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THE DETERMINATION OF PRODUCER PRICE IN GHANA'S COCOA SECTOR AND THE PROVISION OF SERVICE TO COCOA FARMERS

by

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Outline of Presentation

- History of cocoa producer price determination
- Cocoa sector reforms
- Impact of sector reforms on the determination of Producer Price
- Provision of service to cocoa farmers
- Challenges of the current producer pricing mechanism
- Concluding remarks

COCOA PRICE DETERMINATION- WHAT'S THE HISTORY BEHIND?

- The Ghana Cocoa Board (COCOBOD) was established by the colonial government in 1947 mainly because of :
- Concern over market- sharing and price-fixing arrangements among the foreign trading firms; and
- A desire to stabilize domestic prices to producers in the face of sharp fluctuations in world market prices.

Price Determination History Cont'd

- An official producer price was determined by the government and announced before each buying season.
- The cocoa buying companies received a fixed commission per tonne.
- The ordinance of 1947 specified that surpluses be retained to:
 - i. to stabilize producer price
 - ii. finance cocoa purchases and
 - iii. assist farmers in all aspects of production

Price Determination History cont'd

- The Legislation of 1965 required COCOBOD:
 - i. to transfer all operating surpluses to the central government, including all reserves held at the time.
 - ii. this legislation effectively ended the stabilization policy for cocoa.

Cocoa Sector reforms

1. The 1984/85 sector reforms

- Aim was to stop the decline in cocoa production.
- It involved institutional and operational re-organization in several areas such as:
 - i. reduction in heavy government taxation.
 - ii. payment of better producer price to farmers as an incentive to increase production.

Cocoa Sector Reforms Cont'd

2. The 1987 Agricultural Services Rehabilitation Project

- Producer Price to move gradually from nearly 30% to 55% of long run world price by 1988/89.
- COCOBOD to progressively shed all activities not directly related to purchasing, marketing, extension and research;

Cocoa Sector Reforms Cont'd

3. The 1989 Cocoa Rehabilitation Project (CRP)

The main objective was :

- i. to improve producer prices
- ii. to reduce COCOBOD's operating costs
- iii. to support earlier sector policy reforms
- iv. to increase and stabilize cocoa production at around 300,000 tonnes
- v. to maintain producer prices above 50% of FOB

Cocoa Sector Reforms Cont'd

3. The 1992 Agricultural Sector Adjustment Programme (AgSAP)

- Reform agricultural pricing and marketing to
 - i. improve resource allocation
 - ii. foster private initiative
 - iii. develop greater efficiency through greater competition

- Introduce competition into the internal marketing of cocoa
 - i. allow Licensed Buying Companies (LBCs) to purchase cocoa in competition with the government parastatal Produce Buying Company Limited (PBC).

Cocoa Sector Reforms Cont'd

4. The 1999 Cocoa Sector Strategy

- Raise progressively the producer price of cocoa from 65% of the FOB price in 1999/2000 to 70% of the FOB by the 2004/5.
- Reduce the export tax from about 25% of the FOB to 15% of the FOB price by 2004/5.
- Maintain quality control responsibility as a public institution.

Cocoa Sector Reforms Cont'd

Observations on cocoa sector reforms

Sector reform programmes and strategies demonstrate government's commitment to:

- i. reduce taxes.
 - ii. pass on a significant share of export prices to farmers.
- The 70% of the FOB price (this was gross until the 2001/02 crop season)
 - Since then, the gross FOB was changed to a net concept.

Impact of sector reforms on the determination of Producer Price (PP)

- Government role in producer price determination ceded to a Producer Price Review Committee (PPRC) from the 1983/84 cocoa crop season.
- The objective was to establish an independent PPRC to regularly review and adjust producer prices.

Impact of sector reforms on the PP Cont'd

- The PPRC is chaired by the Minister for Finance and Economic Planning (MOFEP).
- Membership includes representatives of farmers, Ministry of Finance and Economic Planning and COCOBOD.
- With the introduction of competition in domestic buying , the membership has been expanded to include other stakeholders, such as representatives of Hauliers and the LBCs.

Impact of sector reforms on the PP Cont'd

- The producer price is derived from an estimate of the projected cocoa revenue using:
 - i. the projected FOB in US dollars
 - ii. the projected exchange rate of the Ghana Cedi to the US dollar and
 - iii. the projected crop size

Table 1: Derivation of the Net FOB (GHC/TONNE)

Variables	2011/12 crop year	2012/13 crop year
1. FOB Price (US\$/tonne)	3,000.00	2,300.00
2. Exchange rate: GHC/US\$1	1.54	1.87
3. Projected Cocoa Production (tonnes)	850,000.00	800,000
4. Gross FOB Value (GHC)	3,927,000,000.00	3,440,800,000.00
5. Disease and Pest Control Cost (GHC)	100,190,825.20	47,420,431.00
6. Scholarships (GHC)	2,000,000.00	-
7. Jute Sacks and related items (GHC)	39,091,000.00	32,937,178.71

Table 1: Derivation of the Net FOB (GHC/TONNE) Cont'd

Variables	2011/12 crop year	2012/13 crop year
8. CSSVD (Essam Project) Cost	2,456,817.00	-
9. Hi-Tech (GHC)	106,970,000.00	-
10. Child Labour (GHC)	2,000,000.00	-
11. Farmers' Pension Scheme (GHC)	7,602,025.00	-
12. Stabilization Fund*	-	100,000,000.00
13. Net FOB (GHC)	3,666,689,332.80	3,460,442,390.29
14. Net FOB/Tonne (GHC)	4,313.75	4,325.55

**** The accumulation of the stabilization fund was transferred to the 2012/13 crop year to increase the net FOB***

Table 2: SHARING OF NET FOB (GHC/Tonne)

	2011/12		2012/13	
	Rates (GHC/tonne)	% share of Net FOB	Rates (GHC/tonne)	% share of Net FOB
Farmers	3,280.00	76.04	3,392.00	78.42
Stabilization Fund	25	0.58	-	-
Buyers' Margin	342.55	7.94	342.55	7.92
Hauliers	140.40	3.25	140.40	3.25
CMC's internal marketing	45.11	1.05	45.11	1.04
Disinfestation/gra ding/sealing	62.62	1.45	62.62	1.45
Crop financing	36.87	0.85	36.87	0.85

Table 2: SHARING OF NET FOB (GHC/Tonne) Cont'd

	2011/12		2012/13	
	Rates (GHC/ton ne)	% share of Net FOB	Rates (GHC/tonne)	% share of Net FOB
Scale Inspection/ Phytosanitary	0.33	0.01	0.33	0.01
Export Duty/Cocoa Roads	107.98	2.50	47.43	1.10
Farmers' Housing Scheme	1.02	0.02	1.02	0.02
Replanting/Rehabi litation (Cocoa)	5.65	0.13	5.65	0.13
Replanting/Rehabi litation (Coffee)	1.57	0.04	1.57	0.04
COCOBOD	264.65	6.14	250.00	5.78
TOTAL	4,313.75	100.00	4,325.55	100.00

Provision of service to cocoa farmers

- Since 2001, PPRC has set aside a portion of the projected revenues for the delivery of services to arrive at a net FOB.
- The net FOB is then allocated to various stakeholders, including producers as shown in the table on derivation of net FOB in 2011/12 and 2012/13

Provision of services to farmers

COCOBOD provides the following services to its farmers:

- Extension via CSSVDCU and SPU
- Research via CRIG
- Subsidized fertilizers via Cocoa Hi-Tech
- Mass spraying via CODAPEC

Provision of services to farmers

- Scholarship via COCOBOD
- Seeds/ hybrid seedlings via CRIG and SPU
- Rehabilitation and replanting via CSSVDCU
- Mistletoe removal via CSSVDCU
- Cocoa roads via funding from COCOBOD
- Farmers' Housing via funding from COCOBOD
- Farmers' Pension scheme via COCOBOD Funding

Challenges of the current Producer Pricing mechanism

- Declining FOB prices
- An appreciation of the local currency
- Increasing cost of public goods provision
- Slow reaction to positive changes of prices on the international market
- Sales strategy of CMC vis-a-vis what is happening in La Cote d'Ivoire

Concluding remarks

- Current arrangement for determining producer price contributes to poverty reduction as it ensures cocoa farmers:
 - i. A significant share of net FOB price (ie more than 70%); and
 - ii. A guaranteed income.
- At the same time it underpins sustainable cocoa production as it permits Government to provide critical support services to farmers.
- However, the challenges outlined above must be addressed to improve the current pricing mechanism to make it more responsive to the unexpected developments in eg FOB prices and the value of the local currency.

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