The risks of inclusion: shifts in governance processes and upgrading opportunities for cocoa farmers in Ghana
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Citation for published version (APA):

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THE ROLE OF THE STATE IN
A LIBERALISED COCOA SECTOR

5.1 Introduction
The international process of liberalisation reduced the direct involvement of the state in economic activities in developing countries. It was expected that in these countries ‘market-oriented structural reforms (...) [would] boost growth by reducing distortions and encouraging greater private sector participation’ (IMF, 1997: 85-8 quoted in Fernández Jilberto and Hogenboom, 2007: 2). However, increasingly it is recognised that neo-liberal restructuring does not automatically lead to development (Fernández Jilberto and Hogenboom, 2007: 10; Singh, 2002; Stiglitz, 2002), giving impetus to new discussions on the role of the state in sectors in transition. Considering the importance of agriculture (for generating income, for producing exports, for harvesting foodstuff, for generating employment opportunities and for poverty reduction), national agricultural policies are a central policy concern in these countries. Instead of direct involvement, neo-liberal thinking sees the state as an enabler that creates more favourable conditions for the development of the agricultural sector (Gibbon, 2001: 353; Hamdok, 2003: 15-7; Joosten and Eaton, 2007: 1)

Although it is important to reconsider the role of the public sector, it is also important to recognise that the capacity of the developing country’s government to successfully manage interventions geared at pro-poor agricultural development is generally very limited, especially in the African setting. This low capacity is linked to trade liberalisation and structural adjustment, which reduced the mandate and the ability of the public sector to make specific interventions. Insufficient capacity also plagues the other actors involved in this market, such as producer organisations, private companies and non-governmental organisations. These actors also need to be strengthened in order to enable them to overcome pervasive market failures and to secure the desirable social outcomes in their countries (World Bank, 2007).

The cocoa sector in West Africa is an interesting case for examining the effects that liberalisation has on the role of the state and its capacity to manage interventions, as cocoa production is concentrated in this region. Also it can yield useful insight in the links between this influence and the role and capacity of other (new) public, private and civil actors. Neo-liberalisation in cocoa producing countries in West Africa started with the introduction of the structural adjustment programmes (SAPs) by the World Bank in the late 1980s. The reforms stipulated a reduction of state involvement in the provision of marketing channels and services for cocoa, in order to open these markets to competition (Akiyama et al., 2001).
All major West African cocoa-producing countries implemented some reforms. Cameroon and Nigeria initiated drastic reforms, while Côte d’Ivoire and Ghana chose a more gradual approach to liberalisation. In these countries, where the export earning of cocoa contributed significantly to the foreign currency earning and the Gross Domestic Product (GDP), governments are reluctant to relinquish control and seek to continue their role as active intervener and ‘chain actor’. Ghana did not liberalise as much as the other countries and ‘systematically has tried to protect its effective system of parastatal-based governance’ (Kaplinsky, 2004: 25). Compared to other cocoa-producing countries in the region, Ghana’s position seems quite exceptional. However, there are a number of other sectors, countries and regions, where the government successfully retained a strong steering role in economic development. For example, the rapid economic growth of the Asian Tigers (South Korea, Taiwan, Hong Kong and Singapore) in the 1980s is (partly) explained by the guiding role of the state (Harris, 1986: 30-69; Lall, 2005). Also, in the United States and the member-countries of the European Union ‘agricultural protectionism’ (through tariffs, nontariff barriers, and subsidies) is still widely used to protect their farmers and to guarantee state revenues (Gibbon and Ponte, 2005).77

The idea that the state is more than an enabler and instead plays the role of governor of trade relations and competitiveness is not new; nevertheless, it is not reflected in the value chain and cluster literature. The political economy perspective did embrace a focus on the governing role of the state, and called this ‘state governance’ (Chapter 2). Griffiths and Zammuto (2005) proposed an integrative framework, combining political economy with strategic management literature. This approach can be utilised to analyse public and private interactions in the cocoa sector over time (Ton et al., 2008).

In this chapter, I will take the liberalisation of the cocoa sector as a key-turning point and analyse the changing role and capacity for intervention by the government and the other actors involved in the sector. I am especially interested in understanding the changing conditions under which cocoa producers operate and ultimately to discern the upgrading opportunities that evolve from this change. In order to evaluate the changes in Ghana, I will make some institutional comparisons with Côte d’Ivoire, Nigeria and Cameroon and some comparisons with the conditions in Ghana prior to the reforms.

5.2 A sector in transition: the experience of West-Africa

Before the market reforms in West Africa, cocoa was produced and marketed under state controlled systems, with significant variations between countries. Anglophone countries produced under the marketing board system, while Francophone countries used stabilisation funds. The low cocoa prices of the mid-1980s were the incentive for liberalisation; it was hoped that reforms would increase producer prices, by improving the efficiency of the cocoa related activities and by reducing the costs of inefficient marketing and pricing systems.
The next table presents the World Bank ‘view’ regarding cocoa-marketing and cocoa-pricing systems at that time (2001). It highlights the differences between a free market system, the stabilisation fund and the marketing board system (Akiyama et al., 2001).

Table 5.1 The World Bank ‘view’ on differences in cocoa marketing and pricing systems in 2001

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Free market</th>
<th>Stabilisation fund</th>
<th>Marketing Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal ownership of crop</td>
<td>Traders, exporters</td>
<td>Traders, exporters</td>
<td>Marketing Board</td>
</tr>
<tr>
<td>Physical handling of crop</td>
<td>Traders, exporters</td>
<td>Licensed private agents</td>
<td>Marketing Board</td>
</tr>
<tr>
<td>Domestic price setting</td>
<td>Market forces</td>
<td>Stabilisation fund</td>
<td>Marketing Board and government institutions</td>
</tr>
<tr>
<td>Price stabilization</td>
<td>None</td>
<td>Yes</td>
<td>Yes, but not explicit</td>
</tr>
<tr>
<td>Taxation</td>
<td>Absent or very low</td>
<td>Mainly explicit</td>
<td>Implicit</td>
</tr>
<tr>
<td>Marketing costs and margins</td>
<td>Low</td>
<td>Medium to high</td>
<td>High</td>
</tr>
<tr>
<td>Producer prices</td>
<td>High</td>
<td>Medium to low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: adapted from Akiyama et al., 2001: 41.

In addition to the criteria used by the World Bank to evaluate the reforms, this study includes factors that frame the enabling environment for producers (for example quality control, extension services, credit supply and formal farmer organisation). These are important factors that support the farmers’ response to the challenges of meeting current and future demand for their produce.

In this section I will briefly discuss the experience of Côte d’Ivoire, Cameroon and Nigeria. Consequently, I will analyse the experience of Ghana more in-depth and make some comparisons.

5.2.1 Côte d’Ivoire

The world’s largest producer, Côte d’Ivoire, provides almost 40 per cent of the world’s supply (ICCO™, 2006). In Côte d’Ivoire the process of liberalisation was gradual. Prior to the reforms the Caisse de Stabilisation et de Soutien des Prix de Produits Agricoles (Caistab) coordinated the supply chain. Private exporters were allowed to operate under this state-controlled governance system. In season 1995/96, the role of Caistab in marketing cocoa was reduced. In Côte d’Ivoire initially the producer-price remained stable and rather low (usually between 45 and 55 per cent of the world price) (Beuningen, 2005: 69). The reforms did have an impact on the number of buyers and cooperatives; the cooperatives’ share in volume of purchased cocoa grew from 22 to 29 per cent during the 1997/98 cocoa season. Trading through cooperatives made it possible to sell directly to exporters or large traders (Amezah, 2004).

In 1999 the role of Caistab was further restricted. As part of the reforms the system of export marketing changed, eliminating the minimum producer-price and privatising quality control. Also the barème (a schedule of costs, prices and margins that regulated the entire marketing chain) disappeared along with the elimination
of public forward sales. After this second round of reforms, which coincided with a 
dramatic fall in the world price of cocoa, the producer-price fell to such an abysmal 
level that farmers refused to sell their cocoa beans (and even threatened to burn 
their produce) (LMC International and the University of Ghana, 2000: A2.6). In 
addition, the quality of cocoa suffered in this period, with a downward trend from 

World cocoa prices started to recover in 2000 (ICCO, 2007a: 22). But, even in 
combination with the general recovery of the country’s economy, cocoa farmers in 
Côte d’Ivoire remained poorly paid (Akiyama et al., 2001). This spurred massive 
smuggling of cocoa across the border to Ghana. Another consequence was that some 
cocoa farmers were forced to look for alternative incomes. As a result of the 
economic difficulties labour conditions worsened and the incidents of abuse of 
child labour increased (STCP and IITA, 2002).

In order to cope with the changes and corresponding problems, the government 
introduced stimulating packages to facilitate farmers in organising themselves. In 
1997 the government reinforced a cooperative law, which encouraged cooperatives 
to operate as business entities and thus improve their credit worthiness with 
Vocation Coopérative were created throughout the country; however, most were not 
operational because they often did not have enough members and lacked equipment 
and funds. The government also implemented a series of other measures to 
courage farmer cooperation and offered to support organisations that represent 
farmers’ interests. These included the renovation and construction of new 
warehouses, which provided the potential for the development of a warehouse 
warranty scheme. The long term goal was for cooperatives to become the owners of 
the warehouses.

In 2000 a third round of reforms took place, as Côte d’Ivoire tried to bring 
coordination of the production chain back into the hands of government, by 
establishing two new structures: the Autorité de Régulation du Café et du Cacao and 
the Bourse du Café et Cacao. In addition, in 2001 four new institutions were set up 
to regulate the cocoa trade and to provide support to cocoa farmers. According to 
Ton et al. (2008) the newly established institutions overlapped and the system as a 
whole was not transparent. The country did not strengthen the autonomy or the 
economic capacity of the farmers, who are independent of the intermediaries and 
thus more vulnerable to changes in the market (ibid). Another consequence of this 
new round of institutional reforms was that farmers continued to pay high taxes 
and pay for export levies, that were transferred from exporters onto farmers. In 
2008, taxes on cocoa accounted for nearly 40 per cent of the export price (ibid). The 
revenues collected from cocoa were not reinvested in the sector. According to a 
representative of the World Bank, these revenues were used to finance the armed 
conflict (quoted in Global Witness, 2007: 24; see also Ton et al., 2008).

The concentration of cocoa production in Côte d’Ivoire and the problems that 
occur in the sector are perceived as risks by global buyers. Global processors have 
responded by looking for ways to diffuse their risks, for example through direct 
trading with farmer groups that they directly support. In 2005, global processing
companies claimed that in Côte d’Ivoire they purchased around half of the beans directly from cooperatives (industry survey 2005). Global buyers also got involved in local buying practices and started taking large chunks of the local buyer’s market share (Kaplinsky, 2004: 24). Besides providing additional services, buyers also made sure that they paid their farmers promptly. Global manufacturers and processors, often through public-private partnerships, also started to introduce environmentally friendly practices and invested in strengthening farmer groups, providing educational programmes and improving information systems.

5.2.2 Cameroon

Cameroon is recognised as one of the main cocoa producers in Africa. The production of cocoa gradually increased during the past years; the capacity of 185,000 tonnes per annum (in 2008) positions Cameroon as the fourth largest cocoa producer in Africa (National Cocoa and Coffee Board [NCCB]). In Cameroon around 420,000 hectares are used for growing cocoa. In 2008 cocoa accounted for 14 per cent of the country’s total export income, while processed cocoa products (such as paste and butter) accounted for around 15 per cent of cocoa export earnings (KIT et al., forthcoming).

In Cameroon prior to reforms the Office National de Commercialisation de Produits de Base (ONCP) governed the supply chain from a monopoly position. The reforms were introduced rapidly and were characterised by different phases. In the first phase the system of internal marketing was liberalised and the ONCP was disbanded and replaced by the Office National du Café et du Cacao (ONCC). Furthermore, the price stabilisation mechanism was reviewed and cocoa buyers were no longer required to obtain licenses. Initially the government wanted to continue with some kind of price stabilisation, but this system was abandoned in the second phase of the reforms. In this period, the responsibility for quality control and organisation of the marketing chain shifted to the private sector and price formation was left to private forces (Akiyama et al., 2001; LMC International and University of Ghana, 2000; Jong and Harts-Broekhuis, 1999: 96-8).

The increase in producer price was the main immediate impact of these reforms. However, this positive effect was mitigated by the loss of quality and unreliable delivery. In 1996 and 1997, large quantities of cocoa were classified as below export quality; this affected adversely the good reputation of Cameroonian cocoa and its price. This loss in quality was a direct result of the removal of restrictions that limited cocoa trading, which precipitated the entry of a large number of unprofessional new (foreign) traders and middlemen. Also the ONCC took serious heat for the drop in quality (Jong and Harts-Broekhuis, 1999: 98). The absence of local funds capable of strengthening the domestic market resulted in the total takeover of the domestic market by international traders, ‘the part of nationals in export went from 80 per cent before the liberalisation to less than 20 per cent today’ (COPAL, 1998). The number of licensed exporters increased rapidly (from around 60 to over 300) and the licensing criteria was rarely respected (LMC International and University of Ghana, 2000: A1.2). In response, the industry association issued a
This voluntary card indicated to farmers and international buyers that the card holder was a reliable company. However, as this was a voluntary measure it offered no concrete guarantees. In 1997 the situation stabilised; the number of active exporters had declined to around fifty, with the ten largest companies accounting for over 70 per cent of total export. Four of the five largest exporters were foreign owned.

The last phase of the reforms, involved some public reinvestments in information systems and the state restructured its extension services, initiating the provision of unified extension. Credit facilities generally diminished, and while well-developed arrangements for the export sector existed, there were only scarce credit facilities that catered to farmers. According to representatives of producing countries, who joined forces within COPAL, this was problematic because it made it hard to pay for the higher costs of production (COPAL, 1998).

Global buyers became involved in the provision of extension services, in setting-up information systems and in strengthening farmer organisations (mainly through public-private partnerships). The Sustainable Tree Crop Programme (STCP) was involved in developing a production information system in order to provide information essential for developing business plans at the farm level, to build capacity of farmer organisations and to develop targeted extension approaches to address specific market demands, such as Farmer Field Schools (FFSs) and integrated pest management (IPM). The STCP aimed also at setting-up an information system to track production practices and product attributes for marketing and/or environmental purposes. In 2006 the ‘Upcocoa project’ came into existence. This multi-stakeholder initiative focuses on capacity building of cocoa farmers.

5.2.3 Nigeria

In Nigeria prior to the reforms (until mid 1980s), the Nigerian Cocoa Board (NCB) coordinated the production chain. Nigeria liberalised over-night: dismantling the NCB, deregulating the internal and external marketing system and abolishing its price-controls. In Nigeria buyers of cocoa no longer require a license and quality control was abandoned.

Reforms in Nigeria had different short-term and long-term impacts. The price increase did boost cocoa production and exports (Akiyama et al., 2001; LMC International and University of Ghana, 2000); however this produced only a very limited rise in income due to the sharp drop in the exchange rate of the local currency (naira) in 2001. Price fluctuations, linked to sales on the spot market (instead of forward sales) and to increased production costs, made farmer income less secure. Prior to privatisation, inputs were generally free or heavily subsidised, but privatisation of input distribution caused enormous production cost increases in Nigeria (Haque, 2004; Walker, 2000: 163-4). This situation was exacerbated due to several adverse factors: the old tree stock, the frequent incidence of pests and diseases, labour shortages, the farmers’ average high age and the lack of access to formal credit (Ogunleye and Oladeji, 2007). This hindered investments in
increasing productivity of farm operations and resulted in the poor maintenance of farms.

The subsidies on extension services were also abolished with liberalisation and consequently the quality of services declined. As illustrated above, in Nigeria the private sector took over part of these responsibilities. The opening of the market led to the entrance of a large number of inexperienced buyers; this, together with the abandoning of the quality control system, greatly contributed to the quality decline. Nigeria lost its quality premium on the world market and, as a direct consequence, faced a decline in demand (COPAL, 1998; Haque, 2004; LMC International and University of Ghana, 2000). After some time, external marketing consolidated and the quality of cocoa recovered to some extent. However, prices remained instable. In an attempt to bring the coordination of the cocoa supply chain back into the hands of the state, in 2000 the government set-up the Cocoa Development Committee (CDC). The CDC is chaired by the Ministry of Agriculture, with the Deputy Governors of the thirteen cocoa producing states as members. The CDC aims at increasing cocoa production, partly through the provision of grants to new seedlings and through the sale of chemicals, fertilisers and other inputs at a 50 per cent discount (Ogunleye and Oladeji, 2007: 15).

5.2.4 Responses to reforms
All three countries took numerous actions to recover from the overall negative experiences from liberalisation, such as working on the consolidation of buyers, redefining the role of the government and strengthening farmer groups. Especially in Côte d'Ivoire, due to its strong dependence on cocoa exports for its foreign exchange, the government aggressively tried to reclaim the coordination of the supply chain.

In the current process of liberalisation, most cocoa-producing countries are trying to strengthen their farmer cooperative structure, weakened under state-owned marketing boards and stabilisation funds. In general it is acknowledged that organised farmers negotiate better prices and services, ultimately also producing better quality cocoa beans (COPAL, 1998; industry survey 2005; Ogunleye and Oladeji, 2007; STCP, 2005). In Cameroon the number of farmers organised in formal groups is small but growing. In Côte d'Ivoire most farmer groups are malfunctioning or still not yet operational. It is generally recognised that farmer organisation should not be imposed upon farmers, as was the case in the past; rather the state should support existing movements rooted in the rural community.

Farmers on the other hand responded to reforms by shifting cultivation and by migration. For example in Nigeria, due to the worsening economic conditions in rural areas, the youth migrated to cities; thus, the farming population is on average very old. The ageing of farmers and their farms is perceived as a serious threat by global cocoa buyers (industry survey 2005). In Côte d'Ivoire the poor production conditions for cocoa farmers resulted in a shift to cultivating other crops. Also, in Côte d'Ivoire the political conflict forced the migrants who worked on cocoa farms to abandon these farms.
5.3 A sector in transition: partial liberalisation in Ghana

The Ghanaian government has always been actively involved in the development of its cocoa sector. During colonial times, public involvement was initially combined with private efforts aimed at stimulating cocoa production and improving quality. From the late 1940s onward, a system of ‘state governance’ was put in place, which was further consolidated during the early years of independence.

With the introduction of structural adjustment programs (SAPs) in the late 1980s, the control over governance processes in other cocoa producing countries shifted from the state to multinational buyers of cocoa. In Ghana, however, the state continued to play a major role. The introduction of gradual reforms did lead to other (private) actors entering the sector and taking over some of the state’s previous responsibilities. Also, new public-private partnerships were developed in this period. These developments fell in line with the general shifts in the global cocoa chain governance, which became increasingly driven by international processors and at the expense of chocolate manufacturers (Kaplinsky, 2004).

In order to describe the developments in the cocoa sector, I will start by discussing the period between 1920 and 1980, when a shift moved the sector away from a fairly liberal economy towards a state-controlled economy. Subsequently, I will cover the period from 1980 until 2008.

5.3.1 From a fairly liberal policy to a more state-controlled economy: 1920-1980

Cocoa has dominated the political economy of Ghana (formerly Gold Coast) since 1920. Between 1923 and 1932, cocoa accounted for an average of around 77 per cent of Ghana’s total exports (Department of Cooperatives, 1990: 11). In the cocoa season 1920-21, Ghana became the world’s largest producer, reaching its peak with a total production of around 560,000 tons. It kept this leading position for more than 55 years, until in 1977-78 when Côte d’Ivoire took over. In the early years, cocoa production was concentrated in the Eastern Region (Ministry of Finance, 1999: 6). In the mid 1940s, the centre of production shifted to the Ashanti and Brong Ahafo regions, where cocoa was produced on virgin forest. Forty years later, it shifted to the location where it remains concentrated to this day – the Western region. The migration and settlement by small-scale farmers was fundamental for the expansion of cocoa in Ghana (Cocobod, 2000a; Hill, 1963).

During the colonial period, the cocoa sector initially operated under a free market system. European companies controlled both local buying and exporting, with Cadbury as the leading British cocoa manufacturer. The (colonial) Department of Agriculture steered the public interventions, which encouraged the establishment of cooperative enterprise in Ghana’s cocoa industry. Organising farmers into cooperatives was seen as a way to ensure the production of good quality cocoa for export. Moreover, by means of combined sales, cooperative members could
also demand higher prices. Around the same time, cocoa societies became involved in the provision of credit, farmer inputs (for example chemicals) and consumer goods. Many European traders were hostile to the promotion of cooperatives with government backing, because they were worried that this would eventually eliminate them from the cocoa trade (Department of Cooperatives, 1990: 9-16).

The strength of the cooperative movement was clearly demonstrated with the first cocoa 'hold-up' in 1930-31. The action achieved its goal – both the supply and the price steadily increased (Milborn, 1970: 59). In 1937, a second cocoa hold-up was organised in response to a drop in the global price of cocoa and the concomitant introduction of the ‘cocoa buying agreement’, which introduced the idea of paying a uniform price to all farmers. Farmers and brokers (both of whom had not been consulted by the foreign buyers) initially rejected this agreement. Both the internal and the external marketing of cocoa stagnated, until March 1938 when the parties signed a ‘truce’ and trading continued as usual (Department of Cooperatives, 1990: 42-4).

In response to the hold-up, a royal assignment called for a ‘commission’ to report on the condition of the cocoa economy in West Africa. The commission without a doubt recommended to establish public support for cocoa marketing operations (Graue, 1950: 259). Consequently, the West African Cocoa Control Board was founded in 1940, replaced in 1942 by the wider West African Produce Control Board (WAPCB). In 1947, the Cocoa Marketing Board (Cocobod) was installed with the British Ministry of Food as the only seller of Ghanaian cocoa. The existing (mainly expatriate) cocoa buying companies were appointed as purchasing agents of the WAPCB (Anin, 2003: 15).

Cadbury supported the argument that West African cocoa economies should be rehabilitated and took the position of ‘general acceptance of the marketing boards’ (Beckman, 1976: 43). However, no one had foreseen that Ghana would gain its independence so soon and that the marketing board would be affected by strong nationalisation pressures so soon after its installation (ibid: 44). In 1953, the United Ghana Farmers Cooperative Council was founded as ‘a general farmers’ organisation with political objectives’. It became the so-called ‘farmers’ wing’ of the Convention People’s Party (CPP), led by President Nkrumah (Beckman, 1976: 11). As the head of the cooperative movement, the Farmers’ Council was given sole responsibility for cooperative development, thus making it into an economic and political force to be reckoned with. In 1961, four years after the country gained its independence, the Farmers’ Council took over the cocoa trade and became the monopoly buyer of Ghana’s cocoa, effectively ending the direct involvement of foreign buyers in cocoa marketing. The same year saw the founding of the Cocoa Marketing Company (CMC) Ghana as a commission agent of Cocobod. CMC Ghana became responsible for several key aspects of the cocoa trade: registering buyers, appointing local (Ghanaian) buying agents to facilitate foreign buyers’ operations in Accra, marketing of cocoa, recording of cocoa sales and shipping of cocoa (Amoah, 1998: 78-104).

The full-scale nationalisation process was a significant turning point. The cocoa sector was transformed from being governed by fairly liberal economic policies into a completely state-controlled system, now completely independent from colonial ties. In 1963, two cocoa processing factories were built; both were owned by Cocobod
and operated by one of its subsidiaries, the Cocoa Processing Company limited (CPC) (Ministry of Finance, 1999: 71-2). In 1982, Cocobod took over a third factory, the formerly British processing company West African Mills (WAM) at Takoradi.86

When in 1966 the Nkrumah Government was overthrown by a military coup, the Farmers’ Council was dissolved and banned (Beckman, 1976: 11-7). During the following decade (of political instability and mismanagement) cocoa prices fell and cocoa production was halved. Competition among local buyers was re-introduced, but this did not last long due to problems with delayed payments. A single buying system was reintroduced and from 1977 onwards the Produce Buying Company (PBC) (another Cocobod subsidiary) controlled internal marketing. PBC hired purchasing clerks (PCs) who bought cocoa at the community level from farm-owners and/or their caretakers. In this period, different subsidiaries of Cocobod provided support and services to the farmers. The Cocoa Services Division (CSD) had the monopoly on the procurement and distribution of inputs. In addition to its role as input provider, the CSD was also responsible for cocoa extension services: advising farmers in cocoa and coffee production, the production and distribution of planting materials, and the control of pests and diseases (Amezah, 2004: 1). The Quality Control Division (QCD) was responsible for executing a strict control on the quality of cocoa. The Cocoa Research Institute Ghana (CRIG) was the national centre of excellence for the study and cultivation of cocoa (Figure 5.1).

Figure 5.1 Organisation of the cocoa sector in Ghana in the 1980s
By the early 1980s, Ghana's economy was in an advanced state of collapse. In 1981, Lieutenant Rawlings came to power and recognised the complexity of the economic crisis. When the situation worsened due to a severe drought in 1983, his government accepted the intervention of international donor organisations. The Economic Recovery Program (ERP) introduced reforms in the cocoa sector through its Cocoa Rehabilitation Project (CRP) and the Agricultural Sector Adjustment Programme (ASAP) (Fold, 2002; Ministry of Finance, 1999).

The next section will describe the introduction of gradual reforms and discuss the consolidation of the strong position of the state, both domestically and internationally. It will also describe the shift towards chain integration, resulting ultimately in a system of ‘joint governance’.

5.3.2 The introduction of gradual reforms: 1980-2008
In order to avoid the generally negative experiences of cocoa producing countries that liberalised over-night (such as Nigeria) the Ghanaian government opted for the gradual introduction of reforms in the cocoa sector. To date, Ghana has implemented the following reforms: the liberalisation of internal marketing, privatisation of input distribution, reform of extension services, reorganisation of processing activities and a drastic reduction in Cocobod’s staff-level.87 Cocobod continues to control external marketing. The QCD remains responsible for the final quality checks of cocoa beans and Ghana continues to deliver consistent supplies of relatively good quality cocoa, cashing in premiums on the world market. The CRIG is still involved in cocoa research (see picture 5.1). Through a system of forward sales, Cocobod managed to secure pre-financing for local purchasing of cocoa the cocoa and preserved the price stabilisation intact (Ministry of Finance, 1999).

Picture 5.1 The Cocoa Research Institute Ghana
Internal marketing
The liberalisation of internal marketing started in 1992 with the introduction of private Licensed Buying Companies (LBCs) as competitors to the state-owned monopoly (picture 5.2). During 1996-97, sixteen LBCs obtained the permission to buy cocoa alongside the PBC and an additional four received provisional licenses (Ministry of Finance, 1999: 45). The number of buyers fluctuated as did their active involvement in buying cocoa. In 2005, the number of licensed buyers stood at twenty-five, of which nine are responsible for selling more than 90 per cent of all Ghanaian cocoa (Table 5.2) on the international market. The majority of LBCs are Ghanaian, only two are foreign-owned (Olam and Armajaro).

One LBC is farmer-owned (Kuapa Kokoo Ltd owned by the Kuapa Kokoo Farmer Union) and was set up with the support of international NGOs. One new (still small) farmer-owned LBC, Ghana Sompa Kokoo, was recently set up by the Kuapa Kokoo Farmer Union. PBC is still the major buying company (buying almost 33 per cent of the cocoa in 2005-06), although its buyer’s share is declining.⁸⁸ Recently, the PBC was partly privatised and its shares are now traded on the stock market, with Cocobod as the company’s majority shareholder.

The majority of the LBCs are Ghanaian. LBCs are formally organised in a buyers’ association but in practice each LBC operates independently. An exception is a group of three LBCs (Cocoa Merchants, Transroyal and Fedco), which are all owned by the same shareholder, the transport company Global Haulage.
It is important to realise that despite the introduction of competition in Ghana, LBCs do not compete on prices – all buyers pay the floor price. Some LBCs have introduced small bonuses for their buyers. LBCs receive a yearly fixed ‘buyers-margin’ set by the government. In 2002-03 this margin was set at 9 per cent of the FoB price and was somewhat reduced for the subsequent 2004-05 period. LBCs use this margin to pay their purchasing clerks (PCs) on a commission basis, thus encouraging them to buy as much cocoa as possible from the farmers in their communities. According to farmers, LBCs almost never reject the cocoa they offer. This is probably also due to the existing social relationships between farmers and buyers (FS 2005). During the group discussions, one farmer succinctly illustrated this shift from stringent towards less strict quality control procedures:

In the previous years there was only one cocoa buying company. It had very strict rules and regulations regarding the quality of the cocoa. When we sent our cocoa they tested it and made sure the beans were dry enough. If not, they refused to buy it and advised you to go back and dry it well before you bring it. Now we have so many buying companies, there is a lot of competition these days. Companies are competing with each other to buy the cocoa and don’t really care if the cocoa is dry enough. That also explains the decline in the quality of cocoa.

In the absence of competition through prices, LBCs developed other ways to ensure that farmers sell (only) to them. The two strategies frequently go hand-in-hand:

\[
\begin{array}{|l|c|}
\hline
\text{LBC} & \text{Total} \\
\hline
\text{Produce Buying Company} & 205,602 \\
\text{Olam Ghana Ltd} & 85,576 \\
\text{Akufo Adamfo Marketing Co} & 74,824 \\
\text{Adwumapa Buyers Ltd} & 55,369 \\
\text{Kuapa Kooko Ltd} & 42,676 \\
\text{Federated Commodities Ltd} & 41,804 \\
\text{Armajaro Ghana Ltd} & 34,833 \\
\text{Transroyal Ghana Ltd} & 30,132 \\
\text{Cocoa Merchants Ltd} & 15,063 \\
\text{Dio Jean Company Ltd} & 9,099 \\
\text{Diaby Company Ltd} & 8,741 \\
\text{CocoaExco Ltd} & 7,826 \\
\text{Sika Aba Buyers Ltd} & 5,509 \\
\text{Sompa Kokoo Ltd} & 3,834 \\
\text{Royal Commodities Ltd} & 3,666 \\
\text{West African Exchange Co Ltd} & 3,577 \\
\text{Chartwell Ventures Ltd} & 786 \\
\text{Fereday Company Ltd} & 173 \\
\hline
\text{Total} & 629,090 \\
\hline
\end{array}
\]

• **Building trust** – Investing in local purchasers of cocoa and making sure that the PC is capable, trustworthy and motivated to serve the farmers’ needs. LBCs often select their PCs with the help of community representatives.

• **Building social capital** – Investing directly in maintaining durable social relationships with suppliers (for example, by attending funerals) and providing them with prompt payments, bonuses, gifts, rewards, inputs, credit and training (based on interviews with LBCs in 2003 and 2005).

In 2003, farmers that participated in the farmer survey (FS 2003) selected LBCs mainly on the basis of their prompt payment. Social relationships with the PC and the provision of credit were ranked second and third (see Figure 5.2). In 2005, for this same group (n = 103) the social connection was the main reason to sell, followed by prompt payment and trust (FS 2005). It is likely that this change in selection criteria is linked to the fact that in the mean time prompt payment became common practice among local buyers.

![Figure 5.2 The main reasons for farmers to select an LBS in season 2002-03 (n=173)](source: FS 2003)

Even though the introduction of competition in internal marketing did not result in price differentiation, the farmers appreciated the liberalisation of internal marketing and claim that ‘it saved them from a lot of hardship’ because payments are now made on time. Significantly, if LBCs are unable to pay promptly, farmers always have the option of selling their cocoa to another buyer. Yet, some research showed that farmers did not fully benefit from the liberalisation of internal marketing and that more can be done (FS 2005). Firstly, despite the promises, only a small number of farmers received any services or bonuses from LBCs. In 2005 almost 88 per cent of the interviewed farmers indicated that they recived no support from the LBCs (FS 2005). Also, because PCs’ earnings are small they are induced to cheat farmers with fraudulent scales used for weighing cocoa (personal observation; farmer profiles 2005). Secondly, in my sample (FS 2003), farmers living in the Ashanti and Brong Ahafo regions have rather limited choices between LBCs, in contrast to farmers living in the Western region and Central region. While the former state-owned buying company is still obliged to operate in every cocoa growing district, private buying companies can choose where they open their buying depots (picture 5.3). They flock to communities with high cocoa production
and easily accessible roads. Consequently, the PBC has become a ‘buyer of last resort’ (Ministry of Finance, 1999). In the communities visited in the Ashanti Region, the PBC was often the only local buying agent. This was also the case for some communities in the Brong Ahafo Region, although most communities had two or three local buyers. In the Western and Central Regions, farmers reported a minimum of four local buyers (FS 2003).91

Picture 5.3  A buying station in the Western region

Surprisingly, the introduction of competition did not result in farmers negotiating with local buyers to sell their produce collectively or negotiating for extra services as a group (for example through contract farming). This could be explained by the farmers’ preference to sell to someone from their social network, or by their unfamiliarity with the available negotiating options in the new marketing system. Moreover, cocoa farmers lack farmer organisations that could provide additional negotiating power; a major legacy of the former state-marketing system. This prevents them from taking full advantage of the (potential) benefits of liberalisation of internal marketing. Also, the outcomes of the implemented reforms have not been optimal for LBCs. Due to the slow and gradual pace of reforms, LBCs are locked into a system that offers few incentives for high performance and little financial scope for establishing strong relationships with farmers.

**External marketing**

Following the liberalisation of the internal marketing of cocoa, the government decided to allow qualified LBCs to export part of their cocoa purchases, implemented from October 2000. Officially LBCs are allowed to export 30 per cent of their domestic purchases, as long as they meet the conditions set by the Ghanaian Ministry of Finance. A company wishing to get involved in the external marketing of cocoa must:
• be a LBC and must have participated in the internal marketing of cocoa for a minimum of two cocoa crop years;
• have purchased a minimum of 10,000 tons of cocoa per year over the immediately preceding two consecutive crop years;
• have personnel who possess the relevant technical know-how and experience in international commodity marketing or can demonstrate access to such adequate human resources; and
• demonstrate access to adequate financial resources (Adapted from Cocobod, 2000b: 2).

The reasoning behind the gradual pace of the reforms was to provide a transition period in order for LBCs to become familiar with and acquire the necessary skills for effective external marketing (Ministry of Finance, 1999). The transition period was scheduled to finish in 2003, with a final decision on whether or not to proceed with full liberalisation of the external market. But the process is stuck. No formal decision on full liberalisation has been taken and there is a sense that the current status quo of partial liberalisation is the desirable ‘end-stage’ of the reforms. Government officials argue that the current system works well and that LBCs are unwilling or not ready to enter into direct exporting. A delegate of the CMC shared his view:

A lot of them [LBCs], they are about 20, 25 now. ... they hand it over to CMC and we do the export. ... there was a policy that they should export 30 per cent of their purchases, and that offer has been there for the past two, three years. And nobody has come forward to take that opportunity.92

Some of the larger LBCs contest this view, arguing that Cocobod obstructs their involvement in external marketing. Despite the fact that a number of larger LBCs meet the requirements for exporting licences and some of the smaller LBCs also indicated that they could meet requirements by joining forces, they claim that Cocobod obstructs their involvement in external marketing. As one LBC representative shared, 'we are stuck, even though we qualify and [...] they gave us a provisional license about four years ago... nothing has happened.' ... ‘because Cocobod is not letting go, nobody is pushing it’.

The stagnation in the transition process is also illustrated by the reduction in the number of international buyers who directly contacted LBCs to arrange trades of cocoa. This number was very high in 2003 but two years later it plummeted as international buyers no longer approached LBCs and seemed to have completely lost interest.93

LBCs do not openly complain about the practices of Cocobod. After all, it is a hierarchical relationship where buyers depend on Cocobod to issue them operating licenses. In addition, many LBCs (especially smaller) benefit from the current system; they can take advantage of the marketing expertise and pre-financing of local purchasing.

The partially liberalised system in Ghana is also beneficial for the global buyers of cocoa. Thanks to the reliability of the marketing system, Ghana enjoys a high
reputation for honouring contract and providing good quality. This resulted in an alliance between global buyers, the Ghanaian government and Cocobod, all three parties seek to maintain the present system.

For the Ghanaian government and Cocobod there are strategic reasons why the cocoa sector is not fully liberalised. Cocobod still has a huge staff of some 5,500 employees (IMF, 2007). Already for almost a century, the Ghanaian economy is largely based on cocoa exports and there is no real substitute for cocoa in terms of generating domestic tax revenue. In other words, the government has a stake in retaining control over cocoa exports. It is also in the interest of Cocobod to remain the sole exporter of cocoa, for which it receives a significant extra margin (difference between the CIF price of exported cocoa and the Free On Board (FOB) price). Table 5.3 shows the composition of the ‘net’ (FOB) price during the 2002-2003 season. That cocoa season the margin equalled around 35 per cent, while in cocoa season 2001-2002 it climbed as high as 45 per cent (Abbott et al. 2005).

<table>
<thead>
<tr>
<th>Component</th>
<th>Mainstream Cocoa USD/tonne 1 = 8700 cedis</th>
<th>Distribution in % Net FOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer price</td>
<td>976</td>
<td>68,11</td>
</tr>
<tr>
<td>Buyers' Margin</td>
<td>128</td>
<td>8,93</td>
</tr>
<tr>
<td>Domestic transport costs</td>
<td>32,2</td>
<td>2,26</td>
</tr>
<tr>
<td>Storage and shipping</td>
<td>18,4</td>
<td>1,27</td>
</tr>
<tr>
<td>Disinfection costs</td>
<td>9,66</td>
<td>0,67</td>
</tr>
<tr>
<td>Crop finance costs</td>
<td>33,3</td>
<td>2,3</td>
</tr>
<tr>
<td>Government Tax</td>
<td>236</td>
<td>16,44</td>
</tr>
<tr>
<td>Net FOB price</td>
<td>1433,56</td>
<td>99,98 %</td>
</tr>
<tr>
<td>Extra margin</td>
<td>± 770</td>
<td></td>
</tr>
<tr>
<td>Export Value</td>
<td>± 2200</td>
<td></td>
</tr>
</tbody>
</table>

Source: Cocobod, 2003 (white cells) and personal communication industry (dark cells), 2003.

The producer price is adjusted to the level of the current market price through a yearly review of prices and margins. A bonus is paid for cocoa supplied by farmers through the LBCs. The producer bonus is calculated by using the policy defined percentage of the FOB price (in 2007 it totalled 70 per cent). The calculation of the bonus and the distribution of the bonus to the cocoa farmers is an innovative institutional arrangement that influences price stability and fairness within the cocoa chain. Since producer prices are announced prior to the actual purchase or export of cocoa, a situation may arise where ex-post payments could exceed 70 per cent of FOB price. In such a situation, the over-payment to the farmers should be borne by stakeholders other than the farmers themselves. However, in a situation where the exchange rate and the world market price exceed their projected values, the arising surplus should be shared between the government and the farmer as ‘bonus’ or ‘compensation’ in order to bring the producer price to the programmed FOB percentage (Ministry of Finance, 1999: 85).
Despite this compensation mechanism, the difference between the export value of cocoa and net FOB price raised questions about the allocation of this ‘extra margin’ that Cocobod receives. Personal communication with Cocobod revealed that its officials do not know the allocation mechanism.

Cocoa exports are subject to taxes and repatriation of export revenue (which is converted into local currency). The tax rate on exports of cocoa beans is determined annually by the Minister of Finance and Economic Planning (set at 11.1 per cent of the FOB price for the crop year 2007-08). The effective tax rate varied significantly over the past several years. Another part of this margin is reinvested in the cocoa economy. This lack of transparency on the re-allocation of these funds into the sector is problematic and undermines the credibility of a partial liberalised system.

My fieldwork indicated three different types of reinvestments. First, Cocobod provides farmers with additional income through the payment of government bonuses and rewards to successful farmers. These measures are intended to stimulate them to continue increasing the production volumes of premium quality cocoa. Also, Cocobod provides scholarships and houses to some farmers and their children. Second, Cocobod stimulates upgrading process by providing ‘free pesticides’ and fertilizer on credit. Although this type of reinvestment was initially intended to stimulate reinvestment by farmers, they primarily perceived it as a reduction in production costs, i.e. they need to buy fewer pesticides. Cocobod also invests indirectly in process upgrading by investing in research and infrastructure. Third, Cocobod invests strategically in functional upgrading, by attracting foreign cocoa processors to establish processing factories in Ghana. Stimulating processing activities within Ghana contributes to maintaining a continuous demand for Ghanaian cocoa while providing an added value to cocoa production. Currently, there are four operational processing factories, with two additional ones to follow soon.

The impact of some of these investments on the level of producer will be discussed in Chapter 7.

Institutional reforms
The reforms in Ghana included a number of institutional changes that affected the enabling environment for producers of cocoa. In this section I will discuss the impact of reforms on the quality control system, extension services, input distribution and application, credit facilities and farmer organisation.

Quality
The reported quality losses that the fully liberalised countries suffered after the introduction of reforms were a main reason why the Ghanaian government opted for the introduction of gradual reform. The Ghanaian government wished to maintain its reputation as producer of good quality cocoa beans, in order to maintain a strong negotiating position for securing its premium on the world market. Therefore, final quality control remained firmly in the hands of Cocobod. And yet, despite the gradual introduction, reforms resulted in (temporary) problems with quality, also in Ghana. As already illustrated earlier in this section, it is widely believed that the fault lies with local buyers responsible for the first quality check. Because they did
not encourage farmers to continue with their traditional good farming practices, high percentages of inferior beans entered the market. This adversely affected Ghana’s high reputation (Asenso-Okeyere, 1997). The following statement by a CMC representative illustrates this point: ‘[…] But it is all the fault of the LBCs […] they tell the farmer “bring it and we will pay you”, whether it is dry or not, and they take it from them. And they are also in a rush, they want to come and collect their money’.94

It is plausible to conclude that this lack of strict quality control reduced the farmer’s incentives to invest in the pre-selection of beans and traditional farming practices, both labour-intensive processes. Consequently, there is a risk that quality performance may continue falling in a negative spiral. Cocobod responded in 2005 by declaring all bags of cocoa with more than 25 per cent ‘purple beans’ as sub-standard and paid local buyers only half the producer price. By doing so, Cocobod ignored the other possible explanations for the decline in quality, such as the smuggling of beans from Côte d’Ivoire and the problems faced by the QCD (a subsidiary of Cocobod) in controlling the higher volumes of cocoa during this period. These problems, combined with logistical issues and recent shortages of cocoa bags, increased the pressure on LBCs (ICCOa, 2007). In a response, LBCs made more active use of their buyers’ association to counterbalance Cocobod’s policies (personal communication industry, 2007). Despite these (temporary) problems and thanks to worse quality losses in neighbouring countries, Ghana continues to receive a premium for its cocoa beans.

**Extension services**

The export of premium quality cocoa does not only require a decent quality control system and economic incentives, but also institutional support. According to farmer responses, they obtain know-how on producing good quality cocoa mainly from their families,95 but also through radio broadcasts and newspapers (FS 2005). Public extension services (which provide farmers with advice on good farming practices, quality issues, etc.) traditionally play an important role in providing knowledge and technologies to Ghanaian farmers; 15 per cent of the farmers that participated in the 2005 survey mentioned extension services as one of their sources of knowledge. The Cocoa Service Division (CSD) was responsible for providing cocoa extension services up to 1999, when the extension services of the CSD merged with those of the Ministry of Food and Agriculture (MoFA). CSDs non-extension functions were further reorganised in two units: the Cocoa Swollen Shoot Virus Disease (CSSVD) Control Unit and a unit in charge of seed production/distribution (Ministry of Finance, 1999: 23-4).

The reduced staff and costs for Cocobod provided the possibility to offer more cost-effective agricultural extension services to farmers. Since most cocoa farmers also cultivate other crops (and some of them keep livestock) it was thought best to consider them as ‘general farmers’ and therefore to provide services under a unified extension services system (Ministry of Finance, 1999). In practice, the new unified system appeared problematic and was heavily criticised, mainly for its lack of adequate personnel and expertise (interview MoFA extension directorate, 2003; 2005). In response, the government initiated a review of the system.96
Due to the problems with extension services, other actors have entered the scene. Private input providers started to accompany the selling of their chemicals and spraying equipment with advice on good farm practices. There are also multi-stakeholder initiatives that focus on training and advice, for example the STCP.

Input distribution and application
The reforms ended CSD’s monopoly on the procurement and distribution of inputs. In 1995, the Ghana Cocoa, Coffee and Sheanut Farmers Association (GCCSFA) took over this responsibility. The objective of privatising the input supply was to increase competition. It was hoped that this increased competition would increase in the timely availability of the right quantity of inputs and reduce the cost of inputs.

Although the availability of inputs did increase, its adoption rates remained very low. In 2004 only between 3.5 and 7 per cent of cocoa farmers ‘adopted pest and disease control technologies developed by CRIG’ (Ayenor et al., 2004: 262). Two probable explanations for these low adoption rates are the lack of funds and the relatively high (world-market) prices of new technologies. One glaring problem is that a significant number of farmers do not make any or only a miniscule profit (interview MoFA, 2005; Mehra and Weise, 2007). Compounded with a general lack of savings and credit facilities, it poses a major barrier that prevents investment in adequate pest management. Lately the adoption rates have sharply increased. CODAPEC,97 a subsidiary of Cocobod, provides mass spraying to the majority of the farmers. There seems to be a trend that farmers themselves also increasingly apply technologies to combat pests and diseases (Chapter 6 and 7 elaborate in more detail on the use of technologies).

Credit
Prior to the establishment of the Gold Coast Cooperative Bank in 1946, ‘agricultural credit’ was almost entirely provided by relatives, friends and money-lenders. Starting in the mid 1940s, efforts were made to channel rural credit to farmers, but these failed due to problems with loan recovery and mismanagement. In the 1980s, some innovative attempts were made to improve lending practices for the rural sector. Lending experiences from the informal sector were used, such as door-to-door services (mobile banking) and lending out small amounts of money without charging interest. However, these innovative practices only reached a small number of farmers (Palmer, 2004: 15). It is argued that as a side-effect of the reforms in the late 1980s, access to formal credit became (even) more restricted.98 Up until today, Ghanaian cocoa farmers cannot easily gain access to formal credit; the main barriers indicated by farmers are a lack of savings, high interest rates,99 the collateral requirement and a lack of trust. This lack of trust is twofold: banks do not trust farmers to pay back their loans and farmers indicated that they do not trust banks. Farmers prefer to save their money at home and borrow money from friends or relatives. Another option for farmers is to borrow money from local buyers of their cocoa. Alternatives for farmers include borrowing money from private money-lenders, who charge excessive interest rates (annually between 50 and 100 per cent) or borrowing money through credit unions. Recently new experiments were
introduced that provided ‘inputs on credit’ to groups of farmers. In this situation farmers obtain chemicals to spray their farm from input providers, and the costs involved are paid back to the input provider after the cocoa is harvested and sold. The group is collectively responsible for the payback. Private initiatives, (see the example with Wienco outlined in Chapter 7) in particular turn out to be more successful than the ones of the public sector, as ‘public money’ tend to be associated with ‘free money’ (interview CODAPEC, 2005).

Farmer organisation

In discussing institutional reforms, it is important to look also at some of Ghana’s ‘missing reforms’. For example, liberalisation did not provide the incentives for institutional reforms that could have empowered farmers. According to Tiffen (no date):

the concepts underpinning the liberalisation process ignored the institutional framework in Ghana and the severely disadvantaged position of farmers which made them vulnerable and therefore likely “losers” in the process. From the institutional perspective small-scale farmers appear to have been invisible to the designers and implementers of Structural Adjustment Programmes in Ghana.

Tiffen rightly posed the question: Why ‘in the vacuum created by the abolition of the state marketing boards, […] weren’t new forms of institutions, for example farmers co-operatives, considered, given the context of a rural-based activity like commodity crop production?’

In Ghana, there is one farmer association (the GCCSFA) and one large farmer union (Kuapa Kokoo Farmer Union). The one cocoa cooperative registered by the Department of Cooperatives, the Ghana Marketing Cooperative Association (GCMA), is not operational since 1984 due to financial and managerial problems (Department of Co-operatives, 1990; GCMA, 2005).

Membership in GCCSFA happens automatically with registration; in 2003 around 360,000 farmers registered themselves as cocoa producers (interview GCCSFA, 2003). In 1995, the GCCSFA became responsible for the procurement and distribution of agro-chemicals and spraying machines. Through its network of seventy-five shops, GCCSFA was able to sell chemicals relatively cheap as the association ‘is not interested in making profit’ (interview GCCSFA, 2003). It also tried to assist farmers by distributing inputs on credit, but this proved rather unsuccessful (Ministry of Finance, 1999: 34-5). Furthermore, GCCSFA assisted farmers by giving scholarships to their children. Nevertheless, the main objective of GCCSFA is the setting of cocoa prices. GCCSFA is one of the members of the Producer Price Review Committee (PPRC), which has the sole responsibility for fixing cocoa producer prices and the other rates and fees related to the purchasing and marketing of cocoa. Other members of the committee include the representatives of licensed cocoa buyers, cocoa transporters, the Ministry of Finance, the Bank of Ghana, ISSER of the University of Ghana and Cocobod officials. The Minister of Finance is the Chairman of the PPRC.
The establishment of the Kuapa Kokoo Farmer Union (KKFU) was an initiative of Nana Frimpong Abebrese, an influential cocoa farmer who was also a farmers’ representative on the Cocobod Board of Directors. He ‘saw the potential for farmers to benefit through the liberalisation reforms’ (Tiffen, no date). Together with the British NGO Twin Trading and supported by the Dutch NGO SNV, he took the initiative to set up a LBC, Kuapa Kokoo Ltd. Ten years later in 2004, the union had approximately 50,000 members, from 6 different cocoa growing regions in Ghana (Kuapa Kokoo Annual Report, 2004: 38). In principle, membership of KKFU is open to farmers who sell all their cocoa beans to Kuapa Kokoo Ltd.; caretakers need written permission from the owners of the farm (for more details see Chapter 7).

Recently some new attempts were made at organising farmers, for example through Farmer Field Schools (FFSs). FFSs were initially set-up in the Central Region around the Kakum park area. An international NGO – Conservation International Ghana (CI Ghana) – took the lead, in partnership with the research department of Cocobod, MoFA and KKFU. In 2003, FFSs were also established through public-private partnerships in the Ashanti Region, under the STCP. These schools provide extension services on a ‘learning by doing’ basis. They focus on environmentally friendly farm practices, labour conditions and empowerment. While governmental services have the tendency to be top-down, these alternative extension services, provided by NGOs and public-private partnerships, generally are more farmer-driven.

Although many farmers in Ghana are not formally organised, informally they join forces on a regular basis, mainly by means of labour exchange groups (the so-called *nñooba*). Farmers who participate in these groups share labour and knowledge. The farmers who opted not to join forces usually indicate that there are no real incentives to work together and that a lack of mutual trust prevents them from trying (Figure 5.3). In the 2003-04 season, around 65 per cent of the farmers participated in labour exchange groups (FS 2005).

![Figure 5.3 Reasons for not working together in the 2003-04 season (n = 68)](image-url)

**Shifts in governance in Ghana**

Reforms in the cocoa sector had a strong impact on the governing of the cocoa sector and on the conditions under which cocoa producers worked. Looking at shifts in governance illustrates that already before World War II Ghana started with coordinated action to stabilise prices. This was done in direct negotiation between import companies (buyers), exporters and organised producers. This resulted in corporate governance systems which governed transactions in the cocoa sector (the ‘cocoa buying agreement’). However, after the war transactions and price setting were increasingly regulated by the state, amid decreasing chain integration. The recent periods of gradual reform during the 1990s and the current re-affirmation of the state control in the cocoa chain, illustrate the high influence of the state in governing transactions. Influenced by the overall increasingly trader-driven cocoa chain Ghana gradually moves to a joint governance system. In Ghana there is an alliance between international buyers and the government (see also Fold, 2001); they both share an interest in maintaining the current system, as it guarantees a consistent supply of premium quality beans. In the joint governance system the state plays an active role and global traders and manufacturers play a more passive role. The shifts in governance are illustrated in figure 5.4, making use of the integrative framework of Griffiths and Zammuto (2005).

**Figure 5.4 Changing governance systems in the Ghanaian cocoa sector**

Source: Ton et al., 2008.
5.4 Discussing the impact of reforms: comparisons with fully liberalised countries in West Africa

In the last section I described the changing conditions under which cocoa producers operate, using a comparison over time. In order to validate the impact of the reforms, I will also make some comparisons with the current conditions in fully liberalised cocoa-producing countries in West Africa. I will compare the following indicators: (1) price-developments, margins and taxes; (2) volume of production; (3) farmer income; (4) quality and services; and (5) farmer organisation.

5.4.1 Comparison 1: price-developments, margins and taxes

Earlier studies that evaluated the impacts of liberalisation mainly focused on producer price (cf. Akiyama et al., 2001; Gilbert and Varangis, 2003). They concluded that the liberalisation of state-marketing systems increased the farmers’ share of the FOB price, thus positively assessing the reforms in these countries. In Cameroon and Nigeria, the producer price initially increased due to reduced marketing costs and taxes, thus producing significantly higher prices than in Côte d’Ivoire and Ghana (Gilbert and Varangis, 2003; Haque, 2004). However, the undermining of national and international price stabilisation mechanisms negated the impact of the initial price-increase on farmers’ incomes. Higher price fluctuations and the generally low world cocoa price made farmer income less secure.

Also, in Ghana the objective of liberalising internal marketing was to improve the operational and financial performance of its marketing system, in order to secure higher producer prices. The specific aims were to gradually reduce the export tax and marketing margins (Table 5.4).

Table 5.4 Objectives of gradual reforms: producer-prices, margins and taxes

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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Producer price</td>
<td>56.0</td>
<td>60.0</td>
<td>62.0</td>
<td>64.0</td>
<td>66.0</td>
<td>68.0</td>
<td>70.0</td>
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<tr>
<td>Marketing/ Cocobod operations</td>
<td>18.2</td>
<td>16.5</td>
<td>16.2</td>
<td>15.9</td>
<td>15.6</td>
<td>15.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Government tax</td>
<td>25.8</td>
<td>23.5</td>
<td>21.8</td>
<td>20.1</td>
<td>18.4</td>
<td>16.7</td>
<td>15.0</td>
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<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, 1999: 90.

In terms of increasing producer prices and reducing margins and taxes, the reforms in Ghana were successful. Already for some years, farmers receive around 70 per cent of the net FOB, equalling around 995 USD/tonne in 2006-07. The state officially announced that it will increase the share of the Net FOB price to over 72 per cent for the 2007-08 season. Despite this increase in producer price Cocobod’s share of the export value remains high.
The next figure, adapted from Abott et al. (2005), illustrates the margins in the cocoa supply chains for the major cocoa producing countries in West Africa during the 2001-02 season. Compared to Côte d’Ivoire, Ghana pays farmers a higher price and has relatively low export taxes. However, in Ghana the margin for exporting (controlled by CMC, a subsidiary of Cocobod) is very high. In contrast to Cameroon and Nigeria, which have a much lower dependence on cocoa exports, Ghana’s margins for producers, purchasers and traders are relatively low, while margins collected by Cocobod and the Ministry of Finance are relatively high (Figure 5.5).

Figure 5.5 Margins in the cocoa supply chain 2001-02 main crop

5.4.2 Comparison 2: volume of production
In the beginning of the 1980s cocoa production in West Africa suffered. Besides drought and fires also political factors played a role, especially in Ghana (Ruf, 2007a: 2). Since then cocoa production has been gradually recovering, partially in response to gradual increases in producer prices. In Côte d’Ivoire there was a ‘massive boom’ in cocoa production from the 1970s until the late 1980s (ibid: 3). In Cameroon cocoa production stagnated. The reforms in Cameroon put an end to input subsidies and farmers reduced their investments in pest management. In Nigeria, production initially stagnated but picked up from 1999 onwards, with increased production volume. This increase is attributed to the incentives provided by the Cocoa Development Committee (CDC).

Also in Ghana the higher producer price did, as intended, contribute to the recovery of cocoa production. For Ghana as a whole, it is estimated that between season 1990-91 and season 1997-98 the harvested areas increased with 73 per cent (from 707,000 hectares to 1,220,000 hectares). But, the increase in cocoa production was ‘almost entirely due to the traditional method of expanding output by means of additional land’ (Teal and Vigneri, 2004: 8-12; Ruf, 2007a). Later, in 2003 there was a boom in cocoa production, attributed to the cocoa trees that were planted in the Western Region in the mid to late 1980s. Also farmers, stimulated by the government and private extension providers, started to intensify their methods of
cultivation, by using more labour, new seed varieties, with mass spraying of their farms and with increased application of fertilizer (FS 2005; Ruf, 2007a; Ruf, 2007b; World Bank, 2007b). Smuggling from Côte d’Ivoire (and the end of smuggling from Ghana into neighbouring countries) also contributed to the increase of the processed volume of cocoa beans (GAIN report, 2005; Ruf, 2007b; informal discussions with industry, 2005).

The targets of the government in terms of production, as formulated in the Cocoa Strategy (published in 1999), were set at 500,000 tonnes for 2004-05 and 700,000 tonnes for 2009-10 (Ministry of Finance, 1999). Although these targets were initially regarded as ambitious, already in 2003 Ghanaian cocoa farmers produced almost 500,000 tonnes of cocoa, which is the second highest harvest ever in Ghana. In 2003-04 total cocoa output increased considerably (including smuggling up to 736,000 tonnes). In 2004-05 cocoa production decreased to 600,000 tonnes and in 2005-06 it increased again to 705,000 tonnes (based on first estimations of ICCO, 2006 and Ed&F Man, 2004 in Ruf, 2007b).

5.4.3 Comparison 3: farmer income

The increase in producer prices did not automatically result in an increase in remunerative farmer income, which also depends on the costs of cocoa production, productivity and on diversification of income. Moreover, inflation and the terms of currency exchange also adversely affected farmer income. During the group discussions, one Ghanaian farmer clearly highlighted the deterioration in terms of trade:

[…] when you compare the price of cocoa to the cost of production I can say the price increase is insignificant. During the time of our fathers a bag of cocoa could buy twenty bags of cement, these days you cannot buy even ten bags from that. My father’s proceeds from four bags of cocoa could buy six aluminium roofing sheets; nowadays you cannot get four aluminium roofing sheets from ten bags.

The reforms abolished the input subsidies, which resulted in enormous price-increases, especially in Nigeria and Ghana. Haque (2004) suggests that in Ghana production costs have tripled between 1989 and 1999. It is argued that the increases in production-costs resulted in ‘self-exploitation’ among farmers. Farmers worked longer hours, mobilised family members, and participated more in labour exchange groups (Blowfield, 2003).

In recent years both in Nigeria and Ghana the (indirect) provision of subsidies on inputs came back on the agenda. Interestingly, the push for this initiative does not only come from the government but also from the private sector. The main aim is to increase farmers’ productivity, which is especially low among Ghanaian farmers. In 1999, cocoa yields (300 kg/ha) in Ghana were about 13 per cent below the African average and 30 per cent below the yields in Côte d’Ivoire (Ministry of Finance, 1999: 8-9). Between 2001 and 2005 the average yields in Ghana increased somewhat higher (377kg/ha), but are still considered very low (Ayenor, 2006).
5.4.4 **Comparison 4: quality and services**

Prior to the reforms the state was responsible for quality control procedures, while after most of the quality control system were privatised. Also, after marketing reforms reduced the restrictions on cocoa trading a large number of inexperienced buyers entered the field. Nigeria, Cameroon and Côte d’Ivoire all faced quality losses. For Nigeria and Cameroon this meant losing their premium and facing a decline in demand. Ghana was the only country where a public system of quality control remained in place. Nevertheless, Ghana had some problems with quality, mainly blamed on the LBCs. Cocobod’s responded by sanctioning LBCs, an action that constrained their financial performance and seriously affected the livelihoods of many farmers. No longer able to sell (or store) their cocoa, they (temporarily) lost their main source of income (farmer profiles, 2005).

In addition to reducing quality, reforms also changed the organisation of extension services. Since the introduction of the reforms there is a general problem in all the countries with under-funded cocoa extension services and poor institutional support for extension (Amezah, 2004). Weak (unified) extension services render it more difficult to bring new knowledge and technology to the farmers. This adversely affects their ability to upgrade the product and the production process, and has a negative impact on their ability to anticipate market changes.

In Ghana extension services worsened, as also reported by more than half of the farmers interviewed (FS 2003). In response, NGOs (together with the private and public sectors) got involved in the provision of farmer-based extension. These services were appreciated by the farmers. But, farmer-based extension, such as FFSs incur high costs and the services reached only a limited number of farmers (interview CI Ghana and Wienco, 2005) (Chapter 6 and 7). During the pilot of CI Ghana between 120 and 150 farmers were trained as Trainer of Trainers (ToTs). In 2005, the STCP trained around 15,000 ToTs in FFSs in West Africa. Inside Ghana the training focused on environmental friendly agricultural practices and the challenges of child labour. Outside Ghana, farmers also received training on marketing techniques and information systems.

In Ghana poor public extension services produced fragmentation. This, together with the privatisation of input distribution, brought different suppliers of inputs on the (black) market, resulting in conflicting advice and inefficient application of chemicals. Farmers indicated that they did not receive proper information on how to apply the chemicals. The majority of the farmers did use toxic chemicals with adverse side-effects on their health and the environment. The limited use of protective clothing and the inadequate application of chemicals further exacerbated the health problems.

Farmers also complained about the lack of credit facilities, another side-effect of the reforms. In all countries formal credit facilities are weak and reach only a limited number of farmers. In Côte d’Ivoire the consolidation of foreign buyers made it more difficult for local financiers to disperse their risks. After liberalisation, Cameroon had well-developed arrangements for the export sector, but according to the members of COPAL, fewer credit facilities were available for farmers and local buyers (COPAL, 1998). Also in Nigeria there is a complete lack (or irregular
provision) of adequate credit granting services for investments in farm productivity. In Ghana formal credit facilities are marginal, of the twenty-five farmers (n = 200) with access to credit in 2003-04, 10 farmer received a loan from a LBC, 4 farmers from a friend or colleague, and only 2 farmers from a bank (FS 2005).

5.4.5 Comparison 5: farmer organisation

In Côte d’Ivoire, Cameroon and Nigeria the reforms gave an incentive for farmers to set up cooperatives. The literature shows that in West Africa these initiatives still seldom come exclusively from the farmers themselves. Many weak cooperatives require institutional support. Nigeria approached foreign donors for financial assistance in order to strengthen ‘producer groups’ (COPAL, 1998). In Côte d’Ivoire the government and the global buyers supported cooperatives as their (new) trading partners (industry survey 2005). In addition to this emerging direct (trading) relationship between buyers and suppliers, global buyers (indirectly) also started to support the farmers’ acquisition of marketing expertise and improved information systems through public-private partnerships.

In Ghana there are no incentives for farmers to set-up a formal farmer organisation, partially due to the indifferent attitude of the government towards the development of cooperatives (Department of Cooperatives, 1990: 130-2). The development of cooperatives requires a supportive environment and facilitators who can help farmers to start a farmer organisation. It also requires an environment where ‘organisation’ provides farmers with tangible benefits, for example higher incomes or better access to services.

There are currently only two farmer organisations formally registered and operational in Ghana: the GCCSFA and KKFU (Section 5.3.2). Farm-leaders within GCCSFA are chosen democratically, at district, regional and national level. At district level, chief farmers are regarded as important leaders of the cocoa community. Farmers know that these chief farmers report to district farmers, who in return report to the regional chief farmer (farmer profiles 2005), but farmers do not consider themselves to be a member of GCCSFA or even claim that they have never heard of this farmer association. As it already has a structure in place, the GCCSFA certainly has the potential to adequately represent farmers’ interests. However, such a role would require greater transparency about its exact functioning and also more direct involvement of farmers in decision-making processes, both within GCCSFA and Cocobod. Also, GCCSFA leaders should be held accountable, especially the national chief.

The Kuapa Kokoo Farmer Union is organised according to cooperative principles. Membership provides better access to community development, services, training (farmer field schools) and credit schemes. This farmer union is often presented as a successful farmer cooperative (cf. Mayoux, no date; Tiffen, no date; Vuure, 2006) but it had serious problems with its management team, such as embezzling by ex-leaders who disappeared with money belonging to the union. It also proved difficult to exercise effective democratic control in such as large cooperation. The impact of membership in the KKFU on the producer-level is discussed in Chapter 7.
In Table 5.5 I give an overview of the characteristics of the different cocoa producing countries. This evaluation of reforms presents another picture than the evaluation of the World Bank (Table 5.1), where the free market was presented as optimal. The next table shows that a ‘free’ market (Côte d’Ivoire, Cameroon and Nigeria) has more serious drawbacks then a partially liberalised system.

Table 5.5 The impact of reforms in the major cocoa-producing countries

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Prior to reforms</th>
<th>Ghana</th>
<th>Côte d’Ivoire</th>
<th>Cameroon</th>
<th>Nigeria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price developments</td>
<td>Price stabilisation</td>
<td>Price fluctuations</td>
<td>Price fluctuations</td>
<td>Price fluctuations</td>
<td>Price fluctuations</td>
</tr>
<tr>
<td>Taxes</td>
<td>High</td>
<td>Decrease</td>
<td>Still high</td>
<td>Absent or very low</td>
<td>Absent or very low</td>
</tr>
<tr>
<td>Exporter margins</td>
<td>High</td>
<td>High, but (partly) reinvested in sector</td>
<td>High, little reinvestment in cocoa sector</td>
<td>Considerable</td>
<td>Considerable</td>
</tr>
<tr>
<td>Farmer income</td>
<td>Medium/low</td>
<td>Medium/low</td>
<td>Medium/low</td>
<td>Medium/low</td>
<td>Medium/low</td>
</tr>
<tr>
<td>Volume of production</td>
<td>Decline, only in Côte d’Ivoire boom</td>
<td>Increase (boom in 2003)</td>
<td>Stagnation</td>
<td>Stagnation</td>
<td>Stagnation, later small increase</td>
</tr>
<tr>
<td>Quality</td>
<td>Good</td>
<td>Good, comparing to neighbouring countries</td>
<td>Mediocre (quality losses)</td>
<td>Loss in quality (loss of premium)</td>
<td>Loss in quality (loss of premium)</td>
</tr>
<tr>
<td>Public extension services</td>
<td>Good/medium</td>
<td>Medium/fragmentation of services</td>
<td>Bad</td>
<td>Bad</td>
<td>Bad</td>
</tr>
<tr>
<td>Credit</td>
<td>Some countries weak, some medium</td>
<td>Weak and insufficient</td>
<td>Weak and insufficient</td>
<td>Weak and insufficient</td>
<td>Weak and insufficient</td>
</tr>
<tr>
<td>Farmer organisation</td>
<td>No formal farmer organization</td>
<td>Lack of formal farmer organisation (one farmer union; one association)</td>
<td>Large number of farmer groups, but many of them not operational and weak</td>
<td>Small number of farmer organisations</td>
<td>Attempts to strengthen producer groups</td>
</tr>
</tbody>
</table>

Source: created by author.

5.5 Public and private interventions in Ghana

As a result of reforms in the fully-liberalised countries of West Africa, national institutional mechanisms lost several functions. Global buyers and organised suppliers, together with NGOs and overseas governments, tried to fill the vacuum by creating new institutions and new ways of diffusing their risks. In Côte d’Ivoire and Nigeria the state has been trying to reclaim its coordination over the supply chain. While it did manage to protect its income through high taxes and levies, it is not investing any part of its cocoa revenues back into the cocoa communities.

The partially liberalised system in Ghana did not reduce the role of the government as much as in the fully liberalised countries like Cameroon, Nigeria,
and to a lesser extent, Côte d’Ivoire. The Ghanaian state still plays a major role in the cocoa sector. Table 5.6 below lists most of the important state interventions. Only a limited number of NGOs and private actors are actively intervening in the sector. In some cases this is due to low need for interventions as the cocoa sector in Ghana is well organized, but in other cases it is clearly because Cocobod’s strong coordinating role constrained the performance of some actors or obstructed interventions.

Table 5.6 State interventions in the cocoa sector 2005

<table>
<thead>
<tr>
<th>Type of upgrading</th>
<th>Activities/interventions</th>
</tr>
</thead>
</table>
| Capturing higher margins for unprocessed commodities | Forward sales  
Strict system of quality control (QCD)  
Sanctioning LBCs selling inferior cocoa  
Extension services through broadcastings (radio/newspapers)  
Increase producer-price, bonuses, rewards etc.  
Rehabilitation of old-cocoa farms  
Mass-spraying programme (CODAPEC)  
Fertilizer on credit (Public Private Partnership)  
Public extension services (MoFA)  
Research (CRIG)  
Farmer-based extension services (CRIG is partner in FFSs) |
| Producing new forms of existing commodities | Research (CRIG), e.g. on new varieties/pests and diseases  
Development and marketing of cocoa by-products |
| Localising commodity processing, marketing and consumption | Attracting foreign processing companies  
(20% discount on beans)  
Development and marketing of cocoa waste products |

Source: Composed by author.

The partially liberalised system in Ghana does not allow direct (trading) relationships between global buyers and local suppliers. Nevertheless, international buying companies intervene at different levels, through strengthening relationships and/or direct investments. First, major processing companies (cf. Barry Callebaut, Cargill) have outsourced part of their processing activities to Ghana. Second, processing companies and chocolate manufacturers invest time in maintaining a good relationship with Cocobod and support it in planning measures against the (future) risks of supplier failure. Third, global buyers intervene on the level of internal marketing. Currently there are two foreign buyers who established an LBC and thus became internal players in the sector and created a direct links between farmers and their companies. Fourth, global buyers support cocoa farmers directly through participation in public-private partnerships, sometimes together with other buyers and NGOs, sometimes with public players, or a combination of different actors (cf. STCP). Fifth, buyers develop individual programmes for farmer support (cf. Cadbury invests in war wells). A new trend is that global manufacturers (such as Cadbury and Mars) start to develop programs for sustainable
sourcing of their cocoa. A part of this cocoa is to be sourced from Ghana. How this affects cocoa farmers is not yet known.

Local private actors also became involved in Ghana’s cocoa sector. First, LBCs started to issue credits, bonuses and services to farmers, as a way of competing with other local buyers. However, LBCs are constrained by Cocobod, because they receive a fairly low buyers’ margin and carry the risks of quality declines. Also, LBCs are unable to expand their marketing activities from internal to external marketing. This environment reduces both the incentives and the opportunities to establish strong alliances with other buyers and farmer groups. Local buyers also lack incentives that would stimulate them to contribute more to enhancing quality performance. In the partially liberalised system LBCs have little negotiating power. Also, other private actors, such as input providers, got involved in public-private partnerships, by providing inputs on credit. One private input provider, Wienco, took the initiative to provide farmers with extension services, thus helping farmers to apply inputs more adequately while at the same time increasing the sales of their inputs. This was a costly exercise for Wienco (interview Wienco, 2005). While Cocobod does appreciate that input providers have assumed this role, it still does not officially support these types of private interventions. The Agricultural Development Bank was involved in different attempts to supply farmers with inputs (fertiliser) on credit.

NGOs are not actively involved in the cocoa sector in Ghana. This is due to the fact that cocoa farmers are considered to be better off than other farmers, since they have Cocobod to protect them from fluctuations in world market prices. There are some exceptions: the international NGO Conservation International Ghana initiated the FFSs and also introduced farmers to nature conservation practices. In addition CI Ghana linked up different service providers and established a partnership with the public and private sector. But even with this partnership CI Ghana feels constrained in its performance. For example, an attempt to introduce organic cocoa in Ghana, which would have provided farmers with a new marketing channel for niche markets, was obstructed by Cocobod on the grounds that the organic pesticides lacked official CRIG approval. This decision was the result of ‘legitimate concerns and unfortunate misperceptions’ (CI Ghana, no date: 4). According to a representative of Cocobod, the main concern was the economic viability of organic cocoa: ‘the question is if the premium paid for organic cocoa covers the costs of crop loss’.108 In 2006 an attempt of Agro Eco/Louis Bolk Institute was more successful. In partnership with Cocobod the first organic cocoa project was realized. Another NGO, mentioned by farmers, is Action Aid. Together with Cocobod they provide farmers with more resistant seedlings and inputs (farmer profiles, 2005).

Interventions by organised farmers are exceptional, because, as argued earlier, the current system does not provide farmers with incentives to organise themselves. Due to this lack of organisation, the farmers have not been able to fully benefit from the reforms. Instead they are increasingly confronted with the risks of the partially liberalised system. Farmers, individually, have adopted many different strategies to cope with the changes and improve their performance. These strategies will be discussed in more detail in Chapter 7.
5.6 Conclusions
Reforms in cocoa producing countries had a severe impact on the conditions under which cocoa producers operate. This is especially acute in countries that liberalised overnight, such as Nigeria, but also in countries that liberalised more gradually, such as Côte d'Ivoire. In most countries the quality of cocoa declined, high numbers of unprofessional private buyers dominated cocoa marketing, production costs increased and prices started to fluctuate. For farmers the risks involved in cocoa production increased. The vacuum left by the government was not filled with actors who had the capacity to take over governmental tasks, because the private buyers were unprofessional and farmer organisations were lacking.

In countries with a high stake in cocoa, such as Côte d'Ivoire and Ghana, as is expected the state did not want to leave its strategic position in the sector. This confirms my hypothesis that perceiving the public sector as ‘enabler’ does not reflect the reality on the ground in the economies of all developing countries. Even within a fully liberalised setting, governments can continue to represent the interests of certain economic sectors and groups within society (not to mention the strong personal stake of the involved officials). Governments in developing countries should not be considered neutral players in their economy. In Côte d'Ivoire, despite the fully liberalised sector, taxes on cocoa export equalled nearly 40 per cent of the export price. For Ghana, it was quite shocking to see that the government is making a difference between the gross and net FOB price, capturing
a margin of 45 per cent in cocoa season 2001-2002 and 35 per cent in season 2002-
2003. Although the Ghanaian government reinvested part of this margin back into
the cocoa economy (unlike Côte d'Ivoire where there is no reinvestment of taxes), it
is not clear exactly how this money was allocated and how much of it disappeared
in the pockets of Cocobod officials.

Ghana is a particularly interesting case because, in response to the negative
experiences with full liberalisation in the region, the Ghanaian government opted
to introduce reforms gradually and partially. It is an example of a government
retaining a key steering role, together with the private sector. This hybrid form of
governance (‘joint governance’) proved as quite favourable for cocoa producers and
for the other actors involved in the sector. Due to the reliable marketing system,
Ghana enjoys a high reputation for honouring its contract and offering relatively
still high quality produce. Other benefits of the partially liberalised systems include
the intact price stabilisation, the gradual price increases, tax decreases and
increased production volume. Also the services provided to farmers are generally
better than in fully liberalised countries. Farmers appreciated foremost the prompt
payment of LBCs for their cocoa.

The Ghanaian government still controls external marketing and regulates
internal marketing, pricing systems, processing activities, research, quality control
and the provision of services. In short, it retained its role as the coordinator of the
cocoa supply chain. Nevertheless, with the reforms the government abandoned
some of its former duties, which were taken over by other public, private and civil
actors. Extension services were merged with the services of MoFA, the input
distribution system was privatised and internal marketing was liberalised. The
opportunities and incentives for the actors to assume their new roles were
sometimes still limited by the state, in some cases resulting in serious drawbacks.
Also, the state had difficulty in successfully managing the cocoa sector. For example,
the quality control system was pressured by the increased volumes of cocoa. Farmers
were made particularly vulnerable through the fragmentation of extension services
and the lack of bargaining power by local buyers and farmers. As a result farmers
were unable to fully benefit from the reforms. The reforms were also not optimal for
licensed buying companies. The reforms made it possible for them to enter domestic
marketing but they were not allowed to play a role in external marketing of cocoa.
Another weakness of the partially liberalised system is that the export margins
received by the state are still high; Cameroon and Nigeria have lower government
margins. Although part of this money is reinvested in the cocoa sector,
reinvestments do not go without problems and furthermore are not transparent.

Despite the noted tensions and weaknesses of the Ghanaian system, this
experience shows that partial liberalisation may indeed be a viable alternative
model to full liberalisation. The country’s recent achievements in terms of increased
producer prices and volume of production, coupled with the negative experiences in
fully liberalised countries, seems to have dissuaded the global buyers and
international donor organisations against pushing for more liberalisation in Ghana.
The Ghanaian government and Cocobod will not object to this trend, because they
have strategic (economic) reasons to resist full liberalisation. However, it is not
unthinkable that changes in preferences of international buyers or pressures from the World Bank and international donors may eventually bring another wave of liberalisation. The changing governance structures in Ghana (figure 5.4) already indicated that governance systems do tend to change over time. It is important that Ghana shows more openness to global developments and to the changes in demand in global cocoa markets. It is also important the Ghanaian government invests more in the capacity of other actors, especially the farmers and the private sector, empowering them to contribute more to building a strong cocoa sector.