COCOA VALUE CHAIN
IN NIGERIA

PAST AND PRESENT

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Presentation Outline

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✓ Cocoa Value Chain in Nigeria-Pre liberalization era
✓ Cocoa Value Chain in Nigeria-Post liberalization era
✓ Cocoa Sector and the Post-liberalization Issues
✓ Opportunities in Cocoa Economy
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Introduction
Introduction

Cocoa is a unique crop which is consumed by those who do not grow it and grown by those who do not consume it. Although West and Central Africa produces about 75% of world production, 14% is processed in Africa and only 2% of global production is consumed in these regions.

Cote d’Ivoire and Ghana produced about 43% and 16% of world output, respectively, and about 62% and 22% of total African cocoa production. Other key producers are Indonesia, with about 14% of global production, followed by Nigeria producing about 5% of the world output.
Cocoa is cultivated in at least fourteen states of the federation but mostly in the southern states. The important cocoa growing states are Ondo, Cross River, Osun, Ekiti and Abia. Others are Edo, Oyo and Ogun states.

Cocoa is currently the most important agricultural export in Nigeria. In 2009 for example, cocoa beans export was US$599 million, cocoa butter export was US$57.4 million while cocoa powder and cake export was US$8.4 million making a total of US$664.8 million.
Introduction

The total value of the top 20 agricultural export for the year was US$965 million.

The quantity of the unprocessed cocoa beans exported in 2009 was 247,000 tonnes while the quantity of graded cocoa beans in Ondo State for the same year was 76,399 tonnes with a value of US$185.3 million (N27.8 billion).
Introduction

Table 1: Nigeria’s Top Agricultural Exports, 2009

<table>
<thead>
<tr>
<th>Rank</th>
<th>Commodity</th>
<th>Quantity (tonnes)</th>
<th>Value (1000 $)</th>
<th>Unit value ($/tonne)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cocoa beans</td>
<td>247,000</td>
<td>599,000</td>
<td>2,425</td>
</tr>
<tr>
<td>2</td>
<td>Sesame seed</td>
<td>102,400</td>
<td>90,000</td>
<td>879</td>
</tr>
<tr>
<td>3</td>
<td>Rubber Nat Dry</td>
<td>31,700</td>
<td>68,150</td>
<td>2,150</td>
</tr>
<tr>
<td>4</td>
<td>Cocoa Butter</td>
<td>9,150</td>
<td>57,400</td>
<td>6,273</td>
</tr>
<tr>
<td>5</td>
<td>Cigarettes</td>
<td>2,769</td>
<td>23,472</td>
<td>8,477</td>
</tr>
<tr>
<td>6</td>
<td>Cotton lint</td>
<td>17,814</td>
<td>20,404</td>
<td>1,145</td>
</tr>
<tr>
<td>7</td>
<td>Bran of Wheat</td>
<td>159,423</td>
<td>18,447</td>
<td>116</td>
</tr>
<tr>
<td>8</td>
<td>Natural rubber</td>
<td>3,398</td>
<td>12,035</td>
<td>3,542</td>
</tr>
<tr>
<td>9</td>
<td>Cashew nuts, with shell</td>
<td>18,651</td>
<td>11,290</td>
<td>605</td>
</tr>
<tr>
<td>10</td>
<td>Vegetable Products Fresh Or Dried</td>
<td>3,081</td>
<td>10,059</td>
<td>3,265</td>
</tr>
</tbody>
</table>

Source: FAOSTAT, 2011
Cocoa Value Chain in Nigeria - Pre liberalization Era
During the 1960’s, the Nigerian government’s policy towards cocoa production was one of minimum government intervention. Governments’ involvement was mainly to:

- Support the activities of cocoa farmers
- Monitor research and development
- Provide extension services as well as
- Regulate marketing, pricing and exportation of cocoa
By the middle to late sixties, the Nigerian government realized the relative importance of cocoa and other agricultural exports to the economy. This led to the establishment of the input supply and produce marketing systems under the state official monopoly.

Marketing Board was set up to intermediate between the farmers and the international market. The board was expected to:

- stabilise prices paid to the producers
- ensure public access and control over foreign exchange earnings
- strengthen the marketing mechanisms
- create an ideological antipathy to private traders and
- impose constraints on multinational enterprises
However, the monopolistic nature of the commodity board posed a great disincentive to cocoa farmers both in production and replanting of old cocoa trees.

Studies have shown that the Commodity Boards represented agencies for taxation. Deductions would have been made before the money got to the cocoa farmers, such that the producer prices paid to the farmers were well below world markets.
Cocoa Value Chain in Nigeria-Pre liberalization era

During this period, there were other factors that influenced cocoa production, marketing and price received by cocoa farmers. These include:

- the oil boom syndrome which led to a partial neglect of the agricultural sector and reduced the output from the farming entities
- over-valuation of the Nigerian currency (Naira) relative to other currencies
- bureaucratic problems associated with Commodity Boards
- agronomic factors like age and size of plantation
- institutional inadequacies of Research Institutes and the Cocoa Development Units
Pre-liberalization Era Flow Chart of Cocoa in Nigeria

KEY
Inputs and Finance
Cocoa Supplies
Payment Flow

World Market
Financing Infrastructure

Commodity Board
Cocoa Financing Agency
Licensed Buying Agents
Government Approved Agrochemical
Cocoa Produce Union
Coop Cocoa Financing Agency
Zonal CPU
Input Supply Union
Credit and Thrift Union
Cocoa Producer Society
Input Supply Society
Credit and Thrift Society
Cocoa Farmers

Land
Labour
R&D Services (CRIN, Extension, etc.)
Cocoa Value Chain in Nigeria-Post Liberalization era
Due to the challenges associated with the pre-liberalization period, the Federal Government of Nigeria saw the need for an all inclusive economic re-structuring that would guarantee economic stability, reform the pattern of production, consumption and growth.

In 1986, the Nigerian government announced the adoption and implementation of a Structural Adjustment Programme (SAP) with four basic objectives which were to:

- Restructure and diversify the productive base of the economy in order to reduce dependence on oil exports
- Reduce government involvement in unproductive investment
- Encourage non-oil exports especially agricultural products
- Improve the agricultural sectors' efficiency as well as intensify the growth potential of the private sector
The exchange rate deregulation, liberalization of export trade, reduction in extra budgetary expenditure, withdrawal of subsidies and the privatization of public enterprises were the main elements of SAP. Deregulation (of any sector) placed emphasis on the forces of demand and supply in determining the prices of goods and services and allocating the resources within the economy.

In order to ensure a full liberalization of the agricultural sector, the Nigerian government put in place the following policy measures:

- abolition of commodity boards and the privatization of many agricultural enterprises previously controlled by the government,
- liberalization of agricultural exports’ market and
- foreign exchange liberalization and currency devaluation
Analyses of the immediate effects of the deregulation policy measures on cocoa production revealed that there was about 300% increase in cost of maintaining cocoa farms while producer prices increased by about 800%.

A before and after analysis of gross margin done showed there was an estimated positive gross margin of ₦1,585.00 per hectare in 1989 while the estimated gross margin per hectare in 1985 was ₦105.00. The difference was due partly to deregulation and partly to devaluation.

However, it should be noted that the post-liberalization era has its shortcomings. Several studies have shown that the post-liberalization period is characterised by inadequate information on cocoa farm assets, low income and limited level of diversification, unstructured trade, weak and poorly coordinated farmer organizations, etc.
<table>
<thead>
<tr>
<th>S/N</th>
<th>Stage of Chain</th>
<th>Function</th>
<th>Agent</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inputs Supply</td>
<td>Marketing, Transportation</td>
<td>Credit providers (Licensed Buying Agents), agrochemicals companies’ representatives and dealers, state institutions (Cocoa Development Units, ADPs), fertiliser companies, Cocoa Research Institute of Nigeria, etc</td>
<td>Inputs delivered to farmers Training and support services to farmers and their organizations</td>
</tr>
<tr>
<td>2</td>
<td>On-farm production</td>
<td>Establishment, Maintenance &amp; Management, Harvesting Selling</td>
<td>Farmers, Sharecroppers</td>
<td>Cocoa tree stocks, Cocoa pods and beans</td>
</tr>
<tr>
<td>3</td>
<td>Off-farm/ Post-harvest handling</td>
<td>Primary processing</td>
<td>Farmers, Sharecroppers</td>
<td>Cocoa beans</td>
</tr>
<tr>
<td>4</td>
<td>Product Management</td>
<td>Marketing, Transportation</td>
<td>Licensed Buying Agents (LBAs), Cooperative Societies, Village Buying Agents (VBAs), Business Development Services (BDS) providers, Produce Inspectors</td>
<td>Graded cocoa beans delivered to exporters or crushers in good condition.</td>
</tr>
<tr>
<td>5</td>
<td>Product Transformation</td>
<td>Processing</td>
<td>Cocoa processing firms</td>
<td>Cocoa cake, powder and butter</td>
</tr>
<tr>
<td>6</td>
<td>Export trade</td>
<td>Export</td>
<td>Export Houses, Cocoa Processing Firms</td>
<td>Cocoa beans, cake, powder and butter</td>
</tr>
</tbody>
</table>
Cocoa Sector and the Post Liberalization Issues
Cocoa Sector and the Post Liberalization Issues

Inadequate information on cocoa farm assets

- There is no reliable information on actual hectarages under cocoa production.
- Data on total number and distribution of cocoa farming households by locations, age, structure of trees/farms and farmers, etc are not available.
- Producers deal with various Local License Buying Agents, Foot soldiers, village level buyers etc directly with no coordinated channel of exchange of product and money.

Scale of production, Low income and limited level of diversification

- Most cocoa farms are characterized by small holdings. An average cocoa farmer in Nigeria has a farm size of 2.5ha.
- At 350kg per hectare, ₦320 per kg and 2.5 hectare per household, annual cocoa income will be ₦280,000. This income is equivalent to 164 bags of cement and 31 bags of rice.
Cocoa Sector and the Post Liberalization Issues

Scale of production, Low income and limited level of diversification

- For a farmer to have meaningful income he must have an estimated farm size of 4.5ha, all things being equal.
- A few other crops are cultivated mostly for domestic consumption; also ownership of livestock among cocoa farmers is insignificant. Inclusion of aquaculture enterprise is rare.
- Cocoa farming is not attractive to youths because cocoa farming system does not guarantee them a living wage.

Unstructured trade

- Free trade has helped to keep price as near to international price as possible. But the free for all nature of trade compromised quality and reputation in international market. Contract enforcement is not easy which discourages forward sales and sources of credit
There has been poor communication and interactions between Department of Cooperatives (DoC) and Ministry of Agriculture in most cocoa producing states.

There is a training gap and the need to build the capacity of DoC is of paramount importance.

Existing farmer cooperatives are so weak that they could not meet the financial needs of members.

Cooperative members do not patronize the societies/unions in terms of collective trading. A recent study by STCP/SOCODEVI revealed that about 57% of the sampled cooperative members were selling their cocoa through the cooperative union.
If cocoa farmers can aggregate their products through cooperatives, cocoa traders will find it gainful to do business with cooperatives. This will in turn enhance and strengthen the cooperatives. It will also facilitate provision of support services and input supply. Cocoa farmers depend on old farming practice which may not ensure good yield. There is a need for both technical and business training. This will assist farmers to manage cocoa farms as (modern) businesses. Private sector-led support services (credit and input supply) can be made available through collaborations with farmer groups.

Land tenure and inheritance system constitute serious challenges leading to abandoned cocoa farms. The prevalence of sharecroppers and migrant farmers with impaired titles has discouraged long term investment in cocoa. Old farmers have no incentives for new long term investments.
End-users and consumers are increasingly interested in knowing the sources of the cocoa they are buying for health and ethical reasons. This requires producers to be organized into groups (based on proximity of farms) and subjected to certification process.

Breeding programme based on available technologies in our R&D institutions takes relatively long time to deliver new products. There is a need for early maturing, disease-resistant and high-yielding varieties. There is also the question of which type of planting material to promote. “Should we be promoting pods, seedlings or budwood?”
There is low capacity utilization among cocoa processors. Capacity utilization is about 30-40 percent.

Working capital requirement for processors is high.

There is not enough capital to procure cocoa beans for processing.

Power supply is very costly; most of the factories depend on private generators.

Cost of finance is very high compared with their overseas competitors.

There are trade barriers in place in consuming countries.

There is also low consumption of cocoa products in Nigeria.
Opportunities in Cocoa Economy
There is need to introduce new farm enterprises to ensure that cocoa farmers are gainfully engaged all the year round. Enterprises that may not compete with cocoa for land that can be introduced are poultry and aquaculture. Introduction of such new enterprises will open new business opportunities for support service providers in addition to diversification and better spread of farmers’ incomes.

Cocoa farm renewal will require replanting of old farms, transfer of ownership of abandoned farms and replanting where necessary. This will require significant amount of resources – pods, seedlings, budwood, pesticides, fertilizers and labour. Significant amount of specially packaged credit may be required to achieve the replanting that is required. This is an opportunity for PPP
Opportunities in Cocoa Economy

The restructuring should affect the age distribution of cocoa farmers. Specially designed programme should be put in place to encourage younger persons to take-over existing cocoa farms and renew them as necessary. PPP arrangement could be used to deliver the programme.

Renewing cocoa farms will require significant private sector investments in input supply and distribution to maintain existing farms and replant old ones. The requirements for various inputs constitute major demand for products in a sector that is dominated by private firms.
Opportunities in Cocoa Economy

Re-organizing cocoa trade

Production credit should be linked to cocoa sales. There should be an effort to review existing framework(s) in the industry and develop better industry-wide framework that will ensure adequate enforcement of contracts. This will improve trade credit system that is currently being used and enhance the supply of finance to farmers and assures the businesses of exporters and banks.

Development of bonded warehouse receipts financing for marketing operations for cocoa and other agricultural commodities is required. This will increase access to trade credits by exporters, LBAs, cooperative societies and farmers.

Un-utilized marketing capacity in cocoa off-seasons among both private sector firms and marketing cooperatives could be employed for marketing complementary agricultural enterprises.
Opportunities in Cocoa Economy

Farmer organization

There should be a PPP between the Department of Cooperatives, Ministry of Agriculture and exporters towards more cost-effective and better organization of farmers into groups and recognized cooperatives.

All public and private sector support to farmers should be routed through farmer cooperative. This will ensure efficient and cost-effective delivery of support.
Industry-wide effort should be made to develop a framework that can be used to institute traceability. Certification processes should be implemented within this framework. To ensure success in this efforts public and private sectors need to collaborate.
Processors are facing significant challenges. Governments of cocoa producing states should explore whatever opportunities are available to promote the interests of processors with the Federal Government. Two areas of interests are power supply and alternative fuels for running generators; and prompt settlement of Export Expansion Grant claims.

Processors and government can jointly promote local consumption of cocoa products. Options include radio and television programme to create awareness; and introduction of school children to the consumption of cocoa products.
Renewal and restructuring of the cocoa economy depends on effective agricultural research and extension. Funding research is a long-term investment strategy while the full impact of extension efforts in a tree crop system may not be felt in a couple of years.

Collaborative efforts of private and public sectors to support R&D and extension delivery will eventually yield benefits to farmers, private sector participants in the economy and to Government.
There are significant challenges facing the cocoa economy in Nigeria. Some of these challenges could be tackled and the opportunities embedded in them could be drawn out if the important synergies in needed investments and re-organization of production and trade by both public and private sectors could be exploited.
Thank you !!!