



# African Cotton & Textile Industries Federation (ACTIF)

## Grant Report for the period ended 30<sup>th</sup> September 2011

**Program Name:** To promote trade in African cotton, textiles and apparel (CTA), expand market access regionally & internationally under the **Africa Growth & Opportunity Act (AGOA)** and **European Partnership Agreements (EPA)**. Further to develop sustainability of ACTIF for its continuity to assist in the development of the CTA sectors in Africa and to assist in the development of competitiveness and trade.

**Standard Grant Agreement Number:** ACT-STA-011-020

**Program Dates:** 1<sup>st</sup> Jan 2011 - October, 2011

**Reporting period:** 1<sup>st</sup> July 2011 - September, 2011

**Beneficiary's Name:** African Cotton & Textile Industries Federation (ACTIF)

**Program Amount:** USD \$ 274,000

**Person Reporting:** Rajeev Arora  
Executive Director

**Date of Report:** 7<sup>th</sup> October 2011

## **1. Program Background**

The African Cotton & Textile Industries Federation (ACTIF) was formed to promote trade and increase market access for the cotton, textile and apparel industry in Africa. This Mission is informed by its Vision which is, “an integrated cotton textile and apparel industry that effectively competes on the world market.”

The goal of ACTIF is increased trade in African cotton, textiles and apparel. This goal will be realized through the attainment of the organization’s strategic objectives which are:

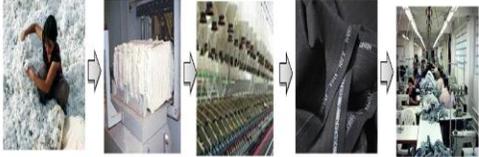
- i. To promote trade in African cotton, textiles and apparel;
- ii. To expand market access;
- iii. To establish a market information system;
- iv. To promote the development of policies that are supportive to trade;
- v. To provide an institutional framework for the development of the cotton, textile and apparel industry in Africa; and
- vi. To enhance private sector involvement in regional policy formulation and implementation.

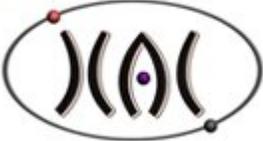
## **2. Objectives of the Grant**

The primary objective of this grant application is to implement a set of activities in line with COMPETE’s objectives & ACTIF’s strategic & operating plan, which proposes a focus on: Strengthening market linkages through collection, synthesis and dissemination of information and provision of business-to-business platforms necessary to forge market linkages across the sector to develop Trade regionally & internationally (under AGOA and EPAs); Driving productivity / quality improvements through provision of capacity building trainings to the ginning, textile and apparel segments of the CTA value chain for enhancing competitiveness; Also to provide training to enhance risk-management in the sectors and represent private sector perspectives on trade policies at the regional and international levels.

### 3. Benchmark Assessments and Levels of Achievements - (a synopsis)

Activity/Tasks	Targets	Level of Achievement
<p>Develop a regional CTA Directory to enhance Trade</p>	<p>July – Sep 2011</p>	<p>Following the successfully completion of the CDE sponsored supply side analysis of 4 Eastern African Countries: Kenya, Uganda, Tanzania &amp; Sudan, directory information for the cotton, textile &amp; apparel suppliers was successfully developed.</p> <p>The task of developing an online directory has been awarded to one of our suppliers and the activity is ongoing. Another supplier has also been contracted to develop the print directory.</p>
<p>Southern African regional stakeholders meeting along the CTA value chain</p> 	<p>July 2011</p>	<p>The Southern African regional stakeholders meeting for the cotton, textile and apparel stakeholders' held on 5th July 2011, provided ACTIF and its members a great platform to meet and interact as part of the efforts of developing and enhancing a regional CTA value chain.</p> <p>Over 20 private national associations representing the cotton value chain of Southern African region participated in the meeting. The meeting was supported by AAACP program - EU-Cos cotton fund through COMESA.</p>
<p>Promoting the profile of ACTIF through value generating activities for sustainability</p> 	<p>July - Sep 2011</p>	<p><b>CTA Magazine:</b>  <i>The CTA magazine – Cotton Africa was successfully launched during the regional strategy review meeting held in Nairobi. An online version of the magazine was also developed subsequently launched. Development of the subsequent issues is currently underway</i></p> <p><b>Upgrade of cottonafrica.com:</b>  <i>Cotton Africa website has been updated to make it more interactive and easier to share information with our members and partners.</i></p> <p><b>ACTIF Documentary:</b>  <i>Some materials have been collected for preparing the ACTIF documentary. This includes interviews with some key CTA stakeholders, including ACTIF chairman, Executive Director,</i></p>

		<p><b>Update of ACTIF brochure:</b> <i>New information has been compiled for updating the ACTIF brochure and a consultant has been awarded the task</i></p>
<p><b>Enhancing ACTIF's online trade link platform cottonafrica.com</b></p> 	<p>July - Sep 2011</p>	<p><i>Initiatives aimed at promoting the CottonAfrica online trade link were successfully implemented.</i></p> <p><i>This included:</i></p> <ul style="list-style-type: none"> <li>- <i>An online marketing campaign tool that was developed and used to target CTA institutions and traders.</i></li> <li>- <i>Promotional fliers for the trade link were also printed and distributed at various regional forums</i></li> <li>- <i>An advert being included in the cotton Africa magazine promoting the online trade link</i></li> </ul> <p><i>The response has been positive with a significant number of new traders being registered.</i></p>
<p><b>Supply side analysis to develop a market information system (MIS) – East African Region of CDE membership (Kenya, Uganda, Tanzania &amp; Sudan)</b></p> 	<p>July – Sep 2011</p>	<p><i>The supply side analysis of 4 Eastern African countries was successfully completed and a detailed report presented to the donor partner CDE.</i></p> <p><i>The supply side analysis report was officially launched in the month of August 2011, during the ACTIF annual general meeting. Copies of the report were distributed in CD form to all our members.</i></p> <p><i>Directory information for the regional suppliers was also developed and both online and print versions of the directories are currently being developed.</i></p>
<p><b>Eastern African regional stakeholders meeting along the CTA value chain</b></p> 	<p>August 2011</p>	<p><i>The East African regional stakeholders meeting for the cotton, textile and apparel stakeholders' was held in Uganda on 30th and 31<sup>st</sup> August 2011, and provided ACTIF and its members a great platform to meet and interact as part of the efforts of developing and enhancing a regional CTA value chain.</i></p> <p><i>ACTIF members and stakeholders from 13 African countries participated in the meeting</i></p>

<p><b>ACTIF Annual General Meeting (AGM)</b></p>	<p>August 2011</p>	<p>The 3<sup>rd</sup> Annual General meeting for ACTIF was held on 29<sup>th</sup> August 2011 at Africana Hotel, Uganda.</p> <p>During the AGM, the annual elections were held and the Chairman Mr. Jaswinder Bedi was unanimously re elected to continue serving as chairman of ACTIF. Most of the directors that were due for re election were also re elected with exception of Mr. Joseph Nkole of Cotton Association of Zambia, who was newly elected into the board to represent the production and ginning sub sectors.</p>
<p><b>Participation at the 70<sup>th</sup> ICAC meeting, Buenos Aires, Argentina</b></p> <p>2011</p> 	<p>Sep 2011</p>	<p>The International Cotton Advisory Committee (ICAC) met in Buenos Aires, Argentina during September 4-9, 2011 for its 70th Plenary Meeting since the establishment of the Committee in 1939. Participation was 495, including representatives from 39 governments and 7 international organizations. The Committee welcomed the Government of Peru as its newest member.</p> <p>The theme of the 70th ICAC meeting was "Public and Private Sector Roles in the Cotton Value Chain: Ensuring Both Efficiency and Fairness" The Chairman of ACTIF, Mr. Jaswinder Bedi represented ACTIF members in the international forum and key linkages were established with other global partners.</p>
<p><b>Participation at the ITMF and ITMA Conferences, Barcelona Spain</b></p> 	<p>Sep 2011</p>	<p>Around 300 delegates from 31 countries attended the inaugural ITMA-ITMF World Textile Summit, which took place at the Hotel Rey Juan Carlos I, in Barcelona on September 21. The event was the first joint initiative between CEMATEX, owners of ITMA, and the ITMF, and was organised in partnership with World Textile Information Network (WTiN) and international event organiser MP International.</p> <p>The summit brought together textile-industry leaders and some of the world's most influential thinkers and policymakers in strategically important fields such as economics, trade, technology and sustainability, and delivered an inspirational, forward-looking agenda, including interactive panel discussions, designed to offer a global perspective</p>



on the opportunities and challenges likely to face the textile industry in the years ahead.

The Executive Director, Mr. Rajeev Arora and the Chairman, Mr. Rajeev Arora represented ACTIF at the event. A lot of linkages were established with key international suppliers of machinery and technology that would be very useful for the Origin Africa event scheduled for April 2012

## Southern African regional stakeholders meeting along the CTA value chain, 5<sup>th</sup> July 2011



The South African regional stakeholders meeting for the cotton, textile and apparel stakeholders provided ACTIF and its members a great platform to meet and interact as part of the efforts of developing and enhancing a regional value chain. Zimbabwe has not been in focus within the past decade and was an excellent choice to host the land mark meeting considering that it was once among the few countries in Africa with a strong cotton, textile and apparel value chain, as they were the leading exporters of apparels and fabrics in regional and international markets before the mid 90's. Since that period, the industry experienced significant decline leading to massive lost of income, employment and investment mainly due to the government policies and international sanctions. The positive news, however, is that the government of Zimbabwe has now decided to prioritize the revival of the sector and the private sector is aggressively engaging the government, regional and international partners to advocate for better policies, to synergize with the region and to attract investment in order to develop the value chain.

The meeting therefore came at the ideal period as the regional stakeholders had the opportunity to share information on best practices and also develop linkages for strengthening the regional value chain, considering that most of the countries had common issues and challenges. The role of ACTIF and COMESA was also emphasized and the stakeholders promised to support the regional efforts in order to build competitiveness and enhance intra regional trade. ACTIF would like to sincerely thank the government of Zimbabwe, COMESA through the Cos Coton supported by EU-All Agricultural Commodities Programme for partnering with ACTIF to fund the meeting, and would also to thank in

particular Zimbabwe Clothing Manufacturers Association for partnering with ACTIF for all the local planning and mobilizing national associations, and finally we thank all the participants for their valuable input to the meeting. ACTIF hopes that all stakeholders will continue to work together in the development of the CTA value chain across the region.

## **KEY OUTCOMES**

Following an interactive session during the stakeholders meeting, it was noted as follows:

1. There were common challenges facing the stakeholders across the region
2. There is a strong need to promote synergy and cooperation among the stakeholders
3. There is potential for intra regional trade
4. There is a need to identify key areas for collaboration in the cotton clothing sector, beginning with forming linkages among the stakeholders at the meeting.
5. Government policies are key factors of success
6. There is an urgent need to enhance the entire value chain of Africa and make it a success. India is a good model to learn from.
7. There is an urgent need for a strong clothing industry in Africa that should maximize on the African market. (700 million people in SSA alone)

## **Key recommendations:**

1. Marketing: Access to market information is key. ACTIF has been playing an important role but needs to be supported by all stakeholders. ACTIF should also spearhead the consolidation of a strong regional database, from production right up to retailers and institutional consumers.
2. There is a need for more B2B activities within the region perhaps on an annual basis. ACTIF should link up with SATH to promote this across the region, with an intra regional focus.
3. There is need for strong advocacy by all stakeholders to push for friendly government policies and assistance to promote trade within the cotton supply chain to boost employment (SA, Lesotho, Mauritius are good examples of where government has played a key role in the development)
4. There is a need for a common regional policy for all cotton producing countries
5. ACTIF, COMESA and SADC should lead the advocacy efforts at regional level and national level.
6. Trade agreements: need for flexible RoO, elimination of trade barriers, harmonization of tariffs, strengthen our customs unions
7. There is a need to attract investment and also sustain it (protect the investment)
8. ACTIF should play a lead role as a facilitator in the field of training in quality and productivity enhancement

9. There is need to strengthen research and promote textile training institutions
10. There is also a need to sensitize all stakeholders across the cotton value chain (including Trade unions)
11. There is also a need to profile existing training and research institutions in the CTA sectors across the region and identify areas of synergy and standardization
12. There is a need to promote harmonization of standards within the region and sensitize all stakeholders

### Launch of 'Cotton Africa' CTA Magazine in July 2011



ACTIF successfully launched an authoritative trade and policy magazine titled 'Cotton Africa' in July 2011.

Cotton Africa, the first publication of its kind on the continent, will act as the meeting point for all stakeholders across the Cotton, Textile & Apparel value chain; providing a platform for sharing ideas and information about opportunities available in the CTA sector.

The magazine covers a broad range of trade, policy, technology and environmental issues from farm to fashion.

ACTIF is committed to making Cotton Africa one of the most important tools to promote CTA investment in Africa and influence national governments to support compatible policy formulation for investments and technological up gradation. It is hoped that members will find this a useful avenue to share statistics on growth, production, potential as well as for benchmarking Africa with other markets.

A central theme of ACTIF which Cotton Africa is also expected to promote is the enhancement of linkages among local and international CTA stakeholders and promotion of Origin Africa, an initiative designed to market African fiber to fashion and Brand Africa as a destination to source end products.

ACTIF believes the magazine will help develop policy among its 20 member countries and open up new markets within Africa and the rest of the world through the contribution of its members and other stakeholders.

Expert opinions from regional and international CTA specialists will be featured in the magazine as will profiles of leading figures in the African and international CTA sector.

The magazine primarily target national apex organization of farmers, ginner, textile and apparel manufacturers, fashion designers and traders across the CTA value chain, suppliers, ACTIF national associations across Africa, policy and decision makers, national and international trade bodies, donors and national and international media.

The magazine will be distributed free in both electronic and print format to all ACTIF members, the international audience and other players across the CTA value chain in order to ensure extensive coverage and readership.

### **Supply side analysis to develop a market information system (MIS) – East African Region of CDE membership (Kenya, Uganda, Tanzania & Sudan)**



African Cotton and Textile Industries Federation (ACTIF), which is a not for profit regional industry/trade body, with the support of Centre for the Development of Enterprise (CDE), proposed to get a comprehensive supply side analysis done for the Cotton, Textile and Apparel sector of 4 East Africa countries – Kenya, Sudan, Tanzania and Uganda. Intertek (Mauritius) and Wazir Advisors (India) as a consortium were selected through a competitive bidding process as Consultants to conduct this study.

The purpose of the study is to analyse the existing supply chain, identify potential regional strengths (product emphasis) and weaknesses, identify gaps in the institutional structures and communication channels and make recommendations for promoting the sector. Another major objective of the study is to provide a source of information for buyer/seller matchmaking to grow exports and encourage regional integration.

The project involved a combination of primary and secondary research, data analysis and interpretation, which was followed by strategy formulation. Primary research was conducted in target countries of Kenya, Uganda, Tanzania and Sudan with the assistance of local consultants. The discussions with various stakeholders were held using the structured questionnaires and/or discussion guides.

After completion of the primary and secondary research, the data was collated and analysed to present an overall picture at the country and regional level. In addition to providing factual industry

trends and insights, we have also presented our own interpretation, recommendations & key insights about the sector. On the basis of collected facts and figures, we have analysed and brought out the underlying reasons for issues and recommended strategies to address the same.

Findings of each of the countries have been summarised below:

### **1. Kenya**

Cotton sector in Kenya is characterized by a large number of small holder farmers in the Eastern zone comprising Coastal, Eastern and North eastern regions and Western zone comprising Nyanza, Rift Valley and other western regions. Cotton exports from the country are almost negligible; rather most of the domestic requirements are met through import of cotton from neighbouring countries like Tanzania and Uganda.

Domestic spinning and weaving capacities have reduced drastically from ~ 52 mills in 1983 to about 6 mills currently. This is due to the failure of country's cotton sub sector, large scale imports of intermediate products as well as imports of second hand clothing, high production cost and poor infrastructure.

The garment sector of Kenya is principally driven by exports to the US under the African Growth and Opportunity Act (AGOA) initiative. There are ~170 large scale garment manufacturing units operating in Kenya today. In 2010, garment sector remains the dominated sector in EPZ which constituted 29% of all EPZ enterprises, 78% of total EPZ local employment, 56% of EPZ exports, 52% of total EPZ sales and 30% of all EPZ private investment.

Country's trade data shows that Kenya has been a net importer in T&A sector since 2005. Share of T&A exports in country's total exports have declined gradually from ~11% in 2005 to ~6% in 2009 and share of T&A imports in country's total imports have declined from ~17% in 2005 to ~7% in 2006 and it is consistently at ~7% thereafter. Kenya's exports consist of Women's woven suits, jackets, knitted jerseys, pullovers whereas imports constitute worn clothing and woven fabric of synthetic filament yarn. USA is the leading market for Kenya whereas China is the leading supplier.

Major challenges faced by the industry include high costs of doing business related to power and fuel. The existing costs of borrowing are also very high at ~16-18% which makes it difficult for the sector to bear high costs. In addition, the formalities for loan approvals, requirements for collaterals and other documentation are also intense. Current machineries / technology in use are very outdated in the textile sector, which further adds to the costs of manufacturing. Sector is currently facing lack of new investments for upgrading technology. There are huge imports of second hand clothes in the country which is posing a big threat to the economy.

There is a huge requirement of enhancing the skills of people to increase their efficiency levels. The current infrastructure provides for few such institutions which have limited capacities. There is a significant need to promote training institutions and support such programs with necessary infrastructure and train a large number of trainees each year in line with the sector demand.

There is a lot of scope for making value added products particularly for the export markets such as adding embroidery, sequins, other style/design elements. This will bring in incremental revenue to the sector and will also lead to more employment creation and skill enhancement.

## **2. Sudan**

Cotton provides an important livelihood for an estimated 200,000 cotton growers and their families, in addition to employing seasonal labour during harvest time. Cotton is grown in Sudan under both irrigated and rain-fed modes of production. The majority of Sudan's extra-long staple cotton is grown in the Gezira irrigation scheme. While the scheme is government managed, tenant farmers decide which areas and varieties to plant. In recent years, more than half of Sudan's cotton exports have been Barakat, which requires a longer growing season but earns more at export.

Country's overall trade statistics show that Sudan was a net importer till 2006 but in 2007 exports surpassed imports and the same trend was seen till 2009. The CTA sector exports have decreased since 2005 from US\$ 0.08 bn to US\$ 0.03 bn in 2009. Share of CTA exports in country's total exports also declined from 1.5% in 2005 to 0.4% in 2009. On the other hand CTA imports have witnessed increase from US\$ 0.27 bn in 2005 to US\$ 0.42 bn in 2009, thus registering a compounded growth of 12%. Share of CTA imports in country's total imports has increased from 4.4% in 2005 to 6.1% in 2009.

Cotton fiber accounts for almost 98% of Sudan's CTA exports whereas imports constitute Men's woven suits, jackets, women's knitted suits, dresses, etc. Egypt is the leading market for Sudan whereas China is the leading supplier.

The major challenges faced by the industry are closure of large capacities, high cost of doing business and low utilization of manufacturing capacity and unavailability of finance. Technology is another key area of concern which needs upgrading to enhance the competitiveness of the overall textile industry. Most of the cotton produced is exported out of the country. Farmers have shifted from cotton to other crops in last few years as a result of existing low prices and less demand at that time. This resulted in significant decrease in area under cotton cultivation and hence the cotton production.

## **3. Tanzania**

Cotton in Tanzania is grown mainly on small scale farms by who own between 0.5 to 10 acres and grow mostly in the rain fed areas. Major production areas are the Western Cotton Growing Area (WCGA) and the Eastern Cotton Growing Area (ECGA). WCGA accounts for over 98% percent of production. Cotton production in Tanzania is largely meant for exports. Major importers of Tanzania's cotton are China, Indonesia, Thailand, Kenya, Portugal, Bangladesh, Vietnam and Pakistan. Initiatives have been taken to introduce contract farming to promote the industry.

The Tanzanian textile sector consists of two standalone spinning mill and several integrated firms. The industry spins mostly cotton yarns for both knit and woven fabric. A few fabric mills concentrate in making woven printed women khanga and kitenge; as well as yarn dyed woven kikoi fabrics, bed linen and home textiles. Most of these traditional fabrics are sold in Tanzania; a few exported in the surrounding countries; and limited amounts into some of the island states off the east African coast. Tanzania is the world's 2<sup>nd</sup> largest sisal producer. Tanzania has a number of sisal processors which spin/weave sisal and make products such as sacks, ropes, twines, mats, etc.

Country's trade data shows that Tanzania is a net importer in CTA sector, with net imports amounting to US\$ 0.23 bn. CTA exports have slightly increased since 2005 from US\$ 0.16 bn to US\$ 0.17 bn.

However, share of CTA exports in country's total exports have declined gradually from 11% in 2005 to 8% in 2009. Tanzania mainly exports cotton fiber and home furnishing whereas imports constitute worn clothing and woven fabric of synthetic filament yarn. Kenya and India are the leading market for Tanzania whereas China is a major supplier to them.

Major challenges faced by the industry are too many disruptions in the power supply which lead to increased costs for the manufacturers. The borrowing costs for the sector are relatively high at ~15%. So, it becomes highly unaffordable for the manufacturers to borrow from the banks. The technology currently in use is highly outdated in all areas like ginning, spinning and weaving. Many mills have lot of dysfunctional machineries which is just lying with them for many years. There is huge requirement of modern technology and training people to operate these machineries, to improve productivity in the sector. There are huge imports of second hand clothes in the country which is posing a big threat to the economy. The present legal framework is not strong enough to prevent this practice.

The present workforce lacks the requisite skills and training to do the required job. There is requirement of skilled workers especially in areas like efficient farm practices, weaving and textile manufacturing. There is a huge requirement of enhancing the skills of people to increase their efficiency levels. The current infrastructure provides for very few such institutions with limited capacities and has few enrolments for the training facilities. There is a need for promoting these institutions (new and old), support these with the necessary infrastructure and churn out large no. of trainees each year.

Tanzania has limited value added services and 80% of the cotton produced in the country is exported without any value addition. Country offers huge scope for introduction of value-added services but requires additional manufacturing facility for that.

#### **4. Uganda**

In Uganda, cotton is grown in nearly every part of county and is entirely rain fed. It is grown on a regular basis by over 10,000 farmers. Over 90% of cotton is exported raw out of. Uganda's Cotton is among the most commonly produced and traded cotton variety in the world and belongs to the species *Gossypium birsidum*, accounting for 75% of world trade.

In Uganda, textile firms are mostly small or medium-sized. Mostly the capacities remain underutilized. These mills produce both clothing and cloth for sale on the local market. Most Ugandan textile mills do not produce large volume fabric orders, but rather concentrate on producing small runs of a variety of fabrics. Uganda's apparel sector largely consists of small, locally owned companies that produce apparel and uniforms for domestic and regional markets. Most of these apparel producers uses domestically produced yarn or fabric, or they import from Asia.

Country's trade data shows that Uganda is a net importer in CTA sector, with net imports amounting to US\$ 0.09 bn. CTA exports have declined since 2005 from US\$ 0.06 bn to US\$ 0.03 bn. CTA imports have witnessed increase from US\$ 0.07 bn in 2005 to US\$ 0.12 bn in 2009, thus registering a compounded growth of 15%. Share of CTA imports in country's total imports has consistently been at 5%. Cotton fibre accounts for 81% of Ugandan CTA exports whereas it imports mainly worn clothing and twines, cords. China is the biggest supplier to Uganda whereas the biggest export market is Indonesia.

Major challenges faced by the industry include high energy rates, while reliability of electricity service is also an issue. Also since the region is land locked, firms have to incur high internal and external

transport costs. Textile sector manages to borrow funds at a very high finance rate ranging between 18-24%. Technology and lack of skilled workforce are other areas of concern which needs to be addressed to enhance the competitiveness of the overall textile industry.

### **Regional Level Analysis**

Kenya, Sudan, Tanzania and Uganda together account for significant quantities of cotton production. This is sufficient to not only meet the domestic requirements but also export significant quantities. The cotton industry has been one of the key areas in these countries and significant population has been dependant on the sector for more than a century.

These regions enjoy preferential market access and their products can enter most of the world's richer economies free of any customs duties and with limited quota restrictions. Some of the trade agreements these countries have signed up for preferential market access includes African Growth and Opportunity Act (AGOA), Economic Partnership Agreement (EPA) with EU, East African Community (EAC) and others.

However, the industry suffers due to the use of outdated technologies particularly in ginning and textile manufacturing. The sector is dominated by smallholder producers with limited knowledge on crop and farm management practices, price and market trends, input procurement and supply trends which results in low cotton yield. There are issues with regard to the quality of cotton as it has high contamination. The cost of doing business including high power costs and/or inadequate power supply and high costs of borrowing. Bankers are quite reluctant to lend loans to the CTA sector. Large scale import of second hand clothing has crippled the development of domestic market. Emergence of alternative cash crops, which are cheaper to grow but fetch higher returns than cotton in the major cotton growing areas, are also a threat for the sector.

### **Benchmarking**

The four target countries are compared with the leading countries and benchmarked on some of the key parameters relevant for the industry. The idea is to understand world-wide best practices or some of the key initiatives undertaken by these countries to promote their respective industries. These indicators include:

#### **1. Cotton Productivity**

Kenya, Tanzania, Sudan and Uganda all have cotton productivity far less than the world average. Most of the large cotton producers globally have better productivity levels than these 4 countries. Australia has the highest cotton yield in the world. About 85% of cotton area in Australia is irrigated, which partly explains why the average cotton yield is high. Apart from fertile soil and a favourable climate, the high yields are a result of the national cotton breeding program and better farm management practices.

#### **2. Fiber Contamination**

ITMF's cotton contamination survey 2009 shows that among the target countries, contamination is a major issue with Sudanese cotton whereas Ugandan cotton is the better one. Degree of contamination varies a lot with growing area and farm practices. In general, cotton from India, Pakistan, Syria and

some African countries are known to have higher contamination level than the world average, whereas cotton varieties of Australia, Brazil, China, Mexico and USA possess minimum contamination.

The major reasons for contamination are lack of awareness of the importance of reducing contamination, absence of QC procedures, manual picking, dirty storage environment, use of polypropylene (PP) and jute bags or wrappings, poor supervision, improper ginning process.

### 3. Value addition

Most of the cotton produced in Tanzania, Sudan and Uganda is exported out of the country in raw form. A major reason behind this is the absence of sufficient manufacturing capacities in the countries to consume cotton. In Kenya, the cotton exports are nil, but the cotton production volume there is also low.

Most of the large cotton producing countries have established capacities to consume maximum cotton within their own countries. Value addition opportunity is lost by exports of raw cotton, it also loses out on creation of extra jobs across the value chain – spinning, weaving or knitting, dyeing & processing and garmenting. For e.g., China's cotton exports have dwindled since the last decade and it is now the world's largest importer of cotton.

### 4. Technology level

The primary survey conducted for this assignment in all the four countries revealed a general lack of modern technology machinery for textile manufacturing. The reason behind non-upgradation of machines is lack of major new investments in the sector.

Many of large manufacturing nations address this issue by reducing the effective cost of investment thus encouraging the entrepreneurs to invest in the sector. For example in India, the flagship scheme of Ministry of Textiles, known as Technological Upgradation Fund Scheme (TUFS) provide an interest subsidy of 5 percentage points on the bank credit for modernization of ginning, textile and apparel companies. It also provides a capital subsidy of 10% or 25% on selected machinery for processing and technical textiles.

### 5. Logistics

In today's price and time sensitive markets, logistics holds the key to make or break an exporter's position in its target market. The intercity connectivity from port to manufacturing locations in target countries is satisfactory with lot of highway development happening all across. The issue sometimes is of paperwork and hassles at border post (from Uganda to Kenya) and delays for clearances at the ports itself.

### 6. Power scenario

There are two aspects related to power scenario of a country – cost of power and quality of power. In terms of cost of power, it is quite competitive in Tanzania whereas costs in Kenya are the highest amongst the target countries. The quality of power was reported satisfactory only in Kenya; whereas in other countries the availability was erratic and fluctuations were common.

The model followed by some of the countries to promote captive power generation to improve the power scenario is allowing manufacturers to produce, say hydro-based power at one place in the country, sell it to the main grid and purchase at its manufacturing location at same cost. Similarly some countries promote alternative power sources like windmills by providing appropriate incentives e.g. subsidies, accelerated depreciation, tax exemption, etc.

#### 7. Business Financing

High cost coupled with low availability of business financing is one of the major issues in the region that has resulted in low investment in CTA sector.

The rate of interest charged by banks is more related to the macroeconomic environment of the country and policies. The effective rates to any sector may however be reduced by the Government by identifying it as a priority segment and providing interest subsidies on loans offered by banks to businesses in that sector.

#### 8. Supply chain linkages

Kenya has a strong garment manufacturing capacity but no backward linkages within the country to support it. Uganda and Sudan produces cotton, but lacks further downstream processes. Tanzania has some capacities from cotton to fabrics, but lacks value addition in terms of fabric type as well as garment conversion.

For countries where substantial benefits for exports are available, it becomes important to have a complete supply chain as buyers prefer integrated supply bases. Importing yarn or fabric leads to higher costs, higher lead time and loss of employment opportunity.

#### 9. Training and Education

Cotton, Textile and Apparel sector is one of the largest employment providers in developing nations. The sector has potential to employ manpower in significant quantum specifically at the start of value chain (farming and ginning) and towards the end (apparel manufacturing).

Countries like India have paid special attention to this aspect and have built up a strong education infrastructure, and also have launched several capacity building programs. There are also a host of schemes launched by various arms of Government for development of skills required in the textile sector.

#### 10. Market development

The domestic market in all the target countries is dominated by imports of yarn, fabrics, finished goods and second hand clothing (except in Sudan).

For development of exports market, it is important to showcase the product range, manufacturing capacities, etc. to buyers who have not yet made inroads in the region. Such buyer-seller meets / programs are run all over the world by trade and government bodies. For example, in India there are 10 export promotion councils in CTA sector, entrusted with export market development of specific products.

#### 11. Investment Promotion

Promotion of investments from domestic and foreign investors is a must for every country. All the target countries have investment promotion cell/department but these are not specific to CTA sector, such as Kenya Investment Authority (Kenya), Ministry of Investment (Sudan), Tanzania Investment Center (Tanzania) and Uganda Investment Authority (Uganda).

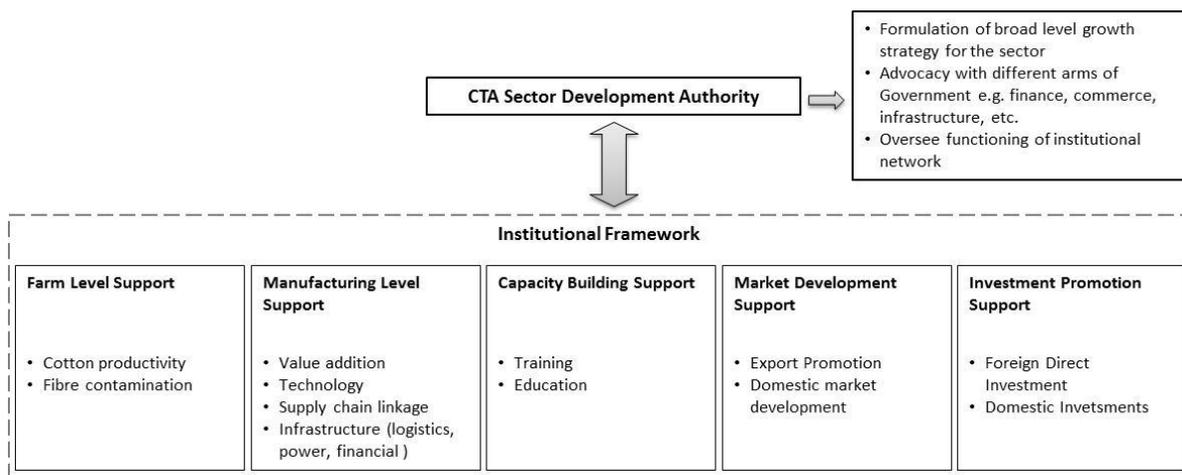
The initiatives undertaken by leading textile and apparel manufacturing nations to promote the sector includes organising Investor Summit and inviting large scale participation, allowing 100% FDI in the sector through automatic route (without pre-approval), improving investment climate through administrative streamlining, etc.

## 12. Government support

Government support in the target countries is very limited than what it should have been as the sector is of the strategic importance to the country as well as region.

Specific support to textile sector is provided by governments in China, India, Bangladesh and Turkey largely in the form of providing suitable infrastructure, incentives for investments in the sector, incentives for promoting exports, marketing support, single window clearance system, trade agreements with major suppliers and buyers, supporting research and development activities, etc.

However, in order to implement any intervention successfully, the utmost importance is of establishing strong institutions in the country to promote, plan and monitor the sector growth. In an ideal scenario,



following should be the institutional framework for implementing various initiatives:

### Recommendations:

Listed below are some of the strategic issues which need to be addressed keeping in mind the relative strength areas of each country and the CTA sector. Following recommendations are made for improving/strengthening the CTA sector performance:

S.no.	Objectives	Recommendations
1	Increasing cotton quality and yield	<ul style="list-style-type: none"> <li>Improve farm practices</li> </ul>

		<ul style="list-style-type: none"> <li>• Create awareness among farmers</li> <li>• Support R&amp;D centers for introducing high yielding seeds</li> <li>• Promote contract farming on a larger scale</li> <li>• Offer more extension programmes</li> <li>• Exercise stringent quality controls at the ginning level</li> </ul>
2	Promoting value addition in the sector	<p>Region has abundant cotton supply but the downstream industries i.e. textile and apparel manufacturing are limited. Value addition in the sector should be promoted by providing:</p> <ul style="list-style-type: none"> <li>• Support schemes/fiscal incentives on value addition</li> <li>• Promoting clusters for doing value addition</li> </ul>
3	Support for modernization and capacity expansion	<ul style="list-style-type: none"> <li>• Interest subsidies shall be provided for upgrading machineries or installing new machineries</li> <li>• Textile &amp; Apparel sector shall be classified as Priority sector and thus, increased lending to the sector should be a prime focus</li> <li>• Establish JVs with international partners</li> </ul>
4	Improving skills of people through adequate training	<p>Introduce schemes for training and skill development and create a fund for implementing the scheme which will aid:</p> <ul style="list-style-type: none"> <li>• Establishing new training centers</li> <li>• Establishing new training programs</li> <li>• Strengthening existing training centers</li> <li>• Linking existing centers with the Industry</li> </ul>
5	Promote education in the field of textiles	<ul style="list-style-type: none"> <li>• Establish new colleges for textiles</li> <li>• Link existing centers with the Industry</li> <li>• Update course curriculum regulatory as per industry requirements</li> <li>• Tie-up with other international colleges for student exchange/knowledge exchange programs</li> </ul>
6	Improve existing infrastructure	<ul style="list-style-type: none"> <li>• Adopt cluster based development approach where suitable infrastructure is provided to the units operating within those</li> </ul>

	and rationalize costs of doing business	and at reasonable costs <ul style="list-style-type: none"> <li>• Various clusters should be identified by doing a detailed study and then promoted as 'Textile &amp; Apparel districts' within the region</li> </ul>
7	Initiatives to promote domestic market development	<ul style="list-style-type: none"> <li>• Phase out supply of second-hand clothing from the market through appropriate policy interventions</li> <li>• Develop a mechanism to regulate flow of cotton to domestic market</li> </ul>
8	Investment promotion activities	<ul style="list-style-type: none"> <li>• Organize Mega Trade show in the region showcasing business opportunities in cotton and textile sector and facilitating buyer seller meets</li> </ul>

### **Eastern African regional stakeholders meeting along the CTA value chain, 30<sup>th</sup> – 31<sup>st</sup> August 2011**

The East African regional stakeholders meeting for the cotton, textile and apparel stakeholders provided ACTIF and its members a great platform to meet and interact as part of the efforts of developing and enhancing a regional value chain. The meeting was officially opened by Hon. Min. Amelia Kyambadde, from the Ministry of Trade, Tourism and Industry, Uganda.

Uganda was a great choice for hosting the meeting considering that the country has successfully developed a national textile policy which is a framework for the textile sector transformation, competitiveness and prosperity, and which is in line with the COMESA regional Cotton to Clothing strategy. The policy highlights the strengths of the Ugandan cotton, textile and apparel sector including: its conducive business environment; availability of idle capacity; presence of trainable labor force; availability of good quality cotton; and its access to huge domestic regional and international markets. However it also highlights its weaknesses of over 90% of cotton exports in raw form; low spinning and weaving capacity; high cost of finance; high infrastructural costs and weak linkages along the cotton value chain. The Uganda experience in the development and implementation of the textile policy was a key highlight during the two day meeting.

The launch of the cotton textile and apparel supply side analysis report for the Eastern African region was a key highlight. The report presentation was done by Wazir Advisors a consulting firm that had been tasked to conduct a 'Competitive Supply Side Analysis of Cotton Textile & Apparel Sector in

Eastern Africa - Kenya, Sudan, Tanzania and Uganda,' supported by African Cotton and Textile Industries Federation (ACTIF) and Centre for the Development of Enterprise (CDE).

The meeting was therefore appropriate as the regional stakeholders had the opportunity to share information on best practices and also develop linkages for strengthening the regional value chain, considering that most of the countries had common issues and challenges. Stakeholders had a chance to share their experiences of strategy development and implementation at national and regional level. Key information shared during the country and sector presentations included: cost of doing business (various costs including utilities, workforce, rental, commercial and domestic etc); Government programmed / initiatives aimed at enhancing the cotton, textile and clothing sector and impact; Donor programs targeted at the sector and their impact; New investments in the sector; Current markets (local, regional and international); Trade statistics & the needs / Issues for developing trade (local, regional and international). The role of ACTIF and COMESA was also emphasized and the stakeholders promised to support the regional efforts in order to build competitiveness and enhance intra regional trade.

Access to finance especially on cotton production received special attention with key presentations by Audit Control and Expertise (ACE) finance, Uganda and the International Islamic Trade Finance Corporation (IITFC) both of whom indicated the willingness to support the sector. The two institutions highlighted in details how they have been able to support cotton trade and the avenues available for accessing the financial products, that are tailored to suit the cotton sub sector with very competitive as compared to the conventional financial institutions. The key challenge to the stakeholders is to strengthen cotton farmers' cooperatives and associations for them to access the financial products. The global board of trade also made a presentation on the role of cotton futures in protecting the cotton traders against price and other related market volatilities in order to secure the earning of the cotton traders. A presentation was also made by COMPETE on Purchase Order Finance (POF), a transaction-specific form of working capital/trade financing to pay for inputs, raw materials, packaging, goods for resale, etc.

Bt cotton also received special attention during the workshop, with key presentations being delivered by Monsanto on the global scenario and by Kenya Agricultural research institute on the Kenyan experience in the adoption of Bt cotton technology. The presentations provided useful insights especially considering that the adoption of Bt cotton in Africa was still very low despite the great success of the technology in India and other parts of the world. A special project to boost cotton production in Kenya

was also highlighted by CABI and which is also supported by ICAC, CFC & EU- AAACP and the government of Kenya.

The Centre for the Promotion of Imports from developing countries (CBI) also made a presentation to the stakeholders highlighting their export promotion program into the EU market that targets various sub sectors including the Home Textile products. CBI expressed its willingness to work with ACTIF in order to reach out to ACTIF members who could be able to benefit from the programs and develop exports into the EU market.

Following the presentations and discussions during the 2 day meeting, the stakeholders held an open session to share information and proposed resolutions for developing trade and enhancing the regional value chain. Below are some of the key highlights from the discussions:

1. The need to focus more on efficiency in production and logistics management a competitive edge to attract investment which is a more sustainable option as opposed to focusing on availability of cheap labor
2. The need to place a special emphasis on carbon foot print control and sensitivity to climate change an emerging trend for boosting product value
3. The need for a regional trade show such as Origin Africa that includes more involvement and ownership by ACTIF members
4. The need to brand African cotton by promoting indigenous productions and fashion designs to capture the regional market
5. The need for capacity building across the value chain, from production to apparel and fashion
6. The need to support public and private partnerships both at national level in order to advocate for favorable policies
7. The need to engage research institutions and financial bodies to invest in modern production technologies to boost cotton production in the region
8. The need to support the development and implementation of national and regional CTA policies
9. The need to capture the impact of liberalization across the CTA value chain and develop strategies of addressing the challenges

10. The need to develop and strengthen existing cotton farmers associations in order for them to access financial products
11. The need to involve farmers associations in the CTA regional value chain development
12. The need to strengthen the capacities of national CTA associations across the value chain
13. The need to benchmark competitiveness and efficiency in the CTA sector across the region and highlight successful models
14. The need to promote the regional value chain concept to boost intra regional CTA trade
15. The need to engage international financial institutions such as the International Islamic Trade Finance Corporation and ACE finance to develop and promote suitable products to boost CTA trade
16. The need to target partnerships with organizations such as the Centre for the Promotion of Imports from developing countries (CBI) for capacity building and development of new markets
17. The need to highlight successful models on public private partnership to be shared with the members

In conclusion, the members were requested to pick up the lessons that need to be implemented at national level, while ACTIF in partnership with COMESA and other partners would focus on those that have a regional impact on them while they also support the members associations in the CTA development. It was also agreed that linkages developed during the two day meeting should be continuously pursued and ACTIF and COMESA would be on hand to provide any support as possible. ACTIF would like to sincerely thank the government of Uganda, COMESA through the Cos Coton supported by EU-All Agricultural Commodities Programme for partnering with ACTIF to fund the meeting, and would also to thank in particular Textile Manufactures Association of Uganda (TEMAU) for partnering with ACTIF in all the local planning and mobilizing national associations. ACTIF also appreciate the active participation of all the stakeholders who attended the meeting and hopes that the interactions would continue to work together in the development of the CTA value chain across the region.

## **Participation at the 70<sup>th</sup> ICAC meeting, Buenos Aires, Argentina**

The International Cotton Advisory Committee (ICAC) met in Buenos Aires, Argentina during September 4-9, 2011 for its 70th Plenary Meeting since the establishment of the Committee in 1939.

Participation was 495, including representatives from 39 governments and 7 international organizations. The Committee welcomed the Government of Peru as its newest member.

1. The Secretariat reported that world cotton production is expected to increase in 2011/12, encouraged by the extraordinary rise in cotton prices to more than double the previous record that occurred during 2010/11. The Secretariat reported that cotton mill use is recovering from the steep decline during the global recession, and world cotton trade is rising with increased consumption. The Secretariat cautioned that stocks are estimated to rise during 2011/12, indicating a decline in cotton prices.

2. The Committee noted that price volatility had been record high in 2010/11 and that volatility imposes costs on all segments of the cotton value chain. Countries agreed that stronger national efforts to gather and report statistics on cotton production, consumption and stocks would enhance transparency and provide additional information for decision making. The Committee instructed its Secretariat to continue to analyze and report to governments on excessive speculation, defaults on contracts for trade in cotton, and other causes of cotton price volatility, including adoption of trade distorting measures by governments. The Committee recommended using metric measures to standardize statistics on cotton.

3. The Committee heard from experts on the subject of technology development and transfer. There was agreement that technology plays a central role in productivity enhancement. The role of the private sector in developing commercially viable technologies was applauded. The Committee agreed that the public sector has a crucial role to play in providing regulation and in facilitating technology development and extension, especially for small and medium sized producers. Cooperation between private and public sector researchers in an efficient research system is essential.

4. The Committee agreed that farmers' associations, organizations and cooperatives can increase access to inputs, improve marketing efforts and strengthen the voices of farmers. The keys to the success of farmers' organizations include strong and stable leadership, transparent and democratic governance, and voluntary membership with farmer ownership and control.

5.1. The Committee received information about organic cotton production systems. A report was received on the damage caused by a failed organic cotton program in which promoters had not provided adequate technical support and had abandoned smallholder growers when world market prices declined. However, examples of successful organic projects were also noted.

5.2. Specialists reported that organic production systems generally result in lower yields. Hence, for the small scale sector organic production systems can be considered if the cost of inputs is reduced, compensatory price premiums are received, and the net returns to growers per hectare are greater or equivalent to other production systems. There was agreement that all programs and projects designed

to enhance organic cotton production should cooperate with regulatory authorities, operate transparently, and provide adequate technical support to growers.

6.1. The Committee received a report from its Private Sector Advisory Panel (PSAP). The PSAP called on government officials to improve collection and reporting of cotton statistics. The PSAP vehemently opposed the imposition of bans or limits on trade in cotton, especially bans or limits applied retroactively. The PSAP criticized industry players and trade associations seeking to take the cotton trade backwards through requests to governments for trade protection. The PSAP agreed that BCI recommendations for improved production practices are fine, provided that BCI does not encourage fragmentation of the cotton market.

6.2. The PSAP considered the risks of increases in defaults on contracts due to the negative impact of the volatility in the price. The PSAP urges governments and associations in the private sector to take more efficient measures in honoring the awards by reducing any legal obstacles and simplifying the procedures as well as taking adequate measures to prevent defaulters from providing further business. The PSAP urged governments to reduce legal obstacles and simplify procedures for the enforcement of arbitral awards.

6.3. The PSAP encouraged governments to adopt the FAO model phytosanitary certificate used for trade in cotton, and the PSAP noted that harmonization of electronic bills of lading would simplify the documentation required for trade in cotton.

7. The Committee also received a report from its Expert Panel on Social, Environmental and Economic Performance of Cotton Production (SEEP). SEEP reported that it is working to update a report on pesticide use in cotton and to release a new report on the components of labor costs in cotton around the world. SEEP thanked member governments for providing the data necessary for its work.

8.1. The Committee heard from a member of the WTO Secretariat that the Doha Round seems to be deadlocked. Nevertheless, the Committee affirms that the Doha Round cannot be allowed to die because its issues remain important and must be resolved. The Committee underscored the importance of trade policy as a key companion to fiscal and monetary policies in facilitating world economic growth and development. The Committee voiced support for the WTO for its role in promoting openness and facilitating the rule of law in trade matters, for the Dispute Settlement Understanding and for the contributions to economic development.

8.2. The Committee encouraged all WTO Members to contribute to bringing the Doha Round to a conclusion with development as its centerpiece through negotiations, flexibility and compromise. ICAC Members reiterated that cotton is an integral part of the Doha Development Agenda (DDA) and that there can be no completion of the DDA without a solution on cotton. WTO Members have agreed that cotton will be treated ambitiously, expeditiously and specifically within the overall negotiations on Agriculture. The Committee acknowledged the specific request of the C4 for an immediate end to direct subsidies that distort production and trade in cotton.

9. The ICAC received a report from the Standing Committee on a proposal to create an international center for cotton research. The Standing Committee had considered the different forms and activities

that such a center might undertake. The Standing Committee reported that no consensus had been achieved since some countries had expressed support for a center, while other countries indicated that it was not clear that there was a need for an international center. Some countries also expressed their concerns that the creation of an international center, even a virtual center, would result in an increase in government assessments. The Committee referred the matter back to the Standing Committee with instructions to undertake further analysis of options, including funding, with a view to building consensus amongst member countries on the proposal to set up an international center for cotton research.

10. In separate sessions Committee members heard of the considerable work being undertaken to promote the consumption of cotton. The IFCP emphasized the need to increase awareness of cotton attributes and promote cotton generically and positively to achieve a unified approach to compete with synthetic fibers.

11.1 The Committee on Cotton Production Research of the ICAC organized a technical seminar on “Technological Innovations for Sustainable Development of the Cotton Value Chain.” Increasing input costs, inefficient use of fertilizer, poor water management, unscientific use of insecticides and absentee ownership of farms are the most common factors limiting cotton productivity. Research leading to improved production practices, organization of farmers, and improvements in input availability have proven to be beneficial in many countries.

11.2. The Round Table for Biotechnology in Cotton met for the first time in Buenos Aires, Argentina on September 4, 2011. Members of the Round Table agreed that all countries that have adopted biotech cotton have benefitted through improved environmental safety, higher yields or lower production costs. Many members of the Round Table are concerned about the high cost of the technology and about trade limitations.

11.3. The ICAC, in cooperation with the National Organizing Committee in India, is organizing the World Cotton Research Conference-5 in Mumbai during November 7-11, 2011. Over 600 researchers from around the world will attend the Conference. The Plenary Meeting encouraged its member governments to send researchers to the Conference.

11.4. The Committee on Cotton Production Research of the ICAC decided to hold the 2012 Technical Seminar on the topic “Intellectual Property Rights and the Role of Private Breeders.” Appreciation of Argentine Hospitality: The Committee thanked the people and the Government of Argentina for their hospitality in serving as host of the 70th Plenary Meeting. Members of the ICAC noted that Argentina was an ardent supporter of efforts to strengthen the global cotton value chain, and the efforts of Argentina on behalf of the ICAC are highly gratifying.

Future Plenary Meetings: The Committee accepted an invitation from the Government of Switzerland to host the 71st Plenary Meeting during October 8-11, 2012 in Interlaken. The Committee also accepted an invitation from Colombia to host the 72nd Plenary Meeting in 2013.

## **MEMBER GOVERNMENTS**

Argentina, Australia, Belgium, Brazil, Burkina Faso, Cameroon, Chad, China (Taiwan), Colombia, Côte d'Ivoire, Egypt, Finland, France, Germany, Greece, India, Iran, Israel, Italy, Kazakhstan, Kenya, Korea (Republic of), Mali, Mozambique, Nigeria, Pakistan, Peru, Poland, Russia, South Africa, Spain, Sudan, Switzerland, Syria, Tanzania, Togo, Turkey, Uganda, United States of America, Uzbekistan, Zambia, Zimbabwe.

## **Funding Summary (\$'s rounded)**

Approved Grant US\$ 274, 000.00  
Amount to date spent Usd 190,236.21  
Balance unspent Usd 83,763.79

### **6.0 Deliverables (those in document format)**

1. Southern African regional CTA stakeholders meeting report
2. Eastern African regional CTA stakeholders meeting report
3. CTA Supply side analysis report for Eastern African region (Kenya, Uganda, Tanzania & Sudan)
4. ACTIF Newsletter for June-July
5. Cotton Africa Magazine (<http://news-cottonafrica.com>)
6. Online Trade link – Promotional flier

~ End of Report ~