Case-Study 1
Value addition in the cocoa sector: Ghana

Overview

Ghana is the second largest producer of cocoa beans after its neighbour Ivory Coast, and captures about 20 percent of the estimated $9 billion global cocoa beans market. Cocoa is a significant crop for the Ghanaian economy, accounting for about 10 percent of GDP, generating about 25 percent of export revenues. Like many of the continent's commodity producing countries, less than 25 percent of Ghana's cocoa beans are locally processed allowing Ghana to capture only 5 percent of the estimated $28 billion of the global intermediate products market, and only an insignificant share of the global final consumer market of $87 billion.

Ghana's main cocoa crop is considered to be among the finest in the world, with its bigger size beans and higher butter yield. Known for their quality and depth of flavour, the main crop beans, according to the International Cocoa Organisation, has become the world's standard against which all cocoa is measured. Manufacturers want beans that are of that quality and depth of flavour. For this reason, buyers of Ghana cocoa pay a premium ranging US$50– US$100 per metric tonne. Ghana's rigorous quality control practices and the layers of monitoring at the time of purchase are all part of the government's intervention through the Ghana Cocoa Board (COCOBOD).

Fiscal Considerations

Current cocoa value chain policies appear more tilted toward maximising revenue from cocoa beans sales from which the government of Ghana and COCOBOD keep 9% of cocoa gross revenue. Processors argue that, to meet the 40% export mandate, there should be a discount on main crop beans for those who process the beans locally. This is an argument that COCOBOD rejects on the basis of a lack of strong evidence of the impact of local cocoa processing in Ghana's economy.

The fiscal question is: what is the value for money if Ghana decides to forgo some of the immediate revenue it receives from main crop cocoa beans in order to encourage local processing? Would the taxes and foreign exchange earnings from the value addition from further processing compensate for the immediate revenue loss to government? Consider the additional facts below:

- Ghana's unprocessed cocoa beans fetch about four to 6% premium on the international market because of its high quality.
- But, more than the price premium, perhaps the most significant factors are the high barriers to entry in markets for semi-processed and final products. Freight costs for many processed commodities such as cocoa powder and butter are generally known to be higher than those on primary unprocessed components such as cocoa beans. Moreover, there are high tariff walls with regards to the export of processed products. For example, the European Union levies no duties on the import of raw cocoa beans, but levies a 7.7% and 15% ad valorem duty on cocoa powder and cocoa cake, respectively.
- Ghana does more processing in comparison with its regional competitors (see chart below)

Chart 3: Value-Added Content of Cocoa Exports: Ghana, Nigeria and Cameroon					
		(2011 $ thousands)			
	Stage 1: Cocoa beans	Stage 2: Cocoa shells	Stage 3: Cocoa paste	Stage 4: Cocoa butter and powder	Stage 5: Chocolate

Ghana	2750	0	450	400	
Nigeria	900	2	83	15	
Cameroon	600	2	50	10	