

# Sustaining the Cocoa Sector in Ghana: What Next

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# Cocoa in Ghana

- Significant share of the exports; dependence is still high
- Smallholder agriculture, so has implications for poverty reduction as well
- Significant share of agriculture
- The expenditures in the sector also account for bulk of the expenditures in agriculture
- Serves as a model government role in agri.

# The situation at reforms in 1982/83

- Dramatic decline in production from a high of 591,000 tons in 1964 to a low of 159,000 in 1983
- Small share of producer price going to producers: 21 percent in 1983.
- Cocobod was a bloated organization employing nearly 100,000; excluding producer price its budget exceeded FOB earnings at official exchange rates.
- 20 percent was smuggled out of the country

# The Reforms

- Three measures:
  - privatization,
  - reorganization of administrative structures,
  - Market liberalization
- 1980s
  - Reorganization: limited functions
  - Cocoa rehabilitation project
  - Phasing out of inputs subsidies
- 1990s
  - Competition in internal marketing - LBCs

# How are Producer Prices Determined?

- FOB sharing method.
- Producer Price Recommendation Committee (finance ministry, farmers, LBCs, haulers, etc.) recommends
  - Projects prices, exchange rates and crop size
  - Makes deductions for provision of public goods or “industry costs”
  - Takes the balance as “net FOB” available for sharing between producers and various marketing functionaries
  - Surpluses are transferred to government, although government may take funds whenever it needs

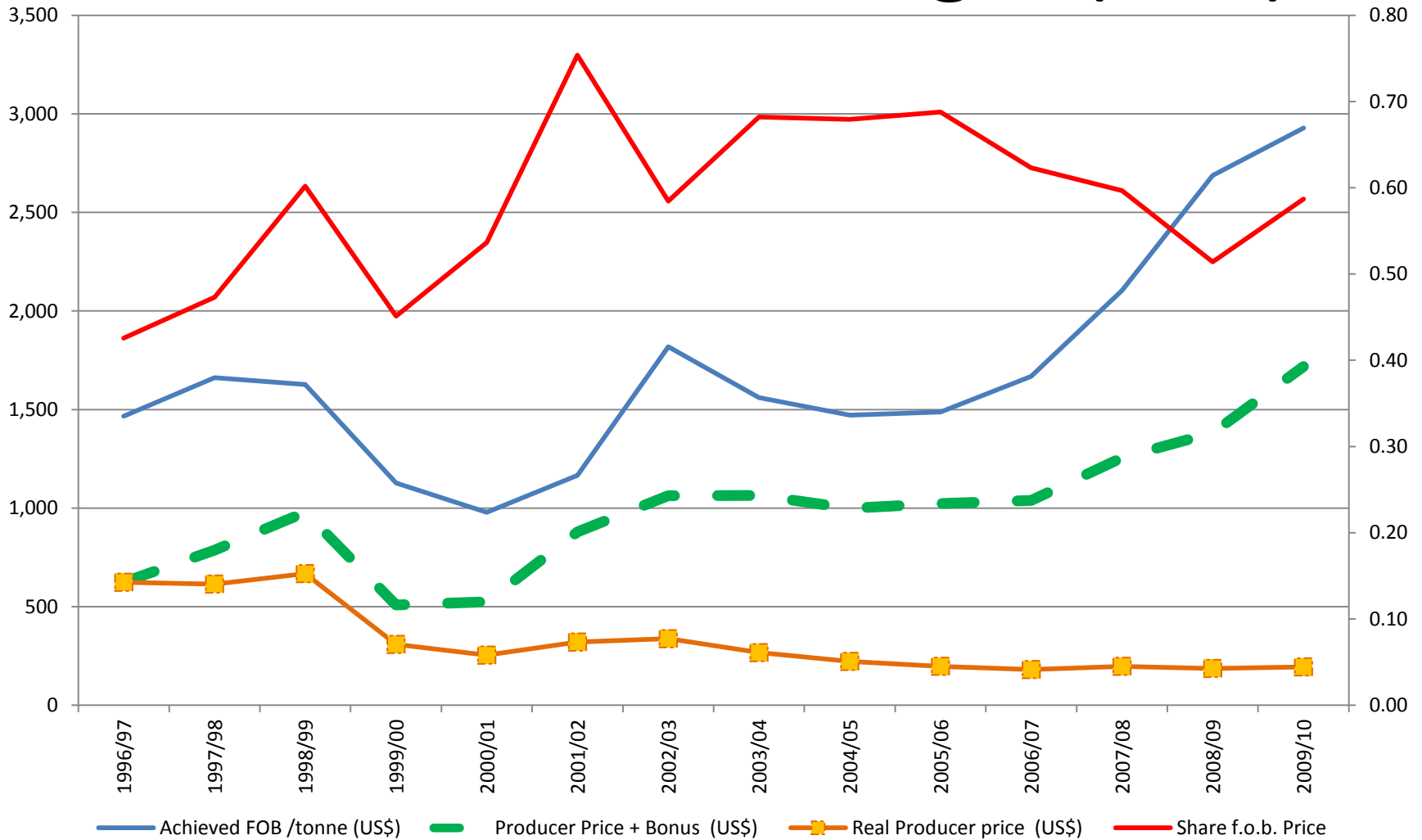
# Example: 2009-2010

<b>Projections:</b>	
–Average FOB price (\$/ton)	2,550.00
–Exchange rate (GHc/\$)	1.46
–Crop size (tons)	700,000
<b>Public goods or industry costs</b>	
–Disease and pest control	162,565,019.00
–Scholarship fund	10,000,000.00
–Jute sacks	19,800,000.00
–CSSVD	14,093,830.00
–Hi-tech	69,430,000.00
–Child labor certification	2,000,000.00
–Total	277,888,849.74

# Recommendations – contd.

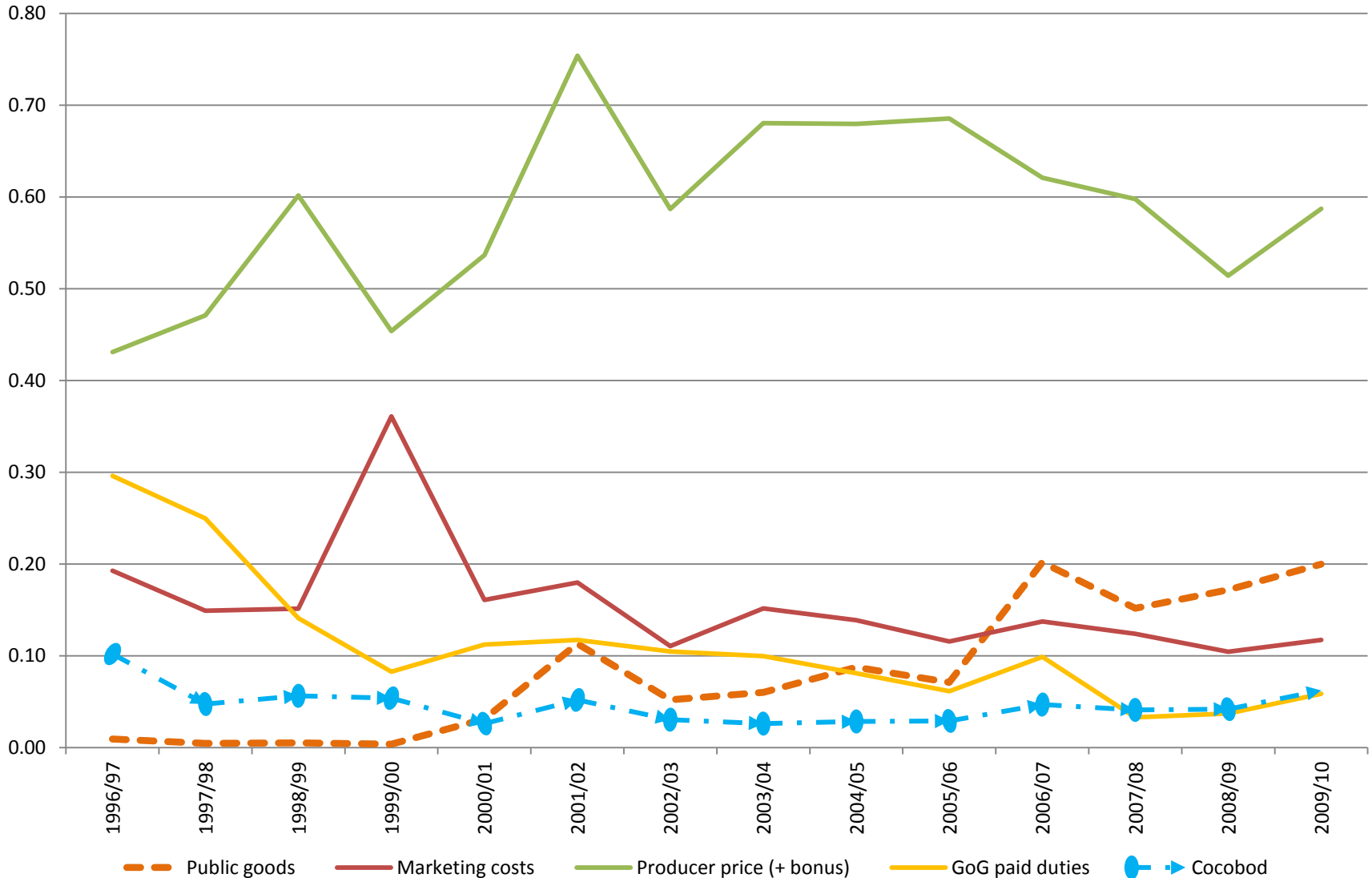
Cost Items	% of Net FOB Price
Producer price	72.16
Stabilization fund	1.50
Buyer's margin	8.42
Hauliers' cost	3.40
Storage and shipping (CMC)	1.16
Quality control	1.66
Crop finance	1.06
Scale inspection and phytosanitary	0.01
government/Cocoboad	9.34
Farmer's housing scheme	0.04
Replanting/rehabilitation	0.64
Farmers' social security	0.61
<b>Total</b>	<b>100.00</b>

# Producer Price Changes (US\$)





# The Shares of Other Agents



# What Accounts for Significant Producer Share?

- A number of programs set targets for producer share, taxes, and Cocobod expenses to be achieved over time;
- Cocoa pricing has become a political issue: the two parties push each other although cocoa producers are not an organized group;
- PPRC takes into consideration prices in neighboring countries; the two parties also hold each other accountable for smuggling – NPP recently stated that offering higher prices to farmers is a superior way to patrolling borders;
- Growing revenues make it feasible to pass on larger share to producers without improving efficiency – assuming economies of scale in marketing operations
- Lower government taxes have contributed more than anything else to higher producer shares
- Initial external pressure?

# Transfers to Government

Year	Total revenue	Tax revenue	Cocoa export tax			
			Nom Tax	Real tax (2004=1)	% of Tax revenue	% of Total revenue
2004	1,899,804,243	1,740,306,317	64,119,000	64,119,000	3.7	3.4
2005	2,315,623,508	2,014,492,847	61,600,000	53,510,195	3.1	2.7
2006	2,556,911,800	2,326,315,594	92,055,200	72,096,447	4.0	3.6
2007	3,650,998,724	3,312,658,114	46,252,800	32,713,597	1.4	1.3
2008	4,802,406,319	4,299,451,807	85,473,828	51,881,548	2.0	1.8
2009	5,673,980,934	4,657,527,464	153,933,253	78,352,244	3.3	2.7

- What might account for lowered tax rates?
  - more stable macro-economic situation?
  - Growing tax revenues?

# Public Good Provision

(‘000 of GHC)

Year/Item	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>CODAPEC</b>	0	0	0	0	5,836	30,419	27,813	34,100	44,836	56,400	106,779	113,439	123,905	162,565
<b>CSSDV +tree repl.ing</b>	830	655	602	432	427	1,332	2,599	6,746	6,010	4,882	5,481	16,072	15,183	49,094
<b>High-tech</b>	0	0	0	0	0	0	7,500	13,300	12,525	0	63,782	66,783	216,602	280,490
<b>Other*</b>	11	48	165	341	2,005	586	1,000	6,100	5,950	9,700	12,000	16,500	41,247	32,542
<b>Total (nominal)</b>	841	703	767	773	8,267	32,337	38,912	60,246	69,321	70,982	188,042	212,794	396,938	524,690
<b>Total (real 1996 = 1)</b>	841	550	523	469	4,008	11,794	12,361	15,108	15,435	13,730	32,792	33,512	53,648	59,467
<b>% Tot. Cocoa revenue</b>	0.01	0.00	0.01	0.00	0.03	0.11	0.05	0.06	0.09	0.07	0.20	0.15	0.17	0.20

\*Scholarship fund, jute sacks, cost of elim.'n of WFCL, stab. fund, and farmers' housing scheme.

- Industry costs have grown substantially in the last ten years to take up nearly a fifth of the revenues;
- As the programs are managed by Cocobod, there are strong incentives to expand them; FOB sharing method often leaves considerable revenues with the cocobod at the end of the year;
- High tech program involves 40 percent subsidy on fertilizers

# Marketing Costs

('000 GHC)

Year/Item	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Buyers' Margin (LBCs)</b>	8,707	12,970	13,243	15,763	23,616	30,068	46,016	81,473	50,825	65,297	60,088	85,268	119,998	147,154
<b>Haulage Cost</b>	2,269	4,096	3,987	3,952	7,240	8,081	11,646	31,336	19,220	26,575	12,896	32,964	44,289	67,976
<b>Storage/Shipping (CMC)</b>	2,472	1,365	1,403	143	3,609	4,677	6,544	7,885	6,949	1,226	24,404	21,305	39,575	19,027
<b>Other*</b>	2,816	3,332	3,512	58,298	7,937	7,890	15,179	20,554	22,894	16,541	25,205	22,228	21,501	38,604
<b>Total (nom.)</b>	16,264	21,761	22,146	78,156	42,402	50,715	79,384	141,248	99,888	109,638	122,593	161,765	225,363	272,761
<b>Total (const. 1996 = 1)</b>	16,264	17,016	15,108	47,431	20,554	18,498	25,218	35,421	22,242	21,206	21,379	25,476	30,459	30,914
<b>% tot cocoa rev.</b>	0.18	0.14	0.15	0.34	0.16	0.18	0.11	0.14	0.13	0.11	0.13	0.12	0.10	0.10

\*Other includes: crop finance, anti-smuggling funds, scale inspection and phyto-sanitary, and social security for farmers

- The share of total marketing costs has declined over time
- Per ton cost of buying has actually gone up after LBCs came into the picture

# Cocobod Expenditure

('000 GHC)

Year	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Total (nom.)	9,154	7,422	8,373	11,662	6,952	14,809	22,722	26,291	22,587	42,237	63,481	57,613	96,416	190,427
Total (const. 1996 = 1)	9,154	5,804	5,712	7,077	3,370	5,401	7,218	6,593	5,029	8,170	11,070	9,073	13,031	21,582
% Tot. Cocoa rev.	0.10	0.05	0.06	0.05	0.03	0.05	0.03	0.03	0.03	0.04	0.07	0.04	0.04	0.07

- Cocobod expenditure shares have come down but they are expanding rapidly in recent years

# Ghana Cocoa Quality

## (Premium)

### Cocoa Unit Values and Terminal Market Differentials

	Cameroon		Ghana		Nigeria	
	Unit value	Differential	Unit value	Differential	Unit value	Differential
<b>1988–91</b>	2.7%	—	3.7%	—	-0.4%	—
<b>1992–2002</b>	-3.0%	0.20%	1.1%	4.8%	-2.1%	-0.5%
<b>2003–08</b>	-7.8%	—	5.2%	4.9%	-0.7%	-0.9%
<b>1988–2008</b>	-3.3%	—	2.8%	4.9%	-1.4%	-0.7%

*Source:* Adapted from Gilbert (2009). Figures reported are relative to those of Cote d'Ivoire which is the reference country. *Note:* — = not available.

# Ghana Cocoa Quality

Expenditure ('000 GHC)

Year	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Grading/Quality Ctrl (nominal)	1,048	1,573	359	361	468	646	3,447	10,513	10,182	6,220	5,500	12,000	15,717	35,299
Grading/Quality Ctrl (const. 1996=1)	1,048	1,230	245	219	227	236	1,095	2,636	2,267	1,203	959	1,890	2,124	4,001
As % of tot. Cocoa rev.	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01

- The costs of maintaining quality are between 1 to 2 percent of gross revenues
- Worthwhile even if it results in 2 percent premium?
- Quality control processes create opportunities for rent seeking



# Summary

- Prices are determined administratively, but there are political pressures to ensure farmers get a significant share
- There does not appear to be reduction in procurement costs despite privatization
- There is no competition in internal marketing
  - LBCs complain that their margins are too low to compete on price
- Finance costs account for a significant share of the total costs of LBCs: 30 to 70 percent depending on the source of finance
  - Some LBCs suggest that they might be able to compete by paying higher prices if they are able to raise funds at lower costs

# Summary Contd.

- Inefficient operations of CMC, QCD and the cocobod impose considerable costs on cocoa buying operations;
- Many activities of cocoa quality control can be opened up for competition;
- There appear to be opportunities for improving effectiveness of public expenditures
  - Do they benefit the sector?
  - Can they be provided more effectively?
    - Outputs
    - Unit costs
- Are Cocobod expenditures public expenditures?

# Where are the opportunities?

- More efficient operations by cocobod and CMC
  - Use private companies for storage and shipping operations
- Use of private companies for certification while maintaining the quality control program
- Review of industry programs