COCOA VALUE CHAIN IN NIGERIA

PAST AND PRESENT

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Presentation Outline

- ✓ Introduction
- ✓ 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
- ✓ Conclusions

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.

Introduction

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

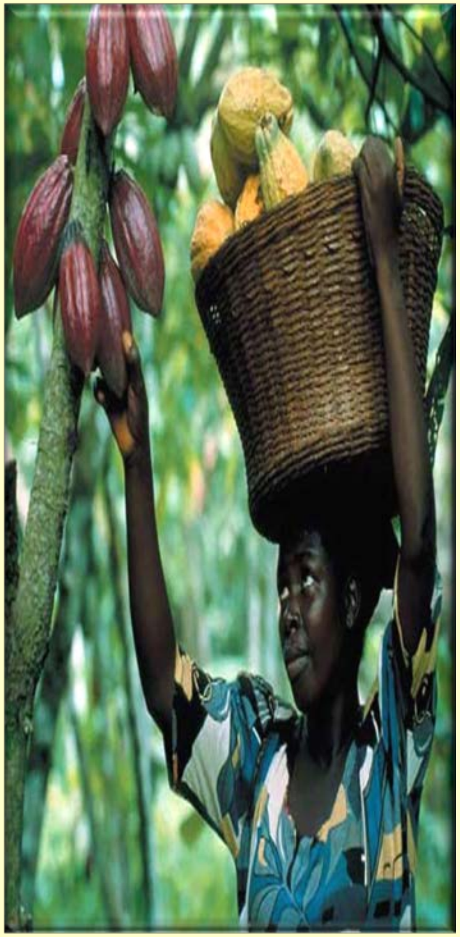
Rank	Commodity	Quantity (tonnes)	Value (1000 $)	Unit value ($/tonne)
1	Cocoa beans	247,000	599,000	2,425
2	Sesame seed	102,400	90,000	879
3	Rubber Nat Dry	31,700	68,150	2,150
4	Cocoa Butter	9,150	57,400	6,273
5	Cigarettes	2,769	23,472	8,477
6	Cotton lint	17,814	20,404	1,145
7	Bran of Wheat	159,423	18,447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

Source: FAOSTAT, 2011

Cocoa Value Chain in Nigeria-Pre liberalization Era

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:



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

Cocoa Value Chain in Nigeria-Pre liberalization era

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

Cocoa Value Chain in Nigeria-Pre liberalization era

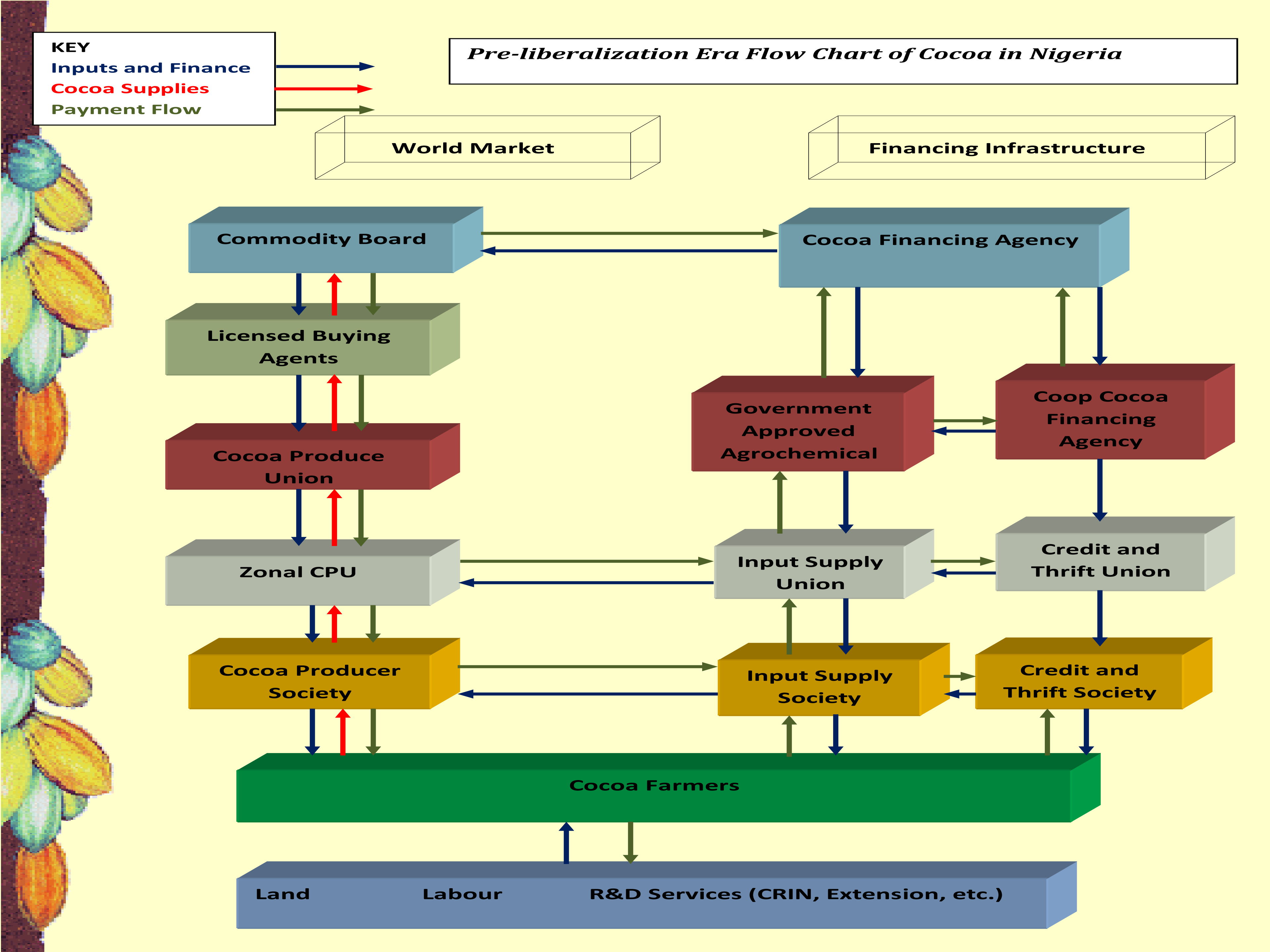
However, the monopolistic nature of the commodity board posed a great disincentive to cocoa farmers both in production and replanting of old cocoa trees.

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) relativet o 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


KEY
Inputs and Finance
Cocoa Supplies
Payment Flow
Pre-liberalization Era Flow Chart of Cocoa in Nigeria
World Market
Financing Infrastructure
Commodity Board
Cocoa Financing Agency
Licensed Buying Agents
Government Approved Agrochemical
Coop Cocoa Financing Agency
Cocoa Produce Union
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

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

Cocoa Value Chain in Nigeria-Post -liberalization era

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

Cocoa Value Chain in Nigeria-Post -liberalization era

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.

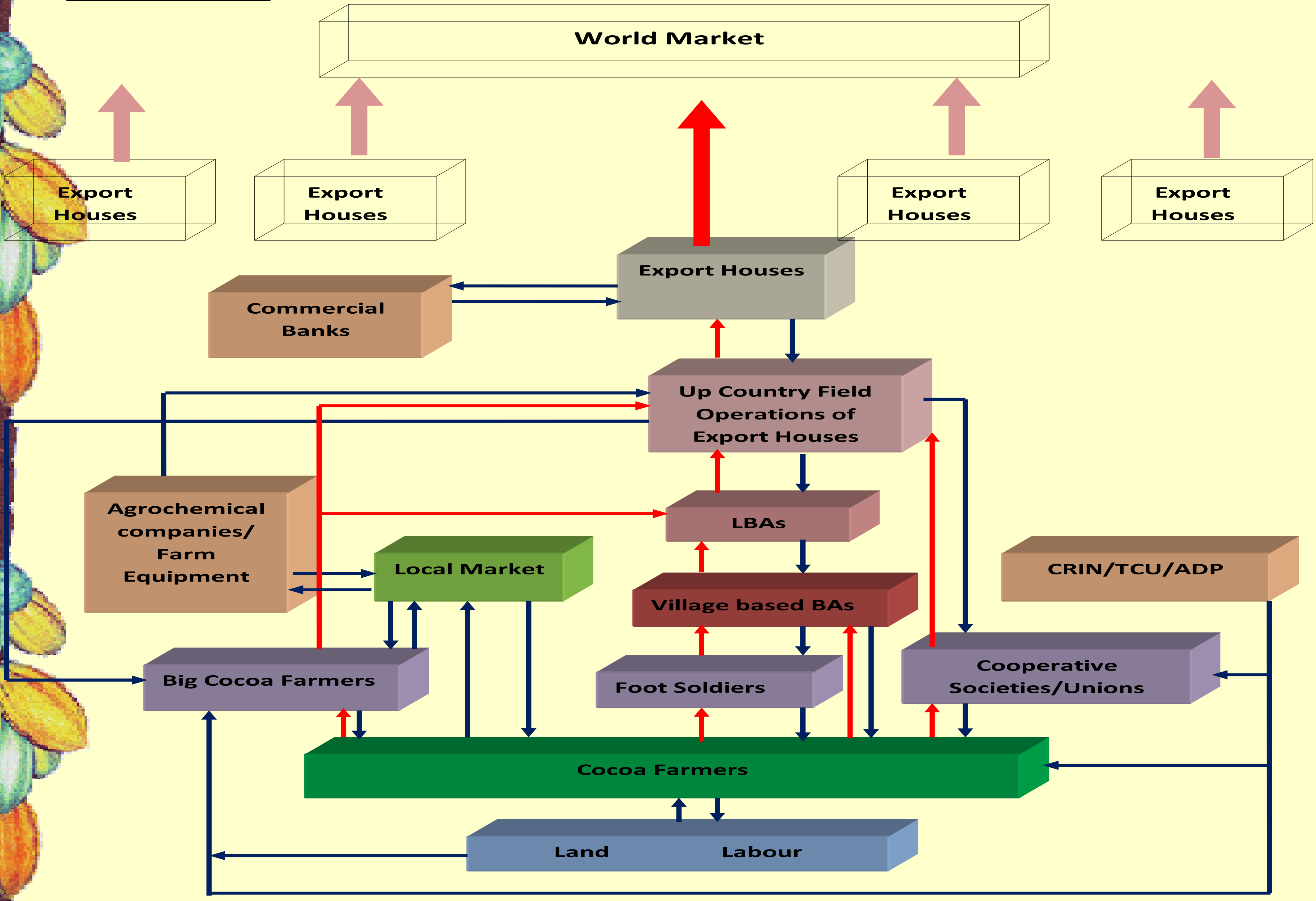
However, it should be noted that the post-liberalization era has its shortcomings. Several studies have shown that the post-liberalization period is characterised by inadequate information on cocoa farm assets, low income and limited level of diversification, unstructured trade, weak and poorly coordinated farmer organizations ,etc.

Nigeria's Cocoa Value Chain – A Functional Approach

S/N	Stage of Chain	Function	Agent	Output
1	Inputs Supply	Marketing, Transportation	Credit providers (Licensed Buying Agents), agrochemicals companies' representatives and dealers, state institutions (Cocoa Development Units, ADPs), fertiliser companies, Cocoa Research Institute of Nigeria, etc	Inputs delivered to farmers Training and support services to farmers and their organizations
2	On-farm production	Establishment, Maintenance & Management, Harvesting Selling	Farmers, Sharecroppers	Cocoa tree stocks, Cocoa pods and beans
3	Off-farm/ Post-harvest handling	Primary processing	Farmers, Sharecroppers	Cocoa beans
4	Product Management Intermediate trade	Marketing, Transportation	Licensed Buying Agents (LBAs), Cooperative Societies, Village Buying Agents (VBAs), Business Development Services (BDS) providers, Produce Inspectors	Graded cocoa beans delivered to exporters or crushers in good condition.
5	Product Transformation	Processing	Cocoa processing firms	Cocoa cake, powder and butter
6	Export trade	Export	Export Houses, Cocoa Processing Firms	Cocoa beans, cake, powder and butter

KEY
Inputs/Money
Cocoa Supplies

Post-liberalization Era Flow Chart of Cocoa in Nigeria



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

Cocoa Sector and the Post Liberalization Issues

Weak and poorly coordinated farmer organizations

- 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.

Cocoa Sector and the Post Liberalization Issues

Inadequate support services

- 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

Farm ownership

- 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

Cocoa Sector and the Post Liberalization Issues

Increasing demand for certification and traceability

- End-users and consumers are increasingly interested in knowing the sources of the cocoa there 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

Need to improve R&D infrastructure

- 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?"

Cocoa Sector and the Post Liberalization Issues

Threats to local processors

- 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

Opportunities in Cocoa Economy

Restructuring and renewing cocoa farms

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

Opportunities in Cocoa Economy

Collaboration to institute traceability and certification

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.

Opportunities in Cocoa Economy

Processors and Government joint advocacy and promotion

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

Opportunities in Cocoa Economy

PPP to support R&D and extension delivery

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.

Conclusions

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 !!!