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Alliance



HOW DOES FARM GATE PRICING AFFECT THE WELFARE OF COCOA FARMERS?

POLICY BRIEF, JUNE 2019

1.0

Introduction



Ghana is currently the second largest producer of cocoa in the world, accounting for about 20% of the share of world cocoa output and is second to La Cote d'Ivoire which produces about 40% of total world production¹. It is estimated that Ghana's cocoa industry employs about two million people in the cocoa producing regions of the country. According to the Bank of Ghana, in 2016, cocoa earned the country US\$ 2.7 billion, accounting for about one-quarter of the total export earnings of US\$ 11 billion, making it the second largest export earner after gold. Currently, about 6% of the total export revenues from cocoa

production are reserved as tax revenues for the government compared to about 20% from 1950 to 1980². The cocoa industry also accounted on average for about 2.5% of the size of the gross domestic product (GDP) of Ghana over the 12-year period from 2006 to 2017³. A recent important challenge facing the cocoa industry in Ghana is the fluctuating and general decline of total industry net income, as measured by the value added to GDP⁴. In 2017, the cocoa industry was nominally worth about Ghana cedis 3,357 million. The real value of net income of the Ghanaian cocoa industry fluctuated over the 12-year period from 2006 to 2017. After a peak value in 2011, the real value of the income of the sector trended downwards except for a recovery in 2017. The decline of net income of the industry obviously affects the welfare of farmers. Given that the local producer price is an important factor in the determination of the total net income of the sector, issues related to farm gate price determination and setting processes are critical to the welfare of farmers.

Against this background, SEND GHANA in partnership with INKOTA netzwerk and Rainforest Alliance commissioned a study to analyse farmers' perceptions of

¹World Cocoa Organization, 2018

²The current decline in tax revenues from cocoa to government is due to the diversification in revenue sources such as royalties and dividends from production of oil from newly-discovered fields.

³Ghana Statistical Service, 2018

⁴The value added to GDP is computed by the Ghana Statistical Service as the total value of cocoa produced less the total costs of variable inputs used in production. Thus the value added to aggregate cocoa production represents the net returns to labour and management of all cocoa farmers. The total value of cocoa produced is the total production multiplied by the average local producer price.

cocoa farm gate pricing determination (cocoa producer prices), cocoa farmers welfare and income diversification activities in Ghana, using Agona East District as a case study.

2.0

Objectives and Approach

The specific objectives of the study were as follows:

- (a) identify the key players in the cocoa industry particularly those involved in the determination and setting of cocoa producer prices based on a desktop review, and also the analysis of perceptions of these processes by the surveyed farmers,
- (b) ascertain the impact of COCOBOD's mass spraying and fertilizers distribution programmes on the economic welfare of cocoa farmers including the related issue dealing with the likelihood of exclusion of certain groups of farmers from these two programmes,
- (c) investigate the effect on economic welfare of cocoa farmers under current condition of unchanged cocoa producer prices over the last couple of years, and
- (d) establish the factors influencing income diversification activities of cocoa farmers, especially through off-farm income sources, as a means of assuring relatively stable household incomes.



The study approach involved both desktop review and field work components. The field work undertaken in July and August 2018 involved personal interviews of 90 randomly-selected farmers, two focus-group meetings, in-depth interviews with two purchasing clerks, one chief cocoa farmer, three sub-chiefs, one Agona East District Assembly representative and the Paramount Chief of the Agona Nsaba Traditional Area.

3.0

Key Findings

Transparency in pricing

1. Both the desk review and the farmer-survey analysis indicated relatively little role of farmers in the determination and setting of local cocoa producer prices.
2. The two most important actors that farmers perceived to determine local cocoa producer prices were the government of Ghana and the Ghana Cocoa Board (COCOBOD). The third most important actors in the setting of local cocoa producer prices were purchasing clerks of the local Ghanaian buying agencies.
3. There is perceived weighing scale adjustment fraud at the point of sale of dried cocoa beans at the buying centres and depots.

Inputs distribution: Mass spraying and fertilizer; and farmer welfare

1. Female farmers were more likely to be excluded than male farmers. For the fertilizers input distribution

programme, there was increased likelihood of exclusion of female farmers from this programme.

2. Muslim cocoa farmers in the survey area were more likely to be excluded from the mass cocoa spraying programme than other farmers.
3. The vast majority of the cocoa farmers indicated that their economic welfare had substantially worsened as a result of the unchanged local cocoa producer price for the 2017/2018 production year and requested COCOBOD to increase local cocoa producer prices for the 2018/2019 production year.

Income Diversification of cocoa farmers

1. Off-farm income activities by cocoa farmers yielded an average annual income of about 1,165 Ghana cedis compared to the average annual gross income from cocoa farming of 3,493 Ghana cedis, and 982 Ghana cedis for non-cocoa agricultural and forestry ventures. Off-farm income constituted about one third of total gross cocoa income and therefore was an important risk management strategy for cocoa farmers providing an additional source of livelihood income.
2. Overall, the analysis suggested that increasing formal educational attainment of the farmer increased his/her income diversification activities.
3. Farmers who owned and directly managed their cocoa farms tended to undertake less income diversification activities and rather focused more on the management of their cocoa farms.

4. Currently married respondents had relatively lesser degree of diversification activities, largely due to their increased role in home-based work duties, which are not formally classified as income-generating activities.

4.0 Recommendations:

Ghana Cocoa Board

1. The COCOBOD should strengthen its public education on the processes involved in the determination of local cocoa producer prices. This public education could involve more meetings with farmers through their district and regional representatives over a period of time before the announcement of official local cocoa prices during the first week of October each year. COCOBOD may need to consider expanding the number of farmer representatives in the producer price review committee that recommends the local producer prices for cocoa for each year.
2. The mass spraying and fertilizers distribution programmes should be strengthened in terms of increased quantity and quality of services as the use of both spraying and fertilizers was shown to increase gross cocoa incomes. Increasing the number of pesticides spraying beyond the average one per farm per year can lesson farmers' burden.

However, agrochemicals need to be used responsibly in order not to have any negative effects on biodiversity, soil, health of farmers etc. The mass spraying programme needs to be depoliticized and should involve specific farmer groups such as women farmers and Muslim farmers. Therefore liberalizing the market for fertilizers and pesticides is highly recommended; however, COCOBOD should play a regulatory role.

3. COCOBOD and its related agencies should ensure equitable distribution of resources and services for all cocoa farmers, regardless of their ethnic background, migrant status, political party affiliation and religious preferences. The COCOBOD needs to vigorously pursue an agenda that eliminates any real or perceived discrimination against any group of cocoa farmers.



4. The COCOBOD needs to strengthen its surveillance and intelligence work to reduce considerably fraud related to the adjustment of weighing scale by some purchasing clerks at the time of the sale of dried beans. This work may include the adoption of electronic weighing machines and regular training of cocoa farmers, especially women farmers on the weighing of cocoa beans.
5. It is suggested that the COCOBOD publishes information related to the setting of the annual cocoa producer price each year after it has publicly announced the new price through the mass media. The information could be published in details through the leading national daily newspapers to ensure increased transparency to the cocoa farmers and the general public on the pricing processes.
7. To encourage equitable participation in decision making, sensitizations and inputs distribution, CSOs and women groups should advocate for the formation of “female queen cocoa farmer” to oversee the interest of women in societal initiatives, programmes and related issues that matter to them. Particular attention should be directed towards addressing the needs of women cocoa farmers who tend to be younger than male farmers and are less educated. Women Farmers also tend to be marginalized in the delivery of specific COCOBOD programmes aimed at transparency in cocoa pricing, because the Board often targets their programmes through chief cocoa farmers who tend to be males. Such programmes could help women cocoa farmers to increase their incomes from cocoa farming and improve their livelihoods.

Civil Society Organizations

6. In support of the efforts of the COCOBOD, Civil Society Organizations (CSOs) need to devise appropriate educational programmes to support COCOBOD toward addressing the perceived weighing scale adjustment fraud. Educational programmes by CSOs could include training for farmers on the correct methods that should be employed by purchasing clerks in the weighing of dried cocoa beans as stipulated by COCOBOD.
8. CSOs advocacy work should be also geared toward supporting farmers in the acquisition of key inputs including fertilizers and insecticides, which are distributed to cocoa farmers, through the COCOBOD inputs distribution programmes, whose costs are borne by all farmers through the reduction of the gross price of cocoa by COCOBOD.

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