ICO/CFC STUDY OF
MARKETING AND TRADING POLICIES AND SYSTEMS IN SELECTED COFFEE PRODUCING COUNTRIES

COUNTRY PROFILE

TOGO

COMMON FUND FOR COMMODITIES INTERNATIONAL COFFEE ORGANIZATION THE WORLD BANK

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BACKGROUND

Before the creation of the *Office des Produits Agricoles du Togo* (OPAT), coffee trading in Togo was dominated by a handful of large foreign exporters who purchased coffee directly from the farmer and exported it. In 1964, OPAT was established and became solely responsible for the external marketing of coffee and cocoa. Internal coffee (and cocoa) marketing remained in the hands of the private sector, thus the former exporters became buyers (*acheteurs agréés*) for OPAT. Grower prices and all marketing margins were fixed annually by OPAT (known as the *barème*).

In the early 1990s, with low international prices and the inefficiencies of its operations, OPAT became increasingly indebted. Pressure under the structural adjustment programme to liberalise the sector led to some restructuring of the extension services and OPAT in the early 1990s but coffee and cocoa marketing were not liberalised until 1996.

From the beginning of the liberalisation process, representatives from all areas of the industry were involved and a Coordination Committee (CC) was established to oversee the reforms. Following liberalisation, the CC became the regulatory authority for the industry.

THE REFORMS

Unlike liberalisation in some other producing countries, the liberalisation process has been relatively smooth, which is in part due to the operations of the CC. Liberalisation has allowed for the entry of new buyers and exporters into the system, although four companies have accounted for between 50% and 80% of all coffee exports since liberalisation.

In the early 1980s, the proportion of the export unit value received by growers was under 30%. By the early 1990s, this had increased to between 50% and 60% as a result of the conditionality applied to various structural adjustment programmes and this rose further to 80% of the export unit value in the years immediately prior to liberalisation due to high international prices. Liberalisation in 1996 led to a further reduction in absolute marketing margins, although with a fall in international prices, Togo's export unit value fell by more than 20% and grower prices fell in absolute terms. Since liberalisation, over 75% of the export unit value has been received by growers.

Prior to liberalisation, average marketing costs (including implicit taxation) accounted for almost 40% of the f.o.b. value. In 1998/99, marketing costs have been reduced to approximately 25% of the f.o.b. value with growers receiving around 75% of the f.o.b. value compared to 63% in the early 1990s.

Indicative grower prices (set at 70% of the f.o.b. price) and international prices are broadcast on the radio (and published in newspapers) twice a month by the *Unité d'Analyse des Prix Agricoles* (a government body). However, the process of releasing the indicative prices is lengthy. Often the growers do not receive the prices until two months after they are calculated. Poor communication systems also delay their delivery.

Increased competition immediately following liberalisation led to pressure on farmers to market their production quickly, which led to the marketing of coffee with a high moisture content. This problem was immediately addressed, by the larger exporters at least, who requested that the government quality control body *Direction du Service du Conditionnement des Produits et des Instruments de Mesure* (SCOT) perform quality checks up-country (before bags were sealed). This has reduced many of the quality problems, although there are still cases of exporters receiving 'warnings' from the SCOT and receiving penalties from overseas buyers for poor quality.

The change in the marketing system has also changed the financing of the crop. Before liberalisation, the *acheteurs agréés* raised finance from short-term commercial bank loans or obtained credit from OPAT, the *acheteurs agréés* then financed the smaller collectors who pre-financed farmers, although interest rates charged by OPAT were high. Under the liberalised system, most of the larger exporters have easy access to international finance as they have foreign shareholders. Finance can also be raised locally although interest rates are higher. For the smaller locally owned exporters, raising crop finance is difficult as they are not able to provide collateral to secure loans. Growers still obtain crop financing from the large exporters.

Supporting Services

Prior to liberalisation, research and extension services were provided by the state run enterprise *Structure Nationale d'Appui a la Filière Café et Cacao* (SAFICC), which was also involved in assisting cooperatives in the marketing of coffee. Liberalisation brought an end to state control over the sector and consequently to SAFICC. Its role, to a certain extent, has been picked up by a private enterprise, the *Association de Conseils et d'Appuis pour le Développement Rural* (ACDR). The ACDR was established in 1996 with the assistance of the CC. Formed by ex-SAFICC staff and other members of the industry, the ACDR has the potential to provide a good level of service, however funding is a problem. The ACDR is currently funded from the CC 'support fund', government funds, NGO funds and finance from some of the large exporters. It is hoped that the ACDR will raise revenue from the charges levied for its services.

Prior to liberalisation, inputs were subsidised by the state and supplied on credit by SAFICC and some *acheteurs agréés*. Input provision is now in the hands of the private sector and prices have risen. The price of seedlings is partially subsidised by the ACDR (via CC money), however costs are still high and demand is moderate. This lack of demand could be attributed either to the lack of credit, poor extension services or simply to the higher returns which might be reaped from competing crops.

SRCC (subsequently SAFICC) and OPAT were involved in the maintenance of feeder roads in the 1980s and early 1990s, however, with shrinking budgets this became a low priority and since liberalisation there has been little maintenance carried out. Some Stabex funds are now to be used for road network improvements.

Togo

INTRODUCTION

Togo is a small producer of good quality robusta coffee. Prior to liberalisation in 1996 the coffee sector's marketing system was similar to that of a *caisse de stabilisation,* although the parastatal was solely responsible for the export of coffee.

Liberalisation of the coffee and cocoa sector in Togo is often cited as a good example of a successful transition to a liberalised system. The process began with thorough and lengthy negotiations involving all stakeholders in the industry culminating in the establishment of a 'Coordination Committee' to oversee liberalisation and to regulate the industry.

This profile details the evolution of the coffee sector in Togo from the time it was nationalised through to its liberalisation in 1996. It begins with an overview of the Togolese coffee sector and places it within the context of the macroeconomic environment of the country. The profile details the supporting services that are provided to the farmer and how the provision of these services has changed with liberalisation. The marketing system, both before and after liberalisation, is then described and the effects of the changes to the marketing system on pricing policy, regulation, crop finance, risk management, taxation and institutions are discussed. Finally, the reforms are evaluated by examining changes to grower prices, quality and production. As eluded to in the profile, changes in production should not be viewed solely in the context of the changing marketing system but should be seen in the wider context of international price movements and the country's macroeconomic situation.

OVERVIEW

Trends in Coffee Production and Exports

Production

Togo is a small robusta producer. Annual coffee production in Togo averaged 254,000 bags in the 1980s, but by the mid-1990s had fallen to around 180,000 bags. The decline in production has been primarily due to a lack of investment in the sector as farmers have switched production to alternative crops with higher income-earning potential; this has led to an ageing tree profile (Table 1 and Diagram 1).

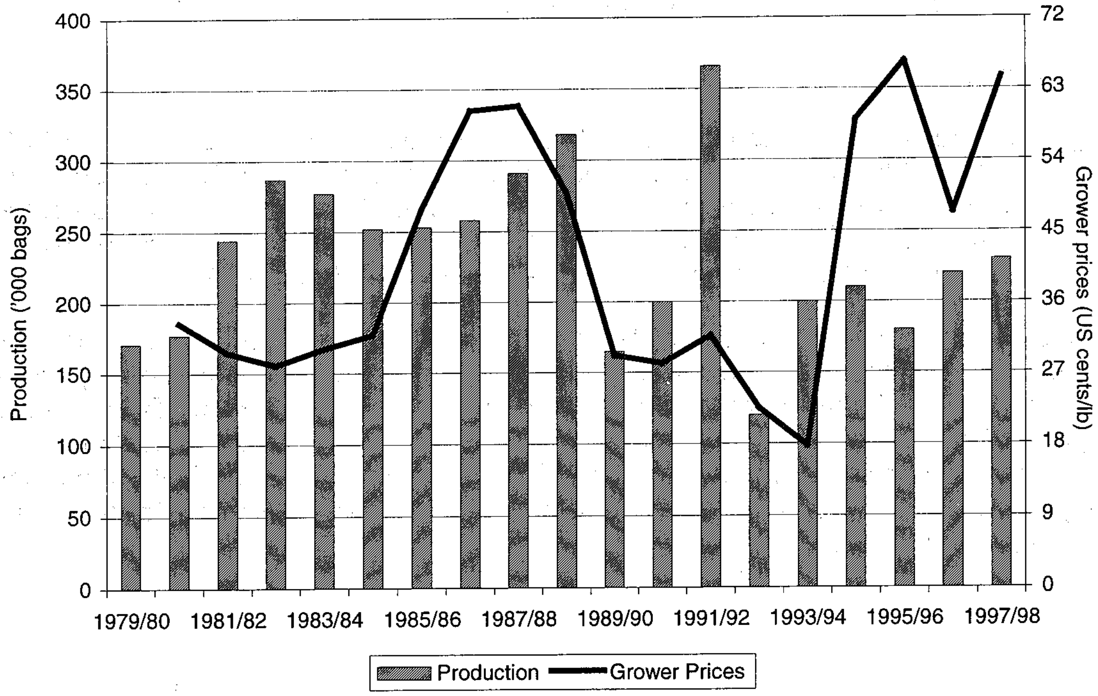
Coffee production in Togo is dominated by smallholders who produce both coffee and cocoa. Coffee (and cocoa) are grown in the south-western part of the country, along the border with Ghana. Production is concentrated in the Agou, Kloto, Danyi, Amou-Akposo Plateau and Wawa regions. Farmers typically farm around 2 hectares, with 70% devoted to tree crops and the remainder to food crops. Individual coffee plots range in size from 0.3 hectares to 2 hectares. There are estimated to be around 40,000 coffee farmers.

Table 1: Togo — Coffee Production, Trade ('000 bags) **and Prices** (US c/lb)

	Production ('000 bags)	Exports ('000 bags)	Grower Prices (c/lb)	Export Unit Values (c/lb)
1960s (average)	190			
1970s (average)	156			
1979/80	171	131		
1980/81	177	209	33	97
1981/82	244	256	30	89
1982/83	287	290	28	85
1983/84	277	292	30	110
1984/85	252	244	32	116
1985/86	253	233	48	132
1986/87	258	217	60	114
1987/88	291	281	61	91
1988/89	318	287	50	84
1989/90	165	233	29	59
1990/91	200	181	28	46
1991/92	366	316	32	43
1992/93	120	214	22	37
1993/94	200	194	18	40
1994/95	210	199	59	76
1995/96	180	84	66	81
1996/97	220	290	47	63
1997/98	230	178	65	74

Source: USDA, ICO and LMC.

Diagram 1: Togo — Coffee Production and Grower Prices, 1979/80-1997/98

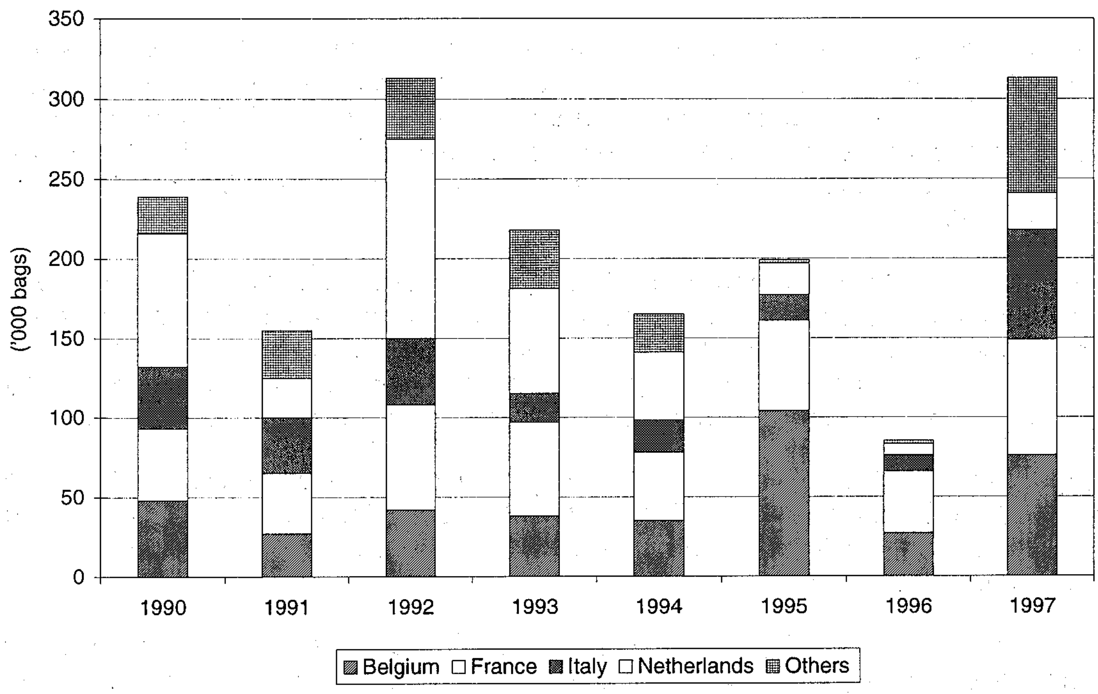


Exports

Annual exports averaged 215,000 bags in the first half of the 1990s, down from an average of 252,000 bags in the 1980s. In 1995/96, exports fell to 84,000 bags but higher prices after liberalisation led to the increase in exports to 290,000 bags in 1996/97.

The majority of exports are to the European Union, with Belgium, France, the Netherlands and Italy dominating. Exports to Belgium increased threefold between 1994 and 1995, whereas exports to the Netherlands have been in decline since 1992. In 1997 exports to Italy increased from 10,000 to 69,000 bags. Exports to France and Germany also increased with Poland the major new customer (Diagram 2).

Diagram 2: Togo — Coffee Exports, 1990-1995



Coffee in the Economy

Togo is predominantly an exporter of phosphates and cotton. In 1996, coffee was the third largest export earner, valued at US$ 9 million (f.o.b.), followed closely by cocoa. This compares with cotton earnings of US$ 86 million.

Coffee exports accounted for 7% of total exports in 1986 but this fell to 3% of total exports by 1995.

GOVERNMENT POLICY

Macroeconomic Policy

Between 1983 and 1989, after a decade of high growth but heavy external borrowing to finance public investment programmes, Togo implemented a series of wide ranging stabilisation and adjustment programmes which achieved substantial liberalisation of the economy. Togo achieved the reputation of being one of the best economic performers in West Africa. Following three years of recession in the early 1980s, GDP growth averaged over 3% per annum until 1989 (with real cash crop growth averaging 11% per annum). However, the successful programmes were disrupted by a political crisis starting in 1991. The crisis was triggered by pressure to establish a multi-party system of government and continued until mid 1993 (including a general strike from November 1992 to July 1993). During this period aid donors suspended foreign aid disbursements and in 1993, real GDP fell by 20% (Table 2).

Since mid 1993, a new government has been formed and political and economic stability is returning. In January 1994, the CFA franc was devalued by 50% and the government resumed a programme of structural reform. Real GDP grew by 14% in 1994, was relatively static in 1995 but recovered again to 7% in 1996, led primarily by strong export performance. With the devaluation, inflation rose to 35% in 1994 but fell to 5% in 1996.

In September 1997, the World Bank agreed a $75 million loan with Togo in order to help rehabilitate the infrastructure and improve farming. In March 1998, the Bank also approved a $30 million credit to finance Togo's 'public enterprise restructuring and privatisation' programme. The programme is expected to reduce subsidies and increase annual tax revenues (in addition to the initial privatisation sale proceeds).

Also, in October 1997, the IMF approved Togo's third annual loan under the Enhanced Structural Adjustment Facility (ESAF). The US$30 million loan is to support the government's economic programme which is heavily dependent on privatisation and direct foreign investment.

The government is seeking "to promote a broad-based, private sector led recovery leading to a sustained, poverty reducing growth path". In order to achieve this goal the government aims to use the following strategies: restoring macroeconomic stability; encouraging growth and diversification of agricultural production; developing a competitive, export-orientated manufacturing sector; rehabilitating infrastructure; and improving health and education facilities. The tools which have been, and are being, used to restore macroeconomic stability include:

- improving public finances by widening the tax base and containing expenditure;
- liquidating and privatising some public enterprises; i.e., eliminating loss making enterprises and maintaining viable enterprises; and
- assisting private sector development — improving the regulatory framework and increasing the scope for private sector involvement by privatisation and the abolition of state monopolies.

Table 2: Togo — Macroeconomic Conditions, 1990-1997

	1990	1991	1992	1993	1994	1995	1996	1997
Exchange Rate, CFA Francs per US$	272	282	265	283	555	499	512	584
Real GDP Growth	0.1%	-7.3%	5.5%	-20.6%	13.8%	4.0%	7.0%	*4.8%*
GDP (1995 prices) Billions CFA Francs	709.8	657.7	694.0	551.3	627.3	652.5	703.6	*723.2*
GDP (1995 prices) Billions US$	1.95	1.71	1.87	1.39	1.06	1.31	1.52	*1.55*
Per Capita GDP (US$ per head)	553	471	498	360	269	316	357	*355*
Interest Rate (lending rate) % per annum	16%	16%	18%					
Annual Inflation (CPI)	1.0%	0.4%	1.4%	0.0%	35.3%	15.7%	4.9%	*7.2%*
Population (millions)	3.53	3.64	3.76	3.88	3.93	4.14	4.25	4.37

Source: IMF Financial Statistics, LMC.

The political situation and macro-economy remained fragile after the 1993 crisis. However, the devaluation of the CFA franc in 1994 improved the competitiveness of the export sector and the economy began to show signs of economic recovery. In 1996, with GDP growth of 7%, the balance of payments moved into surplus (to $23.3 million) and inflation fell. There was also an increase in production of all the main commodities.

Agriculture/Coffee Production Policy

Around 60% of the population are dependent upon the agriculture sector for their livelihoods. The main cash crops are cotton, coffee and cocoa. Over the last two decades, cotton has replaced coffee and cocoa as the dominant export crop. The agriculture sector accounted for 35% of GDP in 1995.

To complement measures being taken in the macro-economy since 1993, reforms within the agriculture sector have aimed at reducing marketing costs by liberalising internal and external marketing and producer pricing. In addition, the government is seeking to decentralise the provision of extension services and research, help promote farmers' associations and increase access to rural credit.

The lead government agency in the agriculture sector is the *Ministère de l'Agriculture, de l'Elevage et de la Pêche* (MAEP). The Ministry is represented in the regions by the *Directions Régionales de Développement Rural* (DRDR). The MAEP has some 15 technical departments.

Provision and Financing of Services (i.e., Extension/Research)

Prior to 1992, the main provider of services to the coffee and cocoa sector was the *Société Nationale pour la Rénovation et le Développement de la Cacaoyère et de la Caféière Togolaise* (SRCC) a state owned enterprise under the Ministry of Rural Development (MRD). It was established in 1971 and co-financed by IBRD and the government under a series of integrated rural development projects in the coffee and cocoa producing areas. SRCC not only provided extension advice to coffee farmers but was involved in the distribution of inputs, the provision of credit, developing grower cooperatives and the provision of feeder roads.

In 1992, SRCC was superseded by the *Structure Nationale d'Appui a la Filière Café et Cacao* (SAFICC) with assistance from *Caisse Française de Développement*. SAFICC had a much reduced budget and two main objectives, firstly, to encourage more intensive production and secondly, to assist producers in processing and marketing. Its functions included: providing technical assistance, providing planting material and other inputs, carrying out phytosanitary treatments and assisting marketing groups. SAFICC invested in a number of programmes to boost coffee and cocoa production including: surveying and renovating plantations, phytosanitary protection, promoting smallholder organisations, and improving planting materials and planting activity. SAFICC also played an important role in the establishment of cooperatives. A reduction in funds in 1994 and 1995 meant that no feeder roads were maintained or rehabilitated by SAFICC in those years.

With liberalisation of coffee and cocoa marketing in 1996, SAFICC was dissolved and many of its functions were transferred to the *Association de Conseils et d'Appuis pour le Développement Rural* (ACDR). ACDR is a private company that was established by the staff of SAFICC with the assistance of the new regulatory body which was created in 1996, the Coordination Committee (CC). ACDR's functions include the provision of inputs, the production of planting material, encouraging the establishment of new plantations and providing assistance in establishing farmers' organisations. ACDR has a Technical Co-operation Agreement with the government and is partially funded by the CC via a levy on exports. Extension advice is supplied to farmers free of charge, but charges are being made for engineering services. The ACDR is still in its infancy and is struggling to provide extension services to farmers. It is currently in the process of applying for foreign aid funding.

Coffee research was, prior to liberalisation, conducted by the state-run *Institut de Recherches sur le Café et Cacao* (IRCC) with a research station based close to Kpalimé. Prior to 1992 it was partially funded from the IBRD coffee and cocoa development projects. The coffee research programme comprised of developing improved planting material, the provision of seedlings and clonal cuttings, improving post-harvest handling and pest control. However, budget cuts since 1992 led to a virtual suspension of its activities. This station has now been taken over by the ACDR but, due to the low budget, little research is being carried out.

Distribution of Inputs

Prior to liberalisation, inputs were provided to the cooperatives on credit by SRCC (and subsequently SAFICC) at subsidised rates. In 1990, SRCC distributed FCFA 231 million worth of insecticide in the coffee and cocoa areas with farmers only paying 3% of the cost price. Spraying of insecticide used to be carried out at little cost by SAFICC. However in the 1990s, input subsidies were phased out. By 1994/95, with higher input prices and lower producer prices, fertiliser use for coffee and cocoa production was virtually non-existent.

Input provision is now in the hands of the private sector. Some inputs are provided by exporters at the beginning of the season under a 'trust agreement' with farmers who pay for the inputs through sales of their crop to the exporter once harvested. Although this input provision is largely based on trust, there have been few cases of farmers reneging on the agreements.

Since 1997, planting material has been supplied by ACDR at a slightly subsidised rate to the farmer. The ACDR is the sole supplier of planting material to farmers from its ex-IRCC site at Kpalimé and from three other district nurseries. Clonal cuttings are sold at a cost of FCFA 25 for a three month cutting, and FCFA 100 for a nine month old plant. In 1997, ACDR supplied 500,000 three month seedlings and 100,000 nine month plants. These prices are relatively high and it appears that even though ACDR are not operating the nurseries at full capacity, demand is being met.

Credit

Prior to liberalisation, credit requirements by farmers were limited as inputs were subsidised. Credit to farmers was available from cooperatives and the local intermediaries (*acheteurs de produits*) who made cash advances to farmers in order to secure purchases of the crop. In addition, some development funds were available from the Development Bank — *Caisse Nationale de Crédit Agricole* (CNCA).

The CNCA collapsed in 1989 largely due to its inability to ensure loan repayment. The non-repayment rate rose from 38% in 1983 to 52% in 1986, in part due to lending to individuals without monitoring their ability to service loans. Group loans were also similarly unsuccessful. Following liberalisation in 1996, the large exporters continued to make cash advances to farmers at the beginning of the season and provide some inputs.

MARKETING SYSTEMS

Marketing Channels

Pre-Liberalisation

Prior to the establishment of the government body, the *Office des Produits Agricoles du Togo* (OPAT) in 1964, the coffee and cocoa market in Togo was fully liberalised. Trading was dominated by a handful of large foreign exporters who purchased coffee directly from the farmer and had full control throughout the marketing chain. With the new state controlled structure, external marketing was monopolised by the OPAT. All internal coffee (and cocoa) marketing was in the hands of the private sector, thus the former exporters became buyers (or *acheteurs agréés*) for OPAT (Diagram 3). Internal marketing margins and the grower price were set by the government in a *barème*. Four of the 'pre-OPAT' exporters merged to become the largest *acheteur agréé* — STCP. Between 1980 to 1987, STCP handled around between 80% of the crop although this fell to around 50% in the late 1980s as new *acheteurs agréés* were registered.

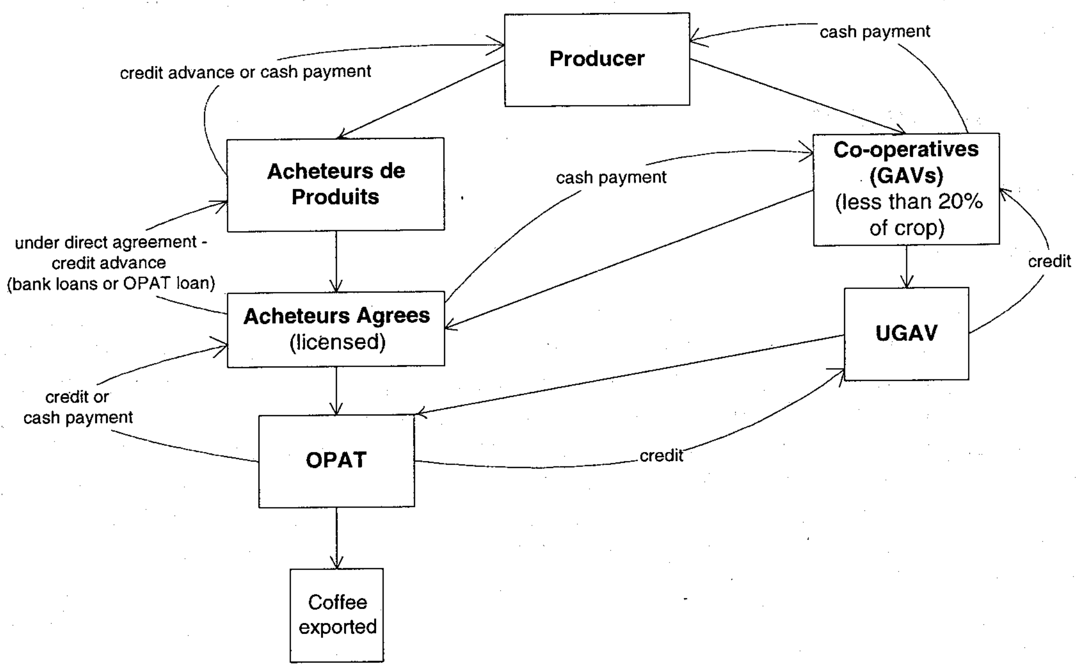
Farmers sun-dried red cherry on mats, hulled and sorted it before selling it to cooperatives — *Groupements à Village* (GAVs) — or *acheteurs de produits* (local agents who then sold the coffee on to the *acheteurs agréés*). The *acheteurs agréés* were effectively wholesalers who had exclusive supply agreements with individual *acheteurs de produits*. Small-scale hulling equipment was owned by private village operators and the GAVs. In 1995, 250 hulleries were in operation, of which 44 were operated by the GAVs (having been financed by the CNCA). Payment by farmers for this service was either in cash or coffee. The *acheteurs de produits* bought the hulled and sorted coffee either directly from the farmer or at one of the 400 market places situated in the coffee growing areas. The *acheteurs de produits* stored coffee in the villages before selling to an *acheteur agréé*. After a legally required quality check was performed by the state body *Direction du Service du Conditionnement des Produits et* *des Instruments de Mesure* (SCOT), the *acheteurs agréés* transported the coffee from the village store to a regional warehouse before transporting it to OPAT, in Lomé.

From the late 1980s, the GAVs (who in 1995 were renamed as *Groupements de Producteurs de Café et de Cacao* (GPCC)), were encouraged to become involved primarily in marketing. Where coffee was handled by the GAVs, it was transported to Lomé by regional cooperative unions (UGAVs), otherwise it was sold to the *acheteurs agréés*. All of the UGAVs received management support from SAFICC.

In 1992, there were 30 licensed *acheteurs agréés*, although the STCP handled over 50% of the total coffee and cocoa crop. Two others handled around 20%-30% of the crop while the others handled only small volumes. The GAVs handled less than 20% of total primary coffee and cocoa production.

Two internal coffee marketing "campaigns" were run during the year, the first, for sorted coffee, ran from November to September and a second for the rejected triage (i.e., broken and black beans) ran from September to November. A different grower price was set for each campaign in the *barème*.

Diagram 3: Pre-Liberalisation Marketing Chain



Post-Liberalisation

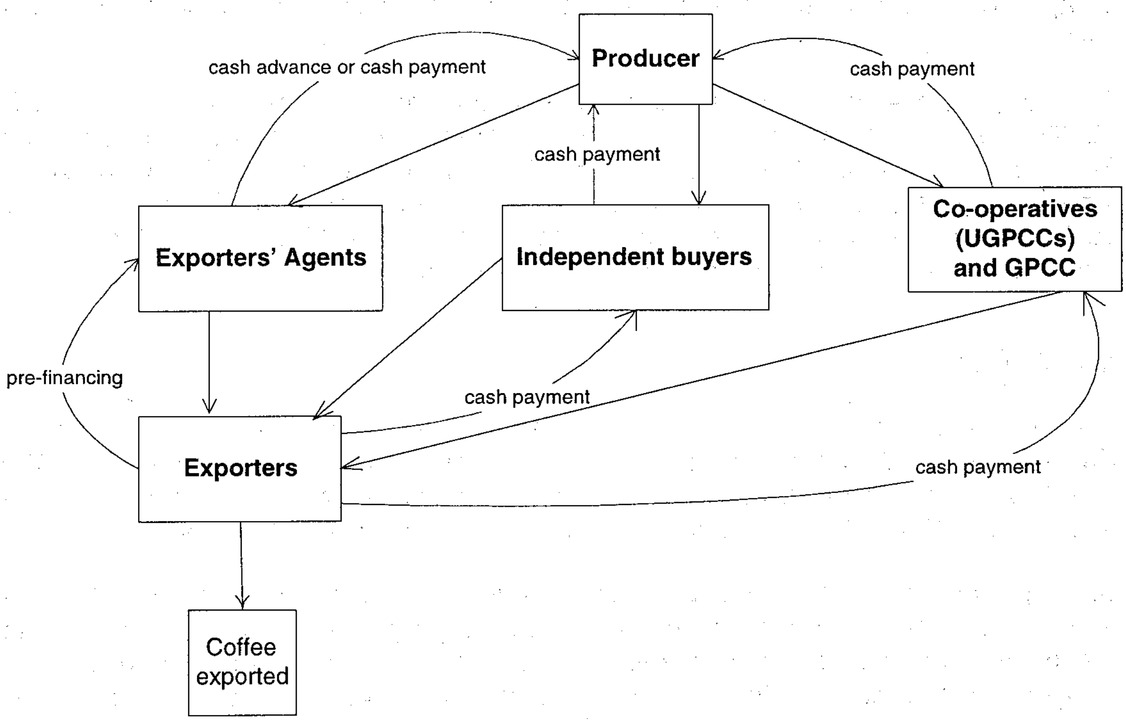
In March 1996, as part of the conditionality of the World Bank structural adjustment programme, the export monopoly of the OPAT was abolished and both the coffee and cocoa markets were liberalised. After a period of negotiation with all coffee and cocoa sector stakeholders, in June 1996, a *Comité de Coordination pour les Filières du Café et du Cacao* (CC) was established to oversee the liberalisation process and to regulate the industry. In October 1996, 11 private companies were registered as coffee and cocoa exporters. Many of the *acheteurs agréés* became exporters, although some only buy internally and supply their products to exporters. With liberalisation, exporters are free to purchase coffee directly from farmers (via agents) or from independent buyers or cooperatives and to export freely. Cooperatives handle around 15% of the crop at primary level, but do not export (Diagram 4).

Exporters continue to purchase hulled and sorted coffee, although often the exporters operate their own hulling machines at the village level and simply deduct the cost from the price paid to the farmer for the final amount. There are still privately owned hulleries however, and generally the farmer pays for the service in coffee.

There are four main exporters — STCP, Yentoumi, Olam and Banamba — who accounted for 80% of exports in 1996/97. All these companies have extensive experience in commodity trading and are also active exporters of other commodities including cocoa and cotton. Olam is the only wholly foreign owned company of the group and entered the market at liberalisation. Before liberalisation, Banamba, STCP and Yentoumi were all major suppliers of coffee and cocoa to OPAT. For some of the larger companies, coffee is not viewed as a major revenue earner.

Unlike in many other countries there has not been a large increase in the number of exporters following liberalisation. Although competition at the farmgate has certainly increased, the CC appears to have carefully controlled the registration of new exporters.

Diagram 4: Post-Liberalisation Marketing Chain



Pricing Policy

Prior to liberalisation, the grower price and marketing margins were set annually in a *barème* which was set by the government on the advice of the OPAT. An additional margin, outside of the *barème,* was available to traders operating in areas of difficult access to ensure pan-territorial pricing. OPAT sold the crop forward and the grower price was in effect the residual after marketing costs had been accounted for. OPAT's margin also varied according to changes in international prices. Prior to 1991/92, two producer prices were set, one for sorted coffee and one for unsorted coffee including black and broken beans, known as *triage*. No other quality differentials were paid.

With liberalisation, prices became determined by the market and exporters now use the London terminal market for price reference. Prices fluctuate with changes in international prices. The change in the marketing structure and implications of liberalisation to growers were widely promoted via the media. This is an important consideration to be made in the liberalisation process and one which has often been excluded elsewhere.

Indicative grower prices (set at 70% of the f.o.b. price) and international prices are broadcast on the radio, disseminated by the media and published twice a month by the government department *Unité d'Analyse des Prix Agricoles*. However, the process of releasing a figure is known to be lengthy and often the prices announced are as much as 2 months late.

Taxation

Prior to liberalisation, the implicit level of taxation was included in OPAT's margin plus the difference between the export price set in the *barème* and the actual export price. During the 1980s, the level of implicit taxation declined, as the government sought to maintain grower prices as international prices declined. In the early 1990s, with the collapse of international coffee prices, the level of implicit taxation was reduced to zero.

Following liberalisation, only the CC levies an export tax on coffee. The levy was FCFA 12,000 per tonne in the 1998/99 season (approximately 1% to 2% of the f.o.b.), with FCFA 2,000 per tonne being utilised for administration costs and FCFA 10,000 per tonne for the 'support fund'. The support fund is used to finance supporting services such as extension, and is currently providing funds to the ACDR. There are also some transport taxes which amount to around FCFA 7 per kg.

Quality Control

Prior to liberalisation, OPAT required clearance documentation from *Direction du Service du Conditionnement des Produits et des Instruments de Mesure* (SCOT) (certificates of origin), *Service Phytosanitaire* (phytosanitary certificates), the port authorities, CNTC (*Comité National des Chargeurs Togolais*) and Customs.

Strict quality controls were applied throughout the marketing system by SCOT. SCOT had (and continues to have) offices in all the producing regions. Regulation stipulated that quality was checked at six points in the marketing chain. In reality there were four checks, the first was at the *acheteurs de produits* level whereby the coffee was inspected visually and a sample taken. If the coffee was of sufficient quality a *certificat de contrôle primaire* was issued. The coffee was further inspected at the *acheteurs agréés* warehouse and a *certificat de transport* issued to permit the transportation of coffee to OPAT. Quality was further checked on the coffee's arrival at the OPAT's warehouse, with a final check prior to exportation. SCOT was funded jointly by the government and the OPAT.

Following liberalisation, quality controls have been simplified. Under the new regulations only two quality checks are legally required: on arrival at Lomé (if not already sealed at the regional level) and one prior to export when a quality certificate (*Label de Qualité Togo)* is then issued. It is at the exporters' discretion when the first control takes place. Some exporters request that SCOT officers inspect the coffee at the regional level, although grading of the coffee is performed at Lomé. Following liberalisation, the funding of SCOT was reduced and the staffing levels are now half what they were 10 years ago.

SGS also provide quality certificates when required by the buyer, although they do not have any equipment in Lomé necessary to check the coffee and thus SCOT provides this service to them free of charge. Coffee for export is graded according to bean size. Sorting of the coffee into screen size is performed by a private company, SCIA, paid for by the exporter. There are three specified grades and consignments of broken beans are also exported (Table 3).

Table 3: Togo — Coffee Quality Standards

Grade I	Screen 16	25% of production
Grade II	Screen 13	60% of production
Grade III	Screen 10	15% of production

Differentials have remained between US$150-250 per tonne over the London terminal market price for Grade I since liberalisation. However, quality problems have seen some exporters served with warnings by the CC after receiving penalties from overseas buyers. In some cases it has been the inclusion of cross border coffees which have caused poorer quality exports, this has occurred when exporters have been unable to fulfil export contracts with Togolese coffee as was the case in 1997/98. The majority of exports are of Grade II (screen 13) coffee which sells at approximately US$ 50-150 over London.

Regulation

Prior to liberalisation, all *acheteurs agréés* were licensed and given exclusive rights to buy coffee and cocoa in a particular region. These rights were issued annually and determined by a Commission comprising representatives of the government, the OPAT, the banks, and the *acheteurs agréés.* The licence criteria required that the applicant be Togolese or a resident of good standing, able to raise finance and have appropriate transportation and warehousing facilities. The Commission also examined and regulated the supply contracts between the *acheteurs agréés* and the *acheteurs de produits. Acheteurs agréés* were expected to register their buying agents, while independent buyers — who had no attachment to individual exporters — were licensed by SCOT, the quality control body. The cost of the SCOT trading licence was around 3,000 FCFA (US$60).

Following liberalisation, licensing requirements have been relaxed. Exporters are registered with the CC for a fee. In 1996 there was no fee but for 1997/98 the charge was 100,000 FCFA and in 1998/99 increased to 500,000 FCFA. A number of criteria are still to be met, including: that the applicant must be a citizen or resident of good standing; must possess adequate storage facilities; and, in order to preserve Togo's international reputation, deposit a bank guarantee for 20% of the f.o.b. value of each contract as a performance bond or "*caution bancaire*". The guarantee is required to be valid for three months. The "*caution bancaire*" requirement, however, has not been strictly enforced and few exporters have actually fulfilled this criteria. Ensuring that all exporters are registered and able to meet certain minimum requirements, while preventing many small exporters from entering the market, has ensured an orderly market following liberalisation.

Crop Finance

Before liberalisation, the *acheteurs agréés* raised finance from short-term commercial bank loans or obtained credit from OPAT. The *acheteurs agréés* financed the *acheteurs de produits* who pre-financed farmers, although interest rates charged by OPAT were high. However, OPAT experienced financial difficulties due to the non-repayment of some of these loans. Some finance was available to the cooperative unions from the Togolese NGO *Fédération des Unions de Coopératives d'Epargne et de Crédit* (FUCEC) at a 15% interest rate. However, FUCEC did not effectively monitor repayment of their loans and had to seek payment of their outstanding debts from OPAT prior to liberalisation.

Under the liberalised system, most of the larger exporters have easy access to international finance as they have foreign partners. Finance can also be raised locally although interest rates are higher. For the smaller locally owned exporters, raising crop finance is difficult as they are not able to provide collateral to secure loans.

The exporters in turn finance local intermediaries and some cooperatives. Cash advances to producers are considered to be low risk and the largest exporters have experienced very little 'default' (i.e., the farmer selling to someone else). Advances are viewed as an essential instrument to securing volumes and are often as high as 20% of the value of the expected crop.

Risk Management

Prior to liberalisation, grower prices were fixed and OPAT carried all the price risk for coffee sales. This risk was reduced by OPAT selling the crop forward on an outright basis. As the price of the coffee under the agreed forward contracts was already known in advance of the marketing season, marketing margins could be deducted and the grower price became a residual. During periods of low prices, OPAT's marketing margin (and the level of implicit taxation) were reduced to maintain grower prices.

Following liberalisation, exporters have sought to manage their risk by hedging their purchases on the London terminal market or by selling back-to-back. The exporters who have connections with international trade houses such as Olam and Banamba hedge their purchases on the London terminal market. The local exporters sell on a back-to-back basis using outright contracts for immediate shipment or delivery up to three months forward. Some of the larger exporters also use 'price to be fixed' contracts. Some companies also ensure that coffee is in warehouses before entering into a contract with a buyer. Although this leaves the exporter open to market risk, it does mean that there have been few cases of exporters defaulting on contracts.

INSTITUTIONS

The *Office des Produits Agricoles du Togo* (OPAT) was created in 1964 and became the sole exporter of coffee, cocoa and cotton. (The export marketing of cotton was transferred to the cotton/ginning company SOTOCO in 1995.) The functions of the OPAT included stabilising the price received by growers (through the *barème*), controlling the internal sale and export of the commodities, improving production, developing secondary processing industries, financing research and investments in the sector and developing rural infrastructure. Coffee and cocoa combined accounted for around 30% of the OPAT's activity. The OPAT employed around 250 staff. Many of the OPAT's non-marketing activities were carried out by the SRCC.

The *Comité de Coordination pour les Filières du Café et du Cacao* (CC) was established to oversee liberalisation and is responsible for registering exporters. Its board membership consists of one member from each of the Commerce and Agriculture Ministries, one representative from SCOT, one representative from the Price Analysis Unit of the government, 3 members from producers' organisations, three members from the commercial sector (exporters), and 1 representative from the banking sector. The private sector representatives (growers and exporters) have a majority on the board and hence it can be seen as providing the beginnings of a self-regulating marketing system. The CC is financed via an export levy. The levy pays for administration costs as well as financing a 'support fund' to provide supporting services to the sector. The existence of the CC has ensured that the transition to a liberalised marketing system has been smooth.

The board of *Association de Conseils et d'Appuis pour le Développement Rural* (ACDR) has representation from producers as well as the private sector. The board comprises of four of the ACDR's senior technicians, four elected members of the UGPCC, one representative from the input distributors association (l'AFITO) and one member of the CC. Establishment (as a private enterprise) was encouraged by the CC and it is funded, although on a very low budget, by CC, exporters, producers unions and l'AFITO. The ACDR is currently applying for donor assistance to expand its extension and research programme.

The cooperatives (GPCCs — formally GAVs) were first established in the mid-1980s and around 25% of growers are members of GPCCs. These GPCCs are organised into 19 UGPCCs and moves are currently under way to establish a federation of cooperative unions. ACDR and donor assistance are being provided to increase the professionalism of the GPCCs. The *Projet d'Appui aux Organisations Professionnelles des Producteurs* (PAOP) seeks to improve the management of the GPCCs, improve their ability to finance and market their production, encourage replanting and improve the provision of inputs to farmers. The project also seeks to improve farmer literacy to aid with the understanding of extension advice.

The exporters are members of the Exporters' Council, *Conseil des Exportateurs de Café Cacao* (CFCC), which was created in 1997.

EVALUATION OF REFORMS

Grower Prices

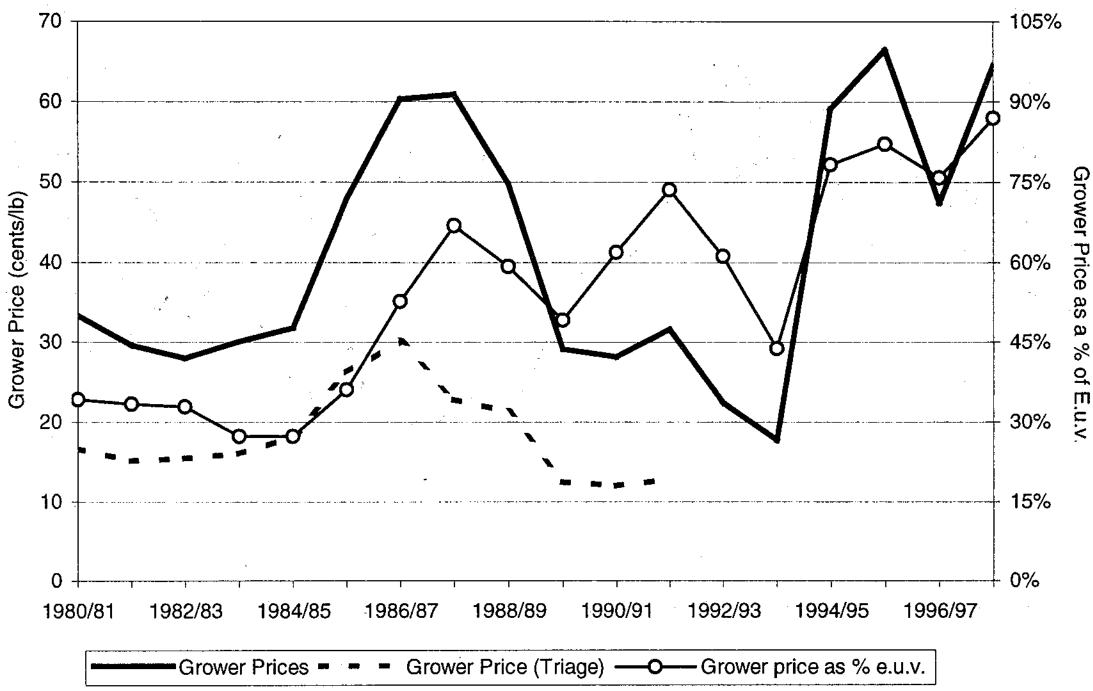
In the early 1980s, the proportion of the export unit value received by growers was under 30%. By the early 1990s, this had increased to between 50% to 60% as a result of the conditionality of the structural adjustment programmes and rose further to 80% of the export unit value in the years immediately prior to liberalisation due to high international prices. Under the structural adjustment programmes agreed since 1983, the government sought to reduce the marketing costs included in the *barème* and increase the proportion of the f.o.b. price received by growers. In absolute terms, grower prices increased from an average of 22 c/lb in 1992/93 to almost 60 c/lb in 1994/95 due to higher international prices following the Brazilian frosts.

Liberalisation in 1996 led to a further reduction in absolute marketing margins, although with a fall in international prices, Togo's export unit value fell by more than 20% and thus grower prices fell in absolute terms. In terms of the proportion of the export unit value received by growers, the level remained over 75% in 1996/97 and increased to over 85% in 1997/98 (Diagram 5).

The issuing of indicative prices increases farmers' awareness of a "fair" price given the underlying international market price. However, these prices are only released twice a month on the radio (and sometimes in the media) and by the time they are calculated they are often as much as two months late. Communication problems also increase the delivery time. Competition at the farmgate is reported to be relatively intense in some areas, although often the larger firms already have a well established reputation within certain areas and have advanced cash to farmers before the beginning of the harvest period. On the whole, farmers have seen their prices at the farmgate increase following liberalisation, although some inputs which had previously been provided to them on credit by OPAT ceased and input prices rose as input subsidies were reduced.

Prior to liberalisation, there were two "campaigns" for the purchase of coffee, the first for clean bean and the second for the black and defective beans known as the *triage*. The prices for each of the campaigns were set out in the barème. Following liberalisation, exporters continue to purchase the *triage* beans from the growers and may export them along with the remainder from pickings in Lomé. It is estimated that around 5% of exports are of these defective and broken beans.

Diagram 5: Togo — Growers' Prices (Absolute Values and as a Proportion of Export Unit Value), 1980/81-1997/98



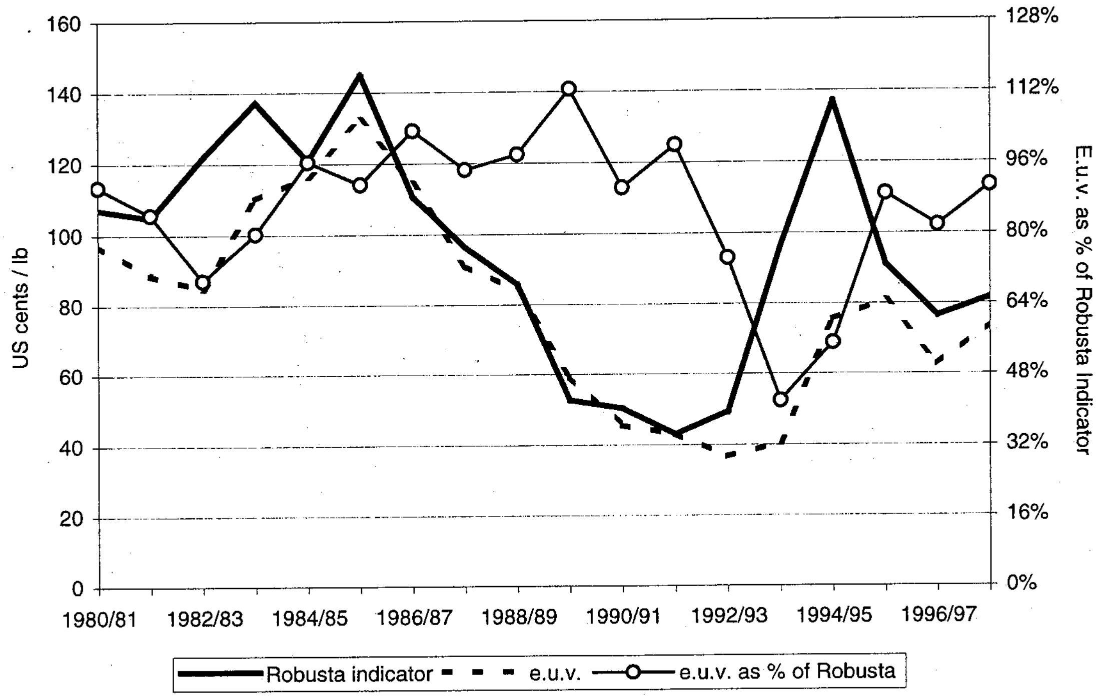
Quality and Quality Control

The high standard of quality control prior to liberalisation, as well as the existence of two buying seasons, ensured the production of good quality coffee which reaped high premiums. In many cases, Togo robusta has been used in soluble coffee to replace Angolan robusta which is traditionally known as the best and most neutral robusta coffee. As all grading was carried out by SCOT (or SCIA under contract to SCOT), coffee was generally of a consistent quality and of a uniform character.

The high quality of Togo robusta is reflected in the premium that was received. In the 1980s, export unit values were, on average, around 90% of the robusta indicator price. However, between 1992/93 and 1994/95 the export unit value as a proportion of the robusta indicator price fell dramatically; 42% in 1993/94 and 55% in 1994/95. This was primarily due to the forward pricing policy of the OPAT and not a deterioration in coffee quality. As the crop was sold forward by the OPAT on a fixed price basis, Togo was not able to take advantage of higher international prices following the Brazilian frosts in mid 1994. However, by 1995/96, the e.u.v. returned to 90% of the robusta indicator price (Diagram 6).

Higher competition immediately following liberalisation led to pressure on farmers to market their production quickly, which led to the marketing of coffee with a high moisture content. This problem was immediately addressed, by the larger exporters at least, who requested that SCOT perform quality checks up-country (before bags were sealed). This has reduced many of the problems which were encountered over liberalisation with regard to quality, although there are still cases of exporters receiving 'warnings' from the CC over penalties which have been applied by overseas buyers for poor quality. With effective quality control, and a limited number of companies dominating export markets, quality has not slipped significantly following liberalisation.

Diagram 6: Togo — Export Unit Value as a proportion of the Robusta Indicator Price, 1980/81-1997/98



Marketing Costs

Table 4 presents some indicative marketing costs for Togo both prior to liberalisation and in the most recent 1998/99 marketing season. Prior to liberalisation, average marketing costs (1989/90-1994/95) accounted for almost 40% of the f.o.b. value, although this includes the indirect taxes which were obtained by OPAT as a result of the actual f.o.b. price received compared to the f.o.b. price stated in the *barème*. The dismantling of the OPAT (which had high direct costs, excessive staff levels and high overhead costs) and the ending of the *barème* reduced sectoral costs. The *barème* did not provide any incentives to improve performance as intermediaries' margins were guaranteed. With no internal competition before liberalisation, growers bore all the costs of an inefficient system.

In 1998/99 the marketing costs have been reduced to approximately 25% of the f.o.b. with growers receiving around 75% of the f.o.b. compared to 63% in the early 1990s. Taxes are limited to those levied by the CC on exports and some additional transport taxes, which amount to approximately 2% of the f.o.b. value. Exporters' margins are currently around 7% to 8% of the f.o.b. value.

Table 4: Togo — Marketing Costs, Pre and Post Liberalisation

	Average (1989/90-1994/95)			1998/99		
	FCFA/kg	US c/lb	%	FCFA/kg	US c/lb	%
Grower Price (green bean)	248	34	63%	635	49	75%
Internal Costs						
Middleman/Acheteurs Agréés margin	38	5	10%	35	3	4%
Transport to hulling centre				13	1	2%
Hulling/Hand sorting/Bagging				14	1	2%
Export Costs	**106**	**15**	**27%**	**143**	**11**	**17%**
Loss in weight				12	1	1%
Warehouse rental				30	2	4%
Warehouse conditioning				2	0	0%
Transport to port				2	0	0%
Port Costs				7	1	1%
Finance				6	0	1%
Exporters' margin				65	5	8%
Taxes (CC export levy and transport taxes)				19	1	2%
f.o.b	**392**	**54**		**843**	**65**	
Exchange Rate 1998 (FCFA:$)	329			588		

Source: OPAT, Industry, LMC.

Production

Since liberalisation, exports have increased. This is due, in part, to increased interest in the harvesting of coffee due to the higher prices being paid at the farmgate. However, the increase is also partly a reflection of increased cross border activity as higher grower prices attract coffee from neighbouring Ghana and exporters strive to meet contract commitments in years when production is low. Despite the increase in producer prices, farmers have not significantly increased their planted area. Although there has been significant interest from younger farmers in establishing coffee farms, lack of credit facilities, high input costs and land tenure problems have constrained any new development.

Furthermore, the provision of extension services has severely deteriorated throughout the 1990s and the organisation responsible for extension services (the ACDR) has only recently been established and is seeking funding. Although the ACDR provides seedlings and clonal cuttings at a partially subsidised rate the cost is still relatively high and demand is moderate. Although farmers are receiving a high price at the farmgate, it appears that they are unwilling to embark upon new plantings; this could be attributed either to the lack of credit, poor extension services or simply to the higher returns which might be reaped from competing crops.