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# APRA Policy Brief

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## Achieving inclusive oil palm commercialisation in Ghana

### Summary

- This brief addresses why different groups of smallholders (women, men, youth) benefit unequally from oil palm value chains, and how returns to oil palm production and marketing could become more inclusive.
- Smallholders are responsive to market incentives with commercialisation rates 80 per cent higher than what is typical across Ghana and other sub-Saharan African countries.
- Women's access to land for commercial agriculture is decreasing, due to increasing monetisation of land brought about by the increasing presence of wealthier migrant male farmers, particularly where land is held by traditional authorities.
- The key constraints to smallholder inclusive oil palm production and marketing are structural, but current policy interventions do not address these sufficiently.
- Collective action through demand driven and gender inclusive farmers associations could be a tool for overcoming some of the constraints to inclusive smallholder commercialisation.
- A current policy initiative to provide soft loans, tied to equipment acquisition, should target women in oil palm processing.
- The institutionalisation of policies and initiatives in the oil palm sector is necessary for policy and implementation continuity beyond the tenure of any specific government.

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### What are the issues?

Oil palm is the most important export crop in Ghana, aside from cocoa. Compared with cocoa, however, oil palm has a more extensive local value chain, including greater opportunity for local industrial and artisanal processing into palm oil and other products, which creates a high potential for employment generation and poverty reduction; as a result oil palm is classified as a priority crop (National Development Planning Commission, 2014). The selection of oil palm as a priority crop aims to promote agricultural commercialisation through domestic agroindustry development and exports. In spite of this, the oil palm economy has still not achieved its potential, and this begs the question, why?

Although it is known in general that commercialisation potential and its benefits are not equally distributed across groups, it is not clear how and why different subgroups (women, men, youth) might benefit differently from the oil palm economy. Additionally, the risks associated with smallholder market participation (such as the fragmented nature of farms and weak market power to demand better prices, which often leave smallholders with little choice but to accept the price they are offered), all limit the poverty reduction potential and inclusivity of the sector.

Although oil palm commercialisation (OPC) models, such as plantations, contract farming and cooperative arrangements, exist and have been viewed as a way of addressing some of these challenges, it is not clear which pathway is more inclusive. Also, how smallholders' own actions, policies and politics play out in enhancing or limiting the potential of the sector is not well understood. All these led us to ask the following questions: How inclusive is the smallholder oil palm economy, and why? Who benefits from which OPC arrangement, and why? This brief addresses these issues and reflects on implications for policy and practice.

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## How were the research issues addressed?

Survey and qualitative data were collected from 20 communities in the Ahanta West and Mphor districts of south-western Ghana. These districts offer an excellent context for addressing the research issues because of the high concentration of oil palm production involving smallholder farmers and the presence of two of Ghana's 'big four' oil palm companies.<sup>2</sup> The survey involved interviewing 725 farm households in 2017 and 2019. Household and community qualitative studies took place in a sub-sample of five communities and involved interviews and focus group discussions with key actors in the oil palm economy, including hired labourers, aggregators, processors, chiefs, and members of the local government. Expert interviews were also conducted with district agricultural officers and representatives of oil palm companies (BOPP, NGL, and B-BOVID). Finally, we also carried out an oil palm value chain analysis, identifying the political economy factors that shape the performance of the sector, drawing on a combination of in-depth interviews conducted in March 2020 with a variety of value chain actors and a review of the secondary literature.

## What are the findings?

Aside from oil palm, most farmers grow other cash crops (mainly cocoa, coconut and rubber); the main food crops produced were cassava and plantain. The average cultivated area was 3.4ha (36 per cent of households cultivated less than 2ha); and 57 per cent of farmland was devoted to oil palm production.

**Farmers are highly responsive to market incentives, have much higher than average commercialisation rates, but experience seasonal food insecurity.** Although most smallholders are considered to be risk-averse and often produce at least some of their own food to self-insure themselves against food market inefficiencies,<sup>3</sup> the farmers in our study devote larger shares of their land to producing non-food crops exclusively for the market

compared to farmers on average in Ghana and sub-Saharan Africa as a whole (Oguto and Qaim, 2019). About 72 per cent of land was devoted to producing crops not consumed directly at home. On average, 80 per cent of all farm output was sold – much higher than commonly observed across sub-Saharan Africa. In fact, 46 per cent of farm households did not produce any food crops at all. Farmers were also willing to shift quickly between different non-food cash crops, as shown by farmers swiftly *stepping out* from oil palm and in to rubber, citing higher and stable prices, and ease of marketing for their decisions (Torvikey and Dzanku, 2019). All these notwithstanding, more than two in every five households (41 per cent) experienced seasonal food shortages.

**Weak and declining access to land for commercial agriculture among resource poor farmers, particularly women.** Women's and youth's oil palm production capacities are generally lower than men's, as was expected. However, this inequality of opportunity is deeper in communities where land is mainly vested in the 'stool' (chiefs or traditional authority) than where it is vested in family heads (family land). The latter arrangement guarantees women's access to farmland through their mother's lineage (*matrikin*). Under the authority of the stool, access to farmland by women and youth depends mainly on the benevolence of male heads of households. Also, increasing cash-based land transactions due to the inflow of 'wealthy farmers' has led to dispossession and repossession of land belonging to those with less secure tenure (mainly women and youth), further deepening gender- and generation-based inequalities in farmland for commercial agriculture.

**Constraints to smallholder inclusive oil palm production and marketing are structural but interventions do not address these sufficiently.** First, smallholder inclusive oil palm production is hindered by the nature of, and changing, land tenure arrangements, inadequate access to credit and technical know-how. Second, returns to production are determined by the nature of different marketing arrangements. We identified four marketing

2 Norpalm Ghana Ltd (NGL) and Benso Oil Palm Plantation Ltd (BOPP).

3 Where "food prices do not accurately reflect their true value mainly because of high temporal and/or spatial transaction costs" (Dzanku, Tsikata and Ankrah, 2021).



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arrangements: (1) selling fresh fruit bunches (FFBs) directly to oil palm companies; (2) selling indirectly to oil palm companies through agents (intermediaries); (3) selling on the local open market; and (4) processing FFBs into palm oil and other products (Figure 1). Selling directly to companies and own-processing of FFBs have the best welfare outcomes, but are constrained by structural factors. First, access to paved roads, which reduces the cost of access to companies, is lacking in most communities. Second, although farmers expressed the desire to be able to process their own oil palm to take more control over prices they are offered during the harvest season, processing mills are missing from most communities.

**High levels of suspicion, and a lack of trust and cooperation lead to further inequality of opportunities.** Formal contractual arrangements, that link farmers to global value chains (Wang, Wang and Delgado, 2014; Bellemare and Bloem, 2018), have disappeared even with the presence of multinational oil palm companies. This is as a result of dissatisfaction with contractual arrangements and a general breakdown of trust between companies, agents, and farmers. Although about 60 per cent of producers still sell some FFBs to companies, either directly or through agents, there are no formal contracts and the relationship between farmers and agents is often characterised as one of suspicion. Farmers feel cheated by agents which reduces their incentive to invest in oil palm. Most farmers recognise that collective action through farmer-based associations could be an alternative arrangement to the farmer-agent relationship, but there is also mistrust among farmers themselves due to historical poor internal governance practices. The absence of strong associations deprives poor farmers of an organisational vehicle to collectively negotiate prices. Wealthier farmers, however, independently pool resources with similarly endowed farmers to share the cost of direct transactions with oil palm companies or invest in processing technologies.

**Gains in the oil palm sector have been short-lived, due partly to the absence of 'policy institutionalisation'.** Achieving an inclusive oil palm economy calls for investments that may not yield short-term returns, yet the logic of electoral competition has increased politicians' preferences for policies that yield electoral payoffs every four years. Thus, policymakers are reluctant to make tough but necessary decisions regarding the sector, or to stick to such decisions once they are made. Thus, policies designed to promote growth in the oil palm industry have failed to address longstanding structural barriers to inclusive commercialisation.

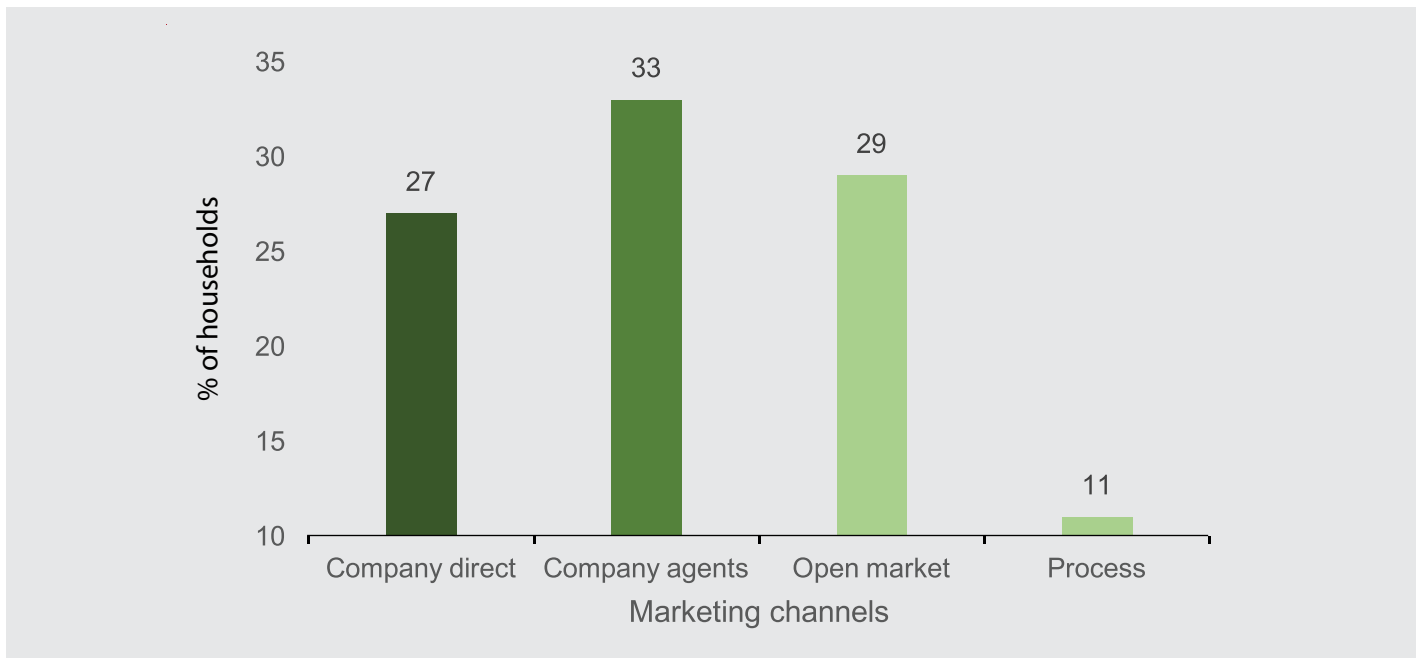


Figure 1: Distribution of households by their OPC channel



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## What are the implications for policy and practice?

The findings from our analyses provide at four main implications for policy and practice:

1. The notion that increased smallholder commercialisation will necessarily cure the poverty (food insecurity) problem is not always correct, and needs to be contextualised. Indeed, evidence elsewhere from Ghana shows this too (Dzanku, Tsikata and Ankrah, 2021). The solution is not to discourage high levels of commercialisation, but to tackle the structural bottlenecks of seasonally-dependant staple food supply chains. In the meantime, however, extension messages by the Ministry of Food and Agriculture and other agencies (both government and non-government) could include alternative livelihood training such as investing seasonal farm income into non-farm work, which could help smoothen consumption.
2. Establish gender inclusive oil palm processing mills using locally made modern equipment, particularly in communities that are further away from oil palm company processing facilities. First, this could reduce seasonal fluctuations in FFB prices that reduce sale profits. Second, women dominate palm oil FFB processing and since they are increasingly being squeezed out of FFB production, the availability of community-based mills could increase women and girls' participation and profits from the oil palm. Since the GRATIS Foundation – an agency under the Ministry of Trade and Industry tasked with promoting small-scale industrialisation – manufactures FFB processing equipment, this could be incorporated into the government's One District, One Factory (1D1F) initiative, which is also hosted by Ministry of Trade and Industry. This is important because, among others reasons, 1D1F aims to "ensure even and spatial spread of industries that would stimulate economic activity in different parts of the country".<sup>4</sup>
3. Facilitate gender inclusive farmer associations. In theory, farmer associations could be a solution to some of the issues that limit inclusive OPC. For instance, such groups will be necessary to access funds through the YouStart initiative and other credit institutions that offer such facilities (Government of Ghana, 2021). They could also pool resources to engage directly with oil palm companies. However, associations started by groups of farmers themselves often work better than ones created externally (Salifu and Funk, 2010). Given the existing levels of mistrust among farmers, further research is needed to examine how the problem of mistrust could be overcome to achieve success in organising farmers for collective action. But given that women and men face varying commercialisation constraints, it is also important to deliberately encourage farmers associations to be gender inclusive.
4. The 'institutionalisation' of policy is needed for continuity and success beyond the four-year electoral cycle. The championing of government initiatives by a president or members of government limits the likelihood of success during and after the tenure of the 'champion'. Establishing initiatives within statutorily mandated institutions that are run mainly by technocrats, and governed by statutes such as the Ghana Cocoa Board which was established by ordinance in 1947, could lead to better success.

4 1D1F initiative: <https://1d1f.gov.gh/about-us/>

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