The African Cotton Value Chain by 2020: A Realistic Outlook

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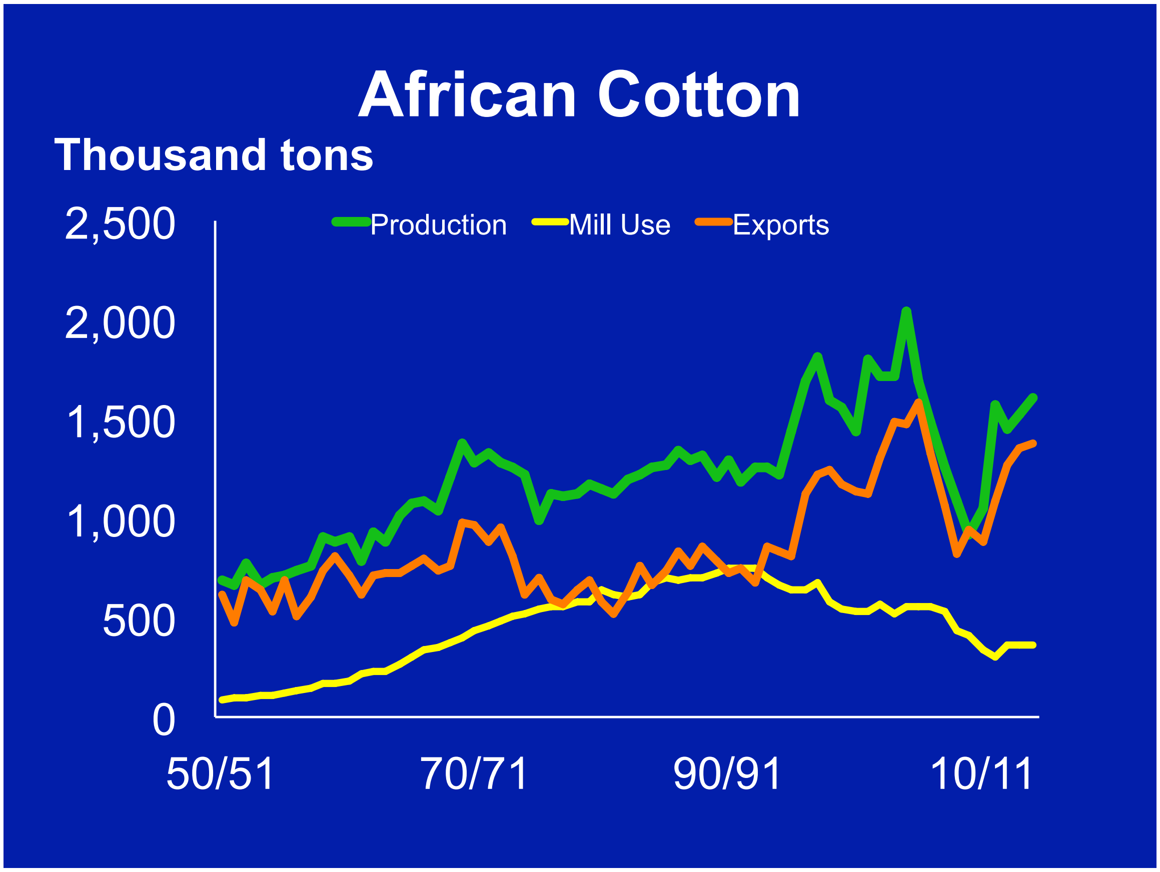
July 15, 2014

Like Latin America, Africa seems perpetually to be a land of potential. In 1939, Africa accounted for about 1% of world cotton mill use; today Africa still accounts for about 1% of world cotton mill use. However, there are realistic grounds for optimism that cotton and textile activity may be poised for growth. Economies in Africa are growing, and millions of new middle class consumers are being created each year. Governance in Africa is improving, resulting in facilitating environments with better infrastructure and better economic policies. Market niches exist within Africa that local firms can exploit through expansion. Competitive pressure from Asian textile and apparel exports is receding. Costs of production are rising in Asia, and recent high-profile disasters have called into question the environmental and social responsibility of Asian textile and apparel production. Consequently, some brands and retailers are actively trying to expand sourcing from Africa.

Following independence in the 1960s, 1970s and 1980s, many African countries sought to expand value added processing of cotton through the creation of parastatal monopolies. In many cases, these monopolies were developed through foreign aid or concessional financing and received cotton at below-market prices. These projects did result in increased mill use of cotton from less than 100,000 tons in the early 1950s to about to 780,000 tons by the early 1990s (Source: International Cotton Advisory Committee), including 340,000 tons in Sub-Saharan Africa and 440,000 in Northern Africa. However, the results were disappointing, with inefficiency resulting in eventual closing of more than 100 textile mills across the continent. However, current expansion is based on commercial investment, not foreign aid or government monopolies, and better performance is likely.

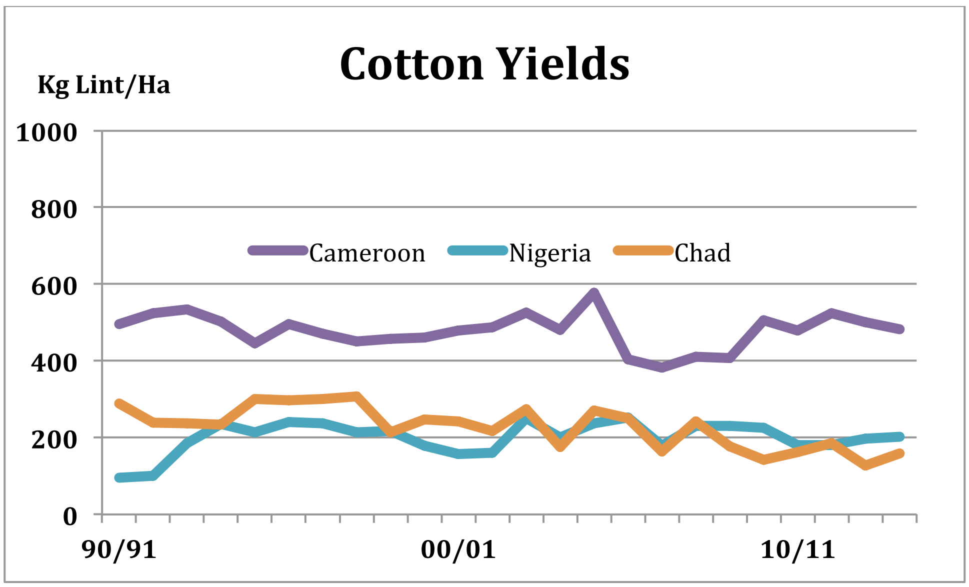


There have been positive signs of growth associated with commercially viable private sector investment in recent years, and African cotton mill use will be about 370,000 tons in 2014/15. African cotton mill use could expand to 600,000 tons by 2020, accounting for 2% of world cotton mill use. While this would still be a small portion of the world total, this would represent a significant increase in African cotton mill use and will provide a basis for expanded textile and apparel production. At an average size of 5,000 tons of cotton and 4,000 tons of other fibers per year per spinning mill, this projection suggests that more than 100 cotton spinning mills will be operating in Africa by 2020, up from about 50 mills operating currently.

Cotton production and exports from Africa trended upward between 1950 and the mid-2000s. African production rose to a record of 2 million tons of lint in 2004/05, and exports peaked at 1.6 million tons the following season. However, because of lower prices during the recession of 2008/09, adverse movements in exchange rates, and political turmoil in some countries, African production and exports fell dramatically after 2004/05 and are only now recovering. Production in 2014/15 is estimated at 1.6 million tons, including 140,000 tons in North Africa, about 900,000 tons in West Africa and about 500,000 tons in Eastern and Southern Africa.

Africa could be an area of continued cotton production increase during the rest of this decade. Ethiopia, Zambia and other countries have abundant unused arable land, and because cotton is a relatively high-valued crop, drought tolerant and storable, cotton is suitable on many of these lands. Even though yields remain lower than elsewhere, the costs of production per kilogram of lint in many African countries are below the world average, and they are below average costs in the United States and China.

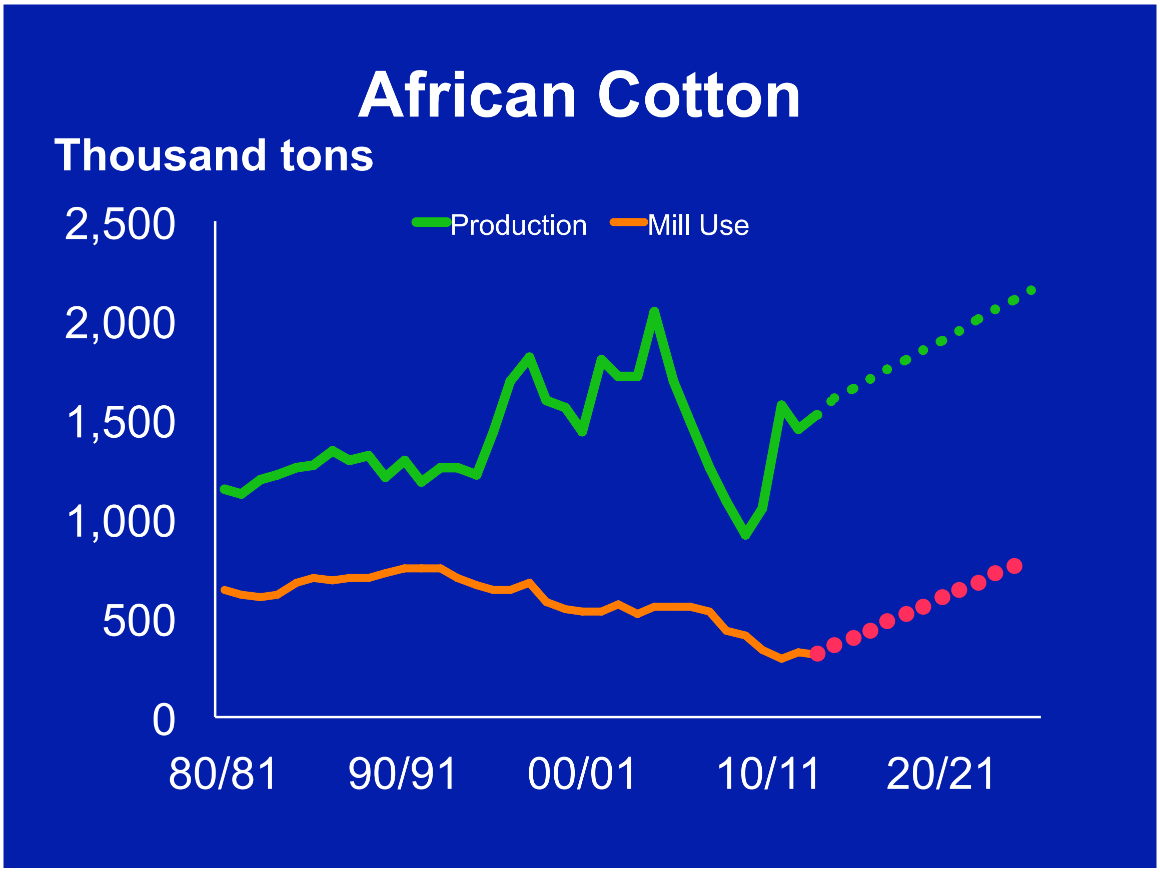
Between 1990/91 and 2013/14, the world cotton lint yield rose an average of 12 kilograms per hectare per year, increasing from roughly 575 kilograms to 775 kilograms. During the same time, the yield in Southern and Eastern Africa showed no trend growth, rising and falling around an average of 250 kilograms per hectare, and the yield in West Africa actually fell by an average of 4 kilograms per hectare per year from 450 kilograms to 375 kilograms.



The primary reason that yields are low across Africa is because input availability is suboptimal, and African governments are addressing this situation through governance arrangements that link input supply to farmers with seed cotton procurement. Cameroon is an example. The highest national yield in Sub-Saharan Africa, other than South Africa, which produced only 10,000 tons of cotton in recent years, is in Cameroon, with an average of more than 500 kilograms per hectare. Cameroon has maintained its single-channel national cotton company, Societe de Developement du Coton du Cameroun (SODECOTON), and has been able to continue to supply inputs to growers at recommended rates in order to maintain production levels.

Uganda is another example. Yields in Uganda were the lowest in the world in the 1980s but have been trending upward and are now among the highest in the region. Uganda formed the Cotton Development Organization (CDO) in the 1990s to regulate the sector, gather statistics and ensure quality standards.

As more governments across Africa learn from the mistakes of the past and emulate best practices, such as those in Cameroon and Uganda, African yields and production will rise. A realistic long term projection of African production is 3 million tons of lint from 6 million hectares, with an average yield of 500 kilograms per hectare (Source: Gérald Estur, speaking at the annual meeting of the African Cotton Association, March 2011). A realistic expectation by 2020 is that African production could rise to 2 million tons, with most of the expansion occurring in Burkina Faso, Cote d'Ivoire, Ethiopia, Madagascar, Mozambique and Zambia.



If African cotton production rises to 2 million tons by 2020, and mill use is 600,000 tons, Africa will still be a net exporter of 1.4 million tons of cotton. Therefore, Africa's status as a net cotton exporter is not likely to change within a decade. Nevertheless, increasing volumes of textile and clothing production, exports and mill use will contribute to increased employment, export earnings and improved food security across the continent, and Africa may finally begin to actually achieve its enormous potential.