



Reforming Cocoa and Coffee Marketing in Liberia

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Purpose and Scope

- The purpose of this presentation and policy brief:
 - Examine the current status of the Liberian cocoa and coffee sectors
 - Delineate the outcomes and challenges faced by the producers/buyers when marketing their product
 - Propose policy options for the Government of Liberia to consider.
- The many similarities with the coffee sector allow us to draw conclusions that are equally applicable to both sectors



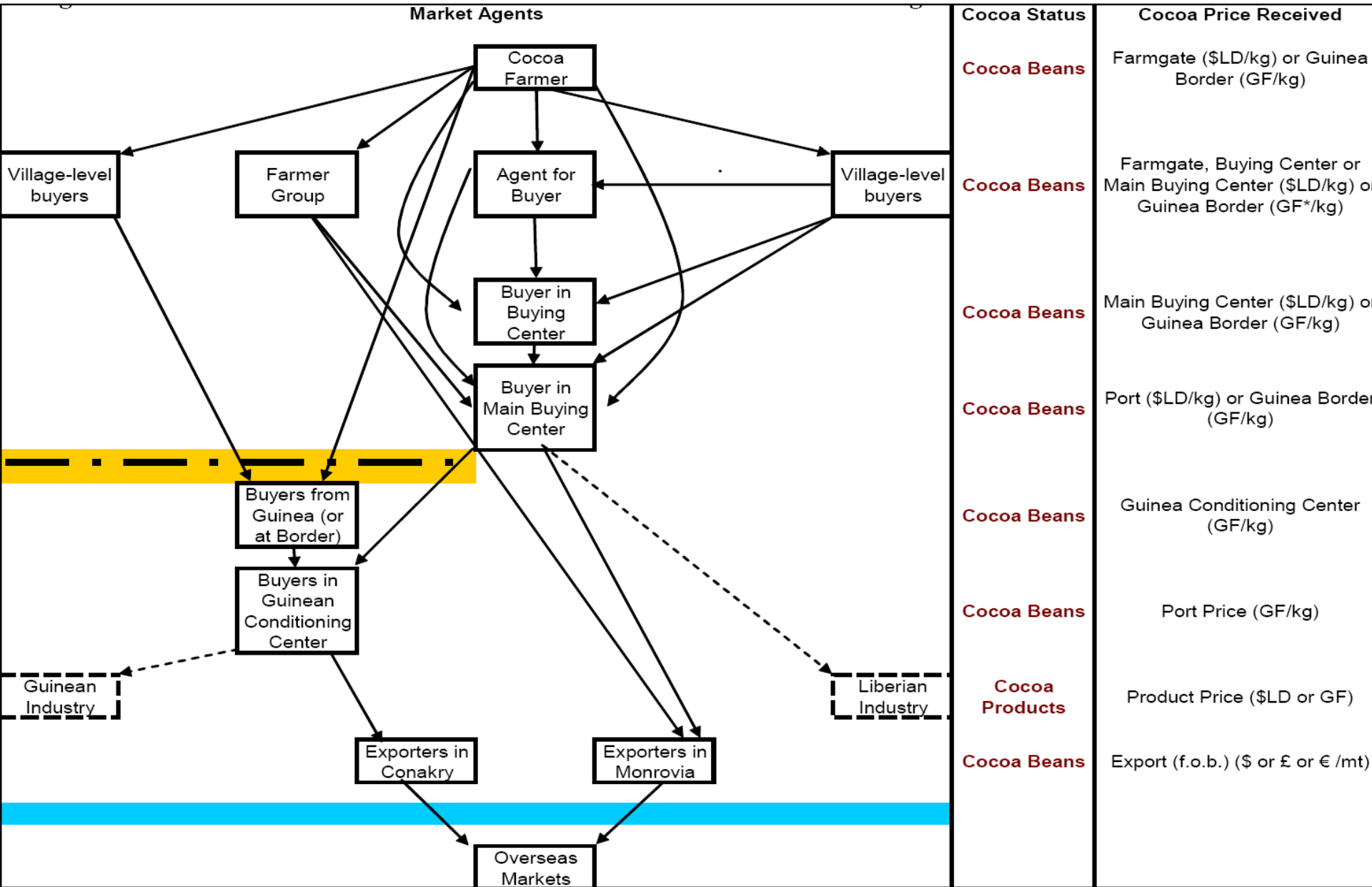


Market Efficiency

- Townsend notes, if “input and output markets are complete, so that no transactions are missed, and if there are so many buyers and sellers that none can alone influence prices, then the market outcome will be efficient”
- However, market efficiency in Africa is limited by:
 - Missing markets (e.g., financing)
 - Imperfect information (e.g., market information) and
 - High transaction costs



Liberian Marketing Chain





Information Asymmetries

- Quantity
 - Reported change over from English to Metric confusing to farmers
 - Scales are owned by buyers
 - No system of weight and measure certification
- Quality
 - Rudimentary cut test with no instrumental assistance
 - No grades and standards at farmgate
 - Visual assessment of humidity, mold, color, fermentation, bean size, foreign matter, etc.
- Price
 - No formal channels of price dissemination in some countries





Transactions costs, etc.

- Economic theory suggests that the difference between the farmgate and (pre-fob) port price is explained by transactions costs and other costs associated with procurement and delivery:
 - Transportation and Road Infrastructure
 - Market Power among Intermediaries
 - Scale Economies in Search, Assembly and Handling
 - Storage
 - Risk Premiums
 - Interest on Credit to Farmers
 - Capital Costs
 - Spoilage/shrinkage
 - Packaging
 - Currency Exchange
 - Fees and Taxes



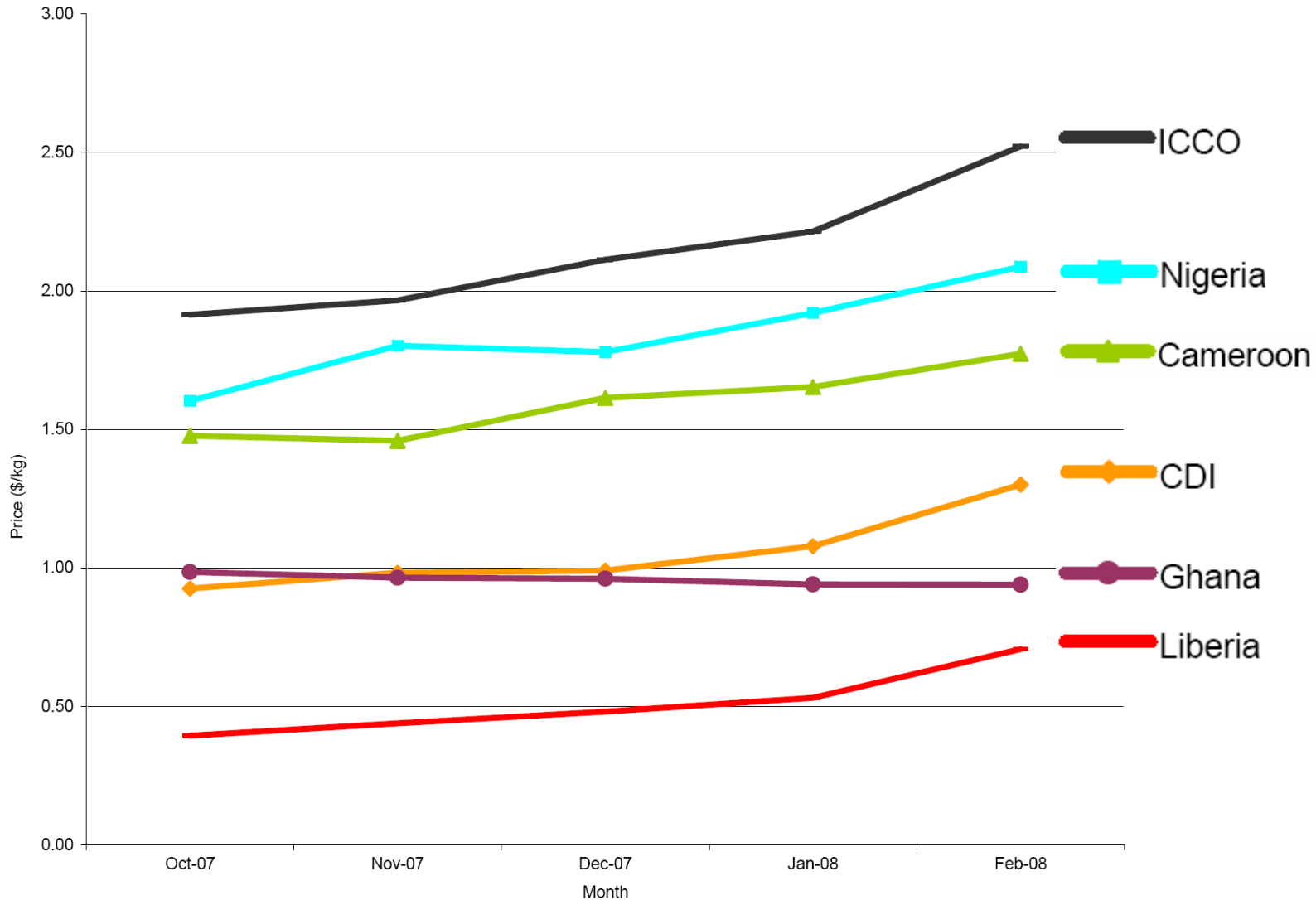


2007/08 Average Farmgate Cocoa Prices



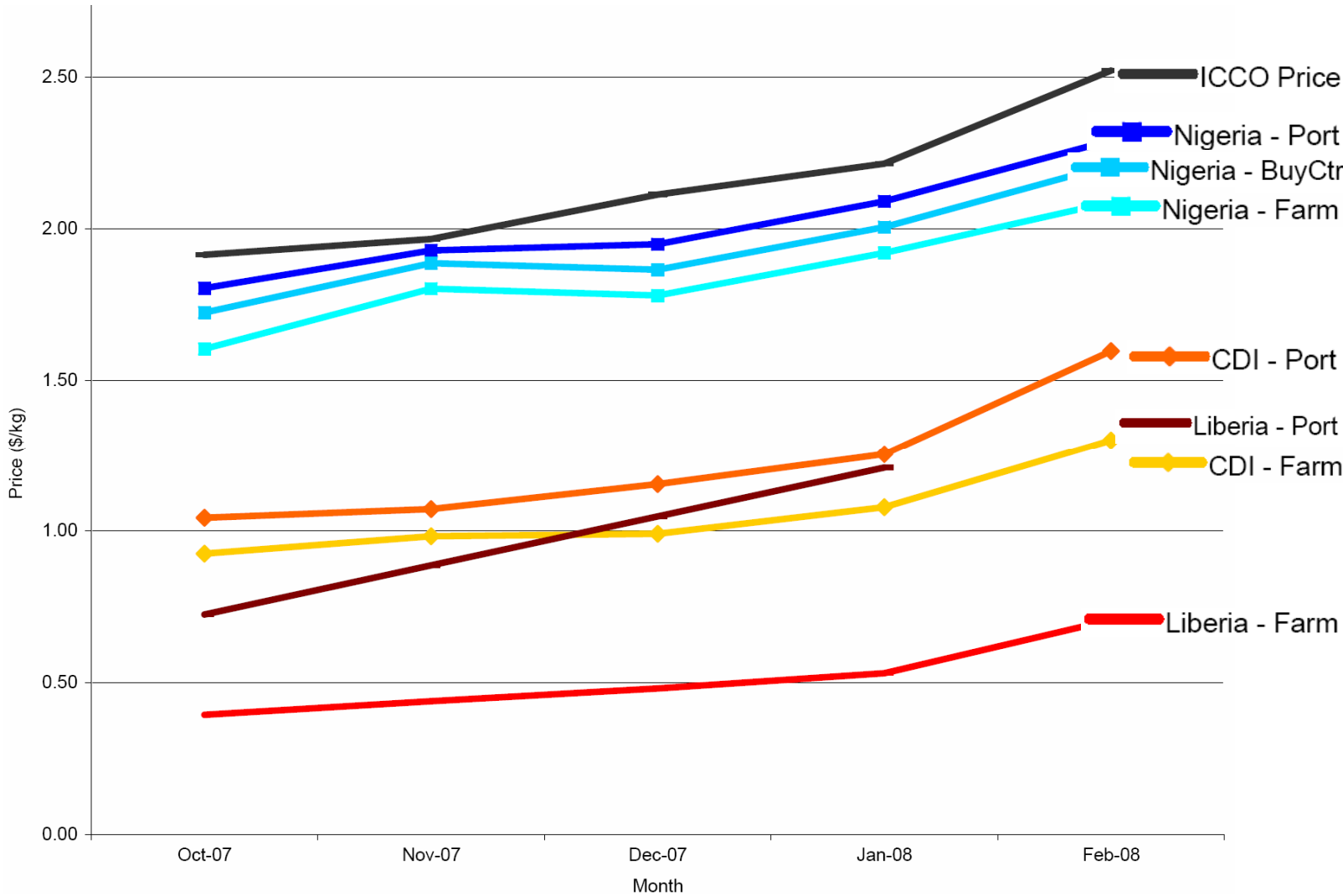
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Farmgate, Buying Center and Port





Liberian Cocoa Market Efficiency Issues



- Barriers to Entry
- Infrastructure (farm to market roads, warehousing, and communications)
- Financing for Exporters, Agents and Farmers
- Measurement Standards
- Quantity
- Competition / Collusion
- Price Transmission
- Market Information
- Quality Differentiation



Barriers to Entry

- **Political**
- **Capital**
 - Warehousing, transportation, credit, purchasing, scale economies, post-harvest processing...
- **Contracting**
 - “Contrat de Fidélité”
- **‘Reverse’ predatory pricing?**
 - Well and cheaply financed able to price other traders out of the market





Infrastructure

- Transportation





Infrastructure

- Warehousing





Infrastructure

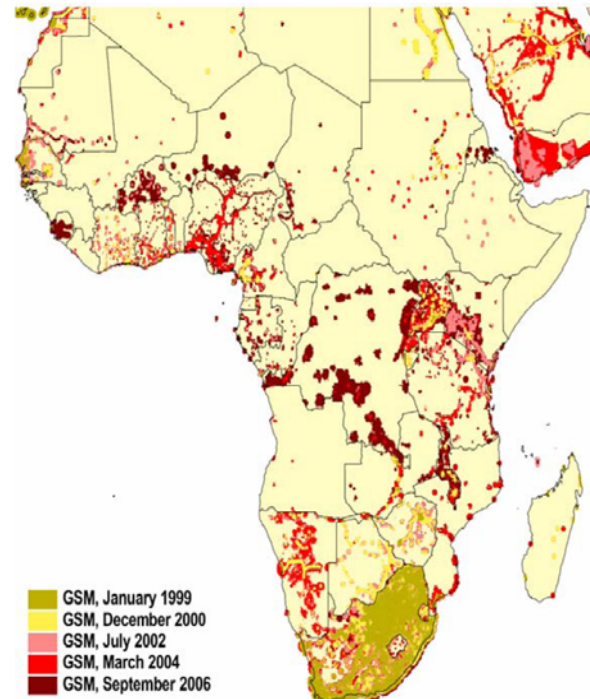
- Communications



Informations de Marché	
■ Prix dans les Régions	
■ Marché international	
■ Marché intérieur	
■ Rapports techniques	
■ Statistiques de la BCC	
■ Radios rurales	
Références	
■ Histoire des produits	
■ Normes d'exportation	
- Cacao	
- Café	
■ Campagnes / Récoltes	
■ Structure indicative Coûts	
■ Magasins	
Commercialisation	
■ Contexte libéralisation	
■ Mécanisme	
■ Procédures	
■ Fiscalité et Parafiscalité	
■ Communiqués	
Gestion de la Qualité	
■ Qualité sanitaire	
- Législations	
- Domestique	

CACAO		CAFÉ			
1135 F CFA / Kg Bien Fermé		- F CFA / Kg Bonne Grade II			
Prix Indicatif Producteur 700 F CFA		Prix Indicatif Producteur 525 F CFA			
Prix pratiqués dans les Régions Période du : 28/07 au 03 Août 2008					
Régions	CACAO			CAFÉ	
	Prix minimum	Prix maximum	Prix moyen	Prix minimum	Prix maximum
Abengourou	-	-	-	-	-
Aboisso	400	500	430	-	-
Adzopé	-	-	-	-	-
Adjiké	550	550	550	-	-
Agbonville	-	-	-	-	-
Akroppo	-	-	-	-	-
Alipé	-	-	-	-	-
Bongouanou	-	-	-	-	-
Daloa	-	-	-	-	-
Dixé	-	-	-	-	-
Gagno	-	-	-	-	-
Grand-Bassam	500	500	500	-	-
Oumé	-	-	-	-	-
Saint-Pedro	465	525	495	-	-
Sassandra	-	-	-	-	-
Sinfra	-	-	-	-	-
Soubrié	350	400	375	-	-
Toumodi	-	-	-	-	-
Niveau National	350	550	450	-	-
	Prix Indicatif Producteur (Avr./Juin) : 500 F CFA			Prix Indicatif Producteur (Jan./Mar) : 550 F CFA	

Figure 1: GSM Cell Phone Expansion in Sub-Saharan Africa, 1999 – 2006





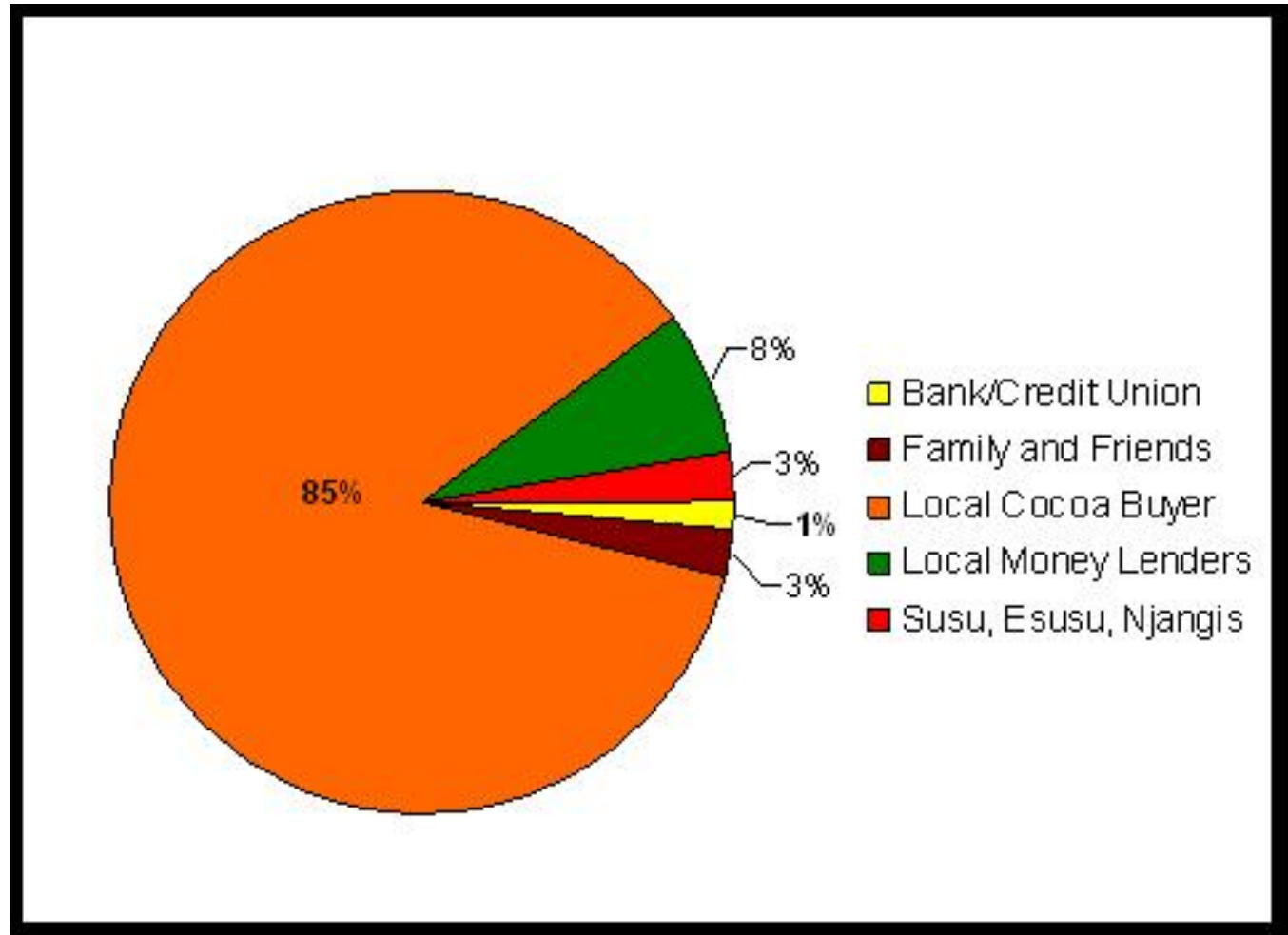
Financing

- Limited access to international sources of financing hinders local exporting capacity
 - Local capital costs typically range from 14-25% versus 3-5% for borrowers with access to international markets
- Significant limitation for agents up-country who are forced to acquire financing from the exporters
 - Port-based capital filters down to local buyers with high degree of risk
 - Repayment cycle can be extremely short leading to incentive to limit search costs which may adversely affect quality





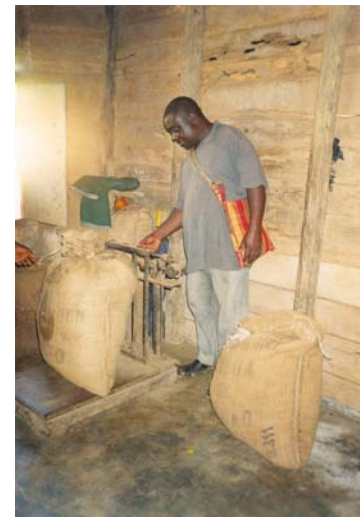
Farmer Credit: Sources in Liberia





Measurement Standards

- With *de facto* liberalization came the loss of official certification of weights and measures (e.g., balances) by Government
- Change of units of trade (kg vs. lb) which has confused farmgate transactions
- A potential solution is annual certification of the weigh balances and scales used to conduct trade as a licensing requirement of all agents downstream from the farmgate





Quantity: Lot Size and Discounts

In Liberia, 70% of transactions involved < 100kg

Month	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Qty Range
Cocoa Marketing	0.18% (n=1)	0.36% (n=2)	1.07% (n=6)	5.16% (n=29)	16.37% (n=92)	21% (n=118)	21.17% (n=119)	4.63% (n=26)	001-100 kg
		0.18% (n=1)	0.18% (n=1)	1.6% (n=9)	1.96% (n=11)	7.12% (n=40)	9.43% (n=53)	1.25% (n=7)	101-200 kg
				0.71% (n=4)	1.42% (n=8)	1.25% (n=7)	1.6% (n=9)	0.71% (n=4)	201-300 kg
						0.36% (n=2)	0.53% (n=3)		301-500 kg
					0.18% (n=1)	1.07% (n=6)	0.36% (n=2)	0.18% (n=1)	500+ kg



In Cameroon –

Economies of scale matter as premiums accrue to large scale transactions

Amount (kg)	LIFFE Regression (FCFA)		
	Center	South	Southwest
1	-214.0	-154.3	-877.5
15	-14.3	-10.3	-58.5
30	-7.1	-5.1	-29.3
45	-4.8	-3.4	-19.5
60	-3.6	-2.6	-14.6
75	-2.9	-2.1	-11.7
90	-2.4	-1.7	-9.8
105	-2.0	-1.5	-8.4
120	-1.8	-1.3	-7.3
135	-1.6	-1.1	-6.5
150	-1.4	-1.0	-5.9



Competition / Collusion



- Legal Environment
 - Collusion among Buyers/Traders
 - Consolidation and Concentration
 - Remoteness of Farmers
 - Cross-cutting Issues:
 - Information asymmetries
 - Capital constraints
 - Farmer Groups
 - Pro-competitive effect
 - “Competitive yardstick”
- “Ants united will drag even a dead elephant to their abode” - Uganda





Price Transmission

- Determined how price variability, transactions costs and institutional arrangements downstream affect market outcomes at the farmgate in Liberia

World Price → Exporter → Trader → Buyer → Farmer

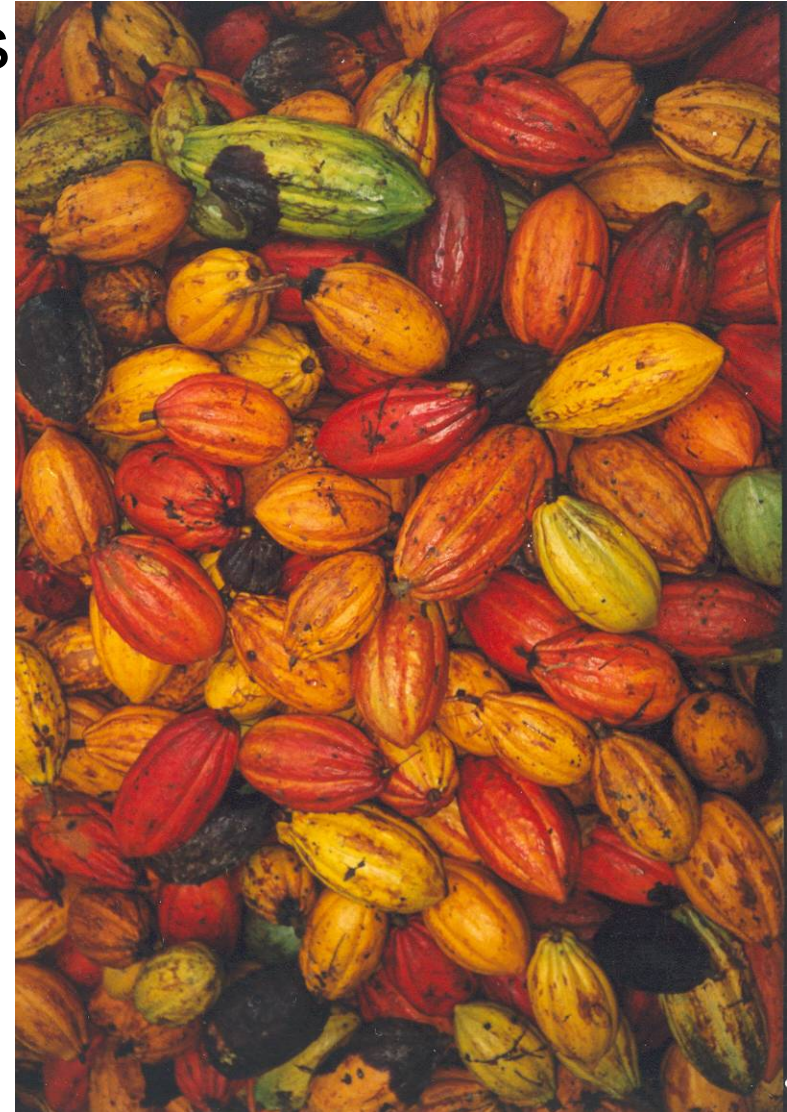
- Low transmission found in Liberia suggests that world price signals are not being received by farmers





Quality Differentiation

- Quality Characteristics
 - Humidity
 - Mold
 - Fermentation
 - Bean Size
 - Foreign Matter
 - Smokiness
 - Free Fatty Acids





Quality Differentiation

- Inconsistent Grading
- Lack of Accurate Quality Assessment Capacity from Farmgate to Port
- Discounts
 - Reason
 - Magnitude
 - Loss to Farmers





Quality



- Liberian cocoa has built a reputation for poor quality
- Improper post-harvest processing and handling is pervasive and has led to significant origin discounts on the world market
- Low quality has been institutionalized as the LPMC created a market for “fair average quality” cocoa that bears no resemblance to industry or international standards.
 - This situation has been perpetuated further by the operation of Guinean traders who purchase sub-grade cocoa and the influx of poorly handled Ivorian cocoa.
- There is a lack of incentives throughout the domestic marketing chain to:
 - Properly produce and post-harvest process quality cocoa
 - Ascertain the actual grade of cocoa at the farmgate
 - Maintain cocoa quality during procurement
 - Purchase, with a premium at every link in the marketing chain, quality cocoa.



Cooperatives

- In 2007/08, it is estimated that one-sixth of Liberian cocoa production was channeled through cooperatives.
- Many of these cooperatives were originally established in the 1980's and reinvigorated after 2003.
- Though legally recognized as a “cooperative” by certification and name, cooperatives do not appear to be working on behalf of their members.
 - Generally, no services are provided to members, transparency among the leadership is lacking and the premium, theoretically derived from collective bargaining, is not being passed back to the membership.





Farmer Organizations



- Farmer marketing groups are currently being promoted as grass roots collective bargaining approach. Potential services include:
 - Aggregating
 - Grading
 - Selling
 - Providing market information
 - Purchasing of inputs
 - Savings
 - Industry representation



Policy Recommendations: Farmer Organizations and Cooperatives

- Legislation encouraging the more structure and competition into the internal markets for cocoa and coffee
 - Free association of farmer groups
 - The provision of capacity development training for both farmer marketing groups and marketing cooperatives
- Cooperative law in Liberia needs to be re-examined to ensure that cooperatives are acting in the best interest of their members and in a transparent way.





Policy Recommendations: Market Information

- Prices from the various buying points along the supply chain:
 - Farmgate
 - Upcountry buying centers
 - FOB Monrovia
 - CIF Europe
- should be collected and publicly disseminated as a means of ensuring adequate price competition.





Policy Recommendations: LPMC

- LPMC's role as a parastatal marketing board in the cocoa and coffee sector should be reviewed.
- A reformed government institution that regulates trade needs to be established. The potential roles of such an institution would be to:
 - Register buyers and issue pan-territorial purchase licenses, discontinuing district-specific licensing as a means of territorial control. Licenses would require:
 - Certification of the buying agent's knowledge of the trade as a requirement for licensing.
 - Annual certification of the weigh balances and scales used to conduct trade as a licensing requirement.





Policy Recommendations: LPMC, continued

- Other potential roles of such an reformed government institution would be to:
 - Set and enforce quality standards that meet industry benchmarks and offering training to all market agents, especially farmer marketing groups, cooperatives and others.
 - Provide oversight on a bonded warehouse receipts financing arrangement.
 - Additionally, this institution could promote the Liberian cocoa and coffee sector domestically and internationally.





Policy Recommendations: Quality

- To improve the quality of cocoa reaching Monrovia, cocoa buyers at all levels of the supply chain require:
 - Training on the best practices for storage, handling, and fumigation
 - Information concerning minimum standards and the accepted means for evaluating and grading export qualities based on industry norms in line with other West African countries and enforced by the reformed institution
- A reliable and internationally accepted export certification system needs to be put in place.





Policy Recommendations: Legal

- Need to train current and potential agents in the cocoa trade on international contracting requirements and examine legal constraints to developing cocoa and coffee business opportunities
- Provision of a legal and enforceable framework governing commerce and the provision of effective and timely arbitration are both crucial for instilling investment confidence in the business community





Measuring Progress



- Rise in quality and elimination of discount on world market
- Decline in farm to market price spreads due to increases in farmgate price
- Marketing chain should be competitive based on concentration at nodes, marketing margins (relative within chain and across countries) and farmgate prices



Implementation

- Requires intense participation and partnering among public and private sector value chain stakeholders
- Local institutions need to be strengthened and clear mandates defined
- Recognition that developing the value chain is a gradual process with defined short, medium and long term objectives and goals
- International expertise can assist in this process but should not take “ownership”

