Ghana Cocoa Value Chain

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Centralized marketing continues

• Sector streamlined without market reforms
  • Stakeholder advised process for setting prices
  • Passes through significant share of export prices (electoral politics and reduced taxes)
  • Local procurement outsourced and open for “competition” – partial liberalization
  • Control over producer revenues makes it possible to directly influence production through public services such as sprays that can influence yields and also support investments – cocoa research is one of the better producer funded program in Africa.
Centralized marketing continues

- State continues to control quality
  - Changes in production and transport technologies may have reduced the need for quality beans;
  - leaving country reputation in the hands of private agents may not work – product differentiation
  - Quality control pays for itself if quality premium was more than 2 percent of the price – there are inefficiency costs though
  - quality vis-à-vis Cote d’Ivoire may be declining (smuggling from Cote d’Ivoire reduces Ghana quality)
Centralized marketing continues

• Quantity and quality enables the country to sell the crop in advance
  • Raises funds globally to support buying by indigenous firms
  • Offers pan-seasonal prices to producers
  • Source chocolates -- Divine

• Consolidated marketing plus quality gives it some power
  • As a major supplier it is able to influence how trading is done – buck the trend towards bulk transport and homogenization
Adding value locally

- In all countries: Local grinding is increasing; the share of producing countries in local grinding is increasing.
- Ghana has considerable grinding capacity
  - Close to third of the production locally processed in recent years (aggregate investments of US$300 million; ~400,000 MT)
  - Capacity utilization is close to 60 percent.
- COCOBOD offers “light crop” at a discount (~15%) for local processing
  - remove the lower quality beans from exports
  - Hasn’t yielded to pressures from processors to supply quality beans at a discount.
The industry justifies local value adding

- The industry estimates that it created value of $56.31 million in 2011 for the US$ 18 m it received in incentives
  
  - Utility revenues (US$ 13.1 million)
  - New Jobs (1,860 with seven processors)
  - Business opportunities (US$ 21 million)
  - Employee benefits (US$ 17.1 million)
  - Capacity building
  - Corporate social responsibility
  - Tax revenue (indirectly through suppressed supply and bean taxes; directly US$3.16 million)
Adding value locally

• Ghana’s strategy is to encourage secondary and tertiary processing in the country
  • Local processing adds little value (World Bank 2012)
    • First stage processing into butter and liquor is only 5% percent of final value
    • Further processing to liquid chocolates is about 10% of retail chocolate value
    • Final manufacturing and retailing constitutes 74%
  • All the inputs (milk, sugar, energy, transport, etc.) come at higher costs
Upstream welfare

- Producers aren’t doing well
  - Smallholders who dominate produce little; and they depend on cocoa for bulk of their income
    - Median family reported selling 441 kg (2008/09); income per household member was less than 1 GHC/Day (Hainmueller et al. 2011)
  - Not very relevant, but cocoa producers have only a small share in chocolate prices; average producer share in UK chocolate prices was less than 10 percent (Gilbert 2006)
    - Changes in producer shares have more to do with costs in consuming countries than market power.
  - Concern that cocoa is no longer attractive to farmers
Downstream concerns

• Demand for ethical cocoa – cocoa produced without abusive labor practices
  • Not necessarily new; can be traced back to early interest in socially-responsible consumption (Berlan, 2012)

• Environmental concerns: the expansion in Ghana, for example, has come with loss of valuable forests
  • deforestation and degradation of about 2.3 million ha of West African Guinean Rainforest since mid 80-s (Gockowski, 2007)
Value chain reactions

- Harkin-Engel protocol to end worst forms of child labor
- Fair trade – incentives for ethical production
  - Insufficient demand: less than five percent of the production of a fair trade certified coop in Ghana goes into fair trade
  - Politics and prices have done more for producers (Ryan 2013)
- Downstream investments upstream
  - Ex: Cadbury support to research and extension