

Determinants of Farmers' Satisfaction with the Price of Cocoa in Ghana

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ABSTRACT

This paper sheds light on one key aspect of the liberalisation of export crop marketing in developing countries which has received a lot of research attention, namely pricing. The government of Ghana has been criticised by many researchers for its stance against price liberalisation in the cocoa sector, owing to its stringent monopoly over pricing. The current study does not delve into the pros and cons of price liberalisation, but seeks to investigate the factors influencing producers' satisfaction with pricing. Using cross-sectional data and a logit model, the study revealed that farmers' age, educational status and farm income were the significant factors influencing producers' satisfaction with the price of cocoa in Ghana. The paper concludes that attempts to draw the youth into cocoa farming is not likely to be successful considering the disenchantment of younger farmers with cocoa pricing in Ghana.

Keywords: Cocoa price, Ghana, liberalisation, logit model, satisfaction

1. INTRODUCTION

Cocoa is central to the economy of Ghana and historically has been the most dominant crop in terms of government policy in the agricultural sector. After relinquishing its number one global producer status due to decline in production, Ghana is currently the world's second largest producer of the crop after Cote d'Ivoire [1, 2], and produces nearly a fifth of the world's total output [3].

Cocoa production plays a very strategic and important role in the economy of Ghana [4, 5, 6] and the history of its production and pricing is one of the most important in the country's political economy. Export earnings from cocoa production provided a major source of revenue for the post-independent economy of Ghana and the crop continues to support Ghana's socio-economic development through the inflow of foreign exchange earnings and employment creation. Cocoa production is an important source of livelihood for many smallholder producers in the country. According to [7], as a result of favourable external conditions and internal reforms, cocoa has become the driver of growth and poverty reduction in Ghana. However with the discovery of oil, it is speculated that cocoa's influence on the Ghanaian economy is likely to diminish if Ghana fails to learn from the mistakes of oil producing countries in the developing world.

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39 Due to external pressure to liberalise the cocoa sector, the government opted for a partial
40 liberalisation policy, instead of a fully liberalised market. Ghana thus remains the only major
41 cocoa producing country without a fully liberalized marketing system [2, 3]. The introduction
42 of liberalisation, though partial, brought significant changes in the cocoa sector such as
43 prompt payment, and the choice to sell to the preferred buyer. The introduction of private
44 buyers, among other things, was intended to bring about efficiency in cocoa marketing,
45 guarantee farmers ready market and cash payment. It was also intended to generate a
46 number of production incentives to the producers of the crop [8].

47 The government of Ghana has been criticised for overtaxing cocoa farmers, particularly in
48 the era prior to liberalisation. The price received by cocoa farmers was considered to be far
49 below the freight-on-board (fob) price, a situation that was considered as a disincentive to
50 production. The pricing of cocoa remains the prerogative of the Ghana Cocoa Board
51 (COCOBOD) Producer Price Review Committee. The control over pricing has been
52 questioned by some researchers on the basis that competitive cocoa-purchasing markets
53 have the tendency to stimulate efficiency and reduce delivery costs, leading to higher price
54 for producers [9].

55 According to [10], there are no monopolistic tendencies in the Ghanaian cocoa sector as no
56 single buyer holds a market share large enough to induce monopolistic practices. This
57 scenario is attributed to the absence of price competition. Furthermore, the Ghana Cocoa
58 Board (COCOBOD) only sets a floor price, which means that technically, buying companies
59 could pay farmers prices higher than the official producer price [2]. However, buyers rarely
60 paid farmers a price above the floor price. As noted by [10], buyers compete for market
61 share through non-price mechanisms like the provision of incentives, input subsidies, and
62 cash rewards to farmers.

63 [10] found that in the absence of price competition, an interesting marketing scenario has
64 emerged in the Ghanaian cocoa sector with producer-buyer loyalty serving as the key
65 determinants for gaining market share. Licensed cocoa buying companies have devised
66 ways to ensure that they win the loyalty of farmers and these include prompt payments,
67 involvement in the social activities of communities, provision of credit and supply of inputs,
68 among others. In return, farmers pledge their loyalty to buyers who keep to their promises
69 and offer certain incentives and cash rewards. Market reform has also brought more benefits
70 to farmers than the period prior to partial liberalisation [11].

71 This paper is a follow up on previous studies by this author that investigated the impact of
72 liberalisation of cocoa marketing from the perspective of producers. The current study
73 focuses attention on the price farmers receive for their produce and their satisfaction with the
74 pricing. To achieve this, the paper solicited the views of farmers about their satisfaction with
75 the price of cocoa offered by the government. The objective is to determine the socio-
76 economic factors that influence farmers' satisfaction with the government pricing of cocoa in
77 Ghana. Since the response is binary, in which case a farmer is either satisfied or not, a
78 binary choice model was used to analyse the data. The logit model was chosen for this study
79 because of its wide application in modelling binary responses.

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81 **1.1 Literature review**

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83 There have been attempts by researchers in previous studies to determine the factors which
84 influence satisfaction and dissatisfaction of individuals about development interventions,
85 public policies, among others [see 12, 13, 14, 15, 16]. The literature on satisfaction of
86 individuals is dominated by consumer satisfaction in the domain of consumer studies.
87 However, there are satisfaction studies applied to farmers' mostly in develop countries

88 where literature is available. In the context of developing countries, literature on the
89 determinants of farmers' satisfaction or dissatisfaction is hard to find, which highlights the
90 importance of this current study.

91 [17] studied the determinants of farmers' satisfaction with farming and life in general. They
92 found that farmers' global satisfaction with life was related to their satisfaction with farming.
93 Net farm income was found to determine farm satisfaction while education was associated
94 with dissatisfaction with farming and life in general. The authors noted that perceived
95 rewards of farming are important determinants of satisfaction with farming and life in general.

96 Research has shown that older employees are more satisfied and more committed to their
97 work ([18, pp.189]. [13] have found this to be true of farmers as well.

98 Education is an important variable which has been found to influence satisfaction. [17]
99 observed that education increases the individual's capacity to achieve goals but also
100 expands the individual's awareness of alternatives and the rewards expected from his or her
101 activities. This means that, the gap between expectation and accomplishment tends to
102 increase with education, a situation which has been found to depress an individual's global
103 and job-related sense of wellbeing [18]. However, other researchers have found positive
104 relationship between life satisfaction and education [13, 15]. [17] hypothesized satisfaction
105 with farming to be positively related to education.

106 [19] analysed the factors influencing farmers' satisfaction with a voucher system China. They
107 showed that gross income, size of arable land and the varieties purchased by farmers were
108 important determinants of satisfaction with the voucher system. Gender, age and education
109 were found to be insignificant determinants of satisfaction in the study.

110 [20] also studied the determinants of the satisfaction rate of the "New Rural Farming
111 Cooperative Medical System" in China. Using an ordered probit model, the author found the
112 determinants of satisfaction to include income, health level, medical service accessibility,
113 reimbursement experience and hospitalization propensity. Age, gender, and distance to the
114 medical center were some of the other variables included in the model.

115 [21] also studied the determinants of farmers' satisfaction with their irrigation system in
116 Nigeria using a logit model. They found that fertilizer availability on time, farmers' output, plot
117 size, timely water release and location of the farm plots influenced farmers' satisfaction with
118 irrigation.

119 [22] investigated the factors influencing level of satisfaction with a growth enhancement
120 support scheme among farm families in Kaduna State, Nigeria using a multinomial logit
121 regression model. They observed that the level of satisfaction with the scheme increased
122 among families with higher farming experience and education but decreased with age and
123 extension visit.

124 The current study is motivated by the fact that all the studies reviewed did not examine
125 satisfaction which price, which is very important to producers. As indicated by [17], the
126 perceived rewards of farming are important determinants of satisfaction with farming and life
127 in general. Thus the present study is significant and relevant in filling the knowledge gap in
128 terms of the determinants of farmers' satisfaction with pricing in the Ghanaian cocoa sector.

129 **2. METHODOLOGY**

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131 The following section is a presentation of the study area, data, analytical and empirical
132 model for the study.

133

134 **2.1 Study area and data**

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136 The study was conducted at Bibiani-Anhwiaso-Bekwai District in the Western Region which
137 is regarded as the leading cocoa producing region in Ghana. The District is found in the
138 forest belt and experiences an average annual rainfall between 1200 mm and 1500 mm. The
139 rainfall distribution is bimodal. The agro-climatic conditions of the area permit the growing of
140 crops such as cocoa, rubber, maize, cassava, plantain and cocoyam. Data for the study was
141 collected from 80 randomly selected cocoa farmers located in four communities in the
142 Bibiani-Anhwiaso-Bekwai District. Face-to-face interviews were conducted with the
143 respondents. Out of the 80 respondents, 78 provided complete information and were used in
144 the study.

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146 **2.2 Analytical framework and empirical model**

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148 The study employs the logit model to analyse the data due to the dichotomous nature of the
149 dependent variable. As noted by [23, 24], OLS regression is inadequate when the dependent
150 variable is discrete. While we only observe the values of 0 and 1 for the dependent variable
151 (y), there is a latent, unobserved continuous variable y^* that determines the value of y . The
152 logit model estimates the probability that the dependent variable is 1 ($y = 1$), that is, the
153 probability that the event occurs.

154 If we denote satisfaction with pricing by y_i , then $y_i = 1$ if farmer is satisfied and $y_i = 0$ if
155 unsatisfied. The binary outcome model estimates the probability that $y = 1$ as a function of
156 the independent variables (x). Therefore,

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$$\Pr(Y_i = 1 | \mathbf{x}) = F(\mathbf{x}'\boldsymbol{\beta}) = \Phi(\mathbf{x}'\boldsymbol{\beta}) \quad (1)$$

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160 Where $\boldsymbol{\beta}$ is a vector of parameters and \mathbf{x} is a vector of explanatory variables influencing
161 satisfaction with pricing.

162 There are three different models that can be estimated depending on the functional form of
163 $F(\mathbf{x}'\boldsymbol{\beta})$. In the linear probability model, we have $F(\mathbf{x}'\boldsymbol{\beta}) = \mathbf{x}'\boldsymbol{\beta}$ [that is,

164 $\Pr(Y_i = 1 | \mathbf{x}) = \mathbf{x}'\boldsymbol{\beta}$]. However, the regression model has a problem in that the predicted
165 probabilities are not restricted to lie between 0 and 1. As a result we do not employ the
166 regression model when we have a binary dependent variable. Rather, we employ logit model
167 for which $F(\mathbf{x}'\boldsymbol{\beta})$ is the cumulative distribution function (CDF) of the logistic distribution.

168 The model is expressed as

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$$F(\mathbf{x}'\boldsymbol{\beta}) = \Lambda(\mathbf{x}'\boldsymbol{\beta}) = \frac{e^{x'\beta}}{1 + e^{x'\beta}} = \frac{\exp(\mathbf{x}'\boldsymbol{\beta})}{1 + \exp(\mathbf{x}'\boldsymbol{\beta})} \quad (2)$$

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172 where Λ = the cumulative probability distribution function of the logistic distribution. The
173 predicted probabilities are now limited between 0 and 1.

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175 The Logit model specification for the study can be written as:
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$$177 \quad y_i^* = \beta_0 + \sum_{j=1}^N \beta_j x_{ji} + v_i \quad (3)$$

$$178 \quad \text{So that } y_i = \begin{cases} 1 & \text{if } y_i^* > 0 \\ 0 & \text{otherwise} \end{cases} \quad (4)$$

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180 where x represents a vector of random variables, v is a random disturbance term, and β is a
181 vector of unknown parameters to be estimated by the method of maximum likelihood.

182 The marginal effects of the logit model is calculated as
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$$184 \quad \partial p / \partial x_j = \Lambda(\mathbf{x}'\boldsymbol{\beta})[1 - \Lambda(\mathbf{x}'\boldsymbol{\beta})]\beta_j = \frac{e^{(\mathbf{x}'\boldsymbol{\beta})}}{(1 + e^{(\mathbf{x}'\boldsymbol{\beta})})^2} \beta_j \quad (5)$$

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186 The logit model for the study was specified as follows:
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$$188 \quad y_i = \beta_0 + \sum_{j=1}^5 \beta_j x_{ji} + v_i \quad (6)$$

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190 where y_i = satisfaction with pricing (=1 if satisfied, 0 otherwise), x_1 =age; x_2 = education
191 (binary): 1 if educated, 0 otherwise; x_3 = sex (binary): 1 if male, 0 otherwise; x_4 = farm size;
192 x_5 = farm income.

193 The variables used in the study and their expected signs are given in Table 1.

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195 **Table 1: Description of variables used in the model**
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Variable	Description	Expected sign
Satisfaction with price	Dummy: 1 if satisfied; 0 otherwise	
Farm size	Farm size in acres	+/-
Farm income	Farm income in Ghana Cedis	+
Age	Age of farmer in years	+/-
Sex	Dummy: 1 if male; 0 for otherwise	+/-
Education	Dummy: 1 if educated; 0 for otherwise	+/-

197 198 **2.3 Choice of variables used in the study** 199

200 The choice of the variables included in the logit model to analyse farmers' satisfaction with
201 the price of cocoa in Ghana are discussed in the following section.

202
203 Age has been widely used by many researchers as a variable to explain satisfaction [13, 18,
204 20, 21, 22]. The age of farmers is anticipated to influence their perceptions and satisfaction
205 of cocoa pricing since perceptions are formed with the passage of time. In addition, older
206 farmers are expected to be more experienced in farming so that they can make better
207 informed choices compared to younger farmers. As family size increases for older farmers,
208 their expectations of higher income could also influence their perception of the price they

209 receive for their produce. Older farmers are therefore hypothesized to be less satisfied with
210 the price of cocoa.

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212 Gender differences can also play a role in farmers' satisfaction with pricing. This is because
213 male farmers are usually breadwinners of their families and the expectation of higher income
214 can influence their perceptions about price. Male farmers are therefore hypothesized to be
215 less satisfied with the price of cocoa. [20] included gender as a variable in the determination
216 of satisfaction with a cooperative medical system in China and observed a significant effect
217 of gender on satisfaction.

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219 Education enables the individual to critically assess situations particular issues of economic
220 importance. Educated farmers who are well-informed are likely to make better informed
221 decisions and the knowledge of the price system could influence their perceptions about
222 price. In addition, educated farmers have a higher opportunity cost of labour and will
223 therefore anticipate higher rewards for their labour. It is therefore anticipated that educated
224 farmers will be less satisfied with the price of cocoa. As the educated farmers interact with
225 other workers in paid employment, this is likely to influence their perceptions. If the notion
226 that farmers are inadequately remunerated in most developing economies, then the
227 likelihood of dissatisfaction with pricing will be high for the educated cocoa farmer. Education
228 has been used as a variable in satisfaction studies by many researchers [21, 22], thus
229 justifying the choice of the variable in the present study.

230 It is anticipated that farmers with larger farms may hire labour for farm operations and the
231 high cost of operation may impute the desire for higher returns from farming. As such,
232 farmers with large farms will anticipate improved prices and may therefore be less satisfied
233 with the price of cocoa. On the contrary, if farm size translates into more output, then
234 farmers with large farms are likely to be more satisfied with pricing compared to small farm
235 owners. [19] included farm size as a variable in a study of farmers' satisfaction with an
236 Agricultural Inputs Voucher (AIV) system in China. The variable showed a negatively
237 significant relationship with satisfaction with the AIV system.

238 An increase in farm income is expected to give a positive perception of price while low
239 income is expected to generate the opposite effect. Hence income is expected to have a
240 positive relationship with satisfaction. [19] included the income variable in a study of farmers'
241 satisfaction with an Agricultural Inputs Voucher (AIV) system in China. The research
242 however reported a negatively significant relationship with satisfaction.

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244 3. RESULTS AND DISCUSSION

245

246 The results of the study and the discussion of the main findings are presented in the
247 following section. A brief summary statistics of the respondents is followed by the distribution
248 of the respondents according to their satisfaction with pricing. The maximum likelihood
249 estimates of the parameters of the logit model are presented thereafter.

250

251 3.1 General description of the respondents

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253 About 40 percent of the respondents were satisfied with the price of coca. This means that
254 majority of cocoa farmers were dissatisfied with the price they receive for their produce. The
255 mean age of respondents was 48 years which implies that cocoa farmers are not very
256 young. They have the advantage of experience but with increase in age, many are likely to
257 decline in their productivity. More than 80 percent of the respondents have obtained some
258 level of formal education. Less than 20 percent did not receive any formal education. Even
259 though the variable is a dummy and therefore does not provide quantitative evidence of the

260 quality of education possessed by the respondents, it nonetheless remains an important
 261 finding that reveals that majority of cocoa farmers in Ghana have attained some level of
 262 formal education. Close to 90 of the respondents were males, implying that cocoa farming is
 263 dominated by men. The result is expected because men usually dominate in the area of
 264 cash crop production in the country due to the pattern of land ownership and customs and
 265 traditions that favour men when it comes to ownership of productive resources. Annual
 266 income from cocoa farming was GH¢1937 on average. Average farm size was 7.8 acres,
 267 implying the respondents are smallholder cocoa farmers. It is reported that the cocoa sector
 268 in Ghana employs over 800,000 smallholder farm families [26]. These smallholder farm
 269 families derive about 70 – 100% of their annual household incomes from cocoa, hence the
 270 importance of pricing to farmers. There are an estimated 350,000 cocoa farms in the country
 271 which portrays the cocoa sector as a vast economic sector if we take the entire value chain
 272 into consideration.

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Table 2: Characteristics of respondents

Variable	Mean	Std. deviation	Minimum	Maximum
Satisfaction with price	0.410	0.495	0	1
Age	47.56	10.982	25	65
Education	0.821	0.386	0	1
Sex	0.885	0.322	0	1
Farm size	7.763	5.756	2	32
Income	1937	2029	204	10200

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A comparative analysis of the main characteristics of the respondents shows that adopters had significantly higher farm income but were significantly younger than non-adopters. These variables are therefore likely to influence adoption of fertilizer by respondents. Adopters also had bigger farm size as well as greater access to finance and the government mass cocoa spraying program. However the mean difference was not significant. Adopters however had fewer contact with extension and smaller household size with insignificant mean difference.

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3.2 Distribution of respondents according to satisfaction with pricing

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The characteristics of respondents are contrasted on the basis of satisfaction status in Table 2. Farmers who were satisfied with the price of cocoa were older and had higher farm income. The mean difference of the age variable was significant while that of income was insignificant. Nearly all (96%) of the respondents who were dissatisfied with pricing were educated compared to 63 percent who expressed satisfaction with pricing. Hence the education variable is likely to decrease satisfaction with pricing. The mean difference of the education variable was statistically significant. Respondents who were dissatisfied with pricing had larger farm size compared to those who were satisfied with the price they received for their produce. This suggests that farm size is likely to decrease satisfaction with pricing. However the mean difference was not statistically significant. Finally, 94 percent of farmers who were dissatisfied with pricing were males compared to 81 percent who expressed satisfaction. The mean difference was statistically significant at the 1 percent level.

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Table 2: Distribution of respondents according to satisfaction with pricing

Variable	Satisfied (N = 32)	Dissatisfied (N = 46)	t-test
Age	50.63	45.44	-2.098**
Education (1 = educated)	0.625	0.957	1.671 [†]
Sex (1 = male)	0.813	0.935	4.092***
Farm size	7.406	8.011	0.454
Income	2155	1785	-0.790

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***, ** and * represent statistical significance at 1%, 5% and 10% level respectively.

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3.3 Determinants of farmers' satisfaction with the price of cocoa

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Table 3 shows the results of the logit analysis of the factors influencing farmers' satisfaction with the price of cocoa in Ghana. The model diagnostics reveal an overall good fit of the data as indicated by the significance of the LR Chi-square test. This test is a joint test that all the variable coefficients, except the intercept, are zero. The p-value of 0.00 is less than the 0.05 significance level so we reject the null hypothesis that the variable coefficients are jointly equal to zero. The percentage of correct classification of 73.1 also indicates a good fit of the model. The significant factors determining farmers' level of satisfaction were age of the farmer, farm size and farm income.

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Table 3: Maximum likelihood estimates of the logit model of satisfaction with pricing

Variable	Coefficient	P> z	Marginal effects
Age of farmer	0.065 (0.030)	0.029**	0.011
Educational status	-3.460 (1.029)	0.001***	-0.597
Sex of farmer	0.852 (1.167)	0.465	0.147
Farm size	-0.065 (0.058)	0.266	-0.011
Farm income	0.653 (0.325)	0.044**	0.113
Constant	-1.548 (1.803)	0.390	-
Number of observations	78		
Log likelihood	-40.5		
Wald chi2(5)	24.6		
Prob > chi2	0.00		
Pseudo R2	0.23		
Percentage correctly classified	73.1		

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*** Statistical significance at 1% level. ** Statistical significance at 5% level. Figures in parentheses are standard errors.

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The age of the farmer exhibited a significantly positive relationship with satisfaction with price, implying that satisfaction with pricing increases with age. In other words, older farmers are more satisfied with the price of cocoa than younger farmers. A unit increase in farmers' age increases the probability of satisfaction by 0.01. The satisfaction of experienced farmers with the price of cocoa may be attributed to their long engagement in farming and longer period of dealing with buyers. A reported misnomer in cocoa marketing is the adjustment of the weighing scales by buyers intended to cheat farmers. Older farmers through experience

332 may be well informed so that they do not fall prey to these bad practices and this can
333 influence their satisfaction with the price they receive for their produce. [20] however found a
334 positive relationship between age and satisfaction rate of farmers in a “New Rural Farming
335 Cooperative Medical System” in China.

336 The educational level of farmers exhibited a negative and highly significant relationship with
337 satisfaction with pricing, implying that educated farmers were less satisfied with the price of
338 cocoa compared to uneducated farmers. The marginal effect shows that the probability of
339 satisfaction with the pricing of cocoa for educated farmers was 0.60 lower than for
340 uneducated farmers. A possible explanation is that educated farmers are more likely to be
341 enlightened and abreast with current information in the economy. Hence they are more likely
342 to be able to analyse economic situations and decipher whether or not they are being well
343 remunerate in their work. In addition, educated farmers have a greater opportunity cost of
344 labour and therefore will anticipate better reward for their labour. The result differs from [22]
345 who found a positive relationship between education and satisfaction of farmers with a
346 Growth Enhancement Support Scheme in Nigeria.

347 Farm income had a positive and significant relationship with satisfaction with cocoa pricing.
348 Thus as farmers’ level of income increases, satisfaction with pricing goes up. A unit
349 increase in farm income increases the probability of satisfaction with cocoa pricing by 0.11.
350 The result is expected because an increase in farm income is a motivation to most farmers
351 and could be interpreted by many farmers to mean that the business of farming is going well.
352 However farmers with low incomes could attribute their low returns to poor pricing of their
353 commodity, hence lower satisfaction with pricing. Since most cocoa-producing households
354 derive a major part of their livelihood from the crop, it implies that farmers who are satisfied
355 with the price of cocoa are likely to be those in the high income bracket. This means that
356 satisfaction with the price of cocoa is related to economic status of the farmer. Income levels
357 are very important to most smallholder farmers and tend to influence their perceptions and
358 satisfaction with development programmes and policies. The result of this research is
359 however at variance with [19] who found gross income to have a negative influence on
360 farmers’ satisfaction with an Agricultural Inputs Voucher system in China.

361 Farm size was negatively related to farmers’ satisfaction with pricing of cocoa but was not a
362 significant variable. Finally, gender of the farmer had a positive relationship with satisfaction
363 and was not significant.

364 4. CONCLUSION

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366 The study was carried out to investigate the factors that determine farmers’ satisfaction with
367 the price of cocoa in Ghana. Cross-sectional data from cocoa farmers in the Bibiani-
368 Anhwiaso-Bekwai District in the Western Region of Ghana was used for the study. A logit
369 model was used to analyse the determinants of satisfaction with price. The study showed
370 that two-thirds of the respondents were dissatisfied with the price they receive for their
371 produce, indicating a general disenchantment with the pricing policy of the government. The
372 result lends some credence to the call by liberalisation proponents for price liberalisation in
373 Ghana’s cocoa sector, particularly as it is argued that price liberalisation engenders price
374 incentives to producers which will spur production. However, judging from the success story
375 of the Ghanaian cocoa marketing system, as attested by many researchers, such a policy
376 shift may not be helpful after all. What the government needs to do is to offer realistic prices
377 to farmers to motivate production of the crop considering the central role it plays in the socio-
378 economic development of the country. The determinants of satisfaction with pricing were
379 farmers’ age, educational status and income from cocoa farming. Younger farmers
380 expressed dissatisfaction with pricing which should be of concern to the government
381

382 particularly as it seeks to encourage young people to venture into cocoa farming and
383 agricultural production in general.

384

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388 Agriculture (MOFA) in the Bibiani-Anhwiaso-Bekwai District who provided assistance in
389 selecting farmers for the survey.

390

391 **COMPETING INTERESTS**

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393 Author has declared that no competing interests exist.

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