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# COTTON INDUSTRY IN BENIN. CHALLENGES AND OPPORTUNITIES

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# **Cotton Industry in Benin. Navigating Challenges and Opportunities Amid Economic and Climate Complexities**



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## EXECUTIVE SUMMARY

This report provides a detailed analysis of Benin's cotton industry in 2023, considering the complex macroeconomic conditions. Despite social disparities and poverty, Benin's GDP growth rebounded significantly thanks to robust trade ties, particularly with Nigeria. The primary industries in Benin include cotton, the Port of Cotonou, telecommunications, and various cash crops. The cotton industry is a critical player in the country's economy and is affected by multiple structural factors such as political, economic, social, technological, legal, and environmental aspects. In the face of fluctuating macroeconomic conditions, Benin's ability to strengthen its cotton industry will depend on its ability to navigate rising worldwide interest rates, increasing borrowing costs, high inflation, and high public debt. The hostile economic environment, reduced aid budgets, and decreased Chinese financing raise concerns about debt sustainability and economic growth.

Amidst the difficulties the cotton industry faces due to unfavourable macroeconomic conditions and climate change, the report highlights the significance of effective public policies. It stresses the importance of allocating public funds to address the weaknesses and opportunities present in the sector. However, the rising costs of adaptation and mitigation pose a challenge in balancing the needs of the industry and combating climate change. The report suggests solutions such as obtaining more concessional finance, encouraging private climate finance, and utilising concessional finance to boost personal finance.

The report predicts a 6.0% yearly growth rate for global cotton consumption, indicating promising market prospects. However, various factors, such as international banking concerns, consumer inflation, competition from synthetic fibres, macroeconomic issues, and the ongoing Russian invasion of Ukraine, create uncertainty around these prospects. To secure its position in the market, Benin must concentrate on enhancing farm equipment, fostering human resources, improving infrastructure, and developing domestic manufacturing capabilities. Adherence to international standards and a commitment to sustainable practices can provide a competitive edge. Additionally, the nation needs to consider the strategy, structure, and competition within its cotton industry. Many of the country's farmers are part of cooperatives, which can provide collective bargaining power but face structural and management challenges. The sector faces significant competition from other cotton-producing countries that use advanced farming practices and technologies. Therefore, diversification, robust compliance systems, and quality control are crucial.

In summary, Benin has certain advantages regarding cotton production, like a good climate and a plentiful labour force. However, there are also significant obstacles to overcome, such as a lack of technological progress, insufficient infrastructure, no domestic solid textile industry, and the effects of climate change. To ensure the industry's success in the future, it is necessary to tackle these challenges while making the most of its strengths.

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## BACKGROUND

In 2021, Benin's economy saw favourable macroeconomic conditions, leading to a significant rebound in GDP growth from 3.8% in 2020 to 6.6%. Trade ties with neighbouring countries, particularly Nigeria, heavily influence the economy. Its primary industries include cotton, the Port of Cotonou, telecommunications, and cash crops such as cashew and pineapple. The informal sector, primarily focused on unregulated trade with Nigeria, accounts for over 48% of the country's GDP. While the Port of Cotonou remains the primary source of revenue, the country is trying to expand its revenue base. In 2020, Benin imported goods worth \$4.22 billion, with its primary import partners being India, China, France, Togo, Belgium, Russia, Turkey, and the United States. Its main exports include cotton, cashew, shea butter, cooking oil, and raw copper, with a total export value of \$1.24 billion. Bangladesh, India, China, Malaysia, Ukraine, Denmark, and the UAE are among its primary export partners.<sup>1</sup> The nation is diversifying into sectors like building materials, textiles, and agribusiness while aiming to stimulate local processing of cashew nuts by 2024. Despite a slight decline, public investment remains above pre-pandemic levels, particularly in electricity and freight transport. Upgrades to the port of Cotonou and the « cotton road » development promise to enhance regional trade. Although net imports worsened in 2022 due to inflation and currency depreciation, a recovery is expected with falling commodity prices. Benin's government has secured financial support from international institutions while tackling security threats from jihadist incursions in the North. Despite progress, social disparities and poverty persist, prompting efforts to leverage cultural heritage for tourism.<sup>2</sup>

Structural factors shape the environment of the cotton industry in Benin. They are political, economic, social, technological, legal, and environmental.

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<sup>1</sup> International Trade Administration (2023). Benin - Country Commercial Guide. <https://www.trade.gov/country-commercial-guides/benin-market-overview> Accessed 21th July 2023

<sup>2</sup> Coface (2023). Benin. Major Macroeconomic Indicators. <https://www.coface.com/Economic-Studies-and-Country-Risks/Benin> Accessed 24th July 2023.