i) national and regional strategies; ii) policies and institutions; iii) technology innovation; and, iv) chain integration.

World Bank

65. The World Bank reaffirmed its commitment to this issue of importance for African countries. It recalled its presence and contributions at the Cotonou Workshop and co-operation with the WTO Secretariat on the development assistance aspects of cotton. It also recalled its participation at the EU-Africa Cotton Partnership Forum in July. The World Bank responded to country priorities on a country-by-country basis, if those priorities were identified in their PRSPs. The World Bank's lending and non-lending activities in the cotton sectors of West and Central Africa were considerable. World Bank activities took the form of policy analysis, technical assistance and capacity-building, and lending operations (either for investment or adjustment) from IBRD loans or IDA credits. These were specific areas where the World Bank would continue to lead and focus. (The World Bank provided a detailed list of its lending and non-lending activities in the African cotton-producing countries).²⁰

²⁰ WT/GC/83/Add.1, pages 45-46.

66. An issue of high importance and concern by the cotton proponent countries was income shortfalls, arising from commodity price fluctuations due to a variety of factors, including exchange rate movements. Priority and urgency were accorded to the lead role by the World Bank for technical assistance and capacity-building to identify ways to manage the risk through market-based risk mitigation instruments. "The World Bank's Commodity Risk Management Group" provides technical assistance and training to build the capacity of developing country producers to use international risk management instruments to hedge exposure to short-term price and weather-related risk. The World Bank noted that price-risk management in the cotton sector was complicated due to the presence of "high basis risk" (the low correlation between the New York Board of Trade futures contract and the Cotlook A Index – the main price measure of the world cotton market).

67. Critical is the Bank's technical assistance and capacity-building to identify constraints to trade facilitation and expansion through the Diagnostic Trade Integration Studies (DTISs). (The two Bretton Woods institutions underlined the importance they attached to ensuring complementarity between trade and development policies).

E. POVERTY REDUCTION STRATEGY PAPERS (PRSPs)

68. PRSPs are vital to coordinated action by proponent countries, bilateral donor Members, and multilateral/regional agencies and institutions. The cotton proponents have fully reflected in their PRSPs cotton sector priorities. Their PRSPs also point to sectoral reform efforts underway.

Benin

69. Institutional reform of the cotton sector and cotton sector priorities are reflected in detail in Benin's PRSPs. Areas for principal measures are also identified in Benin's PRSP.²¹

Burkina Faso

70. Cotton priorities are reflected in the PRSP for Burkina Faso, including in Matrix of Measures for the Period 2003 to 2004.²²

Chad

71. Cotton sector priorities, particularly sectoral competitiveness, are reflected in Chad's PRSP. Reform strategies are highlighted. Cotton projects are identified and annexed.²³

Mali

72. Cotton sector priorities, including institutional reform are reflected in detail in Mali's PRSP. Sectoral objectives are identified as are strategies for attaining those objectives.²⁴

F. THE INTEGRATED FRAMEWORK FOR LEAST-DEVELOPED COUNTRIES (IF)

73. The principal objectives of the IF are to mainstream a LDCs' trade priorities into its national development plans, such as the PRSPs, and to coordinate the delivery of trade-related technical assistance and capacity-building. If the cotton sector is identified as a priority by an IF beneficiary, a Diagnostic Trade Integration Study (DTIS), prepared within the context of the IF, provides an analysis of the sector from economy-wide perspectives, by assessing its competitiveness and/or

²¹ Benin PRSP 2003 – 2005: see pages 27, 28, 107 and 119. (Prepared in December 2002).

²² Burkina Faso PRSP Progress Report 2000-2002: paragraph 215 and Box 3.2 (pages 99 to 100).

²³ Chad PRSP. Pages 65 to 66; and, Project 15 on page 110). Prepared in June 2003.

²⁴ Mali PRSP Annual Progress Report 2004: pages 23 to 24. Paragraphs 140, 300 to 302.

identifying any factors impeding its competitiveness. Because of the 6-agency partnership (IMF, ITC, UNCTAD, UNDP, the World Bank and the WTO) with bilateral donors and LDCs' representatives, the IF provides essential links to technical and financial assistance.

74. The four cotton proponent countries are at various stages of the IF process. Mali has completed its first draft of the DTIS, which is due to be discussed at a national workshop from 29 November to 1 December 2004. Benin and Chad are in the process of preparing their DTISs, which are scheduled to be completed and discussed at their national workshops in early 2005. The preparation for a DTIS in Burkina Faso is also underway, with a preliminary mission to begin the first step of the IF process scheduled for early 2005.

75. An analysis of the cotton sector is undertaken in the DTIS for Benin, Chad and Mali. In the cases of Benin and Chad, the study contains a dedicated chapter on the sector, while in Mali's DTIS, the cotton sector is treated as part of the chapter on agriculture and agro-industry. The preliminary findings of the DTIS analyses have highlighted the urgent necessity to reform and strengthen ginning factories that had been previously controlled by national companies. Moreover, in assessing the possibilities for the cotton-producing countries to engage in further processing of cotton fibre, the findings have placed emphasis on the importance of improving general economic conditions, including transport infrastructure and public services, aimed at reducing overall cost of doing business. More comprehensive findings of the cotton sector analyses are expected.

76. In addition to the analytical tools provided by the DTIS, the IF provides a framework of coordination among development partners, which could play a key role in the delivery of technical and financial assistance to the cotton sector. In each beneficiary, a "lead donor" or "facilitator" is identified among the development community and will be tasked as the main coordinator of bilateral and multilateral donors, in their efforts to support the government to follow-up and implement the needs and priorities identified in the DTIS, included in the cotton sector. In Benin, Chad and Mali, the IF Facilitators have supported the Governments throughout the IF processes. As the cotton sector has been identified as a priority in their respective DTIS, the IF can make a positive contribution to the coordinated delivery of financial and technical assistance to the sector. This should now be used.

77. Bilateral donor Members and participating multilateral/regional institutions are invited to urgently follow-up on the findings and identified areas of assistance in the action matrices.

G. JOINT INTEGRATED TECHNICAL ASSISTANCE PROGRAMME (JITAP)

78. Three of the 4 cotton proponent countries (Benin, Burkina Faso and Mali) are JITAP beneficiaries.²⁵ Although there is no specific chapter in the JITAP Programme document for cotton (or for any other product sector), there is provision for any JITAP country to identify any product for which specific action is required. This provision is covered under Module 4 of the Programme document. Under Module 4 (in which ITC is the lead Agency), a country may "identify product-sector strategies as a useful tool to assist their entrepreneurs and policy-makers to convert trading opportunities due to opening up of economies into new export opportunities".

79. Benin, Burkina Faso and Mali have submitted specific requests for action to be undertaken either in the form of "needs assessment studies"; "formulation of sector specific strategies"; or for "precise product and market development action".

²⁵ Chad is not a JITAP beneficiary.

Benin

80. Benin has requested JITAP to provide technical assistance for the strengthening of the country's negotiation capacity, with a focus on the cotton sector. It has asked for a cotton sector study on product and market diversification. The study will better present the needs of Benin for assistance in the cotton sector by development agencies in the context of JITAP or other programmes.

Burkina Faso

81. Burkina Faso has requested for capacity-building for trade negotiators; and, the formulation of a "strategic vision" for priority sectors, including the cotton sector. Burkina Faso like Benin has also asked for a "needs assessment study" on product and market diversification and identification of areas of assistance by donors and agencies.

Mali

82. A project document has been produced. However, the project document did not request for specific JITAP action. It is, however, expected that more precise requests will be made.

83. For the three proponent countries, it is essential to bear in mind that like all original JITAP countries, Benin, Burkina Faso and Mali will have to exit the programme in 2005, unless granted an extension. This decision will need to be made by the JITAP Steering Group. Extension for Benin, Burkina Faso and Mali and the inclusion of Chad should be considered in light of the July Decision.

84. Bilateral donor Members and participating multilateral/regional institutions now need to urgently follow-up in the areas of expressed need and identified assistance and project preparation.

V. CONCLUSION

85. A significant start has been made. The multilateral system of trade development assistance is shifting to reflect cotton sector priorities in programmes, facilities and mechanisms. This is in accordance with the Cotonou Cotton Workshop "Outcomes" and also in accordance with the implementation of the development assistance aspects of the cotton-related decisions in the July Decision. Nonetheless, there is scope for progress because the focus of activities are in low-income countries, where domestic economic circumstances are complex, the challenges extensive and the institutions and the infrastructure are inadequate to face up to the challenges. Therefore, in spite of the better than satisfactory start that has been made, efforts still have to be scaled-up. At the same time, the established process and implementation measures underway on the development aspects, can only evolve towards a positive completion when matched by corresponding action and participation on the part of the proponent countries. The facts indicate that the proponents are engaged positively.

86. Preliminary evaluation of the information exchange in the consultative process point to several areas for potential expansion in action. One such vital area with pressing urgency is coordination at various levels. There is the necessity for regional coordination of similar and identical requests by proponent countries, to be matched by a corresponding acute need for enhanced donor coordination. On the part of the cotton proponent countries, they could consider the usefulness of cross-country coordination by requesting the African Development Bank to coordinate and rationalize their needs. On the part of the donor Members, the on-going efforts by the United States and the European Communities and others deserve acknowledgement, but evidently there is scope for improved coordination. The DAC/OECD also has a key role to play in underpinning enhanced donor coordination. The DAC, with WTO Secretariat support, is contributing to strengthening such enhanced donor coordination, mutually reinforcing the understanding on coordination as noted in the Cotonou Workshop "Outcomes". Duplication of efforts and activities need to be avoided. For instance, initial Secretariat analysis of contributions by bilateral donor Members and

multilateral/regional agencies and institutions, show a pattern of competitive rush to capacity-building (in many cases in the same areas). There is a rush to provide support for "needs assessments", "training of negotiators", "identification of areas of financial and technical assistance", etc.

87. The PRSPs are critical country-owned policy documents around which a consensus has emerged by agencies and donors that they will invest their development efforts. They are central to coordinated action. Technical assistance delivery mechanisms and frameworks like the Integrated Framework and the JITAP were expressly designed to, *inter alia*, address the challenges of coordination and building synergies. The tripartite representative structure of these instruments, composed of multilateral institutions, bilateral donors, and beneficiary partners, should now be put to full use to seek greater coordination. The Joint WTO/OECD database will play a critical role in tracking and monitoring progress, particularly on the dividends for synergies and enhanced coordination. It is indispensable that coordinated efforts focus around these instruments. Support for capacity-building can be better rationalized and streamlined. Bilateral donors are strongly urged to use the Integrated Framework and the JITAP for greater coordination, within the policy framework of the PRSPs.

88. International markets carry risks for commodities as for every sector of international trade. These risks have to be addressed. Long experience clearly indicates that the most promising approaches lie in the use of market-based commodity price risk instruments. This is a key aspect of on-going work on the implementation of the decisions on the development assistance aspects of cotton. In this regard, the leadership of the World Bank is vital and indispensable. However, the Bank will require the support and partnership of the international community in very concrete ways.

89. Cotton sector shocks in countries that are heavily dependent on this commodity carry the risk of causing broader macro-economic imbalances. The IMF has an important role in this regard, in advising countries in adjusting to these shocks, and in providing financial support to mitigate the impact on the balance of payments, as appropriate.

90. Deeper and continuing domestic reform in the cotton proponent countries is essential to strengthen their competitive efficiency for participation in international markets. Members and multilateral institutions need to encourage this process of domestic reform, which is also vital if these countries are to benefit from progressive improvements in market access opportunities.
