A Quantitative Economic Analysis of the Impact of Price Reform and the Elimination of Subsidies on Poverty among Cotton Producing Households in Rural Uganda.

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Abstract:

The benefits of eliminating cotton subsidies for Africa have been studied in terms of a higher world price, greater market share and higher export earnings for Africa. These estimates have focused on macroeconomic gains. This research simulates the effect of increases in the price on incomes of cotton growing households in rural Uganda to assess the impact on poverty levels. The Foster-Greer-Thorbecke measure of poverty is used to analyse the effect price increase on poverty. Results from this research indicate that Ugandan cotton farmers are unlikely to benefit from the elimination of cotton subsidies without price reform within its domestic cotton market. It is estimated that price reform alone can decrease poverty by 5 percent among cotton growing households in the Northern and Eastern Regions of Uganda. The results of the simulations also indicate increasing the price of cotton reduces the income gap for those households that remain in poverty despite the price increase. Thus the price increase decreases the severity of poverty amongst cotton producing households in rural Uganda.

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Chapter 1: Introduction:

The objective of this research is to provide a quantitative economic estimate of the impact of cotton price increase on poverty among rural households in Uganda. It has been suggested that elimination of cotton subsidies will benefit African cotton farmers through a higher world price, great market share for African exporters, and higher export returns for cotton. The impact of cotton subsidies on Africa was highlighted at World Trade Organisation (WTO) when four African countries, Benin, Burkina Faso, Chad and Mali, joined Brazil's case against the United States (U.S.) cotton subsidy program. Brazil alleged U.S. cotton subsidies were illegal under the rules of the WTO and caused significant loses to Brazilian cotton farmers. The involvement of four of the world's least developed countries caused the issue of cotton subsidies to gain momentum. Such a united front could not be ignored in the context of the Doha Development Round at the WTO.

Goreux (2004) estimated the elimination of cotton subsidies in developed countries would cause the world price of cotton to rise by 12 percent and allow developing country cotton producers to gain market share. Sumner (2003), Gillson et al (2004) and Page et al (2006) also estimated the elimination of cotton subsidies would increase the world price and allow developing countries to gain greater market share. Estimates of economic benefits for Africa have been limited to macroeconomic variables. Poverty reduction has often been suggested as a spin-off. The aim of this research project is to quantify the impact of cotton price increases on poverty among cotton producing households in Uganda as a case study for Africa.

Uganda has been successfully growing cotton since the 1930's. Cotton is an important source of cash income in rural community and influences the level and severity of poverty in rural Uganda. The cotton industry was abandoned during the reign of Idi Amin, in favour of food crops needed for survival. The industry is still recovering, but the majority of cotton is grown on small plots of land using subsistence horticultural techniques. The results of this analysis will therefore estimate the impact of an increase in the cotton price on those most vulnerable to poverty.