UNIVERSITY OF HOHENHEIM

Exploring the Knowledge, Perceptions, and Responses of Smallholder Farmers to the Living Income Differential in Ghana's Cocoa Sector

Master's Thesis

Department of Social and Institutional Change in Agricultural Development (490c), Hans-Ruthenberg Institute

Faculty of Agriculture

University of Hohenheim

Supervisors: Prof. Dr. Regina Birner
Dr. Christine Bosch

Submitted by: Esther Amankwah

M.Sc. Agricultural Economics – ID: 939128

October, 2023

This work was financially supported by the Foundation fiat panis

Abstract

The Living Income Differential (LID) initiative, jointly launched by the governments of Ghana and Côte d'Ivoire in 2019, introduced a USD 400 per tonne premium on cocoa exports, in addition to the country-origin differential paid by international cocoa buyers. This initiative substantially raised cocoa farmgate prices in the 2020/21 season, with Ghana experiencing a remarkable 28% increase compared to the previous year. Despite its impact, there is limited existing literature on the effects of LID. This study fills this gap by examining farmers' awareness and experiences, particularly differentiating between various farmer types, such as sharecroppers. Focusing on Ghana, the study employed qualitative data collection and analysis methods, utilising a case study approach to address the following questions: a) What is the level of awareness and perception among farmers regarding cocoa prices and the LID? b) How do community actors, including input dealers, respond to farmgate price increases, and how do these changes affect different farmer types? c) How do farmers react to the LID, and does it impact sharecropper agreements? What challenges do farmers face in this regard? The findings reveal limited awareness of the LID initiative among farmers, with only a small percentage aware of a collaboration between the two countries. The primary reasons cited for the 28% farmgate price increase for the 2020/21 season were attributed to higher world prices and observed correlations with election years. Both on- and off-farm actors take advantage of the higher farmgate prices by increasing their prices and charges, thus reducing farmers' benefits of a price differential. Certain strategies disproportionately affected different types of farmers, particularly sharecroppers. Governance challenges, government interventions, and macroeconomic factors, including gold mining, exacerbated the loss of price differentials. Farmers did not significantly change their farming practices in response to the LID, as perceived profit margins declined due to macroeconomic and global market disruptions, leading to increased costs. Sharecropper agreements remained largely unaffected by the higher prices, but entering into new agreements became challenging due to non-standardised and high fees charged by landowners.

In sum, this study underscores the importance of recognising the diversity among smallholder farmers and tailoring improvement strategies accordingly. It advocates for good governance involving farmer participation in price setting and transparency within the sector. Partnerships with private agro-input dealers to monitor pricing practices are recommended to ensure fair treatment of farmers. Moreover, empowering farmers' cooperatives through education and capacity-building initiatives can enhance their bargaining power and protect them from potential exploitation by community actors. Lastly, institutional reforms that standardise sharecropping agreements are essential to fostering fairness and stability in such arrangements. These recommendations collectively offer a roadmap for fostering a more equitable and prosperous environment for smallholder farmers, ultimately enhancing their livelihoods.

Keywords: Cocoa, Living Income Differential, Sharecroppers, Price Transmission