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Why Ghana doesn't get the full value of its cocoa beans - and how this could change

By Sophie Van Huellen

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The global chocolate industry is worth over US$150bn. West Africa supplies 70% of the cocoa beans, but most of the value in a chocolate bar is generated in Europe and North America. West African economies receive less than US$6bn. This is despite a growing demand for consumer chocolate in West Africa, some of which is satisfied through imports.

Developing a viable confectionery industry is essential for Africa's cocoa giants. Wikimedia Commons

The pattern is typical in economies that mostly rely on exporting raw materials. They have to choose between generating revenue from these commodity exports and adding value to products locally. The trade-off arises because industries that add value take time to build up and tend to supply the domestic market first before being able to compete internationally. Value addition does not immediately generate foreign exchange. The choice is usually in favour of exporting primary commodities, because foreign exchange earnings cannot be compromised.

In a recent study, my colleagues and I showed how this dilemma plays out in Ghana's cocoa industry. We also proposed a solution which preserves foreign exchange earnings while utilising Ghana's existing marketing system to support a growing domestic chocolate industry.

Ghana risks being trapped

Exports of raw cocoa beans are a key source of foreign exchange for Ghana's central bank. Ghana's cocoa sector is regulated by the state-owned marketing board Cocobod. Cocobod has a monopoly, through its subsidiary Cocoa Marketing Company, over the marketing of Ghanaian cocoa beans.

Cocobod, via its marketing company, obtains cheap US dollar loans on international markets, using cocoa contracts as collateral. With few exceptions, only contracts with multinational buyers qualify as collateral since domestic buyers tend to have poor credit ratings and small balance sheets. In this way, Cocobod has secured nearly US$25bn over the past 28 years. The Bank of Ghana needs these US dollars to maintain a foreign reserve and stabilise local currency.

Ghana has increased its own cocoa processing in recent years, from 200,000 tonnes to 400,000 tonnes in 2019, but it mostly remains at the stage of semi-finished products. The major share of value in a chocolate bar is still generated abroad.

The reason is the importance of cocoa for Ghana's foreign exchange earnings. Policies prioritise cocoa trade for foreign exchange rather than adding value domestically.

Cocoa processing companies in Ghana operate in an export zone called the Ghana Free Zones which gives incentives to firms that export a minimum of 70% of their products. They are also eligible for tax exemptions on imports of raw materials and machinery. So there's support for domestic processing if the products are exported, but not if they are produced for the domestic market.

Chocolate production for the domestic consumer market is further discouraged by an extreme tax rate of nearly 60% on domestic sales of chocolate and semi-finished cocoa products. For example, natural cocoa butter is presently sold at an export price of around US$4,600 per tonne but sold locally at around US$7,300 per tonne.

Sales within the free zone are tax-exempt, but the tax applies to domestic chocolate makers operating outside the free zone. These small players have a double hurdle: they must buy semi-finished cocoa products at an extreme tax rate and pay additional tax on sugar and milk imports. This means their chocolate products can't compete with imported ones.

There's another obstacle too: Ghana sells its cocoa beans in US dollars to both domestic and multinational buyers. This puts domestic buyers at a disadvantage against their multinational competitors. Multinational companies access US dollar funding via their parent companies abroad, and on a bigger balance sheet. Domestic companies rely on the domestic banking sector and export development banks, which have limited ability to extend US dollar credit.

Among the cocoa processing factories in Ghana are top global cocoa processors Barry Callebaut, Cargill and Olam. Only two Ghanaian owned factories, the state dominated Cocoa Processing Company (Golden Tree brand) and Niche Cocoa, make chocolate for the domestic consumer market. In addition and despite the tax burden, small-scale artisan chocolate makers, including 57 Chocolate, Midunu Chocolates and Omama Royal Chocolate have emerged.

Stunting their ability to add more value carries a risk. Ghana could fall into a trap where it cannot move beyond the stage of primary processing or low value addition. To truly benefit from its resource wealth in terms of income generation and job creation, Ghana has to move into higher-value addition activities.

A way out of the trap

Ghana's cocoa financing relies on offshore US dollar funding and benefits the Bank of Ghana by providing foreign reserves. It also benefits Cocobod by providing credit at lower interest rates than it could get in Ghana. We propose using the existing system to promote domestic cocoa processing.

Instead of requiring Ghanaian cocoa factories to borrow expensive US dollars to buy cocoa beans, Cocoa Marketing Company could market primary processed cocoa products to overseas buyers on behalf of domestic processors. Making sure the product is bought guarantees the US dollar income needed to pay for the cocoa beans that go into the products.

A review of the export zone tax on chocolate and semi-finished cocoa products should offer smaller confectionery makers access to cheaper semi-finished products. Niche Confectionery, for example, has shown how a tax reduction can help develop a domestic chocolate industry. The chocolate producer sources semi-finished cocoa products via its parent company Niche Cocoa, which benefits from the free zone tax exemptions.

A year ago, Ghana's President Nana Addo Dankwa Akufo-Addo made a powerful statement during his state visit to Switzerland, one of Ghana's major trading partners. He announced that Ghana no longer wants to be dependent on the export of primary commodities, including cocoa beans. It intends to process 50% of annual cocoa domestically and, by extension, expand domestic chocolate production.

Ghana has made remarkable progress on expanding primary cocoa processing and chocolate production capacity. Now it is time to develop a vibrant domestic chocolate industry and benefit from a 1.3bn strong market provided by the African Continental Free Trade Area.

This article was co-authored with Fuad Mohammed Abubakar, an independent researcher.

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