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A second-best perspective on cotton sector reforms

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Beyond farmers' taxation:
A second-best perspective on cotton sector reforms in West Africa

Renata Serra[*]

Building on Dani Rodrik's critiques of donor 'best practice' approaches, this paper examines the case of cotton sector reform in Benin, Burkina Faso and Mali, to argue that policies for African agriculture should be less focused on removing policy distortions, and adopt instead a 'second best' approach. Our evidence suggests that: i) in these three major producing countries, taxation of cotton farmers has declined more than is usually assumed, and ii) the push for orthodox economic reforms has been ineffective and often counter-productive. Donor and IFI recommendations on privatising parastatals, liberalising markets and rationalising actors' incentives have taken insufficient account of widespread market, institutional and policy failures which make first-best outcome unattainable. Donors should resist the temptation to concentrate efforts on reducing inefficiencies, and instead support more differentiated interventions that on current evidence would benefit farmers, and reduce rural poverty, more reliably. Rather than regarding actual reforms as falling short of some unattainable efficiency standards, it would be more constructive to work within, and learn from, given contexts.

1 Introduction

African governments are known for doubly penalising their agricultural sectors, both directly – through export taxes, exchange rate controls, trade restrictions and parastatals' monopolies in commodity marketing – and indirectly, by subsidising manufacturing and other non-agricultural sectors. Even if the degree of 'urban bias' (Lipton, 1977) has greatly diminished since the term was first popularised, following the broad liberalisation reforms introduced in the late 1980s and 1990s, African countries' governments still 'tax' farmers in multiple ways, according to recent evidence.[1] Trade distortions, interference with market prices and government regulation can be harmful not only because they create inefficiencies at any point of time, but also because they hamper economic growth (Anderson 2010). Donors' recommendations throughout the decades have thus insisted that countries lower policy-induced market distortions as a means of enhancing agricultural supply and reducing widespread food insecurity in Africa.

[*] Center for African Studies, University of Florida (rserra@ufl.edu). I am deeply grateful to my research collaborators in the APPP Cotton Sector Reform Project, especially Jonathan Kaminski, who has coordinated fieldwork in Burkina Faso and Cameroon, Borgui Yèrima (Bénin) and Bourèma Koné (Mali). I would like to thank David Booth, Jonathan Kaminski and Mette Kjaer for providing useful suggestions, and Gregory Parent for his research assistance. Last but not least, this research would not have been possible if it were not for the numerous individuals and organizations in Benin, Burkina Faso and Mali, who gave me and my collaborators valuable insights into the economic, social and political dimensions of cotton sectors in these countries.

[1] 'For Africa as a whole, the latest estimate [of farmer taxation] is equivalent to a gross annual tax of $40 for each person engaged in agriculture … larger than government investment or foreign aid targeted to agriculture' (Anderson and Masters, 2009: 35).

The prevailing focus on agricultural distortions appears to imply that, once these inefficiencies are eliminated, production, farmers' incomes and economic growth will necessarily improve. This assumption disregards the fact that, due to widespread market and institutional failures in developing countries, policies pursuing efficient and competitive market systems may become less feasible or desirable (Stiglitz, 1987; Kirsten et al., 2009). Research on second-best institutions has further shown that, in contexts lacking one or more conditions for the first-best competitive equilibrium, reducing one source of inefficiency may not be Pareto-improving, and may actually backfire by creating further distortions and policy problems (Rodrik, 2008, 2010).

The paper develops these theoretical arguments and applies them to the case of cotton sector reform in Benin, Burkina Faso and Mali. Cotton is a major cash crop in Africa, produced in over 20 countries across all geographical regions (Delpeuch and Leblois, 2011), but has recently faced numerous challenges, domestically and internationally (Baffes, 2004; Oxfam, 2002), which have led countries to introduce several reforms. The policy debate has mainly revolved on what constitutes a desirable market structure for the cotton sector in the global economy, and which interventions might lead to such a configuration. The orthodox consensus has for a long time suggested that a fully liberalised and privatised market is more conducive to the goal of increasing sector profitability. However, recent evidence has questioned this wisdom, concluding that no market structure is superior on all counts, and that policy reform must follow a more contextual approach that pays attention to trade-offs between competition and market coordination (Poulton et al., 2004; Tschirley et al., 2009, 2010). Despite some nuances introduced to the original orthodoxy, donors' recommendations to the countries' governments, especially from the International Financial Institutions (IFIs), have nonetheless remained largely anchored to the first-best principle of increasing efficiency and reducing market distortions.[2] Moreover, cotton is still generally regarded as one of the most heavily taxed commodities on the continent, especially through trade export tariffs (Anderson and Masters, 2009).

The paper takes to task this received orthodoxy, first by showing that price distortions in the three selected countries, which are among the largest African cotton producers, have gone down significantly since the late 1990s, more than for the African average. It then shows that prevailing policy recommendations are not adapted to the political, economic and institutional realities of African contexts, and tend either to be modified in the process, or when implemented, to produce results different from those expected.[3] The unconventional privatisation in Burkina Faso and the zoning approach in Burkina Faso and Mali are examples of the former instance: attempts to overcome domestic oppositions to reform, and implement a less controversial variant. The continued high level of politicisation of cotton sector management in Benin, instead, shows how liberalisation and privatisation do not necessarily reduce state interference or inefficiencies. Moreover, the persistence of pan-territorial and mainly politically managed prices in all three countries, despite various interventions to liberalise cotton producer prices, proves that the quest for price liberalisation is both ineffectual and out of touch with local realities – since producer prices, besides being instruments of farmer taxation, have also played redistributive and poverty reduction functions.

[2] See IMF (2003) and World Bank (2004a, 2006) for Mali; World Bank (1999, 2008) for Benin; IMF (1998) for Burkina Faso, and Baghdadli et al. (2007) for the whole region.

[3] Due to these differences, negotiations on cotton sector reform also generate a considerable amount of tensions and controversies, which in turn damage reform processes and outcomes, as evident in the case of Mali (Serra, 2012a).

A number of important policy implications derive from the analysis. The elimination of market distortions is not only insufficient to improve agricultural prospects, as deeper institutional reform may be required, but it can also lead to unanticipated problems. Reform recommendations in the three observed countries have taken domestic efforts away from locally meaningful objectives, such as support for vulnerable farmers, and dismantled what these cotton systems have been traditionally best at, e.g. delivering far-reaching and integrated interventions to all farmers throughout a vast rural territory. Without implying that inefficiencies in African agriculture are irrelevant, the paper thus alerts us to the danger of focussing excessively on agricultural policy distortions and overlooking the positives of what African countries and agricultural systems already do. If some 'distorting' policies are more feasible, more growth-enhancing or more poverty reducing than others, the case for supporting them needs to be taken seriously.

The structure of the paper is as follows. Section 2 shows that cotton price distortions in Benin, Burkina Faso and Mali, have been reduced more significantly than in other African countries. Section 3 examines policy interventions in the three countries, showing that those pursuing greater efficiency, as in Benin, have failed to produce the expected policy results; while better outcomes are associated with policies that have combined external policy recommendations with acknowledgement of local realities and priorities, as in Burkina Faso – Mali representing an intermediate case. Section 4 discusses the multiple market, institutional and policy failures, which constrain the attainment of the first-best in cotton sectors, justifying a second-best approach. Section 5 derives some policy implications, while Section 6 concludes. The paper is based on both secondary data, as compiled in the *APPP Cotton Sector project database*, and on the rich qualitative evidence gathered during fieldwork in Benin, Burkina Faso and Mali, in the early months of 2009 and 2010. Fieldwork consisted of direct observation, interviews with multiple key stakeholders, and the analysis of official documents and policy statements by both domestic governments and donors.[4]

2 Taxation of cotton sectors: a new look at the evidence

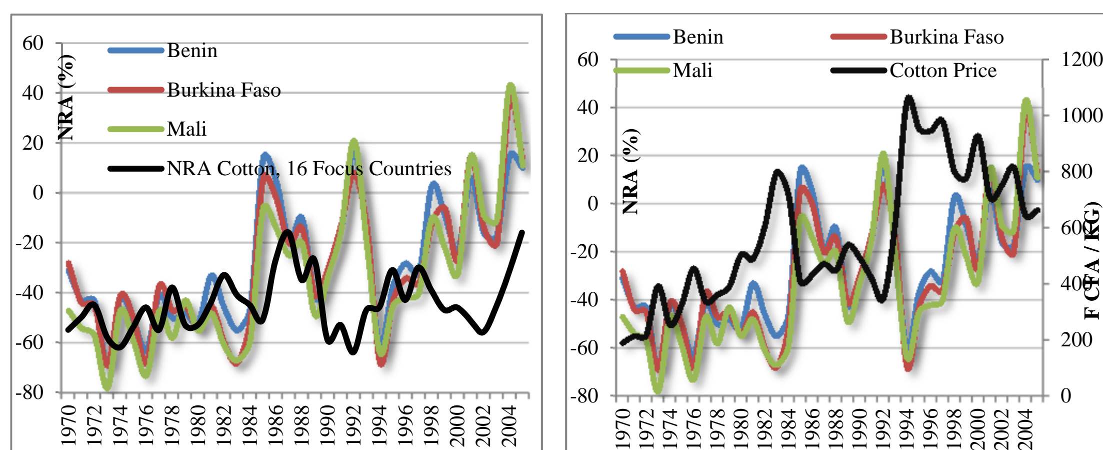
Agricultural commodities have been subject to high levels of 'taxation' in African contexts, through state marketing boards or parastatals holding exclusive rights over the purchase and export of crops; government controlled price systems, paying farmers a small share of the international price; and export taxes and other trade restrictions (Bates, 1981; World Bank, 2007). Both theory and evidence suggest taxation is higher for commodities that represent a country's main export. The scale of the available rents can be very large, direct and indirect taxes on exports are an easy and effective way for collecting revenues, and the lack of alternative crops (due to low price elasticity) implies that farmers will continue to produce despite low prices (Swinnen, 2010). Agricultural taxation is considered to be detrimental both for the development of the sector and for the well-being of farmers. Price and other policy distortions reduce farmers' incentives to produce and shift scarce resources away from agriculture into other sectors where productivity of inputs is lower but returns are artificially boosted (Anderson and Masters, 2009). The resulting policy implication is that policy distortions should be removed, so to align incentives with market signals and enhance production and profits.

[4] The author conducted fieldwork in Mali, and coordinated fieldwork in the other two countries from a distance, with local collaborators conveying findings through regular written and oral correspondence, written reports, and in two team meetings (Bamako, May 2009, and Niamey, May 2010). Selected fieldwork reports are available from the project website http://www.institutions-africa.org/publications/research_stream/cotton-sector-reforms.

While recent literature regards cotton as one of the most heavily taxed commodities on the continent, this section shows that price distortions for the major Francophone producing countries have decreased since the early 1990s much more significantly than the African average. It shows this by revisiting the same data elaborated by Baffes (2007) for the period 1970-2005, as part of the Distortions to Agriculture Incentives Project of the World Bank, and examining them together with international prices and producer price shares.[5] The objective is to emphasise hitherto undervalued pieces of evidence, and ultimately derive alternative policy implications. More attention should be paid to variability in taxation within commodities across time and space, as generalisations about cotton sectors run up against the indication of quite important differences between the major Francophone producing countries and the rest (Fok, 2001; Gourex, 2003).

Figure 1 plots data on the natural rate of assistance (NRA) to cotton sectors in Benin, Burkina Faso and Mali during 1970-2005. Since the NRA is defined as 'the percentage by which government policies have raised gross returns to farmers above what they would have been without government interventions' (Anderson and Masters, 2009: 11), a negative value indicates the percentage of taxation rather than support. The three countries exhibit a similar pattern of heavy cotton sector taxation during the 1970s and 1980s, and reduced policy distortions during the following decades. The level of taxation was particularly high from 1973 until 1983, but becomes more variable in the following decade with positive values noticeable in several years. After 1994, NRA values fluctuate much more closely around the 0 line, turning positive in some years, especially in Mali (which was then the largest African cotton producer).[6] This trend is common to other countries, and can be attributed, to some extent, to the comprehensive trade and exchange rate reforms implemented by African governments since the first structural adjustment programs in the 1980s, which reduced farmer taxation across many agricultural sectors (Anderson and Masters, 2009).

Figure 1: Natural Rate of Assistance to cotton (1970-2005)



a) 3 countries' NRA compared to African average*   b) NRA and world cotton price in FCFA

* Average of NRA values for 16 countries

Source: Baffes (2007) and Anderson and Masters (2009) for NRA data; world cotton prices are own calculation based on *Cotlook A* index prices of cotton lint ($/lb), converted into Kg. and local currency (FCFA/kg) according to period average $/CFA exchange rates (IMF statistics).

5 For a description and outputs of the *Distortions to Agriculture Incentives* project see Anderson and Valenzuela (2008) and the website www.worldbank.org/agdistortions.

6 When data are based on reported rather than imputed ginning costs, the NRA turns positive for all WCA countries for most years during 1998-2005 (Baffes, 2007).

In Francophone West and Central Africa (WCA), the high taxation phase corresponded to a period of extraordinary expansion in cotton production (through increases in both land under cultivation and yields), favoured by the successful adaptation and development of the vertically integrated model (*filière* approach) that the French had established during the late colonial period (OECD, 2006; Fok, 2009). In these countries, while cotton is grown by hundreds of thousands of small-holders, the purchase and processing of seed cotton, the marketing of cotton lint and other by-products, as well as the delivery of services to farmers (inputs on credit, extension), have been traditionally concentrated in the hands of one company, initially controlled by the French state during late colonial times (through the *Compagnie Française pour le Développement des Textiles* or CFDT), and then nationalised after independence – with CFDT often remaining a key minority shareholder. During the 1970s and 1980s, and benefiting from the capital, expertise and international market connections of the CFDT, these monopolies/monopsonies invested in rural infrastructures, extension, research and development – while also heavily taxing farmers.[7] In the late 1980s-early 1990s, they ran into financial difficulties, due to a decline in international cotton prices and internal management problems, only temporarily relieved by the 1994 devaluation of the FCFA against the French Franc.[8] As these countries faced economic and financial crises, they were pressed by IFIs into adopting trade liberalisation policies across the board.

Was the decrease in farmer taxation a consequence of these reforms, thus vindicating the proponents of Washington-style policy interventions? In order to address this question, Figures 1.*a* and 1.*b* plot NRA data for the three countries against, respectively, the average NRA value for cotton in 16 other African countries, many of which are small cotton-producers (as calculated by the Distortions to Agricultural Incentives project), and the world price of cotton lint, expressed in the domestic currency (FCFA) so to take into account exchange rates fluctuations.

Farmer taxation in the cotton sector in our three countries, though comparable to the African average up to 1990, visibly declines afterwards (Figure 1.a) – except in the period immediately following the FCFA currency devaluation (1994-97), when WCA cotton companies passed onto farmers only a fraction of the gains from nominal price increases. Since reforms in WCA were even less pronounced compared to other African regions (Tschirley et al. 2009; Delpeuch and Leblois, 2011), liberalisation policies cannot be the main reason for the observed lower farmer taxation.

A more plausible explanation seems to be the decline in the world price of cotton lint. Figure 1.b shows the close correspondence between NRA values in our three countries and world prices, with farmer taxation in WCA going up/down when world prices are high/low; while this appears to be less the case for the NRA African average. The relationship between NRA and cotton prices can be explained by the widespread practice in major Francophone cotton producing countries to set seed cotton prices at levels that shield farmers from world market fluctuations. Rather than linking farmer prices to international prices, as espoused by proponents of price liberalisation measures, parastatals in the WCA region have instead tended, even while heavily taxing farmers, to give farmers a proportionately greater/lower

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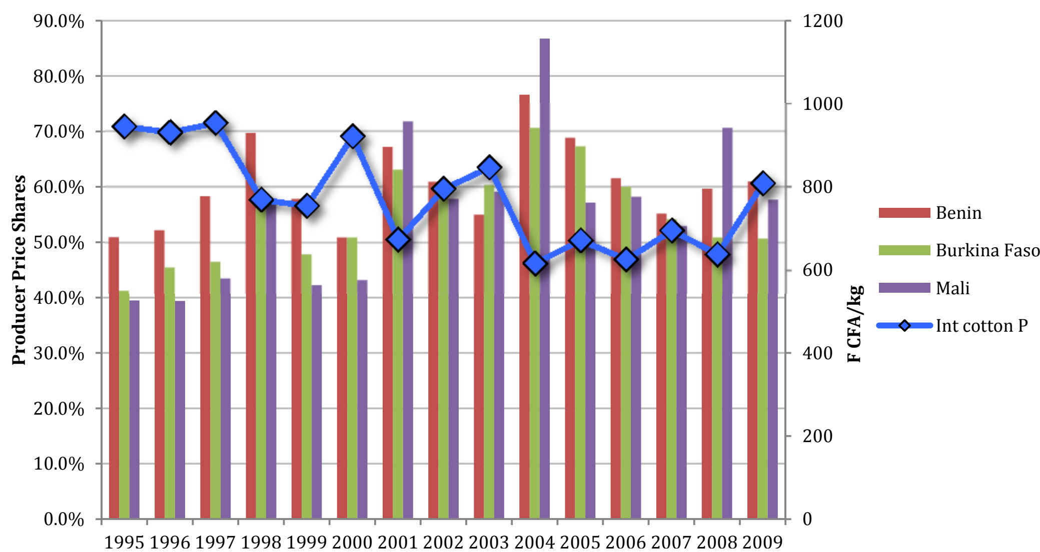
7 If the NRA data could incorporate the value of public goods that cotton companies have provided farmers with, the resulting degree of taxation would probably be lower. Unfortunately, the difficulty of estimating this level of support renders this comparison rather difficult in practice.

8 Benin, Burkina Faso and Mali belong to the West African Economic and Monetary Union, whose currency, the FCFA, was pegged to the French Franc until 1999, and subsequently to the Euro. While a system of fixed exchange rate has contributed to keep inflation low in all CFA countries, it has taken away from them the possibility to use currency devaluation to maintain export competitiveness. The 1994 devaluation was a one-time attempt to address the FCFA de-facto loss of value against the French Franc (and other major world currencies).

share of the world cotton lint price when the latter is low/high. This institutional feature has arisen as an adaptive response to farmers' preference for stable and predictable revenues over time, and fulfils a counter-cyclical function (Fok, 2009).[9] When regarded from this perspective, the level of farmer taxation in WCA countries appears to be less of a domestically controlled policy instrument, and more of an externally determined variable.[10]

However, unlike Baffes (2007), we argue that the decline in world cotton prices is not the only explanation for the reduced level of cotton farmer taxation in WCA. In order to see this for the more recent period, and in the absence of NRA data after 2005, producer price shares, calculated as the share of the world cotton lint price paid to farmers for their seed cotton, are taken as proxy for (the inverse of) farmer taxation. As per NRA definition, an increase in producer price shares should be reflected in lower farmer taxation, and viceversa for a decrease. Figure 2 compares producer price shares in the three countries with the world cotton price for the cotton seasons 1995/06-2009/10, showing a tendency for producer price shares to increase, after 1998, beyond could be predicted by low international prices – thus signalling a structural break in the relationship between international prices and prices to producers.

Figure 2: Producer price shares and world cotton prices



Cotton years run from May to April of the following calendar year; only the first year is indicated here (e.g. 1995 stands for 1995/06 cotton year).
Source: APPP Cotton Sector Project Database (data from national cotton companies; IMF statistics).

The explanation can be located in two main recent facts: the implementation of institutional reforms, and the decline in the weight of cotton in the overall economy. Cotton sector reform in Francophone Africa, unlike in other regions, have comprised important institutional reforms from the mid-1990s to the mid-2000s, with the aim to confer legal status to village cotton groups, delegate them new tasks in the cotton value chain, establish national producer associations, and involve them in collective decision-making over important matters, including price setting (Serra, 2012b). Multiple challenges have been encountered, especially as a consequence of insufficient time and resources devoted to training and capacity building in

[9] Baffes (2007) calculated that prices to producers in WCA countries have reduced, on average, international price volatility by a factor of six.
[10] This is reinforced by the fact that governments of countries belonging to the West African Economic and Monetary Union do not have direct control of monetary policies or exchange rates, which are established by their regional central bank.

the farmer organisations (Bingen, 1998; Roy, 2010). Nonetheless, especially in Burkina Faso and Mali, such interventions have strengthened the role and bargaining power of producer associations, tilting norms for sharing cotton profits in ways that are more favourable to farmers (Kaminski and Serra, 2011; Serra, 2012a). Despite the top-down approach of many institutional reforms, these initiatives were reinforced by bottom-up efforts from organised or spontaneous farmer movements, voicing discontent with the governments' dealing of the cotton crisis, and demanding more consideration for rural demands.

During the same period, the importance of cotton sectors in the WCA economies declined, due not only to challenging international market conditions, but also to the emergence of other sectors, such as gold in Mali. The ratio of cotton export to GDP shrank, during 1996-2005, from 19% to less than 10% in Mali, and from 15% to less than 6% in Benin; while in Burkina Faso the decline occurred later and was more contained (from 7% in 2004, to 5% in 2010), thanks to the successful reform that contributed to the extraordinary production boost up to 2006 (Kaminski, Headey and Bernard, 2011).[11] This changed scenario, whereby cotton becomes less indispensable and less reliable as a source of government revenues, has in all likelihood reduced returns to political elites from cotton sector taxation. At the same time, greater farmer bargaining power, less stable political alliances (at least in the more democratic Benin and Mali), and international NGOs support to producer associations, have likely increased the costs of extracting surplus from cotton farmers.

While it is true that rural interests in these countries have virtually no representation in political parties and formal institutions (Bleck and van de Walle, 2011), our evidence from documents, policies and the speeches of government officials gathered during fieldwork suggests that, through informal channels, including boycotts and street protests, farmers' concerns find a way to be heard. Indeed, these governments appear at times sensitive to the possible negative repercussions from policies perceived as penalising cotton farmers – even in Burkina Faso where the ruling party has the most firm hold onto power (Kaminski and Serra, 2010; Yerima and Affo, 2010; Serra, 2012a). In Mali, questions about 'fair price' to cotton producers, which should cover estimated production costs, have been actively discussed in the policy arena (Nubukpo et al., 2009). This evidence suggests that, as pressures for more democratic and accountable governments increase, and farmer associations acquire greater role in cotton sector management, governments from main cotton producing countries are more hard-pressed into showing they support farmers in key national agricultural sectors – especially as these sectors appear to be in a profound crisis.[12]

In conclusion, cotton sector taxation in three main Francophone producing countries has decreased more than for the African average, because of the particular history and structure of these cotton sectors, whereby prices fulfil a counter-cyclical function, and of recent institutional reforms, which have increased farmer associations' bargaining power and reinforced their demands for a greater share of the total profits. This lower level of taxation and the distinctive role of cotton in this region would suggest a different approach to policy, more attentive to local specificities. However, this has not been the case, as the next section shows.

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[11] Figures from *APP Cotton Sector Project database*, compiled from domestic cotton companies' data, UNCTAD trade statistics and World Development Indicators Online.

[12] This confirms findings that transition to democracy tends to raise a country's agricultural NRA (Olper and Raimondi, 2010) and that the relationship between farming population size and NRA becomes positive in countries holding regular elections (Bates and Beck, 2011).

3 First-best policies: ideal versus reality

This section examines the logic behind IFIs' policy recommendations for agricultural reforms, and contrasts it with actual policy interventions in each of the three countries. The analysis is based on the qualitative evidence from fieldwork in 2009 and 2010, and particularly: i) official and unofficial documents detailing IFI approaches to cotton sector interventions; and ii) interviews with all major stakeholders, at national and local level, focussing on their positions and statements in the reform debate and process; their opinions of other actors' role and motives; their views about controversial issues; and their evaluation of reform outcomes. The use of semi-structured questionnaires and the application of common and detailed guidelines for fieldwork ensure comparability of information across countries.

4.1 The 'reform package'

In the face of the crisis affecting African cotton sectors during the early 1990s, many IFIs and international experts came to the conclusion that state monopolies and other policy distortions were what prevented countries from successfully tackling external challenges, such as increasing world competition and declines in international cotton prices. IFIs became increasingly unwilling to disburse aid that governments could use to pay-off the debt accumulated by cotton parastatals. When the new governments elected during the 1990-92 political transitions turned to donors to obtain much needed financial aid, new loans were often conditional on cotton sector reforms.[13]

The proposed reform package advised governments to privatise the cotton parastatal; allow private operators into sub-sectors, such as input provision, credit, transport of seed cotton, ginning and marketing of cotton lint; and introduce new price determination mechanisms that linked producer prices with international cotton prices. These three key dimensions of market reforms are listed in Table 1. Though often collapsed together as 'neo-liberal reforms', they are conceptually distinct, and each can occur independently of the other. Privatisation aims to dismantle state companies and sell majority control shares to private investors. Market liberalisation implies lowering barriers to entry, to allow companies to compete in the market. The difference between the two is that privatisation changes the ownership nature of firms, whereas liberalisation affects the number of firms allowed to operate in a given market segment. Price liberalisation removes regulations and other forms of state controls on prices, with the aim of letting market forces prevail. Although market liberalisation may involve price liberalisation, this is not necessarily the case, since firms can compete on quality or costs of services provided, rather than on price.

Table 1: Reform recommendations

Reform type	Policy	Purpose
Privatisation	Privatise cotton parastatals and other state firms	Reduce costs and inefficiencies Reduce rent-seeking and state interference
Market liberalisation	Allow entry by private actors in cotton sub-sectors	Reduce costs through competition Increase management efficiency
Price liberalisation	Remove price distortions	Allow actors' incentives to be aligned with price signals; increase seed cotton prices

[13] Cotton sector reform conditionalities were attached to the Agricultural Sector Adjustment Credit accompanying SACI to Burkina (World Bank, 1996), to two Structural Adjustment Credits, SACIII and SACIV, to Mali (World Bank, 2004, 2006), as well as to the IMF Poverty Reduction and Growth Facility (IMF, 2002); and to the third Structural Adjustment Credit to Benin (World Bank, 2003).

4.2 Actual policy implementation

To what extent have these donor recommendations been implemented across the three countries, and with what results? To answer these questions, Table 2 summarises the policies implemented in each country, comparing their actual outcomes with the objectives that cotton market reforms purport to achieve: increasing firm competition; improving management of cotton companies; and linking producer prices to international prices. We also look at production levels for the period 1990-2010, as this widely available measure is also a relevant indicator of the extent to which a cotton sector is able to withstand external and internal challenges (Figure 3).

Of the three countries, Benin reformed earliest, and to the greatest extent, by pursuing liberalisation in multiple segments of the cotton value chain (input provision, transport and ginning), and by privatising the cotton state company SONAPRA. However, as one private group with powerful political connections, acquired the lion's share in several ginning and input provision companies during the 2000s, the liberalisation process has turned back on itself, and *de facto* a private quasi-monopoly has emerged in place of the previous state monopoly. Not only does competition in the ginning sector remain limited, but also management problems within cotton companies have persisted, as manifested in the repeated cases of wrongdoing and corruption (Yerima and Affo, 2010). Attempts at price liberalisation were also thwarted. A new price determination mechanisms was introduced in 2000, which included a formula for linking producer prices to international prices. But its application has been hampered by the failure to set-up the needed price support fund. Although Benin's producer price share was significantly higher than in the other two countries during the 1990s, since 2000 the difference has almost disappeared (Figure 2). Overall, market reforms seem to have failed to produce any lasting difference, and to insulate Benin's cotton sector from the ills of political interference.[14] In fact, due to the continuity of ad-hoc and opportunistic allocation of economic rents by the state, the politicisation of cotton rent management has increased following democratisation and the emergence of new urban elites (Serra, 2012b). Production, while improving during the 1990s, i.e. the early reform period, has subsequently plunged, with historically low peaks reached in the late 2000s (Figure 3). This poor performance was paralleled by the deterioration in input ordering and delivery and the deepening of problems with farmer debts, which have plunged the sector into a lasting and serious crisis (Yerima and Affo, 2010).

Table 2: Actual policy impact

Country	**Policies**	**Competition in ginning**	**Company management**	**Market price indexation**
Benin	Market liberalisation Privatisation Some price liberalisation	High but then low (private quasi-monopoly)	Not good: persistent interferences	Price formula but still political influences
Burkina F.	Unorthodox privatisation. Zoning Price smoothing fund	None; private capital allowed to operate	Quite good (esp. up to 2006, down after)	Price formula works quite well

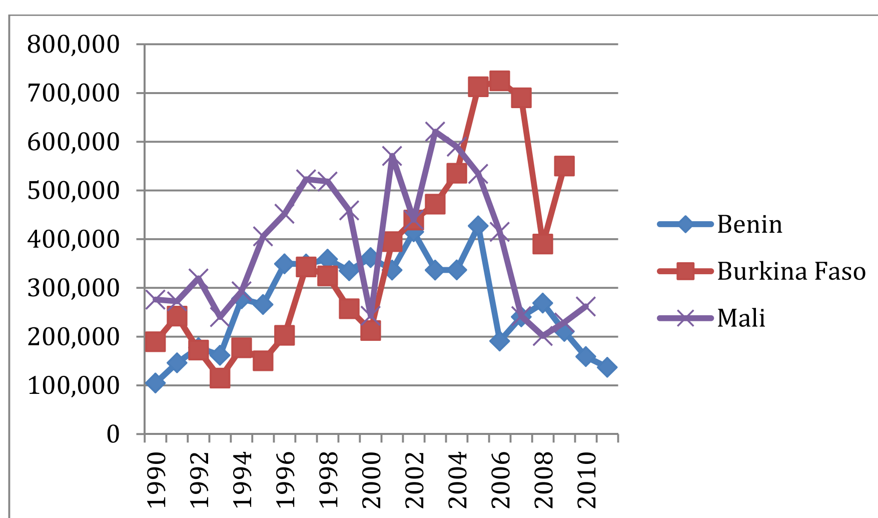
[14] Gergely (2009: 45) concludes that: 'The organizational model of Benin's cotton sector … has hardly resulted in any new benefits compared to the monopolistic model and shows the same drawbacks, as well as additional risks and higher transaction costs'.

Mali	Limited privatisation Zoning Low price liberalisation	None; private capital will be allowed to enter	Not good, persistent problems	Except in 2005-08, political influences prevail

Source: APPP Cotton Sector Project fieldwork data.

Market reforms in Burkina Faso followed a different sequence and model, and were much less orthodox. The government privatised the cotton parastatal, SOFITEX, in 1999, but instead of according entry to private investors it sold half of its shares to the national producer association (UNPCB). Market liberalisation occurred in some cotton sub-sectors, but was limited in the ginning sector, since the government committed to a zoning model, where cotton companies act as local monopolies each in its assigned area, rather than compete with one another. Moreover, since only two private companies were allowed to enter the market, with a combined share of just over 15%, SOFITEX has retained much of the market power. The reform of the price mechanism in Burkina Faso has been the most successful of the three countries: by linking prices to market forces, it has limited the need for state subsidies, while the newly reformed price-smoothing fund protects farmers from the negative impacts of the worst market fluctuations. The evidence from Burkina Faso is distinctively more positive, whether looking at production, which experienced an impressive growth since the mid 1990s and made Burkina Faso the current number one African producer, or at other qualitative aspects of market performance (Kaminski and Serra, 2011). The new institutional set-up for the cotton sector has ensured more timely and effective delivery of inputs, better management of cooperative credit, and higher quality control. These partial indications confirm findings from other studies suggesting that unconventional reform in Burkina Faso has improved management practices and sector performance (Kaminski, Headey and Bernard, 2011; World Bank, 2004). Some of these positive aspects partly unravelled in the late 2000s, as the need for a recapitalisation of SOFITEX, and the refusal by the former French company CFDT to participate, led the government to re-acquire majority control in the main cotton company. Nonetheless, though the aims were less ambitious about reducing distortions in Burkina Faso than in Benin, the impact on cotton sector structure and management was more positive.

Figure 3: Cotton production (1990-2010)



Source: APPP database, national cotton companies series.

Within our sample, Mali's market reforms were the most limited, partly due to the high level of resistance to Washington-style policy recommendations, partly due to the government's

hesitancies and lack of coherent decision-making (Serra, 2012a). Despite the entry of private actors into minor cotton sub-sectors, and the transfer of input distribution to village farmer groups, the monopoly power of the main state cotton company, CMDT, is largely intact. While the government has committed to privatising the CMDT, and has already divided up the company into four subsidiaries (four local monopolies each operating in their own concession area), to facilitate the sale to private investors, up to date the process remains incomplete. Competition in ginning will be restricted even after the reform, as the government has adhered to a zoning model, following the example of Burkina Faso. Limited success has also characterised the attempt to liberalise prices. Under pressure from the World Bank, the government introduced a new price determination scheme, for the period 2005-08, linking producer prices to international prices; but since the latter were at an all time low then, the initiative was met with fierce protests from farmer leaders and NGOs, while a much publicised research report by reputable local experts argued that low producer prices have a negative multiplier effect on the country's economy (Nubukpo and Keita, 2005). The government abandoned the price mechanism upon its renewal and producer prices have since been determined by negotiations between the government, the cotton company and farmer representatives.[15] The Malian cotton sector traversed a serious crisis during 1998-2008, during which not only did cotton production fluctuate sharply (except for an all time peak in 2003), but also several problems became more severe, especially the inefficiencies of input ordering and distribution, delays in payments to farmers, and the escalation of farmer cooperative debt (Serra, 2012a). Nonetheless, the country's ability to recover from the crisis seems more pronounced than in Benin, with the government demonstrating greater commitment to improve market operations during the 2008-11 cotton seasons. When viewed over the space of two decades, outcomes for Mali's cotton sector have generally been better than in Benin, due to its traditional more solid structure and the repeated financial infusions from the government. The Malian case suggests that, while implementing the least reforms is not necessarily worst, government's hesitancies in the reform process and lack of policy coherence can be detrimental to a productive sector, by increasing uncertainty among stakeholders, lowering the extent of reciprocal trust and thus diminishing the scope for coordination.

Our evidence so far points to the following conclusions. First, cotton sectors in the three countries have witnessed a more limited degree of privatisation and liberalisation than anticipated, not only in Mali, but also in Benin and Burkina Faso, which had reformed earlier and to a greater extent. This confirms what research on policy reform has long established, that is, many African governments manage to resist or circumvent controversial loan conditionalities, prompting legitimate questions about how and why externally imposed reform become contested and modified during the reform process (van de Walle, 2001).

Second, when countries attempt to pursue liberalisation and privatisation objectives, they do not necessarily attain results that are closer to the ideal first-best. The high level of politicisation of cotton management in Benin and the evidence on producer price shares since 2000 (Figure 2) question the notion that competitive systems systematically provide farmers with a higher price than monopsony systems (Goreux, 2003; Kydd et al., 2001). In Benin as elsewhere, liberalisation and privatisation policies can be twisted by perverse state-business collusion, lack of actors' capacity, and low level of monitoring and accountability within state and other institutions (Cooksey, 2003; Bergamaschi, 2011). Instead, better results in terms of production and overall cotton sector management can be obtained through unconventional policy approaches, such as those adopted in Burkina Faso, which included a more feasible

[15] An example of the resurgence of political influences on prices was the decision to raise the base price to 200 CFA/kg for the 2008/09 cotton season, despite low international prices. Malian actors estimated that the main priority was to try and revive cotton production, and diffuse farmer discontent.

zoning model rather than full liberalisation, and a limited privatisation of the main cotton company, with opening of shareholding to farmer associations rather than foreign investors.[16] Mali represents an intermediate case, which, though trying to replicate the success of Burkina Faso in adhering to a zoning model and implementing similar institutional reform, it has failed to implement the required interventions – because of the lack of domestic social and political conditions leading to the necessary degree of consensus among key stakeholders (Serra, 2012b).

The reason why recommendations based on first-best principles are either resisted, or implemented in ways that differ from predictions, is not just lack of capacity on the part of African governments and other stakeholders, but the fact that the countries' economic, social and political conditions do not correspond to those that are required for first-best objectives. The next section examines in depth what these particular conditions look like.

4 Constraints to first-best interventions in cotton sectors

The literature on the political economy of agriculture typically explains countries' failure to adopt liberalisation policies in terms of a perverse incentive system which distorts the objectives of rational policy-makers away from policies beneficial to agricultural development and the public interest (Swinnen, 2010; Rausser and Roland, 2010). It has been less receptive of findings from the institutional analysis of agricultural sectors, which has for some time now questioned the suitability of orthodox agricultural interventions to developing countries, calling for other type of interventions (Kydd et al., 2001; Dorward et al., 2005; Kirsten et al., 2009). Our starting point is that observed policy failures are not always due to an 'unfavourable political economy' (often used as shorthand for lack of political commitment, or corruption). Government officials and other decision-makers, besides having self-serving motives, may also be animated by genuine concerns for the developmental impacts of suggested interventions (Birner and Resnick, 2010). This section combines insights from the economics literature on second-best interventions, which has amply discussed the inadequacy of Washington-consensus macroeconomic reform (Rodrik, 2006, 2008, 2010), with those from the institutional analysis of agricultural markets cited above, in order to examine why the predominant policy recommendations for cotton sectors are inadequate, and what may constitute alternative desirable interventions.

The inadequacies of orthodox, or Washington-consensus style, economic policies have long been exposed and debated from different angles, but possibly the most penetrating critique remains the one based on the theory of the second best in welfare economics, according to which, if there exists a market failure in an economy, or any other type of deviations from the competitive economy model, then the attainment of other first-best (Pareto) conditions is no longer desirable (Lipsey and Lancaster, 1956).[17] In fact, by trying to pursue Pareto optimal conditions in one sector of the economy, new distortions are likely to be created in other sectors, and overall welfare may actually decrease. This is so, since, if a Pareto optimum for the whole economy cannot be achieved, the best available option (the 'second-best' optimum) could imply further departures from Paretian conditions.

[16] The question of which factors in practice are more conducive to the adoption and implementation of these unorthodox policies is beyond the scope of this paper and can be found in Serra (2012b). In the case of Burkina Faso, the strong alliances between rural and urban elites and the ability of the state to obtain consensus from, and disciplines, key stakeholders were certainly crucial (Kaminski and Serra, 2011).

[17] On the basis of evidence from the Asian growth experience, Rodrik (2006: 12) concludes that 'the ambitious agenda of governance reform that the World Bank often pushes for is not only impractical, but also unnecessary to get growth going. This agenda confuses what needs to happen eventually for long-term income convergence with what can be done now to improve matters'.

The problem with orthodox economic policy recommendations is that, in full disregard of the second-best theory, they aim to rectify as many as possible policy distortions even in contexts replete with market and institutional failures. As succinctly phrased by Rodrik (2008: 100), they are 'grounded in a first-best mindset which presumes the primary role of institutional arrangements is to minimize transaction costs in the immediately relevant domain – without paying attention to potential interactions with institutional features elsewhere in the system'. Likewise, recommended interventions in the cotton sectors (as in Table 2) endeavour to 'fix' individually inefficient aspects of the economic system, discounting repercussion due to the interactions with other policy dimensions.

In Francophone WCA, cotton sectors are not only complex value chains, but are also embedded in the wider economic, social and political system, through linkages at all levels, manifested in the role of cereal-cotton rotation practices for household food security, of local cotton revenues for rural development, and of cotton export revenues as source of rents for urban political elites (Goreux 2003; Moseley, 2008; Fok, 2009). These inter-dependencies between multiple domains and actors, added to a context of imperfect markets and institutions, increases the chance that any policy intervention in one sphere has unintended consequence elsewhere. Any sensible reflection on cotton sector policies would thus need to recognise this interconnected system. There are, in particular, three main types of 'constraints', which impinge on the choice of cotton policy objectives and instruments.

Market and institutional failures are a prevalent feature of agricultural markets in Sub-Saharan Africa, shaping in fundamental ways individual sectors' institutional configurations and policies (Kirsten et al. 2009). Incomplete credit markets and low contract enforcement are the main market and institutional failures affecting African cotton sectors (Delpeuch and Vandeplaas, 2011), accounting for the historical emergence of state monopolies and firms' vertical integration as dominant institutional arrangements (Poulton and Lyne, 2009). These failures reduce the desirability of liberalisation policies. As shown by evidence from countries where liberalisation reforms were more pronounced, such as Uganda and Tanzania in the mid-1990s, intense competition among ginning companies leads to the breakdown of contracts between a company and farmers, lowering companies' incentives to provide credit, in turn leading to the collapse of input provision systems, as well as to lower quality controls (Larsen, 2008). The consequent suggestion that policy-makers should strike a balance between the goals of competition and coordination (Poulton et al. 2004; Tschirley, Poulton and Labaste, 2009) contributed to a softening of some of the World Bank's previous positions on these issues. IFIs have, for instance, *de facto* accepted the zoning option in Burkina Faso and Mali, and generally backtracked on the recommendation to fully liberalise markets (Estur, 2010). Nonetheless, the pressure to correct other types of failures has remained, especially when it comes to privatising state monopolies, considered to be inefficient, and to aligning actors' incentives with market prices. However reasonable these assessments may appear, they happen to clash with two other types of constraints, examined next. It is worth pointing out that, while the acknowledgement of market failures has become part of orthodox policy thinking, other limitations to cotton policy-making are unfortunately much disregarded.

Constraints on policy instruments refer to situations whereby the state is unable, due to lack of administrative capacity and of human and financial resources, to pursue a policy objective, e.g. poverty reduction, through first-best policy instruments, like targeted poverty programmes or social protection mechanisms. In these cases, governments may resort to the use of other policy instruments, less efficient but still better than the status quo. Policies that transfer resources to cotton farmers through forms of price distortion, such as fertiliser subsidies, represent an example of this proxy instrumentation – which is less imperfect, the higher the

share of cotton farmer who are also poor. This instance evokes the well known case, in the development economics literature, of 'interlocking markets', whereby one informal market transaction performs two functions at the same time, for instance credit and insurance (Bardhan and Udry, 1999).[18] Though it is more efficient to have well performing insurance and credit markets, informal market transactions performing multiple functions may still be Pareto-improving in the presence of market failures.

When examining both the rhetoric and modalities of cotton sector interventions in our three countries, there is no doubt that they have also been partly shaped, over time, to function as instruments for pursuing broader agricultural and rural development aims.[19] This is obvious in the integration of social development objectives into the mandate of the Malian parastatal, CMDT, and in its becoming the only entity delivering development and infrastructure in the vast cotton areas of the country: *un état dans l'état* (a state within the state), in the words of many Malians.

Cotton policies have been largely used to transfer surplus from better-off to poor farmers, and from surplus to deficit communities or regions. Nowhere is this more evident than in the price system prevailing in the WCA region, championing one pan-territorial producer price, announced at the beginning of the season. While the principle of comparative advantage would dictate that farmers should receive a different remuneration for their seed cotton, one which is inversely proportional to the distance between their farm and the ginning plant, the prevailing practice has been instead to pay all farmers the same price, and have the ginning company bear the additional cost of transporting seed cotton from remote areas (Bagdadli et al., 2007). The supporting argument has been that, since isolated farmers tend to be also poorer, a differential price, while fulfilling efficiency principles, would penalise the most vulnerable households. Furthermore, the announcement of a base producer price before the planting season is meant to allow farmers, who are risk averse, to make their planting decisions knowingly; while the commitment not to revise this base price downward, but only upward, implies that parastatals bear the costs of future negative price fluctuations, while pledging to distribute farmers a rebate (*ristourne*) at a later date, in cases of upward price fluctuations, or greater than expected profits.

The features of these price mechanisms have been widely criticised by World Bank experts for contradicting fundamental principles of comparative advantage and efficiency (Baghdadli et al. 2007). It is suggested these mechanisms are very inefficient ways for helping poor farmers, and that a better strategy would be to pay farmers a price that reflects market principles, and to support vulnerable or remote farmers through other, more targeted interventions. The problem with these recommendations is that they discount both states' low capacity to carry out effective social protection mechanisms, and the cost of switching away from a well-established and accepted price system.

Because of states' weak administrative capacities and limited finances, the net benefits from a new, theoretically more efficient mechanism are uncertain, while the removal of the pan-territorial price could cause much havoc, penalising already distressed cotton farmers. It should be no surprise that the calls for reforming existing price systems have been met with such strong resistance within countries. When new mechanisms have been finally introduced, they have been short-lived (as for the Mali's 2005-08 price mechanism, which pioneered a

[18] In his seminal paper, Udry (1990) demonstrates this interlinkage by showing that the amount of credit that individuals reimbursed to members within their own personal networks in rural Northern Nigeria was inversely correlated to negative income shocks they had experienced.

[19] In Mali, for instance, this cross-subsidisation is considered to be normal and fair (by producers as well as government officials) and accepted as a shared norm, as long as there is no free-riding.

much contested clause allowing for the base price to be revised downward later in the season) or scarcely applied in practice (Benin).

Government officials and other stakeholders interviewed for this research, including representatives from ginning companies and farmer organisations, have all affirmed that the recourse to one pan-territorial price, announced at the beginning of the season, responds to widely accepted notions of fairness, and is the best guarantee that farmers will produce cotton. Focus-group and individual interviews with cotton farmers revealed that a dominant reason for cultivating cotton is the 'certainty of the price', thus supporting the notion that cotton production would decline if the initial price could not be guaranteed. As long as cotton represents the main cash-crop in vast areas of these countries, it can be speculated that price liberalisation will continue to have no traction. As efficient price mechanisms would undermine other valid objectives, such as equity, poverty reduction as well as social pacification and cohesion, it is imperative to give due consideration to potential trade-offs, before recommending these first-best interventions.

A third set of constraints to cotton policy-making is the existence of *other goals and objectives*, which compete with the goals of maximising cotton sector profitability and achieving cost reduction, underlying most donor recommendations (IMF, 1998, 2002, 2003; World Bank, 1999, 2004a, 2006, 2008). It is known that West African farmers plant cotton not much to maximise profits but to obtain fertilisers (which can then be used on their other crops), cash income, and other services. Less appreciated is the fact that, as a consequence, farmers may place a greater importance to accessing these inputs and services, than to higher cotton prices. Our qualitative evidence, from interviews with farmers across West Africa in 2009 and 2010, confirms that cotton producers, though also complaining about low cotton prices, were more worried about high fertiliser costs, payment delays, and the reduction in extension services and other public goods previously provided by parastatals.

In Benin, farmers resented the deterioration in service provision after privatisation; in Mali, they were adversely affected by the lay-off of extension agents and the CMDT's withdrawal from non-cotton missions (environmental conservation, livestock extension, and social development), which the government pursued as part of the reform requirements. These costs and drawbacks do not seem to have received due attention by those proposing to dismantle state monopolies, and calling for ginning companies to focus exclusively on their cotton functions and delegate social development functions to the state. For instance, the cost savings following CMDT personnel lay-offs in Mali were evaluated solely in terms of kg of cotton produced, without considering the decline in other products and services provided by extension staff (IMF, 2003, p. 10). By single-mindedly pursuing the objective of cotton sector profit maximisation, prevailing recommendations for reforming and privatising state monopolies misunderstand realities on the ground. This failure is not accidental: well-established beliefs that cotton monopolies are inefficient eclipse the evidence that parastatals may provide farmers with a desirable mix of services.

Similarly, the entrenched notion that competitive systems deliver higher prices to farmers than monopolies is predicated on the simple assumption that a state monopoly will always maximise its profits (or share of rents), paying farmers a minimum price. However, this conclusion runs against both theoretical predictions and empirical evidence, that parastatals may share with farmers a greater portion of rents in response to specific political incentives – for instance, the need for politicians to appeal to rural populations for electoral reasons, or for bureaucrats to strike alliances with rural elites (Delpeuch et al., 2011; Bates and Block, 2011). The unorthodox reform in Burkina Faso is a case in point, where bureaucrats accepted to increase the rent share to farmers, whose bargaining power had increased following

institutional reform, as part of a package of reform that increased overall rents in the value chain (Kaminski and Serra, 2011). When combined with the information that privatised firms in the supposedly more competitive environment in Benin actually failed to deliver farmers higher prices in the long-run, due to collusion and other market imperfections, these facts are suggestive of an imperfect, and context-dependent, link between market structure and rent distribution system, unlike the one previously assumed. They also imply that increasing the degree of competition in a system does not guarantee that producer prices, or farmer welfare, will correspondingly increase.

In the WCA cotton system, cotton farmers cross-subsidise among their various agriculture plots and activities; cotton households/regions supply cereals to non-cotton or food-deficient households/regions; and governments may at times prioritise ways in which the cotton sector produce externalities for the rest of the economy. These actions, albeit not economically efficient (e.g. resources could be reallocated in such a way to deliver higher economic returns), make good sense in their specific context. The belief underpinning orthodox market reforms, that the current crisis in the cotton sector can be solved by establishing an incentive system that orients stakeholders to maximise cotton sector profitability, is thus misplaced. It has been found that, when reducing prices to align them to market signals, less profitable farmers may simply apply fewer inputs to their cotton field, further lowering yields and profitability, rather than exiting the market as expected (Nubukpo and Keita, 2005; Fok, 2001). Pretending that the provision of new and different economic incentives could transform this system into one that eliminates inefficiencies and maximises cotton profitability flatly ignores the constraints arising from imperfect markets, institutions and policies.

5 'Going with the grain'

The previous analysis has shown why policies based on first-best principles may not be beneficial in African contexts. What, however, are the positive lessons, not just for cotton but also for other productive sectors? How might agricultural interventions be refocused, with pay-offs in terms of development outcomes? A number of broad and more specific policy lessons can be derived.

Starting broadly, the reality and functioning of existing productive systems need to be thoroughly appreciated. In the case of cotton, the existence of market, institutional and policy failures, as well as the multiple inter-linkages between cotton and other economic sectors point to two relevant outcomes. One is that actors may not respond to incentives as predicted: examples are that privatisation does not necessarily force 'market discipline' on companies, and price liberalisation does not raise average productivity among cotton farmers. Instead, bureaucrats may enhance their managerial performance if the government provides appropriate incentives based on expectation of shared gains, as happened in Burkina Faso; and cotton farmers may increase productivity if the cotton system is well structured to deliver them with high-quality services, as it was in Mali for a long time.[20]

Another important and related finding is that, rather than basing policy recommendations solely on expectations about cotton sector outcomes, the desirability of given interventions should instead be justified in terms of their impact on the wider economic system, e.g. including effects on food security and household poverty, as well as on equity and social cohesion. I earlier argued that the policies adhering to first-best principles, unfortunately, do

[20] This echoes findings from a companion research project within APPP, on Local Governance, which shows the importance of top-down incentives in ensuring better performance in public service delivery (Booth, 2010).

not pay attention to these unintended and wider effects, instead pursuing a narrow notion of maximum sector profitability. It should be added that these wider implications are relevant, because they matter to governments, bureaucrats and farmers, and without their active involvement, no change can be sustainable.

As for more specific lessons, the pros and cons of liberalising sensitive agricultural sectors should be more carefully evaluated. This is so not only because the introduction of new players and rules may disrupt coordination between essential market operations, and unsettle established practices for delivering inputs and services, as the literature has already emphasised (Kirsten et al, 2009). It is also because particular economic sectors may be among the better instruments at governments' disposal for pursuing broader political and economic objectives. For instance, cotton in WCA remains the main sector through which governments can positively affect rural incomes and food security, and activate backward and forward linkages with other sectors; and liberalisation can threaten all that. Rather than pushing for full liberalisation, a dialogue must be opened with key stakeholders for identifying alternative options, such as liberalisation in only a limited number of sub-sectors or local monopoly formulas.

As far as privatisation is concerned, the inefficiency of state monopolies and their tendency to offer low prices for farmers need to be assessed against their greater ability to deliver a mix of services that poor, risk-averse farmers facing imperfect markets and institutions, need. Privatisation or even a reorientation of parastatals' mission away from well established domains lead to the interruption of arrangements benefitting farmers, as well as the destabilization of the vertical performance discipline regulating extension agents and other officials (Booth, 2010), leading to unanticipated problems. This argument buttresses other evidence, that insisting on privatising a parastatal in countries where government has limited capacity and is subject to competing demands from multiple interest groups may be counterproductive (Gibbon, 1991; Tangri, 1999). Parastatals in these environments may not perform well, yet attempts to reform them in gradual and consensual ways may be more feasible, and, in the long-run, more desirable, as the opening of shareholding to farmer associations rather than to private investors in Burkina Faso attests.

The case of cotton sector reform in WCA also highlights the importance of other interventions than market reforms, such as institutional reforms that increase the active involvement of domestic actors. In Burkina Faso and Mali, the establishment of national farmer associations to participate in cotton sector governance has created greater space for subsequent market reforms to take a more independent course from donors' recommendations (local monopolies and limited forms of parastatal privatisation).

The overarching message is that better and more effective ways should be found for policy recommendations to incorporate findings from research on agricultural sectors. There is no denying of the enormous difficulties in such a shift. As the previous discussion has highlighted, although donor organisations and policy-makers might agree in principle with the tenet of the second-best theory, in practice they have hard times to translate this into consequent policy changes. When evidence runs against entrenched beliefs – such as that aligning actors' incentives with market signals is a pre-condition for more efficient resource allocation, and the privatisation of public enterprises reduces cost inefficiencies – it is likely to be sidelined. Influencing policy involves not just good research communication, but the actually overcoming of barriers from entrenched interests and ideologies in donor communities, and will require tackling the 'political economy of [research] uptake' (Booth, 2011: 13). This may be one of the most important conclusions from the Africa Power and

Politics Programme, one which commits us, as researchers, to push these analyses to higher and deeper levels in the years to come.

6 Conclusions

While the main African cotton producing countries in West Africa are known for their slow and mixed record of market reforms in their cotton sectors, what is less appreciated is that these countries have significantly reduced the intensity of farmers' taxation since the late 1990s. They have done so to a greater extent than other African countries where, if anything, privatisation and liberalisation measures have gone further. This observation provides the starting point for this paper to reassess Washington Consensus reforms in agriculture, on the grounds that they do not even attain the goals they are designed for: to reduce policy distortions, increase resource allocation efficiency and lower political interference.

Typical recommendations for African productive sectors, not only privatisation and liberalisation but also the general idea of 'rationalising' sector management and building incentives systems within bureaucracies, tend to adhere to first-best principles and assume the attainability of ideal market conditions. Best-practice interventions, almost by definition, pursue an objective without considering the complications arising from particular contexts. They run up against not just multiple market failures, but also the reality of pervasive policy and institutional failures and existing power configurations. This paper argues that economic reform in developing countries should be instead approached through a second-best lens.

Following Rodrik's incisive analysis (2008, 2010) of how donors' pursuit of 'best practices' is both inadequate and undesirable, our analysis of cotton sector reform in three major African cotton producers suggests that the push for increasing the degree of competition and private sector interventions has been ineffective, since the analysed countries have either resisted suggested recommendations (Mali), adopted heterodox interventions (Burkina) or adhered to the recommended policies, but then thwarted them during implementation (Benin). More seriously, the adherence to first-best principles is also counter-productive, as it takes resources away from what existing systems are better at (delivering high quality services to farmers, providing safety nets to poor farmers, and development infrastructures to rural areas) in exchange for the unfulfilled promises of more rational incentives systems and more effective management structures. Nowhere is this more challenging than in competitive democracies (Benin and Mali in our sample), where failed expectations get more readily translated into political conflict, institutional uncertainty, and greater incentives for policy reversals.

Since market and policy constraints vary over time and across space, and new conditions always emerge, policy-makers should accept the practical impossibility of identifying general policy prescriptions. A more effective approach is one that acknowledges the nature of imperfections, and seeks a solution best adapted to the context. Learning from actual policy interventions in the context of countries' own realities could be very beneficial. This requires, however, a more benign attitude when considering African stakeholders' motivations, and greater recognition of their efforts to strike a compromise between competing policy objectives, and get around multiple market and institutional failures.

Rather than regarding actual interventions as falling short of some unattainable efficiency standards, it would be more constructive to apprehend them through a second-best approach. If donors are serious about tackling the most urgent challenges in agriculture in such a way as to generate positive effects on poverty reduction and economic growth, they may need to compromise on other fronts. In the case of cotton sectors, for instance, until governments in

WCA adopt more effective poverty reduction interventions, it may make sense to accept that cotton sectors support not only the most efficient farmers, but also some of the marginal ones, through a combination of subsidies and extension/development services.

The general lesson is that donors and external experts should resist the temptation to decrease inefficiencies at all costs, and instead support policies that are most likely to benefit agricultural development, given the local context (best fit). They should also regard existing realities not just as constraints to policy-making but as the context in which feasible interventions can be located.

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