



Food and Agriculture Organization  
of the United Nations



AFRICAN DEVELOPMENT BANK GROUP

# Cost of Production: Uses and Users

Regional training workshop on Agricultural Cost of Production  
statistics  
(Cairo, 3-7 April 2016)

# Uses and Benefits of CoP Statistics

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- For **Farmers** and Agricultural **Markets**
- For **Policy-makers** and **Governments**
- For the **System of National Accounts**
- Measures how **efficient** the farm business uses resources;
- Provides data on **area, yield** and **production**, farm **revenues, expenses** and **capital costs**.
- Improves the effectiveness of farm **extension** services.
- Illustrates **capitalization** of the farm sector and its **rate of growth**.
- Distinguishes between **fixed** and **variable costs**
- Collects data on **paid** and **unpaid labour**.
- Measures total and gross net **farm incomes**

# How do Farm Operators Benefit?

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Unique program because providers of information can *directly* benefit by it.

- **Self-assessment**; enterprise and whole farm.
- **Benchmarking**
- Improves **efficiency, performance, productivity** and **returns**
- Improved **decision making**
- Accurate **financial analysis** - **reallocation between enterprises**
- Knowledge of the **breakeven points** - short-term success
- **Investment decisions in capital assets** - long-term success

# How can Farming Practices be improved through Extension Programs?

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- Farm extension workers are provided with **evidence to support training and outreach activities** - better evaluation
- Provision of **data to support training and outreach activities.**
- **Evaluation of an individual farm's management practices** against norms for the region.
- Identification of **where to best target changes** so that largest payoffs are earned.
- Improves **efficiency** and **effectiveness of the extension workers**

# Price Setting and Support Payments: Improve the targeting and efficiency of agricultural policies (1/2)

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- Reduced risk to government and to recipients as **price determination can be empirically informed**
- Perception and reality that decisions are based on **objective sound information**
- Better determination of **price formation**
- Reduction of the risk of **overpaying or overspending by countries** with respect to price support, investment aid and/or agriculture-related import or export decisions
- Cost of production generally is often used to **set the procurement prices for products** covered under the **price support programs**.

## Price Setting and Support Payments: Improve the targeting and efficiency of agricultural policies (2/2)

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- Data are used to inform on **food security and poverty alleviation**.
- Production estimates can differentiate between **farm food consumption** from **marketable production**.
- Illustrates the **sensitivity of the food supply in response to different production practices**.
- Time series analysis provides indications of **stability of the food supply**.
- Informs on **environmental and sustainability concerns**.
- Informs on the **impact of the various farm management practices**.

# Uses and benefits of CoP Data for the System of National Accounts

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- Improves the measurement of **intermediate consumption** by different agricultural activities, hence their **economic Value Added**
- Allows construction of a **proper sequence of economic-accounts for agriculture**
- Each main agricultural activity requires **detailed data on input uses and costs, by activity**, which is helpful for analysts to understand **links between agricultural activities**.

# Analysis and Research

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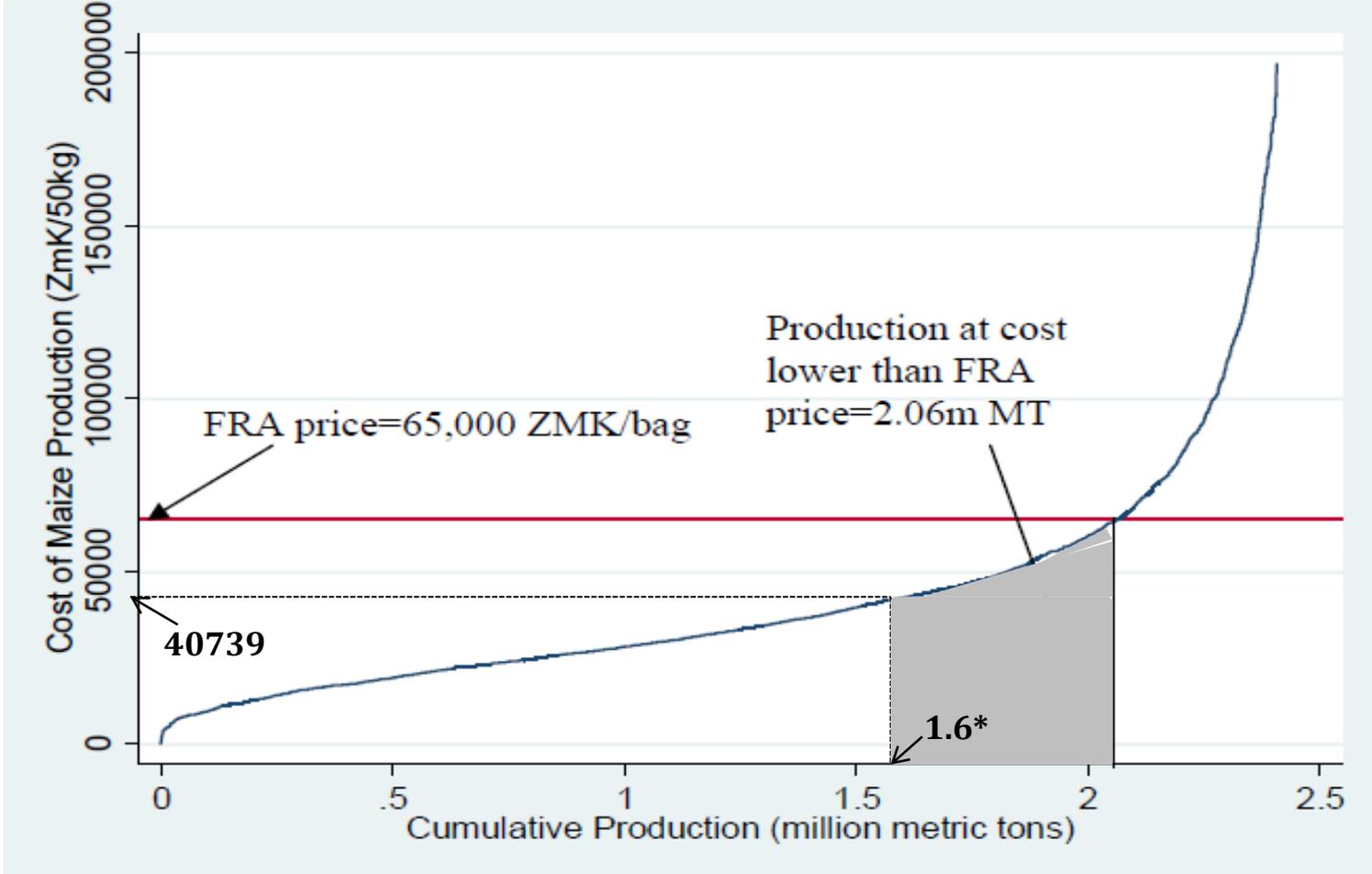
- Data linkage
- Program evaluation
- Time series
- Industry analysis and transformation
- Impact of technology and scale on output
- Regional analysis
- Research

# Environmental

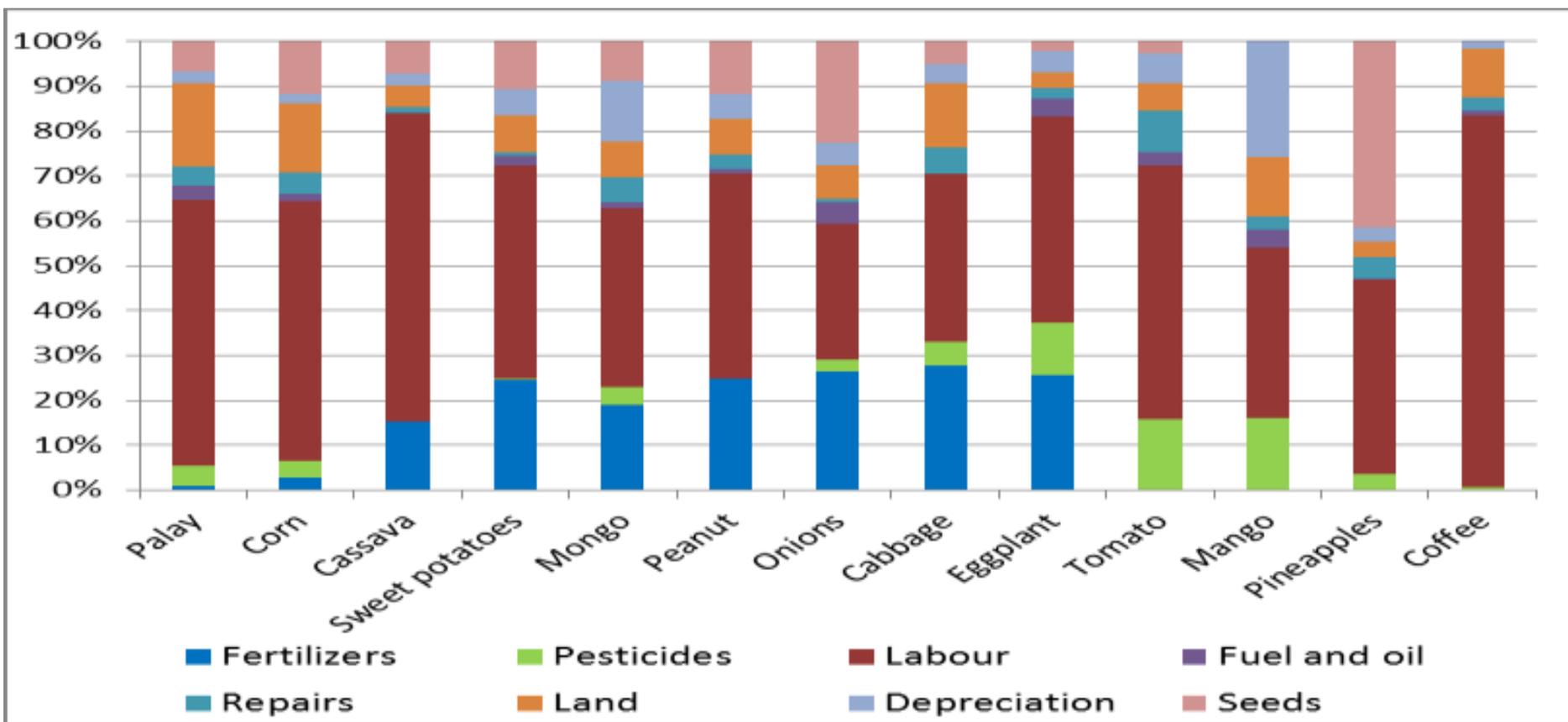
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- Current and sustainable farming practices
- Assess fertilizer and pesticide use, CO2 emissions, sustainable practices, GMO usage, etc.
- Energy and water use
- Measurement of variables of interest

# Using CoP estimates for determining price support



# CoP Structure for different products in Philippines (2012)



# References

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- **AAEA Task Force on Commodity Costs and Returns (2000).** *Commodity Costs and Returns Estimation Handbook*. United States Department of Agriculture: Ames, Iowa, USA.
- **Global Strategy to Improve Agricultural and Rural Statistics (2014)**, Literature review on cost of production methodologies, Technical Report Series GO-04-2014. FAO: Rome.
- **Global Strategy to Improve Agricultural and Rural Statistics (2016)**, Handbook on Agricultural Cost of Production Statistics, Handbook and Guidelines, pp.13-24. FAO: Rome.