

Pricing policies in cocoa in Ghana

The case of the Concertation and Innovation Group (CIG)

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Cocoa in Ghana

Ghana is the world's second leading producer of cocoa with a market share of 21% of the total world volume after Cote d'Ivoire.

Contributes 60% of agricultural foreign exchange earning



Important source of farm income and insurance for some 800,000 smallholder farm-families in Ghana



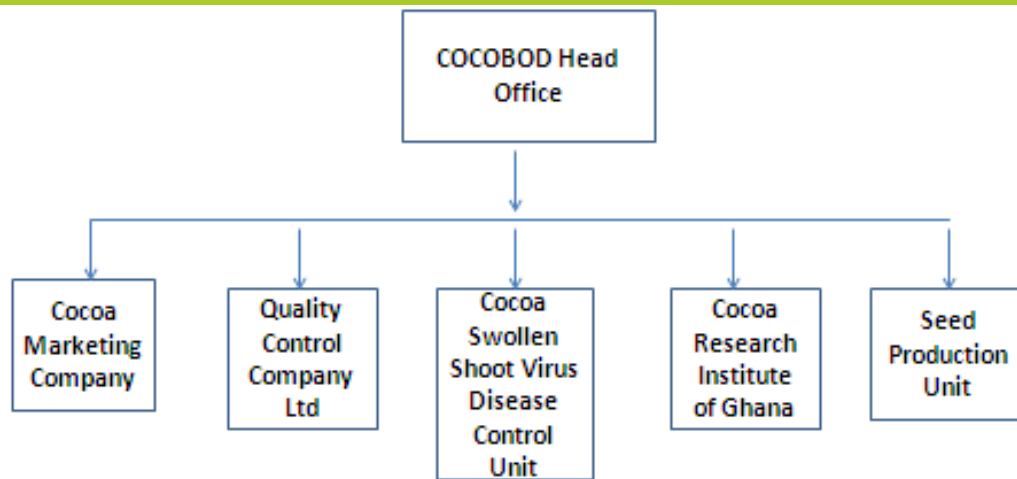


Cocoa when processed well will produce high quality beans, but farmers have no incentive as all grades receive a fixed price

- Annual production averages 250 to 400 kg/ha), which is among the lowest in the world compared with 580 and 770 kg/ha for Cote d'Ivoire and Indonesia, respectively.



Approach... COCOBOD subsidiaries charged with mandates for solving specific problems related to the cocoa sector



...research recommendations abound but farmers have little or no incentive to invest in them



Institutions?



...markets, value chains, legislations, rent seeking, unfair international trade, land tenure, certification, service provision etc are key to production

Cocoa Bean Quality

Issues with production of quality cocoa beans

Pre-harvest activities

Post-harvest activities

Liquidity
constraint

Little incentive

Inadequate
knowledge

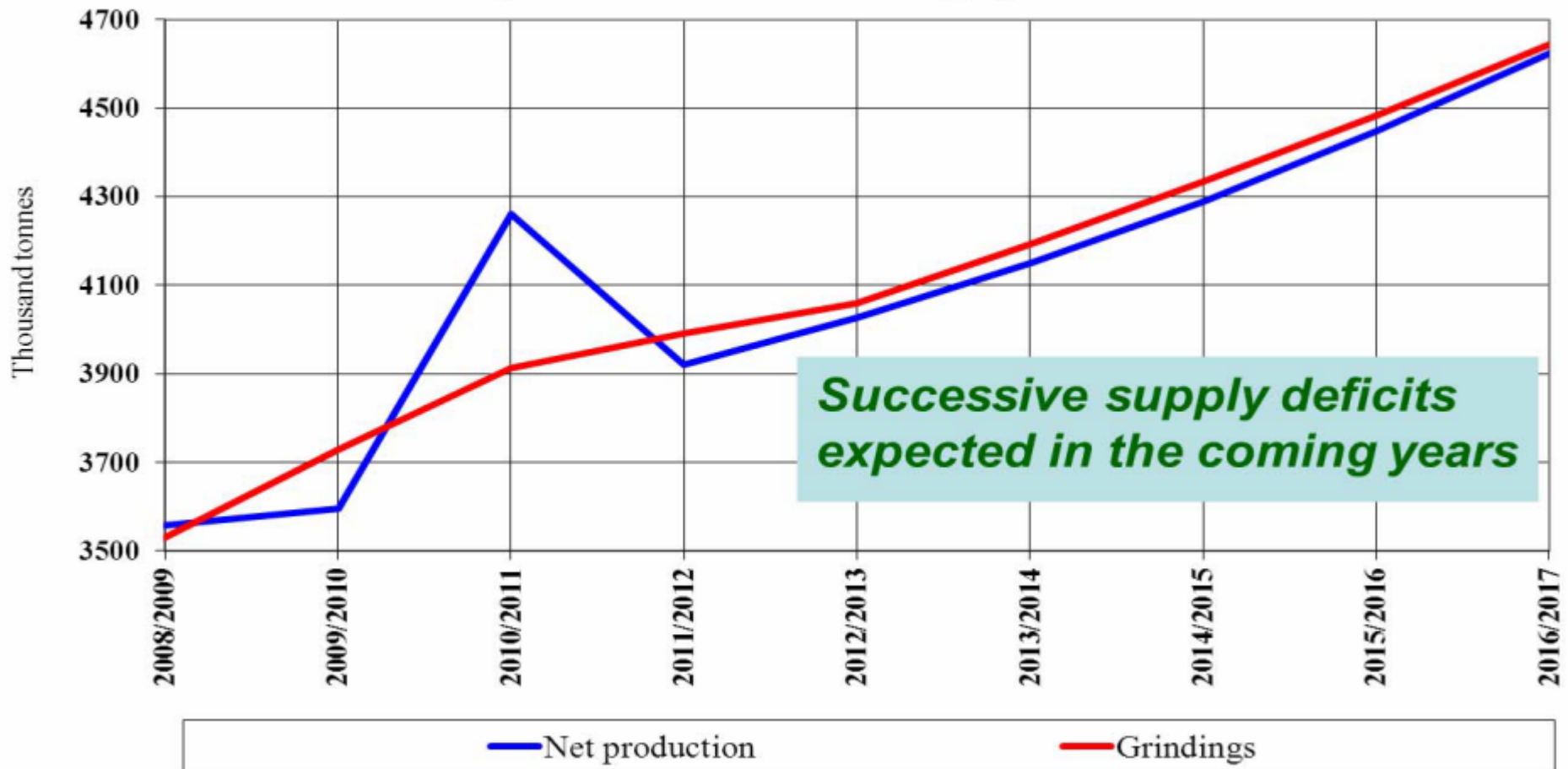
1. Land tenure and land holding
2. Low yield
3. Low producer price and poor timing
4. Low diversification
5. Cheating LBC
6. Multiplier effect of producer price

1. Quality not rewarded
2. Inadequate monitoring of production activities
3. LBC competition
4. Policy focus on yield more than quality?
5. History of spoon feeding/pampering

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BUT.... Strategic challenges (supply and demand)

Projections of world cocoa supply & demand



What we need to be doing...

- Improving transparent in pricing and market systems
- Improving infrastructure such as roads, transport, healthcare, water, sheds etc.
- Providing timely and affordable credit, inputs and technical extension support etc.



The Multi-stakeholder approach....

CIG: Platform for interaction

- Interdependent actors who have a stake, come together to agree and work towards concerted actions to ensure institutional innovation for enhanced livelihoods



**Institutional
Research**



CoS-SIS?

Identifying Research Associate from within the domain

Research Associate's capacity enhanced by CoS-SIS

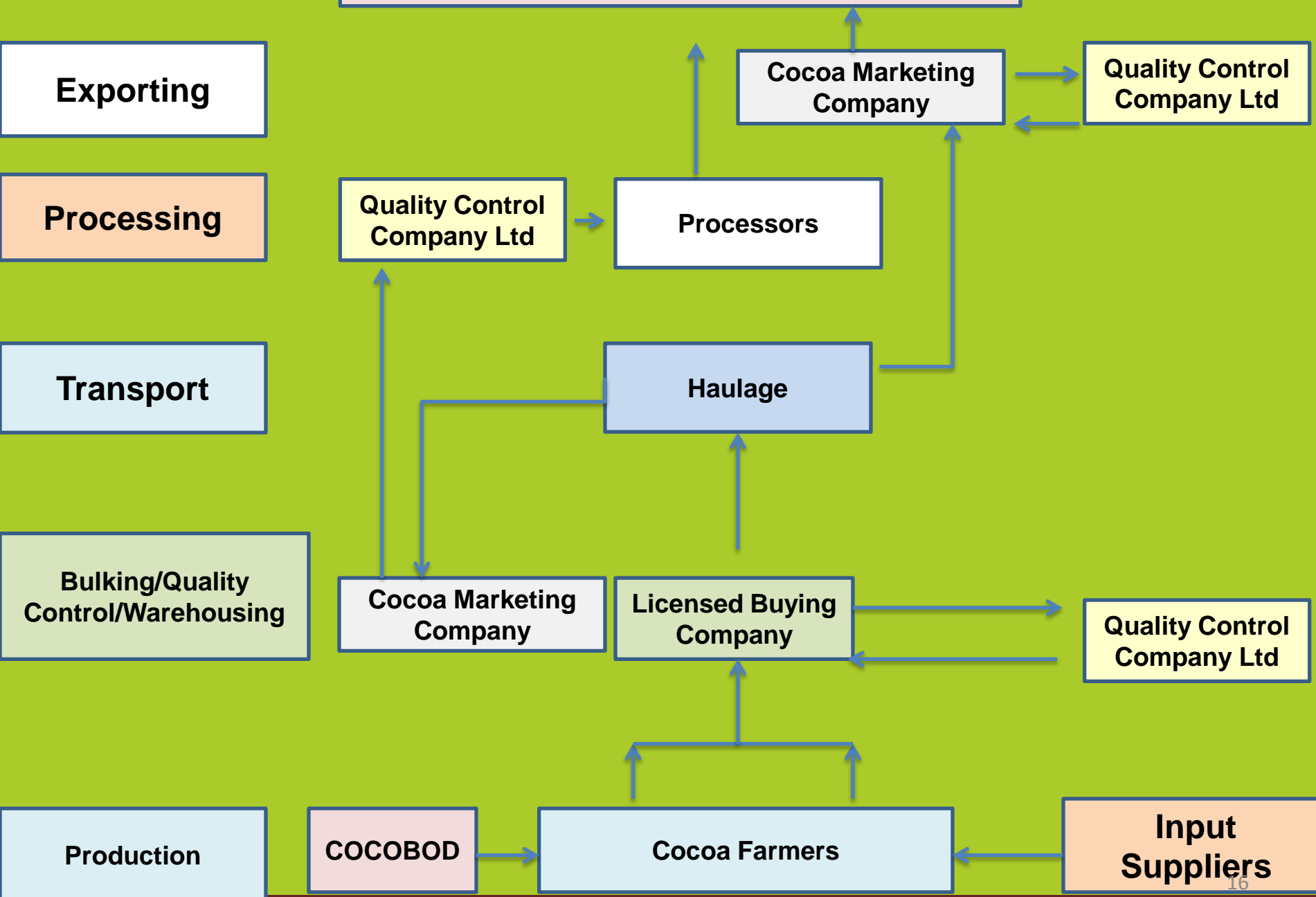
Removing institutional constraints and promoting a system where smallholder farmers will have space in decisions that affect their livelihood

Role of Research Associate...

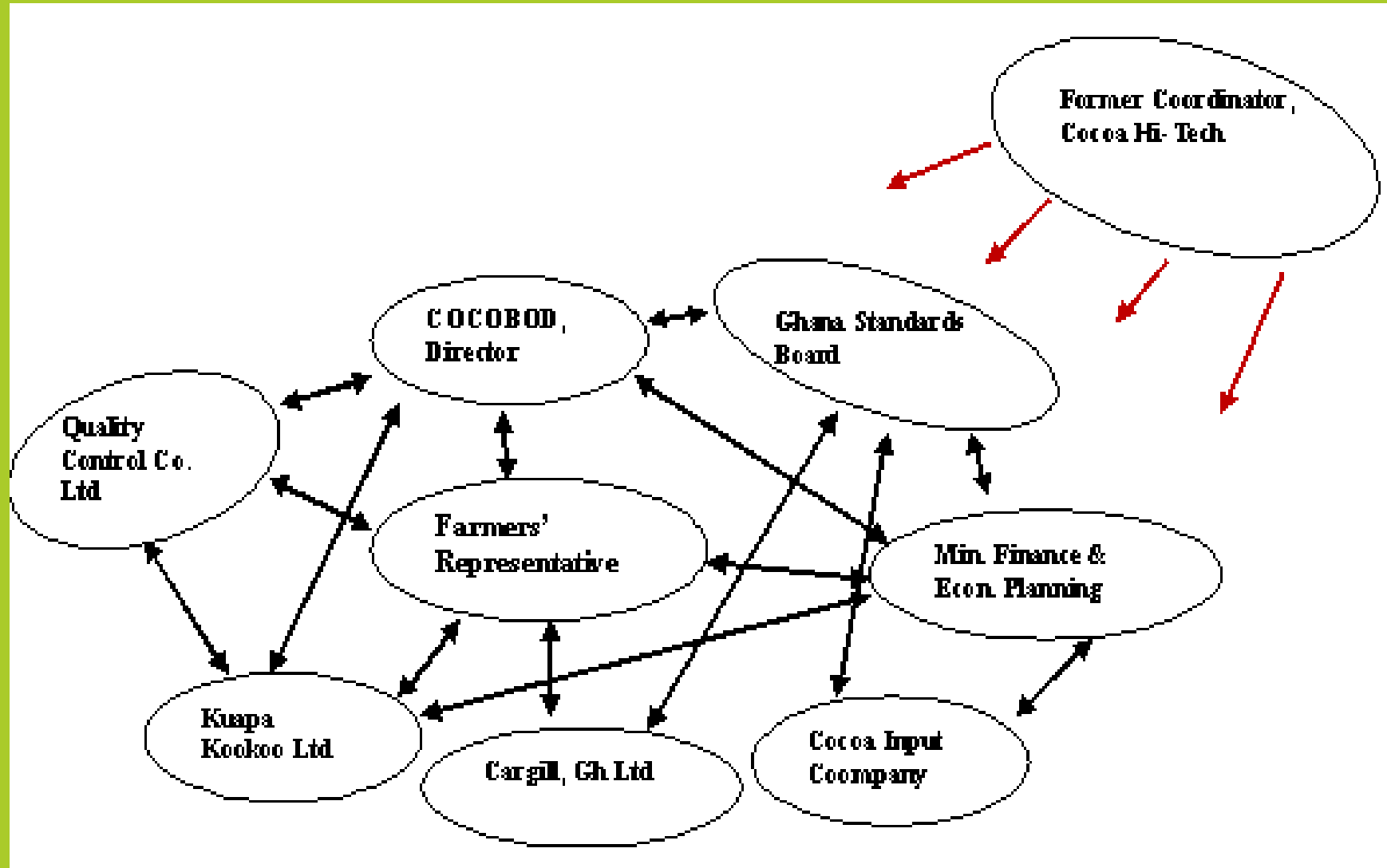
Facilitation of functioning of the platform

- Identification of organizations that hold responsibility for sustainable cocoa production and negotiate with potential CIG members with “right attributes” E.g. Enthusiasm to champion smallholder course.
- Identification of activities needed to be undertaken in a concerted way to result in the required institutional change.
- Identification of when specific concerted actions are required.

Cocoa Supply Chain Map



The Cocoa CIG



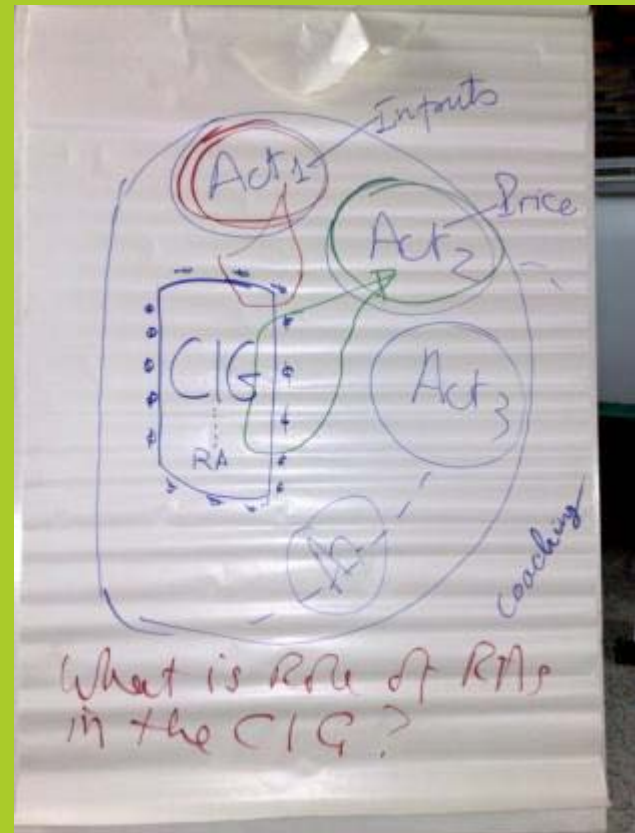
Only one person knew how price was fixed

Networking

Sharing/
feedback

Institutional
learning

CIG sets out to learn how cocoa price is fixed in Ghana and neighbouring countries
CIG meets at intervals to discuss and implement actions related to pricing, input supply etc,



Innovation

Price determination of FOB

Farmers' share = Net Revenue – All Stakeholder cost = 70%



Members sharing feedback information:

Information to be used for price negotiation



Information on producer price calculation for 2009/2010

Farmer price calculation 2009/10

- Average FOB price (est.) UD\$ 2400/metric tonne
- Exchange rate (est.) 1.46 Cedis/US\$
- Crop Size (est.) 700,000 metric tonnes

Deductions

- Disease & Pest Control 162.6 million Cedis
- Scholarship fund 10.0 million Cedis
- Jute Sacks 19.8 million cedis
- CSSVD 14.1 million Cedis
- Cocoa Hi-Tech 69.4 million Cedis
- Child Labour Certification 2.0 million Cedis

TOTAL Deductions 277.9 million Cedis

- Net FOB Price US\$ 2128/metric tonne

- Farmer Price 2208 Cedis/metric tonne

Export duties & taxes?

Some cocoa export and local duties over the years						
Year ending 30 September	1971 ¢000	1986 ¢000	1994 ¢000	2001 ¢'mill	2006 GH¢	2011 GH¢
Gross turnover	256,366	71,337,780	329,826,934	2,609,646	1,100,691,700	4,754,198,210
Export and local duty	116,990	30,896,345	123,923,912	299,612	61,600,000	148,679,011

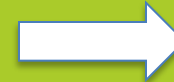
HIGH COST OF CODAPEC ACTIVITIES



Dealing with information asymmetry in government input distribution



Concern



No transparency in government input distribution

What needed to change?



Farmers to know the allocation of inputs to their districts



Action



CIG invites Former Coordinator of Cocoa Hi-Tech for education on barriers to input distribution

**Information used to negotiate
for better price**

Daily Graphic, Wednesday, September 29, 2010.

Cocoa price up

• It's now GH¢3,200 per tonne instead of GH¢2,400

Story: Samuel Doe Ablordeppey

COCOA farmers in the country will enjoy a bonanza with the announcement of a producer price of the commodity from GH¢150 to GH¢200 per 54-kilogramme bag, effective October 1, 2010.

The 33.3 per cent increase for the 2010/2011 crop season translates into a new price of GH¢3,200 per tonne of cocoa from the previous price of GH¢2,400.

The Minister of Finance and Economic Planning, Dr Kwabena Duffour, told newsmen in Accra yesterday that the new price represented 75.15 per cent of the international price (Free on Board or FOB), which should serve as an incentive to encourage cocoa farmers to increase production.

Dr Duffour said the Ghana Cocoa Board (COCOBOD) had also been mandated to work out bonuses for the farmers in a week and pay same to the farmers before December, this year.

Last week, COCOBOD raised funds to the tune of \$1.5 billion from international banks to enable it to purchase cocoa for this crop season. Cocoa purchases are expected to increase by some 69,900 tonnes to

700,000 for this crop season.

A little over 630,000 tonnes were purchased for the 2009/2010 season.

Dr Duffour announced that the new price also came with an upward revision for other fees such as the buyers' margin and hauliers' rate, which have been pegged at GH¢28.57 per tonne and GH¢125.14 per tonne respectively.

The Finance Minister, who also chairs the Producer Price Review Committee (PPRC), which has been tasked with a regular review of the prices, said the new price should also check the smuggling of cocoa to neighbouring countries, as the price differential had been closed.

It is also expected to help improve the livelihoods of cocoa farmers.

He also urged COCOBOD to complete working on the modalities for implementing the Cocoa Farmers' Pension Scheme.

The Chief Executive Officer of COCOBOD, Mr Anthony Fofie, said the new producer price would help stem the incidence of smuggling to neighbouring countries, stressing, however, that COCOBOD needed to be more resourced by the government to enable it to meet the

one million tonne production target.

On modalities for the pension scheme announced last year and carried in the budget, Mr Fofie said the board had engaged the services of financial experts to help draft the document for work to continue on it.

Farmers, who were part of the stakeholders at the meeting, were elated and expressed appreciation to the government for raising the price and matching it with what pertained in neighbouring countries.

"This price is very good. It will go a long way to help improve our standard of living and I'm sure now people in Cote d'Ivoire will also come to sell their produce in Ghana," the Central Regional Chief Farmer, Nana Kwesi Ofori, told the Daily Graphic.

He said most farmers in the Central Region yearned for the GH¢200 mark prior to the announcement and the new prices should gladden their hearts.

"This is very encouraging," the Deputy National Chief Farmer, Nana Adjei Damoah, told the Daily Graphic, as he agreed the new price was a significant disincentive to the smuggling of cocoa.

COCOBOD publishes input distribution in the National newspapers with the thinking of the CIG



GHANA COCOA BOARD

**DISTRIBUTION OF CODAPEC INPUTS FOR VARIOUS DISTRICTS FOR 2012
SPRAYING PROGRAMME**

TABLE 1: ALLOCATION OF PNEUMATIC SPRAYING MACHINES AND FUNGICIDES FOR 1ST APPLICATION, 2012 BLACK POOL PROGRAMME, ASHANTI REGION

[illegible]

TABLE 2: ALLOCATION OF PNEUMATIC SPRAYING MACHINES AND FUNGICIDES FOR 1ST APPLICATION, 2812 BLACK POD PROGRAMME - SRONG AHAF0 REGION

[illegible]

TABLE 3: ALLOCATION OF PNEUMATIC SPRAYING MACHINES AND FUNGICIDES FOR 1ST APPLICATION, 2012 BLACK POD PROGRAMME - WESTERN (NORTH) REGION

Disorder	Personality Disorders	Type of Personality Disorders	Sustenance	Design
Asperger	600 SOLO	1,000 400 1,000 1,000 1,000	Kosher Kosher Kosher Kosher Kosher	DCM
Asperger	600 *	1,000 400 1,000 1,000 1,000	Kosher Kosher Kosher Kosher Kosher	DCM
Ho	1,120 *	1,000 400 1,000 1,000 1,000	Kosher Kosher Kosher Kosher Kosher	DCM
Asperger	600 *	1,000 400 1,000 1,000 1,000	Kosher Kosher Kosher Kosher Kosher	DCM
Asperger	397 *	1,000 400 1,000 1,000 1,000	Kosher Kosher Kosher Kosher Kosher	DCM

District	Automatic Machine (Pieces)	Type of Fertilizer (Carbont)	Destination	Consigee
Sahel Wilaya	420	120 200 100	France Tunisie Maroc	Sahel Wilaya
Sahel Algeria	80 C P 15	200 2.000 400	France Tunisie Maroc	Sahel Algeria
Bordj Wilaya	273 C P 15	80 200 200	France Tunisie Maroc	Sahel Wilaya
SUB TOTAL	4.727	25.600		

TABLE 4: ALLOCATION OF PNEUMATIC SPRAYING MACHINES AND FUNGICIDES FOR 1ST APPLICATION, 2012 BLACK POD PROGRAMME - WESTERN SOUTH REGION

District	Automatic Machines (Pesticide)	Type of Pesticide (Chemicals)	Destination	Consequence	
Wasa Arani (East)	500 Meter	300	Agrochemical	Sambal	DECEASE
Wasa Arani (West)	125 "	420	Agrochemical	Asenirigui	DECEASE
Wasa Arani (East)	90 "	300	Agrochemical	Wasa	DECEASE
Upper Lerdapir (East)	80 "	170	Agrochemical	Sumatran - Sibir	DECEASE
Upper Lerdapir (West)	60 "	120	Agrochemical	Chen	DECEASE
SUB TOTAL	855	1,350			

TABLE 3: ALLOCATION OF PNEUMATIC SPRAYING MACHINES AND FUNGICIDES FOR 1ST APPLICATION, 2012 BLACK FOD PROGRAMME - VOLTA REGION

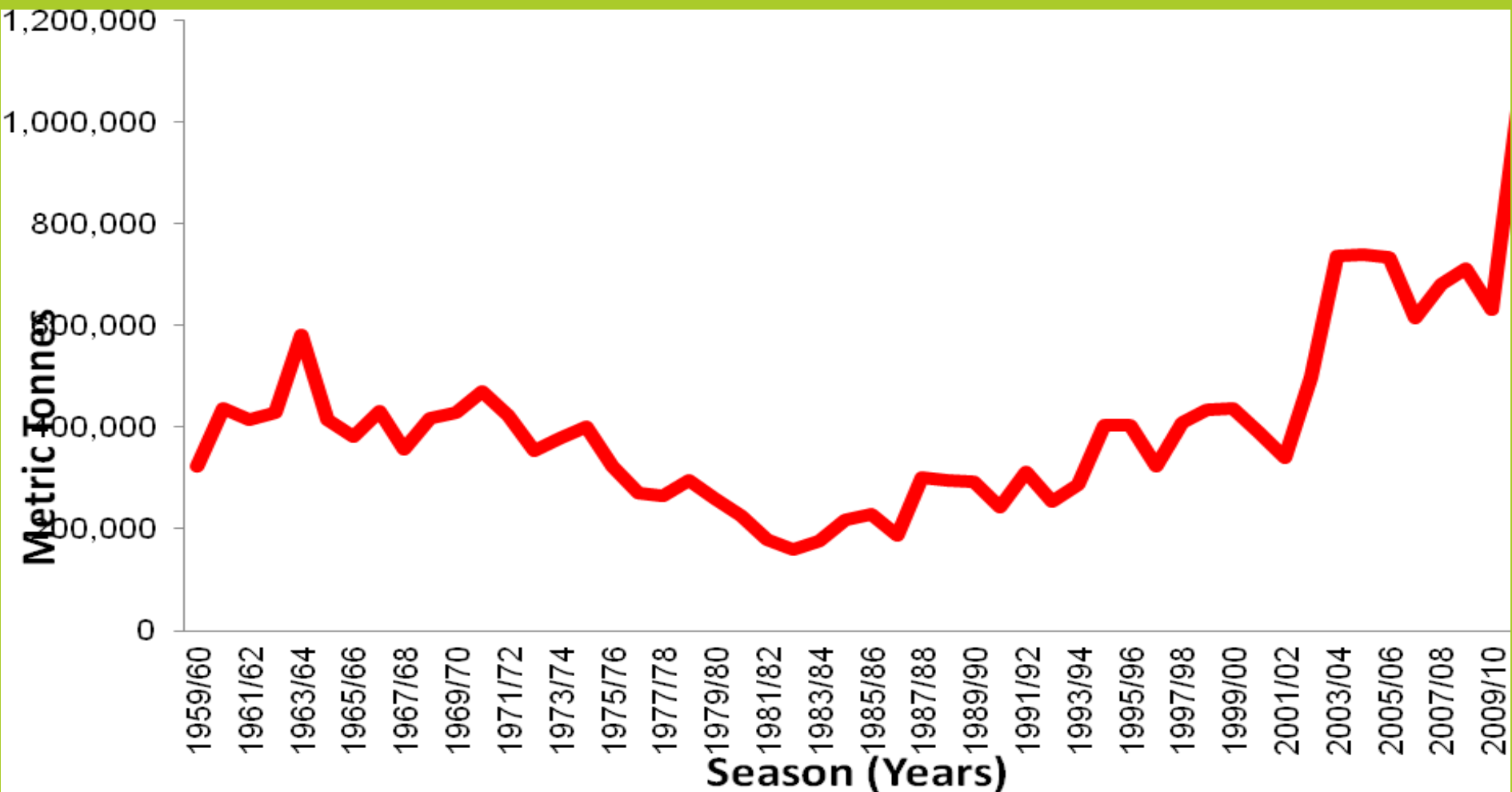
District	Pneumococcal Vaccines (Doses)	Type of Fungicide (kg/litres)	Destination	Consignee	
Port Harcourt	10 Months	540	Fungicide	Harco	OCENCE
Port Harcourt	18 "	430	Fungicide	Jackan	OCENCE
Kaduna	18 "	290	Fungicide	Kaduna	OCENCE
Benue	18 "	80	Fungicide	Benue	OCENCE
no	18 "	120	Fungicide	no	OCENCE
SUB TOTAL	249	1,565			

TABLE 9: ALLOCATION OF PNEUMATIC SPRAYING MACHINES AND FUNGICIDES FOR 1ST APPLICATION, 2012 BLACK POD PROGRAMME, EASTERN REGION

District	Monocotyledonous Maculans (Percent)	Type of Fungicide (Dormant)	Destination	Consignment	
North North	27	Manco	Agrochemical	Male Abirori	DO-MICE
Agribusiness	41	Agrochemical	Obafemi		DO-MICE
Kosofe West	73	Agrochemical	Agrochemical	Nekelewa	DO-MICE
Nekelewa	26	Agrochemical	Agrochemical	Agrochemical	DO-MICE
SUB TOTAL	85	221			
GRAND TOTAL	9,714				



Response to price increase

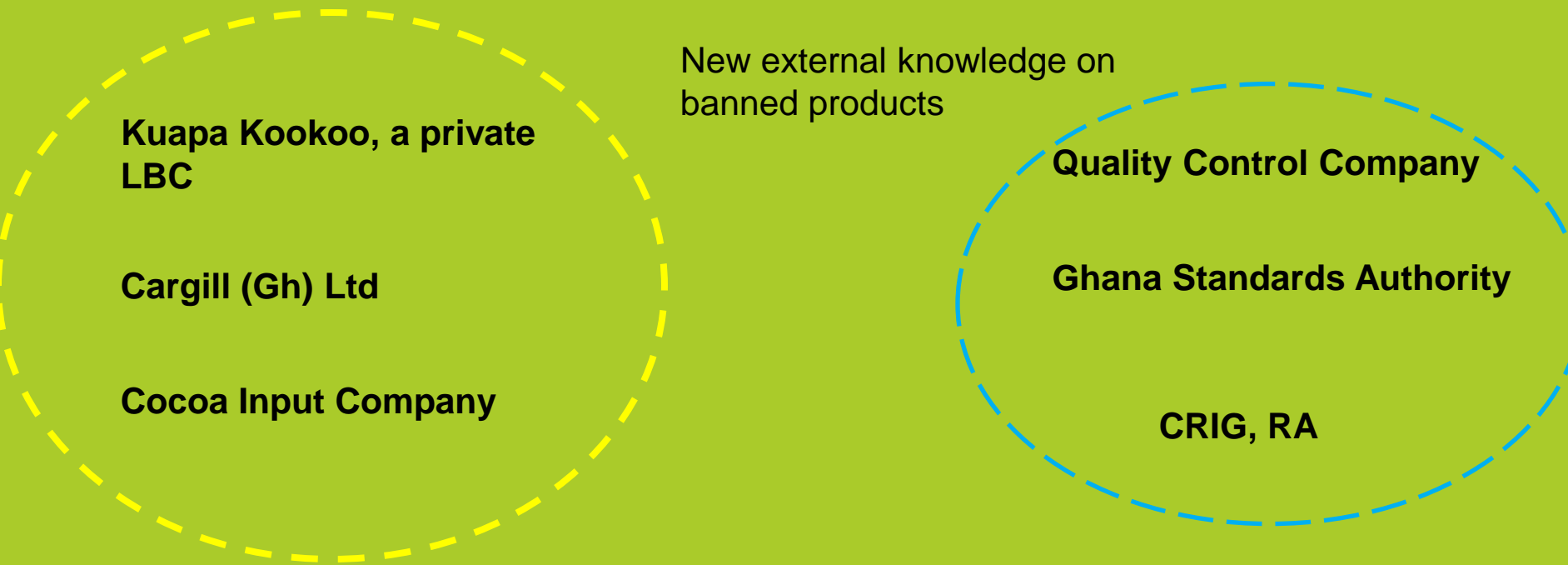


- The CIG asked for 50% of government input distribution to be done through the Farmers' Cocoa Input Company
- In 2012, Government channeled 30% of fertilizer distribution through the company.

Example of how events are tracked: Causal Process Tracing (CPT) October 2010

Whose choice-making does the CIG aim to change?	What choices does the CIG want them to make differently?	What does the CIG expect to cause those different choices?	What resources does the CIG provide to support these?
Minister for Finance & Economic Planning; COCOBOD	Change in the producer price for cocoa farmers	Lobbying government that it was possible to increase the producer price despite drop in the world price	Authority/influence of CIG member

Some benefits arising from the CIIG interactions



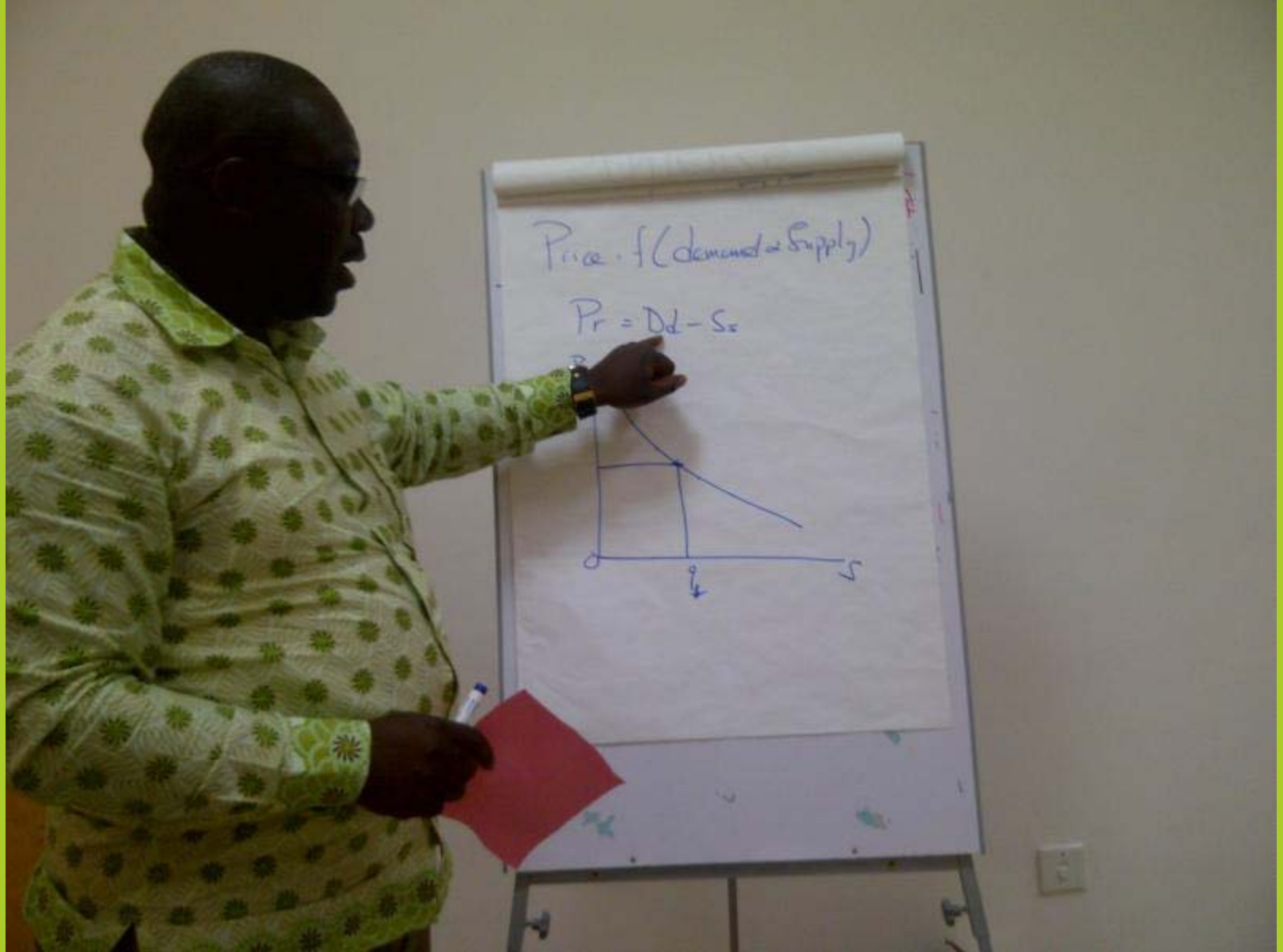
THE WAY FORWARD



Global declining prices: at the landscape



source: TradingEconomics.com; ICE



- The CIG has talked with COCOBOD to promote cocoa as a health food for inclusion in the national school feeding programme

CIG turning into a permanent platform?

Further exploration on cocoa pricing mechanisms, and transparency in input distribution

Need to change the timing of pest control recommendation set in the 1950s to reflect current farming systems

Pursuing premium price for a traditional organic cocoa farmers association - members have lost 10% premium price in the past two years

Dealing with cocoa taxation

Working with the African Cocoa Initiative 's National stakeholders platform



Thank You



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